

Investment case for farmland

Materials for discussion

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Produced by: Environmental Business Group (EBG)
PRELIMINARY | SUBJECT TO FURTHER REVIEW AND EVALUATION

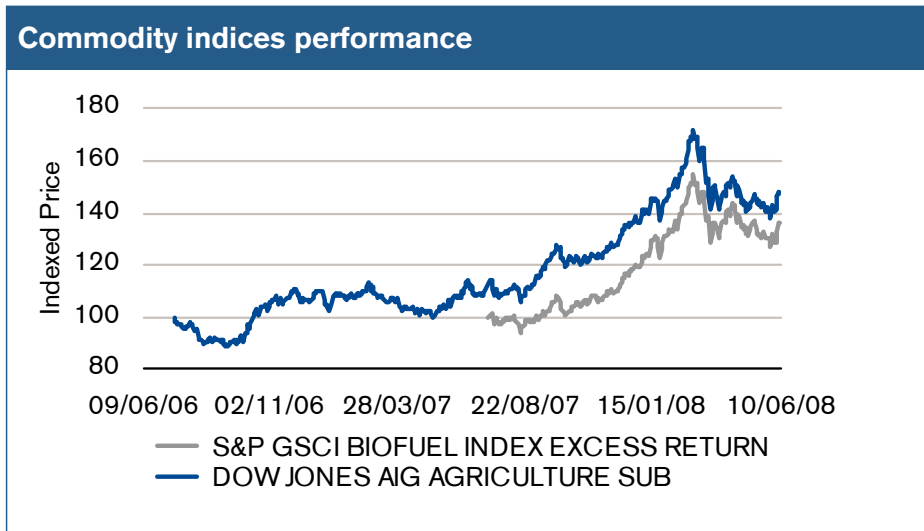
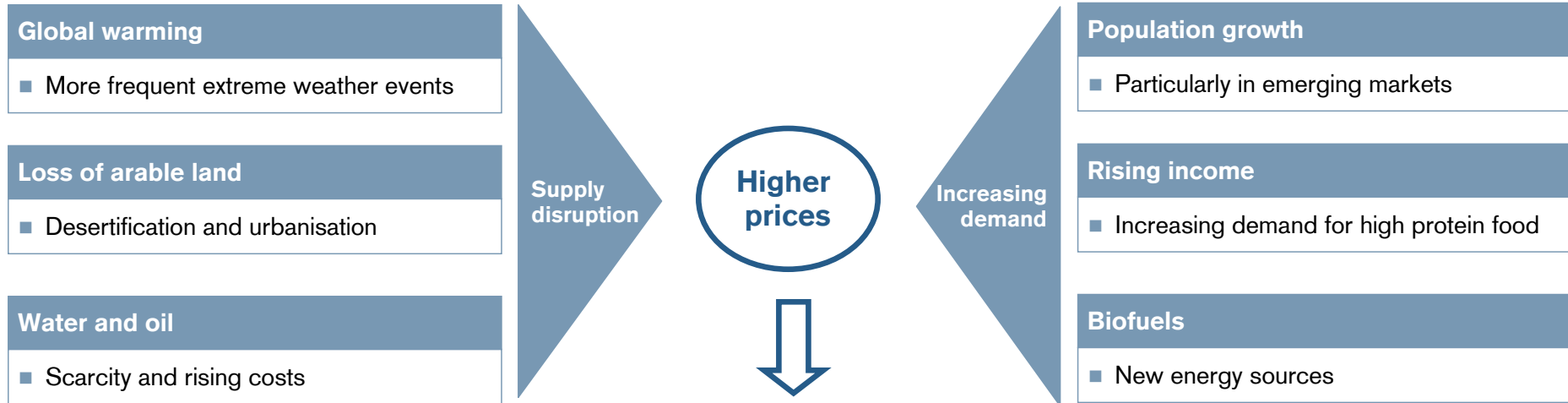
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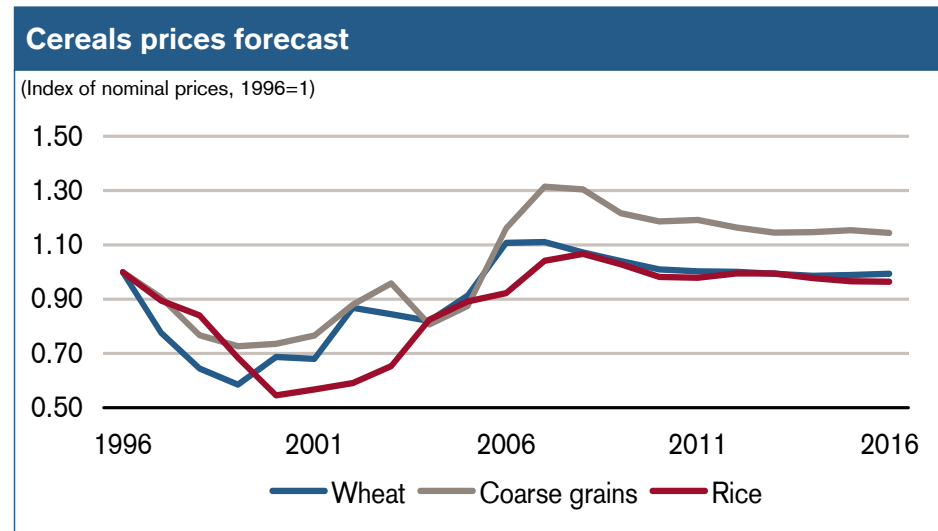
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Sustained higher commodity prices driven by fundamentals



