



# Agri-investing for the long term

The investment case for responsible investments in agriculture



Summary report of the conference hosted June 17, 2011 in Geneva, Switzerland



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Federal Department of Foreign Affairs FDFA  
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Political Affairs Division IV, Human Security



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## Conference Report

# Agri-investing for the long term

## The investment case for responsible investments in agriculture

Geneva, 17 June 2011

Date: 17 June 2005

Venue: Centre International de Conférences in Genève, Switzerland

Hosted by:

- onValues Ltd.
- Swiss Federal Department of Foreign Affairs
- UN Global Compact
- UN-backed Principles for Responsible Investment

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- Published on 2 August 2011



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## Glossary

CBOT	Chicago Board of Trade
CFCT	U.S. Commodity Futures Trading Commission
ESG	Environmental, social and governance
FAO	Food and Agriculture Organization
OTC	Over-the-counter
PPP	People-Public-Private Partnerships
PRI	Principles for Responsible Investment
WEF	World Economic Forum

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## 1. Introduction

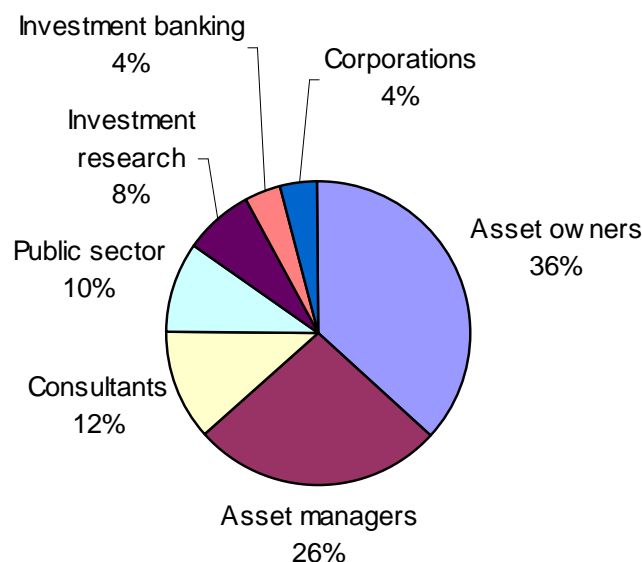
This report summarises the outcomes of the conference “Agri-investing for the long term: The investment case for responsible investments in agriculture” held on June 17, 2011 at the Centre International de Conférences in Genève, Switzerland. The meeting was hosted by onValues Ltd., with support from the Swiss Federal Department of Foreign Affairs, the UN Global Compact, and the UN-backed Principles for Responsible Investment (PRI) and was part of a multi-year research project on responsible investment in commodities.

The distinguishing features of the meeting included:

- A focus on environmental, social and governance (ESG) issues and their implications for investment risk and return
- Coverage of different types of investments providing exposure to agriculture, including soft commodities, farmland, and listed equities.

The meeting gathered professionals from the agricultural investment and responsible investment communities to discuss the unique challenges and opportunities in the agricultural sector. By design, the meeting was led by asset owners (mainly pension funds), who, as ultimate decision makers in the allocation of capital can send important signals to the investment community and the economy at large. The meeting, however, also included asset managers, researchers and representatives from the public sector, who play an important role in implementing and informing investment decisions and setting policy. The share of different types of conference participants is shown below.

**Participants by Type**





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### Goals of the conference:

- To highlight the opportunity, but also understand the challenges of investing in agriculture
- To clarify the role of responsible investors
- To develop actionable recommendations for investors
- To identify areas for further research and engagement

### Key questions on which the meeting focused:

- What role do investors have in contributing to the stability and sustainability of agricultural markets?
- Why are environmental, social, and governance (ESG) issues financially and reputationally material for investors?
- What can be learned from the most innovative investors in terms of taking ESG issues into account in investment strategies and active ownership?
- Can a set of guidelines for investment in agriculture be defined and supported by a wide range of investors?
- How do we turn private sector investment in agriculture into a WIN (for local communities) – WIN (for pension fund beneficiaries) – WIN (for society and the environment) opportunity?

The day was conducted under Chatham House Rule, giving participants a protected space to candidly assess challenges and realities. The publication of this meeting report, however, allows us to reach a wider audience, including the PRI signatory community.<sup>1</sup> While this report covers in detail what was discussed at the meeting, a more complete report on the entire commodities spectrum will follow in September 2011, providing a standalone reference for responsible investment in commodities.<sup>2</sup>

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<sup>1</sup> 915 institutions with approximately \$25 trillion in assets under management

<sup>2</sup> All reports will be available at [www.onvalues.ch](http://www.onvalues.ch)

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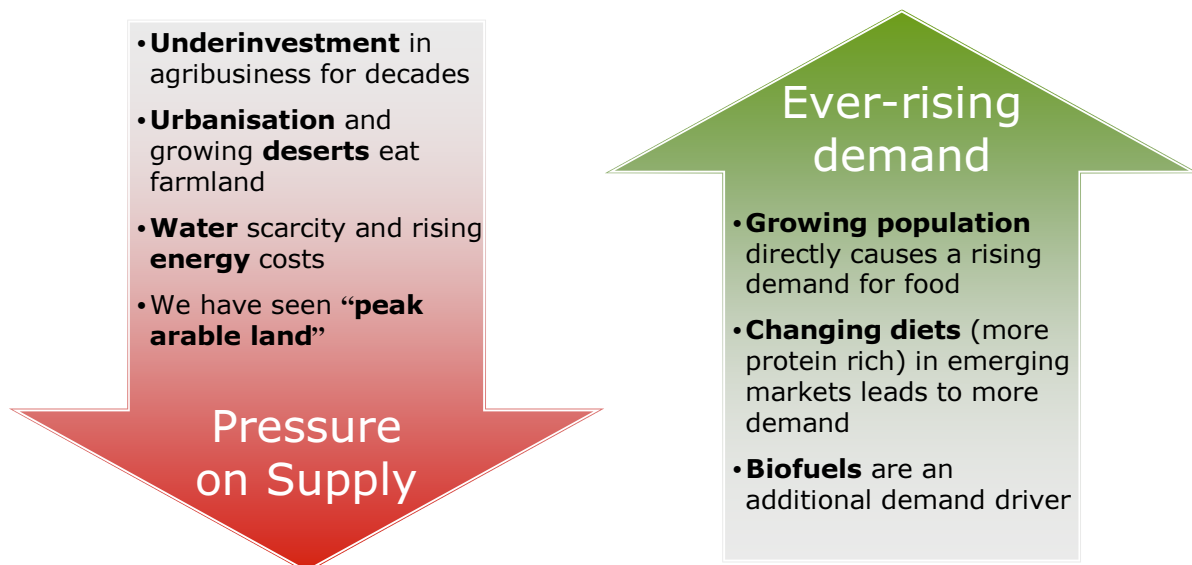
## 2. Setting the stage – Why agriculture?



