

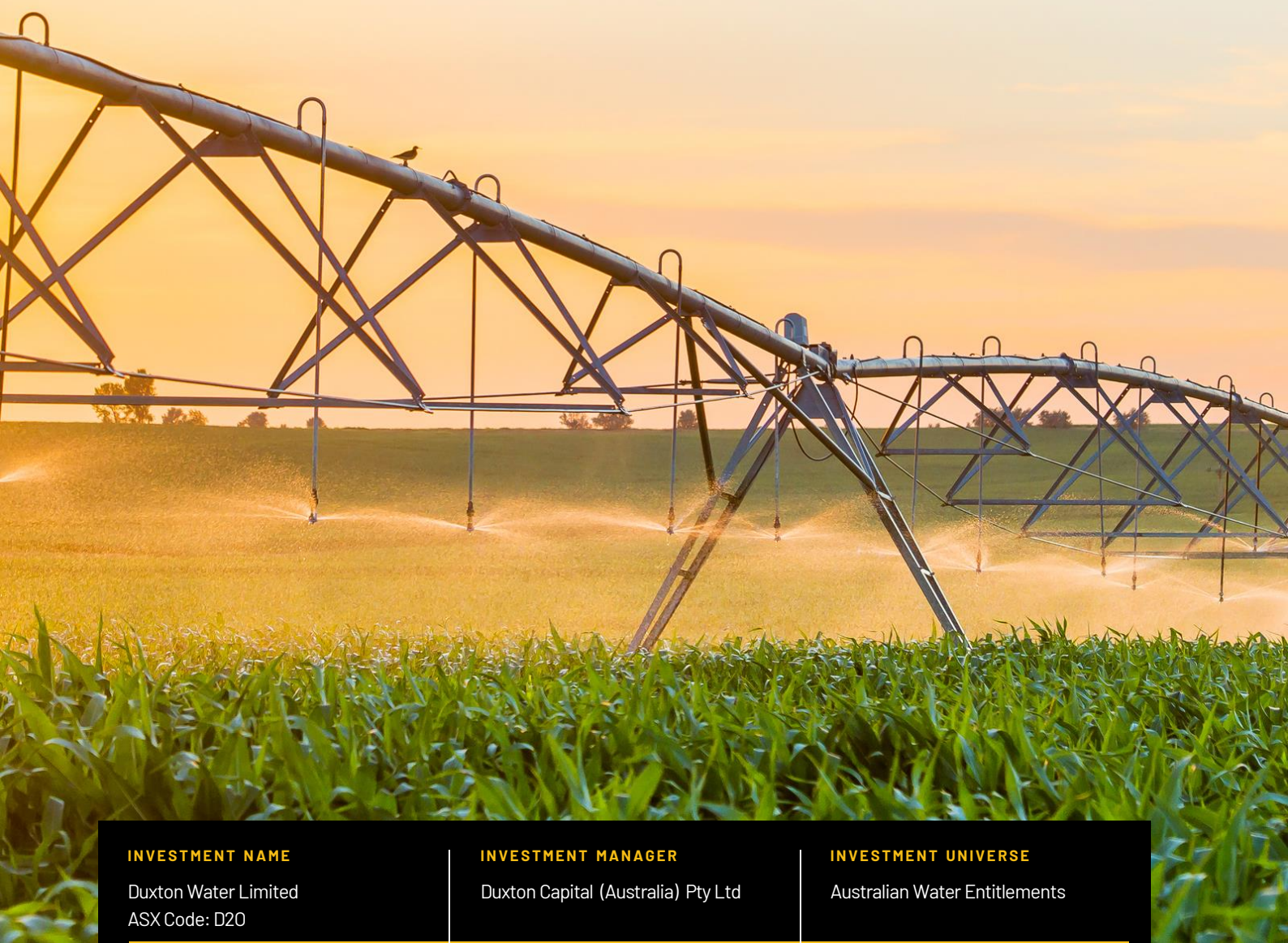
# Monthly Update



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OCTOBER 2022

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#### INVESTMENT NAME

Duxton Water Limited  
ASX Code: D20

#### INVESTMENT MANAGER

Duxton Capital (Australia) Pty Ltd

#### INVESTMENT UNIVERSE

Australian Water Entitlements

#### NET ASSET VALUE (POST-TAX)

\$1.88 per share

#### SHARES ON ISSUE

119,438,075

#### WATER PORTFOLIO VALUE

\$382 million



The primary investment objective of Duxton Water ("the Company") is to build a portfolio of permanent water entitlements and utilise this portfolio to provide flexible water supply solutions to our Australian farming partners. The Company generates a return by offering Irrigators a range of supply solutions including long-term entitlement leases, forward allocation contracts and spot allocation supply.



