ELEVATION CAPITAL INSIGHTS

Asset Class Analysis: FARMLAND

December 2023

ELEVATION CAPITAL INSIGHTS

FARMLAND

Farmland is one of the largest commercial real estate sectors globally and operates with unique dynamics when compared to other investments. Grouped under the "Alternative Investment" asset class, farmland is an asymmetric bet, benefitting from a capped downside due to government support in many markets, and inevitable growth with rising global populations. While crop demand increases worldwide, the amount of arable land decreases as portions are converted to necessary housing for growing populations. This results in an increasing demand combined with a decreasing supply of farmland globally.

As arable land slowly decreases, the global population must be supported via improved productivity by farmers. This results in a "zero-vacancy" sector, where nearly all productive farmland is occupied at any given time. For investors, this means short-term or long-term leases can be employed to maximise rent while minimising risk. Cash flow interruption in farmland is of low concern as the demand for productive land has resulted in a natural selection of higher quality farmers operating the assets. Overall, this generates a very stable investment environment.

The current macroeconomic environment favours farmland, which is known for its low correlation with financial assets and utility as an inflation hedge. In the 1970s, a period with high inflation and rapidly rising interest rates, US farmland delivered the best risk-adjusted returns compared to both financial and real assets, including stocks, bonds, commodities, and other alternatives (e.g. art, wine, classic cars). Two of the largest private investors in US farmland, John Malone (The Cable Cowboy) and Ted Turner, own over 2 million acres each and continue to add to their landholdings.

Globally, farmland tends to have a land lease structure, providing benefits to both landowners and farmers. While landowners gain a reliable stream of rental cash flow, farmers can expand their operations for a fraction of the cost of buying land, allowing them to benefit from economies of scale. Combined with the "zero-vacancy" nature of farmland, landowners can maintain shorter lease terms and realise the benefits of improved frequency in mark-to-market rents.

When considering the long timeframes with farmland investment there is also the possibility of sudden outsized returns due to the "highest and best use" of the land. A higher and better use can include residential or commercial real estate development, solar and wind farms, or transportation expansion such as highways or railways. While the best use of farmland is generally agriculture, in certain circumstances higher and better use can lead to outsized returns on land sale value to private or public entities.

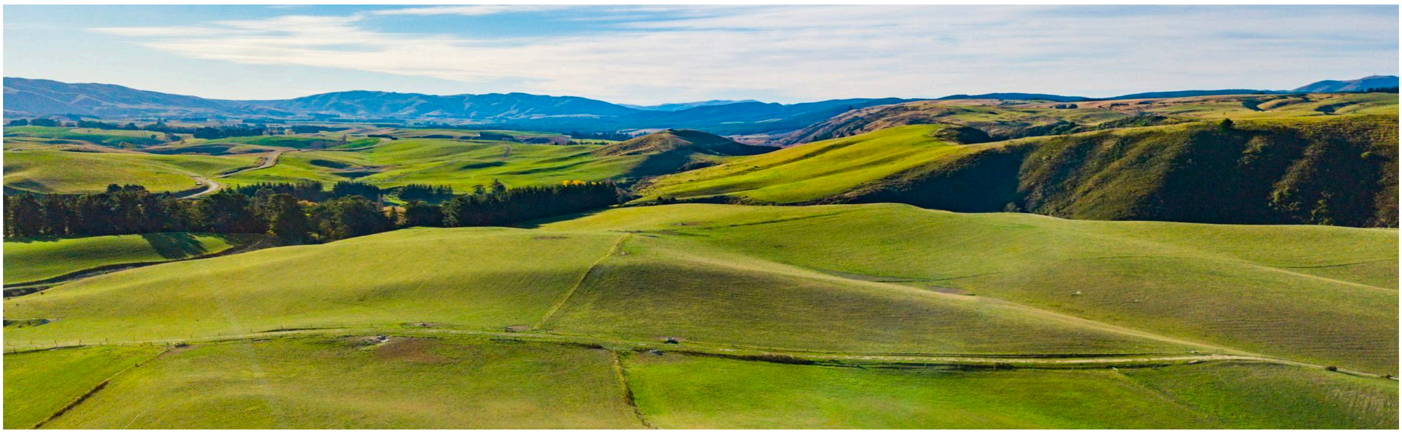


Image Source: NZRLC Website - www.nzrlc.co.nz

Unique Advantages of Owning Farmland

Farmland is a tangible asset that has historically been a strong inflation hedge, while also offering unique benefits when compared to other real estate.

Real Asset Category:

Assets are categorised as either tangible (real), financial, or intangible. Real assets, including farmland, tend to be less liquid than financial assets but provide excellent diversification within a portfolio. Alternatives have grown in popularity over the last decade, with Blackstone reaching $1T USD AUM and becoming the first Alternatives Manager to enter the S&P500.

Inflation Hedge:

Farmland is known as a strong inflation hedge; in the US, returns have consistently exceeded inflation over the last 30 years, with an average excess return of +8.5% per annum over the last 10 years.

Unique Benefits vs Other Real Estate Assets:

Compared to other real estate, farmland has three primary benefits: low risk of obsolescence, lower fungibility (interchangeability) risk, and lower CAPEX burden.

Global Tailwinds:

Growing global populations, climatic changes, decreasing supply of farmland, and access to renewable fresh water supplies favours farmland in select jurisdictions.

Image Source: Farmtogether - www.farmtogether.com

Real Asset Category

Correlation of Real Assets to Financial Assets Since 1925

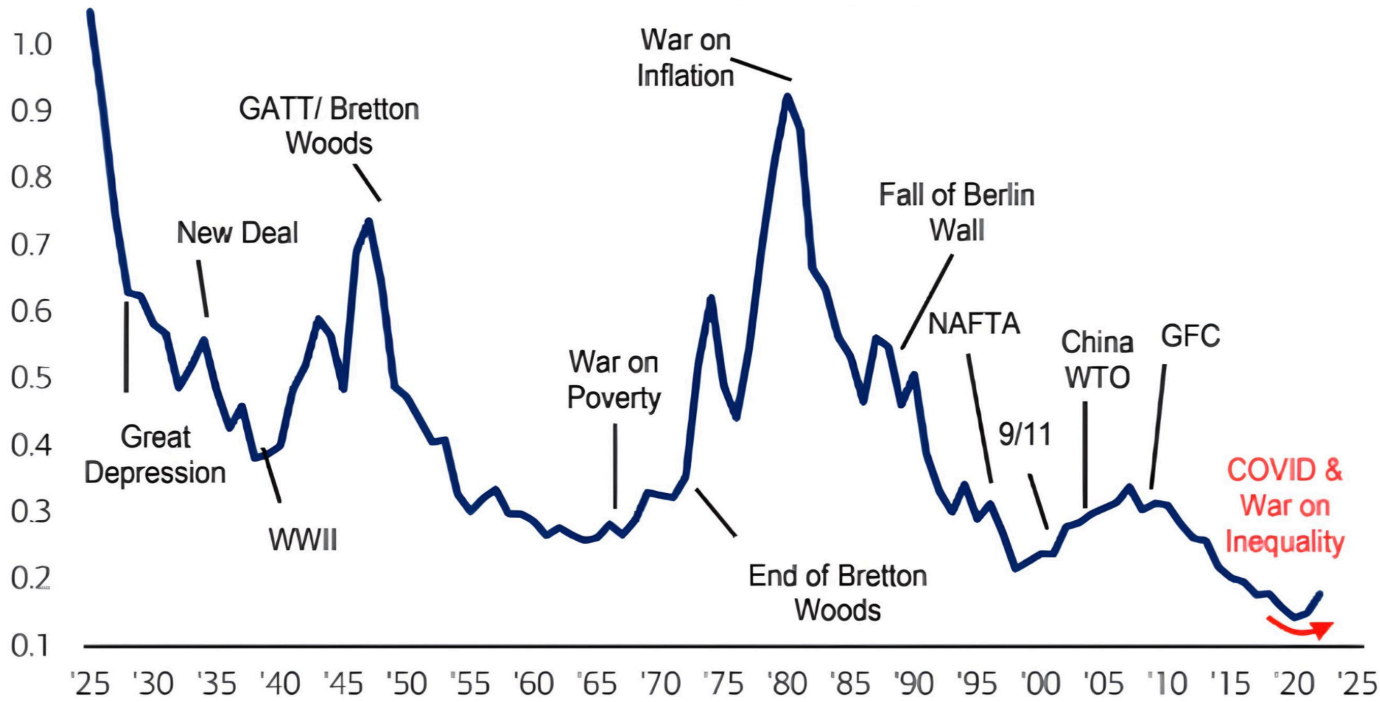
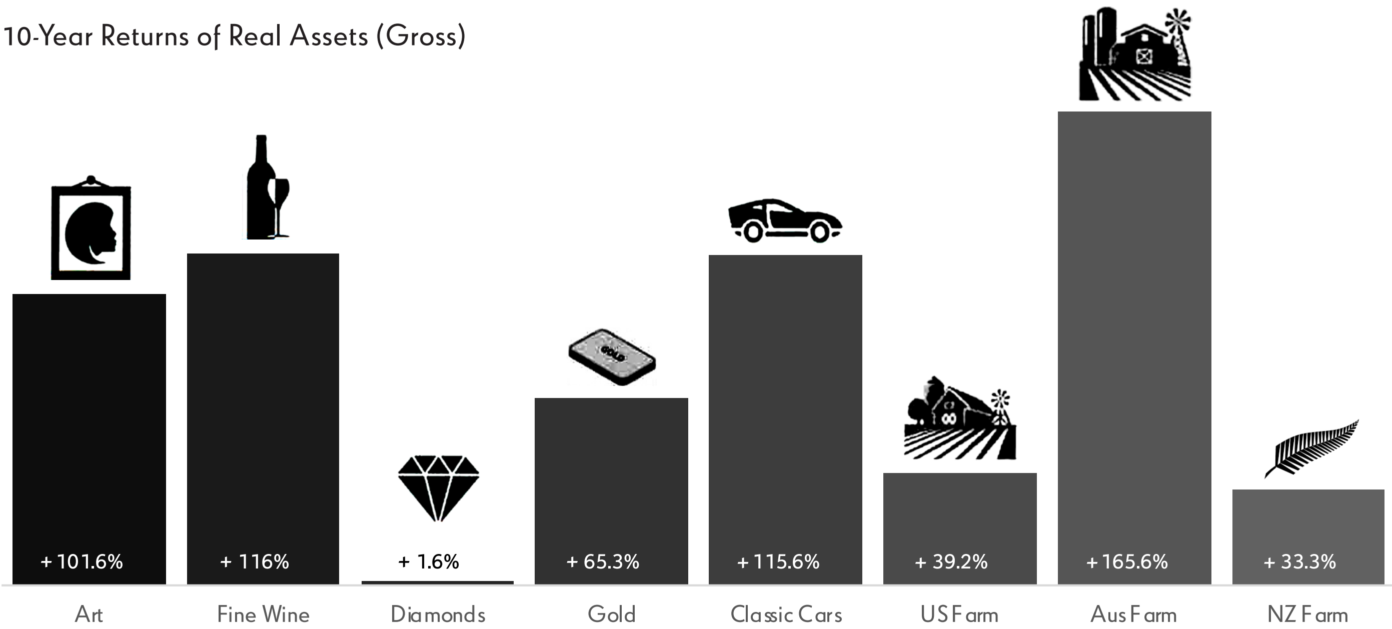


