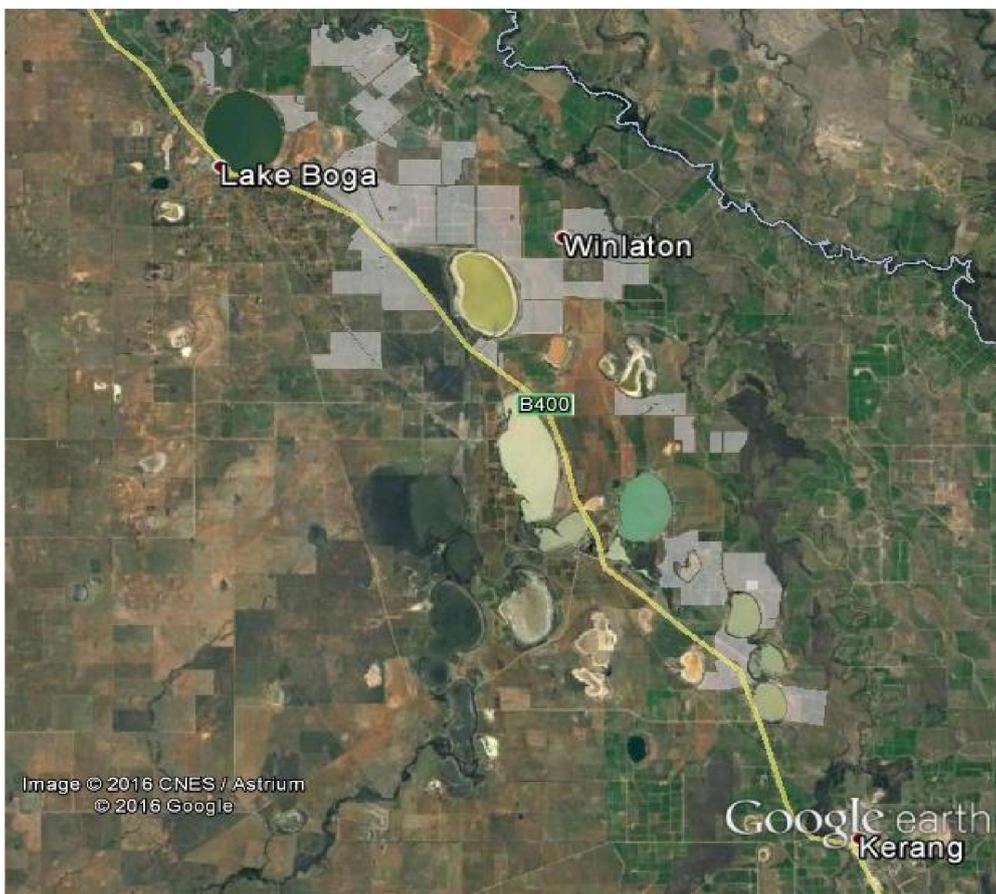


2018

FFL WINLATON CASE STUDY: THE KILTER RURAL STORY

Profit with Impact in the Murray Darling Basin



FFL (Future Farming Landscapes) at Winlaton is an investment model - the brainchild of Kilter Rural founders. It involved turning agriculture into a mainstream investment for institutions and professional investors. The company, Kilter Rural, is succeeding where many have failed.

In the early 2000s, Kilter Rural had convinced VicSuper to commit more than \$200 million into a “greenfields” farm investment. From 2007 onwards it selected 35 farms and had completed the bulk of these acquisitions by 2012. The vendors were tired of decades of dwindling production, falling milk prices and the Millennium Drought.

The Kilter Rural founders were trained in natural resource management (NRM) with a passion for the environment. Lake Boga is located near five RAMSAR Wetlands – the Barmah Forest, the Kerang Wetlands, the Gunbower Forest, the Hattah-Kulkyne Lakes and, just across the border, the NSW

Central Murray State Forests. In essence it is an ecological hotspot of international significance, making it ideal as a focus for environmental regeneration.

Kilter Rural saw the potential to aggregate many small holdings into a single corporately managed 'Lake Boga' enterprise (8,900 ha). It understood the intrinsic agricultural potential of the floodplain soils and the under capitalised farms, plus the valuable water entitlements that went with the land. Here was an opportunity to regenerate a degraded landscape from the ground up.

The Vision

From 2007 to 2013 it was time to put the 'FFL model' to the test. The effects of past land management regimes were recognised and understood. Decades of leaky flood irrigation had adversely affected the landscape's ecological function. There was a need to make the best land productive, while, at the same time, attending to soil and biodiversity imperatives to ensure a sustained commercial enterprise.

