

HISTORY OF INSTITUTIONAL FARMLAND INVESTMENT

A WHITE PAPER BY HIGHQUEST PARTNERS AND
JULIE KOENINGER, CFA, PRODUCT STRATEGIST FOR TIMBER AND AGRICULTURE AT GMO, LLC

Over the past three decades, farmland investing has grown exponentially from a "niche" investment dominated by a few large pension plans and insurance companies to a mainstream institutional real asset class that increasingly can be accessed by retail-oriented investors. In the early 2000s, the thesis of global population growth and increasing meat consumption in developing countries driving demand for food and farmland amid declining farmland acreage and decreasing rates of productivity growth became well-established. Coupled with drought-induced spikes in food prices in 2007 and 2008, which further played into the Malthusian thesis, along with added price volatility fueled by commodity speculation, interest in the asset class increased dramatically, bringing numerous new investors and investment managers to the market. The NCREIF Farmland Index posted strong double digit returns, and farms selling at auction for higher and higher prices ushered in a "golden era" of sorts for investors seeking to invest in a finite land-based investment that had experienced strong relative returns and stability in the wake of the U.S. financial crisis. Farmland investment offerings increased in number and scope, extending beyond the U.S. to both developed and developing countries in the Southern Hemisphere, Europe and Africa, and into livestock investments, and eventually in related agtech investments and REITs.

Today, however, on the heels of three years of sustained low commodity prices, prime farmland regions such as the Midwestern Corn Belt are experiencing a pullback in property values and returns. Lease rates are under pressure, and commodity and currency price fluctuations have impacted returns in some markets. To better understand today's environment and where institutional farmland investing may be heading in the future, Julie Koeninger, CFA, product strategist for timber and agriculture at GMO, LLC (also an early industry participant in her own right), partnered with HighQuest Partners (the agricultural consultancy and organizer of Global AgInvesting conferences) to research the industry's history in detail – back to its roots in the 1970s and earlier – and asked the "pioneers" of institutional farmland investing to share the lessons they've learned that can be applied to today's global farmland/agricultural investment landscape.

ROOTS IN LENDING

Life insurance companies began lending to farmers and ranchers in the late 1800s. Long-term farm mortgages provided an investment with certain cash flows whose duration could be matched to the life insurers' long-term liabilities. The Farm Credit System was established in 1916 to provide a reliable source of credit for farmers and ranchers, but banks in rural regions also provided farm mortgage loans as well as operating lines of credit for farmers and agribusinesses. As farmland values rose sharply in the 1970s, fueled by surging income from increased export demand, and low and sometimes negative real interest rates that stimulated investment in farmland and related equipment, insurance companies (Connecticut Mutual, John Hancock, Prudential, Met Life, Equitable, Mutual of New York) continued traditional agricultural lending, with some diversification into equity joint ventures for their own accounts. Banks such as Continental Illinois and Northern Trust offered farm management services for their customers and began to contemplate farmland investment products.

1970S

Early efforts to develop retail and institutional farmland investment products were met with some headwinds. In 1977, bowing to bitter protests, the Continental Illinois National Bank of Chicago dropped plans to invest tax-exempt pension funds in a proposed \$50 million Agland Fund, which had been denounced by critics as a potential threat to family farms. The bank had intended to sell shares (through Merrill Lynch) in a pooled fund to tax-exempt pension funds, using the money to buy crop farms in the Midwest and the South. The farms would have been rented to operating farmers. Two weeks after Continental proposed the fund, Illinois Representative Paul Findley called for Congressional hearings and a U.S. Department of Agriculture (USDA) study of the idea. A major concern about the proposal was the possibility that demand for farmland would increase and drive up prices'. (While such concerns continue today, with fears that recent increases in investment will lead to a "Wall Street takeover" of all farmland, globally, institutional investment in farmland remains well below 1 percent².)

1980S

GAO Study on Impact of Farmland Investment on Family Farms

In 1980, William Cotter, former head of institutional marketing at Northern Trust's Trust Division, along with H. Joseph Bourn and Frank Chauner, formed American Agricultural Investment Management Co., Inc. (AAIM) to seek farm properties for pension investors³. This prompted a request from U.S. Senator Charles Grassley and several members of the U.S. House of Representatives for a General Accounting Office (GAO) study of the impact of pension investment in farmland on the family farm structure of U.S. agriculture. The resulting March 26, 1981 GAO study⁴ reported on a survey of seven pension fund fiduciaries overseeing \$93 billion in pension assets and found that about 0.02 percent of their assets were invested in farmland and that they were unlikely to increase their investment in farmland substantially "in the foreseeable future." They also interviewed agricultural economists, institutional investors, pension plan sponsors, private research organizations and a number of government entities, along with AAIM itself.

