

Environmental, Social and Governance Report

**Australian Farmlands Fund
Financial Year 2020**



**KILTER
RURAL**





Acknowledgement of Country

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

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Abbreviations

› Accounting for Nature.....	(AfN)
› Australian Farmlands Fund.....	(KAFF, The Fund)
› Ecological Vegetation Classes.....	(EVCs)
› Environmental, Social and Governance.....	(ESG)
› Global Reporting Initiative.....	(GRI)
› Goulburn-Broken Catchment Management Authority.....	(GBCMA)
› Kilter Rural.....	(Kilter)
› Megalitres per hectare.....	(ML/ha)
› Murray-Darling Basin.....	(MDB)
› Native vegetation.....	(NV)
› Southern Murray-Darling Basin.....	(sMDB)
› Taskforce on Climate-related Financial Disclosure.....	(TCFD)
› Taskforce on Nature-related Financial Disclosure.....	(TNFD)
› The Environment Protection and Biodiversity Conservation Act 1999.....	(EPBC Act)
› Tonnes of CO ₂ equivalent.....	(tCO ₂ -e)
› UN Declaration of the Rights of Indigenous Peoples.....	(UNDRIP)
› UN Sustainable Development Goals.....	(SDGs)

Executive Summary

This document explains and reports on sustainability outcomes of the Kilter Rural managed Australian Farmlands Funds (KAFF) for the FY20 financial year. It encompasses environmental and social impacts of the Funds' activities and the performance of Kilter's corporate governance model that underpins their achievement.

The report directly anchors achievements against four globally significant ESG frameworks comprising the (i) UN's Sustainable Development Goals (SDGs), (ii) the Global Reporting Initiative (GRI); the Accounting for Nature Framework (AfN) and; (iii) the Taskforce on Climate-related Financial Disclosure (TCFD).

To the end FY2020 the Funds have successfully progressed the acquisition of farmland to a total of 1,128ha and undertaken the first interventions designed to improve the condition of the natural asset base under management.

The following is quick summary of results with respect to the three core elements of responsible investment:

Environmental Outcomes

- › The area devoted to native vegetation increased from 25ha to 135ha with an associated improvement in the environmental condition (Asset Condition Score or trial Econd) from 0.6 to 3.9.
- › Initial planning and field work completed to establish baseline condition assessments for Soil, Fauna and assets.
- › Defined resource efficiency metrics for energy and water usage.

Social Outcomes

- › Engaged with the local community through presentations and through revegetation activities.
- › Over \$1.58M of annual expenditure for the funds utilised 31 suppliers located within 50kms of the land under management.
- › Engaged with the Yorta Yorta Nations Aboriginal Corporation for various on-farm management activities.

Governance

- › Implemented planning for the TCFD assessment and reporting requirements.
- › Incorporated severe weather event planning into farmland regeneration and development decisions.
- › Completed the process of registering revegetation sites for ACCUs under the Emissions Reduction Fund.

The 2020 financial year represents the first full year of operation of the Funds. This report therefore is generally a status report on the condition at purchase of natural and social capital and establishing baseline data that will allow accurate reporting of improvements in FY2021. Established, accurate environmental condition accounts, based on AfN Econd scores, will be presented in 2021.

Figure 1: Native vegetation seedling



1. Background to ESG Reporting

Kilter Rural Statement of Intent

A founding tenet of Kilter Rural farmland regeneration investments is that long-term economic and financial value is contingent upon the protection of natural capital and sustaining ecosystem function. Improving the condition of natural capital assets such as biodiversity, soils, water and native vegetation underpins:

- › value to rural communities,
- › value to agriculture production, and
- › value to investors.

By 2050, it is expected that the world will need to feed 50% more people. However, increased food production must be delivered in the historical context of diminishing arable land, reduced available water, climate change risks and a significant decline in the health of supporting biodiversity and ecosystems. Australian agribusinesses can lead the world in utilising the rehabilitation of natural capital to underpin sustainable food production and address climate change mitigation.

A fundamental element in the management of natural capital is measuring and reporting on the condition of the underlying natural capital asset base. Measures of environmental condition can be used to understand whether actions are improving or degrading natural capital. This is critical for understanding real returns as the information will drive sustainable farmland, water, and environmental management.

Prior to 2004, the Kilter founders committed over a decade working with rural communities and governments to blend ecosystem and biodiversity protection into the regeneration of Australian farmland and water resources. Kilter founders participated in significant reports on the environmental condition and management of Victoria's land and water resources, including three Catchment Condition Reports for the Victorian State Government in Australia (<https://www.vcmc.vic.gov.au/publications.html>).

With its first scaled institutional investment in 2006/7 Kilter began a natural capital baseline to support assessment of environmental condition trends over time. In 2018/19 Kilter Rural successfully developed Australia's first farm-level trial environmental condition accounts with Accounting for Nature.

Environmental accounting in agribusiness will shape the future for sustainable food production, revealing what is sustainable and what is unsustainable in farmland, water, and ecosystem management. Measuring and reporting on the change in the condition of natural capital will drive accountability for actions. Recasting the balance between production and ecosystem protection will drive transformation to highly productive, sustainable farmlands.

As markets for carbon sequestration, biodiversity and ecosystem function evolve, protecting and enhancing natural ecosystems will increasingly be considered another form of primary production. Managers with independently verified environmental accounts that show condition improvements will be well placed to access these evolving environmental markets.

Kilter is committed to the open publication of ESG reports for investors. This report has a focus on utilising independent, scientifically robust, methodologies and frameworks wherever possible to support external compliance and governance across the suite of ESG reporting parameters.

Australian Farmlands Funds ESG Report

This report is specific to the Kilter Rural Australian Farmlands Funds.

Across 15 years the Kilter strategy for farmland regeneration has proven to mitigate risks associated with climate change and extreme weather events. It produces high-value agricultural commodities balanced by advances in soil and ecosystem condition to deliver sustained yield increases and improved long-term asset value. In addition, our investments deliver a net biodiversity benefit and a net carbon sink, sequestering more carbon than operations emit.

