Global Agribusiness Investment Outlook

Strategic analysis of agribusiness investments - with focus on South America

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www.valoral.com

Highlights:

For the third consecutive year, we publish the Valoral Index, developed by Valoral Advisors to track investment funds active in the global agribusiness industry. Please read the notes at the end of the report which describe the scope and methodology of this research.

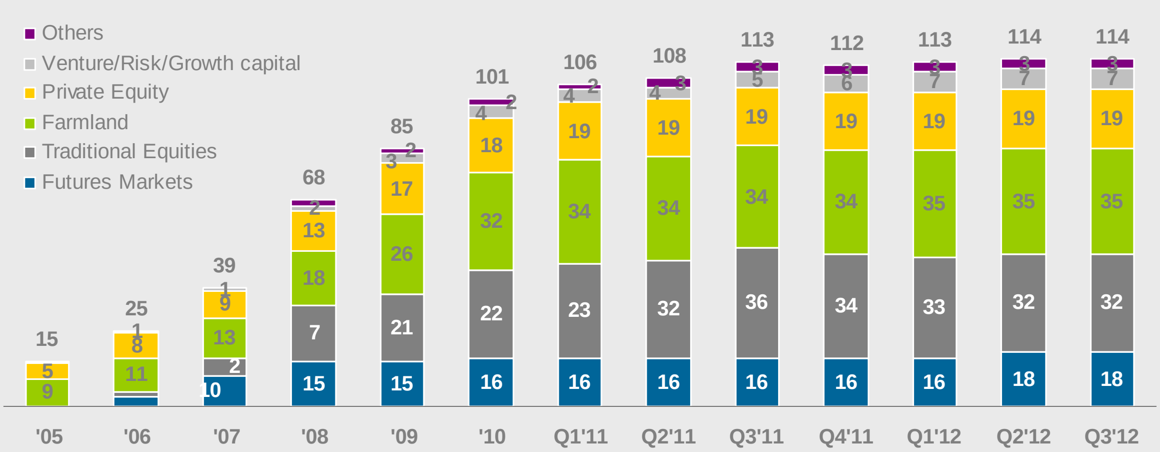
The index contains:

- More than 100 investment funds and other investment vehicles focused on agribusiness, with combined assets under management of $24 Billion
- Comprehensive analysis of their investment strategies and portfolios.
- Global view, with focus on South America.

The index and all the related resources support our strategy advisory work. We provide advisory on portfolio and asset allocation strategies to Family Offices and an array of investment firms willing to gain or expand exposure to the global agribusiness asset class, with focus on South America.

Below is a summary of the latest Valoral index with the main highlights. We also share some of the latest insights about the asset class and our outlook for 2013.

Chart 1: Number of active funds by investment target



2012 investment highlights

Investors continue to allocate capital to the agribusiness asset class

Investment funds specialized in agribusiness continued to very active in 2012. 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.

Despite the continued political and economic uncertainty in the European Union and mixed economic signals elsewhere, investors in the global agribusiness asset class remain optimistic on the sector's medium and long term outlook.

At present we count 114 active funds that invest specifically in agribusiness assets. We classify these funds in five 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 investment strategies.
- **Traditional equities:** Investments in companies active in the agribusiness industry. Most major international banks have dedicated funds that invest in companies active 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.
- **Venture/risk/growth capital:** Early stage funds investing in emerging businesses along the agribusiness value chain.

Funds recently launched aim at profiting from strong agricultural commodities' prices

Among the most recent funds launched in the market, we highlight two new funds that aim at benefiting from higher agricultural commodities' prices. In USA, a new ETF called United States Agriculture Index Fund (Ticker USAG) was launched. In Argentina, Banco Supervielle launched a new mutual fund called Premier Commodities Agrarios, which holds position in agricultural commodities in the local futures markets.

