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# Rural Funds Management NEWS

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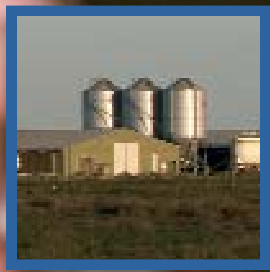

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# A question of trust

by David Bryant

During the past year, three of the largest promoters of tax effective investments have entered administration: Great Southern, Timbercorp and, more recently, Forest Enterprises Australia. Once commanding more than 50% of market share, their failure points to a sector collapse that has little precedent.

For RFM unitholders and growers, I want to take this opportunity to examine the origins of tax-effective Managed Investment Schemes (MIS), and why I think they are fundamentally flawed.

Perhaps the most distinguishing feature of tax effective MIS is that they are not investments. They are, more typically, a contractual arrangement between a taxpayer and a promoter, whereby the promoter undertakes to carry out the operations of a business so that the person may claim a deduction for the expenses of that business. It makes this taxpayer a business person – not an investor.

When a contractor (in this case the scheme promoter) receives a payment from a business person, they are not obliged to use those monies to fulfil the contract. Instead, the money simply becomes the legal property of the contractor. If that contractor becomes insolvent before they have completed the contract, the business person simply loses their money.

Today, there are about 100,000 Australians who say they have lost their investment in tax effective MIS. But they didn't. What they lost was their business which they founded by paying a contractor who became insolvent.

At its core, it's an issue of trust. The scheme promoter was not entrusted with an investment. As a consequence they were not bound to set that money aside for the beneficiary of a trust. Instead, the promoter received a contract payment, which left them free to use the money for whatever purpose they considered appropriate. An interesting consequence of this distinction is that while the money is gone, there has been no breach of trust. Because there was no trust.

These reflections on the absence of trust serve to underscore the distinguishing feature of the tax effective MIS sector; they are a fundamentally flawed investment structure.

The mistake our legislators have made is that they have legitimised this industry through the Managed Investment Act and Australian Taxation Product rulings. Having done this, the public was entitled to think tax effective MIS were investments; managed investments, in fact.

Given that the tax effective MIS stated purpose is to reduce the nation's tax revenues, and that it has little track record of delivering acceptable investment returns, one cannot help wondering how this state of affairs arose. The raison d'être of the MIS industry has been a desire to increase Australia's timber plantations, driven by an initiative called Plantations for Australia: the 2020 Vision.

There are two key players driving this initiative: the timber processing industry and its lobby group, A3P. Their message is simple: Australia needs to reduce its imports of wood and paper products. To achieve this, we need to treble the nation's plantation estate from 1.1 million hectares in 1996 to three million by 2020.

While this Vision is attractive to those in a position to profit from its realisation, it appears to have overlooked the principles of opportunity cost and comparative advantage.

Simplistically, comparative advantage in the context of Australia's forestry industry can be considered this way. While Australia has the resources to produce all of its own wheat and wood, it is possible that it may be to our advantage to produce our wheat and let someone else produce the wood.

The two million hectares that Vision 2020 is turning into forest must displace other land use activities. Since it is unlikely that plantations will displace national parks, deserts or cities, all we are left with is farmland. Vision 2020 is a partnership between industry and government to replace farmland with forestry.

A review of literature published by Vision 2020 reveals a public relations machine geared to the production of rhetoric designed to reassure us that the Vision is good. But what appears to be missing from its publications is a proper explanation of the opportunity cost of this government sanctioned change in land use.

There is a significant aspect to the Vision that leads one to question how this has ever been allowed to happen. Since we were first given the Vision, the area under plantation has increased from 1.1 million hectares to 1.9 million. Of this additional 800,000 hectares, around 87% has come from tax effective MIS. Based on this statistic, one could be forgiven for thinking that the Vision is just a government-assisted lobby for the plantation MIS industry.

In the past three decades the tax effective MIS sector has been the subject of enormous government intervention, way beyond that justified by its size. Since 1998 we have seen around 700 ATO product rulings, three parliamentary committee inquiries, several ASIC reports, a High Court test case and specific legislation designed to protect the deductibility of plantation forestry.

With the exception of superannuation, there is no other area of the financial services sector that has been subject to so much government inquiry and intervention. Yes there is no other area of the financial services sector that has failed so appallingly.

How is that we have had so much government intervention and yet so much failure? The reason is probably because we have had so much government intervention.

How then does government extract itself from its continuing involvement in this sector?

Given that it was the introduction of product rulings that allowed the industry to grow, abandoning this practice would be the best place to start. In the absence of tax rulings, promoters would be left dependent on legal opinions to reassure prospective members that their scheme is tax deductible. Where the ATO disagrees with the legal opinion it could decline the deductions and allow the matter to be contested in the courts.

This may seem to be a harsh treatment of the tax effective MIS sector, but surely it is now time to ask whether the general public would be richer as a consequence. At its heart, the tax effective MIS industry is a consequence of accommodating tax policy. Given the extraordinary failure of this industry, surely it is time for tax policy to be less accommodating.

The plantation forestry industry should be capable of contributing to our economy without the assistance of government. For this reason, our governments should terminate Vision 2020 and leave the forestry and paper industries to expand based on the merits of pure investment returns. If they can't, then let's grow some wheat and swap it for some wood.

