

Australian Farmlands Fund

JANUARY 2021

AUM: A\$40.56M

UNIT PRICE: A\$0.96

The Funds posted a -0.29% return for January as water entitlement values softened slightly and no further significant cropping income was received during the month.

The water allocation market responded to an increase in inflows to the major storage dams. Allocation prices seen in the Lower Murray zone dropped from approximately \$200 per megalitre (ML) to almost \$100/ML throughout January.

Above average rainfall for the month coupled with moderate Summer temperatures has resulted in less water usage on farms and many irrigators with surplus in their water accounts. This market scenario was not unforeseen and Kilter Rural made the strategic decision to sell nearly all of the Funds' uncommitted water allocation over recent months. The small current holdings have been accrued from recent increased allocation announcements and received upon recent settlement of entitlement purchase transactions.

A continuation of December's unsettled Summer conditions was experienced in January as the fading influence of the La Nina weather pattern generated significant summer storm rainfall in some regions. On the Fund's farms almost double the long-term January average rainfall of 34mm was received during the month. However, both summer crops of tomatoes and soybeans are in good health as they approach harvest in the coming months. The tomato harvest is likely to begin in late February with soybeans coming off in April.

The weather forecast is beginning to return to a more typical pattern of stability for this time of year as the La Nina dissipates and late Summer and early Autumn begins in earnest. This is positive for both crops as dry conditions make for a cleaner and easier harvest and reduced likelihood of any humidity induced crop health issues.



Figure 1: Tomatoes have shown a good level of fruit set and are well positioned to yield towards budget targets.

Summary data (net)

Month return (%)	-0.29
Last three months return (%)	-0.15
Financial year return (%)	-1.98
Rolling 12 months (%)	-10.52
Performance since inception (%)	-4.39
Since inception annualised [p.a.] (%)	-1.97

Fund information

Name	Australian Farmlands Funds
Structure	Unit Trust
Domicile	Australia
Inception	October 2018
Management Fee	1.15% per annum
Trustee Fee	0.35% per annum
Performance Fee	15% per annum
Hurdle rate	8%
Minimum investment	A\$100,000
Administrator	Unity Fund Services
Registrar	One Registry Services Pty Ltd
Auditor	Morrows Audit
Custodian	Sandhurst Trustees Limited
Legal Advisor	McMahon Clarke

Contact information

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Figure 2: Kilter Rural CIO Euan Friday inspecting the Soybean crop due for harvest in April.

Land Purchasing

Over the last month Kilter Rural has exchanged conditional purchase contracts on three additional properties within the target area for the Funds. Summary details as follows:

- A 100ha organic dairy farm. This farm has been run as an organic dairy farm for twenty years with the owners seeking to downsize. This off-market opportunity was sourced directly by Kilter through a systematic approach to target farms with existing organic certification. Given its organic status, this farm can produce a Winter crop of grain in 2021 that will be certified organic and the property is therefore not required to undergo the typical three year certification period. This will bring the total holdings of organically certified farmland within the Funds' portfolio to 270ha.
- A 47ha property. Earmarked for a complete revegetation to trees and shrub species endemic to the area and likely registration within the Federal Governments Climate Solutions Fund. This property is directly adjacent to an existing farm held within the Funds. Upon maturation of the native trees, this property will provide valuable eco services such as wind reduction,

pollinator habitat and carbon sequestration. It will contribute towards the Funds' target of revegetating between 20-30% of managed land and restoring previously lost biodiversity in a landscape almost completely cleared of its native woodlands. On average, farms in this district retain less than 5% remnant native vegetation with the result being that habitat available for birds, reptiles or native mammals is severely limited.

- A 227ha subsurface drip irrigation property (SSDI). Kilter is very pleased to have exchanged contracts on behalf of the Funds on this purchase. From a strategic and operational perspective this is an attractive asset for the Funds as it has already been developed to subsurface drip irrigation. This is generally the most efficient method of applying irrigation water and nutrient direct to the root zone of a crop at a broadacre field scale. It provides efficiencies in water and nutrient use of up to 30% compared to conventional flood irrigation and can be fully automated. Kilter Rural has significant experience in installing, maintaining and managing SSDI with the largest combined

area of SSDI in Australia managed on Kilter Rural farmland. Access to SSDI provides valuable optionality of high value crop choices such as tomatoes, specialist varieties of corn and even cotton. This purchase opportunity was sourced off market.

