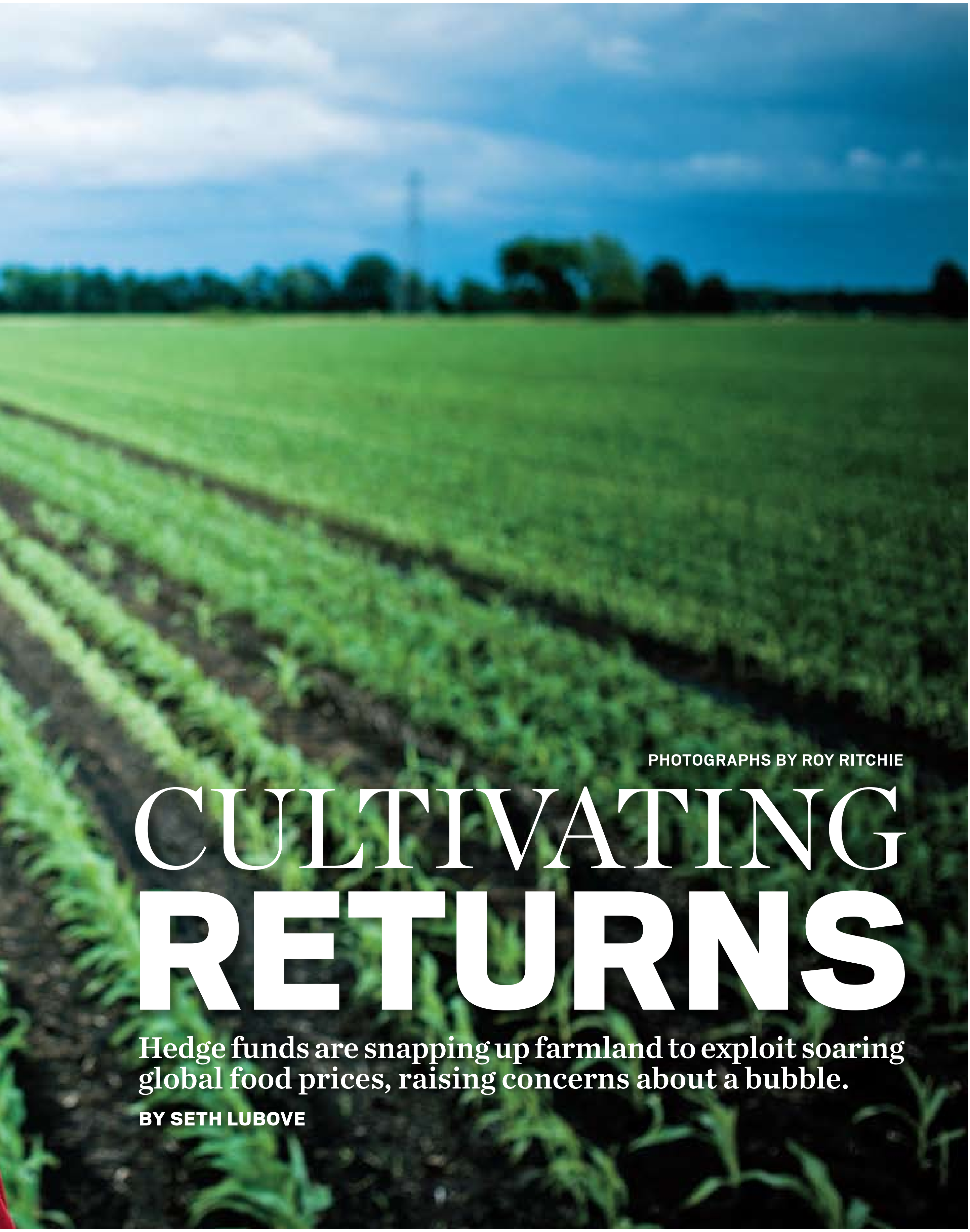
Perry Vieth, a former fixed-income trader, started a firm to invest in farmland.



PHOTOGRAPHS BY ROY RITCHIE

CULTIVATING RETURNS

Hedge funds are snapping up farmland to exploit soaring global food prices, raising concerns about a bubble.

BY SETH LUBOVE

Perry Vieth baled hay on a neighbor's farm in Wisconsin for two summers during high school in 1972 and 1973. The grueling labor left him with no doubt about getting a college degree so that he'd never have to work as hard again for a paycheck. Thirty-eight years later, and after a career as a securities lawyer and fixed-income trader, Vieth is back on the farm.

