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Five Key Trends in Global Agricultural Land Investing

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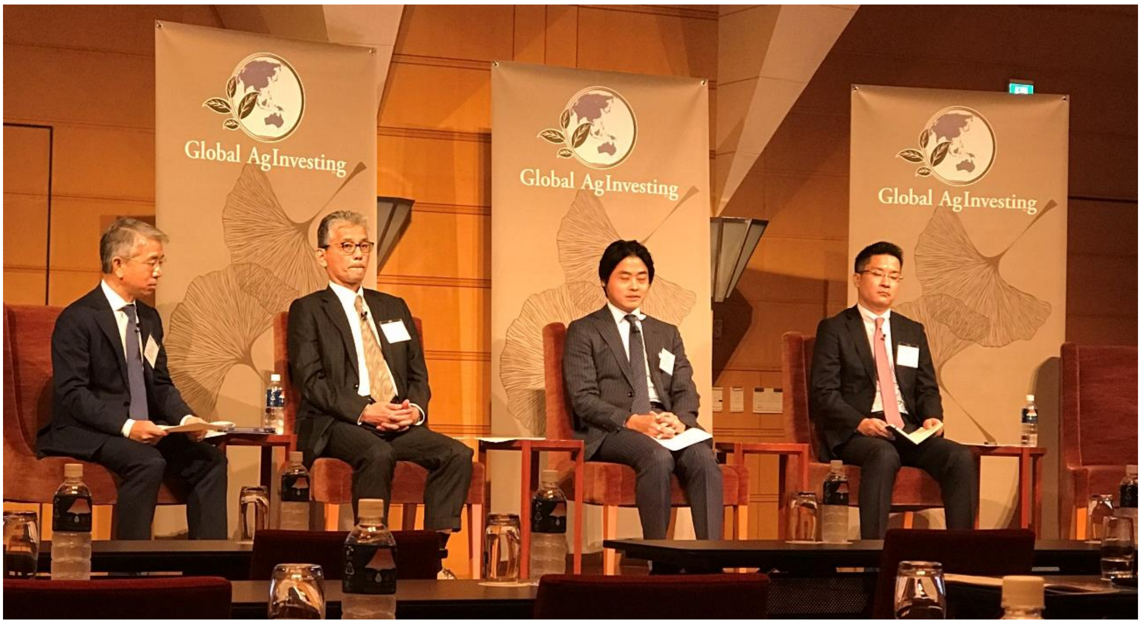
The Global AgInvesting Asia 2018 conference was held October 2nd and 3rd at the Tokyo American Club, marking the third time the event has been held in Tokyo since it moved from its previous host city of Singapore. The event aims to help Japanese institutional investors gain a better understanding of overseas agricultural investment opportunities and what makes these opportunities attractive. The event was an interesting chance to hear updates on a wide range of topics, including agricultural land investment as real estate investment, investment into agricultural distribution businesses, opportunities in agritech and developments in agricultural insurance.

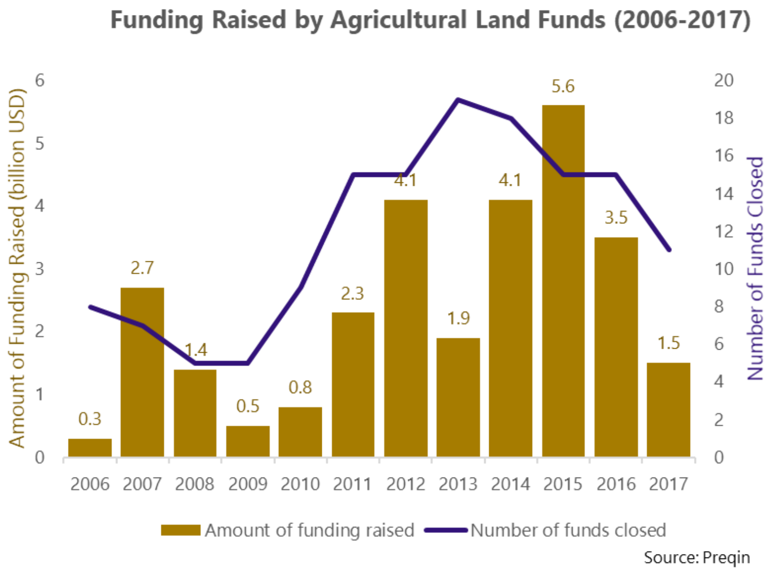


*A Global AgInvesting Panel with **Takuma Yoshida (**Chief Executive Officer, SEIRYU Asset Management, Ltd.), **Masaya Hara** Managing Representative, Albourne Partners Japan), **Yoshifumi Kida** (Manager, Foreign Equity and Alternative Investment Department, Nippon Life Insurance Company), **Akitoshi Yamada** (Managing Director & Head of Japan, Patheon Ventures (Asia) Limited). Photo: Meros Consulting*

