

## 6. PORTFOLIO ASSET MANAGEMENT: A FARMING-RELATED PERSPECTIVE

*"The problem in the UK is we're a relatively small land area. And we now have 69 million people so there are very few places in the UK even if you get into what you consider to be pretty rural areas where there isn't a residential value attached to land.... And with remote working and better transport network. you can live anywhere in the UK and you can work for a company in London, or you can even work for a business which has a global footprint, so that distorts the land market not so much the forestry market, but there's no question it distorts the land market that residential value aspect.... So, there's inevitability that farmers sell the land for residential or commercial development and usually what they do they don't go off and buy shares in Tesla or Nvidia. They want to buy another farm. So, you have this distorted land market from rollover. And then the other aspect in the UK, and this applies to all parts of the UK as well, we have a lot of history in agriculture. We have nice old farmyards, farmsteads, and they've all been converted to residential, or they've been converted to office, or the more modern buildings have been converted into commercial buildings... what applies in the UK applies in other European countries as well. [In] Western Australia, unless you're right on the outskirts of Perth, for the majority of landowners in Western Australia the land value reflects what you can earn from it from an agricultural perspective and nothing else. So, all these themes that exist in the UK just simply don't exist there, [so] agriculture is just treated as a true business. Can I run this farm? Can I make enough money out of running this farm and not doing any other thing? I can't do multiple diversifications. So, glamping in Esperance [Western Australia] doesn't have a great deal of appeal because you're not going to get many clients, whereas in Warwickshire, Oxfordshire, Cambridgeshire, Yorkshire, it's a significant opportunity."* Martin Davies, Global Head of Nuveen Natural Capital

In the context of considering a farming business or business family, the interpretation of the term portfolio asset management is expanded from the original economically-focused meaning. The portfolio of assets available will vary from organisation to organisation. Portfolio asset management is a smart, agile approach to managing the 'business' to see the big picture through the mission and objectives of the business, the asset base and the most effective use of that asset base for both farming and non-farming activities to deliver a financially, environmentally and socially robust business. Portfolio asset management considers the business' strengths and weaknesses, supports the development of a multi-year asset management and investment strategy to reduce the impact if one enterprise or activity is underperforming, assess, mitigate and manage potential associated risks, uncertainties and trade-offs and inform evidence-based decision-making. Portfolio asset management in the context of agricultural business refers to how the mix of farming and non-farming assets, enterprises and investments under the organisation's control are managed to deliver a clear internal and external value proposition and maximise profitability and ROCE, to stabilise income and to manage risk both in the short and longer term. Section 1 of the report highlighted, at the sector level, that average profitability and median

ROCE are poor. One major reason for this is the high value of agricultural land in many parts of the UK which more readily reflects the 'developmental asset' or its 'tax shelter' value rather than the operational returns from agricultural activity on that land. A third of farmed land is in the tenanted sector where the land is owned by one business and the operations on that land are managed by another. One discussant highlighted:

*"I fundamentally believe that the landlord-tenant system offers and provides a really good basis to do agriculture. And I think we need to reimagine the benefits of the landlord-tenant system. For many years, it [the landlord-tenant system] was considered to be an old-fashioned concept based in the 1940s and 1950s that was clearly massively reformed in the 1990s with the introduction of farm business tenancies [FBTs]. The area of land within agriculture that is within the tenant sector has remained very stable at 30%, over the past 30 or so years, but the nature of that occupation has changed markedly so that half of that area of land is now under farm business tenancies where the average length of term is 3 years and 85% of all new tenancies are let for 5 years or less."* George Dunn, Chief Executive, Tenant Farmers Association

Another factor when considering asset management is the level of liquidity of those assets as that will influence decisions on risk management and investment opportunities especially in volatile markets such as commodity agriculture.

Risk assessment and the development of risk management strategies is usually based on historical performance for the likelihood of a risk to occur. There is an assumption therein that the risk levels of the past are a good indicator of the risk levels of the future. In a SPOD world (steady, predictable, ordinary and defined world), where the context is steady, understanding the business risk levels of the past can inform an understanding of business performance in the future. However, over the last two decades, especially since the 2008 global finance crisis, a VUCA world (volatile, uncertain, complex, ambiguous world) has emerged which has impacted on globalisation strategies, food security and agri-food policy across the world. This increased level of uncertainty has changed risk profiles, risk appetite and as a result influenced mindsets and thinking within a business, sector or at government levels.

The term BANI world (i.e., a brittle, anxious, non-linear, incomprehensible world) reflects the environment in which UK agriculture operates now, in the medium and longer term. This term encompasses the complex shocks and instabilities seen following the Brexit decision, the Covid-19 pandemic, the Russia/Ukraine conflict and the contemporary public debt crisis in much of the Global North. With the addition of more frequent climatic incidents across the world, this creates an unpredictable, even incomprehensible world which UK farming businesses need to navigate. How do businesses in the UK agricultural sector identify, assess and manage risk in this context when knowledge of the present and the past may not reflect the risk profiles of the near- and longer-term future? One essential outcome is that risk reduction strategies across the agri-food system must drive business and system robustness. These risk reduction strategies include:

- o **Reducing brittleness** – by introducing interventions to create infrastructural and relational stability, strengthening the robustness of existing assets and ensuring the agility to mobilise those assets effectively and at scale.
- o **Reducing anxiousness** - by introducing measures to create confidence in the sector and wider economy and developing the skills and capacity to be confident, trust others and drive both personal and business performance.

