The Vegan Option Please

A look at vegan investing and climate impact

By Martyna Szumniak and Dr Roan du Feu

arabesque

Veganism – what is it?

Veganism, defined by the vegan society as a "philosophy and way of living which seeks to exclude — as far as is possible and practicable — all forms of exploitation of, and cruelty to, animals for food, clothing or any other purpose"[1], is growing in popularity around the world[2]. In some regions, a meat-free diet is typical due to cultural or accessibility reasons[3], while in others, individuals cite sustainability, health, or animal welfare as a reason to cut out meat and animal products from their diets[4]. As a result, the vegan substitute market has been booming, with sales of 'vegan bacon' almost doubling in 2020, to $267 million, compared to 2019[5]. Similarly, the UK based meat-alternative start-up THIS secured £11m in funding, which they claim to be the largest Series A fundraise for an alternative meat brand in the UK[6]. These developments reflect global trends of increased demand for easily accessible vegan products[7].

While being vegan in day-to-day life has its own challenges, vegan investing can be even more complicated.

However, despite the rising interest in veganism, the UN predicts that demand for animal-based products will still increase in line with rising populations, growing urbanisation and increased demand for more diversified diets from an emerging middle class. Consequently, they expect that meat and milk consumption will grow by 73 and 58 per cent, respectively, from 2010 to 2050[8]. This continued increase in demand means that despite various harmful effects of meat production and consumption, the large-scale animal agriculture industry is here to stay. Therefore, it is even more important that such companies cut emissions to ensure that global temperature rise is limited to 1.5 degrees Celsius.

There is an often-overlooked goal of the Paris Agreement that states: "Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production". Considering that emissions from the livestock supply chain represent 14.5 per cent of all human-induced emissions[9] and that demand is set to increase in the next 30 years, we must ask the question: Is there any hope for the meat industry to align with the goals set in the Paris Agreement? And consequently, is veganism a more sustainable choice when it comes to investing?

Vegan Investing – what does it mean?

While being vegan in day-to-day life has its own challenges, vegan investing can be even more complicated. In order to identify a vegan-aligned company that would be 'safe' for vegans to invest in, we can apply the same methodology as used by the Arabesque S-Ray Value Alignment Tool.

By identifying revenue streams that oppose the principles of veganism, such as dairy production, meat production or leather goods, we can filter companies based on whether they generate revenue from animal or dairy products and agriculture. Therefore, we can create a universe of vegan companies, allowing investors who wish to prioritise this topic to match their portfolios to their personal beliefs.

Through this methodology, "vegan companies" are defined as those who do not generate revenue from animal products, rather than companies that provide vegan-specific products or services.

Vegan Companies – what does the data tell us?

Applying the Temperature Score, Arabesque S-Ray's implied temperature rise metric that evaluates a company's climate impact based on its current emissions and emission targets, to companies flagged by the vegan filter, we can compare these to companies flagged as "non-vegan". The Value Alignment Tool (VAT) has a universe of around 27,000 companies, and of these, just over 2,700 have a Temperature Score, which is the universe we consider here. While within the VAT as a whole, 2.7% of companies (729 companies) are flagged as non-vegan, within the Temperature Score universe, 4.4% of companies (126 companies) are flagged. Within the S-Ray Temperature Score metrics, we will consider both the Near and Far term scores, showing the implied global temperature rise by 2030 and 2050, respectively, and the Trend Indicator, which denotes whether a company's emissions are on track to reach net-zero by 2050.

To add a second layer of analysis, we looked at companies flagged by the Fossil Fuel preference filter, which flags all companies which receive revenue from fossil fuels. Overall, 6.6% of companies (1,823 companies) are flagged as being involved in fossil fuels, and within the Temperature Score universe, 7.1% of companies are flagged (205 companies). We then compare the temperature scores of the fossil-free universe to those of the vegan universe, to see the potential effects of cutting the meat industry out of a portfolio, compared to cutting out the fossil fuel industry.

