



# Rural Funds Group (RFF)

## Financial results presentation half year ended 31 December 2015

24 February 2016

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## RFM attendees

1. Highlights
2. Results
3. Capital management
4. Outlook
5. Fund details
6. Appendices



**David Bryant**  
*Managing Director*



**Stuart Waight**  
*Chief Operating  
Officer*



**Daniel Yap**  
*Financial Controller*



**James Powell**  
*Investor Relations &  
Distribution Manager*

# Highlights



HY2016 highlights	Further details
Net profit before income tax of \$5.2m	Slide 9
Adjusted funds from operations (AFFO) of \$6.2m in line with previous forecast	Slide 10
Net Asset Value (NAV) of \$1.12 per unit, adjusted NAV of \$1.18 per unit	Slide 39
Gearing of 33.8%	Slide 18
FY16 AFFO and distributions on track to previous forecast	Slide 20

# Results summary

## Metrics as at 31 December 2015

<b>Income</b>	Net profit before income tax	\$5,182,000
	Total comprehensive income	\$4,932,000
	Adjusted funds from operations (AFFO)	\$6,194,000
	AFFO per unit <sup>1</sup>	4.3 cents
	Earnings per unit	3.4 cents
<b>Portfolio</b>	Net asset value (NAV)	\$184,078,000
	Adjusted NAV	\$193,653,000
	NAV per unit	1.12
	Adjusted NAV per unit	1.18
<b>Balance sheet</b>	Total assets	\$302,480,000
	Adjusted total assets	\$312,055,000
	External borrowings	\$105,334,000
	Gearing <sup>2</sup>	33.8%
<b>Distributions</b>	Declared at:	
	September 2015	\$2,955,000
	December 2015	\$3,670,000
	CPU per distribution	2.23 cents
	Total distributions (cpu)	4.47 cents

- AFFO \$6.2m (pre-tax) and AFFO per unit 4.3 cents in line with previous forecast to 30 June 2016
- Increase in distributions of 4% in line with previous forecast
- Gearing of 33.8% within target range
- Total assets \$302.5m up from \$252.7m at 30 June 2015 primarily due to planned capital expenditure

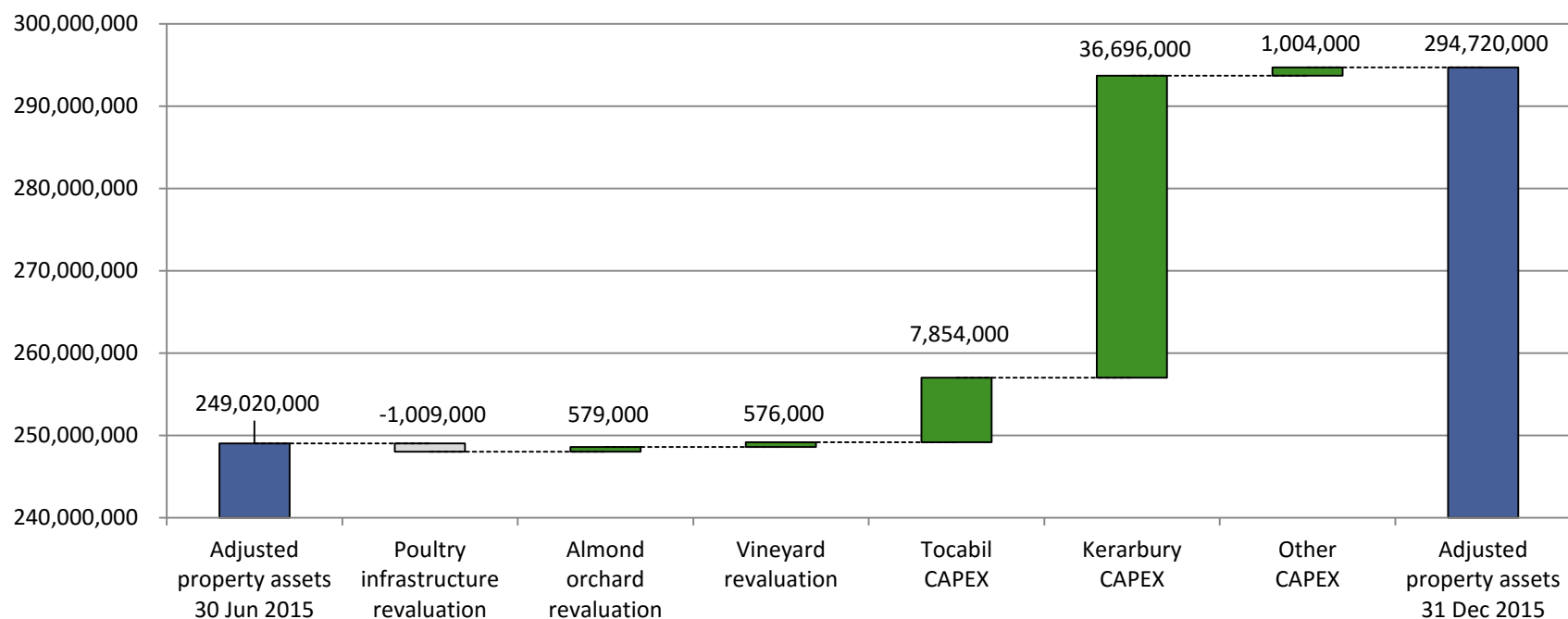
Notes:

<sup>1</sup>For reconciliation see slide 37

<sup>2</sup>Gearing calculated as external borrowings / adjusted total assets

# Property reconciliation

## Adjusted property assets reconciliation HY2016



- Directors' valuations for 31 December 2015. Assets are independently valued annually on an encumbered basis
- Directors' valuations utilise 30 June independent valuations adjusted for timing to 31 December
- Main movements for period are attributable to the Tocabil development and Kerarbury acquisition and development. These developments are forecast to total \$141.6m through to FY2020
- 'Other' capital expenditure relates to Moorah and Yilgah almond orchards

# Results





## Summarised statement of comprehensive income

	6 mths ended 31 December 2015 \$	6 mths ended 31 December 2014 \$
Property revenue	12,453,000	10,686,000
<b>Revenue</b>	<b>12,453,000</b>	<b>10,686,000</b>
Other income	19,000	139,000
Share of net profit – equity accounted investments	69,000	38,000
Property expenses and overheads	(2,255,000)	(2,004,000)
Management fees	(1,466,000)	(1,227,000)
Property revaluations	145,000	19,000
Finance costs	(2,644,000)	(2,632,000)
Change in fair value of derivatives	(818,000)	(960,000)
Depreciation and impairments	(339,000)	(153,000)
Gain/(loss) on sale of assets	18,000	(3,000)
<b>Profit before tax</b>	<b>5,182,000</b>	<b>3,903,000</b>
Income tax (expense)/benefit	(236,000)	1,000
<b>Profit after tax</b>	<b>4,946,000</b>	<b>3,904,000</b>
Other comprehensive income	(14,000)	-
<b>Total comprehensive income</b>	<b>4,932,000</b>	<b>3,904,000</b>

- Revenue has increased primarily as a result of increased assets due to planned capital expenditure
- Finance costs consistent despite increase in debt, due to lower interest rates and banking margins
- Property expenses and overheads increased primarily due to one-off costs associated with Kerarbury
- Result includes \$0.82m unrealised loss relating to interest rate swaps
- RFT treated as a flow through trust for tax purposes. Income tax relates to RF Active and AWF<sup>1</sup>
- Property revaluations based on holding water entitlements at cost
- Reconciliation to AFFO provided in slide 37

Note:

<sup>1</sup>RFM Australian Wine Fund (AWF) is a subsidiary of Rural Funds Trust (RFT) that has formed a tax consolidated group

## Composition of AFFO (pre-tax)

	6 mths ended 31 December 2015	6 mths ended 31 December 2014
	\$	\$
Property revenue	12,453,000	10,686,000
Direct property costs	(680,000)	(581,000)
<b>Net property income</b>	<b>11,773,000</b>	<b>10,105,000</b>
Other income	19,000	139,000
Share of net profit – equity accounted investments	69,000	38,000
Fund overheads	(1,557,000)	(1,426,000)
Management fees	(1,466,000)	(1,227,000)
<b>EBIT</b>	<b>8,838,000</b>	<b>7,629,000</b>
Finance costs	(2,644,000)	(2,632,000)
<b>Adjusted funds from operations</b>	<b>6,194,000</b>	<b>4,997,000</b>
AFFO per unit <sup>1</sup>	4.28 cents	4.26 cents

