

Chicago Federal Reserve Bank Agriculture Investment Conference



INVESTING IN AMERICA'S HEARTLAND

Perry Vieth, President

Ceres Partners, LLC

Firm Overview

- Investment objective
 - Best-in-class identification, purchase and ongoing management of quality US Midwest farmland
 - Create diversified portfolio of farmland
 - Achieve inflation-protected, uncorrelated returns
 - Target farmland with the ability to generate 6.5-8% current income
- Ceres Farms, LLC
 - Commingled investment fund with annual liquidity
 - Open to new investors
 - \$74MM in assets under management
 - 64 farms / 15,500+ acres / Average per acre cost of ~\$4,700
- Customized separate accounts tailored to specific income/return objectives



Farmland Investment – Favorable Fundamentals

Secular Increase in Demand for Grain Commodities

- Global Demographics Increases Demand for Food
- Growing Asian Middle Class Demands more Protein
 - 1 lb beef requires 7 lbs grain
- Environmental Demand for Biofuels: Ethanol and Biodiesel
- Declining Global Supply of Arable Land

Impact of Globalization

- U.S. has Comparative Advantage in Agriculture
- Declining Dollar Stimulates Agricultural Exports



Investment Trends

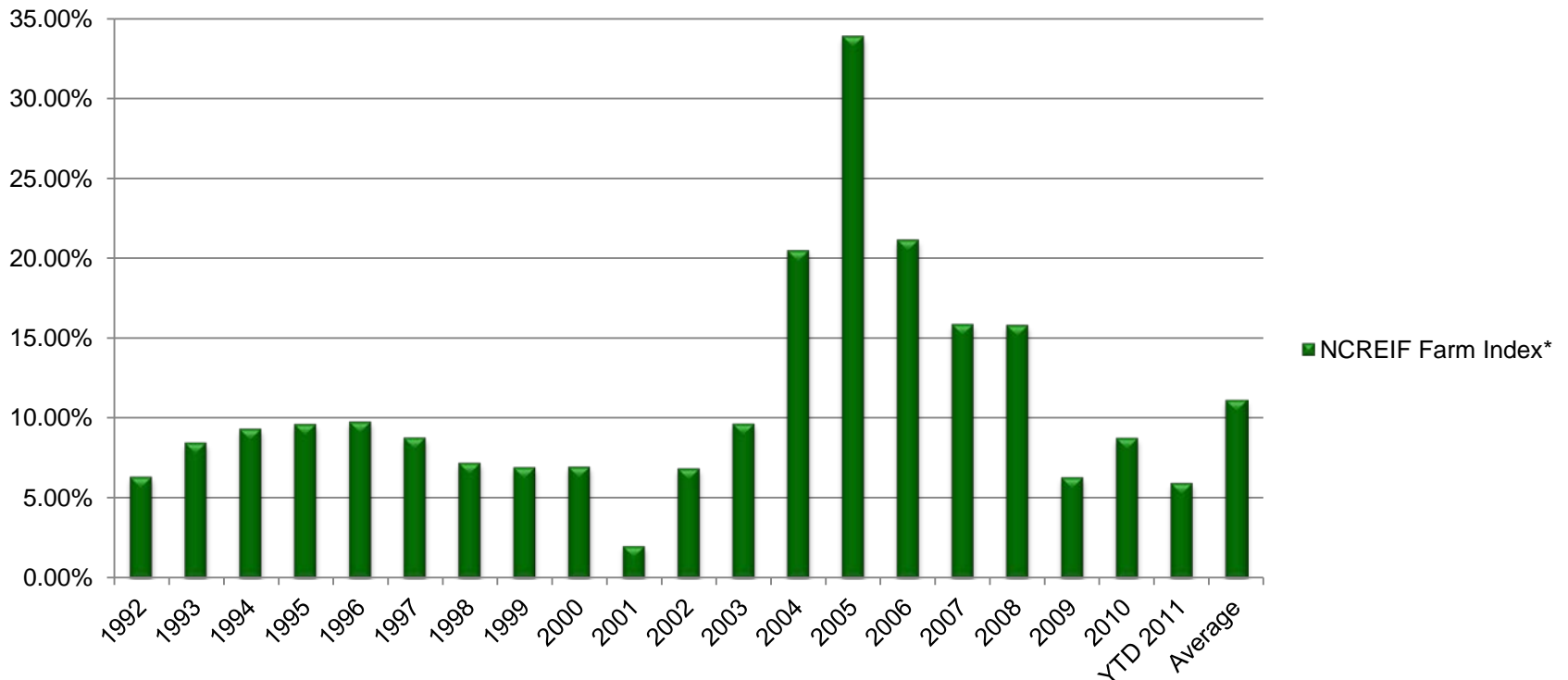
- Agriculture/Farmland Uncorrelated with Stocks
- Institutional Investors Shift Assets into Commodities and Hard Assets



