

A CHANCE FOR REAL LIQUIDITY

Blue Sky is offering investors the opportunity to diversify from equity-based products. **Report: Damon Frith**

● Investing in water has long been an attraction for international investors through desalination plants and other water-driven technologies but in Australia, the products available have been scarce at best.

With a scarcity of quality water and a large agricultural sector, both industries should be high on investors' lists but a lack of retail and even wholesale products has meant a large segment of the economy not correlated to equity markets has been locked off from investors.

However, retail interest is sparking ingenuity among fund managers and there are a growing number of water-based products coming to the market.

Blue Sky Funds Management is offering investors diversification from equity-based products with a new product investing in water entitlements.

The group opened its doors in September 2007 but suffered when the global financial crisis extinguished interest in alternative investments.

A group of US investors, however, did lock up the Blue Sky team for 12 months to manage a large pool of funds.

The timing was good. Australia was in drought and the water entitlements bought on the east coast appreciated in value while the water sold fetched premium prices. In 2008-09, yields on water were about 20 per cent.

Now that the drought has broken, this year farmers are eager to get their hands on capital to plant full crops. This means more water trading is taking place and prices have fallen. Yields this year may reach only 2 per cent to 2.5 per cent.

That's not a big problem for Blue Sky Water Asset Management managing director Kim Morison, who has just

completed a two-week road show to drum up interest among institutions and investors in a new \$50 million water entitlement fund. Morison says the yield will vary year to year, which is why investors need a reasonable time horizon to get a stable return.

Given the increased awareness of liquidity needs in alternative assets, the fund will offer quarterly redemption windows but investors should be looking at a five- to seven-year investment window.

Morison says Australia has the most deregulated water market in the world, which makes deployment of capital relatively easy.

He hopes to raise the \$50 million for the fund by the end of the year, followed by 12 months of funds deployment

The group is also chasing a separate pool of funds from mostly large superannuation funds to run a separate investment vehicle, which would have different tax considerations to the wholesale investment fund.

Blue Sky's management has an agricultural and commodity trading background, which is a good fit for water as it is primarily tied to the agricultural sector and affected by climate.

There are a number of small private investments groups dabbling in water entitlements.

Macquarie Group is doing some institutional work in the area but given that land rights and water rights were only separated in NSW in 2005 and other states in 2007, it's still an embryonic but interesting market for investors.

The Murray Basin water entitlement market is now valued at about \$18 billion and water trading is in the range of \$2 billion to \$2.5 billion a year. As yet there is no central clearing house for trades, with the market relying on a network of brokers that have spawned mostly from regional real estate agents.

Water fits into infrastructure as a category but water entitlements act more like a soft commodity, being driven by long-term climatic conditions but without the impact of seasonal variance associated with crops. **BRW**