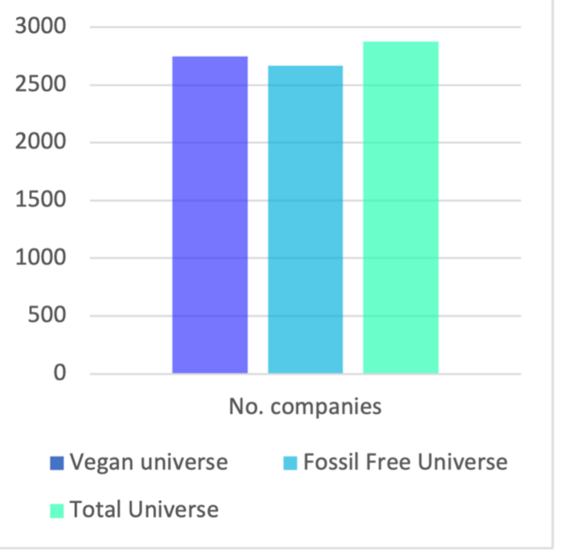


Figure 1: Breakdown of universes

Firstly, looking at reporting and scoring, the proportion of current *Paris Aligned* companies (meaning their emissions profile aligns with a 1.5 C or 2 C future) is 11.2% higher for vegan companies than non-vegan companies. This number is even greater for the proportion of companies with a 1.5 C score, which is 15.9% higher for the vegan universe, supporting the idea that companies profiting from animal products are bigger emitters of greenhouse gases and are lagging in disclosure and setting targets and goals.

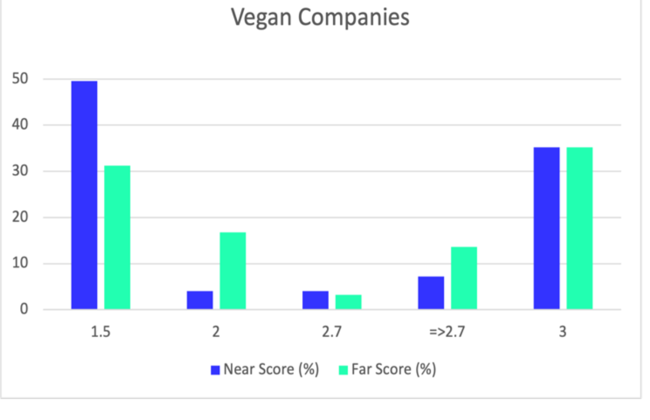


Figure 2: Temperature scores of Vegan companies

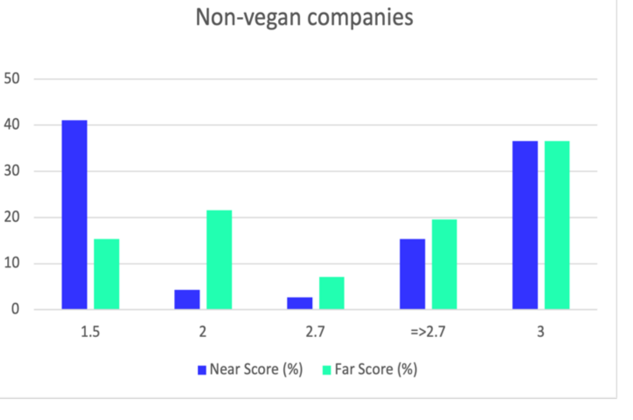


Figure 3: Temperature scores of non-vegan companies

> **"Meat and dairy industries, which constitute the majority of the non-vegan universe, are far behind where they need to be. "**

As we might expect, vegan companies (i.e. any company that does not profit from animal products) receive better Temperature Scores, on average, than those companies flagged for involvement in fossil fuels. However, more interestingly, if we compare the vegan universe with the fossil-free universe, we find that vegan companies perform better in both Near and Far scores (5% and 8% more Paris-Aligned companies, respectively). This suggests that while cutting out fossil fuels from a portfolio is a positive step, cutting out animal products could be even more beneficial in creating a climate-friendly portfolio.