Farmland Returns – 1992 to 2011

Persistent Positive Returns

- Current income plus long-term appreciation
- 11.0% average annual return



*National Council of Real Estate Investment Fiduciaries Farmland Index is a quarterly time series composite of total returns on a large pool of individual agricultural properties held by institutional investors for investment purposes only. www.ncreif.com



Source of Gain - Land Appreciation

Significant Component of Total Return

- Chicago Fed reports 45-year average appreciation for 7th district (IA, IL, IN, MI, WI) is 6.5%. (see Table)

State Ann. % change	Indiana	Illinois	Iowa	Wisconsin
June 2011	21%	19%	20%	8%
June 2010	12%	11%	18%	7%
June 2009	7%	2%	4%	-1%
June 2008	-1%	6%	4%	13%
June 2007	16%	15%	18%	11%
June 2006	6%	6%	13%	10%
June 2005	10%	10%	10%	12%
June 2004	14%	13%	11%	14%
June 2003	6%	9%	10%	3%
June 2002	8%	7%	8%	7%
5 yr Avg.	11.0%	10.6%	12.8%	7.6%
10 yr Avg.	9.9%	9.8%	11.6%	8.4%
20 yr Avg.	8.1%	7.0%	7.9%	7.7%
45 yr Avg.	6.9%	6.2%	5.2%	6.6%

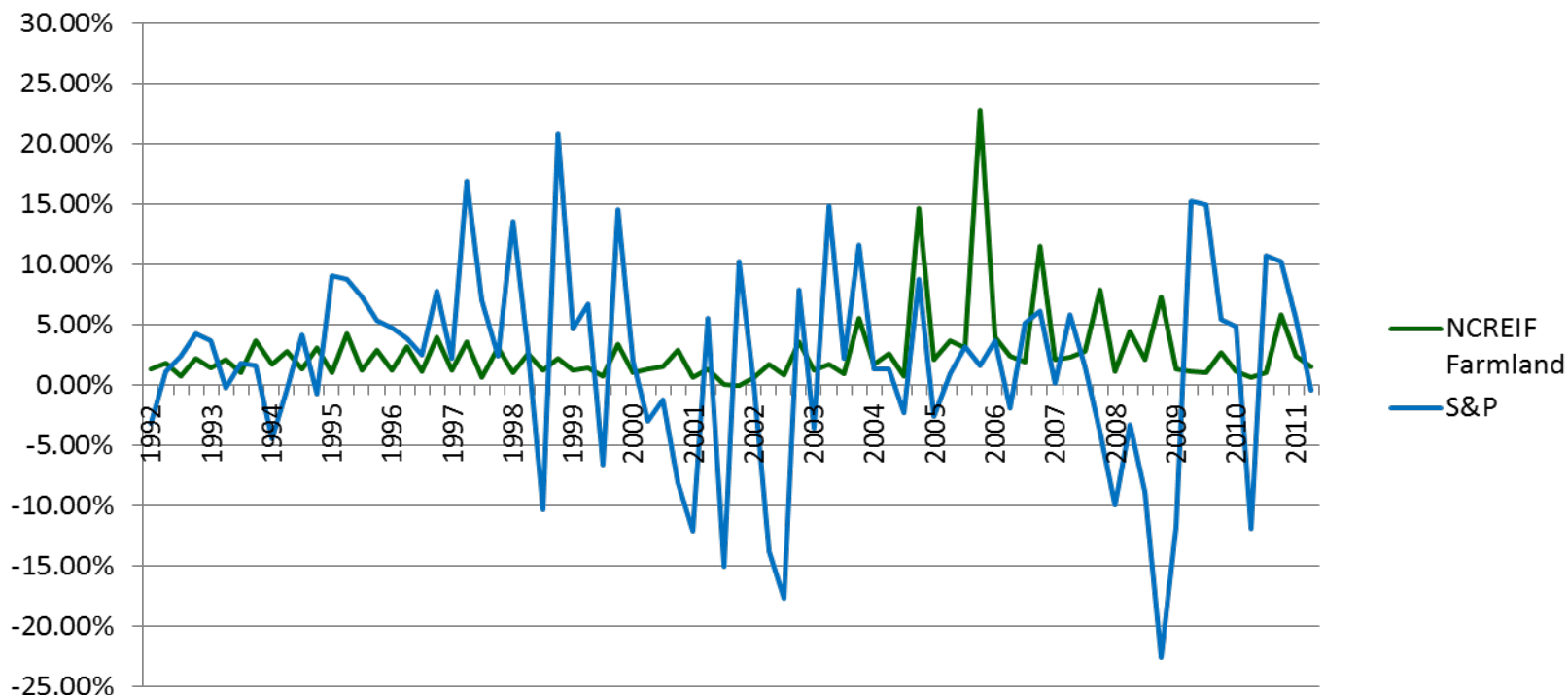
Source: Seventh District farmland values: percentage change. IA data from 1977



