DUXTON WATER

$1.48

**Net Asset Value per Share**

**ASX CODE (Shares)** D20

*Shares on Issue (March)* 108,678,385

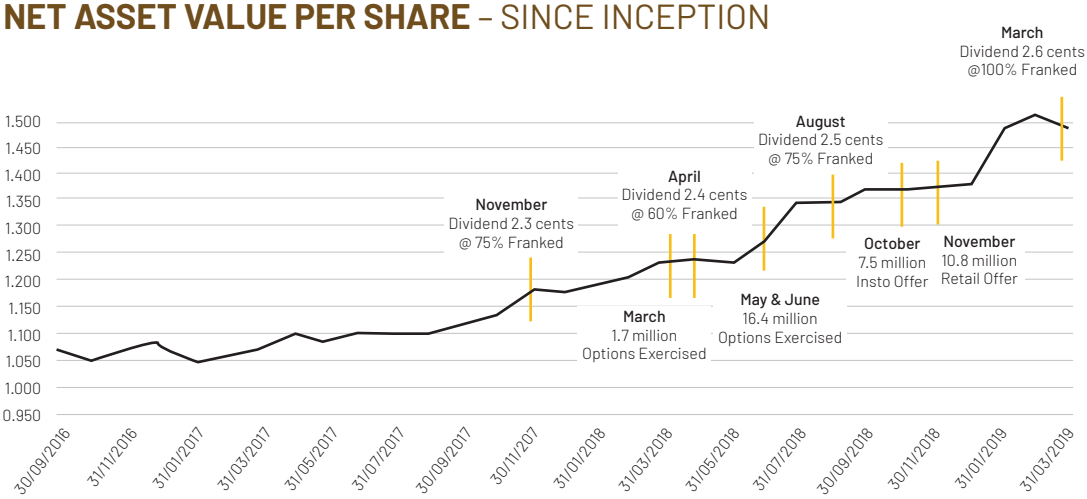
The primary investment objective of Duxton Water is to generate annual income through capitalising on the increasing demand for scarce water resources. Duxton Water derives its income from a diversified portfolio of Australian Water Allocations and Water Entitlements.

## NET ASSET VALUE PER SHARE

**Duxton Water's NAV as at 31 March 2019 was $1.48 per share.**

The after tax NAV figure takes into account the provision for deferred tax on set-up costs and estimates of net tax provisions that may arise should the entire portfolio be disposed of on the above date. The Company does not expect to trigger these tax provisions through the turnover of these assets and expects to maintain its low entitlement turnover ratio. **The NAV excluding tax provisions for unrealised capital gain is $1.62.** NAV is calculated based on an independent monthly portfolio valuation performed by Aither Pty Ltd ("Aither").

## NET ASSET VALUE PER SHARE – SINCE INCEPTION




## PERFORMANCE*

| 1 Month | 3 Months | 6 Months | 12 Months | Inception |
|---|---|---|---|---|
| 1.18% | 10.58% | 11.52% | 26.49% | 50.54% |

*These figures are based on NAV movements and include franked dividends for the period.

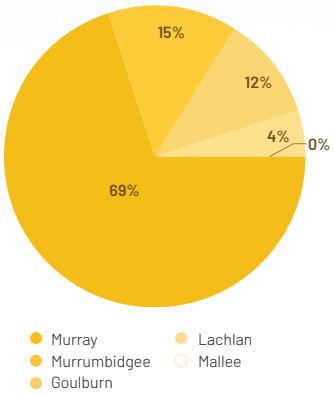
## INVESTMENT UPDATE

While the value of the assets in the portfolio have increased since last month-end, this increase has been offset by a decrease in cash due to the payment of the Company's fourth dividend, paid on 27 March 2019 (2.6 cents fully franked).

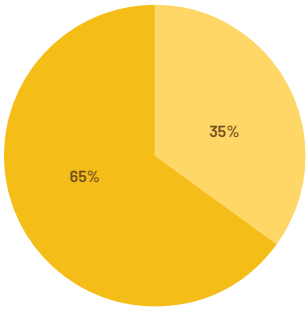
At 31 March 2019, Duxton Water Ltd is invested in approximately $231.6 million of water assets with the re-mainder of the portfolio held in cash and net current assets. The Company currently has approximately 2,947 ML ($10.8 million) of water entitlements in its acquisition pipeline at 31 March 2019.

Based on the current storage levels and forecast climatic outlook, NSW, VIC, & SA Natural Resource managers have advised irrigators to prepare for what could be a critically low resource availability in the 19/20 water year. Through its diversified portfolio with a weighting toward HS entitlements and with active management of water allocation, the Company is well prepared to continue supporting its irrigator partners into the new year.

