

## **Sugar and obesity: how do investors manage the social risk?**

By [Nina Haysler](#) on 27 April 2016

**Obesity is a widely noted social risk and over the years the issue has been receiving increasing attention from investors. Companies have the power to respond to obesity risks and minimise the negative social influence of products through a range of different methods. Investors considering investing in companies with a high obesity risk should consider whether the company is appropriately responding and managing these risks. According to our research, Australian companies have been lagging behind global peers in their responses to the increasing risks associated with obesity.**

**Australia is a world leader when it comes to obesity levels - Australian Government statistics note that 63% of Australian adults are overweight or obese. Furthermore, one in four Australian children is overweight or obese.<sup>1</sup> It is therefore critical that Australian companies do not drag their feet with regards to their response to obesity risks.**

In 2015, the Australian Capital Territory Government decided to ban advertisements for junk food, alcohol, fossil fuels, gambling or defence industries on public buses.<sup>2</sup> This ban highlights how it is becoming increasingly common to group high sugar, low nutrient products with other products that are considered to have a negative social or environmental impact. So called 'sugar taxes' are being implemented by different governments worldwide and Britain has become the latest country to announce a

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<sup>1</sup> Overweight and Obesity, *Australian Government Australian Institute of Health and Welfare* <<http://www.aihw.gov.au/overweight-and-obesity/>>.

<sup>2</sup> 'Junk food, alcohol and gambling advertising banned on Canberra's ACTION buses', *ABC News*, (September 28 2015) < <http://www.abc.net.au/news/2015-09-28/junk-food-advertising-ban-for-act-buses/6808740>>.

soft drink levy.<sup>3</sup> From 2018 the levy will be placed on drinks with more than five grams of sugar per 100 millilitres and has been introduced in order to cut obesity levels in Britain.<sup>4</sup> Mexico is another recent example of a nation trying to tackle the issue of obesity through a 'sugar tax'. Mexico introduced a 10% tax on soft drinks in January 2014 and consumption dropped by an average of 6% through 2014, and as much as 12% in the last part of the year.<sup>5</sup> Investors may benefit from considering the negative social consequences of obesity and how companies with a high-exposure respond to the obesity issue. Companies that fail to recognise obesity risks may be less likely to respond to changing consumer demands and risks associated with regulatory intervention.

Last September in a Sydney Morning Herald article Platinum Asset Management's Managing Director Kerr Neilson declared that sugar is the 'new tobacco'.<sup>6</sup> This comment reflects a changing attitude towards sugar as more health-conscious consumers pose challenges to companies that sell high sugar, low nutrient products. An example of consumers becoming more health conscious is demonstrated in the fact that cola sales in the United States have experienced a drop for the ninth consecutive year.<sup>7</sup> The sugar/tobacco parallel is further emphasised in Damon Gameau's cinema documentary *That Sugar Film*.<sup>8</sup> The documentary alleges that the strategies of companies that produce products with a high sugar content mirror the

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<sup>3</sup> 'Jamie Oliver urges Australia to adopt sugar tax following Britain's soft drink levy announcement' *ABC News*, (17 March 2016) <<http://www.abc.net.au/news/2016-03-17/jamie-oliver-urges-australia-to-follow-uk-with-sugar-tax/7253074>>.

<sup>4</sup> Ibid.

<sup>5</sup> Sarah Boseley, 'Mexican soda tax cuts sales of sugary soft drinks by 6% in first year', *The Guardian*, 19 June 2015, <<http://www.theguardian.com/world/2015/jun/18/mexican-soda-tax-cuts-sales-first-year>>.

<sup>6</sup> Vesna Poljak, 'Platinum: Sugar's tobacco moment demands innovation', *Sydney Morning Herald* (September 11 2015), <<http://www.smh.com.au/business/platinum-sugars-tobacco-moment-demands-innovation-20150910-gjje8z>>.

<sup>7</sup> Jared Lynch, 'Coca-Cola Amatil admits cutting back on sugar as attitudes change on health and investment', *The Sydney Morning Herald* (September 11 2015) <<http://www.smh.com.au/business/cocacola-amatil-admits-cutting-back-on-sugar-as-attitudes-change-on-health-and-investment-20150911-gjkof3.html>>.

