



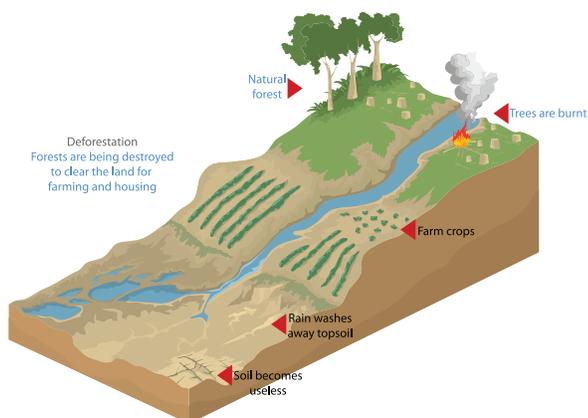
Increasing Impact And Enhancing Returns: Integrating Agribusiness Equities

Impact Investors have filled an important niche, providing capital to entrepreneurs and projects that might not otherwise receive financing. This is perhaps one of impact investing's greatest contributions - providing essential financing that will make distinct and measurable impact on the lives of individuals in underserved communities as well as our planet.

THE CHALLENGE: AGRICULTURE

By 2030, the global demand for food will expand by 27%¹ - accelerating to an increase of at least 70% by mid-century.² With approximately 38%³ of Earth's land currently used for farming, the supply of arable land for farming is relatively fixed. This means, in order to meet the challenge of food scarcity, crop yields for small, medium and large farms will need to dramatically increase. The Food and Agriculture Organization (FAO) estimates that in the developing world alone, \$9.2T in investment will be needed to meet agricultural needs through 2015.⁴

While increasing yields is imperative, feeding the world may be our most complex and integrated sustainability challenge: agriculture uses 70% of the water supply (and this number is closer to 80% in the developing world),⁵ is the largest emitter of green house gases (GHGs), deforestation to increase farm land causes soil degradation and runoff from excessive use of fertilizers is a significant source of water supply pollution. From a social perspective, there are also legitimate concerns that yield-enhancing technologies will be dominated by large agribusinesses at the expense of optimal solutions for society and smallholder farmers.



MEETING THE CHALLENGE

Sustainably meeting the world's food needs will require an integrated approach that considers the need to increase crop yields while minimizing environmental impacts and ensuring equity across large and small players in the agricultural value chain. To achieve this lofty objective, large producers will have to increase crop yields by an estimated 20%-40%, while small farms will need to increase yields three to four times above current levels of production.⁶ Impact investors employing an integrated portfolio approach can benefit from a comprehensive vision that best enables careful consideration of all the essential and sometimes competing objectives and concerns; consideration of investments and issues in their individual silos will not yield satisfactory solutions. For example, a portfolio approach allows the balancing of yield-enhancing solutions, environmental concerns and small farmer equity issues at both the company and portfolio levels.

IMPACT AT SCALE: COMPANIES PROVIDING AGRICULTURAL SOLUTIONS OPERATE ACROSS FOUR SECTORS

- Agricultural Producers: Farmers who provide grains, vegetables and livestock.
- Agricultural Suppliers: Companies providing fertilizers, seeds, crop protection and machinery.
- Agricultural Services: Companies providing services to ensure quality and manage and transport increasing volumes.
- Agricultural Processors: Companies that take raw products and process them for delivery to consumers.

MANAGING IMPACT THROUGH ENGAGEMENT

An integrated portfolio approach to impact investing allows for evaluation of positive contributions of scale solutions at the company level along with consideration of expected risk and return, positive and negative impacts or problematic activities. Engagement may be a useful tool for mitigating an undesired activity.

Palm Oil

Palm oil is a high-yield production that supports developing country economies while providing cooking oil that reduces trans-fats. However, there are significant concerns regarding its production that include deforestation and infringement on the rights of local communities. The Roundtable on Sustainable Palm Oil (RSPO) brought together palm oil producers and NGOs to develop standards for sustainable palm oil production, which investors can use to evaluate impact and target engagement.

