

Rural Funds Group

ASX:
RFF

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Rural Funds Group | Unitholder Meetings

10 August 2018

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Section 1: Results of proxy voting

Section 2: JBS Transactions & Guarantee

Section 3: Independent Expert's Report

Appendices:

A. Additional details of the JBS Transaction and Guarantee

RFM presenter



David Bryant
Managing Director

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1 Results of proxy voting

Mungindi Feedlot feed mill, Mungindi, Queensland, January 2013

Proxy voting prior to meeting

Summary of proxy votes by value¹ received before the meeting.

	FOR \$	AGAINST \$	UNDIRECTED \$	TOTAL \$	ABSTAIN \$
Approval of the Guarantee	180,464,677 98.40%	366,708 0.20%	2,562,243 1.40%	183,393,628	429,379

Note:

1. Using RFF market close price of \$1.975 on Thursday, 9 August 2018.

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2 JBS Transactions & Guarantee

'Long-fed' Angus cattle in a JBS feedlot, November 2013

Unitholder approval of Guarantee

The Guarantee is considered a transaction with a related party under the ASX Listing Rules and requires RFF Unitholder approval.

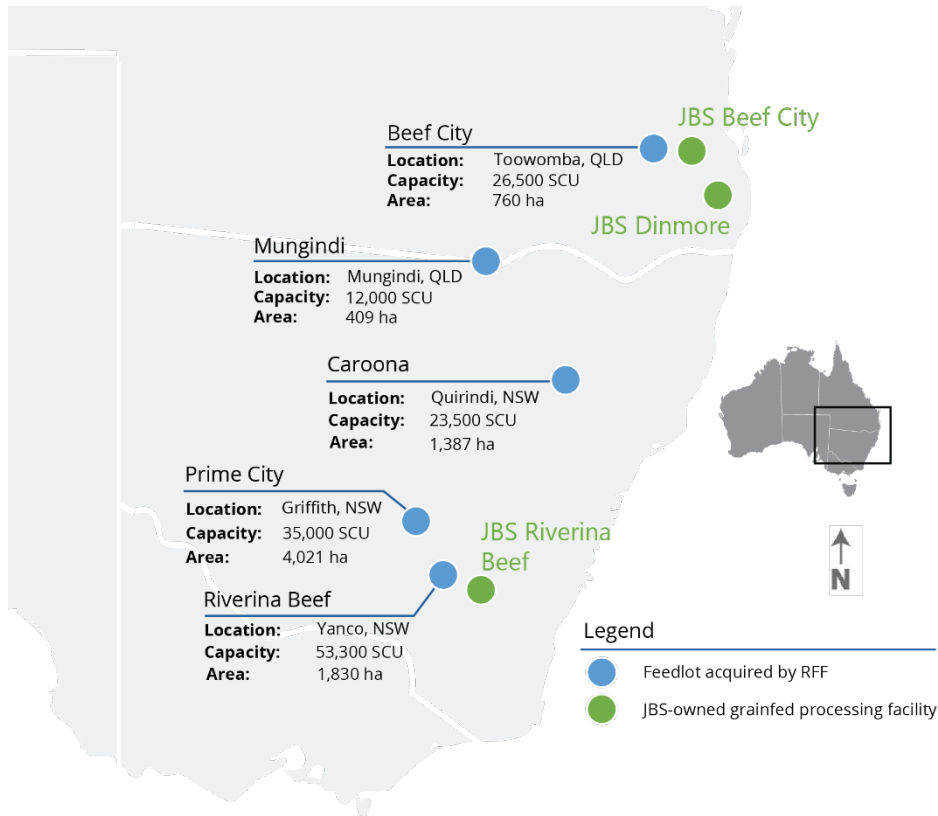
Resolution

"That for the purposes of ASX Listing Rule 10.1 and for all other purposes, the Unitholders of Rural Funds Trust ARSN 112 951 578 and RF Active ARSN 168 740 805 (Rural Funds Group) approve and authorise Rural Funds Management Limited (RFM) as responsible entity of Rural Funds Group, to enter into agreements with J&F Australia Pty Ltd, a wholly owned subsidiary of RFM, a \$75 million Guarantee to support the acquisition of cattle to stock the feedlots which will be operated by JBS as described in the Explanatory Memorandum accompanying the notice of meetings."

