Farmland Investments Hedge Recessions

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In a September 16, 2020 article in Pensions & Investments magazine "Why investing now in farmland makes sense" - Martin Davies President and CEO at Westchester Group Investment Management makes the case that US farmland has long been considered a safe and reliable asset class, particularly during times of economic crisis, given its low levels of correlation to many traditional asset classes.(1)

Mr. Davies highlights the resilience of farmland given the current global economic and health crisis. Even before the pandemic, he points out that during the 2008 financial crisis the agriculture sector was relatively profitable, resulting in higher agriculture land values. He stated, "To put it into perspective, in the four year period before and the four-year period after the 2008 financial crisis, the asset class delivered consistent positive returns, outperforming US Treasuries, the Dow Jones Industrial Average, and the S&P 500 index". (1)

Veripath's research indicates that Canadian farmland also exhibits similar recession resistance. Canadian farmland provided positive returns in the 3-year periods of the 2000 tech bubble burst and the 2008 financial crisis. In the 3 years from 2000 to 2002 Canadian farmland gained a total of 8.4%, while the S&P 500 index lost 40.1% of its value and from 2008 to 2010 Canadian farmland gained a total of 25.3%, outpacing the S&P 500 index which lost 14.1% of its value.(2)

Mr. Davies also highlights the relatively strong risk-return profile of farmland stating, "When investing in farmland, returns do not necessarily mean higher risk and greater volatility." He points out that farmland has experienced volatility like 10-year Treasuries, significantly lower than the volatility of equities. (1)

Veripath's research also shows this behaviour for Canadian farmland. Over the past 30 years

Canadian farmland has exhibited a 50% lower volatility than the TSX Composite index, with Canadian farmland volatility being 8%, while the TSX Composite index's volatility being 16%. (3)

Mr. Davies provides a very compelling case that now is the time for investing in farmland "The current crisis and past performance of the asset class during periods of economic downturn highlights the benefits farmland offers investors, providing a steady alternative to other safe heaven assets." (1) This is a conclusion with which Veripath concurs.

Who is Veripath: Veripath is a Canadian alternative investment firm. Members of Veripath's management team have decades of farmland, private equity, and private credit investment experience. Veripath implements its farmland strategy in a way that seeks to preserve as far as possible farmland's low-volatility return profile – the attribute that generates a material portion of Canadian farmland's superior risk adjusted return profile. Veripath does this by seeking to minimize operational, weather, geographic and business-related risks – and capture the pure return from land appreciation. For more information on Veripath please feel free to register online at www.veripathfarmland.com or call 587-390-8267.

Sources:

1. Why Investing Now in Farmland Makes Sense, Martin Davies, Pension & Investments, https://www.pionline.com/industry-voices/commentary-why-investing-now-farmland-makes-sense

2. S&P 500 data –Yahoo Finance - https://finance.yahoo.com/quote/%5EGSPC; Farmland data –FCC Farmland values report -www.fcc-fac.ca

3. TSX data –Yahoo Finance -www. finance.yahoo.com/quote/%5EGSPTSE/history/; Farmland data –FCC Farmland values report -www.fcc-fac.ca

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