

# Newsletter

from Rural Funds Management Limited





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Scan the QR code to read how RFM is "Managing Good Assets with Good People" by growing record crops in central Queensland.



*Front cover: Rain coming, Mutton Hole, Gulf of Carpentaria, Queensland, February 2020.*

*Inside cover: Cotton harvest, Lynora Downs, central Queensland, March 2019.*





## Cricket, football and massacres

David Bryant, RFM Managing Director

Rewan, RFF property located near Cullin-la-ringo, central Queensland, May 2019.

On 7 August 1858, a game of football with forty players per side, commenced on Richmond Paddock, next to the Melbourne Cricket Ground (MCG). This game, between Melbourne Grammar and Scotch College, is considered to be the first documented game of Australian rules football. Despite continued play over three consecutive Saturdays, the game was declared a draw at one goal all. With so many players on a field of 800 metres in length, two umpires were required: Tom Wills and John Macadam, two men who are the subjects of this story.

Wills, the grandson of convicts on both sides, was born on the Molonglo Plains, (the site of which today is Lake Burley Griffin in Canberra) and spent his early years in the Western Districts of Victoria on a family property near Moyston (where Rural Funds Group (ASX: RFF) owns the 291ha Rosebank vineyard). It is suggested that, during these years, young Wills learnt and probably played an Indigenous football game called Marn Grook, which entailed punt kicking and marking a ball made from stuffed possum skin, amongst sometimes more than 100 players. At the very least, there is evidence that he learnt the local Indigenous language.

After some years of school in Melbourne, Wills was sent to the Rugby School, England, where he distinguished himself and the school as a bowler and batsman, becoming captain of the cricket team at age 17, and establishing the school as “the most watched team in England.”<sup>1</sup> He also excelled at football, at the time a ferocious game often involving hundreds of players, according to rules devised by the boys.

Wills' success as an athlete mirrored his failures in academic achievement, to the disappointment of his parents, who had hoped their son would return to Australia with a law degree from Cambridge. At the end of his schooling, Tom, having failed to matriculate, travelled Britain, playing cricket at elite levels, soaking in the attention and alcohol that

flowed freely to a 21-year-old athlete with more ability than judgement.

Wills returned to Australia, arriving in Melbourne in December 1856, and within only three weeks was representing the cricket-obsessed colony of Victoria in the intercolonial against New South Wales, played at the Domain, Sydney, in January 1857. One year later he became captain of the Victorian XI, leading the team against NSW in a game played at the MCG. The hours of parliament were adjusted, and employers rearranged work hours, so that 15,000 spectators watched the game over three days.

Wills took five wickets in the first innings, then when batting in the second innings, he was knocked unconscious when facing a delivery that struck him on the jaw. Attended by a doctor, Wills resumed batting after several minutes, batted for another two hours and scored 49 not out. At the end of innings “the ring of spectators rushed the field, throwing Tom onto their shoulders, and marched into the pavilion. Victoria had all but won.”

Now proclaimed “the greatest cricketer in the land”, Wills articulated his thinking on “Winter Practice”, with a letter published in a weekly sporting paper called *Bell's Life in Victoria and Sporting Chronicle* – a paper that became the weekly magazine, *Australasian Post*, until its demise in 2002. The following thoughts appeared four weeks prior to the famous football game on Richmond Park.

*Sir, – Now that cricket has been put aside for some*



Thomas Wills (left) and John Macadam (right).

1. de Moore, G., *Tom Wills First wild man of Australian sport*, Allen and Unwin Sydney 2008. De Moore, a consulting psychiatrist at Sydney's Westmead Hospital, became interested in Wills as a result of his interest in male suicide. Quotes concerning the life of Wills are from de Moore, unless otherwise noted.

*few months to come, and cricketers have assumed somewhat of the chrysalis nature (for a time only 'tis true), but at length again will burst forth in all their varied hues, rather than allow this state of torpor to creep over them, and stifle their new supple limbs, why can they not, I say, form a foot-ball club, and form a committee of three or more to draw up a code of laws.*<sup>2</sup>

Four weeks after the publication of this letter, Wills and John Macadam umpired the famous football game mentioned above. In May of the following year, Wills and three others met at the Parade Hotel opposite Richmond Park and the MCG to form the Melbourne Football Club and to formulate the rules of the game. Having considered the rules used by British schools, they settled on rules designed to reduce the likelihood of injury, and therefore achieve Wills' objective of a winter sport to keep cricketers fit. Wills other fundamental contributions were his fame as a cricketer and now footballer, which encouraged greater participation in the new sport, while his advocacy of the removal of the offside rules enabled a more free-flowing game.

In January 1861, Wills joined a group of 25, led by his father, Horatio, to establish a new family property, called 'Cullin-la-ringo', on the Nogoia River in central Queensland. The party, consisting of stockmen and shepherds, and their wives and children, left Melbourne by steamer to Brisbane, and then travelled overland with bullock wagons and drays, with stores arriving at Rockhampton 16 weeks later.

From there they travelled west to Cullin-la-ringo, located not far from three RFF properties: Rewan, Lynora Downs and Mayneland. After nine months of travel, they arrived on the property and immediately began construction of huts and stockyards, 20km north west of the present day Springsure.

The district was at the time a very remote place, where the Indigenous owners were being relentlessly and ruthlessly forced from their homeland. Horatio Wills, however, maintained an enlightened and peaceful approach to managing relations with Indigenous owners, allowing them to camp and not allowing the distribution of firearms amongst his own party. Two weeks after their arrival on 17 October, a group of approximately 100 Indigenous people arrived at the site, sitting down nearby. In the early afternoon the Indigenous people launched a surprise attack, killing 19 men, women and children, including Horatio Wills. A man who hid was the sole survivor at the camp, while two shepherds and Wills, who was away getting provisions, also survived.

By 16 November, news of the "The Wills' Tragedy" had been circulated around the colonies with detailed accounts of the events and aftermath appearing that day in the *Sydney Morning Herald*. The following extract from that article is not easy reading:<sup>3</sup>

## THE WILLS' TRAGEDY.

(BY AN EYE-WITNESS.)

(From extraordinary to Queensland Guardian, Nov.12.)