Why Farmland? – Returns vs. S&P 500

Higher Returns with less Volatility (Jan 1992 to September 2011)

- Average Annual Return: Farmland **11.0%** S&P 500 5.2%
- Standard Deviation: Farmland **6.5%** S&P 500 16.5%



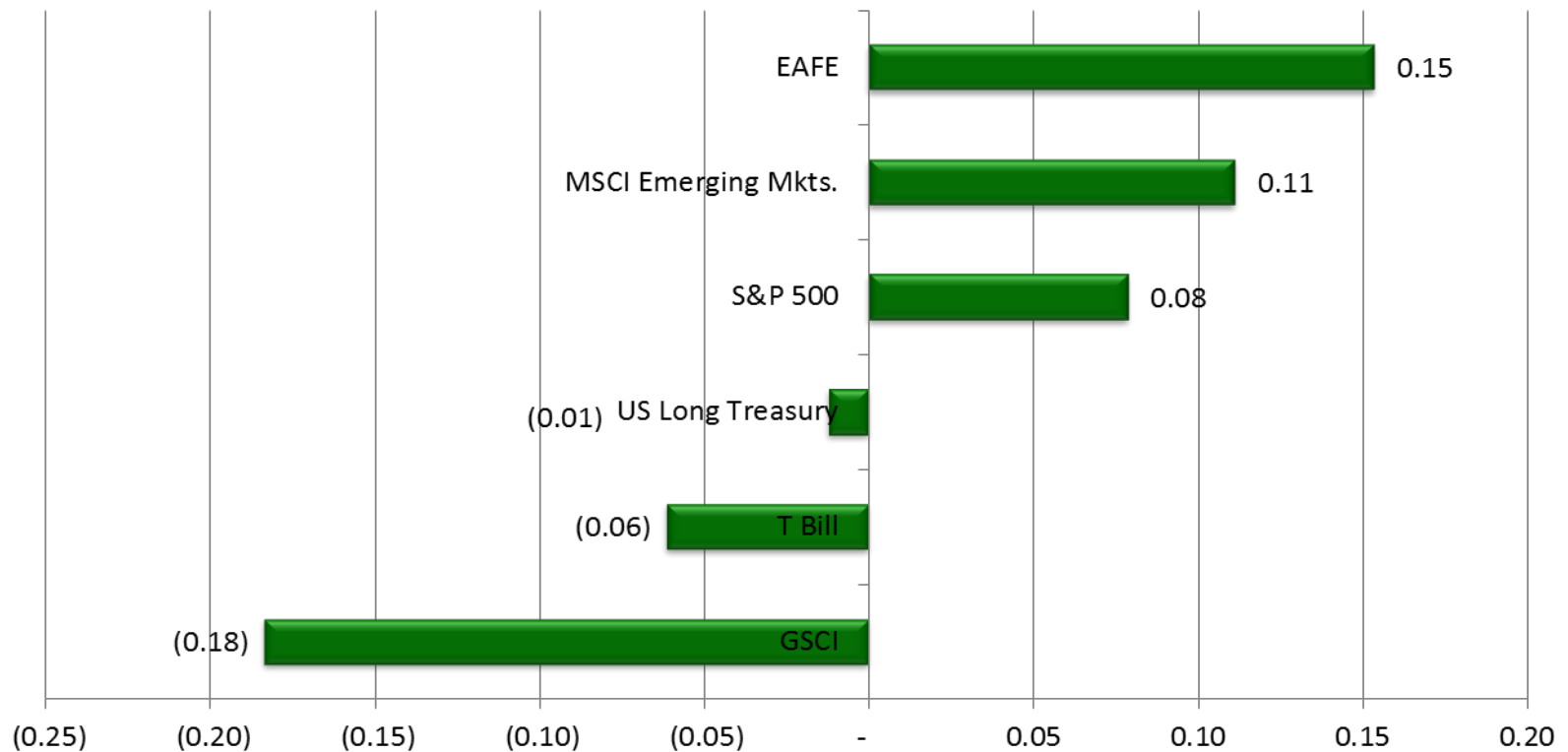
*National Council of Real Estate Investment Fiduciaries Farmland Index is a quarterly time series composite of total returns on a large pool of individual agricultural properties held by institutional investors for investment purposes only. www.ncreif.com



