

Moynihan, Pete (2005)

**What characterises
successful or
unsuccessful Equity
Partnerships**

Acknowledgements

- **The Southland/Otago Westpac Agribusiness team.**
- **The Westpac Equity Partnership seminars.**



- **The 18 individuals who have kindly taken time out to complete the survey, thank you very much.**
- **Fiona Urquhart for her layout and presentation skills.**

Executive Summary

With the popularisation of equity partnerships during the last 15 years in the dairy industry, it was decided that a review of what characterises success and lack of success within equity partnerships would be useful. This would enable recommendations to be put to existing and prospective investors in equity partnerships.

This is a small “snapshot” survey with no statistical backing, but is considered very useful and indicative of the industry. A survey of existing & past equity partnership investors was under taken. The survey was completed using dairy farming equity partnerships in the Southland/Otago area. The local knowledge, experience and contacts of the writer were used to select people that would extract the reasons for success or lack of success.

Results were as follows:

What characterised successful equity partnerships.

- Shareholders having common aims & goals and being compatible.
- Honesty.
- Trust.
- Discipline & defined roles.
- Formal processes are in place.

What characterised unsuccessful equity partnerships.

- Shareholders with differing aims and goals and incompatibility of people.
- Lack of trust.
- Poor communication.
- Lack of understanding of equity partnerships.
- Lack of advice after set-up.

Recommendations

1. **Research prior to commitment.**
2. **Do not rush a business proposition unless you know that you have the five characteristics of a successful equity partnership.**
 - **Shareholders having common aims & goals and being compatible.**
 - **Honesty.**
 - **Trust.**
 - **Discipline.**
 - **Formal processes are in place.**
3. **Involve experienced proven professionals if required, who can provide examples of their work, (consultant, banker, accountant, solicitor and/or mentor).**
4. **Understand equity partnerships, how they work and the rules of running them (i.e. shareholders agreement and management contract).**

The ability and skill required to be able to pick people and then work with those people for the good of all seems to be the most important issue. This issue is not unique to agricultural equity partnerships it is a common business and even sporting requirement for success.

In Summary

What characterised successful Equity Partnerships.

The People

What characterised unsuccessful Equity Partnerships.

The People

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1. Definition of an Equity Partnership

An equity partnership is a farm business owned by two or more parties who have contributed capital to form a farming business. The equity partnership usually forms a private company with shares issued to each member of the partnership in accordance to the amount of capital each investor invests.

It is therefore relatively simple to set up an equity partnership. But simplicity does not guarantee success.

Note that equity partnerships are also referred to as farm syndicates and equity farming.

2. Background

Equity partnerships in farming have become very popular since the early 1990's. New Zealand farmland and farming business ownership has typically involved family sole traders, partnerships, companies and/or trusts. Families and family ownership structures have dominated New Zealand farming. This has changed over the last 15 years with a significant increase in ownership by Corporate and equity partnership entities trading as companies.

This has coincided with rapid property value increases, a significant number of large-scale dairy farm conversions and a desire by a range of people to expand into rural investment or expansion of their existing rural investments.

Investors could directly invest in rural land and livestock assets without any hands on management being required. This has been complimentary to many young farmers who have had the desire for farm ownership & management but due to the rapid asset value increases and the capital associated with farming investments can only afford partial ownership. By joining together, these parties have formed equity partnerships as an investment vehicle.

Equity partnerships are not a new structure; they have been around for well over 50 years. The difference now is that they have become very popular within New Zealand agricultural businesses and are being promoted, as an option by professionals (within the boundaries set by legislation) and a more disciplined set-up is available. This is the case due to the experiences, both good and not so good, that professionals and investors have had over the last 15 years.

It is believed that equity partnerships are now a credible, significant and important part of the New Zealand farming ownership options and that over the coming decade large numbers of equity partnerships will be formed. Last years' Fonterra Shareholder's Council "Industry Survey" indicated that a significant number of sharemilkers were looking to expand their investment in the dairy industry and enter the land market via equity partnerships. Equity partnerships have been common in the forestry and commercial property sectors. The agricultural equity partnerships I have looked at are very similar in principal but do have specific issues related to industry risks and rewards.

Anyone can set-up an equity partnership under a company structure with other investors, purchase a farm and run the business. Because they are easy to set-up and that anyone can promote (within the boundaries set by legislation), an analysis of the level of success on various issues could be beneficial to those already involved, and those intending entering or promoting equity partnerships.

3. Example of an Equity Partnership

Four shareholders who all know each other have decided to combine resources and invest in a dairy farming equity partnership located in Central Southland.

Shareholder	\$1 shares held	Shareholder loans	Total Shareholder Capital & Loans	% shareholding
A	\$1,000	\$299,000	\$300,000	10%
B	\$2,500	\$747,500	\$750,000	25%
C	\$2,500	\$747,500	\$750,000	25%
D	\$4,000	\$1,196,000	\$1,200,000	40%
Total	\$10,000	\$2,990,000	\$3,000,000	100%

One shareholder will also manage the business under an employment contract. The four shareholders will all be directors, with three being active farmers and one being a Rural Professional. Shareholder “A” who is currently a sharemilker will manage the farming operation. The shareholders will trade as a company and have chosen the name; Swede Country Dairy Limited.

They investigated several dairy conversion property options but decided on buying an existing dairy unit in Central Southland. Prior to this however they have registered their company and are currently agreeing on a “shareholders agreement” that meets all their needs.

The shareholders common aims & goals are:

- 1. Purchase a well-located farm for resale purposes.**
- 2. Purchase a farm that requires no development, including the buildings, but that may have a 10% production increase with good management.**
- 3. Purchase a farm that is in a good rainfall area.**
- 4. Purchase a farm that has good deep soils that are not considered wet soils. To minimise drought and pugging risks.**
- 5. To return as much cash as possible via dividends.**

The shareholders have all known each other but are not close friends, and believe they have the recipe to form a very successful equity partnership.

On top of purchasing the farm they are also purchasing a herd of cows plus replacement heifers and plant and machinery to successfully run the operation. The following table shows the pro-forma balance sheet of Swede Country Dairy Limited as at 1st June 2006, at which stage the company will settle all purchase transactions.

<u>Liabilities</u>		<u>Assets</u>	
Westpac OD	\$10,000	Farm 222,000 kg ms at	\$23 \$5,107,500
Westpac Term Debt	\$3,045,000	Cows 600 head at	\$1,150 \$690,000
		Yearlings 150 head at	\$550 \$82,500
Equity 50%	\$3,000,000	Plant & machinery	\$175,000
Totals	<u>\$6,055,000</u>		<u>\$6,055,000</u>

Note: Equity is made up of a mixture of share equity and shareholders loans.

Swede Country Dairy Limited has also put together budgets for the first three years as follows.

4. Budgets

Income					2007	2008	2009	
Advance	222000 kg ms			\$3.50	\$777,000	\$777,000	\$777,000	
Finals				0.75		\$166,500	\$166,500	
Cull cows	95 head			375	\$35,625	\$35,625	\$35,625	
Calves	358 head			45	\$16,110	\$16,110	\$16,110	
Fert rebate					\$4,000	\$4,000	\$4,000	
<hr/>								
Total Income					\$832,735	\$999,235	\$999,235	
<hr/>								
Expenses								
Wages					\$155,400	\$155,400	\$155,400	
Animal health					\$39,960	\$39,960	\$39,960	
Breeding					\$17,760	\$17,760	\$17,760	
Dairy Insight					\$7,548	\$7,548	\$7,548	
Dairy Shed					\$13,320	\$13,320	\$13,320	
Electricity					\$11,100	\$11,100	\$11,100	
Feed					\$22,200	\$22,200	\$22,200	
Grazing	cows	600	10	18	\$108,000	\$108,000	\$108,000	
	heifers	150	52	6	\$46,800	\$46,800	\$46,800	
	calves	150	26	3.5	\$13,650	\$13,650	\$13,650	
Fertiliser					\$77,700	\$77,700	\$77,700	
Frieght					\$8,880	\$8,880	\$8,880	
Seeds					\$4,440	\$4,440	\$4,440	
Weed & Pest					\$2,220	\$2,220	\$2,220	
Contracting					\$11,100	\$11,100	\$11,100	
R & M					\$33,300	\$33,300	\$33,300	
Vehicle					\$26,640	\$26,640	\$26,640	
Admin					\$17,760	\$17,760	\$17,760	
Insurance					\$4,440	\$4,440	\$4,440	
Rates					\$8,880	\$8,880	\$8,880	
Other					\$2,220	\$2,220	\$2,220	
<hr/>								
Total Farm Working Expenses					\$2.85 /kg ms	\$633,318	\$633,318	\$633,318
<hr/>								
Term debt interest	\$3,045,000	7.50%			\$228,375	\$228,375	\$228,375	
Principal					\$0	\$0	\$0	
OD interest					\$4,000	\$7,000	\$4,000	
<hr/>								
Dividends						45000	45000	
Taxation					\$0	\$26,000	\$26,000	
Capital						\$15,000	\$18,000	
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Cash Surplus						-\$32,958	\$44,542	\$44,542

