

Australian Farmlands Fund

OCTOBER 2020

AUM: A\$39.55M

UNIT PRICE: A\$0.96

The Funds' generated a -0.53% return for the month of October. This was driven by movements in the carrying value of the Funds' water entitlement portfolio. Some classes of water entitlement softened by as much as 2.5% whilst others firmed almost 2.0%.

October brought significant activity to the Funds' farms as one of the most favourable Spring seasons in recent memory delivered enormous crops across the district.

More than 400 hectares of multi species cover crop was planted across the Funds' farms as an agronomic investment into the soil health of those properties. Invigorating soils that previously supported monoculture crops of pasture or cereal for decades with multi species crops provides highly beneficial outcomes to soils and prepares them well for subsequent crops to follow.



Figure 1 GM of Agriculture & Ecosystems Michael Neville demonstrating the vigour of the multi species cover crop.

Summary data (net)

Month return (%)	-0.53
Last three months return (%)	-1.55
Financial year return (%)	-1.83
Rolling 12 months (%)	-8.50
Performance since inception (%)	-4.24
Since inception ANNUALISED [p.a.] (%)	-2.14

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

Fund Manager

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Fund Trustee

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The cover crop was grown with minimal fertiliser and consisted of 14 different species of cereal, brassica, grass and legume. It successfully demonstrated that providing soil with a diverse mix of species activates soil microbiology, provides for a more balanced soil ecosystem and consequently enhanced soil function. The outcome of which is a vigorous and healthy crop as shown in Figure 1.

Tomato planting commenced in the last week of October, with the weather being kind to those in the field so far. Approximately 1.7 million seedlings have been planted across 97Ha. Planting staff sit on a machine fixed behind a tractor and manually drop seedlings through a wheel mechanism so they are evenly spaced. Planting and harvest periods are the busiest times of the year in the Kilter Rural cropping calendar. All logistics on the ground are managed by Kilter Rural farm staff.



Figure 2 Silage harvest taking place.



Figure 3 Tomato planting underway.

Weather and Water Market

The trend of a favourable season continued for cropping and livestock farmers across the eastern states as the La Nina weather pattern began to make its influence felt. The local weather station for the Funds' properties received almost exactly its monthly average. This was most welcome rainfall in a critical time of year for the cereal crops, as plants approach maturity and begin the grain fill stage.

Strong Spring rainfall over the catchments generated consistent stream flows into the major storages supplying the southern Murray-Darling irrigation areas. As a result, allocation determinations have increased significantly. This increase in allocation (available irrigation water supply) has driven spot market prices down for the time being however we are yet to reach the peak Summer demand period of December to February.

The major high reliability entitlement classes had received the following allocations as of 1 November 2020:

- Goulburn 93%
- Vic Murray 77%
- NSW Murray 97%
- Murrumbidgee 95%
- Sth Australia 100%

Kilter's strategy of de-commoditising

The key measure of profitability for irrigation enterprises is Gross Margin per megalitre of water (GM/ML). It's by this metric that Kilter makes strategic decisions on water use from season to season. At the core of the Funds' water strategy is the financial optimisation of water in a given year, this is built upon Kilter's 15 years' experience managing a similar strategy under its institutional mandate.

Kilter either utilises water to grow crops, or trades in the active allocation market, depending on the seasonal allocation price. Kilter understands what GM/ML is achievable for a given crop and that informs a decision to either consume for use, or to utilise for trade. Significant assessment of storage volumes and seasonal outlooks are considered in this decision process.

With a view to maximising available operating returns achievable from water in a given year Kilter began pursuing specialist niche markets. This helps to de-risk the cropping program by moving away from low value, large volume, bulk commodity export markets such as wheat, barley or canola. This includes but is not exclusive to scaled organic production.

