

# Riparian Capital Partners

Pinnacle Virtual Summit

Alternative & Emerging Strategies - Water

September 2020



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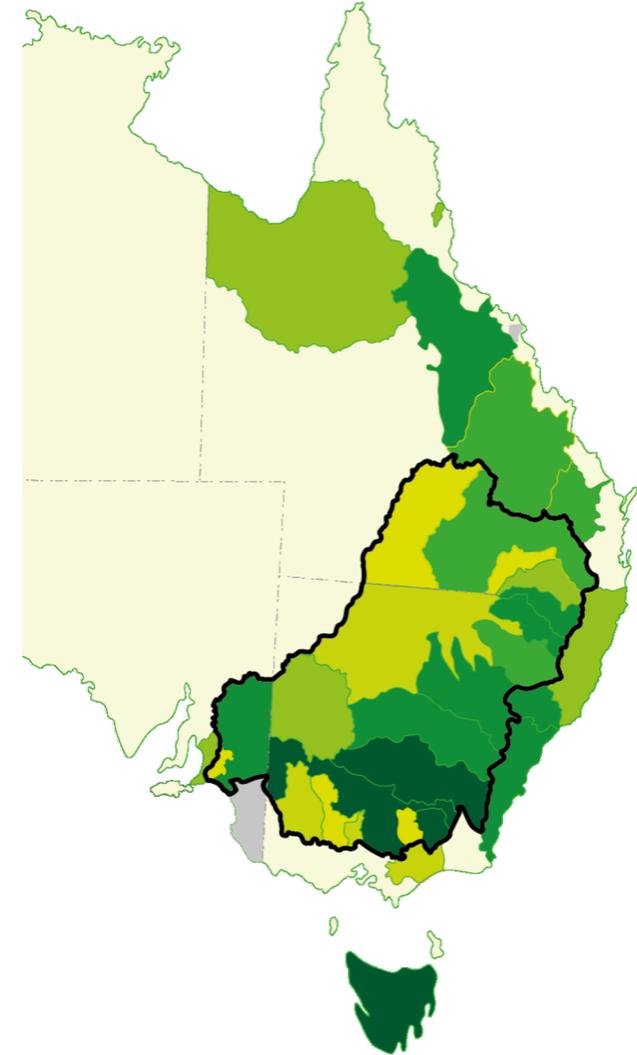
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# Benefits of investing in Australian water entitlements

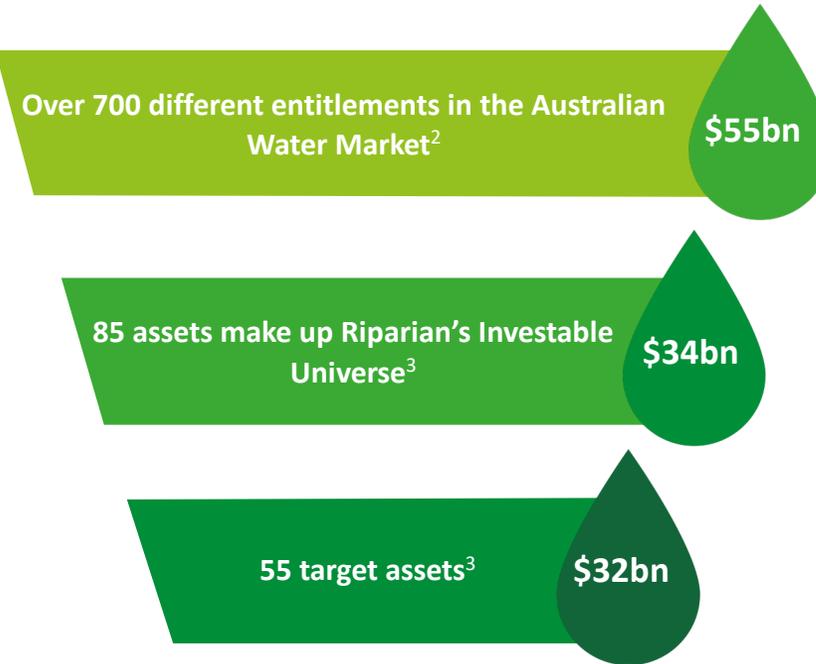
- **Functional and sophisticated market.**
- **Resilient assets.<sup>1</sup>**
- **Positive structural tailwinds.<sup>2</sup>**
- **Uncorrelated returns.<sup>1</sup>**
- **Reliable yields.<sup>1</sup>**
- **Stable regulatory environment.**



