INVESTOR UPDATE

Australian Farmlands Fund

APRIL 2020

AUM: A$32.37M **UNIT PRICE: A$1.00**

Water Market Update

The Fund returned -3.96% for the month, contributing to a result of -6.06% for the past three months.

The widespread rainfall seen across much of Queensland and New South Wales (NSW) in recent months continued into April and has pushed south into Victoria.

Parts of Victoria and NSW have received more rain for the year than for all of 2019, resulting in significant softening of water allocation prices and a slight softening of water entitlement prices. This has coincided with a time of year that typically exhibits a low level of demand for irrigation water as Summer crops are being harvested and Winter crops require smaller volumes for sowing.

With catchments well charged, Figure 2 shows the steep increase in inflows at the end of April into early May following heavy rain across south-east Australia.

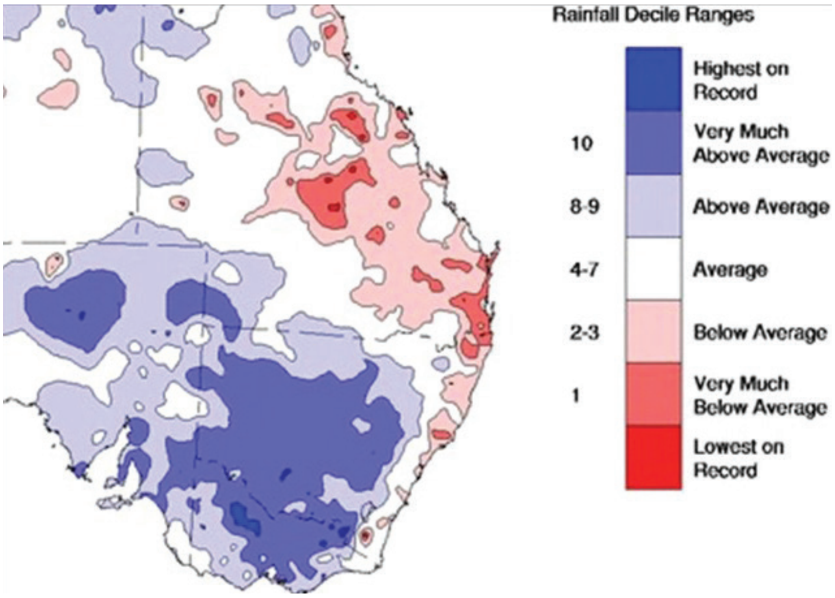

Figure 1: April rainfall deciles in the Murray-Darling Basin. Source: Bureau of Meteorology.

Summary Data (net)

Month return (%)	-3.96
Last three months return (%)	-6.06
Financial year return (%)	-0.21
Rolling 12 months (%)	-0.76
Performance since inception (%)	0.38
Since inception ANNUALISED [p.a.] (%)	0.25

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 Pty Ltd
Registrar	One Registry Services Pty Ltd
Auditor	Morrows Audit
Custodian	Sandhurst Trustees Limited
Legal Advisor	McMahon Clarke

Contact Information

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Fund Trustee

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Even with above-average rain across much of the southern Murray-Darling Basin (sMDB) this year, rainfall and inflows across 2019-20 have been well below both the long-term average and the 10-year average (Figure 3), resulting in no significant uplift in storage volumes.

Dartmouth is the largest of the five major storages in the sMDB and provides a suitable indicator of current supply levels. As shown in Figure 4, even though storage volumes have started to lift they have a long way to go before getting back to levels experienced in 2017 and 2018.

While allocation prices are sensitive to current levels of resource availability and expectations over the short-term, the water entitlement market (the market for the underlying water asset) is more reflective of the long-term supply and demand drivers.

Falling water allocation prices have removed some urgency for owners of irrigation enterprises to enter the water entitlement market to secure requirements: in the short term it will be cheaper to secure water requirements in the water allocation market. As a result, demand for water entitlement has also softened causing a 3% to 5% decline in most classes of entitlement in the past two months.

In the context of the Fund, capital deployment is split roughly 50:50 between farmland and water entitlement assets. In the short-term, the improved outlook for water availability in 2020-21 is likely to put downward pressure on water allocation prices, which in turn may cause further minor softening of entitlement prices.

