Arrow Primary Infrastructure Fund

ARSN 110 813 851

Annual report - for the year ended 30 June 2020

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Annual report - 30 June 2020

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These financial statements cover Arrow Primary Infrastructure Fund and are presented in Australian currency.

The Responsible Entity of Arrow Primary Infrastructure Fund as at 30 June 2020 was Arrow Funds Management Limited (ACN 146 671 276) and its registered office is at:

Arrow Funds Management Limited
Level 25, 360 Collins Street
Melbourne VIC 3000

Directors' report

The directors of Arrow Funds Management Limited (ACN 146 671 276), the Responsible Entity of the Arrow Primary Infrastructure Fund (the "Fund"), present their report together with the financial statements of the Fund for the year ended 30 June 2020.

DIRECTORS

The following persons held office as directors of Arrow Funds Management Limited during the year and up to the date of this report:

Andrew Ashbolt

Murray Jones

Matthew Reid

Gerald O'Byrne (Alternative director for Matthew Reid)

PRINCIPAL ACTIVITIES

The Fund is an open ended, unlisted property trust with investments in geographically diverse property and infrastructure assets used in the primary production industry.

The Fund owns 22 properties which are located in New South Wales, Victoria, Northern Territory and South Australia. The Fund leases its properties to leading Australian primary production companies involved in the poultry, pork, almond, dried fruit, mango, citrus and glasshouse industries. The average weighted lease expiry of leases held at 30 June 2020 was 13.13 years.

Arrow is continuing to develop the Fund's Boombera Park macadamia property at Lawrence, in the northern rivers region of New South Wales. As at year-end 90,000 macadamia trees had been planted in stage 1 together with associated irrigation infrastructure. It is planned to complete the total 820 hectare orchard development with a further planting of 170,000 trees by 31 January 2021.

On 11 December 2019 Arrow terminated the lease of the Fund's dried fruit vineyard at Colignan in Victoria with Murray River Organics (MRO) and took over operating control of this asset. The property was acquired by the Fund in December 2017 due to its strategic location and Arrow's confidence in the premium quality dried fruit industry, which is under-supplied by Australian producers. A wholly owned subsidiary company called Advinco Farm Pty Ltd was established in December 2019 to manage the investment property at Colignan on behalf of the Fund. Advinco Farm Pty Ltd was reimbursed by the Fund for their costs incurred in managing the property over the last six months, which included the dried vine fruit and citrus crop harvests during March 2020 to June 2020. The process of recovering the Greenfield vineyard development and conversion works undertaken by MRO was also commenced during that period.

As part compensation for termination of the lease, MRO also provided the Fund with a free 5% interest in Murray River Organics Group Limited (ASX code: MRG). The new shares were issued on 4 March 2020 and the Fund's investment in MRG is shown in the balance sheet under "Share investments".

On 20 November 2019 the Fund's glasshouse at Cobbitty, NSW was completed and a head-lease of the land with the University of Sydney (the land owner/lessor) and the Fund (as tenant) commenced. Contemporaneously, a sub-lease with the Fund (as lessor) and Green Camel Pty Ltd (as tenant) commenced.

On 3 June 2020 a 25 year lease of Advinco Farm was signed with Golden Dried Fruits 1 Pty Ltd, part of the Australian Premium Dried Fruits/Scalzo Foods Group. The new lease commenced on 1 July 2020. The Scalzo Foods Group brings additional industry expertise and they will continue with the vineyard and irrigation development works in progress, so that the original aspirations for this premier property can be realised.

There were no other significant changes in the nature of the Fund's activities during the year.

REVIEW OF OPERATIONS

(a) Results	**30 June 2020**	30 June 2019
The performance of the Fund was as follows:	**$**	$
Net profit for the year	**7,804,884**	16,740,034
Normalised earnings (1)	**15,062,273**	14,346,070
Normalised earnings per unit (cents per a unit) (1)	**8.93**	8.68
Distributions paid and payable	**13,495,592**	13,216,009
Distributions (cents per unit)	**8.00**	8.00

(1) Normalised earnings is the net profit for the year excluding statutory non-operating accounting adjustments such as accounting for fair value movements in property valuations, marked-to-market interest rate derivatives, straight line lease accounting and other non-cash items such as depreciation and amortisation of debt establishment fees.

REVIEW OF OPERATIONS / Results (continued)

The main factors contributing to the net profit reduction for the year were:

- Termination of the Colignan Farm lease with Murray River Organics on 11 December 2019 with the Fund taking on full operational responsibility until the property was re-leased again on 1 July 2020. The financial impact of this on net profit was a loss of $4.801 million, as follows:

➢ Bank guarantee and cash compensation received for lease termination	$1.325 million
➢ Benefit of 5% share investment in MRG	$1.576 million
➢ Depreciation of Agricultural Assets	$(1.485) million
➢ Impairment write off of Agricultural Assets	$(1.165) million
➢ Decrease in valuation of Investment Properties	$(5.052) million
	$(4.801) million

- A revaluation increase of Investment Properties of $1.010 million (net of the above $5.052 million for Advinco Farm), which was considerably less than the increase of $10.125 million in the previous year;
- A net unrealised loss on the Fund's interest rate derivatives of $3.4 million compared with a loss of $6.24 million in the previous year, due to further reductions in long term interest rates.
- Base property rental income increased by $0.681 million (+3%) to $21.699 million, due to normal annual rent increases during the year.
- Increased borrowing costs, with interest paid being $0.876 million higher than the previous year, due to greater borrowings (average rate 3.9% versus last year 4.0%);
- An increase of $0.375 million in direct property expenses paid by the Fund; and
- An increase of $0.424 million in management fees paid to the Responsible Entity, due to increased assets under management.

There was no financial impact upon the Fund's results for the year due to the COVID-19 pandemic. The Responsible Entity was able to continue managing the Fund in a decentralised way and all tenants were able continue operating their properties.

(b) Value of Fund's Assets

The directors review the fair value of all investment properties at the end of each reporting period (every six months) taking into account market valuations and updates from independent expert valuers.

Arrow has adopted a valuation policy that provides for each property to be independently valued by a suitably qualified valuer at least once every three years. During the year, formal independent valuations were conducted for Kelso Park, Colignan Farm and Boombera Park, and at 30 June 2020 for Advinco Farm, Rhynie and Lake Powell Lots 2, 5 & 6. All other properties have been valued at their desktop valuations conducted by an independent valuer as at 30 June 2020.

Due to additional bio-security restrictions imposed as a result of COVID-19, independent valuers were unable to complete formal 3 year revaluations at six of the Fund's poultry properties, which were each due at 30 June 2020. It is proposed to have the valuers conduct those formal independent valuations as soon as they are allowed access to the respective sites. In the meantime, the respective valuers have provided desktop valuations for each of those properties.

The Fund's property assets are required to be split into investment property, intangible assets (water), agricultural assets and plant and equipment for accounting purposes. The total of these assets were valued at $291.0 million at 30 June 2020, compared to $254.3 million in the previous year. Australian agricultural assets have continued to receive strong support from the investment market. In particular, market values of prime almond, citrus and vineyard properties subject to long term leases have increased in market value due to sustained interest from institutional and overseas investors.

As a result of the under-performing vineyard and development works at the repossessed Advinco Farm, the Fund incurred costs and write downs of $3.0 million in the second half of FY2020.

During FY2020 a total of 4.6 million new units in the Fund were issued to investors participating in the Distribution Reinvestment Plan (DRP). Although the net assets of the Fund have increased, as a consequence of the write down of the Advinco Farm property and the increased number of issued units in the Fund, the Net Asset Value (NAV) has decreased to $0.8930 per unit at 30 June 2020, a 1% decrease on last year's figure.

