Spring 2023

OWNER TO OWNER

Brown Brothers Harriman

Owning the Supply Chain to Deliver the Highest-Quality Products

A Conversation with Dan Phipps, CEO of Red River Foods

RED RIVER FOODS INC.

OWNER TO OWNER

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Dear clients and friends,

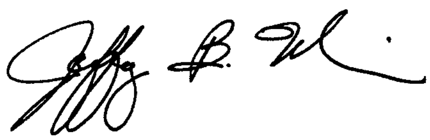
We hope 2023 is off to a solid start for you and that you are feeling invigorated for what the year has in store. In Brown Brothers Harriman's (BBH's) Private Banking group, we remain committed to helping our clients achieve their definition of success for their families, wealth, and businesses, no matter their goals. We are excited to continue serving you this year and thank you for your continued partnership.

The feature article of this issue is with Red River Foods, a leading global supplier of nuts, seeds, dried fruit, and specialty snacks. Since the beginning, the business has been on a mission to source the highest-quality foods, provide expert market insights, and develop sustainable supply chains around the world. With more than 500 employees worldwide and over 60 products sourced from 30-plus countries, the multigenerational family business remains laser-focused on being involved in every aspect of the global supply chain in order to deliver an ethically sourced, sustainable product to end consumers. We recently met with CEO Dan Phipps at Red River's new warehouse and processing plant in Richmond, Virginia. Phipps took over the business from his father and has continued to drive the company to deliver on its mission while expanding its involvement in the global supply chain. During our conversation, we spoke about how the company has approached global expansion, what it takes to ensure the highest-quality products, and where Phipps feels the most excitement in the food industry.

Turning to the other pages in this issue, we also have a discussion with Adriano Barilla of Barilla Pasta and Brandon Farmer of CSC Sugar, which looks at the process of joining (or not joining) the family business through the lens of the next generation. In another article, Senior Wealth Planner Ross Bruch shares insights gleaned from research on how money – and in particular, wealth – might influence happiness. In our Next Gen Spotlight series, we sit down with Christina Pardy, founder and CEO of Sh*t That I Knit, to talk about turning your side hustle into a full-time job and giving back to others all at the same time. And as always, Michael Conti, Neriah Ray-Saunders, and Christine Hourihan provide an overview of the economy, credit markets, and private equity and mergers and acquisitions markets.

We hope you enjoy this issue. If you have any questions about the topics covered in this edition, my colleagues and I would welcome the conversation.

Sincerely,



Michael Conti, CFA / Investment Research Group
Neriah Ray-Saunders / Corporate Advisory & Banking
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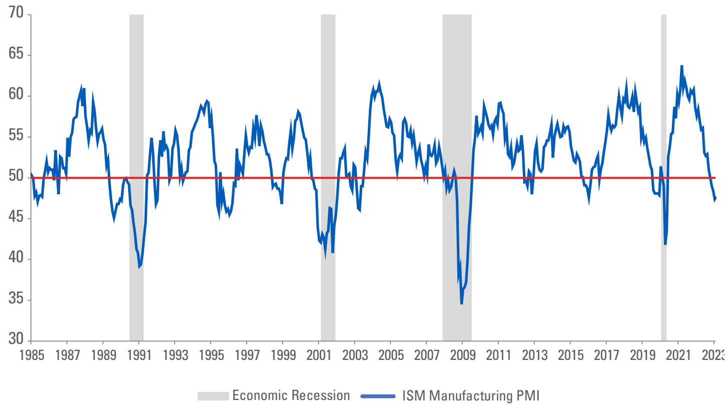
The Business Environment

In each issue of *Owner to Owner*, we review aspects of the business environment on three fronts: the overall economy, the credit markets, and the private equity (PE) and mergers and acquisitions (M&A) markets. The following article addresses economic conditions and factors we are watching as we enter 2023, a shift to a lender-friendly environment in domestic commercial and industrial (C&I) loan lending, and the challenging PE environment.

The Economy

The "second" estimate for U.S. GDP growth in fourth quarter 2022 indicates that the economy expanded at a 2.7% quarter-over-quarter annualized rate, an increase from -1.6% in the first quarter and -0.6% in the second quarter, but down slightly from the 3.2% reported in the third quarter. The headline growth figure of 2.7% is a sharp reversal from the decline during the first half of 2022 as the rate of change in the personal consumption expenditure (PCE) component of GDP – which drives 70% of GDP over the long run – advanced 1.4%, following a 2.3% growth rate in third quarter 2022, driven by consumer spending on services. However, offsetting the advance was housing, which contributes between 15% and 18% to GDP, as it declined 25.9%, its seventh consecutive quarter of declines. Meanwhile, the ISM Manufacturing PMI, one of the better leading growth indicators, stood at 47.7 in February, its fourth monthly reading below 50. As the ISM Manufacturing PMI is a diffusion index, readings below 50 signal contraction and are consistent with weak global growth.

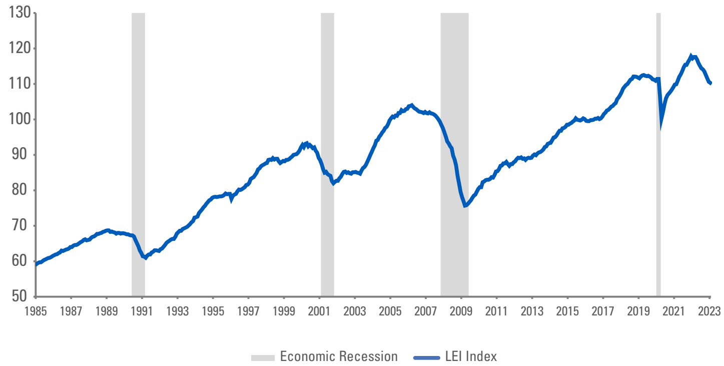
ISM Manufacturing PMI Remains in Contraction Territory



Data as of February 28, 2023.
Source: Bloomberg.
Below red line signals contraction territory.

Switching to forward-looking indicators, we believe that The Conference Board's index of 10 leading economic indicators (LEI) provides the most balanced, forward-looking gauge of economic activity. While many economic indicators display more noise than signal, the LEI has proved to be a valuable forecasting tool over multiple economic cycles. In the prior three recessions (excluding the COVID-19-induced recession in 2020) that began in 1990, 2001, and 2007, the LEI started declining between 12 months and 22 months prior to the start of the recession. As of February 2023, the LEI has declined for 11 consecutive months since peaking in March 2022. Given the narrowing in positive breadth of the LEI's subcomponents, it is possible to see further downside for the index into at least the first half of 2023. Momentum reversals have been swift in the past, but nothing about today's backdrop is suggestive of a near-term trough in leading indicators. There is no guarantee the LEI will prove to be as good a forward-looking indicator this time around, but given its history and the broad base of data it includes, we still believe this index is worth consulting.

The Conference Board – Leading Economic Indicators (LEI)



2016 = 100.
Data as of February 28, 2023.
Source: Bloomberg.

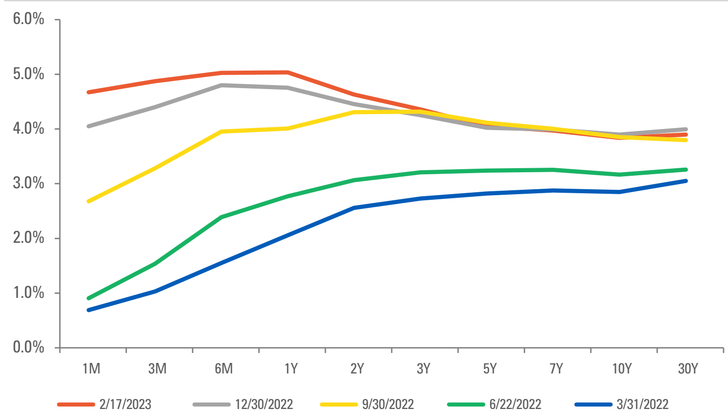
“There is much underway as we progress through 2023 – balance sheet runoff and potential recession, to name just a few – and we will be watching inflation and global growth developments closely.”