However, this softening is expected to be short lived as the key drivers of prices in the past decade will again exert upward pressure on prices going forward. In particular, the long-term trend of reduced water availability as the impacts of climate change continue to supress Winter-Spring rainfall in south-eastern Australia. Coupled with the ongoing implementation of the Murray-Darling Basin Plan, this will cause an ongoing and permanent reduction in water availability.

At the same time, demand for water from high-value perennial horticulture crops will continue to increase as plantings from the past few years mature. As these crops mature and their demand for water increases the owners of these assets will be highly incentivised to enter the water entitlement market to secure sufficient resources to protect the significant capital investment they have made in developing their orchards.

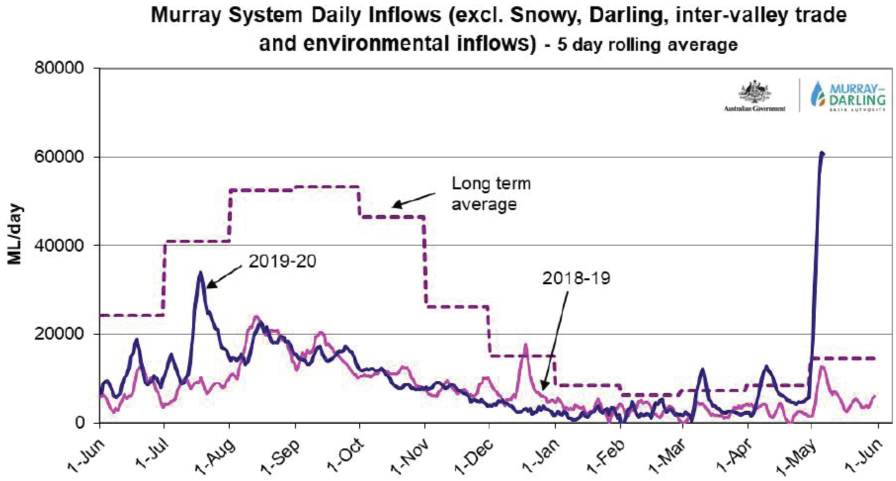

Figure 2: Murray system inflows. Source: Murray-Darling Basin Authority.

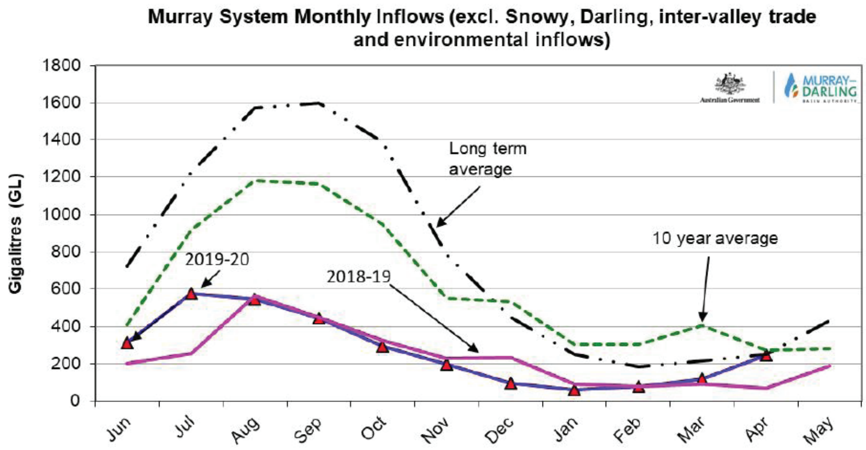

Figure 3: Murray system monthly inflows. Source: Murray-Darling Basin Authority.

