

# Arrow Primary Infrastructure Fund (APIF)

Information Memorandum  
December 2015

For sophisticated/professional investors and wholesale clients only

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# Disclaimer & Important Notice

This Information Memorandum is dated 3 December 2015 and issued by Arrow Funds Management Limited ACN 146 671 276, AFSL 439095 (**Arrow**), the responsible entity of the Arrow Primary Infrastructure Fund ARSN 110 813 851 (**Fund**), for the offer of ordinary units (**Units**) in the Fund (**Offer**). This Information Memorandum is provided to potential investors on a personal and private basis. It is indicative only and may be subject to change by the directors of Arrow.

This Information Memorandum is not a product disclosure statement for the purposes of Part 7.9 of the Corporations Act.

Units in the Fund will be issued only on receipt of a validly completed Application Form issued together with this Information Memorandum and the receipt of cleared funds. The offer or invitation to subscribe for Units in the Fund is subject to the terms and conditions described in this Information Memorandum.

Any offer contained in this Information Memorandum is only available for acceptance by Wholesale Clients and Sophisticated Investors, and is not available to Retail Clients (all within the meaning of the Corporations Act).

The distribution of this Information Memorandum and the offering of Units in the Fund may be restricted in certain jurisdictions. No recipient of this Information Memorandum in any jurisdiction may treat it as constituting an invitation or offer to them to apply for Units in the Fund unless, in the relevant jurisdiction, such an invitation or offer could lawfully be made to that recipient in compliance with applicable law.

Prospective applicants should inform themselves as to the legal requirements and consequences of applying for, holding, transferring and disposing of Units and any applicable exchange control regulations and taxes in the countries of their respective citizenship, residence, domicile or place of business. It is the responsibility of a prospective investor outside Australia to obtain any necessary approvals in respect of applying for, or being issued with, Units.

Unless otherwise agreed with Arrow, any person applying for Units will by virtue of the person's application be deemed to represent that they are not in a jurisdiction which does not permit the making of an offer or invitation as detailed in this Information Memorandum, and are not acting for the account or benefit of a person within such jurisdiction.

The Fund and Arrow do not bear any liability or responsibility to determine whether a person is able to apply for Units pursuant to this Information Memorandum.

This Information Memorandum does not purport to contain all the information that a prospective investor may require in evaluating a possible investment in the Fund. Before investing, prospective applicants should conduct their own independent review, investigation and analysis of the Fund and of the information contained, or referred to, in this IM.

Arrow reserves the right to evaluate any applications and to reject any or all applications submitted, without giving reasons for rejection. The Fund and Arrow are not liable to compensate the recipient of this Information Memorandum for any costs or expenses incurred in reviewing, investigating or analysing any information in relation to the Fund, in submitting an application or otherwise.

This Information Memorandum must be read in conjunction with the Fund's **Constitution**. Prospective investors should review the Constitution for further information regarding the rights and obligations of investors of the Fund.

## Disclaimer & Important Notice (continued)

To the extent there are any inconsistencies between the Constitution and this Information Memorandum, the Constitution will prevail. The Constitution is available for inspection at Arrow's offices and you may obtain a copy free of charge by contacting Arrow.

The information in this Information Memorandum is general information. In providing this Information Memorandum, Arrow has not taken into account the recipient's objectives, financial situation or needs and accordingly the information contained in this Information Memorandum does not constitute personal advice for the purposes of section 766B(3) ("*personal advice*") of the Corporations Act. Neither Arrow nor any of its related parties, officers, employees, consultants, advisers or agents warrants that an investment in the Fund is a suitable investment for the recipient.

Neither Arrow nor any of its related parties, officers, employees, consultants, advisers or agents has carried out an independent audit or independently verified any of the information contained in this Information Memorandum, nor do they give any warranty as to the accuracy, reliability, currency or completeness of the information or assumptions contained in this Information Memorandum, nor do any of them, to the maximum extent permitted by law, accept any liability whatsoever however caused to any person relating in any way to reliance on information contained in this Information Memorandum or any other communication or the issue of Units.

Arrow strongly recommends that potential investors read this Information Memorandum in its entirety and seek independent professional advice as to the financial, taxation and other implications of investing in the Fund and the information contained in this Information Memorandum.

Neither Arrow nor any of its related parties, officers, employees, consultants, advisers or agents, guarantees the repayment of capital invested in the Fund, the payment of income from the Fund or the performance of the Fund or an investment in the Fund generally. As with any investment there are inherent risks in investing in the Fund, including the risk that an investment in the Fund is speculative, that the investment may result in a reduction in, or total loss of, the capital value of the investment, loss of income and returns that are less than expected or delays in repayment of capital.

See Section 7 for further information about the risks involved in making an investment in the Fund.

The contents of this Information Memorandum are:

- not intended to be disclosed to any person other than the person to whom this Information Memorandum has been provided by Arrow;
- strictly confidential; and
- not to be reproduced, either in whole or in any part or parts, without Arrow's prior written consent and, if such written consent is given, only in accordance with that consent.

It is important that potential investors read the entire Information Memorandum before making any decision to invest in the Fund. In particular, it is important that potential investors consider the risks outlined in Section 7 that could affect the performance of an investment.

Arrow has not authorised any person to give any information or make any representations in connection with the Fund which are not in this Information Memorandum, and if given or made such information or representations must not be relied upon as having been authorised by Arrow. Any other parties distributing this product to investors are not Arrow's agent or representative and are doing so on their own behalf. Neither the Fund nor Arrow is responsible for any advice or information given, or not given, to potential investors by any party distributing this product and, to the maximum extent permitted by law, accept no liability whatsoever for any loss or damage arising from potential investors relying on any information that is not in this Information Memorandum when investing.

## Opportunity to Invest

# Opportunity to Invest



Dear Investor,

On behalf of Arrow Funds Management Limited (**Arrow**), it is our pleasure to invite you to participate in this opportunity to invest in the Arrow Primary Infrastructure Fund (**APIF** or **Fund**).

Due to time constraints, this offer is being made only to sophisticated/professional investors and wholesale clients (as defined in the Corporations Act) and is not a Public Offer, as was our previous raising of \$40 million in July last year.

Arrow has achieved considerable growth in the Fund since it took over as responsible entity in September 2013. Investors have benefited from many initiatives undertaken by Arrow in relation to the Fund, as well as from the positive investment focus that Australian agriculture is finally starting to receive.

There has been a considerable increase in the number of potential agricultural investments for a fund such as ours, however, Arrow has remained conservative in its outlook and stuck strongly to only investing in strategic properties operating in growth industries, which are capable of servicing long term leaseback arrangements.

Arrow has the opportunity to acquire the Advinco Farm at Nangiloc near Mildura, which is one of Australia's leading dried vine fruit producing farms. We have been working closely with Murray River Organics Pty Ltd (**MRO**) on this transaction and it is proposed that MRO will lease Advinco from APIF following settlement on 15 December 2015 for a term of 25 years. The owners/directors of MRO are also significant unitholders in our Fund, so it is pleasing that our relationship can be further enhanced on a mutually rewarding basis.

The Advinco property is being acquired at an independent "as is vacant possession" valuation of \$16.490 million.

Arrow is seeking to raise a minimum of \$10.0 million and a maximum of \$15.0 million to fund this transaction.

The Offer of new Units will not proceed unless bank funding of \$8.0 million is approved and the Advinco property is acquired and leased, as described in this Information Memorandum.

Following the proposed acquisition of the Advinco property and lease to MRO, APIF will have 18 investment properties valued at \$167 million, leased to 6 major tenants.

The transaction is expected to be immediately accretive to APIF on an Earnings Per Unit basis, increases the Fund's Weighted Average Lease Expiry (WALE) and provides further industry and tenant diversification. Existing investors would be aware that the proposed Transaction follows closely the Pace Farm sale and leaseback of the "Kelso Park" free range egg farm near Tamworth, which settled on 30 October 2015 and provided similar benefits.

Both the Advinco and Kelso Park properties have considerable development potential, which makes them even more attractive for our Fund. The Advinco property contains 202.5 hectares of wine grape vineyards in addition to the existing 316.1 hectares of dried fruit vineyards. It is proposed that APIF fund capex of approximately \$3.250 million over the next 18 months to convert the wine grape vineyard over to organic dried fruit and also improve the onsite drying/storage capacity. The Kelso Park property has four new free range barns which were recently constructed and it is proposed to construct a further four similar barns at a cost of approximately \$3.4 million over the next 2 years. Rental income is increased automatically following the expenditure on capex by the Fund.

Please complete the Application Form at your earliest convenience to ensure you do not miss this opportunity to invest in the Fund.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Murray Jones".

Murray Jones  
Chairman

A handwritten signature in black ink, appearing to read "Andrew Ashbolt".

Andrew Ashbolt  
Managing Director

## Transaction Overview

Arrow is raising a minimum of \$10m & maximum of \$15m to assist in funding the acquisition of an additional property

### Overview of Transaction

**Acquisition** – Arrow has entered into a term sheet to acquire Advinco Farm, a vineyard property at Colignan, Vic at independent valuation of \$16.5 million.

Settlement of the property is scheduled for 15 December 2015.

The property is in the process of conversion to an organic dried fruit vineyard. Further conversion and improvements will be funded by APIF over the next 18 months at a cost of approximately \$3.25 million.

**Lease** – The property will be leased to Murray River Organics Pty Ltd for an initial term of 25 years at a commencing rental yield of 10%.

