



SQM
RESEARCH

Duxton Broadacre Farms

This report has been prepared for financial advisers only



Superior

INTRODUCTION

Key Principles

The underlying principles of the assessment process are to:

- identify the long term commercial potential of the Responsible Entity/Investment Manager;
- evaluate management's capabilities, previous performance in the specific industry and the stability of the organisation;
- evaluate identified markets (domestic and international existence, stability and growth potential);
- benchmark key performance assumptions and variables against industry peers;
- weigh up the relevant risks of the Responsible Entity/Investment Manager;
- assess structure and ownership;
- determine if the Responsible Entity/Investment Manager is structured in such a way as to protect investor's interests; and
- allow an opinion to be formed regarding the investment quality of the Responsible Entity/Investment Manager.

Assessment

SQM Research conducts a detailed site inspection of the projects/properties within the Responsible Entity's/Investment Manager's managed funds.

The site assessment considers the following areas:

- sustainability of the site for the purpose intended;
- management skills, qualifications, capabilities and experience; and
- associated property risks and their management.

Star Rating*

Investment products are awarded a star rating out of a possible five stars and placed on the following websites: www.sqmresearch.com.au

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General Financial Product Advice

This advice will not take into account you, or your clients, objectives, financial situation or needs and will not be provided in respect of any other financial products. Accordingly, it is up to you and your clients to consider whether specific financial products are suitable for your objectives, financial situations or needs.

Report Date: 20 September 2019

Star Rating *	Description	Definition	Investment Grading
4½ stars and above	Outstanding	Highly suitable for inclusion on APLs <i>SQM Research believes the Fund has considerable potential to outperform over the medium-to-long term. Past returns have typically been quite strong. Product disclosure statement (PDS) compliance processes are of a high-calibre. There are no corporate governance concerns. Management is extremely experienced, highly skilled and has access to significant resources.</i>	High Investment grade
4¼ stars	Superior	Suitable for inclusion on most APLs <i>SQM Research considers the Fund has substantial potential to outperform over the medium-to-long term. Past returns have tended to be strong. PDS compliance processes are high-quality. There are no material corporate governance concerns. Management is of a very high calibre.</i>	High Investment grade
4 stars	Superior	Suitable for inclusion on most APLs <i>In SQM Research's view, the Fund has an appreciable potential to outperform over the medium-to-long term. Historical performance has tended to be meaningful. PDS compliance processes are strong. There are very little to no corporate governance concerns. Management is of a high calibre.</i>	High Investment grade
3¾ stars	Favourable	Consider for APL inclusion <i>SQM Research concludes the Fund has a moderate potential to outperform over the medium-to-long term. Past performance has tended to be reasonable. Management is experienced and displays investment-grade quality. There are no corporate governance concerns, or they are of a minor nature.</i>	Approved
3½ stars	Acceptable	Consider for APL inclusion <i>In SQM Research's view, the potential for future outperformance in the medium-to-long term is somewhat uncertain. Historical performance has tended to be modest or patchy. Management is generally experienced and capable. SQM Research has identified weaknesses which need addressing in order to improve confidence in the Manager.</i>	Low Investment grade
3¼ stars	Caution Required	Not suitable for most APLs <i>In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is very uncertain. Historical returns have tended to be disappointing or materially below expectations. PDS compliance processes are potential substandard. There are possible corporate governance concerns. Management quality is not of investment-grade standard.</i>	Unapproved
3 stars	Strong Caution Required	Not suitable for most APLs <i>In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is unlikely. Historical performance has tended to be unacceptable. There may be some material corporate governance concerns. SQM Research has a number of concerns regarding management.</i>	Unapproved
Below 3 stars	Avoid or redeem	Not suitable for most APL inclusion	Unapproved
Event-driven Rating		Definition	
Hold		<i>Rating is suspended until SQM Research receives further information. A rating is typically put on hold for a period of two days to four weeks.</i>	
Withdrawn		<i>Rating no longer applies. Significant issues have arisen since the last report date. Investors should consider avoiding or redeeming units in the fund.</i>	

* The definitions in the table above are not all encompassing and not all individual items mentioned will necessarily be relevant to the rated Fund. Users should read the current rating report for a comprehensive assessment.

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SQM Rating 
Superior. Suitable for inclusion on most APLs.

Description and Particulars	
Name	Duxton Broadacre Farms
Asset Class Category	Commodities
Investment Type	ASX Listed Company
ASX code	DBF
APIR code	N/A
Bloomberg Code for Fund	DBF
Type of PDS - Long Form or Short Form	Prospectus
Classified as Hedge Fund under RG240?	No
Management and Related Entities	
Fund Manager	Duxton Capital (Australia) Pty Ltd
Street Address for the manager	7 Pomona Road, Stirling, South Australia, 5152
Responsible Entity / Custodian	N/A
Auditors	Deloitte
Legal Advisors	Piper Alderman
Objectives	
Fund Inception Date	February 2018
Return Objective (as per PDS)	N/A
Internal Return Objective	First performance benchmark hurdle of 8%p.a. Second performance benchmark hurdle of 12%p.a.
Risk Level	N/A
Benchmark	Absolute Return
Number of positions in portfolio	4 Positions (Farm Aggregations)
Investment Horizon (as per PDS)	Long Term Horizon
Level of Gearing	Currently approximately 26%. Maximum of 40% of GAV
Turnover and Fund Size	
Fund Size (As at 30 June 2019)	106.5 million
Securities Turnover (% of Fund p.a.)	N/A
Derivatives Turnover (% of Fund p.a.)	N/A
Fees	
Management Fee	0.85%
Performance Fee	5% of outperformance above hurdle return of 8% p.a up to 12% p.a and 10% of the remaining outperformance of the Investment Return over the hurdle of 12% p.a.
Hurdle Alpha Target Over the Benchmark	8.00%
Performance Fee Charged	After Base Fee is paid
Frequency of Performance Fee Accrual	Monthly
Frequency of Performance Fee Payment	Annually
High Water Mark	Yes
Further Investor Information	
Redemption Policy	Listed on ASX
Pricing Frequency	Semi-annual NAV Listed Stock
Distribution Frequency	Dividends are intended to be annual

SUMMARY

Fund Summary

Description

Duxton Broadacre Farms Limited (DBF) presents investors with an opportunity to participate directly in the Australian broadacre farming industry and the possibility to provide shareholders with both ongoing annual operational yield and longer-term capital growth. DBF intends to achieve this through the acquisition and aggregation of land into its existing portfolio of broadacre farms, to improve operational efficiencies and the diversification of commodities produced to satisfy the long-term growth in global grain demand.

Duxton Broadacre Farms is comprised of four farm aggregations, Merriment (including Merriment, Cowaribin and Wallah Wallah), Wyalong (Timberscombe and Kentucky), and Yarranlea, located near Forbes in central New South Wales. In March 2019, Duxton acquired the property Boorala near Frances in South Australia. In total, these farm aggregations total 21,445 hectares, of which 2,514 hectares or 12% is irrigatable.

About the Manager

Duxton Capital (Australia) is the Investment Manager of Duxton Broadacre Farms. The Investment Manager is a wholly owned subsidiary of Duxton Capital Pte Ltd, an alternative asset management firm focused on global agricultural land and securities as well as Asian emerging markets and equities. Duxton Capital (Australia) obtained its Australian Financial Services Licence (AFSL no. 450218) in February 2014.

Duxton Capital (Australia) Pty Ltd was created to provide investors in Australia, and New Zealand with access to listed and unlisted securities in the agricultural sector and Asian emerging markets via institutional mandates, collective investment vehicles and ASX listed stocks. Duxton's target clients comprise institutional investors, family offices, foundations, private banks and ultra-high net worth individuals. Duxton Capital (Australia) employs around 37 staff.

Duxton Broadacre Farms Ltd listed on the ASX in February 2018. In June 2018, these farm aggregations were independently valued at \$68.2 million. In June 2019 the aggregations, inclusive of the SA property and further water acquisitions were independently valued up to \$89.6 million (+31.34% change).

Fund Rating

The two Fund variants have achieved the following ratings:

Star Rating	Description	Definition	Investment Grading
4.00 stars	Superior	Suitable for inclusion on most APLs	High Investment Grade

SQM Research's Review and Key Observations

1. People and Resources

Size and Resources of the Fund Management Company

The executive management team has an average of 30 years of industry experience and has been successfully implementing the Duxton Group's alternatives strategy for clients at Deutsche Asset Management and then Duxton since 2007.

In SQM's opinion, DBF has a highly qualified, experienced team with backgrounds in agricultural investing and finance. Duxton has an investment team of 19 people, supported by a team of 35 people across three offices. The firm has a reasonably flat management structure with regular formal firm-wide meetings as well as informal meetings at an individual, project and team level. The business is structured so that senior management is readily available to assist teams and provide guidance.

On the operational side, Duxton's approach is to engage top-tier farm managers with local experience and track record who are then embedded into each agricultural project. Each project has a dedicated CEO, Managing Director or General Manager who is the on-ground farm manager with aligned interests. In the case of DBF, this consists of Bryan Goldsmith. SQM notes the extensive local experience and expertise that Mr Goldsmith and his predecessor Dr Tony Hamilton bring to the operation. SQM notes that DBF operates with a small team of 14 people. The team is augmented as and when necessary by external contractors who are appointed on long-term contracts. This arrangement provides flexibility and certainty in the supply of seasonal services and more efficient use of capital and equipment.

2. Investment Philosophy and Process

Investment Universe

Current land holdings are shown below:

Land Holding	Area (hectares)	Valuation 2018	Valuation 2019
Wyalong Aggregation (Timberscombe, Kentucky)	14,346	\$46,950,000	\$49,000,000
Yarranlea Farms	2,184	\$7,850,000	\$9,175,000
Merriment Aggregation (Walla Walla, Cowaribin, Merriment)	2,935	\$13,400,000	\$17,400,000
Boorala (South Australia)	1,980	N.A.	\$14,000,000
Total	21,445	\$68,200,000	\$89,575,000

In SQM's view, these holdings provide sufficient opportunity to implement the Manager's investment strategy to build scale and adequate crop diversification within its portfolio. The Manager has indicated its intention to acquire adjacent or nearby land which can be incorporated into the existing holdings to create greater economies of scale.

Investment Process

- The Company's investment thesis is underpinned by three key economic factors:
- Long-term growth in global grain demand translating into attractive operating margins and improved farmland values over time.
- An appreciation of the value of Australian arable land over the coming years. At present, it is considered undervalued compared to global land values for productively comparable properties.
- A mean reversion of commodity prices from their current long-term inflation-adjusted lows, driven by increasing global demand for grain as an input into a range of food staples, and the increasing middle-class population and popularity of Western-styled diets in Asia.

Investment Strategy

DBF's investible universe of acquisitions will comprise broadacre farmland within Australia that can be integrated into the current portfolio and aligned with the company's strategy of developing efficient, large-scale aggregations. The Investment strategy includes opportunistic acquisition of strategic productive landholdings and utilizing highly proficient farm management personnel, access to water as well as optimal diversification of crop and livestock varieties.

