

2023 MIDYEAR VIEWPOINT

INVESTING IN FOOD AND AGRICULTURE ASSETS IN A CHANGING WORLD

JULY - 2023

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Our current observations in the global food and agriculture investment space:

— EYES ON THE FUTURE, BUT MINDFUL OF THE PRESENT

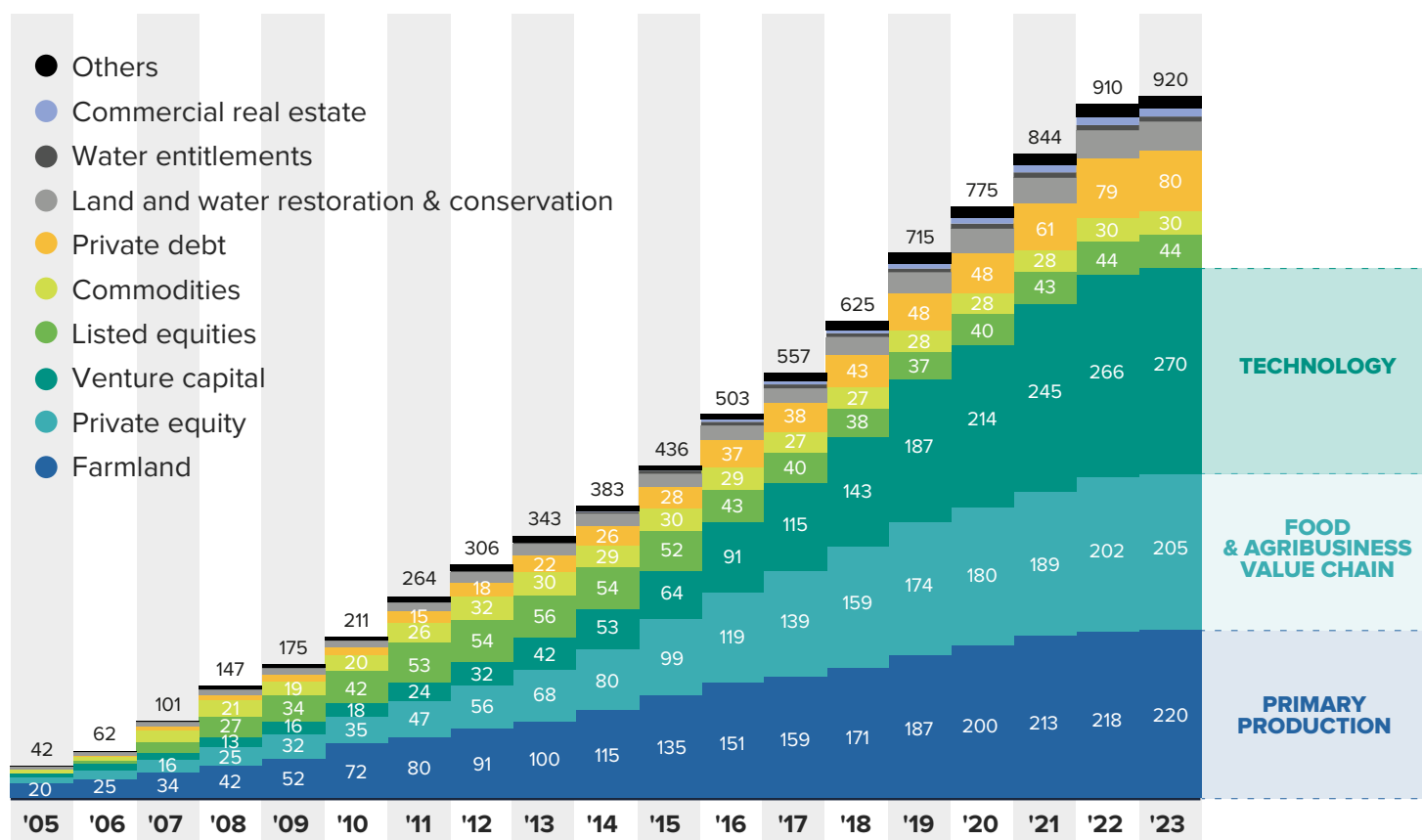
- **Volatility will persist.** Today, the food and agriculture investment space continues to navigate the prevailing macro uncertainty, looking for direction in the future path of inflation, interest rates, and economic growth.
- **Inflation is deeply interlinked with food consumption.** While inflation pressure has been softening recently, it has triggered a cost-of-living crisis. We can expect inflation to continue shifting consumer patterns (it's all a function of purchase power).
- **A more multipolar world is emerging;** we have gotten used to discussing war, resource weaponization, competing blocs, and currency and trade fights. As we enter a multipolar world, the stakes are high in the global food and agriculture sector.
- **Fundamentals matter.** Agriculture supply-demand dynamics and fundamentals gain even more importance in this context. Understanding the implications of the investment flows of the last two decades into our sector is critical.
- **Agriculture commodity prices are well off from the 2022 peak but still attractive.** Input costs will likely remain high, curbing farm profitability. Companies down the supply chain are trying to pass over the increases with mixed success depending on the market, which can reinforce the inflation spiral.
- **Climate remains a crucial factor,** with El Niño well established in 2H 2023 and the growing expectation that extreme climate events may become more regular.
- **Financial costs are a growing issue.** Stress in certain segments of the commercial banking sector has led to tighter financial conditions. This is more acute in emerging markets, especially in sectors with a more significant debt burden. This challenges companies that have to fund working capital requirements or finance more expensive capex.
