

**Rural Funds Management Ltd**ABN 65 077 492 838
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Locked Bag 150 Kingston ACT 2604**W** www.ruralfunds.com.au**Adviser Services****P** 1300 880 295**F** 1800 625 518**E** adviserservices@ruralfunds.com.au**Investor Services****P** 1800 026 665**F** 1800 625 518**E** investorservices@ruralfunds.com.au

2007 Macgrove Project ARSN 119 560 235

27 November 2018

Introduction

Rural Funds Management Limited ABN 65 077 492 838 (**RFM**) is the Responsible Entity for the 2007 Macgrove Project ARSN 119 560 235 (MP07 or **the scheme**). MP07 was registered with ASIC on 18 May 2006. From 29 February 2016, RFM was appointed as the new responsible entity of MP07. MP07 is a fully subscribed agribusiness scheme that closed its offering in 2009.

The Australian Securities and Investments Commission (**ASIC**) Regulatory Guide (**RG**) 232 applies to agribusiness schemes, which are defined as “managed investment schemes that engage in primary production activities”. The MP07 is an agribusiness scheme as defined by RG232.

Under RG232, RFM as the Responsible Entity for MP07 must report against five disclosure benchmarks (**benchmark reporting**) and five disclosure principles (**disclosure**). RFM’s benchmark reporting and disclosure will assist retail investors to analyse the relative risks and returns of an investment in the MP07.

RFM will provide MP07 investors with updated benchmark reporting and disclosure and any material changes by posting the information on the RFM website at www.ruralfunds.com.au.



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Benchmark Reporting

Benchmark	Compliant
<p>Benchmark 1: Fee structures</p> <p>The scheme is structured so that either:</p> <p>(a) investors are required to pay annual fees (or contributions) to the responsible entity that are sufficient to fund the operation of the agribusiness scheme for the relevant financial year; or</p> <p>(b) the up-front fees (or contributions) investors pay when they invest is sufficient to cover the operation of the agribusiness scheme until the proceeds of sale of produce are available and this money is held on trust for the investors in that agribusiness scheme.</p> <p>Any fees (or contributions) received by the responsible entity from investors in the agribusiness scheme are:</p> <p>(a) held separately from the other assets of the responsible entity for the benefit of the investors in that agribusiness scheme, are only available for the operation of that agribusiness scheme and are subject to annual audit; and</p> <p>(b) only used by the responsible entity to meet any expenses that are incurred in the operation of that agribusiness scheme during the period to be covered by the payment, including the portion of the responsible entity's fees that is proportionate to its duties that have been properly performed during that period.</p>	<p>Yes</p>
<p>Benchmark 2: Responsible entity or related party ownership of interests in the scheme</p> <p>The responsible entity and its related parties own less than 5% in aggregate by value of the interests in the agribusiness scheme except for any interests acquired through the default by a member of the agribusiness scheme.</p>	<p>No</p> <p>The Responsible Entity owns 79 Macgroves in MP07, equating to approximately 13.6% of MP07. The Macgroves were acquired from a previous Grower in an arm's length transaction.</p>



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Benchmark	Compliant
<p>Benchmark 3: Annual reporting to members The responsible entity provides members with a report at least annually that contains relevant scheme-specific information.</p>	Yes
<p>Benchmark 4: Experts Where the responsible entity engages an expert to provide a professional or expert opinion on the agribusiness scheme, and the expert opinion is disclosed to retail investors in a way that may lead them to place reliance on the expert's expertise, the responsible entity only engages an expert that is independent.</p>	N/A. However if an expert was engaged the Responsible Entity would comply with this benchmark
<p>Benchmark 5: Appointing and monitoring service providers The responsible entity only engages key service providers (whether directly or indirectly on behalf of the agribusiness scheme investors) necessary for the operation of the agribusiness scheme where: (a) the engagement is subject to a written agreement approved by the board of the responsible entity in accordance with a documented policy; (b) the agreement is subject to annual review against set performance criteria or measures; and (c) the agreement is subject to certification by the board, at the time each agreement is entered into, that the agreement is on an arm's length basis.</p>	Yes



