



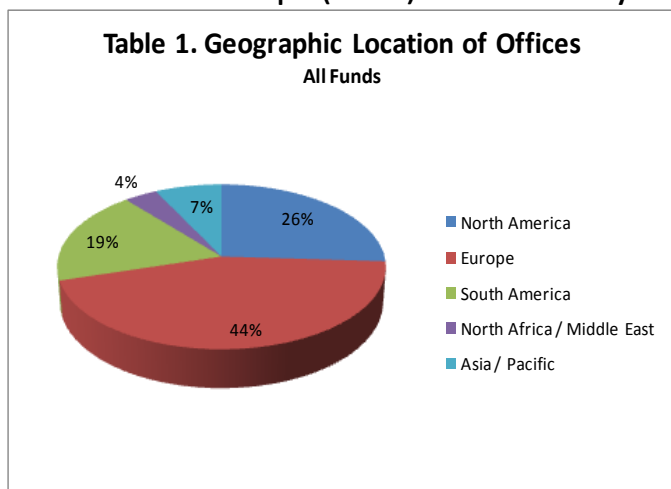
HighQuest
P A R T N E R S

Roundtable: Trends and Developments in the Private Financing of Agriculture

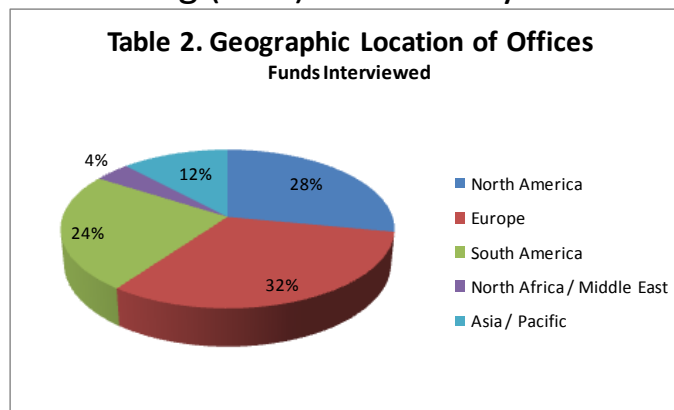
World Agricultural Forum 2011 Congress – *Rethinking Agriculture*
Brussels, Belgium
December 1, 2011

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%).

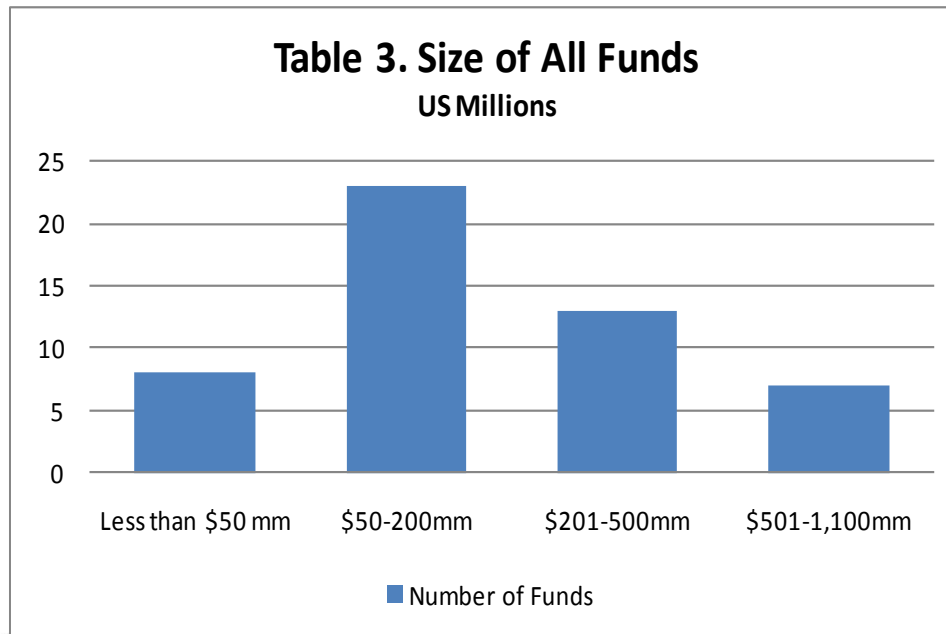


- Breakdown of 25 funds interviewed more diversified and perhaps more representative of where capital is being raised – Europe still leading (32%) followed by North America (28%)



