

UBS AgriVest Farmland Fund, Inc.

Quarterly report

For the quarter ended September 30, 2012





Strictly private and confidential

UBS AgriVest Farmland Fund, Inc. Quarterly report

For the quarter ended September 30, 2012

Prepared by:
UBS AgriVest LLC

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Forward looking information

This communication is not a recommendation, an offer or the solicitation of an offer to buy any security.

All information furnished in this report is confidential and proprietary information of UBS AgriVest LLC and the clients of the fund. This report should not be given to third parties without the prior written permission of UBS AgriVest LLC.

Sections of this report relating to future prospects that are "forward-looking statements" are based upon certain assumptions, the result of which may differ materially from the actual results. Variances may include, but are not necessarily limited to, forecast versus actual of revenue and expense, lease renewals, capital expenses, pricing of market rents, discounts and capitalizations rates. The material content of this report is based upon information obtained by UBS AgriVest LLC through the date shown on the report. Any updates to the information will be made in the next quarterly report.

Article sourced as "2012 Farm Sector Income Forecast" is from the USDA website and is in the public domain.

For further information, please contact James McCandless at 860-616 9203.

Photo: AFF #36, Keithsburg Farm, Mercer and Henderson Counties, IL

UBS AgriVest Farmland Fund, Inc.

Executive summary

The UBS AgriVest Farmland Fund, Inc. together with its subsidiaries (collectively "the Fund") is an open-end, infinite life, private REIT permitting quarterly contributions and redemptions. The Fund is targeting total annualized returns (returns before advisors fees) that exceed the Core Farmland Index over three- to five-year periods. The Fund acquired its first properties on June 30, 2006. The Fund now holds 46 properties valued at approximately USD 284 million. The properties are reasonably diversified with some concentration in the Delta and Pacific West regions of the country.

Fund-level return summary (%)

Period ended September 30, 2012	Quarter ending 9/30/12	One year	Three years	Five years	*Since inception
Net investment income, before management fee	0.90	4.08	4.25	4.09	4.03
Net realized/unrealized gain	1.36	9.62	4.76	5.37	7.14
Total, before management fee	2.26	13.99	9.16	9.62	11.38
Core Farmland Index (CFI)**	1.87	17.38	11.25	11.73	13.00
Total, net of management fee	2.00	12.85	8.05	8.53	10.30

Source: UBS Global Asset Management, Global Real Estate – Farmland. Rates of return are time-weighted fund level calculations that include cash and reinvestment of income. Returns for periods in excess of one year are presented as annualized returns. Past performance is not indicative of future results.

*for period 6/29/06-9/30/12

**The CFI is a property level return benchmark described in the comparative returns section of this report. It is calculated using the NCREIF Index methodology described in Exhibit A that excludes cash, fund level expenses and management fees.

Performance attribution

Net realized and unrealized gain on investments was approximately USD 3.8 million for the quarter ended September 30, 2012. These gains are primarily attributable to recent comparable sales transactions for row crop properties at higher values in the Delta (Arkansas, Mississippi, Louisiana), the Southeast (Georgia), the Southern Plains (Texas) and the Corn Belt (Illinois).

Acquisitions

There were no acquisitions during the quarter.

As of September 30, 2012, the Fund had outstanding commitments to purchase two new farm investment properties aggregating approximately USD 108 million plus closing costs. The first property, located in Wisconsin,

is scheduled to close in November. The second property, located in Texas, is scheduled to close in early December.

Farmland markets remain thin with very few properties being offered for sale that meet the investment standards of the Fund. Farm owners have no motivation, other than special circumstances, to sell their farmland holdings. While the Fund's advisor continues to seek out suitable farm properties, the lack of acceptable opportunities has significantly slowed down the pace of new acquisition activity until this time.

Dispositions

During the quarter there was an exchange of 80 acres for 74.19 acres with a neighbor in Yuma County, Arizona. The exchange resolves some access and boundary issues for both parties to the exchange. Cash was received for the value of the excess acres transferred resulting in a small realized loss. There are no pending dispositions at quarter end.

Dividends

Stockholders may participate in the Company's dividend reinvestment plan, which allows for common stock dividends to be reinvested in additional common shares. No dividend was declared during the quarter.

Factual summary

Net assets (USD mm)	284.5
Number of investments	46
Number of clients	27
Total paid-in capital (USD mm)	228.0

Source: UBS Global Asset Management, Global Real Estate – Farmland as of September 30, 2012

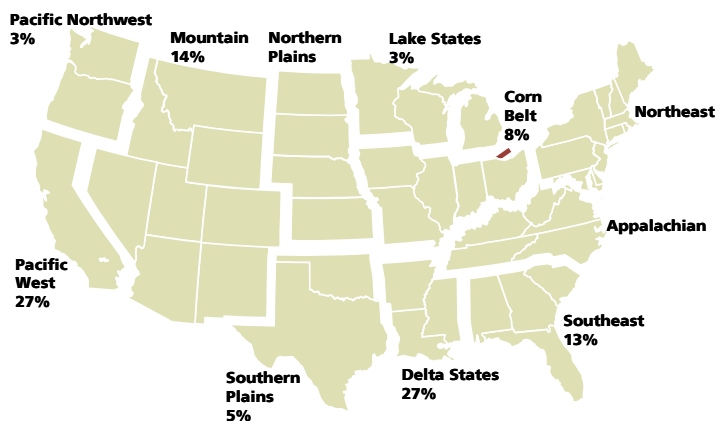
Financial highlights

Values in USD	12/31/11	3/31/12	6/30/12	9/30/12
Farm investment properties, at fair value	263,428,620	266,562,920	280,051,696	283,969,000
Farm investment properties, at cost	222,396,808	222,771,076	227,807,860	227,899,344
Cash and cash equivalents	3,877,307	5,515,542	492,268	1,672,009
Total assets	267,682,258	273,353,477	282,002,242	287,664,827
Total liabilities	20,036,683	7,438,630	5,509,375	3,183,315
Total stockholders' equity	247,645,575	265,914,847	276,492,867	284,481,512
	Nine months ended 9/30/12	Quarter ended 9/30/12		
Net investment income, before management fee	7,894,205	2,508,418		
Investment management fee	2,076,000	711,231		
Net investment income	5,818,205	1,797,187		
Net realized and unrealized gain (loss)	14,896,695	3,789,591		
Issuance of common stock	27,000,000	2,000,000		
Redemptions of common stock	10,374,985	0		
Dividends reinvested	3,134,922	401,868		

Source: UBS Global Asset Management, Global Real Estate – Farmland

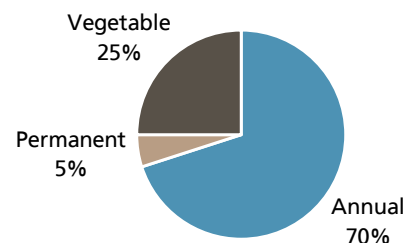
Portfolio distribution as of September 30, 2012

By geographic region



Source: UBS Global Asset Management, Global Real Estate – Farmland

By property type



Source: UBS Global Asset Management, Global Real Estate – Farmland

Portfolio strategy and activity

The Fund began operations on June 30, 2006. It owns an actively managed, core portfolio of equity farmland investments. Its focus is to acquire and manage a diversified portfolio of row, vegetable and permanent crop farmland in select major agricultural states. Investments are structured as wholly owned properties and all are leased to commercial farm operators.

Strategy

The investment objective of the Fund is to provide competitive, risk-adjusted total returns from diversified exposure to US farmland. UBS AgriVest LLC, the advisor, will select investments in which it believes there is the opportunity for favorable current income and long-term capital appreciation. The Fund will follow a disciplined asset allocation strategy to seek reasonable portfolio diversification and enhanced risk-adjusted returns, and will target sectors of the farmland market based on a pricing framework that focuses on the relative risk and appreciation potential to determine the investment attractiveness of the sectors.

Geographic and crop diversification

The table shown below shows a detailed breakdown of the geographic and crop type diversification of the 46 properties. These farms fit our strategy to build a well-diversified core portfolio of row, vegetable and permanent crop properties. Acquisition activities going forward will continue to fill in additional regions and crops in line with the long-term strategy.

UBS AgriVest Farmland Fund, Inc. portfolio diversification matrix as of September 30, 2012

(percent by market value)

Crops	Pacific				Corn Belt	Southern Plains	Lake States	Pacific Northwest	Total
	Delta	West	Mountain	Southeast					
Vegetables		18.59	3.76			0.42	1.77		24.54
Corn	7.06		0.83	4.33	3.96	1.67	0.73		18.58
Cotton	8.35	1.67	0.55	4.32		1.76			16.66
Soybeans	7.63				3.68				11.31
Permanent		1.57					0.85	2.75	5.16
Peanuts				4.30					4.30
Rice	4.25								4.25
Wheat			3.68	0.24					3.92
Berries		3.68							3.68
Range & hay		0.44	2.94						3.37
Sugar crops		0.24	1.49						1.73
Feed grain			0.21			1.35			1.56
Other		0.51	0.44						0.94
Total	27.29	26.69	13.90	13.20	7.63	5.19	3.35	2.75	100.00

Source: UBS Global Asset Management, Global Real Estate – Farmland

*Rounding errors may occur

Comparative returns

Exhibit A of this report summarizes property level return calculations. Each property is listed by region showing the market value basis returns for the quarter. The quarterly returns are calculated utilizing the NCREIF Farmland Index formula for comparative purposes (excluding cash and making NCREIF period adjustments). The portfolio's property level annual total returns are summarized and compared to the NCREIF Farmland Index (NFI) and the Core Farmland Index (CFI) for the period ending September 30, 2012 below. The CFI is composed of all annual and permanent cropland investments in the NFI that are leased.

