

# DUXTON WATER LIMITED

## EXTRAORDINARY GENERAL MEETING

18/10/2017

DUXTON
WATER LTD

| Item: | Agenda: |
|---|---|
| | Opening Introduction |
| | Items of Business |
| 1 | Approval of Acquisition of Water Entitlements from Duxton Vineyards |
| 2 | Approval of Issue of Shares to Duxton Vineyards under the Corporations Act |
| 3 | Approval of Issue of Shares to Duxton Vineyards under the Listing Rules |
| 4 | Giving of Financial Benefits by the Company |
| | Conclusion of Formal Business |
| | Duxton Water Limited Update |
| | Q&A |

# OPENING INTRODUCTION



**Ed Peter**
Chairman

Ed Peter, is the co-founder and Chairman of Duxton Asset Management ("Duxton"). Prior to forming Duxton in 2009, Ed was Head of Deutsche Asset Management Asia Pacific ("DeAM Asia"), Middle East and North Africa. Ed has been exposed to the Australian water market since 1999.



**Peter Michell**
Independent Director

Peter Michell is Executive Director at Michell Wool P/L and was its Managing Director for the decade following 2004. Peter holds a Bachelor of Management BA (Man) UniSA, FAICD, FGLF2000, and currently sits on the University of Adelaide's Agribusiness Advisory Board.



**Stephen Duerden**
Director

Stephen Duerden is the CEO of Duxton Asset Management. Stephen has over 26 years of experience in investment management and joined Duxton in May 2009. Prior to this, Stephen was the COO and Director for both the Complex Assets Investments Team and the Singapore operation of DeAM Asia.



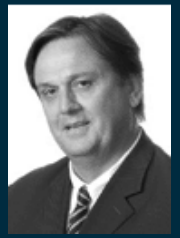
**Dirk Wiedmann**
Independent Director

Dirk Wiedmann has 28 years of experience in the finance industry. Over his career, Dirk has held senior global positions with several Banks, including UBS AG, Bank Julius Baer & Co Ltd and Rothschild Bank AG. Dirk has been investing in Australian agricultural businesses since 1999.



**Dennis Mutton**
Independent Director

Dennis Mutton has a long history in the fields of natural resource management and primary industries. Dennis has also held roles as Commissioner and Deputy President of the Murray Darling Basin Commission and Chair of the SA Natural Resources Management Council.



**Donald Stephens**
Company Secretary

Donald Stephens is a Chartered Accountant and corporate adviser with over 20 years of experience in the accounting industry. Mr Stephens holds a number of positions as a public company director and company secretary as well providing corporate advisory services to a wide range of organisations.



**Max Toovey**
Portfolio Manager

Max Toovey joined Duxton at the start of 2014 and is responsible for managing the water portfolio for Duxton Water. Prior to joining Duxton, Max worked at KPMG Australia.



**Alister Walsh**
Director of Water Assets

Alister Walsh is a current Board Member of the Water Industry Alliance. Prior to joining, Alister was CEO of Waterfind from 2014 to 2017. Alister has had extensive experience within the Australian Water Market since 2000.

# ITEM 1 – ACQUISITION OF WATER ENTITLEMENTS FROM DUXTON VINEYARDS

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

*"Subject to the passing of Resolutions 2, 3 and 4, for the purpose of Listing Rule 10.1 and all other purposes, the acquisition of the 2,402 ML of Water Entitlements by the Company from Duxton Vineyards and the lease of those Water Entitlements to Duxton Viticulture on the terms set out in the Explanatory Statement, is approved."*

This Resolution is the subject of an Independent Expert Report which states that the acquisition of Water Entitlements by the Company from Duxton Vineyards and the lease of those Water Entitlements to Duxton Viticulture is fair and reasonable.

A voting exclusion applies to this Resolution, details of which are contained in the Notice of Meeting.