Because agricultural land investment is a dynamic investment area, with growing interest from institutional investors, where is a summary of some of the key trends in agricultural investing, based on presentations and discussions at Global AgInvesting Tokyo as well as on our own knowledge.

Trend 1: Agricultural land investment greatly increased in the 2010s

Investment in agricultural land by institutional investors such as pension funds had been growing gradually since the 1980s, but had become increasingly controversial in the early 2000s. A 2008 report by the international non-profit GRAIN gained widespread attention for its analysis of increasing global farmland investment and their characterization of this foreign investment in agricultural land as land grabbing. Large-scale investment in agricultural land was hit with heavy criticism, especially as agricultural commodity prices were soaring at that time due to tight supply. Still, according to financial data service Preqin's database on fund procurement by agricultural land investment funds, agricultural land investments by institutional investors accelerated further in the 2010s after the financial crisis eased.



This acceleration in agriculture and agricultural land investments was driven by institutional investors such as pension funds, government funds, university funds and large family offices. Institutional investors have been looking to expand alternative investments and farmland investment has become an attractive option for balancing risk and return. Agricultural land investment can become a way to hedge risk, since farmland prices are continuing to increase and there is relatively stable revenue from land rent or agricultural product sales. The fact that agricultural investments have a limited relationship with traditional asset investments such as stocks and bonds is also a plus.

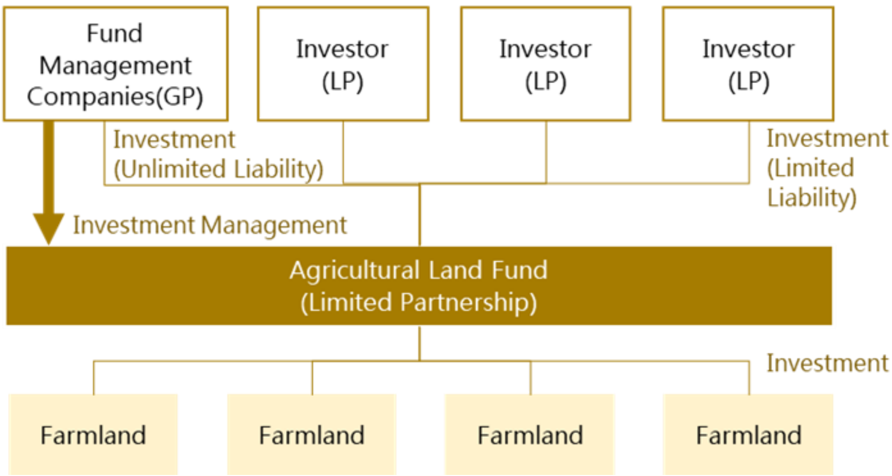
Interest from the agriculture side in attracting funding has also increased significantly. South

America, particularly Brazil, has abundant unused farmland and Eastern European countries such as the Ukraine still have opportunities for investing in large-scale agricultural development. Even in developed countries such as Australia, Canada and the United States, farmers are increasingly borrowing land from investment funds who have purchased farmland, and investment funds themselves are increasingly entering the farm management business. This is because farmer debt is rising in these countries, as farms try to increase scale for greater efficiency, while the capacity of individual farmers to continue to buy new farmland is limited. When farmland is consolidated under an investment fund and put up for sale, it is common for another investment fund to purchase the whole piece of land rather than selling plots separately to individual farmers.

Trend 2: An investment model has been developed for managing agricultural land investments

One reason behind the increase of investment funding for farmland is the development of an investment model to manage agricultural funds, using US-style limited partnerships.