Source: Factset as of 10 June 2008



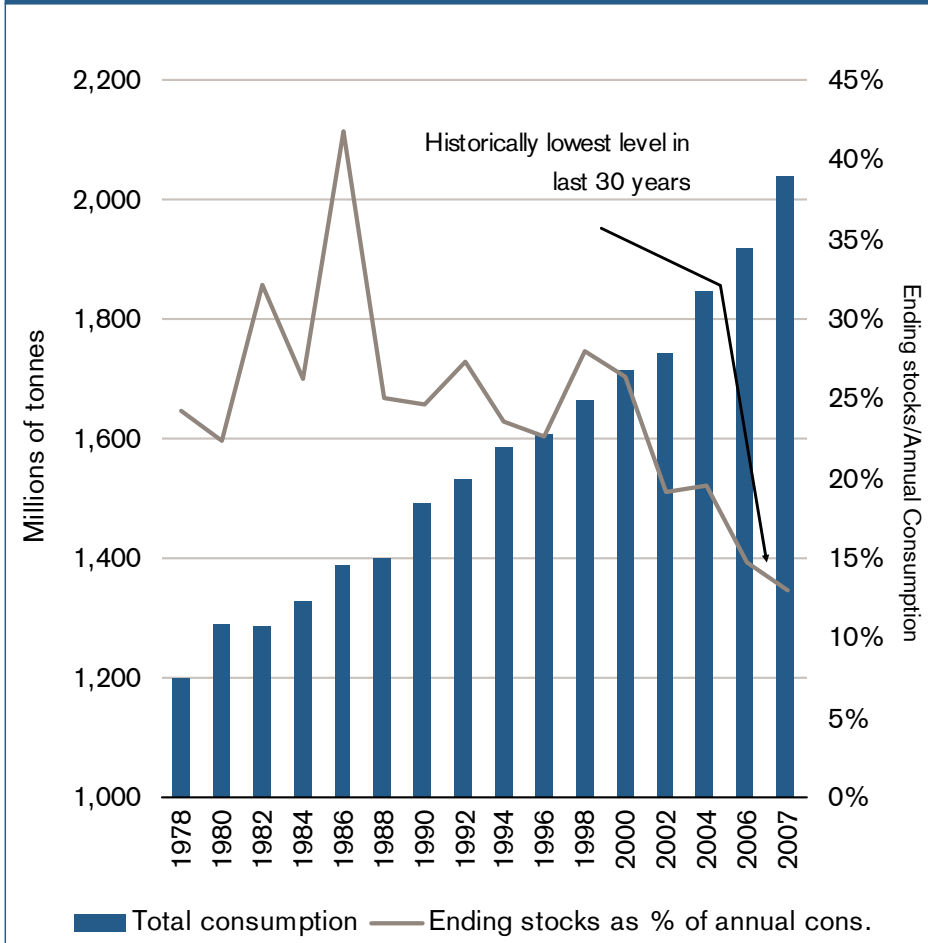
Source: OECD, FAO

Strong demand ...

Demand factors

- UN estimates that global population will grow to 9.3 billion people by 2050. Global population tripled in the last 100 years
- More than 2/3 of global population will live in cities vs less than 1/2 today
- Demographic changes will influence global eating habits
- Increasing demand for high protein food from newly-forming middle classes in India and China
- To produce 1 kg of meat 6-10 kg of grains are required
- Rapidly growing production of biodiesel mainly in US and EU

Global wheat and corn: consumption vs. stocks



Source: USDA

... coupled with supply restrictions

The impact of climate change

- **Higher temperatures:** faster, shorter, earlier growing seasons, temperature stress
- **Extreme weather events:** e.g. storms, floods can cause significant disruptions in crop production
- **Sea level rise:** loss of arable land, flooding, salinisation of ground water

Source: IPCC

The impact of demographics

- **Abandoned land:** in the developing world farmers increasingly migrate to higher paying activities in cities
- **Overexploitation / Desertification:** population expansion leading to overexploitation and infertile land
- **Water scarcity:** water is already a limiting factor - migration to cities expose farmers to higher competition for an already scarce good

