WHY INVEST IN AUSTRALIA'S AGRICULTURAL DEBT MARKET AND WHY NOW

A market synopsis (Oct 2015)

ABSTRACT

Australia's agricultural mortgage market is constrained by an oligopolistic consensus of policy driven underwriting standards. The market is open and ready to receive debt products that meet the demand of the $60.0 billion dollar debt industry.

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In today's modern global world there are a myriad of investment choices, opportunities and vehicles open to savvy investors. In parallel to this notion not the least of which is the constant challenge of the world's developed and developing economies to provide enough, good quality food to feed their ever growing domestic populations. This has exacerbated the need by governments and investors alike, to find more targeted investment vehicles that deliver a satisfactory risk adjusted return directly relating to agriculture and the business of agriculture.

The challenge therefore is to look at fundamental and technical data information and compare risk in relation to different investment vehicles (cash, fixed interest, property, equity and alternatives like an agricultural debt). In context to an agricultural investment mandate, understanding the investment yield curves (which are at historical lows) in contrast to risk adjusted returns is the critical process. Those investors who understand that the sheer size, scale, culture and diverse nature of Australian agricultural markets, requires specific "on the ground" local knowledge and understanding. Without this, opportunities may be unknown or if known may not be able to be commercialised in a timely manner.

Australia has an AAA sovereign risk rating. It also has, through the Australian Prudential Regulatory Authority (APRA) and the Australian Securities and Investment Authority (ASIC), a very clearly defined and transparent legislative framework around ownership of land assets, mortgages on these assets and strict and thorough rules and regulations relating to governance and compliance. This supports informed and transparent disclosure for potential investors.

Investment in Agriculture as a separate asset class is gaining momentum throughout the world as more is understood about the potential financial and non-financial returns agriculture can bring to the investor. A recent research study in agricultural and applied economics by AgEcon, North Dakota State University, Department of Agribusiness and Applied Economics, titled the Agribusiness & Applied Economics Report bears out this premise. [1]

This study also found that farmland is attractive as an investment. However, as risk tolerance is increased, a shift to other agricultural assets would potentially bring higher returns. Hence the

[1] See http://purl.umn.edu/147053

need to invest in alternative agricultural assets (debt) to diversify the fund's assets and thus reduce risk on the risk reward spectrum.

Financial liquidity within the agricultural industry, has for many years been stifled by the inability of the major banks (CBA, NAB, ANZ, Rabo and Westpac) and the minors (Bankwest, Suncorp, BOQ, Bendigo and Adelaide Bank (Rural Bank) to effectively provide enough liquidity to those requiring it. This is because of the restrictive parameters imbedded within their banking licences and their partial inability to effectively quantify the commercial factors when applying their own risk analysis to farmers and the industry.

Their analysis in terms of how much is lent, to whom it is lent and at what interest and terms and conditions it is lent, takes very little account of the (non-financial) factors as well as applying a risk weighted bias on short term financial indicators (profit record, equity position, future capacity to repay) and medium to long term feasibility analysis is ignored within their decision making matrix, which contravenes the economic philosophy of agriculture being a medium to long term financial play.

These short-term policy views create a reactionary intervention within the capital markets allocation equation which becomes disruptive and unpredictable for the borrowers.

Why is Agricultural Debt investment superior to Direct Investment?

a. Direct exposure to a portfolio of (loan) assets from a large diversified geographic post code footprint reduces seasonal exposure and concentration of risk. Farm gate enterprise diversification reduces commodity price risk; cereals, oilseeds, dairy, sugar, beef, lamb, wool, cotton, horticulture etc.

b. Removes managerial risk of direct ownership. Exposure to Australian agriculture via debt products removes operational and managerial risk of the underlying asset and production system.

c. Removes regulatory risk: The new rules of the Foreign Investment Review Board (FIRB) being a non statutory body provides advice to government on foreign investment policy and its administration). The new foreign investment rules, which came into effect on 1st March 2015, require that agricultural land purchases of $15 million or more be subject to Foreign Investment Review Board (FIRB) scrutiny and approval, down from the previous threshold of $252 million. Anything over $15.0m needs to be approved by FIRB.