- **Capital is available but selective.** The institutional pool of capital committed to agriculture continues to expand, albeit with much more selectivity. Family offices are being more cautious and have retraced recently, especially from the AgTech and FoodTech sectors. Corporations continue to invest in our space actively.
- **Decisions, decisions.** In this context, investors and asset managers are recalculating their priorities (funding existing business vs. new opportunities) and reassessing new areas. Higher interest rates also mean higher discount rates with their corresponding impact on valuations. In other words, benchmark returns are now on a higher level.
- **The good news.** There is a silver lining to these conditions: investors can focus on new investable themes likely to emerge from the current macro backdrop (incl. geopolitical dislocations). Indeed, emerging markets, especially across Asia and Latin America, remain a massive opportunity for investors in the developed world. And the generational transfer of wealth in our sector is a continuous source of opportunities, especially in farmland and the middle market.
- **The trend is your friend.** The tailwind from scarce resources, changing demographics and diets, sustainability, and technological innovation remains very supportive and calls for growing capital flows to the sector. This context creates opportunities to enter sectors with relatively high barriers or businesses with solid assets that, in other circumstances, would not be available.
- **What's your roadmap?** At Valoral, we are doing a deep dive to understand the scenarios ahead and how they can drive different outcomes in the global food and agriculture production system. We believe investors need a roadmap more than ever if they wish to focus on more predictable outcomes.

