Environmental, Social and Governance Report

Kilter Rural
2023

Acknowledgement of Country

Kilter acknowledges Australia's Aboriginal and Torres Strait Islander peoples as Australia's first peoples and pays respect to their Elders past, present and emerging. We acknowledge the Yorta Yorta People as the Traditional Owners of the Country, the land and water on which the Funds operate.

Abbreviations

- Accounting for Nature Ltd **(AfN)**
- Environmental, Social and Governance **(ESG)**
- Global Reporting Initiative **(GRI)**
- Kilter Agriculture Fund **(KAF)**
- Kilter Water Fund **(KWF)**
- Murray-Darling Basin Balanced Water Fund **(BWF)**
- southern Murray-Darling Basin **(sMDB)**
- UN Sustainable Development Goals **(SDGs)**
- Taskforce on Climate-related Financial Disclosures **(TCFD)**
- Taskforce on Nature-related Financial Disclosures **(TNFD)**
- Yorta Yorta Nation Aboriginal Corporation **(YYNAC)**

Contents

Overview

Foreword

In 2024, Kilter will enter its 20th year of operation, a significant and meaningful milestone for us as a company and for our collaborating investors and operational delivery partners.

For 20 years Kilter has provided leadership in Australian delivery of a natural capital investment strategy. Since its inception, this strategy has been based on delivering an increase in farm yields supported by sustainable resource management, scaled protection of biodiversity and climate change mitigation.

Monitoring, evaluation and reporting on environmental impacts and conditions has played a key part in our process of accountability and value generation.

Over the last two decades our approach to natural capital condition monitoring and reporting has changed significantly. In the initial years reporting was private, for client investors, usually measuring activities or against operational benchmarks. The approach has evolved into a much broader ranging disclosure document.

This fifth iteration in the ESG reporting framework expands from a 'report by fund' approach to reporting more broadly on the Kilter Rural operations, impacts and outcomes that also includes an overview of the environmental accounts on relevant funds under management. As in prior years, to align with the seasonal conditions of our natural capital investments, this document is presented to investors and the public each calendar year rather than financial year.

This report represents a condensed summary of an enormous wealth of data and statistics. The detailed information supporting the environmental accounts is available to investors upon request.

It is with great pleasure I commend the report to you, our investors, and collaborators, in this endeavor to transform Australian farming landscapes for sustainable food production, scaled ecosystem rehabilitation and climate change mitigation.

Cullen Gunn,
CEO Kilter Rural

Climate Active
NETWORK MEMBER

Kilter's is proud to report that its corporate activities have been certified carbon-neutral by Climate Active for a second year in a row.

About this Report

Purpose

The 2023 report captures, under one cover, ESG performance for the Kilter Rural entity and the full range of funds it manages. The reported operations, impacts and ESG outcomes vary widely across these funds, depending upon the nature of the assets being managed, the maturity of the assets and Kilter's management control level.

The 2023 report sets a template for our ongoing ESG reporting that will continue to grow in both breadth and depth over the coming years.

Structure

This report is structured with specific sections dedicated to each of the funds that Kilter manages. Fund ESG performance is prefaced by a description of the over-arching governance functions undertaken by Kilter Rural to manage the funds. As described in the leading section, Kilter subscribes to a range of accepted global frameworks for reporting its ESG outcomes.

ESG Performance Frameworks

ESG frameworks of key internationally recognised institutions help set the discourse and strategic direction of Kilter's managed investments. These frameworks and goals provide the main foundations for Kilter's ESG reporting and help drive future condition targets and outcomes.

This report uses the following independent and globally accepted frameworks as the basis for ongoing ESG reporting of fund performance, including:

- UN's Sustainable Development Goals (SDGs)
- The Global Reporting Initiative (GRI)
- Climate-related financial disclosures (CFD's) based on the recommendations of the Taskforce on Climate-related Financial Disclosure (TCFD)
- Nature-related financial disclosures (NFD's) based on the recommendations of the Taskforce on Nature-related Financial Disclosure (TNFD)
- Accounting for Nature® Framework for Environmental Condition Accounting
- The Greenhouse Gas (GHG) Protocol.

These frameworks operate at various levels of detail and prescription. Relevant elements of each framework are applied in a complementary fashion according to the nature of the fund being managed.

Sustainable Development Goals

Kilter's ESG framework is strategically aligned with the Sustainable Development Goals (SDGs) outlined by the United Nations. There are 17 goals in total, that collectively recognise that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and build economic growth; while also tackling climate change and preserving the world's biodiversity. Table 1 outlines the SDGs Kilter believes are most relevant to the land and water assets managed by Kilter Rural on behalf of investors.

Table 1: Sustainable Development Goals aligned with the Fund

Kilter ESG Component	Goal	Targets
Environment and Social		**2.4** Striving towards more sustainable food production by increasing productivity, adaptive capacity, and improving ecosystem services.
Environment and Social		**6.4** Increase water-use efficiency and help address water scarcity through the sustainable withdrawal and supply of freshwater.
Environment and Social		**7.2 & 7.3** Increase renewable energy use and the rate of improvement in energy efficiency.
Social		**8.4** Decouple economic growth from environmental degradation. **8.5 & 8.8** Safe and secure work for everyone, including equal pay for work of equal value, with a focus on the marginalised and those in precarious employment.
Environment and Social		**12.2** By 2030, achieve the sustainable management and efficient use of all natural resources. **12.6** Adopt sustainable production and consumption practices and integrate sustainability information into the reporting cycle.
Environment		**13.1** Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.
Environment		**15.2 & 15.3** The restoration of degraded land and soil which have been affected by deforestation, drought and intensive land-use, helping ensure a land degradation-neutral world. **15.5** Halt the loss of biodiversity and reduce the degradation of natural habitats.

Global Reporting Initiative (GRI)

The GRI Standards are designed for use by any organisation to understand and report on their impacts on the economy, environment and people in a comparable and credible way, thereby increasing transparency in the push for sustainable development. Kilter applies them to guide a level of prescription for material reporting topics and metrics beneath the umbrella SDG's. Table 2 lists the reporting topics selected as most relevant for Kilter to report against.

Table 2: GRI disclosures employed in Kilter's ESG reporting

Kilter ESG Component	GRI Disclosure Series	Topics
Environment	300 series	› 302: Energy Usage › 303: Water Usage › 304: Biodiversity › 305: Emissions
Social	200 and 400 series	› 401: Employment › 411: Rights of Indigenous Peoples › 413: Local Communities › 203: Indirect Economic Impacts
Governance	100 series	› 102: Governance (102-18 to 102-39)

Accounting for Nature® Framework

Kilter Rural adopts the Accounting for Nature® Framework for accounting of the environmental condition of the farmland assets it manages. Similar to a framework for financial accounting, it offers a system of rules and processes designed to ensure the integrity and transparency of accounts on the condition of natural assets such as native vegetation, fauna and soil. Originally conceived by Australia's Wentworth Group of Concerned Scientists, the framework is licensed to apply standards and certifications consistent with the United Nation's Standard for Environmental Economic Accounting.

It integrates with other global frameworks, such as the TNFD, in that it provides robust measurement of the condition of natural assets and facilitates the setting of goals and targets to improve the state of nature and biodiversity.

Accounting for Nature®

The basis of an Accounting for Nature environmental account is the Econd® metric, a value of condition that is a calibrated score between 0 and 100, with 100 being the maximum possible score reflecting the undisturbed or natural (often referred to as pre-1750) state of the particular asset.

Under the framework Kilter Rural applies accredited methodologies developed and approved over the last four years to assess change in condition of natural capital assets:

- Native Vegetation
- Soil
- Native Fauna (Woodland Birds)

These methods are available to view on the Accounting for Nature method catalogue or upon request from Kilter.

Under the Accounting for Nature® Framework, and as described in more detail in Appendix 1, proponents must undertake five steps to develop their Environmental Accounts, have them Certified and achieve access to the Certified Trustmarks.

Climate-related Disclosures

In 2021, Kilter Rural became an official supporter of the Task Force on Climate-Related Financial Disclosures (TCFD), joining more than 1,800 organisations in demonstrating a commitment to building a more resilient financial system and safeguarding against climate risk through better disclosures. As of 2023 Kilter formally reports on business-related disclosures related to climate change.

Climate is integral to the operation of Kilter and the funds we manage. Whether it's a consideration for the next land or water investment proposition; planning the next season's crop; or having to prepare our farmland for an extreme heatwave or severe storm, we assess and plan for it. Kilter sees accountability to a changing climate as business imperative, not just to protect us as a business entity, but also as an opportunity to be a leader in positive societal change addressing climate in the rural sector.

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

In its inaugural disclosure report Kilter formally addressed the pillars of the Taskforce for Climate-based Financial Disclosures (TCFD), these being Governance, Strategy, Risk Management and Metrics & Targets.

In mid-2023 the taskforce has handed over its developed framework for implementation by business to the International Financial Stability Board (FSB), via the climate-reporting standards that are formally set out in the new IFRS S2 standard.

Kilter commits to keep abreast of trends and refinements in interpretation of the new standard as it reports to it annually, whether as a specific corporate disclosure statement or as embedment in individual investment fund reporting.

The core recommendations

Governance
The organisation's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy and financial planning

Risk Management
The processes used by the organisation to identify, assess and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Greenhouse Gas Protocol

Kilter undertakes carbon emissions reporting verifiable to the standards of the international Greenhouse Gas Protocol (Protocol).

The Protocol has been setting standards for private and public sector operations, value chains and mitigation actions since the early 2000's.

Its Corporate Accounting and Reporting Standard provides the accounting platform for virtually every corporate GHG reporting program in the world.

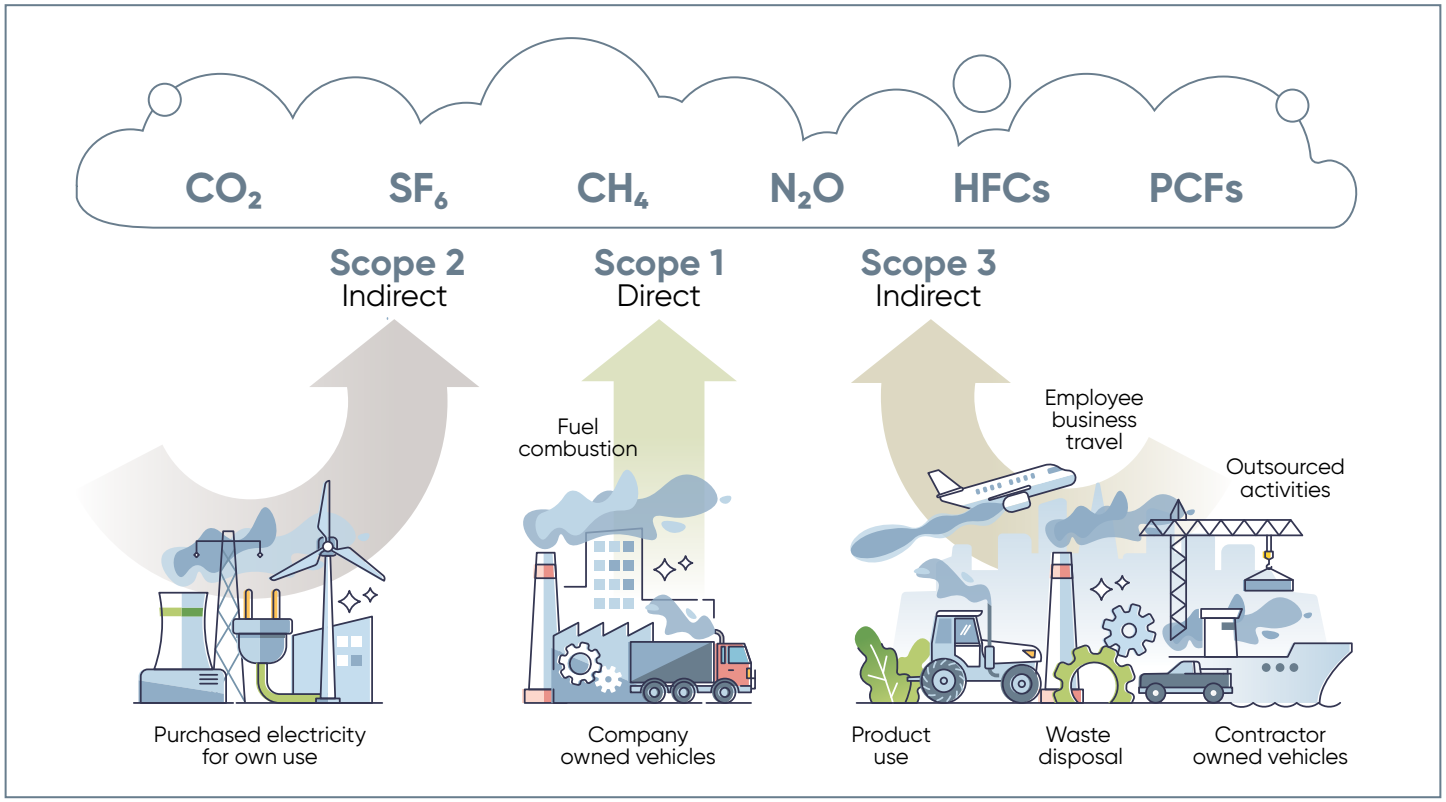
The Protocol provides customised guidance for specific sectors including the agricultural sector.

GREENHOUSE GAS PROTOCOL

Kilter currently produces annual carbon accounts for its land funds that includes the quantification of direct emissions and sequestration within paddock, and increasingly, Scope 3 emissions up and down the supply chain. It also separately reports its back office (or corporate) emissions.

Generating annual carbon accounts fulfils the metrics and targets requirement of the TCFD.

Figure 1: Overview of scopes and emissions across a value chain (Source: GHG Protocol - A Corporate Accounting and Reporting Standard)



Nature-related Disclosures

The Taskforce for Nature-based Financial Disclosures (TNFD) advanced in development during 2022-23. As with the TCFD, disclosures recommended by the TNFD operate under the pillars of Governance, Strategy, Risk Management and Metrics & Targets. During 2023 Kilter piloted elements of the then beta-version of the framework and expects to implement it in full during 2024 (the framework is now fully operational).

Kilter is well positioned to implement the TNFD, not just because its business model is predicated on building natural assets' health and functionality, but because it actively measures and sets targets for these under the Accounting for Nature® Framework.

TNFD **Taskforce on Nature-related Financial Disclosures**

Governance

Kilter Rural maintains a commitment to the governance processes that guide our decision making for the Funds and its activities. Our sound governance practices guide our operations ethical and reporting standards, with a strong focus on continuous improvement and organisational agility.

Quality Management System (QMS)

The Quality Management System (QMS) is central to Kilter Rural's governance framework, guiding our decision making in the pursuit of our strategic objectives. More than one hundred Policies, Procedures, Work Instructions, Registers and Forms have been developed to ensure operational consistency, enhanced efficiency and continuous improvement of our core business processes.

Quality Certification to ISO 9001:2015

Kilter Rural was re-certified in January 2024 by the external audit firm, SAI Global as compliant with the standards of ISO 9001:2015.

This re-certification, without qualification or non-conformance is an endorsement of the businesses adherence to agreed processes and the extensive program of internal audits that monitor and reinforce the policies and procedures outlined in the Quality Management System.

The re-certification also confirms the commitment of Kilter Rural management to continuous improvement through the development of new and improved policies and processes.

2023 Highlights

4 QMS Management Reports
prepared and presented to the Board

18 Internal Audits
conducted with full compliance

52 Internal Improvements
suggestions processed

The Board

The Kilter Investments Board oversees the implementation of the governance framework, and safeguards unitholder's interests. The Board independently and objectively assesses Kilter's decisions and oversees the performance and activities of management against the risk management framework. Actions taken by the Board seek to balance business and sustainability objectives, thereby supporting Kilter's objective of building long-term value for investors through resilient farmland and water investments.

The Board promotes a culture of open and frank discussion. The Board believes that informal conversations with staff members are important in assessing the organisation's culture and regularly attend staff functions and tour the farmlands to strengthen grassroots engagement.

Eight board meetings and eight special board meetings were held in 2023, with directors and senior management also participating in a climate risk workshop, which focused on climate-related disclosure reporting and Kilter's climate-related risk and opportunity strategy and framework.

Compliance and Risk Committee

The Compliance and Risk Committee is an integral part of Kilter Rural's governance framework. The Committee includes the external non-executive Directors of Kilter Investments Pty Ltd (as the Trustee of the Funds) and meets on a quarterly basis.

The Committee's primary function is to support the Board, by overseeing Kilter Rural's management of the following compliance functions:

- **Regulatory:** the interpretation of internal and external regulations
- **Monitoring:** the monitoring of compliance with the regulations, including the review of the internal control environment based on a risk assessment
- **Risk Management:** the facilitation of the operational risk management processes
- **Training:** the establishment of expectations and the knowledge base needed to ensure responsibility for risk management is shared and at the front of mind for all personnel.

Highlights

8 Board Meetings
conducted

4 Regulatory Compliance
updates provided to the Board

Inaugural CFD report
presented to the Board

5 Climate-related risks
reviewed and updated

Annual climate risk workshop
held

External Financial Audit

The Fund received an unqualified audit report for the financial year from the audit firm Pitcher Partners. As part of this external audit the financial rigour and internal controls of the transaction processing system including authorisation protocols were reviewed.

Highlights

No matters
of non-compliance or concern were noted

Kilter 2023 Climate-related Disclosure Report

The Kilter Climate-related Financial Disclosures Report, titled *Kilter and Climate in 2023* was released in early 2024. This report presents information on our efforts towards implementing the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD), for both Kilter and the investments that we manage.

The report reflects our first attempt at implementing the framework that will advance in the years ahead with experience. A full copy of *Kilter and Climate in 2023* is available upon request.

