



DUXTON WATER LIMITED Company Update

Internalisation Proposal

Duxton Water Limited | ASX:D20





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Executive Summary

- On 4 April 2025, Duxton Water Limited ("D20" or "the Company") announced a proposal to internalise its management team and operational functions, effective 1 June 2025.
- The transition reflects the Company's operational maturity and provides structural certainty as the Company's Investment Management Agreement ("IMA") initial 10-year term nears expiry.
- Internalisation will remove the Company's requirement to pay external management and performance fees, and provide the Company with greater control over its personnel and operations.
- A Transitional Services Agreement ("TSA") between the Company and Duxton Capital Australia ("DCA") has been agreed to support continuity of operations, ensuring the Company can be fully transitioned and operational on its own within 18 months.
- The total financial impact of the transaction is estimated at approximately 2.6% of the Company's Net Assets Value at 31 March 2025, comprising the early termination fee, incremental transitional costs, and the assumed value of performance rights. The TSA payment of \$230,000 per month (for 18 months) has been excluded from this calculation, as it is expected that this amount (approximately) will continue to be incurred by the Company through management fees and administration fees, irrespective of the internalisation.
- A condition precedent for the transaction was that it be deemed as "fair and reasonable" to non-associated shareholders by an Independent Expert. This condition has been satisfied. Shareholder approval for the internalisation will be sought at the Company's upcoming Annual General Meeting on 30 May 2025.
- Mr Brendan Rinaldi (Independent Non-Executive Director) will step into the role of Independent Chairman, effective from 1 June 2025. Mr Rinaldi will succeed Mr Edouard Peter who has been the Company's Chairman since 2016.


ASX ANNOUNCEMENT

4 April 2025

Internalisation Proposal

Highlights:

- Internalisation of the senior management team and other business functions to Duxton Water Limited, to enhance corporate governance and shareholder alignment.
- Senior management to be employed directly by Duxton Water Limited, providing greater clarity around its future operating structure.
- Mr Edouard Peter who has been the Company's Chairman since 2016, will be stepping down on 1 June 2025, and will continue to serve on the board as a Non-Executive Director.
- Implementation of a transitional services agreement to assist with a smooth transition.

Duxton Water Limited ("the Company" or "D20") is pleased to announce that the Company (led by its independent directors) has agreed with Duxton Capital Australia Pty Ltd ("the Manager" or "DCA") to give effect to an internalisation of the senior management team responsible for managing the Company as part of a broader project for the Company to internalise all operational functions ("Internalisation"). The Internalisation will be subject to shareholder approval at the Company's upcoming Annual General Meeting on 30 May 2025.

With the Investment Management Agreement ("IMA") expiring in July 2026, the Independent Directors have conducted a thorough due-diligence process over the past 12 months. This has involved meeting with and seeking feedback from several shareholders, along with seeking views and advice from investment banks, stockbrokers, legal and accounting firms. As a result of this, the Company and DCA are of the view it is in the best interest of shareholders moving forward to internalise the management of the Company.

The Board would like to reaffirm shareholders that it does not expect this transaction to have a material impact on the Company's operations. With continuity of the current senior management team, and a Transitional Services Agreement ("TSA") with DCA, the Board has confidence of a smooth transition to a fully integrated operational business.

Duxton Water Limited
7 Pomona Road, Stirling SA 5152
www.duxtonwater.com.au

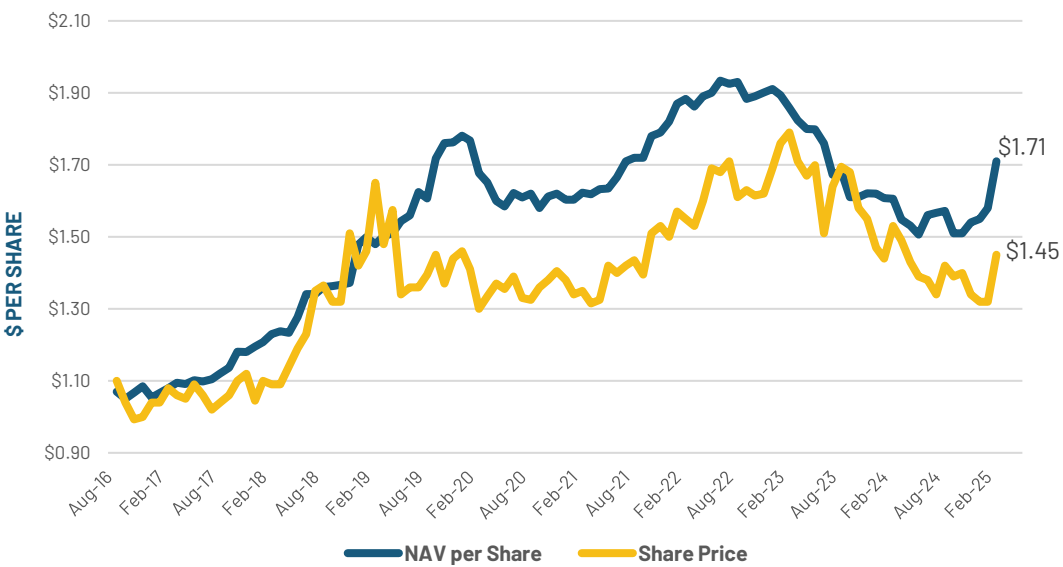
[ASX Announcement - 4 April 2025](#)



