

Building a Farmland investment portfolio: Oxford Farming Conference, Jan 2014



Contents:

A video Introduction to Craigmore Farming (5 minutes)

Then slides on building and operating a multi-farm portfolio

(20 minutes)

Total: 25 mins

Section I: building a Multi-Farm Portfolio:

- i. Craigmores farming philosophies
- ii. Only a very few regions of world agriculture are “investible”
- iii. Share of world trade as a proxy for low costs of production
- iv. Craigmores farm portfolio strategy
- v. How we purchased our farms

Section II: operating a Multi-Farm Portfolio:

- vi. Craigmores management culture
- vii. Benchmarking, sustainability and reporting
- viii. Financial control and payments
- ix. Valuations
- x. Fund-raising

Section I: building a multi-farm portfolio



i. Craigmore's farming philosophies:

1) "There is no such thing as a passive investment in farmland"

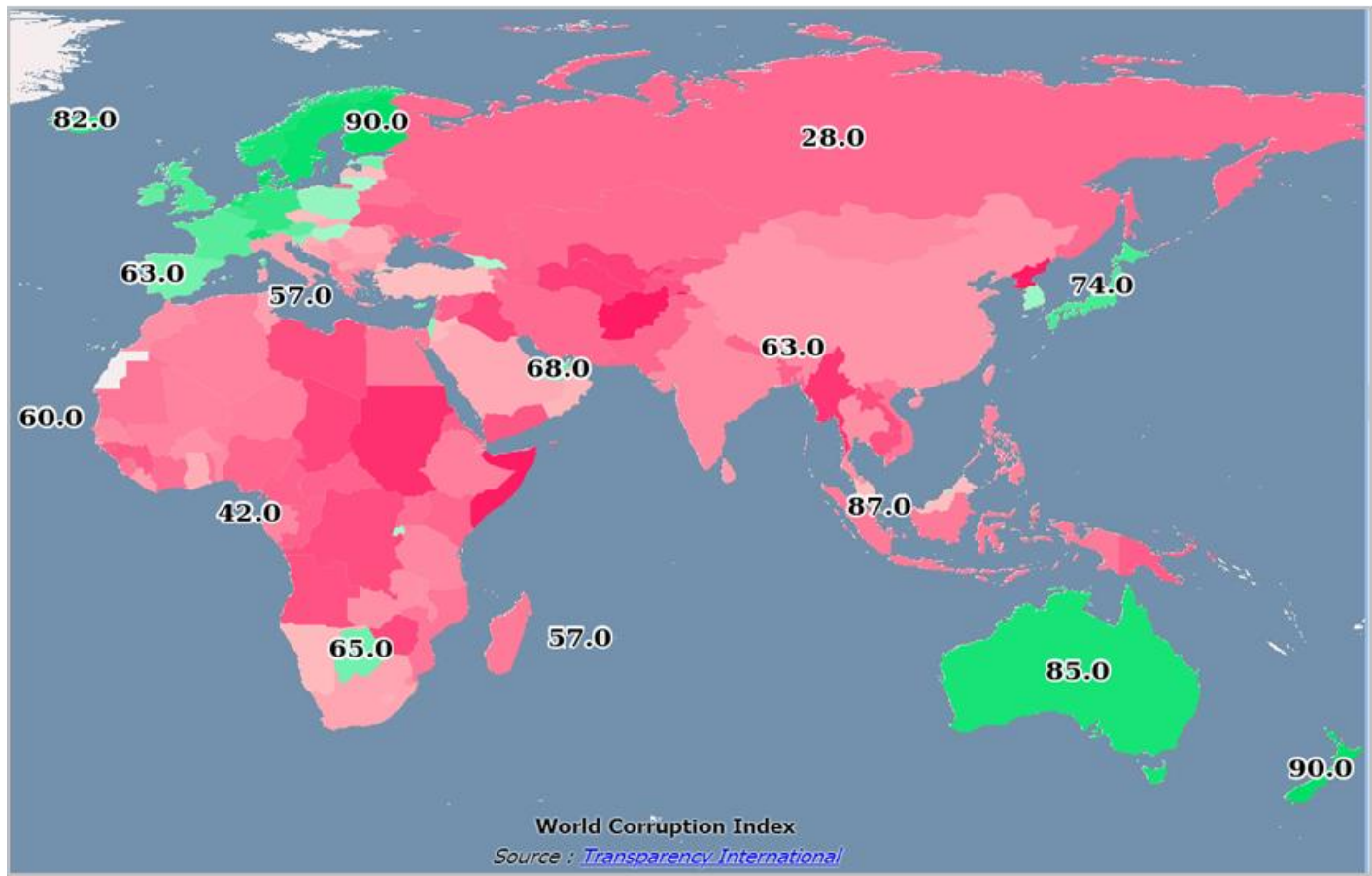
- All farmland investors are taking operational risks ...
- ... logical to operate the farms & make the operational returns