- AFFO is pre-tax and excludes fair value adjustments, depreciation and impairment to represent RFF's property rental business
- AFFO lower in first half due to the issue of new units in the period, revenue to increase as developments progress
- Property leases are largely triple net
- Reconciliation to net profit after tax provided in slide 37

Notes:

<sup>1</sup>Based on the weighted average number of units on issue during the period



# Capital management

# Capital management

## Equity

<b>Unit price</b>	28% increase for period 30 June 2015 to 31 December 2015 (\$1.10 to \$1.40)
<b>Distribution</b>	Forecast FY16 8.93 cpu, up 4% on FY15
<b>DRP</b>	Remains open with 1.5% discount announced 26 November 2015
<b>Equity raised</b>	\$35m split between Placement and Entitlement Offer at \$1.10 per unit completed in October 2015

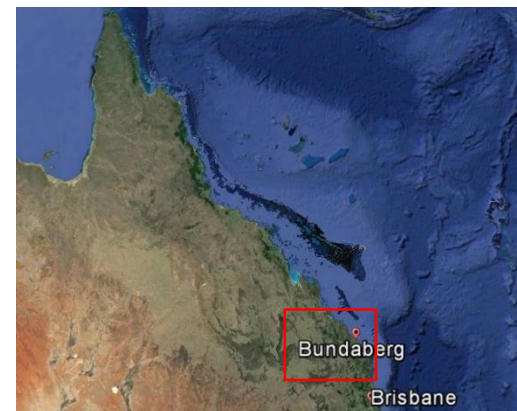
## Debt

<b>Limit</b>	Bank approval for macadamia and Perth Markets transactions. Outright limit to be increased after the reporting period
<b>Maturity</b>	Facility expires December 2018, current limit \$136m, increased from \$103m in Sept 2015
<b>Funding lines available</b>	Undrawn debt capacity of \$33m as at 31 December 2015 (see slide 18)
<b>Hedging</b>	\$60m long term interest rate hedges expiring 2025, implemented during the period

# Macadamia acquisition

- Negotiated an option to acquire three macadamia orchards, announced 29 January 2016
- Orchards located near Bundaberg in Queensland
- 259 hectares of macadamia trees
- 234 ha leased to a tax effective managed investment scheme (MIS), planted between 2007-2009 with similar structure to the RFM Almond Funds which are current lessees to RFF
- 25 ha of mature orchards to be leased to RFM
- Investment case:
  - orchards are entering maturity and have reached profitability
  - provide a logical extension of RFF's almond exposure
  - 117 lessees with full recourse (MIS 78% and RFM 22%)
  - the assets meet RFF's selection criteria
  - will utilise RFM's almond farming expertise to improve farming outcomes
  - competitive cost of production with likely productivity gains
  - provides climatic diversification
  - macadamia industry growing rapidly (see appendices)

## Macadamia orchards location



*The three orchards are located within 15km of a major macadamia processing facility and 20km from the South East Queensland City of Bundaberg*

# Macadamia acquisition

- Transaction is conditional on RFM being appointed responsible entity of the project, Growers meeting to be held on Wednesday, 24 February 2016. This is consistent with the existing RFM Almond Funds structure
- RFM will also acquire the existing farm management entity and control farming operations. RFM's farm development, horticultural expertise and management systems will be applied to these assets
- The transaction will:
  - exceed the AFFO and IRR hurdle
  - increase assets under management by approximately \$8.6m
  - be initially debt funded with banking approval received
  - provide additional long lease of up to 21 years
- The acquisition represents a measured first step into the macadamia industry

## 2007 Macgrove Project



*The 2007 Macgrove Project covers 234 ha & commenced in 2007*



*Orchards are reaching maturity & are cash flow positive*

# Perth Markets

- On 12 February 2016 RFF announced the acquisition of an 8.96% stake in Perth Markets Limited (PML) for \$5.275m
- PML is a consortium consisting of Brisbane Markets Ltd, Adelaide Markets Ltd, United Crates and RFF as well as wholesalers and retailers that access the market
- The Perth Markets were previously owned by the Western Australian Government, and have been privatised through a competitive tender process
- Investment case:
  - return exceeds AFFO and IRR hurdle
  - potential for increased profitability via indexation, market review mechanisms and other recovery agreements within the leases
  - opportunity for further development and investment
  - further opportunities for investment in other city markets is likely
  - investment connects RFF as a landlord with 2,600 growers and 600 buyers of agricultural produce, providing greater market information and insight
- Debt funded with banking approval received
- Brisbane Markets Ltd purchased the Brisbane Markets in 2002, under a similar process and since that time have significantly increased revenue and total assets

## Perth Markets



- Located in Canning Vale, approximately 20km south of the Perth CBD
- In FY15, 42% (by volume) and 55% (by value) of WA's wholesale produce was traded through Perth Markets
- Consists of a 51 hectare plot of freehold land divided amongst core operations (15.1ha), non-core operations (3.5 ha), and undeveloped land (13.6 ha)
- Total Net Lettable Area (NLA) is 85,972 m<sup>2</sup>
- 169 leases/licences to 114 tenants with evidence of strong rental demand

# Tocabil development update

August 2015

- Orchard development on schedule: 400 ha planted 2015 calendar year, and a further 200 ha planned for 2016
- RFF has acquired 5,314ML<sup>1</sup> of water entitlements to date, with a further staged acquisition of 1,886ML by 30 June 2017
- Capital expenditure of \$7.9m for the period (\$18.0m total) and \$8.4m forecast to be deployed in 2HY16



*Pump station under construction*



*Installation of drip tube irrigation prior to planting*



*First plantings*

February 2016



*Pump station operational*



*Drip tube irrigation watering trees*



*First plantings, 6 months on*

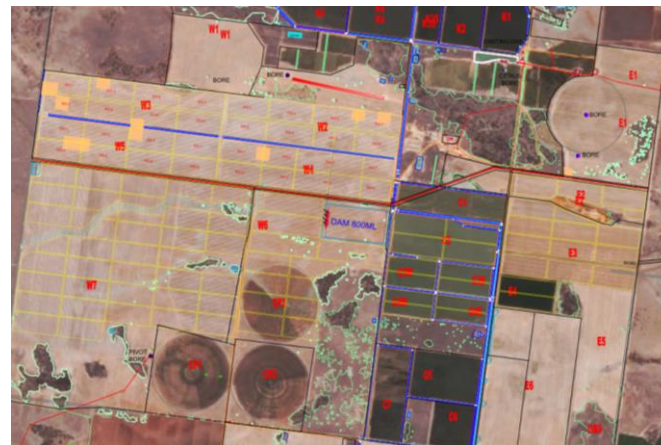
<sup>1</sup>High security equivalent



# Kerarbury development update

- Orchard development on schedule: 1,200 ha to be planted 2016 calendar year (increase of 200 ha) and a further 300 ha in 2017. Additional 2017 plantings are being investigated
- RFF has acquired 15,082 ML of water entitlements to date, with a further staged acquisition of 2,918 ML by 30 September 2020
- \$36.7m capital expenditure for the period and \$21.8m capital expenditure forecast to be deployed 2HY16
- RFM working with Olam in regards to orchard design including irrigation specifications, layout and varietal selection
- Kerarbury development draws on RFM's expertise and experience with similar successful developments, including:
  - site selection (soils, climate, access to water, drainage)
  - high capacity irrigation system for water and nutrient delivery
  - water security through ownership of entitlement
  - development execution (e.g. uniformity)
- A high quality asset provides an efficient orchard and assists the lessee to achieve above average yields and lower cost per kg of production

## Kerarbury development



Satellite image with irrigation and block layout



Soil sampling during the Kerarbury orchard design process

## Debt metrics

	31 Dec 2015	30 June 2015
Term debt facility limit <sup>1, 2</sup>	\$136.0m	\$103.0m
Term debt drawn	\$103.0m	\$89.7m
Headroom	\$33.0m	\$13.3m
Loan to Value Ratio (LVR) <sup>3</sup>	39.1%	36.7%
Debt Facility expiry	18 Dec 2018	18 Dec 2018
Interest Cover Ratio <sup>4</sup>	3.46x	3.16x
Hedging requirement	>50%	>50%
Proportion hedged <sup>5</sup>	85.4%	83.7%
Weighted average hedge expiry <sup>6</sup>	22 Nov 2018	30 Sep 2017
Effective hedge rate <sup>6</sup>	3.43%	3.44%
Effective cost of total debt <sup>4</sup>	5.02%	5.48%