Background & Context

- D2O was founded by DCA in 2016 to provide investors with a direct and pure investment exposure to Australian water entitlements as an asset class.
- D2O has been externally managed by DCA since listing in 2016, under an IMA with an initial 10-year term.
- Since inception, the Company’s external management arrangement with DCA has delivered significant benefits, including access to DCA’s operational teams, systems, and relevant intellectual property. The external structure also removed the requirement for D2O to establish an internal management team while the Company was in its early sub-scale stages.
- Since 2016, DCA as the investment manager has generated total NAV returns (including dividends paid) of 119% or 9.6% p.a.
- With the initial 10-year term of the IMA due to expire in July 2026, the Board has reviewed the Company’s operating structure in line with the Company’s maturity.
- The review involved meeting with and seeking feedback from several shareholders, along with seeking views and advice from investment banks, stockbrokers, legal and accounting firms.
- The Independent Directors consider internalisation to be the next logical phase in the Company’s evolution, establishing a structure that delivers stronger alignment between the management team and the Company.

D2O Historical Performance (to 31 March 2025)



| Portfolio Performance | 6 Months | 12 Months | Inception | Annualised |
|-------------------------------------|----------|-----------|-----------|------------|
| NAV Returns (Post-tax) ¹ | 11.84% | 12.66% | 118.58% | 9.59% |