*'**Climate, and its currency as weather, is very much our day to day. Whether it impacts on our next investment proposition; planning for the next season's crop; or having to prepare our farmland for an extreme heatwave or severe storm, we ignore it at our peril. Kilter sees accountability to a changing climate as business imperative, not just to protect our existence as a financial entity, but also as an opportunity to be a leader in positive societal change to an existential threat.'***

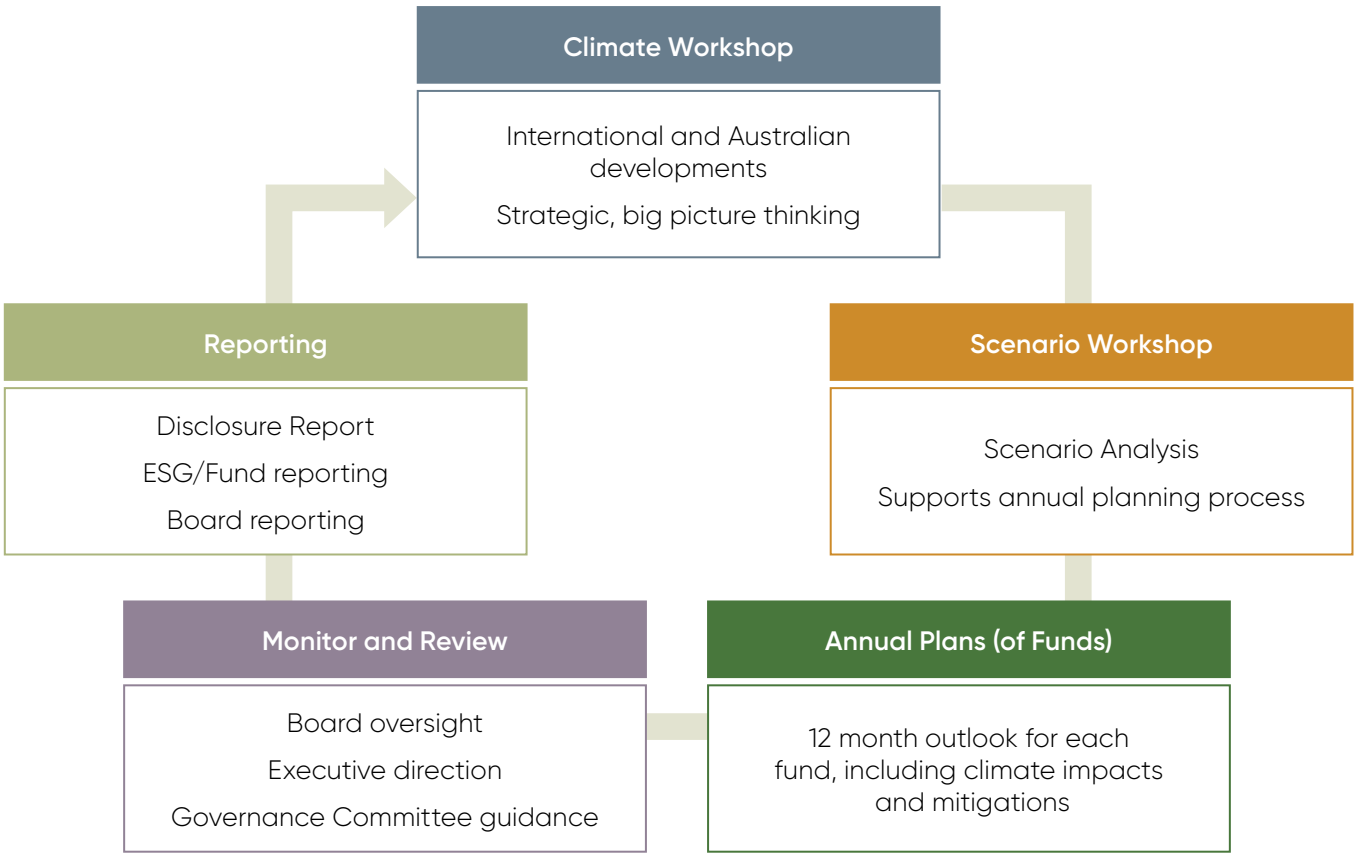
Consideration of climate is implicit in our range of fund operations. We face well-documented climate risk with the land and water assets that we manage in the southern Murray-Darling Basin, a major food bowl in the inland of south-east Australia. Kilter's adoption of the climate-related disclosures, as set out in the framework developed by the Taskforce for Climate-related Financial Disclosures (TCFD), provides us with an opportunity to logically and transparently articulate how we manage risk that we ordinarily face over timeframes of days, seasons and years.

Well before the advent of the TCFD Kilter has been actively building its knowledge of climate impact and calculating its carbon footprint:

- Compiling of carbon emission accounts for Kilter P/L and its inaugural land fund from 2010, gradually extending reporting to cover Scope 3 contributions
- Participating in a soil carbon demonstration project on biodiversity-grazing lands under the then Australia's Carbon Farming Initiative (2013-16)
- Registration of several carbon projects for carbon credit generation, under both soil (x2) and native vegetation (x2) methodologies and across multiple market schemes
- In FY21 Kilter produced its first independently verified carbon account for KAF-Girgarre, now an annual undertaking
- Kilter P/L became carbon neutral certified under the Australian government's Climate Active program in 2022. It was subsequently recertified for FY23.

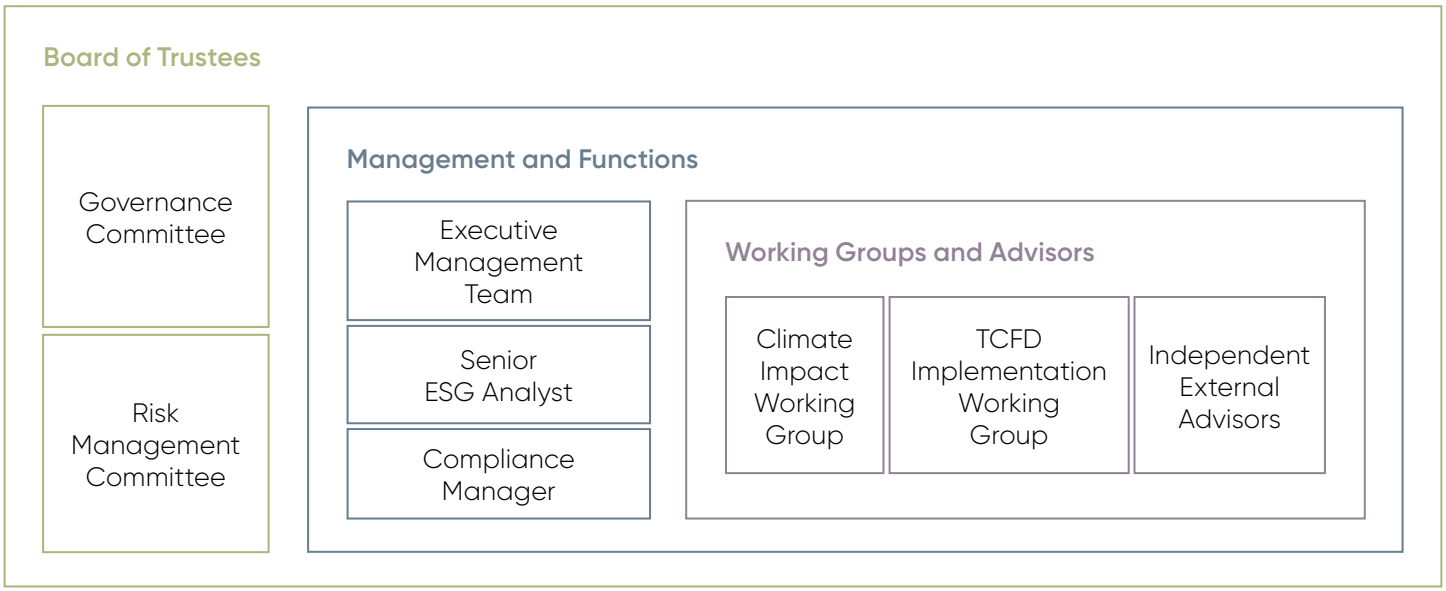
Formally adopting CFD's, using the legacy of the now disbanded TCFD, ensures that we consider the breadth of climate-related risk in a fully accountable manner. Each year, Kilter applies the cyclical operational approach illustrated in Figure 2 when managing its climate risks and opportunities for land and water investments.

Figure 2: Kilter's Climate Risk and Opportunity Management Framework



The Kilter Investments Board of Trustees ('Board') has ultimate responsibility for Kilter's implementation of the TCFD recommendations across the investment funds managed by Kilter. The Board has a fiduciary responsibility to manage Kilter's funds in the best interest of all stakeholders, which includes a commitment to addressing climate change. A number of specific guiding committees, staff roles, working groups and independent advisors work to fulfil the Board's requirements (Figure 3).

Figure 3: Kilter's CFD governance framework



Kilter's engagement with climate operates over multiple time scales as described in Table 3. Weather impacts our activities on a daily basis, while the long-term average of the weather and its changing nature (under climate change) impact on planning decisions for both our current and future investments.

Table 3: General timeframes of Kilter's engagement with climate

Timeframe	Business Implication	Internal Mechanism	Example
IMMEDIATE Day to Week	Weather for land (farming) operations	Day to day operations	Managing farmland enterprises in the case of a forecast extreme rain or heat event.
SHORT TERM Month to Year	Planning for the seasonal operation of land and water assets	Quarterly meetings with fund managers	Plan a water/irrigation strategy in the circumstance of a predicted drought (El Nino) or wet (La Nina) year.
MEDIUM TERM 2-10yrs	Adapting existing investments in land and water	Annual plans for funds	Optimise crop varieties and rotations; or source climate-adapted native plant species.
LONG TERM > 10yrs	Planning for new investments in land and water	Investment committee	Inform business models for new projects with analysis regarding future climate.

In practice our time-responsive climate strategy takes place as a sequenced set of activities through the year, as broadly summarised in Table 3, but as further expanded in the disclosure report. Table 4 outlines our CFD operational activity during 2023 and goals for 2024.

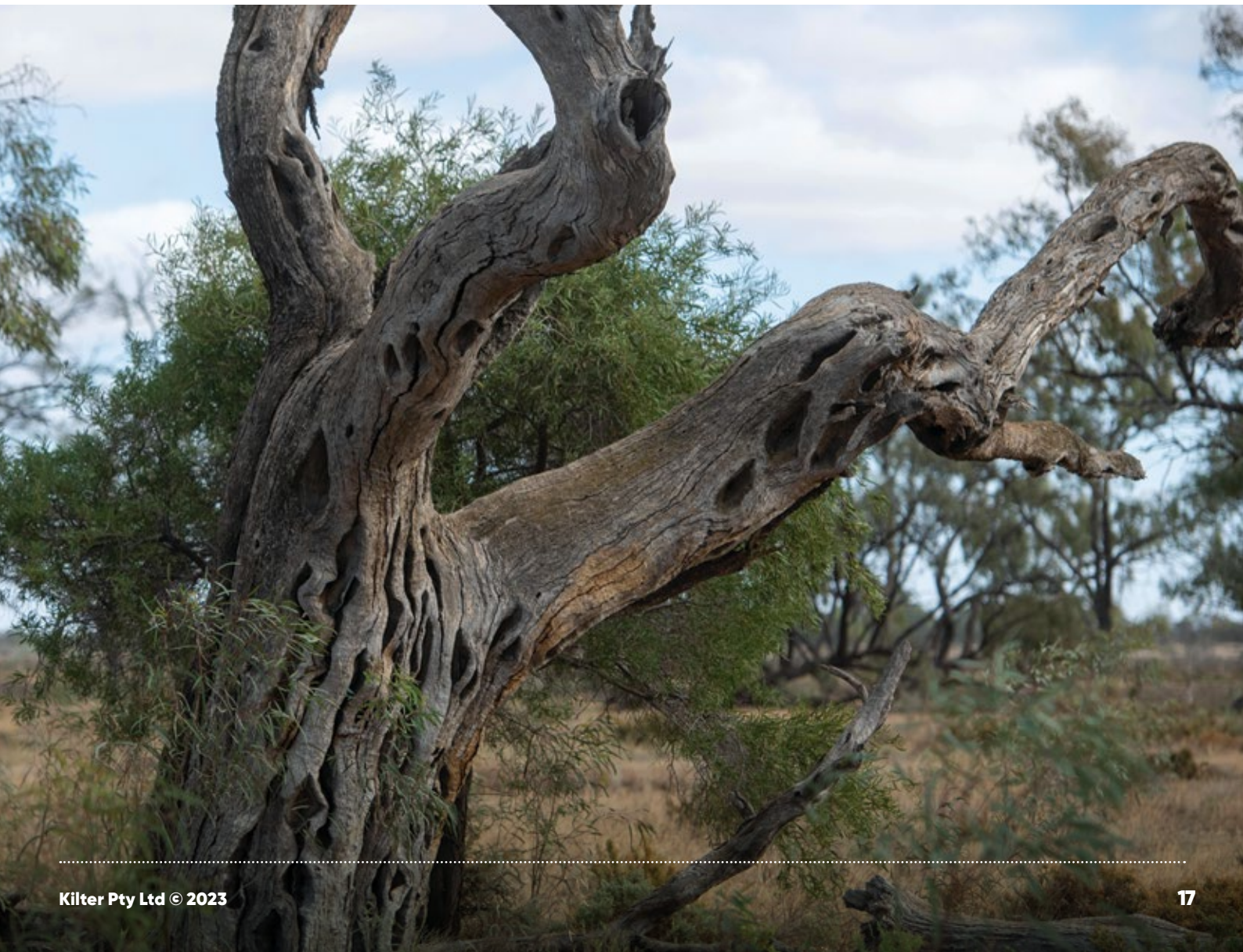


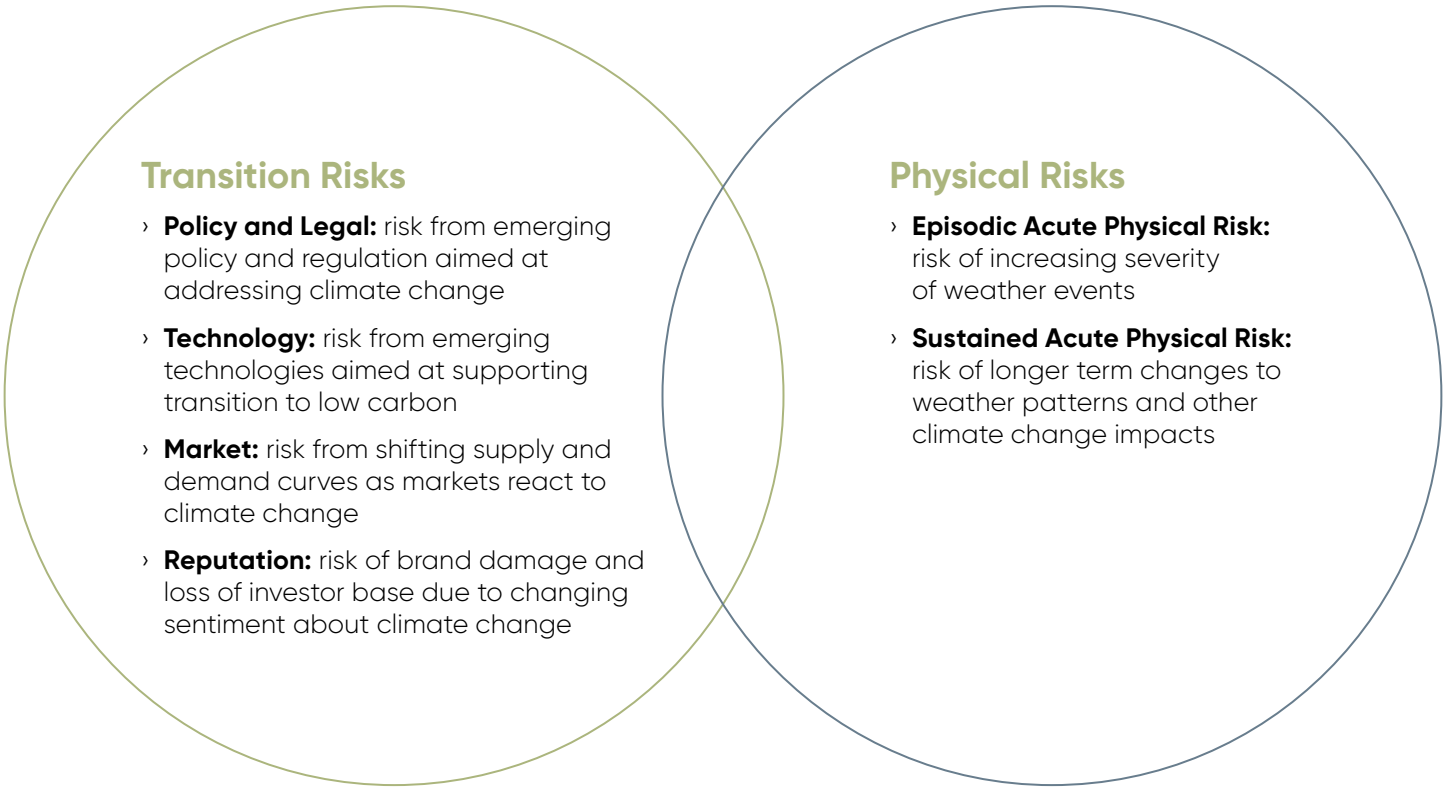
Table 4: General timeframes of Kilter's engagement with climate

Mechanism	Intended Frequency	Activity in 2023	Goal in 2024
External Reporting			
Disclosure Report	Annual (4th CY Q)	Development of this inaugural disclosure report.	Consolidate and begin to add nature-based disclosures.
Fund/Entity ESG reports	Annual	Reference to our commitment to the TCFD made in our 2022 AFF ESG report (published May-23).	Add an itemised summary of disclosures.
Operational Planning			
Climate Workshop	Annual (4th CY Q)	Held in Dec-23, with an externally delivered presentation on the status of CFD and guidance on implementation.	Delivery of relevant workshop theme regarding climate/nature-based disclosures.
Scenario Workshop	Annual (Mar)	Not implemented this year.	First implementation in Mar-24.
Annual Plans	Annual (2nd CY Q)	Climate considerations were raised in the CY23 annual planning process but not as a methodical structured input.	First structured process in CY24.
Climate Impact Meetings	Quarterly	Our first formalised quarterly climate impact meetings held in Jul-23 and Oct-23.	Consolidate and add further structured depth to meetings.
Decision Papers	As required	Standard prompt in decision papers routinely addressed.	Review and potentially improve effectiveness of mechanism.
Governance			
Portfolio Manager's Reports	Each Meeting	Reports routinely considered climate related impacts on farm and water activities and fund returns.	Review and improve information delivered by this step.
Company Secretary's Report	Each meeting	Reports included updates on the implementation of the TCFD recommendations, climate related training and annual climate process.	Review and improve information delivered by this step.
Climate-related risk review and management	Annual	The 5 climate-related risks were reviewed over Sep-Oct 2023.	Restructure risk register to further refine and detail each of the climate related risks.
Information			
Weather Updates	As required	Regular warnings throughout the year to farm staff when threatening weather conditions.	Review and improve information delivered by this step.
Climate Updates	Quarterly	Have been initiated in alignment with our Climate Impact Meetings where these provide important input to such.	Review and improve information delivered by this step.