## Proxy Vote Results:

| Resolution | Vote type | Voted | % |
|---|---|---|---|
| 1, WATER ENTITLEMENTS | For | 3,200,281 | 88.75 |
| | Against | 0 | 0.00 |
| | Open-Usable | 406,004 | 11.25 |
| | *Board* | *404,054* | *11.20* |
| | *Non-Board* | *1,950* | *0.05* |
| | Open-Cond | 0 | 0.00 |
| | Open Unusable | 0 | N/A |
| | Abstain | 11,779 | N/A |
| | Excluded | 54,000 | N/A |

# ITEM 2 – APPROVAL OF SHARES TO DUXTON VINEYARDS UNDER THE CORPORATIONS ACT

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

*"Subject to the passing of Resolution 1, for the purpose of s. 611 item 7 of the Corporations Act and all other purposes, the issue by the Company of 6,610,000 Shares to, and the acquisition of the relevant interest in those Shares by, Duxton Vineyards and its Associates, and the increase in the voting power of Duxton Vineyards and its Associates to 46.29% on the terms set out in the Explanatory Statement, is approved."*

This Resolution is the subject of an Independent Expert Report which states that the issue by the Company of 6,610,000 Shares to, and the acquisition of the relevant interest in those Shares by, Duxton Vineyards and its Associates is fair and reasonable.

A voting exclusion applies to this Resolution, details of which are contained in the Notice of Meeting.

## Proxy Vote Results:

| Resolution | Vote type | Voted | % |
|---|---|---|---|
| 2, DUXTON VINEYARDS CORP ACT | For | 3,187,190 | 88.39 |
| | Against | 13,091 | 0.36 |
| | Open-Usable | 406,004 | 11.25 |
| | *Board* | *404,054* | *11.20* |
| | *Non-Board* | *1,950* | *0.05* |
| | Open-Cond | 0 | 0.00 |
| | Open Unusable | 0 | N/A |
| | Abstain | 11,779 | N/A |
| | Excluded | 54,000 | N/A |

# ITEM 3 – APPROVAL OF ISSUE OF SHARES TO DUXTON VINEYARDS UNDER THE LISTING RULES

To consider, and if thought fit, pass the following resolution as an ordinary resolution:

"*Subject to the passing of Resolutions 1 and 2 and for the purpose of Listing Rule 10.11 and all other purposes, the issue by the Company of* 6,610,000 *Shares to Duxton Vineyards on the terms set out in the Explanatory Statement, is approved".*

This Resolution is the subject of an Independent Expert Report which states that the issue by the Company of 6,610,000 Shares to Duxton Vineyards is fair and reasonable.

A voting exclusion applies to this Resolution, details of which are contained in the Notice of Meeting.

## Proxy Vote Results:

| Resolution | Vote type | Voted | % |
|---|---|---|---|
| 3, DUXTON VINEYARDS LST RULE | For | 3,187,190 | 88.39 |
| | Against | 13,091 | 0.36 |
| | Open-Usable | 406,004 | 11.25 |
| | *Board* | *404,054* | *11.20* |
| | *Non-Board* | *1,950* | *0.05* |
| | Open-Cond | 0 | 0.00 |
| | Open Unusable | 0 | N/A |
| | Abstain | 11,779 | N/A |
| | Excluded | 54,000 | N/A |

# ITEM 4 – GIVING OF FINANCIAL BENEFITS BY THE COMPANY

To consider, and if thought fit, pass the following resolution as an ordinary resolution:

*"Subject to the passing of Resolutions 1, 2 and 3, for the purpose of s. 208 of the Corporations Act and all other purposes:*

- *the issue of 6,610,000 Shares by the Company to Duxton Vineyards at the prevailing market price on the proposed date of issue;*
- *the grant of leases in respect of the Water Entitlements to Duxton Viticulture; and*
- *the giving of other financial benefits by the Company;*

*on the terms set out in the Explanatory Statement, is approved."*

This Resolution is the subject of an Independent Expert Report which states that the issue by the Company of 6,610,000 Shares to Duxton Vineyards, the grant of the leases in respect of the Water Entitlements to Duxton Viticulture and the giving of the other financial benefits by the Company is fair and reasonable.

A voting exclusion applies to this Resolution, details of which are contained in the Notice of Meeting.