### Entitlement Portfolio Value by Region

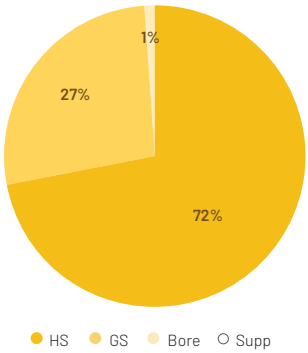



### Water Portfolio Diversification




*Inclusive of contracted leases, commencing 1 July 2019, the leased portfolio is 40%.*

### Water Security Breakdown



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Although average rainfall was received across Australia, drier than average conditions were experienced in the southern connected basin. Total inflows into the Murray continue to be below the long-term average. The volume of water available in active storages within the total Murray Goulburn system of 37% is 22% lower than the same time last year and 30% lower than in March 2017.

Duxton Water continues to support its customers through the peak summer irrigation period. As their focus turns towards the new water year we have entered into a number of new leases and forward water allocation contracts which will assist in their risk management and support production. Duxton Water is now examining its strategic positioning for the close of this water year and the opening of the new water year.

## ENTITLEMENT MARKET

Duxton Water Ltd is engaged in building a targeted portfolio of water entitlements predominantly across the southern Murray-Darling Basin. The Company has invested in both surface and ground water assets. At 31 March 2019 the Company holds ~ 68,758 ML of entitlement across 19 different asset types and classes.

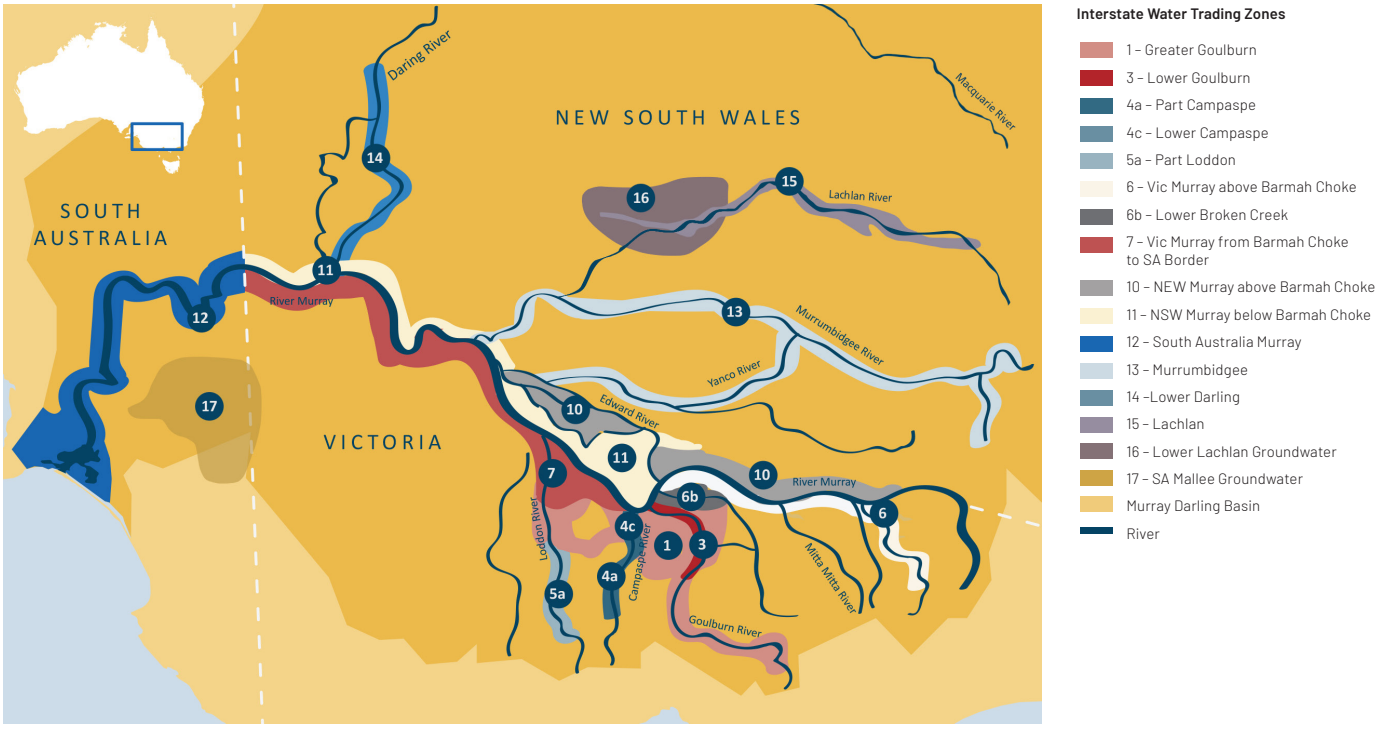
Ongoing maturation of permanent plantings has seen greater water demand from high value crop industries such as almonds and citrus. As such, demand for long-term water security, such as high security entitlement ownership and long-term leases, continues to increase. Aither Pty Ltd values the Duxton Water Ltd portfolio on a monthly basis on a dry (without allocation) equivalent basis. There were multiple notable movements in values and are shown below:

### SOUTHERN BASIN

- ↑ 6.0% VIC Murray 6 High Reliability (12.1% of portfolio)
- ↑ 5.7% SA Murray Class 3 High Security (6.7% of portfolio)
- ↑ 5.5% NSW Murray 11 High Security (20.8% of portfolio)
- ↑ 1.7% NSW Murrumbidgee 13 High Security (7.8% of portfolio)
- ↓ 8.0% NSW Murray General Security (15.9% of portfolio)

### NORTHERN BASIN

No movements within the Lachlan region.




**DUXTON WATER PORTFOLIO – SMDB EXPOSURE**

DUXTON WATER

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## ALLOCATION MARKET

Continued irrigation requirement, balancing of overuse in allocation accounts, and the acquisition of unused 18/19 allocation by irrigators for carry over into the 19/20 water year are driving allocation demand. Through March we have seen allocation pricing increase slightly in both the Murray and Murrumbidgee to $480 - $500/ML from $460 - $480/ML in February. Demand is expected to remain high as irrigators look to balance their accounts and seek further water security to mitigate expected dry conditions into the 19/20 water year. Forward water for delivery in the 19/20 water year is trading between $590 - $620/ML.

Allocation pricing within the Lachlan Valley remained relatively steady at $360/ML.

Duxton Water utilised its entitlement carry over capability to take allocation into the 2018/19 water year. This has enabled the Company to position itself ahead of stronger allocation pricing and to assist our irrigator customers through drier forecast conditions for the year ahead.

## LEASES

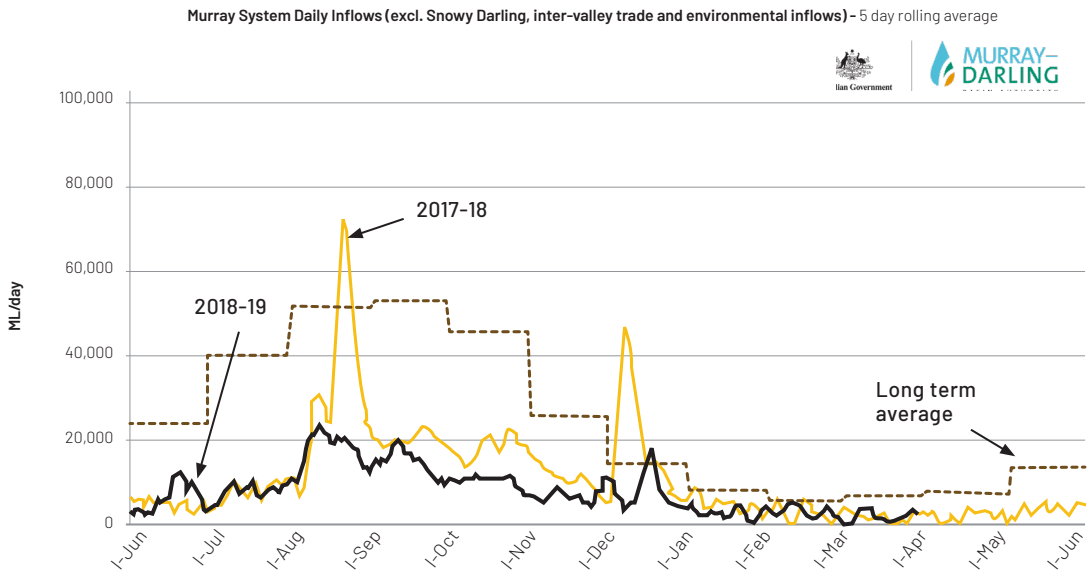
Duxton Water has entered into further leases which will commence in the new water year (1 July 2019), increasing the proportion of its leased portfolio to 40% (based off current portfolio valuations) with a weighted average lease expiry of 4.1 years. As new capital was continually deployed into the acquisition of further water entitlements, the leased portion of the portfolio has continued to dilute. Increased interest for longer term water supply solutions has seen lease yields better align with the Company's targets against the back-drop of increasing water entitlement values. The Company is currently in discussion with irrigators and expects to enter into further leases commencing 1 July 2019, increasing the proportion of the portfolio under lease to 55% - 60%.

