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Interview with Martin Jochum, Senior Portfolio Manager, SAM Sustainable Agribusiness Equities Strategy

No drought of solutions for the food security challenge

The summer of 2012 will go down in US history as one of the worst droughts in recent memory. Senior Portfolio Manager Martin Jochum discusses the effects of this dry spell on the agribusiness sector, and highlights investment clusters within the SAM Sustainable Agribusiness Equities Strategy that offer solutions for mitigating the impacts of such extreme weather events.

The United States has been experiencing its worst drought in fifty years. What are some of the major impacts on the agribusiness sector?

The US produces approximately 40 % of the world's corn. Due to the abnormally dry conditions and above average temperatures, the USDA reduced its corn yield expectations by another 25 % in August compared to its previous pre-drought estimate, and corn futures have moved up 50 % in just 6 weeks, wreaking havoc on the agricultural commodities complex. Soybean yields and prices have been hit by the very same drought. Notably, wheat has also become markedly more expensive because it can also be used as animal feed when corn prices are high: food producers that rely on wheat are forced to bid up prices to prevent limited wheat supplies from being diverted towards feed. These higher commodity prices have yet to filter through to the FAO Food Price Index, but we have little doubt that they eventually will.

Have we learned anything from the 2006–2008 food crisis?

During the 2006-2008 crisis, food prices as measured by the FAO Food Price Index increased a staggering 85 %. With prices subsequently settling at a higher level, the 2008 food crisis actually never left us. We remain in a prolonged period of price levels at historical highs, which are also subject to increased short-term volatility. As long as food, feed and fuel channels continue to compete for the same agricultural commodities – particularly in a world facing climate change and notoriously unpredictable weather patterns – the food security challenge will remain with us. The current drought has intensified this competition. What we are witnessing serves as a reminder of just how fragile the food supply and demand balance is nowadays, and one of the key lessons is that the agricultural sector requires innovation and allocation of capital along the entire value chain in order to provide new solutions to help alleviate some of the supply bottlenecks.

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Will we see a repeat of inflation, protectionism, and food riots witnessed in 2006–2008?

Elevated pre-drought 2012 prices suggest that the situation could become even worse this time around. We will need to get used to spending a larger share of our income on our food basket. Developed market consumers, particularly in those countries experiencing a recession, will increasingly choose to shop for cheaper private label (store brand) products to relieve strained budgets. However, in developing countries, where food expenditures typically absorb a significant portion of household income and are bound to increase even further, such lower-cost options are often not readily available. As a result, we are indeed vulnerable to a repeat of the 2008 food-related riots – which were partly attributed to massive price spikes in basic food items – as well as protectionist government measures such as export restrictions from other food producing nations.

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How do you anticipate or respond to rising food prices in your portfolio?

The SAM Sustainable Agribusiness Equities Strategy invests in solution providers that play a role in ensuring long-term food security. Regarding the more immediate challenges related to the drought, technologies that help extract "better" harvests such as fertilizers and seed protection will prove the most critical to addressing the production shortfall. Other examples include technologies such as irrigation systems or drought-resistant seeds, which can help mitigate the effects of severe weather events. Therefore the strategy maintains a pronounced overweight in the production factors investment cluster at the top of the agribusiness value chain. Throughout the entire agricultural value chain, however, the more responsible use of resources can also help alleviate the situation.

Finally, the strategy benefits from long-term demand for agricultural products driven by population growth and increasing protein consumption in the emerging markets. Such a structural tailwind goes way beyond short-term commodity cycles.

Martin Jochum
Senior Portfolio Manager,
SAM Sustainable Agribusiness Equities Strategy

Martin Jochum is the Senior Portfolio Manager responsible for the SAM Sustainable Agribusiness Equities and the SAM Sustainable Healthy Living Strategies. Prior to joining SAM, he spent five years in the investment management division of Lombard Odier Darier Hentsch, where he managed the firm's Nutrition Fund, which won multiple Lipper awards. He holds an MBA in Finance & Investment from the University of Exeter in the UK.

SAM
Josefstrasse 218 · 8005 Zurich · Switzerland · Phone +41 44 653 10 10 · Fax +41 44 653 10 80
info@sam-group.com · www.sam-group.com

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