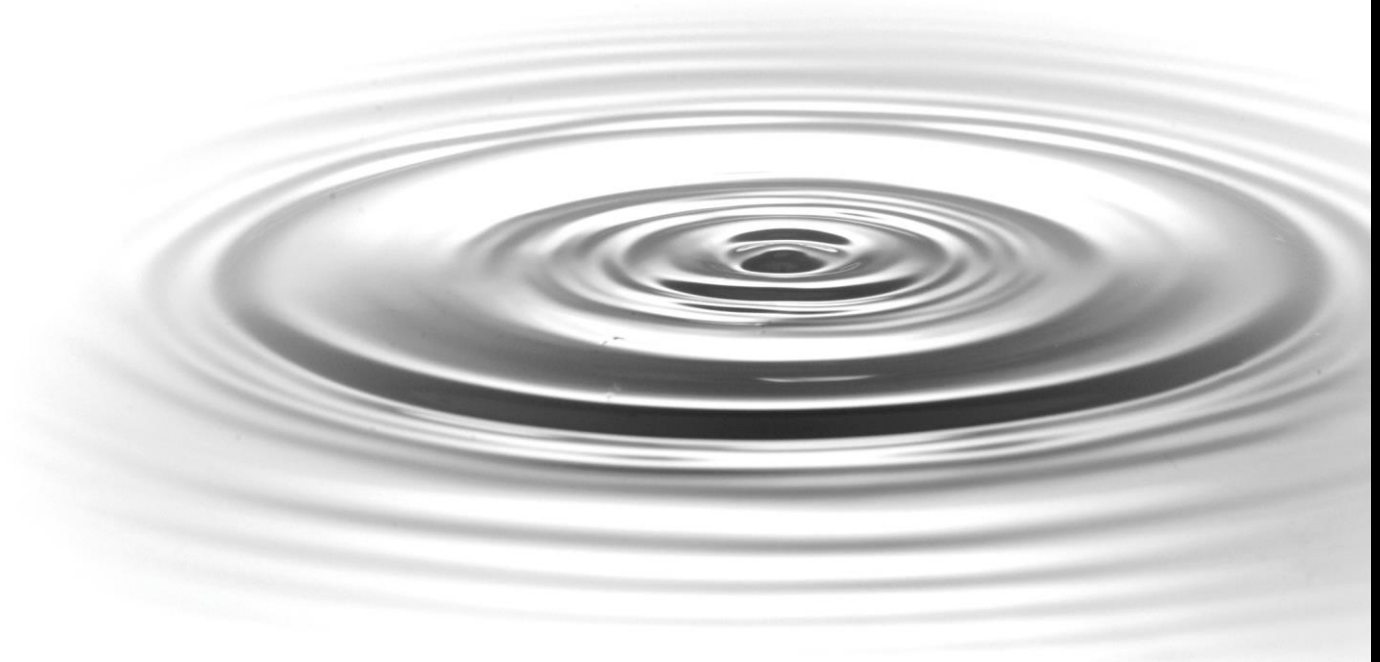




DUXTON  
WATER



**DUXTON**WATER LTD

INVESTORPRESENTATION

September 2018

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## KEY INFORMATION

Current share price (as at 18 SEPT 2018)	\$1.37 per share
Current shares on issue	90,280,281
Current Market Capitalisation	\$123.7 million
ASX Code	D2O
Investment Universe*	Australian Water Entitlements
Investment Manager	Duxton Capital (Australia) Pty Ltd

## CAPITAL STRUCTURE (14 SEPT)

Current shares on issue	90,280,281
-------------------------	------------

## FEE STRUCTURE

Duxton Water has no staff itself; management is outsourced to Duxton Capital (Australia) with a fee structure that is highly competitive:

- The Investment Manager receives a management fee of 0.85% p.a. of the net asset value (NAV) of the Company.
- A performance fee (subject to a high watermark) of 5% p.a. is payable on annual returns above 8%, and 10% p.a. on annual returns above 12%.
- The Investment Manager is also paid for reimbursable costs.

## KEY METRICS

14 SEPT 2018

Total Megalitres ("ML") owned	52,009 ML
% of entitlements leased	45%
Net Asset Value	\$123.0 million
Net Asset Value per share	\$1.36 per share
2018 distribution yield <sup>#</sup>	3.58% (4.30% incl. franking)
Gearing	< 30%

## BOARD MEMBERS

Ed Peter	Non-Executive Chairman
Stephen Duerden	Non-Executive Director
Dirk Wiedmann	Independent Non-Executive Director
Peter Michell	Independent Non-Executive Director
Dennis Mutton	Independent Non-Executive Director

## MAJOR SHAREHOLDERS (14 SEPT)

Duxton Vineyards	38.12%
------------------	--------

All dollar values are in AUD unless otherwise specifically stated.  
<sup>#</sup> FY18 3.58% dividend yield at share price of \$1.37.

\*Duxton Water may hold small land holdings from time to time when the purchase of land is required for the purchase of the Water Entitlement associated with it.  
 \*\* Net Asset Value is adjusted for fair market value of water entitlements

## ASX : D2O

- Duxton Water Limited (“Duxton Water” or the “Company”) is the only pure water exposure on the ASX, giving investors the opportunity to invest in a large and highly diversified portfolio of Australian water entitlements.
- Water underpins the Australian agricultural sector and the Australian water market is the most sophisticated in the world, consisting of trade in perpetual water entitlements (also known as water licences or water rights) and the annual water allocations that attach to these entitlements. Total entitlement and allocation trading across the Southern connected Murray Darling Basin was estimated at \$631 million in FY18<sup>1</sup>.
- Duxton generates a combination of uncorrelated capital returns through the appreciation of its portfolio of entitlements and income through:
  - entitlements on long term lease (45% of portfolio);
  - trading the annual allocations attaching to its entitlements (55% of portfolio); and
  - trading purchased allocations
- Since its IPO in September 2016, Duxton Water has:
  - generated total shareholder (NAV) returns of 35.5%<sup>2</sup>;
  - increased NAV from \$1.07 to \$1.36<sup>3</sup>;
  - paid \$5.46 million in total dividends<sup>4</sup>; and
  - invested over \$114 million in Australian water entitlements (cost), now valued at \$148.9 million (14 September 2018)
- The Company sees strong opportunities for future growth in the maturing Australian water market, with the structural shift in Australian agriculture towards permanent crops supporting price appreciation of water entitlements. Duxton Water has within its acquisition pipeline a further \$25.1 million of water entitlements, to be funded through an increased debt facility.

*All dollar values are in AUD unless otherwise specifically stated.*

<sup>1</sup> Aither Pty Ltd

<sup>2</sup> This is total NAV return inclusive of franked distributions

<sup>3</sup> As at 14 September 2018

<sup>4</sup> Inclusive of upcoming Dividend



1

**Australia's only pure listed water play with a strong track record**

2

**Strong underlying trends supporting future growth in water prices**

3

**Multiple sources of return**

4

**A unique asset class with uncorrelated returns**

5

**Growth opportunities in a large market with largely fixed costs**

6

**Experienced management team and investment in resources for global growth**

**The Australian Water Market**

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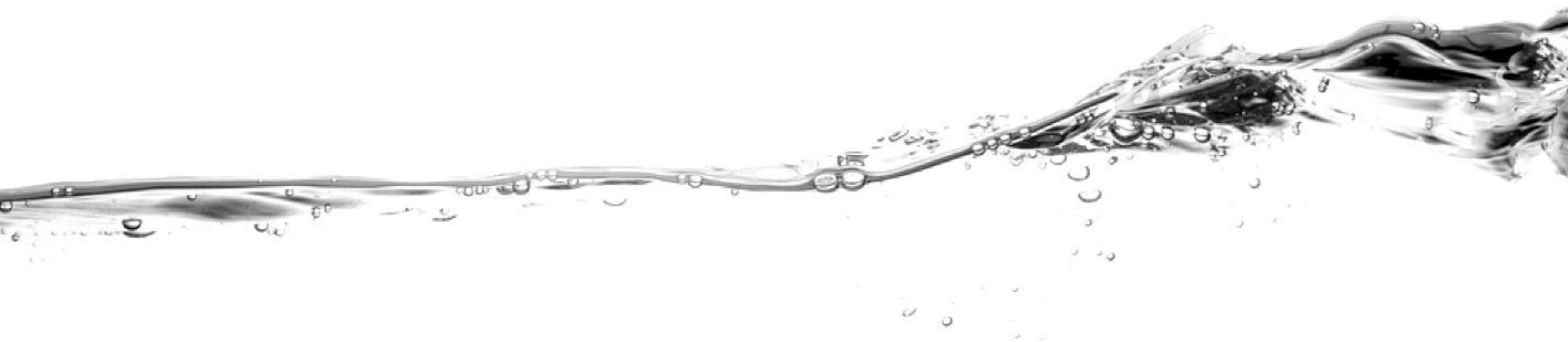
Strong Underlying Trends

