

## INVESTMENT SPECIAL: Brazilian adventure

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### An intrepid investor's response to the global food shortage

Entrepreneurs are prone to imaginative recruitment, so when the invitation to pack my bags for Buenos Aires came through, it should not perhaps have taken me by surprise. I have known Jim Slater, the veteran investor-entrepreneur, for several years. We meet periodically to discuss the stock market or play bridge. But the idea that I might join forces with him to go scouting for farmland in South America was not something that had crossed my mind.

It turned out, however, that Jim and his business partner Ian Watson were in the process of liquidating one of their ventures, a listed mining business called Galahad Gold, and were looking to repeat its success in agriculture — which they, in common with George Soros, Lord Rothschild and a number of other smart investors, believed would be the 'next big thing'. Did I wish to take an interest in this new venture?

The plan was to start a new business which would help fill the growing shortfall of global food supplies engendered by rising demand for protein and better living standards among the emerging middle classes of China, India and other developing countries. Experience long ago taught me to pay attention when serious professionals converge on an unfashionable investment theme. Despite my lack of practical farming knowledge, I found the arguments for investing in agriculture convincing, and agreed to help.

And so it was, in the spring of 2007, that I found myself travelling down the Rio Negro valley in Argentina, camera, notebook and laptop in hand, to report whether a land deal in this region made economic sense. I covered hundreds of miles in a dusty Toyota to survey, among other projects, a potato farm, several fruit farms, and a number of cattle ranches with potential to grow crops on uncleared land. The latter struck me immediately, as it had already struck Jim and Ian, as the project with the best potential economics.

Despite breaking a tooth on an otherwise immaculate barbecued steak, I found it impossible not to be awed by the beauty and potential of the Rio Negro valley. The river runs from Neuquen in the west to the Atlantic coast, bisecting the rich farming hinterland of Buenos Aires to the north, and thousands of miles of bleak, windswept Patagonian terrain to the south. The soil is fertile, but patchy in the lower reaches where irrigation is needed to maximise crop potential.

By the time I returned with my report and spreadsheet calculations, Jim and Ian were well advanced with the planning and funding of the new business. They proceeded to recruit a board of directors, hire a farmland management team with an Argentine chief executive, and raise \$150 million of equity in London. Lord Rothschild stepped in with \$30 million to become the largest seed investor.

By this stage, agricultural commodity prices were already on the increase, and it only remained to finalise the strategy. The board quickly decided that Argentina, despite its wonderful agricultural potential, carried too much political risk, and farming on its own could not offer the returns we were seeking. Brazil, where we went next, was a better place for 'land transformation', the business we were convinced had the most potential. We began acquiring blocks of cerrado, the unproductive scrubland which stretches across large parts of central western Brazil (nowhere near the Amazonian rain forests, incidentally).

Once treated to reduce acidity and increase productivity, using technology developed by a Brazilian research institute, the soil in these inland areas is capable, within a relatively short timescale, of supporting soy, corn and other staple crops which the world's hungry consumers need. By using no-till farming methods and recycling the plant residue from each year's crop, it is possible to obtain economies of scale while limiting carbon emissions. After four years, even without irrigation, the yields from newly transformed land can rival the averages obtained in the American Midwest and Central European steppes, the food baskets of the northern hemisphere.

Since my first visit to Argentina, our company, Agrifirma, has acquired 100,000 acres of cerrado, with another 65,000 acres under option, and has cleared and planted 25,000 acres for cultivation. In due course the company plans to list its shares on a stock market, as Adecoagro, another South American farming business (founded by George Soros) did two weeks ago. There is a shortage of quoted vehicles for managed farmland, and none that focus solely on land transformation, as Agrifirma does.

Anything to do with farming carries risks. The banking crisis sent the price of commodities, land and the Brazilian currency into a temporary tailspin, challenging many of our original assumptions. We have experienced the weather effects of La Niña and El Niño, and learnt how business in Brazil operates. But our original assumptions have proved resilient in spite of everything negligent bankers and passive regulators have done to damage the global economy.

Agricultural commodity prices are rising strongly again, and global demand for food and livestock feed continues to outstrip supply, prompting new warnings about food prices from the UN and others. Behind the headlines lies a stark reality. If the world is to meet its global food requirements, there is simply no avoiding the fact that it needs more farmland, and it needs to make that farmland as productive as possible. Brazil has more suitable land for that purpose than anywhere else. In western Bahia, where we operate, the sky is big, water is plentiful, and the prairie stretches as far as the eye can see, making it ideal terrain for modern farming methods, sensitively applied.

Bureaucrats and food rioters, however well intentioned, cannot will into existence all the extra land and productivity needed to solve the world's looming food crisis. The private sector will have to provide a good deal of the necessary capital, management and technology, and absorb the attendant risks. Whatever the eventual financial returns from our endeavour prove to be, there is real satisfaction to be had from doing your bit to feed the world, rather than, say, indulging the habits of tobacco addicts, picking up the bill for oil disasters, or lending money to near-bankrupt governments.

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