



Top 10 golden rules of agribusiness

The Australian Agribusiness Group's (AAG) has today released its "top 10 golden rules" of agribusiness to consider before making any investment decisions.

1. Understand the offering you are investing in prior to investment. Agribusiness investments all have different likely future cash flows. When will you start to receive income? When will mature income levels be achieved? As an example, olive trees can produce annuity style income. They start to produce commercial crops in their third or fourth year but it may not be until their fifth or sixth year that the investment is cash flow positive and the seventh or eight year when a peak and mature income level is reached. Timber projects are an example of lump sum investments and may only produce income in one to three years of a ten to 25 year investment.
2. The investment must work without considering the tax and gearing aspects. The aim is to make money not just save tax this year and next. Whilst gearing can amplify the returns it also amplifies the risks of an investment.
3. The returns must balance the risks. Returns for agribusiness offerings vary between commodities and Managers. Returns should allow for the risks involved and provide a premium above other investments with less risk.
4. Consider the risks of the investment. Most agribusiness managed investment schemes (MIS) are illiquid investments, meaning that you are in it for the long haul. In some instances this is 20 years or more. This means that lots of things can happen over the course of your investment. What is the manager doing to protect your interests? Do you understand the agri sector? Have you researched the crop?
5. Make sure the manager has a solid track record of performance. Does the Manager have appropriate corporate governance practices? Has the company managed the particular crop before? Do they have the skills and experience and importantly the resources to manage your trees or vines for example? Will they be there if things start to go wrong?
6. Consider how the crop will be sold. Contracts and sales agreements provide you some security that the promoter can actually sell the crop. Not all investments will have contracts in place at the time of investment. Has the manger sold crop from previous projects before? Does the manager have the resources and people to handle this aspect?
7. Diversification is the key. Like other investment sectors, don't put all your eggs in the one basket. Consider blending several investments together to spread risk across crop types, managers, regions and cash flows.
8. What commission rates are being paid? Commissions are paid to financial planners for your investment through them. Ask them what is the full extent of commissions being paid. Consider a fee for service or discount broker if you are concerned, but remember that commissions can reduce the upfront fees your adviser charges you for your financial plan.
9. Independent research provides an expert's view. Ask for and read independent research reports on the investment offerings before making any investment decisions. Australian Agribusiness Group provides research on a substantial number of the projects on offer and has a comprehensive understanding of the requirements for a successful project. It is the only organisation that provides separate ratings for corporate governance, track record and this year's project.
10. Product rulings are a must. The product ruling system provides certainty to potential investors in the MIS industry confirming the taxation benefits for a particular project, where the scheme manager complies with the commitments made in the product ruling application. Note that some investments are not "tax effective" and are along the lines of a unit trust style investment offering. These don't require a product ruling.

Managing Director of AAG, Marcus Elgin noted "investing in a pure tax deduction is a feeble strategy. If you are going to invest in Agri MIS, then follow the same rules you use when investing in property or equities: research the sector, research the Manager, understand track record and understand the offer".

Only one research company offers planners and the public the tools they need to make informed decisions – AAG.

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