

Rural Funds Group | ASX: RFF



UBS Australasia Conference

Presented by:
David Bryant, Managing Director RFM

November 2017

Managed by:



Disclaimer

This presentation has been prepared by Rural Funds Management Limited (ACN 077 492 838, AFSL 226 701) ("**RFM**") as the responsible entity of Rural Funds Group ("**RFF**"). RFF is a stapled security, incorporating Rural Funds Trust (ARSN 112 951 578) and RF Active (ARSN 168 740 805). The information contained in this presentation is not investment or financial product advice and is not intended to be used as the basis for making an investment decision. Please note that, in providing this presentation, RFM has not considered the investment objectives, financial circumstances or particular needs of any particular recipients.

This presentation is not, and does not constitute, an offer to sell or the solicitation, invitation or recommendation to purchase any securities and neither this presentation nor anything contained herein shall form the basis of any contract or commitment. In particular, this presentation does not constitute an offer to sell, or a solicitation of an offer to buy, any securities in the United States. This presentation must not be released or distributed in the United States. Any securities described in this presentation have not been, and will not be, registered under the *US Securities Act of 1933* and may not be offered or sold in the United States except in transactions exempt from, or not subject to, registration under the *US Securities Act* and applicable US state securities laws.

RFM has prepared this presentation based on information available to it at the time of preparation. No representation or warranty is made as to the fairness, accuracy or completeness of the information, opinions and conclusions contained in this presentation or any other information that RFM otherwise provides. To the maximum extent permitted by law, RFM, their related bodies corporate and their officers, employees and advisers are not liable for any direct, indirect or consequential loss or damage suffered by any person as a result of relying on this presentation or otherwise in connection with it.

This presentation includes "forward-looking statements". These forward-looking statements are based on current views, expectations and beliefs as at the date they are expressed. They involve known and unknown risks, uncertainties and other factors which could cause the actual results, performance or achievements of RFF to be materially different from those expressed or implied by the forward-looking statements. Accordingly, there can be no assurance or guarantee regarding these statements and you must not place undue reliance on these forward-looking statements. RFM and RFF disclaim any responsibility for the accuracy or completeness of any forward-looking statements.

Assets and lessees

The Rural Funds Group (ASX:RFF) is a diversified agricultural REIT^{1,2}

Rural Funds Group³

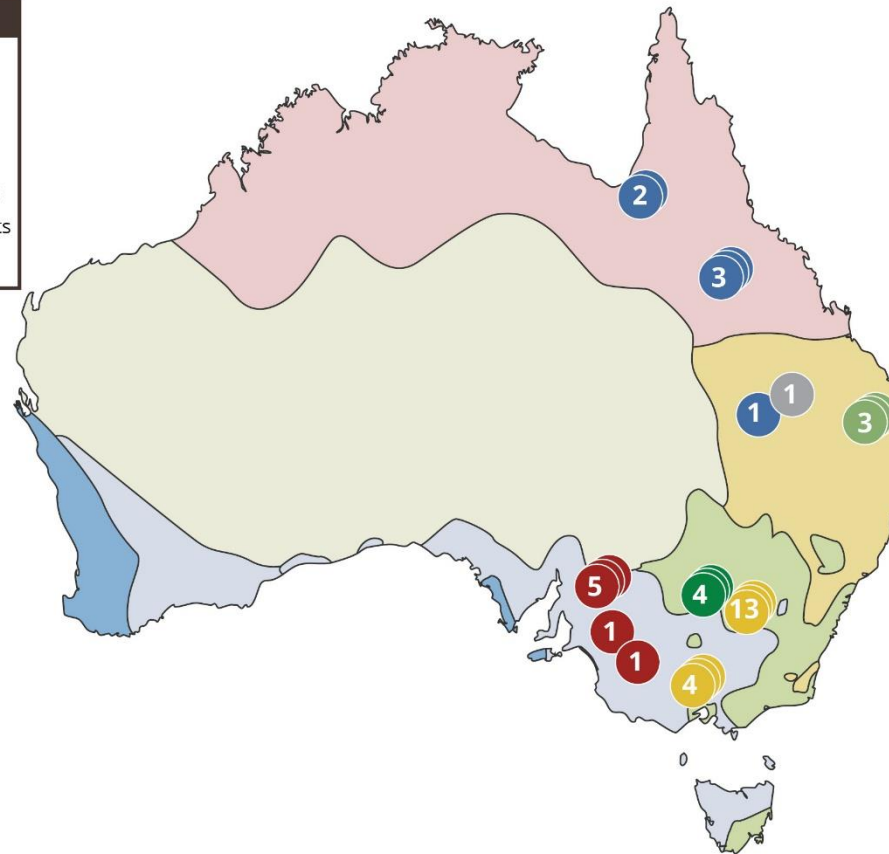
Adjusted total assets:	\$660.0m
Market capitalisation:	\$562.2m
Weighted avg lease expiry (WALE):	13.0 yrs
Gearing:	36.4%
AFFO per unit (FY18 f'cast):	12.7 cents
Distributions per unit (FY18 f'cast):	10.03 cents
DPU annual growth target:	4%

Vineyards

Properties:	7
Value:	\$46.8m
Lessee:	TWE
WALE:	8.9 yrs
FY18 f'cast rent:	\$3.7m
% of FY18 revenue:	7%

