INVESTMENTS IN ROMANIAN FARMLAND

ARTEMIS INVESTOR BRIEFING

JULY 2015
About AGRARIUS AG

Headquartered in Bad Homburg, AGRARIUS AG was founded in 2007. The regional focus of its operative business lies in the investment region of Romania. Its professional core business is cultivating its own and leased farmland in Romania. The AGRARIUS group currently cultivates over 4,700 hectares of farmland.

Why Farmland?

Farmland is a conservative investment type with excellent future prospects. The global megatrends of “population growth”, “increasing demand for bioenergy”, “loss of cultivated land”, and “climate change” not only offer investors a high value stability, but also a large amount of inflation immunity and long-term, above-average yield opportunities.

Why Romania?

This still-young EU country, Romania, offers the ideal conditions for profitable agriculture: Legal security, first-class land quality, large areas, low hectare price, and a favourable climate.

The fact that the use of modern agricultural machinery in some parts of Romania is still the exception today not only indicates the enormous need for development, but rather this country’s enormous future opportunities. The prospect of cultivating the low-cost arable land there using the most modern machines and with better equipment is enormously promising.

This is true above all for the Banat region in the western part of the country: AGRARIUS AG’s farm is located in this region, which is denoted by many experts as Europe’s breadbasket.

Guest Contribution by Ottmar Lotz (1/2)

Ottmar Lotz
Founder and Chairman of AGRARIUS AG since 2007
(operative management, finances)

Banat Investment Region

✓ Breadbasket of the imperial and royal period
✓ Favourable climate conditions
✓ First-class land
✓ Good infrastructure

EU member since 2007
Population approx. 22 million
Total area 238,391 km²
Agriculturally-used land 14.73 million ha
Farmland 9.4 million ha

Guest Contribution by Ottmar Lotz (2/2)

The agricultural investment location of Romania exhibits numerous advantages:

- Its 9.4 million hectares of farmland make the country one of Europe’s largest agricultural locations (in comparison: Germany has 11.2 million hectares)
- Very low land prices compared to the rest of Europe
- Good land availability: For the time being, there is still an opportunity to create and partly also purchase large and rounded areas
- 55% of the agricultural land is cultivated by small and micro-enterprises.
- Significant appreciation potential through efficient cultivation and tillage.
- Legal security provided by EU membership
- Property security thanks to existing land registers and exact measurement of the plots
- Significant infrastructure improvement and increasing EU land premiums
Incentives for Agricultural Investments from Investors’ Perspective

The financial market crises and increased regulation over the past years have posed challenges to investors and asset managers. Many investors are notably restructuring their portfolios, in which real assets are playing an increasingly greater role.

The agricultural value chain offers numerous investment options and incentives from the perspective of institutional investors. Investments in the agricultural sector are very attractive precisely because of the following aspects:

- Agricultural investments can take on many roles in a portfolios and ensure added value.
- Risks are manageable and controllable compared to other investment types.
- This investment type has a very low correlation with typical capital market products.
- A price increase for farmland is a logical consequence of global megatrends.
- Investment in farmland are fully consistent with the “UN Principles for Responsible Investment”

According to current estimates by the World Bank, a mere 12% of the Earth’s surface is used for cultivating agricultural products, whereby 580 million additional hectares would be available for this purpose. Therefore, incorporating farmland in an investor’s portfolio is ultimately only a question of “when” and not “if”.

An investment in farmland is especially suitable for a conservative investment profile due to its long-term, ensured income payments, and the manageable risk structure is therefore excellent.

Due to the fact that framework conditions have dramatically changed and/or are continuing to change due to global crises and overall economic trends, investments in farmland – an exciting investment type with great diversification potential – have once again captured the attention of investors.

Five global megatrends are the main drivers of the growth of agricultural investments:

- **Population Growth**
- **Decrease in Cultivated Land**
- **Increasing Demand for Bioenergy**
- **Changing Nutritional Habits**
- **Climate Change**

The concurrence of these trends will lead to a continual increase in demand for agricultural products over the next 20 years. According to estimates by the Food Agriculture Organization (FAO), agricultural production worldwide must increase by 60% by the year 2050 – even up to 77% in developing countries – in order to satisfy the increasing demand for food by a larger, more urban, and prosperous population.

Interested investors are open to diverse instruments to profit from development in the field of agricultural commodities, whereby direct investments seem to be the most advantageous. Regular cash flows are created by cultivating/leasing agricultural land. Active management and improving operational processes ultimately results in significant growth and thus, greater profit potential when selling the land. Furthermore, volatility is relatively low compared to other investment types.
Fertile Land

South-eastern countries of the European Union – particularly Romania – fully comply with basic framework conditions for successful agricultural investments. They are essentially the following framework conditions:

- **Fertile Land**
- **Investment Security**
- **Stable Yields**
- **Efficiency and Growth Potential**
- **Management Know-How**

Efficiency and Appreciation Potential

Compared to Western European states, the production efficiency of south-eastern European states is still at a significantly low level. Modern farming methods allow for this efficiency potential to be increased. Moreover, it is important to point out the significantly low price level for agricultural land in these countries. Both of these factors combined allow for sustainable value growth in agricultural investments to be realised.

Management Know-How

A significant success factor is collaboration with experienced and established, on-site managers/tenants who are familiar with market demand and local circumstances and who contribute to yield increases and cost decreases through modern cultivation and growing processes.

**Comparison of Production Efficiency in the EU**

If one compares wheat production per hectare of cultivation area in tonnes (Ø 2009-2013) in the EU, one can notice significant differences.

Source: Eurostat Agriculture Data
**GENERAL INFORMATION ON INVESTMENTS IN FARMLAND**

**CBOT Commodity Futures (2005 – May 2015, in USD cents per bushel)**

CBOT Commodity Futures reflect the price development of agricultural products, among other things (Basis Nearby).

![CBOT Commodity Futures Graph](image)

Source: CBOT, author’s own illustration

**S&P GSCI Agriculture & Soybeans Index (2005 – 05/2015, in index pts.)**

The S&P GSCI Agriculture Index offers investors an openly-accessible benchmark for investment performance.

![S&P GSCI Agriculture & Soybeans Index Graph](image)

Source: S&P Dow Jones Indices (McGraw Hill Financial)

**Average Yield Expectations of Agricultural Investors**

Yield expectations may vary by region and business models due to historical transactions and professional estimates.

<table>
<thead>
<tr>
<th>Region</th>
<th>Average IRR in Management (%)</th>
<th>Leasing (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>8 - 12</td>
<td>4 - 6</td>
</tr>
<tr>
<td>South America</td>
<td>12 - 20</td>
<td>6 - 10</td>
</tr>
<tr>
<td>Western Europe</td>
<td>8 - 12</td>
<td>4 - 6</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>12 - 14</td>
<td>6 - 7</td>
</tr>
<tr>
<td>Africa</td>
<td>20 - 30</td>
<td>10 - 15</td>
</tr>
<tr>
<td>Oceania</td>
<td>9 - 16</td>
<td>4 - 8</td>
</tr>
</tbody>
</table>

Source: Expert estimation, author’s own illustration

**Contact Information**

The ARTEMIS Group is an international investment manager of real assets. Its focus is on the agricultural and renewable energy sectors. As an investment company registered with the Federal Financial Supervisory Authority, we initialise, realise, and manage our own funds.

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