QUILTER CHEVIOT

RESPONSIBLE INVESTMENT

Disposable disclosures

Consumer goods and single use plastics

Across Quilter we have identified three thematic engagement priorities. This is part of our natural capital theme.

Natural capital can be defined as the stock of renewable and non-renewable natural resources (e.g. plants, animals, air, water, soils, minerals) that combine to yield a flow of benefits and ecosystem services to society.

SDG Alignment

> *"Plastic is not the enemy. Wastefulness is."*
>
> Ellen MacArthur Foundation

Plastic pollution has become a defining environmental challenge, with studies warning that by 2050 the oceans could contain more plastic (by weight) than fish[1]. In response, regulators worldwide have introduced over 731 plastic pollution policies between 2012 and 2022[2], and global treaty negotiations are underway to curb plastic waste. For investors, the implications include rising regulatory and public pressure on companies to manage plastic risks as well as potential financial impacts from compliance costs or reputational damage.

Single-use plastics enable product convenience and global distribution at low cost, but the externalities are mounting. Only about 9% of all plastic ever made has been recycled, and an estimated 11 million tonnes of plastic enter the oceans each year (a figure expected to nearly triple by 2040 under business-as-usual scenarios)[3]. The environmental cost, from marine wildlife harm to microplastics in food chains, is prompting significant regulatory action. Europe has led the way with the EU Single-Use Plastics Directive, banning items like plastic straws and cutlery and requiring recycled content in bottles (25% by 2025; 30% by 2030). Many countries are adopting Extended Producer Responsibility (EPR) schemes that make producers financially responsible for post-consumer packaging waste. Meanwhile, in the summer of 2025, United Nations' negotiations convened 130+ nations to continue in the goal of forging a Global Plastics Treaty, aiming to introduce worldwide rules on plastic production, design, and chemical additives.

1 Ellen MacArthur Foundation, 'The new plastics economy', 2016
2 Plastic Risk: Measuring investors' risk in the plastic sector, Planet Tracker, 2023
3 European Environment Agency, 'Plastics – in-depth topics', 2024

For consumer goods companies, these trends translate into concrete business risks and opportunities. Packaging sustainability is increasingly factored into a license-to-operate with companies facing plastic taxes (e.g. the UK's £210 per tonne plastic packaging tax for waste with low recycled content), compliance costs for EPR fees, and even the threat of lost market access if they cannot meet new EU standards. As companies begin to absorb a growing share of packaging waste costs, one analysis estimates that if producers bore the full waste management fees of the packaging they sell, the bill would come to £76 billion annually, mostly falling across the consumer goods sector[4]. At the same time, companies that innovate solutions, such as advanced recycling technologies or successful reusable packaging systems can avoid some of these fees and potentially strengthen their brands among customers who increasingly expect a thoughtful waste reduction strategy to be embedded into 'business as usual' practices. Investors, therefore, have a keen interest in how the biggest plastic users are adapting.

Focus of engagement

To explore the key themes of regulation, reduction strategies, packaging innovation, and health concerns related to plastics we engaged Nestlé, Unilever, Mondelēz International, Coca Cola Europacific Partners (CCEP) and Coca Cola HBC. These companies were chosen for their outsized single use plastics footprint in our portfolio. We also extended the offer to hold a dialogue with PepsiCo and The Coca Cola Company who did not respond to requests for engagement. Notably, global waste audits[5] repeatedly identify Coca Cola, PepsiCo, Nestlé, Unilever, and Mondelēz among the top sources of plastic pollution by brand, underscoring their contribution to plastic waste leakage into natural environments and position as the biggest producers of single use plastics. Below we present the key insights and investor takeaways.