A local farm consultant will be employed in the short-medium term for farming advice, planning and decision-making. A local accountant and solicitor who specialise in dairy farming and equity partnerships will also be used. It is decided that the board will meet bi-monthly this first year to review budget versus actuals and to review short-term plans. The budget is set for the year and a strong discipline will be put in place at each bi-monthly meeting so that budget is met or exceeded. A draft shareholders agreement has been obtained from a local solicitor with any changes to be agreed at the next shareholders meeting. The employment of shareholder "A" will be agreed to under the terms of an employment contract, a draft copy is to be reviewed at the next board meeting.

5. The Issue

Agricultural equity partnerships involve long-term assets, yearly cycles and have the inherent risks associated with farming (climate, soils, management, commodity cycles, interest rates, labour, long-term nature of the business & yearly cycles). With large increases in land capital values plus very good management, many of these partnerships have been extremely rewarding for investors over the last 15 years.

There have been several equity partnerships known to the writer & other local Southland professionals that have had disappointing outcomes to some or all shareholders. On the other hand the writer has witnessed many successful equity partnerships that have been going for up to 12 years, that have created large returns on investment in a mixture of cash and capital growth.

Identifying the issues and/or causes of the success or lack of success (failure) will be a starting point to come up with recommendations for existing and/or future investors in equity partnerships.

It needs to be noted that some equity partnerships may only be successful currently because of very large capital gains over the last five years, which have kept the shareholders satisfied. If capital appreciation reduces to nil it will be interesting how various equity partnership shareholders react and define their success.

6. Why Survey

I completed a survey so that some hard data could be analysed from successful and unsuccessful equity partnerships. It needs to be noted that success “lies in the eye of the beholder”. Each investor’s measure of the level of success will be measured against their individual goals, aims and measurements of success. Success may not be solely financial or wealth orientated, and will be related to how each individual measures success. With equity partnerships involving many people of differing skills and backgrounds it is expected that a number of issues will define the level of success.

It is hoped that this survey will identify the characteristics of successful and unsuccessful equity partnerships.

The proposed outcome from this survey and subsequent analysis and interpretation is recommendations for people in existing equity partnerships or people planning to set up new equity partnerships.

7. Choosing the people to survey

The writer has been heavily involved in the agribusiness finance market for the last 17 years, with the last 12 years in Southland and Otago. Equity partnerships have been an increasing ownership entity since the early 1990’s in the dairy industry. Equity partnerships are being used in other farming types but currently to a lesser degree.

For the above reasons the survey covers equity partnerships located in Southland or Otago and those set-up for the purposes of dairy farming. As I am looking for the extremities in success (i.e. the reasons for very successful and very unsuccessful equity partnerships) I have used my local knowledge, contacts and experience of the market to select the appropriate people to survey. It is acknowledged that this is my opinion, and the opinion of the actual people will differ and is the most important issue. A total of 18 people were asked to complete the survey, with 18 surveys actually being completed and returned.

As the information that is being provided is personal and very sensitive, all names of respondents and their associated equity partnerships have been kept confidential. All survey responses have not been copied and all have been destroyed. No specific responses about other partners and or professionals are included in the analysis of the responses. Some responses have been altered slightly to ensure they do not identify any individual and/or firm. Not all surveys were fully completed in each section, but data from all surveys has been used.

To introduce the survey all prospective participants were telephoned and asked if they would co-operate in the survey. It was explained why the survey was being undertaken and the expected report that was to be produced, with all participants that completed the survey to receive a copy. A follow up letter was sent with the actual survey and a reply paid envelope. A copy of the letter is contained in Appendix one.

Note that not all equity partnerships were the same. Within the survey all participants are or were dairy farming businesses in Southland and Otago. A range of differing business existed and are summarised below:

- Equity partnership with a 50:50 sharemilker employed.**
- Equity partnership with a contract milker employed.**
- Equity partnership owning the whole business (land, stock & plant) with a member of the equity partnership managing the business under an employment situation.**

8. Survey Composition and Structure

As this is a broad subject and many issues could define success or lack of success, the survey questions were very open. It had categories to be rated on a scale of 1 to 10 for their particular equity partnership. The survey is not statistically analysed and hence the results can be taken as a small “snapshot” of a group of equity partnership participants in Southland and Otago. A sample survey is attached with a summary of results in appendix two.

9. Survey results

A total of 18 people were asked to complete the survey, with all 18 surveys being completed.

In deciding the characteristics of a successful equity partnership, I have reviewed section 20 from the survey (“In your opinion what are the 5 key issues when entering into an Equity Partnership?”) and grouped the common responses. I have also looked at the comments from section 18 and 22. The five issues that have shown to be important are:

What characterised successful Equity Partnerships.

- Shareholders having common aims & goals and are compatible.
- Honesty.
- Trust.
- Discipline & defined roles.
- Formal processes are in place.

There are many other areas that characterised successful equity partnerships but the above five categories were the significant issues, and effectively covered many of the minor and purely process issues. Shareholders agreements, voting rights, clearly stated KPI’s (key performance indicators), due diligence, impartial advisors are all important and practiced by most successful equity partnerships. The over riding theme is the more of the above five traits that an equity partnership has the more likelihood of success.

In deciding the characteristics of an unsuccessful equity partnership, I have taken into account the rankings in section 21. (“The following is a list of possible problems/issues that an equity partnership could have. Please indicate if any of these issues occurred and to what level.”). I added the rankings for each of the three unsuccessful equity partnerships and sorted from largest to smallest ranking. The five characteristics that have shown to be important are:

What characterised unsuccessful Equity Partnerships.

- Shareholders with differing aims and goals and incompatibility of people.
- Lack of trust.
- Poor communication.
- Lack of understanding of Equity Partnerships.
- Lack of advice after set-up.

General comments made by the participants in the last section of the survey reiterate the five characteristics for successful and unsuccessful equity partnerships.

10. Analysis of Results

I classify the issues for successful and unsuccessful equity partnerships as “macro issues”. The traits that characterised successful equity partnerships are the basic building blocks of life and most businesses. This is summarised in a statement from a participant, “picking an equity partnership partner is almost as important as picking your wife”. Having spoken to this participant, picking the right people was the building block to the success in his/her equity partnership. If the right people were not available the equity partnership would not have been set up.

Two of the three less successful equity partnerships had only two partners and they did not know the partner prior. A possibility is that in each case the equity partnership was rushed around buying a particular asset/business rather than focusing on the people/governance side first. It would appear that sometimes investors are prepared to act quickly on a particular asset and/or project and

take the risk on sorting out the governance and paper work at a later date. This can be successful and has been successful on some equity partnerships known to the writer but the results show that this increases the risk factors around success, and can lead to failure.

The ability and skill required to be able to pick people and then work with those people for the good of all seems to be the most important issue. This issue is not unique to agricultural equity partnerships; it is a common business and even sporting requirement for success. If the All Blacks rugby team did not play as a team they would increase their chance of failure, especially against tough competition. The same goes for equity partnerships, if the members do not work as a team the chance of failure increases especially so when other risk factors are also high.

