UBS

UBS Asset Management

The last, great untapped asset class

A Q&A with Jim McCandless

What does farmland offer to clients?

As an income-producing, finite, natural resource, farmland represents around $9 trillion globally.[1] In the United States alone, it is a more than $2.5 trillion market.[2] Its historically high returns and low volatility, together with a growing global population and decreasing land supply, mean the demand for farmland will only become more essential over time.

Our experience in U.S. agricultural real estate dates back to the early 1970s, and we were one of the first firms to invest in farmland on behalf of pension funds, starting in 1990. Today, we are one of the leading managers of institutional farmland investment portfolios in the United States. We specialize in the acquisition, management and disposition of agricultural real estate investments. We offer investors an opportunity to invest in farmland through individual accounts and through various structures that invest in high-quality, income-producing agricultural properties, diversified across the prime farming regions of the United States. Our strong team of seasoned experienced professionals evaluate the best opportunities to ensure our clients are investing in high-quality, prudently structured portfolios.

What role can farmland play in an investor's portfolio?

Farmland is a huge missed opportunity, with many investors still thinking it is only a place where their food grows as opposed to an asset class. This is mainly due to, historically, there not being many ways to access this investment opportunity. Farmland combines passive cashflow, appreciation that outpaces inflation and less volatility than other asset classes. We believe it can be a powerful diversifier and inflation hedge within an investment portfolio due to its returns being negatively correlated with equities and bonds and its positive correlation with inflation.

How does farmland compare with other types of asset classes?

The last four decades have shown that farmland has outperformed stocks, bonds and many other asset classes, with double-digit total annualized returns over the period (Figure 1). The demand for land, and what it produces, is rising, though supply is strictly limited. With demand exceeding supply, prices will of course have to rise, which is why now can be a good time to invest in this asset class.

Farmland appreciates at an attractive rate and pays a good yield as you wait for the demand/supply imbalance to widen. It is important to note that farmland, as an alternative asset class, is not correlated to other asset classes. This means its income and capital appreciation happen independently of whether or not the stock market rises or falls.

When does it make sense to invest in farmland?

During times of economic stress and significant price volatility, many investors have turned their attention toward hard, tangible real assets that have a core capital value embedded. In particular, they are looking for situations where capital growth is driven by solid fundamentals and where direct ownership is a distinct possibility. Investing into farmland has all of these characteristics, with many investors now seeing the full scope of its potential. There is still a lot of demand for land globally, as well as strong competition to get into this market. But, farmland has durable valuations and attractive levels of income compared with other asset classes.

What is the return potential of farmland investment? What are the risks?

Not only has farmland outperformed every major asset class in the last 30 years, but it has been providing investors with strong annual average returns (Figure 1). As one of the least volatile asset classes, farmland investments show that high returns can, in fact, correlate with low risk. Its illiquid nature and capacity to provide strong and consistent risk-weighted returns relative to other asset classes make farmland increasingly attractive to investors. Given the current climate, the increasing global demand for farm products has supported higher commodity prices, farm income, farmland rents and farmland values. This means that returns are expected to remain around long-term averages in the near-term and should further benefit from increasing global demand for food in the future.

Like any investment, there are risks. In agriculture this can include damage to crops, fire, pests, etc. Depending on where you invest, government policies surrounding restrictions and risks can impact farmland investments. These are all factors we take into account. Investors can reduce risk by diversifying their investments through the types of crops produced, such as commodity crops, vegetable crops and permanent crops and across many U.S. geographic regions.

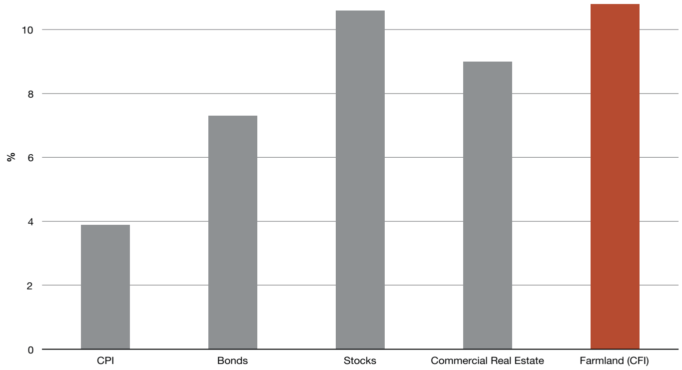
How competitive is it to access the farmland market?

