

Newsletter

from Rural Funds Management Ltd

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TOCABIL STATION AND ITS HISTORY

THE RICH HISTORY AND THE HUMAN STORIES OF TOCABIL STATION, RFF'S LATEST ACQUISITION

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YOU MAY FIND THESE ARTICLES MEANINGFUL IN THE CONTEXT OF YOUR PERSONAL INVESTMENT PORTFOLIO

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Tocabil Station and its history

David Bryant, Managing Director

On 25 August 2014 the Rural Funds Group entered into an unconditional contract to acquire Tocabil Station (Fig 1, 1), at Hillston (Fig 1, 2) in central NSW, for \$5.2 million. Tocabil is a very interesting farm. It has a fascinating heritage, very diverse ecosystems, and the potential to transform a small portion of the land area into a lucrative and sustainable investment.

The human story of Tocabil starts 50,000 years ago, by which point the first Australians had colonised the region. The most famous evidence of their occupation was found at Lake Mungo (Fig 1, 3), part of the Willandra Creek (Fig 1, 4) and Lakes system that diverges from the present day Lachlan River (Fig 1, 5). Tocabil has double frontage to the Willandra Creek and is located where it diverges from its source: the Lachlan River (see Figure 1).

Forty years ago, Professor Jim Bowler, one of Australia's most distinguished geologists, discovered the remains of a woman (1969) and a man (1974) who had been buried at separate sites on the edge of Lake Mungo. Their remains included evidence of burial ritual and for this reason are the oldest reliably dated evidence of cultural sophistication found anywhere in the world. Their discovery completely changed our understanding of the human history of Australia.

Mungo Man and Woman lived in the region in the 400th Century BC — that is 40,000 years ago. It is quite possible that they may have walked along the Willandra Creek and through Tocabil, 250km to the east. Regardless of this possibility, there is ample evidence of the activities of Aboriginal people on Tocabil, including stone tools and numerous tree scars where bark has been taken for coolamons or canoes.

Nature changed life for early Australians at the Willandra Lakes and Tocabil around the 20th Century BC, when the last ice age brought temperatures 6-9 degrees lower than today. Then around the 8th Century BC, the main channel of the Willandra Creek diverged south creating Tocabil's present day boundary: the Lachlan River.

The next major change in the region was the arrival of the Europeans, starting with explorer John Oxley in 1817, then Major Thomas Mitchell in 1836, whose accounts of his travels are more interesting due to his reliance on Aboriginal guides and consequent interaction with the local people.

Mitchell met his party at a valley below Mount Canobolas, near Orange, setting out on March 17. The party consisted of 25 British men, nine of whom were former convicts, and an Aboriginal man from Bathurst, "who called himself John Piper"¹. Piper, as he was thereafter referred to, acted as guide and interpreter and through his intercession the recruiter of additional local Aboriginal guides as the party moved through different tribal areas.

Due to drought the Lachlan River at the time had ceased to flow and instead dried back to waterholes. Nearly one month later on April 19, the expedition reached what is today called Tocabil and "encamped on a pond of the [Lachlan] river named Burrabadimba"² (Fig 1, 6). Interestingly, though no European settlement had as yet extended this far west, Mitchell's men located and pursued wild cattle on a nearby hill.

¹ Mitchell, T.L., Three expeditions into the interior of eastern Australia, T. & W. Boone, London, 1839, p.3

² IBID p44



Image: Tocabil Station

The purpose of Mitchell's expedition was to travel overland and join the Darling River, then prove that it flowed into the Murray. With this in mind they left Tocabil along the Willandra Creek, camping the next day just east of Yilgah (Fig 1, 7) (now an asset of the Rural Funds Group). Due to pervasive drought and advice from "some grave and important looking old men", the party headed back to the Lachlan River and camped just north of the present day township of Hillston.