Some people will naturally be better at working in groups and others will struggle with this. This highlights the importance of doing your homework in this area and if required looking for appropriate training, for oneself or for all participants.

The writer has observed that many farmers and sharemilkers with good practical experience can be very good at farming and working on their own. They are used to making their own decisions and are very independent. If they go into an equity partnership without doing the correct preparatory work, strong personality clashes can result.

As can be viewed from the survey results, there have been a very large number of successful equity partnerships. It is believed that with the experience built up by people that have already been involved in equity partnerships plus the associated professionals many more success will occur. It is hoped that the recommendations below will aid this.

In Summary

What characterised successful equity partnerships.

The People

What characterised unsuccessful equity partnerships.

The People

11. Recommendations

1. Research prior to commitment.
2. Do not rush a business proposition unless you know that you have the five characteristics of a successful equity partnership.
 - Shareholders having common aims & goals and being compatible.
 - Honesty.
 - Trust.
 - Discipline.
 - Formal processes are in place.
3. Involve experienced proven professionals, if required, who can provide examples of their work, (consultants, bankers, accountants, solicitors and/or mentors).
4. Understand Equity Partnerships, how they work and the rules of running them (i.e. shareholders agreement and management contract).

12. Other points of interest raised within the Survey

Some other issues/statements that have come through are:

- “While at the time of doing it – it seems a waste of time – a written word has a better memory than a spoken one”.
- Equity partnerships can be fun as well as very rewarding.
- Two forms of impartiality can be useful.
 1. Advisory.
 2. An independent director.

- **Equity partnerships are easy to get into and most people are very positive when setting the business up and budgets are always positive. The true spirit of an equity partnership comes to the fore when issues do not go to plan. This is when people sometimes wish to exit. The saying, easy to get into and hard to get out of can ring true to equity partnerships.**
- **The equity partnerships that the survey participants belonged to, all had good experience in farming within their ranks. If, in the future equity partnerships do not have the farming skills at board level they will need to purchase these skills or this could lead to results below expectation.**
- **Of the three equity partnerships that had less success, there was a tendency to concentrate on the physical farm work and production side of the business. Less work appeared to be put into the people and planning side and board governance. There was a tendency for shareholders agreements to not be in place or not yet signed. This in itself may not be a problem, but it is an indication that there has been a lack of discipline in the processes and a lack of communication. The question that needs to be asked is, “Is it more important to install a trough or getting a strong foundation to the business?”**
- **On more than one equity partnership there were equal voting rights no matter what your shareholding was. These equity partnerships also had high trust and honesty.**
- **Scale was mentioned as a negative, with the suggestion that 700 cows was the maximum they would do in the future by two participants.**
- **The number of shareholders was also commented on. A suggestion that three was a good optimal level for one party and four for another party.**
- **One participant who is involved in a successful equity partnership stated, “If we have to rely on the shareholders agreement, then the equity partnership is in trouble, these are only in place as the ultimate protection and if ever needed then we are bugged”. These comments do have merit.**

13. Glossary

Conversion Means changing a non-dairy farm into a dairy farm, with the erection of lanes, water supply, milking shed and effluent disposal. An alternative to purchasing an existing dairy farm.

Appendix 1 Survey Covering Letter

As per my phone call the other day, I am undertaking a study on equity partnerships. The specific topic is “What characterises successful or unsuccessful equity partnerships”. I am surveying a number of people who have been involved in equity partnerships to obtain their views on a wide range of success factors. It is aimed that the survey will identify reasons for differing levels of success so that recommendations can be produced for existing and/or new equity partnerships.

All survey responses will not be copied and will be destroyed prior to the report being produced. Confidentiality is very important to the writer. No respondents name will be mentioned or any other name of partners and/or professionals used. I value my reputation for confidentiality very highly.

I am a 41-year-old Agribusiness Area manager for Westpac (covering Southland & Otago) and I am also an owner of a 400 cow dairy farm in Central Southland. The project is part of the “Primary Industry Council/Kellogg Rural Leadership Programme” that I am currently completing. All participants will receive a fully bound copy of the report.

In my report I am trying to look at various success factors. Be forthright about your particular equity partnership and reasons why or why not various aspects were successful or not so successful. It is believed that each equity partnership will have various issues that were successful and issues that were less successful.

Thank you for your co-operation and I look forward to receiving your response over the next 10 days.

Yours Sincerely

Pete Moynihan.

Appendix 2 Survey Covering Letter

What characterises successful or unsuccessful Equity Partnerships

Survey Summary

1. Your Name **Group results.**

2. Date **Nov 05.**

3. Name of equity partnership **Group results**

4. Dates

Date Formed	Various
Exit date	Some have exited some still going.
Sale date	
or still trading	

5. Farm scale.

Total Ha	Av 335 ha
Eff Ha	Av 299 ha
Cows milked	Av 805 cows
Production kg ms	Av 282,962 kg ms

6. How many shareholders are there (were there) and what are (were) their backgrounds? **Av =3.15**

Shareholder	Background
Farmer	34%
Ex Sharemilker	22%
Sheep farmer	20%
Retired Farmer	12%
Current Sharemilker	5%
Retail manager	5%
Marketer	2%

7. How many directors run (ran) the company? **Av of 3.08 directors/company.**

8. Are (were) you the managing partner? (i.e. ran the farm) **54% were managing partners, that is running the business each day. Note that some equity partnerships had differing set ups. Some owned all the assets of land, stock and plant, some employed a contract milker and some employed a 50:50 sharemilker.**
9. Were any of the other partners/shareholders a managing partner? **Not enough data.**
10. If a partner/shareholder was managing (or contract milking) the farm, did they have an employment contract? **All yes except for one no.**
11. Were they also on the board of directors? **All yes.**
12. What were your reasons for entering an equity partnership in order of importance?

Sharemilking contract terminated
Opportunity to own land
Land inflation insurance
Make a good wage also
New challenge
Could not see future in sharemilking
Long term retirement investment
Diversification
Invest in farming outside of our own farm
Ability to enter farm ownership sooner
To get all the gains from my work
To be part of a successful farming family
To provide a strong financial base.
Allow business development - not inhibited by financial constraints
Family security
Business discipline on farm operation
Capital raising
Bring together various strengths.
Create an opportunity for my employees to grow.
Capitalise on NZDG share increases and land value increases in Southland after the merger
To create an opportunity for our business to grow.
Creating 3 equity partnerships allowed me the scale to back out of day to day farming.
A belief in the power/energy generated from collective/collaborative inputs of motivated people.
The challenge and joy of creating business
Previous successful equity partnerships.
Like concept of manager having skin in game.
Under a good structure 4 heads are better than 1.
Motivating factor, creating opportunities for young people.
Growth
Larger scale operation
Eventually independence.
Prior knowledge of equity managers capability.
To avoid the day to day decisions.
Certainty of capital gain in Southland.
Growth of our capital.
Draw on others expertise.
Gain access to larger scale.
Less milking time & more management time.
Greater chance of equity growth.

13. How did you get information about equity partnerships before you entered one?

- A consultancy firm was advertising in a local paper. I made an enquiry & before I knew it I had an investor phone me about purchasing a farm in Southland.
- Idea was brought up by a long-standing dairy farming, family member.
- Looked at the proposal and had a meeting with solicitor & fellow investors who I knew.
- A local Farmer.

- Discussion with the investor who I knew, plus my Farm Advisor.
- This is the second equity partnership, the first one being formed in the mid 1980's. Worked with Lincoln University Management Service and adapted their syndicate partnership agreement with our solicitor to fit our requirements.
- Came up with it myself, as needed more equity when I could not afford to purchase properties.
- The Bank
- Have studied equity structures for 20 odd years. First formal course was run at Lincoln by the then Apple Fields (Kane Brothers). Then it was defining the key drivers & benefits from a number of 50:50 sharemilking positions to equity positions under freehold land & 50:50 sharemilking positions.
- Did not – learnt by trial and error.
- Accountant.
- Through a farm advisor.
- Resolved by family members and ourselves who are in the accountancy & legal professions.
- Farm advisor.
- Many friends and associates had done the same.
- Accountant – although they had limited knowledge in the practicalities.
- My solicitor.

