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Dexion, Brown & Co JV launches farmland offerings – exclusive

Dexion Capital, the UK alternatives investment bank, and Brown & Co, the agribusiness consultancy, have started fundraising for two farmland investment offerings through a newly-established joint venture: Agricultural Asset Management (Agri-AM).

The two offerings, a US farmland fund and an Eastern European separate account opportunity, are targeting institutional investors. A few European pension funds are already in due diligence for the US offering, according to Ana Haurie, group managing director of Dexion and chief executive of Agri-AM.

Most institutions that are considering both products are thinking of investing between \$25 million and \$75 million.

The US farmland fund is targeting between \$150 million and \$250 million initially, and up to \$500 million over a three-year fundraising period. It will invest into farming properties across Illinois, Colorado and the Mississippi Delta region.

It will employ a range of different leasing models with local farmers: cash lease, crop-sharing and custom farming. In light of subdued commodity prices at present, cash leases and crop shares are more likely than custom farming arrangements, according to Charles Whitaker, managing partner of Brown & Co and chief investment officer of Agri-AM.

“A year ago the model had a third of each arrangement, but right now we are probably favouring more cash rent and crop share models because it will be difficult, given today’s commodity prices, to make a margin with custom farming,” Whitaker told Agri Investor. “The good thing with our strategy, however, is that our local management, and the nature of our relationship with them, gives us the flexibility to make changes to our land-use arrangements as we deem appropriate. We see our farm tenants and operators in many ways as our partners because they want to keep operating the land and unlocking the potential to expand their businesses, so are open to different leasing/operating structures.”

Under each arrangement, Agri-AM will make improvements to the land, such as installing better irrigation systems, and these improvements will translate into increased rental yields or better crop sharing returns.

Recent reports that land prices are falling in the Corn Belt region make this an attractive time to be buying in the US, added Whitaker.

The 10 to 15 year fund has a pipeline of around \$100 million worth of farmland acquisitions that it will start deploying into as soon as commitments are made.

The US farmland fund is likely to charge a management fee of 1 percent and a performance fee of 10 percent although the exact structure of the fund will be “investor led”, added Haurie.

The Eastern European offering will target own-and-operate farmland investments in Poland and Romania. The JV currently has a pipeline of around €200 million it could deploy over an 18 month period. This offering is likely to be committed to as a separately managed account, or a club deal, according to Haurie who recognises the trend for direct investing among institutions.

“It is often difficult to differentiate between a managed account, direct investments and a fund because in many cases you are likely to form a club of like-minded investors so it is essentially the same prospect,” she said.

Brown & Co has over 20 years of farming experience in Poland for private clients and has already established some operating relationships in Romania, according to Whitaker.

Agri-AM will target returns of between 8 percent and 10 percent net of fees, according to a press release. The returns in Eastern Europe are likely to be greater than in the US along with its vastly different risk profile: cash yields could be around 4 percent and land appreciation around 6 percent on an annual basis, according to Whitaker.

The JV had initially considered launching a UK-listed investment trust to invest into the US but decided to go the private fund route for now. “We are still considering a listed investment trust for US assets to access a bigger investor audience including retail, but at this stage it makes more sense to go down the private fund route,” said Haurie.

The JV is also open to finding opportunities for investors in the UK farmland market after it represented a consortium of UK pension funds in their bid for the Co-operative’s farm business earlier this year. Some of these UK pension funds are looking at the US opportunity, according to Whitaker.

Neither investment opportunity has strict targets although Haurie hopes to hold a first close for the US fund during the first half of next year.