

By Matthieu Favas -18 January 2018

## 'Glass half-full' on Brexit for private ag debt

*Craig Reeves, chief executive of the UK's Prestige Funds, tells Agri Investor why the firm's 'consultative lending', in-house-sourcing approach is intriguing investors from around the globe.*

Entrepreneurs are often optimists. And they need to be to surmount the many hurdles that come with building and growing a business – one has to see the bright side in every bit of news.

Unusually for an optimist, however, Craig Reeves starts his interview with Agri Investor by making an inventory of all the disasters faced by UK farmers over the past decades, from mad cow disease and swine flu to flooding and droughts.

Reeves, who heads Prestige Funds, a UK private debt specialist, says this litany of bad news has made his country's farmers "tougher and more resilient". Which is just as well, he suggests, as more challenges await them in the years ahead; from new regulation and rising costs to environmental constraints and waste management.

Among them, of course, is Brexit – perhaps the most disruptive of all, given the probable end to EU subsidies. But Reeves doesn't think that threat should be categorized any differently. "When it comes to the future of agri, we view the glass as half-full."

### Small but beautiful

The bulk of Prestige's alternative finance portfolio is made up of agricultural and rural-related investments, which represent about \$700 million, or 75 percent of current assets. That activity, run out of Cambridge, was born out of an acquisition by the firm of a business that has made 15,000 transactions and is 17 years old.

It speaks to the way Prestige thinks of itself: a small business that lends to small businesses, following an old-fashioned, straightforward model.

"It's a simple proposition to understand," Reeves says. "A lot of large private equity funds that do private debt tend to buy existing books of loans. We do all of our origination and deal sourcing."

The assets, held in open-ended funds typically operating with a 60 to 90 day redemption notice, are generated through an approach he calls "consultative lending": the manager helps its borrowers understand how to use the money by carrying

out thorough analysis on their strengths, weaknesses, threats and opportunities. "Few people do this," he notes. "That creates barriers to entry."

Prestige's investor base, which started off dominated by independent asset managers and advisors, is now attracting interest from the likes of pensions and sovereign wealth funds. In the past 12 to 14 months, the firm received visits from groups based in countries as diverse as South Korea, Saudi Arabia, China, Switzerland and Mexico, Reeves notes.

### The private debt edge

The reasons for such growing interest have to do with the rest of the investment market: mainstream assets pay little and better-known alternatives have got expensive.

But LPs' curiosity is also rooted in the strong case for private ag debt in the UK market. The disappearance of EU subsidies, he argues, will create strong incentives for farmers to increase productivity; so will inflation.

Those able to provide financing to help farmers achieve these goals are in the right space, he argues. That chimes particularly well with Prestige's model, he says, because the company lends on projects, such as biogas facilities and renewable projects, rather than land transactions. "There's more security because we escape land-value volatility."

He also notes that the company's borrowers have limited exposure to overseas markets. "Most of our customers serve the domestic, provincial economy." More than 90 percent of them, he observes, do no business abroad.

He says the prominence of food security as a national concern will prompt the UK government to continue to look after its farmers through tax breaks, grants, subsidies and incentives to finance productivity improvements.

"About 70 percent of the UK landmass is under control and managed by farming communities. Can you imagine how much investment they need every year to manage that land just to stand still? There's a huge opportunity to finance those efforts to increase productivity." ■