



Kilter Water Fund

MARCH 2024

Unit Price A\$2.3068

Entry Price A\$2.3183

Exit Price A\$2.2952

AUM A\$85.43M

Key Points

- Some positive developments start to offset recent headwinds for irrigators.
- Federal government buyback program expected to commence in coming months.
- Weather outlook remains uncertain due to potential for forecast weather drivers to counteract one another.



Summary data (net)

Month return (%)	-0.05
Last three months return (%)	-1.75
Financial year return (%)	-3.45
Rolling 12 months (%)	-3.96
3-year annualised [p.a.] (%)	8.24
5-year annualised [p.a.] (%)	7.67
Performance since inception (%)	207.44
Since inception annualised [p.a.] (%)	12.09

Fund information

Name	The Kilter Water Fund
Structure	Unit Trust
Domicile	Australia
Inception	June 2014
Management Fee	0.85% per annum
Trustee Fee	0.15% per annum
Performance Fee	15% per annum
Hurdle rate	8%
Minimum investment	A\$25,000
Buy Fee	0.5%
Sell Fee	0.5%
Administrator	Unity Fund Services Pty Ltd
Registrar	Boardroom Pty Limited
Auditor	Pitcher Partners
Custodian	Sandhurst Trustees Ltd
Legal Advisor	McMahon Clarke

Contact information

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The Fund's NAV recorded a very marginal decline for the month. Minor gains in allocation trading combined with an uplift in the valuation of two the Victorian Low Reliability entitlement classes held by the Fund offset Fund operating costs. Valuations for the other classes of water entitlement held by the Fund remained unchanged. This result reflects the challenging trading conditions faced by the Fund as it approaches the end of another very high-water availability year. As demonstrated in Figure 1 this is the third year in a row that water availability has been well above average.

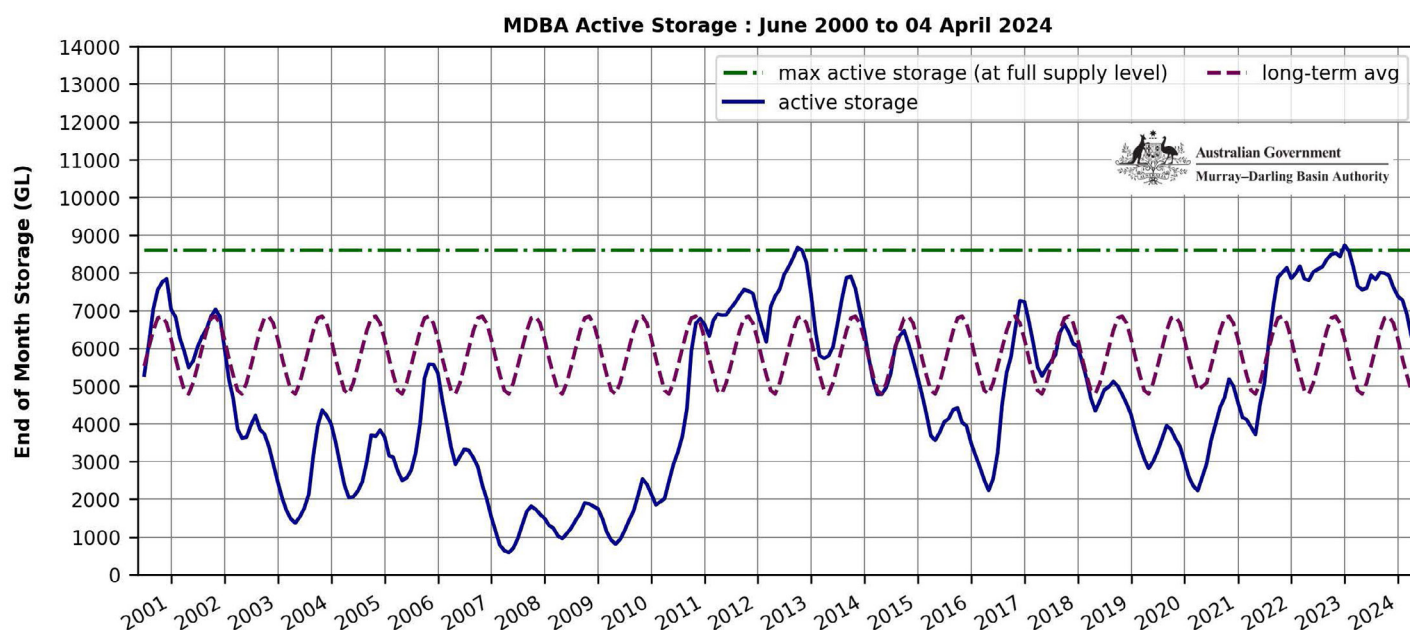


Figure 1: Murray System Usable Storage (Active) Levels from June 2000 to March 2024 (Source: MDBA)

