



HighQuest
P A R T N E R S

ORGANISATION
FOR ECONOMIC
CO-OPERATION
AND DEVELOPMENT



*Survey of Global Developments in Private Sector Investment in
Farmland and Agricultural Infrastructure*

*Report Commissioned by the
Agri-food Trade and Markets Directorate for Trade and Agriculture (OECD)*

Presented to Land Conference 2010
The World Bank
Washington, DC
April 27, 2010

HighQuest Partners – advisory services, management consulting and research with deep expertise in food, agribusiness and renewable energy



Our Firm

- **A strategic advisory and management consulting firm advising senior management teams in the global Food, Agribusiness and Biofuels sectors on Strategy, M&A, Capital Investment, and Organizational Development**
 - Founded in 2000 to serve senior executives of leading global corporations, trade associations, multilateral organizations and government agencies
 - Over 500 successful engagements

Our People

- **Our team brings over 100 years experience in food, agribusiness and biofuels**
 - Senior level operating experience in leading industry companies and senior level experience in leading global strategy consulting firms
 - Experience in sales / marketing; trading; business development; research; forecasting; risk management / hedging and senior management issues

Our Focus

- **Principle practice areas**
 - Origination / feasibility studies for terminals, processing facilities, etc.
 - Transportation and Logistics studies
 - Market demand evaluation
 - Mergers & Acquisitions including acquisition strategy development, target identification, negotiation, and business due diligence
 - Diversified Industrials (Strategy and Corporate governance / Managerial Structure)



- We work globally - North America, South America, SE Asia, China, Japan, Middle East and Africa.

HighQuest and Soyatech



- Industry research, publishing and conferences focused on oilseeds, agribusiness and biofuels
- Publisher of the ***Soya and Oilseed Bluebook***, white papers and multi-client studies focusing on food agribusiness and biofuels
- Producer of global conferences focused on investment in farmland and agricultural infrastructure (***Global AgInvesting***) food, agribusiness, and transportation (***Global Soybean & Grain Transport and Soya and Oilseed Summit***), development of the soybean value chain in southern Africa (***Soy Innovations Africa***) and the soy foods industry (***Soyfoods***) which are attended by hundreds of industry representative from across the value chain and from over 50 different countries.
- Soyatech engages world-renowned thought leaders in global food production, agribusiness and renewable energy sectors from around the world to speak on the latest trends affecting the industry at the conferences it organizes.
- Award-winning daily and weekly e-News service with 7,500+ subscribers disperse around the world.

Project Background

- Farmland and agricultural infrastructure an emerging asset class which offers the following attractions:-
 - *strong long-term macroeconomic fundamentals*
 - *attractive historical returns on land investment*
 - *mix of current income and capital appreciation*
 - *uncorrelated returns with the equities market*
 - *strong hedge against inflation*
- Asset class attracting media attention due to questions over legality and transparency of large scale land transactions in developing regions.
- Media coverage and limited research have focused on Sovereign Wealth Funds with little information on private sector investment activity and impact they are having on regions where they are investing.
- OECD engaged HighQuest Partners to conduct a confidential survey of private investment groups to discern what was happening in the field.

Methodology

- HighQuest culled and filtered list of private investment groups actively investing in the asset class from variety of sources
 - *alternative asset class investment conferences* • *global financial press* • *trade journals* • *internet sites* • *HighQuest advisors' network*

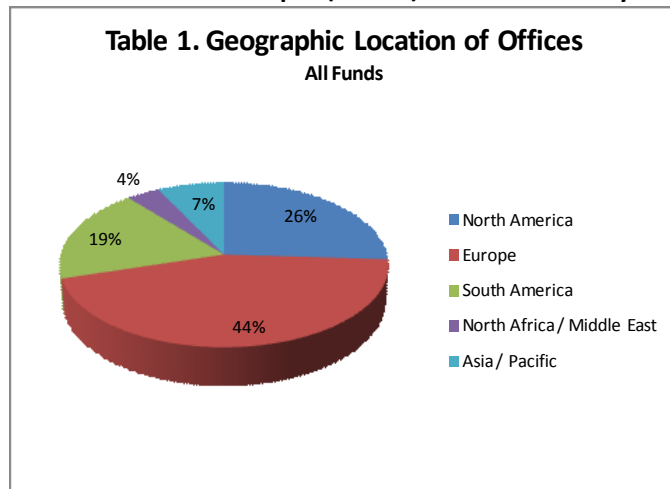
- List of over 120 distilled to 54 active private investor groups after culling

