PRIVATE EQUITY AND EMERGING MARKETS AGRIBUSINESS:
BUILDING VALUE THROUGH SUSTAINABILITY

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Mark Eckstein is Director of Environmental and Social Responsibility at CDC Group where his responsibilities include oversight and management of E&S issues across CDC’s Funds and Debt Portfolios.

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Joshua Levin is a Senior Program Officer in Finance & Commodities at the World Wildlife Fund. He leads WWF’s global efforts to engage financial institutions on emerging opportunities, risks, and intelligence related to investing in global food and agri-commodities.

Piotr Mazurkiewicz is a Senior Environmental and Social Development Specialist at IFC, and is responsible for E&S risk management in IFC’s FI projects in the Asia and Pacific region.
GROUND RULES FOR Q&A

- Please use the chat feature (lower right-side of screen) to type in your questions or comments.
- The moderator will relay the questions to the presenter according to the order of their submission.
- We will focus on questions related to this presentation only – e.g., we will not answer questions on specific IFC clients or projects.
- Please submit your queries in the form of a question and not comments.
- Please understand that not every question can likely be answered due to time limit.
- Thanks to those who submitted questions ahead of time, we have tried to take them into consideration in the presentation.
- As this webinar is being recorded, the moderator will repeat each question before answering.
AGENDA

1. Framing the Issues: Priority Areas (12 min)

2. Q&A (5-10 min)

3. State and Trends of Private Equity in Emerging Markets Agribusiness (12 min)

4. Q&A (5-10 min)

5. Roadmap for E&S Risk Management (12 min)

6. Q&A (10 min)
agriculture is the biggest threat
DEFORESTATION: 85% AGRICULTURE & RANCHING; 10% LOGGING, PULP & PAPER
WATER: TWICE AS MUCH AS ALL OTHER USES COMBINED
LARGEST SOURCE OF POLLUTION
LARGEST USER OF CHEMICALS
30% OF GREENHOUSE GAS EMISSIONS
COUNTRIES WITH PROTECTED AREAS BEING DOWNGRADED, DOWNSIZED OR DE-GAZETTED

Source: WWF PADDtracker.org
GLOBAL TRENDS BY 2050

- Population 3 billion more
- 70% will live in cities - as many as are alive today
- Climate change catalyzing water shortages and crop failures
- Income will increase 2.9x
- Consumption will rise
- Consumption of animal protein and vegetable oils will increase even faster
GLOBAL FOOD PRODUCTION

40 years = 8,000 years
WHAT IS THE AGRIBUSINESS VALUE CHAIN?

Illustration
Agribusiness Value Chain

Inputs
- Seeds
- Fertilizer
- Irrigation
- Land
- Equipment

Production
- Staples
- Livestock
- Horticulture

Traders

Processing
- Packaging
- Cold Storage
- Silos
- Warehousing
- Freighting

Distribution / Wholesalers

Retail

Consumers
- Branded Products

Source: Dalberg and EMPEA.
SMART MONEY

OR...
McDonald's sets 2016 deadline for 'Verified, Sustainable' beef supply

GLOBAL burger chain McDonald's has committed to begin purchasing "verified sustainable beef" during 2016, following a two-year establishment phase during which it will "listen, learn, and collaborate with stakeholders from farm to front counter to develop sustainable beef solutions."

The company aligns the move with similar 'sustainable' supply chain adjustments it has made in areas like coffee, fish and packaging materials. The chosen definition of 'sustainable' clearly covers both environmental considerations, as well as animal welfare.

“Sixty years ago, McDonald's started out as a hamburger destination. Today, we offer a range of menu choices, but burger reigns supreme in our most iconic menu items. That's just one reason we want to do our
PLATFORMS
CalPERS gives its managers ESG ultimatum

May 22, 2015 | 0 Comments | print

In what promises to be a transformational moment for ESG integration and investment manager accountability, CalPERS will require all of its managers to identify and articulate ESG in their investment processes.

CalPERS staff led by Anne Simpson, senior portfolio manager and director of ene, presented the ESG manager expectations, and draft of the CalPERS manager development plan to the investment committee this week.
“LAND GRABBING”

Sold Farmland in percent of total cultivated land
state and private investors. 2012

* share of all land sales
** plus additional land sales
Source: PNAS

Liberia**
Malaysia 34%
Singapore 34%

Sierra Leone
Great Britain 31%

Ukraine
US 66%

Philippines
Saudi Arabia 17%

Uruguay
Argentina 51%

Gabon
Singapore 74%

Tanzania
Sweden 45%

Madagascar
Great Britain 54%

Papua
New Guinea
Malaysia 90%
TOOLS
PRIVATE EQUITY AND EMERGING MARKETS AGRIBUSINESS

