

Five questions with Kevin Schwartz, Paine & Partners

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1. You are one of the founding partners of Paine and Partners. How did the firm evolve from being a general buyout shop to having a specialization in food and agribusiness?

I joined **Fox Paine** in 2002. **Saul Fox** later retired and we raised capital as Paine & Partners, with **Dexter Paine**. From the early days of the firm, we were interested in doing proprietary, thesis-driven deals. There wasn't one particular industry on which we focused. But we believed to be successful long term, we had to specialize. I grew up in Moline, Illinois, in the corn fields, and Dexter had an affinity for the industry. We spent a lot of time focusing on strategy in food and agribusiness. In Fox Paine Fund I, there were no agriculture deals. In Fund II, about a third of the fund was in food and agriculture. In Fund III, which we've been investing since 2007, almost 80 percent of the capital is in agribusiness. Going forward, our entire investment strategy will be on the food and agribusiness segment globally.



2. What is the attraction of food and agribusiness, from an investing standpoint?

It begins with some of the macro drivers. It's a simple matter of consumption: There are going to be a lot more mouths to feed over the next 20 or 30 years than there are today. And a greater percentage of that increasing population is consuming increasing amounts of protein and fresh fruits and vegetables as their affluence increases. Set against that demand backdrop, you have some constraints on meeting that demand, things like water and a potential 40 percent deficit over the next 20 years; climate change, which is reducing yield in crops; huge energy requirements; and declining year over year productivity gains as technology that we've invested in has been maximized. In the developed world, health and wellness are helping people live healthier and longer lives. These are long-term sustainable drivers of opportunities for investment in the ag space.

3. You mentioned climate change. How big an issue is that for you as a firm?

Our job ultimately is to take these macro factors and apply them on an ultra micro level. We see greater volatility in weather patterns and how that affects the food value chain. One of our companies is one of the leading drip-irrigation companies in the world called Eurodrip. Scarcity of water will require farmers to deliver water in the most efficient way possible to their plants. We also focus on diversification. We own the largest fresh produce company in Australia, a company called Costa Group. It is a fully integrated grower, packager, distributor, marketer of berries, mushrooms, bananas, vegetables, citrus, tomatoes, avocados and more. The key to success in that business is diversification of where we grow those products. You have significant weather events that can damage a particular crop in a particular year. So we grow in every part of every climatic zone of Australia and beyond to spread the risk of those weather factors.

4. How do you find the prospect companies that you want to pursue?

Over more than a decade, we have honed a process that starts with our own internal, proprietary research. We segment the value chain by crop type, upstream downstream, and by geography. Twice a year we go off site to do deep dives, starting at the investment thesis level and drilling down to specific companies that we think are attractive. We then prioritize where we are going to dedicate resources. We also have a 20-year history of relationships in the industry. That process creates a significant pipeline of investment opportunities.

5. What trends today are driving your investment decisions?

The three key themes on which we focus our investments are productivity, dietary convergence and health and wellness. The need to increase productivity in the food supply chain is significant and one way is by reducing waste in the supply chain, which we believe is an interesting area for investment. We also focus on dietary convergence around protein and fresh fruit and vegetables. We own Icicle Seafoods, one of the leading North American seafood companies. Then there's the health and wellness theme, especially in the developed world, where more affluent consumers are buying things like functional foods, Omega-3, healthy fruits and vegetables. The broad themes have myriad segments on which we then focus.