Source: ILO, FAO, WWAP

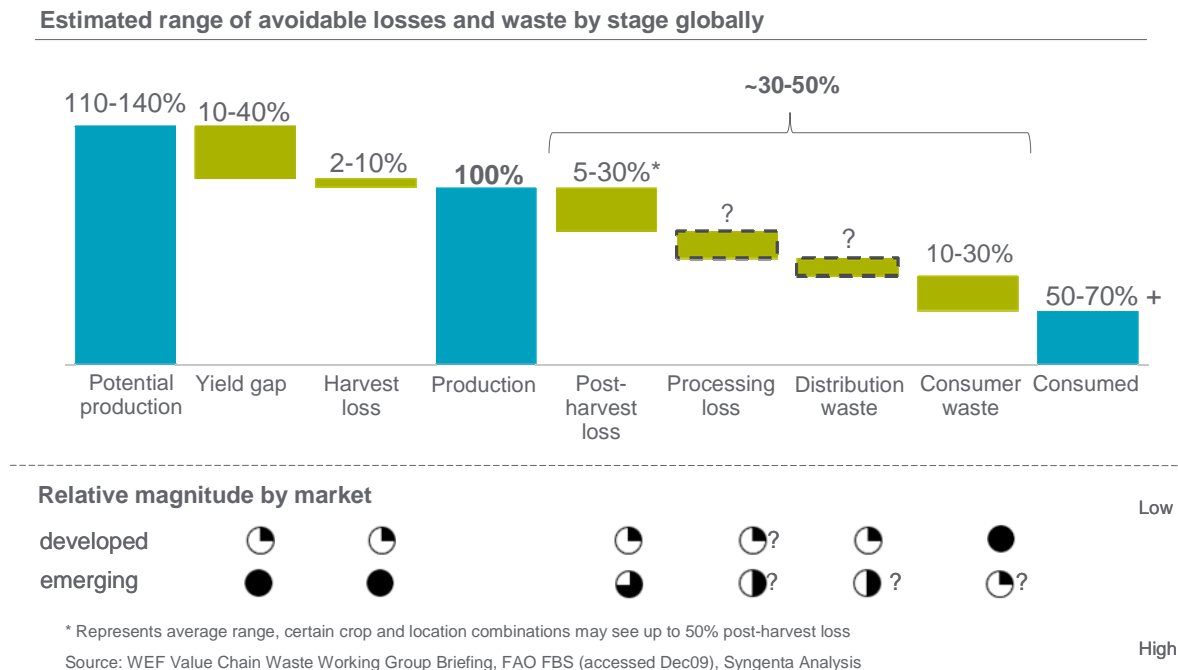
Perhaps more than any human activity, agriculture defines our society and its relationship to the natural world. In our multi-year project on responsible investment in commodities, we chose to give agriculture a special focus because of the high relevance of ESG issues and because agriculture has risen to the top of the global agenda as policymakers realise its critical position in the coming decades.

According to the UN, the world will need to produce 70% more food by 2050 to satisfy global demand. Growing populations with an increasing appetite for protein-rich foods, coupled with new uses for food materials such as biofuels, all serve to push up global food demand. At the same time, however, food supply is constrained by a legacy of underinvestment, limits to arable land and growing water scarcity.



Source: DWS, Credit Suisse, onValues

Moreover, addressing the world's food problems means more than increasing the sheer amount of food produced on the farm. That food must reach end consumers, be financially accessible and be nutritionally sufficient.<sup>3</sup> The chart below illustrates how food fails to reach consumers due to inefficient production and losses in the agricultural value chain:



The world needs new approaches to food security. Strategies to increase food availability by simply bringing more land under cultivation, mining groundwater or applying more agri-chemicals to crops will not be sufficient to feed 9 billion people. Agri-chemicals rely on non-renewable resources such as phosphorus for their production and scientists also have singled out the excessive use of agri-chemicals (alongside the burning of fossil fuels) as one of the most critical oversteppings of planetary thresholds.<sup>4</sup> Arable land is also a finite resource, and the current rate of arable land expansion cannot be sustained given the limited size of arable land reserves. Water scarcity has begun to effect agricultural regions around the world. Future agriculture must navigate these challenges by improving practices in both the developing and developed worlds, and must do so with a greater awareness for total system function. A system that fails to consistently deliver adequate, affordable nutrition to one-third of the world cannot be called sustainable.

<sup>3</sup> United Nations High Level Task Force on the Global Food Security Crisis, "Updated Comprehensive Framework for Action", 2010.

<sup>4</sup> Rockström et al., "A safe operating space for humanity", *Nature* 2009.

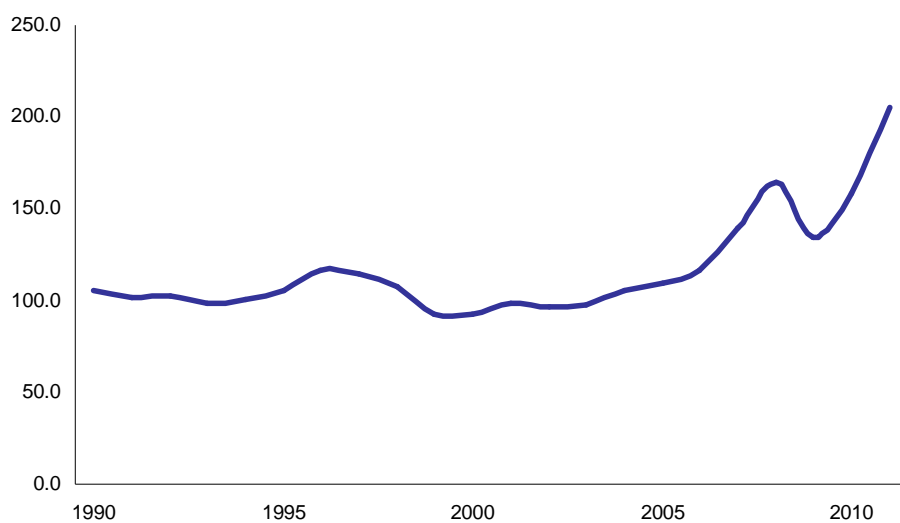
The chart below summarises the gap between conventional approaches and future needs in agriculture:

	Yesterday's approaches...		... will not be sufficient tomorrow
Resource utilization	Convert potential arable land to cropland		Diminishing land availability, soil degradation, high environmental cost
	Rapid scaling of irrigated land area, overdraw on groundwater		Depleted ground water stores render urgent water efficiency measures
	Agriculture's environmental impact accepted or ignored		Environmental sustainability as necessary stipulation
Productivity growth	Reliance on increased yields in developed countries		Yield growth in developing countries vital to meet global demand
	Acceptance of low smallholder productivity		Smallholder improvements critical to address global hunger and poverty
Scope improvement	Priority on calories and increasing cereal production		Importance of crop diversity, nutritional content and food affordability
	Focus on farm-level output and yield		Efficiency in whole value chain necessary for access, food security

Source: WEF

Supply-demand dynamics have led to decreasing food reserves around the world and a doubling of real food prices over the past decade (see graph below). This has made the global food system more prone to price shocks, leading to food riots, export restrictions and political instability.

