



BEARING FRUIT:
INVESTING IN AFRICAN
AGRICULTURE TO HELP
CLOSE THE FOOD GAP

DO GREAT THINGS



OLDMUTUAL
INVESTMENT GROUP

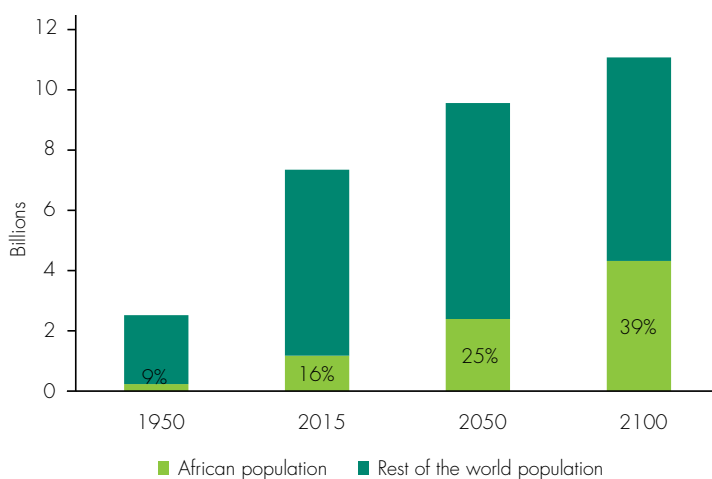


AGRICULTURE FAST BECOMING A SOUGHT-AFTER ASSET CLASS FOR INVESTORS

This momentum is driven by a number of compelling factors. The most pressing of these – our food security.

The world's land and water resources are finite assets that are under pressure from a swelling population. Africa, in particular, has the highest fertility rates of any region at 4.7 children per woman. The UNICEF report, *Generation 2030 | Africa*, highlights that whereas in 1950 Africa accounted for only 9% of the world's population, today 16 out of every 100 people are African and by 2050 Africa will account for a quarter of the global population. Demographic trends are presenting a world that is an ever more African place.

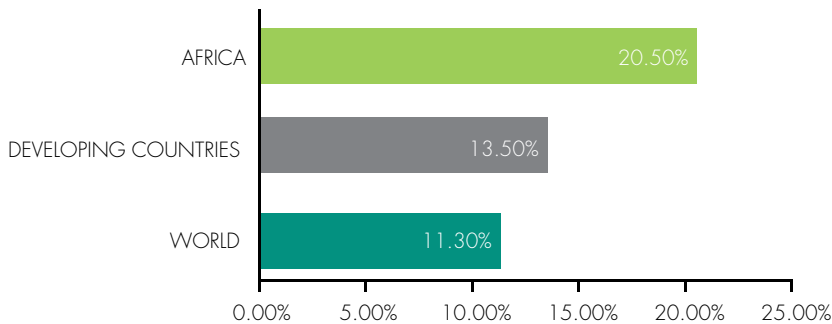
POPULATION PROJECTIONS



Source: UNICEF *Generation 2030 | Africa*, August 2014

Unfortunately, coupled with this growth in population is persistent undernourishment. The graph below illustrates how hunger continues to stalk Africa more than any other region globally.

PREVALENCE OF UNDERNOURISHMENT (2012-2014)



Source: FAO Food and Nutrition in Numbers 2014

According to the UN, it is expected that Africa will be the most challenged region with regard to food security as the continent’s population doubles in the next 35 years. And it is against this backdrop that agriculture – which currently employs 65% of Africa’s workforce – is increasingly seen as the continent’s untapped gold mine.