ZOOMING OUT, FOOD AND AGRICULTURE INVESTMENTS HAVE BEEN GROWING SOLIDLY IN THE LAST 15 YEARS, OFFERING MULTIPLE ASSET STRATEGIES TO A GROWING SPECTRUM OF INVESTORS

Today, over 900 investment funds specialize in the food and agriculture sector, managing more than \$140 Billion.

But even when the food and agriculture investment space is one of the fastest-growing asset classes, it remains overly underinvested when assessed on different criteria. The opportunity ahead is significant both for investors and asset managers.

NUMBER OF ACTIVE FUNDS SPECIALIZED IN FOOD AND AGRICULTURE ASSETS BY MAIN STRATEGY



Source: Valoral Advisors' proprietary database.

OVERVIEW OF THE DIFFERENT ASSET STRATEGIES ACROSS THE SECTOR



WE REVIEW THE DIFFERENT INVESTMENT STRATEGIES ACROSS THE CAPITAL STRUCTURE AND ASSET SPECTRUM



OVERVIEW OF THE DIFFERENT ASSET STRATEGIES ACROSS THE SECTOR



- **Listed equities:** companies in the broad food and agriculture sector had a generally weak performance during the first semester of 2023 on the back of lower ag commodity prices, pressure on costs, and the impact of inflation on consumer purchase power, which combined to affect equity price performance negatively.
- **Fixed income:** with interest rates now materially higher, investors are again targeting the safety of fixed income, particularly in the investment grade segment where there are a number of large, international companies operating across the food and agriculture value chain.
- **Commodity hedge funds:** Usually, these managers combine their fundamental/macro view with their extensive understanding of the market structure and commodity market dynamics to actively research and invest in multiple relative value strategies via direct or indirect exposure to the commodity markets in both long and short positions. With the ongoing volatility in commodity markets, this strategy can result attractive within a diversified portfolio. Extreme climate events and geopolitical tensions can keep the volatility in this asset strategy.
- **Farmland:** In recent years, investors have pursued farmland investments worldwide amid an inflationary environment and heightened geopolitical tensions in a multipolar world. As a result, farmland prices worldwide have risen significantly since 2020, with average increases between 10% to 20% depending on the country and the quality of the farms, and with higher appreciation in specific areas. This has become a significant asset class component, with several opportunities along the risk-return spectrum.
- However, after the strong performance of recent years, we expect that future returns will exhibit more dispersion across types of crops and geographies. Moreover, moderating agriculture crop prices at a time when operating expenses remain elevated and increasing interest rates may bring pressure on profitability in the coming seasons. Similarly, the heightened geopolitical tensions will likely continue affecting trade flows, potentially disrupting certain regions and crops.
- **Private equity:** Among the strategies we follow, the private equity space in the food and agriculture sector has become the largest one as more fund managers launch new strategies and investors – especially institutional ones – become more comfortable with this sector. Among fund managers, we notice more specialization, targeting high growth categories, new geographies, and also looking into the middle market and lower middle market.
- The sector is not immune to the broader context, and we expect to see compression in valuation multiples and a more selective approach by fund managers. But this reset can be a good opportunity to enter the market at more attractive terms. The industry has plenty of attractive sectors to look at.
- **Venture capital:** After several years of growing investment flows into the sector, the AgriFoodTech space navigates a harsh environment. Ample funding, rising valuations, and aggressive expansion have given way to drying up funding, down rounds, and cuts and layoffs. In this context, investors have pulled back and it will take time for them to return.
- Despite this challenging environment reflecting the nature of private market cycles, the AgriFoodTech innovation continues progressing, gaining adoption and transiting a healthy path of rinsing and consolidation. The sustainability imperative, the digitalization wave, and the evolving consumer landscape are all major transformational drivers that will continue to offer opportunities for investors.
- **Private debt:** The agriculture sector is a major segment of the global trade finance market, as production and global trade depend on financing. With rising interest rates, geopolitical issues, and inflation, the cost of working capital financing has increased, creating opportunities for investors. However, trade finance fund managers remain cautious and with larger cash buffers to manage risk, especially after the shocks that Covid-19 and the war in Ukraine delivered to this asset strategy.
- On the longer timeframe, mezzanine financing is making its way into the sector to accommodate the specific needs of the industry, especially as many balance sheets are already filled with traditional bank loans.
- Across distressed credit, we see more potential for increased restructuring activity in sectors and geographies that may be more vulnerable to the current context.
- **Other strategies:** in recent years, several other strategies have emerged. From water entitlements in Australia to food and ag commercial real estate portfolios in the U.S. and Europe, asset managers are launching niche strategies that offer exposure to new themes and opportunities. Strategies around land and water restoration, conservation & carbon offsetting are expected to grow significantly in the coming years.

WHAT ARE INVESTORS SAYING?



In the last decade, investors, from family offices to large institutions, have increasingly become interested in food and agriculture. This can be seen in the commitments toward funds in recent years and the growing number of direct investments by these investors.

