KEYNOTE INTERVIEW

Investing in sustainability along the food chain

Developing sustainable solutions to food production is an environmental and social imperative. It also makes good business sense, says Paine Schwartz Partners CEO Kevin Schwartz

According to the World Bank, by 2050, feeding a planet expected to have over nine billion people will require an estimated 50 percent increase in agricultural production. Kevin Schwartz, chief executive and founding partner at food and agribusiness-focused private equity firm Paine Schwartz Partners, explains why responsible investment is key to addressing challenges in the food and agricultural sector.

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Q Why is responsible investment so important in the context of food and agribusiness?

Food and agriculture are critical sectors for the obvious reason that everyone on the planet needs to eat and have access to the calories and nutrition they require to live. However, the situation is that demand is continually rising, as the global population grows. Diets are also changing. As people move up the wealth ladder, they consume more protein and fresh fruit and vegetables.

Protein, in particular, requires the production of large volumes of grain to be converted into animal protein, which has huge implications on the resources that we have available to produce food. We are also facing significant constraint factors, such as the availability of fresh water and a changing climate, which are creating more variability in yield outcomes. In other words, the industry landscape is characterised by inexorable increases in demand and constraints on supply, which make it critical to focus on sustainable solutions to producing the food we want and need to consume globally.

Q What sorts of ESG challenges, and opportunities, does that create for you as an investor?

For us, there are two key investment themes. First, increasing productivity in the food and agricultural value chain. The second theme is health and wellness. Within those core themes, we look across the value chain from 'before the farm', which means the products and services that are used on the farm to increase yield or productivity in a sustainable way, and also downstream, closer to the consumer, as they are making choices to purchase healthier food and nutritional products that improve their health and wellbeing.

An example of a portfolio company focused on the upstream part of the value chain is AgBiTech, a business we invested in around four years ago. That company has developed a technology to control caterpillar pests using their own naturally occurring viruses, which are completely harmless to any other living organism. So, rather than using synthetic chemicals, which have a negative effect on everything living in the field, including other animals, pollinators such as bees, and the plants themselves, we now have a naturally occurring pest control solution that is food grade. That product is being used in key agricultural production geographies including Brazil, the US and Africa. We have ended up with an organic and biological solution to what used to be controlled with a series of relatively harmful synthetic chemicals.

An example of a health and wellbeing investment, meanwhile, would be FoodChain ID. Consumers want transparency around the safety and security of what they are consuming. FoodChain ID, which we recently sold, provides more than 30,000 food, feed and agricultural customers with food safety and food quality testing and accreditation services.

Overall, we have an investment landscape that allows us to build a diversified portfolio across the value chain, anchored around those two core

A fresh approach

Paine Schwartz Partners backed publicly traded AgroFresh in June 2020, having tracked the company for a long time.

AgroFresh is all about food waste reduction, a key investment theme for the firm. To give some context, the UN Food and Agriculture Organisation has estimated that around a third of all food produced globally is wasted. That is about a billion tonnes of food per year. Covid-19 has only exacerbated these issues as demand chains have been upended, with restaurants closing and supermarkets scrambling to keep up.

Clearly, there is a financial value proposition in minimising this wastage. There is also a strong environmental gain. Approximately 8 percent of greenhouse gas emissions come from food waste, due to the high emissions associated with food production itself.

AgroFresh delivers solutions that extend the shelf life of fresh produce and therefore reduce waste. The company's flagship product specialises in revolutionising the post-harvest management of apples, allowing them to be stored fresh for longer periods of time, rather than being sent to landfill. According to AgroFresh, this product is estimated to have taken around 10 million metric tonnes of carbon dioxide out of the air in the US.

Paine Schwartz Partners backed the business to support its ongoing growth and the development of new products and technologies. Today, AgroFresh is operating in countries around the world and has created new products tackling other high value specialist crops ranging from bananas to cherries, citrus fruits, avocados, tomatoes, plums, and pears. "Our goal is to continue to support the business in its drive to have a material impact on the sustainability of fresh produce production," says Paine Schwartz Partners CEO Kevin Schwartz.

themes of productivity and health and wellness.

Q How do you incorporate responsible investment principles into your investment process, from origination through to exit?

We have tried to systemise everything that we do around ESG and responsible investment, to ensure it is deeply ingrained in all our activities. When developing our investment strategy, we have ensured we are investing in companies where the core value proposition is around driving sustainable solutions, whether that be boosting productivity, waste reduction or food safety and security. Our investment thesis is aligned with the goal of creating a more sustainable food chain.

As we build a funnel of investment opportunities, meanwhile, we screen for those positive characteristics. In due diligence, we use metrics to identify ESG risk factors from the use of scarce resources to other social and governance issues, which gives us a baseline. As we move into the ownership phase, each business has its ESG mission embedded at the board of directors level, and we continuously strive to improve on those metrics and to be unfailingly transparent about the progress we make. For example, all our portfolio companies disclose their Scope 1 and Scope 2 greenhouse gas emissions.

At exit we are also alive to whom we are selling an asset, looking for owners that are going to be good stewards of these companies from an ESG perspective going forward. Our approach to responsible investment spans everything from idea generation, all the way through to realisation and reporting.

Q How do you resource responsible investment within the firm?

It really starts at the top. As chief executive of the firm, I have ultimate oversight of our ESG mission. We have a cross-functional team where our head of investor relations is responsible for the calculating and reporting function at a firm level; our head of operational excellence is responsible for deployment of objectives and management of outcomes at a portfolio company level; and our investment teams are responsible for identifying issues, carrying out accurate due diligence and fulfilling objectives during the ownership phase. Responsible investment is embedded in everything we are doing across the firm.

"The industry landscape is characterised by inexorable increases in demand and constraints on supply, which make it critical to focus on sustainable solutions"

Q How is responsible investment correlated with returns in this sector?

In an industry like food and agriculture, it is the end consumer who is ultimately the determining factor in what gets valued upstream. What we are seeing is an increasing focus, particularly in the developed world, on consumers making choices that reflect their desire for more sustainable, safe and healthy sources of food.

That is creating demand for sustainable production solutions, across not only environmental, but also social and governance issues. There is a real synergy, therefore, between ESG and responsible investment goals and those companies that are going to be long-term winners in this sector. We see no negative drag on returns whatsoever. In fact, there is a clear alignment between responsible investment objectives and investment performance.

Q Do you think that is something that institutional investors now universally buy into?

We are getting there. We have certainly seen strong demand from most of our investors for measurement against ESG performance metrics, which helps them with their reporting to their own stakeholders on these issues. We have also seen the emergence of pools of capital that are specifically orientated towards investment with impact, whether environmental or social. I would say the adoption of ESG and responsible investment principles are now very much table stakes, not just in the food and agricultural sector, but right across the private equity industry.

Q What does the future hold for responsible investment in the food and agricultural sector?

Responsible investment will become both increasingly well-defined and more and more measurable. Our strategy is closely aligned to the United Nations Sustainable Development Goal 2 – ending hunger on a global scale. The private sector's contribution to that goal is going to be critical.

There is also growing momentum behind the drive to combat climate change and weather volatility. The food and agricultural sectors are, of course, directly impacted by those trends, but they are also one of the greatest users of resources on the planet and one of the greatest contributors to greenhouse gas emissions. These issues are front and centre for the food and agricultural industry and so, as investors, they are front and centre for us as well. ■