

# Newsletter

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## About Rural Funds Management

Rural Funds Management Limited (RFM) is one of the oldest and most experienced agricultural fund managers in Australia. Established in 1997, RFM employs over 250 staff in fund and asset management activities and manages approximately \$2.4 billion of agricultural assets. The company operates from a head office in Canberra and has additional offices in Sydney and regional Queensland.

RFM has a depth of experience accumulated over 27 years owning, developing and operating Australian farmland, agricultural infrastructure and other assets. Sector experience includes almonds, poultry, macadamias, cattle, cropping, viticulture and water. Assets are located throughout New South Wales, Queensland, South Australia, Western Australia and Victoria.

RFM is the responsible entity for Rural Funds Group (RFF), an ASX-listed real estate investment trust that owns a \$2.0 billion portfolio of diversified agricultural assets including almond and macadamia orchards, premium vineyards, water entitlements, cattle and cropping assets.

RFM's company culture is informed by a precision-based approach to asset management and its longstanding motto of "Managing good assets with good people".

Scan the QR code to learn more.





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# Agriculture: from simple beauty to modern innovation

David Bryant, Managing Director

This article is a brief commentary on six photographs presented for either their beauty or their implication. The first four photographs were taken by Martin Martinček (1913–2004), a Slovak lawyer who captured the landscape and people of Slovakia in the 1960s and 70s.

Martinček's photography is distinguished by the quiet of rural landscapes and lives conveyed with perfect light, caught at the perfect time. His pictures document rural life and landscape before it passed so recently into modernity. They are a remarkable record that conveys pathos, joy and the beauty of an



Figure 1: Sheep grazing on terraces. Photo by Martin Martinček, *'Ovečky na paši'* (Sheep on pasture) 1964–1967, source Slovenská národná galéria (Slovak National Gallery).

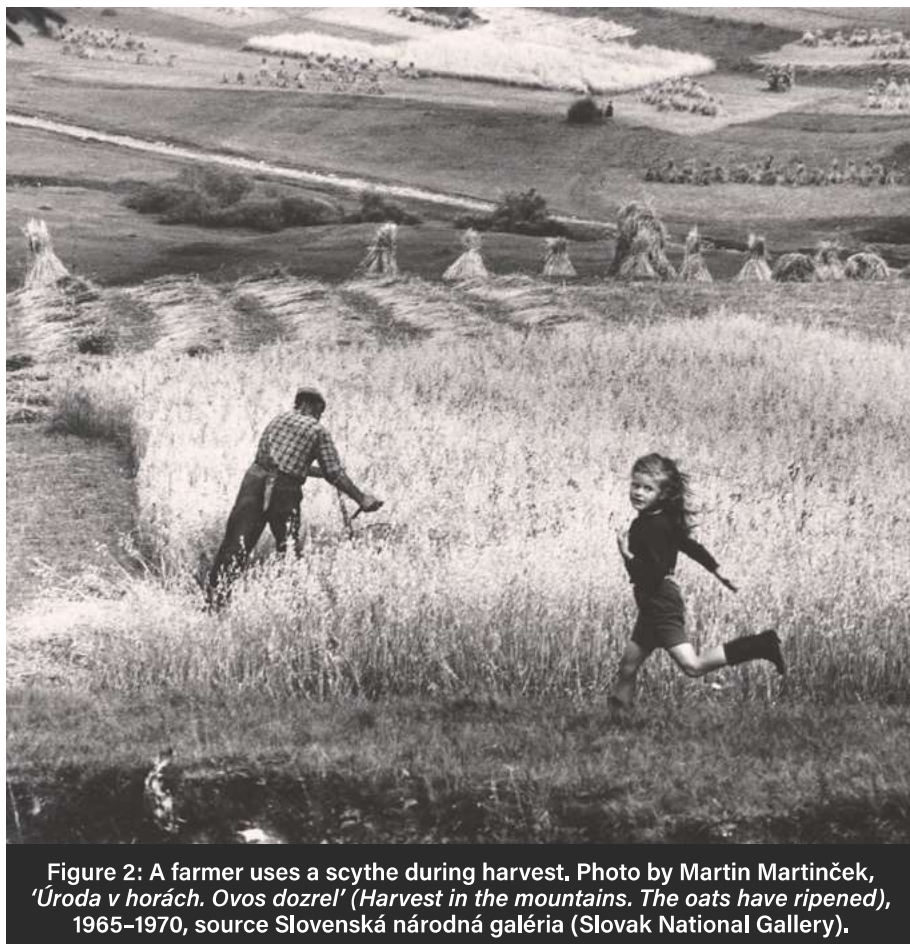


Figure 2: A farmer uses a scythe during harvest. Photo by Martin Martinček, 'Úroda v horách. Ovos dozrel' (Harvest in the mountains. The oats have ripened), 1965–1970, source Slovenská národná galéria (Slovak National Gallery).

communist government arrested and imprisoned Martinček as a 'bourgeois nationalist'. He was then evicted from Bratislava (today's capital) and compelled to work in a brick factory and, later, a chicken farm. However, by the late 1950s, he became an art photographer and, between 1964 and 2001, published ten books of photographs with several collaborations with important Slovak writers.

