How to repay 22 trillion US dollars
by David Bryant

The recent extreme volatility in global financial markets— and as a consequence in our personal retirement savings— has been caused by too much debt. By 2010, the governments of member countries of the OECD, which include the US, Europe and the other world debtor nations, collectively owed 22 trillion US dollars. Uncertainty around how this debt will be repaid will continue to cause volatility. Certainly as to how it will be paid will dictate who will pay, and how it will impact our retirement savings.

The debts of two countries have been the subject of the most attention during recent months: the US and Greece. The US is the world’s largest debtor in outright dollar terms, with its public debt in 2010 of nine trillion dollars, which was equal to 61% of its gross domestic product (GDP). Greece on the other hand only owed 0.45 trillion dollars, but it is the OECD’s worst debtor nation because its debt was equal to 146% of GDP.

While the problem of Greece is relatively small, it is emblematic of wider problems in Europe. Debt to GDP ratios for other countries are also high: Italy is at 105%; Belgium 97%; Portugal 88%; the UK 86%; and Ireland 81%. In the case of the US, the cause for concern is not the present debt level but its trajectory. Given government spending and interest costs exceed tax collections, the US is forecast to add a further 6.8% of GDP to its net debt. Recent wrangling over the debt ceiling has made it clear that little political consensus can be achieved to avoid future deficits. On its current trajectory, US net government debt will approach 90% of GDP by 2016, equal to $73,300 per working age person in that country.

There are five ways that governments can reduce their debt levels. The first way is to repay debt by applying annual budget surpluses created from increased taxes, or decreased spending. Often called austerity measures, this method is being used by Greece and Ireland at present. Secondly, debt can be reduced by simply defaulting, then negotiating the repayment of a lower amount. Thirdly, debt relative to the size of an economy can be reduced by economic growth – a method that appears difficult at present. Fourthly, debt can be reduced in real terms by allowing a burst of inflation that reduces the real value of debt.

The fifth method is an old trick with a new name: ‘financial repression’. This term refers to government regulation designed to keep the cost of financing government debt down, thereby reducing the debt servicing drag on annual budgets. Examples of regulations that achieve this are those that mandate the purchase of government bonds by banks or superannuation funds, or simply those that encourage the purchase of domestic bonds due to greater reserve requirements or restrictions on foreign investment. While appearing to be regulations designed to bolster the financial system, these measures in combination with above average inflation, can create negative real interest rates, thereby eroding the real value of government liabilities.

Mounting division between the ‘haves’ and the ‘have-nots’

While the UK government will blame London’s riots on social networking and a lawless minority, demonstrations from Dublin to Athens are evidence that England’s ‘chavs’ and Europe’s poor are aware of the growing wealth gap. During the last two decades preceding the GFC, incomes of the richest 10% of the population in OECD nations rose to nine times that of the poorest 10%. As a consequence of the collapse in house prices and the GFC, between 2005 and 2009, the median real wealth of Hispanic households in the US dropped by 66%, and black household wealth declined 53%. White household wealth during the same period dropped 16%, but remained nearly 19 times that of the median black or Hispanic household.

While the poor don’t want cutbacks in spending, the rich don’t want tax increases either. The recent refusal by the Republican Party in the US to agree to tax increases is evidence that the ‘haves’ are reluctant to shoulder the burden of deleveraging.

Given the transparency and consequent unpopularity of both austerity measures and tax increases, it is almost certain government will have to resort to more opaque ways of reducing their debts. For this reason, both inflation and financial repression are highly likely, and probably happening already.

High government debt is not the only problem that is besetting the global economy. During the years preceding the GFC, debt levels grew rapidly in the financial sector, in commercial property and in households. As a consequence it is not only governments, but businesses and households that now must go through a long period of deleveraging – or paying back what we have borrowed. This process will have important implications for our retirement savings and the lifestyles to which we wish to remain accustomed.

Real fixed interest returns will be low or negative

Higher rates of inflation tolerated by governments seeking to reduce their debt will raise the bar for real returns. Furthermore, lower bond rates encouraged by governments seeking to reduce debt-serving costs will create periods of negative fixed interest returns.

