Warakirri
ASSET MANAGEMENT

## EXECUTIVE SUMMARY

- The steady growth and development of the Fund has continued over the past quarter, with another solid profit performance and good, steady capital inflows from both new and existing investors.
- The Fund is well positioned to build on its foundation portfolio, with a number of attractive acquisition opportunities currently under consideration.
- The Fund's assets continue to benefit from good stewardship and the high management standards of our Tenant Partners.
- To date no Fund asset has experienced a forced closure or suffered a specific direct impact from COVID-19 and each of the Tenants are well positioned for post pandemic opportunities.
- Resilience during the pandemic; good product demand; the relative investment performance of the asset class; and current low interest rate environment, have all continued to support asset values, drive capital investment and buoy confidence across the industry.
- On the income side, the Fund delivered a solid distribution of 1.49 cents per unit paid earlier this month.
- Investors have now benefited from an average annualized yield of 6.80%p.a. over the three quarterly distributions paid since the first instalment in March this year.
- The Fund's Stage 1 capital raising period has now closed and effective 1 November 2021, the Fund will move to its Stage 2 fund raising phase aimed at achieving a Fund size of over $300m to further improve portfolio diversification.
- Stage 2 fund raising will be open-ended and available for investment by existing or new investors. All Stage 2 Units will be issued on a fully paid basis and will be issued at Net Asset Value (NAV).
- In this quarter's update, we have included a topical piece on the role of agriculture as an inflation hedge in a diversified portfolio.

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|---|---|---|---|
| **Capital Called** | **100%** | **Capital Deployed** | **$48.8m** |
| **Fund Assets** | **4** | **Tenant Partners** | **4** |
| **Distribution** (Quarter ended 30 Sept 2021) | **1.49 cpu** | **Unit Price** (30 Sept Post Distribution) | **$1.021** |

"Southbrook" Orchard

"Southbrook" Blueberries

## Portfolio Manager Update

Welcome to the September 2021 quarter update for the Warakirri Diversified Agriculture Fund (Fund). The steady growth and development of the Fund has continued over the past quarter, with another solid profit performance; good, steady capital inflows from both new and existing unit holders; and a number of attractive acquisition opportunities currently under consideration.

Across the existing portfolio, the Fund's assets continue to benefit from good stewardship and the high management standards of our Tenant Partners. Although in relative terms agriculture has been a fortunate business to be in over the last eighteen months, these businesses have still seen their fair share of challenges. To their credit, each have successfully navigated the pandemic environment and managed the flow-on impacts to their particular sector.

Pleasingly, winter rainfall and water availability has been good to excellent across the portfolio, but COVID-19 related stresses in labour and supply chain logistics have continued as points of concern. Highlighting the best-in-class credentials and covenant strength of the Fund's Partners, each of our Tenants have utilised their resources and worked hard to overcome these issues, mitigating risks to their businesses and personnel, and ultimately securing pleasing operational and financial outcomes despite the headwinds. To date, no Fund asset has experienced a forced closure or suffered a specific direct impact from COVID-19, and each of the Tenants are well positioned for post pandemic opportunities.

More broadly in agriculture, this kind of resilience; good product demand; the relative investment performance of the asset class; and the current low interest rate environment, have all continued to support asset values, drive capital investment, and buoy confidence across the industry. Broadacre agriculture (outside the Fund mandate) has seen a particularly strong period of growth that is testing new bounds and driving some yield compression across the wheat belt, dairy and mixed farming sectors. Asset values within certain sectors of the higher value market (fruit, nuts, veg and wine where the Fund is focused) have also firmed with good competition and consolidation, however some of the sector specific headwinds noted above have tempered the growth potential in these parts of the industry. Across the Fund's current exposures and broad range of target sectors, we continue to see a good balance of acquisition value, Tenant demand and capital appreciation potential.

The Fund delivered another good profit for the September quarter. This outcome has allowed for another solid distribution of 1.49 cents per unit paid earlier this month. In line with our commitment to distribute all surplus income as a regular cash return, investors have now benefited from an average annualized yield of 6.80%p.a. over the three quarterly distributions paid since the first instalment in March this year.

