

SHINING A LIGHT ON..... BARING GLOBAL AGRICULTURE FUND

Intro

The Baring Global Agriculture is a specialist fund and may not appeal to all investors. Where it will appeal are for those investors who believe agriculture as a theme will be a significant driver in the coming years. Obviously this is not the not only fund in the sector and investors would need to compare against others before making a decision.

The arguments for why investing in agriculture are numerous but two are worth considering:

1. In the next 50 years, agriculture will be called to produce more food than in the previous 10,000 years
2. Land is not keeping pace with people. By 2020 it is estimated that the number of people fed per hectare of planted land will increase to 5.6 from 4.5 in 2000. In numbers this is 7.5 billion people

It is worth adding that agriculture as an investment can fall out of favour, and is equity based. This means there can be great risk investing in this compared to a more globally diversified fund. However, this fund (set up in 2009) is one of the most respected funds and for those interested in this sector it is one to consider.

In this update we spoke to the manager, James Goven, to understand more about how he is positioning the fund.

Update

James started by explaining that although there have been three strong harvests there are areas which are struggling particularly fertilizers. Additionally, with an abundance of crops this has pushed prices down which has meant less money being invested. And to add to this although low oil prices are good for some it is not so good for bio fuel.

However, although some areas are challenged there are some themes where James sees considerable value. One of these is Health and Wellness. As he explained the Middle Class is expected to double over the next ten years. As people get wealthier they eat more and in particular there is a trend for healthier eating. 25% of the fund is now positioned for this theme through companies like Costa Group, International Flavours and Fragrances, Tate and Lyle and WhiteWave.

But as he added although there are challenges we are one weather event away from a rally in crop prices. We talked about El Nino and how this has damaged Palm Oil Production in Malaysia and Indonesia, it is a position he is exploiting in the fund as less production will push up prices due to a lack of supply.

Another area of value is Argentina where one investment is in agriculture producer. The reason is that ground taxes are going, Soy Bean taxes are coming down and the currency is weaker.

We talked about stock market volatility and James explained that the fund cannot avoid the wider global macro fears (China, Oil, QE etc) but it does present opportunities on the buy side and they have been able to buy into companies they have followed for some time but the prices has been too high.

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I asked whether there was a risk they could be forced to sell in this environment and although this is a risk before they sell they go back to the thesis and consider whether the upside is still there. If, however something fundamental has happened in a negative direction then they would sell.

We have met James a couple of times and it is worth explaining that the fund falls into three areas:

1. Upstream – input providers (fertilisers, seed, machinery) and farming (palm oil, farms, forestry)
2. Midstream – distribution (logistics, grain handling) and processing (crop and meat processing)
3. Downstream – manufacturers (consumer food products) and retailers (food retailers)

Currently the fund has minimal exposure to downstream, about 40% in upstream and near 50% in upstream.

In conclusion this is a well-managed fund giving investors exposure to the agriculture sector. Not all investors will want this direct exposure but for those who do this is a fund to consider.

Fund performance

Performance over 5 years and 1 month to 31 January 2016

	2011	2012	2013	2014	2015	2016
Baring Global Agriculture Fund	-17.70%	10.50%	7.50%	6.68%	-9.46%	-3.16%
ETFS Agriculture ETC	-14.06%	-1.50%	-15.63%	-3.45%	-13.41%	3.03%

Performance over 1, 3, and 5 years, and since launch (16 January 2009):

	1 year	3 years	5 years	Since Launch
Baring Global Agriculture Fund	-15.28%	-9.55%	-6.39%	50.25%
ETFS Agriculture ETC	-6.91%	-30.94%	-39.13%	-11.09%

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

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