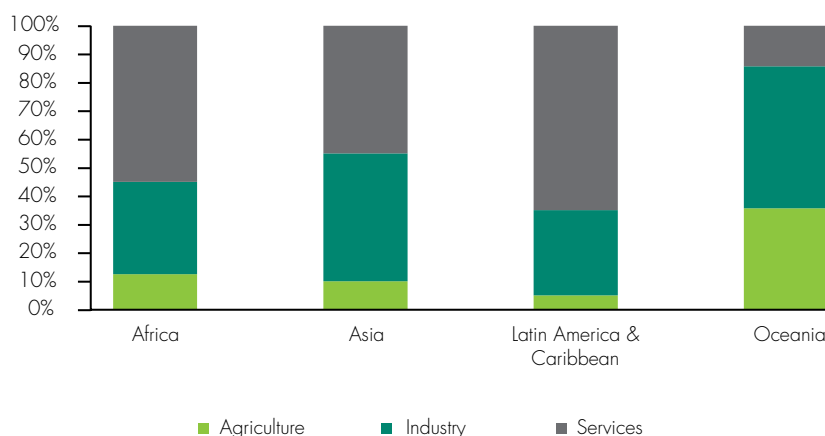
A HUNGRY WORLD: **IS AGRICULTURE THE ANSWER?**

According to the latest publication by the Food and Agriculture Organisation of the UN (FAO), when compared to the production levels of 2006, a 70% total increase in agricultural production is needed to feed the more than 9.7 billion people expected worldwide in 2050 – of which 25% will be in Africa. And as demands on the global food supply soar, the greatest opportunity for profits in agriculture may be in Africa.

Thirty-nine million hectares of agricultural land in Africa is physically suitable for irrigation, yet only 7% of this arable land is irrigated (and merely 3.7% in Sub-Saharan Africa), states the Africa Infrastructure Country Diagnostic (AICD). And so, even with some of the richest natural resources for agricultural production in the world, Africa presently spends in excess of USD25 billion annually on food imports.

There is, however, an increased focus on agriculture-led growth on the continent. African countries make up eight of the 10 countries that have most grown their food sector in the world.

VALUE ADDED IN AGRICULTURE, INDUSTRY AND SERVICES AS SHARE OF GDP (2012)



Source: FAO Food and Nutrition in Numbers 2014

This focus on agriculture as an economic driver is influenced by a number of socio-economic factors, including the aforementioned population growth, as well as poverty and unemployment. These factors present acute challenges and make unlocking our agricultural potential not just an attractive option but a necessity. The United Nations Conference on Trade and Development (UNCTAD) has estimated agriculture's annual investment gap for the 2015-2030 period at USD260 billion in the developing world.

This context presents a significant role for institutional investors looking for a good capital preservation tool that is also a reliable inflation hedge and has low to negative correlation with traditional asset classes.

INVESTING IN **FEEDING THE WORLD**

During this year's Grow Africa Investment Forum, private-sector investors in African agriculture reported significant improvement in the enabling environment, which comprises the mix of government policy, access to finance as well as ease of transportation and telecommunications infrastructure.

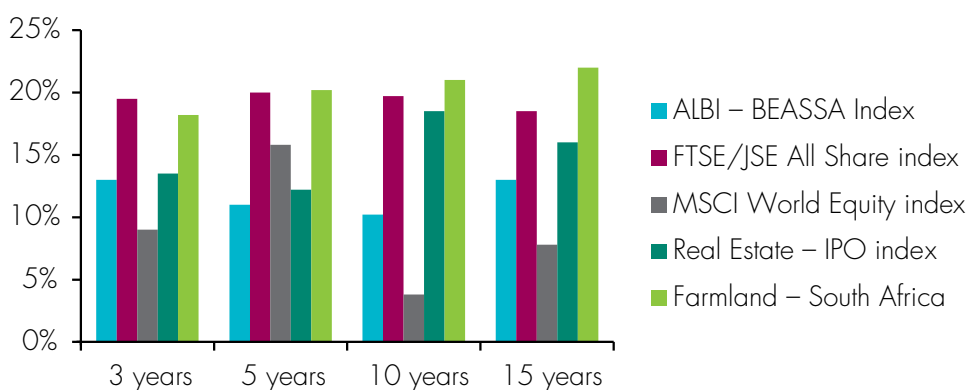
Agriculture is progressively presented as an attractive asset class for a diversified portfolio. Given the recent economic turbulence globally, the low interest rate environment, and a search for safety as well as yield, investors with a long-term horizon are looking to increase their allocation to real assets such as farmland.

