

Fund Update –26 February 2024

Arrow Primary Infrastructure Fund

Dear Investor

Financial Results for half-year to 31 December 2023

Our Fund is now benefiting from the major capital works projects undertaken at seven of our Baiada Poultry properties. Over the last 18 months the Fund has invested \$36.5 million in new farms and infrastructure upgrades on those properties. There is a further \$12.3 million still to be spent over the balance of this calendar year to complete all proposed projects.

The above works, together with annual rent increases across the Fund's portfolio resulted in an increase in base rental revenue of 6.7% in the first six months of this financial year. These gains were offset by increases in Fund expenses; mainly the impact of increased interest rates and borrowings. The Fund's \$77.2 million of fixed interest rate derivatives represents a hedged cover of 43% of the Fund's debt and again proved its value during the half-year, significantly reducing the impact of higher interest rates on the Fund.

Arrow is focussed on creating long-term value and we believe the above capex will provide good long-term returns for both our investors and our tenants. The Fund's weighted average lease expiry (WALE) across its portfolio is 15 years, providing long-term revenue certainty for our investors.

As approved by unitholders in late-June 2023, Boombera Park Macadamias Pty Ltd (BPM) was transferred into the Arrow Operations Trust on 1 July 2023 and BPM commenced leasing the Fund's Boombera Park property from that date. As APIF's investors continue to own BPM (now via Arrow Operations Trust), we have excluded rent paid by BPM in calculating Normalised Earnings for the Fund, which is considered the best measurement of Fund performance for investors.

Independent valuations were received for all properties as at 31 December 2023, and the Financial Statements include a valuation increase to investment properties of \$4.210 million for the half-year, \$1.781 million of which is required to be shown as a straight-line adjustment of rent.

The Fund's Boombera Park property continues to be carried at cost, which is less than the independent valuer's market valuation as at 31 December 2023. Directors believe this is an appropriate approach at this stage, given that the trees are not yet producing. Normalised Earnings (i.e. excluding the BPM rent) will continue to be negatively impacted until a third-party tenant is found for Boombera Park, or the property is sold.

Directors made the decision to continue with a consistent distribution rate of 2.0 cents per quarter during the half-year. This has resulted in a payout of 4.0 cents for the half-year period, which exceeds Normalised Earnings of 3.13 cents per unit. In effect, the difference represents a return of capital, which Arrow directors feel is appropriate given the long-term value being created at Boombera Park.

Key Financial Metrics for the first half:

Base Rent	\$14.9m	↑ 24.6% (HYDec-22 \$12.0m)
Base Rent (excluding BPM Rent)	\$12.8m	↑ 6.7% (HYDec-22 \$12.0m)
Normalised Earnings (excluding BPM Rent)	\$5.8m	↓ 8.2% (HYDec-22 \$6.4m)
Normalised EPU (excluding BPM Rent)	3.13c	↓ 10.6% (HYDec-22 3.50c)
DPU	4.0 cents	Unchanged (HYDec-22 4.0c)

NTA	\$1.2357	↑ 1.1% (Jun-23 \$1.2223)
Gross Assets	\$418.2m	↑ 3.8% (Jun-23 \$402.8m)
WALE	15.0 years	↓ 3.0% (Jun-23 15.5 years)
Distribution Rate p.a.	6.47%	↓ 1.1% (June-23 6.55%)
Total Debt	\$179.9m	↑ 5.9% (Jun-23 \$169.9m)
LVR	44.2%	↑ 1.6% (Jun-23 43.5%)
Hedging	43.0%	↓ 5.5% (Jun-23 45.5%)

The Fund's borrowing facility was increased in December 2023 by \$10 million to \$200 million to cover future capex commitments. As at 31 December 2023, the Fund's total debt was \$179.9 million of which \$179.5 million was drawn down under this facility.

The Fund's Distribution Reinvestment Plan (DRP) also provides a source of capital to fund these works. Total new capital raised by the DRP for the half-year to 31 December 2023 was \$2.7 million compared to \$2.8 million in the previous comparative period. The DRP is currently supported by 31% of our investors (by units).

The Fund's full financial statements for the half-year to 31 December 2023 have been released and are now on our website: <https://www.arrowfunds.com.au/fund-announcements/fund-reports/>.

Also included on our website is a handy snapshot of the Fund as at 31 December 2023, which includes some of the financial metrics discussed above: <https://www.arrowfunds.com.au/fund-details/fund-snapshot/>

Fund Strategy

We have continued to grow our Fund over the last few years without acquiring new properties. The major development work undertaken at Boombera Park, as well as significant upgrades at our Baiada poultry properties, has best-suited our Fund. Demand for good Australian agricultural and horticultural properties remains strong, meaning that market values of properties are well supported.

We continue to look for opportunities in the few Ag industries that suit our focussed strategy however, at this point in time, our key focus is to locate a suitable, long-term tenant for Boombera Park. The leasing of that property, or a sale, should further improve the Fund's financial position. We have the financial resources already in place to continue to hold the property for the next few years if need be - our objective remains to achieve the best long-term financial outcome for our investors.

Outlook

Interest rates look as though they have probably peaked, as reflected in forward markets. The Fund is well placed with 43% of its future interest rate exposure covered by existing fixed rate derivatives, which have an average term of 5.7 years still to run.

The industries that our Fund is invested in remain very strong and the continuing attractiveness of the food sector together with a lower Australian dollar are good tailwinds to have.

Support from keen overseas and local buyers should ensure that the values for our well-located and well-managed properties remain stable.

If you are interested in acquiring additional units in our Fund, simply drop us an email at enquiries@arrowfunds.com.au and we will add you to our Buyers List. This has become a very popular facility, with some 28 investors adding to their holdings in the first half of FY2024.

Please refer to our website for the latest news and information on the Fund.

Thank you for your continued support.

Yours sincerely



ANDREW ASHBOLT
MANAGING DIRECTOR