Today, these investors worry mostly about inflation and geopolitical tensions and how they can influence investment performance.

At the moment, family offices are more cautious, and higher interest rates act as a magnet, with excess cash being placed on fixed-income positions. However, they are worried about high inflation. While they maintain interest in safe, tangible assets such as farmland, allocations to the riskier AgriFoodTech space have vanished.

Institutional investors with mandates in our sector are more actively investing; however, their return expectations have increased with higher interest rates. Their interest in direct investments, especially across farmland and infrastructure, continues to gain weight as the partnerships with owner-operators become more widely accepted. Corporates have become more active investors in the food and ag space, notably pursuing new consolidation efforts in different sectors and emerging as lead investors in different AgriFoodTech sectors. With their insider views and know-how, corporates can benefit from this context to secure assets at more attractive valuations.

The ongoing macro volatility and geopolitical tensions tend to keep investors more focused on developed markets, a trend that was already evident even in the years before COVID-19.

This setup limits capital available for emerging markets, notably across Africa, Asia, and Latin America, three major agriculture production and consumption regions.

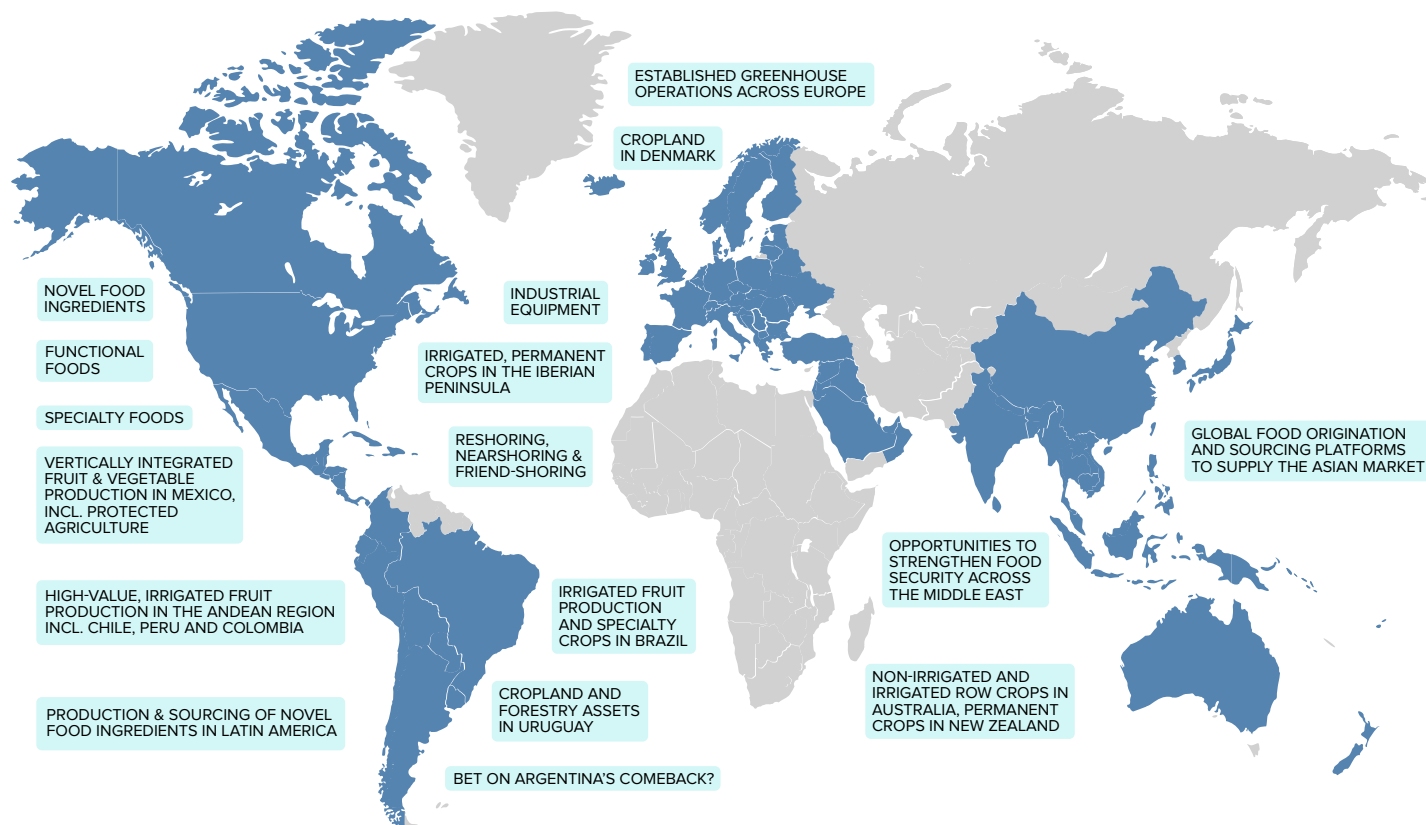
But in contrast to five or ten years ago, today, the food and agriculture industry has a place in the portfolio of many investors who are well aware of the potential value creation in this critical sector of the global economy.



