



# The Argyle Water Fund and Australia's water markets



# Dear Investor,

Thank you for your interest in Argyle's Water Fund, an investment in an actively managed portfolio of Australia's precious water rights.

Our company was established in 2007 to facilitate the development of Australia's agribusiness sector and deliver superior non-correlated investment returns. We particularly focus on investments in secure Australian water rights, known as 'water entitlements'.

It is my pleasure to invite you to learn more about the Argyle Water Fund. The following materials are designed to give you a detailed explanation of the asset class and our strategic investment approach.

Please register your interest and details with us. We will then provide you access to a progression of brief articles and short videos explaining our investments in water rights, the basics of Australian agricultural water markets and the regional benefits created through our investment activities.

Argyle's key executives have decades of collective expertise in water and agribusiness. For over 10 years we've actively managed our Water Fund achieving compelling risk adjusted investment returns. We've managed the Fund through successive periods of droughts and floods reflecting the variability of Australia's climate patterns. We've built a deep network of irrigator clients and assisted the development of a range of regional water markets.

We are proud to manage one of the largest, most diversified water entitlement portfolios in Australia, providing water and capital management solutions to some of Australia's most sophisticated farm businesses.

We encourage you to consider an investment in our Water Fund to participate in the future returns generated by ownership of the most limiting input to Australia's irrigated agricultural sector; fresh water.

Kind regards,

*Kim Morison*

**KIM MORISON**  
Chairman and Chief Investment Officer



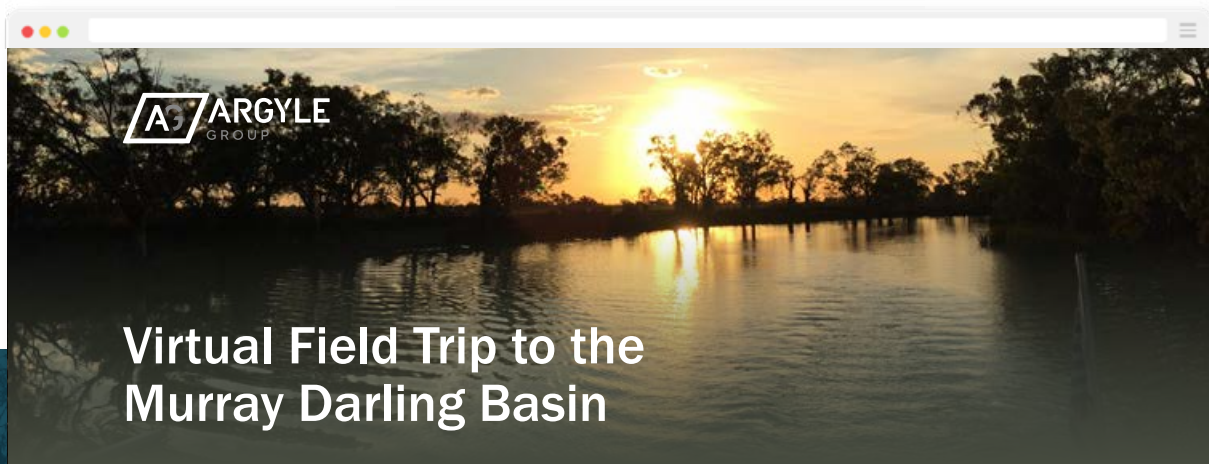
# How to use this document

As a prospective investor, this document provides diligence materials to explain the Argyle Water Fund and the water markets in which it is invested. It contains a range of explanations and links to a collection of video insights.

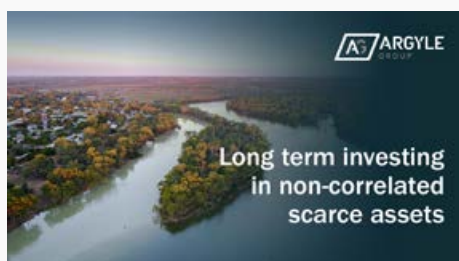
If you prefer to hear from us in person, you can click on the images or visit <https://argylegroup.com.au/insights> where you'll be asked to register your details.

