

# Polar Capital Emerging Market Stars

## Latin America is leading the race to reduce the global food shortage

April 2024



**Jorry Nøddekær**  
Lead Portfolio Manager

Jorry joined Polar Capital in early June 2018 and has managed the Portfolio since launch on 29 June 2018. He has 24 years of industry experience.



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Senior Portfolio Manager

Naomi joined Polar Capital in August 2020 as a Portfolio Manager on the Polar Capital Emerging Market Stars Strategy. She has 16 years of industry experience.



**Jasper Wright**  
Fund Manager

Jasper joined Polar Capital in June 2023 as a Fund Manager in the Emerging Markets & Asia Team. He has 9 years of industry experience.

### Awards & ratings



**Analyst-driven** 100%  
**Data coverage** 100%

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*"In the face of escalating challenges – lack of food availability, food accessibility and food affordability due to the climate crisis, biodiversity loss, economic slowdowns and downturns, worsening poverty, and other overlapping crisis – we find ourselves standing at a critical juncture."*

UN Food and Agriculture Organization (FAO)<sup>1</sup>

### The precarious state of global food security

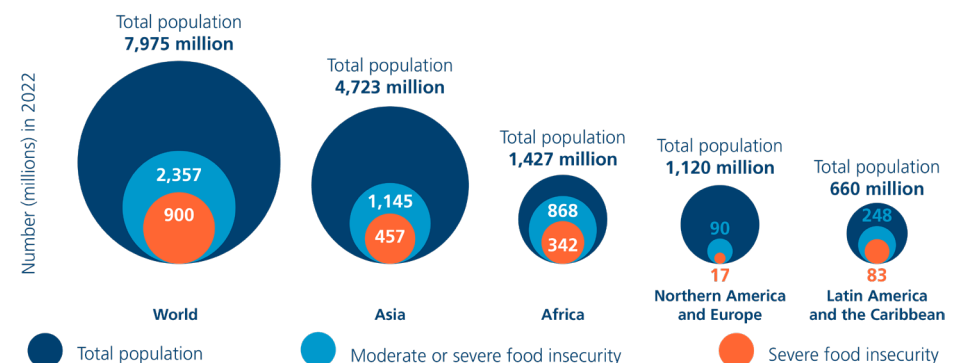
According to the OECD, the global food system faces a "daunting triple challenge"<sup>2</sup> comprised of:

- Providing sufficient, safe and nutritious food to a world population expected to approach 10 billion in 2050
- Providing incomes to more than 500 million farmers and others in the food chain, and promoting rural development
- Doing so sustainably, by using essentially the same amount of land and less water, while adapting to climate change and contributing to lower greenhouse gas (GHG) emissions

These three challenges are a crucial part of the broader obstacles facing humanity, with nearly all 17 UN Sustainable Development Goals (SDGs) linking either directly or indirectly to food systems. Meeting the triple challenge by fostering more productive, sustainable and resilient food systems is therefore key to achieving the SDGs by 2030.

However, food systems around the world are not on track to achieve these goals. Globally, over 800 million people are undernourished and an even greater number are either overweight or obese. These, and other forms of malnutrition, are associated with a rising public health as well as economic burden.

### The concentration and distribution of food insecurity by severity differ greatly across the regions of the world



Source: FAO 2023. FAOSTAT: Suite of Food Security Indicators. In: FAO. (Cited 12 July 2023). [www.fao.org/faostat/en/#data/FS](http://www.fao.org/faostat/en/#data/FS).

1. The State of Food and Agriculture 2023, Revealing the True Cost of Food to Transform Agrifood Systems - [The State of Food and Agriculture 2023 \(fao.org\)](https://www.fao.org/state-of-food-and-agriculture-2023).
2. OECD Agriculture Policy Brief, Food Systems and The Tripe Challenge, January 2021.

