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Investing in Real Assets with a Private Equity Approach:

How Food and Agribusiness Investments Can Deliver the Best of Both Worlds

February 2025

Introduction[1]

As investors seek to achieve private equity ("PE") returns but with more limited downside risk and more stable returns, we explored the possibility of bridging the gap between PE and real assets ("RA"), considering both their inherent characteristics and the current market landscape. Private equity investments are known for their high returns, but may come with significant risk, leverage, illiquidity, and the need for value creation strategies to deliver strong returns. Real assets, such as real estate, infrastructure, and natural resources, offer more stable and predictable cash flows with lower risk, albeit with similar illiquidity. Food and agribusiness, which Paine Schwartz Partners ("Paine Schwartz") has been investing successfully in for over 20 years, is a distinct and broad sector that encompasses many real assets and private equity characteristics. This paper explores the potential investment strategies that typically yield opportunities to deliver the best of both worlds within the food and agribusiness sector.

Key Takeaways

- We believe achieving private equity returns with a real asset risk profile is feasible by selecting the right business models and through strategic approaches that combine the strengths of both asset classes.
- It is not necessary to own the actual real asset to benefit from its attractive characteristics – investing in adjacent companies where there is look-through exposure to real assets may offer higher returns with access to similar dynamics.
- Hybrid investment structures, operational improvements, moderate leverage, value-add strategies, and sector diversification are also key mechanisms to achieve this balance.
- While challenges remain, a well-executed strategy can offer investors the potential for higher returns with a more manageable risk profile.
- In our experience, investments in companies with both direct and indirect exposure to food and agribusinesses have produced returns in the past comparable to traditional private equity investments by selecting the right business models, implementing operational efficiencies, exploring new markets, and leveraging technological advancements.

1 Certain statements herein are the opinions and beliefs of Paine Schwartz. Any projections are provided for informational purpose only. There is no guarantee that any historical trends will continue or that any projections will be achieved.

Key Characteristics of Private Equity ("PE")

Private equity involves investing in private companies or buyouts of public companies, typically with the aim of improving their value and eventually exiting through a sale or public offering. Private equity returns are often attractive, but they require active management and come with higher risk, illiquidity, and longer investment horizons than public investments.

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PE returns have historically outperformed public markets, often delivering annualized net returns of 15% or more.[2] PE firms typically target underperforming or undervalued companies, implementing strategic changes to enhance profitability and drive value creation. This active management approach, coupled with financial leverage, enables PE funds to generate substantial returns over their investment horizons, which generally span between three to seven years (but have been increasing more recently). Analysis from McKinsey & Company finds that the use of leverage and market multiple expansion drove 67% of investment returns for PE buyout deals from 2010 to 2021.[3]

Despite their attractive returns, private equity investments may come with certain risks and challenges. The high returns are partly attributable to financial leverage, which can amplify both gains and losses. Additionally, private equity investments are illiquid, often requiring investors to commit capital for extended periods without the possibility of early redemption and with low to no interim yield. The success of private equity investments is heavily dependent on the skill and expertise of the fund managers, operational value creation, as well as favorable market conditions. While the potential for high returns is appealing, investors must be prepared to accept the associated risks and illiquidity inherent in private equity investing.

2 MSCI Private Capital Solutions as of January 2024. The median net IRR for PE funds raised between 2011 and 2020 was 16.4 percent as of September 30, 2023. According to the Kaplan-Schoar Public Market Equivalent analysis, which benchmarks PE performance against a public market index by accounting for the timing of cash flows, the median PE fund from the 2010–20 vintages outperformed its public market equivalent by 1.1 times.

3 McKinsey Global Private Markets Review 2024, in partnership with StepStone Group.

Key Characteristics of Real Assets ("RA")

Real assets include tangible investments such as real estate, infrastructure, and natural resources. These investments are valued for their stability, income generation, inflation protection, and lower volatility compared to traditional equities. Real assets typically yield net returns of 7-10%, driven by stable cash flows and appreciation in value.[4]

One of the primary characteristics of real assets is that they are physical assets with intrinsic value. This can provide a source of security and stability. Additionally, real assets typically generate steady and predictable income streams, making them attractive for investors seeking stable cash flow. For example, rental income from real estate properties, toll revenues from infrastructure assets, and harvest yields from agricultural investments offer regular income that can be less volatile than returns from equities.

