LOVE YOUR SUPER: ACTION PLAN FOR YOUR 20s TO 60s AND BEYOND, PAGE 63

CREATING FINANCIAL FREEDOM

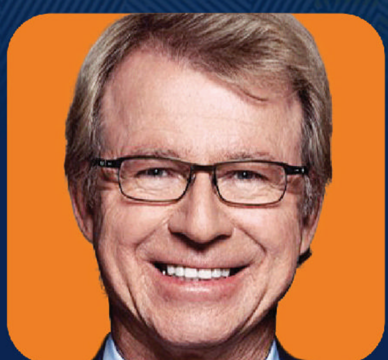
Money

NOVEMBER 2022 AUS $8.95 NZ $9.95 ISSUE 261
www.moneymag.com.au @MoneyMagAUS

WHERE TO INVEST $10k

EXPERT PICKS

RIDE OUT THE ECONOMIC VOLATILITY JESSICA AMIR



TURN DOWN THE MARKET NOISE SHANE OLIVER

PUT YOUR PORTFOLIO ON AUTOPILOT KATE CAMPBELL

QUALITY ASSETS WILL PREVAIL PAUL CLITHEROE

PUT SAFETY FIRST IN A STORM DANIELLE ECUYER

WHEN DIVERSIFICATION PAYS OFF DAVID BASSANESE

STAY ON TOP OF YOUR SUPERANNUATON POOJA ANTIL

YOUNG AUSSIES CAN GET AHEAD GLEN HARE

PLUS

INVEST FOR YOUR KIDS: PAUL'S VERDICT
PROPERTY'S BIG PLAY : LISTED v UNLISTED TRUSTS
WET AND WILD: WEATHERPROOF YOUR HOME

11
9 354903 000041

The Money team

EDITORIAL

Founder & editorial adviser
Paul Clitheroe

Editor-in-chief
Michelle Baltazar
(02) 8234 7500
michelle.baltazar@moneymag.com.au

Managing editor
Genevra Leek
genevra.leek@moneymag.com.au

Art director
Ann Loveday

Designer
David Matthews

Senior sub-editors
Bob Christensen, Debra Duncan

Senior writers
Susan Hely, Pam Walkley

Senior journalist
Tom Watson

Digital editor
Sharyn McCowen

Multimedia producer
Michael Lynch

CONTRIBUTING WRITERS
Nathan Bell, Mark Chapman, Alan Deans, Peter Dockrill, Tracie Ellis, Nicola Field, Peter Forrestal, Anthony O'Brien, Marcus Padley, Vita Palestrant, Scott Phillips, Max Riaz, Martin Roth, Phil Slade, Gaurav Sodhi, Scott Solomon

CONTRIBUTING ARTISTS
Reg Lynch, JMarton Ollman, John Tiedemann

PHOTOGRAPHS
Getty Images

PRE-PRESS
Peter Suchecki

ADVERTISING

Director – head of media sales
Stephanie Antonis
(02) 8234 7547
stephanie.antonis@rainmaker.com.au

Partnerships manager
Sam Starrat
(02) 8234 7531
sam.starrat@rainmaker.com.au

MARKETING

Marketing manager
Julian Clarkstone
julian.clarkstone@rainmaker.com.au

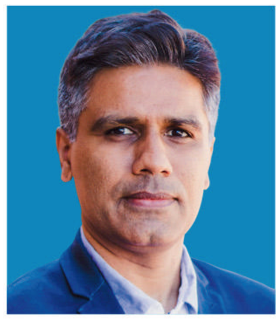
MANAGEMENT

Managing director
Christopher Page

Executive director
Alex Dunnin

Syndication enquiries:
money@moneymag.com.au
ISSN 1444-6219

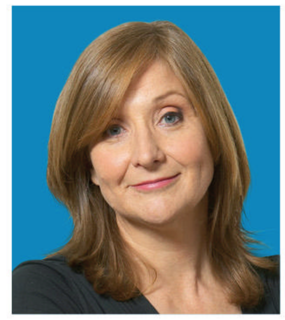
If you had a spare $10K, how would you invest it?