**UN Food Price Index (Real)**



Source: UN



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The agricultural system, therefore, will require investors that are attuned to the unique environmental, social and governance issues involved in the production, distribution and consumption of food. “Agri-investing for the long term”, as the first investor-led conference exclusively focused on the sustainable agriculture investment case, aimed to showcase innovative approaches in this area and to begin a productive dialog within the investment community that will lead to the responsible mobilization of long term capital.

### **3. Food security: A challenge to find win-win-win solutions**

David Nabarro, UN Special Representative on Food Security and Nutrition, opened the meeting with a keynote speech on food security. Giving a sense of perspective to the audience, Dr. Nabarro stated “my fundamental concern is that 1 billion people are chronically hungry and a further 1 billion suffer from nutrient deficiency.” His speech contextualized the day’s proceedings and focused on the role of the private sector in improving food systems.

The food price spikes of 2007 and 2008 exposed fundamental defects in the global food system. While the recession-induced drop in prices in 2009 seemed a return to normalcy, in 2011 we now face prices that are higher than 2008 peaks. While a gradual increase in prices can help farmers increase their revenues, such volatility hurts small farmers who are unable to plan harvests ahead of time. It also hurts the very poor, living on less than \$1 per day without a safety net if food becomes unaffordable, as well as governments that are importers of food and have no recourse if adequate supplies become unobtainable.

David Nabarro pointed to the fact that the structural defects in the world food system stem from decades of underinvestment. From 1980 to 2000, the share of official development assistance dedicated to food and agriculture fell from 18% to 3%. Given that over 50 of the world’s poorest nations have economies almost 100% based on agriculture, the consequences for development have been serious.

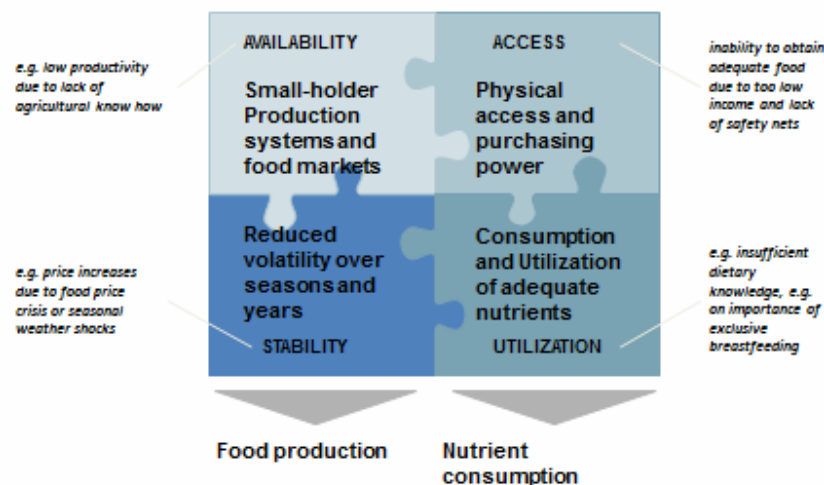
According to David Nabarro, rehabilitating the global food system will require innovative approaches that necessarily involve the private sector. Whereas five years ago the development community could have raised a large fund of concessional aid from donor countries, that money is increasingly hard to come by.

## Food security

The first step in enhancing food security is to understand what it is. Food security does not simply mean producing more food. While population growth will test the world's ability to supply enough food in the coming decades, food is not scarce globally. A gross lack of food does not explain why one-third of the world is chronically hungry or under-nourished.

Food security connotes the availability of sufficient quantities of food, physical and financial access to food, seasonal and long-term stability of food supplies, and nutritional utilization of food:

### ELEMENTS OF FOOD AND NUTRITION SECURITY



Source: UN

The private sector should look for “win-win-win” solutions that create value for local communities, host states and profit-oriented investors. These are the polar opposites of “land grabs” where sovereign wealth funds, governments or certain corporations displace locals with the connivance of their own state. Instead, such solutions put the local people involved in agricultural production at the heart of projects.

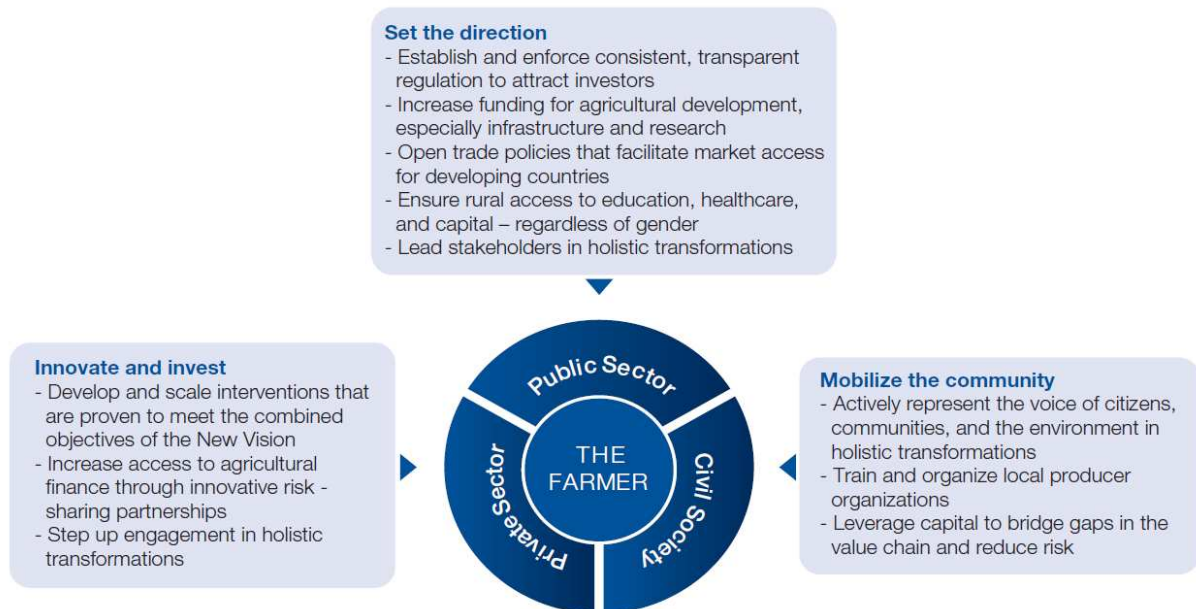
A chief example of such “People-Public-Private Partnerships” (PPP) is the World Economic Forum’s (WEF) New Vision for Agriculture.<sup>5</sup> Working across a group of 20 corporate members of the WEF, and leveraging the UN system to access civil society and national leaders at the highest level, the New Vision for Agriculture plans and manages large-scale projects that take an

<sup>5</sup> World Economic Forum, “Realizing a New Vision for Agriculture: A roadmap for stakeholders”, 2010.

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integrated approach to improving whole agricultural value chains, whether by region or agricultural commodity.

The graphic below illustrates the unique roles played by the private sector, public sector and people (civil society) in forming win-win-win solutions:



Source: WEF

To conclude, David Nabarro stressed that there are many opportunities for new business in PPP approaches, though building sufficient trust among the actors takes time. It requires proper facilitation and, importantly, the consistent backing of national leaders in the host countries who may face pressures from human rights groups that are sceptical of the private sector. Experience to date has been encouraging and shows a way forward for addressing food security.

