



Arrow Primary Infrastructure Fund

ARSN 110813851

**Interim report - for the half-year ended
31 December 2015**



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These financial statements cover Arrow Primary Infrastructure Fund (the "Fund") and are presented in Australian currency.

The Responsible Entity of the Fund is Arrow Funds Management Limited (ACN 146 671 276). Its registered office is at Level 25, 360 Collins Street, Melbourne VIC 3000.

Responsible Entity's report

The directors of Arrow Funds Management Limited, the Responsible Entity of Arrow Primary Infrastructure Fund (the "Fund"), present their report together with the financial statements of the Fund for the half-year ended 31 December 2015.

Directors

The following persons held office as directors of Arrow Funds Management Limited during the period and up to the date of this report:

Andrew Ashbolt
Murray Jones
Matthew Reid
Gerald O'Byrne (Alternative director for Matthew Reid)

Principal activities

The Fund is an open ended, unlisted property fund with investment in geographically diverse property and infrastructure assets used in the primary production industry.

There were no significant changes in the nature of the Fund's activities during the period.

Review and results of operations

1. Results:

The performance of the Fund for the half-year, as represented by the results of its operations, was as follows:

	31 December 2015	31 December 2014
	\$	\$
Net profit for the half-year	9,365,221	3,919,835
Distributions paid and payable	4,387,031	3,628,842
Distributions (cents per unit)	3.75	3.55

The main factors influencing the result for the half-year period are:

- Total property rental was \$7.626 million, up by \$0.555 million compared with the previous corresponding period. The components were base property rent up by \$0.345 million, property expenses recoverable from tenants up by \$0.137 million and adjustment for recognising rents on a straight line basis up by \$0.073 million.
- Asset revaluations were \$4.729 million compared to \$1.169m for the previous corresponding period. In September 2015, directors sought advice from the valuer of the Fund's almond properties due to several major almond property transactions that had occurred post June 2015. This resulted in adjustments totalling \$3.751 million to the carrying value of property and agricultural assets and the write back to original cost of \$0.978 million for water licences relating to those properties.
- Finance costs for the period reduced by \$0.209 million due to lower interest costs paid on borrowings. The average interest rate paid on borrowed funds in the 6 months to 31 December 2015 was 3.80% per annum, a decrease from 4.11% per annum in the previous corresponding period.
- Interest rate swap derivatives have been taken out to August 2019, to reduce the Fund's exposure to future interest rate fluctuations. The "Marked to Market" liability of those derivatives resulted in a loss of \$0.496 million compared to a loss of \$1.828 million for the previous corresponding period.

2. Value of Fund's Assets:

	31 December 2015	30 June 2015
	\$	\$
Net assets attributable to unitholders	94,735,318	73,079,685
Net asset value ('NAV') per unit	0.6748	0.6325

The value of the Fund's assets and liabilities is derived using the basis disclosed in note 2 of the financial statements of the most recent annual financial report (30 June 2015).

The loan to valuation ratio ("LVR") was 43.2% at 31 December 2015 compared to 46.3% at 30 June 2015 and 47.5% at 31 December 2014.

Review and results of operations (continued)

b. Contributed Equity

On 3 December 2015 the Responsible Entity issued an Information Memorandum to raise up to \$15 million from wholesale investors to assist with funding property acquisitions and future capital expenditure. The application price for new units under the offer was \$0.6878 per unit.

The Responsible Entity has continued to run a quarterly withdrawal facility to provide liquidity to existing unitholders in the Fund. A total of \$0.506 million was paid out under the withdrawal facility for the half-year ended 31 December 2015.

Given the keen interest from new wholesale investors and the anticipated capital expenditure commitments on the Fund's properties it was decided to accept over-subscriptions to the above offer, which closed on 22 December 2015 with a total raising of \$17.198 million. A total of 82 investors participated in this capital raising, of which 62% were new investors. The over-subscriptions will not have a material effect on any of the financial forecasts outlined in the Information Memorandum and will provide additional working capital to fund future capital expenditure. It has resulted in a minor decrease in the gearing level of the Fund and is expected to provide a minor improvement in future interest cover ratio and a minor decrease in earnings per unit. The forecast distributions per unit are expected to remain the same, with the full FY2016 distribution rate forecast to remain at 7.5 cents per unit.