### Notes:

<sup>1</sup>Key financial covenants for FY16: LVR <50%, Interest Cover Ratio >2.5x, with distribution permitted at >2.75x, Net Tangible Assets >\$100 million

<sup>2</sup>Security: Real property mortgages, general security agreement, cross guarantees between RFF and subsidiaries

<sup>3</sup>LVR calculated as term debt drawn/directly secured assets

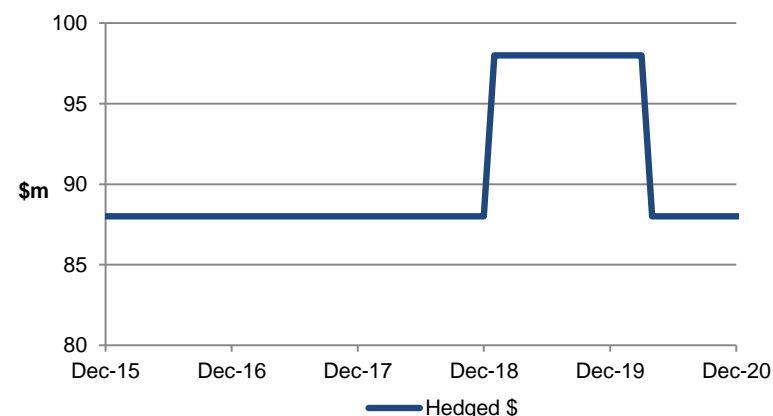
<sup>4</sup>31 December 2015 result is for 6 month period

<sup>5</sup>Proportion hedged based on term debt drawn

<sup>6</sup>Excludes hedges not yet commenced

- Key changes for FY15:
  - Negotiated lower debt cost, effective FY16
  - Increased amount and tenor of interest rate hedges to more closely align with weighted average expiry profile of leases
- Amortisation of \$2m per annum commencing 31 March 2016
- Gearing at 31 December 2015 33.8%
- Macadamia and PML acquisitions will add 2.9% to gearing

## 5 year hedged (fixed rate) position



# Outlook

# 4

- AFFO and distributions on track to previously forecast 30 June 2016 result
- FY16 declared distributions are expected to be majority tax deferred

## FY16 distributions

Record date	CPU
30 September 2015 (paid 30 October 2015)	2.23
31 December 2015 (paid 29 January 2016)	2.23
31 March 2016	2.23
30 June 2016	2.23
<b>Total FY16</b>	<b>8.93</b>

## Key forecasts FY16

AFFO per unit	9.58 cents
Distributions per unit	8.93 cents
Distribution growth rate	4%
Distribution payment frequency	Quarterly
Forecast income yield <sup>1</sup>	6.4%

Note:

<sup>1</sup>FY16 forecast DPU of 8.93 cents divided by 31 December 2015 closing price of \$1.40

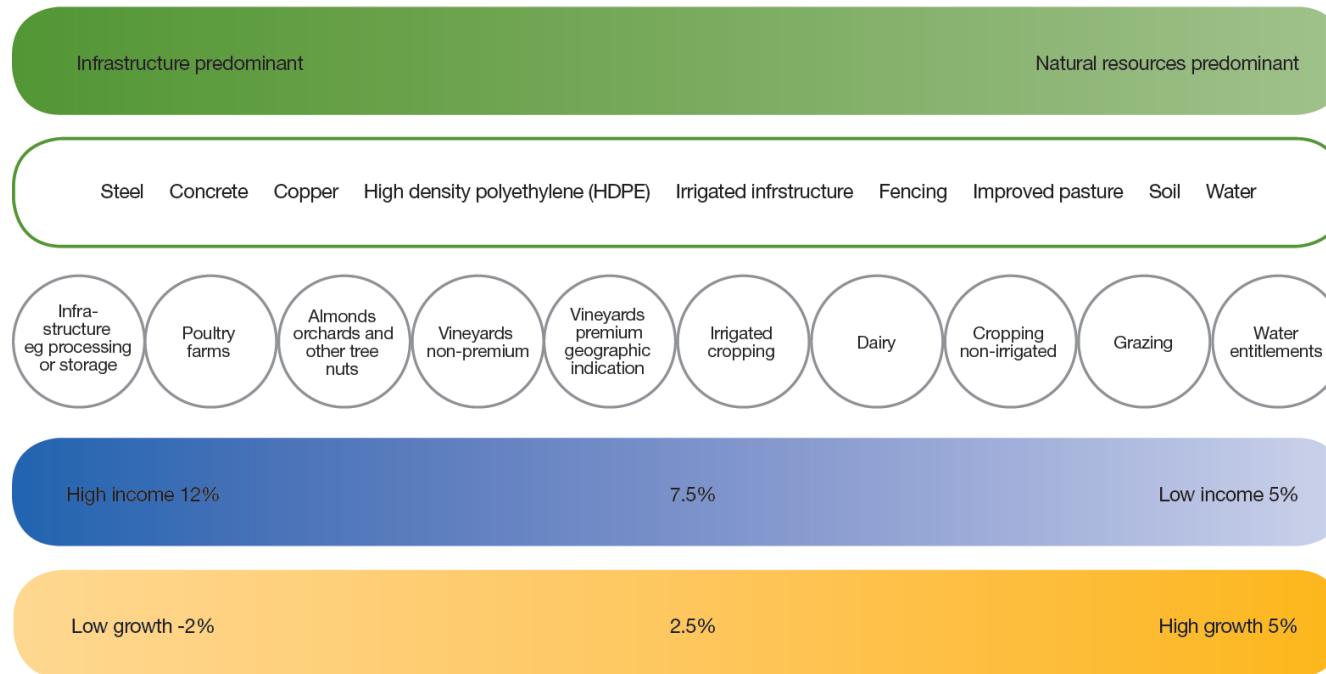
- RFM has communicated the following objective for RFF:
  - Increase market liquidity by growing net assets
  
- RFM continues to pursue this objective by:
  1. Increasing AFFO per unit and distributions
  2. Improving the market's understanding of RFF
  3. Increasing market capitalisation through accretive acquisitions funded by new equity and retained cash

# Spectrum of investment opportunities

## RFF will pursue acquisitions of additional assets to grow the quantum and diversity of its earnings

- The investment strategy is to invest across the full range of the asset continuum shown below, with the objective of ensuring the asset mix can continue to fund distributions consistent with current levels
- Natural resource predominant assets that offer capital growth will be balanced by infrastructure predominant assets that generate higher initial yields

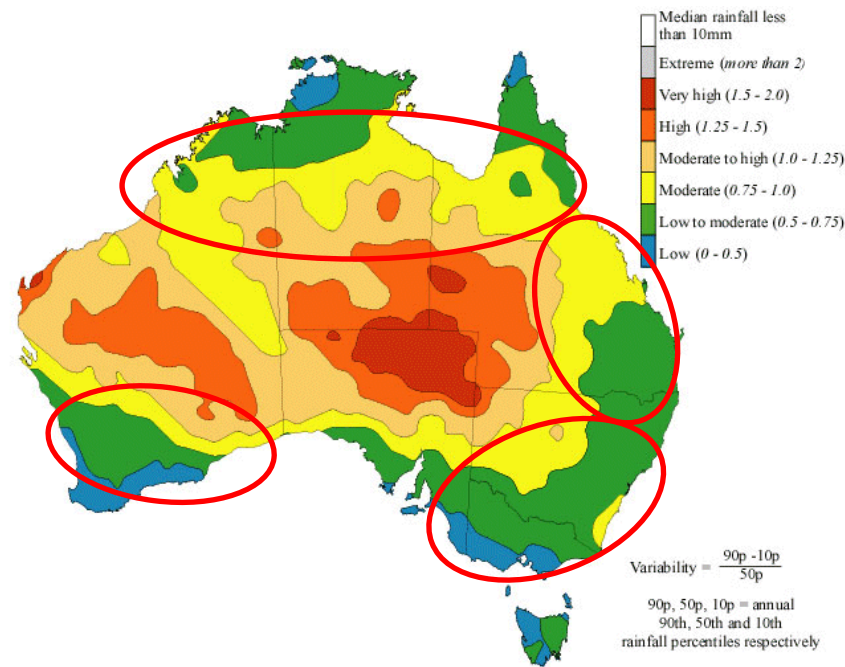
### Spectrum of investment opportunities<sup>1</sup>



Note: <sup>1</sup>The income and growth figures presented in the figure above have been provided to differentiate the profile of income and growth that can be derived from different assets. They are based on RFM's experience and observations of agricultural lease transactions and historical rates of growth. They are neither forecasts nor projections of future returns. Past performance is not a guide to future performance.

