

Rural Funds Group (RFF)



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ASX Release

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Subject: Financial Adviser Presentation – teleconference delivery

Attached is a presentation to Financial Advisers to be delivered by teleconference by RFM Managing Director, Mr David Bryant, on 13 February 2014. The presentation outlines the upcoming listing of the Rural Funds Group on 14 February 2014.

About Rural Funds Group (RFF) ARSN 112 951 578

RFF owns a diversified portfolio of high quality Australian agricultural assets. RFF's investment objective is to generate a stable income stream derived from leasing its assets to suitable counterparts and capital growth through any appreciation in the value of those assets. Rural Funds Management Ltd (RFM) is the responsible entity of RFF.

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A green tractor is shown in a field of young trees. The tractor has a license plate that reads "OVP-151". A red light fixture is mounted on a pole extending from the tractor. The background shows a row of young trees in a field.

Rural Funds Group (ASX: RFF)

Adviser Presentation – lead in to Listing

13 February 2014

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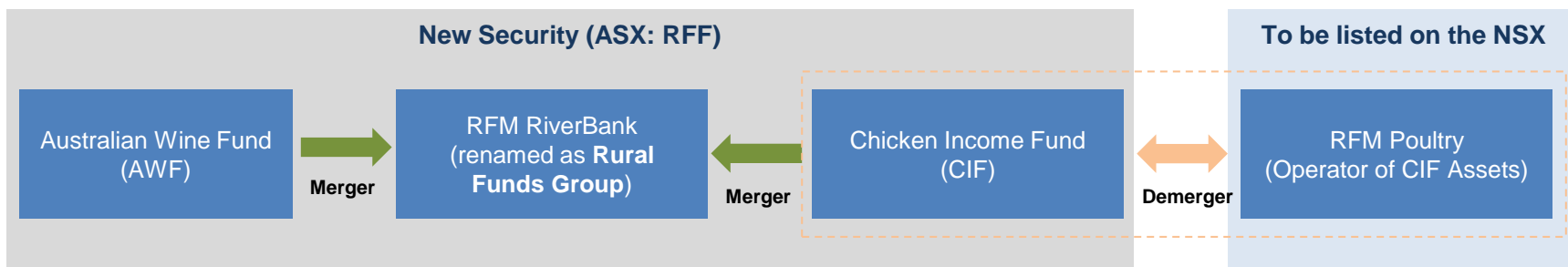
1. Introduction

Introduction

The evolution of Rural Funds Group

Rural Funds Group was created through the merger of 3 existing unlisted funds

- The RFM Chicken Income Fund (**CIF**) and RFM Australian Wine Fund (**AWF**) were merged with RFM RiverBank (**RiverBank**).
- RFM RiverBank has been subsequently renamed the Rural Funds Group and has applied for listing on the ASX under the code RFF
- The rationale behind Revaluation (the merger and listing process) was to provide Unitholders with a source of liquidity, diversification of assets, access to capital and greater potential for future growth
- Revaluation received overwhelming support and was approved by Unitholders on 16 December 2013
- In order to align the risk profile of CIF with that of RiverBank and AWF, CIF was demerged into two entities, with one entity owning the land and infrastructure and the other entity leasing and operating the land and infrastructure. RFM established RFM Poultry (**RFMP**) to lease and operate the CIF assets. CIF will be the land owner and infrastructure owner
- RFF is externally managed by Rural Funds Management Ltd (**the Responsible Entity**)