#### 4. Opening plenary: The investment case for responsible investments in agriculture

\$83 billion in agricultural investment will be required annually to feed 9 billion people in 2050, according to the FAO. Meeting this goal, however, will pose issues of environmental and social sustainability. While governments and public funds have an important role to play in setting responsible agricultural policies and supporting initiatives to protect the most vulnerable, the private sector must also contribute funds and expertise to addressing the world's food challenges. This session discussed in detail just how the private sector can and should contribute to forming the agricultural system of tomorrow.

The expert panel for the session consisted of:

- Philippe Desfossés, Director of the French pension fund ERAFP
- Juan Gonzalez Valero, Head Public Policy and Partnerships at Syngenta

- David Hallam, Head of Trade and Markets Division at the FAO
- José Minaya, Head of Natural Resources & Infrastructure Investments at TIAA-CREF
- David Nabarro, UN Special Representative on Food Security and Nutrition

Ivo Knoepfel of onValues moderated the session.

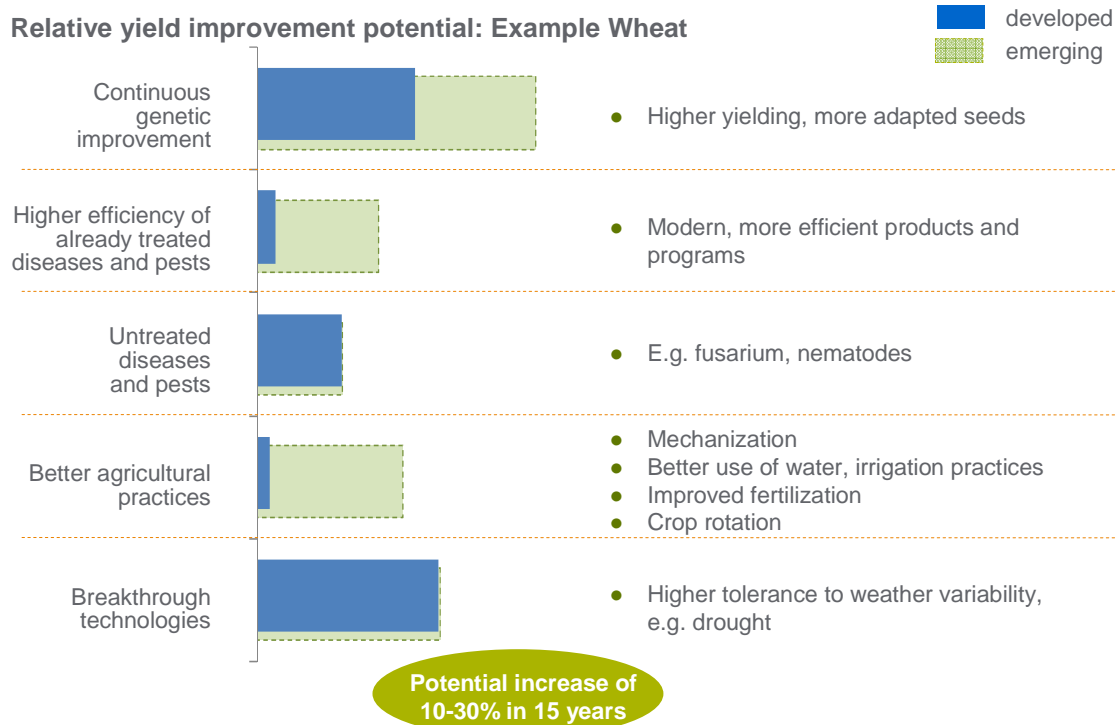
The key questions explored were:

- What role is there for private investors in agriculture?
- How can the investment community navigate the challenges of building an agricultural system that meets the needs of more people with less impact on the planet?

## Key insights from the session

The role of private investors

- The audience heard persistently from diverse participants (both public and private) that agriculture is an undercapitalized sector. This owes to a legacy of historically low prices due to domestic subsidies and trade barriers. Rising food prices have attracted investor attention, but new capital must be deployed in a way that supports new models for the food system, rather than reinforcing old practices.
- Participants spent significant time discussing the role of technology. There was a general view that all technologies must be on the table to meet future demand, plus new technologies. This presents a clear role for the private sector, as one participant said: “Meeting the new demand requires a new innovation S-curve. That means investment.” and, finding a reason for optimism, “We have coped with much higher demand growth rates in the past”. The chart below illustrates potential yield increases from technology in developed and developing countries:



Source: Syngenta

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- However, participants also recognized that technology is just a means for farmers to do their job better, a link between people and nature. Farmers must be able to access capital to invest in technical improvements. They also must find ways of managing the risk of such capital investments. The growing problem of farm indebtedness and increased uncertainty on global food markets will deter necessary investments unless the private sector finds innovative solutions.

#### Navigating social and environmental challenges

- The opening plenary previewed the detailed discussion of ESG issues in farmland, equities and derivatives that would happen later in the day.
- Some participants stressed the fact that, while the awareness for environmental factors has increased in the past years, investors need to focus more on social issues (incl. human rights, workplace safety, the situation of smallholder farmers, local food security) especially as investment activity will increasingly move to developing countries.
- While the impact of single issues such as water scarcity, climate change, and political risks is increasingly understood, panellists pointed to a lack of understanding of the cumulative effects of the many ESG aspects involved.
- Participants from the public sector suggested that investors at the leading edge of social responsibility could play a major role in improving the image of the private sector by clearly articulating their commitment to sustainable investment in agriculture
- Meeting participants expressed a clear interest in developing investment partnerships with the help of corporate and public sector actors, which would be “win-win-win” outcomes for beneficiaries, local communities and national governments
- Another point made was that, given developing countries are clearly the next frontier for institutional investors, it is important to prepare now for the unique set of issues associated with those investments.

## 5. Panel discussion – Agricultural land investments

In recent years, farmland has attracted increased investor interest due to its characteristics as a “real asset”. Low correlation with other assets, recurring cash flows and a certain protection from inflation have drawn institutional investors to become farm owners in both developed and developing countries. While new sources of capital are a positive development for a sector that has suffered from chronic underinvestment over the past three decades, this development has also thrown up challenges of marketplace transparency and investor accountability, as well as concerns over the environmental and social impact of increased investment flows. Investors active in this area should be aware of these ESG issues and take steps to manage them in their farmland investments.

The expert panel for the session consisted of:

- Graham Davies, a Consultant with the farmland fund manager Altima Partners
- Jos Lemmens, Senior PM Commodities and responsible for land investments at APG
- Desmond Sheehy, Managing Director with the farmland fund manager Duxton AM
- Christof Walter, Sustainable Agriculture Manager at Unilever

The session was moderated by Bernd Schanzenbächer, Managing Partner and responsible for agricultural land investments at EBG Capital.



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The key questions explored were:

- What are the most relevant ESG issues involved in managing farmland assets, and why should investors consider them?
- Given that farmland investments are made both directly and indirectly through specialist managers, how can investors ensure that material ESG factors are considered in the management of their investments?
- What role can voluntary standards play in increasing transparency and improving ESG outcomes?

