

Market Check

# Pool Schedule

## 2018/19 Pre-Harvest Options Programs



15 March 2018

### Program Overview:

The Pre-Harvest Options Programs offer participants access to marketing strategies that aim to hedge price risk and minimise downside during the growing season up until the time of delivery into one of Market Check's post-harvest programs. The Pre-Harvest Options Programs are open to contracting during the pre-harvest season and close at Market Check's discretion to protect participant returns.

Market Check collects non-refundable deposits from all participants and invests funds in a portfolio of options in order to hedge price risk from the time of contracting to the time of delivery at harvest. For participants, downside from the options portfolio is limited to the deposit paid initially.

The Pre-Harvest Options Programs are open for contracting of **wheat, barley and canola** Australia-wide, delivered into warehousing managed by a storage provider approved by Market Check.

In the case of crop failure, the wash out cost is nil for all contracted tonnage.

Market Check is authorised to sell physical grain as per the schedule of the elected post-harvest product.

### Requirements for Participation:

**Participants commit to pay Market Check a non-refundable deposit to fund the options position – \$20 per contracted tonne for wheat & barley; \$25 per contracted tonne for canola.** These are invoiced from the date of contracting and are payable immediately. If a participant has sufficient equity in a harvest program from the previous season, they may elect to use it to fund the deposit.

**Participants commit to deliver physical grain** into the title of AgRisk Management and participate in a Market Check post-harvest program.

Participants are required to notify Market Check of their choice of Post-Harvest program prior to grain being transferred. Programs available for selection are the Strategic, Cash & Call, and Express Program.

Production failure is the only valid reason for not committing tonnes to a post-harvest program. Signed documentation confirming production failure from an agronomist is required.

### Grain Marketing:

The Pre-Harvest Options Programs may use a combination of exchange listed futures and options contracts, and over the counter (OTC) derivatives. Funds will be invested in a portfolio of put options on either the Australian, U.S., Canadian or European exchange, or a combination of these exchanges depending on market conditions. Put options give the buyer the right, but not the obligation to sell the underlying product at a pre-defined price. If the underlying market rises significantly in the pre-harvest period, the options are not exercised and participants are still benefiting from the higher prices after forfeiting the initial deposit (premium). If the underlying market falls, the options provide protection by allowing the owner to sell at the pre-determined level established at the start of the program.

**The program's duration is from the time of contracting pre-harvest (from 15<sup>th</sup> March 2017), up until the time of delivery into one of Market Check's harvest programs (latest date is Friday 22<sup>nd</sup> December 2017).**

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### **Pre-Harvest Options Program Costs:**

Market Check's management & admin fee for the Pre-Harvest Options Programs is \$2.50 per tonne (excl GST).

### **Pre-Harvest Options Program Returns & Payments:**

Returns associated with the Pre-Harvest Options Programs are applied to individual participants based on contracted tonnage, time of contracting and time of delivery at harvest, i.e. returns are indexed based on the period of time each grower was participating in the program. As this is a pre-harvest program, there are no GTA location differentials applied to participants returns (these will apply to the returns in the harvest pool which the grain ultimately participates in).

The options position is managed as a portfolio. Market Check has discretion to move the derivatives position between markets/maturities/strike prices based on market conditions. Equity is determined by the portfolio returns as a whole, and is allocated to growers based on the time of entry & delivery.

Equity associated with the Pre-Harvest Options Program is paid to the grower once finalisation has occurred after the harvest contracting window.

Market Check are authorised to use payment information obtained from the National Grower Register (NGR). Market Check is not responsible for payments made to incorrect NGR details as it is the responsibility of individual participants to ensure data maintained by the NGR is current, true and correct.

### **Pre-Harvest Options Program Risks:**

The financial risk to participants in the Pre-Harvest Options Programs is limited to the amount of the initial non-refundable deposit. Participants have no further liability in excess of that amount, regardless of market movements.