The Australian Farmlands Funds are 10-year closed end Funds with a target raise of \$100M to the end of 2021. As at the end FY20 the Funds had asset holdings of 1128ha of farmland, 2584ML of high reliability water entitlements, 389ML of low reliability water entitlements and \$33.61M AUM.

Report Methodology

This is the inaugural report on assets held in the Kilter Australian Farmlands Funds (KAFF) to end FY20. This report outlines the key measurement frameworks to be employed and predominantly focusses on asset condition baselines as at EFY2020. Importantly it also sets condition targets, against which trends and outcomes across social, environmental and governance parameters can be measured in subsequent years.

As there is no one particular framework for application to the KAFF operations our reporting approach cross-links ESG outcomes to criteria of key global frameworks relevant to the Funds.

The FY20 KAFF ESG Report uses the following independent and globally accepted frameworks as the basis for ongoing reporting including:

- › UN's Sustainable Development Goals (SDGs)
- › The Global Reporting Initiative (GRI)
- › Accounting for Nature Framework for Environmental Condition Accounting
- › The Taskforce on Climate-related Financial Disclosure (TCFD).

Table 1: An outline of global frameworks applied in the report







Report Section	Supporting ESG Framework
Section 2: Strategic Goals <ul style="list-style-type: none">› Detailing high level strategic goals for social, environmental and governance outcomes	<ul style="list-style-type: none">› UN Sustainable Development Goals› Global Reporting Initiative Goals› Kilter strategic goals
Section 3: Performance Measurement <ul style="list-style-type: none">› Natural Capital condition metrics and targets.› Natural Resource Use Efficiency metrics and targets› Social Impact metrics and targets	<ul style="list-style-type: none">› GRI metrics and targets for social and governance performance› Accounting for Nature framework for environmental accounts with Econds metrics for measuring condition of soil, native vegetation, fauna and water
Section 4: Governance <ul style="list-style-type: none">› Good Governance metrics and targets› Climate change risks, responses and market opportunities	<ul style="list-style-type: none">› Taskforce on Climate-related Financial Disclosure› Taskforce on Nature-related Financial Disclosures (NB: Due for release in 2022)

Linking outcomes to this combination of frameworks offers breadth and currency to disclosure. It builds on our inherent belief in the ideals of the SDGs and our prior history in contributing to investor GRI requirements. Attention to the more recent TCFD, and the TNFD once published, allows us to review our progress on managing and responding to climate change and nature, issues that are present and real for rural Australia.

2.Strategic Goals

The Kilter ESG framework strategically aligns the Sustainable Development Goals (SDGs) (<https://www.un.org/sustainabledevelopment/>) outlined by the United Nations. The following section highlights those goals that Kilter's ESG framework is using to drive subsequent condition targets and outcomes.

Table 2: The Funds' global ESG goals

Source	Kilter ESG Component	Goal	Sub Goal
UN SDG	Environment		2.4 Striving towards more sustainable food production by increasing productivity, adaptive capacity, and improving ecosystem services
UN SDG	Environment (or social)		6.4 Increase water-use efficiency and help address water scarcity through the sustainable withdrawal and supply of freshwater.
UN SDG	Social		8.5 and 8.8 Decent work of equal pay for work of equal value, with protected labour rights and safe working environments. Drive sustainable economic growth in rural and regional areas.
UN SDG	Environment		12.2 By 2030, achieve the sustainable management and efficient use of all natural resources.
UN SDG	Environment		13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.
UN SDG	Environment		15.1 Ensuring the conservation and restoration of freshwater ecosystems. 15.2 and 15.3 The restoration of degraded land and forests which have been affected by deforestation, drought and intensive land-use, ensuring a land degradation-neutral world. 15.5 Protect and prevent the extinction of threatened species.
GRI	Governance	GRI 102-18 to 102-39:	21 Disclosure topics on governance and governance reporting, used to drive Governance reporting in this report.

3. Performance Measurement

KAFF Overview

Kilter’s Australian Farmlands Funds are invested in the Southern Murray-Darling Basin, an area of high agricultural productivity stretching from the foothills of the Great Dividing Range to the NSW Riverina. The properties of the Funds are located in Yorta Yorta Country in the Lower Goulburn Valley. Irrigation districts of the Victorian-Murray constitute most of the highly modified landscapes, intersected by few remnant vegetation patches and wetlands.

