# Global Agribusiness Investment Outlook 2014

Strategic analysis of agribusiness investments – with focus on South America

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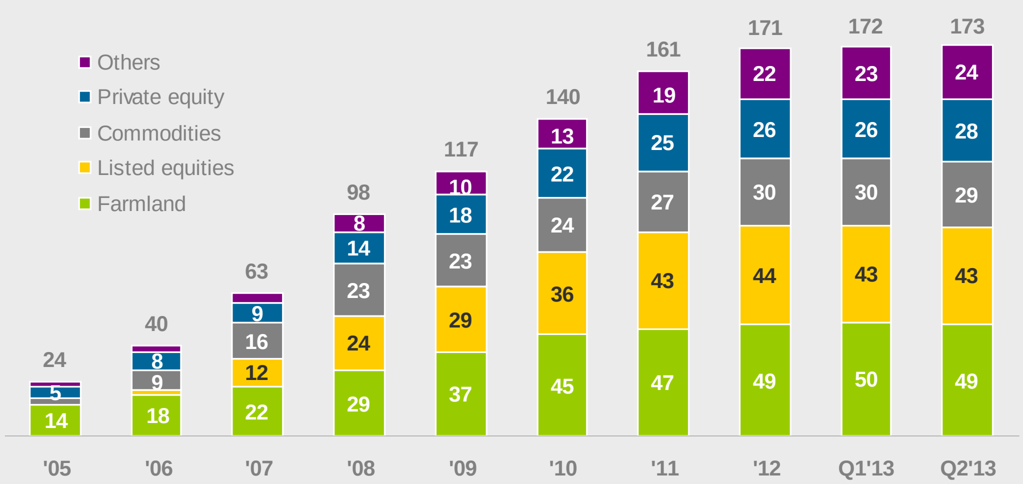
## About this report

For the fourth consecutive year, we publish the Global Agribusiness Investment Outlook to track investment funds active in the global agribusiness industry and to present the major trends and opportunities in the sector. The report contains insights and statistics based on:

- +170 investment funds and other investment vehicles focused exclusively on agribusiness, with combined assets under management in excess of USD 33 Billion.
- Comprehensive analysis of their investment strategies and portfolios.
- Global view, with focus on South America.

In this issue we look at the 2014 investment outlook, with insights for investors and asset managers. We also review the most compelling themes in the South American agribusiness sector and the specific opportunities by country.

**Chart 1: Number of agribusiness funds by asset type**



## 2013 Investment highlights

**A consolidation phase is emerging after solid gains and strong growth delivered in the past decade.**

**Our most recent assessment of the global agribusiness investment world points to a new phase in the young history of this asset class.** After a decade of strong fundamentals, with increasing capital inflows and healthy returns across most assets and geographies, we foresee a period of stabilization and consolidation in the value of agribusiness assets, which is for a good part reflecting a moderation in some of the main growth drivers of the last decade.

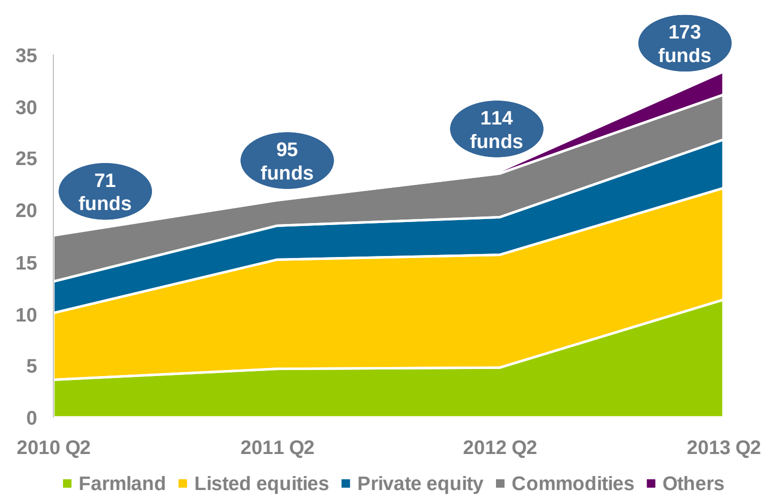
In this context, we expect a new phase in the global agribusiness asset class, one that will be increasingly connected to investing capital to improve productivity and efficiency along the value chain, with increasing focus on sustainability. Both factors will be critical in achieving the food requirements of more than 7 billion people, in terms of quantity, quality and sustainability. With a more moderate expectation for capital appreciation, we emphasize the importance of optimizing operational cash flow, notably in the farmland business. We will explore these topics more in depth along our report.

**Ever growing base of investments available to gain exposure to the agribusiness theme.**

The chart below shows the evolution of our funds' survey, in terms of number of funds and AuM. At present we count 173 funds that invest exclusively in agribusiness assets around the world. We classify these funds in seven groups according to their main investment targets:

- **Listed equities:** Investments in listed companies focused on the agribusiness industry. Many major international banks have dedicated funds that invest in companies that are active along the agribusiness value chain.
- **Agricultural commodities:** Investments in grains, oilseeds and other soft commodities through futures markets. Several index and hedge funds are typically present in this segment with different investment strategies.
- **Farmland:** Funds dedicated to acquire and/or lease farmland mainly for row crops, permanent crops and cattle production.
- **Forestry:** Investments in plantations of timber, teak and other softwood and hardwood plantations.
- **Debt:** Funds that provide trade finance to companies in the agribusiness sector, mainly to commodities processors and traders.
- **Private equity:** Broad scope of investment vehicles that invest along the agribusiness value chain.
- **Venture capital:** Early stage funds investing in emerging businesses along the agribusiness value chain, with concentration in biotechnology and clean technologies.

**Chart 2: AuM of agribusiness funds tracked by Valoral Advisors** ($ Billion)



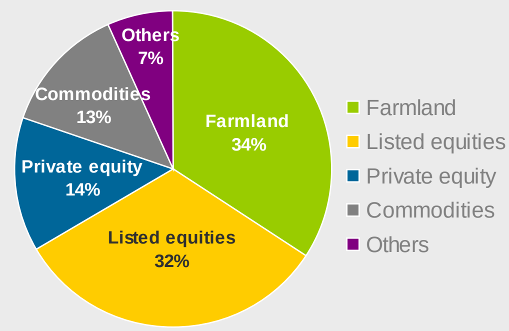
## A broad spectrum of opportunities…

For the first time in this report, farmland assets overpass listed equities in terms of total AuM, reflecting the continued strength of the farmland business. Both categories combined represent 66% of all AuM.

Next to them, we find private equity and commodities funds. Agribusiness private equity funds have been growing steadily as managers chase new sources of returns and lower correlation to traditional investments. In contrast, commodities had a tough few months with drops in prices and withdrawals from investors.

Among other investments, funds that offer trade finance solutions to commodities' processors and traders have been growing, becoming an alternative to traditional bank lending.

**Chart 3: AuM by investment target**



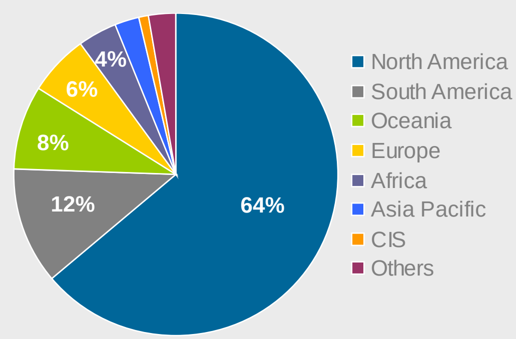

## North America remains the leader…

On a geographical basis, almost 40% of funds analyzed have an international investment scope, highlighting the global profile of the asset class.

If we look at the main target region by fund, North America is the leading destination with around two thirds of total AuM in our survey, driven by their large equity and commodities futures markets. But the region is also a major market for farmland investments, providing a solid institutional framework, established infrastructure and access to global markets for their production.

It is then no surprise that many pension funds from U.S. and Europe have been increasing their exposure to the U.S. agribusiness sector in recent years.

**Chart 4: AuM by main geographical destination**



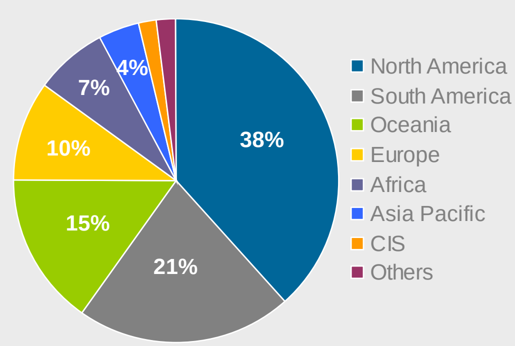

## But regional diversification is growing.

If we exclude commodities and listed equities, it is easier to observe the relative weight of other major geographical regions.

North America remains the leading target market for investors, but South America and Oceania gain importance. Both regions continue to attract the interest from both institutional and private investors.

Growing investment activity is also seen in Europe, CIS, Africa and Asia Pacific. The asset class is truly global and investors are recognizing the opportunities beyond their domestic borders.