d. Reduces transactional costs: Direct investment in agriculture requires stamp duty, taxes, acquisition of P&E, working capital, management and labour, agents, consultants.

e. Reduces political risks: Selling the family farm to foreign entities is a sensitive political issue.

f. Social improvements: Providing additional liquidity increases local employment and community financial health.

g. Scalability: 99% of farms are family farms. Debt products can infiltrate this domain with scalability as family farms have historically and traditionally engaged debt as a means of accessing capital.

To begin to understand and determine where to invest and what risks to mitigate one must first understand the political, social, environmental, legislative risk environment when conducting their due diligence. What makes Australia such a valuable investment opportunity? We need to look at the three key dimensions of sustainability. [2] (Please see Ian Joseph's presentation on Sustainability in Agriculture at the 2014 International Launch of the International Year of Family Farming in Budapest Hungary).

The Social Dimension

1. As Australia begins to rewrite the agricultural narrative, the awareness of the benefits of farming and agriculture within the social fabrication of regional and rural communities will be known intergenerationally. The consequence will be greater returns for investors given continuity in the industry and stronger social engagement / support towards the investor(s).

2. In parallel to the consolidation in farmer numbers (10 per day over the past 30 years for a number of reasons) [3] there is now a heightened motivation to keep working on the farm and greater desire to be a farmer with the current economic fundamentals at play. This maintains and enhances social diversity. Whilst this rationalisation of the industry is part of an ongoing structural reform it is also a continuing opportunity for investors as the industry moves to greater productive capacity and greater market power through this consolidation phase.

3. To quote the National Farmers Federation, 99% of all Australian farms are family farms [4]. Investors seeking exposure to Australian Agricultural Debt need to know how to culturally & socially engage with family farmers to be successful in implementing and executing agricultural debt investment into this industry. This is the once in a generation opportunity for astute investors.

The Environmental Dimension

1. Australia has strict rules regarding the impact on the environment thereby ensuring continuity of supply and minimal degradation of the environment. This provides greater surety for investors as environmental risks are minimised. Farmers are the guardians of Australia's land for the next generation of farmers. Providing farming enterprises with the necessary and sufficient levels of liquidity also provides them with the sustainable means to protect their land from this generation to the next.

[2] See http://www.empiricalcapital.com.au/2014/03/20/ian-joseph-presentation-at-the-2014-international-year-of-family-farming-global-forum-and-expo/
[3] See http://www.abs.gov.au/ausstats/abs@.nsf/lookup/4102.0main+features10Dec+2012#FARMERS%20IN
[4] See http://www.nff.org.au/farm-facts.html

2. Because of the strong environmental and food safety credentials, producers can demand and expect a premium price/return for the products produced. Investors can be assured that their capital is well secured by the nature of the underlying asset being sustainability maintained (the land) whilst producing a product which captures an audience with globally increasing demand.

3. Investment in regional and rural Australia increases national economic activity but more importantly it improves the local community and regional economy as well by reducing unemployment which leads to a healthy and vibrant regional and rural economy.

The Economic Dimension

1. The focus on food quality and food security globally within a stable economy like Australia will generate a pathway for greater returns during a time when global food supply chains have compromised food safety and quality for volume and (short term) profitability.

2. Countercyclical defensive characteristics of agriculture provide a natural hedge against adverse economic shocks to mainstream asset classes. Food and agriculture is considered the first hierarchy of need from a discretionary view point. The AUD also provides a natural hedge against falling commodity prices as a falling AUD cushions on farm price for production given the export reliance on price.

3. Greater financial liquidity in agriculture enables the investment and development of more efficient supply chains giving greater control to the producers and improving returns to investors.

