

# Rural Funds Group

ASX:  
RFF

Managed by:



## Financial results presentation

For the half year ended 31 December 2018

February 2019



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1. Financial results
2. Capital management
3. Strategy and portfolio update
4. Outlook and conclusion
5. Appendices

## RFM presenters

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**David Bryant**  
*Managing Director*



**Stuart Waight**  
*Executive Manager*



**Daniel Yap**  
*Financial Controller*



**James Powell**  
*General Manager -  
Investor Relations &  
Marketing*

A wide-angle photograph of a rural landscape. In the foreground, a large, calm pond reflects the sky. The pond is surrounded by lush green grass and a few trees. In the middle ground, there are rolling green hills with scattered trees and a fence line. The background shows more hills and a dense forest under a clear blue sky with a few wispy clouds.

# Financial results

# 1

*Recently announced cattle property acquisition; Cobungra, Omeo, Victoria, October 2018.*

# Key events: July 2018 to February 2019

Acquisitions totalling \$87.1m will be funded from balance sheet capacity following the July 2018 Entitlement Offer.

July 18	<ul style="list-style-type: none"> <li>Conducted an <b>Entitlement Offer to raise \$149.5m at \$1.95 per unit</b> to fund two transactions with <b>JBS Australia Pty Ltd</b> (JBS) totalling \$127.7m and the acquisition of a cattle property called <b>Comanche</b> for \$16.7m. The Entitlement Offer provided up to \$100.0m of balance sheet capacity for further acquisitions, based on a target gearing limit of 35%.</li> </ul>
Aug 18	<ul style="list-style-type: none"> <li>Commencement of the <b>guarantee</b> enabling JBS to replace an existing arrangement for the supply of cattle to five feedlots to be acquired by RFF.</li> </ul>
Sept 18	<ul style="list-style-type: none"> <li>Acquired <b>Cerberus</b>, an 8,280 ha cattle property located in central Queensland for \$10.8m. Leased to Katena Pty Ltd for ten years, with a rent review in year five.</li> <li>Acquired <b>Mayneland</b>, a 2,942 ha cotton property located in central Queensland for \$17.8m. RFM operating and paying rent on the property for FY19. Colliers International Agribusiness have been appointed to conduct a competitive selection process for a Mayneland lessee prior to the FY20 cotton season.</li> </ul>
Oct 18	<ul style="list-style-type: none"> <li>Acquired <b>Dyamberin</b>, a 1,728 ha cattle property located in the New England region of New South Wales for \$14.1m. Leased to Stone Axe Pastoral Company (Stone Axe) for ten years, with a rent review in year five.</li> <li>Foreign Investment Review Board approval received for JBS transaction. <b>Three JBS cattle feedlots</b> (Mungindi, Caroonia and Prime City) settled. Two remaining feedlots (Beef City and Riverina Beef) still subject to subdivision approvals.</li> </ul>
Jan 19	<ul style="list-style-type: none"> <li>Acquired <b>Woodburn</b>, a 1,062 ha cattle property located in the New England region for \$7.5m. Leased to Stone Axe for ten years, with a rent review in year five.</li> </ul>
Feb 19	<ul style="list-style-type: none"> <li>Announced the acquisition of <b>Cobungra</b>, a 6,486 ha cattle property located in Victoria for \$36.9m. Upon settlement, leased to Stone Axe for ten years, with a rent review in year five. Expected to settle in March 2019.</li> </ul>



# HY19 financial results

**FY19 forecast AFFO and DPU reaffirmed. FY20 forecast DPU of 10.85 cents, consistent with 4% annual growth target.**

## Income and earnings metrics

	6 mths ended 31 Dec 2018	6 mths ended 31 Dec 2017
Property revenue (\$)	30,700,000	24,141,000
Total comprehensive income (TCI) (\$)	24,620,000	16,749,000
Earnings per unit (EPU) <sup>1</sup> (cents)	7.73	6.58
Adjusted funds from operations (AFFO) (\$)	20,320,000	15,406,000
AFFO per unit (cents)	6.4	6.0
Distributions per unit (DPU) (cents)	5.22	5.02
AFFO payout ratio	82%	84%

- Property revenue 27% higher due to recent transactions, development capital expenditure and lease indexation.
- TCI and EPU higher mainly due to additional property revenue and an independent revaluation of the Kerarbury almond orchard.
- AFFO per unit is forecast to be higher in the second half of FY19 due to additional property revenue from acquisitions and lower expenses.
- FY19 AFFO and DPU forecasts confirmed.
- FY20 DPU forecast of 10.85 cents, consistent with 4% annual growth target.
- Refer to pages 19 to 23 for further information.

## Forecasts

	FY20	FY19	FY18
AFFO per unit (cents)		13.2	12.7
DPU (cents)	10.85	10.43	10.03
AFFO payout ratio		79%	79%

Note:

1. Calculated TCI/weighted average units (see page 20).

# HY19 financial results

**Gearing remains within the target range of 30-35%, with sufficient capacity for committed capital expenditure.**

## Balance sheet summary

	Pro forma <sup>3</sup> as at 31 Dec 2018 \$	As at 31 Dec 2018 \$	As at 30 June 2018 \$
Total assets	871,256,000	802,789,000	637,808,000
Adjusted for water at fair value	51,844,000	51,844,000	49,841,000
Adjusted total assets <sup>1</sup>	923,100,000	854,633,000	723,649,000
External borrowings	301,851,000	233,384,000	273,161,000
Gearing <sup>2</sup>	32.7%	27.3%	37.7%
Net asset value (NAV)	532,413,000	532,413,000	378,735,000
NAV per unit	1.60	1.60	1.48
Adjusted NAV <sup>1</sup>	584,257,000	584,257,000	428,576,000
Adjusted NAV per unit <sup>1</sup>	1.75	1.75	1.68

- Increase in pro forma adjusted total assets of \$200m due to acquisitions, capex and Kerarbury revaluation (see page 8).
- Pro forma gearing of 33% remains within target range of 30-35%, with sufficient capacity for committed capital expenditure (see page 14).
- WALE of 11 years provides stability of income and long term rental growth via a mix of rent reviews and indexation.
- Refer to pages 19 to 23 for further information.

## Key portfolio metrics

	Pro forma <sup>3</sup> as at 31 Dec 2018	As at 31 Dec 2018	As at 30 June 2018
Number of properties	49	45	38
Weighted avg. lease expiry (WALE)	11.4 yrs	11.5 yrs	12.4 yrs
CPI linked vs fixed indexation	57% / 39%	59% / 37%	60% / 38%
Units on issue	333.1m	333.1m	255.6m