Another defining feature of real assets is their ability to act as a hedge against inflation. As prices for goods and services rise, the value of real assets tends to increase as well. This inflation protection is particularly evident in real estate, where property values and rental incomes often rise with inflation. Similarly, the value of natural resources such as oil, timber, and agricultural products generally appreciates in an inflationary environment.

Real assets also exhibit lower correlation to traditional asset classes, such as stocks and bonds, providing diversification benefits to an investment portfolio. This lower correlation means that the performance of real assets is often driven by different factors than those influencing financial markets. Performance correlation to the S&P 500 of real assets at 0.39–0.46x is meaningfully lower than it is for private equity and buyouts at 0.71–0.76x — see exhibit below.[5]

> "Real asset investments are valued for their stability, income generation, inflation protection, and lower volatility compared to traditional equities."

Correlation coefficients of returns by asset class

	Buyout	All Private Equity	Real Assets	Real Assets – Opportunistic	S&P 500
Buyout	**1.00**	**0.96**	**0.72**	**0.66**	**0.76**
All Private Equity	**0.96**	**1.00**	**0.65**	**0.60**	**0.71**
Real Assets	**0.72**	**0.65**	**1.00**	**0.97**	**0.46**
Real Assets – Opportunistic	**0.66**	**0.60**	**0.97**	**1.00**	**0.39**
S&P 500	**0.76**	**0.71**	**0.46**	**0.39**	**1.00**

However, real assets are not without challenges, including potential regulatory and environmental risks, higher transaction costs, and illiquidity compared to more liquid financial assets. Despite these challenges, the differentiated characteristics of real assets make them an important component of a well-balanced investment strategy. The diversification provided can reduce overall portfolio risk and enhance returns, particularly during periods when traditional financial assets might underperform.

4 MSCI Private Capital Solutions as of January 2024. Median net IRRs for funds raised between 2011 and 2020 were 9.8 percent, 10.2 percent, and 7.6 percent for closed-end real estate, infrastructure, and natural resources funds, respectively.

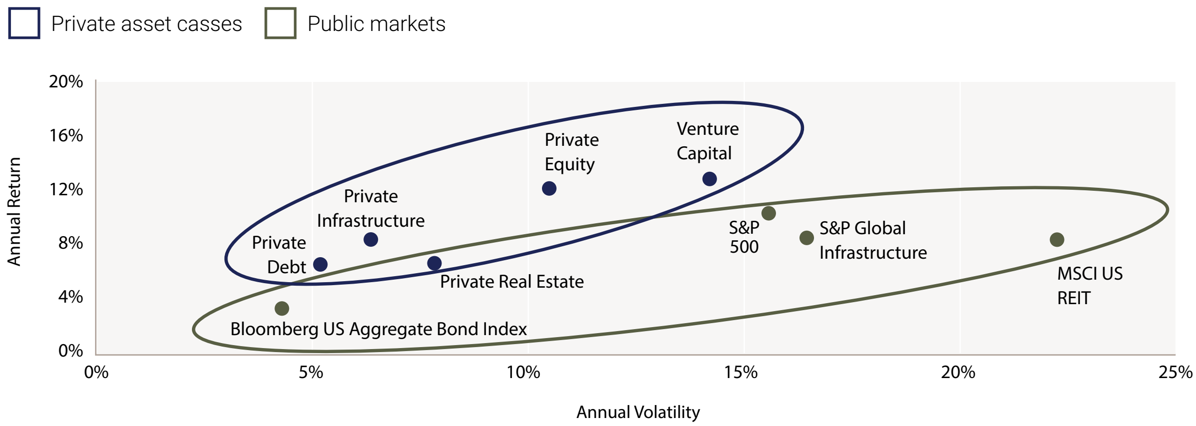
5 Bloomberg as of September 2024, MSCI Private Capital Solutions as of September 2024. Correlation calculated using vintages 2000-2021 over the 20 year period 2004-2023.