- DBF's objective is to create a diversified portfolio of high quality, efficient broadacre farms. DBF intends to achieve this objective through the acquisition and aggregation of land rich parcels of properties that have clear scope for development to improve operational efficiencies. Diversification is to be achieved through the production of a range of commodities; geographic and regional diversification and through a mix of dry land and irrigated farming systems.
- The conversion of dryland cropping to irrigated cropping is used to mitigate climatic risk and facilitate greater crop type flexibility. DBF currently has access to over 15,470ML of water entitlements (including 6,789ML on lease) which it can apply to 2,514 hectares of land laid out for irrigation. This water entitlement is diversified across numerous sources including groundwater, river water and water storage facilities.
- Key market inefficiencies which exist are the mispricing of land and the increased cost of production which comes with smaller landholdings typical of the traditional family farm model, as opposed to large-scale operations. Duxton attempts to create synergies between operations to share costs and therefore decrease total cost of production. Operational efficiencies are achieved through the ability to share machinery and labour between aggregated properties, and by using scale to obtain preferential terms from suppliers thereby minimising input costs.

Research

The investment team undertakes its own research within the Australian agricultural market with focus placed around the key drivers of profitability in the business. The investment team draws on research from a variety of sources (both government and independent) with an emphasis on different components of the business including agronomy, commodity trends and other key drivers for the business. To assess opportunities, Duxton develops financial models to determine the effect of a potential acquisition on the overall portfolio regarding developing land aggregations that can allow diversification across multiple factors including crop types and economies of scale that should perform well as a whole through the climatic cycle. Commodity analysis, which influences crop rotation decisions, is undertaken from both a top down and bottom up perspective. DBF researches multiple alternate crops that are agronomically suited to DBF's properties and which potentially may be introduced into the commodity mix.

Maintaining a low cost of production is a key driver of DBF's profitability. DBF conducts ongoing analysis of various expenses

and suppliers, leveraging the scale of the Duxton Group's extensive agricultural network to ensure that potential savings are identified. The Farm Management team employ cropping software programs which allow live tracking and analysis of input costs on a paddock by paddock basis to determine areas for potential improvements.

Risk Management

As an operational broadacre cropping company, the main risks that affect the business are factors which effect its operational profitability. Each risk is monitored independently using several data sources; however, all are ultimately reviewed in the context of DBF's operational budget to assess profitability on a per hectare basis.

The primary risk factors monitored through DBF's ongoing modelling are input costs, crop yield, commodity prices and water prices. The purpose of the models is that DBF's farm management team will be able to achieve the specified yield and gross margin result given pre-determined forecast weather conditions and commodity prices. The Investment Manager monitors the portfolio on a daily basis to ensure that all assumptions reflect current climatic agronomic conditions and the current state of the grain industry. If it is determined that a crop can no longer be grown profitably it will be reviewed by both the Farm Management Team and Investment Team and either an alternative crop may be grown or if already planted, the manager will seek to reduce input costs or if no other alternative exists the crop will be removed to prevent further loss.

Domestically, prevailing dry conditions across most of Australia have affected DBF properties. While these conditions are expected to reduce dryland crop production, the Investment Manager expects favourable price movements which will offset lower yields. In anticipation of unfavourable conditions, DBF has already invested in acquiring both water entitlements and allocations, along with undertaking substantial irrigation developments including expanding irrigated cropping acreage, water storages, related infrastructure and additional bores. This provides both protection against drought as well as the ability to plant more profitable crops such as cotton. This allows DBF to reduce the volatility of the portfolio, while promoting increased diversification and operational flexibility.

SQM notes that DBF has a large exposure to a single region, the Lachlan Valley Region in NSW, where three of the current aggregations are located. DBF has indicated it is seeking to broaden its regional exposure while cognisant of the additional management costs that would come with such expansion.

Duxton Broadacre Farms markets its crops through several methods including the use of forward contracts and derivatives. These enable DBF to fix the future selling price for the crop and therefore hedge against price risk. DBF spreads sales out over the year to smooth seasonal fluctuations and utilises market intelligence to aid in hedging strategies.

3. Portfolio Characteristics

Asset Turnover

The turnover of broadacre farming assets is invariably low. Due to the inherent illiquid nature of DBF's investments, the holding period for all investments is expected to be multi-year. Generally, within agriculture, a ten-year holding period may be considered conservative.

Liquidity

There is limited liquidity in the stock. The average monthly share trading volume is 171,984 shares. The latest reported float is 42.9 million shares out of 42.9 million shares on issue.

Leverage

DBF may hold both long-term and short-term financial debt. Borrowings may not exceed 40% of the company's Gross Asset Value (GAV), with a target of up to 20%. As at 30 June 2019, bank debt levels were 26% of GAV, or \$27.93 million. Debt was 12% at June 2018, with loans of \$10.0 million. The increase in debt levels over the last financial year has been a result of the Boorala acquisition.

Correlation

DBF is expected to have a low correlation to traditional asset classes, given the performance of grain markets is not directly linked to equity or bond market movements. Over the past decade, using the RBA Commodity Price Index as a proxy for agricultural returns, the returns have a low correlation to the S&P/ASX 300 of 0.04%, as well as a low 0.05% correlation to Australian bonds. In SQM's opinion, DBF has the potential to provide value as a diversifier within a portfolio context, as well as some downside mitigation characteristics, particularly in times of large negative returns from Australian equities. It should be noted, that there are limited data available and correlations may change substantially over time.

Assets Under Management

As at the end of June 2019, DBF's statutory net asset value was approximately \$73.6 million.

DBF's ability to expand will depend on the availability and economics of suitable land to add to the portfolio, as well as the availability of funding.

SUMMARY

4. Performance & Risk

Length of Track Record

DBF has a relatively short history of 20 months. Any observations and analysis of returns will have limited statistical meaning.

Return Objective & Performance

Since inception in February 2018, DBF returned -14.56% (after fees) compared to 2.69% p.a. for the RBA Commodity Price Index benchmark and 5.11% for the Small Ordinaries Index. This is an underperformance of -17.24%.

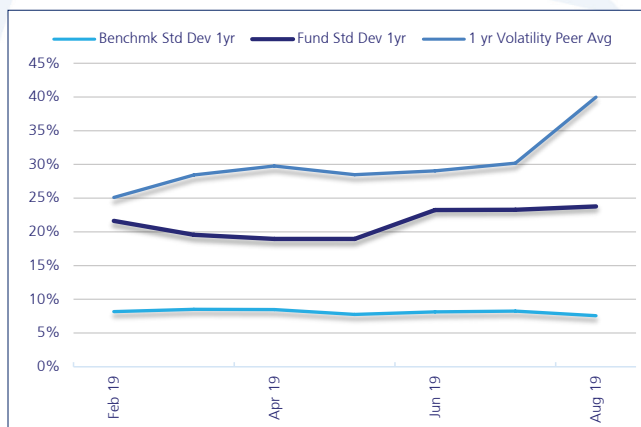
Risk/Return Data to 31 August 2019							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund	2.90	-10.14	-15.07	-19.74	n/a	n/a	-14.56
Benchmark	-3.41	-2.62	-2.53	-7.24	n/a	n/a	2.69
Peer Average	-3.58	3.09	-9.53	-13.89	n/a	n/a	-7.07
Alpha	6.31	-7.52	-12.53	-12.51	n/a	n/a	-17.24

Metrics	1-Year	3-Year	5-Year	Inception
Tracking Error (% p.a.) - Fund	29.80	n/a	n/a	26.03
Tracking Error (% p.a.) - Peer Average	41.31	n/a	n/a	30.92
Information Ratio - Fund	-0.42	n/a	n/a	-0.66
Information Ratio - Peer Average	0.03	n/a	n/a	-0.19
Sharpe Ratio - Fund	-0.91	n/a	n/a	-0.76
Sharpe Ratio - Peer Average	-0.28	n/a	n/a	-0.23
Volatility - Fund (% p.a.)	23.77	n/a	n/a	21.52
Volatility - Peer Average (% p.a.)	39.99	n/a	n/a	29.73
Volatility - Benchmark (% p.a.)	7.57	n/a	n/a	8.15
Beta based on stated Benchmark	-2.32	n/a	n/a	-1.11

1. Assumes dividend reinvestment. Returns one year and longer are annualised. Return history starts Mar-2018
2. Benchmark: RBA Rural Commodity Price Index

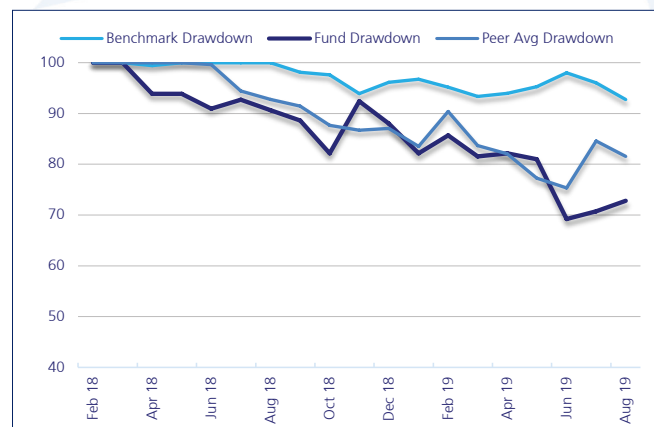
Volatility

There is limited trading history to calculate a meaningful volatility (standard deviation of monthly returns). DBF's volatility since listing is 21.5% p.a. By comparison, the volatility of the S&P/ASX Small Ordinaries Accumulation Index was 13.8% p.a. over the same period. The average volatility of peer companies was 29.7% p.a.



Drawdowns

The agricultural sector can experience periods of prolonged loss of value. During the period 2002 to 2005, the RBA Rural Commodity Price Index experienced a draw-downs of around 30% and only recovering to its previous high water mark in 2008. Since the inception of the Company, the Index has experienced a maximum drawdown of 7% of its value compared to DBF with a drawdown of 30.8%.



Year End Results for FY2019

Results for the past year were impacted by widespread drought conditions experienced across Australia. Overall crop production was adversely impacted by low rainfall and system flows, considered by the Australian Bureau of Meteorology as the most intense in recorded history.

	2018	2019	Movement
Revenue from ordinary activities	\$14.56 m	\$13.63 m	-6.0%
Profit after tax	(\$0.42 m)	(\$1.115 m)	-165.5%
Net Asset Value (NAV)	\$73.71 m	\$73.64 m	-0.09%
Net Asset Value (NAV) per share	\$1.699	\$1.7145	+0.91%
Net Tangible Assets (NTA) per share	\$1.594	\$1.554	-2.51%
Share price at 30 June	\$1.55	\$1.18	-23.9%

Dividends

There have been no capital returns to shareholders since inception. There have been no franked or unfranked dividends to shareholders since listing in February 2018.

DBF has a target pay-out ratio of 40%-60% of operating profit.

5. Other Features

Management Fee

Duxton Capital (Australia) is paid an annual Management Fee of 0.85% per annum (plus GST) of the Portfolio's Net Asset Value, accrued on the last day of each month and paid monthly in arrears. For the purpose of determining the management fee, PNAV is the total assets of the company valued at fair market value, less the total liabilities of the company excluding provisions for tax payable and performance fees.