Why Farmland? – Uncorrelated Returns

Low correlation with traditional asset classes

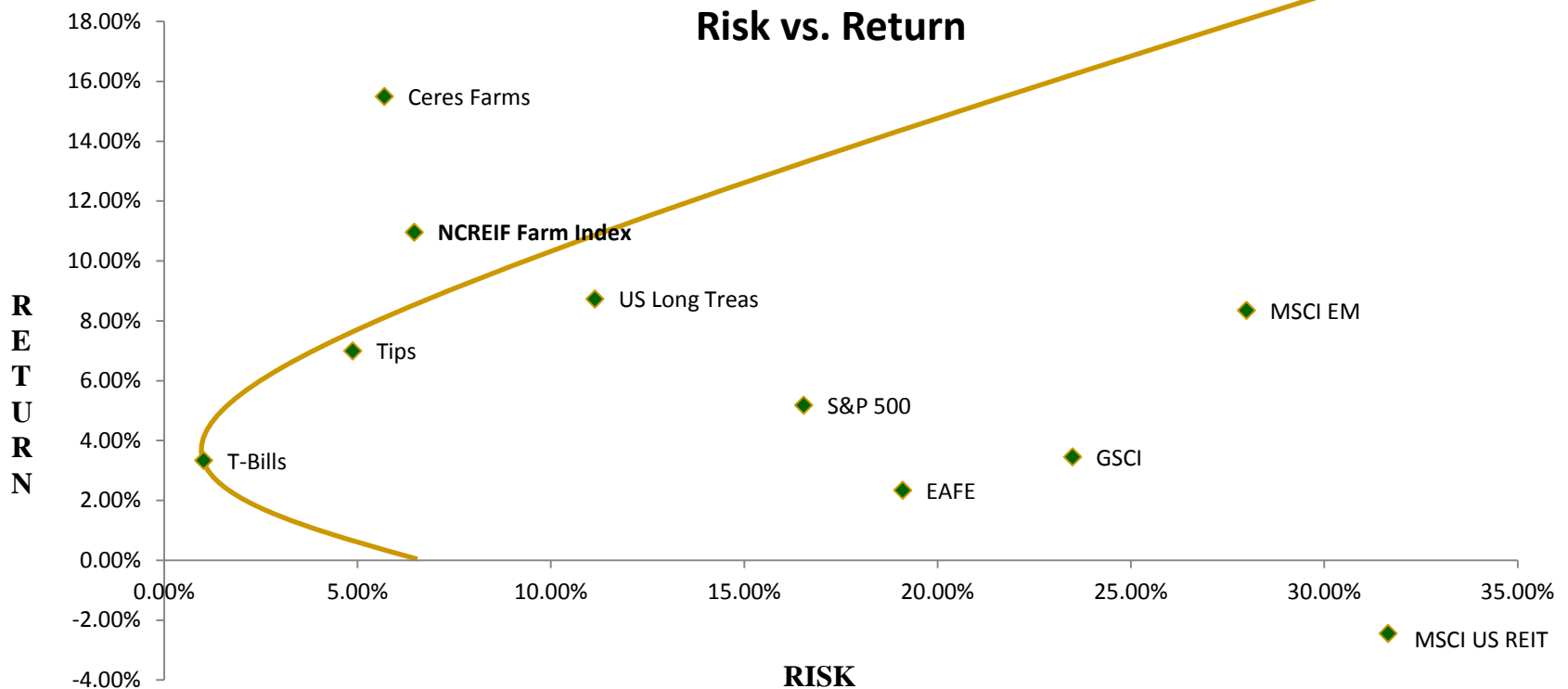
NCREIF Farm Index vs. Traditional Asset Classes