> *"It's DAF's longer-term performance when compared against its benchmark of CPI plus 5% that's been impressive."*

# RFM Diversified Agricultural Fund (DAF) ARSN 099 573 627

The RFM Diversified Agribusiness Fund's (DAF) operating performance – set by the performance of its investments in the underlying agriculture funds – returned to positive territory for the 12 months to 31 May 2010 with a grossed up return of 9.29%.

This strong result compares favourably with the negative 0.09% return for the 12 months to 30 June 2009, announced in the previous newsletter.

For investors, however, it's DAF's longer-term performance when compared against its benchmark of CPI plus 5% that's been impressive. For the two years to 31 May 2010, the return is 11.44% compared with 7.58%, for three years it's 9.93% (8.16%) and five years it's 8.75% (8.02%).

DAF's positive return was underpinned, in large part, by strong performances by RFM RiverBank (see page 6) and the RFM Chicken Income Fund (see page 13).

Although RFM's viticulture operations are a small percentage of DAF's assets, the two wine funds, the Agricultural Income Trust (AIT) and the RFM Ultra Premium Vineyard Fund (UPVF), were negative contributors to DAF's results. That said, even though the two funds struggled, they still managed to outperform the wine industry average.

The entire wine industry is grappling with oversupply, a strong Australian dollar and the aftermath of the Global Financial Crisis that has continued to have a negative impact on export markets, especially in the US.

RFM is taking steps to reinvigorate the wine funds. Negotiations are being held with an overseas institution to take a "substantial" equity stake in the two funds, and the benefits to unitholders of merging AIT and UPVF are being examined.

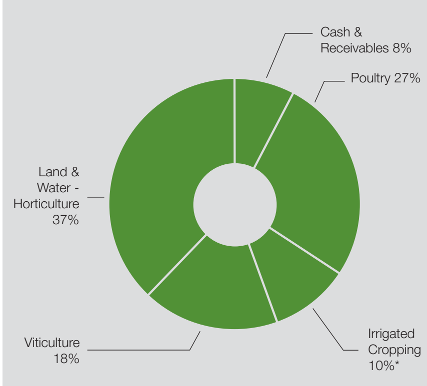
RFM directors are now optimistic that DAF, as well as the underlying funds, will outperform their benchmarks in the future – for two key reasons.

Firstly, RFM management is now back in the driver's seat after reaching agreement with the Great Southern Limited (GSL) receiver, McGrathNicol, to redeem the 70% stake in DAF held by GSL. The agreement was announced on 27 April after RFM organised the payment of $15 million for GSL's majority stake in DAF.

Secondly, the medium to long-term outlook for agricultural commodities is very good. The emerging countries, especially India and China, are growing rapidly and in the process, are generating unprecedented wealth and spending power.

Although the headline news is about higher commodity prices for iron ore and coal, these stronger prices are also flowing through to agricultural commodities, and unitholders in RFM funds can expect to benefit from this growing global demand for primary products.

**DAF Sector Allocation 30 April 2010**




*Irrigated Cropping entity currently being divested

**Table 1: DAF Rolling Returns**

| DAF (as at 31 May 10) | 1 Mth | 3 Mth | 6 Mth | 1 Yr | 2 Yr[2] | 3 Yr[2] | 4 Yr[2] | 5 Yr[2] | Inception[2] |
|---|---|---|---|---|---|---|---|---|---|
| Distribution Returns | 0.00% | 2.94% | 2.94% | 2.69% | 4.95% | 5.91% | 6.70% | 6.96% | 5.39% |
| Growth Returns | 18.43% | 16.25% | 16.25% | 6.60% | 5.76% | 3.07% | 2.09% | 1.22% | 1.40% |
| Total Returns | 18.43% | 19.19% | 19.19% | 9.29% | 10.71% | 8.98% | 8.79% | 8.18% | 6.79% |
| **Grossed Up Returns[1]** | **18.43%** | **19.18%** | **19.18%** | **9.29%** | **11.44%** | **9.93%** | **9.50%** | **8.75%** | **7.14%** |
| CPI + 5% (as at 30 Apr 10) | 0.70% | 2.11% | 4.01% | 8.03% | 7.58% | 8.16% | 7.95% | 8.02% | 7.85% |
| **Value Added/Subtracted** | **17.73%** | **17.07%** | **15.17%** | **1.26%** | **3.86%** | **1.77%** | **1.55%** | **0.73%** | **-0.71%** |

1. Effective return including franking credits distributed to Unitholders
2. Rolling annualised figures

# RFM RiverBank (RiverBank) ARSN 112 951 578

RFM RiverBank is now on a firm footing after a successful capital raising and the signing of a 20-year agreement with the publicly listed Select Harvests Ltd to lease more than 1,200 hectares of almond orchards on its two properties, Mooral and Yilgah, near Hillston in New South Wales.

In addition to the 20 year agreement with Select Harvests, encompassing 215 hectares of the Mooral property and 1,006 hectares of the Yilgah property, RFM became the Responsible Entity of the Great Southern 2007 and 2008 Almond Income Projects in late February after growers voted 56% and 53%, respectively, to appoint RFM. Together with the RFM Almond Project 2006, these projects lease 593 hectares of orchard. RiverBank's almond orchards are now entirely leased.