4. Australian agricultural producers are early adaptors of technology and innovation keeping Australia's industry competitive on the global stage. The research report titled "Past reforms and future opportunities" Emily M Gray, Max Oss-Emer and Yu Sheng published by the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) in February 2014 states (Page 9) that "Productivity growth has been central to the continued viability, and competitiveness, of Australian farm businesses". It follows that continued investment in the industry will enhance future productivity and agricultural output. [5]

So, as a nation can Australia feed the world? Empirical evidence suggests not, but is Australia able to sell everything it is capable of producing and the answer is a resounding "yes it can". And not just the bulk goods but all the products right along the supply chain.

It makes sense that looking for suitable investments in the agricultural industry in Australia will enhance investor capability to achieving their investment mandate. It makes perfect sense to do it now, as Australia's productive farm assets (being the underlying security to farm debt) are globally undervalued comparatively. If Australian farmland is comparably undervalued in the

[5] See http://www.oecd.org/tad/events/Mr.%20Merrilees_Agricultural%20productivity%20growth%20reforms%20opportunities.pdf

world stage, then the underlying security for agricultural debt will be well supported from a valuation viewpoint (pre-farm gate, on-farm and post-farm gate). The figures are quite compelling from a global perspective that investing now in the Australian agricultural market to capture market share will capture all the benefits of being an early adaptor to global trends.

Agriculture as an important asset class as world populations increase

The landscape for the Australian agricultural sector will be far different in the future from the one we live in today. Projections recently issued by Economic and Social Affairs of the United Nations in their report "World Population to 2300 [6] puts the world population by 2050 at approximately 8.9Bn, with different scenarios putting it anywhere between 7.4Bn and 10.6Bn and continuing to rise to approximately 12Bn by 2100. Likewise the world median age at the turn of the last century was 26 and by the next one it will be 44, additionally life expectancy is expected to rise from 66 to 97.

Regardless of the current population of approximately 7Bn people, or the future number of people who will live on this planet, there is one undeniable fact… and that is we all need to eat. This fact guarantees there will always be demand for the agricultural goods a nation like Australia (who has the capability and capacity) can produce and by extension those who control or have access to the means of production.

Investing in agricultural debt products which are countercyclical to other assets classes, provide a natural hedge to insulate investments against adverse economic events as occurred with most industries when the global financial crises (GFC) hit, around July 2007.

The GFC did not appear to have any impact on Australian agricultural land prices with agricultural farmland (as a separate asset) class increasing in value over and above inflation year on year for 17 out of the last 20 years. It is still relatively cheap when compared to other developed nations. It must also be noted that productivity on farm and prices received for those commodities also increased during this time making Australian farms some of the most productive and profitable in the world.

WHY NOW? Asia Pacific Region (growing middle class)

Astute investors around the world understand that there is a growing global demand for all of the protein that Australia can produce. Australia will never be able to satisfy total demand but investors can benefit by investing in agriculture and the business of agriculture as an asset class as Australia maximises these existing and emerging global opportunities.

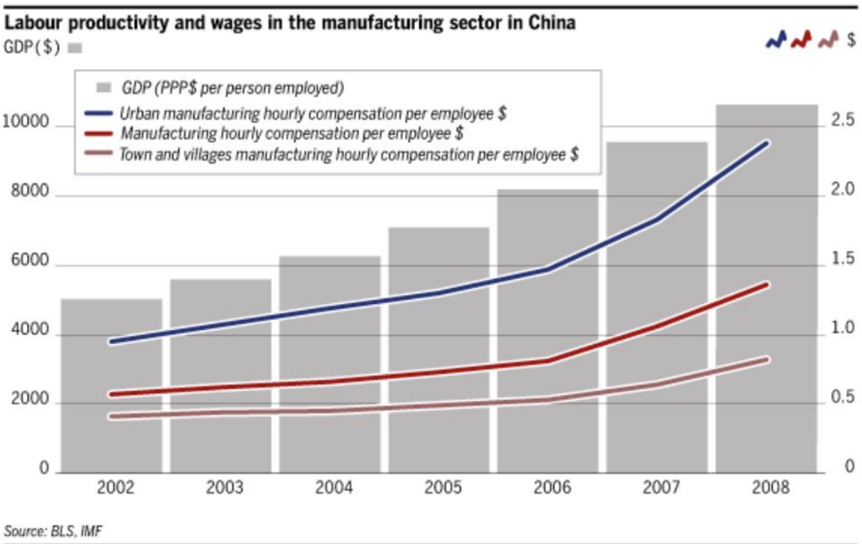
As all nations within the Pacific / Asian region demand high quality food to meet their ongoing nutritional and protein needs, they are looking to countries who are best positioned to satisfy those needs.