The NFI has become increasingly weighted to permanent cropland and owner-operated property over time and no longer reflects core, diversified exposure to US farmland. To create the Core Farmland Index (CFI), UBS AgriVest excluded the investments that are owner-operated and re-weighted NCREIF Farmland Index returns to 80% annual cropland and 20% permanent cropland. We consider this to be market-neutral and therefore more appropriate as a benchmark for broadly diversified exposure to core US farmland.

Property-level returns (%)					
Period ended September 30, 2012	Quarter ending 9/30/12	One year	Three years	Five years	*Since inception
Total property returns	2.31	14.55	9.70	10.46	12.67
CFI total returns	1.87	17.38	11.25	11.73	13.00
NFI total returns	1.91	17.64	11.68	12.50	13.45

Source: UBS Global Asset Management, Global Real Estate – Farmland. Returns for periods in excess of one year are presented as annualized returns. Past performance is not an indication of future results.

*for period 7/1/06-9/30/12

Agricultural economy

The drought conditions in the Midwest are not impacting the Fund. The full year's rent has been paid on the two farms held by the Fund in that region. One of the farms, Keithsburg Farm (3,785 acres), is irrigated. The geographic diversification of the farms held by the Fund will further mitigate any impact on the Fund. Farms in the Delta, Southeast and Mountain States also produce corn and soybeans under irrigation and the lessees on those farms harvested an excellent corn and soybean crop.

Attached as Exhibit B is a report from the USDA entitled "2012 Farm Sector Income Forecast".



Financial statements

UBS AgriVest Farmland Fund, Inc.

Consolidated Balance Sheets

	September 2012 <u>(Unaudited)</u>	December 31, 2011 <u></u>
Assets:		
Farm investment properties at fair value (cost \$227,899,344; \$222,396,808)	\$ 283,969,000	\$ 263,428,620
Cash and cash equivalents	1,672,009	3,877,307
Rent and other receivables	1,857,359	319,907
Prepaid expenses and other assets	166,459	56,424
	<u>287,664,827</u>	<u>267,682,258</u>
Total assets	<u>\$ 287,664,827</u>	<u>\$ 267,682,258</u>
Liabilities and stockholders' equity:		
Liabilities:		
Line of credit at fair value	\$ -	\$ 13,000,000
Unearned rent	1,314,357	1,265,668
Accrued expenses and other liabilities	614,602	479,896
Deferred state tax liability	543,125	399,074
Accrued investment management fee	711,231	637,459
Dividends payable	-	4,254,586
	<u>3,183,315</u>	<u>20,036,683</u>
Total liabilities	<u>3,183,315</u>	<u>20,036,683</u>
Stockholders' equity:		
Preferred stock, \$.01 par value; 500 shares authorized, 159 shares issued and outstanding	2	2
Common stock, \$.01 par value; 100,000,000 shares authorized, 183,694 and 170,183 shares issued and outstanding, respectively	1,837	1,702
Additional paid-in capital	228,034,263	208,274,461
Retained earnings	56,445,410	39,369,410
	<u>284,481,512</u>	<u>247,645,575</u>
Total stockholders' equity/net assets	<u>284,481,512</u>	<u>247,645,575</u>
Total liabilities and stockholders' equity	<u>\$ 287,664,827</u>	<u>\$ 267,682,258</u>

See accompanying notes to consolidated financial statements.

UBS AgriVest Farmland Fund, Inc.
Consolidated Statements of Operations
For the quarter and nine months ended September 30, 2012 (Unaudited)

	<u>Quarter</u>	<u>Nine months</u>
Investment income:		
Rental revenue	\$ 3,064,304	\$ 9,366,202
Interest on cash and cash equivalents	-	2,241
Other income	72,891	227,047
	<u>3,137,195</u>	<u>9,595,490</u>
Expenses:		
Property management fees	94,248	297,193
Real estate taxes	185,301	559,100
Other operating expense	221,984	476,708
General and administrative	99,142	300,104
Interest expense	5,000	11,500
State income tax provision	23,102	56,680
	<u>628,777</u>	<u>1,701,285</u>
Net investment income, before management fee	2,508,418	7,894,205
Investment management fee	711,231	2,076,000
Net investment income	<u>1,797,187</u>	<u>5,818,205</u>
Net realized and unrealized gain (loss):		
Net proceeds from sale of investments	144,851	184,007
Less cost of investments sold	147,669	192,797
	<u>(2,818)</u>	<u>(8,790)</u>
Less realization of previously recorded unrealized gain on investments sold	-	-
Net realized loss from investments sold	<u>(2,818)</u>	<u>(8,790)</u>
Change in net unrealized gain on investments	3,825,820	15,037,844
Increase in deferred state tax expense on net unrealized gain on investments	(33,411)	(132,359)
Net change in unrealized gain	<u>3,792,409</u>	<u>14,905,485</u>
Net realized and unrealized gain on investments	<u>3,789,591</u>	<u>14,896,695</u>
Increase in stockholders' equity resulting from operations	<u>\$ 5,586,778</u>	<u>\$ 20,714,900</u>

See accompanying notes to consolidated financial statements.

UBS AgriVest Farmland Fund, Inc.
Consolidated Statement of Changes in Stockholders' Equity
For the nine months ended September 30, 2012 (Unaudited)

	Number of preferred shares	Preferred shares, par value	Number of common shares	Common shares, par value	Additional paid-in capital	Retained earnings	Stockholders' equity
Balance - January 1, 2012	159	\$2	170,183	\$1,702	\$208,274,461	\$39,369,410	\$247,645,575
Issuance of common shares	-	-	18,504	185	26,999,815	-	27,000,000
Shares issued on reinvestment of dividends	-	-	2,138	21	3,134,901	-	3,134,922
Redemptions of common shares	-	-	(7,131)	(71)	(10,374,914)	-	(10,374,985)
Net investment income	-	-	-	-	-	5,818,205	5,818,205
Net realized and unrealized gain on investments	-	-	-	-	-	14,896,695	14,896,695
Dividends	-	-	-	-	-	(3,638,900)	(3,638,900)
Balance - September 30, 2012	<u>159</u>	<u>\$2</u>	<u>183,694</u>	<u>\$1,837</u>	<u>\$228,034,263</u>	<u>\$56,445,410</u>	<u>\$284,481,512</u>

See accompanying notes to consolidated financial statements.

UBS AgriVest Farmland Fund, Inc.
Consolidated Statements of Cash Flows
For the quarter and nine months ended September 30, 2012 (Unaudited)

	<u>Quarter</u>	<u>Nine months</u>
Cash flows from operating activities:		
Net investment income	\$ 1,797,187	\$ 5,818,205
Adjustments to reconcile net investment income to net cash provided by (used in) operating activities:		
Increase (decrease) in cash arising from changes in operating assets and liabilities:		
Rent and other receivables	(643,406)	(1,537,452)
Prepaid expenses and other assets	77,866	(110,035)
Unearned rent	(1,414,449)	48,689
Accrued expenses and other liabilities	(1,283)	203,647
Deferred state tax liability	16,826	11,692
Accrued investment management fee	26,824	73,772
Net adjustments	<u>(1,937,622)</u>	<u>(1,309,687)</u>
Net cash provided by (used in) operating activities	<u>(140,435)</u>	<u>4,508,518</u>
Cash flows from investing activities:		
Purchases of farm investment properties	-	(4,505,735)
Additions to farm investment properties	(315,986)	(1,258,539)
Proceeds from farm investments sold	144,851	184,007
Net cash used in investing activities	<u>(171,135)</u>	<u>(5,580,267)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock	2,000,000	27,000,000
Redemptions of common stock	-	(10,374,985)
Dividends paid to common stockholders	(508,689)	(4,752,204)
Dividends paid to preferred stockholders	-	(6,360)
Repayment of line of credit	-	(13,000,000)
Net cash provided by (used in) financing activities	<u>1,491,311</u>	<u>(1,133,549)</u>
Net increase (decrease) in cash and cash equivalents	1,179,741	(2,205,298)
Cash and cash equivalents - beginning of period	<u>492,268</u>	<u>3,877,307</u>
Cash and cash equivalents - end of period	<u>\$ 1,672,009</u>	<u>\$ 1,672,009</u>

See accompanying notes to consolidated financial statements.

UBS AgriVest Farmland Fund, Inc.

Notes to Consolidated Financial Statements

September 30, 2012 (Unaudited) and December 31, 2011

1. Organization

UBS AgriVest Farmland Fund, Inc. (the "Company") is a Maryland corporation formed in 2006 for the purpose of investing in a diversified portfolio of row, vegetable and permanent crop farmland in select major agricultural states in the United States. The Company has elected to be taxed as a real estate investment trust ("REIT") for federal income tax purposes. The Company holds its investments through UBS AgriVest Farmland Fund L.P. (the "Operating Partnership") and other subsidiaries (together the "Fund"). The Company is the sole member of the general partner and the limited partner of the Operating Partnership in which it holds a majority interest. UBS AgriVest LLC (the "Advisor") provides investment advisory services to the Fund pursuant to an investment advisory agreement (the "Advisory Agreement").

The Fund evaluated subsequent events for recognition or disclosure through November 12, 2012, the date on which the consolidated financial statements were available to be issued.

