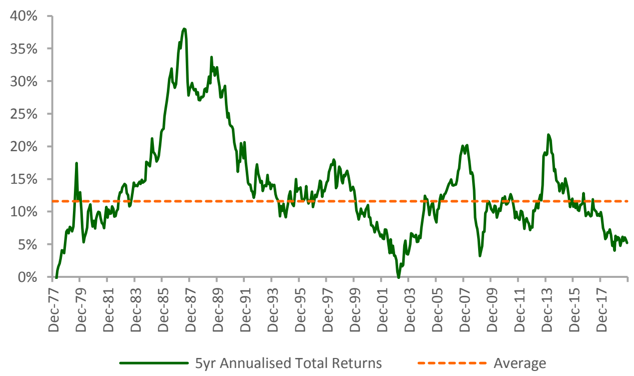
Ash Park on ESG

ESG (Environmental, Social, Governance) issues are highly complex, often unquantifiable and frequently subjective, making a reliance on external rating companies a dangerous short cut, in our view. Outsourcing decision-making or influence to these third parties is no way for investors to benefit from the value creation of sustainable business practices, nor minimise future risk related to negative ESG issues. Only by knowing these companies intimately (and usually by following them for years) do we think investors can capture this very significant value. Since these companies and their brands interact with people on a daily basis, the Consumer Staples industry has a unique opportunity to spearhead the shift towards more responsible business practices and to spread positive messages and education around environmental and social issues. As investors in these businesses, Ash Park is focused on encouraging this behaviour and ensuring that companies have a sufficiently long-term perspective in order to capture this significant intangible value that we believe markets are yet to fully recognise.

The Ash Park Global Consumer Franchise Strategy

- Concentrated portfolio of high-quality businesses . . .
- . . . seeking to sustain high returns on capital, underpinned by much-loved everyday consumer brands
- A smart way to access the EM consumer growth opportunity
- No benchmark constraint, significant liquidity
- Low turnover, minimising frictional costs
- Removes reinvestment risk and the need to find the 'hot new' investment theme
- Managed by experts in the Consumer Staples industry and backed by a global network of contacts
- Principals have at least 75% of their investible assets in the Strategy

Global Staples have never lost money in any 5yr period



Returns in US$ for Ash Park Global Consumer Staples index, since 1977
Source: Ash Park, Refinitiv Datastream

Ash Park Global Consumer Franchise UCITS Fund Returns (EUR, net of all fees and expenses)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019	3.5%	5.5%	6.4%	-0.4%	-3.0%	0.7%	2.2%	0.9%	0.3%	-2.6%	4.6%		19.2%
2018	-2.1%	-6.5%	0.6%	-1.0%	0.8%	2.5%	3.4%	-1.4%	-0.2%	-1.6%	-1.4%	-7.7%	-14.1%
2017	-0.2%	8.4%	1.8%	0.0%	4.4%	-3.6%	-3.5%	-1.2%	-0.2%	1.6%	0.0%	2.7%	10.1%
2016	-0.4%	-1.2%	1.4%	0.2%	2.6%	2.6%	-0.9%	-0.7%	-0.9%	-2.2%	-3.6%	2.3%	-1.2%
2015	9.7%	5.3%	-0.1%	-1.9%	3.1%	-4.3%	6.0%	-7.9%	2.0%	8.8%	3.0%	-3.3%	20.5%
2014										4.4%	3.9%	-1.2%	7.2%

				Cumulative			Annualised	
2019 to 29th Nov	**2018**	**2017**	**2016**	**12M to 29th Nov**	**3 yrs to 29th Nov**	**Since Inception**	**3 yrs to 29th Nov**	**Since Inception**
19.2%	-14.1%	10.1%	-1.2%	10.0%	15.2%	43.9%	4.8%	7.4%

The value of all investments and the income from them can go down as well as up; this may be due, in part, to exchange rate fluctuations. Past performance is not a guide to future performance.

Source: Ash Park. This table illustrates the returns of the Ash Park Global Consumer Franchise UCITS fund which launched on 14 October 2014. The Ash Park Fund returns illustrated above are the net asset value per share of GBP Class A shares of the Ash Park Global Consumer Franchise UCITS Fund translated into EUR at the relevant daily exchange rate (net of all fees and expenses, all dividends reinvested) up to 24th November 2015, and thereafter reflect the net asset value per share of EUR Class A shares. Past performance is not an indicator or guarantee of future results. The UCITS fund is not available to US investors.

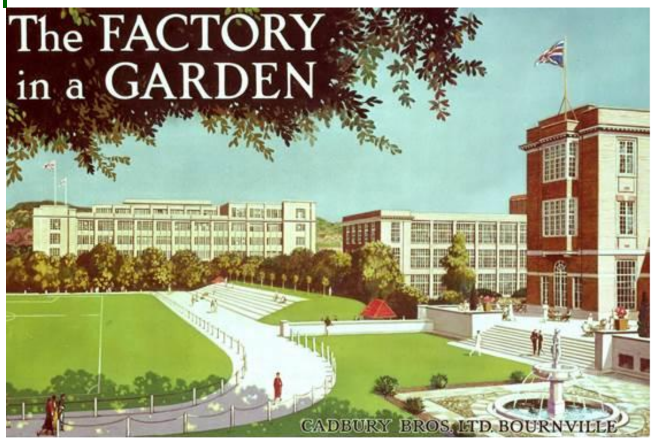
Ash Park on ESG

Back to the future

In 1887 William Lever bought 56 acres of land near Liverpool, where he built a new factory and a model village to house its employees. Lever claimed that Port Sunlight, which offered decent living conditions in the belief that good housing would ensure a healthy and happy workforce, was an exercise in profit sharing; rather than share profits directly, Lever Brothers (now Unilever) invested them in the village.

At about the same time, George Cadbury was building a similar workers' utopia in Bournville, near Birmingham. In *Chocolate Wars*, Deborah Cadbury writes that the 'Quaker capitalism' practiced by Cadbury *"proved extraordinarily successful, and generated a staggering amount of worldy wealth".* However, *"the idea that wealth-creation was for personal gain only would have been offensive. Wealth-creation was for the benefit of the workers, the local community and society at large, as well as for the entrepreneurs themselves."* [1]

Figure 1: Cadbury's Bournville factory



Source: The Birmingham Mail

130 years on from the Business Roundtable, an association of the CEOs of some of the largest companies in the US, recently updated its Principles of Corporate Governance to reflect a commitment to lead companies for the benefit of all stakeholders – customers, employees, suppliers, communities and shareholders – recognising that it *"is the only way to be successful over the long term."*[2] But in the context of the histories of businesses such as Unilever and Cadbury, it is the Roundtable's previous position – that *"corporations exist principally to serve shareholders"* – which looks like an aberration.[3]

The B Corporation movement has been championing this more enlightened viewpoint, hand-in-hand with a number of Consumer Staples companies, since its formation in 2007.[4] B Corporations are for-profit businesses that meet the highest standards of verified social and environmental performance, public transparency and legal accountability in order to balance profit and purpose. Notable Consumer Staples companies that have been certified include Ben & Jerry's (Unilever), Innocent (Coca-Cola), Tom's of Maine (Colgate), Natura, and large swathes of Danone, which is aiming to be certified across the entire company by 2030 and whose North American business has already been certified as the largest B Corp in the world.

Figure 2: Danone's *Silk 'Oat Yeah'* plant-based milk

Source: godairyfree.org

Doing well by doing good

"The primary mistake that companies make [in relation to CSR activities] is to think of social environmental consequences as a cost or constraint on their operations, rather than as a new opportunity to reinforce their strategy and further differentiate themselves from competitors. . . companies focus on limiting the negative aspects of their operations, and miss the opportunity to add a social dimension to their commitment to value and improve their competitive position . . ."[5]

These remarks, from Professor Michael Porter, one of the architects of Nestlés 'Creating Shared Value' approach to business,

[1] Chocolate Wars – Deborah Cadbury, 2010. As 'nonconformists', adherents to the Quaker church in England faced exclusions or restrictions from many professions, couldn't stand as MPs, and their own pacifism kept them out of the armed forces. Many Quakers therefore turned to business, particularly confectionery, creating Rowntree's (now owned by Nestlé) and Fry's (now owned by Mondelez) in addition to Cadbury, and also founding Barclays and Lloyds banks.