Evidence of this can be seen during three extended periods of the last century: 1910-20 following the crash of 1907; 1947–56 following World War II and 1971–79 during the Vietnam War and Arab oil embargos. During these periods inflation averaged 8.1% and bonds averaged 5.7%, creating real returns of negative 2.4%.

Your spending will be lower

Driven by a prolonged period of lower real rates of return, investors will have to reduce their expenditure – if they have not already done so. Until 2007, investors had become accustomed to years of extraordinary returns. Since then professional investors and academics have revised their targets, with some concluding that a drawdown of 5% per annum may be too great to sustain the capital of a portfolio.

In households throughout the developed world, savings rates are increasing as households reduce debt, or increase their savings rate for retirement. Meanwhile self-funded retirees now have little choice but to review their expenditure, else they erode their capital base too quickly.

A smart investor must now become a smart spender.

Economic growth will be reduced

As the world deleverages, reduced spending by government and households will reduce economic growth. A recent study by McKinsey & Company, a consulting firm, found that previous “belt tightening” deleveraging episodes have lasted six to seven years and have been associated with declining real GDP in the first two to three years of deleveraging.

Real rates of return from equities will be low

The combination of the hurdle imposed by a higher inflation rate, and reduced economic growth caused by belt tightening, will reduce the growth in corporate profits and therefore the growth in equities. During the three inflationary periods of the twentieth century, the real growth rate of shares was -3.2% per annum. With the average yield of Australian shares at around 4.5%, the real total return from equities is likely to be, at times, disappointing.

Review your asset allocation

Professional and institutional investors are changing their asset allocations to adapt to the new environment. A recent report analysing the investments of the massive US university endowments recommended they allocate no more than 40% to private equity, real estate and public equities.

The report noted that capital tends to flow quickly to markets with apparent opportunity. Consequently, these markets tend to revert to average returns and the opportunities do not last more than 12 to 24 months. For this reason, it was recommended that endowments retain capital for opportunistic allocations to compelling markets. The balance of funds are recommended to be invested in high quality intermediate term corporate debt, investments negatively correlated with equities, and investments with low exposure to both general market movements and risk premiums.1

Conclusion

The world has too much debt and we cannot agree who will pay it back. Because the debt is so large, and political consensus so difficult, it is likely that alternative measures will be deployed.

In the 1950’s, inflation was described by then Chairman of the US Federal Reserve as “the thief in the night”. Given the deleveraging task ahead of us, investors will need protection from the thief, by reviewing their asset allocation and managing their spending.

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

References

1 World debt worksheet – source OECD stats
4 Growing income inequality in OECD Countries: What drives it and how can policy tackle it?, OECD, Forum/Fares, 2 May 2011

**RFM RiverBank**

RiverBank has again delivered a strong performance for its unitholders with a double-digit return for the 12 months to 30 June 2011.

RiverBank has recorded a 13.91% grossed-up total return for the past 12 months, continuing a pattern where this RFM fund continues to outperform. In the past three years to 30 June 2011, it has returned an annualised 17.29%; over the past five years it has seen 16.15% returns; and since inception it has returned 14.58% to its unitholders.

The outlook for RiverBank in the 2011-12 financial year is promising. Currently, RFM manages around 593 hectares of almond orchards for its Growers as part of the RFM Almond Fund 2006 (AF06), Great Southern 2007 Almond Income Project (AP07) and Great Southern 2008 Almond Income Project (AP08).

The remaining 1212 hectares are leased to the publicly listed Select Harvests Limited, which RFM had been managing on behalf of Select Harvests. That management agreement came to an end in July this year.

**Table 1: RiverBank Rolling Returns**

<table>
<thead>
<tr>
<th></th>
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<th>1 Yr</th>
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<th>Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Distributions</strong></td>
<td>1.76%</td>
<td>1.75%</td>
<td>3.54%</td>
<td>7.23%</td>
<td>6.86%</td>
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<td>7.14%</td>
<td>7.50%</td>
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</tr>
<tr>
<td><strong>Growth</strong></td>
<td>0.49%</td>
<td>0.36%</td>
<td>0.03%</td>
<td>6.24%</td>
<td>14.61%</td>
<td>10.66%</td>
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<td>8.29%</td>
<td>8.17%</td>
</tr>
<tr>
<td><strong>Total Returns</strong></td>
<td>2.25%</td>
<td>1.49%</td>
<td>4.07%</td>
<td>13.47%</td>
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</tr>
<tr>
<td><strong>Grossed Up Distribution Returns</strong></td>
<td>2.16%</td>
<td>2.14%</td>
<td>3.95%</td>
<td>7.67%</td>
<td>7.03%</td>
<td>6.63%</td>
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</tr>
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1. Effective return including franking credit
2. Rolling annualised figures