The study concluded that should direct pension investment in farmland (as opposed to the provision of farm mortgages) increase substantially, the number of family farms could decrease. However, based on the sources interviewed, substantial increases in direct farmland investment did not seem likely in the near term. This proved to be correct for quite a while, particularly given the impending farm crisis -- though AAIM would eventually raise \$16 million from two retirement accounts between 1981 and 1987 and a few more farmland funds originated in the 1980s.



Early Funds

In 1981, John Hancock Mutual Life Insurance Company, a long-time farm mortgage lender, whose portfolio also included timberland loans, launched the Agricultural Capital and Real Estate (ACRE) Fund for pension plan investors. ACRE initially included farmland and timberland debt and equity investments.

In 1983, AgriVest was founded by George Schwab, Jim McCandless, Rodney Moore, Kim Morgan and Bill Whitt from the Agricultural Investment Division of Connecticut Mutual Life Insurance Company. Schwab had hired McCandless from Bank of America back in 1973 based on his experience in financing agricultural operations. As an independent company, AgriVest continued to manage the Connecticut Mutual Portfolio. Also in 1983, Phoenix Mutual Life Insurance Company launched a farmland offering that went unsubscribed as national and international economic actors started to impact the farm economy. The company ended up buying more than \$1 million of the \$4.4 million partnership units and that money plus leverage was used to buy 12 Midwestern corn and soybean producing properties⁵. An earlier retail fund, Growth Farm Investors, launched in 1981⁶ by general partners Clifford Ganschow and Frederick Gale (Ganschow remains involved in farmland investing through Terra Worldwide, a data-driven investment manager) and underwritten by A.G. Edwards, met a similar fate as it failed to raise the projected \$10 million when the farm economy began to turn. The timing of the launch of these funds was unfortunate as shortly thereafter the 1980s "farm crisis" began to severely impact rural America.

Farm Crisis Impact

In the early 1980s, global commodity demand stagnated in the face of increasing production. Commodity prices fell and a rising dollar and increased global competition reduced exports. Rapid increases in interest rates as the U.S. Federal Reserve attempted to combat inflation, coupled with variable rate farm mortgages, particularly the Farm Credit System's average cost of funds pricing, and high energy costs, all led to the U.S. Farm Crisis. Farm bankruptcies were followed by steep declines in farmland values and some bank failures. Insurance companies and banks with farmland holdings developed or affiliated with property management units to manage the huge volume of farm properties acquired through foreclosure during these years. During that time, Prudential bought Capital Agricultural Property Services (CAPS), Met Life bought Farmers National, and John Hancock sponsored the development of Pacific Coast Farms (PCF) which later became Farmland Management Services (FMS) and was thereafter integrated into the Hancock Agricultural Investment Group (HAIG) in 2015.

Recovery Brings New Investment Firms

In 1985, as land prices began to stabilize, John Cottingham and Bill Sayer founded Agricultural Investment Associates, Inc. (AIA) to help individuals invest in U.S. farmland. The firm remains in existence today, serving domestic and international clients and working with their advisors to manage their farmland assets. Other syndicators followed with retail-oriented limited partnerships, including long-time property manager, Hertz Farm Management and Met Life, which in 1988 launched Met Life Agricultural LP, offering 50,000 partnership units at \$1,000 each. The partnership had a 10-year term, with a 5 to 6 percent expected return, investing in farms in the Midwest, Florida, and California⁷.

In 1986, Westchester Group was founded by Murray Wise, after acquiring the Champaign, Illinois-based division of the Sandage Companies, a traditional farm management and brokerage firm. It, too, initially offered retail-oriented farmland funds, but a strategic partnership with Cozad Asset Management led to institutional farmland investment management. In 1994, when Joe Bourn's AAIM investors sought liquidity, AAIM's farmland investments were sold to a Westchester Group limited partnership. With the sale of the institutional assets, Bourn formed AAIM Advisors, Inc. to advise individuals in the acquisition and management of farmland assets, a business that he continues to operate today.