Further details are set out in note 6 of the financial statements.

4. Asset Acquisitions

On 30 October 2015 the Fund acquired a free range egg farm near Tamworth, NSW from Pace Farm Group on a sale and leaseback basis. The total acquisition cost was \$6.198 million. The farm is currently undergoing a major capital refurbishment and further funding of approximately \$3.400 million has been committed to complete these works over the next 18 months, which will result in future rental increases.

On 21 December 2015 the Fund acquired one of Australia's leading dried fruit vineyards at Colignan, near Mildura from a third party for long-term lease to Murray River Organics Pty Ltd. The total acquisition cost was \$17,445 million. This property comprises an existing dried fruit vineyard of 780 acres, a wine grape vineyard of 500 acres, a citrus orchard of 70 acres and 500 acres of vacant land suitable for further development. Together with the existing dried fruit vineyard, the 500 acre wine vineyard will be converted over to organic dried fruit over the next 24 months at a cost of approximately \$3.250 million. Funding for this capex will be provided by the Fund and future rental payments will increase accordingly.

5. Debt facilities

At 31 December 2015 the Fund had total borrowing facilities of \$80.200 million of which \$71.900 million was drawn down. On 15 January 2016 the drawn down amount was reduced to \$68.900 million. The additional funding will be required in 2016 – 2018 to undertake the Fund's capital expenditure commitments in relation to the above properties and some properties leased to Baiada.

Significant changes in state of affairs

There were no significant changes in the state of affairs of the Fund that occurred during the period ended 31 December 2015.

Matters subsequent to the end of the reporting period

No matter or circumstance has arisen since 31 December 2015 that has significantly affected, or may significantly affect:

- (i) the operations of the Fund in future financial years; or
- (ii) the results of those operations in future financial years; or
- (iii) the state of affairs of the Fund in future financial years.

Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of financial and property markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of the Fund and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Fund.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

This report is made in accordance with a resolution of the directors.



Andrew Ashbolt
Director

Melbourne
18 February 2016

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Auditor's Independence Declaration

To The Directors of Arrow Funds Management Limited (as Responsible Entity for Arrow Primary Infrastructure Fund)

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of Arrow Primary Infrastructure Fund for the half-year ended 31 December 2015, I declare that, to the best of my knowledge and belief, there have been:

- a No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b No contraventions of any applicable code of professional conduct in relation to the review.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



Michael Climpson
Partner

Melbourne, 18 February 2016

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Arrow Primary Infrastructure Fund
Statement of profit or loss and other
comprehensive income
For the half-year ended 31 December 2015

Statement of profit or loss and other comprehensive income

	31 December 2015	31 December 2014
	\$	\$
Revenue		
Property rental	7,625,743	7,070,808
Interest revenue	17,119	111,998
Other operating income	-	1,392
Revaluation of investment properties	299,651	359,339
Revaluation of agricultural assets	3,451,066	810,000
Reversal of Impairment – water rights	978,194	-
Total revenue and other income	12,371,773	8,353,537
Expenses		
Direct property expenses	(376,051)	(245,244)
Responsible Entity's management fee	(742,189)	(663,496)
Custodian fee	(19,896)	(22,491)
Other expenses	(84,256)	(177,030)
Net loss on fair value of derivative financial instruments	(495,686)	(1,828,300)
Finance costs	(1,288,474)	(1,497,141)
Total expenses	(3,006,552)	(4,433,702)
Net profit for the half-year	9,365,221	3,919,835
Other comprehensive income	-	-
Total comprehensive income for the half-year	9,365,221	3,919,835
Total comprehensive income for the half-year is attributable to:		
Unitholders of Arrow Primary Infrastructure Fund	9,365,221	3,919,835

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Arrow Primary Infrastructure Fund
Statement of financial position
As at 31 December 2015

