Newsletter

from Rural Funds Management Ltd

RFM MANAGING DIRECTOR'S ARTICLE
PAGE 2 |

RURAL FUNDS GROUP UPDATE
PAGE 5 |

RFM POULTRY UPDATE
PAGE 10 |

RFM FUND UPDATES
PAGE 12 |

Rural Funds Management

EDITION 7, JUNE 2017

ALL NATURE BREATHES

David Bryant, RFM Managing Director

'It is interesting to contemplate an entangled bank, clothed with many plants of many kinds, with birds singing on the bushes, with various insects flitting about, and with worms crawling through the damp earth, and to reflect that these elaborately constructed forms, so different from each other, and dependent upon each other in so complex a manner, have all been produced by laws acting around us.'[1]

This was Darwin's last paragraph in *On the Origin of the Species,* published in 1859. It was almost certainly inspired by Alexander von Humboldt, who, after travelling through South America from 1799 to 1804, wrote:

'How vivid is the impression produced by the calm of nature, at noon, in these burning climates! The beasts of the forest retire to the thickets; the birds hide themselves beneath the foliage of the trees, or in the crevices of the rocks. Yet, amid this apparent silence, when we lend an attentive ear to the most feeble sounds transmitted by the air, we hear a dull vibration, a continual murmur, a hum of insects, that fill, if we may use the expression, all the lower strata of the air. Nothing is better fitted to make man feel the extent and power of organic life. Myriads of insects creep upon the soil, and flutter round the plants parched by the ardour of the Sun. A confused noise issues from every bush, from the decayed trunks of trees, from the clefts of the rock, and from the ground undermined by the lizards, millipedes, and cecilias. There are so many voices proclaiming to us, that all nature breathes; and that, under a thousand different forms, life is diffused throughout the cracked and dusty soil, as well as in the bosom of the waters, and in the air that circulates around us.'[2]

Alexander von Humboldt was one of the world's first scientists and naturalists to observe and posit the interconnections between living organisms throughout the world. His seven volume work, *Personal Narrative*, a book Charles Darwin said was one 'which I almost know by heart', inspired Darwin to sail on the HMS Beagle in 1831.[3]

This article examines organic processes occurring in the agricultural production of the cattle properties owned by the Rural Funds Group (RFF). While today these processes are well understood, thanks to the foundational work of Humboldt and Darwin, and the many agricultural scientists since, they highlight the deep and extended organic links that sustain the environment, agricultural production, profit making by farmers and ultimately the rents and dividends that RFF collects and distributes. These processes are fundamental to sustaining a balanced natural environment on RFF farms, equitable financial terms between RFF and its lessees, and ultimately secure and sustainable distributions for the providers of capital, such as RFF unitholders. Processes and relationships that, if properly balanced, can be sustained and enhanced for the benefit of nature and humankind.

Over the past year an important investment activity of RFF has been the acquisition of cattle properties in northern Australia, where sophisticated biological processes are occurring. The purpose of this discussion is not to dwell on the complexity and risks of agricultural enterprises, since those are concerns and contractual obligations of the lessee. Instead, the purpose here is to provide an explanation of the biological drivers of this business and the productivity gains that can be targeted, founded on science and understanding. This then, is an article concerned with money making, but focused on nature.

Calf and beef production can be optimised by recognising the hierarchy of factors that are required to maintain and grow these animals. These can be seen as the limiting factors of productivity, or needs that should be addressed in order of their importance. The highest limiting factors in their order are: water, energy, protein and dietary minerals.

Cover image: Cattle on Rewan, Rolleston, QLD, March 2012
Image above: Forage crop with Carnarvon Gorge in background, Rewan, QLD, August 2016

1 As quoted in Wulf A., *The Invention of Nature, the adventures of Alexander von Humboldt, the lost hero of science*, John Murray London 2015, p234
2 ibid
3 ibid p168

Studies using GPS trackers attached to cattle have shown that on average cattle will stay within 1.2 km of a water source, and that up to 80% of grazing occurs within 2 km of that point.

Leucaena (a legume), Rewan, QLD, August 2016

Water

Water is the highest limiting factor to productivity because cattle must drink it to regulate numerous processes, such as body temperature, metabolism, and reproduction; while plants they eat require water to enable pasture growth. Cattle drink from 40 to 80 litres per day, depending on how hot it is – about 25 times higher than the recommended daily intake for adult humans – and without rainfall, grass does not grow.

Studies using GPS trackers attached to cattle have shown that on average cattle will stay within 1.2 km of a water source, and that up to 80% of grazing occurs within 2 km of that point. Where cattle have to walk greater than 2 km, they will use more megajoules of energy to find grass and over-graze those areas closer to the watering point. Interestingly, while the cow's objective is to stay close to water, the farmer's objective is to get them closer to unutilised grass. This is an important point, because over grazed pastures close to watering points will gradually decline in quality, so making it easy for cattle to get to fresh pasture is a key to managing these assets sustainably.