Orion Downs, 27th October.

The party proceeded to the tents, and the following bodies were seen and recognised :—

1. Mr. Wills, who was found lying on his back, about two paces from his tent door. He had apparently been intercepted in attempting to reach the horse, which had been tied up within twenty yards of him. There was a deep tomahawk wound in his right cheek—the neck being nearly severed just below the same spot by a large wound, probably inflicted with an axe. In addition to these the whole skull was bruised and dreadfully beaten with waddies. His revolver was found lying near him with one chamber discharged. No other resistance of any kind appears to have been made by any of the sufferers at the head station. A pile of fire-arms, guns, carbines, &c., was found near the tent, some of which had been put into a fire, and otherwise partially destroyed ; all of them were loaded, as if intended for distribution when required. No arms of any kind were found near the persons of any of the victims, with the exception of those about Mr. Wills' tent.

2.—At a tent a few yards behind Mr. Wills, Margaret Manyon, a girl apparently about ten years of age, killed with blows of waddies upon her head. She had been sitting in a shady spot at the door of her father's tent reading a prayer book (Catholic), and nursing.

3.—A female infant, a few months old, daughter of Patrick Manyon, which was killed in same manner.

4.—A few yards from this tent Mrs. Manyon, killed by blows upon the head, with waddies and tomahawks beside her.

5.—Her daughter, aged about five or six years, undressed, and killed in the same manner.

6.—James Scot, cook, was found lying nearly on his face and speared in the belly, the weapon, which was still in the wound, having penetrated about eleven inches. He was severely wounded in the head and face with waddies, &c.

7.—Elisabeth Baker, apparently about 20 years of age, daughter of Mr. Baker, the overseer, was found lying, partly undressed, at the door of another tent. She had been killed with the same weapons and in the same manner. Beside her

8.—A boy, the son of Baker, about four or five years of age, and

9.—A female infant, his daughter, about seven months old, killed in same manner.

2. Wills, T.W., Bells Life, quoted from de Moore, G., *Tom Wills First wild man of Australian sport*, Allen and Unwin Sydney 2008, p87 [https://en.wikipedia.org/wiki/Origins\\_of\\_Australian\\_rules\\_football](https://en.wikipedia.org/wiki/Origins_of_Australian_rules_football).

3. *Sydney Morning Herald*, 16 November 1861, quoted from <https://trove.nla.gov.au/newspaper/article/13062373>.



The Cullin-la-ringo massacre, as it is commonly known, was the largest ever killing of European settlers in Australia and had far-reaching consequences. The specific event that triggered the massacre was explained to Wills by an Indigenous stockman a few years after the event. He explained that the neighbouring pastoralist Jesse Gregson, with a Native Police<sup>4</sup> detachment under the command of Second-Lieutenant A.M.G. Patrick, attacked a small group of the local Indigenous people who were in the process of preparing a feast of sheep that they found wandering alone and assumed to be unwanted by the "whites". (Earlier in the year, Patrick had complained that "other officers had been able to bag their first Aborigine after only a few weeks in the Force; he had served for six months and still had not yet killed a black"<sup>5</sup>). In the melee, Gregson accidentally shot Patrick in the leg, forcing retreat, while two local people died later of gunshot wounds. According to the stockman, a decision was taken to seek revenge, but being unable to distinguish between Gregson and Wills and assuming the two men to be brothers, "one was responsible for the injustice done to them as the other".<sup>6</sup>

By 10 December the *Sydney Morning Herald*, quoting from the *Rockhampton Bulletin*, gave a good deal of attention to the recovery of the many sheep on Cullin-la-ringo, and finished with the below perfunctory Editor's note.<sup>7</sup>

The fact that there was no corpse-by-corpse account of those Indigenous people killed in reprisals, was because the victors wrote the history – and did not write of the extensive vigilante killings carried out and condoned by the colonial governments and pastoralists. If it could be written, it would record the fact that primitive projectiles from muzzle

loaded guns would have ripped through flesh at a range of about 30 metres, killing possibly perpetrators and certainly women and very young children. The fact that it happened is evidenced by a despatch to London from the first Governor of the new colony of Queensland, George Bowen, stating: "an uncontrolled desire for revenge took possession of each heart" and that an estimated 70 Indigenous people had been killed in retaliation for the massacre.<sup>8</sup> It is probable that at least 100 were killed in reprisals carried out by both Native Police and by private vigilantes funded and manned by pastoralists.

The Cullin-la-ringo killings followed two decades of encroachment and killings as the colonisation of Queensland expanded from the coast. A resolution by the NSW Legislative Council in 1849 determined that Indigenous people would not be considered competent witnesses, enabling settlers "to act much as he wished so long as he used a limited amount of discretion"<sup>9</sup>. A determination maintained with the establishment of the separate colony of Queensland in 1859. Native Police, a paramilitary instrument of the colonies, deliberately used Indigenous people from southern NSW and a single white commander in each detachment, creating a sole witness to the killings they performed. The colonies had been granted self-government, "which allowed squatter-dominated" legislatures to enact laws designed to satisfy the settlers' "greed for land".<sup>10</sup> With this assistance, pastoralists refused to give self-incriminating evidence at enquiries that ultimately provided recommendations to increase "patrols to be carried out with a strong hand and all future outrages upon life and property to be punished with necessary severity".<sup>11</sup>

### **THE NOGOA TRAGEDY, SLAUGHTER OF UPWARDS OF SIXTY OF THE SUPPOSED MURDERERS.**

*(From the Rockhampton Bulletin, November 30.)*

We are informed that, on the 26th or 27th ultimo, the Native Police overtook the tribe of natives who committed the late outrage at Nogoia, and succeeded in driving them into a place from whence escape was impossible. They then shot down sixty or seventy, and they only ceased firing upon them when their ammunition was expended. One of the blacks who was shot, cried out, "Me no kill white fellow !" showing plainly they well comprehended the proceeding. Some firearms and other property in their possession were recovered.—ED. R. B.]

4. *Australian Native Police*, Wikipedia, Existed from 1837 though to early twentieth century as a cost effective and brutal parliamentary instrument in the expansion and protection of the British colonial frontier. [https://en.wikipedia.org/wiki/Australian\\_native\\_police](https://en.wikipedia.org/wiki/Australian_native_police).