Statement of financial position

		31 December 2015	30 June 2015
	Notes	\$	\$
Current assets			
Cash and cash equivalents		5,123,865	4,390,951
Trade and other receivables		90,033	2,600
Total current assets		5,213,898	4,393,551
Non-current assets			
Derivative Financial Instruments		-	306,322
Investment properties	2	136,224,414	112,326,430
Intangible assets	3	9,377,586	8,268,792
Agricultural assets	4	20,935,844	17,484,778
Total non-current assets		166,537,844	138,386,322
Total assets		171,751,742	142,779,873
Current liabilities			
Trade and other payables		1,994,292	1,028,207
Rent received in advance		780,125	2,838,936
Distributions payable		2,270,299	2,087,855
Total current liabilities		5,044,716	5,954,998
Non-current liabilities			
Derivative financial instruments		189,363	-
Interest-bearing liabilities	5	71,782,345	63,745,190
Total non-current liabilities		71,971,708	63,745,190
Total liabilities		77,016,424	69,700,188
Net assets		94,735,318	73,079,685
Equity			
Contributed equity	6	104,242,167	87,564,724
Accumulated losses	7	(9,506,849)	(14,485,039)
Total equity		94,735,318	73,079,685

The above statement of financial position should be read in conjunction with the accompanying notes.

Arrow Primary Infrastructure Fund
Statement of changes in equity
For the half-year ended 31 December 2015

Statement of changes in equity

	Contributed equity	Accumulated losses	Total equity
	\$	\$	\$
Balance at 1 July 2014	55,303,659	(15,999,956)	39,303,703
Profit for the half-year	-	3,919,835	3,919,835
Total comprehensive income for the half-year	-	3,919,835	3,919,835
Issue of new units (net of capital raising costs)	34,871,764	-	34,871,764
Redemption of units	(5,013,180)	-	(5,013,180)
Transactions with owners in their capacity as owners:			
Distributions provided for or paid	-	(3,628,842)	(3,628,842)
Balance at 31 December 2014	85,162,243	(15,708,963)	69,453,280

	Contributed equity	Accumulated losses	Total equity
	\$	\$	\$
Balance at 1 July 2015	87,564,724	(14,485,039)	73,079,685
Profit for the half-year	-	9,365,221	9,365,221
Total comprehensive income for the half-year	-	9,365,221	9,365,221
Transactions with owners in their capacity as owners:			
Issue of new units (net of capital raising costs)	17,183,807	-	17,183,807
Redemption of units	(506,364)	-	(506,364)
Distributions provided for or paid	-	(4,387,031)	(4,387,031)
Balance at 31 December 2015	104,242,167	(9,506,849)	94,735,318

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Arrow Primary Infrastructure Fund
Statement of cash flows
For the half-year ended 31 December 2015

Statement of cash flows

	31 December 2015	31 December 2014
	\$	\$
Cash flows from operating activities		
Property rental receipts	5,934,286	7,072,200
Payments to suppliers	(2,130,902)	(1,591,669)
Interest received	15,818	106,246
Finance costs paid	(1,248,010)	(1,220,508)
Net cash inflow from operating activities	2,571,192	4,366,269
Cash flows from investing activities		
Payments for investment properties	(22,735,990)	(57,370,660)
Proceeds from sale of investment property	-	1,355,501
Net cash outflow from investing activities	(22,735,990)	(56,015,159)
Cash flows from financing activities		
Net proceeds from equity raising/redemptions	17,102,298	29,858,584
Draw down of borrowings	8,000,000	24,500,000
Distributions paid to unitholders	(4,204,586)	(2,536,909)
Net cash inflow from financing activities	20,897,712	51,821,675
Net increase in cash and cash equivalents	732,914	172,785
Cash and cash equivalents at the beginning of the half-year	4,390,951	1,567,049
Cash and cash equivalents at the end of the half-year	5,123,865	1,739,834

The above statement of cash flows should be read in conjunction with the accompanying notes.

1 Summary of significant accounting policies

(b) Basis of preparation of half-year financial report

This condensed interim financial report for the half year reporting period ended 31 December 2015 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2015 and any public announcements made by Arrow Primary Infrastructure Fund (the Fund) during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

(b) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2015 reporting periods. The Fund has not early adopted these standards/interpretations.

