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Farmland and Agriculture Whitepaper

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Welcome to CAMRADATA's Farmland and Agriculture Whitepaper

Pandemics, international conflicts and the ensuing rise in the cost of living has shone a spotlight on national food security and the value each country places on homegrown produce.

At the same time, a changing climate, chain distribution monopolies and an understanding of the damage inflicted on the land through post-war agricultural practices has brought into keen focus how methods need to be upgraded to become sustainable – at least in some global regions.

On the flip side, a growing global population is putting pressure on the global food system, demanding growers produce more with (arguably) less, as input costs continue to rise.

Faced with a multitude of challenges to agricultural practices and demands – which includes significant regulatory takes – how does farmland fit within an institutional investor's portfolio?

For the landowners, taking rent from those ploughing, planting and raising might seem like a no-brainer, with returns tracking above those from other types of real assets, but there is a raft of other, non-financial considerations too.

Understanding the global opportunity set is key, along with ensuring allocations fit with an investor's sustainability commitments on the separate elements of the ESG acronym.

For investors with beneficiaries all too aware of the pressures on the weekly shop, along with shifts and impacts of weather patterns and biodiversity loss, being a landowner has become a more complex issue than ever before.

In this whitepaper we will explore the potential upsides, challenges and the future of domestic, international, direct and indirect landownership.

Meet the Team

Natasha Silva
Managing Director, Client Relations

Amy Richardson
Managing Director, Business Development

Sarah Northwood
Marketing and Events Coordinator

Orin Ferguson
Associate, Business Development

Farmland and Agriculture Roundtable

The CAMRADATA Farmland and Agriculture Roundtable took place in London in January 2024

Farmland – an evolving asset class for a changing world

Farmland investment has a long history in the UK, but it is only in recent years that it has started to capture the attention of institutional investors as a diversifier, a source of reliable income and for its potential returns.

For institutional investors with a long time horizon, such as pension funds, farmland can offer stable returns, capital protection and diversification away from mainstream assets.

The South Yorkshire Pensions Authority is a longstanding investor in farmland with over 21,000 acres of UK agricultural land held in its portfolio, more than one-third of which is farmed through an operating business. It was initially considered a diversifier to its commercial property exposure, says George Graham, director at South Yorkshire Pensions Authority.

However, over the years, farmland has become a key allocation within the pension fund's broader portfolio.

"This is not an asset class that will give you stunning double-digit returns," explains George. "What it gives you is a nice steady income stream, and it is a very good store of value, which is what many pension funds really want. There is some capital appreciation, but it is not stunning.

"We look at our portfolio as a business – some of it is rented out, and some we farm. As stewards of such a business, we need to ensure that it can continue growing and developing."

One of the benefits of a farmland allocation is that it can offer investors access to a broad range of investment opportunities.

"Some people talk about farmland as if it is just one asset class, but it is a range of different things," says Richard Jacobs, managing director for farmland at fiduciary investment manager Van Lanschot Kempen. "It can be self-operating business to exploit a permanent crop, like citrus, or arable farming where you lease the land out."

Stuart Pattillo, director and senior portfolio manager of agriculture at Manulife Investment Management, says there are many reasons institutional investors might allocate to farmland, but they need to understand that it is a long-term strategy.

> *In the 1970s, many UK life companies owned farmland, but they started to get out because they didn't think it worked as an institutional investment. Interest was really stirred by some foreign asset managers after the Global Financial Crisis, promoting it as a diversifier."*

Patient capital is important at the outset, says Pattillo, and investors need to manage expectations about what they hope to achieve because the returns can take time to materialise.

"Agricultural investment comes with a long investment horizon," he says. "Farmland will typically produce one crop a year, so you must think in annual cycles. However, from an investment perspective, you need to think in terms of at least decades about global commodity cycles, land markets and all other aspects."

While some investors consider it a property investment, farmland shares some attributes typically associated with infrastructure. However, there are crucial differences.

Peter Hill-King, head of investment research at consultancy Buck, says that farmland can provide long-term yield growth and lower cyclical volatility than commercial property. However, unlike infrastructure, it does not typically offer inflation protection, he notes.

"People say food is a significant component of inflation metrics, but very little of the family food spend ends up in farmers' pockets," says Hill-King. "When you look at inflation linkage from an actuarial perspective, you want contractual certainty because it is not just food and crop prices going up, but also diesel and other costs. Cost uncertainty can hit the bottom line and the cash flow yield."

Nevertheless, the simplicity of farmland as an asset class makes it something that most people can understand and relate to, says Manulife's Pattillo.

"Everyone understands where their food comes from," he says. "From a North American perspective, there is often a real human connection to land through family, which is not the case with assets such as a toll bridge, and that is important."