Our team will then provide you secure access to our video platform.

Thank you for your interest in the Argyle Water Fund.



Take a browse through our video platform to meet some of our partners and team, visit our orchards and learn about how we deliver market leading returns through investing in Australian water rights.



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# The Argyle Water Fund

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**Argyle's Water Fund is invested in scarce water assets servicing Australia's irrigation farmers and generating non correlated returns.**

- **A non-correlated income** producing investment in one of Australia's most scarce natural resources; fresh water.
- **An asset-backed investment** with a bond-like return profile.
- **A true source of alternative beta**; climatic variability is a primary return driver.
- **Direct exposure to Australian water markets**; investing in water entitlements (water rights), generating annual income and expected medium-term capital growth.
- **A well-established Fund** with scale and diversification servicing Australia's most recognised irrigation farming enterprises.
- **Argyle's investment management team is a pioneer of the asset class** with decades of experience in managing water markets through various annual climate cycles.



- **A scarce asset class.** Water entitlements on issue in each region are finite and capped. Additional consumptive water entitlements are unlikely to be issued in most river and groundwater resources.
  - **An open-ended Fund** with quarterly redemptions at Net Asset Value (NAV) (subject to minimal bid/offer spread) available on 60 days' notice.
  - **A unique way to gain exposure** to the returns from Australia's highest value agricultural industries.
  - **Fresh water is the most limiting factor in Australia's agricultural sector;** a critical input to horticultural, viticultural, tree-nut and summer row crop enterprises.
  - **A demonstrable impact investment** encouraging 'capped' supplies of consumptive water to be used responsibly and sustainably for their highest value purpose.
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Argyle's Water Fund is invested in a portfolio of different water entitlements. The Water Fund does not own or operate irrigation farms. The Fund is actively managed to derive annual income via water sales in spot and forward markets and leasing water entitlements to select irrigators for up to five-year periods (with further renewal options).

The Fund's portfolio is diversified across States, Regions, Types (aquifers and rivers) and Security Classes (high security, general security).

The superior scale of the Fund allows it to service the needs of the largest and most sophisticated irrigation farmers in the Murray-Darling Basin.

Significant expansion of permanent tree and vine crop plantings across southern Murray-Darling Basin regions implies a greater level of demand for water every year (irrespective of seasonal variations) at a higher price point than existed in the past.

Australia's irrigated agricultural industries are continually focused on deriving greater volumes of crop output per unit of water applied. Farmers are also adapting their enterprise and cropping mix to progressively achieve superior farm-gate returns. This results in a continuing transition of water use from lower value to higher value crops.

Asian export markets are increasingly seeking additional volumes of Australian food, fibre and beverage produce reflecting increasing per capita incomes and recent bilateral free-trade agreements.

The continued implementation of the Murray-Darling Basin Plan is resulting in proportionally less water being available for consumptive use; increasing its scarcity and value.

The Fund is actively managed to derive annual income by either leasing out the water entitlements to qualified irrigation farm businesses in return for fixed annual rentals (irrespective of annual water supply and demand conditions), or by selling the volumes of water allocated to the entitlements throughout each year in forward and spot markets. Forward and spot water prices vary according to annual water supply and demand conditions. The net income is distributed to Fund investors annually.

Over time we anticipate the value of the water entitlements will appreciate reflecting the scarcity of water available under the 'cap and trade' framework and due to increasing productivity of water use across different agricultural enterprises.

# Where do the returns on Argyle's water funds come from?

The returns to our Water Fund are derived from:

**01 Entitlement rental income**

A proportion of the water entitlements held by the Fund are leased out to qualified irrigators over multiple year periods. The irrigators receive the water allocated to the entitlements each year. The Water Fund receives fixed rental income (indexed to CPI) irrespective of changing rainfall and water demand in those years.

