Arrow

Fund Update – 24 August 2021

Arrow Primary Infrastructure Fund

Dear Investor

FY2021 Financials

The Fund's Annual Report for FY2021 has been released and can now be downloaded from our website.

I'm pleased to report that the Fund has produced an exceptional result for FY2021.

The total rate of return for investors for the year ended 30 June 2021 was 32.9%. Distributions over the last 12 months yielded a return of 9.8% per annum and capital growth in the Fund's NAV was 23.1% per annum.

Whilst the capital growth was higher than normal it was expected, and reflects our focus on good quality Australian primary production properties over a number of years.

Over the last 5 years the Fund has achieved a total return for investors of 20.0% per annum and has achieved 16.5% per annum since we first started managing this Fund in FY2011.

Highlights of the FY2021 result include:

- Independent property valuation increases of $29 million for the year compared with $1 million in the previous year;
- A net unrealised gain on the Fund's interest rate derivatives of $5 million compared with a loss of $3 million in the previous year;
- Base property rental income increased by 2.4% to $22.216 million;
- Reduced finance costs due to lower interest rates (average rate 3.2% per annum versus last year 3.9% per annum);
- Weighted Average Lease Expiry (WALE) has increased to 16.4 years at 30 June 2021; and
- At year-end the Net Asset Value (NAV) was $1.0995 per unit compared to $0.8930 last year.

Investment in agricultural property has recently shown both its resilience and counter cyclical characteristics and is now finally being recognised in its own right rather than being classified as an "alternative" asset class and discounted accordingly.

The large increase in property valuations in the current year is a reflection of our independent valuers recognising the increased demand for good quality Australian agricultural properties subject to lease, resulting in them tightening (i.e. reducing) the rental capitalisation rates now being used for valuing leased agricultural properties.

We have been pro-active in managing the Fund's portfolio and have remained focussed on improving the long-term value of each asset. In FY2021, we negotiated a number of variations to the Fund's existing poultry leases, which now include $45.5 million of new capital development works which will be undertaken over the next 18 months together with significant extensions in lease terms.

As a consequence, the Fund's weighted average lease expiry (WALE) has now increased from 12.1 years out to 16.4 years as at 30 June 2021. The proposed new capex will add significant long term value to these properties as well as increase future rent received, providing a better return on capital than simply adding a new property in the current inflated market.

In the same vein, we have continued with the development of the Fund's Boombera Park macadamia property and held off leasing this property until we get closer to commercial nut production. Whilst receiving no rental return on this significant investment is a short-term dent to the Fund's revenue line, we believe that leasing the developed property will prove the better long-term strategy.

Arrow Funds Management Limited ACN 146 671 276
Level 25, 360 Collins Street Melbourne VIC 3000
(03) 9691 5447 enquiries@arrowfunds.com.au www.arrowfunds.com.au

Normalised earnings (net profit for the year excluding statutory non-operating accounting adjustments) was down by 6.7% to $14 million (8.1 cents per unit), due to Boombera Park macadamia property not generating any income at this stage.

There were 4.6 million new units issued in the Fund during the year, all issued under the Fund's Distribution Reinvestment Plan, which as at 30 June 2021 was supported by 31% of our investors.

COVID-19

All news in the last 12 months has been dominated by COVID-19 and unfortunately the pandemic is not currently showing any signs of easing up. We are however, very fortunate that our Fund is invested in properties that are focussed on producing quality Australian food. Not only has our Federal and State Governments recognised food as an essential industry but investors and the general population are now realising that reliance on overseas imported products and produce comes with significant risk.

COVID-19 travel restrictions, the lack of international back-packer labour and significant increases in freight costs are all current headwinds for the food industry in Australia. However, the increasing demand for good quality Australian food produce is an overwhelming positive that gives us continuing confidence in our investment strategy.

Tax Statements

Tax Statements for FY2021 are currently being finalised and we expect that they will be emailed/posted to all investors early in September. We expect the tax deferred component for FY2021 to be greater than 60% compared to 48% last year. The tax deferred component arises due to the Fund being able to pass on to its unit holders the depreciation that can be claimed on its assets, which this year has been significantly increased due to the instant write off available for depreciable plant & equipment. The deferred tax amount is not subject to income tax but must be deducted from each investor's cost base of their investment.

Outlook

As previously mentioned, the COVID-19 pandemic is continuing to cause major trauma to the Australian economy, its workforce and population. The health and safety of our staff remains our priority and we have procedures in place to ensure safe work practices and to reduce the risk of COVID-19. Fortunately all of the Fund's properties have been able to remain open and continue to operate under the varying COVID-19 isolation restrictions in force around Australia.

It is now apparent that business and the domestic economy will not return to "normal" until the majority of the Australian population is vaccinated. It certainly is a different world than we were living in just 18 months ago. It is impossible to make any predictions as to when conditions will improve.

Most economists are predicting that interest rates will remain at their current low levels for some time. We will continue to utilise interest rate derivatives to maintain a minimum cover for 50% of the Fund's interest rate exposure, which is in the middle of our benchmark range of 25% to 75%.

We remain confident in the outlook for each of the specific primary industries and properties in which we have invested. All of our properties are in good shape and are being well managed by our tenants.

It remains our plan to lease the Boombera Park property prior to commencement of commercial nut production and we will resume discussions with potential tenants as soon as COVID conditions abate.

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

Thank you for your continued support.

Regards

ANDREW ASHBOLT
MANAGING DIRECTOR