Image Source: BofA Global Investment Strategy

- The long-run price relative of real assets (real estate, commodities, and collectibles) to financial assets (stocks and bonds) is at its lowest level since 1926.
- Bull markets in real assets have coincided with war and major fiscal stimulus programs in the 1940s, the rise of inflation in the 1960s and 1970s, and 9/11 and China accession to WTO in the early years of this century.
- We believe the new "War on Inequality", new fiscal and trade policies aimed at raising global wages, is likely to spark a new bull market in real assets.
- The chart below highlights various real asset returns over the past 10 years:

10-Year Returns of Real Assets (Gross)

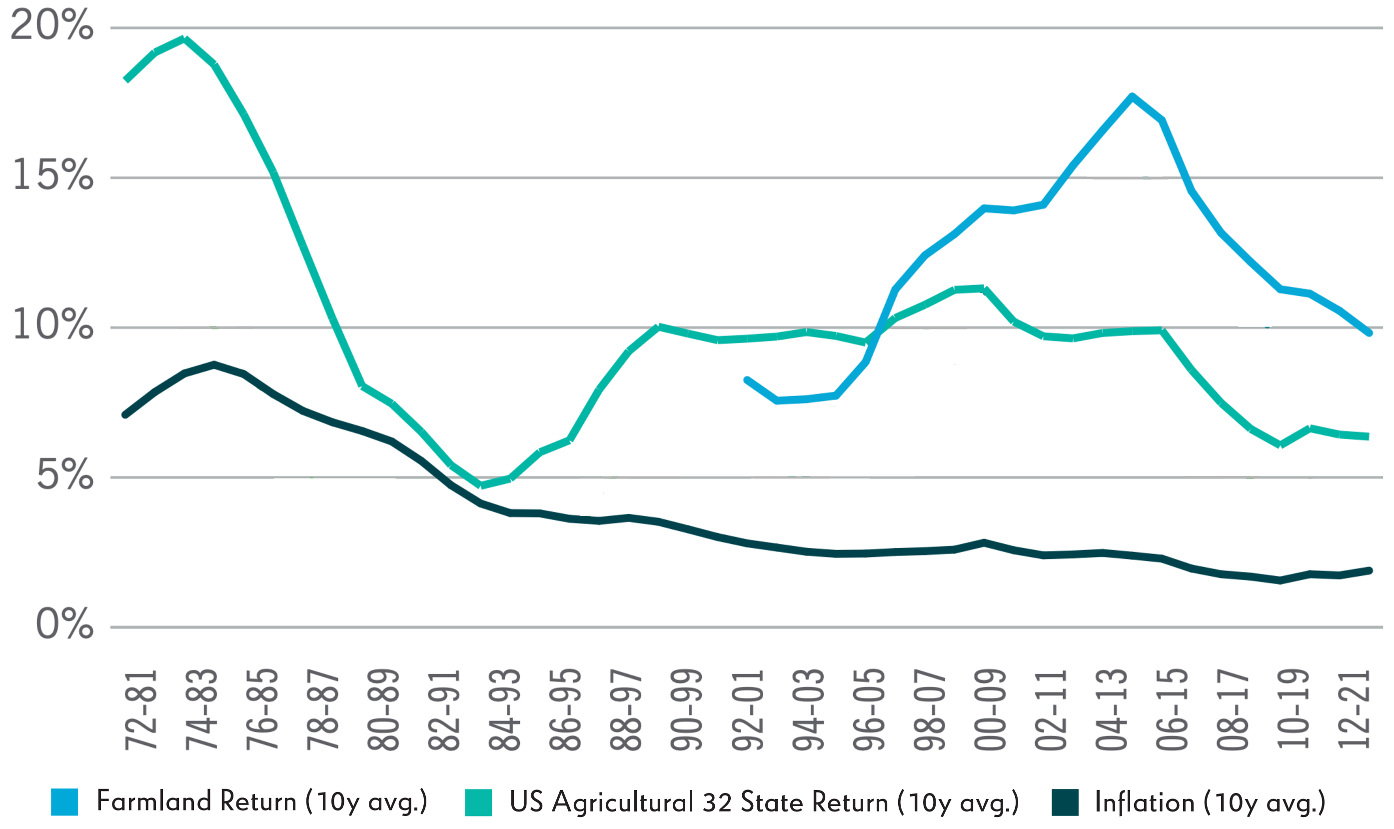


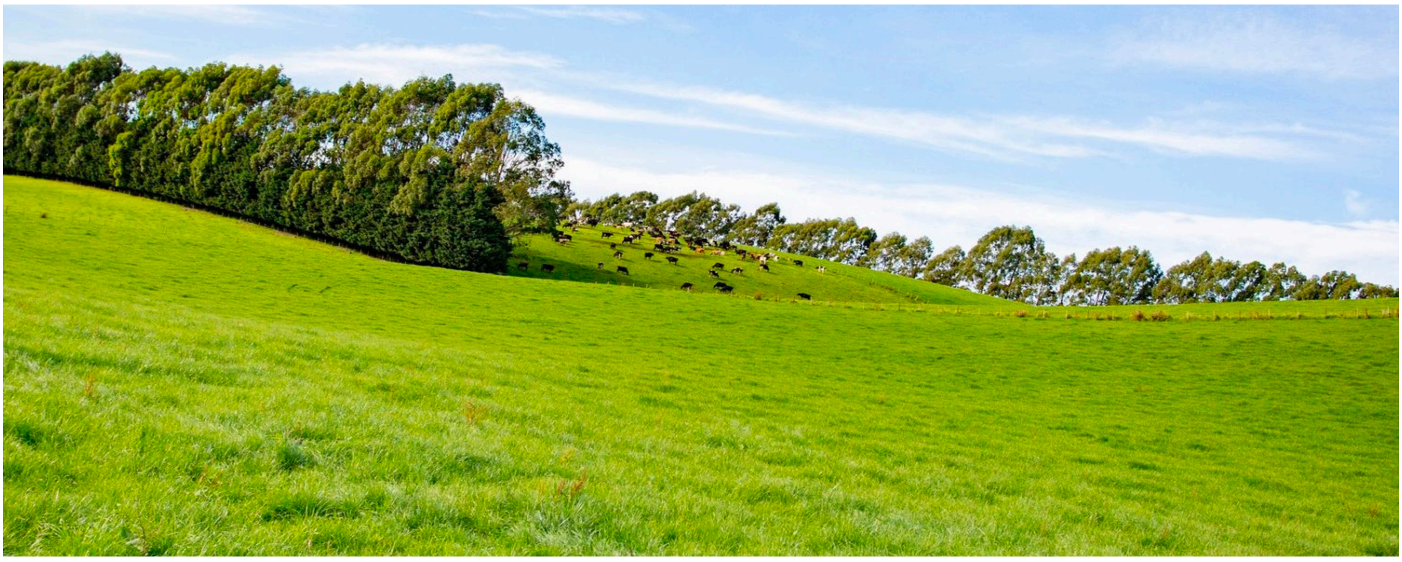
Source: Bank of America Merrill Lynch, Elevation Capital, Historic Auto Group Index (HAGI), Art Market Research, Alti Wine Exchange, Indexonline Diamond Index, USDA, Rural Bank, REINZ

Inflation Hedge

Farmland is an attractive inflation hedge, driven in part by a "built-in" component – many commodities, such as food, fibre, and timber, are components of inflation measures within the consumer price index (CPI), and rising prices increase revenue and cash yields from land assets. Over time, as higher commodity prices are factored into underlying land valuations, the capital appreciation component of the return increases as well. As such, inflation hedging is often viewed as one of the most attractive features of farmland to investors.