From the outset, Kilter Rural took the view that some of the land would be too expensive to develop and so should be turned back into a mixture of dryland sheep country and ecological "sanctuary". The least promising land - with poor, long-depleted soils - was to become habitat for vulnerable wildlife with the regrowth of chenopod (saltbush and bluebush) and woodland communities. This 'ecological estate' has been progressively fenced, protected and restored, and there are around 4000 hectares of native vegetation

Parts of the estate are selected for rotational grazing on the native forage for a flock of 3,000 merino ewes, then 'finished' on crop stubbles and lucerne.

The most arable land, as assessed by retained soil scientists Christian Bannan (South East Soil & Water) and Declan McDonald (SESL Australia), has been heavily infused with composts and organic matter. Sub-surface watering, centre pivots and levelled paddocks for gravity irrigation have been installed on the most productive areas – currently 3,150 hectares. Another 1,000 hectares are being readied for future irrigation.

"Nothing we do in that landscape, we do for free; key soil assets have to make money or contribute to creating long-term value," CEO Cullen Gunn told the SFL team. He believes there is a great deal of irrigation land in the Murray-Darling Basin which is underutilised or undercapitalised, and could be dealt with in a much more sustainable way. "We are about delivering profit, with impact, that's what we have been doing for 10 years". Cullen adds "We have a genuine drive to protect and restore Australian landscapes by marrying production, ecological and social outputs."

Income Streams

Kilter Rural manages the Lake Boga enterprise to achieve returns in excess of 8% on capital invested per year, through blending three income sources – agricultural produce, interacting with the water market and through available eco-markets in Victoria.

Such a project doesn't happen in isolation, and it required delivery input from the region. In the 2015 financial year, Kilter Rural spent \$12 million with its suppliers alone, with almost \$5 million spent locally. 30,000 tonnes of compost are currently applied to the cropping fields each year, mostly sourced from Melbourne's green waste. The development of cotton growing, tomatoes, lucerne, lamb, Queen Garnet plums and, more recently, organic winter cereals has not been without challenges. The early days saw the back end of the Millennium Drought that turned into the century flood of January 2011, when a significant proportion of the Boga farms were submerged under more than a metre of water for many months. The impact of those floods taught the Kilter Rural team to make sure water can drain away swiftly. On a number of properties two years' production was lost. On the other hand, the flood flushed out a great deal of salt and precipitated growth of clover.

Farming

Lake Boga is growing Australia's most southern cotton and it has proven its worth in rotation with lucerne and tomatoes for processing. Supply chains and forward contracts have been secured and,

with a reliable water supply, this rotation strategy is well established. The cotton is ginned at Hay in southern NSW in preparation for export, and the tomatoes are processed at Echuca.

The Queen Garnet plum – a hybrid variety developed by the Queensland Department of Agriculture Fisheries and Forestry – is said to contain five times the level of antioxidants than other plum varieties. The genetics of this crop are handled by the licensee, Nutrafruit, which has gained the worldwide marketing rights.

These high value products deliver directly to the bottom line and are underpinned by 13 tonnes per hectare of lucerne hay, which also has a critical role in regenerating the soil profile.

These crops also play a direct role in removing residual salt that has accumulated in the soil profile during a previous agricultural era.

Eco-Markets

Kilter Rural brings to 'Lake Boga' a strong regenerative policy to their practices for profit and as part of their corporate responsibility.

There is a small biodiversity team stationed at Lake Boga, with a role to service the 40% native vegetation cover across the aggregated farmland. This team does not work in isolation but partners with outside expertise and science based organisations. An example is its involvement with the Wentworth Group of Concerned Scientists in a project to generate a farm-based environmental asset account. The goal for the team is to turn environmental improvements into revenue in order to secure financial viability for the entire operation. In this manner Kilter Rural has developed two "securities" for the biodiversity market, which are activities under the BushTender program and covenants under the BushBroker biodiversity offset scheme.

Kilter Rural is optimistic that the rise of the eco-markets can underpin the cost of stewardship of environmental land. Eco-market opportunities can have a dual effect, providing revenue for cultivating ecological services but also providing a benchmark for valuing environmental assets.

The Future

Kilter Rural has established Wedgetail Food and Fibre as a marketing partnership, which was initially briefed to create markets and supply chains solely for Kilter Rural's produce but has now expanded to work with other growers to deliver quality, certainty and value.

Kilter Rural is also looking well beyond sustainable food and fibre. In partnership with The Nature Conservancy Australia and the Murray-Darling Wetlands Working Group, it manages the Murray Darling Basin Balanced Water Fund, the first water investment fund in Australia to address balanced environmental, agricultural, social and financial outcomes. This consortium won Australia's premier environment prize for 2017, the Banksia Award, in the natural capital category.

The team at Kilter Rural is keen to apply the Future Farming Landscapes model in another agro-climatic region of Australia. They have examined several locations in NSW and Queensland with a view to replicating what they have achieved at Lake Boga and were recently invited to Rockhampton by the Great Barrier Reef Trust to help explore how to best manage agricultural run-off and nutrients flowing onto the Reef.