



**DUXTON**  
WATER

**\$1.62**

Net Asset Value per Share

ASX CODE (Shares) D20  
Shares on Issue (September) 119,375,450

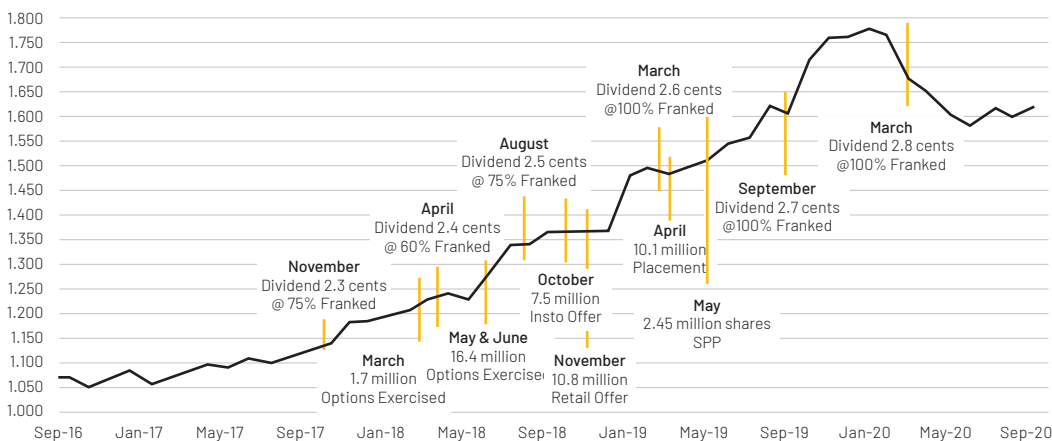
The primary investment objective of Duxton Water is to build a portfolio of permanent water entitlements and utilise this portfolio to provide flexible water supply solutions to our Australian farming partners. The Company generates a return by offering Irrigators a range of supply solutions including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

### NET ASSET VALUE PER SHARE

Duxton Water's NAV at 30 September 2020 was \$1.62 per share.

The after-tax NAV figure takes into account the provision for deferred tax on set-up costs and estimates of net tax provisions that may arise should the entire portfolio be disposed of on the above date. The Company does not expect to trigger these tax provisions through the turnover of these assets and expects to maintain its low entitlement turnover ratio. **The NAV excluding tax provisions for unrealised capital gain is \$1.79.** The Company's NAV is primarily the fair value of its water asset portfolio at the stated date. The Company uses an independent Fair Market Unit Value for entitlement and allocations provided by Aither Pty Ltd ('Aither') to undertake the NAV assessment.

### NET ASSET VALUE PER SHARE - SINCE INCEPTION



### PERFORMANCE\*

1 Month	3 Months	6 Months	12 Months	Inception
0.67%	2.26%	-3.41%	3.33%	70.96%

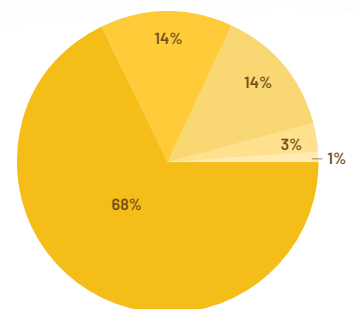
\*These figures are based on NAV movements and include franked dividends for the period.

### INVESTMENT UPDATE

As of the 30 September 2020, Duxton Water Ltd is invested in approximately \$316.05 million of water assets with the remainder of the portfolio held in cash and net current assets. The Company currently has approximately 546.49.4ML (\$3.02 million) of water entitlements in its acquisition pipeline at 30 September 2020, having taken the opportunity to rebalance the portfolio with the sale of some of its Lachlan General Security Entitlement and Victorian High Reliability Entitlement.

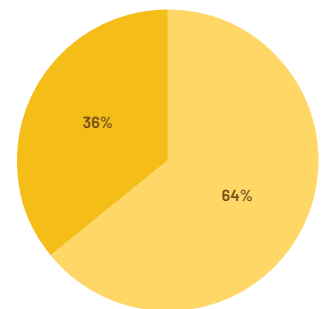
Through the 19/20 water year we saw significant pressure on available water supply due to a 36-40 month period of below average rainfall and inflows. The water market facilitated the movement of available allocation between Irrigators and industries to meet critical demand. Many Irrigators took advantage of water supply products such as leases and forward allocation contracts to assist them in the management of their water requirement. Over the last couple of months of the 19/20 water