[2] Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans' – *Business Roundtable*, 19th August 2019

[3] This view found one of its more extreme forms in Milton Friedman's principles on corporate social responsibility. He called the idea that business should have a social conscience as *"pure and unadulterated socialism"*. The Social Responsibility of Business is to Increase its Profits – Milton Friedman, *New York Times*, 13th September 1970

[4] About B Corps

[5] From *Peter Brabeck-Letmathe and Nestlé - A Portrait* – Friedhelm Schwarz, 2010

hit the nail on the head as far as we are concerned, when it comes to how companies should deal with Environmental, Social & Governance issues ('ESG' – sometimes also referred to as Corporate Social Responsibility, or 'CSR').

As the B Corp movement becomes more widely known, members could well benefit from their association; Danone has even started to brand some of its products with this accreditation (Figure 2). Unilever is fond of repeating that its 'brands with a purpose' grow significantly faster than those without one. Drinks companies that grow their no or low-alcohol offerings encourage responsible drinking and incur lower levels of excise tax. Recycling schemes such as those of L'Occitane[6] or Esteé Lauder's Back-To-MAC[7] improve customer loyalty and also generate footfall to stores.

There can be cost benefits too: 'lightweighting' packaging saves input and transport costs; reducing water and energy consumption lowers utility bills, as does reducing the amount of waste that goes to landfill. Treat your employees well and you may reduce absenteeism and (expensive) staff turnover, and make yourself more attractive to the best talent. And as Clorox likes to say, *"if we look after our people, our people will look after our brands*".

A reputation for doing the right thing can make companies more attractive acquirers. Jeffrey Hollender, co-founder of Seventh Generation, explained on a recent podcast, "*I must say Unilever was the only company that I would have been happy having Seventh Generation sold to. Paul Polman who was the CEO at the time, was a transformational leader and of all the large companies, particularly household product companies, I think Unilever through its Sustainable Living Plan really set a high mark for what we might expect and hope for out of large publicly-held companies.*" [8]

Figure 3: A selection of Ash Park's ESG-related reading material

Source: Various publishers

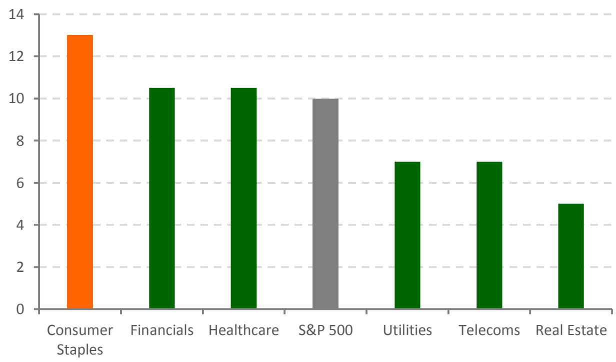
Even on the financing side, it can yield benefits. Two years ago Danone partnered with twelve banks to lower its cost of borrowing if it increased its verified positive impact in the world. The deal on a $2 billion syndicated credit facility means its ESG performance will directly impact (upwards or downwards) the margin payable to the banks over its duration.[9]

It's important to underline, though, that this isn't merely about making more profit in the short to medium term: taking the right approach to ESG issues is also a vital risk mitigation strategy. Andrea Illy, Chairman and third-generation heir of Illycaffè, made the point in a recent interview that "*in 50 years' time some lawyer will come and make you pay for the liabilities you create today. This responsibility goes beyond a humanistic one. It is an economic one. This is about social responsibility, but the real one and not the fake one.*"[10]

Measuring ESG performance

We have found ourselves spending increasing amounts of time reading, learning and thinking about a wide variety of ESG topics over the years, reflecting a structural change in the importance of socially-responsible investing. Given the consumer-facing nature of branded Consumer Staples, it does not come as a surprise to us that ESG-related topics come up more frequently in the earnings calls of our universe than in any other sector, according to recent research (Figure 4).[11]

Figure 4: Average number of ESG-related terms in US corporate earnings calls, 2016-2018



Source: Blackrock Investment Institute, with data from FactSet. Top and bottom three sectors shown

However, that is not necessarily replicated in more direct forms of investor communication. An investor relations officer of one of our holdings told us recently that, with regard to the amount of time spent on ESG topics during investor meetings, "*we get some questions once in a while - probably a couple of times during every roadshow on average. Most often we get these questions from big asset management firms in continental Europe, very seldom in London and almost never in the US.*"

A significant barrier to the incorporation of ESG factors more widely into the investment process is the absence of any standardised methodology, and the apparently contradictory results that many

[6] Consumers who bring empty beauty and skin care products into store for recycling, regardless of the brand, receive 10% off any full-price products.

[7] By returning six M·A·C primary packaging containers to a M·A·C counter or online, you'll receive a free M·A·C lipstick of your choice.

[8] Seventh Generation: Jeffrey Hollender – *Taste Radio*, 22nd October 2019

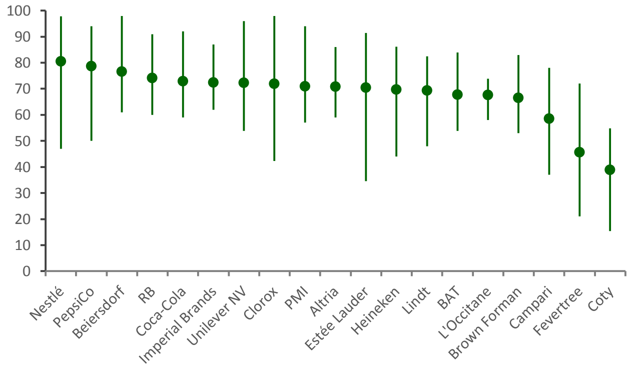
[9] Danone's Positive Incentive Financing Strategy – BNP Paribas, 3rd August 2018

[10] Andrea Illy: adapting a family business to a multinational world – *Financial Times*, 21st July 2019

[11] Sustainable investing: a 'why not' moment – Blackrock Investment Institute, May 2018

of the largest ratings providers produce. Within our portfolio of 20 stocks, all coming from one industry, there is a huge variability in ESG score from external providers; Estée Lauder, for example, is rated anywhere from 35 out of 100 with one provider to 91 at another (Figure 5).

Figure 5: ESG score variability for the Ash Park portfolio



Source: Ash Park using data from CSRHub, Refinitiv, Sustainalytics, Arabesque, LGIM

Our Tobacco holdings (discussed in more detail later) scored better on average with three of the five providers, and slightly higher on average overall, compared to the rest of the portfolio. BAT has the lowest average score for the Tobacco companies in Figure 5, but recently announced proudly that it was the only Tobacco company to be selected for the Dow Jones Sustainability World Index, for the 18th consecutive year.[12]

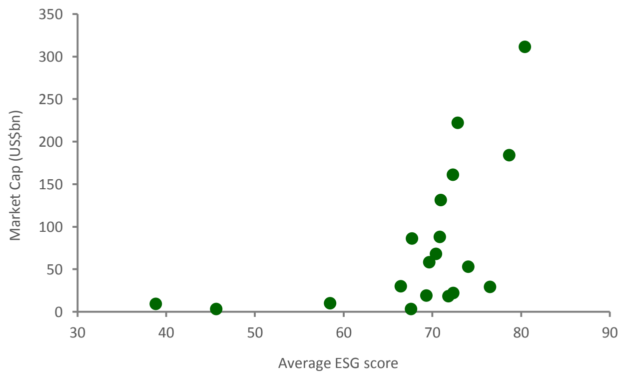
The problem with 'ESG by numbers'