- o **Embracing a non-linear world** – by accepting that current risk assessment and management processes based on past performance, singular risks and static risk assessment methods are not fit for a non-linear world. Risk registers and risk profiling approaches will need to be more dynamic and more robust. Organisations, the supply chain and wider food system will need to mobilise agile risk mitigation approaches and interventions to drive real-time risk quantification and management.
- o **Minimising the incomprehensible** - by utilising data collation and data analysis at a level of granularity capable of improving understanding and sharing of knowledge and insights. This will support businesses and the people that operate them to navigate the complexity and instability of the contemporary and future world.

## Liquidity of agricultural assets

The proportion of agricultural assets that change ownership, as an element of liquidity, was also discussed in depth in the discussions. In 2024, around 76,000 hectares of farmland was marketed in the UK, around 0.4% of the total, with only 16 farms being sold that were over 500 hectares.<sup>60</sup> Savills Research state that the reasons for selling land were investment elsewhere (29%); debt and financial restructuring (27%); death and personal reasons (18%); relocation (15%); retirement (8%) and other (3%). In the first half of 2025, 15% less land was brought to market than in 2024.<sup>61</sup> This shows the low level of liquidity of farmland and the level of incumbent control of land ownership. Furthermore, one discussant said,

*“The price of land is, I believe a massive constraint on what's needed which is new talent, new blood, new thinking, new mindsets. Farming, whichever way you look at it, especially arable farming, but livestock farming too, especially dairy, is hugely capital intensive. And so, you know the fact that the price of land is higher than everywhere else. You can go farming in Australia or Argentina, or, for that matter, New Zealand, and be a 1st generation farmer with a great idea about what you want to do. Occasionally you hear of it, but it's almost unheard of in the UK and that is because the barrier to entry is price of land and the capital required to get going and probably the bankers can tell you why they won't lend to somebody with great management potential. It all has to be secured against this high value of land. So, everyone's colluding in that to a certain extent.” Jim Williams*

Thus, opportunities for new generation or “New Gen” farmers through land purchase are limited and are instead likely to be through other farm business structures rather than being the owner occupier. The impact of vested, often shallow thinking (see Table 6) and a need to change mindset to provide opportunities in agriculture was explored in this discussion too:

*“... the XXXX estate [part of a Family Office structure] is looking at total return from its estate. So not just building resilient farm businesses but building businesses that deliver natural capital and public benefits. And we have, to cut a very long story short, developed over an 18 month period, a new environmental farm business tenancy [FBT] which encompasses both, or compensates both, encompasses good production, environmental output and diversification, all within a revolutionary contract with a term of 15 years, which is at the very top end of the security of tenure we would get within the FBT.” George Dunn*

This way of thinking sees return on the portfolio of assets through a wider lens than financial ROCE alone. This requires businesses to recognise the portfolio of assets at their disposal and the risks and opportunities that align with them. Business assets can be categorised in many ways including the five capitals approach. The first asset balance sheet for any business includes:

- Financial assets and liabilities (investments, debtors, creditors and cash), and
- Physical assets and liabilities (buildings, physical infrastructure, equipment, machinery, live crops/livestock and the second farm asset balance sheet, as demonstrated in many of the conversations, includes:
- Natural assets and liabilities (natural resources e.g. soil, water, trees and hedges, environmental and biodiversity features on the farm and the risk of damage to water courses, biodiversity hotspots),
- Human assets and liabilities (mindset, skills, knowledge and capabilities of those working on the farm or with the farm), and
- Social assets and liabilities (cultural value associated with the farm and its activities including the way the crops and livestock are produced).

Another conversation reflected on the requirement for farmers to consider a wider range of assets and associated income streams, but the underpinning need for policy certainty to create the confidence and sense of purpose to invest time and money in the future:

*"I think the average farmer, if you were to go to a local mart or a county show and you tried to engage them in a conversation about natural capital and emissions reductions. I think you'd get fairly short shrift. But let's be honest. We are a conservative industry that takes time to change. Actually, look at the scale of the change in the last 5 or 6 years alone. We have a very long way to go, but the distance we have come when you consider the demographics of our industry is phenomenal in the last 5 years. Now, if only we could keep a consistent vision going forward in the coming decade, we'd really get there. But the problem is, we slam the brakes on [e.g., halting of the SFI in spring 2025]. Now we throw everything out. Everyone loses faith and that makes onboarding everyone much, much, much more difficult."*  
Joe Stanley.

