ALIDA JORDAAN
Portfolio Manager

WARREN VAN DER WESTHUIZEN
Portfolio Manager

AFTER A TRAGEDY A Q&A WITH MACROSOLUTIONS

The deadly listeriosis outbreak was first noted in SA in October 2017 and after some investigating, processed meat products – such as polony and viennas – from a production facility owned by Enterprise Foods (a division of Tiger Brands) was identified as the source of this bacterial infection.

Tiger Brands had a lot to account for. So why would our portfolio managers decide to invest in this food producer post listeriosis? We asked MacroSolutions portfolio managers, ALIDA JORDAAN AND WARREN VAN DER WESTHUIZEN.

Q: The listeriosis tragedy was a setback for Tiger Brands in a generally challenging 2018 – why did you choose to invest in the food producer beyond this point?

A: We were looking for shares that would benefit from an improving South African operating environment and still offer a valuation underpin. Tiger Brands has a portfolio of excellent brands, in many cases being the number one brand in a category, for example, tomato sauce, rice, pasta, bread and baby food. Previously, Tiger Brands had always been deemed too expensive and this setback created an entry point. We believed the market had priced in the event. The listeriosis outbreak was, however, very tragic and we engaged with management around the issue. With that said, we believe this company will continue to be part of SA's recovery story.

Q: What were the priority ESG risks you decided to engage Tiger Brands on first after the listeriosis tragedy?

A: For us and our clients, the biggest, most urgent concern was of course the tragic loss of lives and illnesses which ensued. We wrote a letter to the Tiger Brands board from our investment analyst and Head of ESG Engagement calling for an urgent response to areas of attention for Tiger Brands – both in the short and long term. For the short term, we called for improved communication, settling of the class action lawsuit in a responsible and empathetic manner, as well as ensuring that no other business units were or would be affected by the outbreak. For the long term, we wanted special attention paid to food safety across their product range – including attention to reporting practices.

Q: What has been the company's response to the engagement? Have they addressed the ESG risks appropriately?

A: The company responded to our concerns, highlighting the actions they had already taken to address the crisis. This included the nation-wide recall of products and suspension of operations to undergo extensive, deep cleaning and structural upgrades. To address food safety concerns, they decided to increase the frequency of monitoring and added further quality control measures at all their manufacturing sites. Food safety and quality training was conducted for all staff at the facilities. As we would have expected, the company's management took accountability and indicated the class action would be handled with sensitivity, with a view to resolving it in a fair and responsible manner.

Since the tragedy, the company has taken drastic but necessary steps to ensure food safety is embedded in all operations, as stated in their Sustainability Report – "from farm to fork" - including internal and external audits of their food safety practices and implemented recommendations in accordance with international best practice.

Q: In your view, is the company's response an essential part of the investment case?

A: For the long-term investment case, absolutely. Listeriosis was a tragic event that is still being resolved but, for the longer term, the issue of food safety is an important one and will remain so going forward. This will require our continuous monitoring of the implementation of their commitment to food safety practices.