

First Mid

AG SERVICES

Midwest U.S. Farmland -- 2019

**Among the Best Farmland in the World
Investment Return Attributes & Considerations**



Midwest U.S. Farmland has been a consistent wealth builder for many individuals and groups of individuals for the past 200 years. Once the prairies were tamed by the moldboard plow and the drainage tile improvement systems by European settlers, plant health flourished and Midwest farmland became an investment-grade asset. The global advantage this region possesses over other areas of the world incorporates the near-perfect combination of cost-efficient environmental conditions for temperature, rainfall and soil quality that results in maximum crop production. In addition, farmers in this region are business driven for both efficiency and sustainability with a high ethical standard built for long-term relationships that match the desires of many investors in this asset class.

Return is comprised of both current income and capital appreciation

- Current income is a function primarily of returns to crop farming.
- Capital appreciation is a combination of the present value of future farm income returns, plus future alternative use value.

Properly managed farmland never wears-out or depreciates

- Commercial buildings will depreciate and become obsolete. Oil wells will be depleted. Companies will come and go. Interest rates will rise and fall. Currencies inflate and deflate.
- Farmland's productivity and returns run infinitely into the future -- as long as people eat food and need energy. Land farmed in ancient civilizations – more than 4,000 years ago – remains fertile and productive today when properly managed.



Farmland Investment Returns With Other Asset Classes

• Competitive Returns

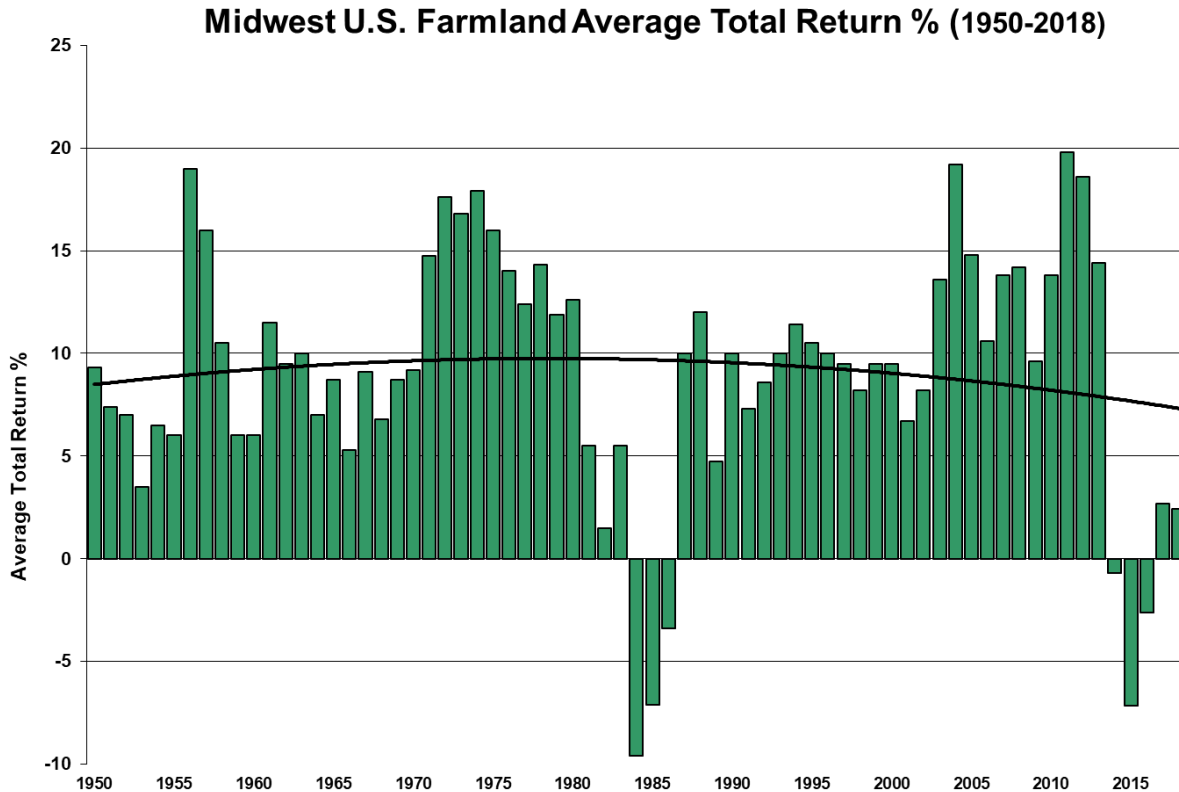


• In a world of random investment performance farmland provides unique diversification.