In our experience there is a clear market cap bias within the data, visible even within the small sample in Figure 6.[13] And there are a bewildering number of ESG data providers, each with different approaches. Danone CFO Cecile Cabanis recently told a conference that the number of indices was *"a mess"* that required *"teams and teams"* at Danone to manage.[14]

For some of the smaller companies we own such as Campari and L'Occitane, low ESG scores don't reflect the quality of their behaviour but instead are a result of them lacking the resource to respond to requests to fill in questionnaires from a plethora of interested third parties. Perhaps there's a market for consultants to help choose ESG consultants? The investor relations head of another of our companies told us last week *"we need to better understand which of these [surveys] to prioritize, as the number of firms focusing on ESG ratings seems to be growing in multiples."*

Coty has yet to engage meaningfully with any of the ESG rating agencies, despite having agreed a Responsible Growth Strategy under previous CEO Camillo Pane and having completed a full environmental data collection cycle for the enlarged (post-P&G acquisition) business. We believe that Fever-Tree is working on its first carbon footprint report and very recently hired a sustainability director to spearhead its efforts on this subject.

Figure 6: Ash Park portfolio average ESG scores vs market cap



Source: Ash Park

When we look into the reasons for diverging results from external providers, it is also clear that there are no quick and easy fixes. A recent study by MIT Sloan School of Management looked at the difference in ESG scores provided by five prominent ratings firms. Differences in measurement (ie in the scores given to particular attributes) accounted for over half (53%) of the difference in total scores, and most of the rest (44%) was down to the scope of what was measured. In other words, raters agreed neither on what to measure, nor on how to measure it.[15]

Ash Park's own approach to ESG

Earlier this month we met the CFO of one of our holdings and asked him why his company hadn't scored so well up to now with external ESG consultants. He told us: *"ESG is so embedded in the company that we were not even conscious that we were doing things – even worse than that, we were not able to communicate about it."* In putting together this letter it occurred to us that this might very well summarise our own position.

We are a small investment team, and we don't have an internal ESG department to rely on for guidance in these matters. If their integration into the investment process is going to get increasingly important, don't you want ESG expertise as close to portfolio decision-making as possible?

We are not set up to invest in companies explicitly established to address environmental or social problems ('impact investing'), nor do we claim to run an ESG fund just because the companies in our portfolio score highly with external consultants. We don't have all the answers so will certainly take advice on best practice, but we don't want to outsource our thinking, or morality, to somebody else.

[12] British American Tobacco is the only tobacco company featured in prestigious Dow Jones Sustainability World Index – British American Tobacco press release, 17th September 2019

[13] Earlier this year a study published in the *Journal for Business Ethics* also found *"firm size bias"* in ESG scores, and that *"for researchers, it is necessary to challenge the ESG databases/ratings more. . . there is more discussion about how profitable sustainability is rather than on how reliable the measurements of sustainability are."* The Influence of Firm Size on the ESG Score: Corporate Sustainability Ratings Under Review, April 2019

[14] How Danone leads corporate world on ESG – *top1000funds.com*, 11th September 2019

[15] Aggregate Confusion: The Divergence of ESG Ratings - *MIT Sloan School of Management*, 15th August 2019

That said, and notwithstanding the few exceptions we discussed earlier and the problem with 'ESG by numbers', it seems that our portfolio in general tends to score better than the market average on these metrics.

Instead we regard ESG issues as being fully-integrated into our approach to portfolio management. We aim to own each of the stocks in our portfolio over the long term and, if companies cannot deal sensibly and responsibly with important environmental and social challenges, then the steady long-term growth that we expect is put at significant risk. When we see potential problems, or areas in which we think our portfolio companies could and should improve, we will engage with managements; we believe our expertise and the long relationships we have had with many of our holdings mean we punch significantly above our weight when it comes to getting our voice heard.

We hope the balance of this letter helps to flesh out our approach and the detail with which we explore ESG topics at both a company and portfolio level. Spurred on by our recent work, and also by the recent visit of that CFO, we will also explore whether there are formalities or processes that we should put in place in order to more explicitly label Ash Park as an ESG investor and our funds as ESG funds – though we believe that we are already a large part of the way there.

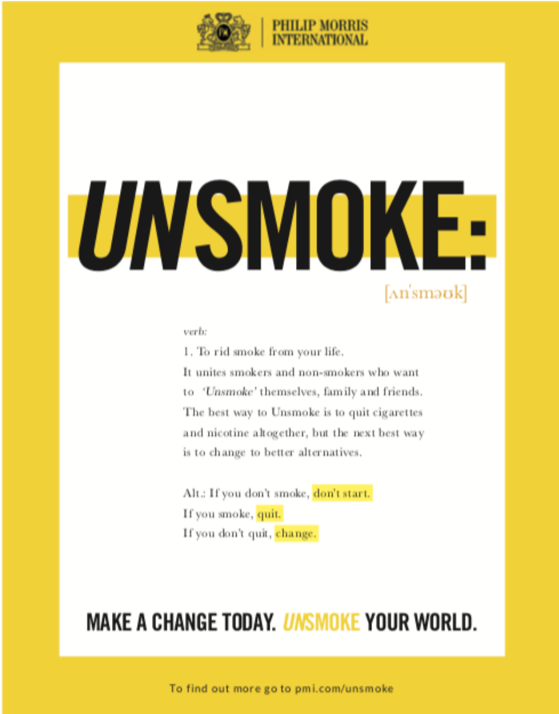
Divestment vs dialogue

One other thing we do not practice is 'negative screening' in the sense that we refuse to own stocks in certain industries.[16] Tobacco is the most controversial sub-sector in our universe and though we have – and may again – run an ex-Tobacco portfolio for those whose own policies or views dictate an exclusion, we don't believe that this should be our default position.

The health problems of smoking are well known and, certainly by today's standards, the past behaviour of the Tobacco industry was poor. But rather than wash our hands of the problem, we prefer to own companies that can operate in controversial industries[17] in a responsible manner and rise to the challenges presented by new regulation and changes in consumer expectations. Tobacco companies are engaged in a lawful, highly-regulated and taxed industry which still counts one billion adults as its customers, and are very different – in behaviour and personnel – to the businesses of 30-40 years ago.

It is surely better that these companies are operated by responsible managements rather than pushed out into the fringes of society where their behaviour could be harder to influence (thriving black markets for cigarettes in many countries already give a picture of the alternative). Because of the maturity of the cigarette business – global volumes are stable to declining – 'investing' in Tobacco stocks doesn't involve incremental capital being put to work to grow the business.

Figure 7: PMI's *'Unsmoke'* campaign



Source: Philip Morris International

In fact, all of the major global Tobacco companies are hard at work trying to grow the non-combustible – and therefore significantly lower-risk – side of their business, whether that is vaping, tobacco heating or oral tobacco. We have been engaged with this for a while, most recently via participation in two sessions of the 'Smoke-Free Dialogues', a discussion forum aimed at designing the Tobacco Transformation Index.[18] This will be published for the first time in September 2020, and is aimed at providing an objective measure of the extent to which Tobacco companies are transitioning their business away from cigarettes to less harmful products.

During one of these sessions we met a senior member of the ESG team at a large UK institutional investor who said that the recent spate of negative news relating to vaping in the US, particularly the outbreak of mysterious lung injuries and deaths, had caused the firm to seriously consider changing their minds as to whether Tobacco was a sector in which it could invest. To our minds that illustrates one of the dangers of the common approach to ESG: it was already clear then, and has now been confirmed by the CDC, that these illnesses were not caused by nicotine e-cigarettes used

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[16] Except to the extent that our definition of our investable universe – branded Consumer Staples companies – already excludes many industries, including those most heavily implicated in climate change.

