

ISSUE BRIEF

From Livestock to Animal Labs: Investing Humanely

Spring 2018

History

The Neolithic Revolution over 10,000 years ago marked one of the most significant developments in human history- the domestication of animals. More reliable and consistent livestock resources enabled societies around the globe to transition from hunter-gatherers to settled communities. The cow, given its abundant production of milk, quickly ensured its place on the human food chain. Meanwhile the bovine's male counterpart, the ox, added sheer strength not yet measurable by "horsepower" but secured its ranking as a Beast of Burden long before the Rolling Stone's chart topping hit. Where would humans be without animals as laborer, food resource and companion? As investors seek ways to implement their Environmental, Social and Governance (ESG) values within their portfolios, there exists a multitude of ways to support sustainable and ethical treatment of animals, while maintaining diversified and liquid equity holdings.

What is Animal Welfare Investing?

Animal welfare investing, also known as cruelty-free or humane investing, strives to express consumer choices and values linked to animal welfare through investment portfolios. Bailard's Animal Welfare Strategy seeks to invest in high quality equity holdings while screening out companies involved in animal testing, agribusiness/factory farming, food processing and fast food. Bailard also employs additional Socially Responsible Investing (SRI) screens seeking to avoid investments in alcohol, tobacco, gaming, adult entertainment, weapons and nuclear energy. Corporate engagement also plays a large role to effect favorable outcomes to shareholders and society, as Bailard actively engages with portfolio companies on animal welfare issues such as food chain supply and farming conditions.

Animal Welfare Screens

- No Animal Testing
- No Agribusiness/Factory Farming
- No Food Processing
- No Fast Food

Investor Considerations

Investors considering an equity portfolio aligned with animal welfare issues may see lower exposure to consumer staples and health care sectors given zero tolerance for animal testing. The lack of pharmaceutical companies in particular, given their strong cyclical swings, may materially add or detract from performance year over year. However, Bailard's dedicated Animal Welfare Strategy is benchmarked to the S&P 500, reflecting our belief that an investor need not trade values for returns, as sufficient diversification should smooth out the cyclicity of various sectors over time.

A Closer Look: Factory Farming & Cloning

Mass animal production rose drastically in the U.S. after World War II, as American farmers grew revenue by cramming cows, chickens and pigs into crowded and unclean quarters. Not surprisingly, meat consumption has risen in response to cheaper and more accessible protein, with 2018 consumption of red-meat/poultry per capita in the U.S. expected to hit an all-time high of 222 pounds per person, or roughly 800 hamburgers.¹ The rise in quantity over quality of meat has had devastating consequences- with the World Health Organization citing anti-biotic resistant microbes, climate change and chronic disease as the major "three slow-motion disasters" shaping global health- all of which are connected to factory farming.² Animal cloning and sophisticated plant-based meat alternatives have grown as possible market solutions to factory farming. Tyson Foods recently invested in Memphis Meats, a start-up focused on

ISSUE BRIEF

From Livestock to Animal Labs: Investing Humanely

Spring 2018

growing meat in a petri dish from animal cells, while Impossible Foods seeks to create a meatless “bleeding” burger.

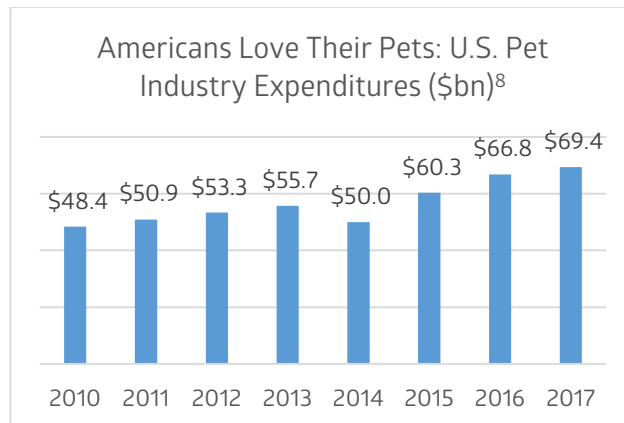
Farm Animal Industry Disclosure

The Business Benchmark on Farm Animal Welfare³ is a collaboration by two animal welfare organizations, Compassion in World Farming and World Animal Protection. The benchmark enables investors to incorporate farm animal welfare data into their investment decisions, comparing companies on metrics such as close confinement, growth-promoting substances and long-distance live transportation among many others, and thus delivering transparency along with constructive corporate engagement.

