

10 September 2014

Dear Investor

The documents accompanying this letter set out proposed changes to your investment in the Rural Funds Group (RFF).

Rural Funds Management Ltd (RFM) as responsible entity of RFF is convening a general meeting so that you may consider the adoption of a new constitution (Resolution 1), facilitating some changes to your investment.

The new constitution provides an appropriate framework for an entity operating in a listed environment. This is in contrast to RFF's current 10 year old constitution, a legacy of the previous unlisted, operating environment. For example, capital raising in the new constitution links the price of the offer to the market value of RFF securities, rather than net tangible assets under the current constitution.

In addition, the new constitution contains provision for RFF to be stapled to another trust, RF Active. This trust has been established to house the small amount of "active" assets being units in RFM StockBank currently owned by RFF and plant and equipment used for almond farming recently owned by RFF. The separation of active assets from RFF's passive assets is sensible as it allows each trust to adopt a different risk profile with RFF's current passive rental income, which represents the vast majority of RFF's revenue stream, to continue to receive flow through taxation treatment and thus be taxed in the hands of investor. Distributions from RF Active are expected to be taxed at the corporate rate, currently 30%, and any franking credits distributed to investors.

The proposed fees charged by RFM have been simplified and Resolution 2 seeks your approval to remove the acquisition fee and insert a termination fee. RFM has established operating systems specifically for RFF as a major client, and in the event RFM was removed as responsible entity, it would need to downsize its business accordingly. This fee is intended to cover the costs this would entail.

There are two documents and a Proxy Form included in your pack. The Notice of Meeting and Explanatory Memorandum set out the details of the general meeting and how you can participate. The Product Disclosure Statement facilitates the issue of units in RF Active. You should read both documents carefully and consult your financial adviser before deciding how to vote. You can vote by attending the meeting or completing the Proxy Form and returning it in the envelope provided. Should you wish to attend the meeting please contact RFM Investor Services on 1800 026 665 or email [investorservices@ruralfunds.com.au](mailto:investorservices@ruralfunds.com.au).

The RFM Directors recommend that you vote in favour of Resolution 1. The Directors are not able to provide a recommendation regarding Resolution 2 as this resolution considers fees payable to RFM.

Yours faithfully



David Bryant  
Managing Director

#### All Correspondence to:

✉ **By Mail** Boardroom Pty Limited  
GPO Box 3993  
Sydney NSW 2001 Australia

Level 7, 207 Kent Street,  
Sydney NSW 2000 Australia

📠 **By Fax:** +61 2 9290 9655

☎ **By Phone:** (within Australia) 1300 737 760  
(outside Australia) +61 2 9290 9600

## YOUR VOTE IS IMPORTANT

For your vote to be effective it must be recorded **before 10:00am (AEDT) on Monday, 6 October 2014.**

### TO VOTE BY COMPLETING THE PROXY FORM

#### STEP 1 APPOINTMENT OF PROXY

Indicate who you want to appoint as your Proxy.

If you wish to appoint the Chair of the Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chair of the Meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chair of the Meeting will be your proxy. A proxy need not be a unitholder of the trust. Do not write the name of the issuer trust or the registered unitholder in the space.

#### Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by contacting the trust's unit registry or you may copy this form.

To appoint a second proxy you must:

- complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of units applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- return both forms together in the same envelope.

#### STEP 2 VOTING DIRECTIONS TO YOUR PROXY

To direct your proxy how to vote, mark one of the boxes opposite each item of business. All your units will be voted in accordance with such a direction unless you indicate only a portion of units are to be voted on any item by inserting the percentage or number that you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item for all your units your vote on that item will be invalid.

#### Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must have provided an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative form can be obtained from the trust's unit registry.

#### STEP 3 SIGN THE FORM

The form **must** be signed as follows:

**Individual:** This form is to be signed by the unitholder.

**Joint Holding:** where the holding is in more than one name, all the unitholders should sign.

**Power of Attorney:** to sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** this form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form should be signed by that person. **Please indicate the office held by signing in the appropriate place.**

#### STEP 4 LODGEMENT

Proxy forms (and any Power of Attorney under which it is signed) must be received no later than 48 hours before the commencement of the meeting, therefore by **10:00 am (AEDT) on Monday, 6 October 2014.** Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy forms may be lodged using the enclosed Reply Paid Envelope or:

📠 **By Fax** + 61 2 9290 9655

✉ **By Mail** Boardroom Pty Limited  
GPO Box 3993,  
Sydney NSW 2001 Australia

👤 **In Person** Level 7, 207 Kent Street,  
Sydney NSW 2000 Australia

#### Attending the Meeting

If you wish to attend the meeting please bring this form with you to assist registration.

# Rural Funds Group (RFF)

ARSN 112 951 578

## Your Address

This is your address as it appears on the trust's unit register. If this is incorrect, please mark the box with an "X" and make the correction in the space to the left. Unitholders sponsored by a broker should advise their broker of any changes.

**Please note, you cannot change ownership of your units using this form.**

## PROXY FORM

### STEP 1 APPOINT A PROXY

I/We being a member/s of **Rural Funds Group** (Trust) and entitled to attend and vote hereby appoint:

the **Chair of the Meeting (mark box)**

**OR** if you are **NOT** appointing the Chair of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered unitholder) you are appointing as your proxy below

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chair of the Meeting as my/our proxy at the General Meeting of the Trust to be held at **RFM Office, Level 2, 2 King Street, Deakin ACT 2600 on Wednesday, 8 October 2014 at 10:00 am (AEDT)** and at any adjournment of that meeting, to act on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit.

The Chair of the Meeting intends to vote undirected proxies in favour of each of the items of business.

### STEP 2 VOTING DIRECTIONS

\* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your vote will not be counted in calculating the required majority if a poll is called.