US Farmland vs Inflation Since 1972





Source: Nuveen, Elevation Capital

Image Source: NZRLC Website - www.nzrlc.co.nz

Farmland vs Other Real Estate Assets

The first decision investors make when entering the real estate market is whether to acquire commercial, industrial, or residential. Commercial real estate is commonly categorised into four classes: office space, industrial, multi-family rental, and retail. Farmland falls under the industrial umbrella, but it has some unique attributes that are distinct to other industrial real estate options.

Lower Risk of Obsolescence:

The preferences of traditional real estate tenants change over time, leading to older buildings being less attractive than newer ones in the rental marketplace. Older buildings tend to require constant maintenance, especially considering improving housing standards imposed by governments globally that in turn increase the rate of obsolescence in residential rental properties. Excluding farmland, other commercial real estate incurs costs related to building efficiency, design, and space configuration for the needs of their industrial and commercial tenants.

Farmland avoids these issues. Advancements in farming productivity techniques and equipment have allowed certain crops to be farmed year after year without a loss in fertility or productivity. While fertility is primarily linked to soil quality, scarcity of productive farmland globally reinforces lower obsolescence risk in the sector.

Lower Fungibility (Interchangeability) Risk:

Commercial, industrial, and residential real estate all face differing levels of fungibility (interchangeability) risk. A property cannot easily be remodelled for a different use if its currently a residential building. Large-scale improvements in uses are at best cost prohibitive and at worst totally unfeasible.

Farmland, while also facing evolving demand, can be more easily adapted for different livestock or crops. While demand for food is continuous, eating habits can change over time. Broad market conditions can necessitate a change in farming strategy but that does not affect the utility of the land itself. Additionally, farmland near city borders may be repurposed into residential properties due to expansion in response to population growth. This provides an extra layer of insulation for farmland owners due to the higher fungibility advantage of open land.

Lower CAPEX Burden:

Traditional real estate assets depreciate over time, requiring constant reinvestment of capital to maintain a competitive position and continue to grow rental income. Generally, farmland does not depreciate as it can be managed via lease structures and requirements on farmers within the lease (e.g. monitoring soil integrity). The pursuit of productivity improvements tends to be at the farmer's discretion, including buying new equipment or adjusting crop types. Farmland CAPEX tends to be preventative, such as maintaining irrigation and drainage, which results in a small amount of steady, predictable costs over time instead of periods of saving followed by large CAPEX spend.