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An estimated 29.6% of the global population were either ‘moderately’ or ‘severely’ food insecure in 2022

- UN’s Food Security and Nutrition 2023

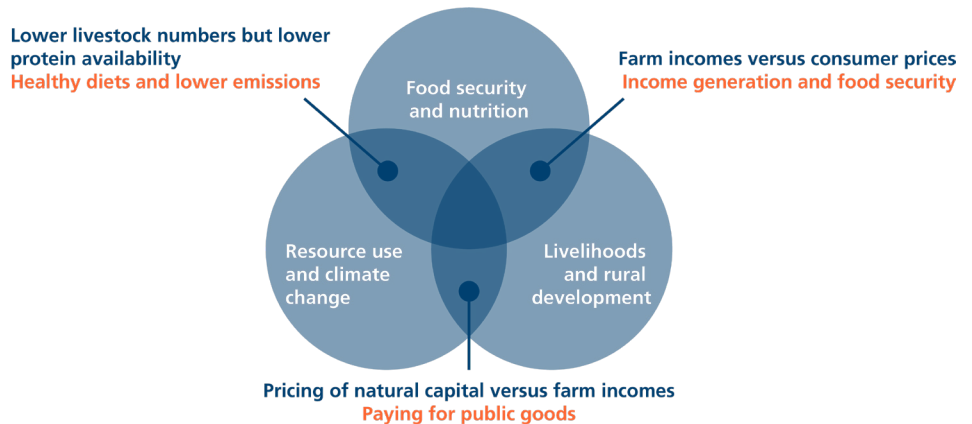
According to the UN’s Food Security and Nutrition 2023<sup>3</sup> report, an estimated 29.6% of the global population – 2.4 billion people – were either ‘moderately’ or ‘severely’ food insecure in 2022, meaning they did not have access to adequate food. Updated projections show almost 600 million people will be chronically undernourished in 2030, pointing to the immense challenge of achieving the UN SDG of eradicating hunger.

To meet the ever-increasing demands of a growing global population, the FAO estimates developing countries will need to double food production by 2050<sup>4</sup>. These increasing production demands come at a time of growing pressures on global food production in the form of climate change (more unpredictable and extreme weather patterns reducing crop yields) and the disruption of global supply chains (caused by geopolitical rifts, such as the war in Ukraine).

While the prospect of this daunting triple challenge looks worrying, it should not be forgotten how food systems have adapted in recent history. Since 1960, the world’s population has more than doubled (from three billion to c7.5 billion today). During this time, food systems around the world have not only managed to increase agricultural production in line with population growth, but have actually increased production per person by more than 45%, with important implications for nutrition and food affordability. At the same time, while total agricultural production has tripled, global agricultural land use has increased by only 10-15% as new techniques and innovative technologies have allowed farmers to produce dramatically more food per unit of land.

This last point is worth stressing as the growth in agricultural production witnessed globally in recent decades has increasingly been the result of innovation, efficiency gains and significant technological progress.

## Projected numbers of undernourished indicate that the world is far off track to achieve zero hunger by 2030



Source: OECD. Note: Examples of synergies are noted in blue, examples of trade-offs in orange.

When assessing the merits and drawbacks of the current global food system, there are several intertwined trade-offs and synergies worth considering, namely food security and nutrition, resource use and climate change, and livelihoods and rural development<sup>5</sup> (for example, balancing the need for widespread availability of low-cost and nutritious food with the livelihoods of farmers, hence the scope for both profitable and sustainable agricultural industries to develop and thrive).

3. The State of Food Security and Nutrition in the World 2023 - [The State of Food Security and Nutrition in the World 2023 \(fao.org\)](https://www.fao.org/state-of-food-security-nutrition).

4. How to Feed the World 2050, Agricultural Development Economics Division Economic and Social Development Department - [HLEF2050\\_Global\\_Agriculture.pdf \(fao.org\)](https://www.fao.org/3/c9820e/c9820e01.pdf).

5. OECD definitions for synergies and trade-offs in food systems.

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**Key challenges facing today's global food system**

*"Food production has altered our environment more dramatically than any other socioeconomic activity...the food system is the single largest contributor to the depletion of global diversity."*