MAX RIAZ
Contributing writer
Inflation usually runs in 20-year cycles, so after 20-plus years of low inflation we may now be heading into a long period of high inflation. Money's value will continue to diminish as its circulation increases to fund fiscal deficits. I would invest $10,000 in funds and ETFs that target real assets (for example, natural resources, precious metals, water, energy). Bitcoin also looks interesting at these levels.

MARK CHAPMAN
Contributing writer
I'd invest the funds in paying down my mortgage. With interest rates nearing 6% and rising (meaning 6%-plus interest saved) and a tax-free return, there isn't anywhere else where you can get such a low-risk, high-return investment on your money.

MICHELLE BALTAZAR
Editor-in-chief
I would put $7000 into shares, $2000 in a couple of professional development courses and $1000 into my travel fund. And if I can turn back time, I'd love to meet my 19-year-old self and tell her that being young and broke is temporary. One day, we'll have a spare $10,000 to invest!



SUSAN HELY
Contributing writer
The Australian sharemarket is down about 13% since the beginning of the year, making it a better time to invest. But with steep power prices, investing $10,000 in solar panels could provide a good return. Because I work from home during daylight hours, I'm the ideal candidate. With a 5kW system I could cut $1150 to $1250 a year from my power bill. This is an 11% to 12% return on my money. Not bad.

Follow *Money* on Facebook
facebook.com/MoneyMagAUS

Follow *Money* on Twitter
twitter.com/MoneyMagAUS

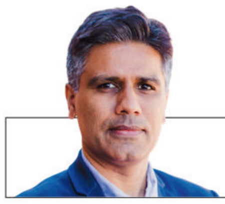
Visit *Money* online

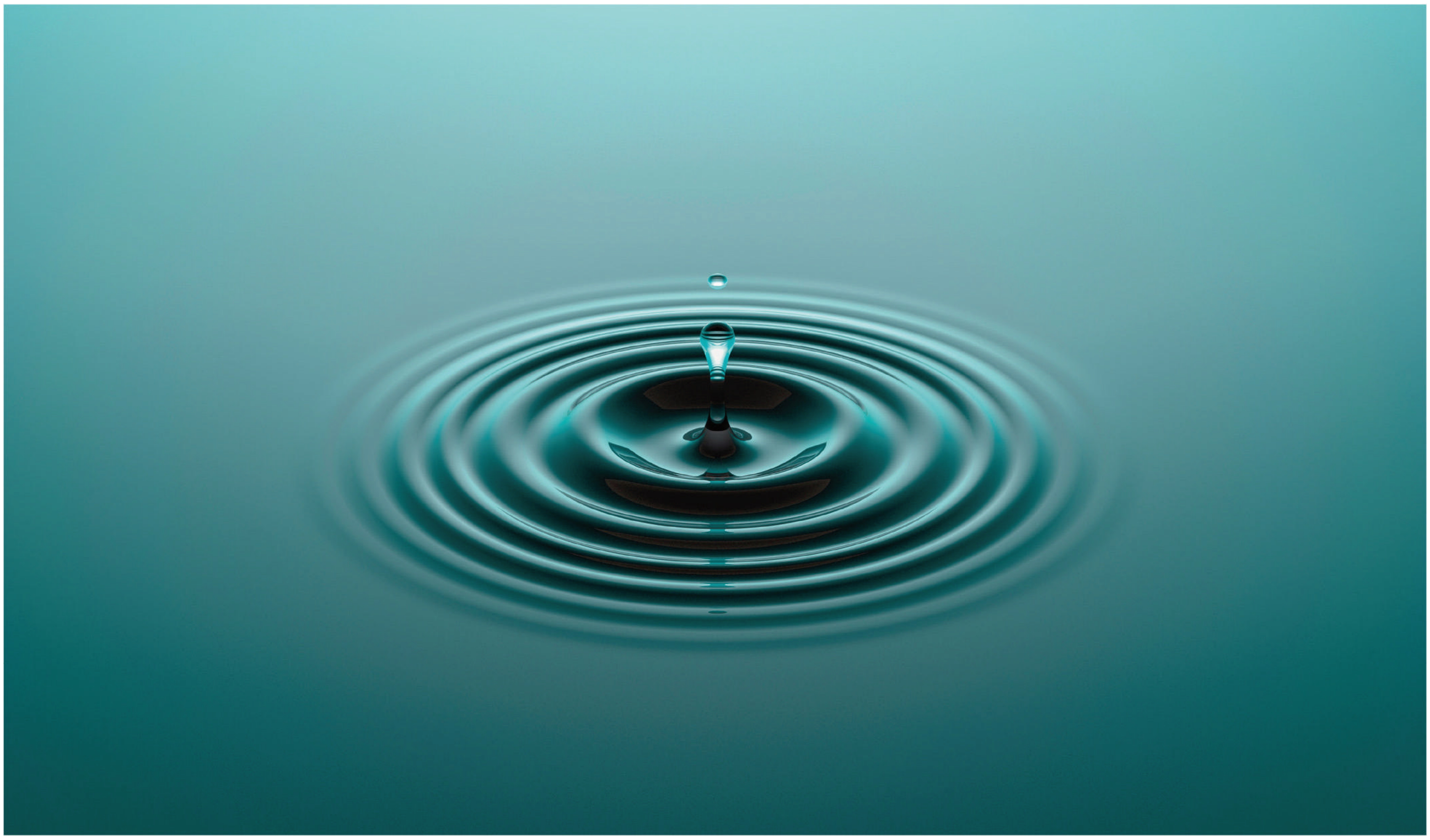
Check out our website and while you're there sign up for our free weekly email newsletters. You'll get our top money stories plus exclusive finance tips.

