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responsible corporate analysis

Responsible Investment Agenda 2018

A Work Plan for Australian and New Zealand Investors

ABOUT CAER

CAER's mission is to broaden the reach of ethical and responsible investment. To achieve this we provide, structure and add value to ESG information on companies and investment portfolios.

CAER's business activities focus on the provision of expertly assessed ESG information. Our team of analysts have a deep knowledge of the responsible investment market, and are able to provide our clients with expert insights in addition to high quality, well-structured global ESG data.

For our global ESG research provision we have an exclusive distribution and research partnership with Vigeo Eiris, a leading independent provider of ESG research, ratings and services for investors, public and private organisations and NGOs.

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CONTENTS

RESPONSIBLE INVESTMENT IN 2018

As the responsible investment community grows and awareness of environmental, social and governance (ESG) factors increases, high-quality ESG research is paramount.

While no one wants to cherry pick a limited number of 'trends' to focus on in a silo – after all, responsible investment champions long-term, sustained awareness of ESG factors – it helps to sharpen our mind and focus on specific topics from time to time. CAER has produced our first **Responsible Investment Agenda** in 2018 to support our mission of broadening the reach of responsible investment through the provision of high-quality ESG research. We identified emerging issues that are of interest to both our analysts internally and those seeking updates on topics that will shape conversations this year. Sharing our insights with the broader investment community allows for healthy debate and enriched ESG risk integration.

We assessed specific ESG themes through a lens of broader changes taking place, largely driven by what many now call the 'mainstreaming' of responsible investment practices.

'Mainstreaming' forcing a step change in responsible investing

While responsible investment has been growing and reshaping financial markets for decades, we are now seeing a step change in the Asia Pacific and Europe. RIAA (the Responsible Investment Association of Australasia) reports that in Australia there are A$622 billion assets under management implementing responsible investment practices – up from less than A$150m in 2011. This means that RI managed funds now represent almost half of assets under management in Australia.[1]

In New Zealand, RIAA now measures NZ$131.3 billion assets under management with responsible investment strategies, an increase from just above NZ$20bn in 2011. [2] Over the last five years, we have also observed a rise in the acceptance and usage of negative screens, with an increased frequency of tobacco and controversial weapons screens in particular. Other issues such as the phasing out of coal and other fossil fuels, or actively voting on ESG themed resolutions at AGMs are becoming increasingly accepted in the mainstream understanding of responsible investment.

Other key markets in our region pushing the responsible investment agenda are Japan and Hong Kong. The responsible investment community has been looking to Japan for a number of years now, as the Japanese market continues to be a fast moving and learning in terms of responsible investment approaches across all asset classes.

This is largely due to changes to the Japanese Stewardship Code[3] as well as prominent moves by the world's largest pension fund GPIF (Government Pension Investment Fund).[4] We can also see an increasing interest from corporates to engage with international shareholders, which suggests the message around stewardship and ESG issues has trickled down to corporate issuers. Hong Kong has stepped further into sustainable finance through its green finance certification scheme, which will bring a new approach to green bonds and loans in Asia, including pre- and post-issuance progress measurements.[5]

In Europe, the High Level Expert Group on Sustainable Finance (HLEG), established by the European Commission, set strategic recommendations for a financial system that supports sustainable investments. A key recommendation of the HLEG is to embed the 'Think Sustainability First' principle at the heart of European policy-making. This emphasis may well set Europe at the forefront of driving financial system reforms that put sustainability and responsible investment at the centre.

Another demonstration of further integrating responsible investment with finance can be seen in a new initiative championed by Vigeo Eiris to include ESG ratings in conjunction with credit ratings in Europe. As part of the One Planet Summit in France, a number of financial institutions, including Amundi, Aviva Investors and AXA, made a declaration to invite corporate issuers to provide ESG ratings alongside their credit ratings.[6] This move will take sustainability and ESG analysis from the sustainability department to the desk of CFOs.

Growth in Reporting Initiatives

The growing application of responsible investment strategies in investments was always going to open the debate about corporate reporting and disclosures. Without consistent, quality disclosures from companies, ESG analysis is always going to have gaps and be driven by assumptions, not facts. There is no doubt still a long way to go before responsible investment and sustainability reporting are at the same standard of disclosure (in quality, quantity and consistency) as financial reports.