[6] See http://www.un.org/esa/population/publications/longrange2/WorldPop2300final.pdf

We are already seeing empirical evidence from the People's Republic of China (PRC) who have an insatiable demand for quality, quantity and surety of supply of food to meet their number one national priority, which is to guarantee their own "food security". Australia's exponential growth in beef exports to PRC over the past 5 years is testimony to this fact.

If we just take the PRC, as an example, it has been experiencing growing upward pressure on wages. Average real wages for urban workers tripled over the last 10 years which naturally takes the consumer up the protein demand curve.

Whilst their minimum wage is growing so to is their middle class which is growing by 28 million people per year. China, like Australia, also has an aging population and this ongoing decline in the labour force will exacerbate the continual upward pressure on wage growth. (See graph below)



Australia is already focussing on demand by their near neighbours. This is understandable as Asian countries already buy almost 50 per cent of Australia's agricultural exports correlated to the rapid growth in the middle class and the number of Asian countries who are buying Australia's products. For more information please see **"Australia in the Asian Century White Paper"**. [7]

Which agricultural industries will be the beneficiary of this increased demand? It will be across the board. We are seeing financially astute and influential people in Australia like Andrew Forest and Gina Rinehart getting into agriculture on the back of this economic trend.

Australia as a nation is not alone on the agricultural investment stage. Australia is competing for capital with other countries who are also attempting to maximise their productive capacity and sell their agricultural goods into the same emerging markets. Australia's competitive

[7] See http://asiancentury.dpmc.gov.au/sites/default/files/white-paper/australia-in-the-asian-century-white-paper.pdf

advantage is that we are advantageously positioned geographically (distance to markets) compared to that of our competing neighbours. With the recent government release of the Agricultural Competitiveness White Paper on the 4th July 2015, (further details can be found below) they have now pledged their support through a $4Bn investment into the farming fraternity. Comments like "Australian Agriculture has almost limitless potential" and their commitment to cut red and green tape, build infrastructure, encourage trade, develop Northern Australia, (see "Developing Northern Australia comments below) to support business and create jobs, shows just how important agriculture is to the government, the economy and the future prosperity of Australia.

In recent years, the discussion at the government and industry level has been firmly focused on Australia's productive capacity as it relates to agricultural output. This outward looking focus is reinforced with many Industry and government inquiries, reviews and papers, which champion the agricultural industry as a vehicle for economic sustainability and national prosperity.

The recent release of the **"National Food Plan White Paper"** [8] provided further compelling fundamental evidence of the benefits of investing in the Australian agricultural industry.

Specifically along with the release of the Paper, additional initiatives were announced:

- The establishment of the Asian Food Markets Research Fund (p. 8).
- Funding to build relationships with trading partners in key and emerging markets (p. 8)
- A review by the Productivity Commission across the food chain to make Australia among the top five most efficiently regulated countries in the world (p. 9)
- Acknowledgement that support was needed to enhance the skills of the workforce of the food industry (p. 9)
- Understanding that Australia should be a globally recognised food brand that is synonymous with high-quality, innovative, safe and sustainable food (p. 8
- In addition there was to be continued investment in the rural research and development system – currently around $700 million annually
- The investment of $9 billion over five years from 2012-13 through the states and territories for the National Vocational Education and Training System (including agricultural studies)
- Because the value of Australia's food related exports will have increased 45% (in real terms) the investment of $60 billion in transport infrastructure through the National Building Program since 2008 (including in regional and agricultural areas) (p. 9).