**02 Water sales income**

The water allocated to the balance of the Water Fund's entitlements is sold forward or in spot markets throughout the year to derive annual income. Daily private treaty bid/offer water markets exist in the river regions in which the Fund is invested.

**03 Capital gains**

Over time we anticipate the value of water entitlements held by the Fund will appreciate reflecting their scarcity and the increasing productivity of water use over time.





## The drivers of investment performance

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In Australia's inland regions, water is often a scarce resource. It is the most limiting factor for reliable annual food and fibre production and for regional development. In recognising its scarcity and need for conservation, successive Australian governments implemented a 'cap and trade' market based approach to allocate that scarce resource amongst competing users.

Argyle participates in water markets to facilitate capital and water flows between competing water users. In the process we derive investment returns for our investor clients.

### How Argyle works in the Australian water market

Argyle's Water Fund is invested in the ownership of a diverse portfolio of water entitlements - the perpetual rights to receive annual allocations of consumptive water from specific water resources across Australia.

Argyle actively manages the water entitlement portfolio to generate annual incomes from water sales and leasing. The net income generated is distributed to Fund investors annually.

By purchasing their water entitlements, Argyle provides irrigation farmers with capital to develop their farm's productivity. This enables farmers to invest in their operations, develop and access new food and fibre supply chains, new storage and handling facilities and create secure jobs and regional economic diversity.

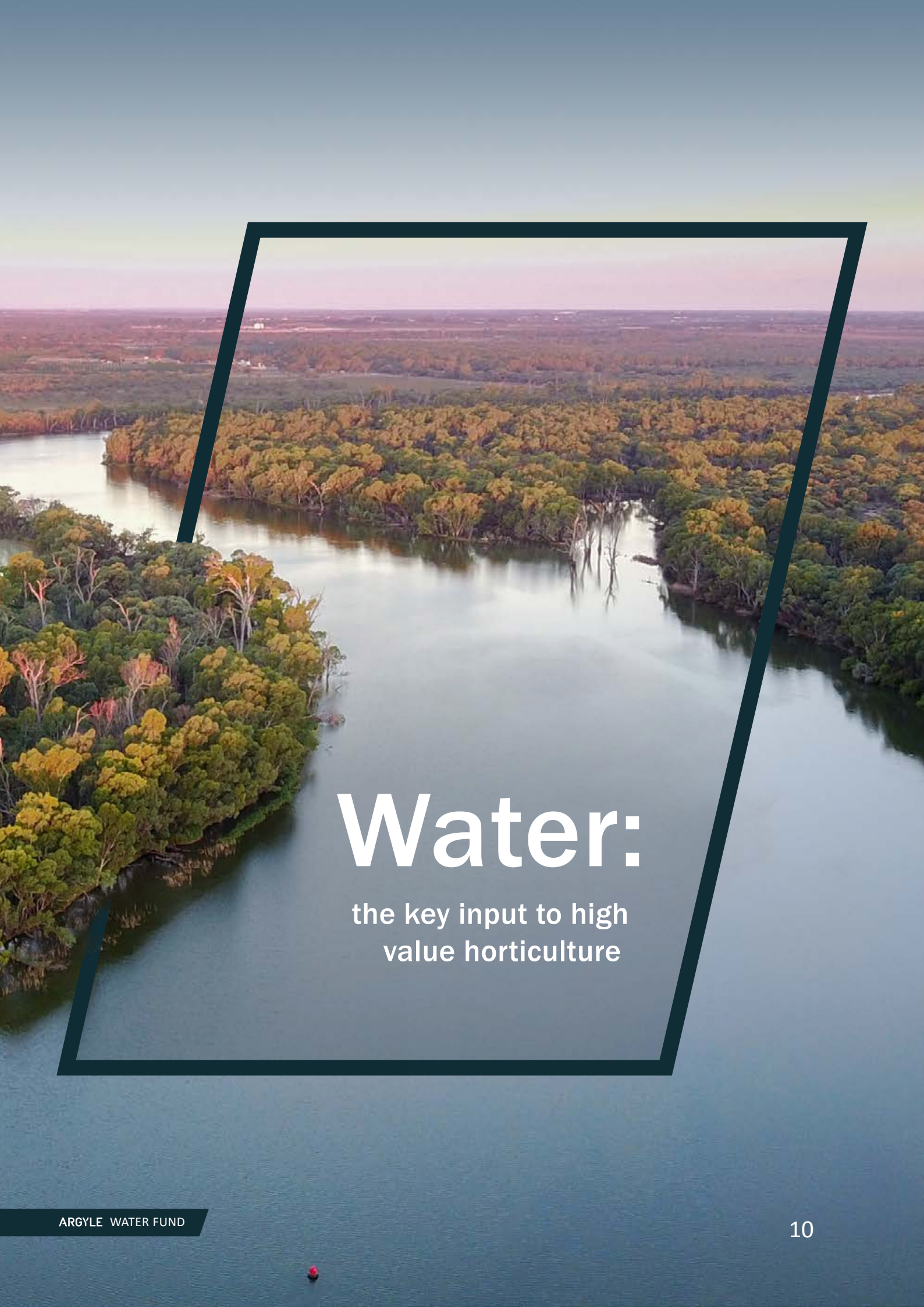
### Non-correlated returns for investors