We do however see demand for quality and consistency in information increasing, which is reflected in the growth of reporting initiatives such as the Taskforce on Climate-Related Financial Disclosures (TCFD) and mapping corporate reporting against broader international initiatives such as the UN Global Compact and the Sustainable Development Goals. We also observe a rejuvenated debate on integrated reporting (<IR>) as well as the Global Reporting Initiative (GRI). Companies are currently disclosing more ESG information than ever.

Mapping Investments to Universal Norms

The reporting by companies against international frameworks is increasingly mirrored by investors, who map their investments to the Sustainable Development Goals. Investors also continue looking to the UN Global Compact, which provides a typology of corporate behaviour against international norms.

This systematic mapping in investment processes is still in its early stages, with discussions on their usefulness and appropriate application starting to emerge. We can see an increasing sophistication in the way these universal norms are applied in both, portfolio construction and measuring the effectiveness of ESG integration in portfolios.

The Proliferation of Public Benchmarking

Given the overall amount of ESG information available, we also need to consider public benchmarking exercises, which have emphasised the importance of ESG reporting to companies and investors. They champion a 'race to the top' for companies, and have in turn resulted in the improvement of company policies, procedures and disclosures.

For example, initiatives like the Corporate Human Rights Benchmark encourage companies to mitigate and recognise human rights risk within their own operations and throughout their supply chain. Another initiative, The World Benchmarking Alliance, assesses how companies contribute to the Sustainable Development Goals.

Locally, there have been popular consumer based benchmarks that rank retail companies on their environmental and social track record (see for example Shop Ethical!), to whether they have provisions to support a living wage (such as the What She Makes campaign).

Increased Scrutiny of 'Responsible Investors'

Growth in responsible investment and increased sources of information available also puts greater pressure on investors to be open and transparent about their responsible investment choices. External and internal stakeholders increasingly seek to understand and debate the outcomes of responsible investment strategies, such as portfolio holdings, engagement results, and proxy voting behaviour.

Increased requirements for the Principles of Responsible Investment (PRI) signatories means that investors can no longer jump on the 'ESG/responsible investment' bandwagon without undergoing the appropriate action and due diligence processes.[7] Moreover, the PRI has formally announced its process for de-listing signatories in December 2017, which adds punch to the increased requirements.[8]

In Australia and New Zealand RIAA's Responsible Investment Certification Program allows retail investors to access detailed information about how each investment product takes into account ESG issues, in a standardised and consistent manner. The RIAA Certification Symbol Trademark provides consumers and industry with a 'quality mark'. The presence of this quality mark can help demonstrate that prudent practices were undertaken in order to create a responsible investment product thus making it harder to get away with utilising 'responsible investment' language without following the appropriate processes.

Universities and councils that have implemented a responsible investment approach have also been under greater scrutiny from their stakeholders as to whether they have actually implemented the principles outlined in their public policies. We expect that this amplified scrutiny to also extend to superfunds and other institutional investors in 2018.

Overall, responsible investors will see greater demand for their products and an increase in available information. This will enable stakeholders to gain a broader understanding of topical issues as well as challenge irresponsible investment choices, making it paramount that investors are informed and prepared for these issues and how they may impact on their investments.

The Responsible Investment Agenda

Out of the host of ESG themes and aspects, CAER has selected five specific issues we think responsible investors should have on their workplan for a deeper dive in 2018.

Gender

- Pervasive gender-based power imbalance
- Louder and empowered voices to drive change
- Pressure on all of society, including companies to respond

Identify and shift business behaviour to increase equality and ensure a level playing field:

- Women in leadership – looking beyond women on boards
- Understanding policies and strategies to remove barriers along the talent pipeline
- Programmes to promote diverse workforces: family friendly work arrangements, pay equity and harassment free workplaces

Military

- Globalisation, geopolitical pressures
- Escalating militarisation
- Companies develop and supply weapons and weapons sysems

Identify and understand businesses that are involved in military supplies:

- Military involvement beyond controversial weapons
- Clear stance for inclusion or exclusion of military activities in investment portfolios
- Understand how companies address the risk of accusation of contributions to arms proliferation or complicity in human rights

Human Rights

- Greater global awareness of business and human rights
- Increased attention from law makers and enforcement
- Attention on individual company behaviour and public benchmarking

Ensuring portfolio companies follow the 'Protect, Respect and Remedy' principle by:

- Moving beyond case-by-case controversies to greater attention of risk management
- Understanding due diligence processes and grievance mechanisms
- Engagement and moving the dial in corporate disclosures

Energy Transition

- Increased concerns over energy security & falling renewables costs
- Greater stakeholder expectations and reporting
- Disconnect between business and policy