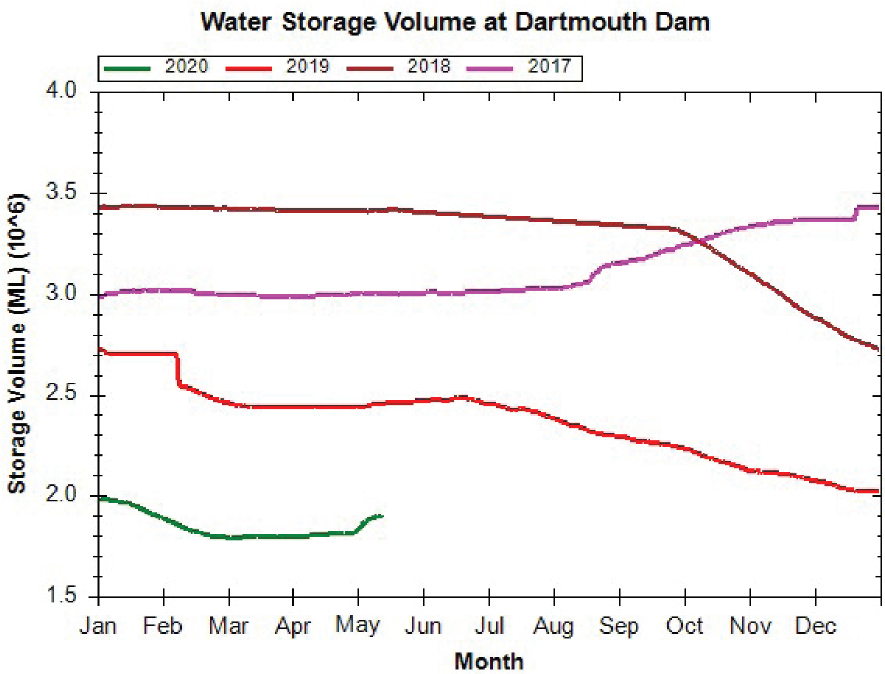

Figure 4: Dartmouth Dam water storage volume. Source: Goulburn-Murray Water.

Farmland Update

The local weather station recorded 122mm for April, more than three-times the long-term April average. The wet weather created difficult growing and harvest conditions for the Funds' first crop of field tomatoes, impacting yields. However, despite the challenging weather conditions, a $750/ha gross margin was achieved for the crop.

To put this into perspective the weighted average wheat gross margin per hectare across Australia is circa-$400/ha. In the high rainfall grain growing regions of western Victoria, a $1000/ha gross margin is considered excellent and typically requires scale of more than 1500ha to achieve:

- Across Australia the top 20% of operators achieve a cropping (all crops) gross margin of $664/ha, with 80% averaging $431/ha[1]
- In FY2019 the average dairy farm in north-central Victoria achieved an operating loss of ~$106/ha [2].

The Future Post COVID-19

On-farm operations have remained relatively unaffected by COVID-19. With cropping operations largely mechanised, our focus has been on maintaining social distancing and sanitisation of vehicles.

As Australians adhered to government coronavirus restrictions, there was an uplift in home cooking and demand for Australian-grown produce.

Kilter Rural grows conventional and organic field tomatoes for a range of consumer products, including tomato paste, pasta and tomato sauces, diced tomatoes for canning and juicing tomatoes primarily for the lucrative Japanese market. This year's harvest could have been sold up to four-times, such was the level of demand domestically.

The Australian market consumes an average of 550,000 tonnes of processed tomatoes per annum of which only 40% are Australian grown. Australian growers must compete with imported products, mostly from Italy and China where labour costs are lower and production costs are offset by significant government subsidies.

In the past 20 years, the number of local growers has fallen from 95 to 11 and the number of processing companies has fallen from 14 in 2001 to three. To remain competitive with imports and increasing irrigation water values, scale, expertise and the most efficient irrigation technologies are required.

Since 2014, Kilter Rural has grown to become the largest grower of field processing tomatoes in the southern hemisphere. These crops are grown on the largest combined field of sub-surface drip irrigation in Australia.

While it is early days in the COVID-19 story, we have already seen a political appetite for increased sovereignty and a reduced reliance upon offshore markets for non-discretionary consumer items.

As consumers of food we have never been more aware of our food origins. On 1 July 2018 it became mandatory in Australia to disclose the country of origin and approximate percentage of Australian ingredients on all Australian-packaged food products. We have seen the success of Fairtrade-certified chocolate and coffee that encourages sustainable prices paid to the small producers in developing countries.

It is now possible to purchase certified carbon-neutral beef that is grown in Australia.