The second balance sheet is now considered specifically. Firstly, natural capital can be considered at the national, regional or business level. Natural Capital Accounting is addressed in the HM Treasury's Green Book: Appraisal and Evaluation in Central Government (2022) where natural capital and its market and non-market value is defined (Table 9).<sup>62</sup> UK Sustainability Reporting Standards and sustainability related disclosure requirements e.g. Taskforce for Climate-Related Financial Disclosures<sup>63</sup> (TCFD) and Taskforce Nature Related Financial Disclosures (TNFD)<sup>64</sup> will cascade through agri-food supply chains requiring land based businesses to provide data that will feed into national capital accounting and strategic assessment of natural capital reserves, sustainability-related disclosure requirements for corporations for climate and nature-related risks and appropriate mitigation and adaption.<sup>65</sup>

“Natural capital includes certain stocks of the elements of nature that have value to society, such as forests, fisheries, rivers, biodiversity, land and minerals. Natural capital includes both the living and non-living aspects of ecosystems.

Stocks of natural capital provide flows of environmental or ‘ecosystem’ services over time. These services, often in combination with other forms of capital (human, produced and social) produce a wide range of benefits. These include use values that involve interaction with the resource and which can have a market value (minerals, timber, freshwater) or non-market value (such as outdoor recreation, landscape amenity). They also include non-use values, such as the value people place on the existence of particular habitats or species.”

Source: HM Treasury’s Green Book: Appraisal and Evaluation in Central Government (2022). Chapter 6.<sup>59</sup>

**Table 9. HM Treasury’s Green Book description of natural capital**

The asset value of ‘carbon’ in particular was reflected on in the discussions from the point of view of reduction of greenhouse gas emissions, but also the production of carbon for other sectors in a post-fossil fuel world:

*“So, it would be ideal if the farmer themselves saw every opportunity. But the first point on the return on capital, earlier, when I was talking about biochar and biomass being produced and things like AD [anaerobic digestion] plants, if we no longer are digging for fossilised carbon then the only place that we can get carbon, and we will need carbon in the future, is either direct air capture which very inefficient, or its farms and biomass flows, so will the coalmine of the future be UK agriculture?... So, for the 1st time ever, as the UK economy gets more complex, more technologically evolved, actually, agriculture is going to increase its share of real GDP.”* George Collison, Consultant.

Human capital in its simplest terms is the health and wellbeing, knowledge, skills, abilities, mindset, thinking and purpose that people possess that creates an asset or capability, in this case for an organisation to produce a combination of economic, environmental and social value. Discussions around ‘who is on your team’ and ‘who is on the team of the future,’ were vibrant and varied. Two groups of people emerged in the discussions around improving economic performance, succession management and an opportunity-driven agricultural sector. These were ‘New Gen’ individuals who were new to agriculture with entry points either directly to a business, starting their own business and/or via studying at a college and university and “Next Gen” or next generation individuals. Next Gen individuals were those people whose families were/are already connected with agriculture and wished to remain within the sector, often managing or leading within their own family-managed business. For both “Next Gen” and “New Gen” the internal value proposition of the business itself and whether they connected with it was a key discussion topic and whether the business was perceived by staff and family members as an investible product (worth investing their own time in). The conversations went wider than the working culture alone when reflecting on the attractiveness of working in a specific business or the agri-food sector as a whole, now and in the future. One discussant stated that when businesses get multiple generations away from the founder, they lose their entrepreneurial spirit, become more comfortable and this limits getting new talent into the sector. They highlighted that the agricultural sector is a very hard sector to get into if you don’t have some form of cultural or family connections to it, limiting the talent pool. George Dunn summed up the challenges the sector faces now and going forward:

*“I recently had a conversation with a large arable farmer who is looking to retire, and wants his son, in this case, to succeed to the tenancy and buy the tenant’s capital in the business. But his son is amongst a cohort of friends who are not working on farms and who have holidays and are able to have weekends to play rugby whereas the farming life is*

*a bit more full-on. It's been more 24/7 and we have younger people coming into the businesses that don't necessarily want to have that level of time commitment. And as an industry, we need to find a way in which we can create opportunity which means that people aren't slaves to the business, that they have good thriving, successful businesses, but they also have a life. So, I think we do need to bring people in who have got a wider view. So not just how to do the practical things and the farming tasks but who are bringing new ideas for how their business can be structured in a way which allows them to create a viable basis for profitability but gives them space to do life at the same time."*

Another discussant stated:

*"...machinery rings could also be labour rings, creating quality, labour, opportunities, skills and enterprise, year-round. But family friendly as well. You know those kinds of things which are part of the problem for recruiting labour, which is a big issue."* Vicki Hird, Strategic Lead on Agriculture at The Wildlife Trusts.