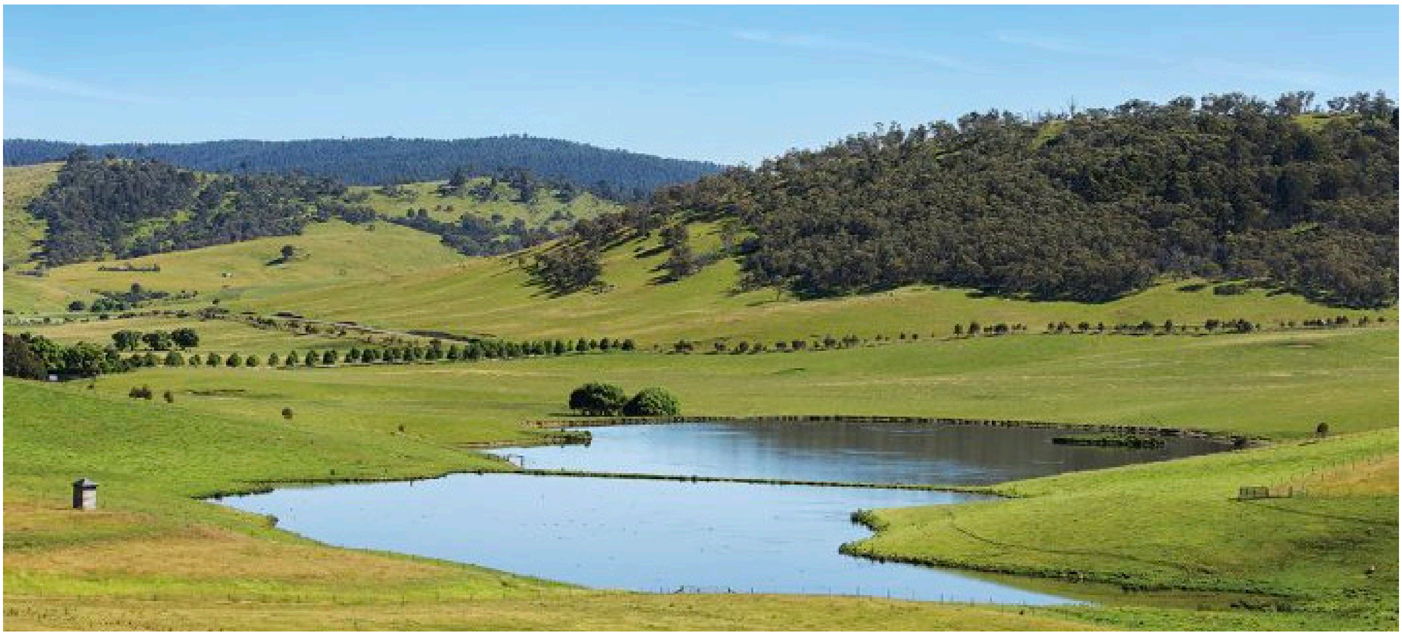


Image Source: RFF Website - www.ruralfunds.com.au

Source: Green Street Advisory Group, Elevation Capital

Global Tailwinds for Farmland

Agricultural Land Per Capita

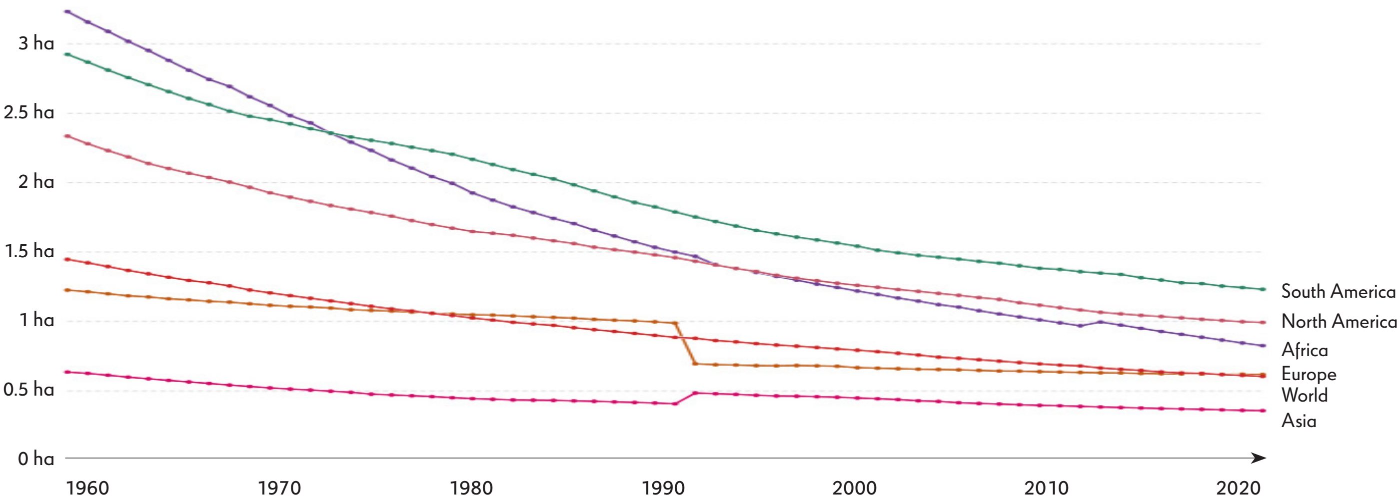


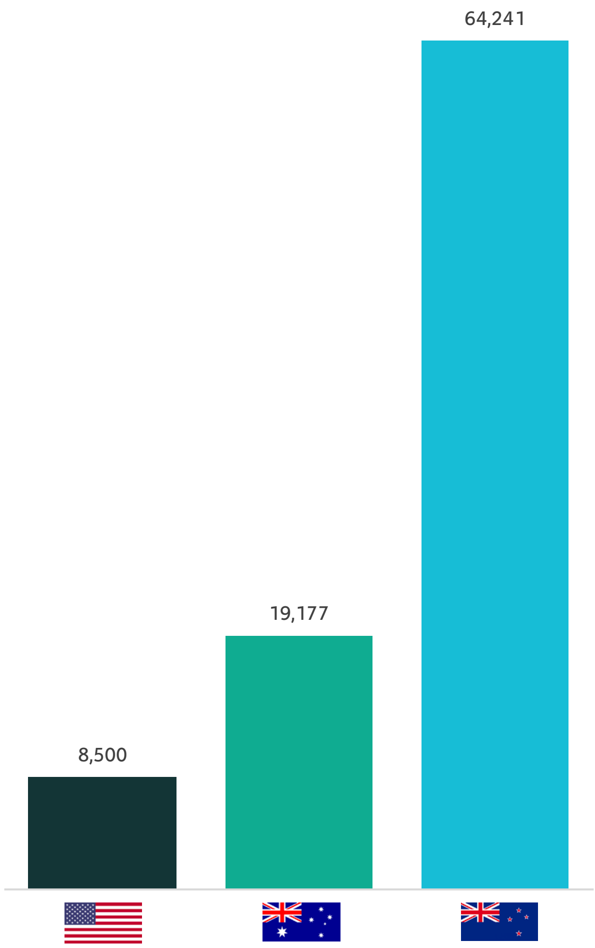
Image Source: Our World In Data, United Nations - refer appendix for further analysis

The global population is currently expanding by over 67 million people per annum. By 2050, the world's farmland will have to support a population of over 9,000,000,000 people. Farmland acreage will continue to decrease over time as productive land is converted into residential, business, or industrial real estate developments in what is known as "highest and best use" of the land. This will require a 60% boost in agricultural productivity to meet growing demand for crops - effectively doubling the output compared to 2010 levels. While developing nations are expanding the proportion of arable land used for farming, many will reach plateaus of productivity due to farmer expertise and water supplies. This can result in some net exporters becoming net importers, such as China who has 20% of the world's population but only 8% of the world's arable land.

As populations rise, the middle class is expected to continue to upgrade its diet. This involves increased protein consumption, which puts pressure on global grain supplies. Producing a single pound of beef protein requires around ten pounds of feed grain, which contributes to rising prices for both beef and grain.

All of this relies on water, which becomes an increasingly scarce resource. Agricultural regions with sustainable water supplies will be in the best position to maintain their farming operations. These regions should see increased valuations as they also effectively become indirect water exporters. Agricultural exports are a method of transferring water from those countries with an abundance to those that lack water resources; instead of importing water and farming dairy cows, these countries can simply import milk, allowing them to bypass the need to import water.

Renewable Fresh Water Per Capita (Cubic Metres)



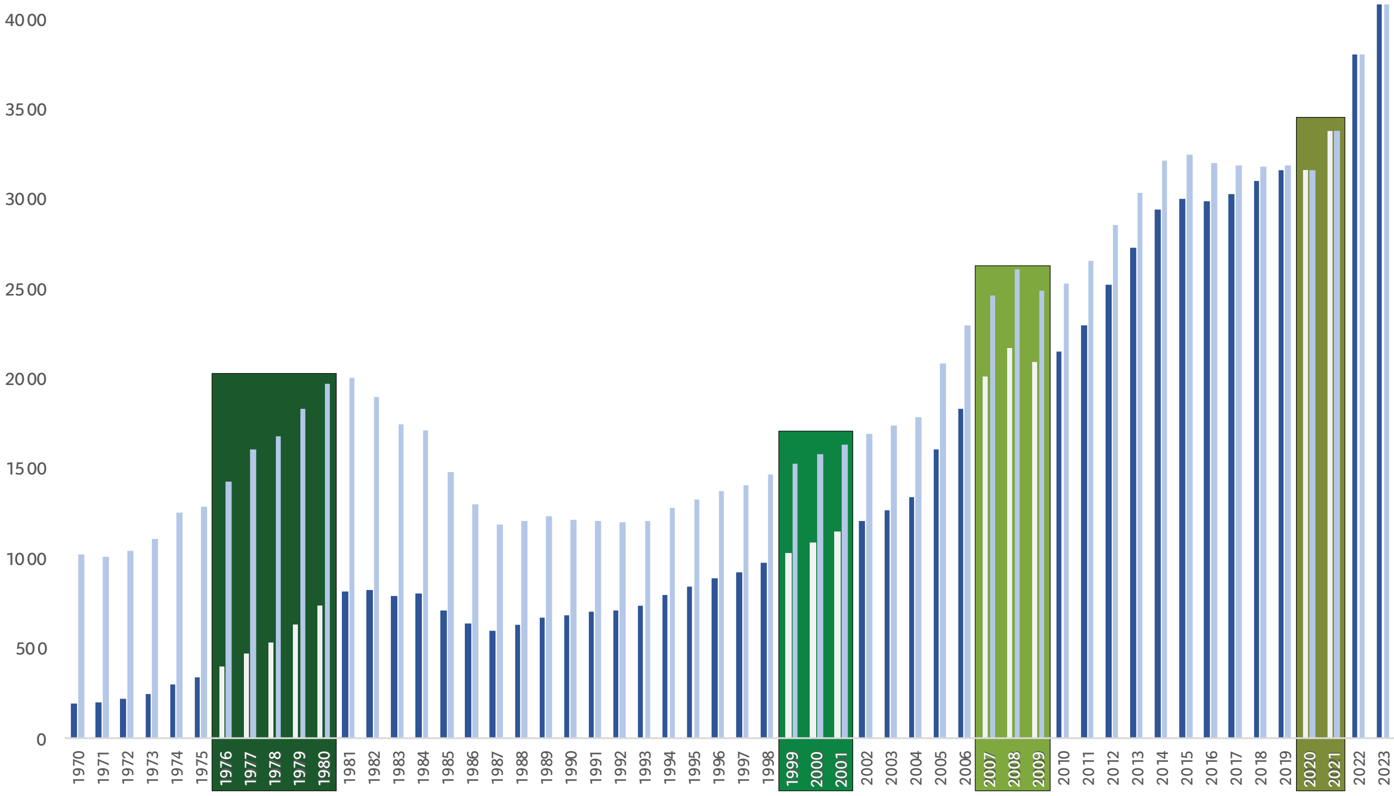
Source: World Bank, Nuveen, Elevation Capital

Comparing Farmland Markets:

Image Source: Farmtogether - www.farmtogether.com

US Farmland: Historically Robust

US Farmland Price Per Acre, 1970-2023 - not including earnings or lease payments



Source: ERS, USDA

During times of macroeconomic uncertainty or recessions investors look for four key attributes in assets to maintain their wealth: safe havens with tangible value, low correlation with stocks, consistent positive returns, and low volatility. Below are four case studies that highlight the ballast farmland can provide investment portfolios:

1970s: Recession and Inflation
In 1971 the US decoupled from the gold standard, resulting in inflation rates rapidly escalating, with the Federal Funds Rate eventually peaking at an unprecedented 20% by 1979-80. At the beginning of this tumultuous economic period farmland was an attractive inflation hedge for investers, yielding strong net returns during the late 70s.

2000: Dotcom Bubble and 9/11
Stocks suffered an enormous decline in value after the Dotcom Bubble burst, but with low interest rates there was an opportunity to take on debt to expand farming operations. In a stock market crash investors seek safe havens with tangible value that have low volatility. During this period, farmland appreciated almost as fast as residential real estate in the US, marking the beginning of a long real estate bull market that continued until 2007.

2008: Global Financial Crisis
The real estate bubble finally burst in 2008, creating the most severe worldwide economic crisis since the Great Depression of 1929. The 2008 equity sell-off led to nearly $8T USD of losses and north of $3T USD of home equity destroyed. The flight to safety in response to the GFC led to positive returns in gold, bonds, and farmland as investors sought safety.

2020: COVID-19 Pandemic
In March 2020, when COVID-19 was declared a global pandemic, markets around the world panicked and there was a flight to safety. While farmland returns during this period were well below the 10-year average (+3.1% vs +10.6%), volatility was far lower than stocks, and farmland still managed a positive return despite the pandemic.

Australian Farmland: Long-Term Outperformance

	2022 year-on-year median price growth	2022 year-on-year transaction volume growth
QLD	+18.9%	-30.9%
NSW	+15.9%	-41.9%
VIC	+26.3%	-44.6%
TAS	+54.9%	-13.8%
SA	+23.0%	+5.9%
WA	+22.5%	-27.6%
NT	+108.3%	-28.1%
National	+20.0%	-34.3%

Image Source: Rural Bank, Australian Farmland Values 2023

Australian farmland continued its impressive growth in 2022 with a national average increase of +20% to A$8,506 per hectare, equal to the growth in 2021. This marked the ninth consecutive year of growth, with a CAGR of +11.5% since 2014. Recent headwinds, derived from rising interest rates and declining commodity prices, resulted in significantly fewer transactions. Transaction volume in 2022 dropped by -34.3% to 6,588, the lowest in 28 years, after 2021 had the highest volume since 2007.

