

# Invest in assets that sustain the world.

## First State Global Agribusiness Fund.

With the world's population set to grow 40% by 2050, large-scale commercial farming, processing, supply and support will play a major role in feeding an estimated 9 billion people.<sup>1</sup>

The First State Global Agribusiness Fund offers investors the chance to benefit from the long-term growth prospects of this dynamic sector.

The team is one of the largest and most technically experienced in the world working exclusively on equity investments. They are stock pickers; with first-hand knowledge of companies as a strategic advantage.



<sup>1</sup> United Nations World Population Prospects: The 2009 Revision.

## What is agribusiness?

The First State Global Agribusiness Fund invests in companies involved in the production, processing, distribution and marketing of soft commodities (such as grains, meat, fish and forestry products) as well as the suppliers of services and inputs to these companies (such as fertiliser, crop protection and seeds).

Investing in global agribusiness companies can provide investors with sector diversification to a portfolio of traditional equity investments, as well as exposure to a long-term growth trend supported by strong fundamentals.

## Growing demand

There are a number of factors that are driving demand and constraining supply, leading to investment opportunities.

### Population growth

According to the United Nations, the global population is set to grow 40% by 2050 to 9 billion, compared to 6.5 billion today.<sup>1</sup> The world's farmers need to continue to become more efficient to satisfy growing demand for food.

### Rising living standards

Strong economic growth in developing economies is leading to a rapid rise in the living standards of many people. As income per person increases, particularly for people on very low incomes, an increased proportion of this income is spent on improving their nutrition and general wellbeing. This involves consuming more food, and introducing protein such as chicken, pork, beef and dairy products, while reducing starches such as rice. This increase in demand for protein foods leads to even greater demand for grains. As a rule of thumb, 1kg of chicken requires 2kg of grain, 1kg of pork requires 4kg of grain, and 1kg of beef requires 7kg of grain.

### Biofuels

While not as strong a driver as the other factors, the growth in consumption for biofuels such as ethanol is also increasing demand for agricultural produce. Around the world we have seen governments mandating the use of renewable fuels for blending into gasoline and diesel. Energy security and ongoing concerns over carbon emissions have led to these policies.

## Constrained supply

While the demand for soft commodities is increasing, there is also increasing pressure on supply factors.

### Falling arable land per person

Global cultivated area has grown 13% since 1961.<sup>2</sup> Over the same period, global population has risen from 3 billion to 6.5 billion – a rise of 115%. With 2.5 billion additional people expected on the planet by 2050, the amount of arable land per person is likely to continue declining. There is also pressure on agricultural land from competing uses such as urban sprawl, industrial complexes and forestry.

### Slowing productivity gains

World cereal yields have increased on average by 1.9% pa over the last 47 years. However, over the past 20 years the growth in yield has slowed to 1.4% pa.<sup>2</sup>

### Water shortages and pollution

Only 3% of the world's water is fresh and agriculture is a key user. The demand pressures on water are rising as population grows and industrial use rises – both competing users to agriculture.

### Climate change

This has serious ramifications for food productions. Scientists estimate that a 1 degree Celsius increase in the optimal temperature during the growing season may reduce yields in wheat, corn and rice by 10%.

1 Source: United Nations World Population Prospects: The 2009 Revision.

2 Source: Food and Agriculture Organisation of the United Nations.

## Agricultural value chain

We tend to invest in the upstream and midstream focused companies (the asset owners) who are able to generate high margins.



### Inputs

- seed
- fertiliser
- machinery

### Farming/plantation

- farm
- forestry/pulp
- palm oil

Upstream

The brands used in this chart are for illustrative purposes only, and are not a recommendation for investment.

## What does all of this mean?

From an investment perspective, the culmination of rising demand and constrained supply of soft commodities potentially opens up a number of opportunities. We believe that investing in companies involved in helping to produce more food will deliver strong returns for this sector over the medium to long term. Soft commodity companies are generally capital intensive businesses that have a far greater sensitivity to volume than to price. These companies reduce their cost per unit by increasing volume and therefore increasing their profitability.