[8] See http://www.daff.gov.au/__data/assets/pdf_file/0011/2293328/national-food-plan-white-paper.pdf

With this unprecedented focus by government supporting Australia's agricultural industry, the addition of smart (debt) capital would strategically compliment this growth story for which there is fundamentally strong and sustainable demand. Australia is taking control of supply chains, brand and the broader market of agricultural products to the world market.

Australia is attracting the "right" capital and with it building a strong sustainable agricultural sector ostensibly by achieving unity of purpose and economies of scale for the investment opportunities which are self-evident. Further innovation of Australia's agricultural debt markets is the underlying opportunity.

By entering into this investment market and asset class, and upon maturity these investments, the opportunity to roll these assets into future funds for ongoing sustainable returns is available given the sustainable and scalable nature of the industry.

Targeted investments allow the investor to lock in and position themselves to address international commercial opportunities, in a timely way, which Australia's "export oriented" agricultural industry will provide.

This argues well for investors wishing to take advantage of all the future has to offer.

1. Agricultural Debt Funds generate measurable and predictable returns.
2. Capital losses on agribusiness debt vs other classes of debt. Evidence?
3. Present Value of cash flow annuities over 5 / 10 / 15 year loan terms. Do the sums
4. Illiquid asset class but liquidity events for loan books (provide evidence)

A high level overview of what the Australian Agricultural mortgage/debt market looks like.

In Australia the Reserve Bank of Australia (RBA) estimates the size of the bank lending to agriculture (grain (19%), mixed cropping (12%),beef (21%), sheep (4%), mixed livestock (3%), dairy (11%), cotton (6%), sugar (2%), fruit (6%), grapes (2%), vegetable (4%), intensive (4%), farm other (6%) amounting $54.686Bn with aquaculture, forestry and fishing and services accounting for a further $7.5Bn. This debt market for agribusiness (farm gate) brings the total lending to the industry to $62.143Bn as at September 2014. (Source Neil Clark – RBA/AFSN/NCA/ABS).

The agricultural industry exposure to the banking industry would not be possible if the industry did not generate measurable and predictable returns as well as interest rate yields which are sufficient to offset the perceived and actual risk imposed on those banks and financial institutions by the very seasonal and cyclical nature of agricultural industry. The nine issues which the government is focussing on in the "**Agricultural Competitiveness White paper"** [9] namely

1. Ensuring food security in Australia and globally
2. Farmer decisions for improving farm gate returns
3. **Enhancing access to finance**
4. Increasing the competitiveness of the agricultural sector and its value chains
5. Enhancing agriculture's contribution to regional communities
6. Improving the competitiveness of inputs to the supply chain
7. Reducing ineffective regulations
8. Enhancing agricultural exports
9. Assessing the effectiveness of incentives for investment and job creation

But it is the third issue: **"Enhancing Access to Finance"** through; Business structures, debt, alternative financing models, institutional and corporate investment and foreign investment which will only further enhance the industry's ability to compete globally thus providing greater returns for owners and investors in those agricultural asses.

Bearing in mind that 29.2% of the 135,000 agricultural entities have either debt (93.9%) or equity finance (6.1%), down from 31.6% the previous year and 33.2% the year prior to that.[10] This also means that of the 39,420 farming entities who have debt, the individual indebtedness per borrowing entity averages out at approximately $1.6M each.

How is this indebtedness distributed, according to the ABS, farms mostly sought finance to maintain short-term seasonal cash flow or liquidity or ensure the survival of the business (51.5 per cent and 34.3 per cent respectively).[8] However, it is worth noting that farmers already had high levels of debt, as a result of the low interest rates of the 2000s which encouraged them to buy more land and scale up their operations.[9]

So why does agriculture in Australia have a far greater indebtedness than other industries. (the average for industry sectors: in 2010–11 was 16.6% compared to the agricultural industry which was the highest, as mentioned above at 31.6%.[11]

The total indebtedness for all industries which support farming and agriculture (pre farm gate, on farm and post farm gate) across urban, regional and rural areas is far in excess of this number.

