

RF Active

Product Disclosure Statement

29 August 2014

RF Active ARSN 168 740 805
Rural Funds Management Limited ACN 077 492 838
AFSL No. 226701

Important notices

Offer

This Product Disclosure Statement (**PDS**) provides information concerning an offer (**Offer**) of units (**Units**) in RF Active ARSN 168 740 805. RF Active is a unit trust and also, for the purposes of the Corporations Act, a registered managed investment scheme. Rural Funds Management Limited ACN 077 492 838 (**Responsible Entity**), is the holder of Australian Financial Services Licence (AFSL) No. 226701, the responsible entity of RF Active and issuer of this PDS.

The Responsible Entity reserves the right to withdraw the Offer or invitation to subscribe for Units and withdraw this PDS.

Lodgement and listing

This PDS is dated 29 August 2014 and was lodged with ASIC on that date in accordance with section 1015B of the Corporations Act. ASIC and ASX take no responsibility for the content of this PDS. An application will be made to ASX not later than 7 days after the date of this PDS for RF Active to be admitted to the Official List and for official quotation of the units on ASX. The fact that ASX may admit RF Active to the Official List and grant quotation of the units is not to be taken as an indication of the merits of RF Active or of any investment in Units.

Exposure period

The Corporations Act prohibits RFM from processing applications in the seven day period after the date of lodgement of this PDS (**Exposure Period**). This period may be extended by ASIC by up to a further seven days. The purpose of the Exposure Period is to enable this PDS to be examined by market participants before the issue of Units. Applications received during the Exposure Period will not be processed until after the expiry of that period. No preference will be conferred on applications received during the Exposure Period.

Investors to conduct own investigation and analysis

The purpose of this PDS is to provide you with general information in relation to RF Active and the Responsible Entity, to assist you in deciding whether to invest in RF Active. This PDS is not to be considered as a recommendation by the Responsible Entity or its officers, employees, agents or advisers that you should invest in Units, or that an investment in RF Active is a suitable investment for you.

By investing in RF Active you confirm you have received a copy of the current PDS, that you have read it and agree to the terms contained in it, and that you agree to be bound by the terms of the current PDS and Constitution (each as amended from time to time).

Capital and investment returns are not guaranteed

Neither the Responsible Entity, the Custodian nor any of their officers, employees, agents or advisers guarantee the performance or success of RF Active, the repayment of capital, any rate of capital or income return or any particular taxation outcomes associated with investing in RF Active.

Disclaimer

To the maximum extent permitted by law:

- a. no representation, warranty or undertaking, express or implied, is made;
- b. no responsibility or liability is accepted by us or any of our officers, employees, agents or advisers or any other person as to the adequacy, accuracy, completeness or reasonableness of this PDS; and
- c. no responsibility for any errors or omissions from this PDS whether arising out of negligence or otherwise is accepted.

The Custodian has no supervisory role in the operation of RF Active and is not responsible for protecting Unitholders' interests. The Custodian has no liability or responsibility to Unitholders for any act done or omission made in accordance with the terms of the custody agreement. Investments in RF Active are not deposits or other liabilities of the Responsible Entity or Custodian.

Accuracy of projections and forecasts

This PDS contains various opinions, estimates and forecasts which are based upon assumptions that may not prove to be correct or appropriate. Except to the extent implied by law, no representation or warranty as to the validity, certainty or completeness of any of the assumptions or the accuracy of the information, opinions, estimates or forecasts contained in this PDS is made by us or any of our officers, employees, agents or advisers.

All forecasts in this PDS are for illustrative purposes only, using the assumptions described in this document. Actual results may be materially affected by changes in economic and other circumstances. The reliance that you place upon the forecasts is a matter for you. No representation or warranty is made that any forecast, assumption or estimate contained in this PDS should or will be achieved.

Updating information

We may update or supplement this PDS. Any further information will be provided subject to these conditions.

The information in this PDS is up to date at the time of preparation. However, some information and terms (see below) can change from time to time. If a change is considered materially adverse we will issue a supplementary or replacement PDS. For updated or other information about RF Active please consult our Investor Services team on 1800 026 665 or visit our website www.ruralfunds.com.au. We will send you a copy of the updated information free of charge upon request.

No overseas registration

This PDS does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Units or the Offer, or to otherwise permit a public offering of Units, in any jurisdiction outside Australia and New Zealand. The distribution of this PDS (including in electronic form) outside Australia and New Zealand may be restricted by law and persons who come into possession of this PDS outside Australia or New Zealand should seek advice and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of the applicable securities laws. In particular, the Units have not been, and will not be, registered under the US Securities Act 1933 (US Securities Act), and may not be offered or sold in the United States or to, or for the account or benefit of, US Persons (as defined in Regulation S under the US Securities Act) unless the Units are registered under the US Securities Act, or an exemption from the registration requirements of the US Securities Act is available.

Information for New Zealand Investors

The Offer to New Zealand investors is a regulated offer made under Australian and New Zealand law. In Australia, this Offer is regulated by Chapter 8 of the Corporations Act and its Regulations. In New Zealand, this Offer is regulated by Part 5 of the Securities Act 1978 (NZ) and the Securities (Mutual Recognition of Securities Offerings – Australia) Regulations 2008 (NZ). This Offer and the content of this PDS are principally governed by Australian rather than New Zealand law. In the main, the Corporations Act and its Regulations (Australia) set out how the Offer must be made. There are differences in how securities are regulated under Australian law. For example, the disclosure of fees for collective investment schemes is different under the Australian regime. The rights, remedies, and compensation arrangements available to New Zealand investors in Australian securities may differ from the rights, remedies and compensation arrangements for New Zealand securities. Both the Australian and New Zealand securities regulators have enforcement responsibilities in relation to the Offer. If you need to make a complaint about this Offer, please contact the Financial Markets Authority, Wellington, New Zealand. The Australian and New Zealand regulators will work together to settle your complaint. The taxation treatment of Australian securities is not the same as for New Zealand securities. If you are not certain whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial adviser. If the Units are able to be traded on a securities market and you wish to trade the Units through that market, you will have to make arrangements for a participant in that market to sell the Units on your behalf. If the securities market does not operate in New Zealand, the way in which the market operates, the regulation of participants in that market, and the information available to you about the Units and trading may differ from securities markets that operate in New Zealand. This Offer may involve a currency exchange risk. The currency for the Units is not New Zealand dollars. The value of the Units will go up or down according to changes in the exchange rate between Australian dollars and New Zealand dollars. These changes may be significant. If you expect the Units to pay any amounts in a currency that is not New Zealand dollars, you may incur significant fees in having the funds credited to a bank account in New Zealand in New Zealand dollars.

PDS available electronically

This PDS can be obtained at www.ruralfunds.com.au. Any person reviewing the PDS electronically may request a paper copy of the PDS from us free of charge.

Anti money laundering legislation

Further information may be required from you from time to time to comply with the AML/CTF Act. By applying for Units under this PDS, you undertake to provide us with all additional information and assistance reasonably required.

Definitions

Defined terms and abbreviations used in this PDS are explained in the Glossary.

Amounts and images

All amounts shown in this PDS are in Australian dollars. All fees and costs quoted in this PDS, unless otherwise stated, are quoted inclusive of any GST and any Reduced Input Tax Credits. Assets shown in photographs and other images in the PDS may not depict the assets of RF Active.

Date of PDS

The information contained in this PDS has been prepared as at 29 August 2014. Neither the delivery of this PDS, nor the Offer or issue of the Units implies or should be relied upon as a representation or warranty that there has been or will be no change since that date in the affairs or financial condition of RF Active, or that the information contained in this PDS remains correct at that date or any time after.