[17] Although Tobacco is arguably a poster-child of the divestment movement, we struggle to find many industries that don't suffer in some major way from ESG 'controversies', whether that's the environmental degradation related to the energy, mining, industrial and airline industries, the lasting effects of the financial crisis from the finance industry, the 'price gouging' of the pharmaceutical industry, or the growing privacy and monopolistic issues of the technology industry. There are many cultures that find alcohol problematic. Meanwhile in some of the same countries where anti-tobacco sentiment seems ever more strident, cannabis is being rehabilitated.

[18] Tobacco Transformation Index – Foundation for a Smoke-Free World. This index has been inspired by others which have helped to 'nudge' corporate behaviour in various fields over the last decade, including the Access to Medicine Index and the Access to Nutrition Index

by the vast majority of consumers, but instead linked to illicit vaping of cannabis.[19]

We have found – with the great plunge in stock prices in the late '90s and early 2000s, and again now – that divestment pressure on the Tobacco sector builds when news headlines are bad and the stocks are weak. That is understandable, and some investors prefer to sell rather than go to the trouble of explaining to clients or trustees why they own already-controversial stocks, even if it's clear that divestment, in the case of Tobacco, doesn't stop a single cigarette being smoked. We strive to base our investment decisions on analysis and fundamentals rather than sentiment, and the record shows that these moments provide big opportunities for those prepared to hold their nerve.[20]

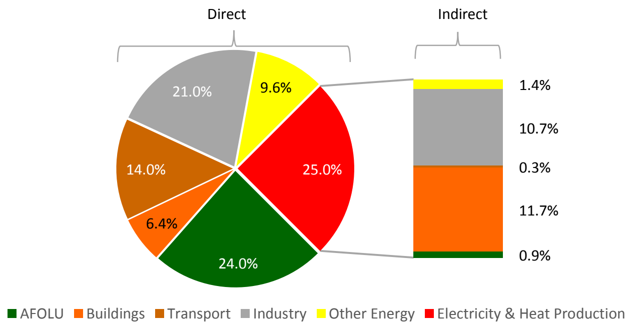
E = Environmental

The remainder of this letter focuses on each of the three key elements of ESG. There are lots of Environmental issues of relevance for our portfolio, including water scarcity and the sustainability of raw materials, but here we choose to focus on climate change (given its overall global importance) and plastic – a topic which we believe has become of critical relevance for Consumer Staples companies.

Climate change

Climate change seems the most urgent environmental issue with which the world needs to deal. Figure 8 presents estimates of the sources of greenhouse gas emissions in 2010, via the Intergovernmental Panel on Climate Change.[21]

Figure 8: Greenhouse gasses by economic sector



AFOLU = Agriculture, Forestry and Other Land Use
Source: IPCC AR5 Synthesis Report

Industry is the biggest overall contributor to greenhouse gas emissions, but direct emissions are concentrated in relatively few sectors: according to the International Energy Agency, the energy-intensive chemicals and materials sectors accounted for 74% of final industry CO_2 emissions in 2014.[22] The challenges facing these sectors, energy and auto companies when it comes to climate change seem large by comparison to Consumer Staples companies. Nonetheless, it is obviously very important that companies in our universe play their part in tackling the problem, not only through their direct use (factories and transport fleets – 'Scope 1 emissions') but also through their energy suppliers ('Scope 2') and the indirect emissions produced from the rest of the supply chain ('Scope 3').

19 of the 20 companies in the Ash Park portfolio disclose greenhouse gas emission data,[23] and 18 have explicit external reduction targets. Seven have their targets validated by the Science Based Targets initiative,[24] which means that they are consistent with the goals of the 2016 Paris Agreement, to limit the increase in global average temperature to well below 2˚C; a further six have committed to this process, meaning that they expect to have targets validated within the next two years. The remaining seven are at the lower end of our market cap scale, and most of them also have emission-reduction goals which seem at least in line with their larger peers.

We will continue to watch the evolution of annual emissions data / target-setting carefully, to check that this continues to represent real action rather than the exercise in box-checking to which the ESG field is sometimes prone, and that the targeted reductions are actually happening.

Outside emissions targets, we also watch what is happening to the products our portfolio companies sell, and their impact on consumer behaviour. Given the larger carbon footprint of meat relative to plant-based proteins,[25] we note the efforts of Unilever, whose plant-based burger (through the *Vegetarian Butcher* brand) was recently chosen for Burger King's *Rebel Whopper* in Europe; meanwhile Nestlé's (*Garden Gourmet*) *Incredible Burger* is currently McDonalds' partner of choice in Germany.

Figure 9: Unilever-made, plant-based *Rebel Whopper*

Source: Burger King

[19] Outbreak of Lung Injury Associated with the Use of E-Cigarette, or Vaping, Products – Centers for Disease Control and Prevention, 6th December 2019

[20] Virtue Is its Own Reward: Or, One Man's Ceiling Is Another Man's Floor (May 2017) is a great explanation by Cliff Asness of how an unwillingness to own certain stocks boosts returns for those who can.

[21] AR5 Synthesis Report: Climate Change 2014 - IPCC

[22] Specifically: iron and steel, cement, chemicals and petrochemicals, pulp and paper, and aluminium. Energy Technology Perspectives, 2017 – International Energy Agency, 2017

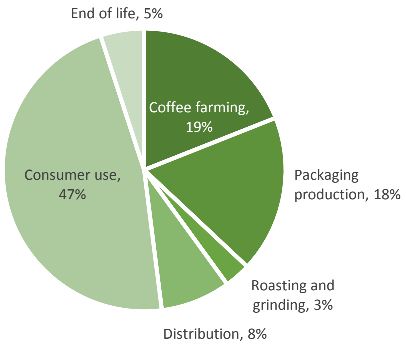
[23] The exception is currently working on its first carbon footprint report, which we expect to be available next year.

[24] Science Based Targets

[25] See, for example Reducing food's environmental impacts through producers and consumers – Poore & Nemecek, *Science*, 1st June 2018

Looking through the entire supply chain is vital when judging the environmental impact of the end-product. *Nespresso* is often criticised for its use of aluminium capsules, and the energy needed to manufacture and then recycle them. But Nestlé has shown that the carbon footprint impact of packaging on a cup of *Nespresso* coffee is small; around half is actually driven by the consumer, predominantly through the use of the coffee machine (Figure 10).[26] Nestlé has also calculated that only soluble coffee (ie instant) has a smaller carbon footprint than a *Nespresso* capsule, given that *Nespresso* uses the exact amount of coffee beans, water and energy for that serving, with no waste.[27]

Figure 10: Life-cycle assessment of *Nespresso* carbon footprint



Source: Quantis, Life cycle analysis for Nespresso

The rising problem of plastic

In lots of ways, plastic is a miracle material: highly functional, low-cost, and with a manufacturing and transport carbon footprint far lower than that of glass; it's perhaps not so surprising that its use has increased twenty-fold in the past half-century and is expected to double again in the next 20 years.[28]

But according to the Ellen MacArthur Foundation, after a short first-use cycle, 95% of plastic packaging by value ($80–120bn annually), is lost to the economy. Only 14% of plastic packaging is collected for recycling, and when additional losses from sorting and reprocessing are factored-in, only 5% of material is retained for a subsequent use.[29] Much of that waste ends up in landfill, but even worse is the estimated 150m tonnes estimated to be in the ocean today. At current rates, if nothing changes, the Foundation estimates that by 2050 there will be more plastic in the oceans than fish, by weight.