The opening plenary also provided input on farmland investment topics, and those discussions are incorporated here where relevant.

### **Key insights from the session**

#### ESG issues in farmland

- “Responsible investment in agriculture is a necessity, not an option”, said one participant. Investors clearly articulated that an integrated approach to environmental (water, soils, deforestation), social (local communities), and governance issues was central to maintaining and unlocking value in any farmland investment. On the social front, it was more difficult to achieve consensus. On one hand, certain participants linked social performance directly to investment results. For example, keeping good relations with farmers in a region is an excellent way to source deal flow. Or, conducting covert audits of labour conditions is a responsible way to monitor for potentially large reputational risks. One participant explained that his firm works with local operating partners that have a long track record in their region and therefore have a vested interest in preserving good relations with local communities. At the same time, however, other participants were forthright about the fact that large-scale investment in agriculture aims to increase the efficiency of farms, meaning that less people are needed to work the land. While the people who are needed enjoy better jobs, in this scenario, the social contribution of the investor comes more in the form of providing increased tax revenue to the local governments and working on voluntary basis to improve the situation of local communities. It needs to be said, however, that different types of investors (depending on their investment strategy) will pursue different approaches, and put varying degrees of emphasis on the different element of this integrated approach.
- Overall, participants agreed that consideration of ESG issues increases the value of investments in the medium to long term
- Among all the ESG issues that can impact the value of a farmland investment, water came up most frequently and forcefully in the discussions. One participant went so far as to say that the water available to a property was worth more than the land itself.<sup>6</sup> As such, the sustainable use of water resources (whether they be groundwater reserves, or local rivers and lakes) on agricultural land is deemed critical by all investors, if the value of that land is not to be eroded.
- Pension fund participants made the case that owning land for the long term promotes stewardship among investors
- One participant observed that the need to conduct proper due diligence limits the possibility of investing in low transparency locations

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<sup>6</sup> A full overview of the ESG issues involved in farmland investment can be found in “Responsible Investment in Commodities“, onValues Ltd., January 2011 or in the forthcoming summary report on responsible investment in commodities by onValues Ltd., September 2011.

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- While the private sector investors around the table supported the view that ESG issues are central to farmland investments, this prompted one participant to question if anyone in fact does not support this view, asking, “who are the black hats?”. There are a number of investor groups which were not present at the meeting who do not prioritize ESG issues. Some of them for example acquire land to secure a stable supply of food for their citizens and do not respond to the same dynamics as the institutional investors in the meeting. Some of the participants felt that their ESG practices were already advanced, but that they could do more in terms of publicising / being transparent with their investments.

#### The role of voluntary standards

- Investment managers on the panel had their own set of internal guidelines (developed in accordance with their investors / clients) to which they adhere. Participants agreed that, because the concept of “responsible investment” is open to interpretation, detailed voluntary standards are a good way to clarify what practices are expected of investment managers and operators
- According to the asset manager representatives in the room, once end investors specify guidelines, these become hard rules for investment managers. The asset managers, however, feel that too prescriptive rules may restrict the needed flow of capital into certain regions and areas.
- A panellist presented the Unilever Sustainable Agriculture Code, which is a voluntary standard that Unilever developed in the interest of securing its supply of raw materials. The Code was developed from scratch in places, and in others was mapped to existing standards. Hence, in practice, the company will recognize the validity of those pre-existing standards.
- Therefore, there was broad agreement that voluntary standards—either new or adopted from existing best practice guidelines—will improve ESG outcomes in farmland investments, particularly by increasing transparency and allowing best practices to scale up
- Participants questioned, however, how applicable voluntary standards could be to smallholder farmers. There is a risk that such standards create another entry barrier for smallholder farmers wanting to access supply chains. Agricultural extension services could possibly bridge the gap between standards developed for large farmers and smallholders.
- Additionally, there was broad recognition that the host country government must set the conditions for voluntary standards to be effective, particularly enforcing the rule of law. It is the governments of nation states that have attention of and relationships with the different investment groups, and it is these governments who have the ability to veto an investment. This is clearly an area where more work needs to be done in order to promote appropriate policies at this level.

## 6. Breakout 1 – Commodity derivatives investments

Commodity futures and over-the-counter (OTC) derivatives are the most common way for investors to gain exposure to commodity markets. Therefore, it is critical for investors to understand their own impact on these markets and to invest in a way that supports their proper functioning. This session posed questions to investors with the goal of arriving at insights that will help others invest in a responsible manner.

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The expert panel for the session consisted of:

- Helene Winch, a commodities expert and Director of Policy at BT Pension Scheme
- Jeremy Baker, a commodities hedge fund manager at Harcourt Investment Consulting
- Marek Ondraschek, CIO and long-only commodities fund manager at ALNUA Investment Managers
- Beat Zaugg, an investment consultant commodities specialist at ECOFIN

The session also benefited from independent research that had been conducted over the past year on this topic by the moderator, Ivo Knoepfel of onValues.

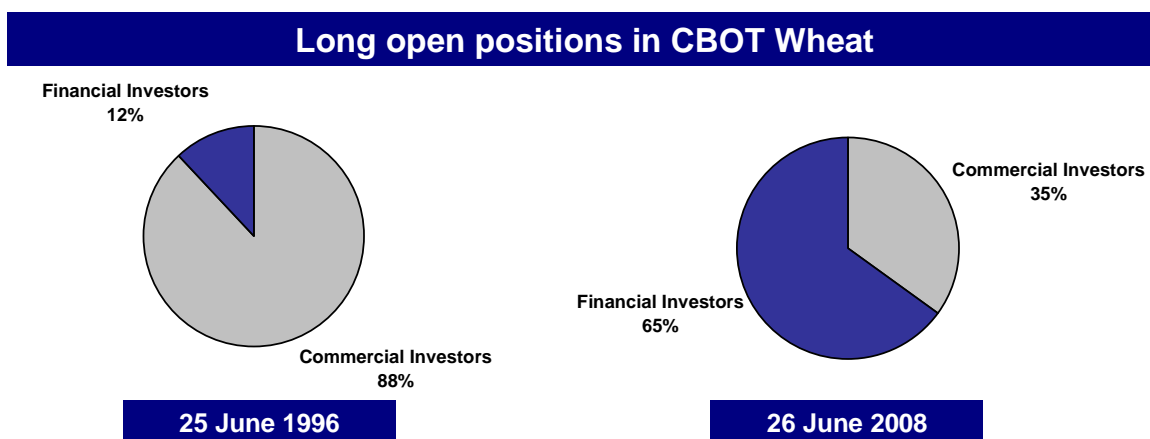
The key questions explored were:

- Is increasing financial investment in commodity derivatives influencing prices levels and volatility, and how?
- How can investors contribute to well-functioning markets and avoid negative impacts?
- What is needed from other actors (e.g. regulators, index providers, traders, etc.) to ensure well-functioning markets?
- What innovative approaches exist to better integrate ESG factors in commodities investments?