**Funding** – to fund the acquisition, related transaction costs and on-going capital expenditure (Capex) throughout the portfolio, Arrow is seeking to raise:

- Equity: a minimum of \$10 million (max \$15 million) via an offer to wholesale investors
- Debt: an additional \$8 million which would increase the overall facility to \$88.2 million

Advinco Farm: The property being acquired





## Offer Overview

### Exposure to 18 key infrastructure properties with highly attractive distribution

- Arrow is seeking to raise between \$10 million and \$15 million through the Offer of new Units
- New Units will rank same as existing Fund units, providing exposure to the base assets supporting growth orientated Australian Primary industries
- Initial distribution yield of 10.9% for FY16
- Distributions paid quarterly and approximately 30% of FY16 distribution expected be tax deferred

#### Key statistics

|   |             |
|---|-------------|
| Offer Price (1 <sup>st</sup> close 11 Dec 2015) | 68.78 cents |
| Forecast FY16 Distribution yield (pa.)          | 10.9%       |
| Payout ratio                                    | 86.0%       |
| Gearing   | 46.0%       |

Poultry meat infrastructure



Almond infrastructure



Mango/Citrus infrastructure



Free Range Egg infrastructure





## Offer Structure and Key Dates

The Offer is restricted to “wholesale clients” within the meaning of Section 761G of the Corporation Act 2001 (Cth) and investors to whom a product disclosure statement is not required to be provided under Division 2 of Part 7.9 of the Corporations Act

### Key features

- **Purpose of Offer:** To fund acquisition of Advinco Farm
- **Application Price:** \$0.6878 per Unit
- **Minimum investment:** \$20,000
- **First Close Date:** 11 December 2015 \*
- **First Close Amount:** \$10 million
- **Maximum Amount:** \$15 million
- **Allotment Date:** 15 December 2015 \*\*
- **Ranking of New Units:** Equal with existing in all respects
- **Cooling Off:** No cooling off period applies
- **Underwriting:** The Offer is not underwritten
- Existing or new investors can apply

\* Timetable is subject to change at Arrow's discretion

\*\* Subject to completion of the proposed transaction

## Property to be acquired

### Advinco is regarded as Australia's premier dried vine fruit producing farm

- Arrow has signed a Term Sheet with Murray River Organics Pty Ltd (MRO) under which Arrow will acquire Advinco Farm at Nangiloc, near Mildura, at independent valuation (\$16.490 million) and lease it to MRO over a 25 year term.
- The property has total area of 1,085 Ha. planted to 551.7 Ha, as follows:

| Vines/Trees | Planted Ha. | Varieties   |
|-------------|-------------|---|
| Dried Fruit | 316.1       | Sultanas, Sun Muscats & Currants                          |
| Wine Grapes | 202.5       | Pinot Noir, Chardonnay, Shiraz, Colombard & Cab Sauvignon |
| Citrus      | 33.1        | Navelina & Washington Navel                               |

- The balance of land includes 302 Ha of land potentially suitable for development.
- The property is well managed, and by gaining full operational control over the Advinco property, MRO will more than double its existing volumes of organic dried fruit, which it currently sells to 84 customers in 12 countries.
- Planned improvements in FY2017 include conversion of all Wine Grape vines to Dried Fruit and the construction of additional on-site storage (total cost approx. \$3.250 m).

Advinco Farm: the property being acquired



# Transaction Benefits

## The Transaction enhances the investment metrics of the Fund

- **WALE:** extended from 14.0 years to 15.1 years
- **EPU:** forecast to grow to 8.7 CPU
- **DPU:** maintained at the increased rate of 7.5 CPU
- **Diversification & scale:**
  - Organic dried fruit property provides new growth industry
  - Additional tenant diversification (second new tenant in FY2016)
  - Increased assets strengthen ability to attract institutional interest in the Fund
  - Capital raisings and additional investors increase opportunities for investor liquidity
  - Increased scale assists cost savings in the day to day management of the fund
- **World demand for clean, green foods is increasing**
- **Murray River Organics is Australian owned and well placed to supply both local and export markets with organic dried fruit**

### Acquisition benefits

| Measure                     | Pre-Transaction | Change | Post Transaction |
|-----------------------------|-----------------|--------|------------------|
| WALE - years *              | 13.99           | +8%    | 15.08            |
| EPU (FY16 forecast) - cents | 8.6             | +1%    | 8.7              |
| DPU - cents                 | 7.50            | -      | 7.50             |
| Payout ratio                | 87%             | -1%    | 86%              |
| No. of properties           | 17              | +6%    | 18               |
| Base rent FY16 - \$m        | 14.7            | +6%    | 15.6             |
| Property Assets - \$m       | 149.9           | +12%   | 167.8            |
| Gearing (net debt/property) | 46.3%           | -1%    | 45.8%            |
| * as at Transaction date    |                 |        |                  |

## Fund Highlights & Comparisons

## Fund Highlights

**APIF provides investors with a high, consistent level of income without the normal volatility associated with agricultural sector exposure**

APIF is a "pure play" rent collecting investment vehicle:

- **Australian agricultural property trust** owning quality agricultural/horticultural properties without exposure to the operating volatility normally associated with this sector
- **Attractive forecast distribution yield** of 10.9% for FY2016 (based on Application price of \$0.6878)
- **Stable, high income with potential for some capital growth**
  - Current rental yields average 10%
  - Income underpinned by long term leases (WALE > 15 years)
  - Triple net leases (tenant pays all costs) with either fixed annual rental increases or CPI
  - Low cost base
  - Exposure to future interest rates reduced (66% locked in at 3.65% until July 2019)
- **Experienced tenants in growth industries**
  - Lessees are experienced agricultural operators (>75% of revenue from tenants > 10 years)
  - Future growth underpinned by solid industry dynamics, population growth, emerging Asian demand and constraints in global supply of agricultural land

## Fund Highlights (continued)

### APIF has few moving parts and a low cost base

- **Fund expenses** are highly predictable as most are either for fixed amounts or related to the level of assets under management.
- **Interest** is the largest expense of the Fund and approximately 66% of exposure to rates has been locked in with future interest rate contracts with the Fund's bank.
- **Fees:**
  - There are no performance fees, acquisition fees or disposal fees payable by the Fund to the Manager (Arrow)
  - Management fee is 1% p.a. of gross assets payable by the Fund
  - Fund Administration expenses are payable by the Fund and estimated to equal approximately 0.20% p.a. of gross assets
  - Property Management expense are payable by the Fund and estimated to equal approximately 0.18% p.a. of gross assets
  - Contribution fee of 2.5% on all applications for new units will be deducted from application money
- **Alignment of interests:** The directors and related parties of Arrow own more than 10% of the issued units in the Fund and "skin in the game" is confirmation that the interests of unitholders will be central in all decisions affecting the Fund.



# Property REIT Comparison – ASX Listed

Chart 1: Weighted Average Lease Expiry (WALE) - Years - calculated as at 30/09/15

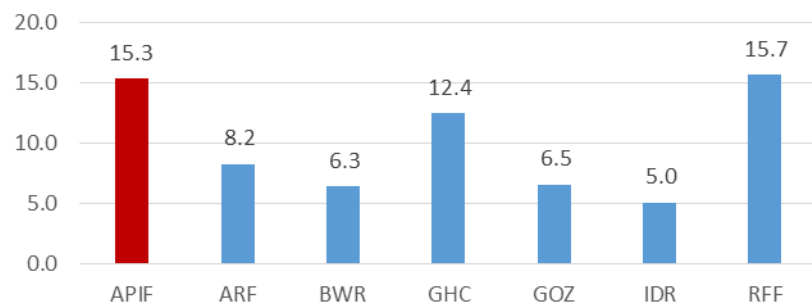


Chart 2: FY16 Forecast DPU Yield

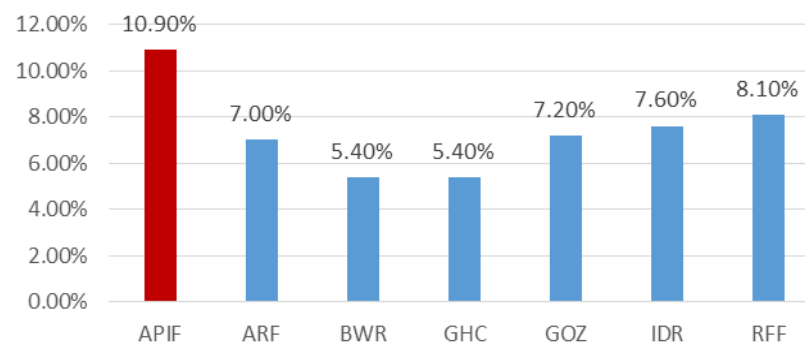


Chart 3: Occupancy

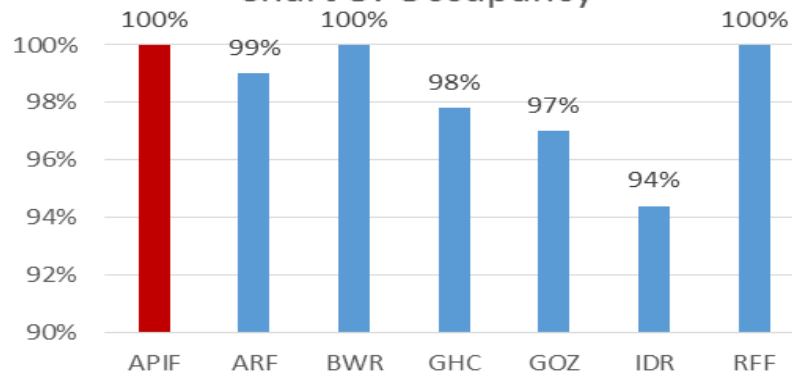
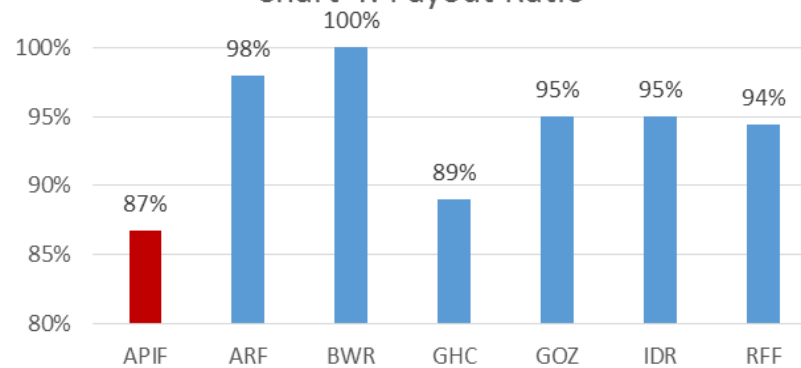