Figure 11: Big brands are on the hook for plastic pollution

Source: #breakfreefromplastic / Greenpeace

Around 20% of the plastic in the sea comes from marine sources, much of it fishing-related (lines, ropes and fishing nets). But packaging is a large contributor to the rest, not surprising given that it accounts for around almost 70% of annual global plastic waste.[30] Inevitably, large Consumer Staples companies are on the hook for being the Top 10 Global Polluters when campaign groups collect plastic waste, by virtue of their size and recognisable branding.[31]

Despite wealthier nations consuming significantly more plastic on a per-capita basis, lower and middle-income countries seem to account for a very significantly greater portion of marine plastic waste because of their large populations and a waste management infrastructure which is often less developed.[32] Low-priced, small-dose sachets of products such as shampoo or detergent have a disproportionate impact on waste, given the high packaging-to-product ratio, and often inadequate collection / recycling facilities in emerging markets.

This is a difficult problem. As Pradeep Banerjee, Vice President, Supply Management for Hindustan Unilever says, "*sachets are the most visible face of litter in any developing market but they are a very efficient means to get items of everyday use to remote areas of the country. If you have to transport one litre of a fluid, a plastic bottle would give 10 times the carbon footprint of a lighter sachet.*"[33]

The shocking statistics on plastic waste and the voices of campaigning organisations, and television series such as the *BBC*'s powerful *Blue Planet II*, have moved this topic to the front of

[26] Life-Cycle Assessment: The carbon footprint of a cup of coffee – Quantis, for Nespresso, 2013

[27] Life cycle assessment of spray dried soluble coffee and comparison with alternatives (drip filter and capsule espresso) – *Journal of Cleaner Production*, October 2009

[28] The New Plastics Economy – Ellen MacArthur Foundation, January 2016

[29] Plastics that do get recycled are usually recycled into lower-value applications like clothing fibres ('down-cycling') that are not themselves recyclable after use. By comparison, global recycling rates for paper are around 58%, and 70-90% for iron and steel.

[30] Our world in data: plastic pollution. In the Great Pacific Garbage Patch, a collection of marine debris in the North Pacific Ocean also known as the Pacific Trash Vortex, over half of the plastic waste is believed to be fishing-related.

[31] Branded Vol II: Identifying the World's Top Corporate Plastic Polluters – #breakfreefromplastic, October 2019

[32] The Ellen MacArthur foundation puts the contribution of the US and Europe to marine plastic debris at just 2%, compared to 82% for Asia and 16% for Rest of World. The Nigerian water brands *La Doo* and *Barna* registered the highest number of pieces of debris found in this year's breakfreefromplastic survey; consumers are driven to purchase these single-use sachets of water by a lack of access to clean drinking water.

[33] Can we overcome the curse of the single-use sachet? – *Financial Times*, 5th December 2019

consumers' minds, and large brands can't avoid dealing with the issue head-on.[34]

Recycling challenges

Given the carbon footprint of glass, and in the absence of breakthrough innovations, the most pressing requirement is for greater re-use of plastic and an improvement in recycling. Theoretically all plastic can be recycled, but the cost and environmental impact of it (heat, pressure, chemicals etc) makes much of it prohibitively expensive. Put simply, recycling rates equal:

- Access to Collection (suitable receptacles), multiplied by
- Separation (sorting, contamination etc), multiplied by
- End market demand (arguably the most important)

As Jean-Marc Boursier, COO of waste utility SUEZ points out, "*There remains a decreasing economic incentive to recycle, as front-end costs (collecting and processing) exceed the sale price of materials on the back end. The European and North American markets are totally unbalanced, for instance, in that the quantity of sorted materials is much higher than the capacity of industry to incorporate those recycled raw materials (RRM) into their production lines. Further, most materials won't even get to that point of sortation, as it currently costs more to collect and process RRM than it does to simply send them straight to landfill or incinerator."*[35]

Figure 12: *Innocent*'s 'brighter bottle' project

Source: Innocent Drinks

A further problem is that much recycled plastic is 'ugly'; once you've added colour to a product, it can't be taken out, so you're left with different shades of grey plastic at the end of the recycling process. The challenges are greater still when plastic is combined with metallised films, as is the case for some food packaging (eg potato chips): it's great for keeping the contents dry and cool, but very difficult to recycle, having been made from several layers of plastic and metal fused together.

A recent paper by Oxford University's Dermot O'Hare and team proposed an interesting alternative made with a nanosheet of amino acids and water, applied to a PET film – but even if successful, that wouldn't be in the market for some years.[36] Colgate has faced a similar challenge and created the first recyclable toothpaste tube (under the *Tom's of Maine* brand), combining different grades and thicknesses of HDPE laminate, that holds up to the demands of high-speed production while remaining squeezable. After five years of development, Colgate will make its proprietary technology widely available: *"if we can standardize recyclable tubes among all companies, we all win"* said CEO Noel Wallace.[37]

It seems important that Consumer Staples companies continue to push to incorporate recycled plastic into new products, and make more of their plastics recyclable in a manner that's practical. Procter & Gamble's *Head & Shoulders* brand has launched a beach-recycled plastic bottle (on the left in Figure 13 – quite a change from the pristine white packaging it is known for). P&G is also licensor of a proprietary technology, invented by its own R&D department, that can remove colour, odour and other contaminants from recycled feedstock to produce virgin-like polypropylene (PP). Licensee PureCycle Technologies, having quickly reached capacity with its first plant, recently signed up P&G's competitor L'Oréal to be the first customer of its planned European plant.[38]

Figure 13: Head & Shoulders beach plastic

Source: P&G

Coca-Cola's plastic bottles use another major form of packaging plastic, PET. It has just changed from using green to clear PET with its *Sprite* brand, which makes them eminently more attractive for recycling – demand currently outstrips supply for clear, recycled PET. The company is the largest purchaser of PET in the world, and targets 100% collection and recycling by 2030. It's already at 56%, but as Beatriz Perez, SVP for Sustainability, said recently:

[34] Collins Dictionary picked 'single-use' as its word of 2018 (this year's is 'climate strike'): Climate strike named word of the year by Collins English Dictionary – *Forbes*, 7th November 2019

[35] *The Future of Packaging: from linear to circular* – Tom Szaky, 2018

[36] High gas barrier coating using non-toxic nanosheet dispersions for flexible food packaging film – *Nature Communications*, 11th June 2019

[37] Colgate-Palmolive Ships World's First Tube Recognized as Recyclable and Freely Shares its Breakthrough Technology – Colgate press release, 20th November 2019

[38] PureCycle Technologies

"that might sound exciting . . . more than halfway there. The amount of work that has to happen to get to 100%, that really requires partnership, dedication and focus, because it's not going to be easy, because there are countries still to this day – think of China, India – that don't allow you to do bottle collection and take it back to another bottle. It's actually illegal. So, how do you look at infrastructure, public policy and different mechanisms to be able to drive a circular economy, and at the same time you have to have the government have a willingness and a seat at the table with you. It can't be done simply by one enterprise alone." [39]

Figure 14: The new more recyclable clear Sprite PET bottle

Source: The Coca-Cola Company

Why not re-use?

Re-usable plastic is an alternative which avoids some of the problems of recycling, but brings others – not least the inconvenience of consumers needing to carry empty containers. We see the abundance of drinkable tap water in developed markets, and the carbon and plastic footprint of PET, as a threat to the bottled water category over the mid to long term, especially for exported brands (why ship water overseas if the importing country has similar quality sources?).

Free water-refilling stations are on the rise (Figure 15) and we are not surprised to see the large beverage companies with water brands working on alternatives. Twelve months ago PepsiCo acquired Sodastream for $3.2bn to allow consumers to carbonate their own water at home (one cartridge makes around 60 litres of carbonated water); Danone's VC arm also acquired a stake in at-home water 're-mineraliser' Mitte; and Coca-Cola is tentatively rolling out its *Dasani* PureFill vending machine, a product that emerged during a 'Shark Tank'-style workshop for its R&D team and provides free filtered water (consumers need to have their own bottle) with the option of adding flavours and / or carbonation for a small fee.

