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Commodity Investment at ABP

In the past years, commodity markets (oil, gas, metals, minerals but also agricultural commodities) have shown an increasing volatility. Especially the increased prices for agricultural commodities like soy and grain have resulted in social unrest and poverty, especially in developing countries.

Some media have been blaming institutional investors for rising food prices as a result of their trading and investment activities. In our view ABP’s activities in the commodity (derivative) market are unlikely to contribute to the substantial increase in food prices, however. This claim is supported both by analysis of our own investment professionals and academic research.

ABP invests in commodities through derivatives (futures). While some research supports such a correlation there is also a substantial body of academic work that shows that the derivatives market does not influence prices in the physical commodity market (prices on the derivative market are determined by the expected prices on the physical commodity market). In a literature study, the Landbouw-Economisch Instituut Wageningen (LEI, Agricultural Economics Institute foundation) stated: “In summary, we conclude that there is no evidence in the (scientific) literature that the large influx of speculative capital by among others index-funds, has led to higher prices or more volatility on the mid- and long term. There is qualitatively stronger evidence that speculation on large scale has led to very small and short term volatility. This volatility will not so much have consequences for companies and producers that trade agricultural commodities, as physical commodity prices are not influenced. But it might have a disruptive effect on the financial markets itself”.

The claim that the derivatives market does not influence prices in the physical commodity market is supported when we look at the market for rice. There is no derivatives market for rice, and yet rice prices have increased as strongly as those of other commodities.

Moreover, the exposure of ABP to the commodity derivatives market has been relatively stable for years, so that it could not have contributed to the recent price fluctuations (ABP started investing in commodities in 2001). If ABP’s investments activities in the commodity futures market would have an impact at all, it would rather be a dampening effect on the derivatives market. To keep our commodities allocation stable, we generally buy when prices decrease, and we sell when prices increase.

So why have food prices risen so dramatically? Our research shows the following: Firstly, this is caused by sharply increased demand as a result of worldwide population growth, and the growing prosperity in countries like China and India means that protein consumption (meat, dairy) is ever increasing. The production of 1 kg of meat or milk requires a multiple by weight in grains and oilseeds as input. Also, the rise in biofuel production consumes ever greater amounts of corn and sugarcane.

At the same time, supply of food is under pressure, caused by a decrease in the availability of arable land due to urbanisation, desertification, long term climate change, environmental disasters like floods and extreme drought, erosion, soil degradation and falling groundwater tables due to unsustainable over-usage.

To avoid further encroachment on nature reserves, it is therefore necessary to invest in farmland to increase its productivity and efficiency. Obviously this has to be done in a responsible and sustainable manner. This is one of the reasons why ABP is a signatory to the UN Principles of Responsible Investment in Farmland.
ABP takes allegations against Global Solidarity Forest Fund (GSFF) seriously

Global Solidarity Forest Fund (GSFF) is a Sweden-based, investment fund focused on the forestry sector in Mozambique. GSFF is managed by Global Solidarity Fund International (GSFI), an international asset management company owned by the Diocese of Västerås (Sweden), Lutheran Church of Sweden and the Norwegian Lutheran Church Endowment.

ABP has been investing in GSFF since 2007. We invested in GSFF because of the potentially high returns and a strong ethical, environmental and socio-economical profile, including community development and forest certification. To ensure that this investment would meet ABP’s requirements for responsible investment, ABP has contractually agreed that GSFF would start a procedure to become eligible for FSC-certification. All timber investments of ABP outside of North America have to meet the FSC-requirements. ABP also expects the companies it invests in to behave in accordance with the ten universal principles of the Global Compact. GSFF has committed itself to these principles.

Gradually it became clear to ABP that its investment in GSFF did not meet all criteria of our responsible investment policy (We have visited the operations several times over the past year to monitor progress). This became apparent, among others, after a FSC pre-audit. ABP has therefore expressed its grave concerns to GSFF about the management of the projects and has insisted on the replacement of management. The CEO has been replaced in 2011, as well as the Chairman of the Board, and the CEO of GSFF’s Mozambican subsidiaries. We have confidence in this new management and expect them to get the projects back on track. We expect them to address the problems, so that this investment meets ABP’s criteria, also in the area of responsible investment. Also we are pleased with the appointment of a -well experienced- community relations director. These developments give us the confidence that this investment will ultimately meet our expectations.

ABP would have preferred changes to take place faster at GSFF, but because of the ownership structure ABP has no formal control over GSFF. Nevertheless, together with other shareholders we have done our utmost to achieve change. We see the replaced management at GSFF as a first step in this process. We will monitor developments in Mozambique closely and will discuss progress with the new management on a frequent basis.

For a response on the individual allegations against GSFF, please go to www.gsff.se