fund profile

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Chayton combines good land and secure water assets to grow its Atlas Agricultural operation

Neil Crowder and his Chayton team create world-class farming operations around the continent and balance investment risk in their 'Feed Africa' model

Chayton Atlas Agricultural Company is a private equity fund focused on agriculture, agri-business and related infrastructure investment in Sub-Saharan Africa.

The fund launched in 2009 and, with approximately US$10 million under management and a demonstrable track record, Chayton is looking to raise $150 million for a further close in the second quarter of this year.

"Our plan was to start with friends and family money so that we could show the concepts at work to investors," says co-founder Neil Crowder from the team's Cape Town offices. "After our first acquisition, people started to take us seriously and we have seen an increasing number of opportunities."

The team currently has three assets in Zambia, with target markets that include Botswana, Malawi, Mozambique and Tanzania. It is in the process of negotiating five acquisitions to coincide with the fund's second close.

Chayton expects to aggregate up to 100,000 hectares of land across three to five target countries in sub-Saharan Africa, with primary production focused on maize, soya and wheat. The aim is to achieve economies of scale by upstreaming production into milling, storage and transportation, with additional benefits for small-scale farmers in the regions it operates.

The investment case is based on well-documented sound economic prospects and improving conditions across Africa, with Chayton identifying an area where it can both add value and deliver good returns to investors. Crowder points out that while many strategic global investors are looking to the continent to meet their own food needs, data from the UN's Food and Agriculture Organization (FAO) shows that eight out of 10 countries most at risk of food security are in Africa.

"Every country north of South Africa is importing food," says Crowder. "We call it a 'Feed Africa' model. Our view is that Africa needs economic food security."

Chayton Africa is affiliated with Chayton Capital, formed in 2006, a real asset focused company that has land investments in Central and Eastern Europe. Looking to grow the business in late 2007, Crowder and co-founder Andrew Baird teamed up with commercial farmers Stuart Kearns and Philip Nicolle for the African initiative.

Both Crowder and Baird previously had long careers at Goldman Sachs, based in London, where Crowder co-headed European research and was co-COO of the Global Investment Research division while Baird was deputy head of European research, with prior management roles in Asia for Goldman and JPMorgan.

Kearns and Nicolle have extensive track records as commercial farmers in Zimbabwe where they were involved in various agri-businesses that earned groundbreaking accolades over the years, from introducing new crops to achieving productivity targets.

Part of the team is COO Dabney Tonelli, also ex-Goldman; head of finance Johann Strauss, previously with Close Fund Services; and portfolio manager Zaida Adams, previously in property investments with the Old Mutual Group.

With food security a growing global concern, Chayton is certainly not the only land and agriculture fund in Africa. Yet it believes it has a distinct approach, aiming to create world-class farming operations and integrated businesses across the agricultural value chain, and to leave a legacy of responsible commercial agricultural practices in the region.

Crowder says the strategy has a quicker turnaround than most as it does not invest in greenfield projects, or those without existing operations or infrastructure. And while land is abundant in Africa, Chayton believes access to water is key in all its investments – a lack of a secure source is a real limiting factor for successful agricultural projects.

In addition to its Zambian investments, the team is currently in discussion on assets in Mozambique, Malawi and Botswana.

The fund will have a six-year life, with an option for the managers to renew for a further two years followed by a further option to renew from investors.

"In effect, it's a six to 10-year window and we can time the exit so as to ensure the best return," says Crowder. "The farms we invest in are operating, or near operational. We call it a brownfield strategy – we are looking for farms with the ability to benefit from better management."

While the fund may make "greenfield enhancements" over time, these would combine with an existing project. Examples of potential investments include farms that may not have had capital for the past five years, or those that have water but need to better utilise it via irrigation, leading to enhanced productivity.

"Finding the right mix of good land and secure water is challenging but we prefer the irrigation model," says Crowder. "There is higher capital expenditure upfront but the investments should be more stable later."

"We want to build farming businesses with enough scale to support their own milling, transport and storage. To be optimal we need 6,000 to 10,000 hectares under irrigation producing in one geographical area, which can then support smaller farmers in the area."

Crowder notes that small-scale farmers in many parts of Africa suffer from seasonal price effects due to a lack of storage facilities. The fund hopes to initiate production hubs where it operates, working with outgrowers in the community to offer storage, thereby boosting productivity and resulting in shared benefits.

"It is a model that proved very effective in Zimbabwe and should also be successful in other places," says Crowder. "It offers economic returns for investors and support to local communities."

Kearns and Nicolle have direct experience of such initiatives, having been involved in Zimbabwe's Origen scheme, a collective of 150 farmers who combined productivity and, at their peak, were responsible for 25% of the country's grain production, building dams and silo facilities.

FUND FACTS

Chayton Atlas Agricultural Company

Fund inception date: 2009
Second close: 2nd quarter, 2011
Strategy: Agricultural fund
Fund domicile: Mauritius
Currency: US dollars
Investment adviser: Chayton Capital
Minimum investment: US$1 million
Open to investment: Yes

Mindful that political risk and land reform are valid concerns for any land investor in Africa, Chayton has structures in place that it believes differentiate it from other land and agricultural funds.

"We have taken care to build a very well-structured investment that is designed to mitigate the risks – real or perceived – of owning or leasing land in Africa," says Crowder.

After undergoing an extensive due diligence, Chayton in mid-2010 signed a deal with the Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank Group, which provides up to $70 million of political risk cover for Chayton's investments in Zambia and Botswana. The deal gives protection against war and civil disturbance, expropriation, transfer and inconvertibility, as well as breach of contract.

The second layer of protection is an agreement signed with the Zambian government that has been guaranteed for breach of contract under the MIGA coverage. The team has in place other direct government links to secure incentives and reduce intra-African trade barriers, as well as strong relationships with development finance institutions.

"Neither of these contracts is necessary given the current conditions in which we are operating, but things can change over time and we need to look out for our investors," says Crowder.

Chayton is looking to deliver internal rates of return of 25% per annum, with the potential for investors to further benefit from an improvement in land value.

The fund is looking to identify smaller commercial operations of 500 to 5,000 hectares in size, where the team believes they can add value via aggregation, over time incorporating the farms into a larger commercial model.

"We are seeing a growing level of interest, with agricultural investments coming to the fore," he adds. "People are looking at diversification, and commodities and land offer a potential hedge against inflation."

Chayton's initial investor network has been primarily European high-net-worth investors and family offices and it now reports growing interest from more traditional institutional clients, many of whom are based in the US.

"We are looking to identify the right investors who agree with our philosophy that Africa needs to feed itself," he says.