Turning to monetary policy, the Federal Reserve raised the fed funds rate by 25 basis points (bps) on March 22, bringing the target range to between 4.75% and 5.0%. As of March 22, market pricing of fed funds futures contracts implies a 49% probability of a 25-bp rate hike at the Fed’s May 2023 meeting, which would bring the target range for the fed funds rate to between 5.0% and 5.25%, its highest since August 2007 and in line with the Fed’s terminal rate forecast of 5.1% (which implies a target range of 5.0% to 5.25%). Given the sharp rise in short-term rates, the Treasury yield curve is extremely inverted; the spread between two- and 10-year Treasury yields stands -51 bps, while the spread between the three-month and 10-year Treasury yields is -131 bps, its most inverted level in 40 years. In large part, the inverted yield curve reflects rising recessionary and global growth risks due to global central banks’ commitment to raise rates to tame inflation and its future impact on consumer spending, along with uncertainty on how the banking turmoil may affect economic activity. However, in the U.S., signs suggest that inflation may have peaked in June 2022, as the headline consumer price index (CPI) has declined for eight consecutive months on a year-over-year basis. Given the lagged economic impact of higher rates and tighter financial conditions, the market is pricing in below-trend U.S. GDP growth of 0.9% in 2023 and 1.2% in 2024. There is much underway as we progress through 2023 – balance sheet runoff and potential recession, to name just a few – and we will be watching inflation and global growth developments closely.

The Credit Market

The Federal Reserve appears to be steadfast in its directive for the near term, with the Federal Open Market Committee (FOMC) continuing to prioritize both maximum employment and a stable long-run inflation rate of 2%. The FOMC has aggressively raised the fed funds rate over the past six consecutive quarters as headline monthly inflation numbers, though somewhat eased, continue to exceed the long-run targets. With the growth of the inflationary trend moderating toward year-end 2022, the FOMC slowed the rate of increase to 50 bps in the fourth quarter, following 75-bp hikes in the second and third quarters. Committee members stress that this is not a sign of a loosening policy and made 75 bps of additional interest rate increases in first quarter 2023. Unemployment rates remain at a 50-year low, at 3.6%, as the U.S. economy improves, and both job gains and consumer spending increased in the first quarter. Though short-run inflation appears to have peaked, it remains above the Federal Reserve’s 2% goal. As such, the FOMC has indicated it will continue to increase the federal funds rate, albeit at a slower pace, to stabilize pricing while remaining highly attentive to pressures caused by Russia’s invasion of Ukraine, recent banking developments, and the delay in which the cumulative tightening of its monetary policy affects the economy.

U.S. Treasury Yields

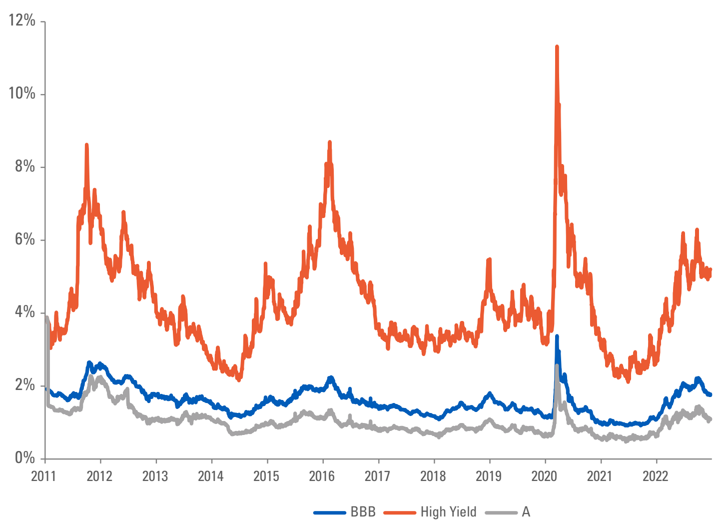


Data as of February 17, 2023.
Source: Bloomberg.

While the FOMC sets short-term risk-free borrowing rates through its federal funds rate, it influences long-term rates through the purchase and sale of Treasury and mortgage bonds. The Federal Reserve began shrinking its holdings of Treasury and mortgage bonds in June 2022 in an effort to cut down its approximately $9 trillion balance sheet and will continue to do so in first quarter 2023 by $95 billion monthly. Similar to increasing short-term borrowing costs with the federal funds rate, these actions have increased long-term risk-free rates, which can curtail inflation. The FOMC will continue to monitor the implications of its decisions and the economy's outlook in assessing its monetary policy going forward, adjusting as appropriate if public health conditions, labor markets, international developments, and inflation expectations pose a risk to the Fed's long-term goals for the U.S. economy.

Corporate spreads provide information on how the market values risk and credit quality through the additional return required for providing capital to incrementally riskier borrowers. As shown in the nearby chart, at the onset of the COVID-19 pandemic in March 2020, spreads for high-yield (CCC-rated and below), BBB, and A bonds peaked at 11%, 3.4%, and 2.6%, respectively, similar to patterns shown during the Great Recession of 2008-09 (albeit high-yield, BBB, and A rates peaked at 20%, 8%, and 6.5%, respectively, in 2008). Given quick and accommodative monetary and fiscal policy responses and a recovering economy, spreads declined throughout 2020 and 2021 and were 2.6%, 1.2%, and 0.8%, respectively, at the start of 2022, relatively close to respective pre-pandemic spreads of 3.3%, 1.2%, and 0.8%. However, during 2022, spreads increased due to geopolitical turmoil, slowing economic growth, and a rising risk of recession, which increases the cost to borrow to purchase risk assets as well as the rate at which future cash flows from risk assets are discounted. Fourth quarter 2022 spreads were 5.1%, 1.9%, and 1.2%, respectively – modestly above pre-pandemic spreads, though substantially below the March 2020 peaks. Despite the increase in 2022, high-yield, BBB, and A-rated bond spreads are near their respective 25-year historical daily averages of approximately 5.5%, 2.0%, and 1.3%.

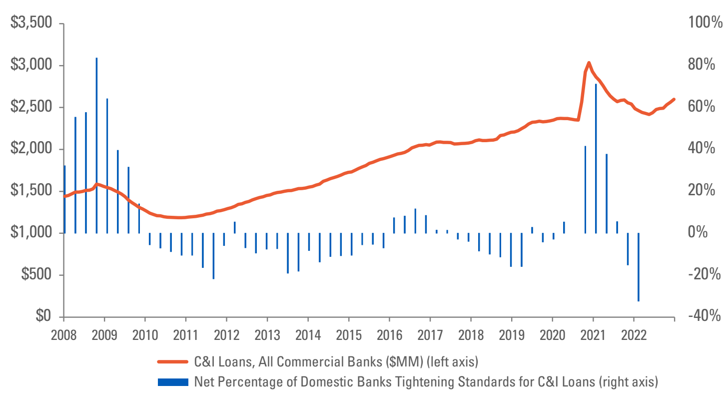
Corporate Spreads by Quality



Data as of February 21, 2023.
Source: Bloomberg.

The nearby graph shows C&I loans outstanding to U.S. companies overlaid by the net percentage of U.S. banks tightening or loosening credit standards for C&I loans to large and middle-market firms. The net percentage data is based on the Fed's quarterly "Senior Loan Officer Opinion Survey on Bank Lending Practices." As of fourth quarter 2022, 44.8% of domestic banks tightened standards vs. 39.1% in third quarter 2022, suggesting domestic C&I lending has transitioned to a lender-friendly environment. Most banks increased the cost of credit lines through widening the spreads of loan rates over the costs of funds to firms of all sizes and increasing premiums for riskier loans, while a significant portion also tightened loan covenants and collateralization requirements for firms of all sizes. A moderate share of banks reported having tightened the maximum size of credit lines to firms of all sizes and tightening of the maximum maturity of loans and credits lines to large and middle-market firms.