As part of the process to sever all links between RiverBank and the failed agricultural investment scheme manager, Great Southern Limited (GSL), the RFM Diversified Agricultural Fund (DAF) redeemed some of its units in RiverBank – a necessary step to provide funding to DAF to remove GSL control.

At a meeting on 25 March, Unitholders voted to enable the redemption of 25.5 million RiverBank units held by DAF for $14 million – a 52% discount to RiverBank's NAV at 31 December 2009.

This followed a successful capital raising of approximately $10.5 million by DAF and RiverBank. This capital, in addition to another $3 million in bank debt and cash, provided the $15 million required by the receiver, McGrathNicol, to buy out GSL's 70% stake in DAF.

The uplift in unit price as a result of the discounted redemption was significant. For the 12 months to 31 May 2010, RiverBank enjoyed a grossed up total return of 20.52%. This return compares favourably with the 12 months to 30 June 2009, when RiverBank had a return of 8.94%. Distributions recommenced with $0.022 per unit paid in May.

The May unit price for RiverBank was $1.4687.

In a major capital transaction, RiverBank acquired the Mooral property and associated water rights from Lachlan Farming Limited (LFL) in April for $13.8 million.

The outlook for both Mooral and Yilgah is very good according to Daryl Winter, National Manager, Almonds.

"The 2006 trees have cropped very well this year with very pleasing harvest results.

The 2007 trees weren't cropped this year (normally this year would have been their first harvest). Because of the situation with GSL, those trees weren't pollinated. But the prospects for 2011 are looking pretty good. The 2008 trees are also growing very well, with very few losses."

**Table 2: RiverBank Rolling Returns**

| RiverBank (as at 31 May 10) | 1 Mth | 3 Mth | 6 Mth | 1 Yr | 2 Yr[2] | 3 Yr[2] | 4 Yr[2] | Inception[2] |
|---|---|---|---|---|---|---|---|---|
| Distribution Returns | 0.00% | 3.13% | 3.13% | 3.00% | 5.88% | 6.85% | 9.13% | 5.24% |
| Growth Returns | 25.10% | 22.78% | 22.78% | 17.52% | 17.99% | 13.01% | 11.84% | 8.65% |
| **Total Returns** | **25.10%** | **25.91%** | **25.91%** | **20.52%** | **23.87%** | **19.86%** | **20.96%** | **13.89%** |
| Grossed Up Returns[1] | 0.00% | 3.13% | 3.13% | 3.00% | 5.88% | 7.65% | 9.94% | 5.69% |
| **Grossed Up Total Returns[1]** | **25.10%** | **25.91%** | **25.91%** | **20.52%** | **23.87%** | **20.67%** | **21.77%** | **14.34%** |

1. Effective return including franking credits distributed to Unitholders
2. Rolling annualised figures



# RFM Almond Fund 2006 (AF06) ARSN 117 859 391

*Farm update: Daryl Winter, National Manager Almonds*

The RFM Almond Fund 2006, now in its fourth year, is likely to exceed its production targets this season – a significant milestone considering the setback from a wind storm in December 2007.

"The 272 hectare crop suffered severe wind damage that year, with slightly less than 20% of trees lost, and another 10% damaged to some degree. It was a significant hit."

"The re-planting will be completed this winter, and the trees that survived are performing very well. Early indications for this year's harvest suggest we are likely to exceed our forecast. We've certainly turned the corner this year and that's pretty exciting for us."

In the third year, the 2006 crop returned about 0.35 tonnes of almond kernels per hectare, and this year the forecast was for about one tonne per hectare.

"It's increasingly looking like we'll exceed that number, perhaps even topping the PDS forecast of 1.25 tonnes a hectare. We won't know until about end of June when the final hulling and shelling takes place, but all the signs are good."

"Longer term, it means we might even reach full production in our sixth year (2012) instead of the expected seventh year. Certainly I'm sure we would have been in full production in 2012 if we hadn't suffered that severe wind storm." Full production equates to about 3.5 tonne per hectare.

Harvesting this year's crop has been disrupted by – wait for it – rain.

"From that perspective the weather has been terrible. We've had just over 240 mm of rain in Hillston since Christmas which is extraordinary considering the drought we've been experiencing in recent years. It's interrupted our harvest on four occasions now. Normally we would be well and truly finished by now."

"I'm not really complaining as everything is fresh. It has brought with it some hull rot, and that disease can go back into the twig and kill it, but it's under control."

Aside from the rain, the other news putting smiles on the faces of the almond management team is the global price for almonds.

"There's no doubt prices are moving in the right direction. Over the past seven or eight months, prices have been rising sharply, probably in the order of between 20% and 25%."

"The industry is looking pretty good right now. In my opinion we're at the beginning of an upward cycle that should last for about three or four years, coinciding with when the 2006 crop comes into full production."

"The demand is strong out of the Asian countries, India particularly. And on the supply side, California, which produces about 80% of the world's almonds, has ageing orchards so despite the rapid development there in the past five to eight years, they have really only been replacing what they have been taking out."

