


Rural Funds Group

ASX:
RFF

Managed by:

An aerial photograph of a vast, green rural landscape under a bright blue sky with scattered white clouds. The terrain is flat with scattered trees and a small pond in the distance. The background shows a range of low mountains.

**Sale of poultry assets and
acquisition of cattle properties**

October 2019

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- 1. Fund update**
- 2. Portfolio impact**
- 3. Conclusion**
- 4. Appendices**

1

Fund update



Kleinig Vineyard during harvest, South Australia, March 2019.

Poultry asset sale

RFM has entered into agreements for the sale of RFF's 17 poultry farms to ProTen Investment Management Pty Ltd as trustee for ProTen Investment Trust (ProTen) for \$72.0m.^{1,2}

Poultry assets



Poultry sheds and feed silos, Griffith, NSW, February 2019.

- Eleven poultry farms have old infrastructure and grower agreements, with leases expiring FY24. Renewal of these contracts would require construction of new infrastructure, and therefore a material investment by RFF.
- Investment opportunities in natural resource intensive assets are more compelling.
- RFM concluded continued investment in this sector is better suited to businesses with greater economies of scale.
- Given the lead time for redeveloping farms, in 2017 RFM commenced the development application process for redevelopment of the older farms.
- RFM has determined it was best to bring forward an investment decision regarding the redevelopment or sale of the poultry assets.
- On 26 October 2019 RFM executed a sale agreement to sell all RFF poultry farms to ProTen. Subject to the sale conditions being satisfied, the transaction is forecast to occur in December 2019.¹

Note:

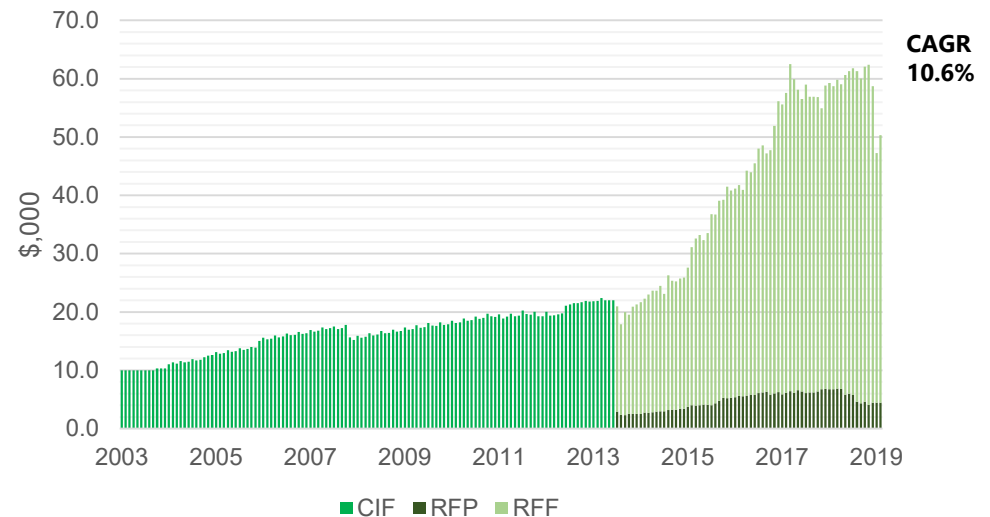
1. The sale is subject to certain conditions, including completion of an asset sale agreement between ProTen and RFM Poultry (NSX:RFP), the lessee and operator of the poultry farms, and approval of this asset sale by a simple majority of RFP unitholders.
2. The sale includes RFF's 17 poultry farms and its associated plant and equipment.

Poultry investor returns

RFM has managed the poultry assets since 2003. Unitholders have received a compound annual total return (CAGR) of 10.6%.

- RFM invested in the poultry industry in 2003. The investment entity was called the RFM Chicken Income Fund (CIF).
- Following a Unitholder vote in 2013 the CIF poultry sheds formed part of the Rural Funds Group (RFF). An operational entity was also established and listed on the National Stock Exchange in 2014, called RFM Poultry (RFP). CIF investors received units in RFF and RFP.
- The compound annual return to the initial CIF investors has been 10.6% per annum.