### Key insights from the session

The impact of financial investors on commodities markets:

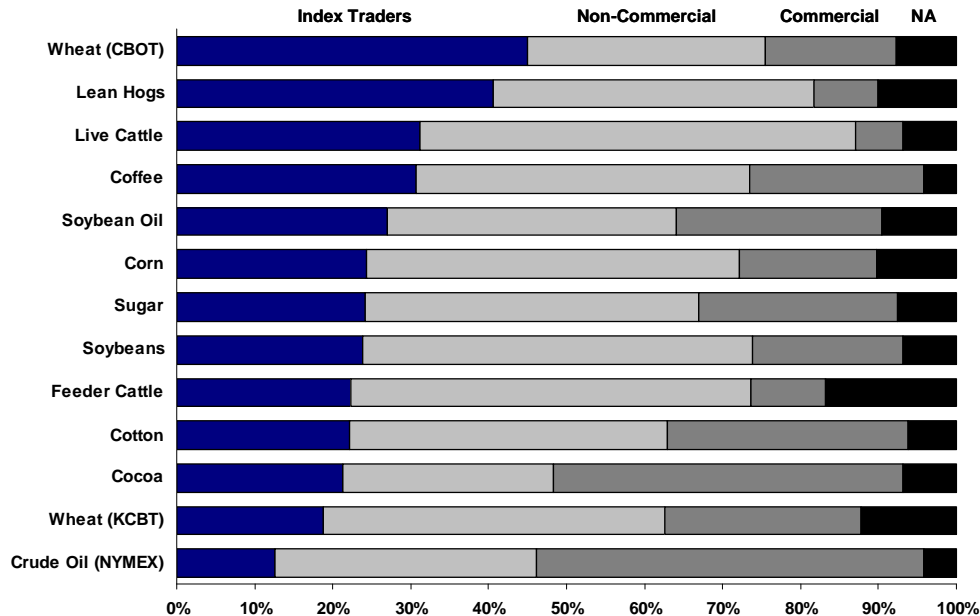
- While it is difficult to definitively attribute changes in price levels and volatility to financial investors, investors themselves clearly recognize that in the short term their actions impact prices and contribute to higher volatility. In the medium and long term, prices are more likely driven by fundamentals.
- Participants observed that the sheer size of futures markets has led to a shift in price discovery from the spot to the futures market. The growth in futures markets has been driven by the increased role of financial investors (as can be seen from the graph below showing how financial investors have become the leading players in CBOT wheat futures markets, compared to fifteen years ago)



Source: Better Markets

- Several participants stressed that financial investors can play a valuable role in supplying liquidity to commercial hedgers

- The discussion pointed to the fact that large inflow in index tracking funds, often motivated by other reasons than fundamental considerations (e.g. herding around a trend or investors allocating to commodities for diversification reasons) can create 'bubbles' in commodity markets and drive prices. The graphic below shows the significant role played by index traders in various markets:



Source: CFTC

- Certain participants felt that investments in commodity derivatives have become less attractive in recent years due to contango and other effects, which has prompted increased investor interest in real assets

#### A potential role for responsible investors:

- There were diverging opinions about passive investment strategies. Some argued that only passive approaches provide a reliable hedge against inflation and that frequent rebalancing of commodity index allocations within a portfolio tends to stabilise prices, as the investor is a seller of futures when prices go up excessively (and vice-versa). However, other participants argued that, from a financial return perspective, passive approaches will not be able to adjust to periods where commodity markets are highly correlated to equity markets, and therefore active approaches may be preferable overall.
- Participants generally recognized that aggressive momentum-driven strategies can create price bubbles and should be avoided
- Most participants agreed that financial investors should avoid taking physical delivery of commodities
- Investors can use multiple investment channels to avoid single investment managers or funds attaining a dominant market position, emphasised one participant that had seen firsthand how managers seek critical mass to control commodities markets
- "It's not a casino; we're not trying to shoot the lights out" said one participant from a pension fund. Investors should communicate reasonable return expectation to managers to avoid excessive risk taking and momentum chasing strategies.

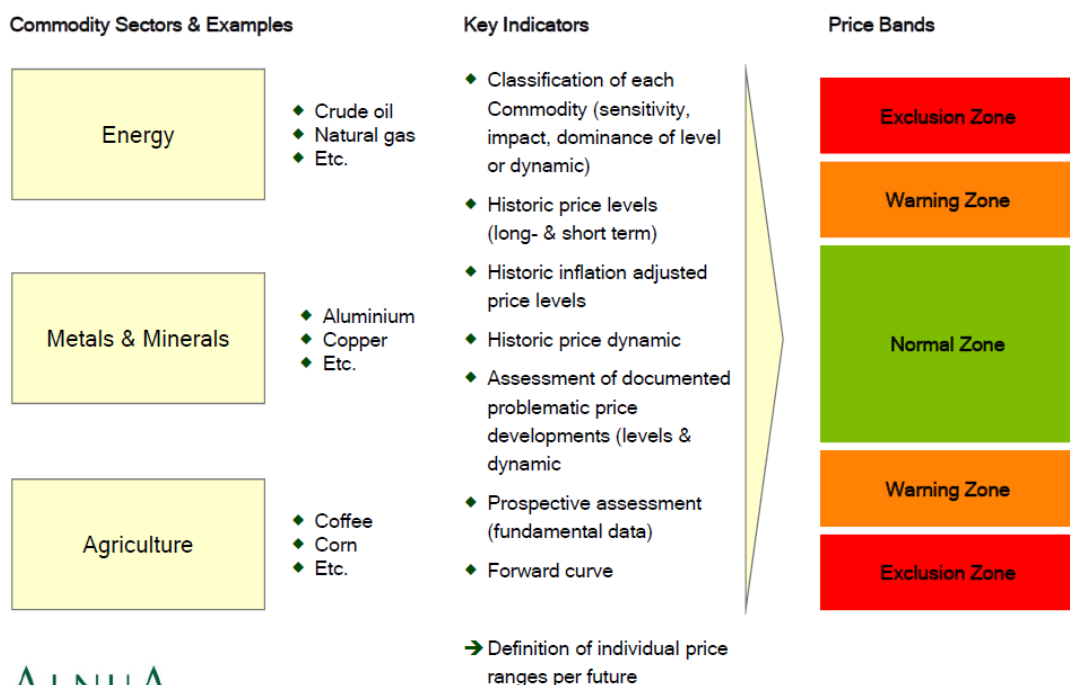
The role of other stakeholders:

- Commonly, participants felt that market regulators should publish data similar to the CFTC in the U.S. also for other markets and otherwise increase transparency requirements
- In general, commodities markets are not well understood. All stakeholders, including investors, should educate themselves better to improve the sophistication of market interactions. Participants especially would like pension fund trustees to become more familiar with commodities investments.
- Regulators could consider increasing the margin requirement for non-commercial investors to take some “hot money” out of the system. However, certain participants observed that too much regulation could drive markets offshore rather than reforming them.
- Participants called on index providers to take ESG and market stability considerations into account in defining and weighting the composition of their commodity indexes

Innovative approaches

- Several participants identified the opportunity for stakeholders to collaborate in engaging with exchanges in creating a range of ESG-certified contracts for different commodities.
- While investors still do not have an adequate choice of managers who are concerned with systemic impacts on commodities markets, meeting participants heard from one manager that has developed its own process for limiting exposure to commodities with problematic price dynamics or levels. The graphic below describes some of those considerations:

### Price Impact: Definition of Responsibility Price Range per Commodity



**ALNUA**  
Investment Managers

Investment Solutions Beyond Mainstream®

Source: Alnua Investment Managers



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## 7. Breakout 2 – Listed equity investments

Many investors use listed equities as a convenient way to gain exposure to agricultural commodities. Most commonly, investors hold shares of agri-chemical and seed producers, agricultural technology companies, farm equipment manufacturers, agricultural producers, and food companies. Both individual company characteristics and the dynamics of the related commodities markets will drive the performance of these holdings. On both fronts, understanding ESG issues will be important in making informed investments and contributing to an overall improvement of the agricultural sector. The session therefore aimed to ascertain the level of ESG understanding and to provide participants with insights for improving the level of ESG consideration in investments generally.