2) Farming is a great asset class – but generates low cash returns:

- More like a bond than an equity
- But with far higher "recoveries" in a crisis than bonds
- As a result these prized assets "trade expensive"
- Don't kill the goose with excessive fees and costs

ii. Only a few regions of world agriculture are “investible”

Corruption Perception 2012



Country	New Zealand
Country Rank	1
CPI 2012 score	90

Country	United States
Country Rank	19
CPI 2012 score	73

Country	Botswana
Country Rank	30
CPI 2012 score	65

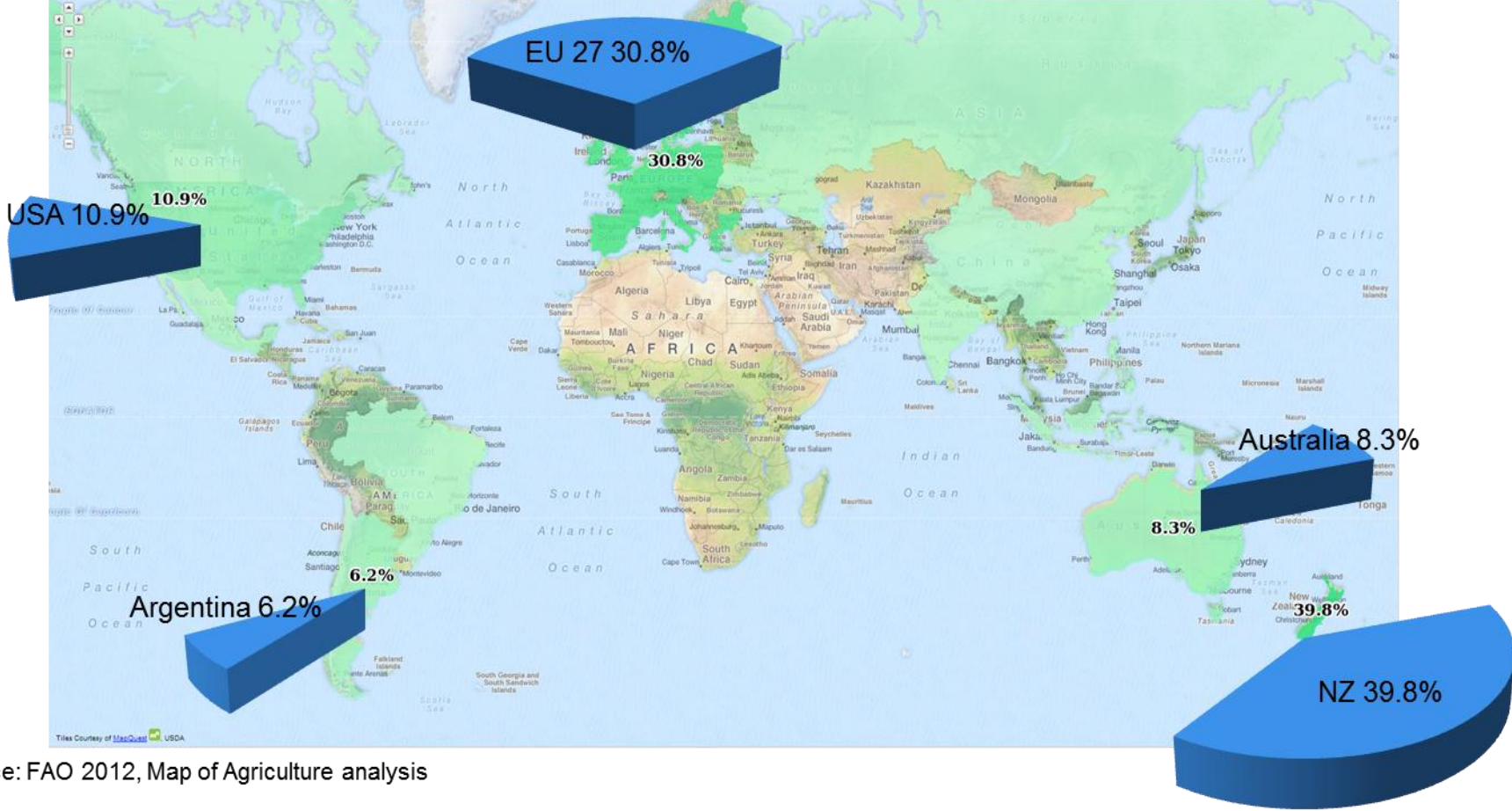
Country	Argentina
Country Rank	102
CPI 2012 score	35