Value of \$10,000 invested in RFM Chicken Income Fund¹



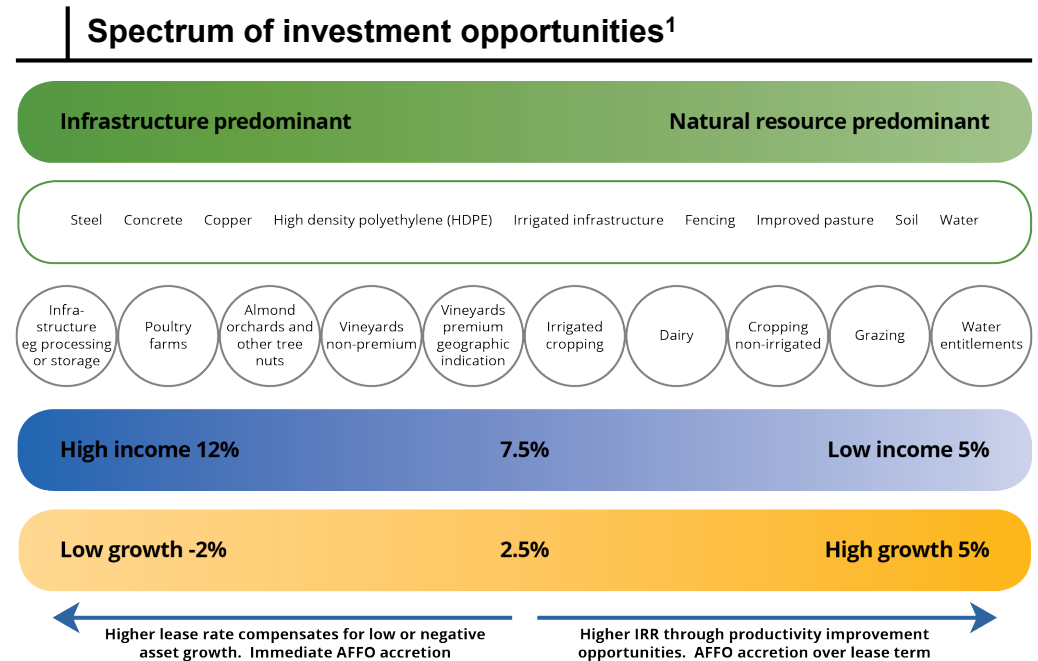
Note:

1. Key assumptions: Returns calculated from September 2003 to October 2019, Distributions (including the value of franking credits) reinvested at closing market price for month of payment. October 2019 closing prices of \$1.80 for RFF and \$0.72 for RFP.

Redeployment of capital

Funds from the sale of the RFF poultry farms will be redeployed to seek higher returns on investment.

- RFM has observed that higher investment returns are achievable from assets with under utilised natural resources. Productivity can be improved, which is reflected in value and then rental income.
- Higher investment returns are also available where assets can be developed to higher and better use.
- These two types of investment opportunity have greater natural resource intensity.



Note:

1. The income and growth figures presented in the graphic 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.

Property acquisitions

RFM is deploying two investment strategies; productivity gains and higher and better use.

Strategy 1: Productivity gains

- RFM has entered into options to acquire three cattle properties (Petro, High Hill and Willara) in Western Australia for \$22.6m (including estimated transaction costs), which will be leased Stone Axe Pastoral Company Pty Ltd.
- Additional investment will occur on these properties to address operational requirements, increase productivity, through grazing area development and additional irrigation.
- RFM continues to investigate additional opportunities in this sector.

Strategy 2: Higher and better use

- RFM is contracted to acquire the property Cygnet near Bundaberg, Queensland for \$1.6m (including transaction costs), to develop into a macadamia orchard.
- RFM will seek independent lessees for this development.
- RFM is investigating additional macadamia development opportunities.

Cattle property



Cultivation area, Rewan, Qld, August 2018.

Macadamia orchard

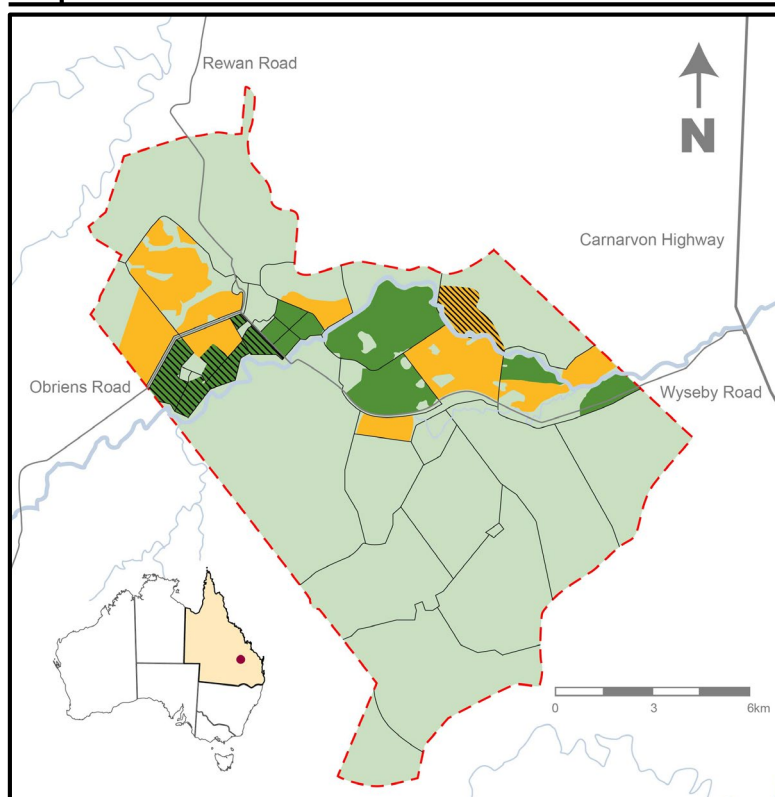








Moore Park orchard, Bundaberg, Qld, October 2017.

