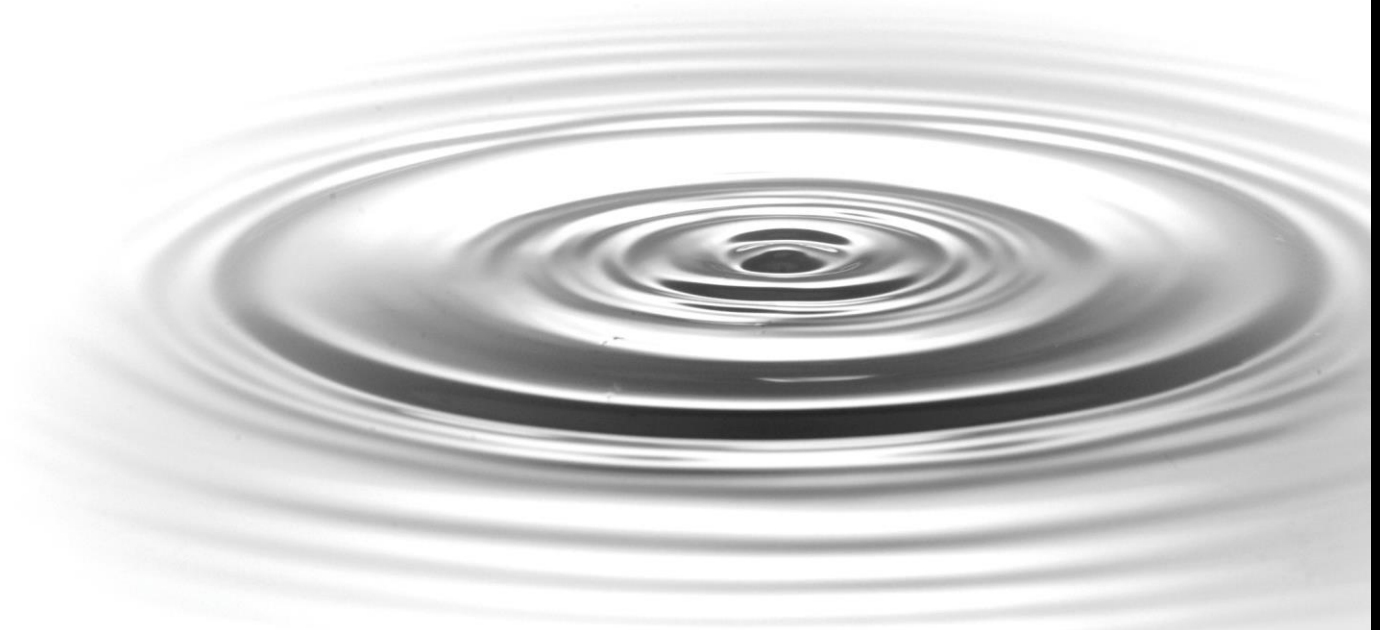




DUXTON  
WATER



**DUXTON**WATER LTD

July 2020

**Investment Update- MST Briefing**

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The primary investment objective of Duxton Water is to build a portfolio of permanent water entitlements and utilise this portfolio to provide flexible water supply solutions to our Australian farming partners. 100% of Duxton Water's portfolio is active in the supply of these products.

The Company generates a return by offering irrigators a range of water solutions, including long-term entitlement leases, forward allocation contracts and spot allocation sales.

Duxton supports a number of agricultural industries including viticulture, dairy, broadacre, almonds, citrus, olives and dried fruits. Our water is used in these industries to produce quality Australian food and fibre to be consumed in Australia and exported around the world.

Since its IPO in September 2016

**Duxton Water has**

generated total  
NAV return of  
**67.62%**<sup>1</sup>

increased NAV  
from  
**\$1.07 → \$1.58**<sup>2</sup>

paid  
**\$14.9 million**  
in total dividends

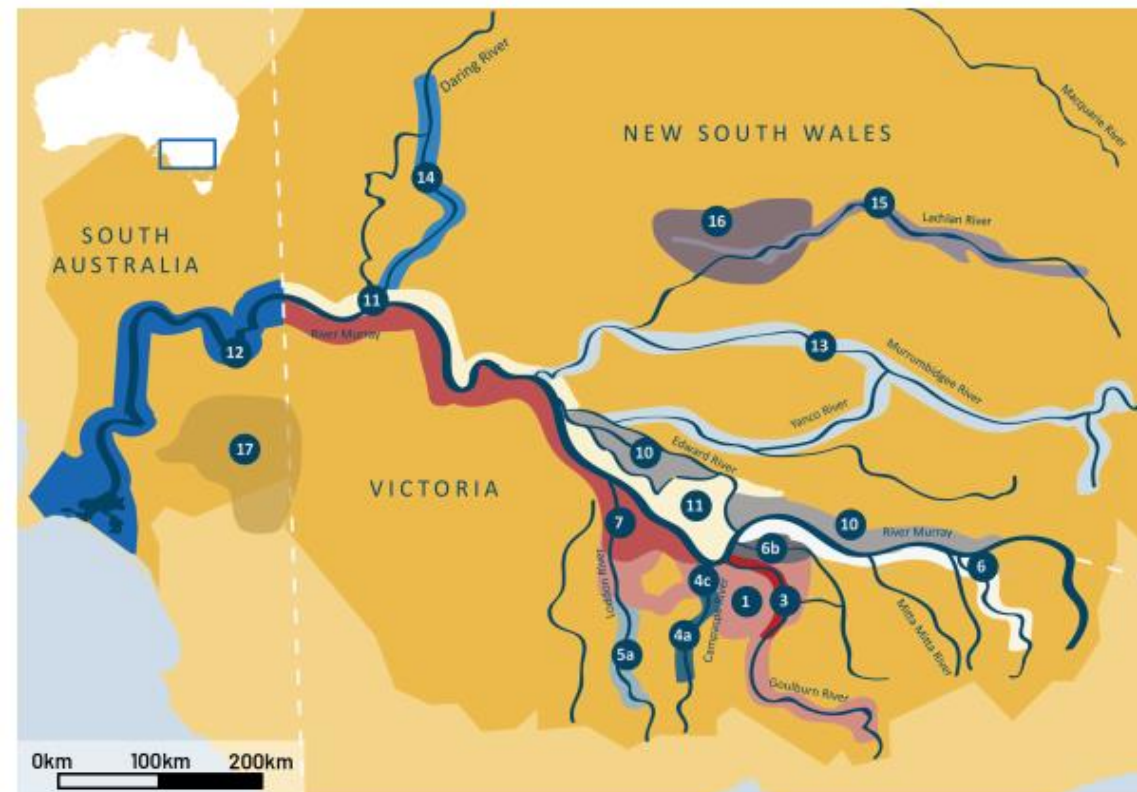
invested over **\$245.98 million**  
in Australian water assets (cost).  
Now valued at  
**\$315.26 million**  
(30 June 2020)

<sup>1</sup> Inclusive of dividends and franking credits, based on Net Asset Value as at 30 June 2020

<sup>2</sup> As at 30 June 2020

### Southern Murray Darling Basin

- The Australian water market is spread across contained or interconnected river and ground water systems.
- Australia's most active water market is the southern Murray Darling Basin (sMDB) where 80% of trade occurs.
- The entitlements in the sMDB are valued at ~\$28bn. In the 2018/2019 water year, the market turnover in entitlements and allocation was ~\$1.5bn.<sup>1</sup>
- The sMDB is considered the food bowl of Australia, diversified across permanent and annual crops and a major contributor to Australia's agricultural industry.



Interstate Water Trading Zones

1 – Greater Goulburn	5a – Part Loddon	10 – NSW Murray above Barmah Choke	14 – Lower Darling
3 – Lower Goulburn	6 – Vic Murray above Barmah Choke	11 – NSW Murray below Barmah Choke	15 – Lachlan
4a – Part Campaspe	6b – Lower Broken Creek	12 – South Australia Murray	16 – Lower Lachlan Groundwater
4c – Lower Campaspe	7 – Vic Murray from Barmah Choke to SA Border	13 – Murrumbidgee	17 – SA Mallee Groundwater
			Murray Darling Basin
			River

<sup>1</sup> Aither Pty Ltd, 2019 + estimate of internal NSW Irrigation Company turnover.

## Water Entitlements

- Water entitlements are perpetual rights to an annual share of water within a system.
- There are more than 150 different types of entitlements in the basin, with 30-40 entitlements making up the vast majority of volume traded.

## Zones

- Water entitlements are defined by zones – which are classified into river systems or ground water sources.

## Security

- Throughout a season, the Government distributes allocation against entitlements. The approved allocation is handed down based on entitlement security: firstly to the high security entitlements and then to general security.
  - **High security** - receives an allocation in most years, wet or dry.
  - **General security** - typically, only receives allocation in medium to wet seasons.
- High security entitlements trade at a higher value to general security entitlements because of their capability to receive an allocation in most years.

