



The 5% That Matters: Portfolio Allocation and Optimization

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For family offices, investing in farmland is rarely a question of simply identifying an attractive piece of land. The more important question is how farmland fits within the broader objectives of the portfolio. Its value as an investment extends beyond the economics of an individual property, particularly when viewed alongside traditional equities, fixed income, private markets, and other real assets.

As discussed in the previous piece, farmland combines several characteristics that are difficult to replicate in a single investment: productive income, long-term appreciation potential, inflation hedging capabilities, finite supply, and relatively low correlation with traditional financial markets. These characteristics help explain why farmland has attracted increasing interest from institutional investors and family offices, but they also raise a more practical question: how much farmland should a portfolio own?

The answer is not necessarily the same for every family office, and current holdings and strategy will largely affect that response. Allocation decisions depend on the family's investment horizon, liquidity needs, risk tolerance, existing exposure to real assets, and broader wealth objectives. Just as importantly, the characteristics of the farmland itself matter. Geographic diversification, crop type, lease structure, water availability, and operating strategy can all influence the risk and return profile of the overall allocation.

For long-duration investors, the opportunity is therefore not simply to own farmland, but to construct a farmland portfolio that complements the family's broader investment strategy. The goal is to understand where farmland adds the most value and how that value changes as the allocation grows.

This piece examines that question, moving from the characteristics of farmland as an asset class to the principles of portfolio allocation, diversification, and optimization. We will examine various allocation scenarios and discuss the impact of adding farmland into that portfolio.



Examining Farmland Returns Against Other Asset Classes

Comparing farmland with other traditional investment assets provides an important starting point for understanding its role within a diversified portfolio. Table 1 presents farmland through two measures. The NCREIF Total Farmland Index represents the investment performance of a broad pool of institutionally managed U.S. farmland properties. Because the index was established in 1991, the analysis uses 1991–2025 as the common period of comparison. The index includes both annual and permanent cropland, providing a broad representation of institutional farmland investment performance. The U.S. Ag 32 States measure captures farmland returns across the 32 states with the largest agricultural production, excluding states where agricultural activity is comparatively limited. Together, these measures provide both an institutional investment perspective and a broader view of U.S. farmland performance.

For context, Table 1 also compares farmland with traditional asset classes commonly found in institutional and family office portfolios. Several observations stand out.

TABLE 1

Asset Return Characteristics

Source: TIAA Center for Farmland Research

Asset/Index	Annual Avg. Return	Standard Deviation	Coefficient of Variation	NCREIF Total Farmland Correlation	Minimum Return	Maximum Return
			1991-2025			
NCREIF Total Farmland	10.0%	6.8%	0.68	1.00	-1.0%	33.9%
US Ag 32 States	8.8%	4.0%	0.45	0.73	-1.0%	20.7%
NYSE	7.0%	15.9%	2.29	-0.01	-56.3%	29.7%
S&P500	8.7%	16.9%	1.95	0.00	-48.6%	29.3%
NASDAQ	11.8%	26.0%	2.21	-0.04	-52.0%	61.8%
EAFE	3.7%	18.4%	4.95	0.14	-59.9%	30.2%
MSCIUSA	8.9%	17.1%	1.92	0.01	-48.4%	29.8%
All REITS	9.3%	18.1%	1.93	-0.05	-46.7%	33.6%
Composite REITS	9.3%	18.1%	1.94	-0.05	-47.5%	33.7%
TCM10Y	4.1%	1.8%	0.43	-0.23	0.9%	7.9%
AAA	5.5%	1.6%	0.30	-0.32	2.5%	8.8%
BAA	6.4%	1.6%	0.25	-0.33	3.4%	9.8%
Gold	6.9%	15.5%	2.23	0.07	-32.2%	48.2%
PPI	2.3%	4.7%	2.09	0.29	-7.1%	18.5%
CPI	2.5%	1.3%	0.52	0.12	0.0%	6.9%

- **Farmland has delivered strong risk-adjusted performance.** The NCREIF Total Farmland Index produced the second-highest average return among the asset classes shown, trailing only the NASDAQ. However, the NASDAQ assumed nearly four times as much risk to achieve a return that was only marginally higher. This highlights the importance of evaluating farmland not solely on its absolute return, but also on the level of volatility required to generate that return.
- **Farmland provides meaningful diversification benefits.** The traditional assets shown, including the S&P 500, NASDAQ, REITs, and both AAA and BAA rated bonds, exhibited low or negative correlations with the NCREIF Farmland Index. These relationships suggest that farmland's return profile has historically differed from that of traditional financial assets, making it a potentially valuable source of diversification within an institutional portfolio.
- **Farmland compares favorably with other real assets.** Gold is often viewed as a traditional inflation hedge and is frequently considered alongside farmland when evaluating real-asset allocations. From 1991 through 2025, however, the NCREIF Total Farmland Index generated a return more than 3 percentage points higher than gold while exhibiting roughly half the level of risk. This historical performance suggests that farmland may offer an attractive combination of return, risk, and real-asset exposure.