Replicating successful acquisitions

The recent lease of Rewan to Australian Agricultural Company is confirmation of Strategy 1.

Rewan, central Queensland



 14,047 ha grazing land	 485 ha existing Leucaena
 1,830 ha existing cultivation area	 160 ha new Leucaena
 1,602 ha developed cultivation area	 17,479 ha total area



- Based on the June 2019 independent valuation the compound annual return to RFF since acquisition is 19.3% per annum.¹
- Rewan was the first natural resource predominant investment acquired by RFF, in August 2016. Rewan was leased to Cattle JV, a wholly owned subsidiary of RFM.
- As of 30 June 2019 RFF has funded \$1.3m for capital improvements since acquisition, including additional water points, cultivation area and pasture improvement (see page 10).
- The developments have improved cattle carrying capacity and the capex attracted additional rent.
- From 1 October 2019 Rewan was leased to Australian Agricultural Company (ASX:AAC). A material uplift in lease revenue reflects the increased value and productivity of the property.

Note:

1. Calculation based on 35% gearing and is net of interest costs, management and holding costs, capital expenditure, and acquisition costs.

Natural resource developments

Strategy 1 is being deployed on a growing number of natural resource predominant assets, seeking to improve value and income over time.

 Cattle	Acquisition date	Rent review	Productivity improvements ¹	Initial	FY17	FY18	FY19	FY20f	FY21f
Mutton Hole and Oakland Park	July & August 2016	Year 5	Water points	102	4	5	2	6	-
			Pasture improvements	20,000 ha	20,000 ha	-	-	-	-
Rewan	August 2016 (re-leased October 2019)	Year 5	Water points	42	10	30	-	-	-
			Cultivation area	1,830 ha	668 ha	554 ha	380 ha	287 ha	-
			Pasture improvements	485 ha	-	160 ha	-	125 ha	320 ha
Natal aggregation	December 2017	Year 5	Water points	96		8	2	13	20
Cerberus	September 2018	Year 5	Cultivation area	-			-	-	200 ha
			Pasture improvements	-			-	250 ha	250 ha
Comanche	July 2018	Year 5	Cultivation area	1,000 ha			-	-	500 ha
			Pasture improvements	172 ha			-	-	500 ha
Dyamberin	October 2018	Year 5	Grazing area	1,175 ha			-	-	-
Woodburn	January 2019	Year 5	Grazing area	802 ha			-	-	-
Cobungra	March 2019	Year 5	Grazing area	4,221 ha			-	-	-
Petro, High Hill & Willara²	April 2020	Year 5	Irrigated area	200 ha				-	-
			Grazing area	5,459 ha					
 Cotton	Acquisition date	Rent review	Productivity improvements	Initial	FY17	FY18	FY19	FY20f	FY21f
Lynora Downs	December 2016	See note 3	Water storage	10,405 ML	-	4,142 ML	-	-	-
			Irrigated cropping	779 ha	-	177 ha	174 ha	-	-
Mayneland	September 2018	See note 4	Water storage	5,700 ML	-	-	-	-	2,900 ML
			Irrigated cropping	485 ha			-	-	246 ha

Notes:

- Pasture development refers to stylo on RFF's North Qld properties, and intensive pastures including Leucaena on Central Qld properties. Cultivation area refers to development of additional areas for planting forage crops such as oats. Development of grazing area for southern properties involves investments such as fertiliser to improve production of the existing area.
- The Petro, High Hill and Willara cattle property acquisitions are expected to settle in April 2020.
- The Lynora Downs lease has a five-year term with an option to continue the lease for an additional five years with lease revenue income based on an independent valuation.
- RFM will lease Mayneland for FY20 and commence development to improve the productivity of this asset. A third-party lessee will be sought for FY21 and beyond.

2

Portfolio impact

Wheat crop on Lynora Downs, central Queensland, July 2019.

Portfolio update

FY20 forecast distributions of 10.85 cpu remain; reflecting a forecast payout ratio of 81%.

