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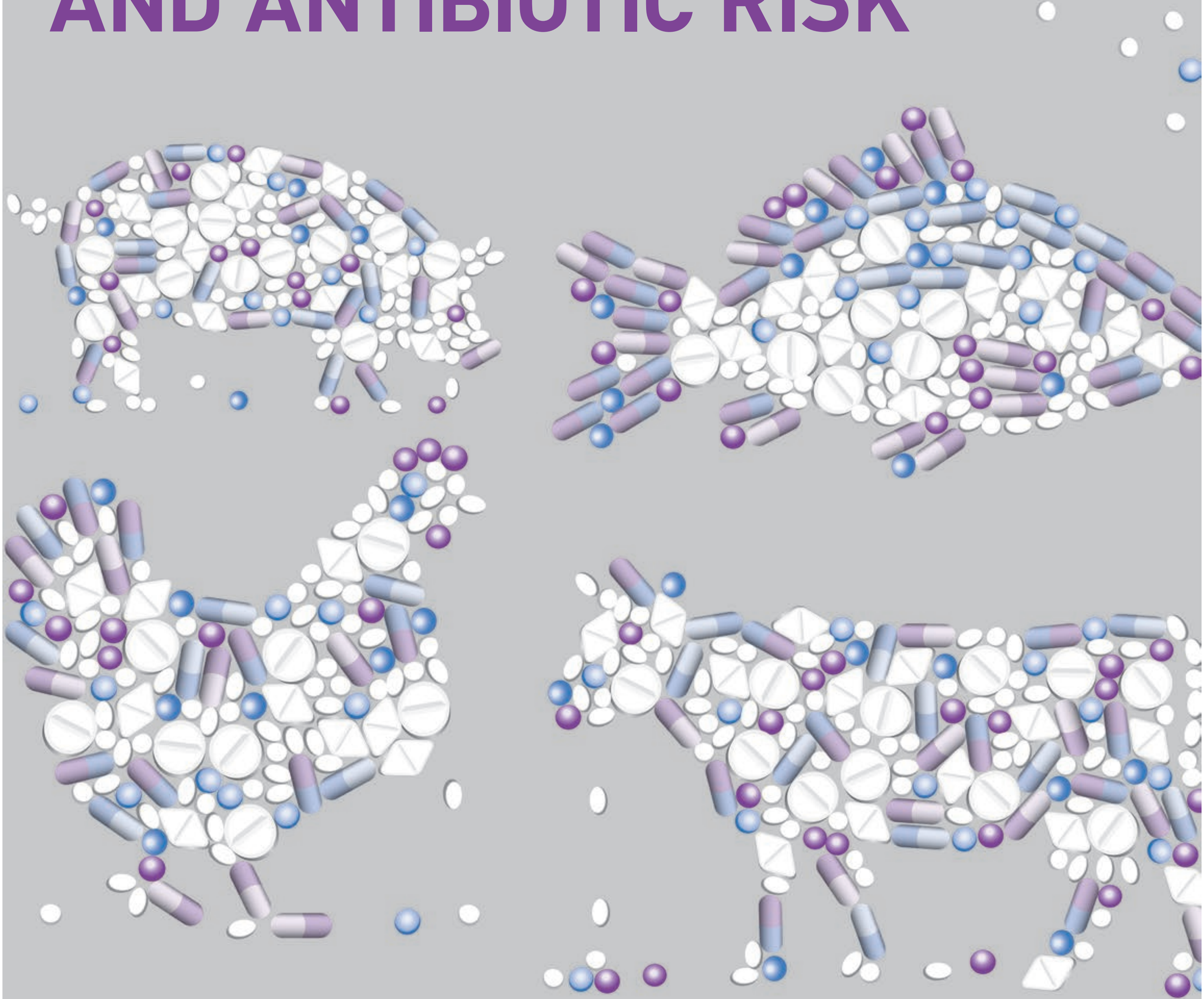
INVESTOR REPORT: THE RESTAURANT SECTOR AND ANTIBIOTIC RISK



2016 Report

"Food service companies are key ingredients in the portfolios of most of our pensions and savings."
JEREMY COLLER, CIO, COLLER CAPITAL

FOREWORD

Investors have no appetite for this risk

Rising levels of drug resistance, which is seeing microbes evolve to become immune to our most common antibiotics, is becoming a major global priority. Already, it is estimated by the UK government that up to 50,000 lives are lost each year to antibiotic-resistant infections in Europe and the US alone*. If such resistance continues to grow we face the prospect of routine surgeries and minor infections becoming life-threatening once again. The costs for businesses, investors and public health care systems would be extraordinary.

