

The Murray-Darling Basin Balanced Water Fund

JULY 2019

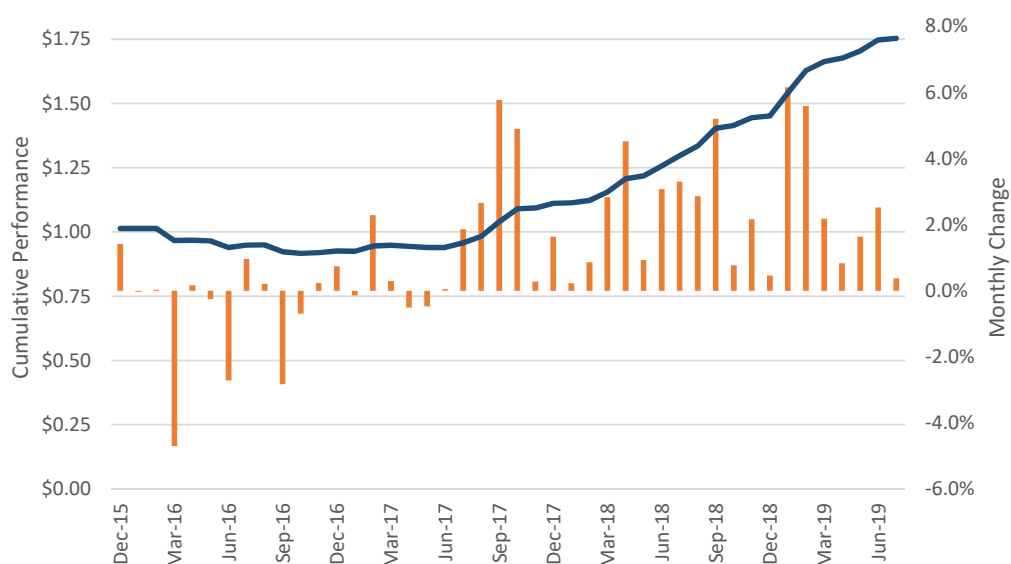
AUM: A\$58.50M

UNIT PRICE A\$1.74

The Fund's unit price increased 0.4% to \$1.74, as values for most classes of water entitlement within the portfolio remained unchanged from 30 June levels.

Trading in water allocation in southern Murray-Darling Basin (sMDB) markets remained very thin throughout the month with prices climbing in early trade from about \$540/ML to at or above \$600/ML. This is roughly double the prices paid in July last year.

Monthly Returns



Summary Data (net)

Month return (%)	0.37
Last three months return (%)	4.58
Financial year return (%)	0.37
Rolling 12 months (%)	35.17
Performance since inception (%)	75.34
Since inception ANNUALISED [p.a.] (%)	16.85

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	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

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Water Availability 2019-20

Water availability at the start of the 2019-20 irrigation season in the sMDB is 50% below the 10-year average. This is due to:

- Low water availability and high water allocation prices in 2018-19, causing a 46% reduction in carryover compared with the previous year.
- Low opening allocations on Victorian Murray and Goulburn High Reliability (HR) water entitlements (see Table 1), and
- New South Wales General Security (GS) allocations for both Murray and Murrumbidgee being at 0%.

These low season opening allocations are not surprising given recent very low inflows. Figure 1 compares inflows to the Murray system in 2018-19 with the long-term average. Inflows were in the driest 7% of years on record and follows from low inflows in 2017-18 that were in the driest 13% of years on record. During the 20th Century, years of very low inflow were usually followed by years of relatively high inflow. However, that no longer appears to be the case.

Inflows from the start of this water year have improved compared with last year, however they are still very much below the long-term average (see Figure 2).

Impact on Water Market

In a market where there is constraint on the supply side, upward pressure on pricing is to be expected. With water allocation trading at or above 600/ML in early season trade (more than double the price at the same time last year) it is likely that many irrigators will choose to sit out this season. This applies to annual crops such as cotton, rice and corn. This reduction in demand should temper the price of water somewhat, with the irrigators sitting out actually increasing the supply of water to the market as they sell their allocation to generate income.