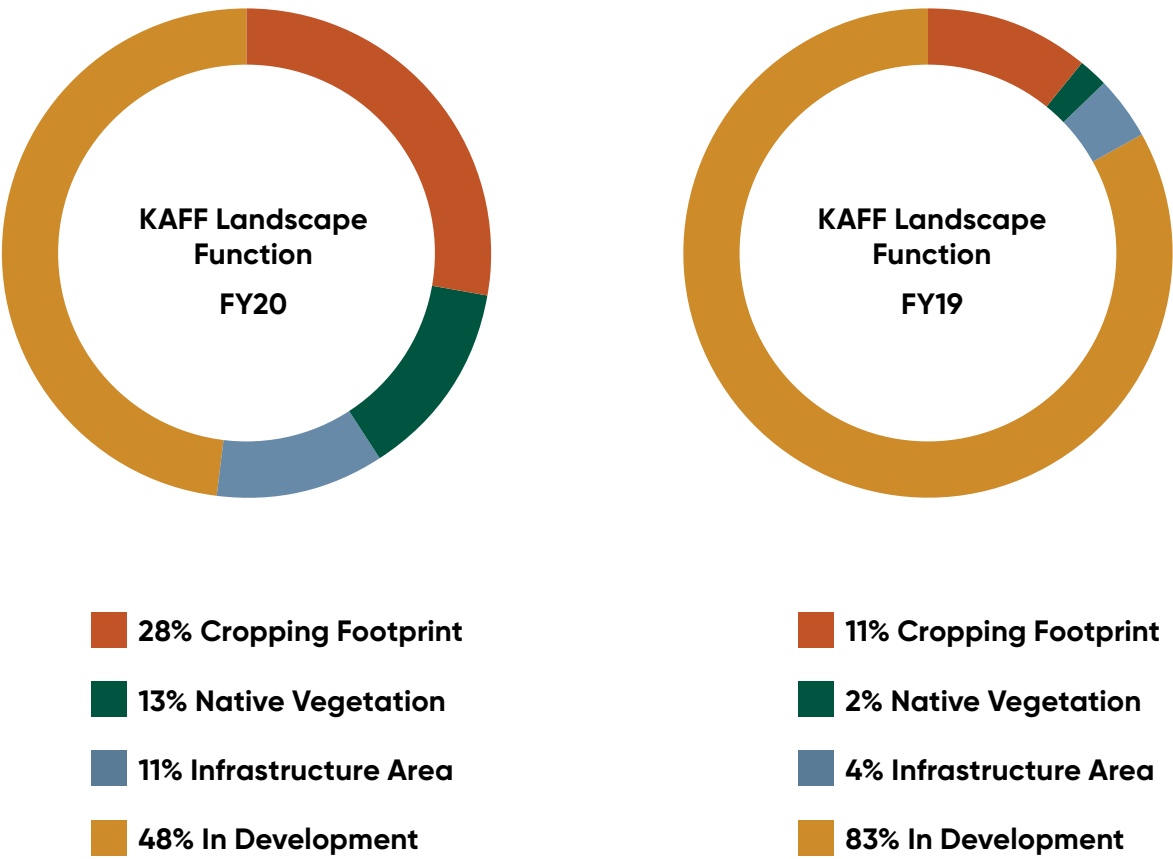
Many of the localities of the region were established during subdivisions for soldier settlements in the early 1900s. Once-thriving dairying communities and agricultural centres during the mid-20th century, these townships have since faced challenges of volatile commodity prices, droughts and the closure of local processing facilities.

Table 3: Summary of Primary Assets held in the Australian Farmlands Funds	
Asset Class	FY20
Land	1,128 Hectares (2,787 acres)
Water (Entitlement)	3,560 ML of High Reliability 398 ML of Low Reliability

At the end of FY20 the Australian Farmlands Funds held 1,128ha of land in northern Victoria as per figure 3.

- › 315ha (28%) had a functional cropping footprint and 145ha (13%) was dedicated to native vegetation. 125ha (11%) was infrastructure area.
- › A further 540ha (48%) of the farmland was in conversion towards an end-agricultural or ecological purpose.

Figure 2: Land Function at FY20 vs FY19



Environmental Condition Accounts

Kilter has adopted the Accounting for Nature (AfN) framework for environmental accounting (EA) requirements. Similar to a framework for financial or greenhouse gas accounting, the AfN Framework offers a system of rules and processes designed to ensure the integrity and transparency of accounts of the condition on natural assets such as native vegetation and soil. Developed by Australia's Wentworth Group of Concerned Scientists, AfN is licenced to apply standards and certifications consistent with the United Nation's Standard for Environmental Economic Accounting (SEEA). Figure 4 describes the pathway to generating AfN certified environmental accounts.

Across the natural assets being assessed, the AfN framework delivers a metric, an Econd, that when physically measured, accounts to a condition score for an asset class. An Econd score ranges between 0 and 100. The maximum score of 100 is referred to as the pre-European 1750 reference condition that typically reflects the undisturbed state of the asset.

Through the AfN Framework Kilter baselines the condition for the natural assets at purchase, sets

targets for improvement in the asset and then annually reports on the condition trend towards the target.

Measurement methodologies applied to assess each asset class must first be independently reviewed and accredited by the AfN Standards and Accreditation Committee. As at end FY20 Kilter Rural was working on the AfN approval of methods for; native vegetation, soils and fauna. The table below outlines these asset classes, the level of precision (confidence) sought and their status in respect to the method accreditation process.

Upon method accreditation KAFF will apply Afns, EA, Trust Mark and Econd rating system to independently audited environmental accounts that are generated under that method. Until this time our reported Econds are interim and are referred to as *Asset Condition Scores*.

With the suite of AfN methods in development or pending approval at the end of FY20, this report provides the template for future natural asset condition reporting.

Figure 3: The five steps required under the AfN Framework to achieve certified environmental accounts. (Source: <https://www.accountingfornature.org/the-afn-standard>)