Except, now, he owns it. As co-founder of Ceres Partners LLC, a Granger, Indiana–based investment firm, Vieth oversees 61 farms valued at $63.3 million in Illinois, Indiana, Michigan and Tennessee. He's so enthusiastic about the investments that he quit a job in 2008 overseeing $7 billion in fixed-income assets at PanAgora Asset Management Inc., a Boston-based quantitative money management firm, to focus full time on farming.

On a spring afternoon, Vieth, 54, barrels along backcountry roads in a Jeep Cherokee in Indiana and Michigan to scout a fruit orchard and corn and soybean farms to buy. Rural towns with names such as Three Rivers pass by in a blur, separated by a wide horizon of fields with young crops popping up. "When I told people I was leaving to start an investment fund in farmland, they said, 'You're doing what?'" says Vieth, in a red polo golf shirt and khakis. "It will always be difficult for Wall Street firms to understand. It's not like buying stocks on a computer."

It's much better: Returns from farmland have trounced those of equities. Ceres Partners produced an average annual gain of 16.4 percent after fees from January 2008, just after the firm started, through June of this year, Vieth says. The bulk of the returns are in rent payments from tenant farmers who grow and sell the crops and from land appreciation. The Standard & Poor's GSCI Agriculture Index of eight raw materials gained 5.3 percent annually over the same period, and the S&P 500 Index dropped almost 1 percent.

Investors are pouring into farmland in the U.S. and parts of Europe, Latin America and Africa as global food prices soar. A fund controlled by George Soros, the billionaire hedge-fund manager, owns 23.4 percent of South American farmland venture Adecoagro SA. Hedge funds Ospraie Management LLC and Passport Capital LLC as well as Harvard University's endowment are also betting on farming. TIAA-CREF, the $466 billion financial services giant, has $2 billion invested in some 600,000 acres (240,000 hectares) of farmland in Australia, Brazil and North America and wants to double the size of its investment. "I have frequently told people that one of the best investments

in the world will be farmland," says Jim Rogers, 68, chairman of Singapore-based Rogers Holdings, who predicted the start of the global commodities rally in 1996. "You've got to buy in a place where it rains, and you have to have a farmer who knows what he's doing. If you can do that, you will make a double whammy because the crops are becoming more valuable."

The growth in demand for food, spurred by the rising middle classes in China, India and other emerging markets, shows no signs of abating. Food prices in June, as measured by a United Nations index of 55 food commodities, were just slightly below their peak in February. The UN's Food and Agriculture Organization said in a June report that it expects food costs to remain high through 2012.

So many investors have rushed to capitalize on food prices in the past three years that they may be creating a farmland bubble. The Federal Reserve Bank of Kansas City, which covers Colorado, Kansas, Nebraska and other agricultural states, said in May that farmland prices had surged 20 percent in the first quarter compared

Vieth buys **working farms**, such as this one in Granger, Indiana, where a farmer grows corn and soybeans and an equestrian team keeps horses.

with a year earlier. "Yes, farmland will be a bubble again; all agricultural products will be in a bubble again," says Rogers, who is an investor in Agrifirma Brazil Ltd., a South American farmland owner.

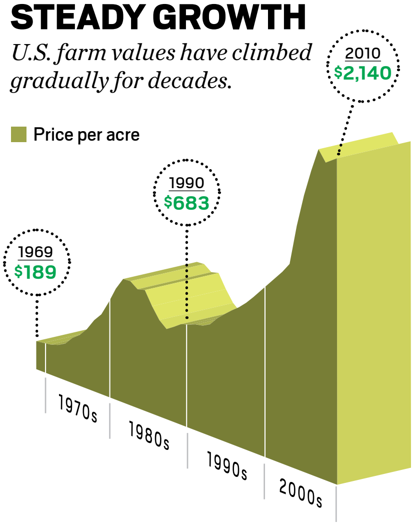
Hedge-fund manager Stephen Diggle calls farming the ultimate safe haven. Diggle began buying farms with his own money in 2008 after Lehman Brothers Holdings Inc. filed for bankruptcy in September of that year and the S&P 500 plunged 43 percent in the next six months. He purchased 8,000 acres in Uruguay, three smaller plots in southern Illinois and an 80-acre New Zealand kiwi-and-avocado orchard. "We really thought all the investment banks would go under," says Diggle, who as a hedge-fund manager uses options and warrants to bet on price swings in the market. "Everyone said, 'Buy gold.' But at the end of the day, you can't eat it. If everything else goes and I just have these farms, it makes me moderately wealthy."

