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## Institutional Investment in U.S. Farmland

2012 Ag Summit

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December 11, 2012

## Institutional Investment in U.S. Farmland

### Presentation Outline

- . History of Institutional Investment
- . Leading Managers – Yesterday and Today
- . Recent Developments
- . Case Study: Cash Rent Structures
- . Cautionary Tales



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## History of Institutional Farmland Investing

- “ U.S. life insurance companies – more than 80 years of experience investing in farmland.
  - Initial “farmland fund” offering in 1977 by Continental Illinois Bank & Merrill Lynch.
  - Prompted Congressional hearings.



## Institutional Investment – 1980s

- “ 1983--Phoenix Farmland Investors Limited Partnership-1
  - Raised \$4.4M (More than \$1M from Phoenix)
  - 29% levered
  - Purchased 12 farms in IL, IN, OH

## Institutional Investment – 1980s

- “ After early 1980s farmland bubble burst, series of farmland investment partnerships emerged.
- “ Motivation: safe haven/portfolio diversification
- “ Typically organized to wind up after 5-10 years. Assets sold, partners divvy up profits.

## Institutional Investment – 1980s

- “ MetLife 1988 offering
- “ \$5,000 min. purchase.
- “ \$50M target; \$912,152 raised.
- “ MetLife invested \$4M to meet \$5M minimum.
- “ Wound up 12/95



## Institutional Investment – 1980s

Late 1980s, ~8 major U.S. ag asset managers.

- “ Metropolitan Life
- “ Prudential Life
- “ Morgan Stanley
- “ Equitable
- “ John Hancock Life
- “ Cozad/Westchester
- “ Batterymarch: AgriVest
- “ Phoenix Mutual Life



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## Institutional Investment – early 2000s

- . Hancock Agricultural Investment Group
- . UBS AgriVest
- . Prudential
- . Cozad/Westchester



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## Institutional Managers – Today

- “ Hancock Agricultural Investment Group, Boston
- “ UBS AgriVest, Hartford, CT
- “ Prudential Investments, Atlanta
- “ TIAA-CREF, New York (2007)
  - . Westchester Group
- “ Teays River Investments, Carmel, IN (2007)
- “ Halderman Real Asset Management, Wabash, IN (2011)

## Institutions take note of rise of farm sector

Performance By Property Type

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Timber	18.9%	19.6%	12.7%	14.1%	9.4%	13.7%	17.2%	23.0%	33.9%	23.6%	20.5%	15.8%	6.3%	18.2%	15.5%
Office	17.9%	15.9%	12.2%	14.0%	9.3%	8.8%	9.7%	20.5%	21.2%	21.2%	18.4%	9.5%	-4.8%	12.6%	15.2%
Industrial	15.9%	15.8%	11.7%	13.0%	6.7%	7.6%	8.9%	13.0%	20.3%	19.2%	18.1%	-4.1%	-11.0%	11.7%	14.6%
Apartment	12.9%	14.1%	11.7%	7.8%	6.2%	6.9%	8.2%	12.1%	20.0%	17.0%	15.9%	-5.8%	-17.5%	9.4%	13.8%
Farm	8.8%	12.9%	10.9%	7.6%	2.0%	6.7%	7.7%	12.0%	19.5%	14.6%	15.0%	-7.3%	-17.9%	9.0%	13.8%
Retail	8.5%	7.2%	9.6%	7.0%	-3.6%	2.8%	6.1%	11.2%	19.4%	13.7%	13.5%	-7.3%	-19.1%	8.8%	11.8%
Hotel	-	5.9%	7.0%	4.4%	-5.2%	1.9%	5.7%	10.2%	19.0%	13.4%	11.4%	-9.4%	-20.4%	-0.2%	1.6%

Source: NCREIF, Courtland Partners, Ltd.

# Why Farmland?

- “ Shelter from whipsawing stock and bond markets.
- “ Attractive total return with high cash distributions
- “ Low volatility
- “ Overall portfolio diversification
- “ Serves as an inflation hedge

# Investment Consultants – Ginning up interest

“ Investing consulting firms scrambling to bone up on farmland, writing white papers...

