



WHY INVEST IN AGRICULTURE?

IN EMERGING MARKETS



AND WHY YOU SHOULD CONSIDER
ADDING AGRICULTURAL INVESTMENTS
TO YOUR PORTFOLIO?



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Why Invest In Agriculture?

In this series we are going to explore some important aspects of the agricultural space that make it such an attractive investment.

From **superior risk-adjusted returns** over the S&P 500 and a lack of correlation with paper assets to its **non-cyclical nature**, farmland has some very attractive qualities that we believe make it a critical component of any balanced portfolio.

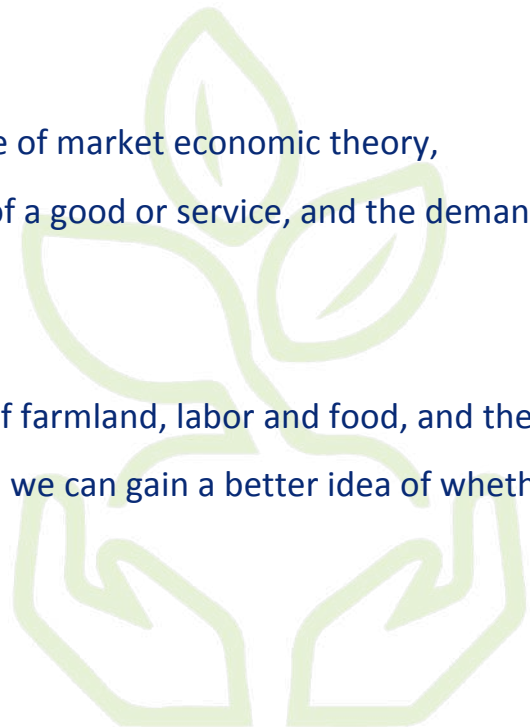
“Civilization as it is known today could not have evolved, nor can it survive, without an adequate food supply”

Norman Borlaug, Nobel Laureate

When asking the question “Is farmland a good investment?” it can be helpful to think in terms of supply and demand.

The concept of supply and demand, a cornerstone of market economic theory, describes the relationship between the quantity of a good or service, and the demand for that good or service at a given price point.

By analyzing the relationship between the stock of farmland, labor and food, and the demand for food and other plant-based products, we can gain a better idea of whether investing in farmland makes sense.



An Incredibly Brief History of Agriculture

Before we dive into the minutiae of farmland's supply and demand characteristics, let's back up a bit and look at the history of agriculture for some context.

Prior to the development of agriculture around 10,000 years ago, humans were a nomadic species perpetually on the move with the changing of the seasons and the movements of wild animals in search of the next meal.

“When tillage begins, other arts follow. The farmers, therefore, are the founders of human civilization”

***Daniel Webster,
Former United States Secretary of State***

Once people gained the ability to harvest crops consistently, they were able to settle down in one spot long enough for complex civilizations to emerge, no longer subject to the movements of animal herds.

As a result of our more stationary lifestyles we began to specialize our skill sets, developing systems of writing, religion, and law which were the beginnings of the complex technical societies we have today.



The course of human history was forever changed by the development of farming. Knowing this, it seems safe to say that **agriculture is an integral part of the world we live in** and is likely to continue being very important to societies going forward.

Supply, Demand, and the Future of Farming

Now let's look at some of the factors that affect the supply of arable farmland and the demand for food.

The first line of a 2014 article appearing in *The Economist* states, “in the next 40 years, humans will need to produce more food than they did in the previous 10,000 put together. But with sprawling cities gobbling up arable land, agricultural productivity gains decreasing, and demand for biofuels increasing, supply is not keeping up with demand.”

Supply is not keeping up with demand: this line underscores the reality we face with the rapid growth of the global population, a shrinking supply of arable farmland and an increased demand from developing economies such as China, Russia and India.