The hedge fund Diggle co-founded, Artradis Fund Management Pte in Singapore, suffered about $700 million in losses. He closed it in March and opened another Singapore-based hedge fund, Vulpes Investment Management Pte. Diggle plans to incorporate his five farms into an investment management group run by Vulpes. From his vantage point in Asia, where the British expatriate has worked for the past two decades, Diggle says he's witnessed aspiring locals eating their way up the food chain. "You can see what a more prosperous China will consume," Diggle, 47, says. "It means more dairy, more meat—not just pork and chicken."

Investors find in farmland a respite from the cyclical price swings of the commodities market. Since 1970, there have been at least four price jumps of at least 100 percent that were followed by steep declines in the S&P agriculture commodities index. By contrast, the average value of an acre of farmland tracked by the U.S. Department of

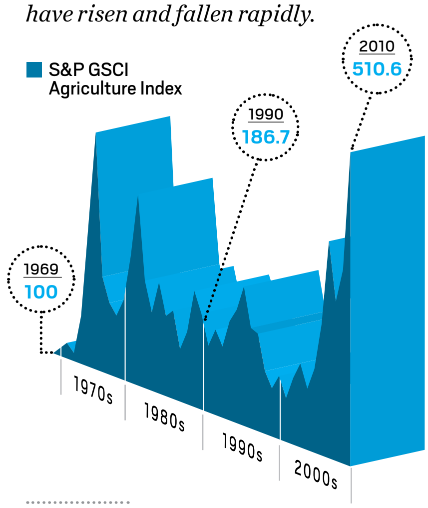
STEADY GROWTH

U.S. farm values have climbed gradually for decades.



WILD RIDE

Prices for food commodities have risen and fallen rapidly.



Index: 100 = Dec. 31, 1969. Through Dec. 31, 2010.
Source: Bloomberg

Agriculture has been on a mostly steady climb from $737 in 1980 to $2,140 in 2010. "Farmland is the lowest-risk part of the value chain, but it's also a key part of production," says Jose Minaya, TIAA-CREF's head of natural resources and infrastructure investments.

In the U.K., where farm prices are also rising, one money manager traded his career at BlackRock Inc. for one in farming. Graham Birch, 51, left in 2009 as the London-based head of the natural resources team at BlackRock, the world's biggest asset manager, to run

Graham Birch quit his job at BlackRock and now runs two dairy, wheat and barley farms in southwest England.

his two dairy, wheat and barley farms in southwest England full time.

Birch, who says farming has suffered from a lack of investment and management talent, has spent $1 million on improvements. He now captures all of the effluent from his 600-cow herd, stores it in a 4 million-liter (1-million-gallon) steel tank and uses it as fertilizer for his crops. "At heart, I am basically a businessman, and I want to try to apply the things I learned over the years to see what I could do," Birch says.

Ceres Partners' Wall Street roots are evident in the firm's makeshift office in an old clapboard farmhouse that sits in the middle of cropland. Lucite tombstones resting on a shelf in a small room mark deals done by Brandon Zick, a former vice president of strategic acquisitions at Morgan Stanley's investment management unit. Vieth hired Zick in January to help analyze and manage farm purchases.

Vieth, a 1982 graduate of the University of Notre Dame Law School, began his career as a securities and corporate lawyer before moving to the pits of the Chicago Mercantile Exchange, where he traded S&P 500 options. After a series of stints running an arbitrage team for Fuji Securities Inc. and other firms, he was hired as chief investment officer of fixed income at PanAgora, the quant firm, in 1999.

By about 2006, Vieth's concerns about the economy were mounting: Inflation was at a low, and the dollar had peaked as U.S. debt and deficits soared. So he searched for an asset class that would benefit from a currency decline and rising prices. His research led him to farms, since a falling dollar boosts U.S. crop exports. Vieth then connected with Paul Blum, a fellow Notre Dame alumnus who spent some of his youth on a farm in upstate New York and today acts as Ceres's point person with tenant farmers.

As the dollar fell 24 percent against the euro from January 2006 through May 2008, the pair started buying land as personal investments until the business grew too big for Vieth to manage during evenings and weekends. So, in late 2007, he founded Ceres, just as tightening credit markets began to push the global economy into a recession. He named the firm Ceres for both the Roman goddess of agriculture and a bar he frequented during his trading days in Chicago. "I was more convinced hard assets were where you wanted to be, and farmland was the best investment I could identify," Vieth says. By May 2011, he had collected 17,238 acres, mostly in the Midwest.

