

TRANSCRIPT: EPISODE 30

31 October 2019 (pre-recorded 21 Oct 2019)

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[INTRODUCTION]

**Sam Slator (SS):** Hi, I'm Sam Slator from FundCalibre and I'm joined today by one of my colleagues, Staci, with a bit of a different programme from usual.

We were originally going to chat about pollution and how we can use, and invest, in clean energy to help reduce it.

But actually when I started researching the topic, another stat jumped out at me and took me in an unexpected direction. The stat is this - if the entire US population stopped eating meat, it would be like taking 60 million cars off the road.

Now, while I'm ready to cut down on my meat intake, the thought of never having another steak and chips again makes me a little bit sad. But I'm obviously happy for Americans to stop eating it. What's your view Staci?

[INTERVIEW]

[0:40]

**Staci West (SW):** Very funny. I'm not entirely against it, although I don't drive so that is one less car on the road, but I do think I could possibly be a flexitarian and not eating meat and even dairy every day. And actually, in the UK, over a third of people regularly take days off from eating meat and Meat Free Mondays are becoming increasingly popular. So it's not just us Americans who are thinking about cutting down meat.

But it's true that the livestock industry has an enormous carbon foot-print. Cow, sheep, and poultry farming accounts for 18% of human-produced greenhouse gas emissions worldwide. And that's more emissions than those from ships, planes, trucks, and cars, everything put together.

**SS:** I find that quite shocking.

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**SW:** Me too. It was something that I spoke to Eva Cairns, an analyst at Aberdeen Standard Investments, about when we spoke about our climate change podcast together, she actually had even more on this and I think she says it best.

**Eva Cairns (EC):** “And the other thing that needs to be tackled with agriculture is the amount that’s produced and wasted, so I think about 1/3 of all food produced is wasted, again that was mentioned in the latest IPCC report and that contributes to about 10% of greenhouse gas emissions globally, this is the size of the emissions of the whole European Union and that’s huge.”

[2:12]

**SS:** So apparently livestock farming also degrades land and water and contributes to deforestation - I think it’s 30% of land worldwide is currently used either for livestock farming or to grow grain to feed that livestock.

I suppose you can just look what is happening to the Amazon rainforest. I think it was Luciano Diana, who runs Pictet Global Environmental Opportunities fund, who came in to see us recently, it was something he said about Amazon deforestation being a protein problem. It’s basically to create land to grow crops to feed animals and to feed us. He thinks it’s a huge topic.

**SW:** Yeah – his presentation had some figures on it when he was speaking to us — apparently there’s already been more than 100,000 fires there this year, with more than 50,000 hectares burnt and 23 million tons of CO2 emitted. And all of this is to make room for more farming.

Livestock is also a primary contributor to salt and freshwater pollution all over the world. And Jamie Jenkins, manager of BMO Responsible Global Equity, who we interviewed for a video recently told us about a US company which provides services on a number of water issues.

**Jamie Jenkins (JJ):** “Now Xylem is like a supermarket for water - water issues. It provides a whole wide range of products and services around the provision of water to both individuals and companies.

I was only looking this week, there’s over 2 billion people of the world population who do not have access to drinking water. And Xylem is one of these companies that through its product range its enabling both companies to treat water and also put in clean water infrastructure.

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There's a big unmet need in emerging markets for new projects and also there's a real refresh cycle required in developed countries such as the US and Europe where we know infrastructure really needs a massive upgrade."

**SS:** So Jamie's mentioned one company there that you could invest in for them, but trying to find others is pretty difficult. We're asked about this on occasion by fund managers and it's always quite a feat to find something that you can invest in.

The global vegan and vegetarian market is said to be worth over \$50 billion, and the sale of plant-based meat alternatives are set to grow by about 20% annually in the coming years. But this is still from a reasonably low base. The global meat market in comparison is worth a \$1,000 billion, if that's the right way of saying it, so the alternatives are just a small fraction of the market. So anyway we had a look, didn't we?

[4:50]

**SW:** Yeah, there's some companies out there of course. There's Impossible Foods, that has launched its Impossible Burger 2.0 in more than 5,000 restaurants world-wide – including Burger King in the US – Beyond Meat, as another meat-free burger company, that's had similar success and listed on the stock market very recently.