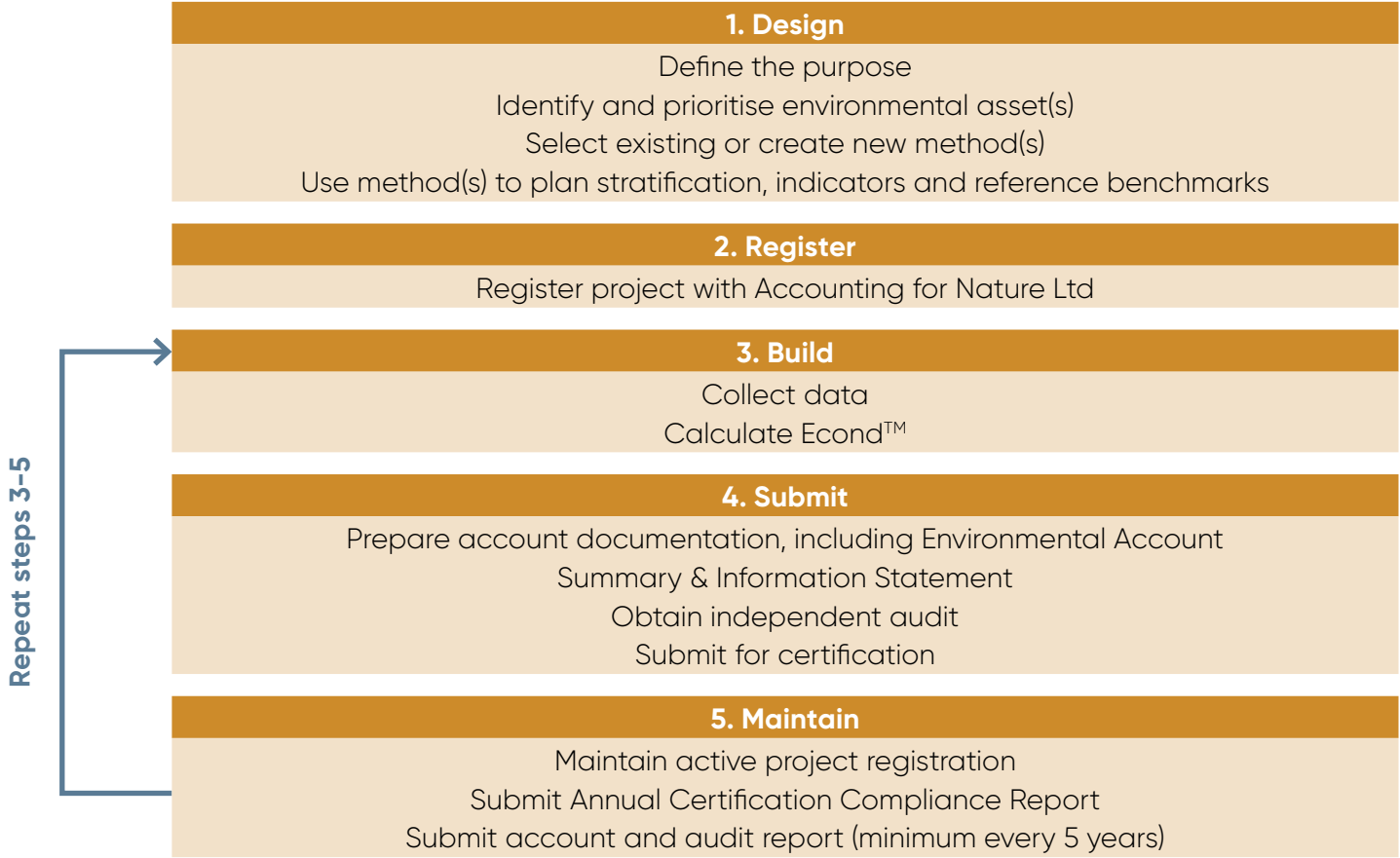


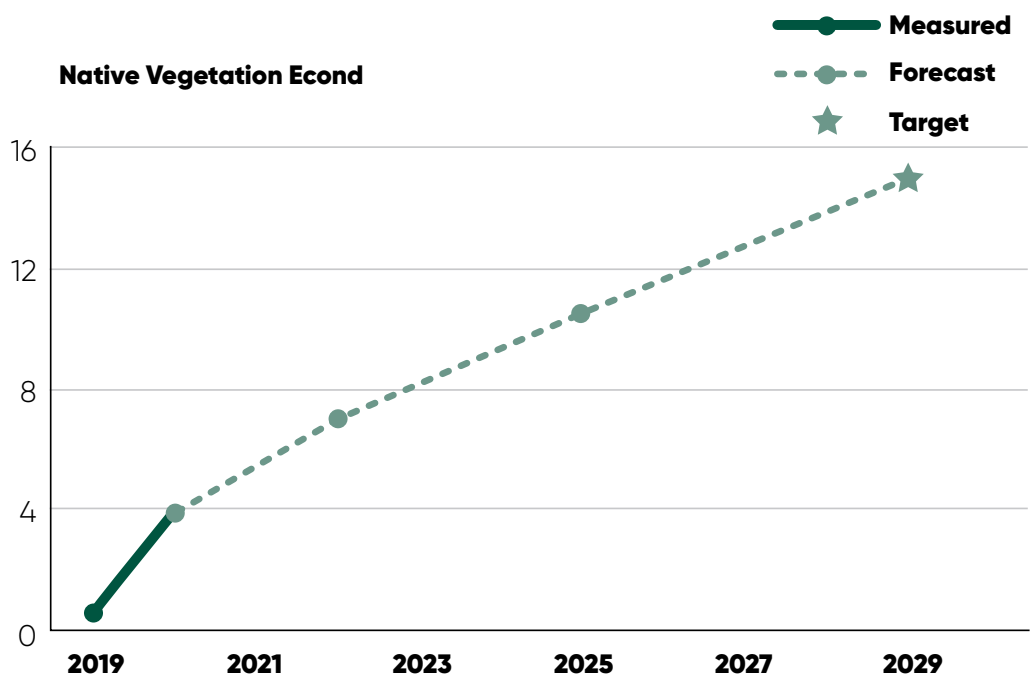
Table 4: AfN Assets at KAFF

Asset Class	Confidence Level	What does this mean?	Status of method
 <p>NATIVE VEGETATION</p>		<p>A Level 1 (Very High) confidence level applies to Methods that include a comprehensive set of indicators and are likely to have <u>very high accuracy</u> ($\geq 95\%$) when measuring the condition of environmental assets and detecting change in their condition through time.</p>	<p>The Kilter Rural Native Vegetation Accounting method was approved by AfN's Standards & Accreditation Committee in November 2020. To be first applied in Spring 2021.</p>
 <p>SOIL</p>		<p>A Level 2 (High) confidence level applies to Methods that include a relatively comprehensive set of indicators and are likely to have <u>high accuracy</u> ($\geq 90\%$) when measuring the condition of environmental assets and detecting change in their condition through time.</p>	<p>The Kilter Rural Soil Accounting method is targeting submission to AfN's Standards & Accreditation Committee in June 2021.</p>
 <p>NATIVE FAUNA</p>		<p>A Level 2 (High) confidence level applies to Methods that include a relatively comprehensive set of indicators and are likely to have <u>high accuracy</u> ($\geq 90\%$) when measuring the condition of environmental assets and detecting change in their condition through time.</p>	<p>The Kilter Rural Native Fauna Accounting method is targeting submission to AfN's Standards & Accreditation Committee in June 2021. It will be a bird survey based.</p>

Example: Native Vegetation Condition

The table below represents an interim implementation of Kilter's AfN native vegetation assessment methodology with our first full application of the method due with comprehensive native vegetation survey in Spring 2021.

