



# INVESTING IN WATER FOR RETURNS & IMPACT

Global Ag Investing  
Webinar

May 2020

# Industry leader in Impact Investments

- ✔ AUD\$0.5Bn in assets under management
- ✔ Australian Impact Asset Manager of the Year 2019
- ✔ Co-founder of WORLD FIRST Water Impact Fund



AUSTRALIAN  
**IMPACT  
INVESTMENT  
AWARDS**

An Initiative of



The Nature  
Conservancy  
Australia

A graphic consisting of a series of vertical bars of varying heights in shades of blue and grey, with a wavy orange line at the bottom.

ACCOUNTING  
FOR **NATURE**

# Objectives

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- Provide an overview of:
  - The development of water as an investible asset class
  - The markets in which we invest
  - Historical market performance
  - Trends and market drivers
  - The Kilter Rural water investment approach
- Introduce:
  - The Kilter Water Fund
  - The Balanced Water Fund

# Important Definitions

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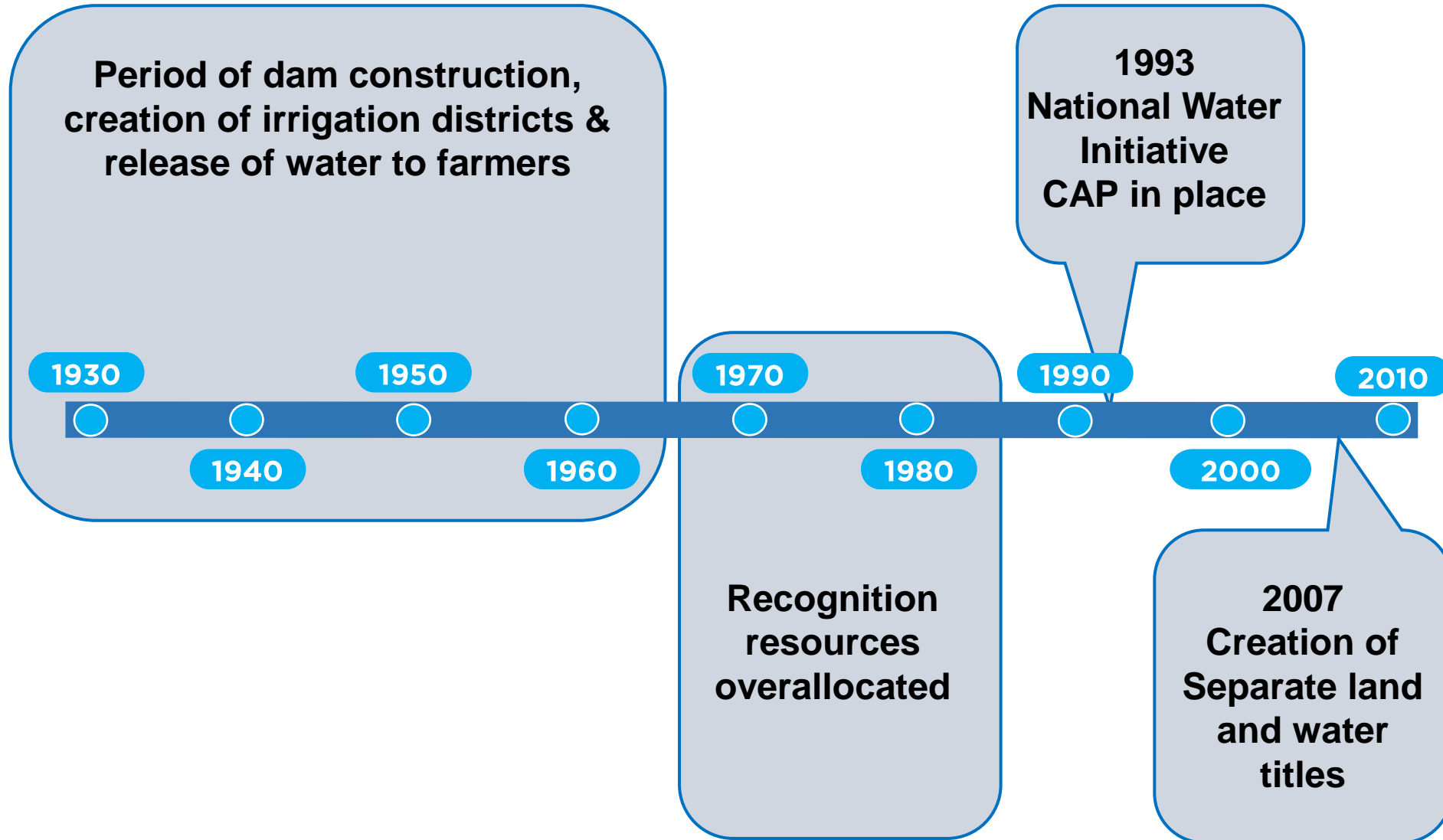
## **Water Entitlement (the investible asset)**

The perpetual or ongoing entitlement to receive exclusive access to a defined share of a consumptive pool of water, denominated megalitres (ML). Characteristics are consistent with real property. Can be bought, sold, leased, mortgaged, divided or amalgamated.

## **Water Allocation**

Is the volume of water allocated against a Water Entitlement and capable of being accessed for use or sale over a given period. Water Allocations are expressed as a percentage of the associated Water Entitlement and made progressively by water authorities throughout the irrigation year (July to June).

# Historical Overview





# Southern Murray-Darling Basin (sMDB)

sMDB supports the world's most sophisticated water market.

