



Fund Update – 26 August 2024

Arrow Primary Infrastructure Fund

Dear Investor

FY2024 Financials

I'm pleased to report that, despite some challenging economic conditions, our Fund has performed well in the financial year to 30 June 2024.

Higher interest rates this year have impacted the Fund's profit, with the Fund's average interest rate for FY2024 being 5.2% compared to 4.4% last year. This increase would have been greater but for the \$77.2 million of interest rate derivatives held by the Fund, which kept more than 40% of our interest rate exposure at lower, fixed rates.

During FY2024, the Fund increased borrowings to support continued capital development works at the Fund's poultry properties and at Boombera Park Macadamias, where we spent \$16.5 million and \$8.4 million respectively. The combined result of increased interest rates together with increased borrowings meant that finance costs for FY2024 ended up \$2.1 million more than the previous year.

These additional borrowing costs impacted normalised earnings for FY2024 (profit excluding non-operating adjustments such as property revaluations, movements in derivatives and non-cash items), which came in at \$11.9 million, down \$0.4 million on the FY2023 result.

Base rent received by the Fund in FY2024 (excluding Boombera Park) was \$26.0 million, up 7.4% compared to last year.

Also on the positive side, independent valuations of the Fund's properties have continued to increase, confirming the value that has been created from our significant capital development works over the last few years.

Over the last twelve months, the value of the Fund's property portfolio has risen by \$27.9 million to \$417.6 million at 30 June 2024. This was from a combination of \$24.9 million from capex and \$3.0 million from value appreciation.

The Boombera Park property continues to be carried at cost, which we believe is appropriate whilst the trees are still immature. Although fundamental development work at the Fund's Boombera Park property is complete, we continue to invest in some site improvements. It is still several years away from being cash flow positive due to the time it takes for young trees to produce a commercial crop. Whilst this is a drain on cash earnings, value is being created as the trees mature. This property remains an excellent asset for the Fund and we intend to maximise its value for our investors, either via a sale or lease to a third party once the tree maturity supports an optimal valuation.

The Fund's tenant at its Cobbitty Glasshouse in Sydney, Green Camel Pty Ltd, entered into Voluntary Administration in July 2024. We are working closely with the Administrators to ensure that the glasshouse remains operational, so that a new tenant can commence as soon as possible. The Fund owns 100% of all improvements on the Cobbitty site, which was the only operation carried on by Green Camel. We have brought in a glasshouse expert and have provided a loan to the Administrators to fund ongoing operations and to ensure that the best operational decisions are made at this critical time. We have also written down the carrying value of this investment property, which represents only 1.9% of the Fund's total property portfolio as at 30 June 2024.

The Fund's Net Asset Value per unit (NAV) was \$1.2290 at 30 June 2024, which was up slightly from last year's \$1.2223.

Arrow chose to maintain the Fund's distribution rate of 8.0 cents per unit for FY2024, even though that was greater than normalised earnings of 6.32 cents per unit. We recognise that this represents 127% of normalised earnings for the current year. The Board determined to retain distributions at the current level on the basis that the capital value of the Fund will be uplifted in the future from its investment in Boombera Park.

Under Arrow's management, the total rates of return per annum for investors to 30 June 2024 have been as follows:

Fund Performance	10 Years	5 Years	3 Years	1 Year
Income Return (% pa)	10.40	8.26	7.24	6.66
Capital Return (% pa)	6.59	6.38	3.78	0.55
Total Return (% pa)	16.99	14.63	11.02	7.21

A full copy of the Fund's Annual Report may be downloaded from our website by clicking here: [Fund's Annual Report for FY2024](#)

Also included on our website is a snapshot of the Fund as at 30 June 2024, which includes some of the financial metrics discussed below. It may be downloaded by clicking here: [Fund Snapshot](#)

Key Financial Metrics for FY2024:

	This Year	Last Year	Change
Base Rent (ex. Boomberra) *	\$26.0m	\$24.2m	+ 7.4%
Normalised Earnings *	\$11.9m	\$12.3m	- 3.4%
NTA	\$1.2290	\$1.2223	+ 0.5%
Gross Assets	\$429.4m	\$402.8m	+ 6.6%
WALE	14.7 years	15.5 years	- 5.2%
EPU	6.3 cents	6.7 cents	- 6.0%
DPU	8.0 cents	8.0 cents	unchanged
Total Borrowings	\$191.0m	\$169.5m	+ 12.7%
LVR	45.75%	43.5%	+ 5.2%
Hedging	40.4%	45.5%	- 11.2%

* Rent from Boomberra Park has been excluded from Base Rent & Normalised Earnings as it is not received from a third party.