Over the past decade, in the regions in which Argyle invests, the value of water entitlements have been bid higher reflecting their scarcity and the increasing productivity of water use by farmers over time.

We anticipate these drivers will continue to generate growth in the value of water entitlements in future.

It's important to note that water entitlement asset appreciation typically occurs over multiple year periods. Like most investment assets, it is not assured, or regular. Past performance is not a guarantee of future performance.

Returns to the Argyle Water Fund are not correlated to other investments. Water entitlements are genuine diversifying alternatives with fundamentally different return drivers to shares, bonds, commercial property and infrastructure.



# Water:

the key input to high  
value horticulture



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# Argyle's story

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**Argyle's people came from Australia's agricultural sector: we grew up on farms, pursued careers in agribusiness, and had first-hand experience exporting Australia's food and fibre to the world.**

**We understand regional Australia and the challenges of funding the growth of family farming businesses.**

Argyle was founded in 2007 to raise and invest equity capital to enable Australian farmers to execute enterprise changes and sustainably supply premium produce for Asian export markets.

The majority of Australia's farms are owned by private families and operated in remote regional communities. Increasingly, those farm businesses need new sources of capital to increase their farm scale and invest in production efficiencies, crop enterprise changes, sustainable farm practices, and new technologies delivering productivity gains to leverage premium market opportunities.

Over the past three decades, we've witnessed significant changes across Asia as its populations became more wealthy and demanded food and fibre with a secure, traceable provenance. As trade leaders in our export industries, we provided input to Australia's governments as they negotiated numerous bilateral free trade agreements which have progressively eliminated tariff barriers on our agricultural exports.

At the same time, we saw the birth of the world leading regulatory framework governing Australia's water resources. Our irrigated agribusiness industries were at the forefront of the adoption of the 'cap and trade' water market and the unbundling of water titles from farmland following Australia's 2004 National Water Initiative.

At our foundation we determined that purchasing a portfolio of water rights from irrigation farmers was an efficient way to channel new capital to Australia's irrigators. In 2008, we purchased our first entitlements and leased them back to irrigation farmers. Those farmers were able to free up their equity capital to invest in optimising their crop enterprise mix while still accessing irrigation water to underwrite their farm business.

Despite periods of drought and economic upheaval, we've stayed true to our investment strategy with an unwavering belief in the potential of Australia's agricultural sector to service an expanding appetite for premium produce.

