

Investors take shine to UK agriculture

FUND MANAGEMENT

Population growth and changing eating habits are driving interest in sector

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This summer around a dozen investors will journey 5,000 miles from their native China to a facility close to Cambridge, on the edge of east England's agricultural belt, where they will watch waste from nearby farms being turned into biogas.

Clad in high-vis jackets and wellington boots, the investors are likely to find the site visit far from glamorous. But their presence attests to what fund managers say is rising demand for opportunities in agriculture as financiers seek to capitalise on trends such as population growth, changing eating habits and innovation.

Their timing may be viewed by some as inauspicious. The UK's vote to leave the EU a year ago prompted a fierce debate over the future of farming and food prices, while comments made by Justin King, who formerly ran supermarket group J Sainsbury for a decade, thrust the industry into the spotlight this week.

"Brexit, almost in whatever version it is . . . will introduce barriers," Mr King told the BBC's Panorama programme, adding that shoppers are set to face "higher prices, less choice and poorer quality".

Fund managers are divided over the effect of leaving the EU, but they argue that agriculture is still attractive as a play on a growing and diversifying food market, with niche opportunities in direct lending.

"UK farming is pretty easy to understand," says Craig Reeves, chief executive of Prestige Funds, a direct lending specialist which funded the biogas plant. The company, which has \$850m in assets under management in two funds, raised around \$250m in 2016 and \$150m so far this year from investors including two

Middle Eastern sovereign wealth funds, a Spanish university endowment and a Korean financial group.

The UK farming industry accounted for 0.7 per cent of GDP last year and was worth £8.2bn. The majority of its 466,000 workers are employed on family-owned farms producing cereals, meat, dairy and poultry goods.

Only three of the 21 agriculture-focused funds domiciled in Europe are based in the UK, with the group as a whole having €1.77bn in assets at the end of April, according to Morningstar. That is down from €1.99bn at end of 2016, but managers insist interest is returning.

'It is more challenging than it was ten years ago [for farmers] but for stock market investors it's still quite attractive'

Agriculture is still an important part of the economy and Britain an important food exporter, says Jeneiv Shah, deputy fund manager at the Sarasin Food & Agriculture Opportunities fund.

"It is more challenging than it was ten years ago, from a farmer's perspective, but for stock market investors it's still quite attractive," he says, arguing the sector offers exposure to growth

in the food market, particularly as consumers become more concerned with the provenance of what they eat and the increasing numbers of people eating away from home.

The Sarasin fund has £135m in assets under management, with just less than a quarter allocated to the UK. Having launched in 2008 its annualised growth rate is 6.53 per cent, but over the past three years it has been 13.4 per cent. Interest from both retail and institutional investors has ticked up this year.

Companies it has invested in include Lerøy Seafood Group, a Norwegian seafood exporter, and Archer Daniels Midland, an Illinois-based agricultural products processor.

Demographics are working in the sector's favour. The world's population is expected to reach 9.7bn by 2050, up from around 7.3bn today, according to estimates from the UN, a fact managers point to with enthusiasm. As well as there being more of us, we are also increasingly fussy about what we eat.

"Historically the real focus of food has been, How are we going to feed 9bn people as cheaply as possible?" says Bruce Jenkyn-Jones, co-head of listed equities at Impax Asset Management, who manages the BNP Paribas Parvest Smart Food fund which was launched in 2015 and had €443m in assets at the end of May.

But now, thanks to factors such as concerns over pesticides,

the use of genetically modified crops, climate change and people wanting to eat more healthily, "this is shifting to a bigger focus on quality".

Innovation is another attraction as farmers ramp up their use of technology. Gertjan van der Geer, co-manager of the Pictet-Agriculture fund at Pictet Asset Management, says there are good opportunities in precision agriculture, an approach to farming which deploys techniques such as automated steering for machinery in the field to reduce overlapping and overspraying.

These reduce farm costs but also make the industry more efficient, a plus for investors who are increasingly considering environmental factors in their decision making.

"We want them to be more productive but more sustainable," Mr van der Geer says. "Institutional investors are looking for more thematic opportunities."

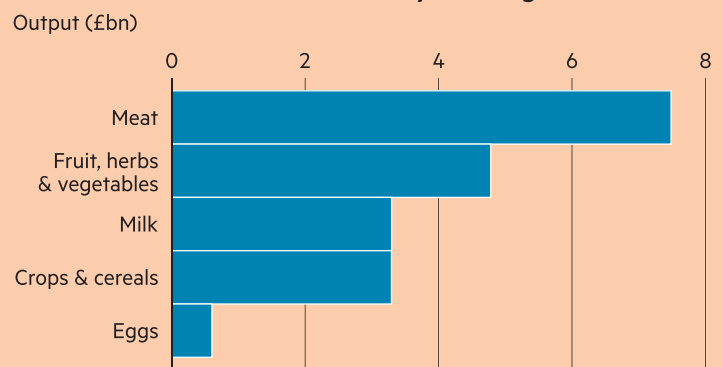
This interest is a welcome vote of confidence in a sector facing many pressures, some of them linked to the UK's vote to leave the EU. Input costs have risen after sterling's depreciation and it is not clear what will happen to subsidies and seasonal EU migrant labour, putting the sector under enormous strain.

"Even the very best farmers find it difficult to operate in terms of the blank sheet ahead of them," said Vicki Hird, campaign co-ordinator at Sustain, a food and environment consultancy. "It's the worst kind of pressure in that it's completely unknown."

Mr Reeves, who plans to launch a new fund later this year lending to businesses in Ireland, agrees. Prestige does not have any concrete stipulations on green issues when it comes to lending but it is keen to fund more environmentally friendly projects. If nothing else, biogas plants and solar panels help farmers' bottom line.

"A lot of these businesses operate on a very thin margin – on a good day," he says.

Meat is the most valuable industry in UK agriculture



Source: Defra