In summary, for staff and/or family members who are involved with an agricultural business, the internal value proposition that needed to be articulated and operationalised includes:

- **The work environment:** the enacting of the purpose of the organisation, acknowledgement of achievements, the supportiveness and inclusiveness of the work environment, the provision of the tools and resources to undertake the job role effectively, whether there is the appropriate work-life balance; and the balance of collaborative working and teamwork.
- **Career development:** the training, learning and continuous development opportunities, the career opportunities and development pathways within the organisation and access to mentoring; and
- **Compensation:** benefits and job security: fair and competitive pay, holiday and welfare benefits, bonuses, access to profit sharing and options for developing personal equity in the company.

In short, the business needs to reflect on the question: "Why should someone want to work here and stay in the business?"

Strategic, financial and operational management requires a range of capabilities, knowledge and expertise that is unlikely to be located solely within the people involved in, or employed, by the organisation. The human capital needed to drive portfolio asset management can include external advisors e.g. bank manager, land agent, agronomist, veterinarian, business employees and contractors, customers among others. Discussants identified the need for access to business management skills varying from the financial and governance skills to operate a business, to the ability to problem-solve. One discussant from the wider agri-food industry highlighted how they were placing less emphasis on individuals having an agricultural degree partly because they are so broad. Instead, they were looking for those individuals that could add value to the business with a business management degree or the problem-solving abilities associated with an engineering degree. The ultimate challenge they felt was that we needed degree courses that inspired people for the agri-food sector jobs that existed and there is a lack of knowledge of the job opportunities that are available in the sector. As Martin Collison said:

***"You need to be informed; you don't need to necessarily have all the skills.  
What you need is to have the ability to manage the business."***

Simon Pearson, Director of the Lincoln Institute for Agri-food Technology, University of Lincoln highlighted:

*".. you've always got people coming through. We've got to think about upskilling them. And innovation is a great thing, and it helps in the way that it drives the economy. The economy's got to be growing all the time. Got to be upskilling, so that innovation will never stop. And it's a global game. So, if we stop doing that, we just stop."*

The entrepreneurial and opportunity-driven mindset was highlighted in two other discussions:

*"There are opportunities everywhere, but not with your head in the sand. And the real challenge is how do we build that knowledge? How do we build those skills and capacity? Because I don't think it's a government role to do that....."*

Richard Counsell

Driving collaboration and collegiality to bring human capital into parts of the agricultural sector was also a topic of discussion. An example was in the discussion with George Dunn

*"Where people are asset rich, but entrepreneurially poor, their approach could be to link with people who are New Gen, the entrepreneurial 'doers' for our future but who lack the assets. They can come together.... I think we are hugely cooperative.... maybe we don't promote the level of collegiality that already exists and how people are willing to gather around. And maybe that's something we should definitely be celebrating more. And no other community does that with young people and yet we don't communicate it more widely."*

Collaboration was reflected in two ways in the discussions. Firstly, formal collaboration was described in terms of structured institutional forms of collaboration through business and market structures to align and often integrate mutual interests. The second informal type of collaboration where farmers are informally working together to add value was also discussed. In the second form, the farming businesses are still strategically independent but gain economic and environmental operational benefits from sharing resources and assets. An example of this is a livestock farmer collaborating with an arable farmer who plants stubble turnips in their rotation or over-winter forage diversifying their rotation and farming practices and providing additional income without the need to own the livestock or manage the livestock when they are on their farm. Across the discussions the key question that arose was who needs to be on the team for a good future? Do they emerge from the next Gen or new Gen? Do the allied agri-industry sectors provide these skills and capabilities? An agricultural business will need to have access to a range of skills and capabilities to drive both operational and strategic elements of its organisation (Figure 8). These skills can be embedded in the human capital within the business or externally.

The advent of technology can bring advanced skills and capabilities to the agricultural business via the embedding of knowledge and data use in monitoring, management and decision support tools, for example, carbon calculator tools, or phone applications that embed identification capabilities for crops, livestock, flora and fauna. Access to these skills and capabilities may be through more traditional and practical face-to-face engagement with people such as the agronomist, the vet or the technician or via decision support tools and technology where knowledge is embedded within the service delivery. Knowledge As A Service (KAAS) and Technology As A Service (TAAS) options will open up significant opportunities for agricultural businesses to access relevant and also real-time knowledge and decision-support which informs their ability and agility to maximise returns on their assets and grasp opportunities for alternative income streams. KAAS and TAAS delivery via software and digital solutions and also deployment of hardware technology provides entrepreneurial opportunities, an improved value proposition both internal and external to the business and a wider business offering for those businesses too who develop and deploy the solutions and engage with the agricultural



sector. The UK government's 2025 UK Modern Industrial Strategy<sup>66</sup> recognised agri-technology as a frontier industry with its growth-driving potential especially “precision technologies tapping into the market for solutions to boost productivity, build climate resilience and reduce emissions in the agriculture sector.” Other frontier industries included in the Modern Industrial Strategy that will support strategic opportunities for the agricultural sector include advanced materials, automotive, batteries, green energy and greenhouse gas removal, artificial intelligence, fintech, insurance and sustainable finance, pharmaceuticals and professional and business services.



Figure 8. Who is on your team?

