Access to Nutrition Index (ATNI)

In conjunction with MSCI

Paris
19 June 2012
## ATNI context and approach

### Nutrition as a global health issue

Malnutrition has significant impact globally:

- 1 billion adults are **overweight** and more than 300 million are **obese**
  - In US, $190B spent on obesity-related health care costs
  - Increasingly an issue in developing countries (‘double burden of malnutrition’)
- **Undernutrition** affects 1 billion people, primarily in developing countries
  - Leads to 3.5 million child deaths annually
  - Thought to account for up to 2-3% of lost potential GDP in developing countries

### Implications for industry

Nutrition is a **major global trend** driving changes, risks and opportunities in the food & beverage (F&B) sector:

- **The future prospects** of F&B companies are closely linked to their response to reducing malnutrition (both obesity and undernutrition)
  - Consumers in developed world markets are increasingly seeking healthier foods
  - Significant opportunities exist in the developing world and are growing
- Given its size and reach, the private sector can play an **important role** in reducing malnutrition, along with other stakeholders

- **ATNI will rate F&B manufacturers on their nutrition policies, practices, and performance** in order to:
  - Provide companies a tool for benchmarking their nutrition practices
  - Serve as an impartial source of information for investors and other stakeholders
- **By encouraging companies to make continual and sustained improvements, ATNI ultimately seeks to help reduce malnutrition and improve health**
- **ATNI is engaging investors in F&B manufacturers** to help them understand nutrition issues and encourage assessment of companies’ performance on this material, long-term strategic issue
Governance and management

ATNI Project Team
GAIN staff and advisors drive development and day-to-day activities

Independent Advisory Panel
Provides strategic advice on stakeholder engagement, institutional considerations and financial sustainability

Expert Group
Provides technical advice on methodology for assessing companies

Global Stakeholder Network
Widest possible network of stakeholders, including those involved in public consultation on Index methodology
# MSCI: Independent Research Provider for the ATNI

| Role               | Contribute to the finalization of the ATNI methodology  
|                   | Provide research and analysis of F&B companies for Core and Spotlight Indexes |

| Experience         | MSCI has more than 20 years of experience in ESG research (first ESG Index launched by KLD in 1990) and contributed to the first 5 Carbon Disclosure Projects as well as to the Access to Medicines Indexes |

| Conviction         | MSCI believes that “Access” indexes are innovative tools to improve practices across the board (transparency and performance among industry and stakeholders) |

| Team               | Project team: 6 analysts in Mumbai, US and Mexico, 1 project manager, 1 technical expert and 1 support person in Europe  
|                   | Steering committee: Head of Marketing, Research and product development for ESG custom research |
**Scope**

**Malnutrition coverage:**
Undernutrition through obesity

**Stage of supply chain:**
Food and beverage manufacturers only
(Upstream, retailers, and food service companies potentially included in the future)

**Type of company:**
Multinational corporations and regional companies

**Core Index:**
25 of the world’s largest food and beverage companies (may include privately held companies)

**3 Spotlight Indexes:**
10 of the largest companies by F&B revenue in each market

- Mexico
- India
- South Africa
Review of existing peer indexes

To build a ‘best in class’ index, extensive research was conducted to learn lessons from other ratings and rankings

Approach

• Focused on 32 most relevant rankings, ratings and indexes
• Evaluated 60 elements
• Conducted interviews for more detailed review of 10 indexes
• Team members conducting research have significant experience in the development of indexes
## Overview of methodology development

<table>
<thead>
<tr>
<th>PROCESS</th>
<th>OUTCOMES</th>
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<tbody>
<tr>
<td>Review of best practices from existing indexes</td>
<td>• Detailed review of over 30 existing peer indexes, including 10 interviews, and ongoing tracking of other rating and ranking systems</td>
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<tr>
<td>Catalogue foundational documents</td>
<td>• Exhaustive literature review conducted</td>
</tr>
<tr>
<td>Iterative development process with Expert Group</td>
<td>• Extensive and detailed discussions with multi-stakeholder Expert Group</td>
</tr>
<tr>
<td>Public consultation</td>
<td>• Approximately 800 stakeholders directly invited to participate over a period of 4 weeks</td>
</tr>
<tr>
<td>Pilot desk-based research</td>
<td>• Test methodology against various company types (multinational, regional, private)</td>
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<tr>
<td></td>
<td>• Desk-based evaluation of 8 global and all Spotlight companies</td>
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</tbody>
</table>
| | • ATNI methodology should assess companies’:
| | o Commitments (including governance and management systems)
| | o Performance
| | o Disclosure |
| | • Identified key consensus guidelines to serve as basis of content of methodology
| | o WHO
| | o FAO
| | o Codex
| | o Others |
| | • Yielded draft methodology ready for public review
| | • Emphasis on importance of companies’ impact on both food and the food consumption environment |
| | • Broad support for methodology
| | • Feedback incorporated to refine methodology
| | • Decision not to assess marketing of BMS based on consistent multistakeholder feedback |
| | • Updated approaches to undernutrition and Spotlight methodology |
| | • Streamlining of Indicators |
| | • Identified potential ‘stretching’ Indicators |
**Methodology structure**