In July 2016, RFF acquired Mutton Hole and Oakland Park, two extensive cattle breeding properties in the south east of the Gulf of Carpentaria. In addition, it acquired Rewan, a grow-out property in central Queensland. The Gulf properties, totalling 225,800 ha, provide stock water through a mixture of farm dams and bores that supply water to troughs. RFM has identified that around 55,000 ha of these properties' pasture is underutilised, because the distance from a watering point is greater than 3 km. Twelve new watering points are being installed on these farms, which will improve carrying capacity and even out grazing pressure. These improvements will be included in the next round of property valuations with the aim of the improvements resulting in rental increases at the fifth year rent review.

Energy, protein and minerals

Once water has been adequately supplied, feed quality becomes the next limiting factor in driving productivity of calf and beef production. Feed in the form of pasture is highly variable across landforms and throughout the year. For example, tropical savannah environments, such as RFF's Mutton Hole property, will produce large quantities of fresh native grasses from the 900 mm average annual rainfall concentrated in the summer months. However, by winter rainfall is rare and pastures dry out and lose digestibility and nutritional value.

Before one can plan ways of improving nutrition to increase cattle productivity, it is important to gain an understanding of the digestive systems of ruminant animals. Humans, pigs and many other animals have a digestive system that uses one stomach, making them monogastric. Cattle and sheep however, utilise four chambers for digestion as a result of adaptation to the high fibre diets they consume when eating grass.

The largest of the four digestion chambers, the rumen, works as a 150 litre fermentation vessel, utilising micro-organisms feeding on the cellulosic plant materials. It is this ability to utilise microbes that gives ruminant animals the digestive edge over monogastrics and enables them to prosper across rangelands all over the world. Kangaroos in Australia, deer across the Northern Hemisphere, and wildebeest in Africa, are just a few examples of animals with ruminant digestive systems evolved to a diet of grasses.

Pasture or feed quality is the fulcrum of profitability in a cattle enterprise. While the ruminant digestive system is designed to process seasonably variable pastures, the difference between low and high quality pastures is exponential. This is because the next three limiting factors of production; energy, protein and minerals, beneficially compound upon each other providing they are present in the pasture or feed in suitable quantities.

Cattle grazing on forage crops, Rewan, QLD, August 2016

Brahman cattle grazing near a watering point, Mutton Hole, QLD, August 2016

Energy, the second limiting factor, is absorbed from grasses, primarily through the fermentation process occurring in the rumen. This process is maintained by microbes that reside there in incredible numbers and diversity. For each millilitre of rumen fluid there are around 10 billion bacterial cells of 200 differing species, plus protozoa, much larger but less numerous single cell organisms. This vast army of microbes, held in a solution of saliva supplied at 125 litres per day, process plant cellulose into sugars and volatile fatty acids that create energy to sustain this process and enable animal growth or weight gain. This complex process is the consequence of a symbiosis between the host animal and the vast microbial population residing within it, and is an example of the diffusion and interconnection of life described by Humboldt and Darwin.

The third limiting factor is protein, which is largely a function of the amount of nitrogen present in the edible portions of the plant, making legume plants the star of protein production. Legumes enjoy a symbiotic relationship with the bacteria rhizobia that form nodules in legume plant roots. Rhizobia harvest atmospheric nitrogen, making it available to the plant whilst growing, and to the soil when the plant dies. In the digestion process, the micro-organisms in the rumen convert the nitrogen from legumes and grasses to ammonia, to fuel their own growth. These microbes are then washed from the rumen and then digested in the abomasum (similar to our stomach), or small intestine. Therefore, the process of protein accumulation in cattle is one occurring at a micro-organic level, with soil bacteria capturing nitrogen to feed microbes in the rumen, then absorbed as proteins for tissue growth, such as in the form of additional weight or new calves.

The fourth limiting factor is the 22 different minerals that cattle require for various specialised aspects of nutrition. For example, phosphorous and calcium are key components of bone formation, while potassium and sodium are required for the regulation of body fluids. Most of these elements are adequately supplied in Australian pastures, although phosphorous is deficient in soils, and therefore in most pastures in northern Australia. For this reason, supplementary feeds, called lick, are made available within paddocks so that cattle can self-regulate their intake of essential elements.

