

# Food for thought

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## **Sarasin & Partners Deputy CIO Henry Boucher, explains the rationale for Sarasin's AgriSar Fund.**

Sarasin & Partners are global thematic investment managers. We have been developing (and indeed continue to refine) our thematic investment process for well over ten years and our core equity portfolios have now out-performed the MSCI World Index benchmark in four out of the last five years. Key to this success is our focus on identifying new trends and areas of global growth - we call these 'opportunity set'.

One of the opportunity set that began to emerge several years ago in our main thematic equity fund was in the food and agricultural space - the inevitable need to increase agricultural yields per hectare to meet growth in demand for food.

We identified this opportunity set as long term, inexorable, and of such a size that it warranted the launch of a dedicated fund. We launched **Sarasin AgriSar** at the end of March 2008 and as the fund's second birthday approaches we review the drivers and opportunities that make this such a compelling investment prospect.

Critical developments in the evolution of man have been often linked to a changing diet by anthropologists but investors have too often overlooked the value of food & agriculture in their portfolios. Indeed for the 30 years since the last "green revolution", the agricultural industry has been virtually moribund and the excess production that resulted in an EU grain mountain generated complacency and low food prices.

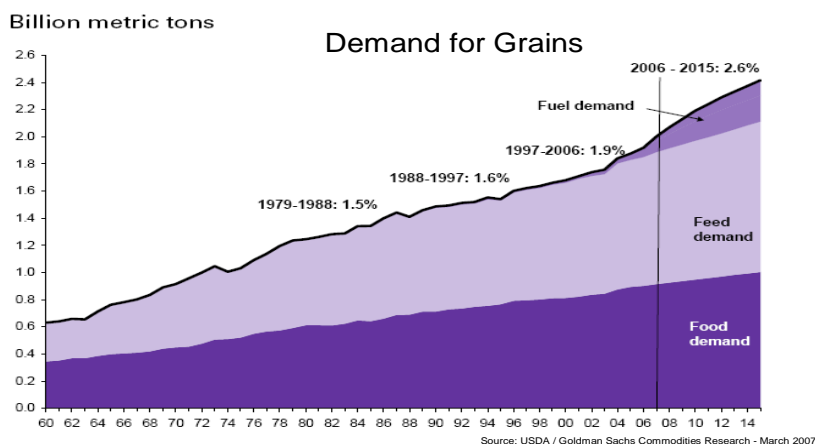
Investor attention was drawn back to the sector in 2007 when weak harvests drove grain prices sharply higher causing food shortages and riots in around 50 countries worldwide. Prices have since stabilised but the drivers behind the spike remain in place and make the food and agricultural arena a truly compelling opportunity. This is reflected in the growing wave of warnings from leading scientists, economists, government and non government agencies of the risk of a food crisis sparked by resource constraints.

House prices and recovering banks still dominate the developed country economies of Europe, North America, Australia and Japan. In terms of global GDP this is enormously significant but in population terms it is much less so. These countries represent only one billion people out of a total world population of 6.7 billion. For the vast majority of people in the world, incomes are rising from low levels and standards of living are improving – in particular, people are eating more and experiencing a much more varied and nutritious diet.

More meat, fish, cereals, dairy products, fruit, vegetables, sugar, vegetable and palm oils, wine, spices... year by year the demand increases as the average calorie intake per person rises. But the population isn't static. It has grown from 5.7 billion to 6.7 billion in just the last 12 years and the United Nations expects it to keep growing at over 60 million each year for the foreseeable future.

It is difficult to measure growth in the demand for food, but together with new demand for crops to turn into biofuels, it is estimated to be around 3% each year. However, the available acreage of agricultural land on which to grow more food is hardly growing at all. Total global agricultural land has expanded by only 0.24% p.a. since the early 1960s - as Mark Twain said "...they're not making it any more". The only solution to this imbalance between demand and supply is to increase agricultural productivity per acre.