5. Reid, G., *From Hornet Bank to Cullin-la-ringo*, presented to the Royal Historical Society of Queensland, Brisbane 28 May 1981, p69.

6. *ibid*, p73.

7. *Sydney Morning Herald*, 10 December 1861, quoted from: <https://trove.nla.gov.au/newspaper/article/13060056>.

8. *Bowen to Newcastle*, December 1861, Outward Despatch No. 74, QSA GOV/23, quoted from *From Hornet Bank to Cullin-la-ringo*, Reid, G., Presentation to Royal Historical Society of Queensland at Brisbane 1981, p75.

9. Reid, G.S., *A Nest of Hornets: the massacre of the Fraser Family at Hornet Bank Station, Central Queensland, 1857, and related events*, Thesis, Australian National University, 1981, p8.

10. *ibid* p8, including quote from De Stage, Oscar, Pages from the *Journal of a Queensland Squatter*, London, 1901, p.147.

11. Laurie, A., *The Black War in Queensland*, Royal Historical Society of Queensland, 1958, p162.

The historical records documenting the colonisation of central Queensland are like pieces of a jigsaw puzzle. There are many pieces of admission that fit with pieces of obvious omission and the large area occupied by pieces of silence. Impartial and scholarly reviews have assembled the historical facts to reveal a panorama of the colonisation of central Queensland featuring at its very centre an act of ethnic cleansing. While this act was not exceptional at that time, it is still a fact.

Unlike almost all the Indigenous inhabitants of this region at that time, Tom Wills survived another 19 years. He resumed his cricket career by captaining Victoria against NSW at the Domain, then captaining Queensland later that year. By 1864 he finally left Cullin-la-ringo and returned to the family home at Geelong. Suffering symptoms now considered to indicate post-traumatic stress syndrome, Wills' heavy drinking became chronic.

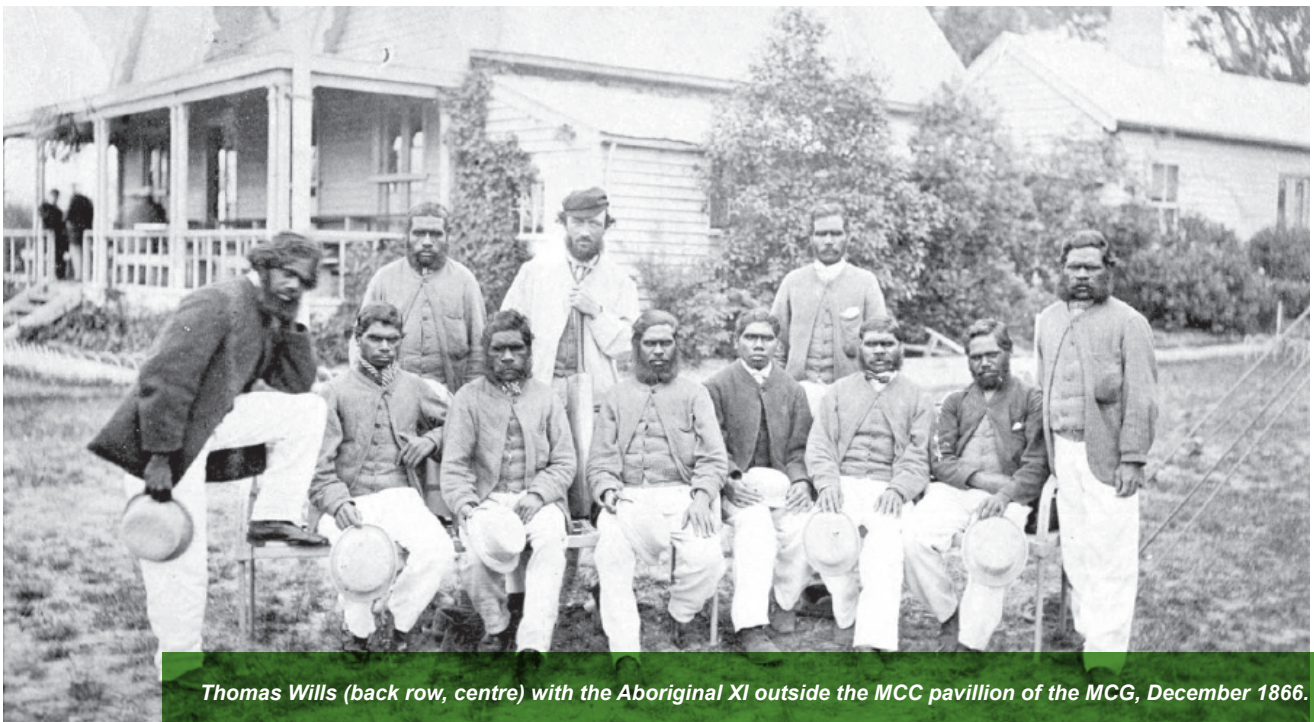
Although age and alcoholism were diminishing his abilities, Wills remained a champion footballer and cricketer for some years. Perhaps a testament to Wills' humanity and in honour of the example set by his father, Wills agreed to captain coach an Indigenous cricket team that he assembled from the Western Districts of Victoria, where he had grown up. Their first game was against the Melbourne Cricket Club (MCC), on Boxing Day, 1866, and was attended by a crowd of 10,000. The team toured Victoria and NSW for the next two years, and was reformed in 1868 as the famous Aboriginal XI that toured England from May to October. Wills, to his

great regret, was not part of this team, due to the influence of his heavy drinking on team members.

Although Wills continued as an active and brilliant sportsman, he was compelled by financial problems to play as a professional rather than as an unpaid gentleman. The remainder of his life was sadly one of descent, ending with his suicide at age 44, after stabbing himself three times in the chest with scissors while suffering paranoid delusions.

This article started with an Australian rules football game, umpired by Wills and his contemporary, John Macadam. Wills' life and travels have been so interesting, that no space is left to tell the story of a life of service given by John Macadam. Except to say that Macadamias are named after him, and that the Rural Funds Group expects to establish new macadamia orchards in central Queensland, the same highly fertile region of Australia where many of these events occurred.

