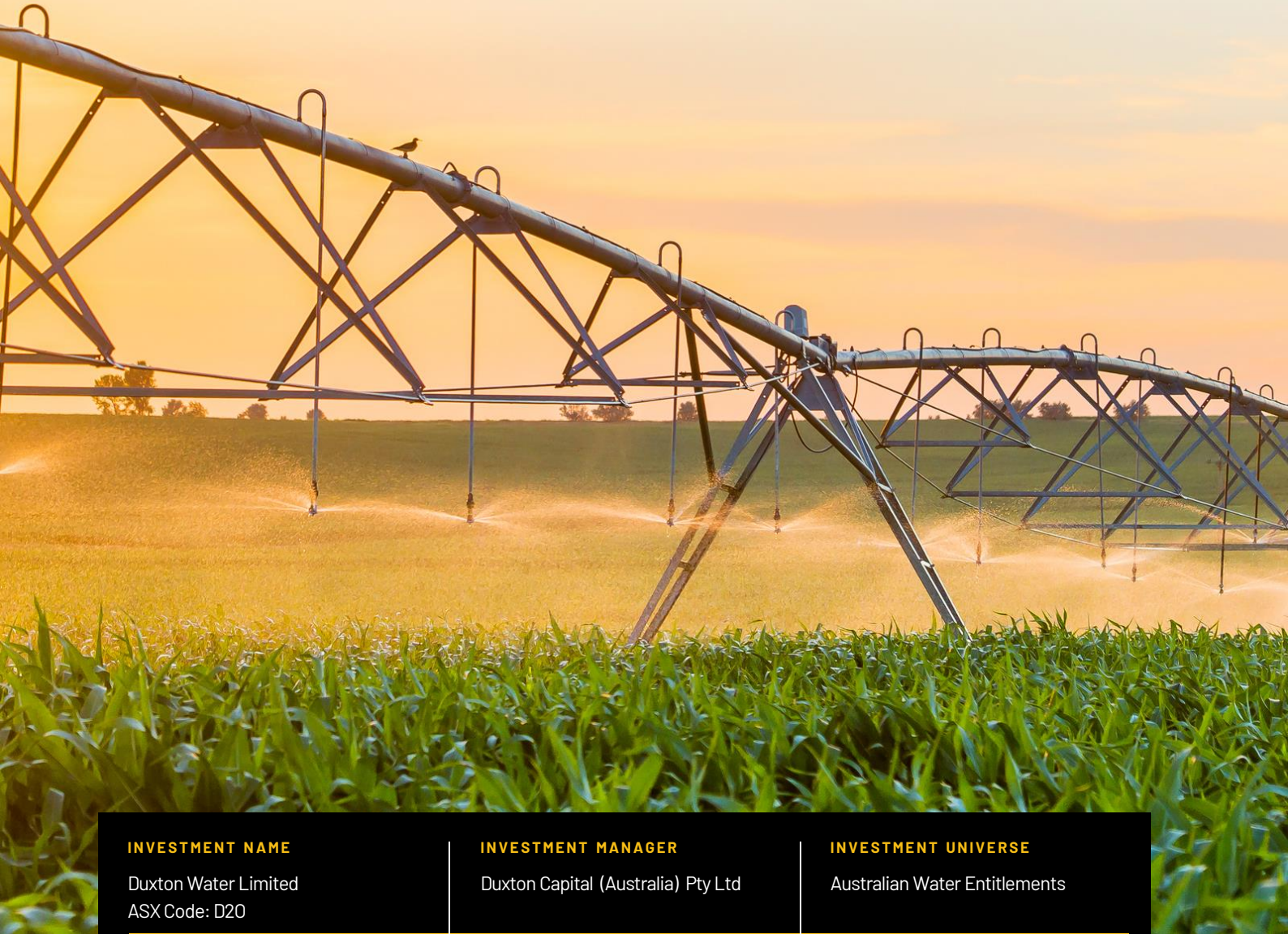
Monthly Update

DUXTON WATER

JULY 2022



INVESTMENT NAME	INVESTMENT MANAGER	INVESTMENT UNIVERSE
Duxton Water Limited ASX Code: D20	Duxton Capital (Australia) Pty Ltd	Australian Water Entitlements
NET ASSET VALUE (POST-TAX)	**SHARES ON ISSUE**	**WATER PORTFOLIO VALUE**
$1.93 per share	119,473,629	$386 million

The primary investment objective of Duxton Water ("the Company") 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.

