

The Murray-Darling Basin Balanced Water Fund

NOVEMBER 2019

AUM: A\$65.64M

UNIT PRICE: A\$2.03

The Fund posted a return of 2.8% for November, largely attributed to the rise in valuation of high security and high reliability water entitlement associated with the Lower Murray irrigation zones. These entitlement classes continue to be in strong demand to support the expansion in high-value perennial horticulture that is occurring in this region.

Water allocation prices in the Lower Murray have softened from the highs of above \$950 per megalitre (ML) in October to about \$800 per ML. Factors influencing price over this period include some limited opening of trade from other valleys into the Lower Murray coupled with prolonged mild conditions leading into Summer. The Federal Government has recently committed to injecting 100 gigalitres (GL) into the water market (40GL this season and 60GL next season) at \$100 per ML capped at 100ML per irrigator for the intended purpose of growing fodder. Given the way the program

is structured it is expected to have little impact in meeting existing demand. Victorian water allocation determinations are sitting at just above 50% and are unlikely to increase significantly. This compares with final allocations of 100% for the past 10 years. Given the limited supply and the likely increase in demand over the hotter Summer months there is expected to be more upward pressure on prices in the months ahead.

The Bureau of Meteorology (BoM) states that November 2019 was the lowest November rainfall on record for Australia. The 35 months from January 2017 to November 2019 has been the driest on-record average in the Murray-Darling Basin (36% below the 1961-1990 average). The dry conditions in the past three years have been particularly acute during the cool season, which is important in many regions for generating runoff. This aligns with the longer-term trend of reduced rainfall from

April to October in the southern Murray-Darling Basin (sMDB) – see Figure 1. BoM's outlook is for a drier than average January to March 2020 for eastern Australia.

Inflows into sMDB continue to recede, with the River Murray system inflows remaining slightly below the low levels of last year (see Figure 2). The major storages in the sMDB are now at an aggregated 41% capacity, down from 53% at the same time last year and the 10-year average of 73%. It is expected that these storages may drop below 30% capacity leading into winter next year. Such low storage reserves mean that water allocation supply for next season is heavily dependent on Winter and Spring rainfall in 2020.

The Fund currently has more than 65% of its entitlement portfolio leased with all leases continuing into next year.

Summary Data (net)

Month return (%)	2.83
Last three months return (%)	11.19
Financial year return (%)	17.07
Rolling 12 months (%)	41.51
Performance since inception (%)	104.50
Since inception ANNUALISED [p.a.] (%)	19.91

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\$50,000
Administrator	Unity Fund Services Pty Ltd
Registrar	One Registry Services Pty Ltd
Auditor	Ernst & Young
Sponsor	The Nature Conservancy Australia
Custodian	Sandhurst Trustees Ltd
Legal Advisor	McMahon Clarke

Contact Information

Fund Manager

Kilter Pty Ltd
ACN 111 305 349
Address PO Box 2010
Bendigo DC, VIC 3554

Fund Trustee

Kilter Investments Pty Ltd
ACN 152 558 113
AFSL 41 41 42
Phone +613 5444 0112
Email invest@kilterrural.com