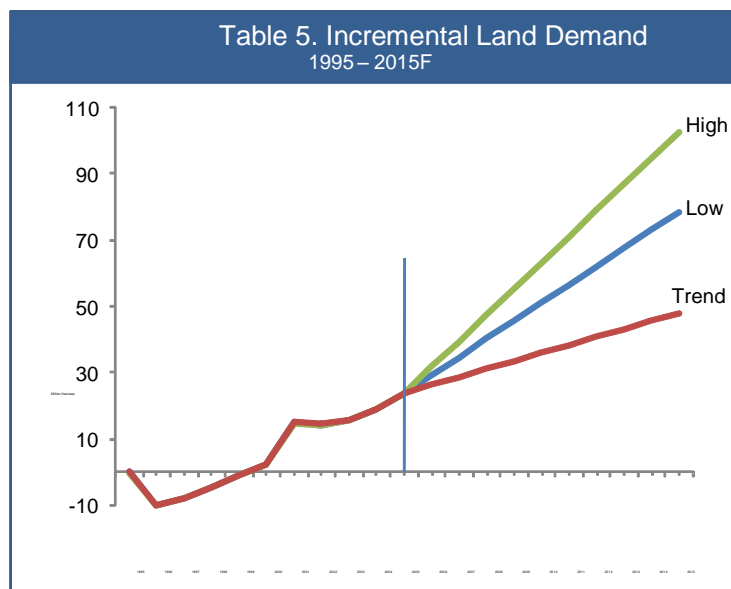
Assets under Management

- 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



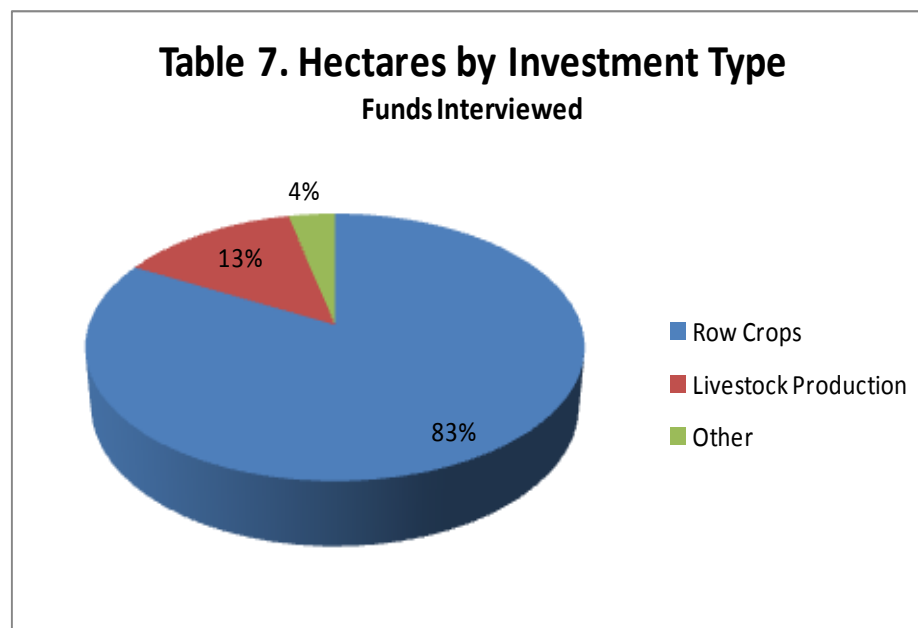
Estimate of Growth of Asset Class

- 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.



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).

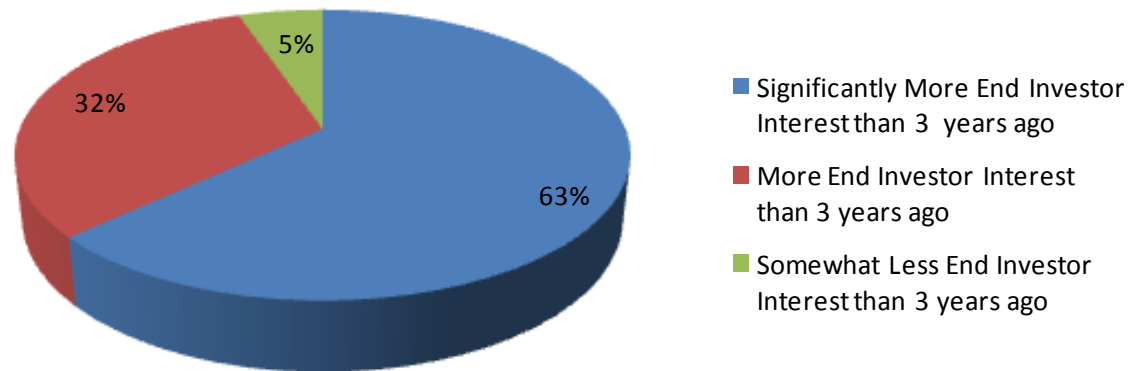


- Sizable percentage of capital raised or in final stages of being closed by survey respondents have yet to be deployed due to long lead time required to acquire farmland (conduct due diligence on potential land acquisitions/long-term concessions, complete negotiations and register titles with proper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