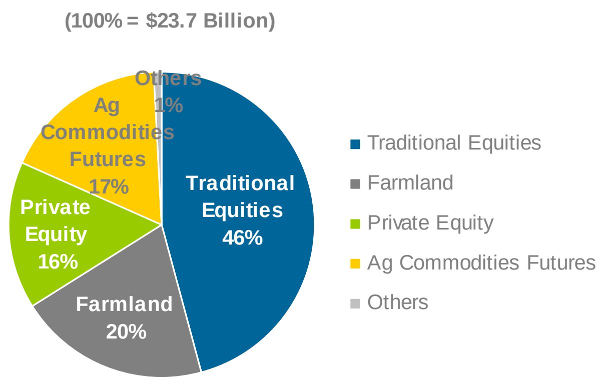
New funds in the pipeline include the Islamic Corporation for the Development of the Private Sector (ICD), the private sector arm of the Islamic Development Bank Group (based in Saudi Arabia), who is planning to run a $ 600 million Food & Agribusiness Fund as part of a strategic partnership with Robeco, a subsidiary of Rabobank. The fund plans to invest in the food and agricultural sector in Islamic countries, mainly through private equity contributions.

Islamic countries from North Africa and Middle East are among the largest net food importers in the developing world. Many investors from these countries have already acquired agricultural assets in Sub-Saharan Africa and South America.

Around 46% of investments analyzed correspond to funds investing in traditional equities. 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, 60% of the capital raised in new funds has targeted these two categories.

Chart 2: AUM by investment target

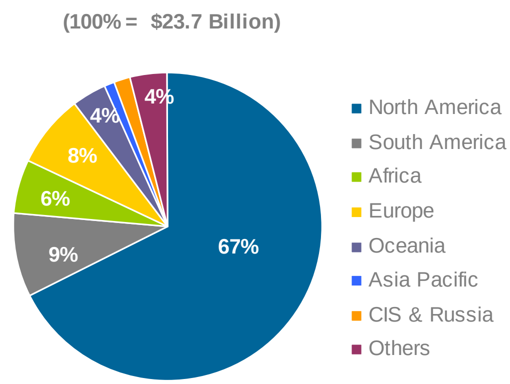


On a geographical basis, more than 40% of funds analyzed have an international investment scope, highlighting the global profile of the asset class.

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

But the geographic distribution is quite different if 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.

Chart 3: AuM by main geographical destination



2012 Performance: A broad spectrum

Investment activity in the sector remained relatively stable in the first half of 2012, despite the mixed macro indicators coming from developed and emerging markets alike. However, investment performance has remained quite dispersed. In this context, we highlight the following developments:

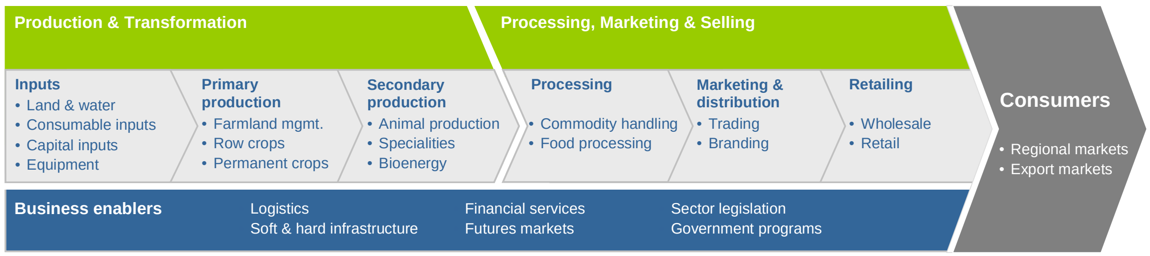
- **Equity funds with continued volatility:** The volatility in equity markets during 2012 impacted in a big way in agribusiness equities as the sector was caught in the general market's waves. The recent rally during Q3'12 has put many of these funds into the green side for 2012.
- **Increased focus on commodities:** Investors injected cash in agriculture commodities' funds chasing the higher prices seen along major products, including corn, wheat and soybeans.
- **Farmland operations:** 2012 weather is proving to be the major driver for performance among farmland managers along the world and certainly in South and North America. The drought that hit some parts of South America last summer has had important losses among several lease operators that produced in leased farms, particularly in Argentina (read more on page 6). U.S. farmer also felt the heat with major crop losses expected.