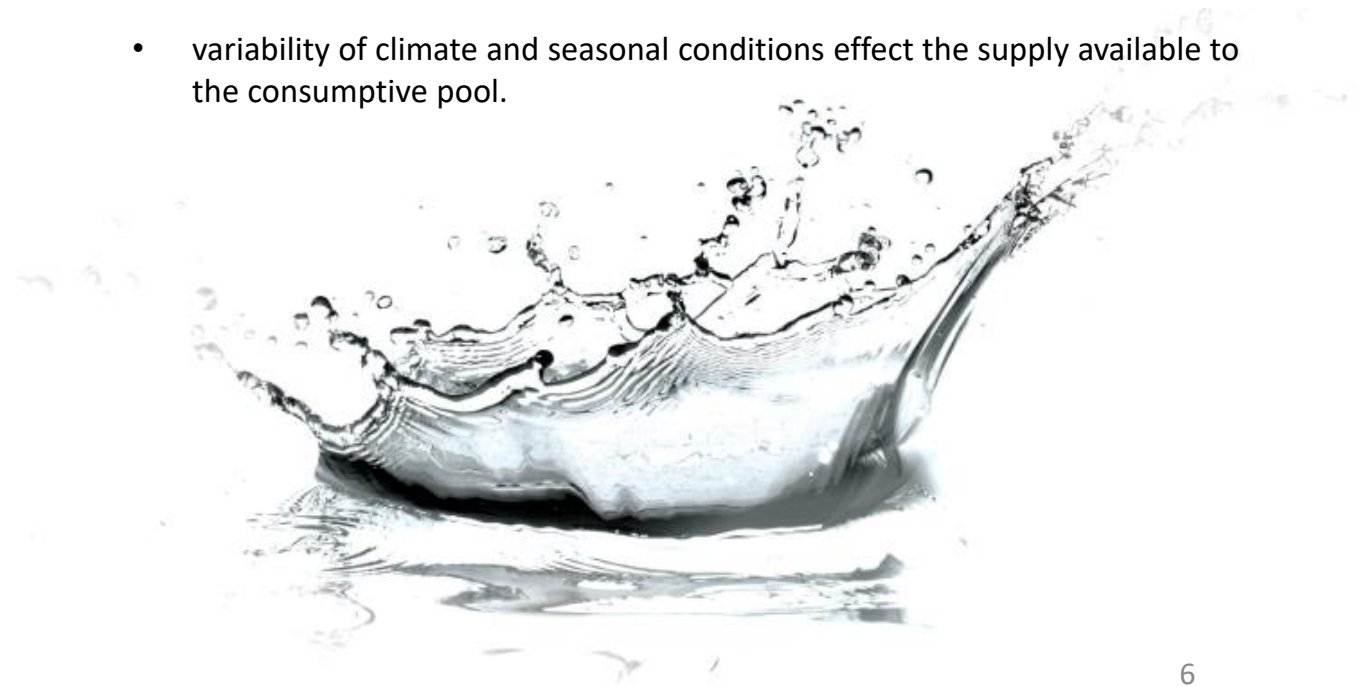


**A Growing Demand** for water caused by factors such as:

- The water market is on an upward secular structural shift driven by demand by farmers and institutional investors pursuing higher value permanent crop strategies that require substantially more water
- maturity of the Australian water market has led to the development of more sophisticated water supply products (such as long term leases), which have delivered farmers with a capital light approach of risk managing this key input to their business.

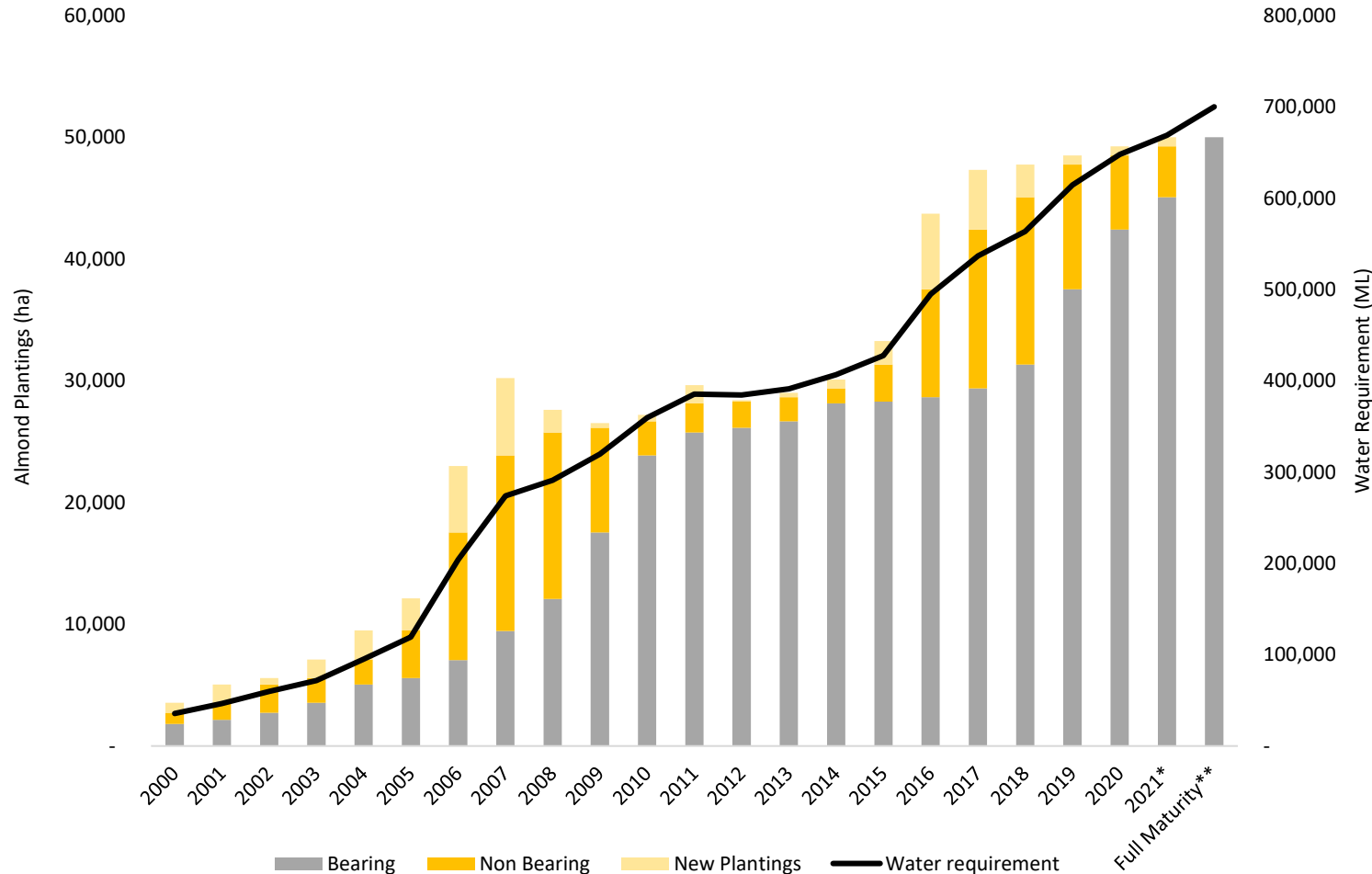
**A Constrained Supply** of water due to factors such as:

- Water entitlements are s a regulated and limited resource (cap and trade system).
- addressing the imbalance between consumptive and environmental requirement through the implementation of voluntary water buyback & water efficiency programs. Through combined State and Federal holdings approximately 30% of the consumptive pool has been acquired for environmental purpose, 20-22% over the last 10 years.
- variability of climate and seasonal conditions effect the supply available to the consumptive pool.





## ALMOND PLANTING AND WATER DEMAND



- There are 14.9x more mature almond orchards 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).
- When the trees are at full maturity, this equates to a total industry demand of ~700GL of water to sustain production, assuming no further plantings.
- This equals ~32% of High Security entitlements available to Irrigators. This percentage could be significantly higher depending on annual allocation volumes.