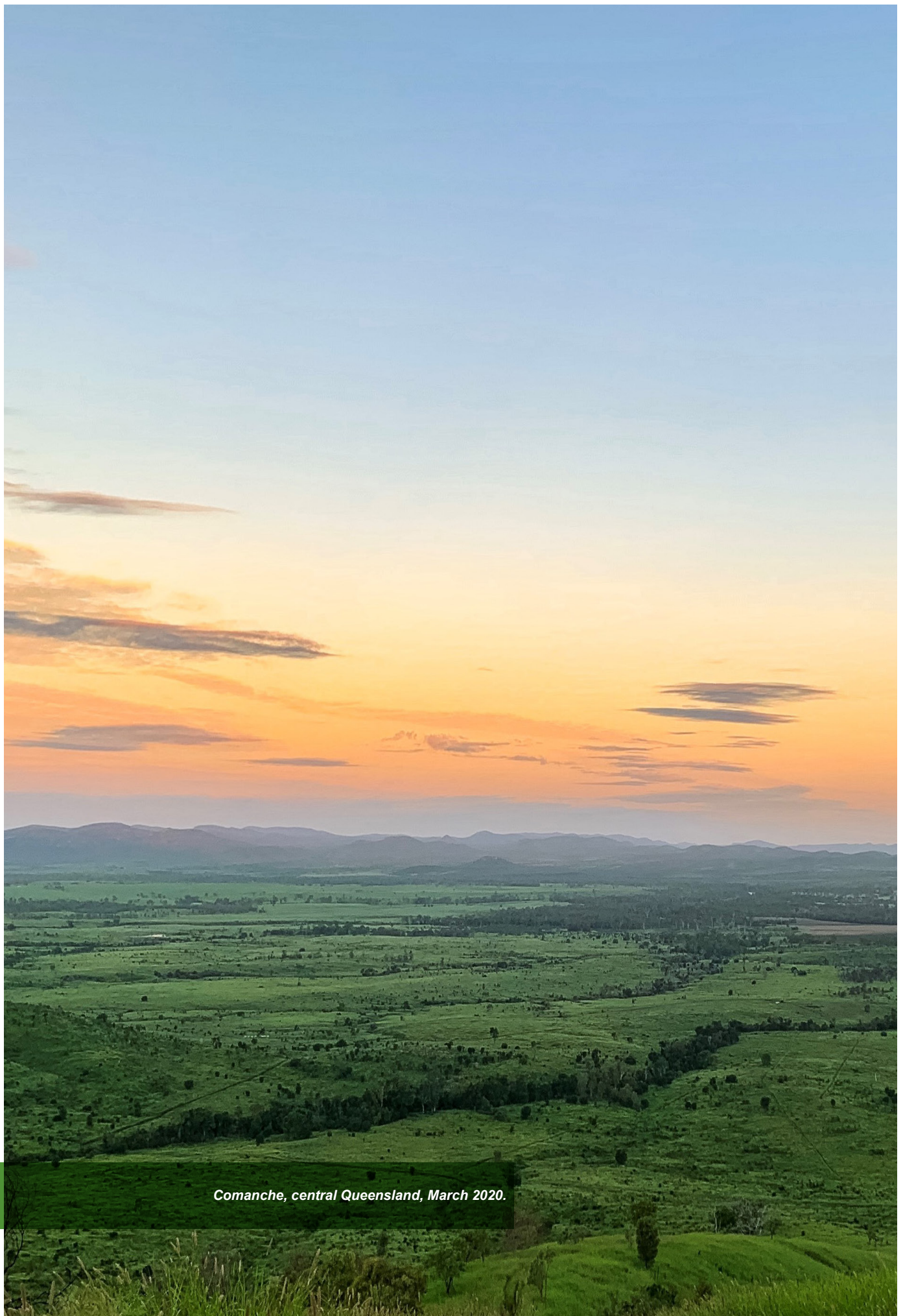
Geoffrey Blainey recently wrote: *"The essence of studying history is that, as best we can, we try to wear the shoes and put on the spectacles worn by people of the past. We try to see the obstacles and dilemmas they struggled against or evaded. We also hope that the future will try to understand why we made blunders, and learn from failures and achievements of our era."*<sup>12</sup> This definition, founded on humility and understanding, is a reminder that histories such as that presented here, can better inform our future conduct.



Thomas Wills (back row, centre) with the Aboriginal XI outside the MCC pavillion of the MCG, December 1866.

12. Blainey, G., *The Weekend Australian*, 13 June 2020, p15.





*Comanche, central Queensland, March 2020.*





## Rural Funds Group's participation in the global food system

James Powell, General Manager – Investor Relations and Marketing

Mooral almond orchard, NSW, February 2020.

**The Rural Funds Group (ASX: RFF) is an agricultural real estate investment trust (REIT). RFF aims to increase distributions by 4% per annum, by owning and improving farms that are leased to good operators.**

### In this section:

- Australia's suitability to the sectors that RFF has invested in and how RFF corporate lessees are contributing to the global food system.
- RFF update and outlook.

The assets owned by RFF produce soft-commodities, primarily food, and in many cases the operators of these assets process and/or export these soft-commodities around the world. The globalised nature of today's food production and distribution was highlighted in a recent article in *The Economist*.<sup>1</sup>

“the unsung star of 21st-century logistics is the global food system. From field to fork, it accounts for 10% of world GDP and employs perhaps 1.5bn people. The global supply of food has nearly tripled since 1970, as the population has doubled to 7.7bn. Food exports have grown six fold over the past 30 years; four-fifths of people live in part on calories produced in another country.”

Further supporting the above statement is analysis prepared by the Food and Agriculture Organisation that reveals that most nations are more dependent on agricultural imports today than they were 20 years ago.<sup>2</sup> As nations are able to access a global

marketplace of agricultural goods they may choose to focus their own production in sectors to which they are naturally suited.