United Kingdom Investors

Neither the information in this PDS nor any other document relating to the Offer has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no approved prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000 of the United Kingdom, as amended (FSMA)) has been published or is intended to be published in respect of the Units in RF Active. This PDS is issued on a confidential basis to fewer than 150 persons (other than “qualified investors” (within the meaning of section 86(7) of FSMA)) in the United Kingdom, and the units in RF Active may not be offered or sold in the United Kingdom by means of this PDS, any accompanying letter or any other document, except in circumstances which do not require the publication of an approved prospectus pursuant to section 86(1) FSMA. This document should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients, to any other person in the United Kingdom. Any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) in connection with the issue or sale of the Units in RF Active has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances which do not give rise to a breach of FSMA or any other applicable law or regulation. In the United Kingdom, this PDS is being distributed only to, and is only directed at, (i) persons who are investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the FPO) and Article 14(5) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001, as amended (the PCISO), (ii) high net-worth companies, unincorporated associations and other bodies within the categories described in Article 49(2) of the FPO and Article 22(2) of the PCISO, and (iii) persons to whom it may otherwise be lawfully communicated (together relevant persons). The investments to which this PDS relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this PDS or any of its contents.

This is an important document and should be read in its entirety.

If you do not understand any part of this document you should consult your professional adviser.

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Contact details

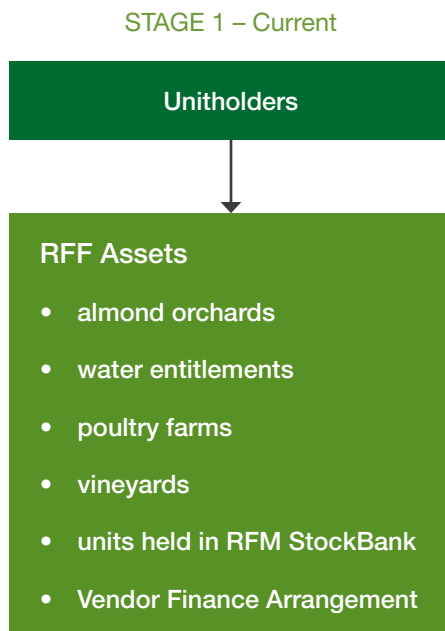
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1 Investment overview

RF Active details	
Responsible Entity	Rural Funds Management Limited
Structure	Unit trust
Investment overview	
Objective	The objective is to create a Stapled investment vehicle, separating the active and passive assets within the Rural Funds Group.
Investment Strategy	RF Active seeks to achieve its investment objectives by investing in income producing agricultural assets.
Distributions	Distributions are automatically reinvested or paid to your nominated bank account.
Investor Reporting	Annual audited financial reports and periodic statements.
Fees and costs	
Establishment and Withdrawal Fees	Nil
Management Fees	Estimated at 0.6% p.a. of the gross assets of RF Active
Expenses	Estimated at 4.5% p.a. of the net asset value of RF Active
Asset Management Fees	Estimated at 0.45% p.a. of the gross assets of RF Active
Investment risks	
Some of the risks applicable to investing in RF Active include:	
a. operating risk;	
b. market risk;	
c. regulatory risk; and	
d. counterparty risk.	
Further queries	
Contact our Investor Services team on	
1800 026 665 or visit our website www.ruralfunds.com.au .	

Demerger and Stapling

Rural Funds Group (RFF or the Fund) is a trust which consists of the following assets held directly in the trust or in wholly owned subsidiaries. Investors in RFF own units that are listed and trade on the Australian Securities Exchange (**ASX**).



In addition to the above assets, farming plant and equipment relevant to the almond orchards including harvest equipment, tractors, demountable buildings, vehicles and other ancillary plant and equipment which were owned by the Fund were sold to RF Active on 30 June 2014 for \$2,633,122.

As part of the sale, RF Active assumed the Fund liabilities under the ANZ asset finance facility (secured over the plant and equipment) which at 30 June 2014 was approximately \$2,033,596.

The unaudited Statement of Financial Position of RF Active as at 30 June 2014 is set out in section 3.5.

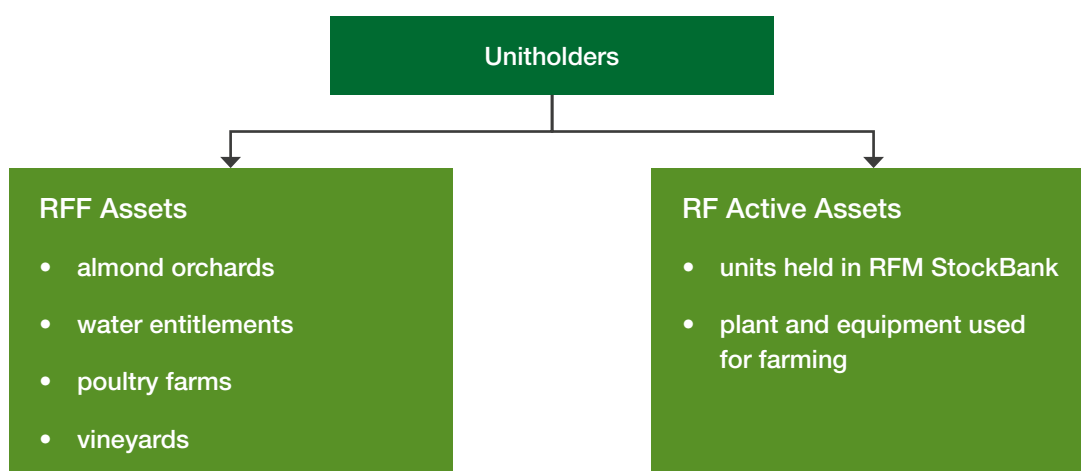
In addition, RFF provided the following Vendor Financing Arrangement the terms of which included:

- a. a loan of up to \$700,000 (drawn as at 30 June 2014 to \$629,525) with the following terms:
 - i. interest rate of bank bill swap rate plus margin. A line fee is also applicable;
 - ii. a term of three years; and
 - iii. the capacity of RFF to take security over the assets of RF Active.
- b. a working capital loan of up to \$750,000 (currently drawn to approximately \$316,312).

RFM is seeking approval from Investors to hold the passive and active assets in separate trusts via a demerger and then to staple the two trusts together. If Investors in the Meeting approve this demerger and Stapling, then:

- a. Investors will receive a notional distribution of approximately \$0.01 per unit they hold;
- b. RFM as responsible entity of Rural Funds Group will (as agent of the Investors) subscribe for units in RF Active on the basis of one unit in RF Active for each unit the Investor holds in Rural Funds Group;
- c. the units in RFM StockBank will be transferred to RF Active and the Vendor Finance Arrangement repaid;
- d. each unit in Rural Funds Group will be stapled to a unit in RF Active;
- e. the current Rural Funds Group will be renamed Rural Funds Trust; and
- f. the Stapled units will be listed on the ASX and the Stapled entity will be referred to as Rural Funds Group (for the purpose of this PDS we have referred to the stapled entity as the Combined Rural Funds Group) and trade as RFF.

STAGE 2 – Demerger and Stapling



2 Features of RF Active

2.1 Purpose of the Offer

This Offer is only available to the Investors in RFF. Each Investor holds units in RFF with these units listed on the ASX.

The purpose of the Offer is to hold the passive and operating assets in two separate trusts. The passive assets remain with RFF while the active or operating assets are held in RF Active.

The Offer will only proceed if RFF Investors approve the changes to the constitution of RFF at the Meeting. Assuming the RFF Investors approve the constitutional changes these changes will also result in:

- a. the payment of a small distribution of approximately \$1.2 million or \$0.01 per RFF unit to all RFF Investors;
- b. the distribution will be used by RFM on behalf of Investors to subscribe for Units in RF Active being one Unit in RF Active for each unit in RFF held by each Investor;
- c. each Unit in RF Active will be stapled to a unit in RFF to form a stapled security (**Stapled Security**); and
- d. the Stapled Securities will be relisted on ASX and trade under the ASX code RFF.

Based on the 30 June 2014 audited financial statements:

- a. RFF had a net asset value of \$137.5 million or \$1.17 per unit;
- b. no assets are being sold or acquired (outside of RFF and RF Active) as a result of the Stapling; and
- c. the net asset value of the Stapled Security would be divided as follows:
 - i. 99% per RFF unit; and
 - ii. 1% per RF Active unit.

Further details of the pro-forma financial position of RF Active immediately post the Stapling are contained in section 3.