- Current income is a function primarily of returns to crop farming.
- Capital appreciation is a combination of the present value of future farm income returns -- plus future alternative use value.

• Consistently demonstrates positive returns

- Only three periods of a few years each (1930's, 1980's & 2015's), in the last 100 years, when total returns have been negative for multiple years.
- Low volatility; low risk of negative overall returns.



• Real returns

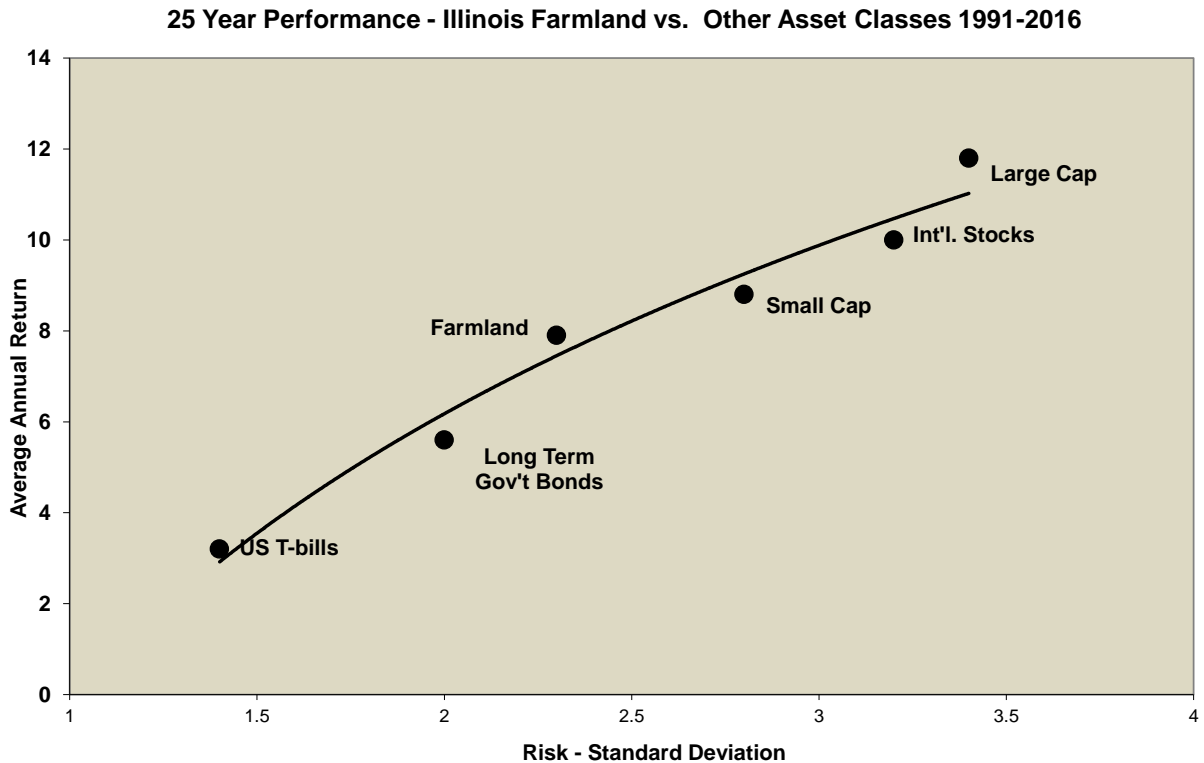
- Real rates of return exceed US Treasury 10-year real rates, returning in a range from 6% to 7% real returns.

STATEWIDE: Continuously Compounded Annual Growth Rate (CCAGR) - selected periods of acre weighted average prices

<u>Year</u>	<u>Excellent</u>	<u>Good</u>	<u>Average</u>	<u>Recreational</u>	<u>Transitional</u>
2001-2010	9.06%	9.00%	9.17%	8.28%	2.89%
2010-2018	4.98%	4.27%	4.44%	1.25%	0.11%
2001-2018	7.14%	6.77%	6.94%	4.97%	1.58%
2005-2018	6.04%	5.56%	6.47%	6.29%	-3.48%
2010-2018	5.00%	4.30%	4.40%	1.30%	0.10%
2017-2018	1.1%	-0.90%	8.00%	7.10%	-40.9%*