Ensuring portfolio companies are preparing for the lower carbon economy:

- Identify sectors and companies most effected
- Identify strategies to reduce the carbon footprint of investments and energy transition
- Pursue company engagement and shareholder advocacy

Sugar

- Obesity crisis, overconsumption of sugar especially by children
- High costs for health systems
- Calls for a sugar tax

Ensuring portfolio companies are addressing reputational, financial and litigation risks:

- Understand policy and lobbying position of portfolio companies
- Look to identify at-risk companies producing and marketing high-sugar products
- Identify companies that are able to transition by providing healthy alternatives

#MeToo: Gender on the Agenda

By Duncan Paterson

Looking back, 2017 will go down in history as the year of the #MeToo movement. At a time when many pundits had come to question the value of social media, a simple hashtag went a long way to demonstrating the medium's potential for positive change.

As Hollywood grappled with the fallout of Harvey Weinstein's serial sexual predation, it soon became clear that #MeToo was not going to stop there. Through Facebook and Twitter, #MeToo spread rapidly. Soon politicians, business people and the broader community were impacted by a growing understanding of the pervasiveness of gender-based assault and harassment.

It hasn't just been a Western phenomenon either. In China, attempts by authorities to slow the spread of #MeToo are being circumvented using the emoticons for 'rice' bunny' - which in Chinese is pronounced 'mi tu'.[9]

A Widespread Power Imbalance

What the #MeToo campaign represents is extremely important for society. While there have been numerous sex scandals involving high-profile men over the years, #MeToo is different in that it has driven home the message that this is not just an isolated incident - that sexual harassment is happening to women at all stages of their life, at all levels of society.

#MeToo is a symptom - a symptom of the gender-based power imbalance that has pervaded our society for thousands of years. When 50% of the population stand up and say enough is enough, that can't help but have an impact on the investment community.

The power imbalance that is the underlying fuel behind the #MeToo movement is perhaps most starkly reflected in hard statistics relating to the position of women in the workplace. While our research demonstrates great progress in terms of women on the board of company directors, that is taking a long time to filter through to some of the more on-the-ground measurements that really make a difference to women.

The Impact on Investment

Investors who are looking to take a position in response to #MeToo should also be mindful of metrics such as the number of women in executive committee roles, in positions of senior management within companies, and the percentage of female employees across the company. Employment policies around discrimination, strategies regarding gender pay equity, and the availability of family-friendly workplace arrangements are also useful indicators of how well a company is managing these risks.

A good set of policies and demonstrated results on the ground will allow an investor to tell a positive story about an investee company - and will also allow a company to maintain a position as an employer of choice, something extremely valuable in a competitive employment market. There is also compelling market research demonstrating a positive correlation between positive employment practices and company returns.

The Workplace Gender Equality Agency (WGEA) has been tasked with delivering the Australian government's policy objectives in this area and their website is a treasure trove of useful information for investors. In Australia, non-public sector companies with 100 or more Australian employees must report under the WGEA reporting requirements that cover gender composition of the workforce and governing bodies, equal remuneration between women and men, flexible working arrangements, consultation with employees concerning issues relating to gender equality in the workplace and sex-based harassment and discrimination.

According to ABS data, the gender pay gap in Australia has hovered between 15% and 19% for the last 20 years[10], while in New Zealand, StatsNZ has reported the gender pay gap to sit at 9.4%[11] . This is a significant improvement from 1998, when the gender pay gap was reported at 16.3%. So long as this remains the case, we can expect the community and regulators to target workplace inequality.

Moving Forward

The #MeToo movement has created an environment where gender issues are being discussed at a broader community level. Gender equality indices have been released to the market index series favouring companies with significant gender diversity among their boards. Investors are also utilising gender-related indicators collected by research houses, like CAER/Vigeo Eiris, and making use of this data in their investment decisions.

Investors can expect their clients to be asking more questions on this front in 2018, and to see more movements from the leaders and laggards in the corporate arena as everyone scrambles to improve their profile in the face of this emerging societal movement.

Human Rights: Looking in Our Own Backyard

By Nina Haysler

Human rights dominated the ESG space in 2017, and will continue to sit firmly at the forefront of public sector, investor and company agendas in 2018.

The Landscape

In January 2018, Australia began its three-year term on the United Nations Human Rights Council, which is responsible for protecting human rights around the world. 2018 also marks the 70th Anniversary of the Universal Declaration of Human Rights a milestone document in the history of human rights, as well as the 10th anniversary of The United Nations Guiding Principles on Business and Human Rights, which is becoming increasingly utilised amongst listed companies.

