



# Board of Retirement Regular Meeting

## Sacramento County Employees' Retirement System

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### Agenda Item 16

**MEETING DATE:** November 7, 2017

**SUBJECT:** Education on SCERS' Real Assets Investments in Agriculture

**SUBMITTED FOR:** \_\_\_ Consent      \_\_\_ Deliberation and Action      X Receive and File

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### RECOMMENDATION

Staff recommends the Board receive and file the educational presentation by Agriculture Capital Management and ACM Fund II (Permanent Crops).

### PURPOSE

To review SCERS' investment in agriculture as part of its real assets allocation in the Real Return asset category, provide information on Agriculture Capital Management's ("ACM") investment strategy and an update on the performance of ACM Fund II to which SCERS committed \$25 million in August 2016.

### DISCUSSION

ACM is a sustainability-driven agriculture and food investment firm that invests in permanent crops (fruits, berries, and nuts) and midstream assets to create a vertically integrated enterprise that grows, packs and markets high-value produce.

While the Board has seen the investment reports from Staff and Cliffwater regarding SCERS' investment in ACM Fund II, ACM's presentation will provide an opportunity for the Board to interact directly with the investment manager.

ACM Principal Rob Hurlbut, and Vice President of Investor Relations Atish Babu will discuss the ACM organization, describe the firm's permanent crops investment strategy; review the citrus, berries, and nut market opportunity; describe ACM's competitive advantages; and discuss how ACM incorporates sustainability to create investment value.



Mr. Hurlbut leads ACM's sustainable agriculture strategies and has over 25 years of experience in the food and agricultural industries. Mr. Hurlbut was formerly the CEO of Niman Ranch, where he created a leading premium

meat brand by building a vertical supply network of over 500 sustainable farmers.



Mr. Babu leads ACM’s investor relations and is a member of the product development team responsible for the development of sustainable agriculture investment strategies. Prior to joining ACM, Mr. Babu was a founding partner at Omnivore Capital, an agriculture investment firm focused on South Asia, and has spent most of his career in technology venture capital.

**BACKGROUND**

Over the past few years, SCERS has made significant progress in building out SCERS’ Real Assets portfolio by investing in and committing capital to 14 real assets funds.

Per SCERS’ Real Assets implementation protocol, Staff and consultants have kept the Board informed of the due diligence and investment considerations, before and after making an investment. In order to enhance the Board’s knowledge on SCERS’ investments, periodically investment managers have been invited to provide an educational segment on their firm and investment strategies.

SCERS committed \$25 million to ACM Fund II, L.P. in August 2016. ACM Fund II is an agriculture closed-end fund that invests in permanent crop farmland and midstream processing assets, primarily in California and the Pacific Northwest. The Fund invests in farmland acreage producing orange and lemon varieties, blueberries, and tree nuts, with an objective to build scale and regenerative operations. ACM expects to create a competitive advantage by targeting up to 25% of the Fund to midstream packaging and processing assets; thereby, forming a vertically integrated platform for growing, packing, and distributing citrus and nuts. By forming vertical platforms, ACM is able to capture additional margin and maintain control over the value chain to obtain premium pricing.



Agriculture Capital Management was formed in 2012 by Tom Avinelis and Equilibrium Capital (‘Equilibrium’), the latter being a sustainability-driven investment manager with over \$1 billion of assets under management. Sustainability is the common economic theme practiced by Equilibrium, where economic value and returns are earned through sustainable management practices. Equilibrium’s institutional investment funds are managed under three real assets sectors: (1)



Agriculture and Food; (2) Renewable Resources; and (3) Sustainable Real Estate. SCERS is also an investor in another Equilibrium Capital Fund, Wastewater Opportunity Fund, LLC, in which SCERS made a \$25 million commitment in November 2015.

**ATTACHMENTS**

Presentation by Agriculture Capital Management.

Prepared by:

*/s/*  
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JR Pearce  
Investment Officer

Reviewed by:

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Steve Davis  
Chief Investment Officer

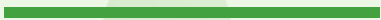
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Annette St. Urbain  
Interim Chief Executive Officer



# Agriculture Capital

*Producing Better Food, Growing Healthy Returns*

## 2017-11-07 Sacramento County: Board Presentation



# Agenda

- AC Overview
- Regenerative Operations
- Fund2 Summary







# Purpose

*To grow access to better, healthier food*

# Our mission

Our mission at Agriculture Capital is to develop a regenerative food and agriculture system that produces better food at scale and delivers healthy returns to investors while making a difference in our communities



# Our Investment Strategy

- AC invests in permanent cropland and synergistic midstream assets in order to create vertically integrated, sustainable farming enterprises that grow, pack and market high-value foods.
- We are highly engaged owner-operators and use our team's expertise to deliver improvements that protect environmental health and create economic value.