- RFM has conducted a study on rainfall variability correlation across Australia to identify the likelihood of above or below average seasons occurring in the same year across different locations<sup>1</sup>
- While the majority of RFFs existing assets fall within low to moderate rainfall variability locations<sup>2</sup> where rainfall is more consistent from one year to the next, the study is informative as RFF seeks to acquire new assets, particularly natural resource predominant assets
- RFM concluded that by selecting assets across differing climatic zones, the likelihood of experiencing wetter or drier conditions across the entire portfolio can be minimised. Broadly the three main zones identified are; South Eastern, Northern and South Western Australia
- While RFF does not operate assets, climatic diversification will moderate lessee risk during climate extremes
- RFM is therefore considering acquisition opportunities which provide climatic diversification to South Eastern Australia, where the majority of existing assets are located

## Australian rainfall variability (1900 – 2003) and climatic zones



### Notes:

<sup>1</sup>data sourced from Bureau of Meteorology, RFM calculated a mean Growing Season Rainfall for summer and winter cropping locations and correlations between those locations

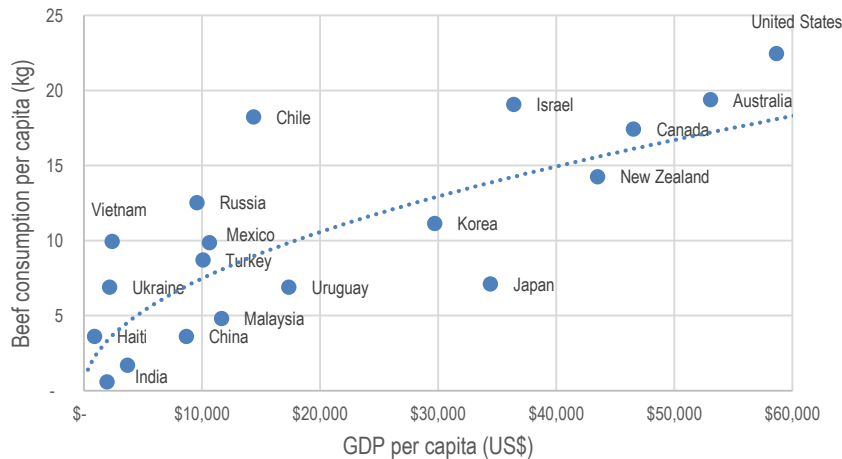
<sup>2</sup>as defined by the Bureau of Meteorology index as 0.5 – 1.0

- In seeking further opportunities to expand the portfolio RFM has identified new sectors that consider climatic diversification across three uncorrelated climatic regions (South Eastern, Northern and Western Australia):
  - Cattle properties
    - Large scale investments possible with comparative advantage
    - Opportunities to increase productivity
    - Various cattle enterprises including breeding, backgrounding and finishing
    - Opportunities within Northern Australia
  - Macadamias
    - As with almonds, fundamentals are favourable
    - Macadamias provide exposure to northern Australian water entitlements and climatic region
  - Infrastructure
    - Markets
    - Processing and storage
    - Can provide a tenant base and/or network opportunities within other climatic regions
- Macadamias and PML are a measured step into new climatic regions



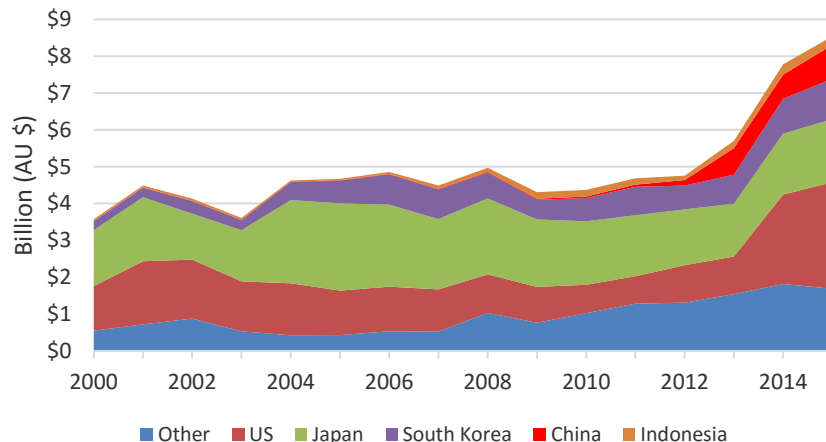
# Australian cattle industry – demand

## GDP per capita and beef consumption<sup>1</sup>



- There is a strong positive relationship between income levels and the consumption of beef<sup>2</sup>
- As China's middle class continues to grow, demand for beef is expected to increase from 7.2 million tonnes in 2015 to 8.4 million tonnes in 2024, an increase of 17%<sup>3</sup>
- Based on OECD research, it is estimated the world will consume an additional 300 million head of cattle per year by 2024

## Australian beef export values (2000 – 2015)<sup>4</sup>



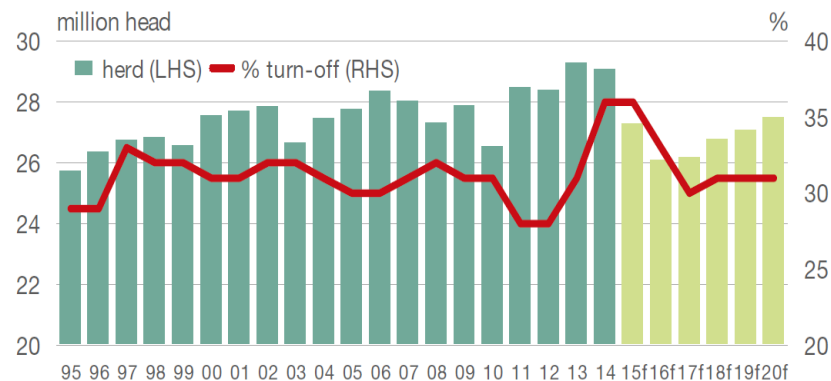
- Australian beef exports have increased by 76% from 2000 to 2015
- Exports for 2015 were valued at \$9.3 billion, 84% above the ten-year average
- Export values to China increased 54% year-on-year, and exceeded \$1 billion for the first time ever

Sources:

<sup>1</sup>OECD & IMF <sup>2</sup>World Health Organisation <sup>3</sup>OECD <sup>4</sup>Meat & Livestock Australia (MLA)

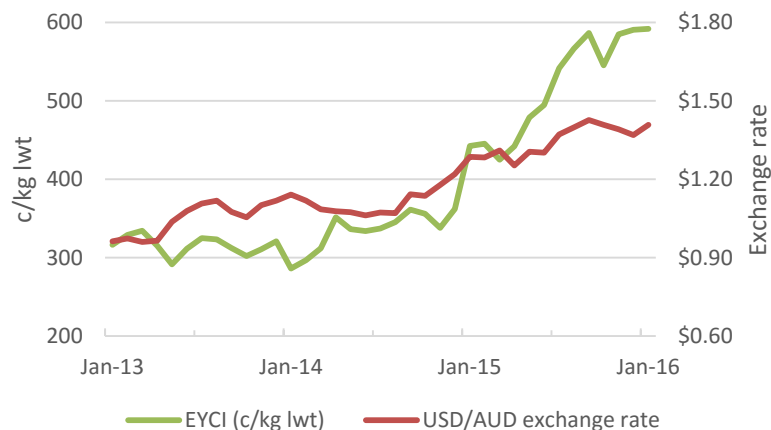
# Australian cattle industry – supply

## Total herd – historical and forecast<sup>1</sup>



- Destocking due to drought resulted in high slaughter numbers
- The Australian cattle herd is forecast to decline to 26.2 million head by 30 June 2016, the lowest level since 1994
- The slaughter of female cattle is expected to reduce the breeder population by 11% from its peak of 13.2 million head in 2014

## Cattle prices and exchange rate (inverted)<sup>2</sup>



- Low herd numbers are expected to drive strong competition between re-stockers, feedlots and processors
- Declining AUD has contributed to increased beef prices
- Existing and new export markets are growing
- These three factors have contributed to the increase in the AUD cattle price

Sources:

<sup>1</sup> Meat & Livestock Australia (MLA)

<sup>2</sup> Eastern Young Cattle Indicator (EYCI)

- An investment in the cattle sector may be attractive for the following reasons:
  - Large industry with comparative advantage
  - Potential for high capital and income growth
    - Land value and rental growth is yet to reflect historical high cattle prices
    - Potential to increase productivity through capital investment
  - Positive long term sector outlook
  - Climatic diversification consistent with RFM strategy
  - Increased exposure to natural resource predominant assets
  - RFM management and directors have significant cattle industry experience

