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Dismantle the Murray's muzzle

by David Bryant

The Murray Darling Basin Authority's recently released *Guide to the Basin Plan* is the first step in a process that aims to increase Murray River outflows by as much as 100%. This would result in a volume equal to 20 Sydney Harbours flowing out of the Murray Mouth in average years.

Given the distribution of environmental water proposed by the Guide, it is apparent that a major objective of the new Basin Plan is to maintain an open Murray Mouth. However this plan ignores ageing structures built just above the Murray Mouth that effectively muzzle the Murray.

The muzzle on the Murray takes the form of five artificial structures called barrages that were constructed between 1935-40, for the purposes of converting Lakes Alexandrina and Albert into freshwater lakes. The barrages are a chain of earthen causeways, concrete slabs, steel radial gates and timber structures totalling 7.6km that effectively block the Murray Mouth from the sea. The impact of these man-made structures in what was once our nation's greatest estuary, is that our largest river has lost 93% of its natural estuarine environment.

Conceived during the depression years of the 1930's, the barrages provided water administrators with the ability to backup fresh water through the lakes and the lower reaches of the Murray River. The barrages enabled administrators to control the height of the Murray and now as a consequence approximately 270km of the lower Murray and 75,000 hectares of lake area are under their influence.

During the recent severe drought, failure to keep the Murray Mouth open became a major issue in this country. The Murray Mouth is integral to the function of the Coorong and two adjoining lakes: Lakes Alexandrina and Albert, known as the Lower Lakes. Together the Lakes and the Coorong are a Ramsar listed wetland, making them one of 65 sites in Australia that have been listed and protected due to their environmental significance.

Calculations indicate that the volume of tidal water that flowed into the Lower Lakes, prior to the construction of the barrages, was as much as 20 GL per tide. With a cumulative twice-daily tidal flow, the amount of water no longer passing through the Murray Mouth dwarfs the latest proposal to push more freshwater through the Mouth.

Australia experienced a number of severe droughts in the preceding two centuries since European settlement, but prior to the construction of the barrages, the Murray Mouth did not close. To single out water diversions as the cause for Mouth closure ignores the fact that River flows prior to storage development would have been just as low, that is zero.

The single most important change in the hydrology of the Murray Mouth is not up stream flows but the construction of the barrages. The massive reduction in tidal flows has deprived our great river system of the natural twice daily water exchange that is a requirement of any healthy river.

The barrages have had a much more significant impact than contributing to the closing of the Murray Mouth. Instead of a gradient of saline through to fresh waters found in a natural estuary, the Murray has now a smaller and dysfunctional estuary being the Coorong, and an abrupt change to an artificial and dysfunctional freshwater body being the Lakes and the lower reaches of the River.

Information contained in a 2000 report published by the Murray Darling Basin Commission and titled *River Murray Barrages and Environmental Flows*¹, provides a litany of interconnecting environmental failures. Constant water levels in the Lakes have reduced habitat and consequently wading bird numbers. The reduced estuarine area has reduced natural fish numbers. Evaporation losses from the Lakes are as much as 1,000 GL (two Sydney Harbours) per annum. Lake shorelines are eroding, contributing to increased turbidity. This in turn has decreased sunlight for aquatic plant growth.

Environmentalists and probably many scientists will argue that additional outflows are still required for other reasons, such as salt export, or estuarine health. However given the Guide has ignored consideration of relocation of the barrages, it has consequently failed to provide adequate discussion about the total additional benefits of Murray River outflows. Clearly this is a discussion that the community needs to have.

Relocation of the muzzle on the Murray provides significant environmental outcomes. It will guarantee that we

can keep the Murray Mouth open. It will restore the natural variability so important to a functioning estuary. Finally it will save almost 1,000 GL in annual evaporation losses that could be used to assist with other environmental outcomes either beyond the Murray Mouth, or elsewhere within the Basin.

David Bryant is the Managing Director of Rural Funds Management Limited.

¹ Edited by: Jensen A, Good M, Harvey P, Tucker P, Long M, *River Murray Barrages and Environmental Flows*, Murray Darling Basin Commission, 2000, p19

The Private Selection 2009 Barossa Shiraz

Rural Funds Management Ltd (RFM) is pleased to bring you *"The Private Selection"*.