Amount of C&I Loans vs. Bank Standards



Data as of January 1, 2023.
Source: Federal Reserve Bank of St. Louis.

A majority of banks that reported tightening standards or terms on C&I loans cited a less favorable or more uncertain economic outlook and reduced tolerance of risk as important reasons for doing so. Banks also mentioned decreased liquidity in the secondary market for C&I loans, less aggressive competition from other banks, and deterioration in their current or expected liquidity position as motivators for tightening lending standards. The survey reported weaker demand for C&I loans from firms of all sizes due to decreased customer need for financing inventory and accounts receivables, investment in property or equipment, and mergers or acquisitions. Despite these trends, the overall amount of C&I loans outstanding continued to grow with the economy.

The Private Equity and Mergers and Acquisitions Markets

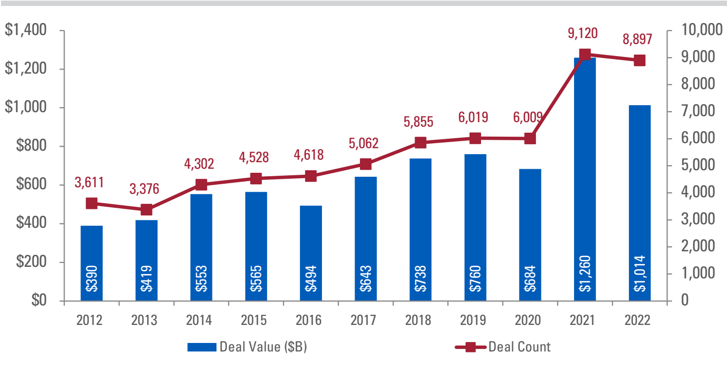
Private equity took a step back in 2022 after a record-breaking 2021. Deal, exit, and fundraising activity were all affected by the confluence of economic headwinds.

After 2021's remarkable deal activity levels, the past 12 months have been more challenging for private equity. Spiraling inflation, supply

chain shocks, conflict overseas, pullback of the debt markets, and fears of a recession have all had an impact on the asset class. While dealmaking slowed, it remained quite strong. Deal value ($1 trillion) and deal count (8,897) were higher than any previous annual amount on record with the exception of 2021. In the fourth quarter, total U.S. PE deal count and value declined by 23.4% and 41.8%, respectively, from the peak recorded one year earlier. Year over year, deal value was down 2.4%, and deal count was down 19.5%.[1]

While still extremely abundant, PE dry powder shrank by 10.9% in 2022, the first down year since 2008. This decrease was a result of the record deployment in 2021. GPs still found themselves looking for more creative ways of deploying capital, such as minority investments, all-equity deals, add-ons, and private placement of debt. These strategies will facilitate capital deployment as PE funds wait for a more general market normalization. Current market disruptions have placed a renewed focus on long-term value creation drivers, such as digital capabilities, talent, and environmental, social, and governance (ESG) factors.[2]

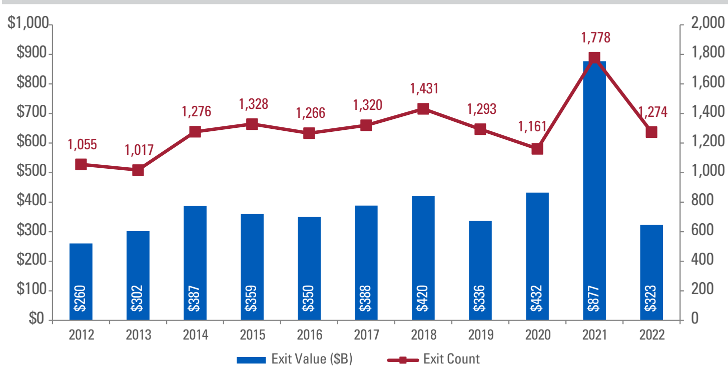
U.S. Private Equity Activity Deal Flow by Year



As of December 31, 2022.
Source: PitchBook.

As with deal activity, U.S. private equity exit activity slowed in 2022 as potential sellers chose to hold portfolio companies for a longer period amid the aforementioned headwinds. While exit activity waned in comparison to the record-breaking levels seen in 2021, exits remained relatively healthy compared with historical standards. In 2022, PE firms exited 1,274 U.S. companies for a cumulative value of $295.8 billion, a year-over-year decline of 28.3% and 66.3%, respectively.[3] Private equity-backed IPOs sharply decreased in 2022 as steep declines in public markets essentially eliminated that exit path for many firms. In addition, secondary sales posted the lowest annual figure for private equity-backed secondary sales since at least 2018.[4]

U.S. Private Equity Exits by Year



As of December 31, 2022.
Source: PitchBook.

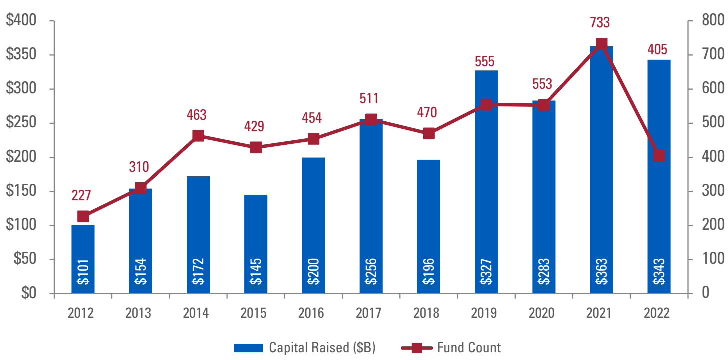
After record levels of fundraising in 2021, private equity firms are tempering their expectations against a more challenging backdrop that arose in 2022. A majority of institutional limited partners (LPs) have allocated all of their capital for the year as of the end of the third quarter. In addition, many LPs are reconsidering their allocations to

[1] *PitchBook.*
[2] *"Private Equity: US Deals 2023 Outlook." PricewaterhouseCoopers*
[3] *PitchBook.*
[4] *S&P Global.*

“Current market disruptions have placed a renewed focus on long-term value creation drivers, such as digital capabilities, talent, and environmental, social, and governance (ESG) factors.”

private markets due to the “denominator effect.” The phenomenon occurs when slow-to-adjust valuations in the private market allocation of an investor’s portfolio are compared against falling returns in the rest of the portfolio, namely from sinking public stocks. What may have been an under-allocation to private equity at the start of the year has turned into an overallocation, with public stocks significantly falling in 2022.[5] However, general partners (GPs) remain fairly optimistic. According to Investec’s 12th annual “GP Trends” report, 20% of GPs expected the size of their next fund to exceed its predecessor by between 50% and 100%, and 46% anticipated their next fund would be between 25% and 50% larger than their current vehicle. The remaining 33% of respondents were preparing for flat fundraises the next time they go to market.

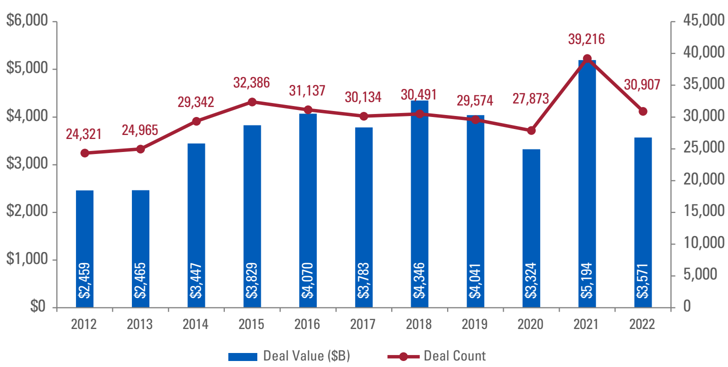
U.S. Private Equity Fundraising by Year



As of December 31, 2022.
Source: PitchBook.