Photographs of the environment often featured terraced slopes beautifully lit by a rising or setting sun. Terraces that had been developed in the 14th century with the Wallachian (part of modern-day Romania) colonisation brought new agricultural practices and land tenure. This began to reshape the landscape (see Figure 1).

environment crafted by centuries of people farming. The motive force of Martinček's talent was most probably hardship and grief.

By February 1945, the German army, under attack from the Russian army, had retreated from Central Europe. On 6 February, Martinček, with his wife, their two young sons and his father, were returning home:

*When the front passed through eastern Slovakia, he and his family wanted to get home, to Sabinov, to the liberated territory. He got a military car, loaded his relatives on it, and they set off. They came to the flooded Torysa, to the torn bridge. With the driver, he wanted to see how it was possible to cross the river. They got out, and the*

*car, despite being braked, started moving on the frozen ground. It collapsed into the icy water. They all died in it.*<sup>1</sup>

By October of the same year, Martinček, who was not yet an artistic photographer, published a small book entitled *To His Wife and Children*. Passages within the book convey the writer's remorse, depression and deep grief:

*Oh, what a sad and strange thing my life is / an old forgotten bell tower, / into which you will no longer come to move the heart of the bell / cold, cracked / thrown to the ground by the merciless order of God.*

Another setback occurred three years later when the new

Other photographs include farmers using agricultural implements such as scythes and horse-drawn ploughs (see Figures 2 and 3). Tools unchanged since medieval times were still widely used in the region into the 1970s despite the mechanisation and modernisation of agriculture that had been occurring in the West for a century.

Martinček's observant mind combined with a hard-won talent to produce depictions of a way of life which had lasted seven hundred years, and which would soon pass as the collapse of communism in the late 1980s imposed competition from international agricultural markets and practices. Medieval agricultural production was

**Note:**

1. Gustáv Martinček, Martinček's cousin, quoted from biographical document,



Figure 3: Horse-drawn ploughs were used through the 1960s and 1970s. Photo by Martin Martinček, *'Orba III' (Plowing III)* 1960–1966, source Slovenská národná galéria (Slovak National Gallery).



Figure 4: Martinček's photography captured the sentiment and beauty of rural life. Photo by Martin Martinček, *'Dievčatko s anjelom' (Little girl with an angel)*, 1963–1964, source Slovenská národná galéria (Slovak National Gallery).

uncompetitive, forcing under-capitalised farmers to seek paid work and abandon family plots that had been farmed for centuries.

Similar changes had occurred from the late 19th century in rural communities in Western countries, including Australia. While there are photographs of pre-modern agricultural practices and people, they are almost invariably characterised by the stiff Victorian-era poses typical of early photography. For this reason, Martinček's photographs, which capture the sentiment and beauty of what once was, evoke great poignancy (see Figure 4).

Reflections of this nature make the mind more aware of changes occurring in agriculture in the present day – particularly during visits to farms and farming communities. Figure 5 is a picture taken recently by a roadside in central Queensland. It is a picture notable for its absence of artistic quality and the fact that there is no cabin and no driver controlling the spraying equipment in use. It is a picture of a robot used for cropping applications, produced by SwarmFarm Robotics, a manufacturer of robotic tractors. Many such machines are purpose-built machines, being smaller and lighter so as to cause less compaction to fertile farm soils.

Robot tractors from a number of manufacturers are quickly becoming a common site across rural Australia, and a Rural Funds Group macadamia orchard will soon take delivery

of the first of probably many robots. The new machine can mow orchard mid-rows up to 24 hours per day with minimal human input. Other applications for these machines include spraying, tillage and annual crop planting, with new tools for other tasks under development. Seeing these machines in action reinforces the fact that agriculture

is going through a period of major productivity gain, as multiple companies develop and deploy robots that save labour and produce more uniform work.

