Newsletter

EDITION 24

About Rural Funds Management

Rural Funds Management Limited (RFM) is one of the oldest and most experienced agricultural fund managers in Australia. Established in 1997, RFM employs over 260 staff in fund and asset management activities and manages approximately $2.6 billion of agricultural assets. The company operates from a head office in Canberra and has additional offices in Sydney and regional Queensland.

RFM has a depth of experience accumulated over 28 years owning, developing and operating Australian farmland, agricultural infrastructure and other assets. Sector experience includes almonds, poultry, macadamias, cattle, cropping, viticulture and water. Assets are located throughout New South Wales, Queensland, South Australia, Western Australia and Victoria.

RFM is the responsible entity for Rural Funds Group (RFF), an ASX-listed real estate investment trust that owns a $2.1 billion portfolio of diversified agricultural assets including almond and macadamia orchards, premium vineyards, water entitlements, cattle and cropping assets.

RFM's company culture is informed by a precision-based approach to asset management and its longstanding motto of "Managing good assets with good people".

Scan the QR code to learn more.

Cover image: Wheat harvest at Kaiuroo, central Queensland, October 2025.
Image on top: Almond bloom, Kerarbury, Darlington Point NSW, August 2025.

Contents

Feedlots and the beef industry

David Bryant, Managing Director

Over the past three years, the trading price of Rural Funds Group (ASX: RFF) units has been around $1.90, which is roughly a one-third discount on the current net asset value per unit. There are two reasons for this: RFF's assets have grown in value, but net income hasn't.

The next paragraph contains two concepts that are somewhat complex. The green box below attempts a plain English explanation.

Over the past three years, gross income from RFF's assets has grown at an average of 16% per annum, but the *net cash income* (see green box) has only grown at 0.5% per annum. There are three main reasons for this. Firstly, higher interest rates have increased RFF's expenses; secondly, total debt has increased; and thirdly, *capitalised interest expenses* (see green box) have reduced as the Fund's cotton and macadamia developments are completed.

Looking ahead, it is probable that RFF's revenue will grow, driven by the indexation clauses in its leases. It is also probable that net cash income will grow, because several of the drags on growth will not be as prominent as in the past three years. The first is that during the past four years, interest rates rose from 0.1% to 4.35%, then fell to 3.85% in June 2025. Further increases are likely to be modest.

While gearing has increased during the past few years, causing an outright higher debt servicing burden, it is expected that gearing will now fall as the rate of capital expenditure on the development of cotton and macadamia farms slows, with most development now completed. Gearing may even decline further as a result of the sale of some lower yielding assets that have benefited from the surge in property values during the period.

Net cash income

The term *net cash income* has been used in this article because it is a more intuitive term compared to the term Funds From Operations (FFO), which the reporting metric used by Real Estate Investment Trusts (REIT).

Net cash income and hence FFO, is the net cash generated from a REIT's business of renting property, as distinct from cash generated or spent from buying, selling or developing property. The metric is calculated by also excluding non-cash items such as unrealised capital gains and depreciation.

Capitalised interest expenses

During the development of a property, such as RFF's substantial new macadamia orchards, debt may be used in funding the acquisition of the properties and a portion of the capital expenditure. Interest on this debt is not recorded as an operating expense and is instead *capitalised* by adding the amount to the total capital costs of asset development.

Once the development phase is complete, any debt associated with the asset, is from then on, treated as a normal operating expense.

Riverina Beef feedlot, Yanco NSW, January 2020.

Another consequence of the slowdown in the development of new farms is that their maturity will generate higher rents or probable higher operating returns in the case of those farms that are not leased. Finally, the large adverse movement in capitalised interest expenses will decline as more of the Group's developments are completed.

In summary then, the factors that have weighed on net cash income will likely abate over the next two years. Furthermore, it may be possible to grow net cash income at a higher rate over this time, through judicious investment in higher yielding assets.

One opportunity that will be pursued is further investment in financing feedlot cattle to well qualified counterparties. The balance of this article discusses the fundamentals that are driving opportunity in this sector.

Over the past decade, the number of cattle being fed in feedlots has risen from around 0.9 million to 1.5 million, with further growth anticipated because meat processors know, that meat retailers know, this is the type of meat consumers prefer. Understanding the very specific pockets of demand and how they fit together makes interesting reading.

The big picture that illustrates the probability of continuing demand for beef and other meats is well illustrated in **Figures 1** and **2.** The charts, reminiscent of the Milky Way, present constellations of countries by comparing the portion of calories consumed as animal protein (meat, seafood, eggs and dairy) to GDP per capita.