Investment themes: Ever expanding opportunities

Agribusiness is usually described as the business of feeding the world. Indeed the agribusiness industry it's a world in itself, with many sub-sectors involved in very different activities. The first two questions that investors new to the sector typically ask are: Where can I invest and how can I do it?

Figure 1 illustrates some of the main activities along the agribusiness value chain. There are three broad segments to begin with: i) production and transformation of primary goods and all the inputs, equipments and services that supply those sectors, ii) processing, marketing & selling of finished products and iii) all the business enablers that support the other 2 segments.

Fig. 1: A simplified version of the agribusiness value chain



Today investors can find opportunities all along the value chain. And as the asset class matures, investment themes are becoming more differentiated, allowing investors to allocate resources to specialized managers. So far, asset managers have been more inclined to develop investments in commodities, picks & shovels and farmland:

- Commodities offer a liquid investment with exposure to major commodities.
- Farmland is a growing theme, both through land acquisition and land leasing for crop production.
- Picks & shovels is also a strong theme and is shared by both traditional equity funds and private equity ones betting on growing demand and better margins as global agribusiness activity expands.

The other themes are also growing but still represent a minor portion of total AuM. In particular, the sustainability theme attracts investors from other industries that are active in clean energies and clean technologies and foresee the convergence with the agricultural sector. Figure 2 shows a summary of the main investment themes and their key aspects.

Fig. 2: Main investment themes in the agribusiness asset class

Theme	Commodities	Farmland	Picks and Shovels	Sustainability	Niche strategies	Broad Based strategy
Target assets & strategies	• Grains, oilseeds and soft commodities • Index and active strategies	• Farmland ownership • Land reconversion • Expansion into frontier land	• Inputs & machinery • Agribusiness enablers • Hard & soft Infrastructure	• Biofuels • Clean technologies • Water management	• Food specialities • Organic food • Geographic clusters • Micro-projects	• Exposure to the broad agribusiness sector
Value drivers	• Commodities' appreciation	• Capture profitability of agriculture production • Land appreciation (soil improvement + infrastructure)	• Increased demand • Improved margins • Synergies along value chain • Control of strategic assets	• Expansion of biofuels markets • Development of innovative technologies • Water scarcity	• Expansion in new products, technologies & markets	• Benefit from "rising tide" • High diversification

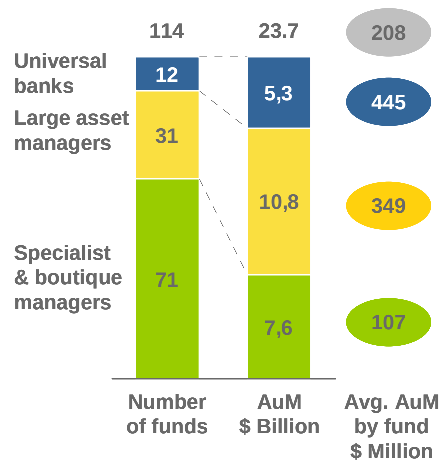
Asset managers: size matters

We can fairly say that the agribusiness asset class is the land of specialist & boutique asset managers. Out of 114 active funds we track, 71 of them are managed by niche asset management firms.

By contrast, large asset managers (those with a large and wide family of funds) and universal banks, combined, represent 43 funds.

As it is usually the rule, the specialist managers are managing smaller funds with an average AuM of $107 Million. Large asset managers enjoy higher average AuM, while the universal banks hold the largest funds, which are mostly focused on traditional equities and agricultural commodities.

Chart 4: Funds & AuM by type of manager



Broad vs. focused strategies

Among universal banks and large asset managers, investment themes in agribusiness are part of a broader and global selection of investment topics supported by long term economic and social trends, i.e. emerging markets, sustainable technologies, food supply, etc. In many cases their approach is to gain exposure to commodities and to traditional equities of agribusiness companies active in sectors such as agricultural inputs, machinery, food processing & trading. Their investments in these categories represent a combined 72% of their total AuM.