Cloud-powered 'smart' farming leverages cloud computing to connect devices, sensors, management information and data analytics tools to monitor, manage, predict and optimise agricultural and supply chain operations. Cloud-powered farming will include access to the expertise of soil scientists, data scientists and animal scientists - where the knowledge can be accessed in a timely way. One discussant said:

*"Well, what you can be sure of is that if you said what the farmer needs is probably a data scientist, a soil scientist, an animal scientist. Okay, the vet. But none of their livelihoods should be dependent on selling you something. You should be quite prepared to pay for their advice is a mindset, too, isn't it? ..."* Jim Williams

Integrated market-signal driven supply networks will outperform fragmented ones by unlocking the full potential of 'knowledge as a service – smart capabilities' and 'technology as a service – smart farming'. Whilst TAAS involves technology integration to deliver smart capabilities and smart farming at the operational interface (the animal, the field or polytunnel, the storage shed), the cloud-powered farming of KAAS solutions, either via isolated portals and platforms or via KAAS/TAAS integration is a gamechanger for agricultural businesses who can successfully adopt such solutions. Examples of solutions include Sandy (Trinity AgTech)<sup>67</sup>, the Framework for Improving Nitrogen Efficiency Platform<sup>68</sup> - FINE and Omnia digital farming<sup>69</sup> and dependent on the enterprise mix of a given agricultural business, cloud/e-access to veterinary and health, hygiene and pest control, financial and agronomy advice and knowledge is driving evidence based on-farm decision making. KAAS/TAAS solutions



refine and redevelop the social networks and business relationships that agricultural businesses are involved in to maximise economic and environmental returns.

Social capital is the value that comes from the social networks, business relationships and connections created between the business and suppliers and customers, groups, or organisations. It's about the resources and benefits that the organisation can leverage through its connections especially those connected to goods and services. Historically, a strong underpinning principle of social capital was mutual trust, for example, in rural communities, in the forming of farmers' cooperatives, the development of brands and stories around the business and the products it sells and the storytelling around provenance and cultural heritage. These all rely on trust networks.

Social capital can build intangible assets on the first balance sheet such as business goodwill or brand value which for many businesses contributes to the calculation of their net worth. Goodwill such as customer loyalty and trust, employee loyalty and their willingness to support and drive the business forward are all intangible assets underpinned by social capital. More widely, understanding how natural capital, human capital and social capital inform the internal and external value proposition of the business, now and in the future, and how the capital mix makes the business a more investible product for family, staff and their external business network is essential in a more growth-orientated and opportunity-driven marketplace.

The themes in this section of the report are now drawn together to consider portfolio asset management. The eight steps for developing a portfolio asset management approach (Figure 9) are in two stages: the groundwork stage and the deployment stage and are described here:

### Groundwork stage

1. Determine the mission and objectives of the business,
2. Scope out the enterprise mix and non-farming activities done/that could be done,
3. Undertake asset allocation for the new strategic plan,
4. Risk identification, assessment and management strategy,
5. Develop an asset management and investment strategy,

### Deployment stage

6. Operationalisation of the plan,
7. Performance monitoring, and
8. Rebalancing of portfolio of assets.

The two stages and the steps within them are now presented in turn demonstrating an earlier comment reflected on in the report that “change is not an event, it is a process.”

### **1. Determine the mission and objectives of the business.**

This means defining the purpose, internal and external value proposition of the business and being mission-led (see Section 5). Appendix 1 includes the types of questions that could be asked within the business at this stage and also the Business and Personal Development Tool.

### **2. Scope out the enterprise mix and non-farming activities done/that could be done.**

This involves considering what is done now and the opportunities for growth/change depending on the centre of gravity of the business now and in the future, e.g., farming the land, leveraging the land or stewarding the land (see Table 8). Social identity and self-identity will influence the breadth and depth of thinking. Grasping opportunities requires the individuals involved to be open to opportunity, assessing their risk appetite and being adaptive.

### **3. Undertake asset allocation for the new strategic plan.**

In developing the plan, a series of questions could be asked depending on context (see Appendix 1 and the Business and Personal Development Tool). What is the strategic plan for the business? What is the plan for where the business will be in five years, 10 years, 20 years? How are the assets (financial, physical, natural, human and social) allocated for the new strategic plan? How financially resilient is the plan? What skills and capabilities will be required and are they currently available? Will the skills and capabilities required be situated internal or external to the business? What will the business need to stop doing with its assets to take advantage of opportunities? Which assets do not align with the new strategic plan and could be liquidated or otherwise utilised? A discussion with a financial institution highlighted the need for strategic planning of this kind to ground-truth the business and demonstrate that it is an investible product for personal or external investment with a need to ask the farmer questions such as