Organic certification has been around for many years. In Australia it requires a three-year certification period and rigorous auditing is conducted to ensure producers comply with production standards, avoiding any use of synthetic fertilisers, industrial herbicides, fungicides or insecticides.

In Australia, organic crop farming has historically been the realm of the niche operator. Australia's volatile climate and comparatively low fertility soils make organic crop farming at scale very challenging.

Consistent with its focus on rebuilding terrestrial biodiversity, Kilter Rural has been growing its organic strategy for the past six years and has become the largest grower of irrigated organic cereals in Australia.

Supported by established offtake contracts, Kilter Rural's organically grown grain attracts up to four-times conventional pricing, while remaining free of synthetic fertilisers and chemicals that carry a hefty carbon footprint (0.5tCO_2/ha).

Kilter Rural will continue to utilise pioneering cover crops and other innovative methods to fast track growth in soil organic carbon levels in order to benefit crop yields and build soil carbon content.

Kilter Rural's pursuit of the organic strategy is a natural synergy between commercial returns and environmental impact. The recent increased focus on food supply chains and the ever-increasing 'paddock to plate' transparency sought from today's consumers bodes well for environmentally sustainable Australian-grown food and fibre today and into the future.

1 http://www.rmcg.com.au/app/uploads/2019/02/Vic-South-Management-Guideline-print.pdf.

2 Dairy Farm Monitor Project, 2018-19 Northern Victoria Overview.

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 $500 million 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 2019.

Monthly Performance %

(net of fees and expenses)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2020	0.64	-1.01	-1.19	-3.96									-5.46
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

INVESTOR UPDATE

Australian Farmlands Fund

MAY 2020

AUM: A$34.30M **UNIT PRICE: A$0.99**

The Fund returned a -1.74% result for May as the seasonal drivers influencing water entitlement values continued the downward trend of recent months.

Rainfall was 6mm below the long-term average of 40mm, contributing to what was already one of the wettest Autumns for decades, from northern New South Wales across to south-eastern South Australia.

The Bureau of Meteorology has adjusted its July to September outlook from a significantly wetter-than-average to one more aligned to an average year, as shown in Figure 1.

Catchments, even though they are well saturated from the very wet Autumn period, will still require above-average rainfall during Winter and into early Spring, to completely recharge water storages. This will put some more downside pressure on high security water entitlement prices in coming months.

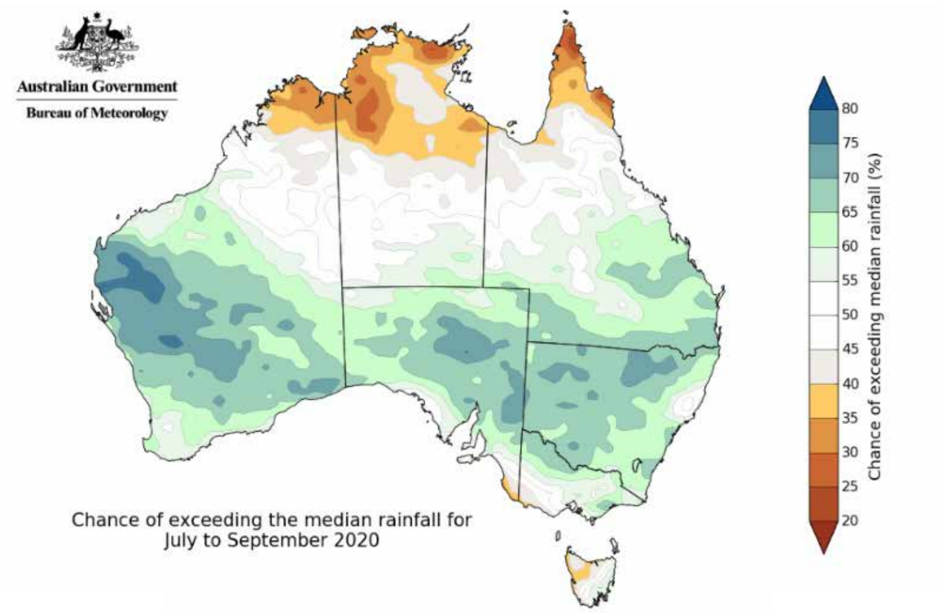

Figure 1: Bureau of Meteorology July-to-September outlook.