- ASX Listing Rules require that Unitholders approve the Guarantee before it can be entered into.
- Unitholder approval is required under ASX Listing Rule 10.1 because the Guarantee:
 - is an agreement with a related party, due to RFM acting as both responsible entity for RFF and controlling J&F;
 - has a value of \$75 million, representing 20.7% of the equity interests of RFF. The Guarantee is therefore a "substantial asset" of RFF, given it exceeds 5% of equity interest in RFF.
- As the Resolution is an ordinary resolution, it will be passed if more than 50% of the votes cast by Unitholders entitled to vote on the Resolution, are in favour.
- RFF Unitholder approval is not required for the purchase of the Feedlots, however the purchase of the Feedlots will not proceed unless RFF Unitholders approve the Guarantee.

JBS is Australia’s largest lot feeder and cattle processor. The Feedlots are integral to the supply of cattle to JBS processing facilities.

JBS Feedlots and processing facilities¹



RFF will enter into a finance lease for JBS five Feedlots²:

1. Purchase price of \$52.7m.
2. Lease term of 10 years.
3. CPI indexation.
4. Triple net structure.
5. Call option for JBS to buy the Feedlots back, and a put option for RFF to sell the Feedlots to JBS, at year 10.³ The exercise price is the purchase price indexed at CPI.
6. JBS will continue to operate and manage the Feedlots as usual, whilst freeing up capital to pursue future opportunities.
7. The leases are guaranteed by JBS parent company, Baybrick Pty Ltd⁴, which has net assets of \$2.3b.
8. The Guarantee provided by RFF will support the acquisition of cattle for the Feedlots. See page 9.

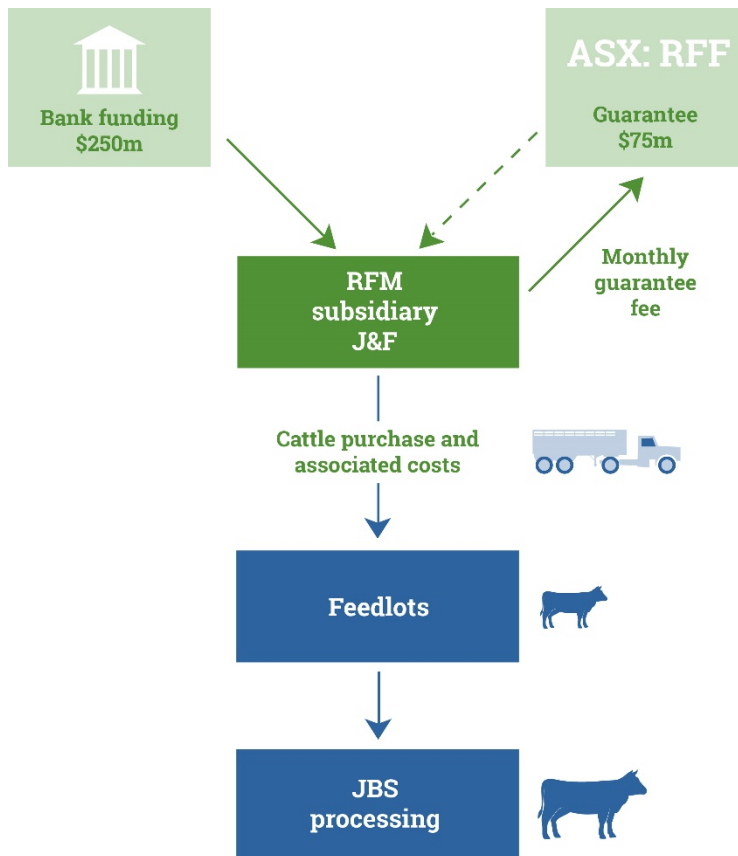
Notes:

1. A Standard Cattle Unit (SCU) is defined as an animal of 600 kg liveweight, at the time of exit from the feedlot.
2. See further details, page 15 for further details of the Feedlots lease, including commencement terms.
3. The call option held by JBS can be exercised from year six but will incur a break fee if exercised before year ten. In the event the Feedlots are called by JBS prior to year 10, RFF has the right to cease the Guarantee. See page 16 for further details.
4. See ASX release “Non-Renounceable Issue” dated 12 July 2018 for further details of JBS, Baybrick and JBS S.A.