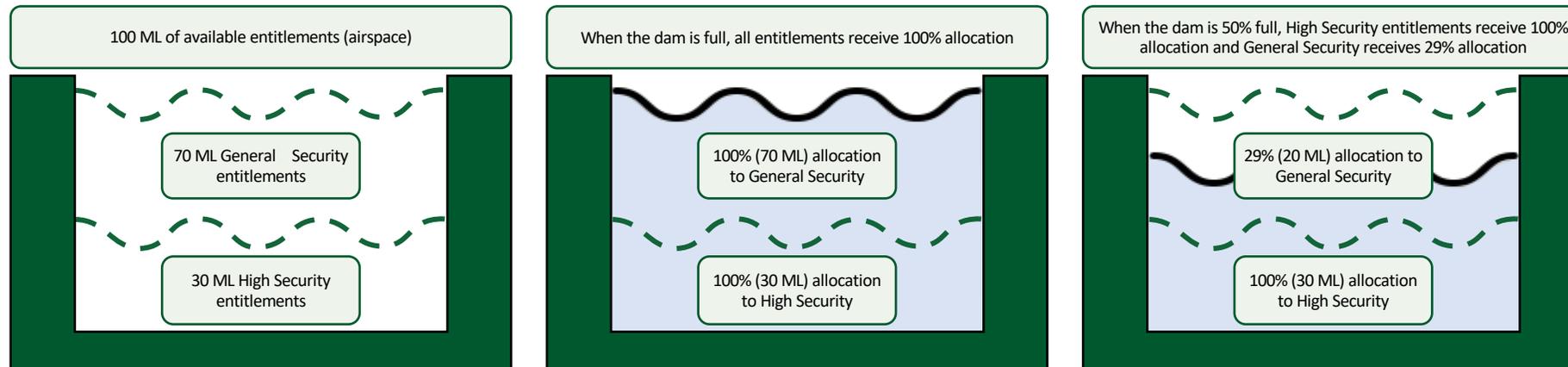
**How do water investments work ?**

# Australian Water Markets

- An established cap and trade framework provides for two tradable assets:<sup>1</sup>
  - **Water Entitlement:** the perpetual right to an annual allocation of water from a specific water resource.
  - **Water Allocation:** the annual allocation of water issued to entitlement holders in response to factors such as rainfall and storage levels.
- Water markets create incentives for the efficient use of water and transfer of water to higher-value uses.



## An example of water markets in a hypothetical dam



1. Detailed explanation of the Australian water markets at <https://blogs.cfainstitute.org/investor/2019/10/29/australian-water-entitlements-a-unique-alternative-asset-class/>