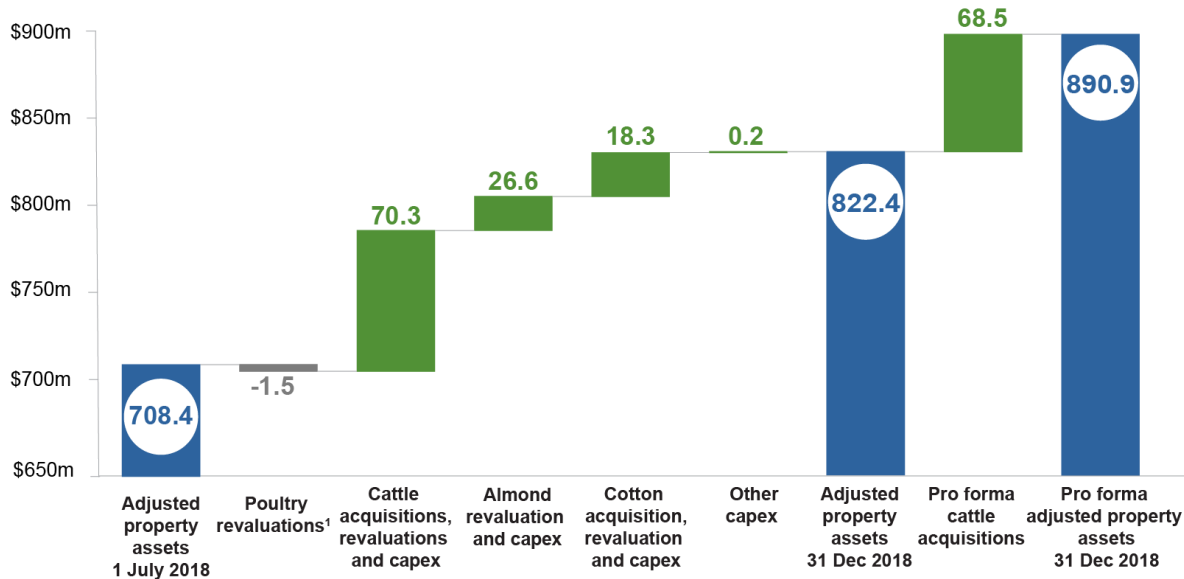
### Notes:

1. Assets adjusted for the independent valuation of water entitlements which are recognised at the lower of cost or fair value on balance sheet.
2. Gearing calculated as external borrowings/adjusted total assets.
3. Pro forma includes feedlots (Beef City and Riverina Beef) and cattle properties (Woodburn and Cobungra) which were not settled at 31 December 2018.

# HY19 financial results

The Kerarbury almond orchard revaluation represents a 10% increase.

## Adjusted property assets movements (\$m)



- Cattle acquisitions include:<sup>2</sup>
  - Cerberus \$10.8m
  - Dyamberin \$14.1m
  - Mungindi, Caroon and Prime City feedlots \$28.4m
  - Woodburn \$7.5m (pro forma)
  - Cobungra \$36.9m (pro forma)
  - Beef City and Riverina Beef feedlots \$24.1m (pro forma).
- Almond revaluation and capex includes Kerarbury independent valuation increase \$15.6m.
- Cotton acquisition, revaluation and capex includes Mayneland acquisition \$17.8m.<sup>2</sup>
- See page 24 for schedule of independent valuations.

### Notes:

1. Directors' valuation applied to certain poultry assets, consistent with management's approach to reflect increasing average age of the infrastructure.
2. Acquisition amounts include stamp duty. The sector totals presented in the chart are net of written-off transaction costs and inclusive of capex.



# Capital management

# 2



*Three-year-old almond trees on Kerarbury almond orchard, Darlington Point, New South Wales, January 2019.*

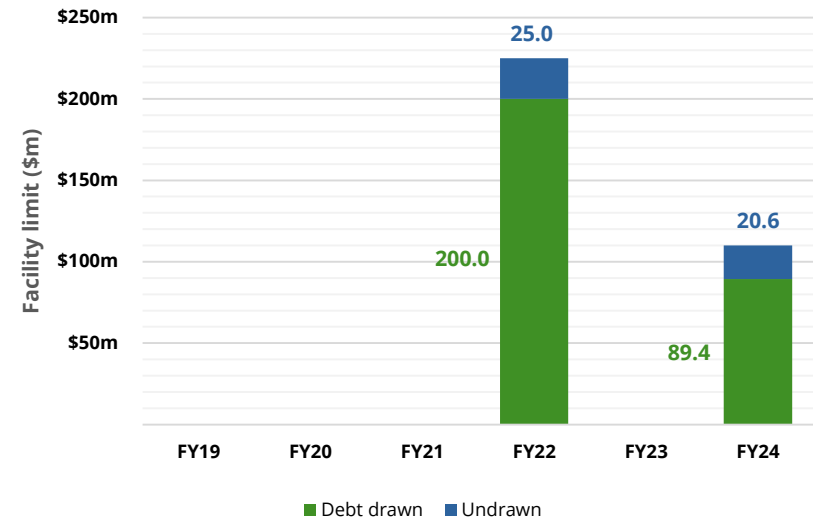
# Debt facility and interest rate hedges

Debt facility limit to be increased in conjunction with settlement of Cobungra. Facility remains within all covenants.

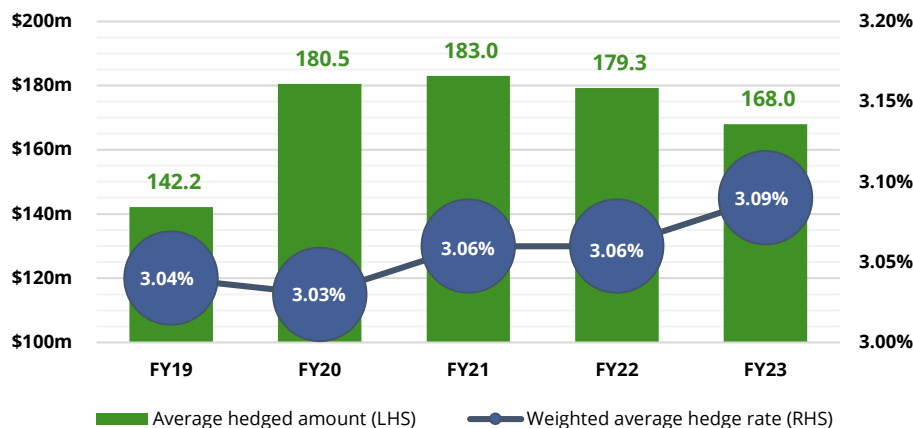
## Debt metrics

		Pro forma 31 Dec 2018 <sup>1</sup>	31 Dec 2018	30 June 2018
Debt facility	Term debt facility limit <sup>2,3</sup>	335.0m	300.0m	275.0m
	Term debt drawn	289.4m	230.2m	269.8m
	Headroom	45.6m	69.8m	5.2m
	Effective cost of total debt	4.51%	4.51%	4.00%
Covenants	Loan to Value Ratio (LVR) <sup>4</sup>	43.0%	39.2%	41.1%
	Interest Cover Ratio (ICR)	5.17x	5.17x	4.73x
	Net Tangible Assets (NTA) <sup>2</sup>	584.3m	584.3 m	428.6m
Hedging	Total amount hedged <sup>5</sup>	143.0m	143.0m	108.0
	Proportion debt hedged <sup>6</sup>	49.4%	62.1%	40.0%
	Weighted avg duration (yrs) <sup>7</sup>	7.6 yrs	7.6 yrs	7.3 yrs

## Pro forma debt facility expiry<sup>1</sup>



## 5 year hedged (fixed rate) position



### Notes:

- Pro forma includes feedlots (Beef City and Riverina Beef) and cattle properties (Woodburn and Cobungra) which were not settled at 31 December 2018 and excess cash adjustment. Pro forma limit increase subject to final approval.
- Key financial covenants for FY19: LVR <50%, ICR >3.0x, with distribution permitted at >3.15x, NTA including water entitlements >\$400m, 40% hedging requirement.
- Security: Real property mortgages, general security agreement, cross guarantees between RFF and subsidiaries.
- LVR calculated as term debt drawn plus limited guarantee of \$75m divided by directly secured assets based on independent valuations.
- Current hedges only.
- Proportion hedged calculated as current hedges/term debt drawn.
- Duration remaining as at 31 December 2018 and includes forward start hedges.



