

# The Murray-Darling Basin Balanced Water Fund

AUGUST 2019

**AUM: A\$61.27M**

**UNIT PRICE A\$1.82**

The Fund posted a very strong result of 4.9% for August.

Prices have firmed for southern Murray-Darling Basin (sMDB) water allocation and high reliability/security classes of water entitlement as drier than average conditions across eastern Australia heighten demand.

The water allocation price continued to lift during August, reaching \$800 per megalitre (ML) in the Lower Murray region. This price is more than double that of 12 months ago and more than five times recorded two years ago.

Managing such a large cost increase for the most vital input for irrigated production, coupled with the ongoing uncertainty about what the future may hold if dry conditions persist, is causing real hardship in irrigation communities. Unfortunately, there is no relief in sight as the three-month outlook from the Bureau of Meteorology (BoM) suggests a below average rainfall forecast.

This will be the third year in a row where inflows

into storages over the winter and spring period have been substantially below average. Water levels in major sMDB storages are below 45% of aggregated capacity. With below-average inflows forecast for the balance of spring, storages are expected to drop to critical levels after another summer of irrigation.

In addition, in the past 10 years, about 22% of the water entitlement on issue in the sMDB has been recovered for the environment through the implementation of the Murray-Darling Basin Plan. As a consequence, this season is shaping as likely to deliver the lowest supply of water to irrigators of any in the past 10 years.

Irrigators of annual crops have operational flexibility in the face of water shortages and high water allocation prices. If crops are unviable at the prevailing prices, irrigators can elect not to grow a crop for the year. If they own water, they could make more money by selling it; if they don't own any, they can avoid buying and generating a loss.

However, this is not the case for permanent horticulture crops (tree nuts, grapes, citrus, apples and pears) as these require roughly the same volume of water irrespective of the water price. These crops also require significant capital expenditure to establish. As a result, owners are prepared to pay high prices for water in order to protect their investment. In recent years there has been a substantial increase in the areas planted to these high water-use permanent crops.

Over the longer term, the capacity of any irrigation business to accommodate higher prices for water is determined by the gross margin it is able to generate per megalitre of water used.

Kilter Rural has undertaken analysis to estimate indicative ranges of gross margin per megalitre for the major irrigation enterprises in the sMDB (see Figure 1).

Commodity price trends and recent Free Trade Agreements have resulted in improved trading

## Summary Data (net)

Month return (%)	4.89
Last three months return (%)	7.94
Financial year return (%)	5.28
Rolling 12 months (%)	37.83
Performance since inception (%)	83.92
Since inception ANNUALISED [p.a.] (%)	17.95

## 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

Kilter Pty Ltd  
ACN 111 305 349  
Address PO Box 85  
Bendigo Central VIC 3552

### Fund Trustee

Kilter Investments Pty Ltd  
ACN 152 558 113  
AFSL 41 41 42  
Phone +613 5444 0112  
Email [invest@kilterrural.com](mailto:invest@kilterrural.com)

conditions for a number of the perennial horticulture crops. At the same time, traditional large volume water users in the sMDB, including dairy farmers and ricegrowers, are struggling to compete as water migrates to higher value use.

Hardship being experienced by irrigation businesses and communities in the sMDB is gaining significant media and political attention. Recent coverage has focused on:

- The Federal Government and the Murray-Darling Basin Authority (MDBA) in relation to their establishment and implementation of the Murray-Darling Basin Plan.
- Almond producers for their increasing take of the available water.
- Cotton growers who have significantly expanded in the sMDB over the last decade even though in recent years production has significantly wound down in the face of water scarcity, and
- Financial investors, some of whom have been accused of manipulating market prices.

The recent expansion of permanent crop development in the sMDB has materially changed the structure of the water market, leading to higher prices in times of scarcity. This is currently being borne out as the combined effects of successive dry seasons and environmental water recoveries constrain water supplies leading to higher prices.

In response to recent market conditions, the Federal Government has commissioned a review into the sMDB water market to be undertaken by the Australian Consumer Competition Corporation (ACCC).

Kilter Rural welcomes this review and the prospect of recommendations that drive greater market transparency. The ACCC is expected to release its draft findings by May 2020 with the final report set to be released in December 2020. In the interim, it is reasonable to expect more media attention, especially if dry conditions persist.

