"BETTING ON WORLD AGRICULTURE"

US PRIVATE EQUITY MANAGERS EYE AGRICULTURAL RETURNS

FAQs on Private Equity's Land Investment

• *Why investigate private financial intermediaries invested in agriculture?*

Following the 2007-2008 financial crisis and the collapse of the housing market, private equity funds have found a new lucrative soft commodity market to invest in – farmland. In a short period of time, obscured from public view, the flow of private capital into farmland and agriculture has grown dramatically worldwide.

Considered the next big thing, with some funds aiming to become the "Exxon Mobil" of the agricultural sector, there is much cause for concern. This secluded and highly unregulated form of investment typically seeks to gain control of private land and farm assets to resell them at a significant return after an agreed period of time and/or to generate cash from rents.

• *Who are the investors?*

This report profiles 23 intermediaries – venture capital firms, traditional private equity funds, large investment firms with specialized boutique firms or divisions, and hedge funds that are evolving into more diverse investment firms, as well as billionaires, large agribusinesses, and public pension funds with their own private investment structures – that reflect the diversity of private investment vehicles promoting farmland and agriculture to investors.

Large Financial Intermediaries

With agriculture as a new asset class, a number of mega private equity funds and funds-of-funds structures are investing in smaller funds internationally to diversify and consolidate their portfolios. For instance, Aquila Capital, a $2 billion German private equity fund, is investing in $100 million Chess Ag Full Harvest Partners, which focuses on purchasing US farmlands and leasing them to tenants.

Large investment banks and financial groups are also tapping into private agri-funds to cater to the needs of their wealthier clients. For example, this report highlights the role of Credit Suisse in facilitating Ospraie Management's purchase/sale of US grain handler Gavilon.

Institutional Investors

In the US, pension funds represent the largest group of investors in private equity, and probably in agri-funds as well. State pension funds from Alaska to New York as well as smaller county and city-level pension funds are present at agri-investment conferences (such as the Global AgInvesting Europe 2012 held in London at the time this report is released on December 3-5, 2012[1]) looking for opportunities. The Alaska Retirement Board (ARMB) is currently investing in both UBS Agrivest Farmland Fund and Hancock Natural Resources Group.

With $487 billion under management and a $2.5 billion farmland portfolio, the Teachers Insurance & Annuity Association – College Retirement Equities Fund (TIAA-CREF) – the largest US pension

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[1] See http://www.globalaginvesting.com/Conferences/Home?eventId=11

fund serving both government and nonprofits – is one of the largest farmland managers in the world. Through its acquisition of a controlling interest in the Westchester Group in 2010, TIAA-CREF is able to prospect private farm assets and raise funds from other investors. In 2012 it opened up a new agricultural investment company as well, TIAA-CREF Global Agriculture LLC, signaling its growing interest in the field.

University Endowments

Funded by students and private interests, university endowments, including Harvard, Emory, and Vanderbilt, are following similar investment patterns. While George Washington University is reported to have earmarked $100 million for agricultural investments, CEO Jane Mendillo of Harvard Management Company (HMC), which manages Harvard University's $32 billion endowment, asserts natural resources are its "favorite area" in the alternative assets market. According to her, "the fund has been eyeing timberland, farmland, infrastructure, energy, and water-related investments in anticipation of growing global demand."

Multinational Corporations & Agribusiness

Some of the largest US agribusinesses have established their own private equity investment businesses, as is the case of two Cargill subsidiaries: Cargill Ventures and Black River Asset Management.

• *Why is so little known about these funds and investment vehicles?*

The growing shift toward hedge funds and private equity has made investing much more opaque. Even asset owners often claim to not know or understand the underlying holdings of their funds, focusing solely on their expected returns and the supposed risk to their portfolio. Simultaneously, assets have shifted offshore and investors are now made to sign nondisclosure agreements to have access to the best funds.

The funds profiled in this report draw attention to the fluid movement of capital across physical borders to accommodate private investment opportunities. While most entities are headquartered in the US, each fund profiled operates through a combination of onshore and offshore partnerships, typically located in the tax havens of Delaware and the Caribbean islands.