"Buy a Farm and Get Rich Slowly"

One of the most significant drivers of interest in institutional farmland investment in the period following the farm crisis was the publication in January 1988 of an article entitled, "Buy a Farm and Get Rich Slowly," by Barton Biggs, then chairman of Morgan Stanley Asset Management, Inc.⁸ The article demonstrated the negative correlation of historical farmland returns with returns to financial assets, and touted farmland's potential as a diversifier that could increase alpha and reduce beta, while introducing the concept of a price earnings ratio for farmland. It also noted the position of the U.S. as the lowest-cost agricultural producer, which provided a positive future signal for the asset class. It became a call to action for investors and investment firms, and farmland investment pioneers Jeff Conrad and Murray Wise both cite this publication as influencing their firms and their clients to put resources into farmland during this period. (*See box for additional journal articles about farmland investment published during this time.*) Morgan Stanley did offer clients a way to execute Biggs' recommendations, with a farmland investment program led by Perry Hall of the firm, with property management provided by Bronson Van Wyke of Arkansas.

The attributes cited by these articles, such as lack of correlation with other asset classes, correlation with inflation, and the long-term financial stability of the sector, continue today, making a compelling case for the asset class. However, the complicated nature of farmland acquisitions and management as well as significant capital required to build diversified portfolios has made it historically difficult for all but the largest institutional investors to benefit.

1980: Barry, Peter J. "Capital Asset Pricing and Farm Real Estate." *American Journal of Agricultural Economics* 62, no. 3 (1980): 549. doi:10.2307/1240213.

1985: Kaplan, Howard M. "Farmland as a Portfolio Investment." *The Journal of Portfolio Management* 11, no. 2 (1985): 73-78. doi:10.3905/jpm.1985.408992.

1988: Irwin, Scott H., D. Lynn Forster, and Bruce J. Sherrick. "Returns to Farm Real Estate Revisited." *American Journal of Agricultural Economics* 70, no. 3 (1988): 580. doi:10.2307/1241496.

1993: Conrad, Jeffrey A., and Bernard E. Stanton. "Ratio Analysis of the U.S. Farm Sector." *The Journal of Investing* 2, no. 1 (1993): 69-75. doi:10.3905/joi.2.1.69.

1990S

Recovering Fundamentals: A Tough Sell in Dot-Com Era

By the 1990s, the farm crisis recovery was complete, and rising farmland values were well supported by increases in aggregate farm income. In 1990, Hancock Agricultural Investment Group introduced a pure equity farmland investment product: "ACRE 2000," building off its original farmland/timberland open-ended fund. By 1996, the group formally split from Hancock's agricultural and timber lending operations and joined with the Hancock Timber Resource Group (HTRG) to form the Hancock Natural Resource Group (HNRG), a wholly-owned subsidiary of John Hancock, offering equity investments in farmland and timberland to third-party institutional investors, as well as the Hancock General Account.

However, farmland investments, with expected total returns of 8 to 12 percent, depending on the asset mix and management style, remained a tough sell to institutional investors. While the farmland fundamentals touted by Morgan Stanley's Biggs in his "get rich slowly" treatise remained valid, investors appeared to welcome the opportunity to get rich quickly in the dot-com-fueled equity markets, and thus lower-returning opportunities in farmland were met with skepticism.

Pension Plans Diversify into Farmland

During this period, it was typically larger pension plan investors seeking long-term investments to diversify their real estate portfolios that were most amenable to investing in the asset class despite the "moderate" long-term returns. Following the lead of Illinois State Board of Investment that invested with Cozad/Westchester in 1989, several other Illinois public plans invested with the group in the 1990s. Also among early large pension plan investors in farmland was the Florida State Board of Administration, which began investing in agriculture in 1996. In 1999, Switzerland-based UBS acquired AgriVest, which had been affiliated with Allegis Realty Investors (now UBS Realty Investors LLC) since 1996.

In 1989, Batterymarch and Dean LeBaron acquired AgriVest, as the firm gained institutional clients such as AT&T and Bell South who invested together through a shared separate account. Each initially allocated \$50 million, and later AT&T added another \$50 million and Bell South an additional \$75 million. By the late 1980s, major U.S. farmland investment managers included John Hancock Life, Metropolitan Life, Prudential Life, Morgan Stanley, Equitable Agri-Business, Cozad/Westchester, and Batterymarch AgriVest.

NCREIF Index: Efforts to Create External Validity

As farmland managers sought to increase institutional acceptance of the asset class, a small group of managers, led by Stu Meacham of Cozad/Westchester and Jeff Conrad of HAIG, worked with the National Council of Real Estate Investment Fiduciaries (NCREIF) to develop a farmland index patterned after similar NCREIF Timberland and Commercial Property Indices. The NCREIF Farmland Index debuted in the second quarter of 1995, and included quarterly index data from contributing members beginning in 1991. It continues to rank among the most commonly cited measures of returns to institutionally managed farmland investments, despite its shortcomings as a true benchmark. While it provides gross, property level, returns for cash-flowing U.S. properties only, it remains one of the few long-term sources of institutional farmland returns calculated utilizing a transparent, consistent methodology.

