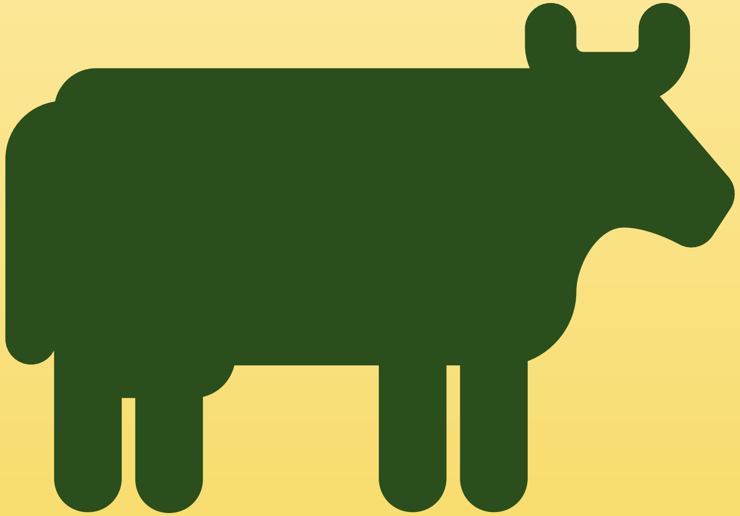


Livestock Risk Protection

Producers Trading Company

Producers Trading Company

- Established in 1996 in Fort Worth
- Full-service commodity brokerage firm clearing through the CME Group Member Firm R.J. O'Brien and a licensed crop insurance agency
- Agricultural commodities with a specialty in meeting the needs of livestock producers
- Products offered:
  - Futures & Options
  - Livestock Risk Protection (LRP)
  - Pasture, Range, and Forage (PRF)

Livestock Risk Protection

Livestock Risk Protection (LRP) insurance is a federal crop insurance program administered by the USDA through a group of private companies

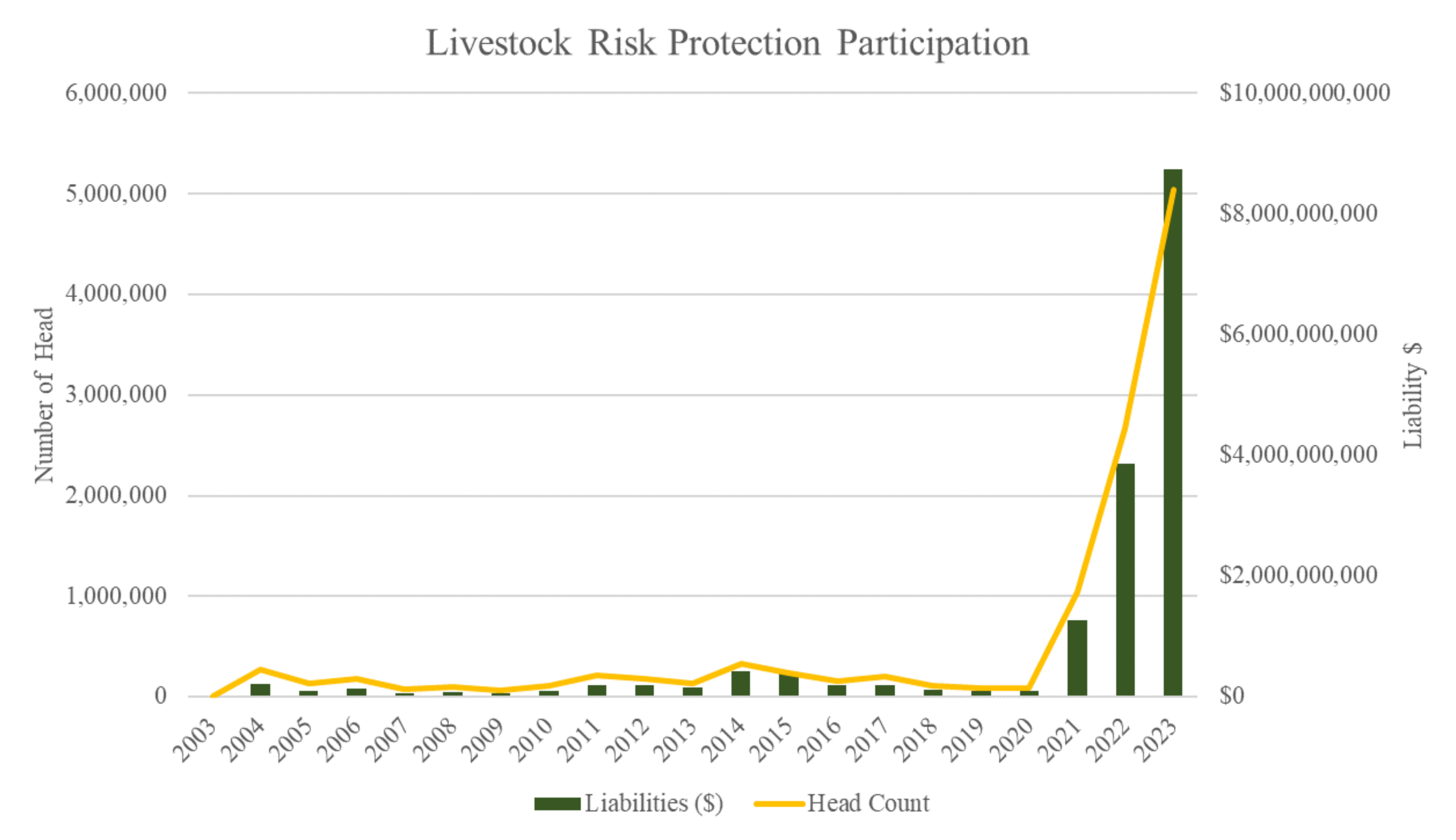
Designed to protect livestock producers against a decline in cattle prices