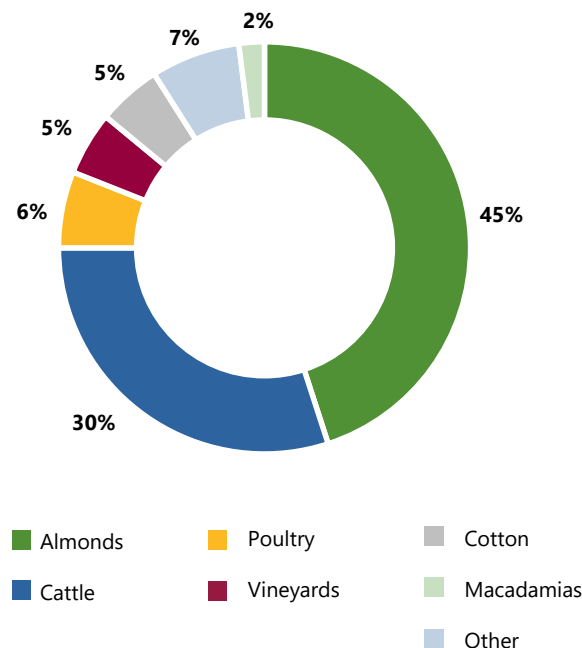
FY20 forecasts

	Disclosed 27 Aug 19 ¹	Revised ²
AFFO per unit	14.0 cents	13.4 cents
Distributions per unit	10.85 cents	10.85 cents
AFFO payout ratio	77%	81%
Number of properties	50	36
Number of agricultural sectors	6	5
Weighted average lease expiry (WALE) ³	11.3 years	11.0 years

Key metrics (30 June 2019)

	As at 30 June 2019	Pro forma ²
Adjusted total assets ⁴	\$945.9m	\$919.0m
Adjusted net assets ⁴	\$602.6m	\$598.8m
Adjusted NAV per unit ⁴	\$1.80	\$1.79
Gearing ⁵	31.2%	29.6%

FY20 forecast revenue by sector



Notes:

- Includes Beef City feedlot \$12.7m (settled Aug 2019), Riverina feedlot \$11.6m (expected to settle Dec 2019), Cygnet macadamia development \$1.6m (expected to settle Oct 2019).
- Includes acquisitions described in note 1, the sale of poultry assets \$72.0m (subject to RFP unitholder approval, expected to settle Dec 2019) and Petro, High Hill and Willara cattle property acquisitions \$22.6m (expected to settle Apr 2020).
- Lease expiries weighted by forecast FY20 rental income.
- Adjusted assets incorporates most recent independent property valuations, inclusive of water entitlements.
- Gearing calculated as external borrowings/adjusted total assets.

Sectors and assets

The portfolio includes 36 properties diversified across five agricultural sectors and multiple climatic zones.^{1,2}

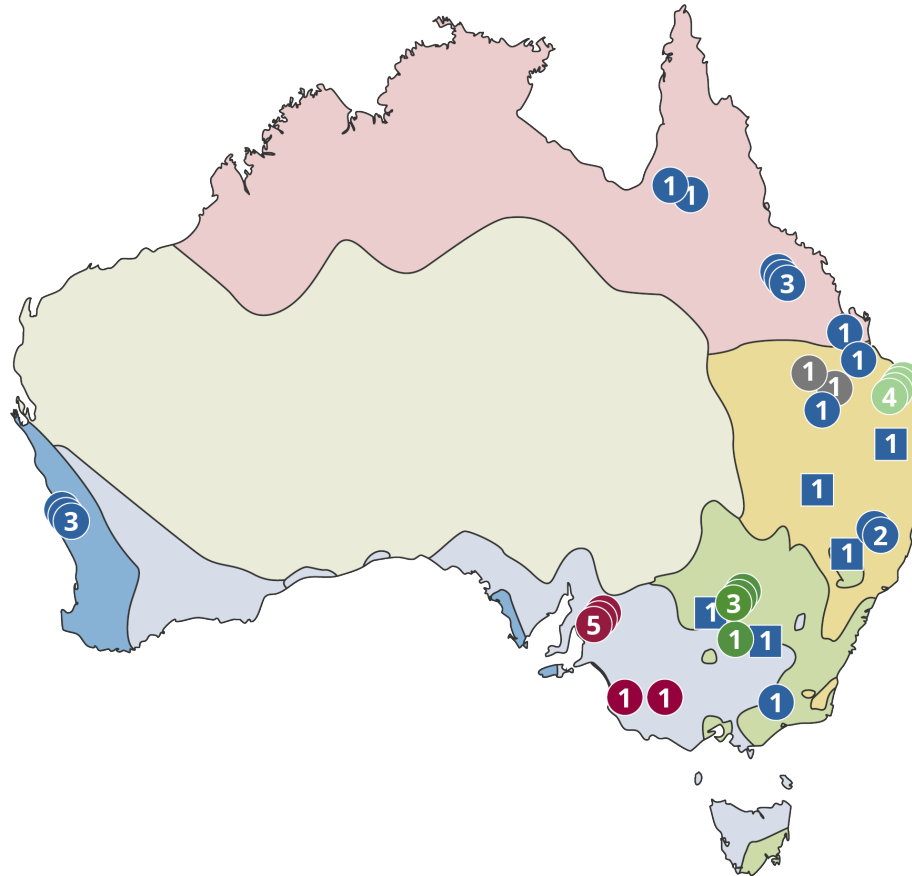
Cattle



Properties:	19
Description:	665,241 ha of breeding and backgrounding land. 150,000 head feedlot capacity
FY19 value ² :	\$297.0m
FY20f rent:	\$21.9m
Water entitlements:	6,717 ML