**Chart 5: AuM by main geographical destination excl. equities & commodities**



## The geo-allocation matrix: Tracking global capital flows

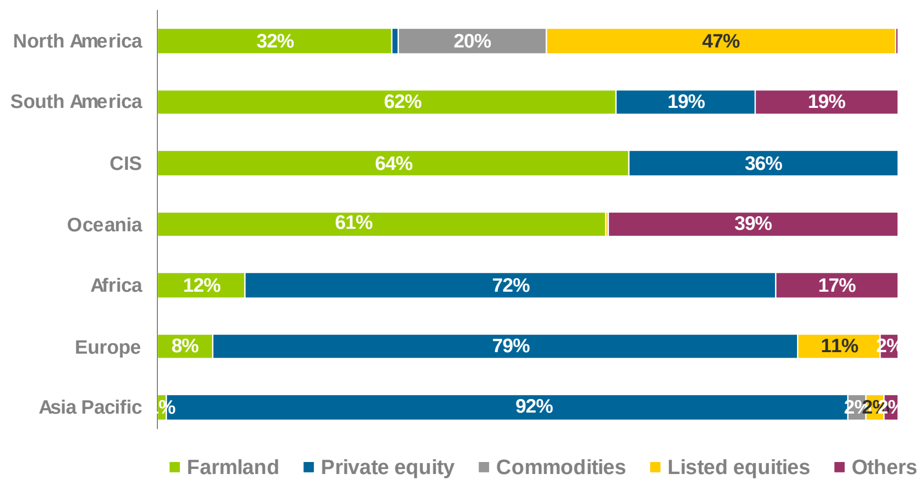
We look at the geographical allocation matrix to examine the patterns of asset allocation by region.

The chart below aggregates the asset allocation mix by geographical destination for all the funds analyzed. The U.S. retains the title of agribusiness superpower: The large equities and commodities markets and its vast and developed farmland market attract many agribusiness funds and investors.

We highlight a second group which includes South America, CIS and Oceania, all regions that are traditional agricultural exporters, with vast agricultural areas, high productivity and with historically low production costs. We call it the "land of opportunity" as most investments are directed towards farmland.

The third group comprises Africa, Europe and Asia Pacific. There is no doubt these are very different regions, with a high contrast in social conditions and investment environments. However they have one thing in common: agribusiness investments in these regions are mostly oriented towards the associated inputs, services, and infrastructure through private equity vehicles.

**Chart 6: Asset allocation by region**




**The concept of developed and emerging markets is also applicable to the agribusiness asset class.**

The agribusiness asset class, as other assets, is usually depicted in terms of developed, emerging and frontier markets. Besides the macroeconomic and institutional criteria, there are other factors like physical land frontier and agribusiness infrastructure that drive this segmentation. As anecdotal evidence, when asked about their agribusiness investment allocation, a European pension fund answered i) USA, ii) New Zealand and Australia and iii) Brazil. This allocation highlights the appeal of developed markets and Brazil's attractiveness as a leading emerging market destination.

Indeed, Australia and New Zealand continue to be a preferred destination for many investors when it comes to investing in developed farmland assets with low risk and relative stable returns.

**Investors continue to bet on emerging markets and particularly in South America as the world's global farming powerhouse.**

Whilst there are plenty of investment opportunities in developed markets, we also believe that many attractive ideas can be found in developing economies around the world. Many investors are progressively targeting these opportunities, although they may require higher risk appetite and longer investment horizons.

It is particularly evident the interest of investors and asset managers in South America. This growing interest is moving the investment frontier from Brazil into some of the smaller agricultural nations in the region. A major farmland fund in Brazil recently put their expansion priorities in 3 steps: 1) Brazil, 2) Colombia, Peru and Chile and 3) Paraguay.

From page 15 onwards, we look at the latest agribusiness investment developments in South America.

## Global news: A roundup of news affecting global agribusiness investments (Q2 & Q3 2013)

### North America

**Smithfield Foods** (NYSE:SFD), the world's largest pork processor and hog producer, completed its sale to **Shuanghui International Holdings Ltd.**, the largest shareholder of China's biggest meat processor. The combined businesses will create the leading global pork enterprise.

**Monsanto**, the leading seeds and crop protection company, is to acquire **The Climate Corporation** for a cash purchase price of approximately $930 million in a clear bet on data science. The Climate Corporation was founded in 2006 and has built an advanced technology platform combining hyper-local weather monitoring, agronomic data modeling, and high-resolution weather simulations to deliver a complete suite of full-season monitoring, analytics and risk-management products. The combined capabilities will bring more opportunities for Monsanto's Integrated Farming Systems platform.

**Black River Asset Management**, the investment arm of U.S. group Cargill, is targeting at least $400 million for its second agriculture-focused investment fund, that invests in agribusiness related private equity deals globally. Earlier this year, Black River raised $264.3m for its Black River Latin American Special Situation Opportunity Fund.

**Corn prices in the U.S. hovered around the lowest levels in three years** after the USDA reported higher inventories that those expected by traders, signaling the end of the era of critically low supplies that followed last year's drought. While corn inventories as of Sept' 1st are the lowest since Sept' 1996, the reported stocks of 823.6m bushels are still 21% higher than consensus estimates. And with an expected record U.S. corn harvest of 13.8bn bushels moving from the fields to the storage bin, the USDA recently predicted corn inventories would reach more than 1.8 bn bushels by Sept' 2014.

### Europe

**The European Parliament has called for the share of food crop-based biofuel in the EU's transport energy mix by 2020 to be capped at 6%. This cap is lower than the biofuels industries pushed for, and higher than anti-biofuel lobbies desired.** The Renewable Energy Directive requires renewable energy to account for at least 10% of transportation fuel by 2020 and biofuels are expected to play an important role in achieving this target. A specific 2.5% target for advanced biofuels, double-counting for biofuels made from cooking oil and tallow and a 7.5% limit on ethanol in gasoline blends were also approved.

**The European Commission has proposed imposing definitive anti-dumping duties on biodiesel imports from Argentina and Indonesia,** accusing producers in the two countries of selling their product at unfairly low prices, harming European producers. The proposed duties of 20% equal €216-245 per ton for Argentina and €121-178 per ton for Indonesia. A final EU decision required by the end of November. The EU absorbs 70% of Argentina's bio-diesel exports and the proposed duties are expected to bring them to zero.

**The Romanian Ministry of Agriculture and Rural Development** announced in early September that it would send to Parliament a draft bill that would limit individuals' ownership of farmland to 100 hectares. If passed, the law will come into force on January 1, 2014, when the local land market will be liberalized, allowing foreign individuals to purchase and own land in Romania. Those investors who want to purchase more than 100 ha of land can do so only through locally registered companies, regardless of their nationality. The draft proposes several other restrictions to those who want to sell and purchase farmland.

### CIS

The decision by **Uralkali** (LON:URALL) last July to quit the Belarusian Potash Company joint venture, which controlled more than 40% of world trade in the nutrient, drove a wave of volatility in the global potash market. While the longer-term outlook for potash is strong as farmers have to meet growing demand for agricultural products, this is a reminder of the volatility in the fertilizer market and how it can impact the equity markets (leading fertilizer companies fell around 20% after the news and are still today -15% since then).

In a new twist in the potash saga, in the last days of September it was announced that **China Investment Corporation** - China's sovereign wealth fund - became the second largest shareholder in Uralkali by converting Uralkali debt into shares worth $2bn. With a 12.5% stake in Uralkali, the biggest producer of the fertilizer, some investors believe that China will exert pressure to keep potash prices on the lower side to benefit their domestic agriculture sector.

## Global news: A roundup of news affecting global agribusiness investments (Q2 & Q3 2013)

### CIS (Cont.)

**PJSC State Food and Grain Corporation of Ukraine** and China's **Xinjiang Production & Construction Corp.** have signed a memorandum of cooperation in support of priority agricultural projects in Ukraine, which may bring more than $2.6 billion in Chinese investments into the Ukrainian agricultural sector. Xinjiang Corp. cultivates approximately 2 million hectares of land to grow wheat, corn, soybeans, cotton and other crops.

### Africa

**Phatisa**, a multi-award winning African private equity fund manager, announced the successful conclusion of its fundraising for the African Agriculture Fund (AAF), with US$ 243 million in total capital commitments. The AAF commenced operations in January 2011 and has committed in excess of US$ 84 million across Africa from Sierra Leone to Madagascar and six other countries in between.

The Board of Directors of the **African Development Bank** (AfDB) approved back in June a senior loan of USD 80 million in local currencies for **OLAM Africa Investment Program** (OAIP) to deepen the integration of OLAM Group's agricultural value chain by investments in processing of wheat and palm oil in Africa. The program includes five sub-projects in Cameroon, Ghana, Mozambique and Senegal. Ultimately, this program is expected to enhance the regional food supply chain and act as a catalyst to support job creation and improve sustainability of agribusiness sector.

Earlier this year, the multinational agribusiness **DuPont Pioneer** completed the acquisition of 80% of South African seed company **Pannar Seed Limited**, after a long process involving antitrust approvals in several countries. Dupont plans to expand the seed business in Africa to enable productivity improvements among sub-Saharan farmers.

**Syngenta,** another leader in the global seed and crop protection industry, recently announced plans to invest $500m in African agriculture over the next decade to develop sales of its seed and crop-protection products. The strategy would include genetic modified seeds to enable greater crop yields. Investments will go towards recruitment and training, development of distribution channel networks, logistics and local production facilities.

### India & Asia Pacific

**The Indian Congress recently passed the Indian National Food Security Bill 2013.** The law aims to give a rights based approach to food security, providing subsidised food grains to approximately two thirds of India's 1.2 billion people. Under the provisions of the bill, beneficiaries would be able to purchase 5 kilograms per eligible person per month of cereals at subsidized prices. With an annual cost of around US$20 billion, the plan is welcome but is also criticized as it is seen politically motivated and with a heavy burden to the fiscal accounts.