We all need to do what we can to avoid this 'post-antibiotic era', and the role of investors in this challenge is a vital one.

One of the drivers of rising drug resistance is thought to be the excessive and irresponsible use of antibiotics on farm animals, especially in factory farms where confined conditions make the spread of disease more likely and therefore the use of antibiotics a daily routine. The fact that over 70% of the world's livestock is intensively produced offers insight into the scale of the problem.

Most investors will have some exposure to leading restaurants and fast-food chains such as those examined in this report, and as stewards of these companies should take responsibility to encourage them to manage and avoid antibiotic risk. The ten companies covered in this report are not the sum of the problem, far from it, but as recognised global brands at the forefront of the food sector they have the opportunity to show leadership and prudence by tackling this issue head on.

Worryingly, despite the potentially catastrophic public health and business risks **none** of the ten global food companies analysed in this report have fully comprehensive and publicly available policies in place to manage or mitigate antibiotic overuse in their supply chains. And that is why at the time of writing, a coalition of investors managing over $1.5 trillion of assets has launched an engagement campaign with these food companies to call for an end to non-therapeutic use of antibiotics in livestock production.

This is not likely to be an issue that we can solve tomorrow. But shareholders should be aware of a company's strategy to manage, mitigate or minimise antibiotic use within their supply chains and we hope that this report is a useful tool for investors to do that.

Jeremy Coller
Founder, FAIRR Initiative
and CIO, Coller Capital

Catherine Howarth
CEO, ShareAction

EXECUTIVE SUMMARY

The World Health Organisation (WHO) has warned that as a result of irresponsible antibiotics practices, we are fast approaching a 'post-antibiotic era', where routine operations will no longer be possible and many diseases and infections no longer treatable.[1] This alarming situation is due to the increase in antibiotic resistance bacteria caused by the irresponsible use and overuse of antibiotics in humans and animals.

The majority of all antibiotics produced are given to livestock – **nearly half of all antibiotics in the UK, two-thirds in the EU,[2] and 80% in the U.S.**. Most are given not to treat disease, but are administered at low levels to prevent illness or to promote growth. The UK government recently described this practice as 'excessive and inappropriate' and estimated that by 2050 drug-resistant infections could cost the world **$100 trillion in lost output**.[3]

> "80% of all antibiotics in the U.S. are given to farm animals"

Despite the potentially catastrophic public health risk – and the portfolio-wide damage this could cause the investment community – the restaurant and fast food sector is not appropriately managing the risk. This report has examined the current policies of ten of the world's

> "By 2050 drug-resistant infections could cost the world $100 trillion in lost output"

leading publicly-listed fast food and restaurant companies. It finds half do not clearly communicate to shareholders a strategy to manage, mitigate or minimise antibiotic use within their supply chains.,[4] and highlights the investment risks associated with the poor management of antibiotic use.

The report also provides recommendations as to how companies and investors can address and improve these current practices.

> "half do not clearly communicate to shareholders a strategy to manage, mitigate or minimise antibiotic use within their supply chains."

Company classifications

Fully comprehensive and publicly available policy (prohibiting the prophylactic use of antibiotics in global supply chains) in place	N/A
Partially comprehensive and publicly available policy (prohibiting the prophylactic use of antibiotics in global supply chains) in place	Darden Restaurants McDonald's Corporation Restaurant Brands International The Wendy's Company Yum! Brands
No comprehensive and publicly available policy(prohibiting the prophylactic use of antibiotics in global supply chains) in place	Brinker International Domino's Pizza Group J.D. Wetherspoon Mitchells & Butlers The Restaurant Group

It should be noted that these classifications are based solely on information which is publicly available to both consumers and shareholders. It is possible that companies listed may be conducting efforts to address prophylactic antibiotics use within their supply chains privately, but are not yet communicating these efforts to shareholders. However, with respect to the numerous risks referenced above – together with evident investor and consumer concern around the impacts of antimicrobial resistance – there is a clear case for the need for transparency and good governance in this regard.