As a specialist irrigated grower, Kilter provides offtake partners with visibility to a consistent supply chain through mitigation of the largest influencing factor upon production; rainfall. Processors cannot invest in expanding existing products or deliver new ones to market until they're assured of a consistent supply chain. As such, these contracts are established in close collaboration with Kilter's offtake partners. Agreements are reached after a mutual site visit and all stakeholders have a deep understanding of Kilter's operating model and ambitions for the future. This ensures alignment remains long-term in nature, the best outcome for both parties.

Kilter has now grown to become the largest grower of irrigated organic wheat and barley in Australia and the only grower of organic field grown tomatoes for processing. Whilst these existing niche markets might pale in comparative scale to the large commodity markets, they remain deep enough to accommodate Kilter's growth objectives over the next five years. Furthermore, with consumer trends of plant protein consumption increasing, there are

exciting opportunities in this space to meet demand for both organic and conventionally grown varieties of peas, beans and other legumes. Currently these products are largely imported to be sold on Australian retail shelf space.

Contracted revenue not only de-risks cashflow over time, it delivers enhanced profitability as Kilter's reputation for growing niche crops requiring specialist agronomic IP commands a price premium. Several of Kilter's existing offtake contracts are for prices several multiples of the long-term average comparable equivalent crop. In addition to this, market supply for Kilter's existing crops, particularly organic varieties, is very limited, positioning Kilter well into the future to cement itself as the market leader in growing high value niche varieties of annual crops for long term contracted income.

Recent developments in commodity markets, such as the Chinese imposition of an 80.5% tariff on imported Australian barley and threatened sanctions against wine, coal, lobsters, timber and potentially wheat, only serve to further underscore the merits of pursuing a strategy of de-commoditisation.

Summary Information: Fund Assets

Farmland	1,128ha
Water Entitlement	2,584ML across NSW, VIC & SA

Operational Summary (rolling 12 months)

Tomatoes	97ha planted October 2020
Multi species cover crop	400ha either rolled for beneficial ground cover or harvested for silage
Barley	36ha of Fairview barley
Niche Barley	6ha of a niche variety of barley has been sown to build out seed for 2021 season.

Strategy

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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.

An information memorandum for the Australian Farmlands Funds was approved and released in June 2020, with the Kilter Water Fund information memorandum approved and released in March 2019 and 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	-1.74	-3.35	-0.28	-0.72	-0.31	-0.53			-9.81
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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This report may include forward looking statements, which involve known and unknown risks, uncertainties and factors beyond the control of the Funds' 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.

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Australian Farmlands Fund

NOVEMBER 2020

AUM: A\$39.77M

UNIT PRICE: A\$0.95

The Fund returned a -0.44% return for November. The result was largely driven by the significant costs incurred in establishing this Summer's tomato crop. These expenses were partially offset by income received from silage sales, whilst water entitlement values remained stable. The water market has remained relatively stable over recent months as water allocations across the primary entitlement classes have increased and weather conditions throughout the southern Murray-Darling Basin have tended to be cooler than average in late Spring.

With much anticipation, the Fund harvested its first crop of barley in November. Kilter grew three types of barley this year, two of which are a specialist niche variety destined for export to Japan. Kilter maintains exclusivity over this variety in Australia, the only other global supply comes from Montana, USA.

In 2017, offtake partner Hakubaku approached Kilter to explore opportunities in growing waxy barley locally. Kilter has been growing organic milling wheat for the Japanese headquartered Hakubaku since 2016. The organic wheat is used for soba noodle production of which 65% is exported globally.

The first initial hurdle in growing the waxy barley was the lack of available seed, only a very small sample was available, no bigger than a cup full. The incentive to pursue this market is the attractive farmgate pricing per tonne, about two times the ten-year average price for commodity variety barleys. In Australia, about 35% of barley is grown for malting with the remainder used for stockfeed, beef feedlots, piggeries and chicken broilers sheds. Export, primarily for malting, has historically been a big part of the market.