After some deviations, including three days without water, the expedition reached "an angle of the river, named Curwaddilly (Fig 1, 8), at which there was a good pond, and here encamped" — this is located on the present day Moorall (Fig 1, 9) (an asset of the Rural Funds Group).

At all times during Mitchell's expedition, they were accompanied by Piper, Piper's wife Kitty, who joined them at Lake Cargelligo (Fig 1, 10) (60km east of Tocabil), and typically several other guides who would join the expedition for short periods through their local country. Reading Mitchell's daily account, contact with the local inhabitants was a daily occurrence, with encounters ranging from small families to groups larger than 400.



Image: Part of the original Tocabil pump station

These local guides gave advice on the location of waterholes, the proximity and interconnection of the large rivers and lakes; they caught them fish and provided knowledge regarding edible vegetation and their culture. On May 5 about 25km south west of Mooral the expedition was joined by Turandurey, a widow and Ballandella, her daughter aged about 4. Turandurey proved to be an invaluable interpreter, quicker to converse with the people they met as they entered new regions, compared to the men, who appeared compelled to stand silently for the first 15 minutes on meeting.

Turandurey and Ballandella remained with the expedition until its completion six months and thousands of kilometres later. Turandurey married Joey, King of the Murrumbidgee on 6 November near the present day Wagga Wagga (Fig 1, 11). Ballandella returned with Mitchell, becoming part of their household, then placed in the care of Dr Charles Nicholson when only six months after their return, Mitchell left for a period in England. It appears Ballandella then worked as a nursemaid until her marriage to John Barber a local Aborigine near Wiseman's Ferry (Fig 1, 12). She had a daughter and two sons, and while there is no record of her death it is thought that she did not reach the age of 40.

The lives of these two women were perhaps indicative of the impacts of outsiders. Other evidence included Piper's wife, Kitty "having a blind eye, opaque and white"³, who had probably sustained this injury from an outbreak of smallpox among inland

Aborigines around 1830. Another child encountered on the Lachlan on 5 May was also blind. Research indicates this outbreak came not from the east coast Europeans, but via northern Australia and Makassan traders⁴.

From around 1850 life for the original inhabitants of the region began to change more permanently. Initially properties taken up by squatters along the rivers, were large enough to accommodate co-existence and provide work. However as closer settlement came and the number of Europeans increased, both work and places to live began to be denied. This in turn led to the establishment of reserves and missions around the 1890's and the permanent relocation of people away from traditional lands. Today's Murrin Bridge (Fig 1, 13) Aboriginal Community, 50km east of Tocabil, while located in former Wiradjuri lands, was originally and still today occupied by Ngayampaa and Paakantyi people from the north side of the Lachlan River who were relocated from Menindee (Fig 1, 14) in 1949, after being relocated from Carowa Tank (Fig 1, 15) in the drought of 1933.

Among European owners of Tocabil, the most famous was John Costello, who acquired the property in 1905. Costello was born at Yass in 1838, the fifth child of Irish immigrants, Michael and Mary Costello. A heartbreaking indication of the hardships of those times is the fact that Michael and Mary's first four children all died on their voyage from Ireland one year earlier.

³ IBID p.103

⁴ Campbell, J., *Invisible Invaders: smallpox and other diseases in Aboriginal Australia, 1780-1880*, Melbourne University Press, Melbourne, 2002.

The map shows the continent of Australia with a grid overlay. A green box highlights a region in the south-east, near the border of New South Wales and Victoria. The map is titled 'AUSTRAALIA' and 'PERLIX'. The highlighted region contains several numbered points (1-15) and labels for various towns and geographical features. The map is oriented with North at the top.

Their voyage from Ireland on the overcrowded and under provisioned 'Mary MacNaghten' experienced a typhoid outbreak that killed 68, including 54 children⁵. Fourteen of these people, including the last of the Costello children, died in Spring Cove, on Sydney's North Head, when forced to remain aboard the stricken ship for quarantine purposes.

