

The Benefits of Agribusiness Investment



Welcome

Autumn 2008 edition of the Sentry Group Financial Directions Newsletter.

Welcome to the latest edition of the Financial Directions newsletter. The newsletter has been provided by your Sentry Group financial adviser.

The end of the financial year is only a few months away and now is an ideal time to contact your Sentry Group financial adviser for a financial check up and to discuss a number of investment and risk protection strategies that will secure your long term financial well being.

In this edition of the newsletter we have included an article on The Importance of a Financial Check up that includes a check-list that can assist you to better manage your financial resources and achieve those personal wealth creation and retirement goals.

Agribusiness is growing in popularity as an investment asset class with Australian investors and we have included a detailed topic of the benefits of agribusiness in an investment portfolio.

Your Sentry Group financial adviser can help you address your investment, saving, taxation, debt management, superannuation, risk protection and estate planning issues and recommend personalized strategies to suit your individual circumstances and financial goals.



The Importance of a Financial Check-up

It's a good idea to review your finances at least once a year, to check how well you are managing your money and whether you're moving smoothly towards your financial goals.

One way of checking your financial health is to use a financial checklist. It will help you identify any specific areas you might want to focus on in the immediate future, including the following.

Home loan review

Revisiting your progress is a good place to start. Can you increase your payments or frequency of payments to save interest?

Fortnightly, rather than monthly payments effectively add a thirteenth monthly payment each year and can make a big difference to both the total interest paid and term of your loan.

If your loan has a redraw facility, you can still have access to your extra payments in an emergency.

Are you still happy with the conditions of your loan?

The simplest loan may be the cheapest, and there's no point in paying for extra features if you don't use them. With the uncertain outlook on interest rates, is it a good time to consider fixing the rate for all or part of your loan?

Credit cards and other debts

Have you worked out how much you are paying each month for hire purchase, personal loans, credit card and other debts?

If the total of all your loans is more than 10% of your household income, you probably need to put a plan in place to reduce them.

Set yourself an achievable goal – say, paying off all debt over a period of two or three years – and work out what you can pay each month to clear your debt. It's important not to add to your debt by taking out new loans or continuing to use your credit cards.

If you're thinking of consolidating several loans into a single one, look at the conditions of the new loan carefully to make sure you will be better off.

Be wary of adding debt to your home loan, unless you plan to increase repayments to clear the debt as soon as possible – otherwise you might find yourself paying off last year's holiday over a period of twenty years!

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Insurance – protection for you and your family

Accidents and illness can strike at any time, and people can find themselves insufficiently protected.

Review your insurance policies regularly so you can be certain that you and your family have enough cover. Consider how the family would cope with mortgage repayments and other living costs on just one income – or no regular income. Life insurance, and accident and sickness insurance can give peace of mind and security if the unexpected happens.

Are your home and contents fully insured?

Many people under-insure, in other words, cover only a fraction of the cost of replacing their home and household goods. Insuring for only a fraction of the value means you will get only a fraction of what you need in the event of a claim.

Superannuation and saving

How much have you saved towards retirement?

The latest annual statement or benefit statement from your superannuation fund will show you how you're going.

It is estimated that on average, in retirement, you will generally need at least 60% of your current income to maintain your current lifestyle.* As a rough guide, you will need savings of around 14 times your annual retirement income to fund retirement over a period of 30 years.**

When it comes to super, the one thing nearly everyone agrees on is that your compulsory employer contributions probably won't be enough to pay for a comfortable retirement.

Saving even a little extra can make a big difference to the amount you'll get on retirement. And the longer you can make those additional contributions, the more time compound interest has to work for you.

One of the big benefits of saving within superannuation is that, for most people, contributions are taxed at a lower rate than their income or any other investments.

This makes super a tax-effective way to save for retirement.

New rules introduced over the past few years have been designed to encourage people to put more money into super, so you might want to take advantage of co-contributions or spouse contributions, for instance.

Major changes to superannuation were announced in May 2006. Some of these changes are already in-force, others took effect in 2007. In addition, rules applying to the Age Pension changed in September 2007.