14. How did you meet the other equity partners?

- Advert in paper.
- Family contact.
- Mainly farmers from our area.
- Sharemilking for the other party.
- Accountant and then our farm consultant.
- Known within our home district in the North Island.
- One was my brother and the others have all been equity managers.
- Basically I have created the positions around ex-employees from my North Island positions.
- All hand picked.

- **Introduced by farm advisor.**
- **Ex-sharemilker.**
- **Farm advisor.**
- **The bank referred them to us.**
- **Worked for him for 6 years.**
- **Via farm consultant.**
- **A real estate agent suggested it.**
- **Known for a long time.**
- **Via sharemilking.**
- **Through my farm consultant.**

15. Who managed the process in setting the business up, And why?

- **The other 2 investors through their lawyer's to protect their capital.**
- **The major shareholder and his farm advisor. As these were the local people on the job they worked together in setting up the company, then we all met together after each having our own independent advice.**
- **The initial equity manager was the initial driver, then when part of the farm was sold down, the majority shareholder did the financial planning, with input from the other directors, and the other directors managed the day to day operation.**
- **Our accountant.**
- **In both cases I managed the process. It was my proposal and my ability to deliver on the proposal, which was key in investors' confidence to make the investment.**
- **Myself as I had the practical and financial skills.**
- **Myself, I have the experience, motivation and support of all shareholders.**
- **I managed the company formation & budgets. Another party oversaw the conversion and a third party with operational rather than development skills ran the operation post conversion.**
- **Farm advisor, as he had experience in that field, along with a local solicitor.**
- **The shareholders and advisors.**

- **Majority shareholder, who had previously been involved in several other successful equity partnerships. He had the skills and expertise to manage the process and was able to communicate to other parties.**
- **Mainly the writer, our partner had no idea of the process required. Whilst we tried to involve our farm consultant more, our partners were not comfortable with this. In their previous 30 years farming no advisor had been used, and so often they did not know how to use him and had trouble divulging some information.**
- **The solicitor.**

Some responses have been deleted, as they are very specific.

16. What advisors did you use to decide to enter the equity partnership?

Advisor Type	Your Ranking of their advice 1 very poor, 10 excellent
Nil	-
Accountant	8
Solicitor	8
Family member	8
Solicitor	10
Farm advisor	10
Accountant	10
Solicitor	10
Farm advisor	10
Accountant	10
Farm consultant	8
Accountant	8
Bank	10
Dairy Co-op	10
Accountant	8
Accountant	1 culled
Farm advisor	1 culled
Nil	-
Farm consultant	7
Accountant	10
Solicitor	10
Farm consultant	10
Lawyer	7
Farm consultant	8
Nil	-
Myself	8
Farm advisor	7
Another local farmer	8

17. What advisors did/does the equity partnership use?

Advisor Type	Your Ranking of their advice 1 very poor, 10 excellent
Farm consultant	9
Lawyer	9
Accountant	9
Farm consultant	10
Farm consultant	10
Accountant	9
Farm consultant	8
Accountant	8
Banker	8
Accountant	10
Solicitor	10
Farm consultant	10
Accountant	8
Solicitor	8
Consultant	8
Farm consultant	8
Solicitor	6
Accountant	6
Banker	6
Family	6
Farm consultant	7
Banker	9
Accountant	3
Solicitor	5
Farm consultant	8
Nil	-

18. How do you rate your equity partnership on the following criteria? **The table summarises the top and bottom results.**

1	Set-up	9	10	8	8	5	10	9	3	5
2	Due diligence on the property	7	10	8	5.5	5	10	8	8	5
3	Due diligence on the business plan	10	10	8	9	2	10	8	4	5
4	Financial management	10	10	7	7	1	7	9	3	8
5	Financial success	10	10	9	7	1	7	7	7	5
6	On farm management		10	6	8	6	10	7	9	8
7	Communication	7	10	7	8	2	10	9	3	5
8	Honesty of all partners	8	10	10	9.5	1	10	10	2	5
9	Impartiality of advisors	7	10	10	8.5	7	10	9	8	5
10	Planning	7	10	7	8	4	8	8	6	2
11	Budgeting & financial monitoring	10	10	7	9	3	8	7	2	2
12	Clearly written & signed employment contracts	9	10	9	8	1	8	9	3	5
13	A relevant shareholders agreement	10	10	10	9.5	2	8	9	2	2
14	Voting rights	10	10	10	9	5	8	9	2	5
15	Clearly stated goals & KPI's	10	10	9	9	3	8	8	3	5
16	An overall rating for your E.P.	8	10	9	8	1	8	9	2	5
	Average score	8.3	10.0	8.4	8.2	3.1	8.8	8.4	4.2	4.8

If any of the above ratings are less than 4, what is the defining factor, which results in this score?

1. -Took a long time to find partners.

-We looked at many properties objectively and when we chose our farm we were misled as to the degree of the summer dry period.

- For any rating below 4. Mainly due to people not sticking to their original role and the goals of the partnership. Only thinking of themselves and not the venture they had entered into and some advisors not being strong enough to tell people early enough what the consequences of these doings would lead to.

-The purchase of the farm happened very quickly, the opportunity to buy was in the space of a few days. We believed the property to have been below market value.

2.

3. -We share financial management; our partners pay the accounts, gst/payee. We thought this would increase their understanding of the business, but it did not. Their communication back to the manager is poor so no single person has total feel for the company.

4.

5.

6. -More reporting could be done – quarterly.

-Communication between the 2 sets of partners is not two way. Our partners often agree to board decisions when that is not what they actually wanted which has led to ongoing revisiting of decisions.

-Had to do too much work setting it up.

7.

8. -Advisors priority is to the other partner.
9. -As a Board we fail because we spend far too much time on operational issues, have partners who stress over small financial points without riding out Board decisions.
10. -Budgeting has suffered due to one party being very comfortable with Cashmanager software and the other not understanding it at all.
11. -Sharemilkers have contract.
12. -Have not relied on shareholders agreement, voting rights, clearly stated KPI's as if category's 1 to 11 are not working then no show, they are a by-product of other success factors. If we have to rely on vote, shareholders agreement, then equity partnership is in trouble, these are only in place as ultimate protection and if ever needed then we are bugged.
13. -Our share is less than 50% and our partners greater than 50%.
Although voting was set up as 50:50 they do not now agree, thinking they should have more say.
14. -Our goals & KPI's were set and required expenditure to help generate income. This spending caused stress so we stopped, causing a change in plan, which did not lead to a change in goals.
- 15.
16. -Some people could see things were going wrong.

If any of the above ratings are greater than 6, what is the defining factor, which results in this score?

1. -Equal say.
-Honesty & Trust.
-Some good models to be followed.

- Clearly defined role for management partner.
 - Visionary people that are honest and accountable though are prepared to compromise when required and put in the hard yards when required.
 - Our shareholding set-up/agreement was born from experience of others & myself.
 - Previous experiences.
 - Clear idea of our objectives.
2. -Should have done more homework on lameness.
- Good advisors.
 - Communication.
 - A clear idea of what we were looking for.
 - Clearly defined requirement of property to allow for capital growth.
 - All stakeholders put their cards on the table at the outset.
 - Took 12 months to negotiate property purchase and plan conversion.
 - Outstanding work ethic of manager.
 - The productive potential is borne out by the neighbour doing 12-1400 kg ms/ha. Most areas on the property were accurately defined into weaknesses/strengths.
3. -Good advice given to other 2 investors.
- Good advisors in farm consultant & known farmer.
 - Financial planning & management.
 - Clear targets of what to be achieved.
 - Clearly defined requirement of property to allow for capital growth.
 - Communication and accountabilities/reportage were identified at the outset.