2. RCP Analysis, 2019

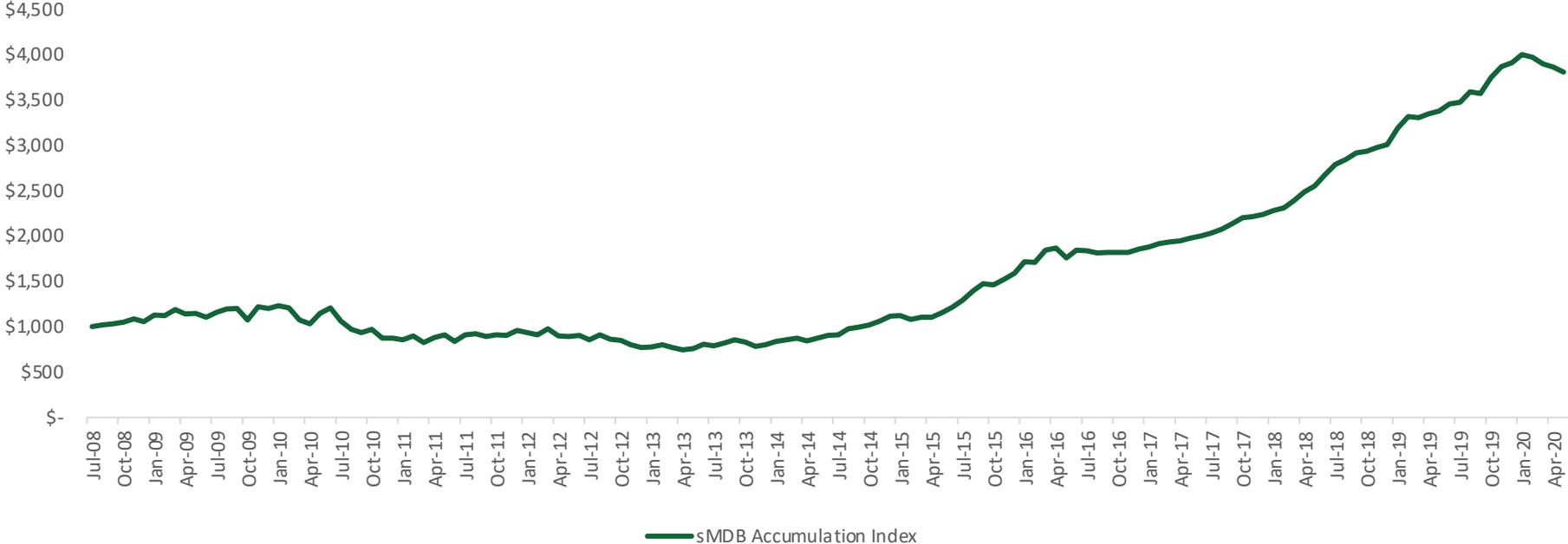
3. The composition of RCP's Investable Universe and Portfolio of Target Assets is reviewed on a quarterly basis and is open to change as filtering metrics are subject to change.

# Riparian’s view – water entitlement value drivers

Long-term returns are driven by increasing demand and the capped nature of the asset. **1**

Short-term returns are driven primarily by changes in seasonal supply conditions. **2**

The performance of \$1000 invested since 2008<sup>1</sup>



How has the market performed?

1. Riparian analysis, 2020

# Performance by the numbers<sup>1</sup>

	12 year returns to 30 June 2020	1 Year returns June 2020 to 30
Average annual <b>capital growth</b>	<b>+7.8%</b>	<b>+9.5%</b>
Average <b>annual yield</b>	<b>4.1%</b>	<b>5.0%</b>
<b>Total annualised return</b>	<b>+11.7%</b>	<b>+14.6%</b>
Standard deviation of yield (since 2008)	<b>2.2%</b>	