RFM expects the income generated by the passive assets of RFF will continue to not be taxed in RFF but distributed to Stapled Security holders.

The income generated in RF Active will be taxed within RF Active (at the company tax rate) and then any distributions paid by RF Active to Stapled Security holders may include franking credits.

2.2 Responsible Entity

RFM is one of the oldest and most experienced agricultural funds management organisations in Australia. Our focus is to deliver returns to investors generated from quality management of Australian farmland and rural infrastructure. We are proud of the expertise we have developed over the past seventeen years managing assets on behalf of retail and institutional investors. RFM will be the responsible entity of RF Active as well as RFF.

2.3 Key Benefits

The key benefit of the Offer is the quarantining of the operating agricultural assets within a single trust separate from the passive income producing real estate.

Approximately 97% of RFF's assets currently consist of land, water and rural infrastructure which are leased to various counterparts. The income received from these assets is passive in nature and thus attracts flow through taxation treatment meaning that earnings on these assets are taxed in the hands of the investor at their marginal rate. Because these assets are leased, the returns from these assets, are expected to exhibit low volatility during the terms of the various leases. The 3% of RFF's other assets is its investment in RFM StockBank and plant and equipment.

If the RFF investment in RFM StockBank increased to above 50% of the total value of StockBank or RFF wanted to invest in other opportunities which were operational in nature, these investments could result in RFF being treated as a trading trust and taxed at the corporate rate before distributions are paid to investors, notwithstanding that the vast majority of RFF assets were used to derive passive rental income.

By creating a stapled entity, Investors have the benefit of two potential sources of returns from entities appropriate to those investments. RF Active can own investments which are operational in nature without impacting on the flow through taxation treatment of the vast majority of RFF assets. RFF investors can continue to receive the distributions sourced from lease income on a pre-tax basis, but with that distribution subject to tax in the hand of investors at their marginal rate. Such stapled structures, where there is a segregation of active and passive activities are attractive to both retail and institutional investors.

If the Offer does not proceed then all assets will remain with RFF.

2.4 Key risks

As Investors already hold units in RFF, they remain exposed to the same risks as a result of the demerger and Stapling. These risks include:

- a. operational risk;
- b. market risk;
- c. regulatory risk; and
- d. counterpart risk.

Section 4 of the PDS contains further information on risks.

3 Financial information

3.1 RF Active – the Trust

As at 30 June 2014, RF Active has total net assets of \$31,931 (unaudited).

The assets and liabilities of RF Active as at 30 June 2014 are set out in the unaudited Statement of Financial Position in section 3.5.

The current unitholding in RF Active is 50,000 units issued at \$1 per unit to the Almond Funds. Immediately prior to the issue of Units under this Offer the Almond Funds will cease to be members of RF Active and be repaid their \$50,000.

Assuming the Investors in RFF approve at the Meeting the changes to the RFF Constitution, then after the Stapling the units in RFM StockBank will be transferred to RF Active and the Vendor Finance Arrangement will be repaid.

3.2 RF Active assets and liabilities as at 30 June 2014

Plant and Equipment

The plant and equipment consists of farming plant and equipment relevant to the almond orchards including harvest equipment, tractors, demountable buildings, vehicles and other ancillary plant and equipment. The assets and liabilities of RF Active as at 30 June 2014 are set out in the unaudited Statement of Financial Position in section 3.5.

On 30 June 2014, RFF sold its almond farming plant and equipment to RF Active for \$2,663,122 and part of this sale was subject to a Vendor Financing Arrangement.

As part of the sale RF Active assumed the liabilities under the ANZ asset finance facility (secured over the plant and equipment) which at 30 June 2014 was approximately \$2,033,597.

Vendor Finance Arrangement

In addition RFF provided the following Vendor Financing Arrangement the terms of which included:

- a. a loan of up to \$700,000 (drawn as at 30 June 2014 to \$629,525) with the following terms:
 - i. interest rate of bank bill swap rate plus margin. A line fee is also applicable;
 - ii. a term of three years; and
 - iii. the capacity of RFF to take security over the assets of RF Active; and
- b. a working capital loan of up to \$750,000 (currently drawn to approximately \$316,312).

3.3 RF Active post demerger and Stapling

Following completion of the demerger and Stapling the plant and equipment will remain in RF Active. Further RFF will transfer its investment in RFM StockBank to RF Active.

RFM StockBank is a registered managed investment scheme of which RFM is the responsible entity. RFM StockBank raises capital to purchase livestock (both cattle and sheep) which are then leased to third party operators. The RFF investment in RFM StockBank represents approximately 39% of the units on issue in RFM StockBank.

As units in RFF will be stapled to Units in RF Active the Vendor Financing Arrangement between RFF and RF Active will be repaid.

3.4 Combined Rural Funds Group borrowings

The Combined Rural Funds Group borrowings once the demerger and Stapling has been completed, including all subsidiaries, will be supported by cross guarantees and indemnities. The Combined Rural Funds Group borrowing facilities of the Rural Funds Group include:

Term debt facility

- a. Facility limit of \$97.5 million with \$2 million annual amortisation commencing 30 September 2016.
- b. The facility has a term of five years commencing December 2013.
- c. Interest rate is bank bill swap rate plus margin and a line fee is applicable.
- d. There is a 50% loan to security ratio covenant. The loan to security ratio as at 30 June 2014 was 42.8%.
- e. Interest cover ratio 2.25 times with distribution lock up at 2.5 times for the period ending 30 June 2014, increasing to 3.00 times with distribution lock up at 3.15 times for the period commencing 1 July 2018.
- f. A covenant that the net tangible assets of the Combined Rural Funds Group be maintained above \$100,000,000 at all times.
- g. There is no minimum capitalisation requirement for RFF.

Revolving asset (plant and equipment) finance facility

- a. Facility limit of \$3.5 million.
- b. Individual loans within the facility tied to specific items of plant and equipment when they are purchased and a requirement for repayment as the item is sold.
- c. Term of each individual loan and interest rate tied to the item and expected useful life of the relevant plant and equipment.

3.5 Statement of financial position

The table below includes a Pro-forma Statement of Financial Position of RF Active as at 30 June 2014 to illustrate what RF Active would have looked like if the Stapling occurred on this date.

The Stapling is intended to occur in October 2014. The Statement of Financial Position for 30 June 2014 sets out the financial position of RF Active prior to the Stapling.

RF Active

Figure 3.1: Statement of Financial Position

	30/06/14	30/06/14
	Actual Unaudited	Pro Forma
	\$	\$
Current assets		
Cash at bank	54,158	229,313
Trade receivables	51,804	51,804
GST receivable	297,496	297,496
Total current assets	403,458	578,613
Non current assets		
Motor vehicles	257,500	257,500
Plant & equipment	2,749,787	2,749,787
Investment	—	3,952,210
Total non current assets	3,007,287	6,959,497
Total assets	3,410,745	7,538,110
Current liabilities		
Accruals & payables	399,380	399,380
Equipment loan - current	590,077	590,077
Total current liabilities	989,457	989,457
Non current liabilities		
Equipment loan – non current	1,443,520	1,443,520
Working capital loan	316,312	—
Vendor finance loan	629,525	—
Investment loan	—	3,952,210
Total non current liabilities	2,389,357	5,395,730
Total liabilities	3,378,814	6,385,187
Net assets	31,931	1,152,923
Unitholders' interest		
Unit capital	50,000	1,170,992
Retained earnings	(18,069)	(18,069)
Total unitholders' interest	31,931	1,152,922

The Directors of RFM are of the opinion that, on completion of the Offer, RF Active will have sufficient working capital to carry out its stated objectives.

4 Risks of investing

4.1 What are the risks of investing?

All investments involve risk. Assets with the highest long-term returns may also carry the highest level of short term risk. The value of investments and the level of returns will vary. Historical performance is not necessarily indicative of future performance. Returns are not guaranteed, and you may lose some or all of your money. Not all investment risks can be predicted or foreseen. Some of the risks that may impact upon returns and the value of your investment in RF Active are outlined below. You need to consider the level of risk that you are comfortable with, taking into account factors such as your age, your investment time frame, other assets and investments you have and your overall tolerance to risk.