# Fund details



## RFF is the only diversified agricultural REIT listed on the ASX

- Rural Funds Management Ltd (RFM) is the responsible entity for RFF
- RFM is a farm and fund manager with almost 20 years experience
- RFM has over a decade of farming experience in each of the sectors that RFF leases assets. This brings added benefits to RFF including deeper knowledge, perspective and networks
- Quality portfolio of 32 properties deriving revenue from 3 primary agricultural sectors; almond orchards, poultry farms and vineyards
- Quality tenants with long weighted average lease expiry
- Offers an attractive stable income yield and the potential for capital growth over time with low operating risk exposure to the agricultural sector
- Potential to acquire or develop value accretive investment opportunities

### Asset locations



## Key statistics 31 December 2015

Total assets	\$302.4m
Net Asset Value (NAV)	\$184.0m
Units on issue	164.4m
NAV per unit	\$1.12
Adjusted net assets <sup>1</sup>	\$193.7m
Adjusted NAV per unit <sup>1</sup>	\$1.18
AFFO per unit	4.3 cents
Gearing <sup>2</sup>	33.8%
Number of properties	32 properties
Weighted Average Lease Expiry (WALE) <sup>3</sup>	13.4 years
Occupancy	100%

### Notes:

<sup>1</sup>Adjusted net assets incorporates independent property valuations, inclusive of water entitlements

<sup>2</sup>Gearing calculated as external borrowings/adjusted total assets

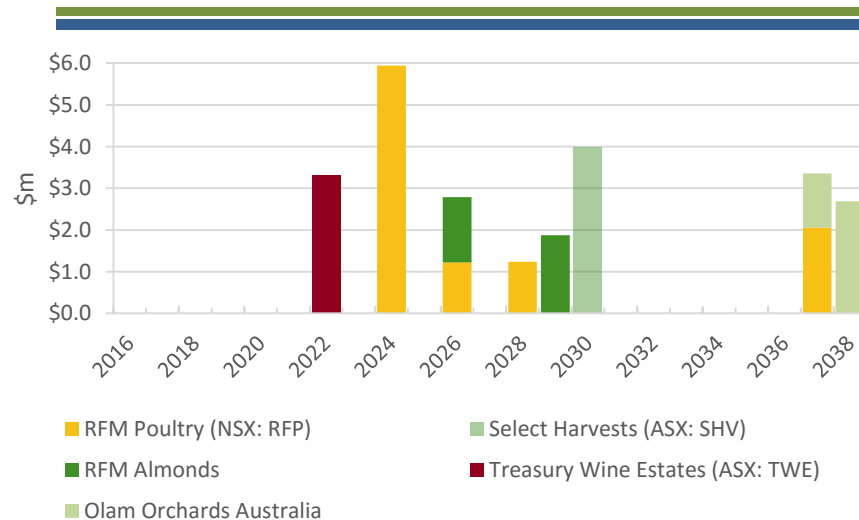
<sup>3</sup>Lease expiries weighted by forecast FY16 rental income

<sup>4</sup>FY16 forecast DPU of 8.93 cents divided by 31 December 2015 closing price of \$1.40

## Key forecasts FY16

Distributions per unit FY16	8.93 cents
Distribution growth rate	4%
Distribution payment frequency	Quarterly
Adjusted Funds from Operations (cpu)	9.58 cents

## Lease expiry profile 31 December 2015<sup>3</sup>

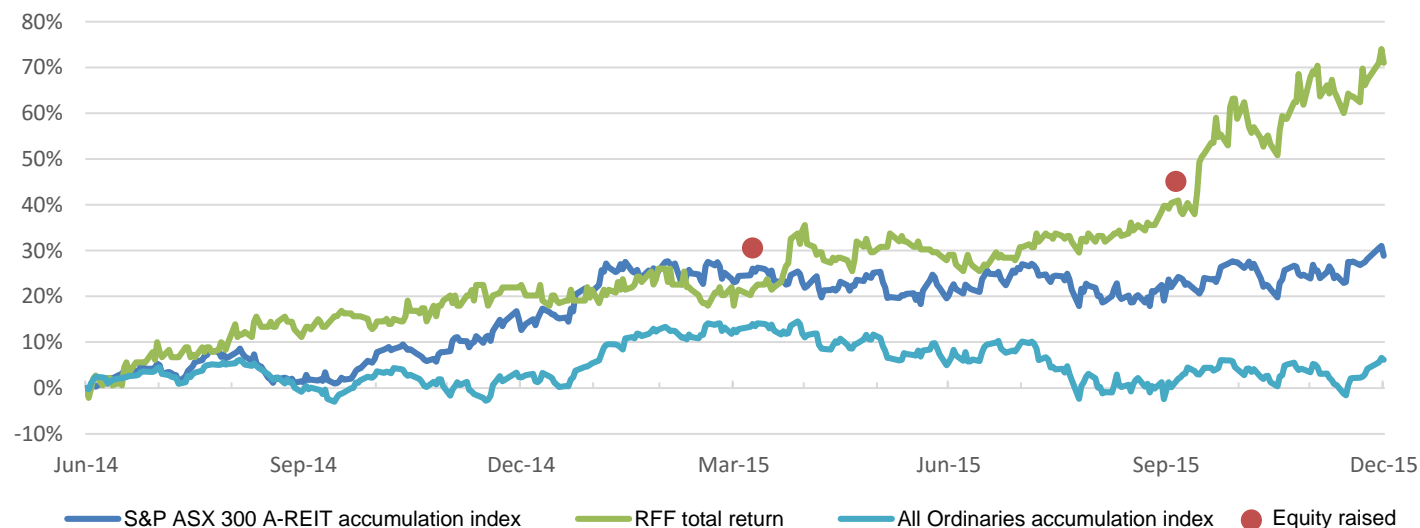


# Performance and distributions

	FY14	FY15	FY16 forecast
AFFO (cpu)	6.00	9.09	9.58
Distributions (cpu)	8.52 <sup>1</sup>	8.59	8.93
Adjusted NAV per unit	\$1.17	\$1.22	n/a
Trading price	\$0.92	\$1.10	
Annual total return – RFF <sup>2</sup>		29%	32%
Annual total return – ASX300 A-REIT <sup>3</sup>		20%	7%

- **February 2014:** Compliance listed on ASX
- **March 2015:** Announced \$15.0m equity raising at \$1.05 per unit as part of funding package to develop Tocabil, a 600 ha almond orchard leased to Olam for 22 yrs
- **October 2015:** Raised \$35.0m at \$1.10 per unit as part of funding package for the purchase and development of Kerarbury, a 1,500 ha almond orchard leased to Olam for 22 yrs and 9 months