The expert panel for the session consisted of:

- Gertjan van der Geer, an Agricultural Fund Portfolio Manager at Pictet & Cie
- Klaas Smits, the Head of Food and Agri Strategies at Robeco
- Gabriella Ries, a Research Analyst specialized on agriculture at Bank Sarasin & Cie
- Bruce Tozer, the Head of EMEA Softs & Agricultural Products at Crédit Agricole

The session was moderated by Peter Zollinger of Globalance Bank, who has long experience advising food companies on sustainability issues.

The key questions explored were:

- To what extent do equity investors systematically take ESG issues into account in their investment decision making?
- How can investors improve their understanding of ESG value drivers and their use of ESG analysis?
- How can investors engage with companies to promote more sustainable business practices?

### Key insights from the session

The extent of ESG information used in investment decisions

- As hypothesized before the meeting, participants with a direct view on asset manager practices concluded that, while most managers have a general familiarity of ESG issues such as water scarcity, climate change, and food crises, almost none used ESG information in a systematic manner to drive investment decisions (e.g. through inclusion in quantitative valuation models)
- Particularly, participants felt there was a lack of understanding on the cumulative effects of ESG issues
- In particular, the largest agricultural investors are not actively participating in the ESG discussion. One participant noted that, often, large agricultural equity funds are run as ETFs, which would not have the resources to conduct ESG analysis even if they had the interest.
- In other cases, sustainable investment policies have made little difference in investor practices, appearing to be, as one participant put it, “old wine in new bottles”
- However, some investors have made thoughtful efforts to incorporate sustainability considerations into their agricultural equity investments. One portfolio management participant presented his fund’s approach, which quantitatively integrates ESG scoring into the calculation of weighted average cost of capital and also top-line sales estimates, in addition to other screens applied.

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### The value of ESG analysis

- A quick poll of the room at the beginning of the session threw up clear articulations of how ESG issues can materially impact share performance. Using the example of the Unilever Sustainable Agriculture Code, participants cited specific business reasons why this should improve prospects for the food company. Securing key feed stocks, enhancing brand value and attracting a young generation of talent were all reasons why the Code would have a material affect on financial results.
- Investors need to be addressed in the business language of “sourcing, brands and talent” rather than abstract ESG terms to be persuaded of the financial materiality of ESG analysis
- Peer investors can articulate how using ESG analysis has helped their results. For example, one fund manager cited the ESG-based exclusion of a palm oil company that recently was targeted by an NGO ad campaign and consequently lost a key contract with Wal-Mart.
- Nevertheless, there was a general appreciation for the challenges of looking in detail at agricultural supply chains to determine how holdings are managing risks. More comprehensive research in this area would be valuable.

### Engagement to promote sustainability at the company-level

- As one participant said, “the world of tomorrow will largely be the world we create today”, meaning society is at a critical moment and the decisions made today will last into the future. Participants generally expressed a sense of urgency to link their investment activities with the global challenges presented in the first part of the day. Engaging with companies is an important tool to that end.
- A focus on financial materiality also pays off when working with companies to improve their ESG profile, according to participants that are active in this area
- Participants came to understand that, given the complexity of the agricultural value chain, attention should be focused on key leverage points, which vary market to market
- Participants also recognized the opportunity to leverage existing best practice guidelines. They would encourage companies to actively participate in supply chain initiatives aimed at developing voluntary standards. However, participants clearly saw that such standards initiatives could be stricter about qualification for membership.
- NGOs can be valuable partners for investors to improve their knowledge of best practices in agricultural markets
- “If twenty of the world’s largest investors all took 90% similar positions on the most critical companies, that would focus attention”, said one participant, voicing the group feeling that more collaborative engagement among investors should be done

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## 8. Conclusion – A fireside chat on the future of agricultural investment

*“You really do have to wonder whether a few years from now we'll look back at the first decade of the 21st century — when food prices spiked, energy prices soared, world population surged, tornados plowed through cities, floods and droughts set records, populations were displaced and governments were threatened by the confluence of it all — and ask ourselves: What were we thinking? How did we not panic when the evidence was so obvious that we'd crossed some growth/climate/natural-resource/population redlines all at once?”*

—Thomas Friedman, June 7, 2011

The conference closed with a “fireside chat” between Donald MacDonald, Trustee of the British Telecom Pension Scheme and founding Chairman of the PRI, and Peter Zollinger of Globalance Bank. Prompted by the above quote, Donald MacDonald offered his thoughts on the day.<sup>7</sup>

According to Donald MacDonald, the meeting represents the “first stage of a long journey” to bring the investment community in line with the world’s agricultural needs. The issues discussed on the day fundamentally concern the global competition over scarce resources. Dwindling supplies of energy, water, and land have already begun to stress national food supplies, and competition over food will increase in the future.

“Our duty is to approach this situation not just as investors but as citizens”, Donald MacDonald said. The investment community can play an important role, but time is of the essence. Investors must urgently familiarize themselves with the dynamics of agriculture as an investment topic, and must show greater imagination in planning for a global economy that will be starkly different from the past. If investors seize this moment, there is a window of opportunity to set industry-wide standards through responsible leadership in agricultural investment.

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<sup>7</sup> Where these thoughts pertained specifically to the topics of previous sessions, they have been included under those specific sections.

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## Appendix

### Agenda - Agri-investing for the long term: The investment case for responsible investments in agriculture

**Friday, 17 June 2011 – 9:00 to 16:15**

Centre International de Conférences Genève, 17 rue de Varembe CH-1211, Genève | T: +41 22 791 9111

#### 08:15 Registration Opens

#### 09:00 Chairman's and hosts' opening remarks

- Ambassador Jürg Lauber, Permanent Mission of Switzerland to the UN
- Rob Lake, Director of Strategic Development, PRI
- Ivo Knoepfel, Managing Director, onValues Ltd.

#### 09:15 Keynote address

> What role do different actors play in preventing a global food security crisis?

