DUXTON WATER

$1.58

Net Asset Value per Share

ASX CODE (Shares) D20

Shares on Issue (June) 119,375,450

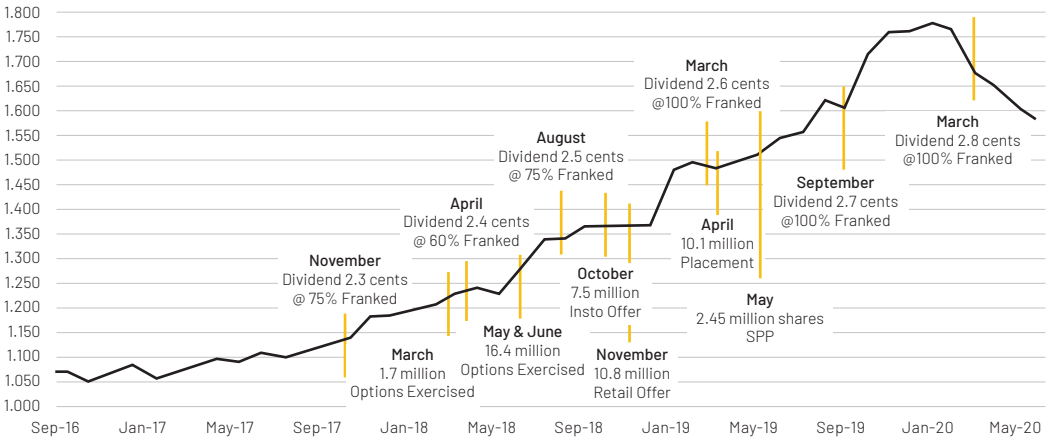
The primary investment objective of Duxton Water is to build a portfolio of permanent water entitlements and utilise this portfolio to provide flexible water supply solutions to our Australian farming partners. The Company generates a return by offering irrigators a range of supply solutions including long term entitlement leases, forward allocation contracts and spot allocation supply.

NET ASSET VALUE PER SHARE

Duxton Water's NAV at 30 June 2020 was $1.58 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 $1.76.** 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
-0.94%	-5.54%	-7.83%	7.73%	67.62%

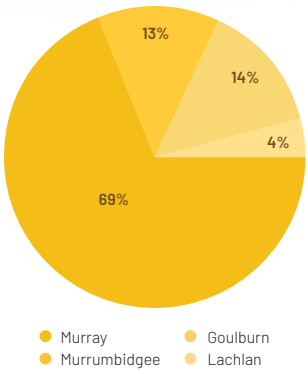
*These figures are based on NAV movements and include franked dividends for the period.

INVESTMENT UPDATE

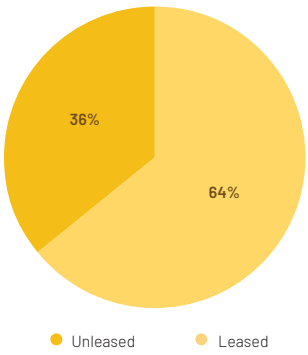
At the close of the 19/20 water year on 30 June 2020, Duxton Water Ltd is invested in approximately $315.26 million of water assets with the remainder of the portfolio held in cash and net current assets. The Company currently has approximately 255ML ($1.08 million) of water entitlements in its acquisition pipeline at 30 June 2020.

Through the 19/20 water year we saw significant pressure on available supply due to a 36-40 month period of significantly below average rainfall and inflows. The water market facilitated the movement of available allocation between irrigators and industries to meet critical demand. Many Irrigators took advantage of water supply products such as leases and forward allocation contracts to assist them in the management of their water requirement. This assisted many in mitigating the impact of higher spot allocation pricing that was observed across the 19/20 water year.