Regulatory landscape: A tighter net around plastics

One clear message from our engagement is that regulation is no longer a distant threat, it is here and intensifying. All companies engaged are grappling with a proliferating patchwork of rules that vary by region, making compliance complex yet unavoidable. Key regulatory drivers include:

- **Single-use plastics bans and standards**: The EU has banned several disposable plastics and imposed design requirements (such as tethered caps and minimum recycled content in bottles[6]). Both engaged Coca-Cola bottling companies have moved early to adopt these changes, aiming to set industry standards and avoid penalties. In emerging markets, such as Sri Lanka, some bans on specific items (like sachets or thin bags) are pushing companies to redesign packaging. Unilever backs stringent bans, provided they apply to all competitors equally.
- **Extended Producer Responsibility (EPR)**: All companies engaged now pay some form of EPR fees, which are based on the volume and recyclability of packaging. Under EPR, companies pay fees tied to the amount and type of packaging they put on the market (higher fees for hard-to-recycle material, creating an incentive to use easier recyclables). These fees incentivise the use of more recyclable materials but can significantly increase costs. Nestlé and Unilever monitor EPR policies (now implemented in 63 countries worldwide) closely to optimise packaging choices and reduce costs, emphasising that inefficient packaging could erode margins as fees rise.
- **Deposit Return Schemes (DRS)**: DRS programmes in over 30 countries encourage consumers to return beverage containers for refunds, often boosting recycling rates to 70–90%. All companies engaged are strong advocates of DRS to support closed-loop systems. These schemes also help generate high-quality recycled materials for use in packaging.
- **Global treaty and national laws**: Companies are closely following ongoing UN Plastics Treaty negotiations, hoping for unified global standards to reduce regulatory fragmentation. Unilever and Nestlé are active in treaty coalitions, supporting ambitious, harmonised rules. Meanwhile, countries continue to implement unique laws: France will mandate 10% of product packaging put onto the market be refillable or reusable by 2027. Mondelēz has flagged the 'landscape of disconnected policies' as a major challenge for global packaging decisions.

4 Pew, 'Breaking the plastic wave', 2020
5 Break Free from Plastics, Brand Audit Report 2023
6 25–30% recycled content in PET bottles by 2025/2030

Overall, the regulatory trend is toward tightening standards and holding producers accountable. Most companies we engaged are not resisting this trend, in fact, most are publicly supportive of stricter rules, seeing them as catalysing broader change. For instance, Unilever openly campaigns for plastic taxes and even sachet bans (despite sachets being a significant part of its emerging-market sales). The rationale is that if legislation forces all players to internalise environmental costs, it rewards those who have already invested in solutions. From an investor standpoint, regulatory alignment is a key indicator of good management. Companies who dynamically adjust to or lobby constructively for sensible regulation are less likely to be caught off guard by compliance costs or penalties.

Health concerns: The next frontier

As global scrutiny of plastics intensifies, attention is turning to potential health risks from microplastics and toxic additives. Ongoing UN treaty negotiations continue to highlight these issues. Microplastics, tiny particles shed from broken-down plastic, have been detected everywhere from oceans and soil to human blood and organs. While the science is not conclusive on health effects, concern is rising, and regulators are starting to act. The EU, for instance, has already banned intentionally added microplastics in products like cosmetics and detergents. Despite this regulatory action, companies like Unilever anticipate that any future rules or lawsuits on microplastics will likely target the plastics industry broadly (e.g. bans or filter requirements) rather than singling out consumer brands.

All engaged companies are aware of microplastic pollution, but most currently view it as low risk concern. Because most microplastics from packaging come from mismanaged waste breaking apart, the immediate mitigation focus is on better waste collection and recycling systems. If stronger evidence links microplastics to specific harms, pressure could mount to drastically curtail certain plastics, likely spurring tougher single-use plastic rules and reinforcing the case for reduction and innovation that advanced firms are already pursuing. In other words, early movers are indirectly mitigating microplastic risks, even if they have not changed course specifically because of microplastics, their efforts to cut plastic use and improve recyclability put them in a stronger position should the risk escalate.

