

Reuters | 11 June 2010 -By Martin de Sa’Pinto

GENEVA – Blackrock prefers to buy shares in companies involved in the agricultural industry to investing directly in grains and other commodities, which are more exposed to price volatility, a fund manager said.

Richard Davis, who oversees two natural resources funds with a total of \$200 million in assets, said he takes long-term positions in companies that own land, produce crops, raise livestock or sell agricultural equipment.

“Equities remove some of the intrinsic volatility of investing in commodities,” said Davis, a portfolio manager in the natural resources team at BlackRock, which manages a total of some \$3.3 trillion.

“Corn prices have been volatile, but John Deere, who make tractors and agricultural machinery, don’t really care about the shape of the corn curve,” said Davis at the Jetfin Agro 2010 conference in Geneva this week.

While prices of agricultural commodities are volatile, the reaction by the supply-side dampens any major disruptions over the long term, Davis said.

“I don’t think the corn price can ever go to \$10 per bushel from around \$3.50 today, because as soon as it reaches say \$7, farmers will do whatever it takes to increase their production,” he said.

“If we did not see a supply-side response, prices would continue to go higher and higher. Governments won’t allow that to happen, food security is a major issue,” he added.

Natural resource funds also can soften the effects of volatility by buying stocks exposed to various phases of the production cycles, Davis said.

“If the corn price goes up, fertiliser companies do well. If prices pull back, it could be good news for companies that transport and store, while a fall in prices could be good news for companies who process food,” he said.

Two of his favourite themes are fertiliser producers and suppliers of genetically modified (GM) seeds.

“This year the European Union gave the first GM license since the end of the 1990s. Countries are beginning to rethink their policies towards GM,” Davis said.

Two of his top sector picks are U.S.-based Monsanto and Switzerland’s Syngenta, which, he said, have “fantastic intellectual property”.

As for fertilisers, potash is a 65 million tonne market, with Brazil, India and China together accounting for 23 million tons of demand, he said. To get the best yields, these three countries would have to double their potash consumption, he added.

What’s more, potash is a scarce commodity, with only seven countries in the world producing it, he said. His top pick is Potash Corp, which he said controls the best potash assets in the world.

The two BlackRock funds are investing in companies closely associated with agricultural production but will not go further downstream by investing in, say, restaurants or breweries.

“As close as possible to the farmer; that’s where the best returns are going to be made,” Davis said.