Comparative Analysis

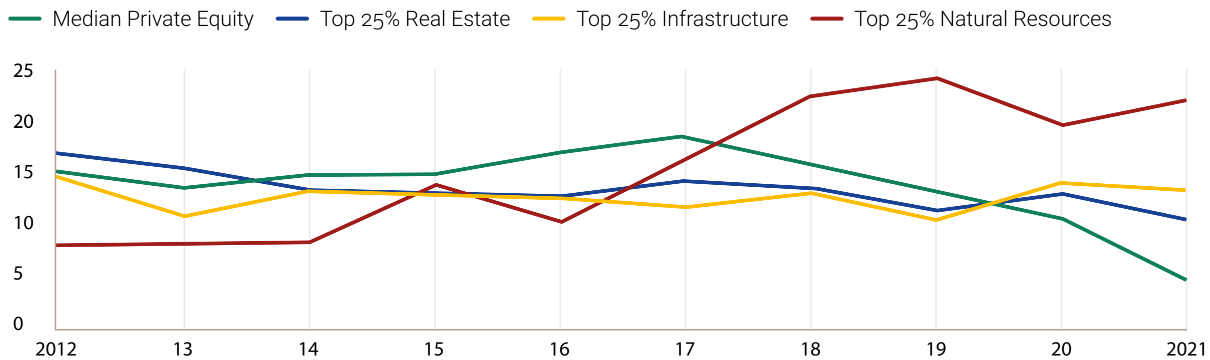
RA strategies tend to offer a more favorable risk profile, with annual volatility around 7%, compared to ~11% for PE.[6] Per the chart below comparing annual returns to annual volatility from 2004 to 2024, you can see that Private Infrastructure is 4 percentage points less volatile than private equity, which does come at a cost, but is still able to offer attractive returns. As a matter of fact, if you look at the top quartile performance for Natural Resources and Infrastructure funds with 2012–2021 vintages, average IRRs are nearly identical to median PE returns (with top quartile performance for many real assets vintages, especially more recent ones, outperforming PE median returns).[7]

Real assets asset classes exhibit lower performance and volatility than PE

ANNUAL RETURN VS. ANNUAL VOLATILITY[6]



RETURNS BY ASSET CLASS, 2012–2021 VINTAGES, IRR[7]



6 StepStone and Bloomberg, based on quarterly returns from September 30, 2004 to September 30, 2024. The referenced indices/benchmarks are shown for general market comparisons and are not meant to represent any particular fund.

7 MSCI Private Capital as of June 30, 2024.

Food and Agribusiness: The Best of Both Worlds

Food and agriculture investments are oftentimes considered real assets due to several key characteristics that align with other tangible asset classes like real estate and infrastructure as described earlier. One of the primary characteristics is their physical, tangible nature. Agricultural investments often involve ownership and management of farmland and/or other land, livestock, and crop production, all of which are physical assets with intrinsic value. The performance of agricultural assets is also influenced by distinct factors such as weather conditions, crop yields, and global demand for food, which are largely independent of broader financial market trends. These characteristics make food and agriculture investments a compelling component of a diversified portfolio, providing some measure of stability and inflation protection, particularly in regions that have added exposure to commodity price inflation (e.g., emerging markets).

Food and agriculture is a $17 trillion market with many real asset or related opportunities to invest in.[8] It is one of the most important global sectors and is well positioned for both growth and transformational changes over the next decade. One important delineation is that investing in this sector does not necessarily require owning traditional real assets in the way that growers and farmers do and it is not limited to owning farmland and production assets themselves. Exposure to the sector can also be successfully achieved indirectly through companies that offer value-added services to farmers, genetics companies that help farmers breed more efficiently, software and business services companies that provide important data and insights to farmers and food producers globally, and high value products that improve the soil health or crop yields that are vital to farmers. By investing in these types of companies, capital intensity is often reduced while benefits may be derived from similar growth dynamics – all while usually capturing higher, PE-level returns. However, achieving such returns generally requires specific strategies and business models which are described on the next page.

8 S&P Global Comparative Industry Service.

Key Business Model Characteristics for Success

Vertical Integration:

By integrating various stages of the agricultural supply chain, such as production, processing, distribution, and branding, investors can generally create and capture greater value and improve profitability. This approach can increase competitive differentiation, reduce dependency on external suppliers, increase control over product quality, and optimize costs.