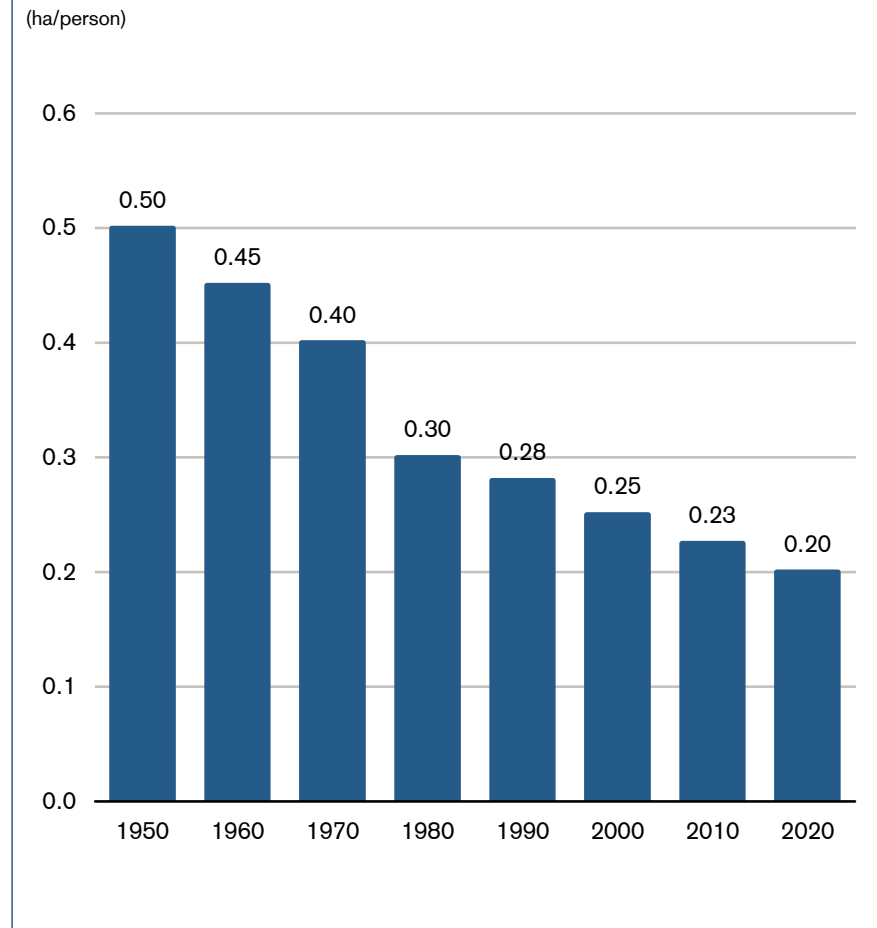
Source: United Nations Environment Programme

The impact of public policies

- **Land mismanagement:** lack of soil policies, poor urban planning, poor enforcement of legislation
- **Agriculture protectionist policies:** over subsidized and regulated sector hampers market efficient outcomes and investments