Home or abroad?

Although farmland investing is well-established in the UK, many of the strategies recently offered to institutional investors have focused on opportunities abroad.

"In the 1970s, many UK life companies owned farmland, but they started to get out because they didn't think it worked as an institutional investment," says Buck's Hill-King. "Interest was really stirred by some foreign asset managers after the Global Financial Crisis, promoting it as a diversifier. They triggered a lot of interest that previously hadn't been there, but a lot of that investment went into globally diversified funds.

"And then, in the QE era, a new wave of money went into farmland, generating double-digit returns in some cases driven by strong demand, generating yet more interest. Now QE is over, investors are looking to generate yields sustainably."

Investing in a global portfolio of farmland assets can help spread risk and provide exposure to a variety of different types of crops. It can add another layer of

> *"This is an asset class that needs to be very actively managed, and even if you have managing agents, there is still a lot of work required. Although we are direct investors in UK farmland, our team doesn't always have the required knowledge."*

complexity to portfolios, says Van Lanschot Kempen's Jacobs, so investors must know exactly what they are putting their money into.

"Historically we invested in third-party funds and managers in all parts of the world, and we had several successes but also some failures," he says. "Some institutions have made the classic mistake of thinking they can control everything, but there will always be some hidden risks that nobody has anticipated.

"That is why some investors might prefer local markets. But investing globally does have its merits, particularly in a world where good, high-quality arable soils are becoming ever scarcer."

In the UK, new investment opportunities could emerge in the coming years as more owner-farmers retire. According to the most recent census in 2021, 42% of the UK's 94,000 farmers were over the age of 60, with 29% over the age of 65. However, there are some challenges to investing in UK farmland.

"For a lot of people, their farm is their pension fund," says South Yorkshire Pension Authority's Graham. "If you do the maths, there is going to be a lot of land becoming available in the future and the changes to the subsidy regime post-Brexit will probably encourage some smaller farms to get out now.

"This is an asset class that needs to be very actively managed, and even if you have managing agents, there is still a lot of work required. Although we are direct investors in UK farmland, our team doesn't always have the required knowledge.

"It is unlikely that a UK institutional client would invest into UK farmland at current prices, because it tends to be owned partly as a tax shelter, and a potential change in government means that could be at risk," adds Buck's Hill-King.

Having a real impact

For a growing number of institutional investors, a big part of the appeal of a farmland allocation is the potential for a direct positive environmental impact from changing farming practices, but such changes must be implemented over the long term.

Some investors use farmland allocations to offset carbon elsewhere in their portfolio, while for others, it helps contribute to food security, one of the UN's Sustainable Development Goals.

More recently, the development of the Taskforce for Nature-related Financial Disclosures (TNFD), modelled on the climate-focused TCFD, will compel institutions to disclose nature-related impacts, risks and opportunities.

For some institutional investors, farmland may be a suitable asset for them to demonstrate their commitment to improving biodiversity, says Ray Dhirani, head of impact management at impact wealth management firm Tribe Impact Capital.

"TNFD is going to affect how investors view farmland investments and what can be generated besides the yield and the return on the land itself," he says. "That's a burgeoning area, and we are interested in farmland's alignment with the science. It takes time to understand TNFD, it can't be done overnight."

Dhirani says although there are increasing challenges – such as food insecurity – it is time to start implementing more sustainable approaches such as regenerative farming practices.

"In the UK, it has been claimed there are about 60 harvests left. Not 60 this century. Six-zero, period," he says. "We can't continue along the path that we are on," he says. "If everybody continues to think about their self-interest, we will never close the sustainability gap."

From a purely investment perspective, ensuring your farmland soils are full of biodiversity and minimising inputs such as pesticides are highly important, says Manulife's Pattillo.

"Doing the right thing is very easy in agriculture," says Manulife's Pattillo. "It is about looking at the asset longer term, and the end value of the land is a big part of the investment thesis. But you need to manage that asset throughout the lifespan of your stewardship to the best of your abilities and ensure it is productive when you sell it on to the next owner to maximise value.

"We don't have to deviate or sacrifice return to do the best thing. And that is the same in the UK as in Canada, the US or Australia."

Nevertheless, Pattillo says there will be no "slam dunk" for the industry in effecting change, and it will take a much more "pragmatic approach" to move agriculture away from unsustainable practices.

"Some of the strategies we are applying right now as a global agriculture industry are hard on the land to achieve yields in the short term," adds Manulife's Pattillo. "We must think longer term and sustainably about how we will make these plots of land more productive over a longer period.

"It isn't going to be by going organic, that is not going to put food in many people's mouths even if it might be fantastic for the soil in the short term."