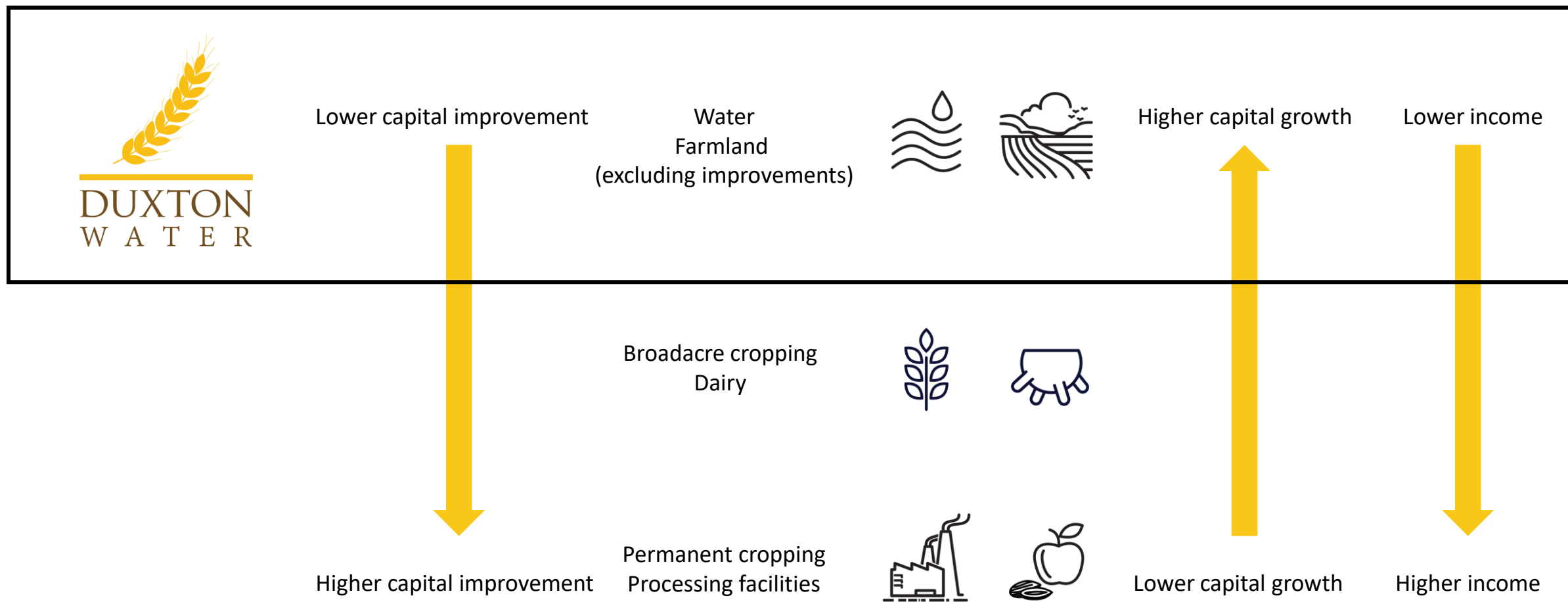
Multiple Sources of Return

Uncorrelated Returns

Growth Opportunities

Appendices





## RIVER SYSTEMS

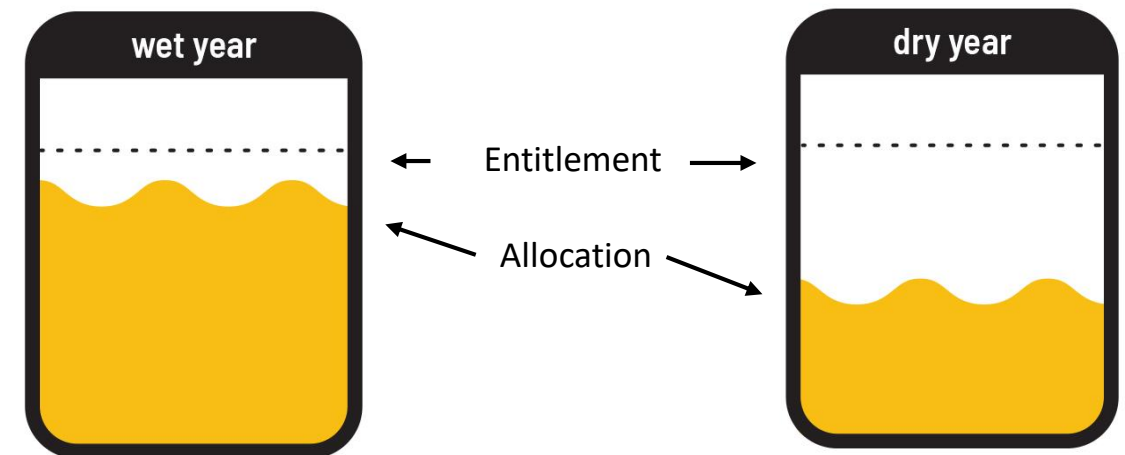
- Duxton Water currently owns assets in the Southern Murray Darling Basin system:
  - consists of 14 interconnected systems that trade under a 'cap and trade' system where the cap is the total water available for consumptive use
  - effectively two markets, for **entitlements** and **allocations**
  - trade occurs both on exchanges and by private treaty

## ENTITLEMENTS

- Perpetual rights to a volume of water.
- Each entitlement type has different security classes and characteristics which influence factors including:
  - water allocation volume each year
  - carry-over potential (ability to 'carry-over' allocation to the following year)

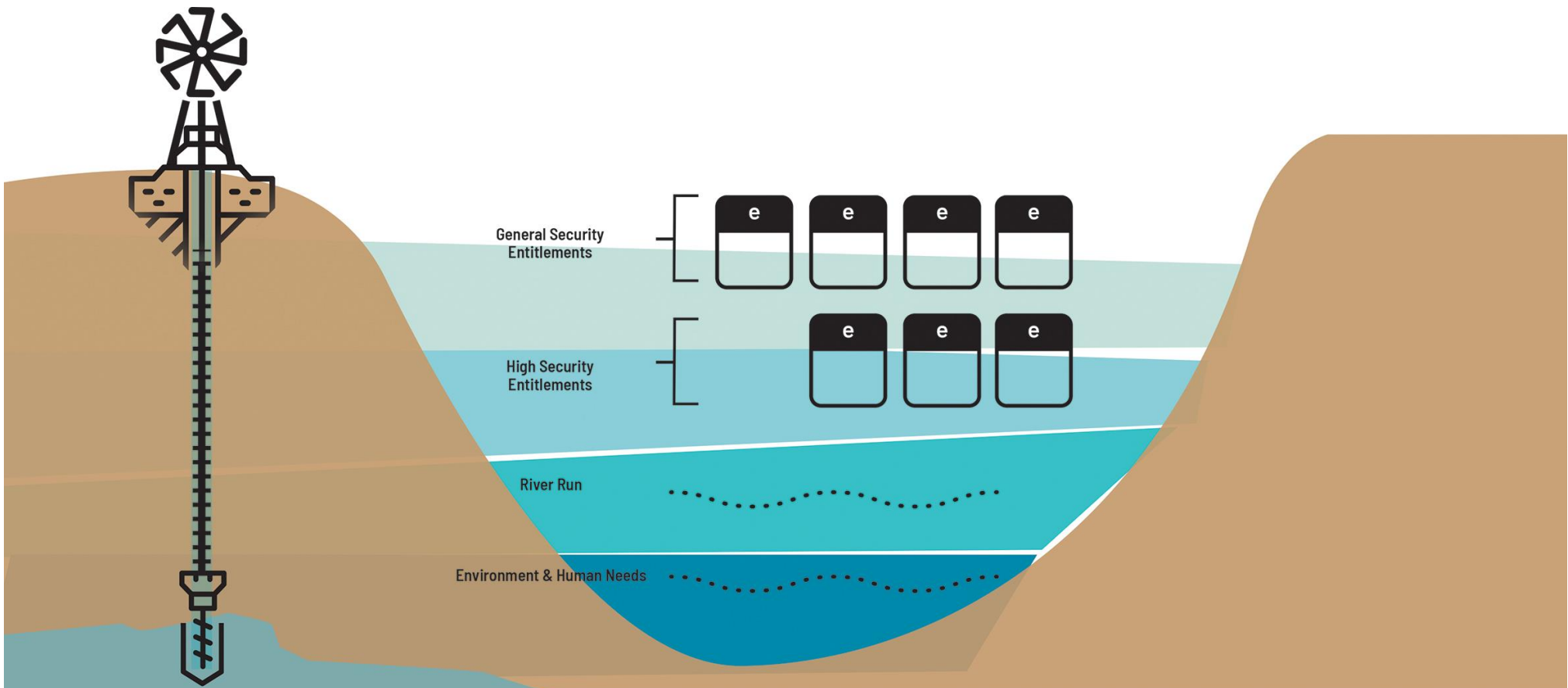
## ALLOCATIONS

- Volume of water allocated to an entitlement.
- Vary year-on-year (June – July), depending on:
  - rainfall
  - inflows into storage
  - volume in storage





The water resource in the Southern Murray Darling Basin system is allocated in priority order.  
Entitlements have different security types which determine the annual allocation volume.



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Strong Underlying Trends

Multiple Sources of Return

Uncorrelated Returns

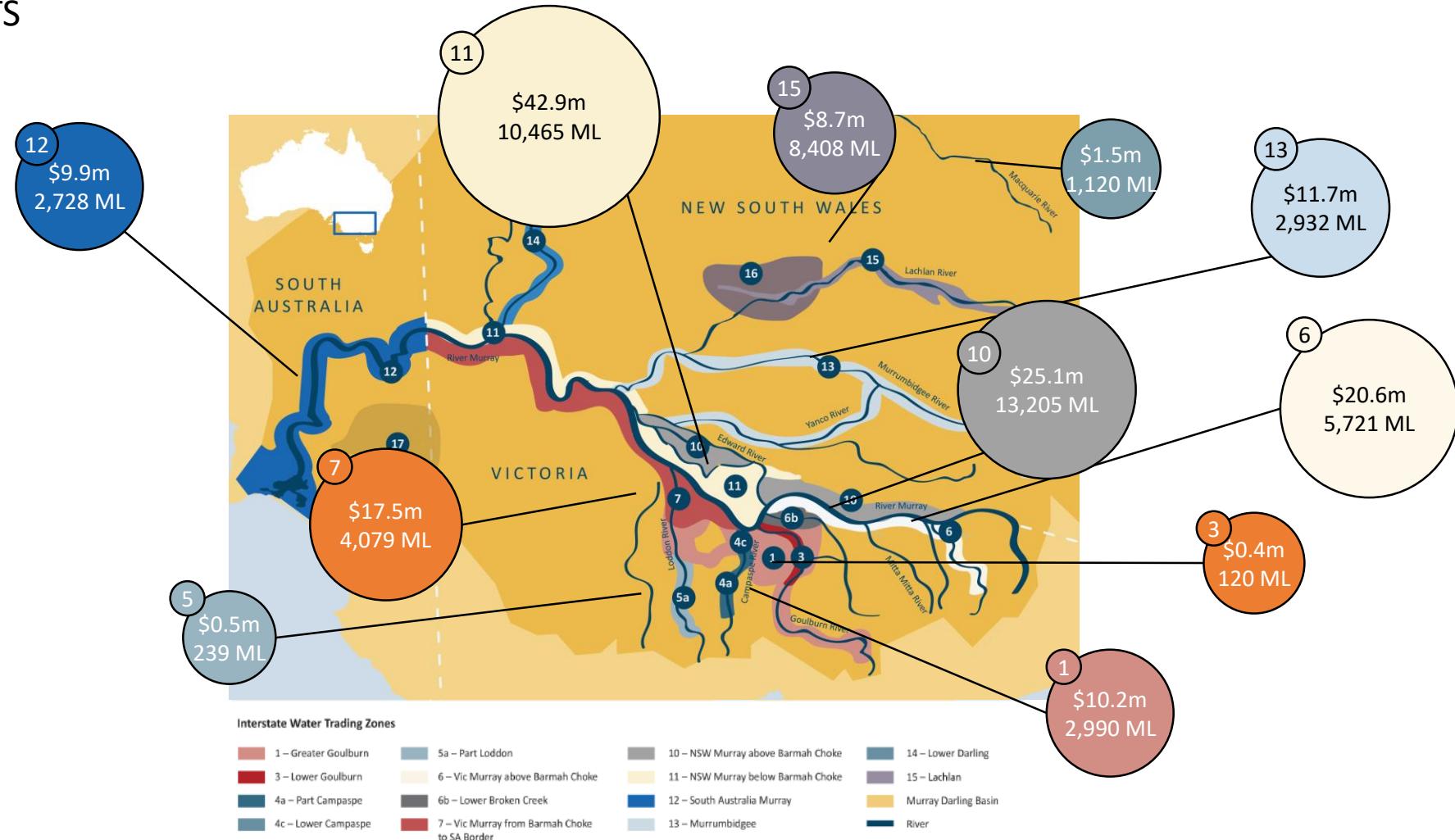
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Appendices



