

FEBRUARY 2019



The Murray-Darling Basin Balanced Water Fund

INVESTOR UPDATE

Unit Price: 28 February 2019 \$1.61

Fund Performance

Fund Returns	%
February 2019	5.59%
Quarter to 28 February 2019	12.61%
Six months to 28 February 2019	21.96%
Financial year to date	29.59%

Fund Returns	%
Calendar year to date	12.09%
Twelve months to 28 February 2019	44.90%
Since inception	62.74%
Since inception annualised p.a.	16.51%

Fund returns by year and month:

Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	March	April	May	Jun	YTD
FY17	0.96%	0.21%	-2.83%	-0.69%	0.24%	0.75%	-0.14%	2.28%	0.29%	-0.51%	-0.47%	0.05%	0.06%
FY18	1.86%	2.66%	5.77%	4.90%	0.28%	1.63%	0.23%	0.86%	2.83%	4.52%	0.93%	3.08%	33.65%
FY19	3.30%	2.86%	5.21%	0.76%	2.16%	0.46%	6.16%	5.59%					29.59%

- The Fund posted another strong return of 5.6% for February, lifting the financial year-to-date performance to 29.6%. The two Victorian Murray High Reliability entitlement classes which contribute over 70% of the Fund's holdings experienced increases of over 6% and 8% respectively. These entitlement classes remain in strong demand due to the existing and forecast future level of development of higher-return perennial cropping along the Murray system.
- In the current environment of high allocation pricing, this month the Fund accepted leases for some of its high security entitlement at good pricing relative to historic lease values.
- February saw a reversion to average conditions for both rainfall and temperatures in the southern Murray-Darling Basin (sMDB), bringing some respite from the previous record heatwave in December and January. Very dry catchments ensure inflows are low at this time of the year and with most summer crops requiring watering during the month, combined sMDB storage levels continued to fall – down 4% to 39% of capacity.
- Water Allocation prices experienced their largest correction for the year in the latter half of February with the connected Murray system price dropping from its peak at \$550/ML down to \$450/ML and the Murrumbidgee price down from its peak of over \$700/ML to \$450/ML. The sudden reduction in price was somewhat unexpected and is attributed to easing of demand as summer crop watering winds up in readiness for harvest.
- Outlooks for opening water allocations have been released for the 2019-20 water year. A combination of relatively low storage levels and forecast low inflows ensures that the outlook is for significantly lower opening allocations than were experienced in the current season.

- The Bureau of Meteorology (BoM) current seasonal outlook for March to May does not provide the sought-after relief irrigators are hoping for. BoM has reverted to a moderate to strong chance of below median rainfall over the greater sMDB with a strong chance of above median temperatures being achieved over this period.
- With the recent South Australian Royal Commission, two independent assessments of the recent large-scale fish deaths in New South Wales and resultant media attention, the Basin Plan and management by MDBA is facing increased scrutiny. Three senators introduced Bills to the Federal Senate proposing to remove the current cap on water buybacks, ban cotton exports and establish a Royal Commission into the management of the MDB. It is unclear whether these Bills will be progressed but they are unlikely to be voted on before a federal election in May.
- The Trustee is pleased to confirm that Graham Kraehe (AO) and Dr Thomas Parry were reappointed to the Fund's Advisory Committee for a further period of three years at a meeting of Unitholders held on 23 January 2019.

An aerial photograph of a wide river flowing through a lush, green landscape. The river is in the foreground, reflecting the warm, golden light of a sunset. The banks are lined with dense, vibrant green trees and vegetation. In the distance, the landscape opens up into a flat, green plain under a sky filled with soft, orange and pink clouds. The overall scene is peaceful and scenic.

Thank you to all who participated in the webinar session during the month relating to the recent river fish kills in New South Wales. We hope the information presented helped provide a greater understanding of the issues which continue to impact the affected river ecosystems.

Low storage levels impacting entitlement allocation outlook

The declining storage levels in the sMDB (Figure 1) are reducing the buffer against ongoing low inflows resulting in a greater likelihood of lower allocation determinations next year. The Northern Victorian Resource Manager released their initial outlook for 2019/20 seasonal allocation determinations in mid-February. This indicated that a repeat of 2018/19 inflows would result in the Goulburn system reaching about 65% (compared to 98% this year) and the Murray system would be about 60% (compared to 100% this year).

