

Investment News

MYFARM™
Syndicate Farm
Investments

SPRING 2010

Steady growth good for NZ Farm Investors

In this post-recession climate investors are looking for good investment propositions that feature stability, security and regular, reliable cash returns.

So it is reassuring that the recently released FAO's Agricultural Outlook 2010-19 paints a solid demand picture for New Zealand's food producers. As Figure 1 demonstrates prices are not going to scale the heights they did in 2007, but they are going to be considerably higher relative to the previous decade, 1997-2006.

Average dairy prices are expected to be more than 50% higher in 2010-19 relative to 1997-2006, with butter prices showing most gains, supported by higher energy and vegetable oil prices.

As stated by the outlook; "The dairy sector is expected to remain one of the fastest growing sectors ... with strong potential as the popularity of dairy products rise mainly among developing country consumers and as demand expands with increasing affluence.

The UN is stressing that the Asia-Pacific region – home to two-thirds of the world's one billion malnourished people – must see growth in agricultural investment to tackle the hunger challenge.

The need to focus on pasture based low-cost production has been underlined by recent jumps in international wheat prices following the imposed export ban by Russia. When the majority of the world's milk is produced from concentrate based diets this will have the effect of reducing the milk price margin over feed costs, thereby directly or indirectly reducing milk output in Europe and the USA.

For farmers and farm investors this means good product demand but an on-going need

Figure 1: Commodity prices to remain below recent peaks but well above previous decade
Y axis = percentage increase in prices above 1997-2006 average



to focus on low costs of production. High prices are one thing but traditionally these have been eroded by higher costs. A key to success is NZ's (and Australia's) low cost pasture based dairy system.

The tangible, solid nature of a farm investment has seen the NZInvestor magazine assign Rural Property 7th place in its ranking of New Zealand's 10 safest investments. The writers put it behind government bonds but ahead of any other property category and securities (apart from shares in the stolid utility sector).

"Rural property provides the base for the nation's agricultural and horticultural products, and as ever-increasing areas of rural land are turned into residential subdivisions, good quality, well located rural land can be expected to become more scarce and increase in value."

NZ Investor, August 2010

For many New Zealanders with no direct connection to farming, the investment potential and stability of our number one export earner, agriculture, has been largely irrelevant to them, until now. But as NZ Investor sums up "safety first" is now order of the day and Rural Property can deliver income plus increasing value over time, with its biggest attraction being that it is a tangible investment.

Ironically the fact that our farmland is attracting increasing foreign investment interest is also calling New Zealanders to action. The FAO report is more evidence that poor food security, especially close to home in the Asia Pacific region, is driving demand for our food and our farmland.

MyFarm syndicates are one of the few options available to investors wanting to access our sector so perhaps it's time to have a close look?

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Canterbury Investment experience valuable

MyFarm's new sales manager, Matt Harrington brings first-hand experience as a farm syndicate investor to the role.

Matt comes to MyFarm after 17 years with the ASB bank. He was in the bank's rural team based in Canterbury from 2001-2009 and for the past three years his role has been focused on identifying and facilitating farm syndicate investment opportunities for clients.

To better understand what his clients experienced with syndicates, he has also personally invested in two farm equity partnerships, in Canterbury. The first is an 850-cow, 218 hectare dairy farm near Ashburton which six partners bought five

years ago and converted to dairy. The second is a 140hectare 460-cow dairy farm at Clandeboye which he and four other partners purchased in 2008.

"Obviously I'm not doing any of practical organising and farm management but my role is in the administration and communication with monthly reporting, facilitating contact between partners and working to extract the full value out of those farms."

His financial experience means he's very adept at identifying credit risks and he has also built up good knowledge about Canterbury dairy farming, in particular around irrigation.

"As MyFarm grows it is critical that we attract people with skills and experience in

agriculture and the farm syndicate model. Matt has proven skills at forming syndicates, in finance and in property identification and his very good network of contacts will benefit MyFarm syndicates," says MyFarm Director, Andrew Watters.

