

November 24th, 2011

Valoral Index – Q3 2011

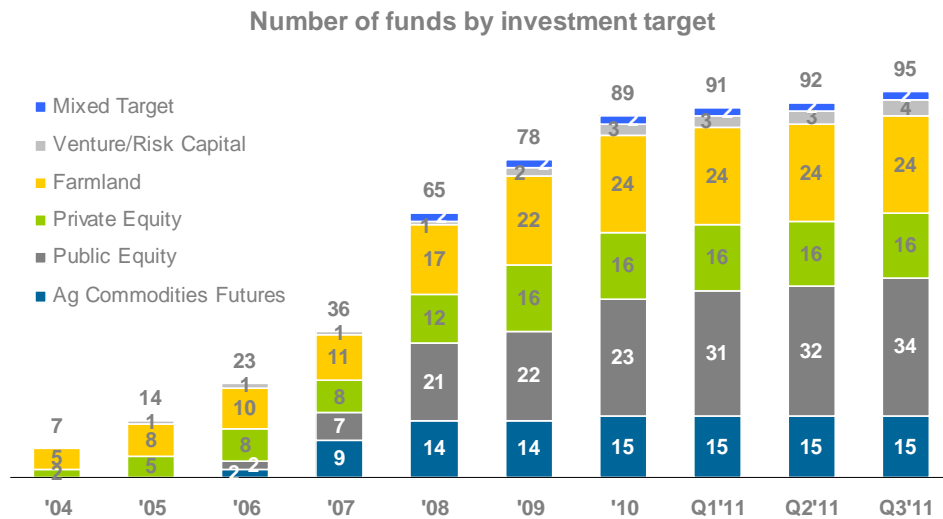
Introduction

The Valoral Index is a research effort by Valoral Advisors to track and analyze investments funds active in the global agribusiness industry. Please read the notes at the end which describe the scope and methodology of this research.

The index is supported by an information set that includes:

- +150 Investment funds and other investment vehicles focused on agribusiness.
- Comprehensive analysis of investment strategies and portfolios.
- Global view, with focus on South America.

The index and all the associated resources are used to support our advisory work. Below is a summary of the latest Valoral index update.



Summary

The number of investment funds specialized in agribusiness continued to expand in the last year despite the volatile and uncertain global macroeconomic conditions. This strength is supported by the continued interest in the natural resources theme and in particular the rising interest in food, land and water. We also note the convergence of food, energy and biotech around the agribusiness sector, which is attracting growing attention.

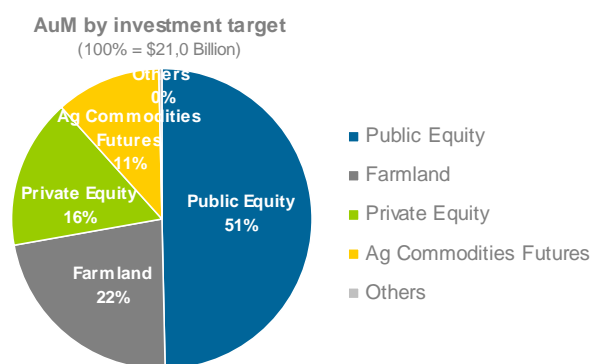
Although investors recognize the agribusiness asset class still has to prove its capability to deliver long term positive returns, they are willing to increase its weight in their portfolios. And indeed we see the sector gradually achieving a more mature profile with a growing base of funds that bring more competition between managers and offer additional options to investors.

At present we count 95 active funds that invest specifically in agribusiness assets. We classify these funds in four groups according to their investment targets:

- **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 strategies.
- **Publicly traded stocks:** Investments in companies active in the agribusiness industry. Most major international banks have dedicated funds invested in companies that perform activities along the agribusiness value chain.
- **Private equity:** Broad scope of investment vehicles along the agribusiness value chain and in different stages of the investment cycle.
- **Farmland:** Acquisition & leasing of farmland mainly for crop production and cattle raising.

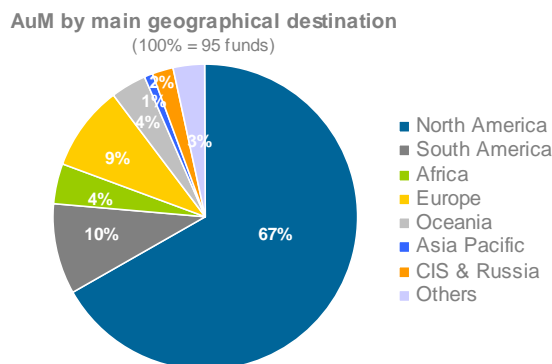
Around 50% of investments analyzed correspond to funds investing in public equity. Equities from global agribusiness companies continue to be the preferred choice among investors. And as new companies go public, options expand and diversification can be improved.

However, fund managers continue to move towards farmland investments, with the hope to obtain better returns and lower correlation to traditional investments. Private equity funds are also growing. From 2009, 57% of the capital raised in new funds has targeted these two categories.



On a geographical basis, half of the funds surveyed have a global investment scope, highlighting the globalization of agribusiness as an asset class.

When considering the main target region by fund, North America is the leading destination with almost 70% of total funds analyzed, driven by their large equity and commodities futures markets.



But the geographic distribution changes when only farmland is considered. In this case, South America, CIS, Africa and Oceania represent around 65% of total AuM, driven by the attractive and available arable land in these regions.