Figure 15: A diligent Isenwater fills up his water bottle on the way to school; a *Dasani* Purefill vending machine

Source: Ash Park, The Coca-Cola Company

Cigarette filters

Tobacco companies don't escape the plastic controversy either. Cigarette filters are predominantly made from cellulose acetate, derived from wood pulp, but plasticisers have to be added to provide structure to the raw materials. The finished product is therefore classified as a plastic, and even though filters degrade considerably faster than conventional plastics (around 10 years vs 400+ years), they currently do not degrade quickly enough to avoid littering problems.

Cigarette filter waste is a relatively minor contributor to the overall global plastic waste problem, but is seen by some public health campaigners as another stick with which to beat the Tobacco industry.[40] A number of the companies are working on alternatives, but there's nothing that's currently commercially-scalable and acceptable to consumers at the same time as meeting the required regulatory performance standards.

In the meantime, the EU's directive on single-use plastics includes cigarette filters and has requirements for on-pack labelling, consumer awareness initiatives and Extended Producer Responsibility schemes (whereby producers have to cover the costs of public collection systems – as is already the case with much packaging) with a deadline of January 2023 for implementation by each country.[41] As alternative nicotine delivery systems grow, such as vaping, companies will also have to be careful to ensure that recycling is engineered into their product offerings.

[39] Sustainability Approach presentation – The Coca-Cola Company, 16th September 2019

[40] This recent article was so eager to tackle the issue that it over-estimated global cigarette consumption by a factor of 1,000, confusing its trillions with its billions: Cigarette butts are toxic plastic pollution. Should they be banned? – *National Geographic*, 12th August 2019

[41] EU directive on single use plastics

Figure 16: JUUL pod disposal advice in UK (top) and US (below)

How do I dispose of a JUULpod?

JUULpods and any unused contents should be disposed of to a hazardous or special waste collection point, in accordance with local, regional, national, and/or international regulation.

How do I dispose of a JUULpod?

JUULpods should be recycled along with other e-waste.

Source: Juul Labs

Wrapping up . . .

Addressing plastic pollution is going to require action from many different sides. Consumers need to do more in terms of reuse and recycling, manufacturers need to do more in terms of creating innovative solutions (some of our favourite plastic-related initiatives can be found in the appendix to this letter – please have a look), using recycled plastic and making packaging more recyclable; retailers need to have the flexibility to alter their logistics arrangements or shelf displays; and there's a role for the waste industry alongside governments in stepping-up collection and capacity for recycling.

However, when we look to our portfolio, we see at least as many opportunities as risks in terms of brands leading the way on environmental responsibility and building their equity even further. Should there be greater intervention in terms of taxes or government-mandated schemes, the large and well-resourced companies in our portfolio should be well-placed to absorb or pass on additional costs, relative to the wider industry (eg own label).

S = Social

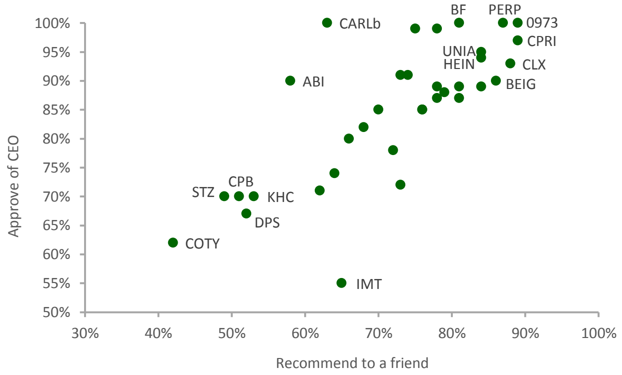
The 'S' in ESG seems a 'catch-all' concept incorporating anything that isn't explicitly related to environmental or governance issues, and so stretching across health & safety to training and development, diversity / inclusivity, employment conditions, human rights, supplier relations, community development, product responsibility and much more. It's difficult to measure, and very difficult to appraise with any meaningful confidence.

In BNP Paribas' 2019 Global ESG Survey,[42] 46% of investors found this the most difficult element to analyse and embed in their strategies. NYU Stern Center for Business and Human Rights found *"of the 580 ratings products aggregated by the Global Initiative for Sustainability Reporting, 97% of environmental efforts and 80% of governance efforts target investors as the primary audience. When it comes to social efforts, only 14% similarly targeted investors."* [43]

The importance of culture

As it relates to Consumer Staples and the Ash Park portfolio, we pay most attention to employee issues, product development and responsible marketing. There are some quantitative ways of measuring how companies treat employees (engagement scores for example), but anyone who has worked in a large institution will be aware of their limitations. We prefer a qualitative approach, and try to understand the culture, history and motivation of company employees by spending time with them, other industry participants, and suppliers and customers.

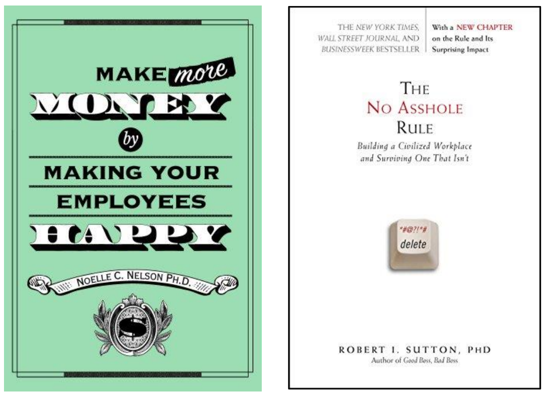
Figure 17: CEO approval and 'recommend to a friend' ratings in Consumer Staples



Source: Glassdoor

Over the almost 100 cumulative years that the Ash Park principals have been following the Consumer sector we have spent hundreds (probably thousands) of hours with companies, getting to understand how they think and act. We often claim that we could have a good guess at the characteristics of an employee just from reading their CV. Beyond interacting with people, tools like Glassdoor can provide useful insights into company culture, especially at lower levels of seniority.

Figure 18: Different approaches to similar issues



Publishers: MindLab publishing / Business Plus

The 3G-esque businesses of the world overwhelmingly link happy employees to financial success, but we think a much broader view needs to be taken. Diverse workplaces, a sense of wider purpose, and mental and physical wellbeing are of increasing importance. There are many studies showing a link between employee wellbeing and productivity (lower absenteeism often being a key driver), but one that caught our attention recently, from Oxford

[42] ESG Global Survey 2019: Investing with Purpose for Performance – BNP Paribas, 17th May 2019

[43] Putting the 'S' in ESG: Measuring Human Rights Performance for Investors – NYU Stern, 9th March 2017

University's Saïd Business School, showed that BT Group's call centre workers were 13% more productive when happy at work.[44]

Responsible product marketing
We are careful not to fall into the trap of thinking we are representative consumers for each product or category, but we do follow innovation and product development relatively closely as another qualitative input into our decision-making. You will often find us in various parts of the world taking photos of product and sharing them with the rest of the team via our WhatsApp group.

The emphasis on no or low sugar-sweetened beverages from Coca-Cola has only increased under new CEO James Quincey (whose 'CEO approval' scores on Glassdoor, incidentally, are significantly higher than for his predecessor, Muhtar Kent). We were intrigued by a recent study showing that putting *Coke Zero* first, ahead of full-sugar *Coca-Cola*, on McDonald's electronics kiosks led to sustained improvements in drink choices.[45]

Figure 19: Coca-Cola system* sparkling performance 2018

**The system refers to the entirety of The Coca-Cola Company and all its various bottling partners around the world*
Source: Coca-Cola

Low or no-sugar sweetened drinks now account for over one quarter of Coca-Cola's global volumes. Revenues in the company's sparkling business were up 6% last year on the back of 2% volume growth / 3% transaction growth (smaller size units), and with a reduction in calories – a good sign of the health of the Coca-Cola system at present (Figure 19).

Although it has become much more prevalent in recent years, advertising the responsible consumption of alcohol actually goes back more than 80 years, with Seagram declaring in a 1936 advert that *'there is a common problem which you as consumers and we as distillers share. It is the right use of liquor – drinking in moderation'*.