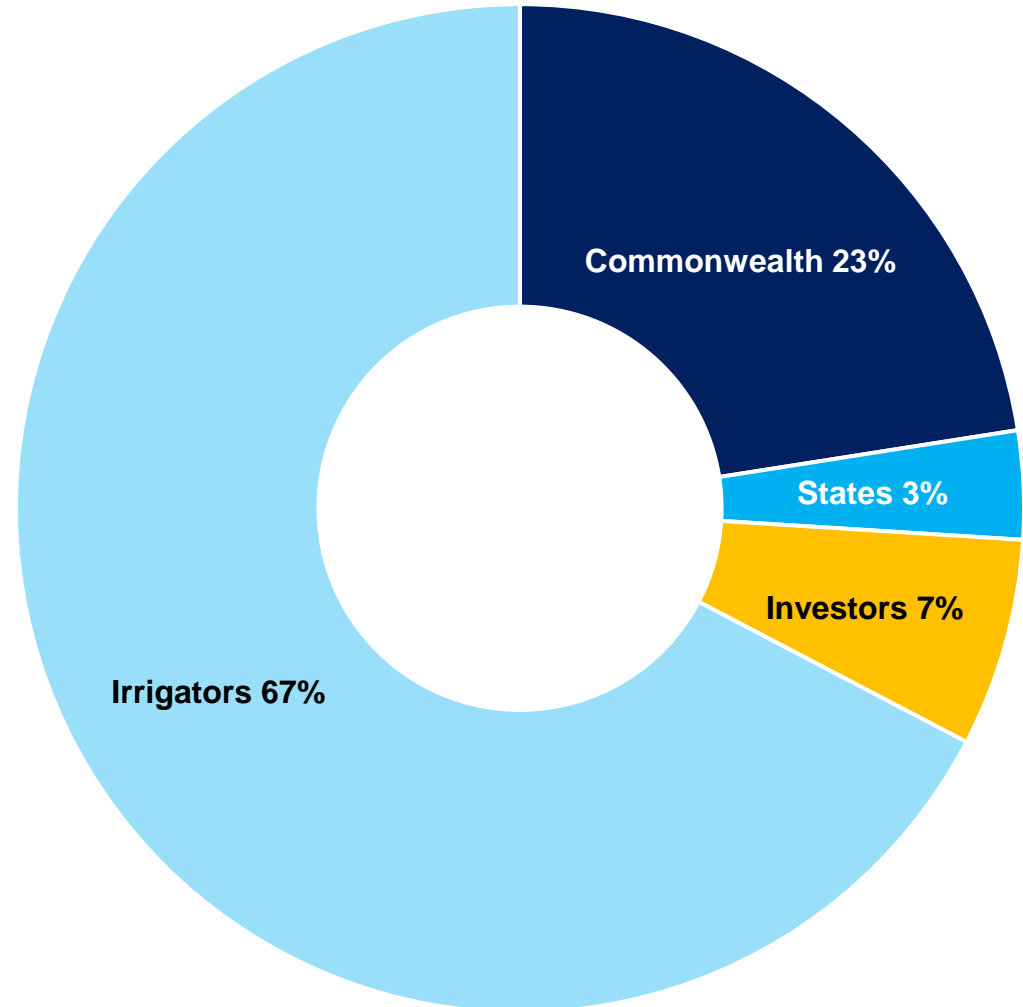


# sMDB a \$25 Billion Market

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## Irrigators are by far the biggest owners of water in the sMDB

- By value collectively Government owns 26%
- Investors estimated to own 7%
- Annual turnover circa \$500M



# Water Market Return Performance

Water outperforms – and is uncorrelated to – traditional financial assets.

1 July 2007 to date	sMDBWI	S&P/ASX 200	S&P/ASX REIT	Gold	Aust. Bonds
Returns (Annualised)	13.4%	5.2%	3.0%	8.2%	6.3%
sMDBWI outperformance	-	8.2%	10.4%	5.3%	7.1%
Volatility	17.2%	13.6%	17.8%	14.1%	4.0%
Sharpe Ratio	0.54	0.10	-0.04	0.30	0.59
Correlation sMDBWI	N/A	-0.24	-0.23	0.15	-0.01

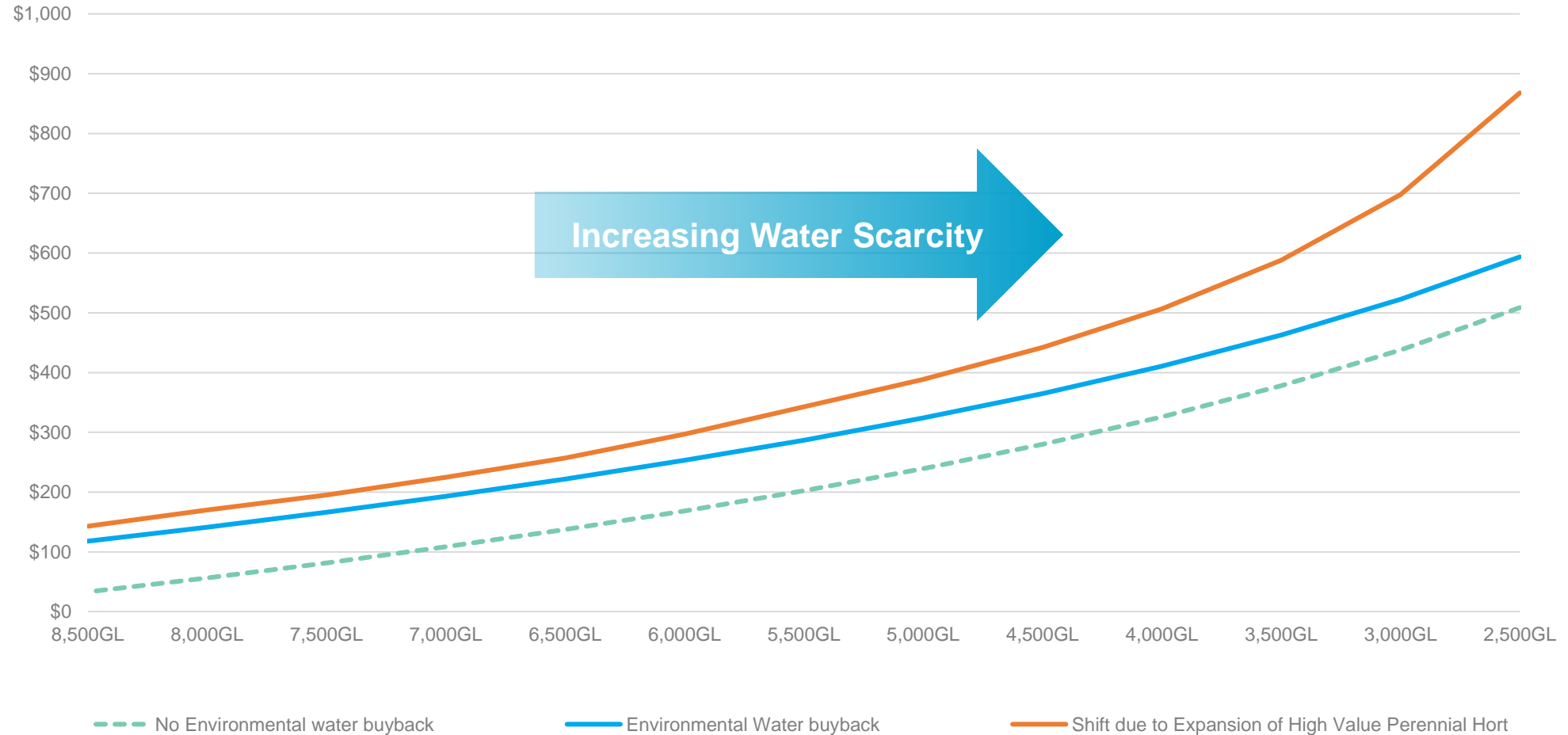
Source: Kilter Rural Analysis; S&P Dow Jones Index