Daryl Winter, RFM’s National Manager – Almonds, says: “From the management perspective, we are in a transition phase. It’s a good outcome for both RFM and Select Harvests because we have two very different management styles; this amicable separation will allow us to give our full attention to our crop.”

Currently, RiverBank is focussing on asset improvements and is undertaking a number of capital development projects. All weather access roads have been constructed on Yilgah, and are also underway at Mooral. There has been a new machinery workshop constructed on Yilgah. Further, worksite amenities, fertilizer storage and a machinery shed have been commissioned on the Mooral orchard. Daniel Edwards, Business Manager, says “These improvements are necessary for the efficient operation of the orchards and really contribute to the functionality of the properties. This improves the attractiveness of the properties to tenants, which is excellent for RiverBank.”

The main source of funding for this infrastructure will come from the planned capital raising in RiverBank, to begin 27 September 2011. This capital raising will take the form of a discounted Rights Issue Offer where existing Unitholders will be given the opportunity to purchase additional Units at a 30% discount to the 30 June 2011 NAV, until 19 October 2011.

Finally, there is still no definitive proposal on the broader industry issue of what the Murray Darling Basin Authority (MDBA) will finally recommend regarding consumption use of the Murray Darling water system.

The initial draft plan wanted a reduction in consumption use of between 1,000 and 2,000 GL a year. However, this has now gone back to the drawing board after the report’s methodology was challenged. The agri-industries operating in Australia’s food bowl are still awaiting the next report, now due November 2011.

For more information on the upcoming RiverBank Rights Issue Offer, please speak to your financial adviser, or contact RFM Investor Services on 1800 026 665 or email investor.services@ruralfunds.com.au.

**RFM Almond Fund 2006**

**2007 and 2008 Great Southern Almond Income Projects**

(AF06 ARSN 117 859 391)

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

(Great Southern 2008 Almond Income Project) ARSN 124 947 960

Although Daryl is optimistic about the prospects for the 2012 crop, he is acutely aware that in horticulture there is many a slip “twixt the cup and the lip.”

“At the time of the last newsletter, and despite the heavy rains we were experiencing, I was reasonably confident about the prospects for the 2011 crop. In the end, the final result was disappointing with yield below forecast.

“We experienced a challenging season including poor pollination due to the wet weather; the Hillston region had a record 815 millimetres of rain in 2010. Aside from affecting pollination, the heavy rain around the end of last year meant we ended up with some disease in the orchard. However, we controlled the disease pretty well using fungicides, although when compared with other orchards.”

RFM also had to contend with a mouse plague of biblical proportions.

“Once we got into harvest we started hitting them hard.”

Also, we will be better prepared by using poison before harvesting. We’ve got to hit them hard.”

In the meantime, spring is in the air, the bees are active in the orchards and Daryl is looking forward to a good 2012 crop. “It should be much better this year. Yields are forecast to improve with better conditions and with the number of flowers in the orchards, it certainly feels like the season is off to a great start.”

Daryl Winter
National Manager — Almonds

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RFM Diversified Agricultural Fund (DAF) ARSN 099 573 627

RFM has decided to close the RFM Diversified Agricultural Fund (DAF) to new investment. This decision has been taken in response to the very slow fund inflow that DAF has received over the last six months; a situation mirrored across the Australian retail investment industry. Recent economic uncertainty and resultant investment volatility has seen investors defer making a decision to move their portfolios out of cash and invest in other asset classes and consequently RFM has closed the DAF.

The DAF’s performance is driven by its underlying investments and DAF returned a solid performance to unitholders for the 12 months to 30 June 2011 achieving an annual return inclusive of franking credits of 5.29%.