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Disclosure

Disclosure Principle	Disclosure						
<p>Disclosure Principle 1: Investor financing arrangements</p> <p>If the responsible entity or a related party is providing finance, or expects to receive payment for arranging finance, for investors in the agribusiness scheme to fund an investment into the scheme, the responsible entity should clearly and prominently disclose in the PDS:</p> <p>(a) the details of the financier;</p> <p>(b) any amounts paid to the responsible entity or related party in relation to the finance;</p> <p>(c) that the investor should obtain and read the finance agreement before entering into the finance facility; and</p> <p>(d) unless the proposed finance facility is non-recourse, that the investor will remain liable to repay the amount lent or made available under the finance agreement should the scheme fail.</p> <p>The responsible entity should also ensure that, as far as practicable, investors receive a copy of the finance agreement before entering into the finance facility.</p>	<p>RFM offsets crop proceeds against operating costs. Timing differences result in a portion of the previous year's crop proceeds providing the working capital to MP07. Growers are invoiced for all operating costs, licence and management fees associated with their Grove where the crop proceeds/distributions are insufficient to offset the full cost.</p> <p>The orchard occupied by MP07 will be fully mature in 1-2 years. A distribution was paid in October 2018 representing harvest proceeds in excess of FY18 operating costs and a FY19 prepayment.</p> <p>Future distributions or shortfalls are subject to yield, price and costs.</p>						
<p>Disclosure Principle 2: Track record of the responsible entity in operating agribusiness schemes</p> <p>The responsible entity of an agribusiness scheme should disclose the experience and resources it has available to operate the agribusiness scheme and the agribusiness enterprise.</p> <p>Where the responsible entity has operated other agribusiness schemes, it should disclose:</p> <p>(a) the number of agribusiness schemes it currently operates;</p> <p>(b) the types of agribusiness scheme being operated;</p> <p>(c) the period of time that it has been operating the agribusiness schemes; and</p>	<table border="1"> <thead> <tr> <th data-bbox="1290 1026 1547 1106">Scheme</th> <th data-bbox="1547 1026 1827 1106">Type</th> <th data-bbox="1827 1026 2069 1106">Commencement date</th> </tr> </thead> <tbody> <tr> <td data-bbox="1290 1106 1547 1423">Rural Funds Trust ARSN 112 951 578</td> <td data-bbox="1547 1106 1827 1423">Horticultural land, vineyards, chicken growing sheds, water entitlements, cattle properties & breeder herds and cotton growing properties</td> <td data-bbox="1827 1106 2069 1423">February 2005</td> </tr> </tbody> </table>	Scheme	Type	Commencement date	Rural Funds Trust ARSN 112 951 578	Horticultural land, vineyards, chicken growing sheds, water entitlements, cattle properties & breeder herds and cotton growing properties	February 2005
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(d) whether any of the agribusiness schemes operated by the responsible entity have produced, or are producing, positive returns net of contributions for the investors in those agribusiness schemes.	RF Active ARSN 168 740 805	Plant & Equipment and finance leases of agricultural assets, temporary water sales	April 2014
	Together, Rural Funds Trust and RF Active form a stapled investment vehicle and trade on the ASX as the Rural Funds Group (ASX Code: RFF).		
	RFM Almond Fund 2006 ARSN 117 859 391	Almond growing	January 2006
	RFM Almond Fund 2007 ARSN 124 998 527	Almond growing	March 2010
	RFM Almond Fund 2008 ARSN 127 947 960	Almond growing	March 2010
	2007 Macgrove Project	Macadamia growing	February 2016
	RFM Poultry (NSX: RFP)	Poultry operations	July 2013



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	ARSN 164 851 218
<p>Disclosure Principle 3: Responsible entity's financial position</p> <p>The responsible entity should disclose a summary of its financial position in any PDS, including details of any known unfunded obligations in respect of the schemes it operates.</p> <p>The responsible entity should disclose if it:</p> <ul style="list-style-type: none"> (a) is reliant on funding from external or related parties to perform the functions and obligations to members in relation to the agribusiness scheme; (b) has entered into guarantees or indemnities with external or related parties; or (c) is a member of a tax consolidation group. <p>It should also disclose the measures it has in place to address the risks arising out of these arrangements to its financial position and its ability to meet its obligations in relation to the agribusiness scheme.</p> <p>If the responsible entity is reliant on funding from external or related parties to perform its functions and fulfil its obligations in relation to the agribusiness scheme, it should disclose the extent of the reliance.</p> <p>If the responsible entity has entered into any guarantee or indemnity with external or related parties, it should explain:</p> <ul style="list-style-type: none"> (a) what each guarantee or indemnity is, including the names of the parties to the guarantee; and (b) the potential implications of entering into these arrangements on the financial position of the responsible entity if the other parties are unable to meet their obligations. 	<p>RFM is not reliant on funding from external or related parties to perform its obligations and functions to members. RFM has not entered into any guarantees or indemnities with external or related parties. RFM is not part of a tax consolidation group.</p>