## Proxy Vote Results:

| Resolution | Vote type | Voted | % |
|---|---|---|---|
| 4, FINANCIAL BENEFITS | For | 3,125,982 | 86.56 |
| | Against | 89,599 | 2.48 |
| | Open-Usable | 396,004 | 10.96 |
| | *Board* | *394,054* | *10.91* |
| | *Non-Board* | *1,950* | *0.05* |
| | Open-Cond | 0 | 0.00 |
| | Open Unusable | 0 | N/A |
| | Abstain | 6,479 | N/A |
| | Excluded | 54,000 | N/A |

# DUXTON WATER SNAPSHOT

## KEY INFORMATION

| | |
|---|---|
| **Securities on Issue** | 63,965,406 Shares<br>63,965,406 Options |
| **NAV per Share as at 30 September 2017** | $1.12 per Share |
| **Exercise price of each Option** | $1.10 exercisable on or before 31 May 2018 |
| **Market Cap (at 17 October 2017)** | $66.53 million |
| **ASX Code** | D2O (Shares)<br>D2OO (Options) |
| **Investment Universe** | Australian Water Entitlements |
| **Investment Manager** | Duxton Capital (Australia) Pty Ltd |
| **ASX Listing Date** | 16 September 2016 |

## ASSET ALLOCATION

| | |
|---|---|
| **Total Water Entitlement at Market Value** | $65,874,901 |
| **Cash Position (30 September 2017)*** | $5,848,506 |
| **Net Assets** | $71,664,017 |

**Duxton Water has additionally entered into contracts, agreed terms for contracts or has pending offers for contracts on an additional $5.4 million worth of water entitlements. These additional contracts will lead to 98% of the portfolio being invested.*

## DIVIDEND DETAILS

| | |
|---|---|
| **Dividend announced 15th of September** | |
| **Maiden Dividend:** | 2.3 cents per share – Franked at 75% |
| **Record Date:** | 02/11/2017 |
| **Payment Date:** | 16/11/2017 |

## DIVIDEND REINVESTMENT PLAN (DRP)

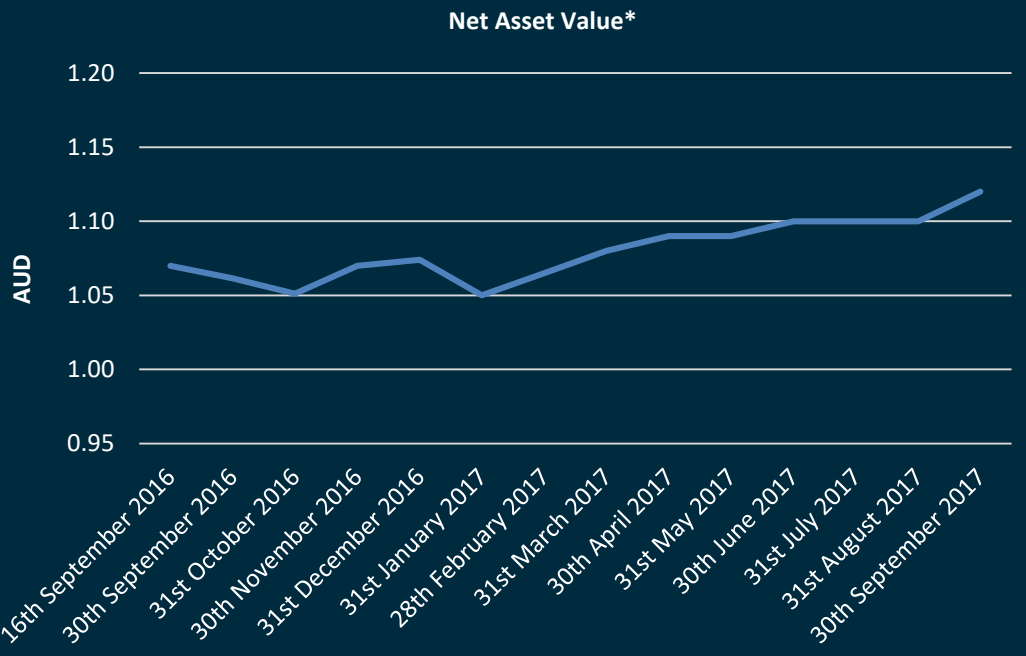
| | |
|---|---|
| **DRP Discount** | 3% (to the 5 day VWAP immediately preceding the record date) |
| **DRP Pricing Period** | 26/10/2017 – 01/11/2017 |
| **Shareholder DRP application due** | 03/11/2017 |

# DUXTON WATER PORTFOLIO PERFORMANCE

**Net Asset Value**

Net Asset Value of $1.12 as at 30 September. Positive impacts on the performance for the month included:

- New South Wales Murray High Security saw increases of 5.4% .
- South Australian High Security water zones also saw increases of 5.4%.