# Strategy and portfolio update

# 3



*Baled raw cotton. Lynora Downs, Queensland, July 2018.*



# Sectors and assets

The portfolio includes 49 properties diversified across six agricultural sectors and multiple climatic zones.<sup>1</sup>

## Cattle

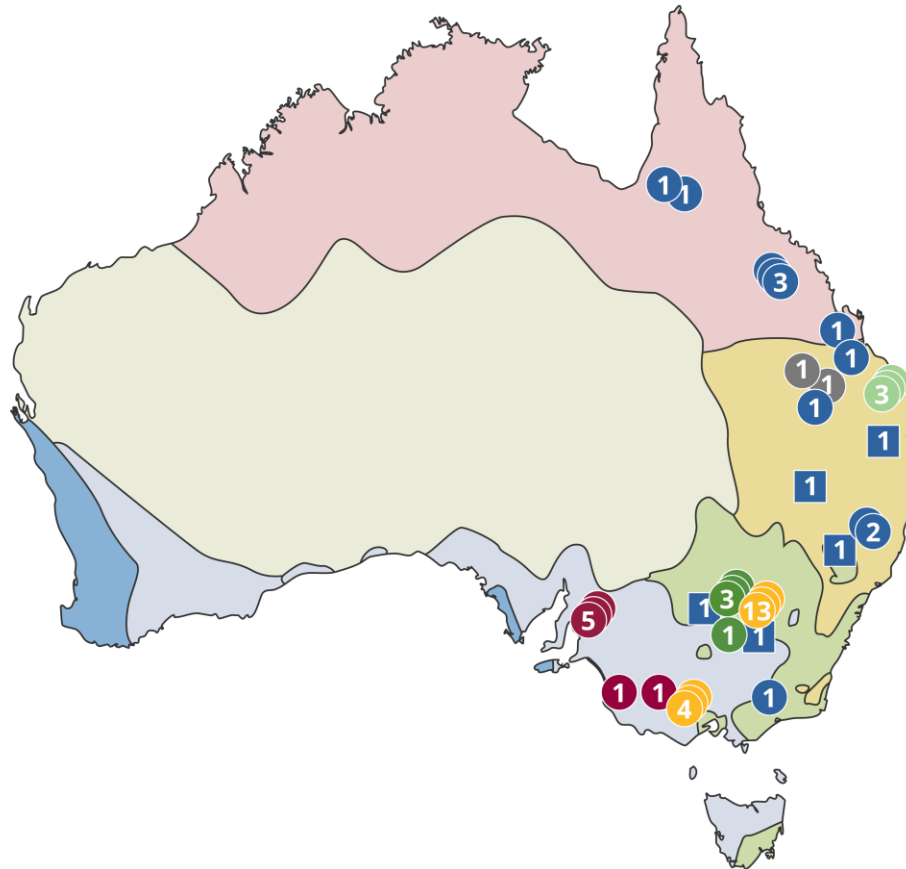
Properties: 16  
 Description: 659,056 ha of breeding and backgrounding land. 150,000 SCU feedlot capacity  
 Value: \$269.1m  
 FY19f rent: \$16.4m

## Vineyards

Properties: 7  
 Description: 666 ha of premium vineyards  
 Value: \$48.0m  
 FY19f rent: \$3.8m

## Poultry

Properties: 17  
 Description: 154 broiler chicken sheds  
 Value: \$79.3m  
 FY19f rent: \$10.7m



## Cotton

Properties: 2  
 Description: 1,487 ha of irrigated cropping and 4,103 ha of dryland cropping land  
 Value: \$50.3m  
 FY19f rent: \$3.2m

## Macadamias

Properties: 3  
 Description: 259 ha of orchards  
 Value: \$14.0m  
 FY19f rent: \$1.4m

## Almonds

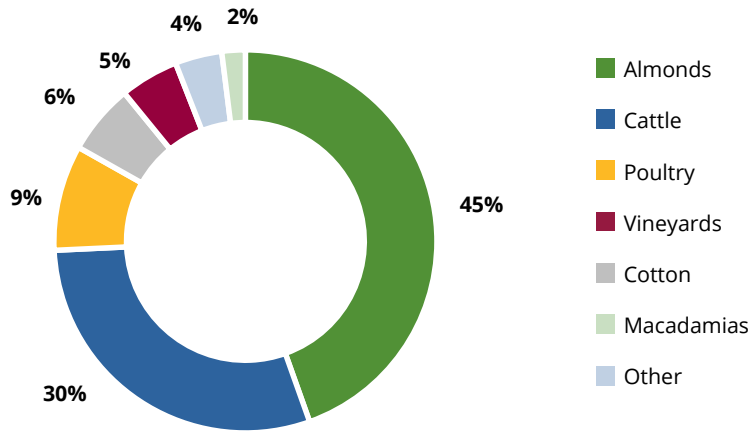
Properties: 4  
 Description: 1,814 ha of mature orchards and 3,100 ha of recently developed orchards  
 Value: \$401.4m  
 FY19f rent: \$29.6m

Note:  
 1. Shaded areas denote climatic zones differentiated by rainfall seasonality. Source: Bureau of Meteorology; see RFF Climatic Diversification discussion paper, 20 June 2016. Murrumbidgee High Security water entitlement (8,754 ML) with a value of \$32.8m and forecast FY19 revenue of \$2.0m not shown. Blue square boxes on map denote cattle feedlots. Map and sector information includes pro forma includes feedlots (Beef City and Riverina Beef) and cattle properties (Woodburn and Cobungra) which were not settled at 31 December 2018.

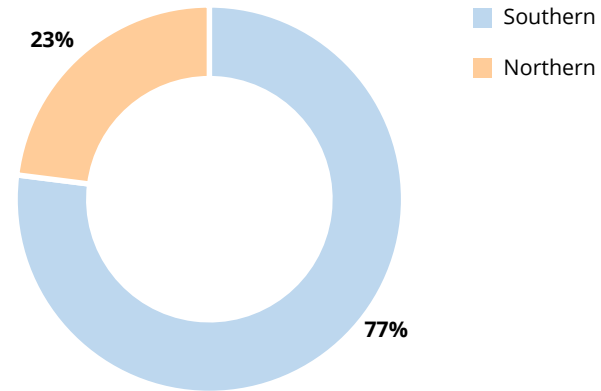
# Portfolio strategy and diversification

Targeted diversification aims to assist in achieving the objectives of generating a stable income plus capital growth and growing distributions consistently at 4% p.a.

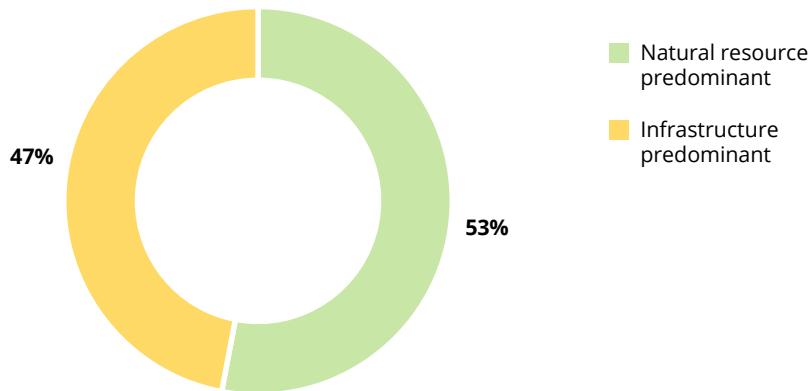
Sector by asset value<sup>1</sup>



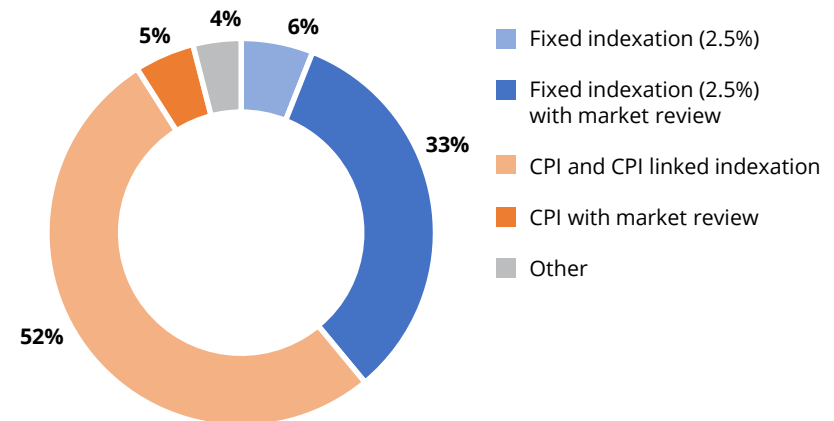
Climatic zone (FY19f revenue)