Matt will be working with new investors alongside Tracey Beavan and Andrew Watters. He is now based in Invercargill with his wife Sarah, who runs her own marketing consultancy, and their two young sons.



Matt Harrington

Legal expertise gets a major boost

The appointment of Legal executive, Rebecca Smith to MyFarm is an important boost to the syndication team.

Rebecca is managing the legal process involved in the establishment of MyFarm syndicates. She will work closely with Birgitta Harens who maintains all investor communications.

Rebecca has over eight years experience as a Legal Executive and became registered in 2006. Before joining MyFarm she worked for a large South Island law firm, firstly in the Personal Client Team of their Queenstown office and most recently in the Commercial Team of their Dunedin office.

She has extensive experience in the areas of conveyancing (residential, rural and commercial), trusts and gifting, subdivisions, leases, company and financial transactions, and she enjoyed specialising in e-dealings/ electronic transactions and the more complex subdivision/conveyancing transactions.

Rebecca has a wealth of experience in many businesses both here and abroad. She joined a small Dunedin law firm straight from school and after two years honing her administrative and executive skills embarked on a five year OE. She has worked on a cruise ship, a produce farm in Israel (moshav) and in tourism as a reservations manager.

Rebecca and her partner, Kerin are currently completing the final stages of building their Dunedin home before moving to MyFarm's hometown, Feilding.

"It's a big move at a busy time, but I am really looking forward to the challenge of putting my existing skills and knowledge to use in a different capacity while working for a growing company with an exciting future."



Rebecca Smith

Southland region in good hands

MyFarm Southland supervisor, Terry Carr is another recent recruit who knows well the needs of managers and investors in dairy farm syndicates.

After more than 15 years sharemilking, in 2005 Terry and his wife Jacqui and four other investors formed a dairy farm syndicate (equity partnership) in an 850-cow South Otago farm. Terry and Jacqui have since moved from their initial role as hands-on equity managers and the partnership now employs a contract milker on a 1200 cow unit.

Terry believes equity management is an increasingly attractive option for young people wanting to own their own land.

"Over time I believe equity partnerships will take over 50/50 share milking contracts in areas like Southland and Canterbury where the herds are larger. There will be more hybrid type contracts with easier entry and exit clauses and equity management will be an important vehicle for people to grow within the industry and eventually achieve farm ownership."

Ironically his own step up to farm ownership through a syndicate has also freed up more of his time and led him to the new role with MyFarm.

"I'm at the stage now where I want to get out of the cowshed but I've got a passion for dairying and development and helping young guys out. I love working out the best way of making a dollar in their business."

As Southland farm supervisor Terry is supervising 12 Southland farm syndicates working closely with MyFarm operations manager, Grant Payton and equity managers focussing on achieving business goals and regular reporting and communication with shareholders.

"Syndicates run very smoothly when everyone knows and understands the goals of shareholders and when everything is well documented and well planned."



Terry Carr

Robotic milking, a visitor's experience BY CLIFF KING

During a recent visit to Australia I took the opportunity to visit a farm at Mt Gambier with a newly established robotic milking operation.

This is the first season of operation for this shed which is fully automatic. There is virtually no need for the farmer to interact with the cows. In fact the herd of older cows selected from this farmer's main herds runs the show and all the farmer does is answer his cellphone and change feed breaks twice a day. They are all fitted with electronic transponders on neck collars which operate gates, meal feeders, the robotic milking units, even automatic back scratchers. At milking the robot detects somatic cell counts and automatically sends milk from high cell count cows into separate vats, then notifies the farmer via cellphone.

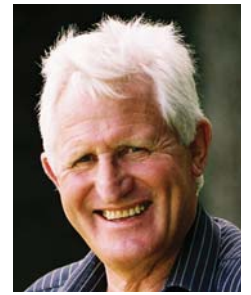
My outstanding impression of the cows both in the paddock and at the shed was how contented

they were. You would not see such contentment in the best zoos in the world. The entire farm is set up so that these cows make the decision when to be milked, and the owner told us on average they are milked three times in 24 hours. While they are milked they are fed their allocation of meal; if the robot lets them out after milking and they have not finished this meal, they are offered the remaining amount at a feed station in the yard prior to going out into a fresh paddock of grass.