4.2 Types of risk

You should consult your financial advisor, lawyer, accountant or other professional advisor before making a decision to invest. Investors already hold units in RFF and thus are exposed to the risks outlined in this section.

Specific risks

Risk	Explanation
Operational	Operational risk relates to the risk of loss resulting from inadequate or failed internal control processes, information technology systems or from external service providers which may impact on the performance of RF Active.
Takeover	RFM, an experienced agricultural manager, is the Responsible Entity of RF Active. Another entity may seek to take over RF Active. Any change of responsible entity will require Unitholder approval.
Future distributions or reduction in distributions	RF Active must meet its operating expenses and debt servicing obligations before distributions can be made to Unitholders. Consequently, distributions may vary.
Decline in asset value	RF Active will own RFM StockBank units. The value of these units are exposed to the performance of RFM StockBank as a livestock leasing business. RF Active will also own plant and equipment that is used for agricultural production. The value of these assets may rise or fall because of general economic conditions, local and global agricultural conditions, changes in independent valuation methodologies and changes in discount rates.
Destruction or damage of property	It is possible that the assets owned by RF Active could be destroyed or damaged by natural or other events. RFM will maintain appropriate levels of insurance, provided it is economically sensible to do so.

Risk	Explanation
Counterparty risk	This is the risk of loss which may arise as a result of a counterparty not honouring its financial commitment upon settlement of a transaction. Substantial losses could be incurred if a counterparty fails to deliver on its contractual obligations or experiences financial difficulties.
Unit price trades at below net asset value	Following listing, there is a risk that the Stapled Securities including RF Active Units may trade at a price less than their net asset value. The trading price of the Stapled Securities will be dependent on financial performance and market sentiment.
Liquidity	The ability to sell your Stapled Securities will depend on the availability of buyers. Larger stocks generally have a higher level of liquidity or turnover than smaller stocks.
Hedging of interest rates	RF Active may undertake interest rate hedging to help protect against changes in interest rates. Interest rate swaps, although used for hedging, can create interest rate risk and counterparty risk. Further, for accounting purposes, swaps are required to be valued at market value and this can create earnings volatility.
Reliance on RFM's skills	Unitholders have no direct control over the decisions that affect the day-to-day management of RF Active. Instead they rely on the skills of RFM and of RFM's employees to manage RF Active's assets. An RFM employee may have a specialist skill set that is used to manage those assets. If that RFM employee resigns, then RFM may not be able to replace that specialist skill set quickly or easily.
Conflict of interest and related party transactions	RFM is the Responsible Entity for RF Active and for a number of other funds. It is possible that investment opportunities will arise for RF Active through RFM's relationship with those other funds. Therefore, from time to time, RFM may face a conflict of interest that arises because of its own operations, its role as the Responsible Entity for RF Active and as the Responsible Entity for other funds. Related party transactions are subject to the RFM Conflict of Interest Management Policy.
Borrowing risk	RF Active will have borrowings in its own name, being the equipment finance provided by a major Australian bank (detailed in section 3.2) and the remaining assets will also be subject to a cross-collateralised debt obligation together with RFF. A default under the banking facility by RFF is likely to trigger a default under the cross-collateralised debt obligation of RF Active.
Changes in global or domestic economic conditions	This is the risk that returns may be adversely affected by instability in local or global market conditions. The following economic conditions may impact the performance of RF Active: - national economic growth; - industry change; - interest rates; - inflation; - exchange rates; and - changes to government economic policy. These conditions cannot be predicted by the Responsible Entity.

Risk	Explanation
Taxation risk	Changes to the current tax regime in Australia or overseas may affect RF Active and its Unitholders. The Responsible Entity is not responsible for the tax liabilities of Unitholders.
Compliance risk	The regulatory environment for financial service providers, such as the Responsible Entity, is becoming increasingly onerous. Further changes to the regulatory environment for financial service providers in either Australia or overseas may have an adverse impact on the operations and performance of RF Active.
Change in political and regulatory environment	The following international or domestic political conditions (as well as others that are not listed here) may adversely affect RF Active: a. legislative changes; b. regulatory changes; c. taxation changes; and d. foreign policy changes (including the status of trade agreements).

5 Fees and other costs

5.1 Introduction

By law, RFM must provide you with the following Consumer Advisory Warning at the beginning of this section. Following the Consumer Advisory Warning, this section provides detailed information about the fees and other costs associated with investing in RF Active.

5.2 Consumer Advisory Warning

DID YOU KNOW?

Small differences in both investment performance and fees and costs can have a substantial impact on your long term returns.

For example, total annual fees and costs of 2% of your fund balance rather than 1% could reduce your final return by up to 20% over a 30-year period (for example, reduce it from \$100,000 to \$80,000).

You should consider whether features such as superior investment performance or the provision of better member services justify higher fees and costs.

You may be able to negotiate to pay lower contribution fees and management costs where applicable. Ask RFM or your financial adviser.

TO FIND OUT MORE

If you would like to find out more, or see the impact of the fees based on your own circumstances, the Australian Securities and Investments Commission (**ASIC**) website www.moneysmart.gov.au has a managed investment fee calculator to help you check out different fee options.

5.3 Summary of fees and costs

This document shows the fees and other costs that you may be charged. These fees and costs may be deducted from your money, from the returns on your investment or from RF Active as a whole. Taxes are set out in another part of this document. You should read all the information about fees and costs because it is important to understand their impact on your investment.

Figure 5.1: Fees and expenses

Type of fee or cost	Amount	How and when paid
Fees when your money moves in or out of RF Active		
Establishment fee: The fee to open your investment.	Nil	Not Applicable
Contribution fee: The fee on each amount contributed to your investment.	Nil	Not Applicable
Withdrawal fee: The fee on each amount you take out of your investment.	Nil	Not Applicable
Termination fee: The fee to close your investment.	Nil	Not Applicable
Management costs		
The fees and costs for managing your investment		
Management fee	0.6% p.a. of the gross assets of RF Active	Fee calculated monthly and paid monthly in advance
Acquisition fee (refer to section 5.9)	Up to 2% of the total purchase price of the asset	Payable on acquisition of an asset
Operating expenses	Estimated at 4.5% of the net value of RF Active	Costs paid from RF Active as and when costs incurred

Additional explanation of fees and costs

5.4 Management fee

This is the fee we charge for managing RF Active's investments, overseeing RF Active's operations and promoting RF Active to investors. RFM expects to be paid a management fee equal to 0.60% p.a. of the gross value of RF Active's assets. The management fee will be calculated and paid from RF Active's assets monthly in advance.

The Constitution of RF Active allows us to charge up to 1% p.a. of the gross asset value of RF Active.

5.5 Operating expenses

Under RF Active's Constitution, RFM is entitled to be reimbursed for all expenses properly incurred in relation to the operation of RF Active from RF Active's assets. These expenses may be paid directly from RF Active's assets or alternatively paid by RFM and then recovered from RF Active's assets.

For example, expenses relating to managing RF Active's underlying assets may be paid from RF Active's assets. Operating expenses may include abnormal items such as the cost of a Unitholders' meeting, changing the constitution or pursuing legal proceedings. The operating expenses disclosed in section 5.3 of the PDS are an estimate of the operating expenses likely to be incurred in relation to the operation of RF Active for the financial year ending 30 June 2015 and should not be considered as limiting RFM's rights to pay all proper and reasonable expenses incurred in relation to the operation of RF Active. Actual operating expenses may be higher than the amount disclosed above.

5.6 Acquisition fees

RFM may be paid an acquisition fee of up to 2% of the total purchase price paid for an asset. This fee may be paid from RF Active's assets at the time or after the acquisition is made. Any acquisition fees are included in the management costs disclosed in the worked example of annual fees and costs set out in section 5.10. The example assumes that RFF will not derive acquisition fees during the financial year ending 30 June 2014. Please refer to section 5.9 below for further details.

