

# The Murray-Darling Basin Balanced Water Fund

MARCH 2024

Unit Price A\$2.0845

Entry Price A\$2.0949

Exit Price A\$2.0741

AUM A\$111.18M

## Key Points

- Fund environmental waterings help wetlands flourish this autumn and build resilience for when drier times return.
- 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 (%)	-0.15
Last three months return (%)	-1.92
Financial year return (%)	-5.68
Rolling 12 months (%)	-6.34
3-year annualised [p.a.] (%)	4.85
5-year annualised [p.a.] (%)	6.19
Performance since inception (%)	124.50
Since inception annualised [p.a.] (%)	10.26

## Fund information

<b>Name</b>	The Murray-Darling Basin Balanced Water Fund
<b>Structure</b>	Unit Trust
<b>Domicile</b>	Australia
<b>Inception</b>	October 2015
<b>Management Fee</b>	0.55% per annum
<b>Trustee Fee</b>	0.15% per annum
<b>Performance Fee</b>	15% per annum
<b>Hurdle rate</b>	6%
<b>High Water Mark</b>	Yes
<b>Buy Fee</b>	0.5%
<b>Sell Fee</b>	0.5%
<b>Minimum investment</b>	A\$50,000
<b>Administrator</b>	Unity Fund Services Pty Ltd
<b>Registrar</b>	Boardroom Pty Limited
<b>Auditor</b>	Pitcher Partners
<b>Sponsor</b>	The Nature Conservancy Australia
<b>Custodian</b>	Sandhurst Trustees Ltd
<b>Legal Advisor</b>	McMahon Clarke

## Contact information


### Fund Manager

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The Fund's NAV recorded a 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.

## ENVIRONMENTAL WATERING UPDATE

The three consecutive wet years just experienced have created opportunities and challenges from an environmental watering perspective. It is widely recognised that wetland dependant animals and vegetation benefit from multiple wet events, which can support widespread breeding and seed production. Also, environmental waterings can penetrate further into wetland landscapes on the back of more saturated conditions. This also can apply to recharging areas usually neglected. Overall, multiple wet events play a critical role in maintaining and improving wetland and floodplain resilience.

The following updates provide a snapshot of some of the beneficial wetland outcomes the Fund's water donations have helped contribute to this year.



**Circle-T Wetland** – is a 25 Ha wetland on the Patho Plains and consists of remnant black-box and lignum near Gunbower in Victoria. The trees planted in the depression are predominantly river coobas *Acacia stenophylla*, black box *Eucalyptus Largiflorens* and river red gums *Eucalyptus camaldulensis*. The wetland provided a range of habitats supporting the growth of planted tube stock and remnant vegetation and provided habitat for water dependant species including three species of frog. Waterings have seen vegetation and waterbird populations thrive.



**O'Briens Swamp** – is a small 10 Ha depression situated at Mincha, Pyramid Hill in Victoria. Aquatic plants have grown, and the planting of sedges and water ribbons is improving the health of this wetland. The endangered downy pea (*Swainsona swainsonoides*) and brolgas have been detected previously. This year flourishing vegetation has provided habitat for waterbirds and seen a resurgence of the threatened vegetation species, the Stiff groundsel.



**Glencoe Swamp** – is a river red gum/black box floodplain depression situated next to Thule Lagoon, near Barham in south-western New South Wales. The wetland has a range of aquatic vegetation present including cane grass and the flourishing lagoon and vegetation this year has provided essential habitat for the endangered growling grass frogs (Southern Bell Frog).



**Lake Roly Poly** – is part of the Wingillie Wetland Complex, in south-western New South Wales, it provides important habitat for the endangered growling grass frogs (Southern Bell Frog) and supports extensive areas of tangled lignum.

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### **Growling Grass Frogs “go gangbusters”**

EWT water has supported the nationally listed vulnerable Growling Grass Frogs (Southern Bell Frogs) where they have been recorded at four additional wetlands in north Central Victoria. Males have been actively calling since October 2023 and continued calling through January 2024. In far west New South Wales, populations have continued to flourish, with tadpoles and young adults detected during January 2024.

### **Luscious lignum**

Tangled lignum is an understated wetland plant which plays an important role in providing habitat and shelter for waterbirds and cryptic and threatened species such as Australasian Bittern and the growling grass frog (Southern Bell Frog). The delivery of environmental water this year has helped improve the health and condition of several dozen hectares of Lignum. Fresh growth, flushes of flowers, seeds and seedlings contributes to a healthy functioning landscape.

### **Sensational stiff groundsel**

Stiff groundsel is a nationally critically endangered wetland plant which has benefited from the Fund’s environmental waterings this year. This plant is so rare, seedlings have been translocated to several wetlands in north central Victoria receiving Fund environmental water. Plants have thrived, flowered, and set seed which permitted delivery partners to propagate more specimens.

