

28 February 2020

Arrow Primary Infrastructure Fund

Dear Investor

December 2019 Half-year Financials

The Fund's Half-year results to 31 December 2019 have been released and can now be downloaded from our website.

The Fund has continued to perform well, recording a net profit for the half-year of \$9.591 million, up 10.5% on the previous corresponding period.

Normalised earnings for the half-year, which is the Fund's profit excluding non-cash items and revaluations, increased by 12.8%, representing 4.76 cents per unit, of which 4.0 cents per unit was distributed to our investors.

Total assets held by the Fund at 31 December 2019 were \$287.7 million, compared with \$256.7 million at 30 June 2019.

Net Asset Value at 31 December 2019 was \$0.9167 per unit.

Significant events in the first half include:

- Acquisition of the new Thyra Pig Grow-out complex on 31 October 2019 for \$18.0 million, the Fund's first investment into the pork industry. We had been following developments in the pork industry for some time and were pleased to be able to acquire Australia's newest grow-out facility, which is totally off-grid and powered by its own methane gas facility. The Australian pork industry is entering a period that is expected to deliver strong and sustained profitability in response to low global pork stocks and correspondingly strong demand for red meat protein. Since 2015 pork has taken over the position of Australia's second most consumed meat, ranked behind chicken which remains a major focus of our Fund.
- Commencement of planting of the first macadamia trees in September 2019 at the Fund's Boomer Park property at Lawrence, NSW. As advised, the severe drought in 2019 in northern NSW together with the wide-spread bushfires in December caused us to pause planting in November 2019. The drought broke on Christmas Eve with a downfall of 64mm and we have since received over 600mm of rainfall on the property and now have approximately 600 megalitres of water in our newly constructed dams. Due to the planting halt in December and the wet weather in January and February we currently have 48,000 trees planted and are behind in our planting schedule. We are now aiming to have approximately 80,000 trees planted before winter and will resume in September when we will re-commence planting the remaining 200,000 trees. We anticipate that planting of all trees should be completed by the end of 2020, in line with our original timetable.
- On 20 November 2019 the Fund's glasshouse and aquaculture facility at Cobbitty, NSW, was completed. This state of the art facility is leased to Green Camel and its organic tomatoes and mini cucumbers are now being sold by Woolworths throughout Australia.
- On 11 December 2019 the Fund's Colignan Farm lease with Murray River Organics (ASX code: MRG) was terminated. Although the lease still had 23 years remaining, this was not an unexpected event, given the difficulties MRG have been experiencing in the last couple of years and their inability to manage the property to our required standard. The Fund has already received \$824,750 cash compensation and will receive a further \$500,000 cash together with a 5% equity interest in the re-capitalised MRG following the closure of their fully underwritten \$25 million capital raising, expected on 4 March 2020. An independent "as is" valuation of the property was conducted as at 31 December 2019 resulting in a write down of \$3.7 million.

- The cancellation of the Colignan Farm lease has meant that the Fund is now operating a 625 hectare of dried fruit vineyard and 30 hectares of citrus orchard at Colignan, near Mildura. We have re-named the property “Advinco Farm” and have been extremely busy since 11 December 2019 planning for this year’s dried fruit harvest, which has just commenced. We have installed an excellent team to run Advinco Farm, and we plan to complete the development work that MRG commenced over the next 2 years. Although the price for water from the Murray River is extremely high at the moment we are confident that this property, which is the largest dried fruit property in the Sunraysia region, will return to profitability once all new vines mature. The Sunraysia region produces Australia’s premium dried fruit (sultanas, sun-muscats and currents) and this property will soon become a large volume producer to this underrated Australian industry. It is Arrow’s intention to re-lease this property within the next 2 – 3 years.
- A \$16.0 million increase in the Fund’s borrowing facility to \$136.0 million was signed with the CBA on 30 December 2019. This will provide additional funding for operating expenses and completion of capex development works at the Colignan Farm property and Boombera Park.

Site Visits

Over the years we have had requests from a number of our investors to visit some of the Fund’s properties. Unfortunately, due to bio-security protocols this is not possible in many of the industries in which we operate. However, I’m pleased to report that Arrow is organising the following site visits:

- Green Camel’s glasshouse and aquaculture operation at Cobbitty, NSW on Wednesday, 25 March 2020 (2.5 hours on-site visit); and
- Boombera Park macadamia orchard at Lawrence, NSW on Tuesday, 7 April 2020.

Investors will need to make their own transport arrangements. Depending upon numbers interested in visiting Boombera Park, it may be more efficient for Arrow to organise a 9:00am bus pickup from Ballina as the visit will take most of the day. Ballina is the nearest local airport and about 2 hours’ drive from Boombera Park. Coolangatta airport has more direct flights and is a further 45 minutes away.

If you are interested in attending either of the above site visits please RSVP by email to enquiries@arrowfunds.com.au by Monday 9 March 2020, so that we can coordinate what should be a very interesting experience.

Outlook

We expect that interest rates will remain low in the foreseeable future and the Fund has taken forward cover in relation to \$77.5 million of its borrowings, which are currently drawn to \$122.5 million.

In December 2019 we took advantage of the low interest regime and increased the Fund’s borrowing facility to \$136 million. Our gearing benchmark is to keep the Fund’s LVR (loan to valuation ratio) between 35% - 50%. The Fund’s LVR was 42.3% at 31 December 2019.

We are continuing to evaluate our portfolio as well as new investment opportunities for the Fund. We will maintain a very narrow focus on those industries in which we invest, as well as our strict investment criteria.

Interest in the Fund remains very strong, with continuing contact from existing and new investors wanting to join our Buyers List. Details on our Buyers List and Off Market transactions are included on our website under Frequently Asked Questions.

Please also refer to our website to keep up to date on the latest news and information on the Fund.

Thank you for your continued support.

Regards



ANDREW ASHBOLT
MANAGING DIRECTOR