- **Attractive Risk/Return**

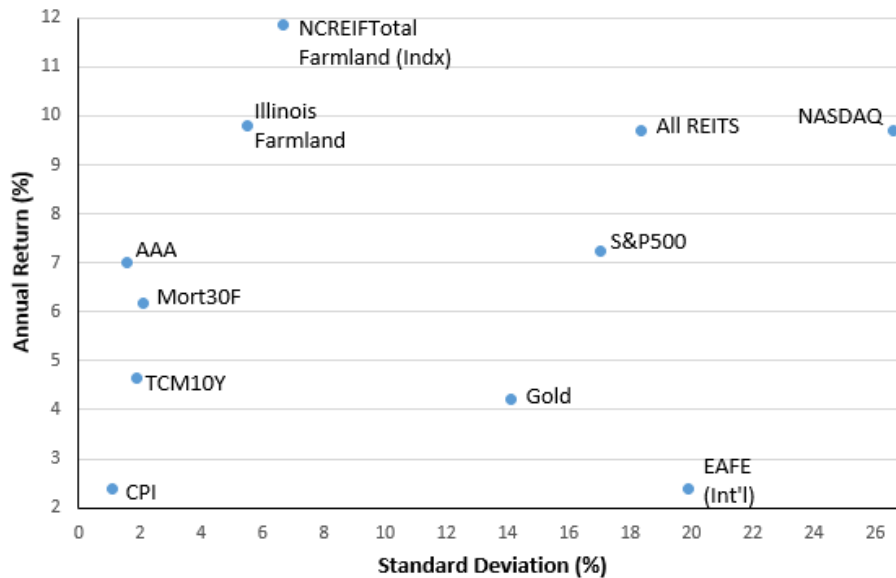
- Compared with other asset classes, farmland is historically above and left of the Efficient Frontier curve. Over long periods of time it can produce higher returns with less risk (volatility).



- **Farmland can reduce portfolio risk while enhancing returns.**

- Returns balance attractively with alternative investments. Farmland assets in typical bond/equity/REIT portfolios can cut risk by 20% for a given level of return.
- When measured on a risk:return basis, farmland compares very favorably to other asset classes while demonstrating strong returns per unit of risk. Adding farmland to a diversified portfolio both enhances returns and reduces risk.

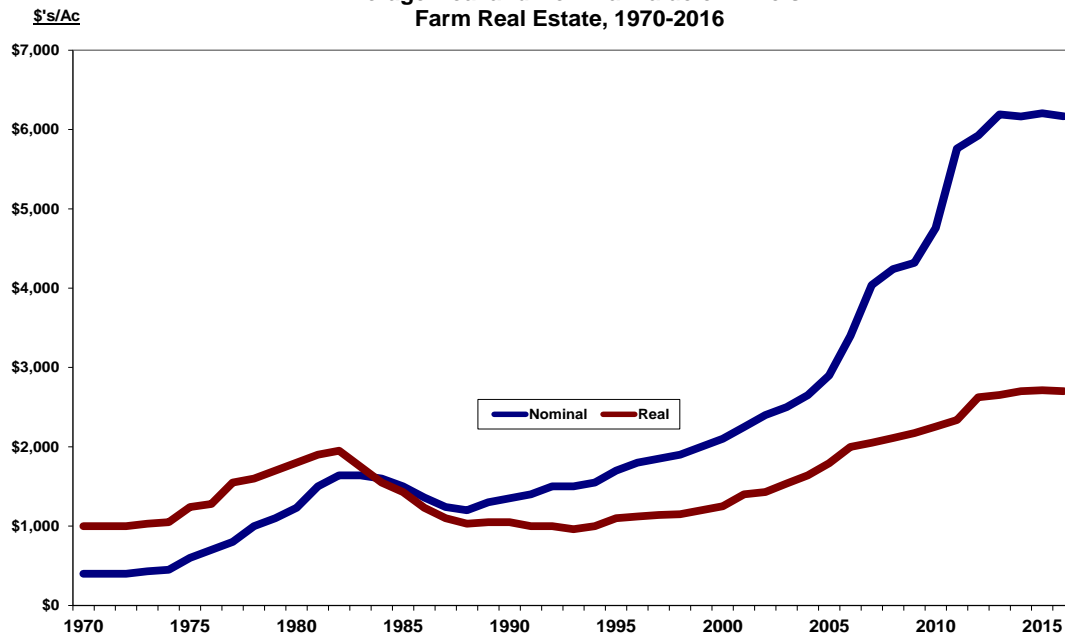
27-Year Performance - Illinois Farmland vs. Other Asset Classes (1990-2017)



Source: TIAA CREF Center for Farmland Research, University of Illinois

Illinois Farmland consistently provides historical long-term competitive returns as compared to other asset classes.