Source: United Nations Environment Programme

Per capita world arable land

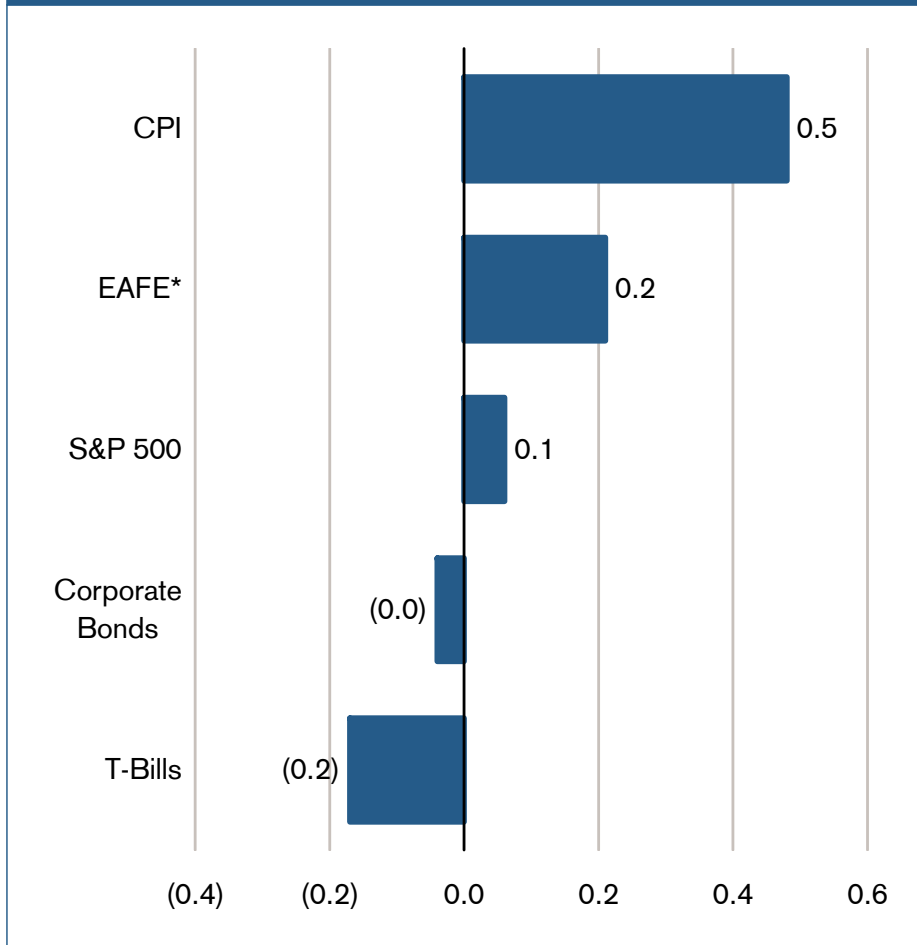


Source: FAOSTAT, UN, Environmental Health Perspectives

Note: Data are a rough estimate and can vary depending on assumptions – data shows relative trend.

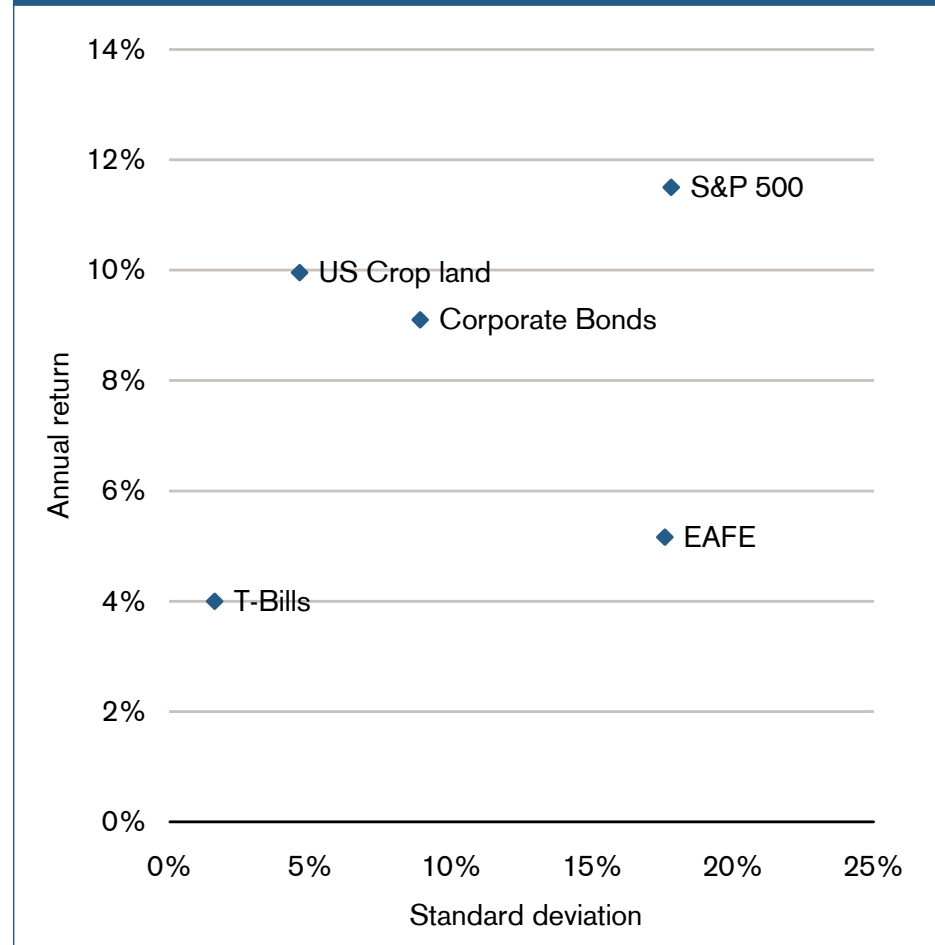
Low correlation and volatility relative to other asset classes offering excellent opportunities for portfolio diversification

Low crop land correlation with other asset classes



Source: Morningstar, IDC, NCREIF Farmland Index, HFF Securities, Time series 1991-2005
 * EAFE Index measures international equity performance in Europe, Australasia and the Far East.