## Longer term drivers of value – since 2008

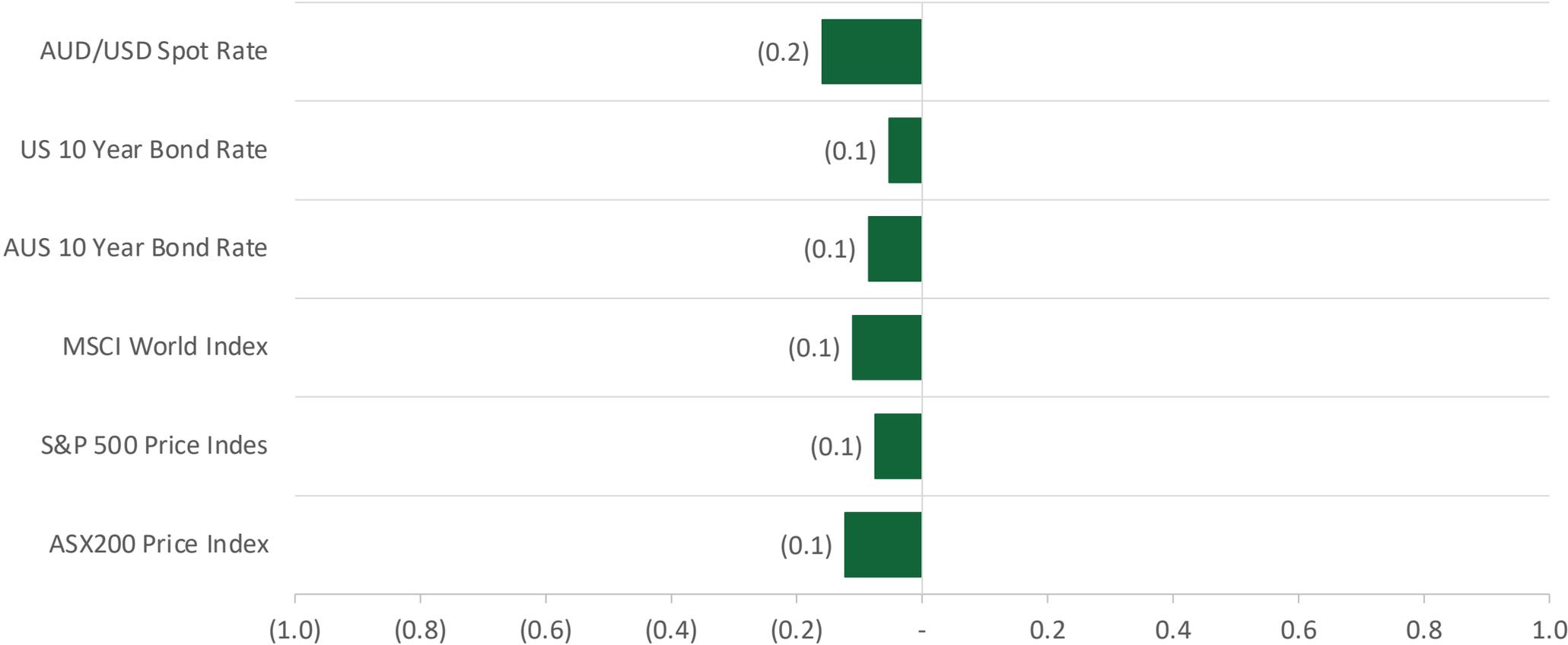
Driver	Affects	Trend since 2008 <sup>1</sup>
Annual demand of water from horticulture	Competition for water amongst users	
Australian commodity prices	Capacity for water users to pay	
Productivity gains – southern farming	Capacity for water users to pay	
Supply of water entitlements (consumptive)	Availability of irrigation water	

# Water supply vs water demand<sup>1</sup>



# Correlations to Aither Water Entitlement Price Index<sup>1</sup>

Monthly Correlation of Traditional Markets to Aither Water Index (Jul 2008 - Jul 2020)