1. Net Returns – after fees, after taxes and including dividends paid (inc. franking) to 31 March 2025.



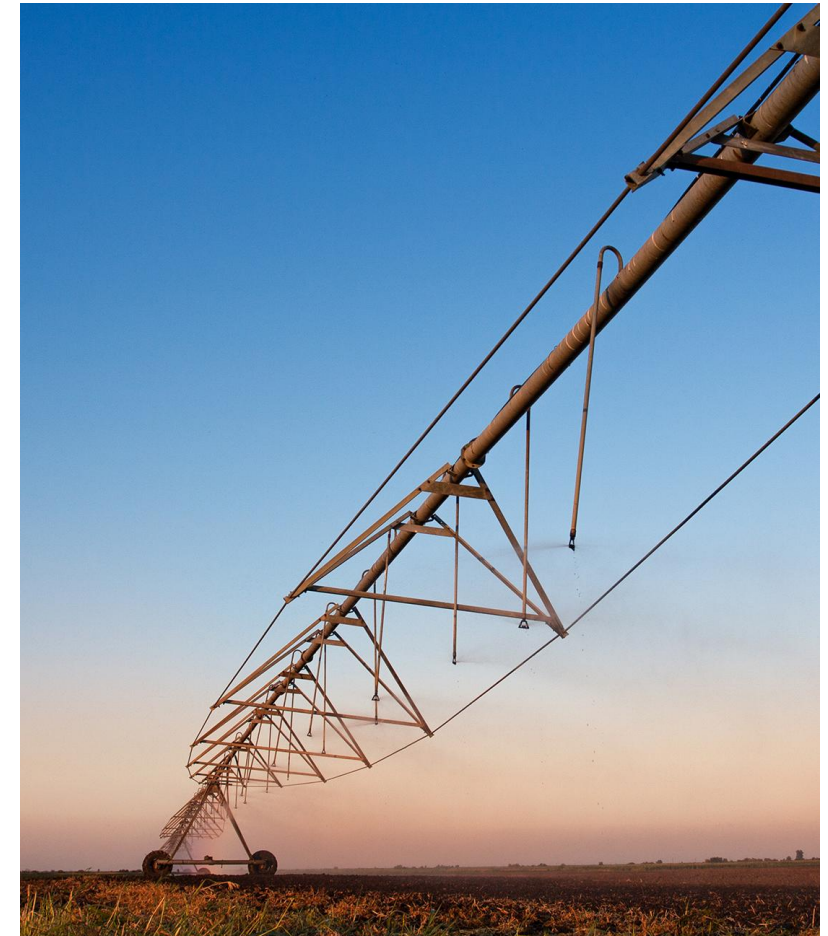
IMAC Process

- The Investment Manager Assessment Committee ("IMAC") is comprised of the independent Directors of Duxton Water Limited. It was established in 2019 to oversee the performance of the Investment Manager.
- In 2021, the IMAC conducted a mid-term review of the Investment Manager, engaging an independent consultant to perform a detailed quantitative analysis of D20's performance over its first five years of operation (2016-2021). The review also assessed the competitiveness of the Company's fee structure.
- The IMAC concluded that during the review period, D20's performance aligned with its stated return targets, and that DCA offered the lowest fee structure when compared to other investment managers in the same asset class.
- Over the past 12 months, the IMAC has, with the assistance of a Corporate Advisor (KordaMentha), undertaken a comprehensive analysis to evaluate the Company's management structure ahead of the expiry of the initial 10-year term. In absence of an alternative proposal, the IMA will automatically renew for a further 5 years at expiry unless terminated by an ordinary resolution of shareholders (which the Company is obliged to put to shareholders).
- This review assessed the Manager's performance to date (2016-2025) and analysed the long-term sustainability and alignment of the external management structure with shareholder interests. It also considered the Company's maturity profile and future opportunities.
- This involved meeting with and seeking feedback from several shareholders, along with seeking views and advice from investment banks, stockbrokers, and legal and accounting firms, to guide the review and support an informed, balanced, and independent recommendation in the best interests of the Company.
- Based on its findings, the IMAC has recommended transitioning to an internalised model, citing expected future cost savings if the asset base continues to grow, enhanced control over its operations, and greater alignment of interests between management and the Company.



Internalisation Overview

- The IMA with DCA is proposed to terminate effective 1 June 2025, subject to shareholder approval at the Company's Annual General Meeting on 30 May 2025. An early Termination Fee of approximately \$3.2–\$3.3 million will be payable to DCA in early June 2025, in accordance with the original IMA terms.
- A TSA has been entered into with DCA for up to 18 months to support continuity across key business functions including management oversight, investment support, legal, accounting, finance, human resources, systems, and compliance. DCA will receive a fixed monthly fee of \$230,000 (plus GST) under the TSA and will be issued 3,000,000 Performance Rights which will convert into fully paid ordinary shares on a 1:1 basis if internalisation occurs within the 18-month transitional period.¹
- Lachlan Campbell and Lachlan Beech will continue in their current roles as Portfolio Managers, transitioning to employees of Duxton Water effective 1 June 2025. They are expected to become Key Management Personnel of the Company upon completion of the Internalisation.
- Brendan Rinaldi, a current Independent Non-Executive Director, will succeed Ed Peter as Independent Chair of the Board effective 1 June 2025. Ed Peter will remain on the Board, ensuring continuity of asset management and industry expertise.
- During the transitional period, DCA has agreed to certain restraints in favour of D20 and will transfer all relevant intellectual property. DCA will also release employment restraints on all relevant team members, initially including Lachlan Campbell and Lachlan Beech, and provide ongoing access to necessary systems to facilitate a smooth transition and ensure continuity of management under the internalised structure.
- An Independent Expert has been engaged to provide a report to shareholders. The Independent Expert Report ("IER") concludes the transaction is fair and reasonable to non-associated shareholders, which was a condition precedent of this proposal.



Why Now?

- The Company has reached operational scale, with internal resources and leadership capable of efficiently and effectively managing the business under an internalised management structure.
- Transitioning to an internally managed structure provides shareholders and the Company with greater long-term certainty as it removes the requirement to seek shareholder approval to renew the IMA at the expiry of each term.
- Direct control over management will allow the Board to better oversee performance, manage succession, and design incentive structures to allow a stronger alignment of interests between the Company and its management team.
- The proposal represents a strategic evolution of the Company's corporate structure. Having successfully navigated its early growth phase, an internalised model will better support sustainable long-term growth.