Figure 6 is a photograph of a sorting machine installed at Marquis Macadamias, the processor and marketer of macadamias produced on RFF

farms. Unlike traditional sorting machines that sort into 'accept' and 'reject' streams of output only, this system can separate nuts into six different product streams based on a combination of size and surface appearance using artificial intelligence-based algorithms. The machine uses cameras to capture images of individual nuts as they are rolled through 360 degrees at a pace that enables 500,000 nuts to be sorted each hour. This machine is an example of new technology that is rapidly changing the labour requirement for the processing of agricultural commodities.



Figure 5: A robot tractor developed by SwarmFarm.



Figure 6: Sorting machines at the Marquis Macadamias processing facility.

## Conclusion

The first four photographs in this article capture the beauty of landscapes and the dignity of people from an era that has now passed. Their achievement as works of art is undoubtable, and their contribution as a historical record of former ways of life is profound.

The final two photographs portray a new wave of technological development that marks the beginning of robotic agriculture, which will bring enormous change to rural people's lives and the economics of farming.

# The impacts of natural resource predominant assets

Over the past six years, Rural Funds Group (ASX: RFF, the Fund) has substantially increased its exposure to 'natural resource predominant' assets. The following article discusses the implications of this strategy.

An update is also provided on various transactions and other activities since August's full-year financial results.

Since listing in 2014, RFF has evolved significantly, growing its portfolio, expanding into new agricultural sectors and enhancing earnings. Figure 1 presents various metrics over the past 10 years, including revenue generation by agricultural sector, earnings, distributions, payout ratio and net asset values.

## Shifting the portfolio to growth assets

RFF's historical revenue generation by agricultural sector is outlined in Figure 1 via the horizontal bar charts, which are displayed for every second year.

These charts show that in FY14, RFF generated 47% of its revenue from the lease of poultry assets, 35% from

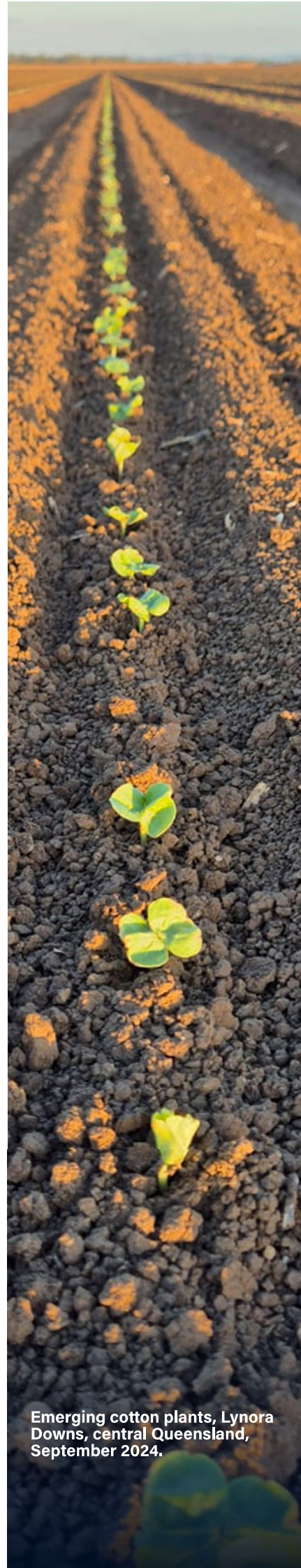
leasing almond orchards, and 14% from vineyards. For readability, 'other' income from non-core activities is excluded.

If we scan across these bar charts from left to right, we can observe the revenue generation from various agricultural sectors has changed over time.

Poultry revenue, which initially dominated the income generation of the portfolio, decreased through to FY20 and then stopped altogether as assets were sold. Almond revenue also initially increased as new orchards were developed, but then it too reduced, in part because of the sale of an orchard in FY21.

FY18 saw the emergence of three new sectors: cattle, cropping and macadamias. Initially, they collectively represented just 14% of revenue. Today, these three sectors have grown to contribute the majority of income for the portfolio.