Introduction

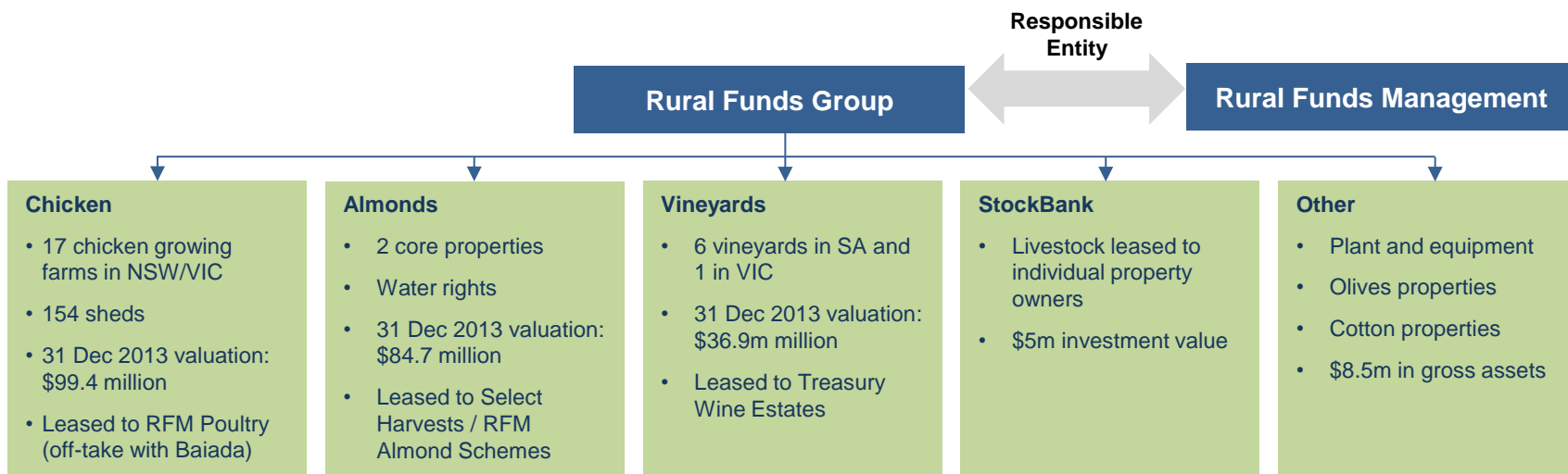
Overview of Rural Funds Group (RFF)

RFF generates lease revenue and potential capital growth through owning agricultural assets

- Rural Funds Group (**RFF or the Fund**) will be a new listed real estate property trust with a diversified portfolio of agricultural assets in Australia and will list on 14 February 2014
- The Fund had total assets of \$248 million and net assets of \$118 million at merger
- All revenues are derived from lease rentals across 3 broad sub sectors (chicken, almond and vineyards)
- The Fund is externally managed by Rural Funds Management Pty Ltd (**RFM**)

Key Statistics

Market Capitalisation at NTA per share	\$118m
NTA per Unit	\$1.0127
6 Months Ending FY14 Distribution per Unit	4.21 cents
6 Months Ending FY14 Distribution Yield (annualised)	8.32%
FY15 Distribution per Unit	8.59 cents
Loan Security Ratio	41%



Introduction

Investment Highlights

1

Quality, pure play Australian agricultural property trust

- Exposure to quality agricultural properties located in major chicken, wine and almond producing regions of Australia
- Assets include commercial scale poultry growing infrastructure, productive almond orchards, premium-wine producing vineyards and livestock

2

Attractive forecast distribution yield

- Annualised distribution yield of 8.32% for 6 months ending June 2014 and 8.55% for 12 months ending June 2015
- Minimal maintenance CAPEX requirement – payout ratio of 90% of pre tax Operating Cash flows and 95% of earnings for the 12 months ending 30 June 2015

3

Stable income and potential capital growth

- Income underpinned by long term fixed lease payments and rental increases
- Potential for capital growth over time

4

Long term, experienced tenants

- Rental income is underpinned by leases to proven agricultural operators
- Strong financial capacity to meet rental payment over the farm cycle

5

Strong industry dynamics

- Agricultural land in Australia has grown at a compounded average rate of 5.3% over 1978 – 2011
- Future growth underpinned by solid industry dynamics including population growth, emerging Asian middle class and constraints in global supply of agricultural land