Figure 1 also highlights very clearly how much wetter the period from 2010 to date has been compared to the first decade of the century. The period from 2010 to date has also seen a pronounced shift in water use patterns within the southern Murray- Darling Basin (sMDB). This has been driven by a significant expansion in crops such as almonds, olives and citrus which has seen water migrate from annual crops to perennial crops. As a result, given the fixed demand for water these crops generate, it is certain that when dry periods do return, spot prices for water will significantly exceed the records set in the first decade.

Some market headwinds starting to abate

The Kilter Rural sMDB water capital index (reflecting the weighted average value of sMDB water entitlements) has recorded a decline of 7.5% since July 2023. This decline is no doubt material. However, given that much of the sMDB has just recorded the wettest four-year period on record and many irrigated farming sectors have faced significant headwinds in recent years, in many respects water entitlement values have remained extremely resilient. These headwinds have included the imposition of crippling tariffs by China on

Australian wine in March 2021. This all but completely shut down a \$1.1bn market for Australian wine, much of which was produced in the sMDB. At the same time the atypical wet summers, culminating in severe flood events, adversely impacted yields, particularly for horticulture crops. These challenges were compounded by sharp rises in interest rates leading to significant cashflow challenges for many irrigators.

Water entitlements can be a convenient source of working capital for farmers given the relative ease of subdividing and selling small parcels to meet immediate cashflow requirements. It is apparent that this has been occurring over the past year. However, trade remains thin with volumes sold over the past twelve months well below the five and ten-year turnover averages. This suggests any distressed selling is only at the margins and not reflective of a structural correction.

There have been some recent developments that offer potential for tempering some of these trading headwinds, starting with China agreeing to lift their wine tariffs in late March. Given the large amount of unsold supply that has accrued in the market since the tariffs were imposed, the lifting of these tariffs will not provide immediate relief. It does,

however, reignite optimism regarding access potential to this once lucrative market. The almond harvest is almost completed and reports so far indicate that yields are well up on last year and a return to longer term forecasts. According to the Almond Board of Australia, the relatively drier conditions during harvest have resulted in improved quality which is likely to increase interest from China and India. Also cotton margins also remain attractive with pricing at elevated levels above \$700/bale.

It is also expected that market liquidity will be impacted by participation in the market by the Federal government. How much funding the government has to deploy towards environmental water recovery is unclear as they chose not to disclose any new funding in their 2023 budget due to market sensitivity concerns. Previously \$1.575 billion had been allocated towards the 450 GL efficiency recovery target. It is therefore reasonable to assume that entitlement valuations will be positively supported during the planned 2024-27 buyback program and a material reduction in irrigation water supply will support valuations over the longer term.

MARKET OUTLOOK

A reasonable degree of uncertainty persists in relation to the weather outlook for the upcoming winter and spring seasons. The international climate model consensus that the 2023-24 spring and summer was going to be dominated by a strong El Niño event did not eventuate due to other climatic phenomena having a stronger influence over weather patterns. The forecast accuracies for the two key climate indicators, ENSO (El Niño/La Niña) and Indian Ocean Dipole (IOD) are low at this time of year. Also, the current forecast for these two indicators have the likely potential to counteract one another. The ENSO forecast consensus is for mild La Niña conditions (see Figure 2) which is prone to bring more rainfall to south-eastern Australia whereas the forecast is for quite a strong positive IOD (see Figure 3) which is prone to result in drier conditions across south-eastern Australia. So perhaps it is not surprising that the resultant rainfall forecast leading into and during winter is generally average across south-eastern Australia (see Figure 4).

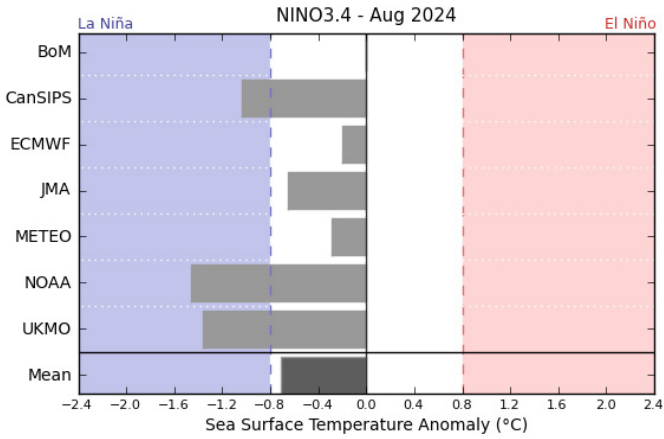


Figure 2: ENSO Forecast for August 2024 (Source: BOM)