WWF<sup>6</sup>

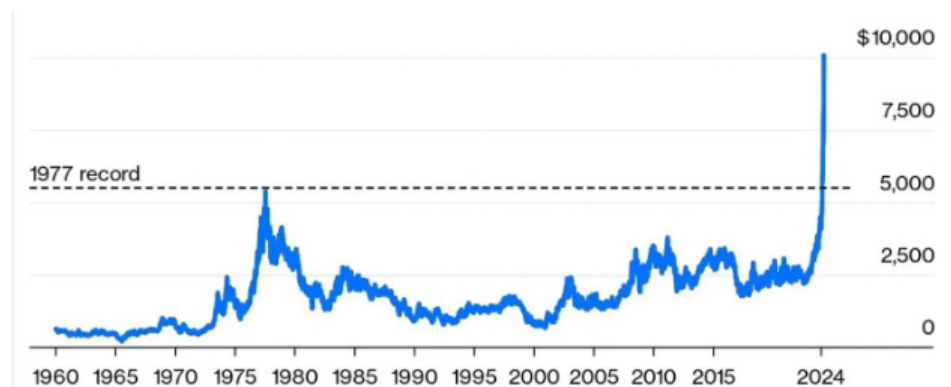
According to the WWF<sup>7</sup>: "The current structure of the food system lies at the centre of a nexus of global problems, stretching from poverty to environmental degradation. The increase in food production needed to meet the anticipated demands of the near future cannot be achieved by simply extrapolating current trends in production and consumption. A continuation of the recent historical trends of expansion and intensification will undermine the very resource base on which the food system itself depends."

Indeed, agriculture now occupies roughly half the plant-habitable surface of the planet, uses 69% of extracted fresh water and, together with the rest of the food system, is responsible for 25-30% of GHG emissions.

The expansion of industrial fishing fleets and a higher demand for seafood globally have led to the collapse or total exploitation of over 90% of the world's marine fisheries. A growing demand for land-based animal products is the primary driver of tropical deforestation. Through its direct and intermediate impacts, the food system is the largest contributor to the depletion of biodiversity.

**Food security vulnerabilities: the curious case of cocoa**

As a topical reminder of the fragility of the global food production system, cocoa futures surged above an unprecedented \$10,000/metric ton on Tuesday 26 March, furthering a meteoric rise that has seen prices of the key chocolate ingredient double this year.

**Cocoa's surge to a record high above \$10,000**


Source: Intercontinental Exchange Inc. and Bloomberg, April 2024.

6. The Global Food System: An Analysis, WWF, March 2017.

7. The Global Food System: An Analysis, WWF, March 2017.

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The recent dramatic spike in cocoa prices is a perfect illustration of the immense vulnerabilities inherent in the current system of global food production



Brazil is currently the world's largest net food exporter, with \$123bn of net export value in 2022

The recent dramatic spike in cocoa prices is a perfect illustration of the immense vulnerabilities inherent in the current system of global food production, where production challenges in a few key exporting countries can have significant ramifications for the global food market. According to the International Cocoa Organisation, the ratio of stockpiles to grindings will fall to the lowest level in more than four decades this season, reflecting the market's precarious position<sup>8</sup>.

The market is being rattled by poor crops among key West African growers (mainly on the Ivory Coast) that have put the world on course for a third straight annual supply deficit (due to three consecutive years of poor harvests). The industry is also grappling with the legacy of poor returns paid to cocoa farmers and fears are mounting over the ability to secure sufficient quantities of beans.

There is also a risk the supply situation could worsen as incoming European Union rules – aimed at stopping products that destroy forests from being sold in shops – make it even harder for the bloc's chocolate makers to secure supplies.

The stress of cocoa production in West Africa is paving the way for other growers, such as Brazil and Ecuador, to ramp up production to serve this demand. However, there are concerns around the time required to do so as it typically takes a few years before newly planted cocoa trees bear beans.

Higher cocoa costs pressure both the profits of chocolate manufacturers and the consumer's wallet, assuming these cost increases are passed on to the end consumers.

#### LatAm is becoming a key global food producer

*“Agriculture in the 21st century faces multiple challenges: it has to produce more food and fibre to feed a growing population with a smaller rural labour force, more feedstocks for a potentially huge bioenergy market, contribute to overall development in the many agriculture-dependent developing countries, adopt more efficient and sustainable production methods and adapt to climate change.”*

How to Feed the World 2050, UN FAO report<sup>9</sup>

Given these ever-increasing demands on food-producing countries, it is worth stressing the importance of LatAm – Brazil and Argentina in particular – as food exporters to the world's growing population.