The Fund's assessment of the impact of relevant new standards and interpretations is set out below:

Standard/Interpretation	Impact	Effective annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 Financial Instruments (December 2014)	<p>AASB 9 <i>Financial Instruments</i> addresses the classification, measurement and derecognition of financial instruments.</p> <p>The standard allows an irrevocable election on the initial recognition to present gains or losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss).</p> <p>The Fund has not yet decided when to adopt AASB 9. Management does not expect this will have a significant impact on the Fund's financial statements as a result of applying the revised rules.</p>	1 January 2018	30 June 2019
AASB 2014-6 Amendments to Australian Accounting Standards – Agriculture: Bearer Plants	<p>AASB 2014-6 defines bearer plants and requires bearer plants to be accounted for as property, plant and equipment within the scope of AASB 116 Property, Plant and Equipment instead of AASB 141 Agriculture.</p> <p>The Fund has not yet decided when to adopt AASB 2014-6. When these amendments become effective for the first time for the year ended 30 June 2017, the Fund's agricultural assets will be accounted for as property, plant and equipment with movement in revaluation recognised in other comprehensive income.</p>	1 January 2016	30 June 2017

1 Summary of significant accounting policies

(b) New accounting standards and interpretations (continued)

Standard/Interpretation	Impact	Effective annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
IFRS 16 Leases	<p>IFRS16 replaces IAS 17 Leases and some lease-related Interpretations. The standard requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases. It also provides new guidance on the application of the definition of lease and on sale and lease back accounting. The standard largely retains the existing lessor accounting requirements in IAS 17 with new and different disclosure requirements about leases.</p> <p>AASB is expected to issue the equivalent Australian Standard, AASB 16 Leases by 31 March 2016.</p> <p>The Fund is yet to undertake a detailed assessment of the impact of AASB16. However, based on preliminary assessment, Management does not expect this will have a significant impact on the Fund as a lessor.</p>	1 January 2019	30 June 2010

There are no other standards that are not yet effective and that are expected to have a material impact on the Fund in the current or future reporting periods and on foreseeable future transactions.

2 Investment properties

	31 December 2015	30 June 2015
At fair value	\$	\$
Opening balance	112,326,430	54,036,430
Acquisition of new properties (including acquisition costs)	23,512,340	57,592,512
Revaluations	299,651	723,806
Changes in fair value for straight-lining of rent adjustment	85,993	(26,318)
Closing balance	136,224,414	112,326,430

During the 6 months to December 2015, the Fund acquired two individual properties, Kelso Park and Colignan Farm, at independent market values for a total purchase price of \$22,340,000 (including acquisition of water licences at Kelso Park, of \$130,600). The Fund incurred acquisition costs (stamp duty and legal fees) totalling \$1,302,940 in completing these two purchases. Kelso Park is currently carried in the Fund's books at its purchase price and Colignan Farm is being carried at its current independent market value as at 1 October 2015. During the half-year to 31 December 2015 investment properties were revalued by a net amount of \$299,651.

3 Intangible assets

The Fund owns 5,676 megalitres (June 2015: 5,383 megalitres) of permanent water licences, which form an integral part of the properties under long-term leases.

Water licences have an indefinite useful life as a result of their legal form and are not amortised.

As part of the Kelso Park acquisition, the Fund purchased 293 megalitres of water licences.

During the half year the Fund recognised \$978,194 as revenue for the reversal of impairment of water licences.

Movement in the carrying amounts for intangible assets for the half-year/year:

	31 December 2015	30 June 2015
	\$	\$
Opening net book amount	8,268,792	7,458,300
Acquisitions	130,600	-
Reversal of Impairment	978,194	810,492
Closing balance	9,377,586	8,268,792

4 Agricultural assets

Trees are an integral part of the agricultural assets that are leased to tenants under long-term leases. The Fund owns the following agricultural assets as at 31 December 2015:

- (a) 43,800 mixed age mango and citrus trees; and
- (b) 179,900 almond trees aged 9 – 11 years.

New independent valuations for the almond properties were obtained for 30 September which resulted in the Fund recognising revenue of \$3,451,066 for the revaluation of the almond agricultural assets.