Customer-driven	Appropriate scale	Vertical integration	Regenerative operations
<p>Grow what <b>customers want to buy</b></p> <ul style="list-style-type: none"><li>• Deliver on equality, food safety, and transparency</li></ul>	<p>Scale is necessary to sell into <b>consolidated retail</b></p> <ul style="list-style-type: none"><li>• Economies of scale</li><li>• Platform of innovation</li></ul>	<p>Create <b>competitive advantages</b></p> <ul style="list-style-type: none"><li>• Mitigate risk with the aim to enhance return opportunity</li><li>• Enhanced customer relationships</li></ul>	<p><b>Drive returns</b> throughout the value chain</p> <ul style="list-style-type: none"><li>• Farmland value driven by soil health</li><li>• Fewer inputs and lower operating costs</li><li>• More productive employees</li><li>• Market access</li></ul>



# Our core values



At agriculture capital, we recognize that when we live our values each and every day, the world ‘Eats’ better

## Excellence

In fulfilling every aspect of our mission, in order to drive investment, innovation, production, higher returns, and delivery of better, healthier food for more people

## Accountability

An understanding that we all play a part in creating real value for our investors and customers, and that we are each accountable for our actions and performance

## Transparency

Honesty is the fertile soil in which our business thrives. We must be open in our interactions, communications, and sharing of data in order to achieve our goals

## Stewardship

In fostering a culture of stewardship and serving something bigger than ourselves – by making a positive impact in our communities, creating opportunities that bring out the best in our employees, and supporting a healthy planet through smarter use of our natural resources

# Regenerative Operations

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Agriculture Capital

# Impact of Process

## RISK

We manage resources to protect and mitigate impact on our investments.

## RESPONSIBILITY

We manage our enterprises with a sense of accountability and aim to generate net positive benefit to people and the environment.

## RETURNS

We work to create and capture long-term value and future productivity through the application of regenerative practices.

# THE AC WAY

A regenerative asset management approach to drive action and excellence and manage risk around core general management, environmental, social, and economic factors

# SUSTAINABILITY AS STEWARDSHIP: **WHAT WE MEASURE**

Unless otherwise stated, all data have been collected since the start of operations.

## LEADERSHIP INDICATORS

**Regenerative management**  
- acreage

**Water conservation**  
- high-efficiency drip irrigation investment

**Integrated pest management**  
- weed mat investment

**Cover Cropping**  
- acreage and quality

**Pollinator habitat**  
- acreage and quality

**Community contribution**  
- employee hours payroll, training hours

 **9,640**  
acres

**GROSS ACRES UNDER MANAGEMENT**

Slightly more than 11 Central Parks

**POLLINATOR HABITAT**  
**58,639** sq. ft.

1 American football field

**DRIP IRRIGATION**  
**2,919** miles

More than the distance between New York City and San Francisco

**EMPLOYMENT FOOTPRINT**  
 **586**  
annual full-time equivalent

## FACILITY-LEVEL EFFICIENCY

**Water use**  
- Total  
- Gallons per ton packed

**Energy use**  
- kWh per ton packed  
- Energy cost per ton packed

**Revenue generated by resource**  
- \$ per gallon of water (in development)  
- \$ per kWh of electricity (in development)  
- \$ per gallon of fuel (in development)



**ENERGY COST SAVINGS**  
**72%** decreased cost of Legacy energy per ton packed

- in June 2016 over 2015, corresponding to a 133% increase in revenue earned per kWh used

