



# The Farmland Asset Class

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# Presentation Overview

- I. Introduction to the Hancock Agricultural Investment Group (HAIG)
- II. The Farmland Asset Class: Why Do Institutional Investors Find Farmland Attractive?
- III. Is There a Bubble In U.S. Farmland Values?

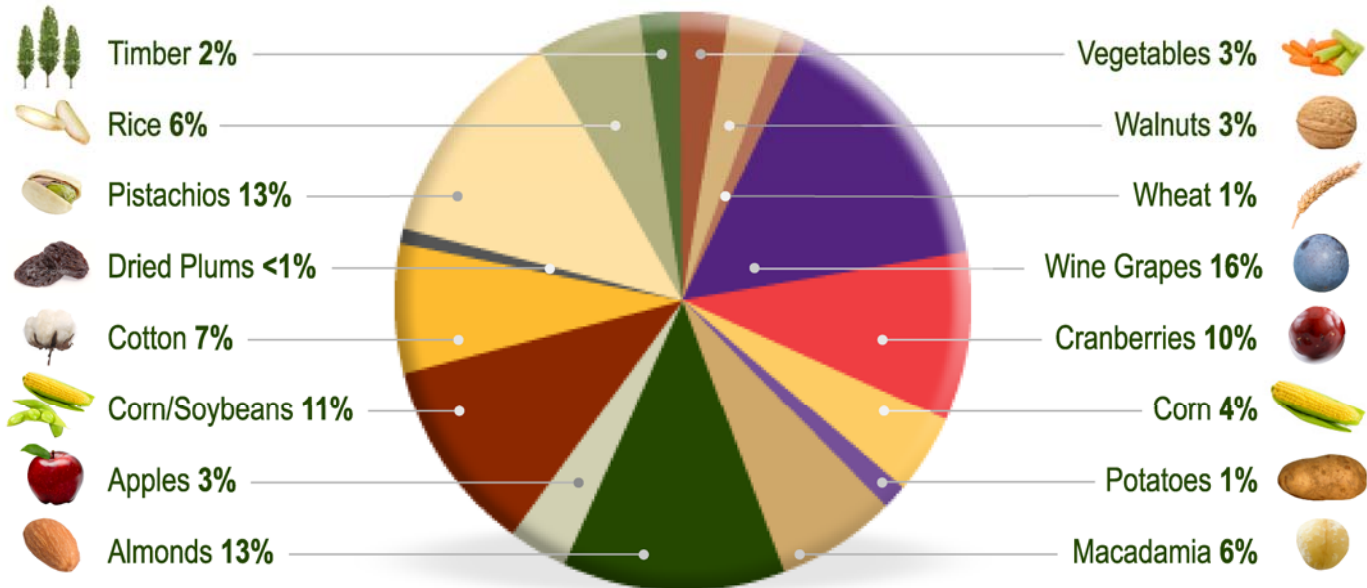
# I. Hancock Agricultural Investment Group



- Founded in 1990
- \$1.4 billion in assets under management, covering 200,000 acres of prime U.S., Australian and Canadian farmland (as of October 31, 2010)
- One of North America's largest farmland managers with offices located in Boston, Charlotte and Brisbane, Australia
- Offering farmland investment advisory services with a minimum \$5 million investment
- Local property management relationships in the U.S., Australia and Canada
- A division of Hancock Natural Resource Group, Inc., a wholly-owned, indirect subsidiary of Manulife Financial Corporation with \$10 billion in natural resource assets under management

