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CAPITAL 善

Kaizen Capital Pty Ltd
Suite 115, 377 Kent Street
Sydney, NSW, 2000

November 22, 2019

David Bryant
Level 2, 2 King Street
Deakin, ACT 2600
By e-mail

cc:
Michael Carroll
Guy Paynter
Julian Widdup
Stuart Waite

Re: A fire-sale of RFP

Dear David,

We own over 19.51% of RF Poultry Limited (**RFP**) which is listed on the NSX. You have over 5000 small, retail, investors on your register. We intend to vote against the resolution.

Proposed Transaction

We refer to the proposed transaction announced by RFP on 28 October 2019 (**Proposed Transaction**) which is described as the sale of Rural Funds Group's (**RFF**) poultry assets to ProTen Investment Trust (**ProTen**).

Potential conflict: all the same people representing all the entities

The responsible entity of RFP, Rural Funds Management Limited (**RFM**) is also the responsible entity of RFF, itself an ASX listed entity. RFM owns only 3.28% of RFP.

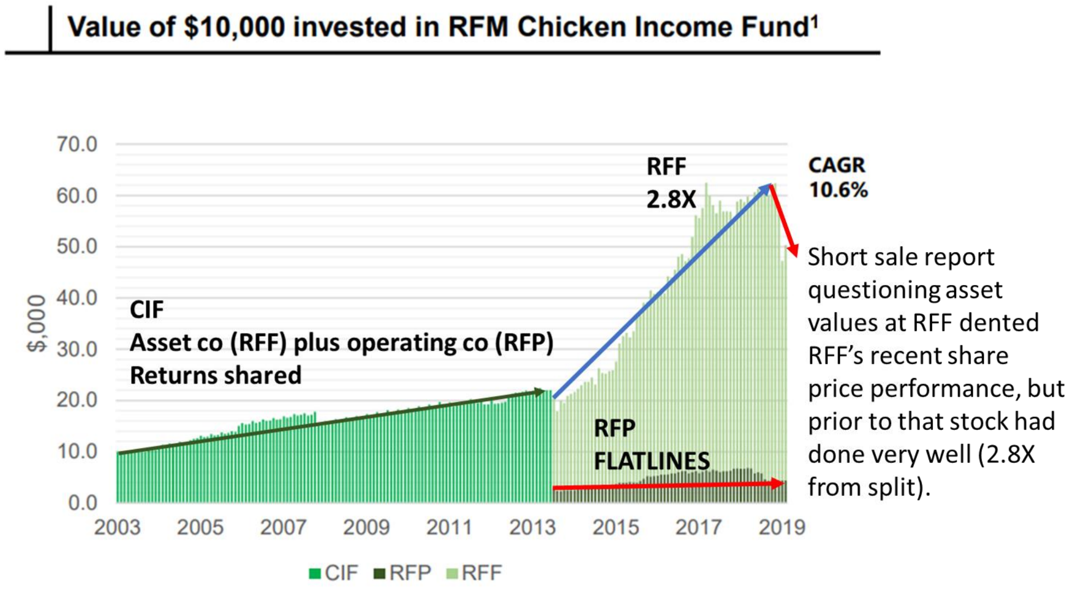
In our view, the estimated capital return, which is expected to result from the Proposed Transaction of approximately $0.80 per unit, significantly undervalues RFP and its business.

We have found the farm leases on the public record (that you refused to share with us). You act as both lessor and lessee and the contracts you've struck, with yourself, contain poison pills which prevent a third party from changing the responsible entity or effecting a change in control. Both these events can lead to a termination of the leases by you, and destruction of all value in RFP.

We have serious concerns that a rent review process, explicitly defined in the leases to protect the chicken grower Gross Margin, has not happened, due to the same boards acting on both sides of the leases. Additionally, we have serious concerns over elevated capital expenditure and whether RFP is shouldering the burden of RFF's responsibilities. Profitability has been, materially, negatively impacted at RFP and whilst protective mechanisms exist in the leases to recover this through rent reductions (to RFF) they have never happened. We believe that had the adjustments been enacted RFP would a) be profitable b) not suffered a 54% reduction in cash (of $2.93m or $0.43 cents per unit, 53% of the $0.80 estimated capital return!) on its balance sheet in 2019 and c) have a positive future.

Value transfer to RFF from RFP

The chart below is from your recent presentation on the sale. Note that the return profiles changed dramatically after the separation (2013) and we are concerned that conflicts in the boards have led to decisions that favour RFF and RFM over RFP.



Source: RFP presentation

Navigation

This letter has **two** parts:

A) A summary letter; and
B) **Eight** schedules that detail each issue in greater depth.

