

RFM RiverBank and RFM DAF Supplementary PDS Released

Since Adviser Edge released research reports on RFM RiverBank (RiverBank) and the RFM Diversified Agricultural Fund (DAF), and the subsequent update (17 November 2009), a number of events have occurred which affect the funds. As a result, RFM has released a Supplementary PDS for each of the funds, both of which are dated 17 February. Further to this, there have been other developments since the issue of the Supplementary PDS also incorporated in this update.

The Supplementary PDS sets out the final contracted price for the redemption of the GSL-owned DAF units, being \$15 million for their 34.8 million units. This is a 54% discount to the Net Asset Value (NAV) as at 31 December 2009. To fund the \$15 million redemption, DAF must redeem the units that it holds in RiverBank for \$14 million, resulting in a 52% discount to the 31 December 2009 NAV. The impact of this is discussed in the previous Adviser Edge update, released on 17 November 2009. A meeting of current unit-holders in RiverBank and the DAF will be held on 25 March 2010 to vote for the approval of the redemption, with a positive vote satisfying this condition precedent of the capital raise.

The most significant changes that have occurred relate to the almond assets held by RiverBank. Given the large holding that the DAF has in RiverBank, these changes affect both funds. RiverBank operates the two significant almond properties, Yilgah and Mooroolbark.

One key issue has been whether RiverBank would find a tenant to replace the GSL Group as lessee of its almond orchards, whether RiverBank could operate a certain area itself, or whether an asset sale was required. It is now likely that the RiverBank properties will be fully leased, with lessees including the RFM Almond Project and the 2007 and 2008 Great Southern Almond Income Projects. The balance will be leased by Select Harvest Limited.

On 24 February 2010, investors in the 2007 and 2008 Great Southern Almond Income Projects voted to appoint RFM as the new Responsible Entity of the Projects. From the potential aggregate area previously occupied by these projects (1,067ha), RFM expects that the combined area will reduce to 300ha based on the opt-out rates and expected financial defaults of those electing to go forward.

Invoices have been sent to all investors in the 2007 and 2008 almond projects who either did not opt out or did not vote. Investors will have until 19 March 2010 to pay, at which time the final default figures will be known, allowing the projects to be consolidated onto the Mooroolbark property.

While being appointed as Responsible Entity of the almond projects was originally a condition precedent of the capital raising, RFM waived this condition precedent in the Supplementary PDS. This followed RiverBank entering into a Heads of Agreement with Select Harvest Limited, a listed Australian agribusiness company, to lease all areas of the Mooroolbark orchard that are not leased to almond managed investment schemes following the Mooroolbark consolidation. The ongoing viability of RiverBank is no longer dependent upon the number of Growers continuing in the almond projects, due to the lease arrangement with Select Harvests Limited. However, retention of Growers in the almond projects will improve cash flow due to higher lease rates.

Since the release of the Supplementary PDS, RFM, as Responsible Entity for RiverBank, has entered into a Heads of Agreement with Select Harvests Limited to lease RiverBank's largest asset, the Yilgah property. The lease obligations for both the Mooroolbark and Yilgah properties require the lease to be paid quarterly in advance. In addition to this, a six month security 'bond' will be lodged with RiverBank for both properties. As such, RiverBank will be well positioned if there was ever any interruption to rental payments. Each lease period is 20 years.

The agreement with Select Harvests Limited effectively eliminates the funds' exposure to almond production and price risk, with 100% of the almond orchards owned by RiverBank to be leased by external parties. This returns RiverBank to its original stated objective of leasing land and water assets, rather than operating them.

In the Supplementary PDS, RFM has indicated that, to date, it has received \$6.8 million in applications, with commitments for a further \$3 million. The maximum subscription has reduced to an aggregate of \$18 million, due to the reduced requirement for working capital as a result of the Select Harvests Limited agreement. In addition to this, the minimum subscription for the combined DAF and RiverBank offers will increase to \$9.4 million if less than 20% of Growers in the almond projects elect to continue.

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