Figure 1: Share of calories from animal protein vs. GDP per capita, 1961[1]

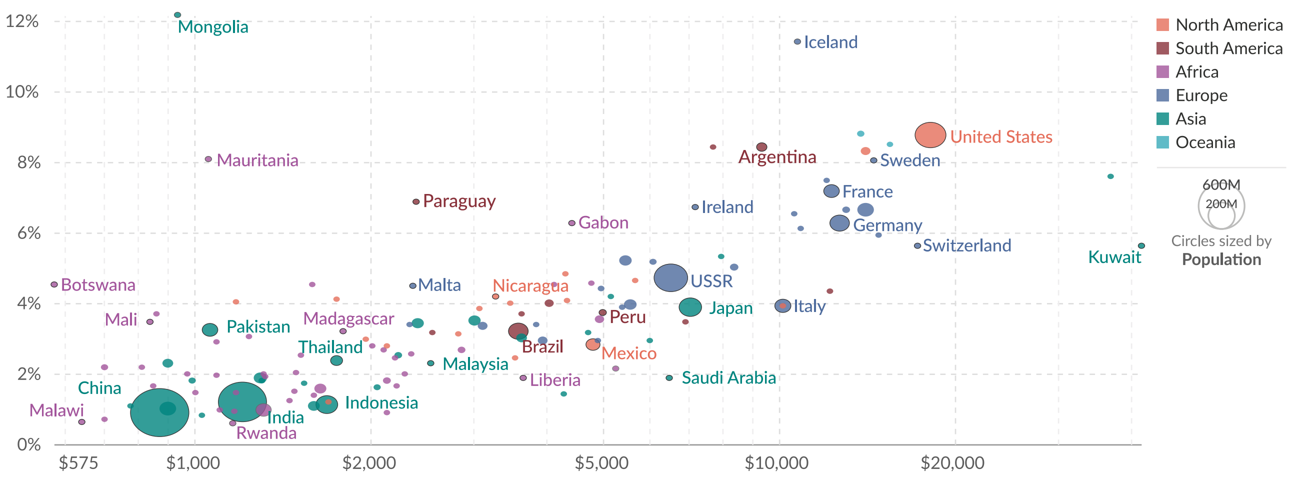
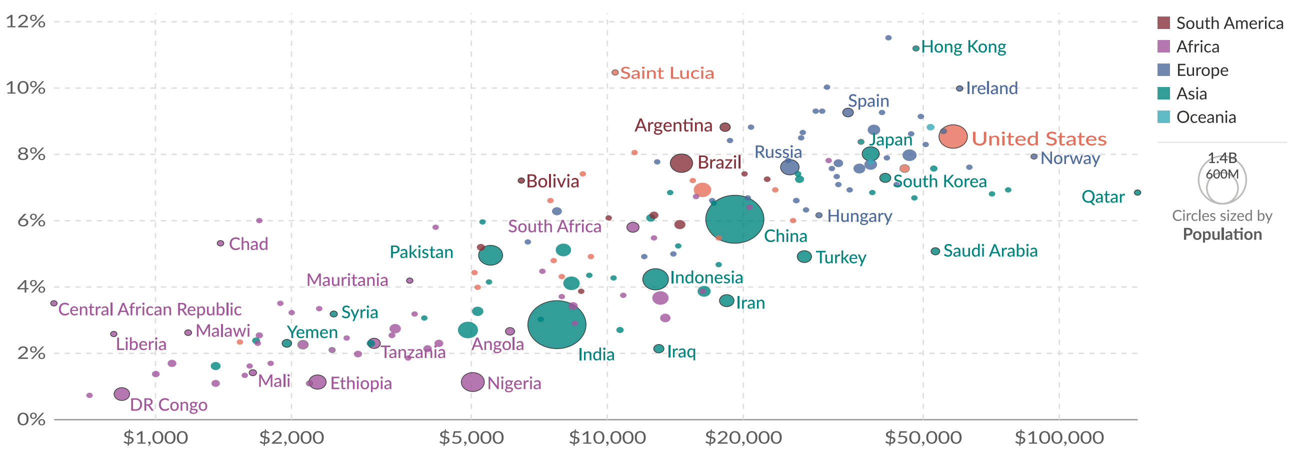


Figure 2: Share of calories from animal protein vs. GDP per capita, 2022[1]



Notes:

1. GDP per capita is expressed in international-$ at 2011 prices; plotted on a logarithmic axis). Data source: Food and Agriculture Organization of the United Nations (2024); Bolt and van Zanden – Maddison Project Database 2023; https://ourworldindata.org/diet-compositions

First and foremost, the charts demonstrate that as people get richer, they eat more animal protein. The biggest mover during the past 60 years has been China, where meat consumption increased from 1% of calories consumed to 6% as GDP per capita rose from less than $1,000 in 1961 to nearly $20,000 in 2022. India, despite vegetarians constituting one-third of its population, grew its meat consumption from 1% to nearly 3%. Japan and South Korea are two other countries that have experienced big gains in animal protein consumption, with both of these two key markets now consuming about the same level of meat as the US.

Animal protein consumption levels out at about 8% of total calories, as evidenced by the US, where consumption has remained unchanged over the 60 years between the two charts. However, during this period, the US population increased by 150 million, thereby adding additional consumers equal in size but greater in wealth than present-day Germany and France combined.

While the big picture of economics and demographics has been and will remain favourable for some time, it is interesting to understand specific details driving the increase in Australian feedlot numbers. The starting point for understanding this is that around 25% of our beef is consumed domestically, 15% is exported to China, 35% to the balance of Asia (particularly Japan and South Korea) and 20% is shipped to the US. Each of these markets continues to evolve in a direction that is driving increased demand for lot-fed beef.