Poultry

Properties:	17 farms (154 sheds)
Value:	\$85.7m
Lessee:	RFM Poultry
WALE:	10.3 yrs
FY18 f'cast rent:	\$10.7m
% of FY18 revenue:	21%



Cattle

Properties:	6
Value:	\$101.0m
Lessee:	Cattle JV & Camm
WALE:	9.6 yrs
FY18 f'cast rent:	\$5.9m
% of FY18 revenue:	11%

Cotton

Properties:	1
Value:	\$27.8m
Lessee:	Cotton JV
WALE:	4.8 yrs
FY18 f'cast rent:	\$2.0m
% of FY18 revenue:	4%

Macadamias

Properties:	3
Value:	\$8.9m
Lessee:	2007 Macgrove Project & RFM
WALE:	12.7 yrs
FY18 f'cast rent:	\$0.9m
% of FY18 revenue:	2%

Almonds

Properties:	4
Value:	\$311.2m
Lessee:	SHV, Olam, RFM Almond Schemes & RFM
WALE:	16.4 yrs
FY18 f'cast rent:	\$25.5m
% of FY18 revenue:	49%

Notes:

1. Shaded areas denote different climatic zones. Source: Bureau of Meteorology (BOM). Geographic diversification reduces lessee concentration in any one climatic zone and introduces new commodities and counterparts. See RFF Climatic diversification discussion paper, lodged with ASX on 9 and 20 June 2016
2. Valuations as at 30 June 2017 with water entitlements held at fair value. Plant and equipment rental of \$1.8m not included in the above forecast rent. Plant and equipment assets held by RF Active of \$5.1m at 30 June 2017. Forecast rents subject to assumptions on timing of capex where applicable
3. Adjusted total assets incorporates most recent property valuations, inclusive of water entitlements. Market capitalisation based on 31 October close price of \$2.21. Pro forma gearing calculated as external borrowings/adjusted total assets based on 30 June 2017 results and pro forma adjusted for Camm transaction of \$72.5m

Strategy

Improve earnings and distribution growth, diversification, liquidity and decrease operating costs per unit

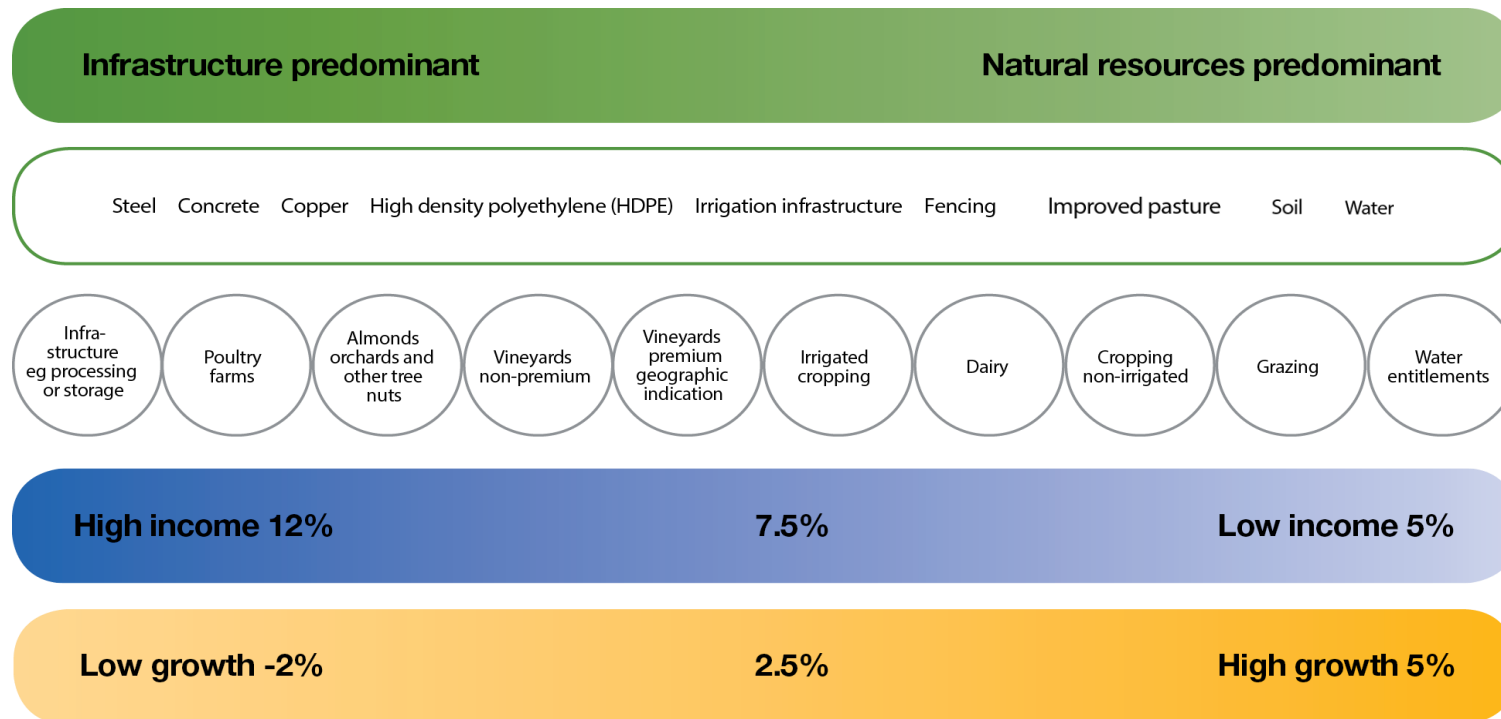
Key principles underpinning assessment of acquisition opportunities

