

# RFM Almond Fund 2006 ARSN 117 859 391 Fund Update - May 2009

## Investment Objective

The aim of the Almond Fund 2006 (AF06) is to provide investors with the opportunity to operate an almond growing business capable of generating competitive risk-adjusted returns. The business attracts tax deductions supported by ATO Product Rulings PR 2006/24 and PR 2006/25.

The AF06 is closed to new investment.

## Market Commentary

As many developed nations have entered recession, commodity prices have been unable to regain the upward momentum they enjoyed in 2007 and early 2008. Through the first quarter of 2009, corn futures fell approximately 5%, wheat futures fell 13%, and soybean futures declined 3%. Although commodity prices continued to decline slightly, the dramatic drops experienced during the latter half of 2008 have ceased. Additionally, these prices remain at historically high levels, with most commodities achieving stronger prices than they did three years ago.

The Australian Dollar (AUD) remained steady against the US Dollar through the first quarter. However, the AUD has since rallied with investors moving money out of US Treasuries and other traditional havens in favour of higher-yielding assets in commodity rich countries such as Australia. There has also been an increase in risk appetite. However, the rally in the AUD may be tempered with concerns that its strength may hurt Australia's trade balance and be a drag on an economy weakened by the Global Financial Crisis. This in turn may cause the Reserve Bank to consider intervening in currency markets.

Forecasts from the Australian Bureau of Agricultural and Resource Economics (ABARE) indicate that Australia's farm exports are growing strongly despite the global economic crisis. In its latest forecasts, ABARE suggests that rural exports will rise by 12.0% and top \$30bn in 2008-09, as a result of increased crop yields and a weaker Australian dollar. The combination of historically high commodity prices and a weaker Australian dollar has generated excellent terms of trade for Australian farmers. ABARE forecasts suggest that these terms of trade will persist, with rural exports expected to continue increasing through 2009-10.

In response to the falls in commodity prices experienced during late 2008, plantings of many key crops are expected to be reduced during the 2009 season. Weather events are also impacting upon global harvests, with Argentina, the world's third largest soybean producer, lowering harvest estimates as a result of severe drought. Additionally, the Argentinean drought is set to reduce wheat plantings, while US winter wheat crops have suffered freeze damage. Supply constraints such as these have the potential to place upward pressure on commodity prices, as demand remains strong.

In direct relation to the Almond Fund rising fuel and fertiliser costs have had a significant impact on operating costs. Figure 1 below demonstrates record fertiliser prices experienced in the past twelve months. The graph shows that prices have now retreated and an expectation that the Almond Fund should not experience this level of expenditure in the coming year.

Figure 1: Fertiliser costs to December 2008



## Farm and Fund Commentary

The almond orchard operated by the RFM Almond Fund 2006 (AF06) Project continues to mature. Preparations are underway for pollination of the orchard's second crop with pollination set to occur just prior to Spring.

The first harvest of almonds on the AF06 plantings has been successfully completed. Hulling and shelling of the crop occurred in May and early June. The yield is expected to be around 0.3 tonnes per hectare which is lower than the forecast contained in the Product Disclosure Statement, mainly due to the loss of trees in a windstorm in December 2008. In this storm 30% of trees were either damaged or destroyed. Harvest proceeds will be received from Almondco progressively over the 2010 financial year and offset against that year's farm costs payable by Growers.

Irrigation has been reduced to top ups and the weedicide program has slowed while the cool, dry conditions continue. However if rain does occur, this program will be quickly ramped up to control winter weeds. The Autumn fungicide and bactericide program commenced during May. In general trees are going into winter in a good condition with what appears to be a good cropping potential for next season.

The appointment of Receivers to the Great Southern Limited group creates some uncertainty for the AF06 project. Whilst the farm manager and responsible entity for AF06, Great Southern Funds Management Ltd (GSFM) has not been placed into administration, it has been offered for sale. GSFM management is currently negotiating with the Receivers a management buyout that would separate the ownership of GSFM from GSL. It is expected that the outcome of the sale process will be known within three months.

Furthermore, RFM RiverBank, which is the head lessee of the orchard leased to AF06, has also leased substantial areas to the Great Southern 2007 and 2008 Almond Income Projects. The future of those Projects is uncertain at the current time. The management buyout proposal provides possible solutions to the issues confronting the Great Southern almond projects and, as a consequence, RFM RiverBank.

The owner of the land on which the Almond Fund 2006 orchard is planted is Lachlan Farming Limited, a company established by RFM in 1998. It is proposed that RFM RiverBank will acquire the Almond Fund 2006 orchard following a successful management buyout. In the event that the management buyout is unsuccessful, the directors of LFL have resolved to maintain the orchards, and thereby providing Almond Fund 2006 investors further comfort.

Farming operations are continuing in accordance with the Farm Plan for the Almond Fund 2006 Project, with the next major activity the installation of beehives required for pollination in Spring.

## Fund Facts as at 31 May 2009

<b>Fund Size</b>	<b>\$14.8m</b>
Inception	30 March 2006
Number of Growers	215
Number of Groves	1,063

IMPORTANT: The information is provided in good faith and believed by Great Southern Funds Management Limited to be accurate at the date of issue. However, no representations or warranty is made as to the accuracy, reliability or completeness of this information. Except to the extent that statutory liability cannot be excluded, Great Southern Funds Management Limited and its related entities, directors, employees, and agents accept no liability (including liability to any person by reason of negligence or negligent misstatement) for any statements, opinions, information or matters (expressed or implied) arising out of, contained in or derived from, or for any omissions from, the information contained herein.