Transitional Services Agreement (TSA)

- The TSA provides continuity of critical functions during the internalisation process, ensuring that operational, financial, and compliance services remain uninterrupted while internal capabilities are established.
- The TSA has been entered into with DCA to ensure a smooth and orderly transition. D20 does not have any employees, systems, or own any intellectual property, so access to these resources that are owned and managed by DCA during the transitional period is essential.
- The Independent Directors are of the view that this agreement materially reduces the execution risk associated with the internalisation process, providing the Company with both additional resources and time to establish the necessary internal capabilities.
- The agreement facilitates a phased transfer of knowledge, operations, systems, and relevant intellectual property from DCA, enabling the internal team to build capability while continuing to leverage DCA’s expertise and infrastructure throughout the transition. Ed Peter and Stephen Duerden, who have been critical in founding and managing the Company to date, will continue to provide management oversight and assist with the proposed transaction. Ed Peter and Stephen Duerden will not be paid any Director fees during the transitional period.
- The \$230,000 monthly fee under the TSA is approximately equal to the current monthly amount paid to DCA for investment management and accounting/finance services, maintaining a substantially similar cost profile, during the transition while securing continuity of service delivery. An incentive equivalent to 1.2x the monthly fee is proposed to encourage an accelerated transition and help minimise execution risk.
- Subject to shareholder approval of the internalisation, Lachlan Campbell and Lachlan Beech will become employees of Duxton Water on 1 June 2025. The Company does not anticipate hiring additional employees until closer to the completion of the transition, thereby limiting staffing and operating costs during the transition period.

Total TSA Cost Summary:

| | Consideration |
|--|-------------------|
| TSA Monthly Fee (18-months) ¹ | \$230,000/month |
| Performance Rights ² | ~\$4,500,000 |
| Total TSA Costs: | ~8,640,000 |

1. The impact of the 1.2x multiplier on any remaining monthly service fees has been excluded from this estimate.
2. 3,000,000 Performance Rights will have an approximate value of \$4,500,000 based on \$1.50 share price.



Expected Benefits of Internalisation

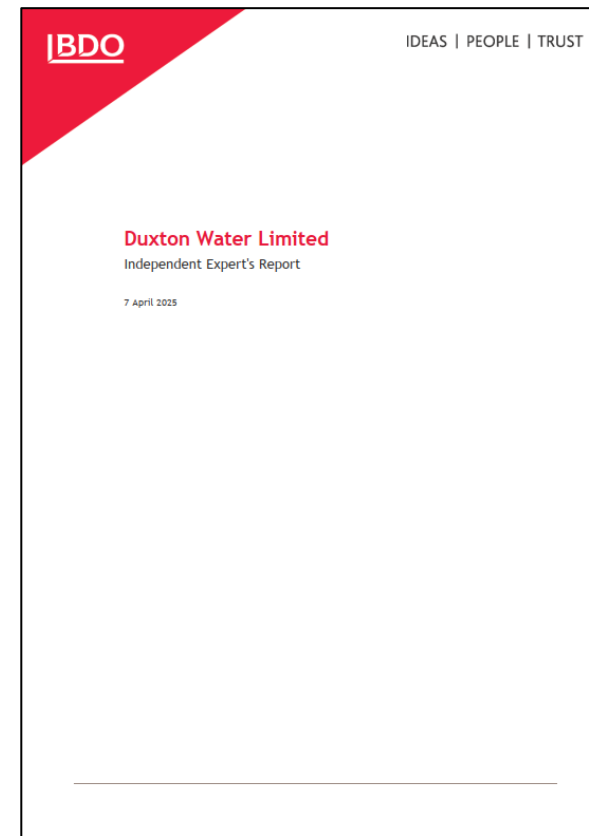
- Improved overall corporate governance consistent with market expectations of ASX-listed companies, to enable continued growth and investment.
- Enhanced control over the Company's operations including more direct oversight of the management team, and an ability to develop remuneration plans to retain and incentivise key management personnel.
- Removal of the need to pay on-going management fees and uncapped performance fees, that are based on NAV performance. Instead, the Company will employ its own management team to run the business and its operations.
- Greater certainty around the future of the Company's operating structure as the Company no longer needs to seek Shareholder approval for renewal of the Investment Manager Agreement each 5-year period.
- The IMAC expects the ongoing annual costs of an internal management structure to be lower than the current fees paid to the Investment Manager. This is expected to deliver annual cost savings, based on the Company's current operations and size.
- The Company believes it has now reached sufficient scale for internalisation to be both strategically appropriate and in the best interests of shareholders into the future.