## Food production needs to grow at 2.5% pa to meet dietary needs. Biofuel demand adds 0.5%-1% pa



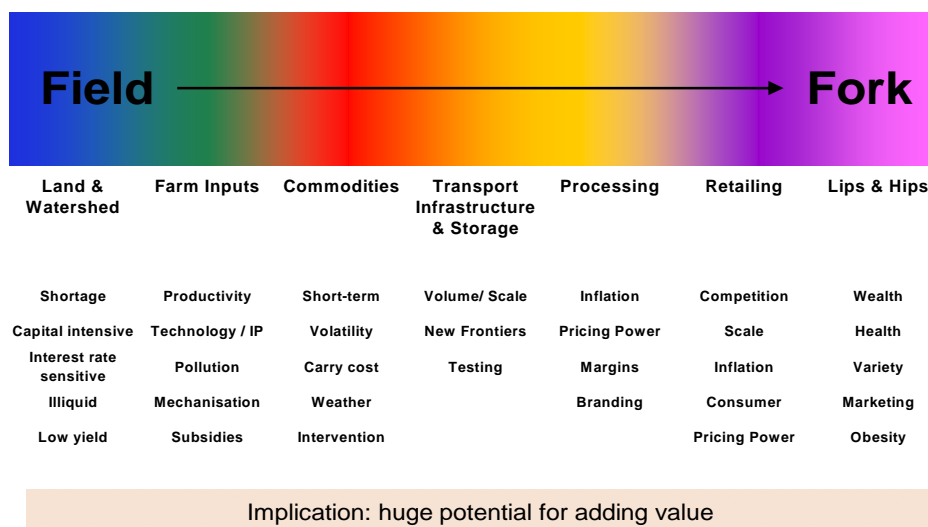
If the demand for grain increases by 2.5% for the next 30 years we will need to grow double the amount of grain that we do now!



There are 3 main ways in which investors can participate in the food and agriculture story; firstly to buy soft commodity futures, secondly to buy farmland, or thirdly to buy the equity of companies involved in the food value chain. Agricultural commodities are perishable and prices tend to be volatile, driven largely by weather conditions. Land, while a stable long term investment, has a low yield is very illiquid. We favour the equities investment route, which offers the exciting growth potential, liquidity and the ability to reduce volatility through diversification.

Through equities we are also able to access the full spectrum of opportunities that exist along the agricultural value chain "from field to fork". This spectrum can be roughly broken down into 3 areas - Production, Trade and Consumption – with multiple sub-opportunity sets highlighting a wide range of potential investments within each segment. In each case, we look to identify companies with a structural advantage (for example access to a strategic resource or unassailable intellectual property) that can act as a trigger for the stocks re-rating and long term out-performance of the wider market.

## AgriSar - Multiple investment opportunities across the agricultural spectrum



Consider an example from each end of the agricultural spectrum. Agriculture accounts for 70% of annual fresh water use globally and already underground aquifers in many areas of the world are significantly depleted as demand exceeds supply. As with carbon, we see the monetisation of water as a logical future development and have looked for ways to access this trend early. In India, the South West monsoon accounts for 80% of the total annual rainfall but last year Indian researchers who analysed rainfall data for the period 1951–2004 warned that the monsoon has been weakening. This lack of rainfall means India’s aquifers are not being replenished and farmers using old and inefficient irrigation systems are further adding to the water stress. The Indian government is therefore heavily subsidising and promoting the purchase of modern equipment and we see the country’s top irrigation equipment manufacturer, Jain Irrigation, as the major beneficiary of this trend.

At the other end of the spectrum, rising incomes per capita and increasing levels of urbanisation in emerging markets are enabling consumers to trade up to higher quality food and more diverse diets. By following the chain of this “premiumisation” we reach the conclusion that local food production companies with a significant domestic market share, recognisable brands, and a diverse portfolio of higher margin products should generate long term growth in profits. We believe that Want Want epitomises these characteristics with strong brands in rice crackers, milk shakes, fruit drinks, and other premium products. Want Want also benefits from its wide network of 33 processing plants around China giving it sales reach across the country.

It is quite likely in our opinion that the drivers of agriculture could create a performance trend very different from other available investment themes and dislocated from wider economic conditions. The pressures of climate change, water scarcity, energy shortages and trade battles all present further risks of sudden interruption to food supplies and to prices and increased opportunities for companies with the knowledge, technologies, or resources to offer solutions. We have entered a new era in which higher returns can be earned and are indeed necessary to finance new investment in productivity.

With core investments in agriculture since 2005 as part of our thematic investment process, Sarasin & Partners has the experience and positioning to effectively identify companies that though market positioning, pricing power, technological leadership, access to capital or control of resources, have the opportunity to achieve faster growth than the overall trend and manage exposure to such a powerful theme through the **Sarasin AgriSar Fund**.

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Please remember that you should not base decisions on past performance and that prices may fluctuate and you may not get back your original investment. The fund's risk category is 5 (1 low to 5 high) and a detailed description of the risks can be found in the Simplified Prospectus available from [www.sarasin.co.uk](http://www.sarasin.co.uk) Overseas shares and bonds may be affected by currency exchange rates.

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