
Checklist - compliance with ASX Corporate Governance Recommendations

Rural Funds Management Ltd ACN 077 492 838 as trustee for Rural Funds
Group ARSN 112 951 578

Dated 16 January 2014

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Our analysis of compliance has been completed on the basis that the directors of Rural Funds Management Ltd (**RFM**) as trustee for Rural Funds Group (**RFG**) have or will adopt the following policies:

- (a) corporate governance charter which includes:
 - (i) board charter;
 - (ii) directors' code of conduct;
 - (iii) audit committee charter;
 - (iv) board selection policy
 - (v) standing rules for committees;
 - (vi) security holder communication policy;
- (b) RFM code of conduct;
- (c) risk management policy;
- (d) compliance manual;
- (e) continuous disclosure policy;
- (f) diversity policy; and
- (g) securities trading policy.

Analysis

ASX Recommendation	Compliance (Y/N)	Comments
<p>1.1 Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.</p>	Y	<p>The broad functions and responsibilities of the board are set out in sections 3.3 and 3.4 of the corporate governance charter. The specific responsibilities of the board are set out in section 3.5 of the corporate governance charter. Matters delegated to the company secretary, managing director, CFO and committees are set out in sections 3.13 to 3.15.</p>
<p>1.2 Companies should disclose the process for evaluating the performance of senior executives.</p>	Y	<p>This will be disclosed on RFM's website. See also section 3.10 of the corporate governance charter.</p>
<p>1.3 Companies should give the following information:</p> <p>(a) an explanation of any departure from Recommendations 1.1, 1.2 or 1.3 (i.e. why they have not complied with (b)); and</p> <p>(b) whether a performance evaluation for senior executives has taken place in the reporting period and whether it was in accordance with the process disclosed.</p> <p>A statement of matters reserved for the board, or the board charter or a statement of areas of delegated authority to senior executives should be made publicly available, ideally by posting it to the company's website in a clearly marked corporate governance section.</p> <p>A trust should clarify the relationship between the responsible entity and the parent company where relevant, and articulate the role and responsibilities of the board and management of the responsible entity.</p> <p>Trusts should also have regard to the responsibilities of external directors and the compliance committee under part 5C.5 Corporations Act.</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>	<p>Not applicable.</p> <p>This will be disclosed in RFF's annual reports.</p> <p>A summary of RFM's corporate governance charter will be posted on RFM's website.</p> <p>See section 7 of RFM's product disclosure statement.</p> <p>See section 3.16 of the corporate governance charter and compliance manual.</p>

ASX Recommendation	Compliance (Y/N)	Comments
2.1 A majority of the board should be independent directors.	Y	See section 3.6 of the board charter.
2.2 The chairman should be an independent director.	Y	See section 3.6 of the board charter.
2.3 The roles of the chairman and chief executive officer should not be exercised by the same individual.	Y	See section 3.6 of the board charter.
2.4 The board should establish a nomination committee.	N	RFM's board is currently comprised of three directors and it is not intended that any further directors be appointed in the immediate future. Given the number of directors currently appointed and the intention not to appoint any further directors, it is not considered necessary for the board to establish a separate nomination committee.
2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Y	This will be disclosed on RFM's website. See also section 3.10 of the corporate governance charter.
2.6 Companies should give the following information: <ul style="list-style-type: none"> (a) the skills, experience, and expertise relevant to the position of director held by each director in office at the date of the annual report; (b) the names of the directors considered by the board to constitute independent directors and the company's materiality thresholds; (c) the existence of any of the following relationships and an explanation of why the board considers the director to be independent, notwithstanding the existence of those relationships: <ul style="list-style-type: none"> (i) if the director is a substantial security holder or an officer of, or otherwise associated directly with, a substantial security holder; 	<ul style="list-style-type: none"> <li style="text-align: center;">Y <li style="text-align: center;">Y 	This will be disclosed in RFF's annual report. See also section 3.20 of the corporate governance charter. This will be disclosed in RFF's annual report. See section 3.8 of the corporate governance charter. Not applicable.

