

SECTOR INSIGHTS

Berries



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Berry Sector Overview

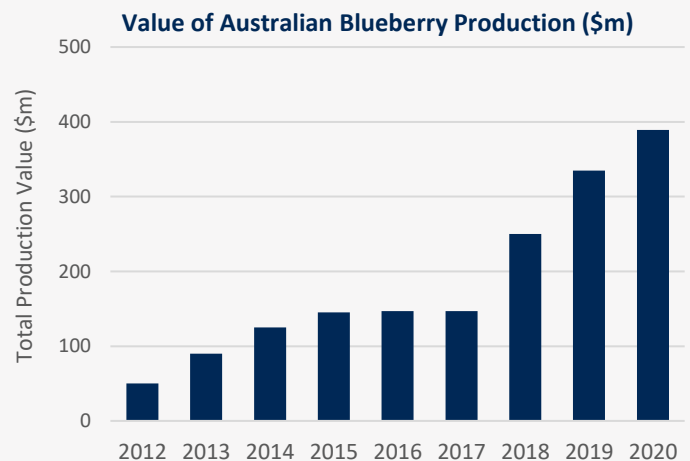
The Australian berry sector consists of strawberries, blueberries, and a family referred to as rubus berries, which most notably include raspberries and blackberries.

This category of the fruit market is experiencing strong sector growth and has good future value potential on the back of recent genetic advancement in new varieties and research which has placed berries in the “superfood” category.

The value of Australian berry production grew at a compound annual growth rate of 10% p.a. between 2013 and 2020 and Australian consumption per capita has risen by almost 7% over the past five years. Over this time the Australian industry moved from being a net-importer to being a net exporter, though international trade is still relatively minimal.

Australian berries are produced primarily for local, fresh market consumption, with only 4% (\$42m out of the total production value of \$1,041m) exported annually. And only a minor percentage (2.9%) of berries consumed in Australia are imported. Approximately 75% of Australian households today purchase fresh berries on a regular basis.

Strawberries are the largest category in the sector, produced in most states. Blueberry production is the next largest, centred in north-east New South Wales, with smaller market specific production zones close to local markets.



Source: Hort Innovation Australia

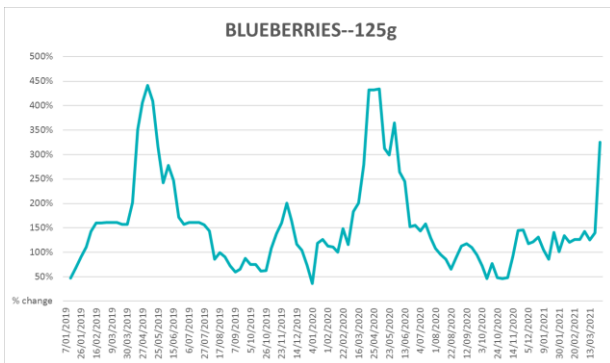
And there are an estimated 120 growers producing raspberries (85% of the rubus family) and blackberries (15%) across all states and territories except the Northern Territory.

Investment by key Australian industry players has fuelled sector growth in recent times and with the recognised health benefits a key factor driver on the demand side, berries have evolved into a strong investment prospect. Blueberries, in particular, are extremely high in antioxidants, which are shown to help neutralise the ‘free radicals’ that cause cancer, heart disease and other age-related illnesses. They are also low in calories and high in potassium, provide a high source of Vitamin C, E and fibre, are anti-inflammatory and have a low GI value, which helps to regulate blood sugar levels.

While growth through the berry category has been predominately domestic to date, international demand is intensifying. Australia is well placed to supply fresh fruit to key Asian markets, where blueberries are reportedly the fastest growing fruit category with recognition of their nutritional values proving particularly attractive to the rising middle-income class in China. Australian berries entering this market have seen particularly high demand due also to relatively quality.