Why Farmland? – Risk vs. Return

High Returns with Lower Risk

- Farmland's Sharpe ratio exceeds other asset classes



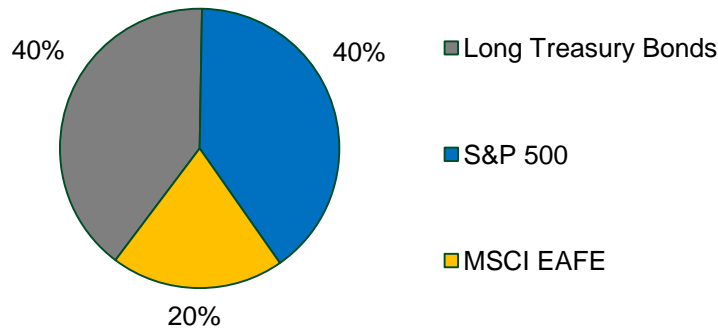
*Risk & return data Jan 1992 – Sept 2011 except TIPS, MSCI US REIT and Ceres Farms start 4/97, 7/05 and 1/08, respectively



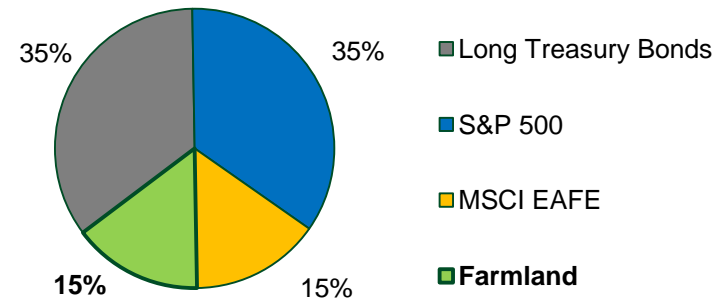
Why Farmland? – Increased Portfolio Efficiency