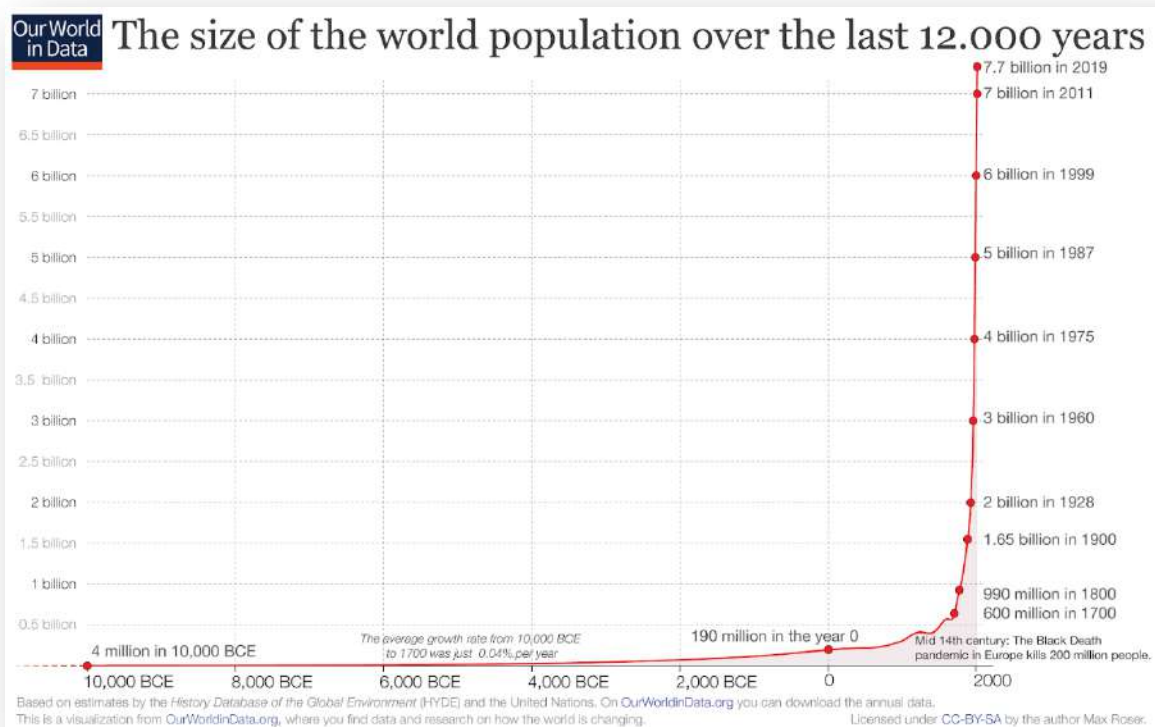
Further expounding on the issue of farmland loss, an article appearing in The Guardian notes, “the world has lost a third of its arable land due to erosion or pollution in the past 40 years, with potentially disastrous consequences as global demand for food soars, scientists have warned.”

So, while the supply of arable farmland *is shrinking*, due to a multitude of factors the demand for food and agricultural products *is increasing*.

“Agriculture changes the landscape more than anything else we do. It alters the composition of species. We don't realize it when we sit down to eat, but that is our most profound engagement with the rest of nature”

***Michael Pollan,
Author, Activist, Harvard Professor***

If you look at a chart of world population growth, you can imagine just how much the global demand for food has increased in the last century.



While the **human population** *has skyrocketed over the last couple of centuries* and food demand *has* increased, research by the FAO (Food & Agriculture Organization of the United Nations) paints a more complex picture of the situation.

In a report titled *World Agriculture: Towards 2015/2030* the FAO notes that although the population and demand for food are still growing the rate of growth has slowed and is projected to continue slowing down moving forward.

This sentiment seems at first to contradict the articles referenced above.

However, while the *rate of growth* in demand for food products may be slowing down, the *actual demand* for food products is still set to increase substantially in the years ahead as we are on course to reach a population of 9.7 billion by the year 2050.

This conclusion, of higher actual demand for food products, is also confirmed by the FAO, which in a 2009 report suggested that agricultural production will have to increase by 70% by the year 2050 to meet demand.

“Do not buy the hype from Wall St. and the press that stocks always go up. There are long periods when stocks do nothing and other investments are better”

***Jim Rogers,
Investor and Author***

Famous commodities investor and author Jim Rogers, a long-time proponent of agricultural investments, commented on the shrinking supply of labor in the agricultural sector at an investing conference in Hangzhou, China, noting that “the average age of an American farmer is 58, the average age in Japan is 68.”

What this means is that not enough people are going into the farming business, which is in turn lowering the supply of labor available to do the job, much like what’s been seen in the construction industry.

So not only is the demand for agricultural products growing, fueled by population growth as well as income growth in developing nations, but the supply of farmland AND the supply of labor to work the land are shrinking.

To be fair, technology and big data will play an increasingly important role in alleviating the farm labor shortages we have seen over the last few years and improving efficiency, but it is unlikely that it will remove the need for people to work farms altogether.