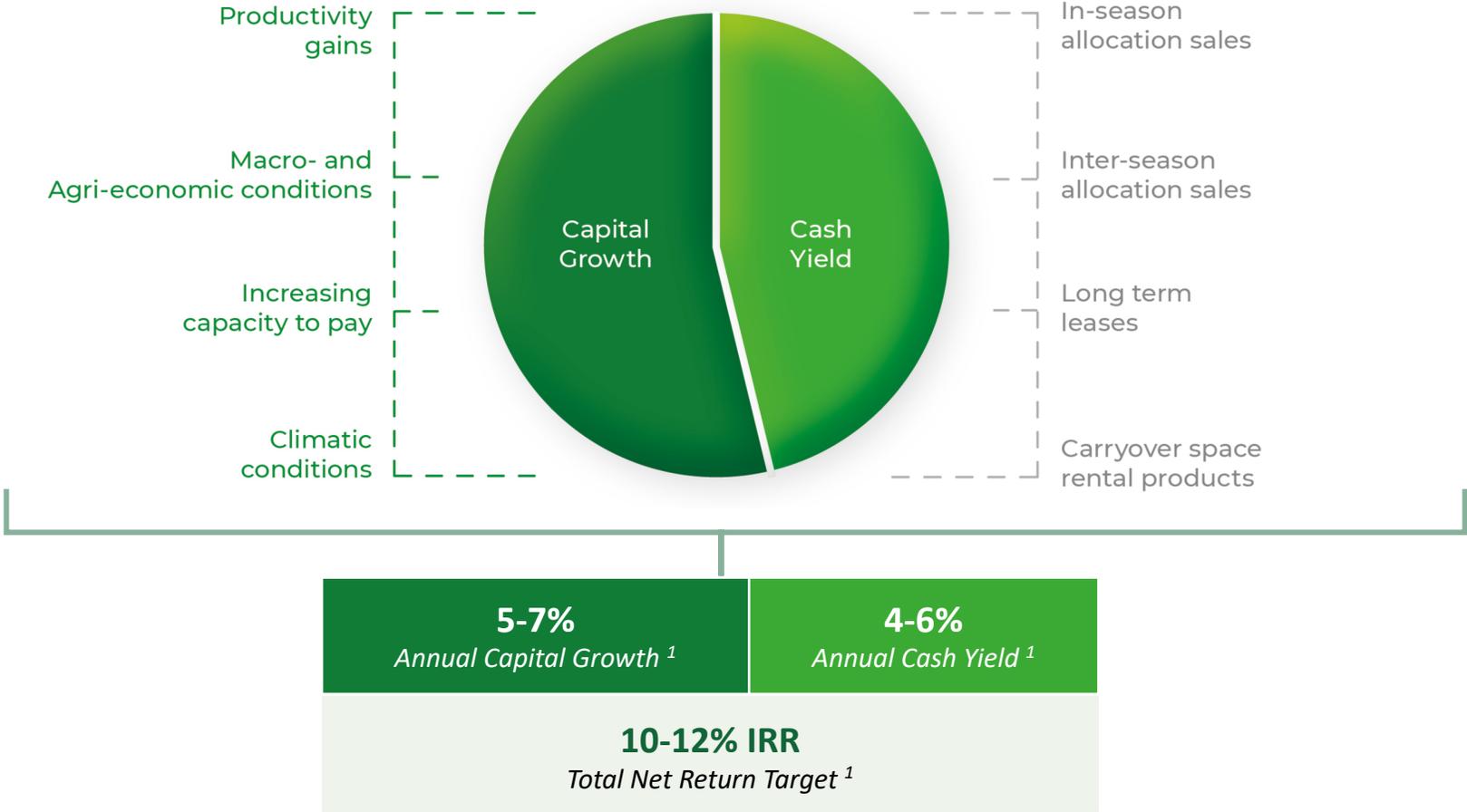
Outlook for major drivers?

## Riparian's view - positive structural tailwinds underpin asset class

Driver	Affects	Outlook <sup>1</sup>
Annual demand of water from horticulture	Competition for water amongst users	Positive
Australian commodity prices	Capacity for water users to pay	Positive
Productivity gains – southern farming	Capacity for water users to pay	Positive
Supply of water entitlements (consumptive)	Availability of irrigation water	Neutral

# Annual cash distributions supported by ongoing demand

“Water markets are primarily driven by how much farmers are willing to pay for the water, which is completely unrelated to drivers of traditional markets”<sup>2</sup>