### Entitlement Portfolio Value by Region



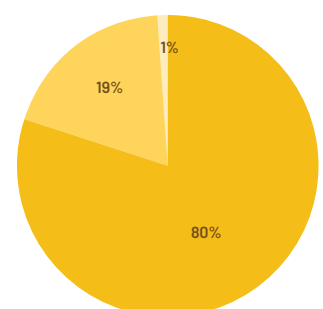
● Murray ● Goulburn  
● Murrumbidgee ● Lachlan  
● Mallee

### Water Portfolio Diversification



● Unleased ● Leased

### Water Security Breakdown



● HS ● GS ● Bore



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year we saw an easing in allocation pricing with an average price in June of ~\$200/ML. This enabled both perennial and annual cropping producers to mitigate supply risk into the 20/21 water year, which while beginning with some promise for improved resource availability, has currently not see the inflow yields needed to substantially restore storage levels. As a result, opening 20/21 allocation prices through September in the lower Murray have averaged ~\$340/ML over this period.

Since May 2020, entitlement prices have been relatively stable following a 6.1% retracement in vales from their peak in January 2020. For context since January 2014, water entitlement values have increased 254%, reflective of the long-term structural drivers, rather than the short-term climatic conditions. Irrigators have over the last 10 years significantly enhanced their marginal return per megalitre through both more efficient use of water and conversion to higher value commodities. At the same time, we have seen significant steps taken to return water to the environment with Government purchases of between 20-22% of entitlements that were previously available to the consumptive pool. The combined impact has seen stronger demand for a reducing available water supply and subsequent increased asset prices. Irrigators themselves have been the greatest beneficiaries from this capital appreciation as they collectively own the majority of water entitlement on issue in the market.

September rainfall across the MDB was below the long-term average and while the BOM continues to project above average rainfall outlooks due to the now developed La Nina event, these rainfalls have not yet materially appeared. Storage levels are higher than they were 12 months ago, however they remain approximately a third below long-term active levels. The current volume of water available within the Murray-Goulburn system is 58% of storage capacity levels; 14% higher than 12 months ago. Northern basin storage levels are currently 27%, 18% higher than 12 months ago.

Duxton Water continues to support its irrigating farming partners as they prepare for peak water requirements through the 20/21 water year. This involves the provision of leases to over 70 family farming and corporate businesses. Through June we saw many Irrigators take advantage of seasonally low allocation pricing and acquire allocation to carry over into the new water year. The Company has further supported Irrigator water risk management through the provision of forward allocation contracts for the 20/21 water year. This provides Irrigators with clear water supply visibility and assists Duxton Water in hedging its allocation risk on unleased assets.

The Company actively manages its allocation holding in order to deliver on demand for spot allocation sales, meet its obligation for the provision of forward allocation sales and deliver on new entitlement lease arrangements. With lower storage levels, visible water supply through the provision of these products are a critical tool that Irrigators use to risk manage their water requirement. In the offering of these products, the Company supports market liquidity and risk management options for our irrigation partners.

\*<https://waterregister.vic.gov.au/images/documents/Water-supply-and-horticulture-demand-in-the-sMDB-2020-Update.pdf>

## ENTITLEMENT MARKET

Duxton Water Ltd is engaged in building a targeted portfolio of water entitlements predominantly across the southern MDB. The Company has invested in both surface and ground water assets. At 30 September 2020, the Company holds approximately 81,261ML of water entitlements across 19 different asset types and classes. Through September the Company took the opportunity to rebalance a portion of the portfolio with the sale of some of its Lachlan General Security Entitlement and Victorian High Reliability Entitlement, and the acquisition of High security entitlement in South Australia and alternate regions in Victoria.

Entitlement pricing has remained relatively stable since May 2020 and through September we have seen an approximately 1% increase in value as transactional activity increases and demand build in the permanent entitlement market.

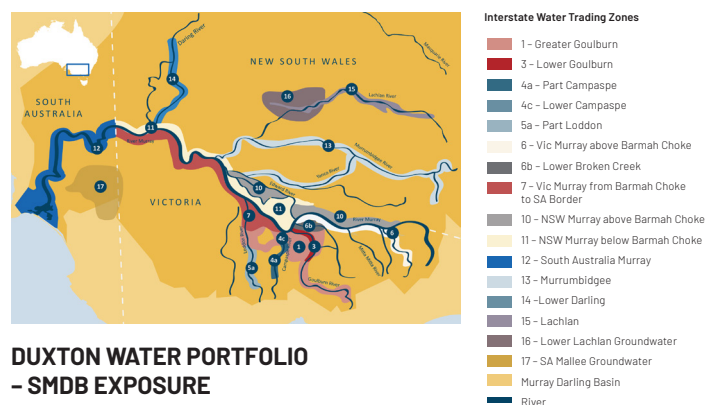
On the 27 June 2020, the Victorian Government released\* an update to their previous work on increasing horticulture demand within the southern MDB. This report reaffirmed, with a higher degree of accuracy, the previous findings, that the continued maturity of inelastic horticultural demand in the lower Murray will create a structural shortfall under extreme dry conditions. It remains the Company's view, that over the next 2-3 years, this demand pressure will become further evident, as a number of new projects come into full production and peak water use.