Cobungra Station Wagyu, image sourced from www.stoneaxepastoral.com.au

A range of factors determine the eating quality of beef. Intramuscular fat content has the most significant effect, which is why it is the major determinant of how beef is graded and sold. This fat appears as fine flecks of white between muscle fibres and is subjectively graded visually to create a marble score on a scale of 0–9. Australian beef consumers prefer leaner meat compared to our export markets, with most meat sold domestically having a marble score of 0–2.

Japanese consumers tend to eat smaller beef portions but prefer more highly marbled beef, with everyday home-cooked beef typically purchased with a marble score of 2–4 while premium cuts for, say, restaurant consumption will have marble scores of 4–9. In China, consumers also prefer more marbled beef, with demand typically highest for marble scores of 4–5.

The profile of Australian beef exported to the US, and other major markets, is very different. The US is the largest outright beef consumer in the world, and is remarkable for the fact that 57% of beef consumption is minced meat – or ground beef, in US parlance. The US beef production system is very different to Australia's, with animals typically receiving corn and soybean grain feed for 170 days – compared to the average of 80 days for grain-fed cattle consumed in the Australian market. Because US cattle spend so much more time in feedlots, their beef is streamed for their major ground beef market as a surfeit of fat. For this reason, over 60% of Australian beef exported to the US is lean "manufacturing beef" that is blended with the higher-fat US product for the ground beef market. Despite this, grain-fed Australian beef exports grew 34% in 2025.

Achieving higher marble scores is not the only reason why cattle are grain fed in feedlots. Countries capable of producing large quantities of feed grain can put more weight on their cattle more quickly and cheaply. In the US, more than 95% of beef sold has been grain fed, compared to the Australian production system where only 38% of cattle over the past decade have been finished in a feedlot.

Consumer preference is, logically, the biggest factor driving Australia's shift to increased grain-fed beef production. Vegetables such as carrots and sweet potatoes are orange because they have high quantities of an organic compound called beta carotene, which is a pigment also found in the grass that cattle eat. For this reason, the fat from grass-fed beef will have a yellow tinge. Feed grains have a very low carotene content, and by lot-feeding cattle for around 80 days, new fat deposition will reduce the concentration of the pigment –producing a finished product where the fat has the bright white appearance preferred by both the Australian consumer and those whom we export to.

An early driver of the expansion in feedlot production was the desire to produce beef destined for the discerning Japanese market that was accustomed to their grain-fed Wagyu beef. Pure grass-fed beef has a higher concentration of polyunsaturated fats, which are transformed during cooking to produce compounds called lipids that smell different to grain-fed beef. Consumers unaccustomed to these odours can find them unpleasant. Most of us have suffered the disappointment of cooking or consuming a tough or chewy piece of beef, though in recent years, this experience is now avoidable. Many factors contribute to beef toughness, but two of significance that occur during the life cycle of beef production are fat content and a rising plain of nutrition.

Fat content is best measured by beef marbling, which explains the focus on the marble score. A rising plain of nutrition refers to the desirability of ensuring an animal has increasing feed availability as it grows. Should it suffer setbacks – because of, say, a drought – then this will decrease carcass fat content and require a greater physiological age for the animal to reach a marketable weight. For this reason, Australian beef producers have adopted production systems designed to ensure, as far as possible, that their cattle reach a finished weight in top condition and as young as possible.

Conclusion

In summary, the Australian beef industry continues to evolve to meet the preferences of its consumers, who will buy around $20 billion of Australian beef this year. The success of the industry is dependent on the production of beef that supplies the desired cooking and eating experiences, tailored to the preferences of consumers with differing food cultures.

Most importantly, this must be provided at scale and with consistency. It is these factors that will drive the continued expansion of Australian feedlots and the number of cattle that pass through them. Assisting the financing of this expansion has been, and is likely to be, a rewarding opportunity for the Rural Funds Group.


Riverina Beef feedlot, Yanco NSW, June 2018.

Technology driving productivity on RFF properties

Technology is a key driving force of productivity gains in agriculture, and these gains impact the capital growth of farmland. If we look at long-term US data, the value of farmland has outpaced both inflation and agricultural commodity prices. This is largely due to technology, from new equipment through to data-informed farm management systems, which drive profitability. As farms become more productive and profitable, their underlying land value rises. Technology adoption is therefore central to long-term asset growth and investment performance.

Autonomous tractor mowing the inter-row at Glendorf in Maryborough Queensland, September 2025.

Some Rural Funds Group (ASX: RFF) investors will recall the chart in **Figure 1** from previous newsletters (see 'Other articles of interest'). It presents 134 years of data, starting in 1890, with the lines showing the rolling 10-year rates of change for US CPI, US farmland and agricultural commodities. We use US data because it is a longer data set than that available for Australia, but the observations broadly hold for the domestic equivalents: the value of agricultural commodities fell in real terms (that is, they underperformed inflation), yet growth in farmland values continued to exceed inflation (that is, they increased in real terms).