Key issues (Linked to Schedules)

1) **Rent review clauses not triggered**: Why have rents gone up as Gross margin has fallen? (S1);
2) **Higher labour costs** – permanent and material. **Should have triggered rent reviews** (S2);
3) **Capex: Sharp increases in capex spend for repairs and maintenance** is being **borne by RFP**, and we are concerned that much of this is structural and that RFF should have been responsible for much of the burden. How can sheds be reaching the end of useful life (as you report in sale presentation) when leases have until 2023, 2026, 2027 and 2037 to run? We question whether RFF has not invested over the years i.e. capex from the Lessor (RFF) has run light. We would like an independent expert to investigate the sheds and analyse what capex spend should be borne, and was borne, by RFF and RFP as per the leases, also to determine fair market rents. We would seek recoveries for differences (S3);
4) **Old sheds** 'reaching the end of their useful lives' **yield 15% and 18.8%** if you add back repairs and maintenance. How can old sheds command yields more than double what you charge on your other assets with third parties (7.66% on average)? Could it be that acting as lessor and lessee has led to this outcome?(S4);
5) **ProTen** seems to be getting an incredible deal, with **$63.5m of value uplift, or 47%, for rebuilding new sheds in Griffith**. That's over **11X what RFP is receiving** for its operation. Could a huge value transfer to ProTen and First State Super be occurring at the expense of RFP unitholders? (S5);
6) **Corporate governance** and Fair play. Where is it? (S6);
7) **Lease analysis**: Don't throw the **baby out with the bathwater** (Old Griffith farms) (S7); and
8) **Identified groups to contact** (S8).

Our serious concerns

We have serious concerns about the manner in which the RFM has:

- Acted, or failed to act, where there are clear conflicts of interest; and
- Allowed value to be shifted to it, and RFF, to the detriment of RFP and its unitholders.

We are extremely concerned that the Proposed Transaction:

- Is not in the best interests of RFP's unitholders;
- Significantly undervalues RFP;
- Fails to attribute sufficient value to RFP; and
- Is the result of an opaque, inadequate and flawed sale process run by RFF which failed to canvass all possible alternatives.

We are also concerned that the information provided to RFP unitholders in the notice of meeting and accompanying explanatory memorandum dated 28 October 2019 (**NOM**) is:

- Misleading including by omission of material information; and
- Does not provide adequate details to enable unitholders to make an informed decision whether to vote in favour of the Proposed Transaction.

Leases with clauses to protect the margins haven't been fully triggered

The relevant rental agreements for each of the chicken processing plants are executed by the custodians of RFP (as lessee) and RFM Chicken Income Fund (**RFMCIF**) (as lessor) (**Leases**). We understand that RFM is the responsible entity of the RFMCIF and that the units in RFMCIF are held by RFF.

One of the only protections contained in the Leases (for the benefit of RFP unitholders) is to allow for rent reviews to be conducted to ensure RFP's value is protected. It appears that RFM has failed to act so as to ensure that RFP is contractually able to recover the 'chicken growing Gross Margin' through reduced rents from RFF in line with terms in the Leases. This in effect transfers value from RFP to RFMCIF (and ultimately to RFF).

We note that section 4.4 of the NOM does detail what are described as "rental concessions negotiated by RFP". One such example is not raising rents by CPI. We believe that rents should be 49% lower. In our view these concessions are illusory and constitute an afterthought by RFM seeking to establish a modicum of credence to its operational decisions; they miss the point about what actions should have been taken to prevent a value shift from RFP.

Details about the sale process

The NOM provided to RFP unitholders contains no details about the sale process conducted by RFM which led to the Proposed Transaction. Section 4.4 of the NOM simply refers to an assertion that RFM is pessimistic about the ability of RFP to continue to operate in the current climate.

RFP Unitholders are not told:

- Whether a third party independent corporate advisor assisted in the sale process (as we would expect where there are conflict of interest associated with RFM acting in competing capacities);
- Whether other offers or expressions of interest were received;
- Whether trade buyers or private equity buyers were canvassed;
- How value has been allocated between RFP and other parts of the RFF group. What value is attributed to the underlying real property and water rights that transfer back to RFF if the lease were broken?
- Whether RFF considered a geographical split of the business to allow current chicken processing businesses operating in the relevant regions to buy part of that business is vague and inadequate.

In our view, all of this information is clearly relevant to RFP unitholders in considering whether to pass the resolution to be considered at the general meeting on 28 November 2019.

NOM inadequate and potentially misleading

In addition to the paucity of information provided to RFP unitholders described above, in our view the information in the NOM is inadequate; it simply does not provide RFP unitholders with all information they require to make an informed decision.

The NOM makes passing reference to the proposed treatment of the Grower Contracts and fees charged under those contracts but does not explain why the assertions about what could otherwise be achieved under an alternative transaction. None of the associated assumptions or details of any negotiations to date are disclosed and RFP unitholders simply cannot assess the robustness of the assertions.

Similarly, there are references to an interdependent CIF Sale Agreement but no details are included about that agreement in the NOM. As an interdependent agreement with possible value attribution being a relevant consideration, RPF unitholders can rightly require information in this regard. As it stands RFP unitholders cannot consider those details when assessing whether to approve the proposed resolution.

If RFP were ASX listed we would expect ASX to require an independent expert report on the sale of a substantial asset. The expert would opine on whether the Proposed Transaction is in the best interests of unitholders or possibly whether it is fair and reasonable. Can RFM advise why RFP has not provided this depth of information to its RFP unitholders? RFF is ASX listed, so why wouldn't it act at the higher disclosure level, especially since the parties are related, this transaction impacts RFF unitholders and there are potential conflicts of interest?

In our view, the absence of this substantive information makes the NOM potentially misleading by omission.

RFM should update the NOM to include all relevant information and delay the meeting to enable unitholders adequate time to consider all relevant materials.

All rights are reserved with respect to these inadequacies in the NOM and generally.

Next steps

Time is of the essence so we would like to meet with RFM within 24 hours.

