



AGRIBUSINESS PERSPECTIVE # 2

Agri-Vie Investment Advisors (Pty) Ltd is an authorized financial services provider in terms of section 8 of the Financial Advisory and Intermediary Services Act, 2002 (Act No.37 of 2002) Licence No. 33826. AA Fund Managers (Pty) Ltd is an authorized services provider in terms of a Category 1 Global Business licence under Section 72(6) of the Financial Services Act 2007, Licence No. C107004976

FOOD AND AGRIBUSINESS – A UNIVERSE OF INVESTMENT OPPORTUNITIES

With Agri-Vie's final close around the corner and with the fund's investment programme getting under way, it is a good time to reflect on the various global trends and opportunities underpinning the fund's investment case.

Consistently growing global food demand despite the recession: World population has grown from 5.7 billion to 6.7 billion over just the past 12 years and the UN expects it to keep growing at over 60m per year for the foreseeable future. Resultant food demand is estimated to be growing by 3% - 5% per year world-wide. More meat, fish, cereals, dairy products, fruit, vegetables, wine, spices..... This growth has not been upset by falling house prices and failing banks in first world countries. For the vast majority of the globe's people, who live in developing countries, income levels are rising from low levels and the same people are eating more and are more focused on a varied and nutritious diet.

Constrained production resources: However, amidst the above steady growth in food demand, the available acreage of agricultural land on which to grow more food is scarcely increasing at all. Total global agricultural land has expanded by only 0.24% since the early 1960's.

Commodity prices have not collapsed to earlier levels: Agricultural commodity prices are always volatile, affected by weather patterns and other short term factors which are difficult to control. However, while these prices have dropped along with all other markets in 2008, they are still 30% - 50% higher than the average over the past decade.

Public markets provide the evidence: Food and agricultural company share prices have been outperforming the wider stock market indices in the first quarter of 2009.

The underlying factors listed above, translate into a spectrum of opportunity areas for investment activity:

Seed technology: Selective cross breeding of crop strains and the development of seed lines with advantageous traits. Hybridisation has been the key to past yield increases. Crop lines with traits such as drought resistance are being developed.

Fertilizers: The key plant nutrients in fertilizers such as potash have become strategic necessities and there is competition for scarce suppliers.

Meat consumption: Rising wealth and urbanisation in emerging markets is creating a shift towards higher calorie and higher protein diets.

Aquaculture: There is an increasing trend for global protein needs to be supplied from the sea. Aquaculture has grown from providing 6% of food fish in 1970 to 47% in 2006. Peter Drucker, Economist and Nobel Laureate, has labelled aquaculture as the most compelling investment opportunity of the 21st century.

Equipment: As agriculture becomes more industrialised in emerging markets, a lift in demand for modern agricultural equipment is seen.

Timber: The fall in housing markets has decreased global demand for timber in the short term, but the long term demand growth trend has remained during the recession. New uses such as wood chips for fuel add to the traditional demand for timber for housing, pulp for paper and chips for boxwood.

Transport and infrastructure: Road, rail and port infrastructure are vital for efficient grain trading. Major investment opportunities exist around closing the gap in global and regional logistical chains, especially in developing countries.

Dairy: As diets shift towards higher protein and calorie foods, developing country demand for dairy products is expected to return to the strong growth of recent years.

Chocolate: Market data has consistently shown the resilience of chocolate demand in recessionary times. Rising consumption in emerging markets is generating the global market growth – chocolate consumption in India alone is expected to rise by 18% over the next four years.

Obesity: The global shift towards higher calorie diets in emerging regions is increasing obesity rates. This trend is in turn leading to a demand for products styled as 'health foods'.

Growing health consciousness: The recent advances in human genetic diagnostics have opened a spectrum of possibilities for food processing to develop products customised to the health profile of human beings. 'Functional foods' and 'nutraceuticals' (edible medications) have become new buzz-words in food processing.

Land scarcity: In a global context, there is little extra land available for agriculture. Urban and industrial developments compete for land use in many areas. Sub-Sahara Africa remains one of the few regions where substantially more land could be put to agricultural use. Since 2008, countries that are substantial food importers have been negotiating long term land leases from African countries. Saudi-Arabia started with leasing 74 000 acres of Sudan with access to water from the Nile. Qatar plans to lease 99 000 acres of coastal land in Kenya to grow fruit and vegetables, in return for building a new port facility.

The above background goes to show that:

- Rising demand for food requires significant investment in agriculture and food processing to generate improvements in efficiency and productivity;
- Limitations on supply is likely to cause agricultural prices to remain in a higher trading range, generating better returns for the food and agricultural industry;
- There is an enormous range of investment opportunities. After a 25 year period in which agricultural prices were stuck in a trading range and the food and agriculture industries made little forward progress, we have entered a new era in which higher returns can be earned and are necessary to finance new investment in productivity.

Points to Ponder at Agri-Vie...

- The global market opportunity to build sustainable agribusinesses is there – the challenge is to generate surpluses in Sub-Sahara Africa at competitive costs and prices.
- Foreign investment in improving the productivity of the region's agricultural land and other food processing resources needs to go hand in hand with managing the socio-political and environmental risks of a further 'land-grab'.
- There is sufficient scope within the food and agribusiness sector to build a diversified portfolio of investments.

Adapted from 'Agrisar', Sarasin & Partners' Newsletter on investments in listed agricultural entities, Sarasin Bank, Geneva, April 2009.