Farmland as a Fixed Income Alternative

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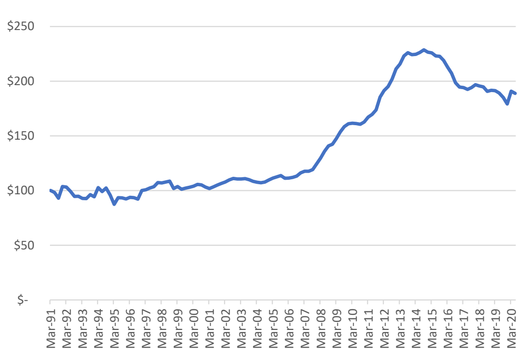
In the current yield-starved environment, row-crop farmland is an attractive alternative to traditional fixed income.

Row-crop farmland, on which grow commodity crops such corn, soybeans and wheat, as well as specialty crops such as potatoes, tomatoes and edible beans, has historically provided investors with i.) a strong current income return ii.) very low underlying price volatility, and iii.) effective portfolio diversification due to low-to-negative correlations with the broader market. These features are more important today than ever.

Bonds provide investors with a fixed income over a set time period at the end of which the investor gets repaid their principal. Similarly, farmland provides investors with an income stream from rents and the proceeds of selling the land in the future. However, there are important differences between bonds and farmland which we believe makes farmland a highly attractive risk-adjusted alternative in the current market.

Exhibit 1
Farmland Net Income Return
1991-2020; Q1 1991 = $100



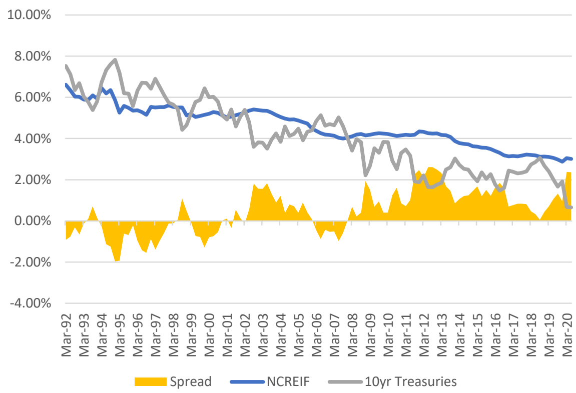
Source: NCREIF Annual Commodity Cropland Index; Ceres Analysis,
Note: Annualized quarterly net operating income
Past performance is no guarantee of future results

1 Farmland Income is not Fixed

First, while farmland provides an attractive current income, that income is not fixed as it is with a bond. Rather, the income changes as farmland rents change. Historically, rents have *increased* over time, though they can fall in cyclical periods of stress to the farm economy. Exhibit 1 shows the quarterly income return for the institutionally owned NCREIF Annual Commodity Cropland Index from inception 12/31/1990 through 6/30/2020.

Farmland rents reflect farmers expectation of profitability over the term of a lease (typically one- to three-years), however because farmland is scarce, farmers will also operate at break-even or below in order to keep acreage. Farmers don't want to terminate a lease to save money in the short term because they may not be able to replace that acreage when farming conditions improve.

Exhibit 2.
NCRIEF Net Income Return vs. 10-year Treasury Note Yield



Source: NCREIF Annual Commodity Cropland Index; Bloomberg 10-year Treasury Yield Downloaded 8/20/20; Ceres Analysis
Past performance is no guarantee of future results

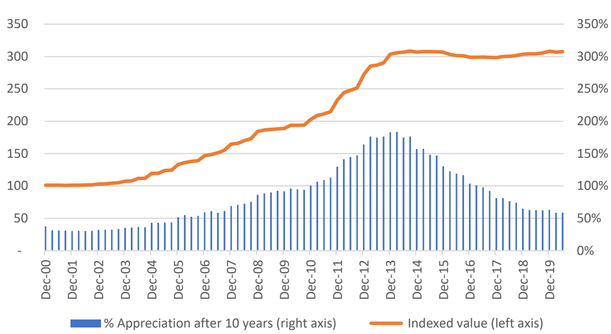
Historically, the current income on farmland has approximated the income return on the 10-yr Treasury note. However, over the past few years, since the recession of 2009 when the Federal Reserve initiated a period of very low rates, the spread between farmland income and what investors can earn in 10-year notes has widened, and especially in 2020 as yields on the 10-year Treasury note have fallen to historic lows. Exhibit 2 shows the income return on the NCREIF Index and the yield on 10-year Treasury notes.

This alone should make farmland very attractive as an alternative to fixed income for investors, suggesting that farmland is underpriced relative to its historic relationship with Treasurys. However, the case is even more compelling when we account for the fact that the income return on farmland is based upon a generally increasing underlying value.

2 Principal Appreciation

The second crucial difference between farmland and bonds, is that where a bond investor will at best get their initial investment back at maturity, a farmland investor will get the value of their farmland when they sell. As with farmland income, the value of farmland has *increased* over time. The underlying value of the farmland properties in the institutional NCREIF Annual Commodity Cropland Index have increased every year since inception except for the three-year period from 2014 to 2017 where the value dipped a *total* of 2.8% from its peak – and had fully recovered by 2019. More important for long term investors, for every 10-year holding period since inception, the underlying value of the farmland in the index has *increased* – generating a total appreciation return ranging from a low of 30% (12/31/91 – 12/31/01) to a high of 184% (3/31/04-3/31/14). Exhibit 3 shows the NCREIF Index with 12/31/00 = 100, along with the total appreciation return for 10-year holding periods.