- Contacted all 54 groups via personalized email and follow-up calls with objective of conducting 20 – 25 telephone interviews

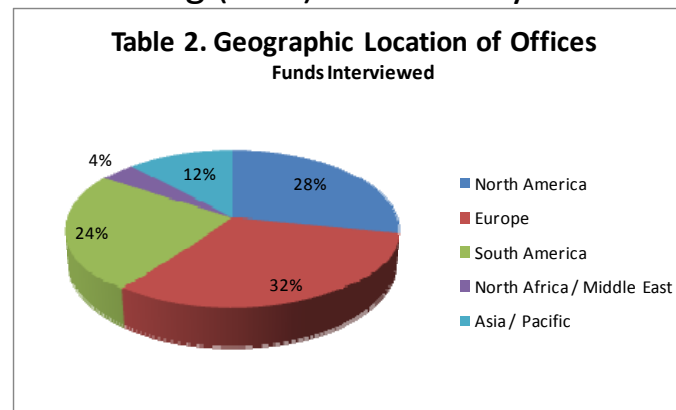
- Using interview guideline, conducted 25 interviews(45 to 60 minutes to conduct) addressing the following issues:
 - *profile of investor group* • *legal structure of vehicles* • *type of activities and geographic regions attracting investment* • *expected returns on investment* • *anecdotal assessment of impact on local populations, economies and environment* • *tenor of relationships with multi-lateral organizations and governmental bodies*

Geographic Location of Funds

- Breakdown of 54 funds on HighQuest's list - largest # of funds investing in the asset class based in Europe(44%) followed by North America(26%).



- Breakdown of 25 funds interviewed more diversified and perhaps more representative of where capital is being raised – Europe still leading (32%) followed by North America (28%)



Structure of Funds

- Wide range in legal structures adopted for vehicles investing in the asset class
 - Funds
 - private publicly-traded – closed end – limited partnerships – separate accounts (investors allocate their investment to specific sectors)
 - Unit Trust (similar to a real estate investment trust, or REIT, where gains/losses are passed on directly to the investor based on ownership interests)
 - Corporate structure
 - Private and publicly traded companies managing funds (private and publicly traded) which acquire and own farmland
 - Private and publicly-listed companies which provide farm management services (leases and for absentee land owners) and may also conduct farmland acquisition and ownership activities
- Funds raised from pensions, endowments and wealthy investors (individuals and family offices).
- Acquisition and management of farmland handled by captive company or outsourced to professional farm/land managers.
- Funds acquire and/or lease farmland depending on regional particularities of local laws and opportunity to arbitrage land values between regions.

Regional Differences in Investment Activity

➤ North America

- investment typically pursued as passive investment
- farmland management funds contracted out
- private fund and unit trust structure
- due to maturity of the market, little interest to invest in downstream
- publicly-traded funds will attract wider class of investor (lower minimums)
- Specialized funds provide access to permanent crops

➤ Australia/New Zealand

- highly integrated private companies operating across value chain (crops to animal protein production)
- private and publicly-traded funds have been launched to offer investors interests in large-scale, integrated farm operations

➤ Eastern Europe

- due to political legacy of communal land ownership and complicated laws governing land transfer, private investment in farmland has met with mixed results
- preferred approach is for corporate sponsors to raise funds to acquire land (Russia) or long-term lease concessions with private landowners (Ukraine)
- publicly-traded closed-end funds acquiring and leasing land launched in markets with buoyant capital markets (Bulgaria)

Regional Differences in Investment Activity (cont'd)

