17 April 2020

FUND UPDATE

Arrow Primary Infrastructure Fund

Dear Investor

1. COVID-19

Since our last update at the end of February 2020 the Australian and world economies have gone into a COVID-19 tailspin, with almost all economic indicators now heading south. The current health and economic crisis is consuming our everyday thoughts and actions and, while it may appear unrelenting, we hope that the small positive signs that we are seeing continue to occur so that some state of normality may return in the next 6 – 12 months.

Our Fund invests in infrastructure that underpins some of Australia's leading food industries and we are fortunate that food supply has been granted essential/priority status in the current lock-down of large sections of the Australian economy. Demand for the products produced from our properties – poultry and pork meat, eggs, almonds, dried fruit, mangoes, citrus and glasshouse tomatoes – remains strong in most supply chains.

During this challenging time, our priority remains the safety and wellbeing of our employees and contractors, their families and the communities in which our properties are located.

Our staff are observing social distancing protocols and increased hygiene measures.

Our computer systems are cloud based and our staff are used to working remotely and from home. The Fund's properties are geographically spread and have existing biosecurity practices in place. None of the Fund's properties use intensive labour and generally farm hands work independently of each other. We are lucky in these very trying times.

All of our tenants have paid their rent quarterly in advance to 30 June 2020, with the exception of Green Camel, which is not impacted by COVID-19.

At Green Camel, there were a number of matters late last year which caused significant delay in completion of the new 2 hectare glasshouse at Cobbitty, NSW. More recently the installation of new high voltage electric power supply to the site and its integration with a new 600 kVA solar panel system have caused further demands on Green Camel's resources; the related capex having been borne entirely by them. The Fund has total ownership of all improvements at the Cobbitty site and the $10 million invested is well secured. We are currently renegotiating the first 12 months of rental payments to assist Green Camel until they reach full production cash flows in July 2020.

Several of the Fund's tenants are experiencing a level of trading downturn in the food services industry, which represents a portion of their business. The food services industry has been affected by COVID-19 with the closure of dine-in restaurants and function centres and most caterers and suppliers have had to temporarily shut down. The time duration of these closures and our tenant's ability to redirect product to other markets is unknown at this stage, as is the overall impact of COVID-19 on their respective company or group.

The Government has recently tabled its landlord tenant code of conduct and we will use that together with our valued, long-term tenant relationship to assist in finding a mutually agreed solution for any COVID-19 related claims.

The Fund's FY2020 rental revenue will not be affected by COVID-19, as all of the Fund's tenants (except Green Camel) have already paid their rent to 30 June 2020.

The impact of COVID-19 on FY2021 and beyond is unknown at this time, however, unless the Australian economy returns to some semblance of normality sooner than later, the continuing health and economic crisis will eventually impact every business operation.

2. Site Visits

Unfortunately the March and April site visits to Green Camel's Cobbitty Glasshouse and Boombera Park macadamias had to be cancelled due to the COVID-19 restrictions.

It is hoped that these investor visits can be rescheduled once the economy and ability to travel is back to normal.

3. Boombera Park Macadamias

I'm pleased to confirm that our development team at Boombera Park had a good run in March and we have now planted a total of 90,000 macadamia trees on the Fund's property. This was in line with our plan to cease planting over the colder winter months and to resume in September to December to plant the remaining 170,000 trees.

During the colder winter months when soil temperatures also drop, growth of young Macadamia trees stops, and trees are better protected in the nursery. As we will recommence planting in September 2020 we will still be able to take advantage of the main growing season from October to April. We anticipate that planting of all trees will be completed by the end of 2020, in line with our original timetable.

The significant rainfall in January and February has filled our dams and provided our new trees with a great start.

We are continuing discussions with prospective tenants with the aim of leasing our Boombera Park property from 1 July 2020. We expect that the long term lease of the property will be on similar terms to our other properties and that the Fund will continue to pay for all capex works until the macadamia orchard is fully developed. Upon completion, Boombera Park will be the largest individual property investment held by the Fund.

Australian macadamia nuts continue to be in strong demand with 2020 prices up some 9% on last year. As there are very few macadamia properties of any scale, Boombera Park is a unique asset and well placed to supply approximately 8% of the Australian crop once the trees reach mature production yields in 4-5 years' time.

4. Advinco Farm

Following cancellation of the lease with Murray River Organics in mid-December last year we established a strong operational team, renamed the property to "Advinco Farm" and are now well into harvesting the 2020 crop of Sultanas and Sun-Muscat dried vine fruit.

Recent rains have delayed the current harvest by a couple of weeks but has also assisted in a welcome reduction to the price of water, one of the major operating expenses of this property. Thankfully, the price of water has fallen from $930 per megalitre in mid- December 2019 to around $480 per megalitre today.

As long as water remains below $600 per megalitre, we believe that this property with industry benchmark yields will produce an excellent return for the operating entity. This property is the largest dried fruit property in the Sunraysia region and its fruit will always be in high demand.

While the current crop will be modest due to poor operational management of the property over the last couple of years, considerable rectification work is being undertaken by our Advinco Farm staff to return the property to its previous benchmark yields.

We are anticipating an operating loss from this year's crop and as a consequence we have written off costs of $2.8 million at 31 March 2020, which are primarily the cost of water used on the property and vine rectification expenses incurred up to that date.

We have dropped all organic production in favour of conventional dried fruit practices and our decision making is currently focused on maximising fruit yield and farm profitability in FY2021 and FY2022.

We have commenced our search to find a suitable tenant for this property and it remains our intention to re-lease this property within the next 2 – 3 years.

5. Distribution

The declared 2.0 cents per unit distribution for the March Quarter will be paid on 30 April 2020.

In light of our capital works programs and the current uncertainty created by COVID-19 we will closely monitor our cash and liquidity before declaring the next Quarter's distribution.

Thank you to all investors participating in the Distribution Reinvestment Plan (DRP). Approximately 31% of the Fund's paid distribution is automatically reinvested via the DRP, which provides an excellent source of new capital to be reinvested in the Fund's asset base.

6. Interest Rates & Borrowings

Interest rates are one of the few Fund expenses that can vary, however, we expect them to remain low in the foreseeable future. We have taken forward cover in relation to $77.5 million of the Fund's borrowings, which are currently drawn to $127.0 million. The Fund's Facility limit is $136.0 million. Our gearing benchmark is the Fund's LVR (loan to valuation ratio) which is currently 44% and sits within our benchmark range of between 35% - 50%.

We will continue to maintain a close watch on all our revenue and expenses during these difficult times.

Thank you for your continued support.

Regards

ANDREW ASHBOLT
MANAGING DIRECTOR