Chart 4: Payout Ratio



|      | <u>Fund Name</u>                  | <u>Sector</u>                     | <u>Source</u>   |
|------|-----------------------------------|-----------------------------------|---|
| APIF | Arrow Primary Infrastructure Fund | Agriculture                       | Capital Raising & Kerarbury almond development presentation (21 September 2015) |
| RFF  | Rural Funds Group                 | Agriculture                       | UBS Australian Real Estate Weekly Report (16 Novemeber 2015)                    |
| IDR  | Industria                         | Industrial & Business Parks       | UBS Australian Real Estate Weekly Report (16 Novemeber 2015)                    |
| BWR  | Bunnings Warehouse Trust          | Warehouse Retail                  | UBS Australian Real Estate Weekly Report (16 Novemeber 2015)                    |
| GOZ  | Growthpoint Properties Australia  | Diversified                       | UBS Australian Real Estate Weekly Report (16 Novemeber 2015)                    |
| ARF  | Arena REIT                        | Childcare / Social Infrastructure | Annual Report Presentation(June 2015)   |
| GHC  | Generation Healthcare REIT        | Healthcare                        | Annual Report Presentation(June 2015)   |

## Property REIT Comparison – Unlisted

Chart 1: Weighted Average Lease Expiry (WALE) - Years - calculated as at 30/09/15

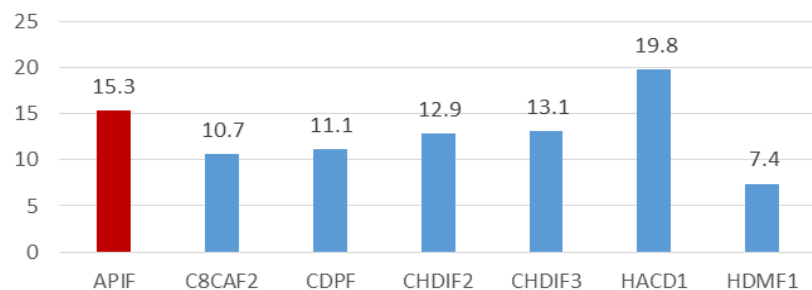


Chart 2: FY16 Forecast DPU Yield

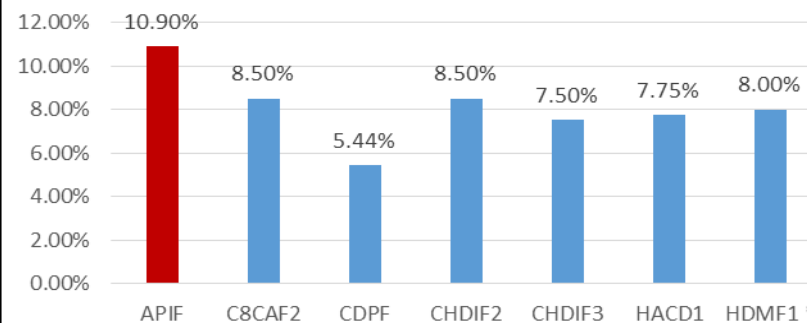


Chart 3: Occupancy

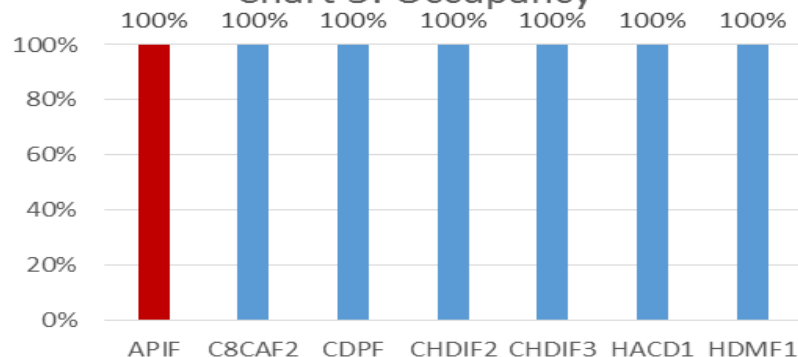
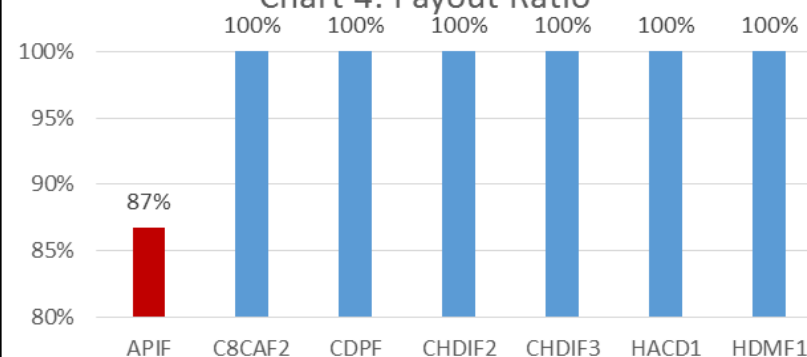


Chart 4: Payout Ratio



| Fund Name | Sector                                  | Source      |
|-----------|---|-------------|
| APIF      | Arrow Primary Infrastructure Fund       | Agriculture |
| CHDIF2    | Charter Hall Direct Industrial Fund No2 | Industrial  |
| CHDIF3    | Charter Hall Direct Industrial Fund No3 | Industrial  |
| HACD1     | Heathley Aged Care Fund No1             | Aged Care   |
| C8CAF2    | Centuria 8 Central Avenue Fund No2      | Office      |
| CDPF      | Cromwell Direct Property Fund           | Diversified |
| HDMF1 *   | Heathley Direct Medical Fund No1        | Medical     |

\* Note: FY16 Forecast DPU has been estimated from annualised first full year from fund inception (Nov-14)

## Investment Features

## Portfolio Overview Post Transaction

Characterised by long leases, 100% occupancy and predictable rent increases

### Portfolio Overview

The Fund owns 18 properties primarily located in NSW and Victoria

- 11 poultry breeding infrastructure facilities
- 1 poultry grow-out infrastructure facility
- 1 free range egg farm
- 2 almond orchards
- 1 mango/citrus orchard
- 1 packing shed
- 1 dried fruit/wine grape vineyard & citrus orchard

### Portfolio metrics at transaction date

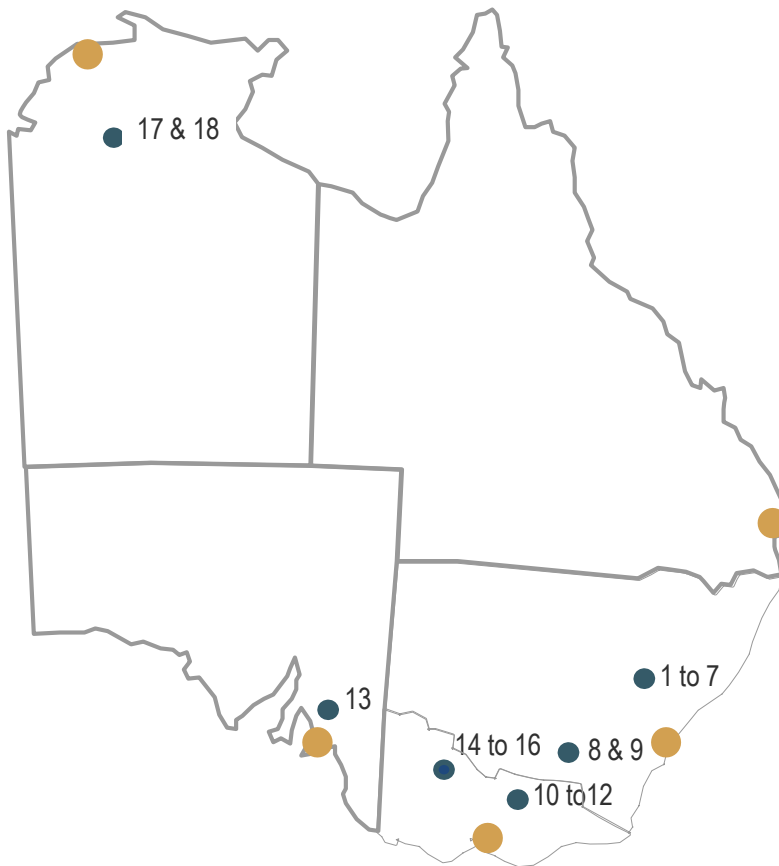
|                             |          |
|-----------------------------|----------|
| Net property income (FY16F) | \$13.9 m |
| Occupancy                   | 100%     |
| WALE                        | 15.1 yrs |
| Forecast rent growth p.a.   | 2.0%     |
| Number of properties        | 18       |
| Number of tenants           | 6        |

Almond orchard



## Geographic Overview

National diversification: portfolio will consist of 18 properties in 4 states / territories