Figure 1 Hakubaku, headquartered in Japan and with an organic noodle factory in Ballarat. Hakubaku are looking to double their processing capacity with the Kilter Rural farm supply chain forming a key part of their strategy going forward.

Summary data (net)

Month return (%)	-0.44
Last three months return (%)	-1.28
Financial year return (%)	-2.27
Rolling 12 months (%)	-10.21
Performance since inception (%)	-4.66
Since inception ANNUALISED [p.a.] (%)	-2.26

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Kilter worked with a niche grain propagation specialist in Victoria who grew the small seed sample out in secure greenhouse conditions to generate enough seed for a small field planting. That enabled planting of about 6ha, on an Australian Farmlands Fund farm.

The seed was sown at the low rate of 10kg/ha, 6-10 times less than normal. This allowed for maximum airflow between the plants and minimised competition for moisture and nutrients. This strategy proved successful with the crop demonstrating excellent vigour throughout the growing season and ultimately yielding 3.6t/ha. This a very pleasing result given the low planting rates and provides enough seed for more than 150ha of planting in 2021.

Waxy barley consumption in Japan has been growing consistently over recent years as the market seeks nutritional supplements for adding to steamed rice. Hakubaku supplies about 80% of the Japanese waxy barley market for human consumption. Waxy barley contains about 20 times the dietary fibre of rice and with Japan's ageing population and growing awareness of the importance of gut health, demand for alternative healthy grains has increased significantly.

Adjacent to the waxy barley, 36ha of conventional fairview barley was sown which yielded a pleasing 6.1t/ha. The growing season rainfall from May to October totalled 278mm, inclusive of 60mm of irrigation water applied. This equates to 22kgs of grain for every millimetre of growing season rainfall. This measure of Water Use Efficiency (WUE) is a commonly used benchmark in the grain industry. Typically, 16-18kgs grain/mm of growing season rainfall is considered the benchmark target. Whilst only small in volume, this result firmly places this crop in the top tier of industry yield performance.

This result strongly supports the strategy of purchasing underutilised farms in highly regarded agricultural areas. The 2021 winter cropping season could see as much as 700-1,000ha of crop planted.



Figure 2 Kilter team inspecting a barley crop pre 3 weeks before harvest.

In late November, 51ha of soybeans were planted. Soybeans are one of the largest crops by area grown in the world with approximately 120 million hectares producing more than 360 million tonnes annually. Of this, 87% is grown on the north and south American continents and almost 80% of this is used for livestock feed, a low value end use. Some soybean production areas in Brazil have been linked with extensive deforestation of the Amazon and Cerrado regions.

In Australia, the industry is comparatively small, with less than 200,000 tonnes grown on average annually and very few organic

growers. Consumption is more focused on high value end uses for human consumption such as soymilk, tempeh and tofu. This Summer's crop will be grown conventionally with a view to a potential organic crop within the Fund next Summer.

This year's soybean crop was sown into the remnant mulch purposely left in the field after the Winter sown multi species cover crop. This provides valuable protection to the soil surface, reducing evaporation whilst also regulating soil temperatures by providing a direct layer of insulation. Early indications are that germination rates have been very good.



Figure 3 and 4, Soybean planted into the mulch of the Winter crop.



Strategy

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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	-1.74	-3.35	-0.28	-0.72	-0.31	-0.53	-0.44		-10.21
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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Australian Farmlands Fund

DECEMBER 2020

AUM: A\$40.43M

UNIT PRICE: A\$0.96

The Fund posted a 0.59% return for December as water entitlement values remained stable and income for Winter crop sales was received.

December's operational focus has been upon irrigation and management of the Summer cropping program of tomatoes and soybeans. Field tomatoes require significant agronomic expertise to optimise yield potential and Kilter works very closely with external agronomists to ensure that crop nutrition, soil moisture and disease risk are closely monitored daily. Despite Summer storm activity, some delivering more than 50mm in just a few hours, pleasingly, the crops remain in good order for this stage of the season.