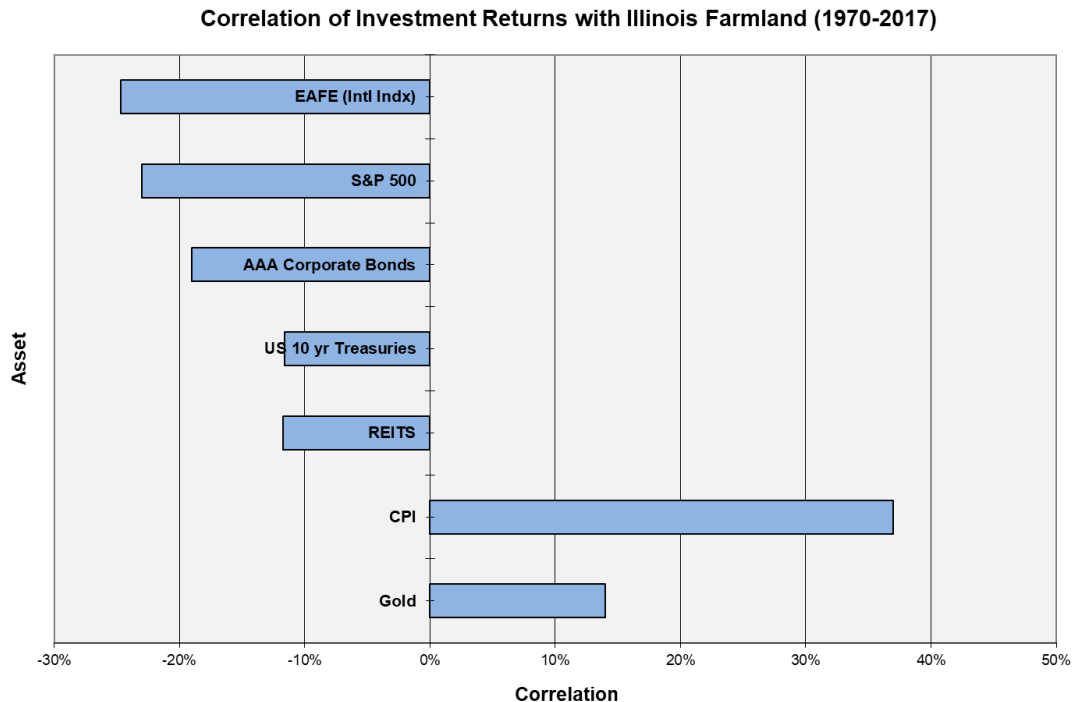
Average Real and Nominal Value of Illinois Farm Real Estate, 1970-2016



Values tend to increase with relatively low volatility on both a real and nominal measurement.

- **Positive correlation with inflation**

- Going back to the 1800's, the land value component of return has a 91% correlation with inflation. Farmland historically moves “in-step” with inflation.



- **Negative correlation with stocks, bonds, and financial securities**

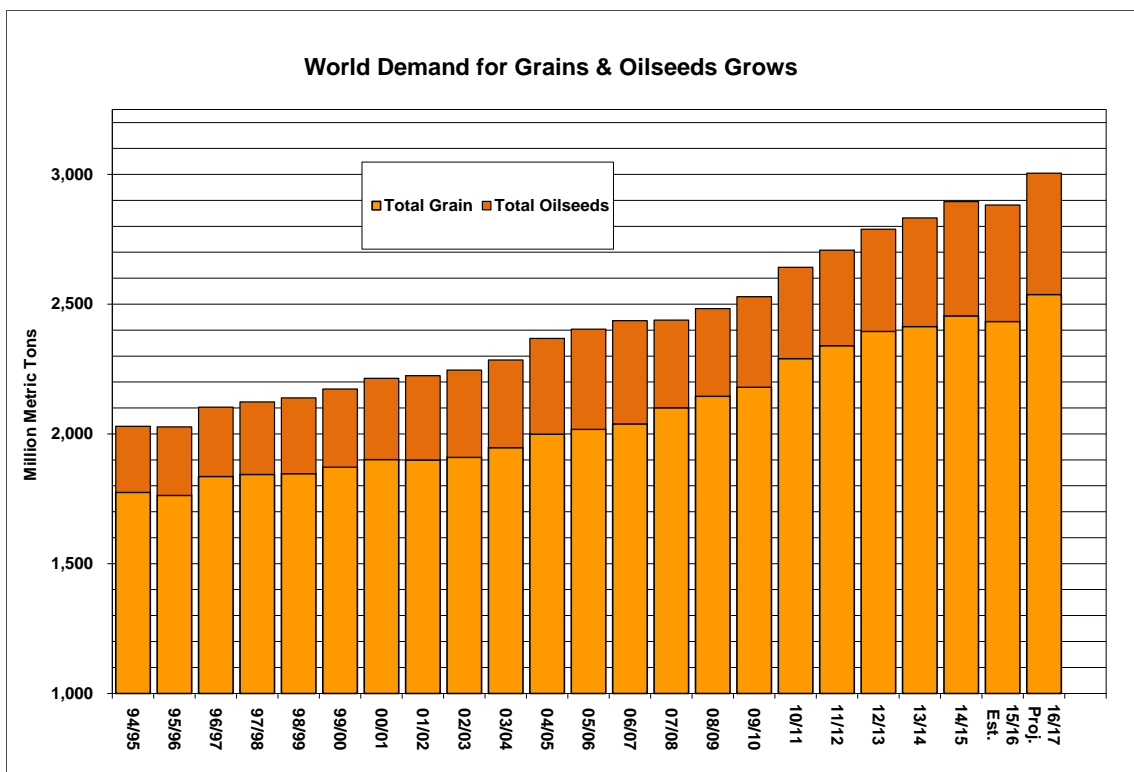
- Opportunity for beta returns in all price cycles. Farmland is negatively correlated because drivers of its return are unique to this tangible real estate asset class.
- Less influenced by credit cycle, more by macro-economic environment, commodity price and production cycles.