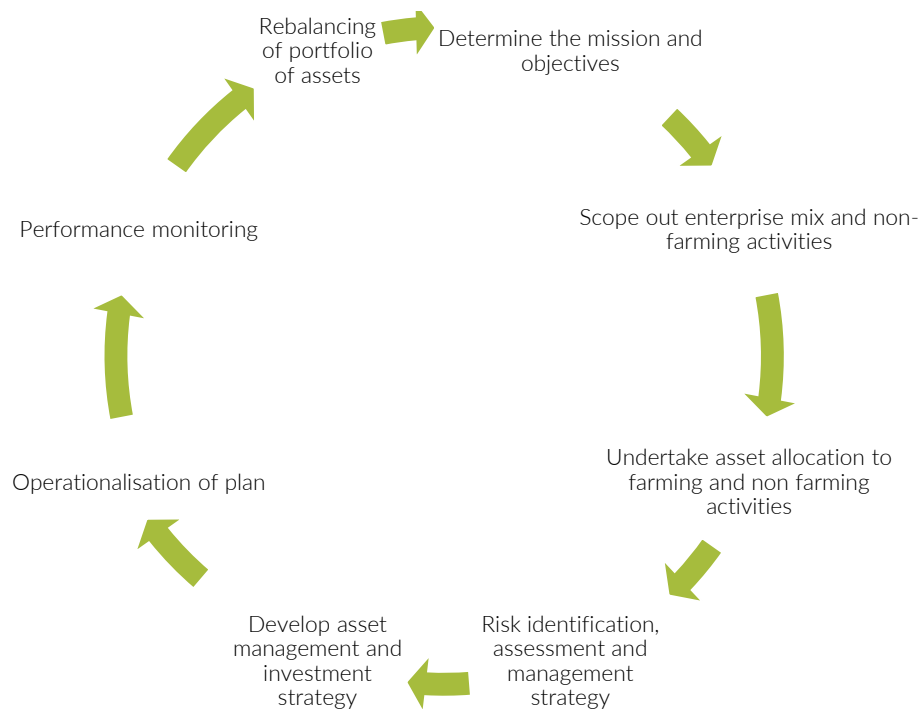
*“...when we go onto farms one of the standard questions our relationship managers ask is what is your 10 Year plan? or what's your plan for the farm? If you talk to a 60-year-old, farmer, the answer would [typically] be, I want to leave the farm in a better condition than I inherited it to pass on to the next generation which is spectacularly unimaginative..... And if they say I want to leave the farm in a better place. Well, so how big is it going to be? And what's the soil going to look like and how much debt are you going to have? How many acres? What are the enterprises on the farm? Who's going to be running it? How many holidays a year are you going to go on? So, when you're going to hand it over to the kids? Is it going to be a big corporate farm, are you going to process and pack yourself? etc, etc. to get them thinking.”*  
Nick Evans, Managing Director and Co-Founder of Oxbury Bank Plc

### **4. Risk identification, assessment and management strategy.**

Risk was a common theme that arose in the discussions especially when considering farming without direct government funding. As one person said:

*“I think one of the skills that's most necessary once you move out of a sort of a protected environment, is risk management. And I was involved in a study done by XXX a few years ago where they looked at risk management in five or six different countries... What was the context, what was the policy? What risk did farmers actually manage themselves? What was managed for them through protection... in America, the cropping farmers are provided insurance for their crops, both price and yield. The premium is paid by the government. So, if you're growing a crop and you know you're going to get paid, so irrespective of what happens to price you have a totally different perspective around risk.*

*So, if you are a risk taker, you might then push the boundaries in terms of what you grow and how much of it you grow, because you know you're going to get revenue at the end."* Nicola Shadbolt



**Figure 9. Stages of portfolio asset management**

At the business scale, having a clear, communicable risk identification, assessment and management strategy underpins whether the business and the people who operate it are an investible product. Risk management can be underpinned by both internal and external risk management interventions. All businesses within the UK agri-food supply chain, UK agriculture plc and the businesses that supply financial products and credit facilities to the agri-food sector need to be assured from a financial perspective of their level of creditworthiness (see Section 7). One element of creditworthiness is the risk level associated with the supply arrangements and the financial/investment arrangements of the business. In portfolio asset management, risk assessors, risk managers and the wider management team need to recognise the types of risk that are important to the organisation and assess their potential impact on the business pre and post controls being put in place. Confidence influences risk appetite, confidence in the economy, the policies being implemented by government and confidence in the market as well as confidence in the viability of the current and proposed business model. Many types of risk were identified in the discussions that need to be considered by farming and wider agri-food organisations (Figure 10). These were:

- General operating risk (internal business risk, supplier-customer supply risk, financial risk, risk from business as usual),
- External risk with political/policy change/trade agreements e.g. business and personal tax changes, conflict, trade, weather and climate risk etc.
- Transition risk when changing the farm enterprise/asset use portfolio or entering into new markets e.g. carbon market/natural capital related risk in emergent markets,
- Upside risk – the potential for the investment/action to turn out better than expected, and
- Downside risk - the potential for the investment/action to turn out worse than expected.