Kilter understands that there are both risks and opportunities (positive risk) in considering business transition and the physical nature of climate change (Figure 4). These risks are addressed annually to underpin the cyclical operational approach (Figure 2).

Kilter and Climate in 2023 particularly concentrates on the description of the governance and internal strategy procedures Kilter have in place for dealing with climate. The evolution of the risk and opportunity assessments are still rapidly maturing; and while Kilter already builds carbon accounts, it is expected that targets and metrics in tracking climate action will also substantially evolve over the next 1-2 years.

Figure 4: Transition and physical risks



Fund Reporting

Kilter Agriculture Fund (KAF)

CERTIFIED BY RIAA

Introduction

In June 2023, Kilter Rural launched the Kilter Agriculture Fund ('KAF'). KAF targets Australian medium to high rainfall mixed farming regions, where regenerative farming practices can significantly enhance margins, support scalable investment, and foster biodiversity and climate mitigation outcomes. The Fund encompasses two farmland aggregations, 1,950ha at Girgarre in Northern Victoria and 7,300ha near Tocumwal in southern New South Wales.

Key components of the investment strategy include:

- A disciplined valuation approach based on the acquisition of productive capacity
- Acquisition of operating farms with existing positive cash flows and substantial potential for performance improvement
- Implementation of a property roll-up strategy to achieve institutional scale
- Large-scale biodiversity rehabilitation, aiming to cover up to 30% of the landscape with native vegetation and deliver scaled carbon-sequestration outcomes
- Diversified income streams from farm production, water management, carbon, and environmental credits/payments.

Kilter Rural is committed to transforming farm operational output through a science-driven, soil-focused agronomic approach. This strategy aims to elevate performance and farm values while showcasing the capacity to deliver high-quality net-zero food and fibre within Australian farming systems. Concurrently, the Fund aligns with the UN COP15 Biodiversity Framework, targeting 30% native vegetation coverage to generate high-integrity credits for evolving biodiversity markets.

Background

Amid escalating concerns regarding climate change, the agricultural sector faces the urgent need to boost output while mitigating carbon emissions and transitioning towards regenerative farming practices. Leveraging two decades of experience in delivering climate-ready agricultural solutions at scale, this Fund illustrates how Kilter Rural's interventions can curb emissions, enhance carbon sequestration, and pave the way for a net carbon sink environment.

RIAA Certification Symbol: The Kilter Agriculture Fund has been certified by RIAA according to the strict operational and disclosure practices required under the Responsible Investment Certification Program. See www.responsiblereturns.com.au for details.*

*The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services License.

Addressing the Challenge

The global agricultural landscape faces the dual challenge of meeting escalating demand for food, fibre, and fuel while reducing its significant contribution to greenhouse gas emissions. Agriculture currently accounts for approximately 22% of global emissions, comprising carbon dioxide (CO_2), methane (CH4), and nitrous oxide (N2O). Kilter knows that opportunities exist within the sector not only to mitigate emissions but also to achieve net sequestration outcomes. Kilter focuses on key measures for carbon emission reduction:

- **Agronomy:** Implementing world leading soil conservation farming practices to improve soil health and decrease reliance on resource-intensive inputs. These practices have demonstrated potential to reduce scope 1 and 3 carbon emissions by more than 40% compared to Business as Usual (BAU) scenarios.
- **Leading Biotech Solutions:** Globally, the agricultural biotech sector is growing at multiples of the conventional chemical and fertiliser sectors as the technology evolves to deliver proven products that are more environmentally synergistic. Kilter is pleased to be partnering with Australian based Loam Bio to leverage cutting-edge biotechnology for stable soil carbon sequestration, surpassing BAU emissions by more than double.
- **Biodiversity:** The aggregations are situated within priority regions for biodiversity protection and enhancement in NSW and Victoria.

  The Southern Riverina Tocumwal Aggregation, located in the Riverina Bioregion of NSW, resides near the Murray Valley National Park, harboring numerous threatened animal and plant species. The Girgarre Aggregation, situated in the Goulburn Murray Irrigation District of Central Victoria, is renowned for its high agricultural productivity and diverse production and low levels of native vegetation which Kilter has commenced active management of to encourage positive biodiversity outcomes.
- **Ecosystem Protection and Restoration:** In line with the Kunming-Montreal Global Biodiversity Framework goals, the KAF aims to protect and re-establish 30% of farmland with endemic vegetation communities. Interventions include enhancing existing native vegetation cover, restoring waterways, and fostering connectivity between habitats to support diverse ecosystems.
- **Commercial Opportunities:** Kilter anticipates increasing opportunities in biodiversity and carbon markets. With ongoing development of the Australian nature repair markets, the Fund is positioned to benefit from emerging environmental credits. Kilter notes the passage of the commonwealth's Nature Repair Market Bill through parliament, in December 2023, that aims to facilitate a national biodiversity credit market.
- **Investment Appeal:** Investing in biodiverse farming landscapes offers compelling economic and financial incentives amidst changing regulatory landscapes and growing demand for sustainable food production. The Kilter Agriculture Fund leads by example, demonstrating how regenerative farming practices reduce production risk, deliver improved crop yields, ensure market access, whilst generating long-term returns for investors at reduced volatility.

  Through strategic investments and innovative practices, Kilter Rural aims to set a new standard for the industry, fostering resilience, profitability and environmental stewardship.
- **Measurement:** Key to the delivery of natural capital outcomes for investors and the environment is measurement. Kilter's leadership and commitment to the transparent, scientific reporting on environmental condition continues to set it apart from others in this space. Annual ESG reports will provide a detailed report on Environmental condition, Social initiatives and adherence to Governance for both the Girgarre and Tocumwal Aggregations.

KAF: Girgarre Aggregation

Overview

The Girgarre Aggregation holds land and water assets in the productive southern Murray-Darling Basin. Part of Australia's recognised food bowl, the area is recognised for its high agricultural productivity, diverse production, well-developed irrigation infrastructure and accessible water markets.

The Girgarre Aggregation is located on Yorta Yorta Country in the fertile soils of the Lower Goulburn Valley.

In the early 1900s, the region was configured into a patchwork of dairying communities serviced by a number of commercial agricultural centres. Much of the landscape has been cleared of native forest with typically less than 2% native vegetation cover remaining on private land. As in many parts of Australia there is now a transition in the region to a more diverse range of land uses, with a broader range of industries and operations.

Recognising that natural capital underpins long-term value, the Kilter Agriculture Fund is bringing new technology, new operational management, new crops and a new approach to building and protecting natural assets of soil, water and biodiversity across the Girgarre Aggregation.

Table 5: Summary of Primary Assets held in the Kilter Agriculture Fund

Asset Class	End 2023	% Change
Land	1,951 Hectares (4,821 acres)	+2.4%
Water (Entitlement)	5,687 ML of HR, HS 489 ML of LR	+21.3% +6.5%

At the end of 2023 the Girgarre Aggregation held 1,951ha. Of this:

- 1,360ha (70%) had active cropping footprint with 1073ha (55%) irrigated, 287ha (15%) dryland; and 43ha (3%) under redevelopment
- 301ha (15%) was in the process of being regenerated with native vegetation, through both protection (e.g. of remnants) and various stages of active planting (e.g. of ex-paddocks)
- Of the 1073ha of active irrigated cropping footprint, 582ha (54%) is gravity irrigated, 267ha (25%) is irrigated through sub-surface drip tape, and 220ha (21%) through overhead pivot sprinklers.

Figure 5: Generalised land use at end 2023

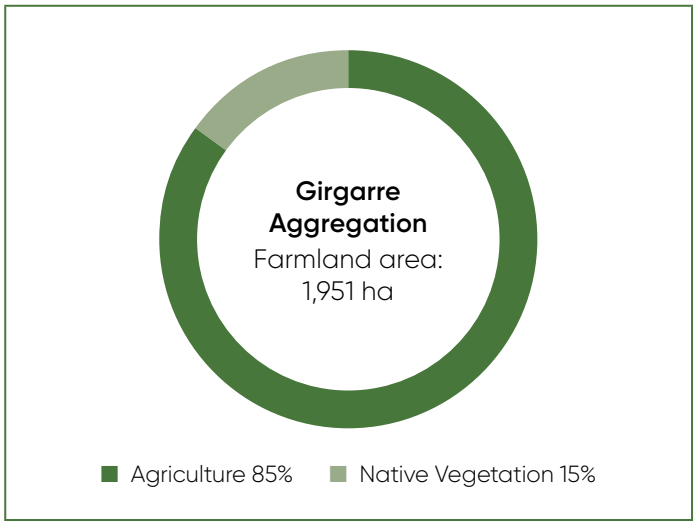
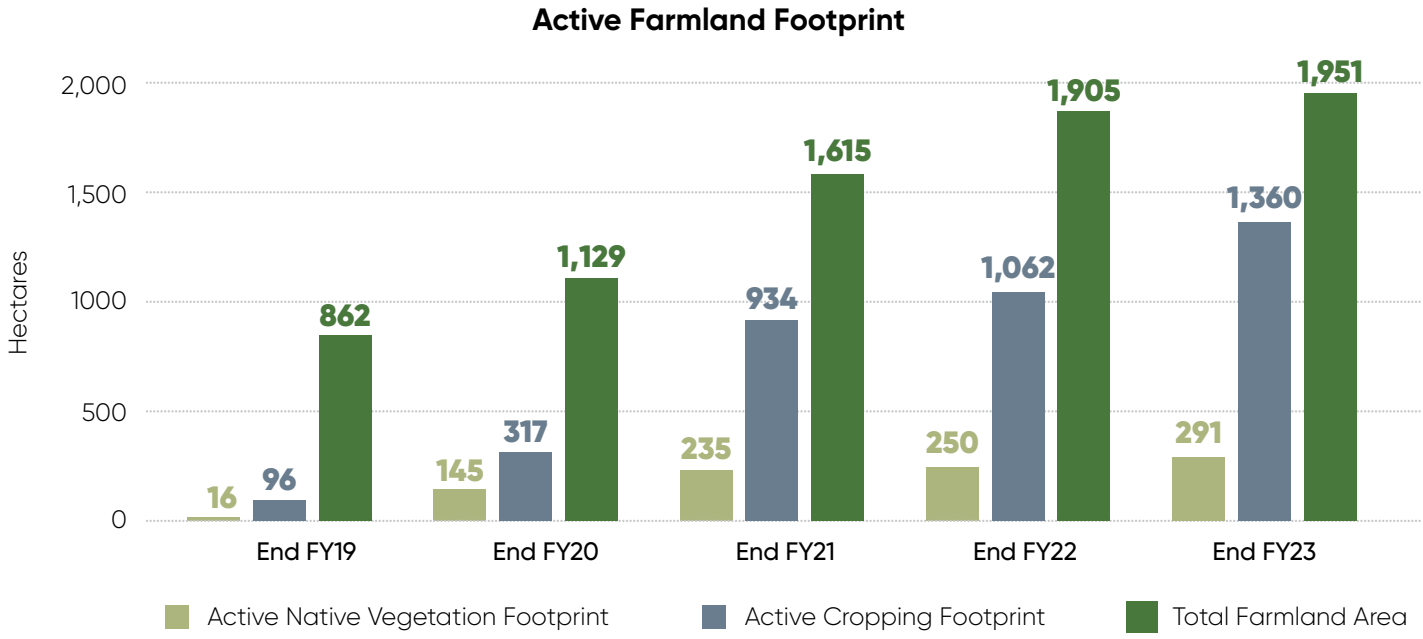


Figure 6: Trajectory of farmland active functional footprint properties under management



Social Outcomes

Ethical and Diverse Employment

Global ESG Goals

- Decent Work and Economic Growth: 8.5 & 8.8 – Safe and secure work for everyone, including equal pay for work of equal value, with a focus on the marginalised and those in precarious employment
- GRI401-1: New Hires and Employee Turnover.

Targets

- Ethical Employment: Seek to hire staff from local communities and work to achieve staff turnover of less than 15% annually
- Work Safety: Ensure all casual labour employed on the farmland is appropriately inducted on occupational health and safety (OH&S)
- Diverse Employment: Ensure employment is offered to culturally and gender diverse individuals and that rates of pay are in accordance or better than prescribed standards.

Management Interventions

- 100% of the full time on-farm staff live within 50km and 100% of the operational and management staff live within 250km
- All casual labour was appropriately inducted on OH&S and rates of pay were in accordance or above award rates
- All labour hire was compliant with the Labour Hire Licensing Act 2018 (Vic)
- The labour shortage in Australia has continued to impact short-term labour hire for agricultural operations. As a result, employment of any casual workers was challenging, limiting opportunity for delivery of cultural and gender diversity aspirations.

Key Outcomes

100% of full time
farm employees live within 50km

100% of management employees
live within 250km

74% of management employees
live in regional and rural areas

4 Work Heath and Safety
sessions held for farm workers

3 Work Heath and Safety
meetings held

Local Community Development

Global ESG Goals

- Decent Work and Economic Growth: Goal 8
- GRI 413: Local Communities
- GRI 203: Indirect Economic Impacts.

Targets

- Local Suppliers: Seek to engage and prioritise local suppliers where feasible, defined as suppliers within 50km of the Fund
- Community Engagement: Pro-actively meet bi-annually with local community representatives and groups to discuss planned initiatives and seek feedback.

2023 Local Development Outcomes

- Kilter ran 12 tours to farm in 2023, supporting local accommodation and hospitality businesses. All food and drink is purchased locally on all tours
- Kilter Rural made a further $8000 donation to the Gargarro Botanic Gardens https://www.gargarrobotanicgarden.com.au/ and a contribution to the local CFA
- As farm activities ramped up so did the number of local suppliers engaged within the community. 150 suppliers were sourced within 50kms of the Girgarre farmlands injecting $2.6 million dollars into the local economy. Within 250kms a total of 248 suppliers were engaged making a significant contribution to the regional and rural areas in which we operate. Targets for spend within the 50km zone have been hampered by continued labour and contractor shortages in the agricultural sector.

Key statistics

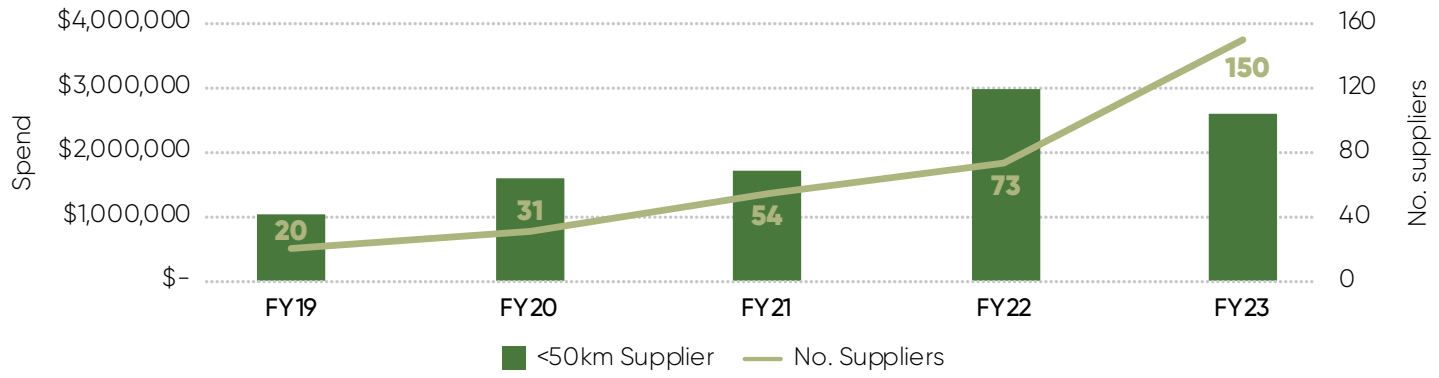
150 suppliers
within 50km

248 suppliers
with in 250km

51% of community spend
occurred within 50km

88% of community spend
occurred within 250km

Figure 7: KAF-Girgarre Farm Community Spend within 50km



Indigenous Engagement

Global ESG Goals

- SDG Decent Work and Economic Growth: Goal 8
- UNDRIP Article 3: Indigenous peoples' right to self-determination, including to freely pursue their own economic and cultural development
- Article 5: The right to maintain and build upon their economic, social, and cultural institutions
- GRI 411: Rights of Indigenous Peoples.