REVIEW OF OPERATIONS (continued)

	30 June 2020	30 June 2019
Net assets attributable to unitholders ($) (i)	**152,444,420**	150,019,527
Net asset value ("NAV" $/unit) (ii)	**0.8930**	0.9020

(i) The value of the Fund's assets and liabilities is derived using the basis disclosed in note 2 of the financial statements.

(ii) Financial Statements recognise water entitlements at cost as per ASIC guidance and accounting standards. Water licences of $9.378 million (2019: $9.378 million) have been included in the calculation of NTA as they are considered an integral part of the Fund's property assets which are leased to tenants, and they are also included in the overall property valuations provided by independent valuers. If water licences are excluded the NTA would be $0.8350 (2019: $0.8456).

(c) Investors

At the end of the financial year there were a total of 520 unitholders in the Fund compared with 514 at 30 June 2019.

(d) Disposals

There were no asset disposals during the year.

(e) Withdrawal Facility

During the year Arrow ran four quarterly Withdrawal Offers, to provide liquidity to existing unitholders in the Fund. All withdrawal applications were accepted and a total of $0.2 million was paid out to 7 unitholders and their units redeemed.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

In the opinion of the directors, other than the matters identified in this report, there were no other significant changes in the state of affairs of the Fund that occurred during the financial year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No matters have arisen since 30 June 2020 that has significantly affected, or may significantly affect, the Fund's operations, the results of those operations or the state of the affairs of the Fund in future financial years, other than those matters stated in this report.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund Constitution.

The future results of the Fund's operations will be affected by a number of factors, including future interest rates and the management, performance and investor interest in the Fund's investment properties. The Fund has future interest rate derivatives which partially hedge the Fund's exposure to interest rate movements until 2030. Investment performance of the Fund is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the year, the Responsible Entity has paid insurance premiums to insure each of the directors and officers of the Responsible Entity of the Fund against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of the Responsible Entity other than conduct involving a wilful breach of duty in relation to the Responsible Entity. The contract of insurance prohibits disclosure of the nature of the liability covered and the amount of the premium.

The Responsible Entity has not otherwise, during or since the end of the financial year indemnified or agreed to indemnify an officer or auditor of the Responsible Entity or of any related body corporate against a liability incurred as such by an officer or auditor.

FEES PAID TO AND INTERESTS HELD IN THE FUND BY THE RESPONSIBLE ENTITY OR ITS ASSOCIATES

Fees paid to the Responsible Entity, its directors or associates out of Fund property during the year are disclosed in note 19 to the financial statements.

The interest in the Fund held by the Responsible Entity, its directors or associates as at the end of the financial year is also disclosed in note 19 to the financial statements.

INTERESTS IN THE FUND

There were 4.6 million new units issued in the Fund (under the Distribution Reinvestment Plan) and 0.2 million units redeemed during the year (under the three Withdrawal Offers), as disclosed in note 17 to the financial statements. As at the date of this report there are 170.7 million units on issue compared to 166.3 million as at 30 June 2019.

ENVIRONMENTAL REGULATION

The Fund is subject to environmental regulations consistent with other primary industry land holders. There were no breaches notified during the year.

ROUNDING OF AMOUNTS

The Fund is a type of entity referred in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest dollar, or in certain cases, to the nearest $1,000.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

This report is made in accordance with a resolution of directors.

Andrew Ashbolt
Director

Melbourne
20 August 2020

Grant Thornton

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Auditor's Independence Declaration

To the Directors of Arrow Funds Management Limited, the Responsible Entity of Arrow Primary Infrastructure Fund

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Arrow Primary Infrastructure Fund for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton Audit Pty Ltd
Chartered Accountants

B A Mackenzie
Partner – Audit & Assurance

Melbourne, 20 August 2020

Statement of profit or loss and other comprehensive income

	Notes	**30 June 2020 $**	30 June 2019 $
Revenue			
Property rental	4	**21,791,806**	23,066,248
Other Income	4	**1,575,529**	-
Interest	4	**44,374**	26,099
Agistment Income	4	**-**	1,430
Revaluation of investment properties	11	**1,009,536**	10,125,087
Total net investment income		**24,421,245**	33,218,864
Expenses			
Direct property expenses		**(1,424,296)**	(1,048,921)
Responsible Entity's management fees		**(2,846,188)**	(2,422,366)
Custodian fees		**(47,570)**	(46,818)
Depreciation of agricultural assets		**(2,649,662)**	(2,530,772)
Depreciation of Plant and Equipment		**(227,147)**	(134,010)
Impairment of agricultural assets	13	**(1,164,709)**	(202,460)
Other administration expenses		**(321,926)**	(207,487)
Net loss on change in fair value of derivative financial instruments	10	**(3,409,450)**	(6,236,718)
Finance costs	5	**(4,525,413)**	(3,649,278)
Total expenses		**(16,616,361)**	(16,478,830)
Net profit for the year		**7,804,884**	16,740,034
Other comprehensive income			
Items that will not be reclassified subsequently to profit and loss			
Revaluation of agricultural assets	13	**4,134,044**	3,452,978
Total comprehensive income for the year		**11,938,928**	20,193,012
Total comprehensive income for the year is attributable to:			
Unitholders of Arrow Primary Infrastructure Fund		**11,938,928**	20,193,012

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position

	Notes	**30 June 2020** **$**	30 June 2019 $
ASSETS			
Current assets			
Cash and cash equivalents	8	**7,817,480**	1,929,154
Trade and other receivables	9	**1,202,538**	457,955
Prepayments		**150,191**	44,643
Finance Lease Receivable	16	**40,460**	-
Total current assets		**9,210,669**	2,431,752
Non-current assets			
Investment properties	11	**237,705,166**	202,620,069
Intangible assets	12	**9,377,586**	9,377,586
Agricultural assets	13	**43,870,855**	41,657,894
Plant and Equipment		**1,606,129**	614,109
Share Investments		**1,575,529**	-
Finance Lease Receivable	16	**536,626**	-
Total non-current assets		**294,674,891**	254,269,658
Total assets		**303,882,560**	256,701,410
LIABILITIES			
Current liabilities			
Trade and other payables	14	**4,016,919**	1,973,729
Distributions payable	7	**3,406,946**	3,323,923
Derivative financial instruments	10	**-**	16,228
Finance Lease Liability	16	**40,460**	-
Total current liabilities		**7,464,325**	5,313,880
Non-current liabilities			
Derivative financial instruments	10	**11,073,789**	7,648,111
Interest bearing liabilities	15	**132,363,488**	93,719,892
Finance Lease Liability	16	**536,626**	-
Total non-current liabilities		**143,973,903**	101,368,003
Total liabilities		**151,438,228**	106,681,883
Net assets		**152,444,332**	150,019,527
Equity			
Contributed equity	17	**127,957,520**	123,976,050
Asset Revaluation Reserve		**23,578,495**	19,444,451
Accumulated Profit	18	**908,317**	6,599,026
Total equity		**152,444,332**	150,019,527