- | | |
|---|--|
| • Maintain agricultural REIT structure | ✓ Acquire properties with income secured by long-term leases to quality tenants without the agricultural operating risks associated with a direct investment |
| • Manage good assets with good people | ✓ Acquire quality properties in sectors that Australia possesses a competitive advantage, longevity and scale |
| • Enhance sector diversification | ✓ Increase exposure to natural resource "growth" assets |
| • Enhance climatic diversification | ✓ Strategic geographic diversification and introduction of new counterparties in different climatic zones |
| • Identify investments which may benefit from productivity capex | ✓ Identify productivity improvements which over time deliver asset value growth, rental growth, and improve counterparty profitability |
| • Invest in sectors where RFM has direct operational knowledge | ✓ RFM is a fund and farm manager with 20 years experience which benefits RFF in assessing acquisitions |

Potential acquisitions

Investment opportunities in agricultural sectors are plotted based on their level of infrastructure vs natural resource components and subsequent return characteristics

Spectrum of investment opportunities¹



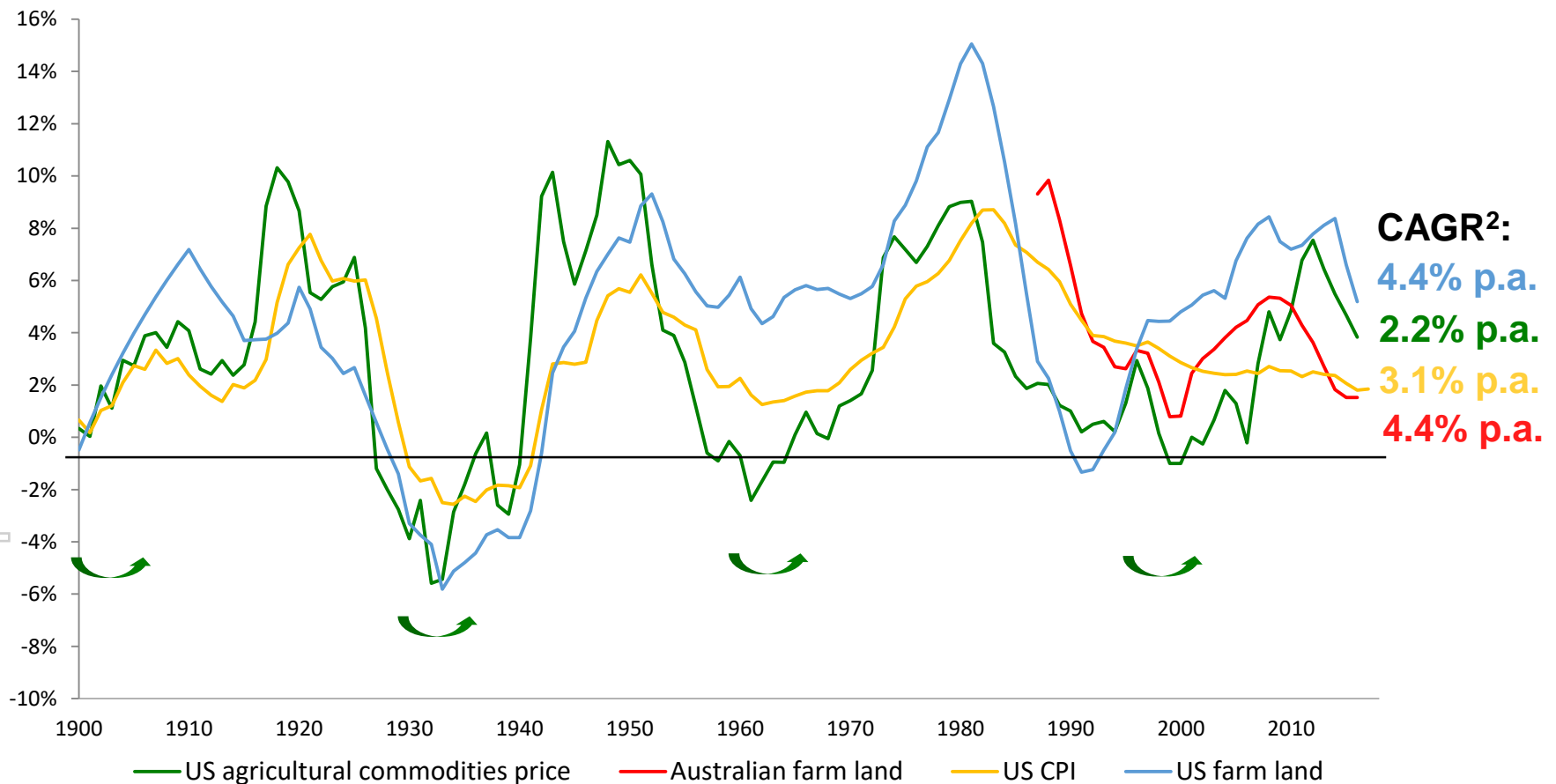
Note:

- The income and growth figures presented in the figure 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. See RFM Newsletters dated April 2014 and May 2016 for further information