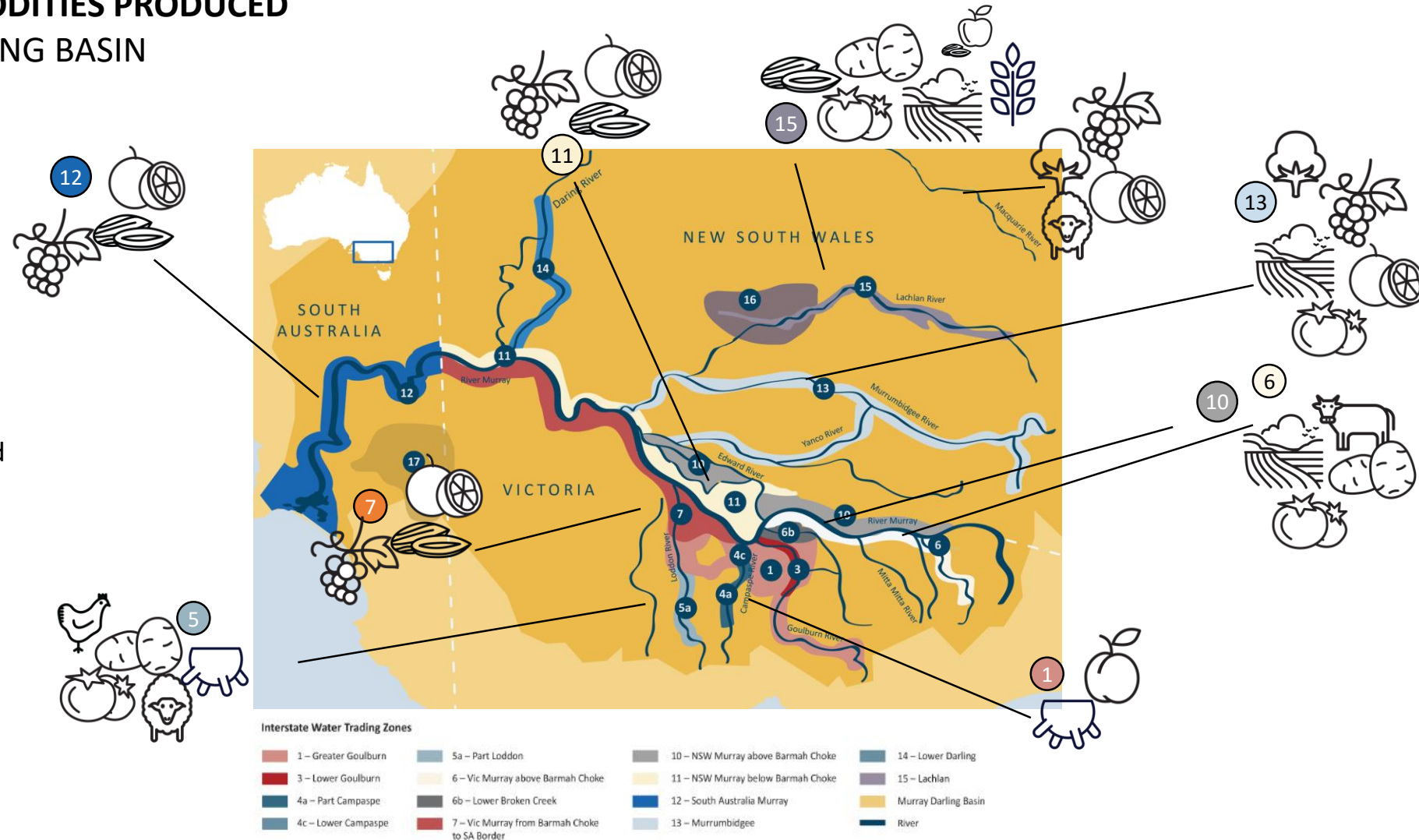
## PRO FORMA PORTFOLIO OF ENTITLEMENTS AS AT 14 SEPTEMBER 2018 EXCLUDING CONTRACTED ASSETS

- Duxton Water owns and manages \$160.4 million in water assets including entitlements and allocation (excluding contracted).
- A further \$25.1 million (10,258ML) of water entitlements are within the pipeline for further acquisition, as 14 September 2018.
- The water entitlements are well diversified across a number of metrics;
  - regions
  - security levels
  - crops



## DIVERSIFICATION OF COMMODITIES PRODUCED IN SOUTHERN MURRAY DARLING BASIN

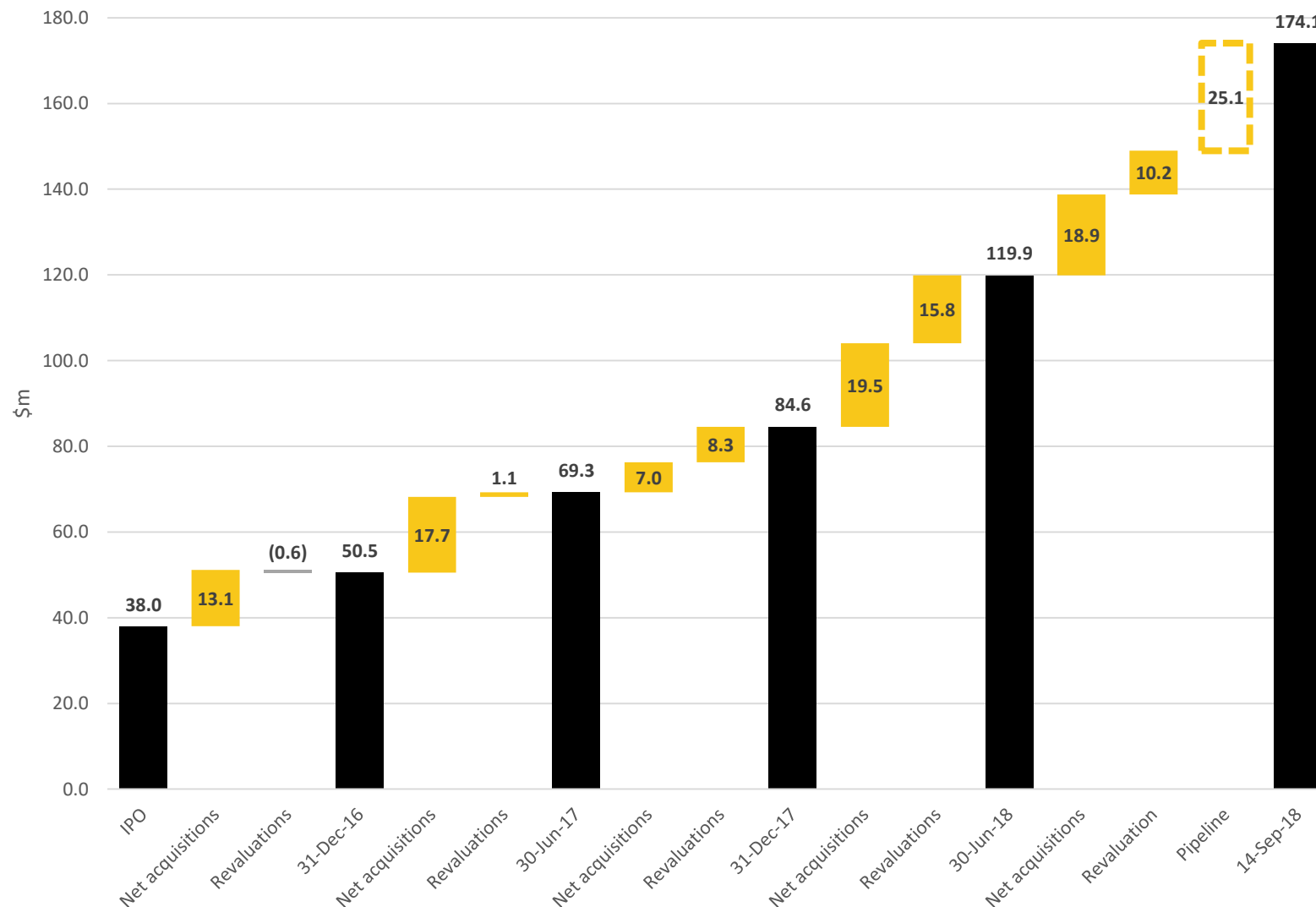
- Duxton Water acts as a proxy to Australian agriculture with its water assets providing solutions to a broad range of irrigators throughout the region.