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of changes in equity

	Contributed Equity	Accumulated Profits	Revaluation Reserve	Total Equity
	$	$	$	$
Balance at 1 July 2018	121,571,210	2,904,713	16,161,761	140,637,684
Profit for the year	-	16,740,034	-	16,740,034
Other comprehensive income for the period	-	-	3,452,978	3,452,978
Total Comprehensive income for the period	-	16,740,034	3,452,978	20,193,012
Transactions with owners in their capacity as owners:				
Issue of new units (net of capital raising costs)	3,808,025	-	-	3,808,025
Redemption of units	(1,403,185)	-	-	(1,403,185)
Distributions provided for or paid (Note 7)	-	(13,216,009)	-	(13,216,009)
Transfer of reserve to retained earnings	-	170,288	(170,288)	-
Balance at 30 June 2019	123,976,050	6,599,026	19,444,451	150,019,527
Balance at 1 July 2019	**123,976,050**	**6,599,026**	**19,444,451**	**150,019,527**
Profit for the year	**-**	**7,804,883**	**-**	**7,804,883**
Other comprehensive income for the period	**-**	**-**	**4,134,044**	**4,134,044**
Total Comprehensive income for the period	**-**	**7,804,883**	**4,134,044**	**11,938,927**
Transactions with owners in their capacity as owners:				
Issue of new units (net of capital raising costs)	**4,164,592**	**-**	**-**	**4,164,592**
Redemption of units	**(183,121)**	**-**	**-**	**(183,121)**
Distributions provided for or paid (Note 7)	**-**	**(13,495,592)**	**-**	**(13,495,592)**
Balance at 30 June 2020	**127,957,521**	**908,317**	**23,578,495**	**152,444,333**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of cash flows

	Notes	**30 June 2020 $**	30 June 2019 $
Cash flows from operating activities			
Property rental receipts		**29,099,184**	23,516,651
Payments to suppliers		**(9,110,636)**	(5,428,081)
Interest received		**21,077**	17,829
Finance costs paid		**(4,323,847)**	(3,565,747)
Net cash inflow from operating activities	20	**15,685,778**	14,540,652
Cash flows from investing activities			
Payments for investment properties		**(35,881,329)**	(9,390,173)
Payments for agricultural assets		**(1,893,287)**	(1,768,659)
Payments of plant and equipment		**(1,219,167)**	(422,976)
Net cash outflow from investing activities		**(38,993,783)**	(11,581,808)
Cash flows from financing activities			
Proceeds of borrowings		**38,627,430**	8,430,122
Proceeds from issue of units (net of capital raising costs)		**4,164,592**	3,808,025
Payment of redemption of units		**(183,121)**	(1,403,186)
Distributions paid to unitholders		**(13,412,570)**	(13,162,473)
Net cash (outflow)/ inflow from financing activities		**29,196,331**	(2,327,512)
Net increase/ (decrease) in cash and cash equivalents		**5,888,326**	631,332
Cash and cash equivalents at the beginning of the financial year		**1,929,154**	1,297,822
Cash and cash equivalents at the end of the year	8	**7,817,480**	1,929,154

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

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1 General information

These financial statements for the full year reporting period ended 30 June 2020, cover Arrow Primary Infrastructure Fund which is an unlisted managed investment scheme registered and domiciled in Australia.

The Responsible Entity of the Fund during the financial year Arrow Funds Management Limited ("Arrow").

The financial statements were authorised for issue by the directors of Arrow on 20 August 2020. The directors of Arrow have the power to amend and reissue the financial statements.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Arrow Primary Infrastructure Fund is a for-profit unit trust for the purpose of preparing the financial statements.

The financial report has been prepared on an accruals and historical cost basis except for non-current assets classified as held for sale, investment property, agricultural assets, financial assets at fair value through profit or loss and derivative financial instruments which are measured at fair value. Cost is based on the fair value of consideration given in exchange for assets. Comparative information is reclassified where appropriate to enhance comparability.

The Fund meets the definition of an investment entity under AASB 10 *Consolidation* and as such, investments are accounted for under AASB 9 *Financial Instruments* or AASB 140 *Investment Property.*

Compliance with International Financial Reporting Standards

The financial statements of the Fund comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(b) New standards adopted as at 1 July 2019

AASB 16 Leases has been adopted from 1 July 2019. The standard replaces AASB 117 'Leases' and, for lessees, eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). For lessors, the standard does not substantially change how a lessor accounts for leases.

In the case of the Fund's Cobbitty glasshouse, the Fund is a lessee as it has a head-lease with the University of Sydney to lease the land upon which the glasshouse is situated, which therefore requires the head-lease to be recorded as a right-of-use asset on the balance sheet of Arrow with a corresponding lease liability. Given this lease is then sub-leased to the tenant and considered to be a finance lease under AASB 16, the right-of-use asset has been immediately derecognised and replaced with a finance lease receivable. As a result, the present value of expected future lease payments have been recognised as a Finance Lease Receivable and a corresponding Finance Lease Liability in the Balance Sheet.

The adoption of AASB 16 has had no material effect on accounting for the Fund's properties as a lessor. Arrow considers that all of its leases with tenants are operating leases based on example criteria provided in AASB 16, as shown below:

- The lease transfers ownership of the underlying asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the underlying asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised;
- The lease term is for the major part of the economic life of the underlying asset even if title is not transferred;
- At the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset; and
- The underlying asset is of such a specialized nature that only the lessee can use it without major modifications.

2 Summary of significant accounting policies (continued)

(c) Investment property

Investment property is real estate investments held to earn long-term rental income and for capital appreciation. Investment properties are carried at fair value determined either by the Directors or independent valuers with changes in fair value recorded in the profit or loss. Investment properties are not depreciated.

Land and buildings (including integral plant and equipment) that comprise investment property are not depreciated. The carrying amount of investment properties may include the cost of acquisition, additions, refurbishments, redevelopments, improvements, lease incentives, assets relating to fixed increases in operating lease rental in future periods and borrowing costs incurred during the construction period of qualifying assets.

Although integral components of investment property, water licences and agricultural assets are recognised separately as intangible assets and agricultural assets respectively. Accordingly, investment property includes only land and infrastructure.

Investment properties are valued at fair value, being the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions.

The Responsible Entity may determine the requirement for a valuation at any time but has adopted a valuation program that provides for each property to be independently valued by suitably qualified valuers at least once every three years. Changes in market conditions may necessitate more frequent independent revaluations of properties.

The present value of net future cash flow projections are based on reliable estimates of future cash flows, derived from existing lease contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of cash flows.

The capitalisation of net rental income projections are based on properties' estimated net market income, which is assumed to be a level annuity in perpetuity, and a capitalisation rate derived from analysis of market evidence. Reversions associated with short-term leasing risks/costs, incentives and capital expenditure may be deducted from the capitalised net income amount.

The principal assumptions underlying independent valuations of fair value include those related to the amount of contractual rentals, maintenance and capital expenditure requirements, and appropriate discount rates. The expected future market rentals are based on current market rentals.

A direct comparison approach involves the advice from an approved external valuer to make an assessment of fair value based on market sales evidence and the current status of the individual property.

(d) Agricultural assets

Agricultural assets are measured at fair value less point of sale costs and subsequent depreciation.

Any revaluation surplus arising upon appraisal of the agricultural assets is recognised in other comprehensive income and credited to the asset revaluation reserve in equity. To the extent that any revaluation decrease or impairment loss has previously been recognised in profit or loss, a revaluation increase is credited to profit or loss with the remaining part of the increase recognised in other comprehensive income.

Downward revaluations of the agricultural assets are recognised upon appraisal or impairment testing, with the decrease being charged to other comprehensive income to the extent of any revaluation surplus in equity relating to this asset and any remaining decrease recognised in profit or loss. Any revaluation surplus remaining in equity on disposal of the asset is transferred to retained earnings.

Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the re-valued amount of the asset.

The investment properties which include agricultural assets are subject to long term leases. These properties are carried at independent valuations. The capitalisation of future cash flows method of valuation is used to determine the fair value less estimated point of sale costs of the agricultural assets based on the nature of tenants long term leases.