**CORPORATE PROFILE**  
(Core & Spotlight Indexes)

<table>
<thead>
<tr>
<th>Nutrition governance</th>
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<tbody>
<tr>
<td>Formulating and delivering appropriate, affordable, accessible products</td>
</tr>
<tr>
<td>Influencing consumer choice and behavior</td>
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</tbody>
</table>

**PRODUCT PROFILE**  
(Spotlight Indexes only)

<table>
<thead>
<tr>
<th>Composite score for each company</th>
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<tbody>
<tr>
<td>Undernutrition score</td>
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</table>

- Evaluating the level to which commitment to nutrition is embedded in core strategy and backed by financial / human resources
- Evaluating the extent of companies’ implementation of commitments relating to R&D, product formulation, pricing, and distribution
- Evaluating the extent of companies’ implementation of commitments relating to advertising, nutrition education, promotion of physical activity and engagement with policymakers and other stakeholders
- Assessment of nutritional appropriateness, affordability and accessibility of representative selection of companies’ product portfolios in Spotlight countries

Scores will also be available for each company by category

**NOT FOR DISTRIBUTION OR CITATION**
## Corporate Profile structure

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Section 1: Nutrition governance</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| A | Corporate strategy, management and governance | A1: Corporate nutrition strategy  
A2: Nutrition governance and management systems  
A3: Quality of reporting |
| **Section 2: Formulating and delivering appropriate, affordable, accessible products** | | |
| B | Formulating appropriate products | B1: New product development  
B2: Reformulating existing products  
B3: Nutrient profiling system |
| C | Delivering affordable, accessible products | C1: Product pricing  
C2: Product distribution |
| **Section 3: Influencing consumer choice and behaviour** | | |
| D | Responsible marketing policies, compliance and spending | D1: Responsible marketing policy: all consumers  
D2: Auditing and compliance with policy: all consumers  
D3: Advertising focus: all consumers  
D4: Responsible marketing policy: children  
D5: Auditing and compliance with policy: children  
D6: Advertising focus (children) and policy impact |
| E | Supporting healthy diets and active lifestyles | E1: Staff health & wellness  
E2: Supporting consumer-oriented healthy eating and active lifestyle programs |
| F | Product labelling and use of health and nutrition claims | F1. Product labelling  
F2. Health and nutrition claims |
| G | Influencing governments and policymakers, and stakeholder engagement | G1: Lobbying and influencing governments and policymakers  
G2: Stakeholder engagement |

Criteria with additional undernutrition-specific Indicators in red

Impact on food consumption environment

Providing access to appropriate, affordable foods

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ATNI Project Phases

1. **Pilot phase**
   - Listed and private companies
   - Multinational and their local subsidiaries
   - Cies in Spotlight countries

2. **Data Collection**
   - Public information
     - Company’s public disclosure
     - MSCI ESG database
     - Third party sources

3. **Companies’ Engagement**
   - Companies’ interviews
     - To discuss initial findings
     - To provide additional information
     - Verification by company’s representatives

4. **Scoring**
   - Interviews info integrated into the analysis
   - Scoring company’s practices

5. **Rating & Writing**
   - Companies’ ranking and report writing
   - Highlight best practices

**Methodology Refinement**
Research and Engagement phase

**Desk-based Research**
- Review corporate literature (websites, sustainability reports, press release, Annual reports)
- Review third party data sources
- Preliminary analysis

**Companies’ Engagement**
- **Interview with companies:** Head of Nutrition, R&D, Sustainability, representatives from spotlight countries.
- **Questionnaire:** following the interview a questionnaire will be sent to collect quantitative data
- **Review final profile:** companies will be provided with their profiles to review for factual accuracy

ATNI is expected to be launched end of 2012/early 2013
Next-steps and long-term proposition

- Desk-based research on publicly available materials complete
- Engagement with companies underway

- First Index scheduled for launch in late 2012 / early 2013
- Institutional home established (outside of GAIN)

- ATNI II published in 2014 and on a regular basis thereafter
- Impact regularly monitored against metrics
- Methodology evolves over time to incorporate advances in practice, new evidence, policies, guidelines, standards, etc.

