

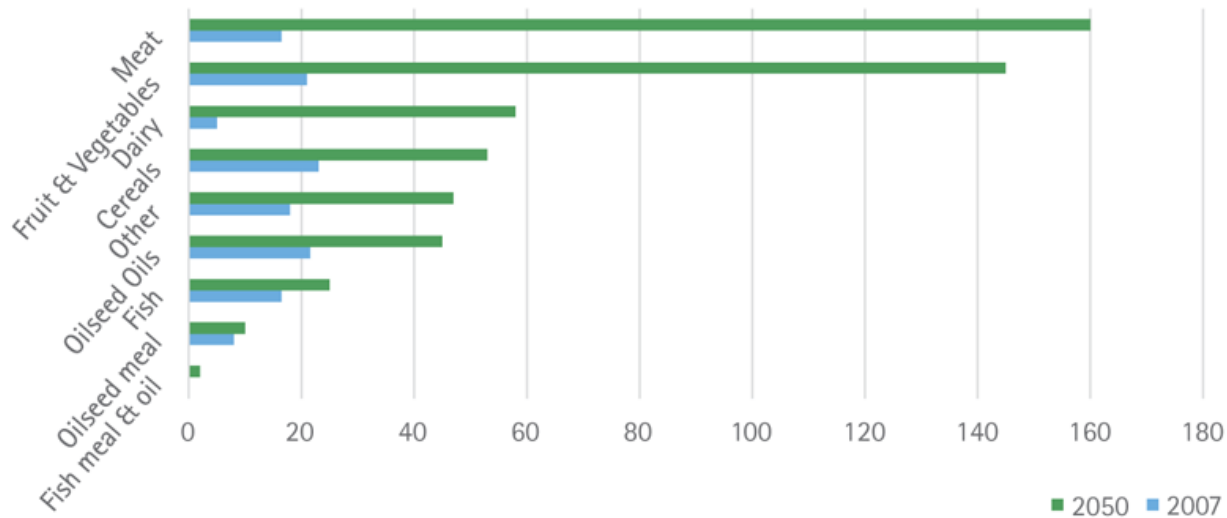
Mining Boom to Dining Boom

Johnston Rural Group Pty Ltd

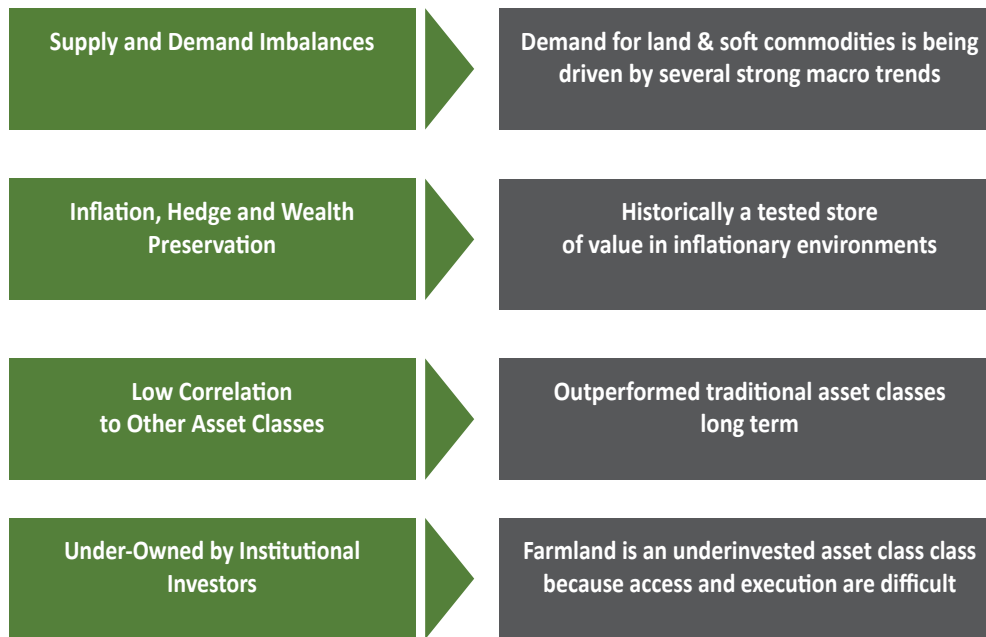
RURAL PROPERTY UNIT TRUSTS

What is the opportunity?

- To invest in the increasing worldwide demand for food and in particular Australia's place as a food bowl for the emerging markets.
- In recent years there has been a significant increase in demand for agricultural exports and in particular, our protein.
- New free trade agreements & trade reforms.



Why Agriculture?