## Portfolio Managers' Update

October continued to see flood events take place throughout parts of eastern Australia, in particular the Murray Darling Basin (MDB) region. It has been a very wet period for the Basin, with large volumes of water moving through the system. Our thoughts are with the people impacted by these floods, whether that be our customers, farmers, regional businesses or rural communities. We will continue to work closely with our irrigator partners through this challenging period.

Wet conditions have continued to see allocations made to general security entitlement holders, particularly in Victoria. During October, Goulburn Low-reliability entitlements received a 7% allocation, the first allocation made to this entitlement time since its unbundling in 2007. Victoria Murray Low-reliability allocations also increased to 40%.

From the demand side, water usage has been lower than usual for this time of year, which is expected given the recent flooding events and above-average rainfall. At the end of October, we have 55% of the portfolio locked into long-term leases and a further 6% locked into forward contracts, with only a small portion left to sell from our unleased allocation holdings.

We made the decision to sell most of our uncommitted allocation holdings earlier in the year, anticipating a wetter than average 22/23 Water Year (WY). We continue to provide some liquidity and supply to the market as required.

Wet conditions have had little impact on entitlement prices over the last few months. We have continued to see strong demand for permanent entitlements, resulting in increased valuations for some zones throughout October.

We continue to have conversations with brokers and lessees about long-term leases and forward products for the coming water years. We are currently in discussions with several counterparties in relation to long-term water leases to commence 1 July 2023.

On 11 October 2022, the Australian Government released the Water Market Reform: Final Roadmap Report, delivered by independent Principal Adviser, Mr Daryl Quinlivan AO.

The Final Roadmap Report endorsed 23 out of the 25 ACCC's recommendations put forward to the Treasurer in early 2021. These recommendations have been accepted by the Australian Government and will be implemented with the view to improving the efficiency, transparency and governing frameworks that underpin Australia's water markets.

Duxton Water remains supportive of the implementation of these 23 recommendations that will ultimately result in a more efficient and transparent water market for all participants.



**Lachlan Campbell**  
Portfolio Manager



**Lachlan Beech**  
Portfolio Manager

## COMPANY PERFORMANCE

1 Month	3 months	6 Months	12 Months	Inception
0.04%	-0.17%	3.69%	14.77%	116.29%

<sup>^</sup>These figures are based on NAV movements and include franked dividends for the period.



## Water Lease & Forward Update

At 31 October 2022, Duxton Water had 55% of its permanent water portfolio (by value) leased to Australian farming businesses, accounting for 71% of the Company's high security portfolio (by value). The current Weighted Average Lease Expiry ("WALE") is 1.5 years. Inclusive of renewal options, this increases the WALE to 4.6 years.

During October, the Company has continued to discuss lease options and forward contracts with several brokers and new and existing customers. Irrigators' focus continues to be towards next water year, which is a result of the wetter than average conditions. Most models are now predicting a return to more normal rainfall patterns by early 2023.

Interest towards forward products also increased throughout October. Forward sales grant certainty to allocation supply at an agreed price. On the back of lower allocation prices, irrigators are thinking strategically about future water positions.

Forwards allow irrigators to lock in future water security ahead of potential dry years. They also provide the Company with a hedging mechanism and improve visibility to future cashflows. Duxton Water continues to work back towards its long-term leasing target of 70-80%. Long-term water leases typically provide farmers with access to water security at a fraction of the cost of owning the same water entitlements outright.



Irrigated Young Apple Orchard

## WATER FORWARD CASE STUDY: MURRUMBIDGEE

Earlier this year, Duxton Water provided a 1,000ML forward contract to a farming business in the Murrumbidgee area. This business has a farming rotation between irrigated wheat and rice. Using this type of water product, this customer was able to get visibility to a guaranteed supply of water, at a predetermined price, for delivery on a specific date in the 22/23WY. This forward allocation contract has provided visibility for a key input into their business and has been used to produce 500Ha of rice this year.