Movement in the carrying amounts for agricultural assets for the half-year/year:

	31 December 2015	30 June 2015
	\$	\$
Opening balance	17,484,778	16,675,270
Revaluations	3,451,066	809,508
Closing balance	20,935,844	17,484,778

5 Interest bearing liabilities

	31 December 2015	30 June 2015
	\$	\$
Non-current		
Secured:		
Cash Advance Loan Facility ⁽ⁱ⁾	71,900,000	63,900,000
Unamortised borrowing costs	(117,655)	(154,810)
Total non-current interest bearing liabilities	71,782,345	63,745,190

- (i) As at 31 December 2015 the Facility had a limit of \$80,200,000 and a maturity date of 31 July 2018. On 15 January 2016 the Cash Advance Loan Facility was reduced to \$68,900,000 following repayment of \$3,000,000.

6 Contributed equity

	31 December 2015	30 June 2015
	\$	\$
Opening balance	87,564,724	55,303,659
Issue of new Ordinary units	17,198,162	40,146,670
Redemption of Ordinary units	(506,364)	(7,801,445)
Capitalised costs associated with the issue of units	(14,355)	(84,160)
Closing balance	<u>104,242,167</u>	<u>87,564,724</u>

Movements in ordinary units

Date	Details	Number of units	\$
1 July 2014	Opening Balance	60,602,809	55,303,659
30 June 2015	Closing Balance	<u>115,537,565</u>	<u>87,564,724</u>
1 July 2015	Opening Balance	115,537,565	87,564,724
30 September 2015	Redemptions	(135,645)	(81,509)
21 December 2015	Issue of new units	22,803,346	15,292,037
22 December 2015	Issue of new units	2,842,396	1,906,125
31 December 2015	Redemptions	(666,963)	(424,855)
			104,256,522
	Capitalised costs associated with the issue of units		(14,355)
31 December 2015	Closing Balance	<u>140,380,699</u>	<u>104,242,167</u>

The issue of new units stated above are recognised net of contribution fees of \$440,979.

As stipulated in the Fund's Constitution, each unit represents a right to an individual unit in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

7 Accumulated losses

Movements in accumulated losses were as follows:

	31 December 2015	30 June 2015
	\$	\$
Opening accumulated losses	(14,485,039)	(15,999,956)
Net profit for the half-year/year	9,365,221	9,263,839
Distributions paid or payable	(4,387,031)	(7,748,922)
Closing accumulated losses	(9,506,849)	(14,485,039)

Distributions paid or payable to unitholders

	31 December 2015	31 December 2014	31 December 2015	31 December 2014
	\$	\$	cpu	cpu
September quarter	2,166,330	1,668,669	1.875	1.775
December quarter	2,220,701	1,960,173	1.875	1.775
Total distributions to unitholders for the half-year	4,387,031	3,628,842	3.750	3.550

8 Contingent assets and liabilities and commitments

There are no outstanding contingent assets or contingent liabilities as at 31 December 2015 (2014: Nil).

As at 31 December 2015 there were commitments for capital expenditure on the Fund's properties as follows:

	31 December 2015	31 December 2014
	\$	\$
Capital commitments due within next 6 months	742,500	235,010
Capital commitments due >6 months and < 4 years	30,062,500	23,900,000

9 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the statement of financial position as at 31 December 2015 or on the results and cash flows of the Fund for the half-year ended on that date.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 5 to 13 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Fund's financial position as at 31 December 2015 and of its performance for the financial period ended on that date; and
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Andrew Ashbolt
Director

Melbourne
18 February 2016

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Independent Auditor's Review Report To the Unitholders of Arrow Primary Infrastructure Fund

We have reviewed the accompanying half-year financial report of Arrow Primary Infrastructure Fund ("Fund") which comprises the statement of financial position as at 31 December 2015, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement or description of accounting policies, other explanatory information and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the Responsible Entity of Arrow Primary Infrastructure Fund are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such controls as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Arrow Primary Infrastructure Fund financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*. As the auditor of Arrow Primary Infrastructure Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Arrow Primary Infrastructure Fund is not in accordance with the *Corporations Act 2001*, including:

- a giving a true and fair view of the Fund's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134 Interim Financial Reporting and *Corporations Regulations 2001*.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



Michael Climpson
Partner

Melbourne, 18 February 2016