Taken together, these results reinforce the case for considering farmland not simply as an alternative investment, but as a distinct portfolio component. Its combination of competitive returns, relatively low volatility, and limited correlation with traditional assets provides the foundation for the portfolio allocation analysis that follows.

The Portfolio Impact of Adding Farmland

The benefits of farmland become more apparent when its performance is evaluated within a broader investment portfolio. While the previous section examined farmland as an individual asset class, investors ultimately care about how an allocation to farmland changes the characteristics of the portfolio as a whole. To illustrate this effect, Table 2 compares a traditional portfolio with portfolios that progressively introduce 5%, 10%, and 15% allocations to farmland.

TABLE 2		Various Portfolio Allocation Metrics 1992–2025					
	NCREIF Total Farmland	Equities	Bonds	Gold	Portfolio Average	Standard Deviation (Risk)	Sharpe
Portfolio	0%	60%	35%	5%	8.19%	10.21%	0.39831268
+ 5% Farmland	5%	60%	35%	0%	8.35%	10.14%	0.415970259
+ 10% Farmland	10%	60%	35%	0%	8.55%	10.12%	0.436589111
+ 15% Farmland	15%	60%	35%	0%	8.75%	10.12%	0.456726387

Note: Equities Allocation - Equal Weight between S&P500 and Wilshire 5000,
Bonds - Equal Weight between BAA and AAA Bonds

Source: TIAA Center for Farmland Research

The base portfolio consists of 60% equities, 35% bonds, and 5% gold. As farmland is introduced, the allocation to gold is eliminated and the allocation to bonds is gradually reduced, while the 60% equity allocation remains constant. This provides a straightforward way to examine the contribution of farmland while maintaining a substantial allocation to traditional financial assets.

The results show a consistent improvement in the portfolio’s risk-return profile as the allocation to farmland increases. Even a 5% allocation to farmland increases portfolio return while slightly reducing overall risk. As the farmland allocation increases to 10% and 15%, portfolio returns continue to improve while portfolio risk remains essentially unchanged. Rather than requiring investors to accept additional volatility in exchange for higher returns, farmland historically improved portfolio returns without increasing overall portfolio risk.

The improvement is also reflected in the portfolio’s Sharpe ratio. The ratio increases consistently as farmland is added, indicating that investors historically received greater return relative to the amount of risk assumed. Across the allocations examined, the 15% farmland portfolio produces a Sharpe ratio approximately 15% higher than the traditional portfolio, providing a meaningful improvement in risk-adjusted performance.

The magnitude of these changes is notable precisely because the allocations to farmland are relatively modest. The analysis suggests that farmland does not need to represent a dominant portion of a portfolio to influence its overall risk-return characteristics. Instead, its low correlation with traditional asset classes allows it to contribute diversification benefits while maintaining competitive portfolio returns. It truly becomes the 5% that matters.