John Costello, along with a sixth child, Mary, grew up at Grabben Gullen, near Goulburn, NSW. Mary married Patsy Durack, who formed a business partnership with Costello that saw their two families become famous as pioneers that first settled the channel country of Queensland, followed by the Gulf country and Kimberly of northern Australia.

Costello's bush skills and energy enabled great achievements, including a 1,400 kilometre journey in 1867, when he drove 200 horses from south west Queensland, west across completely uncharted country then down to market at Kapunda, near the Rural Funds Group's 'Kleinig' vineyard. This same pioneering urge led the Costellos to develop the first irrigation on Tocabil, with the installation of a charcoal gas fired pump station, located at Tocabil's 'Burabadimba' Lachlan River waterhole — the same spot where Mitchell camped around 70 years earlier. The pump station is still there today (see image on page 4).

This short account of the long history of Tocabil and the surrounding country highlights the valuable heritage of this area of Australia. As its ownership has changed over the centuries, many lives have had to change with it. Tocabil's rich human heritage, combined with its varied landscapes and consequent biodiversity, form an asset beyond its simple monetary worth.

From a financial perspective, is it intended Tocabil will be enhanced by a 600ha, \$30m almond development, with planting occurring in July 2015. This development would transform a \$5m cotton and grazing farm into a \$35m almond orchard and grazing property with the potential to sustainably generate higher rates of income and capital growth for decades to come.

⁵ https://ehive.com/account/3671/object/35976/Headstone_JA_Hawkins_Esq_

Rural Funds Group (RFF) Update

RFF is a stapled security comprising

Rural Funds Trust ARSN 112 951 578 & RF Active ARSN 168 740 805

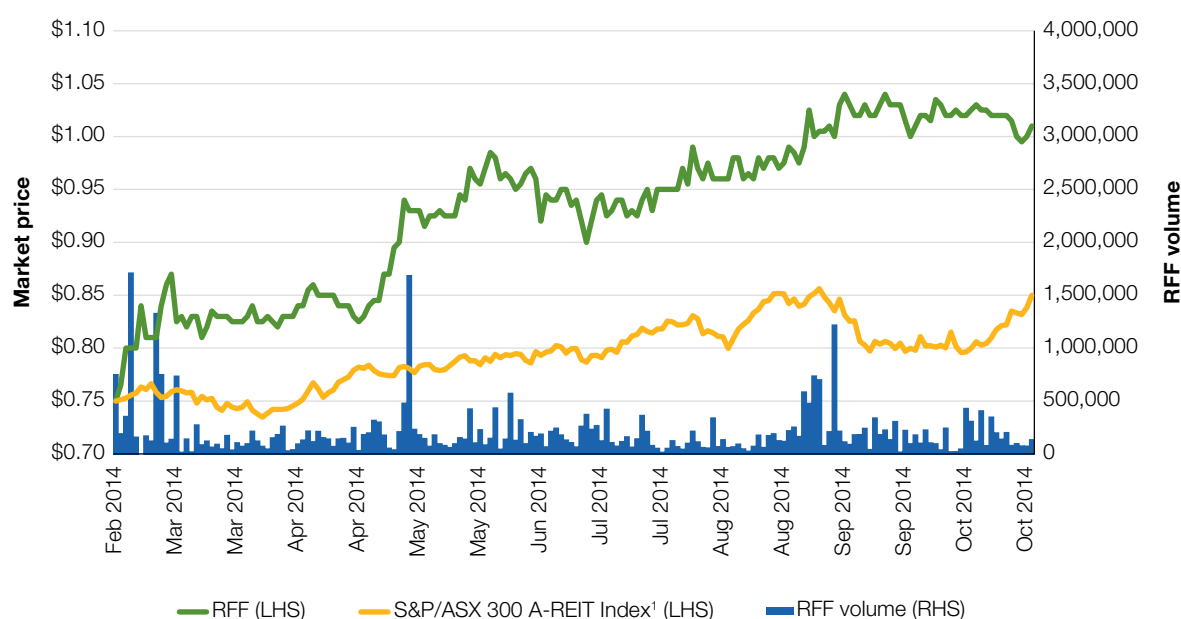
Over the past six months, RFF has continued to meet its operational targets, and has benefited from an increase in trading price of 24% between August and October.