# I. Hancock Agricultural Investment Group

Global Portfolio as of December 31, 2009<sup>1</sup>

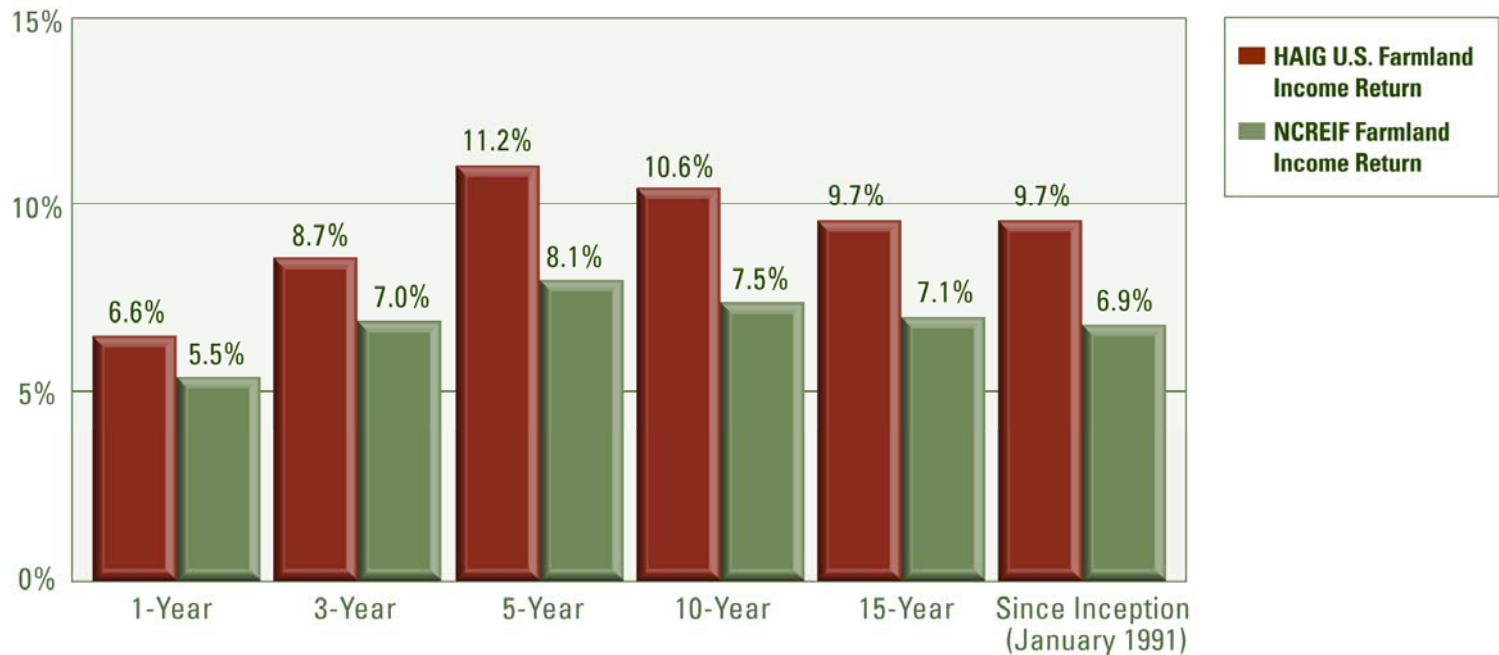


1. Based on 12/31/2009 market values.

# I. Hancock Agricultural Investment Group

## Income Performance vs. NCREIF Farmland Index

### HAIG Annualized Income Returns vs. NCREIF for periods ending December 31, 2009



All returns are calculated at property-level on market value, before deducting investment management fees. Excludes properties acquired through foreclosure and non-directly managed investments. Excludes developmental farmland properties as the NCREIF Farmland Index does not include developmental farmland properties in the Index. Please refer to fee addendum in the Appendix for a further description of investment performance calculations and fees. Past performance is no guarantee of future results. Potential for profit as well as loss exists.

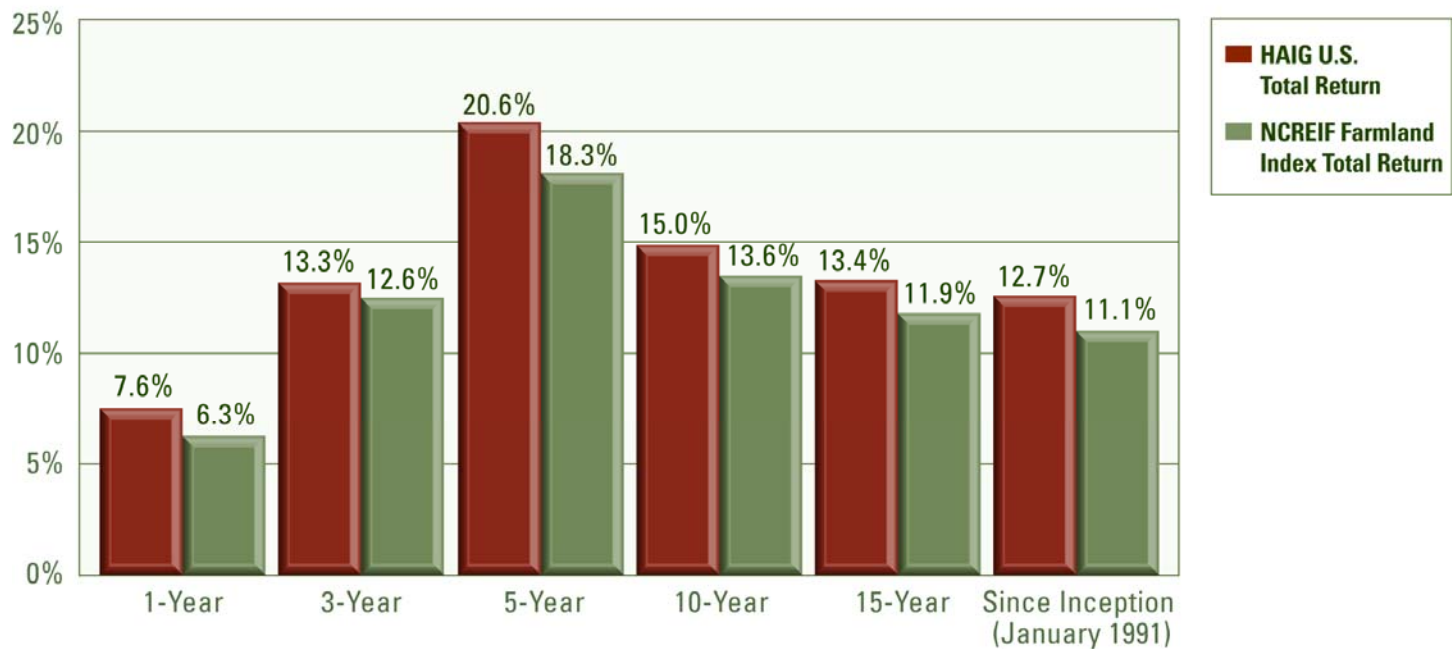
# I. Hancock Agricultural Investment Group

## Total Returns vs. NCREIF Farmland Index



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### HAIG Annualized Total Returns vs. NCREIF for periods ending December 31, 2009
















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## II. The Farmland Asset Class

Why do institutional investors find farmland attractive?

