Market Check

Pool Schedule

2017/18 Pre-Harvest Hedging Programs

04 July 2017

Program overview:

The Pre-Harvest Hedging 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 Hedging Programs are open to contracting during the pre-harvest season and close at Market Check's discretion to protect participant returns.

These programs are only available to participants with equity in harvest programs from the previous season. Market Check withholds equity from the previous season's programs as collateral against the pre-harvest hedge positions held by this program.

The Pre-Harvest Hedging 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 (if the hedge positions are in debit, this amount will be deducted from the previous season's equity but there is no additional washout fee in this scenario).

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

Requirements for Participation:

Participants must have sufficient equity remaining in a harvest pool from the previous season to be used as collateral against the hedge positions in this program. The amount withheld for collateral is generally $100 per tonne committed to the Pre-Harvest Hedging Program, unless otherwise negotiated.

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 Hedging Programs may use a combination of exchange listed futures and options contracts, and over the counter (OTC) derivatives. Physical forward sales may be incorporated into the strategy if market conditions warrant it, but only after consultation with participants. Hedges will be placed in a portfolio of either the Australian, U.S., Canadian or European futures, or a combination of these exchanges depending on market conditions.

The program's duration is from the time of contracting pre-harvest (from 1st of July 2017), up until the time of delivery into one of Market Check's harvest programs (latest date is Friday 22nd December 2017).

AgRisk Management Pty Ltd ABN 33 067 313 722
Suite 5.01, Level 5, 9 Help Street Chatswood 2067 | PO Box 245, Gordon NSW 2072
P 02 9499 4199 | **F** 02 9499 4188 | **E** agdesk@agrisk.com.au | **W** marketcheck.com.au

Pool Schedule

2017/18 Pre-Harvest Hedging Programs

Pre-Harvest Hedging Program Costs:

Market Check's management fee for the Pre-Harvest Hedging Programs is $7.50 per tonne (excl GST).

The management fee is charged through the nominated Post-Harvest program, with no further management fee charged for participation in the post-harvest program, **i.e. total combined management fee for participation in Pre-Harvest and Post-Harvest programs is $7.50 per tonne.**

Pre-Harvest Hedging Program Returns & Payments:

Returns associated with the Pre-Harvest Hedging 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 derivatives position is managed as a portfolio. Market Check has discretion to move the 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 Hedging 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 Hedging Program Risks:

Market Risk: The Pre-Harvest Hedging Program takes outright positions on futures exchanges as a hedge against lower prices during the growing season. With no physical grain delivered until harvest to offset market movements in the futures, participants are exposed to the full risk of adverse market movements (in this case, an upward market move). While the equity withheld (usually $100/t) is a significant buffer against a debit on the derivatives positions, participants are still liable to cover any derivatives losses in excess of this amount – this can be done as an adjustment to returns in the harvest program. Participants should keep in mind that a large debit on the hedge position is generally offset by a similar rise in the value of the unharvested grain.

Market Check

Pool Schedule

2017/18 Pre-Harvest Options Programs

04 July 2017

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 participating in 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 1st July 2017), up until the time of delivery into one of Market Check's harvest programs (latest date is Friday 22nd December 2017).

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Pre-Harvest Options Program Costs:

Market Check's management fee for the Pre-Harvest Options Programs is $7.50 per tonne (excl GST).

The management fee is charged through the nominated Post-Harvest program, with no further management fee charged for participation in the post-harvest program, **i.e. total combined management fee for participation in Pre-Harvest and Post-Harvest programs is $7.50 per tonne.**

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 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.

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