*Through this type of partnership, Duxton Water continues to enable Australian farming businesses to take a multi-year approach to managing their annual water supply strategy.*



## QUICK FACTS SUMMARY

	September 2022	October 2022
Water Entitlements	84.5GL	85.0GL
Portfolio Diversification (types)	18	18
Leased % of Portfolio	55%	55%
Weighted Average Lease Expiry (WALE)	1.6 years	1.5 years
WALE (incl. renewal options)	4.7 years	4.6 years

## Entitlement Market Update

At 31 October 2022, Duxton Water holds 85.0GL of permanent water entitlements across 18 different asset types and classes. Throughout October, six additional parcels of water entitlements were added to the portfolio, increasing holdings by 0.5GL.

While some permanent water prices appreciated in value during October, southern MDB entitlements on average, softened by -0.4% for the month. Prices have seen a weighted average increase of 12% since October 2021.

The Company continues to seek transactions that fit within its current target portfolio.

## Allocation Market Update

Allocation prices continued in a downwards trend in October, as extremely wet conditions prevail throughout the Basin. The Company only holds a small exposure to current allocation prices, as most of the unleased holdings were sold earlier in the season.

Throughout October, the Company successfully delivered on two of its forward allocation contracts. Forward sales such as these provide a level of hedging against the unleased portion of the portfolio and current spot prices.

Allocation water has traded between \$20-\$25/ML in the Lower Murray, \$15-\$25/ML in the Goulburn, \$15-\$20/ML in the Murrumbidgee, and \$15-\$20/ML in the Upper Murray throughout the month of October.





## Finance Update

Overall, October 2022 was a positive month for investors, with the Australian share market and major overseas' markets rebounding from the previous month.

Duxton Water's share price closed in October 2022 at \$1.63, an increase of 2 cents from the end of September. October monthly returns were 4.2% including the fully franked dividend that was paid to shareholders on 28 October 2022, resulting in total shareholder returns over the last 12 months of 23.5%.

Duxton Water's post-tax NAV decreased 5 cents to \$1.88 per share during October, primarily due to the Company's dividend payment made on 28 October 2022, and a slight softening in entitlement values across some zones. The Company's post-tax NAV has seen an 9.5% annual increase since October 2021, and 15% annually when including fully franked dividends.

The Company's NAV, excluding tax provisions for unrealised capital gain also decreased by 5 cents during the month to \$2.17 per share.

At 31 October 2022, the Company's Net Debt to Water Assets is 32% (with a maximum Net Debt covenant of 40% in place).

Duxton Water has \$55m/\$123.5m of fixed debt with the balance being variable. The Company has in place several fixed interest rate swaps to hedge against future interest rate movements. The swaps are due for expiry between 2024 and 2031. The Company continues to closely monitor short-term and long-term interest rate to manage its debt.

NAV (post tax)	NAV (pre tax)
\$1.88 per Share	\$2.17 per Share

## Share Buyback

As of 31 October 2022, Duxton Water had bought back a total of 1.5 million shares (equivalent to 1% of the Company), at an average price of \$1.60 per share, since November 2021. The Board believes buying back shares at the current discount to NAV is in the interest of all shareholders.

## Dividends

On 28 October 2022, Duxton Water paid its 11th consecutive and increasing dividend to shareholders of 3.3 cents per share (fully franked).

The Board of Duxton Water was pleased to see continued support from shareholders who elected to participate in the Company's Dividend Re-investment Plan.