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# Australian water markets

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The following brief explanation of the operational aspects of Australian water markets is designed to help you consider the merits of this investment opportunity.





## Permanent water rights vs seasonal water allocations

**Water entitlements** are legally secure rights to receive a defined annual proportional share of a specific water resource (a river, water storage or aquifer) in perpetuity. Colloquially, they are known as ‘permanent’ water rights. Entitlement holders do not need to be farmers. These assets are investable by non-landholders.

Access to irrigation water in Australia is deliberately ‘capped’ by the number of entitlements on issue. The number of water entitlements on issue for a specific water resource are limited reflecting the capacity of that defined water resource and to ensure its future environmental sustainability.

A seasonal **water allocation** is the actual volume of water allocated to the water entitlement holder in any given annual period.

These are referred to as ‘temporary’ water or ‘allocations’. Seasonal allocations are progressively announced by government water authorities for each irrigation season, typically every 15 days throughout an annual period. The announcements are reasonably predictable given observable storage dam levels and catchment inflows following rainfall events.

The volume of water allocated can be applied by the entitlement holder to irrigate their crops or alternatively on-sold to other irrigation farmers. If that water is not used within that season it may be forfeited and remain in the storage dam to be re-allocated in the following year. Sometimes the water allocated but not used in a season may be ‘carried over’ for use in the following year (depending on the type of entitlement).



## ‘High security’ versus ‘low security’ water entitlements

The water entitlements we’re investing in are diversified across different rivers and different security stratifications of based on their annual water supply reliability.



Argyle intentionally diversifies the Water Fund’s investments across different catchment regions as well as different security types in each region. Investing in a diversified portfolio over different geographies allows us to mitigate variances in annual water allocation volumes depending on each rainfall season.

In managing the Fund we aim to optimise the amount of water allocated to the Fund each year for the least amount of capital invested in various water entitlements. Through sales of water allocations and water entitlement leases, we aim to generate an optimal income yield per unit of invested capital.

High security or high-reliability water rights effectively represent the lower proportion of the airspace in the catchment storage dams that collect stream flows after rainfall events. Even in low

rainfall years, the lower component of a catchment storage dam is usually full of water. Consequently, those higher security entitlements are allocated their full annual supply in most years.

Less reliable water entitlements represent the upper proportion of storage dam airspace (‘low reliability’ or ‘general security’ entitlements). Filling the upper portion of a dam requires greater catchment rainfall.

There may not be enough rainfall in some years to fill the storage dams. In those years, entitlement representing upper airspace will receive less than 100% of their full entitlement volume.

Higher security water entitlements are usually more valuable than general security entitlements. This reflects their reliability to achieve an allocation of their full volume each year.





## Rainfall events and water prices

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**The Argyle Water Fund is invested in entitlements in different river systems (and some groundwater aquifers) spread over a vast geography.**

Water entitlements are long-term assets. They are valued based on long-term drivers of water supply and demand; long-term trends in crop water use efficiencies; changes in long-term profitability of food and fibre production; and the capped nature of access to water in each regional water system.

The amount of water available to be allocated to an entitlement in any year is a function of rainfall in specific river catchments in that seasonal period. Holders of perpetual water entitlements understand that water availability will be variable year to year. Seasonal rainfall events or droughts do not necessarily change the value of water entitlements.

Seasonal rainfall variability (abundance or lack of rainfall and high evaporation) impacts seasonal water allocation prices in each region. The volumes and prices of water allocations are usually quite variable month to month reflecting various seasonal water supply and demand dynamics.



# 1.4%

of the Murray-Darling Basin's  
farmland is irrigated.  
This small area is limited by  
the finite amount of water  
that can be accessed.



## The Murray-Darling Basin

The Murray-Darling Basin (MDB), recognised globally as the world's largest 'cap-and-trade' water market. Farmland in the MDB spans four states. Production in this region represents around half of Australia's agricultural output. However, only 1.4% of the MDB's farmland is irrigated. That area is limited by the finite amount of water that can be accessed for irrigation. Water is a scarce input.