Annual return vs. volatility



Source: Morningstar, IDC, NCREIF Farmland Index, HFF Securities
 Note: Time series 1991-2005

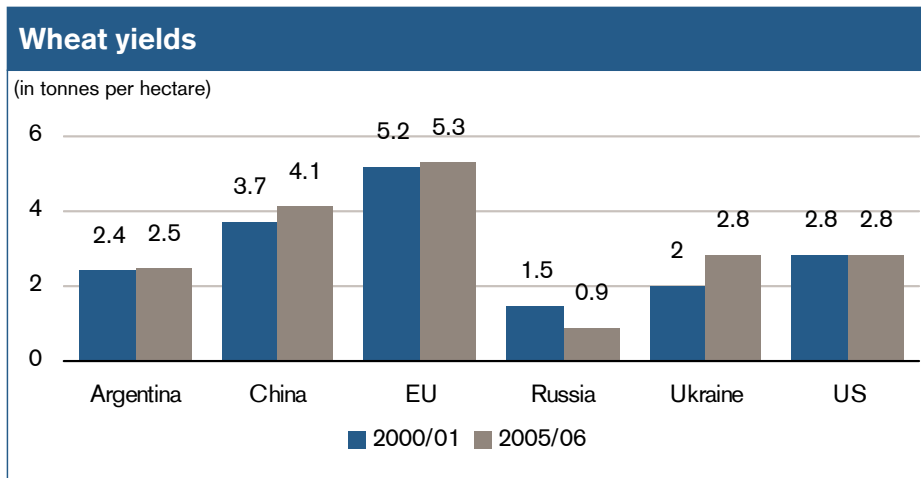
Outstanding soil quality in Eastern Europe / Central Asia

- The Black Earth region is one of the two existing global Black Earth belts, which are considered to be the most fertile soils in the world (Canada is second)
- It stretches from Ukraine across the Russian Central Black Earth Region to Kazakhstan
- Black Earth soil offers unique characteristics:
 - It contains a high percentage of organic matter (3-15%) which results in a high moisture retention capacity
 - It is rich in plant nutrition – some areas have a clay content up to 40%
 - The top soil thickness is usually more than 1 meter and occasionally as deep as 6 meters
 - In many areas suitable climate for year-round agriculture activity

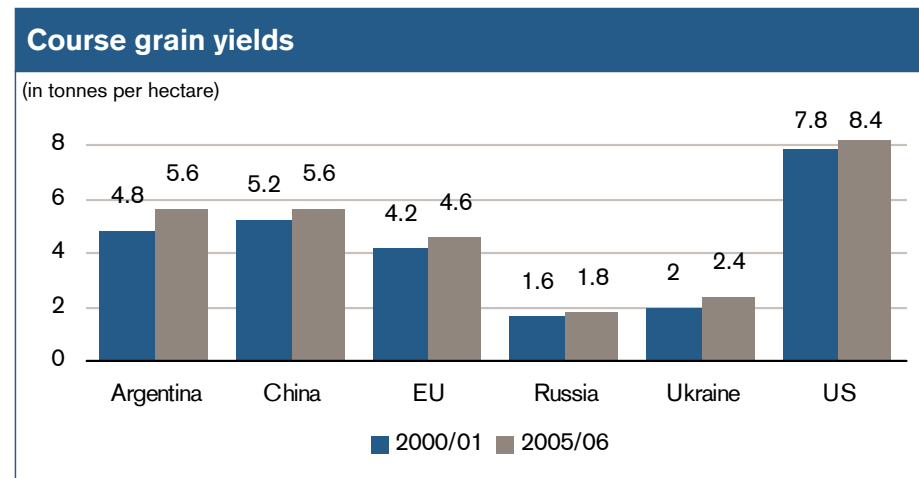


Source: FAO, BEF, Trigon Agri

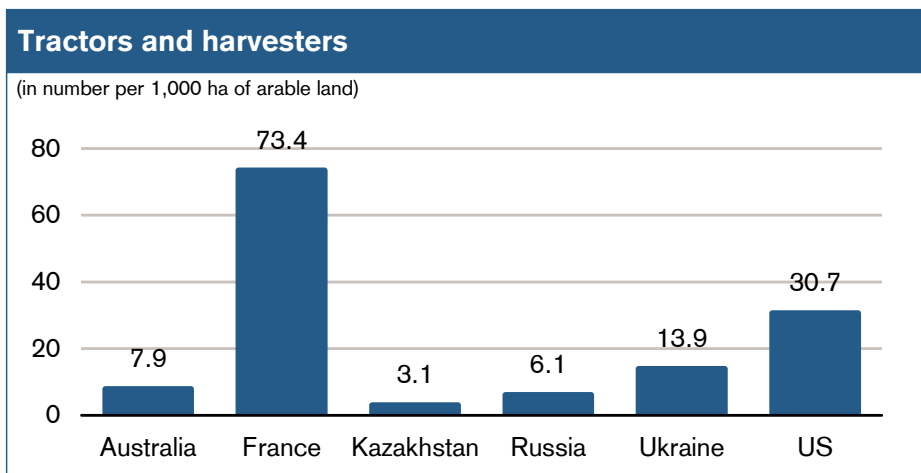
Appropriate soil management and modern machinery can significantly improve currently achieved yields