Plastics can contain chemicals like phthalates[7], bisphenols[8], flame retardants, and PFAS[9] that may leach out and pose health hazards, notably interference with the body's hormone system. The UN treaty discussions explicitly call for addressing such "chemicals of concern" in plastics. Companies generally trust current food-safety regulations to ensure packaging is safe, but they are also taking some action. Nestlé and Unilever say they closely follow developments on plastic chemicals and maintain internal block lists to phase out any very high concern substances. Coca Cola HBC has already removed all substances of very high concern, particularly some bisphenols, from its packaging as a precaution. The consensus among these firms is that today's packaging is not viewed as an imminent health threat. However, it appears they are positioning to respond quickly if scientific consensus emerges linking everyday plastic packaging to health consequences such as hormone disruption in humans.

Could plastics become the next asbestos or tobacco in courts? Some observers speculate about future mass litigation blaming plastics for health damage. Some NGO groups already frame plastic pollution as not just an environmental issue but a human health threat, pointing to findings of microplastics in human placentas and hazardous plastic chemicals in blood. So far, no major lawsuits have pinned specific health damages on consumer goods companies over plastics, and most firms see the litigation risk as low. All the companies engaged support more research and clearer health policy on these issues. Unilever and Nestlé are part of the UN treaty coalition business group: a sign they would rather help shape any future standards than be caught reacting later.

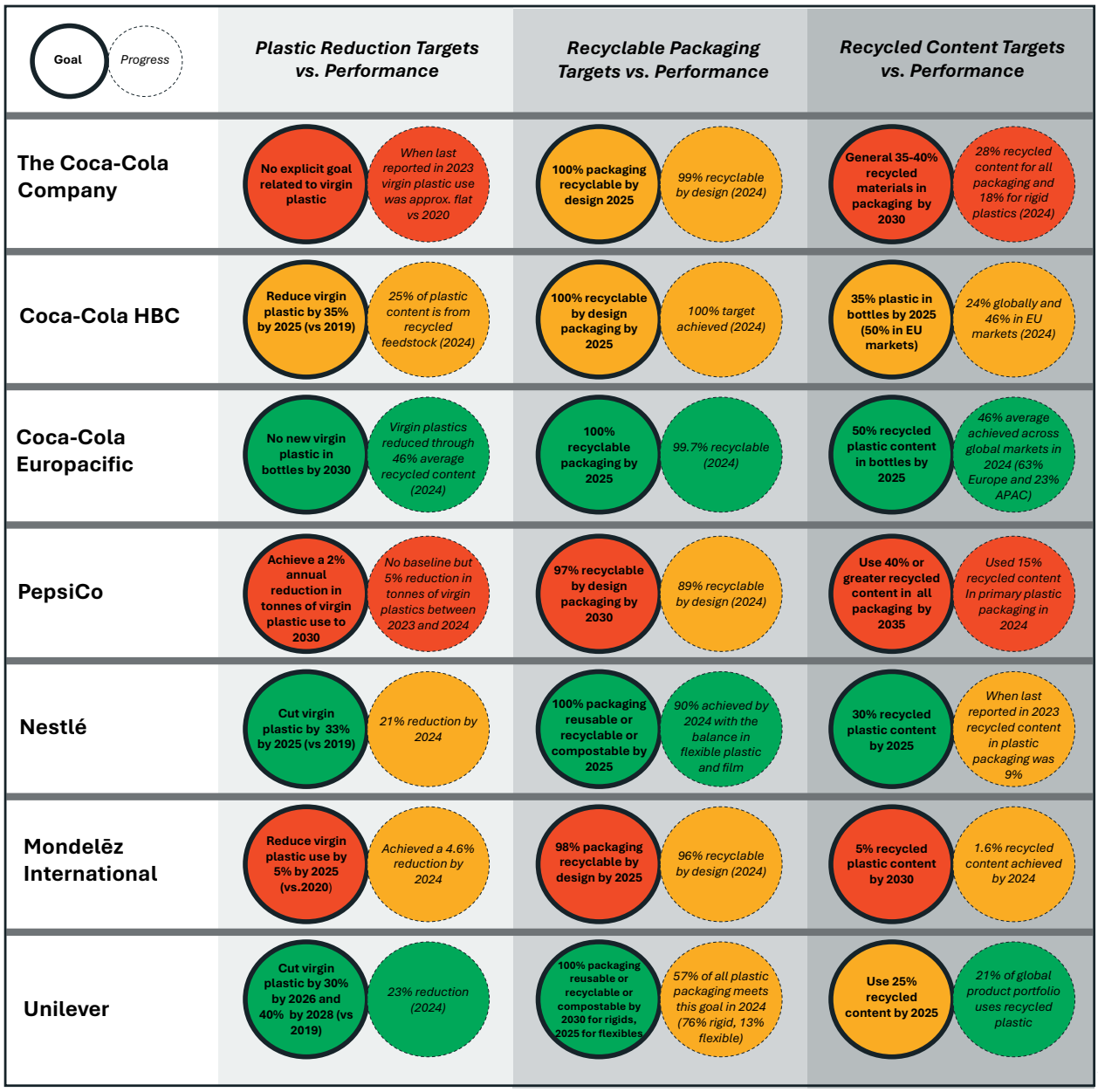
Even without definitive proof, public sentiment is shifting. Media coverage increasingly portrays plastic as a threat to human health, which can sway consumers and regulators alike. Consumer goods companies are keenly aware of this reputational angle. They now address emerging health concerns in sustainability reports. For example, Unilever's annual report openly acknowledges worries about plastic's health impacts and outlines the company's stance and research support, a transparency that helps manage stakeholder expectations but also points to the growing visibility of the topic. Investors too are watching as these health angles represent an additional long-tail risk that reinforces the push to reduce plastic use and improve its safety. It is yet another reason (beyond environmental and climate impacts) for regulators to clamp down on plastics, and a signal that companies eliminating hazardous additives early will be better positioned if reporting requirements or stricter laws emerge.

