

From: David Stern <~~ds@witanagroup.com~~>
To: Jeffrey Epstein <jeevacation@gmail.com>
Subject:
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Do you think we can set something up to buy and lease farmland in Russia?
We have the best access, control and security as well as team/resources locally through my girl's family operations.
South of Russia has the best soil in the world ("black earth")

As global stock markets fluctuate wildly, private equity funds and other large institutions are increasingly looking to alternative investments to provide balance and stability to their portfolios.

Given the rapid run-up in agricultural commodities and food prices recently, farmland investments are becoming an increasingly attractive asset class, writes *Josh Cohn*, a partner at alternative investment group *GreenWorld BVI*. It is also an ideal asset class for private equity firms with long time horizons, as farmland is inherently illiquid and usually requires at least a five to ten-year minimum holding period to be worth the investment.

In the UK for example, over the last ten years, agricultural land has appreciated roughly 13 per cent per year in the according to Investment Property Databank (IPD). The US and other Western countries have seen similar farmland investment returns. Farmland prices have therefore skyrocketed, reaching as high as £17,300 (approximately \$30,000) per hectare in the northwest of England to take just one example.

As a result, investors are increasingly turning their attention to areas of the world where farmland prices are starting from a much lower base, thereby providing much greater upside potential. One area where this has been particularly prevalent is Africa, where hedge funds and other large institutions have been making large agricultural farmland investments. Hedge funds and private equity funds alone have purchased 148 million acres of farmland in just the last three years.

Given the long history of colonial exploitation in Africa, there has been increasing resistance to what is perceived by many western Non-Governmental Organisations as well as Africans as a "foreign land grab." Whilst some of these feelings may be based on old stereotypes rather than current conditions, there is no question that some abuses have occurred.

In an article in *Businessweek*, the authors noted one example of a large US agribusiness firm that invested in Kenya. According to many local Kenyans, hundreds of people have been displaced from ancestral farming lands, and promised investments in health clinics and hiring of local staff have not materialized.

What is undoubtedly true is that frequently large institutional investors make deals directly with the central governments of African countries. Given the amount of corruption and generally poor governance that still exists in Africa, the investment dollars frequently disappear into the pockets of corrupt local officials whilst local farmers are forcibly removed from their homes and lands.

By the same token, it is far from true that all foreign investments in African farmland are predatory and exploitive. Global consultancy McKinsey recently produced a report on the future of Africa which noted that the continent had over 25 per cent of the globe's arable land yet produced only ten per cent of agricultural output. McKinsey recommended that up to \$50bn/year of African agricultural farmland investment would be needed to bring the sector up to global standards.

Given the need for investment in African agriculture, there is no reason that foreign farmland investment on the continent cannot be structured as a win-win for both private equity investors and the host country populations.

It is actually a disservice to those concerned with food security in Africa to simply paint all farmland investment on the continent as inherently bad. With the right guidelines and intentions, private equity farmland investments in Africa can be both ethical and profitable.

In addition, as with many major trends in the world today, a large reason behind the rapid run-up in food prices is China's development. As investors we always want to be on the correct side of global macro trends, and whatever China needs or is buying lots of, we want to own as investments.

The question is what are the best ways for making money from the agricultural sector? One way is to invest directly into agriculture

stocks such as farm equipment maker John Deere (DE), global seed giant Monsanto (MON) or fertilizer company Potash Corp of Saskatchewan (POT). Another method is to invest in agricultural futures through Exchange Traded Funds (ETFs) such as AIGA on the London Stock Exchange or DBC in the US which tracks an entire basket of agricultural commodities including corn, soybeans, wheat, cotton, sugar, coffee, cattle and pigs. These commodities ETFs try to track the spot price of the various commodities they include.

The advantage of these stocks or ETFs is that they are easily tradable by anyone who has an online brokerage account. The disadvantage, however, is that they are still financial instruments, and as such can fluctuate widely in price.

One option most individual investors tend to overlook is direct investment in farmland. In many ways, a farmland investment is more secure, stable and tangible than putting money into stocks. Farmland allows investors to still benefit from the global trends in agriculture we have discussed, whilst providing much greater stability than agriculture stocks or commodities which can fluctuate wildly.

In the last 20 years farmland in the United States has never had a down year, as this table from the National Council of Real Estate Investment Fiduciaries (NCREIF) in the US demonstrates.

Not surprisingly, many large institutional investors have been investing heavily in farmland the last several years. For example TIAA-CREF, one of the largest pension funds in the world, has recently made a large move into farmland investing.

Prices for farmland in the West – particularly in Europe - have already moved up considerably, reaching as high as £17,300 per hectare in the northwest of England to take just one example. Whilst there are considerable advantages in terms of political stability to farmland investment in Europe or the US, the real opportunities for spectacular gains lie in emerging markets, especially in Africa, which holds 60% of the world's remaining arable land suitable for farming.

Whilst farmland investment has been dominated by larger institutions historically, in just the last two years a number of options have been developed for individuals. The most common is to pool a number of individual investors' capital together to purchase a large parcel of land, and then divide it into individual freehold parcels. Farmland investments for individuals generally pay a regular yearly dividend from the sale of crops, and also provide the opportunity for long-term capital gains as farmland continues to increase in value.

We are now starting to see options starting as low as £1,950/hectare for high quality farmland in Africa, as well as opportunities in Australian and Argentinean farmland that are easily accessible by individuals.

There are, of course, risks with any investment, but by doing one's due-diligence and investing in the right structure with the right people and institution, farmland investment can be both safe and profitable for individual investors as well as large institutions.