



ENVIRONMENTAL ACCOUNTING

Background

Kilter Rural has been resetting the agenda for investment in Australian farmland, water and ecosystem assets since 2004. We have become one of the most recognised impact investment managers in Australia, with a portfolio of more than A\$440 million, and three active funds:

- The Murray-Darling Basin Balanced Water Fund,
- Kilter Water Fund, and
- Australian Farmlands Funds.

Our investment philosophy involves long term active stewardship of agribusiness assets to generate commercial, sustainable, transformative and robust fundamental value.

While commercial in everything we undertake, investment and management activity is predicated on protection and enhancement of ecosystems that underpin long-term asset value. Our Australian Farmlands Funds adopts the established *Accounting for Nature* methodology for measuring condition of environmental assets.

Our investment and management strategy delivers both traditional yield improvements and ecosystem health improvement, building resilience and investor value with lower exposure to risk. In a Kilter Rural investment, measuring and reporting of environmental condition accounts is embedded alongside delivery of financial accounts.

Grounded in Science

KILTER RURAL'S INNOVATIVE USE OF SCIENCE, TECHNOLOGY AND ENVIRONMENTAL ACCOUNTING IS HELPING SHAPE THE FUTURE OF IMPACT INVESTING.

The ability to monitor, interpret and report on condition of natural assets within a standardised and quantified environmental accounting framework informs and drives management actions that sustain long term food and fibre production and long-term value to investors.

Measuring Natural Asset Condition

To measure the condition of natural assets, Kilter Rural uses the *Accounting for Nature* (AfN) framework, an independent methodology developed by the Australian-based Wentworth Group of Concerned Scientists.

AfN is designed to find, implement and drive solutions for environmental stewardship to secure the long-term health of Australia's land, water and biodiversity.

The framework allows a set of condition accounts to be accredited by an appropriate scientific body against a set of agreed national environmental asset condition accounting standards.

These standards are aligned with the UN-adopted *System of Environmental-Economic Accounting*.



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The AfN captures the biophysical condition through an agreed standardised unit, known as the Econd.

An Econd for a natural asset, such as soil or native vegetation, is a calculated score between 0 and 100, with 100 representing pristine or 'reference' condition.

For farmland natural assets, target Econd scores are established that reflect tangible condition goals for these within the farming context.

Annual accounts then track progress towards these goals through ongoing measurement of selected asset condition indicators.



“Kilter Rural (is) clearly demonstrating a **commitment and aptitude** in documenting the condition of the natural asset base of the farmland it manages.”

– Richard Thackway, Landscape Ecologist and Adjunct Associate Professor at ANU

Improvement in Asset Condition CASE STUDY – Landscape Transformation

In 2018, Kilter Rural completed the first institutional investment-scale environmental account under AfN for its farmland investments in northern Victoria.

The account has received interim accreditation from specialised independent experts selected by the Wentworth Group of Concerned Scientists, including Richard Thackway, Landscape Ecologist and Adjunct Associate Professor at ANU.

“Kilter Rural has constructed an impressive inaugural farm environmental account at its Lake Boga mandate, clearly demonstrating a commitment and aptitude in documenting the condition of the natural asset base of the farmland it manages,” Associate Professor Thackway says.

The environmental accounting process quantified improvement in the natural assets on the 9000ha farmland between 2007 and 2018, such that:

- Vegetation condition has nearly doubled from an Econd score of 11 to 20, or 90% improvement towards the 2022 target goal of 22 (see photos 1 and 2).
- Soil condition has improved from an Econd score of 50 to 60, a 50% improvement towards the 2022 ambition of 70.



Photo 1: The barren lunette on the north-west Victorian property on purchase.



Photo 2: The revitalised landscape after significant revegetation effort.



Why Environmental Accounting Is Needed

Improved ecosystem health fundamentally underpins long term agribusiness output.

The AfN framework provides landscape managers with an approach that moves environmental condition assessments into the contemporary age of knowledge, rigour and accountability.

Broad implementation of the accounts will reveal the real impact of farmland, water and ecosystem investment management activities.

In addition to supporting sustainable production, condition accounts give transparency to investors seeking to measure ‘environmental impact’ at a granular landscape level.

Implementing the accounts gives truth to the adage what matters gets measured.

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