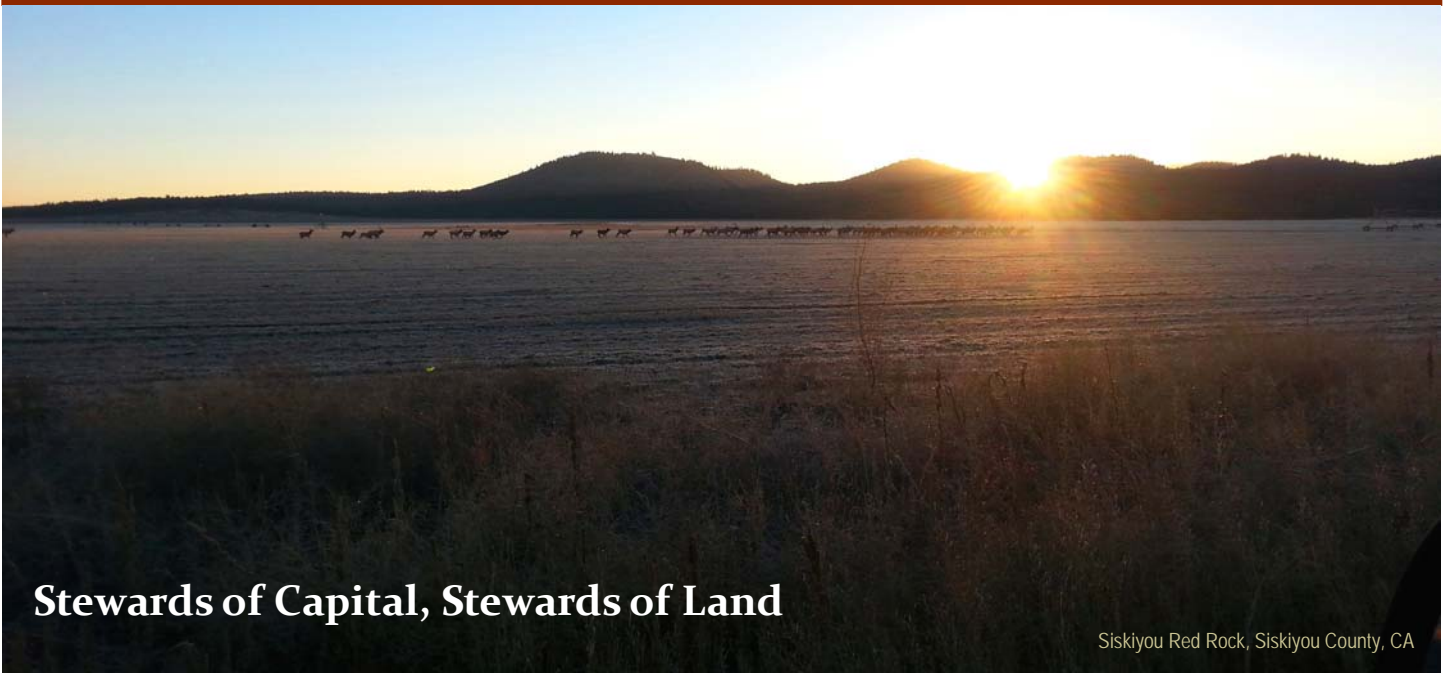


Hancock Agricultural Investment Group

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Farmland Investor



Stewards of Capital, Stewards of Land

Siskiyou Red Rock, Siskiyou County, CA

HAIG has a long history of providing clients with best-in-class farmland investment management. Our clients' farmland investments provide exceptional returns to meet the current and future financial obligations of their beneficiaries. However, this is not HAIG's only contribution. As one of the largest institutional farmland investment managers in the United States, HAIG also plays a major role in improving the environmental conditions of the farmland assets we manage and positively influencing the communities in which we operate. One prime example of HAIG's positive impact is the transformation of Siskiyou Red Rock.