Property map

| Ref | Property                                   | Description                  |
|-----|--|------------------------------|
| 1   | Boronia Farm, Lees Road, Duri NSW          | 3 x Chicken Breeder Farms    |
| 2   | Kelso Park, Warral NSW                     | Free Range Egg Farm          |
| 3   | Lynwood Farm, Loomberah NSW                | 4 x Chicken Breeder Farms    |
| 4   | Woodleigh Farm, Curlewis NSW               | 4 x Chicken Breeder Farms    |
| 5   | Bowlers Lane Farms, Tamworth NSW           | 3 x Chicken Broiler Farms    |
| 6   | Tangaratta Farm, Tamworth NSW              | Chicken Breeder Farm         |
| 7   | Glenara Park, Manilla NSW                  | 2 x Chicken Breeder Farms    |
| 8   | Bidgee Complex, Coleambally NSW            | 6 x Chicken Breeder Farms    |
| 9   | Avenues Complex, Coleambally NSW           | 4 x Chicken Breeder Farms    |
| 10  | Bearii Farm, Strathmerton VIC              | 3 x Chicken Breeder Farms    |
| 11  | Myers Farm, Stewarton VIC                  | Chicken Breeder Farm         |
| 12  | Nagambie Broiler Farm, Nagambie VIC        | Chicken Broiler Farm         |
| 13  | Rhynie Farm, Rhynie SA                     | Chicken Breeder Farm         |
| 14  | Lake Powell Lot 2 Orchard, VIC             | Almond Orchard               |
| 15  | Lake Powell Lots 5 & 6 Orchard, VIC        | Almond Orchard               |
| 16  | Advinco Farm, Nangiloc VIC                 | Vineyards & Citrus Orchard * |
| 17  | Eumaralla and Goldings Farms, Katherine NT | Mango & Citrus Orchards      |
| 18  | Katherine Packing Shed, Katherine NT       | Packing shed                 |

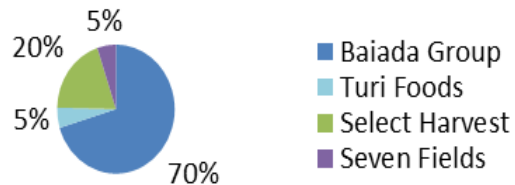
\* Latest acquisition property

## Asset Type

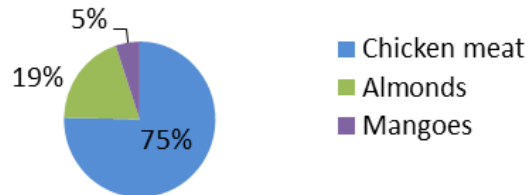
The Fund focusses on growth agri sectors and has recently added two additional industries – free range eggs and organic dried fruit

Portfolio as at 30 June 2015

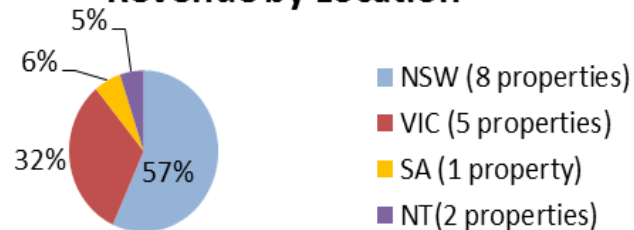
### Revenue by Tenant



### Revenue by Industry

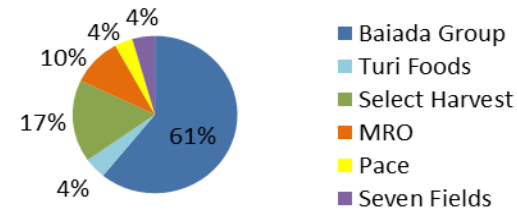


### Revenue by Location

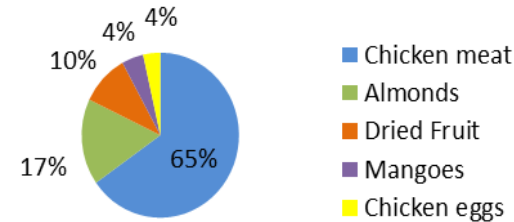


Portfolio with recent & proposed additions

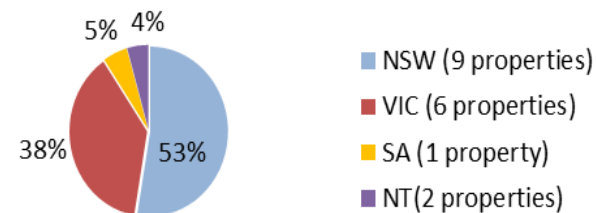
### Revenue by Tenant



### Revenue by Industry



### Revenue by Location





# Portfolio Detail



## An attractive portfolio of world class agri assets and tenants

### Fund Portfolio Summary Including New Property

| Property                                   | Description                | Tenant                              | Value \$m * |
|--|----------------------------|-------------------------------------|-------------|
| Boronia Farm, Lees Road, Duri NSW          | 3 x Chicken Breeder Farms  | Baiada Poultry Pty Ltd              | 4,150,000   |
| Kelso Park, Warral NSW                     | Free Range Egg Farm        | Pace Farm Pty Ltd                   | 6,188,436   |
| Lynwood Farm, Loomberah NSW                | 4 x Chicken Breeder Farms  | Baiada Poultry Pty Ltd              | 8,700,000   |
| Woodleigh Farm, Curlewis NSW               | 4 x Chicken Breeder Farms  | Baiada Poultry Pty Ltd              | 10,600,000  |
| Bowlers Lane Farms, Tamworth NSW           | 3 x Chicken Broiler Farms  | Baiada Poultry Pty Ltd              | 10,000,000  |
| Tangaratta Farm, Tamworth NSW              | Chicken Breeder Farm       | Baiada Poultry Pty Ltd              | 3,000,000   |
| Glenara Park, Manilla NSW                  | 2 x Chicken Breeder Farms  | Baiada Poultry Pty Ltd              | 4,500,000   |
| Bidgee Complex, Coleambally NSW            | 6 x Chicken Breeder Farms  | Bartter Enterprises Pty Ltd         | 22,000,000  |
| Avenues Complex, Coleambally NSW           | 4 x Chicken Breeder Farms  | Bartter Enterprises Pty Ltd         | 15,100,000  |
| Bearii Farm, Strathmerton VIC              | 3 x Chicken Breeder Farms  | Baiada Poultry Pty Ltd              | 4,390,000   |
| Myers Farm, Stewarton VIC                  | Chicken Breeder Farm       | Turi Foods Farming Division Pty Ltd | 6,700,000   |
| Nagambie Broiler Farm, Nagambie VIC        | Chicken Broiler Farm       | Baiada Poultry Pty Ltd              | 5,270,000   |
| Rhynie Farm, Rhynie SA                     | Chicken Breeder Farm       | Baiada Poultry Pty Ltd              | 7,980,000   |
| Lake Powell Lot 2 Orchard, VIC             | Almond Orchard             | Select Harvest Limited              | 11,000,000  |
| Lake Powell Lots 5 & 6 Orchard, VIC        | Almond Orchard             | Select Harvest Limited              | 20,400,000  |
| Advinco Farm, Nangiloc VIC                 | Vineyards & Citrus Orchard | Murray River Organics Pty Ltd       | 17,400,000  |
| Eumaralla and Goldings Farms, Katherine NT | Mango & Citrus Orchards    | Seven Fields Operations Pty Ltd     | 7,500,000   |
| Katherine Packing Shed, Katherine NT       | Packing shed               | Seven Fields Operations Pty Ltd     | 1,650,000   |
|  |                            |                                     | 166,528,436 |

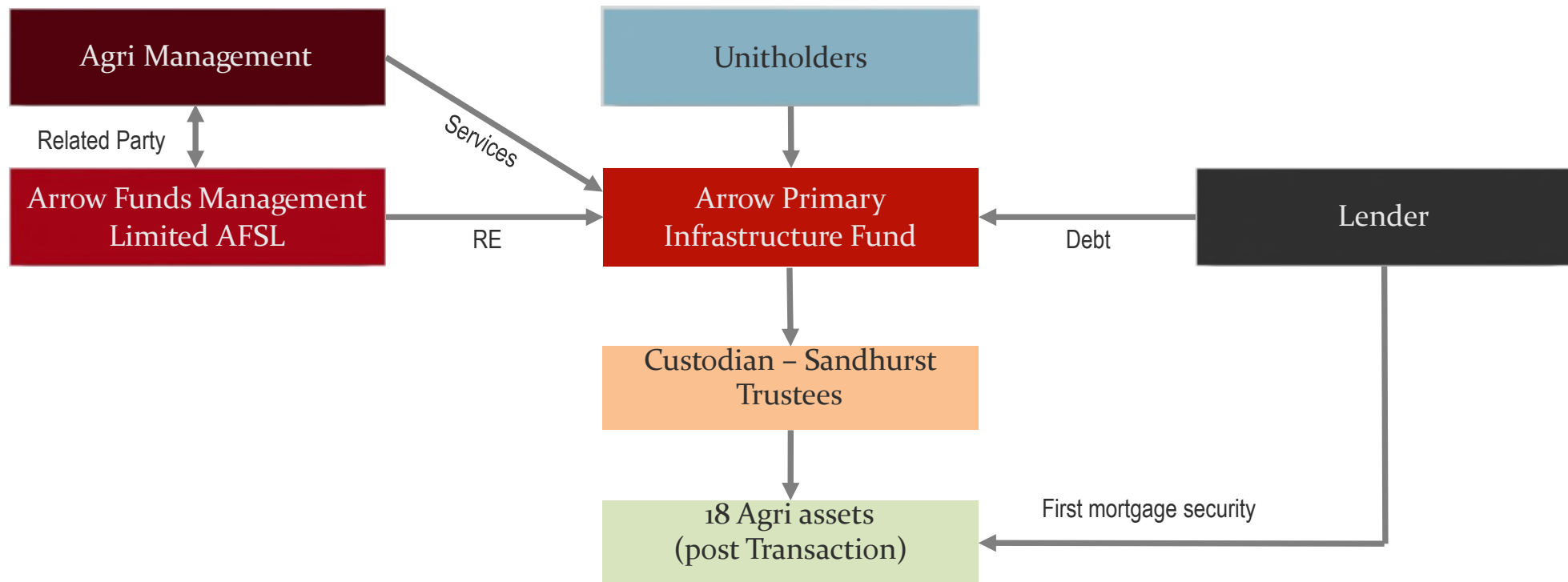
\* All properties are shown at independent valuation (undertaken between June 2014 - September 2015) except Kelso Park and Advinco Farm which are at purchase price plus estimated acquisition costs

## Fund Management & Strategy

## The Fund

### APIF was established in 2003

- It is an open ended, unlisted property fund
- Sandhurst Trustees is the custodian
- A high level overview of the Fund and its key relationships is depicted below:



# The Manager, Arrow

## Arrow is a specialist manager of agriculture assets

Arrow Funds Management has its own AFSL and is based in Melbourne. It is the Responsible Entity of the Arrow Primary Infrastructure Fund and manages agricultural property investments throughout Australia.

