

## ASX Release

23 September 2019

### **Subject: Further response to Bucephalus document and media reporting**

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On 18 September 2019, Rural Funds Management Limited (RFM) became aware that Bucephalus Research Partnership Limited (Bucephalus) selectively released a document critical of the Rural Funds Group (ASX: RFF) (Document).

RFM provided an announcement that in its opinion the Document's criticisms were substantially similar to those made in the recent documents selectively released by short seller Bonitas.

A number of the claims in the Document have subsequently been reported in the media and further circulated by Bucephalus.

RFM remains of the opinion that the claims are substantially similar to those made in recent documents and again rejects the claims made in the Bucephalus Document. RFM's rejection of various specific claims in the Document are as set out below.

#### **Bucephalus statement 1:**

*"The [JBS] deal allowed RFM to use RFF money to take a 100% equity stake in J&F at no cost. This gives RFM any upside, and a 1% fee the credit instrument issued to RFF, leaving RFF exposed to the downside."*

#### **RFM response:**

This statement is false and misleading.

The transaction is as described in the Retail Offer Booklet and Explanatory Memorandum issued in July 2018 and was confirmed in the independent investigation report prepared by Ernst & Young (EY Report), released on 27 August 2019.

RFM does not and cannot receive any benefit other than the 1.05% management fee.

**Bucephalus statement 2:**

*"... RFF looks to be booking assets expenses as asset improvements. These are cash costs, which most farmers would consider to be an operating expense."*

**RFM response:**

This statement is false and misleading.

According to accounting standards, costs may only be capitalised in the event that they result in future economic benefits to the asset. RFF capitalises costs relating to capital improvements on the properties. These capitalised costs attract additional lease revenue and have been audited by PricewaterhouseCoopers (PwC), RFF's auditor.

**Bucephalus statement 3:**

*[RFM] "Extend assets lives, cut depreciation costs, inflate profits"*

**RFM response:**

This statement is false and misleading.

The depreciation rates adopted reflect the expected useful lives of the assets. The useful lives are based on assumptions that depend on various factors relating to the assets. The assumptions adopted are based on RFM's experience in the various sectors and are in line with the views of industry experts. The useful lives have been audited by PwC as part of the accounts. RFF recognises its property assets at fair value in total adjusted assets. These assets are based on independent valuations which have been audited by PwC and addressed in the EY Report.

**Bucephalus statement 4:**

*"RFF's unitholders ... are inadvertently being drawn into a Ponzi scheme"*

**RFM response:**

This statement is false and misleading.

RFF has raised capital to acquire new income generating assets. Investor distributions are funded by cash, which is generated by leasing assets, not from capital raised from investors. RFF's FY19 adjusted funds from operations payout ratio was 78%, which means distributions are sufficiently covered by operating cash flows with surplus cash flow to reinvest or reduce debt.

**Conclusion**

RFF rejects the allegations made by Bucephalus.

Short sellers like Bonitas, and those associated with them, make substantial profit from a declining RFF securities price.

Bucephalus and Bonitas have each released documents that are false, misleading and speculative without any inquiry being made of RFM before their release. Their documents are entirely without substantiation and are made out of the jurisdiction in their false view that they

are beyond regulatory scrutiny in Australia. RFM again encourages its investors to consider carefully the full rebuttal of these claims by RFM management which has been corroborated by EY and the fulsome audit reports of the group by its auditors, PwC over the past six years.

RFM has commenced proceedings in the Supreme Court of New South Wales to demonstrate the false and misleading character of the Bonitas allegations, which allegations have been slavishly repeated by Bucephalus.

### **About Rural Funds Group (RFF)**

RFF owns a diversified portfolio of high quality Australian agricultural assets. RFF's investment objective is to generate a stable income stream derived from leasing its assets to suitable counterparts and capital growth through any appreciation in the value of those assets. RFF is a stapled security, incorporating Rural Funds Trust (ARSN 112 951 578) and RF Active (ARSN 168 740 805), trading under the ASX code 'RFF'. Rural Funds Management Ltd (RFM) is the responsible entity of RFF.

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For further information:

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

**Tim Sheridan**  
Chief Operating Officer  
Rural Funds Management  
T 0400 634 230  
E TSheridan@ruralfunds.com.au

For investor relations and media enquiries:

**James Powell**  
General Manager – Investor Relations & Marketing  
Rural Funds Management  
T 0420 279 374  
E JPowell@ruralfunds.com.au

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