Portfolio Managers' Update

On 1 July 2022, the new 2022/23 water year (WY) commenced. The first opening allocations of the new season were awarded to entitlements holders on 1 July and were representative of the strongest opening allocations since 2003. This is a demonstration of how persistent the current wet conditions have been across most of the basin over the last 2-3 years. These conditions have led to a significant improvement to all major dam storages and full soil moisture profiles across large areas of the basin.

Allocation prices for the new water year opened at around $80-$85/ML in the Lower Murray, $70-$80/ML in the Goulburn, $70-$75/ML in the Murrumbidgee, and $45-$60/ML in the Upper Murray in early July.

Despite the wet conditions and lower allocation prices, entitlement values across most of the basin are trading at near all-time highs. Given >99% of the Company's assets by value are permanent water entitlements, the Company's portfolio has been a beneficiary of the recent pricing uplifts.

Although it may seem somewhat counter-intuitive that entitlement pricing is sitting at near record highs given the current wet conditions, this shows that the demand and supply drivers that underpin water entitlement values are much stronger than the increased annual rainfall and dam storages that we've seen over the last 2-3 years. We believe the primary driver affecting water entitlement values is driven by an increasing inelastic demand for future water security from permanent crop producers across the basin. With high commodity prices and coming off the back of a couple of good seasons, permanent crop producers have been investing into their future water security by acquiring permanent water entitlements.

With the commencement of the new water year and a number of leases rolling off on 30 June 2022, we have seen an 11% reduction to our leased % at 31 July 2022. While we have replaced a number of these expiring leases, the reduction in leased % is a reflection of where we are in the climatic cycle. The extremely wet conditions have resulted in a slower than usual start to the lease market for this season, however we are seeing strong demand for leases commencing 1 July 2023.

We will continue to offer long-term water leases to irrigators and we expect to continue to add to our lease portfolio as this water year progresses and we move out of the extremely wet part of the climatic cycle which will inevitably occur at some point. We maintain a target of having 70-80% of the portfolio under lease.

While there continues to be talks of the Government resuming on-market buybacks, we are yet to see any evidence of this occurring. We don't see the commencement of Government buybacks having any impact on the key operations of our business. We will continue to provide our range of water supply products to Australian farming business to help improve their long-term water security and annual water flexibility.



Lachlan Campbell
Portfolio Manager



Lachlan Beech
Portfolio Manager

COMPANY PERFORMANCE

1 Month	3 months	6 Months	12 Months	Inception
1.79%	3.87%	8.78%	21.56%	116.60%

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

Water Lease Update

At 31 July 2022, Duxton Water has 56% of its permanent water portfolio (by value) leased to Australian farming businesses, accounting for 72% of the Company's high security portfolio (by value). The current Weighted Average Lease Expiry ("WALE") is 1.7 years. Inclusive of renewal options, this increases the WALE to 4.9 years.

During July, Duxton Water commenced four new water leases totaling 8.4GL, which replaces a portion of the Company's water leases that expired on 30 June 2022. While the leasing marketing has been a little quieter than usual, there has been significant demand for leases to commence 1 July 2023. This is largely due to the persistent wet conditions and lower allocation prices that have been experienced across most of the basin for the last 2-3 years.

Duxton Water will continue to provide irrigators with long-term water leases and is actively working towards once again achieving its long-term leasing target of 70-80%. Australia has a variable at times harsh climate, and as such has the tendency to experience extreme droughts and extreme wet periods over the course of a climatic cycle (e.g. 10 years). Australia is currently in an extremely wet part of the climatic cycle and while the Company will continue to offer its leasing products to the market, it is expected demand for long-term water leases will significantly increase as the water year progresses and conditions begin to normalise which will inevitably occur in the not to distant future.