The valuation of investment properties which include agricultural assets and water licences is assessed on an aggregate basis and the independent valuer may or may not separate the valuation into components which are required to be separately disclosed in the financial statements in order to meet Australian Accounting Standards. The carrying amount of each component of property is determined by independent valuers.

Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value of the asset. The agricultural assets are depreciated over useful lives of 20 to 30 years.

2 Summary of significant accounting policies (continued)

(e) Intangible assets

Water licences are recognised at cost less impairment losses. Water licences have an indefinite useful life and are thus not subject to amortisation but are tested for impairment by comparing their recoverable amount with their carrying amount. Water licences are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired.

(f) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(g) Revenue

Revenue arises mainly from the rendering of fund Management services. To determine whether to recognise revenue, the company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied

The Fund should recognise revenue as the performance obligations are satisfied. A performance obligation is satisfied when control of the underlying goods or services for that particular performance obligation is transferred to the customer. ‘Control’ is defined as ‘the ability to direct the use of and obtain substantially all of the remaining benefits from the asset’ underlying the good or service. Control can transfer, and hence revenue be recognised over time or at a point in time.

Rental income from operating leases is recognised as income on a straight-line basis over the lease term. Where a lease has fixed annual increases, the total rent receivable over the operating lease is recognised as revenue on a straight-line basis over the lease term. This results in more income being recognised early in the lease term and less late in the lease term compared to the lease conditions. The difference between the lease income recognised and the actual lease payments received is shown within the fair value of the investment property on the balance sheet.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, are only recognised when contractually due.

Interest income is recognised in the statement of profit or loss and other comprehensive income using the effective interest rate method.

Other income is recognised when the right to receive the revenue has been established.

All income is stated net of goods and services tax (GST).

(h) Financial instruments

Recognition, initial measurement and recognition

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the financial instrument, and are measured initially at fair value.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- Amortised cost
- Fair value through profit or loss (‘FVPL’)
- Equity instruments at fair value through other comprehensive income (‘FVOCI’)
- Debt instruments at fair value through other comprehensive income (‘FVOCI’)

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables, which is presented within other expenses.

2 Summary of significant accounting policies (continued)

(h) Financial instruments (continued)

Financial assets at amortised costs

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Fund's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVPL. The Fund's derivative financial instruments are classified at FVTPL.

The Fund does not have financial assets in the category of equity and debt FVOCI.

Impairment of Financial assets

AASB 9's impairment requirements use more forward looking information to recognise expected credit losses - the 'expected credit losses (ECL) model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under AASB 15.

The Fund makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance at the amount equal to the expected lifetime credit losses. In using this practical expedient, the company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

Classification and subsequent measurement of financial liabilities

As the accounting for financial liabilities remains largely unchanged from AASB 139, the Fund's financial liabilities were not impacted by the adoption of AASB 9. However, for completeness, the accounting policy is disclosed below.

The Fund's financial liabilities include trade and other payables and derivative financial instruments.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

(i) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(j) Income tax

Under current legislation, the Fund is not subject to Australian income tax provided its taxable income is fully distributed to unitholders.

2 Summary of significant accounting policies (continued)

(k) Distributions

In accordance with the Fund Constitution, the Fund distributes income adjusted for amounts determined by the Responsible Entity. The distributions are recognised within the balance sheet and statement of changes in equity as a reduction in accumulated profit.

(l) Provisions

A provision is recognised when the Fund has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value of the Responsible Entity's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

(m) Applications and redemptions

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of units redeemed.

(n) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of the GST incurred is not recoverable from the relevant taxation authority. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the statement of financial position are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables and payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(o) Critical accounting estimates and judgements

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Critical judgements in applying the accounting policies - Interest rate swaps

All the interest rate swaps are entered into to hedge interest rate risks by converting floating rate debt to fixed interest rates. The Directors of the Responsible Entity have decided not to follow the documentation and other requirements of AASB 9: Financial Instruments that are necessary in order to classify the interest rate swaps as cash flow hedges. This has had the effect of recognising movements of the interest rate swaps in the statement of comprehensive income rather than equity.

(ii) Fair value of investment properties and agricultural assets

Fair value of investment property and agricultural assets are the prices at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. A “willing seller” is not a forced seller prepared to sell at any price. Investment property and agricultural assets are revalued at the end of each reporting period to reflect their fair value according to the Fund's accounting policy on valuing assets and applying generally accepted valuation criteria, methodology and assumptions. Assumptions used in determining fair value have been disclosed in Note 11 and 13.

(iii) Determination of components of agricultural properties

The Fund has a policy of obtaining periodic independent valuations for all properties. Generally, independent valuer advice is sought on the separate valuation components of each property: investment property, agricultural assets and water licences, which are required by Australian Accounting Standards to be separately disclosed in the financial statements. Where an independent valuer does not separate the valuation into the various components, the valuation is split between investment property and agricultural assets with reference to the independent valuation data for similar properties.

2 Summary of significant accounting policies (continued)

(o) Critical accounting estimates and judgements (continued)

Unless specifically detailed in a contract of sale, the proceeds on disposal of a property in the Fund is calculated on a proportional basis according to the carrying value of each component.

(iv) Useful lives of agricultural assets

The Fund reviews its estimate of the useful lives of agricultural assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to tree health and environmental factors that may change the utility of the assets.

(p) New accounting standards and interpretations

The Fund has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

(q) Rounding of amounts

The Fund is a type of entity referred in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and therefore the amounts contained in the financial report and directors' report have been rounded to the nearest dollar, or in certain cases, to the nearest $1,000.

3 Financial risk management

The Fund's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most important types of financial risk to which the Fund is exposed to, are market risk, credit risk and liquidity risk. The exposure to each of these risks, as well as the Fund's policies and processes for managing these risks are described below.

(a) Market risk

Market risk embodies the potential for both loss and gains and includes currency risk, interest rate risk and other price risk. The Fund's strategy on the management of investment risk is driven by the Fund's investment objective. The Fund's market risk is managed as required by the Responsible Entity in accordance with the investment guidelines as outlined in the Fund's Product Disclosure Statement ('PDS').

(i) Price risk

Arrow Funds Management Limited, the Responsible Entity of the Fund, has undertaken not to charge a number of fees that it may become entitled to charge under the Fund's Constitution, being the withdrawal fee, asset acquisition fee, asset disposal fee and the performance fee. Accordingly, the Fund is not exposed to price risk in relation to fees.

(ii) Cash flow and fair value interest rate risk

The Fund's cash and cash equivalents, floating rate borrowings and interest rate swaps expose it to a risk of change in the fair value or future cash flows due to changes in interest rates. The specific interest rate exposures are disclosed in the relevant notes to the financial statements.

The Fund hedges a portion of its exposure to changes in interest rates on variable rate borrowings by using floating-to-fixed interest rate swaps. By hedging against changes in interest rates, the Fund has limited its exposure to changes in interest rates on its cash flows. The portion that is hedged is set by the Responsible Entity and is influenced by the hedging requirements of the Fund's debt facility, and the market outlook.