The Company uses an independent Fair Market Unit Value for entitlement and allocations provided by Aither Pty Ltd ('Aither') to undertake the NAV assessment.

Aither Pty Ltd provide a Fair Market Unit Value for entitlement on a monthly basis on a dry (without allocation) equivalent basis.

Notable Entitlement pricing movements through September:

- ↑ 5.3% in NSW Murrumbidgee GS (~ 5.1% of portfolio)
- ↑ 1.1 % in NSW Below Choke Murray GS (~4.5% of the portfolio)
- ↓ 5.6% in Vic Murray Zone 6 HR (~10.85% of the portfolio)
- ↓ 1.25% in Vic Goulburn Zone 1a HR (~14.33% of the portfolio)





## ALLOCATION MARKET

Prices through September have remained relatively stable as Irrigators weight the current resource availability with the forward-looking rainfall forecasts. The closure of trading limits from the upper Murray, Goulburn and Murrumbidgee has seen price fragmentation from the lower Murray, and through September traded between \$280-\$300/ML. October will be a telling month for the direction of the market into the summer peak water use period, reflective of storage inflows and annual crop plantings.

## LEASES

The leased portion of the water entitlement portfolio is ~64%. This represents ~76.28% of the Company's High Security Entitlement holding.

The current weighted average lease expiry (WALE) remains at 2.5 years. Inclusive of renewal options this pushes the WALE to 4.8

years. The Company continues to work towards its long-term goal of having 70-80% of the portfolio under lease.

## DIVIDENDS

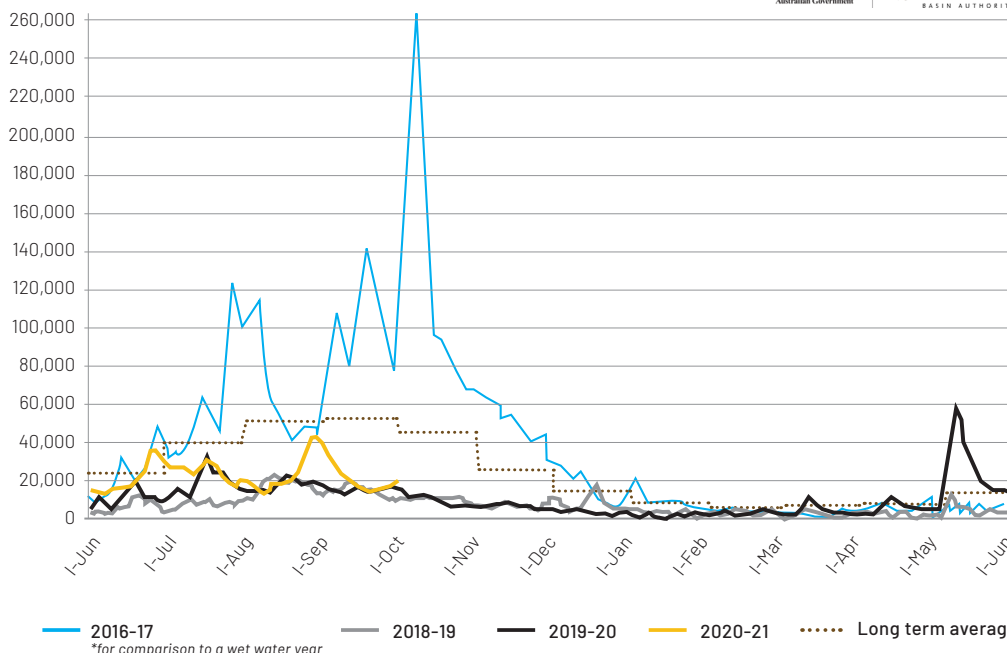
The Board maintains its commitment to providing shareholders with a bi-annual dividend franked to the maximum extent possible. To this end it announced on the 7 October 2020, a 2.9 cent (\$0.029) fully franked interim dividend which will be paid on the 30 October 2020. With the Company's high percentage of leased entitlements, the Directors reaffirm its target for the next four dividends.

The Company has targeted fully franked payments of:

- 3.0 cents (\$0.030) as the final 2020 dividend;
- 3.1 cents (\$0.031) as the interim 2021 dividend;
- 3.2 cents (\$0.032) as the final 2021 dividend; and
- 3.3 cents (\$0.033) as the interim 2022 dividend.

The dividend targets are to be paid in the following reporting periods.