Genetics:

Agricultural genetics businesses are valuable due to their ability to significantly enhance yields, quality, and resilience to pests, diseases, and climate change, creating an outsized opportunity to improve sustainability in the food and agriculture industry. The intellectual property and proprietary technologies developed by these companies create substantial value for both producers and investors, typically offering attractive revenue streams through patents and licensing.

Exposure to High-Value Markets:

In our experience, investing in companies with exposure to high-value niche markets, such as organic farming, specialty crops, or premium livestock products, can yield higher margins and returns. These markets often command premium prices, are less affected by commodity price fluctuations, and will often have greater willingness to pay for more differentiated services and products to improve yields.

Tech-enabled Productivity Growth:

Investments in agriculture tech ("agtech"), such as precision agriculture tools, new biologics products, supply chain innovations, or automation technologies (both as an investment opportunity and as used by portfolio companies) offer high growth potential by increasing yields, reducing input costs, and optimizing farm operations. These innovations can drive significant value creation and have the ability to generate returns comparable to other high-growth sectors.

Sustainability Improvements:

Investment is needed in this sector to reduce climate impacts given that farming and food processing drive ~1/4 of the global carbon footprint and agriculture uses ~40% of habitable land and ~70% of fresh water.[9]

9 McKinsey natural capital report and land use transition research article, UN Food and Agriculture Organization.

Over the last several years, firms have strategically diversified their portfolios by investing across the food and agriculture value chain into businesses that sit adjacent to core real assets. These investments aim to capture additional value and enhance profitability through synergies and operational improvements. For example, firms have targeted food and agriculture distributors to streamline supply chains and reduce costs, invested in pallet pooling solutions to optimize logistics and improve asset utilization, and acquired data center cooling services to support the rapidly growing demand for efficient and sustainable data infrastructure.

Active ownership to drive operational improvement is also increasingly important – if not essential – for delivering desired returns. Firms are now focusing on enhancing performance through technology, innovation, human capital changes, and more traditional PE-style operational value creation strategies. This might involve modernizing farming techniques, optimizing supply chains, or investing in advanced technology to increase yields and reduce costs. More specifically, companies have implemented advanced logistics software or precision farming techniques to increase productivity and reduce waste. Additionally, investments in real assets are emphasizing sustainability and ESG criteria, such as renewable energy projects, energy-efficient buildings, and sustainable agriculture practices.

We believe consolidation in this fragmented sector can help boost returns as many segments within agribusiness include smaller, sub-scale players, including many family or founder-owned businesses. This M&A opportunity offers larger companies the opportunity to consolidate into a more diversified platform that can offer multiple products and services to its customers and operate more efficiently. Like private equity, strategic exits can also maximize returns. This might involve selling to larger agricultural conglomerates, merging with other entities, or public offerings, all of which can provide lucrative exit opportunities for investors.

Costa Group:

Global, Diversified, Vertically-Integrated Agribusiness

Costa Group, a global leading, vertically-integrated horticultural platform focused on berries, mushrooms, tomatoes, citrus, grapes, and avocados is one example of an agribusiness company with the ability to achieve PE-level returns but with real asset characteristics. The company is one of the leaders in the highly attractive Australian market, with strategic footholds in international markets through its rapidly growing global berry platform enabled by high quality proprietary genetics. Costa has meaningful real assets on its balance sheet (including thousands of hectares of land, buildings, and packhouses), but generates strong returns on those assets due to its attractive business model built on the optimization of a diverse portfolio of integrated farming and packing assets and marketing activities.

Please note all case studies are as of February 2025, unless otherwise noted. Case studies are provided for illustrative purposes only. Past performance is not indicative of future results.