Performance Fee

Duxton Capital (Australia) Ltd is entitled to a performance fee, calculated against an absolute benchmark. The performance fee is split over two hurdles:

- 5% of the excess return (after base management fees have been deducted) above a hurdle return of 8% per annum, up to 12% per annum; plus
- if the investment return is above 12% for the year, then 10% of the remaining excess return over the 12% p.a. hurdle.

The performance fee is based on the audited accounts of the Company, adjusted to reflect the NAV as determined by

independent valuation. The performance fee is subject to a high-water mark and is accrued monthly and paid annually. SQM Research believes that the initial hurdle rate for performance fee entitlement is reasonable, being similar to the long-term return of the S&P/ASX 300 Accumulation Index and approximately 2% p.a. higher than the long-term return of the Small Ordinaries Index.

Buy/Sell Spread

As the Company is listed, the buy/sell spread is determined by the quoted bid/offers on the exchange (ASX) at any point in time.

Governance

The Manager of DBF is Duxton Capital (Australia) Pty Ltd, a wholly owned subsidiary of Duxton Capital Pte Ltd.

The Board of Directors of DBF consists of five directors, two of whom are independent. SQM Research looks favourably at the inclusion of independent members on the Board of Directors – it is a meaningful way to enhance governance and oversight. Duxton Broadacre Farms Board members have an average of five years with the firm and an average of 30 years of industry experience.

The Company's Audit and Risk Management Committee is composed of four directors, two of whom are independent, including the Chair of the Audit & Risk Management Committee. SQM Research views independence in an oversight body such as the Risk Management Committee as a strong and favourable factor in corporate governance.

Duxton Broadacre Farms as a listed entity on the Australian Securities Exchange (ASX) is subject to the ASX Listing Rules. Duxton Broadacre Farms complies with all requirements from the ASX in this regard, as well as the broader continuous disclosure obligations that apply to all listed entities.

There are no pending legal, regulatory or industry proceedings or any other circumstances regarding Duxton of which an investor should be aware. Moreover, there has been no litigation or legal proceedings against Duxton affiliates or any associated officer or principal.

Strengths of the Fund

- A highly qualified and experienced agricultural management team.
- A substantial parent group able to provide investment research, technology and deep agricultural expertise.

SUMMARY

- Large-scale holdings providing economies of scale in farm operations.
- Around 12% of the total land area is under irrigation, enabling the planting of higher profit crops such as cotton and potential drought mitigation.
- Relatively low levels of leverage targeted to be less than 20%.
- Low correlation to conventional asset classes providing diversification benefits to clients' portfolios.
- Access to capital as a listed company.
- Inflation hedge. Land values are expected to appreciate at least in line with inflation as they are held over the medium to long-term.
- The increase in value of DBF will be due to the consolidation of the farms and improvements to the operational efficiency. These are one-off opportunities for major capital growth, after which any increase in value will be due to more normal returns from farming operations and broad market increases in the price of agricultural land. Further significant expansion of profitability will depend on the Manager's continuing ability to secure undervalued assets and to turn those around.

Key Changes since the Last Review

- The acquisition of the 1,980 hectare Boorala property in South Australia.
- The Rural Commodity Index has fallen by -4.54% over the past 12 months since August 2018. This is a reflection of the severe on-going drought conditions prevailing over much of the country.

Weaknesses

- To date, the Company has a very high exposure to the Lachlan Valley Region in NSW. This largely negates the potential benefits from a broader geographic diversification and to a lesser extent crop type diversification, particularly in the face of drought conditions afflicting that region. SQM Research notes that this risk is being reduced by the acquisition of the Boorala property and DBF's intention is to further diversify its geographic exposure.
- The impact of the prolonged severe drought has become evident in the profitability of the business and demonstrates the reliance of the business on variable weather conditions. The share price reflects this uncertainty.

Other Considerations

- This is a new business which has been operational for only 20 months (as at September 2019). Since listing, it has been experiencing climate conditions that have impacted the Australian grain market and crop prices. There is no indication as to when these conditions will revert to more normal rainfall patterns or whether they will be prolonged.
- The impact of the drought afflicting NSW has been mitigated to some extent. In response to the dry conditions, both in Australia and overseas, grain and livestock prices are up which may compensate for lower yields. DBF has introduced cotton under irrigation as a higher margin crop which is enjoying relatively high prices. The Manager believes it has secured sufficient water entitlements to see it through to the 2019 and probably also into the 2020 winter growing season.

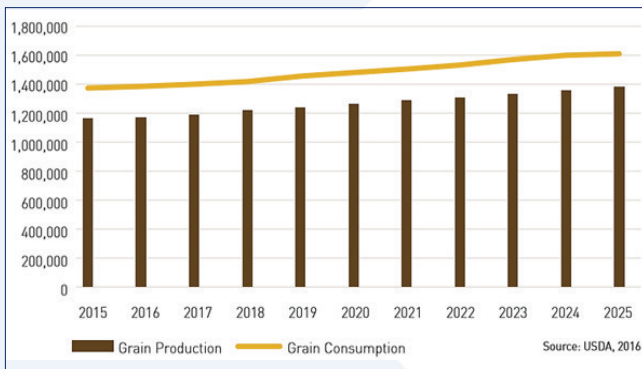
THE AUSTRALIAN GRAIN MARKET

Demand

Most world grain crops are consumed in developing countries. Population growth and continuing economic development are key drivers of increasing global grain consumption. As global population grows, the demand for grains will increase more rapidly. Grain is required not only for human consumption, but as feed for animals.

Global grain consumption has consistently risen over the past 50 years and is forecast to increase 42% over its current level in 2018 to 2028. It is Duxton's belief that there is a growing demand for food, fibre and energy due to the growing global population, which will see over 82 million new mouths to feed every year. Based on this forecast, it is expected demand will outstrip supply. Australia with its strong export market and close proximity to Asia is extremely well positioned to capitalise on this trend.

Forecast grain supply and demand in developing countries ('000 tonnes):



Global grain consumption has consistently risen over the past 50 years and is expected to continue, driven by population growth and rising per capita incomes in emerging economies. Grain consumption is expected to increase by 42% over its current level to reach 3.04 billion tonnes consumed by 2028.

Numerous factors support the on-going demand for Australian grain. The Australian grain industry boasts:

- Positive, green, clean reputation;
- Consistent high quality;
- Australian Grain exports account for 10% of the global market (\$8.1bn generated in 2016);
- Asian countries account for 63% of Australian grain export, 30% of which goes to South East Asia; and
- Exports to China have increased four-fold over the last six years.

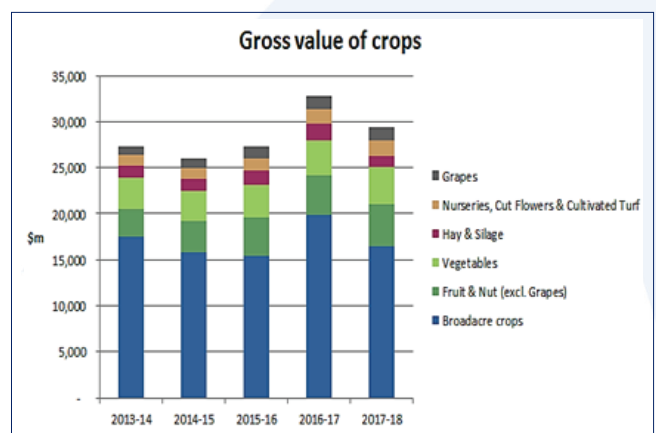
Supply

Since deregulation of the industry in 2008, Australian grain farmers operate in an open and deregulated market with exposure to both the domestic and international grain market. In 2017/18, Australia produced 38.4 million tonnes of grains from 21.9 million hectares, generating \$12.8 billion in revenue. The Australian grain industry exports approximately 61% of this production (by value and 63% by volume), with the other 37% being consumed domestically.

Australian grain production is predominantly focused in three broad regions; the Northern region, comprising Queensland and northern New South Wales; the Southern region, comprising central and southern New South Wales, Victoria, south-eastern South Australia and Tasmania; the Western region comprising Western Australia. In 2015, the NSW grain industry was valued at \$2.85 billion, representing approximately 30% of Australia's total industry production. Most Australian grain farms remain family owned and operated, with more than 60% comprising non-employing enterprises. In 2015 only 10% of Australia's grain farms planted more than 2,400 hectares.

Australian Grain exports account for 14% of the global grain market (\$8.6bn generated in 2018). Asian countries accounted for 75% of Australian grain exports in 2017, 40% of which goes to South East Asia. Exports to China have increased two-fold over the last six years.

The value of agricultural commodities produced in Australia in 2017-2018 is shown below.



Source: ABS 7503.0 - Value of Agricultural Commodities Produced, Australia, 2017-18

The value of broadacre crop production fell in 2017-18 as production returned to more regular levels. Horticultural crops had a mixed season. The total gross value of crops fell 11% to \$29.3 billion in 2017-18. Of this value:

THE AUSTRALIAN GRAIN MARKET

- \$6.0 billion was fruit, nuts and grapes (up 4%)
- \$5.7 billion was wheat (down 23%)
- \$4.1 billion was vegetables (up 5%)
- \$2.5 billion was cotton (up 49%)
- \$2.3 billion was barley (down 14%)
- \$2.1 billion was canola (down 13%)

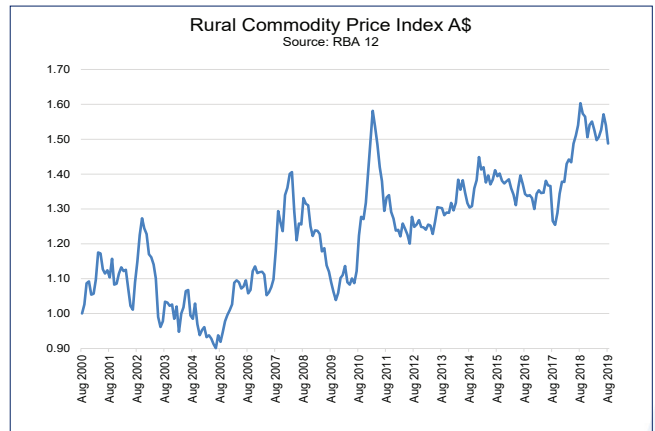
DBF expects a normalisation of NSW cropping land prices. Australian farmland per hectare to produce a tonne of wheat is among the cheapest in the world, second only to Hungary, where the average farm size is 8 hectares compared to an average size of 4,331 hectares in Australia. Globally, the average increase in the cost of land for production of a tonne of wheat over the past two years was 8.0% (in USD). Furthermore, farmland values in the region where the Company operates are undervalued compared to the three-year average value for the Wheatbelt regions.

Over the past 20 years, Australian farmland values have generated annual growth of 6.6%, on average. NSW farmland values over the same period have demonstrated average annual growth of 7.0%, while South Australian farmland has demonstrated average annual growth of 6.6%. In comparison, inflation has averaged 2.8% over the same period.