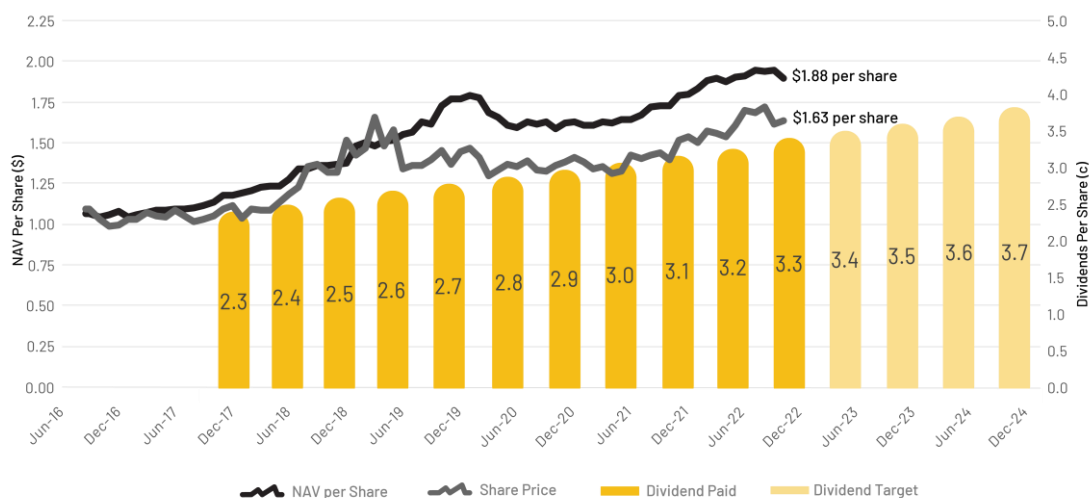
As of 31 October 2022, the Company had paid total dividends of 30.8 cents per share since its maiden dividend in November 2017. This is a 39.2% cash return over 5 years for investors who took part in the September 2016 IPO.

The Board of Duxton Water are pleased to extend its dividend guidance to shareholders out to the second half of 2024. The Board maintains its commitment to providing shareholders with a bi-annual dividend, franked to the maximum extent possible.

### DIVIDEND GUIDANCE

	Cents Per Share	Franking Target
Final 2022	3.4 cps	Fully Franked
Interim 2023	3.5 cps	Fully Franked
Final 2023	3.6 cps	Fully Franked
Interim 2024	3.7 cps	Fully Franked

## NET ASSET VALUE PER SHARE - SINCE INCEPTION



### VALUATION METHODOLOGY

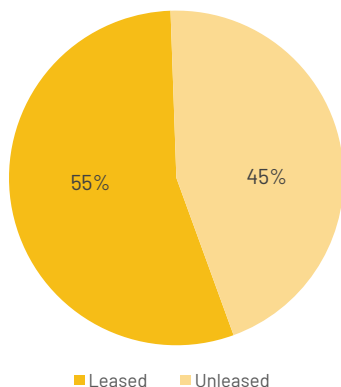
The Company uses an Independent Fair Market Unit Value for entitlement and allocation provided by Aither Pty Ltd ('Aither') to undertake the NAV assessment. Aither's definition of fair market value is consistent with the principles of the Australian Accounting Standards Board (AASB) 13 Fair Value Measurement. It is a non IFRS measure that is not reviewed or audited by the Company's auditor. Further information can be found at [www.duxtonwater.com.au](http://www.duxtonwater.com.au)

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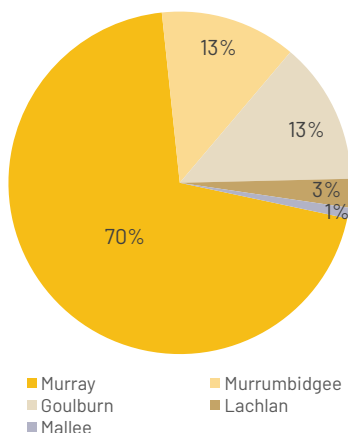


### WATER PORTFOLIO DIVERSIFICATION



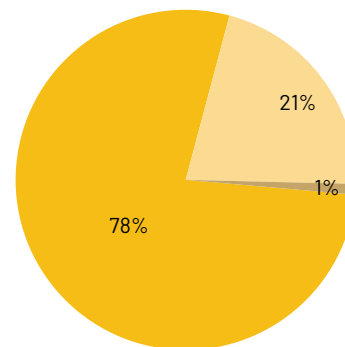
■ Leased ■ Unleased

### WATER SECURITY BREAKDOWN



■ Murray ■ Murrumbidgee ■ Goulburn ■ Lachlan ■ Mallee

### ENTITLEMENT VALUE BY REGION



■ High Security ■ General Security ■ Groundwater

## Weather Update

Rainfall in October was the second-highest on record for Australia as a whole. The national average was 158% above the long-term 1961-1990 average. For most of Australia, rainfall was above or very much above average, which resulted in significant flooding events in large areas of eastern Australia.