**IV. Create Asset Mix Alternatives**  
Investment Themes to Explore

		Economic Growth	
Inflation	Low (Falling) Growth, High (Rising) Inflation	Inflation Linked Bonds (TIPS) Commodities Infrastructure	High Growth, High Inflation Real Assets (e.g. Real Estate, Timberland, Farmland, Energy)
	Low Growth, Low Inflation (Deflation)	Low Growth, Low Inflation (Deflation) Cash Government Bonds	High Growth, Low Inflation Corporate Debt Equity

Investors are seeking economic diversification to a broader range of scenarios like inflation, deflation, stagnation and growth given the uncertainty.  
 Allocations are based on key return drivers like inflation and growth, but there are third and fourth dimensions influencing returns, like leverage and liquidity.  
 S&P500 currently has far representation to inflation-sensitive assets and at an allocation level we consider appropriate (15%).



**Greener Pastures Ahead for Farmland Investing**

**Appendix**

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## Institutional Investment – Where?

### Investment Opportunity Set



- The universe of investable farmland in the U.S. is estimated to be between \$1.3-\$1.8 trillion
- One manager has identified approximately \$300-\$500 billion of domestic agricultural land which is of institutional quality
- Annual and commodity crops are concentrated in the Midwest and South
- Areas of the West Coast and Southeast offer diversification opportunities with both annual and permanent crops
- Globally, Australian farmland represents a \$60 billion market, while Canadian land is estimated to represent \$230 billion of market value

Source: USDA, UBS, Hancock Agricultural Investment Group

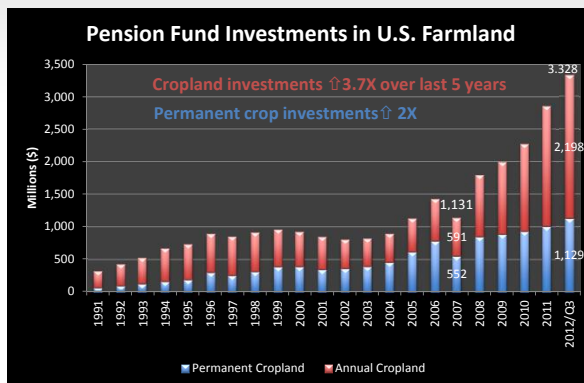


Graphic: McCortland Partners

## Pension funds now turning to farmland

Annual cropland is 66% of total farmland investments

Up from 52% five years ago.

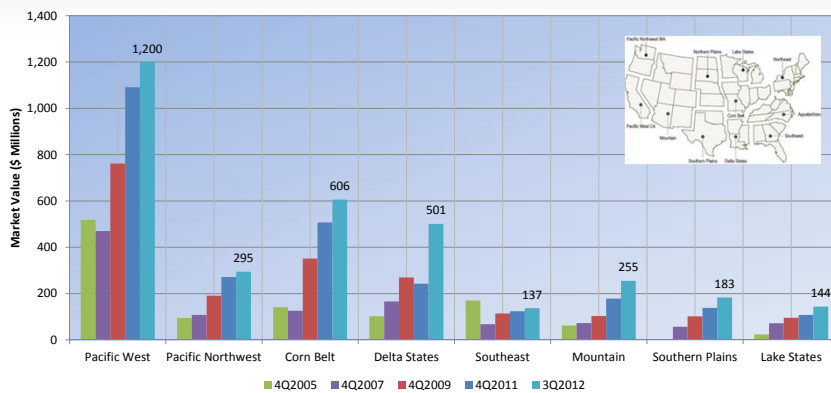


Source: Farmland Investor Letter analysis of NCREIF data



## Pension Funds – Where are they investing?

Change in U.S. Pension Funds' Regional Farmland Holdings by Market Value 2005-3Q 2012

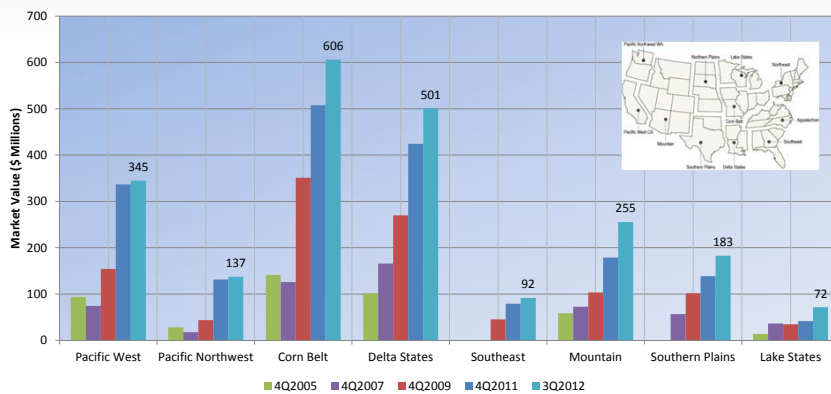


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## Pension Funds – Annual cropland investments