Agricultural Land Investment Model Using Limited Partnerships



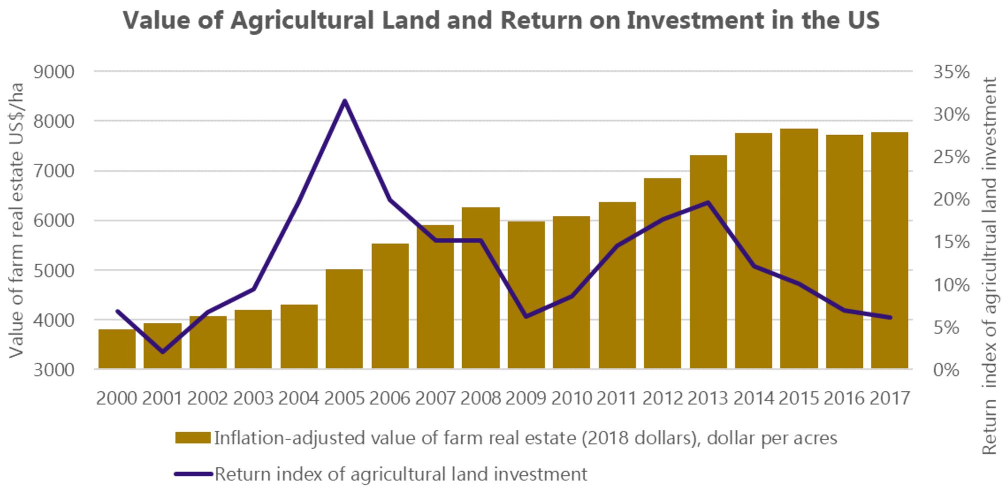
Source: Meros Consulting

Agricultural land management requires highly specialized management capabilities. There are diverse risk factors to cope with including unpredictable weather and changing market prices; operational environments and systems differ greatly from one region to another. However, thanks to the growth of fund management companies with General Partners (GP) who are specialized in managing farmland in specific regions or countries, an investment model has been established where foreign institutional investors such as pension funds who have no background in local agricultural situations can participate as a limited liability partner (LP), without being involved in management and only receive dividends.

Major agricultural land fund management companies include TIAA Asset Management under the umbrella of the Teachers Insurance and Annuity Association of America (TIAA), which possess about 770,000 ha of grains, oil seeds, sugar cane and wine grape production in Australia, Brazil, the US, Eastern Europe and other regions through multiple funds; Hancock Agricultural Investment Group under a major life insurance company Manulife, which holds about 140,000 ha of fruit trees, nuts, grains and other farm produce production mainly in the US, Canada, Australia; and Proterra Investment Partners, an investment team formerly part of Cargill which invests in agricultural land and businesses in Australia, the US and Asia.

Trend 3: Investments have been slightly slowing recently due to lower returns

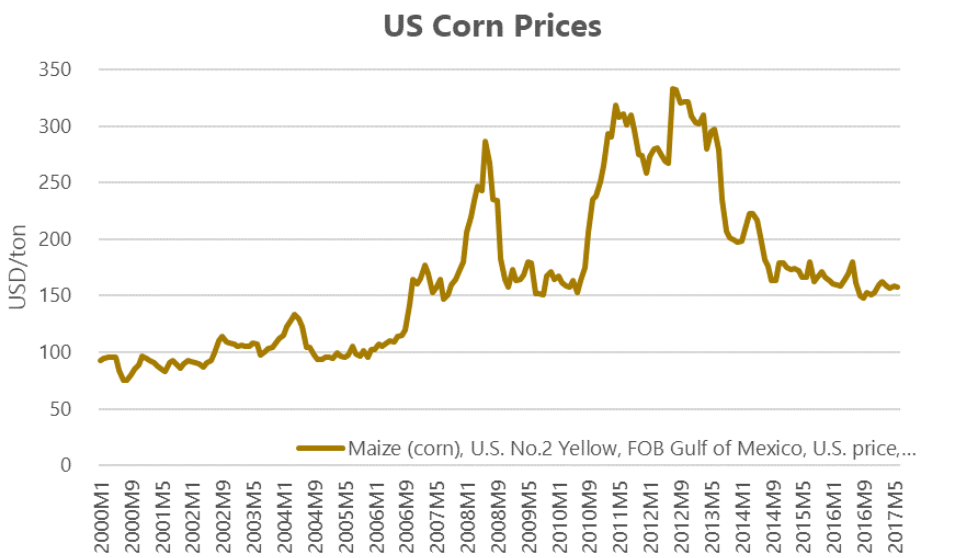
On the other hand, some funds are withdrawing from agricultural land investments. For example, the Canada Pension Plan Investment Board, a public pension investment organization which purchased about 97,000 ha of farmland in Canada and the US after 2012, revised its plan to expand agricultural land investments in 2017 and has decided to focus more on down-stream agricultural industries such as distribution. This is due to the fact that almost half of their farmland was located in Saskatchewan, Canada where regulations on agricultural land investments were tightened, and also because land investments did not proceed as expected in Australia, New Zealand and Brazil. [1]