## Total shareholder return 1 July 2014 – 31 December 2015<sup>3</sup>



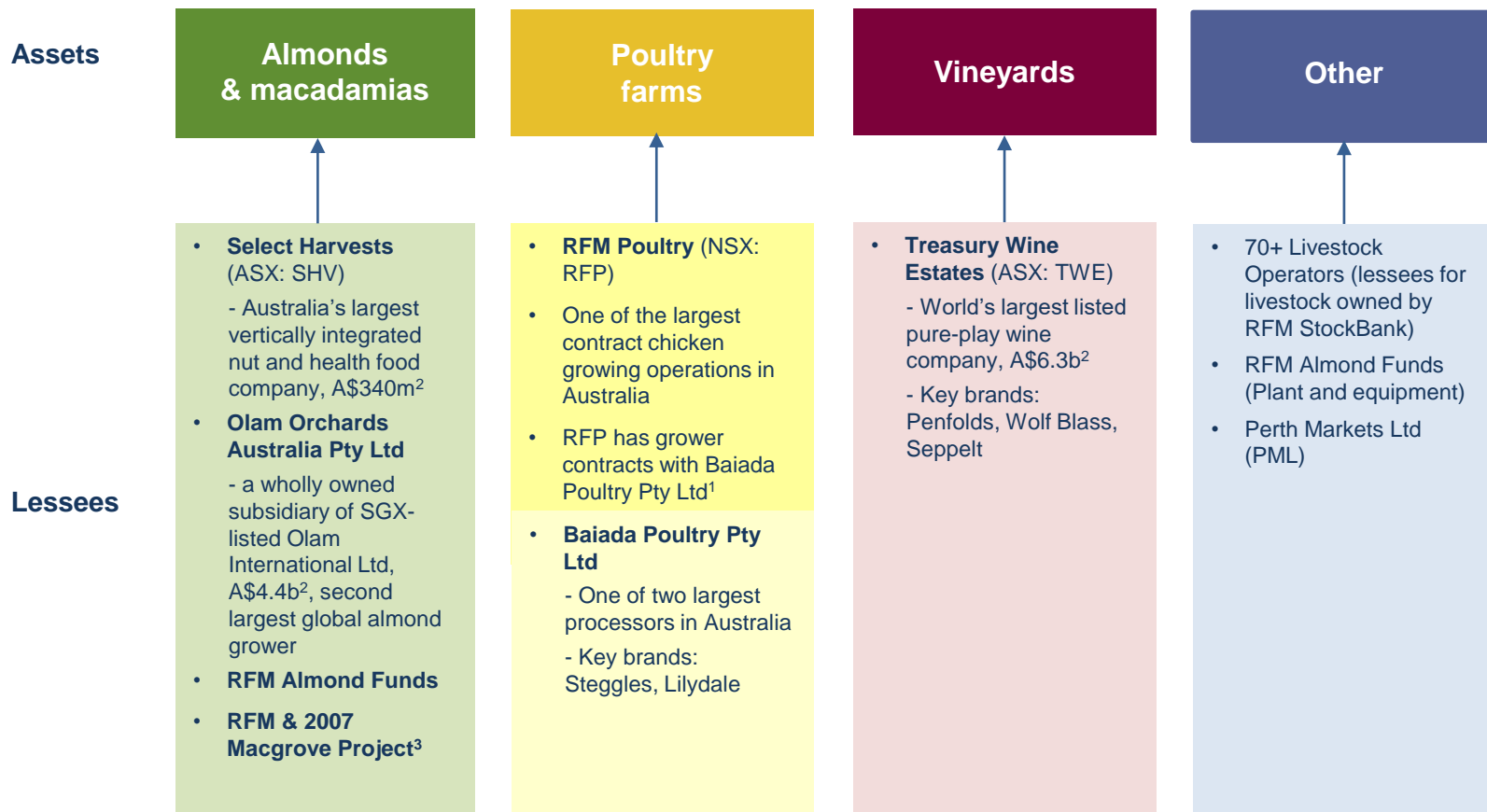
Notes:

<sup>1</sup> DPU in FY14 annualised

<sup>2</sup> Total return assumes all distributions are reinvested at the DRP price. FY16 forecast refers to total return between 30 June 2015 and 31 December 2015

<sup>3</sup> Total return of indices as provided by S&P

# Assets and lessees overview



Notes:

<sup>1</sup>RFP grower contracts with Bartter Enterprises, a wholly owned subsidiary of Baiada Poultry Pty Ltd

<sup>2</sup>Market capitalisation as at 15 February 2016

<sup>3</sup> Subject to Grower Meeting and ASIC confirmation



# Key assets further details

## Almond orchards



Two established almond orchards located near Hillston, NSW, of which 1,221 ha leased to SHV, 551 ha leased to RFM Almond Funds and 42 ha to RFM. Orchards are now mature and cash flow positive with minimal future capital expenditure required. Produced more than 4t/ha in 2015 harvest year.

Two additional orchards, Tocabil and Kerarbury, covering 2,100 ha in total to be developed and leased by Olam Orchards Australia Pty Ltd. Plantings scheduled for 2015 to 2017.

WALE<sup>1</sup>: 16.2 yrs

Indexation and market review: RFM & SHV: 2.5% p.a. & SHV market review on 1 July 2016, 3 yearly thereafter. Olam: CPI

Directors' valuation<sup>2</sup>  
31/12/15: \$161.8m

## Poultry farms



154 sheds on 17 farms. Consisting of 134 sheds on 13 farms in Griffith, NSW, and 20 sheds on 4 farms in Lethbridge, VIC. Aged between 6 and 32 years.

Griffith assets are located within a 8km radius of the processing facility and contribute ~50% throughput. Limited additional development potential within similar proximity to processing facility.

RFM has successfully managed chicken growing operations since 2003, now operated by RFP.

WALE<sup>1</sup>: 11.3 yrs

Indexation: 65% of CPI capped at 2%

Directors' valuation<sup>2</sup>  
31/12/15: \$93.0m

## Vineyards



Seven vineyards with 666 ha planted to vines leased to TWE. Principally located in the Barossa Valley (499 ha planted primarily to Shiraz) as well as Adelaide Hills, Coonawarra and Grampians.

Vineyards have historically contributed essential quantities of Icon, A and B grade fruit for key premium labels.

WALE<sup>1</sup>: 6.5 yrs

Indexation and market review: 2.5% p.a. and market review on 1 July 2017

Directors' valuation<sup>2</sup>  
31/12/15: \$40.0m

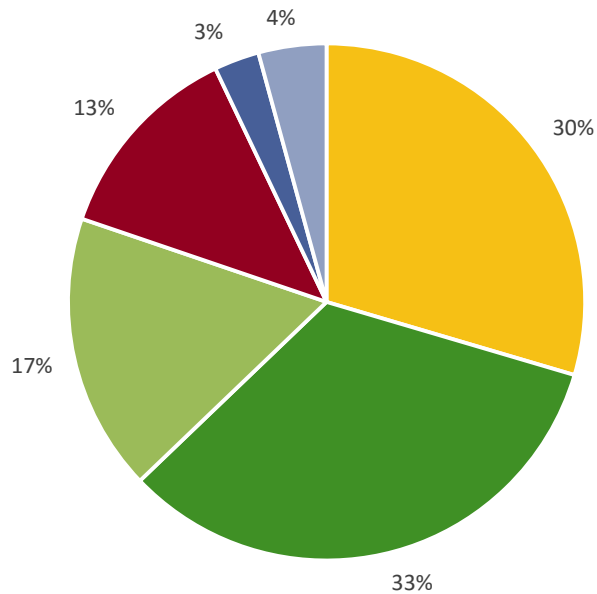
### Notes:

<sup>1</sup> Lease expiries weighted by forecast FY16 rental income

<sup>2</sup> Directors' valuations include water stated at fair value

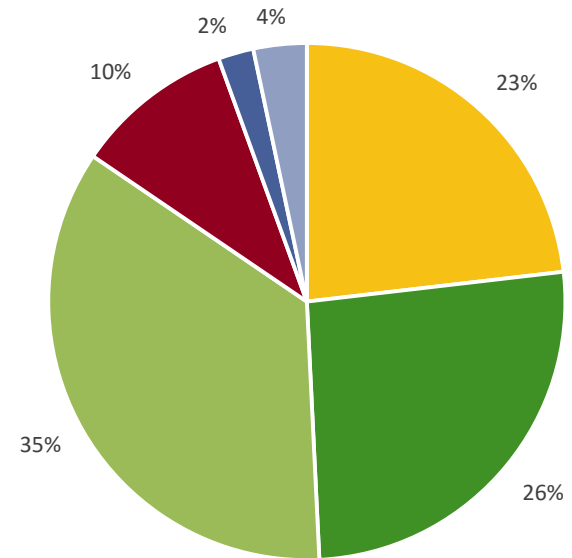
# Diversified assets

Portfolio diversification by adjusted asset values<sup>1</sup>



- Poultry farms
- Almond orchards
- Almond orchards under development
- Vineyards
- Cropping, grazing properties and leased livestock
- Cash, receivables, other

Pro forma portfolio diversification incorporating Tocabil & Kerarbury developments<sup>2</sup>



- Poultry farms
- Almond orchards
- Almond orchards under development
- Vineyards
- Cropping, grazing properties and leased livestock
- Cash, receivables, other

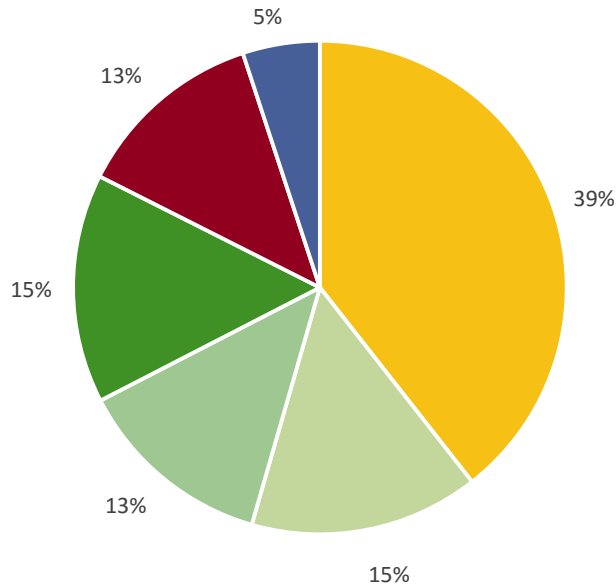
**Notes:**

<sup>1</sup>Based on directors' valuations as at 31 December 2015

<sup>2</sup>Based on directors' valuations as at 31 December 2015, assuming Tocabil and Kerarbury almond developments complete at this time