- Previous experience.
- Clear idea of own objectives and outstanding work of manager.
- 4. -Always monitored cash flows, stuck to present budget & updated budgets.
- Good advisors.
- Voting rights, one vote per shareholder regardless of shareholding.
- The other partner.
- Use of farm consultant, accountant and banker to maintain a strong financial base for capital growth.
- Must like/enjoy, the company of fellow shareholders then everyone will contribute to their best.
- Standards demanded and previous experience.
- Difficulty of meeting budgets due to major changes in size of property and farming methods.
- 5. -High payout years and took full advantage.
- A good manager & Shareholders not wanting a cash return at this time – reinvesting profits into the farm.
- Not all goals meet yet.
- Growth of business in time of strong property price growth.
- If members are selected then better chance of them adding value to the business.
- Capital gain has been main driver to date. Better on farm management will lift to very good return on cost.
- 6. -Haven't achieved all I want to yet.

- Use of farm consultant – contained by the problem that occurred with the sharemilking.
 - Managed farm as well as could be expected under trying conditions.
 - The manager is very capable.
7. -As managers we were not informed much about off farm business.
- Weekly discussion with the other partner on all aspects for that week.
 - Good with partners. Written reports (3 per year) filed, annual meeting, conference calls and on site meetings approx every 3 years. Sometimes not as good with sharemilker.
 - Previous experience, but not as good as others I am involved in.
 - Surveyed on a weekly basis and once a year I visit the farm.
8. -Not always honest about off farm business policies.
- Respect for each other. More than business partners.
 - All very honest – important aims & objectives aligned.
 - Not negotiable.
 - No problems.
9. -Favoured investors left in equity when we sold shares.
- Trust.
 - Just a prerequisite.
 - Did not seem to take sides when things went wrong.
 - We have always had sufficient time to plan each step in our development.
10. -Planning was good but never had time to fulfil plans in time given, due to labour shortages.
- Yearly plan has always been done.
 - Regular visits by the other partner at a time convenient to all.

- Needs, aims and objectives of all investors incorporated in planning.
- Difficult because of property size changing and on going development,
but set out to better this as no real changes are envisaged.

11. -We all worked hard at succeeding in this area.

- Consultant and main shareholder set yearly projections.
- Clear cashflow info to all Partners monthly.
- Could be improved but still in development with some cost over runs.
- Appropriate process.
- Self-evident.

12. -Had a policy & criteria to have them in place.

- Sharemilking agreement- not a perfect relationship at times.
- Appropriate process.
- Self-evident.

13. -Worked well and suited our partnership.

- Legally set up.
- Well defined, clear roles for all participants. Trust & open
communication.
- Appropriate process.
- Self-evident.

14. -All have equal voting rights.

- As per share holding.
- Management control maintained by management partner.
- Commonly agreed.
- Have made huge capital gains but no working cash surpluses.

15. -Yearly plans done – no real long-term documented plans, loose verbal plans.

-Capital growth is the common goal.

-Agreed process.

16. -Not paid enough as managers.

-We are building a great asset for the future.

-I think it has gone well because of each other's respect for one another's abilities.

-All participants happy.

19. If you were to get into another equity partnership or were advising someone that was, what would you do differently.

- The equity manager would be on a percentage contract and pay the labour.
- Nothing, as we feel what we did was right.
- Keep shareholders to a maximum of 4.
- Smaller scale, maximum of 700 cows. Mainly from a staffing point of view.
- Possibly go to a fully developed property. We have got a lot of satisfaction from developing a property but not cash profits.
- Focus all participants aims & objectives, ie alignment and all participants in strong financial positions so as not to slow business growth.
- Nothing.
- Be lower geared financially, to give flexibility and be in a position to leverage into opportunities.
- Don't go for scale over 700 cows.
- Tighter process.
- Template of previous successes.
- Not rush into it.
- Do more homework on other partners.
- Have more defined structures.
- Make sure everyone has the same goals.
- Nothing.
- Location and contour of farm ultimately affect production and profitability, resale and attraction and retention of staff. For these reasons it is important to consider where & what you are buying.
- Be very clear that all partners goals for the partnership are compatible irrelevant of individual financial position.
- Keep some assets of your own separate, to the EP.
- Use independent lawyer, accountant to record meetings, goals and decisions to keep the direction constant.

- **Make sure all investors know what investing & lack of total control means.**
- **Set jobs for each partner.**

20. In your opinion what are the 5 key issues when entering into an equity partnership?

- **All partners must have the same goals.**
 - **All partners help each other to make goals.**
 - **All having the same goal.**
 - **Setting goals**
 - **Common farming goals & end goals of total partnership.**
 - **Partner's aims and objectives aligned.**
 - **Have similar goals.**
 - **Acceptance of short/medium goals.**
 - **Being clear in your objectives.**
 - **Ability to work as a board not as an individual.**
 - **Can the different personality types work together?**
 - **The right partner.**
 - **The right partners.**
 - **Personnel selection, experience and thorough with an absolute must, a rural background.**
 - **Same farming principals.**
 - **Having knowledge of your managing partner.**
 - **Communication between all partners so all goals are clear.**
-
- **Honesty & Trust.**
 - **Honesty.**
 - **Honesty.**
 - **Honesty.**
-
- **Total trust of each other**
 - **Trusting him.**
-
- **Discipline.**
 - **Defined roles.**
 - **Formal process.**
 - **Stick to plan.**
 - **Well defined partnership agreement.**
 - **A fair exit clause.**
 - **Equal say but not equal shareholding.**
-
- **The manager is on a percentage contract and pays labour.**
 - **A good partnership for the long term.**
 - **Don't have partners over-stretching their finances.**
 - **Partners not wanting a quick return**
 - **Person spending money doesn't sign or pay the bills.**
 - **The fewer shareholders is more desirable.**
 - **Strong financial lease.**
 - **Strong financial base of partners.**

- Purchase business at lower end of business cycle.
- Find the right property.
- Letting the manager have his lead within financial reason.
- Regular communication.
- Keeping partners to a minimum with 1 partner managing or sharemilking the farm.
- Being involved with people with proven track records.
- Debt loading not too high.
- Clear thorough shareholders agreement.
- Acceptance that consensus is required often.
- Use independent person to co-ordinate set-up year one.
- The right deal
- Not too much work.

21. The following is a list of possible problems/issues that an equity partnership could have. Please indicate if any of these issues occurred and to what level. I have summarised the results from the 3 Equity Partnerships that were unsuccessful.

Issue	Tick if	Level scale	Ranking
	occurred	1 minor 10 major	
Lack of understanding of equity partnerships		10,8,8	26
Poor communication leading to personality conflicts		6,9,8	23
Shareholders with differing goals.		5,8,8	21
Lack of advice after set up.		8,8,4	20
Lack of trust between shareholders		10,10,0	20
Over estimating the profitability at the outset.		3,7,8	18
Lack of Board governance		10,8,0	18
Lack of understanding of farming		7,0,10	17
No clear exit clause or strategy.		8,8,0	16
An unsatisfactory shareholders agreement		0,7,8	15
No company vision or goals.		0,8,7	15
Disharmony in the board		6,8,0	14
Lack of advice prior to setup.		0,5,8	13
Lack of due diligence on the business proposition		0,8,5	13
No shareholders agreement		8,0,5	13
Too much debt		0,0,10	10
Poor decision making		0,0,10	10
Lack of due diligence on the property		0,0,8	8
Lack of profitability		0,0,8	8
Managing partner having a conflict & not distinguishing between employment contract, shareholder and Board responsibilities.		0,0,8	8