Analysis of relative pricing of farmland led to the initial portfolio of farms being positioned in the South-Central region of NSW. The increasing global demand for higher-end food products such as beef, driven by the rise of middle-class economies in Asia, is a key economic driver underpinning the grain market. Because of this, DBF targets broadacre farms which typically produce wheat, sorghum, barley, corn and maize.

Rural Commodity Market

Data from the Reserve Bank of Australia shows the rural commodity price index has increased by 3.6% per annum over the past 19 years since 2000. Over this time, the change in the value of the index can be significant, with a 27.7% increase in 2010 followed by a -12.1% fall in 2011. Volatility has been around 10% p.a. over the long term, broadly similar to that of the equity market. Commodity prices show negative correlation to equity markets, with outperformance during periods when equity markets fall.



The Rural Commodity Index has fallen by -4.54% over the past 12 months since August 2018. This is a reflection of the drought conditions prevailing over much of the country.

Objectives

Duxton Broadacre Farm’s key objectives are to:

- Deliver investors with long-term capital returns on their invested principal;
- Maintain a dividend pay-out ratio of 40%-60% with residual earnings deployed towards expanding and developing existing operations to the maximum extent possible while maintaining adequate working capital for ongoing operations;
- Establish a portfolio which is diversified across numerous crop types, counter-seasonal production and livestock production;
- Geographical diversification as much as prudently possible given desire to maintain economies of scale in line with the strategy to be a low-cost producer;
- Maintenance of principal invested; and
- A long-term buy and hold strategy with the purchase and development of assets to ensure that the portfolio is positioned to capitalise on growth opportunities.

Operations

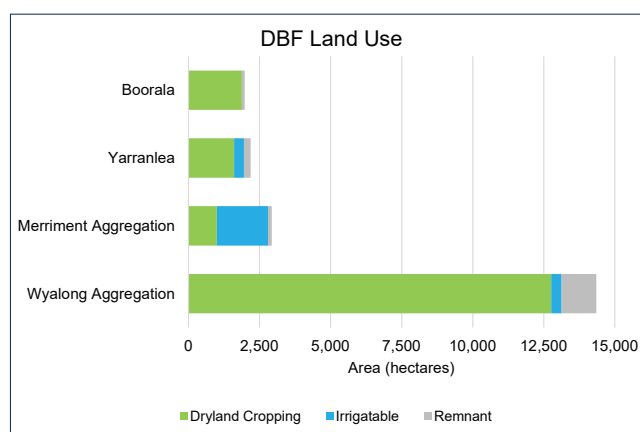
Current Holdings

The assets currently held by the Company are shown below:

Holding	Hectares	Commodities produced	Market Value	% of Portfolio
Merriment Aggregation (Walla Walla, Cowaribin, Merriment) - Forbes, NSW	2,934	Wheat, Barley, Corn, Canola, Pulses, Lucerne, Livestock, Cotton	\$17,400,000	19%
Wyalong Aggregation (Timberscombe, Kentucky) - West Wyalong, NSW	14,344	Wheat, Barley, Canola	\$49,000,000	55%
Yarranlea - Forbes, NSW	2,184	Wheat, Barley, Canola, Cotton & Livestock	\$9,175,000	10%
Boorala - Frances, SA	1,980	Wheat, Barley, Canola, Faba Beans & Livestock	\$14,000,000	16%

Land Use

DBF’s current land use for the four farms is summarised below. Of the 21,445 hectares of land, approximately 81% is under dryland cropping, 12% is currently under irrigation (with more potentially irrigatable) and 7% is remnant farmland.



The Wyalong aggregation, comprising 55% of the portfolio, may be considered the Company’s riskiest position, as it has limited exposure to irrigated cropping. Currently, only 3% of the land is irrigated, increasing the potential impact of low rainfall during the growing season. While this property can be perceived as riskier, it is important to recognise the holding in the context of the broader portfolio. While other properties within DBF serve to underpin production at lower margins, Wyalong will also usually be DBF’s most profitable if even moderate rainfall conditions are achieved, due to its scale, yield capability and relatively low per hectare costs. The Wyalong aggregation is also scalable and presents substantial opportunity for further development of irrigated cropping operations. Furthermore, the aggregation is noted for its ability to retain soil moisture, allowing the production of high yielding crops despite intermittent rainfall.

Water Access

Following listing in February 2018, DBF commenced implementing an irrigation development plan as a way to mitigate weather risk and reduce income volatility through the development of additional irrigated cropping land, the purchase of additional permanent and temporary water, and drilling of new groundwater bores.

The weighted average temporary water price of \$289/ML that DBF secured over 2019 was significantly below the temporary water price which reached around \$400/ML in the January peak trading time. This greatly improved the forecast gross margin on all irrigated crops and potentially saved the business approximately \$317,000 if all water had been purchased as it

was required on an ad hoc basis. Over the upcoming season, water prices are expected to increase even further from current levels.

Drought Mitigation

To effectively mitigate the effects of the drought on DBF's operations numerous strategies have been put in place.

- Groundwater purchase - Duxton Broadacre Farms has purchased groundwater to diversify further into irrigated winter cropping and high value summer row cropping. This has included the development of an additional 700ha of irrigated cropping land last year, the purchase of 1,305ML of permanent groundwater and 2,863ML of temporary surface water. This has added to the 3,441ML of permanent groundwater purchased in 2018. Groundwater is preferable to surface water where available, due to the relative price per unit and the higher consistency of allocation. The permanent water owned by DBF has increased 11.13% from the independent valuation in June 2018 to June 2019.
- Management believes groundwater provides the most cost-effective water source with historic allocations of 100% at a cost of 1/3 of high security surface water. This groundwater acquisition strategy will enable DBF to continue to develop further irrigation capable paddocks and assist this infrastructure to be able to be utilised even in periods of drought when surface water allocations can be extremely low.
- Temporary water allocations - The severe drought, in conjunction with the sentiment of Water NSW, indicated that the allocation in the Lachlan Valley region would likely be low, thereby reducing supply of water to the Company. DBF has continued to incrementally increase its holding of temporary water allocations to bridge the gap in water requirements.
- Geographic diversification - The Boorala property was a strategic acquisition which improves the geographic diversification of the portfolio and lessens the risk of future extreme weather events substantially affecting Central West NSW. Although DBF is seeking to increase the percentage of irrigated area, the acquisition of Boorala furthers the overarching risk mitigation objective despite it being entirely dryland. As the property is located in a high rainfall area, and with much lower annual volatility in rainfall received this asset de-risks the entire portfolio.
- Dryland conversion - The conversion of dryland cropping to irrigated cropping is used to mitigate climatic risk and facilitate greater crop type flexibility. The company has added another 700ha of crop irrigation and says its water supplies are secure for the next 18 months. DBF currently has access to 15,468ML of water entitlements which it can apply to 2,514 hectares of land laid out for irrigation, diversified across a number of sources including groundwater, river water and water storage facilities. This equates to 13% of the farmed land.
- Winter crops - Due to the underlying conditions growth of the crops is slower than in a typical year. Anticipated crop yields are being revised to accommodate the impact of dry conditions. While conditions will have an impact on DBF's yearly production, it is anticipated that an uplift in grain prices will help to ease the effects of lower forecast production.
- Irrigation - Development of row crop capable land continued at Yarranlea with an additional 210Ha converted to row crop. Development of row crop and flood irrigation land continued at Walla Walla with an additional 65Ha converted.
- Livestock - Livestock is being fed supplementary feeding grain, silage and cotton seed. Supplementary feeding is required due to the prevailing conditions. As mentioned previously management secured a large supply of feed in 2017 in anticipation of dry conditions. This will reduce DBF's reliance on contracting in feed with current prices rising rapidly due to shortages in the eastern states. With a lower cost of feed DBF can achieve a higher margin on livestock than competitors.
- DBF has reduced its forward sales to take advantage of higher wheat and grain prices driven by a shortage of supply.

Outlook

Increased US - China trade tensions are anticipated to strengthen Australia's position in global agricultural markets, largely due to favourable geography and the stability offered by the bilateral free trade agreements with both China and the US. Further to this, China's pork supply was recently reduced by approximately a third due to African swine flu. Given US-China trade tensions, it is unlikely China will turn to the US to fill the deficiency in protein supply. While this indicates continued strength in demand for Australian grain, the local supply constraints driven by the continued dry conditions over the last and current winter cropping season supports a commodity price rally in local markets.

COMPANY PERFORMANCE

Farmland prices across a majority of cropping regions are affected by the ongoing drought conditions. As cropping conditions revert to averages, the expectation is for the land values to reflect the production potential of land. As well as this, the aforementioned mispricing of Australian cropping land relative to other major cropping regions of the world is not sustainable. DBF’s portfolio will also benefit from the favourable direction of land prices.

Prevailing dry conditions across most of Australia present both challenges and opportunities for DBF. The industry is still experiencing severe drought conditions and the eventuating supply constraint is likely to inflate grain prices. Internally, the Company’s focus is on strategies to maintain production and capitalise on market conditions. In anticipation of unfavourable conditions, DBF has invested heavily in the acquisition of both water entitlement and allocations, along with commissioning substantial irrigation developments including expanding irrigated cropping acreage, water storages, related infrastructure and additional bores. This allows DBF to reduce the volatility of the portfolio, through increased crop diversification and operational flexibility.

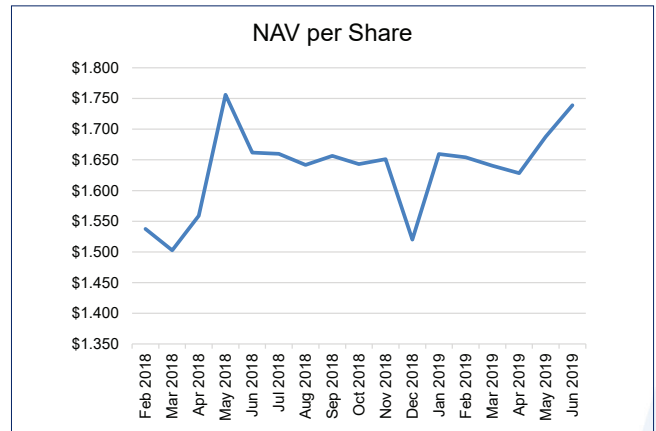
In the longer term, DBF is reviewing strategic acquisitions, especially ones that will assist in further building scale in the south-east South Australian cropping region and the existing NSW aggregations. Through these acquisitions DBF expects to improve performance by spreading fixed costs over a larger asset base and through increased diversification of geography, crop type and farming method.

Valuation

Net Asset Value

DBF believes that the value of Australian arable land will appreciate over the coming years. At present it is considered undervalued compared to global land values for productively comparable properties. The three NSW aggregations were valued in June 2018 for \$68.2 million. In June 2019, the same aggregations with additional water acquisitions were valued up to \$75.6 million. The portfolio, including the Boorala property, totalled \$89.6m as per the June 2019 independent valuation.

