Institutional Investment in U.S. Farmland

2012 Ag Summit

Michael Fritz
Editor, Farmland Investor Letter

December 11, 2012

Presentation Outline

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

U.S. life insurance companies – more than 80 years of experience investing in farmland.

- 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

Institutional Investment – early 2000s

- Hancock Agricultural Investment Group
- UBS AgriVest
- Prudential
- Cozad/Westchester
Institutional Managers – Today

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

Institutions take note of rise of farm sector
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...
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 $50 billion market, while Canadian land is estimated to represent $230 billion of market value

Source: USDA, UBS, Harvard 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.

Pension Fund Investments in U.S. Farmland

Cropland investments: $3.7X over last 5 years
Permanent crop investments: $2X

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

Pension Funds – Annual cropland investments

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

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

- 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.
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

Private Equity Groups

Press coverage of farm investments by Bill Gates and others has further spurred interest...
Investment Trends – Private funds

Wexford Capital
- Stampede Farms (NE, TX, KS, OK)
  - 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.

Institutional Investment – Recent trends

Private Real Estate Investment Trusts \( \Rightarrow \) 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)
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/bu. x 170 bu./A = $425/A
- $425/A x 250 tillable acres = $106,250

Additional Rent Due:
- $106,250 x 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:

- 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
- 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/bu. x 180 bu./A = $286.20/A
- $286.20/A x 814 irrigated tillable acres = $232,966.80

Additional Rent Due:

- $232,966.80 x 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.

Questionable Current Farmland Plays

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

*S&P 500 Index*
Institutional Investment in Farmland

Mike Fritz
312-725-0559
mfritz@mercator.co
Farmlandinvestorcenter.com