Productivity and agricultural investment returns

Productivity gains have significant implications for farm land values. Over the period 1900 to 2016 agricultural commodities declined in real terms compared to farm land which has appreciated

Commodities, CPI and farm land values (1900 to 2016) – 10 yr rolling average % price change¹



Note:

- Sources: US Bureau of Labor Statistics, PPI for Farm Products - BLS Series ID WPU01 (US Ag commodities). U.S. Stock Markets 1871-Present, R Shiller (US CPI). USDA Land Values 2017 Summary (US farm land). RFM research, ABARES Farm Returns (Australian farm land)
- Compound annual growth rate

Productivity capex

Development and other capex attracts additional lease income and is funded, in part, from retained AFFO. Growth in asset value is monetised at rent reviews where applicable

Productivity and other capex¹

	FY18	FY19	FY20	Total (\$m)	Description	Indexation and rent reviews
Almonds: Kerarbury	\$28.1	\$13.7	\$25.2	\$67.0	2,500 ha orchard development	CPI
Almonds: Tocabil	\$4.8	\$1.9	-	\$6.7	600 ha orchard development	CPI
Almonds: Yilgah & Moorai	\$1.2	-	-	\$1.2	Irrigation	Fixed (2.5%) + rent review (SHV lease only)
Cattle: Gulf properties & Rewan	\$1.1	-	-	\$1.1	Water points & pasture improvement	CPI + rent review
Cattle: Natal aggregation	\$1.8	\$0.7	-	\$2.5	Water points & fencing	Fixed (2.5%) + rent review
Cotton	\$3.6	-	-	\$3.6	Water infrastructure	CPI
Vineyards	\$1.3	\$0.2	-	\$1.5	Grafting	Fixed (2.5%) + rent review
Macadamias	\$0.3	-	-	\$0.3	Irrigation & machinery	CPI/fixed component + rent review (RFM lease only)
Total (\$m)	\$42.2	\$16.5	\$25.2	\$83.9		

Note:

¹ RFM defines productivity capex as capital expenditure which aims to increase productivity, counterpart profitability and property value. Productivity capex attracts additional lease income as deployed

Almonds: Kerarbury orchard development

\$175m committed for the 2,500 ha development. Lease income calculated on cumulative capital outlay and is indexed at CPI for the lease duration of 22.75 years (commenced Oct 2015)



2017 plantings. Land has been prepared (laser levelled, ripped, ameliorated, mounded) and irrigation infrastructure partially installed. Kerarbury, NSW, October 2017

Almonds: Kerarbury orchard development

\$175m committed for the 2,500 ha development. Lease income calculated on cumulative capital outlay and is indexed at CPI for the lease duration of 22.75 years (commenced Oct 2015)



2016 plantings (1,218ha). Kerarbury, NSW, October 2017

For personal use only

Almonds: Kerarbury orchard development

\$175m committed for the 2,500 ha development. Lease income calculated on cumulative capital outlay and is indexed at CPI for the lease duration of 22.75 years (commenced Oct 2015)



Pump station, fertigation system and 800 ML water storage cell to support 2016 plantings. Kerarbury, NSW, October 2017

Almonds: Kerarbury orchard development

\$175m committed for the 2,500 ha development. Lease income calculated on cumulative capital outlay and is indexed at CPI for the lease duration of 22.75 years (commenced Oct 2015)

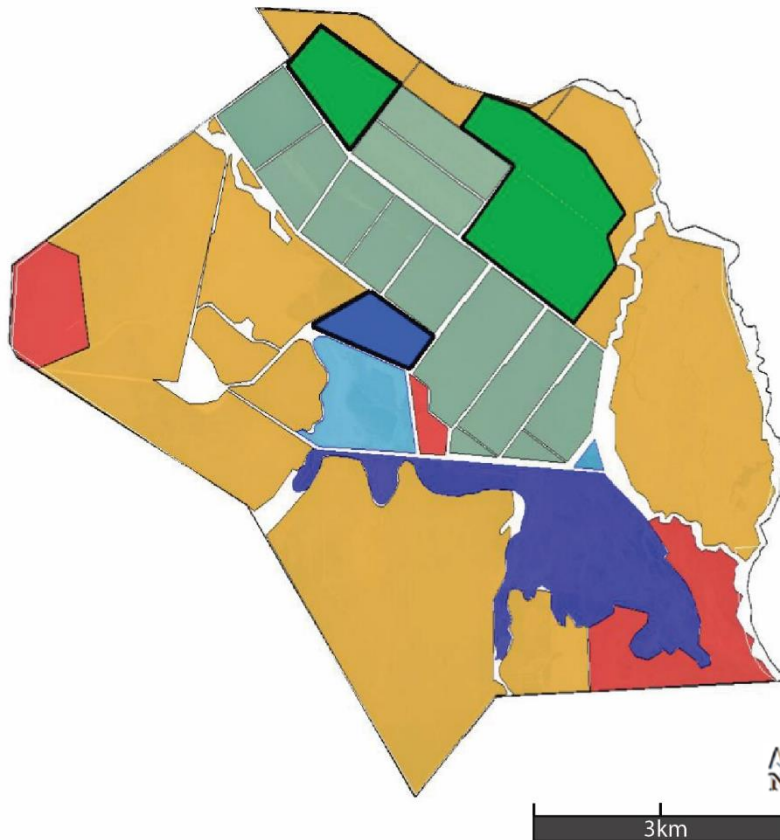


RFF funds initial maintenance costs such as pruning and fertilizer applications to reduce the lessee's cash flow requirements whilst the orchard is maturing (FY20). Kerarbury, NSW, October 2017