This complex system of production of energy and protein presents cattle farmers with great opportunities for increasing productivity by optimising these systems through improved pastures. RFF's Rewan property in Central Queensland will double the area of forage crops on that farm, planting annual crops of legumes for additional nitrogen, oats for additional starch-rich winter feed, and improving permanent pastures with fertiliser application and additional perennial legumes. On RFF's northern Gulf of Carpentaria properties, 20,000 ha have been sown with a perennial legume called stylo. These improvements have well documented benefits that include higher carrying capacity and increased daily weight gain. Benefits that are a consequence of the compounding benefits of properly managing the symbiotic relationships between nitrogen fixing rhizobia, soil, pasture, and the armies of microbes within the digestive systems of cattle. Understanding and harnessing these systems enables profit maximisation by lessees, potentially higher rents for landowners and sustainable management of grasslands.

In conclusion, water distribution and pasture quality determines digestibility, energy content and protein production, and ultimately the profitability of each season.

The joy-filled prose of Humboldt and Darwin articulate their deep insight into the connections between all creatures and the resulting interdependency we all share. This article has explored just a small corner of the giant world that is our natural environment. It has attempted to explain some of the interconnections that, if harnessed, can improve land values and profits. These mercantile observations aside, it also reminds us of the treasure that is our environment. A treasure revealed through scientific knowledge that can ensure the assets owned by the 6,735 unitholders of the Rural Funds Group are managed sustainably for the almost infinite *'elaborately constructed forms, so different from each other, and dependent upon each other'*.[4]

4 ibid p234

800 ML dam storing water for 600 ha of almond orchards on Tocabil, Hillston, NSW, December 2016

Rural Funds Group (RFF) Update

RFF is a stapled security comprising Rural Funds Trust ARSN 112 951 578 & RF Active ARSN 168 740 805

Investing in growth assets supports increased earnings and distribution growth.

In this section:

- **$78.6 million Entitlement Offer**
- **Murrumbidgee River Water Entitlements**
- **Lynora Downs cotton property**
- **Key financial metrics**

$78.6 million Entitlement Offer

On 7 June 2017, Rural Funds Management Ltd, as manager and responsible entity for the Rural Funds Group (RFF) announced a $78.6m fully underwritten, non-renounceable Entitlement Offer.

The proceeds of the Entitlement Offer will be applied to reduce gearing, creating balance sheet capacity to further build RFF's portfolio of quality agricultural assets. RFM is currently undertaking due diligence on a substantial cattle property with the aim of acquiring the property during FY18. The property, if acquired, has significant opportunity for productivity improvements, similar to those outlined in David Bryant's article, which have the potential to increase earnings and grow distributions over time. If acquired, the property will be leased to a third party.

Proceeds from the Entitlement Offer will also provide the equity component for two key assets: the Lynora Downs cotton property, and a parcel of Murrumbidgee River high security water entitlements, both of which were acquired using debt in December 2016. These assets are outlined in more detail in this article.

Murrumbidgee River Water Entitlements

In December 2016, RFF purchased a 9,549 megalitre (ML) Murrumbidgee River high security water entitlement for $34.4m. This transaction represents one of the largest trades of Murrumbidgee River high security water entitlements, outside of government transactions.

RFM will seek to lease the water on a long-term basis as part of a horticultural development. In the interim, revenue will be generated from the sale of the annual water allocation from FY18.

RFF has a strategy of acquiring natural resource predominant assets to complement existing infrastructure predominant assets such as poultry infrastructure. Natural resource predominant assets have the potential to benefit from productivity improvements and ownership of water entitlements supports this strategy, given the ability to improve the productivity of land through its application to higher-value crops. The image on the first page of this article demonstrates the farming result of combining water entitlements and land to support an almond orchard development.

Figure 1 provides an overview of the price and reliability of Murrumbidgee River Water Entitlements. It presents the weighted average price of '*high security*' and '*general security*' Murrumbidgee River water entitlements since 2005[5,6], along with their respective historical reliability.

The graph shows that even during drier years, such as 2007–08, high security entitlements on average received approximately 95% of their water allocations. This compares to general security entitlements, which received below 20% allocation.

For permanently planted crops, such as almonds, the reliability of water allocation is imperative so that production is maintained during dry periods. Consequentially, the acquisition of high security entitlements provides a cornerstone resource for a future RFF horticultural development.