Brazil is currently the world's largest net food exporter (with \$123bn of net export value in 2022), followed by Argentina (\$45.8bn) and Australia (\$33.4bn)<sup>10</sup>.

8. Cocoa Breaks \$10,000 Record, With Pricier Chocolate to Follow, Bloomberg, 26 March 2024.

9. [How to Feed the World 2050](#), Agricultural Development Economics Division Economic and Social Development Department.

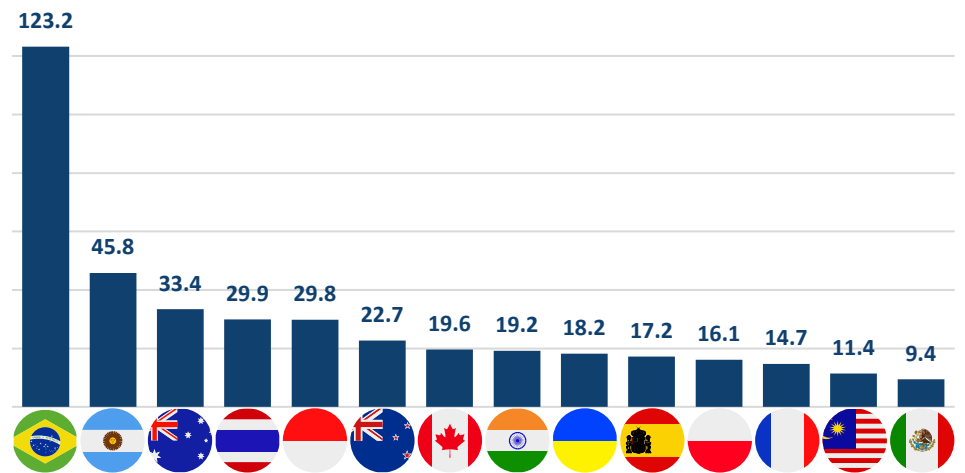
10. BTG Pactual Global Research: Brazil as the Granary of the World and a Biofuel Powerhouse, March 2024

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Brazil's food exports are sufficient to meet the required calorie intake of more than 900 million people

## World's largest net food exporters; Brazil leads Net export value - food products (USD bn; 2022)

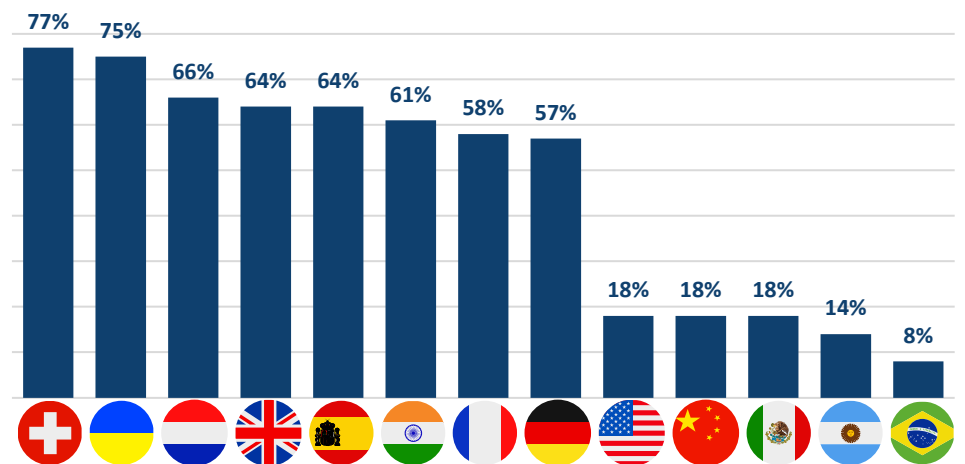


Source: FAO, BTG Pactual.

This dominance in global food production has led Brazil and Argentina to be viewed as the "new granaries of the world"<sup>11</sup>. To put this further into context, according to BTG Pactual, Brazil's food exports are sufficient to meet the required calorie intake of more than 900 million people (roughly 11% of the global population).

It is also important to stress that Brazil is the largest country in terms of total available arable land (with roughly 850 million hectares) while, at the same time, having one of the lowest percentages of cultivated arable land (just 8%). This compares with 60% in Russia, 70% in the US and 100% in China and India.