Guarantee to J&F Australia Pty Ltd (“J&F”)

JBS is seeking to replace an existing supply arrangement of cattle for its Feedlots and processing facilities.

Overview of Guarantee to J&F



RFF will provide a limited Guarantee¹ to an existing entity called J&F which acquires cattle for JBS’ Feedlots:

1. RFM will acquire J&F² and appoint JBS as exclusive agent and manager.
2. J&F acquires cattle for delivery to the Feedlots leased by JBS. J&F also funds associated costs such as inbound freight and feed.
3. J&F will be financed by \$250.0m of bank debt, backed by RFF limited Guarantee of \$75.0m and the cattle acquired.
4. RFF will be paid a monthly fee for the Guarantee.
5. The Guarantee has no direct operating risk. Counterpart performance is guaranteed by the JBS parent company Baybrick Pty Ltd and secured through the Feedlots.
6. The Guarantee does not require RFF to transfer cash and will be recognised as a contingent liability. Equity Raising proceeds for the Guarantee will be used to reduce RFF debt and therefore interest expense.

J&F will be acquired and operated by RFM rather than RFF:

1. maintains the separation of the cattle business and RFF’s property leasing business; and
2. ensures RFF remains a Real Estate Investment Trust (REIT) for accounting purposes, and in substance.

This structure does not increase management fees paid to RFM. Fee structure remains consistent at 1.05% p.a. management fee (exclusive of GST), and is calculated on the \$75m Guarantee only.

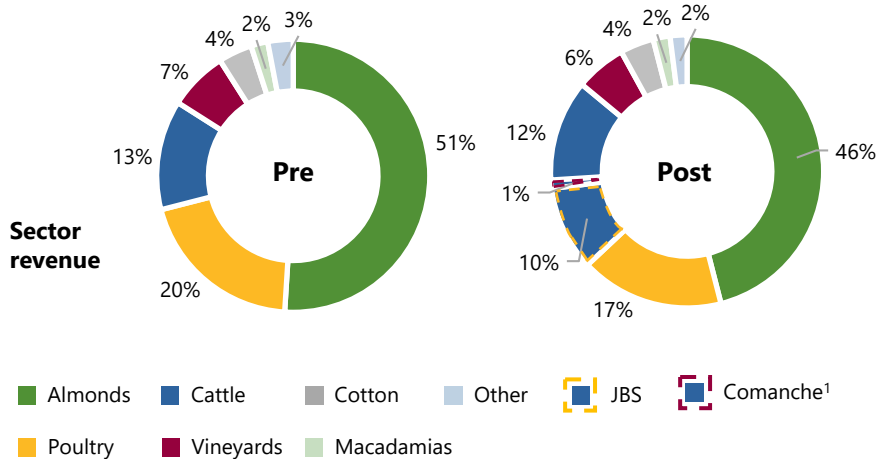
Notes:

1. See page 16 for further details of Guarantee.
2. As J&F will be a wholly owned subsidiary of RFM, and as a related party to RFF, Unitholder approval is required to approve the Guarantee. An Independent Expert has concluded that the Guarantee is fair and reasonable to the Non-Associated Unitholders of RFF under the requirements of Listing Rule 10 and Chapter 2E of the Corporations Act. See pages 12 & 13 for further details.