Wine and REIT Aspirations

In 1998, Silverado Premium Properties of Napa, a consortium led by distressed-property specialist Colony Capital of Los Angeles, including Napa Valley investor David Freed and former Beringer President Mike Moone, purchased 2,500 acres of vineyards in California's Sonoma, San Joaquin, and Sacramento Counties from Prudential with the intent to assemble a portfolio of trophy properties on the path toward REIT securitization⁹. Other partners included Mark Couchman, a property-investment manager for Prudential, and Texas Pacific Group (now TPG). Freed and partners had already been involved in sale leasebacks of vineyards¹⁰. The plan was to raise \$200 million and amass a portfolio of vineyards which would then be taken public. The IPO never materialized, but in 2006, HAIG and Harvard Management Company invested in Silverado Premium Properties, LLC. In 2007, Teachers Insurance and Annuity Associations of America (TIAA, formerly TIAA-CREF), which began investing in farmland for its general account through HAIG and Cozad/Westchester, also invested, with TIAA eventually buying out the other investors in 2011¹¹.

2000S

New vehicles, new regions

In the 2000s, growing awareness of the need to feed increasing populations as standards of living increased around the globe led to increasing interest in farmland investment from large public pension plans and beyond. This led to the emergence of new vehicles, from operating companies to public REITs, along with geographic expansion beyond the U.S. and into new sub-asset classes such as livestock.

In 2000, with the acquisition of an Australian farm, HAIG became the first U.S.-based institutional investment manager to invest in non-U.S. farmland markets. In 2003, the California Public Employees Retirement System (CalPERS) entered a joint venture with Premier Pacific Vineyards of Napa to convert Oregon pastures, fields, and orchards into premium vineyards¹².



Also in 2003, David Gladstone, former chairman of Coastal Berry Company, a large strawberry producer in Watsonville, California, initiated Gladstone Land, which would eventually become the first publicly-traded farmland REIT. Gladstone had acquired the land as part of a seven-year private equity investment in Coastal Berry Company LLC, a controversial Westlake Village strawberry farming and packing operation purchased from Monsanto in 1997. Gladstone sold Coastal Berry to Dole Food Co. in 2004 and kept the Watsonville and Oxnard farms, which he continues to lease to Dole. Gladstone Land's initial portfolio consisted of two farms totaling 737 tillable acres in Watsonville and Oxnard, California, purchased in the late 1990s¹³.

In 2004, the Alaska Retirement Management Board committed \$200 million to a row and permanent cropland portfolio with two managers, and has continued to add to this portfolio over the years. In 2006, UBS AgriVest launched the AgriVest Farmland Fund, an open-end, infinite-life private REIT that has grown to \$700 million today. In 2007, Macquarie Financial Services Group launched the Macquarie Pastoral Fund, a wholesale fund to own and operate beef cattle and sheep production properties in Australia¹⁴. Other livestock funds followed, including Craigmore Farming established in 2008 to invest in New Zealand dairy, grazing, and horticultural farms¹⁵, and Southern Pastures founded in 2009 to invest in New Zealand dairy¹⁶.

In 2010, TIAA purchased a controlling interest in the global investment division of Westchester Group, Inc.¹⁷ providing TIAA with a fully-integrated farmland investment entity, including ownership in a Brazilian entity which facilitated investment there. Following this transaction, Westchester Auctions, now Murray Wise Associates and Murray Wise Capital, redirected its focus to land and agribusiness transactions. In 2011, TIAA-CREF Global Agriculture I, LLC launched. It was set up as an operating company rather than a fund to invest in farmland in the U.S., Australia, and Brazil. By 2012 it had attracted \$2 billion in commitments from several large global pension plans. TIAA-CREF Global Agriculture II followed, raising \$3 billion by 2015¹⁸.

Numerous Other Ag Investment Firms Launched/Spun out

In the 2000s, numerous other ag investment firms were founded and ag investment areas were developed from within both traditional investment firms and farm property managers. Some are pure land plays, some invest in a mix of public and private companies as well as land. Public REITs became more prominent in numbers and size, including the merger of Farmland Partners and American Farmland Company, which was completed in 2017. A sampling of these is shown below:

2002

- ▶ Black River Asset Management Subsidiary founded by Cargill¹⁹.

2006

- ▶ Chess Ag Full Harvest Partners founded by Shonda Warner of London asset manager Chess Capital Partners²¹.

2005

- ▶ Assiniboia Farmland LP was founded to invest in farmland in Saskatchewan²⁰.