Everyone approaching retirement should obtain expert help in reviewing their situation, as decisions made now may affect entitlement to Age Pension in the future.

Annual savings

Savings are essential for emergencies, but they can also be the secret to meeting your financial goals.

How much money did you save last year?

If you're finding there's nothing left to save at the end of the month, put your savings aside on pay day, before you meet any of the other demands on your pay packet.

That's often called 'paying yourself first', and it puts the priority in the right place – meeting your goals. It's a good idea to allocate up to 10% of your income to a regular savings plan.

Take advantage of any direct deposit facility that your employer offers so that the money is safely stashed away before you are tempted to spend it.

As with super, the trick is to get into the savings habit early. Even if you start with just a small amount, regular saving over a long period allows your savings to grow with the benefit of compound interest.

As your savings accumulate, spread them across a variety of investments to achieve higher earnings rates and capital growth. Think beyond the bank account and term deposit to managed funds.

Many managed funds have savings plans that allow you to invest small amounts regularly after an initial investment of, say \$5,000.

Diversifying your savings and investments gives you some protection against the ups and downs of investment markets.

Your will

Everyone has heard about how important it is to make will and keep it up to date.

Making a will itself is not difficult, nor should it be expensive. It's a fact of life that people get divorced, form new relationships, change old relationships and establish new interests.

Depending on the change, the will may become partially or entirely invalid, or no longer represent the wishes of the will-maker. Review both general estate planning matters and your will regularly.

Five tips for financial well-being

1. Work out your financial goals for the short, medium and long term, and decide how you will reach them.
2. Work out a budget to manage your money and control spending.
3. Put in place a regular savings plan so you can reach your goals.
4. Clear your debts, paying off the loan with the highest interest rate first.
5. Shop around for the deal that best suits your needs, whether it's interest rates or bank fees.

So – start today. And remember, your Sentry Group financial adviser can help you develop strategies for meeting your financial goals.

Sources

* ASFA: www.superannuation.asn.au/consumers2-1/default.aspx. Viewed 23 Jan 2007.

** Assumes a 6% pa return on invested funds with benefits payable for 30 years.

With compliments of BlackRock Investment Management (Australia) Ltd



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With 30 June quickly approaching, clients and their accountants are turning their attention to year end tax planning.

Some of the commonly used strategies include:

- **Contributing to superannuation prior to 30 June 2008**
- **Concessional contribution**
- **Non-concessional contribution**
- **Investing in infrastructure bonds**
- **Pre-paying interest for investment loans**
- **Structured Tax Effective Financial Products**

Another is the use of Tax Effective Agribusiness Investments via Managed Investment Scheme (MIS) legislation, some of which provide a 100% up front tax deduction as well as providing investors with a diversified investment opportunity.

Agribusiness Offers Investors

Diversification

Agribusiness is increasingly seen as a legitimate component of a balanced investment portfolio, bringing the benefits of diversification and strong returns through long-term 'patient' capital appreciation that is not correlated to other traditional asset classes.

Choice of long-term compound returns or regular income

Some agribusiness projects, for example forestry projects, are long-term investments offering superannuation-style returns with one-off lump sum from harvesting in approximately ten years. Others, for example horticultural projects, can produce income in the early years, and continue to pay annuity income for ten to 20 years.

Tax-effectiveness

Agribusiness investments offer substantial up-front tax benefits, supported by Australian taxation Office (ATO) Product Rulings, providing more flexibility in cash flow, debt management and taxation planning.

Inflation hedge

Many people associate agribusiness with investors in a high tax bracket reducing their tax liability through investment in a MIS, the reality is that agribusiness is appropriate for investors who are seeking to build long-term wealth in an asset class that is not correlated (in terms of movement in market prices and returns) with the other major asset classes.

Agribusiness as an Asset Class

While agribusiness investment is an emerging asset class in Australia, it is a well-recognised and established asset class in the US. Currently more than \$US2 billion is invested in the sector each year by individuals and through pension and mutual funds.

