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# PINSTripES, PITCHFORKS AND PROFITS

AGRICULTURAL LAND IS A BOOMING ASSET CLASS FOR WALL STREET INVESTORS

# WALL STREET LOOKS TO PROFIT FROM WORLD FOOD NEEDS

## SPECIAL REPORT

- Some \$15 billion plowed into farmland investments
- Backlash grows against what critics call “land grabs”

### BY CAREY GILLAM

BOSTON - Many firms in Boston's financial district invest in things you can't touch: currency futures, index options, credit derivatives and so on.

But on the 17th floor of a high-rise office tower here, more than a 1,000 miles from the nation's Midwestern farmbelt, buttoned-down strategists at Hancock Agricultural Investment Group are wagering serious money, if not quite betting the farm, on corn, soybeans and other crops.

No, it's not commodity trading. Hancock, a unit of Manulife Financial Corp, has so far plowed more than \$1 billion into actual farmland, mostly in the United States. It is among many large and small private equity firms, hedge funds, asset managers and other investment groups hoping to harvest long-term profits from the soil.

In Wall Street terms, the heartland is hot. Increasingly, big-city investors emerging from a bruising economic downturn sparked by the collapse of esoteric financial products are putting money into Illinois corn fields, California cranberry bogs and Brazilian sugarcane. Overseas, African farms, as well as ones in Australia and Eastern Europe, have emerged as financial opportunities.

“Interest has been growing,” said Hancock president Jeffrey Conrad, who calculates that his group picked up more than 30 new farm properties last year for investors. “In the age of derivatives and evaporating valuations, farmland is gold with a cash flow.”

Synthetic CDOs, naked shorts and structured finance are not going away. But investment groups say that agriculture has seldom been more appealing. Stubbornly high commodity prices and the steady appreciation in land values can translate to a solid inflation hedge with attractive potential long-term returns. And unlike most Wall Street products, nothing says fundamentals like a farm.

***“IN THE AGE OF DERIVATIVES AND EVAPORATING VALUATIONS, FARMLAND IS GOLD.”***

“This is not some derivative security. You can go to the farm and touch the soil,” said Edward Ho, a partner with the London-based Altima Partners investment adviser and hedge fund sponsor.

Altima, which already has about \$1 billion in farm and related investments, is planning to launch a new agriculture equity fund this spring. Several other firms say they will introduce similar funds this year.



Hancock President Jeffrey Conrad in Boston, April 30, 2010. REUTERS/BRYAN SNYDER

The World Bank and the United Nations Food and Agriculture Organization (FAO) cited the trend in a report in January, noting a “sharp increase” in agricultural investments the world over. Such private investment could offer significant benefits to the sector -- not to mention the human race -- by helping modernize farming tools and techniques, the agencies said.

Not everybody is thrilled by Wall Street's hay ride, however. At a World Bank gathering in Washington last month critics addressed the implications of the trend, calling it a modern-day land rush. They worry in particular about what they label an unfair transfer of valuable land and water resources from the poor to the wealthy.

Investment groups counter that their dollars are key to transforming a diminishing amount of arable land around the world into high-yielding, efficient food factories. And they don't see financial interest ebbing any time soon.

There is even talk of forming a publicly traded farmland Real Estate Investment Trust, similar to the REITs that were launched to make commercial real estate investing available to small investors.

“I do not believe it is a fad. When you look at the fundamentals they are very compelling,” said Jose Minaya, a former mergers and acquisitions specialist on Wall Street who now manages a \$2 billion agricultural investment portfolio at TIAA-CREF.



Razack Munboadan (C), senior manager with Karuturi, an Indian company with four commercial farms in Ethiopia, supervises workers at Karuturi's farm in Bako, central Ethiopia November 6, 2009. **REUTERS/BARRY MALONE**

With \$414 billion in assets under management, TIAA-CREF is one of the largest U.S. financial services companies. Its four-year-old agricultural portfolio includes investments in corn, soybeans, cotton, rice, wheat and barley fields as well as apples and vineyards.

***“THE END PRODUCT IS FOOD, WHICH IS ESSENTIAL FOR HUMAN LIFE.”***

“We want to go after the key factor in production -- the land,” said Minaya. “The end product is food, which is essential for human life.”

Industry estimates put the still nascent asset class of global farmland for investors at \$15 billion in equity spread among about 40 different institutional players globally. But the amount is likely much larger if you take into account government-linked companies such as sovereign funds, individual entrepreneurs and wealthy families.

**SOUTH AMERICAN SWEET SPOT?**

A lot of the action is taking place abroad.