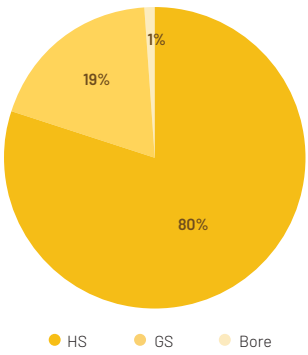
Entitlement Portfolio Value by Region



Water Portfolio Diversification



Water Security Breakdown



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Whist we have seen retracement in permanent entitlement values over the last couple of months, the value uplift experienced over the last 40 months reflects long-term drivers rather than the recent drought conditions. Irrigators have over the last 10 years significantly enhanced their marginal return per megalitre through both more efficient use of water and conversion to higher value commodities. At the same time, we have seen significate steps taken to return water to the environment with Government purchases of between 20-22% of entitlements that were previously available to the consumptive pool. The combined impact has seen stronger demand for a reducing available water supply and subsequent increased asset prices. Irrigators themselves have been the greatest beneficiaries from this capital appreciation as they collectively own the majority of water entitlement on issue in the market.

June rainfall was 34% below the long-term average with River Murray system inflows totalling 650GL. After 4 years of drier than average conditions and the subsequent drawing down of the water storage levels within the Murray Darling Basin (MDB), many months of above average rain are required to provide adequate replenishment to the system.

The current volume of water available within the Murray-Goulburn system is 45% of storage capacity levels; 4% higher than 12 months ago. Northern basin storage levels are currently 19%, 9% higher than 12 months ago.

Duxton Water continues to support its irrigating farming partners as they prepare for the 20/21 water year. This involves the provision of leases to over 70 family farming and corporate businesses. Through June we saw many irrigators take advantage of seasonally low allocation pricing and acquire allocation to carry over into the 20/21 water year.

The Company actively manages its allocation holding in order to deliver on demand spot allocation sales, meet its obligation for the provision of forward allocation sales and deliver on new entitlement lease arrangements. With low storage levels, visible water supply through the provision of these products are a critical tool that irrigators use to risk manage their water requirement. In the offering of these products, the Company supports market liquidity and risk management options for our irrigation partners.

ENTITLEMENT MARKET

Duxton Water Ltd is engaged in building a targeted portfolio of water entitlements predominantly across the southern MDB. The Company has invested in both surface and ground water assets. At 30 June 2020, the Company holds approximately 83,756ML of water entitlements across 19 different asset types and classes.

Through June we have seen a further retracement in the value of the Company's permanent portfolio on the back of relatively low levels of entitlement trade.

On the 27 June 2020, the Victorian Government released* an update to their previous work on increasing horticulture demand within the southern MDB. This report reaffirmed, with a higher degree of accuracy, that the continued maturity of inelastic horticultural demand in the lower Murray will create a structural shortfall under extreme dry conditions.
It remains the Company's view, that over the next 2-3 years, this demand pressure will become further evident, as a number of new projects come into full production and peak water use.

Aither Pty Ltd values the Duxton Water Ltd portfolio on a monthly basis on a dry (without allocation) equivalent basis. There were notable movements in values, shown below:

SOUTHERN BASIN

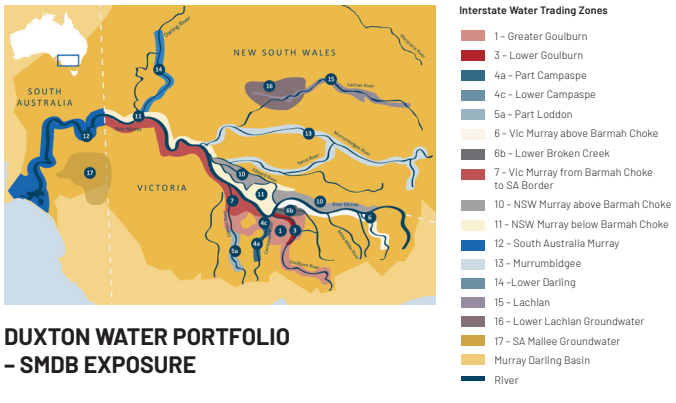
- ↑ 4.4% in NSW Murray 11 GS (~4.3% of portfolio)
- ↓ 3.0% in SA Murray HS (~8.0% of portfolio)
- ↓ 4.7% in NSW Murray 11 HS (~19.8% of portfolio)

NORTHERN BASIN

There was no change in northern pricing.

ALLOCATION MARKET

Strong end of season demand for carryover saw allocation prices strengthen towards the end of June, from seasonal lows of $165 to ~$225/ML. Increase demand for carryover saw irrigators paying up to $80/ML for space to park allocation and bring it into the 20/21 water year. With low current storage levels and a lower than originally anticipated 3 monthly rainfall outlook, allocation prices opened the 20/21 water year trading between $350 to $400/ML.



