

October 30, 2020

Dear Clients and Colleagues:

Food security is critical to the well-being of all countries. COVID-19 has brought challenges to many parts of the world, including countries that are considered food secure. In China, following President Xi's message to stop wasting food, the whole country has been carrying out a "Clean Plate" campaign since August. From restaurants to university canteens and kindergartens, food wasting is strongly discouraged and criticized. Although state media claims that China has a sufficient food supply, this is widely seen as a sign of a food crisis, caused by COVID-19, floods, and tense relationships with major food exporting countries, including the United States (US) and Australia.

Food security is not only a crisis for China, it is a global problem, even for advanced economies such as the US and Canada. In the US, an analysis by the Brookings Institution¹ showed that in June 2020, 27.5% of households with children were facing food insecurity. Food banks across the US have seen long line-ups. In Canada, data collected by Statistics Canada² shows that almost one in seven (14.6%) Canadians reported food insecurity in a May 2020 survey. Globally, prior to the COVID-19 pandemic, almost 690 million people, or 8.9% of the global population were undernourished, and preliminary projections suggest that this pandemic may add an additional 83 million to 132 million people to this base.

One of the United Nation's Sustainable Development Goals (SDG) is to end hunger and ensure all people have access to safe, nutritious and sufficient food year round by 2030. Yet the world is not on track to achieve this goal. If recent trends continue, the number of people affected by hunger will surpass 840 million by 2030. As the world population continues to grow, more effort and innovation is needed to sustainably increase agricultural production. Investment in the agriculture sector is critical to reduce hunger and improve food security. Below outlines examples of how companies in our portfolios are helping to address this issue.

The growing demand for food is expected to increase the use of agricultural water by 19% by 2050. Irrigation and water sustainability are becoming primary concerns. Lindsay Corporation (LNN US) is a leading global manufacturer and distributor of irrigation and infrastructure equipment and

¹ <https://www.brookings.edu/blog/up-front/2020/07/09/about-14-million-children-in-the-us-are-not-getting-enough-to-eat/>

² <https://www150.statcan.gc.ca/n1/pub/45-28-0001/2020001/article/00039-eng.htm>

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technology. Founded in 1995, the company provides fully integrated irrigation solutions, including center pivot and lateral-move systems, and the world's only remote irrigation management and scheduling system FieldNET. The FieldNET technology helps growers conserve resources by providing real-time data and recommendations to optimize their irrigation system. It can deliver 17% water and energy savings, and 3% increase in yields, resulting in higher profits for the growers. Given the food security concerns globally, it is anticipated that the strong momentum in the international irrigation market, especially in Brazil, Australia and the Middle East will continue.

Bucher Industries (BUCN SW), based in Switzerland, is the world's leading manufacturer of specialized agricultural machinery. They are helping growers globally meet their economic demands while conserving natural resources. Their machines are equipped with advanced control systems, so plants can be fed and protected with precision, in an efficient and sustainable way. The newly developed seed drills allow producers to have only one machine to seed the entire fields, whether they are tilled or under dense cover crops. This reduces producers' purchasing costs and saves time, also reduces fuel consumption and carbon dioxide emissions. The company is also a global leader in the field of hay and forage harvesting machinery. Bucher reported strong orders and sales numbers for the third quarter of this year. Demand for their agriculture equipment, especially from Brazil, North America and Europe, was one of the drivers, and will continue to drive the company's future growth.

Accompanied by the rising middle class in emerging countries, there is an increasing demand for fresh vegetables and fruits globally. However, the supply has been insufficient to meet minimum recommended levels set by the World Health Organization (WHO). Based in Santa Paula, California, Limoneira (LMNR US) is one of largest lemon and avocado growers in the US. In addition, they also grow oranges and a variety of other specialty citrus. Limoneira has been growing sustainably for over a century. The company invests in procedures to improve efficiency, including solar operations, green waste recycling, water management, efficient land utilization, and scheduling work during off-peak hours. Although the COVID-19 pandemic has had an adverse impact on the US lemon market with demand for lemons falling during lockdowns, the export demand to Asia, especially Japan and South Korea, is close to reaching pre-COVID levels.

Sakata Seed Corporation (1377 JP) is a Japanese vegetable, fruit and flower seed provider. The vegetable seed market is about 10-15% of the overall seed market, and grows at high single digits. Sakata Seed is one of the top-players in this market. The company ranks in the top three for vegetable and flower seeds in Japan, and number six in the world. The Sakata brand seeds are sold in more than 170 countries. The company is especially famous for their broccoli seed, for which they have 65% market share globally. They also claim a high market share for tomatoes, spinach, and sweet corn in

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Japan. Their hybrid technology ensures consistency in the colors, sizes and predictability of harvests. It also delivers better performance, for example, their broccolis have high heat resistance and strong post-harvest color retention and longer shelf lives, and their melons are sweeter and juicier. The hybrid technology is not genetically modified; the plants are developed naturally and bred conventionally. During the pandemic, demand for vegetable seeds increased, especially in the Americas, Europe and Middle East, South Korea and India. Going forward, the company will grow by developing new varieties and expanding their overseas businesses.

The changing demographics has also increased the demand for high-protein foods, including seafood, especially salmon. Norway Royal Salmon (NRS NO) sells about 70,000 tons of salmon every year. From a sustainability perspective, salmon farming has the relatively lowest environmental impact in comparison to chicken, pork, or beef. It consumes the lowest amount of water per kilogram of edible meat and generates the lowest amount of carbon emissions. In the short-term, uncertainties exist regarding the prices as a result of COVID-19. However, the global demand for salmon is expected to grow 6% to 8% annually once the situation is normalized.

Have a great weekend.

The Global Alpha team

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