The geographical spread means that 75% is fairly evenly distributed amongst the eastern states of Queensland, New South Wales and Victoria with Western Australia (15%) South Australia (9%) and Tasmania and Northern Territory account evenly for the remaining 4%.

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[9] See https://agriculturalcompetitiveness.dpmc.gov.au/sites/default/files/issues_paper.pdf

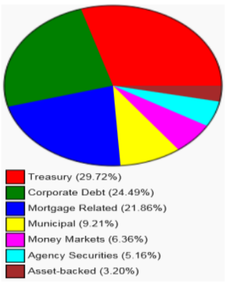
[10] See http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8167.02011-12?OpenDocument

[11] See - Australian Bureau of Statistics (ABS), *Selected characteristics of Australian businesses, 2010–11: business finance*, cat. No. 8167.0, 2012, accessed 22 May 2013. Equity financing involves the issuing of shares, or the issuing additional shares of common stock to an investor while debt financing refers to borrowing money and not giving up ownership.

To provide some perspective on the size of the global fixed income market?

An investment that provides a return in the form of **fixed** periodic payments and the eventual return of principal at maturity. Unlike a variable-**income security**, where payments change based on some underlying measure such as short-term interest rates, the payments of a **fixed-income security** are known in advance.

In 2009 the size of the worldwide bond market (total debt outstanding) was estimated at $82.2 trillion and by March of 2012 this had increased to nearly $100 trillion. This is larger than the combined world economies, which the World Bank estimates the top 192 countries GDP to be (as at 2013) to be (in US$) at $75.6 trillion. [12]



The United States was the largest market with 33% of the total followed by Japan (14%). As a proportion of global GDP, the bond market increased to over 140% in 2011 from 119% in 2008 and 80% a decade earlier. The considerable growth means that in March 2012 it was much larger than the global equity market which had a market capitalisation of around $53 trillion.

How do investors gain access to the fixed income debt market?

As previously mentioned, debt markets have typically been a challenging asset class for investors to gain exposure to. With "barrier to entry: with regards historically high minimum investment parcels upwards of $500,000 have meant that the ability to effectively diversify investments have been difficult. An agricultural fund will give investors the ability to participate in the "over-the-counter market" and will mean investors can now effectively diversify their portfolio risk and thus achieve potentially a more predictable return from existing assets.

They will be able to gain access to fixed income managed funds and hybrids, (which potentially can have both senior debt and mezzanine features, or stretched senior debt), to gain a regular income stream in the form of coupon payments.

The prospective development of fixed income ETFs (Exchange Traded Fund's) in the Australian market especially in the agricultural sector will be a turning point for investors. This will create an efficient and transparent way for investors to gain direct exposure to the asset backed agricultural fixed income market.

The future will belong to those "Fixed Income Asset Managers" who are able to benefit from exploiting market inefficiencies. Non-bank residential lending is one such growth area during a

[12] See http://databank.worldbank.org/data/download/GDP.pdf

time of tightening regulation in the market. The agricultural industry is another such opportunity that exists today and thus far has not as yet been exploited or commercialised.

The agricultural industry is beholden to financial capital markets and players for their liquidity which has been difficult to obtain to the levels demanded. This has been due to the mispricing of not only the farmers and farming enterprises involved in agriculture and the business of agriculture but also because primarily of the financial markets inability to accurately assess appropriate risk for this industry. They therefore default to a more conservative risk assessment approach for the individual and the industry.

The investor will require a fund manager that pertains the skill, experience and knowledge of the unique cyclical and structural nature of the agricultural industry. Any investment must also recognise that it will be an actively managed fund with a portfolio of agricultural asset backed debt investments, which mitigate risk factors (including seasonal, geographical and cyclical).