# 2007 and 2008 Great Southern Almond Income Projects

In meetings held at the end of February, Growers in the 2007 and 2008 Great Southern Almond Income Projects voted to appoint RFM as the Responsible Entity of the Projects, replacing Great Southern Managers Australia Ltd (GSMAL).

Concurrent with this appointment, GSMAL offered the Growers the opportunity to "opt out" of the Projects. It was pleasing for RFM to see more than 40% of Growers continue with their investment.

Continuing Growers in both Projects have now been consolidated on to the Mooral property. The high number of continuing Growers has necessitated the scaling of Almondlots. Each Almondlot is now 0.2158 hectares in size, reduced slightly from 0.250 hectares.

The scaling will result in a small refund for Growers, as invoices were based on the larger Almondlots. The invoice for operating costs for next financial year will be sent in June and will include a credit for the rescale amount.

Tree growth in the Project area on the Mooral property has been excellent. Under normal farming practises, the trees would have been pollinated in July/August last year. However the appointment of receivers to the Great Southern Group meant that this was not possible. This has not impacted on trees health, with energy and nutrients that would have been used producing fruit, being directed toward tree growth.

Farming activities are occurring on schedule with the trees now approaching a dormant period over the colder months. The growth that the orchard achieved over the last few months will provide a solid base for the harvest in eight months time.

# Buying back the farm

It took nearly a year, but the senior management at Rural Funds Management Ltd (RFM) has finally bought the farm back from Great Southern Limited (GSL), which went into receivership on 18 May last year.

In an agreement reached with the GSL receiver, McGrathNicol, on 27 April, the final step was taken when RFM management organised the payment of $15 million to buy out GSL's 70% stake in the flagship fund, the RFM Diversified Agricultural Fund (DAF).

RFM raised about $12 million in DAF and another of its funds, RFM RiverBank, to buy back the DAF units from GSL. The remaining $3 million came from bank debt and cash.

This buyback of the GSL stake, at a 54% discount to the $36 million book value of the units, meant there was significant capital uplift for the remaining investors in DAF, including new investors.

RFM founder and Managing Director, David Byrant, said after the deal was finalised: "This has been a long, drawn-out process, with many twists and turns since McGrathNicol was appointed receivers and managers to GSL." The accompanying timeline attests to that statement.

The focus of the RFM management team now is to ensure that all RFM funds provide sustainable, low volatility returns for investors.

The buyback of the GSL stake in DAF, was part of a larger process that involved the redemption of RiverBank units by DAF, its largest unitholder. At a meeting held on 25 March, Unitholders agreed to redeem these 25 million units for $15 million – a 52% discount to RiverBank's NAV at 31 December 2009. Similarly to DAF, the remaining RiverBank unitholders have enjoyed significant capital uplift.

GSL, via its DAF stake, had indirect control of RiverBank, and the redemption was a necessary step to cut that link and, at the same time, restructure and recapitalise RiverBank.

There were three other significant milestones before the 27 April agreement was signed off.

Firstly, RFM management reached commercial agreement with McGrathNicol to buy back RFM for an undisclosed sum in December 2009. The change in RFM's ownership occurred simultaneously with the DAF buy out on 27 April.

Byrant said: "We were always confident that the best option for the receivers was to sell RFM as a going concern, and that the RFM management was ideally placed to make the purchase."

Secondly, RiverBank had to secure new leasing agreements for its almond orchards and water rights on its two properties, Mooral and Yilgah, after GSL went into receivership.

Select Harvests, a publicly listed Australian company, emerged as the white knight when it entered a 20-year agreement with RFM to lease more than 1,200 hectares of almond orchards at both properties.

Thirdly, RFM obtained approval from growers in the Great Southern 2007 and 2008 Almond Income Projects to become the Manager (Responsible Entity) of the schemes. Growers in the two projects voted 56% and 53%, respectively to appoint RFM as the Responsible Entity (RE) in February this year.

# Timeline

| | | |
|---|---|---|
| 1997 | | RFM founded by David Bryant |
| 2007 | September | Sale of RFM to Great Southern Ltd (GSL). Renamed Great Southern Funds Management (GSFM) |
| 2009 | January | RFM management begins talks with GSL about buyout |
| | May 16 | Appointment of voluntary administrators to GSL |
| | May 18 | McGrathNicol appointed receivers and managers to GSL |
| | June 1 | RFM management begins talks with McGrathNicol to buy back RFM and sever all ties with GSL |
| | July 17 | The first step: GSFM rebadged RFM |
| | October 19 | RiverBank capital raising opened |
| | November 4 | DAF capital raising opened. $9 million raised across both funds |
| | December 10 | RFM management agrees on commercial terms with McGrathNicol on RFM buyout |
| 2010 | February 15 | Publicly listed Select Harvests leases 215 hectares of almond orchards at Mooral from RiverBank |
| | February 24 | Meeting of Great Southern 2007/08 almond growers vote to appoint RFM new RE, replacing Great Southern Managers Australia Ltd |
| | March 15 | Select Harvests leases another 1,006 hectares of almond orchards at Yilgah from RiverBank |
| | March 25 | DAF & RiverBank unitholder meeting overwhelmingly approves changes to constitution to allow redemption of GSL holdings in DAF & RiverBank |
| | April 21 | DAF & RiverBank investors were allotted units to redeem GSL holding in DAF |
| | April 27 | The final step: RFM and GSL separation of ownership |
| | April 30 | RiverBank purchases the Mooral property from Lachlan Farming Ltd for $13.8m |
| | May 14 | Distributions recommence to DAF & RiverBank unitholders |
| | June 16 | LFL shareholder meeting to approve capital returns to Lachlan Farming Ltd shareholders and thus to RFM Australian Cotton Fund unitholders |