6

Significant investment opportunities

- Potential to identify and acquire value accretive investment opportunities



2. RFF Listing

- Unitholders will receive Holding Statements stating SRN via Boardroom from Monday 10th February 2014
- Unitholders can transfer their holding to their broker sponsor by requesting a form from their broker
- RFF will commence quotation on the ASX Friday 14th February 2014 (delayed start)

RFF Listing

Activities to date

RFM has undertaken a number of activities prior to the listing of RFF

- CBA Equities has been appointed the corporate broker for RFF
- Taylor Collison will provide additional research coverage
- Meetings with a number of potential institutional investors for RFF
- Trial engagement of a financial services PR firm to assist with RFF profile
- Internal resources focused on increasing the awareness of RFF



3. Case Study

Case Study

360 Capital Industrial Fund (TIX)

Who	360 Capital Industrial Fund
Establishment	August 2002 (unlisted fund)
What	<ul style="list-style-type: none">- 20 industrial properties (warehouses, workshops, etc)- Located in all states (except NT)- Underlying assets \$340.7m- WALE 5.1 years- Forecast distributions 18.6 cpu p.a. paid quarterly- Gearing 46.89% LVR (as at 30 June 2013)
Why	To provide <u>liquidity</u> for Unitholders and <u>avoid the significant negative impacts to NTA</u> stemming from a potential wind up of the Fund
When	Compliance listed 13 Dec 2012 (ASX code – TIX)