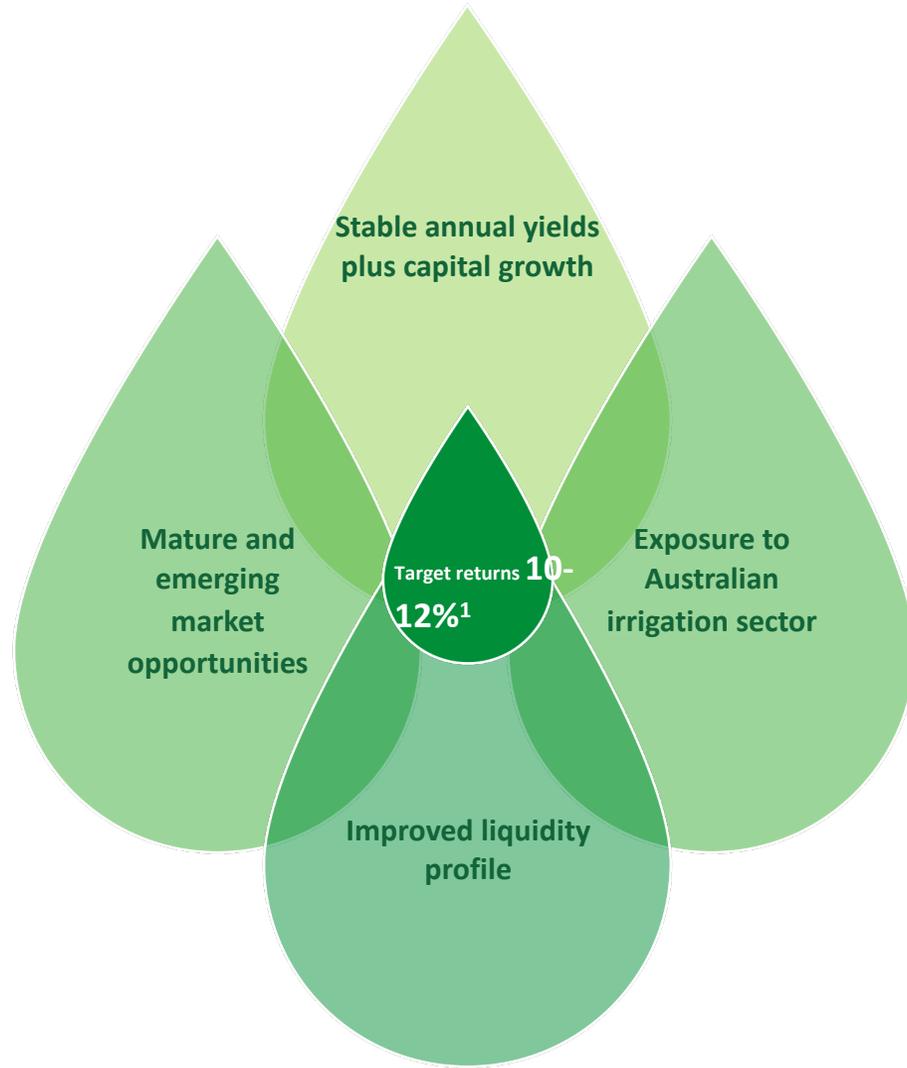
1. There are no guarantees target returns will be achieved.  
 2. Source: Riparian Capital Partners, 2020.

**Regulatory environment?**

## Relatively stable regulatory environment

Review announced	Entity Responsible	Report Delivered / Due	Outcomes
2016	Productivity Commission	December 2017	Positive 
2014	Productivity Commission	January 2019	Positive 
Aug 2019	ACCC	November 2020	Interim report positive 
Sep 2019	Vic Govt DELWP	December 2019	Positive 
Dec 2019	Federal Government	March 2020	Positive 

# Benefits of a diversified portfolio of water entitlements



## Riparian Water Fund

- **Diversification** across a range of water markets and entitlement types.
- Exposure to a broad **range of crops and irrigators** who grow them.
- **Stable annual yields** supported by farmers' increasing demand and capacity to pay for water.
- **Increased liquidity profile** compared with traditional agricultural investments.
- Fundamental drivers of returns from water entitlements **remain positive**.

## Key Risks<sup>2</sup>

- Regulatory and legislative changes.
- Economic and agri-economic environment; commodity prices, interest rates, FX rates.
- Climate.

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