# Who's who on the RFM Board

**David Byrant**
Managing Director

David established RFM in February 1997 after being a Director and Partner in one of Canberra's largest financial planning firms. In the 13 years he has been at the helm of RFM, he has built a portfolio of more than $300 million in agricultural assets across five states. This includes negotiating the acquisition of more than 25 properties and more than 60,000 mega litres of water entitlements.

David holds a Diploma of Financial Planning and a Masters of Agribusiness from Melbourne University.

**Guy Paynter**
Non-Executive Chairman

Guy was initially appointed to the RFM Board in February 2004. Following GSL's acquisition of RFM in September 2007, Guy resigned from the Board and was re-appointed in April 2010.

A former director of the broking firm JB Were, Guy brings more than 30 years of experience in corporate finance to RFM. He is a former member of the Australian Stock Exchange and a former Associate of the Securities Institute of Australia. Today he is Chairman of Aircruising Australia Ltd. His agricultural interests include cattle breeding in the Upper Hunter region.

Guy has a Bachelor of Laws from Melbourne University.

**Michael Carroll**
Non-Executive Director

Michael serves a range of agribusiness companies in a board and advisory capacity. His directorships include Meat & Livestock Australia, Rural Finance Corporation and Sunny Queen Farms. Michael also consults to leading farm groups such as Birchip Cropping, Dairy Australia, Farmlink and FM500 and was responsible for establishing and leading NAB's Agribusiness division. Before joining NAB, Michael worked for agri companies, including Monsanto Agricultural Products and a biotechnology venture capital company.

Michael has an MBA from Melbourne University Business School and a Bachelor of Agricultural Science from La Trobe University.

## The RFM Executive Team

**Andrea Lemmon**
Executive Manager – Funds Management

Andrea has been with RFM since its inception in 1997. Before joining RFM, she was a partner with one of Canberra's largest financial planning firms, and her strong financial planning background is an asset in assisting RFM to design its financial products. Today Andrea is responsible for the development of new products, the continual improvement of existing products, managing research activities and the provision of services and communications to investors and advisers.

Andrea has a Diploma of Financial Planning from Deakin University.

**Stuart Waight**
General Manager – Corporate Services

Stuart joined RFM in 2003, bringing to the organisation extensive financial management experience in the accounting profession and the commercial sector, including his role as a Chief Financial Officer of a publicly listed company with a turnover of $500 million. In his current role Stuart oversees the finance function and team including: financial reporting, cash flow, banking and treasury, taxation and unit pricing. Stuart also oversees human resources, payroll, legal and compliance, IT, insurance, facilities management, administration and HSE services.

Stuart has a Bachelor of Commerce (accounting major) from the University of Newcastle.



# RFM Land Trust (Land Trust) ARSN 128 112 443

(formerly the Great Southern 2008 Forestry Land Trust)

RFM has individually assessed the 23 properties that comprise the Land Trust to plan for the best commercial outcome for over 2,000 investors. A change of name was undertaken on 5 May with the Fund now officially known as the RFM Land Trust.

An independent consulting firm, Van Diemen Forestry Consultants, was engaged in 2009 to inspect each property in Western Australia, South Australia, Victoria and Tasmania. The report was presented to RFM in March.

The broad conclusions drawn from the Van Diemen Forestry Consultants report are:

- The capital expenditure required to plant trees, manage, maintain, harvest, process and market a forestry operation within the Land Trust wouldn't be viable.
- The market for forestry following the collapse of Great Southern and Timbercorp is "shallow".
- There may be some interest by reputable forestry companies to lease or purchase some, but not all of the properties.
- Demand for leasing agricultural properties suitable for grazing or cropping is growing.
- Redevelopment of selected properties from forestry back to agriculture, may significantly increase the value of the properties.

RFM Acquisitions and Business Support Manager, Nathan Payne says: "As part of our individual property assessment, we will consider the sale or lease of each property as our first option."

"Where we are unable to achieve suitable values, we will consider conversion of any suitable, remaining property to grazing or cropping with the long-term aim to then sell the property."

"We believe this is the most appropriate strategy considering the current depressed market for forestry properties. This market is unlikely to improve in the short term with there being every possibility, of one million hectares of forest land coming on to the market in the next two to five years."

"In this environment, the immediate sale of properties and the winding up of the Land Trust would result in significant losses for investors. In line with this, we received offers for four properties in SA and WA but, in our opinion, the prices were well below our assessed value and were rejected accordingly."

RFM is also examining the benefits of merging the Land Trust with another RFM managed fund.