The volume of water that can be accessed for irrigated agriculture in the Murray-Darling Basin is capped. Australia has legislated that environmental flows must represent the majority of MDB river flows to ensure sustainability of the resource. Effectively this means no more storage dams will be built in the MDB region.

In this region there is competition among the best farmers to access additional megalitres of water to expand their production. But this increased demand competes for a 'capped' finite supply.

Water markets provide price signals to efficiently allocate seasonal water supplies amongst competing irrigators.

Over time, water efficient farmers are able to bid water from less water efficient farmers so that this precious resource is applied to its highest and best use and not wasted. Less water efficient farmers are motivated to sell their water for a higher return than they might achieve in using it themselves.

Some MDB river systems are interconnected, particularly in the southern MDB. In these regions, water allocations are allowed to be traded and water delivered across different state borders and different river 'zones'.

Argyle's investment process considers investments in water entitlements from different states, rivers, zones and security types. We consider the long-term prospects of various food and fibre crops being grown, the expansion in high value agricultural production and the resulting demand for water supplies in each zone over time.

We engage in water markets to optimise the income generated for Fund investors each year using forward water sales, spot water sales, water entitlement leases and by contracting to carry water over from one year to the next.





# 10-14%

is our targeted average annualised return, net after fees, measured over a recommended five-to-seven year holding period.





## What is the outlook for this investment?

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**We're often asked: "What is this Fund going to do when I put my money in?"**

Our target return is to achieve 10% to 14% per annum net after fees, over a recommended five to-seven year holding period. That return will comprise annual income and anticipated capital growth over time.

Capital appreciation stems from the scarcity of these assets. There are only so many water entitlements on issue in each river system (and groundwater aquifer). Progressive productivity gains in irrigated agriculture mean that over time, irrigation farmers are prepared to pay more for water as their key input. By design, Australia's 'cap and trade' water markets are encouraging water use to move from lower value to higher value crops.

In aggregate and over time, those more productive farmers are able to afford a higher price for water as their key input. This rising trend tends to be capitalised in water entitlement values, which are key to accessing annual water allocations.

To learn more on how we manage the Fund, watch:





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## Water: the lifeblood of Australian agriculture

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**Australia's annual water markets are dynamic. In many years, irrigation water is often scarce and limited.**

Argyle's investments in water entitlements provide farmers with greater flexibility to free up their capital and assist them to develop their enterprise mix and farm productivity. Argyle offers irrigation farmers a range of solutions to access secure water supplies for annual and multi-year periods. We provide a range of risk management tools to secure water for future periods at a known cost.

Australia's irrigation farmers are focused on achieving the highest possible return from their most limited resource - fresh water.

Australia's irrigation farmers measure their returns on a per megalitre basis, not on the basis of per hectare returns.

Land is not such a limiting factory; only 1.4% of farmland in the Murray-Darling Basin is irrigated. It's possible to buy more land adjacent to irrigation systems if it's needed. Water is the limitation to expanding farm output.

Ordinarily, it is relatively simple to purchase farm inputs such as fertilisers, chemicals, labour and machinery. Procuring those is a matter of price and logistics. But water is very dense and often scarce. It is too expensive to transport other than by gravity. In drought years, no amount of money can make it rain. Hence the inherent value of efficient water infrastructure and entitlements to perpetually access water stored in times of abundance for use in drier periods.





## Positive regional impacts of irrigated agricultural development

**RICHARD MALONE**  
Agronomist  
Customised Farm Management



“Communities in the Murray-Darling Basin would probably not exist without water. I’ve always argued the importance of irrigated agriculture extends far beyond just the irrigated regions. We see it’s supported by large towns which then supported very large communities. The socio-economic impacts of having accessible, secure water were very far and wide in terms of opening up inland Australia.”