### **Mighty Murray Hardyhead**

The delivery of Fund environmental water this year has assisted recovery efforts for the nationally endangered Murray Hardyhead fish species. This is an ongoing project where the Fund’s water has been used in partnership with support from other NGO’s, the Commonwealth and NSW government since 2018. This little fish moved across waterways during the 2022-23 floods and recent surveys have shown that the fish has moved into neighbouring wetlands. The Fund is planning to expand future watering opportunities in this region to continue to bolster population growth.



NSW DPI Fisheries Murray Hardyhead



Lignum female, Roly Poly



Lignum full plant



Southern bell frog, Roly Poly



Lignum male flower close up



Stiff groundsel Wetlands Revival Trust

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### **Wetland wildflower wonderland**

The delivery of Fund environmental water has supported over 200 native wetland plants across New South Wales and Victorian wetlands. Wetland plants require wet and dry cycles to thrive and provide food and habitat for wetland users such as frogs, fish and birds. Wetland wildflowers dazzled over spring and summer showcasing eye-catching shades of purple, yellows and whites.

Note: Photos supplied by the Fund's watering partner Murray-Darling Wetlands Working Group



*Fringe lily Nymphoides crenata and milfoil Myriophyllum crispatum*



*Fairy rod Stemodia Multiflora*



*Golden everlasting Xerochrysum bracteatum*



*River Blue bells Wahlenbergia*

## WATER MARKET UPDATE

The disappointing returns over recent months reflect 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.

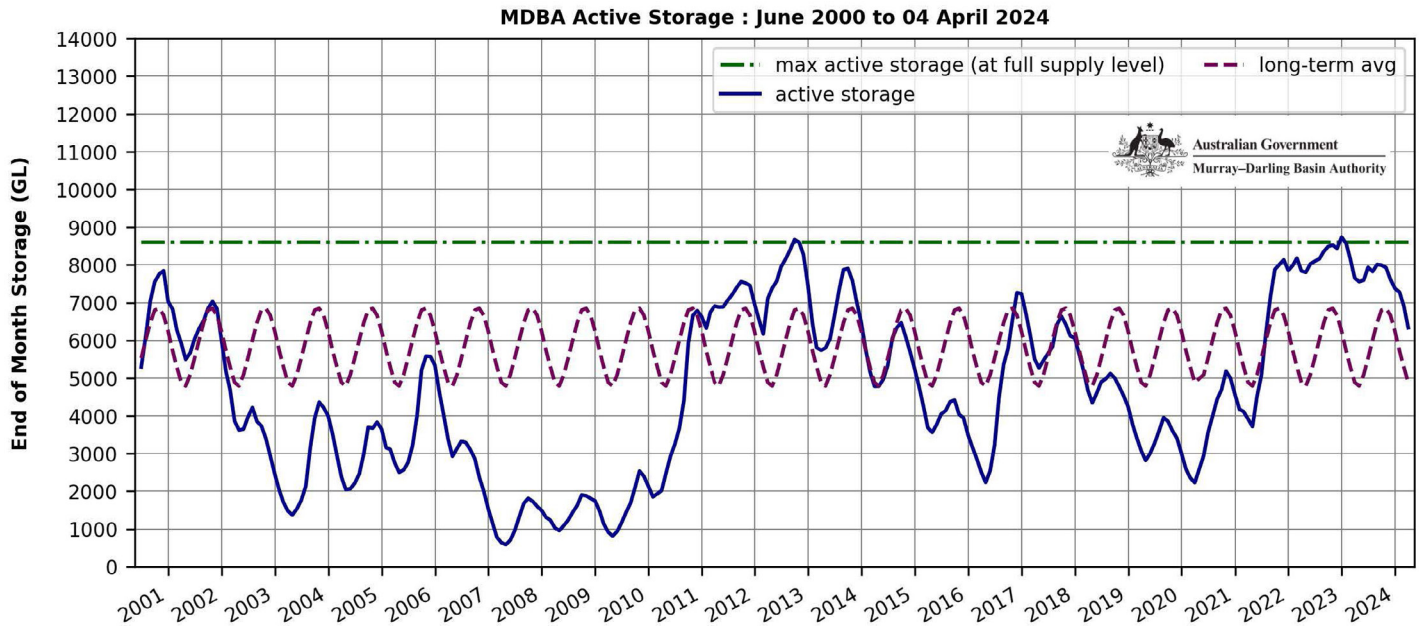


Figure 1: Murray System Usable Storage (Active) Levels from June 2000 to March 2024 (Source: MDBA)

Figure 1 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 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).