- Equity interest in income producing cropland, orchards and vineyards

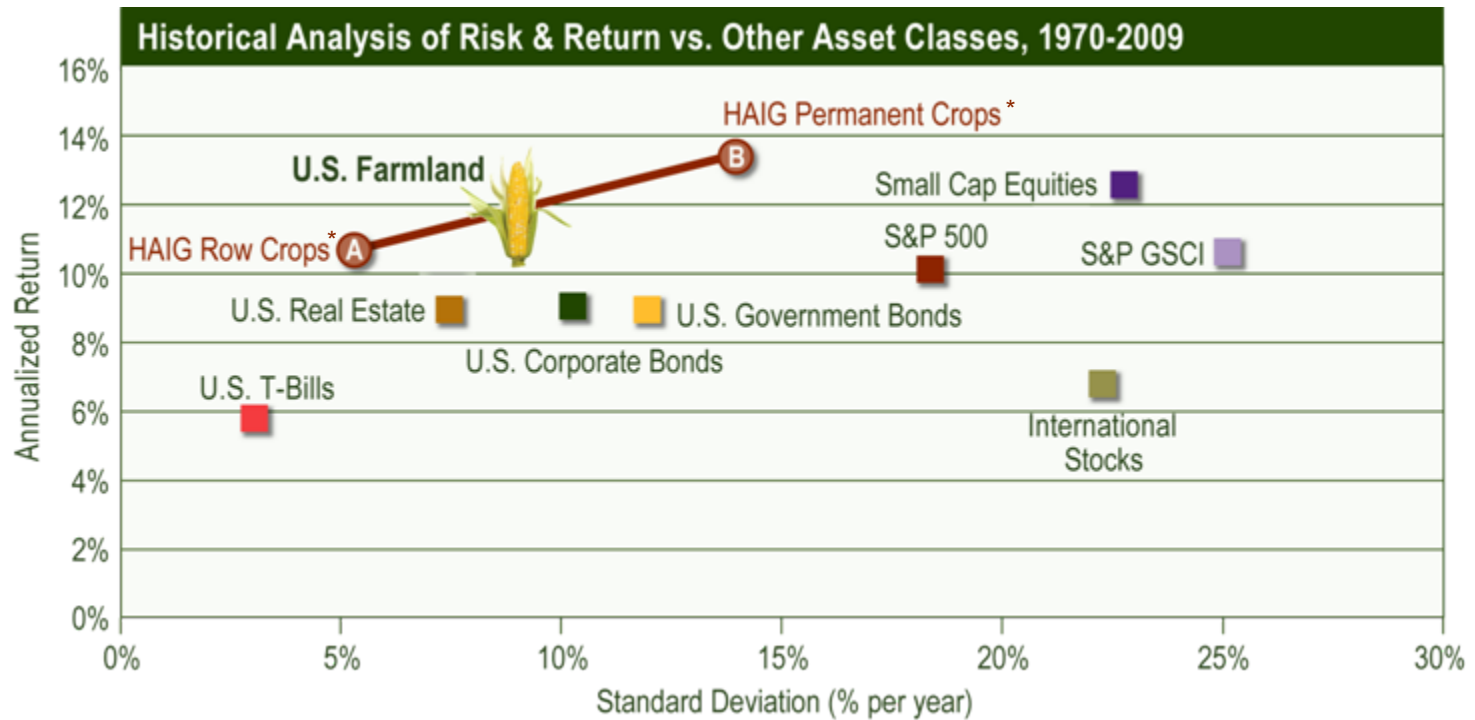
Annual-Row Crops		Perennial-Permanent Crops	
Corn		Almonds	
Soybeans		Walnuts	
Cotton		Pistachios	
Rice		Apples	
Vegetables		Wine Grapes	
Wheat		Cranberries	
Potatoes		Macadamia Nuts	

- Income stream driven by management approach:
  - Leasing (row crops): 4-6% current returns
  - Operating (permanent crops): 8-14% current returns
- Land appreciation
- Targeted total returns: 9-12% nominal, unlevered, before fees

## II. The Farmland Asset Class

Why do institutional investors find farmland attractive?

- Farmland provides high returns for relatively low levels of risk



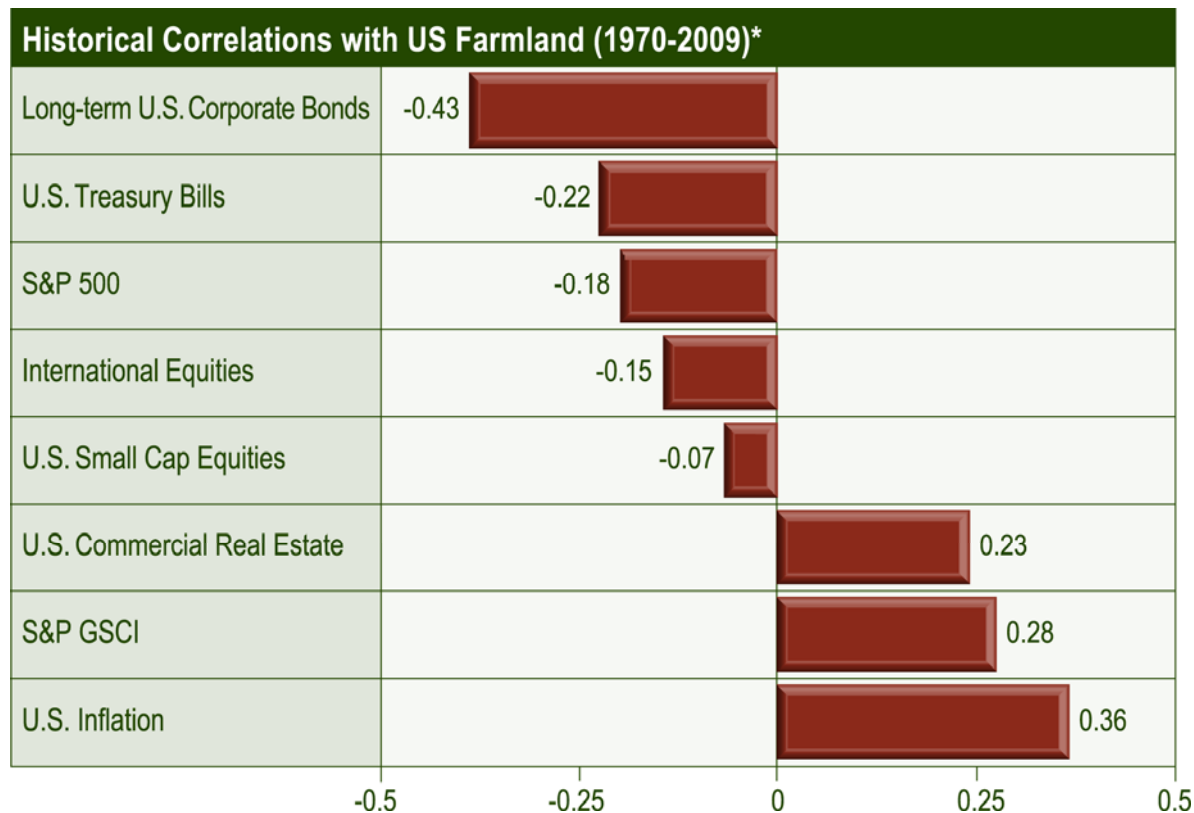
Source: Ibbotson Associates; Farmland: Ibbotson 1970-1990 (predecessor to the NCREIF Farmland Index); NCREIF Farmland Indices 1991-2009 (U.S. Benchmark only).  
\*HAIG numbers are from January 1, 1991.