Australian residential real estate was less resilient with a decline of -5.3%. The ASX200 also closed 2022 with a year-on-year decline of -5.5%. These diverging performances highlight farmland's long term advantage, especially during macroeconomic uncertainty.

Source: Rural Bank, Elevation Capital

Australian Farmland Historical Performance (Gross) - not including earnings or lease payments

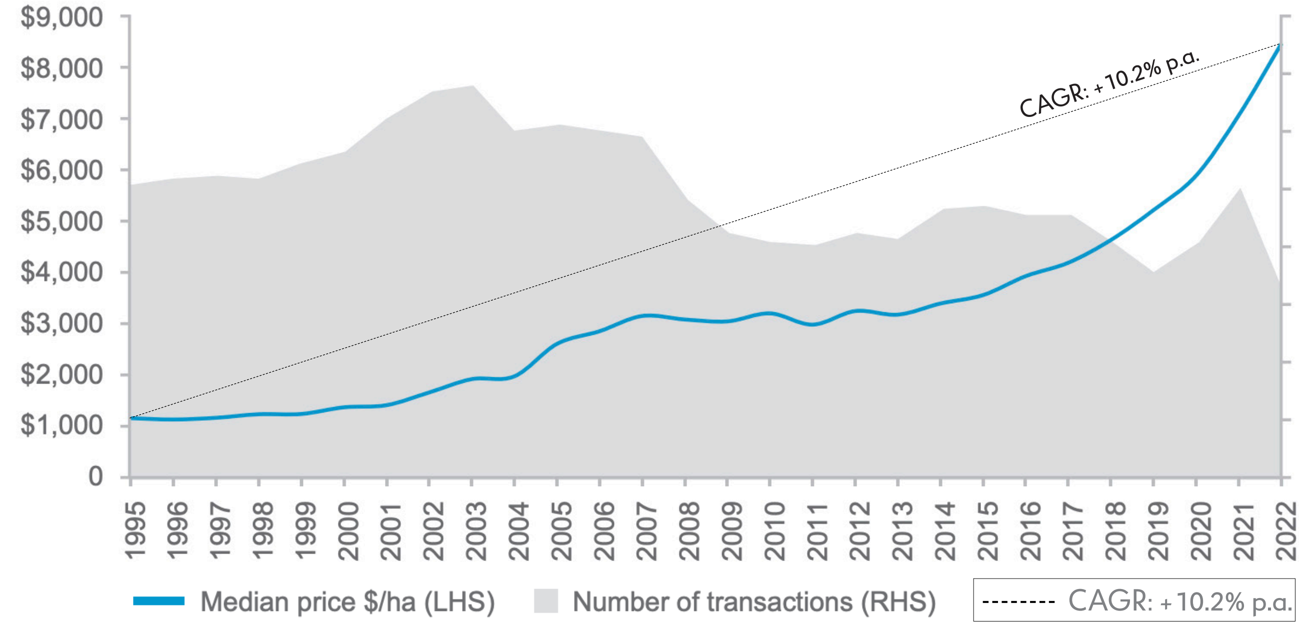


Image Source: Rural Bank, Australian Farmland Values 2023

New Zealand Farmland: Dairy

New Zealand is renowned worldwide for its dairy and beef farming industry, making up a combined 64% of farm exports. On-farm profitability is expected to grow at around +5.5% per annum from 2019 to 2029, primarily derived from an increasing milk price driven by growing populations. Demand is outstripping supply, with global dairy deficit forecasts expanding from -6MT to -30MT by 2027. New Zealand dairy farms are highly regarded for being sustainable, with the lowest carbon footprint per gram of protein when compared to cow's milk operations in Europe, USA, Asia, and Africa. These low carbon footprint food production assets will become increasingly important in the future as consumer demands change. Additionally, water supply issues can be a significant restriction for farmers worldwide. New Zealand is one of the wettest countries in the world, with an annual renewable water supply of around 1.3 million cubic metres per square kilometre.

Additionally, most of New Zealand's dairy produce is sold through co-operatives whose structure results in a higher percentage of the value of primary production flowing back to the farm gate. In turn, this increases the value of land as this scarce resource is needed to increase output; any increase in primary production value increases the value of the land. Compared to other agricultural assets, dairy cash flows are monthly and reliably forecasted, further enhanced by the dairy derivatives market launched by the NZX in 2010.

Source: NZRLC, Elevation Capital

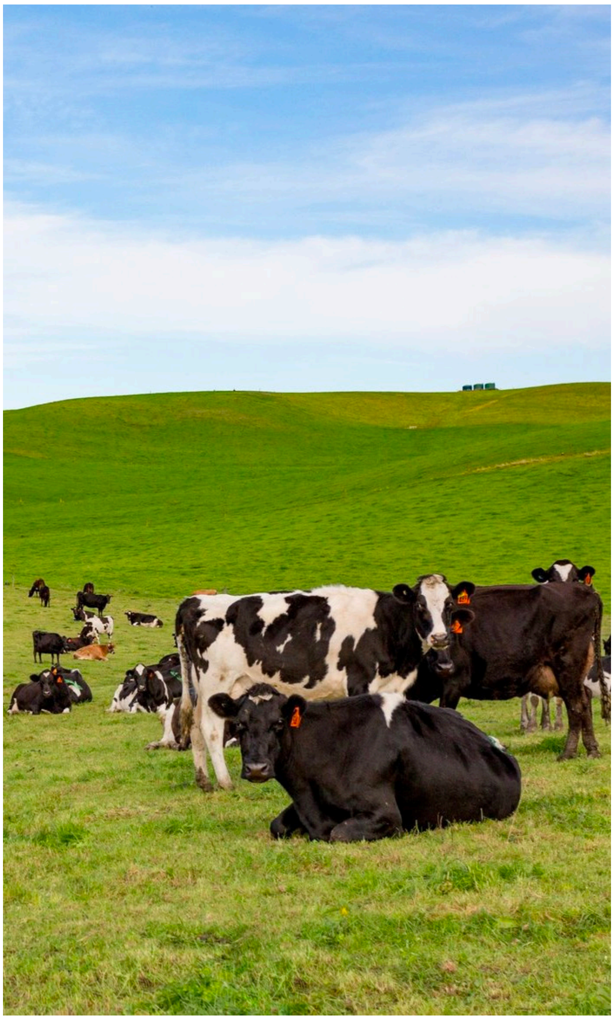
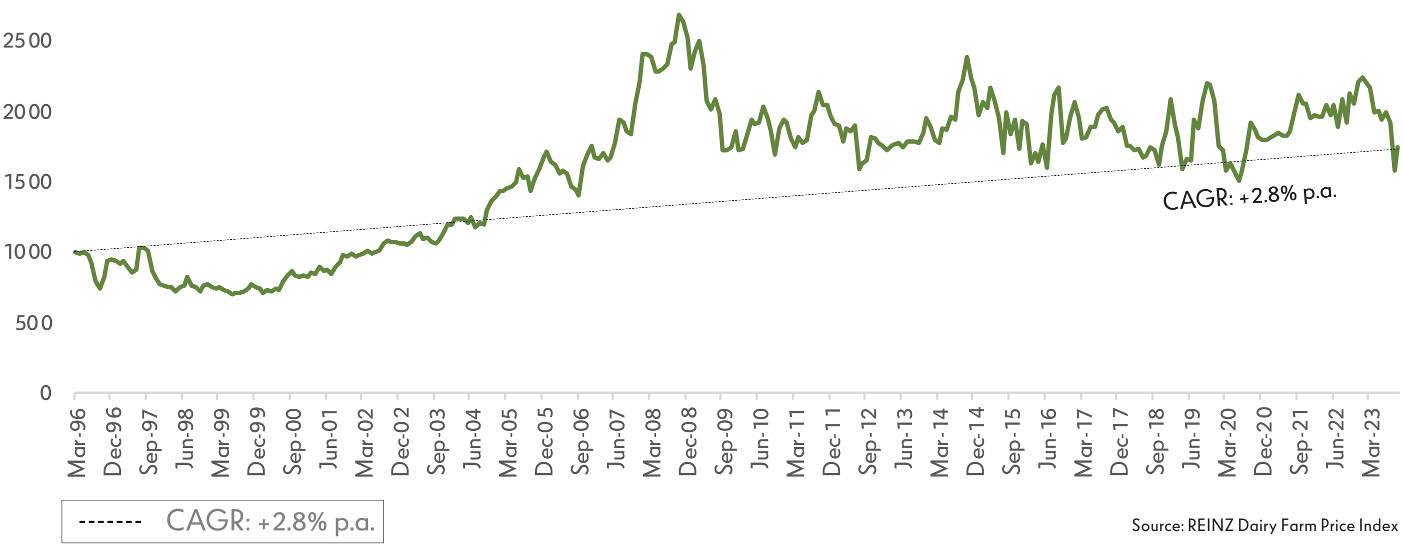