Siskiyou Red Rock is a 7,227 gross acre (4,387 net acre) irrigated alfalfa hay farm located in Siskiyou County in Northern California. HAIG acquired the property in 2012 and began planning restorations in May of that year to enhance economic and environmental value. The restoration project commenced during the summer of 2014 and is expected to be completed in June 2015.

During acquisition due diligence, HAIG identified a number of issues, including an area of the property being used as prohibited dumping ground by the owner. Upon purchase, HAIG began to coordinate with Siskiyou County and vendors to address waste removal and ensure a safe and environmentally sound farming operation. HAIG is helping to facilitate the removal of tires, batteries, residual agrichemical products, scrap metal, and wood debris. Cleaning up the dumpsite will greatly improve environmental and operational conditions on the property.

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Stewards of Capital, Stewards of Land *(Continued from page 1)*

In partnership with the tenant, HAIG is working to restore agronomic productivity after decades of neglect. This includes modernizing the irrigation infrastructure to efficiently provide irrigation water to the farm ground. By installing a new mainline between the turbine pump and center pivot irrigation system, energy usage decreased from 240 amps to 208 amps, a direct energy savings of 13%. Additionally, the tenant is enhancing soil health through the implementation of a nutrient management program which includes the addition of fertilizer to the

soil. With the increased irrigation efficiency and soil health, yields have nearly doubled. Thus, by focusing on environmental restoration, HAIG has increased the profit for both the tenant and investor.

As a leader in the agricultural economy, HAIG continues to raise the standard for farmland management. The transformation of Siskiyou Red Rock is just one of many examples of our commitment to agricultural stewardship. 



U.S. Farm Economy and Row Crop Investments

USDA Projects Net Farm Income to Decline as Production Expenses Increase; Remain Above 10-Year Average

The United States Department of Agriculture (USDA) forecasts net farm income to be \$96.9 billion in 2014, down 23.4% from 2013's estimate of \$126.5 billion. If realized, the 2014 forecast would be the USDA's lowest since 2010, while remaining \$14.5 billion above the 10-year average of \$82.4 billion.

According to the USDA's announcement on November 26, the annual value of U.S. crop production is expected to decline in 2014 from 2013's all-time high. This is primarily due to the projected \$19.8 billion increase in 2014 production expenses, extending the rapid increase in expenses that has occurred over recent years. The three major crop-related expenses—seeds, fertilizer, and pesticides—are expected to contribute a combined \$1.8 billion, or 9% of that increase.

Production expenses for 2014 are estimated to be the highest on record, both nominally and in inflation-adjusted dollars. As reflected by the Production Items, Interest, Taxes, and Wage Rates (PITW) index, which is forecast to rise 4.8% during the year, the 2014 increase is primarily due to higher input prices. If realized, total production expenses would constitute 76% of gross farm income in 2014, the highest since 2010.

Despite an increase in production expenses in recent years, 2013's net farm income was the highest since 1973, after adjusting for inflation. In comparison, the 2014 net farm income forecast would be the sixth highest.

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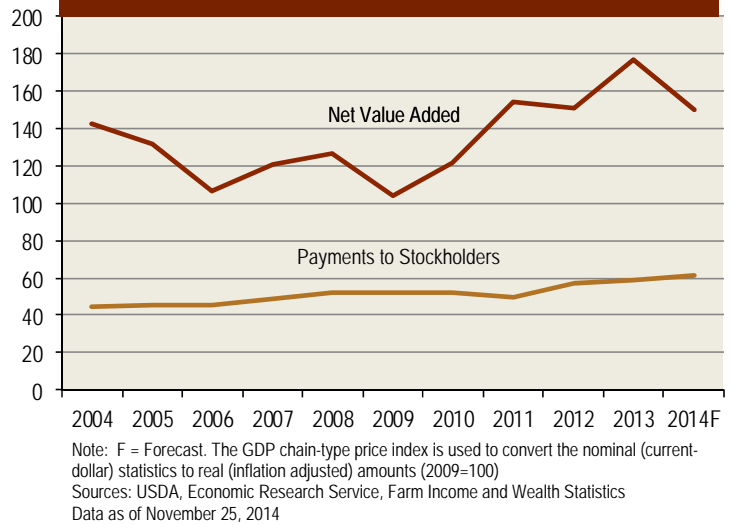
U.S. Farm Economy and Row Crop Investments *(Continued from page 2)*

Row Crop Cash Rent Not Expected to Trend with Crop Prices

The USDA forecasts net rent to non-operator landowners to increase \$1.9 billion (10.9%) in 2014. Cash rent is forecast up, based on a small increase in total real estate values and a 1.1% increase in planted acreage. Share rent, where the landowner receives a share of the crop in lieu of a rental payment, is forecast down following the expected decrease in the value of crop production.