Operationally, a number of planned capital investment projects have commenced across the portfolio in the last quarter. These projects are all scoped and implemented under close consultation with the Fund's Tenant Partners, with particular attention to accretive value for the asset owner, operator and other stakeholders.

In respect to new asset acquisitions; patience, discipline and high quality Tenant Partner remain our focus as we seek to expand and further diversify the Fund. We've considered and committed due diligence resources to a number opportunities so far this year and the Fund is currently under exclusivity on two high quality opportunities. In both cases the Warakirri team are working with prospective Tenant Partners on deal terms and asset due diligence, with a target to secure both transactions for investment by end of the March quarter next year. If secured as planned, these deals are opportunities for the Fund to not only expand the asset base significantly, but achieve highly valuable sector and geographic diversification. A little further down the pipeline, a number of diverse opportunities are being considered in different fruit sectors, including citrus, berries, and mangoes.

Finally, a brief note on Fund structure and opportunities for further investment. The Fund's Stage 1 capital raising period will officially close at the end of this month (October 2021) and move to Stage 2 in accordance with the Information Memorandum. Units in Stage 2 will be issued at Net Asset Value (NAV) to ensure that the transaction costs incurred (including stamp duty, legal fees and other fees related to the acquisition or disposal of assets) are equitably applied to new and existing investors. The Fund's NAV calculation will include a 'Capitalisation' approach to the treatment of acquisition costs, with such costs capitalised (i.e. on the balance sheet of the Fund) and amortised over a period of 5 years. This allows for incoming investors to contribute to previously incurred asset acquisition costs. Units will be priced monthly and the Fund will continue to accept applications on a monthly basis under this pricing structure.

With some light at the end of the COVID tunnel and the prospect of a return to normality, the Warakirri team are certainly looking forward to a return to travel, more time in the field originating opportunities, and ultimately, the introduction of some new Fund assets over the coming months. We look forward to reporting on our progress next quarter.

Alongside our regular updates, this quarter's report includes a topical piece on the role of agriculture as an inflation hedge in a diversified portfolio.

All the best for the quarter ahead and thank you again for your support and investment in the Fund. Please get in touch with us on 1300 927 254 to discuss opportunities for further investment or with any queries you may have.

**Steve Jarrott**
**Portfolio Manager**

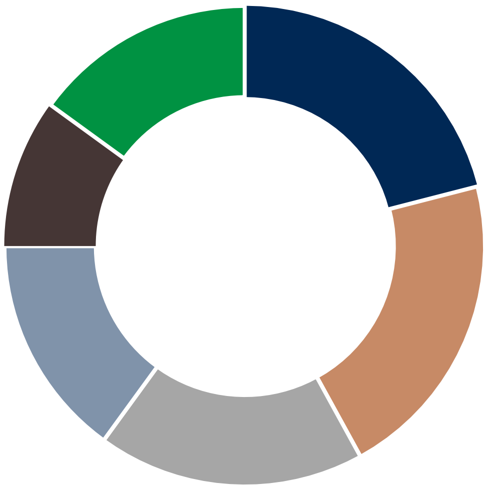
Warakirri ASSET MANAGEMENT

## INVESTMENT OVERVIEW

The Warakirri Diversified Agriculture Fund (“DAF” or the “Fund”) has been established to purchase and develop a diversified portfolio of investment grade Australian agricultural assets and lease to high quality agricultural businesses (tenants) - a ‘Core Agricultural Property’ investment strategy.

The Fund’s focus is on higher value sectors with attractive lease terms and quality tenants. Examples of assets in higher value sectors are nuts, fruit, vineyards, intensive livestock, agricultural infrastructure and water entitlements.