Supply and demand fundamentals support long-term growth projections of farmland values :

Food consumption anticipated to grow

- World's population set to grow by over 40% by 2050 (extra 2.7 billion people)
- Increased wealth in emerging markets leading to a demand for higher protein diets
- World food security is a real concern as demonstrated by international agricultural investments by sovereign connected funds

Supply challenges

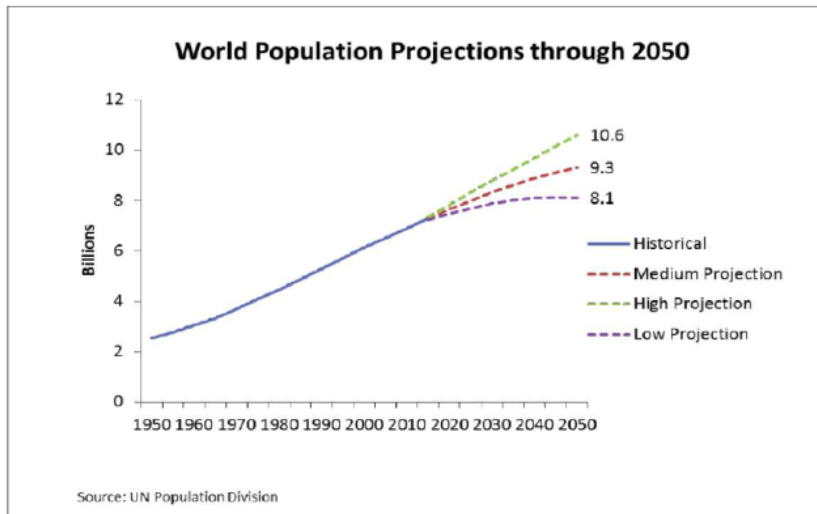
- Diminishing rates of productivity improvements
- Climate change
- Urbanisation/ alternative uses of land/desertification/ degradation/pollution of land
- Rising input costs and increased pressure on supply

Institutional investment in agriculture has doubled in the last 5+ years to US \$45bn* but is still only 3%* of global farm asset value

*Estimates

Why Agriculture?

Increasing population and demand for food



Macro economic drivers

Supply

- Ultimately limiting factors – the four elements of photo-synthesis:
- soil nutrients (agricultural land) + solar energy + carbon dioxide + water
- “You can’t print land!” – rising demand cannot be satisfied by an increase in land supply – in contrast to real estate or (to a certain extent) gold, for example - implied inflation protection
- Scarcity: daily loss of 30,000ha agricultural land

Demand

- Exponential population growth + exponential economic growth > exponential demand growth
- Size of demand: world population is growing at a rate of over 220,000 people daily
- Change in demand patterns: 300,000 people moving into cities daily

Direct value drivers of agricultural investments are straightforward and transparent

Why Australia?

Lowest possible country risk outside the US

- Secure business operating environment - stable political and transparent legal systems, minimal sovereign risk
- A robust, well established farmland tenure and legal system
- Highly developed water rights and water trading system for irrigation
- One of the best education systems in the world – access to well educated and experienced people
- Virtually no farm subsidies - minimising political interference

Developed market with emerging market returns

- Among the world's least cost agricultural producers – the highest ex-subsidy return for most mainstream agricultural commodities
- Cash returns in line with or better than the US equivalents - in spite of climatic volatility
- Some of the lowest land prices (on cost per unit of production basis) of any major Western agricultural economy
- Significant turn-around, land use change, scale-up and productivity uplift potential through deployment of capital
- Highly skilled farm operators and workforce - utilising cutting edge farming techniques

Food bowl of Asia

- Net exporter of agricultural commodities – domestic population of 23m, but with a land mass area similar to the US
- Proximity to the large and expanding markets of Asia and the Middle East, with recently signed Free Trade Agreements with China, Japan and Korea
- Excellent infrastructure road, rail, fuel and power - good access to ports for exports
- Size of total Australian agricultural farmland market US \$ 300 bn (est.)