On a per share basis the value of DBF’s Net Asset Value (NAV) has grown from an after-tax NAV per share of \$1.537 as at 28 February 2018 following adjustments to reflect independent asset valuations, to a NAV per share of \$1.739 on 30 June 2019. This represents a 13.14% increase in NAV per share since the listing.



Share Price

Since listing in February 2018, the DBF share price has fallen from \$1.70 per share to \$1.46 as at 31 August 2019, a decline of 14.1%.



Financial Position

Profitability

The NSW farm aggregations have experienced the driest season in 116 years in what is already a low-rainfall region. Not surprisingly, this has resulted in below average winter cropping results which have impacted the performance of the company.

Revenue fell from \$14.55 million to \$13.6 million (-6.5%).

DBF reported a loss for the year of \$1.115m (2018: \$0.42 million loss). Gross profit before tax fell from -\$0.23 million at 30 June 2018 to -\$2.56 million at 30 June 2019.

Investment Strategy

Investment Thesis

The Company's investment thesis is driven by long-term growth in global grain demand translating to significant operating margins and improved farmland values over time, providing shareholders with both ongoing annual operational yield and longer-term capital growth.

DBF believes that the value of Australian arable land will appreciate over the coming years. At present it is considered undervalued compared to global land values for productively comparable properties. Supporting this thesis, DBF has recorded land appreciation over the last 24 months. The three aggregations in the Forbes NSW region were valued in March 2017 for \$58 million and revalued in June 2018 to \$68 million (+16.9% uplift). The most recent valuation at June 2019 was \$75.6 million (+11.1% uplift).

DBF anticipates that there will be a mean reversion of commodity prices from their current long-term inflation-adjusted lows. With growing populations, increasing global demand for grain as an input into a range of food staples, and the increasing middle-class population and popularity of Western-styled diets in Asia, long-term predictions are that demand will outstrip supply resulting in a recovery in pricing.

Historically Australian farmland has exhibited a positive correlation to inflation, suggesting that Australian grain farms can serve as an effective hedge against inflation. DBF is expected to appreciate in value at least in line with inflation.

Investment Strategy

Duxton Broadacre Farms invests in the Australian broadacre farming industry via a portfolio of diversified dryland and irrigated broadacre aggregations. DBF aims to optimise its risk-return profile through strategic crop selection, superior management, and irrigation development.

DBF's investible universe of acquisitions will comprise broadacre farmland within Australia that can be integrated into the current portfolio and aligned with the company's strategy of developing efficient, large-scale aggregations. The Investment strategy includes opportunistic acquisition of strategic productive landholdings and utilizing highly proficient farm management personnel, as well as optimal selection of crop and livestock varieties. More specifically properties targeted for acquisition must achieve the following criteria:

- Integration within the Portfolio: Target acquisition properties must be able to be integrated within the

portfolio either through proximity to existing properties and farming infrastructure or possess adequate opportunities for expansion to ensure similar production efficiencies and economies of scale can be achieved.

- Land Value Relative to Crop Yield: Crop yield is one of the major determinants of profitability and thus returns. DBF targets regions and specific properties that can achieve consistently high yields relative to the land value. This assessment is conducted through a coordinated, in-depth due diligence approach involving financial modelling, agronomic testing, consultation with industry & regional experts and analysis of long-term macroeconomic trends in the context of the local environment. DBF seeks an optimal selection of crops to maximise profit margins and diversify against commodity specific risks.
- Potential for Capital Appreciation: DBF within its core strategy invests in mispriced land based on various quantitative and qualitative factors including crop yields, trends toward the planting of higher value crops in the region (e.g. cotton) and growing corporate farming interest. Mis-priced land, particularly from smaller land holders (family farmers) who are seeking to exit the industry, or under-valued farms that have suffered due to relatively low-quality management, could have unrealised potential.
- In the long term, diversifying geographically by purchasing landholdings in various regions in Australia to reduce exposure to local weather events.

Investment Approach

There are three key components of DBF's investment approach:

Diversification

DBF's objective is to create a diversified portfolio of high quality, efficient broadacre farms. DBF intends to achieve this objective through the acquisition and aggregation of land rich parcels of properties that have clear scope for development to improve operational efficiencies and produce a diverse range of commodities to reduce risk.

- Crops – planting a range of summer and winter crops provides DBF with a flexible approach to grain farming, enabling it to adjust its crop mix in response to market signals (including changes in consumer demand, domestic grain process and international supply and demand dynamics), operating conditions and climatic conditions. Current commodities grown include barley, canola, cotton, hay, wheat, chickpeas, beef, lamb, wool

and others. Diversification provides DBF with a range of revenue streams as each crop is traded in their respective markets. Furthermore, diversified crop rotations can assist in replenishing nutrients in the soil which may reduce the need for fertilisers.

- **Livestock** – inclusion of an element of livestock production in some areas of DBF's farming operations, where consistent with local agronomic factors and combined with appropriate management, provides additional diversity in income and can further enhance profitability.
- **Geographical regions** – DBF's current portfolio is diversified across 19,465 hectares in NSW and 1980 hectares in South Australia. The properties exhibit a range of soil profiles, topography and climatic conditions. The long-term strategy of DBF is to expand operations throughout the Australian grain farming region, providing exposure to additional environmental and operating conditions and hence expanding diversification benefits.
- **Farming Systems** – DBF's portfolio is diversified across dry land and irrigated farming systems. This assists in mitigating the risk of drought, as well as any adverse movements in water and commodity prices along with other irrigation costs.

Water Management

The conversion of dryland cropping to irrigated cropping is used to mitigate climatic risk and facilitate greater crop type flexibility. DBF currently has access to 15,468ML of water entitlements which it can apply to 2,514 hectares of land laid out for irrigation, diversified across a number of sources including groundwater, river water and water storage facilities. This diversification assists in mitigating the risks of zero water allocations in a season and drought.

Economies of Scale

Key market inefficiencies which exist are the mispricing of land, and the increased cost of production which comes with smaller landholdings typical of the traditional family farm model, as opposed to large-scale operations. Duxton attempts to purchase land which may be undervalued due to a variety of factors and add value through improved management and facilities on the farm. Duxton attempts to create synergies between operations to share costs and therefore decrease total cost of production. Operational efficiencies are achieved through the ability to share machinery and labour between aggregated properties, and by using scale to obtain preferential terms from suppliers thereby minimising input costs.

Business Management

Cost Reduction

Maintaining a low cost of production is a key driver of DBF's profitability. DBF conducts ongoing analysis of various expenses and suppliers, leveraging the scale of the Duxton Group's extensive agricultural network to ensure that potential savings are identified. The Farm Management team employ cropping software programs "Agworld" and "Figured" to establish crop plans which drive the budget and financial model. These programs allow live tracking and analysis of input costs on a paddock by paddock basis to determine areas for potential improvements.

Asset Valuation

CBRE Valuations Pty Ltd (CBRE) was commissioned in March 2017 to provide DBF with an annual independent valuation reports and ad hoc valuation assessments on the general market and potential acquisition properties. CBRE values DBF's portfolio at current market value by using comparable market transactions and other key variables relevant to the valuation of a large scale cropping property, including productivity, commodity prices and availability of capital. This valuation is compliant with Australian Accounting Standards and is employed in the audited statutory accounts prepared by the company. The effect of this valuation is accounted for by increasing the carrying value of the assets held on the balance sheet.

Asset Turnover

The turnover of broadacre cropping assets is invariably low. DBF assesses all acquisition and divestment opportunities on an ongoing, case by case basis. Due to the inherent illiquid nature of DBF's investments, the holding period for all investments is expected to be multi-year. Generally, within agriculture, a ten-year holding period may be considered conservative.

Leverage

DBF may hold both long-term and short-term financial debt. Borrowings may not exceed 40% of the company's Gross Asset Value, with a target of up to 20%. Any proposed changes to debt levels for reasons such as short-term bridging finance or strategic opportunities require approval from the Board. Maintaining this conservative gearing position enables the business to obtain debt funding if an unexpected shock were to occur and offers flexibility if attractive acquisition opportunities emerge.

As at 30 June 2019, bank debt levels were 26% of GAV, or \$27.93 million. The increase in debt levels over the last financial year has been a result of the Boorala acquisition.

Cash Holding

Generally, cash will only be held in the portfolio to an adequate level as to provide for working capital and risk mitigation purposes in light of unfavourable weather or other factors adversely impacting production. DBF will determine the necessary level of cash to be retained following the adoption of forecast budgets and scenario analysis such as potential acquisitions and developments. The expected allocation to cash within the portfolio is 0%-30% of the portfolio's GAV.

Risk Management

As an operational broadacre cropping company, the main risks that affect the business are factors which effect its operational profitability. Each risk is monitored independently using several data sources. However, all are ultimately reviewed in the context of DBF's operational budget to assess profitability on a per hectare basis. These are monitored primarily through regularly comparing budget to actual performance and through the updating of the financial model to reflect and forecast events or changes.

Risk Models

The majority of DBF's risk models are proprietary and are constructed utilizing a range of reputable source data. The Investment Manager draws on external models such as Yield Prophet to estimate yield. Models employed by DBF are updated as new market data become available.

The primary risk factors monitored through DBF's ongoing modelling are input costs, crop yield, commodity prices and water prices. The primary purpose of the models is that DBF's farm management team will be able to achieve the specified yield and gross margin result given pre-determined forecast weather conditions and commodity prices. The Investment Manager monitors the portfolio on a daily basis to ensure that all assumptions reflect current climatic agronomic conditions and the current state of the grain industry. If it is determined that a crop can no longer be grown profitably, it will be reviewed by both the Farm Management Team and Investment Team. From this review, a strategy will be implemented dependent on the situation. If not yet planted, an alternative crop may be grown, or if already planted, the manager will seek to reduce input costs or if no other alternative exists the crop will be removed to prevent further loss.