In Australia, agribusiness investment is a much younger industry than in the US. However, research conducted by research house Australian Agribusiness Group (AAG) examined 26 years of returns (1980-2006) from Australian farms using data from the Australian Bureau of Agriculture and Resource Economics (ABARE) farm surveys and compared it to returns from mainstream investment asset classes.

AAG found that returns from the top 25% of agribusiness (defined as the 25 per cent best-performing farms as measured by ABARE) were only beaten over that period by the accumulation return (all distributions reinvested) of Australian Listed Property Trusts (LPTs).

AAG's data demonstrated that agribusiness undertaken at the top level (that is, the top 25 per cent of farms) generated a total return that was significantly better than at the average level, and higher than the returns from the sharemarket when the total return is taken into account. The returns from the top 25 per cent of farms were also significantly less volatile than the S&P/ASX All Ordinaries Index.

AAG says its study confirmed that agribusiness was negatively correlated to other asset classes, and the addition of agribusiness to a portfolio could increase returns and reduce risk.

The research house concluded that well-managed agribusiness was a sensible choice when considering diversification for an investment portfolio.

MIS investments are often known as 'tax-effective' investments, because investments in them are fully tax-deductible in the year in which they are made. This is because the ATO considers the investors to be primary producers, carrying on an agricultural, forestry or horticultural business to produce income, which will then be assessable. The investors are treated the same as any other farmer or orchardist.

The investment is tax-deductible in the year in which it is made because the expenses are being incurred before the income is received.

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However, it is important to remember that tax is ONLY deferred through MIS investment – It is NOT avoided. Deferral of tax is legitimate, effective tax planning, but only because the agribusiness MIS project ultimately gives rise to a stream of assessable income from sale of the produce, which is taxed at the investor's marginal tax rate.

Notwithstanding this, the description "tax-effective" is loaded with negative connotations from the 1980s and 1990s, when unviable and unregistered investment schemes proliferated – such as ostrich farming, jojoba and tea-tree plantations – and too many investors simply brought tax deductions with no considerations as to whether the investment would make a return. However, investors now understand that there is no point in gaining a tax deduction or soaking up a capital gains tax liability if they lose money at the other end.

The speculative agribusiness schemes of a decade ago have been driven out of the industry by a combination of Australian Tax Office (ATO) action, legislation of the Managed investments Act, independent Research House scrutiny and the industry's own efforts to stress the investment merits of the projects it offers to investors. In particular, the ATO tightened the availability of tax deductions through its system of Product Rulings, introduced in 1998, which state that a particular project has been granted full deductibility.

According to AAG, MIS money is 'far and away' the biggest cash injection into the agriculture industry. In 2006-07, \$1.1 billion was invested in MIS projects. Since 2002, the MIS sector has raised \$4.3 billion for Australian agribusiness investments. This is one of the few significant sources of capital being invested into agriculture, horticulture and forestry. It is also mainly city-raised money, being invested in regional Australia, thus, it is helping to reverse the drain of investment, opportunity and people against which regional Australia struggles.

The Future of Farming

The Australian family farming unit has been very successful but it faces a world of rising input costs and increased international competition, and the majority of the smaller farming units are becoming unviable. The traditional wheat-sheep broadacre family unit must either increase its production or face an environment of decreasing profitability and returns, because input costs are going up faster than the returns. Many farmers – the 'average farm' as identified in AAG's research – face a stark choice.

As the investment attractions of agribusiness as an asset class become more widely understood, this process is picking up pace. MIS operators are shifting the source of capital for agribusiness to private investors, for whom it is a small portion of their investment portfolio, versus in many cases 100 per cent of the farmer's investment portfolio.

MIS agribusiness investment is not only an asset that should be considered as an integral component of any diversified wealth creation strategy; it is also the future of Australian agriculture, our country's first true asset class.



Australian Agribusiness is well positioned to benefit from the rapid growth in urbanisation, resulting in Economic Growth and rising income in developing countries such as China and India. This rapid growth has and will continue to increase dramatically the world demand for agribusiness.

Strategies

Your Sentry Group financial adviser can discuss a range of strategies utilising Agribusiness Investing which can form an integral part of your long term wealth creation and complement your existing wealth plan.

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