7 A family of chemicals used to make plastics softer or more durable.
8 A family of industrial chemicals with a specific chemical structure and are often used for their strength and resistance properties.
9 per- and polyfluoroalkyl substances, are a large group of synthetic chemicals used in many consumer and industrial products. Because of their durability, they are used in products like non-stick cookware, stain-resistant fabrics, and firefighting foam.

In summary, the growing health scrutiny around plastics bolsters the case for action. What might have seemed like a distant issue is becoming increasingly tangible. The recent swift phase-out of bisphenol A (BPA) from food packaging, done pre-emptively by many firms under public pressure, shows how quickly industry can move when evidence and sentiment align. Today's microplastic and chemical concerns could similarly accelerate changes in packaging practices.

Reducing single-use plastics: Targets versus progress

Given this increasingly restrictive environment, how are companies performing? At the heart of each company's plastics strategy is the imperative to use less plastic in the first place, especially 'virgin' (fossil-fuel derived) plastic. All seven companies targeted have set public goals to reduce their virgin plastic consumption, typically measured from a baseline (2018–2020) to 2025. In parallel, many are pursuing reuse models (packaging that is not single use) as a longer-term solution but are nascent in terms of volume. Our engagement revealed a mix of notable achievements and shortfalls.



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10 All numbers taken from corporate sustainability reporting and Ellen MacArthur Foundation. RAG rating based on qualitative assessment of ambition and progress, considering relative peer performance and balance of rigid versus flexible plastic use. The latter being much more difficult to replace and recycle. Packaging targets relate to primary packaging.

It is complicated. One of the problems in analysing performance is the mix of target formats and definitions used. For instance, terms like 'recyclable/reusable/compostable' or 'designed for recycling'. The latter being less credible as it often refers to use of technically recyclable materials rather than those which are broadly supported by current waste systems. Another difficulty is the range of plastic packaging types used, with beverage companies using more rigid plastics like PET[11] whilst snack manufacturers more reliant on flexible plastic wrappers which are not yet widely recycled. That said given the differences, there are varying levels of performance and ambition. Disappointingly, one of the key trends of the past three years has been a revaluation of what is possible and a dialling back of plastics reduction goals.

