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## ASX Release

7 August 2019

### Subject: Response to Bonitas Research report

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On 6 August 2019, Bonitas Research LLC (Bonitas) selectively released a document about the financial position of the Rural Funds Group (ASX: RFF) (Document).

The Document was published without any inquiry of RFF or Rural Funds Management Limited (RFM). Notably, at the foot of page 1 of the Document, Bonitas states:

*"We [Bonitas] have a short interest in RFF's stock and stand to realize significant gains in the event that the price of such instrument declines."*

RFM rejects entirely the unfounded allegations of financial impropriety and irregularity contained in the Document and is obtaining legal advice in respect of those matters. Notwithstanding, given the seriousness of the matters raised and the resultant adverse effect on the price of RFF securities, RFM has engaged Ernst & Young to independently investigate the matters raised and assess RFM's rejection of each of the claims made in the Document as set out below.

#### **Bonitas statement 1:**

*"Evidence suggests that RFF's reported profitability had included A\$ 28+ million of fabricated rental income paid to RFF by its two largest third-party lessees."*

Page 1, paragraph 2.

Repeated and discussed: Pages 1, 2, 7, 8, 9, 10, 11, 12, 13, 14, 20.

#### **RFM response:**

This statement is incorrect. The Bonitas reading of the accounts of third-party lessees is mistaken. All rental income recorded in RFF accounts, including that relating to third-party lessees is accurate.

**Bonitas statement 2:**

*"We believe that RFF had artificially inflated its reported financial performance..."*

Page 1, paragraph 2.

Repeated and discussed: pages 7, 8, 9, 10, 11, 12, 13, 14, 15, 16.

**RFM response:**

This statement is incorrect. RFF's accounts are audited and are an accurate record of the financial performance and financial position of RFF.

**Bonitas statement 3:**

*"Dividend afforded with cash from equity raises and bank borrowings."*

Page 14, heading.

**RFM response:**

This statement is incorrect. Distributions are paid from Adjusted Funds from Operations (AFFO), which is the free cash flow generated from rents after payment of expenses. RFF's audited accounts disclose the AFFO and accurately reflect that AFFO exceeds distributions paid.

**Bonitas statement 4:**

*"We calculate that RFF Management overstated RFF's net assets by 100% and that RFF's true net assets figure was only A\$ 268 million as of December 31, 2018, which would put RFF in breach of its recently increased minimum A\$ 400 million net asset loan covenant."*

Page 1, paragraph 3.

Repeated and discussed: Pages 14,15,16,17.

**RFM response:**

This statement is incorrect. All asset values recorded in RFF accounts are accurate, appropriate, supported by independent valuations and reviewed by its auditor, PricewaterhouseCoopers.

**Bonitas statement 5:**

*"RFF's largest nefarious transaction appeared as an undisclosed dividend recapitalization of RFM's newly acquired cattle asset, J&F, which included a A\$ 30 million special cash dividend paid to RFM financed by borrowings backstopped by RFF's A\$ 75 million financial guarantee to J&F."*

Page 1, paragraph 5.

Repeated and discussed: Pages 4, 19, 20, 21, 22, 23, 24, 25, 30.

**RFM response:**

This statement is incorrect. The ending capital structure of J&F and the guarantee were exactly as described to investors in the equity raising document and the member meeting documentation provided in July 2018. The guarantee was considered fair and reasonable by an independent expert and due to its related party nature, approved by RFF unitholders. RFM did not benefit from a \$30m special dividend, rather it was repaid \$30m it outlaid to acquire J&F.

**Bonitas statement 6:**

*"RFF's 1H'19 results disclosed that it was owed A\$ 14.5 million from an RFM related party macadamia lessee which inexplicably did not appear on the lessee's balance sheet."*

Page 1, paragraph 5.

Repeated and discussed: Pages 3, 4, 19, 20, 26, 27, 28, 29.

**RFM response:**

The RFF 31 December 2018 accounts contained a table formatting error in Note E2, p31. The table incorrectly lists a loan to the 2007 Macgrove Project of \$14.463m. The correct figure is \$0.008m. This error is confined to this table only and does not flow through to, or alter, the accuracy of RFF's 31 December 2018 Financial Statements.

**Bonitas statement 7:**

*"RFF Management continues to tell investors that RFM's sole form of compensation for managing RFF's assets under management is ~1% fee per annum."*

Page 3, paragraph 4.

Repeated: pages 5, 18, 20.

**RFM response:**

RFM, as responsible entity of RFF, charges a management fee of 1.05% of the adjusted gross asset value of RFF. RFM is also entitled to be reimbursed for expenses incurred in performing its duties as responsible entity of RFF.

**Bonitas statement 8:**

*"RFF Management controls and operates both boards of RFF and RFM."*

Page 3, paragraph 5.

Repeated: pages 8, 18.

**RFM response:**

RFM is the responsible entity of RFF and holds an Australian Financial Services Licence authorising it to operate RFF. RFF does not have a board of directors. This structure is common amongst Australian REITs and other managed investments.

**Bonitas statement 9:**

*".....former Company Secretary Andrea Lemmon, who abruptly resigned in August 2018 after 21 years of working with David Bryant since RFM was founded in 1997."*

**RFM response:**

Andrea Lemmon advised David Bryant of her plan to retire in 2015. Andrea and other RFM staff then planned and managed her succession over a two-year period preceding her retirement in October 2018. Andrea continues to hold a significant unitholding in RFF.

## Conclusion

To reiterate, while entirely without foundation, RFF is seriously addressing the allegations made by Bonitas and will vigorously defend the business in the interests of all RFF unitholders.

## 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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