INVESTOR UPDATE

The Murray-Darling Basin Balanced Water Fund

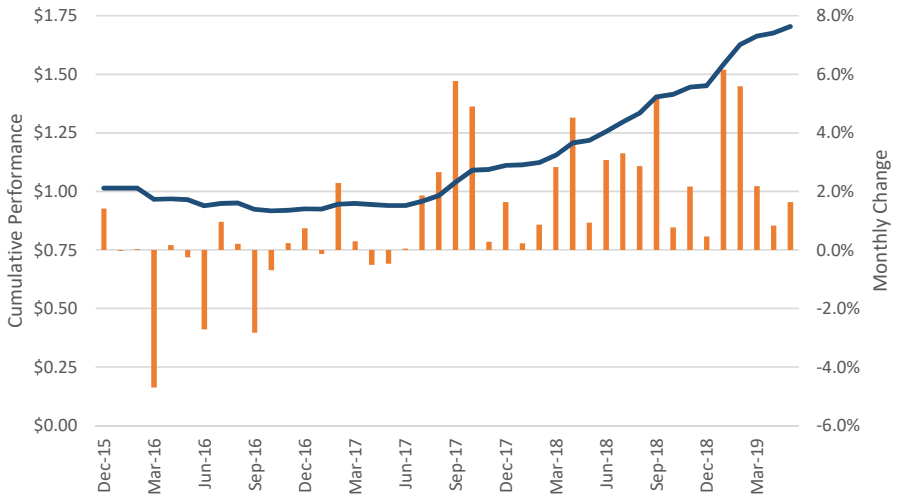
MAY 2019

AUM: A$52.4M **UNIT PRICE A$1.69**

The Murray-Darling Basin Balanced Water Fund (MDBBWF) achieved another strong return of 1.63% for May, contributing to a financial year-to-date result of 35.7%. Capital growth for water entitlement associated to the Murray system where high value perennial horticulture has significantly expanded, again underpinned the result.

Storage levels remain low in the southern Murray-Darling Basin (sMDB) at 36% full despite above-average rainfall in May. With the Bureau of Meteorology advising winter rainfall is expected to be below average for the sMDB and with less water carried over due to current high pricing, supply of water allocation in 2019-20 is expected to be low compared with recent years. Despite likely reductions in the planting of annual crops such as cotton, increased inelastic demand from permanent horticulture will use much of the available supply and this may result in water allocation pricing reaching even higher levels, especially during peak demand periods in summer.

Monthly Returns



Summary Data (net)

Month return (%)	1.63
Last three months return (%)	4.71
Financial year return (%)	35.69
Rolling 12 months (%)	39.86
Performance since inception (%)	70.39
Since inception ANNUALISED [p.a.] (%)	16.77

Fund Information

Name	The Murray-Darling Basin Balanced Water Fund
Structure	Unit Trust
Domicile	Australia
Inception	October 2015
Management Fee	0.55% per annum
Trustee Fee	0.15% per annum
Performance Fee	15% per annum
Hurdle Rate	6%
High Water Mark	Yes
Minimum investment	A$100,000
Administrator	Apex Funds Services Ltd
Auditor	Ernst & Young
Sponsor	The Nature Conservancy Australia
Custodian	Sandhurst Trustees Ltd
Legal Advisor	McMahon Clarke

Contact Information

Fund Manager

Kilter Pty Ltd
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Fund Trustee

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Correlation

S&P/ASX 300	0.21

Risk Ratio

Reward to risk ratio	1.76
Annualised standard deviation (%)	7.94
Downside deviation (%)	5.24
Sortino ratio	2.66
Maximum drawdown (%)	9.58
Percentage of positive months (%)	78.57

The Market

The Murray-Darling Basin Plan (MDBP) and effectiveness of the water market continue to be under public scrutiny. The new Minister for Water Resources, David Littleproud, has indicated he will call on the Australian Competition and Consumer Commission to inquire into irrigation water trading in the sMDB.

In addition, a recent audit by the Murray-Darling Basin Authority into water trading identified 'no Basin government has robust arrangements in place to gather comprehensive price information'. Meanwhile, the Victorian government has committed to investigating ways to improve transparency in water trading systems.

Kilter Rural welcomes the commitment to greater market transparency, as the capture and reporting of additional information, such as the volumes applied to the various crops grown and enhanced reporting of water supply, can only lead to more informed decision-making and a more efficient market.

2019-20 environmental watering report

The MDBBWF contributes towards restoring the ecological health or wetlands and creeks by reinstating the wetting and drying rhythms that occur naturally in the Murray-Darling Basin. To achieve these environmental objectives, MDBBWF donates an amount of water allocation dependent upon the water availability classification to the Environmental Water Trust (EWT) to use for environmental watering. Each year, EWT prepares a watering plan that outlines their watering strategy.