This apparent discrepancy can be explained by innovation in farming methods. Technology-driven gains in productivity have improved the efficiency of agricultural production. These gains have allowed farm businesses to generate higher profits, despite the long-term decline of real commodity prices. Increased profitability has, in turn, driven demand for farmland, making farms more valuable.

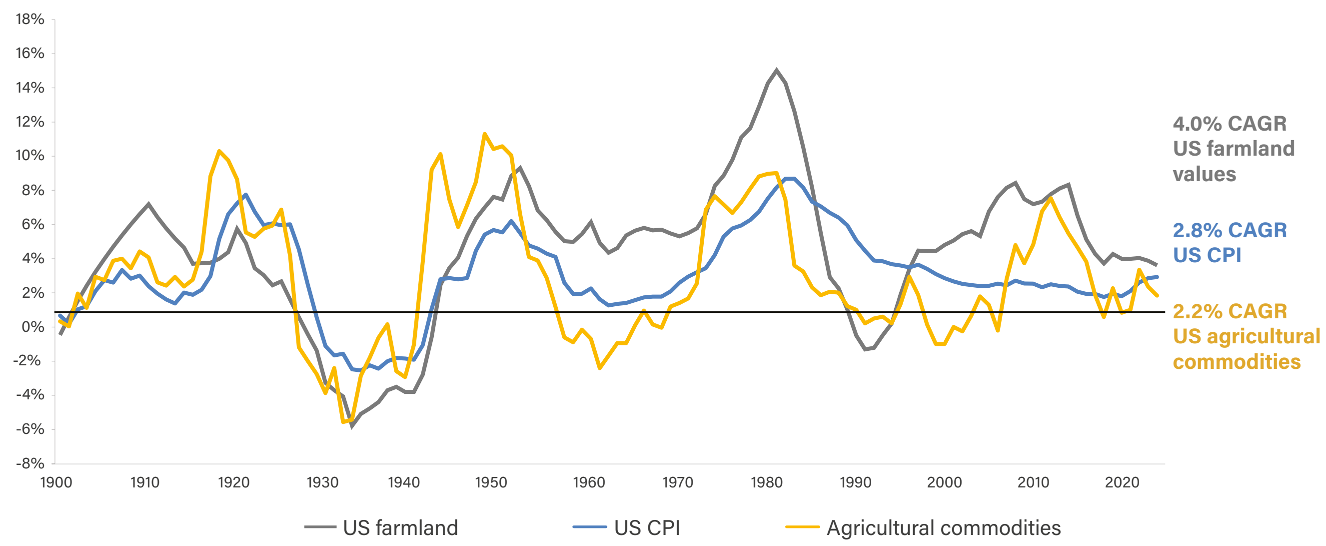
The remainder of this article will look at various technologies being used on properties in the RFF portfolio within three sectors: macadamias, cropping and livestock.

Other articles of interest:

MAY 2015
How technology drives farmland productivity and income growth

MAY 2016
Understanding capital growth

Figure 1: US commodity process, CPI and farmland values (1890 to 2024)[1]



Macadamias

Two technologies being used on various RFF macadamia orchards are permanent sample plots and autonomous vehicles.

Autonomous tractor

RFF has been trialling driverless, "autonomous" tractors intended for use in the recently developed macadamia orchards in the Maryborough region (see **Figure 2**).

The tractors are fitted with GPS and optical camera sensors supported by artificial intelligence (AI). These technologies enable the autonomous completion of orchard tasks, including the mowing of grassed interrow areas and tree spraying. The incorporation of AI means that these tasks can still be completed even if GPS signals are lost or camera sensors are obstructed.

Early trials of this technology show the potential for increased consistency, improved labour and time efficiency, supporting increased use of the equipment.