Management Interventions

- Working with the Goulburn-Broken Catchment Management Authority and the Yorta Yorta Nation Aboriginal Corporation (YYNAC), from design, through to management of a native seed production area at Girgarre. This seed production program has seen Kilter partnering with a range of trusted local service providers. These include the Goulburn Broken CMA, Goulburn Broken Indigenous Seedbank (GBIS), local direct seeding contractors and the local Yorta Yorta Nation Aboriginal Corporation. These are enduring relationships enabling the efficient and effective implementation of the Girgarre farmland revegetation program, and Kilter's involvement also materially helps enable broader catchment scale revegetation objectives and associated capacity building.

Case Study: Native Seed Collection

Background

December 2023 saw the first collection of native wattle seed from revegetation plantings established on the Girgarre farmlands in 2020. This seed, collected from a purpose designed seed production area (SPA) will be inventory for future plantings on the farmland as well as contribute to a genetically diverse seed bank benefitting biodiversity regeneration across northern Victoria more broadly.

In early December 2023 a highly impressive 35kg haul of seed was hand collected from a 2ha grove of *Acacia pycnantha*, commonly known as golden wattle. A small tree of up to 8m in height and known for its bright yellow globular flowers, these are iconic in featuring as Australia's national floral emblem.

The area of seed harvest was a fortunate survivor of the floods that hit northern Victoria in late 2022. The inundation was particularly impactful across KAF-Girgarre's Rendell property that abutts the ephemeral red gum swamp known as Mansfield Swamp. Unfortunately, golden wattle germinants in low lying areas of the property did not survive the inundation, but on pockets of slightly drier raised ground such as that of the SPA, plant growth has thrived.

Genetically diverse provenances in a changing climate

The SPA was direct seeded in a former pasture paddock in late May 2020. At the time the presence of several early colonising volunteer natives hinted of conditions for a good planting outcome.

1540g of wattle seed was direct seeded, the seed sourced from 18 provenances from the foothill box-ironbark woodlands of central Victoria through to the Murray plains. The provenances were separately planted in marked 5m spaced rows over a 2ha area.

Seed germination at the site proved consistent with the first flowerings on shrub-sized plants occurring in the 2022-23 summer. With the abundant residual moisture from consecutive La Nina years growth across the site became particularly noticeable during 2023.

Images from left: The iconic bright yellow globular flowers of A.pycnantha (Source: Australian National Botanic Gardens), a drone shot of the site early on harvest day; 'Park-like' slashed alleys in preparation for seed collection; a member of the YYNAC crew busily seed harvesting in the hot conditions of early December; and the outcome, seed naturally spilling from the perfectly ripened seed pods.

In preparation for harvest, the initial step was to slash the weedy undergrowth to aid the efforts of collectors (and avoid snakes!).

Native seed collection remains a highly manual process. There is also a high level of judgment required on the optimal time to harvest. From late spring the progress of the trees and their seed pods was closely monitored. A few days either side of optimal can lead to big differences in the outcome and the seed processing effort. The harvest sweet spot is highly sensitive to weather conditions. To our good fortune, early December heat primed conditions early and we were able to engage a team for a successful harvest over 11-12th December.

The collection is just the start. While, conveniently, the many fully ripened pods automatically emptied their cache of seed in their collection bags, it's the patient work of the seedbank team to layout, dry and extract the full quantity of seed. The greener seed requires additional time to dry including regular tossing. Fully separating clean seed requires the use of a thresher, manual sieve and vacuum box. The seed is then put through an insect treatment before it's packed for storage in the regulated temperature of a cool room.

A team effort for mutual benefits

The whole process from design, establishing the planting, harvest and ongoing management of the SPA relies on Kilter partnering with a range of trusted local service providers. These include the Goulburn Broken CMA, Goulburn Broken Indigenous Seedbank, local direct seeding contractors and the local Yorta Yorta Nation Aboriginal Corporation. These have been enduring relationships, enabling the efficient and effective implementation of the Girgarre farmland revegetation program as a whole, but also enabling the KAF to contribute to broader catchment scale revegetation objectives such as through the provision of native seed to the regional seedbank.

Natural Asset Performance

In 2021 baseline Econd® (environmental condition) scores, certified under the Accounting for Nature® Framework, were determined for the natural asset categories of (i) native vegetation, (ii) woodland birds and (iii) soil across the Girgarre Aggregation. This provides the reference point for which future years' measured condition of these assets can be compared.

Target Econd® have been set for natural asset condition improvement over the life of the Fund, with annually prepared environmental accounts allowing tracking of condition against target trajectories.

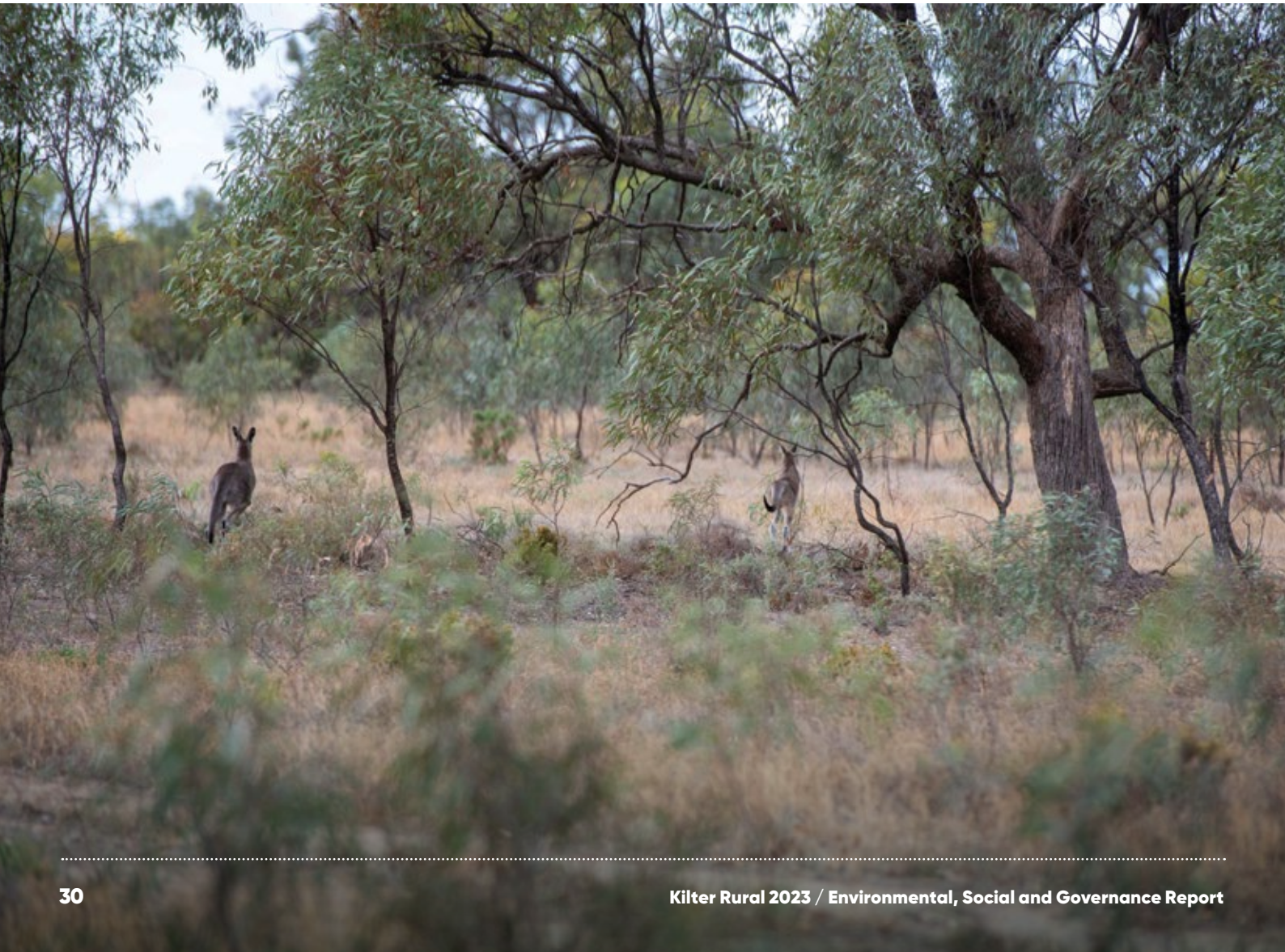
Subsequent to the baseline year, Kilter, on a rotational basis, updates the Econd® for each of the three asset classes (in 2022 the focus was Woodland Birds). Repeating condition reporting of a natural asset over a multi-year period is efficient as the movements in the condition of such assets tends to be evident over a number of years rather than resolved annually.

In 2023 a full resurvey and reassessment of the native vegetation (NV) asset was undertaken. Upon final certification (currently pending), 2023 NV condition will be the first farmland environmental account audited to reasonable assurance level. This is the standard necessary for monetising ecological improvement.

Kilter also resurveyed woodland bird condition in 2023. Annual survey is a requirement of our woodland bird method to deal with naturally high data variability. However the next formally reported woodland bird Econd® is not expected until 2025.

An update to the soil Econd® is expected to occur later in 2024 upon a significant resurvey of cropping soils.

KAF environmental account history is available at https://www.accountingfornature.org/auacc18 (the Girgarre Project, Account ID: AU00018).



Native Vegetation (NV) Condition

KAF-Girgarre farmland covers a diverse range of ecosystems, from wetlands and Red Gum forests to grassy woodlands. Unfortunately, local vegetation types have been highly degraded or removed entirely from farming systems in the district, with only a few patches of remnant native vegetation existing on the farmland.

The 2023 NV condition score (awaiting Econd® certification) was 3.7, a provisional 12% uplift on the 2021 baseline Econd® of 3.3. This is largely due to active regeneration potential from direct seeding undertaken across 225ha of the farmland.

Notable features in the data associated with this condition improvement are:

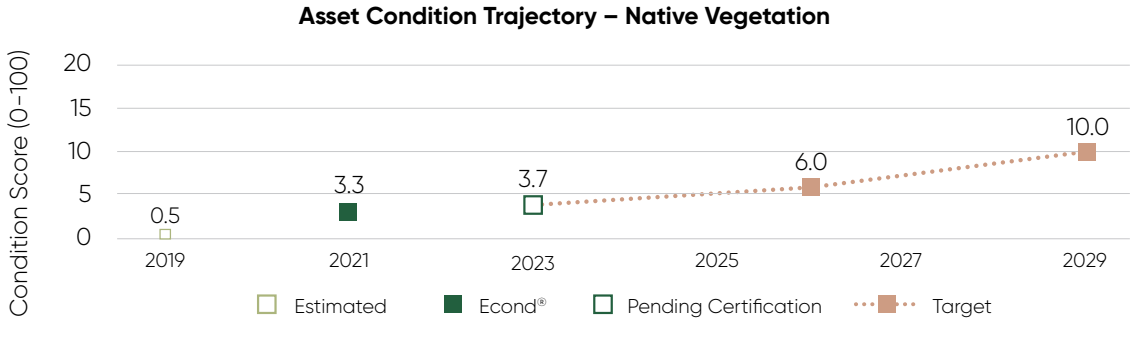
› That it has occurred despite the recent purchase of several agricultural-focussed properties that has reduced current NV Extent, as a proportion of the farmland, from 18.1% to 15.4%

› That the drop in proportional extent has more than been offset by improvements in the quality of native vegetation, that has risen to a score of 24 (of 100, and up from 18)

› Despite the significant impact of the flooding in late 2022 on our regenerating native vegetation area, since 2021 there has been material improvement in NV quality on 63% of our long-term survey sites.

2023 was marked by a broadening and intensification of seedling growth in many of the direct seeded areas, in particular those that remained above the flood line. There remains anticipation that the flooding event will ultimately assist in a more diverse regeneration response through the natural regeneration of eucalypts in the inundated zones.

Table 6: Native Vegetation Condition Assessment of the Girgarre farmland and as it relates to AfN project ID AU00018

Global ESG Goals	SDG Life on Land: 15.2 & 15.3 (Increase reforestation) GRI 304: Biodiversity Disclosures
Assessment Methodology	Kilter's accredited native vegetation condition methodology (AfN-Method-NV-05) requires statistically representative assessment of vegetation on KAF-Girgarre managed lands. Field measurement assesses the structure and diversity of this vegetation. Desktop GIS analysis is used to assess connectivity. The results are combined and compared to undisturbed (natural) state to produce the native vegetation Econd® for the farmland.
2023 Management Interventions	An additional 81ha direct seeded. This includes 26ha of newly seeded area, and 55ha that was re-seeded over late-2022 impacted zones. Higher areas that were spared flood inundation have typically experienced significant native vegetation growth during 2023. Overall, the regeneration outcome across the NV area, since baseline, can be described as patchy especially with the overlay of flood impact. However, direct seeding planned over 2024-25, in addition to natural regeneration effects, will contribute to gradually filling between patches.
Baseline Econd® (2021)	***Econd®* of 3.3** Condition is a function of the proportion of the farmland area that is under native cover (*Extent*) as well as *Quality* of this cover.
Target Econd®	***Econd®* of 10** or greater across all managed farmland by the end of the current decade through: › Reforestation of up to 30% of managed land › Improving the quality of this vegetation to at least one third of its natural state
2023 Condition	**Following application of the accredited methodology an interim condition score of 3.7 has been calculated**, based on 15.4% of native vegetation *Extent*, of average 24 (of 100) in *Quality*. NB: An Econd® score cannot be claimed until independent audit and subsequent AfN certification has been completed. Kilter expects this to be finalised by June 2024.
Target and Trajectory	

Woodland Bird and Soil Condition

Econd® for the natural assets of Woodland Birds and Soil were not updated in 2023. These assets and relevant 2023 observations are outlined below.

Woodland Birds

While an important natural asset in its own right, the condition of woodland birds also provides an important marker of the broader ecological condition of the regenerating farmland. Woodland bird condition is a function of the diversity of native species and the proportion of these that are small-bodied birds (under 50g).

In 2023 an interim condition score of 35 was determined for woodland birds, a promising (though unofficial) increase from the baseline Econd® of 26. This is in concurrence with improving native vegetation habitat that is offering additional protection for especially small bird species.

Soil

The soils of the Lower Goulburn Valley are predominately sodosols, a soil type characterized by clayey, high sodium subsoil sitting beneath a lighter topsoil.

They are typically vulnerable to salinisation and erosion under poor management regimes. The topsoil on KAF-Girgarre farmland are generally slightly acidic clay-loams. The subsoils identified are slightly alkaline and, as is common to sodosols, are prone to hardpan development and restricted crop root growth from over-trafficking and cultivation.

The 2021 reported Econd® for cropping soils was 77. During 2022-23 additional baselining occurred on several newly acquired properties. In late-2022 about 250Ha of cropland was impacted by prolonged inundation that led to short-term deterioration in soil condition. The recovery of this will be assessed with a significant re-survey of soils across the Girgarre croplands in 2024.

The current reported condition status of these assets is described in more detail in Table 7.

Table 7: Woodland Bird and Soil Condition Status of the Girgarre farmland and as it relates to AfN project ID AU00018

	Woodland Birds	Soil
Global ESG Goals	SDG Life on Land: 15.5 (Halt the loss of biodiversity) GRI 304: Biodiversity Disclosures.	SDG Life on Land: 15.3 (Restore degraded soil)
Assessment Methodology	Application of AfN-METHOD-F-02 is based on assessing bird species richness across a statistical sample of native vegetation sites on KAF-Girgarre managed farmland.	Application of AfN-METHOD-S-03. The method considers condition indicators relating to soil structure, salinity, acidity and organic carbon relative undisturbed (natural) condition.
2023 Management Interventions	Resurvey of 24 bird survey locations across the native vegetation area in May 2023. Included 4 new sites on new and existing properties.	Continuation of regenerative cropping practices. Additional baseline soil sampling comprising 10 sampling transects across two farms to ascertain soil condition.
Baseline Condition	***Econd*® of 29 (2021)** Across the regenerating native vegetation area	***Econd*® of 77 (2021)** Across cropland
Target Econd®	***Econd*® of 40** across regenerating woodland on farmland by 2029	***Econd*® of 85** across all managed cropping land by 2029. This will be achieved through broad application of regenerative soil practices, building soil organic carbon, soil structure and soil biology.
Last reported Condition	**An interim condition score of 35 in 2023** (not submitted for certification as an Econd®)	Yet to be updated since baseline

Case Study: Connection Between Remnants

In the Girgarre Aggregation, work on revegetation continues. As noted earlier, the Timmering Landscape Zone has 209 sites that were identified as Biodiversity Action Planning (BAP) priority sites for conservation management.

The KAF Girgarre Aggregation, in spots, borders these priority sites, and hence, protection and revegetation activities have been undertaken to enhance and increase vegetation extent around these sites.

As shown in Figure 8 the revegetation areas in KAF have been implemented to improve the extent and condition of vegetation areas deemed Very High Priority for protection, under the GBCMA BAP process.