## II. The Farmland Asset Class

Why do institutional investors find farmland attractive?

- Farmland exhibits negative correlation with traditional asset classes and positive correlation with inflation



\*Source: Hancock Agricultural Investment Group using NCREIF and Morningstar Data. Ibbotson 1970-1990 (predecessor to the NCREIF Farmland Index); NCREIF Farmland Indices 1991-2009 (U.S. Benchmark only). Past returns are not a guarantee of future results; potential for profit as well as for loss exists.

## II. The Farmland Asset Class

Why do institutional investors find farmland attractive?

- Over the long-term, farmland offers an inflation hedge for investors

Farmland vs. Inflation: Periods ending December 31, 2009

Timeframe	U.S. Farmland Appreciation Return	Inflation	Farmland Advantage
3-Year	5.40%	2.37%	3.03%
5-Year	9.80%	2.61%	7.19%
10-Year	5.84%	2.55%	3.29%
20-Year	3.92%	2.74%	1.18%
40-Year	5.11%	4.47%	0.65%
60-Year	5.30%	3.76%	1.54%

Source: Inflation data: Morningstar, Farmland returns: 1948-1990 Hancock Broad Farmland Index, 1991-2009 NCREIF Farmland Index

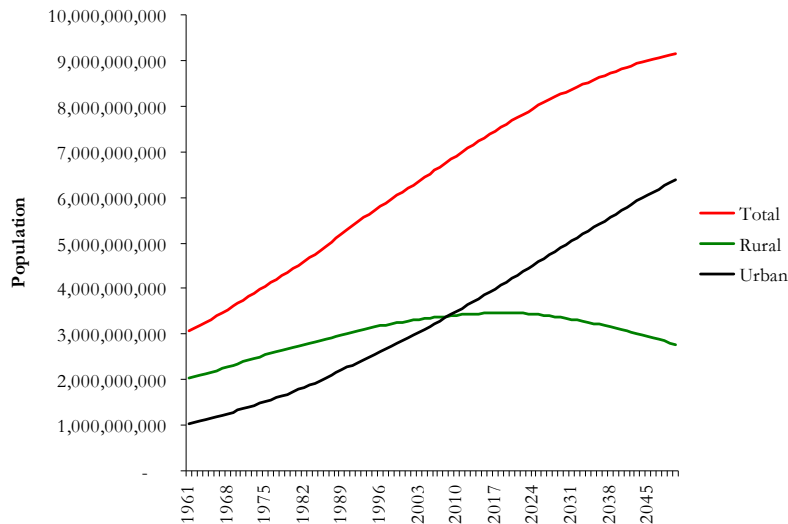
## II. The Farmland Asset Class

Why do institutional investors find farmland attractive?

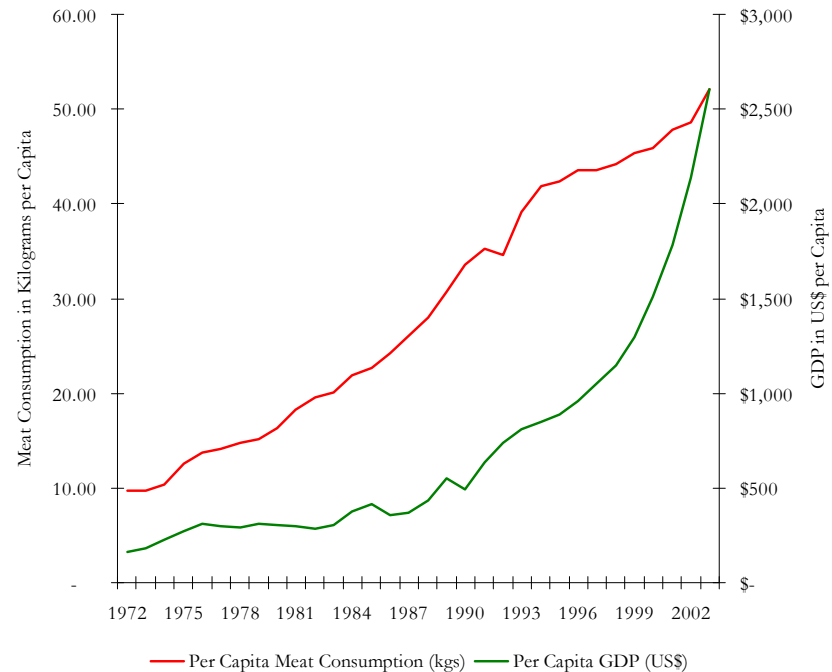
### ➤ Farmland fundamentals indicate a bright outlook for agriculture

