Raiffeisen Capital Management

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Policy **food speculation**

Company-wide exclusion of speculation on food and agricultural commodities

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Raiffeisen Capital Management stands for Raiffeisen Kapitalanlage GmbH, or short Raiffeisen KAG.

1 | Aim of this policy

Food speculation is subject to a company-wide exclusion
at Raiffeisen KAG.

Raiffeisen Kapitalanlage-Gesellschaft m.b.H. (abbreviated as Raiffeisen KAG in the following) takes a clear position on the issue of food speculation – speculation on food and agricultural commodities: Investments in such derivative instruments are excluded from all portfolios managed by the company. Raiffeisen KAG's policy on the issue of food speculation applies to all investable derivatives related to the food segments indicated below.

2 | Scope

This policy applies to the entire range of Raiffeisen KAG's mutual funds. In the management of special funds, any agreements concluded with the investor are taken into account.

In the case of an outsourcing of fund management, this rule may be waived.

In individual cases, Raiffeisen KAG also offers individual asset management for institutional clients. In this case, any agreements concluded with the client are taken into account.

3 | Futures & food speculation at a glance

When considering futures and other derivatives in the course of a sustainability analysis, the underlying asset – the financial asset upon which the derivative's price is based such as equities, bonds, currencies, or commodities – must be scrutinised, and at the same time, the medium "derivative" itself has to be examined. Derivative instruments are "derived" from other asset classes – you buy the futures contract on wheat instead of the wheat itself. The trading of derivative instruments can accelerate the price movements of the underlying listing – for instance, wheat in this example. At the same time, futures are often used to hedge portfolios, as well.

For example, goods or financial instruments are bought or sold according to defined conditions at a later point in time by way of so-called futures contracts. On one hand, they serve to increase the liquidity – i.e. the traded volume – in markets and improve the tradability of the underlying. On the other hand, futures transactions can influence the price fluctuations on the markets and have a price-driving effect – in both directions. Unless they are used as hedging instruments, the investment horizon for futures contracts is short.

In general, the trading of futures contracts increases the number of market participants and the traded volumes. Market participants who follow the market trend in their investment increase the price fluctuations for the given instrument through futures transactions. However, a higher number of market participants should generally reduce price movements.

This policy applies to futures contracts relating to the issues of food and agricultural raw materials. Agricultural raw materials are raw materials that can be found in nature as unprocessed agricultural products, including grain, milk, stimulants, root crops, fruit, and oil crops. Agricultural products are agricultural raw materials that have already been processed, such as roasted coffee.

Key types of futures and their relevance for this policy:

Currencies	not relevant
Energies	not relevant
Financials	not relevant
Grains	relevant
Indices	not relevant
Livestock	relevant
Metals	not relevant
"softs"[1] (agriculture)	relevant
Bitcoin	not relevant

Source: https://www.barchart.com/futures/major-commodities
1 | These are so-called soft commodities such as sugar, coffee, and cocoa.

4 | Academic studies

There are no clear answers regarding whether or not futures investors contribute to the distortions that are frequently observed in food prices. Academic studies arrive at different results. Early works such as those by Keynes (1930) and Friedman (1953) suggested merely a stabilising influence on the part of the futures markets. However, later academic papers such as that published by Gilbert (2010) also show that it is possible that they facilitate the formation of bubbles in connection with pricing.

On the whole, academic studies suggest that the erratic movements seen in individual prices for basic foodstuffs in recent decades – for example, in 2007/08, 2010/11, and 2012 – have been caused by a variety of reasons and can be attributed in part to speculation, but also to real economic factors, quantity effects such as harvest yields, and strong population growth.

In general, speculation – by way of derivative instruments – never happens in just one direction. This means that, if speculation were a market-driving factor, it could influence prices both positively and negatively.

One crucial question in the academic discourse is the connection between markets on which contracts for the purchase or sale of raw materials or agricultural products at a future time are traded (so-called forward markets) and markets on which these goods themselves are bought and sold (so-called spot markets). For reasons of simplicity, some studies are limited to the investigation of the forward markets. In order to assess the impact of food speculation on the food situation for the impoverished segment of the global population, however, the spot market and the actual trading of agricultural products that occurs on it are decisive. For scientists, there is no doubt that price developments on both markets are highly correlated with one another – in other words, they move in tandem to a high degree. It seems obvious that price stimuli are transferred from the forward market to the spot market via the exploitation of price differences (so-called arbitrage) and information transmission, but some researchers also believe there is a reciprocal influence.

5 | Criticism of food speculation

The analysis of the markets and the formation of prices for foodstuffs as well as the associated raw materials does not yield a clear picture from an academic perspective, either.

As described above, speculation on the forward markets is never one-dimensional. Assuming that the speculation on the forward markets has an impact on the spot markets – and only in this case would the prices for the day-to-day purchase of food be affected – this would sometimes lead to higher prices and sometimes to lower ones, depending on the market situation. Due to the high share of daily expenses for food among the impoverished segment of the global population, however, this insight is insignificant. Price overheating can lead to individual problems in the financing of food in the short term.

In conjunction with this uncertainty, food speculation must be rejected from a sustainability perspective in case of doubt due to the tremendous significance for the basis of life of a high number of people.

6 | Conclusion

> For Raiffeisen KAG, there are social reasons related to the issue of food speculation that argue against investments in agricultural futures.

Raiffeisen KAG is committed to the exclusion of agricultural futures, as in the segments of grains, livestock, and soft commodities – the latter category includes commodities such as sugar, coffee, and cocoa. These derivative instruments are excluded from all of the portfolios managed by the company.

With this policy, Raiffeisen KAG is acting in harmony with a high number of asset managers with an ESG orientation at the European level, as well as internationally.

Our assessments in relation to this issue will be monitored on an ongoing basis and updated or adapted as necessary.

www.rcm.at/sustainability

Raiffeisen Capital Management is the umbrella brand name for the following companies:

Raiffeisen Kapitalanlage-Gesellschaft m.b.H.
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