Specialist and boutique asset managers leverage their expertise in specific sectors and regional markets. They are typically more concentrated in farmland and niche strategies. Farmland investments represent around 65% of their total AuM.

We believe specialist & boutique funds are better placed to capture the most attractive opportunities as they are closer to the farms and to the local business networks, which play a key role (especially in emerging markets). This gives them an edge to access to the best projects and local managers and to adapt quicker to changes in the business environment.

On the negative side, these niche asset managers can be caught in situations where they lack the necessary funding to build a strong diversified portfolio, with the subsequent concentration of risk.

In terms of fund of funds vehicles, there is almost no offer in the market yet. We have seen some aggregation vehicles that allocate investments in other funds (i.e. farmland funds) but usually focused on one investment theme or asset type rather than on a diversified approach. However, we expect that as the class grows, fund of funds will emerge.

One of the candidates is the private equity arena. The other one could be farmland, but it is critical to have a very efficient cost structure as expected returns from farmland primary funds are typically on the mid to lower range of the asset class and can challenge the FoF business model.

Diversifying along the asset class

For those asset managers and investors with exposure to the South American farmland business, the severe drought that hit some of the best agricultural lands in Argentina and Brazil last summer is a good reminder of diversification as a critical risk management tool.

The agribusiness industry offers enough variety and depth to build balanced portfolios with effective diversification. Investing in different geographies is a common approach to diversify the weather risk; however investors can take a more comprehensive approach to bring higher diversification to their portfolios. Figure 3 summarizes some of the main dimensions that could be considered:

Fig. 3: Main dimensions for a diversified agribusiness portfolio

	-	Depth of investment diversification	+
Geographical regions	Single geography	• Main diversification factor for primary production • But also relevant for processing activities and even to diversify other risks (legal, tax, etc.)	Global scope
Value chain	Focused activity	• Diversification along activities smooth eventual shocks and can also allow to benefit from changes in the value created along the value chain	Exposure along the value chain
Products/industries	Single product	• Product diversification is key to reduce exposure to specific product risks (price, regulations, sanitary factors, etc.)	Broad product portfolio
Term	Term concentration	• Different assets have different time horizons • A portfolio with multiple term targets provide better risk management to counter negative cyclical turns	Multiple durations
Liquidity	Low flexibility	• Liquidity is a major factor in portfolio building • Liquidity diversification means designing a portfolio which offers the required liquidity needs	High flexibility

Funds with farm leases in Argentina returned heavy losses in the 2011/2012 season

Back to South America, we have found that some major funds that lease land and produce crops south in Argentina have returned losses of around 20% in the 2011/2012 season, with specific cases returning even worse results. Some areas in Brazil were also hit but to a lower extent than in Argentina. The matter is more relevant since weather forecasts indicated a higher probability of heat stress during last summer. The drop in Argentina's soybean production (40 Million tons vs. initial expectation of 52 Mt) also reduced the capacity utilization of its huge soy complex industry, creating additional pressure on processors and pushing the government to allow temporary soy imports from neighbor countries.

Going to North America, the recent extreme heat seen along major areas of the U.S. Midwest has taken its toll on the domestic corn and soybean production, with expectations for some of the worst yields in more than a decade. Due to the sizeable U.S. agribusiness industry, the losses in corn and soybean production affect the performance of other sub-sectors like the ethanol producers and cattle feeders, as both have seen their input costs soar amid reduced farm yields.

These are just few examples that show that concentration on few assets can turn very sour in the event of weather risks becoming a reality. Unfortunately, weather is not the only risk to manage. In page 9 we review the top 10 risks to watch in 2013.

Harvesting returns in the agribusiness field

Investors betting on agribusiness assets have good reasons to believe that returns will remain attractive as the sector continues to grow and profit from the fundamental drivers behind the global demand for food, feed and fuel, the famous "3Fs".

