

# Portfolio News

## Response to inflation pressures

### Kempen SDG Farmland Fund

The shift away from decades of low-inflation and a highly globalised economy represents a structural change in the macro-economic environment.

#### Key features of the current environment include:

- Persistently higher inflation relative to historical norms
- Increased geopolitical and policy uncertainty
- Greater emphasis on strategic autonomy in areas such as energy, food and critical inputs
- A larger role for governments in economic outcomes

These dynamics have been reinforced by recent developments in the Middle East. While a temporary ceasefire has been announced, the implications of higher and longer-lasting inflation remain a relevant consideration for investing in farmland.

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### Inflation and farmland investments

Inflation affects farmland investments through multiple channels and over different time horizons. In the short term, higher costs for energy, labour and inputs can put pressure on farm level margins. Over time, however, farmland's role as a productive and scarce real asset means that land values, crop economics and income streams tend to adjust, albeit unevenly across regions, crops and operating models.

### Fund positioning

The SDG Farmland Fund is constructed to navigate across a range of inflation environments. Diversification by crop type, geography and cropping system, combined with active management at asset level is intended to reduce reliance on any single inflation outcome.

Internal scenario analysis, including escalation and stagflation scenarios, indicates that while near term impacts can be challenging, the medium to long term characteristics of high-quality farmland remain intact. Over time, portfolio outcomes are increasingly driven by asset scarcity, rising replacement costs and operational resilience rather than growth assumptions.

### How inflation affects farmland

#### Short term (1-3 years)

Cost pressures tend to be felt first. Energy, fertiliser and labour typically adjust faster than crop prices or lease income, which can temporarily compress margins, particularly in annual cropping systems and fixed rent lease structures.

### Medium term (3–7 years)

Pricing mechanisms adjust. Crop prices, land rents and asset values increasingly reflect higher replacement costs and production economics. The linkage to inflation becomes more visible but remains differentiated by region and crop.

### Long term (7+ years)

Farmland behaves primarily as a real asset. Productive land remains scarce, capital invested in the land compounds, and asset values increasingly incorporate cumulative inflation and improvements made to soil, water infrastructure and perennial plantings.

## Differences by crop type

### Annual / row crops

(e.g. corn, grains, oilseeds in North America)

- Highly exposed to short term input cost inflation
- Crop pricing is global and competitive, which can create timing lags between cost increases and revenues
- Inflation protection is present, but more cyclical and volatile

In regions such as the US Midwest and Canada, where row crops are closely linked to both food and fuel markets, inflation driven by higher energy prices can initially reduce margins before improving crop prices over time.

### Permanent crops

(e.g. olives, citrus, nuts)

- Higher upfront capital requirements and long development periods create natural barriers to entry
- Pricing tends to be driven more by supply demand fundamentals and consumer markets than short term commodity cycles
- Asset values reflect both land scarcity and the embedded value of the plantings

Permanent crops typically show slower cost pass through in the short term, but more structural pricing resilience over longer horizons, particularly in water constrained regions.

## Geographic differences

*Inflation effects vary materially by region.*

### North America (US & Canada)

- Strong exposure to energy and fertiliser cost inflation in the short term
- Greater self-sufficiency in energy and nitrogen fertilizer supply, which may reduce sensitivity to disruption in the Middle East
- Large, competitive commodity markets can delay full price adjustment

### Southern Europe

(e.g. Portugal, Spain, Italy)

- Permanent crops such as olives and citrus are more exposed to labour and energy costs initially
- Domestic and regional food markets often allow for more gradual price adjustment
- Water availability and climate-adaptation investments increasingly influence asset values

### Australia and New Zealand

- Export-oriented permanent crops (e.g. macadamias) are influenced by global demand and currency movements
- High upfront investment requirements mean that rising replacement costs are an important support for asset values over time
- Operating costs can be volatile, but long term asset scarcity, including proximity to a growing middle-class population in South East Asia, acts as an offset

Geographic diversification reduces reliance on any single inflation regime and allows different regions to contribute at different stages of the cycle.

## Differences by cropping system

### Leased farmland (buy and lease)

- Provides relatively stable income
- Inflation linkage typically occurs through indexation clauses or lease resets
- In higher inflation environments, rental income can lag initially before adjusting

### Own and operate

- Greater exposure to both cost and price dynamics
- Allows more active responses through input substitution, crop mix adjustments and timing of capital expenditure
- Inflation effects tend to appear earlier in farm level performance, both positive and negative
- More flexibility to use hedging techniques where appropriate

Importantly, each system behaves differently across the cycle and fulfils different roles in the portfolio.

## Impact on return strategy

Our fundamental beliefs and long-term outlook are not affected by the different inflation scenarios. These remain:

- A globally diversified portfolio across regions and crop types

- A focus on regenerative farming principles, supported by a clear sustainability plan for each farm
- Paying dividends to investors alongside benefitting from rising land values

Our decision to gradually increase exposure to permanent crops and selected value-add investments is rooted in a long-term objective to broaden the fund's return drivers by investing in high-conviction agri-food platforms.

We recognise that, in a severe stagflation scenario, the near-term contribution from this part of the portfolio may be tested, particularly where development exposure is involved. In such environments, portfolio outcomes are driven less by growth assumptions and more by asset scarcity, rising replacement costs and the ability to operate resiliently.

## Short term actions in response to current conditions in the Middle East

In the current environment, the focus is on near term resilience. Actions include:

- Tightening cost control and monitoring at farm level, particularly energy, fertiliser and labour inputs
- Reviewing the timing and phasing of discretionary capital expenditure

- Stress testing operating budgets under higher for longer inflation assumptions
- Engaging with tenants and operators on cost sharing, indexation and operational efficiency
- Maintaining discipline in acquisition pricing, with explicit downside scenarios

These actions are intended to protect downside resilience while preserving long term value creation.

## Implications for the SDG Farmland Fund

Inflation affects farmland unevenly, with differences by region, crop type and operating model, and with impacts emerging on different timelines. Some effects are seen more quickly, while others take longer to feed through pricing, rents and land values.

The SDG Farmland Fund is managed with these inflation dynamics in mind. Inflation conditions are actively managed at asset level, within a diversified portfolio, allowing different parts of the portfolio to respond differently as conditions change. This reflects a familiar operating environment rather than a change in approach, and is consistent with farmland's behaviour as a real asset over longer horizons, where outcomes are shaped by asset quality, operating decisions and underlying land fundamentals.

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### Farmland / permanent crop strategy-specific risks

Investing in farmland and permanent crop strategies involves exposure to illiquid assets, assets that may be difficult to value, and assets subject to agricultural, operational, market and climate related risks. Returns may be affected by weather events, crop yields, commodity markets, biological risks, input cost volatility, interest rate movements, regulatory developments, and sustainability related factors. Under unusual market conditions these risks can increase significantly, which

may limit the ability of the investor or the fund to sell assets at preferred times or valuations. The ability of the fund to respond to market movements may be impaired, and adverse price movements may occur when assets are sold.

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