Due to the availability of low-valued, premium farmland and agribusinesses on the continent as well as the shortage of locally available capital and skills for agricultural development, agriculture is a particularly viable opportunity for investors seeking stability and higher risk-adjusted returns.

THE TRACK **RECORD ON RETURNS**

When we assess past performance, farmland investments in South Africa have consistently yielded a higher return in comparison to local and international equity indices, the local bond index and local real estate. Compared to other asset classes, SA farmlands have produced higher returns with moderate volatility.

AVERAGE RETURN ASSET CLASSES (1999-2014)



Source: UFF Agri Asset Management

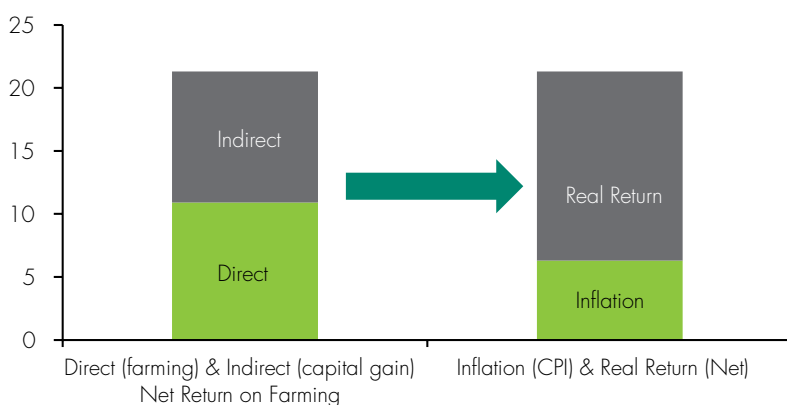
Old Mutual Investment Group offers access to an agricultural suite of funds invested in commercial large-scale farms in Africa; these funds are managed by Futuregrowth Asset Management, an investment boutique within Old Mutual Investment Group. The funds are currently focused on permanent crops that have a typical lifespan of 15-20 years, which deliver higher average income returns rather than row crops (plants typically grown in one season and

harvested, which then need to be replanted each year, e.g. corn, wheat, soybeans and cane). The investments are in actual farmland and infrastructure, which is leased to an approved operator to manage, develop and control the entire value chain.

Old Mutual Investment Group is Africa's largest private sector manager. UFF Agri Asset Management, the advisor for these agricultural investments, has over 100 collective years of experience in African agriculture from a well-balanced team of leading experts in all agricultural disciplines, such as agronomy, agricultural analysis, environmental and social governance, sales and marketing of fresh produce.

Returns on these investments are twofold – firstly, from the long-term appreciation value of the land, and then also the annual lease income.

SOUTH AFRICAN FARMLAND MARKET RETURN SINCE 1994



Source: UFF Agri Asset Management

THE **IMPACT**

According to the World Bank, agricultural investments have a two- to four-times greater impact on poverty reduction than investments in any other sectors in terms of GDP. FAO concurs, with its studies showing a positive correlation between levels of investment in agriculture and food security and poverty reduction in developing countries. In Sub-Saharan Africa, growth in agricultural employment accounted for half of all employment growth between 1999 and 2009, stated the FAO.

The agricultural suite of funds have a strong focus on positively impacting the environment in which they operate. The social impact of the investments caters a minimum of 0.5% of invested capital spend a year on healthcare and educational programmes for workers.

UNEARTHING **AFRICA'S POSSIBILITIES**

Countries such as Ghana, Ethiopia and Burkina Faso have experienced rapid agricultural growth, in some cases outpacing growth in other sectors. In Ethiopia poverty has declined by 33%, according to the World Bank, and agricultural growth has been cited as a main driver. Mali stopped importing cereal crops over the last five years and is rather planning to export 500 000 tons of maize to its neighbours this year.

Other possible success candidates include Nigeria, Senegal, Rwanda, Angola, Zambia and Tanzania, all of which have large tracts of arable, uncultivated land with large rivers that can be tapped for irrigation.

These cases illustrate that African agriculture could, and should, be thriving. Africa not only has the potential to feed itself, but to also become a major food supplier for the rest of the world.

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