Talking Heads with Maxence Foucault

Daniel Morris: Hello, and welcome to the BNP Paribas Asset Management Talking Heads podcast. Every week, Talking Heads will bring you in-depth insights and analysis through the lens of sustainability on the topics that really matter to investors. In this episode, we'll be discussing investing in sustainable agriculture. I'm Daniel Morris, Chief Market Strategist, and I'm joined today by Maxence Foucault, ESG (environmental, social & governance) Specialist. Welcome, Maxence, and thanks for joining me.

Maxence Foucault: Hi, Daniel. Very happy to be with you today.

DM: Maxence, this has been a summer of extremes. We think about the heat waves, the fires in many parts of the world, and the impact of that and droughts in parts of Europe are having on agriculture production. Let's think about investing in sustainable agriculture. One of the lessons of this summer has been the need for sustainable solutions. Agriculture is not a traditional institutional asset class. Why should investors be looking at it today?

MF: It's a very good question. On the one hand, investors can have exposure to the agricultural sector through more traditional assets like investing in corporates through debt or equity; they can do that both on the listed or unlisted markets. And if they have a taste for innovation, they can even go through venture capital.

What I would like to speak about today is something less common for institutional investors – farmland investing – real assets, and something that can make a lot of sense from an allocation perspective. I'm going to detail why and how it can be helpful for institutional investors.

Farmland investing is about acquiring land, improving the basic infrastructure like drainage or irrigation to make sure that there is no water waste, for example. We have two options: either lease the land to a farmer who is going to plant the seeds, grow the food, and sell the goods on the market, and he will pay a rent to the fund. So, it creates a stable income flow for institutional investors.

The second option would be to have the fund operating the land through local providers, so the fund would select the best provider based on the specific geography or crop targeted, and this operator would grow the food, the goods, and sell them, which would create an upside for institutional investors on top of the stable income coming from the rents.

What is interesting about this asset class is that it has many characteristics that make sense from an allocation perspective. The first is that it offers strong diversification benefits – it has low correlation with more traditional assets. The second is that it offers a natural hedge against inflation, as the products that are grown and the land itself are part of the inflation bucket. When prices go up, it benefits investors in terms of additional returns.

I can say also that it offers attractive long-term risk returns – a meaningful spread over the risk-free rate, and stable and predictable cash yields, and all that with the potential of having a local impact.

DM: Okay, I highlighted some of the challenges we've been facing over the summer, and in general, agriculture faces major environmental and social challenges. How can investors be part of the solution?

MF: Agriculture is particularly relevant as it sits at the crossroad of many of the main challenges we're facing today – from an environmental perspective, from a social perspective, but also from a health perspective and a sovereignty one as well.

Maybe I can start with the fact that population is growing. We're around 8 billion people in the world today and through the century, it's going to increase to approximately 10 billion, so many more people to feed.

At the same time, the middle class is growing, and they aspire for richer food, more proteins, which is more demanding from the soil, and in parallel, the quantity of arable land is limited. It is not growing, and in fact is even facing competition with other needs like urbanisation or need for energy production, and even simply erosion due to intensive exploitation. Providing capital to this asset class is something that can be absolutely helpful facing this challenge.

The second thing is climate change. We see in the news every day information that show[s] we're facing more frequent and extreme events in the form of droughts, floods, hail, etc., so we need to invest in a way that will help agriculture transition and make soil more resilient – store more organic matter, retain more water, more nutrients – to make sure that, despite climate volatility, it will be able to produce food steadily.

This is what investing in farmland can enable. For example, we can use regenerative practices, like using cover crops between crops to make sure that nutrients and organic matter is put back into the soil. We can use precision farming to make sure we use less chemicals, but only when absolutely necessary, and so on. We can even put in place organic agriculture to really reduce our need for chemicals.

One other element, more on the social side, is the fact that it's a great tool to support the generation shift of farmers. One striking figure is that 50% of farmers in Europe are aged 55 or more, and in the coming decade they will have to retire. So, we have to face the challenge of enabling younger farmers who don't yet have the capital to buy agricultural land, and so what it will enable is to produce at scale while preserving natural capital.

DM: One of the consequences of the heightened geopolitical tensions we're all experiencing is that food security and sovereignty have also become strategic priorities. What role can sustainable agriculture play?

MF: We can increase our capacity to produce locally and be less dependent on international markets. Today, in conventional farming, there's a strong dependence on chemical fertilisers, pesticides, and as we've seen during the recent crisis, when oil prices go up, the prices of these chemicals go up as well, which impacts farmers and food price[s].

So, making sure we help transition our farming practices to regenerative or organic ones will make sure that we are less dependent on chemicals and less sensitive to volatility. The concept is about making sure that our land[s] – the basic infrastructure for food production – are transitioning to be able to produce at scale while being preserved. This asset class really aligns between financial requirements from an institutional perspective to societal and environmental needs, which make[s] this asset class very interesting.

DM: Thank you, Maxence. If I can summarise the key points that you made: sustainable farmland offers a rare combination of portfolio diversification, inflation protection, sustainability outcomes, and exposure to one of the world's most essential sectors, food production. Well, Maxence, thank you very much for joining me.

MF: A pleasure to be with you today.

DM: That's it for this week's episode of Talking Heads. If you would like more information about our capabilities in investing in sustainable agriculture, please reach out to your asset management contact or check out Viewpoint, our website for investment insights at viewpoint.bnparibas-am.com. Viewpoint brings commentary and analysis in a variety of formats, from investment outlooks to asset allocation videos and podcasts, to help investors make better-informed decisions.

You've been listening to the BNP Paribas Asset Management Talking Heads podcast with me, Daniel Morris, and Maxence Foucault, ESG specialist.

Please do join me next week. Until then, take care.