It will be the irrigators of permanent horticulture crops, such as almonds, walnuts, olives and grapes, who have to water their crops regardless of the seasonal conditions, who will be setting the price this season.

The demand for water from permanent crops has been increasing, particularly in the Lower Murray region, and the gap between the total volume of water available for consumptive use and the volume of water demanded by permanent horticulture is narrowing. It is the size of this gap that will be the key driver of water allocation prices in the season ahead.

	Vic Murray HR allocation	Vic Goulburn HR allocation
3 August 2015 (2015-16)	42%	50%
1 August 2016 (2016-17)	35%	39%
1 August 2017 (2017-18)	66%	40%
1 August 2018 (2018-19)	49%	37%
1 August 2019 (2019-20)	16%	25%

Table 1: Victorian allocations for High Reliability (HR) water shares to early August.
Source: Northern Victoria Resource Manager.

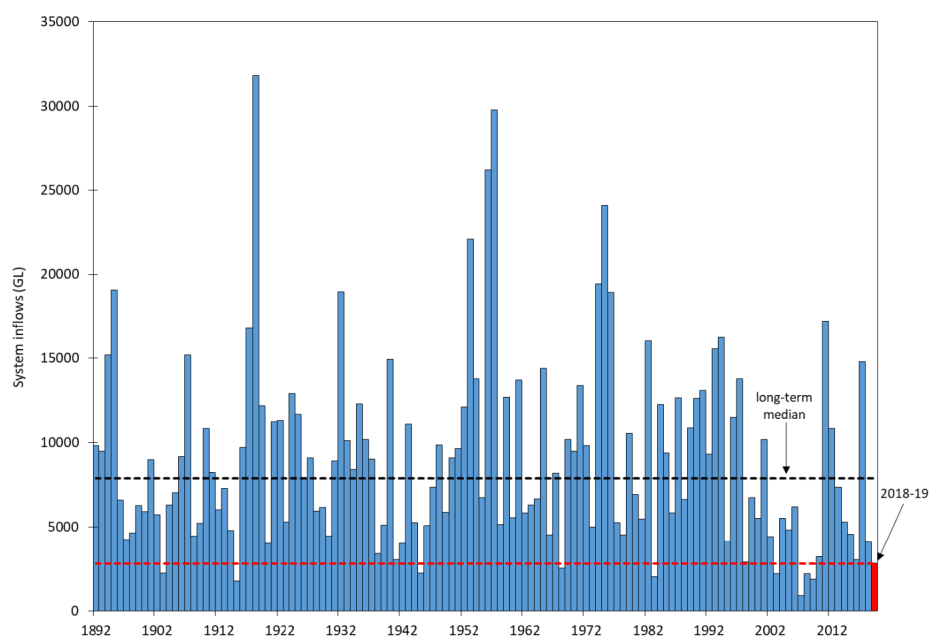


Figure 1: River Murray System annual inflows — water year totals (to end May) since 1892.
Source: Murray-Darling Basin Authority.

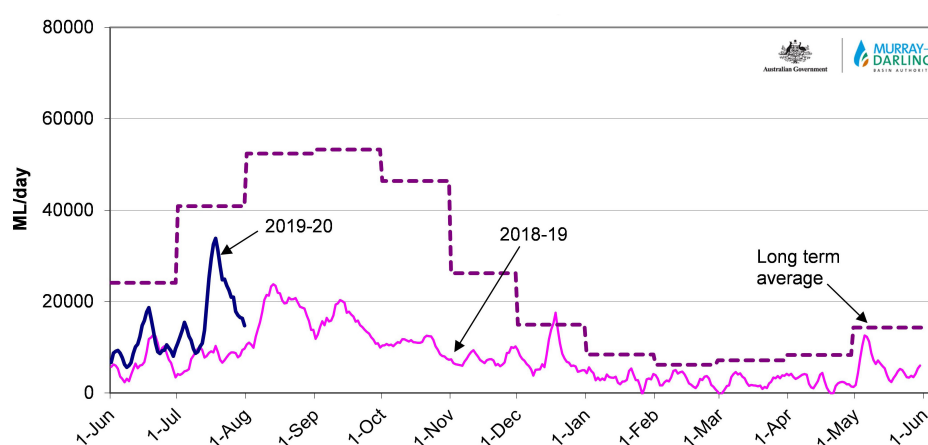


Figure 2: Murray system daily inflows. Source: Murray-Darling Basin Authority.