These properties are all very positive acquisitions for the Funds and are fully reflective of the strategy to:

- Target underutilised farmland and water entitlements
- Acquire properties with access to reliable irrigation water supply
- Re-purpose land for high value annual crop rotations supported by offtake contracts
- Balance high value intensive agriculture with a scaled ecosystem restoration program, and
- Exit a turn key operating portfolio of premium land and water assets balanced by scaled ecosystem protection.



Strategy

The Australian Farmlands Fund provides an opportunity for sophisticated and wholesale investors to access an agribusiness portfolio of irrigated farmland, water and environmental assets in the southern Murray-Darling Basin. Financial returns are delivered through the renewal of underutilised irrigation farming operations to deliver high value organic and conventional crops, sustained by ecosystem protection and enhancement to deliver long-term returns to investors.

The investment incorporates the Australian Farmlands Fund as the primary investment entity and the Australian Farmlands Operating Fund, which undertakes the farming operations. References to Australian Farmlands Fund is to the consolidated financial and operating position of the two funds.

Fund 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 \$500m 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 January 2021.

Fund performance %

(net fees and expenses)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	-0.29												-0.29
2020	0.64	-1.01	-1.19	-3.96	-1.74	-1.10	-0.28	-0.72	-0.31	-0.53	-0.44	0.59	-9.68
2019	2.35	-0.28	-0.24	-0.30	-0.57	0.01	0.07	2.21	0.21	1.51	1.46	-0.01	6.56
2018										0.00	-0.23	-0.13	-0.36

Disclaimer

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Australian Farmlands Fund

FEBRUARY 2021

AUM: A\$40.63M

UNIT PRICE: A\$0.96

The Funds delivered a 0.55% return for February. The result was assisted by the receipt of an uplift payment paid by Kagome following sales of the FY20 tomato crop. Water entitlement valuations remained mostly flat in February.

Major activities for the month were focused on harvest preparations of the Funds' 97Ha tomato crop and completion of irrigation redevelopment works in preparation for the sowing of Winter crops.

The trend of a weakening La Nina continued as February saw a return to stable weather conditions more typical of late Summer and early Autumn. Less than 2mm of rain was received for the month compared to the longer-term average of 27mm for February. These drier conditions were welcome as wet conditions in field are not conducive to a smooth harvest.

With three properties due to settle in March and an additional property scheduled for settlement at the EOFY the Funds are on track to have more than 900ha available for crop this upcoming Winter season.

In addition, the 2021 revegetation program has now been settled. Up to 130ha of additional revegetation plantings are planned for the Winter months, much of which will be registered with the Federal Governments Climate Solutions Fund in order to generate Australian Carbon Credit Units (ACCU's). ACCU's are regarded internationally as some of the most robust and verifiable carbon credits, with recognised Kyoto-compliance. They are backed by the Australian Government's strict policy frameworks, rigorous methodologies, and government funded institutions that support their generation.



Figure 1: Soybean watering continues. Watering will begin to wind down when evapotranspiration rates reduce, as the nights increase in length, and daytime heat reduces.

Summary data (net)

Month return (%)	0.55
Last three months return (%)	0.85
Financial year return (%)	-1.44
Rolling 12 months (%)	-9.11
Performance since inception (%)	-3.86
Since inception annualised [p.a.] (%)	-1.67

Fund information

Name	Australian Farmlands Funds
Structure	Unit Trust
Domicile	Australia
Inception	October 2018
Management Fee	1.15% per annum
Trustee Fee	0.35% per annum
Performance Fee	15% per annum
Hurdle rate	8%
Minimum investment	A\$100,000
Administrator	Unity Fund Services
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Figure 2: Crop health and pod development on the plants are on track. Flowering has concluded, and the plant is focusing its energy on pod development. This growth stage is known as R3 – R4. The next stage is focused upon adding weight to the seeds within the pods.

Other news: Upcoming webinar series

Tuesday 23rd March Kilter Rural CIO Euan Friday will present a webinar on the Australian Water markets: **‘La Nina. What La Nina?’**

With over 12 months of forecast above-average rainfall, storages remain well below average for this time of year. Where to for water markets from here?