Agriculture’s contribution to the U.S. economy’s production of goods and services, known as net value added, is distributed among stakeholders. Stakeholders, which include non-operator landowners such as HAIG’s clients, do not own what is produced, therefore they do not share in the risks involved in producing highly variable agricultural output. Consequently, the payments that stakeholders receive are more stable over time than net returns to the owners of agricultural production. Thus, payments to stakeholders can move in a different direction than net value added. The USDA forecasts 2014 payments to stakeholders will increase by \$4.4 billion, or 7.0%, while net value added is forecast to fall \$25.3 billion, or 13.3%. If these projections are realized, payments to stakeholders will comprise 41% of net value added in 2014.

Figure 2: Net Value Added and Payments to Stakeholders, Inflation Adjusted, 2000-2014F



HAIG’s Row Crop Return Expectations

Leased row crop properties and directly operated permanent crop properties provide varying levels of income returns due to the risk profile associated with these two management styles. Permanent crop income returns have fluctuated with commodity prices, while row crop income levels have remained relatively stable. As the contracted revenue stream is predictable, leasing is the lower risk management option and thus typically results in a lower income return. Direct operation is a higher risk farmland investment strategy and typically results in a higher income return.

Together, HAIG and our integrated farmland property manager, Hancock Farmland Services (HFS), manage over 200,000 gross acres of row crop land across 18 states and nine NCREIF regions. These 100+ properties are all leased to tenant farmers on lease terms that vary from 1 to 10 years.


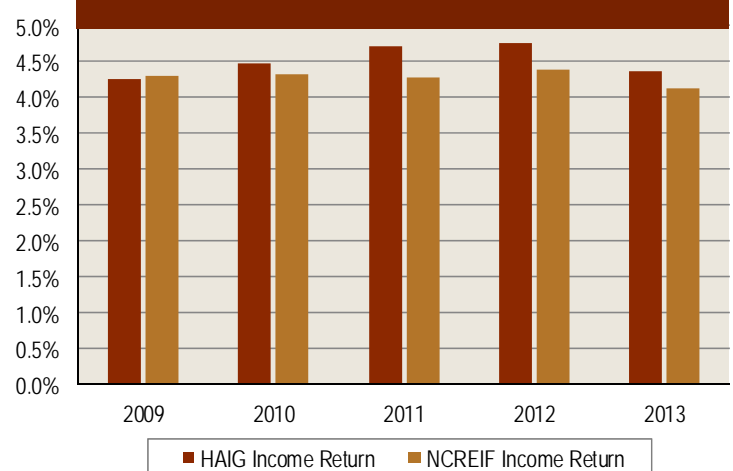
Property-level income returns on HAIG managed assets have consistently outperformed NCREIF income returns over the last four years. Current incomes support valuations on most row crop properties, but the rate of growth in appraised value has outpaced income in some areas. The one-year income return on HAIG row crop properties as of September 30, 2014 was 4.12%, before fees. HAIG expects leased row crop properties to continue to operate in a sub-5% income return environment for the foreseeable future. 