When Vieth wants land, he goes shopping, as he does with Zick and Blum under a partly cloudy southern Michigan sky in May. Armed with aerial and soil maps, they look for farms with predictable rainfall, mineral-rich land and good drainage. They avoid land that slopes too much, which could lead to soil erosion.

The trio drive by a 337-acre farm for sale by a bank, and Vieth frowns at the slant of the land and the trees that line the perimeter. "Those trees will shade the corn and stunt growth," he says. Blum doesn't like the many rocks scattered on the unplanted dirt. Zick is skeptical that the bank will get its asking price of $7,000 an acre in a foreclosure sale.

The investors next visit a farmer they hired, Ed Kerlikowske Jr., who grows watermelon, peas and corn on their

TOM STOCKILL

‘FARMLAND WILL BE A BUBBLE AGAIN; ALL AGRICULTURAL PRODUCTS WILL BE IN A BUBBLE AGAIN,’ SAYS JIM ROGERS, AN INVESTOR IN A SOUTH AMERICAN CROPLAND OWNER.

782-acre spread near Berrien Springs, Michigan. For farmers such as Kerlikowske, the entry of outside investors frees up money for new equipment that they would otherwise have to spend on land. “To really grow the business in today’s economy, you need partners,” Kerlikowske says as he passes around slices of fresh watermelon.

The farm-investing boom is making lots of people happy, but could it all end in tears? The Federal Deposit Insurance Corp., which regulates banks that lend to farmers, has examined whether investors may be pumping up prices and creating the conditions for a crash like the one that devastated the market in the 1980s, resulting in the failure of 300 farm banks. In March, then–FDIC Chairman Sheila Bair devoted a symposium to the topic in Washington with the participation of economists, bankers and agricultural experts. “If there is a bubble in farmland prices, I hope the bulk of any correction is borne by investors such as hedge funds and not by the banking industry,” William Isaac, chairman of the FDIC during the farm banking bust and now senior managing director of FTI Consulting Inc. said during the event.

Charles McNairy, whose family has been involved in agriculture since 1871, says neophyte investors who lack a deep understanding of farming are making bad deals. In 2009, McNairy started U.S. Farming Realty Trust LP, a fund based in Kinston, North Carolina, that had raised $261 million as of late May to buy farms, according to a Securities and Exchange Commission filing. McNairy says funds such as Ceres have been overpaying for land, based on the return from crops. “Ceres shouldn’t be buying in the Midwest,” says McNairy, who declined to disclose the states he invests in. “It’s crazy to be buying up there.”

Vieth disagrees, saying Ceres’s returns prove that his strategy is working. “I certainly don’t want to start slinging mud, but I don’t know what the heck he’s talking about.”

Greyson Colvin, who started farming fund Colvin & Co. LLP in Anoka, Minnesota, in 2009, dismisses the idea of an overheated market. “After the housing bubble, people are a little too quick to assign the word *bubble* these days,” says Colvin, whose two funds and separately managed accounts hold 2,300 acres of farmland in Iowa, Minnesota and South Dakota valued at more than $10 million.

Colvin, a former analyst at UBS AG and Credit Suisse Group AG, says U.S. farmers aren’t carrying as much debt as they did during the 1980s crisis, which contributed to the downfall of banks as agriculture loans defaulted. The farm debt-to-asset ratio, which peaked in 1985 at 23 percent, is expected to fall to 10.7 percent in 2011, according to Agriculture Department estimates.

Vieth’s farm funds are facing head winds in coming months and years: A likely rise in interest rates will push up his acquisition costs and the value of the dollar, which in turn might hurt commodity exports. While the former trader keeps a close eye on the dollar, he says farming will continue to thrive.

Investors seem to agree. At a dining-room table in the farmhouse in Granger, Vieth sits down at his computer one evening and totals the day’s haul: another $900,000 from investors looking for comfort—and profits—in one of the oldest and most essential industries on the planet.

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Bloomberg Tips

CHARTING FARMLAND

The Federal Reserve Bank of Chicago tracks farmland values in the Midwestern states of Iowa, Illinois, Indiana and Wisconsin, which lie within the Fed’s 7th District. For a custom chart that graphs the index of farmland values against prices of corn, soy and wheat, type **FRBCTOTL <Index> G <Go>** 1 <Go>. Click on Multiple Security in the Chart Wizard window and then on the Next button. Tab in to the second field under Security and enter *C 1 <Cmdty> <Go>*. In the fields below, enter *S 1 <Cmdty> <Go>* and *W 1 <Cmdty> <Go>*. Click on the Next button, enter a name in the TITLE field and click on Finish to display the chart. **JON ASMUNDSSON**