➤ South America

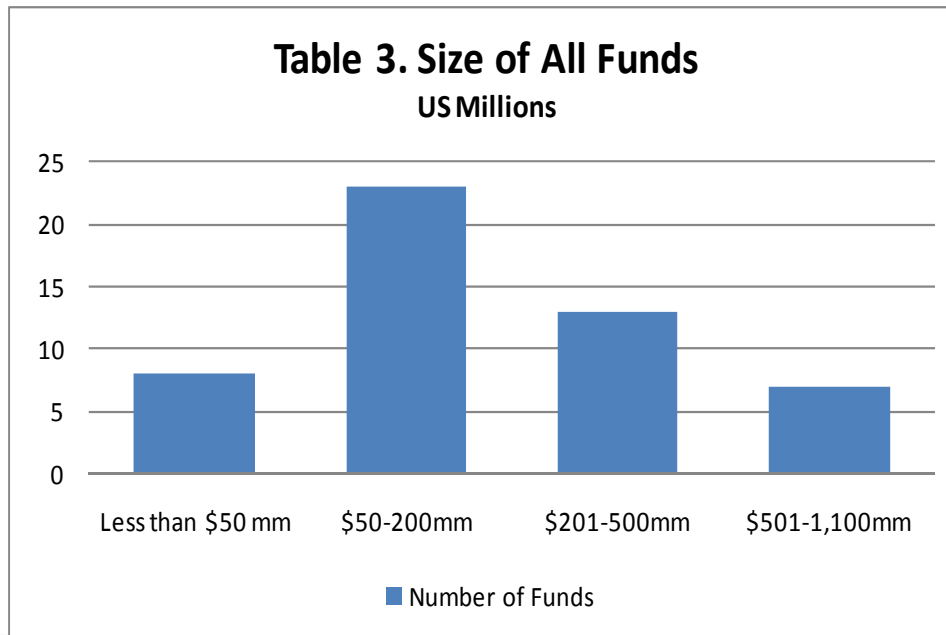
- Privately-held and publicly-traded companies raise funds from investors to acquire, lease large parcels of farmland and manage farmland for passive investors
- Different business models pursued
 - Integrated food companies with brands
 - Wholesale/industrial activities
- Trend in the region to split farm management activities from farmland ownership.
 - Operators can leverage expertise over a wider platform of land holdings.
 - Accelerate scale in the business by having financial investors allocate capital to farmland ownership (attracted by higher degree of liquidity).

➤ Africa

- Embryonic capital markets and complex issues relating to land titles negotiation of concessions.
- Tiered corporate favored to mitigate operating and legal risk.

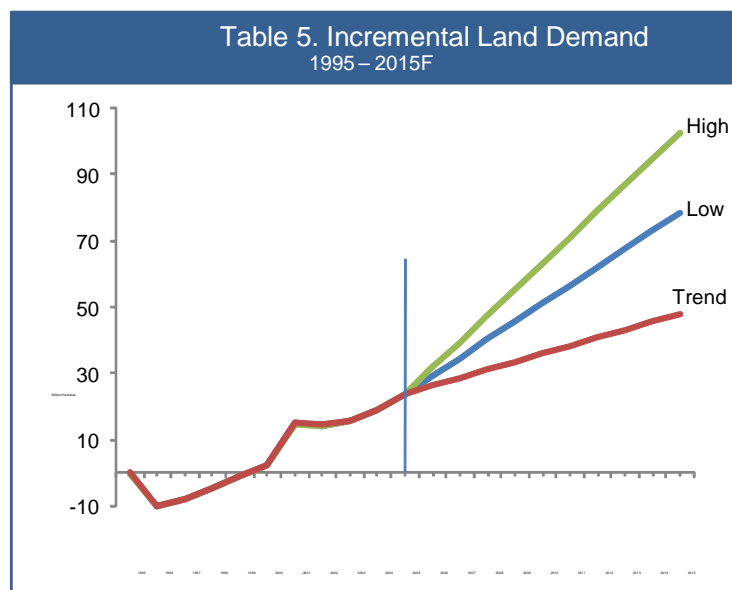
Assets under Management

- 25 funds interviewed accounted for approximately \$7.25 billion in Assets under Management (AUM) or the equivalent,
- Total AUM for all 54 funds on HighQuest's list amounts to \$14 billion.
- Estimates of total capital allocated to the asset class by representatives of funds interviewed ranged from \$10 to \$25 billion.
- 54 funds:
 - 8 < \$50 MM • 13 \$50-200 MM • 12 \$200-500 MM • + 6 \$0.5 - \$1 B