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

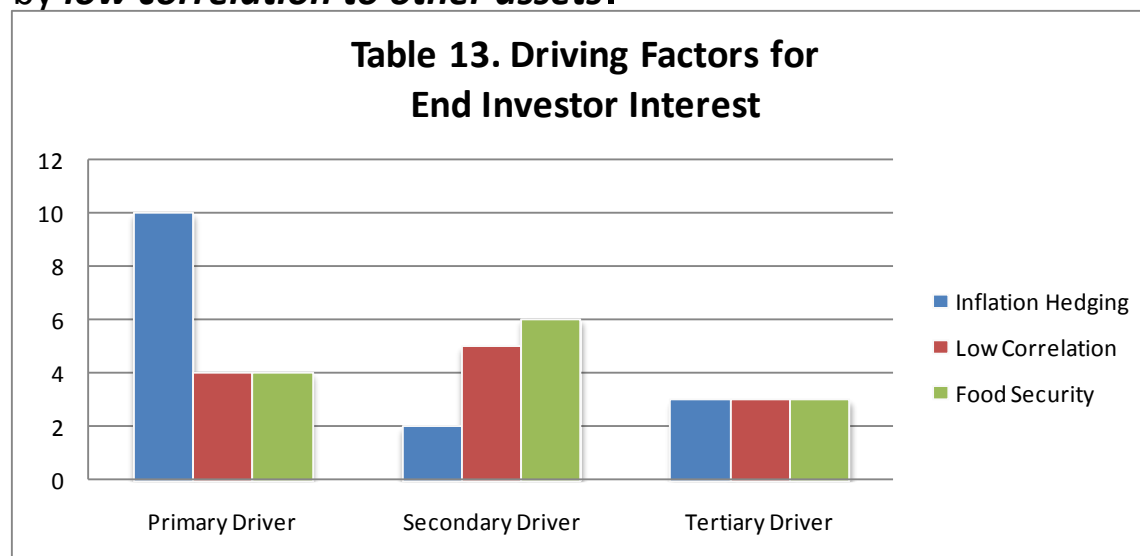


Motivations of end-investor interest in asset class

➤ 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***.



Growing interest in agriculture as an asset class

- Initial interest in real assets: farmland and infrastructure
 - fixed-income returns in developed markets(US, Canada and Aus/NZ) – 6-10%
 - private equity returns in riskier developing markets(South America, Africa and Asia – 15-25%
- As the investor class becomes educated about agriculture, interest in other vehicles is increasing
 - commodity index funds
 - public equities
 - debt financing(working capital and trade financing)
 - private equity
 - technology(products and services) to improve productivity
 - consolidation of major players along the value chain
 - fertilizers, ag chemicals, primary processors
 - venture capital
 - Biotechnology
 - novel technologies for producing industrial products and biofuels

Opportunities and Challenges

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FTfm

Sector offers up opportunities and ethical issues

Agriculture

There are many ways to gain exposure but there are problems, says Sophia Grene

The invisible hand of the market may eventually solve the problem of food supply in an overpopulated world, but investors cannot be absolved of responsibility for helping that hand reach its goal, according to fund managers focusing on agricultural investments.

It is a problem that urgently needs a solution. According to the Food and Agriculture Organisation of the UN, more food will have to be produced in the coming decades than has been produced during the past 10,000 years combined. To put figures on it, the FAO reckons as much as \$10/bn a year should be invested in agriculture in developing countries to raise global food output by 70 per cent, which it deems necessary to make sure more people do not go hungry.

for making such an allocation.

"Are you looking at solutions rather than looking to benefit from the situation?" asks Ralf Oberlammscheidt, who manages DWS's €2.2bn (US\$3bn) Global Agribusiness Fund, as well as institutional mandates.

The debate over the ethics of investing in commodities futures is ongoing – the camp claiming such speculation drives prices higher and increases volatility has gained ground recently as public opinion has moved against derivatives trading generally. Academic judgment based on evidence from the one real test case, the impact of the US Onion

Letting markets continue will only aggravate a grim outlook for world food security

Futures Act 1967, which banned trading in onion futures, is mixed.

For Mr Oberlammscheidt, futures trading not only

ing out that for food "the clearing mechanism is war, not price".

In its most recent Food Outlook, the FAO says: "Letting international markets continue in their present state, volatile and unpredictable, will only aggravate an already grim outlook for world food security."