2011 Highlights

Investment activity regained speed during the first half of 2011 as investors recovered their confidence in a gradual global economic recovery. Inflation fears and the expected continuation of the commodities' super cycle added traction as well. However the latest wave of European debt crisis this fall has brought uncertainty back and reminded the markets about the difficulties that the developed economies face. In this context, we highlight the following developments:

- **New funds launched:** New funds across the agribusiness class continued to be launched, taking advantage of the positive outlook in the agribusiness industry. Public equities in North America and Europe were the main target.
- **Funding difficulties:** Amid the surge in new funds, several others that were conceived in previous years were unsuccessful in raising their target capital. This is true along the different asset classes, but notably in the farmland sector where the complexity to set-up and manage operations is perceived high and investments are less liquid.

Investment performance has been quite variable among funds. Funds in public equity have had a wild ride in the last months. In this context, farmland operations are expected to deliver better stability and relatively higher returns, amid good prices and close to normal weather conditions in most places, except in some specific spots. In this context, we highlight the following developments:

- **Equity funds with high volatility:** The recent volatility in equity markets impacted in a big way in agribusiness equities as the sector was dragged by the general sell off. The fact that the number of large publicly traded agribusiness companies is rather limited also means that most funds share similar portfolio allocations.
- **Hedge funds with reduced assets:** Investors withdrew cash from hedge funds in the recent months amid the sell off in equities and commodities, exacerbating the volatility.
- **Farmland operations:** Those companies that were heavily leveraged have been more prone to financial squeeze as the credit markets tightened. Those others who had a stronger balance sheet and were already cash flow positive have enjoyed better financial stability.

All regional markets have shown growing investment activity. Among them we highlight:

- **African agribusiness developments:** The prospects for increasing capital flows to African agribusiness industry continue to improve with several funds targeting investments in the Sub-Saharan region. Caution still prevails among investors as projects in this region have typically a longer timeframe to mature, given the current state of regional development.
- **South America farmland regulations:** Local governments in Argentina, Uruguay and Brazil are discussing regulations on land property by foreign companies and individuals. This was expected as the region has some of the most attractive arable land in the world, both in quality and quantity. We understand several investments are on hold waiting for clarity on the future legal framework. In our view, long term leasing arrangements, integration along the value chain and financing may be the next plausible strategies to enter this region, rather than straightforward acquisition of farmland.

2012 investment outlook

One year ago we mentioned that we expected fund managers to continue developing new investment products targeting the agribusiness industry, which continued to offer attractive prospects for investors. This has been reflected in the number of new vehicles and the growth in AUM despite the continued market volatility since recent months.

We believe the fundamental trends in the agriculture industry will continue to provide attractive opportunities along the value chain. In our opinion, the rapid recovery of food prices after 08/09 economic crisis is an indicator of more price strength to come in the near future as the supply & demand balance remains tight. We see a growing link between food commodities and the global energy matrix and we expect that future growth in the area of bioenergy can be higher than most analysts believe.

On the other hand, we expect short term uncertainty in financial markets to extend into the first half of 2012. This will keep high volatility in commodity prices and may raise liquidity issues for some agribusiness companies and farmland operations that are either heavily leveraged or are still running in negative cash flows.

Going into 2012, we highlight 5 main trends that will shape the global agribusiness asset class:

- We expect farmland operators to focus increasingly on asset optimization rather than building more scale. This is specially the case in those countries that are raising restrictions for foreign land ownership.
- The first trend points to a higher integration along the value chain, as investors focus on value addition per production unit. There are multiple ways of integrating and this will be a growing topic in the years to come.
- In the equity world, we believe funds are well placed to profit from a recovery if the debt crisis gives way to a gradual recovery in the developed economies some time along 2012. Companies that own scarce resources like productive farmland or raw material for fertilizers and those who develop technology for yield improvement are best placed to benefit in a future recovery.
- We continue to see the best prospects in the private equity arena, where there is a large volume of opportunities along the value chain. Local insight and customized risk management strategies are key success drivers, especially in emerging markets where less robust institutions, informal markets and fragmentation bring additional challenges.
- Finally, we expect innovative funds to develop opportunities in the confluence of agriculture, clean technologies and bioenergy, deploying capital to finance new ventures in this emerging area. This is already the preferred area for venture funds, notably in North America and Europe, and we expect them to expand into various emerging markets.

About Valoral Advisors

Valoral Advisors provides strategic advisory to investment firms and asset managers looking for investments opportunities in the South American markets.

Our in-depth analysis of the agribusiness investment landscape includes a comprehensive review of the fund profiles and their investment propositions. With this analysis and our industry insight we help investment managers to develop successful investment products with superior value for investors.

We are also in a privileged position to help investors to evaluate and choose among the broad spectrum of investment opportunities providing independent advice and support along the whole investment cycle.

To discuss ways in which we can help your company, please contact us at info@valoral.com

Notes to the Valoral Index

The information and opinions in this publication were prepared by Valoral Advisors S.A.. The information and opinions have been prepared from public sources, including but not limited to fund documents available from fund managers, companies' websites, industry presentations and industry news.

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 investment vehicles that manage farmland and timberland in North America, Australia and other countries. The survey does not consider the direct investments performed by sovereign funds, by pension funds and by 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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