**WATER STORAGE**  
 **100** ac. ft.

**WATER SAVED**   
**306 million** gallons

Water needs for over 2,300 typical CA households for 1 year

## FARM-LEVEL PERFORMANCE

**Soil health**  
- Soil organic matter % and soil carbon %

**Water use**  
- Applied total  
- Storage created

**Applied nutrients**  
- nitrogen and phosphorus

**Energy use**  
- kWh/acre

**Biodiversity and habitat protection**  
(in development)

**Greenhouse gas emissions**  
(in development)

**COVER CROPS**  
**604** acres 

**WEED MATTING**  
 **1,852** miles

**ORGANIC ACREAGE**  
 **1960** acres  
2 Central Parks

### Notes on Leadership Indicators:

- Cover Crops – Agriculture Capital cover crops the alley rows at our farms. We use a mix of beneficial plants to support soil health, reduce runoff, increase carbon sequestration, improve water retention, and ultimately improve the productivity of our farms. To date, water challenges in the Central Valley have delayed the proliferation of cover cropping on our California assets, but we continue to look for innovative ways to translate this practice across regions.
- Weed Matting – Weed matting is the practice of laying down a fine net around targets crops to control the growth of unwanted crops. By using this technique, we are able to reduce reliance on chemical applications to control weeds, which has far-reaching benefits for the health of employees, watersheds, and pollinators. We are developing methodologies for measuring the impact of weed matting on reduced crop protectant use in conventional farming contexts and currently estimate that it has reduced chemical requirements by as much as half.
- Organic acreage – Figure represents acreage currently in transition from conventional to organic or actively being evaluated for organic transition.



# Impact on Risk

	Impact Goal	Risk Imperative
<b>Soil health</b>	Microbial health and long-term landscape viability	Sustained crop viability
<b>Water stewardship</b>	Leadership potential for reduced water demand in core crops	Ensuring water availability amidst changing climate and cyclical drought
<b>Biodiversity and habitat</b>	Renewal of valuable ecosystem services	Hedge against risk to and cost of pollinator service providers
<b>Renewable energy production and climate disruption</b>	Taking responsibility for reducing carbon footprint of growing business	Reducing energy price volatility and adverse impact on climate-sensitive value chain
<b>Nutrient efficiency</b>	Reducing water and soil impacts	Ensuring costly input provides optimal value to crop production; regulatory
<b>Waste reduction</b>	Zero-waste operations to inspire teams, motivate creativity	Reduced cost and negative impact of waste transport and disposal
<b>Labor and workplace quality</b>	Long-term retention of highly productive and engaged teams	Ensuring access to labor base in tightening marketplace
<b>Food safety</b>	Exceeding expansive new regulations for food system modernization	Assuming no margin for error in supporting healthy workers and healthy consumers

# ACII Fund Update

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Agriculture Capital

# ACMII Highlights

- Development activity
  - Sumo planting
  - Ground preparation for Fall plantings
- Secured future plant stock (hazelnuts and citrus) to be used on yet to be acquired acres
- Silver Mountain Packing
  - Constructed and operational in 7 months
  - Inaugural packing season June-Aug 2017