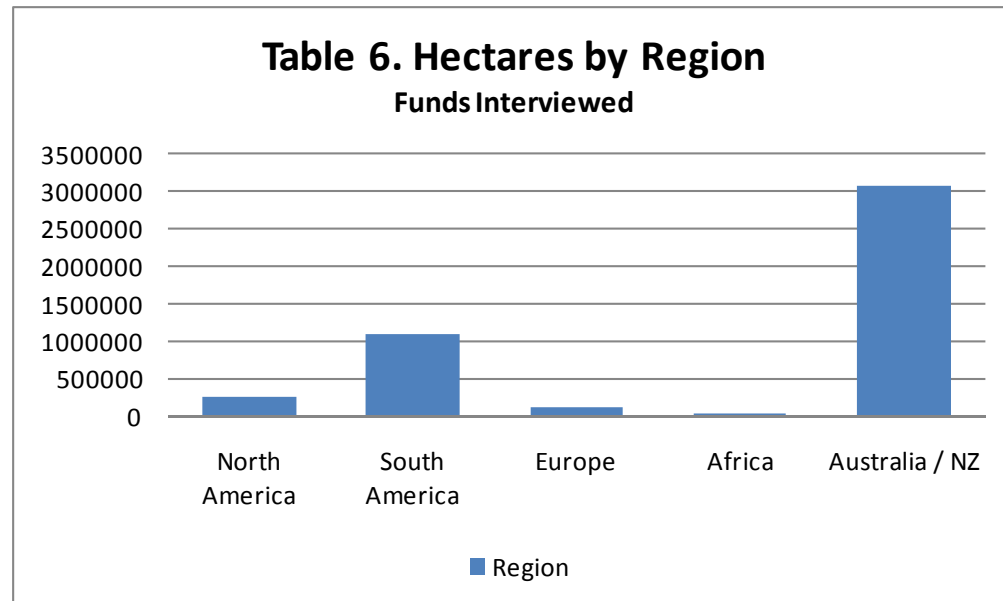
Estimate of Growth of Asset Class

- Survey participants estimated capital to be allocated to farmland and agricultural infrastructure asset class will range from 2 – 3 x current level, or \$28 - \$42 B.
- Brazil as an example
 - estimate of native **cerrado** and grazing land that can be transformed for crop production = 40 – 70 M hectares @ average acquisition cost of \$2000/ha = \$80 - \$140 B.
 - does not include investment in infrastructure (storage and transportation) to get production to market which could double amount of investment required in Brazil alone.
- Based on HighQuest's demand projections for a basket of seven key crops (wheat, corn, soy, cotton, rapeseed, sugarcane, palm), a *minimum* of 75 M hectares on a global basis required by 2015.
- Only ~1.4 B hectares of land available for crop production worldwide, and less than 24 million hectares were brought into cultivation during the 10-year period ending in 2005.



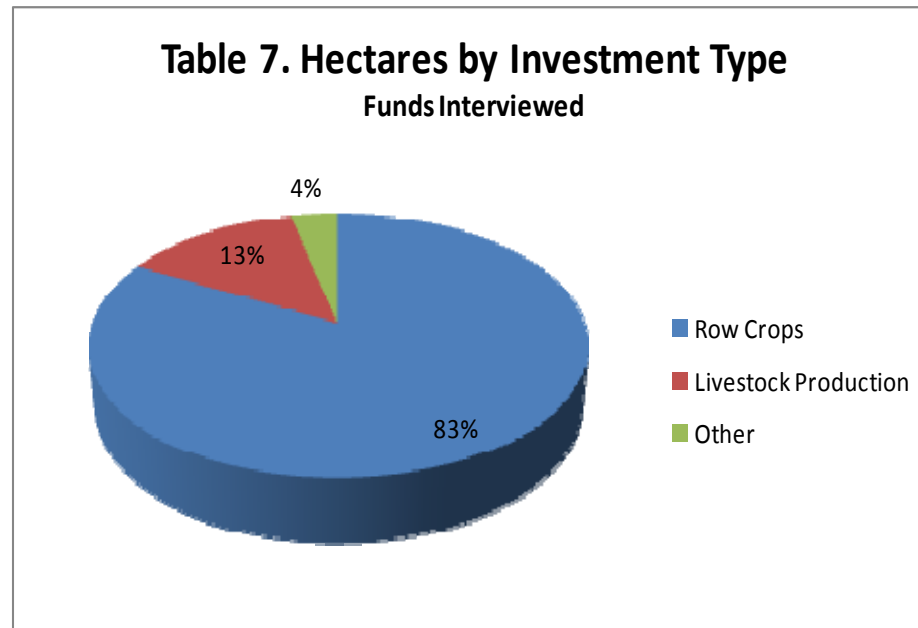
Geographic focus of investment activity

- Investment activity has followed a distinct geographical trend.
 - Most funds started investing in very mature or home markets (U.S., Canada, Australia and New Zealand with South America following up in the rear).
 - Interest and investment has spread to growing or emerging markets only within last five years or less.
 - Brazil is now recognized as being the largest new frontier for new farmland development with estimates that 1/3 of funds active in the asset class committing funds to Brazil.
- Farmland managed by 25 funds interviewed concentrated in Australia/New Zealand and South America, with Africa and Europe representing very small percentages of total farmland owned institutionally.