Sector type (FY19f revenue)<sup>2</sup>



Indexation (FY19f revenue)




Notes:


1. Pro forma includes feedlots (Beef City and Riverina Beef) and cattle properties (Woodburn and Cobungra) which were not settled at 31 December 2018.
2. Assumes poultry, feedlots (and guarantee fee) are infrastructure predominant, vineyards and cattle are natural resource predominant, and almond/macadamia orchards split equally.

# Natural resource developments

Productivity developments continue on the existing natural resource predominant assets, with similar potential for productivity improvements on recently acquired assets.



 Cattle <sup>1</sup>		Initial	FY17	FY18	FY19f	FY20f
<b>Mutton Hole and Oakland Park</b>	Water points	102	4	5	3	-
	Pasture improvements	20,000 ha	20,000 ha	-	-	-
<b>Rewan</b>	Water points	42	10	30	-	-
	Cultivation area	1,830 ha	668 ha	554 ha	200 ha	-
	Pasture improvements	485 ha	-	160 ha	400 ha	-
<b>Natal aggregation</b>	Water points	96	-	8	30	-
<b>Cerberus</b>	Cultivation area	-	-	-	-	200 ha
	Pasture improvements	-	-	-	-	500 ha
<b>Comanche</b>	Cultivation area	1,000 ha	-	-	-	500 ha
	Pasture improvements	172 ha	-	-	-	500 ha
<b>Dyamberin</b>	Pasture improvements	575 ha	-	-	-	150 ha
<b>Woodburn</b>	Pasture improvements	-	-	-	-	TBC
<b>Cobungra</b>	Pasture improvements	-	-	-	-	TBC

 Cotton		Initial	FY17	FY18	FY19f	FY20f
<b>Lynora Downs</b>	Water storage	10,405 ML	-	4,142 ML	-	-
	Irrigated cropping	779 ha	-	177 ha	223 ha	-
<b>Mayneland</b>	Water storage	6,450 ML	-	-	-	2,500 ML
	Irrigated cropping	531 ha	-	-	-	579 ha







Note:

1. Development opportunities on Cerberus, Comanche, Dyamberin and Mayneland have been identified but are yet to be finalised with lessees.



# Forecast capital expenditure

Forecast capex of \$65.5m will attract rent as it is deployed.

	1H19 (\$m)	2H19f (\$m)	FY20f (\$m)	Total (\$m)	Description
 Almonds	11.1	12.2	21.6	<b>44.9</b>	FY20 represents water acquisitions for Kerarbury. This commitment may be met by utilising the Murrumbidgee HS water which is currently not leased.
 Cattle <sup>1</sup>	1.4	4.2	3.1	<b>8.7</b>	FY19 and FY20 capex pertains to productivity developments on cattle properties, including water points, cultivation area, improved pasture.
 Poultry <sup>2</sup>	-	1.1	-	<b>1.1</b>	Water sanitation plant and equipment.
 Cotton <sup>1</sup>	1.6	2.0	6.1	<b>9.7</b>	FY19 and FY20 capex pertains to productivity developments on cotton properties including additional water storage and expansion of irrigated cotton areas.
 Vineyards	0.1	0.7	-	<b>0.8</b>	Grafting and redevelopment.
 Macadamias	0.1	0.2	-	<b>0.3</b>	Irrigation and dehusking shed.
<b>Total (\$m)</b>	<b>14.3</b>	<b>20.4</b>	<b>30.8</b>	<b>65.5</b>	

Notes:

1. Includes forecast figures for identified development opportunities which are yet to be finalised with lessees.
2. An additional \$2.1m (\$1.3m FY19 and \$0.8m FY20) of agreed capital expenditure will not attract rent.



# Outlook and conclusion

# 4

*Maturing almonds in final stage of growth, Moorool almond orchard, Hillston, NSW, January 2019.*

# Conclusion

**RFM continues to oversee and manage existing assets, including capex and developments, while pursuing new investments and lessees.**

## Acquisitions consistent with strategy

Acquisitions have been consistent with RFF's strategy and objectives, to:

- Increase diversification, scale and liquidity.
- Add leases with market rent reviews and productivity improvement opportunities.

## Attractive portfolio attributes

Key fund attributes:

- Forecast FY19 AFFO yield of 6.0%<sup>1</sup> and payout ratio 79%.
- Gearing (pro forma) 32.7%; within target of 30-35%.
- A weighted average lease expiry of 11.4 years.
- Diversification across 49 properties, six agricultural sectors and multiple climatic zones.
- A manager with multi sector expertise (see page 30).
- Ongoing acquisition opportunities driven by structural trends unique to the agricultural sector including a growing need for succession funding and operators with limited access to external capital (see page 29).

## Forecasts confirmed

Forecasts include:

- FY19 AFFO of 13.2 cpu; consistent with prior forecast.
- FY19 DPU of 10.43 cents; consistent with prior forecast.
- FY20 DPU of 10.85 cents; consistent with annual growth target of 4%.

Note:

1. Calculated as FY19f AFFO of 13.2 cents divided by 18 February 2019 closing price of \$2.19.



# Appendices

# 5



# HY19 results - comprehensive income

## Summarised statement of comprehensive income

	6 mths ended 31 Dec 2018 \$	6 mths ended 31 Dec 2017 \$
Property revenue	30,700,000	24,141,000
<b>Revenue</b>	<b>30,700,000</b>	<b>24,141,000</b>
Other income	1,604,000	86,000
Property expenses	(759,000)	(568,000)
Other expenses	(2,212,000)	(1,350,000)
Management fees	(3,878,000)	(2,886,000)
Finance costs	(4,655,000)	(4,017,000)
Property revaluations - investment property	2,832,000	4,051,000
Change in fair value of interest rate swaps	(3,908,000)	(1,970,000)
Change in fair value of financial assets/liabilities	(34,000)	-
Depreciation and impairments	(486,000)	(440,000)
Gain/(loss) on sale of assets	26,000	12,000
<b>Profit before tax</b>	<b>19,230,000</b>	<b>17,059,000</b>
Income tax expense	(822,000)	(310,000)
<b>Profit after tax</b>	<b>18,408,000</b>	<b>16,749,000</b>
Other comprehensive income – bearer plant revaluation	6,212,000	-
<b>Total comprehensive income</b>	<b>24,620,000</b>	<b>16,749,000</b>
Weighted average units	318,696,579	254,729,029
Earnings per unit <sup>1</sup>	7.73 cents	6.58 cents

- Property revenue has increased primarily as a result of rent on new acquisitions, guarantee fee, rent on development capital expenditure and lease indexation.
- Other income relates to unleased Murrumbidgee High Security water annual allocation sales.
- Property and other expenses increased largely due to costs associated with the JBS transaction, and oversight of capex and developments.
- Investment property revaluations primarily relates to the Kerarbury almond orchard \$15.6m, offset by directors revaluation of poultry assets (\$1.5m) and write-off of transaction costs on property acquisitions (\$2.9m).
- Management fees equate to 1.0% for HY19.
- Income tax expense relates to RF Active and AWF.<sup>2</sup> RFT treated as a flow through trust for tax purposes.