What About Pets?

As investors are willing to put their money behind animal welfare principles, it's not surprising that Americans spent nearly \$70bn on their animal companions in 2017, eclipsing the nominal GDP of many countries such as Costa Rica.⁴ San Francisco, one of America's most dog friendly cities where children and canines each roughly number 120,000, is aptly named after St. Francis of Assisi, the patron saint of animals.⁵ Although many Americans consider their pets as family members, the Humane Society estimates as many as 500,000 pets are sent to shelters each year after their owner dies or becomes incapacitated.⁶ A pet trust may help the owner find comfort amidst uncertainty, allowing the owner to designate a caregiver and trustee to help ensure that money left to the pet is used for its expressed benefit. Given that a will must go through a potentially lengthy probate process, a pet trust may expedite the pet's transition to the new caregiver, while allowing the original owner to stipulate parameters such as specific food, water, shelter and exercise requirements.⁷ Some animal shelters and humane societies also offer programs where the owner may donate funds or pay a fee in exchange for immediate

care and adoption placement, should the owner become incapacitated or pass away.



*SOURCES

- 1 <https://www.ers.usda.gov/webdocs/publications/86243/ldp-m-282.pdf?v=43087>
- 2 https://www.nytimes.com/2017/05/21/opinion/who-factory-farming-meatindustry.html?rref=collection%2Ftimestopic%2FFactory%20Farming&action=click&contentCollection=timestopics®ion=stream&module=stream_unit&version=latest&contentPlacement=2&pgtype=collection
- 3 <https://www.bbfaw.com>
- 4 <http://www.imf.org/external/pubs/ft/weo/2017/02/weodata/index.asp>
- 5 <https://www.nytimes.com/2017/01/21/us/san-francisco-children.html>
- 6 http://www.humanesociety.org/news/magazines/2013/07-08/backup-plan-planning-for-pets-afterownerdeath.html?credit=web_id65489429
- 7 https://www.americanbar.org/newsletter/publications/gp_solo_magazine_home/gp_solo_magazine_index/petestateplanning.html
- 8 http://www.americanpetproducts.org/press_industrytrends.asp

DISCLOSURES

This Issues Brief was produced by Bailard's Social, Responsible and Impact Investing Service ("SRI") for informational purposes only and is not a recommendation of, or a solicitation of an offer to buy any particular security, strategy or investment product. It does not take into account the particular investment objectives, financial situations or needs of individual clients or investors. References to specific companies are for illustrative purposes only and are not intended to represent any past, present or future investment recommendations. All investments have the risk of loss. There is no guarantee any investment strategy will achieve its objectives. The application of various environmental, social and governance ("ESG") screens may result in the exclusion of securities that might otherwise merit investment, potentially adversely affecting performance. This communication contains the current opinions of its author and such opinions are subject to change without notice. Information contained herein has been obtained from sources believed to be reliable but is not guaranteed. Bailard will not offer investment advice in any jurisdiction where it is prohibited from doing so. *The sources contain information that has been created, published, maintained or otherwise posted by institutions or organizations independent of Bailard, Inc., which does not approve or control these websites and which does not assume responsibility for the accuracy, completeness or timeliness of the information located there. Visitors to these websites should not use or rely on the information contained therein until consulting with an independent finance professional. Bailard, Inc. does not necessarily endorse or recommend any commercial product or service described at these websites.