Focus of investments by activity

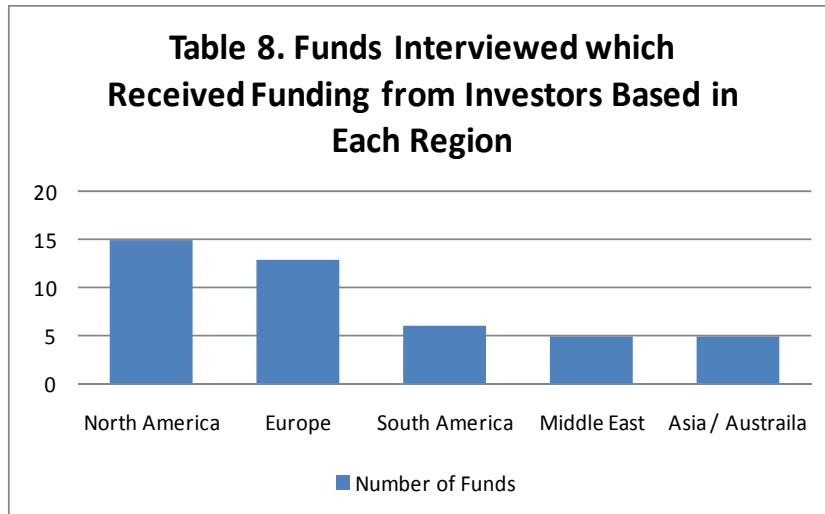
- 83% of land acquired dedicated to production of major row crops (soft oilseeds, corn, wheat and feed grains), 13% for livestock production (grazing of beef cattle, dairy, sheep and swine) and 4% of for “other” uses (sugar cane, viticulture, on-farm storage and set-asides).



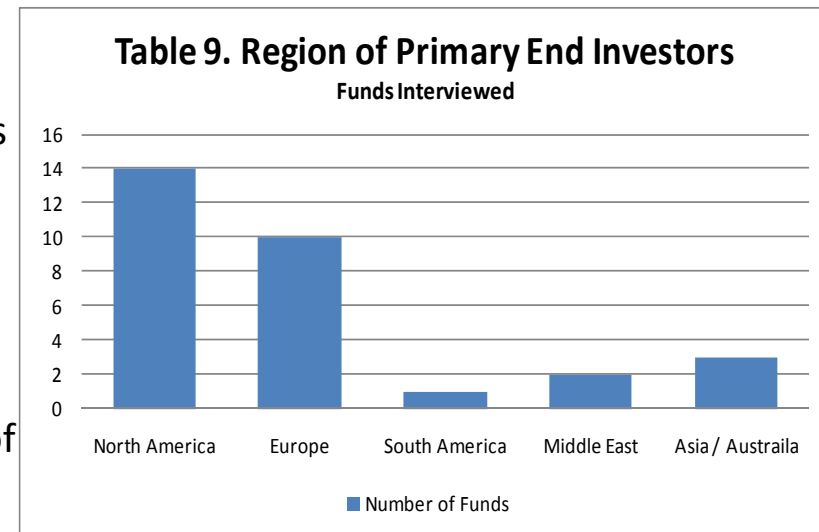
- Sizable percentage of capital raised or in final stages of being closed by survey respondents have yet to be deployed due to long lead time required to acquire farmland (conduct due diligence on potential land acquisitions/long-term concessions, complete negotiations and register titles with proper authorities, etc.).

Funding sources

- 80% of funds interviewed indicated that their investor base was global.

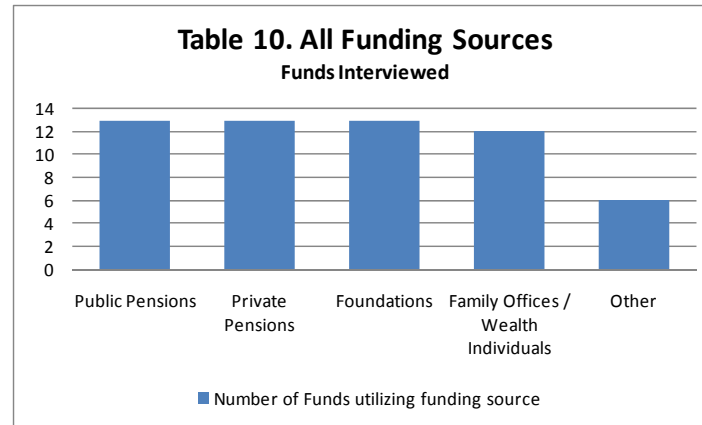


- End investors in North American and the EU investors still account for primary source of funds raised and committed to the sector.
- Increased interest from North Africa, the Middle East and Asia has been noted but little real commitment of capital has yet to materialize from these regions.