- Changing global demographics drive future demand
  - World population anticipated to reach 9 billion by 2050, with major trend toward urbanization
  - As incomes rise, demand for feed, fuel and fiber accelerates

**Global Population Trends**



**China Per Capital Meat Consumption vs Per Capita GDP  
(1972 to 2007)**



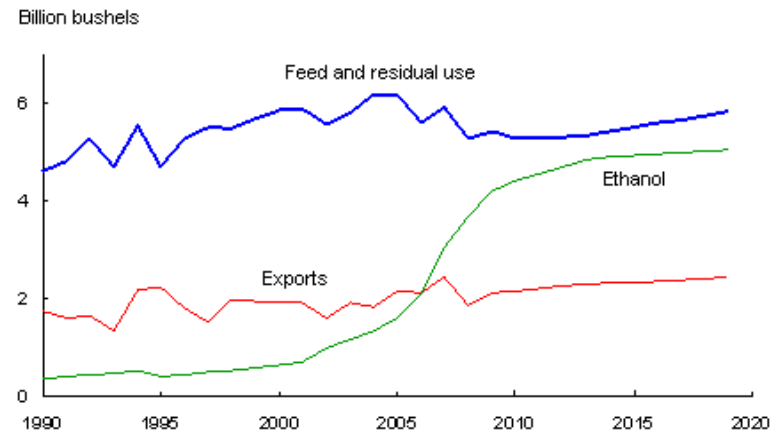
## II. The Farmland Asset Class

Why do institutional investors find farmland attractive?

### ➤ Farmland fundamentals indicate a bright outlook for agriculture

- Increased demand for agricultural inputs for biofuels and other industrial uses
- Finite resources limit our capacity to meet growing demand
  - Limited supply of arable land faces pressures for conversion to alternative uses or conservation
  - Water scarcity will be an increasingly important factor in agricultural production

**U.S. corn: Feed and residual use, ethanol, and exports**



Source: *USDA Agricultural Projections to 2019*, February 2010.  
USDA, Economic Research Service.

### III. Is There a Bubble in U.S. Farmland Values?

*What is a "bubble"?*

An economic bubble is an unsustainable deviation in the price of an asset over its intrinsic value, often associated with a rapid accumulation of leverage.



### III. Is There a Bubble in U.S. Farmland Values?

#### ➤ National Council of Real Estate Investment Fiduciaries

- Established to serve the institutional real estate investment community as an objective, independent source for real estate performance information.
- Produces quarterly indices for U.S. Commercial Real Estate, U.S. Timberland and U.S. Farmland.
- Data-contributing members include investment managers and plan sponsors who own or manage real estate in a fiduciary setting.



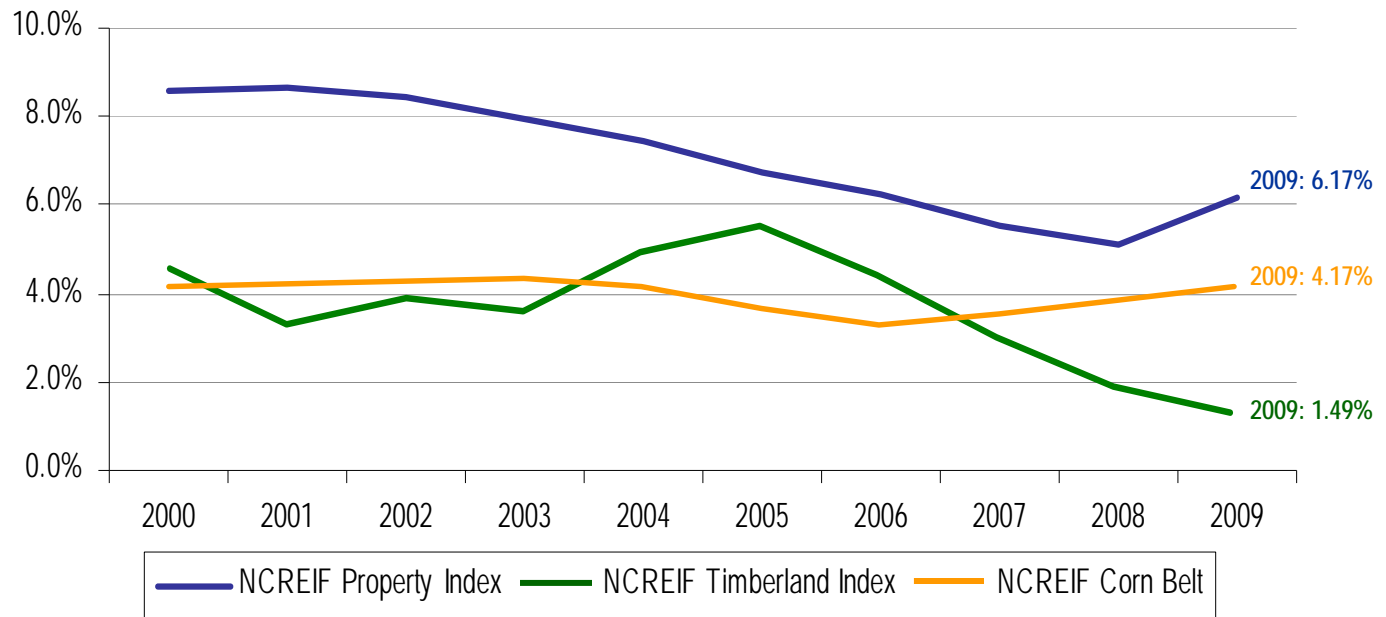
*As of September 30, 2010:*

NCREIF Property Index	Total Market Value:	\$238 billion
	Properties:	6,057
NCREIF Timber Index	Total Market Value:	\$24 billion
	Properties:	379
NCREIF Farmland Index	Total Market Value:	\$2.2 billion
	Properties:	462