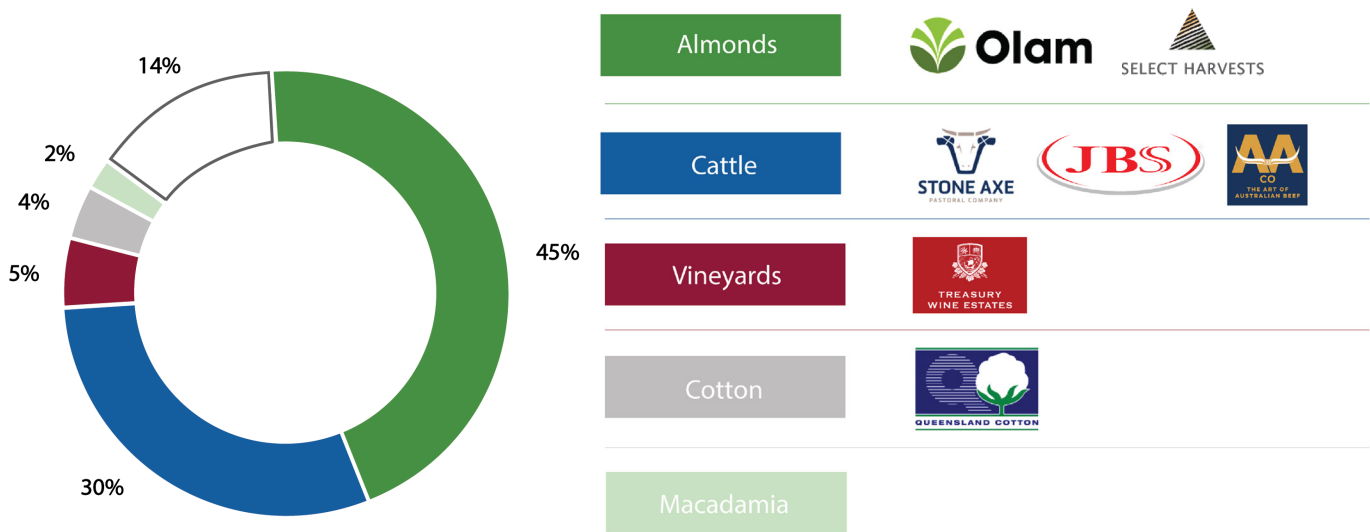
Figure 1 shows RFF agricultural sectors by forecast income for the 12 months ended 30 June 2020 (FY20). Also shown are the corporate operators, or lessees, within these sectors. Most of these corporate entities are listed on domestic or international securities exchanges, either directly or via their parent entity. The income derived from these lessees represents approximately three quarters of FY20 forecast lessee income (e.g. excluding annual water allocation sales). The remaining portion is predominantly generated by commercial, but privately owned farming operations, including those managed by RFM, which supply both domestic and international markets.

The balance of this article will describe Australia's suitability to the sectors that RFF has invested in and how RFF corporate lessees are contributing to the global food system.

1. “The global food supply chain is passing a severe test”, *The Economist*, 9th May 2020.

2. “The world's food system has so far weathered the challenge of covid-19”, *The Economist*, 9th May 2020.

Figure 1: Total agricultural sector exposure (by FY20f revenue) and corporate lessees<sup>3</sup>



### Almonds

There are few regions in the world that are suitable for growing almonds. The almond tree requires hot and dry summers but with sufficiently cold winters to promote next season's fruitfulness. Because an arid climate is necessary for achieving high-quality crops, irrigation water must be sourced from distant catchments. These conflicting demands have helped Australia to become the world's second-largest almond producer, exporting to around 60 countries across Asia Pacific, Europe, Middle East, Africa and the Americas.

RFF owns four almond orchards equating to just over 10% of Australia's total almond orchard area. Two corporate operators lease almond orchards from RFF and distribute products around the world.

**Olam Orchards Australia Pty Ltd**, a subsidiary of Olam International Ltd (SGX: 032, A\$4.9b market capitalisation) leases 3,100ha. Olam Int. produces over 45 commodities and is the world's largest producer of almonds. Throughout their business Olam Int. distribute to over 25,000 customers worldwide, including leading global brands such as Kelloggs, Nestlé, KraftHeinz, Costco and Aldi (see Figure 2).

**Select Harvests Ltd** (ASX: SHV, \$615.6m market capitalisation) is Australia's largest vertically integrated nut and health food company and leases 1,221ha. While SHV typically exports 70 to 80% of its almonds, it is also continuing to develop their domestic products and brands such as Sunsol (see Figure 3).

Figure 2: Olam customers include leading brands



Source: O32, Investor presentation, May 2020.

Figure 3: SHV Sunsol marketing



Source: SHV, 1H FY 2020 half year results presentation to 31 March 2020, 22 May 2020

3. Only corporate lessees are shown on the right-hand side of Figure 1. Other income (14%) includes RFF Poultry (disposed of December 2019) and water allocation sales. Olam refers to Olam Orchards Australia Pty Ltd, a wholly owned subsidiary of SGX-listed Olam International Ltd. Income from J&F Australia Pty Ltd attributed to JBS Australia. Cotton JV income split 50% RFF and 50% Queensland Cotton Corporation Pty Ltd.



## Cattle

Most recent figures from the Department of Agriculture show that the beef cattle industry makes an important contribution to the Australian economy, accounting for around 20% of the total gross value of farm production.<sup>4</sup> Australia is the world's third-largest beef exporter. One of the reasons for the size of the industry is Australia's abundance of land that is suited to cattle production, particularly in Queensland. Queensland accommodates 46% of Australia's 26.2m cattle herd, and the Fitzroy Basin in central Queensland – the engine room of the Australian cattle industry – represents over a quarter of that amount.

In total, RFF owns five feedlots and over 665,000ha across 15 cattle properties for breeding and backgrounding (another term for grazing). The majority of these properties are located in Queensland, including 'Rewan'. Rewan is leased by **Australian Agricultural Company** (ASX: AAC, \$614.8m market capitalisation) for Wagyu production.

AAC is Australia's largest integrated cattle and beef producer exporting beef, including Wagyu, across

the world into food service, retail and wholesale sectors. During the past two years it has focused on increasing the profile of its branded-beef in key international markets with resulting increases in beef sales.

