Fund Update – 22 August 2022

Arrow Primary Infrastructure Fund

Dear Investor

FY2022 Financials

I'm pleased to report that the Fund has had another solid year.

A major focus this year has been our property improvement program where we have spent $23.6 million on capital development works across eight properties. This will continue in FY2023 where a similar amount is expected to be spent across those eight and another two properties.

The capex spent in FY2022, together with the impact of annual rent reviews, is reflected in the Fund's total property values which have risen over the last twelve months from $336.8 million to $376.6 million at 30 June 2022.

As a consequence, the Fund's Net Asset Value per unit (NAV) has risen to $1.2385 as at 30 June 2022.

The total rate of return for investors for the year ended 30 June 2022 was 20.3%. Distributions over the last 12 months yielded a return of 7.7% per annum and capital growth in NAV was 12.6% per annum. This is in line with the investment return of 19.7% per annum that Arrow has achieved since we took over management of the Fund nine years ago.

A full copy of the Fund's Annual Report can be downloaded from our website by clicking here: Fund's Annual Report for FY2022

Also included on our website is a handy snapshot of the Fund at 30 June 2022, which includes some of the financial metrics discussed below. It can be downloaded by clicking here: Fund Snapshot

Key Financial Metrics for FY2022:

Base Rent	$22.3m	↑ 0.5% (LY $22.2m)
NTA	$1.2385	↑ 12.6% (LY $1.0995)
Gross Assets	$390.5m	↑ 13.6% (LY $343.7m)
WALE	16.4 years	unchanged
DPU	8.0 cents	unchanged
Total Debt	$160.5m	↑ 16.3% (LY $138m)
LVR	42.6%	↑ 1.6% (LY 41.0%)
Hedging	48.1%	↓ 7.8% (LY 55.9%)

Highlights for the year include:

- Capital development works of $23.6 million, which was more than double the amount spent in the previous year;
- Independent property valuation increases of $11.5 million for the year compared with $29.0 million in the previous year;
- A net unrealised gain on the Fund's interest rate derivatives of $13.3 million compared with a gain of $5.0 million in the previous year;
- Base property rental income increased by 0.5% to $22.3 million;

- The average interest rate paid by the Fund was 3.2 % per annum, which was identical to last year, however, total finance costs Increased by $0.2 million due to increased borrowings;
- Normalised earnings (net profit for the year excluding statutory non-operating accounting adjustments) was down by 3.0% to $13.4 million (7.5 cents per unit), due to the Boombera Park macadamia property not generating any income at this stage;
- There were 5.1 million new units issued in the Fund during the year, all issued under the Fund's Distribution Reinvestment Plan (DRP), which as at 30 June 2022 was supported by 40% of our investors. Total new capital raised by the DRP in FY2022 was $5.8 million compared to $4.6 million in the previous year.
- As at year-end the Fund had drawn borrowings of $160.5 million with interest rate swap agreements covering $77.2 million (48.1% hedged). The Swap contracts are for an average 7.2 years at an average BBSY rate of 2.40%.
- Weighted Average Lease Expiry (WALE) of the Fund's portfolio has remained the same at 16.4 years.

Ag Investment Sector

Over the last 12 months, investors are likely to have noticed the large number of new capital raisings and new entrants in the agricultural property investment sector. This interest has been spurred on by the increasing attractiveness of Australian agriculture given what is happening in the Ukraine and the relatively low prices of Australian properties compared to the US, Canada and Europe. In more recent months we have also seen an increasing number of Australian agricultural businesses coming onto the market, presumably trying to cash in on the current "high" prices and/or to relieve themselves of the burden of trading under COVID-induced conditions, with increasing input costs, expenses and lack of or missing staff.

We have remained focussed on improving the long-term value of each property as this gives the Fund its best "bang for its buck", particularly in the current agricultural property market. All capital expenditure spent on leased properties immediately increases rental income for the Fund.

We plan to spend a further $28.6 million improving existing properties in FY2023. We are also constraining our search for new properties to those in specific industries we have identified and which satisfy our stringent investment criteria.

Boombera Park

Heavy rains in the Northern Rivers region throughout December 2021 to May 2022 interrupted development works at Boombera Park. More than 1,700 mm was received during that period, compared to an average year's rainfall of 1,200 mm. Although the property was not impacted by the riverine floods in the area, the continual heavy rain meant that equipment was not able to operate in the orchard for much of that period.

Orchard development works have now been completed; however, we have subsequently decided to replant 27 hectares of trees with a higher mounding of the tree rows. This will cost approximately $250,000 and will enable the trees to better handle extended, heavy rains in the future.

We have now recommenced our search for a suitable tenant.

Distribution Rate

Timing of the commencement of a lease of Boombera Park is now important and we are targeting to have a lease in place before the end of FY2023. Receiving zero rental return on this significant investment during its development phase does impact the Fund's earnings per unit (EPU), however, we are confident that the capital value of the property is increasing.

On the basis that we do not see the full impact of leasing Boombera Park until FY24, Arrow still plans to retain the current distribution rate of 8.0 cents per unit (CPU) for FY2023. We note that this will be greater than the forecast EPU, meaning the distribution will include a small capital component, the size of which will depend on the commencement date of the Boombera Park lease. When the Boombera Park property is leased we expect to see a boost to both EPU and DPU.

COVID-19

There was no impact on the Fund's financial results due to the COVID-19 pandemic. The Responsible Entity continues to manage the Fund in a decentralised way and all tenants were able continue normal operation of their properties.

We remain fortunate that our Fund is invested in food-producing properties, which are recognised as an essential industry by State and Federal Governments.

The importance of domestic food production here in Australia has been heightened by the impact of the pandemic on staff, freight costs and logistics and the destruction of Ukraine's significant agricultural production.

Increasing demand for good quality Australian food produce is an overwhelming positive and gives us continuing confidence in our investment strategy.

Tax Statements

Tax Statements for FY2022 are currently being finalised and we expect that they will be emailed/posted to all investors early in September.

We expect the tax deferred component for FY2022 to be about 75%, the same as last year. The tax deferred component arises due to the Fund being able to pass on to its unit holders the depreciation that can be claimed on its assets, which continues to run at a high level due to the instant write off available for depreciable plant & equipment. The deferred tax amount is not subject to income tax but must be deducted from each investor's cost base of their investment.

Outlook

COVID-19 has not gone away but general business conditions appear to be slowly returning closer to normal, but with the expectation that new variants of the virus will arise in the future.

Inflation is running at higher levels than targeted by the Reserve Bank of Australia, who are continuing to increase interest rates.

Although approximately 48% of the Fund's borrowing costs are hedged via derivatives, higher interest rates will still have some impact on earnings. Forecast future rates in the derivative market are currently running at higher levels than most economists are predicting, and the Fund is currently hedged at 48% of its exposure. Our hedging benchmark is between 25% and 75% of our drawn debt and we intend to increase the level of hedging to a minimum of 50% as borrowings increase throughout FY2023 following the planned property development expenditure.

Leasing Boombera Park is a key focus for Arrow in FY2023. The major development work has now been completed; however, the planted macadamia trees are still 2 to 3 years away from commercial production. Whilst there is an expectation that the value of the property will increase significantly over the next few years, we believe that the Fund's investors should not be exposed to the normal volatility associated with running a major orchard. As mentioned, we have now recommenced our search for a suitable tenant.

All of our properties are in good shape and continue to be well managed.

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