Benchmarking exercises that provide insight into the human rights disclosures of companies are also becoming increasingly common. These public benchmarks aim to encourage companies to engage in a 'race to the top' with regards to their human rights-related mechanisms and processes.

The Corporate Human Rights Benchmark (CHRB) launched its first public assessment of companies in March 2017. The CHRB is a multi-stakeholder initiative that benchmarks 98 of the largest global apparel, extractive and agricultural companies on their human rights disclosures. The CHRB methodology was developed through an extensive stakeholder consultation, and is mapped to international standards and norms, and in particular the United Nations Guiding Principles on Business and Human Rights.

Other benchmarking exercises such as KnowtheChain, Mining the Disclosures and Oxfam's Behind the Brands and What She Makes campaigns are also rich public resources that provide insight into human rights related company disclosures.

An Australian Modern Slavery Act

In Australia, there have been movements within the government to implement a series of legislation that would crack down on forms of modern slavery – which includes debt bondage, human trafficking, forced labour, orphanage trafficking and other slavery-like practices which breach human rights - within Australia, and overseas.[12]

In February 2017, then Attorney General, Senator George Brandis, asked the Joint Standing Committee on Foreign Affairs, Defence and Trade to inquire into establishing a Modern Slavery Act in Australia. Many players in the responsible investment space in Australia made submissions to the inquiry.[13] One of the final recommendations from the Committee was to establish supply chain reporting requirements for non-public sector companies – including both private and publicly listed companies - with over A$50 million revenue. The first components of the legislation, expected to be introduced into Parliament in June, will create an extensive amount of useful resources for investors to engage with.[14]

Although there have been some demands in New Zealand to implement a Modern Slavery Act similar to that in the UK, there has not been any concrete government movements towards legislation. Mandatory reporting on modern slavery already exists however in California and the UK with many Australian and New Zealand companies already exposed.

The Impact on Investment

The expectations on investors as well as companies is set to increase in 2018. Investors will have to look at both their investments and their own internal practices, which includes everything from who cleans the office, to where office furniture is sourced. This is particularly the case for larger institutional investors who will have to report under the Modern Slavery Act once legislated.

Investors can expect an increase in human rights related screens incorporated into ESG due-diligence processes. For example, investments will be negatively screened for allegations of human rights abuses and where companies fail to adequately respond to such allegations. This also includes operations in human rights countries of concern where companies more easily slip under the radar of regulators and watchdogs. But there is also increasing attention to ensure portfolio companies implement best practice human rights policies, due diligence, grievance mechanisms and have adequate implementation and performance reporting.

Investors are also increasingly making use of information available on human rights disclosures to engage with companies on human rights issues. This is reflected in both, direct meetings with companies, and through an increasing number of shareholder resolutions lodged with a specific focus on human rights related issues.

Military Exposures: A Potential Mine Field

By Julia Leske

In 2018, investors need to gear up for a deeper look at military and defence exposures beyond the screening of anti-personnel landmines and cluster munitions. The public debate around weapons in ESG-integrated and ethical portfolios are far from over when we consider the current global backdrop:

- **Geopolitical pressures** including the increasing aggression among governments and fear of escalation to militarised conflicts, especially in our region (South China Sea, North Korea, Myanmar), in addition to the continuing crisis in the Middle East.
- **Effects of globalisation and hyper-connectedness** resulting in information overload and the growing phenomenon of 'fake news'. We also observe rising inequality in OECD countries[15] and reduced trust in public institutions[16] across the globe.
- **Escalating militarisation** as indicated by an increase in international defence spending[17] and Australia's goal to become a top ten defence export nation.[18]
- **Landmark progress for the anti-proliferation movement** as marked by the 50th Anniversary of the [Treaty on the Non-Proliferation of Nuclear Weapons] opening for Signature in 2018. In addition, the Australian founded ICAN (International Campaign to Abolish Nuclear Weapons) won the Nobel Peace Prize in 2017.[19]

Put this in the mix with prominent controversial weapon screening commitments in Australia and New Zealand, we have a fertile ground for a weapons and defence debate on the responsible investment agenda in 2018.

Defence is big business

Anyone who has travelled to Canberra airport knows about the prominent advertising by the defence industry in the arrival hall.[20] While governments around the world create demand for military equipment, companies are responsible for designing and building weapons. Global defence spending is up, sales from the largest global arms companies totalled US 374.8bn in 2016.[21] Military spending across the world is predicted to further increase in 2018.[22]

These increasing demands coupled with rapidly developing technology drive companies to develop and evolve weapons systems. This means that companies require investors to help fund the development and production of new weapons and weapons systems. Investors in turn seek to invest in companies that have a chance of high value, long-term contracts with governments.