		For	Against	Abstain*
Resolution 1	The name of the Fund be changed to Rural Funds Trust, the Stapling provisions be adopted and the new Fund Constitution be adopted in accordance with the draft constitution submitted to the meeting and signed by the chairman for the purpose of identification in accordance with section 601GC(1)(a) Corporations Act and to give effect to the Stapling.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	That RFM be authorised to amend the Constitution to remove the acquisition fee and include the termination fee, as set out in the explanatory memorandum under the heading 'Resolution 2', which may be payable to RFM in the event that it is removed as responsible entity of the Fund.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### STEP 3 SIGNATURE OF UNITHOLDERS

This form must be signed to enable your directions to be implemented.

Individual or Unitholder 1

Sole Director and Sole Company Secretary

Unitholder 2

Director

Unitholder 3

Director / Company Secretary

Contact Name.....

Contact Daytime Telephone.....

Date / / 2014

Rural Funds Management Ltd (RFM)

AFSL 226701

as responsible entity for

# Rural Funds Group

## Notice of General Meeting

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Rural Funds Group ARSN 112 951 578



# Notice of General Meeting

Rural Funds Group ARSN 112 951 578

Notice is given that a general meeting of Rural Funds Group (**Fund**) will be held at:

Location	RFM Office, Level 2, 2 King Street, Deakin ACT 2600
Date	8 October 2014
Time	10am

## Special Business

### Stapling and Constitutional amendments

To consider, and if in favour, pass the following as a special resolution:

- 1 “The name of the Fund be changed to Rural Funds Trust, the Stapling provisions be adopted and the new Fund Constitution be adopted in accordance with the draft Constitution submitted to the meeting and signed by the chairman for the purpose of identification in accordance with section 601GC(1)(a) Corporations Act and to give effect to the Stapling.”

### Termination fee

To consider, and if in favour, pass the following resolution as a special resolution:

- 2 “That RFM be authorised to amend the Constitution to remove the acquisition fee and include the termination fee, as set out in the Explanatory Memorandum under the heading ‘Resolution 2’, which may be payable to RFM in the event that it is removed as responsible entity of the Fund.”

Dated 5 September 2014

By order of the board



Andrea Lemmon  
Company Secretary  
Rural Funds Management Limited

## **Voting Exclusion Statement**

In relation to Resolution 1 and Resolution 2, in accordance with the Corporations Act, RFM and its associates are not entitled to vote their interest on a resolution if they have an interest in the matter other than as a Member.

The Chair may disregard votes cast by such persons. However, the Chair need not disregard a vote if:

- a. it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- b. it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

## **Voting Entitlement**

It has been determined that under regulation 7.11.37 of the Corporations Regulations 2001 (Cth), for the purposes of the Meeting, persons registered as holders of RFF Units as at 10.00am (AEST) on 6 October 2014, will be entitled to attend and vote at the Meeting (subject to any voting exclusion).

## **Notes**

- a. A Member who is entitled to attend and cast a vote at the meeting is entitled to appoint a proxy.
- b. The proxy need not be a Member of the Fund. A Member who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise.
- c. If you wish to appoint a proxy and are entitled to do so, then complete and return the attached proxy form.
- d. A corporation may elect to appoint a representative in accordance with the Corporations Act in which case RFM will require written proof of the representative's appointment which must be lodged with or presented to RFM before the meeting.
- e. If you have any queries on how to cast your votes then please call RFM Client Services on 1800 026 665 during business hours.

# Explanatory Memorandum



Rural Funds Group ARSN 112 951 578

## Resolution 1: Stapling and Constitutional amendments

### RFM Directors' Recommendation

The RFM Directors' recommend you vote in favour of this resolution.

### Introduction

- 1 The Fund (currently known as the Rural Funds Group) is a unitised trust listed on the Australian Securities Exchange (**ASX**) with net assets as at 30 June 2014 of approximately \$136.2 million. The Fund directly and indirectly holds a diverse range of agricultural assets including:
  - a. almond orchards;
  - b. water entitlements;
  - c. poultry farms;
  - d. vineyards; and
  - e. units held in RFM StockBank.
- 2 The Fund also provides finance for certain plant and equipment used for farming and working capital. The purpose of Resolution 1 is to update the Fund Constitution and create a Stapled investment structure.

### Constitution

- 3 The current Constitution of the Fund was adopted well before the Fund was listed on the ASX. Part of the purpose of Resolution 1 is to update the Fund Constitution to make it more consistent with a listed Real Estate Investment Trust (REIT) constitution and provide greater flexibility (including the capacity to raise additional equity) in the operations and conduct of the Fund. Other than as set out in Resolution 2 there is no change in the current fee structure as a result of the proposed changes under Resolution 1.

### Stapling

- 4 The second purpose of Resolution 1 is to create a Stapled investment vehicle. It is expected for the financial year ended 2015 the Fund will no longer be a public trading trust. It will cease to be liable for tax at the corporate tax rate and taxable income from its operations and investments would be distributed on a 'pre tax' basis to Members. While the Fund will no longer be able to distribute its profits in the form of franked dividends, the franking credits from any franked dividend received by the Fund can be passed on to Members.
- 5 A second trust, called RF Active, has been created to hold all active assets.



## What is Stapling?

- 6 Stapling is a contractual arrangement between two legal entities under which the entities agree that their securities are to be traded together. In this case, the Stapled Securities will consist of one unit in the Fund and one unit in RF Active.
- 7 If Resolution 1 is approved, Fund units will only be able to be traded with corresponding units in RF Active and vice versa.

## How will Stapling be achieved?

- 8 If Members approve Resolution 1:
  - a. Members will receive a notional distribution of approximately \$1.2 million or \$0.01 per unit they hold;
  - b. RFM as responsible entity of the Fund will (as agent of the Members) subscribe for units in RF Active on the basis of one unit in RF Active for each unit the Member holds in the Fund;
  - c. the units in RFM StockBank will be transferred to RF Active and the Vendor Finance Arrangement repaid;
  - d. each unit in the Fund will be Stapled to a unit in RF Active;
  - e. the current Rural Funds Group will be renamed Rural Funds Trust; and
  - f. the Stapled units will be listed on the ASX and the Stapled entity will be referred to as Rural Funds Group and trade as RFF.

