

Institutional Real Estate, Inc.

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Investing in nuts is not crazy



About five or six years ago, I was attending one of IREI's conferences when a representative of Dallas Police & Fire Pension System told the group, "If you want to make some money, you should invest in pistachios." Although too polite to say so, it was obvious that most of the other attendees thought the pistachio idea was nuts (pun intended). Little did they know.

You may have heard: Nuts are a healthy snack option. A recent study published in the *New England Journal of Medicine* concluded that people who regularly eat nuts — the optimum is daily — live longer. The study followed close to 120,000 people over 30 years and found that the more regularly participants consumed nuts, the less likely they were to die. In fact, a handful of nuts a day cut the death rate during the study by 20 percent and was linked to maintaining cardiovascular health.

But maybe what you don't know is that nuts are also proving to be a super food for investment portfolios. Walnuts, for example, were the top-performing permanent crop in 2013 in the portfolio of Hancock Agricultural Investment Group, which manages farmland investments on behalf of institutional clients. Walnuts produced a total return of 60.2 percent for HAIG. Other stellar nut performers included pistachios (49.9 percent) and almonds (32.4 percent).

"If you look at almonds, walnuts, pistachios, they are all enjoying growing demand globally," notes [Jeff Conrad, president and founder of AgIS Capital](#), who previously was the founder and longtime president of HAIG. "Consumers have responded to the recent positive research touting the health benefits of nuts. In addition, the higher incomes of growing middle classes in emerging markets have helped to boost demand. California growers, who are the dominant producers of these crops, have really profited in the past five to 10 years, as have investors."

Post-global financial crisis, institutional investors have registered a heightened interest in real assets, including agriculture, which can produce steady income streams while providing diversification and a hedge against inflation. Offering evidence of investors' interest in agriculture, TIAA-CREF recently raised \$1.4 billion for its second farmland fund.

But, I digress. Back to the nut case. Earlier this year, the Municipal Employees' Retirement System of Michigan went all out nuts with a big bet on almonds. The U.S. pension fund along with Danish fund Danica Pension co-invested with Swiss fund of funds Adveq to purchase 50 percent of Australia's almond-producing farmland from commodity supplier Olam. In the transaction, 18,000 hectares of almond orchards traded hands at a price of A\$211 million (US\$185 million). The land will be leased back to Olam for 18 years.

Commenting on the transaction, Berry Polmann, executive director of Adveq Real Assets, told The Wall Street Journal, "The risk is very low because this is one of the premier assets in the world. ... and there are stable returns."

In addition to the income component of such investments, the value of the land often appreciates over time, fueled by growing demand for certain crops and profitable operations, as well as the limited and declining supply of farmland. From 1970 to 2009, for instance, agricultural land values, as measured by the U.S. Department of Agriculture's Economic Research Service database, outperformed both domestic stocks and bonds on an annualized basis, returning 10.25 percent compared with 6.24 percent for the S&P 500 Index and 7.3 percent for 10-year U.S. Treasuries.

[Conrad](#) points out another consideration: "Long term, water will be a very precious commodity. There is sure to be upward price pressure on water resources. If you have a farming operation and have water rights, it could be that the water is worth more than the farmland."

Although the fickle finger of Mother Nature can derail the best-laid plans of farmers (and investors) — such as the current drought in California — the future does look bright for almonds and other nuts, and for agriculture-related investments in general.

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