Figure 2: Autonomous tractor on RFF owned Glendorf orchard

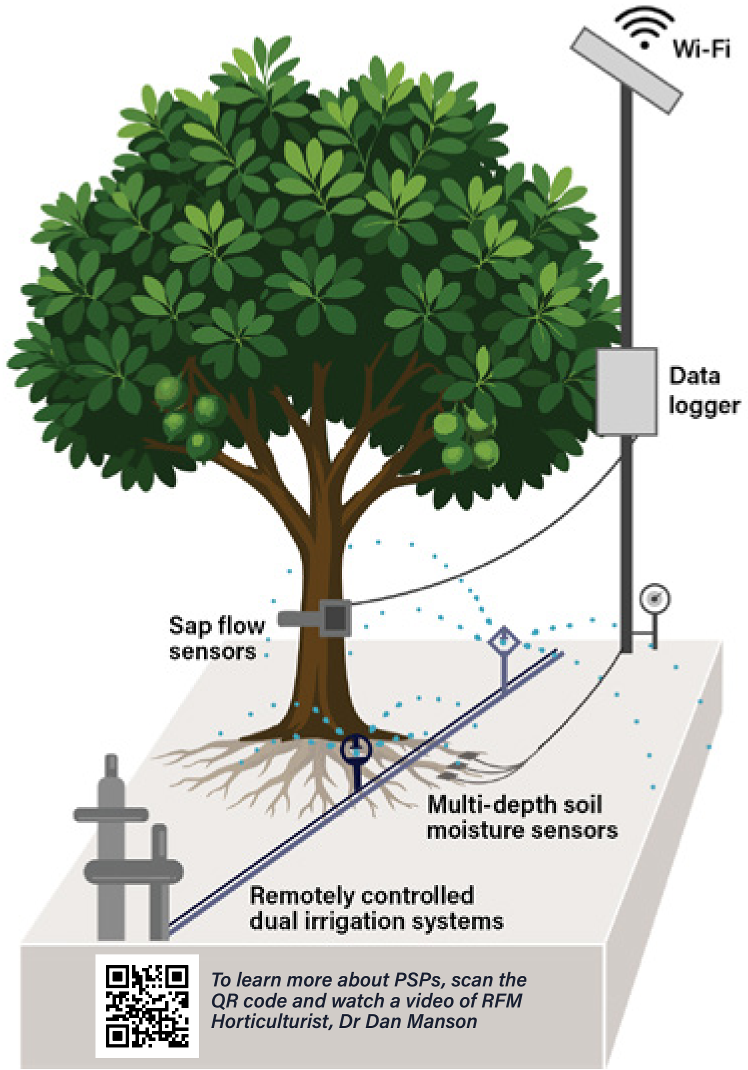
Glendorf Maryborough orchard, September 2025.

Permanent sample plots (PSPs)

PSPs are established throughout various recently developed RFF orchards. The establishment of these PSPs give orchard managers insight into the condition of trees and soils through ongoing monitoring. This data supports efficient resource use and helps maximise yields.

Technologies being used within PSPs include sap flow sensors, stem dendrometers and soil moisture probes, connected to data loggers supported by the same wi-fi connectivity used for remotely controlled dual irrigation systems (see **Figure 3**).

Figure 3: PSP representation



Remotely controlled dual irrigation systems provide management with greater operational flexibility, enabling highly efficient and precise irrigation applications that are based on data from the PSPs. The dual irrigation system can be used to provide water not only to the trees' broader root zone, but also to interrow grasses. This provides other benefits such as improved integrated pest and disease management, soil health, reduced erosion and management of heat stress.

Irrigation applications are monitored by **multi-depth soil moisture sensors** which measure at three depths of 20, 40 and 60 cm below ground level. The data from the sensors show whether the volume and timing of the irrigation applications are sufficient to keep the tree in optimal condition. The sensors also track the effective depth of irrigation, which allows management to check if water is staying within the root system, avoiding water-use inefficiencies and nutrient leaching.

Additional information is collected by **sap flow sensors** installed in the trunk of the tree that measure the transfer of water up through the stem throughout each day. These measurements can be used for early detection of drought stress or, conversely, waterlogging.

Data from these systems is relayed to a **data logger** connected to a transmission module. The transmission module transmits live daily data to a centralised database that is accessible by management staff all over the country. Using the live data stream, management can assess the adequacy of irrigation timings and volumes and track nutritional scheduling.

Sophisticated **wi-fi technology** is used to transmit data and remotely control infrastructure. The technology has been developed to overcome possible connectivity issues which can often occur in remote rural locations, particularly in mature orchards, where tree canopies can disrupt wi-fi signals.

In summary the PSPs provide data gathering and communication enabling managers to improve productivity in these orchards.

Cropping

The technologies highlighted in the cropping sectors have been available longer than the macadamia sector PSPs and autonomous tractor. However, they also serve as examples of the productivity enhancing role of technology because of their contribution to higher yields.

Advanced precision planters

High yields in cropping depend on strong crop establishment, access to water, favourable seasonal conditions and importantly, early detection of crop constraints. Precision planting (see **Figure 4**) helps to establish crops that are optimised for maximum yield.

Figure 4: Digital display of precision cotton planting

At the start of each cotton season, cotton seeds are planted via a tractor pulling a 12-metre-wide bar with individual seed planters spaced one metre apart (see **Figure 5**). Each precision planter has its own electronic controls and monitors, delivering real-time control of seed placement and rate. Each seed is measured for depth and spacing, with accurate downforce applied to ensure uniform planting depth, seeking to achieve up to 98% accuracy. The system measures seeding rates and, if necessary, issues an alert to the driver to take corrective action. This technology enables precise planting and high uniformity, which helps maximise yields and lowers production costs.

Satellite biomass imagery

Satellite biomass imagery and plant growth regulators (PGR) are another suite of systems being used in cotton production to maximise yields. This technology assists with the assessment of crop health and growth patterns to inform the application of PGR tailored to each crop zone.

Figure 5: Advanced precision planting equipment

Yarra, central Queensland, December 2025.