Arrow has specialist skills in horticultural and agricultural property management, acquisition and disposal of properties, capital management and debt funding and all facets of listed and unlisted property trust operations.

Arrow's objective is to provide investors with stable cash returns and the potential for income and capital growth by investing in agriculture focussed real estate. This objective is based on Arrow's 'property for income' philosophy with a focus on minimising the risks normally associated with agricultural investments.



Andrew Ashbolt has had extensive agricultural experience having specialised in the agriculture sector most of his working life. A Chartered Accountant, he was previously a General Manager and Executive Director with Tasmanian listed agricultural company, Webster Limited from 1982 – 2004. He has had direct exposure to most agricultural/horticultural operations including almonds, walnuts, citrus, table grapes, glass house tomatoes, olives, sheep and cattle and has managed agricultural property funds for more than 10 years.



Matt Reid has had more than 20 years professional experience covering a broad range of corporate finance roles across a number of industries, both as an advisor and as part of a company. He is a partner at PwC in Melbourne and has previously held senior leadership positions at Austock Corporate Finance and Becton Property Group prior to setting up his own business, Reid Advisory. Matt has significant experience in the management of Managed Investment Schemes.



Murray Jones is a compliance management professional. He acts as a responsible manager for a number of investment managers spanning equities and property schemes which are both listed and unlisted. He held a variety of compliance management positions within the National Mutual/AXA Group. He has also worked for ASIC in corporate regulation and policy development and as an independent compliance consultant under enforceable undertakings agreed with ASIC.

# Strategy for Fund

## Create a stable and attractive investment vehicle with multiple liquidity options

**Assets and leases** - focus on improving the value of existing assets, leases and tenant tenure via capex development & lease extensions and being a proactive landlord

**Profitability and value enhancing** - focus on expansion activities on existing assets and compelling new asset acquisitions that are value accretive

**Scale** - create an investment vehicle that enables the Fund to attract and access cheaper capital (debt and equity)

**Income for investors** - seek to optimise the distribution yield for investors, whilst maintaining a sensible balance sheet and excess amount of cash flow to take advantage of opportunities should they arise

**Track record and stability of returns** - provide investors with an attractive, consistent, quarterly yield on their investment so that units in the Fund will be sought by other investors

### **Cultivate multiple liquidity options for investors –**

- create a stable and attractive investment vehicle that investors desire
- promote the Fund to a wide range of investors
- create multiple liquidity options for existing investors e.g. quarterly redemption facility for minority holdings and trade sale of material holdings

## Financial Information



# Profit & Loss



## Profit & Loss FY13 – FY16

| \$ Millions                               | Actual |       | Actual | Forecast (1) |
|---|--------|-------|--------|--------------|
|   | FY13   | FY14  | FY15   | FY16         |
| <b>Income</b>                             |        |       |        |              |
| Total property income                     | 8.9    | 8.7   | 13.9   | 15.9         |
| Other income                              | 0.2    | 0.1   | 0.2    | 0.0          |
| <b>Expenses</b>                           |        |       |        |              |
| Management fees                           | (0.8)  | (0.8) | (1.4)  | (1.6)        |
| Other fund expenses                       | (0.8)  | (0.8) | (0.9)  | (1.1)        |
| <b>Net operating income (EBIT)</b>        | 7.5    | 7.3   | 11.8   | 13.3         |
| <b>Interest</b>                           |        |       |        |              |
| Interest expense (net)                    | (2.8)  | (2.6) | (3.0)  | (2.6)        |
| <b>Net income before tax (normalised)</b> | 4.7    | 4.7   | 8.8    | 10.7         |
| Statutory non operating adjustments       | 0.8    | 4.3   | 0.4    | 4.8          |
| <b>Statutory profit before tax</b>        | 5.5    | 9.0   | 9.3    | 15.5         |
| <b>KPI's:</b>                             |        |       |        |              |
| Normalised EPU - cents                    | 7.79   | 7.71  | 8.11   | 8.72         |
| DPU - cents                               | 5.00   | 6.00  | 7.10   | 7.50         |
| Interest Cover - times                    | 3.32   | 3.56  | 4.11   | 5.10         |
| Interest covered by Rent - times          | 3.93   | 3.66  | 4.77   | 5.94         |

(1) FY16 Forecast prepared on basis of \$10m equity raising and completion of the Transaction in December 2015

# Earnings & Distributions

## Attractive forecast Distribution Yield and a Conservative Payout Ratio

### FY16 Forecast

The FY16 forecast distribution of 7.5 cents per unit represents an expected yield of 10.9% on new applications and is based on a conservative payout ratio of 86%

#### Distribution Reconciliation

| Distributable Earnings <sup>(1)</sup>                                       | Actual<br>FY2015 | Forecast <sup>(2)</sup><br>FY2016 |
|---|------------------|-----------------------------------|
| <b>Net profit before tax</b>  | <b>\$8.8 m</b>   | <b>\$10.7 m</b>                   |
| Other non cash items  | \$0.0 m          | \$0.0 m                           |
| <b>Distributable Earnings</b>   | <b>\$8.8 m</b>   | <b>\$10.7 m</b>                   |
| Distribution  | \$7.7 m          | \$9.2 m                           |
| Weighted average number of Units on issue (millions)                        | 109.1            | 122.8                             |
| Earnings per Unit in cents (CPU)  | 8.1              | 8.7                               |
| Distribution per Unit in cents (DPU)  | 7.1              | 7.5                               |
| <b>Earnings Yield</b> (July 2014 PDS Application Price (\$0.5920/Unit))     | <b>13.7%</b>     | <b>14.7%</b>                      |
| (November 2015 IM Application Price (\$0.6878/Unit))                        | <b>n/a</b>       | <b>12.7%</b>                      |
| <b>Distribution Yield</b> (July 2014 PDS Application Price (\$0.5920/Unit)) | <b>12.0%</b>     | <b>12.7%</b>                      |
| (November 2015 IM Application Price (\$0.6878/Unit))                        | <b>n/a</b>       | <b>10.9%</b>                      |
| <b>Payout ratio (Distribution / Distributable Earnings)</b>                 | <b>87.6%</b>     | <b>86.1%</b>                      |

<sup>(1)</sup> Distributable earnings represents net income before tax (excluding Transaction Costs) adjusted for straight lining of rental income, valuation adjustments and mark-to market adjustments for derivatives and other non-cash items such as amortisation of debt establishment fees

<sup>(2)</sup> FY16 Forecast prepared on the basis of a \$10m equity raising and completion of the Transaction in December 2015