Highlights for the year include:

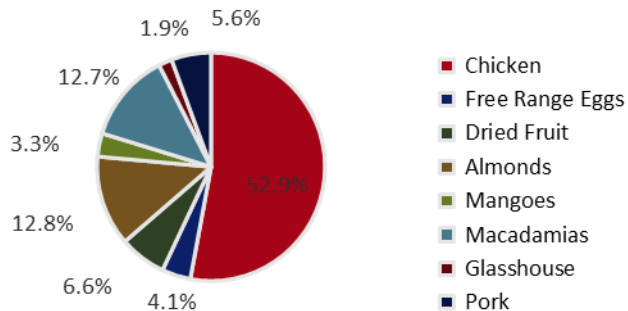
- Base property rental income (excluding Boomberra Park) increased by 7.4% to \$26.0 million;
- Weighted Average Lease Expiry (WALE) of the Fund's portfolio was 14.7 years at 30 June 2024;
- Continued capital development works with a further \$24.9 million invested in the Fund's existing properties;
- Property values increased by \$27.9 million for the year compared with \$13.1 million last year;
- The average interest rate paid by the Fund was 5.2% per annum, compared to last year 4.4%, and total finance costs increased by \$2.1 million due to increased borrowings and higher interest rates;
- Normalised earnings were down by 3.4%, due to increased borrowings and higher interest rates;
- During the year there were 4.0 million new units issued under the Fund's Distribution Reinvestment Plan (DRP), making a total of 189.1 million issued units as at 30 June 2024. Total new capital raised by the DRP in FY2024 was \$5.0 million compared to \$6.0 million in the previous year. The DRP is currently supported by approximately 20% of our investors;

- As at year-end the Fund had drawn borrowings of \$191.0 million with interest rate swap agreements covering \$77.2 million (40.4% hedged). The Swap contracts are for an average 5.2 years at an average BBSY rate of 2.40%.

Fund Portfolio

Our strategy is to invest in sustainable, leading Australian primary industries in top-quartile properties with leading industry tenants. We are focussed on those industries in which Australian producers have a long-term advantage.

Sector diversification as at 30 June 2024



The Fund's two major sectors of investment are in poultry and nuts.

The Fund has 57% of its portfolio invested in the poultry meat and egg industries. This is a long-term and deliberate strategy. The poultry industry has continued to perform well, with production growing consistently over the last 15 years at around 3-4% per annum.

The Fund's investment in nut industries (almonds and macadamias) currently represents 25% of the portfolio.

Outlook

Interest rates appear to have peaked, however, there are mixed views on the timing of any reduction, which is likely to be minor in FY2025. The forward markets are currently indicating that rates will reduce by approximately 1% over the next two years and then remain at that lower level.

We expect the values for well-managed agricultural/horticultural properties to remain relatively strong, due to the continuing attractiveness of the food sector and the relatively low value of the Australian dollar. In our sectors of investment, the number of properties on the market have remained static, however, there appears to be less buyers at present.

Following interest from a couple of prospective parties, we recently ran an expressions of interest campaign for the sale or lease of Boombera Park. We were unsatisfied with the results of that campaign and will continue to remain focussed on improving the long-term value of that property to provide the best return for our investors.

Tax Statements

Tax Statements for FY2024 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 FY2024 to be about 60%. The tax deferred component arises due to the Fund being able to pass on to its unit holders the depreciation that can be claimed on its assets. It is not subject to income tax but must be deducted from each investor's cost base of their investment.

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

Thank you for your continued support.

Regards

ANDREW ASHBOLT
MANAGING DIRECTOR