Government focus on local manufacturing and increased exports

With the Turnbull government announcing its Defence Export Strategy in late January, Australia is gearing up to support defence industry players to establish Australian bases specialised to deliver military services and goods to international markets. Target regions include close military allies such as New Zealand, the UK, Canada and the US, in addition to countries in the Indo-Pacific region and the Middle-East.[23] The government has tasked the Export Finance and Insurance Corporation to administer the government's export credit facility.

The export goal may seem overambitious at first sight, but it does make business sense. Due to Australia's largest peacetime upgrade to armed forces[24], the Australian government requires a supply of military equipment and has pressure to procure locally where possible (the submarine debate is one high profile example[25]). To create a competitive space of local suppliers that can maintain regular work, these companies need to diversify their customer base such as expanding to include other governments.

But here's the catch: international military exports might open new markets, but they also open companies and their investors to a range of serious ESG risks. And while the government states "most stringent requirements are put in place through the permits process"[26], investors are advised to carefully consider company safeguards.

In particular, companies involved in trading weapons and weapons components might be seen to contribute to uncontrolled arms proliferation that may fuel conflicts and human rights violations. Any company that is either involved in violations of international treaties or accused of being complicit in them, may face significant reputational damages. The international credibility, support, and media power that human rights organisations have should not be underestimated.

The Impact on Investment

Investors need to be aware that putting a screen on controversial weapons alone, might not provide the full solution, when considering the increasing pressures and global threats surrounding militarised conflicts. The same way the responsible investment industry puts pressure on companies for greater transparency, investors will face the same scrutiny from their clients and the broader community. The best strategy for investors who are challenged on their stance towards weapons is to be prepared by having a clear rationale for drawing the line and knowing where funds may be exposed.

Investors need to have a clear view on where and why they draw the line on military involvements: ammunition, weapons systems, the design of key components for autonomous weapons systems, superalloy components for specialised military use, combat uniforms, specialised bulletproof glass, maintenance of large equipment, building air bases, communications and communications equipment are all very different involvements. The tolerance can be varied for investors depending on their responsible investment approach and moral stance.

From an ESG integration perspective, the behaviour of companies and how they address the risk of accusations of contributing to arms proliferation or human rights abuses becomes an important factor that should be considered. ESG research, in-house or from third party sources, can help investors assess this specific risk.

Energy Transition: Charging Ahead

By Phil Sloane

The transition away from fossil fuels to renewables is accelerating fast. In 2018, investors will need to buckle up, and we are not talking about Tesla's Ludicrous Mode!

Companies faced with higher power prices and concerns over energy security, are turning to renewable energy and energy efficiency measures to provide greater certainty. Lower costs have dramatically improved payback periods, making such investments a no-brainer for management looking to reduce costs. Investments in renewable energy and energy efficiency measures also allow companies to reduce their carbon footprint and address risks and opportunities related to climate change.

Battery Power

The cost of renewables will continue to fall; however, it is the rise of batteries and the use of smart technology to create dispatchable renewables that will really have an impact on the economy. Tesla's big lithium-ion battery in South Australia (officially known as the Hornsdale Power Reserve) is already changing the way the grid operates. Built in less than 100 days, the battery has a total generation capacity of 100 megawatts and 129 megawatt-hours of storage. Tesla now plans to build the world's largest virtual power plant in Adelaide, linking household rooftop solar and battery storage to create 250 megawatts of solar energy and 650 megawatt hours of battery storage.

The Hornsdale power reserve, which was built by Tesla and is owned by Neoen[27] is only the start of renewable energy powered by modern large-scale battery technology. There are many more storage projects on the way in 2018.

Increased Reporting and Disclosures

The increased risks associated with climate change and greater stakeholder expectations require companies to improve their reporting on their exposure to climate-related risks, and how they plan to transition to a low carbon economy. Some companies will manage this transition better than others.

The TCFD sets out recommendations for disclosing clear, comparable and consistent information about the risks and opportunities presented by climate change. Companies adopting the TCFD recommendations are leading the way when it comes to reporting on the resilience of the organisation under different climate-related scenarios, including a 2°C or lower scenario.