Country	Russia
Country Rank	133
CPI 2012 score	28

Source: Transparency International Corruption Perception Index 2012, Map of Agriculture analysis

iii. Share of world trade as proxy for low costs of production

Dairy exports as a proportion of globally traded dairy products, 2012



Source: FAO 2012, Map of Agriculture analysis

iv. Craigmores farm portfolio strategy

- We focus only on areas /crops we have operational expertise & scale
 - first Farming and Forestry portfolios in NZ
 - within NZ just those regions where we can build scale
- Within chosen regions we use research to identify:
 - i) low cost producing regions (climate / hydrology risk analysis);
 - ii) high quality soils ...
- quality, quality, quality:
 - we believe “cheapness” is admirable in a farmer
 - but can be the road to ruin in farmland investing

v. How we purchased our farms:

- Identify sub-regions and farms that need capital (growth opportunities; de-leveraging; or both).
- We then “rank” projects for i) cash flows, ii) IRR, iii) volatility
- Within NZ have found the most opportunities in:
 - Irrigated pastoral dairy
 - Irrigated grazing
 - Non-irrigated grazing/dairy in high rainfall areas
 - Horticulture
 - Sheep-beef purchased for land-use change
- Seek efficiency through purchase of “clusters” of farms

Section II: operating a multi-farm portfolio

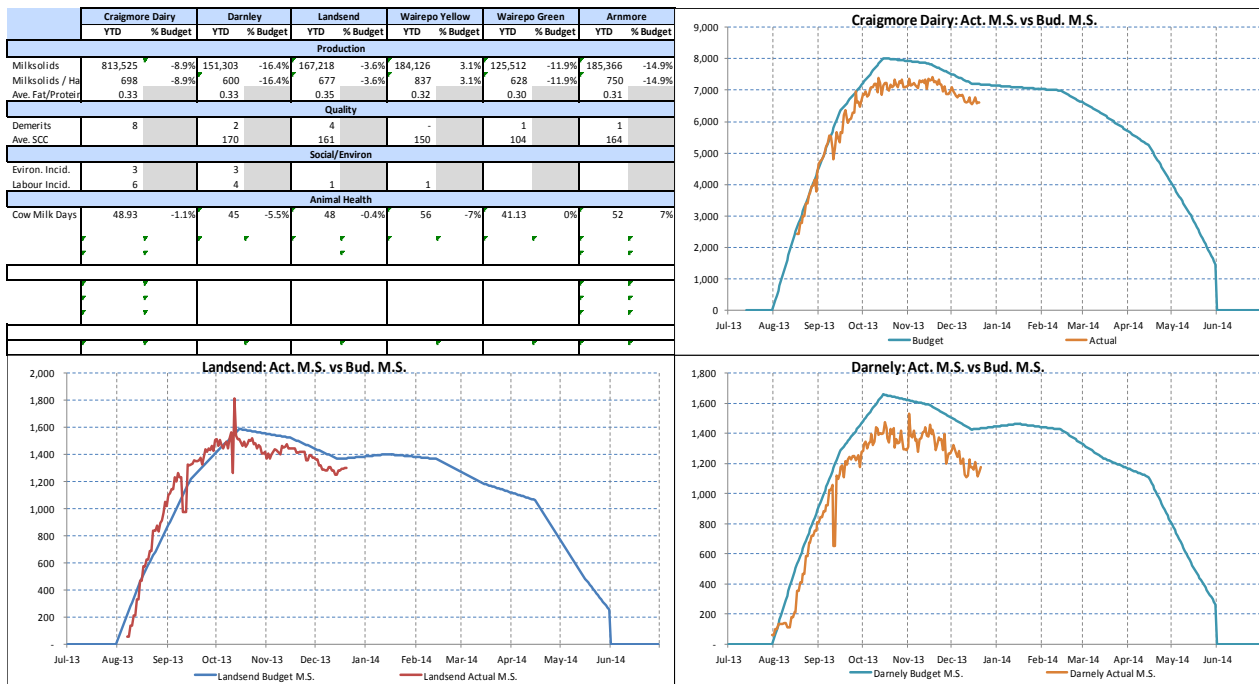


vi. Craigmores management culture

- Corporate farming has underperformed the best family farmers. Craigmores does not aim to be “too corporate”.
- Instead we seek to replicate family farmer behaviours:
 - Total return approach rather than focus on current profits
 - Constant value creation via incremental investment
 - Cost control and benchmarking (open’ness)
- All Craigmores farms managed by equity partners
- The top quartile farmer the “real hero”
- The investment manager just an intermediary – whose costs must not “kill the goose”

vii. Benchmarking, sustainability + reporting

- One area a portfolio can outperform is internal farm advisory