Heineken, which we have owned since inception and which we regard as arguably the most responsible of the large beer companies, broke ground a few years ago with a new commercial which ends with the protagonist turning down a beer.[46] Over 10% of the group's media spend is now spent on responsible drinking campaigns and it is also pushing hard on non-alcoholic beer, especially through its eponymous *Heineken* brand. In fact, *Heineken 0.0* gets 25% of the parent brand's global media spend and is now available in 51 markets, driving strong growth so that over 5% of total group volumes are now contributed by low- and no-alcohol options of the various brands across its portfolio. Not only is responsible consumption good for long-term industry and brand equity but it is more profitable (less excise tax at similar prices) and takes the company into new occasions and consumers which Heineken believes adds up to an 8% incremental penetration opportunity (largely sport, lunch, driving and office).[47]

Figure 20: An early responsible 1937 advert from Seagram

Source: Hagley Museum and Library

G = Governance

Going back to our opening paragraphs, it was actually another Cadbury, this time Adrian (Chairman of Cadbury between 1965 and 1989) who is widely credited with raising awareness of, and stimulating the debate on, corporate governance in the UK. His *Cadbury Report*, which set out the principles of a voluntary code of best practice, was based on openness, integrity and accountability, and served as a basis for reform of corporate governance around the world.[48]

For finance professionals this is almost certainly the easiest of the three ESG sections to navigate, albeit with significant scope for subjectivity and potential differences of opinion between investors. At Ash Park, we take our governance responsibility very seriously and have voted in 100% of meetings for our portfolio over the past 18 months (and against management on up to 13% of a company's resolutions).

Issues such as 'poison pill' provisions and share classes with different voting rights are frowned upon by many, but we prefer to take a pragmatic rather than prescriptive view. As we discussed in our last investor letter, half of our holdings have some form of dominant shareholder, and that is something we like because it can allow the company to take a longer-term view, and invest in projects that may not pay off for some time (and are often disliked

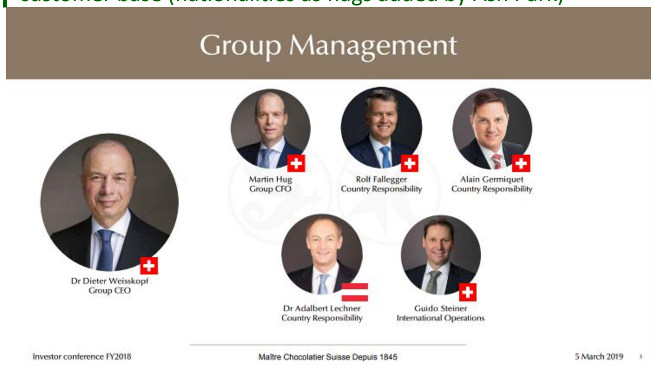
[44] Happy workers 13% more productive, finds Oxford Saïd research – Saïd Business School, 17th October 2019
[45] Menu positions influence soft drink selection at touchscreen kiosks – Schmidtke et al, *Psychology & Marketing*, 16th July 2019
[46] *Heineken* - Moderate drinkers wanted commercial
[47] We are sceptical about how socially-acceptable it is to crack open a bottle of *Heineken 0.0* at work, even though it shouldn't be frowned upon! Heineken 0.0 'Now You Can' commercial.
[48] *The Cadbury Report* – The Committee on the Financial Aspects of Corporate Governance, 1992

by shorter-term activist investors.[49] If that means double voting rights or a limitation on the rights of minority shareholders, we don't necessarily mind, as long as we are generally aligned. If investors don't like the shareholder structure of a company, they shouldn't invest in it.

Where we do have strong views is on board composition (at the executive and director levels) and on executive remuneration. We are proud to have been asked by a number of portfolio companies recently for suggestions of new board members, despite our modest size and relatively limited lifespan as a firm.

Diversity
Although we recognise the irony given the lack of diversity in our own team, we pay particular attention to executive teams and boards of directors that we believe need to broadly reflect the consumer base as well as having a varied set of skills and experiences. But ultimately this is another area in which it can be dangerous to take too dogmatic a view of what is right and wrong. We highlighted the performance of Lindt & Sprüngli in our last letter – a TSR of 14% pa over 25 years – and yet a cursory glance at the diversity of its executive team (Figure 21) would raise a red flag.[50] Nevertheless, it was very recently ranked in the top 20 European companies in the *FT*'s *Diversity Leaders* ranking (no.16, the 2nd highest ranked Consumer Staples company after Colgate).[51]

Figure 21: Lindt's group management not very reflective of its customer base (nationalities as flags added by Ash Park)



Source: Lindt & Sprüngli

According to an *FT* report, only 9% of Swiss executives are women (incredibly, the country itself only gave women the right to vote in federal elections in 1971). We have spoken to Lindt's management about this and are re-assured that they also recognise it as an issue, one that they expect to be rectified over time. More generally, we would like to see more women in board and executive positions at all our companies, and will continue to encourage managements to move in that direction.

Remuneration & Incentives
We have a number of remuneration principles that we look for and encourage companies to consider for their executives:

- Variable (short-term) compensation should be based on a combination of sales and profit;
- Long-term incentives should be based on a broader range of factors, including ROCE; and
- There is no perfect scheme – we recognise that there is no 'magic formula' that can be applied here:

Sales growth should be a relatively simple concept to measure, and not subject to manipulation, but our research work has shown that some of the key driving factors are more sustainable than others. Any measure should obviously exclude M&A, but proper consideration also needs to be given to the impact of FX. We are interested in hard currency financial performance and we shouldn't be rewarding executives for the pass-through effects of emerging market inflation. Equally it would be wrong to penalise management for the volatility of the FX markets.

Likewise, we believe any profit metric should be bound to similar parameters and subject to as few adjustments as possible. Restructuring spend, for example, is usually excluded from 'clean' profit measures, but the future benefits are not. Where short-term incentives are based on two (or more) factors, we would prefer that the scores in each are multiplied rather than added, to avoid the potential neglect of one measure to drive the maximum score in all others.

For annual bonuses based on sales and profits, the remuneration policies of the 'P&L owners' (usually country heads) are arguably more important than those of the executive teams, as they are the ones that have the operational control over the business on a day-to-day basis. This is rarely disclosed in formal reports, but it is something we track through our regular dialogue with companies.

It is also worth pointing out that while our primary valuation tool is a company's free cash flow yield, annual cash flow measures can often be too volatile to be useful remuneration KPIs. They offer scope for easy manipulation by tweaking payment or collection timing close to the year end, as well as potentially rewarding management that has decided to delay some investment projects that would benefit the long-term health of the business.

Longer-term incentives should ideally include a component based on the return on capital employed, although we recognise that finding the right definition and time-frame for this can be difficult. History has shown that the best performing Consumer Staples companies (over five and 10-year periods) are often those that have made acquisitions, which will naturally dilute the very high underlying returns over the short to medium term.

A final thought on share ownership.[52] We want management teams to have an element of 'owner mentality', but we see them more as stewards or custodians of brands – the task is to make sure these brands will still be relevant in the next 50 or 100 years, rather than to maximise the (shorter-term) profitability. That makes the

[49] That said, it's important to note though that not all controlling shareholders are necessarily a force for good, and there are plenty of controlled companies that in which we won't invest.

[50] Its board of directors is a little more diverse, with one female / two non-Swiss members

[51] Diversity Leaders – *Financial Times* Special Report, 20th November 2019

[52] We have a strong view that options should not be part of remuneration packages as they offer management all of the upside but none of the downside from their decisions

mindset of the key people and the culture of the company arguably more important than any written Remuneration Policy.