**As at 30 September 2017.*

# WATER MARKET UPDATE

**Market Summary**
Total MDB storage levels were 1.6% lower than in September 2016.

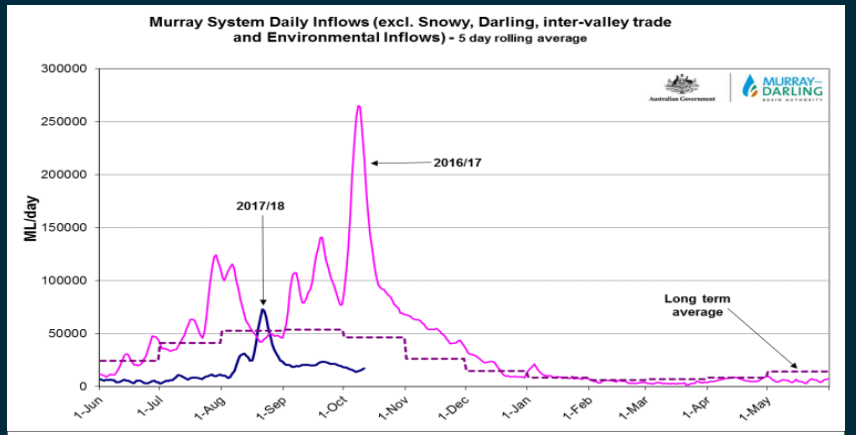
Allocation levels rose throughout September as Government Water Authorities increased allocations available to water entitlement holders. Allocations for Victoria Murray High Reliability, New South Wales Murray High Security and South Australia High Security were 98%, 97% and 100% respectively as at 30 September. Murray General Security licenses have received allocations of 28%. Including carryover, Duxton Water presently has approximately 14GL of unleased water allocations available.

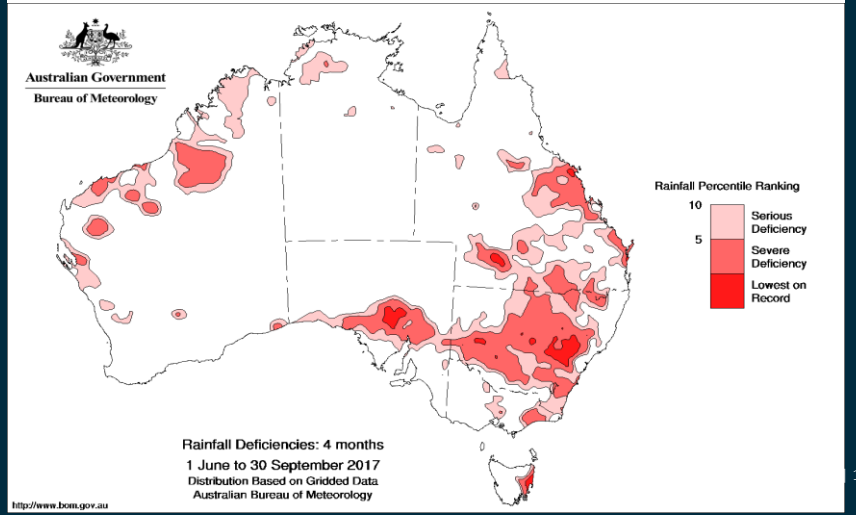
**Southern Basin**
Total inflows into the Murray system for September were 640GL , compared to the 10-year average of 1,143GL. The Hume and Dartmouth reservoirs closed the month at 89.9% and 84.0% capacity, respectively. Approximately 18.4% of the water held in these storages is carry over held by licence holders from the 16/17 water year. Across the MDB the Bureau of Meteorology reported that mean rainfall for September was 79% below average.

Water Entitlement prices displayed strong increases in the month of September. Price increases were seen in New South Wales Murray High Security and South Australia High Security water zones, both increasing 5.4%. Victoria Murray High Reliability Water Entitlements experienced a decrease in prices of 2.5% during the month.

Temporary water prices for the month increased back to the elevated levels observed in July as producers start to irrigate their crops. Lack of rainfall over the MDB during winter has provided upward pressure on prices in the major water zones with prices increasing from $130/ML in August to $150/ML at the end of the month.