Famously, Unilever pledged in 2019 to halve its virgin plastic use by 2025 (a very ambitious goal). When it became clear this target was unlikely to be met, Unilever reset its targets in 2024, now aiming for a 30% cut by 2026 and 40% by 2028. Likewise, its original "100% recyclable packaging by 2025" goal has been pushed to 2030 for rigid plastics, and 2035 for flexibles. The company frames this as moving from "stretching and aspirational" to "unashamedly realistic" goals. Even with slower progress than hoped, Unilever's efforts have made a dent. By 2024 it was using over 150,000 tonnes less virgin plastic annually than in 2019.

We also note a cautionary tale from PepsiCo. In May 2025, PepsiCo announced a surprise rollback of several key packaging pledges, citing "external realities" and difficulty meeting goals. It dropped its 20% virgin plastic reduction target, lowered its 100% recyclability goal, and eliminated a reusable packaging commitment. This move appeared to reduce accountability just as global regulation is ratcheting up. The episode underscores that not all industry players are making uniform progress. Similarly, The Coca-Cola Company watered down reduction aims in 2024, announcing a target to use 35-40% recycled material in primary packaging by 2035, compared with a previous goal of at least 50 per cent by 2030.

More positively, several companies have continued pursuing ambitious goals. Nestlé has committed to a 33% reduction in virgin plastic use by 2025 (from 2018). By the end of 2024 Nestlé achieved a 21% reduction, still needing a sharp further drop to meet its goal. Nestlé has not publicly revised its goals. Nonetheless, the company has been steadily chipping away, eliminating over 600,000 tonnes of virgin plastic since 2019[12]. A major enabler was the creation of its Institute of Packaging Sciences in 2019, which has driven new solutions (e.g. recyclable paper packaging for some products, pilot refill stations). Nestlé emphasises that packaging must protect food quality and shelf life, so plastic reduction is pursued cautiously to avoid increasing food waste. The company treats packaging as an insurance policy and targets cuts only where product integrity is not at risk. In advanced markets, such as the UK, Nestlé has achieved 100% recycled PET in its Buxton water bottles, aided by a reliable recycled plastic supply and supportive policies.

Both Coca-Cola Europacific Partners (CCEP) and Coca-Cola HBC have demonstrated impressive progress in making their packaging more sustainable. CCEP has largely met its 2025 target of 50% recycled content in PET bottles, reaching 63% across EU markets and 99.7% recyclability overall, alongside continued investment in reusable packaging systems and lightweighting innovations. Coca-Cola HBC is similarly on track to achieve over 50% recycled PET in EU bottles by 2025 and actively supports bottle collection and recycling initiatives in regions with weaker waste management. It has set ambitious targets to collect 75% of its packaging. Both companies' willingness to invest in circular solutions and adapt strategies to local realities highlights a strong commitment to reducing virgin plastic use and advancing recyclability, setting a positive example for the beverage industry.