## Does my investment materially alter?

- 9 No. Plant and equipment previously owned by the Fund was sold to RF Active on 30 June 2014. The consideration received by the Fund comprised the novation of the related external borrowings and a Vendor Finance Arrangement for the balance.
- 10 The plant and equipment is used for farming almond orchards which are leased to a number of entities in particular the Almond Funds. The Almond Funds between them currently hold the 50,000 units on issue in RF Active. These units were issued for \$1 per unit.
- 11 Although the Fund's investment in RFM StockBank, as a minority interest in a unit trust is not considered active, this asset is considered to be best held by RF Active, so that the Fund's activities are limited to its core operations of leasing agricultural properties. Therefore the demerger and Stapling will see the Fund's investment in RFM StockBank transferred to RF Active. The external borrowing relating to the RFM StockBank investment will also be transferred.
- 12 As part of the demerger and Stapling, the Fund intends to make a distribution of approximately \$0.01 per unit to Members. RFM as agent of the Members will use this distribution to subscribe for units in RF Active for each Member. RF Active will use the subscription money to repay the Vendor Finance Arrangement, redeem the units held by the Almond Funds (for their issue price) and provide ongoing working capital. The Almond Funds will cease to be members of RF Active. All Members of the Fund will become Unitholders of RF Active in the same proportion as their investment in the Fund. The income of the Fund (after payment of expenses) will be distributed to Members (before tax) so that Members pay tax on that income received at their marginal tax rate, in a manner similar to most REITs.

## Who will manage the Stapled group?

- 13 After the Stapling is implemented RFM will continue to manage both the Fund and RF Active.

## What assets will be transferred?

- 14 Cash will be transferred, via the distribution of approximately \$0.01 per unit, to provide for working capital.
- 15 The units held by the Fund in RFM StockBank will be transferred to RF Active.

- 16 The plant and equipment which was previously owned by the Fund and sold to RF Active on 30 June 2014 will remain in RF Active. The plant and equipment consists of farming plant and equipment relevant to the almond orchards including harvest equipment, tractors, demountable buildings, vehicles and other ancillary plant and equipment.
- 17 RF Active will also assume the external borrowings relating to RFM StockBank, and the plant and equipment.
- 18 The net assets of RF Active following the demerger and Stapling will be \$1.153m and this effectively represents the value of the Fund demerged and is approximately 1% of the Fund's net assets.

### **What are the costs associated with undertaking the Stapling proposal?**

- 19 The total cost of the Stapling project, including the establishment of RF Active, is estimated to be \$425,000. This estimate includes:
- a. preparation of the documents by RFM employees, printing and postage, registry charges to reflect the corporate activity \$255,000;
  - b. external legal costs associated with the project \$70,000; and
  - c. ASIC , ATO, ASX and stamp duty costs associated with RF Active registration instruments of relief, exemption and listing \$100,000.

### **What is the financial position of RF Active?**

- 20 As at 30 June 2014, RF Active has total net assets of \$31,931 (unaudited). The assets and liabilities and borrowings of RF Active as at 30 June 2014 are set out in the RF Active PDS.
- 21 The current unitholding in RF Active is 50,000 units issued at \$1 per unit to the Almond Funds. Immediately prior to the issue of Units under this Offer the Almond Funds will cease to be members of RF Active and be repaid their \$50,000.
- 22 Assuming Members approve Resolution 1, then after the Stapling the units in RFM StockBank will be transferred to RF Active and the Vendor Finance Arrangement will be repaid.

### **What is the Vendor Finance Arrangement?**

- 23 The Vendor Financing Arrangement was provided by RFF to RF Active as part of the sale of the plant and equipment. The terms include:
- a. a loan of up to \$700,000 (drawn as at 30 June 2014 to \$629,525) with the following terms:
    - i. interest rate of bank bill swap rate plus margin. A line fee is also applicable;
    - ii. a term of three years; and
    - iii. the capacity of RFF to take security over the assets of RF Active; and
  - b. a working capital loan of up to \$750,000 (currently drawn to approximately \$316,312).

### **What will happen with RF Active post demerger and Stapling?**

- 24 Following completion of the demerger and Stapling the plant and equipment will remain in RF Active. Further RFF will transfer its investment in RFM StockBank to RF Active.
- 25 RFM StockBank is a registered managed investment scheme of which RFM is the responsible entity. RFM StockBank raises capital to purchase livestock (both cattle and sheep) which are then leased to third party operators. The RFF investment in RFM StockBank represents approximately 39% of the units on issue in RFM StockBank.
- 26 As units in RFF will be Stapled to Units in RF Active the Vendor Financing Arrangement between RFF and RF Active will be repaid.

## What will be the Combined Rural Funds Group borrowings?

27 The Combined Rural Funds Group borrowings once the demerger and Stapling has been completed, including all subsidiaries, will be supported by cross guarantees and indemnities. The Combined Rural Fund Group borrowing facilities of the Rural Funds Group include:

### Term debt facility

- a. Facility limit of \$97.5 million with \$2 million annual amortisation commencing 30 September 2016.
- b. The facility has a term of five years commencing December 2013.
- c. Interest rate is bank bill swap rate plus margin and a line fee is applicable.
- d. There is a 50% loan to security ratio covenant. The loan to security ratio as at 30 June 2014 was 42.8%.
- e. Interest cover ratio 2.25 times with distribution lock up at 2.5 times for the period ending 30 June 2014, increasing to 3.00 times with distribution lock up at 3.15 times for the period commencing 1 July 2018.
- f. A covenant that the net tangible assets of the Combined Rural Funds Group be maintained above \$100,000,000 at all times.
- g. There is no minimum capitalisation requirement for RFF.