It will also provide measurable returns (coupon income and Net Present Value of annuity returns) and benefits which have a low correlation and defensive approach to the performance of traditional asset classes such as equity or property.

As with any investments, fixed income securities are subject to a number of risks. These can include:

CREDIT RISK - The issuer of a security or the counterparty must be able to make coupon payments (and thus avoid default on their debt obligations)

INTEREST RATE RISK – This can be mitigated with the use of fixed or floating interest rates and would occur if a variable rate portfolio was exposed to a falling interest rate environment, or a fixed rate portfolio was exposed to an increasing interest rate environment.

LIQUIDITY RISK – Fixed (or variable) income securities as an asset class are less liquid than "liquid" assets like cash and listed investments. If an investor wishes to exit the investment vehicle prior to the final maturity date (excluding break fees inherent within the general terms and conditions), redeeming the asset through traditional exit strategies may take a commercial time frame outside of expectations. Trade sale of the fund or refinancing the loans into mainstream funding platforms are avenues of consideration.

REINVESTMENT RISK - As loans reach maturity, investors may not be able to invest their funds into a new fixed income investment yielding a similar interest rate in the short to medium term.

REDEMPTION RISK – Investors within their investment mandate seek to redeem their capital at maturity. Access to capital or liquidity to meet these demands must be considered. Retaining a percentage of the loan coupons within a "cash" trust can be a strategic measure to meet this requirement.

INFLATION RISK - Currently inflation is at historically low however changes or a sharp rise in inflation can have unanticipated risk consequences for fixed income investments.

PRINCIPLE RISK – A stretched senior debt product with Loan to Valuation Ratios up to 80% provide capital protection to the principle face value of each loan investment as long as the mortgaged agricultural property values do not fall more than 20%. Annual reviews with the optionality for revaluations provide constant monitoring of underlying security values and mortgage protection on loans.

FOREIGN EXCHANGE RISK – Foreign investors seeking AUD denominated investors will need to consider the variable nature of exchange rate movements and the potential adverse movements of redeeming capital back to domiciled country upon maturity of an investment.

OWNERSHIP RISK - A title search of property (by a legal expert) before applying mortgages in Australia is essential as part of due diligence. This identifies any existing debts, securities or encumbrances on the title. And the priority of those debts.

Australia's land ownership and property legislation rules operate in all States and Territories in Australia and is based on the "Torrens Principle" of registration of title. This is the "freehold" system of land title in which a central register of all land in the register of land holdings in each state or territory is maintained which shows the owner of the land. This land title is the official record. The fundamental principle of "Torrens Title" is that "ownership" (title transfer) is guaranteed once registration of title has been completed. [13]

The Torrens title system operates on three fundamental principles [14] the "Mirror principle", the "Curtain Principle" and the "Indemnity Principle"

1. The Mirror Principle – "Certificate of Title" reflects (mirrors) accurately and completely, the current facts about a person's title. This means that, if land is sold, the new title has to be identical to the old one in terms of description of lands, except for the owner's name.

1. Curtain principle – A buyer does not need to go behind the "Certificate of Title" as it contains all the information about the title. This means that ownership need not be proved by long complicated documents that are kept by the owner. All of the necessary information regarding ownership is on the "Certificate of Title".

2. Indemnity principle – This provides for compensation of loss if there are errors made by the Registrar of Titles.

There are two other types of land title which are "Company Title" where it is the shares of the company being purchased and "Leasehold" (in the ACT all property is leasehold)

Leasehold is the main method of holding government property in rural areas. Large cattle or wheat properties for example, are under long-term or perpetual lease.

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[13] http://www.australia.gov.au/content/land-titles

[14] Ruoff, Theodore B.F. (1957). *An Englishman looks at the Torrens system*. Sydney: Law Book Company of Australasia Pty Ltd. pg.106.

Understanding these risks and mitigating them as appropriate will provide greater comfort to the fixed income security holder.

There is a distinct competitive advantage that an Agricultural Debt Fund will have over current "vanilla" bank lending.