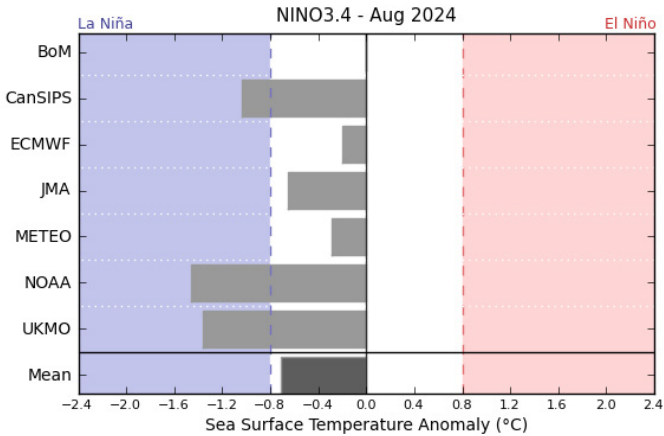


Figure 2: ENSO Forecast for August 2024 (Source: BOM)

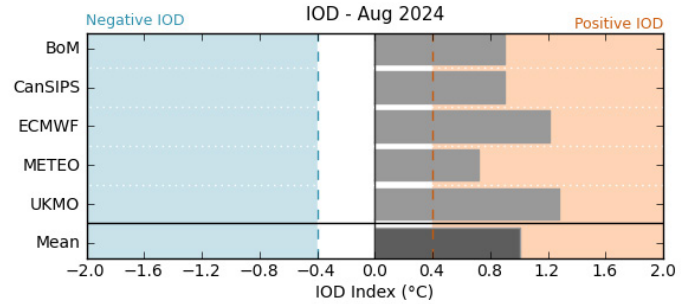


Figure 3: Indian Ocean Dipole Forecast for August 2024 (Source: BOM)

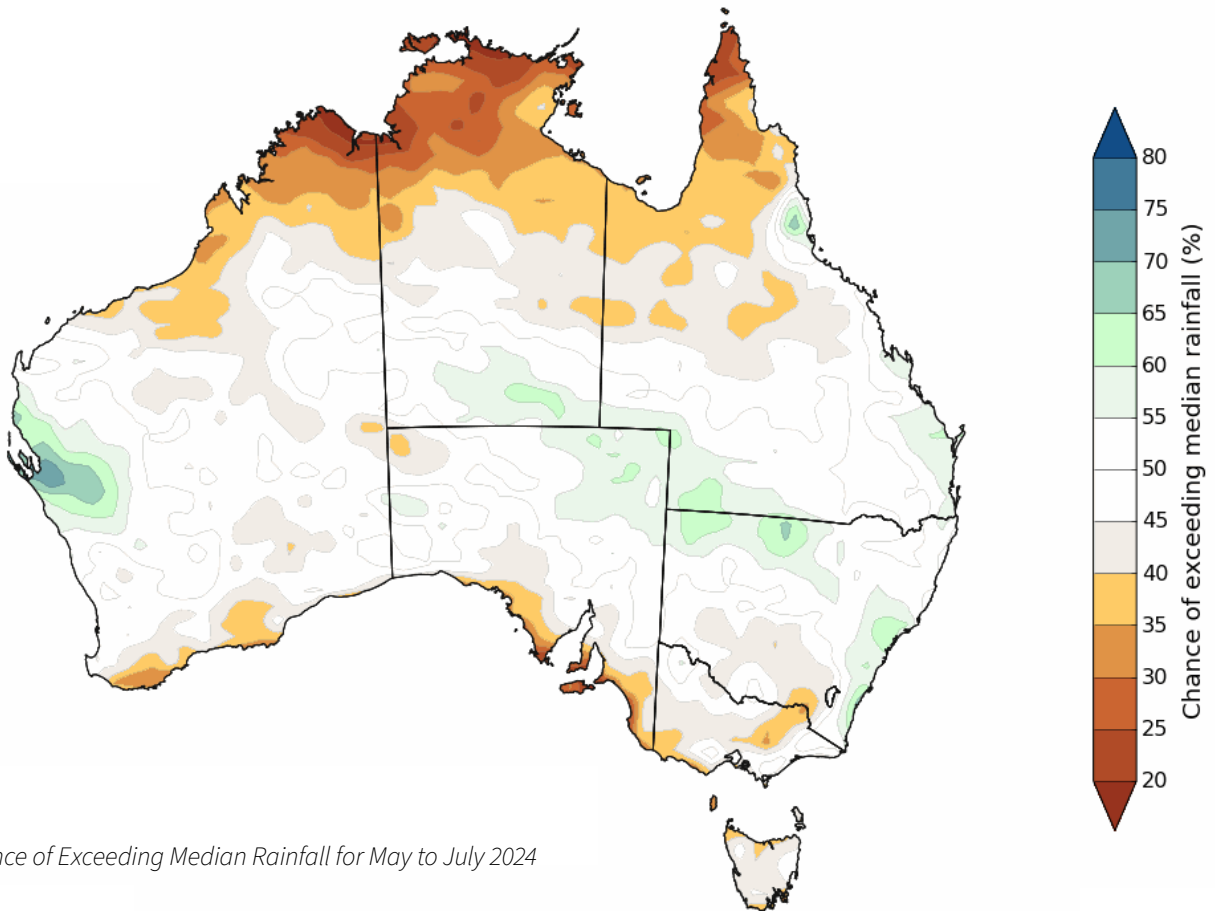
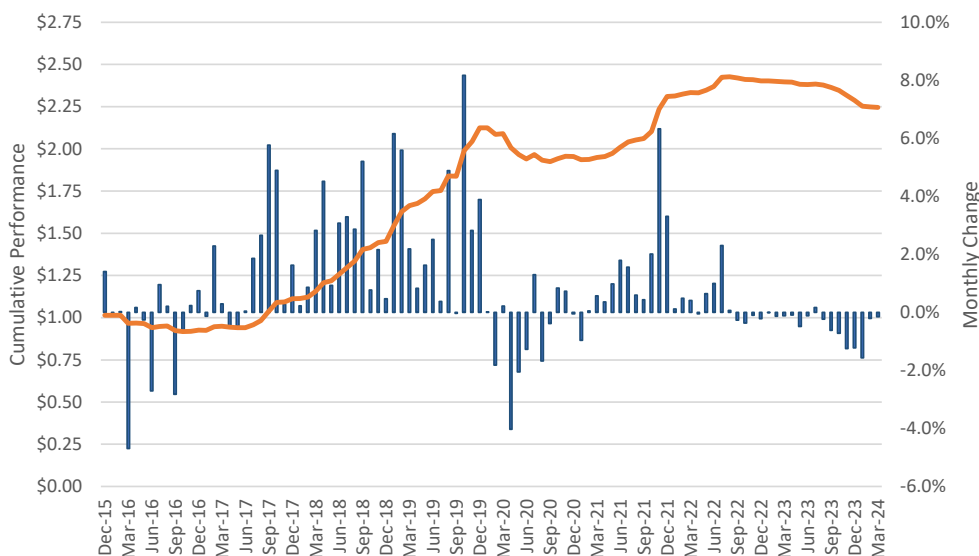