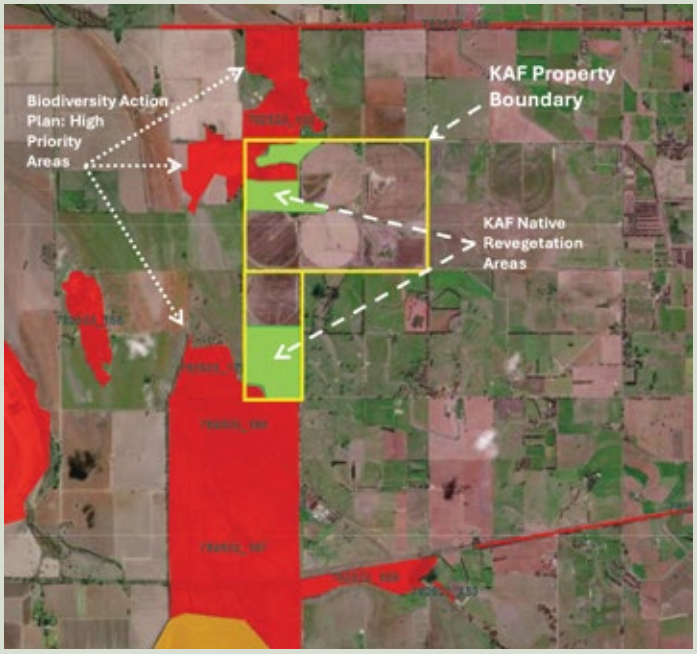


Figure 8: Kilter Agriculture Fund Revegetation Areas

Resource Efficiency

Water Use

Global ESG Goals

- SDG Clean Water and Sanitation – Goal 6.4: Increase water-use efficiency and help address water scarcity through the sustainable withdrawal and supply of freshwater
- Responsible Production and Consumption – Goal 12
- GRI303: Water Usage Disclosures.

KAF Targets

- Reduce Water-use: Water-use per hectare to be 20% below the sMBD benchmark average for each crop in the rotation; and aim to increase agricultural output relative to water used
- Redevelop Irrigation Systems: Redevelop and upgrade irrigation systems to improve water use efficiency, provide for water reuse and to reduce runoff.

2023 Management Interventions

There was approximately 880ha of winter crop harvested on the Fund's farmland in the FY23 year. Owing to flooding late in 2022 this was about 210ha down on the area sown. 210ha of area was multi-species cover cropped over the late summer – early autumn in 2023 to protect and build carbon and nutrient into the soil before the next cereal crop.

Efficient irrigation of the cropped area occurs through constant attention to irrigation need as well as physical soil management. Good practice such as reducing fallow periods (e.g. through cover crops and maintaining stubbles) and minimising soil-destructive tillage collectively reduce the evaporative losses from soil thereby optimising valuable soil water stores for the subsequent crop.

Such practices are core to the regenerative farming regimes.

Girgarre Aggregation irrigation water use is entirely consumptive and will seasonally vary depending upon cropping scale, crop type and rainfall. Kilter's intention is to maximise the efficiency of this water use. Measurement of this efficiency is undertaken by tracking the yield generated per unit of water available to it. The soil management measures above, as well as efficient farm design and irrigation delivery technology, all aid in delivering efficiency gains.

Efficiency Outcomes

As shown in Figure 8, the farmland is deploying a mix of irrigation technologies, that, as well as providing for a healthy diversity of cropping practice for risk management, are intrinsically developed with water efficiency in mind. Highly controllable drip irrigation occurs through buried tape (SDI) and overhead sprinklers (pivots). Even gravity irrigation, on re-engineered and precision graded bays, offers significant improvement on flood irrigation practices of the past.

Kilter computes a crop water efficiency metric called the GPWUI (Gross Production Water Use Index), that is the quantity of crop grown per millimeter of water available to it.

The aim in applying this index is to maximise the productive value from every unit of water available to the crop whether provided through stored soil water, rainfall or irrigation.

The Fund is continuing to build a range of baseline GPWUI values across its range of crops and irrigation technologies that will enable us to increasingly report comparable performance using this index.

As an example, Table 8 illustrates GPWUI performance averaged for wheat across the farmlands over 2021-22. Apparent for 2022 is a drop-off in GPWUI from the previous year, this is a consequence of flooding in late 2022 and the persistence of wet La Nina conditions persisting into 2023.

An increase in GPWUI values is expected to occur from stabilised seasonal conditions underpinned by the farm moving into a fully operational phase. In future we expect to see improvements in water use results achieved by improved soil quality and crop-water management.

Figure 8: The Fund's current cropland irrigation footprint to support farmland resilience and efficiency of water use

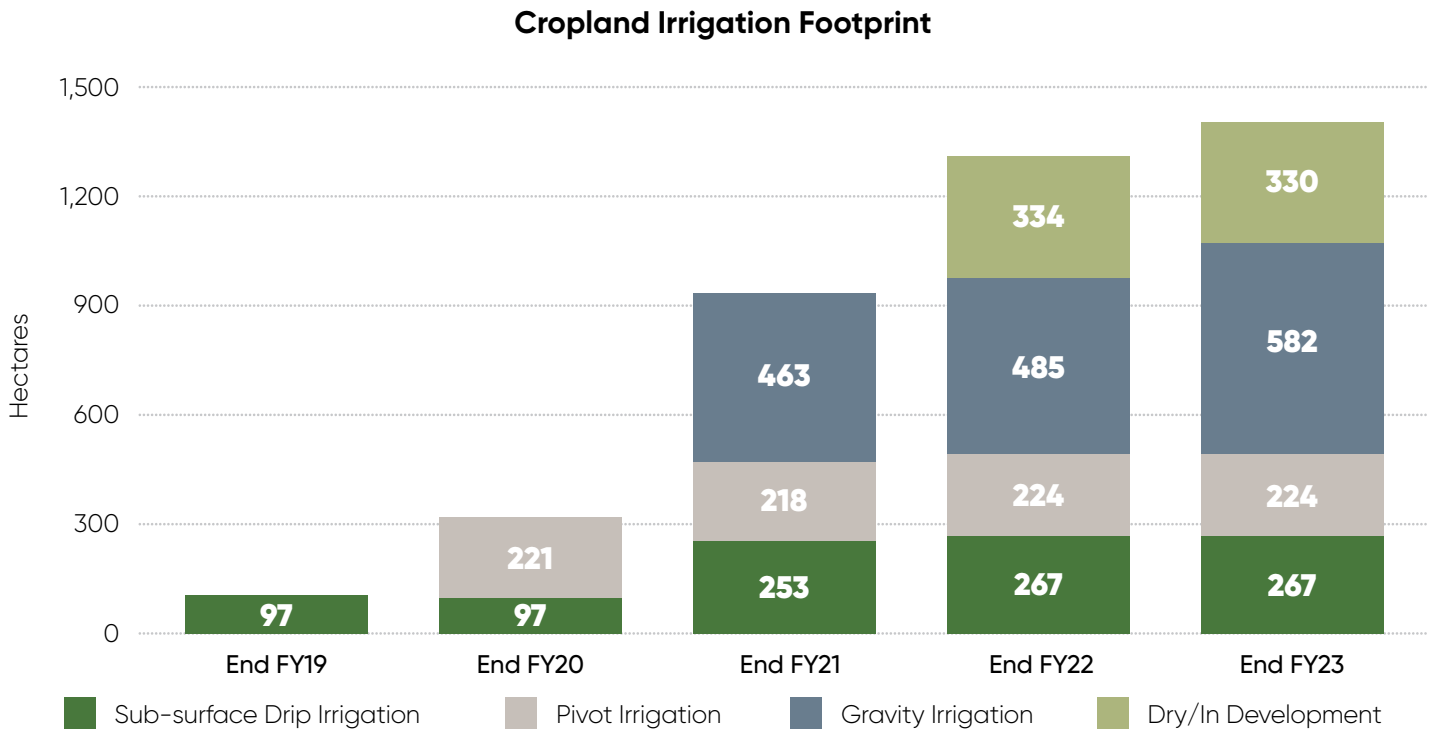


Table 8: The example of Gross Production Water Use Index (GPWUI) for wheat at the Girgarre Aggregation. GPWUI declined in 2022 due to significant La Nina rainfall events in late-2022.

Wheat Year	Area (ha)	Yield (t/ha)	Irrigation rate (ML/ha)	GPWUI (tonnes/mm)
2021	460	5.1	1.2	15.7
2022	635	3.5	0.0	10.1

Consistent with GRI disclosure 303-1, Kilter reports on the Fund's interactions with water as a shared catchment resource. Measurement on water withdrawn, consumed, and discharged is outlined in Table 9. The Fund accesses water for irrigation from the Goulburn-Murray Irrigation District (GMID) within the Goulburn River catchment.

Nearly all water consumed is accounted for as metered volumes, with a small amount also accessible from community drains. The Goulburn catchment is at significant risk of water stress and the Fund fully operates within the catchment's sustainable yield management framework.

Table 9: GRI303 Water Use Disclosures

GRI Disclosure	Quantity (ML)	Source
303-3: Water Withdrawal	555	Surface water (521 ML metered supply and ~35 ML of permitted regional drain offtake)
303-4: Water Discharge	Negligible	Irrigation runoff
303-5: Water Consumption	555	

The quantity withdrawn is considerably less than the 2,700 ML of the previous year due to the wet and ultimately flood conditions that prevailed over the region during the 2022 cropping year. Around 700mm (average 450mm) fell across the region during 2022 in addition to the overland flooding.

Energy

Global ESG Goals

- SDG Affordable and Clean Energy – Goal 7.2 & 7.3: Increase renewable energy use and the rate of improvement in energy efficiency
- SDG Sustainable Consumption and Production – Goal 12.6: Adopt sustainable production and consumption practices
- GRI302: Energy Usage Disclosures.

KAF Targets

- Energy Efficiency: Strives on average, for energy consumption intensity (GJ/ha) to be 5% lower than each previous year
- Reduce Energy Use from Fossil Fuels: By the end of the decade aim to significantly reduce our fossil fuel dependence across all operations including for:
  - Grid electricity – Phase out all carbon sources
  - Liquid fuels – Reduce by 80%.

2023 Management Interventions

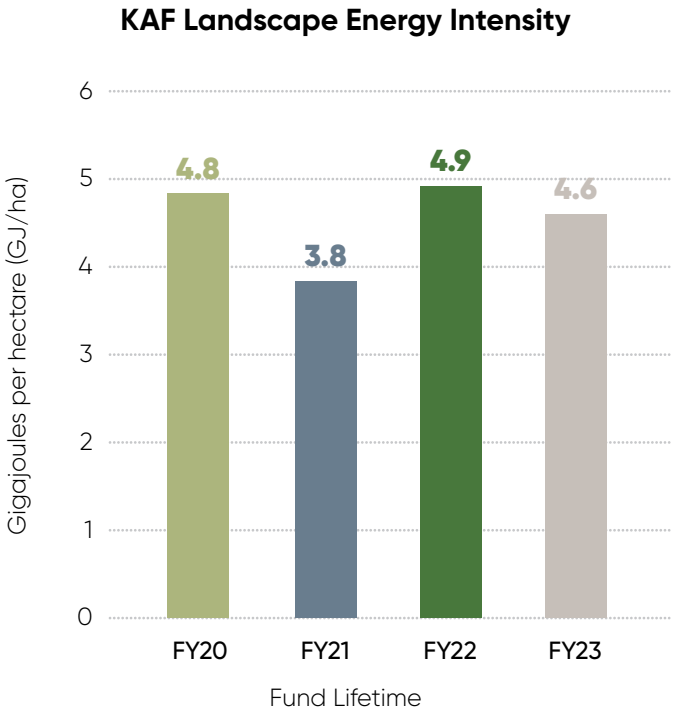
Figure 9 shows that Energy intensity across the Girgarre farmland (represented as Gigajoules per farm ha) fell slightly in FY23. This is in line with truncated winter cropping operations from farmland flooding in late-2022 flooding; overall reduced summer irrigation requirements; and also that emissions were spread over a higher proportion of (lower intensity) dryland farming area in FY23. In future years, as energy efficiency improvements take effect on fully deployed assets, the landscape energy intensity curve is expected to gradually decline.

Table 10: GRI302 Energy Use Disclosures for FY23. For energy use within the farmland boundary. (Note that Scope 3 fuel use encompasses contractor activity within the paddock, including estimated fuel used on paddocks leased to a 3rd party).

GRI Disclosure	Electricity (kWh)	Fuel	Total (GJ)
302-1: Energy Consumption (Scope 1&2)	22,897	82.5	3,265
302-2: Energy Consumption (Scope 3)	-	149.3	5,756
302-3: Total Energy Intensity Ratio	11.7 kWh/ ha	118.8 L/ ha	4.62 GJ/ ha

Efficiency Outcomes

Figure 10: Change in energy consumption in GJ/ha (GRI 302-4)



Carbon Emissions

Global ESG Goals

- SDG Climate Change – Goal 13: Take Urgent Action on Climate Change
- SDG Sustainable Consumption and Production – Goal 12.6: Adopt sustainable production and consumption practices
- SDG Decent Work and Economic Growth – 8.4: Decouple economic growth from environmental degradation
- GRI305: Emissions Disclosures.

Targets

- **Beyond Net Zero:** By 2030 we're expecting the farmland to be a net annual carbon sink, sequestering a surplus of 2 tCO_2e per hectare per year. This will be achieved through implementation of:

- Transition to **low emission power sources** (renewable electricity, diesel substitution)
- **Extending proven regenerative agricultural practices** that demonstrably increase soil carbon

- **Reduction in agricultural emissions** through substituting synthetic fertiliser, eliminating crop stubble burning and optimising residue management

- **Revegetating 30% of the farmlands** with native vegetation that sequesters carbon

- **Verified Accounts:** Externally verified annual carbon accounts are to be produced for the Fund's emissions and sequestration

2023 Management Interventions

- The FY23 and third annual independently verified Fund carbon account for KAF-Girgarre (contact Kilter for the verified Fund Carbon Statement).
- Baselining of soil carbon levels on the ACCU Scheme registered soil carbon project on the Morgan property. This, and sister revegetation carbon projects, are projected to sequester tens of thousands of tonnes of CO_2 over their lifetime producing carbon credits and/or internal offsets (insets) for the Fund.
- Kilter is also in partnership with agri-biotech business LoamBio, applying microbial innoculants to bolster soil carbon under crops to generate carbon credits in the voluntary carbon market.

Emissions Outcomes

The KAF-Girgarre FY23 carbon account summarised in Table 11 continues to include deeper reporting of supply chain (Scope 3) emissions from previous years as such data becomes increasingly available.

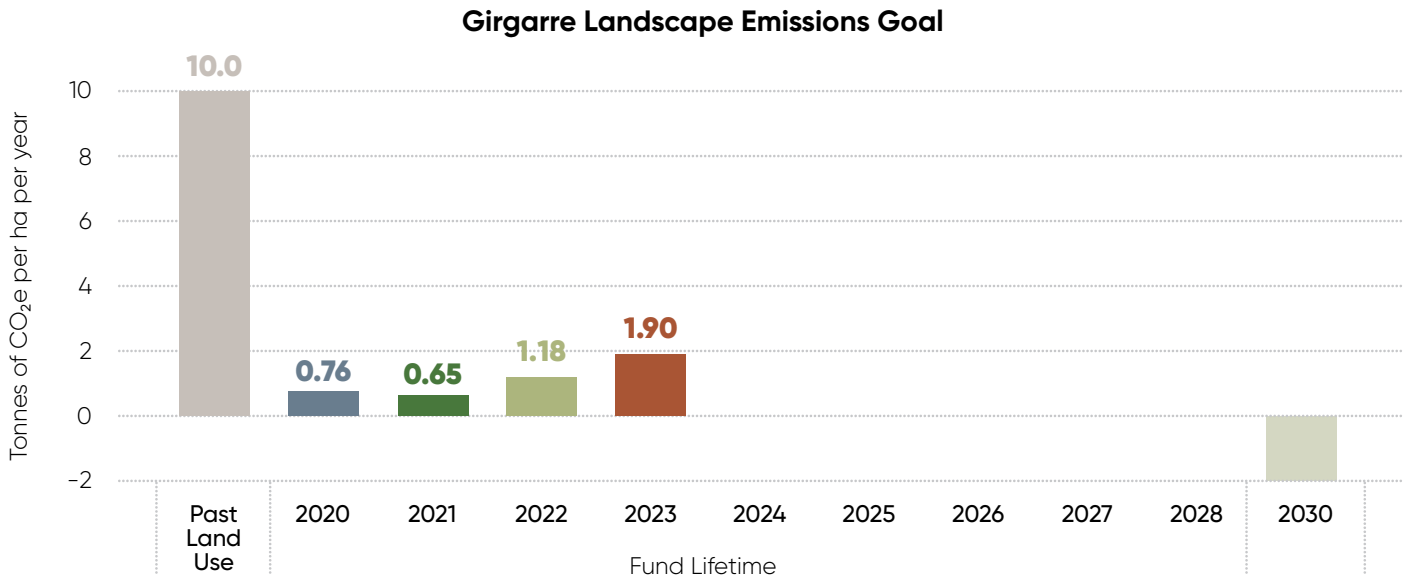
Accordingly total reported emissions, at 3,683t CO_2e), are materially greater than for FY22, however on an annual comparative basis (Figure 10) that excludes out-of-paddock Scope 3 emissions, emission intensity is substantially lower than FY22 (0.90 versus 1.18 t CO_2e/yr).

In the next few years, as reduced emission activities take hold and sequestration becomes measurable and verified, net emissions intensity is anticipated to track along a sustained long-term decline.

Table 11: KAF-Girgarre FY23 Carbon Account (GRI 305-1 to 305-3)

Emissions Type	Scope	Tonnes of CO_2 Equivalent	Comment on Source
Electricity	2+3	19.7	Farm infrastructure, irrigation pumps
Fuel: in-pdk staff	1+3	279.0	Irrigation pumps, staff fuel use
Fuel: in-pdk contractor	3	378.2	Contractor fuel within paddock.
Fuel: in-pdk lease	3	126.6	Est. fuel use on 3rd party leased paddock
Fuel: ex-pdk	3	54.3	Cartage of farm inputs (from supplier) and harvest (to purchaser)
Cropping	1	1215.0	From fertiliser and residue breakdown etc.
	3	1004.6	Manufacturing of farm inputs (fertiliser, lime, pesticide)
	3	600.0	Est. 3rd party leased paddock cropping emissions
Livestock (agistment)	3	5.3	Enteric fermentation, waste
Sequestration Not as yet reported	1	-	Native vegetation, cropping soils
Net Carbon Emissions	3,683t CO_2e		

Figure 10: Net change in emissions intensity satisfying disclosures of GRI 305-5. Note that the annual comparison excludes Scope 3 emissions, excepting those associated with in-paddock contractors servicing the KAF-Girgarre cropping program



KAF: Tocumwal Aggregation

Overview

The current Tocumwal aggregation comprises five contiguous farms with a combined area of 7,270 ha[1]. The aggregation lies in the Riverina Bioregion of NSW near the Murray River and Murray Valley National Park and is one of the largest continuous red gum forests in the world.

