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# INVESTMENT UPDATE SUSTAINABLE FOOD STRATEGY



**IMPAX** Asset  
Management



**BNP PARIBAS**  
ASSET MANAGEMENT

The sustainable  
investor for a  
changing world



The sustainable food strategy is a differentiated strategy investing in solutions that address environmental and societal challenges within the food and agriculture value chain.

Despite challenges to performance over the past two years, the portfolio companies offer higher relative earnings growth for the next 12 months of 10% (on a weighted average basis) versus 8% for global equity markets as represented by MSCI ACWI.<sup>1</sup> This reflects the robust underlying trends in the sustainable food sector.

We believe that now is an opportune time to invest as valuation dislocations present compelling entry points for long-term growth.

<sup>1</sup> Impax, as of 30 November 2024. Earnings growth is stated for the next 12 months.

## INVESTMENT CASE REMAINS COMPELLING

The sustainable food strategy invests in solutions that address environmental and societal challenges within the food and agriculture value chain. It focuses on companies that reduce the environmental impact of food production, provide nutritious and healthy food, enhance food safety, and promote higher animal welfare standards.

The investment opportunity arises from a significant global transition: the shift away from conventional practices towards sustainable food production and consumption.

This transition is projected to require an additional USD 300 billion in capital investment annually through 2030.<sup>2</sup> The drivers include consumer preferences increasingly leaning towards healthier, less environmentally impactful options. Regulatory bodies are implementing stricter measures to promote sustainability across the food supply chain.

As this transition accelerates, it is creating risks for traditional food companies and opportunities for forward-thinking investors.

Our strategy prioritises companies that enable and benefit from the transition. The team targets profitable, high-growth firms with attractive valuations that are diversified across sub-themes and geographies. This approach is designed to support the resilience of the portfolio through all stages of the economic cycle.

## CAPITALISING ON GROWTH IN SOLUTION PROVIDERS

Earnings growth expectations reflect robust trends in the sustainable food sector. The strategy benefits from exposure to these trends:

- **Food testing:** This industry has benefited from increased industry regulations and societal demand. Growing public awareness around food safety and the impact of contaminants has strengthened demand for advanced testing solutions for poly-fluoroalkylated substances (PFAS) and 'forever chemicals', positioning companies in this sector for continued growth.
- **Healthy food regulation:** UK laws targeting products that are high in fat, salt or sugar (HFSS) have spurred food ingredient companies that are reformulating products to include healthier, natural components.

These examples illustrate how regulatory shifts, increasing consumer awareness and demand for transparency are unlocking growth for solution providers. We believe the portfolio is well exposed to these opportunities.

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2 World Economic Forum, 100 Million Farmers : Breakthrough Models for Financing a Sustainability Transition, 2024.

# VALUATION OPPORTUNITIES AS HEADWINDS EASE

Over the last 18 months, strategy performance has been held back by mega-cap technology stocks dominating investor attention. While the strategy lagged its benchmark during this period, absolute returns have remained positive.

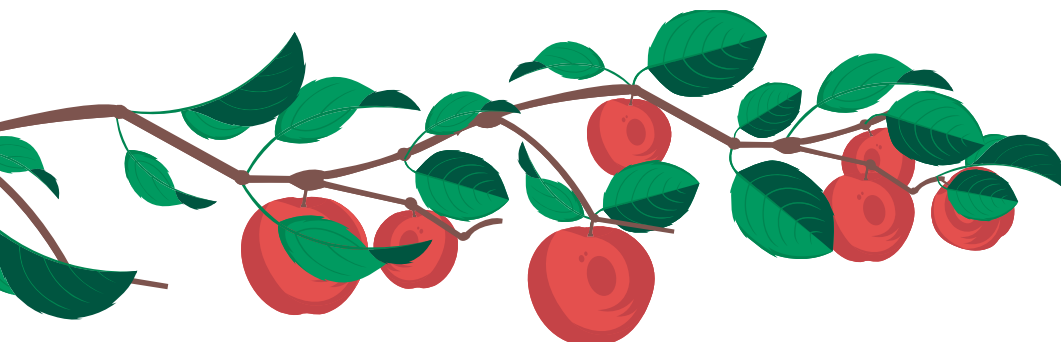
We believe the recent headwinds will continue to abate. As a result, we see positive momentum emerging from the following sectors:

- **Consumer staples:** Packaged food companies faced volume concerns as high food inflation and rising interest rates weakened consumer spending. Consumers became more price-sensitive and shifted demand towards cheaper alternatives, including retailer private labels. However, as inflation starts to normalise, we expect consumer confidence and spending power to recover.
- **Industrials:** Agricultural machinery firms were affected by lower commodity prices and increased input costs, which led to constrained capital expenditure among farmers. However, as commodity prices stabilise and inventory levels normalise, the agricultural cycle is now expected to bottom out, setting the stage for a recovery.

Against this backdrop, the strategy is well positioned to capture opportunities among fast-growing, mid-cap companies, especially as investor sentiment shifts towards sectors with strong growth potential and attractive stock market valuations.