# III. Is There a Bubble in U.S. Farmland Values?

Income returns have kept pace with values in the Midwest

Income Returns for Corn Belt vs. Timber and Commercial Real Estate: 2000 - 2009

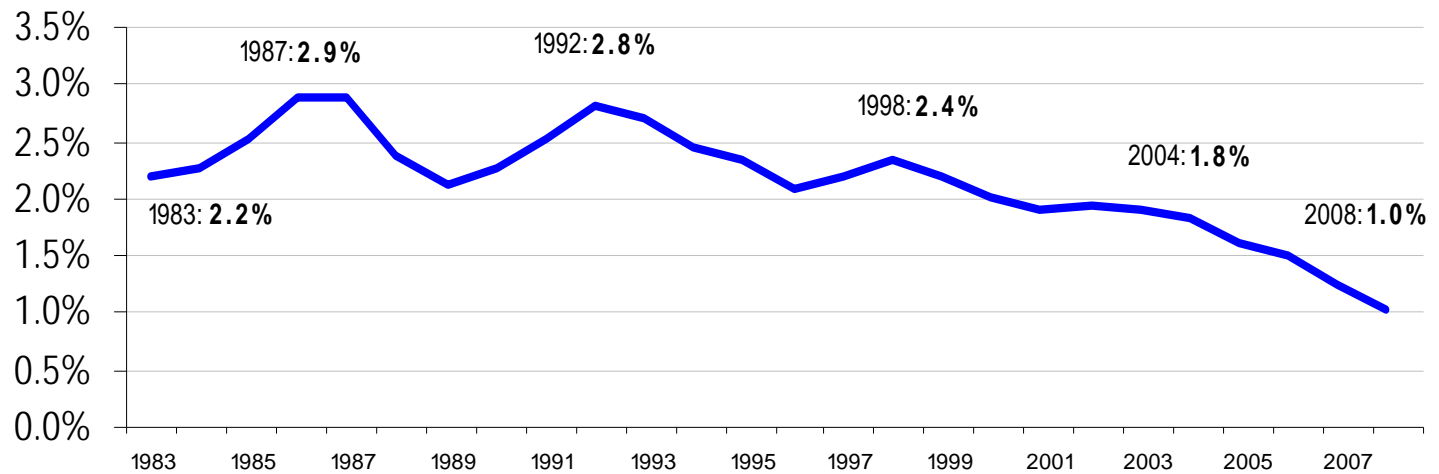


### III. Is There a Bubble in U.S. Farmland Values?

By comparison, U.S. farmland cap rates remain attractive

#### Rent-to-Value of U.K. Agricultural Land: 1983 - 2008

(Rent per Hectare / Land Value per Hectare)



SOURCE: DEFRA



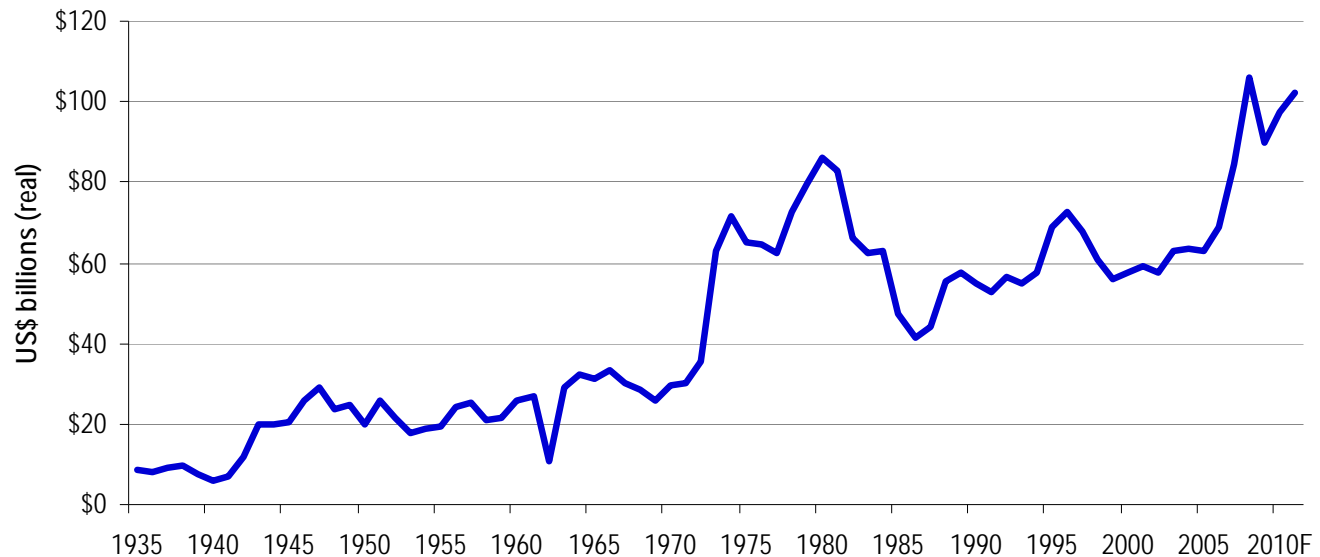
### III. Is There a Bubble in U.S. Farmland Values?