Vineyards

Properties:	7
Description:	666 ha of premium vineyards
FY19 value:	\$64.1m
FY20f rent:	\$3.9m
Water entitlements:	948 ML



Cotton



Properties:	2
Description:	1,615 ha of irrigated cropping and 4,368 ha of dryland cropping land
FY19 value:	\$51.4m
FY20f rent:	\$3.3m
Water entitlements:	32,667 ML

Macadamias



Properties:	4
Description:	259 ha of orchards
FY19 value ² :	\$15.9m
FY20f rent:	\$1.5m
Water entitlements:	1,120 ML

Almonds



Properties:	4
Description:	1,814 ha of mature orchards and 3,100 ha of recently developed orchards
FY19 value:	\$425.9m
FY20f rent:	\$33.4m
Water entitlements:	69,886 ML







Notes:

1. Shaded areas denote climatic zones differentiated by rainfall seasonality. Source: Bureau of Meteorology; see RFF Climatic Diversification discussion paper, 20 June 2016.
2. Map and sector information includes 30 June 2019 pro forma for Beef City feedlot (settled Aug 2019), Cygnet macadamia development (expected to settle Oct 2019), Riverina feedlot (expected to settle Dec 2019), Petro, High Hill and Willara cattle property acquisitions (expected to settle April 2020). Blue square boxes on map denote cattle feedlots. Excludes Poultry assets (sale expected to settle Dec 2019).

Key lessees and counterparts

Lessees and counterparts include leading agricultural producers and processors.

Largest lessees by FY20 annualised revenue¹

Lessee	Description
Olam Orchards Australia 	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.
Select Harvests (ASX:SHV) 	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.
JBS Australia 	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. Includes income paid under the guarantee to J&F Australia (wholly owned subsidiary of RFM).
Stone Axe 	Stone Axe Pastoral Company is a premium beef company. Stone Axe's core focus is its vertically-integrated premium full-blood Wagyu production. Its equity investors include Roc Partners and the NSW State Government.
RFM Almond Fund 	The RFM Almond Fund (RAF) operates 592 ha almond orchard on behalf of approx. 400 investors. RFM intends to apply for RAF to be listed on the NSX in FY20.
Treasury Wine Estates (ASX:TWE) 	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.
DA and JF Camm 	Part of the Camm Agricultural Group, an integrated cattle business operating nine properties including a 9,000 SCU feedlot in southern Queensland.
Cotton JV & Queensland Cotton 	Cotton JV Pty Ltd is a joint venture between Queensland Cotton and RFM. Queensland Cotton, a subsidiary of Olam, is the largest cotton merchant in Australia. Owing 10 ginning facilities across Queensland and New South Wales, Queensland Cotton delivers cotton to major global markets. RFM has over 20 years of cotton growing experience.
Australian Agricultural Company (ASX:AAC) 	Established in 1824, Australian Agricultural Company (ASX:AAC) is Australia's largest integrated cattle and beef producer, and the oldest continuously operating company in Australia. AAC operates a balance of properties, feedlots and farms comprising approximately 6.4 million hectares of land in Queensland and the Northern Territory, or 1% of Australia's landmass. AAC has a market capitalisation of \$0.6b.

Note:

1. Lessees shown by annualised FY20f revenue and reflecting the sale of the poultry assets and settlement of Petro, High Hill and Willara cattle properties.