Cotton: Lynora Downs development


Development of additional water storage aims to increase farm profitability and thus value through the use of underutilised water entitlements and expansion of the irrigated cropping area

Lynora Downs



Water:

River water entitlements 7,880 ML

 River water storage (stage 1 complete) 4,142 ML

Overland flow water entitlements 10,707 ML

 Overland flow temporary storage 5,203 ML

 Overland flow storage 5,202 ML

Cropping areas:

 Existing irrigated cropping area 779 ha

 Irrigated area expansion (stage 1 approx. 400 ha)

 Dryland cropping area (2,424 ha)

Other:

 Grazing area (317 ha)

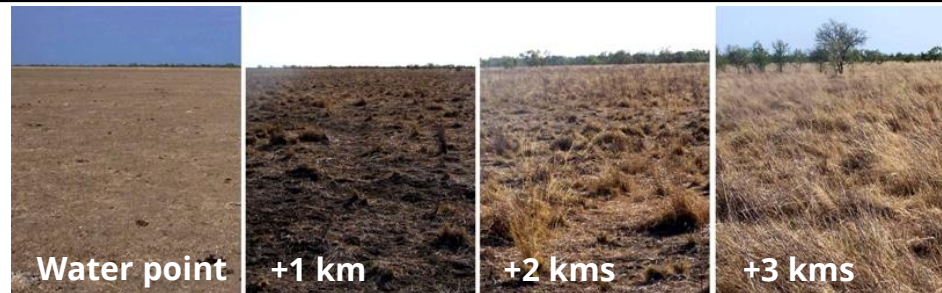
Cattle: Water points and pasture improvement

Water points and pasture improvement increase carrying capacity and productivity which are a primary influence on valuation

Case study: Water points and pasture utilisation¹

- *Water point*: pasture in the immediate vicinity of where cattle have access to water is grazed excessively when water points are inadequately dispersed
- *1 – 2kms*: pasture within a 2km radius of the water point is well utilised
- *3kms*: pastures more than 2kms away from water points are under utilised and therefore outside the effective grazing distance from water

Case study: Water points and pasture utilisation¹



Pasture at various distances from water point. Additional water points provide more even pasture utilisation (source: <http://www.soilsforlife.org.au/cs-beetaloo-station>, not an RFF asset)

Pasture improvement and cultivation area

- Legumes such as leucaena and stylo have higher nitrogen levels that drive protein production in cattle. Higher legume content in pastures increases carrying capacity, fertility and weight gain
- Winter forage crops (cultivation area) such as oats provide additional metabolizable energy when summer pastures are dormant



Legumes such as leucaena (above) and stylo can provide substantial productivity gains¹



Cattle grazing in cultivated area, Rewan, central Qld, June 2017

Note:

1. Source: MLA (October 2015) Bannockburn PDS report: The economic performance of beef cattle finishing systems used on the North-Eastern Downs, (November 2011) Analysis of the potential to manipulate the rumen of northern beef cattle to improve performance, (March 2015) Beef cattle nutrition: An introduction to the essentials

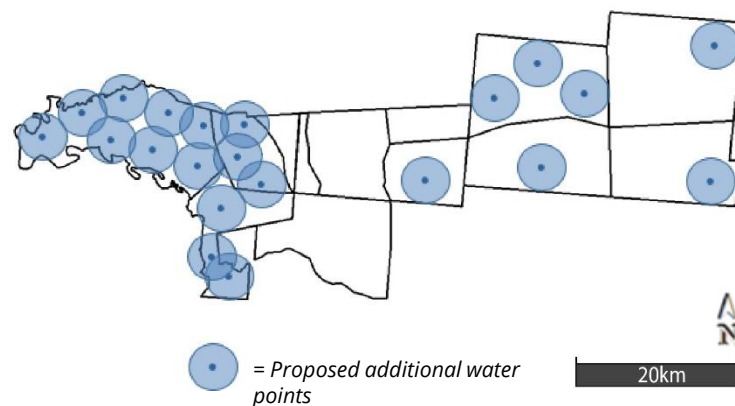
Cattle: Gulf & central Qld development

Gulf & central Qld cattle properties are now operating at 27.5% higher carrying capacity compared to the initially assessed capacity when purchased in July 2016