Overview of water rights

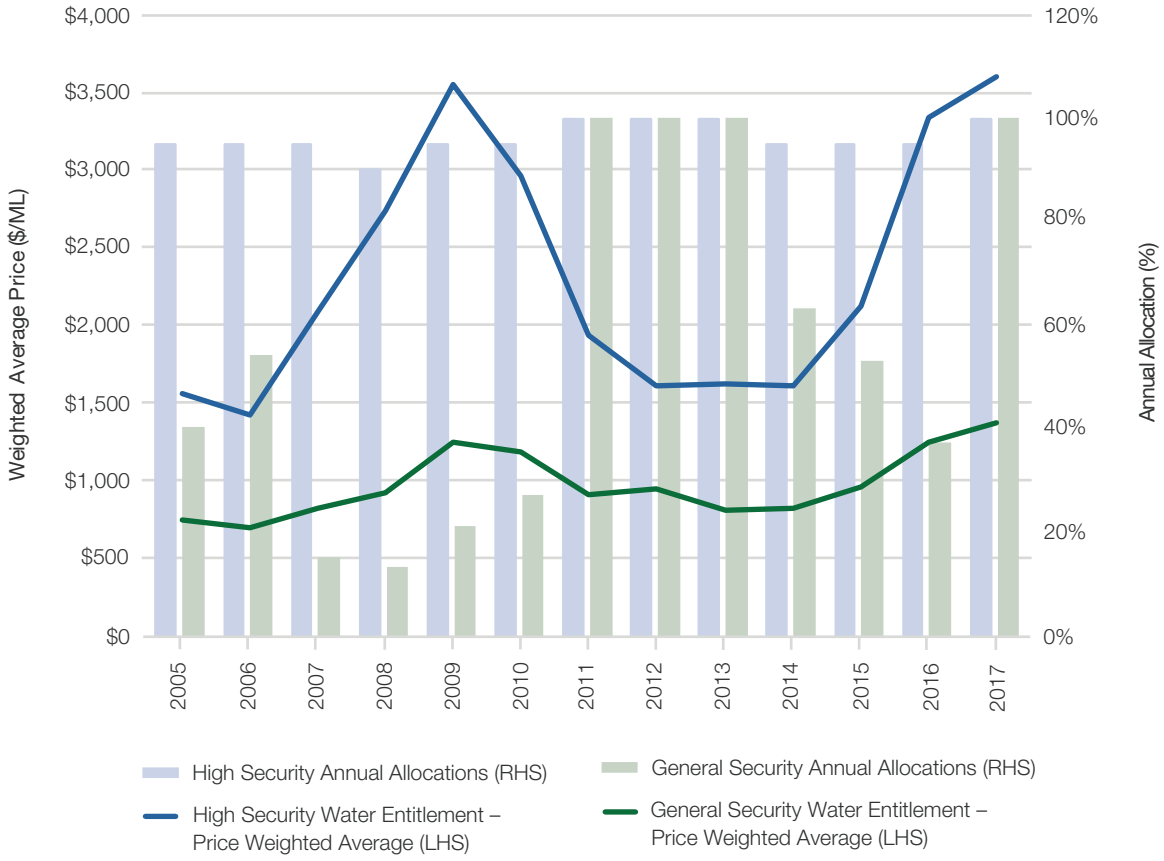
The *Water Act 2007* (Cth) provides the legislative framework for managing Australia's water resources. Some key terminology related to water rights include:

Water entitlements: a perpetual right to access a share of water from a water resource such as a river or aquifer and are supported by a regulatory framework similar to land titles. Water entitlements are listed on publicly available registers and can be treated much like land titles, in that they can be subdivided, leased out and transferred.

Water allocations: a specified volume of water that is allocated to a water entitlement for use during a particular season. For example, a 1,500 ML entitlement may receive a 95% allocation, which results in the licence being credited with 1,425 ML of allocation. Water allocations can be sold or leased if not required during a particular season. There are varying rules regarding the extent to which unused allocation can be carried over to the following season.

Entitlement security: the level of available seasonal allocation provided to different entitlement classes. Differing classes are prioritised over others and as such, receive on average higher seasonal allocations.

Figure 1: Murrumbidgee Water Entitlement Prices & Annual Allocation[7]



5 2005 is the earliest year of comparable data
6 RFM assesses the security of different water entitlement classes based on the seasonal allocation amounts over a period of time
7 Source: NSW Water Register. Nominal value trades excluded. Average prices were used where there was an absence of data

Almond tree receiving water via drip irrigation, Hillston, NSW, September 2011

As at 31 December 2016, RFF held water entitlements representing a fair value of $152.7m, with the majority held in the Southern Murray-Darling Basin. RFF also holds water rights in the Fitzroy Basin and Burnett River Catchment in central and southeast Queensland. **Table 1** outlines RFF's water assets as of April 2017.

RFM calculates water requirements on a high security equivalent (HSE) basis, which is the MLs adjusted by a reliability factor average. This provides RFF, and its lessees, with a high level of water security in respect to the ongoing operation of each asset. RFF's portfolio of water entitlements, which total 100,500 ML, equates to 80,830 ML on a HSE basis.