# Pro-Forma Balance Sheet



## Effect of transactions on 30 June 2015 Balance Sheet

|                                      | Actual        | (A)                            | (B)                              | (C)                        | (D)                    | (E)                  | Pro Forma     |
|--------------------------------------|---------------|--------------------------------|----------------------------------|----------------------------|------------------------|----------------------|---------------|
| \$ Millions                          | 30 June 2015  | Revaluations<br>September 2015 | Pace Acquisition<br>October 2015 | Offer & Debt<br>facilities | Advinco<br>Acquisition | Transaction<br>Costs | 30 June 2015  |
| <b>Assets</b>                        |               |                                |                                  |                            |                        |                      |               |
| Cash and cash equivalents            | 4.4           |                                | (1.2)                            | 18.0                       | (16.5)                 | (0.9)                | 3.8           |
| Other current assets                 | 0.0           |                                |                                  |                            |                        |                      | 0.0           |
| <b>Total current assets</b>          | <b>4.4</b>    | <b>-</b>                       | <b>(1.2)</b>                     | <b>18.0</b>                | <b>(16.5)</b>          | <b>(0.9)</b>         | <b>3.8</b>    |
| Investment property                  | 138.1         | 4.9                            | 6.2                              |                            | 16.5                   | 0.9                  | 166.5         |
| <b>Total non-current assets</b>      | <b>138.1</b>  | <b>4.9</b>                     | <b>6.2</b>                       | <b>-</b>                   | <b>16.5</b>            | <b>0.9</b>           | <b>166.5</b>  |
| <b>Total assets</b>                  | <b>142.5</b>  | <b>4.9</b>                     | <b>5.0</b>                       | <b>18.0</b>                | <b>(0.0)</b>           | <b>-</b>             | <b>170.3</b>  |
| <b>Liabilities</b>                   |               |                                |                                  |                            |                        |                      |               |
| Other liabilities                    | (5.6)         |                                |                                  |                            |                        |                      | (5.6)         |
| <b>Total current liabilities</b>     | <b>(5.6)</b>  | <b>-</b>                       | <b>-</b>                         | <b>-</b>                   | <b>-</b>               | <b>-</b>             | <b>(5.6)</b>  |
| Long-term borrowings                 | (63.7)        |                                | (5.0)                            | (8.0)                      |                        |                      | (76.7)        |
| <b>Total non-current liabilities</b> | <b>(63.7)</b> | <b>-</b>                       | <b>(5.0)</b>                     | <b>(8.0)</b>               | <b>-</b>               | <b>-</b>             | <b>(76.7)</b> |
| <b>Total liabilities</b>             | <b>(69.4)</b> | <b>-</b>                       | <b>(5.0)</b>                     | <b>(8.0)</b>               | <b>-</b>               | <b>-</b>             | <b>(82.4)</b> |
| <b>Net assets</b>                    | <b>73.1</b>   | <b>4.9</b>                     | <b>-</b>                         | <b>10.0</b>                | <b>(0.0)</b>           | <b>-</b>             | <b>87.9</b>   |
| <b>Equity</b>                        |               |                                |                                  |                            |                        |                      |               |
| Contributed equity                   | 87.6          |                                |                                  | 10.0                       |                        |                      | 97.6          |
| Retained earnings                    | (14.5)        | 4.9                            |                                  |                            |                        |                      | (9.6)         |
| <b>Equity</b>                        | <b>73.1</b>   | <b>4.9</b>                     | <b>-</b>                         | <b>10.0</b>                | <b>-</b>               | <b>-</b>             | <b>87.9</b>   |

# Source & Use of Funds



## Source and Use of Offer Funds

|  | Minimum equity<br>raising | Maximum equity<br>raising |
|--|---------------------------|---------------------------|
| <b>Sources - \$M</b>                                   |                           |                           |
| Equity raising net proceeds                            | \$10.0                    | \$15.0                    |
| Debt raising   | \$8.0                     | \$8.0                     |
| <b>Total Sources</b>                                   | <b>\$18.0</b>             | <b>\$23.0</b>             |
|  |                           |                           |
| <b>Uses - \$M</b>                                      |                           |                           |
| Acquire assets incl stamp duty & legals                | \$17.4                    | \$17.4                    |
| <b>Total Uses</b>                                      | <b>\$17.4</b>             | <b>\$17.4</b>             |
| <b>Net Funds Retained for working capital purposes</b> | <b>\$0.6</b>              | <b>\$5.6</b>              |

## Industry Overview

# Industry Overview – Poultry Meat



Poultry is the strongest performing agribusiness sector in Australia with an increase in domestic production of over 75% in the past 10 years (CBRE, 2015)

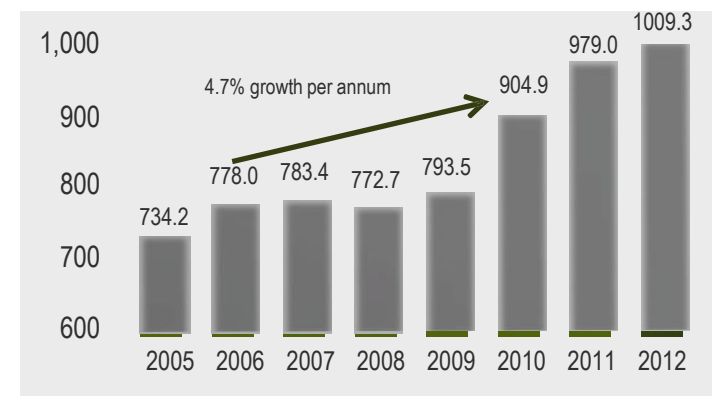
Australian consumers currently spend around A\$5.6 billion p.a. on poultry meat, with per capita chicken meat consumption growing at a compound rate of 3.1% p.a. between 2003 and 2013

This growth has been underpinned by a number of factors, including:

- The relative affordability of chicken
- Consistently high and reliable product quality
- Greater public awareness of the health benefits of chicken
- Consumer preferences for increased variety (and chicken's considerable versatility)
- Growth in free range production
- Trends towards convenience shopping and further processed meals (with chicken being a key beneficiary)
- Increased availability and expanded product ranges through supermarkets and quick service restaurants
- Advancements in further processing/value-add

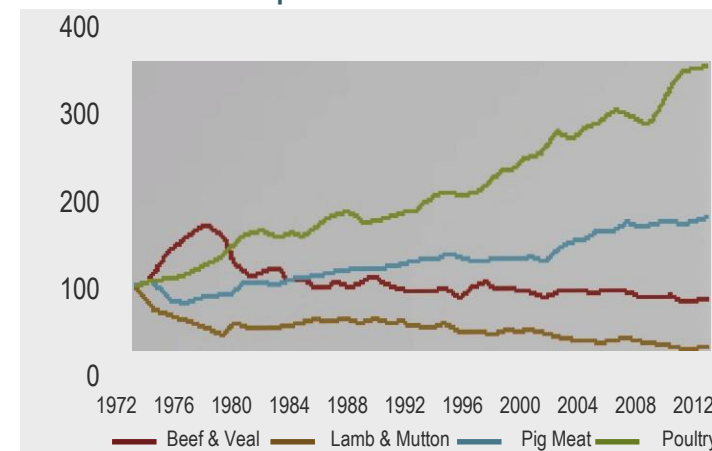
Less than 3% of Australian chicken meat is exported, representing significant growth opportunities in the future

CHART 15: Australian Poultry Consumption (kt)



SOURCE: ABARES

CHART 16: Historical per Capita Australian Meat Consumption Index



SOURCE: ABARES



## Industry Overview – Poultry Meat (continued)

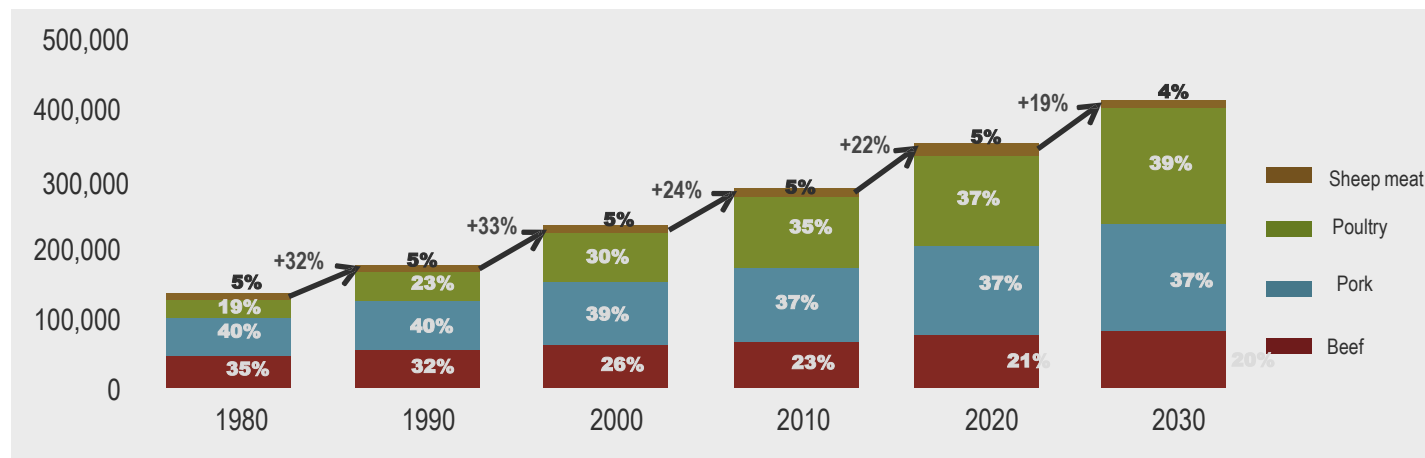
### Chicken forecast to be the highest consumption meat globally by 2030

Twenty years ago the global demand for meat was 173 million tonnes, of which poultry made up 23%. The annual global demand for meat sits at 285 million tonnes, with poultry now comprising 35% or 100 million tonnes of this (Rabobank, 2011).

Looking to the future, global food production needs to increase by more than 40% by 2030 and 70% by 2050 to meet the needs of an ever increasing global population (OECD-FAO, 2009).

Poultry's growth rate is expected to be the highest at 60 per cent, with poultry forecast to make up 39% of worldwide meat demand by 2030 and become the most consumed meat globally (Rabobank, 2011).