Change in U.S. Pension Funds' Regional Annual Rowcrop Land Holdings by Market Value 2005-3Q2012



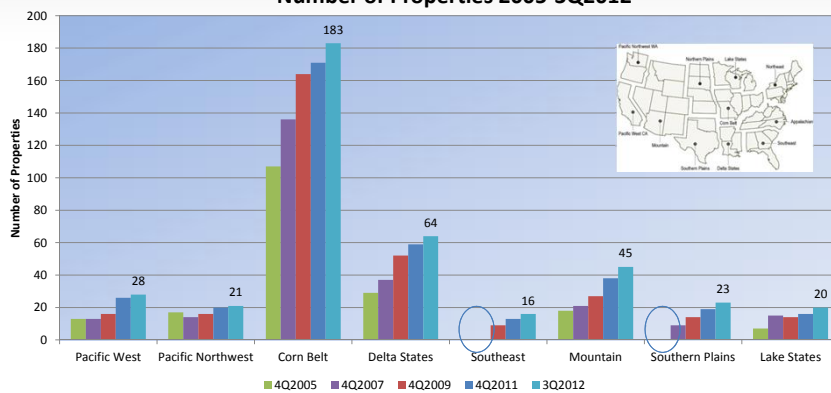
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## Pension Funds – Annual cropland investments

U.S. Pension Funds' Regional Annual Rowcrop Land Holdings by Number of Properties 2005-3Q2012

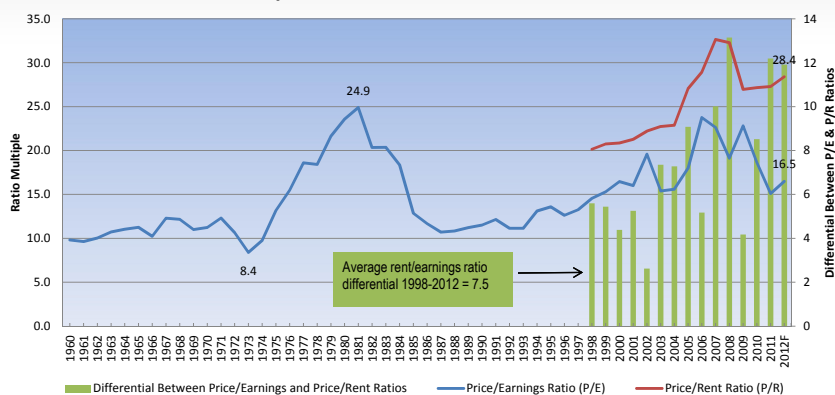


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## Relative value/Opportunities for rent increases

Cropland traded at a rich 28 times rent in 2012; but 16X earnings.  
Net farm income poised to bounce back to record levels in 2013.



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## Institutional Investment – Who are the owners?

### Pension Funds – Some examples

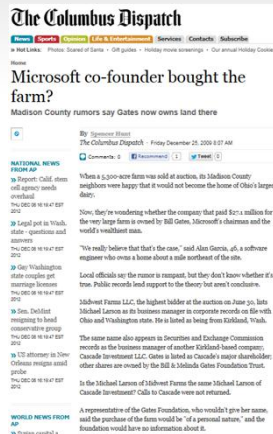
- “ Alaska Retirement Management Board
- “ Arkansas Teachers Retirement System
- “ California Public Employees Retirement System
- “ County Employees’ Annuity & Benefit Fund of Cook County
- “ Dallas Police & Fire Pension System
- “ State Board of Administration of Florida
- “ Illinois Municipal Retirement Fund
- “ New Mexico Education Retirement Board
- “ Pennsylvania Public School Employees’ Retirement System
- “ Sonoma County Employee’s Retirement Association
- “ Teacher Retirement System of Texas
- “ Aetna
- “ Boeing Company
- “ Dow Chemical



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## Private Equity Groups

• Press coverage of farm investments by Bill Gates and others has further spurred interest...



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## Investment Trends – Private funds

### “ Wexford Capital

- . Stampede Farms (NE, TX, KS, OK)
  - “ Paid ~\$95M for nearly 49,000 acres in 2007, 2008.
  - “ In 2009, said it aimed to “build the Wal-Mart farming operation of the world.”
  - “ Earlier this year, said it sees more compelling investment opportunities outside agriculture.
  - “ If pending sales are completed, poised to pocket \$64 million in gross capital gains on five-year land play.