**The latest FAO annual agricultural outlook** forecasts that China will become more dependent on imported grains, oilseeds and meat during the next 10 years. This is no surprise as China is already a major importer of certain agricultural products. The country has been investing overseas, primarily in Africa, to secure supplies amid the growing domestic consumption. A growing trend is the internationalization of Chinese agribusiness companies that expand overseas to build international businesses along the agribusiness value chain. We expect this expansion to bring a wave of M&A activity with major players emerging to lead core agricultural sectors like grains and oilseeds, farm inputs, animal protein and food processing.

### Oceania

**Australian Agricultural Company Ltd**. (ASX:AAC) recently completed a capital raising worth about $300 million to diversify its business strategy away from primary production and strengthen its balance sheet. The company plans to focus away from primary production and towards vertical integration of its beef business, including downstream processing and direct access to export markets, particularly in Asia. Institutional investors from Australia and overseas subscribed part of the capital.

**The Indonesian government is outlining plans for state enterprises to invest in Australia's cattle industry**. The plans include the consideration to buy up to one million hectares of Australian farmland for cattle grazing, in a move to secure beef supplies for their growing domestic demand. The Australian government was seen welcoming foreign investments but any proposal by Indonesia to buy Australian farmland for cattle grazing would be expected to be under joint venture arrangements. The proposal has raised concerns and critics among local farm groups. Australia is a major exporter of live cattle to Indonesia.

## Beyond the cycle: A recent history of agribusiness investing

**The evolution of the agribusiness asset class in the last decade reflects the increasing interest in agriculture as a contributor to investors' portfolio performance and diversification.** The figure 1 summarizes the recent history of the asset class and highlights the major developments and events that influenced its performance.

The run-up to 2008 is a story of global economic growth with the disruptive appearance of China as a major commodity consumer. This period evidenced a rapid and sharp appreciation in most agribusiness assets.

**The market crash in '08 followed by the debt crisis and world recession prompted a shift to real assets.** In this context, the agribusiness asset class grew and delivered healthy returns during the last 5 years. As we transit 2013, it looks likely that the asset class is entering a transition phase, where asset values and returns stabilize and consolidate.

**Fig. 1: Recent timeline of the global agribusiness asset class**

| | '03 – '06 | '07 – '08 | '09 – '12 | '13 | '14 and beyond |
|---|---|---|---|---|---|
| **Macro context** | • Global growth on the back of low interest rates & strong emerging markets<br>• Growing food demand from emerging markets | • Global economy heating up<br>• Tight grain inventories propel food crisis<br>• Major financial crisis unravels | • Sharp economic contraction along the world<br>• Monetary easing by major central banks pushes rates to record low levels<br>• Recovery driven by U.S. and emerging markets | • Improving harvests around the globe<br>• BRIC economies decelerate<br>• Expectations of U.S. tapering and higher interest rates | |
| **Major events** | • '05: U.S. Energy Policy Act increases the National Renewable Fuel Standard program for ethanol | • Food crisis amid sharp food price increases in '07 & '08<br>• 'Jul 08: Oil prices reaches $145/Bbl<br>• Sep'08: Lehman Bros. collapses | • Chinese stimulus plans<br>• EU Crisis unfolds<br>• Aug'11: World population reaches 7 billion people<br>• '11: Arab spring<br>• '12: Drought in U.S. | • Mar'13: New Chinese government takes office with objective to shift economic growth drivers<br>• Increased geopolitical tension in Middle East | |
| **Market developments** | • Improving conditions in equity markets<br>• Beginning of commodities' super cycle | • High volatility in agricultural commodities and equities<br>• Strong appreciation followed by sharp drop in most markets | • Rapid appreciation of emerging market currencies<br>• Shift to real assets | • Downtrend in forward grain prices<br>• Equities continue to be favored by investors<br>• Upward trend in bond yields. | |
| **Performance** | • Healthy equity returns<br>• Early phase of farmland appreciation | • Most gains in the period erased with the financial crisis<br>• Farmland valuations remained solid | • Strong farmland appreciation<br>• Equity and commodity recovery | • Negative return on ag commodities<br>• Consolidation in farmland prices<br>• Positive tone in developed equities markets | |

Indeed, recent financial headlines have opened a live debate about the end of the commodities' super cycle as China's economic growth slows and the nation gradually shifts from an investment to a consumption-driven growth model. We would rather think not all commodity markets are equal: In the case of agricultural commodities we foresee absolute levels of global consumption to continue rising, providing fundamental support to the demand.

There is no doubt that the disruptive emergence of China as a power in the global agricultural market was a major contributor to the last decade's growth in the agricultural world. This has been an exceptional period in the global agricultural evolution, but the evolution continues.

## Beyond the cycle: The investment case for agribusiness

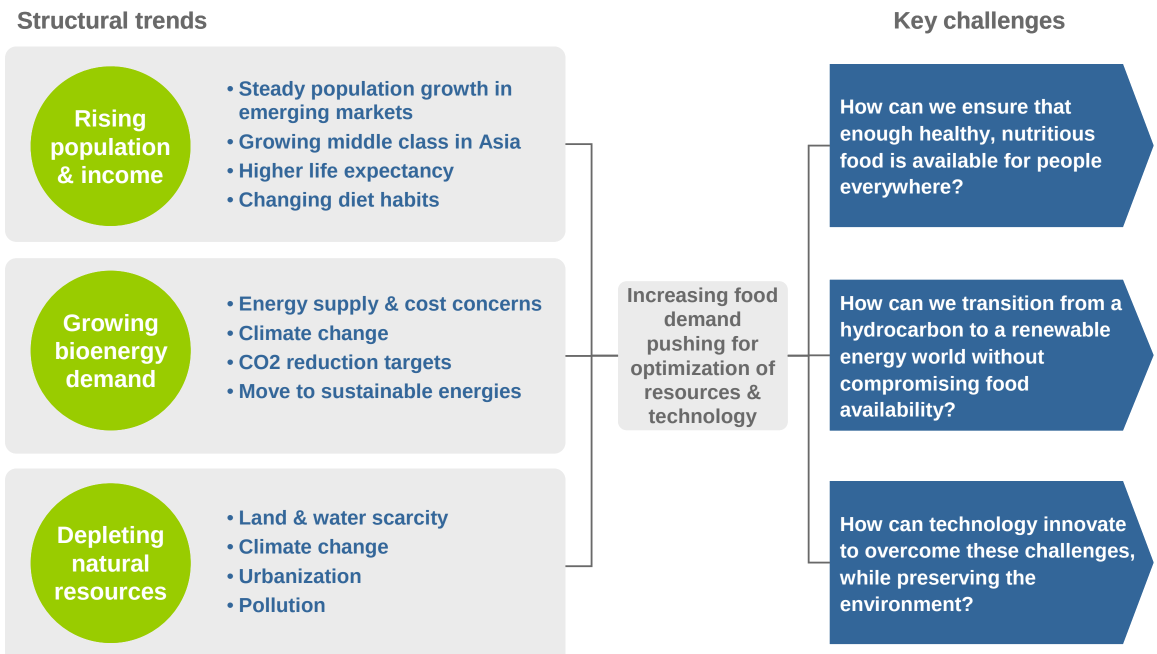
**In our view, the investment case for agribusiness continues to be driven by robust global demand on the one side and the instability and inadequacy of supply on the other.** As such, we believe the agribusiness asset class deserves a place in well diversified, long-term investment portfolios. Figure 2 shows the main trends and challenges in the industry.

The core driver behind most investment themes is the global population growth alongside rising incomes, particularly in emerging markets that has led to changes in how much and what the world eats.

Biofuels, derived directly from organic materials, have taken a central place in the global agriculture industry. As production of ethanol and biodiesel soared during the last decade, demand for corn, soybeans and sugar cane accompanied the trend.

At the same time food and biofuels' demand are increasing, supply is constrained by finite arable land, climate change, and by productivity declines resulting from a long-term shift towards the production of more resource intensive products like meats, dairy, and organic food.

**Fig. 2: Structural trends and key challenges in the global agribusiness industry**




**The structural trends are robust and cast a challenging supply & demand scenario. We believe technology innovation, land development and improved infrastructure will be the main drivers to close the gap:**

- **Technological advances in farming and down the value chain** will be the most critical contributor to support growing levels of food production. At the farm level we can think of farm machinery, high-performance seeds, better pest and disease-control techniques and the more efficient use of organic and non-organic fertilizers. Beyond the farm, areas such as food production & waste management will benefit from technological innovation.

- **Conversion of native land resources into arable land in a sustainable way** will remain a major factor in the food equation. Responsible investors and asset managers face the challenge to combine attractive long-term returns with investments that can help secure a stable food supply while protecting the natural environment well into the future.

- **An efficient hard and soft infrastructure will enable the full potential** of the technological innovation and the optimization of available resources. Still much infrastructure development is required in emerging markets.

From an investment point of view, these trends pose important questions: How will be value created and captured? What will be the major emerging risks? What will be the role of capital? Investors and asset managers alike will require a fresh perspective on the different types of assets and their capability to create and deliver value.

## The agribusiness asset class: an expanding universe

Investors willing to build or expand their exposure to the agribusiness asset class are faced with a broad range of assets with different breadth of styles. It is critical they understand the differences among assets and how they may perform in different market environments.

As an example, some investors that look at crop prices as a gauge on whether or not the overall agribusiness sector is attractive may actually miss out a big part of the investment universe. The figure 3 provides different criteria to evaluate the major agribusiness assets across the sector.

