PGIM

INVESTING IN AGRICULTURE

Webinar Summary

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Agriculture is a vital US industry, offering a wide range of investment opportunities. It can play a key role in a multi-asset portfolio, serving as a diversifying asset class, acting as an inflation hedge, and providing a return enhancer for an investor's allocation to the real assets category.

PGIM's Institutional Advisory and Solutions (IAS) group recently hosted its third Real Assets webinar, examining institutional opportunities in the Ag sector, with an emphasis on farmland. Farmland investments cover both owning and leasing land for annual row crops (such as soybeans) and developing, owning and operating land for permanent crops (such as almonds and pistachios). Following are a few of the highlights from the discussion:

- **Not all crops are created equal:** When constructing a farmland portfolio, diversification – row vs. permanent crops, geographic location, development stage – is critical to properly managing the risks of agriculture investing. With row crops, investors lease land to farmers, typically for two- to three-year terms, and investors bear the risk that farmers miss rental payments. Conversely, investors own and operate the land used for permanent crops, but it can take five years or longer for a plant to be productive. Permanent crop yields are usually higher than row crops, but yields depend on plant maturity and are relatively more variable. Permanent crops also require active farm management.
- **Ag can provide both growth *and* an inflation hedge:** In addition to its diversification and potential growth benefits, farmland returns can also offer inflation protection. Farmland is resilient during economic downturns – it was one of the few asset classes to have positive total returns in 2008 - but portfolios do need to be diverse to control specific risks. Using IAS' Real Asset Sensitivity Analysis (RASA™) methodology, an investor can construct a real assets portfolio with a targeted growth or inflation exposure, with farmland being a part of that strategy.
- **Competitive advantages of the US farm:** The US enjoys optimal geographic conditions for both row and permanent crops. The US also offers a highly developed transport infrastructure, a key component in the movement of farm goods. Growth in farm productivity has been driven by research supported by both the government and private sectors and increasing global demand for healthy and nutritious food products, coupled with improved incomes and expanding diets, which will continue to benefit the US farm sector.
- **ESG has a place on the farm:** Adoption of sustainable farming is on the rise and there is close alignment between farmers and operating sustainably. Fertilizer, pest control, water and energy are all costs in farming operations and the more their use can be reduced while maintaining yield, the better properties will perform.

To watch the full webinar, click here.

IAS will be hosting future webinars that will feature other PGIM portfolio managers and analysts from various real asset sectors.

For all of IAS' activities in real assets please visit the IAS Real Assets Research webpage here.

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