**Northern Basin**
Northern Basin water entitlement prices showed little to movement in September. Allocation prices have shown strong increases as water users start to prepare for the upcoming summer growing season.

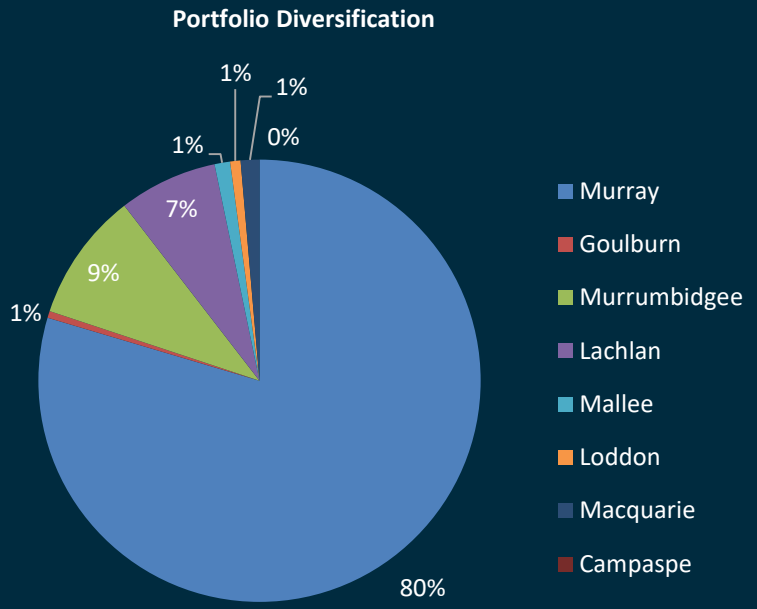



*Source: Bureau of Meteorology, Murray Darling Basin Authority*

# DUXTON WATER'S WATER ENTITLEMENT PORTFOLIO

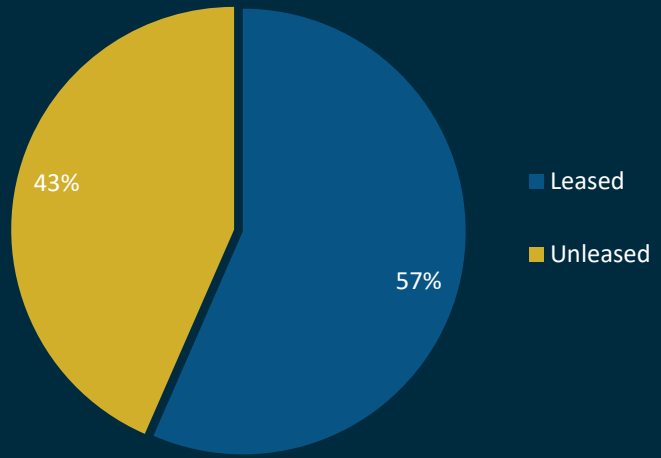
- Duxton Water's NAV per share as at 30 September 2017 is **$1.12.**
- Duxton Water's leased portfolio has a **weighted average yield of 6.04%** based on the terms of the leases.
- Shareholders will vote on the Duxton Vineyards acquisition and lease at the D2O EGM on the 18/10/2017, which if approved will increase the weighted average yield for long-term leases to 6.19%.
- Current running yield for unleased entitlement is 3.11% for YTD allocation sales, the Company currently holds approx. ~14GL*, which will generate and deliver returns through the Summer irrigation period.
- The chart adjacent demonstrates the diversification of Duxton Water's current Entitlement portfolio by trading zones.
- Duxton Water will actively manage and rebalance its portfolio as required over time.
- Recently, Duxton Water sold ~$7m of Water Entitlements and have to date redeployed $5.4m of these proceeds with the remainder expected to be deployed as opportunities arise.
- The rebalancing of the portfolio is expected to deliver higher unleased returns in the 17/18 water year and stronger leasing opportunities moving forward.



