

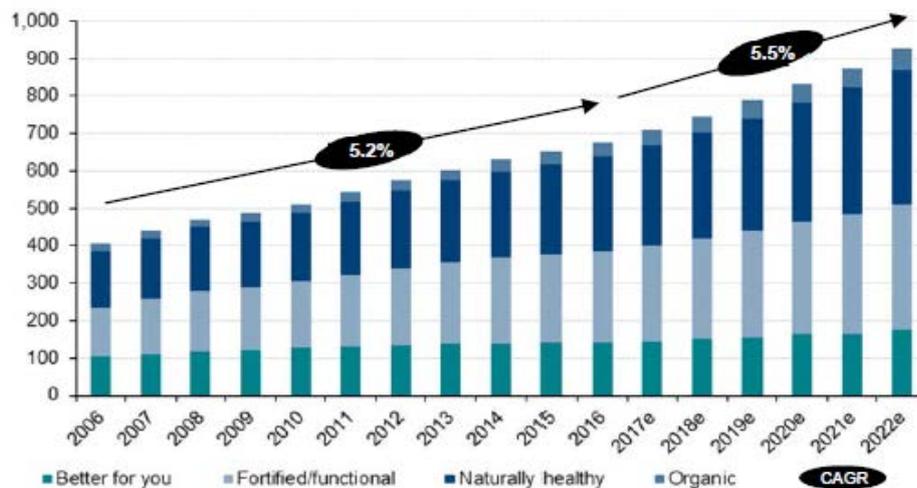
Green Consumerism: A \$1 trillion megatrend driving consumer decisions

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“Green consumerism” is a term which means many things to many people. Let’s take a look at the trend as it relates to food—food ingredients and how food is grown. Most consumers equate green consumption with “natural”, i.e. food that is free of chemicals, artificial ingredients, genetically modified organisms (GMOs), and that is organically grown.

A Nielsen survey¹ shows 58% of global consumer respondents want more all-natural products, while a Euromonitor study² finds 30% of consumers “closely read the nutrition labels of food and beverages.” Over the past decade, the “healthy” food category has almost doubled in size with future growth set to accelerate reaching \$1tn in the next few years.

Global retail sales (off-trade), USDbn, fixed 2017 exchange rates



Source: Euromonitor

Organic Farming—a long-term investment

While the market for healthy food is enormous, the percentage of organic farmland is only inching up and amounts to less than 10% of total farmland in Europe and a meager 1% in the US. Organic farming is not a matter of simply turning off the chemical sprayers: Farmers must learn to manage soil nutrients without fertilizer and tackle weeds and insects without herbicides and insecticides. It’s a steep learning curve.

Organic farming requires different equipment and other up-front investments and it requires more labor, mainly to deal with weeds. Regulations also require crop rotation, which limits the crops produced in a given year. As a result, organic systems are generally competitive with conventional yields only after a 5-year transition

¹ *What’s in our food and on our mind?*, Nielsen.com, August 2016.

² *How millennials’ taste for authenticity is disrupting powerful food brands*, Financial Times, 18 June 2018.

period.

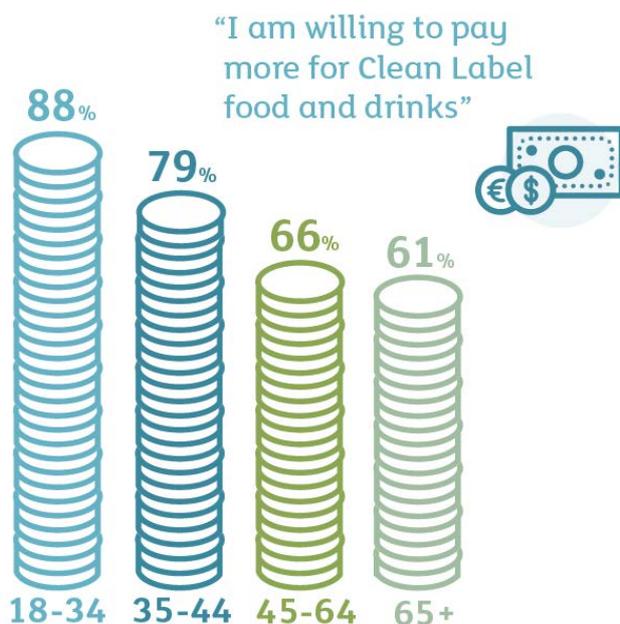
Once implemented, organic techniques are superior compared with conventional farming, as they use an estimated 45% less energy, produce 40% less carbon emissions, and build soil health rather than deplete it. As soil health improves, 15-20% more water percolates through the soil in organic systems, replenishing ground water and boosting performance.³