The letter raises some serious matters and we believe it is in the best interest of unitholders to;

a) Delay the meeting;
b) Elect an independent expert to investigate the real market rents, capex requirements and conditions of the sheds and where the burden of spend should be and have been. This should be completed retrospectively as we believe RFF may owe RFP a substantial amount of money from over-charging on rents and misallocated capex spend since 2015;
c) Press for a transparent process to significantly reduce rents, changing the complexion of RFP's financials;
d) Hold a new meeting with full disclosure (independent report etc.) allowing an informed decision to be made by unitholders, including the wider range of options we have identified;
e) Change the poison pills so that the R.E. can be changed and/or allow for a change in control event without breaking the leases (stripping RFP of all value); and
f) Begin an independent sale process – we are happy to be involved in this as the largest unitholder with close to a 20% holding. Our interests are aligned with the +5000 small retail unitholders.

We have been disappointed by your treatment of a major unitholder of RFP with our views ignored and been excluded from the process.

If RFM continues to ignore our serious concerns we reserve the right to take such action as we believe to be in best interests of unitholders. This may include taking action to prevent the unitholder meeting from proceeding, requiring updated disclosure or making public announcements on our views on the matters detailed in this letter.

Yours sincerely,

Connor Grindlay

Director

Schedule 1: Rent review clauses: Why have rents gone up as Gross Margin has fallen?

We have found the lease agreements of the NSW farms in Land registry services and there are specific clauses that trigger rent reviews (**Rent Review Request**) if the "chicken grower Gross Margin" is impacted. See Appendix 1 for definition as per lease.

3.5 Rent review

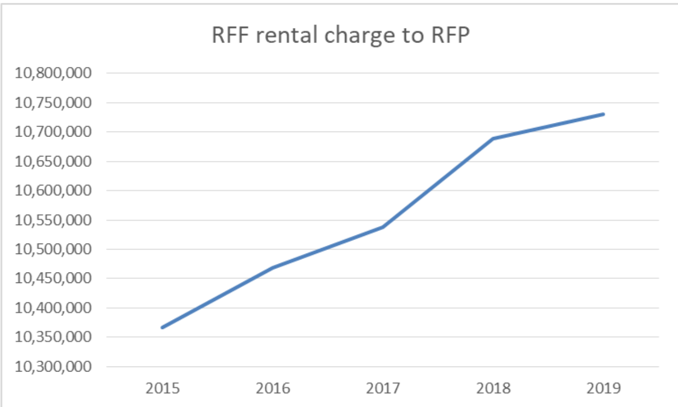
(a) Not more than once in any year of the Term, the Lessee can give the Lessor a notice requesting a review of the Rent on the grounds of a material permanent change in the chicken growing Gross Margin (**Rent Review Request**) in connection with the business it conducts on the Land.

Rent reviews are written into the leases to **specifically** protect the Gross Margin from increases in: i) repairs and maintenance; ii) employee and contract labour costs; iii) insurance; iv) Recurring capital expenditure; and v) Penalties payable under the Grower Agreement e.g. ERS adjustments etc. They need to be material and permanent.

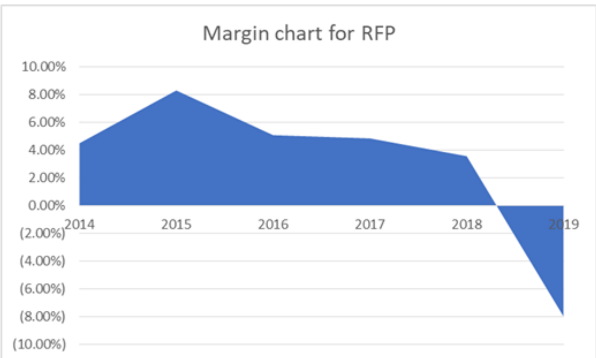
These are **the same list of reasons RFP has given for margin deterioration** over the years, particularly the past two, and should have triggered rent reviews and meaningful reductions, in our view.

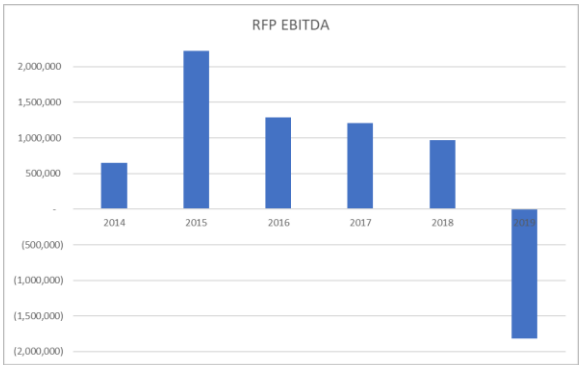
Financials and facts

The charts below show the impact on the rents that RFF charges and the chicken growing Gross Margin over time.



- Rents only ever go up
- Despite a rent review process in the leases if margins are impacted (see below).





Source: RFP accounts and presentations

To trigger a rent review, the lessee must write to the lessor with specific details if the Gross Margin is impacted. See clause 3.5(b). If Lessee and Lessor can't agree on a new rate, it needs to go to an independent expert for resolution clause 3.5(d) leading to clause 20. See Appendix 2 for clause 20.

3.5 Rent review

(a) Not more than once in any year of the Term, the Lessee can give the Lessor a notice requesting a review of the Rent on the grounds of a material permanent change in the chicken growing Gross Margin (**Rent Review Request**) in connection with the business it conducts on the Land.