Summary data (net)

Month return (%)	-1.74
Last three months return (%)	-6.75
Financial year return (%)	-1.95
Rolling 12 months (%)	-1.93
Performance since inception (%)	-1.37
Since inception ANNUALISED [p.a.] (%)	-0.87

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
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Minimum investment	A$100,000
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While the monthly result is disappointing, it is important to remain cognisant of the fundamental, long-term drivers of entitlement value:

- A permanent reduction in available supply, as a result of government buy backs of entitlement for environmental purposes within the Murray-Darling Basin Plan.
- A continued trend of less Winter rainfall as a result of changing rainfall patterns - a 26% reduction since the mid 1970s at the major irrigation storage locations.
- A vast increase in planting of permanent crops, such as almonds, which have an inelastic water demand profile regardless of allocation water prices.
- Bilateral free trade agreements making other permanent crops, such as grapes and citrus, significantly more profitable. Therefore, enabling these growers to pay more for water.

Climate solutions fund

Up to 30% of the Australian Farmlands Fund area under management will be allocated to ecosystem protection, with strategic re-vegetation to deliver critical carbon sequestration and biodiversity benefits.

In May, the Fund completed its first large-scale revegetation project that has also been registered with the Federal Government's Climate Solutions Fund (CSF).

About 110ha (270 acres) of native woody vegetation was direct seeded. As the revegetation grows it will provide important biodiversity and salinity prevention outcomes while sequestering carbon, giving the Fund the opportunity to sell carbon credits into local and global carbon markets.

The revegetation has been a unique collaboration between Kilter Rural, Goulburn-Broken Catchment Management Authority, the local native vegetation seed bank and direct seeding experts.

Direct seeding is similar to sowing a single row of crop, with rows typically five metres apart. The seed composition of the program has a genetically diverse provenance to maximise its resilience and adaptability especially in a changing climate.

Planted species include a range of eucalypts, acacias and other shrubs, with the seed variably mixed and seeded, according to the specific needs of a site.

The property under revegetation was purchased with less than 5% remnant native vegetation, as all areas of the property had been extensively grazed with dairy stock.

Growing a connected habitat area for native flora and fauna also generates valuable biodiversity benefits and a range of eco-services (beneficial micro-climates, insect predation, pollination, drainage management) to build productivity and resilience in the agricultural program.

Kilter Rural estimates that net sequestration rates (sequestration less emissions) of the revegetated areas, in combination with the Fund's regenerative cropping program, will be about 6.0 tCO2-e/ha/yr. When considering the previous land use was generating emissions of about 10 tCO2-e/ha/year, the effective turnaround in emissions is more than 16 tCO2-e/ha/year.

Kilter Rural has proven capability in landscape carbon and emission accounts applied to its 15-year institutional investment mandate in north-west Victoria. This mandate has produced a substantial 'in-paddock' carbon-positive balance of more than 5000 tCO2 in FY18/19. This is the equivalent of removing more than 1000 average-passenger cars from the road for a year.

With this being the first of many revegetation projects the Fund is establishing itself as part of the global solution to reducing C02 levels and addressing climate change.

The Fund represents an opportunity to scale up this already proven environmental impact strategy through further regeneration of existing agricultural landscapes where native vegetation has been almost entirely removed.

Condition change will be reported via Kilter Rural's demonstrated environmental accounting capability. Statements of natural asset condition will be produced on an annual basis, to an independently audited and certifiable standard. Kilter Rural was the first corporate land manager in Australia to undertake such a rigorous and scientifically robust methodology of environmental condition reporting.

Figure 2: Direct seeding on the Fund's landscape.