# Market Drivers

$$A_y = A\% \times A_p$$

Allocation Price vs. Water Supply

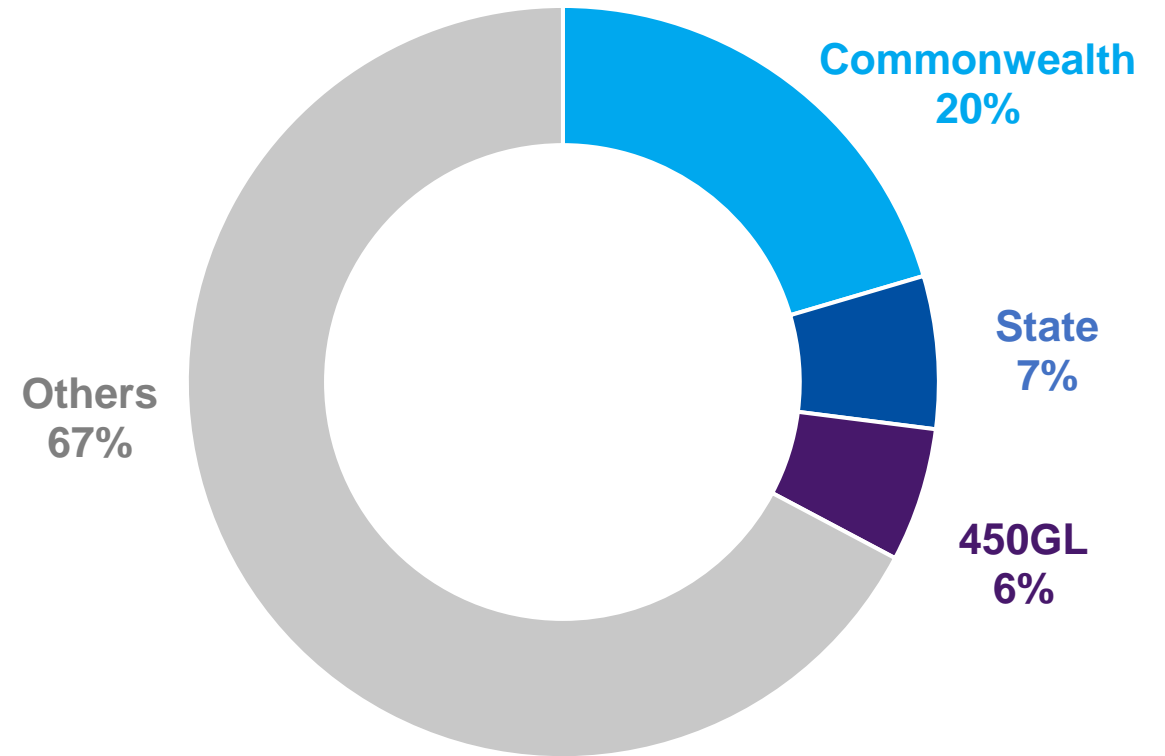


# The Basin Plan Reduces Supply

The Basin Plan has reduced consumptive sMDB Water by >25%.

A further 6% reduction is targeted by 2024.

