

Fund Update – 22 February 2021

Arrow Primary Infrastructure Fund

Dear Investor

Half-year Financials

The Fund's financial statements for the half-year to 31 December 2020 have been released and are available from our website.

I'm pleased to report another solid result for the Fund with a net profit of \$10.577 million recorded for the six months to December 2020, up \$0.986 million compared to the previous corresponding period. Normalised earnings were down slightly at 4.09 cents per unit and distributions were maintained at 4.0 cents per unit for the half-year.

Whilst Covid-19 dominated both the headlines and our private lives during this period, our Fund was extremely fortunate to be able to continue on pretty much "business as usual" basis, thanks mainly due to agriculture being treated as an "essential industry". The fact that Arrow operates in a decentralised way with modern technology and has a geographical spread of properties meant that we had to make few adjustments to our normal business operations.

Our tenants, the operators of our properties, have done an incredible job during this difficult period, having to step up to the myriad of challenges caused by the substantial closure of the food service industry throughout Australia, the introduction of Covid protocols, social distancing of staff, closed borders and travel restrictions. I'm pleased to report that all tenants have been able to continue to trade normally and have maintained the Fund's properties in good working order.

As previously reported, the Scalzo Food Group commenced a new 25 year lease of the Fund's Advinco Farm property at Colignan on 1 July 2020. The Fund has committed to contribute a total of \$4.8 million over the first two financial years towards capital improvements on that property including completion of the Greenfield dried fruit vineyard, an irrigation system upgrade and rectification of the dried fruit conversion commenced by the previous tenant. The Scalzo Group have been very proactive and have already made significant improvements to the irrigation system and operation of the property. Our mutual aim is to have Advinco Farm achieving benchmark yields within the next 3 years.

Development work has also continued at a fast rate at Boombera Park, the Fund's macadamia property near Lawrence, NSW. As at 31 December 2020, approximately 80% of the proposed 813 hectare macadamia orchard had been planted out, with a balance of approximately 25,000 trees still to be planted as at the end of January 2021. Approximately 550 mm of rain fell on the property in early January 2021, with further 100 mm in February to date. This has resulted in a delay to the final plantings, which are now expected to complete in March 2021. All dams on the property have now been completed, with a total carrying capacity of approximately 1,600 megalitres, and are currently holding approximately 800 megalitres.

During the half-year there were 2.4 million new units issued; all issued under the Fund's Distribution Reinvestment Plan (DRP), which is now supported by 35% of our investors. The DRP is a highly efficient source of capital, with the Fund having raised \$4.241 million in new equity via this method in the 12 months to 31 December 2020.

Total assets held by the Fund at 31 December 2020 were \$310.2 million, which was an increase of \$6.3 million compared to June last year.

Key factors in the half-year result:

- Base property rent received was \$11.1 million for the six months, similar to last year.
- Finance costs were \$0.065 million higher than for the same period last year due to increased borrowings, with the average interest rate paid by the fund dropping to 3.28% pa.
- Administrative costs of running the Fund increased by \$0.127 million.

- The Fund's balance sheet liability for derivatives decreased by \$1.047 million during the six months as a result of a slight increase in forecast long term rates.
- Total revaluations of assets (investment properties & agricultural assets) for the half-year were up \$4.977 million compared to \$4.342 million for the previous corresponding period.
- The Fund's share investment in Murray River Organics Group Ltd, which was received in March 2020 as part compensation for termination of the Colignan lease, decreased by \$0.525 million in the six months to December 2020.
- Net Asset Value (NAV) at 31 December 2020 was \$0.9219.
- The weighted average lease expiry (WALE) of the Fund's portfolio was 12.58 years at 31 December 2020.

Outlook

The COVID-19 pandemic is continuing to cause major trauma to many parts of the Australian economy, its workforce and population. Massive government spending has alleviated much of the pain and provided unintended stimulus to some sectors. Unemployment numbers have reduced, yet there is a hospitality sector (and others) that are still in a holding pattern. A lot is hanging on the roll out of a successful vaccination program.

On the agricultural front there are political and tariff risks for some Australian commodities in relation to China. We continue to believe that certain sectors of Australian agriculture will continue to do well, particularly those with a domestic sales component and/or where Australia has a sustainable advantage over its international competitors. That is where we are focussed.

Our Fund's objective is to provide consistent, high yielding distributions with the potential for capital growth.

A likely outcome from the various government stimuli is that inflation and interest rates will rise, and low interest rates have been our friend over the last few years.

In order to remain a conservatively run fund we will continue within our existing benchmarks - to have between 50% and 75% of our interest rate exposure locked in at fixed rates, to have a portfolio of leased properties with a Weighted Average Lease Expiry (WALE) of greater than 12 years and to have our portfolio leased to top quality tenants in proven, sustainable industries.

Our plan remains to lease the Boombera Park property and we are currently working through a number of options for this to occur later this year.

Please refer to our website for the latest news and information on the Fund.

Thank you for your continued support.

Regards



ANDREW ASHBOLT
MANAGING DIRECTOR