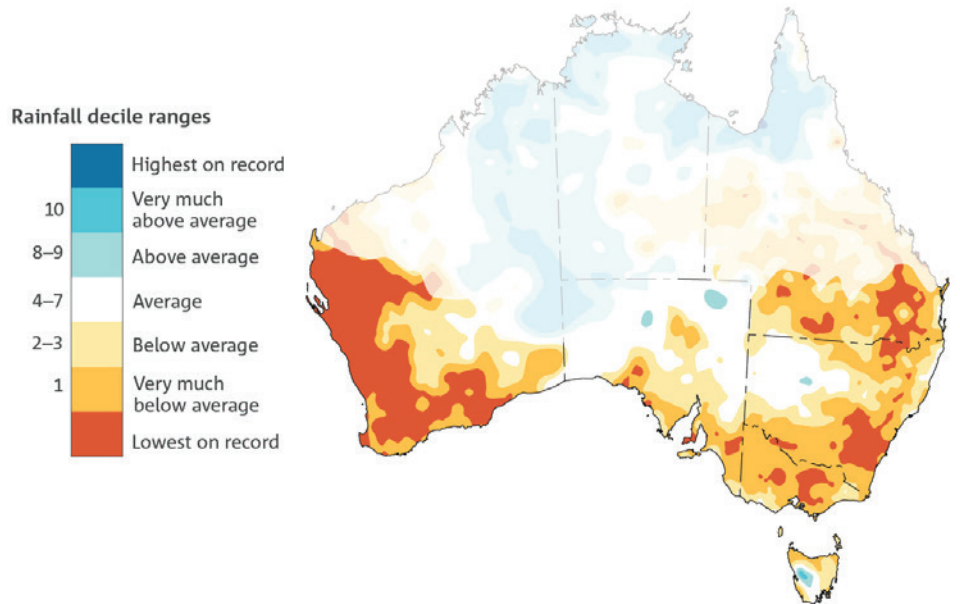


Figure 1: April to October rainfall deciles from 1999 to 2018. Source: BoM.

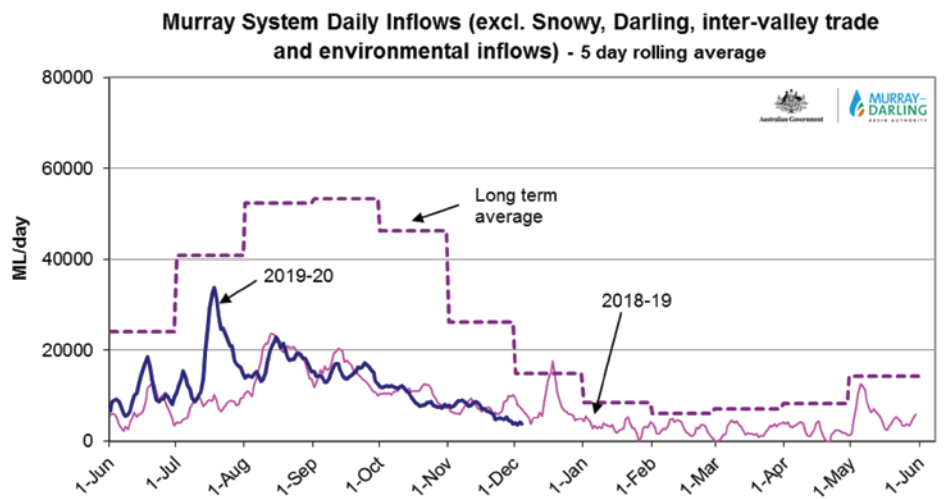
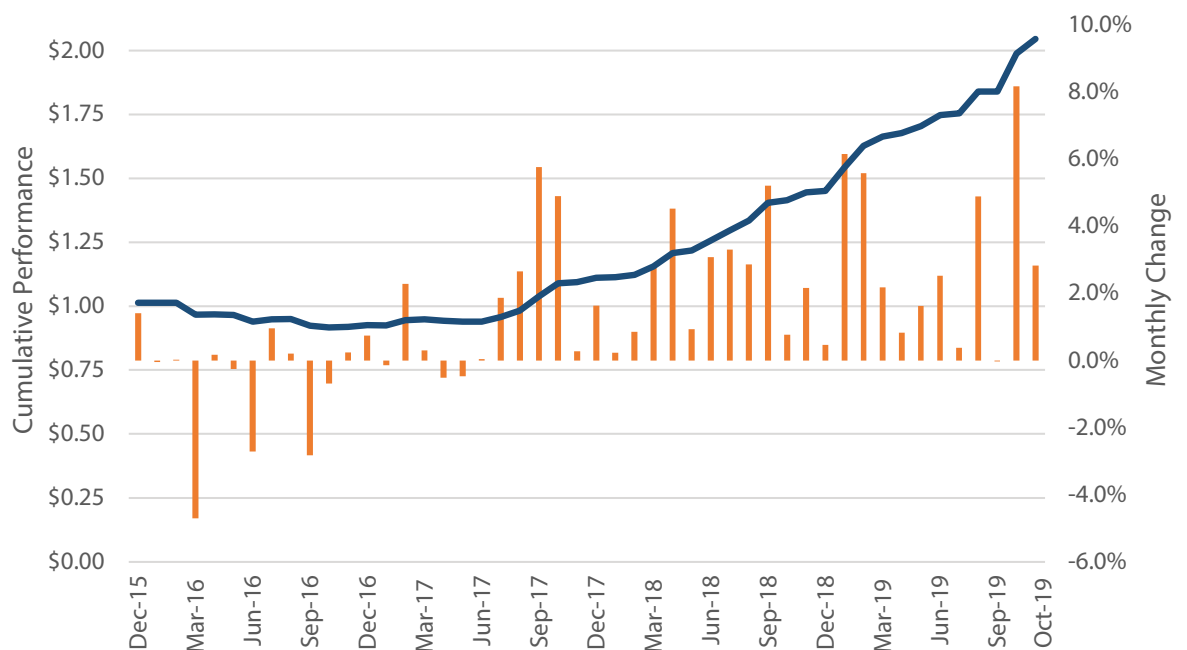