### Revolving asset (plant and equipment) finance facility

- a. Facility limit of \$3.5 million.
- b. Individual loans within the facility tied to specific items of plant and equipment when they are purchased and a requirement for repayment as the item is sold.
- c. Term of each individual loan and interest rate tied to the item and expected useful life of the relevant plant and equipment.

## What is the notional value of the Stapled Securities?

28 Based on the 30 June 2014 audited financial statements:

- a. RFF had a net asset value of \$137.5 million or \$1.17 per unit;
- b. no assets are being sold or acquired (outside of RFF and RF Active) as a result of the Stapling; and
- c. the net asset value of the Stapled Security would be divided as follows:
  - i. 99% per RFF unit; and
  - ii. 1% per RF Active unit.

## How will Stapled Securities be traded?

29 After Stapling the Fund units and RF Active units will be quoted on the ASX as Stapled Securities and will trade under the ASX code 'RFF'.

## How many Stapled Securities will I hold after the Stapling?

30 You will hold the same number of Stapled Securities as units in the Fund as at the Record Date. For example, if you hold 20,000 units in the Fund on the Record Date, immediately after the demerger and Stapling you will hold 20,000 Stapled Securities.

## What are my tax consequences if the Stapling proposal proceeds?

31 The demerger and Stapling will require the Fund make a distribution to Members equal to the net value of assets that will be transferred to RF Active, the repayment of the Vendor Finance Arrangement and the working capital requirements. This distribution will be applied, on behalf of Members, to subscribe for units in RF Active. That is, an estimated distribution \$1,170,992 or about \$0.01 per Fund unit will be made to Members.

- 32 Neither RFM nor its directors are registered under the Tax Agent Services Regime to provide tax advice to individual Members. Accordingly Members should take advice from an appropriately qualified advisor on the taxation implications of the arrangements, taking into account their particular circumstances.
- 33 The following taxation comments are in respect to Members that are Australian tax residents who hold their units on capital account for investment purposes and only considers the Australian tax position. Members who are residents of, or subject to taxation in, other countries should also obtain advice on the tax consequences of the demerger and Stapling in that country.

### **The tax status of the Fund**

- 34 The separation of all remaining operational assets into RF Active in the year end 30 June 2014 resulted in the Fund only holding assets that derive rental or other 'passive' income. This should mean that the Fund will be a 'flow through' fund (rather than a public trading trust) for tax purposes from the income year ending 30 June 2015. A similar exercise was undertaken to remove the operational assets from the Fund's 100% subsidiary, the RFM Chicken Income Fund (CIF).
- 35 As the Fund is no longer a public trading trust, it is no longer liable for tax at the corporate tax rate and income from its operations and investments will be distributed on a 'pre tax' basis to Members each year.
- 36 While the Fund will no longer be able to distribute its profits in the form of franked dividends, the franking credits from any franked dividend received by the Fund may be passed on to eligible Members.
- 37 However, the Fund's other 100% owned subsidiary, the Australian Wine Fund, is a tax consolidated group with significant carry forward losses, and is unlikely to generate or distribute franking credits to the Fund in the foreseeable future.
- 38 It is therefore likely that tax will be paid by Members on their share of the net (taxable) income of the Fund each year, consistent with other investment funds that derive passive income (including for example REITs).

### **How will RF Active be taxed?**

- 39 RF Active will be taxed as a public trading trust.
- 40 As a public trading trust, RF Active:
- a. will pay tax at the corporate tax rate (currently 30%) on the profit it generates from its operational activities; and
  - b. may, from time to time, make distributions to Members of the profit generated from its trading activities.
- 41 Distributions by RF Active to Members will be regarded as dividends for tax purposes (which may be franked).

### **Tax consequences of distribution by the Fund**

- 42 Where the Fund is no longer a public trading trust and it distributes its income (or creates a present entitlement of Members to all of the income it derives each year), distributions to Members will be made on a 'pre tax' basis. This means that each Member will include their proportionate share of the Funds net (taxable) income in their assessable income each year.
- 43 To the extent that distributions are of capital amounts, and do not represent net (taxable) income of the Fund they will not be taxable as ordinary income to Unitholders.
- 44 As capital, a distribution will proportionately reduce each Member's CGT cost base in respect of their Fund units, but should not increase the amount taxable as ordinary income to Members for the year.
- 45 In the event that the amount of a distribution is greater than the cost base of a Member's Fund units, the cost base will reduce to nil and the excess will give rise to a taxable capital gain.
- 46 The tax consequences of distributions made by the Fund are determined at the time of distribution.

## **On what terms will RF Active units be issued?**

- 47 RF Active's constitution contains substantially the same provisions as the replacement constitution that it is proposed will be adopted for the Fund.
- 48 Accordingly, RF Active units will be issued on substantially the same terms as units in the Fund.

## **Constitutional amendments**

- 49 Certain amendments are required to be made to the RFF Constitution in order to:
- a. provide RFM with greater flexibility in operating the Fund as an ASX listed property trust;
  - b. facilitate Stapling of Fund units to units in the RF Active; and
  - c. deal with units held by Foreign Members.
- 50 In February 2014, the Australian Securities and Investments Commission (ASIC) released Regulatory Guide 134 'Managed Investments: Constitutions' (RG134), which specifies the matters which must be addressed in a registered scheme's constitution. Amendments are also recommended to the Constitution to bring it into line with RG134.
- 51 The current constitution contains a cap on the level of borrowings to no more than 50% of the gross asset value of the Fund excluding working capital borrowings. It is proposed as part of the constitutional amendments this cap be removed. The removal of this cap will allow RFM to increase borrowings and not breach the terms of the Constitution, however it is not the intention of RFM to increase borrowings to 50% of the gross asset value of the Fund. RFM considers it is appropriate the Constitution not contain such a restrictive covenant. The current borrowings with the bank limit the loan to security ratio to 50%.
- 52 The material Constitutional amendments are explained in the Schedule to this Explanatory Memorandum.
- 53 A full copy of the proposed replacement constitution can be downloaded at [www.ruralfunds.com.au](http://www.ruralfunds.com.au).

