



Duxton Water buys, leases, sells & trades water rights

Company/ASX Code	Duxton Water Limited D2O
AGM date	28/05/21
Time and location	10.30am Adelaide time Uraidla Hotel 1198 Greenhill Road, Uraidla SA
Regist	Computershare
Webcast	No
Poll or show of hands	Poll on all items?
Monitor	Brad Martin assisted by Greg O'Connell
Pre AGM Meeting?	Yes with Chair Ed Peter, Company Secretary and Business Development staff

Please note any potential conflict as follows: The individual(s) (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

As Background, Duxton Water (D2O) first listed in September 2016. The Chairman Ed Peter is one of the Company founders and is a significant shareholder. This is the first year ASA has undertaken active monitoring of Duxton and the first time we have met with the Chair and Management.

Summary of issues: pre-AGM meeting

1. Should we think of D2O as an LIC?

It has some similarities to an actively managed LIC. It is reviewed and reported by market investment reviewers Independent Investment Research (IIR) and Bell Potter with other Listed Companies and Trusts. It has a higher expense ratio than the average LIC. It shares some features with REITS but is not easily classified in a commonly used term. The D2O Chair does not consider it to be a LIC. Answering the question, D2O should probably not be labelled as an LIC although comparisons with other Australian LICs are interesting.

2. Asset values and debt levels?

Assets are valued in the financial position statement at the lower of purchase price and fair value (set by an independent valuer and based on current market value); ie at a discount to current market value making the debt level appear higher than it would be compared with fair value.

Fair Value for water assets is set monthly basis by an external independent valuer (Aither Pty Ltd) assessing market valuations. The company has an intent to rotate valuation services noting there are a limited number of candidate valuers in the marketplace.

3. NTA discount and plans to correct it?

The company believes it is value focussed rather than being a growth play and that market conditions will favour it in a low growth market phase.

There is a Proposal for shareholder approval to issue shares up to 10% more than the 15% commonly allowed in the next year. This proposal is a contingency arrangement and was qualified for us with assurance the issuing share price would be at or above NTA, existing shareholders would be offered opportunity to buy to the full extent allowed. The intent is to facilitate interested institutional investors giving the total value of equity a quantum rise.

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

Summary of ASA Position

Duxton Water owns and manages a portfolio of water entitlements, providing the irrigation community with a broad range of water supply solutions and investors with an actively managed water assets investment.

The auditor addressed only one issue in the management statement: the expert's valuation of fair value of assets, a figure which is significant in calculating the management fee. We noted that of the procedures reported by the auditor, there was little attention paid to the standing of the firm or individual valuers in the auditor's management report.

Governance and culture

Ed Peter is an open and articulate leader. The Annual Report is well presented and we have no significant concerns with the information presented.

Financial performance

Profit of \$8.7m up on last year's figure, Dividends of \$0.057 per share fully franked and earnings per share of \$0.073. Share price has declined from the previous period from \$1.44 to \$1.405 with a TSR of 1.528% not including franking.

Key Board or senior management changes

Vivienne Brand Joined the Board and is up for election.

Summary

(As at FYE)	2020	2019	2018	2017	2016
NPAT (\$m)	8.7	7.4	7.3	2.1	-0.23
UPAT (\$m)	N/R	N/R	N/R	N/R	N/R
Share price (\$)	1.41	1.44	1.51	1.11	0.988
Dividend (cents)	5.7	5.3	4.9	2.3	-
TSR (%)	1.53%	-1.126%	38.79%	15.02%	-1.20%
EPS (cents)	7.3	6.4	8.5	3.2	-1.5
CEO total remuneration, actual (\$m)	N/A	N/A	N/A	N/A	N/A

Item 2	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

While a management agreement with external management is not our preferred option for remuneration we will vote for the motion as the relationship between the company and its investment manager is clearly described and there is no employee except independent non-executive directors.

Item 3	Election of Director Vivienne Brand
ASA Vote	For

Summary of ASA Position

Dr Brand adds diversity to the board along with life experience.

Item 4	Re-election of Director Stephen Duerden
ASA Vote	For

Summary of ASA Position

While the TSR for the year has only been mildly positive we will vote 'for' based on past history.

Item 5	Approval of 10% Placement Capacity
ASA Vote	For

Summary of ASA Position

“The allottees under the 10% Placement Facility have not been determined as at the date of this Notice but may include existing substantial shareholders and/or new shareholders who are not related parties or associates of a related party of the Company.” (Notice of meeting)

While retail shareholders may not be included in any extra capital raising, it may drive investor interest if the company has a larger capital base and that is in the interest of retail shareholders and in the explanation by Mr Peter will only happen at or above NAV.

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