The case of Farm Lands of Africa exemplifies how a company can create a US-based public shell by mastering reversed merger transactions.

As a layperson, it is nearly impossible to gain much knowledge of these systems and how they operate. It is hard to understand who the decision makers are and to peer into the local laws and customs. Most people are not even able to find out if the institutions they are involved in are making these kinds of investments, let alone learn about the impact of such investments. Public information is limited and fund managers maintain an aura of secrecy. This has made it extremely difficult for concerned citizens, students, teachers, and others to find out about agricultural funds.

• *Which geographical areas are of interest to these investors?*

For funds featured in this report, the low-risk/stable return investment opportunity available in the US makes it an important destination for agricultural investments. With vast pieces of irrigated agricultural land and good infrastructure, the US offers a regulatory environment that is very favorable to corporate formation and genetically engineered (GE) agricultural commodities for food or biofuel production. In addition, with a third of farmers coming close to retirement age, some fund managers estimate that close to 50 percent of US farmland will change hands over the next decade.

Since the early 1990s, US fund managers have also been looking for geographical diversification. Given comparable levels of development and political proximity on issues of agriculture, Canada and Australia are a natural extension for some fund managers.

The emerging markets, especially Latin America and Africa, have garnered investors' attention in recent years as well. In Latin America, Brazil and Argentina are leading the way. Like the Westchester Group – owned by the TIAA-CREF – a number of investors have concentrated in Brazil's Mato Grosso region and new northern frontiers to grow export crops such as soy, corn, cotton, and sugar cane, raising environmental concerns along the way.

A number of fund managers who have acquired experience in developing large export-oriented agri-businesses in North America and Latin America are now exporting this model to sub-Saharan Africa, where land is being made available to large-scale investors. Research conducted by Dalberg Global Development Advisors in 2010 reported 19 agri-funds operating in Africa. However, research conducted by the Oakland Institute identified twice as many agri-funds in 2011. This report presents research on six funds active in Cameroon, Ghana, Guinea, Mali, Sierra Leone, Tanzania, and Zambia.

Investment opportunities are also opening up for US investors in Asia, although investments are typically made through minority stakes. Private equity trendsetters like the Carlyle Group and Kohlberg Kravis Roberts (KKR) were among the first to explore opportunities in Chinese dairy farms (they financed China Modern Dairy Holdings). Black River Asset Management is also interested in milk and meat produced in China.

• *Won't this investment in agriculture result in more income for the farmers?*

When lands owned by these funds are leased to established producers, as is often the case in the US, the tenants are likely to be subjected to stringent production and crop insurance requirements. When lands are cultivated by smallholder farmers, who are then incorporated into a "value chain" as outgrowers, as is often the case in sub-Saharan Africa, farmers are likely to be tied to a firm for their loans, supplies, and sales. The extent to which outgrowers are able to choose their supplies and get fair prices for their harvest needs to be examined case by case, given inevitable information and power asymmetries between smallholders and large firms.

• *Won't these investments bring more unused unproductive land under production and improve local food security?*

The investment thesis of the funds relies on securing and consolidating already productive and well-watered pieces of land at the lowest cost possible, and making a profit from land appreciation and likely land transformation/conversion. Once these lands are secured, fund managers seek to scale up agricultural operations by leveraging agricultural inputs (e.g. genetically engineered seeds, fertilizers, agricultural chemicals, machinery) and water resources. The end objective is almost always to primarily serve global markets, not domestic needs.

• *What is the intention of the report?*

Based on months of research involving literature review, interviews with fund managers, and examination of public as well confidential internal documents, the report casts a light on this trend – largely hidden from public view – by profiling private investment vehicles that are either based in the US or aggressively promoting farmland and agriculture in the US.

The report highlights how these funds are managed and documents the type of investments that are being made in various regions of the world in order to inform concerned citizens, investors, and policymakers about investment practices of these funds and the domestic and international impacts of such investments.

We at the Oakland Institute believe that more often than not, when given a choice and armed with better information, people prefer that their funds are invested in ways that are not short-sighted endeavors with long-term and devastating effects.