Fund turnover increased to 20% during this six month period, reflecting continued growth in the level of liquidity for investors.

RFF also achieved several important milestones, the most recent being the adoption of a stapled security structure, following consent to this change by Unitholders.

Under the new structure, RFF's operational assets are held in a new trust called RF Active, and the remaining passive assets are held in Rural Funds Trust. The two trusts are stapled together and continue to trade as a single security under the ASX code 'RFF'.

Figure 1: RFF vs S&P/ASX 300 A-REIT Index



David Bryant, RFM Managing Director, says, 'the adoption of a new constitution was an important step in RFF's growth plans. It is a structure used by many listed real estate investment trusts (REITs). Importantly, it allows Unitholders to receive the vast majority of their income on a pre-tax basis.'

¹ The S&P/ASX 300 A-REIT Index is a sector sub-index of the S&P/ASX 300 Index comprising Australian Real Estate Investment Trusts (A-REITs). RFF is not part of this Index.

Figure 2 below provides a visual representation of the updated RFF structure.

Figure 2: Rural Funds Group structure

Rural Funds Group (ASX: RFF)	
Rural Funds Trust	RF Active Trust
Assets owned and leased:	Assets owned:
<ul style="list-style-type: none">Almond orchardsWater entitlementsPoultry farmsVineyards	<ul style="list-style-type: none">Units held in RFM StockBankPlant and equipment used for farming

On 29 August 2014, RFF's first full year report since listing was published, with RFM releasing RFF's 2014 Financial Statements. The Financial Statements and accompanying presentation by David Bryant, are available on the RFM website (www.ruralfunds.com.au).

The Financial Statements set out a net profit after tax of \$20.1m, a \$2.2m increase in property values, and a forecast distribution increase of 2.4% for FY15 (to 8.6 cents per unit). The Fund's net asset value increased from \$1.01 to \$1.17 per unit due to the removal of net deferred tax liabilities on RFF's balance sheet.

The presentation discussed an important goal RFM has been pursuing on behalf of RFF — earnings accretive growth. As a first step toward achieving this goal, RFM has completed its first property acquisition since listing RFF, adding Tocabil, a property located near Hillston NSW (figure 3 below) to the RFF portfolio.

The property is suitable to be developed into a 600 hectare almond orchard given its size, quality soils, secure bore water supply and proximity to RFF's other almond orchards.

David says, 'our experience and track record in the almond industry places us in a strong position to expand in this sector. Almond orchards represent an investment in infrastructure and natural resource assets, and it is our objective that this asset will provide both capital growth and a competitive level of rental income to the RFF portfolio.'

Broader almond industry fundamentals are also favourable, with increasing market demand at a time when supply is constricted by the Californian drought conditions.

David Bryant discusses Tocabil's rich and interesting history in the lead story in this newsletter.

Figure 3: Tocabil Station location



Key Portfolio & Financial Statistics — as at 30 June 2014

Total Assets	\$241.2m
Net Asset Value (NAV)	\$137.4m
NAV per unit	1.17 cents
Gearing ratio	39.1%
Forecast FY 2015 yield at NAV	7.35%
Weighted Average Lease Expiry (WALE)	13 years
Forecast FY2015 distribution per unit	8.6 cents per unit
Forecast FY2015 payout ratio	93.77%
Number of properties	27
Occupancy rate	100%

Upcoming Key Dates

Quarterly distribution announcement	December 2014
Half year results announcement	February 2015
Quarterly distribution announcement	March 2015

RFF Investment Profile

RFF is structured as a specialised real estate investment trust that owns a diversified portfolio of high quality Australian agricultural assets including mature almond orchards and associated water entitlements, commercial scale poultry growing infrastructure, premium vineyards, and livestock, all of which are leased to suitably qualified and experienced agricultural operators (or tenants).