Provides financial stability and support to livestock producers, enabling them to manage risks and ensure the continuity of their operations

Gives the flexibility to sell livestock when market conditions are favorable while still having the security of insurance if prices decrease

Livestock Risk Protection - History

- Established by USDA Risk Management Agency (RMA) in 2003
- Initially premium was due at the beginning of the policy
  - Currently due after policy expiration
- Initial maximum total annual head was 1,000
  - Now the maximum insurable head per year is 25,000
- Initially the sale of physical livestock was limited to 30 days prior and 30 days after expiration
  - Now the sale window starts 60 days prior to expiration and has no ending date
- Original RMA subsidy amounts were 13%
  - Subsidy rates are now at 35%-55%
  - New producers and veterans qualify for another 10% discount



Livestock Risk Protection – How it Works

- Coverage levels and pricing are based off the CME traded contracts for feeder and fed (live) cattle
- Feeder Cattle LRP settles to the CME Feeder Index
  - Target weights of 100 – 599 lbs.
  - Target weights of 600 – 1,000 lbs.
- Fed LRP settles to the USDA's "Five Area Weekly Weighted Average Direct Slaughter Cattle" Report
  - Target weights of 1,000 – 1,600 lbs.

Livestock Risk Protection – How it Works

- Coverage endorsements are available from roughly 3:30 pm to a hard close of 8:25 am the following morning. Coverage is also available on Saturday morning till 8:25 am.
- Daily limits per customer are 12,000 head
- Yearly limits per customer are 25,000 head
- Coverage ranges from 13 to 52 weeks (13, 17, 21, 26, 30, 34, 39, 43, 47, 52)
  - Feeder cattle producers may want the end date of coverage to match the expected date the cattle will be sold or moved to a feedlot.
  - Fed cattle producers will want to match the ending date of coverage with the anticipated date the cattle will be ready for slaughter.
  - If there is not enough trade for the USDA to deem the market capable of determining a fair price, then the policy will not be offered that far out.
- Cattle are considered sold when they leave your responsibility of care, not when a price is determined
  - Example: Selling cattle on Superior for a shipping date over a month out. By USDA standards for LRP you own the livestock until they are shipped

Livestock Risk Protection – Example

LRP COVERAGE PRICES, RATES, AND ACTUAL ENDING VALUES - 800 lbs. Steer – 9/25/2023										
	ENDORSEMENT LENGTH	EXPECTED END VALUE	COVERAGE PRICE	COVERAGE LEVEL	RATE	TOTAL PREMIUM CWT	PRODUCER PREMIUM PER CWT	END DATE	ACTUAL END VALUE	INDEMNITY PER CWT
A	13	265.032	$263.43	0.9940	0.028	$7.35	$4.78	12/25/2023	250.00	$13.43
B	13	265.032	$261.43	0.9864	0.024	$6.28	$4.08	12/25/2023	250.00	$11.43
C	13	265.032	$259.43	0.9789	0.021	$5.35	$3.48	12/25/2023	250.00	$9.43
D	21	267.174	$267.10	0.9997	0.041	$10.87	$7.07	2/19/2024	255.00	$12.10
E	21	267.174	$265.10	0.9922	0.037	$9.74	$6.33	2/19/2024	255.00	$10.10
F	21	267.174	$263.10	0.9848	0.033	$8.68	$5.64	2/19/2024	255.00	$8.10