Opportune timing

- The shift from “mining boom” to “dining boom” has sharply driven down the A\$ and makes for very attractive entry valuations in Australian agri-business
- Under-capitalised industry - demand for private capital from the farming sector is increasing sharply due to generational change
- Unprecedented opportunities to allocate capital alongside best-of-class operators - significantly de-risking investment propositions
- Institutional agricultural investors are in the process of discovering Australia – significant first-mover advantages

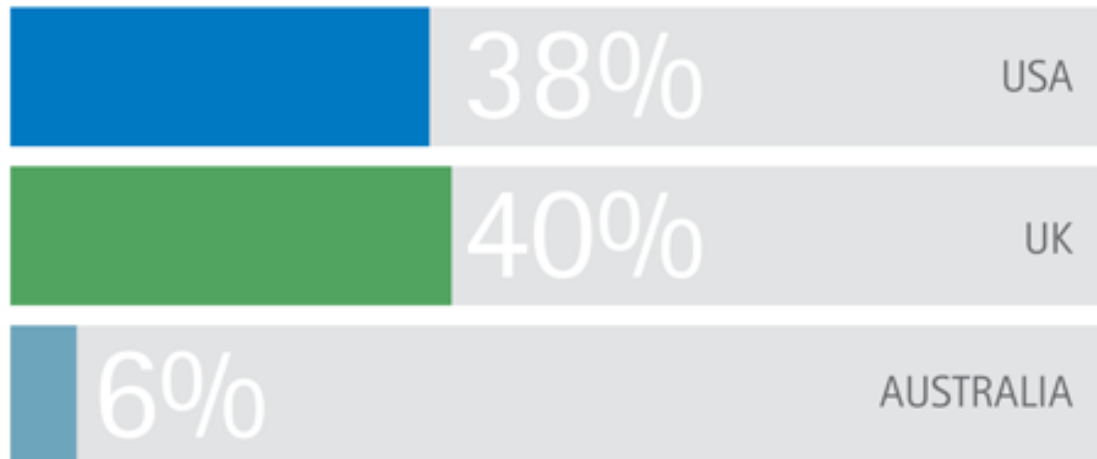
The 'sweet spot'

- We believe there is a 'sweet spot' in the agricultural property market for property that is too large for typical family owner-occupier farmers and too small for corporate investment fund managers. We believe this to be in property values over **\$7 million** and below **\$50 million**.
- Aggregation of rural properties will add additional scale and marketability in the future.



Proposal

- To purchase quality properties and lease back to vendors or to new managers on 3-5 year lease terms at a net running yield of 4-5% p.a.
- Hold the properties on lease agreements with a 5-10 year horizon with a view of capital appreciation equal to or greater than the running yield of 4-5%.



Current global lease back statistics.



Location

- Given Gary Johnston's experience and knowledge, along with the fact that he lives in the region, we believe that area is the Murray Darling Basin.
- The land must be at least 85% arable, be fertile and well watered.
- To help with divestment and potential to lease we will require the properties to be close to regional centers (8 - 10k people) and within a 60 minute drive to the closest regional airport.



Management

Gary Johnston (GAICD) has had 40 years of experience owning and operating his own farming business and has recently completed a joint venture agriculture project with one of Deutsche Bank's global funds.

Principal of Johnston Rural Group, Gary has previously won several awards including **NSW Farmer of the Year** and a national award for *innovation in agriculture*.

An experienced company director and a Councillor for the Royal Agricultural Society in Sydney, he lives and farms in central west NSW at Forbes.

Gary is also a licensed stock & station agent, water broker and graduate of the Australian Institute of Company Directors.



Gary Johnston responsibilities will include:

- *Identification, negotiation and acquisition of properties*
- *Engage valuers and due diligence/agronomic consultants*
- *Find suitable leasees with structured contracts*
- *Carry out monthly routine inspections on properties*
- *Complete quarterly performance reports on properties*
- *Market the properties for sale at the appropriate time*

Gary will also have an economic interest in the project which aligns all interests.

Company Structure



- Ideal passive investment opportunity for astute investors with previous long-term business partnerships, family offices etc.
- Ideally keeping successful long term business partners together
- Introduces a new asset class without high corporate overheads
- A unit trust with a company as trustee is preferred (CGT discount applies)
- Ideally have as few investors as possible (2-6) in each trust.
- Financing to be debt free
- Income will be paid annually in arrears
- Properties will be independently valued by third parties
- The aim is to manage the investment with a cost of less than 1% of the asset p.a.

Risks



- Global impacts – *The risk that there is a move away from western high protein diets.*
- Government intervention –
 - Removal of free trade agreements*
 - Ban on live exports*
- Economical – *A rally in the Australian dollar making Australian produce expensive and uncompetitive.*
- Flood – *In the property selection process we will be very conscious of mitigating this risk.*
- Drought – *We believe this is known risk in the industry and it is relatively priced in.*

*“Its unlike anything else we have in the world.
Agriculture and water will even beat energy investments”*

- Larry Fink, BlackRock founder after visiting Australia in 2011 and commenting on investment in agriculture and his 10 year projection.



*“The best sector in the world that I know right now is probably agriculture.
I’m convinced that farmland is going to be one of the best investments of our time”*

- Jim Rogers, legendary US investor and co-founder, with George Soros, of the Quantum Fund. (2014)

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