Risk Mitigation

Risk	Mitigation
Weather and Environmental Risk	<p>Adverse weather conditions such as fires, hail, frost, drought or flooding may directly or indirectly have an adverse effect on operations and profit. The Company mitigates these weather risks through diversification of crop varieties and land types, and by irrigation and ground water development and other water security measures.</p> <p>DBF is limited with regards to its ability to quickly re-allocate capital in the event of a severe impact on a specific crop variety. The portfolio is regularly reviewed by the portfolio manager, and the Company may sell or trim assets based on their analysis. For example, the Company may sell a portion of dryland cropping land, and purchase irrigated cropping land to reweight the portfolio to further mitigate weather risk.</p>
Input Cost Risk	<p>Fertiliser, irrigation, fuel (diesel) and electricity represent significant input costs in the production of grains. If fertiliser, irrigation and/or energy prices were to rise, this will impact the Company's profitability. The Company mitigates this by obtaining quotes from different suppliers, negotiation and entering into contracts to reduce exposure to future price fluctuations.</p>
General Operations Risk	<p>Operations may be affected by unforeseen technical difficulties and breakdowns which may necessitate repairs to plant and equipment, resulting in delays. This risk is minimised by employing highly experienced operational staff, and by allocating capital to the upkeep of equipment and machinery to ensure they are properly maintained.</p>
Counterparty Risk	<p>Counterparty risk inherent in the sale of grain is managed by only engaging with approved counterparties on which due diligence has been conducted and which are considered low risk. It is managed via the use of different sales channels and selling incrementally throughout the year. The company is exposed to counterparty risk via its different arrangements with suppliers for items such as fuel, chemicals and fertilizer. This risk is similarly managed through diversification.</p>
Settlement Risk	<p>Settlement and counterparty risk are mitigated via adherence with the crop marketing policy and maintenance of the trading spreadsheet. All trade details including counterparty must be entered into the trading spreadsheet which is maintained by both the Managing Director and analyst. If the entered counterparty is not in the approved list, the row will be highlighted, and the issue can then be followed up and amended or signed off as per the policy.</p>
Currency Risk	<p>DBF sells all product domestically with products denominated in Australian dollars. Due to the interconnected nature of the global commodity market and the percentage of DBF's product that is exported by the purchaser (approx. 80%), the company is indirectly exposed to movements in AUD relative to the other currencies. This risk is managed primarily by selling product over time through several channels including via forward contracts, grain pools and through private domestic sale. Other things being equal, the business is expected to benefit from a falling Australian dollar.</p>

Operations

Idea Generation

The Directors are involved in various agricultural projects throughout Australia. They can provide insight into sector and region-specific trends. Duxton has numerous direct agriculture projects within Australia and an investment team in Australia and Singapore that has been managing agricultural assets for over ten years. These projects and team members provide additional sources of idea generation for the Duxton Broadacre Farms team. The investment team leverage off the global agricultural network Duxton maintains as one of the largest agricultural managers in the world.

Duxton's approach to agricultural investing includes actively engaging top-tier farm managers with local experience and track record that are then embedded into each agricultural project. Duxton works with these managers to acquire farms with scope to increase enterprise value. Each project has a dedicated CEO, Managing Director or General Manager who is the on the ground farm manager with aligned interests.

Duxton staff not only regularly attend but present at agricultural conferences. Attendance at these conferences is key to developing a strong network of forward thinkers within the Australian agricultural industry that may shape the future of the broader market.

Research

The investment team undertakes its own research within the Australian agricultural market with focus placed around the key drivers of profitability in the business. The Portfolio Manager and analyst engage on a daily basis directly with Bryan Goldsmith, General Manager – NSW of DBF, gathering current market information. In addition, the investment team draws on research from a variety of sources (both government and independent) with an emphasis on different components of the business including agronomy, commodity trends and other key drivers for the business.

Once top-down research has identified preferred regions for analysis, more detailed research is undertaken to identify properties showing the following characteristics:

- Proximity to existing aggregations, or an ability to expand if in a new region;
- Mispriced land when compared to productively comparable properties in Australia and abroad;

- Suitable weather and other conditions for the desired commodity mix;
- The property must be large enough to enable economies of scale;
- Irrigative development potential.

To assess these opportunities, Duxton develops financial models applying scenario and 'what if' analysis to determine the effect of a potential acquisition on the overall portfolio. Once the assets have been identified, further investigation is undertaken to ascertain the specific characteristics of the target and a business case is written on the investment opportunity.

The Investment Manager screens the identified assets to develop land aggregations that can allow diversification across multiple factors including crop types and economies of scale that should perform well as a whole through the climatic cycle, so as to provide a balance of short-term returns and long-term capital growth.

Property Acquisitions

This research is separated into two major categories:

- Within DBF's primary operating region in the Lachlan Valley Region, the goal of the acquisition strategy is to acquire neighbouring and nearby properties to provide immediate synergies and scale benefits. This leverages management's networks and involves modelling the region to understand land parcel size, commodities farmed and ownership status (corporate or family, expansionary or divesting). The goal of this research is to better understand regional trends and identify potential acquisition targets.
- Outside of the Lachlan Valley Region, the objective is to identify other regions and properties such as the Boorala property in South Australia that can be integrated into the overall portfolio, based on a variety of top down factors. This research involves the analysis of regional land price trends, agronomic conditions, productivity potential and trends in crops farmed. This can take several forms including discussions with current operators within a region, site visits and research using government surveys and other data sources. From this research, target regions are identified on which the Investment Manager may reach out to agents and other sources to obtain information on properties for sale which can then be modelled in more detail.

OPERATIONAL PROCESS

Commodity Allocation

Commodity analysis, which influences crop rotation decisions, is undertaken from both a top down and bottom up perspective. DBF researches multiple alternate crops that are agronomically suited to DBF's properties and which potentially may be introduced into the commodity mix.

- Analysts follow global trends in both human and animal feed demand as indicators of long-term potential for the broader grain farming industry. Given the focus on Australian broadacre farming land, these trends in demand for commodities are narrowed to those that can be grown in Australian conditions. The relative price of each commodity for the domestic and international markets is then considered, with analysts aiming to identify shifts in relative pricing to place Duxton Broadacre Farms at the front of the trend. The remaining commodities are then assessed in terms of their characteristics, such as growing conditions (do they align with existing aggregations and internal capabilities), crop rotation potential, and yields.
- From the bottom up, analysts firstly assess the higher margin crops to ensure that what is farmed is what is most likely to provide the greatest return potential. These higher yielding and higher margin crops are then considered in the context of existing and potential aggregations to ensure they fit the crop rotation needs, risk mitigation strategies, and weather and other conditions.
- The investment team explores the capability of properties within the DBF portfolio to integrate niche crop types for which small but lucrative markets may exist. This is considered a key area of development for the business and can reduce exposure to at times unpredictable commodity cycles by entering into fixed offtake agreements. Examples of this which are currently being explored include specific barley varieties for brewing, high omega 3 canola, and the growing of seed for the potato industry. Due to DBF's scale it is in a strong position to include these more niche varieties.

Land Utilisation and Efficiency

One of the major drivers of profitability for DBF is ensuring all properties within the portfolio are being utilised to their maximum potential to improve both the profitability of the business and capital value. Research is carried out to assess:

- Land Conversion Potential: The capacity to convert land from dryland winter cropping to more profitable irrigated winter and summer row-crop capable land through earth-

works and irrigation system development. This has been a specific focus for DBF over the last eighteen months and has involved financial modelling of each property within the portfolio for water access and current infrastructure to create a development plan.

- Investigating Groundwater Access Capability: This involves leveraging Duxton Capital's expertise and drawing on state government resources to map each property's geology to determine sites to drill test bores. This is important as groundwater access can permit land conversion and greatly enhance the capital value of the property.
- Crop Yield Analysis: Yield analysis is conducted comparing DBF's current and historic performance against competitors in both the region and more broadly within Australia and globally. This research can help to identify potential agronomic improvements as well as commodities that should feature more prominently within the portfolio.

Socially Responsible Investing

Management has implemented numerous programs which enable employees to operate in a socially and environmentally responsible manner. These practices include:

- Introducing soil management and conservation system, including minimum tillage farming and laser grade land forming;
- Implementing the use of capacitance probes for real-time soil moisture management and irrigation decision making;
- Introducing the split applications of nitrogen and targeting application to plant requirements;
- Improving farming techniques to actively sequester carbon and reduce emissions from nitrogenous fertilisers;
- Employing conservation farming systems, appropriate technology and improved plant varieties;
- Implementing employee provisions: all employees on IFAs are paid above awards.

Asset Acquisition Process

The two major acquisition trades undertaken by DBF are the acquisition of land and water entitlements.

Land Acquisitions

Potential land acquisitions are brought to the Investment Manager's attention via numerous channels including the Board and Managing Director's network, via a network of property agents that work with the Duxton group, and by directly

OPERATIONAL PROCESS

approaching owners of properties of interest. DBF employs a four-stage acquisition process for all land acquisitions as detailed below:

Stage 1: Once identified, the Investment Manager will firstly assess the property. This involves discussion with the farm management team to determine how the property may be integrated into the portfolio and considering how it fits into the overall DBF strategy and its potential economic contribution. At this stage, the Investment Manager will conduct financial modelling using inputs from management and other industry sources.

Stage 2: If the asset passes this initial review, an initial site visit will occur (usually attended by the Managing Director and the PM) to assess the physical state of the asset, meet with current management and confirm any details to improve the accuracy of the financial model. Using information obtained from this site visit, an initial proposal detailing key features of the site, indicative forecast financial returns and an initial proposed offer price will be circulated to the Board for comment.

Stage 3: Considering any input from the Board, the investment manager will draft and present a Board proposal including a submission to commission an independent (desktop) valuation. This proposal will include the following:

- The recommended offer price and method of offer (most commonly an offer subject to due diligence)
- Detailed summary of all assets included in the sale
- Details of the independent valuation and comparison to proposed offer price
- Detailed returns forecasts
- Proposed method of funding

Stage 4: If satisfied with the proposal (subject to any Board changes), it will be approved to proceed. If successful, external legal counsel will be engaged to negotiate with the vendors lawyers to draft contracts. The Investment Manager and Farm Manager will begin the final due diligence process which will include review of the following:

- Detailed property inspection reviewing the physical condition of the asset including assessment of cropping history (rotation/intensity / fertiliser use); physical condition of all structures and calculation of any repair costs.
- Enquiry into any legal issues including assessment of land title issues or any encumbrances against the property.

If the property passes this final stage, the transaction will be finalised, and management will take possession of the property.

Water Acquisitions

DBF purchases both permanent and temporary water to facilitate its irrigated cropping program. Water acquisition opportunities may originate from several sources including via water trading platforms or from both the Investment Manager and the Farm Management team. The purchase of water is managed within DBF's broader water budgeting process. This process involves the setting of a rolling two-year water budget and sets a target holding of 1.5 years to 2 years of estimated requirement.

Water security transactions are subject to strict trading thresholds. Any proposed transactions that exceed these thresholds require a Board proposal detailing the following:

- Price
- Security details: Water asset type (surface, ground, bore); Asset location (zone number or irrigation district); and Quantity (megalitres).
- DBF's water position relative to the water budget and holding target if acquired.

Crop Marketing

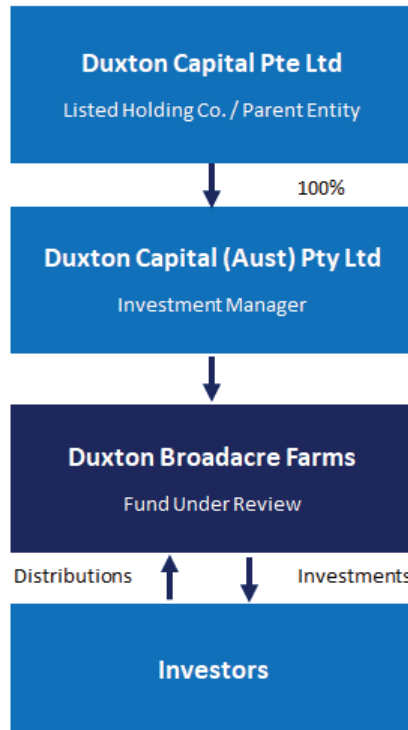
Duxton Broadacre Farms markets its crops through several methods including the use of forward contracts and derivatives. These enable DBF to fix the future selling price for the crop and therefore hedge against price risk. DBF spreads sales out over the year to smooth seasonal fluctuations and utilises market intelligence to aid in hedging strategies.