Irrigated Maze (Corn)

QUICK FACTS SUMMARY

	June 2022	July 2022
Water Entitlements	84.6GL	84.7GL
Portfolio Diversification (types)	18	18
Leased % of Portfolio	67%	56%
Weighted Average Lease Expiry (WALE)	0.9 years	1.7 years
WALE (incl. renewal options)	3.0 years	4.9 years

Entitlements Market Update

At 31 July 2022, Duxton Water holds 84.7GL of permanent water entitlements across 18 different asset types and classes. An additional three parcels of water entitlements were added to the portfolio throughout July, increasing holdings by 40 ML. At the end of July, there was one additional parcel in the acquisition pipeline ready for contract execution.

Permanent water pricing across the southern Murray Darling Basin (sMDB) strengthened throughout July, with a weighted average increase of 0.6% (resulting in a c.19% increase since July 2021). Given the commencement of the water year, transactional volume for water entitlements has been a little quieter than usual. It is expected that as we move through the 22/23WY, further parcels will become available on the market.

Allocation Market Update

Allocation pricing for the 22/23WY opened significantly higher than its 21/22WY close. With recent rainfall and further anticipation that more rainfall is on the way, some irrigators have been holding back from transacting in the allocation market in the hope of cheaper prices in the coming months.

Allocation water has traded between $70-$80/ML in the Lower Murray, $60-$80/ML in the Goulburn, $60-$75/ML in the Murrumbidgee, and $45-$65/ML in the Upper Murray throughout the month of July.

WATER LEASE CASE STUDY: GOULBURN

Duxton Water recently finalised a c.1,500ML Zone 1A Goulburn Low Reliability water lease to an almond grower located in the Goulburn region, Victoria. Historically, Goulburn low reliability entitlements don't receive an annual water allocation however they provide irrigators with an excellent carry over capability, with very low risk of spill. This lease will provide the lessee with the ability to take a multi-year view of their water supply strategy by utilising the carry over space attached to these entitlements.

Through this type of partnership, Duxton Water continues to enable Australian farming businesses to take a multi-year approach to managing their annual water supply strategy.



Finance Update

For the month of July 2022, Duxton Water's post-tax NAV increased to $1.93 per share after an uplift in the water portfolio, resulting in a monthly NAV return of 1.8%.

The Company's NAV, excluding tax provisions for unrealised capital gain, increased by 4 cents during the month of July, to a new record high of $2.24 per share.

The Company's share price closed on 31 July at $1.68, representing a 20% increase since 31 July 2021. Including dividends paid to shareholders over the same period, total returns to shareholders for the 12 months to 31 July 2022 was 26.4%. Duxton Water's share price has traded consistently between $1.69 - $1.74 for the first two weeks of August.

The Company has used a sensible level of debt funding to acquire permanent water entitlements over the last 4-5 years which has overall provided a significant benefit to shareholders. Duxton Water has taken the opportunity to lock into several fixed interest rate swaps to hedge against future interest rate movements. At 31 July 2022, Duxton Water has locked $55m/$124m into fixed interest rate swaps, that are due for expiry between 2024 and 2031.

At 31 July 2022, the Company's Net Debt to Water Assets is 31% (with a maximum Net Debt covenant of 40% in place). The Company continues to monitor short-term and long-term interest rates to manage its debt position.

NAV (post tax)	NAV (pre tax)
$1.93 per Share	**$2.24 per Share**

Share Buyback

As of 31 July 2022, the Company has bought back a total of 1.1 million shares at an average price of $1.58 per share since November 2021. The Board believes buying back shares at the current discount to NAV is in the interest of all shareholders.

Dividends

On 29 April 2022, Duxton Water paid its tenth consecutive and increasing dividend to shareholders of 3.2 cents per share (franked to 100%).

The Board of Duxton Water was pleased to see continued support from shareholders who elected to participate in the Company's Dividend Re-investment Plan.