At the end of December new flowers were still forming in the tomatoes and fruit set appeared to be very good with nearly all crop rows reaching the canopy closure stage. Similarly, the soybeans were also close to reaching canopy closure stage under pivot irrigation as seen in Figure 1.

In addition to the tomatoes and soybeans, Kilter has planted a small field trial of Haricot beans, more commonly known as Navy beans due to their heritage being a staple of the American navy as far back as the 1800's. Navy beans are the primary ingredient in a tin of baked beans.

Historically Navy beans were grown in SE QLD to supply a nearby American army base that no longer exists. These days Australia imports more than 3,000t of baked beans annually with none being grown locally at a commercial scale. During the peak of COVID induced food demand seen in 2020, Australia's largest baked bean cannery doubled its production to meet domestic demand to 500,000 cans a day.

That same cannery has expressed preference to source domestically. Kilter is seeking to grow the crop out to a commercial scale over the next 2-3 seasons and secure supply exclusivity via an offtake agreement.



Figure 1: Pivot irrigation of soy bean crop.

Summary data (net)

Month return (%)	0.59
Last three months return (%)	-0.39
Financial year return (%)	-1.69
Rolling 12 months (%)	-9.68
Performance since inception (%)	-4.10
Since inception annualised [p.a.] (%)	-1.91

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Figure 2: Soy beans approaching canopy closure stage.

Weather Commentary

A relatively weak La Nina remains in play. The La Nina has not been as strong to date as was predicted during the early Spring and it already appears to be in decline. Generally, it can be said that SE Australia does not show a strong correlation between the strength of La Nina and rainfall quantum. However, as shown in 2011 it only takes one southerly migration of a remnant La Nina year, for the cyclone to have dramatic consequences.

Despite being a La Nina year the first of the international analyses concludes that the globe as a whole tied with 2016 as the hottest year in the records. Australia recorded its 4th hottest on record (BoM). Locally, Victoria experienced an average year for both temperature and rainfall. After a wet start to the year - peaking in April - most months were drier than average and despite flooding seen in NE NSW and parts of QLD, the southern Murray-Darling Basin (sMDB) has received average to below average rainfall over the last six months, see Figure 3.

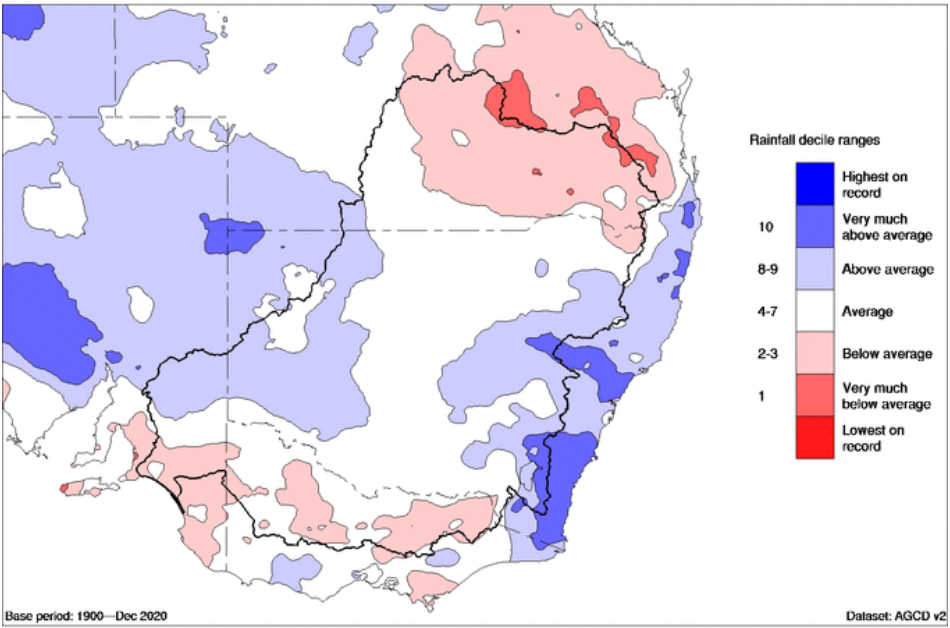


Figure 3: Murray-Darling Basin Rainfall Deciles from July to December 2020 (Source: BoM).