Growth in demand will continue to benefit U.S. farmers

- Global demand for U.S. agricultural products remains strong
  - 2010 exports expected to rise 9%
  - 2011 exports forecast to rise another 5%

U.S. Total Agricultural Exports: 1935-2011F

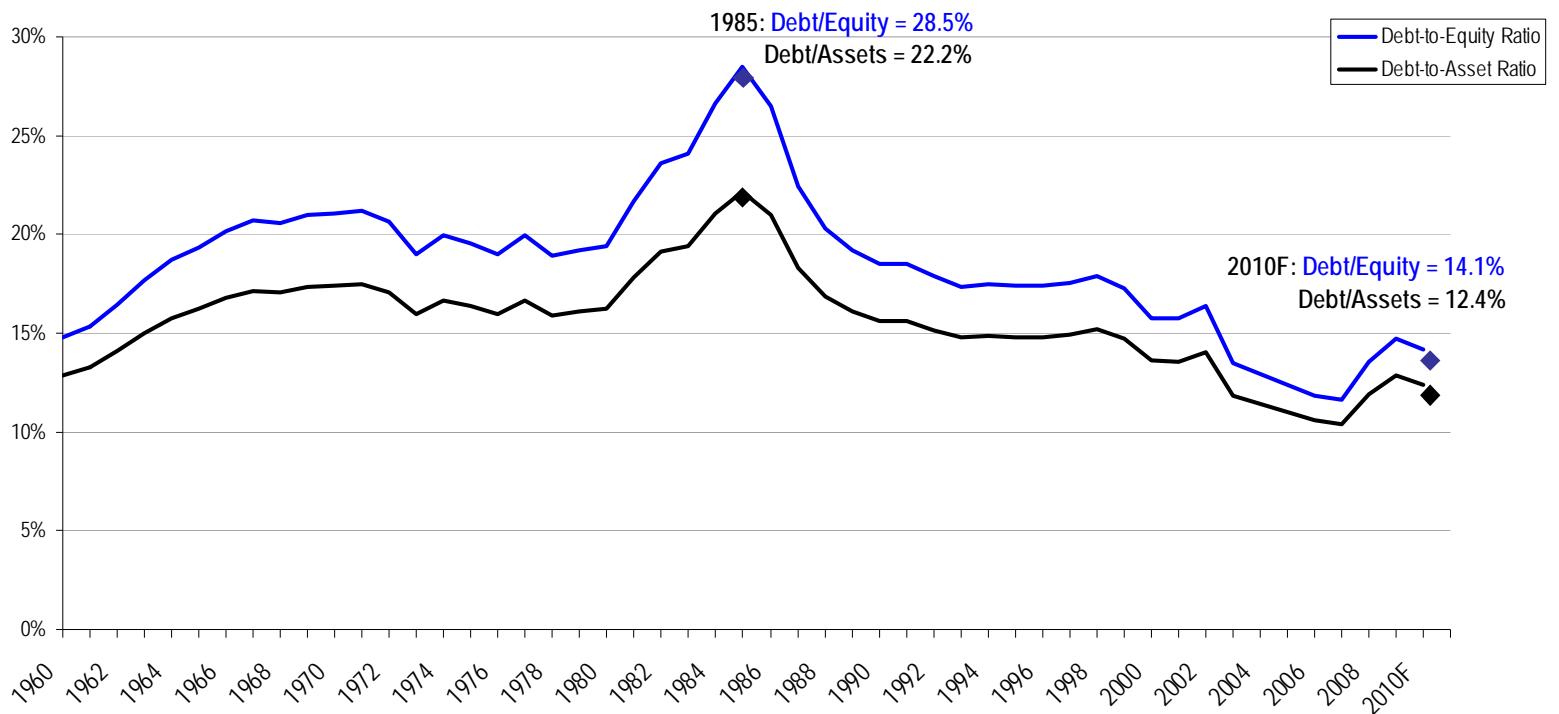
GDP-adjusted (2005=100) real dollars



# III. Is There a Bubble in U.S. Farmland Values?

U.S. farm sector balance sheets are strong...

### Debt vs. Assets and Equity in U.S. Farm Sector: 1960-2010F



SOURCE: USDA

NOTE: USDA defines "farm assets" as farm real estate including farmland and buildings, machinery and equipment, value of crops stored, livestock and poultry inventories, purchased inputs on hand, investments in cooperatives and financial instruments such as cash and checkable deposits. Real estate historically has accounted for 70% of assets, on average.