Figure 6: Biomass changes to cotton field using satellite imagery and PGR application

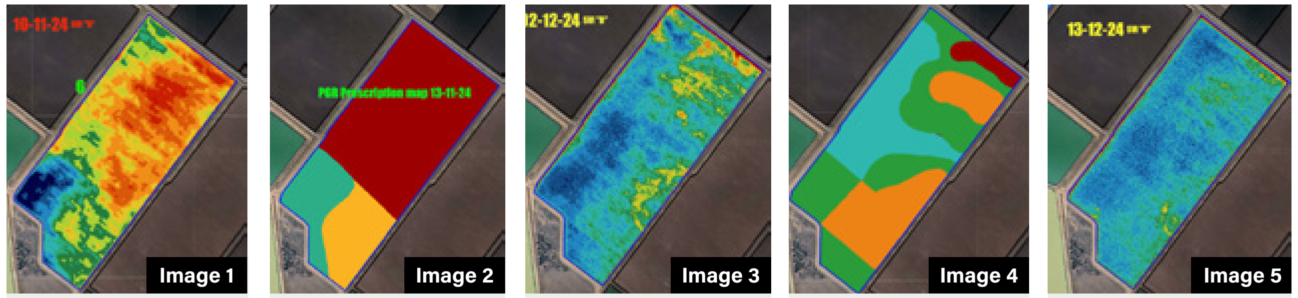


Image 1: Satellite imagery is used to assess biomass variability.

Image 2: Prescription maps for plant growth regulator (PGR) generated for targeted aerial spraying.

Image 3: Secondary satellite biomass assessment conducted.

Image 4: Updated PGR map for application to further improve crop uniformity.

Image 5: Updated PGR map for application to further improve crop uniformity.

To demonstrate, **image 1** in **Figure 6**, is of a cotton field in its pre-flower stage, taken about eight weeks after planting. The different colours represent varying levels of crop development, measured as biomass: the red zone has lower biomass, the blue higher biomass.

By receiving satellite images every one to five days, the management team can monitor how biomass varies across the field. They can then seek to optimise the balance between vegetative growth (leaves and stems) and reproductive growth (cotton lint).

Using the satellite data, a prescription map is created for the application of PGR (**image 2**). In this example, the field is divided into management zones with prescription maps used by an aerial sprayer (see **Figure 7**). The sprayer uses variable flow rate control to deliver the required varied rates of PGR in those zones to reduce excess leaf growth, with the goal of stimulating more consistent reproductive growth (**image 3**).

After approximately two weeks, a second biomass assessment is undertaken (**image 4**) and the process is repeated, further refining the crop. This process continues to improve vegetation health and achieve crop uniformity, as seen in **image 5**.

Uniform crop growth maximises yield by providing each plant more equal access to light, water and nutrients, reducing competition between plants. It improves resource efficiency, supports consistent cotton boll development and makes pest and disease management easier. Together, these factors boost crop performance and increase yield.

Figure 7: Aerial sprayer over a cotton crop on RFF owned Lynora Downs.

Lynora Downs, central Queensland, December 2025. The plane uses variable flow rate control on board to apply prescribed PGR.

Cattle

Carrying capacity and average daily weight gains (ADG) are the key profitability metrics in the cattle sector. RFM increased cattle carrying capacity on RFF properties through the development of additional water points, cultivation areas and improvement of pastures. These developments, along with the use of remote livestock monitoring and automated water supplementation systems, outlined below, have been shown to improve ADGs.

Livestock monitoring

Remote weighing units, such as the one shown in **Figure 8**, have a platform that the cattle stand on while they feed. The machine identifies each animal by scanning a radio frequency identification chip in the animal's ear tag and calculates the weight of the animal each time it uses the unit. This provides a data set of the ADG of the animal and, by extension, the herd.

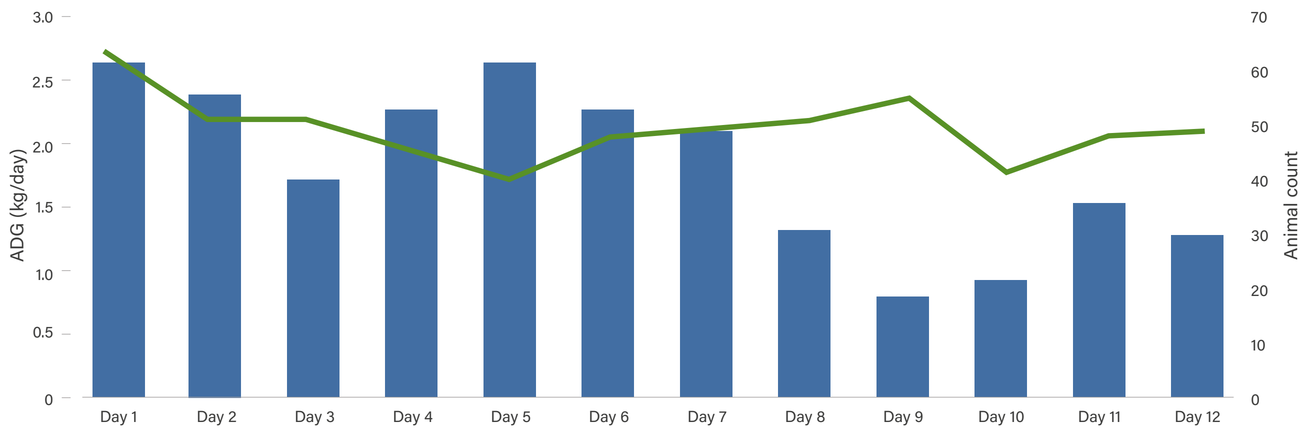
Figure 8: Remote weighing unit

Staff placing attractant in portable weighing unit at Kaiuroo, central Queensland, May 2025.