We were told this astonishing technology costs \$200,000/robot (this farm had 4 robots for 300 cows) and the cows generate about 20% more milk, and the overall infrastructure costs 20% more but the farmer expects his investment

to be paid back in 3-4 years. If robotic milking does live up to these expectations it would certainly be a very exciting technological breakthrough to create such contentment and production increases from the same resources.

We will be continuing to evaluate the options for this technology in New Zealand. For interested investors we plan to set up a visit to a robotic milking operation during conference week.



Cliff King



Peace and tranquillity reign in a robotic milking farm system where cows make all the decisions.



The fourth cup lies idle during milking because the cow's transponder has told the robotic unit that its front left quarter is dry.

Put your money where the milk is.

MYFARM™
Syndicate Farm Investments

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Cascade Pastoral Partnership, North Canterbury. Fulfil the potential.



- Prime 327-hectare Culverden property.
 - Development includes new 60 bale rotary cowshed and conversion from border dyke to centre pivot irrigation.
 - Production growth forecast to increase 69% following development
 - Forecasted cash returns of 7.5% p.a. and an IRR of 12%p.a..
- See www.mylarm.co.nz/offertwo for details.

INVESTMENT IS OPEN TO INVESTORS WHO ARE INVESTING NO LESS THAN \$250,000 AND WHO ARE EXCEPTED AS BEING MEMBERS OF THE PUBLIC UNDER S 3 (2)(A) (II) OR S 5 (2CC) SECURITIES ACT 1978.

Partnership continues business growth

Partnering with Aquila investors has allowed Stephen and Sheryll Smith to continue to grow the farm business that they call home.

The Smiths and their previous equity partners had been trying to sell 46 South in Western Southland for some months when Aquila approached them with a proposal to purchase 80% of the business.

Stephen says Aquila had the capital to release their previous equity partners and it was willing to retain the Smiths as equity managers.

“It was a huge opportunity for us to be in business with new people, who have the same vision for 46South as us.”

The Smiths met Detlef Schoen November 2009 and some of his German investor clients when they visited in February this year. Stephen describes the investors as a breath of fresh air, “They are excited about our skills and how we can help them to be part of the New Zealand industry”.

Detlef Schoen, CEO of Aquila Capital Green Assets has primary responsibility for overseeing New Zealand investments. He says the Smiths impressed him straight away.

“Here was an enthusiastic and skilled couple that had the rug pulled out from under their feet through events beyond their control - and all that was needed was to push the rug back plus give them a capital injection to work towards their goals.”

Aquila’s purchase was approved by the Overseas Investment Office in March 2010. The 46South partnership has two Directors, Stephen and an independent director and New Zealander as its Chairman, Cliff King. Cliff is a Director of MyFarm which facilitated the partnership between the Smiths and Aquila and has the farm management contract for 46 South. Stephen says the business benefits from the well structured and transparent relationship between partners and he enjoys the support of MyFarm supervisor, Terry Carr.

Stephen says in its first 6 months the partnership has taken on a new lease block, increased cow numbers and is about to undergo conversion of the 120ha runoff. This conversion which includes construction of a new cowshed

will see \$2million spent with local contractors. Staff numbers will also increase from 4 to 5 fulltime staff following the conversion.

This coming season will be the Smiths’ ninth on 46 South. They have grown the business from 450cows in the first year of its conversion to 890 this season and the potential to be milking 1250cows next winter.

“We want to grow, that’s why we got involved with these people. We are very passionate about 46 South it is our life.”

For further information about Aquila and its NZ investments visit www.aquiladairy.co.nz



Detlef Schoen



German investors meet up with Stephen and Sheryll Smith on farm in February



46 South is undergoing significant growth this season.