(b) The Rent Review Request must specify the material adverse events and explain how each of them impacts on the Gross Margin and to what extent as well as a proposed new Rent.

(c) The parties must negotiate in good faith to determine the Rent within 60 days after the Rent Review Request was given and the Lessee must provide any additional information requested by the Lessor to assist it in considering the request.

(d) If the parties are unable to agree on an altered Rent within 60 days after the Rent Review request was given, then the Rent will be determined in accordance with clause 20.

We are concerned that the same board of RFF/RFP is conflicted and has not enacted the rent reviews and reductions because it would impact the revenues and balance sheet of RFF (the larger entity) – the lessor.

Specific clauses in leases ignored?

In 2015 the margin was 8%, but then **fell every year** culminating in the 2019 negative margin and loss of almost 8%. **The rent only went up in this period** despite a mechanism in the leases to reduce rents and protect the Gross Margin.

Had the rent reviews been triggered we would expect rent reductions every year from RFF. This, in our view, would have protected the Gross Margin of RFP and it would a) be profitable and b) not have eaten into its significant cash pile ($6.2m in 2017 – $0.90 per unit of net cash) and c) on-going financials would look different i.e. we believe that RFP should be quite profitable, not loss making. **This is a critical point** as the RFP is being portrayed as being in terminal decline with no real options. We disagree. We believe it has many options.

The RFF/RFP board has not, in our opinion, enacted the rent reviews, which has led to rents far above where an independent expert would determine to protect the Gross Margin. In doing so, cash has been taken off RFP's balance sheet that, we believe, would still be there.

We call for an urgent and through investigation by an independent expert to assess what the rents should be and should have been. If we are correct, and the rents are substantially below current rates, then RFP would be profitable and should not be sold as a business with a bleak outlook in a fire sale. In addition, RFF should retrospectively pay back the excess rents it charged.

Schedule 2: Higher labour costs – permanent and material

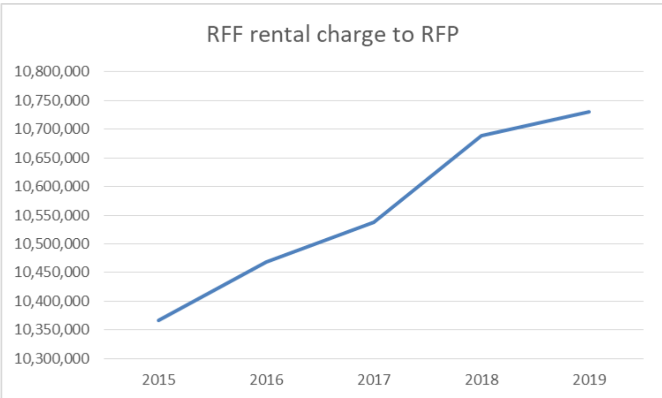
RFP made a switch to an employee vs contractor model, with increased supervision etc. which is permanent and material. We have been told by RFP that labour churn has increased, that the relationship with Baiada and RFP is very difficult and that more managers/supervisors are needed to run operations.

Why do they suddenly need all this extra labour?

Could it be self-inflicted? ProTen seems happy to take on the leases. If the industry's prospects are dire, as RFP/RFF would have us believe, why is a sophisticated investor buying the leases?

The increase in labour costs are a) permanent and b) material. This triggers a rent review **if** the lessee requests it. Labour costs increased every year from 2015 – markedly in 2019 – impacting the Gross Margin. Yet the rent has only ever increased. There has never been a downward move in rent to protect the margins.

Source: RFP accounts



- Rents only ever go up
- Despite a rent review process in the leases if margins are impacted (see below).