**Fig. 3: The agribusiness asset class spectrum**

| | Asset suitable for: | | | | | | |
|---|---|---|---|---|---|---|---|
| | Diversification to equities | Income-driven returns | Appreciation-driven returns | Inflation sensitivity | Relative liquidity | Capital preservation | Lower volatility returns |
| **Equity related** | | | | | | | |
| Listed equities | | ✓ | ✓ | ✓ | ✓ | | |
| Private equity | ✓ | | ✓ | ✓ | | | |
| Venture capital | ✓ | | ✓ | ✓ | | | |
| **Commodities** | | | | | | | |
| Commodities | ✓ | | ✓ | ✓ | ✓ | | |
| Commercial trade finance | ✓ | ✓ | | ✓ | | ✓ | ✓ |
| **Real estate** | | | | | | | |
| Developed farmland | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ |
| Undeveloped farmland | ✓ | | ✓ | ✓ | | | |
| Forestry | ✓ | ✓ | | ✓ | | ✓ | ✓ |
| **Infrastructure** | | | | | | | |
| Storage | ✓ | ✓ | | ✓ | | ✓ | ✓ |
| Ports | ✓ | ✓ | | ✓ | | ✓ | ✓ |
| Shipping | ✓ | ✓ | | ✓ | | ✓ | ✓ |
| **Renewable energies** | | | | | | | |
| Biofuels | ✓ | ✓ | | ✓ | | | |
| Biomass | ✓ | ✓ | | ✓ | | | |
| **Other assets** | | | | | | | |
| Integrated projects | ✓ | ✓ | | ✓ | | | |
| Other debt instruments | ✓ | ✓ | | ✓ | | ✓ | ✓ |

Among this criteria, there are two that particularly highlight the allure of the asset class for any diversified portfolio:

- **Agribusiness assets' correlations offer powerful diversification potential:** Most assets usually have negative or low correlations with traditional asset classes, providing effective diversification. Besides, asset values often correlate with inflation, providing a potential hedge.

- **Inelastic demand & supply often result in hybrid-like return characteristics:** Agribusiness assets, especially those that are considered to be "real assets" and are linked to the physical supply & demand dynamics of agricultural products, can provide stable, bond-like current income and equity-like upside potential for capital appreciation.

**These two attributes have been instrumental in attracting interest from both private and institutional investors in recent years. In other words, investors recognize that the agribusiness asset class is well placed to provide "purchase power" protection in the next 5 to 10 years, if a scenario of rising inflation across developed and emerging markets erodes the value of traditional assets. We believe this will be a decisive factor to keep attracting new investments, on top of the fundamental supply & demand trends.**

There certainly are other attributes which are equally attractive to combine in a well diversified portfolio. In the next pages we will zoom into the recent performance of agribusiness equities, agricultural commodities and farmland and we will explore the investment outlook for 2014.

## Listed equities: Multiple opportunities across the agribusiness spectrum

Investing in equity funds or individual stocks of companies active in the agribusiness industry and that are traded in public markets is an attractive and cost-effective way to gain liquid exposure to the sector. At present we count 36 funds and 7 ETFs with total AuM of around $10.7 Billion. Investors should be aware that although there are very large companies in which to invest, indeed so little of the global agribusiness value chain is publicly listed.

The figure 4 represents a sector map and illustrates how equity funds allocate capital among different sectors.

Based on a group of equity funds tracked by Valoral Advisors, we took the top 10 holdings by fund and consolidated the global top 20 according to their net asset values. The size of each box represents the relative weight of each sector in the total sample.

The fertilizer sector shows the highest weight, as asset managers look at fertilizer companies (i.e. with interest mainly in phosphate, sulfur and ammonia) to benefit from the increasing demand for fertilizers to protect soils and enable higher yields and to hedge against higher oil and food costs.

On the other side, we find no farmland equities in the top 20 holdings. This is no surprise as there only few companies listed, typically operating in emerging markets and with limited size.

**Fig. 4: Equity sector map**


Based on a sample of 12 funds, the top 20 holdings represent 42% of the total AuM of the selected funds. We track this theoretical top-20 portfolio to follow its performance, taking an equal weight among the 20 holdings. The return in 2013 to 30th September was 3.0%. The relative low performance is mainly a result of the high volatility in fertilizer stocks following the decision of Russia's Uralkali to drop out of the Belarusian Potash Company, opening a price war for the key crop nutrient. In contrast, the S&P and the MSCI world index delivered 19.9% and 15.3% respectively.

**Table 1: Theoretical equity portfolio based on selected agribusiness equity funds** (As of September 30th 2013)

| Sector / Company | Market / Ticker | Currency | Market cap, Billions | P/E | Dividend yield | Value, $ | Variation YTD | 12 months high | 12 months low |
|---|---|---|---|---|---|---|---|---|---|
| **Fertilizers** | | | | | | | | | |
| Potash Corporation | NYSE:POT | USD | 27,04 | 12,10 | 4,48% | 31,28 | -23,1% | 44,3 | 28,55 |
| Mosaic | NYSE:MOS | USD | 18,32 | 9,73 | 2,32% | 43,02 | -24,0% | 39,75 | 64,65 |
| CF Industries Holdings | NYSE:CF | USD | 12,08 | 7,37 | 0,76% | 210,83 | 3,8% | 169,33 | 233,43 |
| Agrium Inc. | NYSE:AGU | USD | 12,41 | 9,22 | 3,57% | 84,03 | -15,9% | 77,19 | 115,31 |
| Yara International | NOK:YARO | NOK | 68,76 | 7,80 | 5,24% | 247,90 | -9,3% | 237,4 | 300,9 |
| Uralkali OAO | URALL.PK | USD | 17,70 | 57,72 | - | 28,00 | -26,7% | 42,8 | 21 |
| **Seeds & crop protection** | | | | | | | | | |
| Monsanto | NYSE:MON | USD | 55,76 | 22,68 | 1,65% | 104,37 | 10,3% | 82,7 | 109,33 |
| Syngenta AG (ADR) | NYSE:SYT | USD | 37,29 | 21,10 | 2,49% | 81,30 | 0,6% | 73,29 | 87,73 |
| **Farm machinery & equipment** | | | | | | | | | |
| Deere & Co. | NYSE:DE | USD | 31,16 | 9,34 | 2,51% | 81,39 | -5,8% | 79,5 | 95,6 |
| CNH GLOBAL N.V.* | NYSE:CNH | USD | * | * | * | 49,96 | 24,0% | * | * |
| Lindsay Manufacturing | NYSE:LNN | USD | 1,05 | 15,28 | 0,64% | 81,62 | 1,9% | 66,98 | 94,9 |
| **Food processing** | | | | | | | | | |
| Bunge Ltd. | NYSE:BG | USD | 11,18 | 40,31 | 1,58% | 75,91 | 4,4% | 65,74 | 80,99 |
| Archer Daniels Midland | NYSE:ADM | USD | 24,28 | 20,59 | 2,06% | 36,84 | 34,5% | 24,38 | 38,81 |
| Wilmar International | SGX:F34 | SGD | 20,41 | 11,51 | 1,72% | 3,17 | -5,1% | 3,02 | 2,92 |
| Associated British Foods | LON:ABF | GBX | 14,85 | 24,20 | 1,56% | 1876,00 | 19,9% | 1289 | 2044 |
| **Packaged food & ingredients** | | | | | | | | | |
| Tyson Foods, Inc. | NYSE:TSN | USD | 9,96 | 13,43 | 0,71% | 28,28 | 45,8% | 15,93 | 32,4 |
| BRF SA (ADR) | NYSE:BRFS | USD | 21,35 | 46,77 | 1,53% | 24,53 | 16,2% | 16,83 | 26,35 |
| SYSCO Corporation | NYSE:SYY | USD | 18,73 | 19,01 | 3,52% | 31,83 | 0,5% | 29,75 | 36,05 |
| McCormick & Company | NYSE:MKC | USD | 8,54 | 21,28 | 2,10% | 64,70 | 1,8% | 60,75 | 75,26 |
| Nestle SA | VTX:NESN | CHF | 201,69 | 19,02 | 3,24% | 63,25 | 6,1% | 58,3 | 70 |
| **Top 20 equally-weighted portfolio** | | | | | | | 3,0% | | |
| **S&P 500** | | | | | | | 19,9% | | |
| **MSCI world index** | | | | | | | 15,3% | | |

## Agricultural commodities: A wild ride for investors

**2013 has been a good year so far for most investments, except commodities.** Agricultural commodities are down from their 2012 drought-driven highs and had a tough few months. Weak global growth, worries over a potentially sharp slowdown in China and signs that the U.S. Federal Reserve might soon start scaling back its quantitative easing program have combined to send prices of agricultural commodities lower in 2013.

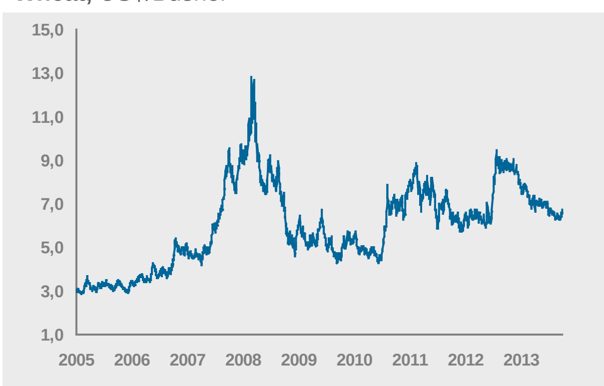
**This weak performance was echoed in the investment banking community:** back in June Morgan Stanley announced that it would close the agriculture segment of its commodities business. The move was just another sign of hedge funds and banks shifting away from soft commodities, and place greater emphasis on the energy markets. The drop in investors' interest in commodities is seen as driving this shift. The chart 7 shows the price evolution of selected agricultural commodities in the last years.