5.7 Indirect Cost Ratio

The Indirect Cost Ratio (ICR) is the ratio of the fund management costs that are not deducted directly from the RF Active Unitholder's account, divided by RF Active's average net assets. The ICR calculation includes fund management fees and costs such as costs to administer the fund, investor services, fund audit, compliance, sales and marketing, and legal fees.

5.8 Asset management fees

RF Active is charged a fee for asset management services provided by RFM. These services include, but are not limited to:

- a. contract management and lease negotiation;
- b. property management including overseeing any necessary capital expenditure; and
- c. finance and accounting services relevant to the operation of the assets (not RF Active).

These are costs related to a specific asset or activity to produce income that an investor would incur if he or she invested directly in the asset. RFM expects to charge a fee of 0.45% p.a. of the gross asset value of RF Active. Under the Constitution the maximum asset management fee is 1% of the gross asset value of RF Active. In the event a cost is incurred that is not a cost the investor would incur if he or she invested directly in the asset, that cost will be considered a management cost and included in RF Active's indirect cost ratio.

5.9 Fee in the event of termination of Responsible Entity

RFM has called a Meeting of the members of RFF to approve the issue of Units in RF Active, the Stapling of those Units to units in RFF and changes to the RFF constitution.

The second special resolution to be considered at the Meeting is to approve the removal of the acquisition fee (which is similar to the fee referred to above in section 5.6) and insert a termination fee that would be payable to RFM in the event it is removed as responsible entity of RFF in circumstances other than for failing in the proper performance of its duties.

In the event RFF unitholders approve this resolution at the Meeting, the RF Active Constitution will be amended (immediately before the issue of Units under this Offer) to include a similar termination fee and to remove the acquisition fee referred to in section 5.6 above.

The termination fee is set at 1.5% of the gross assets of RF Active and is intended to compensate RFM for the loss of its role as responsible entity of RF Active. As RF Active and RFF are RFM's major clients, if RFM was removed as responsible entity, RFM would need to downsize its business accordingly. This fee is intended to cover the costs of paying out office and equipment leases, staff redundancies and other similar expenses that would need to be paid in the event RFM was removed as responsible entity of RF Active.

5.10 Example of annual fees and costs for RF Active

The following table gives an example of how fees and costs in RF Active can affect your investment over a one year period. You should use this table to compare this product with other managed investment products. Please note that this is just an example. In practice, the actual investment balance of an investment will vary daily and the actual fees and expenses we charge are based on the value of RF Active, which also fluctuates daily.

The overall management cost of the Rural Funds Group is 2.25% p.a. and this is consistent with the explanatory memorandum issued on 21 October 2013 for Revaluation. The management costs of 8.42% p.a. for RF Active reflect the scale of the business.

Figure 5.2: Example of annual fees and costs

Example	Fee	Balance of \$50,000 with a contribution of \$5,000 during year ¹
Contribution fees	Nil	Not applicable ²
Plus aggregate management costs	8.42%	And, for every \$50,000 you have in RF Active you will be charged \$4,210 each year. ³
Equals cost of RF Active		If you had an investment of \$50,000 in RF Active at the beginning of the year and you invested an additional \$5,000 later that year, you would be charged annual fees of up to \$4,210 ⁴

Notes

1. It is a requirement of the Corporations Regulations that the above example assumes a balance of \$50,000.
2. This example is required under the Corporations Regulations, notwithstanding that RF Active does not charge contribution fees.
3. The management costs disclosed above include estimates for management fees, operating expenses and acquisition fees. In practice, your actual investment balance will vary daily and fees we charge are based upon the asset value will also fluctuate daily. The management costs disclosed above incorporate an estimate of a Unitholder's contribution towards the forecast operating expenses. Additional fees and costs may be charged.
4. It is a requirement of the Corporations Regulations that the additional \$5,000 invested is excluded for the purposes of calculating management costs in this example.

5.11 Can fees be different for different investors?

RFM may negotiate the fees payable on an investment in Units with investors who are 'wholesale clients' for the purposes of the Corporations Act.

5.12 Government charges and GST

Government taxes such as stamp duty and GST may be applied as appropriate. Please refer to section 6.

All fees disclosed in this section include the net effect of GST. This means that fees stated in this PDS represent the fee charged plus applicable GST, less any reduced input tax credits that may be claimed by RF Active.

5.13 Can fees change?

We may change the fees applicable to an investment in Units in RF Active on 30 days' notice.

We cannot charge more than RF Active's Constitution allows. If we wished to raise fees above the amounts allowed for in RF Active's Constitution, we would need the approval of Unitholders.

6 Taxation

6.1 Scope

The following tax summary sets out the general tax consequences for Unitholders in RF Active and is based on the law and administrative practice in force as at the date of this PDS.

However, it is not intended to be an authoritative or complete statement of the law applicable to the particular circumstances of every Unitholder. In particular, this summary is only relevant to Unitholders that are Australian tax residents, who hold their Units on capital account for investment purposes and only considers the Australian tax position. Unitholders who are residents of, or subject to taxation in other countries, will also need to obtain advice on the tax consequences of that country.

Neither the Responsible Entity or its directors are registered under the Tax Agent Services Regime to provide tax advice to individual Unitholders. Accordingly Unitholders should take advice from an appropriately qualified advisor on the taxation implications of the arrangements, taking into account their particular circumstances.

6.2 Tax consequences for Investors if the Stapling proceeds

The demerger and Stapling will require that RFF make a distribution to its Unitholders and apply that distribution on behalf of Unitholders, to subscribe for Units in RF Active. That is, an estimated distribution of \$1,170,992 or about \$0.01 per RFF unit will be made.

The separation of all remaining operational assets into RF Active in the year ended 30 June 2014 resulted in RFF only holding assets that derive rental or other 'passive' income. This should mean that RFF will be a 'flow through' fund (rather than a public trading trust) for tax purposes from the income year ending 30 June 2015. As a result, where RFF distributes its income (or creates a present entitlement of Members to all of the income it derives each year), distributions to Unitholders will be made on a 'pre tax' basis. This means that each Unitholder will include their proportionate share of RFF's net (taxable) income in their assessable income each year.

To the extent that distributions are of capital amounts, and do not represent net (taxable) income of RFF they will not be taxable as ordinary income to Unitholders.

As capital a distribution:

- a. will proportionately reduce each Unitholder's CGT cost base in respect of their RFF units; but
- b. should not increase the amount taxable as ordinary income to Unitholders for the year.

In the event that the amount of a distribution is greater than the cost base of a Unitholder's Fund units, the cost base will reduce to nil and the excess will give rise to a taxable capital gain.

The amount of a distribution should form part of the CGT cost base of the Unitholders Units in RF Active. Therefore in circumstances where a Unitholder's cost base in RFF is at least as much as the distribution amount, the total CGT cost base of their stapled RFF and RF Active units should be identical to their cost base in their RFF units prior to the stapling transaction.

The tax consequences of distributions made by RFF are determined at the time of distribution.

6.3 Tax characterisation of RF Active

RF Active should be treated as a public trading trust for tax purposes. This is because it will carry on a trading business (that is, a business that does not consist wholly of 'eligible investment' activities, such as deriving passive income from the rental of land).

This means that RF Active:

- a. will pay tax on any profit derived during the year at the corporate tax rate (currently 30%); and
- b. may distribute the profit to Unitholders in the form of dividends (which may be franked).

Any dividends and franking credits received from RF Active should be included in the assessable income of the Unitholder. Where the Unitholder is a resident individual or complying superannuation fund, and the Unitholder has excess franking credits available for the income year, those excess franking credits may be refunded to the Unitholder.

Whilst corporate Unitholders are not eligible to receive a refund of excess franking credits, they may be entitled to convert any excess into a loss that may be used to offset income earned in future years (subject to satisfaction of the loss utilisation rules).

It is noted that Unitholders are generally required to have held their Units 'at risk' for 45 days in order to be eligible for the franking benefits outlined above. Unitholders should obtain their own advice on the application of these rules to their circumstances.

6.4 Stamp Duty

The acquisition of Units in RF Active by Unitholders will not give rise to any stamp duty liability for Unitholders.

6.5 Goods and Services Tax (GST)

The acquisition of Units by Unitholders in RF Active will not attract GST.