Table 5: Historical native vegetation condition and progress towards KAFF targets

Native Vegetation Condition	
Asset Description	KAFF properties historically hosted wetlands, grassy woodlands and red gum forest. At present however, less than five percent of the original native vegetation cover remains, with few remnant patches interspersed within a heavily cleared agricultural district. Native vegetation condition is a function of both its Extent and Quality.
SDG	<u>Life on Land</u> : Goal 15.2 Halt deforestation and substantially increase reforestation.
Target Condition 2029	An Econd score of 15 across the KAFF Landscape by the end of the Fund. An Econd score of 15 involves 30% of the land area reforested with the quality of this vegetation achieving 50% of undisturbed (reference) condition.
Baseline Condition (start FY20)	Asset Condition Score of 0.6 (b/w 0-100) Includes native vegetation cover of 16ha, or 1.8% of the farmland area under management
Interventions in FY20	129ha of additional dedicated native vegetation area during FY20, of which 110ha was direct seeded with native forest species
End FY20 Condition	Asset Condition Score of 3.9 Includes native vegetation cover of 145ha, or 12.8% of the farmland
Progress towards target	 <p>Quick progress will be made in the early years as more area is reforested. The rate of Econd improvement will then slow, but continue to improve as the quality of this vegetation evolves with age and diversity.</p>

Measurement:

The Kilter accredited native vegetation (NV) assessment methodology requires identification and classification of all native vegetation patches on Kilter managed lands. A statistically representative number of these patches are field surveyed with various measurements of vegetation structure, diversity and connectivity collected. These are combined and compared against a defined reference condition to generate the NV Econd for the farmland.

Figure 4: Protected patch of remnant Grassy Woodland at KAFF



Figure 5: Direct seeding of native vegetation in FY20.



Other Asset Classes

In addition to native vegetation, during 2021 other asset classes will have methodologies progressed for condition reporting. Soil condition and methods for reporting on the condition of fauna and water assets are also in development and trial application.

Soils

The lower Goulburn floodplain consists primarily of Sodosol soils, a texturally contrasting soil characterised by low permeability subsoils. These soils are generally vulnerable to salinisation, erosion and have a low-nutrient status. KAFF farmland topsoils are typically slightly acidic clay-loams. Subsoils are moderately alkaline and dispersive clays prone to hardpan development (through compaction from over-trafficking and cultivation) restricting plant root growth.

Global Sustainability Goal:

- › Life on Land: Goal 15.3 Restore degraded land and soil

FY20 Management Intervention:

- › Conducted initial soil condition baseline assessment.
- › Multi-species cover sown to minimise bare fallow.

Methodology in development:

The Kilter AfN compliant soil assessment methodology in development requires identification and classification of all soils on KAFF. Ultimately an Econd is generated at the farmland level that considers soil health indicators of salinity, acidity, organic carbon, erosivity and nutrient relative to a defined reference condition.

Fauna

The Funds' properties are positioned within several important ecological communities and EVCs, which host a wide range of threatened fauna, keystone species, and threatened ecological communities.

Global Sustainability Goal:

- › Life on Land: Goal 15.5 Halt biodiversity loss and protect threatened species
- › GRI 304-4: Disclosure of EPBC listed threatened species

FY20 Management Intervention:

- › Direct seeded 110ha of new forest, lifting habitat (native vegetation) extent to 12.8% of the farmland area.
- › Initial assessment of national databases suggests local, EPBC-listed species include; Curlew Sandpiper, Australasian Bittern, Regent Parrot, Swift Parrot, White-throated Needletail and the Grey-headed Flying-fox.

Methodology in development:

Kilter Rural is developing an AfN accredited bird methodology to represent fauna condition in the landscapes it is managing. Birds also offer an important marker of broader ecological condition. The method is to be based on statistically based sampling of native vegetation – condition classes, and applies the 20 minute, 2 hectare survey that is a standard in Australian birding. The Econd requires comparison to a defined reference condition for bird species.

Figure 6: Cover crop sown in FY20



Agricultural Efficiency Metrics

FY20 saw the first harvested crop from the KAFF farmlands, this being 98ha of processing tomatoes. The implications for water and energy consumption for FY20 are largely related to this crop.

Water Usage

Global Sustainability Goal:

- › Clean Water and Sanitation: Goal 6.4 Increase water-use efficiency and help address water scarcity through sustainable withdrawal and supply of freshwater
- › GRI303: Report on Water Usage

KAFF Target Outcome:

- › Strive for water use efficiency of 10% below the benchmark average ML/ha for each crop in the rotation.
- › Development of water efficient irrigation systems across the agricultural production land. This will not only avoid excess drainage and damage from high water tables, but also provide opportunity to engineer environmental flows into local wetlands.

FY20 Management Intervention:

- › In FY20 683ML of irrigation water was applied to the farmlands, almost entirely on the tomato crop, supplied from the 1A Goulburn trading zone at an application rate of 6.8ML/ha.
- › 98ha of sub-surface drip irrigation (SSDI) was installed for high value tomato cropping. State of the art irrigation design and management systems support high levels of water efficiency when compared to the original flood irrigated pastures.

Condition Assessment or Outcome:

- › Produced a water-efficient crop on sub-surface drip irrigation which was 9% lower than the long-term 7.5ML/ha irrigation intensity of tomatoes in Australia.

Energy

Global Sustainability Goal:

- › Sustainable Consumption and Production: Goal 12.6 Adopt sustainable production and consumption practices
- › GRI302-1: Report on Energy Usage
- › GRI302-3 & 4: Report on Energy intensity ratios and energy reduction metrics

KAFF Target Outcome:

- › Increase energy efficiency by aiming for energy consumption intensity, measured in GJ/ha, to be 10% lower than the long-term average.
- › By the end of the Fund, eliminate all internal (scope 1 & 2) energy consumption derived from fossil fuels, and reduce contractor (scope 3) energy consumption derived from fossil fuels by 33%.