In the *2019-20 Annual Environmental Watering Plan*, EWT has prioritised wetlands within the New South Wales (NSW) and Victorian reaches of the Southern Connected Basin of the Murray-Darling Basin of being in need of water.

The determination of 2019-20 being a very dry year triggers a 10% water donation from the fund to the EWT, equal to 586.5ML. This volume remains dependent on allocation announcements from the Victorian and NSW governments.

During a very dry year scenario with very low river flow, which is consistent with the Five-Year Watering Plan Strategy, small diversions of environmental water can be made, if required, to maintain target species or provide 'refugia'. Refugium is a location that supports an isolated or relict population of a once more widespread species. Isolation can be due to climatic changes, geography or human activities such as deforestation or overhunting. Any residual environmental water allocation that cannot be used for these purposes may be traded into the temporary transfer market.

Also, during very dry years the watering strategy shifts towards diverting smaller volumes of environmental water into wetland habits critically important for certain target species, or to provide aquatic refugia for endangered species.

With the water allocated to EWT, four wetland sites/complexes will be watered (refer to Figure 1 for locations) – one in NSW and three in Victoria, assuming carryover of 90ML has occurred in the latter:

- Yambuna Lagoon on the Lower Goulburn River 100ML
- O'Kane's Swamp near Yarrawonga 140ML
- Caldow North Swamp near Nathalia on the Broken Creek 70ML, and
- Wingillie Station on the lower Murray River 276ML.

Three additional scenarios have also been developed should conditions change throughout the season, which are outlined in the full report. Meanwhile, no water is available in the Murrumbidgee catchment to allow watering of Gayini, but if some does become available, it will used in accordance with the *Gayini Nimmie Caira Environmental Watering Plan*.

Watering sites

Yambuna Lagoon

Yambuna Lagoon is 22km east of Echuca in northern Victoria. This wetland is located on the Goulburn River floodplain downstream from Shepparton. It is one of the wetlands within the Lower Goulburn River Floodplain Wetlands of National Significance and is listed as a wetland of importance within the Goulburn Broken Catchment Management Authority's *Goulburn Broken Waterways Strategy*.

O'Kane's Swamp

O'Kane's Swamp is a private property wetland 8km south-west of Yarrawonga in northern Victoria. O'Kane's Swamp is a rain-fed shallow freshwater marsh which is a known brolga *Grus rubicundus* breeding site.

Caldow North Swamp

Caldow North Swamp is located 6km south-east of Nathalia in northern Victoria. This wetland is adjacent to the Numurkah Natural Features Reserve on the Broken Creek. It supports a threatened vegetation community and is protected by a conservation covenant with Trust for Nature.

Wingillie Station

Wingillie Station is 60km west of Wentworth in south-western NSW. It is strategically located within the NSW lower Murray River floodplain. The Commonwealth Environmental Water Office considers Wingillie Station as a priority area within the region. The wetlands proposed for

watering on Wingillie Station provide habitat for the threatened southern bell frog and threatened waterbirds including the freckled duck, blue-billed duck *Oxyura australis*, white-bellied sea-eagle *Haliaeetus leucogaster* along with migratory species such as the common greenshank. Suitable habitat has been created for the threatened small-bodied fish, Murray hardyhead, which have been stocked into Little Frenchmans Creek and have been recorded breeding and recruiting successfully. Wingillie wetlands also provide potential habitat for other small-bodied fish species, including purple-spotted gudgeon and southern pygmy perch.

Rationale for watering

During a dry year, wetlands within the Murray region would generally not have received flows naturally due to low rainfall, resulting in low river flows. However, some wetlands could be considered for environmental watering to meet specific ecological or cultural purposes, such as to maintain waterbird habitat, providing drought refugia, providing benefits of cultural significance, or improving water quality, such as keeping acid sulphate soils wetted to avoid acidification.

Wetlands will also be allowed to dry, consistent with natural wetting-drying cycles. During drier periods with low flow, much smaller environmental allocations will be diverted into wetland areas that support target species or provide refugia to maintain ecosystem health. During these drier years, it may be impossible or undesirable to use all environmental water allocated by the MDBBWF. Any residual environmental allocations will be sold into the temporary transfer market to generate funds that can be used for other environmental purposes.

Environmental benefits that can be gained using revenues from temporary water sales include construction of rehabilitation works such as flow regulators to exclude summer flows, improve or remove culverts, or provide fishways to facilitate fish movement. Funds may also be used for technical investigations vital for improved management of environmental watering projects.