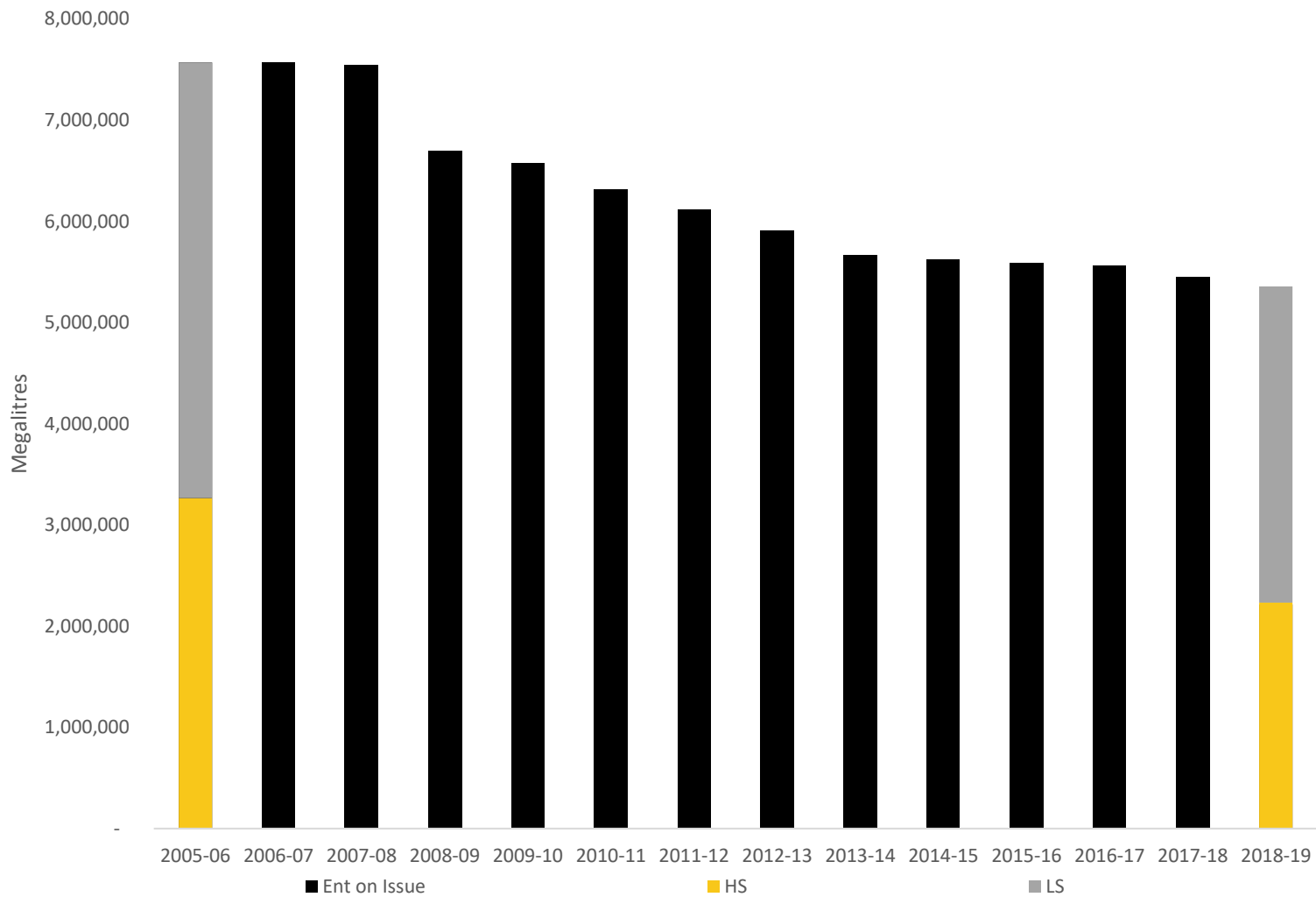
\*Based on Almond Board of Australia expectations

\*\*Based on full maturity of Almond Board of Australia expectations

<http://www.theland.com.au/story/5226905/favourable-projections-for-australian-cotton/?cs=4936>

Source: Australian Almonds, Orchard Size Statistics

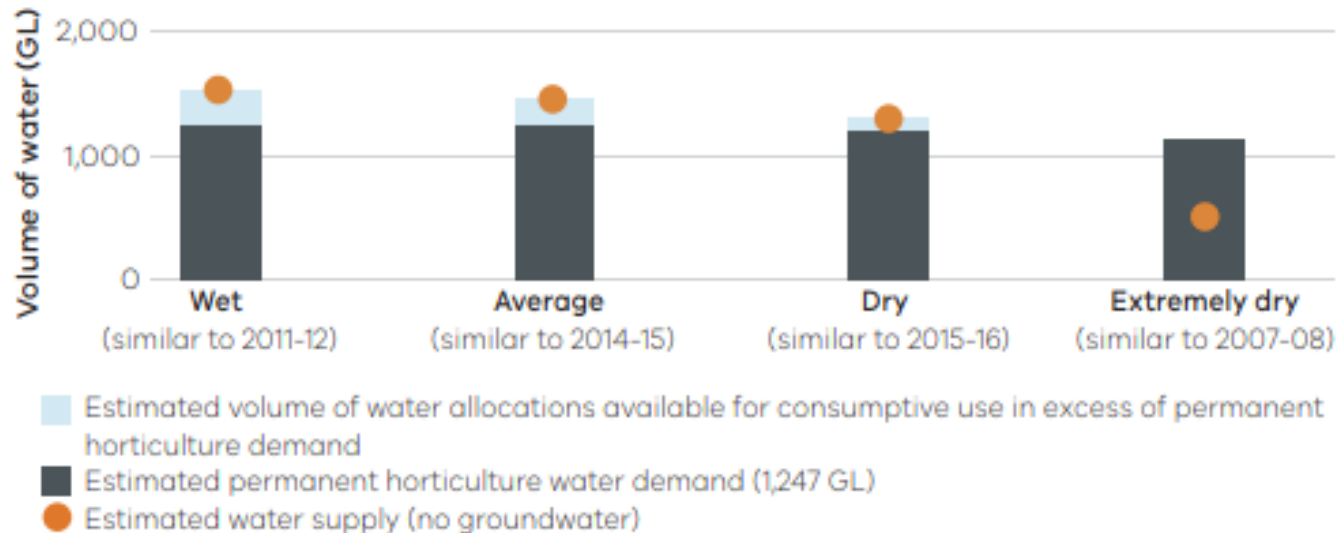
SMDB ENTITLEMENTS ON ISSUE FOR CONSUMPTIVE USE



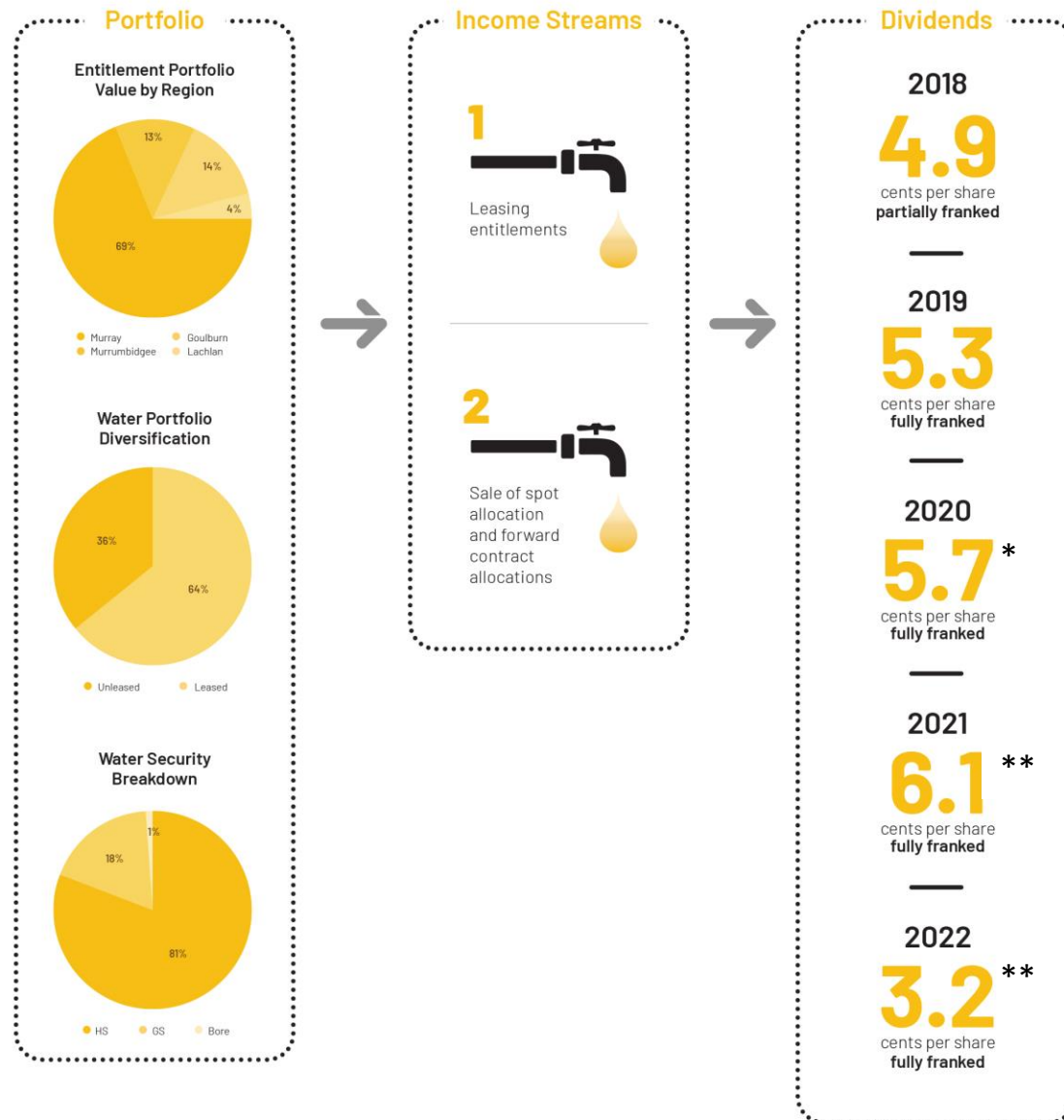
- This reduction of consumptive water has been a key driver to the price of allocation.
- This is because there are significantly less high security entitlements available, which are key to long-term water security particularly for permanent plantings.