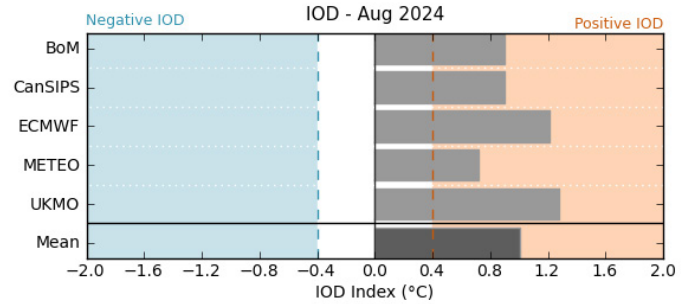


Figure 3: Indian Ocean Dipole Forecast for August 2024 (Source: BOM)

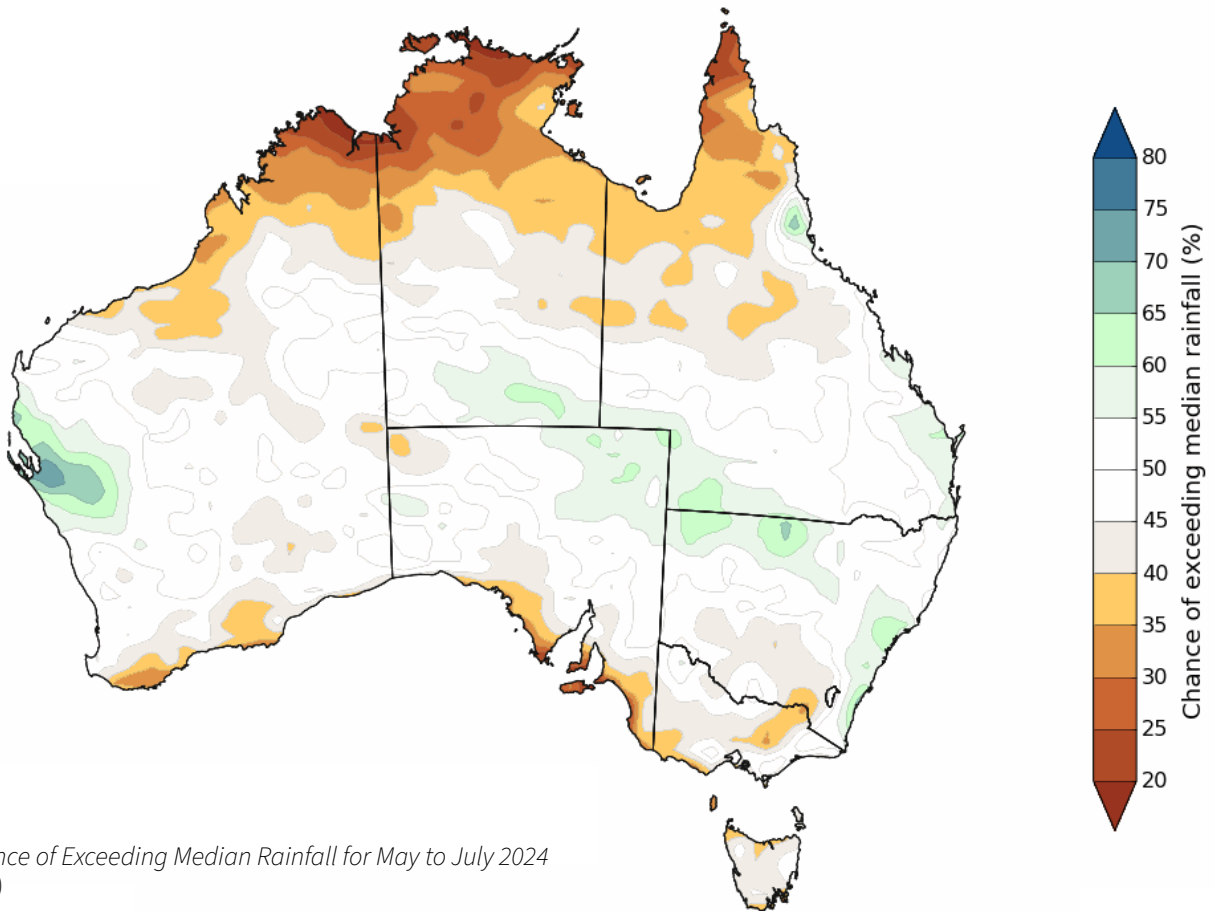
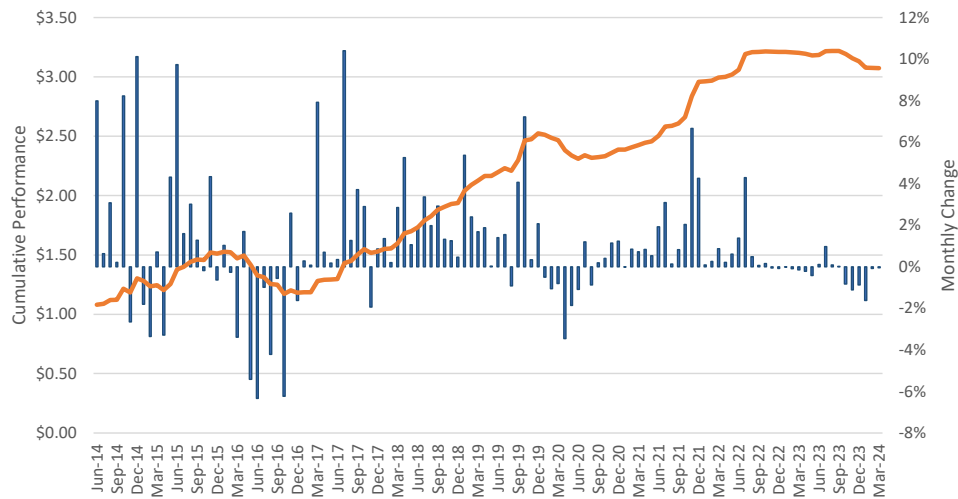