## Brazil only crops 8% of its total area



Source: Global Cropland (2019), Aprosoja, BTG Pactual.

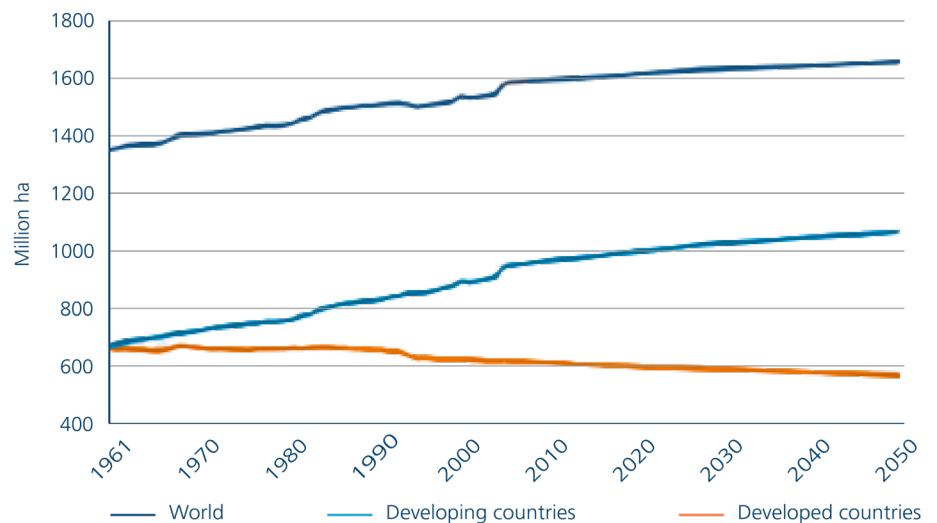
<sup>11</sup> The difficulties of Argentina and Brazil to present themselves as the new granaries of the world, Nova.news article, March 2022 - [The difficulties of Argentina and Brazil to present themselves as the new granaries of the world - Agenzia Nova](#).

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This mismatch highlights the potential for LatAm to increase its scope as a food producer in the years to come. The growing importance of Brazil and Argentina in meeting the world's food needs is made more stark when contrasted with other regions, principally in developed countries, that are increasingly (arable) land-scarce.

It is also worth stressing that part of the reason Brazil and Argentina find themselves in such a sweet spot in terms of their potential contribution to the global food system is due to the supply chain disruption and loss of harvest in Ukraine due to the ongoing war and the devastation Russia's invasion has wreaked on the country.

## Arable land



Source: Bruinsma, 2009.

As a 2009 UN report concluded: "...although there are a number of countries (in particular in the Near East/North Africa and South Asia) that have reached or are about to reach the limits of land available, on a global scale there are still sufficient land resources to feed the world population for the foreseeable future, **provided that investments required to develop these resources are made and the neglect of recent decades in the agricultural research and development effort is reversed**<sup>12</sup>."

Additionally, the report goes on to offer some hope for the future: **"The potential to raise crop yields even with the existing technologies seems considerable.** Provided the appropriate socioeconomic incentives are in place, there are still ample 'bridgeable' gaps in yield (i.e. the difference between agro-ecologically attainable and actual yields) that could be exploited."

<sup>12</sup> [How to Feed the World 2050, Agricultural Development Economics Division Economic and Social Development Department.](#)

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- *How to Feed the World 2050*



In the first year of Lula da Silva's second term as president, deforestation has reduced to a five-year low

### **Brazil's ambitious targets to reduce emissions, deforestation and make agriculture more sustainable**

In the first year of Lula da Silva's second term as president, deforestation, which accounts for roughly 50% of the country's carbon emissions, has reduced to a five-year low. During the previous president's (Jair Bolsonaro) term in office, there was a 60% increase in deforestation<sup>13</sup>, the largest increase during a presidential term since measurements began in 1988.

Furthermore, the Lula administration has committed to a 53% reduction in carbon emissions by 2030 (versus 2050), net zero by 2050<sup>14</sup> and to bring deforestation in the Brazilian Amazon to zero.