### Notes:

1. Calculated TCI/weighted average units.
2. RFM Australian Wine Fund (AWF) is a subsidiary of Rural Funds Trust (RFT) that has formed a tax consolidated group.

# HY19 results - AFFO

## Composition of AFFO (pre-tax)

	6 mths ended 31 Dec 2018 \$	6 mths ended 31 Dec 2017 \$
Property revenue	30,607,000	24,141,000
Property expenses	(759,000)	(568,000)
<b>Net property income</b>	<b>29,848,000</b>	<b>23,573,000</b>
Other income	1,604,000	86,000
Other expenses	(2,212,000)	(1,350,000)
Management fees	(3,878,000)	(2,886,000)
<b>EBITDA</b>	<b>25,362,000</b>	<b>19,423,000</b>
Income tax payable (RF Active)	(387,000)	-
Finance costs	(4,655,000)	(4,017,000)
<b>AFFO</b>	<b>20,320,000</b>	<b>15,406,000</b>
AFFO per unit <sup>1</sup>	6.4 cents	6.0 cents
DPU	5.22 cents	5.02 cents

- AFFO is pre-tax and excludes fair value adjustments, depreciation and impairment to represent RFF's property rental business.
- Property expenses relate to costs directly attributable to the properties (e.g. insurance, rates, applicable cost recovery). Other expenses relate to non-property overheads (e.g. ASX/bank/audit/registry fees, cost recovery).
- Adjustment to funds from operations (FFO) pertains to tax expense of \$0.4m largely relating to AWF (see page 21).
- Property leases are largely triple net.

Note:

1. Based on the weighted average number of units on issue during the half year.



# HY19 results - reconciliation of net profit

## Reconciliation of net profit after tax to AFFO

	6 mths ended 31 Dec 2018 \$	6 mths ended 31 Dec 2017 \$
Net profit after income tax	18,408,000	16,749,000
Adjusted for:		
Property revaluations	(2,832,000)	(4,051,000)
Change in fair value of interest rate swaps	3,908,000	1,970,000
Change in fair value of financial assets/liabilities	34,000	-
Depreciation and impairment	486,000	440,000
Gain on sale of assets	(26,000)	(12,000)
Interest component of JBS feedlot finance lease	(93,000)	-
<b>FFO</b>	<b>19,885,000</b>	<b>15,096,000</b>
Adjusted for income tax expense (AWF)	435,000	310,000
<b>AFFO</b>	<b>20,320,000</b>	<b>15,406,000</b>
AFFO per unit <sup>1</sup>	6.4 cents	6.0 cents

- Non cash items added back to reconcile net profit after tax to AFFO.
- Major items for HY19:
  - \$2.8m property revaluations largely due to revaluation of Kerarbury almond orchard.
  - \$3.9m unrealised loss on interest rate hedges.
  - \$0.5m depreciation and impairment, primarily relating to plant and equipment in RF Active.

Note:

1. Based on the weighted average number of units on issue during the half year.

# HY19 results - summarised balance sheet

## Summarised balance sheet

	Pro Forma 31 Dec 2018 \$	As at 31 Dec 2018 \$	As at 30 Jun 2018 \$
Cash	11,259,000	11,259,000	1,210,000
Property investments	839,041,000	770,574,000	658,593,000
Plant and equipment	7,117,000	7,117,000	5,480,000
Other assets	13,839,000	13,839,000	8,525,000
<b>Total assets</b>	<b>871,256,000</b>	<b>802,789,000</b>	<b>673,808,000</b>
Interest bearing liabilities			
- Current	3,152,000	3,152,000	3,361,000
- Non-current	298,699,000	230,232,000	269,800,000
Derivative financial liabilities	9,741,000	9,741,000	5,834,000
Current tax liabilities	667,000	667,000	277,000
Deferred tax liabilities	1,823,000	1,823,000	1,406,000
Other liabilities	24,761,000	24,761,000	14,395,000
<b>Total liabilities</b>	<b>338,843,000</b>	<b>270,376,000</b>	<b>295,073,000</b>
<b>Net assets</b>	<b>532,413,000</b>	<b>532,413,000</b>	<b>378,735,000</b>
Units on issue	333,137,778	333,137,778	255,630,515
NAV per unit	1.60	1.60	1.48
Adjustment for water entitlements fair value per unit	0.15	0.15	0.20
Adjusted NAV per unit	1.75	1.75	1.68

- Accounting standards and ASIC guidance require water entitlements to be recorded as intangible assets, and held at the lower of cost or fair value. The adjustment for water entitlements shows the difference between book value and fair value (based on current independent valuations).
- Water entitlements totalling 114,415 ML and water delivery entitlements of 21,430 ML representing a fair value of \$173.2m or 20% of total adjusted assets.

# HY19 results - total assets reconciliation

## Total assets reconciliation

	Investment property	Bearer plants	Intangible assets <sup>1,3</sup>	Financial assets - property <sup>2,3</sup>	Other assets	Total	Adjustment for water entitlements at fair values <sup>1,3</sup>	Adjusted total assets
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance as at 30 June 2018</b>	<b>357,518,000</b>	<b>157,239,000</b>	<b>106,926,000</b>	<b>36,910,000</b>	<b>15,215,000</b>	<b>673,808,000</b>	<b>49,841,000</b>	<b>723,649,000</b>
Additions – Cattle	41,553,000	-	-	-	-	<b>41,553,000</b>	-	<b>41,553,000</b>
Additions – Cotton	19,428,000	-	-	-	-	<b>19,428,000</b>	-	<b>19,428,000</b>
Additions - Almond orchard	4,237,000	6,830,000	-	-	-	<b>11,067,000</b>	-	<b>11,067,000</b>
Additions net of disposals	226,000	10,000	1,598,000	-	-	<b>1,834,000</b>	-	<b>1,834,000</b>
Depreciation and impairments	-	-	106,000	-	(591,000)	<b>(485,000)</b>	-	<b>(485,000)</b>
Fair value adjustment <sup>4</sup>	2,831,000	6,212,000	-	-	-	<b>9,043,000</b>	2,003,000	<b>11,046,000</b>
Breeder herd lease <sup>5</sup>	-	-	-	276,000	-	<b>276,000</b>	-	<b>276,000</b>
JBS Feedlots	-	-	-	28,774,000	-	<b>28,774,000</b>	-	<b>28,774,000</b>
Other movements	(100,000)	-	-	-	17,591,000	<b>17,491,000</b>	-	<b>17,491,000</b>
<b>Balance as at 31 December 2018</b>	<b>425,693,000</b>	<b>170,291,000</b>	<b>108,630,000</b>	<b>65,960,000</b>	<b>32,215,000</b>	<b>802,789,000</b>	<b>51,844,000</b>	<b>854,633,000</b>

### Notes:








- Accounting standards and ASIC guidance require water entitlements to be recorded as intangible assets, and held at the lower of cost or fair value. The adjustment for water entitlements shows the adjustment to the fair value of the water entitlements held.
- Relates to water entitlements held as part of the investment in Barossa Infrastructure Limited, Coleambally Irrigation Co-operative Limited, breeder herd finance lease, loan to Camm, and finance lease with JBS Australia for three feedlots, which are accounted for as financial assets.
- Water entitlements of 114,415 ML and 21,430 ML of water delivery entitlements held by the Group representing a fair value of \$173.2m.
- Fair value adjustments as part of 31 December 2018 valuations.
- Breeder herd lease structured as a finance lease with no price risk impact on lessor associated with movements in value of the breeder herd (approx. 17,000 head).