**Chart 7: Agricultural commodities' prices – CBOT Futures continued contract (first month)**

**Corn,** US$/Bushel


**Soybeans,** US$/Bushel


**Wheat,** US$/Bushel




**Rice,** US$ per 100 pounds


**In this context, investors are right to ask why agricultural commodities are good for their portfolios.** It is often suggested that agriculture commodities offer several benefits to a well-constructed long-term portfolio. Among them, it is said that they have historically generated equity-like returns and exhibit low, typically negative, correlations with bonds and equities. Moreover, they are liquid investments and can potentially provide inflation hedging benefits because they are positively correlated with inflation.

**Investors who want a cost-effective and convenient way to invest in agricultural commodities usually choose funds or ETFs,** which are typically rules-based indexes, composed of futures contracts on some of the most liquid and traded agricultural commodities. For those who think that buy-and-hold strategies generally won't work, there are still ways to take advantage of swings in commodities prices.

**Hedge strategies can provide an alternative way to capture value from the agricultural commodities' sector,** moving away from the traditional ETFs and indexes. The depth of the agricultural markets, with substitute products, counter seasonal harvests, and multiple production and consumption centers mean that different trading strategies can be developed to capture alpha. A growing number of specialist managers are developing relative value strategies, which involve trading futures spreads or futures and options spreads, in one ore more markets.

Above all, investors should be aware that commodity trading is very volatile and that there are many risks including but not limited to potential losses deriving from the use of leverage and from liquidity restrictions in some markets.

**Farmland:** Appreciation slowdown to continue in the short term, but compelling fundamental factors support long term outlook for steady income and potential capital appreciation, with diversification benefits.

**When we look at the potential components of a diversified agribusiness portfolio, it becomes evident that farmland assets can provide hybrid-like returns, combining the stability of real estate with the potential for growing farm income**. Indeed, farmland is pursued by investors that look for real assets with relatively low volatility and not exposed to market speculation driving commodity prices. The chart 8 shows the annual performance of U.S. farmland and agricultural commodities based on two well known benchmarks.

**Farmland prices in the U.S. and in the other major agricultural countries rose sharply in the last decade driven by a robust growth in global food demand which triggered a rush by global investors to secure land.** The chart 9 shows the evolution of farmland prices in the U.S., probably the largest and more developed farmland market in the world.

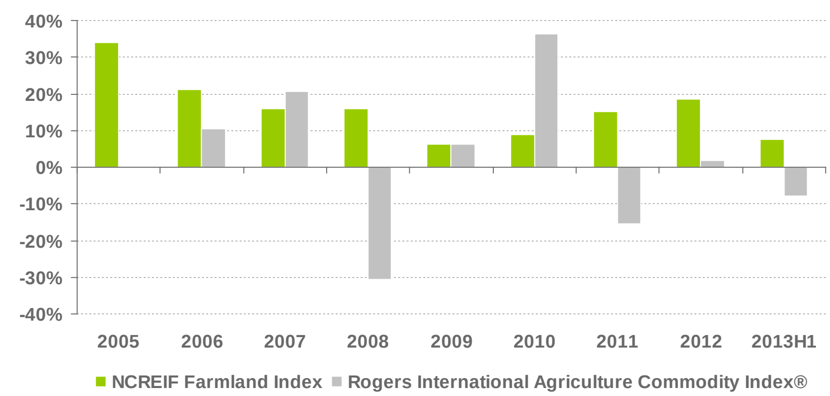
**After many years of consistent value appreciation in most markets, the current outlook for lower farm commodity prices and expected declines in farm income should slow growth in farmland prices**. And with interest rates ultimately to rise, and farm income growth to be lower than it has been in the past years, we may even see drops in some areas.

While this is a general trend that we expect to continue in the short term, investors should also be aware that in each country and even within the countries the farmland markets have their own dynamics. In fact, there continues to be strong interest from institutional investors as well as local farmers for high quality property that comes up for sale.

Moreover, farmland prices do not need to appreciate for this to be a good investment. High efficient farms along the world can generate attractive cash returns at current crop prices. Equally, land conversion can also deliver attractive returns. In the next page we explore the different business models that investors can pursue when evaluating farmland investments.

**Farmland assets tend to show less volatility than that of the underlying agricultural commodities produced at the farms.**

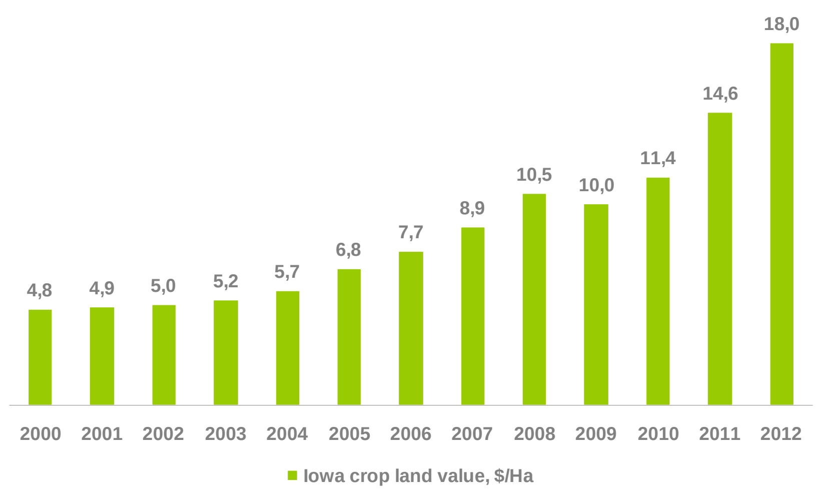
**Chart 8: Comparing returns: Private farmland vs. agricultural commodities**




**Agricultural farmland values soared in the last decade amid strong growth in food demand from emerging markets.**

**The global macro-economic context characterized by abundant liquidity and increasing agri-cultural commodity prices propelled a shift to real asset investing, including farmland.**

**Chart 9: Farmland values in the U.S.** (US$/Hectare, nominal values)



## **Farmland:** Structuring the business to achieve the investment objectives

The farming business is a capital intensive one, which is why it has attracted institutional investors such as pension funds and sovereign investment funds as they look to deploy large amounts of capital into assets that can generate stable and growing cash flows with appreciation potential.

But this has not precluded other type of investors from investing in farmland assets. The sector has seen new business models emerge in which investors, farm operators and farmers can allocate risks and returns between them. The figure 5 synthesizes some of the most common business models in farmland investing, with focus on the alternative ownership and operating structures:

**Fig. 5: Spectrum of business models for farmland investing**

| | | Traditional model | "Buy & lease" | Agricultural investment pool | Integrated model |
|---|---|---|---|---|---|
| Expanded farmland business | Land "Land Co." | • Owns the land | • Owns a diversified portfolio of farms | • Leases a diversified portfolio of land from farmers | • Combines acquisitions with co-investments and lease schemes according to the target production & region |
| Expanded farmland business | Farming "Op Co." | • Operates the farm | • Leases them back to farmers, avoiding operational risks and stabilizing cash flows | • Operates the pool of farms looking for efficiencies through scale & diversification | • Operates or works with local operators, sharing risks |
| Expanded farmland business | Logistics "Log Co." | • Typically contracts logistic services | • Not involved in logistics | • More focus on logistics as a driver for improved pricing and reduced logistic costs | • Logistic activities are an integral part of the business model |
| Expanded farmland business | Secondary production & processing "Process Co." | • Not involved in processing | • Not involved in processing | • Typically not involved | • Invests up in the value chain if improves the risk-adjusted returns |
| Relative capital intensity | | • High – for land<br>• Finance can be used for land acquisition & working capital | • High – for land<br>• Finance can be used for land acquisition | • Medium – mainly for working capital - depends whether it owns ag machinery & if requires land dev. | • High – but ultimately depends on the level of integration and on the land development requirements. |
| Return drivers | | • Operational income and appreciation | • Lease income and appreciation | • Operational income | • Value created through the value chain, usually shared with operating partners & co-investors |
| Main risk sources | | • Weather<br>• Operations<br>• Markets<br>• Geopolitical | • Weather and markets (if lease is linked to farm's performance)<br>• Geopolitical | • Weather<br>• Operations<br>• Markets (usually more active in price hedging) | • Weather, markets, operations and geopolitical risks are shared with operating partners & co-investors |

If we look at the expanded farmland business, to take account of logistics and processing activities that can add value to the farm's products, we can breakdown the business into land, operations, logistics and further down into secondary production and processing. Each of these businesses typically has a different profile in terms of capital requirements, return drivers and risks. By combining them in ways that fit investors' preferences for risk and return, we can arrive to different business models.

Indeed there are multiple business models besides the four described above. We can think of other alternative models depending on i) the target production (row crops, permanent crops, cattle raising, dairy, etc.), ii) the type of market (developed vs. emerging markets) and iii) the need for land development (developed vs. undeveloped farms).