The Fund's exposure to interest rate risk at reporting date, including its sensitivity to changes in market interest rates that were reasonably possible, was as follows:

3 Financial risk management (continued)

	2020 $	2019 $
Financial assets		
Cash and cash equivalents - floating interest rate	**7,817,480**	1,929,154
Financial liabilities		
Derivative financial instruments (notional principal amount) - fixed rate		
- interest rate swaps	**(77,200,000)[(1)]**	(77,500,000)[(1)]
- Interest bearing liabilities - floating interest rate	**132,000,000**	93,500,000
	54,800,000	16,000,000
Net exposure to interest rate risk	**46,982,520**	14,070,846
Sensitivity of profit or loss to movements in market interest rates for derivative instruments with fair value risk:		
Market interest rate increased by 100 basis points	**6,995,800**	2,132,300
Market interest rate decreased by 100 basis points	**(6,995,800)**	(2,132,300)

(1) On 16 July 2020, a 52,500,000 swap matured and an additional interest rate derivative swap of 52,500,000 commenced.

	2020 $	2019 $
Sensitivity of profit or loss to movements in market interest rates for financial instruments with cash flow risk:		
Market interest rate increased by 100 basis points	**(469,825)**	(140,708)
Market interest rate decreased by 100 basis points	**469,825**	140,708

The interest rate range for sensitivity purposes has been determined using the assumption that interest rates changed by +/- 100 basis points (1.0%) from year end rates with all other variables held constant. In determining the impact of an increase/decrease in equity to unitholders arising from market risk the Responsible Entity has considered prior period and expected future movements of the portfolio information in order to determine a reasonable possible shift in assumptions.

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss.

The Fund's maximum credit risk exposure at balance date in relation to each class of recognised financial asset, other than equity and derivative financial instruments, is the carrying amount of those assets as indicated in the balance sheet. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at reporting date.

	2020 $	2019 $
Cash at bank	**7,817,480**	1,929,154
Other receivables	**1,202,538**	457,955
Maximum exposure to credit risk	**9,020,018**	2,387,109

3 Financial risk management (continued)

(b) Credit risk

The Responsible Entity manages credit risk and the losses which could arise from default by ensuring that parties to contractual arrangements are of an appropriate credit rating, or do not show a history of defaults. Financial assets such as cash at bank and interest rate swaps are held with high credit quality financial institutions (rated equivalent A or higher by the major rating agencies). Tenants for each of the properties held by the Fund are assessed for creditworthiness before commencing a lease, and if necessary rental guarantees are sought before tenancy is approved. Loans and receivables from third parties are secured against land and corporate and personal guarantees. This is performed to ensure that they will be able to meet interest and principal repayments. There have been no changes from previous periods.

All receivables are monitored by the Responsible Entity. If any amounts owing are overdue these are followed up and if necessary, allowances are made for debts that are doubtful.

At the end of the reporting period there are no issues with the credit quality of financial assets that are either past due or impaired, and all amounts are expected to be received in full.

(c) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund monitors its exposure to liquidity risk by ensuring that as required there is sufficient cash on hand to meet the contractual obligations of financial liabilities as they fall due. The Fund Manager sets budgets to monitor cash flows.

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period. The amounts in the table are the contractual undiscounted cash flows and includes bank line fees, margin and interest with the latter assuming the same 30 day BBSY rate used in the June rollover.

	Less than 12 months	1-2 years	Greater than 2 years
30 June 2020	**$**	**$**	**$**
Trade and other payables	**4,016,919**	**-**	**-**
Distributions payable	**3,406,946**	**-**	**-**
Interest rate swaps	**-**	**-**	**11,073,699**
Interest bearing liabilities	**5,582,984**	**132,474,171**	**-**
Contractual cash flows (excluding gross settled derivatives)	**13,006,849**	**132,474,171**	**11,073,699**
30 June 2019			
Trade and other payables	1,973,729	-	-
Distributions payable	3,323,923	-	-
Interest rate swaps	16,228	-	7,648,111
Interest bearing liabilities	3,717,036	3,717,036	93,809,753
Contractual cash flows (excluding gross settled derivatives)	9,030,916	3,717,036	101,457,864

(d) Fair value estimation

The carrying amounts of the Fund's assets and liabilities at the end of each reporting period approximate their fair values.

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in profit or loss.

3 Financial risk management (continued)

(e) Fair value hierarchy

(i) Classification of financial assets and financial liabilities

The Fund classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The tables below set out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2020 and 30 June 2019.

	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Financial assets				
Share Investments – 30 June 2020	**1,575,529**	**-**	**-**	**1,575,529**
Financial liabilities				
Interest rate swaps – 30 June 2020	**-**	**11,073,699**	**-**	**11,073,699**
Interest rate swaps – 30 June 2019	**-**	**7,664,339**	**-**	**7,664,339**

4 Revenue

	30 June 2020	30 June 2019
	$	$
Revenue includes:		
(a) Property rental recognised over time from:		
Base property rent	**21,698,822**	21,018,290
Compensation for termination of Colignan Farm lease (1)	**1,324,750**	-
Rent – expenses recoverable	**574,002**	607,571
Other rental income (recognised on a straight-line basis) (3)	**(1,805,768)**	1,440,387
Total rental income	**21,791,806**	23,066,248
(b) Other Income:		
Share Issue compensation for termination of Colignan Farm lease (2)	**1,575,529**	-
(c) Interest income recognised over time arises from:		
Cash and cash deposits	**7,952**	17,694
Interest on accrued rental income	**35,747**	**8,405**
Interest Revenue on Finance Lease	**685**	
Total interest income	**44,384**	**26,099**
(d) Agistment Income	**-**	1,430

4 Revenue (continued)

(1) Effective 11 December 2019 the Colignan Farm lease with Murray River Organics Pty Ltd (MRO) was cancelled. In consideration for terminating the lease, the Fund received compensation totalling $1,324,750 payable in two components: (a) $824,750 from the proceeds of a bank guarantee in relation to the lease obligations of MRO, which was received on 13 December 2019 and (b) $500,000 from the proceeds of a capital raising that was undertaken by Murray River Organics Group Ltd (ASX code MRG) that was received on 6 March 2020.

(2) In addition to the above compensation, the Fund also received an issue of shares in Murray River Organics equal to 5% of their share capital, valued at $1,575,529.

(3) Rental income from operating leases is recognised as income on a straight-line basis over the lease term. Where a lease has fixed annual increases, the total rent receivable over the operating lease is recognised as revenue on a straight-line basis over the lease term. This results in more income being recognised early in the lease term and less late in the lease term compared to the lease conditions. Due to the termination of the Colignan Farm lease, an adjustment of ($1,945,753) was required to rental income to reverse the previous straight-line adjustments since the beginning of the lease. This adjustment has been included in the fair value of the investment property on the balance sheet.

5 Finance costs

	30 June 2020 $	30 June 2019 $
Interest paid or payable to other persons	**4,508,042**	3,581,288
Bank fees & charges	**521**	440
Amortisation of debt establishment costs	**16,165**	67,550
Interest Expense on Finance Lease	**685**	-
Total finance costs	**4,525,413**	3,649,278

6 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Fund:

Audit and other assurance services		
Audit and review of financial statements	**47,875**	48,500
Audit of compliance plan	**3,000**	3,000
Total remuneration of audit and other assurance services	**50,875**	51,500
Other services		
Taxation advice & lodgement	**10,109**	10,500
Total remuneration	**60,984**	62,000

For the years ended 30 June 2020 and 30 June 2019, the auditor of the Fund was Grant Thornton.

7 Distributions to unitholders

The distributions paid and payable by the Fund for the year were as follows:

Distributions paid	**10,088,646**	9,892,086
Distributions payable	**3,406,946**	3,323,923
	13,495,592	13,216,009

A distribution of 2.0 cents per unit was declared for the quarter ended 30 June 2020 (2019: 2.0 cents per unit).