Overall, more than 90% of Australian Wagyu beef is exported to a range of international markets. Another producer, **Stone Axe Pastoral Company** (Stone Axe), which leases six cattle properties, recently won Australia's largest Wagyu branded beef competition. Similar to AAC, Stone Axe's beef is distributed to places such as China, Hong Kong, South East Asia and the Middle East.

Prior to being distributed internationally and domestically, approximately 40% of Australia's cattle are fed a grain-based diet in a feedlot. RFF leases five feedlots to **JBS Australia**, the largest portfolio of feedlots in the country, representing approximately 12% of national cattle numbers on feed. JBS Australia is the largest domestic meat processor owned by the world's largest processor JBS SA (BZ: JBSS3, A\$16.7b market capitalisation) that provides "food for millions of families around the world"<sup>5</sup> (see figure 4).

Figure 4: JBS S.A. global facilities

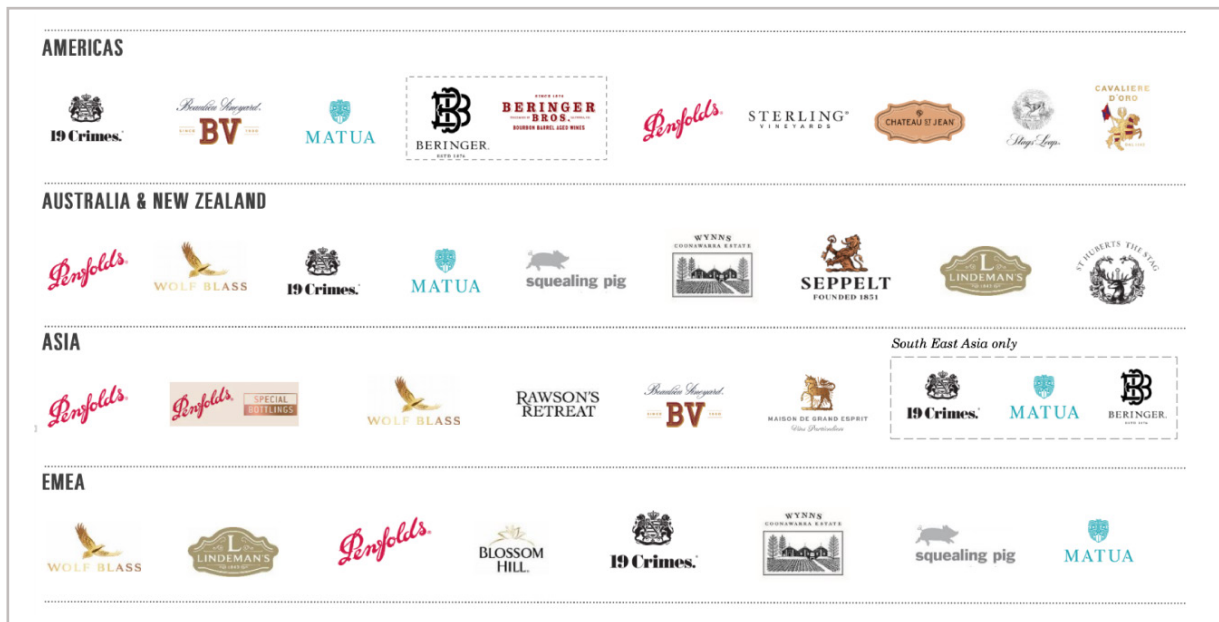


Source: JBS S.A. 2Q19 Institutional presentation. Note: % of Consolidated Net Revenue – domestic sales and imports. <sup>1</sup> Includes production units, feed mills, hatcheries, feed lots and others.

4. Department of Agriculture, Water and the Environment - Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES): Research, Farm surveys and analysis, Beef Farms, Industry overview 2017-18.

5. Gilberto Tomazoni (JBS SA CEO) First Quarter 2020 Results Internal Conference Call, 15 May 2020.

Figure 5: TWE global brand strategy



Source: TWE Investor Day Presentation, 24 September 2019.

## Vineyards

Australia exports \$2.9b of wine produced from approximately 150,000ha of vines. Shiraz and Cabernet Sauvignon represent almost half of Australia's wine production, primarily sourced from South Australia. South Australia's wine growing regions offer favourable topography, climate and soils.

RFF's portfolio includes seven vineyards that are mostly located in the Barossa Valley (by area). The vineyards are all leased to one of the world's largest wine companies, **Treasury Wine Estates** (ASX: TWE, \$7.5b market capitalisation). The vineyards, which are mainly planted to the aforementioned red varieties, supply a range of TWE's wine labels, including premium wines. Figure 5 was included in a recent TWE presentation to highlight their global brand strategy, including distribution in more than 70 countries.

## Cotton

The cotton plant produces lint, which is used for textile production, and seed used as vegetable oil and stockfeed. The quality of Australian cotton lint is among the highest in the world as a result of significant industry investment in research and plant breeding.

As a high-value annual crop, cotton is also ideally suited to Australia's variable climate, enabling farmers to maximise production when water is abundant and reducing plantings in drier years. Thus Australia is one of the world's largest exporters

of raw cotton. In 2019 Australia exported more than 90% of production to, among others, China, Indonesia, Thailand, South Korea, Japan, Taiwan, Pakistan and Italy.