Global M&A activity continued to decline for three consecutive quarters as of third quarter 2022, falling 29.8% in deal value from the peak seen in fourth quarter 2021. However, deal value is on track to surpass the pace of deals set prior to the COVID-19 pandemic. Deal count is a similar story; 10,118 global M&A deals are estimated for the third quarter, which is nearly 33% higher than the quarterly average between 2015 and 2019. However, as announcements are more of a lead indicator, cracks are beginning to show. Compared with the second quarter of the year, third quarter announcements slowed both in terms of deal count and deal value by 7.4% and 26.3%, respectively.[6]

Global M&A Activity



As of September 30, 2022.
Source: PitchBook.

Conclusion

Overall, recent economic data for the U.S. paints a bleak picture. With much underway as we progress through 2023 – balance sheet runoff and potential recession, to name just a few – we are watching inflation and global growth developments closely. In the credit markets, spreads increased in 2022 due to geopolitical turmoil, slowing economic growth, and a rising risk of recession, increasing the cost to borrow to purchase risk assets as well as the rate at which future cash flows from risk assets are discounted. At the same time, the domestic C&I lending space appears to have switched to a lender-friendly environment, with more banks reporting tightening standards than loosening them. And in the PE market, deal, exit, and fundraising activity were all affected by the confluence of economic headwinds in 2022, while global M&A activity also continues to slow.

[5] *PitchBook*
[6] *Ibid.*

Owning the Supply Chain to Deliver the Highest-Quality Products

A Conversation with Dan Phipps, CEO of Red River Foods

Since the beginning, Red River Foods, a leading global supplier of nuts, seeds, dried fruit, and specialty snacks, has been on a mission to source the highest-quality foods, provide expert market insights, and develop sustainable supply chains around the world. With more than 500 employees worldwide and over 60 products sourced from 30-plus countries, the multigenerational family business remains laser-focused on being involved in every aspect of the global supply chain in order to deliver an ethically sourced, sustainable product to end consumers.

We recently met with CEO Dan Phipps at Red River's new warehouse and processing plant in Richmond, Virginia. Phipps took over the business from his father and has continued to drive the company to deliver on its mission while expanding its involvement in the global supply chain. During our conversation, we spoke about how the company has approached global expansion, what it takes to ensure the highest-quality products, and where Phipps feels the most excitement in the food industry.

Tell us about your professional journey – what led you to join Red River Foods?

I went to the University of Richmond for my undergraduate degree and majored in political science, with the intention of going to law school to become a sports agent. However, after graduation, I decided to take some time before going back to school. I had the opportunity to work at Red River Foods for my dad, who was CEO, right after graduating, but I wanted to prove to myself and others that I could make it on my own. I got a sales job at a local web-based startup and worked there for six years until the company was sold.

In 2008, I was ready for something new. Red River's parent company at the time was divesting of its nontobacco businesses. Red River was purchased, and developing a succession plan became a priority for the new ownership group. I had always been interested in the business, so I decided to join and see how it went. I fell in love and have been here ever since.

You mentioned your dad, so let's take a step back. Talk about Red River Foods – how and when did the company get started?

I'll go even further back than when my dad joined Red River and first talk about the reason we are even in the food business! That dates back to 1972, when President Richard Nixon granted U.S. companies permission to start business with China. My uncle, who has always thought trade is the best way to improve relationships between China and the U.S., started one of the first five companies that received permission to trade with China at that time. My father joined him, and they found their niche in food (like nuts and dried fruit), honey, and tea.

While my dad liked building relationships with suppliers, he eventually decided he didn't see a career path at the company and started looking for other opportunities. As fate would have it, he found out that one of his customers, Red River Commodities, wanted to hire him as a buyer for a new company they were starting: Red River Foods. My dad joined, and two weeks later, he found out that the two

contacts who recruited him were leaving to start their own company. Management held a meeting to determine the next steps, and my dad said that they should shut down the company because they were losing money and weren't focused on the right attributes of importing – delivering high-quality products, building strong relationships with suppliers, and providing those in the supply chain with expert market advice. They called him the next day and said they were going to implement his suggestions and that he was going to be president of the company.

That was 1986, and the company has been profitable since then and grown into what it is today.

Talk about how the company has evolved and expanded over time. How do you service the regions in which you are present, as well as your suppliers and end customers?

For two decades, it was difficult to figure out who the good suppliers were in different countries around the world. We wanted to find partners who could produce the best quality items and adhere to contracts. Getting the product from the origin country to our end customers was also challenging. There was tremendous value in being an importer that established relationships with suppliers, provided good market information, and delivered on what we promised.

Today, we have better communication and technology, so it's easier to stay in touch with suppliers and monitor what is going on at different sites. At the same time, the value of an importer has become somewhat diminished, so we've needed to search for additional ways to provide value to our customers. We've always felt the best way to do that is to have intimate knowledge of all links of the supply chain, and the best way to do that is to be invested directly in all aspects of the supply chain. So, we've evolved from being a pure trading company, where we were buying and selling products from third parties, to being a fully integrated supplier, where we buy products directly from farmers, process those products within our own factories, ship them to the U.S., and then store them in our own warehouse here in Richmond.

About 70% of the products we import still come from third parties, but how we engage with those third parties has evolved in important ways over the past decade. I'll use cashews, which account for 55% of our business, as an example. Eighty percent of the cashews consumed in the U.S. come from Vietnam. For us to continue to source properly from Vietnam, in addition to having our own facilities, we need to maintain a consistent presence and remain engaged with those facility owners to provide guidance, feedback, and market insights. This enables us to ensure the best quality product as well as the most ethical labor and business practices. We now have 30 employees in Vietnam whose sole focus is working with those third parties to make sure they're meeting our requirements for safety, quality, and labor.

For other items, like pepitas and pine nuts, we have our own factories in China, where we are sourcing the raw material, processing it into the finished good, and shipping it to consuming countries around the world.

Still, there are other products where we work solely with third parties. For example, we have a program with one of our suppliers in Ghana, from whom we import dried fruits. Although we have close relationships and helped them develop regenerative organic certifications and programs, they are tasked with sourcing the raw materials from farmers, processing them in their facilities, and then shipping those items to us. But again, it goes much further than just a trading relationship. We are intimately involved in how they are sourcing products, who they're sourcing raw materials from, how they're managing their factories, and then making sure they're shipping us the quality products we need.

We've invested in boots on the ground and are actively involved in the supply chains of the items we source. To put some numbers around it, we have more than 500 employees worldwide, with over 60 products sourced from 30-plus countries.

You're a global company working with exporters and farmers all over the world. Tell us about your plans for your two most recent expansions in West Africa and Richmond.

In order to provide the best value to our customers, we need to be the primary processors of our products and manage them from farm to doorstep. The West Africa expansion we've planned will allow us to continue to do this with cashews. The decision to build a factory there has been 10 years in the making. We now have the know-how, people, and experience in place to do it successfully. It's another step in our progression toward processing as much of the product we sell to customers under our own roof from start to finish.

Why West Africa and cashews? We continue to have demand for high-quality, ethically sourced cashews, and we recognize that getting 80% of your product from one country isn't very sustainable, especially when global pandemics disrupt supply chains. West Africa produces more than 50% of the world's cashews, but over 90% of those nuts get exported to Vietnam, Brazil, and India to be further processed into kernels before being shipped to consuming countries. So, there's been a desire in both the food industry and at Red River to establish processing capabilities in West Africa.

