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INTERVIEW

High quality farmland attracts new investors

Farmland as a non-depreciating asset class with fundamental limits to supply offers stable returns and low risk, unmatched by most other asset classes.

- Interview with Dennis Lanther, Director of Agriculture Due Diligence

Since 2017, IWC's Agriculture Team has offered tailor-made agriculture services and investment solutions on the European market to a growing client base interested in this quickly developing asset class. Overall, farmland offers a high level of safety given its capacity to generate self-sustaining income and capital preservation. **As an asset class, agriculture can be played throughout the value chain, from upstream low-risk farmland investments to downstream processing or infrastructure opportunities**, depending on investors' appetite for risk.

According to Dennis Lanther, "the reason for focusing on farmland investments is that productivity gains in farming largely tend to accrue to the landowners - in the long run". Moreover, returns on farmland have historically exhibited low correlations to traditional equity and fixed income investments. The addition of farmland to a mixed-asset portfolio might therefore "provide diversification benefits, lower overall volatility, and enhance risk-adjusted returns", Dennis Lanther adds.

Finally, the rapid growth of the world population exerts significant pressure on agricultural production and land around the globe, thus intensifying the demand for large farmland investments, continued crop innovation and

more efficient production to keep up with the increasing need for agricultural commodities. All these indicators present a promising long-term case for this asset class.

Buy-and-lease model

Another attractive feature to investors is the option that this asset class provides to effectively remove a layer of operational risk and market volatility; when farmland is bought and leased to a tenant farmer on a long-term lease contract, the investor no longer holds the risk associated with producing and selling a crop from that land, as the tenant takes on the operational risks, including fluctuations in commodity prices. Conversely, it prevents the investor from participating in any upside that might be generated as a result of rising agricultural commodity prices.

A buy-and-lease strategy is expected to realize a real gross cash yield of 2.5-4% depending on geography. Lease rates can be customized to each individual investor's appetite for risk, ranging from a fixed annual rate to a variable lease rate tied to the wheat price. Direct farmland investments owned in combination with the buy-and-lease model provide a high level of transparency, capital security, and a low level of risk. Finally, a patient investment philosophy might be necessary to fully realize the value of a farmland investment, as capital appreciation has a tendency to be lumpy as illustrated in the case of Danish farmland prices (figure 1, p. 2).

Where we are

Agriculture Investments represents IWC's newest business area and is already doing well with implementation. The

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new business area has already proven strong and IWC has confidence in the further development of its portfolio. From the beginning, IWC's Agriculture Investments Team has had an agreement with a large continental investor that has now doubled its engagement and, according to Dennis Lanther, investors across the board are starting to show interest in the many advantages provided by farmland investments and are looking for ways to enter the market.

"Currently, we have invested in six farms, with several interesting projects in the pipeline in the Baltic Sea countries," Dennis Lanther explains, adding that "risk profiles and financial contributions of individual projects are inherently different, but, in general, as an asset class, **IWC's agricultural projects provide stable returns with low volatility**".

Operational expertise, adequate financing, and a thorough due diligence process are vital to reap the many benefits of farmland as an asset class and ensure the success of an investment. IWC provides tailor-made agriculture services and investment solutions with direct exposure ensuring low cost and governance control in a way that compliments each client's existing portfolio and maximizes value for the client.

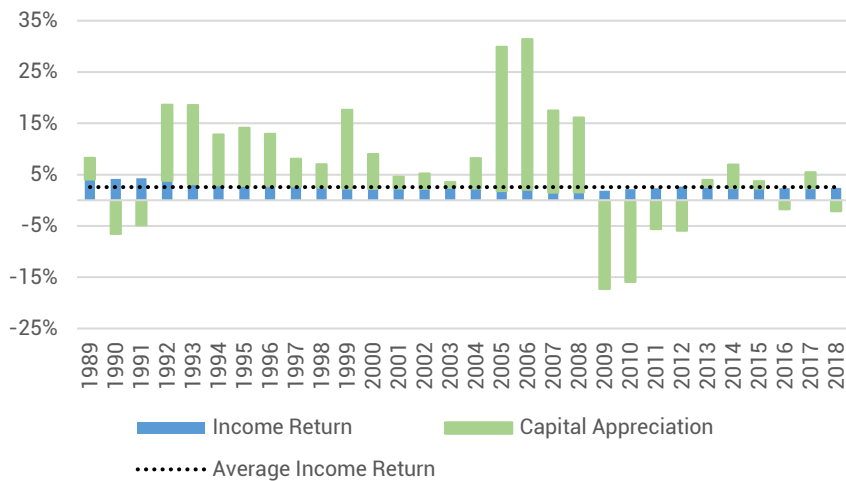


Figure 1. Historical returns on Danish farmland.



Dennis joined IWC in March 2013. He has 20 years of finance and investment experience. Today, Dennis is part of the Agriculture Management Team and together with Jesper B. Jensen responsible for the execution of IWC's agriculture investment strategy.

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