2 <https://www.mdba.gov.au/discover-basin/people/economy-basin>

3 <http://www.abs.gov.au/ausstats/abs@.nsf/mf/4618.0>

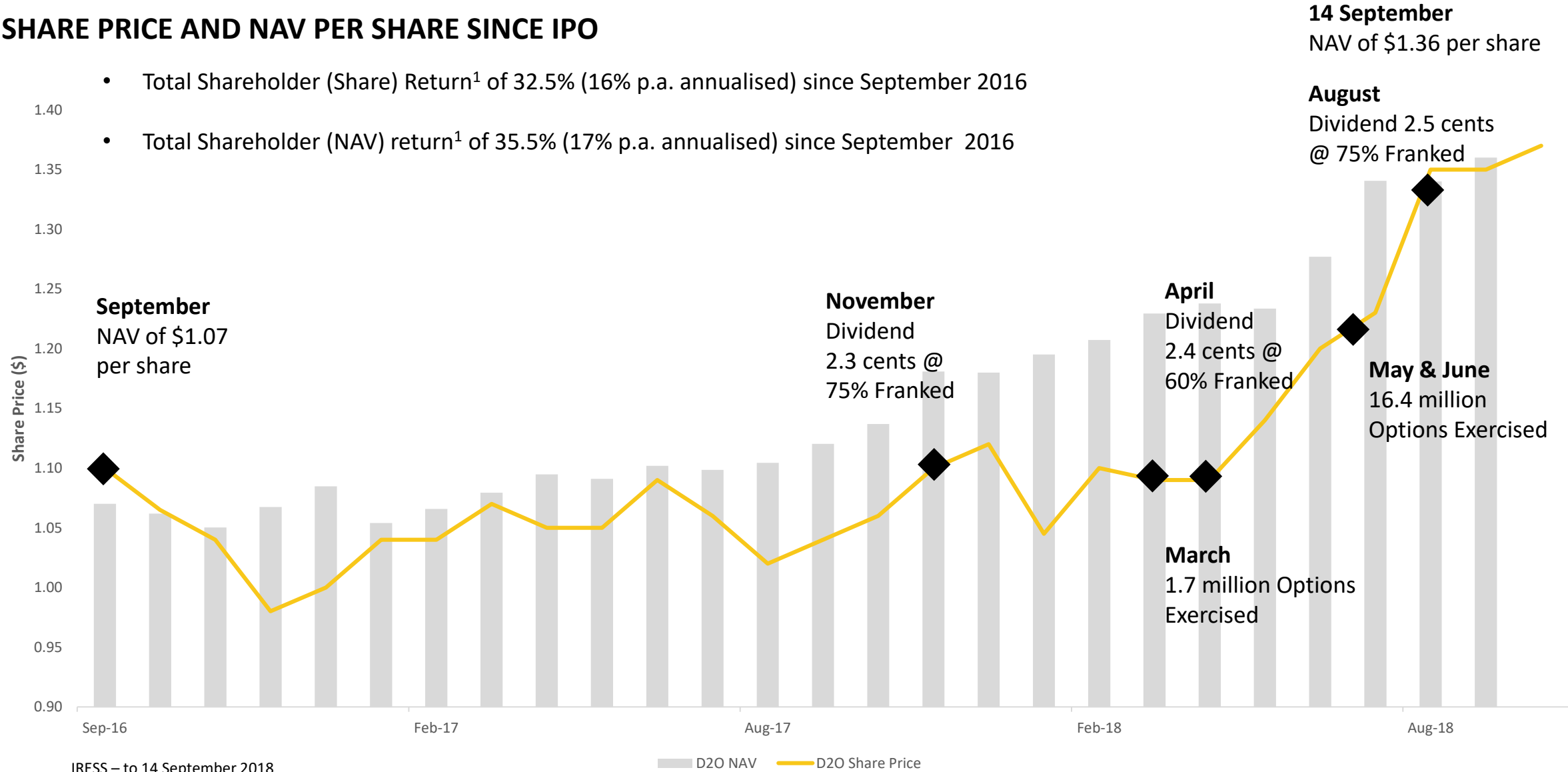
## GROSS VALUE OF ENTITLEMENTS



- Duxton Water has spent over \$114 million acquiring water entitlements since its IPO and up until 14 September 2018.
- The gross value of the portfolio has increased a further \$34.8 million based on independent valuations provided monthly by Aither Pty Ltd.
- The Company has acquired a further \$18.9 million since 30 June 2018 and has seen a revaluation uplift of a further \$10.2 million since 30 June 2018.
- A further \$25.1 million of assets are in the acquisition pipeline as at 14 September 2018.

SHARE PRICE AND NAV PER SHARE SINCE IPO

- Total Shareholder (Share) Return<sup>1</sup> of 32.5% (16% p.a. annualised) since September 2016
- Total Shareholder (NAV) return<sup>1</sup> of 35.5% (17% p.a. annualised) since September 2016



IRESS – to 14 September 2018  
<sup>1</sup>Inclusive of dividends and franking credits, based on share price 18 September 2018 \$1.37

The Australian Water Market

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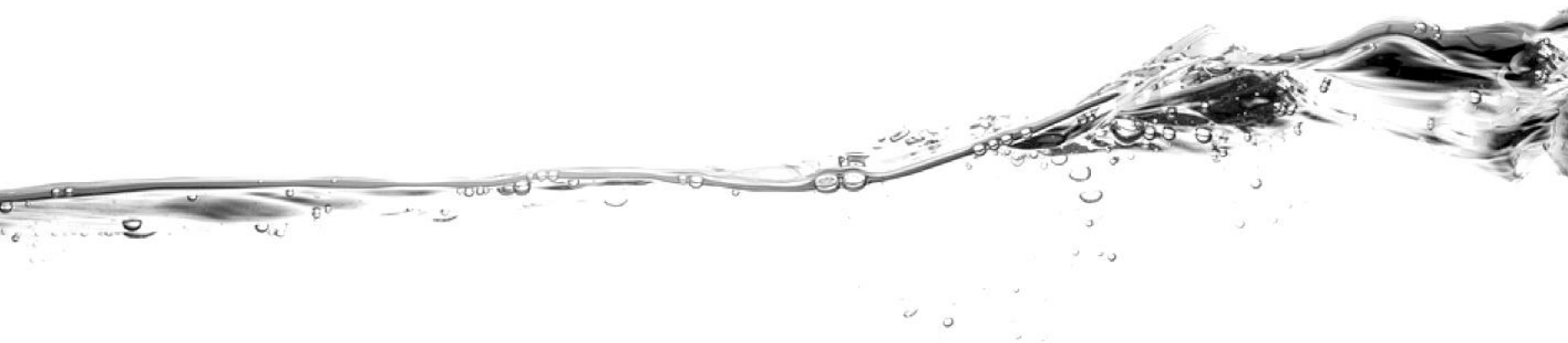
**Strong Underlying Trends**

Multiple Sources of Return

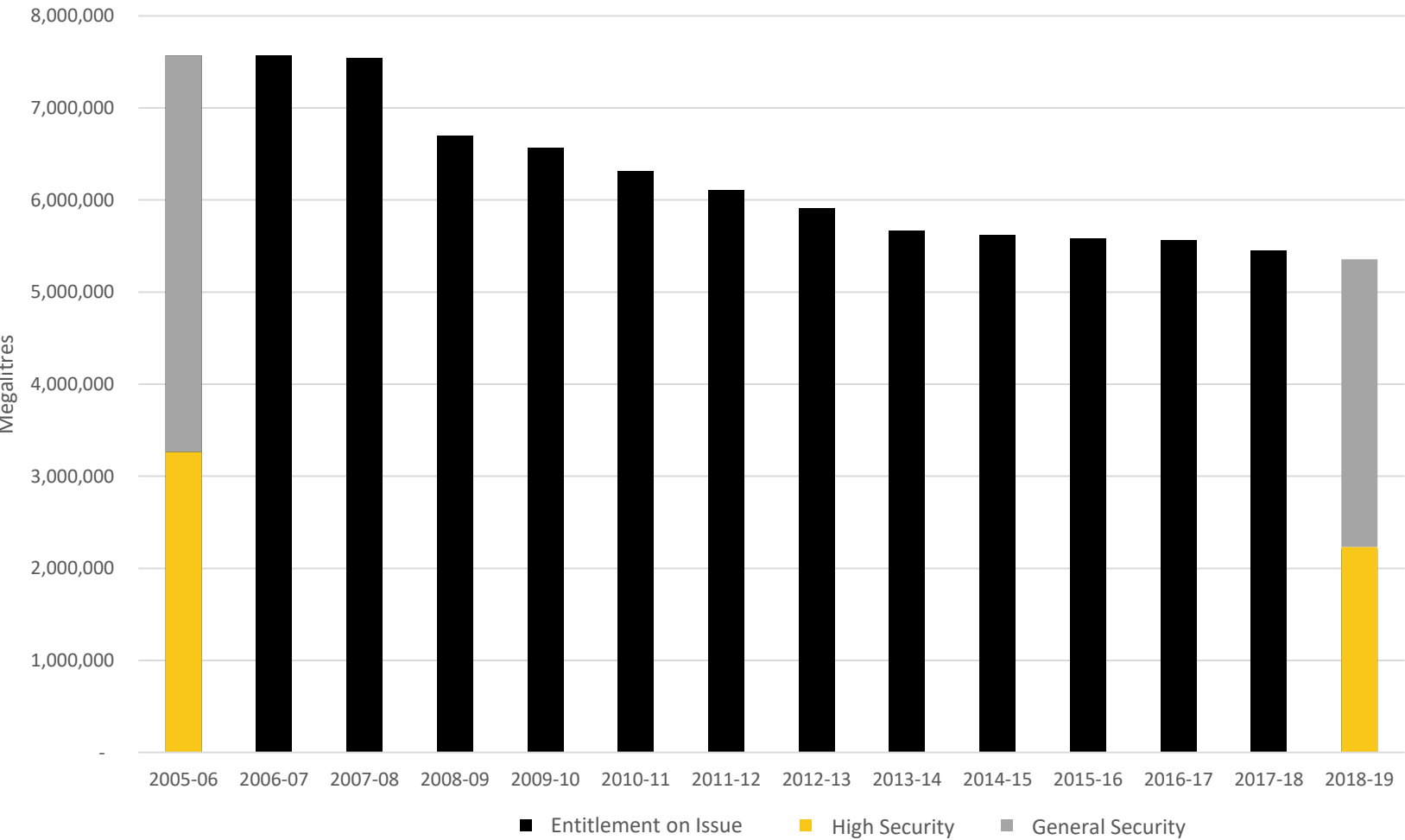
Uncorrelated Returns

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Appendices



SMDB ENTITLEMENTS ON ISSUE FOR CONSUMPTIVE USE

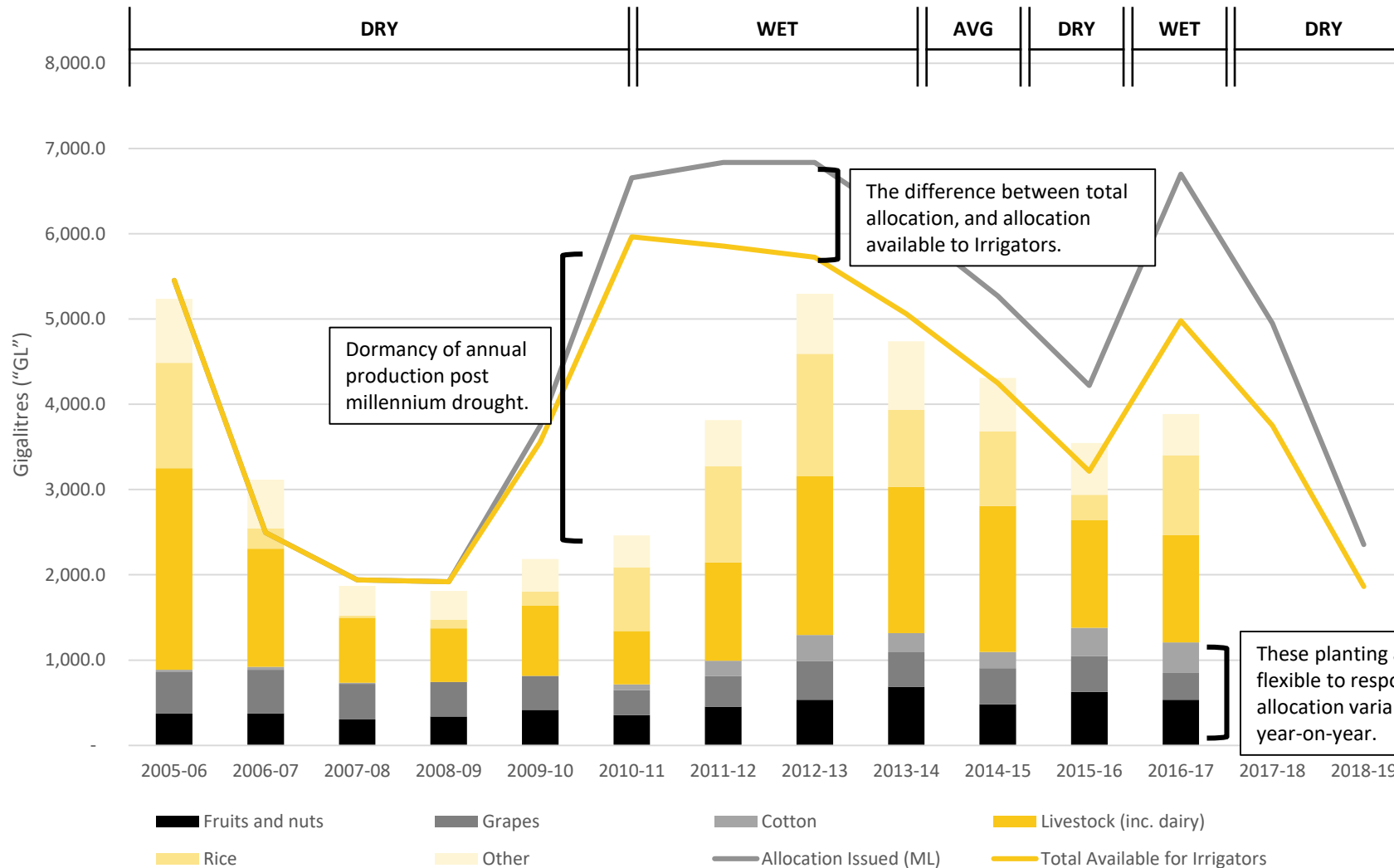


- Permanent supply is fixed within the “cap and trade” model.
- Supply available for consumptive use has decreased with the ongoing Government buy-back program to support environmental requirements.
- The Government has purchased both High Security (31%) and General Security (27%) Entitlements.
- There are now 31% less High Security rights available, which are key to long-term water security particularly for permanent plantings.