CHARACTERISTICS AND GROWTH DRIVERS

CASE STUDIES

TRADITIONAL REAL ASSET:

- Premier asset base and operational footprint – Costa owns or leases thousands of hectares of land/buildings/packhouses including 7,300+ hectares of planted farmland, 40 hectares of glasshouse facilities, three mushroom production facilities, and 1,400 hectares of berries planted across Morocco and China

REAL ASSET LINKED:

- Market leading position in the Australian domestic market that has distinctly favorable characteristics including insulated established demand trends, strict import restrictions, and privileged access to high value international export markets (e.g., Citrus export to Asia)
- Prominent domestic value proposition across the full portfolio, with significant scale and innovation advantages, and with strong retail value proposition, partnerships, and positioning
- Portfolio diversification by crop and geography facilitating 52-week supply in most categories and limiting overall performance volatility
- Controlled/protected production helps mitigate impact of weather and climate change and optimize yields/sustainability
- Superior agronomy enabled by proprietary access to genetics (both owned in-house and through attractive outside arrangements) allows for a highly competitive offering
- Advanced farming technologies, driving performance through automation and data-driven decision making, both through in-house innovation and partnerships with agtech companies globally
- Sustainable commercial farming practices to help manage environmental and regulatory risks
- Differentiated joint venture partnerships with Driscoll's, the global berries producer, leveraging the best of both companies and seeking to accelerate growth and value capture globally

CASE STUDIES

PRIVATE EQUITY:

- Human capital excellence, with experienced management team to drive growth
- Premium products with internationally recognized brands driving increased customer demand and value capture (e.g., 2PH Citrus brand)
- Blueberry breeding program has developed highly differentiated premium varieties that enable growing global royalty income from licensing to third-party growers in addition to driving performance of Costa's own production
- Ability to generate commission income by marketing produce of third-party growers, through Costa's scale and access to high value global markets and customers
- Significant historical growth capex investments, which creates earnings potential and expansion opportunities
- Value creation potential through continued investment in production upgrades, further international expansion, and procurement/organization cost efficiency

As Costa was previously owned by Paine Schwartz (Fund III) from 2011 until its IPO in 2015, we believe that it is clear certain companies have the ability to achieve attractive returns with this type of asset. In our view, Paine Schwartz's strategic support and deployment of substantial debt and equity capital drove the transformation of Costa to become a global horticultural institution and a premier example of business quality in the fresh produce industry, increasing EBITDA by more than double and generating demonstrable PE-level returns.

Some of the value creation efforts included:

- Overhauling strategy to focus only on the most attractive production categories and investment to drive significant growth in those categories, both through organic capital investment and M&A
- Support in R&D efforts to expand and accelerate Costa's breeding capabilities in blueberries, now a leading global platform driving value in the production businesses and third-party royalties globally
- Seeding Costa's international expansion through negotiation and execution of a joint venture partnership with Driscoll's into China, now an A$80 million+ EBITDA segment and the most significant driver of earnings growth for the business today
- Putting in place an experienced management team and strategy definition/ execution process

AgroFresh Solutions:

Post-Harvest Technology Platform

Owning orchards and growing apples and other fresh produce would be considered a real asset investment. Owning a company that provides value-added products and services to farmers that grow and sell these produce is another way to get exposure to similar underlying dynamics. AgroFresh Solutions is a post-harvest technology platform that provides science-based solutions, data-driven technologies, and experience-backed services to enhance the quality and extend the shelf life of fresh produce and reduce food waste.

Food waste is a massive problem globally – 1/3 of all food produced (and almost half of all fruits and vegetables) is wasted – creating a post-harvest solutions industry that is fast-growing and well insulated.[10] The existing post-harvest segment for fruits and vegetables is large at $2 billion and growing (projected 7.6% CAGR from 2022-2028)[11], with an expanding addressable market from new product innovation and continued crop/geography use case expansion. We believe the segment is resilient, driven by the stable growth of fresh produce, limited agronomic exposure through geographic and crop diversification, the mission-critical nature of the products costing in low single digit percentage of grower value, and resiliency to inflation given the margin profile and increasing value capture pool of produce being protected. Despite the fundamental attractiveness, the industry remains in the early stages of development given the fragmentation of both customers and competitors, and limited investment in R&D and innovation at scale (compared to other parts of the agricultural inputs industry).

