Fund Update – 27 August 2020

Arrow Primary Infrastructure Fund

Dear Investor

FY2020 Financials

The Fund's Annual Report for FY2020 has been released and can now be downloaded from our website.

This last financial year has certainly thrown up many challenges: bushfires, drought, high water prices, high winds and record rainfalls, as well as the need to terminate the long-term lease of the Fund's Colignan property with Murray River Organics (MRO). Then, since March, we have all been immersed in COVID-19 and its far-reaching implications on almost every aspect of Australian business, its workforce and people. A difficult 12 months.

I'm pleased to report that the Fund survived all of the above challenges and has achieved a 5% increase in normalised earnings for the year ($15.1 million versus last year's $14.3 million).

Normalised earnings per unit is a good measure of our Fund's performance as it excludes all non-operating and non-cash accounting adjustments and shows the effective cash earnings per unit, which can then be compared to the distribution paid to investors.

During the year there were 4.6 million new units issued; all issued under the Fund's Distribution Reinvestment Plan, which continues to be supported by 31% of our investors.

Normalised earnings per unit for FY2020 was 8.93 cents per unit (CPU) compared with 8.68 CPU last year and the distribution paid to investors was maintained at 8.0 CPU.

The most significant impact on the Fund's FY2020 financials came as a result of cancelling the Colignan lease with MRO in mid-December 2019. Despite receiving cash compensation of $1.325 million plus a 5% shareholding in Murray River Organics Group Ltd (ASX code: MRG), the subsequent holding costs incurred during a time of extreme water prices together with adverse weather and a disappointing crop yield resulted in a net hit to the Fund's profit of $4.8 million. Since mid-December we have also commenced the process of recovering the Greenfield vineyard development and conversion works undertaken by MRO and have re-leased the property to the Scalzo Foods Group on a new 25 year lease, which commenced on 1 July 2020.

We have written down the carrying value of the Colignan property to an independent market value as at 30 June 2020 of $19.7 million, which compares to $24.0 million at 30 June 2019. Together with the Scalzo Group, the Fund will be spending further capital expenditure on this property over the next 3 years to resurrect it to its former status as one of Australia's leading dried fruit vineyards.

Total assets held by the Fund at 30 June 2020 were $303.9 million, which was an increase of $47.2 million compared to June last year.

Highlights for this last year include:

- The Fund acquired PigCo's brand new pig grow-out facility at Thyra in NSW on 31 October 2019 on a sale and leaseback basis.
- The Fund's Cobbitty glasshouse in NSW was finally completed in November 2019 and became fully operational in the following quarter. To assist the Fund's tenant with their delayed start-up we have provided a deferred payment for their initial rentals.
- A total of 90,000 macadamia trees were planted at the Fund's Boombera Park property at Lawrence in NSW together with associated irrigation infrastructure. The final two dams are currently under construction and Stage 2 of planting will commence in late September 2020 with the remaining 170,000 trees to be planted out by end-January 2021.
- Property rental income in FY2020 increased by 3% to $21.7 million, due to capital expenditure and annual rent increases.

- A net revaluation increase of investment properties of $1.0 million was recorded for FY2020, which was significantly less than the $10.1 million in the previous year.
- As the Fund increased its borrowings during the year, finance costs increased by $0.9 million compared to FY2019.
- The average interest rate paid by the Fund this year reduced to 3.9% compared to 4.0% for FY2019.
- Long term interest rates continued to decline. This resulted in an unrealised loss on the Fund's interest rate derivatives of $3.4 million compared with a loss of $6.2 million in the previous year. As previously noted, these derivatives provide a fixed interest rate to a significant portion of the Fund's future interest rate exposure and effectively lock in a large portion of the Fund's profit margin going forward.
- Distributions to investors were maintained at 8.0 cents.
- At year-end the Net Asset Value (NAV) was $0.8930 compared to $0.9020 last year
- The weighted average lease expiry (WALE) of the Fund's portfolio was 13.13 years at 30 June 2020.

Tax Statements

Tax Statements for FY2020 will be finalised and emailed/posted to all investors next week. We expect the tax deferred component for FY2020 to be approximately 48% compared to 42% 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. It is not subject to tax but must be deducted from each investor's cost base of their investment.

Outlook

The COVID-19 pandemic is continuing to cause major trauma to the Australian economy, its workforce and population. We are lucky that our Fund provides agricultural properties and infrastructure to "essential services" industries. As such, all of our properties have remained open and continue to operate under the varying COVID-19 isolation restrictions that are in force around Australia. Some of our tenants have seen a contraction in their business, due to the forced closure of much of the Australian food services industry,

Each of our tenants is adjusting their business practices and sales composition in light of the current conditions and we are comfortable that the food industries into which our properties supply will remain well supported by consumers. In particular, we remain confident that Australian consumption of poultry, pork and eggs will continue to increase, as will global consumption of almond and macadamia nuts. We remain comfortable in all the primary industries in which we have invested.

It is difficult to predict the future economic conditions that Australia will face over the next 12 months as the nature and term of the COVID-19 restrictions are unknown and will remain with us until either an effective vaccine is created and implemented or the pandemic abates.

Our Fund's objective is to provide consistent, high yielding distributions with the potential for capital growth. We will continue to allocate up to 15% of our portfolio for the development of new properties, where we can use Arrow's agricultural expertise and experience to add value for the Fund via increased asset values and/or increased rental income.

Our plan remains to lease the Boombera Park property. Timing has been delayed by COVID-19 restrictions and we will reassess this following completion of planting at the end of January 2021 when travel restrictions have hopefully lifted.

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