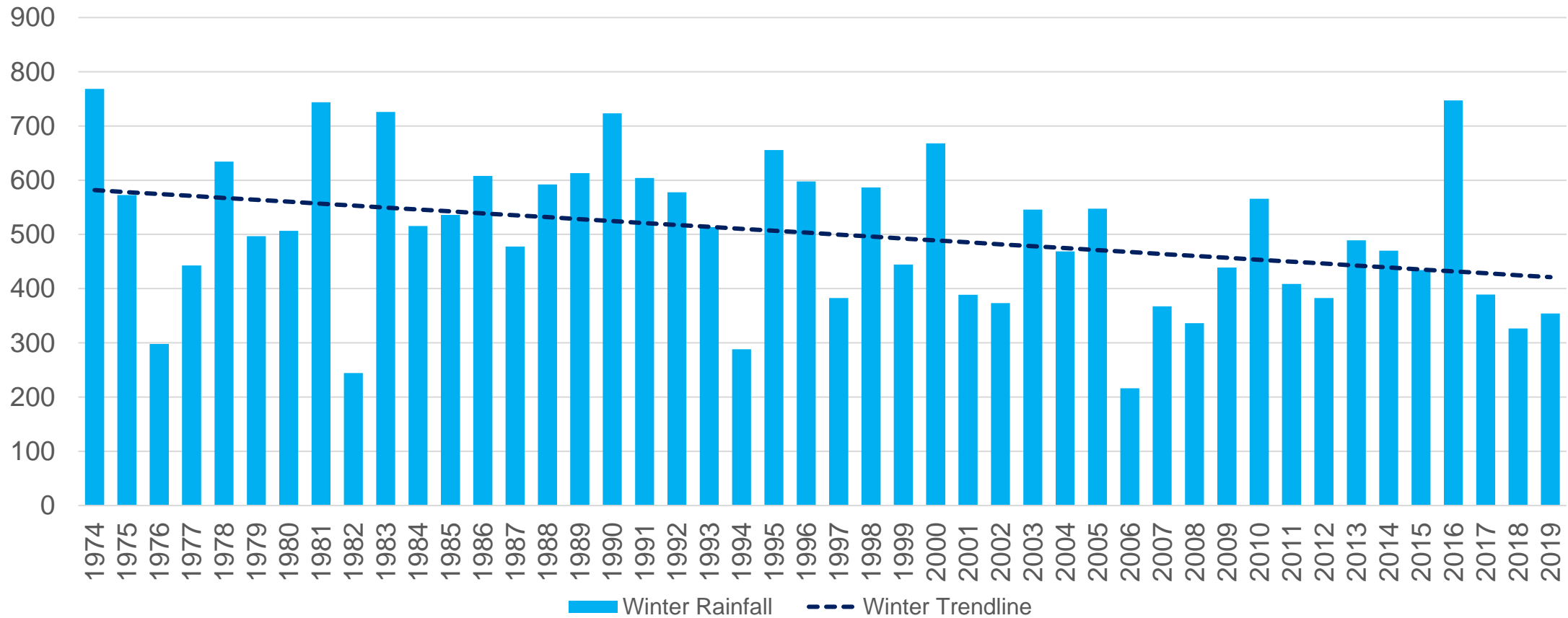
Volume of Entitlements in sMDB



# Declining Winter Rainfall

A 1% drop in rainfall leads to a 2% to 3.5% reduction in streamflow

Average Winter Rainfall at sMDB Storages

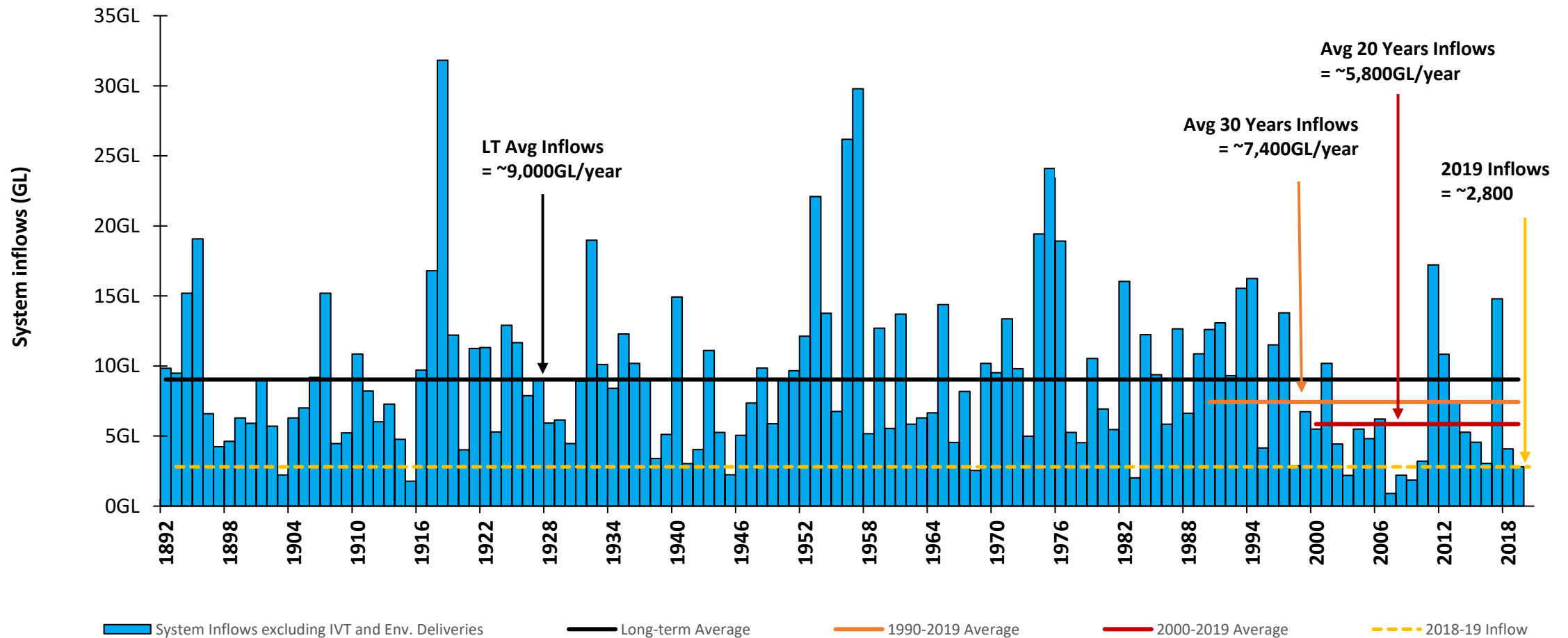


Source: Kilter Rural Analysis, Bureau of Meteorology (BoM)

# Reducing Inflows

The 20-year average inflow is more than 35% down from the long-term average

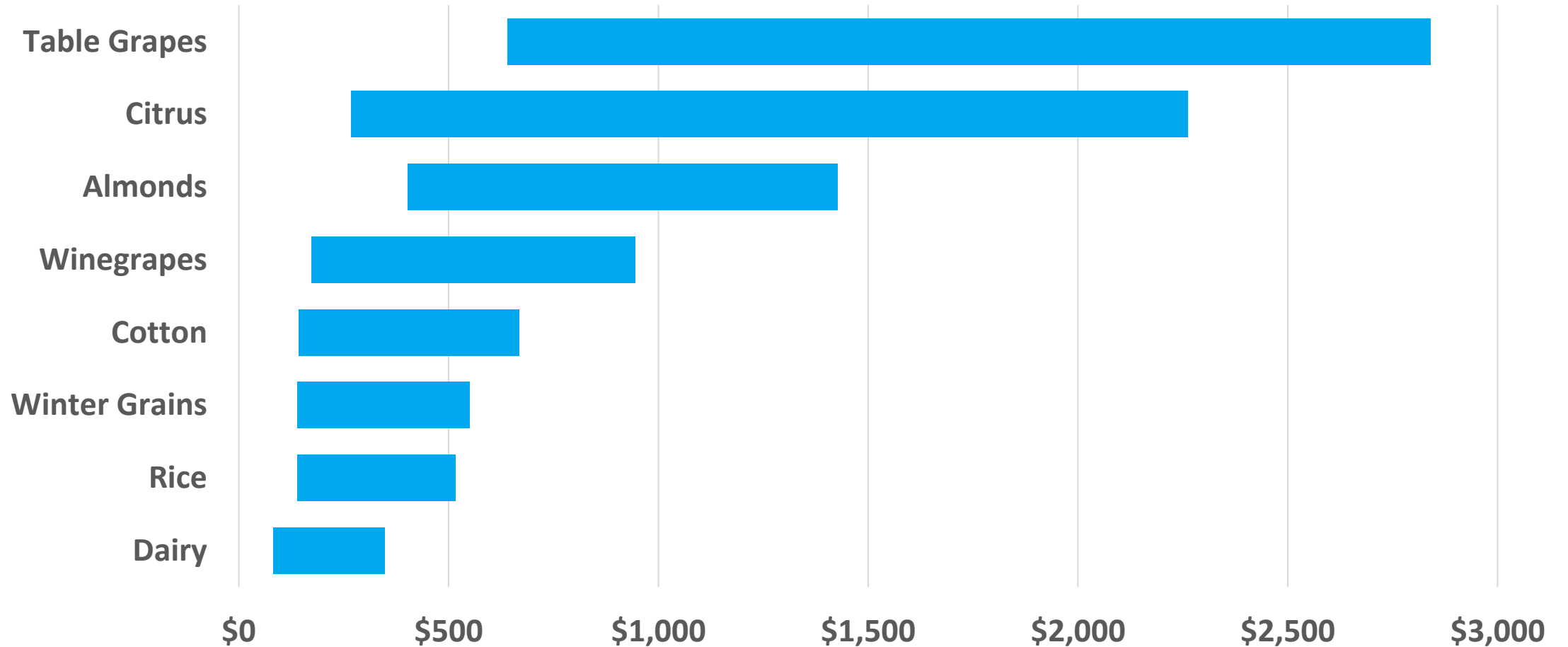
Annual Murray System Inflows (excluding IVT, ewater from tribs and Snow)