Agriculture has always been restricted by the traditional funding method via Australia's banking and financial institutions. It has only been in the last 4 years that the illiquidity of the industry is stifling growth and opportunities. This is making it increasingly difficult to compete on the global stage and take advantage of all the Asian century has to offer.

Previously, access to non-traditional capital lines was impossible for any but the larger investment grade rated corporates with upwards of at least $200 million in debt funding requirements, largely driven by institutional investor demand. Depending on the fund structure the agricultural community will now be able to have direct access to non-traditional debt capital on more commercial terms.

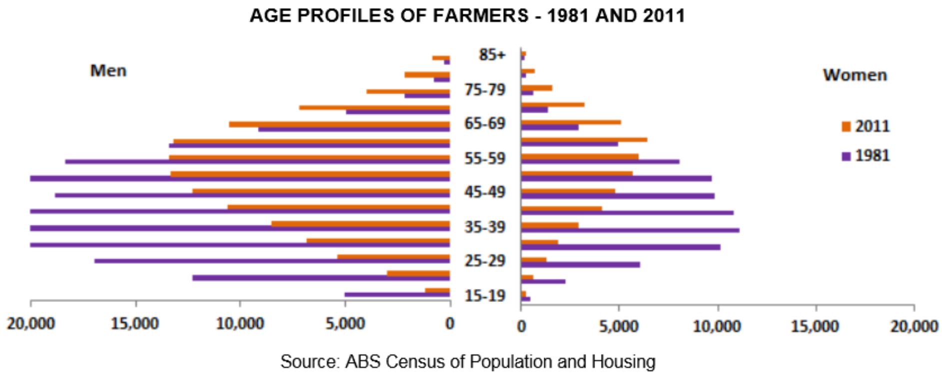
The Age of Farming: A consideration for Super and Pension Funds

Australia's farmers tend to be considerably older than other business owners by comparison. By 2016 the median age of farmers will be 58 years, compared with 45 years for people in other occupations.

This is partly due to the fact that farmers are more likely to continue working well beyond the age at which most other workers retire for lifestyle reasons. This is also due to the average age of the working life increasing and that the average age of experience to manage larger assets and businesses tend to be more mature to capture the relevant experience required.

In 2011, almost a quarter (23%) of farmers were aged 65 years or over, compared with just 3% of people in other occupations. The tendency of farmers to work beyond the traditional retirement age may reflect the decline in younger generations taking over family farms and the industry slowly becoming more corporatized. [15]

[15] See http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4102.0Main+Features10Dec+2012



The age profile of farmers has changed markedly over the past few decades. The median age of farmers increased by nine years between 1981 and 2011, while the median age of other workers increased by just six years. Over the same period, the proportion of farmers aged 55 years and over increased from 26% to 47%, while the proportion of farmers aged less than 35 years fell from 28% to just 13%.

As people move into retirement they generally seek lower risk regular income as opposed to capital growth. Australian and global investors, at all ages, are also becoming more aware of their ability to invest directly in fixed income products. Consequently, we expect to see increased allocations to the fixed income asset class and this is where the greatest opportunity arises for investing in agriculture.

The ability to tap an emerging "agricultural asset backed debt fund" needs to become more widely known in the private investor, middle market and corporate sector. Consequently, we expect to see a greater demand for and acceptance of agricultural investments by "alternative" players as the benefits of agriculture exposure are recognised and understood and for these types of investments to grow exponentially over the next century.

This gives those investors direct access and greater control over their investments by providing an increased portfolio of asset classes which can now include agriculture. All of which enhance diversification, growth and returns. More so during these times of historically low interest rates which are expected to stay around for some time given the shape of the yield curve. Retirees and those nearing retirement have to look for greater returns and higher yielding fixed income investments to meet their recurrent needs and will be prepared, once informed, to take on a little more risk to get them.

This means they are often prepared to invest in financial products that provide greater flexibility on more competitive and favourable tailored terms than the traditional bank market where interest returns have been in constant decline for many years.

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