## **What is happening with Foreign Members?**

- 54 There may be certain Members outside of Australia and New Zealand where the making of an offer of units in RF Active is prohibited or where the compliance costs of making an offer to an existing Foreign Member makes compliance uneconomic. In those circumstances, the units held by those Foreign Members will be transferred to a Sale Nominee appointed by RFM. The Sale Nominee will receive the distribution from RFF, subscribe for RF Active units and once Stapled will sell the Stapled Securities through the Sale Facility and remit the proceeds to the Foreign Members.

## **Sale Facility**

- 55 Given the very small number of Foreign Members in RFF (approximately 0.32% as at 27 June 2014) and the legal restriction relating to making an offer to them of RF Active units, Foreign Members will not receive Stapled Securities.
- 56 Instead, Foreign Members will have the Stapled Securities to which they would otherwise be entitled sold through the Sale Facility in such a manner and at such a price and on such terms as the Sale Nominee determines in good faith (and at the risk of the Foreign Members). The Stapled Securities to be sold by the Sale Nominee will be sold on the ASX and there can be no assurance as to the price at which Stapled Securities will be sold. Sale proceeds will be paid to the Foreign Members immediately thereafter.

## **What happens if the resolution is not approved?**

- 57 If Resolution 1 is not approved the Fund will continue in its current form and RFM will continue to manage the Fund for the benefit of Members.

## Resolution 2: Termination fee

- 58 The Fund Constitution currently includes a clause which entitles RFM to an acquisition fee of 2% of the total purchase price of any assets acquired by the Fund. RFM has proposed the acquisition fee of 2% be removed and in its place a termination fee be incorporated into the Constitution. The termination fee will be equal to 1.5% of the gross asset value of the Fund. The fee will only be payable to RFM in the event that it is removed as responsible entity of the Fund, other than for failing to properly perform its duties.
- 59 The fee has been proposed as compensation to RFM for the removal of the acquisition fee and is only payable in the event RFM ceases to be the responsible entity of the Fund. The Rural Funds Group is RFM's major client and if RFM was removed as responsible entity, RFM would need to downsize its business accordingly. This fee would be applied to cover the costs of paying out office and equipment leases, staff redundancies and other similar expenses which would be payable in the event RFM was removed as responsible entity.
- 60 If Resolution 2, is not approved, the acquisition fee will remain and the termination fee will not be included in the Constitution for the Fund. Resolution 1 is not conditional on Resolution 2 being successful.
- 61 If Resolution 2 is approved a fee similar to this fee will be included in the RF Active constitution before RF Active units are issued to Members.

## Key dates

Dispatch of Notice of Meeting, Explanatory Memorandum and Product Disclosure Statement to Members	15 September 2014
Last date for lodgement of proxy forms	6 October 2014 (by 10am AEST)
Meeting of RFF Members	8 October 2014 (by 10am AEST)

### If Resolution 1 is approved

Last day of ASX trading of Fund units	9 October 2014
Deferred settlement trading of Stapled Securities begins	10 October 2014
Record Date	14 October 2014
Last date for registration of transfers of Fund units	
Stapling commencement date	15 October 2014
New RF Active units allotted	
Dispatch of holding statements for Stapled Securities	21 October 2014
Stapled Securities commence trading on a normal (T + 3) settlement basis	22 October 2014

- These dates are indicative only and may change.

## Glossary

<b>Almond Funds</b>	Rural Funds Management Limited ACN 077 492 838 as responsible entity for RFM Almond Fund 2006 ARSN 117 859 391, RFM Almond Fund 2007 ARSN 124 998 527 and RFM Almond Fund 2008 ARSN 127 947 960.
<b>ASIC</b>	Australian Securities and Investments Commission.
<b>ASX</b>	ASX Limited ABN 98 008 624 691.
<b>Combined Rural Funds Group</b>	means RFF, RF Active and all their subsidiaries and controlled entities after Stapling.
<b>Constitution</b>	means the constitution of the Fund.
<b>Corporations Act</b>	<i>Corporations Act 2001</i> (Cth).
<b>Foreign Member</b>	means a person not resident in Australia, New Zealand, Hong Kong, Malaysia or the United Kingdom who RFM considers will participate in the Sale Facility.
<b>Fund</b>	Rural Funds Group ARSN 112 951 578 to be renamed Rural Funds Trust.
<b>Listing Rules</b>	means the ASX Listing Rules.
<b>Manager</b>	means the responsible entity of the Fund, which is currently RFM.
<b>Member</b>	means a person who holds a unit in the Fund.
<b>Record Date</b>	14 October 2014 or such other date as nominated by RFM.
<b>RF Active</b>	means RF Active ARSN 168 740 805.
<b>RF Active PDS</b>	means the product disclosure statement for units in RF Active which accompanies this Notice of Meeting and Explanatory Memorandum.
<b>RFM</b>	Rural Funds Management Limited ACN 077 492 838.
<b>RFM StockBank</b>	means RFM StockBank ARSN 153 436 803.
<b>Sale Facility</b>	has the meaning set out in the Explanatory Memorandum.
<b>Sale Nominee</b>	the person independent of RFM appointed to sell the Stapled Securities on behalf of Foreign Members.
<b>Stapled Securities</b>	means one unit in the Fund Stapled to one unit in RF Active.
<b>Stapling</b>	means the act of combining the units in the Fund to units in RF Active so they trade as a single security.
<b>Vendor Finance Arrangement</b>	means the financing arrangement as set out in the Explanatory Memorandum.