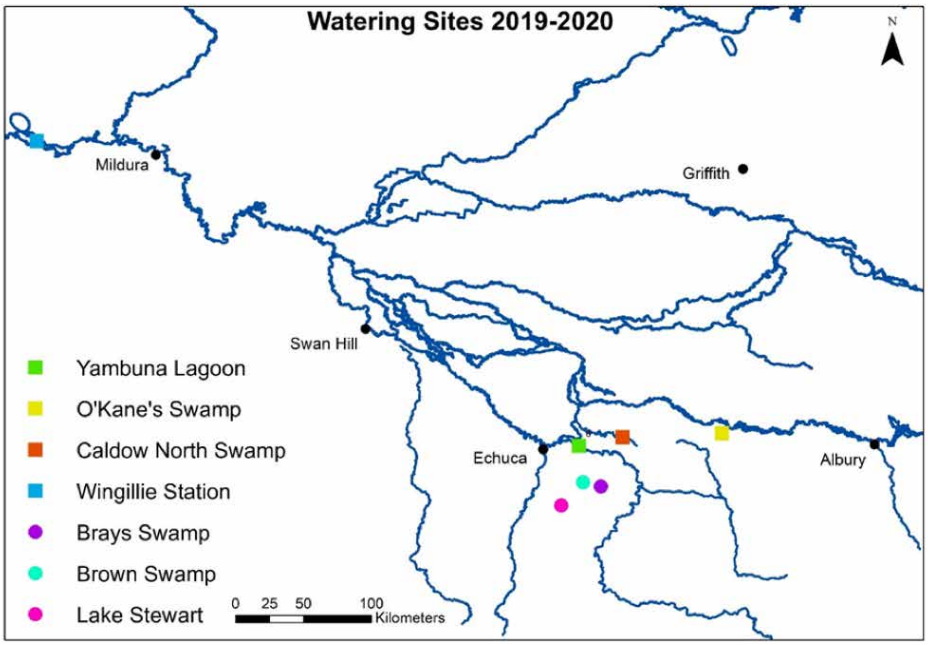

Figure 1: Location of proposed water sites for the 2019-20 water year.

Ecological objectives

The long-term ecological objectives of the EWT watering plan are consistent with the MDBP and the objectives are also closely aligned with the Biodiversity Assessment Metric (OI5929) as defined by IRIS, an impact measurement standardization initiative launched by the Rockefeller Foundation, Acumen and B Lab, and maintained by the Global Impact Investing Network for impact investment (OI5929).

The objectives of the MDBBWF include:

- Improve hydrological connectivity between wetlands, floodplains and rivers
- Improve river, floodplain and wetland habitats
- Improve and increase extent of aquatic habitat and wetland diversity
- Improve condition, diversity, extent and contiguousness of native water-dependent vegetation, and
- Improve recruitment and populations of native water-dependent species, including vegetation, birds, fish and macroinvertebrates.

Expected outcomes

- Provide aquatic refugia during drought
- Provide endangered species habitat during drought.

Indicators of success

- Presence of aquatic plants
- Presence of vertebrates such as frogs
- Other specific location-based measures.

The long-term goal of this program is to use water to attain optimal environmental and social benefits within the Murray-Darling Basin.

Social objectives

The long-term social objectives of the watering plan are consistent with the Murray-Darling Basin Plan. The objectives of the MDBBWF include:

- Maintenance and promotion of living indigenous cultural values
- Protection and management of historic indigenous cultural sites and values, and
- Support from local communities of interest and landholders.

Scientific and cultural advisory committee review

The Environmental Water Trust's *2019-20 Annual Environmental Watering Plan* is reviewed by the independent Scientific and Cultural Advisory Committee (SACAC). The SACAC is a reference group consisting of leading freshwater scientists and Aboriginal Elders providing advice on implementation, monitoring and adaptive management.

Unitholders wanting further information about the Environmental Water Trust's *2019-20 Annual Environmental Watering Plan* can contact Natalie Holland at The Nature Conservancy at nholland@tnc.org.

Strategy

The Murray-Darling Basin Balanced Water Fund invests in permanent water rights in in the southern Murray-Darling Basin. It provides the first opportunity in Australia to achieve the multiple objectives of securing water for agriculture, realising a financial return and restoring threatened wetlands through a single investment.

Manager Background

Kilter Pty Ltd (trading as Kilter Rural) was founded in 2004. Kilter Rural's purpose is to build long-term value for investors through resilient farmland and water investments. It is one of Australia's largest water fund managers, and manages more than $350m of water, farmland and ecosystem assets. Information memorandums for the Kilter Water Fund and Australian Farmlands Fund were approved and released in March 2019, with the Murray-Darling Basin Balanced Water Fund information memorandum approved and released in October 2017.

Monthly Performance %

(net of fees and expenses)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019	6.16	5.59	2.18	0.83	1.63								17.36
2018	0.23	0.86	2.83	4.52	0.93	3.08	3.30	2.86	5.21	0.76	2.16	0.46	30.69
2017	-0.14	2.28	0.29	-0.51	-0.47	0.04	1.86	2.66	5.77	4.90	0.28	1.63	19.98
2016	-0.04	0.03	-4.70	0.17	-0.26	-2.71	0.96	0.21	-2.83	-0.69	0.24	0.75	-8.69
2015												1.41	1.41

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