Source: Murray Darling Basin Authority

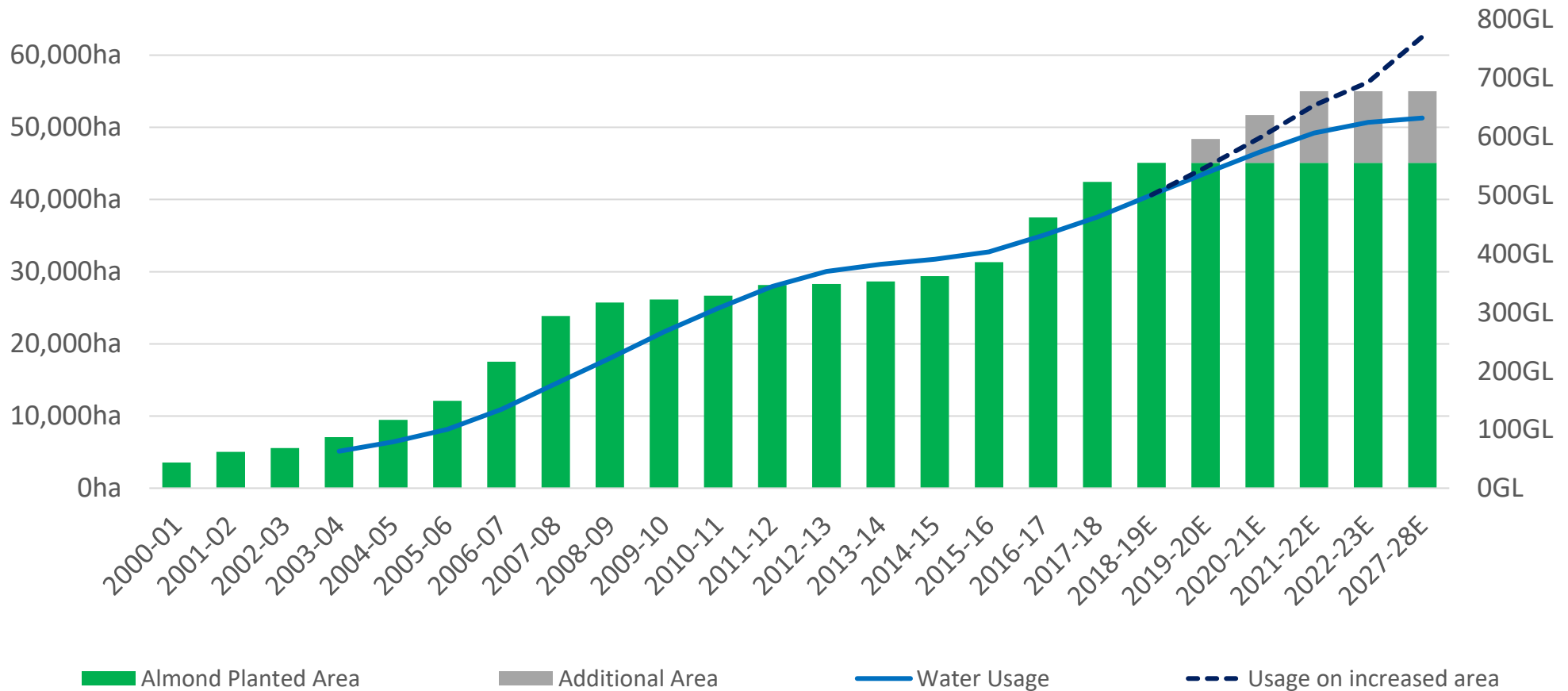
# Water Migrates to Higher Value

Gross Margin per ML Range by Industry (\$/ML)



# Growth in Almond Plantings

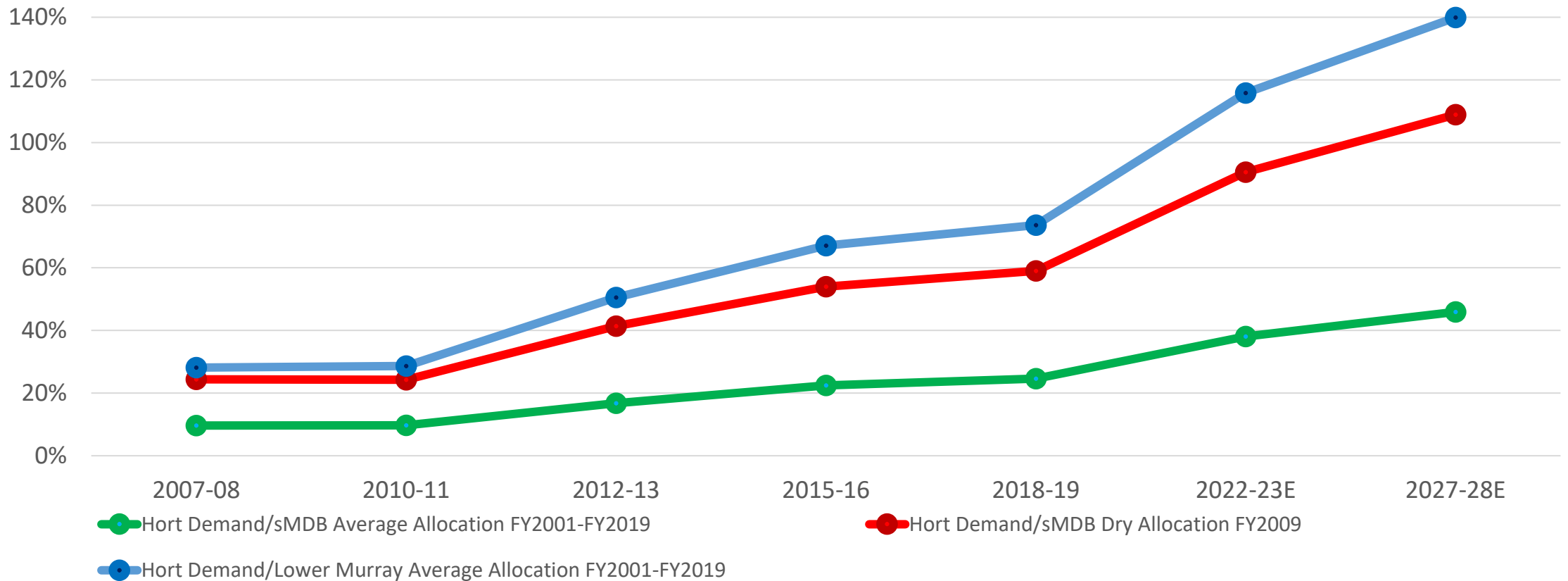
Almond plantings – and associated water use – have rapidly expanded