# Schedule

## Summary of Constitutional amendments

### Resolution 1

Subject matter	Current constitution	Proposed replacement constitution	Comments
<b>Fund name</b>	Rural Funds Group.	Rural Funds Trust.	It is proposed that the Fund's name be changed to Rural Funds Trust. If the stapling proposal is approved, the stapled entity will be referred to as Rural Funds Group which will include the Rural Funds Trust and RF Active.
<b>Assets held on trust</b>	RFM must hold the Fund's assets on trust for Members.	No changes.	The Fund will continue to operate as a trust. The investment in RFM StockBank will be transferred to RF Active. However, the remaining assets of the Fund will continue to be held on trust by RFM for the benefit of Members.
<b>Trust divided into units</b>	Beneficial interests in the Fund are divided into units. Each unit confers an equal undivided interest in the Fund as a whole and does not confer any interest in any particular asset.	No changes except that while stapling applies, the number of units issued in the Fund must be equal to the number of RF Active units issued.	No material changes are proposed to the replacement constitution.
<b>Applying for units and options</b>	The Manager may issue units and options to acquire units at its discretion.	The Manager has the power to issue units and options to acquire units. In addition, the Manager has the discretion to issue partly paid units. A partly paid unit is a unit where only part of the capital value of the unit is paid up front by a Member. Subject to the terms of	The replacement constitution allows the Manager to issue partly paid units. The current constitution does not.  Otherwise no material changes are proposed.



Subject matter	Current constitution	Proposed replacement constitution	Comments
		<p>issue of the partly paid units, the Manager may call upon the Member to pay further instalments of the capital value of the unit from time to time.</p> <p>Generally, Members entitlements in relation to partly paid units will be calculated by reference to the amount they have paid up on their partly paid units in proportion to the unpaid portion of their partly paid units.</p>	
<p><b>Issue price of units</b></p>	<p>The Manager is permitted to issue units at their net asset value less transaction costs and a marketing fee. The Manager also has the discretion to apply a 50% discount to the issue of units under a rights issue or distribution reinvestment plan.</p>	<p>The replacement constitution permits the Manager to issue units at their net asset value less transaction costs. The Manager will have discretion to issue units at a 50% discount to the weighted average market price under a rights issues or distribution reinvestment plan. In addition, the Manager will be given the power to issue units at a discount of up to 50% to the weighted average market price under a placement offer or a unit purchase plan.</p> <p>While stapling applies, the Manager will only be permitted to issue a unit in the Fund if a corresponding unit in RF Active is also issued to the applicant. The Manager will have discretion to allocate part of the issue price for a stapled security to a unit in the Fund and a unit in RF Active.</p> <p>The Manager will not be able to charge marketing fees in connection with</p>	<p>The replacement constitution provides the Manager with additional powers to issue discounted offers under placements and security purchase plans.</p> <p>RFM has removed its right to charge marketing fees in connection with the issue of units. Transaction fees, which constitute the 'buy spread', will continue to apply. As the Fund is now listed, it is also appropriate for the Manager to issue units relative to their trading price on the ASX. Without these amendments it will be difficult for the Fund to raise further capital. Other proposed changes in the replacement constitution are required in order to facilitate the stapling proposal.</p>

Subject matter	Current constitution	Proposed replacement constitution	Comments
		<p>the issue of units. The replacement constitution allows the Manager to apply a fee reduction to the issue price of units.</p>	
<p><b>Transfer and transmission of units</b></p>	<p>Members may transfer units. Transfers must be in a form approved by the Manager and will not be effective until registered by the Manager. The Manager may refuse to record any transfer of units without giving reasons for the refusal.</p>	<p>The replacement constitution recognises that whilst the Fund is listed on the ASX the Manager may only decline to process a transfer of units if required under the ASX Listing Rules or ASX Settlement Operating Rules. The replacement constitution also recognises that while units are quoted on the ASX unit certificates will not be issued.</p> <p>The replacement constitution also deals with the transmission of a Member's units in the event of their death, insolvency or mental incapacity.</p> <p>The replacement constitution also allows the Manger to assume that a person who is acting under a power of attorney on behalf a Member has the power to deal with that Member's units.</p>	<p>The replacement constitution limits the circumstances in which the Manager can prevent a unit transfer being processed whilst units are quoted on the ASX. The procedures set out in the replacement constitution regarding the transmission of units in the event of the death, insolvency or mental incapacity of a Member are consistent with statutory requirements and therefore will not change the manner in which the Fund is operated.</p>
<p><b>Redemption of interest</b></p>	<p>Currently Members can only redeem their units in accordance with the terms of a withdrawal offer made by the Manager. Redemption proceeds payable to Members must be calculated based upon the net asset value of a unit less transaction costs and an administration fee.</p>	<p>No changes except that while stapling applies, the number of units issued in the Fund must be equal to the number of RF Active units issued.</p>	<p>The ASX Listing Rules prohibit the redemption of listed securities. For this reason, the replacement constitution contains procedures to facilitate an on market buy back of units. For registered schemes, the Corporations Act specifies the terms on which a withdrawal offer must be made for a non listed scheme. The replacement constitution gives the Manager the</p>

Subject matter	Current constitution	Proposed replacement constitution	Comments
			flexibility to determine withdrawal processes in circumstances where the scheme is not registered. Under the replacement constitution, the Manager has opted not to impose any administration fees on the redemption of units.
<b>Distributions of income and capital</b>	<p>The Manager may determine the net income of the Fund which is to be distributed to Members. Members' entitlement to distributable income will be based upon the number of units held by the Member in proportion to the total number of units on issue.</p> <p>The Manager may allow the reinvestment of distributions in the Fund in exchange for a new issue of units.</p>	In respect to the calculation and payment of distributions, the replacement constitution contains provisions which are comparable to the current constitution.	No material changes.
<b>Convening meetings</b>	The Manager may at any time convene a meeting of Members and must do so if required by the Corporations Act.	The Manager may at any time convene a meeting of Members and must do so if required by the Corporations Act or the Listing Rules.	No material changes.
<b>Conduct of meetings</b>	The Manager may determine the time and place at which Member meetings are convened and the manner in which the meeting will be conducted.	No material changes.	
<b>Quorum</b>	The quorum for a meeting of Members is at least two Members present in person or by proxy, together holding at least 10% of all units.	The quorum for a meeting at which an ordinary, a special resolution or an extraordinary resolution is proposed, is two Members.	Other than a special resolution to change the Termination Fee (refer to commentary on Resolution 2) a quorum for any meeting is two members.
<b>Chairman</b>	The Manager may appoint a person to chair a meeting of Members.	No material changes.	