Compared to the Girgarre aggregation the Tocumwal farms maintain a substantial proportion of native vegetation, approximately 20% of the aggregation, largely distributed along a network of creek lines feeding into the Murray River. Across the remainder of the farmland there are extensive scatterings of large remnant Red Gum and Grey and Yellow Box, Murray Pine and Allocasuarina which have been subject to cropping and grazing. Acquired by Kilter Agriculture Fund in 2023-24, historically the aggregation has supported a range of agricultural enterprises ranging from dryland cereals, annual and perennial legumes, to a small irrigation footprint that has supported corn over summer.

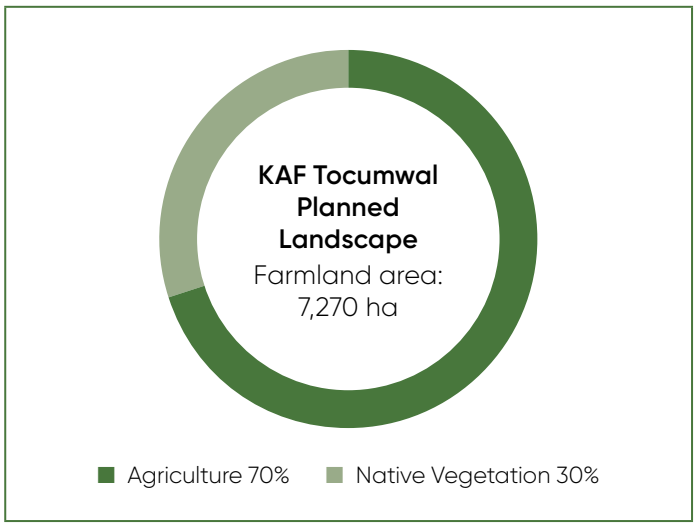
Assets currently under management in the KAF-Tocumwal aggregation include:

- Land area of 7,270 ha as settled or under contract
- 482 ha of active irrigated cropping footprint, 439ha of which is gravity irrigated and 43 ha through overhead pivot sprinker
- Up to 5,500 ha of historical rainfed cropping/ grazing footprint
- 1,360 ha (19%) of consolidated tree cover, typically along creek lines
- Groundwater entitlement of 356 ML.

Table 12: Summary of Primary Assets committed in the Tocumwal Aggregation of the Kilter Agriculture Fund

Asset Class	End 2023	Comment
Land	7,270 Hectares (17,965 acres)	
Water	356 ML (groundwater)	2 water access licenses (WALs), as groundwater

Figure 11: Generalised land purpose (to be implemented by 2028)



1 Settled and contracted properties

Tracking Natural Asset Condition

The Tocumwal Aggregation is located in the Riverina Bioregion of NSW within the Murray Fans sub region. The properties are situated proximal to the Murray Valley National Park, one of the largest continuous River Red Gum forests in the world with over 60 threatened animal species and 40 threatened plant species. The farms in the Tocumwal Aggregation retain significant and important native vegetation for protection and enhancement.

Extensive creek lines running through the properties typically support River Red Gum forest. This grades into remnant Black Box and grassy woodland outwards across the floodplains, and surviving Cypress Pine associated communities on localised sandy rises. Soils across the aggregation range from black to grey cracking clays (vertosols) on the floodplain to poorly developed sandy loams on the rises.

As it has demonstrated operationally at Girgarre, Kilter Rural is planning to similarly adopt the Accounting for Nature® Framework for the monitoring and reporting of natural asset condition at KAF-Tocumwal. This will occur across both the ecological (esp. for the native vegetation and fauna asset classes) and agricultural (soil asset class) areas of the farmland.

Planned 2024 Management Interventions

The following schedule of activity is planned in 2024 in order to implement the framework:

- Select the appropriate Accounting for Nature assessment methodologies suitable for the context of the Tocumwal properties
- Register a Tocumwal environmental accounting project with AfN
- Define the accounting areas for each of the intended environmental accounts (of native vegetation, fauna and soil) and desktop map the assets within
- Assisted by field assessment, stratify each asset class by its morphology/type, generalised condition and/or management type into *assessment units*
- Determine a sampling design appropriate to the size and characteristics of the derived assessment units
- In spring 2024 begin the process of baseline survey of these assets.

Assessing Resource Use Efficiency

Kilter's emphasis is on maximising the agricultural production of farmland whilst improving the condition, and therefore long-term resilience, of the underlying natural capital that is essential to support it. Integral to this is driving the efficiency of application of agricultural inputs such as water, fertiliser and energy. This in turn impacts on farmland carbon emissions that Kilter is committed to monitoring and reducing, to ultimately achieve carbon neutrality.

Water Use

Water use within the Tocumwal aggregation will be impacted by land use change associated with initial repurposing and redeveloping the farmland.

Efficiency of water use begins with development choices, such as improving the function of gravity irrigation systems (e.g. precision graded bays) and the deployment of highly controllable overhead spray (pivot) technology. Design aside, optimising water use efficiency is also about expertly-managing plant water application to produce more crop using less water.

Global ESG Goals

- SDG Clean Water and Sanitation: Goal 6.4 - Increase water-use efficiency and help address water scarcity through the sustainable withdrawal and supply of freshwater
- SDG Responsible Production and Consumption: Goal 12
- GRI303: Water Usage Disclosures.

KAF-Tocumwal Targets

- Reduce Water-use: Water-use per hectare to be 20% below the sMBD benchmark average for each crop in the rotation; and aim to increase agricultural output relative to water used
- Redevelop Irrigation Systems: Review and redevelop or upgrade irrigation systems to improve their water use efficiency. As appropriate integrate solutions to capture water runoff for irrigation reuse.

Planned 2024 Management Interventions

As explained and demonstrated for the Girgarre Aggregation, Kilter will track water use efficiency and effectiveness for the Tocumwal farmlands using the metric GPWUI (Gross Production Water Use Index). This is the quantity of crop grown per millimeter of water available to it, whether via irrigation, rainfall or soil moisture storage. 2024 will provide the first opportunity to benchmark the Tocumwal farms using this metric, and also to establish comparison benchmarks to like-activity across the region.

Energy

The fundamental intent of Kilter-managed assets is to maximise the productive outcomes of energy use from both electricity and fuel consumption. This obviously is an important element of managing carbon emissions (discussed below), but here is treated from the perspective of resource use efficiency, so achieving greater productivity with less input.

Global ESG Goals

- SDG Affordable and Clean Energy: Goal 7.2 & 7.3 - Increase renewable energy use and the rate of improvement in energy efficiency
- SDG Sustainable Consumption and Production: Goal 12.6 - Adopt sustainable production and consumption practices
- GRI302: Energy Usage Disclosures.

Targets

- Energy Efficiency: Strive for when the farmland is in a fully operational state, for energy consumption intensity (GJ/ha) to be on average 5% lower than each previous year by:
  - Utilising the natural benefits of healthy biodiverse soils to reduce the need for cropping passes
  - Employing energy effficient technologies.
- Reduce Energy Use from Fossil Fuels: By the end of the decade aim to significantly reduce our fossil fuel dependence across all operations including for:
  - Grid electricity – Phase out all carbon sources
  - Liquid fuels – Reduce by 80% over the life of the Fund.

Planned 2024 Management Interventions

2024 will be the first year of energy data collection from across the Tocumwal aggregation. As demonstrated at Girgarre, electricity and fuel use will be converted to Gigajoules of energy that can then be presented as a farmland energy intensity metric (Gigajoules per farm ha) that can be tracked during the life of the Fund. The adoption of other more sophisticated metrics relating to particular units of production will also provide more granular information on where improvements are being made or are possible.

Addressing Carbon Emissions

The intention for all KAF farmland aggregations is to achieve carbon neutrality within five years. This will occur by reducing unnecessary emissions combined with implementation of significant farm management interventions. They include:

- Improving efficiency in resource use. For instance applying new technologies that deliver significant efficiencies in the (increasingly non-synthetic) application of fertilisers to crop soils. Also through the application of remotely operated robotics, such as with sprayers with weed identifying cameras to target herbicide use
- As commercially available, replacing energy systems with low emission alternatives (fossil fuel substitution, green electricity and on-farm renewables)
- Introducing a legume as a standard in crop rotation. Legumes sequester atmospheric nitrogen into soil in a readily plant available form for subsequent crops and therefore greatly lessen the requirements for synthetically applied fertiliser nitrogen
- Substantially reducing the burning off of all crop residues. Retaining crop straw provides ground cover over summer and retains soil moisture. No burning means dramatically reduced CO_2 emissions
- No tillage. Whilst minimising tillage is a widely understood practice in broadacre agriculture, it remains a low adoption practice. The exposure of soil organic carbon to aeration from tillage during soil erosion increases CO_2 emissions. KAF will utilise sowing machinery that does not require tillage
- Preference for 'insetting' farmland sequestration and so limiting the need for purchasing offsets to attain carbon neutrality.

As for the Girgarre aggregation an annual carbon account will be generated for the Tocumwal farms. This will consider all material sources and sinks of emissions, as well as build the understanding of supply chain emissions that will inform future operational purchasing decisions.

Global ESG Goals

- SDG Climate Change: Goal 13 - Take Urgent Action on Climate Change
- SDG Sustainable Consumption and Production: Goal 12.6 - Adopt sustainable production and consumption practices
- SDG Decent Work and Economic Growth: 8.4 – Decouple economic growth from environmental degradation
- GRI305: Emissions Disclosures.

Targets

- Beyond Net Zero: By 2035 we're aiming for a mature KAF Tocumwal Aggregation to be operating as a net annual carbon sink, sequestering a surplus of 2 tCO_2e per hectare per year. This will be achieved through implementation of:
  - Transition to low emission power sources (renewable electricity, diesel substitution) and resource efficient technologies
  - Reduce agricultural emissions through substituting synthetic fertiliser, eliminating crop stubble burning and optimising residue management
  - Extending regenerative agricultural practices which increase soil carbon
  - Revegetation of 30% of the farmlands with native vegetation that sequesters carbon.
- Verified Accounts: Externally verified annual carbon accounts are to be produced for the Fund's emissions and sequestration.

Planned 2024 Management Interventions

During 2024 an opportunity analysis will occur to outline and prioritise initiatives for emission reduction, as well as a more detailed scoping and scheduling of sequestration potential.

To this stage all new electricity accounts in the aggregation have been initiated with default 100% Greenpower. The first carbon account will be produced for the Tocumwal Aggregation in 2024 (for FY24). This will be undertaken to an auditable standard to allow for third party verification (as already undertaken for the Girgarre aggregation).

Water Investment Outcomes

Water Market Background

Australia is the driest populated continent in the world and its rainfall and river flows are considered highly variable. Despite the enduring challenges of water variability and scarcity, Australian agriculture continues to make a significant contribution to the nation's prosperity and maintains a global reputation for producing high quality food and fibre.

Australia's capacity to sustainably respond to the increasing global demand for food and fibre is due, in large part, to the significant investment in major irrigation infrastructure over the past century. More recently, reforms to the management of the nation's water resources have been progressively implemented to achieve a more sustainable balance between the competing demands of consumptive irrigation and environmental objectives.

> *When water is plentiful, it can simply be provided to, or taken by, everyone who needs it. However, in many cases, water is limited and its use by one person affects its availability to others. This may result in competition and conflict, and creates the need for a coordinated, equitable and efficient system of allocation[2].*

Following the signing of the Rivers Murray Water Agreement in 1915, the Federal and State Governments set about expanding Australia's water resources and irrigated agriculture footprint by establishing irrigation areas in the Murray-Darling Basin (MDB) and investing in infrastructure projects to build storage dams.

After World War II, there was a significant increase in the scale of investment in dam infrastructure with projects such as the Snowy Mountains Scheme, Ord River Scheme and the Burdekin Dam in North Queensland. This construction activity, assisted by post-war migrant labour, resulted in a ten-fold increase in the capacity of major dams between 1940 and 1990.

From around the 1970's factors began to emerge which raised concerns about water extraction practices including:

- Viable options for increasing water supplies were diminishing
- There was declining public support for state funded large-scale irrigation infrastructure projects, and
- Increasing concerns about adverse environmental impacts from 'uncontrolled' water extraction, including the increasing emergence of toxic blue-green algal blooms and irrigation-induced land salinisation.

These factors led to a series of significant water reform initiatives, including:

- In 1994, the Council of Australian Governments (COAG) endorsed the Water Reform Framework covering water entitlements, allocations, pricing, trade, efficiency and environmental needs. The Framework sought to create water markets through the development of tradeable water rights in order to allow water to flow to higher value uses
- In 1995, the Murray-Darling Basin Ministerial Council (MINCO) established a cap on water extraction in the Murray-Darling Basin limiting diversions to 1993-1994 levels, and
- In 2004, COAG signs the National Water Initiative, an agreement between the State and Federal Governments to commit to removing barriers to trade, including separating land and water titles which occurred on 1 July 2007. This opened trade in water to non-landholders for the first time.

2 Water markets in Australia: a short history, 2011, National Water Commission

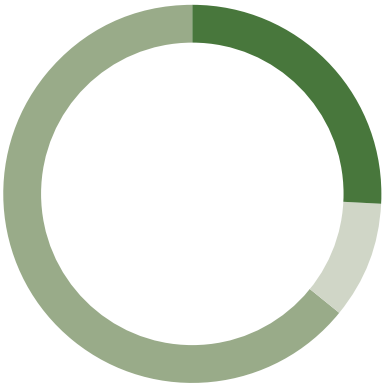
The Murray-Darling Basin (MDB) is the largest and most complex irrigation system in Australia and has received most of the water reform scrutiny. The Federal Water Act, 2007 (Water Act) and associated Murray-Darling Basin Plan, 2012 (Basin Plan) are both significant pieces of reform legislation which consolidated previous reform objectives and incorporated the changes to water resource management that underpin the current water market design, including:

1. Environmental sustainability enshrined by:
    - Recognising the historical over-extraction of water for consumptive (irrigation and urban) use
    - Establishing caps on consumptive use via a sustainable diversion limit (SDL) mechanism, and
    - Setting targets for the recovery water resources to be permanently redirected for environmental use.
2. Market design to promote water use efficiency and the transition of consumptive water to its highest value use by:
    - Separating water titles from land titles, and subsequent adoption of a 'cap and trade' approach to regulate trade
    - Introducing the capacity for certain water allocations to be carried over from one irrigation season to the next, and
    - Introducing market resources to increase market transparency and reduce transaction process times.
3. Ongoing improvements to market governance by:
    - Creating the Murray-Darling Basin Authority (MDBA) to oversee implementation of the Basin Plan and independently manage the State-shared resources of the River Murray system
    - Establishing a key role for the Australian Competition and Consumer Commission (ACCC) in enforcement of trade rules, and
    - In 2021, the Water Act was amended to establish an Inspector-General of Water Compliance (IGWC). The IGWC has taken over the compliance and enforcement functions previously held by the MDBA.

All MDB jurisdictions have created statutory-based water entitlements that provide clear and secure long-term water rights that service human needs, agricultural users and the environment. State Governments are responsible for the allocation and regulation of water rights as well as the licensing of irrigation developments on agricultural land. Historically, water rights were incorporated into the land titles on which the water was to be used, however the regulation of irrigation extractions was marked by an absence of planning controls.

The establishment of secure water rights, separate from land, coupled with capping consumptive use, have been key building blocks to enable water trading and the establishment of water markets — the most extensive of which is in the southern Murray-Darling Basin (sMDB).

These arrangements have produced significant financial and non-financial benefits. Water entitlements are now valuable business assets with the total value of major entitlement types in the southern MDB exceeding $32 billion in 2023. The benefit of creating these entitlements has on the whole flowed through to farmers who were issued entitlements in the period to the CAP on extraction in 1990's. In 2023 farmers remain the majority owners of water rights in the sMDB.



- › Annual turnover in Entitlements and Allocation > $700M – A$1BN
- › Investible opportunity of over A$3BN
- By value, state and federal governments own 26% of water
- Investors estimated to own 10%
- Farmers own 64%

The move towards a market-based approach to allocating water (particularly in the sMDB) has involved several actions, including:

- **establishing water planning processes —** developing processes for water managers, key stakeholders representing competing water uses and their communities to work together at the river valley scale to negotiate outcomes for each system
- **limiting total extractions and defining the consumptive pool —** through water planning, setting diversion limits for surface and groundwater systems to protect the environment and the rights of existing users, and creating a driver for water trading
- **clearly specifying water rights —** converting existing, ill-defined water rights into secure, long-term, tradeable entitlements, separate from land and providing a share of water for the environment (via water planning processes)
- **facilitating water markets —** developing the rules for water trading and establishing water markets (including public entitlement registers and trading exchanges).

Water for human consumption rests under the management of government, while water for agriculture is managed by government but owned, used and traded by irrigation cooperatives and/or farmers. It is in the agricultural consumptive water market that Kilter Rural water funds operate.

Water markets have become increasingly important to irrigators for managing their businesses, especially in periods of low water availability. The removal of trade barriers, quicker and easier trade approval processes, and better market information has enabled rapid growth in water trade, including across state boundaries. As a result, higher-value industries, such as nut and olive growing, have developed rapidly, and established industries have become more productive. The value of entitlements, their legal backing and developed markets for those entitlements has enabled financial institutions to accept them as collateral for loans.