## LONG TERM PORTFOLIO ASSET ALLOCATION



- Nuts (Almonds, macadamia, walnuts & pistachios) (0-40%)
- Fruit (Citrus, pears, olives, apples, avocados, mangoes & berries) (0-40%)
- Vineyards (Wine & table grapes) (0-35%)
- Intensive Livestock (Poultry meat) (0-30%)
- Agricultural Infrastructure (Processing, greenhouses & strorage) (0-20%)
- Water Entitlements (0-30%)

## FUND SNAPSHOT

| | |
|---|---|
| Investment Type | Diversified Agriculture |
| Investment Style | Active |
| Target Returns | IRR after fees, expenses and Fund level tax of 7% to 11% per annum |
| Liquidity | Liquidity window will be available on the seven-year anniversary of the Fund |
| Target Fund Size | $300m |
| Gearing | Neutral long-term gearing position of 25% |
| Assets Held | 4 |
| Distributions | Quarterly |

## INVESTMENT GUIDELINES

**At steady state, the Fund will seek to have:**

| | |
|---|---|
| **Individual Asset Exposure** | ▪ No individual asset >25% of the portfolio by value |
| **Individual Sector Exposure** | ▪ No sector exposure >40% of the portfolio by value |
| **Individual Commodity Exposure** | ▪ No individual commodity exposure >25% of the portfolio by value |
| **Regional Exposure** | ▪ No regional exposure >40% of the portfolio by value |
| **Counterparty Exposure** | ▪ No individual counterparty exposure >30% of the portfolio by value |

"Mills Lane" Baby Spinach

## AGRICULTURE – A POWERFUL INFLATION HEDGE THAT MAY ALSO HELP GROW YOUR PORTFOLIO

The attractive thematic underpinning Australian Agriculture is well established within investment circles. With a growing global population and the related demand for food and fibre, Australia has world leading farming capabilities, good proximity and trade access to key global markets, strong export channels, and a reputation for clean, high-quality products.

These strong fundamentals point to an asset class that is a valuable long-term investment through any cycle. However, stepping back from the fundamentals and strong secular outlook for agricultural products, this asset class is also becoming an increasingly important option for its low correlation diversification; as an insulator to portfolio volatility; and, now more than ever, as a proven tool to hedge against inflation.

**Inflation Risk**

The COVID-19 pandemic pushed global economies into a snap recession unlike any downturn event in history. With varying trends in infection rates and different government policy settings around the globe, the recovery is ongoing and prone to relapses - it is not one paced and different sectors are impacted in different ways. However, a common response has been unprecedented fiscal policy from across the developed world including record low interest rates coupled with monetary easing.

The fiscal and monetary stimulus that has and will be required to drive a full global recovery, particularly the ongoing role of low interest rates, is now leading to a buildup of inflationary pressures. The market continues to debate if current inflation is transitionary or a permanent trend.

However, there is a broad market consensus that even as a transitory phase winds down, and inflation normalises over the longer term, that CPI is likely to remain above Australia's long-term average annual rate of 1.9% and potentially above the Reserve Bank target inflation rate of between 2 and 3%.

As a result, long term investors are looking at their current portfolios, evaluating what the impact of higher inflation may be, and assessing new investment opportunities that offer inflation protection and potential upside.

**Hedging Against Inflation**

With traditional hedges such as government bonds offering low returns in today's environment, investors are turning to alternatives, such as real assets, as solutions that can not only protect against inflation, but potentially benefit from an inflationary environment.

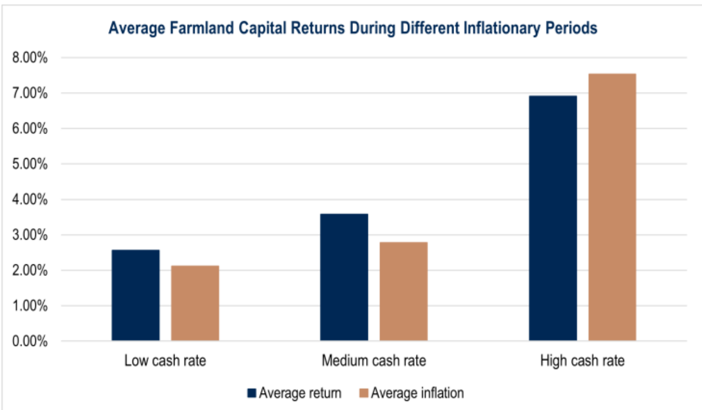
An increasingly popular investment solution in the real assets sector is agriculture/farmland, which provides investors with three key characteristics to fight inflation pressures within a diversified portfolio:

1. Inelastic demand of food consumption – the unquestionable necessity of food has been further highlighted through the pandemic.
2. Inelastic supply of assets – although productivity and efficiency can increase, ultimately the core elements of an agricultural investment (farmland and water resources) are finite and not something that can be manufactured or easily substituted.
3. Correlation to inflation - the commodities underpinning an agricultural investment, themselves, are highly correlated to inflation and product pricing has historically tracked with or beyond high economic growth rates.