Portfolio impact

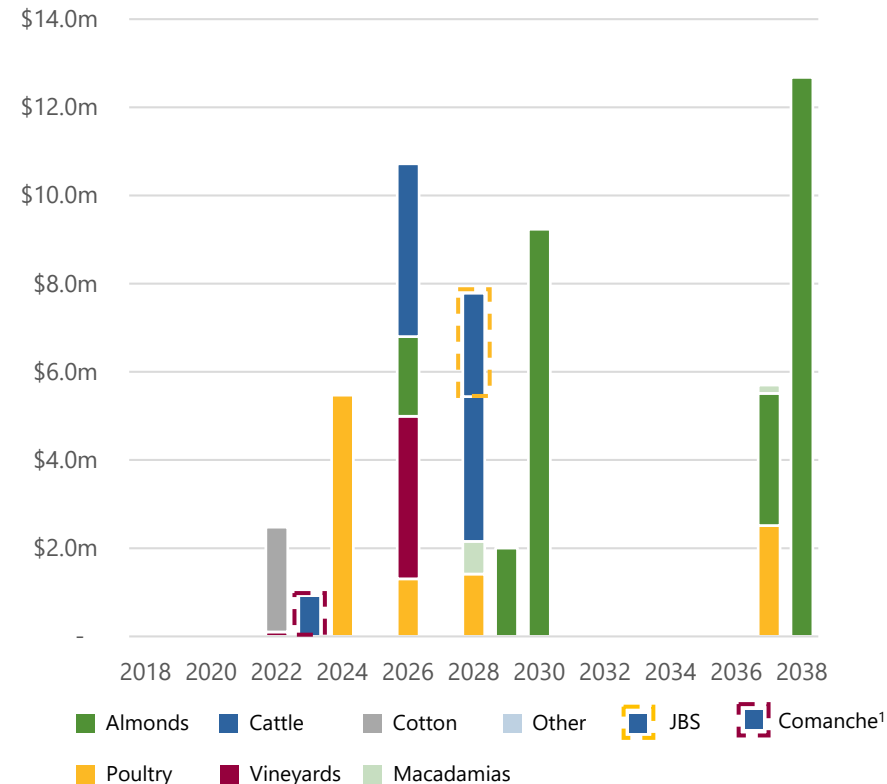
The Transactions result in increased scale and improved sector diversification.

Pre and post-transaction portfolio metrics¹



Adjusted total assets²	\$687.4m	\$756.7m
Number of properties	38	44
WALE³	12.5 yrs	12.6 yrs

WALE expiry profile by lessee³



Notes:

1. Pie charts show FY18f vs FY19f diversification by revenue including Comanche where lease terms are to be finalised (assumes 5-year lease and lease rate consistent with cattle sector).
2. Pro forma 31 December 2017 adjusted total assets \$756.7m (see ASX release "Non-Renounceable Issue" dated 12 July 2018 for further details).
3. Weighted average lease expiry (WALE) bar chart shows forecast FY19 revenue in the year in which the lease expires. Forecast revenue includes revenue derived from forecast capex, as well as Comanche where lease terms are to be finalised (assumes 5-year lease and lease rate consistent with cattle sector). The WALE is expressed in years from 31 December 2017. The WALE increase is due to deployment of almond orchard capex on longer term leases within the portfolio.

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3 Independent Expert's Report

Receival site, Mungindi feedlot, Mungindi Queensland, January 2013

Independent Expert's Report

The Independent Expert has concluded that the Guarantee is fair and reasonable to the Non-Associated Unitholders of RFF under the requirements of Listing Rule 10 and Chapter 2E of the Corporations Act.

The Independent Expert's Report identifies benefits from the Feedlot transaction, should the Guarantee be approved:

Quality assets and experienced operator

- Feedlots are located in grain and cattle growing regions, and include Australia's only two on-site processing centres
- JBS is the existing operator of the Feedlots, is Australia's largest beef processor and owned by the world's largest protein processor

Long term income stream

- Feedlots and Guarantee are underpinned by 10 year¹ agreements.

Improves sector diversification

- Expands RFF's exposure to the cattle sector.
-

Note:

1. See pages 15 and 16 for further details of Guarantee and Feedlots lease, including commencement terms.

Independent Expert's Report

The Independent Expert has concluded that the Guarantee is fair and reasonable to the Non-Associated Unitholders of RFF under the requirements of Listing Rule 10 and Chapter 2E of the Corporations Act.

The Independent Expert's Report identifies potential disadvantages of the Guarantee:

Counterparty risk

- risk that JBS may default on its financial or operational lease obligations to RFF. Any financial default would reduce RFF's revenue and its ability to meet its debt obligations and to pay distributions. An operational default by JBS may require RFF to meet operating obligations until a new lessee is contracted. In the case of a default by JBS, the health or quality of the Feedlots may be affected.