Why Diversification Matters More in Today's Market

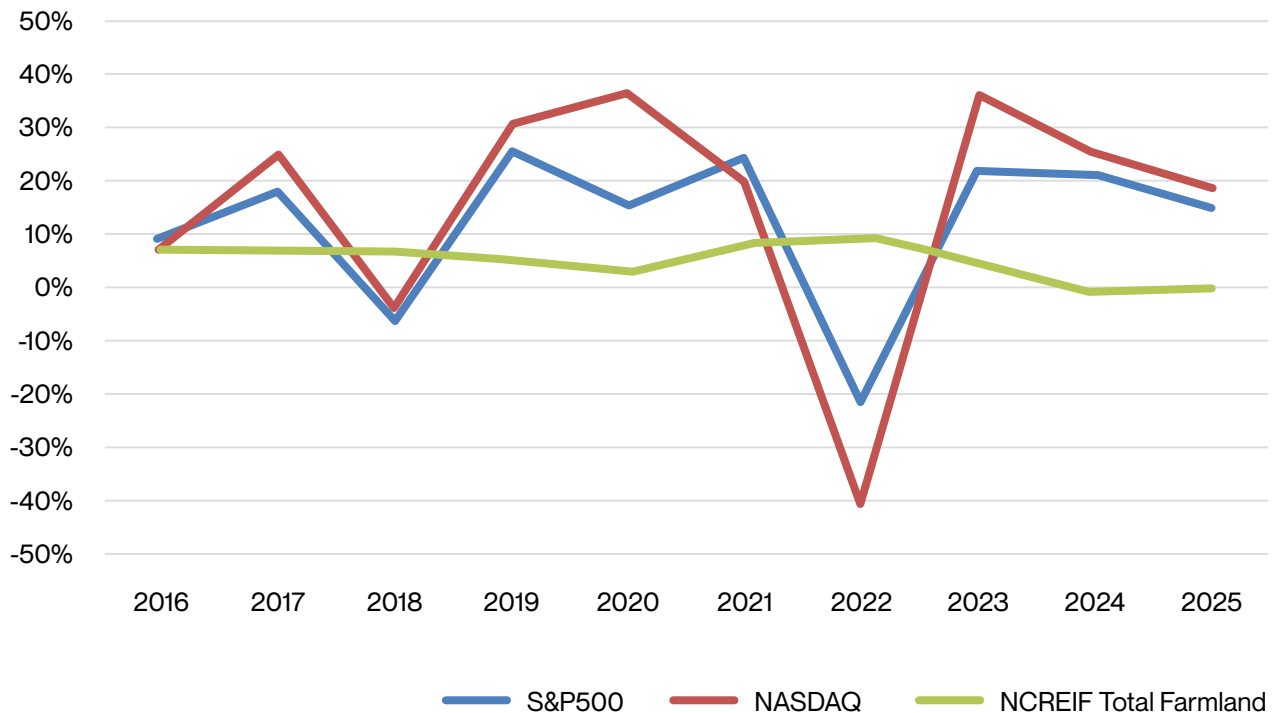
The results above highlight why diversification is about more than simply owning different investments. What matters is whether those investments are actually being driven by different factors.

That question feels particularly relevant in today's market. A significant amount of market attention and performance has become tied to the outlook for artificial intelligence. The success of AI-related companies, the pace of investment in AI infrastructure, and expectations around future growth have all become important drivers of equity markets. When sentiment around AI changes, the effects can quickly move well beyond a handful of technology companies.

For a family office with a meaningful allocation to public equities, this raises an important question: how diversified is the portfolio really if many of its investments are being influenced by the same underlying market theme?

FIGURE 1

10-Year History of Major Equity Indices and Farmland



Source: TIAA Center for Farmland Research

The difference becomes particularly important during periods of market stress. As the chart illustrates, public equities can experience significant drawdowns over relatively short periods, while farmland has historically exhibited a much more gradual adjustment in values. Of course, farmland is not immune to the broader economy. Interest rates, commodity prices, inflation, and other economic conditions can all affect farmland values and returns.

But its underlying economics are fundamentally different from those driving much of today's public equity market. Its performance is driven by factors such as land values, rents, commodity markets, food demand, productivity, water availability, and the long-term supply of productive land. Revisiting the discussion around artificial intelligence and its influence on equity markets, farmland's ability to produce crops and generate rental income is largely independent of changes in AI-related market sentiment. Farmland can help provide stability within a broader portfolio when public markets experience volatility and come under pressure.

The concept of HALO, Heavy Assets, Low Obsolescence, provides another useful way to think about this distinction. Farmland is a physical, finite asset tied to an essential economic function: food production. While technology can change how farmland is managed, it does not eliminate the underlying need for productive land. In that sense, farmland offers exposure to an asset with relatively low technological obsolescence at a time when technology is increasingly influencing public market valuations.



The prior analysis shows that even a relatively small allocation can improve a portfolio's overall risk-return profile. A 5% allocation increased historical portfolio returns while slightly reducing risk, with the benefits continuing as the allocation increased.

In our work with family offices, we are increasingly seeing investors target allocations of approximately 5% to 10% to farmland, with diversification and inflation protection among the key considerations. The results will look different for every family office, depending on its goals, risk tolerance, existing portfolio, and investment strategy. But the analysis suggests that farmland is worth a closer look, not necessarily as a replacement for traditional investments, but as a potential complement to them.

At the very least, it may be worth asking whether farmland could be the 5% that matters.





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