FY20 Management Intervention:

- › Diesel generators installed on the subsurface irrigation blocks were designed to facilitate future solar installation, allowing a more rapid transition away from fossil fuels in the future.

Condition Assessment or Outcome:

- › Farmland energy consumption intensity was 2.8GJ/ha. This measurement will be used as the baseline for reporting in FY21.
- › In FY20, 3,300 kWh of hydro electricity and 83 kL of on-farm diesel fuel was used.

Figure 7: Tomato harvest at KAFF



Greenhouse Gas Accounts

The Fund is accounting for carbon emissions on an annual basis.

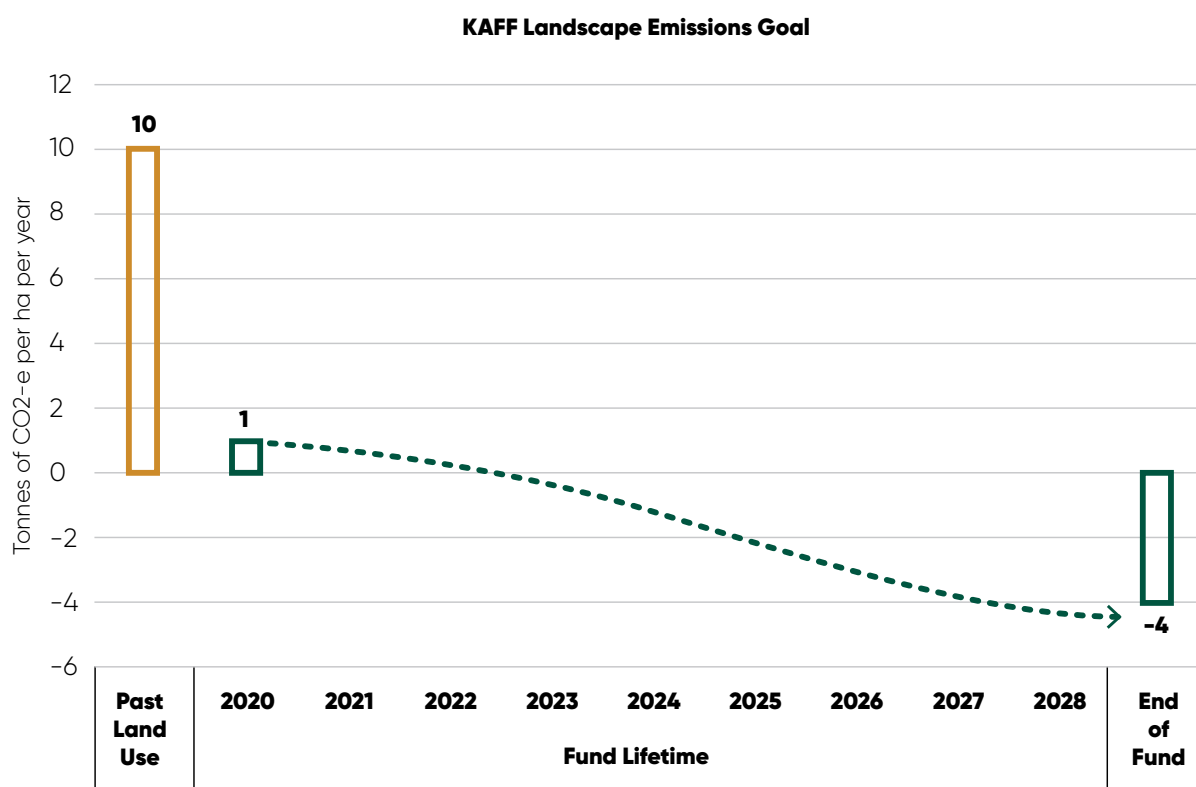
Global Sustainability Goal:

- › Climate Change: Goal 13 Take Urgent Action on Climate Change
- › Sustainable Consumption and Production: Goal 12.6 Adopt sustainable production and consumption practices
- › GRI302- 4 & 7: Report on GHG emissions intensity and N₂O emissions

KAFF Target Outcome:

- › At the end of the Fund, the farmland will be a net annual carbon sink, and be sequestering approximately four tonnes (-4 tCO₂-e/ha) per year. Annual carbon accounts will be produced for the Funds emissions and sinks.
- › This will be achieved through implementation of:
 - Mainstreaming regenerative agricultural practices which increase soil carbon.
 - Revegetating 30% of the farmlands with native vegetation that sequesters carbon.
 - Transition to low emission power sources (solar, diesel substitution, low emission electricity).

Figure 8: KAFF GHG emissions trajectory and target



Publisher Reference: Previous land use=10, 2020=1, End of Fund=-4

FY20 Management Intervention:

- › Specific activity during the FY20 year included the planting of 110ha native vegetation to provide carbon sequestration services
- › First rotation of multi-species cover crops grown to minimise fallow and reactivate soil biological activity, that will increase soil carbon sequestration and retention levels

Condition Assessment or Outcome:

- › In FY20 crop production and development of the land produced emissions of 1.0 tCO₂-e/ha and a total of 1.9 tonne of N₂O emissions in accordance with the following table.

Table 6: FY20 KAFF Carbon Account

Component	Scope	Source (-) or Sink (+) As tCO ₂ -e	Nature of source/sink or Comment
Electricity emissions	2	3	Power to farm sites
Fuel emissions	1,3	224	Diesel consumption in irrigation pump sheds, staff road vehicles, in-paddock machinery, contractor fuel use
Crop emissions	1	853	Nitrogen losses, crop residue burning, fertiliser leaching. 501 tCO ₂ -e (or 46%) of this is linked to crop nitrous oxide emissions
Woody sequestration	1	0	No reportable sequestration this year (New 100ha environmental planting May-2020)
Soil sequestration	1	0	No reportable sequestration this year (too early to report)
Carbon Balance		1,080	Over 1128 ha of farmland this represents an emissions intensity of 1.0 tCO₂-e/ha

Figure 9: Native open woodland at KAFF



Ethical and Diverse Employment

Kilter aims to manage the Fund assets through implementation of ethical and safe employment practices that provide a positive work environment and opportunities for local people.