Figure 10. Risk mindset, risk identification, assessment and management and types of risk requiring mitigation and adaption

The types of risk-associated questions the risk team within the organisation may need to ask are:

- What could go wrong, how likely is it things could go wrong and what would be the impact if they did go wrong?
- What is the expected financial return compared to the downside financial risk?
- In these risk scenarios, is there sufficient liquidity and cash flow to meet the business obligations?
- What are the business risks associated with legal and market compliance and our reputation?

One discussant said:

*"I think in the long run our risk models will not just consider financial risk. They'll consider transition risk and climate risk and, therefore, farms that are either farming more sustainably, or heading in that direction will get cheaper finance than those that have not moved at all."* Martin Hanson

The role of the government in addressing food-related and environmental risk, such as flooding risk, was also discussed and the need to get private finance into land management to mitigate or eliminate the risk. However, the government, they argued, had the most interest of any stakeholder in the suite of services a farm could offer. The KAAS approach of banks to provide alternative services to their clients (farmers) was also discussed with the ultimate benefit to the lender that the banks, and as a consequence the farmers they finance, can better assess the risk associated with their debt book:

*"And so, there is a risk to the bank that when climate change starts to bite and there is an impact on the land and the viability of the land so then our security values have changed. And also, it impacts on the ability of a farm to commercially be successful and so it's a very real risk for us.... [so, the bank has undertaken a modelling study of its UK*



*debt book and the risks associated with climate change] ... But the real benefit for me is to be able to take that data to the farmer and say, I know it's a model, but this is what the model is suggesting and how do we begin to plan for climate change and mitigate and look for alternative uses of some of this land. If this is the way it's going, think about your cropping in the future, [and] what that might look like as climate change starts to impact. So, it's being paid for in a very protective sense by the bank, but the big benefit for me is about helping clients and looking forward to what risks could arise in the future.” Martin Hanson*

Formalising risk identification, assessment and management is a crucial aspect of portfolio asset management especially farming in locations at risk from climate change or with enterprises with a high vulnerability to the impact of drought or rising temperatures. These quotes above highlight how the risk assessment approach then leads into the development of an asset management and investment strategy for the business.

## **5. Develop an asset management and investment strategy**

*“There's a few [farming businesses] that know how to do it. They are the ones who are investing in other bits of their business, in their property portfolios, their energy portfolios, or they're doing higher value types of enterprises and doing them incredibly well. But most farms are nowhere near that.” Martin Collison.*

An asset management and investment strategy is a structured strategic plan that guides how the business manages, acquires and grows assets and where necessary disposes of assets, in order to achieve specific business objectives. The strategy combines aspects of asset management (maintaining and optimising the asset base) and an investment strategy (where resources are allocated to specific tasks, activities or enterprises with the aim of achieving the intended returns and managing risk). The financial performance metrics outlined in this report have included profitability, liquidity and ROCE but other non-financial objectives may drive the asset management and investment strategy for the farming entity. These include: to preserve the capital, generate a specific level of income, support a personal objective, or to fund family or management succession. The asset management and investment plan for each farming entity will be context specific and be driven by the business opportunities available, the skills and capabilities that can be deployed, the assets available to be allocated, who owns them and how willing/or not they are for them to be deployed in certain ways or redeployed and the collective risk appetite in the business. The types of questions the business will need to ask as it develops this strategy are collated in Table 10, the Business and Personal Development Plan and Appendix 1.

- Does the current allocation profile of assets align with the mission, business and personal goals?
- If government policy, market requirements or the business or personal objectives shift, how resilient is the business strategy and the asset management plan in terms of allocation of resources and assets?
- How sensitive is the asset management plan to shifts in interest rates, inflation or currency rates?
- How exposed is the allocation of assets to economic cycles, disease risks, or sector downturns?
- Are there geopolitical, environmental or regulatory shocks which could impact the value of assets?
- Are the assets vulnerable to disruptive trends in the future (artificial intelligence, climate change, new technologies, new working patterns or social norms) that could erode expected economic, environmental or social returns?
- Which assets do not align with the new strategic plan and could be liquidated or otherwise utilised?
- Are there concentration risks (reliance on a single asset, asset type, individual, enterprise, activity or location) in the planned asset management and investment plan?
- How liquid are the assets? Which assets are illiquid and would be difficult to be converted into cash? What are the costs of mobilising assets to turn into cash?
- What is the condition, useful life and cost/maintenance profile for physical assets?
- What are the risks for physical assets associated with replacement timeframes or obsolescence (e.g. technology upgrades and replacement or regulatory or market changes)?
- What are the risks associated with supply chain partners with a certain allocation of resources (e.g. suppliers, customers, tenants, contractors, service and technology suppliers)?
- Is there an overreliance in the asset allocation on a particular supply chain partner or customer?
- How correlated are the enterprises and activities in terms of peaks and troughs of income or risk profile? Could all activities be impacted with a shock at the same time?
- What will the business need to stop doing with its assets?
- What is the worst loss case of the portfolio asset allocation that is proposed? Is this acceptable in terms of business or personal risk appetite?
- What contingency measures and business continuity plans need to be implemented to reduce risk?
- What monitoring and governance processes have been adopted to maximise return and reduce risk?