# Independent valuations

RFM has a policy to independently value assets at least every two years.

## Asset and last independent valuation date

Sector	Asset	Brief description	Last independent valuation (by reporting date)
 Almonds	Mooral	800 ha mature orchard, NSW	June 2018
	Yilgah	1,000 ha mature orchard, NSW	June 2018
	Tocabil	600 ha orchard, NSW	June 2018
	Kerarbury	2,500 ha orchard under development, NSW	December 2018
 Cattle	Mutton Hole	140,300 ha breeding property, Qld	June 2017
	Oakland Park	85,500 ha breeding property, Qld	June 2017
	Rewan	17,500 ha backgrounding property, Qld	December 2017
	Natal Aggregation	390,600 ha breeding & backgrounding properties, Qld	December 2017
	Comanche	7,600 ha breeding & backgrounding property, Qld	June 2018
	Cerberus	8,280 ha breeding & backgrounding property, Qld	December 2018
	Dyamberin	1,728 ha breeding & backgrounding property, NSW	December 2018
	Woodburn	1,062 ha breeding & backgrounding property, NSW	December 2018
 Cotton	Lynora Downs	4,880 ha cropping property, Qld	December 2017
	Mayneland	2,942 ha cropping property, Qld	December 2018
 Poultry	Griffith sheds	134 sheds on 13 farms, NSW	June 2018
	Lethbridge sheds	20 sheds on four farms, Vic	June 2018
 Macadamias	Swan Ridge, Moore Park, Bonmac	259 ha orchards, Qld	June 2018
 Vineyards	Kleinig, Geier, Hahn, Mundy, Murphy, Rosebank, Dohnt	666 ha vineyards, SA and Vic	June 2017
 Water	Murrumbidgee High Security	9,549 ML entitlement	December 2017

# Investment overview and strategy

Rural Funds Group is an agricultural real estate investment trust (REIT) that leases properties to agricultural operators and processors.

## Strategy

- To generate a stable income plus capital growth by owning and improving farms.

## Objectives

- Grow adjusted funds from operations (AFFO) per unit through lease indexation, reinvestment of retained AFFO and market rent review mechanisms.
- Grow distributions consistently at 4% p.a.
- Maintain gearing between 30-35%.
- Increase sector and climatic diversification, liquidity and scale.

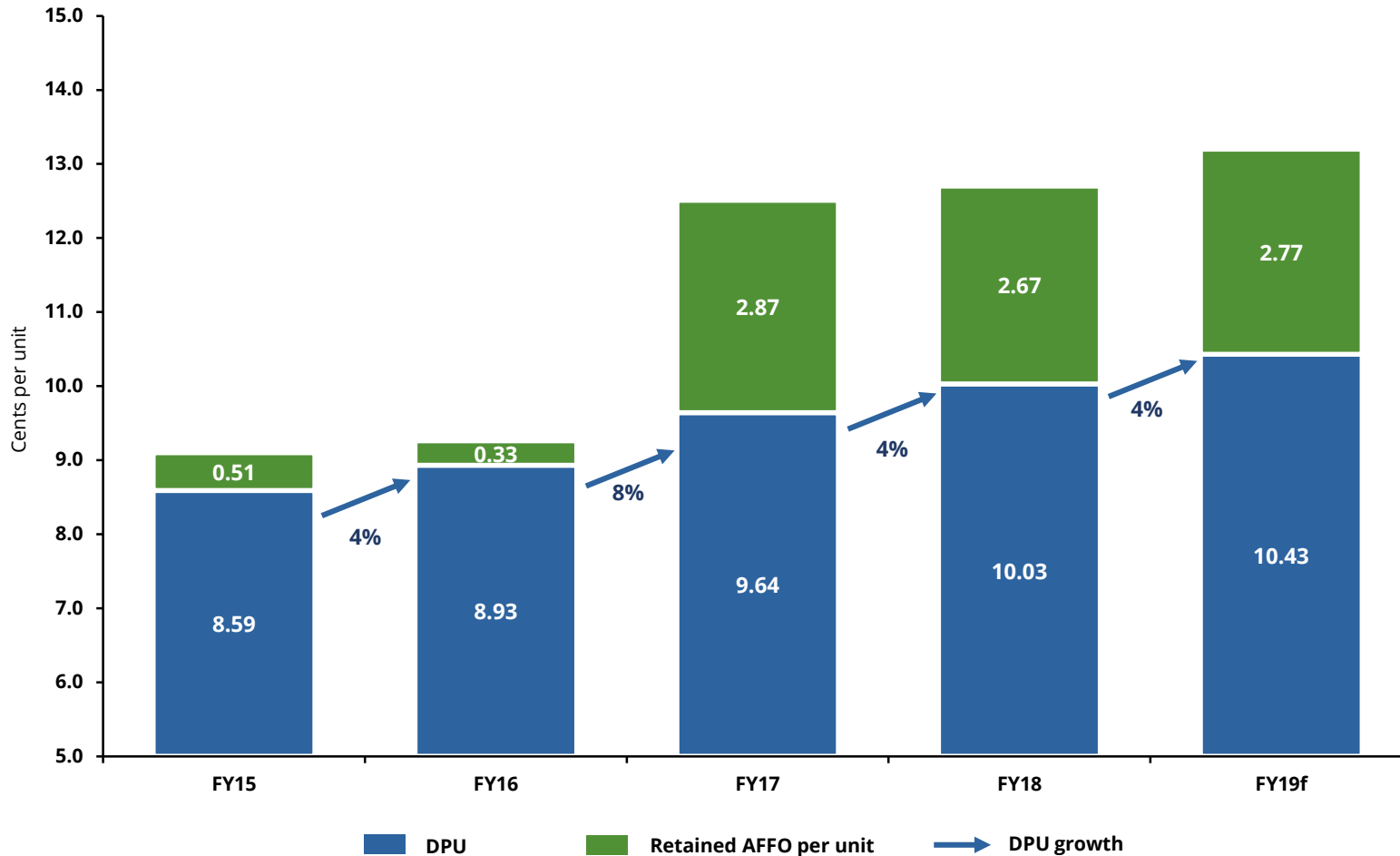
## Key principles underpinning assessment of acquisition opportunities

- 1 Maintain agricultural REIT structure.
- 2 Invest in sectors where Australia possesses a comparative advantage.
- 3 Enhance sector diversification.
- 4 Enhance climatic diversification.
- 5 Identify investments which may benefit from productivity capex.
- 6 Invest in sectors where RFM has direct operational knowledge.

# Distribution growth

A combination of lease indexation, reinvestment of retained AFFO and market rent review mechanisms has enabled DPU growth to be maintained at or above the 4% per annum target. FY20 forecast distributions of 10.85 cents per unit in line with this target.

DPU, DPU growth and retained AFFO per unit





# Key lessees and counterparts

Lessees and counterparts include leading agricultural producers and processors.