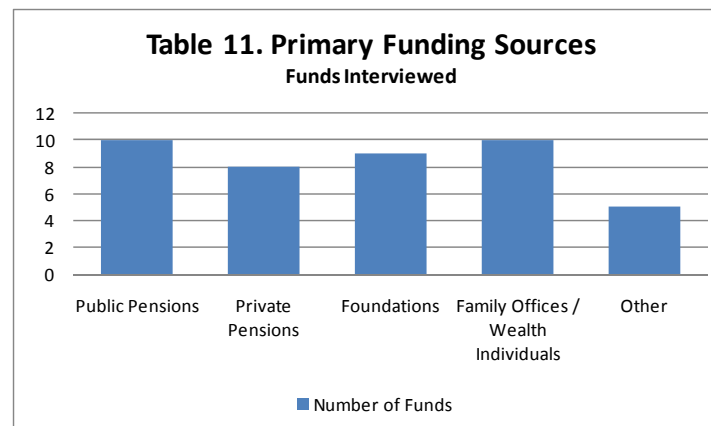


End investor types

- Endowments and wealthy individuals/family offices cited as historically being principal sources of funds.



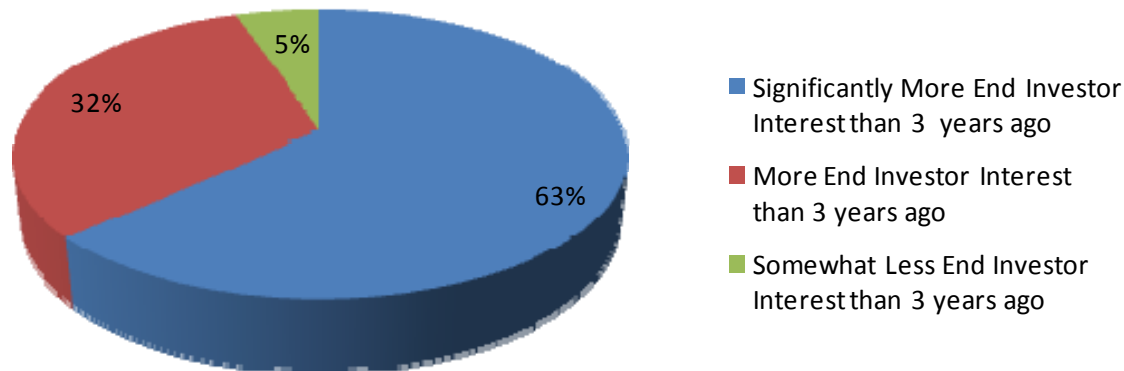
- Hedge funds and large institutions, including endowments and pension funds, are entering the asset class investing in existing funds, in some cases sponsoring their own vehicles to attract funds for the sector, as well as investing in publicly-listed companies active in the sector.
- Funds identified more than one category of investor as a “primary source of funds” for their operations, reflecting the fact that the universe of investors committing capital to the sector is expanding.



Assessment of Trends in the Sector

- Survey respondents indicated that they believed that there was either ***significantly more (63%)*** or ***more (32%)*** interest in the asset class than 3 years ago.
- End investors evaluating opportunities to allocate capital to the asset class becoming much more knowledgeable about opportunities and risks offered which is viewed positively by investment funds (time saver on raising funds).