Source: USDA RMA Livestock Reports (LRP), https://www.rma.usda.gov/en/Information-Tools/Livestock-Reports

$$Indemnity = Coverage\ Price\ - Actual\ Ending\ Value$$

$$Indemnity = \$263.43 - \$250.00 = \$13.43\ per\ cwt$$

$$Net\ Indemnity = \$13.43 - \$4.78 = \mathbf{\$8.65\ per\ cwt\ or\ \$69\ per\ head}$$

Livestock Risk Protection – Advantages

- The subsidy and its cheaper pricing compared to traditional options
- No minimum headcount or weight
  - Futures/Options are 50,000 lbs. on feeders and 40,000 lbs. on fats
- Coverage is available in months where futures are not available
  - Live Cattle futures only settle during six months throughout the year
  - Feeder Cattle futures only settle during eight months throughout the year
- No requirement to sell the livestock after the policy has expired
- LRP may be used in conjunction with other risk management tools such as futures and options
- No slippage from illiquidity in further out months
  - No bids and offers like in futures and options or risk not getting order filled at desired price
- Minimal paperwork
  - Application is three pages
- Premium is not due till the end of the insurance period
  - Put option premium is due at the time of entering into the option and futures contracts have margin requirements

Livestock Risk Protection – Disadvantages

- Less flexibility compared to futures and options contracts
  - Cannot enter and exit at will
- You must own livestock at the time of purchasing LRP and are in your care
  - Can’t hedge in anticipation of coming cattle or for procurement reasons
- Paperwork is required to be kept for three years
  - Proof of ownership, purchase and sales receipts, etc.
- 60-day sell window
  - No coverage if cattle are sold 60 days before expiration date

Pasture, Rangeland, Forage

- Designed to protect against losses of forage produced for grazing or harvested for hay, which result in increased costs for feed or destocking
- A loss payment is triggered when the precipitation falls below average for the time period and chosen grid. Producers do not need to submit a loss claim or notify their agents
- Rainfall Index uses NOAA Climate Prediction Center (NOAA CPC) data, which utilizes a grid system to determine precipitation amounts within an area. Each grid is about 17 by 17 miles
- Must choose at least two, 2-month periods (intervals) when precipitation is important for forage growth
- Sales Closing Date – December 1st

Weaned Calf Risk Protection - Upcoming

- New program designed to provide beef cow-calf producers with risk protection for their calves up to weaning age
  - Covers decline in price and lost yield in the form of decreased overall weaning weight based upon producer records.
- Available for spring (born between February 1 and July 31) calves
- Producer will choose coverage level options ranging from 50 to 85 percent and provide necessary production records
- Coverage begins once calves are reported. A notice of loss must be filed for losses occurring after coverage has attached.
- Weaning weights will be required to determine the total weight of production to count.

Farm Service Agency (FSA) Programs

- Livestock Forage Program (LFP)
  - Counties become eligible for LFP when they experience, during the normal grazing period for that type of pasture or grass, 8 consecutive weeks of D2 drought or 1 or more weeks of D3 or D4 drought.
- Livestock Indemnity Program (LIP)
  - Payments are triggered by livestock deaths that exceed normal mortality rates due to an eligible loss condition associated with adverse weather, disease resulting from adverse weather, and predation by federally protected species.
- Emergency Assistance for Livestock, Honeybees, and Farm-Raised Fish (ELAP)
  - Covers losses from production hardships that are not covered by the Livestock Forage Program (LFP) or the Livestock Indemnity Program (LIP).
    - Increased cost of water transportation due to wildfires and drought, feed losses, and livestock losses due to a decrease in access to water
    - Costs in the prevention of fatal infectious diseases that occur independently of weather conditions—for example, cattle tick fever

PRODUCERS TRADING COMPANY

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THANK YOU