## Top 75% lessees/counterparts by FY19f revenue

Olam Orchards Australia		<p>Largest almond grower in Australia, producing approximately 45% of the national crop. Wholly owned subsidiary of SGX-listed Olam International Ltd (SGX: O32), one of the worlds largest agribusinesses with 204 processing facilities globally and a market capitalisation of A\$6.6b.</p>	23.2%
Select Harvests		<p>One of Australia's largest almond growers and the country's leading manufacturer, processor and marketer of nut products to Australian and international markets. ASX-listed (ASX: SHV) with a market capitalisation of \$0.5b.</p>	13.7%
RFM Poultry & Baiada <sup>1</sup>		<p>One of the two largest integrated poultry breeding, growing and processors in Australia. Retail brands include Steggles and Lilydale.</p>	12.1%
JBS Australia		<p>Australia's largest cattle lot feeder and processor with five feedlots and 10 processing facilities. A subsidiary of the Brazilian-listed JBS S.A. (BZ: JBSS3) that has a market capitalisation of A\$15.0b. JBS S.A. employs 235,000 people globally and is the world's largest beef and poultry producer and second largest pork and lamb producer.</p>	8.2%
Cattle JV <sup>2</sup>		<p>A farm and fund manager with over 20 years' experience operating assets in multiple agricultural sectors including cattle, almonds, poultry, cotton, vineyards and macadamias.</p>	6.2%
Treasury Wine Estates		<p>World's largest listed pure-play wine company. Winemaking facilities in Australia, New Zealand and the United States. Key brands include Penfolds and Wolf Blass. ASX-listed (ASX: TWE) with a market capitalisation of \$12.8b.</p>	5.6%
DA and JF Camm		<p>Part of the Camm Agricultural Group, an integrated cattle business operating nine properties including a 9,000 SCU feedlot in southern Queensland.</p>	5.4%

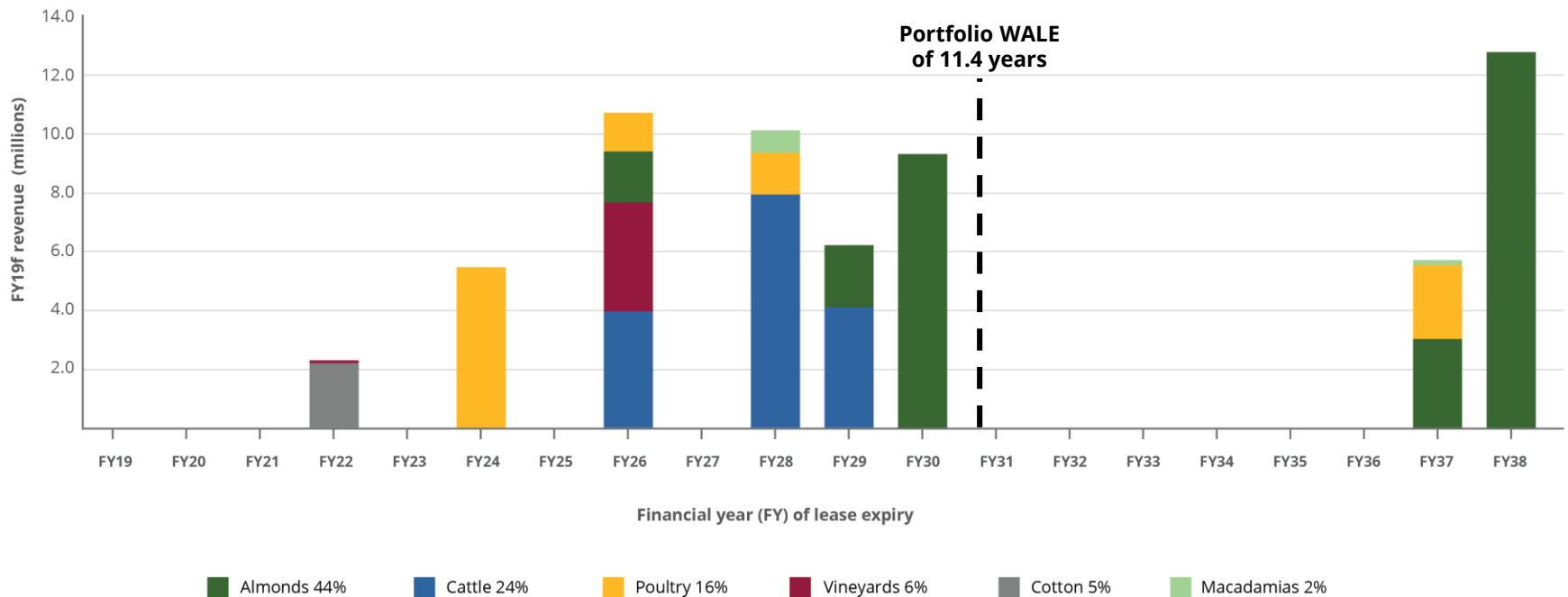
### Notes:

- RFM Poultry, lessee to RFF, has grower contracts with Baiada Poultry Pty Ltd and Turi Foods Pty Ltd.
- Cattle JV is a wholly owned subsidiary of Rural Funds Management Ltd.

# Lease expiry profile

Portfolio WALE of 11.4 years.