**Farmland Capital Returns during High Inflationary Periods**

Although the impacts of inflation on income yield in agriculture can vary, there is a clear trend that in periods of high inflation, values of farmland assets do increase at their highest rates.

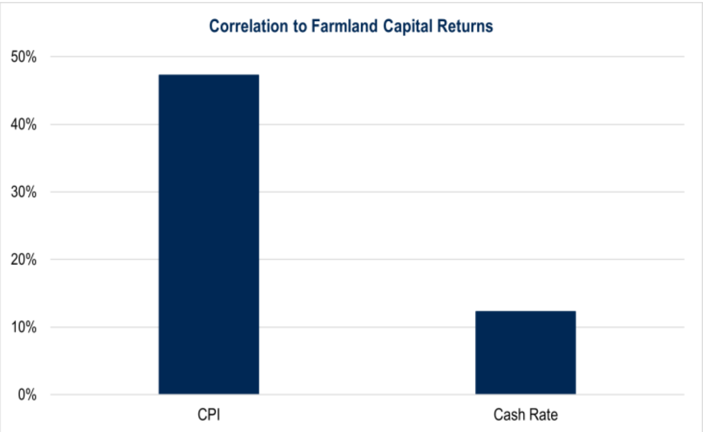
In the period between 1978 and 2019, farmland values in Australia increased at the highest rates during periods of high inflation and in particular when CPI has been above 4.2%.




Source: ABARES Australian Agricultural and Grazing industries Survey and Australian Dairy Industry Survey. ABS Australian Bureau of Statistics: Consumer Price Index

## AGRICULTURE – A POWERFUL INFLATION HEDGE THAT MAY ALSO HELP GROW YOUR PORTFOLIO (ctd)

Interest rates can also have a profound effect on property values across all sectors, including farmland, as higher interest rates increase the cost of finance and in turn reduce net operational returns. However, as shown below, the impact of interest rates in agriculture is not as dramatic as that of inflation, which is more highly correlated to farmland capital returns than the RBA cash rate.




Source: ABS Australian Bureau of Statistics: Consumer Price Index. Reserve Bank of Australia (RBA)

### The Impacts of High Inflation on Agriculture Income Yields

In line with performance through historic events of economic stress, agricultural investment returns have been highly resilient through the pandemic. Unlike traditional inflation hedges, such as gold, farmland is also an income generating asset that can produce a reliable yield.

Specifically for agricultural income returns, moderate to high inflation has different influences on key profit drivers and the impacts depend on relative inflation in agricultural outputs, as well as the economic position of our relevant trading partners.

Making up a large portion of the CPI basket of goods, agricultural outputs such as food and beverages are naturally exposed to inflation. A rise in prices can be indicative of higher revenue for producers of these goods, and if occurring at the same time as a depreciating Australian dollar (AUD), it has the potential to be very supportive of agricultural profits.

It must be noted that inflation in goods and services can increase the cost of farm inputs, potentially squeezing margins unless revenue growth fully compensates such extra costs. Upward cost pressures on labor would also be expected in an inflationary cycle. However, agriculture is a much more sophisticated and less labor-intensive sector than it once was, and a continued focus on technology, operating efficiency and automation across the food supply chain has reduced, and will continue reduce, wage pressures over time.

### Summary

Quality farmland investments offer an attractive alternative to traditional asset classes, that is largely agnostic to economic cycles. With the prospect of inflation looming, adding or increasing exposure to agriculture within a well-balanced investment portfolio can offer considerable benefits to long-term investors.

Warakirri offers a ‘Core Agricultural Property’ investment strategy that has been established to buy, develop and lease property to high quality agricultural businesses, as tenant partners, providing investors access to a portfolio of investment grade Australian agricultural assets with low volatility returns. The target assets for this strategy include high value sectors of horticulture (nuts & fruit), viticulture (wine & table grapes), irrigated row crop farmland assets and water entitlements.