moneymag.com.au

Money is published by Rainmaker Information Pty Ltd (ABN 86 096 610 996), Level 7, 55 Clarence Street Sydney NSW 2000.
The trademark *Money* is the property of Rainmaker Information Pty Ltd and is used under licence. Printed by IVE, 81 Derby Street, Silverwater NSW 2128.

Money magazine is proud to work with IVE Group, an environmentally responsible printing company. IVE Group has Forest Stewardship Council ® (FSC ®) certification, and *Money* magazine is printed on paper from well-managed forests and controlled sources.





Why water is such a solid asset

This precious resource can add sustainability and diversification to a portfolio in times of volatility

For a range of economic and political reasons, volatility is at the forefont of investors' concerns. Although the worst of the pandemic is (hopefully) behind us, share price volatility has been even higher in 2022 than it was in 2021.

The problem with volatility is that it keeps you nervous and fearful of potential losses, even if at the end of the year your actual losses are not as bad as feared. That we feel the pain of actual and potential losses more than the joy of profits is often mentioned in behavioural finance.

So, at times like these, you wish you had some investments in your portfolio that helped to at least partially offset the losses with some gains and you wish the price of some investments didn't move up and down as much. Well, I think I have one such asset that you might want to consider: water rights for use in agriculture.

First, what is a water right? In simplest terms, it is a quota of water from natural river systems that a working farm may use in agricultural activity, such as growing crops. Water rights used to be attached to the land titles of rural properties until they started becoming unbundled in the 1990s, which meant that farmers could sell the water rights they didn't want.

They sold them to other farmers or, more recently, there have been water funds that invest in water entitlements and lease out the water to irrigators for a recurring fee. There is also a government body that purchases entitlements for allocating water back to the ecosystem to ensure environmental sustainability.

A water right has two main parts. There is the entitlement, which is a permanent right to a certain amount (gigalitres) of the capacity of a lake, river system or aquifer. Water entitlement is a freehold asset.

The second part is allocation. This is the amount of water allocated each year to the farmers holding an entitlement, depending on the level in the river or other water source during that year. Think of an entitlement as owning an empty glass of water and allocation as the water inside the glass, which depends on whether there has been enough rain in any season to either fully or partially fill the glass.

Allocations can fall in drought years and the price of water that can be drawn from an entitlement thus goes up. Holders of water entitlements can sell their annual allocation. These allocations are like leases and can be short term or cover a number of years.

The benefit to the entitlement holder is that they can earn an income from leasing out their annual allocation while continuing to hold the ownership of their entitlement as an asset. Alternatively, a farmer can sell the entitlement altogether and either lease water back from the market or just cease the farm operation and continue holding the land without access to water, or separately sell the land as well.