Across the MDB, October rainfall was 221% above the long-term 1961-1990 average. October rainfall was the highest on record for large parts of the Basin, particularly in New South Wales and Victoria.

The national mean temperature for October was 0.19°C warmer than the long-term average for Australia. The maximum temperature was 0.58°C below average and the mean minimum was 1.95°C above average.

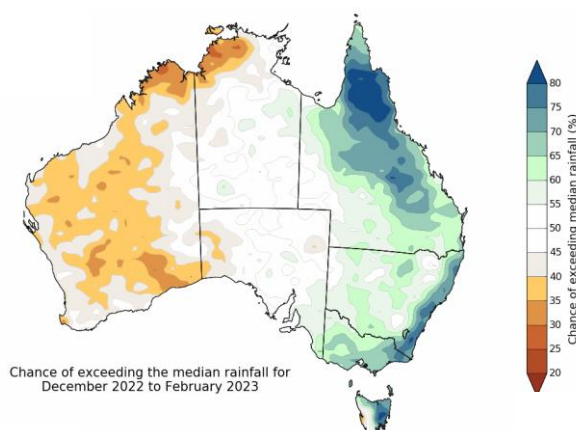
La Niña continues to be active in the Pacific Ocean, with atmospheric and oceanic indicators consistent with an established La Niña. La Niña events increase the chances of above-average rainfall for northern and eastern Australia during spring and summer. Most models indicate a return to more normal rainfall conditions by early 2023.

The Indian Ocean Dipole (IOD) remains negative, with values below the threshold (−0.4°C) since June. Most models suggest that the negative IOD will likely persist during November. A negative IOD phase increases the chance of above-average spring rainfall for much of Australia, especially when combined with La Niña.

The Southern Annular Mode (SAM) is currently positive, and it will likely remain positive into December. A positive SAM during spring and summer increases the chance of above-average rainfall for parts of eastern New South Wales, eastern Victoria, and south-eastern Queensland.

### CHANCE OF ABOVE-AVERAGE RAINFALL

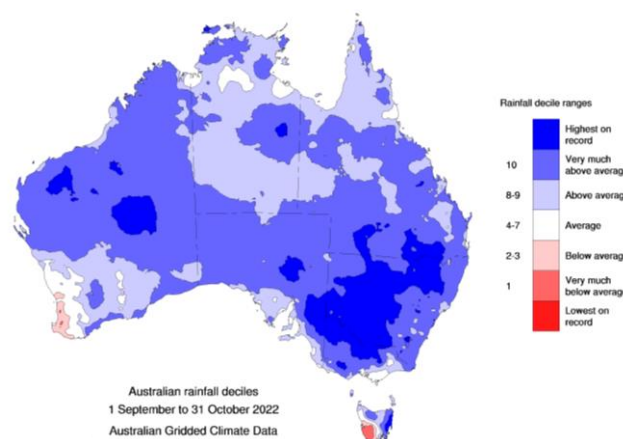
DECEMBER 2022 - FEBRUARY 2023



Source: Bureau of Meteorology

### RAINFALL DECILE CHART (SPRING)

SEPTEMBER 2022 - OCTOBER 2022



Source: Bureau of Meteorology



## Outlook & Storages

The December to February outlook suggests it will be wetter than average for large parts of Queensland, New South Wales, Victoria, and eastern Tasmania. Northern Queensland has twice the average chance of unusually high rainfall.