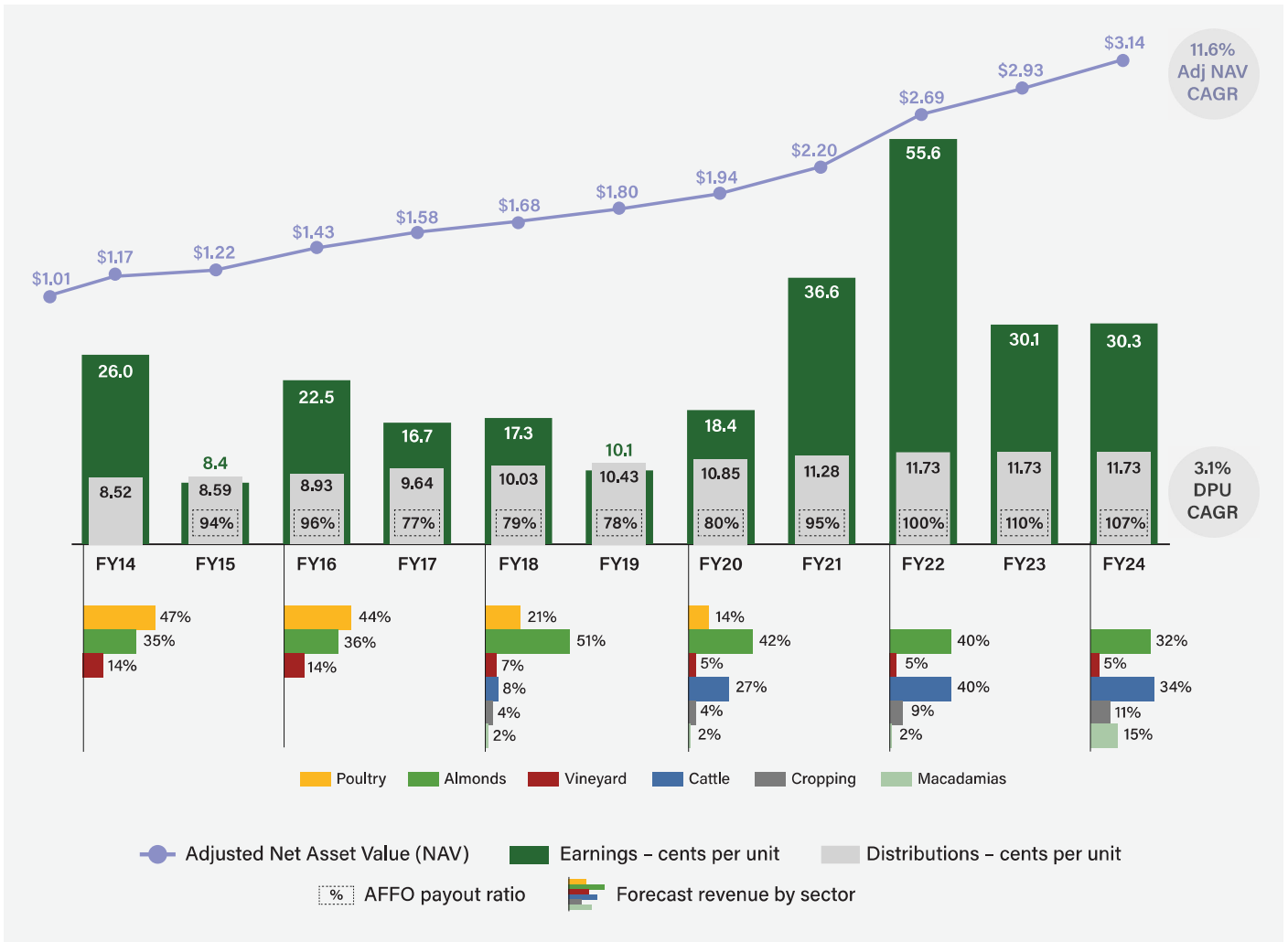
This shift to new sectors was part of RFF's broad strategy to increase exposure to 'natural resource' predominant assets. Higher capital growth prospects characterise these assets because their underlying asset



Emerging cotton plants, Lynora Downs, central Queensland, September 2024.



Figure 1: Portfolio and financial metrics since listing<sup>1</sup>



composition consists of large natural resource components, such as water entitlements and fertile soils.

Natural resource assets also provide the potential for additional capital growth through asset development strategies, including productivity improvements and higher and better use developments. These two strategies have been used extensively to achieve higher returns for unitholders.

### Capital growth and earnings

Following the strategy to target the acquisition of natural resources

or growth assets, we can observe in Figure 1 a distinct increase in earnings from FY21 (the green columns in the centre of the chart).

Figure 1 also shows the distributions that have been paid to investors (which are represented by the grey columns). The difference between the two, earnings and distributions, is largely the capital growth generated from assets.

This simplified analysis highlights that as additional natural resource assets have been added to the RFF portfolio, their capital growth has contributed to a significant

increase in earnings, which have averaged more than double in the past four years compared to the six full years prior.

The impact of capital growth is also reflected in the adjusted net asset value per unit. This has increased by over 50% over the past four years and, since inception has achieved compound growth of 11.6% annually.

### Capital growth, cash generation and distributions

The significant increase in earnings, driven primarily by the capital growth of the underlying farms, has also outpaced the

**Note:**

1. FY14 reflects part-year, with listing occurring in February 2014.



Young macadamia trees at Nursery Farm orchard, Bundaberg, central Queensland, October 2024.

growth in income generation. This is evident over the past three years, when looking at the 'adjusted funds from operations' (AFFO) payout ratio in Figure 1.