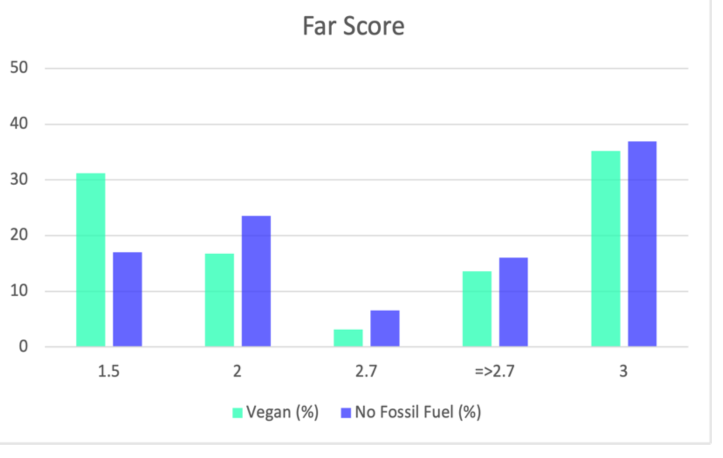


Figure 4: Far scores for both vegan and non-fossil companies

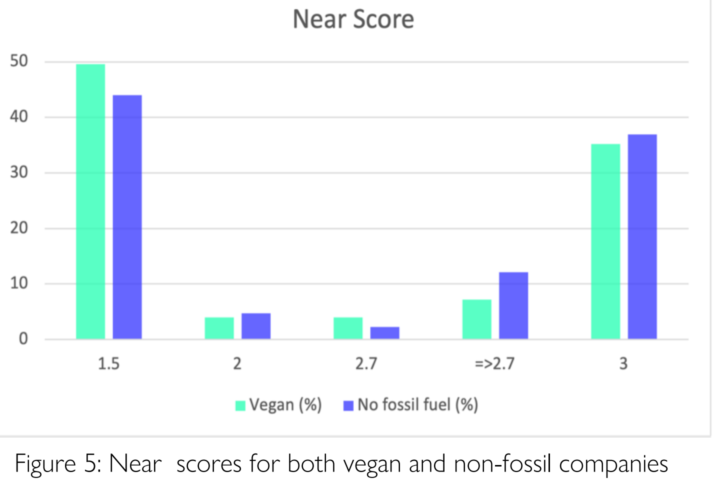


Figure 5: Near scores for both vegan and non-fossil companies

Considering that meat consumption is only expected to increase globally, it is important to also look at emission disclosure trends amongst non-vegan companies. This is where it gets interesting. As of 1 March 2021, out of 126 non-vegan companies identified, 44 (35%) do not disclose enough emissions data to receive a temperature score[10]. Worse, at the start of 2019 half of these companies did disclose at least their scope 1 and 2 emissions, but have since stopped. So, while both awareness and consumption are increasing, emissions disclosure is not. And while the numbers considered are small, this is a worrying indication that further suggests that the meat and dairy industries, which constitute the majority of the non-vegan universe, are far behind where they need to be.

“Scientists have warned that global meat consumption needs to drop by 90% if we are to avoid dangerous change”.

Finally, the trend indicator of the Temperature Score[11] shows that only 21% of fully disclosing non-vegan companies are on track to align with the Paris Goals. This figure is comparable to the figure for the whole universe so, while not providing insight on the actions of the meat and dairy industries compared to others, it should be a warning sign and an indicator of how far there is to go, especially considering the relatively high impact of these industries. The environmental impact of the meat industry is comparable to the impact of the transport industry[12],[13], and scientists have warned that global meat consumption needs to drop by 90% if we are to avoid dangerous climate change[14]. If lack of action and disclosure continues and pressure is not put on these companies, a greener future looks very unlikely.

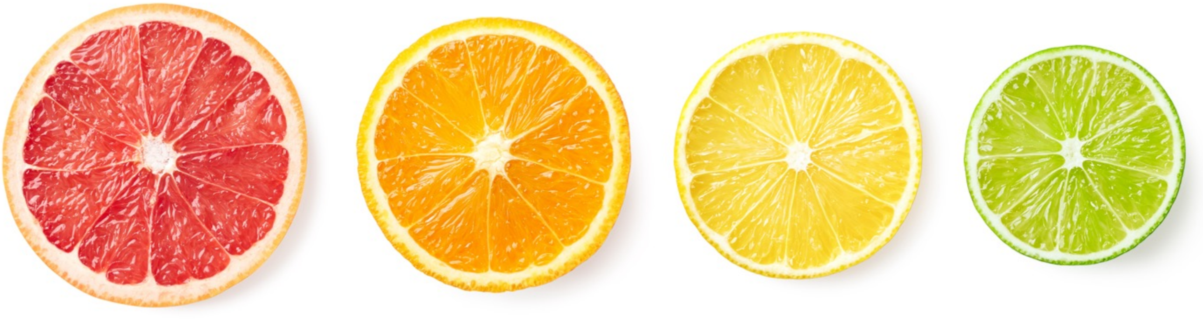
So where does that leave us?