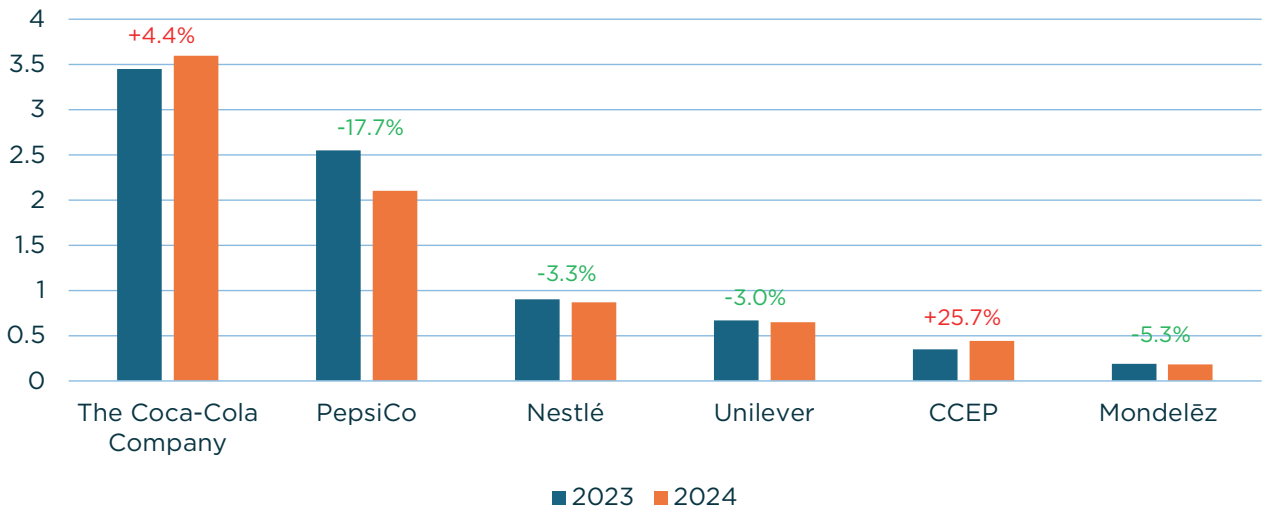
This comparison of ambition and performance in using more sustainable materials shows Nestlé, CCEP, and Coca-Cola HBC as relatively strong performers in our engagement group, each demonstrating concrete progress and generally sticking to ambitious goals. Unilever is a partial strong performer, with excellent transparency and still substantial reductions, but needing extra time to hit goals. Mondelēz is clearly behind peers on reduction ambitions but suffers from the amount of hard to recycle flexible plastics used. The Coca-Cola Company benefits from its association to the CCEP and Coca-HBC bottlers' actions but has seen these companies surpass its stalling commitments. PepsiCo's recent strategy reset places it behind the curve at a time when others are pressing forward.

While vital to focus on the sustainability of plastic packaging through reducing virgin content and improving collection, it is important to set this in the context of overall plastic packaging volumes. Although datasets on plastics are nascent, fragmented, and incomplete, for those available we can see that short-term trends are mostly stable or improving. Even those companies that have abandoned or adapted targets, like PepsiCo, are making significant strides in reducing the total plastic volumes put into the market. Notably, only the Coca-Cola network shows a year-

11 polyethylene terephthalate
12 Nestle, Packaging waste FAQs, 2024

on-year increase in plastic volumes. CCEP's significant increase in plastic packaging use is largely explained by the 2024 acquisition of the Philippines bottling business[13].

Total annual plastic packaging waste (million metric tonnes)



Refillable packaging remains a pipe dream

All the companies apart from Mondelēz and PepsiCo are exploring reuse and refill models as the ultimate way to decouple growth from single-use plastic. Unilever has been particularly active with small-scale pilots like shampoo refill stations and aluminium ice cream containers but admits limited consumer uptake due to inconvenience. Many companies have found that unless refill options are widespread and easy (many brands, many locations), most consumers will not bother. To assess more scalable models, Unilever is now partnering on larger, city-wide, or retailer-wide initiatives in Ottawa.

Coca-Cola's system has the most established reuse model. Returnable glass bottles and fountain dispensers have been part of the beverage business for decades. Both bottlers are investing to expand these offerings in markets where it makes economic sense (soda in glass is viable in some countries due to local norms or cheaper labour for bottle collection/cleaning). CCEP and HBC each indicated that reusable glass bottles are a growing segment in specific regions, aligning with EU policy proposals that might require a percentage of drinks to be sold in reusables by 2030. Currently, the lack of scale in reuse, outside of specific beverage brands, means companies must focus on making single-use plastics as sustainable as possible until consumer behaviour and infrastructure shift.

Packaging innovation: Toward recyclability and circular materials

Beverage packaging is far ahead on recycled content, while flexible food packaging lags - a critical gap as regulators may soon mandate recycled material in flexibles, which is currently nearly impossible at scale. Companies straddling both categories (like Nestlé, which sells drinks in PET bottles and food in flexibles) have some easy wins but also face tough challenges. By contrast, pure-play snack makers like Mondelēz could be at a disadvantage if new plastic taxes or rules penalise virgin plastic use.

