Risk Rating

FarmTogether.com

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Risk & Returns Rating Guide

Before you invest in our offerings, you should be aware that your investment is subject to various risks, including those described below. You should carefully consider these risk factors together with all of the other information provided by your investment advisors before you decide to invest.

Farmland has proven to be a unique asset class that has delivered superior returns with relatively less risk or volatility, and there are additional benefits that farmland adds to the overall diversification of most portfolios. Although farmland is an attractive asset class from an absolute returns perspective, it is one of the least understood due to historical constraints in the market. As modern financial platforms evolve, farmland investing, which was historically accessible only to large institutions, is becoming increasingly accessible to passive financial investors of all shapes and sizes. In this guide, we highlight certain known risks related to farm, operator and deal structure

Vista Luna Organic Vineyard
San Joaquin County, CA

FarmTogether Risk Rewards Spectrum

We intend to acquire farmland that we believe offers attractive risk-adjusted returns through a combination of stable rental income generation and value appreciation. We expect to lease our farmland to experienced and successful third-party farm operators, including sellers who desire to continue farming the land after we acquire it. We expect our farmland leases to generate stable short-term cash flows and increasing rental income over the long term. In addition, we intend to hold our properties for investment with a view to long-term appreciation, which we believe will result in attractive risk-adjusted returns to our stockholders.

Permanent Crops Farm: Medium Risk and Higher Returns

> It is much harder to damage the land vs. land that carries trees. Permanent crop farmland is dedicated to one crop during the lifespan of the trees or vines and therefore cannot be rotated to adapt to changing conditions. The annualized volatility for permanent crops was 9.3% from Q1 1999 to Q3 2018.* Farms with permanent crops have both a higher absolute income return and greater weighting to income.

Row Crops Farm: Lower Risk and Lower Returns

> Most of the value of a row crop property is in the land itself. Annual row crop farmland also enables the farm operator to rotate crop types to improve soil quality, react to commodity price trends and adopt improved crop varieties. If measured by volatility, the row crop returns have had a 3.7% annualized volatility from Q1 1999 to Q3 2018.* The total return of row crops have a higher weighting to appreciation (more speculative and unrealized until property sold) vs income.

Farmland Risk & Ratings

This is a risk factor list related to the property where each factor is judged to qualitatively add to "risk". Each factor section also has an explanation of why this factor matters. The risk goes from “0”to “X” where each risk factor adds some number to “0”.

Farmland Structure

	Type	Risk Level	Type Description
Crop Type	Annual Row Crops Permanent Crops	0 1	Growing a row crop is less risky than growing a permanent crop (trees, bushes, vines). Some permanent crops like cherries are very weather sensitive compared to hazelnuts in Oregon which have never had a complete crop failure.
Production History	Long History Some History No History	0 1 2	Previous production history allows us to get a better sense of the future. Even if no previous history exists some crops are very well understood and thus carry less of a production risk vs. more volatile or more recent crop varieties.
Water Availability	Abundant Sufficient Variable	0 1 2	Right access to water is critical for many transactions, especially in the permanent crop space. In permanent crops, we typically aim to underwrite properties that have 2 sources of water or a path to two sources. Our team and advisors have extensive expertise with water so occasionally we will underwrite properties with water risk because the broader market misunderstands and misprices the property.
End Market	Established Developing New Market	0 1 2	The end markets for crops grown on row cropland are typically much larger, deeper, more liquid and have a longer history (e.g. corn vs. organic pecans) making the underlying land value more resilient. On the other hand, permanent crops are mostly non core to the global consumer food basket. Since the climate suitable for permanent crops is more specialized, the scope of production is much more limited and the end markets have a shorter history and the markets are not as well established.

Deal Structure Risk & Ratings

This is a risk factor list related to the property where each factor is judged to qualitatively add to "risk". Each factor section also has an explanation of why this factor matters. The risk goes from “0”to “X” where each risk factor adds some number to “0”.