VALORAL FOOD & AGRICULTURE INVESTMENT RADAR JULY 2023



These are our current focal areas. We encourage you to reach out to us and engage in a discussion about specific investment opportunities across the themes and sectors included in our investment radar.



GLOBAL INVESTMENT THEMES & SECTORS

- ✓ **Food and ag infrastructure** – Revisit uses of biomass in energy and materials. Water infrastructure, financing of industrial assets.
- ✓ **Fresh fruits & vegetables** – permanent crops in the Iberian peninsula and the Andean region.
- ✓ **Extensive agriculture assets in attractive locations** – U.S., Denmark, Uruguay, Australia.
- ✓ **Novel food ingredients** – Origination/processing / marketing opportunities (e.g. botanicals, functional food, nutraceuticals).
- ✓ **Food security** – Opportunities in the Middle East and Asia.
- ✓ **AgTech innovation** – Soil improvement, water technologies, biomaterials, Fintech for Ag.
- ✓ **FoodTech innovation** – Novel natural ingredients, fermentation technologies.
- ✓ **Carbon markets** – Business models around regenerative practices and the associated funding. Opportunities around biodiversity.

FOCUS AREAS IN

2H 2023



We believe we are entering a new era of food and agriculture investments that can be genuinely transformational. We share what will keep us busy for the rest of the year. Count on us for the journey ahead.



MEET NEW INVESTORS

As we continue to meet new investors and asset managers joining the space, a good portion of our work will remain centered around supporting these clients and facilitating access to new investment opportunities.



EMBRACE DIFFERENTIATION

New asset managers are becoming more specialized in terms of asset strategy, sector, and geographies, so the advice we provide needs to reflect the changing requirements and expectations. Specialization and differentiation are the game's name, and multiple opportunities arise from this changing landscape.



BUILD DIVERSIFICATION

Across asset strategies, four areas concentrate most of our clients' requirements: real assets, private equity, venture capital, and private debt. Beyond the short-term dynamics, this sector continues gaining depth and breadth, and we expect growth across all asset strategies.



ACCOMPANY THE INDUSTRY'S CONSOLIDATION

Moreover, the consolidation among GPs in the food and agriculture sector is definitely taking off. We have mapped close to 30 transactions involving acquisitions of equity stakes in GPs in the last decade. This trend is only starting, and the institutionalization of the asset class will drive a larger wave of consolidation in the near future. Let's talk about this.



BE LOCAL AND GLOBAL

As a firm based in Luxembourg, we will accelerate our role in the local market to support fund managers, family offices, corporates, and other clients who wish to establish different investment vehicles and operations in the country. The Grand Duchy of Luxembourg is an international financial hub especially suitable for today's complex world and best positioned to cater to the sustainability imperative being systematized and integrated into investors' allocation strategies.