Weather Outlook

Rainfall across most of the sMDB has been close to average over the last three months and catchments are reasonably well primed to provide inflows on receipt of follow-up rainfall. However, the Bureau of Meteorology (BoM) three-month outlook for August to October is for drier than average conditions (see Figure 3). This period is critical for generating inflows. Thus, the extent to which rainfall over this period is below average will be the key determinant of allocations in the current season as well as the capacity to provision reserves for next season.

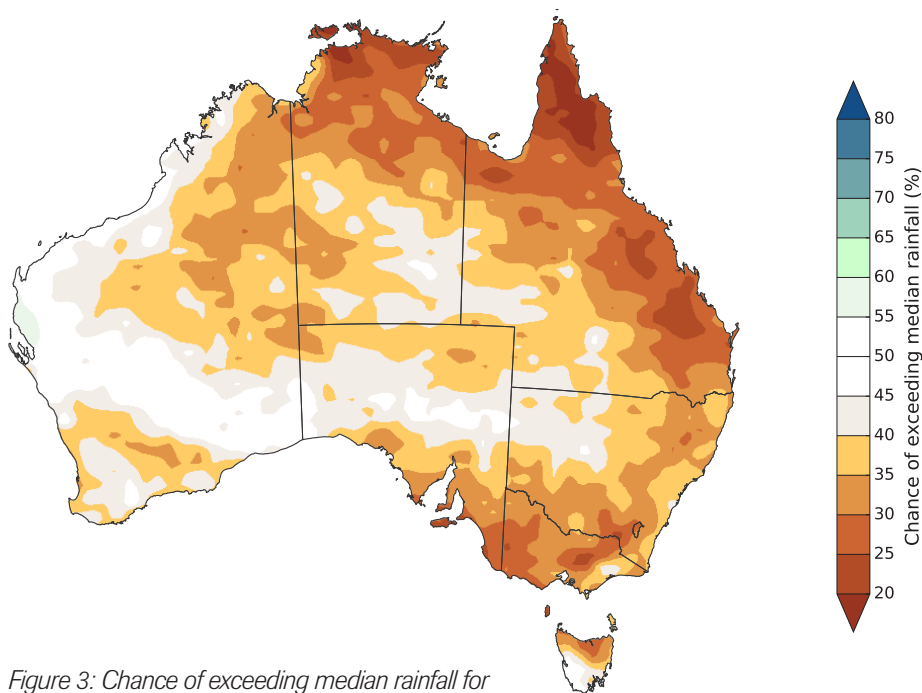


Figure 3: Chance of exceeding median rainfall for August to October 2019. Source: BoM

Correlation

S&P/ASX 300 0.21

Risk Ratio

Reward to risk ratio	1.81
Annualised standard deviation (%)	7.79
Downside deviation (%)	5.24
Sortino ratio	2.68
Maximum drawdown (%)	9.58
Percentage of positive months (%)	79.55

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 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	2.52	0.37						20.77
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

The information contained in this report and appendices is general information only about The Murray-Darling Basin Balanced Water Fund (Fund) and does not take into account any person's objectives, financial situation or needs. You should seek appropriate professional advice if, as a result of reviewing this information, you are deciding whether to invest, remain in, or invest further, into the Fund. You should otherwise make your own independent investigation and analysis regarding any information contained in this report. This report may include forward looking statements which involve known and unknown risks, uncertainties and factors beyond the control of the Fund's trustee, its officers, employees and agents that cause the actual results or outcomes to be materially different from those expressed or implied by such forward looking statements. Past performance is also no indication or guarantee of future performance. To the extent applicable, Kilter Investments Pty Ltd reaffirms the disclaimer information included in the information memorandum for the Fund dated 25 October 2017, as amended from time to time.

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