Other news

- Cullen Gunn, co-founder and CEO, spoke about investing for impact and managing landscapes with a regenerative approach in an interview with David Clark from wealth management firm Koda Capital. David hosts the podcast *Inside the Rope*, and you can listen at soundcloud.com/insidetherope/ep-67-cullen-gunn-investing-for-impact
- In May, CIO Euan Friday hosted a webinar with Global AgInvesting to discuss investing in water for impact and returns. Euan outlined the history of the Australian water market and explained the economic, political and climatic drivers influencing water asset values. You can watch the session at www.globalaginvesting.com/gai-webinar-series-kilter-rural/

Strategy

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INVESTOR UPDATE

Australian Farmlands Fund

JUNE 2020

AUM: A$33.61M **UNIT PRICE: A$0.95**

The fund returned a -3.35% result in the unit price for June. This can be attributed to recently developed irrigation infrastructure not receiving full recognition in the external and independent valuation of the properties completed in April for the end of the financial year.

The valuation shows that capital growth on the Fund's four farms has been strong, with accumulative land portfolio values having increased more than 25% from purchased prices.

However, not all development expenditure receives full recognition as capital value in the year developed. As such, the overall valuation of the asset base appears lower.

This valuation methodology is common in 'purchase and develop' strategies, whereby expenditure on infrastructure improvements is capitalised and the full value change uplift is captured in subsequent years.

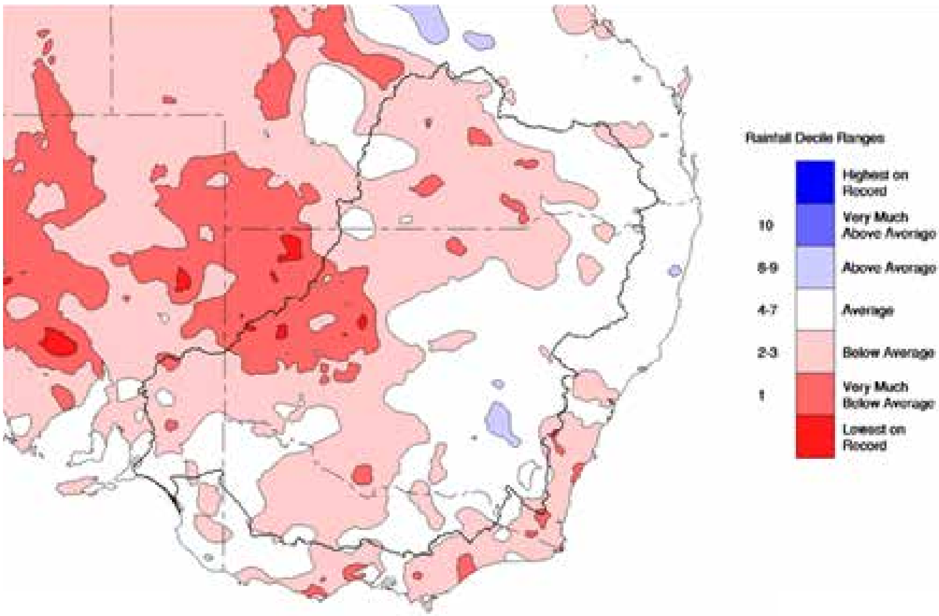

Figure 1: Murray-Darling rainfall decile June 2020. Source: BoM.

Summary data (net)

Month return (%)	-3.35
Last three months return (%)	-8.79
Financial year return (%)	-5.23
Rolling 12 months (%)	-5.23
Performance since inception (%)	-4.67
Since inception ANNUALISED [p.a.] (%)	-2.83

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Experienced gained renewing more than 4000ha of irrigation farmland since 2006 has shown that valuation uplift occurs incrementally in response to new cropping regimes, improved land management and soil regeneration.

After being formally launched in October 2018, the Fund will largely show crop yield improvements from 2021 onwards as new cropping programs, improvements in irrigation practices and soil regeneration begins to take effect.

When the valuation inspection was undertaken in April, only 100ha of the available 547ha of irrigation land was in crop, which is not an accurate reflection of the productive capability of farmlands portfolio as a whole.

Winter crops that have been sown include:

- More than 400ha of multi-species cover crop sown specifically for soil regeneration purposes
- 36ha of Fairview barley
- 6ha of niche cereal grain variety, and
- A further 100ha is being prepared for a second year of tomato crop.

Autumn rainfall summary

The Fund landscape received 60% of its long-term average monthly rainfall for June to round out the financial year.