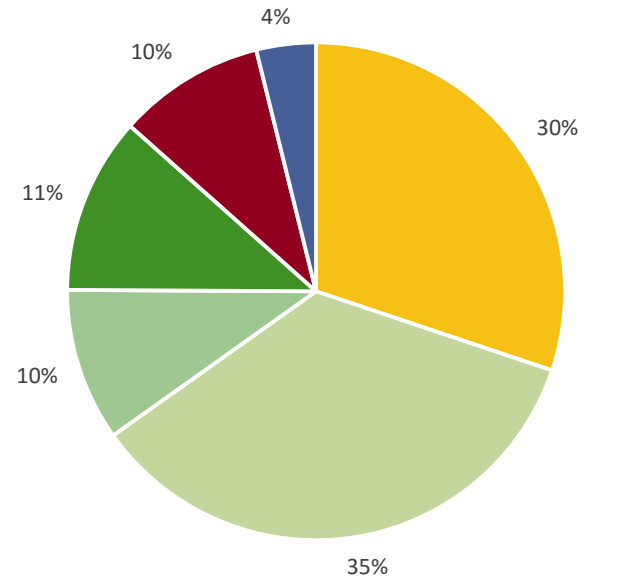
# Diversified lessees

FY16 forecast revenue by lessee<sup>1</sup>



- RFM Poultry (NSX: RFP)
- RFM Almonds
- Treasury Wine Estates (ASX: TWE)
- Olam Orchards Australia
- Select Harvests (ASX: SHV)
- Other

Pro forma forecast revenue incorporating Tocabil & Kerarbury developments<sup>2</sup>



- RFM Poultry (NSX: RFP)
- RFM Almonds
- Treasury Wine Estates (ASX: TWE)
- Olam Orchards Australia
- Select Harvests (ASX: SHV)
- Other

Notes:

<sup>1</sup> Assumes forecast FY16 revenue

<sup>2</sup> Assumes forecast FY16 revenue from existing tenants. Assumes Tocabil and Kerarbury developments were completed 1 July 2015

# Appendices

6

## Reconciliation of net profit after tax to AFFO

	6 mths ended 31 December 2015	6 mths ended 31 December 2014
	\$	\$
Net profit before tax	5,182,000	3,903,000
Adjusted for:		
Property revaluations	(145,000)	(19,000)
Change in fair value of derivatives	818,000	960,000
Depreciation and impairment	339,000	153,000
<b>AFFO</b>	<b>6,194,000</b>	<b>4,997,000</b>
AFFO per unit <sup>1</sup>	4.28 cents	4.26 cents

- Table adds back non cash items to reconcile net profit after tax to AFFO
- Major items for HY2016
  - \$0.82m unrealised loss on interest rate hedges

Notes:

<sup>1</sup>Based on the weighted average number of units on issue during the period

## Summarised balance sheet

	As at 31 December 2015	As at 30 June 2015
	\$	\$
Cash	2,925,000	712,000
Property investments	276,906,000	239,445,000
Plant and equipment	3,408,000	3,153,000
Deferred tax assets	2,060,000	2,317,000
Other assets	17,181,000	7,036,000
<b>Total assets</b>	<b>302,480,000</b>	<b>252,663,000</b>
Interest bearing liabilities		
- Current	2,334,000	657,000
- Non-current	103,000,000	91,451,000
Current tax liabilities	-	29,000
Other liabilities	13,068,000	8,586,000
<b>Total liabilities</b>	<b>118,402,000</b>	<b>100,723,000</b>
<b>Net assets</b>	<b>184,078,000</b>	<b>151,940,000</b>
Units on issue	164,398,350	132,142,235

- Net assets \$184.1m
- NAV per unit \$1.12
- Adjusted NAV per unit \$1.18 (refer to slide 39 for reconciliation)
- Equity raising totalling \$35.0m undertaken in October 2015
- Units on issue increased by 32,256,115
- Change in total assets primarily due to:
  - Kerarbury acquisition and development \$36.7m
  - Tocabil development \$7.9m
  - Capital expenditure Moorah & Yilgah \$1.7m
- Total interest bearing liabilities \$105.3m
- Gearing ratio 33.8%

## Adjusted balance sheet

	Statutory balance sheet at 31 December 2015	Revaluation of water entitlements	Adjusted balance sheet at 31 December 2015
	\$	\$	\$
<b>Assets</b>			
Total current assets	7,987,000	-	7,987,000
Total non-current assets	294,493,000	9,575,000	304,068,000
<b>Total assets</b>	<b>302,480,000</b>	<b>9,575,000</b>	<b>312,055,000</b>
<b>Liabilities</b>			
Total current liabilities	10,970,000	-	10,970,000
Total non-current liabilities	107,432,000	-	107,432,000
<b>Total liabilities</b>	<b>118,402,000</b>	<b>-</b>	<b>118,402,000</b>
<b>Net assets</b>	<b>184,078,000</b>	<b>9,575,000</b>	<b>193,653,000</b>
Net asset value per unit	1.12	0.06	1.18

- RFF owns significant water entitlements, sufficient for the ongoing operation of each key asset
- Water entitlements are regularly traded in secondary markets and are independently valued by qualified valuers
- In accordance with accounting standards and ASIC guidance, water entitlements are classified as intangible assets and recorded at cost in statutory accounts resulting in a NAV of \$1.12
- No change to water value adjustment for 31 December 2015 from external valuations at 30 June 2015
- Additional value in water entitlements of \$9.58m resulting in adjusted net assets of \$193.7m and an adjusted NAV per unit of \$1.18
- As at 31 December 2015 RFF owned 58,209 ML of water entitlements representing 19.1% of total assets
- The adjusted NAV of \$1.18 is presented to show the valuations including water stated at fair value

## Property investment reconciliation

	Investment property	Biological assets	Intangible assets <sup>1</sup>	Financial assets <sup>2</sup>	Total
	\$	\$	\$	\$	\$
<b>Balance as at 30 June 2015</b>	<b>142,380,000</b>	<b>67,580,000</b>	<b>28,965,000</b>	<b>520,000</b>	<b>239,445,000</b>
Acquisition – Kerarbury	9,336,000	-	10,360,000	7,718,000	27,414,000
Additions – Kerarbury	72,000	1,080,000	8,130,000	-	9,282,000
Additions – Tocabil Station	1,315,000	4,435,000	2,104,000	-	7,854,000
Additions net of disposals	1,004,000	-	-	-	1,004,000
Fair value adjustment <sup>3</sup>	(1,009,000)	1,154,000	-	-	145,000
<b>Balance as at 31 December 2015</b>	<b>153,098,000</b>	<b>74,249,000</b>	<b>49,559,000</b>	<b>8,238,000</b>	<b>285,144,000</b>

Notes:

<sup>1</sup>Accounting standards require water entitlements to be recorded as intangible assets, and held at the lower of cost or fair value

<sup>2</sup>Relates to water entitlements held as part of the investment in Barossa Infrastructure Limited and Coleambally Irrigation Co-operative Limited, which are accounted for as financial assets

<sup>3</sup>Fair value adjustments as part of 31 December 2015 internal valuations. Investment property is assumed to decrease due to expected useful life of poultry property and infrastructure assets. Growth of biological assets are based on increases in the value of almond orchards and vines