In the past three or four years, investments in agricultural land have seen a surge in interest, but more recently they have come in for critical scrutiny from non-governmental organisations such as Oxfam, which is running a campaign called "Grow" to highlight the impact of international land investment on local populations.

To mitigate some of these problems, a working group of the UN Principles for Responsible Investors has come up with a set of principles for responsible investment in farmland.

But in addition to the potential ethical issues, many investors were disappointed by the returns from early land investments. "The majority of projects either have unrealistic yield

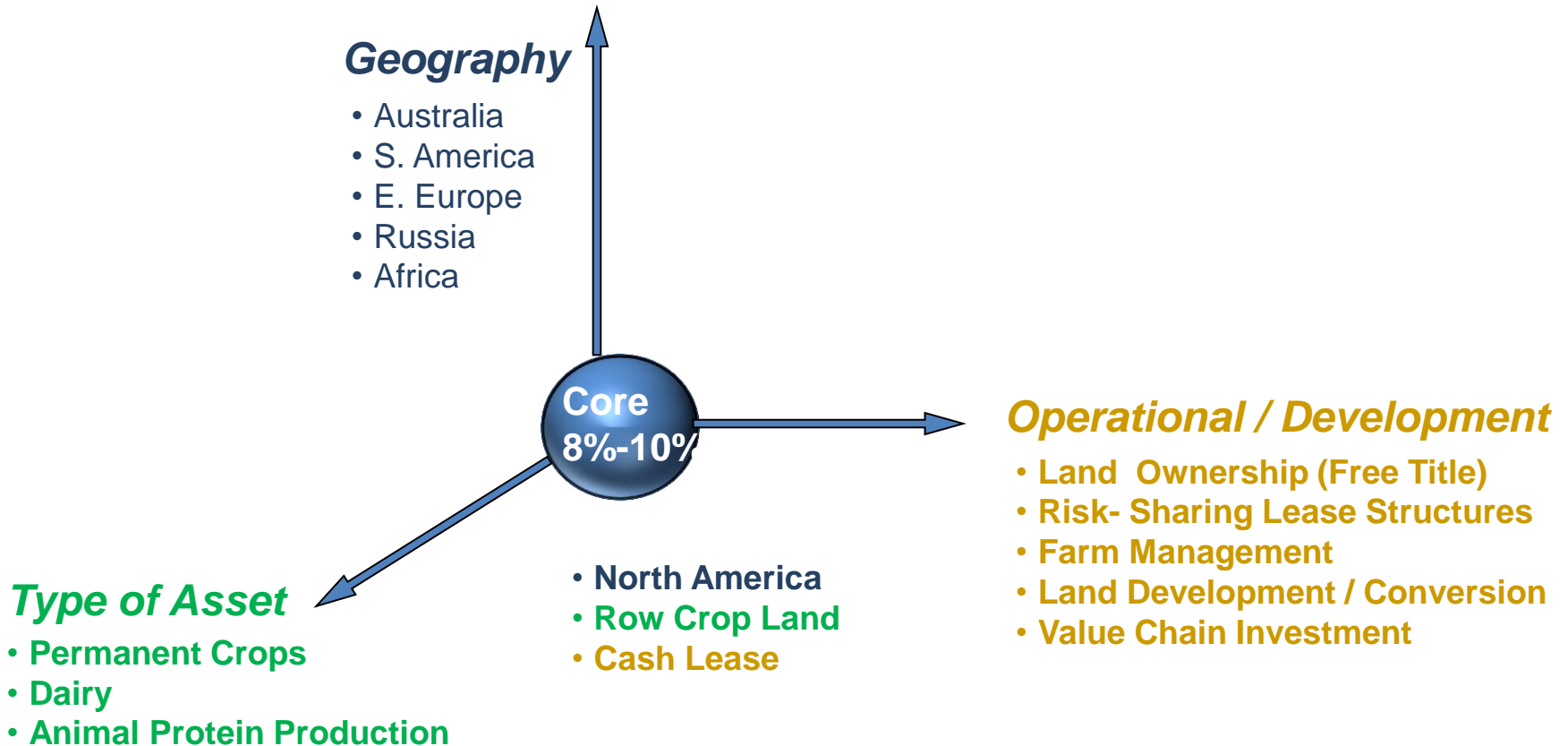
deals typically offer spreads of 3-6 percentage points above Libor for senior secured debt. In terms of credit risk, Mr Creighton

as land or machinery. Although debt financing can reach investment opportunities that may not make it to the equity mar-



Harvest in Brazil: soaring farmland prices have made it a less desirable investment

Example of sub-allocation framework for an ag portfolio



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