

Pictet-Agriculture

News from the Advisory Board

May 2010

The first semi-annual Advisory Board meeting took place in Geneva. The most important items to come out of the meeting are summarised below.

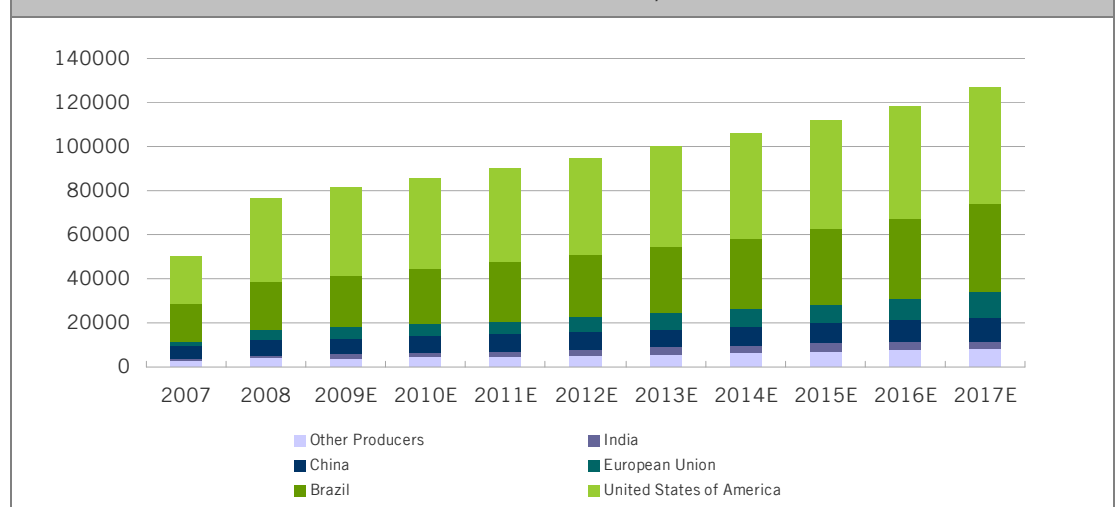
Roundtable on Sustainable Palm Oil

Membership in the Roundtable on Sustainable Palm Oil (RSPO) is becoming stricter. The roundtable's goal is to promote the growth and use of sustainable oil palm products through credible global certification standards and active engagement to keep biodiversity. The RSPO is progressively becoming the rules-setting industry body within the Palm Oil industry. This is why the RSPO is turning more strict towards its members. It now publicly publishes the 'Name and Shame' list of members that have defaulted on the RSPO's social and environmental criteria. In the absence of any further response, concerned members are formally excluded from the RSPO. This additional pressure urges the roundtable's members to do business in a more sustainable manner. Nestlé, for instance, stopped buying palm oil from Indonesia's Sinar Mas due to concerns about rainforest destruction, following a similar move by consumer goods firm Unilever. This move towards more sustainable palm oil producers and customers is likely to continue and will benefit a few players within the Palm Oil value chain. We do not invest in palm oil plantations that are not in the process of certifying their plantations.

Third generation of biofuels

An alternative to current biofuels is emerging in the form of oil containing algae that can be processed into fuel oil. Its production is low cost and high yield, almost 30 times more energy production per hectare versus row crops such as soybeans, according to the U.S. Department of Energy. Processing tests of biofuels from algae showed that it captures large amounts of CO₂ and N₂O. Biofuels are likely to be an efficient way to reduce green house gas emissions and an alternative to the polluting fossil fuels. Biofuels have indeed become increasingly commoditized and volume driven, which limits to a large extent current margins for producers. These, coupled with the fact that it is not necessarily the best use for crops, pushes research departments to continue developing their research on algae to make it more cost efficient on a large scale.

VOLUME OF ETHANOL PRODUCTION IN BN LITRES, ESTIMATION TO 2017



Source: OECD - FAO

Decreasing subsidies in Europe

The political environment for subsidies in Europe is undergoing an important phase of repositioning. The trend is heading towards a decreasing level of subsidies for agriculture-related businesses, along with an abolition of quotas. European governments are indeed willing to reduce their intervention as the market needs to gain in efficiency. Some companies will consequently exit the industry while others will see their profits increase. All in all, the global effect should be positive as it was the case for New Zealand's dairy farmers who saw their profitability increase when the government stopped subsidizing their dairy market, after an initial shake-up.

Pictet-Agriculture

The Pictet-Agriculture fund invests in listed companies that are active along the agriculture value chain. It should be noted that no investments are made in commodities. The fund focuses on companies that are active in agricultural production, agricultural inputs or agricultural supply chain services. The fund applies a sustainability overlay in the investment process, as resource-efficient forms of agriculture are preferred. Furthermore, sensitive ecosystems (e.g. Amazon basin) are avoided as the fund does not invest in environmentally questionable business models. Last but not least, the fund excludes companies with significant exposure to genetically modified seeds (10% of sales maximum). The sustainability aspect is therefore a key driver for the future success of the theme. The fund's investment universe is not limited to any particular region.

Contact

Pictet Funds S.A.
Route des Acacias 60,
1211 Geneva 73, SWITZERLAND

Pictet Funds S.A. Zurich Office
Freigutstrasse 12, 8002 Zurich, SWITZERLAND

Pictet & Cie (Europe) S.A.
Niederlassung Frankfurt
Neue Mainzer Strasse 1
60311 Frankfurt am Main, GERMANY

Pictet Asset Management Ltd
Moor House, Level 11, 120 London Wall,
London EC2Y 5ET, UNITED KINGDOM

Pictet & Cie (Representative Office)
Sheikh Zayed Road - Park Place, 12th Floor
PO Box 125567, Dubai, United Arab Emirates

Pictet & Cie (Europe) S.A.
Succursale Italiana
Via Fratelli Gabba 1/A
20121 Milan, ITALY

Pictet & Cie (Europe) S.A.
Sucursal en España
Calle Hermosilla 11, 28001 Madrid, SPAIN

Pictet & Cie (Europe) S.A. Succursale de Paris
34, avenue de Messine,
75008 Paris, FRANCE

Pictet (Asia) Limited
Room 3901-10, Edinburgh Tower, The Landmark
15, Queen's Road Central, HONG KONG

Pictet Funds (Europe) S.A.
3, boulevard Royal,
L-2449 LUXEMBOURG

Tel. 0041 58 323 30 00 - www.pictetfunds.com

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