As at 31 December 2016, RFF held water entitlements representing a fair value of $152.7m, with the majority held in the Southern Murray-Darling Basin.

Table 1: RFF water assets – April 2017

Water source	Catchment	ML	Reliability[8]	HSE ML
Lachlan groundwater	Murray-Darling Basin	31,344	100%	31,344
Lachlan River water	Murray-Darling Basin	6,145	36%	2,183.70
Murrumbidgee groundwater	Murray-Darling Basin	10,800	100%	10,800
Murrumbidgee River water	Murray-Darling Basin	28,829	73%	20,910
Murray River water	Murray-Darling Basin	3,559	61%	2,171
Other[9]	Fiztroy Basin/Burnett etc.	19,823	68%	13,421
		100,500		**80,830**

8 RFM's assessment of the average allocation received per annum based on historical data, expressed as a percentage of the notional ML

9 Other includes private irrigation schemes, supplementary licences, and other assets which are functionally equivalent to a water entitlement

Baled raw cotton on Lynora Downs, ready for delivery to Queensland Cotton for ginning, March 2017

Lynora Downs cotton property

In December 2016, RFF purchased the 4,880 ha cotton property 'Lynora Downs' for $26.5 million (including stamp duty). Located 130 km south of Emerald, Central Queensland, the asset diversifies RFF into a new sector and supports the climatic diversification strategy of the Fund.

Both the property and associated 17,320 ML of water entitlements are natural resource predominant assets, acquired with the objective of providing RFF with capital and income growth over the long term. To achieve this, RFF is funding a capital expenditure program that is being carried out by the lessee. The program aims to increase the annual average planted area, a key driver of cotton property valuations. Funds deployed by RFF under the capital expenditure program will attract rent, and **Figure 3** details the specific work being undertaken.

RFM and Queensland Cotton Corporation Pty Ltd (Queensland Cotton) have established a joint venture, Cotton JV Pty Ltd, which will lease and operate Lynora Downs for a period of five years, with an option to extend for a further five years. RFM has been growing cotton for nearly twenty years and has significant expertise in developing cotton operations. This experience allows RFM to identify opportunities in the sector, effectively manage capital development programs and operate the property on behalf of Cotton JV.

Queensland Cotton is a subsidiary of the Singapore Exchange listed Olam International Limited, one the world's largest integrated agribusinesses. It has a processing (ginning) capacity of more than a million bales (compared to a total 2016/17 national production forecast of 4.2 million bales) and markets cotton to all major markets including China, Thailand and Pakistan.

Operating in Australia for over 90 years, Queensland Cotton owns ten cotton gins throughout Queensland and NSW, including in relative close proximity to Lynora Downs in Moura and Emerald. The joint venture allows Queensland Cotton to secure production throughput for its gins.

In March this year, Cotton JV harvested approximately 200 ha of cotton. The cotton was processed through Queensland Cotton's Moura gin and in June, a further 175 ha of irrigated and dryland cotton was harvested.

Figure 3: Development of water storage and irrigation area on *Lynora Downs*

Four scrapers, as well as compactors, graders and water trucks are operating seven days a week on Lynora Downs to complete the development program. To date, construction of the water storage has resulted in moving 380,000 m^3 of dirt, with 640,000 m^3 to be moved in total. The soil removed is used to construct the storage walls, which will be up to 10 m in height, and when complete the storage will have a capacity of 4,250 ML (approximately 1,700 Olympic-sized swimming pools).

The water delivery system is also being constructed. Installation of one 1.8 m diameter, 80 m long pipe, will transfer water in and out of the new water storage. Another supply pipe, 1.5 m in diameter and 60 m long, has also been installed to maximise water harvest capabilities.

The expansion of the irrigated cotton area will commence this month and the rich alluvial, clay loam soils provide the foundation for highly productive farming. This development is being planned in a staged approach, with stage one, 150 ha, to be completed by September. It is expected that the remaining area of 250 ha will be completed by November.

Lynora Downs sits in a water catchment area totalling around 5,000 kms^2 and one of the advantages of the property is that it is located upstream in the water catchment area, receiving flows before any other property. It is planned to complete the development by the end of November, with most of the property's 638 mm of rainfall expected to be received over the summer months.

Earthmoving equipment constructing the new water storage area, April 2017

Divestment of Perth Markets Ltd

RFM has now completed the divestment of RFF's investment in Perth Markets Ltd (PML). RFF acquired 5,275,000 PML securities at $1 per security in February 2016, and divested them during March 2017 at $1.147 per security. In addition, distributions totaling $322,863 were paid during the period the securities were held.

Andrea Lemmon, RFM Executive Manager, Funds Management, served on the PML board.