Independent Expert Report (BDO)

- BDO was appointed as the Independent Expert to express an opinion as to whether the Proposed Transaction is fair and reasonable to non-associated shareholders.¹
- The basis of this assessment was derived from the financial model provided by the Company, in conjunction with the Company's corporate advisor, KordaMentha. The financial model forecasts expected costs to operate the Company under two distinct scenarios.
- **Scenario 1 (Internal Structure):** the expected costs D20 would incur from terminating the IMA, entering into the TSA, and operating under an internal management structure.
- **Scenario 2 (External IMA):** the expected costs D20 would incur if it continued operating as an externally managed entity under an IMA.
- The Independent Expert was also asked to assess a range of other factors that it considered to be relevant to shareholders, including an investigation into the advantages and disadvantages of the proposed transaction, and consider the one-off costs to be incurred by D20 as the result of internalisation of key business functions.
- The Independent Expert has opined that in the absence of a superior scenario, the approval of the proposed transaction to move to an internal structure is more advantageous to shareholders than if the proposed transaction is not approved.
- The Company has considered alternative options, such as allowing the IMA to terminate (subject to shareholder approval) at the end of its term in July 2026. Under this option, D20 would be required to consider rolling the current IMA for a further five years pursuant to the terms of the existing IMA, find an alternative external manager, or consider internalisation at that time. Having regard to the risks, timeline and the financial and operational uncertainty with that course of action, D20 considers these options unfeasible when compared to the proposed transaction.

1. The Company was not legally required to engage an Independent Expert but did so in accordance with best practice principles.



The full Independent Expert Report ("IER") was released to the ASX alongside the Notice of Meeting on Wednesday, 30 April 2025.



Performance Fee Update

- The Company also wishes to inform shareholders, that following a period of strong performance, at 31 March 2025, the Company exceeded its high water mark for the purposes of calculating the performance fee under its IMA.
- Under the existing IMA, if the Company continues to deliver performance above its benchmark hurdles of 8% and 12% during the remainder of FY2025, a performance fee would become payable to DCA.
- Under the terms of the deed of termination of the IMA, no such performance fee would be payable in the event that either of the benchmark hurdles were exceeded.

| Performance Fee Calculation – 31 March 2025* | \$'000 |
|--|--------------|
| High Water Mark (set 31 December 2022) | 298,000 |
| 31 March 2025 Adjusted PNAV | 301,000 |
| Performance over high-water-mark | 3,000 |
| 1 st Benchmark hurdle (8%) | 24,000 |
| 2 nd Benchmark Hurdle (12%) | 36,000 |

*The performance fee calculation above is unaudited and based on the Company's 31 March 2025 non-statutory NAV.



Expected NAV Impact (Pro-Forma)

| Transaction Summary Impact on NAV (Pro-Forma Balance Sheet) | Balance Sheet 31/03/2025 ¹ Non-Statutory (unaudited) \$'000 | IMA Termination Fee (To be paid Jun-25) \$'000 | Incremental Transitional Costs ² (18 months from Jun-25) \$'000 | Issuance of Nil Cost Performance Rights ³ (On Completion) \$'000 | Balance Sheet 31/03/2025 Non-Statutory (unaudited) \$'000 |
|---|--|--|---|--|---|
| Cash & cash equivalents | 2,031 | (3,200) | (1,500) | - | (2,669) ⁴ |
| Trade and other receivables | 137,637 | - | - | - | 137,637 |
| Total current assets | 139,669 | (3,200) | (1,500) | - | 134,969 |
| Water entitlements (fair market value) | 289,781 | - | - | - | 289,781 |
| Total non-current assets | 289,781 | - | - | - | 289,781 |
| Total assets | 429,450 | (3,200) | (1,500) | - | 424,750 |
| Trade and other payables | 18,063 | - | - | - | 18,063 |
| Other liabilities | 11,000 | - | - | - | 11,000 |
| Total current liabilities | 29,063 | - | - | - | 29,063 |
| Bank debt | 116,000 | - | - | - | 116,000 |
| Deferred tax liability/(asset) | 17,697 | (960) | (450) | (1,350) | 14,937 |
| Total non-current liabilities | 133,697 | (960) | (450) | (1,350) | 130,937 |
| Total liabilities | 162,759 | (960) | (450) | (1,350) | 159,999 |
| Net assets | 266,691 | (2,240) | (1,050) | 1,350 | 264,751 |
| Issued capital | 190,464 | - | - | 4,500 | 194,964 |
| Reserves | 43,151 | - | - | - | 43,151 |
| Retained earnings | 33,076 | (2,240) | (1,050) | (3,150) | 26,636 |
| Total Equity | 266,691 | (2,240) | (1,050) | 1,350 | 264,751 |
| Shares on Issue | 156,403,151 | - | - | 3,000,000 | 159,403,151 |
| NAV per Share | \$1.705 | | | | \$1.661 |