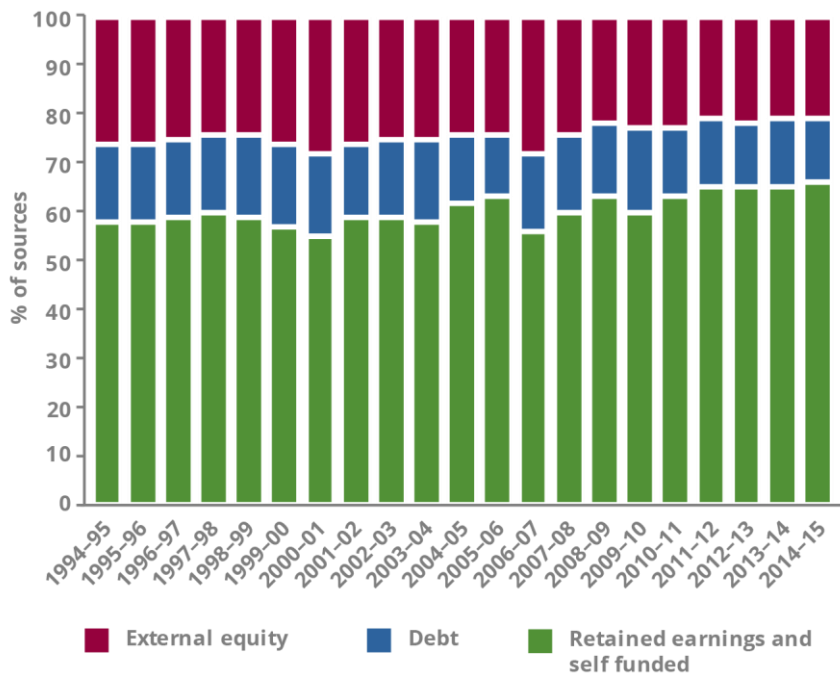
## Lease expiry profile



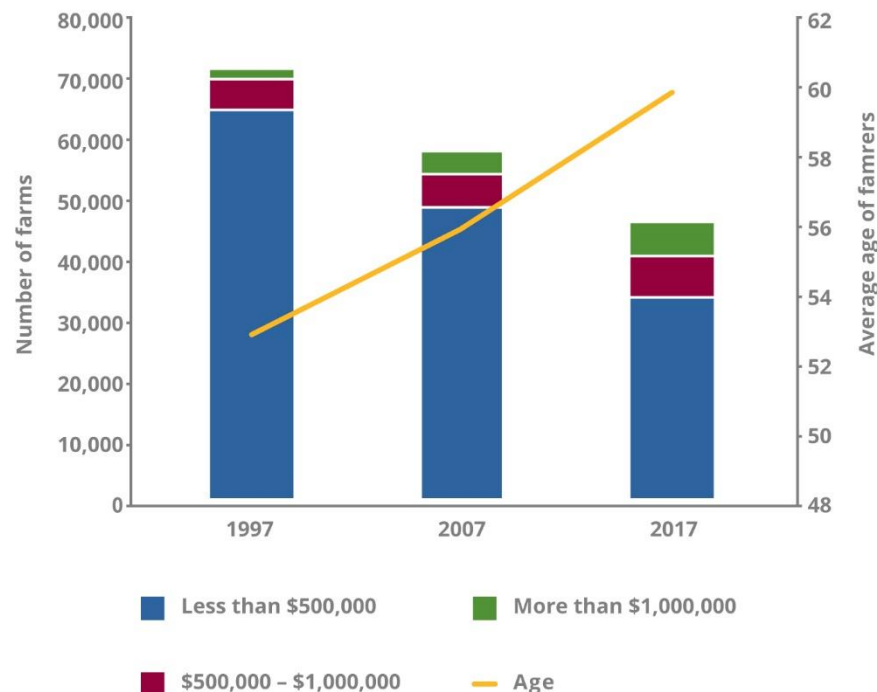
# Favourable acquisition environment

Capital constraints have limited operator's ability to undertake productivity improvements. The need for intergenerational transfer provides acquisition and development opportunities.

### Capital sources for investment update<sup>1</sup>



### Farms by size and average age of farmers<sup>2</sup>



Notes:

1. Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) AGSURF Data 2017.
2. ABARES AGSURF Data 2018. Data represents ABARES defined broadacre sector of Australian agriculture (cropping, livestock and mixed operation thereof). Broadacre data set used in order to show segmentation by size of farm. Total farm number for 2017 was 85,681. Size of farm is defined as gross turnover (total cash receipts plus build up of trading stocks).



# Manager with multi sector expertise

**RFM is a fund and farm manager with 22 years' experience in Australian agriculture, with operational and development experience across multiple agricultural sectors.**

1997

**1997**

RFM established by David Bryant.

**1998-2018**

Land and water acquired at Hillston, NSW, to develop irrigated cotton fields. Cotton crops planted each year.

**2000**

Vineyards developed in the Barossa Valley & Adelaide Hills, SA. Continue to supply icon quality grapes to Treasury Wine Estates.

**2003-2006**

Purchase of Bartter Enterprises 110 broiler chicken sheds in Griffith, NSW, becoming one of Australia's largest contract chicken growers. Developed an additional 24 sheds in Griffith, NSW, and 20 sheds in Lethbridge, Vic.

**2006-2018**

Developed 1,814 ha of almond orchards at Hillston, NSW, one of the first commercial plantings in the Riverina. An additional 3,100 ha of almond orchards developed in conjunction with Olam Orchards Australia.

**2016**

Acquired and operate 254 ha of macadamia orchards.  
Acquired and operate one backgrounding and two breeding cattle properties.

**2017**

Acquired and operate 4,800 ha cotton property.  
Acquired three contiguous cattle properties, totalling 390,600 ha.

**2018**

Acquired and operate 2,942 ha cotton property.  
Acquired three breeding and backgrounding cattle properties totalling 17,608 ha and three cattle feedlots.

2019

## Key farm management team and sector experience



**Harvey Gaynor**  
General Manager  
- Farming

31 yrs



**Daryl Winter**  
National Manager  
- Horticulture

39 yrs



**Adriaan Shields**  
National Manager  
- Poultry

18 yrs



**Scott Norval**  
National Manager  
- Macadamias

16 yrs



**Tim Sheridan**  
Chief Operating  
Officer & Manager of  
Cattle JV

10 yrs



**Matthew Mitchell**  
National Manager -  
Cropping

24 yrs



**Ben Leaper**  
Operations Manager  
- Cattle

3 yrs

# Rural Funds Management

RFM is a fund and farm manager with 22 years' experience in Australian agriculture.

## Key information

Established	1997
Assets under management	\$1.2 billion
Ownership	Directors & staff
Farm & operations staff	61
Funds management staff	46
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"> <li>• Compliance to financial, farming and reporting requirements of leases</li> <li>• Water asset management including obtaining approvals and engagement with government</li> <li>• Management of infrastructure e.g. ongoing and development capital expenditure</li> <li>• Coordination of regular independent valuations</li> <li>• Facilitating acquisitions</li> <li>• Managing lessee/customer relationships</li> </ul>

## Board and management team contacts and tenure



**Guy Paynter**  
 Non – Executive Chairman  
 9 yrs



**David Bryant**  
 Managing Director  
 22 yrs



**Michael Carroll**  
 Non – Executive Director  
 9 yrs



**Julian Widdup**  
 Non – Executive Director  
 2 yrs



**Stuart Waight**  
 Executive  
 16 yrs



**Tim Sheridan**  
 Chief Operating Officer  
 11 yrs



**Daniel Yap**  
 Financial Controller  
 7 yrs



**Harvey Gaynor**  
 General Manager – Farming  
 Less than 1 yr



**Emma Spear**  
 Company Secretary  
 11 yrs



**Dan Edwards**  
 National Manager – Rural Funds Group  
 14 yrs



**James Powell**  
 General Manager – Investor Relations & Marketing  
 11 yrs

# Glossary and table of abbreviations

Term	Definition
<b>Adjusted NAV</b>	Net Asset Value (NAV) adjusted for the independent valuation of water entitlements
<b>Adjusted total assets</b>	Total assets adjusted for the independent valuation of water entitlements
<b>ASX</b>	Australian Securities Exchange
<b>AFFO</b>	Adjusted funds from operations - a financial metric used in the REIT sector to measure available cash flow from operations (adjustment relates to non-cash tax expense)
<b>Counterpart</b>	A party other than RFF involved in a financial transaction, usually referring to the lessee of a property
<b>CPI</b>	Consumer Price Index
<b>DPU</b>	Distributions per Unit
<b>Fair value</b>	Value of an asset as determined by an independent valuation
<b>Feedlots</b>	A facility where livestock are provided a nutritious diet for the purpose of producing beef of a consistent quality and quantity
<b>FIRB</b>	The Foreign Investment Review Board
<b>Gearing</b>	Calculated as external borrowings divided by adjusted total assets

Term	Definition
<b>ha</b>	Hectare(s) - an area of 10,000m <sup>2</sup>
<b>Improved pasture</b>	Pasture with higher relative level of nutrition that is sown to increase livestock weight gain
<b>LVR</b>	Loan to valuation ratio - a bank covenant, calculated as debt divided by tangible assets (including water entitlements)
<b>ML</b>	Megalitre - a volume of 1,000,000 litres
<b>m</b>	Million(s)
<b>NAV</b>	Net asset value - calculated as assets less the value of liabilities (does not recognise fair value of water entitlements)
<b>Processor</b>	The operator of a slaughtering facility at which cattle are slaughtered and broken down into saleable beef
<b>Pro forma</b>	Financial statements based on certain assumptions and projections
<b>Standard Cattle Unit (SCU)</b>	A measure of feedlot capacity - one Standard Cattle Unit is equivalent to an animal with a liveweight of 600 kg
<b>Total assets</b>	Total value of assets as presented on the balance sheet (water entitlements recorded at the lower of cost or fair value)
<b>RFF</b>	Rural Funds Group (ASX:RFF)
<b>RFM</b>	Rural Funds Management Limited - manager and responsible entity for the Rural Funds Group



# Rural Funds Management

Managing good assets with good people

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