LAGUNA BAY

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31 October 2018

Department of Agriculture and Water Resources

Committee inquiry: Superannuation investment in agriculture

Date Held: 18 October 2018

Questions Taken on Notice

Question:

Mrs MARINO: We're doing this inquiry and we've heard you clearly. If we are to make one recommendation as a committee to government, what should that be, on the back of what you've said here today?

Mr McGavin: Can I get back to you on that?

Mrs MARINO: Yes, you can.

Mr McGavin: That's an important question and a more important answer to me. I stayed up until very late last night giving this a lot of thought, and I would like to condense that down into one thing.

Mrs MARINO: It is important. You've given it a lot of thought, but we're about what we need to recommend the how to, the enabling, what it is that we need to do.

Answer:

It’s simple, in order to attract local superannuation investment into Ag, you need to create envy. This is done by allowing people like me and my local fund manager competitors to do our job well and continue building an enviable track record so the Aussie supers feel like they cannot miss out. Government has to stop getting in the way. All of the local Ag fund managers I know, have friendly developed world foreign financial investors (most being either defined benefit or contribution retirement plans). This capital is perfect for agriculture and should be facilitated, not hindered. The following, in order of importance, will help, if you want one, pick the first one:

1. 30-day marketing rule for foreign capital has to go. It serves only a handful of rich farmers and a few agents, it does nothing but hinder the agricultural industry, the community. If you hear a farmer complain about missing out, my views are:
    - Very rarely is this the case, it’s often a face-saving cop-out;
    - Ask their bank managers and will most often find that the guy cannot afford it which is the real reason they missed out;
    - We get farmers coming to us often who paid too much for the neighbour and are now in financial trouble;
    - Often the foreign investor will want to lease out their acquisitions anyway so it’s often better for the neighbour.
    - We have debt saturation here in Australian Ag, many farmers are overleveraged into aggregating neighbours and not investing in productivity. It’s dragging down the aggregate.
2. Don’t deem large US pension funds as a SWF, they are not government owned, they are owned by the millions of beneficiaries and are financial investors.
3. Streamline and reduce FIRB costs and delays. Local super funds want to know that they will be able to exit to the highest bidder. The delays around busy periods and when the government is in housekeeping

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mode is hindering the facilitation of efficient capital markets. We are sometimes allocating capital to business's in severe financial stress and months can be critical in these situations.

4. Changing tax structures like the government just did with the MIT has set our business back a lot. We now pay double the tax of a local super fund or a farmer who owns his farm in his super. Local super funds would often like to co-invest alongside like-minded, experienced international investors. Under the MIT tax changes if they do that, they will pay double tax.
5. The different rates of stamp duty at every state is a nightmare for a co-mingled fund and triggers a stamp duty event every time I want to raise an extra 20% fund so we are forced to not invest in some states or establish a whole new fund and duplicate costs and process,

Excerpt from Transcript:

CHAIR: how does the investor get his money out at some stage? Is he reliant on the dairy farmer to say, 'Right, I've had enough'? What if he's got three kids that want to come back? It's a much simpler model to understand with Select Harvests versus what you're doing. If I were an investor, if I were coming in and thinking—

Mr McGavin: Categorically, yes, and herein lies the problem—where we're at in terms of the maturity profile of this asset class. It's probably largely irrelevant as to why we're here; it's just how we fix it. It's a really good question. The answer is that the sort of money we're chasing is forever capital. Private equity money that's sort of three-year time frame is not suitable for farmland. First of all, it's about investor expectations. These guys have got massive inflows of capital. As Paul mentioned, it's a lower age profile, so we want ones that have got net inflows into their funds. They don't want their money back. They want to just keep rolling that perpetually and keep getting bigger, because they're wanting an inflation hedge; they're wanting real assets that are non-correlated to other stuff. To answer your question on how they get out, they would like to think that another like-minded investor would be buying them out once we've gone in there and lifted productivity, taken development risk, identified the person. But we're not a flipper of assets like what is normally— (see handwritten marking up in scanned transcript)

Further Answer:

To answer your question goes to the heart of why local super funds won't invest in Ag, with the FIRB restrictions, they don't know that they can exit to the highest bidder. That is a huge put-off for incoming investors.

Final Point:

I am concerned that we are cracking down on "good foreign capital" (friendly pension funds who offer low cost, long duration capital and just want a financial return) at a time when the banks are withdrawing from Ag, I'm hearing big numbers of lay-offs in some of the big banks agri teams and also when liquidity in the global financial markets is contracting. Who is going to be there during the next financial crisis? It is a disaster waiting to happen and very career limiting for the politician who leaves his finger prints on creating this problem.

Your sincerely

Tim McGavin
Director