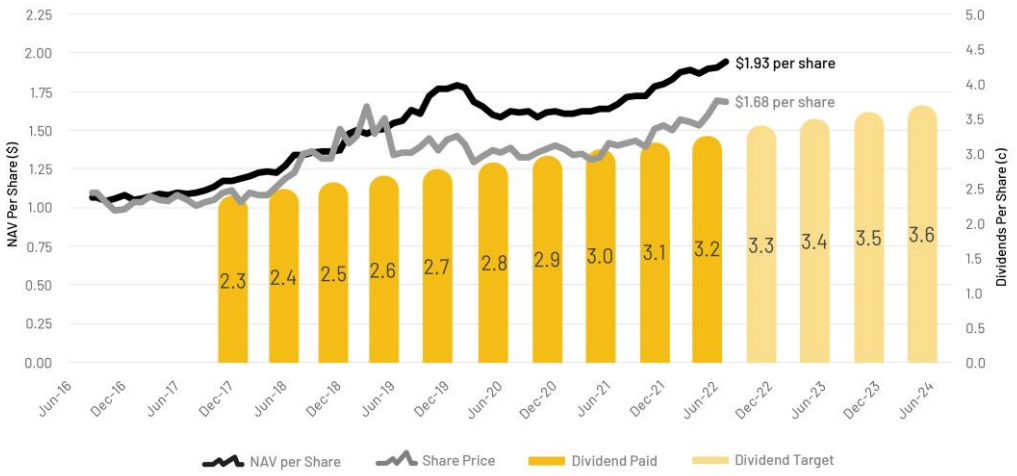
The Board maintains its commitment to providing shareholders with a bi-annual dividend, franked to the maximum extent possible.

With the Company's high percentage of leased entitlements and visible revenue streams, the Board is pleased to reaffirm targets for the following four dividends:

DIVIDEND GUIDANCE

	Cents Per Share	Franking Target
Interim 2022	3.3 cps	Fully Franked
Final 2022	3.4 cps	Fully Franked
Interim 2023	3.5 cps	Fully Franked
Final 2023	3.6 cps	Fully Franked

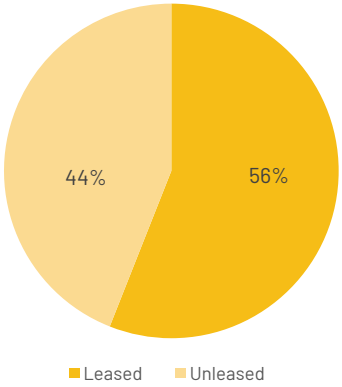
NET ASSET VALUE PER SHARE – SINCE INCEPTION



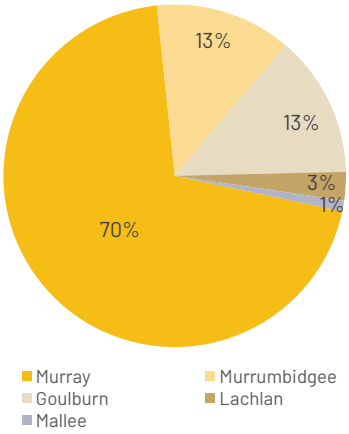
VALUATION METHODOLOGY

The Company uses an independent Fair Market Unit Value for entitlement and allocation provided by Aither Pty Ltd ('Aither') to undertake the NAV assessment. Aither's definition of fair market value is consistent with the principles of the Australian Accounting Standards Board (AASB) 13 Fair Value Measurement. It is a non IFRS measure that is not reviewed or audited by the Company's auditor. Further information can be found at www.duxtonwater.com.au

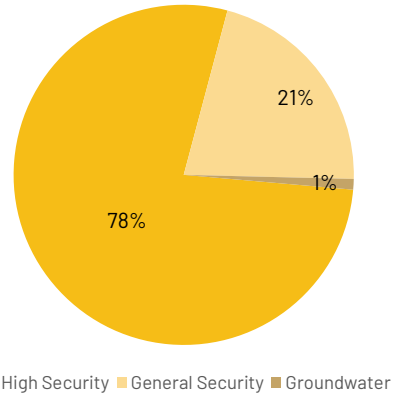
WATER PORTFOLIO DIVERSIFICATION



WATER SECURITY BREAKDOWN



ENTITLEMENT VALUE BY REGION



Weather Update

Rainfall throughout July was close to average for Australia as a whole. Rainfall was above average for the south-west and south-east of the country and for eastern Queensland, but below average for the east coast of Tasmania, eastern Victoria, and coastal south-east of New South Wales.

Some areas in New South Wales, Victoria and South Australia observed a record high rainfall for July, or their highest total rainfall in the last 20 years. A significant event of strong cold fronts, damaging winds, heavy rainfall and flooding occurred in the south-west of Western Australia.

Across much of the Murray-Darling Basin, rainfall was 32% below the long-term July average, with mean and maximum temperatures being average to below average across most of the Basin.