In keeping with RFM tradition, our National Manager – Viticulture, David Murdock, has selected a Barossa Shiraz of excellent quality. *"The Private Selection"* has been sourced from a very well known

winery in the Barossa and contains fruit from the Geier Vineyard. RFM is offering this exceptional 2009 Barossa Shiraz at the very low price of \$130.00 per case inclusive of delivery.

To order your case of *The Private Selection* 2009 Shiraz, complete the Order Form available on the

RFM website and forward together with your payment.

RFM would like to thank all investors for their support throughout the year and wish everyone a very Merry Christmas and a safe and prosperous New Year.

Unitholder reporting: Continuous Disclosure

In June 2009, ASIC issued guidelines for unlisted managed funds that allow them to meet their continuous disclosure obligations by updating their website rather than the current process of ASIC notification. ASIC recognises that updating of the website is a more effective and direct way of communicating with investors

and allows RFM to post on our website any information that is not generally available and that a reasonable person would think, if it were generally available, would have a material impact on the price or value of Units in RFM'S funds.

ASIC has recommended all relevant fund managers who intend to comply

with ASIC's 'Good Practice Guide to Continuous Disclosure' notify their investors accordingly at the next available opportunity. RFM intends to comply with ASIC's 'Good Practice Guide to Continuous Disclosure' and has now installed a dedicated continuous disclosure section on its website.

RFM Diversified Agricultural Fund

(DAF) ARSN 099 573 627

RFM's flagship fund, the RFM Diversified Agricultural Fund (DAF), has provided unitholders with outstanding performance for the 12 months to 30 September 2010.

Over this period, DAF, whose performance is set by its underlying investment funds, returned 20.8%. This return boosted DAF's longer term performance figures to 9.14% per annum for the five years to 30 September 2010, outperforming its investment goal of CPI plus 5% by 1.13%.

The strong result for the past 12 months incorporates significant capital uplift because of the redemption of DAF units owned by Great Southern Ltd (Receivers and Managers appointed; Liquidators appointed) at a 54% discount to the net tangible asset value. The redemption was facilitated by redeeming part of DAF's investment in RFM RiverBank (RiverBank).

The capital raising by DAF and RiverBank over the past 10 months attracted a combined total of \$16.5 million and has placed both funds on a sound financial footing.

RiverBank has contributed positively to DAF's returns with its almond orchards fully leased. The oldest part of the orchard, planted in 2006, has

trees exceeding four metres in height. The tree growth has been encouraged by the heavy rainfall received in Hillston, with more than double its annual average rainfall received this year. Present forecasts are for these trees to achieve a yield in line with forecasts of 2 tonnes per hectare.

The RFM Chicken Income Fund (CIF) provided positive returns to DAF, despite experiencing a challenging time with an atypical wet winter and spring, causing wet litter and the associated issues this brings. Negotiations in response to the management of the impact of wet litter are continuing with Baiada, the processor that takes all of CIF's output. Baiada and CIF undertook several initiatives to respond to the wet season which has disrupted the industry along the eastern seaboard.

The CIF also successfully resolved an ongoing litigation issue. In 2006, CIF experienced the collapse of one of its newly constructed sheds at Griffith. RFM, on CIF's behalf, instigated legal action that has now been successfully settled with CIF being compensated.

The performance of DAF's investments in RFM's two viticultural funds has been adversely affected by oversupply in the Australian wine industry which has seen vineyard valuations decrease by more than 30% in the past two years, causing

both funds to have higher gearing than desired. It is RFM's intention to merge the two funds to provide cost savings to unitholders including DAF. A rights issue, with units offered at a 50% discount to net tangible assets will be available. DAF intends to take up its rights under the offer given the significant discount at which the offer is being made and the potential for long term capital gain. Coupled with this is the operational track record of the vineyard funds, which is highlighted by their combined contribution of just over 44 tonnes of winegrapes making Penfold's Grange in 2010.

RFM is seeking to expand the DAF, with the issue of a new Product Disclosure Statement (PDS) dated 20 October 2010. Funds raised are to be invested into RFM's vineyard funds, for what appears an excellent buying opportunity given the decrement to the valuations and the discount being offered by the vineyard funds. The first \$4 million of capital is to be raised at a 15% discount to the August Net Asset Value. Following that, capital will be raised at Net Asset Value and will be used to fund liquidity in November 2011, a further investment into RiverBank along with other investment opportunities, which fit DAF's investment objective.

