

## Fund Update –31 August 2023

### Arrow Primary Infrastructure Fund

Dear Investor

#### FY2023 Financials

Our Fund strategy, as an owner of primary industry properties, has continued to serve us well in these tougher economic conditions. In this last financial year there have been continuing interest rates rises, extreme weather events, uncertain markets and the easing of many commodity prices.

Base rent received by the Fund for FY2023 was up 8.5% to \$24.2 million, however, normalised earnings (profit excluding non-operating adjustments such as property revaluations, movements in derivatives and non-cash items) was down 8.1% to \$12.3 million, due to additional interest paid on the Fund's borrowings.

During FY2023, an average of 48% of the Fund's borrowings were covered via long-term, fixed rate derivatives, with 45.5% hedged as at 30 June 2023. This reduced the impact of significant rate rises experienced during the year to just +1.2%, with the average interest rate paid by the Fund for FY2023 being 4.4% per annum. Total interest paid was up \$2.7 million to \$7.2 million due to additional borrowings. The Fund's Loan to Valuation Ratio (LVR) as 30 June 2023 was 43.5%, slightly up on last year's 42.6%.

We have continued the Fund's property improvement program during FY2023 with a further \$13.5 million being spent on capital development works and agricultural assets, significantly improving the long-term value of eight properties. Included in this figure was \$4.2 million at Boombera Park, the Fund's macadamia orchard at Lawrence, NSW. This property continues to be valued at cost, which we believe is the correct, conservative method to adopt whilst the trees are immature.

The total value of the Fund's properties has risen over the last twelve months from \$376.6 million to \$389.7 million at 30 June 2023.

In FY2023, we maintained the Fund's quarterly distribution rate of 8.0 cents per annum. We recognise that this represents 120% of normalised earnings for the current year, which is a temporary position. Rental earnings will automatically increase as a result of the significant capex on properties as well as normal, annual rent increases.

The Fund's Net Asset Value per unit (NAV) was \$1.2223 at 30 June 2023, which was a minor reduction from last year's \$1.2385 due to us maintaining the 8.0 cents distribution rate.

Arrow has now been managing the Fund for ten years, and the total rates of return per annum for investors up to 30 June 2023 have been as follows:

<b>Fund Performance</b>	<b>10 Years</b>	<b>5 Years</b>	<b>3 Years</b>	<b>1 Year</b>
<b>Income Return (% pa)</b>	<b>10.61</b>	8.57	8.58	6.56
<b>Capital Return (% pa)</b>	<b>8.10</b>	7.30	11.04	(1.29)
<b>Total Return (% pa)</b>	<b>18.71</b>	15.87	19.62	5.26

A full copy of the Fund's Annual Report can be downloaded from our website by clicking here: [Fund's Annual Report for FY2023](#)

Also included on our website is a handy snapshot of the Fund at 30 June 2023, which includes some of the financial metrics discussed below. It can be downloaded by clicking here: [Fund Snapshot](#)

## Key Financial Metrics for FY2023:

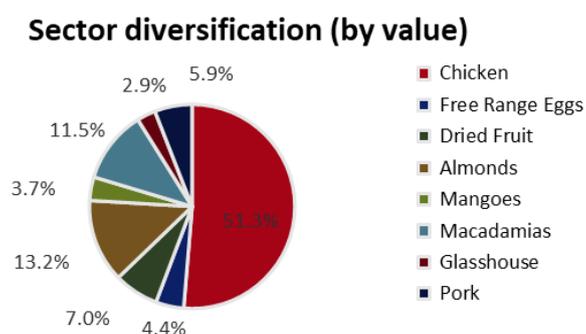
<b>Base Rent</b>	\$24.2m	↑ 8.5% (LY \$22.3m)
<b>Normalised Earnings</b>	\$12.3m	↓ 8.1% (LY \$13.4m)
<b>NTA</b>	\$1.2223	↓ 1.31% (LY \$1.2385)
<b>Gross Assets</b>	\$402.8m	↑ 3.1% (LY \$390.6m)
<b>WALE</b>	15.5 years	↓ 5.5% (LY 16.4 years)
<b>DPU</b>	8.0 cents	unchanged
<b>Total Debt</b>	\$169.5m	↑ 5.6% (LY \$160.5m)
<b>LVR</b>	43.5%	↑ 2.1% (LY 42.6%)
<b>Hedging</b>	45.5%	↓ 5.4% (LY 48.1%)