Surprisingly, July 2022 was the fourth-warmest July on record, with both maximum and minimum temperatures being above average. The national mean temperature was 1.79˚C warmer than the 1961-1990 average for Australia.

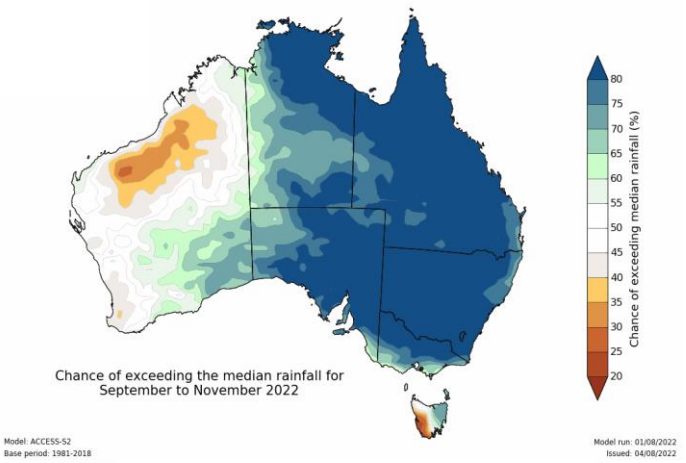
The Bureau of Meteorology has now declared that a negative Indian Ocean Dipole (IOD) event is officially under way, increasing the chances of above-average winter to spring rainfall for much of Australia. It has been close to or exceeding negative thresholds over the past 8 weeks. All models suggest that negative IOD conditions may likely persist until late spring.

The El Niño-Southern Oscillation (ENSO) is currently neutral. However, there is about a 50% chance that a 3rd consecutive La Niña event will develop later in 2022.

The Southern Annular Mode (SAM) is currently neutral and expected to remain neutral to positive for the rest of August. A positive SAM has a drying influence for parts of south-west and south-east Australia at this time of year.

CHANCE OF ABOVE-AVERAGE RAINFALL

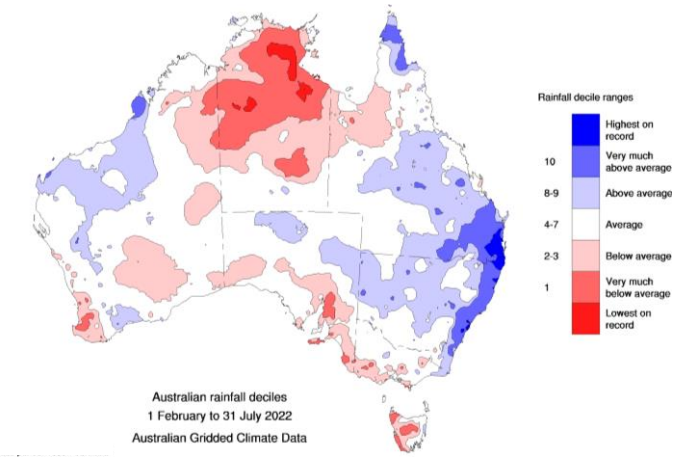
SEPTEMBER 2022 – NOVEMBER 2022



Source: Bureau of Meteorology

RAINFALL DECILE CHART

FEBRUARY 2022 – JULY 2022



Source: Bureau of Meteorology

Outlook & Storages

The September to November outlook suggests above average rainfall for most of Australia, however below average rainfall for western Tasmania and parts of Western Australia can be expected.