Development capex

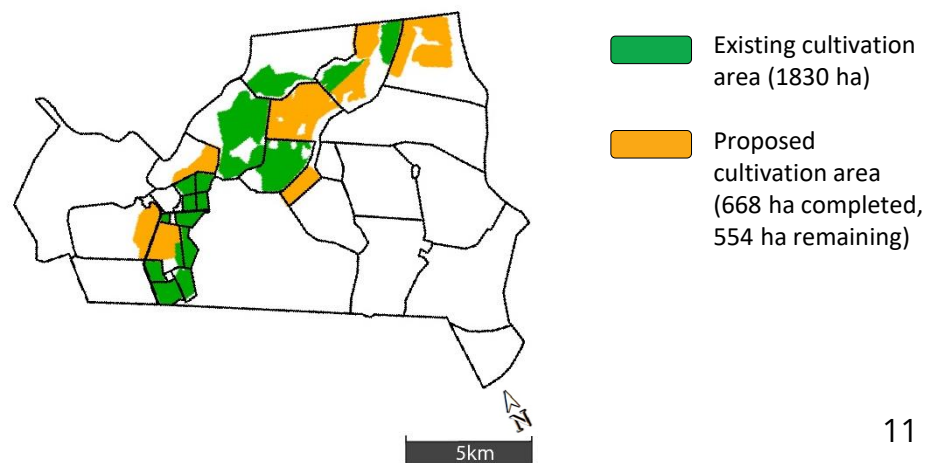
	FY17	FY18f	Total inc. existing
Gulf properties			
Water points (see Fig 1)	12	4	118
Pasture improvement	20,000 ha	-	40,000 ha est.
Central Qld property			
Water points	10	30	82
Cultivation area (see Fig 2)	668 ha	554 ha	3,052 ha
Pasture improvement	-	190 ha	675 ha

Fig 1: Mutton Hole, Gulf – water points



Mutton Hole: Circles represent 3km radius. Area's without circles have adequate water point distribution

Fig 2: Rewan, central Qld – cultivation & pasture

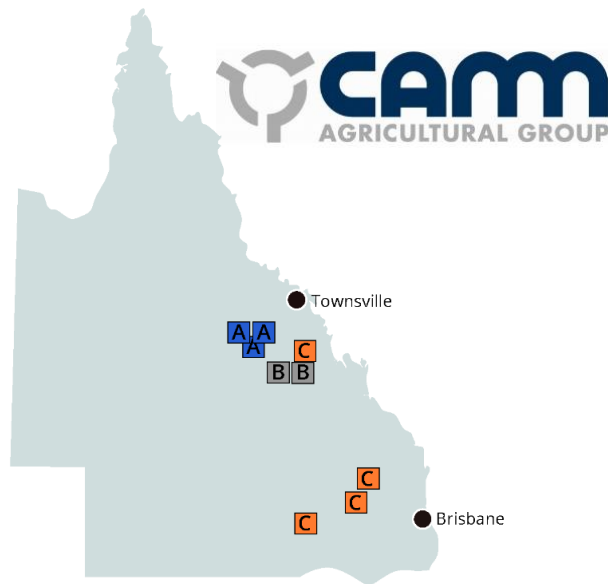


Cattle: Natal aggregation development

Natal has 150,000 ha of breeding land that currently has inadequate water distribution as well as 21,000 ha of finishing land suitable for cultivation and pasture improvement

Operator: Camm Agricultural Group (CAG)

Stage 1 development: water points & fencing



CAG operate nine properties:

- three breeding and finishing properties acquired by RFF (A)
- two finishing properties held as security by RFF (B)
- four other properties including a feedlot (C)

CAG business overview:

- breed and fatten cattle on northern properties (inc. Natal aggregation)
- finish cattle in feedlot on Darling Downs with the ability to sell into multiple markets

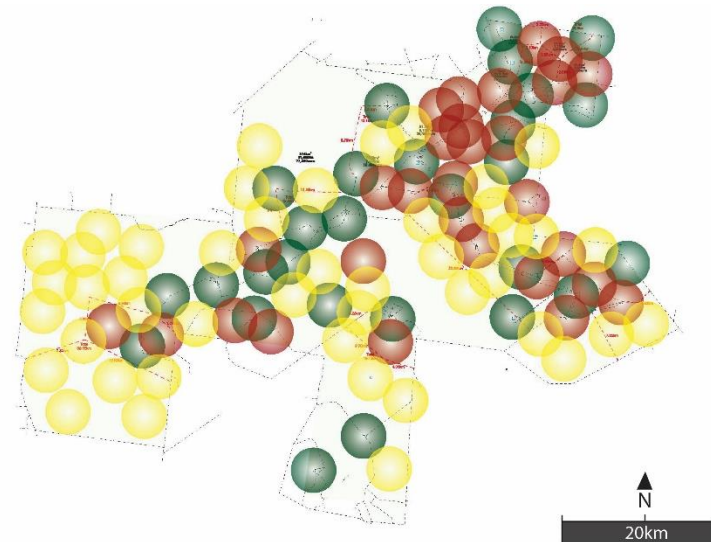


Image shows Longton development only, one of the three properties comprising the Natal aggregation. Circles represent 3km radius

- Proposed additional water points
- Existing water points
- Existing bores and troughs
- Proposed additional fencing
- Existing fencing

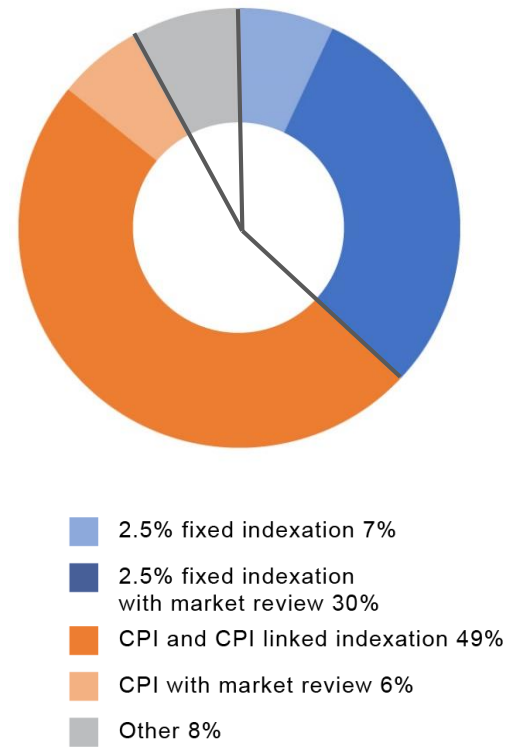
Rent review profile and indexation

AFFO growth is achieved by annual lease indexation, market rent reviews, reinvestment of retained cash and acquisitions