Kilter Rural is proud of the role it has played since 2008 in providing more than 300 water supply solutions to irrigators to help them meet their water requirements. In the current environment, the Fund's clients are advantaged by accessing Fund water products rather than being exposed to the water allocation spot market.

Currently, 70% of the Fund's water entitlement is leased to irrigators, providing them with secure access to water without the capital cost of ownership. The balance is split, depending on the season, between making water available for the environment or accessed by irrigators. Accordingly, while supporting important environmental initiatives the Fund is also playing a vital role in supporting irrigation communities.

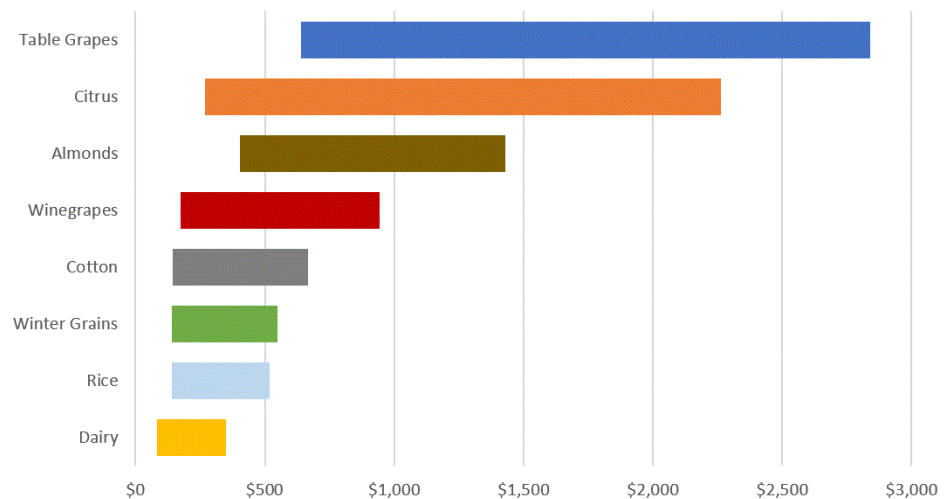
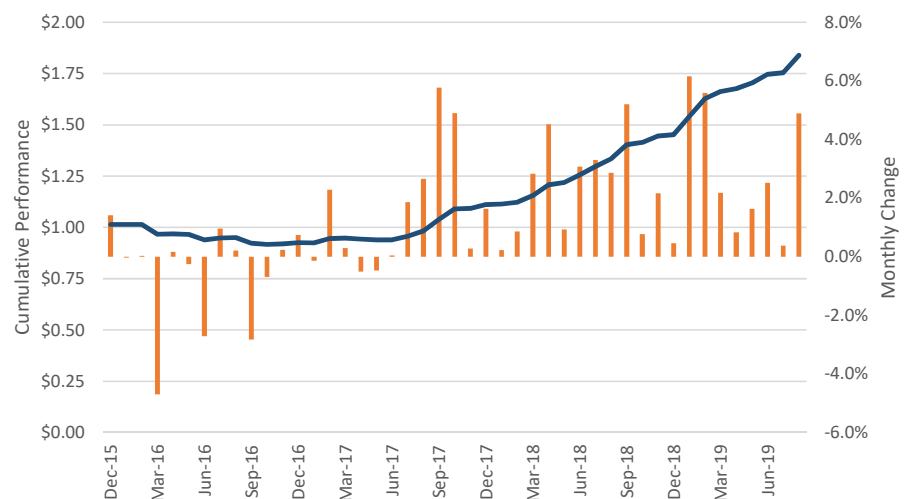


Figure 1: Enterprise gross margins per ML within the southern Murray-Darling Basin. (Source: Kilter Rural)

## Monthly Returns







## Correlation

S&P/ASX 300	0.16
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## Risk Ratio

Reward to risk ratio	1.91
Annualised standard deviation (%)	7.92
Downside deviation (%)	5.24
Sortino ratio	2.90
Maximum drawdown (%)	9.58
Percentage of positive months (%)	80.00

## 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
<b>2019</b>	6.16	5.59	2.18	0.83	1.63	2.52	0.37	4.89					26.68
<b>2018</b>	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
<b>2017</b>	-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
<b>2016</b>	-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
<b>2015</b>												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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