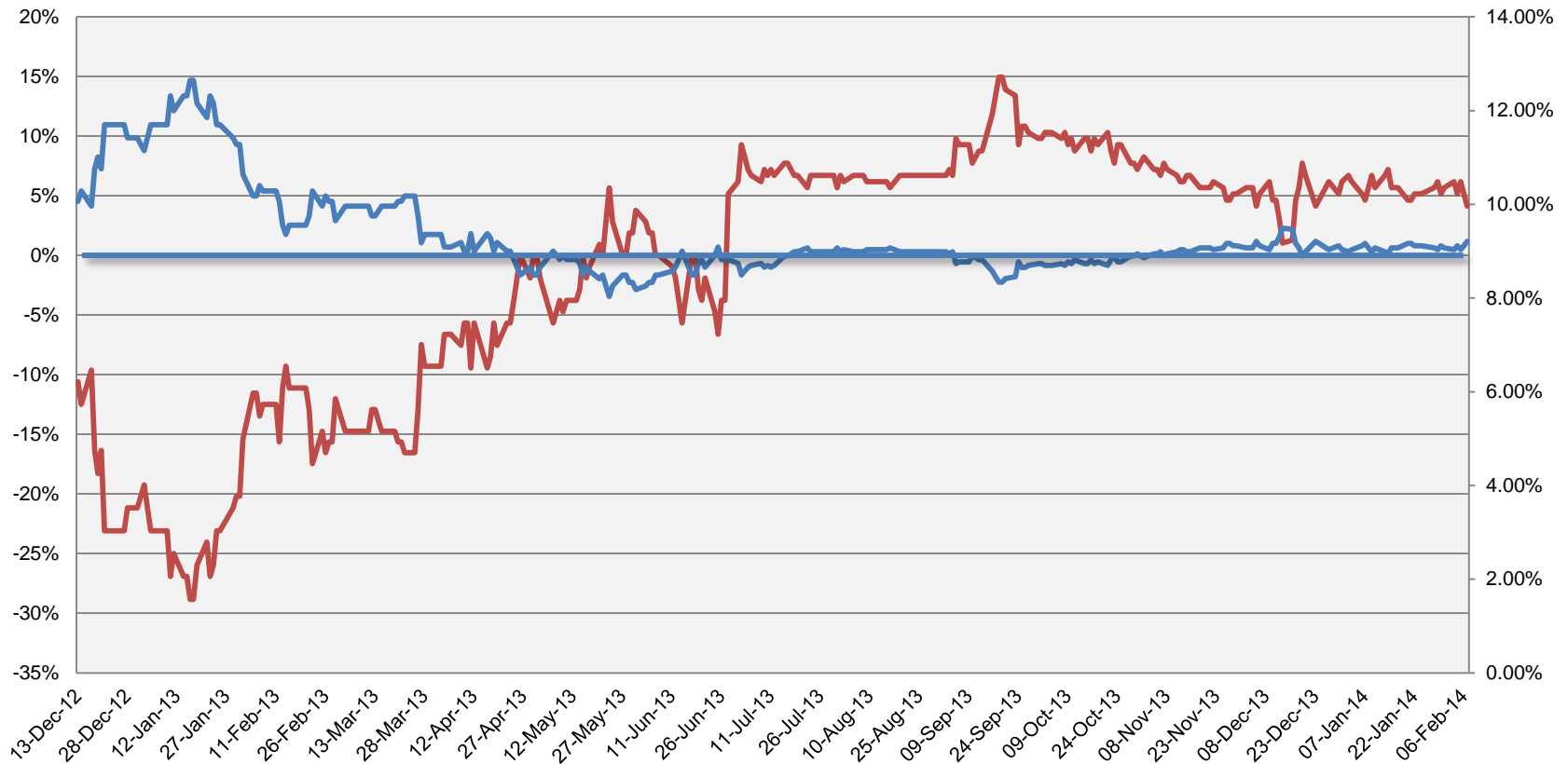
Case Study

360 Capital Industrial Fund (TIX)

360 Capital Industrial Fund (TIX)

Premium to NTA and Implied Yield
Float to 10 Feb 2014

Premium to NTA % (LHS) Implied Yield (RHS)



RFF Implied Yield (FY15)

Premium/Discount to NAV	5%	0%	-10%	-20%
Implied price	\$1.05	\$1.00	\$0.90	\$0.80
Corresponding yield [^]	8.15%	8.55%	9.50%	10.69%

[^] Yield at a payout ratio of 90%

RFF Distribution Profile

- Next RFF distribution record date is 28 February 2014 (forecast \$0.02105 including franking)
- Distributions will be declared on a quarterly basis thereafter (forecast \$0.02147 per unit FY15 including franking)
- Expected distribution record dates:
 - 28 February
 - 31 May
 - 31 August
 - 30 November



4. Investment Features



Investment Features

Quality Australian agricultural portfolio

Exposure to quality agricultural properties located in the major chicken, wine and almond producing regions of Australia

Portfolio Overview

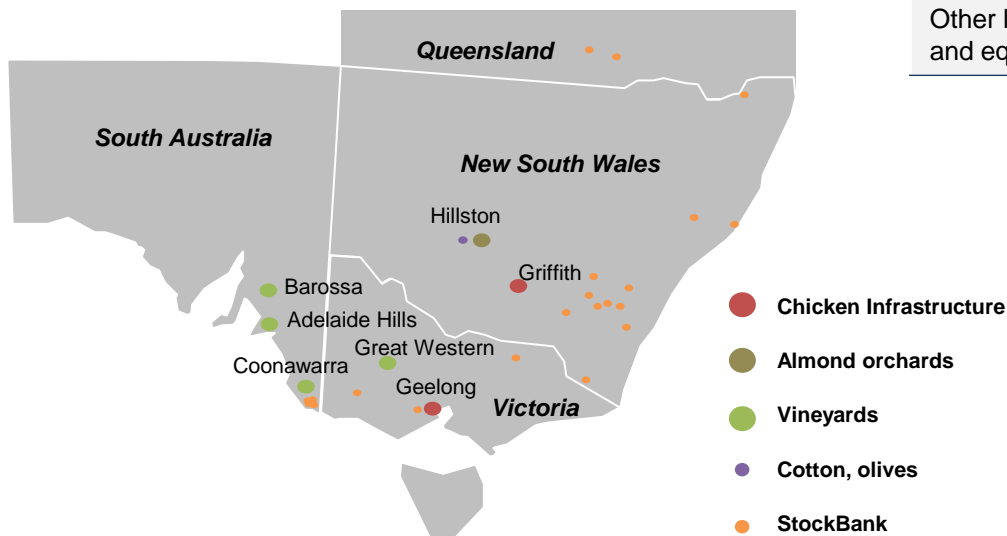
- The properties are centred around the south east corner of Australia.
- Assets include:
 - commercial scale poultry growing infrastructure
 - productive almond orchards
 - premium-wine producing vineyards
 - livestock