Image Source: NZRLC Website - www.nzrlc.co.nz

Dairy Farmland Price Index (Gross) - not including earnings or lease payments



Source: REINZ Dairy Farm Price Index

New Zealand Farmland: Forestry and Horticulture

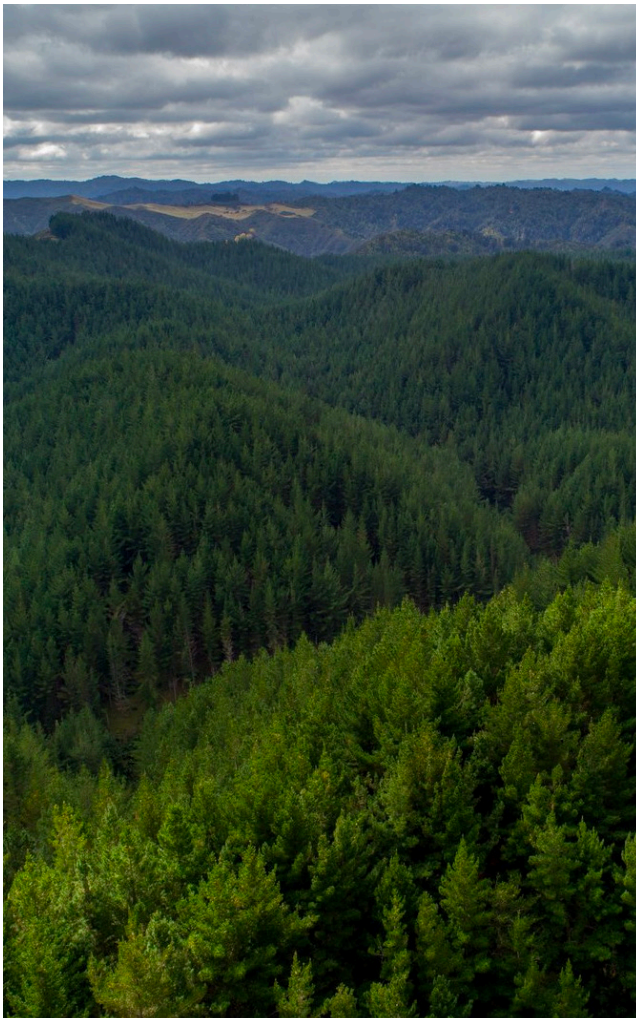


Image Source: NZRLC Website - www.nzrlc.co.nz

Forestry and Horticulture are New Zealand's two biggest farm exports after dairy and beef. These two sectors make up 13% of national farm exports each.

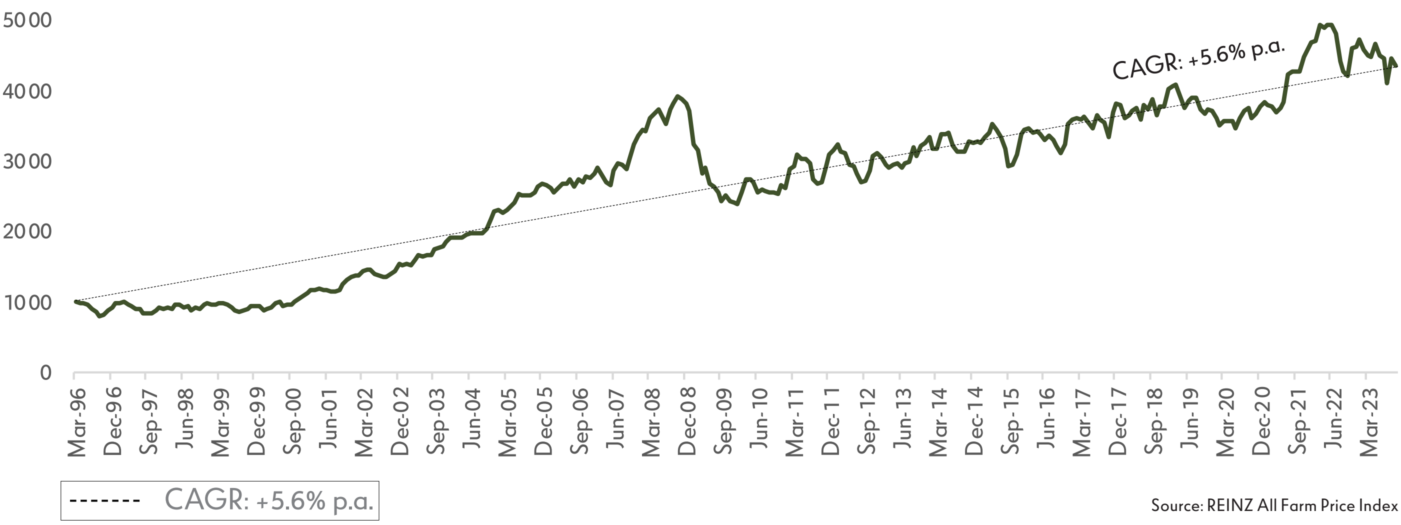
Environmental policy favours forestry. New Zealand has pledged to be carbon neutral by 2050, a policy being implemented via an emissions-trading program. This requires carbon emitters to buy credits to offset their emissions at a current cost of NZ$75.50* a ton. Owners of forests can sell credits, increasing forestry revenues and thus raising the price of farmland that can be replanted to trees. Selling credits can currently generate up to $1,000 an acre, compared with $200 for beef and cattle farming.

Within the horticulture portion, 67% is split between kiwifruit and wine. New Zealand farmers produce 150 million trays of kiwifruit for export each year from 12,000 hectares of land: a total of 600,000 tons of kiwifruit per year. In terms of wine production, New Zealand has over 700 growers with 42,000 hectares of vineyard that produces around 13 tons of grapes per hectare. 75% of wine grape acres are in the Marlborough region, and Sauvignon Blanc is over 60% of New Zealand wine grape acreage.

The diverse geography of New Zealand allows for adaptable farming strategies across different regions in the country. Farmland is a blank canvas for farmers to operate however is most profitable, highlighting farmland's fungibility (interchangeability) and strength.

Source: Rural Migration News, Elevation Capital
*As at 4th December 2023

All Farmland Price Index (Gross) - not including earnings or lease payments



Source: REINZ All Farm Price Index

Listed Farmland Companies

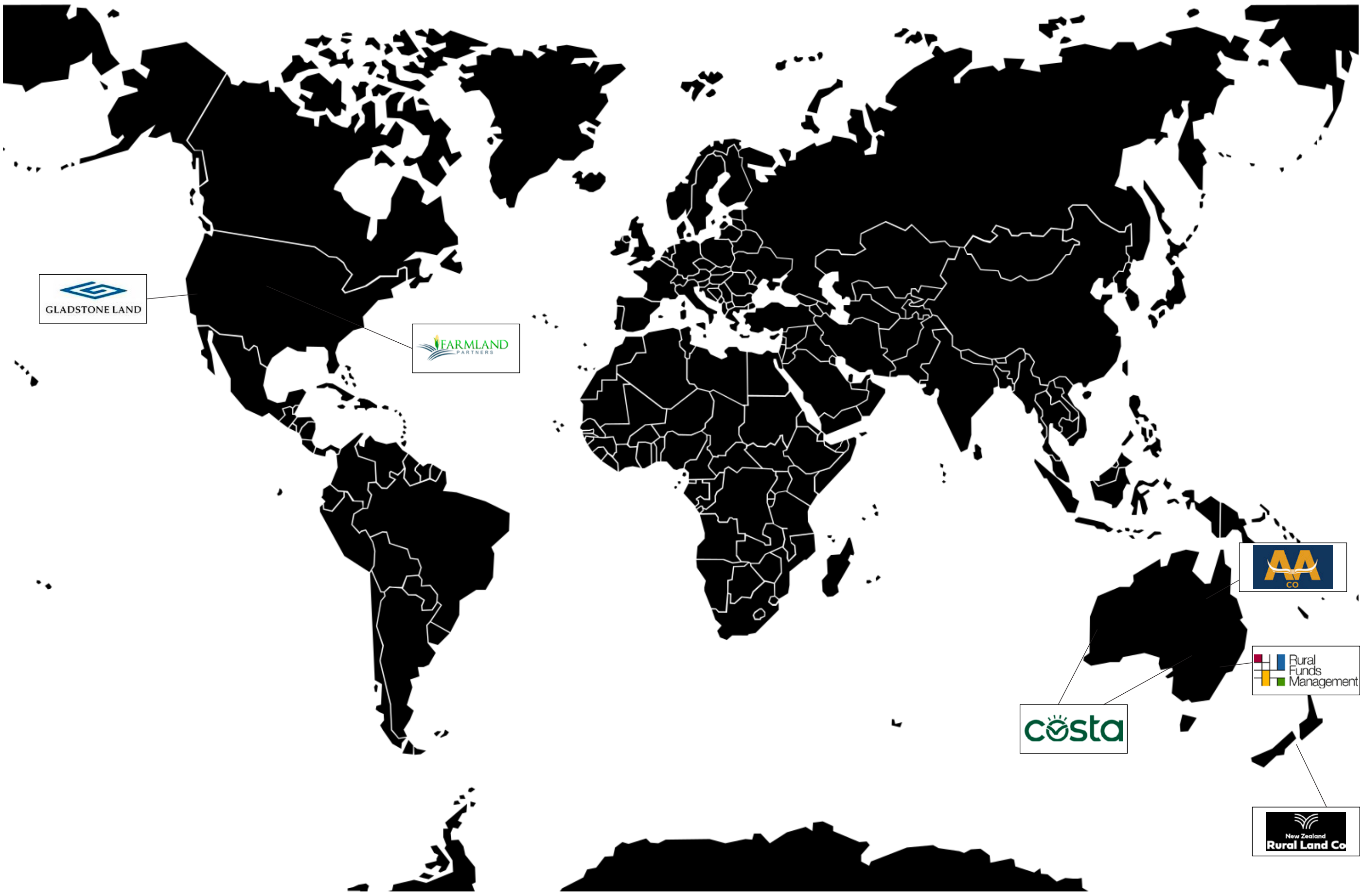


Image Source: Wikipedia World Map

USA:

- Gladstone Land Corp (LAND:NASDAQ) owns ~116,000 acres, chiefly in the West Coast and Florida, where the land is used for horticulture.
- Farmland Partners (FPI:NYSE) has a portfolio of ~178,000 acres across the central United States, primarily used for horticulture.