# Inelastic Demand Outstrips Supply

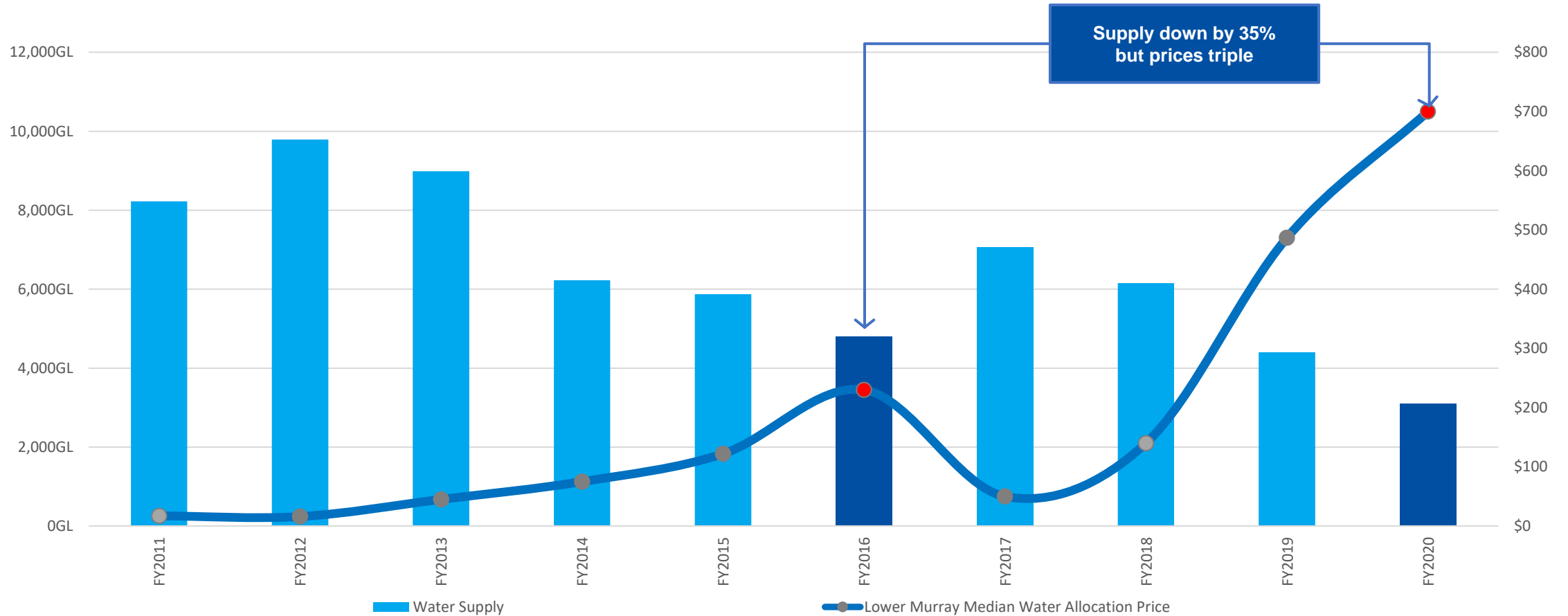
Perennial Hort Demand against Water Availability



Source: Kilter Rural Analysis

# Water Price Trend

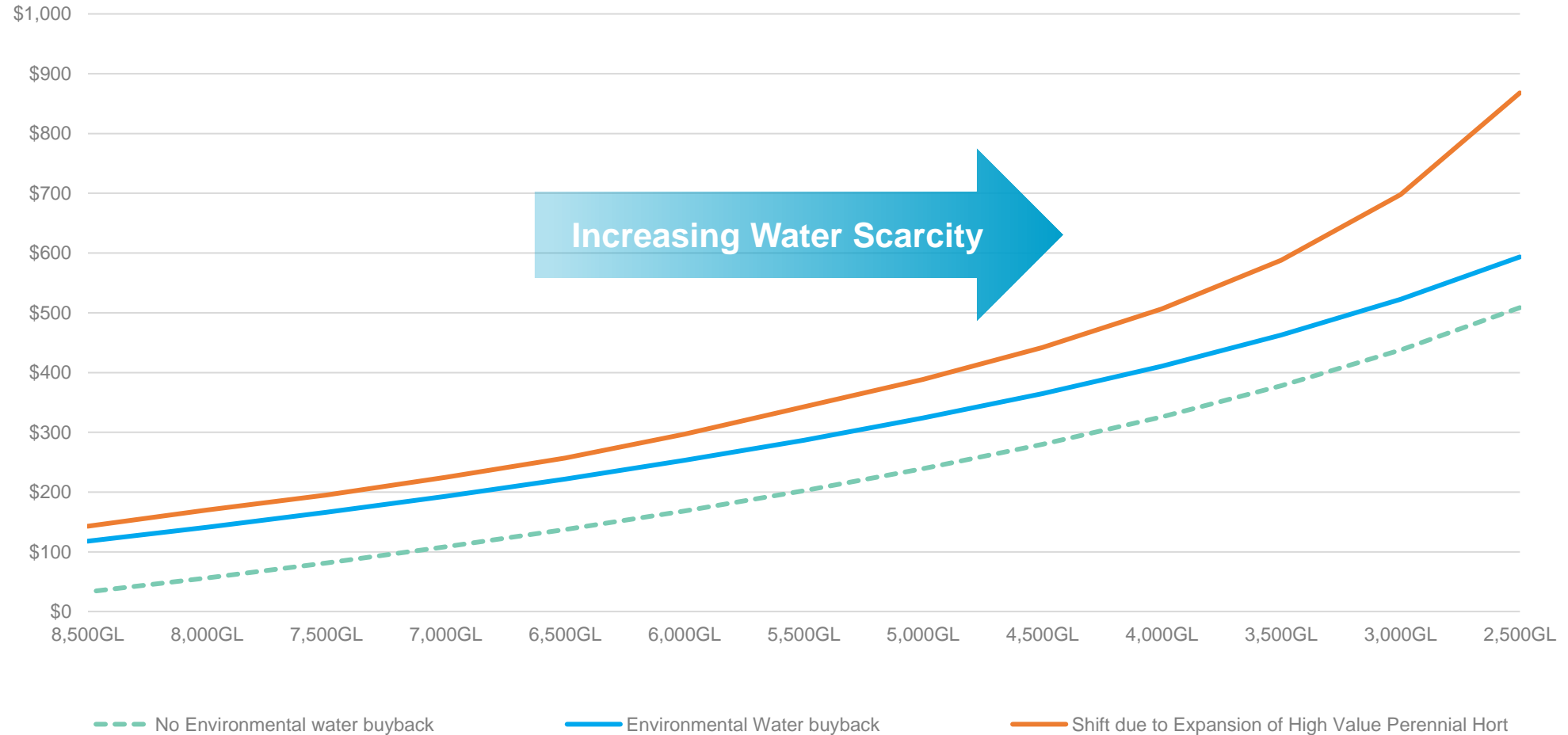
These changes are Structural rather than Cyclical