3

Conclusion



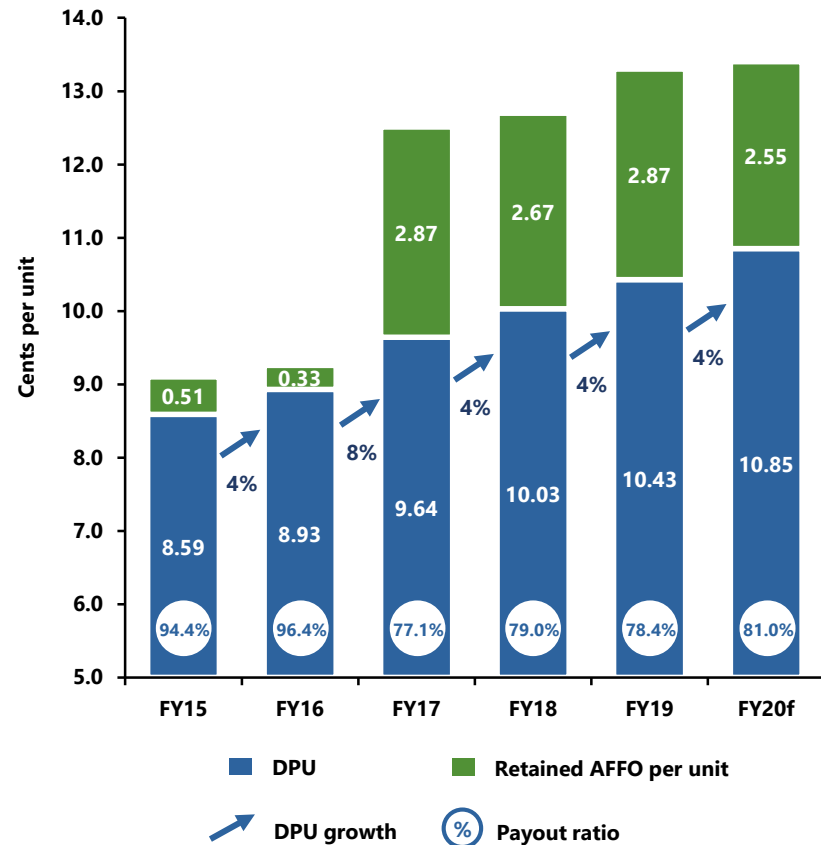
Cattle grazing, Rewan, central Queensland, June 2019.

Conclusion

RFF aims to provide investors consistent and increasing income. It achieves this by owning and improving the productivity of farms that are leased to good counterparties.

1. The sale of the poultry assets brings forward an investment decision relating to old assets requiring redevelopment.
2. The proceeds of the sale will be reinvested in assets with the potential to generate higher returns. Assets will be acquired that are suited to two proven investment strategies: productivity gains, or higher and better use.
3. RFF has successfully completed investments using these two investment strategies in numerous instances.
4. The transactions will marginally reduce AFFO in the short term, then deliver higher AFFO growth in the medium and long term.
5. This will improve RFF's ability to consistently grow distributions.
6. The transactions are well planned and a positive early initiative for RFF.

DPU, DPU growth, AFFO retention and payout ratio



4 Appendices

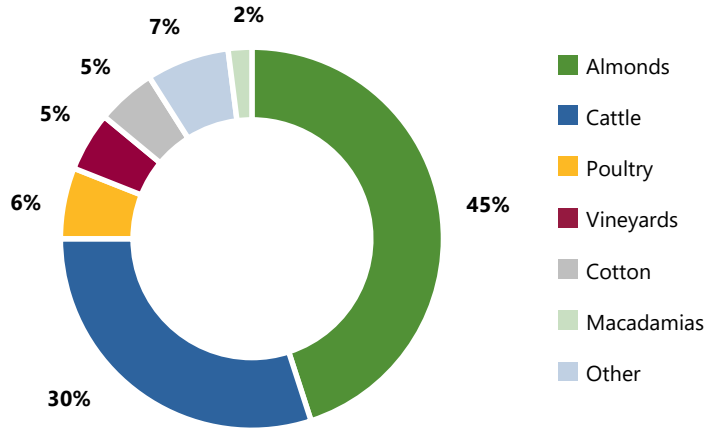


Mayneland cotton crop, central Queensland, March 2019.

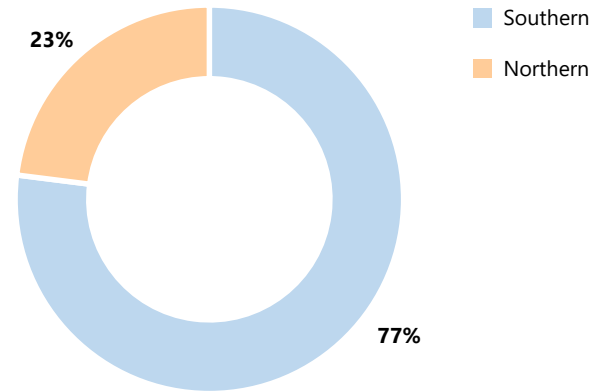
Portfolio diversification

RFM continues to seek to diversify RFF by sector, asset type and climatic zone.