Source： Value of farm real estate – USDA ERS, return index of agricultural land investment – NCREIF

1 Reuters, 2017.4.27, "Exclusive: Canada's CPPIB pension fund plans farmland retreat – sources"

In addition, global market prices for agricultural products have recently been decreasing, and the situation is becoming even more uncertain due to the US-China trade war. The price of agricultural land has soared due to inflow of investment funds, and so the return on agricultural investment (total of income and capital gains) is decreasing. As such, agricultural investment is slowing compared to the past, even though agricultural investment by institutional investors is continuing to increase.



Source：IMF

Trend 4: There is a growing perception that agricultural land investment can have positively impact sustainable development and environmental goals

Despite the recent slow-down, investment in agriculture is still considered to have promising prospects in the mid to long term, given the increasing global population and the need to grow food supply. Compared to 2008, when concerns about land grabbing created intense controversy, agricultural land investment has gained a more positive image over the last 10 years and institutional investors have increasingly been able to use their agricultural land investments as evidence of their commitment to responsible ESG (Environment, Society and Governance) investing or their support of the SDGs (Sustainable Development Goals).

As a response to concerns that foreign agricultural investments were simply land grabs, the World Bank and the United Nations Food and Agriculture Organization (FAO) jointly formulated the "Principles for Responsible Agricultural Investment (PRAI)" in 2010. This reflected the UN's "Principles for Responsible Investment (PRI)" enacted in 2006, which laid out guidelines for institutional investors to incorporate consideration of ESG issues into their decision-making process. ESG investments are expanding and the number of institutions that have signed PRI exceeded 2,000 in 2018.

At the same time, the concept of "impact investing", initially advocated in 2007 by the Rockefeller Foundation, has also steadily gained mainstream acceptance, as seen, for example, by the establishment of the G8 Social Impact Investment Task Force at the 2013 G8 Summit. As a result, the idea that investment, if done carefully, can have positive social impact became increasingly widespread.

The SDGs adopted at the 2015 UN Summit further strengthened this trend. Unlike past global development goals, the SDGs target not only developing countries but also developed countries and encourage the active involvement of private enterprises to contribute to reaching the SDGs. In particular, agricultural land investment has been seen as potential tool for achieving Goal 2, "End hunger, achieve food security and improved nutrition and promote sustainable agriculture".

In other words, there is growing discussion about how responsible agricultural investments can contribute to solving global food challenges through environmentally friendly and sustainable farmland management, as well as by optimizing limited land and water resources.

Trend 5: Japanese institutional investors are beginning to show interest in overseas agricultural investment

Japanese institutional investor Nippon Life Insurance Company (Nissay) announced a JPY 10 billion investment (around USD 90 million) in an Australian farmland investment fund from the Hancock Natural Resource Group under Manulife, in April 2018. It is the first farmland investment by a large Japanese life insurance company. Also, SEIRYU Asset Management, a fund operator of the Japanese Government Pension Investment Fund (GPIF), has also started working with a forestry investment fund abroad and, according to our discussions at Global AgInvesting, expects to continue exploring farmland investment opportunities.

Japanese companies do have strong interest in foreign investment. However, there are few successful cases of agricultural investments. In 2018, Mitsui closed its Brazilian subsidiary Multigrain, its grain production and distribution unit, and other Japanese companies have hesitated to enter the agricultural land investment market. Still, with the entry of Nissay into the market this year, there may begin to be more interest by other Japanese companies, who carefully watch the first movers.

Farmland and agricultural investment has also been increasing in Japan but Japan's domestic situation is a complex issue for another discussion.

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Meros Consulting is committed to exploring and expanding economic opportunities in global food, agriculture and natural resource markets in Asia and the world.

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