A disconnect between Policy and Business

Australian governments energy and climate change policies over the past 10 years have been intermittent. This is likely to continue in 2018. Listed companies have highlighted government uncertainty on energy and climate policy as a leading risk, and have placed demands on government to produce clear policy measures.

Many businesses have already moved ahead of governments in Australia. Tesla's big battery has demonstrated the reality of what the current technology is capable of. Government policy and regulators need to catch up. In New Zealand however, government policy is more certain, with the newly installed Labour government recently announcing plans to increase electricity generation from renewable sources from 85% to 100% by 2035.

The Impact on Investment

Investors need to be aware of the transition currently occurring in the energy market and how this will impact on their portfolios in 2018. Investors should be asking themselves what are the risks and opportunities from the transition to a low carbon economy and which sectors and companies are going to be most impacted.

Increased risks associated with climate change and greater stakeholder expectations means that investors should not only be measuring their portfolio's carbon footprint, but also be looking to identify strategies to reduce the carbon footprint of their investments and the associated energy transition.

Of course, some companies will struggle with the transition. Shareholder engagement and advocacy will be an important factor in improving their performance. A number of climate change related shareholder resolutions are planned for 2018, and we can already see that responsible investors increasingly vote their shares in support of these.[28]

Sugar: Trimming the Fat from Investments

By Alexander Clark

Sugar will continue to be a key risk for investors in 2018. As more scientific research illustrates the correlation between sugar and chronic health diseases such as obesity, type-2 diabetes and heart disease, Australians and New Zealanders should look to cut sugar from their diet and their portfolios.

Sugar and Obesity

The most recent statistics from the Australian Bureau of Statistics (ABS) highlight the extent of the nation's health problem. In 2015, over 63% of the population were overweight or obese[29], 5% suffered heart disease [30] and 5.1% were type-2 diabetics[31]. Despite numerous studies revealing how sugar is readily transformed into fat, Australians are consuming an average of 60 grams of free sugar per day[32]. This is 8 teaspoons more than the World Health Organisation's daily recommendation[33].

The problem is prevailing particularly due to the consumption of sugar-sweetened drinks that are causing obesity in children.[34] The obesity epidemic, although it may provide a business to the healthcare sector, is annually costing Australians A$56.6 billion[35] and New-Zealanders NZ$772 million by conservative estimates[36]. Nevertheless, we are starting to see an overall shift towards health and wellbeing among Australian consumers, which increasingly puts pressure on companies who sell unhealthy products.

Reputational Risk

A large number of companies operating in the consumer staples sectors are producing and marketing products that have dangerously high sugar concentrations.[37] Sugar-sweetened beverage manufacturers are obvious culprits, however other corporates who have extensive food and beverage product lines are exposed to sugar related risk factors too.

The biggest threat to these companies is the reputational risks associated with the provision of sugary products that are linked to long-term chronic health conditions. There an inherent financial risk that as consumers move away from these unhealthy products, sales revenues will decline. It appears that this is already the case at Coca-Cola Amatil in Australia, for example.[38] A report by Schroders anticipates that companies will face costly litigation over false and misleading food labelling in the wake of sugar's definitive link to metabolic syndromes in the future[39].

Calls for a Sugar Tax

There are now growing calls for a high-sugar tax in Australia and New Zealand which will make it harder for exposed companies to turn a profit. The idea was initially dismissed by the Australian Government after it was put forward by the Australian Medical Association in January this year. However a recent Essential Poll commissioned by The Guardian Australia, found 53% of Australians were in favour of a sugary drinks tax and only 38% opposed the idea.[40]

Meanwhile in New Zealand, a poll by UMR Research and commissioned by the University of Auckland, found 67% of respondents either "strongly" or "somewhat" agreed to a tax of fizzy drinks. Calls for a sugar tax in New Zealand were reignited at the start of 2017 as research from the University of Waikato found drinks in New Zealand had 1.5 times more sugar than Canada, Australia and the United States.[41]

Sugar taxes on sweetened beverages have already been introduced in the United Kingdom and Mexico and early indicators suggest beverage sales are dropping in response.[42]

The Impact on Investment

Although a sugar tax hasn’t been legislated in Australia or New Zealand yet, consumer sentiments are changing regardless and investors should look towards opportunities such as the emergence of healthy food companies and companies who are leaders in nutritional profiling. Investors should also be identifying companies that are actively addressing their exposure to sugar by providing healthier alternatives, reducing portion sizes and reducing the sugar content of their products. There is no doubt that the potential for reputational, financial and litigation related risk factors will make investors wary of companies operating in this space.

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