Figure 2: River Murray System daily inflows. Source: Murray-Darling Basin Authority.

Monthly Returns





Correlation

S&P/ASX 300	0.12
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Risk Ratio

Reward to risk ratio	2.03
Annualised standard deviation (%)	8.44
Downside deviation (%)	5.24
Sortino ratio	3.28
Maximum drawdown (%)	9.58
Percentage of positive months (%)	79.17

Strategy

The Murray-Darling Basin Balanced Water Fund invests in permanent water rights 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 \$440m 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 on 30 October 2019.

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	2.52	0.37	4.89	-0.04	8.17	2.83		40.85
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

Disclaimer

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The Murray-Darling Basin Balanced Water Fund

DECEMBER 2019

AUM: A\$68.05M

UNIT PRICE: A\$2.11

The Fund posted a return of 3.9% for the month, contributing to a solid result of 46% for the 2019 calendar year. Firming water entitlement values were again the largest contributor to the result, supplemented by lease payments.

Water Allocation Prices

Allocation prices in the southern Murray-Darling Basin (sMDB) generally firmed throughout December supported by the hot dry conditions observed in the latter half of the month. The allocation price for the Lower Murray region finished the year at \$850 per megalitre (ML), more than double the price of \$415/ML at the start of the year and after reaching a peak of near \$1,000/ML in late October.

The seasonal allocation for Victorian Murray High Reliability water entitlement currently remains unchanged from December at 56%, significantly lower than the 100% which has been achieved every year for the last ten years.

This reduced seasonal allocation equates to a reduction of about 400 gigalitres (GL) in available water for irrigation this year. At the same time NSW General Security entitlement remains on 0% allocation for the second year in a row. As a result, the supply of water from current season allocations is down by approximately 50%, on the average achieved over the last ten years.

The other key factor supporting higher allocation prices is increasing demand for water, particularly in the Lower Murray region, from the continued expansion of permanent horticulture. The area planted to permanent horticulture has increased significantly over the last five years (65% for almonds) and these crops will only increase their demand for water as they mature.

There is currently nothing in the long-range weather outlook to indicate any likely improvement in supply conditions in the short-term.

At the same time the increasing inelasticity of demand continues to impact on the dynamics of the market. In view of these factors it appears likely that the current high water allocation prices will continue for the foreseeable future.