7 Additional information

7.1 Stapling and RF Active

RF Active's Constitution and the RFF Constitution in addition to matters described elsewhere in this document:

- a. provide that once Units are stapled, they must only be issued, transferred or otherwise dealt with as a single security; and
- b. provide that the provisions relating to stapling may only cease to apply or be suspended if:
 - i. an insolvency event occurs in respect of RF Active or RFF (as the case may be); or
 - ii. the Unitholders pass a special resolution.

7.2 Custody Agreement

In accordance with the Corporations Act, ASIC policy and the terms of RFM's AFSL, all property will be held by the Custodian. The Custodian is not liable to Unitholders and RFM is liable for the acts of the Custodian, subject to certain conditions under the Custody Agreement. The Custodian may only act on proper instructions (as set out in the custody agreement) given by RFM. The Custodian is indemnified by RFM for any action taken and all claims and liabilities arising in connection with the assets of RF Active, except where the Custodian has failed to perform its obligations under the Custody Agreement.

7.3 ASX waivers

RFM is applying to ASX for the following waivers in relation to the requirements of the following Listing Rules as they will apply to RF Active:

- a. a waiver from Condition 7 of Listing Rule 1.1 to the extent necessary to permit each parcel of Units to have a value less than \$2,000 on the condition that the value of a parcel of Stapled Securities will be greater than or equal to \$2,000, and will therefore satisfy the rule;
- b. a waiver from Condition 8 of Listing Rule 1.1 in respect of compliance with Listing Rule 1.3 on the condition that the Units are stapled together and that RF Active and RFF together satisfy the rule;
- c. a waiver from Condition 2 of Listing Rule 2.1 to the extent necessary to permit Units to be issued by RFM for an issue price and paid up value of less than \$0.20 on the basis that the value of each Stapled Security (rather than each individual Unit) will have an issue price and paid up value of greater than \$0.20;
- d. a waiver of Listing Rule 6.24 in respect of clause 1 of Appendix 6A to the extent necessary that the rate or amount of a dividend or distribution need not be advised to ASX when announcing a dividend or distribution record date, on condition that an estimated dividend or distribution rate is advised to ASX as on the announcement date and the actual rate is advised to ASX as soon as it becomes known;

- e. a waiver from Listing Rule 8.10 to the extent necessary to permit RFM to refuse to register a transfer of a Stapled Security (comprising the Unit and an RFF unit) if it is not accompanied by a transfer in respect of the other securities that comprise the unit; and
- f. a waiver from Listing Rule 10.1 to allow the transfer of assets between RF Active and RFF and their subsidiaries without the need for member approval, as the economic interests of Unitholders will not be affected by such a transaction.

7.4 ASIC waivers

RFM has applied to ASIC for modifications to the sections of the Corporations Act listed below as they relate to the operation of RF Active:

- a. a declaration that sections 601FC(1)(c) and 601FD(1)(c) are modified to allow RFM and its officers to have regard to the interests of Stapled Security holders having regard to their interests as Unitholders of RF Active and as Investors in RFF, not just in their capacity as Unitholders of RF Active; and
- b. a declaration that section 601LC is modified to allow RFM to give financial benefits out of RF Active to RFF and from RFF to RF Active and their controlled entities; and
- c. exemption from sections 601ED, 601FC, and Parts 5C, 7.6 and 7.9 of the Corporations Act regulating managed investment schemes, and disclosures in relation to them, in respect to the operation of the sale facility, as well as an exemption from the requirement to hold an AFSL in respect of services associated with operating the sale facility in the manner set out in the Explanatory Memorandum.

7.5 Term

RF Active has a maximum term of 80 years and is governed by the laws of New South Wales.

7.6 Unit pricing discretions

We will exercise any discretions that we have under the RF Active Constitution in Unit pricing in compliance with our pricing policy. A copy of RF Active's Unit pricing policy can be obtained at no charge by telephoning the Investor Services team on 1800 026 665.

7.7 Distributions

Distributions will be paid directly to the Investor's nominated bank account or reinvested.

If you wish to change your distribution payment instructions, please contact the Investor Services team on 1800 026 665.

7.8 Complaints

Please notify us of complaints in writing or by calling our Investor Services team. Our policy is to acknowledge any complaint quickly and follow certain procedures. In particular we are required to investigate, properly consider and decide what action (if any) to take and to communicate our decision to you within 45 days.

If you are not happy with how the complaint has been handled, you may contact the Financial Ombudsman Service, of which we are a member. This is an independent body and is approved by ASIC to consider complaints. Its contact details are:

Financial Ombudsman Service
GPO Box 3
MELBOURNE VIC 3001

Telephone: 1300 780 808

Website: www.fos.org.au

7.9 Privacy and personal information

A copy of our privacy policy is available by visiting our website at www.ruralfunds.com.au or on request from our Investor Services team.

We collect information primarily for the following purposes:

- a. to process your application;
- b. to administer your investment and provide you with reports; and
- c. to comply with our obligations under the law.

We also ask you for some personal details so that we and our related companies can contact you and tell you about our other products and services that might be of interest to you. Please inform us in writing if you do not want us to send you marketing materials.

7.10 Disclosing your information

Disclosure of information to third parties (your accountant, solicitor, financial planner etc.) will only be permitted once we hold your written consent.

In addition, we may disclose information we hold about you in the following circumstances:

- a. to companies that supply services on our behalf, for example (but not limited to), companies that print and dispatch the statements or notices which we send to you or to the Custodian;
- b. to related companies that may also provide you with a financial service product; and
- c. if the disclosure is required or authorised by law.

7.11 What happens if you choose not to disclose the information?

The following may apply if you choose not to disclose the required information:

- a. **TFN, TFN exemption or ABN:** we have to deduct tax at the highest marginal tax rate (plus Medicare levy) before we pay distributions; and
- b. **Account details:** we will not be able to pay distributions.

7.12 Constitution

RF Active is a managed investment scheme which has been registered with ASIC in accordance with Chapter 5C of the Corporations Act. RF Active has been established in the form of a unit trust pursuant to the RF Active Constitution. RFM is named as the responsible entity of RF Active. RFM is the holder of AFSL No 226701 which permits it to operate certain managed investment schemes and deal in financial products for wholesale and retail clients. The respective rights and obligations of RFM and holders of Units in RF Active are determined by the RF Active Constitution, the Corporations Act, the Listing Rules and this PDS, together with any exemptions and declarations issued by ASIC, and the general law relating to trusts. The RF Active Constitution may be amended by a deed executed by RFM, provided that RFM reasonably considers that the amendment will not adversely affect the rights of Unitholders, or by a resolution of Unitholders. If the RF Active Constitution is amended, RFM must lodge a copy of the modification with ASIC. The amendment will not be effected until the modification is lodged with ASIC.

Units and Investors' rights

RF Active is divided into Units, each of which confers a proportionate beneficial interest in the net assets of RF Active. Each Unit confers an equal interest in RF Active property. A Unit does not confer any interest in a particular part or asset of RF Active, nor does it confer any rights over the management of RF Active. A Unitholder holds a Unit subject to the rights and obligations attaching to that Unit.

The rights of Unitholders include rights to:

- a. receive income and other distributions attributable to Units held;
- b. transfer Units (subject to the Listing Rules and any permitted refusal by RFM);
- c. convene, or request that RFM convene, a meeting of Unitholders;
- d. attend and vote at meetings of Unitholders;
- e. receive the annual audited accounts of RF Active; and
- f. participate in the winding up of RF Active.

Creation of Units

RFM can issue Units in accordance with the RF Active Constitution.

Issue price of Units

The Constitution contains provisions for calculating the issue price of Units. While the Units are officially quoted, the issue price will generally be the market price of the Units. The RF Active Constitution also provides for RFM to determine a different issue price (such as a discount of up to 50% of the market value) in relation to some Units, a class of Units or all Units to the extent it is permitted to do so by an ASIC exemption and the ASX Listing Rules.

Options and financial instruments

RFM has the power to issue options in respect of Units and other financial instruments.