8 Cash and cash equivalents

The following table details the cash and cash equivalents held by the Fund at the end of the reporting period:

Cash at bank	**7,817,480**	1,929,154

9 Trade and other receivables

	30 June 2020 $	30 June 2019 $
The following table details the trade and other receivables at the end of the reporting period:		
Current:		
Accrued rent income [(1)]	**831,950**	440,555
Other receivables	**370,588**	17,400
Total Trade and other receivables	**1,202,538**	457,955

(1) Rent income accrued for Cobbitty Glasshouse under lease agreement. Payment deferred until 30 September 2020.

No other class of financial asset is past due.

10 Derivative financial instruments

The following derivative financial instruments (interest rate swap agreements) were held by the Fund at their market value at the end of the reporting period:

Current liability - Interest rate swap marked to market	**-**	16,288
Non-current liability - Interest rate swap marked to market	**11,073,789**	7,648,111
Total Derivative and financial instruments	**11,073,789**	7,664,339

It is the Fund's policy to protect part of its loans from exposure to increasing interest rates. The Fund is exposed to future BBSY rates (Bank Bill Swap), and accordingly has entered into interest rate swap contracts under which it is obliged to receive interest rate variable rates and to pay interest at fixed rates.

10 Derivative financial instruments (continued)

As at the end of the financial year, the Fund had recognised an unrealised loss on the fair value of derivative financial instruments of $3.4 million. This is due to the increased expectation that interest rates will remain lower than expected for a longer period of time.

The unrealised loss from the change in fair value of derivative financial instruments by individual swap is as follows:

	2020	2019
	$	$
Swap FV $52.5 million, maturity 16/07/2020	**16,228**	(118,074)
Swap FV $52.2 million, maturity 16/04/2030	**(2,173,776)**	(3,482,489)
Swap FV $25.0 million, maturity 17/07/2028	**(1,251,901)**	(2,636,155)
Total Derivative and financial instruments	**(3,409,449)**	(6,236,718)

In July 2020, the $52.5 million swap matured and a new swap for $52.2 million with a 5 year maturity commenced. In April 2020, the maturity date for this swap was extended out to 2030.

At the end of the financial year, the Fund had 2 interest rate swap agreements in place (2019: 3).The derivatives that were in place during the 2020 financial year provided forward cover at an average interest rate of 2.75% (2019: 2.16%) against future BBSY rates.

At 30 June 2020 the interest rate swap agreement in place covered 58% of the Fund’s interest bearing liabilities (2019: 83%).

11 Investment properties

(a) Market values of investment properties

Property		
Boronia Breeder Farms, NSW (2)	**11,250,000**	10,600,000
Lynwood Breeder Farms, NSW (2)	**12,500,000**	11,750,000
Woodleigh Breeder Farms, NSW (2)	**14,400,000**	13,750,000
Bearii Breeder Farms, VIC (2)	**4,525,000**	5,000,000
Stewarton Breeder Farm, VIC (2)	**7,550,000**	8,000,000
Nagambie Broiler Farm, VIC (2)	**5,640,000**	6,000,000
Rhynie Breeder Farm, SA (1)	**9,000,000**	9,450,000
Eumaralla Farms, NT (5) (6)	**4,026,763**	3,625,000
Katherine Packing Shed, NT (2)	**2,100,000**	1,670,000
Lake Powell Orchards Lot 2, VIC (1) (7)	**3,143,400**	3,363,600
Lake Powell Orchards Lots 5&6, VIC (1) (7)	**9,567,075**	7,031,200
Lake Powell Hub Land Lot 7, VIC (3)	**95,000**	95,000
Bidgee Complex (2)	**36,000,000**	34,600,000
Avenues Complex (2)	**19,650,000**	19,000,000
Bowlers Lane Farms (2)	**13,100,000**	12,675,000
Tangaratta Breeder Farm (2)	**4,325,000**	4,175,000
Glenara Park (2)	**5,700,000**	5,550,000
Kelso Park (2) (8)	**13,419,400**	12,869,400
Advinco Farm (4) (6)	**14,228,498**	13,520,150
Boombera Park (2) (6)	**18,585,030**	10,429,593
Cobbitty Glasshouse (2)	**10,900,000**	9,384,393
Thyra (2) (acquired in 2020 financial year)	**18,000,000**	81,733
Total market value of investment properties	**237,705,166**	202,620,069

11 Investment properties (continued)

(1) Valued at formal independent valuation conducted June 2020.
(2) Valued at independent desktop valuation conducted June 2020.
(3) Valued at independent valuation conducted March 2019
(4) Valued at formal independent valuation conducted 30 June 2020 plus investment in Advinco Farm Pty Ltd
(5) Valued at independent desktop valuation conducted June 2020 plus capitalised expenditure from 01/06/20 - 30/06/20.
(6) Excludes agricultural assets which are disclosed separately in note 13.
(7) Excludes agricultural assets and water licences which are disclosed separately in notes 12 and 13.
(8) Excludes water licences which are disclosed separately in note 12.

(b) Movements during the financial year

	30 June 2020 $	30 June 2019 $
At fair value		
Opening balance	**202,620,069**	181,664,422
Capitalised expenditure	**35,881,329**	9,390,173
Revaluations	**1,009,536**	10,125,087
Changes in fair value for straight-lining of rent adjustment	**(1,805,768)**	1,440,387
Closing balance	**237,705,166**	202,620,069

(c) Amounts recognised in profit or loss for investment properties

	30 June 2020 $	30 June 2019 $
Rental income	**21,698,822**	21,018,290
Direct operating expenses from property that generated rental income	**(1,011,370)**	(981,072)
	20,687,452	20,037,218

Direct property operating expenses includes expenses related to those properties that generated rental income during the period.

(d) Tenancy Risk

Set out below are details of the tenants who lease properties from the Fund:

Baiada Poultry Pty Limited ("Baiada") - representing 56% of rental income
Baiada is a privately owned Australian company which provides poultry products throughout Australia. It is Australia's largest producer of poultry with business operations including Broiler & Breeder Farms, Hatcheries, Processing Plants, Feed milling and Protein Recovery. Baiada is the tenant of eleven of the Fund's poultry farms.

Select Harvests Limited ("SHV") - representing 15% of rental income
SHV is an ASX listed company and a major almond grower and orchard manager. It is Australia's leading manufacturer, processor and marketer of a range of nuts and associated products to the Australian retail and industrial markets and exports almonds to Asia, Europe and the Middle East. SHV is the tenant of the Fund's two Lake Powell almond properties.

11 Investment properties (continued)

(d) Tenancy Risk (continued)

Seven Fields Operations Pty Ltd ("Seven Fields") - representing 4% of rental income
Seven Fields is a private Australian company, which is owned by Nutrano Produce Group Limited. It grows packs and markets citrus and mangos and also operates several vineyards. Seven Fields leases the Fund's Eumaralla mango farm and packing shed in Katherine, Northern Territory.

Turosi Pty Ltd – representing 4% of rental income
Turosi is a privately owned, leading food manufacturer and supplier of fresh poultry and prepared food solutions. As well as operating a number of food manufacturing facilities located around Australia, Turosi is also one of Australia's largest producers of poultry. Turosi is the tenant of Stewarton Breeder Farm.

Pace Farms Pty Ltd – representing 5% of rental income.
Pace Farm is a privately owned Australian company that provides fresh shell eggs and egg products to supermarkets, restaurants and food manufacturers. One of Australia's largest producer, marketer and distributor of shell eggs and egg products, Pace Farm is the tenant of Kelso Park.

PigCo Pty Ltd– representing 8% of rental income
PigCo is a privately owned Australian company that is a fully integrated pork producer. PigCo's business includes genetics, breeding and grow-out of pigs, with operations located across a number of sites located in Victoria and New South Wales. PigCo is the tenant of Thyra Piggery.