Australian Horticulture Prices – Blueberries (Melbourne Wholesale Markets)



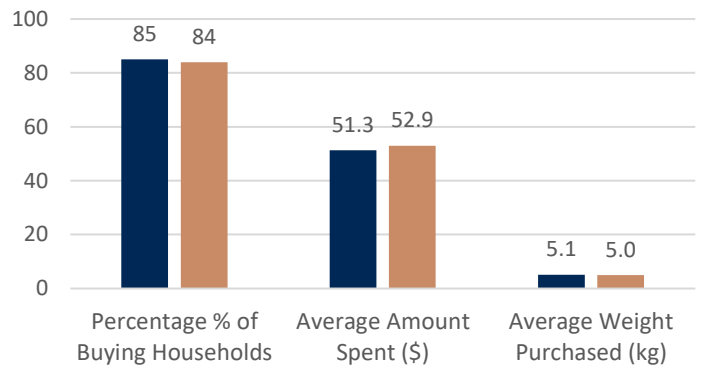
Source: ABARES

Given the fragile and perishable nature of rubus berries (raspberries and blackberries), export potential for these crops is limited. Consequently, growth projections in the berry sector are focused predominately on blueberries and strawberries.

Depending on the type of berry and production system, berries are either grown in-field or hydroponically in elevated substrate soil. The more modern substrate soil production system provide meticulous control over the application of water and fertilisers and allows for greater crop monitoring. Furthermore, the use of substrate soils expands the area suitable for berry production, as soil and climate become only a minor factor in determining where to grow.

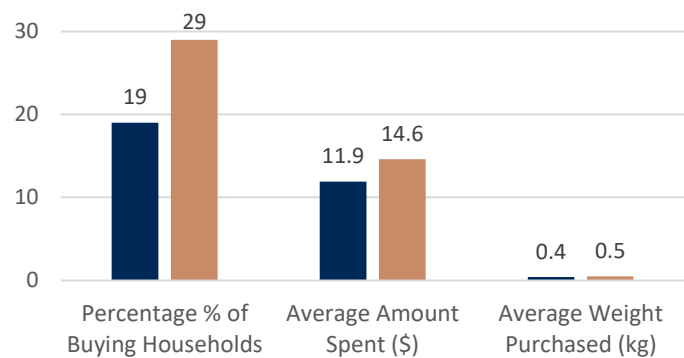
Blueberry and Rubus berries are in many cases produced in covered tunnels to protect against from extreme weather events and pests. This control reduces the normal agricultural risks associated with farming these fruits, making it an even more attractive sector of the Ag asset class.

Household Buying Behaviour – Strawberries



Source: Nielsen Homescan for the 52 weeks ended 06/09/2020 for the Australian market

Household Buying Behaviour – Blackberries



Source: Nielsen Homescan for the 52 weeks ended 19/04/2020 for the Australian market

Profile Asset

In the third quarter of 2020 Warakirri secured a deal on a berry asset with long-term Tenant partner and fresh produce sector leader, Costa Group, as a foundation asset for one of its agriculture funds.

ASX listed Costa Group are the largest grower, packer and marketer of fresh fruit and vegetables in Australia. They are a benchmark in sustainable, commercial farming and a clear market leader in the berry sector, both nationally and in the Western Australia market.

The asset, known as Southbrook Berries, is a strategic mixed berry production asset covering 57ha of intensive, protected cropping where the Tenant owns the biological assets (plants) and all protected cropping infrastructure.

Costa Group is a high quality Tenant Partner of the fund, with a 10 year WALE (weighted average lease expiry) and strong rental yield.

Their produce is supplied to major Australian supermarket chains, independent grocers and a range of food industry stakeholders, as well as internationally through exports to North America, Europe and Asia.



Agriculture – A Growing Asset Class

Historically, Australian agriculture has been uncorrelated to the economic cycle and in fact, delivered superior return outcomes through economic downturns, as well as experiencing substantially less volatility compared with broad market indices and traditional asset classes.

Demand for high quality agricultural assets is rising and will become increasingly valuable.