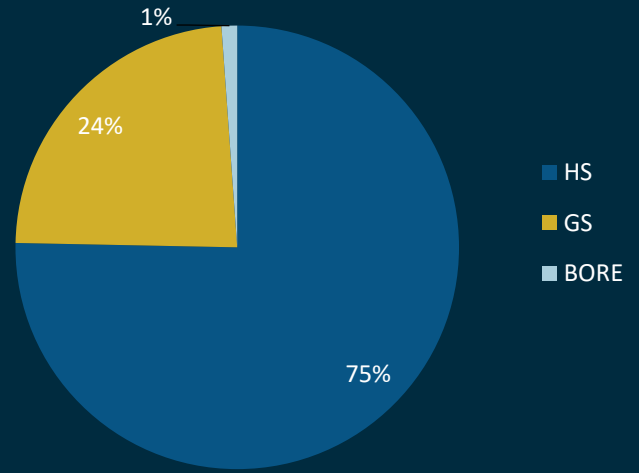

*As at 30 September 2017.*

# SECTION 3 - DUXTON WATER'S WATER ENTITLEMENT PORTFOLIO

**Portfolio Diversification – Leased vs. Unleased**




**Water Security Breakdown**



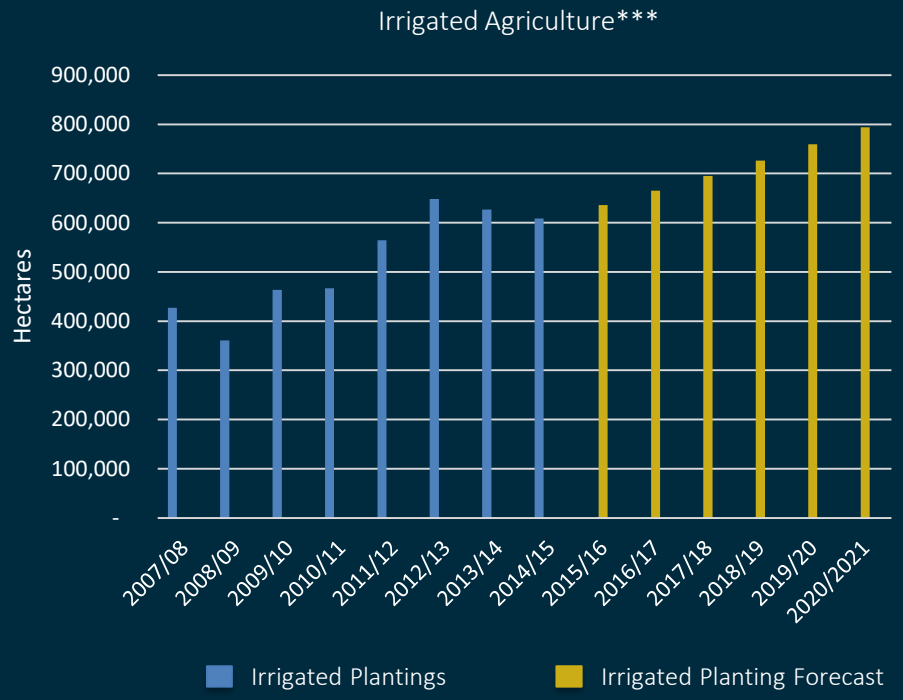

The majority of Duxton Water's returns are expected to be generated via Water Entitlement leases with primary producers. These leases are structured in a similar manner to commercial leases where the asset title is held by the lessor and fixed annual rent is paid by the lessee. As such, Duxton Water presents investors with an asset that produces regular and predictable revenue streams.

Duxton Water provides a diversified exposure to Water Entitlements as an asset class. While the Company will predominately hold High Security and High Reliability Entitlements, a number of General Security and Low Security Entitlements are included in the portfolio due to their unique characteristics in certain times of the water year.

*As at 30 September 2017.*

# IRRIGATED AGRICULTURE

- Irrigated agriculture trend continuing within the Murray Darling Basin, shifting trend to higher permanent production as well as more efficient and higher value annual cropping
- ~15,000 hectares of new greenfield almond orchards planted between 2016 and 2018 within the Murray Darling Basin, this will add an additional expected 250GL of long-term demand within the Southern Murray Darling basin.*
- Monsanto expects a 56% increase in cotton plantings within the Murrumbidgee Valley, to a total of 66,800 hectares, for the 2017/18 Summer crop, this is the largest on record.** Of note is the increasing hectares planted within the Murray Darling Basin system.




*Almond Australia, **Monsanto, ***ABS


Q&A

# CONTACT INFORMATION


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