**AgFunderNews**
**Paine Schwartz is eyeing plant-based revolution with new $1.5bn PE fund**
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Institutional investors are increasingly looking to invest in important sectors that matter and food and agriculture is one of them, according to Kevin Schwartz.

He should know. Schwartz is managing director of Paine Schwartz, the private equity firm focused on the sector that just raised a cool $1.45 billion for its fifth fund. That's the largest private equity fund for the food and agriculture sector outside of farmland investment where Nuveen (formerly TIAA-CREF) has a $3 billion fund and Hancock Agricultural Investment Group has a $1.6 billion vehicle.

Paine Schwartz is one of a very small number of traditional private equity firms focused on food and agriculture outside of farmland. Others that spring to mind include Amerra, which also issues private debt, Advantage Capital, and Arlon Group. It's surprising that there aren't more, considering the size of the food and agriculture industry globally. And Schwartz agrees.

"We get that question a lot, and there are two simple answers: it's a complicated industry. There are a few analogues like oil and gas and commodities generally but the variability of supply chains and the variants based on geographic, create a complicated cube of opportunities. It's not easy to wade into that without real domain expertise, and get it right."

Also, he adds: "It's a heavily privately-owned and fragmented sector. It's not very well banked for intermediaries or organized as other sectors, and finding good deal flow requires a very proactive approach. There is a lot of institutional interest in the sector but folks are still wrapping their heads around how to attack it."

In turn, Schwartz says many of the investors he spoke to were looking for higher returns than farmland can offer; farmland funds typically offer between 5% and 10% return profiles depending on the strategy. Schwartz would not disclose Fund V's target return or where the firm's previous funds are tracking but he said it was in-line with typical private equity, which is usually 20% to 30%.

**Navigating institutional investors' internal labyrinth**

With its latest fund, Paine Schwartz was able to attract investors that were too big for its previous funds, emphasizing just how much money these large institutions have to put to work.

"We had some new limited partners in Fund V that we couldn't accommodate in Fund IV because the commitment level they wanted was too high," he tells AFN. Being able to watch how Paine invested its fourth fund was also attractive for these institutions, he adds.

But even with a strong team and a convincing track record, winning over institutional investors isn't a clear cut process. Large institutional investors allocate capital to different asset classes with clear targets and budgets. Food and agriculture often straddles two main asset classes–private equity and real assets–meaning fund managers like Paine Schwartz have to figure out which investor team to approach.

Fund managers also have to adjust their pitch to suit the relevant team. For example, real asset investment teams will understand the macro drivers of the industry and could already be investors in farmland; they will want to ensure a private equity fund also offers uncorrelated returns to other asset classes, typically equities and bonds. For private equity investment teams, it's more important to see a strong track record of returns, says Schwartz.

Half of Paine Schwartz's investor base invested in its fund from their private equity allocation, while the other half invested from their real asset allocation.

**Investment thesis upgrade**

Schwartz puts the firm's fundraising success down to its primary research-led style and heavy domain expertise. It's been researching the sector for 20 years now and has invested significant resources into ensuring it has the best expertise on its team. "Our team has more executives from the industry than investment folks from Goldman Sachs. That highlights the importance of our deep domain expertise."

Underscoring the point: Paine Schwartz's founders, Kevin Schwartz and Dexter Paine, have invested $2.3 billion in food and agriculture companies over a 20-year period across 57 investments and 20 countries, including a predecessor fund Fox Paine where they both worked; the company website details seven exits, the latest of which was Meadow Foods, the UK's largest independent dairy and supplier of dairy products to the food industry in 2018; and in 2017, it sold Costa Group, Australia's largest vertically integrated grower and marketer of fresh produce.

With fund V, Paine is making it "a strategic priority to be proactive about ESG (environmental, social and governance criteria) in its portfolio construction in the hopes of driving a sustainable food chain," says Schwartz. Examples of the types of investments that fit that profile from its previous funds include AgBiTech, the biological pest management company, and FoodChain ID, a food safety and food quality solutions platform.

The fund will also invest in more technology at the growth equity or buyout stage; the firm does not underwrite technology risk like a venture capital firm does.

"Food and agriculture is a sector that lags almost all others in the adoption of tech so it's not surprising that it's attracting more and more capital from sector-focused as well as generalist VCs with experience in life sciences or software," says Schwartz. "There is a lot of exciting tech, and the sector needs more capital, although there's no question valuations have gotten very high."

**Keeping tabs on global trends**

Paine Schwartz's decision to prioritize ESG screening in Fund V will help the private equity firm's alignment with investment trends, where institutional investors are increasingly looking for managers adopting this investment lens. But Schwartz also believes it will be one of the major trends in the sector over the next decade.

Understanding and appreciation of the environmental impact of agriculture globally will increasingly influence the industry, he says. This will result in greater focus on sustainable production of calories, using numerous pathways to do it.

Related but separate, Schwartz particularly has his eye on the growth in the consumption of plant-based proteins in the developed markets. Schwartz says this trend, which includes meat alternatives, is a durable one.