Currently, the farmland market isn't too small or too saturated. Only 11 percent of land globally is suitable for cultivation.[3] In 2019, the total value of farmland and buildings in the United States came to around $2.5 trillion.[4] With more investors chasing a limited number of deals, we expect farmland to continue outperforming financial assets over the coming decades.

Are farmland investments considered long term?

Increased market volatility has forced investors to search for assets that will be resilient throughout the economic cycle. Farmland is a durable and consistent investment with upside

Figure 1: U.S. farmland returns in perspective
(annual returns 1970–2019, %)



Sources: UBS Asset Management, Real Estate & Private Markets, research based on data obtained from the Bureau of Labor Statistics, Morningstar, the Bar-Cap Aggregate Bond Index, EAFE International Stock Index, S&P 500 Stock Index, IA SBBI US Small Stock Index, NAREIT, NCREIF Property Index and Core Farmland Index, as of Dec. 31, 2019.

growth potential. Return on investments can vary from a year to up to seven years. And, in spite of short-term fluctuations in commodity prices, returns can be better measured over longer periods. In the current climate, and taking into account the ever-increasing global population and demand for food, farmland offers a truly unique investment opportunity with inviting long-term returns.

Do you consider ESG factors when investing into farmland?

Investing into farmland isn't just about getting the best return on investment, but it is also about responsible investment. For example, provisions can be added to leases to address the use and handling of fertilizers, herbicides and other chemicals. In addition, new global standards are being introduced to address responsible investment in farmland, such as the ESG Leading Harvest standards for farmland portfolios. The standard is designed to advance sustainable agriculture and empower sustainability leaders to share and adopt better practices and be good stewards of the land.

With our business exporting 25 percent to 30 percent of its agricultural output, it is important to preserve the productivity of the land for the coming generations to continue growing food for an ever-increasing population. Additionally, an increase in food productivity in turn helps to feed people and provide jobs, contributing to the alleviation of poverty and food-shortage issues that many people face around the world.

How do farmland investments respond to crises?

Since the global financial crisis of 2008 and COVID-19, farmland prices have continued to show strength, even as the scope of the crisis-driven turmoil impacts most of the economy. In addition, farmland yields are tied to food prices, which have not been negatively impacted during past crises. Farmland has proven to be reliable through times of economic turmoil, with its durable valuations and attractive levels of income compared with other asset classes. Although no investment is recession proof, farmland has proven to be comparatively stable when compared with other investment options.

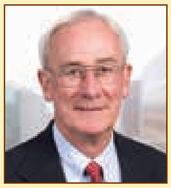
Are there any comparative advantages of U.S. farmland investments compared with other regions of the world?

The United States has the largest cropland mass in the world, which is located in latitudes favorable to crop production. In addition to the vast global export potential of U.S. farmland products, increased productivity is one of the main contributors to economic growth in U.S. agriculture. With this increase in productivity doubling since the 1970s, coupled with increased opportunities in new farming technologies to upsurge productivity, we can expect to see a new revolution in agriculture and crop production. The farmland commodity markets are global, and U.S. farmland is greatly benefiting from the increased demand, with exports hitting all-time highs.

The United States is renowned for being an efficient and reliable producer of alternative fuel. Increasing global demand for alternative fuels, such as ethanol and biodiesel, has boosted the demand for crops such as corn. While corn may eventually be replaced as the stock for alternative fuels, the replacement crop will still require farmland on which to grow it. If it is a profitable crop, our farmers will produce it.

The United States has a vast array of land-grant colleges, agricultural extension programs, and local farmers with strong management skills, meaning that as the industry continues to evolve, then so, too, will its participants.

Notes: [1] Based on FAO 2019 data; [2] USDA, June 2020; [3] Based on FAO 2019 data; [4] USDA, June 2020. Past performance is no guarantee for future results.



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CORPORATE OVERVIEW

UBS Asset Management

UBS Asset Management's Real Estate & Private Markets business actively manages investments of around USD 118 billion globally and regionally within Asia Pacific, Europe and the United States, making it one of the largest asset managers in real assets worldwide. Our capabilities reach across the risk/return spectrum, ranging from core to value-add and opportunistic strategies. We offer both direct real estate and infrastructure equity and debt investments, as well as indirect exposure to leading real estate, infrastructure and private equity managers. Investors can access our diverse product range across open- and closed-ended private funds, investment trusts, listed funds, REITs, and bespoke separately managed accounts.

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