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<p>If the responsible entity is a member of a tax consolidation group, it should disclose details of:</p> <p>(a) whether a tax-sharing agreement is in place and the parties to the tax-sharing agreement; and</p> <p>(b) if no tax-sharing agreement is in place, the potential implications of not having this.</p>	
<p>Disclosure Principle 4: Land, licences and water</p> <p>The responsible entity should disclose the arrangements entered into to secure rights of access or tenure to the resources and infrastructure required to operate the agribusiness scheme, including any land, licences or leases, and water required, and whether these arrangements:</p> <p>(a) provide for access for the life of the agribusiness scheme; and</p> <p>(b) are entered into on an arm's length basis.</p> <p>The responsible entity should disclose: (a) the risks associated with these arrangements;</p> <p>(b) the consequences of a failure by the responsible entity to pay amounts due under these arrangements, and any breaches of these arrangements or agreements underlying these arrangements; and</p> <p>(c) any measures the responsible entity has implemented, or will implement, to address these risks.</p> <p>The responsible entity should disclose the identity, where known, of the owner of the resources and infrastructure referred to in RG 232.96, the terms of use and whether security has been given over these assets.</p> <p>The responsible entity should disclose (where applicable) for any leases, licences, rights or infrastructure required for the operation of the agribusiness scheme: (a)</p>	<p>Australian Executor Trustee Limited as custodian for the MP07 holds leases until 30 June 2028 with two options for a further five years and four year extension with Rural Funds Trust (RFT), the lessor of the orchard area on which the MP07 operates. The leases are considered MP07 property.</p> <p>The Growers in MP07 each hold an unregistered sub-lease until 30 June 2028 with two options for a further five years and four year extension.</p> <p>As with any lease arrangement, in order for the Growers to maintain access to trees and water the Growers must continue to meet the lease payments. To date all lease payments have been met.</p> <p>Pursuant to the Grower sub-lease and the MP07 Constitution, where a Grower fails to pay their rent and management fees, their interest may be terminated and all Groves allocated to that Grower are surrendered to the Responsible Entity.</p>

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<p>whether the responsible entity treats the leases and licences or rights as scheme property;</p> <p>(b) the identity of the parties to the leases, licences and/or rights; and</p> <p>(c) whether any action in relation to a lease, licence or right needed for the operation of the agribusiness scheme, which is not an obligation of the responsible entity, could endanger the relevant lease, licence or right. Disclosure should clarify the risk of this occurring and how it may affect the agribusiness scheme.</p> <p>If land, licences or water assets are, or are proposed to be, used as security for borrowings by the responsible entity, the responsible entity should disclose the level of actual or proposed gearing, and the risks associated with this gearing, in the PDS and in the report provided to members under Benchmark 3.</p>	<p>In those circumstances, the Responsible Entity gives notice to sell the defaulting Grower's interests. If the Responsible Entity is unable to sell the Grower's interest after three months, the Grower must transfer their interests to the Responsible Entity in accordance with clause 17.6 of the MP07 Constitution.</p> <p>Existing water allocations from the Government scheme are as follows:</p> <ul style="list-style-type: none"> • Swan Ridge: 3.33 ML/ha medium security (total 433 ML) • Moore Park: 4.14 ML/ha medium security (total 431 ML). <p>Additional dam water of up to 150ML is available on Swan Ridge and up to an additional 50ML is available at Moore Park.</p> <p>The RFM Conflict of Interest Management Policy ensures that all transactions occur on a commercial arm's length basis.</p> <p>RFM does not use MP07 assets as security for any borrowing by RFM.</p>
<p>Disclosure Principle 5: Replacement of the responsible entity</p> <p>The responsible entity should disclose whether there are any restrictions on the ability of any replacement responsible entity to access the resources required to continue to operate the agribusiness scheme (including but not limited to any</p>	<p>MP07 Growers have entered into individual sub-leases and Consolidated Management Agreements with MP07, to facilitate the lease of the macadamia orchard and the operation of the Macadamia Groves. If RFM was replaced</p>



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<p>leases, licences, land, water and money held for the purposes of operating the scheme).</p> <p>The responsible entity should disclose:</p> <p>(a) whether the responsible entity or related parties are eligible for any payment or fee that is payable if the responsible entity is replaced, or is to be replaced, and, if so, the amount or method for calculation of this fee;</p> <p>(b) the effect of a change in responsible entity on any agreements entered into between investors and the responsible entity or other parties in relation to the agribusiness scheme;</p> <p>(c) any obligation to repay fees already paid to the responsible entity to the incoming responsible entity if the responsible entity changes; and</p> <p>(d) the risk to, and impact on, investors if the responsible entity changes.</p>	<p>by a new Responsible Entity, the new Responsible Entity would need to take over those agreements in order for the MP07 to remain operational.</p> <p>A Services Agreement and Operational Management Agreement also exists between Responsible Entity and Rural Funds Management as Responsible Entity, has appointed RFM Macadamias Pty Ltd to manage the operation of the Groves. A new Responsible Entity would need these agreements novated to them, or negotiate a new entity to farm the Groves.</p> <p>Additionally, a plant and equipment licence exist between RFM Macadamias Pty Ltd and RF Active to rent plant and equipment used in farming the Macgroves. A replacement Responsible Entity would need to consider this arrangement if the existing Farm Manager was to be retained.</p> <p>A crop supply agreement exists between Rural Funds Trust and Macadamia Processing Co Ltd (MPC). A new Responsible Entity would need to negotiate a new crop supply agreement with MPC or an alternative macadamia processor.</p> <p>The key risk for MP07 Growers if RFM is replaced as Responsible Entity is to ensure any replacement Responsible Entity has the expertise to conduct the MP07 fund management and farming operations.</p>