Subject matter	Current constitution	Proposed replacement constitution	Comments
<b>Proxies</b>	<p>The Manager may determine that an appointment of a proxy is valid even if it contains only some of the information required under the Corporations Act. Otherwise, the procedures for the appointment of proxies will be as set out in the Corporations Act.</p>	<p>The replacement constitution provisions dealing with proxies are consistent with the Corporations Act.</p> <p>The replacement constitution specifies that valid proxy forms for all Member meetings must be returned directly to the Manager or its nominee.</p> <p>Otherwise, there are no material changes.</p>	<p>The only material change is that the replacement constitution specifies that proxy forms for all Member meetings must be returned directly to the Manager or its nominee.</p>
<b>Voting</b>	<p>The current constitution does not contain any provisions in relation to Members voting rights however this is set out in the Corporations Act.</p>	<p>Consistent with the Corporations Act, the replacement constitution provides that on a show of hands, each Member will have one vote and on a poll each Member will have one vote for each dollar invested in the Fund, based on current unit value.</p>	<p>No material change.</p>
<b>Joint meetings</b>	<p>Not applicable.</p>	<p>The replacement constitution provides that a Members' meeting may be held in conjunction with a meeting of members of RF Active.</p>	
<b>Powers of the Manager</b>	<p>The Manager has broad powers to deal with the Fund assets and enter into contracts of any kind on behalf of the Fund.</p> <p>The Fund has a cap on the level of borrowings to no more than 50% of the gross asset value of the Fund excluding working capital borrowings.</p>	<p>No material changes other than the 50% borrowing cap has been removed.</p>	<p>The Manager has no current intention of increasing the Fund borrowings in excess of 50% of the gross asset value of the Fund excluding working capital borrowings.</p>
<b>Manager's rights</b>	<p>The Manager and its associates may hold units in the Fund. Subject to the Corporations Act, the Manager may:</p>	<p>The Manager and its associates may hold and deal with interests in the Fund.</p>	<p>The current constitution and the replacement constitution contain comparable provisions in relation to related party</p>

Subject matter	Current constitution	Proposed replacement constitution	Comments
	<p>a. deal with itself as trustee of another trust or in another capacity, an associate or with any Member;</p> <p>b. be interested in any contract or transaction with itself as trustee of the Fund or in another capacity, an associate or with any Member; and</p> <p>c. acting in the same or similar capacity in relation to any other managed investment scheme.</p>	<p>Subject to the Corporations Act, the Manager may deal with itself in any capacity, an associate, including buying an asset, selling property to the Fund underwriting an issue of interests and paying any fee. The Manager may have an interest in any contract, transaction with itself, an associate and act in the same or a similar capacity for any other managed investment scheme.</p> <p>Whilst stapling applies, the Manager must consider the interests of the Members and members of the stapled entities and option holders as a whole and not just the interest of Members of the Fund.</p>	<p>transactions. In all cases, the Manager will only be permitted to enter into such transactions if it has complied with the procedures set out in the ASX Listing Rules and the Corporations Act.</p> <p>The replacement constitution contains additional provisions which allow the Manager to take into account the interest of members of RF Active and option holders.</p>
<p><b>Limitation of liability and indemnity</b></p>	<p>The Manager is not liable for any loss suffered in any way relating to the Fund except to the extent that the Corporations Act imposes such liability.</p> <p>Subject to the Corporations Act, the liability of the Manager is limited to the Manager's ability to be indemnified from the assets.</p> <p>In addition, the Manager is entitled to be indemnified out of the assets for any liability incurred by it properly performing or exercising its powers or duties in relation to the Fund.</p>	<p>The Manager is not liable to any person for matters such as:</p> <p>a. assets not maintaining or realising any specific value;</p> <p>b. not exercising any power which is reasonably impractical to exercise; and</p> <p>c. acting in good faith on the advice or opinion or information obtained from any person.</p> <p>The Manager is entitled to be indemnified out of the assets of the Fund for all expenses, losses, damage and liabilities (whether actual contingent perspective or otherwise) incurred, arising out of or in connection with the Fund.</p>	<p>No material change.</p>

Subject matter	Current constitution	Proposed replacement constitution	Comments
<p><b>Fees and expenses</b></p>	<p>The Manager is entitled to be paid the following fees:</p> <ul style="list-style-type: none"> <li>a. an application fee of up to 3% of application money;</li> <li>b. a management fee of 1.5% per annum of the gross asset value of the Fund;</li> <li>c. performance fee equal to 15% of the return on equity in a financial year that exceeds 15% per annum;</li> <li>d. farm management fee equal to 5% per annum of annual operating costs for farming properties;</li> <li>e. farm rental fee equal to 5% per annum of the amount of annual rental for a farming property; and</li> <li>f. acquisition fee equal to 2% of the purchase price of an asset.</li> </ul> <p>The total amount of fees under (d) and (e) above must not exceed 1% p.a. of the gross asset value of the Fund.</p> <p>In addition, the Manager is entitled to be reimbursed or to be paid from the Fund, expenses associated with performing its duties as responsible entity.</p>	<p>The Manager is entitled to the following fees:</p> <ul style="list-style-type: none"> <li>a. a management fee of up to 1% p.a. of the gross asset value of the Fund;</li> <li>b. acquisition fee of up to 2% of the purchase price of an asset;</li> <li>c. asset management fee of up to 1% p.a. of the gross asset value of the Fund.</li> </ul> <p>Resolution 2 introduces the concept of a termination fee – see comments.</p>	<p>Other than the termination fee (discussed below) the maximum fees RFM can charge the Fund have been simplified.</p> <p>In the event Resolution 2 is approved the acquisition fee of 2% in (b) will be removed.</p> <p>The stapling proposal and the proposed constitutional amendments required to facilitate this can proceed, even if Members are not in favour of the proposed termination fee.</p>
<p><b>Termination</b></p>	<p>The Fund terminates on the earlier of:</p> <ul style="list-style-type: none"> <li>a. the 80th anniversary of the commencement of the Fund;</li> <li>b. the date specified by the Manager; or</li> </ul>	<p>The termination provisions in the replacement constitution are consistent with the Fund's current constitution except that it contains provisions:</p> <ul style="list-style-type: none"> <li>a. that require the wind up to be completed as</li> </ul>	