22. Have you any other comments that you wish to make.

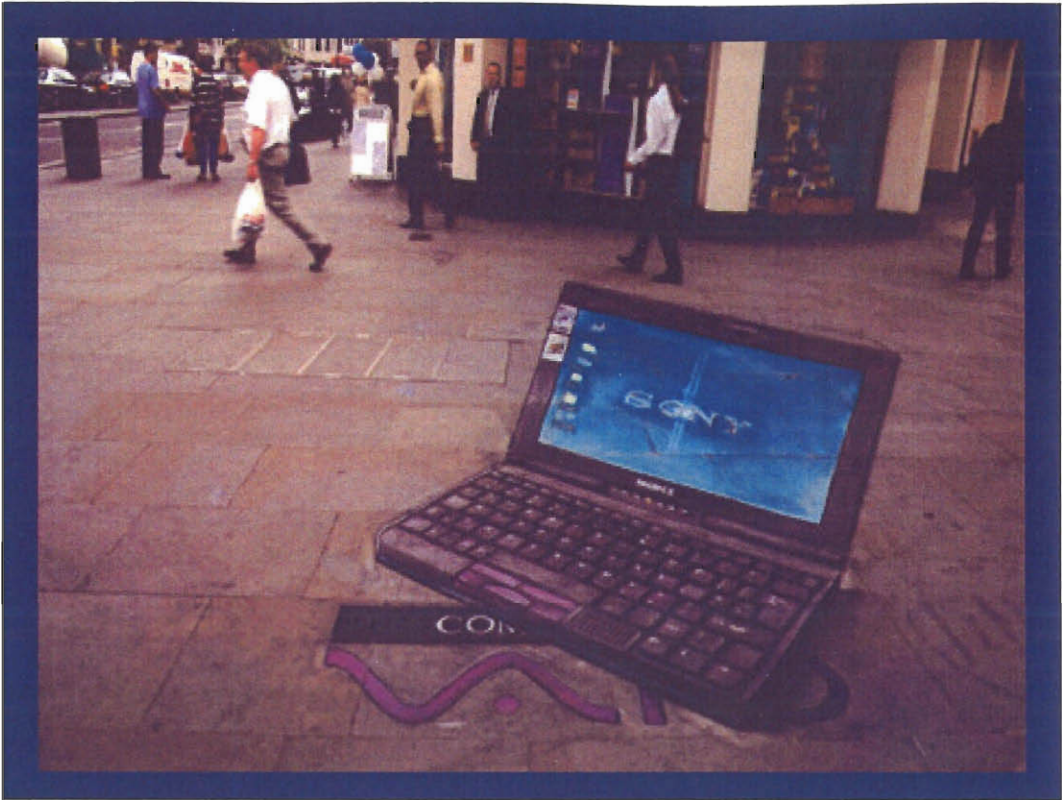
- **An equity manager on an average managers salary does not compensate for equity responsibility. Manager needs more control of paying labour and needs to be able to pay extra to staff for overtime when staff are short. If the manager makes up the overtime, he should be rewarded by the money left over in the budget because labour was not there to collect. It shouldn't be distributed as a shareholders dividend.**
- **We thought the business side of the Partnership worked well because we had good agreements in place.**
- **As equity managers we pulled out of our partnership because our partners wanted us to milk more cows and we thought we would be better off to purchase our own smaller property, and we were.**
- **One shareholder didn't have a clear long term vision.**
- **This has been a successful EP for us. We got right advice the first time, the partners don't want a quick return which has allowed the profits to be reinvested which has grown our asset.**
- **Because the 3 shareholders now have developed more farming interests as individuals or with other companies we have to work really hard to keep communication lines open. It is not possible to get together as often. We use conference calls, email and more phone calls.**

- Equity partnerships are a model I would strongly encourage to provide able young farmers the opportunity to purchase and manage a property with strong business disciplines. This provides the opportunity for capital growth and possibly a return on capital for investors, including the management partner. Plus a working wage providing security for management partners and family. It also provides a strong financial base for development of the equity partnership.
- A clearly defined partnership agreement is vital. I believe it is very important the management partner has the trust of other partners and the responsibility in the agreement to have complete control of day-to-day management within the confines of the business plan developed by the partners.
- Our structures, agreements and contracts have stood the test of time and been copied by many others.
- Key is “enjoyment factor” as the catalyst to growth & harmony and planning to avoid negative surprises.
- First equity partnership experience was a disaster.
- Picking an EP partner almost as important as picking wife.
- While at the time of doing it, it seems a waste of time, a written word has a better memory than a spoken one.
- Can mean fun as well as business.
- While not done on this operation can see the merit in two forms of impartiality. One-advising, two-independent director.
- In my opinion optimum shareholding = 3.

- **Equity partnerships do have their place but do not suit all. Do not rush decisions when entering or finding people to join up with.**
- **Feel that the equity partnership we were involved in was hugely successful and deserved the high ratings we have given it. We were involved with people who had a proven record in equity partnerships and who treated all partners equally. There was a good mix of business and farming skills and each partner had a clear understanding of the others roles.**
- **It worked well having a partner contract milking on the farm due to the fact that it was a relatively isolated, large scale dairy farm which could put up with some extremes in weather. If the farmer was not a part-owner he or she may not have been prepared to stay and work through the above issues.**
- **The reason we left the equity partnership was partly due to the isolated nature of the farm and children's educational opportunities. There were clear entry and exit rules so this process was reasonably straight forward.**
- **During the time we were in the equity partnership we felt we could trust the other partners 100% and this was a huge reason for the success of it all.**
- **We felt with regular meetings, good communication and feedback it seemed to work well.**
- **Our one point would be to be very clear about what direction the partnership wants to grow in and regularly discuss goals/KPI's from the start.**

- **Probably I see my personality type as a leader or progressive with many years dairying our match with older non-dairy farmers was too difficult to balance.**
- **The managing partner must be given clear direction from the board and then left to do the job. The board should be happy to accept some average results on some decisions if overall Board goals are met.**
- **The Board should not stifle their manager.**
- **In our experience having Board members who wish to work (paid) on the farm has not worked. It should and could work but for us it did not. The manager being significantly younger did not help.**
- **At exit time the inability of the partners to agree on a value has slowed any share sales. Despite paying for valuations one party has valued at anticipated worth.**

Appendix 3 Powerpoint Presentation



What characterises successful or unsuccessful Equity Partnerships



This a question that I have asked a number of clients over the years
And a question that I have been asked.

No two EP's are the same.

People in the same EP will view their success or lack of it differently.

Closely look at the following 2 identical dolphins, see if you are able to point
out the difference.



No 2 equity Partnerships are the same.
Just like dolphins, they can be quite different.
All businesses have their issue's.

Perhaps one of the above feels as though he or she is a more successful
Dolphin.

Definition of an Equity Partnership

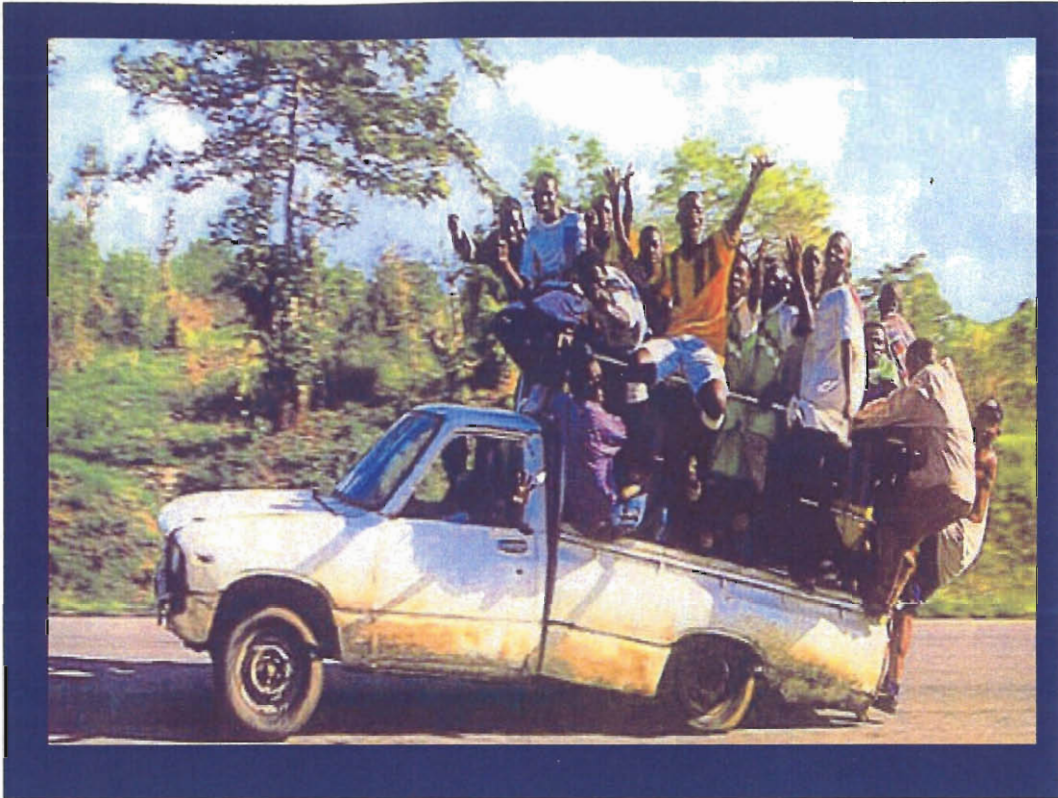
A farm business owned by two or more parties who have contributed capital to form a farming business.