For the five years to 30 June 2011, DAF has achieved annual grossed-up returns of 8.91%, putting it ahead of its investment goal of CPI plus 5% at returns of 8.81%, putting it ahead of its investment goal of CPI plus 5% at returns of 8.81%.

DAF has achieved annual grossed-up returns of 8.81% (as at 30 Jun 11) 1 Mth 3 Mth 6 Mth 1 Yr 2 Yr 3 Yr 4 Yr 5 Yr Inception

- Distributions 2.03% 2.04% 4.09% 7.97% 6.93% 6.17% 6.46% 6.69% 5.91%
- Growth -0.64% 0.05% -0.90% -2.51% 4.45% 0.73% 1.45% 1.59% 0.74%
- Total Returns 1.39% 2.09% 3.19% 5.46% 11.37% 7.12% 8.38% 8.85% 6.96%
- CPI + 5% (as at 30 Jun 11) 0.71% 2.13% 4.94% 8.60% 8.33% 7.70% 8.15% 7.93% 7.92%
- Value Added/Subtracted 0.68% -0.04% -1.75% -3.14% 3.04% -0.58% 0.23% 0.92% -0.96%

1. Effective return including franking credit
2. Rolling annualised figures

The CIF continues to be a strong contributor to DAF. Its 10.39% return was ahead of its average five-year return of 8.41% and its average return of 9.57% since inception.

Several factors coalesced to underpin the CIF’s return for the past year. Its Performance Index Factor (PIF) for the poultry operations in the Riverina region of NSW and near Geelong in Victoria have been achieving an average of more than 300 based on this index, above the industry average of about 280 (a higher PIF indicates better performance and efficiency).

The wet litter problem in the Riverina sheds last year – a product of the heavy rains – has been ameliorated by improving the birds’ diet and improving ventilation. A capital injection of $3 million has resulted in a significant upgrading of the CIF’s older sheds, also contributing to the improved performance.

RiverBank’s 1,800 hectares of almond orchards at Hilton in central NSW were a positive contributor to the DAF performance. The DAF’s investment is buffered from seasonal conditions as the orchards are fully leased.

RiverBank’s strong performance of 13.91% for the past year is even more impressive when measured over the past five years with the return for this period being 16.15% and, since the fund’s inception, 14.58%.

The Australian Wine Fund (AWF), experienced a very challenging wet harvest and ended the financial year with revenue 20% below forecast, resulting in annual performance of negative 41%. This result also includes the impact of a capital raising which was undertaken at a deep discount.

The AWF has continued to maintain its reputation for achieving the highest quality grapes; in spite of unusually high rainfall and some vineyard disease. Production of icon-status grapes increased from 75.76 tonnes in 2010 to 125.48 tonnes this season.

DAF had planned to provide a redemption offer funded by new fund inflow to DAF investors in November 2011. Given that DAF is closed, it will not be possible to offer a redemption. RFM will keep unitholders informed of any change to this situation.

The Land Trust’s current assets comprise 18 properties located in Western Australia, South Australia and Tasmania. Five properties in Victoria’s Gippsland region, as well as one property in South Australia, have been sold. These properties were sold at or around their 2010 book value – a good outcome in the current economic climate.

RFM has put in place agistment and tenancy arrangements with neighbouring graziers on the remaining South Australian properties, located on Kangaroo Island. The one 144ha Tasmanian property in the state’s north east has been put on the market for sale. Despite a downturn generally in the Tasmanian market, this property is within the financial reach of recreational or conservation purchasers which should allow for a timely sale.

Of the Land Trust’s Western Australian properties, eleven are the subject of lease negotiation. Providing this negotiation is successful, the properties will earn attractive commercial rents under a quarterly lease arrangement, providing substantial income for the Land Trust. The remaining two Western Australian properties are currently being assessed for suitability for sale, lease or redevelopment from forestry to agricultural use.

Dan Edwards
Land Trust Business Manager

For unitholders in the RFM Land Trust, it is promising news; the restructuring of the Land Trust is on track and current modelling suggests that following the sale and lease of a number of properties, a significant distribution payment will be made.

Dan Edwards, Land Trust Business Manager, says: ‘The signs are encouraging. We have sold some properties, and are in the process of leasing others. This should allow RFM to provide unitholders with a distribution’. Over the next 12 to 18 months the Land Trust is expected to be in a position to return significant proceeds to unitholders.