Table 1: DAF Rolling Returns

DAF (as at 30 Sep 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	1.77%	1.78%	7.92%	7.92%	5.32%	5.99%	6.77%	7.06%	5.70%
Growth Returns	-2.02%	-1.13%	12.89%	12.89%	2.53%	3.11%	1.39%	1.52%	0.98%
Total Returns	-0.25%	0.65%	20.80%	20.80%	7.85%	9.10%	8.16%	8.58%	6.68%
Grossed Up Returns¹	-0.25%	0.65%	20.80%	20.80%	7.85%	9.67%	8.86%	9.14%	7.02%
CPI + 5% (as at 30 Jun 10)	0.62%	1.87%	4.00%	8.05%	7.25%	8.00%	7.77%	8.01%	7.84%
Value Added/Subtracted	-0.87%	-1.22%	16.80%	12.75%	0.60%	1.67%	1.09%	1.13%	-0.82%

1. Effective return including franking credits distributed to unitholders

2. Rolling annualised figures

RFM RiverBank (RiverBank) ARSN 112 951 578

RFM RiverBank (RiverBank) is well positioned with the Moorabool and Yilgarn almond orchards fully leased and a successful capital raising completed. DAF and RiverBank raised a combined \$16.5 million during their recent capital raising.

For unitholders there is more positive news with RiverBank enjoying a stellar total return of 40.10% for the 12 months to 30 September 2010. Over the past five years, RiverBank has returned 15.96% on an annualised basis.

In other developments for RiverBank, the Murray Darling Basin Authority (MDBA) has released its draft plan that calls – at this stage – for a reduction in consumption use (called diversions) of between 1,000 and 2,000 GL a year. Although there is a lot of (political) water to flow under the bridge yet (pun intended), RFM is working to minimise any negative impact on its operations.

RFM believes its policy of conservative water budgeting and an active approach to acquiring economically priced water entitlements means RiverBank is well placed to manage any cutbacks.

RFM's water management plan uses a combination of surplus entitlements owned by RiverBank, carryover water already "banked" and the purchase of a small amount of additional water. Financial compensation received from the Government will be applied to acquiring a small amount of additional water and to upgrade water delivery infrastructure, reducing delivery losses and, therefore, the water required by around 10%, without reducing the amount of water applied to the trees.

This plan provides protection that RiverBank's assets – almond orchards with a projected value of \$90 million at maturity – will be maintained with adequate water.

The MDBA's draft plan has forced one change of strategy. The olive groves known as Steak Plains and Collaroy, which were sold with associated water rights to the Great Southern Olive Company in the 2008 financial year, are being acquired by RiverBank from the receivers.

The original plan was to remove the olives and replace them with almonds to extend the orchard area leased to

Select Harvests. However the spectre of the cutbacks that the MDBA plan envisages means that there will be no immediate expansion of the orchard.

RFM oversees about 1,800 hectares of almond orchards. Of that area, about one-third is leased to RFM Almond Growers and the other two-thirds to the publicly listed Select Harvests. Almond Co. has advised RFM that it expects to pay around \$5.20 a kilogram for the 2010 harvest.

RFM has three crops in different stages of production. The 2006 crop is expected to produce around 2 tonnes per hectare, the 2007 crop between 1.3 and 1.4 tonnes per hectare and the 2008 crop (leased to Select Harvests), is forecast to return 0.3 tonnes per hectare.

Table 2: RiverBank Rolling Returns

RiverBank (as at 30 Sep 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	1.40%	1.52%	8.75%	8.75%	5.98%	6.97%	11.14%	6.20%	5.78%
Growth Returns	-1.65%	6.72%	31.35%	31.35%	16.11%	15.13%	16.21%	9.76%	9.46%
Total Returns	-0.25%	8.24%	40.10%	40.10%	22.08%	22.10%	27.35%	15.96%	15.25%
Grossed Up Distribution Returns ¹	1.40%	1.52%	8.75%	8.75%	5.98%	7.38%	12.00%	6.66%	6.22%
Grossed Up Total Returns¹	-0.25%	8.24%	40.10%	40.10%	22.08%	22.51%	28.20%	16.42%	15.68%

1. Effective return including franking credits distributed to unitholders

2. Rolling annualised figures

RFM Almond Fund 2006

(AF06) ARSN 117 859 391

2007 and 2008 Great Southern Almond Income Projects

(Great Southern 2007 Almond Income Project) ARSN 124 998 527

(Great Southern 2008 Almond Income Project) ARSN 127 947 960



*Farm update: Daryl Winter,
National Manager – Almonds*

Almond Co. has advised RFM that it expects to pay around \$5.20 a kilogram for its 2010 almond harvest, says Daryl Winter, RFM's National Manager – Almonds.