2007

- ▶ Ceres Partners founded by Perry Vieth, the former CIO of Fixed Income & Currency at PanAgora Asset Management in Boston to invest in Midwestern row crop properties. In 2014, the firm began investing in emerging operating businesses, partnering with entrepreneurial management teams to expand their businesses across the food and agriculture sector²².
- ▶ Teays River Investments Zionsville, Ind., founded by Benjamin Zaitz and Richard Halderman through sponsorship from Ospraie Special Opportunities Fund. Teays, an open-ended investment holding company with operating subsidiaries raised \$903 million between 2009 and 2012 to invest in farmland and agribusinesses²³.

2009

- ▶ Ospraie Management's Ospraie Special Opportunities Fund and Teays River Investments launched Ag Real Value Fund joint venture²⁶.
- ▶ American Farmland Company founded by a team of investment professionals across the agriculture, real estate, and alternative investment industries including D. Dixon Boardman, Harrison LeFrak, and Thomas S.T. Gimbal to acquire a diversified portfolio of high-quality farmland that can generate stable and growing cash flow. Until their merger with Farmland Partners in 2017, the company maintained contractual relationships with units of Prudential to provide sub-advisory and property management services²⁷.
- ▶ Farmland LP formed to focus on organic conversion and production²⁸.
- ▶ Bonnefield established to invest in Canadian farmland through Canadian Limited Partnerships²⁹.
- ▶ BNY Mellon acquired Insight Investment Management from Lloyds Banking Group, plc. Insight's Specialist Investments included farmland capability, and their first farmland fund was launched with the objective of providing institutional investors with a diversified portfolio of unique investment opportunities in selected target markets. Fund has invested in Romania, Poland, Chile, Australia, and New Zealand³⁰.

2011

- ▶ Soros Fund Management invested in Adecoagro, an owner-operator of large-scale farms in Brazil, Argentina, and Uruguay, eventually taking it public³³.

2008

- ▶ Altima One World Agriculture Fund, LP, offering notice filed²⁴ and by 2009 when Altima teamed up with the World Bank's International Finance Corporation (IFC) to create a parallel vehicle that specifically targets emerging markets, One World was noted to have raised \$625 million. IFC contributed \$75 million to the new fund, Altima One World Agriculture Development Fund²⁵.

2010

- ▶ Halderman Farm Management Service, Inc. (est. 1930) expanded into the farmland asset management business, which led to the creation of Halderman Real Asset Management, LLC (HRAM) in the spring of 2013³¹.
- ▶ U.S. Farming Realty Trust LP, offering notice filed by International Farming Corp.³², adding institutional farmland investment to a 140-year old farming-related family business. Subsequent fund offerings have followed.

2012

- ▶ GMO Renewable Resources launched Farmland Optimization Fund (first farmland fund from this timber manager)

2013

- ▶ Former HAIG president, Jeff Conrad, founded Agls Capital to invest in farmland investments as well as private equity investments in related agricultural operating companies.
- ▶ Gladstone Land went public, later electing REIT status effective January 1, 2013³⁴.

2014

- ▶ Assiniboia Farmland LP sold its portfolio of 115,000 acres of farmland located throughout Saskatchewan to Canada Pension Plan Investment Board (CPPIB) for \$128 million CAD. Existing management team continues to manage the portfolio³⁵.
- ▶ Farmland Partners, Inc. went public, electing REIT status³⁶.

2015

- ▶ American Farmland Company went public, electing REIT status³⁷.
- ▶ Agricultural Capital Management Permanent Crops LLC, a new private fund investing in permanent cropland in California, Oregon, and Washington, and related mid-stream assets launched by Equilibrium Capital's Agriculture Capital Management (ACM)³⁸.

2016

- ▶ Cargill's Black River Asset Management subsidiary spun out into a number of separate entities, including Proterra Investment Partners, a private equity firm focused on natural resources investing³⁹.
- ▶ Farmland Partners and American Farmland Company agreed to merge⁴⁰.
- ▶ The Australian Farmland Property Index debuted - comprised of property data from six anonymous qualifying property managers covering a combined 48 individual horticulture and irrigated crop properties worth A\$827 million. The index utilizes the NCREIF Farmland Index platform and all collection and processing of the data is done by NCREIF in the U.S.⁴¹.

2017:

- ▶ Farmland Partners and American Farmland merger completed⁴².