The Bureau of Meteorology (BoM) reports this was consistent with the low rainfall received across the broader Murray-Darling Basin, as shown in Figure 1. Within this graphic the boundary of the Murray-Darling Basin is represented by the black line that crosses the states of New South Wales (NSW), Victoria, Queensland and South Australia.

Whilst the February to May period was particularly wet (Figure 2), the average rainfall largely did not occur over the catchment areas for the storage dams, which are situated in the eastern ranges of the Murray-Darling Basin.

In early July, the five major storage dams of the southern Murray-Darling Basin (Burrunjuck and Blowering in NSW and Dartmouth, Hume and Eildon in Victoria) were collectively at 49% of capacity.

This is relatively low given that 1 February to 30 April marked the end of three months of well-above average rainfall across the Basin (Figure 2).

The 10-year average volume of water held in these storages at this time of year is 63% and the long term average is 54%. Despite the 'very much above average', or in some cases in NSW 'the highest on record' rainfall received during this period, we are witnessing a catch up period.

Before the recent rainfall, the catchment areas for these dams have been exceptionally dry as a result of limited rainfall in 2018 and 2019, as reported in Figure 3. They are now yielding runoff from streams and rivers.

The consequent impact of this rainfall upon the fund and its portfolio of water entitlements is yet to be material, however Kilter Rural has seen an uplift in water allocation values traded during June.

Irrigators have responded to the lack of rainfall since May and have been purchasing water for the upcoming irrigation season that starts in September.

At this time of year values in entitlement prices tend to be relatively stable as volumes of entitlement trade tend to be relatively low. Irrigators assessing the market will become active from late Winter into Spring as they look to secure water entitlement (asset) or allocation water to meet operational needs for the upcoming season.