## Highlights for the year include:

- Continued capital development works with a further \$13.5 million invested in the Fund's existing properties;
- Base property rental income increased by 8.5% to \$24.2 million;
- Property values increased by \$13.1 million for the year compared with \$11.5 million last year;
- A net unrealised gain on the Fund's interest rate derivatives of \$0.4 million compared with a gain of \$13.3 million in the previous year, due to the market's anticipation that rates are likely to have peaked;
- The average interest rate paid by the Fund was 4.4% per annum, compared to last year 3.2%, and total finance costs increased by \$7.2 million due to increased borrowings;
- Normalised earnings (net profit for the year excluding statutory non-operating accounting adjustments and non-cash items) were down by 8.1%, due to increased borrowings and Boombera Park property not generating any income in FY2023;
- During the year there were 5.8 million new units issued under the Fund's Distribution Reinvestment Plan (DRP), making a total of 185.6 million issued units as at 30 June 2023. Total new capital raised by the DRP in FY2023 was \$6.0 million compared to \$5.8 million in the previous year. The DRP is currently supported by 41% of our investors.
- As at year-end the Fund had drawn borrowings of \$169.5 million with interest rate swap agreements covering \$77.2 million (45.5% hedged). The Swap contracts are for an average 6.2 years at an average BBSY rate of 2.40%.
- Weighted Average Lease Expiry (WALE) of the Fund's portfolio was 15.5 years at 30 June 2023.

## Fund Strategy

We remain comfortable with the Fund's diversification. Our strategy remains the same - to invest in sustainable, leading Australian industries, in top-quartile properties with leading industry tenants. We are focussed on the top primary industries in which Australia has a long-term advantage.



We recognise that 56% of the Fund's portfolio is in the poultry meat and egg industries. That is no coincidence. There would be very few, if any, primary industries that have performed better than the leading poultry operators in Australia over the last 15 years.

The Fund's investment in nut industries (almonds and macadamias) currently represents 25% of the portfolio. We would like to see that growing, given the advantages that Australia has in quality nut production and the increasing world demand for protein and healthy foods, particularly nuts.

### **Boombera Park**

Between August 2022 and February 2023, we engaged Colliers to run a formal expressions of interest campaign to find a tenant for the Fund's Boombera Park property. Unfortunately, this was not successful in attracting a suitable operator. We believe this was due to the fact that Boombera's macadamia trees are not yet producing, Australian macadamia processors are in a state of flux and appear reluctant to secure long-term access to product, and the current slump in the farm-gate macadamia price. Given the current market, we are somewhat fortunate that our trees are not yet producing significant volumes of nuts.

Effective 1 July 2023 we commenced Arrow Operations Trust (AOT), which owns Boombera Park Macadamias Pty Ltd (BPM). BPM now leases the Boombera Park property from Arrow Primary Infrastructure Fund (APIF), and all trading operations are carried out by BPM. AOT and BPM will continue to have zero value for the next few years until Boombera Park has commercial volumes of production and becomes break-even. As previously explained, the AOT units are stapled to each investor's APIF units, so any APIF transactions automatically include their attached AOT units. No additional documentation is required to be actioned by investors in relation to AOT.

We remain confident that the Fund's Boombera Park property will become a significant producer of high-quality macadamia nuts. We strongly believe that the Fund should be invested in the macadamia industry. Our Fund now has a significant, "ground floor" position in what will become a much larger and important Australian industry, with a much larger global market. Macadamias represent less than 2% of the world tree nut production and there is enormous scope to increase world demand. The macadamia nut is indigenous to Australia and there are few examples of a product with such positive health attributes, where Australia has a low-cost base and the marketing advantage of provenance.

### **Outlook**

Interest rates are forecasted to settle at their current levels, with forward markets showing similar rates for the medium-term.

We expect the values for well-managed agricultural/horticultural properties to remain strong, due to the continuing attractiveness of the food sector and the lower value of the Australian dollar.

We will maintain our focus on securing a suitable tenant for Boombera Park. We see the Boombera Park property as a key asset in the Fund's portfolio, however, if a suitable tenant is unlikely to be found within the next three years, then the property will be sold. A key industry tenant is an important attribute for each property in our Fund.

We will also remain focussed on improving the long-term value of each property as this gives the Fund its best return for our investors. All capital expenditure spent on leased properties immediately increases rental income for the Fund.

### **Tax Statements**

Tax Statements for FY2023 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 FY2023 to be about 74%. 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. It is not subject to income tax but must be deducted from each investor's cost base of their investment.

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