2. Significant accounting policies

Basis of presentation

The accompanying unaudited consolidated financial statements are stated in U.S. dollars and should be read in conjunction with the Fund's audited consolidated financial statements as of and for the year ended December 31, 2011. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted from this report pursuant to generally accepted practices for interim reporting. The results of operations for interim periods are not necessarily indicative of the results to be obtained for the full year. In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments necessary for a fair statement of financial position and results of operations for the interim periods. Such adjustments are of a normal recurring nature.

The consolidated financial statements of the Fund include the accounts of the Company, the Operating Partnership and the Operating Partnership's wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Farm investment valuations

The farm investment properties of the Fund are stated at estimated fair value. Fair value means the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of farm investments generally do not reflect transaction costs which may be incurred upon disposition of the farm investments. The Fund's farm investment values do not necessarily represent the prices at which the investments would be sold or repaid, since market prices of farm investments can only be determined by negotiation between a willing buyer and seller. Amounts ultimately realized from each investment may vary materially from the fair values reflected in the consolidated financial statements.

The valuations of the farm investment properties are determined on a quarterly basis by independent appraisers. An independent appraisal of the underlying farm investment property, which includes a complete property inspection, market analysis and review of available comparable property sales transactions, is obtained at the time of acquisition and thereafter performed annually. The appraisal is updated quarterly by the independent appraiser to reflect new comparable property sales transactions, changes in market conditions and other relevant data related to the investment. All appraisals comply with the Uniform Standards of Professional Appraisal Practice ("USPAP"), as promulgated by the Appraisal Foundation.

UBS AgriVest Farmland Fund, Inc.

Notes to Consolidated Financial Statements

September 30, 2012 (Unaudited) and December 31, 2011

2. Significant accounting policies (continued)

The generally accepted methods used in the valuation of real estate are the income, cost, and sales comparison approaches of estimating property value. The income approach is designed to transform future cash flow expectations for a property into a present value estimate through application of capitalization and/or yield rates derived from recent market transactions and other industry data for similar properties. Under the cost approach, a value is indicated by estimating the current replacement cost of the improvements less depreciation from all sources (physical, functional and/or external), and adding the estimated land value. The sales comparison approach utilizes available sales of comparable properties, adjusted for differences, to indicate a value for the property. When multiple approaches to value are used in an appraisal, the appraiser's final value opinion either corresponds to one of the approaches to value or is a reconciliation of the most applicable approaches.

The fair values of the farm investment properties are determined as described above (see Note 3 for further discussion of fair value measurements). Although these fair values represent subjective estimates, the Advisor believes that the estimated fair values reflect reasonable approximations of potential market prices for the Fund's farm investment properties.

Investments in farm properties

Farm investment properties are initially recorded at purchase price plus closing costs and adjusted to appraised value as described above. Expenditures, which extend the useful life or represent additional capital investments benefiting future periods, are capitalized as a component of cost. Ordinary repairs and maintenance are charged to expense as incurred.

Revenue recognition

Base rent is determined based upon contractual lease agreements. The leases are accounted for as operating leases and are non-cancelable. Base rental payments are received as stipulated in the respective lease agreements. Under certain lease agreements, additional rental payments, which are based upon gross farm income and received by the Fund subsequent to the sale of the crop, are recognized when earned. Base revenues are recognized on the accrual basis of accounting. Unearned rent represents prepaid farm rents, which will be earned in subsequent periods. Expenses are recorded as incurred.

Realized gains and losses

Realized gains and losses on investment transactions are determined using the cost of the investments sold. The unrealized gain (loss) previously recorded for these investments is then reversed and reported as realization of unrealized gain (loss) on investments sold in the accompanying Consolidated Statements of Operations.

Cash and cash equivalents

The Fund considers all highly liquid investments, if any, with original maturities of 90 days or less to be cash equivalents. The Fund is potentially subject to a concentration of credit risk principally from cash in excess of a financial institution's insurance limits.

UBS AgriVest Farmland Fund, Inc.

Notes to Consolidated Financial Statements

September 30, 2012 (Unaudited) and December 31, 2011

2. Significant accounting policies (continued)

Income taxes

The Company has elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code") beginning with the tax year ended December 31, 2006. In general, a company which elects REIT status, distributes at least 90% of its REIT taxable income to its stockholders in any taxable year, and complies with certain other requirements is not subject to federal income taxation to the extent of the income which it distributes. If it fails to qualify as a REIT in any taxable year, it will be subject to federal income tax at regular corporate rates on its taxable income. Even if it qualifies for taxation as a REIT, it may be subject to certain state and local taxes on its income and property and to federal income and excise taxes on its undistributed income. The Company believes that it is organized and operates in such a manner as to qualify for treatment as a REIT and intends to operate in the foreseeable future in such a manner so that it will remain qualified as a REIT for federal income tax purposes. Accordingly, no provision for U.S. federal income or excise taxes has been made in the accompanying consolidated financial statements.

The Fund has evaluated the uncertainties of tax positions taken or expected to be taken based on the probability of whether it is more likely than not the positions will be sustained upon audit based on technical merit for open tax years. The Fund concluded that it does not have any unrecognized tax benefits or any additional tax liabilities for any uncertain tax positions. The Fund files income tax returns in federal and various state and local jurisdictions. A number of years may elapse before an uncertain tax position is audited and finally resolved. Tax years since 2009 are open and remain subject to federal, state and local examinations.

Deferred tax assets and liabilities are recognized primarily for future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and are reflected in the accompanying Consolidated Balance Sheets. These assets and liabilities are measured using enacted tax laws and rates for which the temporary differences are expected to be recovered or settled. The effects of any change in deferred tax assets and liabilities are recognized in net investment income or unrealized gain (loss) on investments in the period enacted. The major component of temporary differences and related deferred tax liabilities are carrying basis differences related to farm investment properties under certain state tax regimes.

The Fund is subject to certain state and local income, franchise and excise taxes. For the quarter and nine months ended September 30, 2012, a provision related to these taxes is reflected in the accompanying Consolidated Statements of Operations.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of income, expenses and unrealized gains (losses) during the reporting period. Estimates particularly susceptible to change relate to the fair value of farm investment properties. Actual results could differ from those estimates.

UBS AgriVest Farmland Fund, Inc.

Notes to Consolidated Financial Statements

September 30, 2012 (Unaudited) and December 31, 2011

3. Fair value measurements

Fair value is estimated using the valuation approaches described in Note 2. GAAP emphasizes that a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability and also establishes a fair value hierarchy which prioritizes the inputs to the valuation techniques used to measure fair value into three levels based on whether the inputs to those valuation techniques are observable or unobservable in the marketplace. Observable inputs are based on market data obtained from independent sources. Unobservable inputs reflect market assumptions based on the best information available in the circumstances.

Assets and liabilities measured at fair value and inputs relative to their fair value measurements are classified and reported in one of the following categories: Level 1 - valuations use quoted prices in active markets for identical assets or liabilities; Level 2 - valuations are determined using significant observable inputs that other market participants would use in pricing an asset or liability. These fair values are primarily obtained from third party pricing services for identical or comparable assets or liabilities; and Level 3 - valuations are derived from valuation techniques in which one or more significant inputs are unobservable. Level 3 valuations are derived from other valuation methodologies including pricing models, discounted cash flow models and similar techniques. Level 3 valuations incorporate subjective judgments and consider assumptions including capitalization rates, discount rates, cash flows and other factors that are not observable in the market. The Fund's valuations of real estate and debt use significant unobservable inputs and are generally classified within Level 3 of the fair value hierarchy.

The following is a reconciliation of the beginning and ending balances of the Fund's real estate investments and financial liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the quarter and nine months ended September 30, 2012:

	Quarter ended September 30, 2012	
	Farm investment properties	Line of credit
Balance at beginning of period	\$ 280,051,696	\$ -
Net realized/unrealized gains (losses) included in operations (or changes in stockholders' equity)	3,823,002	-
Acquisitions/additions	239,153	-
Dispositions	(144,851)	-
Balance at end of period	<u>\$ 283,969,000</u>	<u>\$ -</u>
Change in unrealized gains (losses) relating to assets held at the reporting date	<u>\$ 3,825,820</u>	<u>\$ -</u>

UBS AgriVest Farmland Fund, Inc.
Notes to Consolidated Financial Statements
September 30, 2012 (Unaudited) and December 31, 2011

3. Fair value measurements (continued)

	<u>Nine months ended September 30, 2012</u>	
	<u>Farm investment properties</u>	<u>Line of credit</u>
Balance at beginning of period	\$ 263,428,620	\$ 13,000,000
Net realized/unrealized gains (losses) included in operations (or changes in stockholders' equity)	15,029,054	-
Acquisitions/additions	5,695,333	-
Dispositions	(184,007)	(13,000,000)
Balance at end of period	<u>\$ 283,969,000</u>	<u>\$ -</u>
Change in unrealized gains (losses) relating to assets held at the reporting date	<u>\$ 15,037,844</u>	<u>\$ -</u>

4. Farm investment properties

The Fund held title to 46 agricultural properties at September 30, 2012 and 45 agricultural properties at December 31, 2011. The Fund's properties are held by title holding companies that are wholly-owned by the Operating Partnership. The properties, located throughout the United States, are leased to farmers who grow a diverse selection of crops including vegetables, corn, cotton, soybeans, strawberries, rice and apples.

