



# Fund Bites

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## *Baring Global Agriculture Fund*

The Baring Global Agriculture Fund is a new addition to the portfolios in 2013. This “fund bites” is a summary of the recent meeting we had with the co-fund manager, James Govan.

## Introduction



There are two sectors which we believe offer interesting opportunities over the long term, Agriculture is one of those sectors.

The argument for agriculture is a simple one and that is one of supply, the global population is growing but the key driver is emerging markets. As people in the emerging markets become wealthier they turn from traditional foods to more meat based foods.

Emerging market countries have struggled to provide the types of farms to deliver a supply source to meet this demand, Brazil perhaps being the only exception to this. This means that the West remains dominant in this area.

The problem is this although since 1970 there has been a 12% increase in harvested land when placed against the increase per capita it is going down.

So supply is shrinking and demand is increasing. This is a cyclical sector but the opportunities long term are obvious. And off course scarcity will deliver price increases which make these stocks attractive.

In considering agriculture we looked at a range of funds however we felt this fund offered a good long track record combined with a good management team.

## The Fund



The managers look to invest across the agriculture value chain. This is split between upstream (this is things like fertilisers, seed machinery etc), midstream (things like distribution, processing etc) and downstream (i.e. manufacturers and retailers).

They call this approach farm to fork and will invest across the streams depending on particular factors. So for example the US has suffered three poor harvests due to drought. They believe this could change and if it does then it will benefit the mid-stream.

This is very much about conviction and we started talking about different opportunities. So for example Bunge is a Soy Bean Producer which derives around 20 to 25% of profits from South America. What is attractive about this business is that a lot of the fixed assets like plants are already in these countries so distribution is easier.



Another aspect is forestry. Canada is one of the biggest suppliers of timber. Whilst the US struggled they shipped out to emerging markets now demand is coming from the US again. However, Canada is suffering from Pine Beetle this means supply is restricted and as demand increases this pushes up the cost of timber. Not good for purchasers but good for suppliers!

A couple of holdings to potentially benefit from this are West Fraser and Weyerhaeuser.

Agrium is a provider of fertiliser products; this to some extent is a self-help story where the return on capital has not been as good as it should have been. The management team are now working through these issues and they believe this will turn around. This distraction which has hit the share price is the battle with Jana who held a significant holding and was looking to break up parts of the business. This seems to have passed and they have reduced their holding.

Another stock is Monsanto which is a producer of seeds and crops. They produce seeds which are drought and bug resistant. When you consider chemical alternatives these are seen as a safer route. The types of seeds mean that farmers can increase yield where others will struggle. It spends a lot on research and development, it has a good management team and it is growing year on year.



We talked about other opportunities and it was

interesting to consider the use of tractors. In the US there are 160 tractors per 1000 people. In Brazil this is 61 and China just 3. Therefore understanding things like this helps them to identify potential opportunities.

Another opportunity is around bio-fuel, 40% of corn crop goes into bio-fuel. The refiners will still need this and it will be

harder to see this disappear any time soon. In fact it is estimated that supply demands in 2030 will be six times that in 2004.

The team approach is an important aspect of this fund; there are four managers and then over 30 analysts feeding into the team. This approach provides a wide depth to the fund construction. It is mainly US focused but many of the companies are global in their outlook.

## Conclusion



Agriculture is about supply and demand, clearly demand is key and this is the driver but we can see that land is scarce and this will struggle to keep up with demand. Across the spectrum companies will benefit, so for Monsanto has a product which delivers incremental value to farmers, John Deere is benefiting from the growth in acreage for US farmers and the likes of West Fraser are benefiting from the growth in demand for timber.

This will be cyclical but long term offers some interesting opportunities.

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