**This highlights a major takeaway for investors and asset managers: Innovation in the agribusiness sector will stem not only from new technologies but also from new business models.**

## 2014 Agribusiness investment outlook

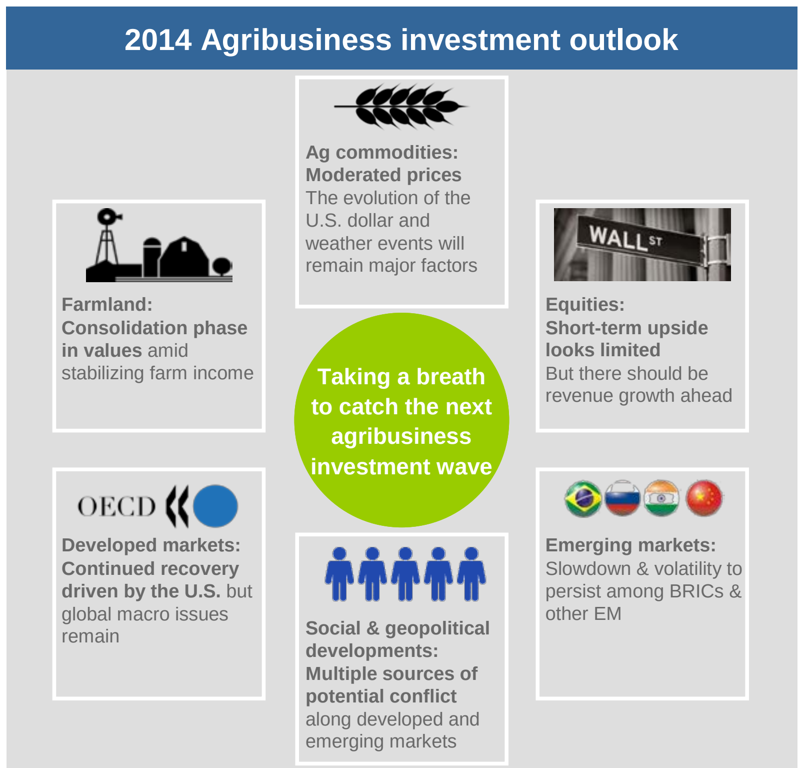
**We expect to transit a consolidation phase in the agribusiness asset class that can last for the next 6-18 months.**

At this time of the year in 2012, we mentioned fundamental drivers remained intact and we were optimistic for 2013, albeit with the latent risk that slower growth in China and other emerging markets could become a setback for agribusiness investments.

With this view, we expected a continued positive trend in equities, increased focus of farmland funds on optimization rather than scale build-up and very good prospects for the private equity arena were we saw opportunities along the value chain. Our outlook proved very adequate to the developments seen so far.

**Going forward, we expect 2014 will bring a phase of re-accommodation in the agribusiness asset class, in which asset values will adjust to a more moderate growth in the world with several complex social and macroeconomic issues on the table, but with a solid fundamental background that will be the pillar for a new investment wave once these issues give way to a broader and robust growth. This also should be the basis for investment horizons to start lengthening again.**

**Fig. 6: Key factors that will affect global agribusiness investments in 2014**




**A unique opportunity to position ahead of the next investment wave.**

Recent economic indicators from developed economies point to an improvement in global growth prospects, as investors perceive that political uncertainty fades and as more traditional recovery drivers emerge. The U.S. continues recovering and the Euro zone's economy is stabilizing after a prolonged recession.

However, we remain concerned on the macroeconomic front. The economic slowdown in emerging economies continues and next year major central banks around the globe will continue shifting monetary policies. Emerging economies may remain prone to capital outflows and waves of currency depreciation. All this in a context where the EU financial system has not yet been fully fixed. These elements can combine in different scenarios that have the potential to negatively impact economic growth and increase volatility among financial markets.

We remain neutral in our weight of these two scenarios with a bias to a positive outcome, and we are ready to take selective positions to catch the next investment wave in the global agribusiness sector.

## What does this mean for investors?

### Design a plan for the next 6-18 months to profit early in time from the next investment wave

- **Exposure:** In line with our outlook, we believe that those investors who are willing to build or expand their exposure to the global agribusiness asset class will have a window of opportunity in the next 6 to 18 months to design and implement strategies taking advantage of more attractive entry points. But this requires a good understanding of the opportunities and risks (across assets and geographies).

- **Listed equities:** The recent volatility in several emerging markets and the depreciation of their currencies could offer some attractive valuations for selected equities (Including farming companies) over the next 12 months. However future earnings have to be assessed under the prospects of potentially lower farm income across major production countries.

- **Farmland:** Specific opportunities will arise in the next 12-24 months in places where a sector of the investment community is willing to exit to cash in unrealized gains or to rebalance their portfolios.

- **Agricultural commodities:** Expectations are that the Northern hemisphere crops will refill grain and oilseeds stocks, reflected in a downward forward price curve for these crops. This new lower price level could be a good entry point for a long term position in some key agricultural commodities, considering that the absolute levels of demand will continue to grow and volatile weather can be expected to bring production shocks again in the coming seasons. The prospect of a strong U.S. dollar is a negative factor to consider. Hedge strategies with absolute target returns can be an attractive option.

- **Private equity:** There could be attractive valuations in selected emerging markets in the next 6 to 18 months that could offer opportunities to enter into solid businesses with good growth prospects (including services and inputs, processing and infrastructure assets). If we look at a 5-year horizon, we see revenue growth and regional consolidation as major value drivers.

- **Risk management:** Agriculture investments can have high volatility, with high levels of risk, some of which are out of the control of farmers and investors, such as poor weather and potential geopolitical problems, with a significant proportion of activity taking place in developing nations. In page 16 we review some of the main risks to look at in 2014.

## What does this mean for asset managers?

### Build competences and develop business plans for the next 5-10 years

As the asset class continues to grow, investors have a broader pool of asset managers to choose from. It is vital to differentiate by developing competences and by looking beyond the cycle to identify the opportunities that will bear most fruits. For asset managers investing in agribusiness real assets, we suggest focusing in the following key points:

- **Investment team & local networks:**
  - Building strong teams at the investment and operational level, developing and acquiring the skills needed to manage increasingly complex projects (from financial and operational point of view).
  - Building local networks to strengthen business plans, leveraging on local knowledge, relationships and access to labor, contractors and other services.

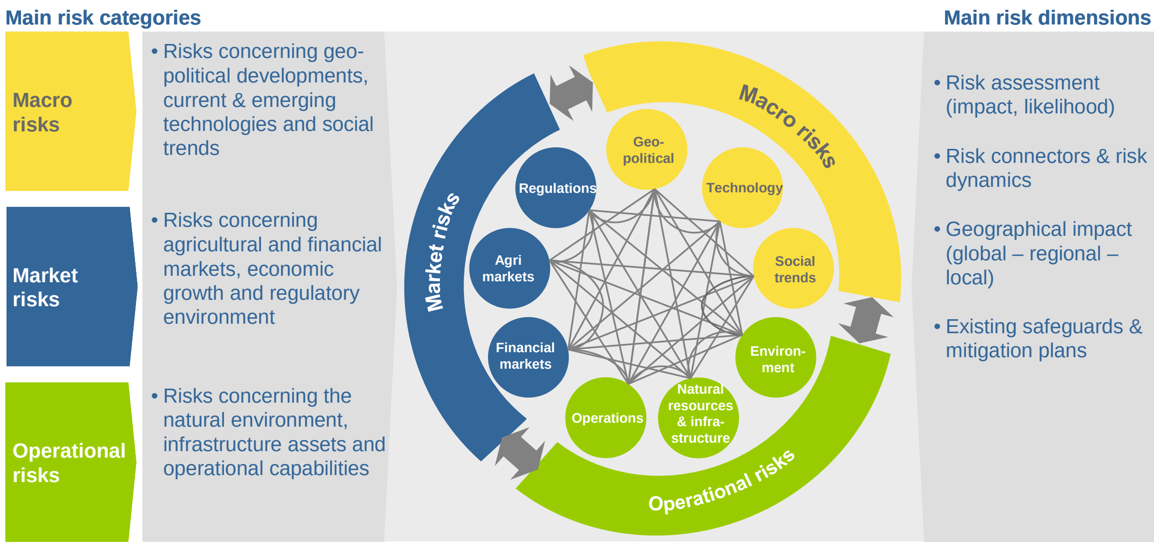
- **Investment opportunities:**
  - Targeting niche opportunities along the value chain that become available in the market as some investors decide to monetize their assets.
  - Developing innovative approaches in investment structures and business models to unlock assets' value and to facilitate interest and funding from investors.
  - In summary: Being flexible in the approach and opportunistic in the selection of assets.

- **Fund raising:**
  - Working on a micro-segmentation to identify and target investors that have highest fit with the investment strategy of the fund.
  - Validating the investment strategy and operational business plans early in the process to provide further assurance to investors and partners.

## Top 10 global risks to watch in 2014

At Valoral Advisors we have developed an agribusiness risk tool to analyze emerging risks that investors should look at when evaluating investments in this sector. We identify 3 main risk categories, each with 3 sub-categories. Together they capture what we believe are the most relevant risk sources for agribusiness investments. Figure 7 shows these risk categories.