5. Line of credit

The Fund has in place a \$25 million revolving Line of Credit ("Line of Credit") with an unaffiliated lender, secured by certain farm investment properties ("Collateral"). There were no outstanding borrowings at September 30, 2012. Borrowings outstanding were \$13,000,000 at December 31, 2011. The Line of Credit is stated at estimated fair value, which approximates cost based on the terms of the obligation. The Line of Credit has a draw down period which was automatically renewed January 1, 2012 for an additional five year term, and may be extended for another five year term, but not beyond January 1, 2022 ("Draw Period"). At the end of the Draw Period, the Line of Credit may convert to another lender financing product, on terms and conditions to be agreed upon. The Line of Credit requires quarterly interest only payments on outstanding amounts during the Draw Period at an interest rate at Prime less 1.25% or Optional Interest Rates for Interest Periods as defined in the agreement. The interest rate at September 30, 2012 was 2.0%.

A standby fee is payable annually in arrears if the Fund does not maintain an average daily outstanding loan balance of \$1,250,000. The standby fee is the greater of \$4,000 or .01% of the average value of the Collateral up to \$100 million, measured quarterly. The Collateral includes the majority of the farm investments owned as of September 30, 2012, and may be released or added in accordance with the agreement. The Line of Credit agreement stipulates that the Fund must comply with certain covenants. At September 30, 2012, management believes the Fund was in compliance with such covenants.

UBS AgriVest Farmland Fund, Inc.

Notes to Consolidated Financial Statements

September 30, 2012 (Unaudited) and December 31, 2011

6. Dividends

The Fund intends to make distributions in such amounts as the Advisor determines in its discretion. Stockholders may participate in the Fund's dividend reinvestment plan which allows for common stock dividends to be automatically reinvested in additional common shares at the most recent net asset value per share. Stockholders electing not to participate in the distribution reinvestment plan receive distributions as and when made by the Fund. The following are the common distributions declared in 2012 and 2011 (\$ in thousands):

<u>Quarter ended</u>	<u>Dividends payable</u>	<u>Reinvested</u>	<u>Paid</u>	<u>Paid or reinvested date</u>
June 30, 2012	\$ 911	\$ 402	\$ 509	July 2012
March 31, 2012	\$ 2,722	\$ 1,196	\$ 1,526	April 2012
December 31, 2011	\$ 4,255	\$ 1,537	\$ 2,718	January 2012
June 30, 2011	\$ 1,584	\$ 591	\$ 993	July 2011
March 31, 2011	\$ 1,580	\$ 587	\$ 993	April 2011

7. Redemptions

Investors may request redemption of all or a portion of their shares as of the end of a calendar quarter by delivering written notice to the Fund at least 60 days prior to the end of the quarter. Redemption requests are subject to certain restrictions and the availability of cash arising from (i) any undistributed cash from operations in excess of the amount declared to be dividends, or determined to be necessary for reserves (ii) any proceeds from the sales and financings of properties determined to be available for redemptions and (iii) any capital contributions received during a quarter. Should redemption requests exceed such available cash, the Fund will pro-rate available cash among withdrawing investors according to the ratio of the requesting investor's shares to the total shares of all investors then requesting redemptions. Any redemption request that is not fully honored in any given quarter will be deemed effective in following quarters until completed. The Fund is not obligated to sell assets, borrow funds, alter investment or capital improvement plans or reduce reserves in order to honor redemption requests. At September 30, 2012, the Fund had no eligible redemption requests outstanding.

8. Share values and shares outstanding

The following summarizes the Fund's common shares outstanding and net asset value per share as of September 30, 2012 and December 31, 2011:

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Shares outstanding	183,694	170,183
Net asset value per share	\$1,548.24	\$1,454.70

UBS AgriVest Farmland Fund, Inc.

Notes to Consolidated Financial Statements

September 30, 2012 (Unaudited) and December 31, 2011

9. Financial highlights

The following are certain financial highlights of the Fund for the quarter and nine months ended September 30, 2012:

	<u>Quarter</u>	<u>Nine months</u>
Total return, before investment management fee (a)	2.26%	8.69%
Ratios to average net assets (b):		
Net investment income, before fee	0.90%	2.96%
Investment management fee	0.26%	0.79%

(a) Returns are based on a time-weighted rate of return methodology.

(b) Based on weighted average net assets.

10. Related party transactions

Investment management fee

The Advisor is entitled to receive compensation for its services under the Advisory Agreement. The Advisor charges an annual real estate management fee, payable quarterly in arrears, of 20 basis points on the average cash and cash equivalents portion of the Fund's net assets plus 100 basis points on the average Gross Asset Value, as defined in the Advisory Agreement, excluding cash and cash equivalents.

Capital

As of September 30, 2012 and December 31, 2011, the Board of Directors of the Company and current and former employees of the Advisor and its affiliates had equity in the net assets of the Company of approximately \$3.0 million and \$2.7 million, respectively.

Preferred stock

The Company has issued 159 shares of non-voting redeemable preferred stock to current or former employees of the Advisor and its affiliate to ensure compliance with the Code requirement that entities electing REIT status have at least 100 shareholders. At a price of \$500 per share, there are \$79,500 of preferred shares outstanding. This preferred stock is entitled to receive a cumulative dividend equal to an annualized 8% rate. Any activity related to the preferred stock is included in the accompanying consolidated financial statements.

UBS AgriVest Farmland Fund, Inc.
Notes to Consolidated Financial Statements
September 30, 2012 (Unaudited) and December 31, 2011

11. Supplemental cash flow information

The following is supplemental cash flow information for the quarter and nine months ended September 30, 2012:

	<u>Quarter</u>	<u>Nine months</u>
Cash paid during the period for:		
Interest	\$ -	\$ 6,500
Income taxes	\$ 800	\$ 73,265
Non-cash investing and financing activities:		
Dividends reinvested	\$ 401,868	\$ 3,134,922
Decrease in dividends payable	\$ (910,556)	\$ (4,254,586)
Decrease in capital expenditures included in accrued expenses and other liabilities	\$ (76,833)	\$ (68,941)

12. Commitments

As of September 30, 2012, AFF had outstanding commitments to purchase two new farm investment properties aggregating approximately \$108.0 million plus closing costs. This amount is expected to be funded during the fourth quarter of 2012.

13. Subsequent event

In October 2012, the Company received proceeds of \$107.0 million from the issuance of shares of common stock.



Exhibits

Exhibit A

Property-by-property returns

The following is a listing of Property-By-Property income, appreciation, and total returns for the quarter. Returns are on an accrual basis calculated using the NCREIF Farmland Index methodology described below:

The NCREIF Farmland Index

Methodology

Calculations are based on quarterly returns of individual properties before the deduction of fund or portfolio-level asset or investment management fees. Each property's return is weighted by its market value. Income and capital changes are also calculated subject to NCREIF's first and last quarter period adjustments.

Rates of return

- **Total return:** includes appreciation (or depreciation), realized capital gain (or loss) and income. It is computed by adding the Income return and capital appreciation return on a quarterly basis.
- **Income return:** measures the portion of total return attributable to each property's net operating income or NOI. It is computed by dividing NOI by the average quarterly investment for the quarter.

NOI

Beginning market value + 1/2 (capital improvements - partial sales + partial purchases - NOI)

- **Capital appreciation return:** measures the change in market value adjusted for any capital improvements or partial sales for the quarter.

$$\frac{(\text{Ending market value} - \text{beginning market value}) + \text{partial sales} - \text{capital improvements} - \text{partial purchases}}{\text{Beginning market value} + 1/2 (\text{capital improvements} - \text{partial sales} + \text{partial purchases} - \text{NOI})}$$

- **Annual and annualized returns:** are computed by chain linking quarterly rates of return to calculate time-weighted rates of return for the annual and annualized periods under study. For periods over one year, returns are expressed on a return per year basis.