Summary Data (net)

Month return (%)	3.89
Last three months return (%)	15.56
Financial year return (%)	21.62
Rolling 12 months (%)	46.34
Performance since inception (%)	112.46
Since inception ANNUALISED [p.a.] (%)	20.59

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Structure	Unit Trust
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Inception	October 2015
Management Fee	0.55% per annum
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Water Entitlement Market

Current dry conditions and high allocation prices reinforce the rationale for irrigators to secure long-term access (by either buying or leasing) to high reliability/security water entitlement in order to secure supply and reduce their exposure to volatile water allocation prices. As a result, current conditions continue to support strong broad-based demand for these classes of entitlement.

Figure 1 shows the average price movement over the past year for Low Reliability, General Security and High Reliability/Security classes of entitlement as reported by the Fund's independent valuer. The High Security/Reliability water entitlement classes increased by an average of 41% over the year, compared to an average 11% reduction in General Security and 9% reduction for Low Reliability.

The Fund has a current portfolio weighting to High Security/Reliability entitlement of 99.7% by value.

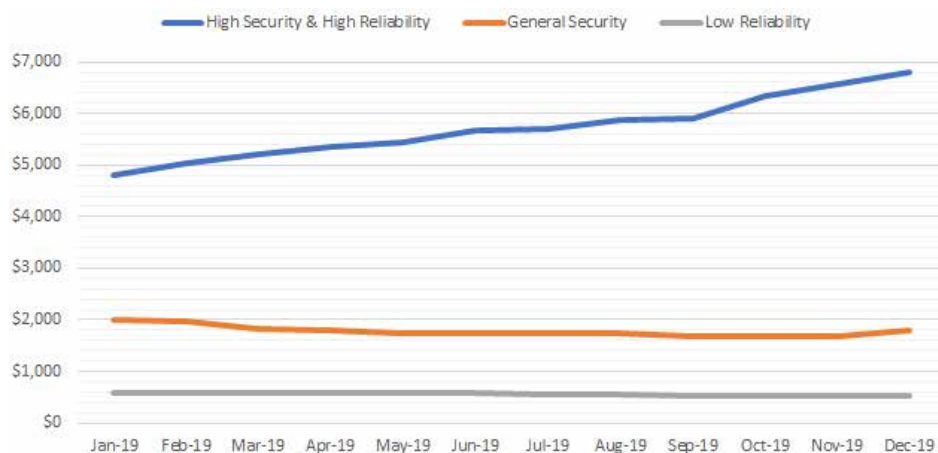


Figure 1: SMDB Water Entitlement Class Average Valuation Trends for 2019

Seasonal Conditions & Inflows

The 2019 calendar year saw already dry conditions deteriorate through spring and into summer. The Bureau of Meteorology (BoM) has recently stated in its annual climate statement that 2019 was Australia's driest and warmest on record. Nationally-averaged rainfall was 40% below average and the annual national mean temperature was 1.52°C above the long-term average. Satellite imagery identified a noticeable lack of cloud cover over the continent during the course of the year. The widespread rainfall deficit across the continent is illustrated in Figure 2.

Storages in the sMDB have finished 2019 at a combined 36% of capacity, down from 49% a year ago and well below the long-term average of 65%. At this level it is likely that storages will end the irrigation season below 30% of capacity. If 2020 Winter and Spring rainfall is not above average, inflows will remain below average, and next summer will be very challenging for irrigators.

As highlighted in Figure 3 the low inflows for 2019 have contributed to the fourth lowest three-year inflow period for the River Murray System on record.

It is worth noting that the four lowest 3-yr inflow periods have all occurred within the last 15 years.