As the likely influence of La Nina begins to fade over the coming 2-3 months the BoM has forecast an average to slightly above average likelihood of exceeding median rainfall across northern Victoria and southern NSW. Other international weather models are suggesting increased likelihood of further heavy rainfall events in northern NSW and QLD, all of which has no bearing on water prices in the major water trading markets of the sMDB.

Unusually for mid-Summer there has not yet been a sustained hot spell experienced across the sMDB and water usage across all industries is being reported as down on average, hence tempering water allocation prices somewhat so far in the 2020/21 season.

Three-month Rainfall Outlook from March to May 2021 (Source: BoM)

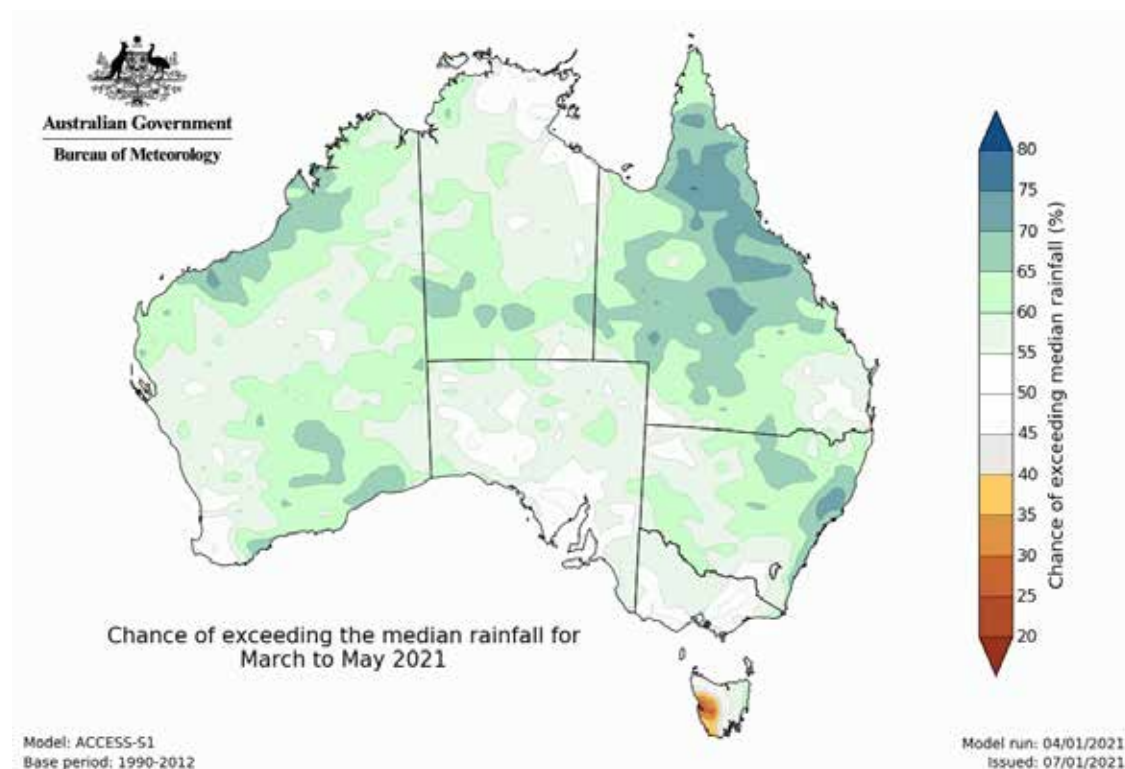


Figure 4 BOM 3 month Rainfall Outlook Mar May 2021.

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