# Market Drivers

$$A_y = A\% \times A_p$$

Allocation Price vs. Water Supply



# Investment Approach

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## Similar to Real Estate Investment Trust

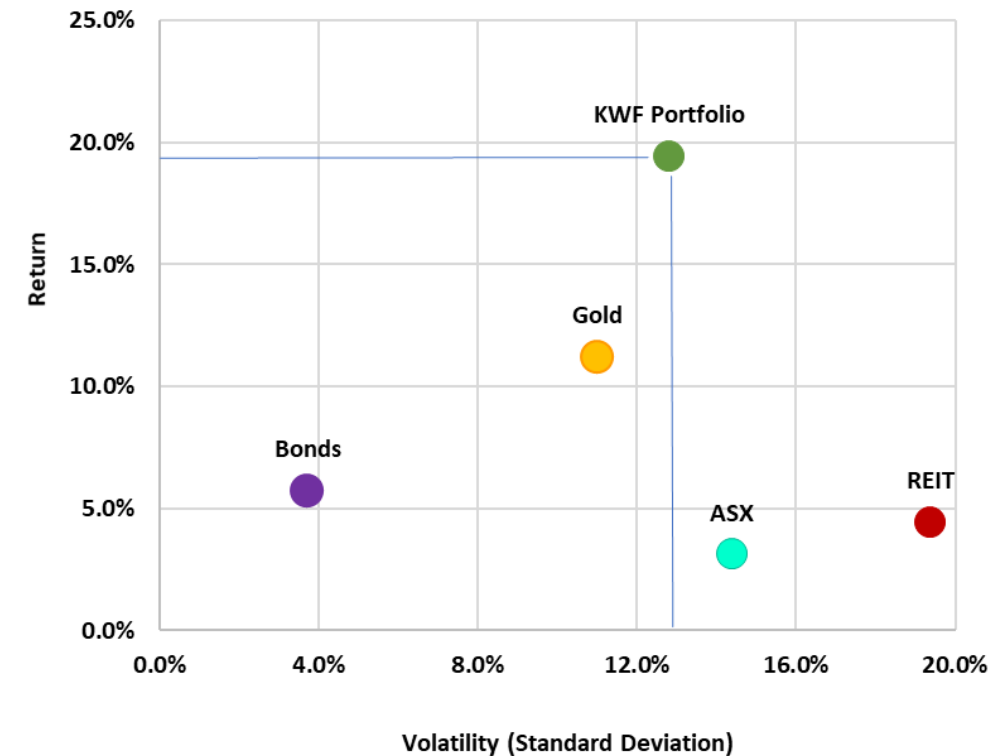
- Select and acquire a balanced portfolio of water entitlement targeting highest utility
- Utilise networks to originate deal flow
- Generate income by distributing water products to a client base of irrigators
  - Water entitlement leases
  - Risk management products
  - Spot sale of remaining water allocation
- Rebalance portfolio as required

# Kilter Water Fund Performance

The Fund delivers superior reward for risk with low correlation

Period to March 2020	Returns
March 2020 Return	-0.8%
3 Months to March 2020	-2.35%
Rolling 12 months	16.0%
Since Inception Annualised [p.a.]	16.7%
Risk Return Ratio to March 2020	Ratio
Reward to Risk Ratio	1.2
Standard Deviation	12.1%
Sortino Ratio	2.0
Percentage of Positive Months	71%
Correlation to March 2020	
S&P/ASX 300	-0.001

Return to Risk comparison 2015 - Mar 2020



# Balanced Water Fund

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## Australia's only impact water investment opportunity

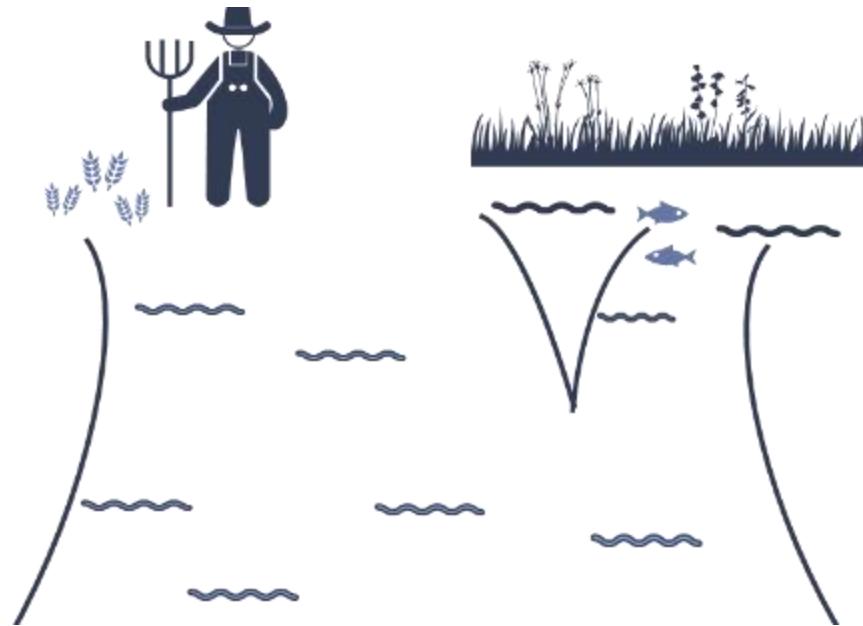
- Launched in partnership with The Nature Conservancy in December 2015
- Target the delivery of commercial returns to investors
- Support agriculture through the deployment of lease products to irrigators
- Deliver measurable impact through the provision of water to endangered wetlands
- Provide a powerful exemplar for an alternative way to approach management of this most precious resource