But I actually couldn't find a fund manager that had invested in the IPO to ask them. However again when I was talking to Eva about it, a flexitarian herself, she was saying that it was a very successful IPO and it really changed the perception of growth of a company that's going into plant-based alternatives. And she thinks that's really exciting – it's an exciting market where we'll see revolution in the next decade in terms of what we consume and what we can produce.

**SS:** Carl Stick, manager of Rathbone Income fund – who also happens to be a vegan himself — he had something to say about this too when he came in to see us recently.

**Carl Stick (CS):** "Beyond meat is a fascinating business, I mean, it came to the market I think at \$22 and got as high as \$235 - \$240 one day. Valuing it is very difficult. It's fascinating. The very fact there was this investor appetite shows that people are interested in this technology but it's not so difficult, I think there are lots of companies looking at ways of producing plant-based alternatives, to try and get meat eaters thinking I can have something different, I can make a choice today to have something different.

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The technology's getting better but I'm not sure that the barriers to entry are always going to be there. It might be a first person past the post may get a better price but I'm not sure from an investor's point of view how easy it is to actually value these businesses - but it's defiantly interesting. The high profile nature of that IPO shows how interesting investors are in this area."

[6:46]

**SW:** But as we've said it's still a very small market and it's complicated for more mainstream companies. For example, Guinness is not made using animal products but it was filtered using isinglass, made from fish bladders, which made it unsuitable for vegans obviously. And drinks maker Diageo – which is a holding in quite a few Elite Rated and Elite Radar funds such as AXA Framlington UK Selected Opportunities, Investec UK Alpha, Smith & Williamson Enterprise, Threadneedle UK Extended Alpha - Diageo has now stopped using isinglass to make Guinness, which makes it now a vegan-friendly option, and has made vegan alternatives to other beverages in its portfolio such as Baileys.

**SS:** Oh, okay. I think we also found that some large food producers have also launched their own-brand vegan products, haven't they? Nestle – which is a holding in Janus Henderson European Focus and Waverton European Capital Growth – has purchased a plant-based food producer Sweet Earth and Unilever – which is another holding in Brown Advisory Global Leaders, Morgan Stanley Global Brands and Evenlode Global Income — has made some of its popular everyday products vegan-friendly. So it's introduced new tea bags for PG Tips that work better with the likes of almond or soy milk.

**SW:** Let's not forget Tesco. It's another popular holding in funds like Artemis Income, GAM UK Equity Income, Merian UK Alpha and Investec UK Special Situations – and it's launched its Wicked Kitchen range of plant-based food.

[8:27]

**SW:** Plant-based alternatives aren't the only other option though. In the future we might even be growing meat in laboratories...

**SS:** That sounds gross, doesn't it? But actually I think it's a real possibility. Carl Stick mentioned this as well, didn't he?

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**CS:** “There are lots of different things, I mean there’s businesses, tech businesses in Israel that are looking at lab grown meat. Which we may all think, oh that’s really squeamish but you know if you can grow meat in laboratory conditions you’re not going to have the animal cruelty, you’re not going to be killing animals, you’re also not going to be eating the nasties like salmonella.

In addition - and these are very niche technologies - one area we may start to look at which could be fascinating is hydroponics - and looking at different ways of growing vegetables, plants, salad leaves, in water, in buildings. People are looking at using derelict buildings in inner cities to grow vegetables, that’s a fascinating idea to actually use our land better. Use brown field sites, use underground sites, tunnels, to grow salad leaves - it’s a fascinating area.

There’s a lot of alternative ways of producing food that I think we, as a planet, are going to need to think about because there are more of it. As we get more affluent, you eat more food and we can’t all eat cows frolicking around in green fields, the agriculture, the industrial production of large quantities of meat takes up a lot of space. We’ve got to look at alternative ways of doing it.”

**SW:** Luciano was also quite vocal about this. He said that it’s exciting times because we have the technology to try to manufacture some proteins and effectively bypass animals. And if we look at the pace of technology innovation that we’ve seen over the past few years and project that another 10 or 20 years, there’s going to be some incredible changes to our society. It could change entire countries - Brazil and Argentina for example - it may change the value of our agricultural land and they will have to reinvent themselves essentially.

**SS:** You wouldn’t think all of this was involved in it all, would you, it’s quite fascinating. But anyway that’s all we’ve got time for. We better get back to researching all that clean energy that we were going to talk about. But if you’d like to listen to more of our ‘Investing on the go’ podcast, please subscribe to FundCalibre.com.