The equity partnership usually trades as a limited liability company.

Equity partnerships are also known as farm syndicates or equity farming.

Some people here today are involved in EP's.

EP's involve people working together, as occurs in many activities in life.



These guys have a ute owning EP.

As you can see they are extremely happy, and at this stage successful.

Perhaps their business plan will define or create future success.

Background

- NZ farming has been dominated by family farming and family ownership structures.
- Over the last 15 years we have seen a significant increase in corporate and equity partnership farming structures.
- This has coincided with rapid property value increases, significant large scale dairy farm conversions, and a desire by a range of people to expand into rural investments without hands on involvement.
- This has been complimentary to many young farmers who have the desire for farm ownership & management but due to the costs of farm ownership can not afford full ownership.

1. Typically -sole traders
 - partnerships
 - family trusts and Family companies.
2. This has been especially so in the South Island, with many n.I. migrant farmers emigrating to the Southern Paradise of the S.I.
3. To date the majority of people that have been investing in EP's are farmers and related Agricultural service people.



This young fellow is part of a family snake farming business. Going forward he may aim to take over the family business via an Equity Partnership, if capital or business skills are a limiting resource.

- Equity partnerships are not a new structure.
- Equity partnerships have become very popular for dairy farming businesses.
- Equity partnerships are being promoted (within the bounds of legislation,) by a range of differing people and organisations.
- Very similar structures have been used in the forestry and commercial property sectors.
- The Fonterra “Industry Survey” indicated that a significant number of sharemilkers were looking to expand their investment in the dairy industry & enter the land market via equity partnerships.
- Equity partnerships have also been significant for succession planning and for retirement by still keeping an interest in the family farm without the work and having a working investment for retirement.

Equity partnerships have been around for 50+ yrs.

Especially in Canterbury and Southland large scale dairy farming business.

Habitual investors – The Securities Act

There are very many reasons why people are or have entered EP's

investment

capital gain

succession

diversification

expansion

helping young people to get a start



This is another family farming business, which has been very successful.
Such an investment could be attractive to a wide range of people for.

- investment
- capital gain
- succession
- diversification
- expansion
- helping young people to get a start

- Farming equity partnerships have their own particular industry risks & rewards.

Climate

Soils

Management

Commodity cycles

Interest rates

Long term nature of the business

Yearly cycles



Risks differ in different business.

Understanding them & minimising them is important.

Often things go wrong. It is often how we handle this that determines success.

The Issue

- Agricultural equity partnerships involve long term assets, yearly cycles, and inherent risks associated with farming.
- With large increases in capital values and good management many equity partnerships have been extremely successful.
- There has also been unsuccessful equity partnerships.
- **Identifying the issues and or causes of success or lack of success will be a starting point to identify recommendations for existing and/or future equity partenships.**

Many people are naturally good at business

But some who have had less exposure to business and less dealing with other people within business can find EP's stressful.



Unknown the risks can eventuate, knowing how to deal with situtaions as they arise is important.



Knowing how to run a business without running into obstacles is a skill.

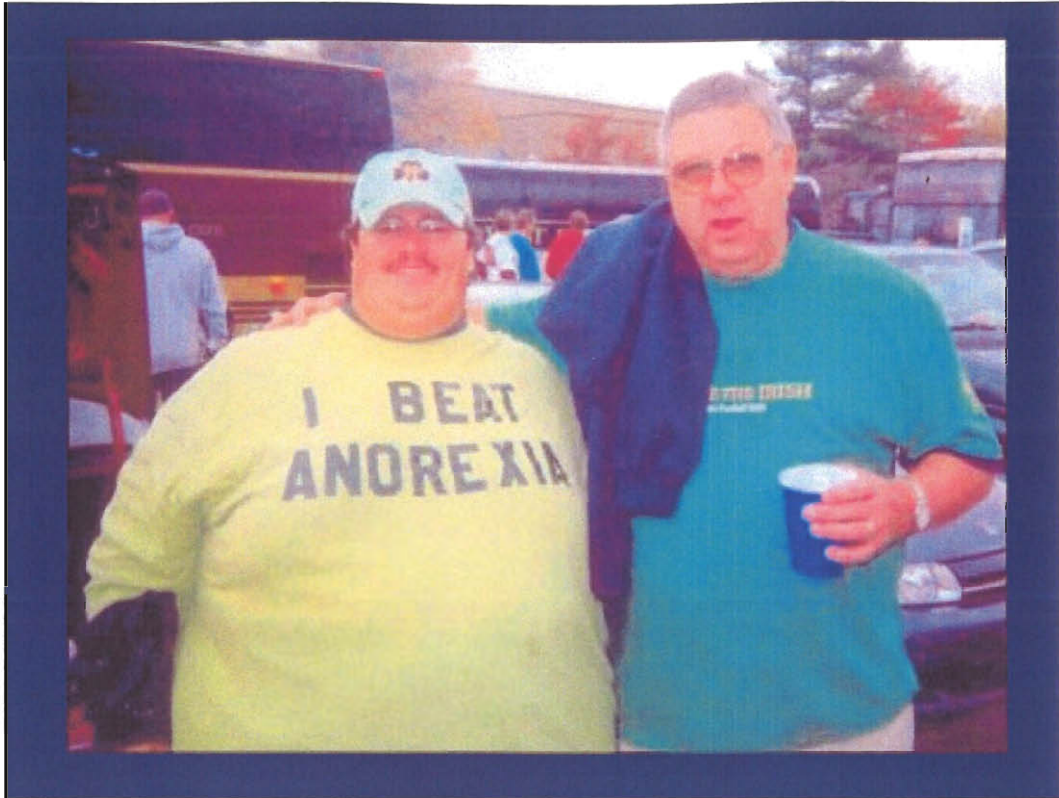
When obstacles do appear knowing how to navigate around them successfully is an important business skill

How

- I surveyed 18 people that have been involved or are still involved in dairy farming equity partnerships in Southland & Otago.
- I used my local knowledge, contacts and experience in identifying people to survey.
- It was aimed to ensure that both extremes of success were covered within the survey participants. This was guess work as ultimately success lies in the “eye of the beholder”.
- The survey had a series of open and closed questions and various statements where the participants could rank their equity partnership.
- As the survey is very personal, confidentiality was assured and all survey forms have now been destroyed.

I rang each participant. Introduced by myself, the course I was involved with and the survey I was undertaking. Re emphasised the confidentiality and that I took pride in my reputation in the Rural Market place.

I then sent out the survey with a covering letter and a reply envelope.



As the saying goes, “success is in the eye of the beholder”

This guy is a huge success and proud of it.

The Participants

- A range of equity partnerships.
- Some were currently involved in equity partnerships and some had recently exited equity partnerships.
- All participants contacted were very co-operative.
- Concentrated on dairy farming equity partnerships located in Southland & Otago.

As EP's have been very common in the dairy industry, I have only survey dairy farming EP's.

There have been EP's in sheep, deer, orcharding and other farming types but not to the level of dairying the last 15 years.



This is paradise commonly known as Southland & Otago or even “Highlander Country”.

For any one that wishes to move down please talk to me & Mark later about our migrant criteria.