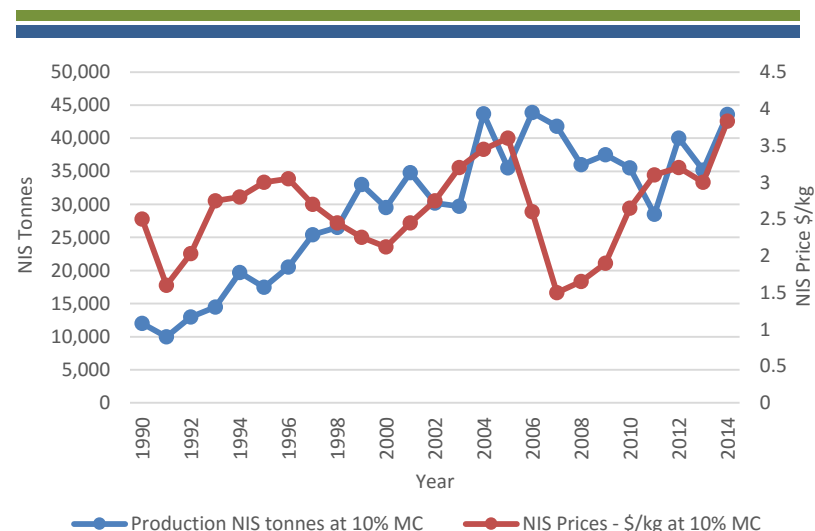
# Macadamia industry

- Australia is the world's largest supplier of macadamia kernel (31%) and the second largest producer (27%)
- The value of the Australian industry has doubled since 2010, reaching \$200m in 2015 and producing over 40,000 tonnes nut in shell per annum
- There are 17,000 ha of macadamias planted in Australia, increasing 1,500 ha in the last three years
- Macadamia prices at record highs, reaching \$4/kg in 2014 and \$5/kg in 2016
- Global production has increased from 125,000 tonnes in 2012 to >140,000 tonnes in 2015
- Export markets are growing, particularly in Asia (100% increase in exports to China 2014-2015)
- Free Trade Agreements recently signed with Japan, Korea and China include tariff reductions

**Figure 1 - Global macadamia production<sup>1</sup>**

	% world in shell production	% world kernel production
Australia	27%	31%
South Africa	29%	23%
Kenya	13%	12%
USA	10%	13%
Guatemala	5%	6%
China	5%	1%
Malawi	4%	6%
Brazil	3%	4%
Columbia	1%	1%
Others	3%	3%

**Figure 2 - Australian Macadamia production and price<sup>1</sup>**



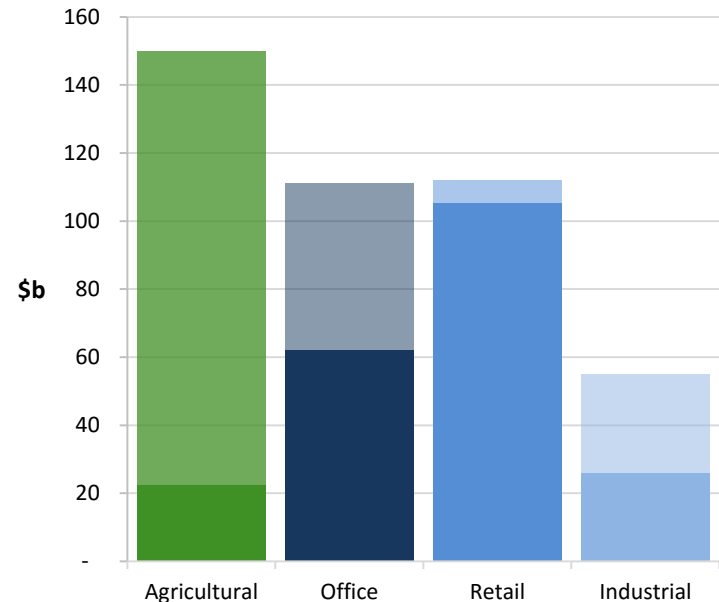
<sup>1</sup>Source: Australian Macadamia Society

# Agricultural property leasing

## RFF uses a leasing model in an underserved domestic sector

- Observations:
  - Academic research demonstrates that leasing assets provides capital management benefits and flexibility to lessees and is linked to higher company returns
  - The combined value of Australian commercial real estate is \$280 billion of which an average of 70% is leased<sup>2</sup>
  - Australian agricultural property represents a figure in the order of \$150 billion of investment grade assets (of which an estimated 5% are leased)<sup>3</sup>
  - Agricultural property leasing is common in mature agricultural markets such as the US and parts of Europe (approx. 40% of property)
- Conclusions:
  - Leasing agricultural property and assets to suitable companies provides a mutual benefit
  - The agricultural property leasing sector in Australia is underserved
  - It is RFF's contention that this structure is a preferable way for investors to gain exposure to the agricultural thematic (combination of asset ownership and low volatility yield)

Australian property sectors<sup>1</sup>



Notes:

<sup>1</sup> The heavily shaded portion denotes proportion of institutional ownership

<sup>2</sup> Source: Higgins, Dr D.M. (2013) 'Australian Commercial Property Investment Market: Styles, Performance and Funding', RMIT University.

<sup>3</sup> RFF estimates

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## **RFM is one of the oldest and most experienced agricultural funds management organisations in Australia**

- Rural Funds Management Limited (RFM) is an experienced fund and asset manager that specialises in Australian agriculture
- Established in 1997, RFM operates as an external manager and is currently the responsible entity for seven agricultural investment funds which as at 31 December 2015 had approximately \$380m of assets under management in New South Wales, South Australia and Victoria and a combined FY15 turnover of approximately \$85m
- David Bryant is the founding director and majority owner (80%) of RFM. Other owners include senior staff and non-executive directors
- Both RFM and David Bryant have investments in each of the listed entities RFM manages
- RFM manages additional operational entities enabling RFF to benefit from shared services
- The RFM management team includes specialist fund managers, finance professionals, horticulturists, livestock managers, and agronomists. This team provides RFM with the specialised skills and experience required to manage the agricultural assets
- RFM employs or directly contracts 32 corporate staff (offices in Canberra and Sydney) and 32 farm staff
- RFM has a simple and transparent fee structure for managing and administering RFF:
  - Fund and Asset Management Fees totalling 1.05% p.a. of gross asset value;
  - Reimbursement of all reasonable expenses; and
  - Constitution provides for a termination fee of 1.5% of gross asset value in the event RFM is removed as responsible entity

## RFM has a unique skill set in both farm and funds management

- RFM performs an oversight role as a fund and asset manager including:
  - Overseeing compliance to the financial, farming and reporting aspect of each lease
  - Water management including obtaining approvals, engagement with government
  - Management of infrastructure e.g. replacement capex and ongoing development such as bores
  - Coordination of annual independent valuations
  - Facilitating acquisitions
  - Managing lessee/customer relationships
  
- RFM is a manager of a number of farming entities in the almond, poultry, viticulture, livestock and cropping sectors. RFM's farming experience and expertise benefits RFF through;
  1. Knowledge – being participants in sectors enhances understanding e.g. cycles, pricings, operations, etc.
  2. Perspective – gained from two decades of experience and enhances judgement of value, people and timing; and
  3. Networks – which provide benefits of shared knowledge, sourcing opportunities, etc.
  
- These benefits also enable RFM to better identify tier one acquisitions (good assets) and high performing lessees (good people)
  
- RFM's motto: Managing good assets with good people

# RFM board and management team

## RFF is externally managed and governed by a highly experienced management team and board

### Board of directors



**Guy Paynter**  
Non-executive  
Chairman

- Former director of broking firm JBWere with more than 30 years' experience in corporate finance
- Guy was former member of the ASX
- Agricultural interests include cattle breeding in the Upper Hunter region in New South Wales



**David Bryant**  
Managing  
Director

- Established RFM in February 1997
- Responsible for leading the RFM Executive and sourcing and analysing new investment opportunities
- Responsible for over \$350m in assets acquisitions across eight Australian agricultural regions, including negotiating the acquisition of more than 30 properties and over 65,000 megalitres of water entitlements



**Michael Carroll**  
Non-Executive  
Director

- Serves a range of food and agricultural businesses in a board and advisory capacity, including Tassal Group Ltd, Select Harvests Ltd, Paraway Pastoral Company, Sunny Queen Ltd and the Gardiner Dairy Foundation
- Senior executive experience in a range of companies, including establishing and leading NAB's Agribusiness division

### Contact



**Stuart Waight**  
Chief Operating Officer

- Joined RFM in 2003
- RFM Company Secretary
- Responsible for reviewing and optimising the performance of the RFM funds, and analysing future developments, acquisitions, and investments
- Oversees the asset and farm management activities of the National Managers of Poultry, Almonds, Cropping and Livestock



**Andrea Lemmon**  
Executive Manager, Funds  
Management

- Joined at inception in 1997
- RFM Company Secretary
- Responsible for the development of new products, the continuous improvement of existing products, management of research activities, and the provision of services and communications to investors and advisers



**Tim Sheridan**  
Senior Analyst

- Joined RFM in 2008
- Responsible for the analysis of RFF financial performance, and the analysis of future development and investment opportunities



**James Powell**  
Investor Relations and  
Distribution Manager

- Joined RFM in 2006
- Responsible for overseeing RFM's sales and distribution activities, development of key relationships required to increase the awareness of RFM's investment opportunities and part of the product development division

# Corporate information



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