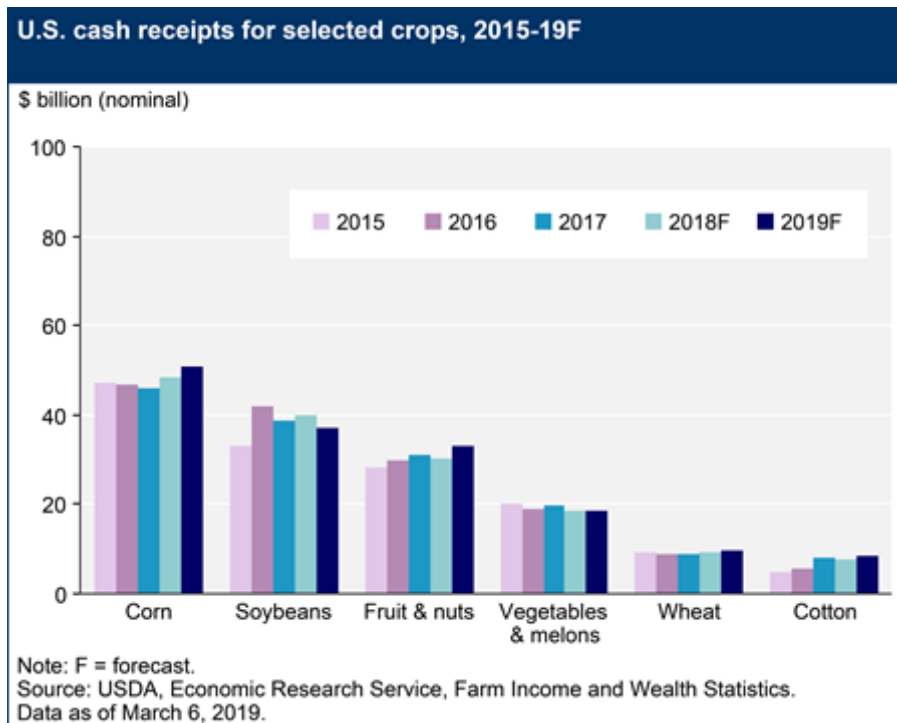
- **Consistently growing demand**

- The products of Midwest U.S. farmland – today primarily corn, soybeans, wheat, and related products -- have a steady history of increasing demand.

This is particularly true today with growing worldwide demand for food and energy. Each year, population increases mean there are more mouths to feed and demands for energy on planet earth. Economic and demographic effects of a growing world population lead to exponential growth demand for agricultural products.

Products from Midwest farmland are crucial to meeting this demand for growing worldwide markets when open access is available.





- **Land is secure against theft, withstands fires, floods, storms**

- When you invest in farmland, you can walk on it, see it, feel it. It's very difficult to embezzle U.S. farmland acreage. Natural disasters can wipe out businesses, buildings, and personal property, but it takes an incredible act of nature to permanently destroy good farmland.
- The physical security of farmland ownership is very reassuring.
- Crop insurance can help assure annual revenue return.