Exhibit A

UBS AgriVest Farmland Fund property level return calculation

NCREIF Farmland Index formula

Period 7/01/12 through 9/30/12

#	Property name	State	Acres	Cost	Net operating income for the period	Beginning appraised value	Ending appraised value	Capital changes for the period			Quarter Return		
								Net proceeds of partial sales	Cost of partial purchases	Capital improvements	Income component	Capital component	Total
Region: Corn Belt													
32	Kewanee Farm	IL	239.40	1,706,640.00	20,665.26	2,454,000.00	2,490,000.00	0.00	0.00	0.00	0.85%	1.47%	2.32%
36	Keithsburg Farm	IL	3,785.30	14,457,625.24	188,588.64	18,998,000.00	19,183,000.00	0.00	0.00	0.00	1.00%	0.98%	1.98%
Corn Belt total			4,024.70	16,164,265.24	209,253.90	21,452,000.00	21,673,000.00	0.00	0.00	0.00	0.98%	1.04%	2.02%
Region: Lake States													
21	Barron 53	WI	1,117.29	2,946,693.29	33,086.51	3,100,000.00	3,100,000.00	0.00	0.00	0.00	1.07%	0.00%	1.07%
25	Portage Golden Sands	WI	160.00	2,187,760.12	30,966.52	2,400,000.00	2,400,000.00	0.00	0.00	59,350.69	1.28%	-2.46%	-1.18%
27	Portage BB	WI	1,195.57	3,689,213.03	52,215.25	4,000,000.00	4,000,000.00	0.00	0.00	1,859.04	1.31%	-0.05%	1.27%
Lake States total			2,472.86	8,823,666.44	116,268.28	9,500,000.00	9,500,000.00	0.00	0.00	61,209.73	1.23%	-0.65%	0.58%
Region: Southeast													
26	Mitchell 97	GA	435.38	1,557,450.56	19,767.24	1,656,000.00	1,656,000.00	0.00	0.00	0.00	1.20%	0.00%	1.20%
28	Miller Babcock	GA	622.80	2,010,690.93	25,910.01	2,429,000.00	2,429,000.00	0.00	0.00	0.00	1.07%	0.00%	1.07%
38	Camilla Farm	GA	1,719.97	7,029,633.87	77,477.75	6,873,000.00	6,873,000.00	0.00	0.00	0.00	1.13%	0.00%	1.13%
40	Seminole Farm	GA	2,322.55	9,405,955.52	105,671.80	9,245,000.00	10,057,000.00	0.00	0.00	76,852.37	1.14%	7.96%	9.11%
42	Dooly Farms	GA	2,528.63	9,014,909.00	99,273.79	8,791,196.00	9,717,500.00	0.00	0.00	25,623.57	1.13%	10.29%	11.42%
43	Washington Farm	GA	2,310.03	6,598,144.57	54,355.01	6,473,000.00	6,744,000.00	0.00	0.00	-0.01	0.84%	4.20%	5.05%
Southeast total			9,939.35	35,616,784.45	382,455.60	35,467,196.00	37,476,500.00	0.00	0.00	102,475.93	1.08%	5.40%	6.48%
Region: Delta States													
1	Bellewood Farm	MS	2,017.10	4,216,274.77	60,362.54	7,500,000.00	7,500,000.00	0.00	0.00	0.00	0.81%	0.00%	0.81%
3	Merigold Plantation	MS	1,624.20	2,906,437.75	43,462.24	6,000,000.00	6,000,000.00	0.00	0.00	0.00	0.73%	0.00%	0.73%
5	Yazoo River Farm	MS	6,700.61	11,989,212.94	160,068.02	23,000,000.00	23,000,000.00	0.00	0.00	0.00	0.70%	0.00%	0.70%
11	Steamboat Plantation	MS	734.70	2,091,183.15	17,246.35	3,000,000.00	3,000,000.00	0.00	0.00	21,469.55	0.57%	-0.72%	-0.14%
14	Union Church Farms	AR	814.92	1,781,213.22	24,616.23	3,260,000.00	3,342,000.00	0.00	0.00	0.00	0.76%	2.52%	3.28%
19	Scotland Plantation	MS	1,661.00	4,319,956.13	42,748.82	6,200,000.00	6,260,000.00	0.00	0.00	0.00	0.69%	0.97%	1.66%
20	Sunflower Plantation	MS	1,455.31	3,124,523.25	36,572.26	4,975,000.00	4,975,000.00	0.00	0.00	0.00	0.74%	0.00%	0.74%
23	Madison 65	LA	1,577.91	2,929,617.59	34,327.18	4,400,000.00	4,650,000.00	0.00	0.00	0.00	0.78%	5.70%	6.49%
24	Sunflower 3	MS	828.91	1,918,605.94	21,512.24	2,730,000.00	2,730,000.00	0.00	0.00	0.00	0.79%	0.00%	0.79%
13	Gibson Brake	MS	1,939.36	4,041,955.65	51,506.01	6,950,000.00	6,950,000.00	0.00	0.00	0.00	0.74%	0.00%	0.74%
29	Arcola Plantation	LA	1,028.00	3,027,844.07	30,787.25	3,500,000.00	3,700,000.00	0.00	0.00	0.00	0.88%	5.74%	6.62%
34	Tensas Bayou Farm	LA	1,105.00	2,860,772.69	31,404.77	3,700,000.00	3,800,000.00	0.00	0.00	0.00	0.85%	2.71%	3.57%
37	Final Money Farm	LA	480.25	1,163,053.50	2,987.80	1,500,000.00	1,600,000.00	0.00	0.00	0.00	0.20%	6.67%	6.87%
Delta States total			21,967.27	46,370,650.65	557,601.71	76,715,000.00	77,507,000.00	0.00	0.00	21,469.55	0.73%	1.01%	1.74%

Exhibit A

UBS AgriVest Farmland Fund property level return calculation

NCREIF Farmland Index formula

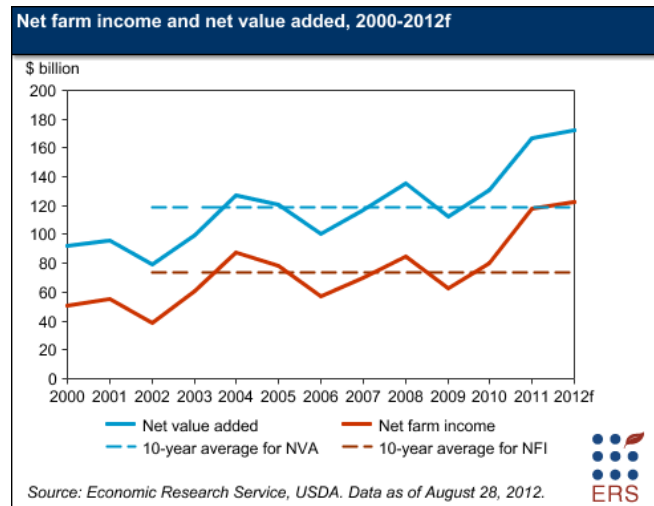
Period 7/01/12 through 9/30/12

#	Property name	State	Acres	Cost	Net operating income for the period	Beginning appraised value	Ending appraised value	Capital changes for the period			Quarter Return		
								Net proceeds of partial sales	Cost of partial purchases	Capital improvements	Income component	Capital component	Total
Region: Mountain													
6	Arrowhead Farms	CO	605.00	1,041,256.51	25,741.74	1,959,500.00	1,959,500.00	0.00	0.00	0.00	1.32%	0.00%	1.32%
7	Declo Farms	ID	878.16	1,661,245.09	-15,206.31	3,250,000.00	3,250,000.00	0.00	0.00	0.00	-0.47%	0.00%	-0.47%
12	Springfield Farm	ID	896.43	2,125,933.99	29,228.69	2,500,000.00	2,500,000.00	0.00	0.00	0.00	1.18%	0.00%	1.18%
15	Claiborn Farms	ID	1,001.85	3,144,458.74	50,255.36	5,440,000.00	5,440,000.00	0.00	0.00	0.00	0.93%	0.00%	0.93%
17	Aberdeen Farm	ID	906.58	2,893,542.75	35,970.79	4,640,000.00	4,640,000.00	0.00	0.00	0.00	0.78%	0.00%	0.78%
35	American Falls Farm	ID	299.90	1,590,179.41	21,143.52	2,070,000.00	2,070,000.00	0.00	0.00	0.00	1.03%	0.00%	1.03%
39	Slick Ranch	ID	907.50	3,785,970.40	54,618.64	4,000,000.00	4,000,000.00	0.00	0.00	0.00	1.37%	0.00%	1.37%
45	Snyder Ranch	AZ	1,480.93	14,988,707.58	144,274.66	15,600,000.00	15,600,000.00	147,412.23	0.00	37,959.17	0.93%	0.71%	1.64%
Mountain total			6,976.35	31,231,294.47	346,027.09	39,459,500.00	39,459,500.00	147,412.23	0.00	37,959.17	0.88%	0.28%	1.16%
Region: Pacific Northwest													
8	Prosser Orchard	WA	137.80	2,263,259.08	-3,781.61	2,350,000.00	2,350,000.00	0.00	0.00	0.00	-0.16%	0.00%	-0.16%
16	Mattawa Orchard	WA	81.80	1,013,294.02	-5,416.52	834,000.00	834,000.00	0.00	0.00	-2,960.00	-0.65%	0.35%	-0.29%
22	Yakima Outlook	WA	91.42	1,183,002.04	-1,934.17	1,061,000.00	1,061,000.00	0.00	0.00	13,868.00	-0.18%	-1.30%	-1.48%
30	Columbia Sun Orchards	WA	78.50	1,164,478.71	-2,128.91	1,035,000.00	1,065,000.00	0.00	0.00	0.00	-0.21%	2.90%	2.69%
41	Parkdale Ranch	OR	167.13	2,811,281.37	-2,662.77	2,505,000.00	2,505,000.00	0.00	0.00	0.00	-0.11%	0.00%	-0.11%
Pacific Northwest total			556.65	8,435,315.22	-15,923.98	7,785,000.00	7,815,000.00	0.00	0.00	10,908.00	-0.20%	0.24%	0.04%
Region: Pacific West													
2	Giffen Ranch	CA	870.57	3,949,995.40	47,462.25	6,880,000.00	6,880,000.00	0.00	0.00	0.00	0.69%	0.00%	0.69%
4	Petit Ranch	CA	460.88	12,336,458.90	131,862.26	10,500,000.00	10,500,000.00	0.00	0.00	0.00	1.26%	0.00%	1.26%
18	Firebaugh Ranch	CA	400.31	2,340,495.64	22,682.26	3,100,000.00	3,100,000.00	0.00	0.00	0.00	0.73%	0.00%	0.73%
31	Las Posas Ranch	CA	40.24	2,626,261.96	28,076.29	2,875,000.00	2,875,000.00	0.00	0.00	0.00	0.98%	0.00%	0.98%
33	Molera Ranch	CA	1,104.10	45,339,698.14	574,078.27	47,500,000.00	48,000,000.00	0.00	0.00	0.00	1.22%	1.06%	2.27%
46	La Paz Vineyard	CA	73.71	4,509,489.73	40,397.80	4,505,735.25	4,450,000.00	0.00	0.00	3,754.48	0.90%	-1.33%	-0.43%
Pacific West total			2,949.81	71,102,399.77	844,559.13	75,360,735.25	75,805,000.00	0.00	0.00	3,754.48	1.13%	0.59%	1.71%
Region: Southern Plains													
9	Four Circles Farm	TX	2,080.00	3,300,531.99	59,375.27	4,630,000.00	4,750,000.00	0.00	0.00	1,376.23	1.29%	2.58%	3.87%
10	Sebastian Farm	TX	3,411.93	4,920,998.00	138,932.45	7,530,000.00	7,643,000.00	0.00	0.00	0.00	1.86%	1.51%	3.38%
44	Three Circles Farm	TX	944.00	1,933,438.04	30,335.57	2,208,000.00	2,340,000.00	0.00	0.00	0.00	1.38%	6.02%	7.40%
Southern Plains total			6,435.93	10,154,968.03	228,643.29	14,368,000.00	14,733,000.00	0.00	0.00	1,376.23	1.60%	2.55%	4.15%
Region: All													
Property total			55,322.92	227,899,344.27	2,668,885.02	280,107,431.25	283,969,000.00	147,412.23	0.00	239,153.09	0.96%	1.35%	2.31%