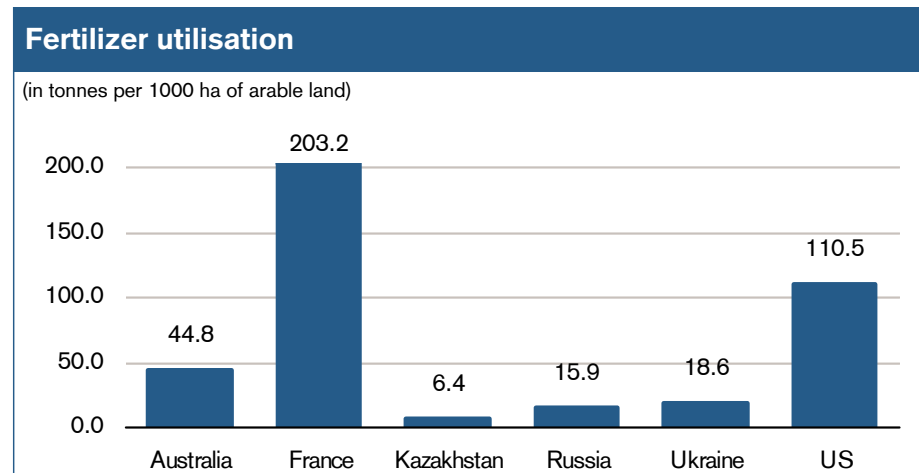
Source: USDA



Source: USDA



Source: FAO



Source: FAO

Note: Average fertilizer consumption in 2005 divided through total arable land area

Application of sound management practices as a precondition to reduce negative impacts

Modern agriculture is faced with significant environmental impacts

- Negative impact of pesticides, herbicides, fungicides
- Soil compaction through the use of heavy machines
- CO₂ emissions through land use change
- Pressure on freshwater aquifers through the use of fertilizers
- Soil degradation and erosion
- Potential loss of biodiversity through changing land use patterns
- Acidification of habitats

Integrated farming systems can help mitigating negative impacts

Integrated farming is a system of agricultural techniques that reconciles agricultural methods with the principles of sustainable development by balancing:

- food production and profitability
- safety and animal welfare
- social responsibility and environmental care

A number of labels and high quality standards are available to certify sound farming practices

Regulations for organic farming



- EU Regulation 2092/91
 - Protection for consumers and producers
 - National regulation often based on EU regulation – even outside the EU



- IFOAM Basic Standards (IBS)
 - Framework for the organic world through a common system of standards, verification, and market identity
 - Umbrella organization for the organic movement – 750 member organizations in 108 countries



- Codex Alimentarius
 - Joint FAO / WHO Food Standards Program develops guidelines for the production, processing, labeling and marketing of organically produced food
 - In line with IFOAM and EU

National associations for organic farming



- Australia
 - Biological Farmers of Australia
 - NASAA Certified Organic



- Russia
 - Agrosophie
 - St. Petersburg Ecological Union



- Switzerland
 - FiBL
 - Bio Suisse



- USA
 - National Association of State Organic Programs (NASOP)
 - WSDA Organic Food Program



Other quality standards for farming



- Global Gap
 - Private sector body that sets voluntary standards for the certification of agricultural products around the globe
 - Certification is carried out by more than 100 independent and accredited certification bodies in more than 80 countries



