MEAG Reaping the rewards

The German investor's agriculture and forestry investments have proven to be particularly fruitful. Christopher Walker reports

MEAG

- Total assets: €305bn
- Forestry: €1.7bn
- Agriculture: €400m

MEAG handles €305bn in investments for Munich Re and ERGO, and a team of nine led by Hans-Joachim Seyfarth manage €1.7bn in forestry and €400m in agriculture.

"There are two main reasons why we invest in these asset classes," says Seyfarth, head of illiquid assets forestry and agriculture. "First, for overall diversification, and second, because they both have low correlation to other asset classes.

"I am often approached by a consultant offering the chance of high returns in, say, a sawmill or an agricultural coolhouse, or a packaging house. But always I ask myself, does this fit into our overall philosophy? So often going further along the value chain may enhance returns, but it also enhances risk. That is not why we are investing in these are asset classes."

More than a decade ago, MEAG began investing in these markets but increasingly has become a direct investor.

"Overall, we are a buy-to-hold investor," Seyfarth says. In both asset classes, MEAG looks to generate a return of between 5% and 7% after costs and local taxes. Agriculture tends to be at the lower end of the range and forestry at the higher end.

Geographically, MEAG invests in all of the main markets. "We tend to steer clear of the emerging markets," Seyfarth says. "Too often in those markets we have been promised a high return but ultimately it comes out significantly lower. We have concluded that emerging markets are too risky for us." The current split is US €1.4bn, Australasia €450m and Europe €250m.

In the short term, MEAG is having to cope with rising interest rates. Fortunately, Seyfarth has found "very little effect" for either sector. "Most investors tend to have fairly low leverage," he says. "In our own case, we only take leverage of 20-30%, if any. This means there hasn't been the flight to the exit by highly leveraged players that we have seen in some other markets. That is not a phenomenon that is happening in timber and agriculture."

Hans-Joachim Seyfarth: "they have demonstrated their resilience over the series of crises that we have endured in [recent] years"

In forestry, the two main markets Seyfarth likes are the US and Australasia. In the former, the housing market is crucial. "During the pandemic we saw a steady demand for wood as people were staying at home and refurbishing their houses," he says. After the pandemic, there was "a lift-off in housing demand".

He adds: "There has been a positive contribution made by the huge US infrastructure plan. There is some evidence of a slowdown in the housing market, but so far the outlook is positive in the US."

In Australasia "we see a lot to attract us", he says. During the recent disruption to shipping, MEAG stopped harvesting in New Zealand as the transfer costs were prohibitively high and had to be borne by the forest owner. "Now that Asian demand is picking up again, the outlook has become much better," Seyfarth says.

The pickup in demand from Asia is also a critical factor behind Seyfarth's enthusiasm for Australia.

Meanwhile, planting "trees just to fulfil the growing demand for carbon credits" has a role, he says. Last year, it acquired a 17,000-hectare plantation estate in Victoria for A$154m (€101m) from Australian forestry manager and wood-fibre exporter Midway. As part of the transaction, it will invest an additional A$200m for land purchases for the development of new hardwood plantations in southwest Victoria over the next five years.

In farmland, MEAG distinguishes between three main areas: livestock, permanent crops and row crops (grain, wheat, corn, rapeseed, cotton, chickpeas and soybeans). "We have taken the decision not to do livestock, because of the considerable reputational risk. We also feel that permanent crops – fruits, nuts, vineyards and avocados – are... too prone to disease and pests."

MEAG does have some "satellite" investments in permanent crops (kiwis, apples and wine in New Zealand, and citrus and avocado in Australia), but the core of the farmland portfolio is in row crops. "We particularly like organically grown crops and we have a preference for buy to lease rather than buy to operate," Seyfarth says.

"The outlook is very positive for farmland. While inflation is disrupting many markets, food inflation is a positive factor for owners of farmland. And buy-to-lease investors such as ourselves benefit as the farmers are in consequence cash rich."

In general, Seyfarth is "very pleased with these two asset classes". He says: "They have demonstrated their resilience over the series of crises that we have endured in [recent] years – the pandemic, the financial crisis and now the Russian war in Europe. People keep eating and trees keep growing."

He adds: "The great thing about forestry is that you can also simply 'store on the stump' when demand falls and prices are tumbling. We did this during the recent crises and of course this is a zero-cost option compared to, say, if you were in car manufacturing or any other type of business where storage is always associated with significant costs."

The low correlation to other financial assets is ultimately a defining feature.