**Fig. 7: Main risk categories in agribusiness investing**




Below we list the top 10 global risks for global agribusiness investments in 2014. The ranking does not intend to provide a quantitative risk assessment or an exhaustive screening but rather to list the major risks faced in the current context:

- **Growth in emerging markets:** As a large share of global consumption growth comes from emerging markets, particularly China, a continued slowdown in these markets can have large impact in the global food markets, by ways of lower demand, reduced purchasing power and change in diet habits.
- **Asset price volatility:** Asset prices, particularly in emerging markets, will remain sensitive to movements in interest rates in the U.S. and other major economies. Exchange-rate fluctuations and potential capital regulations in emerging markets can also affect the value of investments.
- **Volatile weather:** Extreme weather events, including droughts, floods and extreme temperatures remain one of the top risks for the agribusiness industry and it could well affect harvests around the globe next year.
- **Food safety:** A disease spread or massive intoxication from contaminated food can affect consumers' health in serious ways, with adverse consequences also to food producers, traders and retailers.
- **Geopolitical:** A rise in social tensions and political intervention along the world may exert a strong influence on the food and agribusiness sector in 2014 resulting in uncertainty in agricultural markets. Besides, continued flaws in the legal and physical infrastructure in some major producing regions will remain a source of risk.
- **Volatility in commodity prices:** 2014 market conditions can become more volatile, with broad price oscillations, affecting raw material purchasers and adding pressure to the food value chain.
- **Inflation:** A surge in the cost of farming inputs, including oil and its derivatives, can propel conflicts and raise food security concerns along food importing nations.
- **Regulations on trade:** Global food markets can be affected by trade restrictions from producing and/or importing countries, and also by legislation on GMO and agricultural practices.
- **Bioenergy challenges:** Ethanol and biodiesel, among other biofuels, will remain a source of political fight as food and energy become both scarcer and more expensive.
- **Water management and land degradation:** Mismanagement of available water sources and agricultural land can have negative impact in the short and long term.

A broad range of risks will play on the global agribusiness industry in 2014, posing challenges to those investors exposed to the sector. In this environment, a strong risk management strategy becomes a critical success factor.

## An update from the South American agribusiness sector

(Q2 & Q3 2013)

### Companies

**El Tejar**, one of the largest farming companies in South America, has recently relocated its headquarters from Buenos Aires to São Paulo. The move to Brazil is part of the company's plan to reshape its strategy from leasing to owning farmland, in an effort considered to be the way to lower volatility and capture appreciation potential. The company also exited its farming operations in Uruguay.

**BrasilAgro,** a major Brazilian farmland company, reported back in June that the value of its portfolio had risen by 23% to R$1.1bn in the year to the end of June 2013, reflecting a strong appreciation in the farmland market and also the appreciation gains from converting cerrado land into arable one. **SLC Agricola**, another major farmland company in Brazil, also reported that its land portfolio was appraised at R$2.68 billion as of end of June 2013, 18% more than a year ago, considering the adjustments related to appraised area variation.

**CHS Inc.,** a leading global agribusiness company owned by farmers, ranchers and cooperatives across the U.S. recently opened an office in Montevideo, Uruguay, making it the fourth South American nation in which CHS has operations. The expansion into Uruguay is to further build the grain origination and fertilizer distribution capabilities.

### Projects & deals

**Peru is moving ahead with the third phase of the Chavimochic hydropower and irrigation project** in the region of La Libertad. The project award is expected to be announced by end of 2013. The work on the third phase is valued at US$ 715 Million, it will incorporate close to 63,000 hectares into production and it is expected to contribute US$ 1.5 billion annually to the country's GDP. A loan by the Andean Development Corporation (CAF) of $ 303 million for the implementation of the third phase was recently approved, securing the capital requirements for the project.

### Regulations

According to a recent survey announced by the **Agriculture Ministry of Argentina**, foreigners own 6% of rural land in Argentina, which equals 15.8 million hectares. American, Spanish and Italian investors are the top three foreign nationalities that own land in the country. The study is a first step in the implementation of a law on rural land passed in 2011 to place a 15% limit on foreign ownership of rural land in Argentina.

**The Congress from Paraguay** has recently approved a controversial 10% levy on all exports of soybeans, sunflower, corn and wheat. Farmers are lobbying against the law, which still has to be ratified by president Cartes.

### Production & trade

**The world is counting on a record soybean harvest from South America** in 2014 which can help to lift global inventories. Brazil is expected to produce a record harvest, as the recent depreciation of the Brazilian Real results in higher values for exported soybeans, even if the depreciation will also lift costs of inputs such as fertilizers and insecticides, which are largely imported. As the South American soybean planting season goes underway, the weather so far has brought below-normal rains in much of Argentina and Brazil, where parts of the key state of Mato Grosso have been very dry.

**Uruguay exported a total of $1.8 billion worth of meat in the Jul'12-Jun'13 period**, according to the National Meat Institute (INAC). Beef exports totaled 390,000 tons at a value of $1.5 billion and the main destinations were China (25%), NAFTA (20%) and third place Russia (15%). China emerged in just one year as the main destination market for Uruguay's beef. Many see a good potential for increased sales to China as Uruguay has significant competitive advantages and the country is also implementing an aggressive promotional strategy.

**An unprecedented frost has caused large damage in Chile's fruit plantations**, with the extent of the damage not yet fully assessed. Kiwifruit, apricots, plums, peaches, nectarines, cherries and nuts are expected to be among those crops hardest-hit, according to the Santiago-based Chilean Fresh Fruit Exporters Association (ASOEX). In reference to the frost occurred during the second half of September, the association added that "while occasional frosts are not uncommon, such a prolonged period of frost during such a concentrated time period is unprecedented in recent memory". Export volumes bound for the North American market may be compromised.

## Thematic investing: A possible application to the agribusiness sector

Thematic investing is an alternative investment approach in which instead of looking at asset classes and macro asset allocation criteria, we identify global economic trends, driven by politics, culture, demographics or a combination of all three and screen for the emerging investment themes and actionable investment ideas that will benefit from these trends.

We believe this approach can be an effective way to gain exposure to the agribusiness asset class and it can fit well into a diversified portfolio by bringing new sources of return and by diversifying portfolio risks. Figure 8 illustrates the difference between traditional allocation and thematic investing.

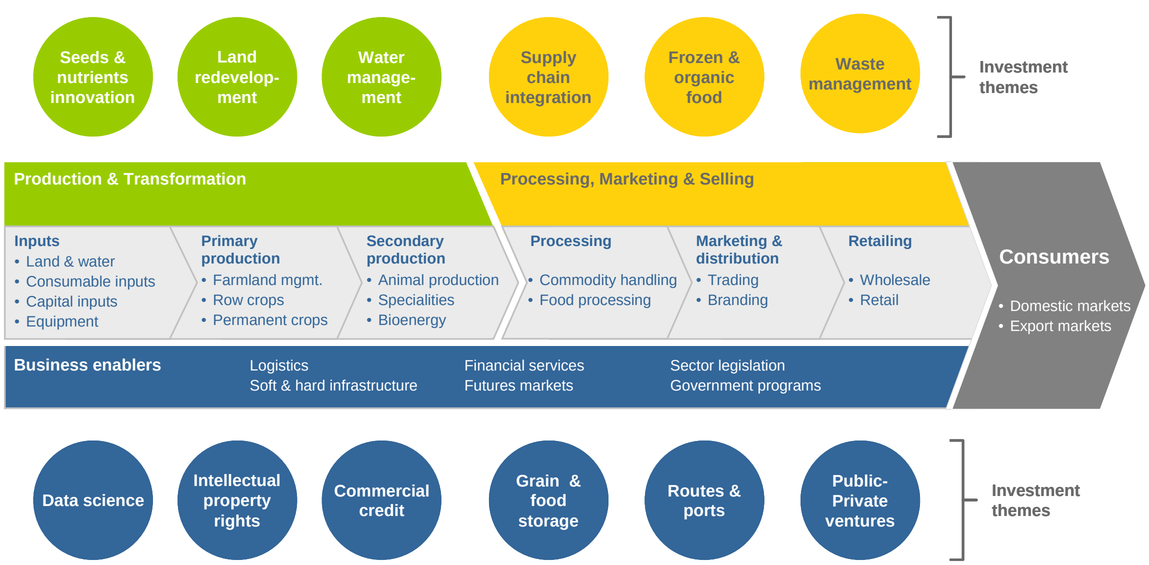
**Fig. 8: Macro asset allocation vs. thematic investing**


In the agribusiness arena, we think the core drivers behind most themes are population growth, rising wealth in the developing world, natural resource scarcity, energy security and climate change.

Figure 9 depicts a basic view of the agribusiness value chain and some of the emerging investment themes pursued by investment managers.

This thematic approach offers exposure to multiple sectors spanning the entire food value chain. The objective is to identify emerging trends in the global agribusiness industry and invest in assets poised to benefit as a result. The reader can note that at this point we are not defining which type of asset, the investment horizon nor the liquidity aspects of the investment opportunities.

**Fig. 9: The agribusiness value chain and selected investment themes**



## Thematic investing: Opportunities in South America

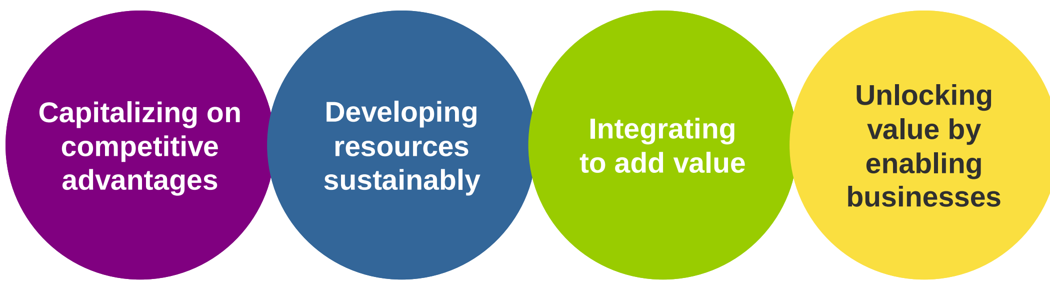
**The region's rich agricultural resources have allowed it to develop a world-class agricultural industry with a long history of local and foreign investment.** Today the region has an enviable position in terms of scale, quality, diversity and competitiveness of its agricultural sector that enables it to feed more of the world in the next decades, driving increases in agricultural exports.