Nathan says: "The benefits of any merger for the Land Trust investors include decreased management and overhead costs due to economies of scale, and the potential to pay quarterly distributions."

"However, this option is in its infancy and unitholder approval via a meeting would be required to bring it to fruition."

*“At any given time RFM has about five million birds in production. Annual production is about 30 million birds.”*



# RFM Chicken Income Fund (CIF) ARSN 105 754 461

*Farm Update: Adriaan Shields*
*General Manager – Poultry*

RFM has successfully met a key condition laid down by the chicken processor Baiada Poultry Ptd Ltd following its acquisition of Bartter Enterprises in July 2009 – the successful implementation of quality standard SQF 1000.

Adriaan Shields, General Manager – Poultry explains “Since SQF 1000 was implemented, we have had two audits – one internal and one external – and we have passed both with flying colours. The last audit was in late March and we will have our next audit in six months.”

“SQF 1000 allows for all products used in production to be traced. All activity occurring in a poultry shed is recorded from start to finish, and then all the way through the processing plant.”

“In practice, what it means, is that if someone buys a piece of chicken in Woolworths, and the quality is not what it should be, the system allows us to trace it right back to source of the problem, whether it’s the feed, the bird, or something different.”

“Implementing SQF 1000 has placed extra demands on RFM and CIF staff, especially in the back office where a more detailed level of record-keeping is required. But everyone has got right behind this initiative to ensure we met this important requirement.”

In another initiative, RFM is installing a wireless network system independent of any telecommunications carrier to operate the alarm systems in all of its sheds.

“All our chicken sheds have an alarm capability. For example, if a fan doesn’t work or if the temperature goes outside the parameters we’ve set for a shed, then we are alerted immediately.”

“In the past the alarm system has been operated by a telecommunications company, but we think that’s potentially a weak link, as the system can overload and you can get delays.
In our business, any time lost in staff being alerted about changed conditions in a shed can have significant consequences.”

“The new monitoring system we’re installing will run off our own wireless network. We expect to have it fully installed, complete with backup system, by the end of June.”

The transition from Bartter to Baiada has gone relatively smoothly. Long-term contracts remain in place with requirements for annual reviews.

“There have been a few minor things that we are sorting out. For example, we are still working with Baiada to find the optimum outcome in terms of bird numbers and profiles, but I’m confident we’ll get there.”

At any given time RFM has about five million birds in production. Annual production is about 30 million birds.

**Table 3: CIF Rolling Returns**

| CIF (as at 31 May 10) | 1 Mth | 3 Mth | 6 Mth | 1 Yr | 2 Yr[2] | 3 Yr[2] | 4 Yr[2] | 5 Yr[2] | Inception[2] |
|---|---|---|---|---|---|---|---|---|---|
| Distribution Returns | 0.00% | 3.23% | 6.44% | 12.80% | 11.75% | 11.28% | 11.33% | 11.54% | 10.69% |
| Growth Returns | -0.02% | -1.71% | -2.94% | -5.18% | -10.15% | -6.79% | -3.56% | -2.15% | -1.35% |
| **Total Returns** | **-0.02%** | **1.52%** | **3.50%** | **7.63%** | **1.60%** | **4.50%** | **7.78%** | **9.39%** | **9.35%** |
| Grossed Up Distribution Returns[1] | 0.00% | 3.23% | 6.44% | 12.80% | 11.75% | 11.30% | 11.47% | 11.80% | 10.89% |
| **Grossed Up Total Returns[1]** | **-0.02%** | **1.52%** | **3.50%** | **7.63%** | **1.60%** | **4.51%** | **7.92%** | **9.65%** | **9.54%** |

1. Effective return including franking credits distributed to Unitholders
2. Rolling annualised figures

# Lachlan Farming Limited (LFL)

ACN 082 230 028

RiverBank successfully concluded the acquisition of LFL's 3,333 hectare Mooral property, 25 kilometres south-east of Hillston, NSW, for $13.782 million (including water entitlements) on April 30.

The sale proceeds, when coupled with cash held by LFL from previous vendor finance payments, as well as two future vendor finance payments in June and December 2011, respectively, will take total distributions available to its shareholders to $28.6 million.

The first payment to shareholders is expected to be made on 1 July 2010 with $18.6 million, or 58.91¢ per share, being returned to shareholders via a capital reduction and income distribution. Given the size of the distribution, shareholder approval was necessary and that approval was obtained from shareholders at a meeting held on June 16. When the final repayment is made to shareholders in the quarter ending 31 December 2011, they will have received 90.59¢ per share.

On completion of the three distributions, LFL will be wound up.

**Table 4: LFL Rolling Returns**

| LFL (as at 31 May 10) | 1 Mth | 3 Mth | 6 Mth | 1 Yr | 2 Yr[2] | 3 Yr[2] | 4 Yr[2] | 5 Yr[2] | Inception[2] |
|---|---|---|---|---|---|---|---|---|---|
| Distribution Returns | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Growth Returns | -1.36% | -0.11% | 2.95% | 6.93% | 68.41% | 47.92% | 8.58% | 6.16% | -1.35% |
| **Total Returns** | **-1.36%** | **-0.11%** | **2.95%** | **6.93%** | **68.41%** | **47.92%** | **8.58%** | **6.16%** | **-1.35%** |
| Grossed Up Distribution Returns[1] | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| **Grossed Up Total Returns[1]** | **-1.36%** | **-0.11%** | **2.95%** | **6.93%** | **68.41%** | **47.92%** | **8.58%** | **6.16%** | **-1.35%** |

1. Effective return including franking credits distributed to Unitholders
2. Rolling annualised figures

# RFM Australian Cotton Fund

(ACF) ARSN 099 573 690

ACF, whose sole asset is a 46% stake in LFL, will directly benefit from the successful sale of LFL's last asset, the 3,333 hectare Mooral property to RiverBank (see story above).

