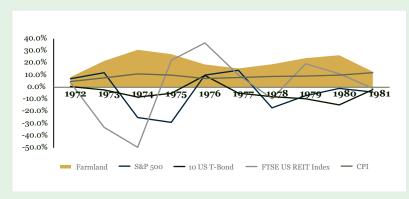
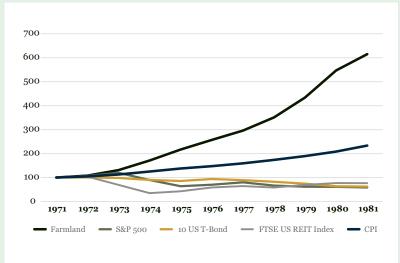




Given current economic and monetary conditions this quarterly update seems like a very timely to discuss farmland and inflation. Farmland historically has had a significant positive correlation to inflation. Canadian farmland has been an ef ective tool (positive cost of carry) for adding inflation/stagflation insurance to an investment portfolio – we believe farmland hedges "stagnation" because of the inelastic demand for food and "inflation" because it is a nondepleting, capital asset that produces infinite series of commodities which are consumed.

## Farmland outperformed CPI, S&P, CRE and Bonds during 1970s stagflation





Sources: Canadian farmland data-FCC, CPI-Statistics Canada, SP500-10yr

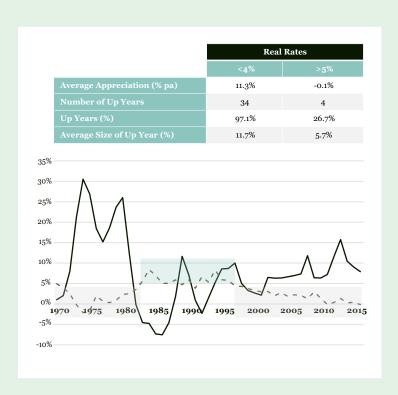
Bonds-Macrotrends, FTSE REIT-Nareit, Veripath analytics

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We took this analysis one step further and examined the effect of long-term real rates (10-year CAD bonds minus CPI) on Canadian farmland appreciation behaviour. We created a cut-off into lower (lower than 4%) and higher real rate regimes (higher than 5%) and then analysed return data from 1970 to 2019.

Farmland performs well in lower/negative real rate environments Canadian farmland returns (land price change = solid line, real rates = dotted line)



Sources: St Louis Federal Reserve, Statistics Canada(14),(21), Macrotrends(22), Hancock Agricultural(23), real rates = CAD 10 year bonds – CPI, Series runs to 2019, Veripath analytics(33)

This series obviously includes the unique 1970s stagflation event (GDP contraction combined with highly accommodative fiscal and monetary policy – arguably conditions that exist today as well). By analyzing the data in this fashion rather than simply conducting a correlation analysis over the entire time series Canadian farmland sensitivity to the real rate environment became apparent:

### **Low-Rate Periods - Real Rates < 4%**

- Average Annual Farmland Appreciation - 11.3%
- Up Years as Percent of all Years -97.1%
- Average Size of Up Year 11.7%

#### **High-Rate Periods – Real Rates > 5%**

- Average Annual Farmland Appreciation - -0.1%
- Up Years as Percent of all Years 26.7%
- Average Size of Up Year 5.7%

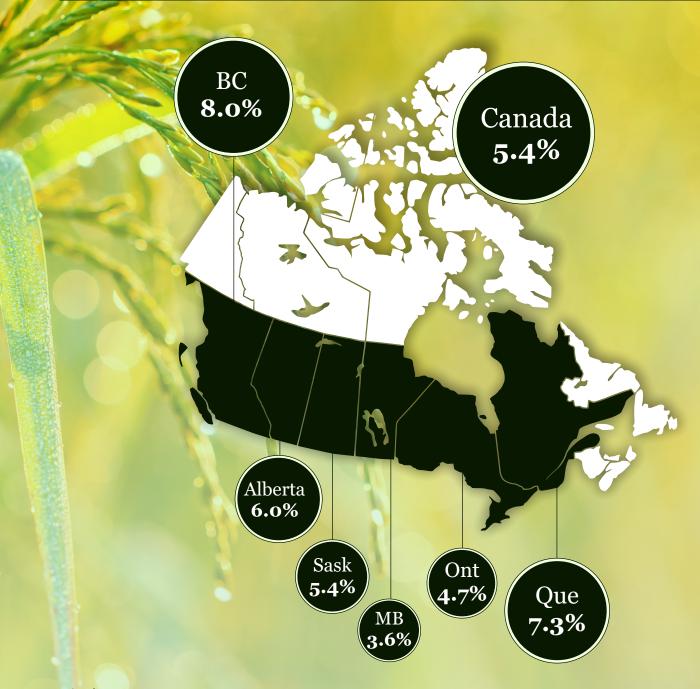
Real rates appear to have had a material effect on the behavior of Canadian farmland over the 40-year period studied. This effect was expressed in both average appreciation rates and the likelihood of drawdown – both of which improved as real rates dropped below 4%. The current lower real rate environment, if it continues, appears to be highly favorable to ongoing farmland appreciation prospects.

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# Canadian Farmland was Resilient to COVID Economic Dislocation

Farm Credit Canada released annual land price report recently. In 2020, Canadian farmland continued to demonstrate its consistent, low-volatile return profile with relatively uniform appreciation across the various provincial markets (and showing no particular downward pressure compared to the COVID induced economic dislocation suffered in the broader economy).

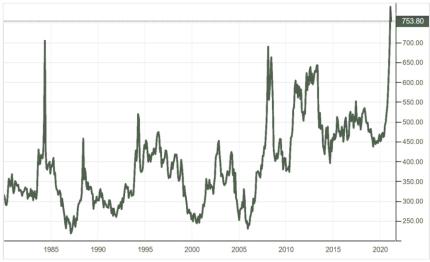


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## Canadian Farmland and Soft Commodity Price Trends

According to the FAO, food price inflation has made a material jump in the last 2 quarters. Soft commodity prices are up noticeably across the entire agriculture complex. For example, Canola has trended up to an all-time high. Canada is a world leader in Canola production at around 20M MT annually. Canola is used to produce edible oils and protein feed for livestock — increasing incremental demand for these from China is a material factor in the current run-up.







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### **About Veripath**

Veripath is a Canadian alternative investment firm. Members of Veripath's management team have been investing in farmland since 2007. Veripath is focused on risk first and invests in a way that seeks to reduce operational, weather, geographic and business-related risks while capturing the pure return from land appreciation for its investors. Our goal is to partner with farmers for the long-term using innovative lease arrangements and/or land-unit swaps to give certainty to farming operations.

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 $Sources: \ Canadian farmland\ data-FCC,\ CPI-Statistics\ Canada,\ SP500-10yr\ Bonds-Macrotrends,\ FTSE\ REIT-Nareit,\ Veripath\ analytics,\ St\ Louis\ Federal\ Reserve,\ Statistics\ Canada,\ Macrotrends,\ Hancock\ Agricultural,\ real\ rates\ =\ CAD\ 10\ year\ bonds\ -\ CPI,\ Series\ runs\ to\ 2019$