



Specialist 'LIC'-type aiming to deliver reliable returns

Company/ASX Code	Duxton Water (D2O)
AGM date	Tuesday 19 May 2020
Time and location	10:30 am (Adelaide time) 7 Pomona Rd Stirling SA on-line audio
Registry	Computershare GPO Box 242 Melbourne Vic 3001
Webcast	Yes : on-line audio meeting only
Poll or show of hands	Voting only by proxy. ASA will lodge its votes also by proxy and will lodge some questions ahead of the meeting.
Monitor	Brad Martin assisted by Bob Ritchie
Pre AGM Meeting?	Yes with chair Edouard Peter

The individual(s) (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

Governance and culture

Duxton Water is a specialist investor somewhat like an LIC. Board membership is heavily weighted in investment banking. The chair and another non-independent director are principals of an investment manager contracted to undertake investing and management for Duxton Water, for an annual fee of 0.85% of net asset value and additionally a performance fee which was about \$5 million in the financial report for the 2019 year. This performance fee was calculated on 2019 change in asset value, not including issues of shares or buy-backs or payment of dividends.

Financial performance

Profit was \$10 million on capital of \$247 million and equity of \$143 million: ROC = 4%, ROE = 7%. Dividend was 5.3 cents per share: yield of 3.5% on a share price around \$1.40; grossed up for 100% franking = 5%.

Key events

Both capital raising and share buy-back occurred, along with dividend reinvestment. Institutional share placement of 10 million shares at \$1.48; 2 million shares by share purchase plan at \$1.48; half a million shares at 3% discount via dividend reinvestment. Share buy-back also is operational when share price is well below NTA.

Key Board or senior management changes

No change in directorship. The company has no other key management employee beyond three non-executive directors.

Summary

(As at FYE)	2019	2018
NPAT (\$m)	7.4	7.3
UPAT (\$m) ASA estimate	11.0	7.3
Share price (\$)	1.425	1.495
Dividend (cents)	5.3	2.4
TSR (%)	-1.1	35.4
EPS (cents)	6.4	8.5
CEO total remuneration, actual (\$m)	n/a	n/a

In conversation, the chairman emphasised the investment aim was to produce reliable long term returns to shareholders. The asset mix of secured and unsecured water rights and distribution of leases between medium and longer term on the one hand and spot pricing on the other are collectively designed to achieve the goal.

Item 2	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

The only paid KMP are the three independent directors whose fees total just over \$100,000 collectively.

The standard management and performance fees for the investment management company are the real issue for remuneration. Those fees totalled \$7 million and expenses incurred by the investment company were picked up by Duxton Water, additionally. Comparative figures are a profit of \$10 million in 2019 and \$10 million dividend to shareholders. It is possible that the performance fee of \$5 million was based on the 2018 year.

What is a fair payment for investing and management of these assets? This is a question shareholders should ask themselves. Argo comparative fee is one-sixth of one percent but it deals with \$6 billion in assets. Beston Global Foods is another small and specialist investment company paying 2% of assets annually to its investment company, similarly with two non-independent directors as principals, but Beston's investment company absorbs significant costs.

Item 3	Re-election of Edouard Peter as a Director
ASA Vote	For

Summary of ASA Position

A board chairman, who is a principal of the company's investment company paid \$7 million, is a candidate for opposition to re-election. He is, however, a material key to the company's success. Opposing his re-election would not be in the interest of shareholders.

He is a substantial shareholder and a driving force in strategy and investment.

Item 4	Re-election of Dirk Wiedmann as a Director
ASA Vote	For

Summary of ASA Position

Dirk Wiedmann has an extensive employment history in banking and investment. For the last two decades he is described as an investor in agriculture, wine and dairy. It is not clear whether this means passively holding shares in companies such as Elders, AACo, TWE or Beston, or if he is an owner and operator in agriculture, wine and dairy. We will ask.

His shareholding is 1.4 million shares and he is deputy chairman of the board.

Item 5	10% placement capacity
ASA Vote	For

Summary of ASA Position

We questioned the chairman on this matter, to be told it is a contingency move in case an opportunity comes up; a resolution put every year and exercised only once. We discussed the practice of share placement, share purchase plan for shareholders (both at the same price), dividend reinvestment (3% discount) and share buy-back, all of which had occurred in 2019. The issues were for liquidity and asset purchase. The buy-backs were opportunities taken when the share price was very materially below NTA.

ASA Disclaimer

This document has been prepared by the Australian Shareholders Association Limited ABN 40 000 625 669 ("ASA"). It is not a disclosure document, it does not constitute investment or legal advice and it does not take into account any person's particular investment objectives. The statements and information contained in this document are not intended to represent recommendations of a particular course of action to any particular person. Readers should obtain their own independent investment and legal advice in relation to the matters contemplated by this document. To the fullest extent permitted by law, neither ASA nor any of its officers, directors, employees, contractors, agents or related bodies corporate:

- *makes any representations, warranties or guarantees (express or implied) as to the accuracy, reliability, completeness or fitness for purpose of any statements or information contained in this document; or*
- *shall have any liability (whether in contract, by reason of negligence or negligent misstatement or otherwise) for any statements or information contained in, or omissions from this document; nor for any person's acts or omissions undertaken or made in reliance of any such statements, information or omissions.*

This document may contain forward looking statements. Such statements are predictions only and are subject to uncertainties. Given these uncertainties, readers are cautioned not to place reliance on any such statements. Any such statements speak only to the date of issue of this document and ASA disclaims any obligation to disseminate any updates or revisions to any such statements to reflect changed expectations or circumstances.