- **Farmland – a “green” & “socially responsible” investment**

- It's satisfying to hold an investment that serves a worthy, wholesome, morally sound purpose -- helping contribute to the feeding, clothing, sheltering, and providing energy needs for the people of the world.
- Carbon sequestration and land based crop production will continue to play a major role in the world's environmental balance.
- Farmland is suited to wind and solar energy in certain areas of the Midwest.



Farmland Investment – Challenges and Solutions

There are a number of challenges for investment in Midwest U.S. farmland. First Mid Ag Services is an ideal partner to help provide solutions for investors.

Farmland trades in an imperfect market. Opportunity for both beta and alpha returns if bought, managed, and sold right. First Mid brings the management capabilities, experience, qualifications, and expertise together to acquire, manage, and liquidate farmland investments for best advantage.

Relatively high transactional costs to acquire and liquidate. Best returns accrue to investors over longer holding periods. Attractive to investors with long term liabilities and other more distant investment horizons.

Barriers to entry can be a competitive advantage once Investors are “in”.

Relatively illiquid. Farmland requires specialized ability to build and liquidate portfolios, rewarding patient capital.

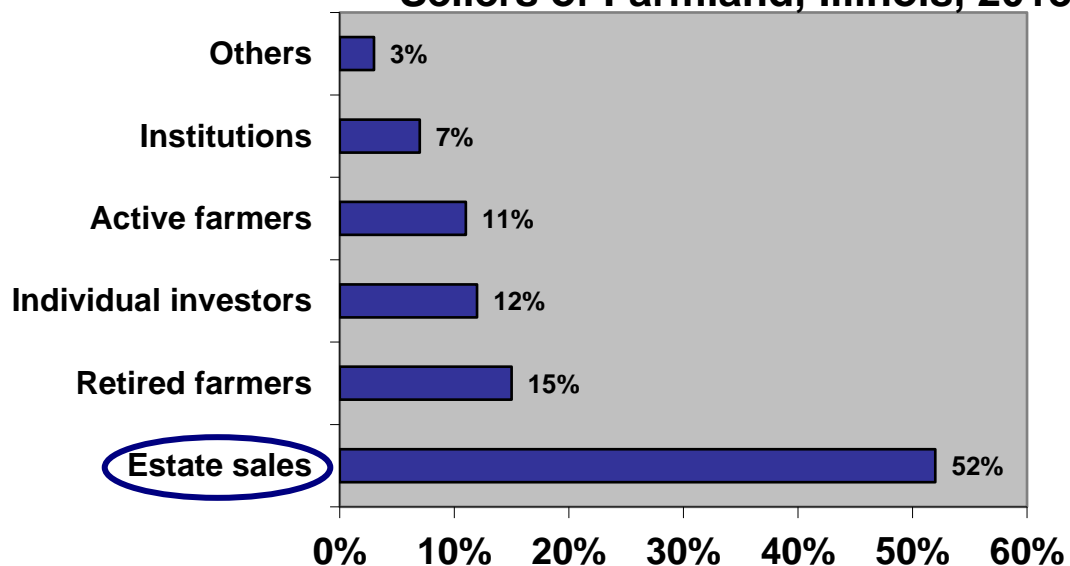
No public exchange. Sellers and buyers can be difficult to identify and engage in negotiation.

- Current Sellers of farmland are typically estates or individuals. Often sellers are at “life-change” periods of life – inheritance, retirement, etc.
- Occasionally, farmers will sell as a means to expand relationships