Challenges and opportunities

Like most sectors, advances in technology are having a significant impact on farmland investments. The data revolution and the use of robotics and artificial intelligence (AI) in agriculture are all helping to boost crop yields and drive returns.

"Data is crucial," says Van Lanschot Kempen's Jacobs. "There are a lot of techniques available to us now that weren't around 10 years ago, from GPS to the spatial databases that you can view via GIS platforms.

"Getting the data is the first step. It takes a lot of effort to get farmers to tell you exactly the amount of diesel they've consumed or what kind of pesticides and nutrients they have used. And that's just the beginning.

"You need a whole industry of consultants and advisors to help you work with that data."

Tribe Impact Capital's Dhirani says that as data becomes standardised, it can be used to establish standards and benchmarks and set key performance indicators (KPIs) where AI can have a real impact.

However, he argues that greater reliance on such technologies is unlikely to drive the change needed to make agriculture profitable and sustainable.

"We can use AI to do a lot of the heavy lifting and play a much bigger role," says Dhirani. "The really difficult point is at the long end of that dispersed curve around behaviour change, and that is something we can't rely on data or AI to help solve."

Data and indicator standardisation may help prevent greenwashing and lead to institutions setting realistic and achievable targets, says Van Lanschot Kempen's Jacobs. He notes that it could also help the sector avoid accusations of greenwashing and deliver better outcomes for investors.

"There is a lot of fear of greenwashing among big international institutions and asset managers such as ourselves," says Jacobs. "We opted for Article 9 under SFDR, but many institutions backed down and went for Article 8 because they didn't want to face the risks if they could not report according to the standards and taxonomy.

"If we can standardise protocols, frameworks, indicators and metrics and improve data collection according to real, practical, tangible and measurable KPIs, then I am comfortable that if anyone ever says, 'you are greenwashing', I can show them what we have done."

While farmland might tick many of the right boxes for some institutional investors, it might not be suitable for everybody. Indeed, its long-term investment horizon might be off-putting for some investors, says Buck's Hill-King.

"Farmland is not an overnight trade. It is illiquid and it takes time to achieve an impact or any other objectives. And it may take time to get out at the end," he explains.

"Some clients are generally averse to these kinds of long horizon investment strategies right now and ask what they can do via listed equities, or with agtech [agriculture technology]. But there is a lot of unproven technology and uncertainty as to how things will pan out, especially with climate change."

Roundtable Participants

Stuart Pattillo

Director, Senior Portfolio Manager, Agriculture

Personal Profile

Stuart provides agricultural portfolio management and client relationship management for separate accounts and commingled investment vehicles. In this role, he evaluates portfolio performance, acquisition, and disposition opportunities and develops and implements client investment strategies.

Prior to joining the firm in 2020, he consulted on alternative asset investment strategies with private asset managers in Canada and the United States as well as being the Director of Private Investments at Bonnefield Financial, Canada's largest farmland investment manager, where he was responsible for business development and the active management of a portfolio of Canadian farmland on behalf of private investors.

Previously, Stuart was an agriculture equity research associate at AltaCorp Capital (now ATB Capital Markets) and a natural gas trader with TD Securities.

- Education: B.A., History, University of King's College and Dalhousie University; M.B.A., HEC Montréal–Université de Montréal
- Joined the company: 2020
- Began career: 2006

Company Profile

Manulife Investment Management is the asset management arm of Manulife Financial Corporation, a global financial institution that has protected investor assets since 1887. We're passionate about providing solutions; with leading capabilities in public and private markets, we partner with institutions to understand their needs and create tailored solutions to help meet them. We take a specialist approach; our focused teams are led by industry veterans with decades of experience managing their strategies on behalf of investors—an approach that's led to a culture of investment excellence and highly differentiated strategies across asset classes. And we're committed to investing responsibly; we develop innovative global frameworks for sustainable investing, collaboratively engage with companies in our public market portfolios, and maintain a high standard of stewardship where we own and operate assets. Today, our more than 650 investment professionals working in 20 geographies, manage US$427 billion in assets under management and administration, on behalf of investors worldwide.[1] Visit manulifeim.com/institutional

1 Source: MFC statistical information package, as of September 30, 2023. Assets under management (AUM) are in USD. AUM includes assets internally managed by Manulife Investment Management on behalf of external clients, the Manulife general account, and other affiliated businesses. The methodologies used to compile the total AUM are subject to change and may not reflect regulatory AUM as reported on certain affiliates' Form ADV. Manulife Investment Management assets under management and administration are as of September 30, 2023, and include US$426.33 billion AUM and US$1.18 billion AUM. Manulife Investment Management's global investment professional team includes expertise from several Manulife Investment Management affiliates and joint ventures. Not all entities represent all asset classes.