The cash distributions that will flow to LFL shareholders, will enable ACF to begin repayments to its unitholders in July.

On completion of these repayments to ACF unitholders, the fund will be wound up.

**Table 5: ACF Rolling Returns**

| ACF (as at 31 May 10) | 1 Mth | 3 Mth | 6 Mth | 1 Yr | 2 Yr[2] | 3 Yr[2] | 4 Yr[2] | 5 Yr[2] | Inception[2] |
|---|---|---|---|---|---|---|---|---|---|
| Distribution Returns | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.77% | 1.07% |
| Growth Returns | -1.56% | -0.84% | 1.60% | 5.67% | 7.36% | 11.83% | 7.22% | 5.51% | 4.08% |
| **Total Returns** | **-1.56%** | **-0.84%** | **1.60%** | **5.67%** | **7.36%** | **11.83%** | **7.22%** | **6.29%** | **5.15%** |
| Grossed Up Distribution Returns[1] | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.77% | 1.07% |
| **Grossed Up Total Returns[1]** | **-1.56%** | **-0.84%** | **1.60%** | **5.67%** | **7.36%** | **11.83%** | **7.22%** | **6.29%** | **5.15%** |

1. Effective return including franking credits distributed to Unitholders
2. Rolling annualised figures

# RFM Ultra Premium Vineyard Fund (UPVF) ARSN 099 573 485 Agricultural Income Trust Fund 1 (AIT) ARSN 093 804 276

*Farm Update: David Murdock*
*General Manager Viticulture*

A Singapore-based institution is in negotiations with RFM to take a "substantial" equity stake in the two wine funds. If the deal is consummated, it will reduce the debt in the two funds and, at the same time, demonstrate that the industry, especially at the premium end of the market, has an exciting and profitable future.

At the same time, RFM is in the process of examining the benefits to unitholders of merging the two funds.

In the 2010 season, RFM vineyards again performed better than average. But that performance must be seen in the light of an industry that is struggling with oversupply, a high Australian dollar and the ongoing effects of the Global Financial Crisis, especially in the US.

As a consequence of these factors, prices continue to soften as can be seen from the prices paid by the market standard bearers – Fosters and Orlando in 2010, compared with 2009.

In the case of the former, the average price is down 25% for its six wine grades between C and B1. Fosters C Grade wine is fetching $600 a tonne in 2010, down a massive 40% from 2009. Even the higher Grade B1 is down 26% to $2,000.

For Orlando, the biggest price drop was for its 3.3 Grade, down a sharp 46% to $350 a tonne. At the higher end of the market, its 2.1 Grade, the 2010 price of $1,300 is unchanged from last year. On average, Orlando's six grades between 3.3 and 2.1 have dropped 17%.

For RFM, these low prices reaffirm its long-term strategy to focus on the premium end of the market and, at the same time, to keep costs at a minimum.

The Geier Vineyard, AIT's flagship asset, produced 1,792 tonnes of grapes at an average price of $1,329 a tonne. When combined with the Adelaide Hills and Hahn properties, the output was 2,797.02 tonnes at an average price of $1,198 a tonne.

The standout for the UPVF was the Kleinig property which produced 947 tonnes at $2,363 a tonne. When combined with Dohnt and Rosebank, total output was 1,405.86 tonnes at an average price of $1,979 a tonne. The iconic Penfolds Grange Shiraz grape fetched $15,000 a tonne. AIT produced 19 tonnes of Grange, whilst the UPVF produced 40 tonnes of Grange.

The weather conditions for the 2010 season were reasonable. Although there were extreme temperatures over summer in the Barossa Valley and Coonawarra regions in South Australia, the weather was mild for the rest of the growing season and there was sufficient water.

**Table 6: UPVF Rolling Returns**

| UPVF (as at 31 May 10) | 1 Mth | 3 Mth | 6 Mth | 1 Yr | 2 Yr[2] | 3 Yr[2] | 4 Yr[2] | 5 Yr[2] | Inception[2] |
|---|---|---|---|---|---|---|---|---|---|
| Distribution Returns | 0.00% | 0.00% | 0.00% | 0.00% | 1.18% | 0.84% | 0.67% | 0.53% | 0.37% |
| Growth Returns | 3.81% | 2.39% | -3.74% | -40.83% | -27.93% | -22.34% | -17.74% | -17.95% | -6.96% |
| **Total Returns** | **3.81%** | **2.39%** | **-3.74%** | **-40.83%** | **-26.75%** | **-21.50%** | **-17.07%** | **-17.41%** | **-6.58%** |
| Grossed Up Distribution Returns[1] | 0.00% | 0.00% | 0.00% | 0.00% | 1.18% | 0.84% | 0.67% | 0.53% | 0.37% |
| **Grossed Up Total Returns[1]** | **3.81%** | **2.39%** | **-3.74%** | **-40.83%** | **-26.75%** | **-21.50%** | **-17.07%** | **-17.41%** | **-6.58%** |