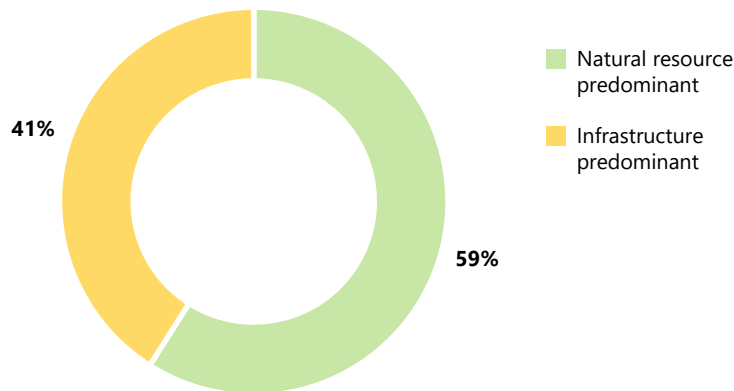
Sector (FY20f revenue)



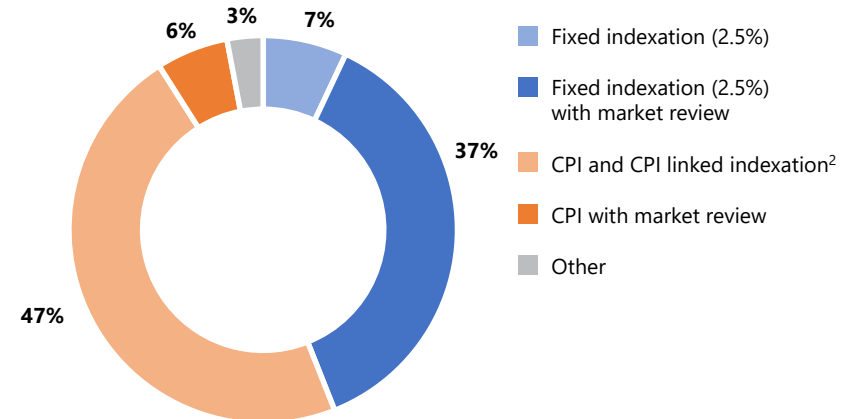
Climatic zone (FY20f revenue)



Asset type (FY20f revenue)¹



Indexation (FY20f revenue)³



Notes:

- Assumes: Poultry, feedlots (and guarantee fee) are infrastructure predominant; vineyards, cotton and cattle properties are natural resource predominant; almond and macadamia orchards are split equally.
- CPI linked indexation refers to RFM Poultry which is 65% of CPI capped at 2%.
- Excludes non-lease revenue from JBS guarantee fee, temporary water sales, and P&E licences.

Capital expenditure

FY19 capex of \$43.1m and forecast capex of \$28.0m (FY20 and FY21) attracts rent as it is deployed.¹

	FY19 (\$m)	FY20f (\$m)	FY21f (\$m)	Total forecast (\$m)	Description
Almonds	35.3	9.9	-	9.9	Water acquisitions for Kerarbury complete in FY19. FY20 capex primarily for remaining Kerarbury infrastructure.
Cattle²	2.9	3.4	5.9	9.3	Productivity developments and infrastructure.
Poultry³	1.1	0.3	-	0.3	Water sanitation plant and equipment.
Cotton²	3.2	2.6	4.3	6.9	Productivity developments and infrastructure.
Vineyards	0.4	0.1	0.1	0.2	Grafting and redevelopment.
Macadamias	0.2	1.2	0.2	1.4	Infrastructure and Cygnet development.
Total (\$m)	43.1	17.5	10.5	28.0	

Notes:

1. Table based on FY20 Budget numbers amended to include estimated expenditure for Petro, High Hill and Willara cattle properties.
2. Includes forecast figures for identified development opportunities which are yet to be finalised with lessees.
3. Additional capital expenditure of \$0.9m (FY19) does not attract rent and is not included.

Independent valuations

RFM has a policy to independently value assets at least every two years and rotate valuers every three years.

Asset and last independent valuation date

Sector	Asset	Brief asset description ¹	Last independent valuation (by reporting date)	Valuer
Almonds	Mooral	808 ha mature orchard, NSW	June 2019	JLL
	Yilgah	1,006 ha mature orchard, NSW	June 2019	JLL
	Tocabil	600 ha orchard, NSW	June 2019	JLL
	Kerarbury	2,500 ha orchard under development, NSW	December 2018	CBRE
Cattle	Mutton Hole	140,300 ha breeding property, Qld	June 2019	CBRE
	Oakland Park	85,500 ha breeding property, Qld	June 2019	CBRE
	Rewan	17,479 ha backgrounding property, Qld	June 2019	CBRE
	Natal Aggregation	390,600 ha breeding and backgrounding properties, Qld	December 2017	CBRE
	Comanche	7,600 ha breeding and backgrounding property, Qld	June 2018	CBRE
	Cerberus	8,280 ha breeding and backgrounding property, Qld	December 2018	CBRE
	Dyamberin	1,728 ha breeding and backgrounding property, NSW	December 2018	CBRE
	Woodburn	1,063 ha breeding and backgrounding property, NSW	December 2018	CBRE
Cobungra	6,500 ha breeding and backgrounding property, Vic	June 2019	Colliers	
Cotton	Lynora Downs	4,880 ha cropping property, Qld	June 2019	CBRE
	Mayneland	2,942 ha cropping property, Qld	December 2018	JLL
Poultry	Griffith sheds	134 sheds on 13 farms, NSW	June 2018	Opteon
	Lethbridge sheds	20 sheds on four farms, Vic	June 2018	Opteon
Macadamias	Swan Ridge, Moore Park, Bonmac	259 ha orchards, Qld	June 2018	CBRE
Vineyards	Kleinig, Geier, Hahn, Mundy, Murphy, Rosebank, Dohnt	666 ha vineyards, SA and Vic	June 2019	Colliers
Water	Murrumbidgee High Security	8,754 ML entitlement	June 2019	CBRE

