



Diversification in Agriculture is Critical to Achieving Investor Objectives in the Asset Class

Agriculture aims to effectively meet the needs of investors seeking the benefits of diversification and an expansion of the efficient frontier of their portfolio. Even a modest exposure to the asset class can accomplish these objectives.

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That being said, this is best accomplished through a highly diversified exposure to the asset class, one where the investor is exposed to the production of a broad range of foods, across multiple geographic locations and ultimately, that food and fibre being consumed by a wide variety of end markets.

The incremental addition of the agriculture asset class can meaningfully enhance total portfolio efficiency by improving the risk-adjusted return profile, due to agriculture's historically

low correlation with other asset classes, its resilience during periods of volatility and its inflation hedging characteristics. These are common reasons why allocations in agriculture are increasing among institutional investors. Periods such as the Global Financial Crisis, COVID or the Inflation Spike / Rate-Hike Bear Market of 2022 are recent events where agriculture has proven to be a very beneficial asset class to hold.

These characteristics are inherently attractive to a broad range of investors, particularly those with sophisticated portfolio allocations who are seeking alternatives to further improve the risk-adjusted return of their total portfolios and provide stability in volatile markets.

This is a marketing communication.

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Mitigating Agricultural Risk Through Multi-Layered Diversification

Diversification in agriculture also plays a critical role in mitigating some of the inherent risks in producing food and fibre: commodity price movements; trade regulation changes and of course, the weather. Diversification provides the simultaneous benefit of mitigating core risks while providing investors with the clearest exposure to the salient benefits of the asset class (low correlation, inflation hedge characteristics and limited downside risk).

For several reasons, this is best accomplished through a highly diversified exposure to the asset class. One where the investor is exposed to the production of a broad range of foods, in a broad range of locations and ultimately, that food and fibre being consumed by a wide variety of end markets.

What this looks like when done proactively is an exposure that is truly diversified across a wide range of perspectives. It is an oversimplification of the asset class to define diversification along the lines of annual row crops versus permanent crops. Inherently, many crops move together, and the parlance of commodity price diversification fades rather materially when crop exposures are narrow. This relationship is perhaps clearest when looking at the relationship between grain and oilseed prices, for example.

Exposure to a broad basket of commodities that benefit from a limited correlation amongst themselves is critical to true risk mitigation and further enhancing the salient benefits of the asset class. Commodities like olive oil, cherries and canola inherently have a low correlation with each other and offer true risk mitigation. There is no substitution between these products at the production or consumption level and in fact, the type of buyer for each of these commodities is inherently different as well. The Fiera Comox Agriculture Strategy offers material exposure to nearly 20 commodities, many of which benefit from negligible relationships amongst themselves.

The benefits of geographic diversification are perhaps clearer to define and easier to assess. Weather is an inherent risk in producing food and undertaking this activity in a broad range of locations reduces the volatility in overall outcomes. Within a single farming business, capturing geographic diversification while maintaining operational sensibility can be a challenge.

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The possibility of dyssynergy of scale can offset the benefits of geographic diversification in a single farming business.

When viewed across a broad portfolio, however an investor can gain this benefit without sacrificing what makes sense operationally. The Fiera Comox Agriculture Strategy is invested in five different countries and across a broad range of regions within those countries. Within each of our farming partnerships there is a geographic focus that ensures strategic focus and operational sensibility.

End-Market Diversification as an Underappreciated Risk Mitigator

The aspect of end market diversification is a critically important and perhaps underappreciated aspect of diversification in this asset class. Recent history has perhaps for some, more sharply put this risk in focus. Serving a diverse range of end markets, or, at a minimum, having the economic ability to do so, is critical risk mitigation in the production.

Again, what may be challenging within a single farming business is more effectively accomplished within a broad portfolio. Effectively serving nearly every major market in the world provides us with strong risk mitigation against any changes to the trade dynamic between any two trading partners. In addition, having the ability to pivot and economically serve different end markets is an equally important risk mitigation.

Although diversification extends beyond the elements above, these elements provide a useful first framework against which to evaluate an agricultural exposure. A more global portfolio offering investors multiple layers of diversification and risk mitigation, which are otherwise easily obscured by oversimplification.

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