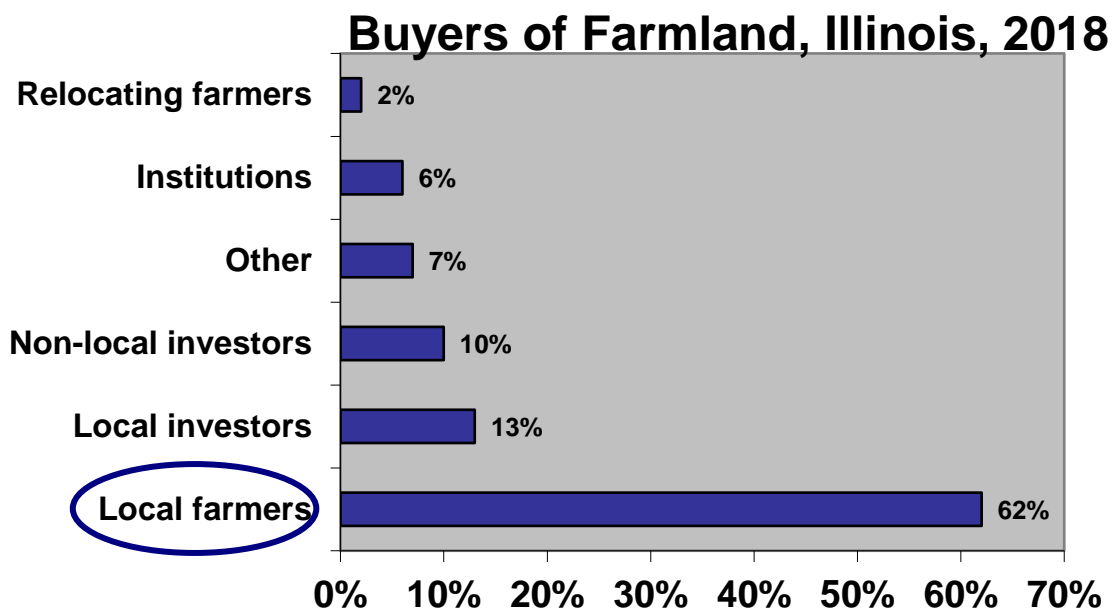


with investors or to supplement cash flow in their farming operation on a sell-leaseback arrangement.

Sellers of Farmland, Illinois, 2018



- **Who's Buying?** Currently local farmers and individual or group investors are the drivers of farmland buying demand. Investors may or may not live locally in the area where the farmland is located. The market is not currently heavily influenced by 1031 exchange traders, although it has been at times. Farmland is marketed by private treaty, listings, and the auction method. Types of buyers, by percentage, currently active in the market are:



- **First Mid Ag Services helping with Challenges & Solutions**

Knowledgeable & Experienced. First Mid Ag Services has been actively working throughout Illinois and other Midwest states for decades. We know the buyers, sellers, and owners that are holding land. How to identify and best work with these individuals and institutions is an important part of the value our service brings to clients.

We see more inter-generational transfers and sale offerings of farmland wealth over the next decade as an opportunity.

Investment unit size can be a “fit” for both large and smaller investments.

Generally purchase amounts for commonly available Midwest farmland units are between \$1 to \$10 million.

It takes work to efficiently and wisely buy or sell a farm, or to effectively build and manage farmland units into investment portfolios. It requires time, specialized expertise, specific knowledge of the area land market, an adequate scope and scale of operation, and an effective network of contacts, among other skills and capabilities.

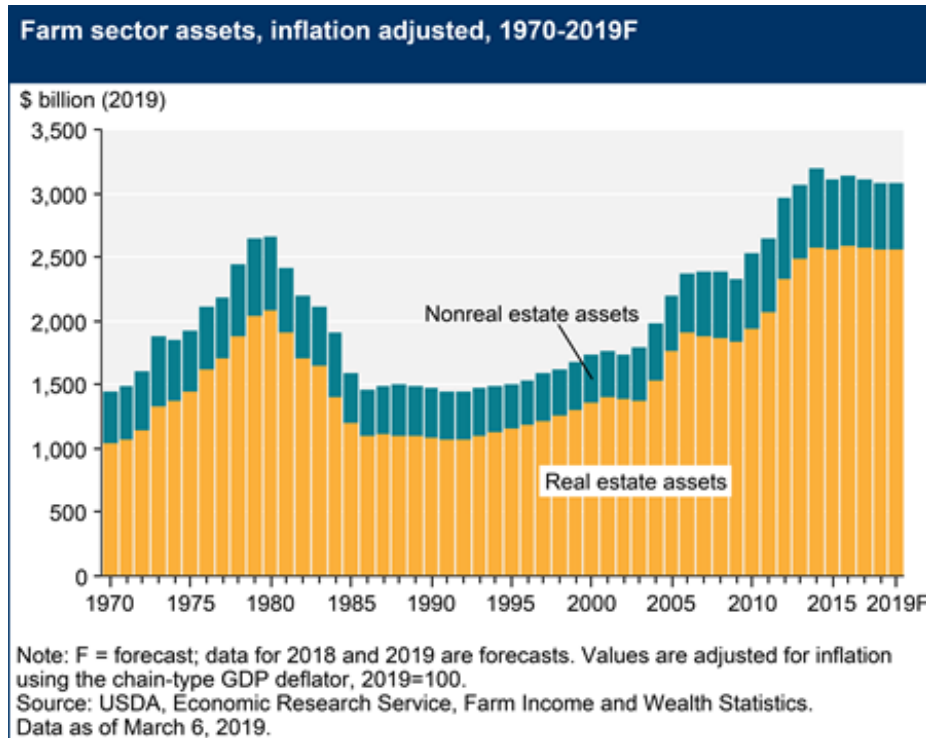


Capacity is not a problem, in context, for large investors. The total U.S. farmland market is currently about 14% the size of the U.S. stock market, 58% of the municipal bond market, and a little less than all publicly traded equity.

