Alternatives April 12, 2019

At Pension Bridge: How a Utah Pension Plan Invests in Farmland

Organization's head of agriculture and real assets explains what drove the fund to the space.

Pension funds invest in agricultural commodities, and putting money into farmland is becoming increasingly of interest.

Rich Matheson, the Utah Retirement System's agriculture and real estate portfolio manager, explained at the Pension Bridge conference in San Francisco why his fund does just that, and how you can, too.

"As you look at a basket of various investment asset classes and you compare it to farmland, and include in the comparison inflation, what you find is a tremendous amount of non-correlation to other investment asset classes to farmland, and high correlation between farmland and CPI," he said.

Some farmland-related investments are typically infrastructure or real estate-based, where organizations will buy the land to build property on it to enhance their long-term bottom lines. Utah goes the other way, putting preservation first, as land scarcity is a problem due to developments.

"The mandate for our real assets portfolio is inflation protection, income production or cashflow, diversification, and asset preservation," he said.

The program began about five years ago, when the fund started to invest in agriculture directly. The small allocation (a bit more than $150 million) is about 1% of the total portfolio, but it is diversified both globally and by crop type. Additionally, one of the main drivers that makes farms a no-brainer for Matheson is food.

"As GPD per capita grows, especially in emerging markets, demand for higher-quality food grows lock-in-step, and grows rapidly," he said, noting that China and India, the world's two largest population hubs, were where the plan took notice of this phenomena.

"In 2017, for example, China's GDP growth was 6.9%, and India's was 6.6%, that compares to 2.3% in the US. As that growth continues, the demand for higher-quality foods like animal-based proteins, nuts, berries, and such and shifting away or maybe migrating away from a typical rice-and-beans diet, the demand for those higher-quality food increases."

As for the risk/return profile of the rural space, it is a low-volatility area, which furthers Utah's attraction. It also harvests high returns, about 10.9% from 1998 through 2017, according to a chart from Matheson's. Implied future returns are about 6%.

Matheson's investment approach is similar to a private equity structure as the retirement plan invests in the space directly. "We've got a small allocation, as I mentioned, so that allows us to be more disciplined," he said. "We're not under a lot of pressure to place a lot of capital in a short amount of time."

As to where the fund decides to put its money in the sector, the land itself is most important.

"We focus here on the 'farm gate,' as it's called, right where the crop is grown," he said. Another way to invest is on a macro level, where the fund will bet on either the gear and products the farmer will use to grow crops, and what they sell to the consumers.

Another is in the technology farmers use to harvest and produce their goods. "There has been a ton of capital flow into technology and innovation in the agricultural space and that was attractive to us in terms of increases in productivity and efficient use of water, seed technology, and whatnot," he said, warning that investing in farmland isn't easy, and there is currently no concrete way to measure performance. "What it really comes down to is the risk/return that you're interested in."

There are fewer investment managers in the space, so institutions still have a shot at being early. Although this is growing, farmers still hold most of the agricultural cards. "That's evolving over time but it's ultimately pretty difficult from an institutional investor's perspective to invest meaningful capital in a short amount of time if that's what you need to do," Matheson said.

By Chris Butera