"Earlier in the year there was talk that the market price could be as high as \$6 a kilogram, but the US Almond Board put an end to that speculation with a report in May that indicated it was expecting a good crop. California is the world's biggest producing region responsible for about 80% of global production.

"The Californian harvest was completed in early September and whilst in the past couple of years they haven't had enough water, this year they got good rainfall, ending up with a crop boasting a sizeable kernel.

RFM has three almond crops in different stages of production. For the 2006 Project, RFM expects that the PDS forecast of 1.7 tonnes per hectare will be achieved. The trees planted in early 2006 are likely to achieve a yield of just over 2 tonnes per hectare, with the average yield for the AF06 being reduced due to trees planted later in the same financial year.

The 2007 development, which encompasses the 2007 Project and the 2008 Project is expected to return between 1.3 and 1.4 tonnes per hectare. Almond trees typically take seven years to reach full maturity.

RFM oversees about 1,800 hectares of almond orchards. Of that area, about one-third is for Growers in these projects and the other two-thirds are leased to Select Harvest.

Like much of New South Wales, the region around Hillston has received heavy rain, about 736 millimetres so far this year which is well above the region average of 350mm. With the year not yet over, this already represents the highest annual rainfall on record since 1881, beating the old record of 711mm set in 1974.

Although everyone involved with RFM's almond production has welcomed the ending of the drought, there have been some downsides.

With the rain has come rust across the entire industry in all almond regions.

"We weren't the only ones to experience it; everyone was in the same boat.

The warm, damp conditions that accompanied the rain were ideal for an outbreak of rust. It wasn't disastrous by any means, but we had to move quickly to put programs in place to control it."

"This crop will be lighter than forecast earlier in the year in the wake of the heavy rain, particularly for the Non-Pareil variety of almond – about 50% of RFM's crop. The other three varieties grown are Peerless, Carmel and Price.

Winter says: "Currently the industry talk is for the (Non-Pareil) crop, on average, to be anything from 20% to 50% below normal crop. At RFM, however, we think we're still sitting between 10% and 30% below what I expected earlier in the year, so we are doing better than the industry.

"Although I am confident we will achieve forecasts in the 2006 Project and be very close for the other two Projects, we were surprised by the lighter flowering.

"If I were to take a guess, I'd say the changing weather pattern has 'told' the Non-Pareil it can have a rest. In the good times (plentiful rainfall), the tree has the luxury of just growing, but in tough times the tree is 'thinking' about survival, and it puts on as much fruit as it can to continue the species.

"Having said that, we're now seeing one of the best shoot bursts on the trees for years, so all the signs are for a bumper crop next year."

RFM Land Trust

(Land Trust) ARSN 128 112 443

RFM has taken a big step forward to restore value in the properties owned by the Land Trust when unitholders voted overwhelmingly to amend the constitution to give RFM, as the Responsible Entity, greater flexibility to maximise value from the 23 properties in the Land Trust.

The vote, held at a unitholder meeting in Canberra on 27 October, was 3,409 in favour to 220 against with 13 abstaining.

Unitholders approved changes that will enhance RFM's ability to achieve better commercial outcomes from these properties that are spread across four states – Western Australia, South Australia, Victoria and Tasmania – and comprise a total land area of 8,340 hectares.

Nathan Payne, Manager – Acquisitions, says: "The vote was a good outcome for unitholders. They have accepted the reality that there is reduced demand for forestry land following the collapse of Timbercorp, Great Southern, Forest Enterprises Australia and Willmott Forests, and have given us the authority to pursue other alternatives.

"The weaker demand for forestry land has been reflected in lower prices at recent sales and, as such, RFM believed that selling the properties in the current market would have resulted in substantial losses to unitholders.