The graph in **Figure 9** shows data from a weighing unit in a forage crop that has been monitoring cattle on an RFF property in central Queensland. The columns represent the number of weight measurements, in this instance averaging over 40 cattle daily. The line shows the ADG in kilograms.

The weighing platforms are portable, allowing farm management to use them across different paddocks on the property. This improves labour efficiency and animal performance by reducing the need for frequent mustering and manual weighing. The platforms provide frequent, accurate data that can prompt the farmer to investigate the factors behind weight changes, such as feed quality or consumption levels, and better forecast when cattle are likely to reach target weights. Using this data to monitor weight gain regularly has been shown to be superior to relying on observations.

Figure 9: Remote weighing platform data (cattle weighed and ADG)



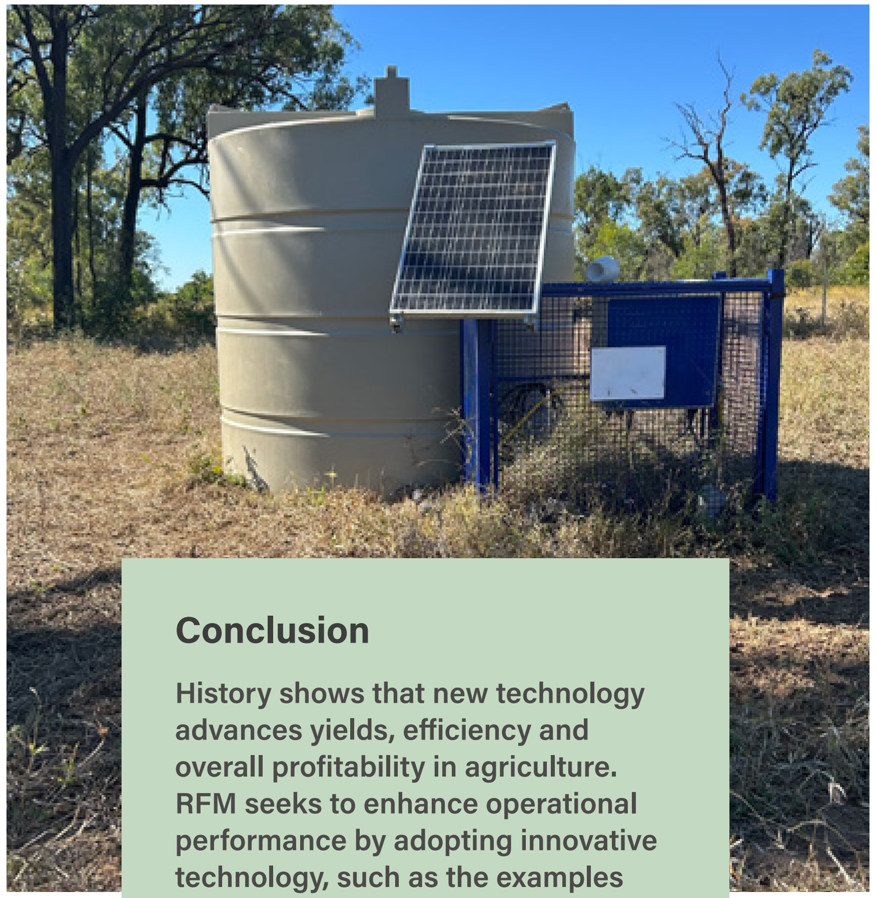
Livestock nutritional automation and monitoring

While the cattle weighed in Figure 7 achieved an impressive 2 kg gain per day, weight gain can sometimes be negatively impacted by inequitable access to nutritional supplementation.

Traditionally, livestock supplementation has relied on tub-based methods such as 'loose lick' or 'lick blocks'. However, these approaches often result in inconsistent intake across the herd because of factors such as herd hierarchies and individual taste preferences.

To address the inconsistencies in uptake, automated water supplementation systems have been introduced (see **Figure 10**) where measured doses of supplements are placed directly into the cattle's water supply. These systems replace manual, labour-intensive replenishment with a precise, automated process. Staff can also start, stop and change flow rates remotely and receive real-time data on the system's performance. Early results show improved ADGs.