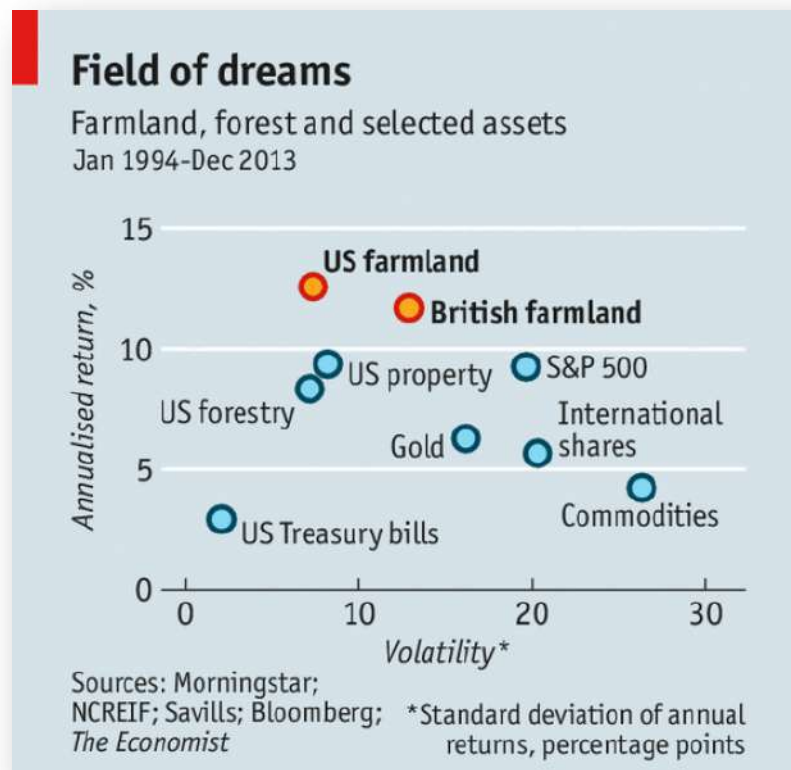
Regardless, it is necessary to recognize disruptors within any industry and farming is certainly not immune to change.



(Some tasks are better left to the robots)

Tying everything together and applying it to what we know happens with decreasing supply and increasing demand, one can rationally assume that the value of farmland is likely to increase.

This conclusion is validated by the returns of US and British farmland from 1994 to 2013 which are not only higher than the S&P 500 over the same time period, but also less volatile.



In the same 2014 article in The Economist, Bruce Sherrick of the University of Illinois at Urbana-Champaign states that **farmland “is uncorrelated with paper assets such as stocks and bonds, has proven relatively resistant to inflation, and is less sensitive to economic shocks (people continue to eat even during downturns) and to interest-rate hikes.”**

We now know that not only do investors in farmland benefit from the diversification of a hard asset, but they also lower the volatility of their portfolios with an asset that is largely uncorrelated to equity markets.

In Conclusion

It's not sexy.

Farming operations have long been overlooked by money managers for various reasons.

The typical investment banker who went to NYU and grew up in New Jersey is likely unfamiliar and uninterested in the intricacies of farming practices in Middlefield Ohio.

It is not a hot tech stock that promises to make you an overnight millionaire even while operationally losing hundreds of millions of dollars each year (cough cough Uber, Netflix, Lyft), and it's not a cryptocurrency with wild gyrations in price that volatility traders adore.

As a result of this lack of interest from the lords of finance, farming operations, especially in developing countries and on non-industrial scales, have been largely undercapitalized, unable to access the financing necessary to invest in things like research and development and infrastructure.

“According to Valor Advisors, between 2005 and 2017, the number of global investment funds specializing in food and agriculture assets jumped from 38 to 446, with current assets in excess of \$73 billion.”

Artem Milinchuk, Founder of Farm Together

However, the tide is now turning as pension boards, hedge fund managers, insurance companies and private equity groups alike are all beginning to take notice of the agricultural sector for the very reasons articulated above.

Like a real estate investor using Walmart or Lowes as a gauge for the health and viability of a market, looking at the movement of capital by institutional players can be a very prudent leading indicator for the main street investor.

At AgroNosotros we believe that by aligning investor and operator incentives, we can create a symbiotic relationship between those with funds and those with know-how, and that by investing patiently, for the long term, investors can achieve excellent returns while doing something meaningful with their hard-earned capital.

What We Do

AgroNosotros grows and produces Single Estate Specialty Coffee in Boquete, Panama and Fine Flavor Cacao in Southern Belize. We are completely vertically integrated with our own farms, expert agriculture teams, in-house processing and direct exporting.

For more information check out our website, <https://agronosotros.com/>, or call us with any questions at 877-208-7988.



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