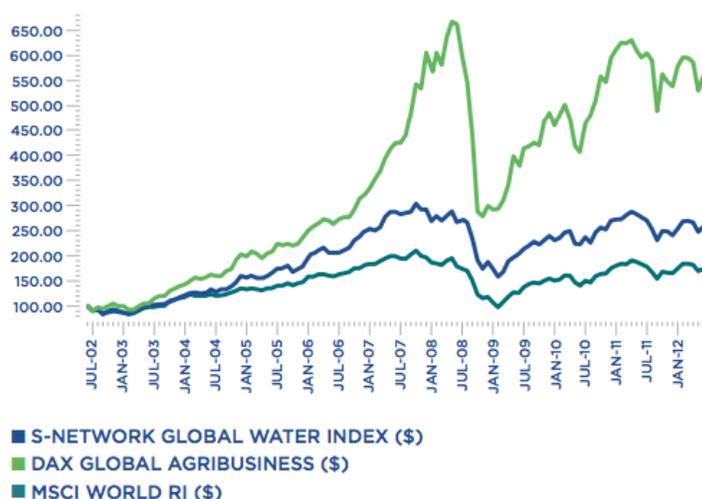
Both of these challenges are ripe opportunities for engagement - individually or in concert with coordinated efforts with other investors. The Carbon Disclosure Project (CDP), backed by many asset management and asset owner signatories, has been very successful in encouraging transnational companies to measure, manage and disclose both carbon footprints and water usage. Similarly, the Forest Footprint Disclosure Project coordinates an effort to enable better evaluation of palm oil companies' management of deforestation.

Green House Gas (GHG) Emissions

Much of the activity needed to feed the world also detracts from our efforts to mitigate climate change. While companies may provide essential tools to increase food production, so too should they actively work to reduce their carbon footprint. John Deere is the largest manufacturer/distributor of agricultural equipment globally. Recognizing the significance of their carbon footprint, John Deere reduced global GHG emissions by 63% per ton of production from 1972-2006.

FINANCIAL AND SOCIAL IMPACT PERFORMANCE: STOCKS OF AGRICULTURAL SOLUTION PROVIDERS

The Dax Global Agribusiness Index substantially outperformed the MSCI World Index over the last ten years. The simple fact that the world's population will grow by more than two billion by mid-century will put more stress on the world's already constrained water and food supply. Demand for food and water will continue to rise at a greater pace than population growth, while supply is naturally constricted. These two factors drive opportunities for investment in solutions that manage to increase supply and do so in a way that will preserve land use for many years to come. One may only conclude that companies developing technologies, products and services that deliver more efficient provision and distribution of food and water have a bright future.



Source: Kleinwort Benson Investors and DataStream

This is an adaptation of *Increasing Impact and Enhancing Returns: Integrating Publicly Traded Water and Agribusiness Equities into Impact Investor Portfolios* authored by Steve Falci and Jed Emerson. Sponsorship of the Issue Brief is provided by ImpactAssets and Kleinwort Benson Investors.

The full Issue Brief is available at impactassets.org

¹ McKinsey Global Institute, *Resource Revolution: meeting the world's energy, materials, food, and water needs*, November 2011.

² Goldman Sachs, "Rain and grain, hard to sustain," *Fortnightly Thoughts*, 25 August 2011.

³ Jonathan A. Foley, "Can we feed the world and sustain the planet?" *Scientific American*, November 2011.

⁴ FAO, *Food Security and Agricultural Mitigation in Developing Countries: Options for Capturing Synergies*, 2009.

⁵ Jacobs Securities, *Global Water Primer*, April 2011.

⁶ Goldman Sachs, "Rain and grain, hard to sustain," *Fortnightly Thoughts*, 25 August 2011.