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Put your money where your mouth is: vegetarian and vegan investing

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THE meat industry has a terrible carbon footprint. While diet is a personal choice, might financing vegetarian products be the game changer that moves our consumer habits towards a more sustainable direction?

It very well may be. Vegetarian-related investing has evolved from a fringe idea into unicorn territory. Once the sole domain of impact investors, it is now going mainstream with the development of the food tech sector. We believe investors should pay attention.

Vegetarianism has grown in popularity. While concerns about the associated environmental degradation, heath implications, and ethics of meat consumption are prime motivators, increasing vegetarianism is also driven by a desire for more equitable food distribution and to protect long-established rural communities. Indeed, data shows that vegan and vegetarian food production is more resource-efficient and less taxing to the environment.

Animal-based food production and farming are among the leading contributors to climate change. Were the average American to replace their beef intake with plant-based alternatives, for example, they'd reduce their food-based carbon footprint by 96 per cent.

If the whole world made the switch from beef to vegetarian options, up to a quarter of the planet's ice-free surface and up to 15 per cent of global fresh water usage could be put to other uses, or not used at all. Think about it: One kilogram of fruit requires one-fifteenth the amount of water to produce as the equivalent weight of meat.

Enough food is produced for everyone in the world to eat well, but because of our dietary habits, meat is overproduced and overconsumed in rich countries. This, in turn, crowds out our ability to grow the grains and produce needed to ensure healthy nutrition in emerging markets.

Global agri-supply chains are also increasingly lengthy; many food products travel hundreds of miles to get to our plates, further expanding our carbon footprint.

Big Food is big business and not easily disrupted. By persuading consumers to consume more and more calories, global agri-businesses have served their bottom lines. But the diets they've promoted have led to widespread obesity and an associated health crisis. They impose a social cost that we are only just beginning to calculate.

Our diets are addictive. While our bodies require nutrition, Big Food designs products with precise combinations of sugar, salt, fat, and other additives that may be as habit-forming as tobacco or alcohol. Indeed, the food supply chain has some parallels with that of prescription opioids during the late 1990s and early 2000s.

Food retailers and outlets are incentivised by Big Food to serve the demand despite the social costs just as doctors were incentivised by drug manufacturers to overwrite prescriptions.

Could the mainstream agri-industry and food retailers eventually face regulatory scrutiny? The sugary food and beverage industry in the United Kingdom already has. The crackdown on high sugar-content goods was led by government reviews which in turn influenced consumer demand. The meat industry may soon encounter a similar process.

Several large, well-capitalised agri-businesses companies dominate the global food sector, including seed and grain production and final animal products.

They comprise a powerful oligopoly that dictates what we eat and how we eat it and where and how it is produced. They consume enormous amounts of global resources, heavily influence government policy, and contribute to a vast gap between developed and emerging countries.

Pursuing profit without accounting for the associated social and environmental production costs leads to short-term decision making. This has consequences for our natural resources and workforce health and safety.

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The use of fertilisers and pesticides may increase harvest yields, but it can also damage the surrounding ecosystems. Crop yields decline as the soil deteriorates. The knock-on consequence of focusing only on short-term growth, can lead to less developed countries facing depleted regional resources, deteriorating public health, and increased poverty.

What can we do about Big Food's excesses? Quite a lot, it turns out. As consumers and investors, we have real power to change the current unsustainable model for the better. We need to educate ourselves on the origins of the foods we eat and the resources required to produce them.

We need to cut down on – not necessarily cut out – foods that harm both us and the environment. Eating less meat, especially beef, or if possible, no meat at all, and sourcing more of our food from local suppliers are big steps in the right direction.

To be sure, there is a "chicken or egg" element to this whole transition. If more appealing and affordable vegetarian and vegan products were available, more of us would switch to these types of diets.

But green shoots are emerging. Change follows the money and more money will come when we achieve scale. The more flexitarians, vegetarians, and vegans there are, the more the food industry will innovate, reduce costs, and make non-animal food alternatives more accessible to more consumers.

This culture change will take time and the investment community has a key role to play. Agri-businesses make up a substantial portion of retirement portfolios. Fund managers need to make sure that this sector is held to account.

At the very least, fund managers should demand good governance and transparency on company carbon emission policies, workforce practices, and consumer health and well-being.

Ideally, that means championing a board-level focus on sustainability and a clear roadmap to a less destructive, healthier, and more equitable food supply chain.

Of course, the value-add of all of the above boils down to risk-mitigation and ethical considerations. These are important, but they're not enough to ensure that an investment portfolio will meet our clients' objectives. An investment that checks all the sustainability boxes but fails to generate returns is not a "good" investment in every sense of the word.

So how have vegetarian and vegan investments actually performed? Is there a proof of concept that demonstrates their long-term return potential?

Naturally, given the relative novelty, the data is hardly complete, but the early results are promising. Since its launch two years ago, for example, Beyond Investing's US Vegan Climate Change (VEGN) exchange-traded fund (ETF) has given the S&P 500 a run for its money while avoiding companies that contribute to animal suffering, climate change, and environmental degradation.

Elsewhere, food tech unicorns Beyond Meat and Oatly benefited from considerable hype en route to their successful initial public offerings (IPOs), showing, at the very least, that there is ample investor interest in these types of companies. And that investor interest is critical.

To reduce the environmental toll of food production, investment must flow towards more sustainable production systems. Access to such investments has historically been limited.

Food tech is still a nascent industry and thus mostly the preserve of venture capitalists and private equity. But Invest Vegan and other companies are forging a pathway to help investors better align their investing with their values.

A green revolution is transforming our energy supply and waste management systems. A similar revolution needs to take place in global food production and in our diets.

The investment community can help catalyse this revolution by encouraging Big Food to step up its game and become more healthy and sustainable.

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