2012 Farm Sector Income Forecast

Large Gains in Crop Sales and Indemnities Push Farm Income Measures to New Highs in 2012

Net farm income is forecast to be \$122.2 billion in 2012, up 3.7 percent from last year. Net cash income, at \$139.3 billion, is forecast up 3.4 percent from 2011, while net value added is expected to increase by \$5.9 billion in 2012 to \$172.6 billion. Reflecting the market impacts of widespread drought and high temperatures during the growing season, large increases in the value of this year's crop and crop insurance indemnity payments have more than offset declining milk sales and rising production expenditures. These income forecasts, if realized, represent all-time record levels in all three measures of farm income.

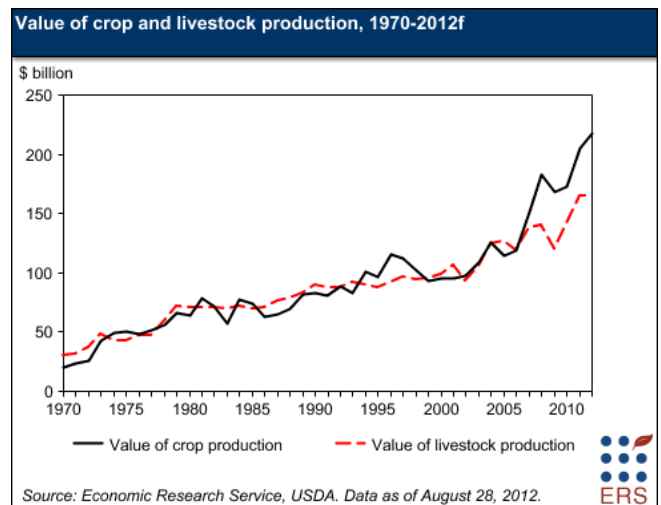
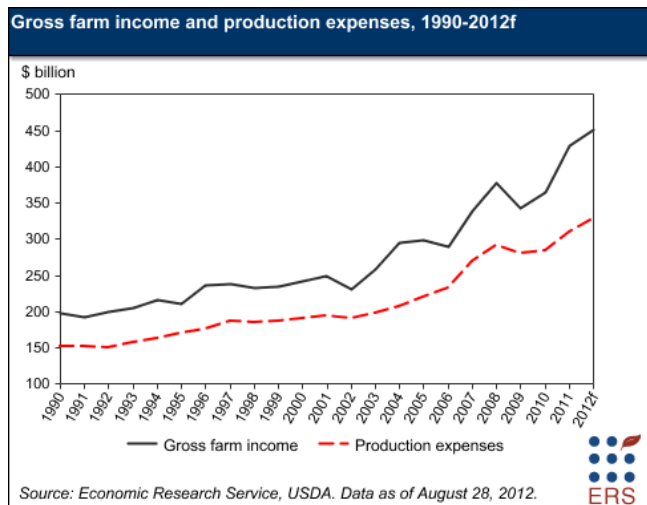


Highlights 2012

Extreme heat and dryness in the Plains and Corn Belt is drastically cutting projected U.S. corn and soybean yields for the 2012 harvest. Both U.S. corn and soybean supplies for marketing year 2012 are expected to be at 9-year lows. Fifty percent of the corn crop is graded in very poor-to-poor condition as of August 5, versus 16 percent at the same time in 2011. The share of soybeans rated in poor-to-very-poor condition (39 percent) is the highest since the USDA series began. Sorghum production is also suffering. Skyrocketing corn prices are supporting U.S. 2012 wheat prices reflecting higher feed and residual use. U.S. wheat production is expected to increase almost 13.5 percent in 2012 as wheat farmers recover from the 2011 drought.

Despite the severity of the 2012 drought, shortfalls in marketing year production do not necessarily have a detrimental impact on sector-wide farm income. Shortages raise the prices farmers receive for crops sold in calendar-year 2012, and crop insurance partially offsets the impact of lower yields. As a result, in 2012:

- All three major measures of farm income are expected to achieve all-time nominal record highs. Inflation-adjusted net farm income is the second-highest since 1970.
- Crop receipts are leading the 2012 income increase, with strong gains in corn, soybean, hay, and wheat sales reflecting higher commodity prices. A large anticipated rise in other farm income reflects large increases in crop insurance indemnity payouts.
- A decline in dairy sales is forecast, reflecting expectations of lower farm prices for milk.
- Government payments paid directly to producers are expected to total \$11.1 billion in 2012, a 6.3-percent increase from \$10.4 billion paid out in 2011.



U.S. Crop Sales Forecast To Achieve New Heights in 2012

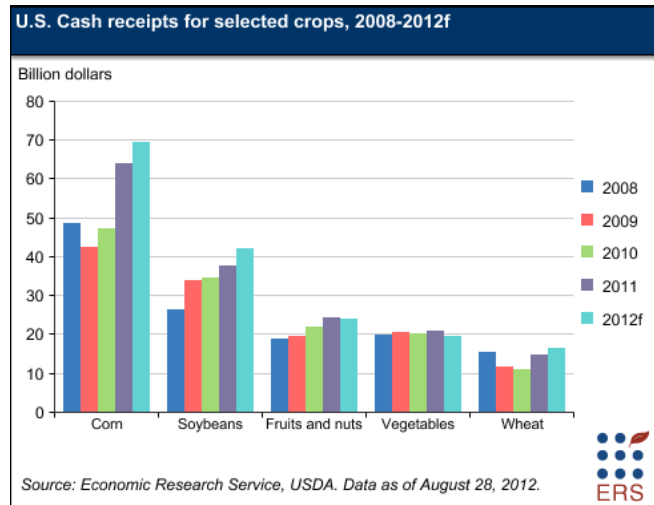
U.S. farmers are expected to sell 4 percent more wheat at a higher annual price (\$8/bushel) in 2012 as production recovers from the 2011 drought and demand increases for wheat as a feed substitute for corn. While the average 2012 U.S. rice price is expected to exceed 2011 by almost 30 cents per cwt, a decline in quantity sold of almost 18 percent will reduce rice receipts.

Hit hard by the 2012 drought, U.S. corn production is expected to decline, leading to drops in exports and alcohol for fuel use in marketing year 2012. While the quantity of corn for grain sold in 2012 is expected to decline almost 7.4 percent, a forecast rise of \$1.31 per bushel should boost annual receipts.

Scorching heat and a prolonged drought is expected to result in the lowest soybean supply in 9 years. Soybean sales are expected to experience a significant rise in 2012 as an increase of almost \$3 per bushel more than offsets an 8 percent decline in the quantity of soybeans sold.

A forecast price decline of 10 cents per pound is expected to reduce 2012 cotton lint receipts. However, predictions of increased quantities sold at a substantially higher price will push 2012 cottonseed sales up almost 40 percent.