RFF's investment strategy is to deliver a stable income stream from leasing assets and capital growth through the appreciation in the value of RFF's assets.

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



Image: Geier vineyard

RFM StockBank Update

ARSN: 153 436 803

StockBank distributed 9.2 cents per unit to investors in the 2014 financial year, providing a total annual return of 8.82%. During this same period, the size of the Fund has grown by increasing the number and value of livestock on hand from \$7.6 million to \$13.3 million.

On 8 August 2014, a new StockBank Product Disclosure Statement was released, setting out three enhancements to the product, designed to strengthen the Fund for new and existing investors.

The first enhancement will see the Fund increase the frequency of its distributions from half yearly to quarterly. Record dates are now in March, June, September and December. David Thomson, StockBank Business Manager, says, 'the move to quarterly distributions reflects one of the Fund's goals to provide investors with regular income payments,

and low volatility returns. Increasing the frequency of distributions is an important step in providing income to our investors. Our second product enhancement seeks to address the aim of continuing to provide returns with low volatility'.

A provisioning system has been implemented to reduce the possibility of a disruption to distributions in the event of counterpart (Operator) default. David says, 'in the event of an Operator shortfall, the loss provision helps the Fund continue to meet its objectives. There will be a provision applied to each placement, which will be released when the livestock are sold, and the initial capital and lease revenue have been received in full.'

The third enhancement relates to the lease interest rate charged to StockBank Operators. In order to improve the attractiveness of StockBank to Operators, new placements are able to attract a lower interest rate if the Operator lodges security with StockBank. 'StockBank is now able to offer more competitive rates to Operators who lodge security, in the form of cattle or cash. The reduction in interest rate is beneficial for the Operators, and it also benefits StockBank investors by reducing the risk profile of the Fund.'

Figure 1: Eastern Young Cattle Indicator (EYCI) to October 2014



In July 2014, Andrew Vardon joined the RFM team as a StockBank Business Development Manager (BDM). Andrew has over 30 years' experience in livestock and agribusiness enterprises and is well known in the industry. Andrew says, 'there is an increasing desire for agents to utilise StockBank as an alternate financing facility to grow their business and create profitability for their customers.'

Livestock industry fundamentals have continued to track well throughout the year. David says, 'cattle markets are still quite strong – even compared to last year which was an excellent period. Sheep prices have come down from their recent highs, but are still above the long-term average.'

Market analysis group Mecardo, reports that the Eastern Young Cattle Indicator (EYCI) has defied the historic October downward trend, with increased cattle slaughter, record high beef export prices and finished cattle prices. The EYCI is shown in figure 1.

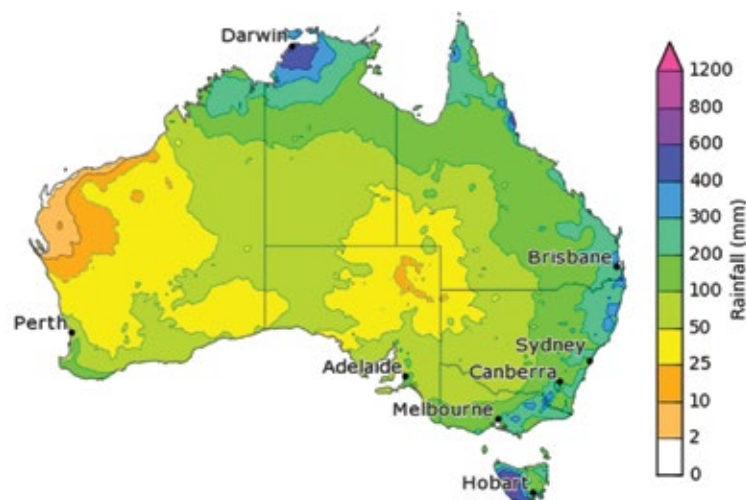
Mecardo also highlights a large rise in export beef prices to the US over the past few months, caused by tight US supply, and strong demand for ground beef. This tightened supply has consequently increased prices to other international markets.