There's value in creating backup supply chains in the region, but there's also a tremendous amount of good we can do in the local communities by creating jobs in factories in the areas cashews are produced. There are environmental impact improvements associated with limiting the supply chain as well. There's tremendous value in having a fully traceable, single-source product from one facility.

At the same time, we're going to retain that value of the cashew nut within the countries that produce it. We talk about always putting people first. Cashew farmers are taken advantage of more than anybody else in the supply chain. They grow, gather, and take care of the quality of the product, all to ship it to someone else who processes it. They receive 25 to 30 cents per pound, whereas a processor sells for $3 a pound.

Our Richmond expansion allows us to warehouse our own products in the U.S. We want to own as much of the supply chain as we can, but we were missing the last leg of it – the warehouse in the U.S. We started looking for opportunities to own and operate a facility. We found this space in 2019, renovated it during the early days of the COVID-19 pandemic, and opened the doors in July 2020. We've built a best-in-class warehouse in terms of the quality of the building and cleanliness, as well as the service we provide.

What are Red River's mission and values? How have these evolved over the years?

Our mission is to source the highest-quality foods, provide expert market insights, and develop sustainable supply chains around the world. That is all driven by our values, where we want to put people first, strive for excellence, and act with integrity.

The only way we can provide value to our customers is by providing them with strong market information and insights. To do this, we need our own boots on the ground – we can't rely on third parties or brokers to say what is happening. So, investing in the producing countries in which we operate is vital to achieving our mission.

We also can't provide high-quality food in a safe, transparent, traceable manner unless we have control over the supply chain. This goes beyond producing it ourselves and in our factories; we need to have our own people in the third-party facilities in which we operate around the world. Being in the factories is vital to the mission and providing that value to the customers.

When we talk about our company's values and what drives us, it all relates back to that first management meeting my dad had. If you don't focus on quality, relationships, and taking care of people, you'll never have a profitable commodity importing company. We've expanded upon those values over time, but what drives us in every relationship that we have is doing the right thing.

> **Our mission is to source the highest-quality foods, provide expert market insights, and develop sustainable supply chains around the world.**

Sustainability is clearly core to Red River. Talk about how the business approaches this.

Our mission and values tie into developing sustainable supply chains. There is a lot of variation in terms of what sustainability is and how it relates to different companies. For us, a sustainable supply chain is one that will be here when we're no longer here; it will be able to be sustained without any artificial inputs.

In order to have a sustainable supply chain, you need to have people willing to grow cashew trees and harvest the nuts and those willing to work in facilities and process raw cashew nuts into kernels. And you need to make sure the trees will grow, so the environment needs to be conducive to that. Sustainable supply chain management involves not just working at the farmer and processor level, but also making sure the people and the planet are protected.

Our mission involves all of these different factors in terms of investing in the supply chain to provide that value for customers.

How do you support the communities in which you are present?

It depends on the community. When entering a new region, we will meet with community leaders to try and understand what they need. We have some thoughts on what a community may need in terms of sustainability projects, but we want to hear from them as well. We ask a ton of questions, and after hearing from the community, we develop our sustainability programs.

Our projects have ranged from helping farmers thin out their cashew farms so that the cashew trees – which need space to grow and achieve their full potential – can produce more product, to beekeeping initiatives, as this helps cashew trees produce much better quality and volume. Other communities have said they needed help in social efforts – women empowerment, malaria prevention, a maternity ward, and so forth. We have many different sustainable interventions depending on the need of the community.

You've been focused on sustainability from the start, and it seems like you have thought about everything in terms of building a sustainable supply chain. What barriers still exist?

The biggest hurdle we have is cost. Not necessarily the cost for sustainability initiatives, but getting people to actually support these projects by paying a premium for ethically, sourced products. In a poll, 81% of people said they wanted sustainably sourced products, but just 66% said cost was a barrier, so they're not always willing to pay a premium.

Another challenge is certification. I worry that as the pressure continues to grow for companies to focus on sustainability, we will see people paying for more certifications that don't necessarily mean much.

Last, the areas where we want to have a positive impact are remote. Making sure we have people who can add value in those communities, which can be far from one another, is a challenge. There are over 2.5 million cashew farmers in Africa alone. To reach each community is challenging.

What industry trends are you currently watching that you expect to have the most impact over the coming years?

The biggest trend isn't just driven by consumers wanting to know that their food is ethically and sustainably sourced. It's that this demand among consumers is pushing retailers to want to know where a product came from and to own as much of the supply chain as possible. Over the past 10 years, we've seen retailers taking trips and asking questions they've never asked about the supply chain. It's been beneficial to us because we can answer these questions properly since we're engaged along the entire supply chain.

There is also a big move toward plant-based food and regenerative agriculture. Organic food is good for us, but people want to go beyond that and make sure they have a holistically produced product that is good for them, the environment, and the people that produce the product. That excites us because it's core to who we are. We have worked closely with some of our supply chain partners to develop regenerative organic certified products.

We like to think we're a pioneer in this space. We were promoting and expanding supply chain operations and farmer trainings in different parts of West Africa for a decade. We've been telling our customers that sustainability is important for years and that we can be a resource and sustainability arm. For 10 years, no one was interested; no one wanted to fund these projects. In the last one or two years, it's been a 180-degree turn. Not only are people asking us about sustainability, but they want to be involved. They want product directly sourced from projects and to help fund them. It's been remarkable for us to realize that

everything we have been doing for 10 years because we knew it was the right thing to do, and it mattered to us, now matters to everyone else, and we have a platform and foundation that we can leverage to give people what they want.

What projects are you and the company working on or planning for now that you are most excited about?

What gets us out of bed every day are the exciting things we're doing for sustainability, supply chains, and the people who work for us.

The two most recent projects we have been working on are both in Bolivia and include creating a regenerative quinoa business and developing a brand new tree nut, the baru nut. Quinoa has exploded in popularity for years, but the way we are sourcing and producing it is unmatched in terms of product quality and the positive impact it has on the community. The baru nut is brand new, meaning we get to build the supply chain from scratch. The nut is nutrient dense, high in protein, nonallergenic, and tastes like a combination of a cashew and peanut. It's also an amazing climate protector – it is a fire-resistant carbon sequestration tree and can grow in deforested areas. It has been around forever, but no one has ever recognized that it's a product you can turn into income. It's an incredible integrated land management opportunity.

You have a lot going on! What's your favorite part of the work you do?