- David Nabarro, UN Special Representative on Food Security and Nutrition

#### 09:45 Panel discussion – A framework for responsible agri-investment

> What role is there for investors in the transition to more sustainable agriculture? A discussion between policy makers, commercial and financial investors

- Philippe Desfossés, CEO, ERAFP (French Public Service Additional Pension Scheme)
- José Minaya, Head of Natural Resources & Infrastructure Investments, TIAA-CREF
- David Hallam, Head of Trade and Markets Division, FAO
- David Nabarro, UN Special Representative on Food Security and Nutrition
- Juan Gonzalez Valero, Head Public Policy and Partnerships, Syngenta

#### 11:00 Panel discussion – Agricultural land investments

> What ESG issues need to be addressed by investors in farmland?

> How can investors work with managers and operators to promote sustainable practices?

- Rik Plomp, Head of Real Assets & Insurance, PGGM
- Desmond Sheehy, Managing Director, DuxtonAM
- Graham Davies, Consultant, Altima Partners
- Christof Walter, Sustainable Agriculture Manager, Unilever

#### 12:30 Lunch

#### 13:30 Breakout Sessions:

##### Breakout 1 – Commodity derivatives investments (Rm. 5+6)

> Is growing investment in soft commodity futures / indexes contributing to price volatility?

> What measures can investors take to avoid disruptive effects on commodity markets?

- Helene Winch, Head of Policy, BT Pension
- Jeremy Baker, Commodity Portfolio Manager, Harcourt Investment Consulting
- Marek Ondraschek, CEO, Alnua Investment Mg.
- Beat Zaugg, Senior Consultant, ECOFIN

##### Breakout 2 – Listed equity investments (Rm. 20)

> Risks and opportunities for listed equity portfolios: How can investors address climate change, water scarcity, food shortages in their investment decisions and active ownership policies?

- Gabriella Ries, Research Analyst, Bank Sarasin
- Bruce Tozer, Head of EMEA Softs & Agricultural Products, Crédit Agricole
- Gertjan van der Geer, Senior Investment Manager, Pictet & Cie
- Klaas Smits, Head of Food and Agri Strategies, Robeco

#### Short coffee break

#### 15:00 Concluding plenary session (Rm. 5+6)

> What lessons and common ground have been established during the day?

> What areas require more research and discussion among investors and stakeholders?

- Helene Winch, Head of Policy, BT Pension
- Rik Plomp, Head of Real Assets & Insurance, PGGM
- Karina Litvack, Head of Governance, F&C Asset Management

#### 15:45 Concluding remarks

> What is the way forward for responsible investors in agriculture?

- Donald MacDonald, Trustee, BT Pension
- Peter Zollinger, Head of Impact Research, Globalance Bank

## Participant List

Participant Name		Organization	Position
Stefan	Baecke	Rabobank Nederland	CEO, Rabo FARM
Jeremy	Baker	Harcourt Investment Consulting AG	Commodity Portfolio Manager
Hans-Ulrich	Beck	Sustainalytics	Global Director, Research
Seb	Beloe	Henderson Global Investors	Head of SRI Research
Christoph	Buchmann	InCentive Asset Management AG	Portfolio Manager
Arne	Cartridge	World Economic Forum (WEF)	Special Advisor, Global Partnerships for Food Security
Ben	Cotton	Earth Capital Partners	Partner
Frank	Curtiss	Railway Pension Trustee Company (Railpen)	Head of Corporate Governance
Graham	Davies	Altima Partners LLP	Consultant
Benoit	de Combaud	Combaud Industries	CEO
Renier	de Man	Sustainable Business Development	Director
Philippe	Desfossés	ERAFP	CEO
Christoph	Eibl	Tiberius Group	CEO
Simon	Fox	Mercer (UK)	Senior Researcher, Alternatives
Juan F	Gonzalez-Valero	Syngenta International AG	Head Public Policy and Partnerships
Gabriela	Grab	SAM Sustainable Asset Management	Agri Theme Coordinator
Natacha	Guerdat	ConSer Invest	Partner
David	Hallam	Food and Agriculture Organization (FAO)	Head of Trade and Markets Division
Daniel	Hough	Macquarie Agricultural Funds Management	Head of Europe
Julie	Hudson	UBS Investment Bank (Research)	Head of SRI Research
Harry	Hummels	SNS Asset Management	Managing Director SNS Impact Investing
Anna	Hyrskke	Ilmarinen Mutual Pension Insurance Company	Head of Responsible Investment
David V.	Imbert	onValues	Consultant
Till	Jung	oekom research	Director Business Development
Manfred	Kaufmann	DEZA	Programme Manager
Ivo H	Knoepfel	onValues	Managing Director
Rob	Lake	UN PRI	Director of Strategic Development
Florence	Lasbennes	United Nations	Food Security Task Force Manager
Jürg	Lauber	Swiss Federal Department of Foreign Affairs	Ambassador, Permanent Mission of Switzerland to the UN
Pierre	Lavaud	JetFin	CEO
Jean	Laville	Ethos	Deputy Director
Jos	Lemmens	APG Asset Management	Senior Portfolio Manager Commodities
Karina A	Litvack	F&C Asset Management	Director Head of Governance and Sustainable Investment
Donald	MacDonald	BT Pension Scheme Management Ltd.	Trustee
Jose	Minaya	TIAA-CREF	Head of Natural Resources & Infrastructure Investments
Hafiz	Mizra	UNCTAD	Chief, Investment Issues
Corrina	Morrisey	Swiss Federal Department of Foreign Affairs	Assistant
Lionel	Motière	Diapason Commodities Management SA	Chairman
Christoph	Müller	NEST Pension Fund	Member of the Investment Committee
David	Nabarro	United Nations	UN Special Representative for Food Security and Nutrition
Marek	Ondraschek	Alnua Investment Managers	Managing Partner & CEO
Susanne	Pedersen	Arbejdsmarkedets Tillægspension (ATP)	Senior Adviser Responsible Investment
Anna	Pot	APG Asset Management	Senior Sustainability Specialist
Andrea	Ries	DEZA	Sustainability and Multilateral Affairs
Gabriella	Ries	Bank Sarasin & Co.	Research Analyst
Bernd	Schanzenbächer	EBG Capital	Managing Partner
Desmond	Sheehy	Duxton Asset Management	CIO
Klaas	Smits	Robeco	SVP, Head of Food and Agri Strategies
Bruce	Tozer	Crédit Agricole	Head of EMEA Sales Softs & Agricultural Products
Gertjan	van der Geer	Pictet & Cie	Senior Investment Manager
Nadine	Viel Lamare	AP1	Senior ESG Analyst
Philip	Walker	SIFEM	Investment Analyst
Christof	Walter	Unilever	Sustainable Agriculture Manager
John K	Wilson	TIAA-CREF	Director of Corporate Governance
Helene	Winch	BT Pension Scheme Management Ltd.	Director, Head of Policy
Lara	Yacob	Robeco	Senior Engagement Specialist
Beat	Zaugg	ECOFIN Investment Consulting AG	Senior Consultant
Peter	Zollinger	Globalance Bank AG	Head of Impact Research

## Bibliography of “food for thought” readings sent to participants

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Stewart, M., “Whipping up the amber waves”, *Investments & Pensions Europe*, May 2011