Table 12. Investor Interest in Agriculture Sector
Compared to 3 years ago

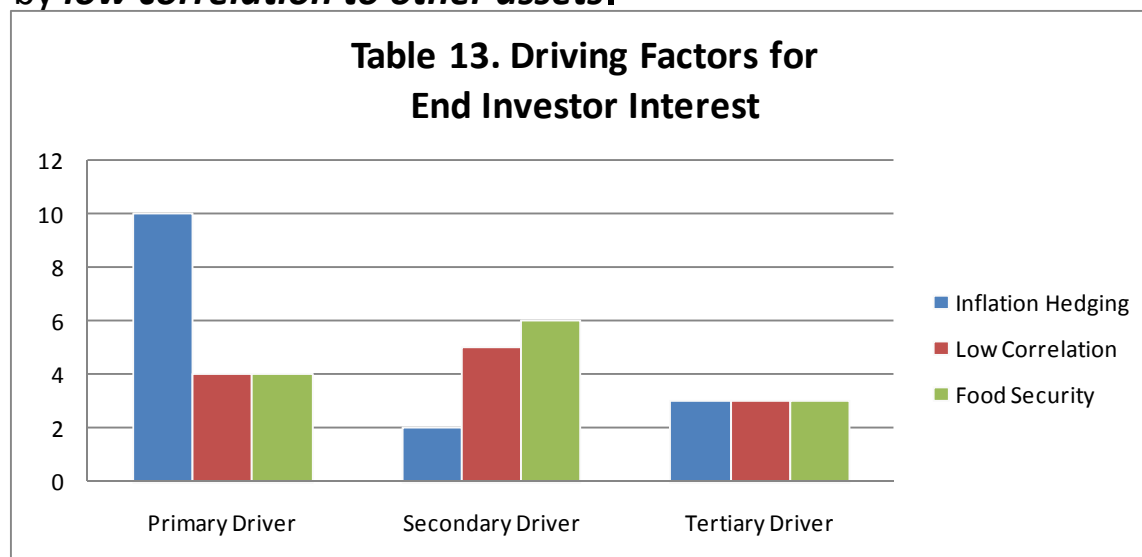


Motivations of end-investor interest in asset class

➤ Three main drivers

- **Inflation Hedging:** effective hedge against inflation, with returns in the U.S. highly correlated to the Consumer Price Index.
- **Low/Negative Correlation to Other Assets:** low correlation between returns on farmland investments and the broader markets.
- **Food Security/Agricultural Fundamentals:** growing world population, rising incomes in the developing world and increased use of biomass for biofuels and for industrial applications driving increased demand for agricultural crops over the next decade despite improvements in yields (improved genetics and agronomic practices).

➤ Survey respondents ranked ***inflation hedging*** as primary driver for committed investment, followed closely by ***low correlation to other assets***.



Food security as a driver for investment

- Food security may have been a primary driver of interest in the asset class 3 years ago due to simplistic and inflammatory media reporting on food security concerns.
- As end-investors have become more knowledgeable and sophisticated about the asset class, respondents cited it as a secondary or tertiary driver.
- “Interest in investing due to food security issues has not yet resulted in actual and serious investment in agriculture from those sources.”
- Most respondents scoffed at the notion that ownership of farmland would guarantee privileged access to food crops for an investor’s home market. In almost all cases, respondents agreed that off-take of food crops can only be accomplished according to market-clearing mechanisms and that it was nonsensical to assume that investment in farmland provided a sustainable strategy for investors to ensure food security in their home market.
- While expected returns on farmland have been based on the **Beta** return for the asset class as a whole (derived from buying and developing farmland), many of the funds are seeking to realize **Alpha** return specific to the transformation of land through application of new sustainable technologies (biotech seeds, no-till farming and precision agriculture, etc.).

Local impact of investments

- Impact that investing in farmland has on the local economy did not surface as a topic of particular interest or relevance during interviews with private funds operating in North America.
- In contrast, survey participants associated with groups active in Eastern Europe, South America and Africa stressed benefits that they brought to local economies:
 - introduction of more efficient agronomics and farming/business practices which are eventually adopted by the local population;
 - creation of new positions for local staff and opportunities for professional development of these hires;
 - generation of higher productivity in land use and improved crop yields;
 - expansion of market access for neighboring farmers as increased scale of production leads to increased public and private investment in infrastructure and logistics and
 - increased access to products and services in the agricultural sector and parallel sectors in the local economy.
- Staff hired directly as company employees or retained as contract employees ranged from a couple of hundred to 2,000 with total number of employees employed on a fulltime basis on farms managed by the investment groups which participated in the survey 4,116.
- Respondents indicated that they prefer to hire and train local managers instead of bringing in expatriate managers. This results in a transfer of new technologies and professional skills to the local population.

Local impact of investments (cont'd)

- Multiplier effect was cited as being the most important impact on local employment and economy creating a new dynamism in local regions.
- Transformation of farmland expected to create demand for new products and services:
 - crops inputs;
 - planting and harvesting equipment and services;
 - labor;
 - transportation (trucks, rail, barges and ships);
 - primary processing of crops;
 - export services and
 - financing and credit for crop production and capital investment
- Fund operating in Africa promoting development of regional clusters by attracting other farmland investment groups to the region in order to develop concentrations of demand for products and services which will enable the investor to focus resources on farmland transformation and management.
- Another fund active in Africa prefers to work with local financial institutions to syndicate loans which provides fee generation opportunities to local banks and promotes the development of an increasingly sophisticated financial services sector which should have positive impact on capacity development in the local financial services sector.