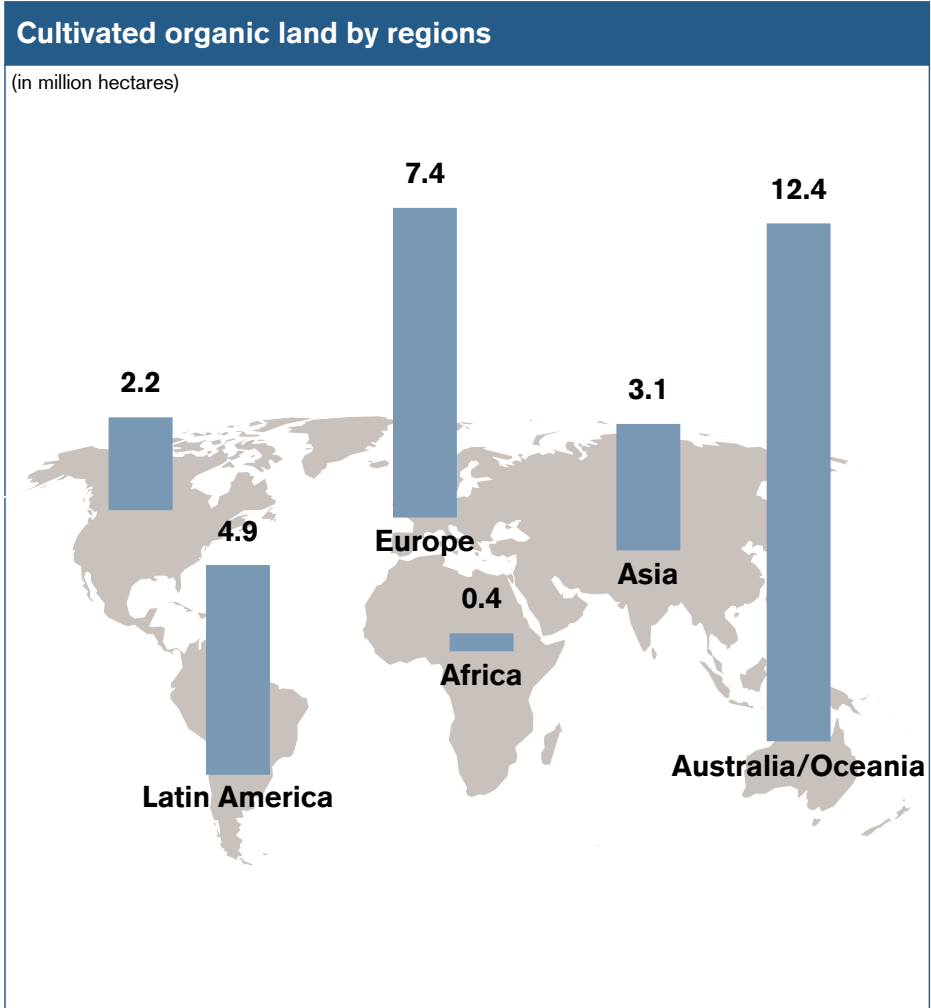
- IP Suisse
 - Quality assurance scheme, across all stages of food production in Switzerland
 - Product-specific advisory boards define the criteria and guidelines



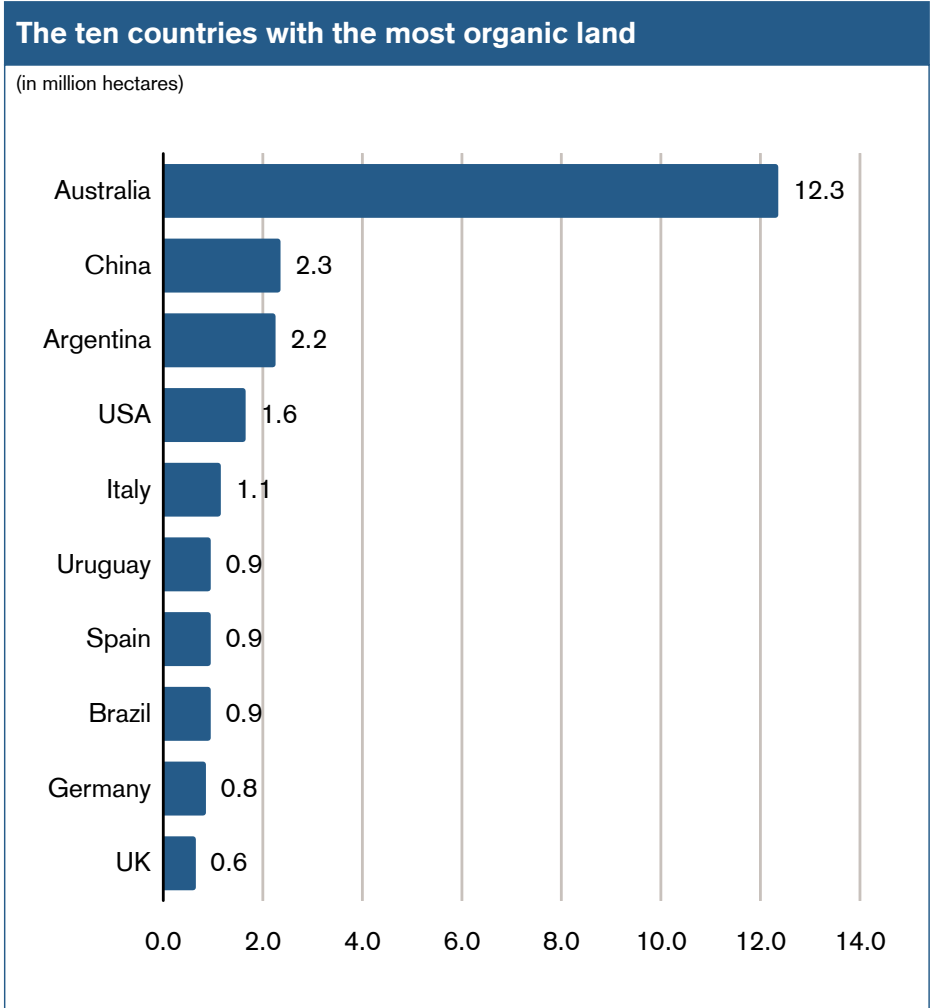
- Sustainable Agriculture Standard – Rainforest Alliance
 - Coalition of independent non-profit conservation organizations
 - Fosters best management practices across agricultural value chains internationally