Tuesday March 30th, Investment Manager Angus Ingram will present a webinar on Australian Farmland: **An opportunity to restore biodiversity, address climate change and deliver returns.**

With global uncertainty over climate, markets and pandemics there has never been a more attractive time to consider the merits of alternative real asset-backed investments. Join us to learn how to access uncorrelated returns, produce more high-value healthy food for the world, protect Australia’s unique biodiversity and deliver a real management response to climate change.

Summary Information: Fund Assets		Settlements Pending
Farmland	Four properties totalling 1,128ha	Three properties totalling 374ha
Water Entitlement	3,286ML across NSW, VIC & SA	

Current Operational Summary	
Tomatoes	97ha in crop
Soy Bean	51ha in crop
Winter Crop rotation 2021	Full conventional program of wheat, barley, canola plus organic program of cereals totalling more than 900ha



Strategy

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Fund performance %

(net fees and expenses)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	-0.29	0.55											0.26
2020	0.64	-1.01	-1.19	-3.96	-1.74	-1.10	-0.28	-0.72	-0.31	-0.53	-0.44	0.59	-9.68
2019	2.35	-0.28	-0.24	-0.30	-0.57	0.01	0.07	2.21	0.21	1.51	1.46	-0.01	6.56
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Australian Farmlands Fund

MARCH 2021

AUM: A\$42.10M

UNIT PRICE: A\$0.96

The Funds generated a 0.21% return for March. Water entitlement values continue to remain flat as a result of seasonal conditions, while the Funds benefited from some operational returns as tomato harvest reached a conclusion.

What is expected to be the last of the 2020/21 La Nina influence was felt in March as Victoria received the tail end of the very strong east coast low pressure systems that battered the NSW and QLD coast, with severe flooding throughout the month. In Victoria, The Funds' landscape received almost 2.5 times it's annual monthly rainfall average for March.

Despite the rainfall received, the entirety of the Funds' tomato crop was harvested with minimum impact on yields. This was a great result given the seasonal conditions and is a testament to the precise field design work that occurs in the development phase to ensure excess water can drain to adjacent wetland and environmental areas.



Summary data (net)

Month return (%)	0.21
Last three months return (%)	0.47
Financial year return (%)	-1.23
Rolling 12 months (%)	-7.82
Performance since inception (%)	-3.65
Since inception annualised [p.a.] (%)	-1.53

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Management Fee	1.15% per annum
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Performance Fee	15% per annum
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Kilter's observations of industry feedback regarding Summer crop performance across the southern Murray-Darling Basin has been that both rice and cotton crops are expecting yields well down on historical averages largely as a result of cooler than average conditions. Two important climatic components that contribute directly to Summer crop vigour are heat units and sunlight hours. The fluctuations in hot weather and sunlight hours experienced this season are not unexpected and entirely consistent with La Nina seasons.

The three pipeline farms reported on in the January report have all settled and will make very valuable contributions to the Fund's portfolio of land assets. Field preparations are well underway to ensure those properties are ready for the fast approaching Winter cropping season with sowing of Winter cereals due to commence in late April.

The 227Ha property known as Pykes has an existing Sub-Surface Drip Irrigation (SSDI) system already installed on the farm and has not grown a crop of tomatoes for three years. The farm was ultimately sold as a distressed asset and requires minor capital expenditure to install automation equipment and improved pumping systems. Kilter Rural is very pleased to add this particular property to the portfolio as it enables a tomato crop to be grown over the 21/22 summer season that otherwise would not have occurred as a result of crop rotation timings.

The Funds' soybean crop is progressing well and will be harvested in late April.



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Fund performance %

(net fees and expenses)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	-0.29	0.55	0.21										0.47
2020	0.64	-1.01	-1.19	-3.96	-1.74	-1.10	-0.28	-0.72	-0.31	-0.53	-0.44	0.59	-9.68
2019	2.35	-0.28	-0.24	-0.30	-0.57	0.01	0.07	2.21	0.21	1.51	1.46	-0.01	6.56
2018										0.00	-0.23	-0.13	-0.36

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