- Benchmarking is “the holy grail” (needs to be near real time)
- We needed Budget, Performance & Sustainability reporting systems:



- Enables control & risk management across portfolio
- Inc. non-financial KPI's (e.g. nutrient compliance, staff safety)

viii. Financial control and payments

- Craigmores wanted:
 - control of cash / fraud/ budget
 - yet delegated payment approval by Farm Equity Partners
 - accrual based accurate NAV's for investors

- We built a system with:
 - a centralised invoice entry team
 - dual approvals by portfolio management team and Farm Equity Partner above specified limits & vs. budget

ix. Valuations:




- Most Private Equity (and Property) funds report annually with intermittent valuation updates (but often resort to “cost”)
- Craigmores reports quarterly off third party valuations - like a corporate. Creates control - within the farming season.
- Annual full valuations of each farm at season-end
- Quarterly “desk-top” updates to drive quarterly reports

x. Fund-raising




- Raising capital from investors is a regulated activity in most countries
 - Many farmers seek to avoid “being regulated”
 - Hence choose to pay a “capital introduction” broker
 - These charge fees with a present value of 1% to 4%
 - High friction for a high-quality, low return asset class
 - Craigmores elected to “get regulated”.
 - We built our own relationships with family offices and pension funds / insurers / asset allocators
 - Enhanced relationships with research products
 - A “Map of Agriculture” database of global yields

Appendix: Strengths, weaknesses, opportunities, threats of a multi-farm approach





Strengths:

-  Perspective / research
-  Scale
-  Returns



Weaknesses:

-  Information problems
-  Agency problems
-  Liquidity challenges

Opportunities:

-  Opportunity identification
-  Land-use change
-  Staff development
-  Sustainability / food security

Threats:

-  Family farmer often outperforms
-  Investors likely to panic at times