Figure 4: Chance of Exceeding Median Rainfall for May to July 2024 (Source: BOM)

Monthly Returns



Correlation

S&P/ASX 300 -0.01

Risk ratio

Reward to risk ratio 0.94

Annualised standard deviation (%) 10.03

Downside deviation (%) 5.71

Sortino ratio 1.65

Maximum drawdown (%) 23.25

Percentage of positive months (%) 67.80

Strategy

The Kilter Water Fund invests in water entitlements and water allocations in Australia's highly developed and well-regulated water market. The Fund generates yields from these assets through the distribution of a range of water products provided to a portfolio of irrigator clients. The Fund also benefits from expected long-term capital appreciation of water entitlements.

Manager Background

Kilter Pty Ltd (trading as Kilter Rural) was founded in 2004. Kilter Rural's purpose is to build long-term value for investors through resilient farmland and water investments. It is Australia's most experienced water investment manager and currently manages more than \$370m of water, farmland and ecosystem assets. An information memorandum for the Murray-Darling Basin Balanced Water Fund was approved and released on 27 January 2021, the Kilter Water Fund information memorandum was approved and released on 26 September 2023 and the Kilter Agriculture Fund was approved and released on 13 April 2023

Fund performance %

(net of management and performance fees and before tax)

Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD
FY2024	0.97	0.09	0.02	-0.83	-1.11	-0.88	-1.62	-0.08	-0.05				-3.45
FY2023	4.28	0.49	0.06	0.16	-0.06	-0.09	-0.02	-0.10	-0.15	-0.22	-0.42	0.11	4.04
FY2022	3.10	0.13	0.82	2.05	6.67	4.26	0.09	0.26	0.86	0.21	0.62	1.37	22.20
FY2021	1.19	-0.87	0.19	0.41	1.13	1.23	-0.01	0.84	0.72	0.83	0.53	1.92	8.40
FY2020	1.55	-0.92	4.07	7.22	0.34	2.08	-0.51	-1.06	-0.81	-3.46	-1.86	-1.09	5.22
FY2019	3.37	1.98	2.92	1.32	1.25	0.46	5.36	2.39	1.69	1.88	0.03	1.40	26.77
FY2018	10.39	1.26	3.72	2.89	-1.94	0.85	1.36	0.21	2.85	5.26	1.06	1.93	33.63
FY2017	-0.99	-4.21	-0.56	-6.24	2.58	-1.62	0.28	0.08	7.92	0.70	0.18	0.35	-2.16
FY2016	1.59	3.01	1.27	-0.19	4.33	-0.64	1.02	-0.27	-3.40	1.70	-5.42	-6.34	-3.84
FY2015	0.63	3.08	0.21	8.22	-2.65	10.11	-1.81	-3.36	0.71	-3.29	4.31	9.74	27.59
FY2014												7.99	7.99

Disclaimer

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