Global brands partner with farmers

To optimize production and help farmers commercially, big brands are getting involved. PureCircle produces the natural sweetener Stevia—the stevia plant is about 40 times sweeter than sugar, requires less growing space and can be harvested up to four times per year, providing a steadier income for farmers. Another example is Unilever Hindustan, which helps 8,000 Indian farmers optimize growing tomatoes on more than 11,000 acres of land. Finally, as a leading producer of chocolate products, Mondelez has partnered with the governments and farming communities in Ghana and Cote D'Ivoire to reach zero de-forestation rates in the two countries. This is a significant goal, as Ghana and Cote D'Ivoire make up 60% of the world's cocoa supply. This is also something that drove the investment decision of Nordea Asset Management's (NAM) Fundamental Equities Team when they added Mondelez International to their Global Stars Equity strategy.

Ingredients matter and consumers are willing to pay more for “Clean Labels”

“Clean Label” has become a catch-all phrase for healthy and sustainable food. The willingness to pay a premium is highest among younger consumers. The demand for healthy and natural baby food may be a major factor in millennials' willingness to pay more for clean labels.



Ingredients are critical in consumers' perception of healthy food. This is an area which is currently gaining traction as more and more consumers are looking for healthier foods. Among the global leaders in clean food ingredients and flavors, Global Stars Equity strategy holding Kerry Group is known for partnering with its customers to produce food solutions, including a cultured celery product that provides natural texture while maintaining fresh taste over the shelf life of meat products. International Flavors and Fragrances (IFF), another Global Stars Equity strategy holding, also benefits from the healthy food megatrend. The company supplies flavors and

³ Farming Systems Trail, Rodaleinstitute.org

fragrances to the food industry and recently acquired Frutarom, a specialty provider of spices and fruit ingredients. Another company, Symrise, offers taste solutions in food products while targeting 100% sustainably sourced key ingredients by 2020. This is an ambitious goal given Symrise has operations in 40 countries and 5000+ suppliers around the world.

The case for backward integration: Symrise

By keeping the supply chain under tight control, ingredients providers can ensure quality and that suppliers adhere to sustainable practices. From an economic perspective, strong backwardly-integrated relationships with suppliers helps minimize resource use and, hence, lower production costs. Backward integration can also build strong foundations for future relationships.

For example, beets make up an important source of natural food coloring. Recently, a fungal attack in France reduced Symrise's beet harvest from 80 tons to 10-20 tons and also affected the color. Instead of dropping the producers, Symrise worked with the farmers to find a solution. They alternated watering schedules and volumes, and changed fertilizers and plowing areas. The results are encouraging and may help prevent future incidents.

The Mean Green Machine?

With the acquisition of sustainable food-focused retailer Whole Foods in 2017, Amazon sent shivers down the spine of traditional food retailers: If Amazon could revolutionize the way people shop for books, why not broccoli and eggs? Today, Amazon counts more than 300 million active users—a powerful forum for prioritizing green consumerism. In Amazon's virtual grocery store, users can choose which features their food should have. A search for "organic" and "GMO-free" reduces the number of food items from thousands to a modest 149, signaling potential significant growth in this area. Food producers' future success will depend, in part, on their ability to properly label their products on the virtual Amazon shelf. A trillion-dollar opportunity may very well wait for those that do so.



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Nordea Asset Management has a presence in Cologne, Copenhagen, Frankfurt, Helsinki, London, Luxembourg, Madrid, Milan, New York, Oslo, Paris, Santiago de Chile, Singapore, Stockholm, Vienna and Zurich. Nordea's local presence goes hand in hand with the objective of being accessible and offering the best service to clients.

Nordea's success is based on a sustainable and unique multi-boutique approach that combines the expertise of specialised internal boutiques with exclusive external competences allowing us to deliver alpha in a stable way for the benefit of our clients. NAM solutions cover all asset classes from fixed income and equity to multi asset solutions, and manage local and European as well as US, global and emerging market products.

**Source: Nordea Investment Funds, S.A., 31.12.2018*

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