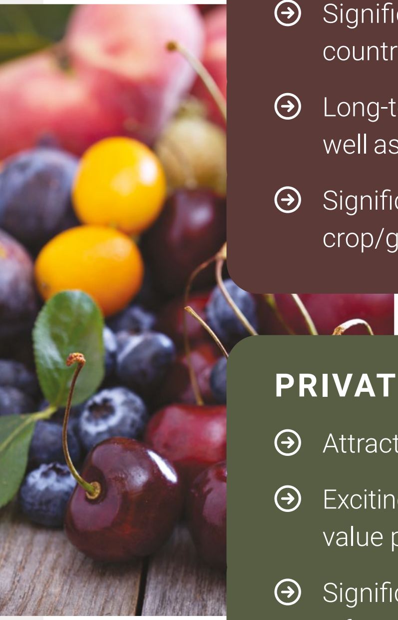
10 UN Environment Programme's Food Waste Index Report 2024.

11 2023 MarketsandMarkets Post Harvest Treatment Report.

AgroFresh addresses the food waste issue through its distinct, resilient business model with a high-touch service offering and an asset-light profile, which has generally resulted in a loyal customer base and allows for attractive margins and stable cash flow generation. The company has a demonstrated track record of product innovation with global R&D expertise and a well-established and highly diverse customer base of more than 3,600+ direct customers with 25,000+ storage rooms globally.

Paine Schwartz closed its take-private acquisition of AgroFresh in March 2023, based on a long-held thesis on the opportunity for transformative value creation and positive impact in post-harvest technology for fresh produce. We view AgroFresh, one of the most competitive global players in this segment, as an ideal platform to capture this opportunity.

CHARACTERISTICS AND GROWTH DRIVERS



REAL ASSET LINKED:

- Look-through exposure to global fresh produce markets, which are typically characterized by stable and resilient customer demand
- Significant diversification removing typical agronomic volatility, with operations in 50+ countries, thousands of customers, and most major crops
- Long-term competitiveness enabled by global scale, customer relationships, reputation, as well as 1,200+ regulatory approvals for over 120+ product categories across 50+ countries
- Significant near-term growth opportunity from new solutions, partnerships, and continued crop/geography expansion of existing product portfolio

PRIVATE EQUITY:

- Attractive financial profile with strong EBITDA margins and high free cash flow conversion
- Exciting R&D pipeline of transformative products with demonstrated efficacy and commercial value proposition
- Significant opportunity to drive value through M&A, where AgroFresh's global go-to-market infrastructure, customer relationships, and technical insight create an attractive platform to accelerate the growth of new technologies, bring new solutions to customers, and capture material synergies in building scale

We believe that delivery of AgroFresh's organic and inorganic growth plan creates scale and a financial profile that makes the ultimate platform highly attractive to a premium buyer universe, including multi-national agricultural inputs companies and sustainability-oriented sponsors.

BLOOM FRESH:

Table Grape, Cherry, and Fresh Produce Genetics

Another business model with exposure to agriculture but without direct real asset exposure is proprietary IP and propagation platforms with licensing models. These investments capture margin while minimizing seasonal and cyclical earnings volatility present in traditional real assets businesses. BLOOM FRESH is one of the world's most innovative and competitive fruit-breeding companies, created by the merger of SNFL Group (Special New Fruit Licensing) and International Fruit Genetics (IFG) completed in 2023.

BLOOM FRESH earns revenue through a combination of upfront payments for plants plus ongoing royalty revenue streams (~5%) for hectares planted or sales from table grapes and other high value permanent crops like cherries. It also has a proprietary longstanding innovation engine that develops varieties with improved taste characteristics and enables long-term sustainable crop production for growers, creating higher yields, lower costs, less disease, and more profitable harvest windows.