The prospects for future returns in agriculture are greatest in countries such as Australia, with a good economic platform, stable government, strong global market access and high adoption of new technology and farming systems that are increasing the efficiency and sustainability of agricultural production.

Well structured and managed agricultural investments under an own and lease strategy provide investors with a secure and stable income profile via lease agreements, superior to yields achievable in most other asset classes with strong long-term capital growth potential.

Warakirri's Agriculture Experience

Warakirri's agricultural capabilities have been developed from the learnings and experience of investing and managing agricultural assets for over 24 years. Experiences, both positive and negative, have shaped our investment philosophy and approach.

Our investor first approach drives an investment philosophy that is patient, diversified, bottom up (value) and with a strong focus on ESG.

With ~A\$1.8 billion in funds under management and commitments on behalf of institutional and wholesale clients, Warakirri manages more than 200,000 Ha (500,000 acres) of Australian agricultural land – with extensive experience in acquiring, developing and operating a diverse portfolio of Row Crop, Dairy, Open Land Horticulture, Permanent Crops and Agriculture Infrastructure, diversified by geography, sector, market, commodity, operator, climate and water source.

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This article first appeared in the Spring 2020 edition of the Australian Berry Journal.

Costa taps into local demand for berries

Tapping into the increasing demand for locally grown fresh fruit, Costa Berries is one of a small number of growers producing blueberries in Western Australia. Costa operates a 40-hectare farm near Gingin, about 90km north of the Perth CBD.

Costa is a leading grower, packer and marketer of fresh fruit and vegetables, with 4500 planted hectares of farmland, 30 hectares of glasshouse and three mushroom growing facilities across Australia

The Berry Category operates farms in four states including Western Australia, Queensland, New South Wales and Tasmania, enabling not only access to local markets but providing a 52-week supply of blueberries and raspberries.

Established in 2014, the first stage of the Gingin farm included 15.5 hectares of berries. In the second stage of development in 2015 an additional 12.5 hectares of blueberries were added. Since then the farm has nearly doubled in size to 40 ha.

The farm predominantly supplies the Western Australian market, with some produce also sold in South Australia during peak harvest periods.

Rather than shipping fruit from the East Coast, which was taking up to 5 days, the company made the decision to invest in growing the fruit locally to deliver improved quality berries to our Western Australian customers.

Areas to the north and south of Perth were investigated, with southern regions identified as potential future sites for late season production.

A test plot was established in conjunction with the Western Australian Department of Agriculture in Manjimup, which continues to examine the seasonal timing across different varieties. To the north of Perth, the challenge was identifying a site with access to good quality water and good climatic conditions.

George Jessett, the International Horticulture Manager for Costa's Berry International, was involved in selecting the location. "We were looking to avoid frost, without being too hot," George said.

"When we first started growing in Western Australia, there were just a few growers scattered around Perth but it was very much a developing industry."

The Gingin site proved ideal, with access to water and with a coastal orientation. Spencer Clark, the Regional Manager for the WA site, said ensuring good water quality was one of the main challenges to address.

"The water is higher in salt and iron, but we have found ways to overcome that through filtering systems and settling tanks. We've certainly had to learn new ways of doing things and ways to utilise the extreme conditions, A huge positive for this site is we have much lower pest and disease pressure here than on the East Coast," Spencer said.

The expertise provided through the Costa Berries International team has also proved invaluable in dealing with the extreme summer temperatures, which can exceed 40 degrees.

"There are a lot of similarities with Morocco, where we grow blueberries. We have the track record in dealing with those conditions and could apply that to the site," George said.

The dry climate in summer has reduced disease pressure, ensuring a consistent high-quality crop.

The varieties grown on the farm include a mix of Snowchaser, Kirra and Arana, a premium variety developed by Costa as part of its blueberry selection and breeding program.

Costa varieties are also in high demand around the world and are licensed to third-party growers in a number of regions including the Americas, Morocco, China and South Africa.