Global Sustainability Goal:

- › Decent Work and Economic Growth: Goal 8.5 & 8.8 Equal pay, labour rights and safe work
- › GRI401-1: New Hires and Employee Turnover

KAFF Target Outcomes:

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

FY20 Management Intervention:

- › Casual Labour used on the farmland was engaged through a registered labour hire agency that offered employment to a diverse range of people. Casual labour hours totalled an equivalent of more than 1000 days.
- › Most contractors for machinery and labour were employed from the Malay and Thai communities residing in the region. With principal contractors being mostly local-owned small businesses such as sole proprietors or family partnerships.
- › More than half of the staff hired for labour were women, including the majority of essential on-farm operation management positions.
- › Contract employment demonstrated high return rates, with many of the same people returning to undertake work over subsequent seasons.

Condition Assessment or Outcome:

- › Staff turnover was Nil.
- › 100% Compliance with required OH&S site inductions.
- › Zero days lost to work related injuries.
- › Wage rates offered were at, or above, prescribed award rates.

Local Community Development

Kilter aims to foster strong connections within the communities surrounding the KAFF farmlands to enable constructive dialogue on initiatives that may have impact and to ensure the economic benefits of the operations are shared with the local community where possible.

Global Sustainability Goal:

- › Decent Work and Economic Growth: Goal 8: Productive Employment and Decent Work for All
- › GRI203-1 & 2: Indirect economic and local community impact
- › GRI 413-1 Local Community Engagement

KAFF Target Outcomes:

- › Seek to engage local suppliers (<50kms) where possible.
- › Pro-actively arrange at least a bi-annual meeting with the local communities to discuss planned initiatives and seek feedback.

Condition Assessment or Outcome:

- › The Fund spent \$1.58M with 31 local suppliers, this spend representing an increase of 53% on the previous year and 62% of the farmland non-capital spend.
- › Kilter presented to the Girgarre Progress Association and participated in a native vegetation planning day with the community and the Goulburn-Broken CMA.

Figure 10: KAFF local (<50km) spend

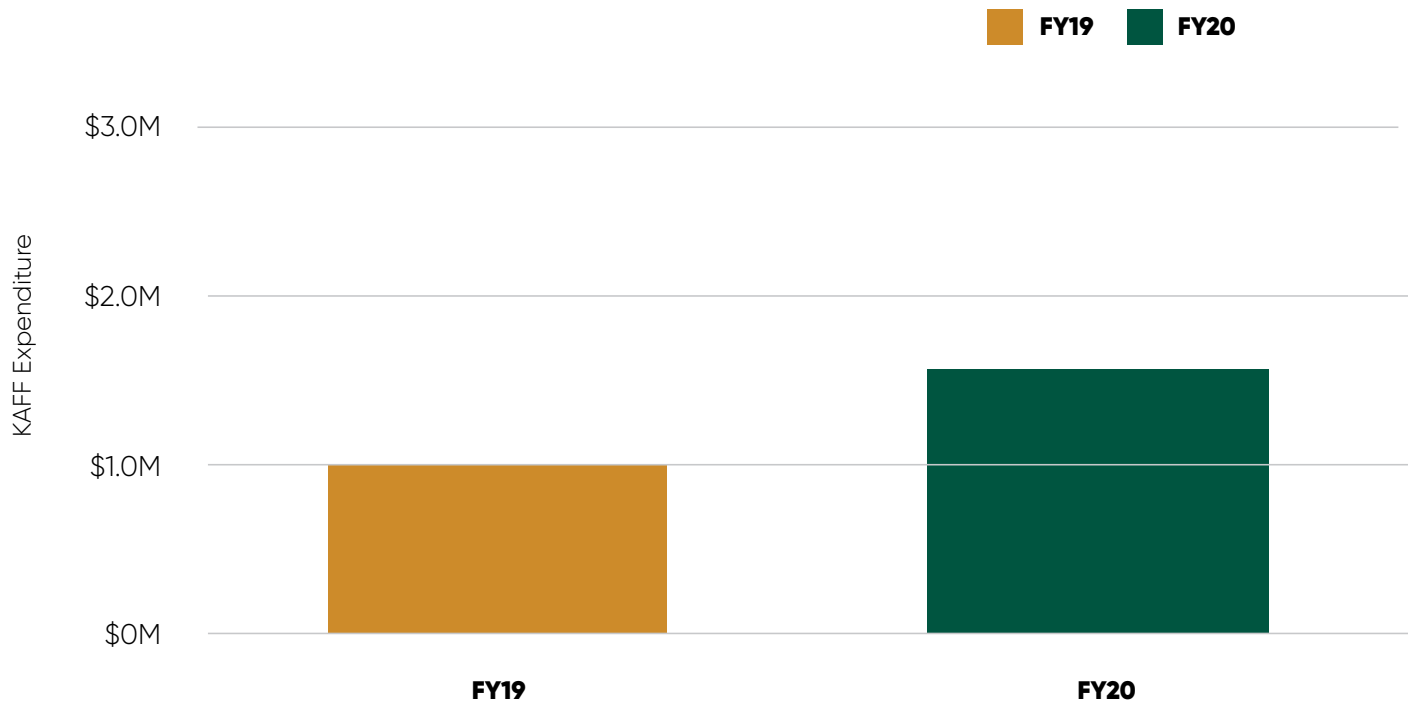


Figure 11: Direct seeding lines from the FY20 revegetation program



Indigenous Engagement

Kilter endeavours to engage with First Nations Peoples and the Traditional Owners of the land on which the KAFF properties are located and to adhere to the principles and frameworks of the UN Declaration of the Rights of Indigenous Peoples (UNDRIP).