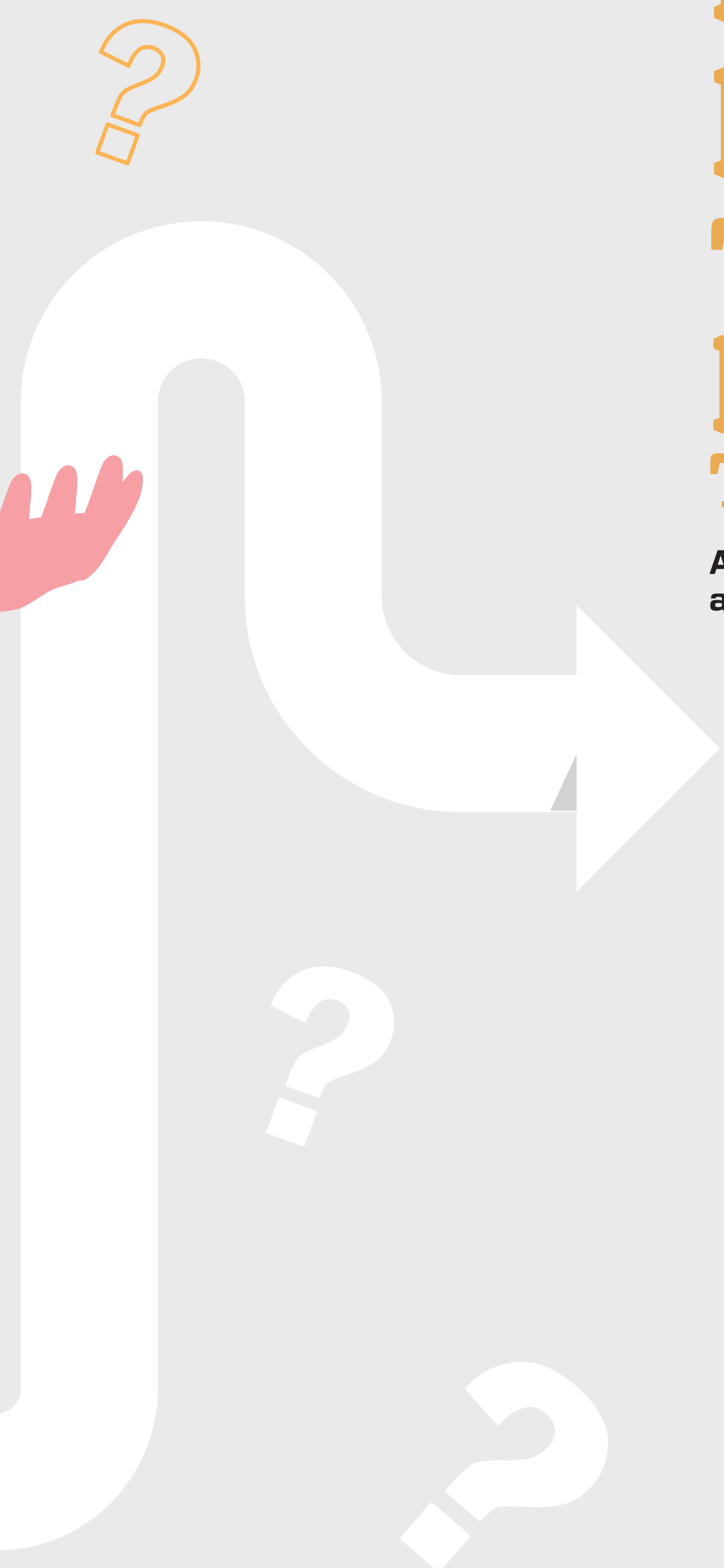
The people! The areas in which we are developing our supply chains are very different. Meeting the people who are putting in the hard work to grow and produce the products we are sourcing is the most rewarding part of doing the job.

Turning inward to Red River, we wouldn't be here without the incredible foundation my dad and other colleagues developed. We have people who have been here for 30 or 40 years. My dad instilled in the company that people are most important, and we've been able to expand on that. We care about our people and treat them right. If we do that and work well together, the future is bright for all of us. We want to maintain that as we continue to grow.

Dan, thank you for your time and insights. BBH is honored to have Red River as a client.

Interview conducted and article written by Kaitlin Barbour.

ASSESSING PATHWAYS TO JOINING OR NOT JOINING THE FAMILY BUSINESS



A Conversation with Adriano Barilla of Barilla Pasta and Brandon Farmer of CSC Sugar

Those who come from business-owning families often face the difficult decision whether to join their family business or forge ahead in their own career path. Our Next Generation Experience team recently hosted an event where we spoke with two next generation members of business-owning families, Adriano Barilla of Barilla Pasta and Brandon Farmer of CSC Sugar, about their career path, their families, and the intersection of those two worlds.

Provide us with a brief description of your family's business.

Adriano Barilla: I'm a fifth-generation family member of the Barilla Group, an international producer and marketer of pasta, sauces, and bakery products. My great-grandfather started the business in 1877, and my grandfather took over at age 25. My grandfather and his brother sold the business in the early 1970s, and then repurchased it in 1978. Following that, they continued to grow and expand throughout Europe. When my father and his siblings took over in the late 1980s, they expanded internationally. That generation is still in charge today.

Brandon Farmer: My father founded CSC Sugar, a sugar trading and food manufacturing company, in 2004. He started trading sugar in the 1980s, and in 2004, he completed a management buyout with a small team. In 2006, the company started manufacturing sugar. Fast-forward to today, and we have about 300 employees and eight refineries in the U.S.

How did you think about the family business as you were growing up?

BF: I knew my dad was a sugar trader when I was young, but he didn't talk about work at home. As I got older, I asked more questions and grew more interested. I always thought it sounded cool to be a sugar trader who traveled the world.

AB: It was easy to ask my dad about the business because he was always bringing home new treats for us to try! He began engaging me and my brothers in conversations about the business when we were about 10 years old, though there has never been any pressure. Then, when I went to college, we started discussing the path that I would need to take over the next decade to one day be in the best position to make a decision about joining the business.

Tell us about the role your family plays in the business.

BF: I am one of five children, and I am the only one who is involved in the family business. I do have a brother-in-law who is also involved.

AB: My grandpa was chairman and CEO, and he made all of the decisions. With my father's generation, it's different. My dad is the chairman, his brothers are vice chairmen, and his sister sits on the board but is not an executive. While they are actively involved in the day-to-day operations, they have a nonfamily CEO and executives. Still, at the end of the day, it is a family business, so it's important that all parties involved are aligned with the family's vision for the company's future.

No one in my generation is in the business. I have two younger brothers and three cousins. It's a big company, and there will be rules and requirements we must meet if we decide we are interested in joining.

We are working with the past generation to understand the best path forward. Nothing is defined, but my dad always tells me and my brothers that if we are interested, we need to get outside experience to best position ourselves to join one day.

Brandon, what led you to join the family business?

BF: When we were younger, my dad said no one was going to work in the business. He didn't consider it a family business yet! He didn't know what the future was. Once we entered high school, we started learning more. My older brothers and I interned at the company. They went on to do different things, but I remained interested.

Similar to what Adriano said, anyone who wants to join the business – family or nonfamily – has to present a value to the company.

Despite getting pushback when younger, what caused you to want to move against the current?

BF: I am half Cuban, but I did not grow up with exposure to that part of my heritage. When I was 17, I went to Colombia for a month, and I was impressed with Latin America. A lot of sugar is grown in Latin American countries, and the region started pulling me in.

I also liked how dynamic sugar trading is. We are not screen traders. We meet with people and talk about what they need and how we can add value to them. It's relationship building, which I've always enjoyed.

Did you ever consider going in another direction?

BF: When I went to college, I knew I wanted to do something with trading. After college, I tried to find a job outside of the company, but I didn't have much luck – everyone said I was just going to leave in a few years to work for my dad. I ended up joining CSC Sugar in a role in Mexico City. It was a great experience, but I needed to see if there was something else for me, so I resigned after two years. I started traveling Latin America and was then recruited by a sugar trading company in Miami. I accepted the role and worked there for five years before rejoining the family business.

Brandon, your dad is your boss. How do you separate the personal from business?

BF: You find guidelines. If I want to talk to my dad about work during personal time, I confirm that he is OK doing that first. If he gets heated at work and has to be stern, I have to deal with it like any other employee.

What's more challenging is interacting with co-workers. It's a relatively small company, so if I am not sensitive to their goals and clear about the value I want them to have, it can be threatening. It's important to have direct conversations so that the tension doesn't boil up.

Adriano, you are not in the family business right now. Walk us through your decision process and where your path takes you.

AB: I graduated a couple years ago with a finance degree and currently work in investment banking. I'm the first person in the family to study and work in finance – everyone else went to the family business immediately. But today, Barilla is a bigger company, and there are many people and eyes on the business. I didn't want to go there and not add any value. It has been good for me to see the world outside and build a path toward how I may be involved. I will always have a connection to the business, but right now, I am focused on learning the most that I can outside of the company.

The future is a work in progress, but I do believe the next generation needs to be involved in the family business. It is in the company's core values.