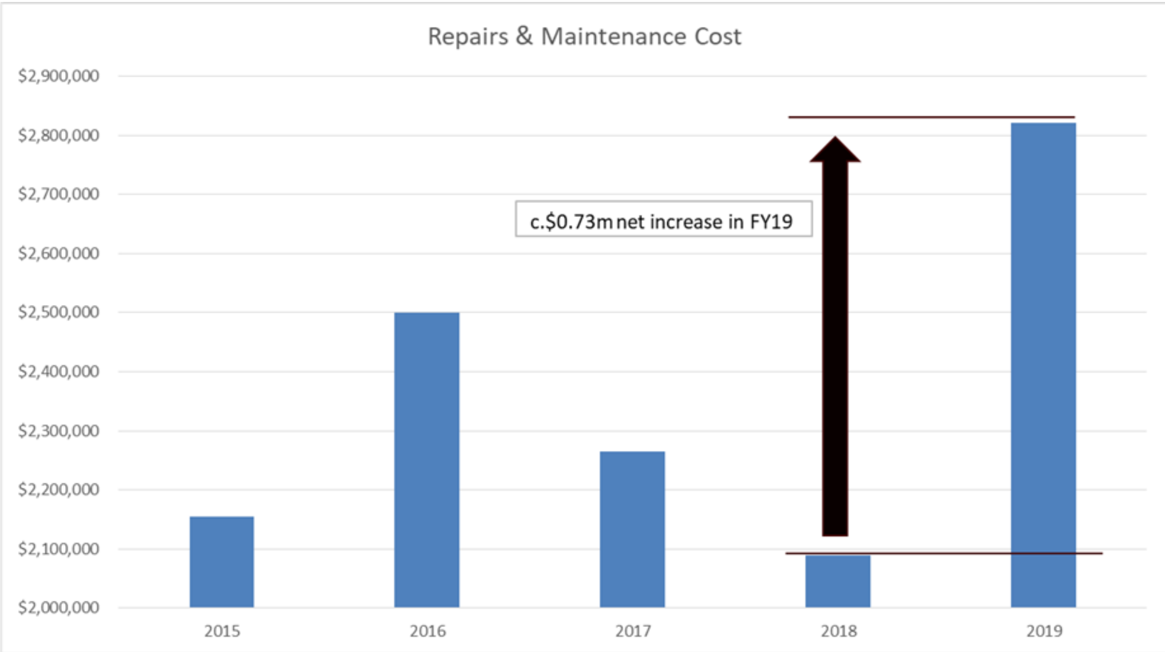
Source: RFP accounts

Schedule 3. CAPEX: Higher infrastructure costs – permanent and material

From our conversations with you, it seems that Baiada wants the old sheds bulldozed in Griffith and new sheds built. They are old, with clay floors, poor insulation, old drinkers and feeders, old ventilation systems etc. and are underperforming (as evidenced by the ERS penalties). The ERS penalty drops through to the bottom line as the revenue loss has no associated cost.

You've said in the 2019 sale presentation that **the assets are nearing the end of their useful lives** (despite having several years to run on the leases). Why is the tenant – RFP – paying so much (15% yields: $10.7m rent RFP pays/$72m book value on RFF balance sheet) for assets that are at the end of their lives? Shouldn't RFF have addressed the structural capex issues before to keep them rent-worthy? The leases run out in 2023 on the old sheds – so something isn't right if they are end of life 3-4 years early. The other leases end in 2026, 2027 and 2037 – are they bad too? Could it be that the Lessor has skimped on necessary capex? Is RFP now paying for capex that RFF should have incurred in past years to keep the assets in good condition?

The chart below tracks the cost of repairs and maintenance that RFP is paying. Note the sharp increases.



Source: RFP accounts

The leases split CAPEX into three clauses;

i) Lessee maintenance capex;
ii) Lessor capex; and
iii) Structural capex paid by the Lessor.

9 Capital expenditure

9.1 Lessee's capital expenditure

(a) The Lessee is responsible for all capital expenditure in connection with the Buildings and Improvements (including, but not limited to the items listed in Schedule 3), except for the Structural CAPEX or capital expenditure undertaken by the Lessor pursuant to clause 9.2.

(b) The Lessee may request the Lessor carry out the Lessee's capital expenditure obligations under the clause by instigating a request and satisfying the criteria in clause 9.3.

(c) Notwithstanding the Lessee's obligations under this clause 9.1, the Lessee must not undertake any structural works to the Premises without first obtaining the prior consent of the Lessor.

9.2 Lessor's capital expenditure

The Lessor may at any time, at its cost and without reference to the Lessee incur capital expenditure which, acting reasonably, it considers necessary for:

(a) extending the useful life of the Buildings and Improvements substantially beyond the term of this lease; or

(b) obtaining an extension of the Grower Agreement,

and the Lessee must make no objection or claim against the Lessor for carrying out these capital works.

9.3 Structural CAPEX

If requested by the Lessee, the Lessor must, at its cost, undertake any Structural CAPEX over the CAPEX Threshold. Any request by the Lessee must be supported by a detailed explanation of the work the Lessee wants done, reasons for it and estimated cost (supported by at least one quote from a qualified contractor or quantity surveyor) of the work concerned.

We are concerned that RFP has been paying for all capex and much of it relates to the fact that the sheds are at the end of life and not rent-worthy. Yet RFF is charging a 15% yield for these and RFP paying large increases in maintenance.

Under the lease agreement RFP may request RFF undertake Structural Capex by providing detailed explanations of work required. RFF 'must' undertake it – have the requests ever come in?

We are concerned that the same board has not acted to trigger capex clauses nor sought an independent review. By now you might see a pattern, this is the same concern we have over the Rent Reviews.

Why would a lessee, at arm's length, pay such large amounts of rent (15% yields) and then increasing maintenance costs if the assets were dilapidated and at the end of life? We don't believe they would.

In this case the Lessee and Lessor are the same board. There are **two** key issues;

1) Rents haven't adjusted down – as per the Rent Review

The fact that rents have not adjusted downwards for the increases in capex, and knock-on negative impact on the Gross Margin, creates a significant question mark over board independence with the two entities.

2) Structural and maintenance capex is very high and keeps increasing

We are concerned that the real reason that the capex costs are so high and increasing is because RFF has under-invested in sheds and shifted the burden to RFP. We are alarmed that RFP's capex burden has increased by 33% in a year – c. $730K – which is 1/3rd of the loss.

RFP's protections in the lease, through rent relief, haven't been triggered. Instead RFF has received rising rents every year, whilst RFP has suffered margin falls every year. It's a negative double whammy for RFP and profitability: higher rents and higher costs.

The leases have clauses that exist to protect RFP – so why haven't rents been reduced?

Has RFP been over-paying for capex that should have been on RFF's account? We are alarmed and would like an independent expert to assess whether the repairs and maintenance that RFP is shouldering should be paid for by RFF. Retrospectively too.