Australia:

- Costa Group (CGC:ASX) has a landholding of ~18,000 acres, predominantly situated along the coastal regions of Victoria, and smaller holdings in Queensland, South Australia, and Western Australia, primarily dedicated to horticulture.
- Australian Agricultural Company (AAC:ASX) holds a vast expanse of ~16 million acres, primarily used for beef farming, spread across Queensland and the Northern Territories.
- Rural Funds Group (RFF:ASX), an agricultural fund manager, oversees ~1.8 million acres predominantly for beef, almond, and macadamia farming, located along the eastern seaboard.

New Zealand:

- New Zealand Rural Land Company (NZL:NZX) has a land base of ~37,000 acres, mostly comprised of dairy and forestry assets across New Zealand.

Source: Capital IQ, Elevation Capital

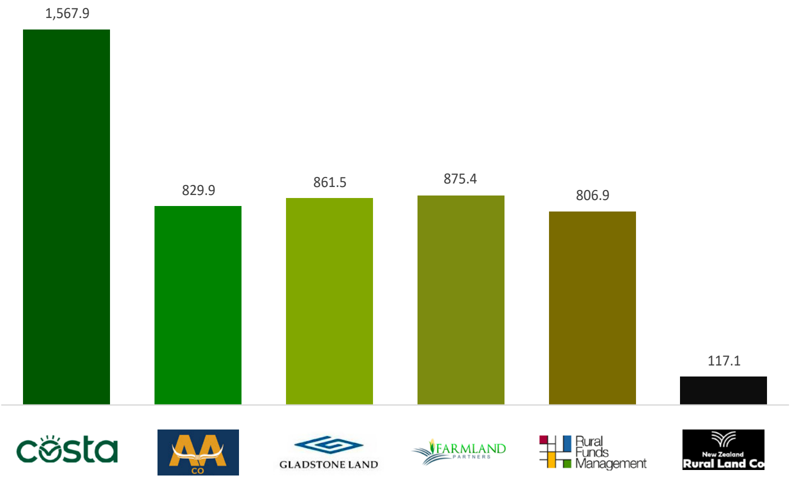
Comparing Listed Farmland Companies

Markets in both Australia and the US have publicly-traded farmland companies. In New Zealand, New Zealand Rural Land Company (NZL) is the only pure play exposure to agricultural land. Comparable Australian companies are: Costa Group (CGC), Australian Agricultural Co. (AAC), and Rural Funds Group (RFF). In the US, Gladstone Land Corp (LAND) and Farmland Partners (FPI) are the two largest investment vehicles. These companies have hugely divergent acreage; AAC is by far the largest, managing ~16 million acres of farmland, whereas Costa manages ~17,800 acres. NZL owns almost ~37,000 acres of rural land.

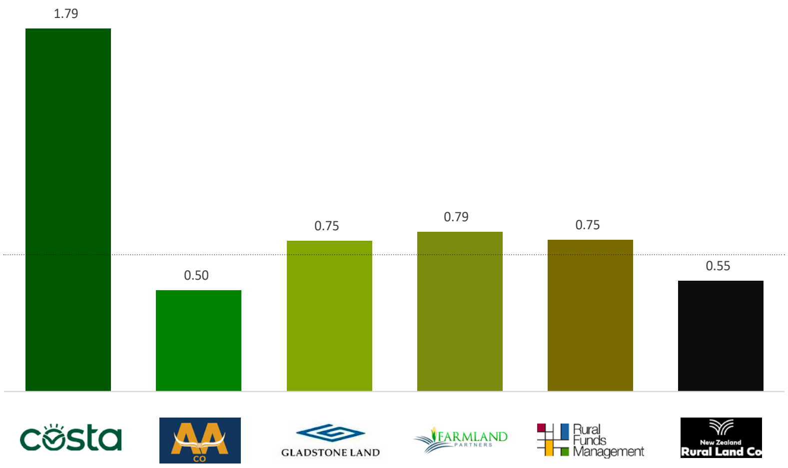
The Price-to-Net Asset Value (P/NAV) ratio is a key metric when assessing farmland valuations. The current average for this ratio among the peer companies stands at 0.85, or 0.67 when we exclude Costa.

In recent decades a dividend has been considered a preference rather than a necessity in equity markets; the absence of a dividend implies the company is reinvesting their cash flows into growing the business. The expectation is different with farmland, where investors are generally seeking cash flows and steady income, normally as a safe haven that provides consistent positive returns. Dividends therefore are important to farmland investors. NZL suspended its dividend for FY23, opting instead for an on-market share buyback in response to the company's significant undervaluation. The Directors expect this strategy, combined with a reduction of debt, to deliver more shareholder value than issuing a dividend at this time. When the dividend returns it is expected to be at least a net 5% dividend yield per annum based on a last sale price of $0.83* cents per share (cps) based on NZL historical guidance.

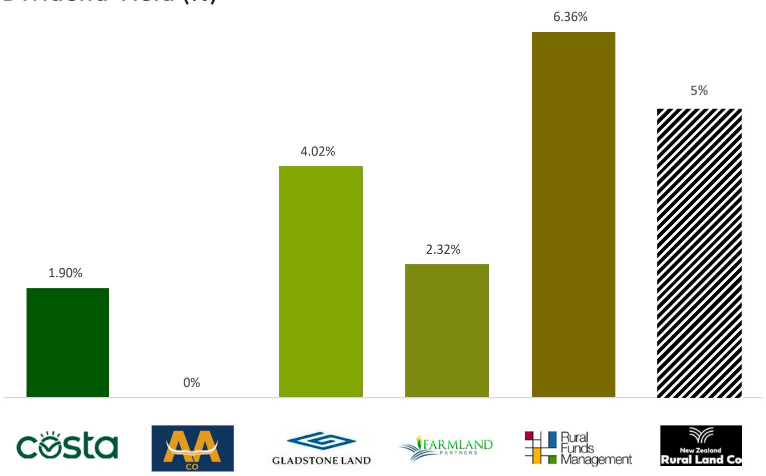
Market Capitalisation (NZD, millions)



Price/Net Asset Value



Dividend Yield (%)



Source: Capital IQ, Elevation Capital
*As at 4th December 2023

Conclusion

Farmland is a resilient and reliable investment that warrants a place in investor portfolios. Real assets are currently undervalued relative to financial assets globally. Farmland falls into the real assets category and is under-allocated by institutional investors despite generating attractive risk-adjusted returns and providing stability in times of heightened volatility. This relative undervaluation is at historically elevated levels, providing an opportunity for investors.

Due to the scarcity of farmland a zero-vacancy environment exists, where nearly all farmland is utilised at any given time. Farmland has compelling supply-demand characteristics, with supply decreasing over time as land is converted into higher and better use developments like residential real estate or national transport systems. Due to land scarcity, any increases in farming productivity must occur through operational improvements. This means only the best farmers can continue to operate, and those farmers are the ones who are able to expand their leaseholdings over time, generating reliable cash flows for landowners.

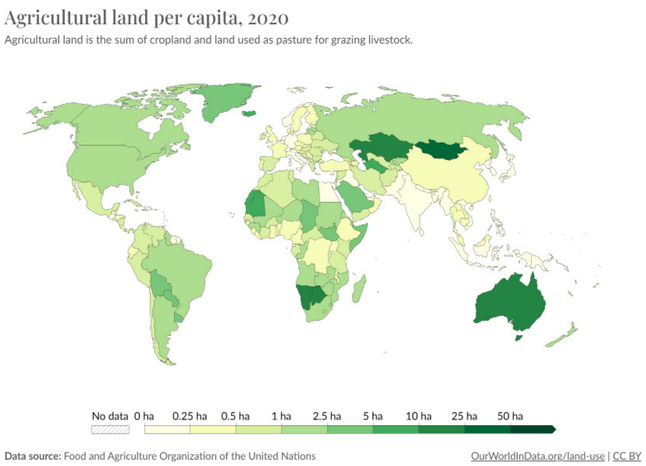
Global macro factors such as population growth and dietary adjustments favour New Zealand farmland. One of a tiny handful of countries with a dairy surplus, New Zealand is well positioned for land value increases as demand for dairy products grows globally. One of the primary restricting factors for most countries' farming operations is access to water. New Zealand has an enormous renewable fresh water supply, creating a proxy water export in the form of dairy. These factors will add to farmer's incomes, which we expect will continue to translate into further increases in land values over time.