StockBank continues to target higher rainfall zones for its placements. As reflected in the Bureau of Meteorology rainfall outlook shown in figure 2, the east coast of New South Wales, southern Victoria and the hinterland east of Adelaide, represent areas currently most suitable for livestock.

The flexible nature of StockBank allows it to quickly adjust livestock numbers and target livestock placements in geographic regions with sufficient rainfall or feed.

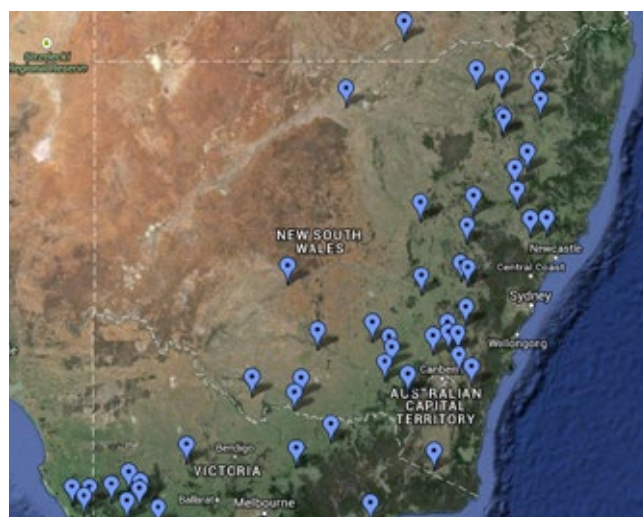
Figure 2: BOM average expectation of rainfall – October to December 2014

Source: Bureau of Meteorology



At present, StockBank leases livestock to 50 operators. Figure 3 provides a map of livestock placements as at October 2014. Over the next nine months, StockBank is seeking to increase stock on hand by a further \$5 million.

Figure 3: StockBank placements — October 2014



The above information is available online at www.ruralfunds.com.au and is updated monthly.

Key Portfolio & Financial Statistics — as at 30 June 2014

Total assets	\$14.8m
Net Asset Value (NAV)	\$10.3m
NAV per unit	\$1.01
6mth Livestock turnover — cattle	21,173 purchased
	13,918 sold
	18,259 on hand
6mth Livestock turnover — sheep	82,378 purchased
	59,782 sold
	40,040 on hand
Change in livestock placements	Growth of 75% from \$7.6m to \$13.3m
Livestock locations	New South Wales: 40,040 sheep, 16,529 cattle
	Victoria: 851 cattle
	South Australia: 866 cattle
	Queensland: 13 cattle

Upcoming Key Dates

Quarterly distribution record date	31 December 2014
Quarterly distribution record date	31 March 2015
Quarterly distribution record date	30 June 2015

StockBank Fund Profile

StockBank is a liquid, alternative investment fund that aims to provide investors with a reliable yield, by financing the acquisition of livestock that are leased and grown out by Operators on a portfolio of diversified properties. StockBank receives payment upon the sale of livestock, calculated as a fixed return on capital, regardless of livestock sale price, weight gain or mortality rates.

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 are in land, water, infrastructure, poultry, cattle, sheep, viticulture, cotton and almonds.

Established in 1997, RFM is the responsible entity for seven agricultural investment funds and as of 30 June 2014, had approximately \$311m of agricultural assets under management in New South Wales, South Australia, Victoria and Western Australia.

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, Melbourne and Western NSW and employs more than 50 staff in fund and asset management activities.

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To make an investment

Rural Funds Group (ASX: RFF) is a listed investment. StockBank operates as an unlisted fund (APR Code: RFM0009AU).

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

To make an investment in StockBank please contact your financial adviser or RFM.

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.

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