This has, in our opinion, contributed to RFP going into a loss making position, despite having protections in the leases to prevent that. In our view, this makes the future position of RFP look more difficult than it is. The adjustments should be coming through RFF via lower rents and higher capex contributions to get the assets rent worthy. This would transfer the value, rightfully, back into RFP and increase its portion of the $77.5m sale proceeds, in our view.

Schedule 4: Is a 15% or 18.8% yield the market for agricultural assets? No. 7-8% the range

The table below shows the yields that RFF achieves across 5 of its different asset segments (RFF Annual report 2019). **The average yield is 7.66%** and if we exclude Macadamias, which has a higher yield, it is 7.61%. We believe that the acquisition of ProTen, by First State Super, was completed at 7-8% yield (for poultry assets). This is highly relevant as it is the purchase of the **same type of operation in exactly the same area** (Poultry asset, Griffith, NSW). ProTen is the bidder for the assets RFF/RFP are to sell in Griffith too.

Segment	Market Value $m	Annual Rent $ m	% Contribution of Rent	Rent Yield/pa
Macadamias	14.4	1.5	2%	10.42%
Almonds	425.9	33.4	45%	7.84%
Cattle	274.7	21.5	29%	7.83%
Cotton	51.4	3.3	4%	6.42%
Vineyards	64.1	3.9	5%	6.08%
Total	830.5	63.6	85%	7.66%
			Yield ex Macadamias	7.61%

Source: RFF annual report 2019

So with all these data points, why is RFF charging 15% and 18.8% yields?

Let's not forget the assets are falling apart/approaching the end of useful life – so perhaps a yield of 7-8% is even too high. RFF is charging 15% for the base rent and 18.8% if you include the maintenance capex (2019 RFP costs. Rent $10.73m, repairs and maintenance $2.82m: Book value RFF on balance sheet of poultry assets $72m. Yield = (10.73+2.82)/72 =18.8%).

What if you reduced the rental yield to 7.5%? RFP becomes very profitable

If RFP paid a 7.66% yield on RFF's assets – the average RFF has entered into with **other third parties**, rent would fall from $10.7m to $6.28m. That is a $4.4m saving – **which transforms the financials**.

RFP is projected to make a loss of c.$1.8m in 2020 (by RFP/RFF board members).

That would reverse to **a profit of $2.6m pre-tax**, or $0.38 per unit.

RFP had c. $2.5m of **cash** on its balance sheet at the end of June 2019 i.e. **$0.36 cents per unit**.

If you add this to one single year of earnings, you would have a value of $0.74 per unit (and there are other assets on the balance sheet). The wind up is estimated at $0.80.

But RFP has leases on modern sheds, that run to 2026, 2027 and 2036 (7,8 and 17 years respectively) and a bright future (in our view).

RFP needs an urgent rent review by an independent party but the structure that RFM/RFF has put in place (with them as lessor/lessee) and poison pills, prevents any outside scrutiny.

If the board internally decides not to trigger the Rent Reviews in the leases, by not writing to itself, then rents keep going up. It is almost farcical, but the 5,000 retail unitholders required to vote don't know any of this. They are not fully informed, in our view.

Schedule 5. Transferring $63.5m of value/+47% to ProTen/First State for building new sheds

We expect ProTen to rebuild the older sheds in Griffith and spend circa $60m doing so. These assets, in our estimates, would be worth $200m (see below). That's a $63m value uplift for First State Super backed ProTen – a 47% return in a couple of years.

In contrast, RFP unitholders, that own the leases to 2037, are receiving a mere $5.5m in total.

i.e ProTen/First State will receive over 11X the value as a 'profit' by building new sheds. The reason that there is such a disproportionate transfer is, in our opinion, because RFP is so deeply undervalued in this transaction.

RFF will receive $72m, a premium of $4m to its Dec 2019 book value of $68m (in our estimates). It would be happy with that, in our view.

If rents were deemed by an independent expert to be too high, or the Rental Reviews acted upon, as per the leases, then the rental streams to RFF would logically go down.

Property valuations are linked to rents and rental yields, so if the rents were adjusted downwards, perhaps the asset value of RFF poultry assets might fall. That would transfer value back into RFP if a deal – for the combined asset co (RFF) and lease co (RFP) - went through at the current $77.5m valuation.

A $200m valuation for ProTen, after building 59 sheds, that it paid $136.5m for

We believe that a 30m bird operation, with new sheds installed in place of the 174k square meters of old, problematic ones can produce $15m EBITDA. Our research and estimates lead to the conclusion that a well-run modern poultry operation should make $0.50 per bird. In 2015 RFP was close to that (once adjusting for RFM's high fees, listing costs, and the higher capex older farms would incur versus new sheds). At a 7.5% cap rate (within RFF's leasing yield range) this equates to $200m of value in the combined [asset company + operating company].

Cost $136.5m ($63.5m value creation for ProTen)

This would cost $136.5m made up of $77.5m for RFP+RFF and $59m on new sheds.

Current inadequate offer	Values	Comments
RFF	72.0	Value of assets at Dec 2019 est $68m ie 6% premium to RFF book
RFP	5.5	$0.80 estimated per unit
Enterprise Value	**77.5**	We estimate $2.5m of cash on RFP BS or with RFF - EV=$75m
Proten builds new sheds		
New shedding cost	59.0	Proten would put in new sheds - our estimate on cost
Total cost (incl new capex)	**136.5**	Proten in for $136.5m with upgraded farms. Baida happy

Value uplift to Proten (estimate)		
EBITDA from 30m birds	15.0	
Cap rate used	7.5%	
New asset value	**200.0**	Value Proten will put on balance sheet with First State Super (estimate)
Uplift in million dollars	**63.5**	Almost the transaction price
Percentage	**47%**	Almost 50% return for building new sheds seem high?