South America is a particular draw. Investors there are hoping for 20 percent-plus returns from Brazilian soybean and sugarcane fields, which are key suppliers of food, livestock feed and ethanol.

What’s driving the market there and elsewhere is staggering Chinese demand for soy products. With an abundant supply of arable land but still undercapitalized farmland in the region, investors hope to generate profits by modernizing equipment, improving farming practices and using better seeds and chemicals that will ultimately yield higher crop production.

Africa, the world’s poorest continent, is another hot spot as investments in infrastructure, fertilizer and equipment have long been lacking and are expected to make a big difference in productivity.

The European firm Emergent Asset Management launched an African Agricultural Land Fund at the end of 2008. It plans to open a “subfund” for Africa in the second quarter of this year that will include crops, biofuels, game farming and timber, among other things.

Another firm that is launching an Africa agriculture fund is London-based SilverStreet Capital LLP.

Worried about the need to feed a huge and booming population, Chinese interests are working in some African countries to help raise food and biofuel production. Water-poor Middle Eastern and Gulf nations are also looking to secure food supplies as the world population is forecast to rise from 6.9 billion to more than 9 billion by 2050 and experts fear that feeding so many people could prove difficult.

**A BACKLASH SPROUTS**

Unlike derivatives and other less tangible financial products, farms can arouse nationalistic passions. The moves in Africa in particular have engendered some criticism, with charges of neo-imperialism.

“This is new and it is a massive amount of money. There are numerous concerns,” said Devlin Kuyek, a spokesman for GRAIN, a global nonprofit advocating for “community-controlled” and biodiversity-based food systems.

In a statement co-sponsored by more than 100 organizations from around the world GRAIN is calling for protection of community-oriented food and farming systems based on “local people’s control over land, water and biodiversity.”

Kuyek said the investments in farmland by large investors undercuts small farmers who cannot compete to buy ever higher priced land, essentially putting investors in a position of “profiting from hunger.”

GRAIN, along with the groups from Africa, Asia, Europe and elsewhere, said in a statement that the “current farmland grab... will undermine peoples’ self-determination, food sovereignty and survival as never before.”



A Paraguayan farmer checks his soybean plants on his farm in Minga Guazu, eastern central Paraguay, April 14, 2010. **REUTERS/STRINGER**

## “LAND SHOULD NOT BE TREATED LIKE WIDGETS. IT IS JUST TOO IMPORTANT.”

The groups said the “multi-functionality, and ecological, social and cultural values of land are being negated” as land is being revalued on purely economic terms.

John Peck, a spokesman for the U.S.-based Family Farm Defenders, said institutional investments in farmland distort food production to favor the most profitable crops rather than the most nutritious. Non-farm investor land grabs can be environmentally destructive if investors put short-term profits ahead of long-term environmental sustainability, he said.

“Land becomes a speculative commodity,” said Peck. “But land should not be treated like widgets. It is just too important. We shouldn’t allow speculators to run it. All this footloose capital running around looking for somewhere to put it... is a problem.”

The World Bank, the FAO, the International Fund for Agricultural Development and the United Nations Conference on Trade and Development have acknowledged the concerns and are pushing what they call principles for “responsible agricultural investment” and some degree of independent monitoring.

The organizations said they are seeking input from stakeholders, including investors as well as social organizations to identify ways that agricultural investment can contribute to national strategies for development and poverty reduction.

They are also evaluating how incentives and regulations should be structured, and ways for the private sector to incorporate social and environmental concerns into their projects.

### FERTILE FINANCIAL CRESCENT

Investors seem undeterred by the controversy.

“There has been reaction, yes. But I personally don’t believe we have a chance of feeding the world without large scale farming,” said Hunt Stookey, managing director of HighQuest Partners strategic consulting group. “This sector has been underinvested for decades.”

For groups like Hancock, which invests in farmland in Australia and Canada as well as the United States, the evolving issues of the agricultural investment represents a challenge as well as an opportunity.

“We’re always analyzing where we can go to add to our global platform,” said Oliver Williams, Hancock vice president of asset management. “We like to cast the widest net possible.”

Overall, in the last four years, foreign buyers have bought or are negotiating to buy up to 20 million hectares (49 million acres) of land in poor countries, according to the International Food Policy Research Institute, a Washington, D.C.-based think tank. That represents an area nearly three times the size of Ireland.