Income

RFM will determine the distributable income of RF Active for each quarter of each financial year. If RFM does not make a determination prior to the end of financial year then the distributable income for that financial year is the taxable income for the financial year. On and from the last day of each financial year, Unitholders are entitled to a share in RF Active's income based on the number of Units held. The RF Active Constitution provides that, if RFM approves, Unitholders may choose to reinvest some or all of the distribution by acquiring more Units in RF Active.

No redemption

A Unitholder cannot redeem Units while RF Active is listed.

Liability of Investors

The RF Active Constitution states that each Unitholder's liability to RFM or RF Active is limited to the aggregate of amounts paid by the Unitholder for the issue of Units. This provision seeks to ensure that no Unitholder will be personally liable to indemnify RFM or any creditor of RFM in the event that the liabilities of RF Active exceed its assets. However, the ultimate liability of Unitholders in unit trusts has not been finally determined by the courts.

RFM's powers and duties

RFM holds the assets of RF Active on trust, and may manage these assets as if it were the absolute and beneficial owner of them. In the exercise of its powers, RFM may, without limitation, acquire or dispose of any real or personal property, borrow or raise money, encumber any asset, incur any liability, give any indemnity, provide any guarantee, apply for listing of RF Active, enter into derivative arrangements, joint venture arrangements or fetter any power. RFM may appoint delegates or agents (including custodians) to perform any act or exercise any of its powers, as well as advisers to assist it with its duties and functions.

RFM is responsible for the proper and efficient administration and management of RF Active, including all investment decisions. In discharging this responsibility, RFM is required to comply with the RF Active Constitution, the Corporations Act, the Listing Rules, the general law in Australia and any additional obligations contained in this PDS.

Interested dealings

RFM (in its personal capacity or in any capacity other than as responsible entity of RF Active) or any of its associates may:

- a. deal with RFM (as responsible entity of RF Active) or any Unitholder;
- b. be interested in any contract, transaction or matter with RFM (as responsible entity of RF Active) or any Unitholder;
- c. act as trustee or responsible entity of any other trust or managed investment scheme; and
- d. deal with any entity in which RFM holds an investment on behalf of RF Active and in each case RFM (or an associate) may retain for its own benefit all profits or benefits derived from that activity.

Responsible entity's limitation of liability

RFM is not liable for any loss or damage to any person arising out of any matter unless, in respect of that matter, it acted both otherwise than in accordance with the RF Active Constitution and without a belief held in good faith that it was acting in accordance with the RF Active Constitution.

In any case, the liability of RFM in relation to RF Active is limited to the assets of RF Active from which RFM is indemnified. In particular, RFM is not liable for any loss or damage to any person arising out of any matter where, in respect of that matter:

- a. to the extent permitted by law, it relied in good faith on the services of, or information or advice from, or purporting to be from, any person appointed by RFM; or
- b. it acted as required by law.

This limitation of liability is subject to the Corporations Act.

Responsible entity's indemnity

Except for its own fraud, negligence or breach of trust, RFM is indemnified out of the assets of RF Active against all liabilities and losses incurred by it in relation to the operation, administration and management of RF Active or otherwise in connection with RF Active.

Remuneration and recovery of expenses

RFM can charge management fees as summarised in section 5 of this PDS. In addition to these fees, and any other right of indemnity under the RF Active Constitution or the law, RFM is indemnified and entitled to be reimbursed out of the assets of RF Active for all expenses reasonably and properly incurred in connection with RF Active or in performing its obligations under the RF Active Constitution, including:

- a. administration fees;
- b. audit, accounting and record keeping fees;
- c. the engagement of agents, valuers, contractors and advisers;
- d. fees related to the provision of reports to Unitholders;
- e. fees incurred in convening and conducting Unitholder meetings;
- f. insurance costs;
- g. costs associated with the establishment and promotion of RF Active; and
- h. costs arising out of the operation of RF Active, including transaction costs and government charges, costs associated with borrowing and costs to satisfy regulatory requirements.

Duration of RF Active

RF Active will terminate on the earliest to occur of the following:

- a. the date specified by RFM in a notice given to Unitholders; or
- b. the date on which RF Active is terminated in accordance with another provision of the RF Active Constitution or by operation of law.

On termination of RF Active, the net proceeds from realisation of the property of RF Active will be distributed among the Unitholders in proportion to the number of Units they hold. Any unpaid fees payable (or to be payable) to RFM and any expenses of termination will be deducted from the net proceeds from realisation before they are distributed to Unitholders.

Convening meetings of Unitholders

RFM may convene a meeting of Unitholders at any time. A meeting of Unitholders must be convened by RFM on receipt of written requests from the lesser of Unitholders holding at least 5% of the votes or 100 of the Unitholders.

Joint Unitholders

Joint Unitholders are jointly and severally liable in respect of all payments.

7.13 Audit

RF Active has a registered company auditor. The auditor's role is to conduct an audit of the financial statements of RF Active each year as well as performing a half-yearly review (if required), and to give an opinion on the financial statements.

RF Active and the Compliance Plan are required to be audited annually.

7.14 Investment considerations

When it makes decisions about RF Active, RFM will take the following considerations into account only to the extent that RFM considers that they have the potential to materially impact the investment returns of RF Active:

- a. environmental;
- b. social;
- c. ethical; and
- d. labour standards.

Therefore, where the sustainability or value of RF Active is adversely affected by unacceptable labour standards or environmental, social or ethical factors, RFM may choose not to invest further or may choose to dispose of the relevant investment.

7.15 Summary of material and related party contracts

The Board considers that certain agreements relating to RF Active are significant to the Offer, the operations of the Responsible Entity or may be relevant to Unitholders.

A description of material agreements or arrangements, together with a summary of the more important details of each of these agreements is set out below. This section is intended to only summarise each of the material agreements. The provisions of each agreement are not fully described in this section.

Stapling Deed

The Stapling of the RF Active Units to RFF units is reflected in the constitutions of both RF Active and RFF and also subject to the contractual terms of the Rural Funds Group Stapling Deed. Following the Meeting, the Rural Funds Group Stapling Deed will be executed by RFM as responsible entity of RFF and RFM as responsible entity of RF Active. The deed provides that each party agrees:

- a. that each unit in RFF will be Stapled to one Unit in RF Active so that each may only be issued, transferred, redeemed or otherwise dealt with as a single Stapled Security;
- b. to cooperate for the common purpose of Rural Funds Group including setting and implementing the investment strategy for Rural Funds Group. However both RF Active and RFF remain separate entities and are responsible for their day-to-day activities and operations;
- c. to maintain a joint registry of persons holding Stapled Securities;
- d. the basis on which the issue price of Stapled Securities will be apportioned between an RFF unit and an RF Active Unit; and
- e. the Stapled Deed can only be terminated in the happening of an insolvency event or upon the passing of a special resolution of Rural Funds Group unitholders.

Equipment Licence Agreement

As part of the Stapling, the agricultural operating assets that were transferred to RF Active on 30 June 2014 will remain assets of RF Active. As such RF Active will own the assets and continue to lease these assets to the Almond Funds (licensee). The terms of the equipment licence are similar to the terms currently in place for this equipment.

The material terms are:

- a. the lease runs until 1 June 2019 unless extended by agreement;
- b. the licensee must keep the equipment in good and substantial repair;
- c. the licensee must maintain the equipment;
- d. RF Active may (at the request of the licensee) lease the licensee further equipment;
- e. the monthly license fee is a standard payment formula based on the initial equipment cost, licence term for that item, interest rate and residual; and
- f. interest is based on the RF Active borrowing cost for directly financed items or RFF core debt borrowing cost for items not financed when licenced to the licensee. A 1.6% standard margin is levied in addition.