Note: Currently more than 60 countries have regulations for organic farming and 395 organizations worldwide offer organic certification services

Australia and Europe have the largest areas dedicated to organic farming

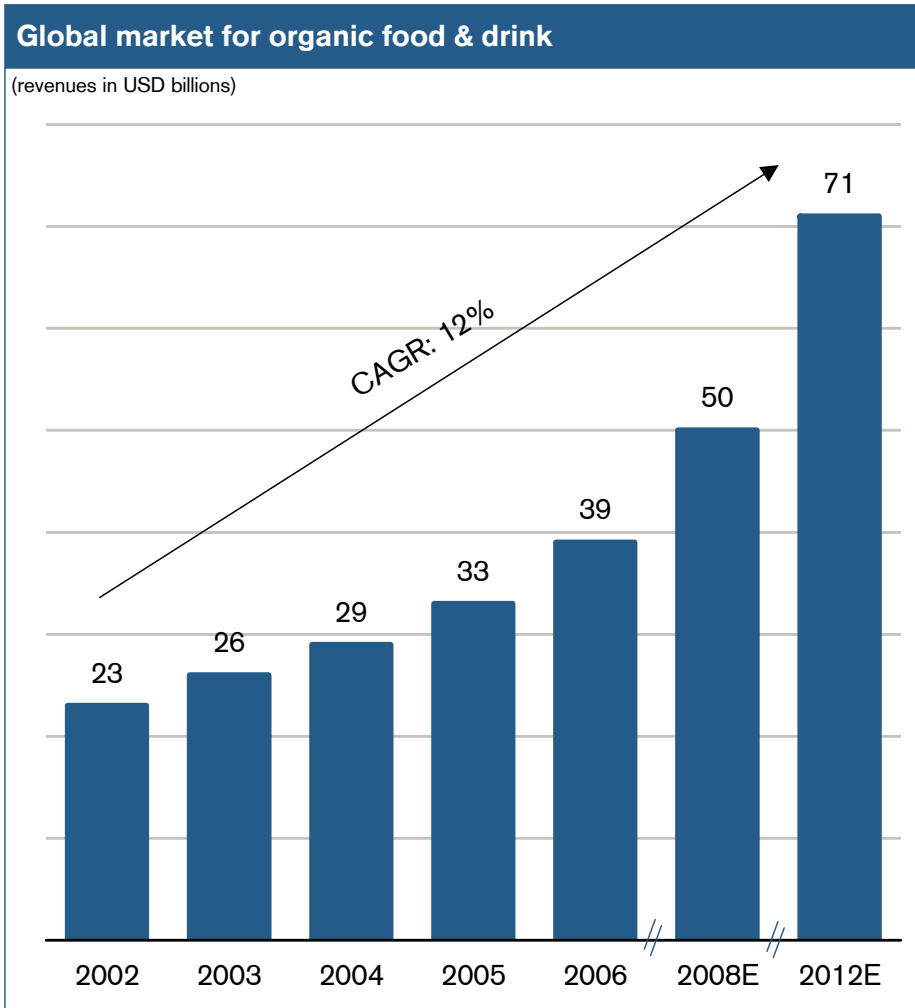


Source: FiBL
Note: Data for 2006



Source: FiBL
Note: Data for 2006, US data for 2005

The market for organic food & drink is forecasted to grow at impressive rates



Source: Organic Monitor

Increase in organic farmland
(in hectares)

	2000	2005	% increase
Africa	21,891	1,025,898	4587%
Asia	51,404	4,063,999	7807%
Australasia	7,670,689	12,172,833	59%
Europe	3,729,385	6,500,365	74%
Latin America	3,166,577	6,362,891	1009%
North America	1,173,871	1,377,800	17%
Global total	15,813,817	31,503,786	99%

Source: Organic Monitor, IFOAM, FiBL

Projected growth of regional markets
(in USD billions)

	2005	2012	CAGR
Asia	0.70	1.70	13.5%
Australasia	0.30	0.65	11.7%
Europe	17.18	35.60	11.0%
Latin America	0.10	0.23	12.6%
North America	14.88	32.50	11.8%
Other	0.04	0.08	10.4%
Global total	33.20	70.76	11.4%

Source: Organic Monitor

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