Moreover, at COP 28 in Dubai last year, Lula announced a pastureland recovery policy aimed at giving local crop farmers financial incentives to buy or lease degraded land, most of which is currently used for low-tech cattle ranching<sup>15</sup>. The plans also envisage Brazil's development bank, BNDES, setting up a fund to attract foreign investment which would be directed towards land recovery efforts.

The government's proposal is aimed at boosting overall land productivity in the country, avoiding the need to expand land use and allowing Brazil to produce more food on the already available areas. The Lula administration is also trying to encourage farmers to invest in soil recovery, the use of biological inputs, promote no-till farming and other sustainable techniques to be eligible for subsidised loans under the policy (no-till farming reduces the amount of soil erosion caused by crop harvesting).

### **Argentina's polices to boost the local agricultural sector**

In Argentina, the recent decision by President Javier Milei's government to devalue the peso by c54% has been supportive for the margins of local farmers, who typically earn revenues in US dollars, while their costs are in the local currency (a depreciation of the Argentine peso reduces their costs relative to revenues, thus increasing their margins). The government has also talked about reducing export taxes for the agricultural sector, which would provide a significant tailwind to farmer profitability (farming has historically been the most taxed sector in Argentina after tobacco<sup>16</sup>).

Moreover, El Niño weather (associated with increased rainfall) should help Argentina's agricultural production recover to historical levels, after being hit by a severe drought in 2022-23 following three La Niñas in a row (this weather phenomenon usually brings dry weather, lower rainfall and increased chances of drought).

### **Innovation in regenerative agriculture offers potential solutions to food scarcity**

**"In an urbanising world, the strategic deployment of technology and innovation can be a critical catalyst of agrifood systems transformation."**

– The State of Food Security and Nutrition in the World, UN report 2023<sup>17</sup>

13. [Lula's first year sees mixed results on climate and environment \(dialogochino.net\)](#)

14. [Lula's bid to style himself climate leader at Cop28 undermined by Opec move | Cop28 | The Guardian](#)

15. [Brazil's Lula to present pastureland recovery policy at COP-28 | Reuters](#)

16. The Agri Vehicle in Argentina, Morgan Stanley, 20 November 2023.

17. The State of Food Security and Nutrition in the World 2023 – link in previous footnote

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Food production will need to increase by c60%, according to the World Resources Institute (WRI), which would require 593 million additional hectares of agricultural land

An example of a company with technology capable of alleviating some of the pressure on global food security is Argentinian agrotechnology firm Bioceres Crop Solutions.

Bioceres produces crop productivity technologies designed to enable the transition of agriculture towards carbon neutrality<sup>18</sup>. Based in Rosario, the agricultural bedrock of northern Argentina, Bioceres has developed drought-resistant GMO (genetically modified organism) soybean and wheat seeds, through so-called HB modification. HB4 functions through the addition of a sunflower gene into the soy and wheat seed cells, allowing crops to grow even during times of limited rain.

HB4 technology looks promising in assisting crop yields during times of drought, a prospect that is only becoming more likely given the impact of global warming on weather patterns globally (increasing temperatures and more extreme weather events can severely damage agricultural yields). Studies by the company show increased crop yields ranging from 10-20% using HB4 seed varieties relative to traditional soy and wheat seeds.

Particularly in Latin America, and Argentina and Brazil where the company chiefly operates, there is a critical need for sustainable agricultural solutions given their global importance in soy and wheat production. As of 4Q23, Bioceres gained regulatory approval in countries that represent over 85% of global soy production, including Argentina, Brazil, Paraguay, the US and Canada. Moreover, in 2022, the company secured approval to import HB4 soy in China, the largest soybean import market in the world.

#### LatAm leading the pack on tackling food scarcity

Feeding the world in 2050 will be challenging, with increasing numbers of mouths to feed, overstretched land resources and the threats to our food system posed by climate change. To meet demand, food production will need to increase by c60%, according to the World Resources Institute (WRI), which would require 593 million additional hectares of agricultural land – an area almost twice the size of India. This difference between the land available today and what will be needed in the future is what the WRI terms the “land gap” and carries massive climate implications. Closing the land gap, by not taking up any additional land to feed the world in 2050, must be a part of a sustainable plan as we approach 2050.