Reputation risk

- certain officers of one of Baybrick's independent parent companies in Brazil had entered into a plea bargain in connection with improper payments. Future outcomes of any trial could have a material adverse effect on the public perception of reputation of the J&F Group, potentially extending to a material adverse impact on the J&F Group's business, financial condition results of operations and prospects.

Solvency of Baybrick

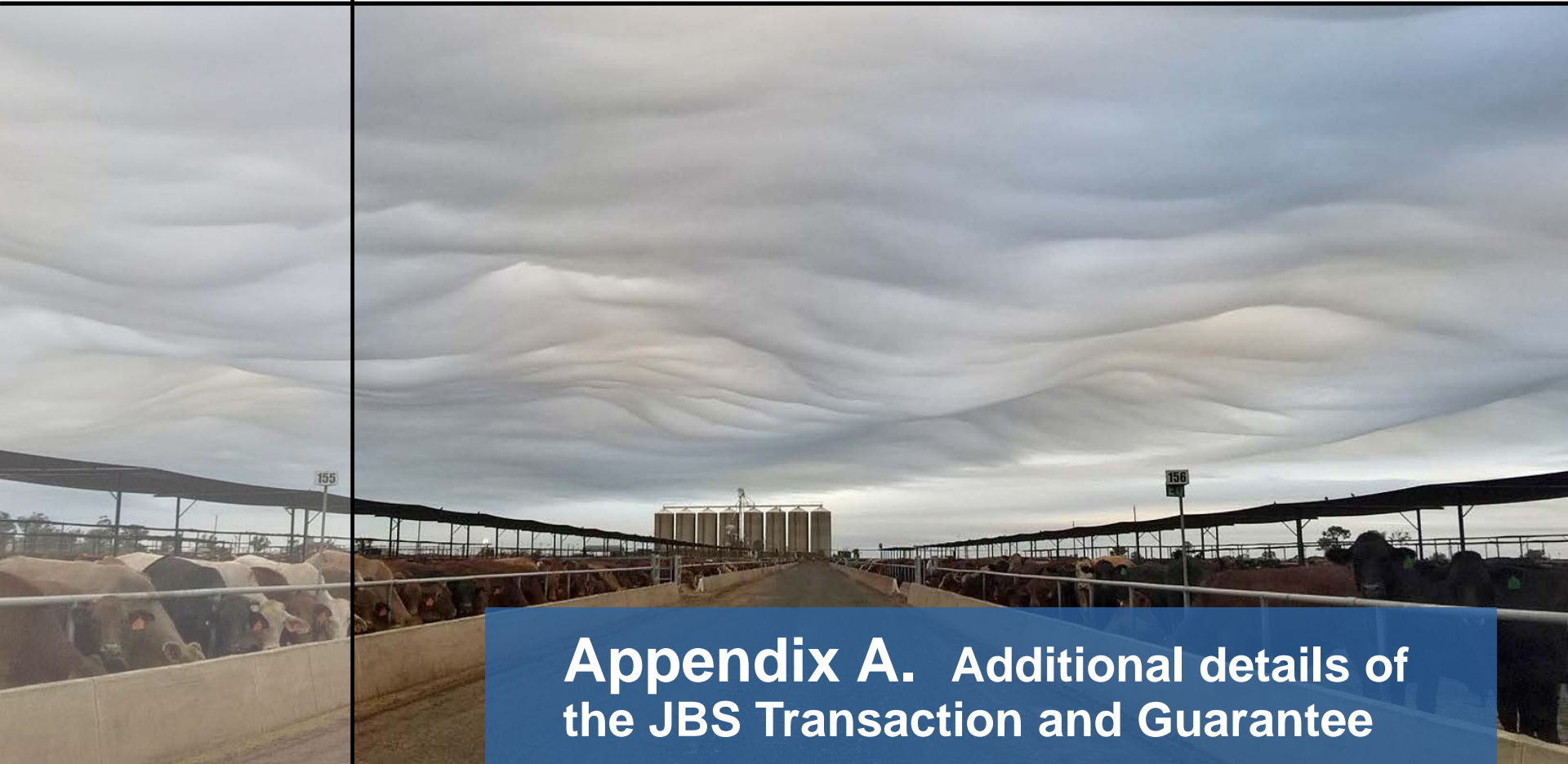
- should Baybrick become insolvent, there is a risk it will not be able to honour its guarantee of JBS's performance to J&F under the various agreements.