ASX Recommendation	Compliance (Y/N)	Comments
(ii) if the director is employed, or has previously been employed in an executive capacity by the company or another group member, and there has not been a period of at least three years between ceasing such employment and serving on the board;		Not applicable.
(iii) if the director has within the last three years been a principal of a material professional adviser or a material consultant to the company or another group member, or an employee materially associated with the service provided; (iv) if the director is a material supplier or customer of the company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; or (v) if the director has a material contractual relationship with the company or another group member other than as a director;		Not applicable. Not applicable. Not applicable.
(d) a statement as to whether there is a procedure agreed by the board of directors to take independent professional advice at the expense of the company;	Y	This will be disclosed on RFM's website. See also section 3.11 of the corporate governance charter.
(e) a statement as to the mix of skills and diversity for which the board of directors is looking to achieve in membership of the board;	Y	This will be disclosed on RFM's website. See also section 2.6 of the corporate governance charter.

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<p>(f) the period of office held by each director in office at the date of the annual report;</p> <p>(g) the names of members of the nomination committee and their attendance at meetings of the committee, or where a company does not have a nomination committee, how the functions of a nomination committee are carried out;</p>	<p>Y</p> <p>N</p>	<p>This will be disclosed on RFM’s website. This will be disclosed in RFF’s annual report.</p> <p>See above comments in relation to nominations committee.</p>
<p>(h) whether a performance evaluation for the board, its committees and directors has taken place in the reporting period and whether it was in accordance with the process disclosed; and</p> <p>(i) an explanation of any departures from recommendations 2. 1 to 2.6.</p> <p>The following material should be made publicly available, ideally by posting it to the company’s website in a clearly marked corporate governance section:</p> <p>(a) a description of the procedure for the selection and appointment of new directors and the re-election of incumbent directors;</p> <p>(b) the charter of the nomination committee or a summary of the role, rights, responsibilities and membership requirements for that committee; and</p> <p>(c) the board’s policy for the nomination and appointment of directors.</p>	<p>Y</p> <p>Y</p> <p>N</p> <p>Y</p>	<p>This will be addressed in RFF’s annual report.</p> <p>See above comments in relation to nominations committee.</p> <p>A summary of RFM’s policy in relation to these corporate governance matters will be posted on RFM’s website.</p> <p>See section 3.20 of the corporate governance charter.</p> <p>See comments above in relation to nominations committee.</p> <p>See sections 3.6, 3.9 and 3.20 of the corporate governance charter.</p>

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<p>If there is technical conflict in implementing the recommendation that a director be independent and that the chairman be an independent director or a lead independent director, where the responsible entity is a wholly-owned subsidiary of a parent company such as a fund manager and all the directors are employees of the parent then this should be discussed and clarified in any explanation of a departure from the recommendations.</p>		<p>Not applicable.</p>
<p>3.1 Companies should establish a code of conduct and disclose the code of or a summary of the code as to:</p> <p>(a) the practices necessary to maintain confidence in the company's integrity;</p>	<p>Y</p>	<p>See RFM code of conduct.</p>
<p>(b) the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders;</p> <p>(c) the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</p>	<p>Y</p> <p>Y</p>	
<p>3.2 Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measureable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.</p> <p><i>Note: this recommendation replaced the recommendation that companies establish a securities trading policy. This is now a requirement under ASX Listing Rule 12.9.</i></p>	<p>Y</p>	<p>See the diversity policy. A summary of RFM's policy in relation to this corporate governance matter will be posted on RFM's website.</p>
<p>3.3 Companies should disclose in each annual report the measureable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.</p>	<p>Y</p>	

ASX Recommendation	Compliance (Y/N)	Comments
3.4 Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	Y	
3.5 Companies should provide an explanation of any departures from recommendations 3.1 to 3.5.		Not applicable.
<p>The following material should be made publicly available:</p> <p>(a) an applicable code of conduct or a summary; and</p> <p>(b) the diversity policy or a summary of its main provision.</p>	<p>Y</p> <p>Y</p>	A summary of RFM's policy in relation to these corporate governance matters will be posted on RFM's website.
4.1 The board should establish an audit committee.	Y	See section 3.17 of the corporate governance charter.
<p>4.2 The audit committee should be structured so that it:</p> <p>(a) consists only of non-executive directors;</p> <p>(b) consists of a majority of independent directors;</p> <p>(c) is chaired by an independent chairman, who is not a chairman of the board; and</p> <p>(d) has at least three members.</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>N</p>	<p>See section 3.17 of the corporate governance charter.</p> <p>See section 3.17 of the corporate governance charter.</p> <p>See section 3.17 of the corporate governance charter.</p> <p>It is not possible for RFM to comply with this requirement as the board consists of only three directors, one of which is non-independent. Instead, section 3.17 of the corporate governance charter provides that the audit committee must consist of at least two members.</p>
4.3 The audit committee should have a formal charter.	Y	See Schedule 1 of the corporate governance charter.