"In RFM's view the best option to maximise value is for some properties to be redeveloped before being sold or leased, with the rest being either sold or leased in their current state.

The funds obtained from immediate sales or leases will be used to fund the re-development of other properties.

"We have reached this conclusion after undertaking (with assistance from independent valuers, forestry experts and property agents) a detailed examination of the 23 properties.

"Most of the land acquired by the Land Trust for plantation forestry was previously used for agriculture, including cropping and grazing. Much of this land boasts high and reliable rainfall, deep and productive soils, and close proximity to infrastructure and ports, making it commercially valuable after redevelopment."

Western Australia

The Land Trust owns 13 properties in WA with a total area of 5,633ha. Of the total area, 2,574ha currently has coppice regrowth, 1,330ha is unplanted arable land and 1,270ha is not arable. RFM is negotiating to lease these properties on a commercial basis. If these negotiations are not successful, RFM will consider the re-development of these properties for sale or lease.

South Australia

The Land Trust holds four properties in South Australia totalling 2,097ha. Of the total area, 1,095ha is prepared for planting trees, 232ha is unplanted arable land and 616ha is not arable. RFM believes the best option is to redevelop and sell these properties.

Victoria

There are five properties held by the Land Trust in the Gippsland region of Victoria totalling 466ha. Of the total area, 193ha has been prepared for planting to trees, 156ha is unplanted arable land and 42ha is not arable. Following an independent valuation, the current value of the properties was found to be greater, or at least equivalent, to the value of neighbouring grazing/cropping properties less the redevelopment costs. In light of this RFM believes their immediate sale is the appropriate course of action.

Tasmania

The Land Trust owns one 144ha property in north eastern Tasmania of which 105ha was previously planted to trees, 19ha is unplanted arable land and 4ha is not arable. Given the geographical isolation of this property, RFM believes the immediate sale of the property is the best option.



RFM Chicken Income Fund

(CIF) ARSN 105 754 461



Adriaan Shields
National Manager – Poultry

RFM's poultry sheds at Griffith in southern NSW have changed their management practices following the area's wettest winter in years.

Guy Holcroft, Area Manager Riverina – Poultry, says: "The heavy rain this year has brought with it higher humidity, causing the problem of wet litter in our sheds. I know it seems a little strange to be complaining about the rain, but from our perspective it's made our work a lot more difficult this winter.

"The aim in the sheds is to keep the chickens' bedding dry and pliable so the birds are comfortable, and this has been difficult to maintain with high humidity.

"With the first batch of chickens we tried using extra bedding on top and turning it over, but without much success. With the second batch we started using a rotary hoe to break up the bedding.

"The first cycle of chickens really tested our skills and response times. By the second cycle we were better prepared and more proactive. We had to hire several rotary hoes, and our staff put in a lot of extra effort to turn the litter to keep it dry.

"Our managers and staff deserve a real pat on the back because they have had to put their heads down and do some pretty hard work. Their combined efforts, in no small part, are what helped us respond so quickly to the unusual season."

Wet litter not only impacts the chickens' physical comfort, it can also result in meat quality issues.

Holcroft says: "The wet litter issue led to the downgrading on some of the birds on the processing side, which involved us in discussions with Baiada Poultry Pty Ltd. Baiada direct our growing practises so there were many discussions around ventilation issues, particularly in our older sheds.

"Although it hasn't been resolved, we're definitely in a better position. With the warmer weather we will be ventilating the sheds, and if this situation arises again we will be better placed to handle it."

The issue was important enough for RFM to seek outside advice. Dr Peter Scott, a consultant veterinarian, visited the sheds on a couple of occasions and had a significant input into the problem.

"We also consulted with Michael Czarick, a ventilation expert from the University of Georgia. He gave us some ideas about how to improve the situation. We've implemented them and that's really helping."

Holcroft says RFM is ready to commission the wireless network alarm system, which is independent of any telecommunications, to operate the alarm systems in all its sheds.

"It's taking a little longer than we thought to get it up and running, but now we have our own in-house monitoring system.

"Being a new system there's been some teething issues. Our supplier has worked on it solidly and now we're on top of it. We wanted to get more protection than a system you could buy in the marketplace, and we were prepared to invest the time and effort to achieve that. I expect it to be up and running across all sheds by early next year."