Darren De Bortoli, De Bortoli Wines, NSW





In the last two decades, bilateral free trade agreements with many Asian economies have lowered tariff barriers, providing access to premium-paying markets with large populations.





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## Capitalising on expanding export markets

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**Historically, Australia's market for fresh produce was confined to domestic customers with few opportunities to export. In the last two decades, bilateral free trade agreements with many Asian economies have lowered tariff barriers, providing access to premium-paying markets with large populations.**

Capitalising on this appetite requires a reliable supply chain at volume. Secure annual water supplies are necessary to underwrite these export supply chains. Increasingly, we're seeing a transition of water use away from traditional bulk export commodities to high-value, branded produce designed to achieve premiums for the water being applied.

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# Technology to make real-time water management decisions

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Rapid advances in technology are providing farmers with ever more sophisticated and accurate methods to monitor the water needs of their specific crop and their farm's water usage down to the millilitre. This empowers them to manage their water use in the most cost-effective and profitable way - increasing crop yields with the least amount of water and freeing up capital by selling their surplus.





# Select Harvests, NSW, SA & VIC



Select Harvests Limited (ASX:SHV) is one of Australia's largest almond growers and largest vertically integrated almond food company with capabilities across horticulture, orchard management, processing, sales and marketing.

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Employees

**500+**

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Orchards spanning over

**9,262 ha**

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Annually growing & processing

**22,000 MT**

# CASE STUDY Select Harvests

It employs more than 500 people throughout Australia to supply almonds to domestic retail and industrial markets, and the global export market.

This top-tier agribusiness is a prime example of large scale irrigated horticulture. Select Harvests operates orchards in Victoria, South Australia and New South Wales, spanning several water trading zones. It holds 9,262 hectares of company-owned, leased and joint venture almond orchards, giving it the capacity to grow and process 22,000 metric tonnes of almonds in the peak season.





# Nericon Citrus, Griffith NSW



In addition to our water market assets, Argyle separately invests in and develops irrigated agricultural projects.

**One of these is Nericon Citrus, a 500-hectare citrus orchard near Griffith, New South Wales. The table citrus varieties grown onsite are supplied to domestic fruit markets and exported to Asia. At Nericon we are endeavouring to produce a very high-quality piece of fruit with the least amount of water.**

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Orchard size

**500 ha**

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Intended prod. life of trees

**50+ years**

# CASE STUDY Nericon Citrus



Part of our investment proposition is lifting the productivity of the trees, and the quality of the fruit they're producing, while minimising the amount of water it takes to do so.

In optimising the productivity of each megalitre we're applying we generate higher revenues per unit of water. That water saving may allow us to plant more hectares of citrus, producing more crop per drop.

The more premium fruit we produce, the more that can go through to processing facilities, transport networks and export markets. That creates more jobs outside of the farm itself and benefits the regional communities in which we're operating.



*“Water: the key input to high value horticulture.”*



“Water is the lifeblood. We wouldn’t be able to produce this yield or fruit quality without being able to irrigate these crops in a place like Griffith. It’s got a fantastic climate and has the heat units that can grow some fantastic produce from wine grapes, citrus, walnuts and almonds. What we’re producing here is high-value horticulture that is able to service very large markets offshore.”

**Kim Morison**, Chief Investment Officer, Argyle Group



# Southern Cotton Group, Murrumbidgee Valley NSW



The farm owners of Southern Cotton Group started growing cotton in 2008 following a period of drought where water prices became too expensive for other crops. At that time, very little cotton was grown in the Murrumbidgee region, so their harvested crop had to be transported long distances to be processed at a cotton gin. The crop grew well, but the expense of transporting cotton modules long distances for processing left little margin for the farmers after all other costs were accounted.