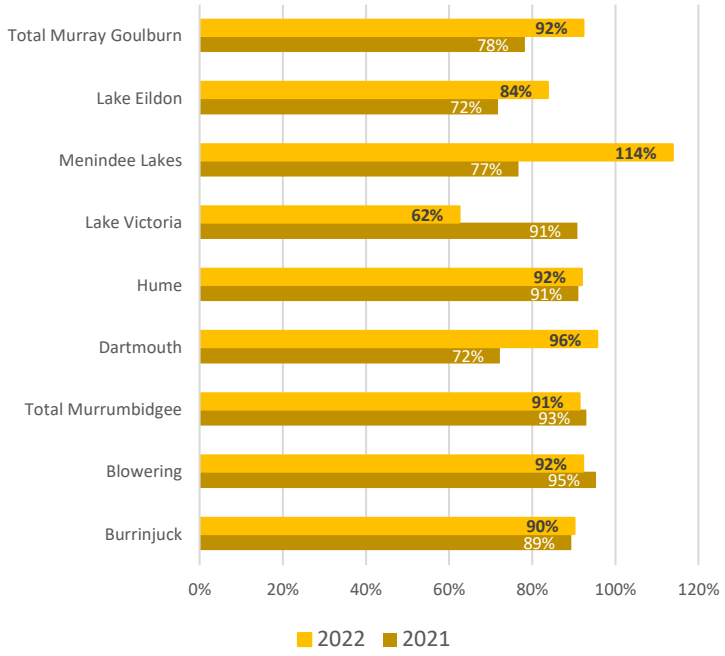
ENSO in the Pacific Ocean is currently neutral, however there is a 50% chance of La Niña returning in late 2022. The IOD indicator has also been close to or exceeding negative thresholds, further influencing this outlook.

Warmer spring daytime temperatures are likely for northwestern parts of the country and Tasmania, with below average maximum temperatures, and cooler days expected for eastern and southern regions of Australia.

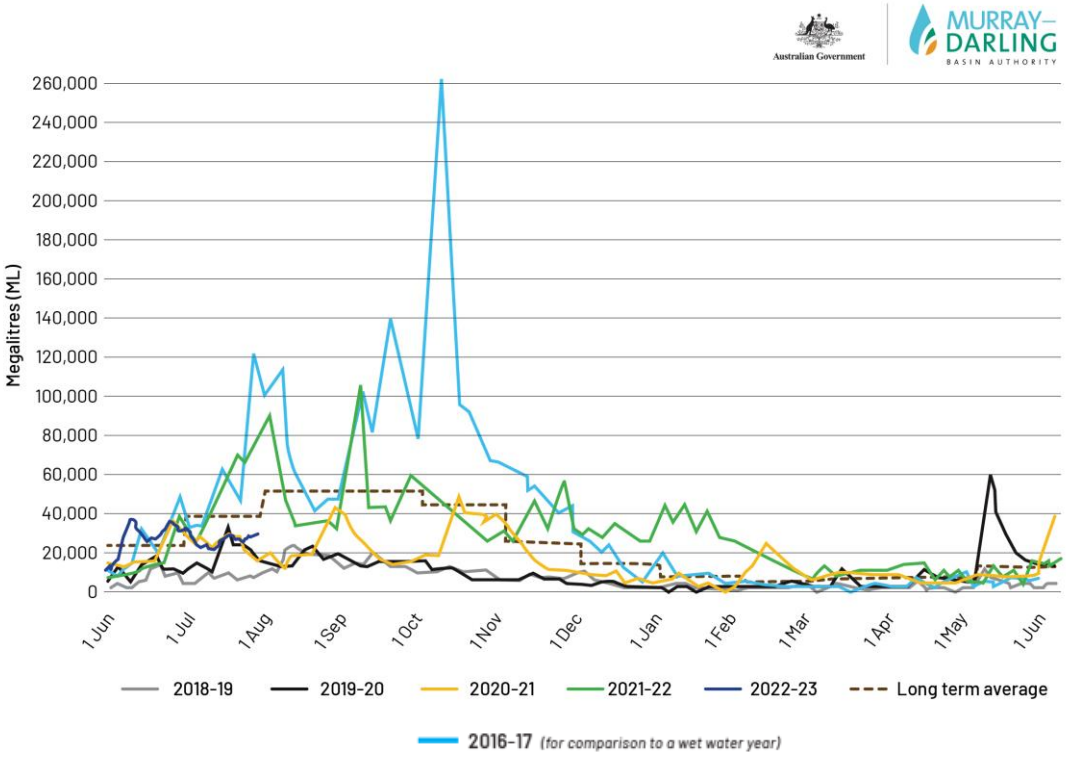
High streamflows are likely through August to October across most areas of the southern MDB.

In the northern and southern MDB, storages are now at 98% and 91% respectively, compared to 75% and 80% at the same time last year.

STORAGE LEVELS IN MAJOR DAMS



DAILY INFLOWS TO THE MURRAY DARLING BASIN



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

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

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