DUXTON WATER PORTFOLIO – SMDB EXPOSURE

* *https://waterregister.vic.gov.au/images/documents/Water-supply-and-horticulture-demand-in-the-sMDB-2020-Update.pdf*

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LEASES

The leased portion of the water entitlement portfolio is ~64.4%. This represents ~74.4% of the Company's High Security Entitlement holding. This is lower that the projected ~66% of total portfolio and ~78% High Security portfolio as of 1 July 2020 due to entitlement valuation movements within the Company's portfolio.

The current weighted average lease expiry (WALE) remains at 2.7 years. Inclusive of renewal options this pushes the WALE to 5.0 years. The Company continues to work towards its long-term goal of having 70-80% of the portfolio under lease.

DIVIDENDS

The Board maintains its commitment to providing our shareholders with a bi-annual dividend franked to the maximum extent possible. With the Company's high percentage of leased entitlements, the Directors have advised the next 4 targeted dividends out to the March 2022 distribution.

The Company has targeted fully franked dividend payments of:

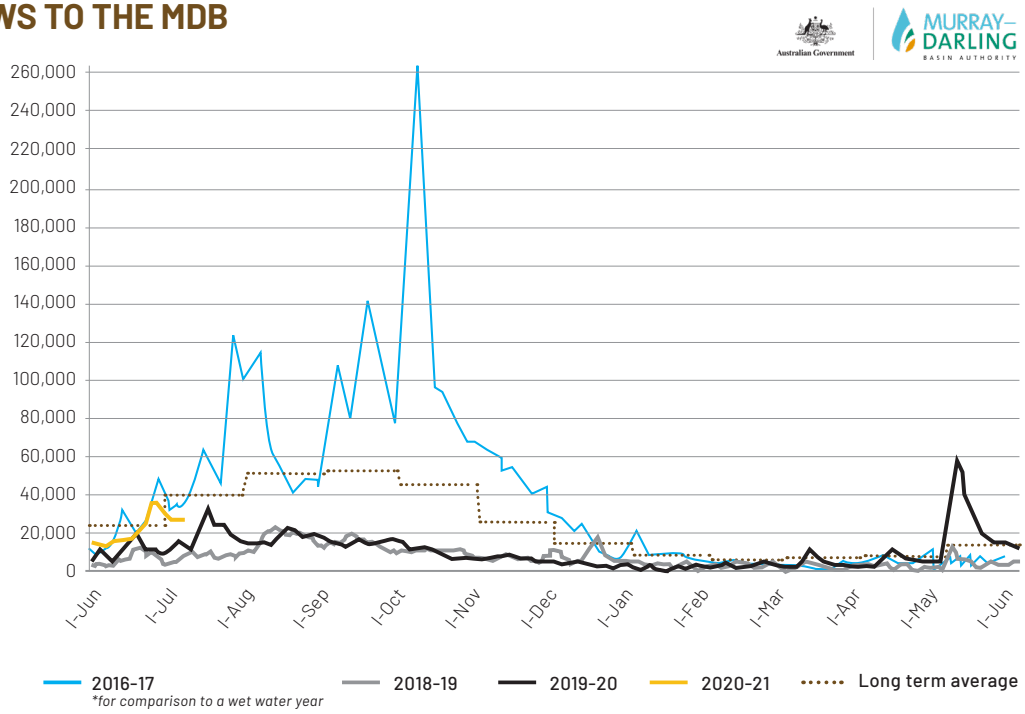
- 2.9 cents ($0.029) in September 2020;
- 3.0 cents ($0.030) in March 2021;
- 3.1 cents ($0.031) in September 2021; and
- 3.2 cents ($0.032) in March 2022.

MARKET UPDATE & OUTLOOK

May and June were drier than average after an above average start to the traditional autumn/winter seasons.

Recent cooling of waters in the Indian Ocean has reduced the likelihood of a negative Indian Ocean Dipole (IOD) from developing during winter. The IOD is one of Australia's major climate driver and a negative IOD typically results in above-average winter–spring rainfall over parts of southern Australia. However, cooling in the tropical Pacific Ocean may indicate the early stages of a La Nina event, which typically favours above average rainfall across large parts of Australia. The recent drier conditions over southern Australia have been due to a positive phase of the Southern Annual Mode, which may break down halfway through July.

