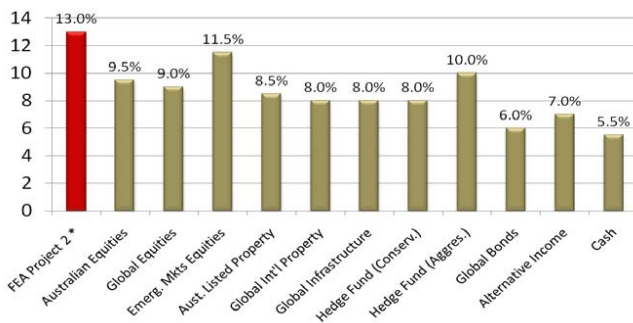


Portfolio diversification with agribusiness

Agribusiness is a strong alternative asset class that is negatively correlated to the equities market, whilst producing equity-like returns over long terms.

(FEAs chart below demonstrates that growers invested in their Project 2 – 1994, have achieved an after-tax return over the course of the Project, that exceeds all investment market sectors over the 16 years to 31 December 2008)



There are a number of factors working in favour of agribusiness into the future. These include:

- Increasing global population
- Increasing urbanization
- Increasing growth of the 'middle class'
- Business and lifestyle sophistication; and
- Climate change

The **increased population**, whilst consuming more of the output from agriculture, is at the same time encroaching onto the fertile land on which foodcrops and livestock were previously harvested. Some of the geographical and climatic conditions favoured by the agricultural industry are also prime residential locations: with increased urban spread there is additional consumption of timber for home construction.

As the world's population increases its wealth and communications; and more people aspire towards **middle class** status, higher demand is placed on the farmers of the world to produce higher protein foods, using more land and more resources to produce the required production.

The **increasing sophistication** of the lifestyle of the population as it transitions from rural/ subsistence situations into urban areas and higher technology pursuits, more paper is consumed.

All of these factors are combining with the consequences of **climate change** (however one may believe that comes about) to force improvements in the methods of agriculturalists in utilizing the scarce resources available to them, to continue to meet the increasing needs of the world population.

In this scenario, large-scale, well-managed agribusinesses are coming to the fore. There are many examples of this in rural Australia (which are also found in other parts of the world). What is becoming more apparent is that 'small farm' operators are unable to

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Agri Update

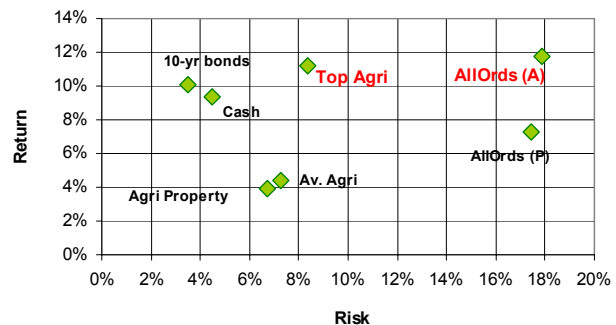
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compete effectively as high capital costs escalate in pursuit of efficiencies that are demanded.

This gives rise to the need for broader ownership – and managed investment schemes ("MISs") are filling some of that role. As with any investment there are inherent risks: with agribusiness, the risks include climatic conditions, pests, fire, soil productivity, genetics, financial capacity and commodity market conditions. These risks are known to the managers and appropriate farm/ forest management plans are operated to avoid the manageable risks – and to deal with the unlikely, though occasional unmanageable risk.

The following chart has not been updated since the 2004 statistics were made available, but recent financial market performance would suggest that the position for agribusiness would be even stronger relative to the other asset classes if 2008 numbers were included:

Risk -v- Return over 23 year term to 2004
Source: Australian Agribusiness Group 2004



Investment strategies utilizing agribusiness benefits

Agribusiness is a legitimate investment asset class; long-term returns from the class are similar to the returns from equities – without the volatility. How can you build the investment into your portfolio?

We have published a number of articles on the topic of utilising agribusiness effectively. [Go to our website, select Services, then from the pop-out menu, select Agribusiness: then follow the links to the relevant articles.] Some you might like to consider include –

- **Capital Gains Tax (CGT) elimination or reduction:** invest the taxable portion of your capital gain into a deduction that will generate an income return over time.
- **Children's education income stream:** invest now for an income stream in several years that will fund nominated education/ lifestyle expenses for you/ your child(ren).
- **Debt 'management':** invest now and use the tax refund to pay down debt that is currently non-deductible (credit cards, home loan, etc).
- **Debt in private company structures:** clear the debt that might otherwise be an unfranked dividend by paying a franked dividend and offsetting the personal tax cost with an investment that is tax deductible.
- **Deferred income (replacement):** invest income now in a series of good years to provide an income stream later to facilitate a lifestyle change: reduced work hours; time out with the children; career change.

A common feature in these strategies is the tax deductibility of the product being used. This position is under-pinned by ATO Product Rulings and is assured provided the investment is held for the prescribed period of time (at this stage, for a minimum of four years). Whilst we do not promote any strategy merely for tax minimization through such recommendations, it is a consequence of making the 'agri' investment: and to date, this has enhanced some government benefits for a number of our clients.

Please Contact Us for an appointment to evaluate your potential advantage from incorporating one or more of these strategies into your investment plan.

Agri Update

In last year's Agribusiness Newsletter, we stressed that a strong manager was an important feature in selection of an agribusiness project. Regrettably one of the managers we featured in that article (Timbercorp Securities Limited – "Timbercorp") has entered Voluntary Administration (late-April 2009), a victim of the global credit crisis.

Whilst the respective stakeholder positions in the Timbercorp situation are yet to be resolved, these Projects are structured in such a way that the ultimate demise of any MIS manager will not of itself bring the project to an end: it may well however, result in a change of the entity responsible for the management of affected projects.

The developments with Timbercorp do not detract from the viability of the strategies for which these products were promoted; nor do they of themselves, compromise the long-term outcome for the projects. The fact remains that agribusiness is a special class of investment that, when properly executed, provides a tax benefit on entry – which offsets some of the risks that are perceived in any agricultural undertaking – and adds to the diversification of an investor's portfolio.



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