Indeed, the sector has a broad offer with investment options offering a wide range of expected returns. Chart 5 synthesizes the average range of potential returns that asset managers intend to deliver in the different assets.

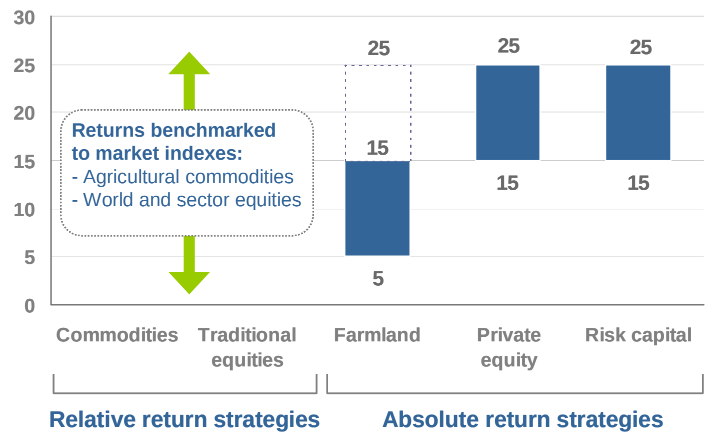
Globally we can differentiate investments in farmland, private equity and risk capital funds, which typically target absolute returns for their investments.

Farmland funds typically offer an operational yield plus an appreciation yield driven by increases in land values.

These values are only global references. Target returns in farmland can vary according to the geographic market (with emerging markets likely to outperform developed ones) and also to the investment approach (land ownership vs. land leasing) and target production (annual crops, permanent crops, cattle feed, etc.). Leverage is another factor to consider.

Chart 5: Average gross expected returns by strategy

%, average range of available sample



On the other side, we find commodities and traditional equities are usually benchmarked to global related sectors' indexes. These strategies target returns in line or above those benchmarks, but are affected by the general subjacent markets and chase relative returns. We find both active and passive trading strategies among these funds.

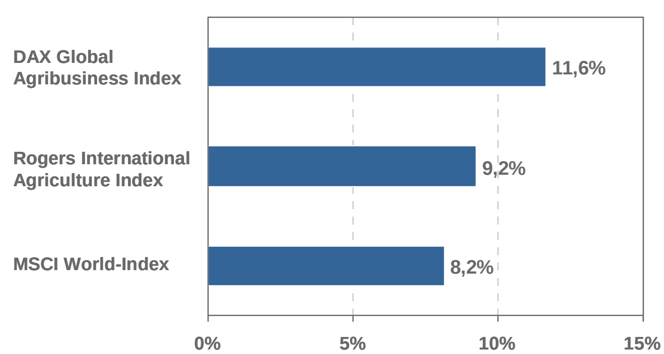
Chart 6 on the right shows the evolution YTD of some market indexes against which agribusiness fund managers benchmark their returns.

Among equities indexes, the DAX global agribusiness index and the MSCI World index are usual benchmarks.

In agricultural commodities, there is a broad range of indexes available. The Rogers International Agriculture index is a usual benchmark, but the S&P GSCI Agriculture & Livestock Index and the Dow Jones-UBS Agriculture sub-index are also commonly used. Some funds have blended benchmarks also.

Chart 6: YTD Performance by index

As of 31st Aug. '12



Due to the still fragmented nature of the agribusiness asset class, it is difficult to compile broad based returns on investments in farmland, private equity and risk capital. Anecdotal evidence hints at very diverse performance among these funds, which emphasizes the need to carry proper due diligence on asset managers and to develop effective diversification and risk management strategies. On page 9 we look at the top global agribusiness investment risks to watch in 2013.

2013 Agribusiness investment outlook

The strength of the agribusiness industry is poised to continue in 2013

At this time of the year in 2011, we mentioned that the rapid recovery of food prices after the '08/'09 economic crisis was an indication of more price strength to come in the near future as the supply & demand balance remained tight. The actual developments have moved pretty much in this direction.

In our bullish view the fundamental drivers remain intact and we are optimistic for 2013. We expect improving economic conditions as we enter into 2013 among developed & emerging markets.