1. Effective return including franking credits distributed to Unitholders
2. Rolling annualised figures

**Table 7: AIT Rolling Returns**

| AIT (as at 31 May 10) | 1 Mth | 3 Mth | 6 Mth | 1 Yr | 2 Yr[2] | 3 Yr[2] | 4 Yr[2] | 5 Yr[2] | Inception[2] |
|---|---|---|---|---|---|---|---|---|---|
| Distribution Returns | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Growth Returns | 1.49% | 1.85% | -13.68% | -29.62% | -21.25% | -13.82% | -11.89% | -14.91% | -6.16% |
| **Total Returns** | **1.49%** | **1.85%** | **-13.68%** | **-29.62%** | **-21.25%** | **-13.82%** | **-11.89%** | **-14.91%** | **-6.16%** |
| Grossed Up Distribution Returns[1] | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| **Grossed Up Total Returns[1]** | **1.49%** | **1.85%** | **-13.68%** | **-29.62%** | **-21.25%** | **-13.82%** | **-11.89%** | **-14.91%** | **-6.16%** |

1. Effective return including franking credits distributed to Unitholders
2. Rolling annualised figures

# PROFILE

## Daryl Winter

For Daryl Winter, who was appointed RFM's National Manager – Almonds in 2005, the soil is in his blood. Born and bred on the Victorian side of the Murray River in Swan Hill, he is the third generation of farmers from a district that has a long, proud horticultural tradition.

But Daryl has never been a traditionalist. He has spent his entire life on the land since doing a horticultural apprenticeship at the Swan Hill TAFE in the mid 1970s exploring different ways of doing things. It's a trait he hasn't lost since joining RFM in 2005.

"When I first came back to work on the family farm (it is about 16 kilometres south-east of Swan Hill in the Lake Boga district) in the late 1970s to work with my father, we were farming about 30 acres, to use the old measure. It was a real mixed bag – beans, some vines, stone fruits, we even dabbled a little in almonds.

"But over a 10-12 year period we expanded the farm to about 180 acres, and, at the same time, consolidated our business down to one line, stone fruits. Rather than being a jack of all trades, we figured we would get better results being focussed on one line."

Daryl, however, wasn't content with just farming the land. New ways of making a dollar, new ideas to explore, were always beckoning. "I travelled extensively, getting to the US and other countries most years, to find out the latest developments. I've also done work with the various agricultural departments and private research companies about the use of chemicals, growing technologies, irrigation, anything that can add value to a crop."

Back on the family farm, Daryl took the business into packing. "I was a firm believer in vertical integration, so we developed a packing arm to the business (Stonefruit Packing) which became a large operation in its own right as we did the packing for other growers in the district."

In about 2005, two events coincided that were to take Daryl off the family farm and into the bosom of RFM. With three other growers, Daryl ventured outside traditional farming to develop a marketing company called OzTaste, becoming a major supplier of stone fruits and apples to the Coles supermarket chain.

"It was through OzTaste that I first met David Bryant (RFM's Managing Director). I had come to the Hillston area (in central NSW) looking to expand our grower network, particularly for new varieties of stone fruits, when David introduced himself, expressing interest in our business model. So we trialled stone fruits, but they matured too late. It was then we realised that almonds were the answer.

"At the same time my oldest son, who was in his early 20s, had just finished an agricultural science degree, but didn't want to come home to the farm. My other two children expressed the same sentiment, so I knew the family succession thing was over, so rather than stay there and just see my days out, I thought I'd move on and take a job with RFM. My dad still lives there, is still active, and I have a manager running the property."

Looking back, Daryl says it was the size of RFM – and its potential – that attracted him to the business. "I came into RFM with the belief that corporate agriculture can work when it's done well. I don't believe corporate agriculture has always been done well, and we don't have to look far to see examples of that. But RFM demonstrates that corporate agriculture can work.

"In a lot of cases it hasn't worked because the overheads get too big, and I think the emphasis on the growing part gets lost. I always believe – it's a strong of philosophy of mine – that you get the crop right, grow the crop right, grow it well, make money out of it, all the problems upstairs go away. In that sense I am a traditionalist.

"It doesn't mean you don't look at other ways of making money. You have to do that. But unless you get the crop right, those spin-off ventures won't work."

For Daryl, the return of RFM to its management team comes at a time when Hillston's potential as a source of world-class almonds is being realised.

"When we first started growing almonds in Hillston, we always knew we could get a crop. What we didn't know was just how good those crops could be. What we are seeing now with the 2006, 2007, and 2008 plantings is that they grow faster, bigger and better than almost any other almond region in the country. In addition, there is a consistency across the orchards you rarely see elsewhere.

"For unitholders and growers this has to be exciting. With 2006 due to come into full production in 2013, and others in the following years, they are at the cusp of reaping the benefits of what they have sown."