What characterised successful Equity Partnerships

- Shareholders having common aims & goals and being compatible
- Honesty
- Trust
- Discipline & defined roles.
- Formal processes are in place

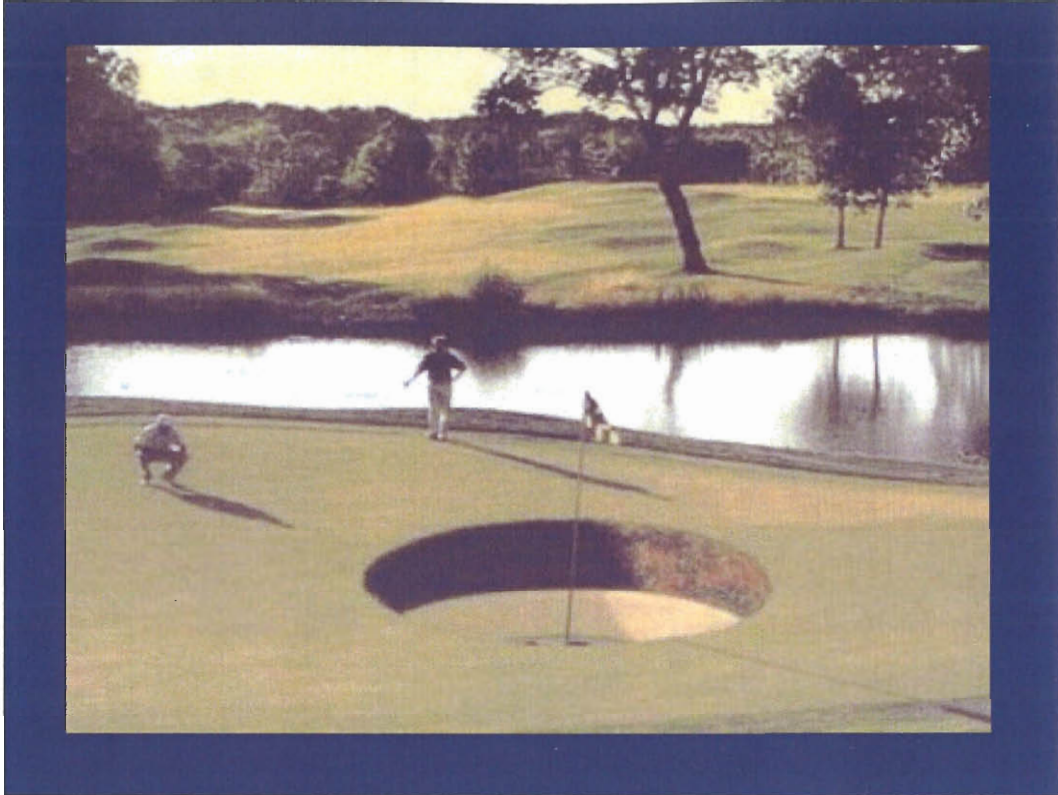
I classify these as macro issues.

The traits that characterised successful EP's are the basic building blocks of life & business.

This was summarised in one statement made "Picking an EP partner is almost as important as picking your wife"

Another statements I have herd is

"if your EP partner was in bed with your wife watching TV could you Trust him or her"



I am sure this is what Tiger Woods sees when he is out on the Green
He only thinks success, but more importantly he displays many of the same
traits as a successful EP.

His team have common aims & goals and are compatible

Honesty

Trust

Discipline & defined roles.

Formal processes are in place

What characterised unsuccessful Equity Partnerships

- Shareholders with differing aims & goals and incompatibility of the people.
- Lack of trust
- Poor communication
- Lack of understanding of equity partnerships
- Lack of advice after set-up.

State at end of slide

The most common Partnership we all see on a day to day basis in the community is marriage.

When a marriage displays the above qualities, it is basically over or unsuccessful.

Equity Partnerships are the same.



All business and EP's will have various failures.

Preventing small failures turning into large failures and putting the business back on the road to success is the aim.

Completely crashing off the road can happen to equity partnerships.

So to avoid this take a note of these recommendations.

Recommendations

- Research prior to commitment.
- Do not rush a business proposition unless you know that you have the five characteristics of a successful equity partnership.
- Involve experienced professionals.
- Understand equity partnerships, how they work, and the rules of running them (ie the shareholders agreement & management contract).

1. Accountant
Solicitor
Banker
Consultant
Mentor

- Go on a Westpac Equity Partnership seminar

What Characterised successful Equity Partnerships

The People

What Characterised unsuccessful Equity Partnerships

The People

It was macro human traits that significantly determined success.

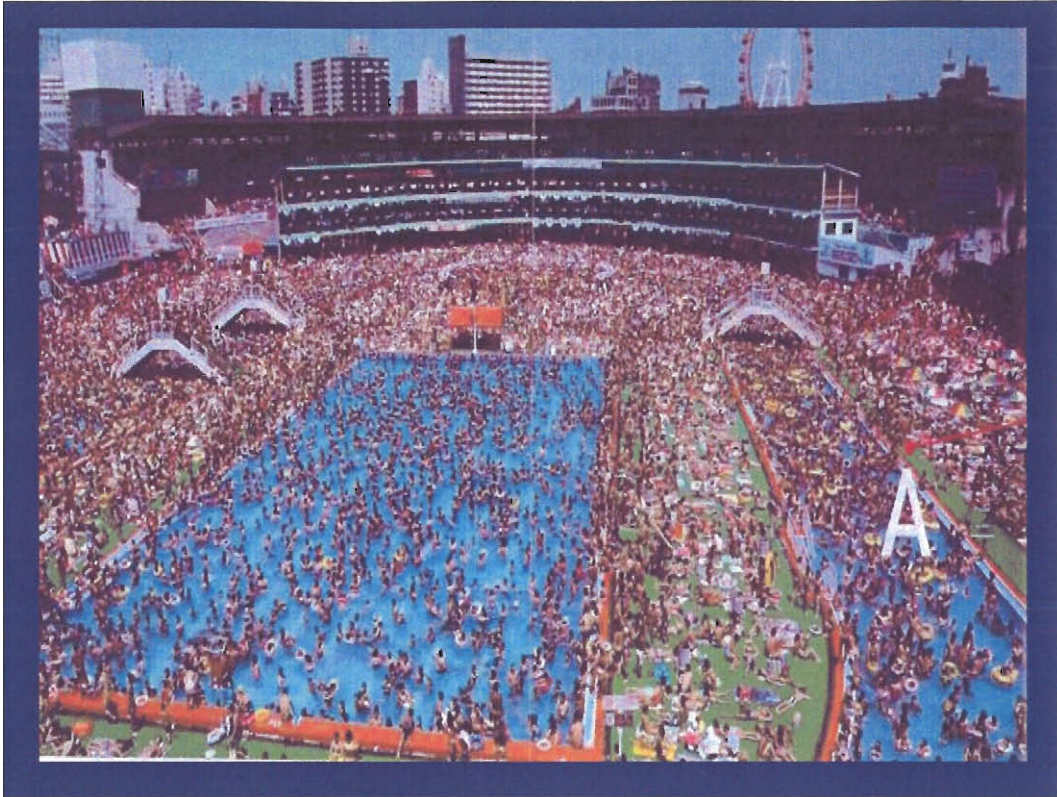
This was the common theme.

Other issues were also important.

Whether a shareholders agreement was in place.

The farm quality could be important but did not show through, perhaps it could be different with less capital gain. But then farm quality differs with different people.

The on farm management can be an issue.



People are the cause of success and failure.

As can be seen there are a lot of people who come to the local Invercargill swimming complex.

The people make it a huge success.

The ability & skill required to be able to pick people & then work with these people for the good of all seems to be the most important issue. This issue is not unique to Agricultural Equity Partnerships, it is a common business & sporting requirement for success.



This can be seen in this winning Westpac Corporate rowing Team.

Team members having common aims & goals and being compatible

Honesty

Trust

Discipline & defined roles.

Formal processes are in place

What Characterised this successful sporting team

The People

Thank You