## Why invest in the First State Global Agribusiness Fund?

### Experienced team, established process

The First State Global Agribusiness Fund is managed by the highly regarded First State Global Resources team. Our dedicated specialist team, headed up by Dr Joanne Warner, is best known for managing the award-winning Global Resources Fund. The team combines rigorous financial skills with specialist scientific training – including physics, metallurgy, chemistry and agriculture.

The investment team seeks companies that they believe are able to drive profit growth through increasing production volume while maintaining conservative balance sheets and healthy margins. The team believes these companies are best placed to take advantage of the long-term trend of rising demand and constrained supply of soft commodity products.

Soft commodities are a natural extension of the global resources investment universe and the overlap offers many synergies. The global soft commodities and global resources sectors share common drivers and are beneficiaries of global structural changes. We use the same bottom-up fundamental stock-picking process for the Global Agribusiness Fund as our Global Resources Fund. Speculating or predicting short-term changes in commodity prices is not part of our process. We invest in companies that we believe meet our investment criteria – strong growth, stable financials, sustainability and proven management track record.

## Fund profile and objective

The Fund aims to achieve a total investment return consistent with long-term capital growth. The Fund will invest primarily in a diversified portfolio of equity, and equity related instruments of issuers in the agribusiness sector, which are listed, traded or dealt in on Regulated Markets worldwide.

The First State Global Agribusiness Fund seeks to capitalise on the forecast increase in demand for soft commodities by investing in what the investment team believes are high-quality companies that have a business strategy to drive on volume growth over time.

| Key data           |  |
|--------------------|--|
| Fund Managers      | Renzo Casarotto and Skye Macpherson  |
| Launch date        | 24 May 2010  |
| Benchmark          | DAX global Agribusiness Index (75%) and the S&P Global Timber and Forestry Index (25%) |
| IMA Sector         | Specialist   |
| No. of holdings    | Average number: 50 (Minimum 20, Maximum 75)  |
| Minimum investment | Class A Shares – £1,000;<br>Class B Shares – £500,000                                  |
| Charges            | Initial – 4.0%<br>Annual – 1.5%  |



### Handling/traders

- storage
- handling
- trading
- marketing

### Processors

- oilseed crushing
- biofuels
- livestock
- paper

### Food companies

- Nestlé
- Kellogg's
- Kraft

### Supermarkets/consumers

- Tesco
- Walmart
- Sainsbury's
- Waitrose

Midstream

Downstream

## Fund manager profiles



**Renzo Casarotto**  
Senior Portfolio Manager

- Joined First State Investments' Global Resources team in February 2006.
- Prior to First State Investments, Renzo was the Portfolio Manager for Prudential and Nomura Asset Management.
- Holds a Bachelor of Business and a post graduate diploma in Applied Finance and Investments from the Securities Institute of Australia.



**Skye Macpherson**  
Portfolio Manager

- Joined First State Investments in January 2000 and joined the Global Resources team in November 2005.
- Gained solid experience and understanding of the culture by working in various departments within First State Investments: Information and Research, Investment Markets Research and Finance.
- Grew up in central Western Australia with a genuine interest in and knowledge of agriculture.
- Holds a Bachelor of Agricultural Economics from the University of New England, Armidale, where she won the University Medal. She also holds a Graduate Diploma in Applied Finance and Investments, specialising in Investment Analysis, from the Securities Institute of Australia.
- A Chartered Alternative Investment Analyst charterholder.

### General risks

Any investment with First State Investments should form part of a diversified portfolio and be considered a long term investment. The value of Funds and the income from them is not guaranteed and may fall as well as rise. You may get back less than you originally invested. Investment performance is not guaranteed, past performance is no guarantee of future performance.

### The following specific risks apply to the fund

Smaller companies risk: investments in smaller companies may be volatile and more difficult to buy and sell than the securities of larger companies.

Single sector risk: investing in a single sector may involve a higher degree of risk than a more diversified portfolio.

Investment in agriculture and related sectors: the Fund invests globally in the agriculture and related sectors. The specialist nature of this Fund exposes it to particular environmental, economic, legislative and regulatory factors which may adversely affect the value of these investments.

### For further information

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The First State Global Agribusiness Fund is available via:



Telephone calls may be recorded for your security.

The First State Global Agribusiness Fund is a sub-fund of the First State Investments ICVC, an Open-ended Investment Company with variable capital. A copy of the Prospectus is available on request.

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