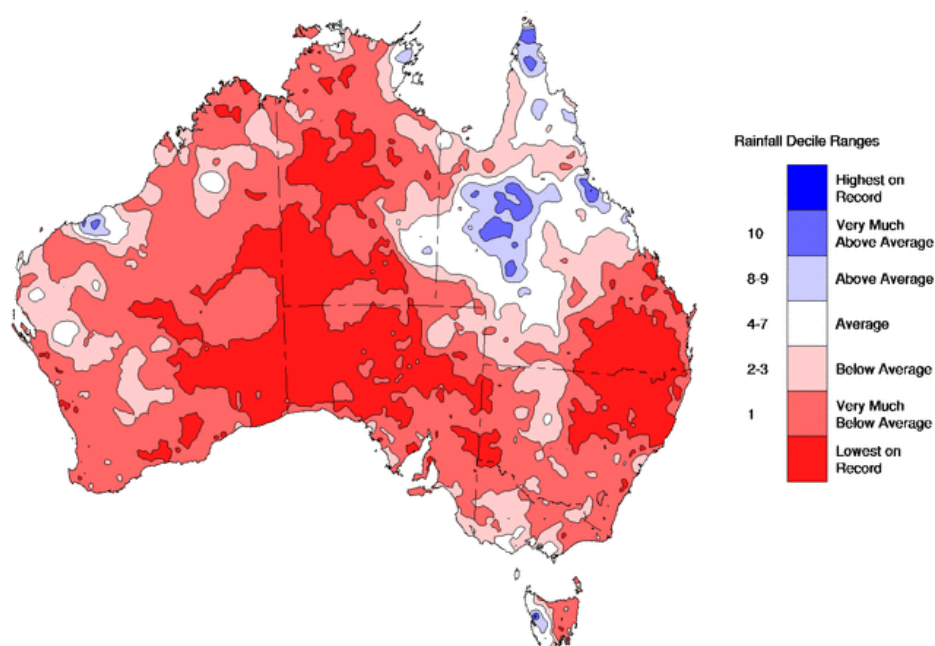


Figure 2: Australian rainfall deciles from 1 January 2019 to 31 December 2019 (Source: BoM)

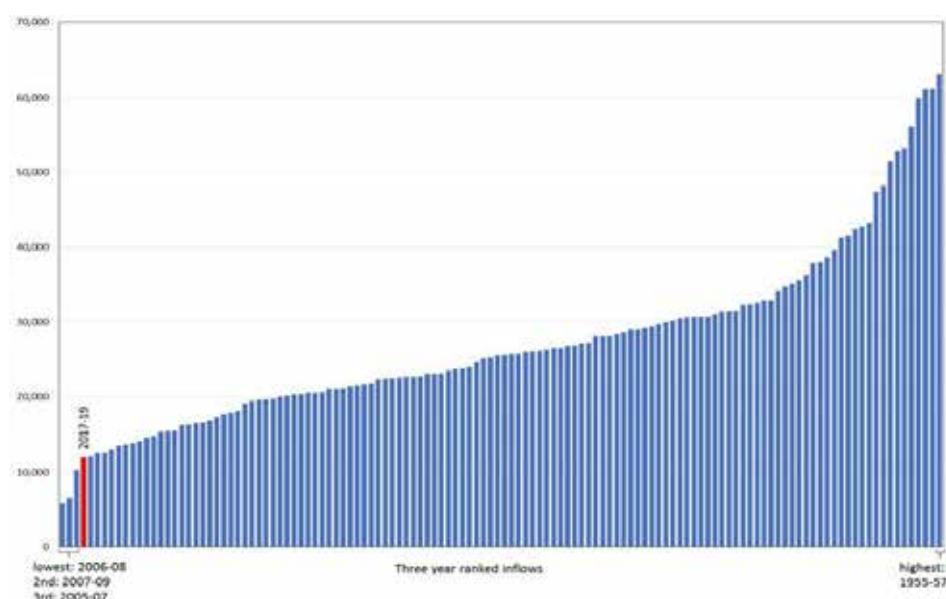


Figure 3: Ranked River Murray System three year to end October inflows (excluding Snowy Hydro, Darling River, inter-valley trade (IVT) and environmental inflows) (Source: MDBA)

Australian Bushfire Crisis

These very dry conditions have obviously been a major contributor to the severity of the recent and current bushfires across Australia. It is worth noting that the bushfires have predominantly impacted Australia's forest areas (bushland), often National Parks and typically these areas have limited access for fire-fighting activities. Dryland farming properties have been affected by fires and due to the lack of water resources found in these farming regions enterprises are more exposed to fire risk throughout the summer season.