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<p>4.4. Companies should provide the following information:</p> <p>(a) the names and qualifications of those appointed to the audit committee and their attendance at meetings of the committee, or, where a committee does not have an audit committee, how the functions of an audit committee are carried out;</p> <p>(b) the number of meetings of the audit committee; and</p> <p>(c) an explanation of any departure from recommendations 4.1 to 4.4.</p>	<p>Y</p> <p>Y</p>	<p>This information will be set out in RFF's annual report.</p> <p>Not applicable.</p>
<p>The following material should be made publicly available, ideally by posting it to the company's website in a clearly marked corporate governance section:</p> <p>(a) the audit committee charter; and</p> <p>(b) information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners.</p>	<p>Y</p> <p>Y</p>	<p>A summary of RFM's policy in relation to these corporate governance matters will be posted on RFM's website.</p> <p>See section 5 of Schedule 1 of the corporate governance charter.</p>
<p>5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.</p>	<p>N</p>	<p>RFM currently does not have written policies designed to ensure compliance with the ASX Listing Rules but is currently undertaking a review of its compliance framework which will include updating its compliance framework to address this requirement.</p>
<p>5.2 Companies should disclose any departures from recommendations 5.1 or 5.2.</p> <p>The policies or a summary of those policies designed to guide compliance with Listing Rule disclosure requirements should be made publicly available, ideally by posting them to the company's website in a clearly marked corporate governance section.</p>	<p>Y</p>	<p>See above.</p> <p>A summary of RFM's policy in relation to these corporate governance matters will be posted on RFM's website.</p>

ASX Recommendation	Compliance (Y/N)	Comments
6.1 Companies should design a communications policy for promoting effective communication with security holders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Y	See continuous disclosure policy. A summary of RFM's policy in relation to this corporate governance matter will be posted on RFM's website.
6.2 Companies should disclose any departure from recommendations 6.1 or 6.2 in its corporate governance statement of its annual report. The company should describe how it will communicate with its security holders publicly, ideally by posting this information on the company's website in a clearly marked corporate governance section.	Y	Not applicable A summary of RFM's policy in relation to this corporate governance matter will be posted on RFM's website.
Trusts should consider the range of means by which they may achieve the same results, including the possibility of convening general meetings. Trust should include in the annual report a statement disclosing the extent to which it has achieved the aims of the provisions of section 250RA (auditor to attend listed company AGM) during the reporting period and give reasons for not doing so.	Y Y	RFM could not justify costs associated with holding a general meeting which was not required under the Corporations Act, Listing Rules or RFF constitution. Instead RFM will provide RFF members the opportunity to discuss annual report with RFM's management team and auditors if required.
7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Y	See risk management policy. A summary of RFM's policy in relation to this corporate governance matter will be posted on RFM's website.
7.2 The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it about the effectiveness of the company's management of its material business risks.	Y	See risk management policy.

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<p>7.3 The board should disclose whether it has received assurance from the chief executive officer (or equivalent) or the chief financial officer (or equivalent) that the declaration given under section 295A Corporations Act (declaration about the listed entity's financial statements) is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.</p>	Y	See risk management policy.
<p>7.4 Companies should give the following information:</p> <p>(a) an explanation of any departures from recommendations 7.1 to 7.4;</p> <p>(b) whether the board has received the report from management under recommendation 7.2; and</p> <p>(c) whether the board has received assurance from the chief executive officer (or equivalent) or chief financial officer (or equivalent) under recommendation 7.3.</p> <p>A summary of the company's policies on risk oversight and management of material business risks should be made publicly available, ideally by posting it to the company's website in a clearly marked corporate governance section.</p>	<p>Y</p> <p>Y</p> <p>Y</p>	<p>Not applicable.</p> <p>A summary of RFM's policy in relation to these corporate governance matters will be posted on RFM's website.</p>
<p>8.1 The board should establish a remuneration committee.</p>	N	
<p>8.2 The remuneration committee should be structured so that it:</p> <p>(a) consists of a majority of independent directors;</p> <p>(b) is chaired by an independent director;</p> <p>(c) has at least three members.</p>	N	