'RFM's time on the PML board provided networks in Western Australia, however the RFM Directors resolved to divest this asset given the absence of opportunities to materially increase the size of this interest', Ms Lemmon said.

Key financial metrics

Table 2: Key portfolio and financial statistics[10]

Adjusted total assets	$573.1m
Adjusted net assets	$389.0m
Units on issue	254.4m
Adjusted NAV per unit	$1.53
AFFO per unit FY18f	12.5 cents
Gearing	29.5%
Number of properties	35
Weighted Average Lease Expiry (WALE)[11]	13.3 years

Upcoming key dates[12]

Quarterly distribution payment date	**31 July 2017**
Annual financial results announced	**August 2017**
Quarterly distribution payment date	**31 October 2017**

RFF investment profile

RFF is a specialist real estate investment trust (REIT) which owns a diversified portfolio of high quality Australian agricultural assets. Revenues are derived from long-term lease rentals across five broad sub sectors; poultry infrastructure, tree nut orchards, vineyards, cotton and cattle assets.

RFF's investment strategy is to generate a stable income stream derived from leasing its assets to quality tenants, and capital growth through any appreciation in the value of those assets.

RFF benefits from strong industry dynamics with growth in Australian agriculture, driven by increasing world population growth, the growing Asian middle-class and constraints in the global supply of agricultural land.

10 As disclosed to the ASX on 7 June 2017 as a post equity raise transaction pro-forma. See: *Investor Presentation – Entitlement Offer*

11 Weighted average lease expiry (WALE) weighted by forecast FY18 revenue (including other income from lessees), expressed in years from 31 May 2017

12 Dates are subject to change

RFM Management observing broiler chickens on Farm 68, Griffith, NSW 2016

RFM Poultry (RFP) Update

ARSN 164 851 218

RFM Poultry has a strong focus on maintaining animal welfare standards.

Animal welfare

Community interest in the welfare of animals grown for human consumption, particularly those raised in intensive farming systems, has grown in recent years. An increasing number of consumers want to know that the food they consume is being produced in accordance with animal welfare guidelines.

RFP maintains a strong focus on ensuring the chickens it is contracted to grow maintain a high level of wellbeing whilst in sheds it operates. In order to do this, all RFP sheds are accredited under the RSPCA's Approved Farming Scheme Standards — Meat chickens.

The Standards set out an extensive range of production practices, but are underpinned by the higher-level, 'Five Freedoms' framework. This framework, and an example of how RFP satisfies each freedom, is outlined in **Table 3**.

Ongoing compliance with the Standards is monitored through RSPCA audits, with each farm being audited twice annually, in addition to random audits being conducted throughout the year.

According to RFM National Manager – Poultry, Adriaan Shields, maintaining such standards has led to a range of improvements across RFM Poultry's operations:

'Maintaining higher animal welfare standards not only improves the wellbeing of the birds, but has also seen an increase in the bird's ability to cope with extreme weather events, overall healthier chickens and facilitates safer working conditions for staff', Mr Shields said.

Lighting systems have been installed to simulate dusk and dawn conditions within the sheds. Ground litter is maintained in a dry and friable condition

Stocking density has been reduced from 38–40 kg/m^2 down to 34–36 kg/m^2

Table 3: 'Five Freedoms' framework and examples of how RFM Poultry satisfies them

	Five key freedoms	RFP practices
1	**Freedom from hunger and thirst:** by ready access to fresh water and a diet to maintain full health and vigour	Chickens are provided with 24 hr access to clean food and water
2	**Freedom from discomfort:** by providing an appropriate environment including shelter and a comfortable resting area	Chickens are housed in temperature and lighting controlled sheds; with dry, friable flooring
3	**Freedom from pain, injury or disease:** by prevention, rapid diagnosis and treatment	RFP staff undertake ongoing health and disease monitoring on a daily basis
4	**Freedom to express normal behaviour:** by providing sufficient space, proper facilities and company of the animal's own kind	The stocking (or density) rates of chickens has been reduced in line with RSPCA standards
5	**Freedom from fear and distress:** by ensuring conditions and treatment which avoid mental suffering	All sheds have perches and pecking toys installed

Financial update

On 15 June RFM provided investors, via an NSX Release, with an update on RFP's profit guidance for FY17, and budgeted profit for FY18.

The FY17 forecast profit remains in line with previous guidance of $1.26m before tax and $0.88m after tax. Distributions for FY17 are confirmed at 10.05 cents fully franked or 14.36 cents grossed up.

The FY18 budgeted profit is in the range of $0.87m to $1.18m before tax, giving a mid-point of $1.03m which is lower than FY17 guidance by 18%. Distributions for FY18 are expected to be unchanged. The NSX Release identified that energy costs were the main cause of the lower FY18 result, and that this impact would be one-off as the higher costs flowed through to the growing fee received from the processor in FY19.