## WATER AVAILABILITY & HORTICULTURE DEMAND IN THE LOWER MURRAY REGION



- It is estimated that existing permanent horticulture in the Lower Murray will demand ~1,250 GL of irrigation water per annum at full maturity.
- In the Lower Murray, during an average to dry year the water demand from existing horticulture may only be 100-250 GL less than the total water volume available for consumptive use.
- The analysis suggests that under an extremely dry scenario, the water supply within the Lower Murray may only meet 40% of existing permanent horticulture water demand (at full maturity).
- Supply shortfall will need to be met through carryover from wetter years and the trade of water from other valleys.
- Upward pressure is placed on allocation prices as demand is increased and supply declines.



### Income Streams

**Passive income** is generated through leases:

- Stable Income
- High quality and diversified lessees
- Lease payments in advance
- Asset backed

**Active Income** is generated through allocations:

- Flexible to suit seasonal conditions
- Higher yielding in dry conditions
- Inter-valley trade opportunities

### Dividends

The Company paid a 2.8 cent, fully franked, dividend in March 2020 and has provided guidance to target:

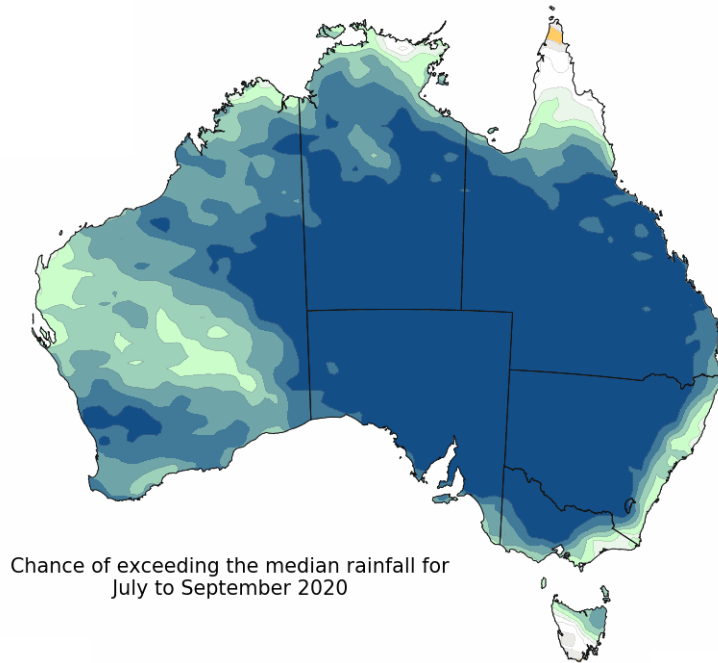
- 2.9 cent fully franked dividend to be paid in September 2020.
- 3.0 cents fully franked dividend to be paid in March 2021
- 3.1 cents to be paid in September 2021.
- 3.2 cents to be paid in March 2022.

All franked to the highest extent possible.