**CHART 17: Global Meat Demand Growth Estimates 1980 – 2030 (1,000 tonnes)**



SOURCE: Rabobank (2011)

# Industry Overview – Poultry Meat (continued)

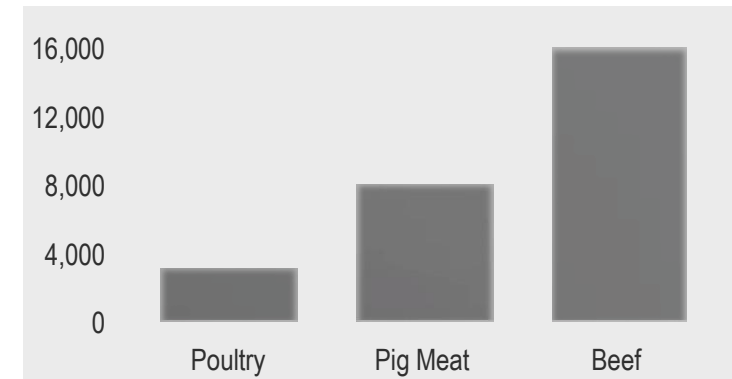
## Barriers to Entry and Environmental Sustainability

- **Consumer Supply Chain:** The major retail customers are increasingly moving to distribution centre delivery models and planning on a national basis
- **Food Safety, Animal Welfare And Environmental Regulations:** A number of national and state/territory departments and agencies regulate the poultry industry in Australia and ensure industry compliance with strict food safety, animal welfare and environmental standards
- **Import Restrictions:** Australia has stringent quarantine restrictions to protect native birds and local commercial poultry from disease and consumers from certain food safety hazards
- **Consolidated Industry:** Major players have strong existing relationships with key customers, which represents a significant hurdle for new entrants
- **Capital Commitment Cost:** Significant capital outlay is required to secure a viable supply chain operation

## Environmental Sustainability

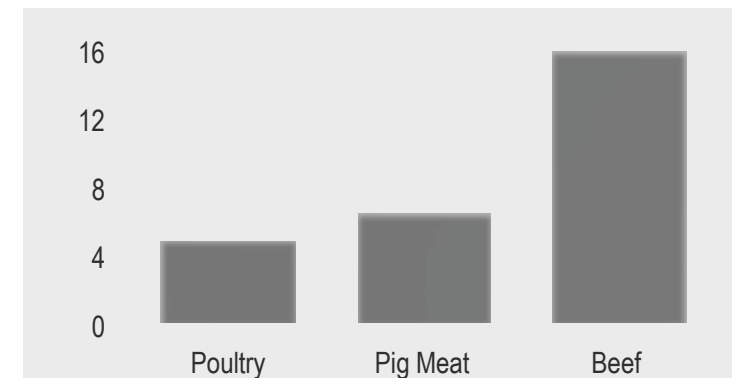
- Poultry is well positioned as one of the most environmentally sustainable protein, with lower water consumption and CO<sub>2</sub> emissions than other proteins
- This will become an increasing advantage in the face of rising water costs and regulatory initiatives to reduce carbon emissions

Litres of Water per Kilogram of Meat Produced



SOURCE: Management estimate, PIANZ

CO<sub>2</sub> Emissions per Kilogram of Meat Produced



SOURCE: Management estimate, MAF

## Industry Overview – Poultry (continued)

### Poultry Cycle

#### Breeder farms

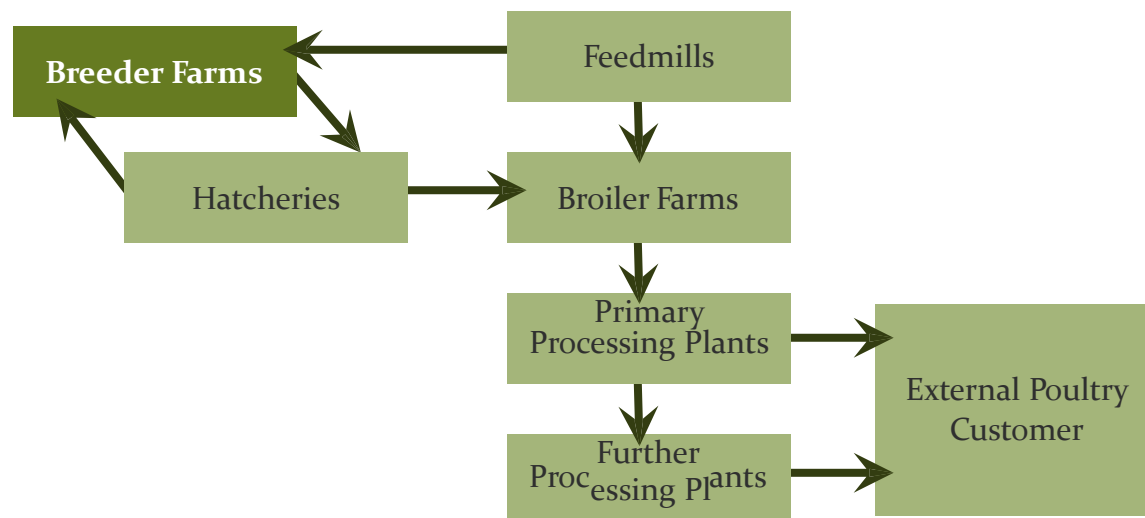
- The entire chicken meat industry is dependent upon production of quality fertilised eggs produced at breeder farms
- Breeder farms and their IP represent the most critical part of the supply chain
- Following the acquisition, the Fund will own 11 breeder farms with a total of 195 sheds (approx. 1.885 million birds) representing 19% of Australian production (Arrow estimate)

#### Hatchery

- Once chicks are 7 to 10 days old they are transferred from a hatchery to a broiler farm where they are grown out for chicken meat in approximately 59 days

#### Broiler farms

- Broiler farms have about 5 flock turnovers per year
- The Fund owns 1 modern broiler farm at Nagambie, VIC, with a capacity of approximately 300,000 birds



The Fund's strategy has been to focus on owning breeder farms due to their critical status in the poultry meat supply chain. Processors (such as Baiada and Turi Foods) rarely relinquish operational control over these facilities

- In contrast, broiler farms are often outsourced by the processors to third parties on take or pay contracts
- This results in the tenants of breeder farms being extremely strong tenants, i.e. the major poultry processors, while the tenants of broiler farms are often private operators
- Given the high degree of importance of breeder farms in the poultry cycle, there is a big incentive for tenants to maintain these assets in great condition and continue tenure via lease renewals

## Industry Overview – Poultry (continued)

### Major Players

Over 95% of the chicken meat grown and eaten in Australia is produced by seven privately owned Australian chicken meat processing companies

The two largest, Baiada Poultry and Inghams Enterprises, supply between 60 – 70% of Australia's chicken meat, with the next five companies each supplying between 3 – 9% of the market. A large number of smaller processors make up the balance.

*Source: The Australian Chicken Meat Industry: An Industry in Profile*

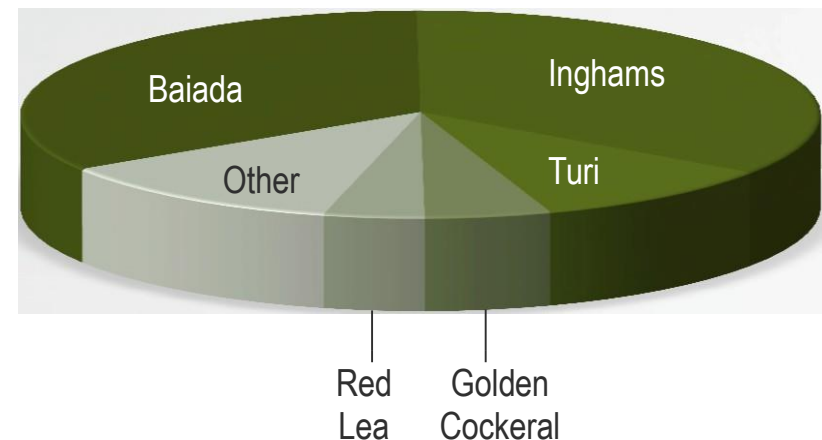
Total industry annual sales are estimated to be \$6 billion

### The Fund's Tenants

Following the acquisition, the Fund will have the following leases:

- Baiada Poultry Group
  - 10 x Breeder farms
  - 1 x Broiler farm
- Turi Foods
  - 1 x Breeder farm

Australian Chicken Meat Market Share



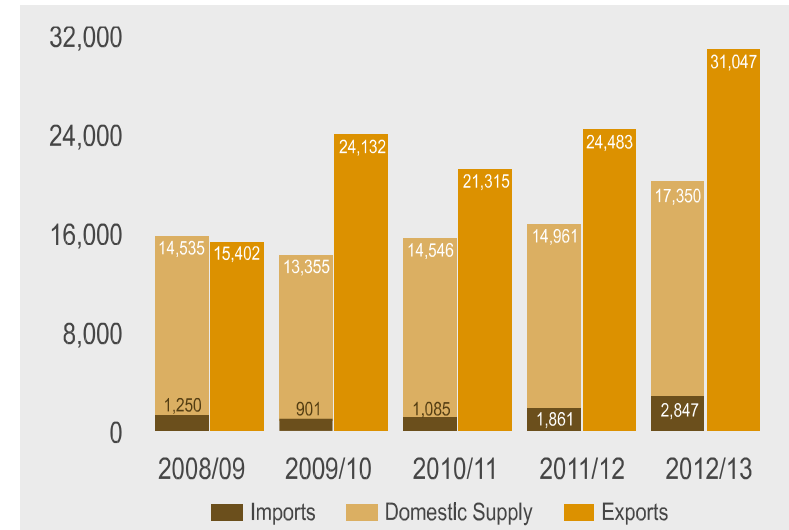
# Industry Overview – Almonds

## Almonds are Australia's largest horticultural export

### Overview

- The Australian Almond industry represents one of the few industries in which Australia has a strategic advantage (only major Southern Hemisphere producer), is a significant global producer (11%+ of world production, 2nd behind USA) with a relatively low cost of production.
- Australian Almond production increased by 60% in CY2013
- In 2013, Almonds became the 1st Australian horticultural industry to earn A\$300M p.a. in export revenue
- In 2013, Australian domestic consumption increased by 9.2% Significant health benefits associated with almond consumption

