

ASX Release

2 March 2020

Subject: Meetings to approve an increase of the Guarantee to J&F Australia Pty Ltd

Rural Funds Management Limited (RFM), as responsible entity of the Rural Funds Group (ASX:RFF), today released a Notice of Meetings and Explanatory Memorandum dated 2 March 2020 (EM). The purpose of the Meetings are to seek Unitholder approval to increase RFF's Guarantee to J&F Australia Pty Ltd.

Key reasons RFM is proposing to increase the Guarantee Unitholders include:

- **Good sector:** Australia possesses a comparative advantage in the cattle sector, one which RFM has direct operational knowledge.
- **Good counterparty:** The Guarantee is backed by a subsidiary of JBS S.A., the world's largest meat processor with a market capitalisation of A\$24.0 billion.
- **AFFO accretive:** A return of 10.23% (FY19) was generated by the Guarantee. RFM has increased forecast FY20 adjusted funds from operations (AFFO) to 13.5 cents per unit to reflect an approved increase of \$7.5 million for the remainder of FY20.
- **Consistent with REIT structure:** The structure of the Guarantee quarantines operating risks, responsibilities and maintains RFF's Real Estate Investment Trust (REIT) structure.
- **Prior Unitholder endorsement:** Unitholders approved the Guarantee on 10 August 2018, with 99.8% of votes in favour.
- **Independent Expert assessment:** The Independent Expert 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.

Timeline

Announcement of Meetings to approve the Additional Guarantee	2 March 2020
EM and Proxy Form posted to Unitholders	10 March 2020
Unitholder webinar – details to be release via ASX	TBA
Proxies close	11:00am (AEST), 12 April 2020
Meetings (RFM, Level 2, 2 King St Deakin ACT)	11:00am (AEST), 14 April 2020

Background to the Guarantee

In August 2018, Unitholders approved the provision of a \$75.0 million limited guarantee (Initial Guarantee) to J&F Australia Pty Ltd (J&F), a wholly owned subsidiary of RFM. The Initial Guarantee was approved with a ten-year term for which RFF is paid a monthly fee (Guarantee Fee). The FY19 annualised return to RFF on the Initial Guarantee was 10.23% (see EM section 4.4).

At the same time, RFF agreed to purchase five of JBS Australia Pty Limited's (JBS) Australian feedlots and lease those properties back to JBS. The Initial Guarantee allows J&F to supply JBS with cattle, feed and associated costs used to stock seven feedlots.

Proposed increase to the Guarantee

Since the implementation of the arrangements between J&F and JBS (JBS Arrangements), the total cost of cattle and number of head have increased at the feedlots due to favourable market conditions. This trend is expected to continue during 2020 with increased demand internationally for JBS's Australian beef, and a shortage of grass-fed beef due to drought. As a result of this growth in demand, JBS has requested an increase in the existing arrangements with J&F. An increase to J&F's borrowings would require a commensurate increase in the amount of the Guarantee.

In order to facilitate JBS's immediate requirements, J&F will seek to increase its borrowings by \$25.0 million. This increase requires an additional \$7.5 million to the Initial Guarantee to be provided by RFF. However, Unitholder approval is sought to increase the Initial Guarantee by up to \$25.0 million (the Additional Guarantee), to a maximum of \$100.0 million (the Guarantee) to cover potential future operational requirements.

The Additional Guarantee amount of \$25.0 million is a variation to the Initial Guarantee approved by Unitholders in August 2018. As J&F is a wholly owned subsidiary of RFM, the Additional Guarantee also requires Unitholder approval under ASX Listing Rule 10.1. The Meetings are therefore being convened to consider the Resolution to approve the Additional Guarantee. Details of the Resolution and the Guarantee are provided in the EM.

This EM contains important information in relation to the Guarantee and a discussion of the benefits and risks of the Guarantee. Please read the EM carefully in its entirety before making your decision and voting (whether in person, by corporate representative or by proxy) at the Meetings.

RFM will hold a webinar for Unitholders after documents have been posted, with details to be announced via the ASX. In the interim, if Unitholders have any questions, please contact Investor Services on 1800 026 665 or investorservices@ruralfunds.com.au.

About Rural Funds Group (RFF)

RFF owns a diversified portfolio of high quality Australian agricultural assets. RFF's investment objective is to generate a stable income stream derived from leasing its assets to suitable counterparts and capital growth through any appreciation in the value of those assets. RFF is a stapled security, incorporating Rural Funds Trust (ARSN 112 951 578) and RF Active (ARSN 168 740 805), trading under the ASX code 'RFF'. Rural Funds Management Ltd (RFM) is the responsible entity of RFF.

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