

<https://blog.en.erste-am.com/searching-for-the-hair-in-the-chickensoup/>

## Searching for the hair in the (chicken)soup

Walter Hatak



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Traditional key ratios like cash flow, growth rates etc. are good enough for many fund managers to substantiate a purchase decision. That is not the case at Erste AM: here, we take many additional factors relating to sustainability into account.

High cash flows, low debt, strong growth rates, and an attractive coupon, complemented by market leadership in the domestic market and competitive advantage due to very low production costs. Most traditional fund managers would have all the reasons they needed to buy this share or bond. However, it is not by accident that Erste AM has one of the biggest sustainability teams in the German-speaking region, so numerous additional questions need to be answered first:

- How does the poultry producer fare with its employees and the local community?
- What about animal welfare and the disposal of wastewater and animal faeces?
- Does the company have an independent Supervisory/Advisory Board, does it run an aggressive tax savings programme?

Intensive research has revealed that numerous NGOs have levied severe, such as the contamination of groundwater. And the local population gets surrounded by large factories rather than involved in the expansion plans.

This does not only cause odour nuisance, but also heavy traffic by chicken trucks. Rumours are that those who protested were being bullied. The company is domiciled in the tax heaven Cyprus. More than enough reasons for the ESG analysts of Erste AM to qualify the company as non-investable.

### Bones in the chicken breast

Two years on, new research as part of the regular ESG updates of the covered companies has revealed that there is more than the proverbial bone to pick with this company. The ESG analysts of Erste AM found an entire bone in the chicken breast. What is this all about?

Non-EU companies are subject to strict import quotas as far as chicken breasts are concerned. However, these quotas do not apply to inferior meat such as chicken breasts that have not been fully trimmed of their bones. But if this meat is imported into the EU and the bone is subsequently removed there, the inferior Ukrainian chicken meat suddenly turns into an EU-produced chicken breast. This is clearly not in line with the intentions of the legislator.

### More than just a search for the hair in the soup

An ESG analysis is of course much more than just a search for the hair in the soup. It is also about uncovering opportunities, like AUGA Group shows convincingly – a company we introduce in a separate article of this ESG Letter. In order to be able to identify these opportunities and risks, one needs experienced ESG analysts who are not only capable of asking critical questions, but also the right ones.

Another requirement are fund managers with the expertise and enthusiasm to work with these additional pieces of ESG input and to integrate them into their investment process. I am humbled and at the same time very proud to take over as head of the ESG team, which has proven over the past years that it has all the above-mentioned characteristics under one umbrella.

Infografik Fleisch

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