Yet despite these advantages, South America faces significant challenges if it is to maintain its leadership in the global agricultural industry and compete on a world stage. The main challenges we foresee are:

- Availability and cost of capital
- Infrastructure limitations along the value chain with diverse realities by country and region
- Long term strategies for sustainable agricultural practices and technology innovation
- Political and macroeconomic stability with long term policies for the sector

After assessing the region's attributes and the main challenges ahead, we have identified four major investment themes which we believe are central to any successful investment strategy in the South American agribusiness industry. These themes are summarized in figure 10.

**Figure 10: Main investment themes in South America**




Each of these investment themes offer a broad range of opportunities:

- **Capitalizing on competitive advantages**: South American countries are global leaders in the production of several crops, fruits and meats for which they have competitive advantages arising from a combination of conducive climate, large production scale, high productivity and quality, efficient production costs, a broad labor base and established export markets. By investing in production of these commodities in countries and local areas which have the highest efficiency and resilience amid different market conditions, investors can position to capitalize on these competitive advantages.
- **Developing resources sustainably**: The region still has a sizeable area of native land that can be converted into arable one. Governments, communities and investors have an opportunity to work together to put these lands into production ensuing the application of sustainability policies, protecting the natural environment and creating productive jobs and infrastructure in the local areas. How this is done and enforced will have major implications for the environment and for the different stakeholders.
- **Integrating to add value:** Agricultural commodities are generally low-priced products. By integrating vertically and processing this production locally, it is possible to add more value to the production, to optimize costs and to potentially reduce the carbon footprint along the value chain. This is valid whether the production is bound for the domestic or export markets.
- **Unlocking value by enabling businesses**: Although the existing infrastructure varies widely along the region, there are countless opportunities where infrastructure can be developed to improve efficiencies and reduce costs along the value chain.

**The region not only possesses vast agricultural resources, but it enjoys very favorable demographics and an attractive long term macroeconomic growth outlook.** This means that the opportunities will not only come from the growing export business but also from domestic growth, driven by reduced poverty and a developing middle and growing upper class. This should be an important reassurance for foreign investors.

We emphasize that these investment themes should be regarded as general guidelines. The vast agricultural resources in the region and the particular dynamics of regional economies offer multiple investment opportunities.

## Thematic investing: Opportunities in South America (cont.)

Among the selected investment themes, we highlight the following opportunities in sectors and countries that we believe offer the best investment return potential:

**Table 2: Main investment themes and actionable opportunities in South America**

| Investment themes | Target sectors | Priority countries | Opportunities |
|---|---|---|---|
| **Capitalizing on competitive advantages** | **Tropical fruits** | Colombia | Pineapple, palm oil, cacao |
| | | Peru | Avocado, grapes, mango |
| | **Cattle raising** | Uruguay | Pasture & feedlot feeding |
| **Developing resources sustainably** | **Land re-development** | Brazil | Crop production |
| | | Paraguay | Cattle raising & crop production |
| | | Bolivia | Cattle raising & crop production |
| **Integrating to add value** | **Feed mills** | Various countries | Feed for feedlots and poultry |
| | **Branded organic fruit** | Various countries | Production & commercial scale & integration |
| **Unlocking value by enabling businesses** | **Infrastructure & logistics** | Brazil | Grain conditioning & storage<br>Feed processing |
| | **Financing** | All countries | Lending to farmers, equipment manufacturers and grain processors |

When it comes to capitalizing competitive advantages, we can fairly say that each and every country in South America has attractive sectors to consider. In this case we highlight the attractiveness of tropical fruits in Colombia and Peru and cattle raising in Uruguay as examples of intensive production alternatives which are economically efficient and which are focused on high-value products oriented towards high-income consumers in developed markets.

Land development in South America has attracted much attention in recent times. Converting frontier land into arable one has seen a notable growth in Brazil and Argentina during the 2000s and in recent years we have seen the ongoing expansion in Bolivia and Paraguay, among other nations.

The vertical integration along the value chain is not a new theme in the agribusiness sector. But even when it makes economic sense, many producers prefer to stay focused on the primary production. We believe there continues to be a large scope for integration in those areas that can have more synergies, like grain processing for animal feed and processing of primary products such as rice and oil palm.

Another example of value addition that can suit foreign investors is the development of branded organic fruit portfolios, targeting the growing markets in North America and Europe. This strategy can include different production and supply schemes with local producers and have the potential to capture value in logistics and commercial processes.

Finally, when we think about infrastructure as a business enabler, we see an opportunity in Brazil to catch up with the continued growth in domestic agricultural production. The expensive transportation and the lack of storage have been a major challenge in recent years. Improved distribution capabilities are also required along the region.

We would also like to highlight that as the availability and cost of capital remains a challenge for many farmers and SMEs in the region, the development of finance solutions for these segments should grow considerably in the years to come. The variety of businesses in the region and the natural volatility of agriculture pose challenges to structure effective solutions, but we already see growing innovation in this area.

At present we are actively working on many of these opportunities. Please contact us should you wish to learn more.

## Investment & regulatory outlook in the South American agribusiness industry

| Country | Outlook | Key developments to follow |
|---|---|---|
| **Argentina** | ↘ | • **Continued restrictions** on capital movement and currency exchange controls are making the country fall apart as an investable choice for many foreign investors. High domestic inflation is also detracting investments.<br>• **Worsening profitability** along the agribusiness value chain driven by tax burden, export rights, internal market restrictions, domestic inflation and artificially low exchange rate, lack of financing and increasing regulations.<br>• **High risk – high return opportunities may arise in the next 12-24 months.** |
| **Brazil** | → | • **Lower growth and lower confidence levels among businesses and consumers point to a continued slowdown into 2014.**<br>• **However fundamental factors remain very attractive for the local agribusiness industry** despite this short term outlook. The depreciation of the Real, the local available credit to the sector and supportive commodities' prices will continue attracting new investments, which will also benefit from ongoing infrastructure improvements that should be materialized in coming years. |
| **Bolivia** | → | • **Food security remains a major issue** as part of the local population faces food shortages. This has prompted regulations in the export and pricing of certain agricultural commodities. Land ownership is also a source of continued tension.<br>• However, large agribusiness companies continue investing in farmland in the region of Santa Cruz de la Sierra, targeting cattle and crop production. |
| **Chile** | ↗ | • **The country will choose a new president in Nov. '13,** with the center-left candidate Michelle Bachelet as likely winner according to recent surveys.<br>• **The pace of economic growth has decelerated modestly,** but overall the country maintains a sound economic outlook.<br>• **The local market is conducive to introducing innovative technology** for crop protection & nutrition and labor mechanization and we see potential for increased exports of fruits (fresh and dried) & organic products, in a stable and pro-business environment. |
| **Colombia** | ↗ | • **Presidential elections are scheduled for May '14** and President Juan Manuel Santos will likely run again for a second term.<br>• Despite more moderate growth expectations, the country remains one of the preferred destinations among South American peers to receive foreign investments.<br>• **Agribusiness is one of the priority sectors** to continue receiving investments to modernize production (tropical fruits, cattle, palm & vegetable oils, etc.), to scale up operations with mechanized technology and to improve ailing infrastructure. |
| **Paraguay** | → | • **A new government led by Horacio Cartes** has promised a friendly environment for foreign investments and has shown commitment to expand commercial agreements with the Pacific Alliance (Chile, Peru, Colombia and Mexico).<br>• **Focus on agribusiness** as a major economic sector to drive the country's development and poverty's reduction.<br>• **However the recent approved tax on grain exports is not a positive step.** |
| **Peru** | → | • **Amid slowdown in growth and investment, the government has announced new infrastructure projects to attract foreign investment**, which has been a major growth driver in recent years.<br>• The country has been effective in promoting macroeconomic and legal stability, and tax predictability to generate an investment-friendly climate. This should be the basis for attracting new investments to the sector in coming years (especially tropical fruits). |
| **Uruguay** | → | • **Presidential elections are scheduled for October 2014.** Former president Tabaré Vázquez will seek to run as candidate.<br>• **Uruguay is not immune to the decelerating trend observed along the region and is also evidencing higher inflation, which requires attention.**<br>• The country has a well established, export-oriented and diverse agribusiness sector which should remain attracting investments. |

## About Valoral Advisors

**We are investment advisors specialized in the global agribusiness industry. We help investors & asset managers to build and implement investment portfolios in the agribusiness asset class.**

**We believe that successful agribusiness portfolios are built with a long term approach and with an effective diversification strategy along different assets and geographies.**

To discuss ways in which we can help your Firm, please contact us at:
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**Notes to the Valoral Index**

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The funds surveyed represent only a limited portion of the available funds in the market. The survey focuses only on investment funds managed by private asset managers that invest in assets related to the agribusiness industry and which are offered to a range of retail, HNWI and institutional investors.

This survey does not include most commodity and equity hedge funds and most investment vehicles that manage farmland and timberland in North America, Australia and other countries. The survey does not consider the direct investments by sovereign funds, pension funds and government agencies and funds which are privately owned and not opened to investors.

The results shown may include assumptions and the information and opinions may not be up to date.

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