Table 4: Key portfolio and financial statistics as at 31 December 2016

Total assets	8,965,313
Net Asset Value (NAV)	7,870,094
NAV per unit	1.14

Upcoming key dates[13]

Quarterly distribution payment date	**31 July 2017**
Annual financial results announced	**September 2017**
Quarterly distribution payment date	**31 October 2017**

13 Dates are subject to change

A harvester collecting fallen macadamia nuts, Bundaberg, Qld, February 2016

2007 Macgrove Project (MP07) Update

ARSN 119 560 235

Harvest continues for the 2007 Macgrove Project, with new on-farm processing facilities improving efficiency.

This year's harvest is well underway and will continue through until late September. Whilst it is too early to confirm specific harvest yield, RFM management is forecasting that it will be within a 10% range of the budgeted yield of 700 tonnes.

As of the end of May, just over 375 tonnes had been harvested, despite the drier than normal season experienced in the Bundaberg region.

Harvest operations were suspended for two weeks as a result of tropical cyclone Debbie, which impacted Queensland on 28 March 2017. Whilst some minor tree damage was reported, this is not anticipated to have a material impact on forecast yields.

The market outlook for Australian macadamias looks likely to remain buoyant. Macadamia prices have remained firm at over $5 per kg Nut in Shell (NIS). Australian NIS sales increased by 8% in 2016, with robust demand driven by the limited availability of product from South Africa, whose NIS sales declined by around 50%. This decrease was as a result of lower production due to prolonged dry conditions in South Africa.[14]

More broadly, global macadamia production in 2016 finished at 175,000 tonnes NIS, and is expected to grow by 5%–7.5% in 2017 to 185,000–190,000 tonnes NIS. The main macadamia producing nations in 2016 were Australia, South Africa, Kenya and the United States, which collectively represented 75% of the global production.[15]

Whilst it is too early to confirm specific harvest yield, RFM management is forecasting that it will be within a 10% range of the budgeted yield of 700 tonnes.

14 Australian Macadamias (2017), February 2017 Market Report, Lismore, NSW
15 Australian Macadamias (2017), February 2017 Market Report, Lismore, NSW

Swan Ridge Orchard de-husking shed upgrade & automation of irrigation

As the macadamia trees in the 2007 Macgrove Project move towards maturity, their yields have increased. The de-husking facility at the Swan Ridge Orchard, which was designed to meet the needs of a juvenile orchard, experienced processing capacity constraints during the 2016 harvest. Consequently, RFM is undertaking a two-stage upgrade program to the facility.

Stage 1 of the project, the installation of upgraded equipment, is currently underway and will increase the throughput capacity of the de-husking shed. RFM management has reported that performance of the completed upgrades to date have outperformed expectations, with throughput capacity double that of the previous system.

Stage 2 of the project, to be completed in 2018, will enable the collection of increased production data. This will include information on yield, kernel recovery and wastage. This improved data collection will provide valuable insights to farm management, enhancing the ongoing production ability of the orchards.

In addition to this upgrade, RFF has funded the automation of irrigation systems at the Swan Ridge and Moore Park orchards. This allows for more accurate control and monitoring of irrigation from a central location. This upgrade benefits growers through the reduction of labor costs, improvements in water efficiency and the ability to use off-peak electricity.

Construction work on stage 1 of the de-husking shed upgrade

The newly installed colour sorter, which rejects any discoloured NIS, reduces the requirement for manual sorting

RFM management has reported that performance of the completed upgrades to date have outperformed expectations, with throughput capacity double that of the previous system.

Almonds at the end of the nut-fill stage of development, Hillston, NSW, December 2016

RFM Almond Funds Update

AF06 (ARSN 117 859 391), AF07 (ARSN 124 998 527), and AF08 (ARSN 127 947 960)

The harvest of the almond orchards is reaching completion, with product being delivered to a new processing facility.

Almond harvest

The harvest of the almond orchards is nearing conclusion, with just the final trees now undergoing a 're-shake'; a routine procedure used to harvest any remaining almonds left on the trees.

RFM's initial assessment of the crop is that yields are in line with current forecasts of 3.8 to 4 tonnes per hectare. The almond price looks to be approximately $7+/kg.

New Almondco hulling and shelling facility

Almonds from the harvest are being delivered to the new Almondco primary processing facility south of Griffith, in western NSW. This new facility will add cracking and some secondary processing capacity to the 22,000 tonnes of almonds processed by Almondco in 2016 at its existing Lyrup and Renmark facilities.