Local impact of investments (cont'd)

- A majority of the funds are committed to developing the technical and managerial capabilities of local employees and the local population through training.
- An investor in Africa highlighted the fact that his group was able to introduce downstream partners to provide off-take agreements to local farmers who previously were limited to selling their production in the cash market to local buyers, thereby helping to jump start the integration of local communities into the wider market economy.
- “Microeconomics need to be aligned with interests of the local population.”
- All respondents emphasized that ensuring that good relationships are developed and maintained with the local communities where they operate is a key element of their business models.
- In many cases, funds are the largest contributors to the tax base of local communities which they pay on time, creating a tremendous amount of goodwill for them in the local community and serving as an example for others to emulate. Raising the bar on tax compliance is very important unintended consequence of private sector investment in farmland.
- All the funds active in South America, Eastern Europe and Africa actively support cultural, social and educational projects in the communities where they are investing in farmland (supporting cultural and sporting events, financing the construction of schools and hospitals and medical clinics).

Tracking impact of investment and sustainability

- Most of the performance metrics funds are considering monitoring are focused on rather simple issues - production, yield and returns on investment – while a few did track more sophisticated metrics.
- A couple of funds are developing internal procedures to track the impact their investments are having on the regions where they are active.
- Transfer of technology and know-how is occurring between Brazil and Africa where Brazilian farming practices adapted for the African context refers to Brazil as benchmark for activities which others in the local market are beginning to emulate.
- No consistent set of guidelines have yet been developed nor adopted as an industry standard
 - GAP
 - FAO practices
 - IFC (Environmental & Social Standards)
 - EUREGAP certification
 - UNPI standards
 - Utz Kapeh Certification
 - ISO Certification
 - Social Cotton Institute (Brazil)

Tracking impact of investment and sustainability (cont'd)

- Most respondents emphasized that due to their end-investors, they were very sensitive to the reputational risk associated with sustainability issues and non-transparency which are viewed as potential liabilities.
- “Corporate farming is getting more scrutiny and institutional investors can’t afford not to operate in a sustainable manner due to the increased media coverage of their investments.”
- A majority of respondents will only consider acquiring land that had been previously exploited (whether farmed for crops or used for grazing) and would not consider acquiring forests or new lands to be converted into farming and in a few cases are precluded from doing so by board resolutions.

Relationships with multilateral organizations and governments

- Most respondents did not perceive any negative issues with efforts by multi-lateral organizations to promote transparency and best-practices for the industry.
- Believe that setting standards will be positive as sets a level playing field for all investors.
- Many have already developed working relationships with multilateral organizations on initiatives to adopt sustainable farming practices and accessing financing to accelerate expansion of their operations based on positive impact they can bring to local communities and regions.
- Investors active in Brazil suggested that the Brazilian government should focus its efforts on four fronts:
 - promote public and private investment in large transportation infrastructure projects (railways, roads, rivers and locks to convey barges and export facilities)
 - facilitate access to financing for agricultural operations and projects;
 - promote adoption of new technologies by ensuring patent protection for technology developers;
 - streamline bureaucracy, making certain that laws and regulations are clear and will be enforced fairly over the long-term so that investors/businesses know what to expect and
 - accelerate the approval process for requests to transform native *cerrado* into farmland “which can be converted in effective carbon sinks.”

Next steps

HighQuest Partners proposes to:

- Conduct a survey of Sovereign Wealth Funds in order to determine level of investment they have made in farmland and agricultural infrastructure.
- Develop an internet-based clearinghouse dedicated to providing latest news on investment activity, profiles of investment groups, market price levels for farmland and assessments from industry observers on the impact that investment in the sector is having on populations, economies and the environment of local communities where investments in farmland and agricultural infrastructure are being made.
- Convene representatives of private investment groups, Sovereign Wealth Funds, multilateral organizations, NGOs and other relevant civil society groups to a one-day “policy neutral conference” which will focus on the mechanics of building a system to capture the data required to monitor compliance with sustainability, legal and social impact goals and the impact that investment in farmland is having on employment and local economies. The meeting will be held in late October 2010 in Switzerland in conjunction with ***Global AgInvesting Europe 2010***.

HighQuest and Soyatech - Growing Opportunities for our Clients



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