DBF employs forward contracts as a hedging technique in both its major winter crops (wheat/barley/canola) and cotton. These contracts create an obligation of delivery at settlement and thus bear production risk and, when linked to a specific grade, quality risk. To manage these risks, DBF employs a matrix system for each of its winter crops centred around the percentage of estimated production that can be forward sold. This estimate of production is calculated at any point in time by multiplying area planted by forecast yield as determined by the Managing Director and the Investment Manager's assessment. This system enables DBF to take on larger positions as yield estimates become increasingly accurate and in scenarios when prices are considered high.

The two primary derivative strategies employed by DBF are:

- Cash and Call Strategy whereby grain is sold either by forward sale or on the spot market at harvest time and purchasing call options for a corresponding amount of grain. This strategy, which is employed when the difference between the spot and futures price is high at harvest, allows DBF to participate in any positive price movement in international grain prices post-harvest without the risks of physically storing grain, whilst limiting downside and providing the benefit of immediate cash flow.
- Protective Put Strategy whereby put options corresponding to unhedged production are entered into. This places a price floor to limit downside and enables DBF to participate in any positive price movement.

Key Counterparties



Parent Company

Duxton Capital Pte Ltd is an alternative asset management firm focused on global agricultural land and securities as well as Asian emerging markets and equities. Duxton Capital Pte Ltd is fully-owned by Ed Peter, Desmond Sheehy, Stephen Duerden and Scott Jaffray.

Duxton Capital (Australia) Pty Ltd was incorporated in Australia in June 2013 as the Australian arm of the Duxton Group. Duxton Capital (Australia) Pty Ltd is wholly owned by Duxton Capital Pte Ltd. It was created to provide bespoke investment solutions and services to Duxton's target clients comprising institutional investors, family offices, foundations, private banks and ultra-high net worth individuals. Duxton Capital (Australia) provides investors with access to listed and unlisted securities in the agricultural sector and Asian emerging markets via institutional mandates, collective investment vehicles and ASX listed stocks. It obtained its Australian Financial Services Licence (AFSL no. 450218) in February 2014.

In addition to Duxton Capital (Australia) Pty Ltd, Duxton Capital Pte Ltd has wholly-owned subsidiaries Duxton Asset Management Pte Ltd and Duxton Capital Advisors GmbH. They are collectively referred to as the Duxton Group.

Investment Manager

Duxton Capital (Australia) has been appointed as the Investment Manager of Duxton Broadacre Farms Ltd. The executive management team has an average of 30 years of industry experience and has been successfully implementing the Duxton Group's alternatives strategy for clients at Deutsche Asset Management and then Duxton since 2007. Duxton's investment team consists of 19 investment staff across two offices. The Australian office has an investment team of 11 all of whom can be leveraged off in the management of DBF.

Duxton Capital (Australia) has an in-house operational and finance team that undertakes administration for DBF.

Fund Administrator

Duxton Capital (Australia) has an in-house operational and finance team that undertakes administration for DBF. It is supported by Crowe Horwath on tax matters as required. Deloitte Australia is retained as DBF's external auditor.

Valuation

CBRE Valuations Pty Ltd 'CBRE' is one of Australia's leading independent agribusiness advisory firms and has been commissioned since March 2017 to provide an annual

independent valuation reports and ad hoc valuation assessments on the general market and potential acquisition properties. CBRE values DBF's portfolio at the current market value by using comparable market transactions and other key variables relevant to the valuation of a large scale cropping property, including productivity, commodity prices and availability of capital. This valuation is compliant with Australian Accounting Standards and is employed in the audited statutory accounts prepared by the company.

Management Risk

The Investment Manager, in conjunction with the Duxton Broadacre Farms' Risk and Audit Committee, have undertaken numerous standalone reviews of potential risks to DBF. An annual review is performed on the risk register. Risks assessed include:

- Controls
- Market Risks
- Related Party
- Regulatory Risk
- Reputation Risk
- Manager Risk / Key Person Risk

Investment management businesses rely on the operational capabilities of key counterparties. For any investment company, there is a risk that a weak financial position or management performance deterioration of key counterparties could temporarily or permanently compromise their performance and competency. This can adversely affect financial or regulatory outcomes for the Company or associated entities.

Based on the materials reviewed, SQM Research believes that DBF and associated key counterparties are qualified to carry out their assigned responsibilities. Management risk is rated as being low.

Regulatory & Compliance

Duxton Broadacre Farms Ltd as a listed entity on the ASX is subject to the ASX Listing Rules and requirements for fee transparency and clear reporting of any costs associated with the company that could impact investors. DBF complies with all requirements from the ASX in this regard, as well as the broader continuous disclosure obligations that apply to all listed entities.

There are no pending legal, regulatory or industry proceedings or any other circumstances about the Duxton Group of which an investor should be aware. There has been no litigation or legal proceedings against Duxton affiliates or any associated officer or principal.

Investment Team

The Duxton Broadacre Farms investment team operates under the supervision, guidance and direction of the DBF Board. The DBF Board is highly experienced in the agriculture industry, providing access to specialist industry knowledge and key networks. The Board has a total of 150 years of experience in the Australian agricultural industry. Half the Board are independent directors.

Name	Responsibility / Executive	Independent	Years at Firm	Years in Industry
Ed Peter	Chairman	No	10.0	33.0
Tony Hamilton	Director	No	8.0	37.0
Stephen Duerden	Director	No	10.0	30.0
Mark Harvey	Director (independent) and Deputy Chairman	Yes	1.6	36.0
Wade Dabinett	Director (independent)	Yes	1.6	14.0
Katelyn Adams	Company Secretary	Yes	0.6	N/A
Average			5.3	30

Within the broader Duxton Group investment team, analyst coverage is generally determined by the Head of Investments and lead analysts. All investment projects have at least two investment team members assigned to them to ensure continuity within the firm. The investment analysts work across projects with different lead analysts and portfolio managers to assist in their development and exposure to a wide range of projects. The portfolio manager (Mr Will Brennan), DBF General Manager (Mr Bryan Goldsmith) and analyst work closely on a day to day basis with the support of the Duxton Financial Controller and Finance team to manage and deploy the strategy.

Duxton has an investment team of 19 staff, supported by a team of 35 people across three offices. The firm has a reasonably flat management structure with regular formal firm-wide meetings as well as informal meetings at an

individual, project and team level. Off-site strategy and planning days are held with the entire international Duxton Group. The business is structured so that senior management is readily available to assist teams and provide guidance.

On the operational side, Duxton's approach to agricultural investing includes actively engaging top-tier farm managers with local experience and track record who are then embedded into each agricultural project. Duxton works with these managers to acquire farms with scope to increase enterprise value. Each project, therefore, has a dedicated CEO, Managing Director or General Manager who is the on the ground farm manager with aligned interests. In the case of DBF, this consists of Martin Flower and Bryan Goldsmith. SQM notes the extensive local experience and expertise that both Martin Flower and Mr Goldsmith bring to the operation.

From Duxton Capital (Australia), the following personnel make up the Duxton Broadacre Farms investment management team:

Name	Responsibility
Ed Peter	Mr Peter is the Chairman of DBF and a member of the DBF Investment Committee. He is responsible for investment oversight of the DBF portfolio.
Will Brennan	Mr Brennan is the portfolio manager for DBF and a member of the DBF Investment Committee. He is responsible for the identification and execution of investment opportunities, compliance and providing oversight of on-farm performance.
Evie Papps	Ms Papps is the DBF investment analyst responsible for identifying and researching potential investments and development opportunities.
Claire Wilde	Ms Wilde is Duxton's Group Accountant and lead Finance Team member for DBF. In this capacity Ms Wilde attends DBF Board Meetings
Alex Henschke	Ms Henschke is the Financial Controller for DBF.
Clea Vetch	Ms Vetch is responsible for all bookkeeping and accounting for the Company.
James Shopov	Mr Shopov is the back-up portfolio manager for DBF.
Nic Parletta	Mr Parletta is the backup DBF investment analyst responsible for identifying and researching potential investments and development opportunities.

The key operations management staff from DBF are as follows:

Bryan Goldsmith	Mr Goldsmith is the General Manager for New South Wales and is responsible for the day-to-day management of the Company's operations.
Martin Flower	Mr Flower is the Farm Manager for Boorala and is responsible for livestock management, winter cropping, external contractor coordination, operational logistics and staff management.
Andrew Garland	Mr Garland is the Operations Manager for the Duxton Broadacre Farms. Mr Garland fulfils the daily operations of a farm manager including chemical and fertilizer procurement, external contractor coordination, harvest and sowing coordination and logistics.
Dustin Kemp	Mr Kemp is the Livestock Manager for Duxton Broadacre Farms. Mr Kemp is responsible for all aspects of sheep and cattle husbandry, including marketing, procurement, logistics, staff management and engaging contractors.
Brendan Burley	Mr Burley is the Cropping Manager and is responsible for all aspects of summer and winter cropping at the Merriment aggregation.
Jason Kellahan	Mr Kellahan is the Farm Manager for 'Timberscombe' and is responsible for all aspects of cropping operations at the Timberscombe property.

SQM notes that DBF operates with a small team of 14 people. The team is augmented as and when necessary by external contractors who are appointed on long-term contracts. This arrangement provides flexibility and certainty in the supply of seasonal services and more efficient use of capital and equipment.

Meeting Schedule

The table below shows regular meetings that form part of the overall process.

Purpose	Frequency	Participants
Investment/Sector Research	Minimum weekly but in practice ongoing	Portfolio Manager, Analyst
Company Financial Operations	Weekly but more frequently as required	Portfolio Manager, Financial Controller & Analyst
Investment Strategy, Asset Allocation, Portfolio Construction and Review	Weekly	DBF Chair, Portfolio Manager & Analyst
Investment Strategy and Macro View Setting	Quarterly	Board of Directors
Portfolio Risk Management	Quarterly	Audit and Risk Committee

SQM Research believes the practice of constant communication and cooperation in decision-making between the investment team and the on-ground farm management team members is vital to the success of the business. Interactive peer review and collaboration across a tightly knit group of experienced investors will likely make the best use of their combined intellectual property and experience.

Staffing Changes

Dr Tony Hamilton transitioned out of daily operations to a strategic role. He continues as a Board Director of DBF, but now as a Non-Executive Director. Mr Bryan Goldsmith has been appointed General Manager of the New South Wales aggregations. He has over 30 years of experience in agriculture, primarily in senior management of large-scale aggregations.

Mr Martin Flower joined the Company as the Farm Manager of Boorala. He brings considerable farming experience, especially specific to South Australia to the team.

Overall, the investment team across both sites has grown by approximately 30% with an additional 11 headcount being

reported. The investment team has recruited seven new team members to assist with the increased workload and undertakings of new projects. Two resignations have been received. One employee had been with the company for over three years and was in the corporate secretarial and reporting team.