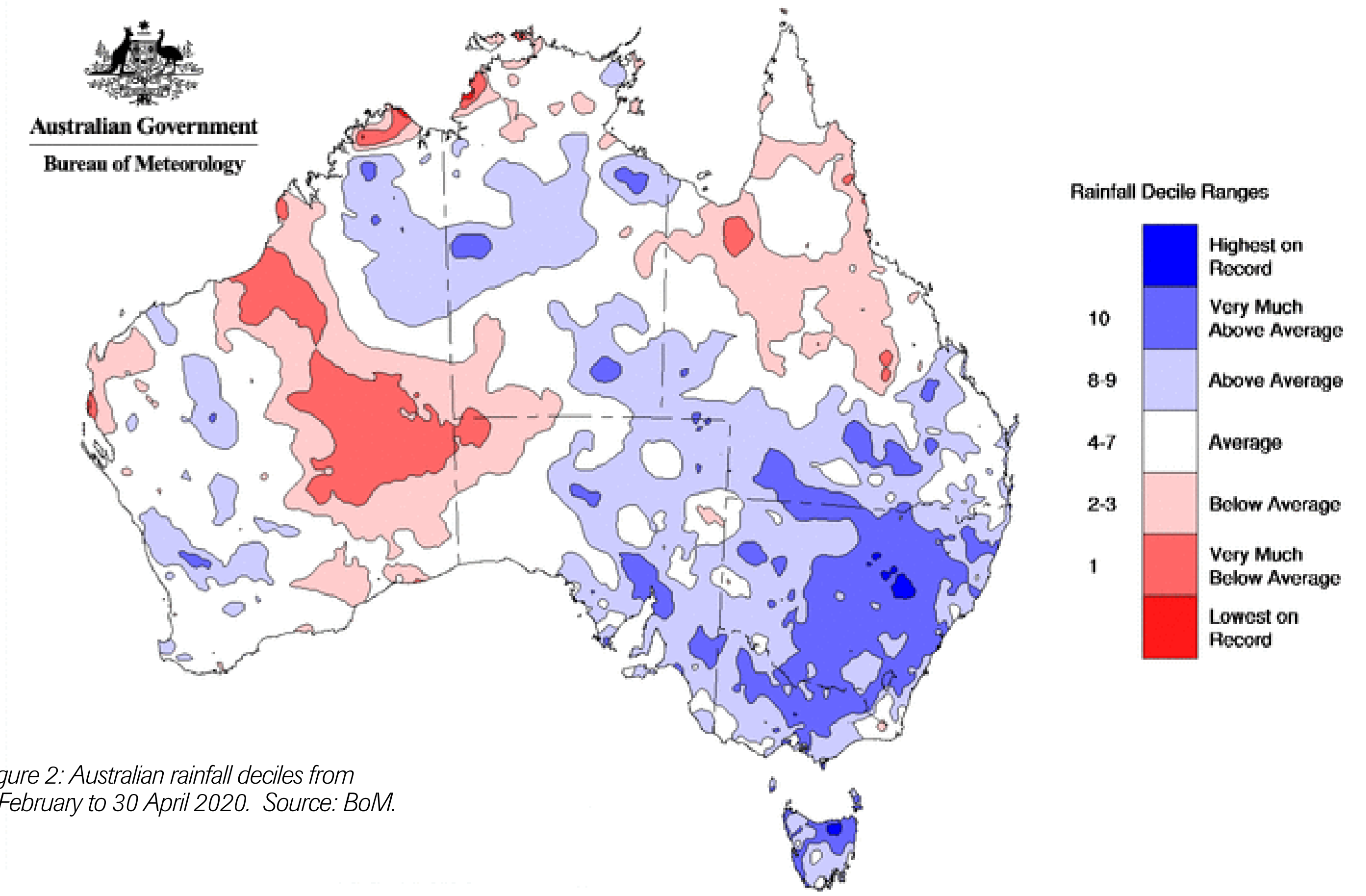

Figure 2: Australian rainfall deciles from 1 February to 30 April 2020. Source: BoM.

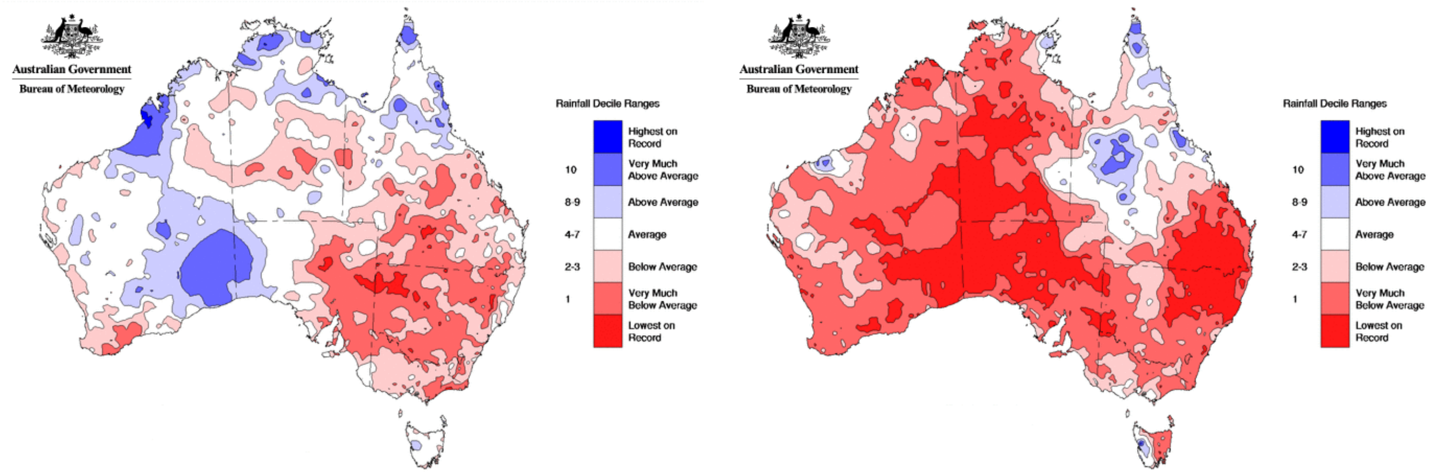

Figure 3: Australian rainfall deciles for 2018 and 2019. It is extremely dry across the Murray-Darling Basin. Source: BoM.

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Disclaimer

The information contained in this report is general information only about the Australian Farmlands Fund and Australian Farmlands Operating Fund (the 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 30 June 2020, as amended from time to time.

The information provided in this report is private and confidential and should not be provided to third parties without the consent of the Trustee.