LESSONS LEARNED

Today in 2017, as farm sector fundamentals and income statistics continue to decline with low commodity prices and the export headwinds of a strong dollar, it is worth asking what lessons learned in the farm crisis and post crisis years may be relevant today. At the same time, several tailwinds, including global food demand expansion and different policy and structural underpinnings than those of the farm crisis years, hold promise for future agricultural returns with attractive features to long duration, inflation sensitive investors. Today's new farmland investment vehicles offer a greater variety of investment opportunities to a broader group of investors. Publicly-traded REITs offer the ability to invest in diversified portfolios of farmland investments at far lower initial investment amounts than has historically been the case, and also the potential to enhance returns through leverage of what has traditionally been (except for the over-leverage of the 1980s) a very low leverage asset class.

Can today's institutional farmland investors and investment managers draw on the experience of those in the industry who have seen these conditions before, as they build today's realities of institutional investment in the agricultural sector? Will institutional investment in farmland continue to grow and expand in scope as investors seek new sources of uncorrelated, differentiated returns in a market increasingly focused on passive investing?

Several experts who have been involved in institutional farmland investing for decades, since the early years described in this white paper, were kind enough to assist in editing the paper and confirming many of the milestones noted within. These include Jim McCandless, co-founder of AgriVest and now managing director, Head of Real Estate- Farmland at UBS Farmland Investors LLC; Jeff Conrad, president and founder at AgIS Capital LLC and former founder and president of HAIG; Murray Wise of Murray Wise Associates, former founder of Westchester Group and Cozad/Westchester; H. Joseph ("Joe") Bourn, president at AAIM Advisors, Inc.; and Professor Bruce J. Sherrick, department of Agricultural and Consumer Economics, Fruin Professor of Farmland Economics and director, TIAA Center for Farmland Research at University of Illinois at Urbana-Champaign.

McCandless, Conrad, and Sherrick also generously shared some insights from their experiences about how farmland investing has changed since the early years chronicled in this paper, lessons learned about cyclical challenges in the industry, and thoughts on mitigating risks as the industry matures. We put three questions to these pioneering experts:

QUESTION 1

What would you say have been the top two positive game-changers within agricultural investing in recent decades?

"The first 'game-changer' was the turnaround in attitudes toward institutional investors by farmers and those in farming communities. Thirty-five years or so ago, many farmers and those in rural communities, were afraid that institutional investors were going to buy up all the farms and put family farmers out of business. Of course, that never happened. Today, institutional investors are viewed as a solid source of long-term, patient capital to the agricultural segment of the U.S. economy.

The second 'game changer' has been the 10-year run of impressive farmland returns, which were driven by income gains, not by speculators or high levels of debt. Farmers are the ones that drive the farmland markets and as their income returns go, so goes the farmland markets. Commodity prices have receded from unsustainable levels and brought down farm income from record highs. This is being reflected in farmland prices in areas where there is a high concentration of commodity production farms. In other areas, with permanent cropland and vegetable cropland, those property types are actually increasing in value reflecting the income levels of the operators/owners. The impressive returns over such an extended period of time have generated and contributed to continuous and growing interest in farmland by institutional investors, further validating farmland as a mainstream asset class. The interest in farmland remains robust even as a farmland prices are receding in some regions. Investors are recognizing that there may be attractive opportunities ahead as farmland prices come down."

McCandless

"The establishment of the NCREIF Farmland Index in the mid-1990s was very crucial to the development of the farmland asset class. Previous to the establishment of the Index, institutional investors had no way to measure the performance of their farmland manager. In the early 90s, if your manager provided you with a 10 percent return, you had no way to measure his performance relative to the marketplace. Ten percent sounds attractive, but maybe the market was 15 percent. So the Index provides this very valuable tool for investors. With this information, investors are in a position to have a more constructive discussion with their managers and to make better decisions.

The second change was from outside the agricultural industry. The agriculture asset class has received a large boost every time traditional markets (stocks, bonds, etc.) have had major setbacks. The Dot-Com downturn of 2000 and financial meltdown in 2008/09 resulted in investors looking for new and different investment options. Investors wanted real assets that weren't traded on the stock market and provided real value that couldn't evaporate. This caused investors to find farmland to be more attractive. Real property won't disappear regardless what happens on Wall Street."

Conrad

"Simply the fact that farmland has become more visible after a recent period of very positive returns during a time when equities had lower returns. During this time, there was also an explosion of interest in related areas in agtech, and burgeoning interest by consumers in knowing more about where their food originated and what conditions exist around production."

Sherrick

QUESTION 2

Over the course of your career in the ag investing space, have you noticed specific challenges that occur in a cyclical or repetitive manner? If so, have the measures you've taken to mitigate any negative impact from these challenges changed over the years?