Key Portfolio Statistic

As at 30 December 2013

Number of properties	27 properties
Independent Valuation 30 June 2013	\$228m
Weighted Average Lease Yield	9.17%
Weighted Average Lease Expiry (WALE)	13 years
Occupancy	100%
Other leased assets (StockBank and plant and equipment)	\$8m

Portfolio Location



Investment Features

Attractive forecast distribution yield

The Fund is expected to provide Unitholders with an attractive distribution yield

- Forecast Annualised Distribution Yield of 8.3% for the 6 months ending 30 June 2014
- Forecast Annualised Distribution Yield excludes 2.13 cent distribution declared in December 2013
- Forecast Annualised Distribution Yield of 8.6% for the 12 months ending 30 June 2015
- Distribution represents a payout of 90% of Operating Cash flow for the 12 months ending 30 June 2015

Forecast Financials	6 month ending 30 June 2014	12 month ending 30 June 2015
Distributions per Unit (excluding franking)	4.21 cents	7.35 cents
Distribution Yield (including value of franking credits)	4.21 cents	8.59 cents
Annualised Distribution Yield	8.3%	8.6%
Earnings per Unit	4.14 cents	7.78 cents
Operational Cash flow per Unit before tax	3.80 cents	9.58 cents
Distribution payout ratio ¹	111%	90%

¹Distribution per Unit divided by operation cash flow

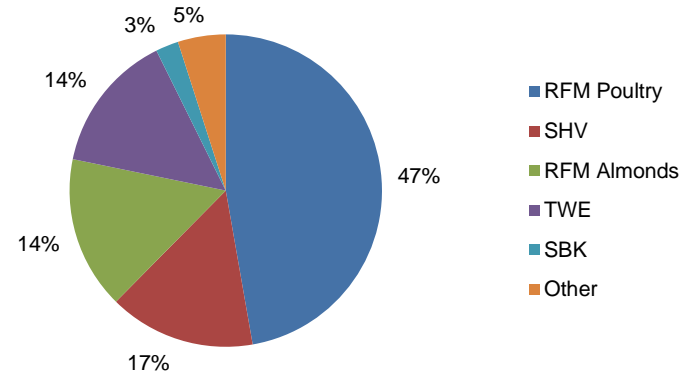
Investment Features

Diversified, stable income stream

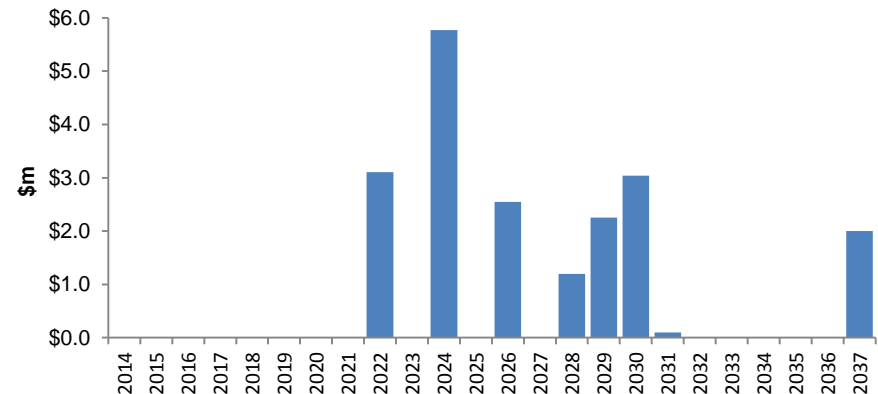
Income is underpinned by fixed rental payments with rental increases and potential capital growth over time