Summary:

- The proposed transaction is expected to reduce the Company's NAV by approximately **4.4 cents** per share upon completion.
- This represents a **2.6%** decline in the Company's Net Asset Value per share at 31 March 2025.
- TSA costs of \$230k per month have been **excluded** from this calculation as it is expected that this amount will continue to be incurred irrespective of the proposed transaction. This monthly amount is comparable to the current management and admin fees paid to DCA each month.
- The Independent Expert has concluded that the Proposed Transaction is **fair and reasonable** to non-associated shareholders.

The pro-forma balance sheet has been prepared to demonstrate the approximate NAV per share impact of the IMA Termination Fee, Incremental Transitional Costs, and the Performance Rights to be issued to DCA:

- Unaudited non-statutory balance sheet – water entitlements recorded at fair market value at 31 March 2025.
- Incremental Transitional Costs are estimated to be \$1.5 million (over 18 months) and include portfolio manager salaries, sign-on bonuses, the take-up of existing leave entitlements, an estimate for one-off start-up costs, and an increase in director fees.
- Assumed 3,000,000 Performance Rights convert to ordinary shares valued at \$1.50 per share on completion.
- Negative cash balance is expected to be satisfied from Trade & Other Receivables once collected.

Shareholder Vote & Key Dates

- The internalisation is subject to shareholder approval at the Company’s upcoming AGM on 30 May 2025.
- If approved, the IMA will terminate and the TSA will commence on 1 June 2025.
- The TSA will operate for up to 18 months, supporting a smooth and phased transition to full internal operations.
- If the resolution is not passed, the IMA will continue to operate in its current form, with the Board continuing to assess its options with respect to the IMA, ahead of the Company’s 2026 Annual General Meeting.
- The Notice of Meeting, Explanatory Statement, and Independent Expert Report was dispatched to shareholders on Wednesday, 30 April 2025.

| Key Event | Date |
|---|------------------------|
| Announcement of Internalisation Proposal | 4 April 2025 |
| Dispatch of Notice of Meeting and Explanatory Statement (including Independent Expert Report) | 30 April 2025 |
| Proxy voting closes | 28 May 2025 (11:00am) |
| Annual General Meeting (Shareholder vote on Internalisation) | 30 May 2025 |
| Release of AGM results to the market | 30 May 2025 (expected) |
| Termination of Investment Management Agreement (IMA) | 1 June 2025 |
| Commencement of Transitional Services Agreement (TSA) | 1 June 2025 |
| Appointment of Independent Chair (Brendan Rinaldi) | 1 June 2025 |
| Transition of senior management to direct employment by Duxton Water | 1 June 2025 |



Key Contacts



Brendan Rinaldi

Independent Director

enquiries@duxtonwater.com.au

M: +61 415 299 711



Lachlan Campbell

Portfolio Manager

lachlan.campbell@duxtonam.com

M: +61 410 107 158



Lachlan Beech

Portfolio Manager

lachlan.beech@duxtonam.com

M: +61 414 742 197



Ed Peter

Chairman

ed.peter@duxtonam.com

M: +61 447 000 232





Duxton Water Limited

7 Pomona Road, Stirling SA 5152

+61 8 8130 9500

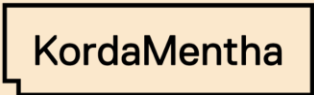



enquiries@duxtonwater.com.au

duxtonwater.com.au



Appendix: Professional Advisers

- Over the past 12 months, D20 has worked with a range of leading professional service firms and advisers to support the structuring, evaluation, and preparation of the proposed transaction.
- This reflects the comprehensive and rigorous process the Independent Directors have been through to ensure that all material aspects of the proposed transaction were assessed thoroughly:
- While a range of specialist firms supported the process, the primary advisers were:

| Professional Advisor | | Role |
|----------------------|---|--------------------|
| KordaMentha |  | Corporate Adviser |
| Steinepreis Paganin |  | Legal Adviser |
| Allens |  | Legal Adviser |
| BDO |  | Independent Expert |