# ACMII – Fund Overview

## Fund Snapshot

**FIRST CLOSE : FINAL CLOSE:**

July 2016 : July 2017

**CROP TYPES:**

Citrus, Blueberries,  
Hazelnuts

**GEOGRAPHY:**

California, Oregon, Australia

**NUMBER OF INVESTMENTS:**

3

**NET ACREAGE (FARMABLE):**

1,800+

## Capital Invested and NOI Yield

### Total capital invested (\$MM)

**Fund size**

**\$548.8**

**Invested as  
of Q2'17**

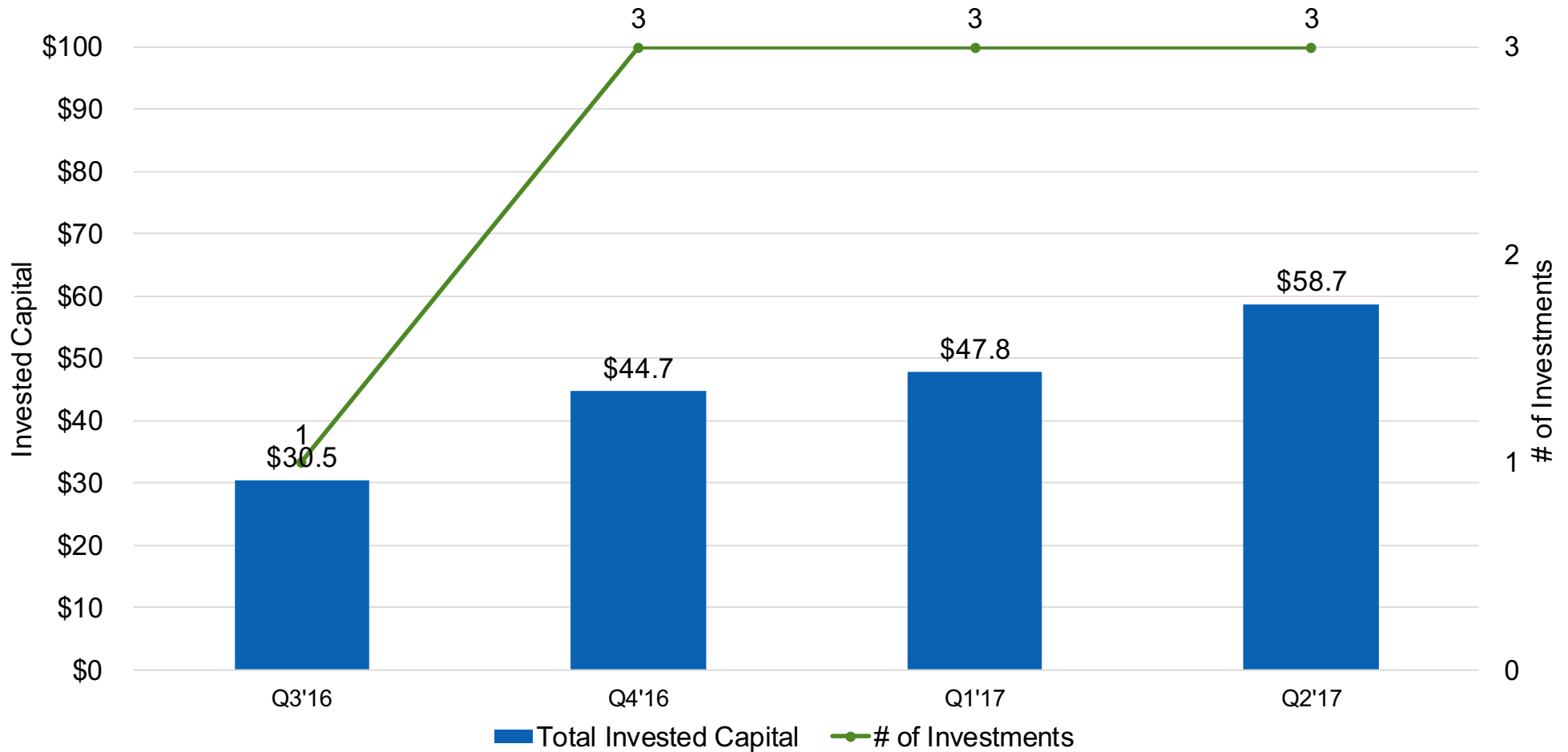
**\$58.7**

1 TTM NOI Yield based on TTM NOI (adjusted for depreciation, amortization, and interest expense) divided by invested capital as of period end.



# ACMII – Capital Invested Since Inception

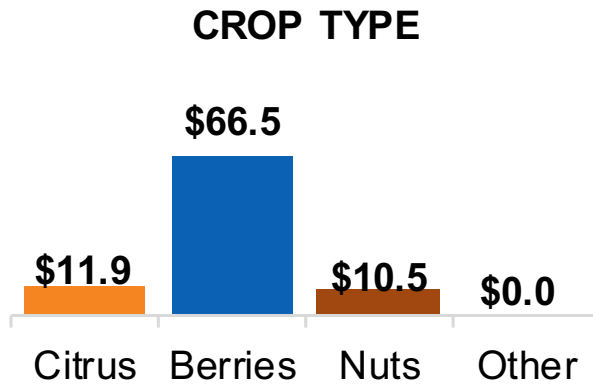
Total Capital Invested as of 6/30/17: \$58.7MM



