Financial Review - afr.com

EXCLUSIVE
Jun 17 2018 at 11:45 PM
Updated Jun 17 2018 at 11:45 PM

Growth Farms raising $100m for small rural buy and lease backs

by **Matthew Cranston**

Farm manager Growth Farms is seeking to raise $100 million to buy rural properties across Australia and lease them back to farmers in a new investment structure that removes the volatility of drought and commodity price fluctuations.

Rural property values have been on an upward trajectory for the past five years, however there could be a dip in values reflecting weaker farming conditions such as the record low rainfall in NSW over the past few months.

The new fund known as the Australian Agricultural Lease Fund and whose cornerstone investor is Sydney-based Providence Wealth, is targeting net returns of 10 to 12 per cent including a 4.5 per cent yield from leasing the properties back to farmers.

"Investors have been searching for a way to own agricultural property without having to take on the risk of commodity prices and climate," Growth Farms managing director David Sackett told *The Australian Financial Review.* "They also want something that has very little correlation to other asset classes."

Growth Farms, which already counts separate farm management mandates such as that from billionaire hedge fund owner Sir Michael Hintze, has about $430 million in farms under management.

The new fund will have a portfolio of about 20 properties covering four geographic areas and five sectors. Growth Farms will be geared at a maximum of 30 per cent and wants the asset split in the fund to be 80 per cent land and 20 per cent water entitlements. The lease terms it offers farmers will typically be an initial three years with several three-year options thereafter.

"We are not looking for the big farms, we are looking for the smaller farms where operators can more sufficiently pay the 4.5 per cent yield," Mr Sackett said.

"Whenever we have a farm that we are going to lease, we get knocked over in the rush because it's a low-capital way for the farmer to expand."

'We didn't want to have commodity risk as part of this'

Providence Wealth managing director Grant Patterson said his team had been working with Growth Farms for about five years on creating a fund with a low-risk strategy.

"We didn't want to have commodity risk as part of this," Mr Patterson said. "We like long-term growth of land values and the yield from the farm."

Providence, which manages $1 billion of private client money, has also looked for investments with low correlations to equities and bonds.

Mr Patterson said he was typically advising interested clients to invest about 5 per cent of their portfolio in such a new fund.

The wealth manager has also worked with Growth Funds to set up a fair fee structure, consisting of 15 per cent performance fee for returns of more than 8 per cent, along with acquisition fees of 1 per cent of transaction value and an ongoing management fee of 80 basis points of the net asset value of the fund.

HLB Mann Judd has been engaged as tax advisors and HLW Ebsworth engaged as legal advisors.

The fund structure is similar to that used by giant US fund manager TIAA-CREF whose Westchester company has bought about $1 billion of Australian farmland since 2007 and leased most of that out to high-quality farmers all across Australia.