A key reason behind Almondco's development of the new hulling and shelling facility is to meet increased demand for dehulling and cracking services in the NSW Riverina area. According to the Almond Board of Australia, almond orchard plantings in this area have increased from 30 ha in 2004 to 3,824 ha in 2015.

The 6,000 m^2 facility is situated on a 24 ha site, with construction starting in February 2016. The plant will be capable of hulling and shelling around 5–6 tonne of almonds per hour, and has installed state-of-the-art equipment enabling it to better meet the increase in supply from the Riverina region whilst meeting the quality demands of both domestic and overseas customers.

RFM is currently delivering approximately 120–130 tonnes of field product, including nut, shell, husk and some field litter picked up during harvest, to this facility each day.

Daryl Winter, RFM National Manager – Almonds, said the facility provided a number of benefits to RFM Almond Funds:

'The new facility is substantially closer to RFM orchards than existing processing sites, and has the advantage of being able to receive road trains, improving the ability of RFM to deliver large amounts of product to the processor', Mr Winter said.

Easing in Californian drought conditions

California, which is the world's largest almond producing region, has experienced five years of drought, reducing the states' almond production. The start of 2017 has seen better seasonal conditions for the state, likely increasing its almond output and providing renewed competition after several years of limited production.[16]

16 Source: Australian Bureau of Agricultural and Resource Economics and Sciences, Agricultural commodities: March quarter 2017

About Rural Funds Management Ltd

AFSL: 226701

RFM is an experienced fund and asset manager that specialises in Australian agriculture. RFM manages a diverse portfolio of large-scale farming and agricultural enterprises for investors who seek the opportunity to diversify their portfolios away from the traditional equity and property markets. Our primary assets under management include land, water, poultry infrastructure, almond and macadamia orchards, vineyards and livestock.

Established in 1997, RFM is the responsible entity for seven agricultural investment funds and, as of 31 December 2016, had approximately $608m of agricultural assets under management in New South Wales, South Australia, Queensland and Victoria.

RFM is one of the oldest and most experienced managers of agricultural assets in Australia. In addition to RFM's corporate office located in Canberra, RFM has offices in Sydney, Western NSW, and south-east Queensland, and employs more than 85 staff in fund and asset management activities.

Contact Details

Level 2, 2 King St

Deakin ACT 2600

T 1800 026 665

W www.ruralfunds.com.au

E investorservices@ruralfunds.com.au

E adviserservices@ruralfunds.com.au

F 02 6281 5077

To make an investment

Rural Funds Group (ASX: RFF) is a listed investment.

To make an investment in RFF please contact your broker or financial adviser.

RFP is a listed investment on the National Stock Exchange of Australia (NSX: RFP).

To make an investment in RFP please contact your broker or financial adviser.

Australian Executor Trustees Limited (AET) Privacy Policy

AET is the custodian for the Rural Funds Group, RFM Poultry, RFM Almond Funds (AF06, AF07 & AF08) and the 2007 Macgrove Project. To read more about their privacy principles, please visit www.aetlimited.com.au/privacy

Registry

Boardroom Limited Pty Ltd

Grosvenor Place, Level 12, 225 George Street, Sydney, NSW, 2000

T 1300 737 760

E enquiries@boardroomlimited.com.au

F 1300 653 459

Provide us your email address

We use email to communicate with our investors. Please take the time to contact our Investor Services team and provide your email address so that you don't miss out on any important information.

RURAL FUNDS MANAGEMENT LIMITED

Locked Bag 150

Kingston ACT 2604

ABN 65 077 492 838

AFSL 226701

Telephone +61 2 6203 9700

Telephone (Investor Services) 1800 026 665

Telephone (Adviser Services) 1300 880 295

Facsimile 1800 625 518

Email investorservices@ruralfunds.com.au

Email adviserservices@ruralfunds.com.au

DISCLAIMER

This publication is not an offer of investment or product financial advice. Rural Funds Management Limited (RFM) AFSL No. 226701 has prepared this publication based on information available to it. Although all reasonable care has been taken to ensure that the facts and opinions stated herein are fair and accurate, the information provided has not been independently verified. Accordingly, no representation or warranty, expressed or implied, is made as to the fairness accuracy or completeness or correctness of the information and opinions contained within this document. Whilst RFM has taken all reasonable care in producing the information herein, subsequent changes in circumstance may at any time occur and may impact on the accuracy of this information. Neither RFM, nor its directors or employees, guarantee the success of RFM's funds, including any return received by investors in the funds. Past performance is not necessarily a guide to future performance. The information contained within this document is a general summary only and has been prepared without taking into account any person's individual objectives, financial circumstances or needs. Before making any decisions to invest, a person should consider the appropriateness of the information to their individual objectives, financial situation and needs, and if necessary seek advice from a suitably qualified professional.

Rural Funds Management