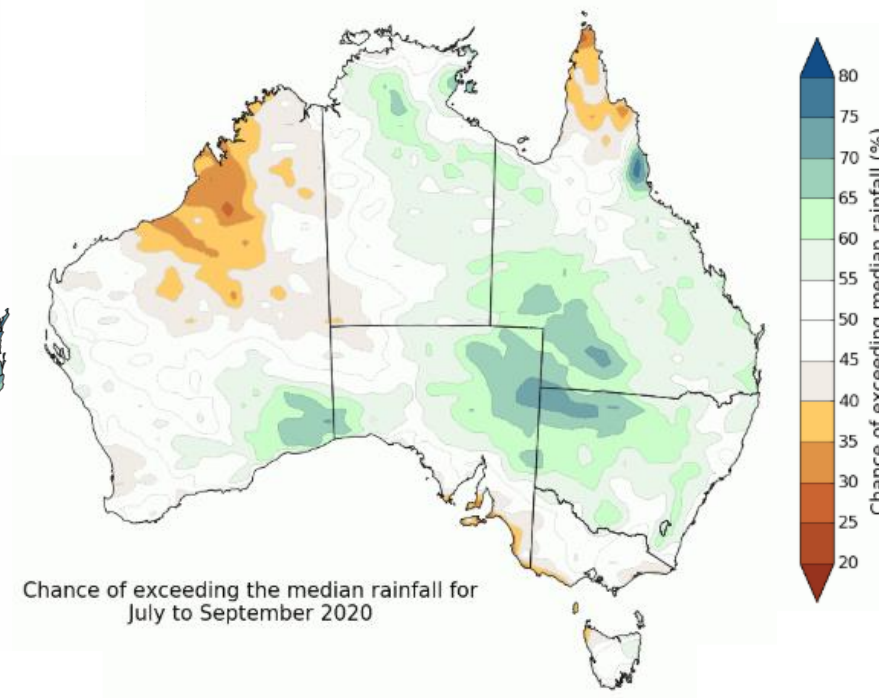
\* Announced + targeted dividends

\*\* targeted dividends

## WINTER RAINFALL OUTLOOK



**Period:** July-September 2020  
**Issued:** 7th May

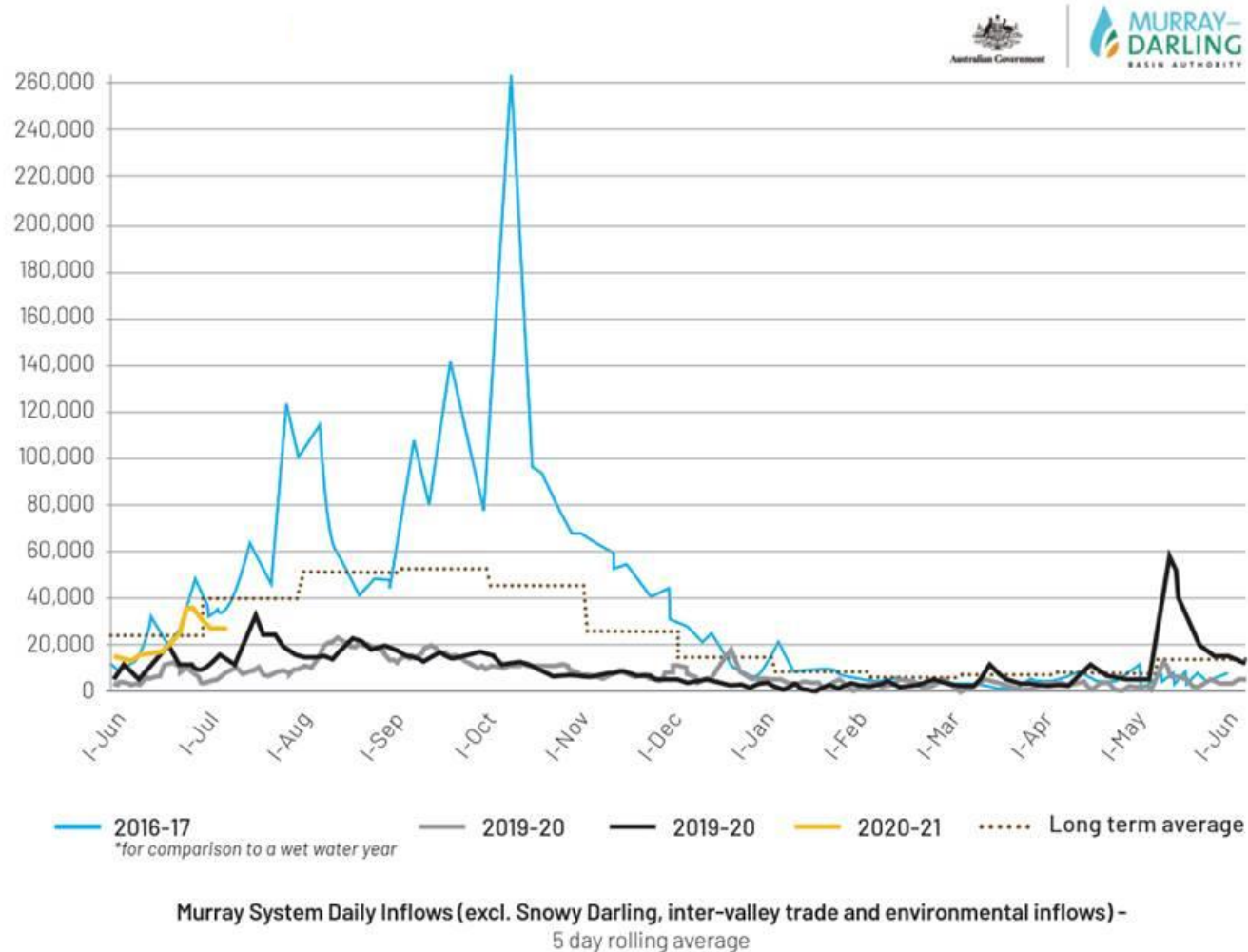


**Period:** July-September 2020  
**Issued:** 2nd July

- In May, the BOM forecast expected an extremely high chance of exceeding median rainfall over the winter period.
- By late June, the BOM's forecast were revised down to an average winter.
- The new forecasts by the BOM suggest that there will not be enough rainfall to replenish the storage systems in the MDB. These dams are below average after the region had the driest period on record.

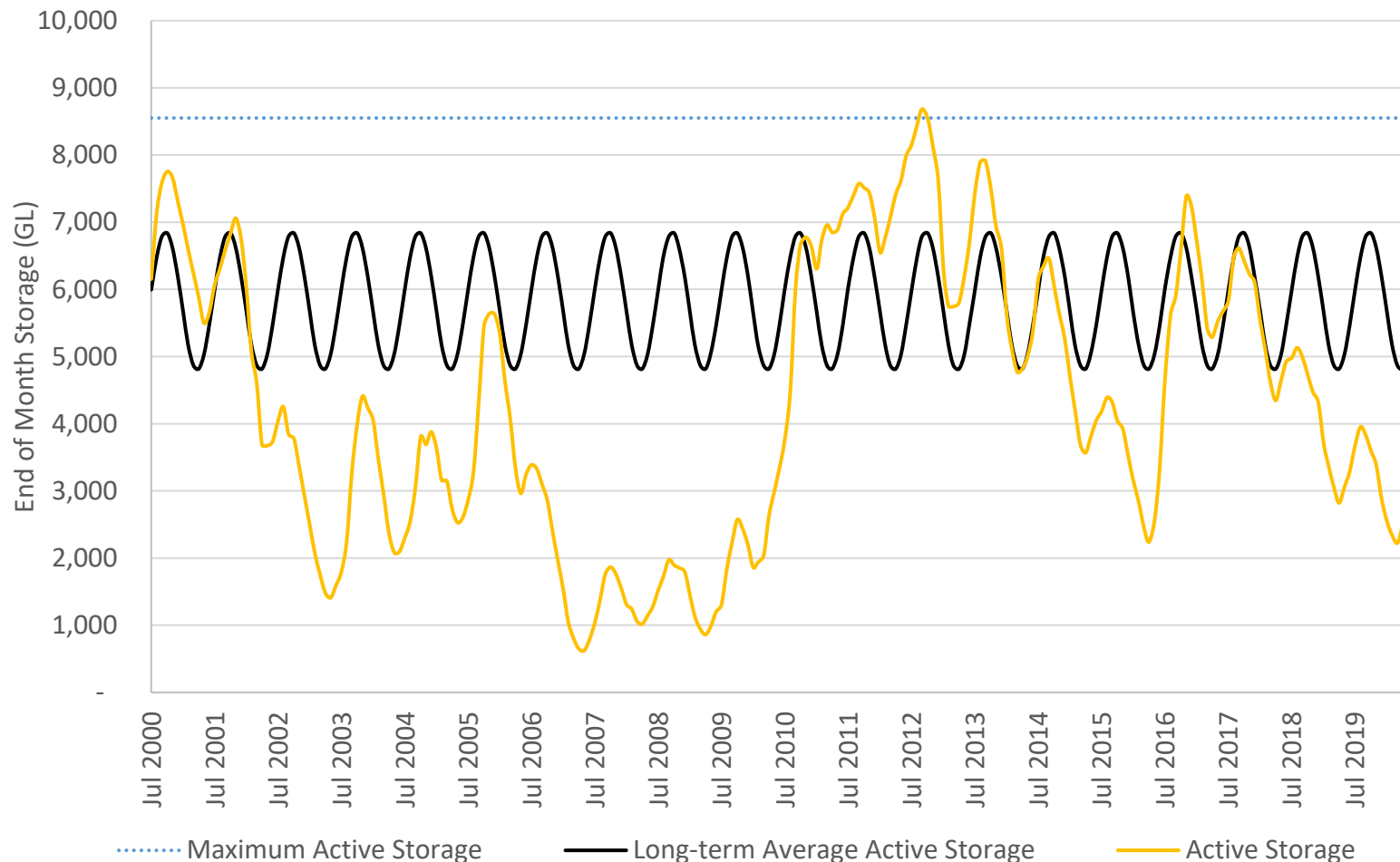
## MURRAY SYSTEM DAILY INFLOWS

(Excluding Snowy Darling, Inter-valley trade and environmental inflows)



- 2019 saw the Murray Darling Basin experience the driest period on record.
- The Murray System inflows continue to track well below the long-term averages, with the BoM predicting less than a 60% chance of the region exceeding median rainfall in the next 3 months.
- It is expected that the consumptive water supply may reach levels not seen since the millennium drought.

## MDBA ACTIVE STORAGE- JUNE 2000 TO PRESENT



- The MDBA total active storage at 8 July 2020 was at 44% capacity with recent rains only providing a small increase in storage volume. This is compared to 39% capacity at this time last year.
- The current storage levels are well below the average levels represented by the black line.
- More recent rainfall forecasts are now suggesting a more neutral winter which will likely not provide sufficient inflows to having meaningful impact on storage levels.

## Performance to 30 June 2020

Period	NAV Return (Capital Gain)	Dividend Return (Cash Return)	Total Return
1 Month	-0.94%	0.00%	-0.94%
3 Month	-5.54%	0.00%	-5.54%
6 Month	-10.10%	2.27%	-7.83%
12 Month	2.64%	5.09%	7.73%
Inception	48.06%	19.56%	67.62%
Inception (Annualised)			14.60%

## Portfolio Growth

(total assets)

2019	2018	2017
334.6m	194.4m	86.4m

(entitlements held)

2019	2018	2017
83.0GL	61.1GL	36.8GL

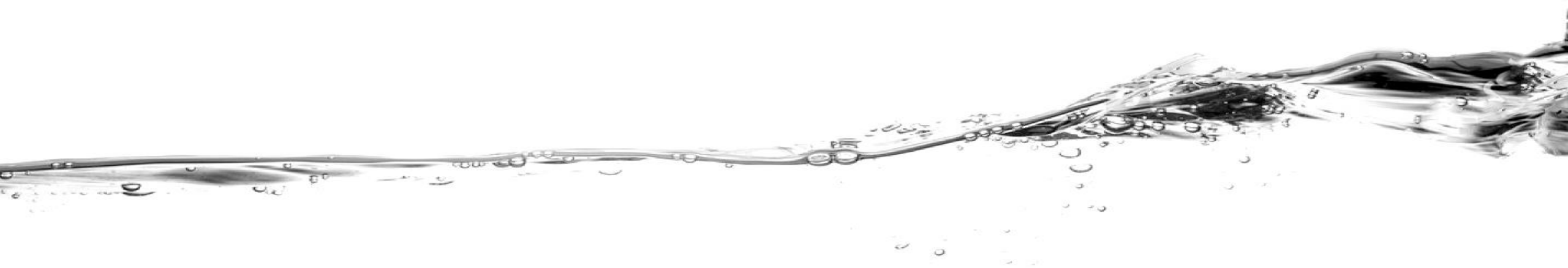
(capital growth)

2019	2018	2017
59.3m	24.5m	9.6m

The capital growth has been due to the price increase in high security permanent water entitlements, predominantly reflecting long-term drivers rather than the current drought conditions.

Over the last 10 years, irrigators have significantly enhanced their return per megalitre through both more efficient water use and conversion to higher value commodities.

Irrigators have been the greatest beneficiaries from this capital appreciation as they own the majority of the available water entitlements in the market.