**Table 10. Strategic business questions that underpin an asset management and investment strategy**

These questions go to the heart of the purpose (personal and business goals) and the internal value proposition of the business and the assets to the individuals developing the strategy. The conversations that arise can be difficult, often conflicting and leading/facilitating these conversations requires a clear focus on the end-point which is producing an opportunity-driven, viable and robust business. As has been stated many times in this report, change is not a one-off event, it is a continuous process. Change is not optional, but thriving is. Being opportunity-driven and having a growth mindset is a competitive advantage in a policy landscape, natural environment and marketplace which is dynamic, complex and evolving fast.

## **6. Operationalisation of the plan**

The operationalisation of the asset management and investment plan requires the adoption of the strategy in terms of defining responsibilities and actions for the delivery of measurable outcomes and the mechanisms for implementing, monitoring and updating the plan. The timeframe for operationalisation will vary from business to business, but in areas of the UK where farming businesses have been delinked from direct payments and public payments for public goods and/or where capital and productivity grants are subject to strong competition for the

funding available, the businesses that have a clear asset assessment, allocation and investment plan, and a strong business and business continuity plan will be better positioned to take advantage of opportunities that arise.

## 7. Performance monitoring

Performance monitoring requires organisations to clearly define and articulate where they are now and where they wish to be (purpose, mission, objectives). Monitoring performance will demonstrate whether the internal and external value proposition has been delivered and whether the business continues to be an investible product now and in the future. Data is key to demonstrating strategic and operational performance and appropriate use of data can drive delivery, efficiency and also improve ROCE. However, it is important that the data can be trusted because it is accurate, can provide actionable insights to drive strategic and operational delivery and, where possible, is just collected once; a critical theme of more than one discussion (see Figure 11).



Figure 11. Just ask once – the role of data in demonstrating performance and return

From an asset management perspective, key performance metrics include ROCE, volatility in returns by asset type and by enterprise, concentration ratio (which assets are giving the highest proportion of returns and the associated risk) and utilisation rate of assets. Other metrics can support real time risk monitoring, support decisions on operational performance and drive management decision-making. The role of data in assessing and managing risk was raised in another discussion:

*“Many of the bigger, better farmers have an instant handle on all their key metrics and actually understand it and because they do, they're getting bigger. They know where they can take a risk and the nature of the risks. And therefore, when we talk about consolidation of farming, which as you know is accelerating, naturally those people have a better handle on their figures. So, if a farmer comes to us and says, I'm looking to borrow 5 million pounds to buy the farm next door, the key assessment is affordability. So, we ask them, can you afford it and can you prove it? Obviously, a lot nicer*



*than that. And if they can't provide us any numbers, then they're not going to get the deal. But if someone comes to us and says I need £5 million and here's my five-year forecast, this is what I'm going to do. And here's the numbers, here's why, then we are off."* Nick Evans.

As another discussant stated:

*"Once you start to measure profit and loss, especially in real time, you can then start to make marginal decisions which mean, no, I won't put another fungicide on because I decided this year it's too much of a risk. I won't get my money back but also, once you're profitable, you'll start to look at the bits of your land which are really productive and you will farm those and you'll leave the rest to the birds because someone will pay for the birds as well."* Jim Williams

Questions that the business can ask in this process include:

- Are asset portfolio returns meeting expectations for the level of risk that is acceptable?
- Is the volatility in economic returns acceptable?
- Is the business overexposed to certain risks or uncertainty?
- Is there sufficient liquidity?
- What rebalancing of the portfolio is needed? (see Appendix 1)

## **8. Rebalancing of portfolio of assets**

The questions within step seven, indeed those questions more widely focused in Appendix 1 and the Business and Personal Development Plan, will inform the process of rebalancing of the portfolio of assets. The review process can be undertaken by an internal team within the business or, if the skills and capabilities sit outside the business, with a wider team. Opportunity-driven businesses embed rebalancing activities within their processes being ready to respond, revise and drive agile business management.

### **Portfolio asset management summary**

The start of this section focused on the financial and physical resource aspects of a business and the first balance sheet to determine the net worth of the business and ROCE. However, there are five capitals to consider within the portfolio asset management model and natural, human and social capital are also assets of significance, and increasingly so. An opportunity-driven future for UK agriculture depends on improving ROCE, profitability and the risk-reward profile of allocating assets to specific economic activities. The data on farm diversification shows many farming businesses are already well on the journey of rebalancing their portfolio of assets to provide the appropriate level of return to meet the economic, environmental and social goals of the business.

Opportunity-driven family farms, family businesses and family offices as well as corporate businesses need to have an active and agile portfolio asset management and investment plan in place if they are going to operationalise their internal and external value proposition and demonstrate they are an investible product for family, staff, suppliers and customers, government, lenders and investors. The next section focuses specifically on the farm/farmer as an investible product.