Farmland enhancement to traditional asset allocation

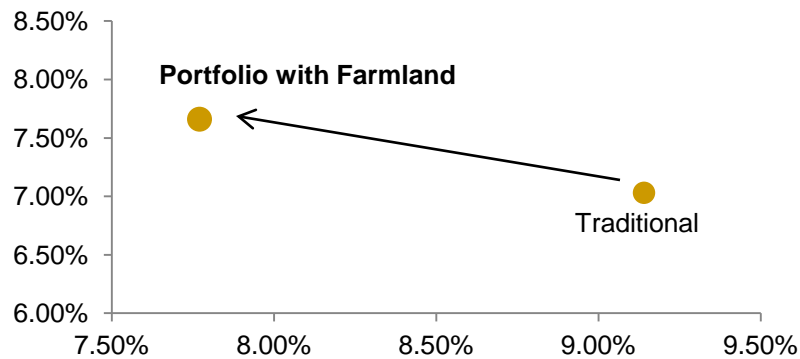
Traditional Asset Allocation



Asset Allocation with Farmland



Risk vs. Return 1992-2011



Summary Statistics	Portfolio with Farmland	Traditional Portfolio	Variance
Return	7.66%	7.03%	0.63%
Standard Deviation	7.77%	9.14%	-1.37%
Highest Return	23.20%	25.17%	-1.97%
Lowest Return	-13.37%	-19.43%	6.05%



Is There a Farmland Bubble?

Generally no...but it depends on a farm's purchase price

Farm Breakeven Analysis	Average Productivity Soils 163bu/ac Rotated Corn	High Productivity Soils 196bu/ac Rotated Corn
180 Tillable Acres: Corn % / Soybean %	67% / 33%	67% / 33%
Commodity price per bu: Corn / Soybeans	\$6.00 / \$12.25	\$6.00 / \$12.25
Crop Revenue: Corn	\$117,000	\$141,000
Crop Revenue: Soybeans	\$36,000	\$43,000
Government Payments & Non-Crop Revenue	\$3,600	\$4,500
Total Farm Revenue	\$157,000	\$189,000
Variable Expenses - Corn*	\$50,000	\$52,000
Variable Expenses - Soybeans*	\$13,000	\$13,000
Fixed Expenses excluding Land*	\$20,000	\$21,000
Total Expense	\$82,000	\$85,000
Net Crop Income	\$74,000	\$103,000
Breakeven before labor and land	\$413 per acre	\$575 per acre
Allowance for farm labor and profit	\$100 per acre	\$100 per acre
Breakeven funds available for land rent	\$313 per acre	\$475 per acre

*Source: 2012 Purdue Crop Cost & Return Guide. Includes 10% operator efficiency adjustment for variable costs related to operators of over 3,000 acres.



Portfolio Allocation to Agriculture

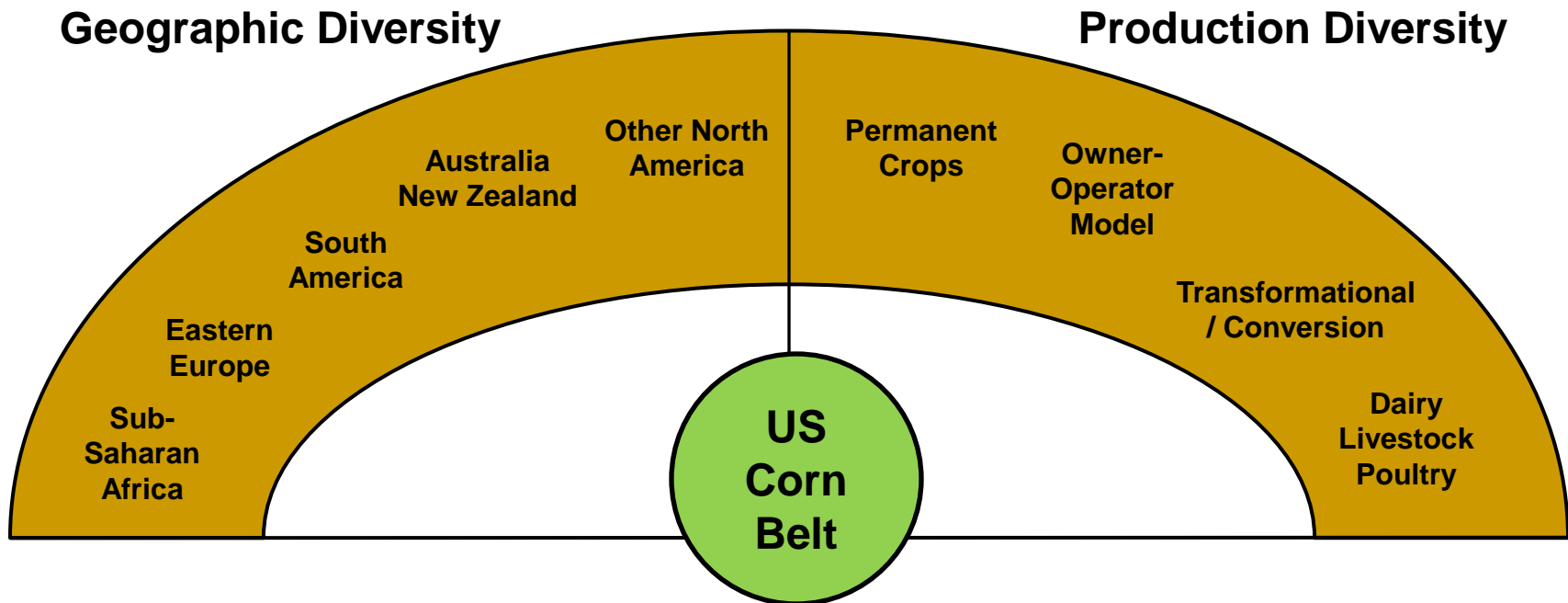
Many opportunities for investment exposure to Agriculture