While there remains scope for operational and transparency improvements at a range of levels the development of water markets has benefited users and the broader community in a range of ways.

It has:

- allowed water to move from producers with flexible irrigation demands (such as rice and cotton growers) to those with inflexible demands (such as horticulturalists with perennial crops), which has been particularly important during periods of drought
- facilitated longer-term investment planning, including decisions to change production or exit irrigated agriculture
- strengthened incentives for efficient water use and infrastructure investment, which is likely to have contributed to improved water use efficiency in industries such as cotton growing
- provided a cost effective and equitable means through which governments can recover water for the environment.

Update on the Basin Plan

In 2007, the government committed to a plan to recover 3,200 GL of water rights from agriculture in the sMDB and return it for environmental outcomes. In 2023 the Federal Labour Government amended the Basin Plan to facilitate more time and measures to reach water recovery targets for the environment.

Currently the government has acquired 26% of agricultural water in the market from farmers willing to sell and redeployed this for environmental outcomes in rivers and wetlands. The Basin plan targets suggest the government have a further 6% to recover. This volume represents approximately five times the annual volume of trade in entitlements.

The new 2023 legislation to complete the environmental water recovery process states that water buybacks in the market from willing sellers is one of the options. This will further reduce water available for agriculture, and over time cause higher allocation prices under all seasonal condition. The timeline for completing the environmental water recovery has been extended to 2027.

It is within this operating environment that Kilter runs its irrigation farmland and water investment funds. While market rules, regulations and knowledge will continue to evolve and improve, the individual property right associated with owning entitlement remains a key feature of the market, protected and recognised by both state and federal governments.

Kilter Water Fund

Introduction

The Kilter Water Fund (KWF) is a significant player in the Australian water market, operating within the Murray-Darling Basin. Subject to Kilter's governance frameworks and procedures the Fund is guided by a commitment to long-term economic and financial value, which is inherently tied to the protection of natural capital and ecosystem sustainability.

Environmental Impact

KWF operates within the regulatory framework of the MDB Plan, ensuring sustainable water extraction and ecosystem health. Through efficient water markets, the Fund contributes to mitigating soil degradation issues by incentivising responsible water use among farmers.

Ecosystem Health

The Fund's operations indirectly contribute to maintaining the health of river systems and associated ecosystems by adhering to regulatory requirements and promoting responsible water management practices.

Social Impact

Community Value

By supporting high-value water users and efficient water use practices, KWF contributes to the resilience and prosperity of rural communities within the MDB.

Employment and Economic Growth

The Fund's activities have positive flow-on effects on local employment, service suppliers, and communities by fostering innovation, technology adoption, and sustainable agricultural practices.

Governance

ESG Policy Framework

KWF operates under a comprehensive Quality Management System (QMS) driven by ESG Policy P007. Implementation procedures include ESG Monitoring, Evaluation, and Reporting, Environmental Accounting, Carbon Accounts, and Sustainability Reporting Frameworks.

Stakeholder Engagement

KWF engages with stakeholders including investors, regulators, and local communities to ensure alignment with ESG principles and address concerns effectively.

Climate Change Response

Risk Assessment

KWF integrates climate change risk assessments into its strategic planning process, leveraging expert briefings from CSIRO since 2014. Recent efforts involve aligning with the Taskforce for Climate-related Financial Disclosures to identify risks and opportunities for informed decision-making.

Innovation

The Fund actively innovates its products and delivery approaches based on climate change projections, aiming to enhance resilience and adaptability to changing environmental conditions.

Key Outcomes

The Kilter Water Fund operates within a robust regulatory framework and demonstrates a commitment to sustainable water management, ecosystem health, and stakeholder engagement. While its primary focus is on delivering responsible financial returns to investors, the Fund's indirect contributions to environmental conservation, social well-being, and governance standards are noteworthy. Moving forward, continued integration of ESG principles, proactive climate change responses, and stakeholder collaboration will be essential for KWF to uphold its commitment to long-term value creation while promoting sustainable development within the MDB.

The Kilter Water Fund is proudly **Zenith Approved**. The Fund invests in a specialised portfolio of southern Murray-Darling Basin Water Entitlements. Find out more at kilterrural.com

Murray-Darling Basin Balanced Water Fund

Introduction

The Murray-Darling Basin Balanced Water Fund is the first investment vehicle in Australia to provide investors with the opportunity to achieve multiple objectives of securing water for agriculture, realising a financial return and, restoring culturally and environmentally threatened wetlands.

Founded in 2015 the Fund's objectives are delivered by recognised leaders in their fields, Kilter Rural, The Nature Conservancy Australia and the Murray-Darling Wetlands Working Group.

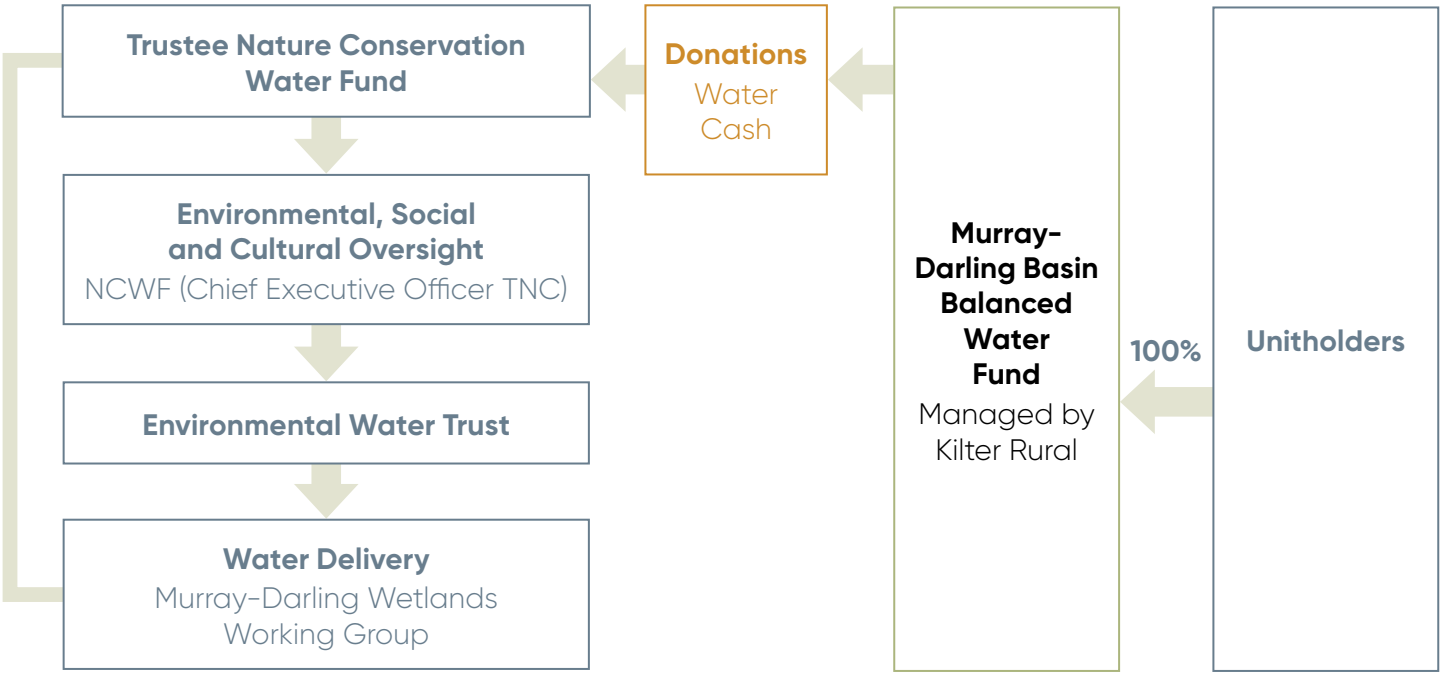
Governance

In addition to the Kilter governance framework and procedures that oversee all Kilter managed funds additional governance requirements have been put in place to oversee the management and delivery of the environmental water donations.

The Fund's governance arrangements are structured to independently manage two distinct objectives:

1. Optimise the financial investment returns to unitholders from the deployment of the Fund's portfolio of water assets, and
2. Maximise the beneficial environmental, social and cultural impact in wetland ecosystems from the deployment of resources donated by the Fund.

The Fund's governance structure provides for clear separation of responsibilities in relation to delivering the Fund's financial investment outcomes and the environmental systems outcomes.



RIAA Certification Symbol: The Murray-Darling Basin Balanced Water Fund has been certified by RIAA according to the strict operational and disclosure practices required under the Responsible Investment Certification Program. See www.responsiblereturns.com.au for details.*

*The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services License.

The Murray-Darling Basin Balanced Water Fund is now **Zenith Approved** for a second consecutive year. The Fund is Australia's only explicit impact water fund delivering impact through water donations to environmentally and culturally significant wetlands. Find out more at kilterrural.com.

The Zenith Investment Partners (ABN 27 103 132 672, AFS Licence 226872) ('Zenith') rating (assigned KIL0001AU 12/2023) referred to in this piece is limited to 'General Advice' (s766B Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual, including target markets of financial products, where applicable, and is subject to change at any time without prior notice. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of, and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Past performance is not an indication of future performance. Zenith usually charges the product issuer, fund manager or related party to conduct Product Assessments. Full details regarding Zenith's methodology, ratings definitions and regulatory compliance are available on our Product Assessments and at Fund Research Regulatory Guidelines.

Environmental and Social Outcomes

Reporting period: 1 July 2022 – 30 June 2023

The reporting period is in line with the financial year reporting of the Fund and the water market year in Australia. As such, this report reflects this period.

This is a summary, a full report is released annually and is available upon request.

Environmental Outcomes

Highlights

3 of the biggest Australian private water donations in history

Full environmental report report provided by Environmental Water Trust available

13 rare and threatened plants were recorded for the first time in 2022

Foraging and breeding grounds created or maintained for **59** waterbird species

13 federal and/or state-listed species including the Australian bittern, Freckled duck and Blue-billed duck

The following is an extract from a Fund to Date summary provided annually by the Environmental Water Trust (EWT) and Murray-Darling Wetlands Working Group (MDWWG).

Environmental Water Trust

Environmental Impact Summary Fund to Date (2015 – 30 June, 2023)

Table 13: Summary of outcomes as of 30 June 2023

	Summary of Outcomes	
Watering Outcomes	Number of wetlands watered	33
	Number of watering events	70
	Water donated by the Fund	~13,350 ML
	Aggregated water delivered to wetlands from the Fund, Commonwealth and State environmental water	17,625 ML
Biodiversity Outcomes	Area of wetlands directly inundated	1,072 ha
	Area of wetlands directly inundated including repeat waterings	2,817 ha
	Estimated area for improved biodiversity outcomes	~10,700 Ha
	Number of rare and threatened species supported	40
	Number of waterbird species supported	59

Environmental Water Donation

From the inception of the Murray-Darling Basin Balanced Water Fund (BWF) until 30 June 2023, the Fund has donated a total of 13,348 ML of water. Table 14 below outlines the water donation and the use of that donation for each year since the Fund's inception. In some years, a portion of the donated water has been traded to fund either the delivery of environmental water, or the development of infrastructure and on-ground works to enable the sustainability of water delivery to wetlands and to enable new sites to receive environmental water.

Table 14: Water Donation Summary

Year	Season	Donation (ML)	Delivered Environmental Water to Wetlands (ML)	Traded to support Environmental Water Delivery (ML)	Carried-Over for Future Delivery (ML)
2017-18	Moderate	400	107	293	0
2018-19	Dry	1,000	657	100	243
2019-20	Dry	1,401	530	790	80
2020-21	Dry	1,797	1,982	0	115
2021-22	Moderate	3,540	3,325	0	0
2022-23	Very Wet	5,190	678		4,512
Total		**13,348**	**7,179**	**1,183**	**4,950**

Environmental Water Delivery

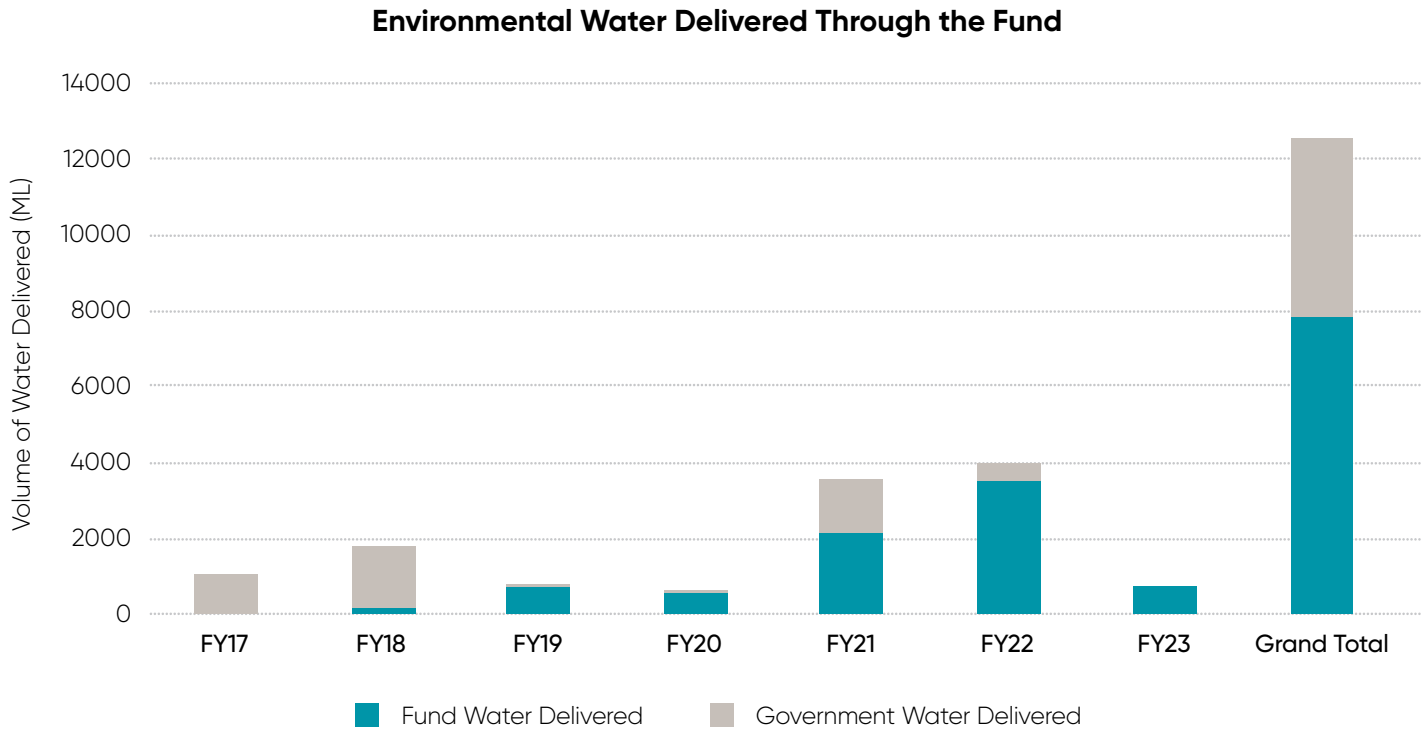
From the inception of the Fund until 30 June 2023, donations of cash and water from the Fund have enabled the delivery of a total of 17,625 ML of water including 7,278.6 ML of Fund donated water, 3,537 ML of water from the Commonwealth Environmental Water Holder (CEWH) and 760 ML from the NSW Department of Environment and Heritage on over 70 occasions to approximately 33 sites across Victoria and New South Wales.

Note that in the 2022-23, a significant amount of the donated water was carried over into the 2023-24 year. This is due to the very wet conditions, following three La Nina events, across the southern Murray-Darling Basin. These wet and flooding conditions saw unregulated flows enter all the wetland sites identified to receive the donated water. As a result, additional environmental water was not required at those sites. While alternative sites were investigated, there was a general feeling from many landowners that they did not want additional water released into the landscape given there had been some very damaging flood conditions.

While some watering did occur, largely to top up some wetlands as they began to recede, most of the water was transferred to the Commonwealth Environmental Water Holder, to be used in the 2024 year. This arrangement was considered the most appropriate as it will allow water to be used when and where it is most needed. The Environmental Water Trust will continue to liaise with the CEWH on the use of this water, strengthening the ongoing collaborative relationship with the CEWH, a key stakeholder for environmental water management in the Murray-Darling Basin.

Figure 12 below shows the combined environmental water delivered in each financial year. Water donations from the Fund commenced in the FY18 financial year.

Figure 12: Environmental water delivered through the Fund



Wetlands Receiving Environmental Water

The watering events have enabled the direct inundation of a total of 1072 hectares of wetlands and floodplains. The benefit of watering wetlands extends beyond the area of wetland directly inundated through improving the condition of terrestrial vegetation, providing important corridors of habitat for mobile species including migratory waterbirds thereby influencing and improving biodiversity across the broader landscape. It is estimated that nearly 10,700 ha of connected floodplain landscapes have benefited from the environmental watering supported by the Fund.

The summary in Figure 13 below identifies wetlands where repeated watering events over multiple years were implemented to reinstate more natural flow regimes.

Figure 13: Wetland sites that received EWT water in 2022-23

Response to Environmental Waterings

Threatened Species

In 2022-23, four nationally threatened species under the Environment Protection and Biodiversity Conservation Act 1999 were recorded in response to the watering events, specifically the Australasian bittern *Botaurus poiciloptilus*, Regent parrot *Polytelis anthopeplus*, Southern bell frog *Litoria raniformis* and Murray hardyhead *Craterocephalus fluviatilis*.