Although the ‘green revolution’ has been successful in feeding a rapidly growing human population, it has also depleted the Earth’s soil and biodiversity and contributed to climate change. These extractive practices are not sustainable. We must move quickly to transform agriculture by employing a suite of practices known as regenerative agriculture.

LatAm, principally Brazil and Argentina, stand out as key agricultural powerhouses and their respective roles in feeding the planet are likely to only increase in the years to come. As emerging market investors, we are excited by this opportunity for development on the South American continent and we have identified compelling ways to access this theme, which offer hope for the future of global food security.

As the WWF poignantly concluded in a recent research publication, “The preservation of ecosystems and the future wellbeing of the human population are all centrally dependent on a structural transformation of the food system towards a sustainable and resilient state<sup>19</sup>.”

We believe hope for this structural transformation lies partly in regenerative agricultural practices in Latin America.

#### Polar Capital Emerging Markets & Asia Team

30 April 2024

<sup>18</sup>. Bioceres Crop Solutions website - [Bioceres Crop Solutions - Investor Relations](#)

<sup>19</sup>. The Global Food System: An Analysis, WWF, March 2017

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- The Fund uses derivatives which carry the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions, such as failure amongst market participants.
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The Fund is registered in Spain with the Comisión Nacional del Mercado de Valores ("CNMV") under registration number 771.

### Switzerland

The principal Fund documents (the Prospectus, Fund Supplement, KIDs, Memorandum and Articles of Association, Annual Report and Semi-Annual Report) of the Fund may be obtained free of charge from the Swiss Representative. The Fund is domiciled in Ireland. The Swiss representative and paying agent is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, CH-8002 Zurich, Switzerland.

### **Austria / Belgium / Denmark (professional only) / Finland / France / Germany /Gibraltar / Ireland / Italy / Liechtenstein / Luxembourg / Netherlands / Norway / Portugal / Spain / Sweden / Switzerland and the United Kingdom**

The Fund is registered for sale to investors in these countries. Investors should make themselves aware of the relevant financial, legal and tax implications if they choose to invest. Please be aware that not every share class of the Fund is available in all jurisdictions.

## Morningstar

The Morningstar Medalist Rating<sup>TM</sup> is the summary expression of Morningstar's forward-looking analysis of investment strategies as offered via specific vehicles using a rating scale of Gold, Silver, Bronze, Neutral, and Negative. The Medalist Ratings indicate which investments Morningstar believes are likely to outperform a relevant index or peer group average on a risk-adjusted basis over time. Investment products are evaluated on three key pillars (People, Parent, and Process) which, when coupled with a fee assessment, forms the basis for Morningstar's conviction in those products' investment merits and determines the Medalist Rating they're assigned. Pillar ratings take the form of Low, Below Average, Average, Above Average, and High. Pillars may be evaluated via an analyst's qualitative assessment (either directly to a vehicle the analyst covers or indirect-ly when the pillar ratings of a covered vehicle are mapped to a related uncovered vehicle) or using algorithmic techniques. Vehicles are sorted by their expected performance into rating groups defined by their Morningstar Category and their active or passive status. When analysts directly cover a vehicle, they assign the three pillar ratings based on their qualitative assessment, subject to the oversight of the Analyst Rating Committee, and monitor and reevaluate them at least every 14 months. When the vehicles are covered either indirectly by analysts or by algorithm, the ratings are assigned monthly. For more detailed information about these ratings, including their methodology, please go to [global.morningstar.com/managerdisclosures/](http://global.morningstar.com/managerdisclosures/).

The Morningstar Medalist Ratings are not statements of fact, nor are they credit or risk ratings. The Morningstar Medalist Rating (i) should not be used as the sole basis in evaluating an investment product, (ii) involves unknown risks and uncertainties which may cause expectations not to occur or to differ significantly from what was expected, (iii) are not guaranteed to be based on complete or accurate assumptions or models when determined algorithmically, (iv) involve the risk that the return target will not be met due to such things as unforeseen changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, tax rates, exchange rate changes, and/or changes in political and social conditions, and (v) should not be considered an offer or solicitation to buy or sell the investment product. A change in the fundamental factors underlying the Morningstar Medalist Rating can mean that the rating is subsequently no longer accurate.