Activists from the International Peasant Movement (La Via Campesina) and the “Civil Society Forum People’s Food Sovereignty Now!” take part in a demonstration outside the Food and Agriculture Organisation (FAO) headquarters in Rome November 16, 2009, where government leaders and officials were attending a U.N. summit on how to fight global hunger. REUTERS/GIAMPIERO SPOSITO

In the United States, returns on agricultural investments are smaller due to a more mature farming model that already exploits the latest technology. But the investments are still attractive, said Chas Bonner, business development manager for Scythe & Spade Co., a farm management and advisory group that works with private investors to identify deals.

From 1990 through 2009, the average annual return on U.S. farmland ownership, including income and appreciation, was just over 11 percent, according to the National Council of Real Estate Investment Fiduciaries (NCREIF). By way of comparison, the S&P 500 index of leading company stocks showed an average annual return of 8.55 percent over the same period, including dividends and appreciation.

U.S. farmland values held up surprisingly well even during the recession, appreciating 0.78 percent in 2009 and generating 5.50 percent income for the year. In contrast, commercial property values, which includes apartments, hotels, industrial, office and retail properties, declined by 22 percent in 2009, according to NCREIF.

## “THIS SECTOR HAS BEEN UNDER-INVESTED FOR DECADES.”

“The returns are really attractive. There are more and more high net worth guys who are starting to realize this,” Bonner said.

Barriers to future growth remain, however. For example, not every U.S. farming state allows institutional ownership of farmland. Iowa, the top U.S. corn-growing state, has such a ban. Minnesota, the Dakotas, the top wheat-producing state of Kansas, and others also have similar restrictions.

"We don't want to be anywhere where people don't want us to invest," said Kenneth Warlick, Hancock's director of acquisitions.

Along with the complexities of varying state laws, putting together portfolios for investors involves more than just looking at soil quality. Hancock also analyzes community infrastructure, grain storage, roads, water and input supplies, Warlick said.

## U.S. FARM MANAGERS BUOYED BY BABY BOOM, LAND VALUES

By Christine Stebbins

OMAHA, Nebraska - Jim Farrell doesn't look like a typical tractor-driving farmer. But he doesn't look like a Wall Street titan, either. Maybe he's a little of both.

Relaxing in his suburban office nestled in the agricultural U.S. heartland, Farrell sketches his job as the single largest professional manager of farms in the United States.

"One of the statistics people forget is how much farmland is owned by folks who do not farm it. Throughout the central Midwest, 50 percent or better is owned by people who do not farm it. It's all land that is leased to farmers -- either custom farmed, share cropped or cash rent," Farrell said.

Farrell's company, Farmers National, manages over 4,500 farms in 23 states covering 1.5 million acres of crops, pastures, a total that is roughly the size of the state of Delaware, along with forests, hunting grounds and oil and gas interests.

Each year his farms sell about 25 million bushels of corn, 5 million bushels of soybeans, a million bushels of wheat -- a value of about \$142 million based on current prices -- along with many other crops for the owners.

It's a booming business, he says, driven by demographics of aging farm owners and investor interest in U.S. farmland. The 50- and 60-year-olds of the post-war "Baby Boom" generation are inheriting more properties as absentee owners, requiring his management services. Despite their severed ties to farm life, many farm heirs and aging owners also remain reluctant to sell -- underpinning land and farm prices.

"When you have 80 percent of the land owned by people over 65, obviously there is a lot of transition going on," he said.

"The next generation is the baby boomers. They are the folks inheriting the land right now. One of the trends we are seeing is fewer and fewer of them are willing to sell the farm, they are holding it.

In some areas, Hancock buys the land and then leases it back to farmers or their managers, while in others it manages the properties itself. Tight margins and fluctuating commodity prices are among many complexities that must be negotiated, Warlick said.

"There is no slam dunk," he said.

(Editing by Jim Impoco and Claudia Parsons)



Jim Farrell, president and CEO of Farmers National Company poses in his office in Omaha April 30, 2010. REUTERS/RICK WILKING

"When a farm comes up for sale it's almost always nonoperating land owners or heirs selling. Farmers only sell land when they have to," Farrell said.

When farms are up for sale, he added, farmers and their heirs also remain the most active buyers of U.S. farmland, representing about 75 to 80 percent of today's buyers. But newcomers, "part-time" or "hobby" farmers are also growing as a buyer class, some for "lifestyle" and some for security.

"It's a stable investment. They've watched stock portfolios up and disappear, companies disappear where the stocks just go away, i.e. General Motors. The farm will always be there ... there is that stability of the investment. For a lot of people that is kind of comforting," he said.

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COVER PHOTO: Workers harvest soy on a farm in Correntina, Bahia April 1, 2010. Brazil's 2009/10 soybean production was estimated to be 67.5 million tonnes. REUTERS/PAULO WHITAKER