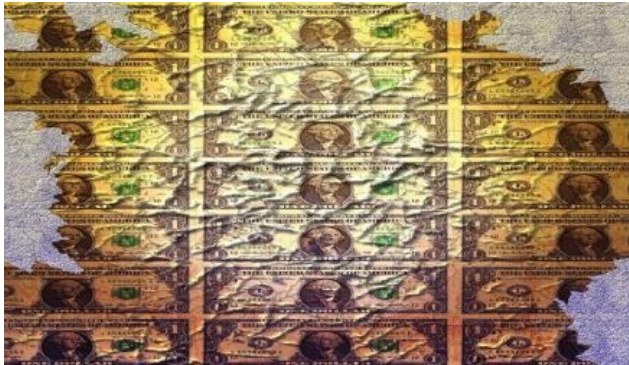




The Black Earth Comeback

by James Jorner, October 15, 2014

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Against the backdrop of this year's headline-grabbing geopolitical tensions between Ukraine and Russia, something transformative is up in the heartlands of both countries.

Where less than a decade ago there were fallow fields, rusting Soviet-era equipment, and ramshackle storage facilities, there are now wide tracts of land plowed by modern combines and dotted with state-of-the-art stainless steel silos. Roads and bridges have been repaired, and rural schools and hospitals in farming villages have been repainted and re-equipped. Young agriculture workers manning GPS-controlled tractors are pulling iPhones out of the pockets to check their email. After years of neglect following the breakup of the Soviet Union, this transformation of the land is close to miraculous. But the real miracle is that all this is being achieved with pioneering investment and management from NCH Capital, an American private equity fund, whose investors are large US and European institutions, including leading corporate and state pension funds, university endowments and foundations.

George Rohr, co-founder and president of NCH Capital, has been successfully investing in the former Soviet Union and Eastern Europe since 1992. NCH turned to agriculture in 2006, attracted by the Black Sea region's stunning advantages: its "black earth" -- the world's most fertile soil, a favorable climate, an educated workforce, low production costs, and a basic infrastructure in place. "There isn't another market in the world with the same combination of extraordinarily high quality land and farming assets, and structural inefficiencies that can be addressed straightforwardly with well-managed capital investment," Rohr said. "We believed that this was a once-in-a-lifetime opportunity. We were right, and the best is yet to come. This region is well on its way to becoming a global food supply powerhouse."

The NCH strategy is simple: buy or lease small, contiguous holdings of under-used prime farmland; aggregate the holdings into viable, large-scale operations; invest extensively in ongoing personnel training and

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modern equipment; and manage the operations with the best local specialists working to international standards of efficiency, transparency, and sustainability. Implementation was bureaucratically cumbersome - with tens of thousands of pages of documentation - but NCH had the advantage of a strong, experienced team already on the ground to work through the red tape. And the results make everyone happy, from the investors to the local governments: dramatically increased crop yields at relatively low production costs, employment for agricultural workers, and the economic and social revival of once moribund rural areas.

To date, NCH has invested \$1.4 billion of equity in farmland and agribusiness infrastructure assets in the Black Sea region, primarily in the "black earth" zones of Russia and Ukraine. Companies owned by NCH's funds are working over 700,000 hectares (1.7 million acres) of these uniquely productive lands. In Ukraine, NCH companies harvest grain and oil crops from 425,000 hectares (about 1 million acres). They are now one of the largest employers in the agricultural sector, and the top grain exporter in the Black Sea region. Michael Bertram, head of NCH Advisors Inc. in Ukraine, says one of the keys to their success is maintaining "best-in-class governance and management systems. We certify all our farming operations to ISO standards in management, health and safety, and environmental criteria. We've developed standardized reporting and accounting systems so that we can process the data in real time. Our managers are regularly rated based on financial results. Best performers receive bonuses which are multiples of their salaries, and weak management is replaced. Our operations are a model of transparency and simplicity, and we've proved that not only is this model possible - it's profitable, too."

Patrick Ghidirim, managing director of Agro Terra, NCH's Russian group of companies, concurs. "We have a reputation for running a clean business, paying competitive salaries and all our taxes. Local governments welcome us." But he also credits their success to the deep due diligence NCH companies conduct before committing to a new tract of land or other investment, their ability to attract top specialists and invest in their training, and, perhaps most of all - their care for the land itself. "We are a member of the Sustainable Agriculture Initiative Platform, and we follow their principles and best practices. That means, in part, using minimum-till farming where we can, which reduces soil erosion, fuel consumption, and greenhouse gas emissions. Our task is to be good stewards of the land, so that the land we leave to the future generations is more valuable than when we came. Before the 1917 revolution, this land was called 'the breadbasket of Europe' because of its huge grain exports. One day soon it will be called that again."





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
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