Variation in RFF's risk profile

- the Guarantee represents a different risk proposition to RFF's existing portfolio. J&F will use the Guarantee as security for a \$250m loan from the Financiers. In the instance JBS is unable to meet its obligations to J&F, the bank loan will be repaid ahead of the Guarantee.

Note:

1. See pages 15 and 16 for further details of Guarantee and Feedlots lease, including commencement terms.



Appendix A. Additional details of the JBS Transaction and Guarantee

Beef City feedlot, Toowoomba Queensland, March 2017

Details of the Feedlots

The Feedlots are leased on a triple net basis and are indexed at CPI.

Key property and lease terms

Description	<ul style="list-style-type: none"> Five feedlots with water entitlements, and adjacent cropping land for a purchase price of \$52.7m including stamp duty.
Return	<ul style="list-style-type: none"> Lease payment from JBS Australia Pty Limited (lessee).
Guarantee	<ul style="list-style-type: none"> Provided by Baybrick Pty Ltd a subsidiary of JBS S.A.
Term	<ul style="list-style-type: none"> The Feedlot leases are for a term of 10 years from the commencement of the Guarantee. Feedlot acquisitions are subject to FIRB and other approvals, including two subdivisions, resulting in a lease term of slightly less than 10 years.
Rent indexation	<ul style="list-style-type: none"> CPI.
Payment	<ul style="list-style-type: none"> Monthly in advance.
Lease structure	<ul style="list-style-type: none"> Triple net leases.
Capital expenditure	<ul style="list-style-type: none"> Lessee responsible for all maintenance capital expenditure required to maintain the same capacity, productivity and functionality of the Feedlots. At JBS' request, RFF may fund capital expenditure to increase the capacity, productivity and functionality of the Feedlots, which will attract additional rent.
Security deposit	<ul style="list-style-type: none"> Six months rent payable on commencement.
Put and call option	<ul style="list-style-type: none"> JBS has a call option to acquire the Feedlots for the CPI-adjusted purchase price, inclusive of stamp duty and capex, if: <ul style="list-style-type: none"> J&F breaches certain commercial terms; RFF wishes to dispose of the Feedlots; a JBS competitor acquires more than 50% of RFF units on issue; a change of control of RFM; RFF makes a warranty claim of more than \$1m; and at JBS' discretion, from year six to year ten. This will incur a break fee payable to RFF, calculated as \$2m in year six (assuming all five Feedlots are called), reducing proportionally each year to nil at the end of year ten. In this event RFF has the right to terminate the Guarantee. If JBS does not exercise the call option in year 10 RFF can: <ul style="list-style-type: none"> retain the Feedlots. In this event RFF can exercise a call option to acquire an additional 11,775 ML of water entitlements for the cropping operation associated with the Feedlots; put the Feedlots to JBS for the CPI-adjusted purchase price, inclusive of stamp duty and capex; or negotiate to extend the existing agreements for an additional term.
Settlement	<ul style="list-style-type: none"> Settlement of the Feedlots will be staged and is expected to occur from October 2018, conditional upon RFF Unitholder approval of the Guarantee, FIRB and other Government approvals (for example subdivisions). If any of the feedlots do not settle RFF will obtain a mortgage over the relevant feedlot. This will not impact the provision of the Guarantee to J&F.
Management fee	<ul style="list-style-type: none"> 1.05% management fee (exclusive of GST), calculated on the asset value, paid by RFF to RFM.

Details of the Guarantee and J&F

The Guarantee is for a 10 year term and will earn a return without any direct operating risk.