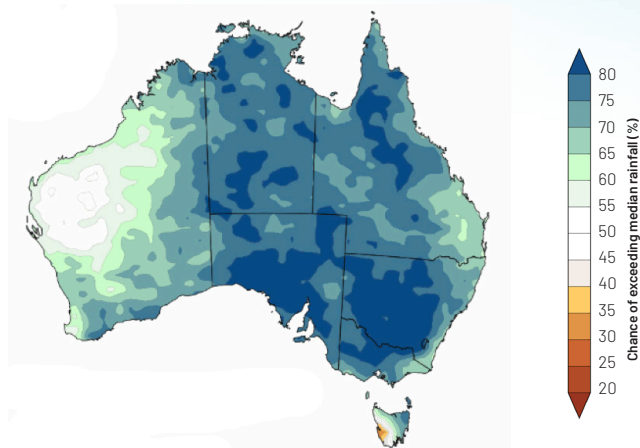
## DAILY INFLOWS TO THE MDB



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



## CHANCE OF ABOVE-AVERAGE RAINFALL OCTOBER 2020 - DECEMBER 2020



## MARKET UPDATE & OUTLOOK

The BOM have confirmed that the building La Nina event has emerged. This could lead to increased rainfall for eastern, central and northern Australia. There is also a chance that a negative Indian Ocean Dipole could form, which typically results in increased rainfall for the MDB as well as large parts of Australia. Therefore, the BOM are projecting above average rainfall for almost the entirety of Australia from November to January. However, the BOM note that while a La Nina generally leads to an above average rainfall across the eastern half of Australia, this can vary significantly, with the Murray Darling Basin experiencing dry condition in two of the last three technical La Nina events including during millennium drought.

In the northern and southern MDB, storages are now at 27% and 58%, compared to 10% and 45% this time last year.

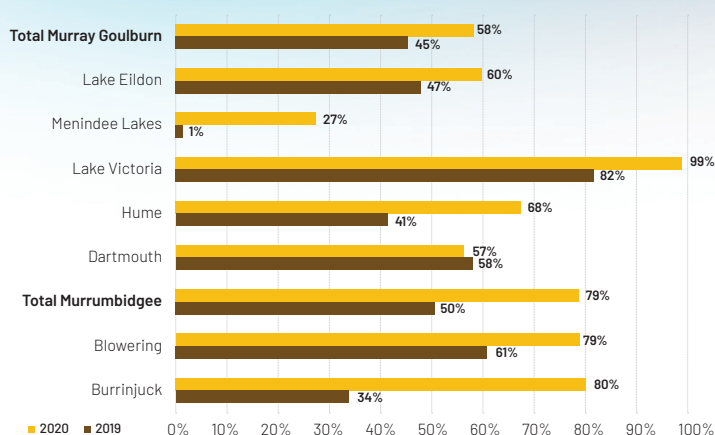
As of the 1st of October, Victorian Murray and Goulburn HS entitlement holders received 40% and 58% respectively. NSW Murray and Murrumbidgee HS licences received 95% and 97% respectively on 1 July 2020 with GS receiving 17% and 48% to date respectively. SA entitlements received 100% allocation on 17 August 2020.

## ACCC

On 30 July 2020, the ACCC released the interim report into the Southern Murray Darling Basin Water Market.

The ACCC has spent almost a year reviewing the markets operation and engaging with key stakeholders. The Commission has had an

## STORAGE LEVELS IN MAJOR DAMS



ongoing role in monitoring the Australian Water Markets, having issued reports on its operation since 2012. The Company believe it is a thorough and well-balanced report.

We note the ACCC has stated that: "Water trading has brought substantial benefits to water users across the Basin. Water markets allow Irrigators to increase their water supplies, to earn income by selling their water rights when they are more valuable to someone else, to expand production, or to release capital for investment in their businesses. The benefit of water markets is demonstrated by the fact that, despite tough and volatile climatic conditions, the value of production from irrigated agriculture in the Southern Basin has trended upwards in real terms since 2010-11."

"Water investors, meanwhile, can help Irrigators free up capital by buying and leasing out water; they can increase water market liquidity; and they can help Irrigators manage water-supply risks, by providing water products such as leases and forward contracts."

We note the report has identified opportunities to improve governance, regulatory and operational frameworks that support Australian water markets. We believe that a focus in these areas will benefit all stakeholders and Duxton will actively engage in that process.

The ACCC have received an extension to the due date of the final report. This will now be delivered to the Treasurer on the 26 February 2021.

The interim report can be found at: <https://www.accc.gov.au/focus-areas/inquiries-ongoing/murray-darling-basin-water-markets-inquiry/interim-report>

## 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)

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

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