Based on the current situation, it is not looking great. While vegan companies are somewhat ahead in their climate disclosure and provide good options for vegan investors, only a limited portion of the population is vegan or vegetarian, limiting the possible impact of vegan investing. Additionally, non-vegan companies are lagging on disclosure and emissions targets, raising doubts that the industry will reduce emissions alongside increasing global demand.

Looking instead at companies that actively promote veganism or vegan products, it is still too early to tell. Very few of these companies are public, and those that are tend to be small having only recently become public (Beyond Meat in 2019, Tattooed Chef in 2020 and Oatly in 2021), resulting in limited data. As such, we cannot yet perform analyses on whether these companies could be considered more sustainable investments. Similarly, the first-ever Vegan-focused ETF (VEGN), launched on Nasdaq in September 2019, is mainly constituted of companies such as Apple, Microsoft, Facebook and AT&T, which match the criteria of not profiting from animal agriculture[15] but are not necessarily tied to vegan practices or products.

In conclusion, while it is too early to consider companies directly tied to vegan products and practices, we can identify vegan companies as any that get no revenue from animal products. These companies outperform non-vegan companies on multiple Temperature Score metrics, and by excluding them alongside those involved in fossil fuels, investors could make a significant step towards a greener portfolio. To aid this process, Arabesque is currently enhancing its Value Alignment Tool, which will soon allow investors to filter out companies that profit from any of 36 different activities within seven categories, each of which has environmental, social or ethical consequences. The vegan screen utilised here, for example, could be built by combining the Animal Farming, Animal Products and Leather Goods screens from within the Animal Welfare category.

So, while increased demand for vegan bacon may not save our planet, an increased interest in vegan investing and increased pressure on non-vegan companies to step-up may have some impact on our changing climate. After all, “Every person I have met who has gone vegan says it is the best decision they have ever made” (Lewis Hamilton[16]).



References

[1] https://www.vegansociety.com/go-vegan/definition-veganism

[2]https://www.vegansociety.com/news/media/statistics/worldwide

[3] https://edition.cnn.com/travel/article/vegetarian-diet-beginners-coronavirus-wellness/index.html

[4]https://www.statista.com/statistics/1062072/reasons-for-becoming-vegetarian-or-vegan-in-great-britain/

[5]https://www.bloomberg.com/news/articles/2021-07-19/as-more-vegan-bacon-brands-hit-the-market-sales-are-on-the-rise

[6] https://www.thegrocer.co.uk/fundraising/this-secures-biggest-ever-series-a-fundraise-for-uk-plant-based-brand/657484.article

[7] https://www.theguardian.com/lifeandstyle/2020/jul/25/uk-demand-for-new-vegan-food-products-soars-in-lockdown

[8]http://www.fao.org/3/i3437e/i3437e.pdf

[9]http://www.fao.org/news/story/en/item/197623/icode/

[10] Disclosure requirements for receiving a temperature core include reporting emissions in accordance with the GHG protocol, with scope 1 and scope 2 emissions reported separately, publicly and in tonnes CO2e.

[11] Trend is defined as companies with an emissions reduction of ~7%/year, which would get us to net zero by 2060's and keep us below 1.5C

[12] https://www.theguardian.com/environment/2020/sep/22/eu-farm-animals-produce-more-emissions-than-cars-and-vans-combined-greenpeace

[13] https://www.theguardian.com/environment/2018/dec/21/lifestyle-change-eat-less-meat-climate-change

[14] https://www.theguardian.com/environment/2018/dec/21/lifestyle-change-eat-less-meat-climate-change

[15] https://www.investopedia.com/investing/what-first-vegan-etf/

[16] https://www.bbc.co.uk/sport/formula1/41296229

For more information about the Value Alignment Tool, please get in touch.