Note:

- Many of the assets have ancillary assets which are not included in the brief description, for example additional land. These ancillary assets also form part of the independent valuation.

Historical financial metrics

Key financial metrics

	FY15 \$m	FY16 \$m	FY17 \$m	FY18 \$m	FY19 \$m
Total comprehensive income	10.2	34.8	34.2	44.0	33.1
Adjusted funds from operations (AFFO)	11.0	14.3	25.6	32.3	43.2
Distributions	10.7	14.0	21.1	25.6	34.8
Total Adjusted assets ¹	262.2	407.5	587.5	723.6	945.9
Adjusted Net asset value ¹	161.5	236.3	402.2	428.6	602.6
External borrowings	92.1	149.5	167.7	273.2	295.3
Gearing ² (%)	35%	37%	29%	38%	31%

Key financial metrics per unit

	FY15 cpu	FY16 cpu	FY17 cpu	FY18 cpu	FY19 cpu
Total comprehensive income per unit	8.4	22.5	16.7	17.3	10.1
AFFO per unit	9.1	9.3	12.5	12.7	13.3
Growth (%)	n/a	1.76%	35.10%	1.52%	4.72%
Distributions per unit	8.59	8.93	9.64	10.03	10.43
Growth (%)	n/a	4.0%	8.0%	4.0%	4.0%
Adjusted Net asset value ¹ per unit	1.22	1.43	1.58	1.68	1.80
Growth (%)	n/a	16.90%	10.66%	6.03%	7.54%
AFFO Payout ratio (%)	94%	96%	77%	79%	78%

Notes:

- Adjusted assets incorporates most recent independent property valuations, inclusive of water entitlements.
- Gearing calculated as external borrowings/adjusted total assets.

Rural Funds Management

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

Key information – 30 June 2019

Established	1997
Assets under management	\$1.2 billion
Ownership	Directors and staff
Farm and operations staff	111
Funds management staff	52
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 and 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

9 years



David Bryant
Managing
Director

22 years



Michael Carroll
Non – Executive
Director

9 years



Julian Widdup
Non – Executive
Director

2 years



Stuart Waight
Executive Manager

16 years



Tim Sheridan
Chief Operating
Officer

11 years



Daniel Yap
Financial
Controller

7 years



Harvey Gaynor
General Manager
– Farming

Less than 1 year



Emma Spear
Company Secretary

11 years



Dan Edwards
National Manager –
Rural Funds Group

14 years



James Powell
General Manager – Investor
Relations and Marketing

11 years

Glossary and table of abbreviations

Term	Definition
Adjusted NAV	Net Asset Value (NAV) adjusted for the independent valuation of water entitlements
Adjusted total assets	Total assets adjusted for the independent valuation of water entitlements
ASX	Australian Securities Exchange
AFFO	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)
Counterpart	A party other than RFF involved in a financial transaction, usually referring to the lessee of a property
CPI	Consumer Price Index
DPU	Distributions per Unit
Fair value	Value of an asset as determined by an independent valuation
Feedlots	A facility where livestock are provided a nutritious diet for the purpose of producing beef of a consistent quality and quantity
FIRB	The Foreign Investment Review Board
Gearing	Calculated as external borrowings divided by adjusted total assets
ha	Hectare(s) - an area of 10,000m ²

Term	Definition
Improved pasture	Pasture with higher relative level of nutrition that is sown to increase livestock weight gain
IRR	Internal rate of return
LVR	Loan to valuation ratio - a bank covenant, calculated as debt divided by tangible assets (including water entitlements)
ML	Megalitre - a volume of 1,000,000 litres
m	Million(s)
NAV	Net asset value - calculated as assets less the value of liabilities (does not recognise fair value of water entitlements)
Processor	The operator of a slaughtering facility at which cattle are slaughtered and broken down into saleable beef
Pro forma	Financial statements based on certain assumptions and projections
Total assets	Total value of assets as presented on the balance sheet (water entitlements recorded at the lower of cost or fair value)
RFF	Rural Funds Group (ASX:RFF)
RFM	Rural Funds Management Limited - manager and responsible entity for the Rural Funds Group
RFP	RFM Poultry (NSX:RFP)



Rural Funds Management

Managing good assets with good people

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