- Indirect exposure through Ag company stocks and bonds, ETFs and sector-focused mutual funds
- Direct ownership of farmland
 - Begin with Core holding of US Midwest Corn Belt
 - Then diversify within the US, crops and geographic regions
 - Add non-US holdings to create diversified global portfolio with risk-return efficiency
- Ag infrastructure and processing investments



Portfolio Construction

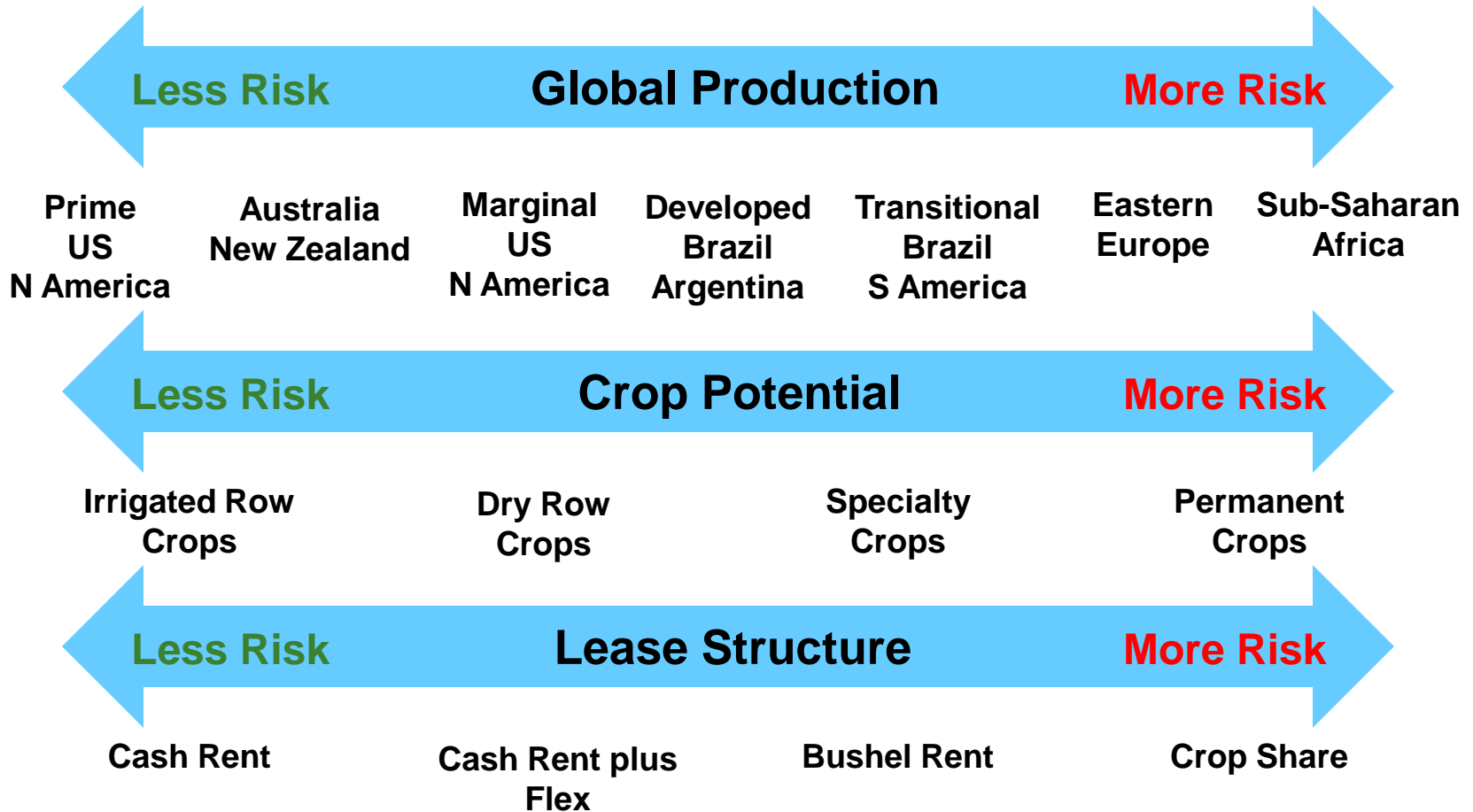
Core holdings within a diverse farmland portfolio