Green Camel Pty Ltd– representing 5% of rental income
Green Camel is a privately owned Australian company that has developed an integrated aquaculture-horticulture system for organic produce. Green Camel Pty Ltd are tenants of Fund's Glasshouse and aquaculture facility located at Cobbitty NSW.

Golden Dried Fruits 1 Pty Ltd
Golden Dried Fruits 1 Pty Ltd is an Australian private company which is a subsidiary of Australian Premium Dried Fruits, part of the Scalzo Foods Group. Golden Dried Fruits 1 Pty Ltd will be tenants of the Fund's Advinco Farm property from July 1 2020.

(e) Assets pledged as security

Refer to Note 15 for information on investment properties and other assets pledged as security by the Fund.

(f) Contractual obligations and commitments

As at 30 June 2020 the Fund had capital expenditure obligations totalling $7.3 million (2019: $22.5 million). The Fund has cash and undrawn loan facilities to cover potential obligations, and will receive a return on all capital expenditure through increased rental payments.

(g) Valuation basis

The Fund obtains independent valuations for its investment properties at least once every three years. At the end of each reporting period, the directors update their assessment of the fair value of each property, using the most recent independent valuations.

The principal assumptions underlying the fair values determined by independent valuers include those related to the amount of contractual rentals, the discount rate applied to future rentals and the estimated terminal value at the end of the lease, as well as direct comparisons with similar properties in the same location and condition and subject to similar leases. The key assumptions include the following:

	30 June 2020	30 June 2019
Discount rates	**8.0% to 10.0%**	8.5% to 10.0%
Capitalisation rates	**8.0% to 9.5%**	8.5% to 9.5%
Rental growth rate	**0.0% to 2.75%**	0.0% to 2.75%

(h) Leasing arrangements

As at 30 June 2020, all investment properties, other than the Boombera Park property, Advinco Farm (leased on 1 July 2020 to Golden Dried Fruits 1 Pty Ltd) and Hub Land at Lake Powell, were leased to tenants under long-term operating leases with rentals payable quarterly or monthly in advance. Minimum lease payments receivable on leases of investment properties are as follows:

	30 June 2020 **$**	30 June 2019 $
Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:		
Within one year	**21,937,004**	21,403,669
Later than one year but not later than 5 years	**87,748,016**	85,614,677
Later than 5 years	**178,443,197**	197,935,672
	288,128,217	304,954,018

12 Intangible assets

Water licences:		
Opening net book amount	**9,377,586**	9,377,586
Water Acquisition	**-**	-
Reversal of impairment	**-**	-
Closing net book amount	**9,377,586**	9,377,586
Cost	**9,377,586**	9,377,586
Water Acquisition	**-**	-
Accumulated impairment	**-**	-
Net book amount	**9,377,586**	9,377,586

The Fund owns 5,677 megalitres (June 2019: 5,677 megalitres) of permanent water licences, which form an integral part of the properties under long-term leases.

Water licences have an indefinite useful life as a result of their legal form and are not amortised.

13 Agricultural assets

Bearer plants (trees and vines) are an integral part of the agricultural assets that are leased to tenants under long-term leases. The Fund does not own any tree or vine crops (2019: Nil).

The Fund owned the following agricultural assets as at 30 June 2020:

(a) 138.14 ha of planted mango trees;
(b) 608.74 ha of planted almond trees;
(c) 78.13 ha of planted citrus trees;
(d) 605.3 ha of planted dried fruit vines;
(e) 285 ha of planted macadamia trees; and
(f) 189,932 macadamia trees being propagated in a third party nursery.

(a) Movement in carrying amounts

Movement in the carrying amounts for agricultural assets between the beginning and end of the current financial year:

	30 June 2020	30 June 2019
	$	$
Gross carrying amount		
Opening balance	**51,341,251**	46,492,362
Acquisition	**1,893,289**	1,768,659
Impairment of assets	**(1,164,709)**	(372,748)
Revaluation recognised in other comprehensive income	**4,134,044**	3,452,978
Closing balance	**56,203,875**	51,341,251
Depreciation and impairment		
Opening balance	**9,683,357**	7,322,873
Depreciation	**2,649,662**	2,530,772
Reversal of accumulated depreciation	**-**	(170,288)
Closing balance	**12,333,019**	9,683,357
Carrying amount	**43,870,855**	41,657,894

(b) Basis of valuations

The Fund holds agricultural investment properties which are carried at independent valuations.

The fair value of vines, mango and citrus trees are estimated according to an average per hectare market value rate by adopting a capitalisation of future cash flow method as explained in Note 2(c).

The fair value of almond trees was estimated by deducting the estimated value of land, irrigation infrastructure and water licences from the estimated fair value of the total property including water licences.

The fair value of planted macadamia trees was estimated according to an average per hectare market value rate and macadamia trees located at the nursery was deemed to be the cost paid.

The assumed fair value of almond trees was $67,000/hectare, mango trees $26,000/hectare, citrus trees $24,000 - $52,700/hectare, dried fruit vines $14,700 - $26,700/hectare, and macadamia trees $27,000/hectare, each inclusive of orchard/vineyard land, trellis and irrigation infrastructure, excluding water.

(c) Financial risk management strategies

The lessee and sub-lessees are responsible for all operating costs relating to the Fund's properties, including those related to agricultural assets, and they are the sole beneficiaries of the produce from those agricultural assets. The Fund's sole income from its investment properties (including agricultural assets) is rental revenue received under its long-term leases.

13 Agricultural assets (continued)

(c) Financial risk management strategies (continued)

Several of the leases give the tenant the right to terminate the leases should the underlying property be adversely affected by natural disaster or disease. The Directors assess risks associated with the properties and obtain insurance coverage where appropriate and cost effective.

(d) Assets pledged as security

Refer to Note 15(a) for information on agricultural assets and other assets pledged as security by the Fund.

(e) Contractual obligations

The Fund has committed to purchasing agricultural assets at a cost of $0.6 million as at 30 June 2020 (2019: $4.6 million).

14 Trade and other payables

The following table details the trade and other payables by the Fund at the end of the reporting period:

	30 June 2020	30 June 2019
	$	$
Sundry creditors and accruals	**740,273**	1,553,312
Rent received in advance	**3,276,646**	420,417
	4,016,919	1,973,729

15 Interest bearing liabilities

Non-current		
Secured:		
Tractor Loan	**392,323**	219,892
Cash Advance Loan Facility (1)	**132,000,000**	93,500,000
Unamortised borrowing costs	**(28,835)**	-
Total non-current interest bearing liabilities	**132,363,488**	93,719,892

(1) As at 30 June 2020 the Facility had a limit of $136 million and a maturity date of 31 July 2021.

(a) Assets pledged as security

The bank facilities are secured by a registered first mortgage over the properties and water licences owned by the Fund.

The carrying amounts of assets pledged as security are:

Investment properties	**235,850,793**	202,443,337
Water licences	**9,377,586**	9,377,586
Agricultural assets	**41,352,978**	41,657,894
	286,581,357	253,655,549

15 Interest bearing liabilities (continued)

(b) Financing arrangements

	30 June 2020	30 June 2019
	$	$
The Fund had the following loan facilities available at year-end:		
Facility Limit	**136,000,000**	120,000,000
Drawn amount	**(132,000,000)**	(93,500,000)
Undrawn facility	**4,000,000**	26,500,000

(c) Covenants

The covenants over the Cash Advance Loan Facility require an interest cover ratio of greater than 2.5 times (2019: 2.5 times) and a loan to market value of investment properties ratio of less than 65% (2019: 65%). The Fund was in compliance with its covenants as at 30 June 2020 and 30 June 2019.