Figure 4: Chance of Exceeding Median Rainfall for May to July 2024 (Source: BOM)

## Monthly Returns



### Correlation

S&P/ASX 300 0.01

### Risk ratio

Reward to risk ratio 1.04

Annualised standard deviation (%) 7.35

Downside deviation (%) 3.68

Sortino ratio 2.09

Maximum drawdown (%) 9.59

Percentage of positive months (%) 63.00

### Strategy

The Murray-Darling Basin Balanced Water Fund invests in permanent water rights in the southern Murray-Darling Basin. It provides the first opportunity in Australia to achieve the multiple objectives of securing water for agriculture, realising a financial return and restoring threatened wetlands through a single investment.

### 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 information memorandum was approved and released on 27 February 2024.

## 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	0.16	-0.24	-0.62	-0.72	-1.25	-1.23	-1.57	-0.21	-0.15				-5.68
FY2023	2.30	0.07	-0.27	-0.37	-0.10	-0.22	-0.01	-0.13	-0.12	-0.09	-0.49	-0.12	0.42
FY2022	1.56	0.60	0.44	2.01	6.32	3.31	0.11	0.48	0.41	-0.05	0.65	0.99	17.98
FY2021	1.30	-1.67	-0.38	0.84	0.73	-0.05	-0.96	0.05	0.57	0.35	0.98	1.79	3.56
FY2020	0.37	4.89	-0.04	8.17	2.83	3.89	0.01	-1.82	0.22	-4.03	-2.05	-1.28	11.07
FY2019	3.30	2.86	5.21	0.76	2.16	0.46	6.16	5.59	2.18	0.83	1.63	2.52	39.10
FY2018	1.86	2.66	5.77	4.90	0.28	1.63	0.23	0.86	2.83	4.52	0.93	3.08	33.65
FY2017	0.95	0.21	-2.83	-0.69	0.24	0.75	-0.14	2.28	0.29	-0.51	-0.47	0.04	0.04
FY2016						1.41	-0.04	0.03	-4.70	0.17	-0.26	-2.71	-6.08

## Disclaimer

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