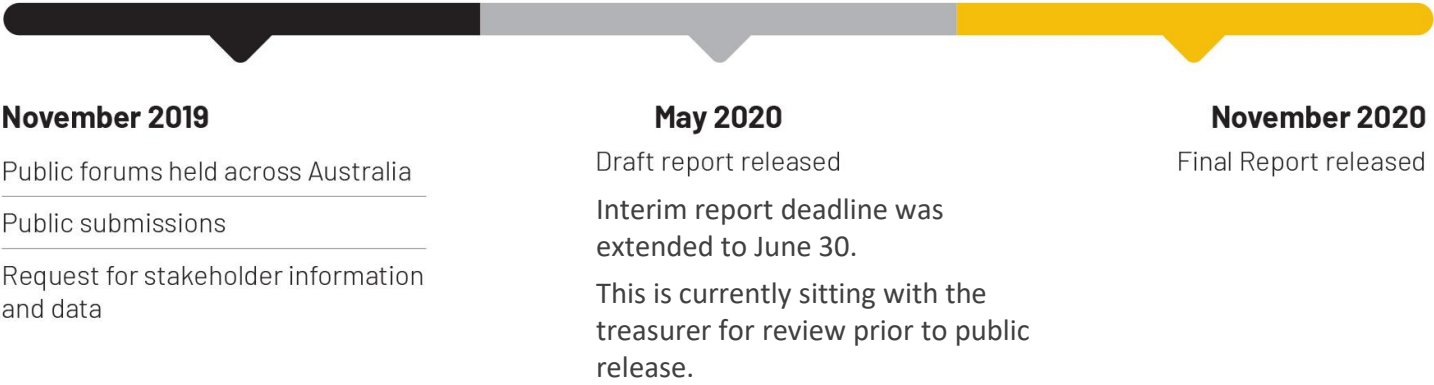
## ACCC ENQUIRY

The Company welcomes and has actively participated in the ACCC Inquiry into the southern Murray Darling Basin water market. Whilst the review is a sperate engagement, the ACCC has had an existing role in monitoring and reporting on the market’s development since 2012.

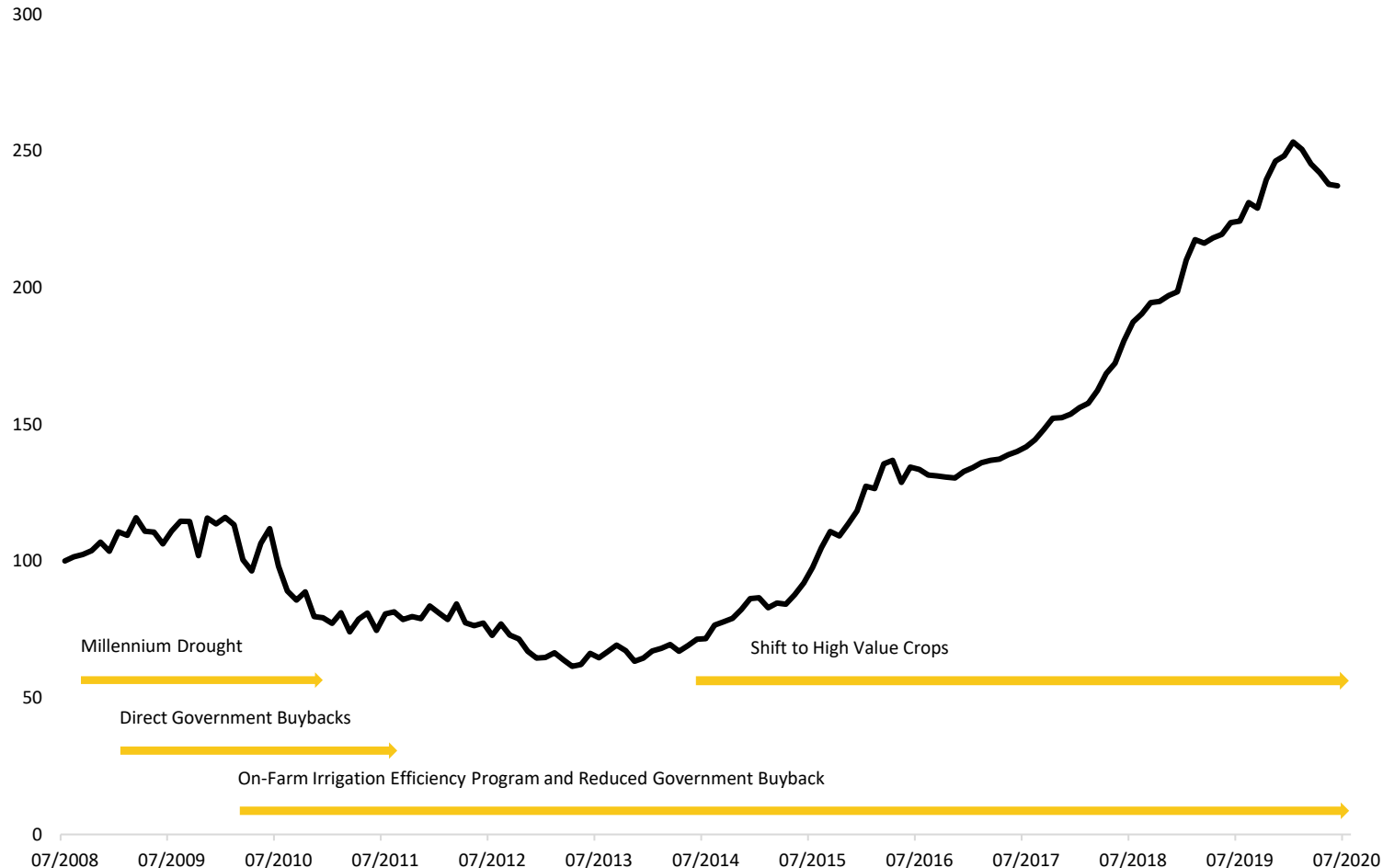
It was pleasing to see a clear and balanced articulation of both their support for the market and areas of potential improvement by numerus stakeholders, including farmers, industry representatives and Government bodies. Analysis of conditions through the millennial drought estimated that due to the effective operation of the Australian water market, an additional ~\$1 billion of economic activity was maintained.

What became clear from a number of submissions to the ACCC, was the acknowledgement of the structural demand and supply changes over the last 10 years (since the millennial drought) and the markets ongoing importance in providing farmers with the tools and flexibility to adequately plan for future irrigation needs and mitigate the effects and impact of climate change.

### ACCC Process



## ENTITLEMENT PRICING- AITHER ENTITLEMENT INDEX



- This graph shows the Aither Entitlement Index over the period from July 2008 to June 2020.
- 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 26.40% over the past five years. Since the inception of the Index (10 years), a 7.44% CAGR has been observed.

## KEY INFORMATION

Current share price (as at 30 JUNE 2020)	\$1.36 per share
Current shares on issue	119,375,450
Current Market Capitalisation	\$162.35 million
Weighted Earnings Per Share	8.5 cents (2018) 6.4 cents (2019)
Investment Universe	Australian Water Entitlements
Investment Manager	Duxton Capital (Australia) Pty Ltd

## 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

30 June 2020

Total Megalitres ("ML") owned	83,740 ML
% of entitlements leased	64%
Net Asset Value	\$189.1 million (\$209.6m pre tax)**
Net Asset Value per share	\$1.58 per share (\$1.76 excluding tax provisions for unrealised capital gain)
Gearing	<35%

## 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

All dollar values are in AUD unless otherwise specifically stated.

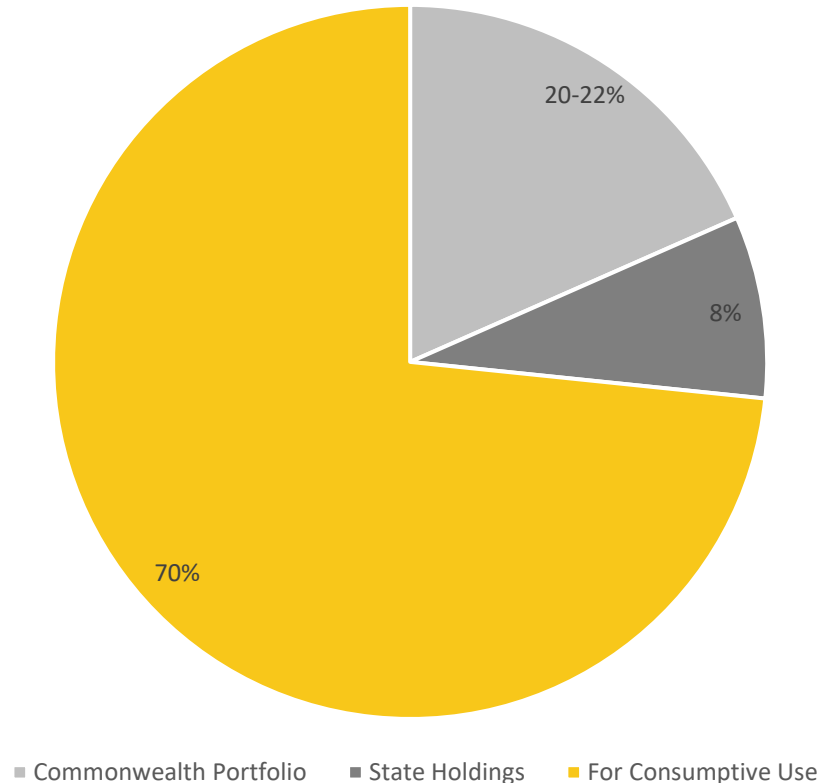
\*\* Net Asset Value is inclusive of a \$20.4m deferred tax provision for an unrealised capital gain across the portfolio.