Land Trust Unitholders should contact the RFM office to update their contact records and provide Electronic Funds Transfer (EFT) details. This will ensure all future correspondence regarding developments within the Land Trust can be given to all Unitholders, and future distributions can be made quickly.
RFM has achieved above average farming performance and efficiency in its chicken operations in recent months. The RFM Chicken Income Fund (CIF) has recorded a significant improvement in its Performance Index Factor (PIF) for its poultry operations in the Riverina and near Geelong in Victoria. The industry average PIF is typically around 280, but in recent months CIF’s farms have achieved an average of more than 300 based on this index.

The PIF is based on three key factors: amount of feed that’s converted into chicken meat (or FCR – Feed Conversion Ratio); mortality rates; and average live weight.

Another positive contributing factor has been the upgrading of the older Griffith sheds, which has made it much easier to keep the temperature constant.

The colder weather has meant that utility costs have been higher than usual. According to Adriaan, it’s due to high seasonal demand for gas because of the cold weather to date. In addition, there has been a higher average age of the birds with shorter turnarounds (days when the sheds are empty). “I have been working in the Riverina for 11 years now, and it is the coldest winter I can remember.”

The issue of stocking densities in the sheds has also been addressed. Adriaan says: “Better management of stocking densities, particularly at pick-up time, has ensured we are maintaining a density of no more than 36 kilograms per square metre.

“Industry standards are 40 kilograms per square metre in winter, but maintaining the lower density has no doubt been a significant contributing factor in the better management of the sheds.”

The Griffith farms have now completed two formal compliance audits for SQF1000 accreditation (an internationally recognised food safety standard for producers). Both audits have been passed successfully, with zero non-conformance from the most recent audit in May.

RFM is now looking to attain SQF1000 accreditation for the Lethbridge farms outside Geelong. Audits are planned for this region later in the year.

Adriaan says the CIF’s success has been helped by having a settled and dedicated staff over the past six months. “In particular, Herman De Waal, who joined RFM as the Area Manager in Griffith six months ago, has settled into the position. His experience in colder, wetter climates has been a great asset throughout this winter.”

To date, SBK has acquired more than 2000 cattle and 2000 sheep to the value of about $2 million, which have been placed on geographically diverse properties to mitigate seasonal risks. This investment is on the back of successful trials already conducted by RFM.

Based on performance to date, RFM expects the trial to be successful. RFM is currently in the process of registering SBK with ASIC and intends to make offers of investment into SBK during 2012. Further information about SBK and future opportunities to invest in SBK will be provided in the next RFM newsletter later this year.

RFM Chicken Income Fund
(CIF) ARSN 105 754 461

Adriaan Shields
National Manager – Poultry

RFM, in partnership with Baiada Poultry, has kept the problem of wet litter at bay this year. Adriaan Shields, National Manager Poultry, says: “Although there has been quite heavy rain over the past year in the Riverina, we have enjoyed significantly drier litter conditions in the sheds.

“There had been concerns that the problem with wet litter would return with the colder weather over winter, but due to improvements in bird diet and improved ventilation, this hasn’t occurred.”

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Table 3: CIF Rolling Returns

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<th>6 Mth</th>
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<td>11.86%</td>
<td>11.56%</td>
<td>11.51%</td>
<td>11.00%</td>
</tr>
<tr>
<td>Growth</td>
<td>-2.04%</td>
<td>-0.39%</td>
<td>-1.48%</td>
<td>-2.81%</td>
<td>-4.22%</td>
<td>-8.33%</td>
<td>-6.13%</td>
<td>-3.53%</td>
<td>-1.95%</td>
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<tr>
<td>Total Returns</td>
<td>0.79%</td>
<td>2.50%</td>
<td>4.28%</td>
<td>8.00%</td>
<td>8.09%</td>
<td>3.53%</td>
<td>5.43%</td>
<td>7.99%</td>
<td>9.05%</td>
</tr>
<tr>
<td>Grossed Up Distribution Returns</td>
<td>2.84%</td>
<td>2.88%</td>
<td>6.21%</td>
<td>13.20%</td>
<td>13.10%</td>
<td>12.96%</td>
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1. Effective return including franking credit
2. Rolling annualised figures
Unusually high rains took a toll on the Australian wine industry during the past season. Whilst the AWF continued to produce icon-quality grapes, the vineyards did not escape the damaging weather conditions.