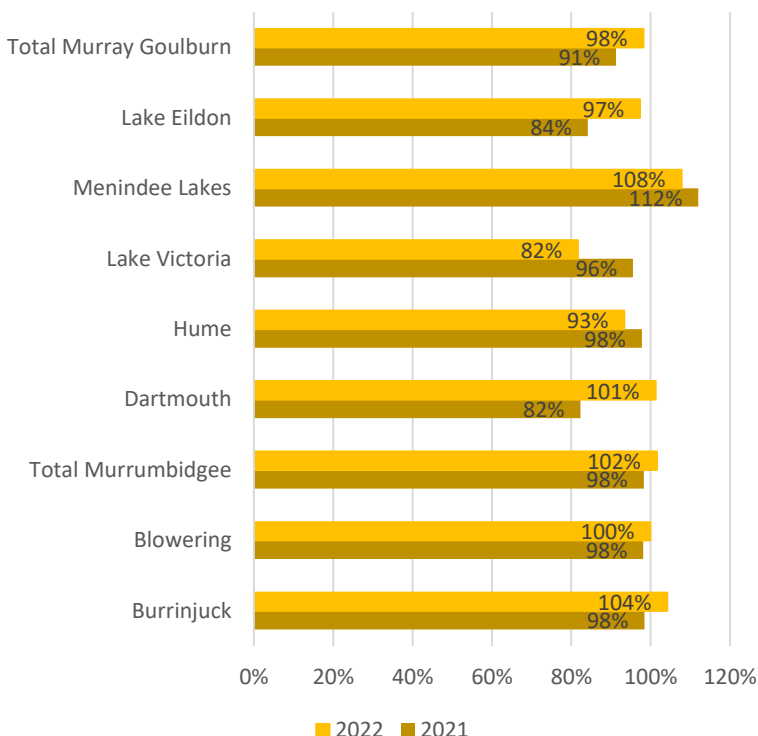
Warmer days are expected in Tasmania and most of western and central Australia, with cooler conditions expected for the south-eastern mainland.

La Niña, a negative IOD, a positive phase of SAM, and record warm waters are contributing to the wet outlook over northern and eastern Australia. The Madden-Julian Oscillation may also contribute to wetter conditions for north-eastern Queensland in the coming months.

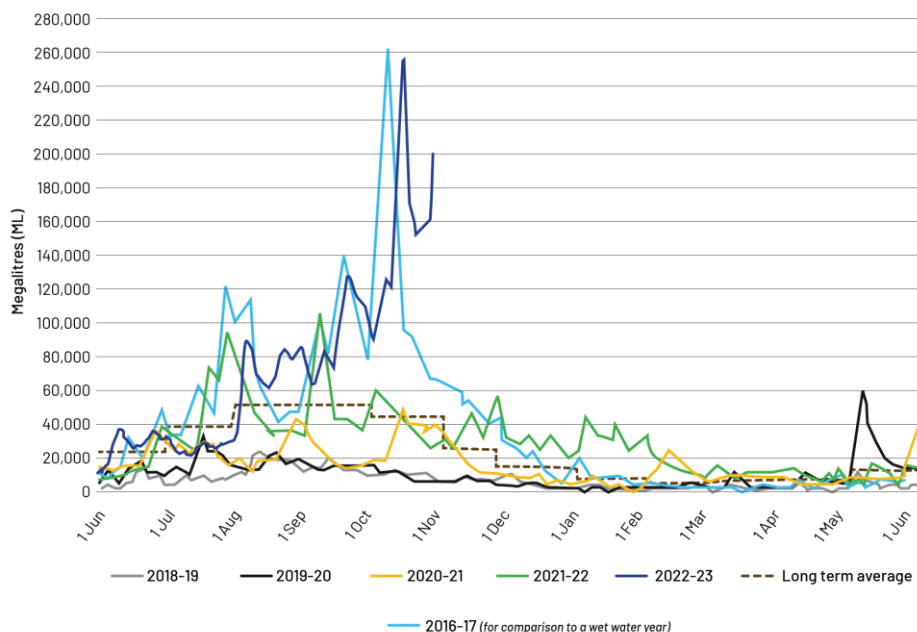
Flows were high at 77% of locations in October, mainly along the east and south-east coast of the mainland, and the north coast of Tasmania. High streamflows are likely for November 2022 - January 2023.

In the northern and southern MDB, storages are now at 109% and 99%, respectively, compared to 83% and 92% at the same time last year. MDB storages, are at their highest levels for more than a decade.

## STORAGE LEVELS IN MAJOR DAMS



## DAILY INFLOWS TO THE MURRAY DARLING BASIN



Murray System Daily Inflows (excl. Snowy Darling, inter-valley trade and environmental inflows) - 5 day rolling average

This announcement has been authorised for release by the Chairman of Duxton Water Limited

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