Building Value Through Sustainability
Q&A
STATE AND TRENDS OF PRIVATE EQUITY IN EMERGING MARKETS AGRIBUSINESS

Data Overview

Regional Spotlights

Future Outlook
DATA OVERVIEW
AGRIBUSINESS PRIVATE EQUITY REMAINS A NICHE STRATEGY IN EMERGING MARKETS

Agribusiness PE Fundraising & Investment, 2008-2014 (US$m)

Scale in US$ Millions.
Source: EMPEA.
LATIN AMERICAN-FOCUSED FUNDS RAISED THE MOST CAPITAL FROM 2008-14, BUT THERE IS A SHIFT TOWARD EMERGING ASIAN AND SUB-SAHARAN AFRICAN VEHICLES

Agribusiness PE Fundraising by Geographic Focus, 2008-2014

Scale: % of Total Capital Raised.
Source: EMPEA.
LARGE DEALS—BY GLOBAL FIRMS—IN EMERGING ASIA HAVE CONTRIBUTED TO AN INVESTMENT SURGE IN 2014

Agribusiness PE Investment by Year, 2008-2014

Scale: US$ Millions / Number of Deals.
Source: EMPEA.
THE MAJORITY OF DEALS HAVE BEEN IN "FOOD PRODUCERS," MEANING PRIMARILY PROCESSORS AND RETAILERS

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Source: EMPEA.
REGIONAL SPOTLIGHTS
EMERGING ASIA: CONCENTRATED BY COUNTRY BUT DIVERSE BY SECTOR

Emerging Asia Agribusiness PE Deals by Country and Sub-Sector, 2008-2014

By Country

By Sub-Sector

Source: EMPEA.
LATIN AMERICA: DIVERSE BY COUNTRY BUT CONCENTRATED BY SECTOR

Latin America Agribusiness PE Deals by Country and Sub-Sector, 2008-2014

By Country

By Sub-Sector

Source: EMPEA.
SUB-SAHARAN AFRICA: DIVERSE BY COUNTRY AND SECTOR

Sub-Saharan Africa Agribusiness PE Deals by Country and Sub-Sector, 2008-2014

By Country

- South Africa
- Kenya
- Uganda
- Madagascar
- Cote d'Ivoire
- Ethiopia
- Nigeria
- Tanzania
- Zimbabwe
- Other

n=69

By Sub-Sector

- Farming, Fishing & Plantations
- Forestry
- Food Retailers & Wholesalers
- Other
- Food Products
- Specialty Chemicals
- Soft Drinks

n=69

Source: EMPEA
FUTURE OUTLOOK
NEARLY HALF OR MORE OF SURVEYED LPS ARE LOOKING TO BUILD EXPOSURE TO AGRIBUSINESS PE IN EACH EMERGING MARKET REGION

Percentage of LPs Looking to Build Exposure to Agribusiness PE Over the Next Two Years, by Region

- China: 48%
- Turkey: 52%
- Brazil: 53%
- India: 55%
- Russia / CIS: 56%
- Latin America (ex Brazil): 57%
- Southeast Asia: 58%
- Central & Eastern Europe: 58%
- All Emerging Markets: 62%
- Sub-Saharan Africa: 66%
- Middle East & North Africa: 71%

Scale: % of Respondents. n=141.
Q&A
E&S ISSUES ARE MATERIAL

Getting E&S issues right is one of the key requirements to successful PE investment in emerging market agribusiness.

Risks from
- Land
- Labour
- Water
- Agrochemical use
- Climate change

Impacts on
- Market access
- Capital raising
- Cost of production
- Labour productivity
- Product quality and volume
- Opex
MANAGING E&S ASPECTS IS HARDER

• Boundaries, scope and leverage

• Interaction and increased complexity of issues

• Brown or Greenfield

• Cumulative and indirect issues

• Evolution over time
Lessons learned:

- Define your expectations and engage investees early
- Prioritise and accept that implementation may take time
- Ensure risks are managed as well as opportunities realised
- Build capacity and management systems as needed
- Leverage knowledge (of others)
- Tools and guidance (IFC projects and good practice / CDC ESG toolkit)
- Measure and report on performance – this should inform management practices
THE “MUST HAVES”

A MANAGEMENT SYSTEM

- Policy
- Identification of risks & impacts
- Management programs
- Organizational capacity & competency
- Grievance mechanism
- Monitoring and review
CERTIFICATION

Costs
- Price premium should not be assumed
- Reduced production area (HCV)
- Segregation of product
- Certification costs

Benefits
- Increased access to capital, and some markets
- Better management of input and labour costs
- Staff motivation
- Community relations
- Supply chain traceability