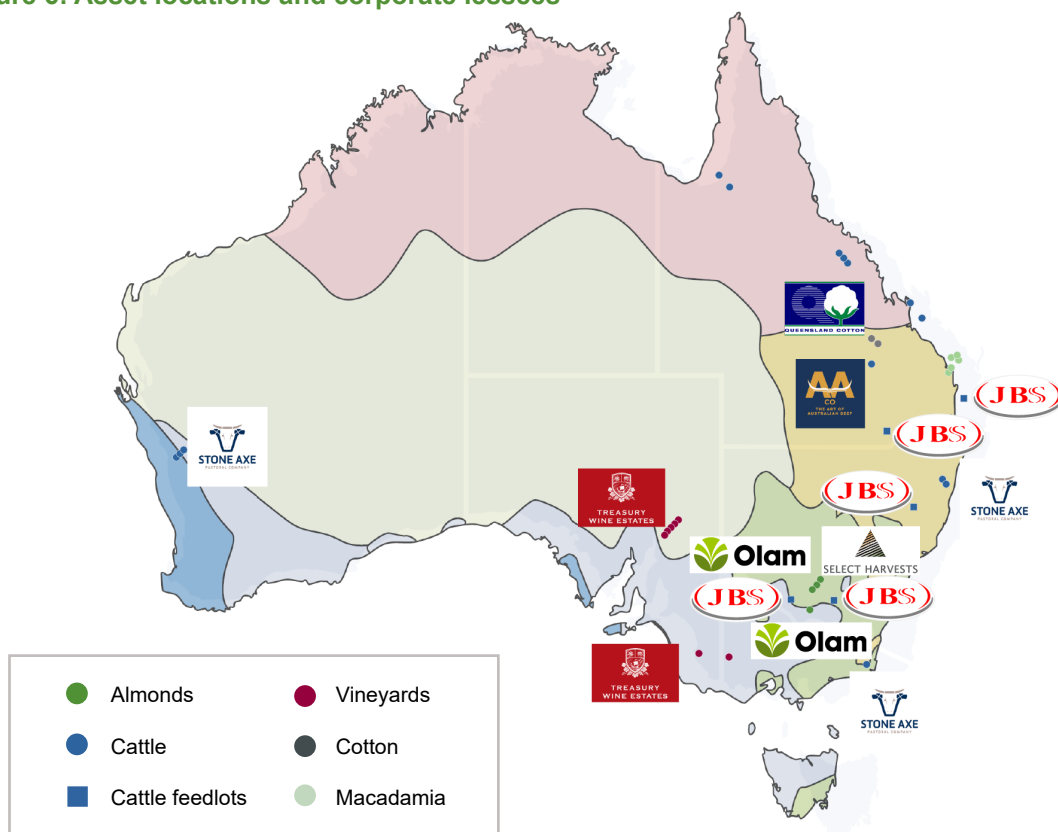
Two cotton properties owned by RFF are located in central Queensland, a region that has been producing cotton since the mid-1800s. One of these properties is leased by a joint venture between RFF and **Queensland Cotton Corporation** (Queensland Cotton). Queensland Cotton has a 98-year history and is the largest cotton merchant in Australia with 10 processing facilities. Queensland Cotton, in conjunction with its international parent company, specialises in marketing and processing cotton, and delivering product to more than 20 of the world's major cotton-consuming markets.

## Macadamias

Also in central Queensland, RFF owns three macadamia properties totalling a relatively modest 259ha. Macadamias, a 'tree nut' native to Australia, are suitable for growing in sub-tropical climates. Australia is the second-largest grower in the world, currently producing 43,500t, of which approximately 70% was exported to destinations including Japan, USA and Europe. Currently, the Australian macadamia industry is experiencing high levels of growth, with existing orchards unable to meet demand. The sector is the only one in which current lessees are not corporate entities (see Figure 6) – a reflection of the emerging nature of the industry.



**Figure 6: Asset locations and corporate lessees**



As evidenced in this article, the sectors in which RFF owns assets tend to have attributes that make Australia a low cost and/or high quality producer of the respective commodities, enabling it to compete on a global scale.

Figure 6 shows the corporate operators producing soft-commodities, primarily food, from RFF assets. These operators distribute commodities around the world, either in their raw form – to some of the largest food manufacturing companies – or via their own brands. It is the production of these essential commodities that underpins the profitability of the operators, who in turn pay rent to the Rural Funds Group. To read more about RFF lessees, several of whom have recently reported profitable financial results, see Figure 7.

### Fund update and outlook

In March 2020 RFF reported 31 December 2019 (HY20) financial results. Highlights of the HY20 results (compared to the prior corresponding period) included increased property revenue of \$37.6m (up 22%), increased adjusted funds from operations (AFFO) per unit of 7.1 cents (up 11%) and increased Total Comprehensive Income earnings per unit of 8.9 cents (up 16%).

In April 2020, Unitholders voted to increase the Guarantee arrangement for the JBS feedlots. Over

40% of Unitholders participated, with 99.6% voting in favour. Also in April, RFM advised Unitholders that agricultural property agents CBRE had been appointed to market the Moorool almond orchard, following recent favourable comparable sales. An outcome on this process is likely to be known in July.

RFM has reaffirmed forecast FY20 AFFO per unit of 13.5 cents, FY20 distributions per unit (DPU) of 10.85 cents and FY21 DPU of 11.28 cents. Figure 8 shows these and other key metrics.

RFM's strategy is to increase distributions at 4% per annum. This is achieved by lease indexation, market rent reviews and reinvestment of retained AFFO. Currently 18 of the 38 properties owned by RFF are undergoing development improvements with the aim of improving future income potential.

RFM also continues to assess acquisition opportunities, particularly those which may benefit from productivity improvements or conversion to higher and better use. Acquisitions may be funded by existing debt capacity, with pro forma gearing at 29.3% (compared to a target of 30-35%) and loan to value ratio of 41.0% (compared to covenant of 50%).<sup>6</sup>

The next quarterly distribution is forecast to be paid on 31 July 2020 and RFM expects to release the full year results in August 2020. In the interim, if you have any queries on your investment please do not hesitate to contact RFM Investor Services.

6. 31 December 2019 gearing and LVR pro forma for: WA cattle properties settled Feb 2020 (\$22.6m), Wattlebank settled Jan 2020 (\$1.8m), Swan Ridge South settled Mar 2020 (\$1.6m), Riverina Beef feedlot settled May 2020 (\$11.4m), \$41.7m cash balance and (only impacting LVR) \$7.5m additional Guarantee.

