EXPERT COMMENTARY

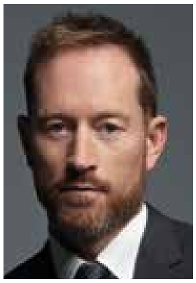
# Real asset investing with a PE approach

*Ensuring investing success in food and agribusiness is all about the 'right' strategy, says Kevin Schwartz, CEO and managing partner at Paine Schwartz Partners*

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. Food and agribusiness, in which we have been investing successfully for over 20 years, is a distinct and broad sector that encompasses many characteristics that bridge the gap between real assets and private equity.

It is not necessary to own the actual real asset to benefit from its attractive characteristics: lower volatility, income generation and inflation protection. Investing in adjacent companies with look-through exposure to real assets can offer higher returns while accessing similar dynamics. These include companies providing value-add services to farmers, genetics companies enhancing breeding efficiency, software and business services companies offering crucial data and insights and high-value products improving soil health or crop yields.

Hybrid investment structures, moderate leverage, value-add strategies and sector diversification are key mechanisms to achieving this balance. Our experience shows that investments in companies with both direct and indirect exposure to food and agribusinesses have produced returns comparable to traditional private equity investments. This is achieved by selecting the right business models, implementing



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operational efficiencies, exploring new markets and leveraging technological advancements.

## Models for success

We think there are four business models for success. The first is vertical integration – by integrating various stages of the agricultural supply chain (production, processing, distribution and branding), investors can generally create and capture greater value and improve profitability.

Next is genetics, which are valuable due to their ability to significantly enhance yields, quality and resilience to pests, diseases and climate change.

Third is 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.

The final model is tech-enabled productivity growth. Investments in agtech, such as precision agriculture tools, new biologics products, supply chain innovations or automation technologies, offer high growth potential by increasing yields, reducing input costs, improving sustainability and optimizing farm operations.

## A well-executed strategy

Our 2024 take-private of Costa Group – Australia's largest horticultural company – exemplifies how a well-executed strategy in agribusiness can yield substantial returns while maintaining the key characteristics of real assets. We invest exclusively across the global sustainable food chain and have deployed approximately $6 billion of total equity over two decades, with a significant portion in fresh produce. In that context, we have long viewed Costa as the highest-quality vertically integrated business in fresh produce globally.

We see Costa as a sound investment due to its premier asset base and operational footprint, market leading position and portfolio diversification, controlled/protected production, superior agronomy enabled by proprietary genetics, among many other factors.

While challenges remain, a well-executed strategy investing in food and ag can offer investors the potential for higher returns with a more manageable risk profile, creating a compelling investment opportunity at the intersection of two asset classes. ■