Australian Export & Domestic Supply  
(Marketing Year) Kernel equivalent



### The Fund's Tenant

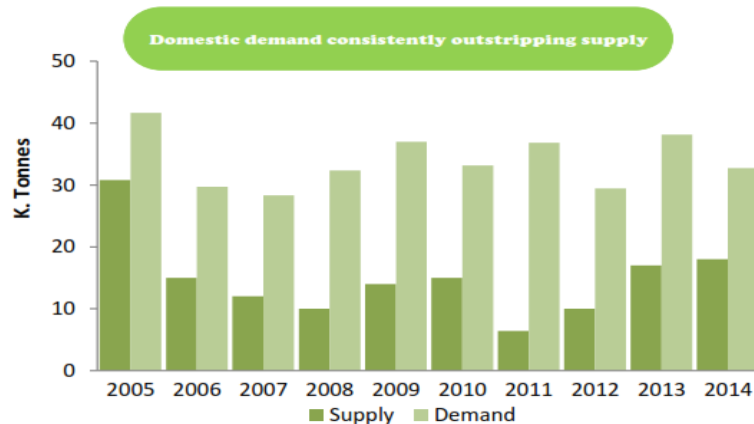
- Select Harvests (ASX: SHV) - Select Harvests is Australia's largest vertically integrated nut and health food company with core capabilities across: Horticulture, Orchard Management, Processing, Sales and Marketing.
- Select Harvests is one of Australia's largest almond growers and the country's leading manufacturer, processor and marketer of nut products, health snacks and muesli to the Australian retail and industrial markets, in addition to exporting almonds globally.
- Select's FY15 NPAT was \$56.8 million with a record crop of 4,500 tonnes and average almond price of \$11.45/kg
- Market capitalisation of \$709 million (based on \$9.18 share price)

## Industry Overview – Organic Dried Fruit

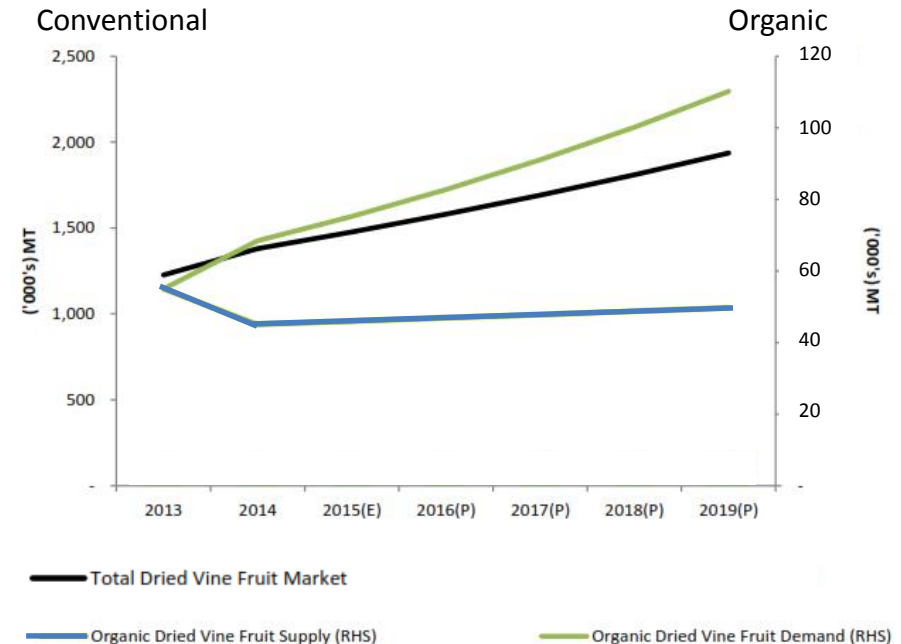
### Growing demand for organic products

- 98% of Australia's dried fruit is produced in the Sunraysia Region of Victoria and New South Wales. The main varieties grown for dried grapes are Sultanas, Currants, Raisins and Sunmuscats.
- The global dried vine fruit market (conventional and organic) is estimated to have grown by approximately 7% in the last 12 months.
- Growth in demand for organic dried vine fruit is restricted by lack of supply. It is projected to grow at 10% p.a. with historical figures > 14%
- There is limited availability of suitable Organic Certified Land to produce dried vine fruit for this market.
- Organic dried fruit is the highest margin crop per ML of water in Australia (97% higher than Almonds).

#### Domestic dried vine fruit



#### Global Dried Fruit Market showing Organic Supply & Demand



Source: International Seedless Dried Grape Producing Conference, Aegean Exporters' Association, Dried Fruit Australia and other International Nut and Dried Fruit Council Foundation sources, USDA

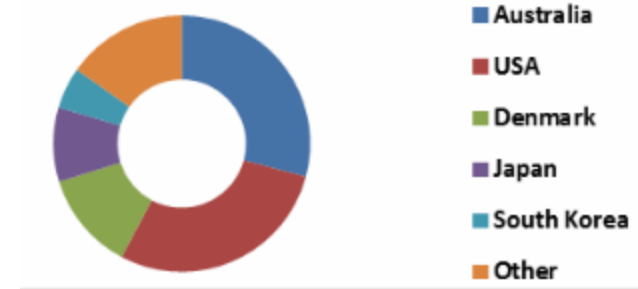
## Industry Overview – Organic Dried Fruit (continued)

### The Fund's Proposed Tenant

- Murray River Organics Pty Ltd (MRO) is Australia's largest vertically integrated producer and marketer of organic dried vine fruit. It controls the entire value chain from primary production thru processing, marketing and distribution.
- MRO's near-term strategic vision is to become the global market leader in organic dried vine fruit which will provide a platform for the second phase of their strategic vision which is to become a leading organic food business servicing global markets.
- MRO currently has 84 customers and exports approximately 70% of its production to 12 countries.
- MRO service retail, wholesale and industrial markets in Australia and sell direct to overseas customers in the largest and fastest growing global markets for organic dried vine fruit.



MRO's Sales Breakdown FY20150



## Risks



# Risks

## General Risks

- **Market risk:** the value of the Fund's properties and other assets can go down as well as up due to circumstances affecting the property or investment market generally or the Fund in particular.
- **Economic risk:** investment returns are affected by a range of economic factors, including changes in interest rates, exchange rates, inflation, general share market conditions, government policies (including monetary and taxation policy and other laws), fluctuations in general market prices for property, shares, bonds and other tradable investments, and the general state of the domestic and world economies.
- **Interest rate risk:** movements in interest rates could lead to increased interest expenses. This could result in a reduction to the Fund's distributions, or - in extreme circumstances - failure to meet interest obligations.
- **Compliance risk:** the Fund is a managed investment scheme which means Arrow is subject to strict regulatory and compliance arrangements under the Corporations Act and ASIC policy. If Arrow does anything to jeopardise its Australian Financial Services Licence, ASIC may take action to suspend or revoke the licence, which in turn could adversely impact the Fund.
- **Taxation risk:** the after-tax returns from an investment in the Fund may be influenced by changes in taxation laws or their interpretation.
- **Dilution risk:** as the Fund issues Units to new investors, your proportional beneficial ownership in the underlying assets of the Fund may be reduced. For example, if you do not reinvest your distributions, your beneficial ownership in the Fund may be diluted.

# Fund Specific Risks

- **Income risk:** the level of income can fall as well as rise, and the tax status of such income can change.
- **Tenancy risk:** one or more of the tenants of the Fund's properties may be unable to honour their lease obligations. A default may result in a reduction to the Fund's distributions, or in extreme circumstances, a failure to meet its interest obligations under its financing facilities. Baiada will be contributing 61% of the lease income following the Transaction.
- **Borrowing risk:** borrowings magnify gains or losses and increase the volatility of returns. There is also a risk that existing loan facilities may not be renewed at the end of their current terms.
- **Liquidity risk:** you may not be able to sell or redeem your investment promptly or at all.
- **Property liquidity:** direct agricultural property investments are by their nature, illiquid investments. It may be difficult for Arrow to dispose of its properties in a timely manner or at an optimal sale price. This may affect Arrow's ability to return capital to investors and may reduce NTA per unit.
- **Revaluation risk:** The ongoing value of each property is influenced by various factors, including a change in market conditions such as supply and demand, capitalisation rates, lease expiry and comparable rentals. There is no guarantee that the Fund will achieve a capital gain upon sale of the properties or that the value of any property will not fall as a result of the assumptions on which the relevant valuations are based changing, or proving to be incorrect.
- **Agricultural risk:** in the main, the Fund will be exposed to general agricultural risk in the capacity as a landlord only. However, sustained reductions in the profitability of its tenants may lead to the failure of their businesses, or to a reduction in the value of the Fund's assets at the termination of the property leases. In addition, sustained periods of adverse climatic conditions, lack of access to adequate water for irrigation, disease or natural disasters may result in physical damage to horticultural assets which may result in a reduction in their value, or require remediation works or additional capital expenditure.
- **Development risk:** in certain circumstances, the Fund may be exposed to a limited extent to development risk. In the main, however, such development is undertaken as part of an ongoing lease arrangement, in which the tenant is responsible for paying an increased rental in relation to the new development based on the level of capital expenditure.

# Risk Mitigation

## Actions we take to mitigate risk

We seek to manage the Fund's investment risk in a number of ways including:

- **Focus on growth sectors:** investing and holding investments in sectors where the Fund sees underlying growth and strength.
- **Diversifying the portfolio:** in terms of locations, number of assets and lease maturity profile.
- **Strong leases and tenants:** only acquiring property assets which are or will be subject to long term leases and in sustainable industries.
- **Closely monitoring the performance of our tenants:** in order to detect any signs of financial distress. In the event that we note any deterioration in financial performance, we will take whatever steps are necessary to protect the Fund's interest.
- **Protecting the property:** taking normal precautions in relation to property ownership risks, such as ensuring that properties are well maintained and appropriately insured where it is reasonable to do so.
- **Lease step in rights:** ensuring the leases include appropriate step-in rights that enable us to maintain the properties should the tenants be unable or unwilling to do so.
- **Active management of debt:** actively managing interest rate risk and the debt maturity profile.

# Application Form



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