Key terms of the Guarantee and J&F

Description	<ul style="list-style-type: none"> A \$75m limited guarantee ("Guarantee") is provided by RFF to a special purpose vehicle called J&F Australia Pty Ltd (J&F). The Guarantee will: <ul style="list-style-type: none"> earn a monthly income return, based on a costs plus arrangement, net of RFF's interest savings (see point below); not require a transfer of cash, and will be used to reduce RFF's debt, in turn reducing RFF's interest costs; be recorded as a contingent liability within RFF; and be used as security for \$75m of J&F's debt facility for cattle purchases, feed and other costs associated with finishing the cattle on the Feedlots. Any changes in interest costs are borne by JBS. JBS will retain responsibility for the management of the Feedlots and J&F has appointed JBS as its exclusive agent and manager. The bank loans totalling \$250m (or above that amount at RFM's discretion) are supported by the Guarantee and the cattle. In the event of a JBS default: <ol style="list-style-type: none"> the Guarantee would be called but limited to \$75m; J&F would cease buying cattle, and commence selling cattle in the Feedlots; as cattle are sold, J&F bank loans would be repaid. Given that lot-fed cattle can gain 2kg per day, and are sold on a per kg basis, a material fall in cattle price would be required to crystallise a shortfall; and surplus proceeds will be paid to RFF, limited to \$75m.
Return	<ul style="list-style-type: none"> The Guarantee will earn a return on equity calculated on \$75m. The return on equity rate will flex between an agreed range, depending on the level of debt drawn within J&F. The minimum Guarantee return on equity rate is calculated on drawn debt of \$216m and the maximum calculated on drawn debt of \$250m. The return rate is in the range of 9.40% to 11.18%, subject to various adjustments and inclusive of interest rate offset savings in RFF.
Guarantee	<ul style="list-style-type: none"> Baybrick Pty Ltd, a subsidiary of JBS S.A., guarantees the obligations of JBS.
Term	<ul style="list-style-type: none"> 10 years
Cattle ownership	<ul style="list-style-type: none"> Cattle are owned by J&F and act as security until they are acquired by JBS once they have achieved desired weight, typically after 100-140 days.
Mortalities	<ul style="list-style-type: none"> J&F is responsible for mortality of cattle above a certain threshold. RFM intends to arrange insurance for mortality above this threshold.
Operating risk	<ul style="list-style-type: none"> RFF and J&F will not be exposed to operating risks of the Feedlots given the nature of the agreements with JBS. JBS is responsible for cattle and feedlot management under a Cattle Agency Agreement and Cattle Management Agreement.
Management fee and cost recovery	<ul style="list-style-type: none"> 1.05% p.a. management fee (exclusive of GST), calculated on the \$75m Guarantee, plus cost recovery, paid monthly by J&F to RFM. RFM will not charge any additional management fee within RFF and there is no management fee charged on the \$250m loan facilities.
Termination	<ul style="list-style-type: none"> Bank withdraws the J&F bank loan. JBS exercises the call option over the Feedlots from year 6 (at RFM's option). Default of agreement between J&F and JBS.
Commencement	<ul style="list-style-type: none"> Commencement of the Guarantee expected in August 2018, subject to RFF Unitholder approval.

Key information

Established	1997
	Total \$743m
Assets under management	Rural Funds Group: \$687m RFM Poultry: \$9m Almond Funds 06-08: \$35m 2007 Macgrove Project: \$12m
Ownership	Directors & staff
Farm & operations staff	50
Funds management staff	35
RFM direct operational experience	Cotton: since 1998 Vineyards: since 2000 Poultry: since 2003 Almonds: since 2006 Macadamias: since 2006 Livestock: since 2010
RFF fee structure	1.05% p.a. adjusted total assets & cost recovery
RFF key responsibilities	<ul style="list-style-type: none"> • Compliance to financial, farming and reporting requirements of leases • Water asset management including obtaining approvals, engagement with government • Management of infrastructure e.g. ongoing and development capital expenditure • Coordination of regular independent valuations • Facilitating acquisitions • Managing lessee/customer relationships

Board and management team contacts and tenure



Guy Paynter
Non-Executive Chairman
8 yrs



David Bryant
Managing Director
21 yrs



Michael Carroll
Non-Executive Director
8 yrs



Julian Widdup
Non-Executive Director
1 yr



Stuart Waight
Executive
15 yrs



Andrea Lemmon
Executive Manager, Funds Management
21 yrs



Daniel Yap
Financial Controller
6 yrs



Jonty Ephron
Chief Operating Officer
Less than 1 yr



Dan Edwards
Business Manager Rural Funds Group
13 yrs



Tim Sheridan
Executive – Acquisitions & Cattle
10 yrs



James Powell
General Manager - Investor Relations & Marketing
10 yrs



Rural Funds Management

Managing good assets with good people

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