

ESG Insights

Expanding Access to Fresh and Healthy Food

May 2022



Chronic diseases such as heart disease, cancer, and diabetes are the leading causes of death and disability in the United States. Six in ten adults in the U.S. have a chronic disease and four in ten have two or more¹. 90% of the annual \$4.1 trillion in health-care costs are related to the management of these chronic diseases. Lifestyle changes including healthy food choices can play a vital role in preventing and managing health problems. We believe food retailers and food manufacturers can play a key part in addressing this problem by improving access to nutritious food options. In this edition of ESG Insights, we highlight the contributions of our portfolio holdings, The Kroger Co. (KR) and Dollar General (DG), in promoting healthier food choices. Without a doubt, there is still plenty of room for improvement, but we are encouraged to see the progress. These examples also illustrate two pillars of the ESG process: 1) Focus on strategically material ESG issues, and 2) Engagement with company managements to facilitate meaningful impact on behalf of our clients.

Improved Access to Fresh Foods

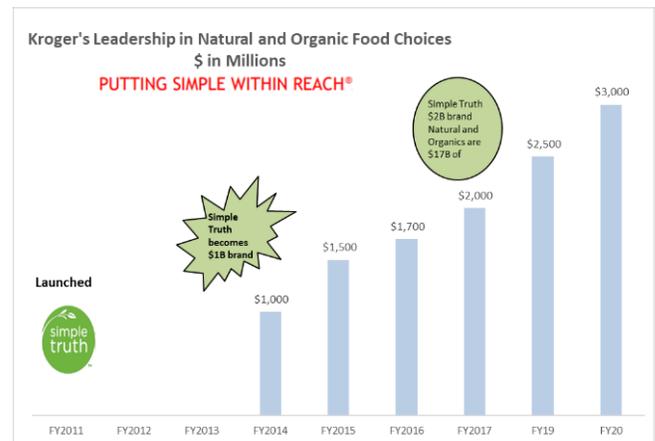


As the second largest grocer in the U.S. with approximately 2500 retail supermarkets, Kroger’s business strategy and brand are centered on providing access to fresh, affordable, and healthy food. Availability and selection of fresh categories are key competitive advantages for the company with sales growth of 16% per year in Fresh departments since 2019 and contribute about 25% of total revenue. Kroger is piloting an end-to-end initiative using data, science, supply chain partnerships, and innovative distribution processes to reduce the amount of time from farm to table for produce. We would anticipate similar opportunities across dairy, meat, and seafood supply chains. The Coho Investment Team has consistently advocated for linking material sustainability metrics to incentive compensation and we were pleased when the Kroger Board of Directors made

tangible progress in this area. Starting in 2020, a Fresh Equity metric, based on improvement in produce share, was added to both the short-term and long-term incentive plan for senior executives.

Kroger is also one of the leaders in driving increased penetration of natural and organic products through its Simple Truth® brand franchise. From its launch in 2011, Simple Truth®, which includes products free from artificial ingredients and preservatives, has helped further Kroger’s mission of making natural and organic products available at an affordable price point. At the same time, this focus has paid dividends in furthering Kroger’s market leadership position in this space and is driving consistent double-digit sales growth for this private label brand.

The commitment to promoting health and wellness is also central to the Kroger Health division which houses the company’s 2,200 pharmacies, 220 walk-in-clinics, and



Source: The Kroger Co.

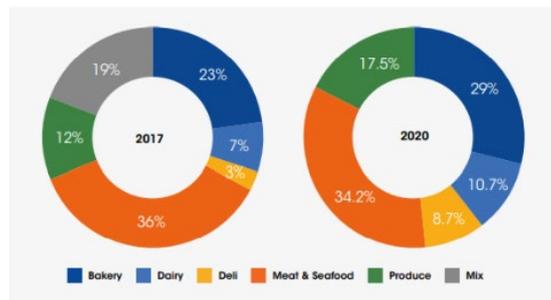
¹ CDC, National Center for Chronic Disease Prevention and Health Promotion

22,000 health-care practitioners. In our recent engagement call with the team at Kroger Health, we were excited to learn about the ambitious “Food as Medicine” strategy, which aims to achieve a 20% improvement in obesity, diabetes, food insecurity, cost, and product assortment by 2025. The company also launched a mobile wellness app, “OptUp” in 2018. The app leverages a customer’s past eight weeks of food purchase data using the Kroger loyalty card to generate a nutritional score. The objective is to enable consumers to monitor the nutritional content of their food choices, suggest alternatives, and ultimately inspire healthier purchases over time. Unlike other food and calorie monitoring apps, OptUp automatically populates data directly from Kroger’s proprietary 84.51° database on consumers’ purchase history. Kroger has also made significant investments by scoring and categorizing 70% of the store SKUs (or 95% of sales) on nutritional content. The company has pilot programs underway with several managed-care organizations to investigate the potential health-care savings from prompting healthier food choices.

The company’s ESG strategy of Zero Hunger | Zero Waste embodies the same commitment to improve access to high-nutrition categories for those in most need. Since 2017, the company donated 1.8 billion meals towards the 2025 target of three billion meals to local communities and made substantial progress in shifting the mix to more fresh categories.

Kroger still needs to show more progress in driving higher penetration of sustainable packaging and responsible sourcing. We will continue to monitor and report on these and the above-mentioned material factors.

Kroger’s Food Rescue Mix



Source: The Kroger Co.

DG Fresh

Dollar stores offer convenient locations for consumers often in underserved neighborhoods. With three quarters of the U.S. population living within a five-minute drive of a Dollar General, these stores serve an important role in the local communities. However, in recent years, dollar stores have come under increased criticism for triggering the closure of grocery stores in cash-strapped and rural communities thereby reducing access to fresh food. The difficulties in managing a fresh supply chain prevented DG from accelerating the mix of fresh and frozen categories in the stores until 2019 when they brought distribution of fresh products in house. This allowed the company to accelerate the rollout of fresh produce to 3,000 stores by year-end 2022 from just 750 two years ago. The company plans to expand that to more than 10,000 stores over the next several years with rural markets prioritized. In addition, the company has introduced 8,080 healthier products including the Good & Smart private brand. To ensure that healthier food options will remain a priority, we continue to advocate for the inclusion of a sustainability metric into incentive compensation in our direct engagement with the company.



Improving access to fresh and healthy food continues to be a critical factor for improving both the physical and economic health and well-being of communities. We applaud the essential efforts of Kroger and Dollar General to address gaps in access, and we will continue to monitor these targeted endeavors and encourage further positive change as we engage with the companies in our portfolio.

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