"I have noticed that once the farm sector has a few good years it results in new investment managers coming into the marketplace. We saw new managers enter the market in the late 90s after a few attractive years and we have seen a very large number of new entrants in the last several years. Many new managers bring fresh and innovative ideas to the space, resulting in the further development of the farmland asset class. But some managers lack proper discipline and controls in their approach resulting in disappointed clients and bad press for the sector. As farmland values are moderating downward, we are starting to hear more from unhappy investors. This results, in the short run, in assets being bid up beyond their true values. In the long run, it all works out, but the adjustment can be painful in the short run.

I have learned that you have to stick to your underwriting standards and in the long run you will provide your clients with attractive returns. If one sector is getting too pricey, you have to find another sector or sit out of the market. Markets are cyclical and sanity will return to the market."

Conrad

The fact that world supplies ebb and flow based on production shocks, but the price and transmission effects take a few years to work through results in returns, movements that often last longer than a year.

Sherrick

QUESTION 3

As the ag investment space matures, has the maturation translated to investors in the space being better-armed to mitigate risk today than they were in decades past?

"This may not be well received by some, but frankly I am seeing institutional investors getting into ag funds that are extremely risky. I'm not sure these funds actually know how much risk their capital is exposed to, because they are unfamiliar with agriculture. This bothers me, because if and when those investments go south, it could put a cloud over the entire asset class and destroy all the good work so many of us have done to tell the story about farmland investment and help establish it as an accepted asset class."

McCandless

"Yes, very much so. Investors today are more educated and have a better understanding of the sector. And, if an investor has a problem with a separate account investment, they now have more managers to bring in to help solve the problem. Investors just have more choices today and that is very healthy for the sector."

Conrad

"Yes, in general, investors are simply more sophisticated and more aware. The continuum of possible avenues for investing in the asset class is beginning to fill in as well, allowing more customized solutions to fit into the specific conditions investors require."

Sherrick

ABOUT THE AUTHOR

Julie Koeninger, CFA



Koeninger is the product strategist for timber and agriculture at GMO, LLC. She joined GMO in 2012 from her independent consulting firm, Farmland Advisor, LLC. Previously, Koeninger was a portfolio manager at Hancock Agricultural Investment Group (HAIG). She played a pioneering role at HAIG, working closely with founder Jeff Conrad to develop HAIG's farmland equity business from its origins in the ACRE Fund. Earlier in her tenure at Hancock, she directed all aspects of the industry's first-ever agricultural mortgage securitization through Federal Agricultural Mortgage Corp. (Farmer Mac). Prior to joining HAIG in 1989, she worked in mortgage-backed securities. She is the author of A Farmland Investment Primer, available at http://www.valuewalk.com/wp-content/uploads/2014/07/JK_IntroToFarmland_714-1.pdf as well as a number of early publications on the farmland asset class. Koeninger earned her A.B. in English from Dartmouth College and her MBA from the Tuck School of Business Administration at Dartmouth College. She is a CFA charterholder.

About HighQuest Partners/ Global AgInvesting



HighQuest is a strategic advisory, conference, and media company serving corporations, financial investors, and governments across the global food and agribusiness value chains. Global AgInvesting (GAI), a HighQuest brand, is the world's most well attended agricultural investment conference series and leading resource for events, research and insight into the global agricultural sector. Established in 2009, GAI currently produces four annual events and publishes the industry's most critical periodicals, GAI News and the GAI Gazette.