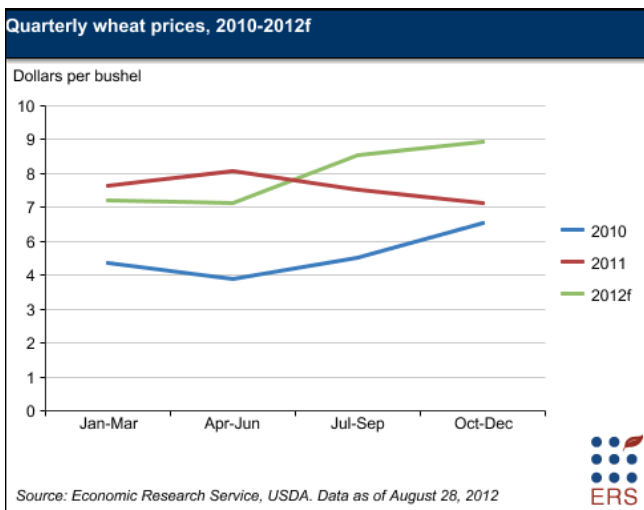
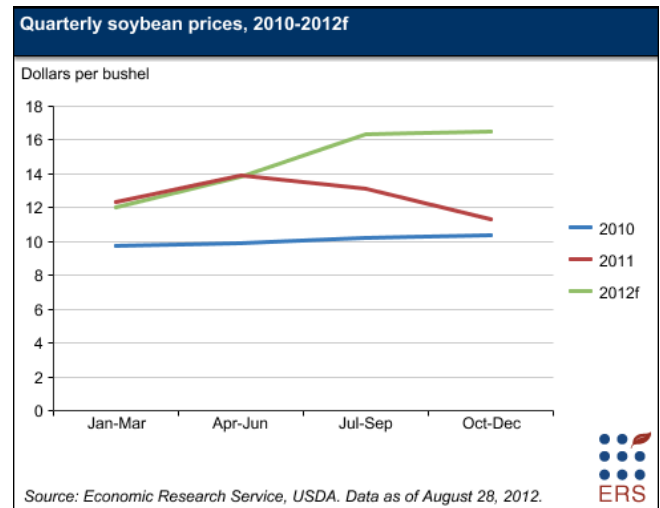
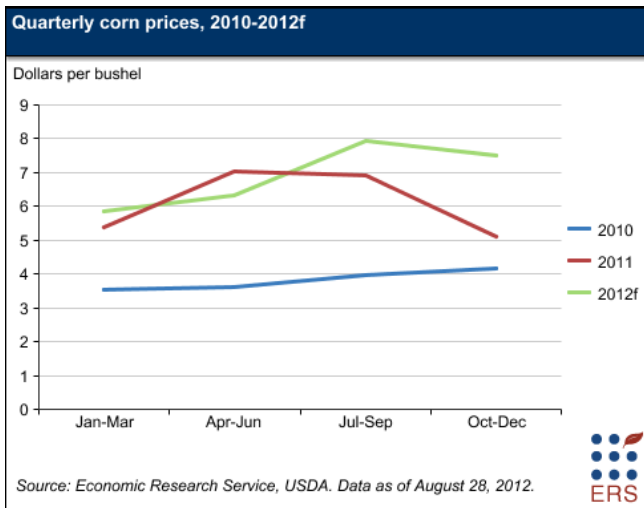
The overall price index for fruit and tree nut sales is expected to rise over 1.7 percent in 2012, but will be more than offset by a 3-percent decline in quantities sold. Declines in annual quantities sold are forecast for pecans (17.1 percent), grapefruit (10.8 percent), prunes and plums (13.1 percent), lemons (9.8 percent), and pears (7.8 percent). Dry bean receipts are forecast to benefit from a price rise of almost \$8 per cwt in 2012, whereas an increase in quantities of potatoes sold will more than offset a forecast decline in annual price.



Agricultural Prices: Estimates and Forecasts

Estimated quarterly prices for 2010 and 2011 are implicit prices based on USDA estimates of quarterly sales during the calendar (January - December) year. Estimated quarterly prices are calculated as the estimate of the value of sales over the quarter divided by the estimate of quantity sold to the private sector, adjusting for cash receipts received on CCC transactions. ERS quantities sold are based on NASS quantities produced or harvested minus quantities used on the farm for seed and feed.

Quarterly price forecasts for calendar-year 2012 are partially based on explicit prices developed by ERS analysts using USDA forecast prices. The quarterly price forecasts are multiplied by the quarterly forecasts of quantities sold in the open market to obtain quarterly and annual forecasts of sales or cash receipts for 2012. These quarterly forecasts of open-market sales are added to a forecast of quarterly CCC cash receipts for each commodity to arrive at the quarterly and annual forecast of cash receipts for 2012 for each crop, which in turn determine implicit quarterly prices.



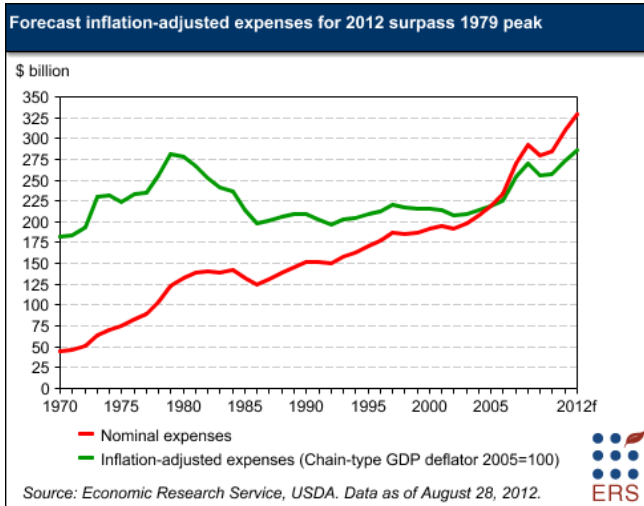
Estimating Calendar-Year Cash Receipts With Crop Marketing Year Data

Annual USDA income and value-added estimates, such as cash receipts, are measured in calendar years (January 1 through December 31). Crop marketing years are 12-month periods capturing farm operations' economic activity from the beginning of a new harvest through when the crop is typically sold. The U.S. has a marketing year for each crop, but different marketing years can exist for the same crop grown in different States. For example, the corn-for-grain crop marketing year for the U.S., Iowa, and Illinois is September 1 through August 31, whereas for Florida and Georgia it is August 1 through July 31, and for certain other States it is October 1 through September 30. Livestock and some crop marketing years coincide with calendar years.

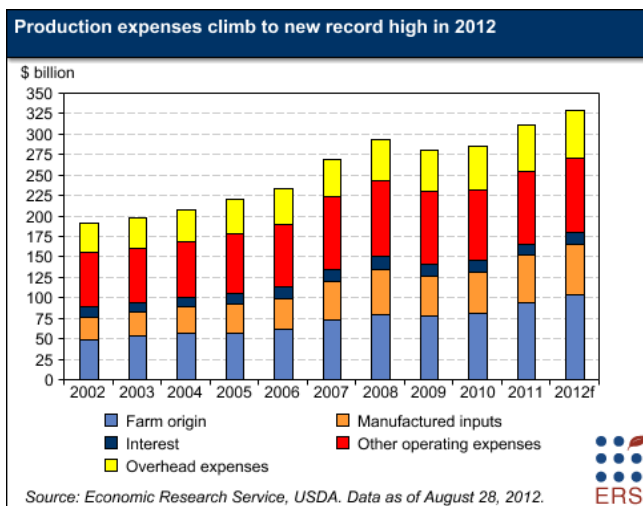
For crops that are marketed across two calendar years (say 2009 and 2010), ERS uses the share marketed in 2009 in its estimate of 2009 cash receipts, while the remainder is used in the estimate for cash receipts for 2010. For example, suppose 30 percent of Illinois corn harvested in 2009 is sold in the open market from September through December of 2009 with the remaining 70 percent sold from January through August of 2010. Cash receipts from open-market sales in 2009 would include the share of Illinois' harvest that was sold in 2009. The share of the 2009 harvest sold in 2010 would be added to the share of the 2010 harvest sold in 2010 to arrive at Illinois' 2010 cash receipts from open-market sales of corn. To the amount received from open-market sales, ERS adds cash received from "sales" to the CCC to obtain the calendar-year estimate for cash receipts.

Production Expenses in 2012 Post Another Large Increase

Total production expenses in 2012 are currently forecast to rise \$18.6 billion (6.0 percent); this follows a \$25-billion (8.9-percent) increase in 2011. Total expenses in 2012 continue a string of large year-to-year movements that have taken place since 2002, and are expected to reach another record-high level in nominal dollars. Since 2002, nominal total production expenses have risen \$137 billion (72 percent). In inflation-adjusted dollars, 2012 production expenses will eclipse the previous peak set in 1979.



Groups of expenses have grown in varying amounts and percentages since 2002. Farm-origin expenses and manufactured inputs have increased 116 percent, accounting for nearly 75 percent of the change in total production expenses during the period. Together, these 2 groups now constitute 50 percent of total production expenses, up from 40 percent in 2002.



The biggest factor in the rise in expenses since 2002 has been increases in input prices. The prices-paid index for Production Items, Interest, Taxes, and Wage rates (PITW) calculated by USDA's National Agricultural Statistics Service (NASS) has risen 82 percent since 2002. By comparison, the Producer Price Index for Finished Goods rose 40 percent during this period. In 2012, the PITW prices-paid index had risen 5.4 percent through July.

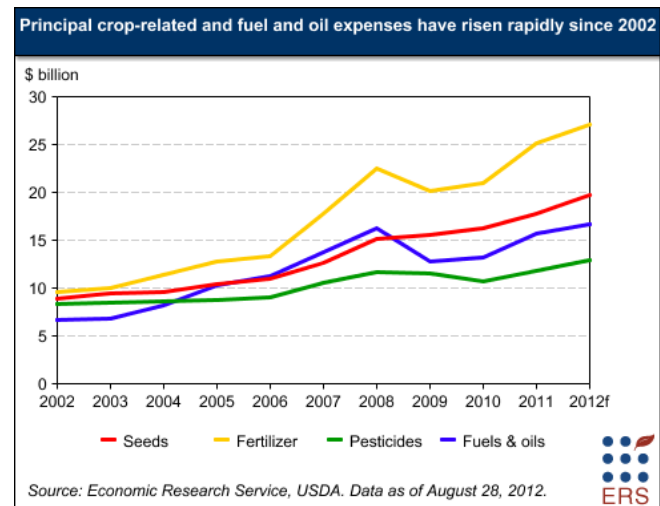
Forecasting expenses in 2012 is complicated by the widespread drought. Most crops were already planted before the severity of the drought was established. So, a normal volume of crop-related inputs had already been purchased and applied. However, purchases in the latter part of the year will likely be curtailed. The ERS short-run forecast model currently shows total agricultural output falling 2.4 percent in 2012 as the result of a 4.3-percent decrease in crop output coupled with a 0.6-percent increase in livestock output.