<sup>8</sup> Damon Gameau, *That Sugar Film*, (February 2015).

strategies and behaviours of tobacco companies when the health risks of tobacco were coming into public attention in the middle of the 20<sup>th</sup> Century. There have also been recent scandals relating to the funding of scientific research that counters criticisms of sugar-high products. For example, Coca-Cola USA's top scientist Rhona Applebaum has stepped down after revelations that the Company initiated a strategy of funding scientific research that played down the role of Coca-Cola products in the spread of obesity.<sup>9</sup>

Credit Suisse research supports the thesis that obesity is an investment risk.<sup>10</sup> The research finds that an increasing focus on the sugar-obesity link and 'negative noise' surrounding this issue will have a negative impact for soft drink companies and sugar manufactures and a positive impact for companies that manufacture natural sweeteners.<sup>11</sup> This research also highlights how companies are increasingly choosing to self-regulate the obesity risk by producing products with reduced amounts of sugar.<sup>12</sup>

CAER through our research for Vigeo Eiris assists investors interested in managing investment risks associated with obesity, with criteria addressing a company's level of exposure to obesity issues and how the company is then in turn addressing the issue of obesity.

Exposure is assessed through analysing the products produced by a company. It can be difficult to assess a company's obesity exposure as there is no internationally

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<sup>9</sup> Anahad O'Connor, 'Coca-Cola's top obesity scientist departs amid murky research claims' *The Sydney Morning Herald* (November 25 2015) <<http://www.smh.com.au/business/cocacolas-top-obesity-scientist-departs-amid-murky-research-claims-20151125-gl7gvl.html>>.

<sup>10</sup> Stefano Natella, Majaba Rana, Vamil Divan, Charlie Mills 'Sugar: Consumption at a Crossroads', *Credit Suisse*, (September 2013) <<https://publications.credit-suisse.com/tasks/render/file/index.cfm?fileid=780BF4A8-B3D1-13A0-D2514E21EFFB0479>> .

<sup>11</sup> *Ibid* p32.

<sup>12</sup> *Ibid.*, p37.

agreed upon classification of 'unhealthy' foods. Vigeo Eiris has developed its own definition and classification of unhealthy foods to enable a consistent analysis. According to our definition 'unhealthy foods and drinks are defined as products which are high in sugar and/or fat, and generally nutrient-poor.'<sup>13</sup> The analysis focusses on processed foods, therefore raw ingredients such as sugar, butter and cream are not part of the unhealthy foods and drinks category. The proportion of high sugar, low nutrient products in the overall product portfolio of a company determines the obesity exposure. The sectors that tend to have high obesity risk exposure include Beverage, Food producers, Food and Drug retailers and Travel & Leisure – which includes fast food restaurants.

The Vigeo Eiris methodology assesses high obesity exposure companies' responses to obesity through the frames of responsibility, product strategy, consumer information, reporting and dialogue. Companies often publicly release information regarding their strategy to address obesity; it is this information that can be utilised for analysis.

A longer term goal to make products healthier overall or offering healthier alternatives is an example of a positive way to address obesity. For example, many fast food restaurant chains are now offering low-carb or wholemeal buns for burgers. Cola companies have also begun introducing products that are sweetened using stevia, a naturally low calorie sugar substitute. However, it is also important to note that some of these products, such as Coca-Cola Life, contain sugar and stevia.<sup>14</sup> One company identified by our research as a leader has a policy regarding the reduction of trans fatty acids (TFAs) in their products. Other ways in which

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<sup>13</sup> 'Obesity concerns in the food and beverage industry' *EIRIS* (February 2006) p5.

<sup>14</sup> 'Our Products: Coca-Cola Life', *Coca-Cola Product Facts*, <<http://www.coca-colaproductfacts.com/en/coca-cola-products/coca-cola-life/>>.

companies can improve their response to the obesity risk include reducing portion sizes.

There has also been considerable public debate in recent years about potential connections between childhood obesity and the way that unhealthy food is marketed to children. This has been identified as a potential target for further regulatory action. Leading companies are addressing such concerns by having policies that restrict advertising to children. For example, some policies ban the use of cartoons or high-profile personalities to advertise products, or the offering of rewards or toys as an incentive to purchase products. Company policies have also prohibited advertising that undermines the authority of a parent and the use of 'pester power', and major retailers are increasingly offering checkout lanes without products that entice children to nag parents to purchase sugary sweets.

Although some companies have been categorised as having a good response to obesity risks, the majority of companies falling into the global Vigeo Eiris coverage that have a high obesity exposure provide no or only a limited response to obesity issues. Therefore, globally there is a need for companies to better address obesity risks.

In the Australian S&P/ASX 300 index there are only three companies that have been categorised with high obesity exposure. Of these Companies, none received above a limited grade with regards to their response to obesity. Australian companies also seem reluctant to publish obesity-related improvement targets and key performance indicators.

As consumer attitudes change towards sugar, so should investors. However, companies and investors also have the opportunity to progress and even shape

consumer demands. Obesity is a complex issue that is influenced by numerous factors. Yet the complexity of the issue does not absolve companies manufacturing high-sugar, low-nutrient products from their responsibility to address the negative societal consequences of obesity. Investors should be considering social risks as part of their ESG integration, which in turn should include considering obesity risks in high-exposure companies.