CITATIONS

1. "Continental Bank Ends Plan for Fund to Invest in Farms." New York Times, March 12, 1977.
2. "Farmland: An Untapped Asset Class? Quantifying the Opportunity to Invest in Agriculture." Food For Thought. December 2012. <http://www.macquarie.com/dafiles/Internet/mgl/com/agriculture/docs/food-for-thought/food-for-thought-dec2012-anz.pdf>.
3. "Will Pension Funds Kill Family Farm?" Chicago Tribune, November 16, 1980.
4. Office, U.S. Government Accountability. "Pension Fund Investment in Agricultural Land." U.S. Government Accountability Office (U.S. GAO). April 02, 1981. Accessed March 09, 2017. <http://www.gao.gov/products/114880>.
5. Paulson, Morton. "Your Piece of the Farm." Changing Times, Kiplinger's Personal Finance, June 1988, 94.
6. <https://www.sec.gov/news/digest/1981/dig031781.pdf>
7. Paulson, "Your Piece of the Farm," 94.
8. Biggs, Barton M. "Buy a Farm and Get Rich Slowly" January 1988.
9. Perdue, Lewis. "Vineyards: Not the REIT Stuff." The Street. September 13, 1998. <https://www.thestreet.com/story/19507/1/vineyards-not-the-reit-stuff.html>.
10. Franson, Paul. "David Freed Reflects on Silverado's Success." Wine and Vines, September 2014 <http://dev.winesandvines.com/template.cfm?section=features&content=138040&ftitle=David%20Freed%20Reflects%20on%20Silverado%27s%20Success>
11. Fritz, Michael. "Harvard Pushing Further into Farm Sector with California Central Coast Vineyard Play." Farmland Intelligencer Blog. March 14, 2014. http://www.farmlandinvestorcenter.com/?p=722&option=com_wordpress&Itemid=171.
12. Press, Associated. "Napa's Premier Pacific Vineyards to Invest in Oregon Vineyards." Napa Valley Register, December 24, 2003. http://napavalleyregister.com/business/napa-s-premier-pacific-vineyards-to-invest-in-oregon-vineyards/article_2e2d8576-365e-5e53-a17a-ba2db820c986.html.
13. Fritz, Michael. "First Publicly Traded Farmland Fund to be Launched." Beef Magazine. December 10, 2010. <http://www.beefmagazine.com/business/first-publicly-traded-farmland-fund-launched-1201>.
14. "Macquarie Launches Wholesale Pastoral Fund." [Macquarie.com](http://www.macquarie.com). June 21, 2007. <http://www.macquarie.co.uk/mgl/uk/about/news/2007/20070621>
15. <http://www.craigmore.com/>
16. <http://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=190709321>
17. "TIAA Purchases Westchester Group." [FarmWeekNow.com](http://www.farmweeknow.com). October 7, 2010. <http://farmweeknow.com/story-tiaacref-purchases-westchester-group-1-42695>.
18. "Expansion of Alternative Investment Platform Continues." August 4, 2015. <https://www.tiaa.org/public/about-tiaa/news-press/press-releases/pressrelease602.html>.
19. <http://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=25728717>
20. <http://assiniboia-capital.com/component/content/article?id=44:intro-to-assiniboia-farmland-lp>
21. <http://chessag.com/shonda-warner-managing-partner/>
22. <http://cerespartners.com/about-us/history/>
23. Fritz, Michael. "Washington State Investment Board to Weigh \$300 Million Outlay to Teays River Investments." Farmland Intelligencer Blog. April 9, 2015. http://farmlandinvestorcenter.com/?p=1403&option=com_wordpress&Itemid=171.
24. <https://www.sec.gov/Archives/edgar/data/1440999/999999999708033649/9999999997-08-033649-index.htm>
25. <http://ifcext.ifc.org/ifcext/pressroom/ifcpressroom.nsf/1f70cd9a07d692d685256ee1001cdd37/adfc6e67913a542a8525755b004ba7ba?OpenDocument>
26. "Ospraie Launches JV Agriculture Fund." Alternative Investment News, June 26, 2009.
27. <http://www.nasdaq.com/markets/ipo/filing.ashx?filingid=10475836>
28. <http://www.farmlandlp.com/about/>
29. <http://www.bonnefield.com/about/overview-3.html>
30. <http://www.insightinvestment.com/farmland/investments>
31. <https://www.halderman.com/company-bio/>
32. https://www.sec.gov/Archives/edgar/data/1498285/000149828510000001/xslFormDX01/primary_doc.xml
33. DealBook. "Soros Bets the Farm." DealBook, January 13, 2011. <https://dealbook.nytimes.com/2011/01/13/soros-bets-the-farm/>
34. <http://files.shareholder.com/downloads/AMDA-2M064C/4139689383x0xS1193125-13-27488/1495240/filing.pdf>
35. <http://www.cppib.com/en/public-media/headlines/2013/CPPIB-Saskatchewan-farmland-Dec-2013/>
36. <https://www.reit.com/news/reit-magazine/january-february-2015/farming-reits>
37. <http://www.nasdaq.com/markets/ipo/filing.ashx?filingid=10475836>
38. <http://eq-cap.com/products-strategies/>
39. Plume, Carl. "Cargill Subsidiary Black River Spins Off Private Equity Firm." Reuters, January 25, 2106. <http://www.reuters.com/article/us-cargill-divestiture-black-river-idUSKCN0V400F>
40. <http://investors.americanfarmlandcompany.com/file/Index?KeyFile=35839877>
41. Hemphill, Peter. "Australian Farmland Index to Measure Corporate Farm Performance." The Weekly Times, November 2, 2016. <http://www.weeklytimesnow.com.au/agribusiness/australian-farmland-index-to-measure-corporate-farm-performance/news-story/281a6ef7185e679ff1352901751918cb>.
42. <http://www.prnewswire.com/news-releases/farmland-partners-inc-completes-merger-with-american-farmland-company-300401561.html>