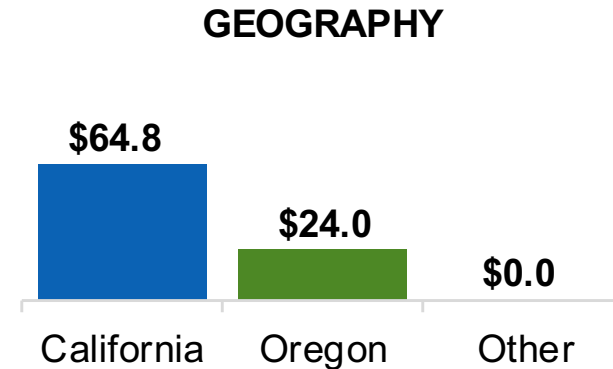
# ACMII – Projected Allocation

## Total Capital Invested and Reserved as of 6/30/17: \$88.8MM

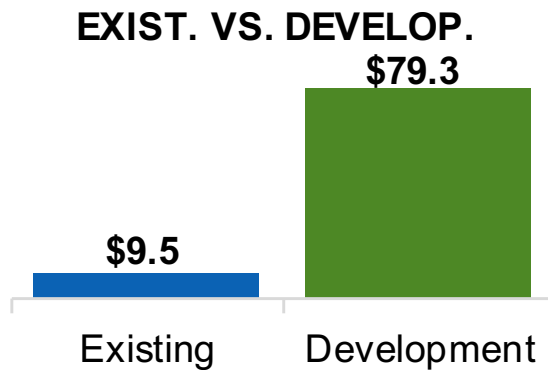
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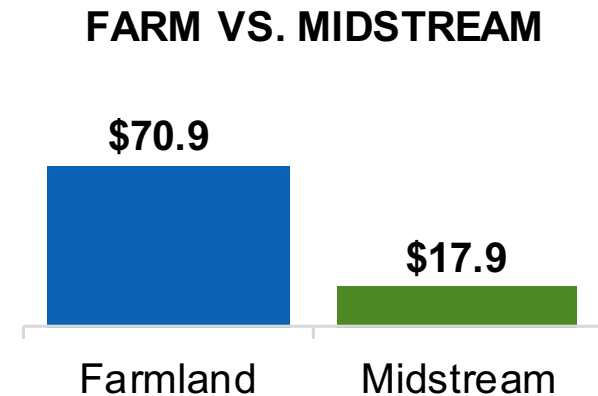
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(\$MM)



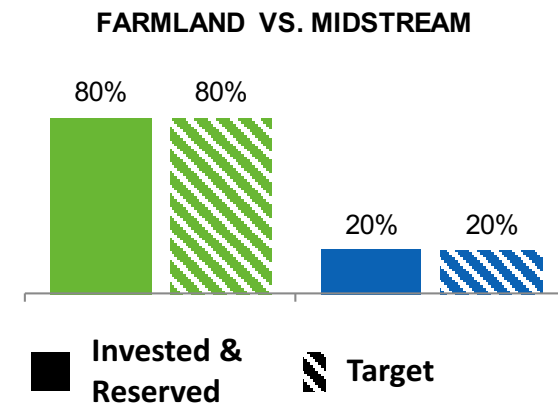
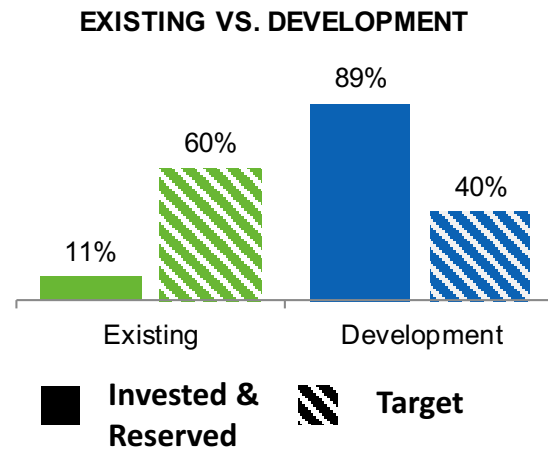
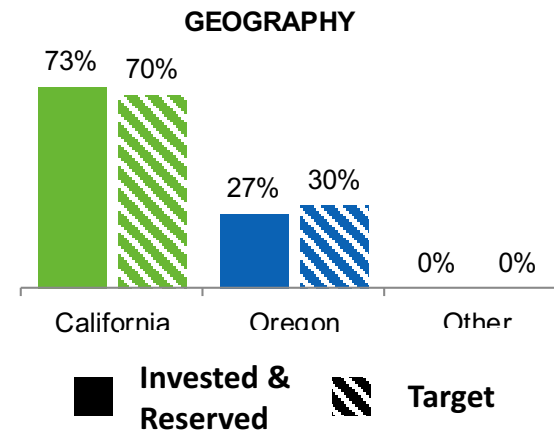
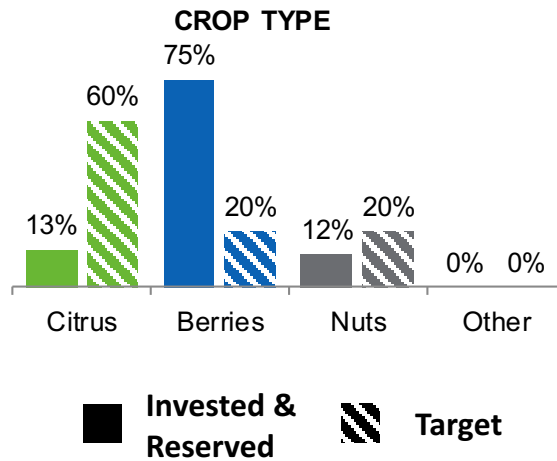
(\$MM)



1 Development defined as blocks that were developed or redeveloped following acquisition.

# ACMII – Projected vs. Target Allocations

Total Capital Invested and Reserved (including debt) as of 6/30/17: \$287.0MM



1 Development defined as acres that were developed or redeveloped following acquisition.



# Agriculture Capital

Excellence · Accountability · Transparency · Stewardship