Irrigation districts, such as those supported by the Fund in the sMDB, have inherent levels of protection due to:

- The significant amount of irrigation delivery channels and river systems in these areas;
- Irrigators tend to adopt management practices and structure their farm and irrigation infrastructure layouts such that there is good access to water and minimal additional fuel for bushfires to consume; and
- Irrigating summer crops typically renders the crop less likely to burn as these crops

tend to only ripen for harvest towards the end of the hotter summer months. Before they ripen the crops are more difficult to burn due to their higher moisture content. Some crops such as lucerne remain green throughout the whole summer and provide excellent fire-break protection.

Whilst fires do occur from time to time in these regions, they are rarely of a large scale. Overall the bushfires highlight the critically important role water plays in sustaining the environment for productive and social co-existence.

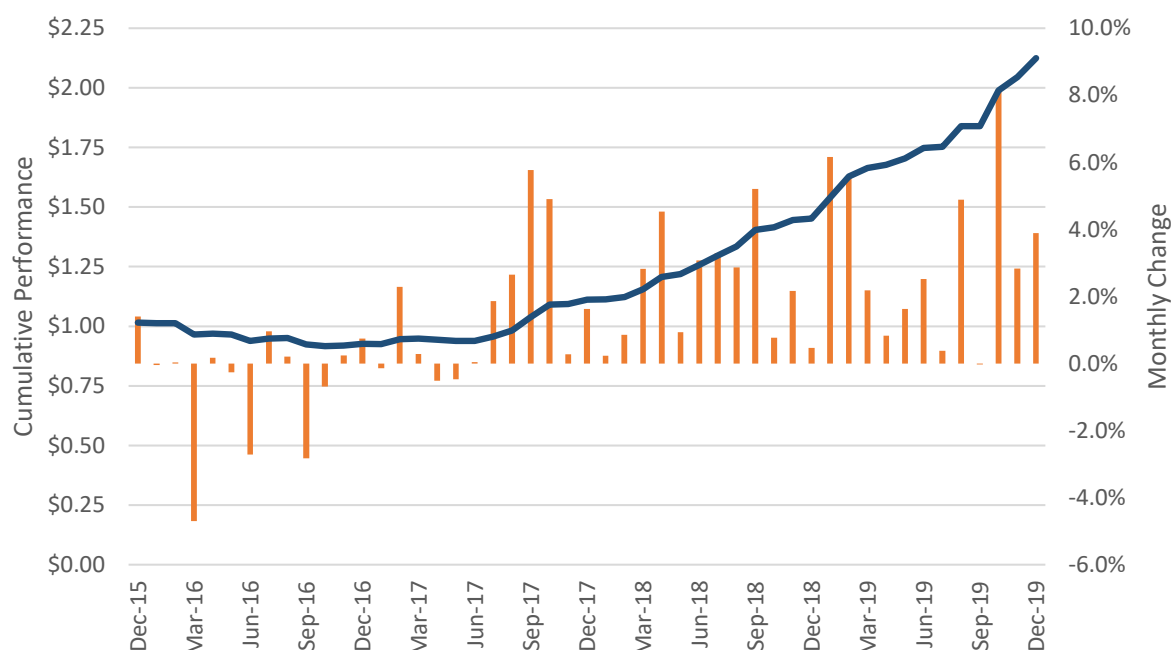


Market Update Webinar

Kilter Rural will be hosting a market update webinar at 10.00am on Thursday 30th January 2020. The purpose of the webinar is to provide Unitholders with an overview of market conditions and drivers and how these could be expected to impact on the Fund going forward. If you would like to join the webinar please register your interest at invest@kilterrural.com and you will be provided with an email invitation and a link to join the session.



Monthly Returns



Correlation

S&P/ASX 300 0.10

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