All dollar values are in AUD unless otherwise specifically stated.

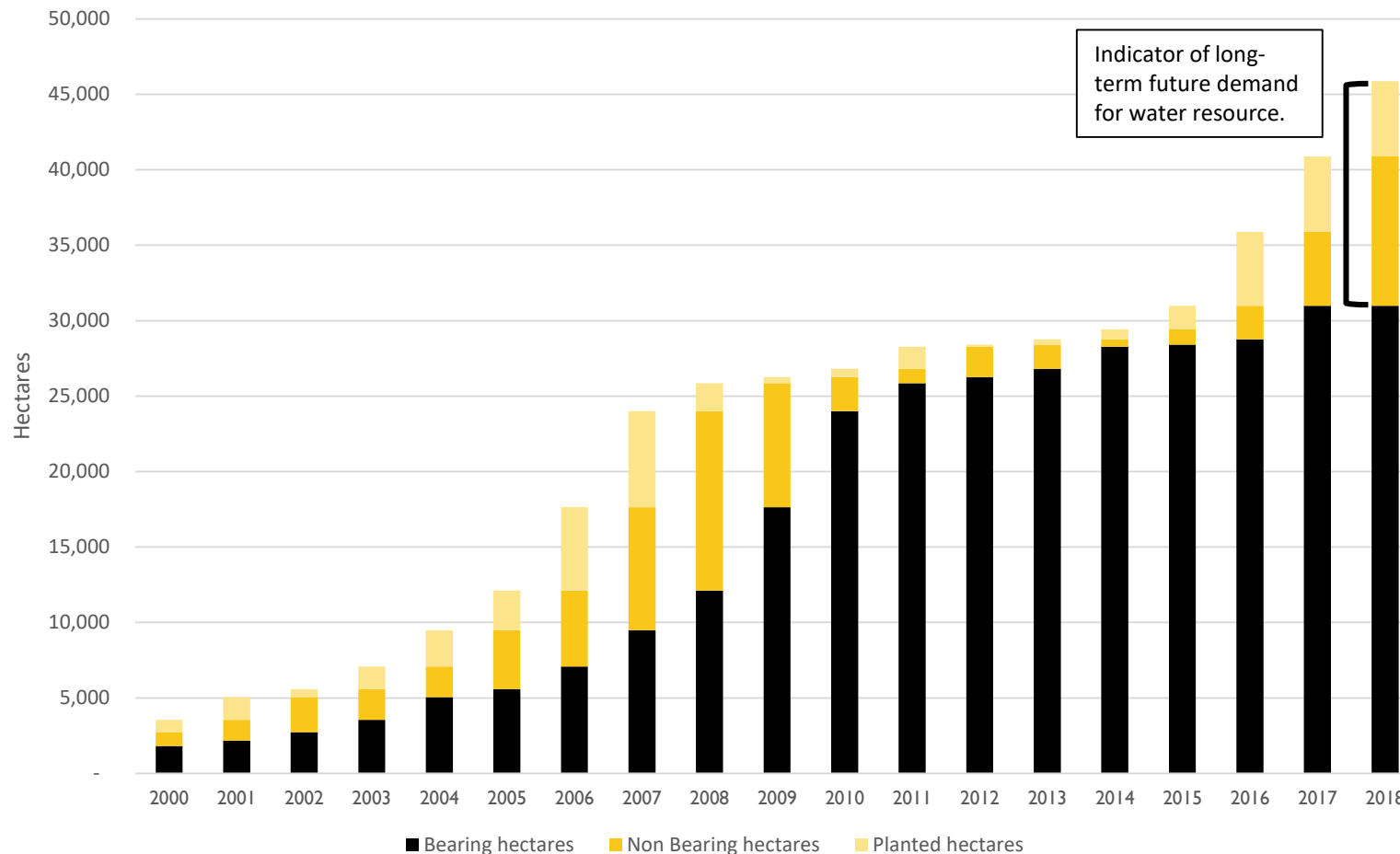


## ALLOCATION AND USAGE BY INDUSTRY IN SMDB REGION



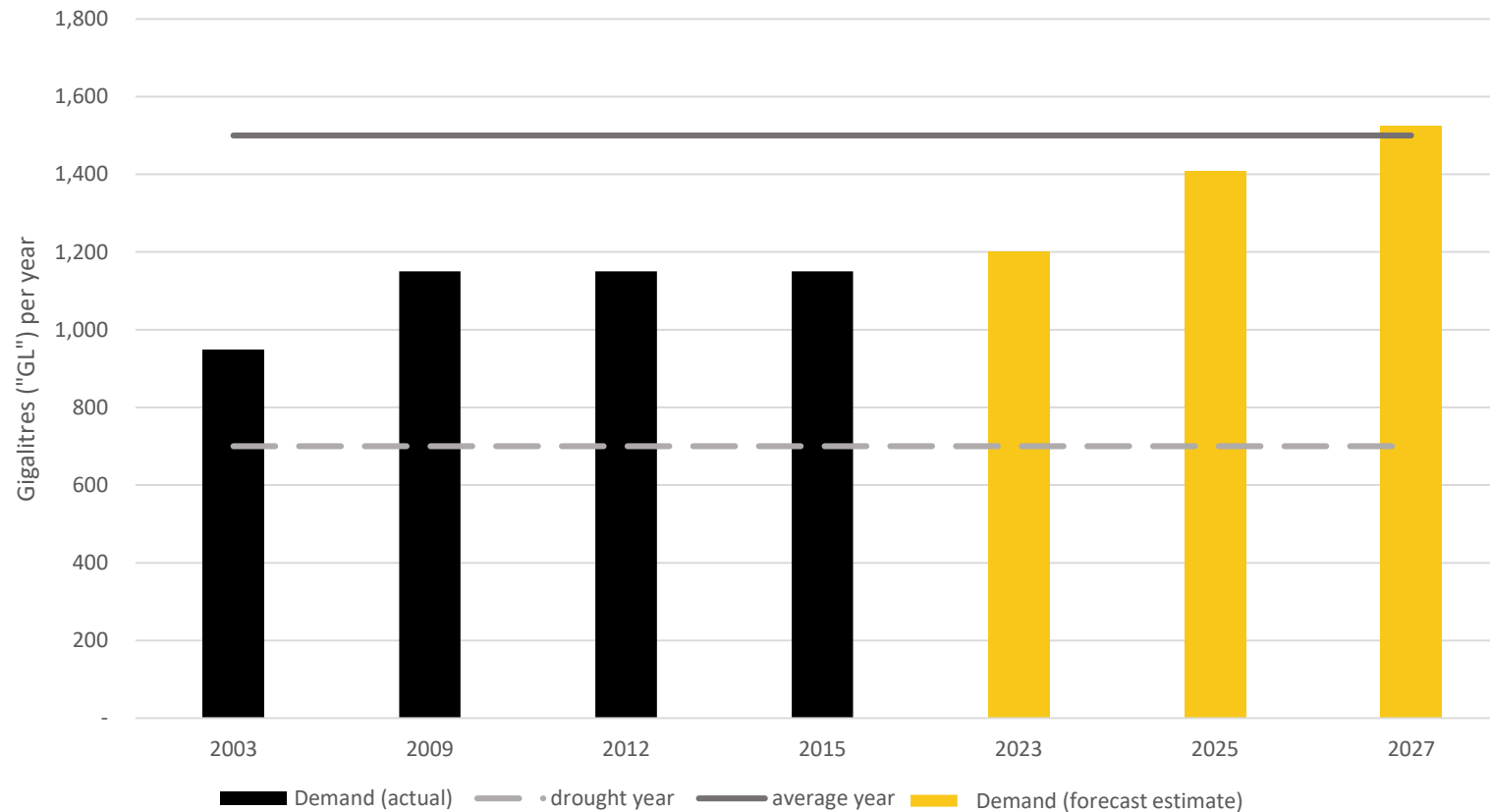
- Demand (usage) trends are shifting towards more permanent crops (grapes, fruit and nuts).
- Such crops require more water as they mature but are higher value and can therefore afford to pay more for water.
- This shift to higher margin, permanent plantings, together with the intensification of agriculture is steadily driving up entitlement values.

## ALMOND PLANTING AND WATER DEMAND



- Australian bearing almond orchard size has grown 14.9x since 2000, with over 15,000ha planted between 2016 and 2018 alone.
- At planting stage, trees demand 3ML/ha, and build up to 14ML/ha at maturity (6+ years).
- At full maturity, this equates to a total industry demand (assuming no further plantings) of ~630GL of water to sustain production.
- This equals ~8% of total entitlements on issue and ~28.2% of High Security entitlements available to Irrigators; this could represent a higher percentage depending on annual allocation volumes.

## HORTICULTURE DEMAND AND CONSUMPTIVE WATER AVAILABILITY DOWNSTREAM OF BARMAH CHOKE IN VICTORIA, NSW and SA



- The two lines display the level of consumptive water available for use in average (top) and drought (bottom) years.
- Water demand from expanded permanent plantings is expected to increase annual horticulture irrigation demand by 400 GL as crops mature over the next five to ten years.
- This graph, produced by the VIC water register, displays how annual horticulture demands are expected to exceed the expected future consumptive water availability in an average year.
- These assumptions are approximate and will vary year-on-year depending on climatic variations, crop prices and other factors.