Among livestock-related expenses, the price of feed is increasing, affecting prices paid for animals, particularly cattle. Rising feed costs have been the primary cause of a 12 percent fall in the price of Oklahoma City feeder steers in 2012, through July. Following a \$9.2-billion (20-percent) jump in 2011, feed expenses are expected to rise another \$7.2 billion (13 percent) in 2012. The forecast is a product of a 12.4-percent rise in the feed prices-paid index and the slight rise in livestock output. The number of grain-consuming animal units is expected to increase marginally, but net placements of cattle on feed should be down 3.4 percent.

Livestock and poultry purchases in 2012 are forecast to be \$700 million (3 percent) above the 2011 estimate. However, the final effect of the drought has yet to be realized in the cattle market, which comprises 75 percent of livestock and poultry purchases.

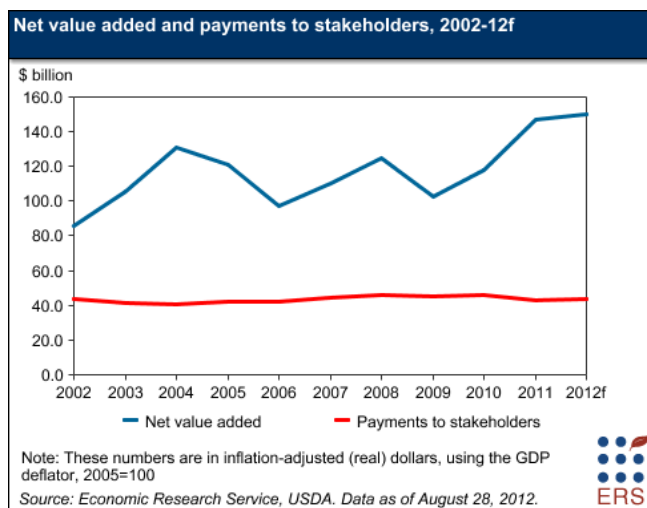
The major crop-related expenses are predicted to rise \$5 billion (9 percent), much less than in 2011. The principal reason for the slowdown is a smaller increase in fertilizer expenses, as its prices-paid index is expected to rise only 3.5 percent this year, compared to a 30.2 percent jump in 2011. Even so, expenses for fertilizer and seeds are each slated to rise nearly \$2 billion and pesticides another \$1 billion. Total U.S. planted acreage is up 3.3 percent and the acreage of corn and soybeans, both heavy users of these inputs, are up slightly more than that.

The slowdown in the rise of fuel and oil prices is as striking as fertilizer price trends. Between 2003 and 2011, the annual average prices-paid index for fuels and oils registered 8 double-digit percentage increases, rising 223 percent. In 2012, that index is projected to rise 2.5 percent, mainly as a result of a 2-percent hike in Refiner Acquisition Cost (RAC). This market is volatile, however, so it is difficult to pinpoint where prices will go during the year.



Payments to Stakeholders Rise

Payments to stakeholders--landlords, hired labor, and lenders--do not generally track movements in net farm income. The year-to-year consistency in payments to stakeholders follows from the fact that they do not share the risk of equity holders. In 2012, payments to stakeholders are forecast to rise \$1.5 billion (3.2 percent) in nominal dollars, a smaller increase than for net farm income. Payments to stakeholders are expected to constitute around 29 percent of net value added, the same as in 2011.



Total labor expenses are forecast to fall \$500 million (1.8 percent) as a result of a small increase in wage rates and an expected 2.4-percent decrease in total output. Employee compensation for hired labor accounts for nearly all the projected decrease. Output of the commodities that employ the most labor is mixed. Vegetable and fruit/nut output is slated to fall less than 1 percent, while greenhouse and nursery output is expected to rise less than 1 percent. Milk production is forecast up nearly 2 percent.

Net rent to nonoperators in 2012 is forecast to be 15.3 percent higher than it was in 2011. Cash rent is forecast up. Real estate values are predicted up 7.8 percent in 2012 and the amount of planted acreage increased. Share rent is forecast up in line with the expected increase in crop values. Government payments to landlords are also forecast to rise a small amount. These factors alone would yield a 2012 net rent forecast 2.2 percent higher than in 2011. The final expense is up so much because Federal Crop Insurance Corporation (FCIC) indemnities to landlords nearly double.

Total interest expenses in 2012 are forecast to rise 1.0 percent as the result of a 1.1-percent decrease in real estate interest expenses and an increase of 4.8 percent in nonreal estate interest expenses. Debt and interest rates are discussed in the Assets, Debt, and Wealth section.

Government Payments Forecast at \$11.1 Billion

Government payments paid directly to producers are expected to total \$11.1 billion in 2012, a 6.3-percent increase over the 2011 program payments. Direct payments under the Direct and Countercyclical Program (DCP) and the Average Crop Revenue Election Program (ACRE) are forecast at \$4.96 billion for 2012. This 5.4-percent increase in direct payments in 2012 over 2011 is largely due to the fact that the percentage of base acres on which direct payments are made increased from 83.3 percent for the 2011 crop year to 85.0 percent for the 2012 crop year.

Strong crop prices are expected to continue through the rest of 2012, reducing all expected commodity program payments based on price to \$10 million.

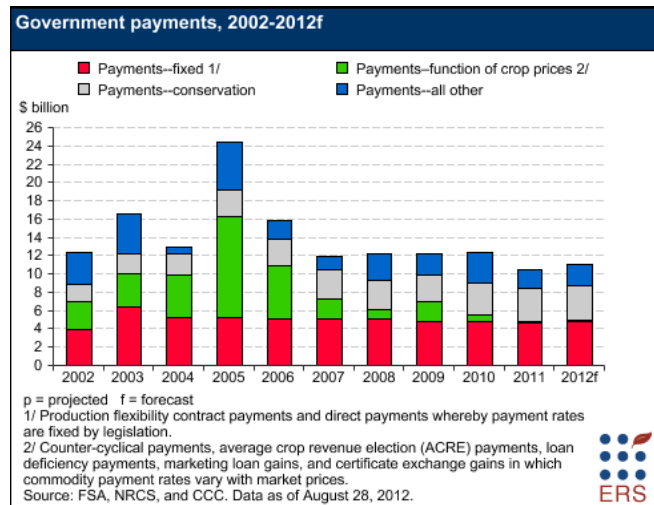
The Milk Income Loss Contract Program (MILC) compensates dairy producers when domestic milk prices fall below a specified benchmark price. For 2012, dairy producers are expected to receive \$650 million in MILC payments. Primarily based on the high prices of the feed components in the dairy feed ration, the National Average Dairy Feed Ration Adjustment (NADFR) in 2012 has raised the benchmark MILC program price and triggered payments to dairy producers.

Tobacco farmers and quota holders are expected to receive \$651 million in Tobacco Transition Payment Program (TTP) in 2012. Payments reported here include both CCC payments and lump-sum payments. Begun in 2005, this program provides annual payments over a 10-year period to eligible quota holders and producers of tobacco.

Conservation programs include all conservation programs operated by the Farm Service Agency and the Natural Resources Conservation Service that provide direct payments to producers. Estimated conservation payments of \$3.7 billion in 2012 are largely unchanged from 2011.

Supplemental and Ad Hoc Disaster Assistance payments are forecast to be \$1.1 billion in 2012, a 17-percent decrease from 2011 levels. Most of the Supplemental Revenue Assistance Payments (SURE) of \$556 million expected to be paid out in 2012 cover crop-year 2010 losses. Noninsured Assistance Program payments of \$250 million are expected to be made to livestock and specialty crop producers for which no commodity insurance program is available. Under the 2008 Farm Act, the Livestock Forage Program (LFP), Livestock Indemnity Program (LIP), Emergency Loss Assistance Program (ELAP), and the Tree Assistance Program (TAP) are expected to pay out \$77 million in 2012.

Under the SURE program, the bulk of commodity payments for the 2011 crop year will be made in calendar-year 2013. This is primarily due to the fact that the crop year is defined by a commodity's harvest cycle, such that a crop year often overlaps two calendar years. SURE payments are based on the average market-year price calculated after a crop year ends. Disaster relief programs (SURE, LIP, LFP, ELAP, and TAP) under the soon to expire 2008 Farm Act only covered losses incurred prior to October 1, 2011. Thus, drought-related commodity and livestock losses for the 2012 crop year are not covered.



Farm Income Forecasts Grow More Refined Over 19 Months

The periodic farm income forecasts and estimates published by ERS for a particular year (5 over a span of 19 months) can vary markedly from one release to the next. For example, the first forecast of 2012 income (in February 2012) has undergone painstaking refinement as new information has become available. Release dates for updated forecasts correspond with the availability of seasonal data and annual survey results. For example, the August update of annual crop values benefits from preliminary output and yield numbers as reported by producers in the field. Likewise, because the prior-year's (2011's) forecast is converted to an estimate in August, production expenses are extrapolated from these new estimates and several months of current-year input prices in future updates. Additional refinements in the August 2012 and the November 2012 releases incorporate harvest, sales, and inventory data. The final forecast of 2012 farm income is released in February 2013. Ultimately, an estimate of 2012 farm income will be published in August 2013.

Individual components of the farm income accounts adhere to different timetables and are subject to varying degrees of uncertainty. For instance, crop inventory adjustment is a residual component of total supply (production and beginning-of-year stocks) and use (domestic and exports). Farm household income is contingent on many factors (amount of off-farm work hours and wage rates) that transcend crop and livestock numbers. Government payments--which are a function of prices, production, eligibility rules, and ad hoc disaster legislation--are also hard to forecast with any certainty, and that uncertainty compounds the margin of error that measures like net cash income are subject to from first forecast to final estimate.

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