For more information, please visit www.accesstonutrition.org
# Investment case for nutrition: risks

## Nutrition-related risks to companies are increasing in developed and emerging economies

### Regulatory risk

Stimulated by concerns over obesity, many countries, states and cities worldwide are considering, or have already introduced:

- Regulations controlling F&B manufacturers’ activities (e.g. trans-fat bans)
- Fiscal measures (e.g. ‘fat’ or soda taxes) which increase companies’ costs and restrict their reach.

### Corporate reputation/brand risk

- As media coverage of diet-related diseases increases, F&B companies are often portrayed in a poor light and as ‘part of the problem’.
- F&B companies that do not take action to reduce trans-fats, fat, salt and sugar and introduce healthier products risk their brand values and corporate reputations.

### Market /revenues/share price risk

Concerned about their weight and diet-related diseases, consumers in developed markets are switching spending away from perceived unhealthy products and moving towards healthier options.

- Healthier packaged foods grew by 6% a year from 2002-08, compared to 3% a year for overall packaged food growth (Bernstein Research, 2011)
- Companies are acquiring and divesting businesses in order to produce ‘healthier’ products and/or expand into healthier product categories.

### Litigation risk

- Some companies have already faced litigation for the foods they sell, and how (e.g., McDonald’s and Kellogg’s). No lawsuit has yet succeeded, but the risk remains. (Stern, 2010, CBS MoneyWatch.com)
- Commentators as far back as 2002 have referred to unhealthy food as ‘the next tobacco’ – inferring that governments may sue companies to recover some of the public costs of treating obesity and related diseases stemming from food choices and lifestyles. (Brownell & Warner, 2009)
Investment case for nutrition: opportunities

Nutrition-related opportunities for companies are also increasing in developed and emerging economies

**Large, untapped market**

- Globally, 3.7 billion have incomes of less than $8 per day and spend about 50% of their income on food (est. USD1.3 trillion) (Global Agenda Council for Food Security).
- As their income grows, they are likely to increasingly buy packaged foods, representing a large, untapped market opportunity for companies.
- Major investors are looking for product innovation and market penetration from leading food companies.

**First mover opportunities**

- Companies that are on the front-foot on this agenda are able to capitalise on positioning themselves as 'nutrition' companies and win brand loyalty, market penetration, and future growth.
- By participating in public-private partnerships to address nutritional deficiencies in-country, companies can build good relationships and reputations with governments that may pay dividends in future, in terms of access to markets and preferential treatment.

**Fast-growing segment**

- 8 out of 10 of the fastest growing F&B categories are linked to health (e.g. probiotic drinks: 13%; frozen fruit: 12%; dairy/dairy sub-drinks: 11%). (Dexia Asset Management, March 2009)
- Top 10 new F&B products launched in the US in 2006-7 were health-oriented without sacrificing taste: Campbell’s Reduced Sodium Soup ($101 million); Bird’s Eye Steam Fresh Frozen Vegetables ($87 million); Vault/Vault Zero Regular and Diet Drinks ($70 million). (Dexia, ibid)

**Improved margins**

- Healthier foods provide F&B manufacturers with the opportunity to improve gross margins through:
  - Premium pricing
  - Lower COGS through reformulation and reducing packaging size while maintaining a similar retail price (Dexia, ibid)
Role of investors

Investors are a critical stakeholder

- Major ESG investor brands and regional investors in US, Europe, Asia, Africa, Latin America have been consulted throughout the development process
- Investors are represented on advisory groups (GEPF, SAM, F&C, BCAM)
- ATNI outputs intended to be of value to both mainstream and sustainable/responsible investors

What investors can do in 2012

1. Sign investor statement
2. Facilitate engagement with companies
3. Provide feedback