Flexible packaging remains the toughest packaging challenge. Whoever first creates a fully recyclable or compostable snack wrapper could license it across the sector, but no one has cracked it yet. Mondelēz's partnership using chemically recycled content in Triscuit liners is a notable attempt. Chemical recycling can handle flexible plastics that mechanical recycling cannot. Others are investing in chemical recycling, seeing it as a useful supplement, but not a panacea, given its high energy use and scalability issues.

13 All numbers taken from Ellen MacArthur Foundation global commitment reporting, representing 2023 and 2024 calendar year data. Coca-Cola Company reporting includes the entire Coca-Cola network (e.g. CCEP and HBC). Inclusion of CCEP is illustrative but is double counted in Cola-Cola Company data. Coca-Cola HBC does not publicly report total plastic packaging data. The numbers show the year-on-year change.

Meanwhile, some packaging is shifting from plastic to paper. Mondelēz now wraps some chocolates in paper, Nestlé moved Smarties into paper packaging and Unilever is trialling paper-based sachets. Paper is renewable and widely recyclable, making it attractive, but it often lacks moisture and oxygen barriers to keep food fresh, and adding plastic-like coatings can hinder recyclability. Still, a "paperisation" trend is underway.

Overall, progress is slow but steady. Companies are taking many small steps by lightweighting, using recyclable mono-materials, adding recycled content, and removing unnecessary components. Each tweak might only save a few tonnes of plastic, but globally these changes add up. Coca-Cola HBC removed shrink-wrap on multipacks in Europe, cutting 4,000 tonnes of plastic a year while Unilever made millions of lotion bottles recyclable by switching to all-plastic pumps and eliminating metal springs.

Collaboration is widespread. All engaged firms join industry initiatives (such as the Alliance to End Plastic Waste) to share solutions and set common standards such as eliminating problematic materials. This pre-competitive collaboration speeds up innovation, cuts costs through shared knowledge, and presents a united front to regulators. The Business Coalition for a Plastics Treaty shows that companies want stricter rules for a level playing field. We see value in encouraging such collaboration through our stewardship, as it amplifies individual company efforts.

Conclusion

Addressing single-use plastic waste has emerged as a pivotal business challenge, not just an ethical or environmental concern. Tightening regulations and shifting consumer expectations are threatening the traditional "take-make-waste" packaging model. Companies display varying levels of ambition, but none are ignoring the issue. Progress is most evident where organisations set ambitious targets, invest meaningfully in solutions and communicate openly. These characteristics are typically linked to strong governance and long-term strategy, qualities valued by investors.

While some industry leaders are pushing forward with recycled content and pioneering packaging solutions, others are stalling or resetting their ambitions in the face of external challenges. For investors, proactive stewardship and close scrutiny of company commitments will be key. Many engaged firms are actively helping shape future regulations, demonstrating leadership worth recognising. The era of unchecked single-use plastic is ending, and those willing to innovate and collaborate stand to gain sustained value. While some investors may be disappointed by extended timelines, pragmatic course correction, such as Unilever's roadmap for gradual but significant reductions, are preferable to unrealistic goals. Success hinges on innovation, investment, and integration, exemplified by Nestlé's packaging research and CCEP's contribution to recycling infrastructure. The ultimate aim remains the absolute reduction of plastic waste, with ever decreasing use of virgin plastic use essential to meet regulatory and societal demands. With a few exceptions, this is largely happening, but there is further to travel. Companies that innovate beyond single use plastics may benefit further, with as yet nascent health concerns rising to the fore.

Outcomes and next steps

We will continue to monitor performance. Further engagement and escalation may be necessary for laggards. This could include supporting shareholder resolutions that ask for enhanced plastic reduction plans or transparency. For example, a resolution filed at Mondelēz in late 2024 urged the company to detail how it will dramatically cut its reliance on unrecyclable packaging. We will support such future action where we find such resolutions reasonable and likely to push management in the right direction without being overly prescriptive. As investors, we should recognise progress, such CCEP's leadership in recycled content use, Nestlé's comprehensive R&D strategy and encourage those companies to maintain momentum and share best practices. Nestlé's Quilter Cheviot responsible investment rating has been upgraded owing to, among other factors, the progress made on its single-use plastic strategy.

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