In our bearish view, we believe that as we move into the last quarter of 2012, the major setback for agribusiness investment assets is the possibility of a surge (once again) in financial volatility combined with a worsening slowdown in China and other emerging markets.

However, market participants seems to have a general perception that major central banks around the globe will act more decisively if this situation arises, limiting fears of sharp fall in asset prices. This belief can rather set a floor to the markets but does not provide a fix to the structural issues faced by many developed economies, including the European Union, USA and Japan.

Investments will focus more on optimizing the value chain from the farm to the consumer, besides the continued challenge to raise production

We see a 60-40 probability in favor of our bullish view. With this background, we highlight 5 main trends that may shape the global agribusiness asset class in 2013:

- **Value addition:** The agribusiness asset class continues to move from a volume to a value mindset. Besides increasing production, optimization of sourcing, transport and distribution infrastructure and processes will become a growing area for investment opportunities.
- **Traditional equities**: In the equity world, we believe funds are well placed to profit from a gradual recovery in the developed economies in 2013. 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.

The organic food sector has a strong outlook and may attract a growing number of asset managers

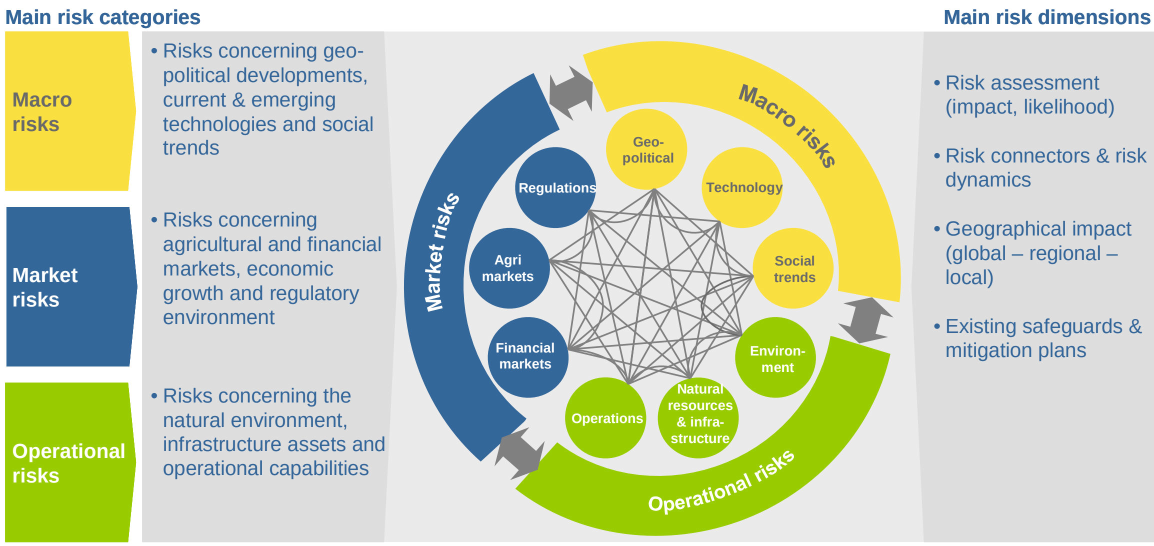
- **Organic food:** Solid growth in the global organic food market is attracting asset managers to develop investment vehicles targeting production and marketing of a wide range of food categories. This is a fertile land for niche private equity funds to build and consolidate groups of independent food producers.
- **Farmland:** 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.
- **Private equity:** Even if currently not at the center of the stage, 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.

On page 10 we look at the agribusiness investment and regulatory outlook for 2013 in the South American region.

Top 10 global risks to watch in 2013

Valoral Advisors has 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 4 shows these risk categories.