As far as others are concerned, is it always a forgone conclusion that you are going to join the business eventually?

AB: It depends on the next generation and their dreams for the future. Of course, outsiders assume you are going to work for the family business. And while I do feel a responsibility, it's not as black and white. My generation is in the gray area, and there are many rules left to be determined. The only thing we can control right now is our personal development for the next four to 10 years.

What are some of the goals that the next generation in your family business would like to accomplish?

BF: Our company is still growing. The real effect we need to have in 10 to 15 years is to strengthen the business so that it can live another 100. Most family businesses don't succeed after the third generation, so I have to think about how we get past that.

AB: Building off that, in our family, we have always been educated about our role as eventual shareholders who will make decisions about the company. We have been taught to grow the business as much as possible, focus on sustainability, and pass it to the next generation. The way we are going to grow is through diversification of the business and markets.

> **"The future is a work in progress, but I do believe the next generation needs to be involved in the family business. It is in the company's core values."**
>
> **– Adriano Barilla**

> When you own a family business, people's livelihoods depend on you. Your decisions can affect the trajectory of someone's life.
>
> – Brandon Farmer

If you look back on the road you have traveled, what advice would you give your earlier self in terms of helping understand what comes next?

BF: As a family member in a family-owned company, there's pressure and opportunity, and you need to deal with those at once. Leaving the company for a few years was also crucial. If I had stayed, I think my position – and my personal self-esteem – would be different now.

AB: When you struggle and have a hard time, don't take the easy way! I am very fortunate, but I came to the U.S. from Italy in high school knowing no English. I could not have conversations for two years. I struggled again in college and was tempted to go back to Italy many times, but I was resilient, and it has been important to my development. I am also fortunate enough to have two brothers close in age, so I had them for support. They helped me stay here and pursue my path.

What are your next steps in order to keep moving in the right direction?

AB: My goal for the next decade is to continue working hard and getting experience that allows me to have the best career choice and add the most value wherever I am. I am also focused on working with the family to figure out next steps for the next generation. We're not taking over tomorrow, but we have to work on it.

BF: I am in a similar situation with a shorter timeline. My dad talks about retiring in the next couple years, so I am focused on determining how we help him transition out while making sure everyone's jobs are stable and secure. When you own a family business, people's livelihoods depend on you. Your decisions can affect the trajectory of someone's life. We want to ensure we make this decision correctly.

Thank you both for your time and insights.

At Brown Brothers Harriman, we have helped countless family businesses and their owners think through transition and the succession planning process. We would be happy to help yours as well. If you are interested, please reach out to our Center for Family Business.

Interview conducted by Ben Persofsky, and article written by Kaitlin Barbour.

Wealth and Well-Being

Money and Happiness: GENERATING WEALTH, *Generating Well-Being*

By Ross Bruch, Senior Wealth Planner

INCOME, WEALTH, AND HAPPINESS

You've likely heard the saying "money can't buy happiness" hundreds of times. However, despite the nearly ubiquitous nature of this age-old adage, scientifically speaking, we actually know fairly little about the true relationship between wealth and well-being. Research on the subject has produced somewhat ambiguous results. While certain studies have found that greater income may play a minor role in happiness, many of these studies also state that money generally has a smaller impact on happiness than other factors in one's life.

However, it is important to note that even within this limited field, most research related to money and happiness focuses solely on *income* and not on *wealth*; thus, despite our rudimentary understanding of income and well-being, we actually know far less about *wealth* and well-being from a research standpoint. This isn't surprising. After all, there is an extremely small population of potential research subjects to pull from when focusing on high-net-worth individuals. As of 2020, just 1.45 million U.S. households had a net worth of at least $10 million.[1] Even if this monetary threshold is lowered to $5 million, there are still only about 3.59 million U.S. households that qualify. Thus, compared with other subject areas of social science, it is far more difficult to recruit an adequate sample size of participants for research on wealth and happiness.

One of the few noteworthy studies that prioritizes the exploration of happiness and wealth is a 2018 study denotatively titled "The Amount and Source of Millionaires' Wealth (Moderately) Predicts Their Happiness."[2] This

[1] *How Many Millionaires Are There in America? (2021, July 10). DQYDJ – Don't Quit Your Day Job. dqydj.com/millionaires-in-america/*

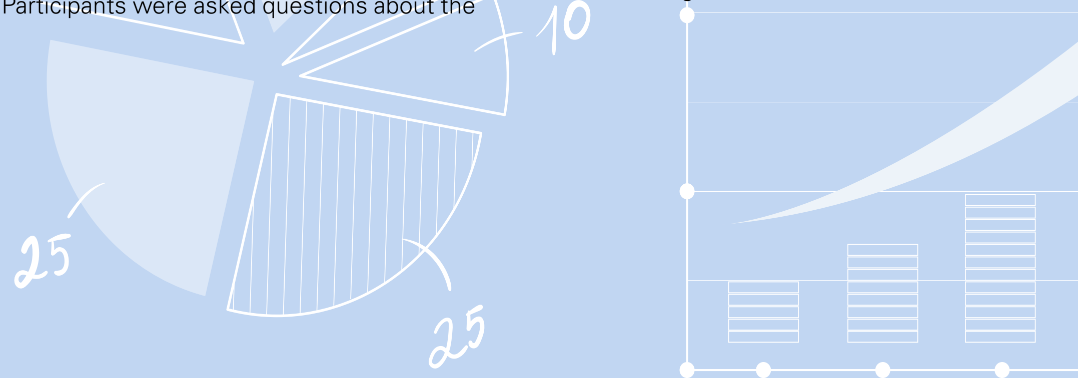
[2] *Donnelly, G. E., Zheng, T., Haisley, E., & Norton, M. I. (2018). The amount and source of millionaires' wealth (moderately) predict their happiness. Personality and Social Psychology Bulletin.*

study, hereinafter referred to as the "Wealth Study," offers useful insights for both affluent and nonaffluent populations to better understand how money – and in particular, wealth – might influence happiness.

In the Wealth Study, the researchers surveyed over 4,000 high-net-worth individuals across 17 countries (24.1% from the U.S. and 24.4% from the U.K.); a majority (79.2%) were from developed countries, male (70.4%), and middle-aged (the median age group was 45 to 54 years old). All respondents had a minimum net worth of $1.5 million, and many had a significantly greater net worth (11.6% had between $8 million and $14.9 million, and an additional 11.6% had more than $15 million). Participants were asked questions about the sources of their wealth as well as about their happiness and life satisfaction.

THE HAPPINESS CURVE AND WEALTH GENERATION

The Wealth Study identified two important findings. First, one's wealth did appear to have a modest impact on his or her happiness, but only when it reached or exceeded approximately $8 million to $10 million. According to the data, this was the threshold at which a small but statistically significant increase of happiness was detected. Participants with a net worth below this threshold weren't disadvantaged by their assets, but those assets also did not appear to play a factor in their overall well-being.



Prior research has suggested that the money-happiness curve may either "flatten out"[3] or incrementally slow its rate of increase[4] once people with higher incomes can meet their basic needs – approximately $100,000 in income in 2023 dollars. However, the Wealth Study suggested that the curve slopes up slightly when one accumulates at least $8 million to $10 million in wealth.

Of course, it's important to remember that these results are only one study using survey data, albeit with a large number of participants, and have not yet been replicated or reproduced in other studies. It's also necessary to recognize that the survey results show correlation, but do not prove causation – in other words, although there appears to be a link between happiness and wealth based on this data, it is impossible to say whether the wealth led to subjects' greater happiness or the participants' happiness made them more likely to achieve greater wealth. That being said, the Wealth Study's authors briefly hypothesized why greater wealth may be linked to greater happiness among millionaires, listing the following possible reasons for this well-being boost:

- Wealth may provide increased autonomy over how one spends his or her time.
- Affluence could increase one's sense of efficacy in carrying out personal goals.
- Wealth may increase happiness when you spend your money to help others.