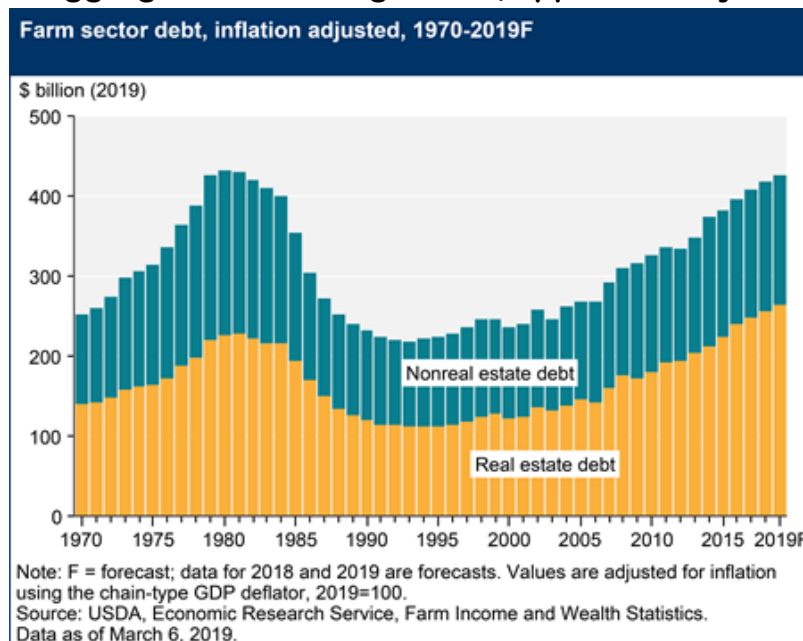
Other Investment Attributes can include positive cash flow income every year. Most all of production agriculture operates on straightforward “cash accounting” basis and is a highly transparent business.

The production agricultural industry's Balance Sheet is very lowly leveraged compared with other industries:

- Farmland represents 81.5% of all U.S. farm assets



- Farm real estate debt is only 61.8% of total farm debt
- While rising, agriculture is relatively low leverage –
 - real estate debt to total real estate is about 8% debt:asset ratio
 - in aggregate the total ag sector, approximately 11% debt:asset ratio.



The Ag Sector and Farmland, as an asset class of investments, have low exposure to leverage and interest rate risk.

We hope you will find investing in Midwestern U.S. farmland as enjoyable and rewarding as we do at First Mid Ag Services.

Whether you want competitive returns, portfolio diversification, an inflation hedge, an “income and growth” asset, or simply the intrinsic value of being able to touch, see, and control your investment, farmland can meet those objectives.



SOME FARMLAND INVESTMENT KEY POINTS

- ▶ *COMPELLING INVESTMENT RISK/RETURN CHARACTERISTICS*
- ▶ *PORTFOLIO DIVERSIFICATION ADVANTAGES*
- ▶ *EXCELLENT REAL RATES OF RETURN*
- ▶ *CONSISTENT INCOME YIELD*
- ▶ *SMALL ALLOCATION RESULTS IN PORTFOLIO BENEFITS*
- ▶ *LARGE ENOUGH MARKET*
- ▶ *STRAIGHTFORWARD "CASH" ACCOUNTING -- TRANSPARENCY*
- ▶ *POSITIVE CORRELATION WITH INFLATION*
- ▶ *STABILITY FROM LOW LEVERAGE IN THE INDUSTRY*
- ▶ *ESSENTIALLY ZERO LEASING VACANCY RATES*
- ▶ *LASTS ALMOST FOREVER*
- ▶ *EXCELLENT MATCH FOR LONG TERM INVESTMENT HORIZONS*
- ▶ *HIGH DEGREE OF PRINCIPAL PROTECTION*
- ▶ *"GREEN" AND "SOCIALY RESPONSIBLE"*
- ▶ *LIKE "GOLD WITH A COUPON"*
- ▶ *BOTH CURRENT INCOME & ASSET APPRECIATION POTENTIAL*

■ At First Mid Ag Services we look forward to working with you to meet your goals for your investment in farmland.

■ Find out more about First Mid Ag Services at website: www.firstmidag.com

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