David Murdock, RFM National Manager – Viticulture, says: “This is the worst season I can remember in the industry. Speaking to former colleagues who have retired, they say it’s the worst season since 1974.”

In January, there were strong hopes that the industry was on the cusp of one of its best seasons following good winter rains and a relatively dry January before picking began in late February. However unseasonably high rainfall in February and March, (as demonstrated in Figure 1) dashed these hopes.

“In January our hopes were riding high. In February we were still hanging in there, but the heavy rain in March resulted in fruit downgrades.

“It was bad in the Barossa, and then got worse the further south you went to the Fleurieu Peninsula (home to the McLaren Vale wineries) and the Limestone Coast (Coonawarra wineries), and then across the border to Victoria’s wine fields.

“With the rain came disease in the form of downy mildew, powdery mildew, and Botrytis, and all three took their toll on the crop. It’s only a guessimate, but I suspect disease cost about 25% of the crop in south-east Australia.”

Excess rain on the cusp of the picking season had the effect of “inflating” the berry size and diluting flavour, the opposite of what is required to produce a quality crop.

David says: “The ideal conditions for growing wine are solid winter rain and then dry conditions in the summer months before picking. Then you get the smaller berries and bunches that are essential for the intensity of flavour and colour. However, if there is too much rain late in the harvest, you get larger berries and bunches with more juice and less skin, detracting from the grape’s intensity.”

Despite much of the harvest being downgraded, it has not been all doom and gloom for the AWF. The amount of icon grapes produced by AWF increased considerably from 75.76 tonnes in 2010 to 125.48 tonnes in 2011. This is a significant achievement given the conditions experienced. David says: “These are the grapes Penfolds uses to make wines of the status of Grange, RWT, and Bin 707 – their iconic brands. In the circumstances, to increase our output of Icon-grade grapes by 65% was a phenomenal performance.”

However, the combined impact of the rain and disease resulted in substantial increases in the tonnes of lesser quality grapes produced compared to 2010. RFM’s Grade A crop dropped from 604.42 tonnes to 236.12 tonnes, whilst B, C and D grade tonnages increased.

The effect on grape prices, however, was barely discernable when compared with 2010, with prices across all grades marking time.

David says: “Prices hit a plateau in 2011, so with any luck we might start to see some price movement next year. The prices received for Icon and A Grade grapes make for a profitable business, and we will continue to focus on achieving those grades – seasons permitting of course.”

Table 4: AWF Rolling Returns

<table>
<thead>
<tr>
<th>Year</th>
<th>1 Mth</th>
<th>3 Mth</th>
<th>6 Mth</th>
<th>1 Yr</th>
<th>2 Yr</th>
<th>3 Yr</th>
<th>4 Yr</th>
<th>5 Yr</th>
<th>Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>AWF (as at 30 Jun 11)</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.73%</td>
<td>0.59%</td>
<td>0.50%</td>
<td>0.32%</td>
</tr>
<tr>
<td>Growth</td>
<td>-2.16%</td>
<td>-5.24%</td>
<td>-39.92%</td>
<td>-40.71%</td>
<td>-23.23%</td>
<td>-32.62%</td>
<td>-27.38%</td>
<td>-23.05%</td>
<td>-11.52%</td>
</tr>
<tr>
<td>Total Returns</td>
<td>-2.16%</td>
<td>-5.24%</td>
<td>-39.92%</td>
<td>-40.71%</td>
<td>-23.23%</td>
<td>-31.89%</td>
<td>-26.79%</td>
<td>-22.55%</td>
<td>-11.21%</td>
</tr>
<tr>
<td>Grossed Up Distribution Returns¹</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.73%</td>
<td>0.59%</td>
<td>0.50%</td>
<td>0.32%</td>
</tr>
<tr>
<td>Grossed Up Total Returns¹</td>
<td>-2.16%</td>
<td>-5.24%</td>
<td>-39.92%</td>
<td>-40.71%</td>
<td>-23.23%</td>
<td>-31.89%</td>
<td>-26.79%</td>
<td>-22.55%</td>
<td>-11.21%</td>
</tr>
</tbody>
</table>

1. Effective return including franking credit
2. Rolling annualised figures
“At the height of the GFC (2008), the sharemarket had bottomed out and neighboring properties around Camperdown were selling for about $3000 an acre. As the economy stabilized, so did land values. Now, the farm is worth around $2200 an acre.”