RFP is being significantly undervalued. To put this into perspective, if ProTen/First State Super were to make $56m in the transaction – vs $63.5m – for a value uplift of 41.4% , then RFP would receive $1.80 per unit (vs $0.80).

Additionally, if RFF were to receive its December year end book value – of $68m on our estimates – which is when the deal would close etc. The value that would transfer to RFP would be another $0.58.

So RFP would receive $2.38 per unit. Substantially above the depressed offer price of $0.80.

Schedule 6: Corporate governance and fair play. Where is it?

An *ordinary* vote for a voluntary wind-up? Why is a *special* resolution required in the Corporations Act?

An **ordinary** resolution requires 50% of votes cast to pass. Eg. Changing directors.

A **special** resolution requires 75% of votes cast to pass. E.g. Voluntary winding up of a company.

You are calling for an ordinary vote when this is a voluntary sale and wind up of a listed entity. We believe that you should have a special resolution, with higher unitholder acceptance required to proceed.

Corporate Governance Charter

Rural Funds Management (RFM) – the responsible entity, with all the same people as the RFP and RFF boards, has a comprehensive charter detailing its obligations. Some of these clauses read as follows;

Ethical standards and values

2.7(a). ..*striving at all times to enhance the reputation and performance of the Company*….

Obligations to comply with code and law

3.2 (c) *upholding the values of good corporate citizenship*….

Does that include writing in poison pills in RFP to protect itself and prevent third party independent assessments of asset value?

Conduct by Directors

3.10 (c) *Directors must at all times **comply with the spirit** as well as the letter of the law*…..

A voluntary wind up of a company or Trust is a serious issue impacting stakeholders. As such, the spirit of the law is to protect minority holders and ***a special resolution is required to pass this***. That is 75% of votes cast.

However, despite a presentation saying that the transaction is an asset sale and wind up of the business, i.e. a voluntary wind up. RFF/RFP have pushed for the much lower threshold of a 50% vote and an ordinary resolution.

By arguing that the asset sale (for 100% sale of the business – permanently) is only a "*change in nature"* instead of a voluntary wind up, you are lowering the required acceptance level of the deal from 75% to 50%, in our view.

Source: RFP Presentation 1 November 2019

Ordinary vs Special resolution

A change in nature or……

A sale and wind-up?

Looks like a 'voluntary sale and wind-up' to us, the events are linked.

Why not a special resolution requiring 75% of votes?

Any reasonable person can surely see they are linked and the same action i.e. a voluntary wind up.

Does this enhance the reputation of the company? Does this comply with the ***spirit of the law*** – as per your own Charter? In our opinion, this is a manoeuvre to quickly sell the asset disguising it as a small deal, worthy only of an ordinary vote. In fact, it is the voluntary wind up of the trust if looked at in its entirety.

We wonder if the Trustees of First State Super are aware that 5000 minority shareholders are being so badly treated in this transaction.

Schedule 7: Lease analysis: Don't throw out baby with bathwater (old Griffith farms)

There are three sets of leases:

i) the newer sheds at Griffith, NSW;
ii) the older, problematic sheds at Griffith, NSW and;
iii) the Lethbridge, VIC sheds.

They are being lumped in together which, in our opinion, hides the value in the newer sheds.

We believe that the newer sheds and leases are good, but the 110 older sheds in Griffith are causing the majority of the costs/losses and the highest point of friction with the NSW processor (Baiada).

Sell the older, 2024 expiry, problem leases/land in Griffith: New buyer builds 59 new sheds

We propose that the older leases and land are sold as a package to ProTen (and introduced other bidders to create some tension). The circa 174k square meters could produce over 17m birds per annum. A nice entry point for a new superannuation fund wanting exposure to this sector.

At $0.50 EBITDA per bird this would equate to $8.5m EBITDA by our estimates. **At a 7.5% cap rate that would be worth $113m**. It would require, on our estimates, $59m of new capital for the sheds to build new, modern sheds.

ProTen/another bidder could pay up to $54m for the land/leases to achieve the 7.5% return hurdle.

If ProTen/another buyer paid $100m to get the land, leases and then build new shedding, it would make $13m immediately (i.e a 13% immediate uplift in value and then the 7.5% cap rate return over the long-term). This is above the agricultural yields RFF achieves with third parties and above what First State Super paid to buy ProTen (in our view).

$100m less the new shed capex = $41m potential sale proceeds to RFP/RFF for the old Griffith assets.

That $41m would then be returned to RFP/RFF. This would leave Griffith (new sheds) plus Lethbridge (new sheds).

Take that off the $77.5m ProTen offer and **you're left with $36.5m of stub value** for the combined new sheds assets (i.e. Griffith and Lethbridge).

We have until 2026 and 2027 in Griffith to do a deal with ProTen and until 2037 in Lethbridge.

i.e. there is no need for a fire-sale of RFP

We believe that the sum of the parts/prices are worth more than the whole and the strategic logic you highlight in your presentation only holds for ProTen in Griffith (as it doesn't operate in Victoria).