10-Year Correlation

	Aus. Water Entitlements (AUD)	ASX 200 (AUD)	FTSE 100 (GBP)	DAX (EURO)	Hang Seng (HKD)	Dow Jones index USD)	BACMO (AUD)
Aust Water Entitlement (AUD)	1.00	-0.12	-0.13	-0.11	-0.18	-0.07	0.14
ASX 200 (AUD)	-0.12	1.00	0.75	0.70	0.59	0.75	-0.17
FTSE 100 (GBP)	-0.13	0.75	1.00	0.78	0.66	0.79	-0.23
DAX (EURO)	-0.11	0.70	0.78	1.00	0.64	0.79	-0.28
Hang Seng (HKD)	-0.18	0.59	0.66	0.64	1.00	0.66	-0.37
Dow Jones index (USD)	-0.07	0.75	0.79	0.79	0.66	1.00	-0.32
BACMO (AUD)	0.14	-0.17	-0.23	-0.28	-0.37	-0.32	1.00

- This table shows the correlation of Australian water entitlement returns with major equities and bond indices between 2008 and December 2019.
- Australian water returns display negative correlation with the equity indices and a low correlation with bonds.
- Investment in water entitlements with a portfolio provides diversification benefits.

## OWNERSHIP OF ENTITLEMENTS IN SMDB REGION



- Duxton Water has focused on acquiring water entitlements in the southern Murray Darling Basin region of Australia. The sMDB has a total of **11,325,000 ML** of surface water entitlements on issue within its interconnected water systems, with an estimated value of **~A\$28 billion<sup>1</sup>**.
- 20-22% of the entitlements in this region are held by the Commonwealth and a further 8% is held by the respective States. These statements are unavailable for irrigative use.
- **This leaves 70% of the of the entitlements assessable to the consumptive pool for farmers use.** The vast majority of the remaining consumptive entitlements are held by primary producers<sup>2</sup>.
- **Duxton Water's position at 30 June, represents less than 0.75% of the total market** and approximately 1.6% of the entitlements available for consumptive us.

<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

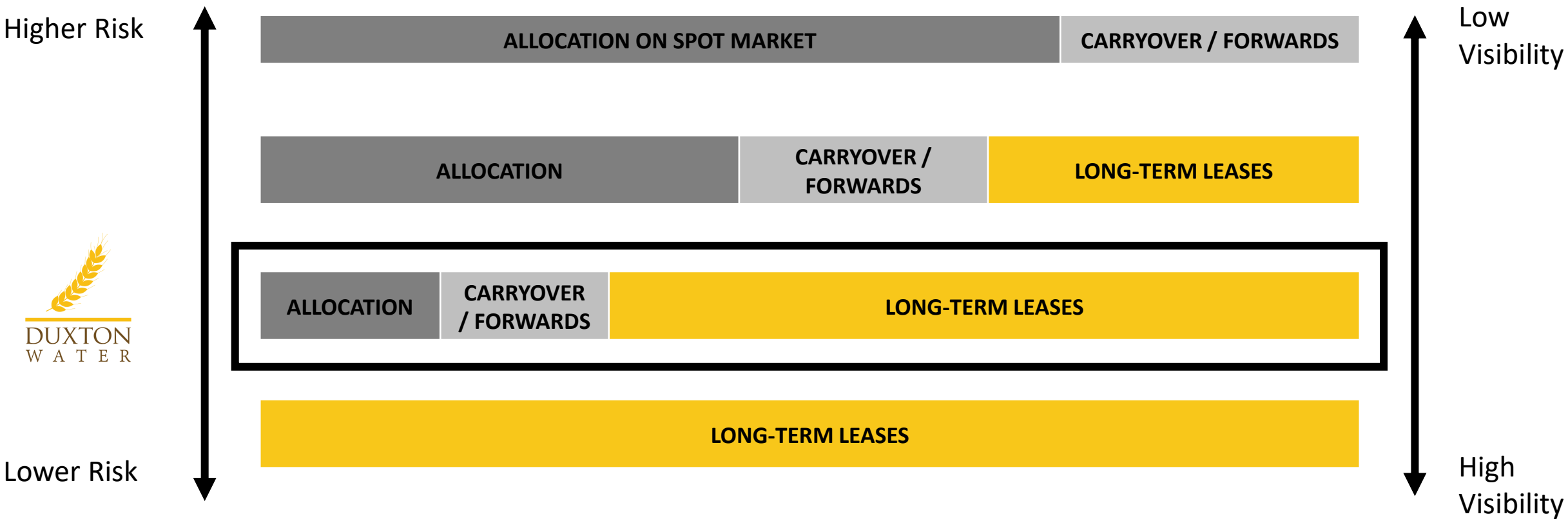
<sup>3</sup> <https://www.mdba.gov.au/managing-water/environmental-water/progress-water-recovery>

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

Water investors can manage their portfolio to balance their expected returns and level of risk (allocation, price, lessee default etc.).

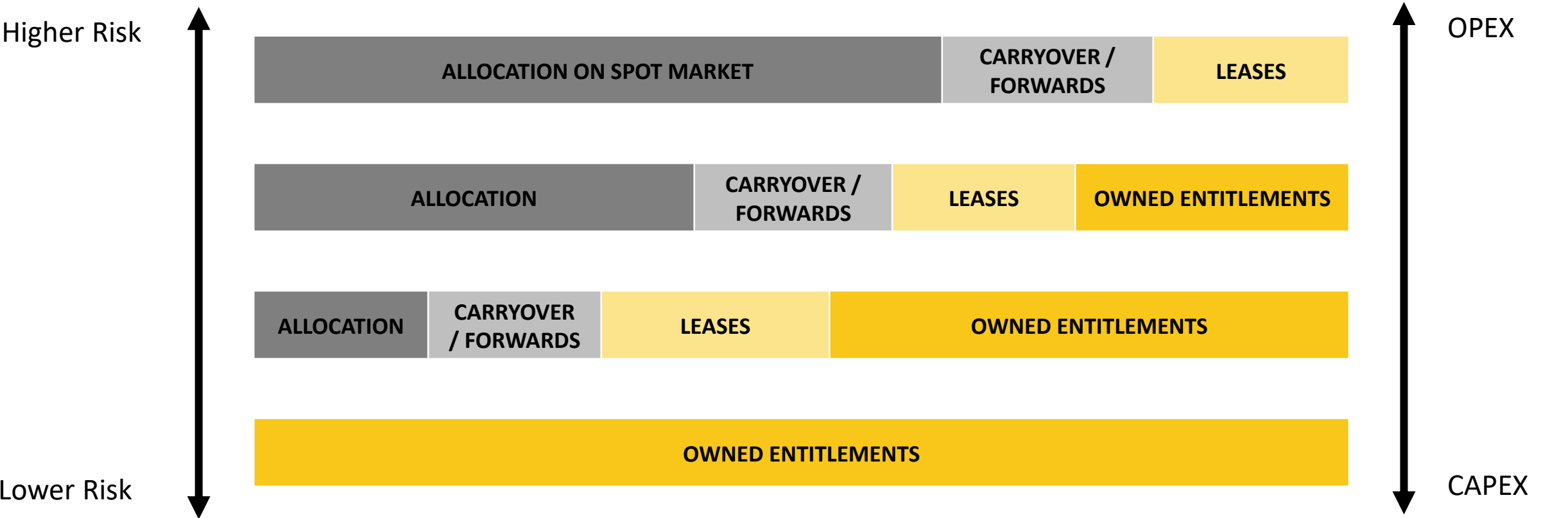
The Company takes a balanced approach in managing the portfolio. Water entitlement leases provide Duxton Water with a reliable, visible income stream and are an increasingly attractive long-term solution for irrigators to manage volatility.

Allocation received on the Company’s unleased portion of the portfolio is actively managed and sold down to producers through spot and forward contract sales to support further agricultural production. Allocation prices are more susceptible to short term weather and storage risks.



Farmers have different water products available to them to meet their short-term and long-term requirements.

