



Australian agriculture, ripe for growing global investment

We recently travelled to Tokyo for the Global AgInvesting Asia conference. It was the third year in a row we have attended the conference and it was the best yet.

We attend these conferences for two main reasons:

1. To continue to grow and develop our network – in this case internationally; and
2. To gain a better understanding for the macro environment and the key drivers of agriculture investment into the future.

The focus of the 2018 conference was on the global trends affecting agribusiness investment and trade flows and was full of interesting speakers from around the world.

Attendees included; North American pension funds, Japanese super funds and trading houses, the African Development Bank, China-focused private equity firms, local agricultural funds, banks and deal advisors.

FTI Consulting was also invited to speak as part of a panel on Investment Opportunities in Australia and New Zealand alongside Steve Francis from New Harvest Investment Management, Desmond Sheehy of Duxton Asset Management and Griff Williams from Milltrust Agricultural Investments.

So what does the future of agriculture investment look like? We came away from the conference with three clear themes:

1. The quantum of funds allocated to ag investing globally is growing

Driven by growth in the global population and the fast-changing demographic of the world's largest economy - China, the demand for food is set to rise by 2050.

In addition, while global capital markets, real estate and, more recently, infrastructure have experienced significant growth over the last 10-20 years, the outlook is uncertain. As in previous macro-economic cycles, in periods of uncertainty – more capital is allocated to investments in agriculture.

As many of the U.S. pension funds noted, agriculture has historically been allocated with mining within the 'natural resources' allocation, but more recently agriculture is emerging as its own asset class and is capturing the attention of fund managers. This is expected to result in a material increase in capital that is allocated directly to agriculture, without having to compete for returns and investment alongside mining or property.

2. Dealing with information flow

Despite the relative size of Australia's population and economy – and in many cases commodity production – a clear theme from the conference is that Australia is very much a target of global agribusiness investors.

Key drivers for this are:

- The proximity to Asian markets;
- The low subsidy environment;
- Our farmers ability to deal with harsh climates;
- The availability of credit
- The legislative stability;
- Our sophisticated water market; and
- Australia's highly skilled work force.

No doubt Australia has its challenges when competing globally for investment – for example, high labour costs, high regulatory costs, weather variability – however, it was interesting to hear that long term investors see these becoming competitive advantages over time because:

- High labour costs = greater advancement of technology and efficiency incentives;
- Regulatory costs = greater compliance and focus on sustainability; and
- Variability in weather = efficiency in irrigation and developed water markets.

The prevailing view was that even countries and geographies that currently have 'competitive advantages' would eventually need to:

- a) Pay people more;
- b) Increase regulations; and
- c) Allocate natural resources more efficiently.

This positions Australia well as a stable long term operating and investing environment.

3. ESG investing is real and growing fast

Nick Ping, Director of Hancock Natural Resource Group, gave a great presentation on ESG which was then referenced in a number of presentations and panel discussions that followed.

Environmental, social and governance considerations are becoming much more than just an afterthought or a 'nice to have' for large institutional investors, but a non-negotiable and in many cases the main driver of investment.

The concept of triple bottom line reporting has existed in theory for some time, however it was interesting to hear practical examples of how genuine investment into ESG practices has driven a positive financial return for Hancock NRG and others in recent times.

Investors at the conference confirmed that ESG is becoming a real economic driver to their investment decisions and that in many cases they would only invest if there was a real plan to optimise the ESG upside opportunities and manage the ESG downside risk.

Australia has a competitive advantage in the global ESG landscape due to its strong environmental regulation, social principals and governance frameworks – positioning businesses well in attracting ESG investment.

Best tip for doing business in Japan

If you would like to know more about the conference or the current investment landscape in Australian agriculture, please feel free to reach out.

Our dedicated agribusiness team are here to help clients manage their capital and strategic business needs. For more information on our dedicated agribusiness team, please [click here](#).

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