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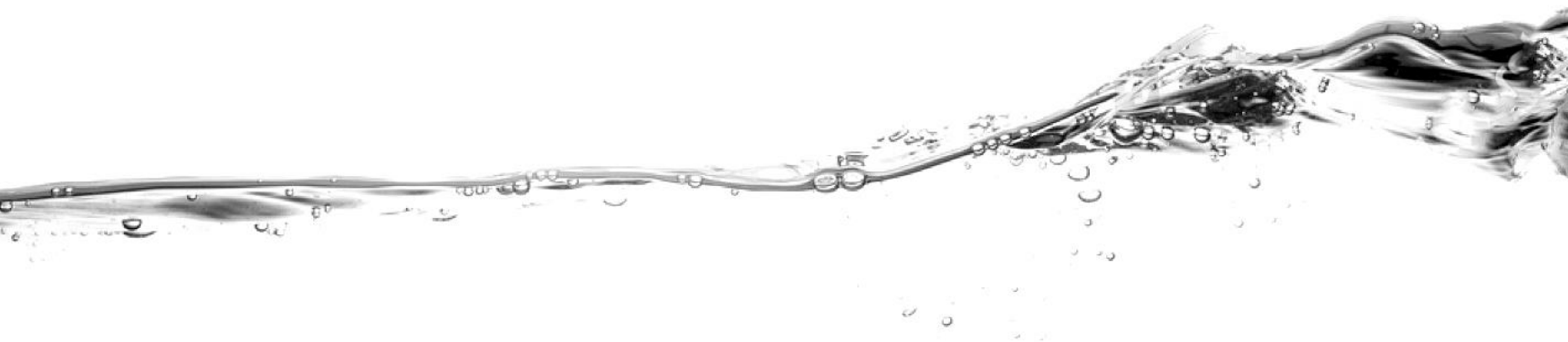
Strong Underlying Trends

**Multiple Sources of Return**

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Appendices



## PERFORMANCE

PERIOD	NAV PER SHARE	NAV INCL DIV	NAV INCL DIV + FRANK
1 Month	1.60%	3.47%	3.89%
3 Month	6.68%	8.64%	9.08%
6 Month	10.81%	14.80%	15.61%
12 Month	21.60%	28.03%	31.24%
Inception	27.32%	34.05%	35.46%
Inception (Annualised)	13.11%	16.34%	17.02%

KEY FINANCIAL METRIC	Half-Yearly Results (\$m)	1 July to 15 Sept (\$m)	Financial Year to Date (\$m)
			14.2
Revenue	8.0	6.2 (2.0 leased and 12.2 unleased)	
			8.2
Gross Profit	3.6	4.6 (2.0 leased and 6.2 unleased)	

- The return on water assets is primarily through capital growth.
- Income is generated from:
  - 45% of the portfolio on long term leases with a WALE of 4.8 years, with payments received quarterly in advance
  - 55% of the portfolio for which the Company trades the allocations attaching to the entitlements
  - trading in purchased allocations
- The Company's policy is to gradually migrate to 70% - 80% of entitlements on long-term lease.

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About Duxton Water

Strong Underlying Trends

Multiple Sources of Return

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Appendices



# 10-YEAR CORRELATION

	Aust. water entitlements (AUD)	ASX 200 (AUD)	FTSE 100 (GBP)	DAX (EURO)	HSI (HKD)	DJI (USD)	BACMO (AUD)
Aust. water entitlements (AUD)	1.00	-0.18	-0.16	-0.15	-0.22	-0.12	0.16
ASX 200 (AUD)	-0.18	1.00	0.74	0.67	0.65	0.73	-0.29
FTSE 100 (GBP)	-0.16	0.74	1.00	0.75	0.66	0.77	-0.24
DAX (EURO)	-0.15	0.67	0.75	1.00	0.64	0.75	-0.31
HIS (HKD)	-0.22	0.65	0.66	0.64	1.00	0.68	-0.37
DJI (USD)	-0.12	0.73	0.77	0.75	0.68	1.00	-0.36
BACMO (AUD)	0.16	-0.29	-0.24	-0.31	-0.37	-0.36	1.00

- This table sets out the correlation of water returns (as measured by the Aither Entitlement Index) with major equities indexes and bonds between 2008 and August 2018.
- Australian water returns display negative correlation with any of these indexes and low correlation with bonds.
- Investment in water entitlements provides uncorrelated diversification.

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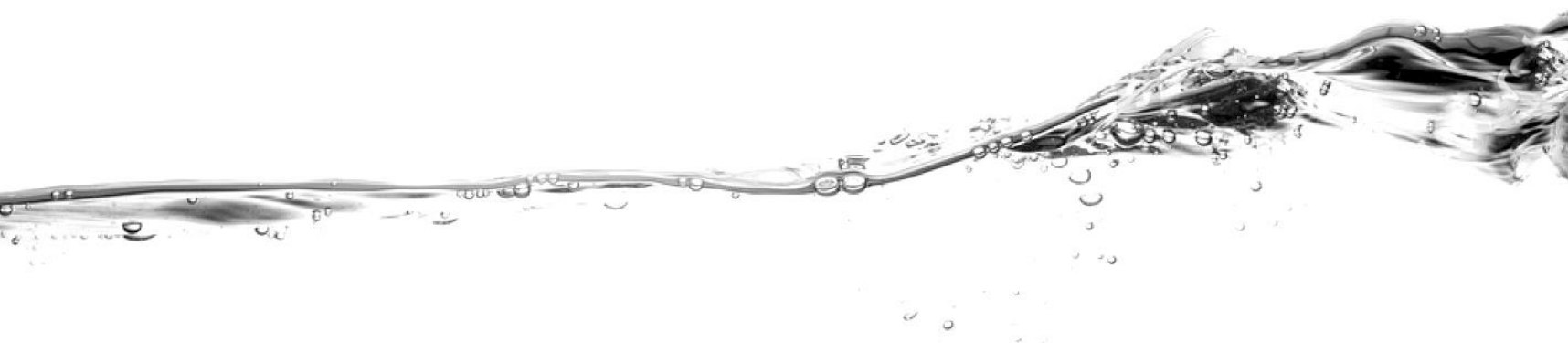
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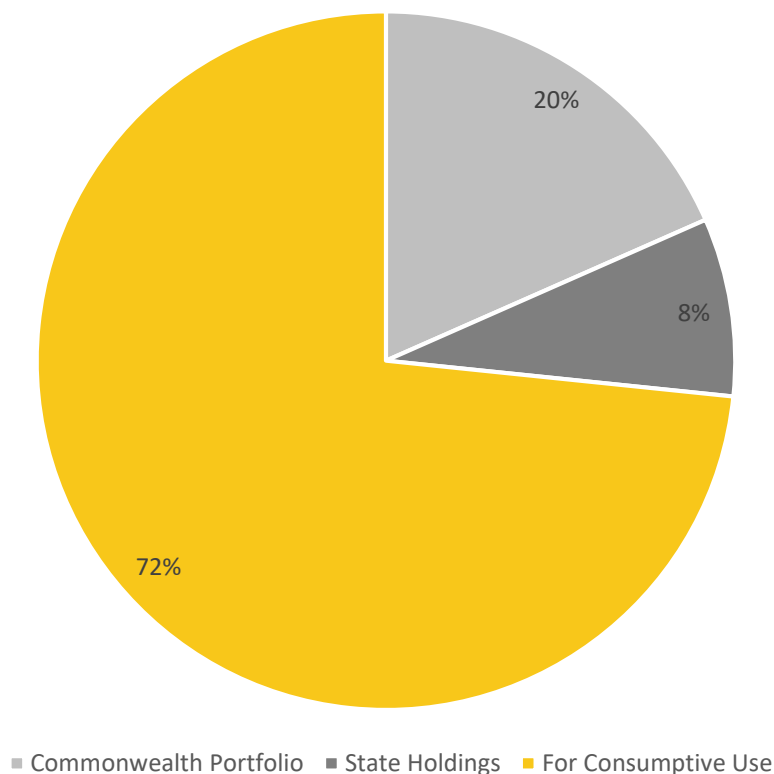
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## OWNERSHIP OF ENTITLEMENTS IN SMDB REGION



- Duxton Water has focused entitlement acquisition in the Southern Murray Darling Basin region of Australia. The MDB has a total of **7,549,881 ML** of water entitlements on issue within its interconnected water systems, with an estimated value of **A\$20.2 billion**<sup>1</sup>.
- As at 30 June 2018, 20% of this volume (1.5m ML) is held within the Commonwealth Environmental Water Holdings (“CEWH”) and is unavailable for irrigative use. A further 8% is held by the respective States.
- **This leaves 72% of the system available to investors and producers;** at present roughly 4%-5% of entitlement holders are ‘investor type’ and the remainder are primary producers<sup>2</sup>.
- **Duxton’s position at 14 September, excluding assets in the pipeline for acquisition, represents an estimated ~1% of the entitlements available for consumptive use.**
- The Company is scalable beyond its current ~1% market share, with an active water market, minimal fixed costs, and the ability to expand the portfolio beyond the Southern Murray Darling Basin into other Australia water regions.

<sup>1</sup> Aither – Water Markets Report 2017-18 review and 2018-19 outlook

<sup>2</sup> Commonwealth Environmental Water Holding, The Living Murray, New South Wales Office of Environment and Heritage, as at 18 February 2018

<sup>3</sup> <https://www.mdba.gov.au/managing-water/environmental-water/progress-water-recovery>

<sup>4</sup> <https://www.smh.com.au/environment/at-great-risk-13-billion-murraydarling-plan-headed-for-failure-report-says-20171129-gzv344.html>



