

How salmon became catch of the day



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While salmon are known for swimming upstream, salmon farmers face a tough battle when going against the flow to create businesses that align with ESG principles

The term ESG has historically been associated with the colour green. However, for many years it had perhaps been more appropriate to describe the investment sector as a grey area. A chasm emerged between investors' ambitions and what ESG principles meant in practice which firms, knowingly or otherwise, had been able to exploit.

Fast-forward to 2023 and, while some inconsistencies remain, the ESG space has become far better defined and regulated. Areas that were vulnerable to greenwashing are now fertile hunting grounds for law firms and regulators who deal strictly in black and white.

As investors, we welcome the upgrade in scrutiny as it places a greater emphasis on our due diligence process. We feel that non-financial analysis has become a critical route to identifying quality companies with sustainable business models.

Economies of scale

A good example of how this process has added value to our portfolio can be found in our allocation to salmon farming.

This sector has fostered a love-hate relationship among observers and become somewhat controversial. While they harbour concerns about industrial-scale fish farming, they simultaneously recognise many of these concerns are applicable across the agricultural spectrum and fish is one of the world's most sustainable source of animal protein.

On the 'for' side of the ledger, the sustainability credentials of farmed salmon stack up positively in comparison to other staples such as beef, chicken, and pork. For example, the Feed Conversion Ratio (FCR), which measures how many kilograms of feed are required to produce a kilogram of meat, and the carbon footprint, measured as CO2 grams per serving, of farmed salmon are both notably lower, as highlighted below:

	Carbon Foot-print	FCR
Salmon	0.6	1.2-1.5
Chicken	0.9	1.7-2
Pork	1.3	2.7-5
Beef	5.9	6-10

Source: Barclays Research, MOWI, Global Salmon Initiative, UN FAO

The FCR metric is financially meaningful too. At approximately 40%, feed represents the largest operating cost in salmon farming,

therefore lowering feed improves margins. While the protein yield is moderately lower than its competitors – with farmed salmon offering 20g of protein per 100g of meat, whereas beef offers 26g – farmed salmon provides the highest amount of animal protein with the lowest environmental impact.

On the 'against' side are concerns around environmentally degrading feeding practices, animal welfare, hidden carbon impacts and the pollution that is generally associated with industrial-scale farming. The latter point is often exacerbated by fish waste, uneaten feed, and chemicals used in aquaculture which negatively affect marine ecosystems, particularly on the marine floor.

These are very real issues, which gave us pause to consider whether the sector was truly investible from our quality growth perspective.

We could see the argument for salmon farming from an ESG perspective but, as with many of the investment opportunities within the sector, while the destination was appealing, the journey was fraught with sustainability pitfalls.

There are plenty more fish – but that's not the point

Pleasingly, our non-financial analysis and policy of engagement allowed us to uncover Bakkafrost, the world's third-largest salmon farmer, which was able to address many of these issues.

As long-term investors, our performance is tied to the success of the companies we invest in. We think of engagement as an opportunity to partner with these companies and drive change in their sustainability practices. But we do not refrain from holding companies with weaker ESG profiles if we can see a credible path to improvement.

This was the case with Bakkafrost, which at the investment level met our criteria to warrant inclusion in our portfolio. However, we had lingering questions surrounding several of the challenges associated with salmon farming practises more generally. Having taken out a position in the company, we took the opportunity to engage on these issues through site visits and collaboration with the company's management team.

This culminated in 2022 when, through our membership with the FAIRR Sustainable Aquaculture Initiative – a collaborative initiative that aims to encourage the world's largest salmon companies to develop a strategic, science-based approach to diversifying feed ingredient



Onsite visit by Comgest's Europe Equity Analysts / Portfolio Managers

sources – we were able to attend a meeting with Bakkafrost executives. During this, they were able to answer most of our questions in detail and share a thorough presentation that addressed the engagement requests of both FAIRR and investors.

For example, Bakkafrost was able to outline its rationale for relying on marine ingredients and the results of their trials, within their farms, of feed made from plant-based ingredients. The company boasts an in-house feed production arm, which affords them complete oversight on both costs and ingredients. This provides the farmed salmon with a more natural diet than many competing farms, which has benefits not only in animal welfare terms but also in its outcomes for consumers. Due to the high levels of marine content in its feed, Bakkafrost salmon is one of the leaders in omega-3 levels, making it very effective in preventing cardiovascular disease, among other things.

Another criticism of the industry is that concentrated fish populations in farms may lead to the spread of diseases and parasites, which can harm both farmed and wild salmon populations and prompt the introduction of antibiotics and chemicals for maintenance. Worse still, this in turn may contribute to antibiotic resistance and have potential health implications for consumers. Cognisant of this, Bakkafrost committed to rigorous disease testing and holds less fish per enclosure to mitigate these issues.

These are just a handful examples of where we have engaged directly with the firm for assurance that its values and practices are sustainable, not simply from an altruistic point of view but at a business level as well. ESG is not just a green label – it has become a key metric through which we view investment opportunities and potential returns.