Figure 10: Automated water supplementation systems



Conclusion

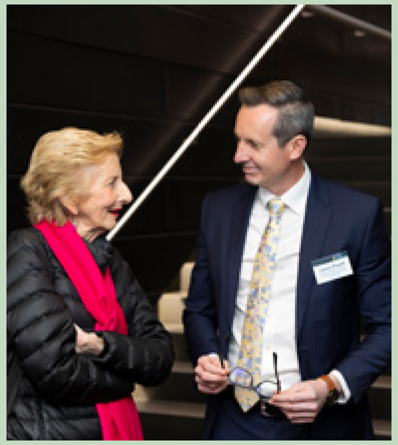
History shows that new technology advances yields, efficiency and overall profitability in agriculture. RFM seeks to enhance operational performance by adopting innovative technology, such as the examples highlighted in this article across the macadamia, cotton and cattle sectors. For RFF investors, these innovations can contribute to higher capital growth and income generation.

Cattle grazing at the Kaiuroo Aggregation, central Queensland, May 2025.

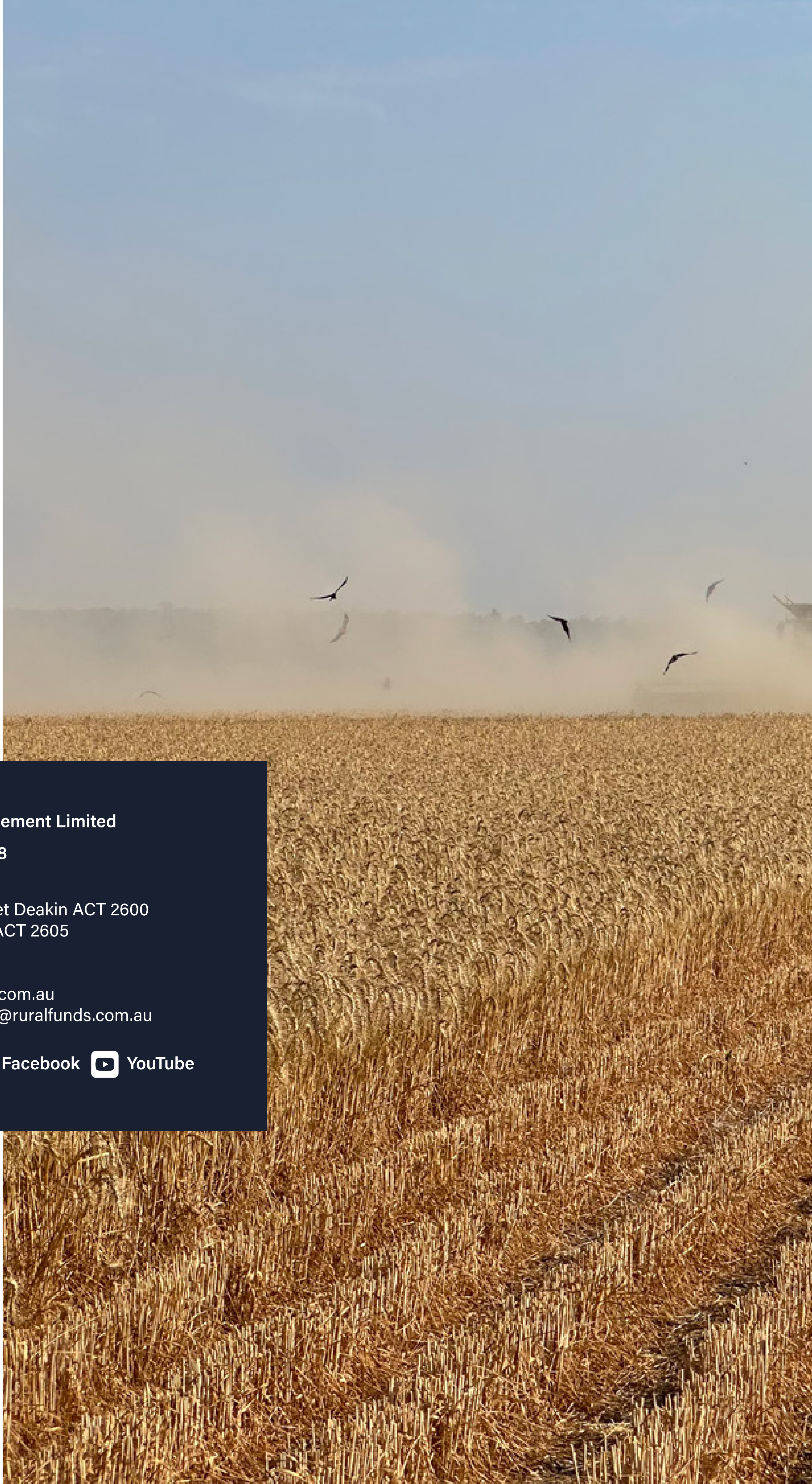
RFF retail investor roadshow

In October, Rural Funds Group (RFF) held its first retail investor roadshow, with events hosted in Melbourne, Sydney, Brisbane and Canberra. The roadshow gave the management team an opportunity to provide attendees with an update on the portfolio, key development projects, and examples of how Rural Funds Management (RFM) is applying technology to improve productivity and support more sustainable farming operations.

The roadshow offered attendees the opportunity to engage directly with the management team and ask questions. RFM extends our sincere thanks to all who attended, it was particularly enjoyable to meet and talk with our unitholders, some of whom have been within RFM investments for 20 years.



If you were unable to attend, you can view the presentation here:



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