Figure 3: HAIG’s Row Crop Returns, 2009-2013

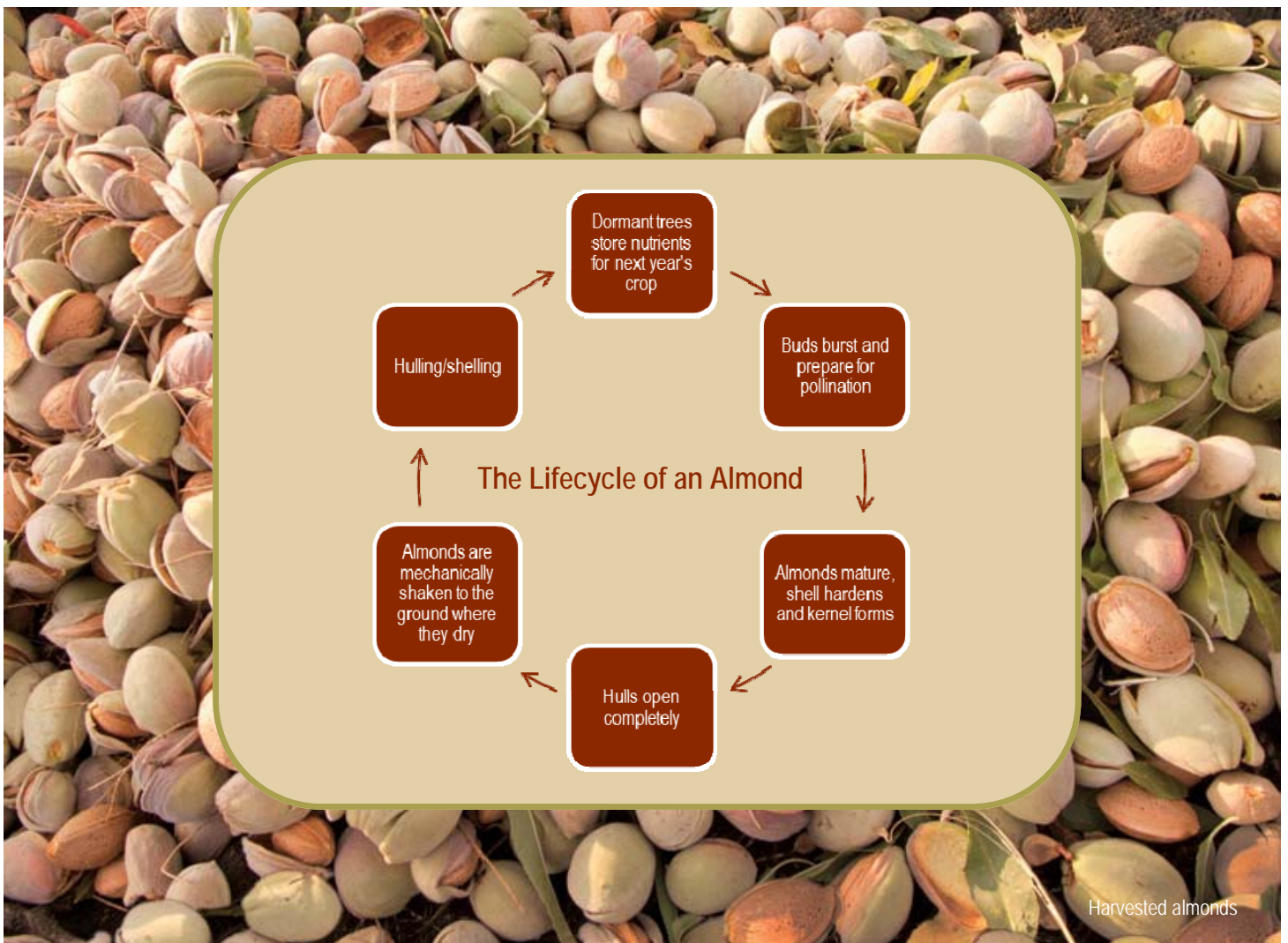


Crop Spotlight: Almonds

In the past thirty years, California's almond footprint has quadrupled, covering more than half a million acres in the San Joaquin and Sacramento Valleys. Almonds are now California's top agricultural export and the largest tree nut crop in total dollar value and acreage. They also rank as the largest U.S. specialty crop export, with 70% of almonds being shipped internationally.