DAILY INFLOWS TO THE MDB



Murray System Daily Inflows (excl. Snowy Darling, inter-valley trade and environmental inflows) -
5 day rolling average

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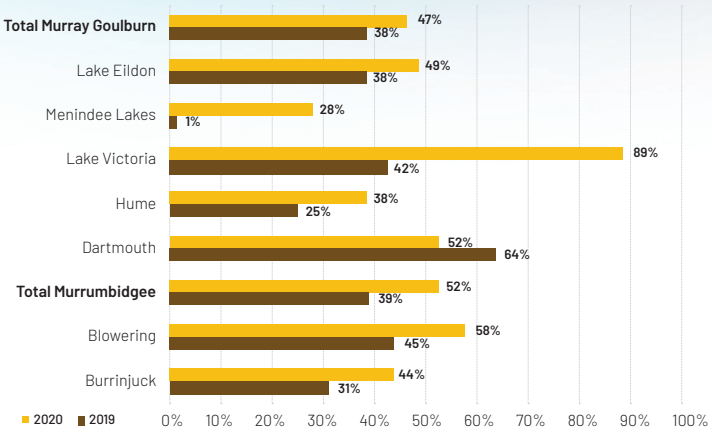
Shares on Issue (June) 119,375,450

With lower starting storage levels, catchments require significantly above average rainfall and inflow yields to reset supply ahead of the 20/21 water year. Earlier BOM forecasts for above average rainfall over the key catchment areas have not eventuated and updated 3-month forecasts are looking increasingly neutral.
In the northern and southern MDB, storages are now at 19% and 52%, compared to 10% and 48% this time last year.

ALL ORDINARIES INDEX

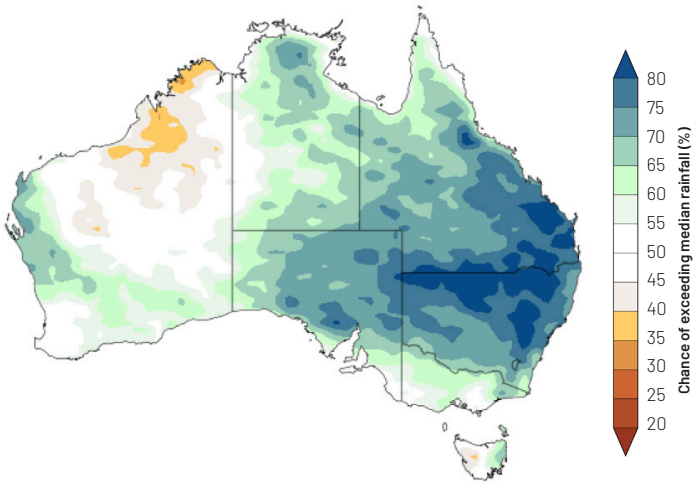
The Company is pleased to have been included in the All Ordinaries Index as announced by the S&P Dow Jones Indices, effective at the market open on 22 June 2020. This addition recognises the Company's development over the last few years since inception, growing the size of the company, enhancing shareholder value and providing a stable & growing dividend.

STORAGE LEVELS IN MAJOR DAMS



CHANCE OF ABOVE-AVERAGE RAINFALL

AUGUST 2020 – OCTOBER 2020



COVID-19 UPDATE

The Investment manager and Board of Duxton Water Ltd continue to monitor the on-going Covid-19 pandemic. The Investment manager has put in place measures to ensure staff are able to continue to operate effectively whilst adhering to Government recommendations. This has enabled the day to day operations of the Company to continue with little impact and while the Board will continue to monitor and advise of any change, it does not currently foresee any significate operational impact to the business.

ACCC

The Company looks forward to the release of the long awaited ACCC report. The report was presented to the Treasurer on 30 June 2020 with an expectation of public release in July. Duxton Water Ltd has actively participated and has been supportive of the review into the southern basin water market. The Company believes the review and any recommendations for enhancement of the market will be important in ensuring stakeholders have the confidence that the market is operating effectively moving forward. The ACCC will be seeking further feedback from stakeholders in response to the issues raised in the Interim Report, with the final report due in November 2020.

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

This announcement has been authorised for release by the Board of Duxton Water Limited.

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