Historically, the strategy has traded at a premium to the broader market due to its superior earnings growth, defensiveness, and its high-quality characteristics.<sup>3</sup> This premium reflected our focus on resilient, high-growth companies with strong sustainability credentials.

The valuation dislocation seen over the last 18 months, in our view, creates a temporary opportunity for investors. We believe the strategy's premium is likely to return as market conditions stabilise and investors refocus on long-term growth and sustainability themes.

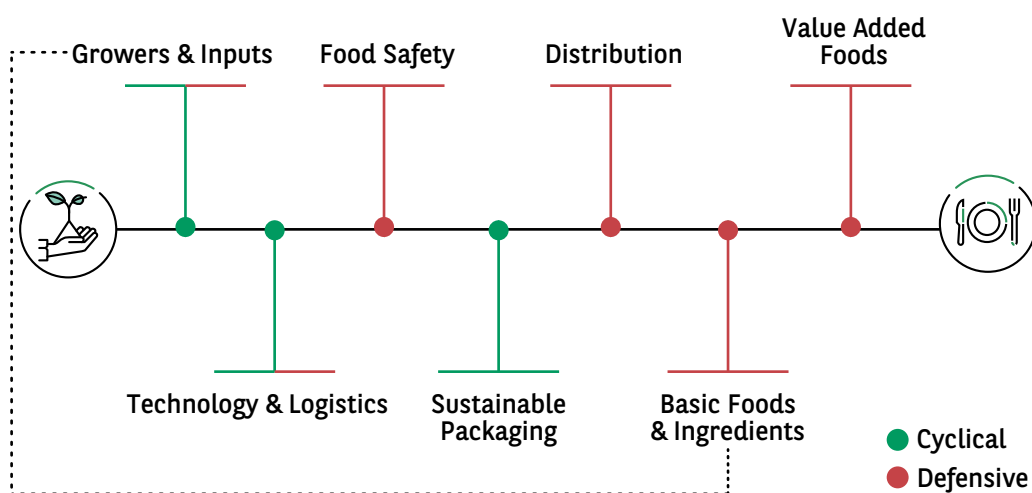


# FARM-TO-FORK DIVERSIFICATION

The strategy's broad exposure across the food and agriculture value chain ensures access to opportunities in both defensive and cyclical sectors. By maintaining exposure across different segments of the food and agriculture industry, the strategy is able to capture both defensive growth from stable sectors like food safety and distribution, as well as cyclical upside from areas such as agricultural inputs and machinery.

## Exhibit 1

Capturing opportunities across all stages of the value chain



Source: Impax Asset Management, BNP Paribas Asset Management; January 2025

Looking ahead, we see the strongest opportunities across these sub-sectors and stocks:

- Precision agriculture:** Compelling opportunities lie in technologies that reduce input waste and improve efficiency. Within the portfolio, this is exemplified by AGCO's Precision Planting<sup>4</sup> retrofit solutions. Precision agriculture not only enhances productivity, but also helps optimise the use of resources such as water, fertilisers and pesticides. We believe this technology is critical in addressing the growing global demand for food while minimising environmental impact.
- Sustainable packaging:** This sector draws upon innovations that advance material circularity and reduce plastic waste, as illustrated by Graphic Packaging's paperboard solutions.<sup>4</sup> The shift towards sustainable packaging is being driven by both consumer demand and regulatory requirements, with increasing restrictions on single-use plastics across various regions. Companies that provide innovative, eco-friendly packaging solutions are well positioned to benefit from this trend, contributing to a reduction in plastic pollution and supporting a more circular economy.

<sup>4</sup> This company is mentioned for illustrative purposes only. Naming companies does not constitute a buy or sell recommendation. The strategy may or may not hold a position in the companies mentioned.

- **Food ingredients:** We see opportunities in providers of natural and minimally processed food products. Within this sub-sector, companies such as Kerry Group<sup>4</sup> support the transition to healthier diets through sustainable nutrition solutions. Growing consumer awareness of the health risks of ultra-processed foods is driving demand for natural and organic alternatives. Companies that offer high-quality, nutrient-dense products are benefiting as consumers seek healthier options that align with their wellness goals. Additionally, innovations in food preservation such as natural fermentation and enzyme use are helping to reduce food waste and extend product shelf life, further supporting global sustainability goals.



## CONCLUSION

The transition to more sustainable and healthier food systems offers significant growth opportunities. Our strategy has maintained its defensiveness while leveraging structural drivers such as resource-efficient agriculture and food innovation.

We believe current valuations present compelling entry points for long-term investors. With improving economic conditions and a growing focus on food industry sustainability, the strategy should be well-positioned to capture upside potential across various segments of the food and agriculture value chain.

Article provided by Impax Asset Management; January 2025

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This paper has been written by Impax Asset Management. Founded in 1998, Impax Asset Management has pioneered investment in the transition to a more sustainable global economy and today is one of the largest investment managers dedicated to this area.

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# VIEWPOINT



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