As this year's almond harvest has ended, the trees are now dormant, storing nutrients for next year's crop. This dormant period lasts from November through February. Between late February and early March, almond tree buds burst into beautiful light pink and white blooms in preparation for pollination. Populations of bees are then brought to the orchard to carry pollen and initiate crop development. From March to June, almonds continue to mature, with the shell hardening and kernel forming. In July and early August, almond hulls begin to split open

exposing the almond shell and allowing it to dry. Shortly before harvest, the hulls open completely. From mid-August through October, mechanical tree "shakers" harvest the almonds by vigorously shaking them to the ground. The almonds then dry naturally on the orchard floor before they are swept into rows and picked up by a machine. After harvest, almonds go to a huller/sheller where the kernels pass through a roller to remove the hull, shell, and any remaining debris. 🌰



Australia and China Reach Landmark Free Trade Agreement


The Australian nut industry is the country's largest horticultural exporter bringing in over AUD\$500 million annually in export earnings. This number is expected to grow given the recent Free Trade Agreement between China and Australia.

China is the Australian macadamia industry's largest trading partner, consuming 27% of the Australian crop. China's appetite for the nut is expected to grow following November's China-Australia Free Trade Agreement (ChAFTA). This landmark agreement, which removes barriers and increases trade opportunities for Australian agriculture as well as other categories including resources and energy, manufacturing exports, services, and investment, will remove the 24% tariff on macadamia imports from Australia within five years.

China and the Asia Pacific region as a whole are a large and growing market for the industry. Approximately 52% of Australian macadamias are currently exported to Asia.

This agreement, coupled with Free Trade Agreements with Japan and Korea, represents a significant opportunity for the industry and Australia's 600 macadamia growers.

The Chinese affinity for macadamia nuts has grown exponentially over the last three years. In 2014, the Australian Macadamia Society expects that 11,000 tons will be shipped to China. If realized, this would more than double 2013 export figures.

HAIG currently has nine macadamia properties located throughout Queensland and New South Wales. HAIG is the second leading producer of macadamia nuts in Australia. 

HAIG Employee News

HAIG is pleased to announce Manisha Bicchieri and Katherine Harkness have joined the Portfolio Management Team as analysts.



Manisha Bicchieri
Portfolio Analyst

As Portfolio Analyst, Manisha assists with portfolio management, investment analysis, and client reporting for HAIG's institutional farmland investment program. Prior to joining HAIG, Manisha worked as a Credit Representative for Farm Credit East, ACA where she managed a diverse agricultural portfolio of varied loan types and sizes. Manisha graduated from the University of Connecticut with a BS in Resource Economics with a concentration in Environmental Economics and Policy. She also minored in Agribusiness Management and Food Science.



Katherine Harkness
Investment Analyst


As Investment Analyst, Kate assists with portfolio management, investment analysis, and acquisitions. Prior to joining HAIG, Kate worked as a Credit Analyst for Farm Credit East, ACA where she was responsible for credit analysis and underwriting of row and permanent crop farm businesses. She holds a BS with dual degrees in Animal Science and Applied Economics and Management from Cornell University and is currently pursuing a Masters of Economics and Masters of Business Administration from Boston University.

Cranberry Cleaning Facility Improves Profitability

The newly expanded cleaning line at HAIG's Canadian cranberry cleaning facility contributed 18% of the property's income.

HAIG's Canadian cranberry bogs had one of their strongest production years in 2014. Like the U.S., the Canadian cranberry industry continues to struggle with an oversupply in the market due to record crop yields, which have resulted in declining prices per barrel. To address potentially lower income, HAIG and our property manager continually evaluate operations to identify opportunities for cost efficiencies and enhanced revenue streams. The newly expanded cleaning line at the facility serves both the HAIG property's cranberries as well as

other area growers' cranberries for a total of 16 million pounds of cranberries cleaned in 2014. In addition to eliminating third party cleaning costs, cleaning other area growers' crops contributed 18% of the property's income. Moreover, the facility has the ability to increase capacity by at least 25% from current levels.

With the continued efforts and knowledge of HAIG's property manager, Canneberges Bécancour Management LLC, HAIG forecasts another successful year for 2015. 

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