AFFO, broadly speaking, is the net cash that is generated by RFF and the primary source of funding for distributions.

A payout ratio below 100% indicates that *more* AFFO has been generated than what was paid in distributions. For the first eight full years, RFF's payout ratio was at or below 100%, supporting annual increases to distributions.

From FY23, RFF's payout ratio has exceeded 100%, which necessitated a pause to distribution increases. However, importantly, the payout ratio has decreased each subsequent year, indicating *growth* in AFFO.

RFF's AFFO is forecast to increase again in the current financial year, with the payout ratio to decrease to 102.9% (forecast).

Again, it is natural resource assets that are contributing to AFFO

growth, reflected by the lower payout ratio. There are two main reasons for this.

First, many of the natural resource assets have market rent review mechanisms in their leases, in addition to annual fixed increases. These mechanisms adjust the rent, usually every five years, according to the prevailing property valuation. During the periods in which asset values have increased rapidly, as they have been, the market rent review

mechanism provides valuable periodic rent increases.

Second, capital from the previously discussed sale of mature poultry and almonds assets was used in part to fund natural resource assets to develop to macadamia orchards. The rents generated from these assets are linked to the capital spent on their development. Therefore, income has increased materially and is expected to continue to increase.

## Conclusion

Over the past six years, RFF has substantially increased its exposure to 'natural resource predominant' assets. Many of these assets have been subject to value-add strategies such as productivity improvements and higher and better use developments.

These acquisitions have contributed to significant total earnings per unit and provided substantial increases in capital growth, as reflected in the net asset value per unit.

Cash generation (as measured by AFFO) is now also increasing through contributions from market rent reviews and additional rents from developments.

# Fund updates

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## Cattle property lease

Documentation for the lease of the cattle property Cerberus has been completed (as initially disclosed in the full-year results presentation dated 23 August 2024).

The lessee is an established private farming enterprise. The lease term is for five years, with a commencement date of October 2024.

Cerberus is an 8,280 ha breeding and backgrounding property located near Rockhampton in central Queensland. The adjusted property value on 30 June 2024 was \$26.1m.

## Lease and partial sale of cropping properties

The lease and partial sale of two cropping properties, Mayneland and Baamba Plains, have been implemented (initially disclosed on 20 June 2024).

The lease is for 10 years to a joint venture between The Rohatyn Group and a global institutional investor.

The transaction includes the sale of a 50% interest in the two cotton properties, located near Rolleston in central Queensland. Mayneland is a 2,942 ha property,

and Baamba Plains is a 4,130 ha property. The properties' combined adjusted property value on 30 June 2024 was \$75.7m.

## Cotton JV lease

In December 2024, Queensland Cotton exited Cotton JV Pty Ltd (Cotton JV), which leases Lynora Downs. Cotton JV is a 50/50 joint venture by Queensland Cotton and RFM. RFF acquired Queensland Cotton's 50% shareholding. The Cotton JV lease remains in place.

Lynora Downs is a 4,963 ha cropping property located in the Arcadia Valley in central Queensland. The adjusted property value on 30 June 2024 was \$45.6m.

## Suspension of Distribution Reinvestment Plan (DRP)

The RFM Board has resolved to suspend the DRP with consideration to the stapled security price continuing to trade below its adjusted net asset value. It is not considered to be in the best interests of unitholders as a whole for new units to be issued under the DRP.

While the DRP is suspended, participants in the DRP will

receive cash distributions including the distribution for the quarter ended 31 December 2024 announced on 2 December 2024. Unitholders are advised that their bank details can be updated with RFF's registry, Boardroom Pty Limited, at [www.boardroomlimited.com.au](http://www.boardroomlimited.com.au).

The suspension will remain in place until further notice. Should the suspension of the DRP be lifted, each unitholder's existing DRP status will be reinstated. A copy of the DRP rules can be accessed on Rural Funds Management's website at <https://www.ruralfunds.com.au/about#corporate-governance>.

***Further details on the above transactions will be provided in the February 2025 results presentation.***



**Rural Funds Management Limited**

**ABN 65 077 492 838**

**AFSL 226 701**

Level 2, 2 King Street Deakin ACT 2600  
Locked Bag 150 Kingston ACT 2604

T 1800 026 665

W [www.ruralfunds.com.au](http://www.ruralfunds.com.au)

E [investorservices@ruralfunds.com.au](mailto:investorservices@ruralfunds.com.au)



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