Subject matter	Current constitution	Proposed replacement constitution	Comments
	<p>c. the date on which the Fund terminates in accordance with another provision of the constitution or by law.</p> <p>Following the termination of the Fund the Manager has to complete the wind up of the Fund within 180 days and distribute any surplus assets to the Members.</p>	<p>soon as practical after the termination date;</p> <p>b. that allow the Manager to collect all unpaid calls on partly paid units;</p> <p>c. that allow the Manager to transfer assets to Members, in the form of an in specie distribution during the wind up process; and</p> <p>d. that require the Manager to give RF Active notice of the proposed termination.</p>	
<b>Amendments to the constitution</b>	<p>The constitution may be amended by special resolution of members or by deed executed by the Manager.</p> <p>Section 601GC(1)(b) Corporations Act will require that any amendments approved by the Manager not adversely affect members' rights.</p>	<p>The replacement constitution provides that the Manager may amend the constitution. Again this would be subject to section 601GC(1)(b) which would require that the amendments not adversely affect members' rights.</p> <p>In addition, members have a statutory right to amend the constitution by special resolution under section 601GC(1)(a) Corporations Act.</p>	No material change.
<b>Complaints</b>	<p>The Manager must respond to a complaint as soon as practicable and in any event within 14 days of receipt of the complaint.</p> <p>The Manager's complaints officer must investigate the complaint and respond to the complainant as soon as practicable and in any event not more than 45 days after receiving the complaint. The response must include:</p> <p>a. a final determination of the complaint;</p>	<p>The complaint's handling procedures in the replacement constitution are substantially the same as that contained in the current constitution.</p> <p>An additional provision is included to allow complaints in relation to stapled securities to be addressed.</p>	No material change.

Subject matter	Current constitution	Proposed replacement constitution	Comments
	<p>b. the remedies available to the Member; and</p> <p>c. information regarding any further avenues for the complaint.</p>		
<b>Listing Rule compliance</b>	<p>The constitution provides that whilst the Fund is listed, despite anything contained in the constitution, the Manager may not do anything in relation to the Fund which would be inconsistent with the Listing Rules.</p>	<p>The replacement constitution contains the same clause.</p>	<p>This clause is required to be incorporated in all listed entities' constitutions.</p>
<b>Unmarketable parcels</b>	<p>The current constitution does not contain any comparable clause.</p>	<p>The replacement constitution permits the Manager to sell or buy back on market, small unmarketable parcels of stapled securities on behalf of Members who hold an unmarketable parcel.</p> <p>An unmarketable parcel is a security holding worth less than \$500. This clause allows the Manager to facilitate the sale of unmarketable parcels once every 12 months.</p>	
<b>Stapling provisions</b>	<p>The current constitution does not contain any comparable provisions.</p>	<p>The replacement constitution provides that the stapling provisions will override any other inconsistent provisions in the constitution.</p> <p>The stapling provisions will come into effect from the date Fund units are stapled to RF Active units. Whilst stapling applies, the consent of each stapled entity must be obtained to any amendments to the constitution which affects stapling.</p>	



Subject matter	Current constitution	Proposed replacement constitution	Comments
<b>Failure to provide account details</b>	No comparable clause.	The replacement constitution provides that if a Member fails to provide bank account details for the electronic funds transfer of units within 14 days after receiving notification from the Manager, the Manager may apply that Member's distribution entitlements to the Fund's distribution reinvestment plan.	
<b>Foreign Members</b>	No comparable clause.	The amendments empower RFM as responsible entity of the Fund to determine which (if any) Members resident in countries other than Australia and New Zealand are foreign members. This decision will be based on the costs of making the offer of RF Active units contained in the product disclosure statement compliant with the local jurisdiction. Where a Member is designated a Foreign Member, then RFM will appoint a sale nominee on behalf of the Foreign Member, receive a transfer of the Foreign Member's units in the Fund, receive the distribution from the Fund and then subscribe for RF Active units. The sale nominee will then sell the Stapled Securities and pay the sale consideration to the Foreign Member as soon as practicable after the sale is complete.	This provision is only expected to apply to a very small (if any) number of Members who are resident outside Australia or New Zealand. Those affected Foreign Members may at any time before the Record Date sell their units on the ASX.

## Resolution 2

Subject matter	Current constitution	Proposed replacement constitution	Comments
<p><b>Termination fee</b></p>	<p>No comparable clause</p>	<p>The additional amendments propose a fee of 1.5% of the gross assets of the Fund payable to RFM in the event it is removed as responsible entity of the Fund. The fee is intended to be used by RFM towards the cost of retrenching staff, outstanding office, equipment leases and similar expenses.</p> <p>The quorum provisions of the constitution have also been amended to require that any meeting of Members called to amend the termination fee is two members holding or representing in person, by proxy or attorney is at least 50% of units by value.</p>	<p>The fee has been proposed as compensation to RFM for the removal of the acquisition fee and the loss of its role as responsible entity of the stapled entity. The Rural Funds Group is RFM's major client and if RFM was removed as responsible entity, RFM would need to downsize its business accordingly. This fee would be applied to cover the costs of paying out office and equipment leases, staff redundancies and other similar expenses which would be payable in the event RFM was removed as responsible entity.</p>

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