Manulife Investment Management

Richard Jacobs

Managing Director, Farmland

Personal Profile

Richard is the managing director of the Van Lanschot Kempen Private Markets team with a primary focus on farmland. Before joining Kempen, Richard co-founded Altis Investment Management, an independent asset manager with offices in Zug, Switzerland after having worked at Morgan Stanley in London.

He grew up on a family farm (potato and beets) and still spends his weekends and holidays growing organic wine grapes, grains and vegetables on only a few hectares.

Company Profile

We are active managers who bring free thinking, resolve and originality to investment decisions. This helps us to reach hard-to-access asset classes that are often missed by our competitors.

As leading fiduciary managers, we look after large pension portfolios for our Netherlands and UK clients – taking great care to facilitate good outcomes for everyone invested in our schemes. What's more, all clients benefit from our fiduciary expertise and investment infrastructure.

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Roundtable Participants

Peter Hill-King
Head of Investment Research

Personal Profile

Peter has extensive experience in investment manager research and portfolio management. He leads our research team and is responsible for our views on managers. Peter joined Buck in 2017 and is based in our London office.

Peter has over 25 years' experience in appraising investment strategies globally, working for pension consultancies, fund of funds and asset managers. His experience includes both traditional equity strategies, multi-asset and alternatives funds; including infrastructure, real estate, forestry and agriculture. A member of various investment committees, he has advised DB and DC schemes, Mastertrusts as well as advising investment managers on process and strategy. His breadth of experience provides a keen understanding of the wider changes within the pension fund investment landscape in addition to granular portfolio analysis.

Peter graduated from Coventry university with a 1st class degree in Financial Economics and from Exeter with a Masters in Finance and Investment. He is a CFA charterholder.

George Graham
Director at South Yorkshire Pensions Authority

Personal Profile

George joined the South Yorkshire Pensions Authority as Fund Director in February 2018 and as Head of Paid Service is responsible for the management of all aspects of the Authority's activity. Previously he was Managing Director of LPP's pension administration business, having led the Lancashire County Pension Fund prior to the transfer of its staff to LPP as part of the creation of the joint venture with the London Pension Fund Authority.

A fellow of CIPFA George's previous career in local government finance involved roles as Deputy County Treasurer at Lancashire County Council, Director of Resources at Rossendale BC and Director of Finance at Chorley BC preceded by roles at Northamptonshire CC and Oxfordshire CC where he did his CIPFA training.

Moderator

Ray Dhirani
Head of Impact Management

Personal Profile

Ray is head of impact management at Tribe. Ray co-leads our impact management proposition alongside Chief Impact Officer, Amy Clarke. He is also responsible for the impact management of Tribe's single line securities, net zero commitments, whilst overseeing fund engagement activities.

Prior to Tribe, Ray was head of sustainable finance at WWF UK, where he worked across thematic and policy areas covering climate change and wider environmental themes including extractives, food systems and deforestation, as well as conservation and finance sector data.

Before WWF, Ray worked in the global markets division of Merrill Lynch in New York. He holds a BSc. in Economics from the Wharton School at the University of Pennsylvania and an MSc. in Environment & Development from the London School of Economics.

Elizabeth Pfeuti
Chief Client Officer

Personal Profile

Former Dow Jones staffer Elizabeth Pfeuti is Rhotic's Chief Client Officer and a member of the Rhotic Media executive leadership team. A highly-decorated journalist, Elizabeth has been in financial journalism for around 15 years. At Dow Jones, she covered the asset management, investment banking and investor services beats for Financial News, where she also wrote on a wide range of regulatory themes

She was previously the European Editor for CIO Magazine and boasts an exceptional contact book of buy-side and in-house institutional CIOs and asset management executives. More recently she has worked on corporate briefs for pension consultants, investment banks and asset management groups.

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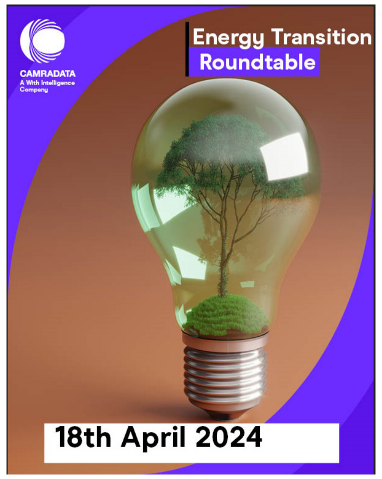
Upcoming Roundtables



If you are interested in joining us at any of the above roundtables or would like to see our full calendar, please get in touch via info@camradata.com

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