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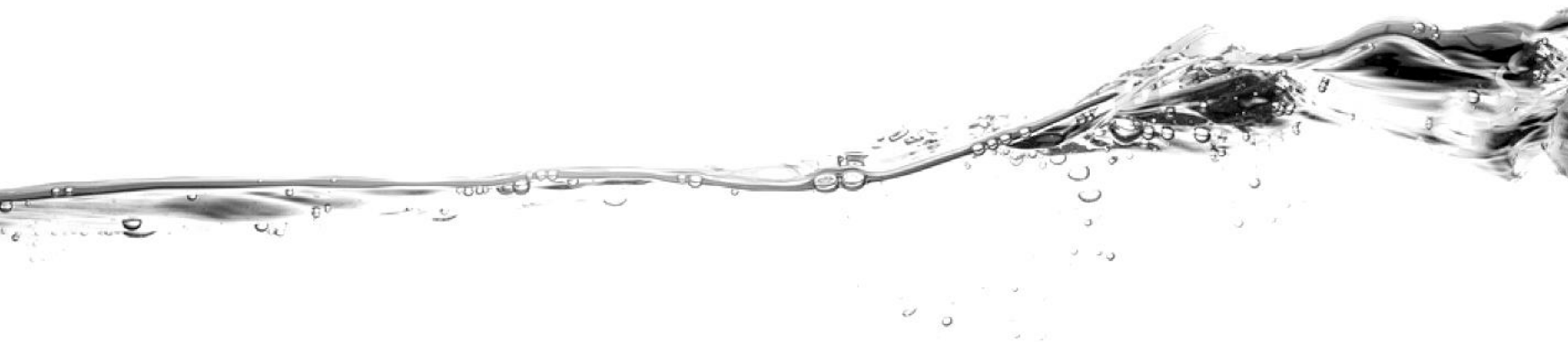
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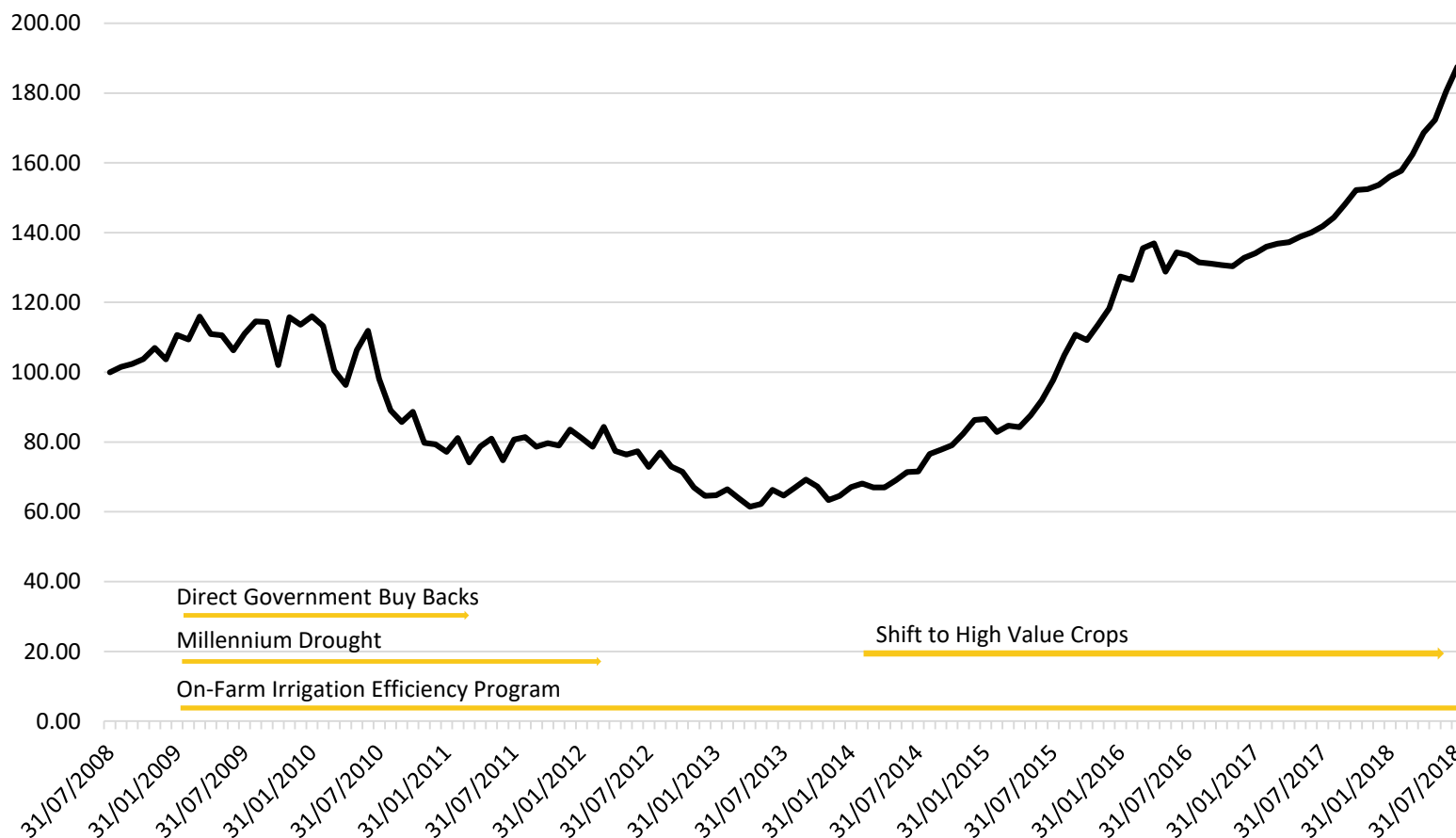
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Growth Opportunities

**Appendices**

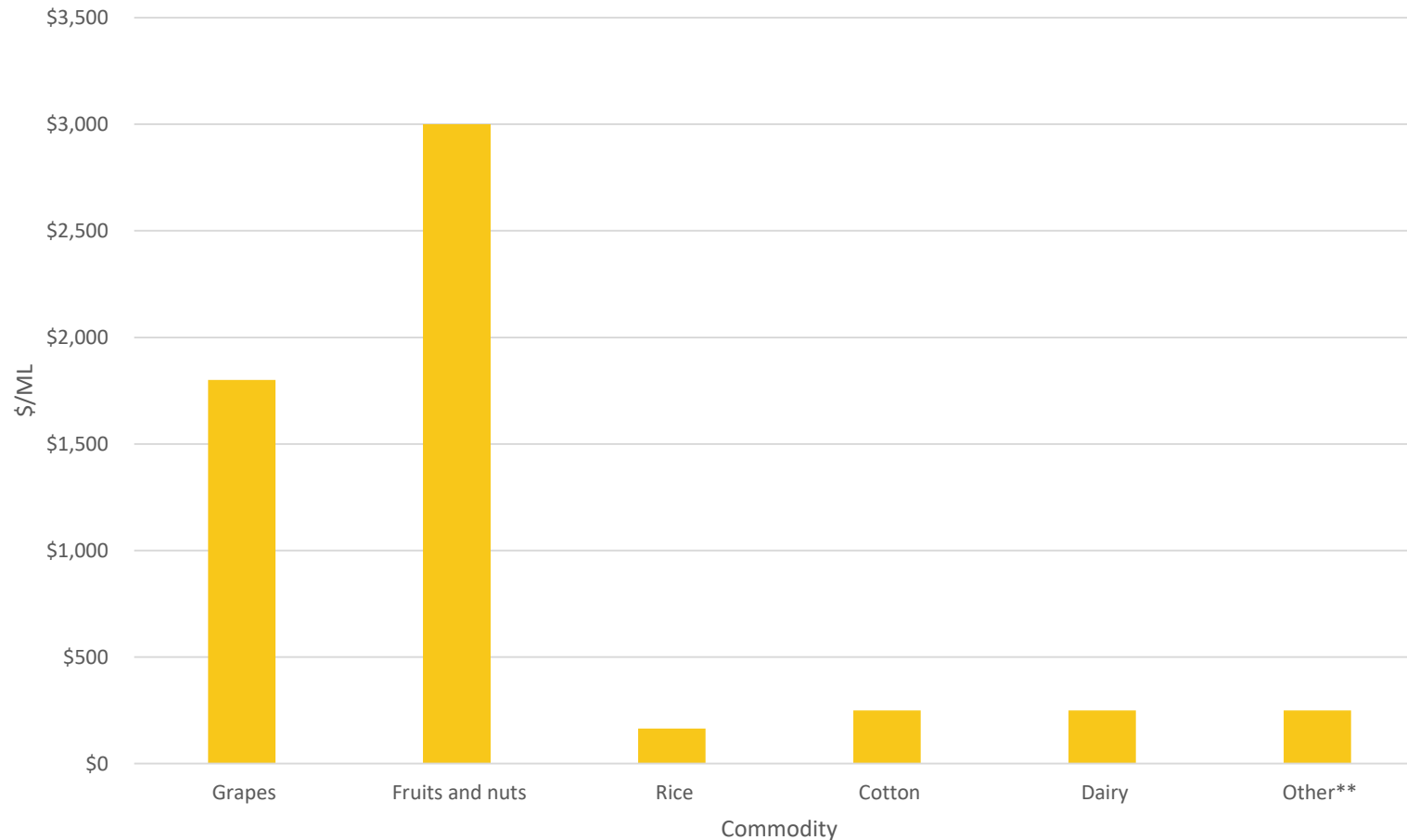


## ENTITLEMENT PRICING – AITHER ENTITLEMENT INDEX



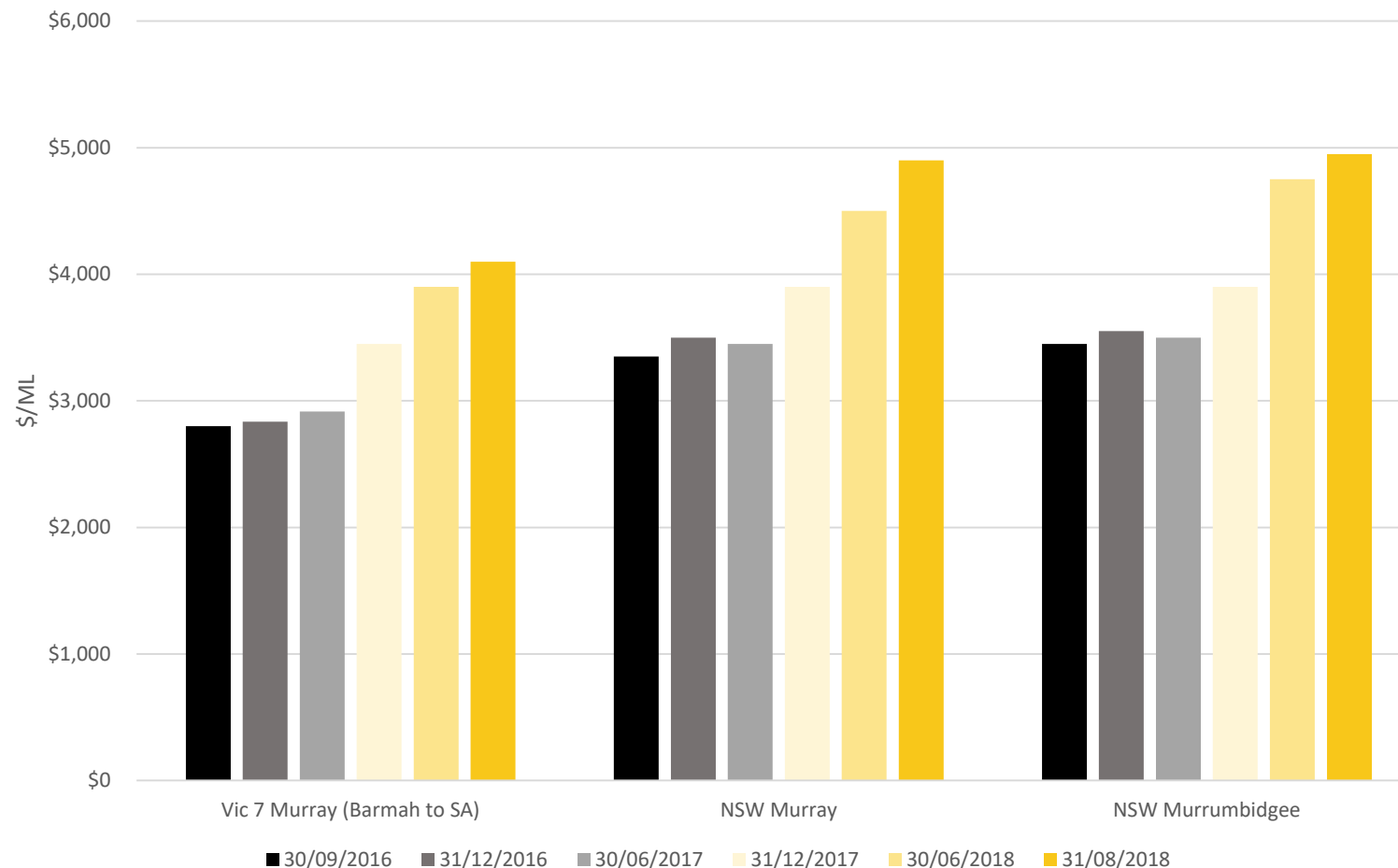
- This graph shows the Aither Entitlement Index over the period from July 2008 to July 2018.
- The Aither index tracks the change in weighted capital value of a group of major water entitlement types across the southern Murray-Darling Basin.
- The graph indicates the movement in values since 2014, driven by major increases in permanent crop plantings.
- Entitlement values have seen a Compound Annual Growth Rate (CAGR) of 24% over the past five years. Since the inception of the Index (10 years), a 6% CAGR has been observed.