The mix of water supply solutions that a farmer decides on is a balance of their available capital, appetite for risk, and the sensitivity of their crops to water scarcity. The below diagram illustrates the different water portfolios an irrigator can build and their respective level of risk.

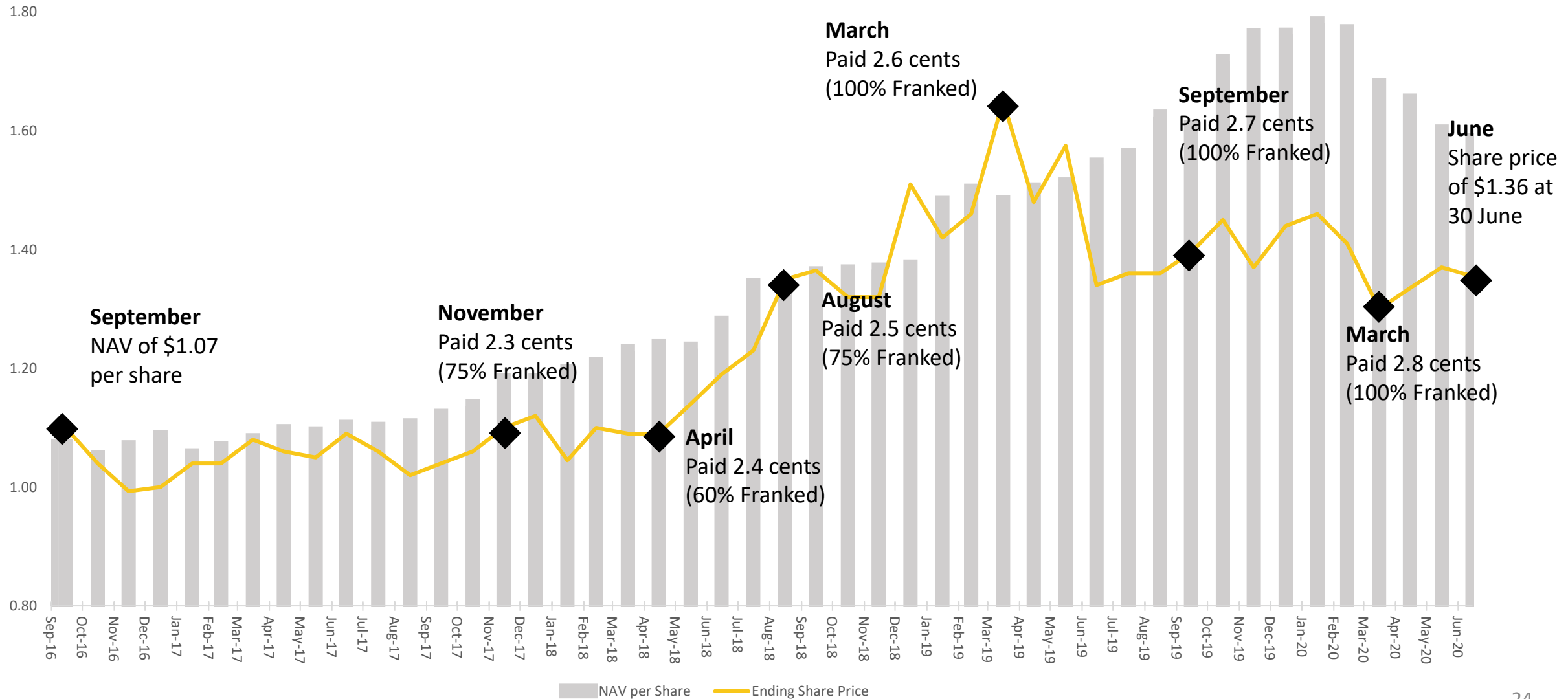




The table below briefly explains the different options available for irrigators in the SMDB. Irrigators use the products to manage the risk of higher seasonal and long term prices.

ENTITLEMENT OWNERSHIP	ENTITLEMENT LEASES	FORWARDS FOR ALLOCATION	CARRYOVER OF ALLOCATION
<p>The perpetual right to a particular volume of water. This is an ‘entitlement’ which receives an annual allocation of usable water, and not the water.</p> <p>There are varying entitlement types, each with their own characteristics such as security (priority of allocation), carry over capability, which in turn effect the capital value.</p>	<p>The leasing of an entitlement; the lessee usually pays 5-7% of the entitlement value, and lease terms are generally from 1 to 10 years in length.</p> <p>Here the allocation risk (i.e. how much water the entitlement receives) lies with the lessee, not the entitlement owner.</p> <p>Consider this a OPEX not CAPEX product for the irrigator</p>	<p>The seller agrees to provide a particular volume of water to the buyer in the future at a price agreed upon today.</p> <p>The cost is usually at a premium to the current allocation price.</p> <p>This is a OPEX product, and it is the only product which guarantees the delivery of volume on a set date.</p>	<p>Some entitlements have the capacity to carry water allocation water from one year to the next. Generally, if allocation is not used or carried over, it expires.</p> <p>Price is driven by demand for carryover space.</p> <p>This is a OPEX product, and an alternative to owning more expensive entitlements.</p>

**30 June 2020**  
NAV of \$1.58 per share



<sup>1</sup>Inclusive of dividends and franking credits and based on Share Price at 30 June at \$1.36

Duxton Water is the only pure Australian water entitlements portfolio on the ASX. The Company provides flexible water supply solutions to our Australian farming partners.

Duxton recently leased 1,300ML of groundwater to a family farming partnership in the Mallee region. The business has focused on potato production, and this lease has enabled them to expand production without the capital outlay on water security. Through leasing 1,300ML of ground water across 3 leases (5 years with an option to renew for a further 5), Duxton has supported growth, and the development of their business away from dryland farming.

An ASX listed viticulture business sources its water needs through a range of water products including ownership of entitlements, long-term leases, forward contracts and engagement with the spot market. Duxton leases them 1,000ML of VIC HS water with mixed term lengths (1/3 for 3 years, 1/3 for 4 and 1/3 for 5).

In SA, Duxton leases to a family partnership in the business of producing almonds. With an orchard they have been managing for 10-years, their trees are close to or at maturity now and demand up to 14ML/hectare. Almonds are particularly sensitive to water shortages and as such security of supply is key. As part of their strategy, they lease 600ML, of VIC HS water, on a 3 year lease from Duxton.

Through these partnerships we aim to continue to build a stronger Australian economy, in which agriculture has a positive long-term future.

Another lessee is a grape grower in the Sunraysia region which leases 600ML of NSW HS over a 3-year term. This entitlement is in high demand, but the lessee was willing to pay the value of the lease in order to secure the water. The lease gives them peace of mind in delivery of their valued resource.

Duxton leases to an irrigator-owned water utility business, which provides water, by way of infrastructure, to more distant regions. They have a commitment to deliver 12GL of water, and while they own a large portion of this water, they also engage in the spot market and enter lease agreements. With Duxton they have a lease of 500ML of VIC HS water, with a 3-year lease term.

## Real-Life Case Studies



**EARNINGS PER SHARE  
(EPS)**

2019	2018	2017
6.4 cents <sup>1</sup>	8.5 cents	3.2 cents

**ADJUSTED EARNINGS  
PER SHARE**

2019	2018	2017
8.7 cents <sup>1</sup>	8.7 cents	3.2 cents

**UNREALISED CAPITAL GAIN  
PER SHARE<sup>2</sup>**

2019	2018	2017
35.5 cents	20.1 cents	10.4 cents

- Earning Per Share of 6.4 cents<sup>1</sup> . This was impacted by a non-cash asset impairment.
- Water assets are classified as an intangible asset. From a statutory accounting perspective, water assets are required to be held at cost, less impaired value. Some of the Company’s general security entitlements were impaired by \$3.83 million. This had a negative impact on statutory earnings. In the event these assets revert back towards cost, the statutory profit will be positively impacted.
- The recent dry conditions resulted in very little, or in some cases zero allocation on NSW Murray and Murrumbidgee general security entitlements. There were an increasing amount of these assets that were sold on the market as irrigators managed cashflow and capital requirements. Across these regions we saw a weighted ~13% fall in value of these entitlements.
- Since inception to December 31 2019, Duxton Water has had a fair value revaluation uplift as at 31 December 2019 of \$93.4m. This has not yet been passed through to the Profit and Loss statement as it was not sold.
- When adjusted for the non-cash impairment, the Company generated an operational profit of 8.7cents/share for 2019. In addition to this, the portfolio delivered shareholders with and unrealised gross capital gain of 35.5 cents per share across 2019.

<sup>1</sup> Non-IFRS measures used by the company are relevant because they are consistent with measures used internally by management and by some in the investment community to assess the operating performance of the business. The non-IFRS measures have not been subject to audit or review.

<sup>2</sup> Annual unrealised gross capital gain across the portfolio per share

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