RFM StockBank

All of RFF's investment in RFM StockBank is being transferred to RF Active. Whilst Unitholders will not be investing directly in RFM StockBank it is considered relevant that Unitholders be advised of the current related party agreements within RFM StockBank. These agreements were disclosed in the Explanatory Memorandum which preceded the listing of RFF on the ASX:

- a. RFM StockBank currently has livestock placed on properties leased by AgLink Pty Ltd a company part owned by David Bryant and Stuart Waight, both office holders and shareholders of RFM. For the year ended 30 June 2014 it is expected AgLink will have leased sheep to the value of \$2.0 million and associated lease revenue to RFM StockBank is expected to be \$0.400 million; and
- b. RFM Farming entered into an Operating Contract with RFM StockBank in June 2013 under which RFM Farming leased \$55,050 of cattle.
- c. An additional \$350,000 was approved and added to this Operating Contract in March 2014. The cattle purchased under the Operating Contract were acquired from RFM Farming based on independent valuation. The Operating Contract contains the standard terms and conditions which are identical to the Operating Contracts entered into by RFM StockBank with third party operators.

7.16 Litigation and claims

As far as RFM is aware, there is no current or threatened civil litigation, arbitration proceeding or administrative appeal or criminal or governmental prosecution of a material nature in which RF Active is directly or indirectly concerned which is likely to have a material adverse impact on the business or financial position of RF Active or its assets.

7.17 Sources and application of funds

The sources and application of funds of the Offer at completion are set out in the following table.

Sources of funds	\$
Proceeds of the Offer (from the RFF distribution)	1,170,992
Proceeds from borrowings	3,460,644
Total sources of funds	4,631,636
Application of funds	
Purchase of RFM StockBank units	3,952,210
Repayment of existing borrowings	679,425
Total application of funds	4,631,635

7.18 ASX and its right to remove the Securities from official list

ASX takes no responsibility for the content of this PDS or for the investment in RF Active.

The fact that ASX may admit RF Active to the Official List should not to be taken as an endorsement by ASX of the merits of RF Active or any investment in Stapled Securities.

In addition to its general rights to remove RF Active or the Rural Funds Group from the Official List, ASX reserves the right to remove RF Active or the Rural Funds Group from the Official List if:

- RFM on behalf of RF Active issues Units that are not Stapled to RFF units;
- RFM on behalf of RFF issues units that are not Stapled to RF Active Units; and
- RF Active Units cease to be Stapled to RFF units.

7.19 CHESS

RFM will apply for the Stapled Securities to participate in CHESS, in accordance with the Listing Rules and the ASTC Settlement Rules. CHESS is an automated transfer and settlement system for transactions in securities quoted on ASX under which transfers are effected in a paperless form.

RFM will also, in accordance with the Listing Rules and the ASTC Settlement Rules, maintain an electronic CHESS sub-register (for Stapled Security holders who are participants in CHESS or sponsored by such a participant) and an electronic issuer sponsored sub-register (for all other Stapled Security holders). These two sub-registers will together make up Rural Funds Group's principal register of Stapled Security holders. Following allocation of the RF Active Units, Stapled Security holders will be sent a statement of holding that sets out the number of Stapled Securities that have been allocated and the Stapled Security holder's Holder Identification Number, or in the case of issuer sponsored holders, the Stapled Security holders Reference Number. Stapled Security holders will subsequently receive statements showing any changes to their holding of Stapled Securities. Certificates will not be issued for Stapled Securities.

7.20 Disclosure

As a disclosing entity, RF Active is subject to regular reporting and disclosure obligations; and copies of documents lodged with ASIC or ASX for RF Active may be obtained from, or inspected at, an ASIC office. An Investor can obtain a copy of the following documents:

- a. the annual financial report of RF Active;
- b. any half year financial report lodged by RF Active after the lodgement of that annual financial report; and
- c. any continuous disclosure notices given by RF Active after the lodgement of that annual report.

7.21 Directors' and related parties interest

Detailed in section 7.15 and below is the nature and extent of any interest now, or in the past 2 years of every director of RFM in the promotion of RF Active, or in property acquired or proposed to be acquired by RF Active. The unitholdings disclosed are the current unitholdings of the directors in RFF. Like all Investors in RFF, the directors and their associates will under the Offer receive one RF Active Unit for each RFF unit they hold.

RFM Directors and associates	Current RFF unitholding	RF Active Units to be received under the Offer
David Bryant	3,328,408	3,328,408
Guy Paynter	351,833	351,833
Michael Carroll	Nil	Nil

7.22 Consents and confirmations

The persons listed below have given, and not before lodgement of this PDS with ASIC, withdrawn their written consent to be named in the PDS in the form and context in which they are named:

Name of person	Named as
McCullough Robertson Lawyers	Legal Adviser
PricewaterhouseCoopers	Auditor of RFM, RF Active

The Directors have consented to and authorised the issue of this PDS.



David Bryant

The Directors of RFM are of the opinion that, on completion of the Offer, RF Active will have sufficient working capital to carry out its stated objectives.

7.23 Interests of advisers

Other than as set out in this PDS, no promoter of RF Active or AFSL holder involved in the Offer, the listing of RF Active Units or their stapling to RFF units or any other person named in this PDS as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this PDS, has or has held, during the last two years prior to the date of this Offer an interest in:

- a. the promotion of the Offer or the listing of RF Active;
- b. property acquired or proposed to be acquired by RF Active.

McCullough Robertson is entitled to be paid \$70,000 (plus GST and disbursements) for legal services provided to RFM as responsible entity of RF Active in connection with the Offer. Additional amounts may be charged by McCullough Robertson as agreed with RFM.

Glossary

In this document:

Almond Funds	Rural Funds Management Limited ACN 077 492 838 as responsible entity for RFM Almond Fund 2006 ARSN 117 859 391, RFM Almond Fund 2007 ARSN 124 998 527 and RFM Almond Fund 2008 ARSN 127 947 960.
ASIC	means the Australian Securities and Investments Commission.
ASTC Settlement Rules	means the settlement rules of ASX Settlement Pty Ltd ABN 49 008 504 532.
ASX	ASX Limited 008 624 691.
Board	means the board of directors of the Responsible Entity.
Business Day	means a day which is not a Saturday, Sunday or public holiday in New South Wales.
CGT	has the meaning provided to that term by the <i>Income Tax Assessment Act 1997</i> (Cth).
CHESS	means the Clearing House Electronic Sub register System, operated under the Corporations Act.
Combined Rural Funds Group	means RFF, RF Active and all their subsidiaries and controlled entities after stapling.
Compliance Plan	means the compliance plan of RF Active as amended from time to time.
Constitution	means the constitution of RF Active as amended from time to time.
Corporations Act	means <i>Corporations Act 2001</i> (Cth) and includes the <i>Corporations Regulations 2001</i> (Cth).
Custodian	means the custodian of the assets of RF Active as appointed by RFM.
Director	means a director of the Responsible Entity.
Explanatory Memorandum	means the explanatory memorandum for the Meeting.
GST	has the meaning given to that term in the <i>A New Tax System (Goods and Services Tax) Act 1999</i> (Cth).
Investor	the holder of units in RFF.
Listing Rules	means the listing rules of the ASX as they apply to RF Active.
Meeting	means the meeting of Investors to approve the issue of Units and stapling of Units to units in RFF.
Offer	means the offer as contained in this document.
Official List	means the official list of ASX.
p.a.	means per annum.
PDS or Product Disclosure Statement	means this Product Disclosure Statement.
Responsible Entity, RFM, Rural Funds Management our, we or us	means Rural Funds Management Limited ACN 077 492 838.

Revaluation	means the proposal approved by Unitholders to merge the economic interests of RFM RiverBank ARSN 112 951 578, RFM Chicken Income Fund ARSN 105 754 461 and RFM Australian Wine Fund ARSN 099 573 485, to create RFF.
RF Active	means RF Active ARSN 168 740 805.
RFF	means Rural Funds Group to be renamed Rural Funds Trust ARSN 112 951 578.
RFM Farming	means RFM Farming Pty Ltd ACN 105 842 671 a wholly owned subsidiary of RFM.
Stapled Security	means one Unit stapled to one unit in RFF.
Stapled or Stapling	means the act of combining the units in RFF to the units in RF Active so they trade as a single security.
Unit	means an ordinary unit in RF Active.
Unitholder	means a person who holds units in RF Active.
Vendor Finance Arrangement	means the financing arrangement referred to in section 3.2.

Responsible Entity

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