- Row crops: Grains & Specialty Vegetables

Understanding Risks & Rewards

Location, crops and lease structure matter



Land Acquisition – Macro Factors

Key factors to be analyzed prior to land purchase

- Assess sovereign risk
 - Seek jurisdictions where land ownership rights are sacrosanct
 - Established legal system in place
 - Avoid unfavorable tax regimes and overly intrusive governments

- Infrastructure in place
 - Ability to market and deliver crops
 - Availability of inputs

- Favorable climate
 - Lengthy, warm growing seasons
 - Adequate rainfall
 - Fertile soils



Land Acquisition - Farm Factors

Key factors to be analyzed prior to land purchase

- Soil & Water
 - Portfolio should consist of a mix of dark, mineral rich soils and better draining lighter soils
 - Sloping ground could lead to soil erosion
 - Water rights and no/low water restrictions
- Production history
 - Strong crop yield records
- Competitive rent neighborhood
 - Strong tenants will compete to farm
- Crop markets nearby
 - Grain elevators and end-users – dairies, livestock, poultry, ethanol/biodiesel
- Environmental evaluation
 - No hazardous materials or track record of pollution



Partner Identification – Achieve Higher Returns

Partner with strong tenants

- Team-up with the most efficient farmers who enhance the value of land
- Seek well-capitalized tenants that employ the latest technologies
- Identify vertically-integrated farmers
- Seek tenants that maximize revenue potential of the farm
- Avoid “old school” farmers who pay low rents in order to insure success
- **Successful tenants are the best source of new farmland opportunities**



Risk Management

Best achieved via successful investment strategy

- Make it on the buy-side – do not overpay on farm purchase
- Focus on farms with strong cash flow
- Diversify rent structure based on farm potential
 - Market based cash rent--most collected upfront
 - Flex rent - base rent plus bonus tied to grain prices
 - Crop Share on farms with greatest potential and least risk
- Buy farms with multiple sources of return
 - Rent producing structures such as grain bins
 - Building sites
 - Additional revenue from hunting, mineral rights, billboards, wind power



7 Reasons to Invest in Farmland

- Advantageous risk-adjusted total returns
- Favorable long-term fundamentals
- Positive correlation with inflation
- Low or negative correlations to traditional asset classes
- Strong and stable income returns
- Finite supply
- Transparency of investment



Why Invest in Farmland?

“I’d rather have all the farmland in the U.S. than all the world’s gold.”

- Warren Buffett, CNBC 3/2/11