Fig. 4: Main risk categories in agribusiness investments



Below we list the top 10 global risks for global agribusiness investments in 2013. The ranking does not intend to provide a quantitative risk assessment but rather to list the major risks faced in the current context:

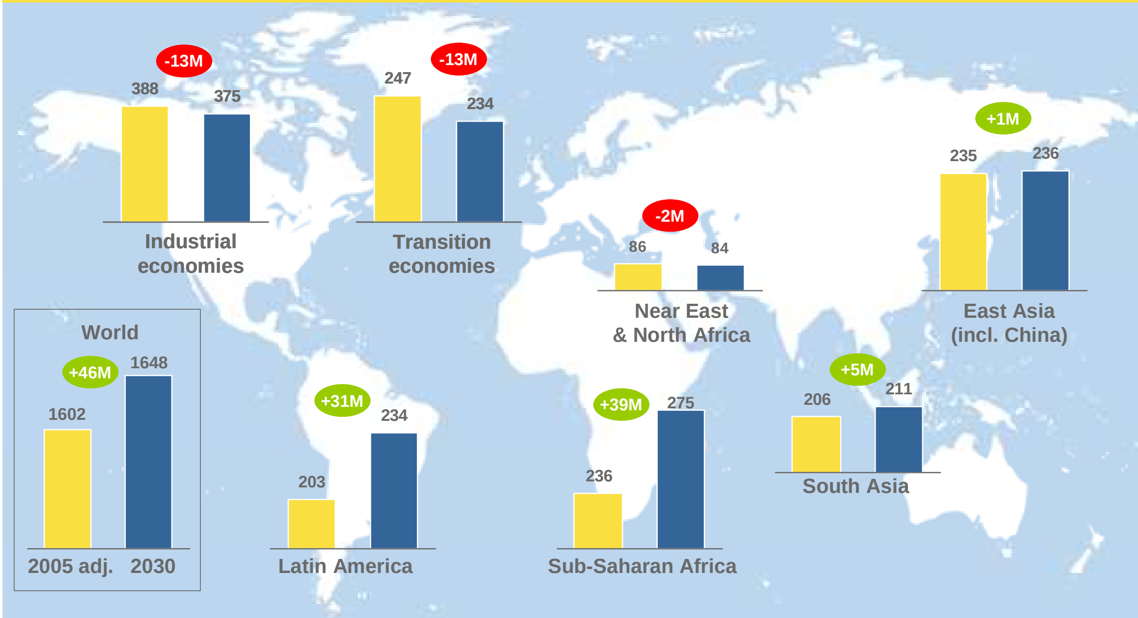
- **Volatile weather:** Extreme weather events, including droughts, floods and extreme temperatures remain one of the top risks for the agribusiness industry.
- **Spike in commodity prices:** 2013 market conditions can remain volatile, with broad price oscillations, affecting raw material purchasers and adding pressure to food prices.
- **Asset price volatility:** Global financial markets are prone to suffer renewed confidence crisis and shocks that can negatively affect financial terms available to agribusiness companies.
- **Liquidity crisis:** Liquidity freeze can affect financial positions of agribusiness companies and more in general affect global trade and investment activity.
- **Growth in emerging markets:** As a large share of global consumption growth comes from emerging markets, particularly China, any slowdown in those markets can have large impact in the global food markets, by ways of lower demand, reduced purchasing power and change in diet habits.
- **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.
- **Farmland prices & bans:** The rush for land seen in recent years can create bubbles in specific farmland markets and can also trigger actions to establish legislation to limit foreign ownership of land as well as to increase taxes to capture a higher portion of the agribusiness wealth.
- **Bioenergy challenges:** Ethanol and biodiesel, among other bioenergies, 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.
- **Food safety:** A disease spread from contaminated food can affect consumers, with adverse consequences to food producers, traders and retailers.