Global Sustainability Goal:

- › Decent Work and Economic Growth: Goal 8: Productive Employment and Decent Work for All
- › GRI 411: Adherence to UNDRIP

KAFF Target Outcomes:

- › Pro-actively work with First Nations communities in the area to foster collaboration, knowledge sharing, land access and economic opportunities.
- › Ensure cultural heritage assessment processes are completed prior to any development activity and that appropriate management plans are in place for any sites of cultural significance.

Condition Assessment or Outcome:

- › Kilter in conjunction with the Goulburn–Broken CMA and the revegetation program undertook a 2ha direct seeding trial of Acacia species for potential future use in an Indigenous edible seed enterprise.
- › Kilter in conjunction with the Goulburn–Broken CMA undertook initial steps of engaging the Yorta Yorta Nations Aboriginal Corporation for seedling planting and strategic weed control on environmental lands.

4. Governance

Kilter's reporting on governance processes and structures takes reference from the GRI topics on governance, under *GRI 102* topics.

The Constitutions of the Australian Farmlands Fund and the Australian Farmlands Operating Fund are the primary documents governing the relationship between the Investors and the Trustee. The Trustee for the Fund is Kilter Investments Pty Ltd (KI) and is granted a range of powers concerning the Fund. The KI Board aims to strive for best practice in all governance operations, including the operation of the board itself and the responsibilities of the Trustee. The Board has integrated a holistic ESG approach to governance, with key examples being:

- › Key responsibilities under the Board Charter include assessment specific frameworks for categories of risk such as climate risk and biodiversity loss.
- › The board Governance, Risk, Audit and Compliance Committee (the Governance Committee) aims to oversee governance processes to ensure integrity, communicate critical concerns and develop a comprehensive, flexible governance framework.
- › The Governance Committee, conducted a review and enhanced the Risk Management Framework, including updates to risk assessment and reporting measures, and the introduction of KI Board risk workshops.

The TCFD

Kilter has adopted the Taskforce on Climate Related Financial Disclosure (TCFD) approach to assessing and reporting on the potential impacts of climate change. This approach involves consideration of the four key elements outlined in the TCFD framework:



- › **Governance:** Governance around climate-related risks and opportunities.
- › **Strategy:** The impacts of climate-related risks and opportunities on Kilter's businesses and strategy.
- › **Risk Management:** The processes used to identify and manage climate-related risks.
- › **Metrics and Targets:** The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Kilter focused on establishing best practice risk management procedures and policies surrounding the medium and long-term risks of climate change. Kilter's Risk Management Policy outlines the headline risks as environmental, regulatory, social and governance, with the risk management responsibilities of the Trustee including:

- › The Trustee has committed to annual updates from external experts in the field of climate science and compliance with the goal of maintaining an up to date understanding of projected climate change and associated developments in legal and compliance initiatives.
- › The Trustee requires, as part of the consideration and approval of the Annual Plan for the Funds, an assessment of the likely risks and opportunities as a result of climate change.

Kilter is required as part of the development of the Annual Plan to outline particular strategies with reference to potential climate change impacts. Key elements to this plan include consideration of:

- i. climatic forecasts and the impact on the availability of irrigation water.
- ii. the impact of temperature on crops and commodity prices,
- iii. the potential impact of extreme weather events such as storms, and
- iv. legislative changes that may impact operations.

Following the release of the Taskforce on Nature Related Financial Disclosure (TNFD), additional recommended frameworks outlining aspects of biodiversity conservation will be outlined in this report.

Climate-related Risks and Opportunities

Human-induced climate change is acknowledged to have a significant impact in the Australian landscape, which impacts investment opportunities in Australian farmland, water and ecosystems. Kilter's risk assessment outlines the climate-related risks to the MDB, with a recent analysis suggesting:

- › Since 1970 most of the MDB has been warming at a rate of between 0.2 and 0.4°C per decade, compared with a national average of about 0.15°C per decade. Nine of the MDB's 10 warmest years on record have occurred since 2005.
- › Rainfall across south-eastern Australia has declined between 15 and 25% during the Winter months of April to June in the past 20 years.
- › Stream flows across the MDB have declined from the long-term average by 41% since the mid-1990s.

Kilter will be responsible for presenting to the Trustee as part of the Annual Plan an assessment of the likely risks and opportunities that exist for both the existing assets and those likely to be acquired. Kilter's risk-management approach has consistently demonstrated resilience in the face of this changing climate. Examples of climate change related risks and opportunities include:

- › Incorporating an increased probability of drier years into water valuation modelling, affecting the assessment of short-term and medium-term water prices,

- › Targeting farmland for acquisition that is closer to irrigation water storages rather than end-of-system regions that are likely to encounter future water delivery risks,
- › Investing in properties and water entitlements in geographically dispersed zones to reduce risk through geographic diversification,
- › Incorporating carbon offset activities into investment planning,
- › Adopting environmental and bio-diversity goals to reduce economic and regulatory risks and identify emerging opportunities, and
- › Investing in landscape regeneration which assists both climate change mitigation through carbon reduction and increased landscape resilience.

FY20 Management Intervention:

As part of the climate change adaption risk-management strategy, Kilter designs farm layouts to withstand the increased frequency of intense weather events. A large 84mm rainfall event was drained off within 24 hours, leading to reduced waterlogging and crop yield potential not being compromised, as shown in Figure 12.

Figure 12: Flooded and Drained 24 hours later





Concluding Statement

This is the inaugural report of the ESG performance and outcomes for KAFF. As a baseline report, Kilter has established the condition of the Funds' assets and outlined the goals to be achieved by the end of Fund. Kilter is committed to continually improving on the Funds' ESG performance and will endeavour to reach ambitious performance targets across environmental, social and governance outcomes.

From next year, the annual ESG report will outline the Funds' progress towards these targets through an array of objective, measurable performance metrics such as environmental condition accounts and efficiency metrics. The ESG report will track the performance of the Funds over their lifetime, progressing goals of:

- › Building natural capital
- › Reducing environmental impact
- › Increasing environmental and social resilience
- › Mitigating climate change

If you would like further information on the content in this report, connect with us at <https://kilterrural.com>.



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