Exhibit 3.
NCREIF Appreciation Index and % Appreciation over 10-year holding period

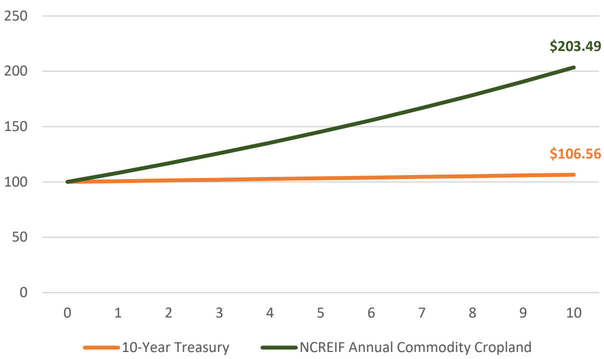


Source: NCREIF Annual Commodity Cropland Index; Ceres Analysis,
Note: 10-year holding period ending in quarter shown
Past performance is no guarantee of future results

3 Conclusions

Exhibit 4 shows the expected annual income from an investment today in farmland and in a 10-year Treasury note. In this illustrative example, we assume that the NCREIF appreciates at its long-run average of 5.1% annually, and that the income remains at the historically low current rate of 3.01%.

Exhibit 4.
ILLUSTRATIVE EXAMPLE
Return on $100 invested in a Treasury Note vs. Farmland for 10 years.



Source: Ceres Analysis
Past performance is no guarantee of future results

As the underlying farmland appreciates, the rent increases proportionately assuming a constant rate of return. In this illustrative example, an investor would earn $64 appreciation + $39 total annual income, the $100 investment would return a total of $203.49 over 10 years. By comparison, that same $100 invested in the 10-yr Treasury would earn $6.56 total annual interest, returning $106.56 over 10 years.

In short, over 10 years, an investor could expect an investment in farmland to payout nearly 2X an investment treasury notes. While we believe farmland to be a very low risk investment, we recognize that it does have inherently more risk than a US Treasury note. However, we believe that the expected returns, both current and appreciation, far outweigh the level of inherent risk as demonstrated by history.

About Ceres

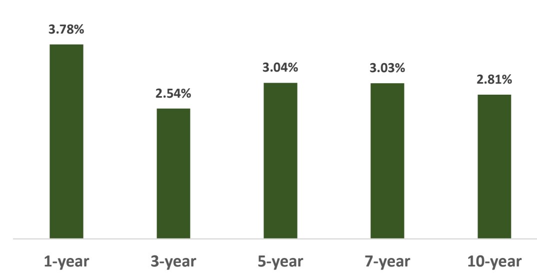
Ceres Partners has been investing in farmland since 2007 and manages over $900 million of property across the U.S. through Ceres Farms, LLC.

Ceres focuses on acquiring under-valued farms and adding value through improvements and partnerships with leading progressive farmers.

Ceres Farms has historically out-performed the NCREIF Annual Commodity Cropland Index cited in this whitepaper (See chart at right).

Past performance is not a guarantee of future results.

CERES FARMS, LLC Out-Performance Relative to NCREIF Annual Commodity Cropland Index



Note: For comparison to NCREIF returns calculated on an unlevered, portfolio level, pre-fee basis.

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You should also consider carefully the statements in the section of the Memorandum titled "Risk Factors" (as well as other sections of the Memorandum) that address facts that could cause the actual results of the Fund to differ from the Manager's current expectations.

Risks related to the Fund's management and structure include but are not limited to the following:
The Fund is managed solely by the Manager, and investors in the Fund have no right to take part in the management or control of the business of the Fund or to remove the Manager.
The Fund's leverage will exaggerate the impact on the valuation of the Fund's assets of any change in the value of the Fund's farmland investments.
The Manager will receive a quarterly performance allocation based on both realized and unrealized appreciation in the Fund's assets, as determined based upon recent appraisals of some but not all of the Fund's properties.
There is no trading market for interests in the Fund, and none is expected to develop. No interest in the Fund may be sold or transferred except with the Manager's consent, which the Manager may give or withhold in its sole discretion. Investors in the Fund have a limited right to redeem interests in the Fund annually upon timely notice to the Manager.
An investment in the Fund may result in "unrelated business taxable income" or "UBTI" for pension or profit-sharing plans, individual retirement accounts, and other tax-advantaged investors.

Risks generally applicable to the Fund's investment strategy include but are not limited to the following:
The value of the Fund's farmland properties, and the Fund's income derived from those properties, may decline due to developments that are specific to the Fund's properties, as well due to factors relevant to the value of real estate generally.
The Fund's principal investment strategy is to acquire and lease farmland used primarily to grow corn, soybeans, wheat, and other commodity crops. These price of these crops can and often do fluctuate widely. If the value of one or more of these crops decline, it could negatively affect the level of rent that the Fund can charge to tenant farmers and in turn cause a decline in the value of some or all of the Fund's properties.
General factors that may adversely affect the value of the Fund's real estate portfolios include increases in interest rates; a general tightening of the availability of credit; and changes in supply and demand for farmland.