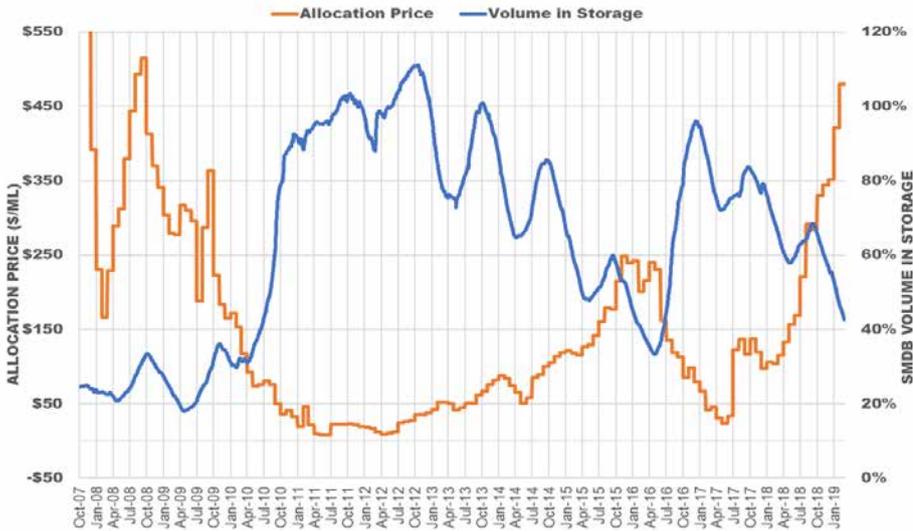


Figure 1: SMDB Storage Levels vs Water Allocation Price

Inflow is the key variable in arresting storage level decline. February inflows (Figure 2), although never a significant contributor to storage volumes, continued to trend well below historic averages.

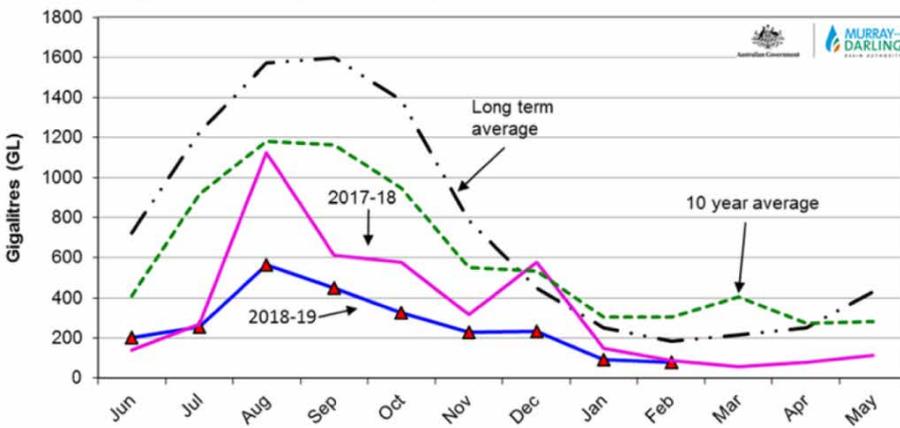
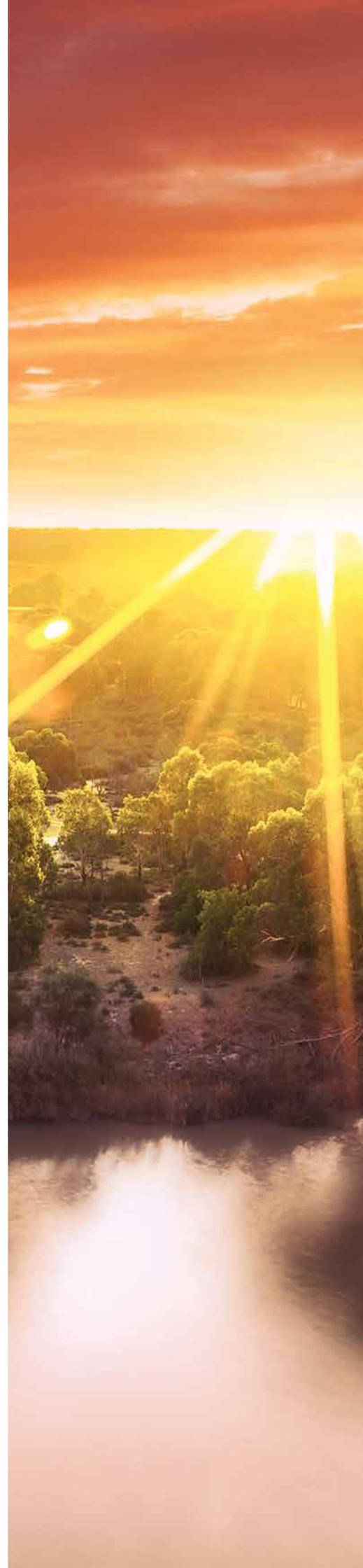


Figure 2: Murray System Monthly Inflows

Water Allocation prices (Figure 1) continue to remain well above the levels experienced in 2015/16 when volumes in storage were at similar levels. If dry conditions persist through Autumn into Winter, lower allocation determinations will combine with reduced carryover volumes leading to significantly lower water availability in the 2019/20 irrigation season. Under this scenario Water Allocation prices are expected to be even higher than those experienced in the current season.





Murray-Darling Basin Balanced Water Fund monthly report disclaimer

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This report may include forward looking statements which involve known and unknown risks, uncertainties and factors beyond the control of the Fund's trustee, Kilter Investments Pty Ltd and 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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