SQM Research observes that the levels of investment experience and company tenure are strong across the entire investment team. The levels and nature of staff turnover are not an issue of concern, in SQM's view.

Key Investment Staff

Ed Peter – Chairman

Mr Peter is the co-founder of Duxton Asset Management (“Duxton”). Before forming Duxton in 2009, he was Head of Deutsche Asset Management Asia Pacific (“DeAM Asia”), Middle East & North Africa. He was a member of the Deutsche Bank’s (DB) Group Equity Operating Committee and Asset Management Operating Committee. Mr Peter joined DB in 1999 as Head of Equities and Branch Manager of DB Switzerland. In March 2001, he was appointed Head of Global Equities for Asia and Australia, becoming responsible for all Global Emerging Markets Equities in the beginning of 2003. In November 2004, he became Head of Asian and Emerging Market Equities for the new Global Markets Division. Mr Peter started his career in 1986 in Swiss equity sales for Credit Suisse in Geneva. In 1989, he moved to S.G. Warburg with responsibility for the sale of Swiss equities worldwide. In 1998, he was appointed Managing Director with responsibility for the International Swiss Equities and Derivatives sales force. Mr Peter holds a bachelor’s degree in English Literature from Carleton College in Northfield, Minnesota. He is on the University of Adelaide’s Agribusiness advisory board, the University of Adelaide’s Wine Advisory board, and on the board of Wine Australia.

Stephen Duerden – CEO (Australia)

Mr Duerden has over 27 years of experience in Investment Management and joined Duxton at its inception in May 2009. Before this, he was the COO for both the Complex Assets Investments Team and the Singapore operation of DeAM Asia. Before moving to Asia he worked for Deutsche Asset Management Australia, serving as a member of the Australian Executive Committee responsible for the management of the Australian business, with assets under management of approximately AUD \$20 billion, and a member of the Private Equity Investment Committee overseeing the management of over AUD \$2.5 billion in Private Equity and Infrastructure assets. Mr Duerden is currently a Director of the listed Duxton Water Fund Ltd as well as a director on several large Agricultural businesses. He holds a Bachelor of Commerce in Accounting Finance and Systems with merit from the University of NSW Australia and a Graduate Diploma in Applied Finance and Investments from the Financial Services Institute of Australasia. He is a Fellow of the Financial Services Institute of Australasia and a Certified Practising Accountant.

Mark Harvey - Deputy Chairman and Independent Director

Mr Harvey has more than 35 years of experience in agriculture and agribusiness. He started his agribusiness journey managing a 10,000-acre family farm producing seed, grain crops, wool, lamb and beef, from 1976 until 1991. He was one of the founders of Paramount Seeds which specialised in research, development and marketing of new field crops until sold to Elders Ltd in 1996. In 2002, he was a founding partner of Seed Genetics International which is currently a leading researcher, producer and marketer of genetics and seed worldwide from Australia. In April 2013, he was elected a director of S&W Seed Co, a NASDAQ listed company which is a leading US genetics and speciality seed company. On December 9, 2014, Mr Harvey was elected Chairman of the Board of Directors of S&W Seed Company, a position he still holds. Mr Harvey holds seed and agricultural research, production, milling and marketing assets in California, Idaho, Wisconsin and South Australia. He sits on the University of Adelaide, Waite Institute Advisory Board. It is intended that Mr Harvey will take on the role of Chairman from Mr Peter after one year.

Dr Tony Hamilton – Director

Dr Hamilton has been engaged in grain farming since 1982. He started in family broadacre farming before working in rural financial and agricultural management as a consultant. In 1990 he became Managing Director of Warili Farming Pty Ltd and has been Managing Director of Merriment Rural Investments Pty Ltd since 2011. He is a graduate of the Australian Institute of Company Directors, was a Nuffield Scholar in 2003 and holds a PhD in Agronomy and Plant physiology and a B.Sc.Agr (Hons) from the University of Sydney. Dr Hamilton is a Non-executive Director of AgriFutures Australia (formally Rural Industries Research and Development Corporation) and a Northern Panel Committee Member of the Grains Research and Development Corporation.

Will Brennan - Portfolio Manager

Mr Brennan joined Duxton Capital in 2015. Before Mr Brennan’s involvement with DBF, he was heavily involved with the listing of Duxton Water, along with numerous private equity transactions. Mr Brennan was previously a Director of DBF, is currently a Director of Wyalong Rural Investment Pty Ltd. Before joining Duxton, he worked in both insolvency and tax accounting. Mr Brennan holds a Bachelor of Laws and a Bachelor of Commerce (Accounting) from the University of Adelaide. Mr Brennan is also a CFA Charterholder.

Evie Papps - Analyst

Evie joined the Duxton team in February 2019 as a junior analyst. Her primary focus is researching and analyzing the Australian broadacre farm market, assisting the portfolio manager of DBF with identifying and researching potential investments and development opportunities. Evie is due to graduate a Bachelor of Commerce (Corporate Finance and Accounting) Honours (Finance) from the University of Adelaide in December 2019. Prior to joining Duxton Evie undertook internships in tax accounting and pricing analytics.

Wade Dabinett – Independent Director

Mr Dabinett has over 13 years of experience in the Australian grain industry, encompasses grain trading, storage, handling and production. Part of a farming business at Parilla in the Southern Mallee of SA owned by his family which is a mix of Grain, Potatoes, Sheep and Cattle on both dryland and irrigated farming land. He is also the current Chairman of Grain Producers SA elected at the 2016 AGM which is the state's peak industry body representing the states 3,000 grain growers. He is also the Chair of GPSA's sub-committees for Transport & Supply Chain, Agricultural Security & Priority and also a member of the Audit & Finance Committee. He is also a councillor representing Grains on Primary Producers SA and a member of the National Policy Council for Grain Producers Australia. Mr Dabinett was also appointed in 2015 to the ABC Advisory Committee representing Rural and Regional Australia and reporting to the board on programming and content.

James Shopov - Analyst

Mr Shopov joined Duxton in October 2016. Before joining Duxton, he worked in the Corporate Finance team at Ernst & Young for three years, gaining exposure to valuations and business modelling, mergers and acquisitions and transaction due diligence. Mr Shopov worked in audit at Deloitte for three years before joining Ernst & Young. He has been a member of the Institute of Chartered Accountants Australia and New Zealand (CAANZ) since 2014 and graduated from the University of Adelaide with a Commerce (Corporate Finance and Accounting) degree.

Nic Parletta - Analyst

Mr Parletta joined Duxton in April 2017. His primary focus is on researching and analysing the Australian Broadacre farm market, assisting the portfolio manager of DBF with identifying and researching potential investments and development opportunities. Before joining Duxton, he worked for 3 years in financial audit. Mr Parletta graduated from the University of Adelaide in November 2017 with a degree in Accounting and Corporate Finance.

Remuneration and Incentives

Staff remuneration comprises a mix of base salary and where eligible an incentive component.

Base Salary

Base salaries are determined using data points relevant to the corresponding job market. Duxton's Board of Directors, external remuneration specialists and market surveys may be consulted when determining base salaries to assist in the implementation of appropriate remuneration levels. The Group Chairman, CEO and Executive team partner with Human Resources to oversee an annual remuneration process that takes place in the first quarter of each financial year. Key management personnel collectively review proposed increases to calibrate recommendations. Individual salaries are reviewed in relation to personal and team output and market benchmarking.

Incentives

All employees are considered for an annual bonus in the form of either short-term and/or long-term incentive. All bonuses are discretionary to allow the flexibility required in a rapidly changing and competitive environment.

STI – Cash bonus: Cash bonuses are worked out on a % of base salary and are determined by individual and company performance. In 2018, cash bonuses were paid to employees in early April. Cash bonuses at Duxton play a pivotal role in creating a high-performance culture based on collaborative outputs.

LTI – Deferred bonus in the form of company shares or fund investment: Bonuses for senior employees or those in positions determined as critical to operations are awarded with a deferred LTI bonus. Eligible employees may be issued with a deferred bonus in the form of ASX shares and/or with amounts invested by the Duxton group into the funds managed by Duxton. LTI's have dedicated vesting periods. Eligibility criteria determines that in the event an employee was to resign or be terminated due to misconduct before the vesting date of the deferred bonus, 100% claw back provisions apply. LTIs are utilised to help create a 'skin in the game' approach to motivate and retain staff and to align employee and shareholder interests.

Equity Ownership

Duxton is in the process of instituting an employee share option scheme for employees of the Duxton Group. The purpose of the Option Scheme is to provide an opportunity for employees who have contributed significantly to the growth and performance of the Company, as well as directors of the Group who satisfy

the eligibility criteria of the Option Scheme, to have a stake in the future of the Company and to give recognition to past contributions and services.

The key DBF investment team personally invests in Duxton Broadacre Farms. Numerous other staff at Duxton hold exposure to DBF via shares.

SQM Research believes access to firm equity, and client-focused performance bonuses act as strong incentives for optimising staff engagement, retention and productivity. The intention (and SQM believes, the effect) is to align staff performance with client and shareholder objectives. It focuses on the customers' needs and medium to long-term results.

Fees

Management Fee

0.85% (plus GST) per annum of the Portfolio's Net Asset Value, accrued on the last day of each month and paid monthly in arrears.

Performance Fee

The Investment Manager is entitled to be paid a performance fee at the end of each financial year. Unlike developed equity markets, there is no appropriate benchmark index such as the S&P/ASX 300 available to provide a comparable performance benchmark for the Australian grain market. DBF applies an absolute benchmark to calculate its performance fee entitlement.

The performance fee is split over two hurdles and is calculated as:

- 5% of the outperformance of the investment return of the Company (after base management fees have been deducted) above a hurdle return of 8% per annum up to 12% per annum; plus
- if the Investment Return is above 12% for the year, then the performance fee will include the first component as above plus 10% of the remaining outperformance of the investment return over the hurdle of 12% per annum.

The performance fee will be payable if the Company outperforms either of the First Benchmark Hurdle or the Second Benchmark Hurdle during any calculation period. Underperformance in a previous performance period is required to be made-up for before a performance fee is payable. This creates a permanent high-water mark. SQM Research believes that the hurdle rate for performance fee entitlement is reasonable, being similar to the long-term returns from the S&P/ASX 300 Accumulation Index and 2% p.a. higher than the long-term return from the Small Ordinaries Index.

The performance fee is calculated by reference to the audited accounts of the Company, adjusted to reflect the NAV as determined by independent valuation. The performance fee is calculated on adjusted net assets (at market value, adding back tax and distributions) and is accrued monthly and paid annually in arrears.

Buy/Sell Spread

DBF is a listed entity. The buy/sell spread is determined by the quoted bid/offers on the exchange (ASX) at any point in time.

Dividend Policy

DBF aims to provide returns to investors through both long-term capital appreciation and through dividends that are franked at 100% or as high as prudently possible. Returns from both capital appreciation and operations are expected to be at least in line with inflation over the medium to long-term. DBF has a target pay-out ratio of 40%-60% of operating profit.

There have been no capital returns to shareholders since inception. There have been no franked or unfranked dividends to shareholders since listing in February 2018.

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