**Figure 7: Lessee websites**

**Olam Orchards Australia**  
www.olamgroup.com

**Select Harvests (ASX: SHV)**  
www.selectharvests.com.au

**Australian Agricultural Company (ASX: AAC)**  
www.aaco.com.au

**JBS Australia**  
www.jbssa.com.au

**Stone Axe Pastoral Company**  
www.stoneaxewagyu.com

**Treasury Wine Estate (ASX: TWE)**  
www.tweglobal.com

**Queensland Cotton**  
www.qcotton.com.au

**Figure 8: Key metrics**

	31 Dec 2019
FY20f adjusted funds from operations (AFFO) per unit	13.5 cents
FY20f distribution per unit (DPU)	10.85 cents
FY20f payout ratio	80%
FY21f DPU	11.28 cents
FY21 DPU yield <sup>1</sup>	5.6%
Adjusted total assets <sup>2</sup>	\$950.2m
Adjusted NAV per unit <sup>2</sup>	\$1.84
Gearing (pro forma) <sup>3,4</sup>	29.3%
Number of properties / sectors <sup>4</sup>	38 / 5
Weighted average lease expiry (WALE) <sup>5</sup>	11.5 years

**Notes:**

1. Based on 22 June 2020 closing price of \$2.02 per unit.
2. Assets adjusted for the independent valuation of water entitlements which are recognised at the lower of cost or fair value on balance sheet.
3. Gearing calculated as external borrowings (less cash balance)/adjusted total assets.
4. Includes pro forma acquisitions: WA cattle properties (settled Feb 2020), Wattlebank (settled Jan 2020), Swan Ridge South (settled Mar 2020) and Riverina Beef feedlot (settled May 2020).
5. Calculated as the FY20 forecast rent and year of lease expiry.



*Kleinig Vineyard, Barossa Valley, South Australia, March 2020.*



# Agricultural property outlook

*Almond trees in bloom at Mooral, Riverina NSW, 2019.*

On 20 April 2020, Rural Funds Management Limited (RFM) as responsible entity for the Rural Funds Group (ASX: RFF) disclosed that agricultural property agents, CBRE, had been appointed to market the Mooral almond orchard. The decision to market Mooral follows recent favourable comparable sales.

Institutional investor interest in agricultural property has been strong over the past several years, as highlighted by the May 2020 edition of *AgJournal*.<sup>1</sup> The publication estimates that the largest three owners of Australian agricultural property (by value) are institutional investors and predominantly off-shore: PSP Investments (Canada) \$3.0b+, Macquarie Agriculture (domestic and international) \$2.7b and TIAA-CREFF (USA) \$1.7b.

RFF is estimated to be the fourth-largest owner of Australian agricultural property with \$1.0b of assets. RFF is also Australia's largest agricultural property fund available to both retail and institutional investors.

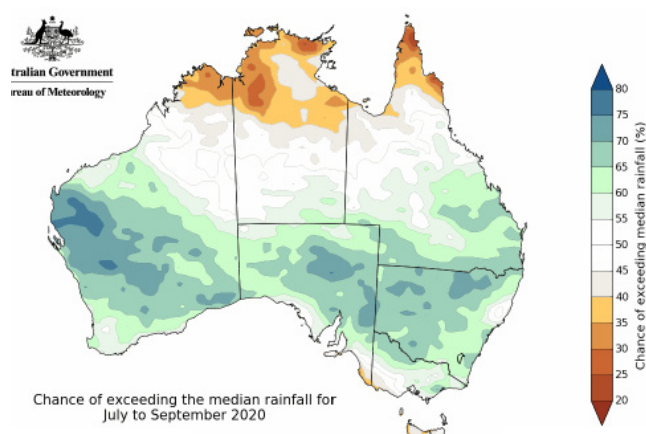
Agricultural property has long been considered a beneficial inclusion in a diversified portfolio, particularly by institutional investors. This is in part because of the defensive attributes of the asset class and the potential diversification benefits.

It is possible that the demand for agricultural property will continue to remain buoyant because of several factors:

1. Low Australian dollar: This effectively makes Australian assets cheaper to foreign investors.
2. Low interest rates: Lower interest rates have two benefits. Firstly, they result in lower borrowing costs for prospective purchasers. Secondly, they can result in returns on other asset classes being less attractive. For example, in the US and Canada (large investors in Australian agricultural property as noted above) long-term bond rates are below 1.5%.
3. Positive outlook for operator profitability: While much of Australia has been drought impacted for several years (and continues to be the case for many areas) the Bureau of Meteorology is forecasting above-average rainfall in winter and spring in 2020 (see Figure 1).

If the Mooral almond orchard is sold proceeds are expected to be redeployed in-line with RFM's strategy to acquire assets with higher earnings potential in industries suited to Australia (see previous article). Regardless of the outcome of the sale process, RFF may benefit from several factors which are resulting in demand for Australian agricultural property.

**Figure 1: July to September rainfall outlook**



1. *Weekly Times' AgJournal* article - Who Owns Australia's Farms 2020 - Top 20 by value, 20 May 2020.

RFM management team (listed alphabetically by surname)



David Bryant



Dan Edwards



Harvey Gaynor



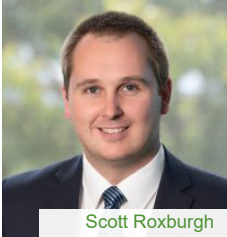
Matthew Mitchell



Scott Norval



James Powell



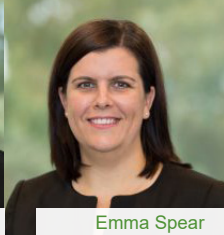
Scott Roxburgh



Tim Sheridan



Kristina Smith



Emma Spear



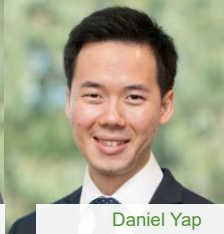
David Thompson



Daryl Winter



Peter Wong



Daniel Yap

## 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 manages approximately \$1.3b of agricultural assets. This includes three investment funds for which RFM is the responsible entity. Assets are located across New South Wales, Queensland, South Australia, Western Australia and Victoria.

RFM's largest fund under management, the Rural Funds Group (RFF), is an ASX-listed real estate investment trust. RFF owns a \$950m portfolio of diversified agricultural assets including almond and macadamia orchards, premium vineyards, water entitlements and cattle and cotton assets, all of which are leased to quality tenants.

RFM has a 23-year history and operates from a head office in Canberra, and offices in Sydney, regional New South Wales and Queensland. The company employs more than 140 staff in fund and asset management activities.



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3. Tap the notification to open the link.

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