## PRICE INELASTICITY OF DEMAND – CUT-OFF PRICE



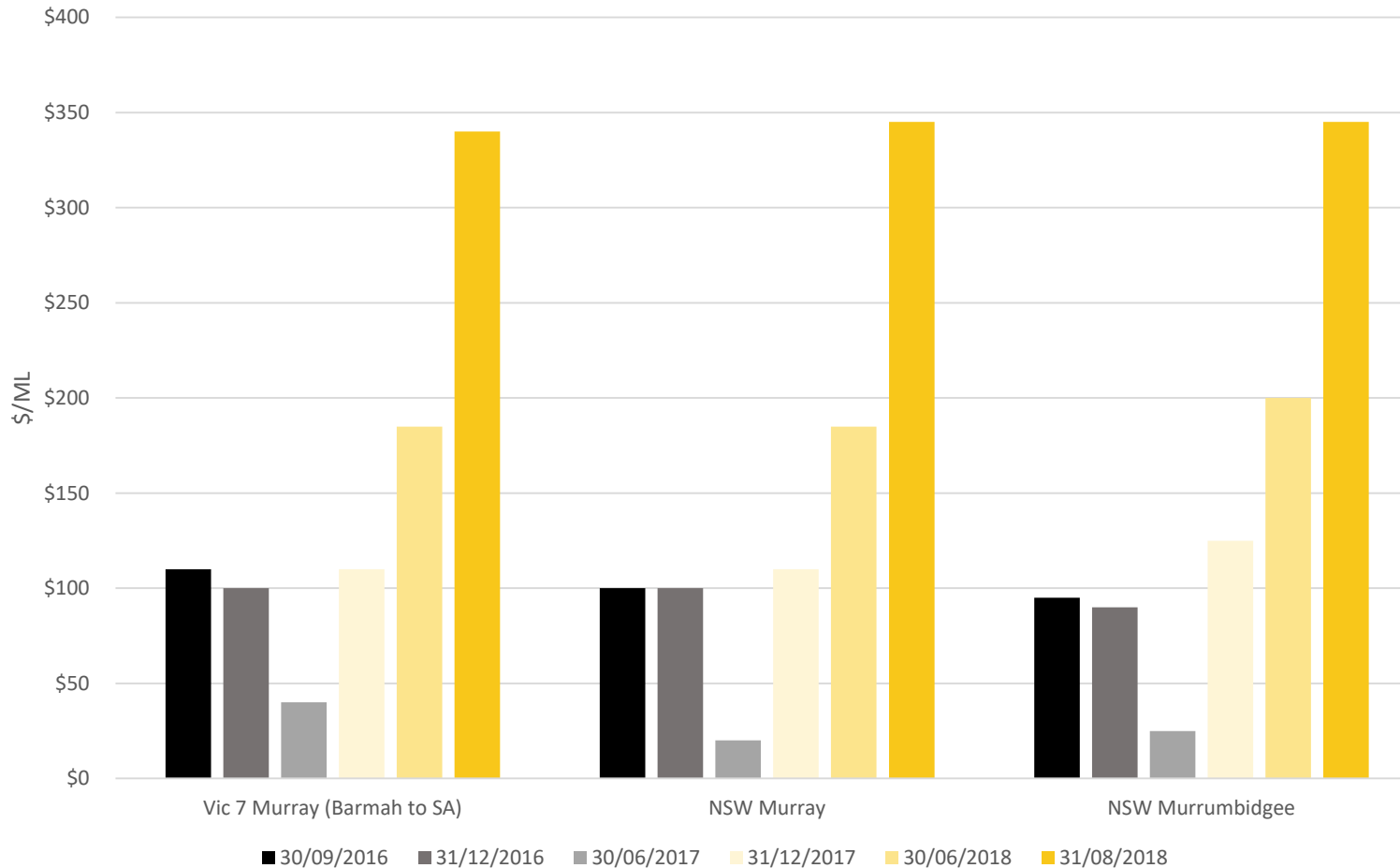
- Market prices provide a signal for water users to consider the opportunity costs of their water-use decisions. Water moves to its highest and best use.
- Different agricultural industries have different opportunity costs and elasticities of demand.
- Cut-off water price is the price of water (\$/ML) such that production for the given industry is no longer profitable.
- Elasticity of Demand:
  - Grapes: -0.5
  - Fruits and Nuts: -0.4
  - Rice: -1.9
  - Cotton: -1.3
  - Dairy: -1.3

## ENTITLEMENT PRICING



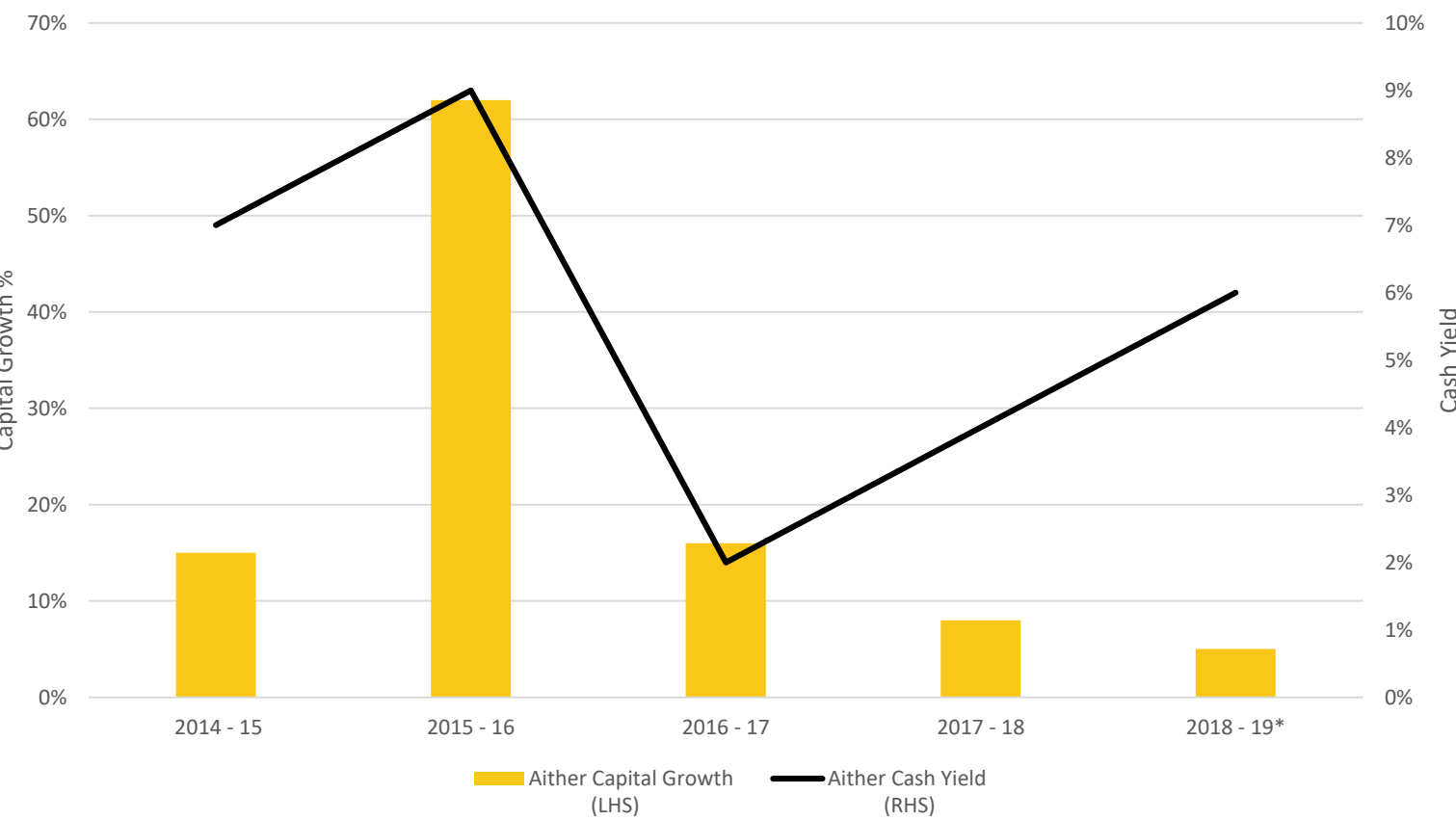
- The steady growth in the water entitlement prices over the last two-years is driven by long-term interest from investors and corporate agricultural enterprises, resulting from the opportunities for land-use change to cotton, nuts, and other high-value irrigated crops.
- Since 2008, Aither suggest the compound annual growth rate of entitlements has been 6.5%.
- In just the last 2 years, entitlements have seen an uplift in value of 40.4%.<sup>1</sup>
- The extent of plantings of nuts and fruit trees now indicates growing long-term demand, for high security water assets.

## ALLOCATION PRICING



- Allocation pricing is highly dependent on climatic conditions; the rainfall, combined with storage levels, determines volume of physical water available each year.
- The floor price is expected to increase given the industry shift towards higher-margin crops like Cotton, and toward permanent plantings.
- This graph shows the allocation prices of 3 entitlements over the lifetime of Duxton Water.
- Prices have been as low as \$20/ML in the very wet winter and spring of 2016/17. They normalised around \$160/ML in 2017/18 with more average weather conditions. 2018 year saw prices increase to \$160/ML.
- Allocation is now trading at \$350+/ML with parts of the region declared to be in drought conditions.

INCOME AND CAPITAL RETURN OF VIC 7 HS ENTITLEMENT



- The yield on allocations is the variable portion of Duxton Water’s income.
- Income in any particular season is dependent on:
  - rainfall
  - dam storage levels
  - timing of allocation sales
- The graph shows an example of a passive return on allocations received on entitlement.
- Duxton Water takes an active management approach to the unleased portion of the portfolio.

All dollar values are in AUD unless otherwise specifically stated.  
Source: Aither, note 2018-19 water year is not complete at time of presentation



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