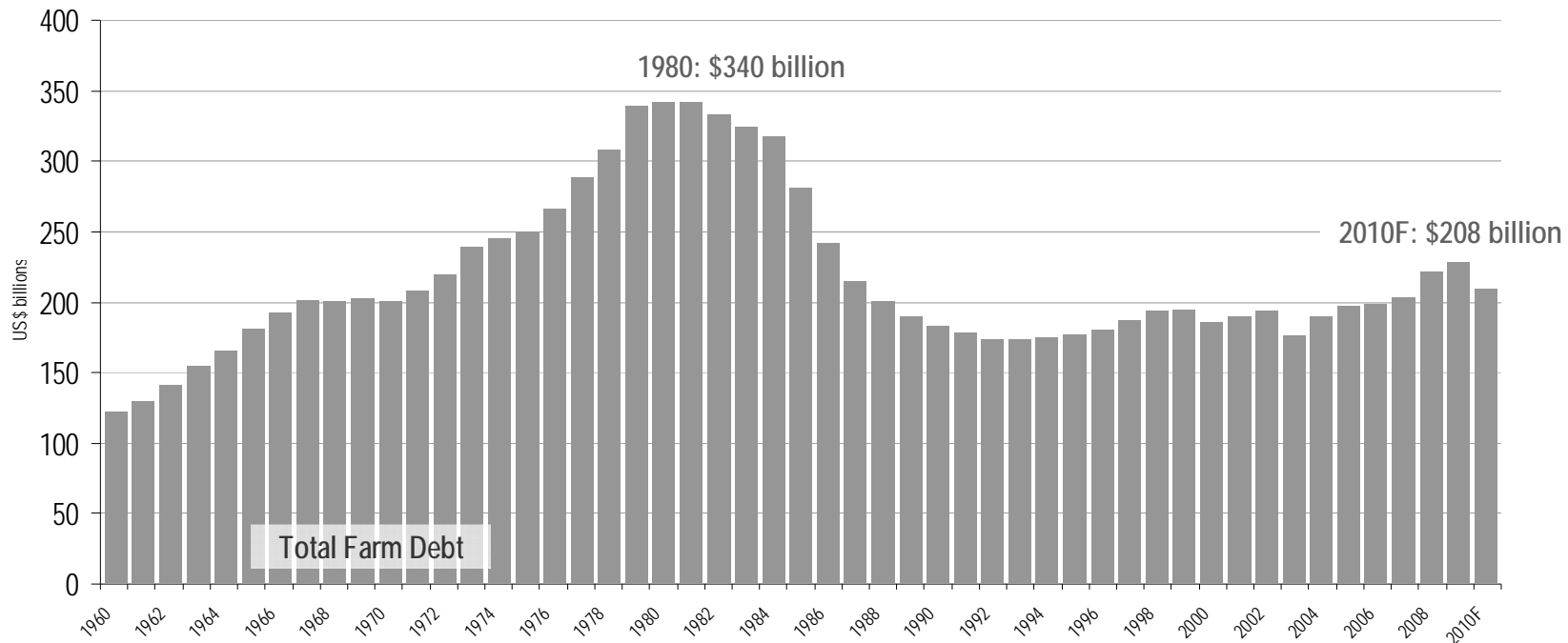
# III. Is There a Bubble in U.S. Farmland Values?

...and farmers will continue to pay down debt in 2010

- Total debt levels down almost 40% from 1980s peak, in real terms
- Debt expected to be further paid down in 2010

Total U.S. Farm Sector Debt: 1960-2010F

GDP-adjusted (2005=100) real dollars



### III. Is There a Bubble in U.S. Farmland Values?

Fundamentals indicate farmland is trading at fair values

*Fundamentals suggest U.S. farmland values are being supported by:*

- Current earnings
- Expectations of strong net farm income and exports
- Strong sector balance sheet with modest leverage
- Decreasing debt levels

*But the future rests on the sustainability of key factors. Farmland values remain sensitive to...*

- Declines in net farm income
  - Decreasing commodity prices
  - Increasing farm-level expenses
- Stronger U.S. dollar
- Increasing interest rates

### III. Is There a Bubble in U.S. Farmland Values?

#### Institutional Investors Remain Positive



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*Institutional investors continue to be attracted to the farmland asset class...*

- Historically attractive returns
- Capital preservation
- Lower volatility
- Diversification

*..and inflows of investment capital to U.S. farmland will drive positive trends to the benefit of investors, farmers and end-users of agricultural products.*

- Consolidation and economies of scale
- Operational efficiency
- Increased productivity
- Widespread implementation of best management practices



# Investment Performance Calculations

## Notes and Disclosures



Hancock Agricultural Investment Group is a division of Hancock Natural Resource Group, Inc., a registered investment adviser and wholly owned subsidiary of Manulife Financial Corporation.

### Projected Performance

Projected performance figures are based on a model containing certain assumptions, including but not limited to assumptions as to appreciation of farmland, increases in cash rental rates, increases in production costs. They should not be construed as guarantees of future returns, nor should they be interpreted as implications of future profitability. Potential for profit as well as for loss exists. The impact of future economic, market and weather factors may adversely affect model results. Performance objectives and projections are based on information available to us at this time and are not meant to be interpreted as guarantees or commitments to future results. The economic outlook is developed by HAIG's professionals. Our outlook is based on the information available to us at this time and our analysis of same. While we are confident in our projections, one should not interpret them as a guarantee of performance.

### Before Fees Performance

Performance figures do not reflect the deduction of investment advisory fees. The client's return will be reduced by advisory fees and any other expenses it may incur in the management of its investment advisory account. Investment advisory fees of Hancock Natural Resource Group are described in Part II of Advisors Form ADV.

### Effect of Advisory Fees Over 10-Year Period

If, for example, the gross total annualized return of a \$10 million investment over a 10-year period were 9.5% nominal, deducting an annual investment management fee of 100 basis points on the invested capital over a 10-year period would produce a total value of \$25.8 million after fees, versus \$26.8 million before fees.

Years	Cummulative Fee	Years	Cummulative Fee
1	1.004%	6	6.176%
2	2.018%	7	7.241%
3	3.042%	8	8.318%
4	4.076%	9	9.405%
5	5.121%	10	10.503%

### Representative Example of Compounded Effect of Investment Advisory Fee

A representative 1.00% management fee deducted from a portfolio quarterly (0.25%/quarter) would result in the following cumulative compound reduction of the portfolio time-weighted rate of return.