Today, New Zealand farmland is a compelling value opportunity as it has not exhibited the same capital appreciation as other jurisdictions when looking at historical returns. The underperformance in recent times is due to the imposition of a foreign buyer ban in 2017. We do not believe this is a sustainable proposition as the industry requires ongoing investment, which is beyond the capacity of co-operatives or individual farmers to provide. Domestic institutional investors are much less enamoured with investing into agricultural assets versus equivalent international investors, which presents a compelling value opportunity for long term-minded New Zealand farmland investors.

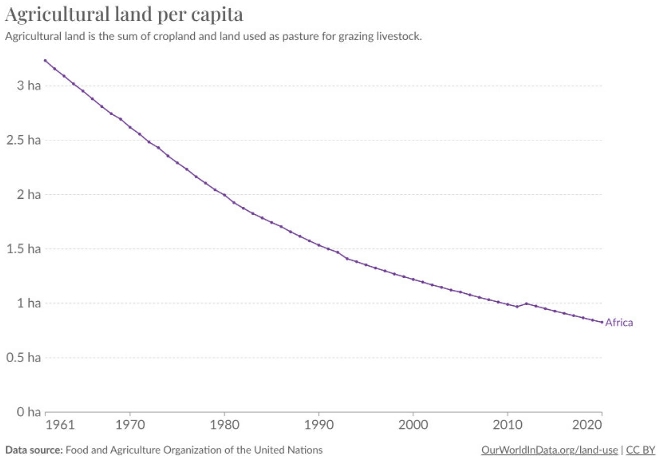
Image Source: NZRLC Website - www.nzrlc.co.nz

Appendix

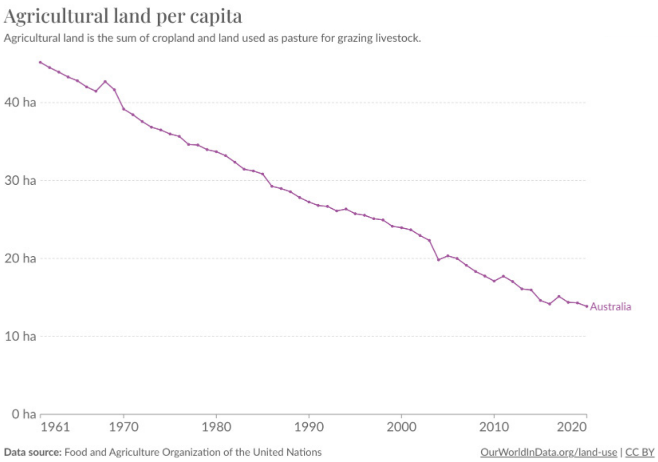
Global



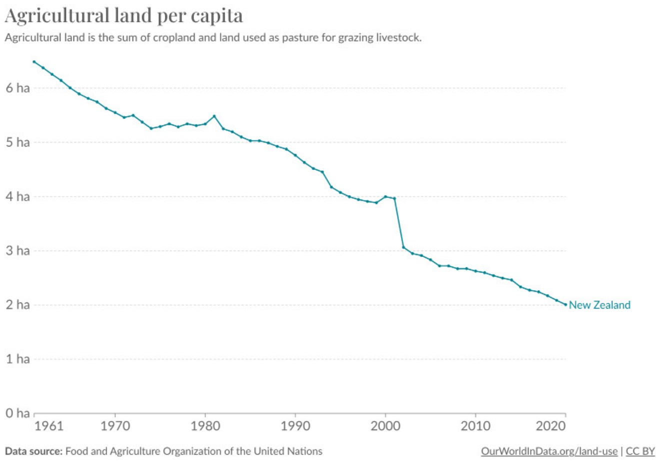
Africa



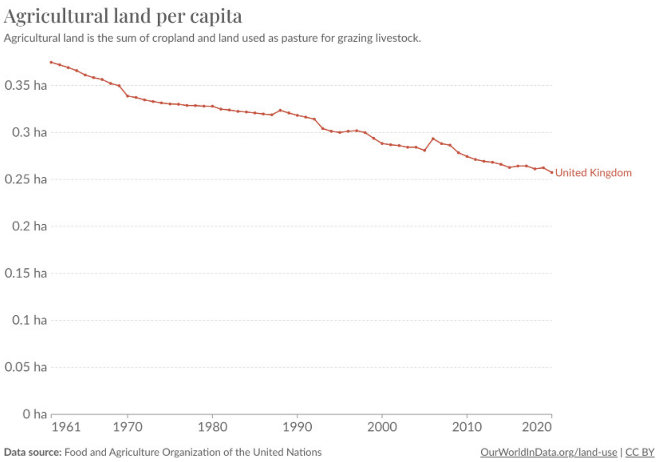
Australia



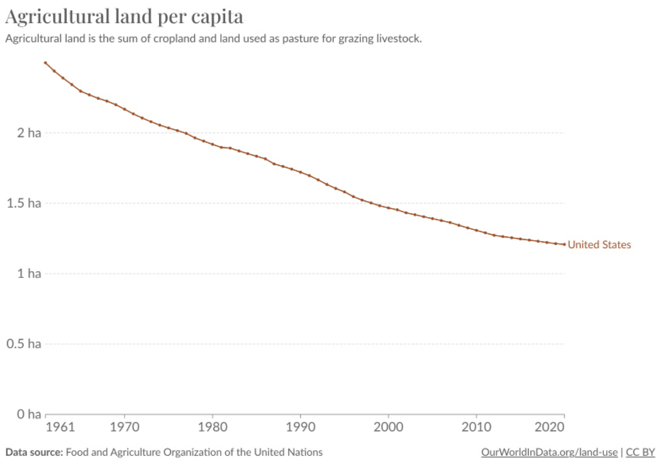
New Zealand



United Kingdom



United States



Disclaimer

This report was published in December 2023.

Christopher Swasbrook is Co-Founder and a Director of NZL - New Zealand Rural Land Company.
Elevation Capital Management Limited currently owns 1,610,000 NZL shares and 83,606 NZL warrants.
Discretionary wholesale clients of Elevation Capital Management Limited currently hold 2,706,500 NZL shares and 166,666 NZL warrants.
Non-discretionary wholesale clients of Elevation Capital Management Limited currently hold 17,499,009 NZL shares and 21,333 NZL warrants.
Elevation Capital Global Shares Fund has no shareholding in either NZL shares or NZL warrants.

Any data not referenced was sourced from NZL, CGC, RFF, AAC, LAND, FPI Annual Reports & Earnings Conference Calls.

Elevation Capital Management Limited is a Registered Financial Service Provider in New Zealand in accordance with the Financial Service Providers (Registration and Disputes Resolution) Act 2008 -- FSP # 9601. Elevation Capital Management Limited is licensed under the Financial Markets Conduct Act 2013 as a manager of registered schemes. Elevation Capital Management Limited does not provide personalised investment advisory services to the public. Nothing herein should be construed as a general advertisement of investment advisory services or a solicitation of prospective clients for investment advisory services. The information herein is intended solely to provide certain background information about Elevation Capital's investments on behalf of the Fund/s or Separate Accounts it manages or advises on. Elevation Capital Management Limited, its directors, employees and agents believe that the information herein is correct at the time of compilation; however, they do not warrant the accuracy of the information. Save for any statutory liability which cannot be excluded, Elevation Capital Management Limited further disclaims all responsibility or liability for any loss or damage which may be suffered by any person relying on any information or any opinions, conclusions or recommendations contained herein whether that loss or damage is caused by any fault or negligence on the part of Elevation Capital Management Limited, or otherwise.

Past performance is not an indication of future results.

Image Source: NZRLC Website - www.nzrlc.co.nz

Independent Thinking Disciplined Investing

[In-de-pend-ent Think-ing] indəˈpendənt THiNkiNG verb
Is essential to long-term investment success. We are often contrarian and do not pay attention to index compositions when making investment decisions. We believe that when you're several thousand miles away from Wall Street in a different nation, it's easier to be independent and buy the things that other people are selling, and sell the things that other people are buying.

[Dis-ci-plined In-vest-ing] disciplinəd invesˈting verb
The market presents opportunities every day, but disciplined investing is as much about the opportunities you do not take. We also believe that cash is sometimes the most attractive investment.

MORNINGSTAR INTERNATIONAL EQUITIES CATEGORY FUND MANAGER OF THE YEAR 2017, NEW ZEALAND

NOMINEE - FUNDSOURCE INTERNATIONAL EQUITY SECTOR FUND MANAGER OF THE YEAR 2013, NEW ZEALAND

NOMINEE - MORNINGSTAR INTERNATIONAL EQUITIES CATEGORY FUND MANAGER OF THE YEAR 2012, NEW ZEALAND

NOMINEE - FUNDSOURCE INTERNATIONAL EQUITY SECTOR FUND MANAGER OF THE YEAR 2012, NEW ZEALAND