Natural resource assets - rent review and lease renegotiation profile (10yrs)¹



Indexation mechanisms²



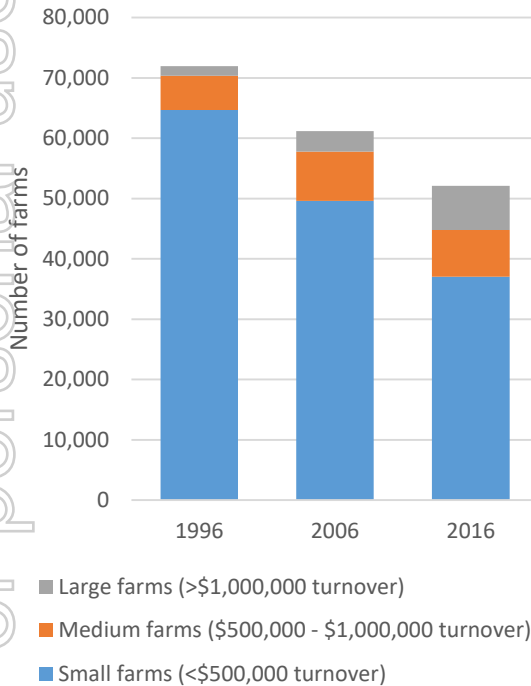
Notes:

- Cattle JV and Camm leases have a 10 year term, therefore dashed boxes indicate when lease is at renegotiation rather than rent review. Cotton JV's lease has a 5 year term with a 5 year option. Graph assumes take up of option
- Based on FY18f revenue, Camm revenue annualised as to recognise purchase date

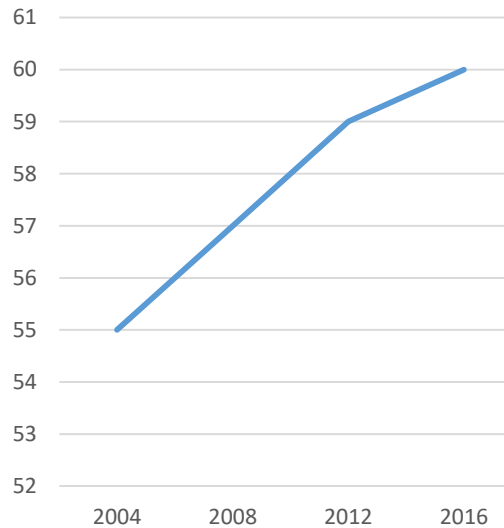
Acquisition environment

Fragmented sector with capital constrained, ageing owner/operators. The need for intergenerational transfer provides acquisition and development opportunities