A further eleven species listed as threatened in either New South Wales or Victoria have been recorded at seven different wetlands and in response to eight of the environmental watering events in 2022-23. These include the Eastern great egret *Ardea modesta* and the White-bellied sea-eagle *Haliaeetus leucogaster*. In addition, two significant migratory species were recorded, Sharp-tailed Sandpiper *Calidris acuminate* and Common greenshank *Tringa nebularia*, both of which are listed under the Federal Environment Protection and Biodiversity Conservation Act 1999 as part of international migratory bird agreements.

Monitoring of waterbird diversity and abundance was undertaken by MDWWG staff during watering events. The results have demonstrated a clear response to environmental watering events with increased diversity and numbers over time. The EWT water delivery events have provided a diversity of suitable habitats across all sites for foraging. Since inception, the watering events have provided habitat for up to 59 waterbird species, including 12 vulnerable or endangered under NSW, VIC and SA legislation.

There is also evidence that the watering events provided habitat for other fauna including woodland birds, with 46 species recorded across all sites in 2022-23, including eight vulnerable or endangered species under NSW and VIC legislation.

Frogs

Eleven species of frog have been identified since inception of the Fund. In 2022-23, nine species of frog were recorded in response to the watering events. The nationally vulnerable Southern bell frog was recorded at four wetlands that received EWT water in 2022-23, however since program inception, over 12 wetlands that received EWT water have been identified to support this species.

Case Study: Fish Species

Murray hardyhead Reintroduction

Environmental Watering events supported by the Fund have enabled the return of a locally extinct fish species to Murray River waters in New South Wales. The nationally endangered Murray hardyhead *Craterocephalus fluviatilis* was reintroduced to multiple wetlands within the Wingillie Station Wetland Complex in south-western NSW.

The recovery efforts for the Murray hardyhead continue to be supported through the provision of EWT donation and delivery partnerships with the CEWH, Aquasave Glenelg Nature Trust and NSW DPI Fisheries. The MDWWG has managed three flow events since 2018 to support fish recruitment and following flooding in 2022-23, the fish moved through the landscape. The Fund's support and environmental water donations have greatly contributed to improving floodplain and wetland habitats on the property for the Murray hardyhead. Of note, two other nationally endangered fish have been identified at Wingillie Station following environmental water and include the Silver perch *Bidyanus bidyanus* and the Murray River rainbowfish *Melanotaenia fluviatilis*.

Vegetation

The environmental water delivery has maintained and enhanced native wetland vegetation including Black box, River red gum and Lignum communities inundating an area of approximately 2817 hectares since inception. The watering has improved the health and condition of River red gum, Black box and Lignum communities with increased tree canopy extent and density, and lignum viability through the output of new growth and setting seed. Vegetation monitoring carried out at selected wetlands since Fund inception has resulted in the identification of 211 plant species including the nationally vulnerable River swamp wallaby-grass *Amphibromus fluitans* and the Ridged milfoil *Myriophyllum porcatum*.

Social Objectives and outcomes

The Fund's social objectives are to:

- Support irrigation communities within the southern MDB by providing irrigator access to the majority of the Fund's water portfolio, and by providing irrigators with the flexibility to respond to cyclical ebbs and flows in water availability, and
- Make donations to environmental water organisations, which will conduct, where possible, environmental watering in wetlands which are spiritually and culturally significant to First Nations people.

Cultural Watering

The partners of the Murray-Darling Basin Balanced Water Fund acknowledge the Traditional Owners of the Murray-Darling Basin and recognise their deep cultural, social, environmental, spiritual and economic connection to their lands and waters.

Aboriginal people not only view water as inextricably connected to the land, but also view themselves as an integral part of the land and river systems. Aboriginal people from across the Basin are seeking water flows to sustain their ongoing cultural practices and relationship with their country. Cultural flows have potential benefits for Aboriginal people, such as improved health, wellbeing and empowerment from being able to care for their country and undertake cultural activities.

Cultural Watering Outcomes

Since 2020, the MDWWG has partnered with land managers Barkindji Maraura Elders Environment Team (BMEET) to deliver water on Country at Fletcher's Reserve in far-west NSW. In addition to the benefits of water, the MDWWG supports Indigenous Rangers from BMEET, through mentoring and practical, targeted learning to obtain their Certificate Three in Land and Ecosystems Conservation Management (via TAFE NSW). Five Indigenous Rangers were successful in gaining their qualification in 2022. Another generation of Rangers are enrolled for 2023-24.

Working with MDWWG and through EWT watering, provides a continued opportunity for Indigenous Rangers to learn on Country. The MDWWG has also mentored and supported Nari Nari Tribal Council Indigenous Rangers to obtain their Certificate Three in Land and Ecosystems Conservation Management (via TAFE NSW).

Supporting Irrigation Communities

In most years, between 60% and 90% of the Fund's water entitlements will be made available for use by southern MDB irrigators. It is anticipated that in the Fund's first 10 years of operations an average of 80% of the Fund's water entitlements were deployed to generate water for irrigators.

Water is primarily available to irrigators either through the lease of water entitlement, or via the sale of water allocation. By offering access to the Fund's water allocations via different mechanisms, the Fund aims to provide irrigation users with the flexibility to deal with variability of water market availability. Further, by offering water entitlement leases, the Fund aims to provide irrigators with an innovative mechanism through which to access the equity tied up in their water assets.

Appendices

Appendix 1: Accounting for Nature® Framework

Kilter Rural adopts the Accounting for Nature® Framework for its environmental accounting requirements. This is an independent, scientifically robust program of natural asset monitoring and measurement.

Under the framework Kilter Rural applies accredited methodologies developed and approved over the last four years to assess change in condition of natural capital assets:

- Native Vegetation
- Soil
- Native Fauna (Woodland Birds).

These methods are available to view on the Accounting for Nature method catalogue or upon request from Kilter.

Under the Accounting for Nature® Framework, proponents must undertake five steps to develop their Environmental Accounts, have them Certified, and achieve access to the Certified Trustmarks.

Step 1: Design

- Define the purpose of the Environment Account
- Ensure the scope of the Environment Account is appropriate to support the intended claim(s)
- Identify and prioritise Environmental Assets
- Select existing or create new Method(s)
- Plan Assets Account(s)

Step 2: Register

- Register Environmental Account with Accounting for Nature Ltd

Step 3: Build

- Collect and analyse data
- Calculate Econd® and Pcond® (where relevant)
- Prepare account documentation, including information Statement

Step 4: Submit

- Decide on Certification pathway, and obtain an Independent Audit or AfN Verification

Step 5: Maintain

- Submit Annual Certification Compliance Report
- Repeat steps 3 and 4 at least once every 5 years

(Source: Accounting for Nature® Standard v4.1)

Across the natural assets being assessed, the Accounting for Nature® Framework delivers a metric, an Econd®, that when physically measured, accounts to a condition score for an asset class.

An Econd® score ranges between 0 and 100. The maximum score of 100 is referred to as the pre-European 1750 reference condition that typically reflects the undisturbed state of the asset. Through the framework Kilter baselines the condition for the natural assets at purchase, sets targets for improvement in the asset and then routinely reports on the condition trend towards the targets.

Condition assessment methodologies applied to assess each asset must first be independently reviewed and accredited by the AfN Science Accreditation Committee. Kilter maintains AfN accreditation of its native vegetation, soil and woodland bird condition methodologies. The table below outlines the assets, their accredited assessment methods and levels of precision (confidence).

Asset	Accredited Method	Confidence Level	What does this mean?
NATIVE VEGETATION	AfN-METHOD-NV-05: A Native Vegetation Assessment Methodology for Diverse Regenerating Farmlands		A Level 1 (Very High) confidence level applies to Methods that include a comprehensive set of indicators and are likely to have very very high accuracy (≥95%) when measuring the condition of environmental assets and detecting change in their condition through time.
SOIL	AfN-METHOD-S-03: A Soil Assessment Methodology for Diverse Regenerating Farmlands		A Level 2 (High) confidence level applies to Methods that include a relatively comprehensive set of indicators and are likely to have high accuracy (≥90%) when measuring the condition of environmental assets and detecting change in their condition through time.
FAUNA	AfN-METHOD-F-02: A Native Woodland Bird Assessment Methodology for Diverse Regenerating Farmlands		A Level 2 (High) confidence level applies to Methods that include a relatively comprehensive set of indicators and are likely to have high accuracy (≥90%) when measuring the condition of environmental assets and detecting change in their condition through time.

Upon method accreditation Kilter Rural can apply the framework's Environmental Account Trust Mark and Econd® rating system to certified environmental accounts that are generated under any of our approved methods.

Appendix 2: 2023 KAF-Girgarre Native Vegetation Environmental Account

This account was developed in accordance with the Very High (>95%) Accuracy Accounting for Nature® Method, A Native Vegetation Assessment Methodology for Diverse Regenerating Farmlands (AfN-METHOD-NV-05). It is currently pending formal AfN certification.

This method relates to the entire farming area, in that native vegetation (NV) condition depends on both the proportional extent of NV cover across the farmland area as well as the quality of the NV that does exist.

Figure 14 shows type-examples of the native vegetation area across the farmland contributing to the 2023 Environmental Account (EA). The vast majority of the NV area (~240ha) is former grazing paddock being fully rehabilitated (-240ha) as represented in the left image. Smaller areas totaling ~50ha comprise areas of highly modified NV (central image), while a further 11ha is sufficiently intact to class as remnant (right image). These broad NV condition states align with the generalised condition categories contributing to the stratification of the EA (described below).

Ex-grazing paddock (with direct seeding lines)	Unprotected cluster of native farm trees	Remnant red gum swamp

Figure 14: Examples of the native vegetation area across the farmland contributing to the NV Environmental Account.

The method applies a statistical basis to surveying NV. Firstly, the native vegetation area is stratified into assessment units (AUs) that comprise a combination of reference vegetation type (4 categories of Ecological Vegetation Communities or EVCs) and the generalised condition (3 categories) of the vegetation. In all this describes eight effective AUs across the farmland. The numbers of sample/survey sites that are required within each AU is proportional to their respective areas (ha).

In total there were 30 sites assessed in the 2023 survey. The survey occurred over nine days in September, optimal for flowering and aiding the identification of many groundcover species.

Figure 15: Six NV survey locations on one part of the farmland. Locations are statistically distributed according to reference vegetation type (background shading); generalised (visual) vegetation condition (differentiated here by survey site polygon shading); and then specifically on the ground by farmland context and expert judgment (to optimise representativeness).

The survey comprises two components:

1. A site-level survey to the prescription of Victoria's Habitat Hectares native vegetation assessment approach that especially captures overstorey elements (indicators) of NV condition
2. A 100x4m belt-transect survey to capture, in a repeatable manner, the finer scaled groundcover elements of native vegetation.

The addition of belt transects to traditional site-level survey is important because it enables a more precise focus on the more changeable indicators in vegetation condition.

Added to the field assessed indicators (compositional indicators) is another set known as *configuration* indicators), that describe the relationship (esp. connectivity) of the surveyed native vegetation patch to its surrounding vegetation. The contribution of all indicators to the farmland NV quality is described in Table 15.

The extent indicator then calibrates NV quality to the farmland as a whole, accounting for where there's no native vegetation – such as on cropland – that it has zero condition.

Table 15: The compositional and configuration indicators of native vegetation quality and their 2023 results.

NV Quality Indicator Group	NV Quality Indicator	% Contribution to NV Quality	Indicator Condition Scores for 2023 (of 100)
Composition	Large Tree Condition	10	16
	Tree Canopy Condition	5	30
	Understorey Structure	15	38
	Native Species Richness	10	20
	Weediness	15	6
	Logs	5	5
	Ground litter	5	45
	Recruitment	10	27
Configuration	NV Patch Size	10	38
	% NV in Neighbourhood	10	22
	Distance to nearest 50ha NV Remnant	5	27
Total:		**100**	**24**

The process of determining native vegetation condition across the farmland (and eventual certification as a farmland NV Econd®) from the survey data has multiple steps. Vegetation quality is firstly determined for each vegetation type – generalized condition category combination (i.e. assessment unit) by averaging survey results within each. These scores are then area weighted for generalized condition to give scores for each vegetation type (EVC).

EVC condition scores are further area weighted to determine the overall farmland NV condition score (and Econd® upon certification).

The aggregation of the fore-mentioned survey data to derive EVC and then the farmland NV condition is summarised in Table 16, for both 2023 and the baseline survey undertaken in 2021.

Table 16: 2023 Econd® Summary Table for KAF-Girgarre (including 2021 results)

Girgarre Environmental Account Summary: 2021-23								
Econd® Summary								
Asset	Condition Target	Vegetation Type (EVC)	Generalised Quality	Area (Ha)	2021 (Baseline) Econd®		2023 Condition*	
					EVC Econd®	Farm Econd®	EVC	Farm
Native Vegetation	10	Plains Woodland	Low Quality	134	2.8	3.3	2.9	3.7
			Mid Quality	39				
			High Quality	8				
		Plains Grassy Woodland	Low Quality	94	5.4		8.2	
			Mid Quality	6				
			High Quality	0				
		Lunette Woodland	Low Quality	7	8.2		10	
			Mid Quality	10				
			High Quality	0				
		Red gum Swamp	Mid Quality	0	59.9		49.6	
			High Quality	3				

**An Econd® score cannot be claimed until independent audit and subsequent AfN certification has been completed. Kilter expects this to be finalised by June 2024.*

Significant Outcomes

The increase in the Native Vegetation Condition from 2021 baseline, by 12% to 3.7 (from 3.3), is an early expression of the success of the ecological regeneration program across the KAF-Girgarre farmlands. This improvement is entirely the consequence of improved compositional aspects of native vegetation quality occurring despite NV extent having declined from 18.1% to 15.4% of the project accounting area (diluted by the purchase of several additional agricultural properties since baseline).

The core of the NV quality increase lies with the compositional indicators of quality, especially with increases in understory structure, species richness and recruitment indictor scores. These are all strongly the result of germinating seed from direct seeding progressively undertaken across the farmland since 2020.

Of the specific vegetation types (EVCs), the most significant material improvement was seen in the Plains Grassy Woodland, with condition up to 8.2 from 5.4. Plains Woodland, the largest EVC by area (at 60%) marginally increased to 2.9 from 2.8.

For the generalised condition categories substantial vegetation quality improvement was seen in both the low (up from 15 to 21) and medium (up from 24 to 31) condition categories based on the simple averaging of survey site data. Analysing change with regard to the more time-sensitive compositional component of quality (i.e. excluding configuration), significant improvement was seen in 17 survey sites (63%), up to moderate improvement in 7 sites (26%); and a decline in 3 sites (11%). Declines in improvement, and other sites with less than expected improvement, is a significant manifestation of substantial flooding across the native vegetation zone in late-2022.

Appendix 3:
Kilter Climate Active Certification of Kilter Corporate

Type of certification

Organisation Certification

Kilter's Climate Active (CA) certification relates to the business or office operations of the Kilter Corporate Group in managing its investment portfolio. The certification boundary is based on an operational control approach. It encompasses emissions relating to the management operations chiefly managed from its offices located in Bendigo and Melbourne, Victoria.

Emissions directly associated with the investments managed by Kilter (a prime example is farmland operations of our agricultural funds) are excluded from the emissions boundary of this certification.

Certification status

Active (annual reporting due 31st October 2024 to maintain status).

Certified carbon neutral with 100% Australian Carbon Credit Units – supporting Australian offset projects, our communities and the local environment.

Certification history

Certified FY22 Public Disclosure Statement

Certified FY23 Public Disclosure Statement

Reported emissions history

Table 17: Kilter Corporate Climate Active reported emissions history

		Total tCO_2e (pre-std. 5% uplift)
Base Year	FY22	102.88
Year 2	FY23	90.91

FY23 Emissions Summary

Total FY23 emissions (Table 17) have overall reduced by 11.6% (11.97 tCO_2e) on the previous (and base) year. This difference is similar in quantum to the savings made from Climate Active services and products (predominately carbon neutral flights) that were purchased in FY23. There were a number of other small differences in categorised emissions from the base year that overall balanced out.

The one singular large emission change (>10% change of a >10% emissions contribution) from the base year related to increased fuel emissions from altered staff-work commute profiles in FY23 (+5.32 tCO_2e).

Table 18: Kilter Corporate emissions by category in FY23

Emission category	Sum of Total Emissions (t CO_2e)
Accommodation and facilities	2.59
Cleaning and chemicals	0.52
Electricity	4.64
Food	4.18
ICT services and equipment	8.13
Postage, courier and freight	0.13
Professional services	19.60
Refrigerants	1.07
Transport (air)	2.73
Transport (land and sea)	34.85
Waste	0.96
Water	0.21
Working from home	9.94
Office equipment and supplies	1.37
Total	**90.91**

In the development of this FY23 certified account the main strategic emphasis has been on engaging staff in Climate Active and the opportunity it offers for all to contribute to emissions reduction. For the first time a full staff survey was undertaken to assist in quantifying WFH emissions. A presentation and then discussion of a draft of this PDS was also presented to an all-staff meeting in October 2023.

While Kilter already operates a high level of awareness of environmental and sustainability issues and is a significant distance along the emissions efficiency and waste minimization curve, we are committed in FY24 to making tangible steps in systemically reducing emissions. This will range from deeper considerations in business procurement, supporting behavioral adaptions of staff and implementing cost-justifiable technological solutions.

Emission reduction goals

The Kilter Corporate Group ('Kilter') is committed to reducing emissions from the base year by 30% in 10 years (2032). A mid-term target is to have emissions reduced by 15% by FY 2027. To deal with the expected natural growth of the organisation, these targets will be subject to appropriate indexing. However, a clearly demonstrated intention to reduce actual emissions over time will be maintained.

Kilter Rural | www.kilterrural.com
Head office: 41B Breen St, Bendigo VIC 3550
Phone 03 5444 0112