# Counter-cyclical water donation

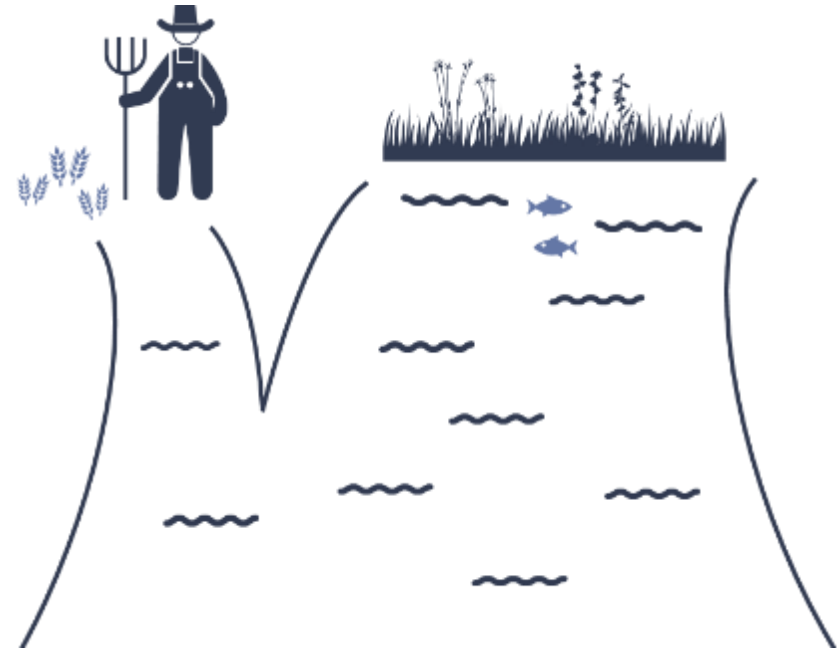
## Restoring the natural balance

*During Dry Period*



*Dry years 10% to environment*

*During Wet Period*



*Wet years up to 40% environment*

# Environmental outcomes

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Enabled the delivery of 3,300ML of water with significant conservation outcomes.



O'Kanes swamp pre watering



O'Kanes swamp 12 weeks post watering

# BWF Fund Performance

The Fund delivers superior reward for risk with low correlation

Period to March 2020	Returns
March 2020 Return	0.2%
3 Months to March 2020	-1.6%
Rolling 12 months	25.7%
Since Inception Annualised [p.a.]	18.8%

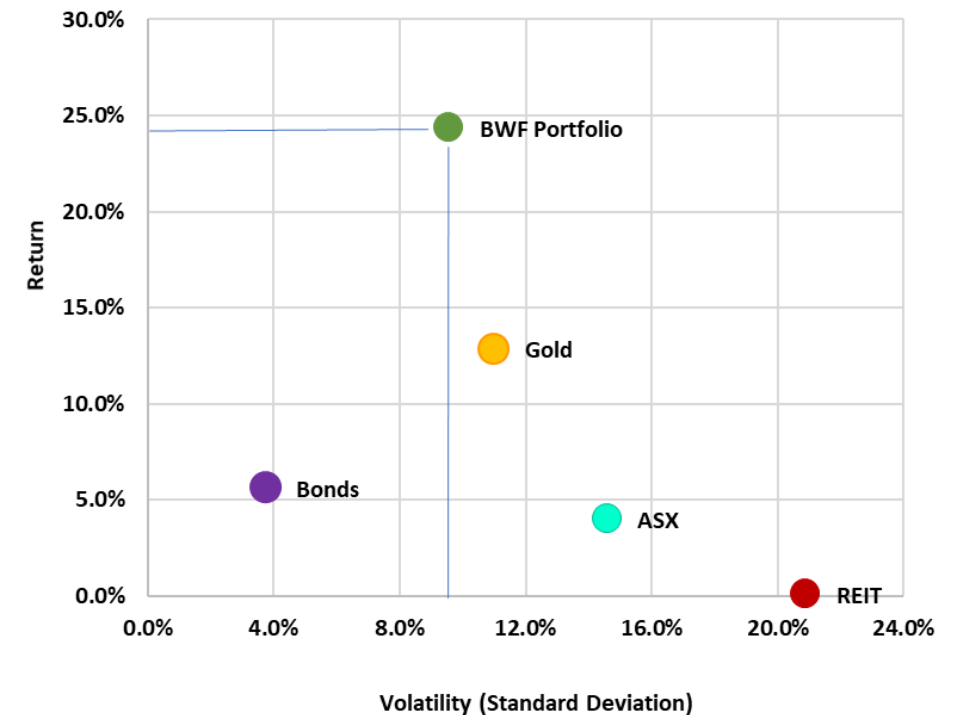
  

Risk Return Ratio to March 2020	Ratio
Reward to Risk Ratio	1.9
Standard Deviation	8.7%
Sortino Ratio	3.0
Percentage of Positive Months	79%

Correlation to March 2020	
S&P/ASX 300	0.06

Return to Risk comparison 2016 - Mar 2020



# Conclusion

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- A secure investment opportunity supported by strong property rights
- As a proxy for agriculture water assets provide a strong inflationary hedge
- Performance driven by a good regulation and strong economic forces of supply and demand
- A true alternative investment with a return profile uncorrelated to virtually all other classes of investment
- Future performance is underpinned by increasing scarcity and rising demand for water from users that have greater capacity to pay
- Kilter Rural currently has two water open:
  - Kilter Water Fund – traditional investment approach
  - Balanced Water Fund – Returns with Impact

# Thank You

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# Q & A