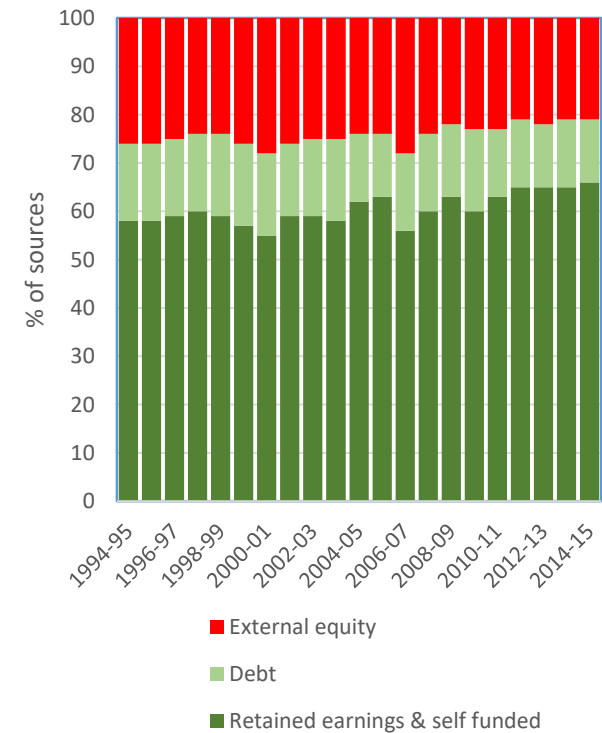
Farms by size - ABARES¹



Average age of farmers²



Capital sources for investment²



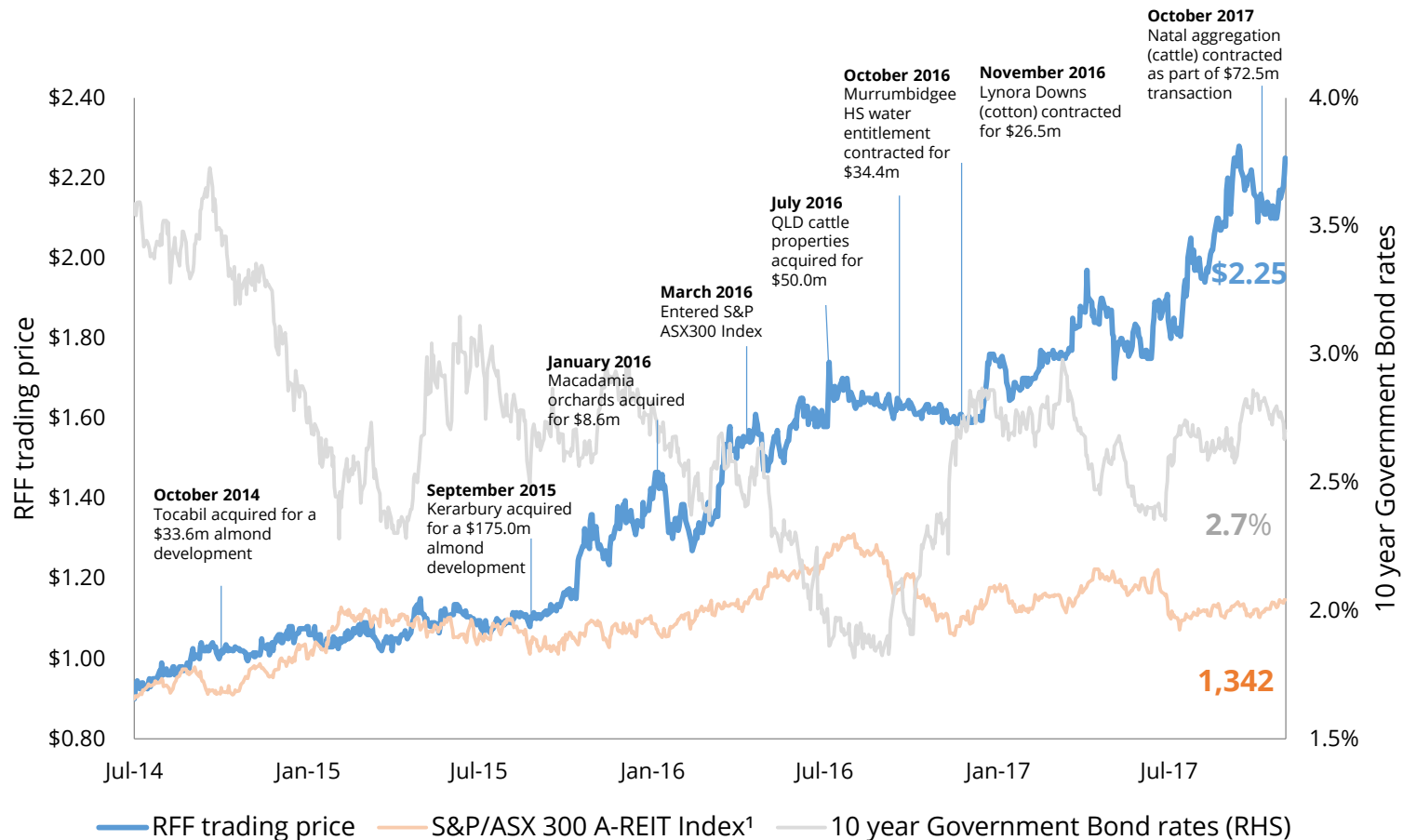
Notes:

- As defined by Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), AGSURF Data 2017. Data represents ABARES defined Broadacres sector of Australian agriculture (Cropping, livestock and mixed operation thereof). Size of farm is defined as gross turnover (total cash receipts plus build up of trading stocks)
- ABARES, AGSURF Data 2017

Acquisition track record and performance

RFF has demonstrated a track record of acquisitions and growth

RFF trading price and acquisitions¹



Note:

1. Source: IRESS as at 1 November 2017. S&P/ASX 300 A-REIT Index rebased to RFF's close price of \$0.90 on 1 July 2014. End date 1 November 2017.

Conclusion

1. REIT structure with quality assets and quality lessees
2. Income growth through annual lease indexation, market rent reviews, reinvestment of retained cash and acquisitions
3. Fragmented sector with acquisition opportunities and development potential
4. Managed by RFM, an asset and fund manger with 20 years experience in Australian agriculture across multiple sectors



RFM key information

Established	1997
Assets under management	Total \$713m Rural Funds Group: \$660m RFM Poultry: \$9m Almond Funds 06-08: \$34m 2007 Macgrove Project: \$10m
Ownership	Directors & staff
Farm & operations staff	50
Funds management staff	35
Management team tenure	12+ yrs (average)
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 gross assets & cost recovery

Corporate information



ACN 077 492 838
AFSL 226701

Canberra Office
Level 2, 2 King Street
Deakin ACT 2600

Telephone: +61 2 6203 9700

Facsimile: +61 2 6281 5077

Website: www.ruralfunds.com.au

For further information:

David Bryant
Managing Director
Rural Funds Management
T 02 6203 9700
E DBryant@ruralfunds.com.au

For media enquiries:

Stuart Waight
Chief Operating Officer
Rural Funds Management
T 0419 126 689
E SWaight@ruralfunds.com.au

Investor relations enquiries:

James Powell
Investor Relations and Distribution Manager
Rural Funds Management
T 0420 279 374
E JPowell@ruralfunds.com.au