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

Table 3: CIF Rolling Returns

CIF (as at 30 Sep 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	2.76%	2.81%	6.08%	12.61%	12.68%	11.65%	11.29%	11.49%	11.06%
Growth Returns	-2.39%	-0.81%	-3.47%	-5.52%	-4.45%	-7.37%	-5.88%	-3.38%	-1.88%
Total Returns	0.38%	2.00%	2.60%	7.09%	8.23%	4.28%	5.41%	8.11%	9.18%
Grossed Up Distribution Returns ¹	2.76%	2.81%	6.08%	12.61%	12.68%	11.65%	11.36%	11.66%	11.24%
Grossed Up Total Returns¹	0.38%	2.00%	2.60%	7.09%	8.23%	4.28%	5.48%	8.28%	9.36%

1. Effective return including franking credits distributed to unitholders

2. Rolling annualised figures

Lachlan Farming Limited

(LFL) ACN 082 230 028

LFL has begun the process of returning capital to its shareholders after they agreed to this course of action in June.

On 1 July 2010, shareholders received a total \$18.6 million equating to 58.91 cents a share. Two further capital payments of \$4.5 million and \$5.5 million are expected to be made on 1 July 2011 and 31 December 2011, respectively.

The total distribution to shareholders is forecast to be 90.58 cents a share.

LFL will be wound up once all distributions are made.

The LFL Annual General Meeting was held in Canberra on 15 November 2010. The Minutes of the Meeting are available on the RFM website.

RFM Australian Cotton Fund

(ACF) ARSN 099 573 690

Unitholders in ACF are benefiting from the decision by LFL to return capital to its shareholders.

ACF owns 45.7% of the shares in LFL, and, following LFL's return of capital to shareholders on 1 July 2010, ACF distributed \$7.75 million to its unitholders. This equated to 87.2 cents a unit.

Two further payments of \$2.06 million and \$2.51 million are expected to be made to unitholders on 2 July 2011 and 1 January 2012, respectively.

The total income and capital payments being made to unitholders is forecast to be \$1.38 a unit.



RFM Ultra Premium Vineyard Fund (UPVF) ARSN 099 573 485

Agricultural Income Trust Fund 1 (AIT) ARSN 093 804 276

RFM's plans to merge the two viticultural funds – AIT and UPVF – and reduce gearing via a rights issue are progressing.

David Murdock, National Manager – Viticulture, says: "There will be tangible benefits for unitholders in a merged fund.

"Along with the benefits of geographical diversification, the merger will reduce administration costs in the two funds, whilst the capital raising will reduce debt and therefore finance costs. Once the merged fund is recapitalised it will be better positioned to make regular distributions."

The proposal to merge the two funds and raise capital are integral parts of the RFM strategy to extract the highest possible returns out of their viticultural assets at a time when the entire wine industry is struggling.

Murdock says: "RFM can only manipulate what it can directly control in its vineyards. The fact the combined funds were profitable in FY10 is extremely encouraging, especially when you consider the wine industry is at its lowest ebb.

"The health of the overall industry will continue to have an influence on our business. The industry has endured several years of downturn." There are many reasons for this downturn, including:

- **Oversupply:** All major wine companies are reporting difficult trading conditions with significant competition and price pressure. This has resulted in lower demand for fruit across all quality parameters, but also substantial pressure on grape prices. RFM, since inception, has seen prices for the same quality fruit plummet a massive 50%.
- **Global Financial Crisis:** There is no doubt the GFC has had a significant impact on the global wine industry; consumption is reported to be down 20% in key markets and consumers are generally drinking less.
- **Supermarkets:** About 80% of all global wine sales are now controlled by supermarket chains. Their model is simple; deliver low cost commodities to the consumer by pressuring suppliers to deliver at increasingly competitive prices.

Unfortunately in an industry with an oversupply, there is always someone willing to supply at low prices to gain sales. Good for the consumer, bad for the supplier.

- **Mergers:** Over the past decade the number of large wine companies has reduced due to rationalisation within the industry. Once there were Penfolds, Wolf Blass, Lindemans, Rosemount, Mildara, Wynns, Hardy's, Berri Estates, Renmano, Orlando, Richmond Grove, Leo Buring and Stanely (to name a few). Now we have just Fosters, Constellation and Pernod Richard. All of these companies used to purchase fruit in their own right; now, as consolidated enterprises, they purchase far less.

