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## INVESTMENT NOTE

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### Hermes Sourcecap hopes to reap Syngenta seeds of change

*Hermes Sourcecap European Alpha Co Manager, Martin Todd, explains why the Swiss global agribusiness looks set to turn the corner:*

Syngenta exemplifies the sort of globally dominant company Sourcecap seeks out, where long-term positive transformations have been drowned out by shorter-term effects. We have held the stock since inception.

We see Syngenta as a high-quality growth stock, supported by major global developments. Some 80% of its revenue comes from crop protection and the rest from seed development. It's not selling seeds in the way your local garden centre does: it's basically a biotech company in an oligopolistic market.

The company is a long-term Sourcecap holding. It delivered good returns from July 2011 until the end of the following year, but had a disappointing 2013, into 2014. However, we have great belief in our investment thesis, and have used price weakness to top up our holding to become our largest active position.

**An ill wind:** Syngenta has been hit by a series of blows: both internal, in the form of delayed product launches; and external, in terms of adverse weather. In the latter case, a 2012 drought in North America meant seeds needed to be transported from South America northward. This increase in costs was followed by a bumper harvest in 2013, which saw seed prices plummet, with corn falling 28%. However, the price is back up 12% year to date, and this recovery could well continue, with prices still well off their 2011-13 levels. This will in turn positively impact Syngenta's share price, on the rise since February.

**Pipeline:** Our investment case is premised more on internal factors rather than the vicissitudes of the weather, however. While delays in new product launches for instance, soybean fungicide Elatus by a year it has a very strong pipeline, which we believe the market is undervaluing. This includes integrated rice-growing system Tegra and the recently-launched sugar cane offering Plene, which could transform cane farming, the techniques of which have stayed pretty much the same for two centuries. The two products have estimated peak sales of more than \$1bn, a quarter of the value of the company's total pipeline. Investing about 10% of sales in R&D - higher than its competitors - we believe that Syngenta's market position is set to strengthen.

**Green shoots:** The wind already seems to be changing for the company. It claimed a 3% price increase during the latest reporting season, something few can boast. Underpinning its strong pipeline is an increasing world population that, in turn, is demanding a greater quantity - and often quality - of food. Companies such as Syngenta that have the technology and market scope to respond are not thick on the ground.

**-ENDS-**

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**Notes to Editors:**

## Hermes Fund Managers

Hermes is focused on delivering superior, sustainable, risk adjusted returns for our clients – responsibly.

We believe in **Excellence, Responsibility** and **Innovation**

- **Excellence:** We aspire to excellence in everything we do. This manifests itself most visibly in our investment performance. We will only offer products to our clients where we believe there is a strong investment thesis and where we can deliver sustainable alpha.
- **Responsibility:** We believe it is our responsibility to lead discussion and debate about the fiduciary responsibilities of fund managers to our clients, their stakeholders and, ultimately, society at large. We have always sought positive engagement with the firms in which we invest.
- **Innovation:** We have the entrepreneurial culture to identify forward-looking products that meet those needs, along with the resources and speed-to-market mentality to develop them rapidly.

Our structure provides wholesale, institutional and pension fund clients globally the benefit of access to a broad range of specialist, high conviction investment teams operating within an established and robust operating platform.

Hermes' investment solutions include:

- **Fixed Income:** Inflation-Linked, Government Bonds, Investment Grade, High Yield
- **Alternatives:** Commodities, Hedge Fund Solutions, Infrastructure, Private Equity
- **Equities:** Global, Emerging Markets, Small & Mid Cap, Europe, Asia Ex Japan
- **Real Estate:** Segregated, Unitised, Debt, UK, US Residential, European

Hermes manages assets on behalf of more than 200 clients\* across these investment areas with £26.9 billion\* assets under management. In Hermes Equity Ownership Services, we have one of the largest engagement resources in the industry, advising on more than £103 billion\* of assets.

\*Please note the total AuM figure includes £3.5bn of assets managed or under an advisory agreement by Hermes GPE LLP ("HGPE"), a joint venture between Hermes Fund Managers ("HFM") and GPE Partner Limited. HGPE is an independent entity and not part of the Hermes group. £0.5bn of total group AuM figure represents HFM mandates under advice. Source: Hermes as at 31 March 2014.