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. • **Tax pressure** along the agribusiness value chain continues to increase (export taxes on biodiesel, increased state and municipal taxes).
 **Brazil**		• **The infrastructure package** announced by the government ($66 billion) to improve road and railways systems together with private companies, is a key step to reduce logistic bottlenecks that affect the country's economy and the agribusiness sector in particular. • Fundamental factors remain very attractive for the local agribusiness industry despite the recent economic slowdown.
 **Bolivia**		• **Food security remains a concern** for the local population and has prompted regulations in the export and pricing of certain agricultural commodities. Land ownership is also a source of continued tension. • On the positive side, '12 food exports are growing vs. '11 with a more benign weather. Supportive policies for the sector can trigger new investments to increase & expand food production.
 **Chile**		• **Strong exports of high value products** such as wines and berries are examples of the strength of the local agribusiness industry, with potential for increased exports of fruits (fresh and dried) and organic products. • **Stable and pro-business environment** and open export markets as USA, Europe and South East Asia provide a very positive outlook for agribusiness investments in the country.
 **Colombia**		• **The Free Trade Agreement** with USA that went into effect in May '12 opens new export opportunities for the Colombian agricultural exports. • The country remains one of the preferred destinations among South American peers to receive foreign investments. • Agribusiness is one of the priority domestic sectors promoted by the government (tropical fruits, cattle, palm & vegetable oils, etc.).
 **Paraguay**		• **Political and economic uncertainty** remains after the destitution of former president Lugo back in June, with social tensions around land disputes expected to continue. • Furthermore, last year's outbreak of foot-and-mouth disease and the drought that affected soybean crops last summer have hit the agribusiness sector.
 **Peru**		• **Attractive macro outlook** and official support to the agribusiness sector (e.g. credit lines) will be supportive for investments to increase food production, both in annual crops and fruits. • **Major irrigation projects** underway drive increase in cultivated land and promote additional infrastructure investments and higher demand for ag inputs & equipment.
 **Uruguay**		• **Stable policies & focus on the agribusiness** value chain and export markets are bearing fruits as the country consolidates as a serious agribusiness exporter. • The diverse sub-sectors, including crops, cattle, dairy products and forestry, provide plenty of opportunities to produce and industrialize commodities, in a favorable institutional environment.

The big picture: Where can we find more arable land to produce food?

Arable land in use by region – 2005 adjusted and 2030 forecast, Million has



Source: The resource outlook to 2050: By how much do land, water and crop yields need to increase by 2050? By Jelle Bruinsma - Paper presented at the FAO Expert Meeting, 24-26 June 2009, Rome on "How to Feed the World in 2050".

The future increase in global food production is mostly expected to come from higher yields and higher crop intensity. However, arable land is and will remain a key variable in the food production equation. The 2030 forecasted variations in arable land in use show very distinctive trends:

- Latin America and Sub-Saharan Africa are the only two remaining regions on earth that can effectively bring relevant areas of land for food production (with many challenges ahead).
- Developed and transition economies show a continued drop in arable land in use, which reflects higher crop efficiencies and a continuing slowdown in the growth of demand for their agricultural products.
- Many countries along Asia also face challenges as they have no more or very little new land to bring under cultivation, in the context of rising populations and urbanization. Many Asian countries are already among the largest net food importers.

There are many factors and assumptions that can affect this forecast and it's worth reading the full report which provides insights into the future agricultural production. From an investor's point of view, we believe that any agribusiness portfolio that looks for exposure to land expansion (frontier land, land re-development, soil enhancement, irrigation projects, and associated infrastructure) should have a relevant weight in South American and Sub-Saharan African countries.

Among these regions, Argentina, Brazil, Colombia and Peru show some of the largest potential in South America, while in Africa we can highlight Angola, Congo, Mozambique and Tanzania, although there is a big diversity even among different areas in each country.

The challenge is to translate this big picture into an investment plan that optimizes capital allocation along these regions within the global agribusiness portfolio, assessing the broad agronomical and economic potential of these lands, considering the unique social and cultural realities of these regions and managing the relevant investment risk dimensions. In Valoral Advisors we support investors and asset managers facing similar challenges in these regions and are convinced that we can bring significant value to develop successful investment strategies.

About Valoral Advisors

We provide advisory on portfolio and asset allocation strategies to Family Offices and an array of investment firms willing to gain or expand exposure to the global agribusiness asset class, with focus on South America.

To discuss ways in which we can help your Firm, please contact us at:
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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 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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