For Mike, this experience reinforces his belief that investing in agriculture adds valuable diversification benefits to an investment portfolio. “Historically, well-run agricultural operations can produce returns similar to equities. In addition to that, investors can benefit from a low correlation between agricultural returns and traditional investments.

“Looking ahead, I think the future is bright for investment in food production. We are aware of the food security concerns in developing countries, and the emerging middle class story in Asia with changing dietary habits. Land and water are finite resources which need to be managed in a sustainable manner.

“The global population is currently around 7 billion people and expected to increase to 9 billion by 2050, stirring Malthusian fears.

“But I think that Thomas Malthus (the English scholar who warned about population growth and food crises in the early 19th century) got it wrong when he said we were going to run out of food. This school of thinking under-estimates how ingenious the agricultural sector is at finding new and more productive ways of producing food.

“This is certainly true of Australia; our farmers are world-class. They have to compete with countries where agriculture is subsidised or less regulated, and labor costs are lower. Certainly they have proven to be very adaptable, improving productivity and staying profitable in the face of real declining commodity prices.”

To this optimistic note, Mike adds a word of caution. In particular, consumer groups in developed countries are becoming increasingly socially aware – and politically active – about food production. “I do share the concern about where the next wave of productivity-enabling technology will come from. Agriculture’s rate of productivity improvement does appear to have plateaued and it is very important – essential, actually – that we continue to invest in research and development.”

Mike’s views on agriculture are the product of a lifetime in the industry. He grew up on the family beef property in Mudgegonga near Myrtleford in north-eastern Victoria (the farm has been in the family for 140 years). He then completed his schooling and tertiary education in Melbourne, pursuing a Bachelor of Agricultural Science at La Trobe University in 1982.

Returning to the family farm wasn’t an option so Mike turned his degree and personal interest in agriculture to the corporate world, first with the giant US live sciences company Monsanto and then with a venture capital biotech company called Genelink, involved in research on sheep reproduction.

Armed with his experience in crop and animal production, Mike decided to join NAB. “I was attracted to the finance sector, and I’d always had a keen interest in the economics of farming. The bank gave me a great opportunity to really understand what makes a farm profitable, and how to help farmers create wealth.”

Today, in addition to RFM, Mike sits on seven other boards. They are: Sunny Queen Farms (largest egg marketer in the country), Meat & Livestock Australia, Rural Finance Corporation of Victoria, Warrnambool Cheese and Butter, the almond producer Select Harvests, the Australian Farm Institute and Marcus Oldham College (the latter two are on a pro bono basis). The rural theme is self-evident.

“It’s not as demanding as a full-time executive role, but you need to do your homework to remain fully informed as to how the business is tracking. There are monthly board meetings that take a full day, and you need a few days to read the board papers. And then you can spend three or four days working on a specific issue.

“It’s a role I really enjoy. I believe the skill set and experience I bring to the boardroom do add value to these companies.” David Bryant, Managing Director of RFM, can only concur.

According to Mike Carroll, non-executive director of RFM, the outlook for agri investments is bright.

With issues such as drought and the high Australian dollar, RFM investors may sometimes ponder whether their investment in agriculture is worth the industry’s perennial vagaries. Mike Carroll however, has seen first-hand the long term benefits of agricultural investment.

In 2006, Mike decided he had given enough years of his life – 18 in total – to the National Australia Bank (NAB). They had been good years, especially the last six when he was given the opportunity to set up and manage the bank’s agricultural business division, but Mike was ready for new challenges.

One of his first decisions was to sell some of his NAB shares and pursue a long-held ambition to purchase a rural property. “Before the GFC hit, I sold my bank shares and bought the farm (a 700-hectare beef property in south-west Victoria) at $1,700 an acre.