## DIVIDENDS

The Company is pleased to have paid its most recent dividend of 2.6 cents (fully franked) on 27 March 2019.

Given the current allocation market conditions, and demand for water entitlement leasing, the Company has reaffirmed its targeted dividend of 2.7 cents ($0.027), fully franked, to be paid in September 2019. The Board maintains its commitment to providing our shareholders with a bi-annual dividend. It is also targeting a fully franked final dividend of 2.8 cents ($0.028), payable in March 2020.

## DAILY INFLOWS TO THE MDB



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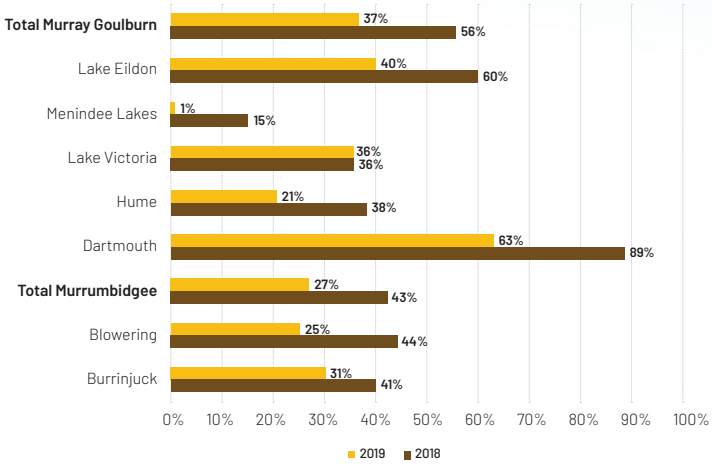
## STORAGE LEVELS IN MAJOR DAMS




## CHANCE OF ABOVE-AVERAGE RAINFALL

APRIL – JUNE




## MARKET UPDATE & OUTLOOK

Hot conditions remain across the Murray-Darling Basin, resulting in the hottest March on record. Lower than average sub-soil moisture remains throughout as high temperatures and clear skies evaporate what low rainfall has been received. Heavy rains across the north eastern Australia will broadly have little impact on inflows and water availability in the southern part of the basin.

Severe rainfall deficiencies at the 23-month time scale are evident across the eastern and southern states. Storages within the northern and southern MDB are currently at ~11% and ~37% respectively, compared to ~30% and ~62% at the same time last year.

The MDBA's drawdown of Dartmouth has ceased and is now at 63% capacity; this reserve storage was called upon this year to support irrigation demand downstream. Lake Eildon and the Hume have been reduced by a combined ~353GL over the course of the month as irrigation continues, and are now at 40% and 21% capacity, respectively.

Lower operating losses have enabled the VIC resource manager to issue a further 4% of allocation to Goulburn high security entitlements, reaching 100% allocation. NSW general security entitlements received no further allocation with significant inflows required prior to additional allocation being received. No further updates have been released by the respective resource managers regarding the next water year's opening allocations.

The latest BoM outlooks forecast a 50/50 chance for median rainfall over the next quarter throughout the southern MDB. With the forecasted timing of autumn break rainfall to be average or later than average. These outlooks are currently based upon the neutral climatic drivers in place and will change dramatically if the events described below do develop.

The BoM's El Niño-Southern Oscillation outlook has shifted from 'Watch' to 'Alert', forecasting a 70% likelihood of an El Niño developing in 2019. Seven of the eight surveyed climate models suggest El Niño thresholds will continue to be exceeded into winter. The Indian Ocean dipole is currently neutral with five of the six surveyed climate models forecasting that a positive IOD will form through the start of winter. El Niño's typically results in below average rainfall and above average temperatures across eastern Australia. A positive Indian Ocean Dipole event typically reduces winter rainfall in southern Australia and can further exacerbate the effects of an El Niño when in phase.

### VALUATION METHODOLOGY

Aither undertake a monthly valuation of the Duxton Water portfolio. Total assets of the Company are valued based on an assessment of fair market value. Aither has adopted the Australian Accounting Standards Board (AASB) 13 Fair Value Measurement definition of fair value. Further information can be found on www.duxtonwater.com.au

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