The RFM viticulture philosophy is based on producing the best quality grapes (at least ultra premium or 'B' Grade) to maximise returns and ensure the sale of all fruit produced. A fortunate by-product of this approach is that it acts as a catalyst in negotiating new contracts.



In 2010, RFM successfully achieved these objectives, during a time when the industry is struggling.

Murdock says: "This is a significant achievement. Similar companies to RFM have been unable to sell all fruit produced, and have been forced to value add into wine, an exercise that is generally unprofitable.

"The difficulty has been that as RFM has improved quality, prices have continued to soften in all quality grading except 'A' and 'Icon' grades. Fortunately RFM has been able to increase the volumes of both of these grades negating some of the impact of lower prices."

Charts 1 and 2 demonstrate the weighted price received for Shiraz from Foster's for AIT's Geier vineyard and UPVF's Kleinig vineyard. These vineyards represent 70% and 65% of the AIT and UPVF assets respectively. The weighted price has been calculated, assuming 2010 Fosters pricing, and extrapolated back through preceding vintages.

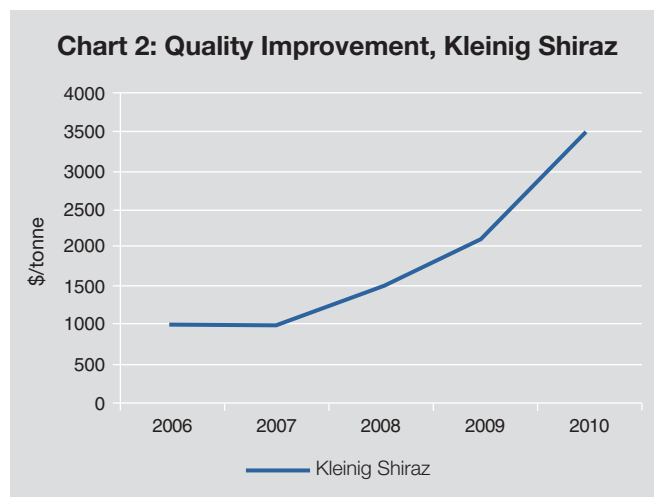
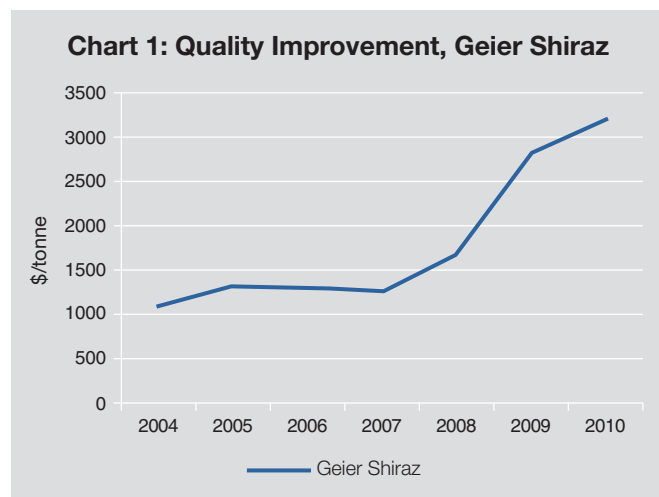


Table 6: UPVF Rolling Returns

UPVF (as at 30 Sep 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%	1.23%	0.85%	0.67%	0.55%	0.36%
Growth Returns	0.02%	-1.88%	0.80%	-3.84%	-24.41%	-22.06%	-17.71%	-15.59%	-6.97%
Total Returns	0.02%	-1.88%	0.80%	-3.84%	-23.18%	-21.21%	-17.04%	-15.04%	-6.61%
Grossed Up Total Returns¹	0.02%	-1.88%	0.80%	-3.84%	-23.18%	-21.21%	-17.04%	-15.04%	-6.61%

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

Table 7: AIT Rolling Returns

AIT (as at 30 Sep 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	-0.21%	1.53%	0.79%	-10.80%	-24.03%	-14.86%	-11.59%	-9.56%	-6.04%
Total Returns	-0.21%	1.53%	0.79%	-10.80%	-24.03%	-14.86%	-11.59%	-9.56%	-6.04%
Grossed Up Total Returns¹	-0.21%	1.53%	0.79%	-10.80%	-24.03%	-14.86%	-11.59%	-9.56%	-6.04%

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

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PROFILE

David Murdock



David Murdock, RFM National Manager – Viticulture, has been growing grapes for 30 years. It began when he left Adelaide University where he was studying agricultural science, to accept a scholarship to study viticulture with winemaker Wynns Coonawarra. It was a decision he has never regretted. Well, almost never – the past few years have tested his faith.