Indeed, all of these factors have been shown to contribute to overall well-being across broad, nonaffluent populations; it logically follows that since wealth may provide individuals easier or greater access to these elements, wealth could be a direct or indirect contributor to happiness.

Second, the Wealth Study's authors found another novel factor in their data: The manner in which wealth was acquired may affect overall well-being. More precisely, the research showed that wealth that was earned, rather than inherited, served as a positive predictor of general happiness. Said differently, the survey results showed a modest increase in happiness for wealth generators over wealth inheritors, even when researchers controlled for the size of a participant's wealth.

As with the wealth threshold-happiness link, there is a great deal of ambiguity in this data, and it therefore should not be viewed as a determinative factor in one's pursuit of well-being. Again, though the data shows a correlation between two factors, it does not prove causation. It is possible that happy people are more inclined to become wealth generators, rather than the other way around. Additionally, due to the nature of the study as well as the broad characteristics of its participants, the survey's questions were not capable of being refined enough to pick up on specific differences among subjects that could have influenced the data.

However, if the data is accurate, and wealth generators are happier, on average, than wealth inheritors, there may be several

[3] *Kahneman, D., & Deaton, A. (2010). High income improves evaluation of life but not emotional well-being. Proceedings of the National Academy of Sciences, 107(38), 16489–16493.*
[4] *Killingsworth, M. A. (2021). Experienced well-being rises with income, even above $75,000 per year. Proceedings of the National Academy of Sciences, 118(4), e2016976118.*

> [W]ealth generators may also be more inclined to possess or develop two attributes that are highly correlated with well-being: purpose and mastery."

explanations for this phenomenon. The study's authors suggest that the effort of earning may lead people to value their wealth more than if it is inherited. Beyond this possibility, wealth generators may also be more inclined to possess or develop two attributes that are highly correlated with well-being: purpose and mastery.

- **Purpose**: Wealth generators may be more inclined to have a sense of purpose in life that is directly tied to their work, such as being passionate about their professional career, growing their business, or, more directly, focusing on generating wealth for the benefit of their family. Having a sense of purpose in life can lead to greater happiness because it gives individuals direction and meaning in their lives. When people have a clear sense of purpose, they are more likely to set goals for themselves and take action toward achieving them. This sense of accomplishment and progress can in turn lead to a greater sense of fulfillment and higher life satisfaction.
- **Mastery**: Wealth generators may also be more likely to develop a sense of mastery in their lives, such as by becoming experts in their professional careers or successful at growing and running businesses. A sense of mastery, or the feeling that one has control over their life and is capable of achieving their goals, can lead to greater happiness for several reasons. First, when people feel a sense of control over their lives, they are more likely to set and pursue goals, which can lead to a sense of accomplishment and satisfaction. A sense of mastery can also lead to greater self-esteem and self-confidence, which can positively affect an individual's overall well-being. Furthermore, the feeling of mastery can also provide a sense of autonomy and independence, which can be important for a person's sense of self-worth.

Undoubtedly, the link between money and happiness is complex and will require much more research on the topic to begin to understand its nuances. But, in the meantime, the Wealth Study offers a helpful glimpse into the world of wealth accumulation and its effect on well-being. The major takeaway from the study is the idea that money on its own may not be impactful to one's happiness – but concepts such as autonomy, purpose, and mastery, each of which has been shown to be extremely beneficial to happiness, may all benefit from wealth generation.

At Brown Brothers Harriman, we enjoy engaging with clients as they consider how to raise happy children with a sense of purpose in the presence of wealth. If you would like to learn more, please reach out to a BBH wealth planner or relationship manager.

the freshtake
By Next Gen, For Next Gen

Next Gen Spotlight

Christina Pardy

of Sh*t That I Knit

We sit down with Christina Pardy, founder and CEO of Sh*t That I Knit (STIK), a Boston-based, female-owned and -operated business that has been creating handcrafted knitwear since 2014. In addition to turning her side hustle into a successful business, Pardy also gives back to the community at home and abroad – and even secured partnerships with the NFL, NHL, and Team USA for the Beijing Olympics! She graduated from Skidmore College with a B.A. in art history, business, and management.

Tell us about the original spark that convinced you to switch careers and focus on founding STIK.

STIK was very much a side hustle in my early 20s and a way for me to be creative outside of my 9-5. Soon, though, it was consuming my free time, and to be honest, I was updating my site, knitting, and meeting people for coffee while I was "at work." I was 25 at the time, and my fear of regret was bigger than my fear of failure. I decided (with my parents' support) that I would try to make it work, and if I failed, I'd get another sales job. It's been eight years since then!

What advice would you give other young entrepreneurs who are considering launching their own private company?

My advice is to take a week off work and pretend that your side hustle or company is your full-time job. Taking the leap to pursue your passion is really scary, and sometimes people jump too soon and get burnt out by the rejection and loneliness. Filling your day when you're used to having a boss or structure is hard! By jumping too soon, you often take the fun out of it. Take a week off of your current job and see what it's like – meet people for coffee, find your rhythm of working from home by yourself, and experience what it would be like to jump fully in.

How important are mentors to you?

So important. I have a list of "STIK Supporters" who are mentors of mine who have helped me in some way over the years. I email them about once a quarter to update them on how STIK is doing, and the list is now over 50 people! This is a great practice whether you're an entrepreneur or trying to grow your career. People want to know how you're progressing and how they can help. I would usually end meetings with new mentors or contacts by asking them if they knew of anyone else I should connect with who might have ideas for me. You never know who you're going to meet.

You partner with local families in Peru to give back to the community while simultaneously scaling your business. Tell us more about that.

We currently employ 400 artisans in Lima, Peru, to knit all of our accessories. When I started STIK, I was knitting everything by hand, so the thought of scaling production to a factory in China never crossed my mind. While that would have been easier (and cheaper), it wouldn't have helped our brand. Our customers love the story of empowering women in Peru, and it's my favorite part of the business.

That's not your only philanthropic initiative. Can you speak more about the "Give-A-Sh*t Knit Kits"?

While we've built a certain level of "giving back" into the business model and how we produce goods, we also try to give back to our peers in the U.S. I started the "Give-A-Sh*t Knit Kits" after a friend was diagnosed with leukemia. I taught her and some friends how to knit, and through this it became apparent how therapeutic knitting is – you have to turn your brain off and focus on what's in your hands. We donate our knitting kits to young adult cancer programs across the country. Our first partner was the Dana-Farber Cancer Institute in Boston, and they've been wonderful to work with.

You secured STIK as an official licensee of Team USA during the 2022 Winter Olympics. Talk more about that.

When I was in sales, my dad told me, "No asky, no getty." I saw the results from implementing that motto when we landed the partnership with the U.S. Olympic and Paralympic Properties. I had met the head of consumer products at a pop-up we were doing in New York in 2016 and just went for it – first by asking for his card, and then following up politely over the next four years. By August 2020, we had a signed contract! It was not an overnight win, but it took being confident enough to ask and ask and ask until we closed the deal. Working with Team USA for the Beijing Olympics was incredible. It has also opened up my eyes to the licensing world. We continue to work with Team USA and have added all of the NFL teams as well as several NHL teams on local licensing deals to our licensing roster.

What do you want the next five years to look like for STIK?

I can see the licensing side of our business really taking off! We are planning to grow our partnership with the NFL (which started this fall) and are in talks with several other leagues. We offer a unique product in the market that hits a lot of points that these leagues are looking for – products for women, a female-founded brand, a focus on sustainability, and a really quality beanie that is actually warm!

Christina, thank you for your time.

Interview conducted and article written by Mackenzie Dowling.

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