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## Institutional Investment – Recent trends

### “ Private Real Estate Investment Trusts ⇨ IPO?

- . Vintage Wine Trust (2005)
- . Agricultural Company of America (2007)
- . Chess Full Ag Harvest Partners (2008)
- . American Farmland Co. (2009)
- . Gladstone Land Company (2010)
- . International Farming Company (2010)



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## Lease Examples - Illinois

### Menard County, IL - 250 acres

- Base rent: \$350/A, due 3/1
- APH yield: 170 bu./A

#### Flex Component:

- If avg. Dec 2012 corn futures price on CBOT (as calculated by the Revenue Protection crop insurance program) during either Feb 2012 or Oct 2012, whichever is greater, exceeds \$5/bu., the per-bushel price difference is multiplied by the tenant's average APH yield to determine Incremental Income.
- Tenant pays Additional Rent of 35% of the Incremental Income, due 11/15.
- If neither the Feb. or Oct. avg. Dec 2012 futures price is above \$5, no additional rent is due.



## Lease Examples - Illinois

### Menard County, IL - 250 acres

- Base corn price: \$5/bu.
- Avg. Dec 2012 futures price in Feb 2012: \$5.68
- Average Dec 2012 futures price in Oct 2012: \$7.50
- Difference between the Oct 2012 (highest avg.) and Base Corn Price: \$2.50/bu.
- Average APH yield: 170 bu./A

#### Incremental Income:

- $\$2.50/\text{bu.} \times 170 \text{ bu./A} = \$425/\text{A}$
- $\$425/\text{A} \times 250 \text{ tillable acres} = \$106,250$

#### Additional Rent Due:

- $\$106,250 \times 35\% = \$37,187.50$
- \$148.75/A additional rent
- Total 2012 Rent: \$498.75/A



## Lease Examples - Colorado irrigated

### " Sedgwick County, CO - 1,009 A

- Base Rent: \$235/A; Prepayment of additional rent: \$25,000 or ~\$25/A

#### Flex Component:

- If avg. Dec 2012 corn futures price (Feb. 2012 and Oct. 2012), when averaged, exceeds \$5/bu. (Base Corn Price), the per-bushel price difference multiplied by an assumed corn yield of 180 bu./A for the irrigated portion (Incremental Income).
- Tenant pays 35% of Increment Income as Additional Rent. If Dec 2012 futures price when averaged is at or below Base Corn Price, no additional rent due.
- If additional rent due is greater than \$25,000, additional rent due 11/15; if less, landowner refunds tenant the overage by 11/15



## Lease Examples - Colorado irrigated

### " Sedgwick County, CO - 1,009 A

- Base corn price: \$5/bu.
- Avg. Dec 2012 futures price in Feb 2012: \$5.68
- Average Dec 2012 futures price in Oct 2012: \$7.50
- Combined avg. Dec. 2012 futures prices in Feb 2012 and Oct 2012: \$6.59/bu.
- Difference between the combined average of Dec futures prices in Feb 2012 and Oct 2012 and Base Corn Price = \$1.59/bu.
- Average APH yield: 180 bu./A

#### Incremental Income:

- $\$1.59/\text{bu.} \times 180 \text{ bu./A} = \$286.20/\text{A}$
- $\$286.20/\text{A} \times 814 \text{ irrigated tillable acres} = \$232,966.80$

#### Additional Rent Due:

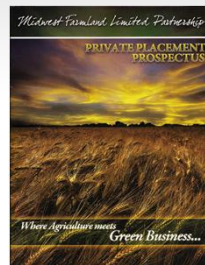
- $\$232,966.80 \times 35\% = \$81,538.38$
- \$80.88/A additional rent (over entire acreage base)
- Total 2012 Rent: \$315.88/A



## Scoundrels, Questionable Characters

### “ Midwest Farmland Partners

- . Alleged Ponzi Scheme
- . Through July 2012, attracted estimated \$2.2 million from ~20 investors in 10 states (CA,FL,IL,MO,NH,OR,PA,SD)



- . Aliases:

“ American Farmland Partners, The Agricultural Network, Growers Liquidity Fund, Midwest Farmland Acquisition Corp.



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## Questionable Current Farmland Plays

- “ PanAm Terra Inc.
- “ Farm Lands of Africa Inc.



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## Cautionary Tales

- “ Brazil Iowa Farms
- “ Global Agricultural Investments

## Public Farming/Cropland Development Plays

- “ Ability to build profitable, large-scale farming ventures diversified across multiple climates, countries and crops remains questionable.



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