REDEFINE THE OPPORTUNITIES AHEAD IN A CHANGING WORLD

The food and agriculture investment space is one of the fastest-growing asset classes, yet it remains overly underinvested, a sign that we are in the early innings. At Valoral, we are deep diving to understand the scenarios ahead and how they can drive different outcomes in the global food and agriculture production system. Let's speak.

VALORAL ADVISORS SUPPORTS INVESTORS WITH INTEREST IN THE BROAD FOOD AND AGRICULTURE INVESTMENT SPACE



We are an advisory firm specialized in the global food and agriculture investment space.

We work with private and institutional investors, fund managers and business owners to help them invest profitably whilst fostering a better agriculture – more productive, more efficient and more sustainable.

WE PROVIDE INVESTMENT ADVISORY SERVICES ALONG THE WHOLE INVESTMENT CYCLE IN THE FOOD AND AGRICULTURE ASSET CLASS



SUSTAINABILITY

Elaborate investment strategies in the food and agriculture asset class

- Explore the investment space.
- Understand market fundamentals.
- Assess value drivers and business risks, including sustainability risks.
- Design sustainable investment strategies.
- Access proprietary deal-flow.

Provide support in the execution of investment strategies and specific deals

- Source and assess investment opportunities.
- Execute valuations & financial models.
- Perform comprehensive due diligence, including sustainability due diligence.
- Support thorough whole transaction lifecycle.
- Market discrete farmland opportunities.

Advise investors and asset managers in the management of food & agriculture investments

- Performance analysis.
 - Revision and build-up of business strategy and operations.
- For farmland investments:
- Negotiation and set-up of farming agreements.
 - Supervision of farming operations.
 - Advice on grain markets, crop marketing and risk management.

Elaborate industry reports and investment insights, combining food & ag and sustainability expertise.

Access to our proprietary databases, including:

- Private investment funds specialized in food and agriculture asset strategies.
- AgriFoodTech startups
- Latin American food & agribusiness M&A transactions.

Develop ad-hoc work for our clients.

WE WORK WITH A WIDE RANGE OF INVESTORS, AND WE HAVE THE FLEXIBILITY TO ADAPT TO DIFFERENT CLIENTS NEEDS WITHIN THE FOOD AND AGRICULTURE ASSET CLASS

PRIVATE INVESTORS

- Private investment offices, single family offices and multi-client family offices.

INSTITUTIONAL INVESTORS

- Pension funds, endowments, foundations, sovereign wealth funds and insurance companies.

FUND MANAGERS

- Fund managers and investment managers with interest in the food and agriculture sector across the asset spectrum and capital structure.

NGOs

- Industry associations, exchanges, universities, research institutions and non-profit organizations in the broad food and agriculture sector.

IMPACT FIRMS

- Investment firms with specific impact mandates and with interest in impact themes connected to the F&A sector.

BUSINESS OWNERS

- Farmland companies, food and agribusiness companies and project sponsors.

ENTREPRENEURS

- Business entrepreneurs in the areas of technological innovation in AgTech, FoodTech and ClimateTech.

PUBLIC SECTOR & MULTI-LATERAL ORGANIZATIONS

- Public agencies, multilateral agencies and development finance institutions.



With over 20-years experience in food and agriculture investments, we provide a specialist eye, combining deep industry knowledge, extensive networks and sustainability expertise.

We are focused on delivering strategic, pragmatic and constructive advice, based on:

- Committed and reliable senior team, with solid expertise in the sector.
- Comprehensive and global view of the food and agriculture investment space.
- Strategic and actionable insights in the development of investment strategies.
- Independent, in-depth understanding and assessment of investment opportunities.
- Continuous work on market intelligence and insights, which support our advisory work.
- Superior investment access through an extensive relationship network around the world which feeds our proprietary deal flow.
- Access to our local network and to industry stakeholders to gain visibility on local business situations and to support our clients around the world.
- Fast and reliable response to support our client's team along all the investment stages.

**We invite you to contact
us to speak further about
the opportunities to
invest in our sector.**



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