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Year 1 (2012) production

**176,000**

bales of cotton



## CASE STUDY Southern Cotton Group

Southern Cotton Group made a bold decision to finance and build their own cotton gin in the Murrumbidgee Valley. The gin opened in time for a record season in 2012 during which they processed 176,000 bales. The existence of a local processing facility encouraged the development of the industry in the region. Two more cotton gins have since been built in the region. Annual water use in the Murrumbidgee region has progressively shifted from rice to cotton production generating higher returns per megalitre of water applied.

This resulted in a significant re-rating in the value of water entitlements in the region.



## Cotton growing in the Murrumbidgee Valley

The Murrumbidgee Valley is an incredibly diverse area. Known as 'Australia's Food Bowl', it is a centre for irrigated horticulture and viticulture, with producers growing almonds, walnuts, citrus,

wine grapes, melons, vegetable crops, cereals, rice and cotton. The region also supports significant Murray cod, broiler chicken and beef feedlot industries.



## Striving for higher returns on water use

While it's possible to grow dryland cotton in northern areas, in the south, irrigated water is critical for producing cotton. Water is certainly Southern Cotton's number one input.

Southern Cotton expects that six years in ten they will receive full water allocations for their annual cropping program. In other years, they might elect not to plant annual crops because scarce water supplies are too expensive for annual crops. They might sell any water allocated for a higher return than growing that annual crop. In some years they may buy additional water to ensure they

have sufficient to complete their annual cropping program. In all years they aim to produce the highest return per megalitre for their enterprise:



”The Murrumbidgee Irrigation Area has an entitlement of about 1.2 million megalitres and produces in excess of \$5 billion of farm gate value.”

Watch the video below to learn more.





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# Glossary of Terms

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**Water entitlements:** A water entitlement is a perpetual entitlement to access a defined share of a consumptive pool of a specified water resource such as a river or underground aquifer. Water entitlements are recorded in a publicly accessible Government controlled register. They are exclusive, separate from the land title and legally enforceable. Water entitlements can be bought, sold and leased.

**Water allocations:** A water allocation is the annual volume of water made available under a water entitlement. It is prescribed by the relevant water authority and typically expressed as a percentage of the water entitlement volume. Annual water allocations can be bought and sold. Water allocations vary from year to year based on storage, river and catchment conditions, as well as security class. Water allocations are determined and announced by various State Water Authorities. Argyle monitors storage and river conditions and regularly forecasts its expectations throughout the year and from year to year in order to anticipate allocation announcements and likely market and price impacts.

**Water Year:** Water allocations and water use are accounted over an annual period; typically from July to June. In the Murray-Darling Basin, the Water Year is conducted from 1 July to 30 June.

**Carryover:** Certain types of water entitlements allow water users to carry their unused water allocations over from one Water Year to the next. Carryover allows water entitlement holders to effectively store water allocated in one year to use it (or sell it) in the next year. Carryover is a means to manage risk by putting aside some water in a “wet” year to ensure that the user has sufficient water available for use in a subsequent “dry” year.

**Temporary trade:** Water allocation transactions are referred to as ‘temporary’ trades. Water allocations are announced for a particular Water Year. If that water allocation is not used in that Water Year it will be forfeited and expire, unless it can be carried over to the next Water Year. Hence the reference to a ‘temporary’ trade.

**Permanent trade:** Water entitlement transactions are referred to as ‘permanent’ trades. Water entitlements represent a right to be allocated water from a specific water resource in perpetuity. Hence the reference to a ‘permanent’ trade.

**High Security / High Reliability / High Priority:** Water entitlements are classified by their state jurisdiction, water resource location and the priority in which they receive annual water allocations. High Security (High Priority, High Reliability) water entitlements receive water allocations in priority to General Security (Medium Priority, Low Reliability) entitlements.

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[i] The terminology of the Australian water market does differ from state to state. In most states, water entitlements are known as a Water Licence, Water Access Licence or Water Share.

[ii] In most states, water allocations are known as water allocations (with the exception of Queensland where a water allocation refers to a water entitlement as defined above).



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