If you are still wondering how water entitlement can be considered an asset, let me put its value in context. Consider an average rice or dairy farm in Australia. All the assets of such a farm include livestock, trading stock, fixtures, land and water entitlement. Then water entitlement on average comprises 30%-40% of the total value of the farm assets.

Tighter regulation

Water rights used to be issued relatively freely to farmers without always respecting the limits of the resources of rivers such as the Murray-Darling system, which spans four states on our east coast. The Murray-Darling basin supplies water to the biggest food-producing region in Australia.

While the free allocation of water served Australia reasonably well, by the 1980s pressures and problems were emerging. These included environmental issues (such as salinity, algal blooms, and deteriorating river and wetland health) and a growing awareness that traditional approaches to providing water infrastructure services were costly and lacked incentives to improve service delivery over time. With the drought of the late 1990s and the drying up of the river systems in the Murray-Darling basin but no let-up in the agricultural use of water, the impact on the environment and ecosystem was severe. The need to regulate the use of water became immediate.

3 FUNDS TO WATCH

1 Riparian Water Fund

Riparian Capital Partners is a specialist water, agriculture and food investment firm. Its objective is to deliver competitive, sustainable returns to stakeholders through long-term investments across the agricultural sector. ESG objectives are embedded in the investment approach and processes.

2 Kilter Water Fund

The fund utilises the investment manager's extensive networks to secure attractive investment opportunities that deliver strong capital growth with superior returns generated through the distribution of proprietary water products to irrigators.

3 Warakirri Diversified Agriculture Fund

It aims to purchase, develop and own a diversified portfolio of investment-grade Australian agricultural assets and lease to high-quality businesses. The strategy aims for a net return of 7%-11%pa. Examples of assets include nuts, fruit, vineyards, agriculture infrastructure and water.

In response, some state and territory governments began reforming aspects of water policy. A national approach commenced in 1994 with the Council of Australian Governments framework. Reform of the water sector has continued, reflecting the fundamental importance of water to our economy and the significant challenges involved in managing a shared natural resource often impacted by periods of scarcity.

Regulation of water use has tightened through subsequent initiatives such as the National Water Initiative (2004), the *Water Act 2007* (commonwealth) and the Murray-Darling Basin Plan (2012). The end destination of these policy reforms is to have a market-based cap-and-trade system where the inefficient users are priced out and those with a focus on efficiency and value-added crops will use the water. This is called the Australian water market.

Let's now turn to investing in water entitlements. The Aither Entitlement Index (AEI) is the only index that tracks the capital value of entitlements throughout the southern Murray-Darling basin (the largest trading region).

The compound annual growth rate of the AEI was 8%pa between 2008 and June 30, 2022. Since 2015-16, the entitlement prices have appreciated even faster at 17%pa – those were the drought years. Included in that return is yield income from leasing the allocations, which should earn around 4%pa. Turning to annual volatility in the value of the entitlements, let's look at the correlation analysis done by Riparian Water Fund – there is no evidence of a correlation of the fund to listed stocks, with a low positive correlation to bonds.

More droughts ahead

From a timing perspective, you might wonder why you would invest in water rights now when there has been plenty of rain on the east coast and, if anything, there is too much water and dams are overflowing.

My response would be that La Niña, which is causing the heavy rainfall, lasts for two or three years and then disappears. The longer-term climate-warming trend continues as carbon emissions, which are the root cause of global warming and droughts, are not being abated fast enough.

At any rate, it will take a couple of decades at least to curb carbon emissions and bring global warming/climate change under control. So long as it remains a threat, we should expect abnormal droughts and a trend towards efficient use of water.

However, access to investing in water is not straightforward and not without risks, as the government is still trying to regulate the trading and information sharing aspects of the market. Active funds are an option but most only directly give access to sophisticated investors.

Discuss your options with your adviser. You probably have the rest of this La Niña period, likely to last to the end of 2023, to consider learning about and investing in water assets.

Max Riaz is an investment manager and director at Banyantree Investment Group, with responsibilities across equity and multi-asset strategies. See banyantreeinvestmentgroup.com.