GLOBAL FOOD FORUM

Super funds finally get a taste for agriculture

VicSuper farm manager Mike Neville near Swan Hill in Victoria. Picture: David Geraghty

SUE NEALES
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Local superannuation funds are waking up to the potential of Australia's powerhouse agricultural sector following the flood of investment from overseas pension funds, sovereign wealth capital and foreign investors into farming over the past five years.

Australian super funds, which invest less than 0.5 per cent of their $2.2 trillion of funds under management in agriculture, are now inundating corporate advisers with queries about how to enter the booming $64 billion farm sector.

With the $330 million Australian Food and Agriculture group and its 18 trophy properties in southern NSW up for sale — and the Sustainable Agricultural Fund's 17 farms, spread from Moree, NSW, to King Island, Tasmania, and worth about $200m, also up for grabs — super funds are sniffing opportunity in the country air.

VicSuper is one of the few funds openly committed to agriculture, after investing $180m over the past decade to buy and develop 9000ha of degraded and salinity-affected small farms between Swan Hill and Kerang along the Murray River.

Today the farms, run by manager Kilter Rural and its farm boss Mike Neville, are growing a mixture of high-value irrigated cotton, tomatoes and organic wheat, while also actively trading irrigation water.

An orchard of a promising new superfood, Queen Garnet plums, has just been planted, while the most-degraded soils have been sown with native trees, shrubs and pasture for sheep production, diversity protection and potential carbon offsets.

VicSuper chief executive Michael Dundon says the food and fibre produce from the Swan Hill farms is now returning his $16bn fund a 7-8 per cent annual return on investment — better than bank interest rates — without accounting for significant accompanying gains in underlying farmland value.

Last year, after a stellar cropping season and big profits from water trading, the returns to the fund were a stunning 23 per cent on investment.

"The fundamentals of globally scarce arable land and increasing food demand are so strong, and returns of 20 per cent in the current investment market hard to find, that as an asset class I'm surprised more super funds aren't considering it," Mr Dundon said.

“We’re really comfortable investing in agriculture. It’s a long-term alternative asset class but the yields are certainly there.”

Shirley Harlock, chairwoman of the SAF’s management company AgCAP, said it was about time super funds realised rewards of the “golden era of agricultural prosperity ” heralded by Agriculture Minister Barnaby Joyce earlier this year could and should be shared by all Australians through their superannuation.

“To say I’m disappointed when I see some of our greatest agricultural assets — such as Van Diemen’s Land dairy or the Kidman (cattle empire) — being sold overseas is an understatement; our super funds could have taken out any one of them,” said Mrs Harlock, who is also a Warrnambool dairy farmer.

“One of the key strategies when we established the Sustainable Agricultural Fund seven years ago was a desire to keep Australian land in Australian hands; I’d like to see it stay that way if possible.”

Ironically, it is one of Australia’s biggest funds, AustralianSuper with its two million members, that is forcing the sale of the SAF farms, because it wants to take its share of profits out of the business after seven years of planned investment.

The Australian understands that the five other super funds invested in SAF — including Australian Catholic Super and AMP Capital — did not want to sell the valuable portfolio of four Tasmanian dairy farms, a King Island beef business, and cotton and grain farms in NSW and Victoria spread across 23,800ha, but could not find a replacement for AustralianSuper's share.

"It is so frustrating: fund managers struggle to understand agriculture as an asset class, fail to grasp it requires a long-term investment vision and commitment, and fail to appreciate you can de-risk agriculture though scale, operation and diversity," Ms Harlock lamented.

PricewaterhouseCooper agribusiness chief Greg Quinn said the big super funds, as well as high net worth individuals such as Hancock Prospecting's Gina Rinehart, were now becoming much more interested in farming.

"I don't know if you can say we have turned a corner yet, but we are starting to see food and agriculture right up and down the supply chain becoming a bit of a darling sector," Mr Quinn said.

"Super funds are realising agriculture is getting more stability and better returns, commodity platforms are strong and that it can be de-risked; it's become more of an attractive place to be investing."

The new interest in farm investment follows this month's release of national account figures showing agriculture is now the strongest-growing sector of the economy.

The contribution of agricultural production to gross domestic product soared by 8.3 per cent in the December 2016 quarter — more than double the growth rate of the mining sector — and was credited by Scott Morrison with warding off a national recession.