We would like to be deeply involved in the sale process for all RFP unitholders and would seek a judgement for the poison pill clauses, you installed, in the lease agreements to be set aside. We cannot take control of the R.E. as you could trigger the poison pills and cancel the leases. Nor can we bid for RFP as a change in control clause, you installed, can lead to the lease cancellation too and destruction of value. This prevents a significant unitholder like us, at almost 20%, from being able to work for the best outcome for all unitholders.

Schedule 8: Identified groups to contact

The vote is next week and time is pressing. We have a strategy to disseminate the information quickly to market, so that unitholders can read the press, speak to advisors etc. and see the full picture and our concerns. You have presented two options; take the $0.80 or receive substantially less in short order. In our opinion, a frightening choice.

We believe there are actually multiple options and unitholders would likely vote against the transaction if they were fully informed of the alternatives. **The most pressing item to address to engage a third party independent expert** to investigate the high rents, lack of rent reviews and a deep dive on the capex spend (maintenance and structural) that has run through RFP's expenses.

Now your lawyers will likely advise that only you can trigger clause 20 (to bring in an independent expert) if you disagree with yourself and only after you put in for a rent review. That's unlikely to happen at this point i.e. for the RFP board to disagree with the RFF board that rents should be markedly different (you are the same people).

We believe that fund managers (in general and the ones that own your units), journalists, the large superannuation funds, market participants in general etc. will find this relationship to be conflicted and perhaps even wonder why you wouldn't act to have independents brought in voluntarily.

1) Journalists that have covered RFF in the recent past. They will likely already have an interest in RFF's relationships with its entities. We have not seen any commentary on the poultry assets, rental yields, lease contents or our broader views;
2) The Trustees of First State Super (FSS). We have only heard the highest praises for the FSS board and therefore believe the treatment of the 5,000 minority retail investors of RFP, on a small exchange, will be of interest to them, we doubt they are aware of the back story here. Would they be surprised to make a 47% return of $63m in short order for buying an asset in the public markets, when one listed entity is complaining of a forced fire-sale and value transfer to them?;
3) Brokerage community and major holders of RFF units. The owners of the units and brokers are likely to have interest in our observations and analysis of the transfer of value to ProTen – if our numbers are correct;
4) Local newspapers in Lethbridge and Griffith. It is important that all potential buyers are aware of the transaction and can reach out to us to reflect and note potential buyer interest to you;
5) Writing to RFP unitholders. We may not even have to do this – we think that the press will save us great cost and offer an independent skew on our thoughts. You might even want to publish it yourself, in the interest of full transparency;
6) Lessees of RFF's other agricultural assets. We'd be interested in this report if we had a lessor/lessee relationship with RFF and/or RFM; and
7) ProTen, chicken processors in NSW and VIC.

Appendices

Appendix 1

Lease excerpt on definition of Gross Margin

Schedule 2

Gross Margin means:

All direct chicken growing revenue and expenses accruing at farm level including but not limited to:

Revenue
Fees payable under the Grower Agreement
Bonuses paid under the Grower Agreement

Expenses
Employee costs
Contract labour services
Contract chicken growing services
Gas and electricity costs
Direct agribusiness expenses
Herbicides
Insecticides
Fuel
Consumables
Waste management
Telecommunication expenses (telephones, internet)
Insurance expenses
Repairs and maintenance
Recurring capital expenditure
Penalties payable under Grower Agreement

Appendix 2

Lease excerpt for Expert determination and Procedure if Lessee/Lessor cannot agree on, for example, Rent Reviews, capex spend etc.

20 Expert determination and Procedure

(a) In the event of any dispute pursuant to the terms of this lease (other than a dispute relating to the purported termination of this lease), any party involved in the dispute may require that the dispute be referred to an expert for determination (**Expert**).

(b) If the parties are unable to agree on an Expert for the purposes of this clause, then either party may request the Chairman of the New South Wales Chapter of The Institute of Arbitrators and Mediators Australia to make the appointment and the Chairman shall be directed to appoint a suitably qualified person having regard to the nature of the dispute.

(c) In relation to the making of a determination by the Expert:

(i) each party may be represented by a legal practitioner;

(ii) each party may make a submission to the Expert as to its contentions in relation to the dispute;

(iii) each party may make a response to the submission of the other party;

(iv) after receiving the parties' submissions and responses the Expert may require further submissions or information from the parties or any of them;

(v) the Expert is not bound by the rules of evidence;

(vi) the Expert may make his or her own enquiries with regard to the dispute but the Expert is to advise the parties as to the results of those enquiries and allow the parties to make further submissions with regard to the results of those enquiries before making a determination;

(vii) the Expert is to proceed with the determination with all reasonable expedition; and

(viii) the Expert may engage such qualified persons to advise or give an opinion in respect of any particular matter as he shall see fit.

(d) A determination made by an Expert under this clause is to be final in relation to the matter in issue and binding on the parties except if the liability determined by the Expert exceeds the Expert Determination Threshold.

(e) The Expert may make such order as he or she thinks fit as to the payment by the parties of the Expert's costs and the costs and expenses of the parties in relation to the determination.

(f) In making a determination under this clause the Expert will not act as an arbitrator.

(g) Nothing in this clause 20 limited a party's right to seek urgent injunctive or urgent declaratory relief.