

3 September 2019

Arrow Primary Infrastructure Fund

Dear Investor

FY2019 Financials

The Fund's Annual Report for the year ended 30 June 2019 has been released and can now be downloaded from our website.

This last financial year has been a busy one and I'm pleased to report that the Fund has produced another strong result. Total investment return for the 12 months to 30 June 2019 was 14.6%, comprised of distributions of 9.7% and capital growth in NAV of 4.9%.

Normalised earnings for the year, which is the Fund's profit excluding non-cash items and revaluations, increased by 5.7% to \$14.3 million.

Significant capital works have been undertaken during the year at three of the Fund's properties: \$5.3 million at Boomberra Park macadamia orchard at Lawrence, NSW, \$4.0 million at Cobbitty aquaculture/ glasshouse facility at Cobbitty, NSW and \$1.6 million at Colignan Farm dried fruit vineyard at Colignan, VIC.

Total assets held by the Fund at 30 June 2019 were \$256.7 million, which was an increase of \$24.8 million compared to last year.

Highlights for this last year include:

- Property rental income increased by 9% to \$21.0 million, due to capital expenditure and annual rent increases.
- A revaluation increase of investment properties of \$10.1 million, compared to \$8.5 million in the previous year.
- Increased borrowing costs, with interest paid being \$0.6 million higher than the previous year due to increased borrowings and higher interest rates and lines fees (average total interest rate 4.0% versus last year 3.8%).
- A net unrealised loss on the Fund's interest rate derivatives of \$6.24 million compared with a loss of \$1.56 million in the previous year, due to lower long term interest rates further increasing the "mark to market" liability. These derivatives provide a fixed interest rate to a significant portion of the Fund's future interest rate exposure and effectively lock in a large portion of the Fund's profit margin going forward.
- Normalised earnings per unit increased to 8.68 cents (FY2018: 8.34 cents), which was a positive result considering that the continuing investment in Boomberra Park is not generating any income at this stage.
- Costs of running the Fund increased marginally, with the Indirect Cost Ratio (ICR) for FY2019 at 1.85% compared with 1.79% last year.
- Distributions to investors were maintained at 8.0 cents.
- At year-end the Net Asset Value (NAV) was \$0.9020 compared to \$0.8594 last year and the weighted average lease expiry (WALE) of the Fund's portfolio increased to 14.25 years.

Tax Statements

Tax Statements for FY2019 were finalised last week and show a 41.5% tax deferred component, which is primarily due to tax depreciation claimed on the Fund's depreciable assets. Those investors who have elected to receive notices by email should have received their Tax Statement on 30 August 2019. All others should receive theirs in the post by 6 September 2019.

If you wish to change your future communication preferences please download the Email Communications Form from our website and then email or post it to our Registry, BoardRoom, as noted on the form.

Outlook

The current low interest environment is focussing investors' attention to higher yielding investments such as our Fund. Interest in the Fund remains very strong, with continuing contact from new investors wanting to join the Buyers List that we are maintaining.

Our Fund's objective is to provide consistent, high yielding distributions with the potential for capital growth. Future interest rates is the major unknown Fund expense, with the income stream contracted via long-term leases at known rentals. In order to reduce future volatility in earnings we have locked in a fixed interest rate for 78% of the Fund's current debt exposure over the next 6.4 years via two derivative contracts at an average BBSY rate of 2.88% per annum. Whilst low interest rates remain our friend we believe that locking in a significant portion of future profit margins is paramount.

We will continue to seek out key Australian agricultural/horticultural properties with sustainable, long-term prospects, capable of performing in the top quartile of their industry. Our strict investment criteria means that we will remain focussed on just a few targeted industries rather than seek diversification.

The pork industry has been on our radar for some time and the Thyra pig grow-out facility was a new opportunity which met all of our investment criteria. Interestingly, pork meat is now the second most consumed meat in Australia, after chicken. Following a long period of due diligence, Arrow contracted to acquire and lease back this property in May 2019. Settlement of this transaction is reliant upon the completion of this new facility, which has been delayed due to some minor finishing items. It is now expected to settle in September 2019 and will immediately become earnings accretive to the Fund. The acquisition will be funded from the additional bank facility established in December 2018 for this transaction.

Arrow will commence planting at the Fund's Boomer Park macadamia orchard in the next two weeks. This follows considerable planning and completion of stage 1 of irrigation infrastructure. The irrigation infrastructure will continue to be rolled out ahead of planting, which will not be completed until approximately December 2020. We are extremely proud of the asset that has been developed and we are in discussions with potential tenants, with the aim of securing a long-term lease within the next 6 months.

Our Distribution Reinvestment Plan (DRP) has proven very popular and at the current distribution rate is providing approximately \$4.0 million in new equity each year.

Given our forecast capital development expenditure and the potential for an acquisition it is likely that we will be undertaking a capital raising for additional equity in the March quarter next 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