- **Diversified, stable revenue stream underpinned by:**
 - Fixed lease payment with annual escalation mechanisms.
 - 100% of properties are leased
 - WALE of 13 years
 - Experienced tenants
- RFF's stability of income is enhanced by:
 - **Minimal exposure to operating risk**
 - Counterparties bear commodity/market, climatic, disease related risks, exchange rate, regulatory etc.
 - Lease revenue is not linked to counterparty profitability
 - **No concentration risk**
 - Diversification by geographic region, commodity and counterparty
 - **Access to secure, long term water rights for all properties**

Tenant Portfolio Diversification by FY14 Revenue



Lease Expiry Profile based on FY14 Revenue



Investment Features

Long term, quality lease profile

RFF has long term lease arrangements in place with suitably qualified and experienced tenants.

Lessee	Lessee Description	% of total FY14 revenue	Weighted Average Expiry	Indexation Mechanism	Payment and rent review
RFM Poultry	<p>RFM Poultry has an off-take agreement with Baiada</p> <p>Baiada is a national processor, marketer, and grower of chicken meat with around 40% Aust market share. Key brands are Steggle's and Lilydale</p>	47%	April 2027	<p>1.5% p.a.</p> <p>(60% of CPI capped at 2% p.a.)</p>	The lessee and the lessor have the right of rent review where there is significant change in the profitability of chicken growing activities
Treasury Wine Estate Ltd	Listed wine company, \$2.94b market capitalisation ¹	14%	July 2022	2.5% p.a.	Capital value reassessed at fifth anniversary, based on independent valuation. Cannot be less than 2014 rent indexed for 5 years. Potential for uplift given quality of grapes and maturity
Select Harvests Ltd	Listed, almond processor and grower, \$339m market capitalisation. ¹ Orchards are mature and cashflow positive.	17%	January 2030	2.5% p.a.	Market review at 1 July 2016, and 5 years thereafter.
RFM Almond Funds	493 individual investors in three MIS's. Orchards are mature and cashflow positive.	14%	June 2027	2.5% p.a.	Annual Indexation.

¹As at 28 January 2014

The Responsible Entity, on behalf of the Fund, has entered into agreements with RFM in relation to management activities

Funds Management	<ul style="list-style-type: none">▪ RFM will charge a fee and expense recovery for managing and administering the Fund<ul style="list-style-type: none">• Management Fee of 0.6% p.a. of gross asset value• Reimbursement of all reasonable expenses• No additional performance fees
Acquisition Fee	<ul style="list-style-type: none">▪ RFM is entitled to an Acquisition Fee equal to 1% of the total purchase price paid for an asset
Forecast Indirect Cost Ratio	<ul style="list-style-type: none">▪ 2.25% annualised for 6 months ending 30 June 2014 (excluding one-off costs associated with the merger)
Asset Management Fee	<ul style="list-style-type: none">▪ The Fund is charged a fee for asset management services provided by RFM▪ The Asset Management Fee is equal to 5% p.a. of annual gross lease revenue, equivalent to 0.45% if expressed as a percentage of gross asset value



5. Conclusion

- Based on case study, RFF price is likely to initially trade below NAV
- Existing investors will continue to benefit from RFF distributions regardless of trading price volatility
- RFF audience remains retail focused for the short term
- Trading price may presenting attractive buying opportunities for new investors with a desire for yield
- Capital growth potential for agricultural assets
- RFM will actively manage the capital of RFF, including buy backs and new issues

Corporate Information



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