“When I came into this game it was one of the best industries in which to work. People were unbelievably helpful to each other. I’ve known numerous examples of people having a problem and not thinking twice about ringing a competitor to get the answer – and knowing they would get it.

“People were very friendly, down to earth. Back in those days no one was making a lot of money; it was more a lifestyle thing where the job satisfaction compensated for the smaller wage packets.

“They had a real passion for their product – and the convivial social atmosphere it created. There’s nothing better than sitting down, having a meal and drinking a bottle of somebody’s hand-crafted product. It’s nirvana. I still love it.”

But those experiences, more akin to a cottage industry, don’t characterise wine-making today. Now it’s much bigger; more competitive. And, in three decades in the game, David, who grew up in South Australia’s Coonawarra region and began collecting wine at 16, can never remember the industry being so flat. As he bluntly puts it, “the past few years have been bloody hard.

“You can talk about the high dollar; slow sales; over-production; basically grape prices are worse than they have ever been. The Chinese market is giving us a bit of encouragement, but that’s little consolation when you consider everything else that’s happening.”

In David’s opinion, the industry changed a little over a decade ago when Australian wine became the flavour of the month internationally. “The boom began in ’98, or thereabouts, and went through until about 2002. It was absolutely massive.

“We couldn’t do anything wrong internationally. There was huge demand for our fruit, huge demand for our wine, and prices were simply escalating; to me, it was an aberration, and so it has proven to be.

“What was driving it was some really good ‘Brand Australia’ advertising and promotion, especially in the UK. For a long time the British had been big consumers of French wine, but they were looking for something new, something different, so Australia came along at the right time.

“We were able to deliver into that market wines such as Jacobs Creek, and it just took off. Everybody got to know Australian wine as a good, solid wine that wasn’t expensive and was completely and utterly reliable by label. Put simply, we became the flavour of the month.

“Adding to that was our clean, green image in the world. We don’t ‘influence’

our wine. In those times it was a ‘ray of sunshine’, one of the clichés that was used to describe Australian wine.”

For David, it’s not an issue about the quality of our wine. “There’s no question that at the top end, our best is as good as any wine in any other country; the same can be said for our bad wines – they’re just as bad.

“The dilemma is that the worldwide consumption of wine hasn’t changed. All we did was take somebody’s market share and now they’re taking it back.”

The industry’s woes notwithstanding, David is still in the grip of the grape. Three decades of growing grapes and drinking the product will do that to you.

Before he joined RFM in November 2002, he had risen through the ranks at Southcorp to become General Manager, Vineyard Operations, responsible for 8,000 hectares of vineyards and 1,000 third party growers.

“It was a big responsibility. I had an operating budget of \$55 million, a capital budget of \$30 million, a \$250 million annual grape purchase budget, 650 employees, and an annual intake of 300,000 tonnes of grapes a year.”

Southcorp then accounted for 30% of Australian wine sales and 50% of exported wine (it was acquired by Foster’s in 2005), but for David it lacked the intimacy and the personal relationships that come from working with a smaller operation.

So when RFM knocked on his door in 2002, he was happy to hear the pitch. “It’s been a good eight years at RFM. Challenging, of course, but that’s no different to the rest of the industry in recent years.

“Over that time we have some successes such as improving the return per hectare by 49% though quality enhancement and increased yield. We’ve also grown the assets of one fund by 40% through acquisitions and greenfields development and improved viticultural practices to the extent that vine mortality has fallen 30%.”

Today RFM grows some of Penfolds’ premium grapes, including Grange Hermitage. The winemaker who was behind that famous label, the late Max Schubert, was just leaving the industry as David entered it so their paths didn’t cross. But Schubert used to say that great wines are made in the vineyard. David couldn’t agree more.