CHARACTERISTICS AND GROWTH DRIVERS

REAL ASSET LINKED:

- BLOOM FRESH's business model of licensing genetics to growers in both the northern and southern hemispheres gives it look-through exposure to over 60k hectares[12] around the globe (South America, Central America, US, Europe, South Africa), enables 52 weeks of supply to key retailers worldwide, and provides a natural hedge against climate and market volatility

12 As of FY 2024.

CASE STUDIES

PRIVATE EQUITY:

- Genetics royalties / licensing model provides highly profitable margins and visibility into future cash streams, which is underpinned by costless royalties from existing planted vines (with 20+ year useful life) forecasted to generate significant growth with attractive EBITDA margins and significant free cash flow generation (with limited required capex)
- Attractive R&D engine built on ~45 years of combined experience across multiple R&D centers to breed patented grape varieties with higher yields, better disease resistance, reduced water use, higher antioxidant levels, and better taste profile – allowing growers to improve productivity and sustainability while satisfying consumer demand for healthier and tastier fresh produce
- Merger of SNFL and IFG created significant scale and supercharged innovation in sustainable grower solutions, combining two highly developed, complementary table grape gene-pools
- Opportunity for tuck-in acquisitions to enter into new crop categories and geographies
- Sustainability proposition of genetics is demonstrable, targeting issues such as disease resistance and water reduction, which allow growers to deliver more fresh produce using resources more efficiently
  - Sustainability characteristics resulted in interest from impact-oriented financial sponsor

Paine Schwartz invested in SNFL in 2019 and partially realized its investment in 2023 through the sale of the company to EQT Future Fund – a large impact buyout fund – and re-invested a portion of realized proceeds into the combined BLOOM FRESH platform. Paine Schwartz successfully executed traditional PE value creation levers during its investment in SNFL, including bringing industry leading expertise to accelerate its R&D pipeline and setting the foundation for expansion opportunities in the Asia-Pacific region. This delivered ~20% growth in run-rate forward EBITDA over the 3+ year investment period and ultimately generated an implied 6x EBITDA multiple increase upon partial exit.[13]

13 Based on the partial exit, which closed in August 2023.

Challenges and Considerations

Attempting to balance high returns with a lower risk profile requires robust risk management practices. This includes thorough due diligence, moderate leverage use, and having the expertise to properly evaluate the market backdrop and actively manage the asset.

Due Diligence: Thorough due diligence is essential to identify and mitigate risks associated with both private equity and real assets. This includes assessing market conditions, asset quality, and management capabilities.

Leverage Management: Understanding the seasonality of cash flows based on certain production cycles is critical to ensuring a company has enough cash throughout the year to support its capital structure.

Market Conditions: Achieving PE-level returns in real assets is somewhat dependent on market conditions. Economic downturns, interest rate fluctuations, and regulatory changes can impact both asset values and income streams.

Regulatory and Environmental Risks: Real assets and related companies are often subject to regulatory and environmental risks. Effective risk management strategies should address these factors to protect investment value.

Skill and Expertise: Investors need specialized skills and expertise to manage real assets actively. This includes knowledge of local markets, regulatory environments, and operational management.

Conclusion

In conclusion, the intersection of private equity and real assets, particularly within the food and agribusiness sector, presents a compelling investment opportunity that we believe combines the potential for the high returns of private equity with the stability and resilience of real assets. In our view, investing in the right business models with either direct real assets or tangential exposure should allow for attractive returns with similar market dynamics. Additionally, by leveraging strategic approaches such as operational improvements, moderate leverage, sector diversification, and sustainability enhancements, investors can achieve a balanced risk-return profile. The Costa Group case study exemplifies how a well-executed strategy in agribusiness can yield substantial returns while maintaining the key characteristics of real assets. Additionally, AgroFresh Solutions and BLOOM FRESH are good examples of companies with agribusiness exposure via value-added services, products, and genetics, but without traditional real assets. As the market continues to evolve, we believe the emphasis on technology-enabled innovation, sustainability, and vertical integration will be key to driving value creation and optimizing profitability. We expect this multifaceted approach to not only enhance the potential for higher returns, but also ensure a more manageable risk profile, making it an attractive proposition for investors seeking to diversify their portfolios and capitalize on the distinct benefits of both private equity and real assets.

About Paine Schwartz Partners

Paine Schwartz Partners is the largest private equity firm dedicated to sustainable food chain investing, with ~$6.5 billion of AUM and over 20 years of experience. The firm invests across specific segments of the food and agribusiness value chain, with a focus on two core investment themes: productivity and sustainability and health and wellness. Through its proactive, thesis-driven approach, the firm targets value-added and differentiated companies and makes primarily control buyout investments, with a smaller allocation to growth companies. For further information, please see www.paineschwartz.com.

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