Deal Structure

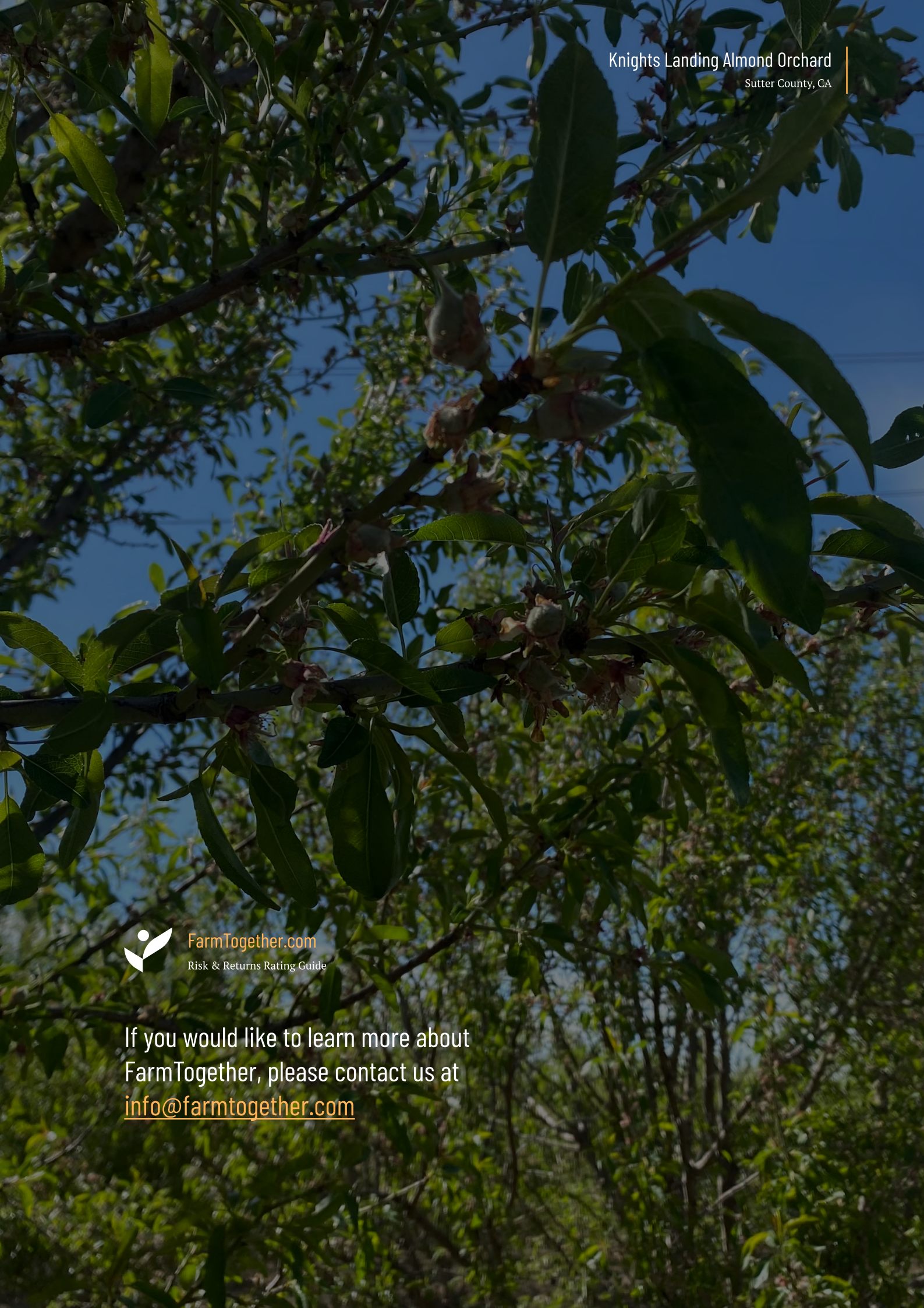
	Type	Risk Level	Type Description
Improvements	Not Required Moderate Meaningful	0 1 2	An investment opportunity might bear costs related to major capital improvements permanently attached to the property, such as irrigation systems, drainage tile, grain storage facilities or other typical physical structures.
Income	Fixed Crop Share Profit Share Direct Operations	0 1 2 3	The property is rented out to a farmer where the farmer typically pays upfront and the lease isn t tied to the farmer performance. This is most typical for row crops. There are other ways in which FarmTogether properties can make money. Sometimes it can be a mixed lease with a combination of fixed, crop share, and/or profit share. Direct Operating carries the highest risk because the operator shares in all the risk but also all the rewards from farming.
Debt	No Debt Below 40% LTV Above 40% LTV	0 1 2	Farmland can carry very attractive debt terms. To help our investors benefit from these terms FarmTogether will occasionally add debt to our investment opportunities. At all times, however, we will look to make sure that the clients principal is preserved.
Operator	Established New	0 1	This measures the reputation of the operators that will operate our property when it matters. We will always only work with seasoned operators either way. This also measures our level of personal knowledge of the operator and shows if FarmTogether or members of our team have the previous history with the operator.

Summary

Farmland investing is a subset of real asset investing that provides income via lease payments and capital appreciation. The historical returns related to farmland investment have been attractive. The NCREIF benchmark not only shows positive returns every quarter since 2002 but also that the standard deviation of the returns is low, allowing investors to generate consistent returns with limited variability.

An investment in farmland will help create a diversified portfolio that may help hedge against adverse market conditions. Direct investment into a specific farmland fund
that targets a specific operation may be a more attractive investment relative to a farmland REIT on a risk-reward basis. FarmTogether provides an investment platform that allows qualified and accredited investors to actively manage their farmland portfolios and compare several deals.

Palisades Citrus Grove
Fresno County, CA



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If you would like to learn more about FarmTogether, please contact us at info@farmtogether.com