Conclusion

The wide-ranging issues across the ESG spectrum seem only likely to grow in relevance – we believe this is a structural change in the investing landscape. We hope that we have successfully explained that although Environmental issues can be relatively quantitative, Social issues are almost entirely qualitative in our view, and Governance matters can be very subjective. Most critically, we believe that ESG issues need to be completely integrated in portfolio decisions, and investors need to know their portfolio companies intimately in order to recognise where risks and opportunities may be most acute. 'ESG by numbers' doesn't work.

The investment community has recognised that intangible assets, such as brands, which might not be reflected fully on balance sheets nonetheless have significant value, and we believe the same applies for responsible business practices. As we wrote in our Q2 2016 letter on Sustainability (let us know if you'd like a copy to re-read) the real solution to these many ESG conundrums is simply long-termism.

This is what makes responsible behaviour so difficult to appraise – often the benefits of doing the right thing and taking a very long-term approach will manifest itself in the absence of something negative happening, rather than producing a specific and measurable positive outcome. In the excellent *Mission in a Bottle*, Honest Tea founders Seth Goldman and Barry Nalebuff reflect on a product recall caused by glass quality issues that they voluntarily enacted. At the time, it nearly put them out of business and ended up costing over $100m and an additional round of equity dilution. Another company of similar size that received the same defective glass bottles didn't withdraw their product and went out of business soon after.[53]

Donald Rumsfeld famously said *"Reports that say that something hasn't happened are always interesting to me, because as we know, there are known knowns; there are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know. But there are also unknown unknowns—the ones we don't know we don't know. And if one looks throughout the history of our country and other free countries, it is the latter category that tend to be the difficult ones."*[54]

Portfolio commentary

After an unusually busy Q3 in terms of trading activity, we have not made any significant changes to the portfolio thus far during the final quarter of the year. The Tobacco positions have generally performed better so far this quarter after the FDA appeared to shelve plans to limit nicotine levels in cigarettes. Elsewhere the two new names we have added to the portfolio this year, L'Occitane and Fever-Tree, both delivered major gains on the back of encouraging trading updates.

Fever-Tree rallied by over a quarter after reassuring that its UK sales would still grow this year, despite inclement weather, while its US and European businesses have accelerated meaningfully since the interim results. L'Occitane also gained 25% after reporting strong H1 results, driven by over 7% organic sales growth for its eponymous brand, and further reassuring comments on margin progression.

Thank you for your interest and support, and our best wishes for Christmas and for 2020.

The Ash Park team
12th December 2019

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All data sourced from Ash Park unless otherwise stated.

Performance for other share classes of the Fund may differ. Please refer to your individual statements or contact Ash Park for further information.

Note: Throughout this newsletter 'Consumer Staples' or 'Staples', where the term is capitalised, refers to the Ash Park definition or proprietary indices of the consumer staples sector, which include Food, Beverage, Tobacco and Household & Personal Care companies; the S&P Global Consumer Staples index also includes the Food Retail sector.

[53] *Mission in a bottle: The story of Honest Tea* – Seth Goldman and Barry Nalebuff, 2013. Mr Goldman recently announced that he was stepping back from the company (now owned by Coca-Cola), but is currently Chairman of plant-based meat pioneer Beyond Meat.

[54] In a response given to a question at a US Department of Defense news briefing (Feb 12, 2002) about the lack of evidence linking the Iraqi government with weapons of mass destruction.

Appendix: Some of our favourite innovations to combat the plastic issue

Edible capsules

Notpla[55] was founded by Rodrigo Garcia Gonzalez and Pierre Paslier in 2013, while they were studying at Imperial College London and the Royal College of Art. Funded by Crowdcube and then VC money, Notpla combines seaweed and plants into a thin plastic-like film. Its key product, *Ooho* (apparently based on the sound people make when they see it for the first time) is a flexible packaging for beverages and sauces that can either be eaten or else biodegrades in 4-6 weeks.

The company originally came to prominence at the London Marathon, when it provided 42,000 water capsules for runners, and has recently tied-up with food delivery service Just Eat and Unilever's *Hellmann's* brand to trial a range of Ooho-packaged condiments across restaurant partners in London.

Figure 2: A London Marathon water capsule from Notpla

Source: Extremetech.com

The company has also created a Notpla liner, which provides water-proofing and grease-proofing for cardboard takeaway boxes, which are usually coated with plastic and is working on heat sealable films.

Plastic bank / Social Plastic

The Plastic Bank[56] was formed in 2013 by David Katz[57], and pays people to collect plastic waste and take it to recycling markets in Haiti, the Philippines and Indonesia in return for electronic money or items such as food, stoves, fuel and phone credits at special stores. Some schools in Haiti even accept plastic to be used toward children's tuition.

After collection, the plastic goes to a recycling centre before the company then sells the recycled material to corporate clients, who generally pay a (quite hefty) premium. The Plastic Bank has recovered and recycled over 6.4m kg of ocean-bound plastic since its founding, and helped improve the lives of over 4,200 families living in poverty.

Figure 2: A plastic bank in Haiti

Source: Social Plastic

Its two major corporate partners are privately-owned SC Johnson and Henkel. The latter announced earlier this year that in Germany, from July onwards, all PET bottle bodies of the *Pro Nature* cleaning products under the *Biff*, *Pril* and *Sidolin* brands, as well as the bottle bodies for fabric finisher *Vernel Fresh Control*, will be made of 100% recycled plastics – of which 25% will be *Social Plastic* (and branded as such).

Loop (part of Terracycle)

Tom Szaky's Terracycle recycling company launched Loop this year (various US cities, and Paris, France) in order to stimulate the re-use of packaging materials in conjunction with a number of large Consumer Staples companies. The idea is essentially like that of the milkman, who brings product in reusable packaging and, when finished, collects them to be taken to a plant where they are cleaned, sterilised and refilled for the whole process to start again.

Brands currently involved include *Tide* (P&G), *Clorox*, *Hellmann's* (Unilever), *MegaRed* (RB), *Colgate* and *Tropicana* (PepsiCo). Products cost from par to a 10-15% premium to regular prices, and customers pay a deposit which they receive back once containers are returned.

[55] notpla.com

[56] plasticbank.com

[57] *The surprising solution to ocean plastic* – David Katz TED Talk, 16th February 2018

Figure 2: PepsiCo's *Tropicana* and *Quaker Oats* Loop packaging

Source: The Verge

Algramõ

Algramõ[58] (literally, 'by the gram') sells food and household goods through vending machines which dispense goods such as lentils, rice and cleaning supplies into reusable containers in Chile (present in c.2,000 locations in Santiago). Customers purchase a reusable container (c.17p/22c) and then buy directly from the self-service machines at discount prices (cheaper because of the lack of packaging costs). Once the containers reach their end of life, they can be traded in for a discount on a new one and will be recycled.

Figure 2: A mobile Algramõ 'vending machine' with *Omo* / *Quix*

Source: Algramo

The company, which was formed six years ago, says customer re-use rates have increased from around 10% to more than 80% over time. In partnership with Unilever and Nestlé, Algramõ has created smart-powered mobile electric tricycles that deliver directly to users' doorsteps, arranged via the free Algramõ app. The first pilot offers refill options for Unilever's *Omo* (washing detergent) and *Quix* (dishwashing liquid) brands and Nestlé's *Purina* pet food.

Replenish

Replenish [59] was founded by Jason Foster, who had become frustrated by the waste deposits in his ironing water. He developed a re-usable, durable spray bottle that attaches to pods with liquid concentrates for cleaning and personal care. Consumers screw the pod to the base of the spray bottle and push down to release the concentrate. Tap water is then added to the top of the bottle and it's ready to use. One capsule contains enough product for the spray bottle to be refilled roughly 3-4 times and, when finished, only the capsule needs to be recycled.

The company is currently working with Amazon's *Clean Revolution* brand but its technology can be licensed to any brand as far as we are aware.

Figure 2: Replenish's reusable packaging design

Source: Replenish

[58] algramo.com

[59] myreplenish.com

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