16 Finance Leases

Finance Lease Receivable		
Opening Balance	**-**	-
Commencement of Cobbitty glasshouse head lease	**605,001**	-
Present value of rent receivable offset against finance lease liability	**(27,230)**	
Interest revenue on finance lease receivable	**(685)**	-
Closing Balance	**577,086**	-

Finance Lease Liability		
Opening Balance	**-**	-
Commencement of Cobbitty glasshouse head lease	**(605,001)**	-
Present value of rent receivable offset against finance lease liability	**27,230**	-
Interest expenses on finance lease liability	**685**	-
Closing Balance	**(577,086)**	-

17 Contributed equity

Movement Year ended 30 June 2019	**Number of units**	**$**
Opening Balance	163,639,996	121,571,210
Issue of new Ordinary units – Dividend Reinvestment Plan	4,391,356	3,808,025
Redemption of units	(1,711,327)	(1,403,185)
Closing Balance	166,320,025	123,976,050

Movement Year ended 30 June 2020		
Opening Balance	**166,320,025**	**123,976,050**
Issue of new Ordinary units – Dividend Reinvestment Plan	**4,612,628**	**4,164,592**
Redemption of units	**(214,010)**	**(183,121)**
Closing Balance	**170,718,643**	**127,957,521**

17 Contributed equity (continued)

As stipulated in the Fund's Constitution, each unit represents a right to an individual unit in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

Capital management

The objective of the Fund is to provide unitholders with regular tax advantaged income distributions and moderate capital growth over the longer term. The Fund aims to achieve this objective mainly through investing in property and infrastructure assets used in the primary production industry, with a particular focus on Australian horticulture.

The Fund aims to invest to meet the Fund's investment objectives while maintaining sufficient liquidity to meet its commitments. The Responsible Entity regularly reviews the performance of the Fund, including asset allocation strategies, investment and operational management strategies, investment opportunities, performance review, and risk management.

18 Accumulated profits

	30 June 2020 $	30 June 2019 $
Movements in accumulated profits were as follows:		
Opening accumulated profits/ (losses)	**6,599,026**	2,904,712
Net profit for the year	**7,804,883**	16,740,034
Distribution paid or payable	**(13,495,592)**	(13,216,009)
Transfer of reserve to retained earnings		170,288
Closing accumulated profits	**908,317**	6,599,026

19 Related party disclosures

Responsible entity

The Responsible Entity or its related parties are entitled to receive fees from the Fund, or in relation to the Fund, in accordance with the Fund's Constitution.

The following transactions occurred with Arrow Funds Management Limited as the Responsible Entity or its related parties:		
Management fees paid or payable by the Fund to the Responsible Entity	**2,846,188**	2,422,366
Asset management fees paid or payable by the Fund to Agri Management Pty Ltd (1)	**437,369**	373,500
Compliance services paid or payable to Compliance Risk Services Pty Ltd (2)	**15,000**	15,000
Aggregate amounts payable at the end of the year to Arrow Funds Management Limited as the Responsible Entity or its related parties:		
Responsible Entity – management fee	**3,384**	8,479

(1) Agri Management Pty Ltd is a director related party.
(2) Compliance Risk Services Pty Ltd is a director related party.

19 Related party disclosures (continued)

Key management personnel

(a) Directors

Key management personnel include the following two executive directors of Arrow Funds Management Limited, who each held office throughout the financial year:

Andrew Ashbolt
Matthew Reid

No compensation was paid directly by the Fund to any key management personnel of the Responsible Entity. Payments made by the Fund to the Responsible Entity do not specifically include any amounts attributable to the compensation of key management personnel.

An independent director of Arrow Funds Management Limited, Murray Jones, also acts as Chairman of the Compliance Committee and was paid a total of $11,000 by the Fund for undertaking that role during the year ended 30 June 2020 (2019: $11,000).

An alternative director of Arrow Funds Management Limited, Gerald O'Byrne, also acts as an independent member of the Compliance Committee. He was paid a total of $10,000 by the Fund for undertaking that role during the year ended 30 June 2020 (2019: $10,000).

(b) Key management personnel loan disclosures

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

(c) Other transactions with the Fund

No key management personnel have entered into a material contract with the Fund during the financial year and there were no material contracts involving key management personnel's interests existing with the Fund at year end.

(d) Related party unit holdings

The following related parties held units in the Fund during the financial year:

	Distributions paid/payable by the Fund		**Unit holding**		**Interest held**	
	2020 $	2019 $	**2020 Units**	2019 Units	**2020 %**	2019 %
Agri Management Pty Ltd	**880,000**	880,000	**11,000,000**	11,000,000	**6.4%**	6.6%
AH & RH Ashbolt	**244,164**	210,292	**3,186,898**	2,896,464	**1.8%**	1.7%
Reid Advisory Pty Ltd	**46,500**	42,562	**604,581**	554,188	**0.4%**	0.3%
MJJ Nominees Pty Ltd	**36,204**	27,320	**470,714**	431,467	**0.3%**	0.3%

20 Reconciliation of profit to net cash inflow from operating activities

	30 June 2020 $	30 June 2019 $
Profit for the year	**7,804,884**	16,740,034
Issue of MRG shares	**(1,575,529)**	
Straight lining adjustment on rental income	**1,805,768**	(1,440,387)
Amortisation of borrowing costs	**16,165**	67,550
Net changes in fair value of investment properties	**(1,009,536)**	(10,125,087)
Depreciation of agricultural assets	**2,649,662**	2,530,772
Depreciation on Plant & Equipment	**227,147**	134,010
Loss on impairment of assets	**1,164,709**	202,460
Net (gain)/loss on derivative financial instruments	**3,409,450**	6,236,718
Changes in operating assets and liabilities:		
(Increase)/ decrease in receivables and prepayments	**(850,131)**	(451,023)
(Decrease)/increase in payables	**2,043,189**	645,605
Net cash inflow from operating activities	**15,685,778**	13,917,702

21 Contingent assets and liabilities

There were no outstanding contingent assets or liabilities as at 30 June 2020 (2019: Nil).

22 Events occurring after the reporting period

The Directors are not aware of any matter or circumstance that has arisen since 30 June 2020 that has significantly affected, or may significantly affect, the Fund's operations, the results of those operations or the state of the affairs of the Fund in future financial years, other than those matters stated in this report.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

(a) the financial statements and notes set out on pages 6 to 31 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

   (ii) giving a true and fair view of the Fund's financial position as at 30 June 2020 and of its performance for the financial year ended on that date, and

(b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable, and

(c) Note 2(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors.

Andrew Ashbolt
Director

Melbourne
20 August 2020

Grant Thornton

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Independent Auditor's Report

To the Members of Arrow Primary Infrastructure Fund

Report on the audit of the financial report

Opinion

We have audited the financial report of Arrow Primary Infrastructure Fund (the Fund), which comprises the statement of financial position as at 30 June 2020, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Fund is in accordance with the *Corporations Act 2001*, including:

a Giving a true and fair view of the Fund's financial position as at 30 June 2020 and of its performance for the year ended on that date; and

b Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Fund in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial report and auditor's report thereon

The Directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the Fund's directors' report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors of the Responsible Entity for the financial report

The Directors of the Responsible Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors of the Responsible Entity are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors of the Responsible Entity either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

Grant Thornton Audit Pty Ltd
Chartered Accountants

B A Mackenzie
Partner – Audit & Assurance

Melbourne, 20 August 2020