

Fund Update – 28 May 2021

Arrow Primary Infrastructure Fund

Dear Investor

Financial Results

The Fund continues to perform in line with our expectations.

Normalised earnings for YTD 31 March 2021 was \$10.629 million, equivalent to 6.2 cents per unit (CPU).

Net Asset Value (NAV) increased to 94.76 CPU as of 31 March 2021, up 2.57 cents from the 31 December figure. The increase was due mainly to a reduction in the Fund's derivative liability to \$5.056 million at 31 March 2021 (31 December 2020: \$10.027 million), due to an increase in longer term interest rates.

Distribution for the March Quarter was maintained at 2.0 cents per unit with 36% of the distribution (\$1.248 million) reinvested back into the Fund under the Distribution Reinvestment Plan.

Due to substantial tax depreciation on the Fund's plant & equipment at Boombera Park, investors will receive additional tax deferred income in their distributions for this year. We are expecting more than 60% of the full year distribution for FY2021 to be tax deferred compared to 48% for FY2020.

Weather

Substantial rainfall, hail and high winds were received on a number of our properties during the March Quarter, particularly at Advinco Farm and Boombera Park.

Advinco Farm, which is located at Colignan near Mildura, received a severe hailstorm on 1 January 2021 which destroyed our tenant's dried fruit and citrus crops for this year, which luckily were partially covered by their crop insurance.

Boombera Park has now received a total of 1,554 mm of rainfall since 1 December 2020, which is already well in excess of our average rainfall of approximately 1,200 mm per annum. The property was also hit with some substantial wind gusts and hail in early March, which caused some minor damage. The continuing rainfall has further delayed the planting of our last 18,000 trees (7% of the total plantation), which will be held over until spring. All planted trees are growing well and with all dams now full we are well set up for the start of next growing season.

Property improvements and lease extensions

One of our key focus areas is to ensure that all Fund properties are well maintained and that a replacement/refurbishment program is in place. It is also imperative that there is sufficient term remaining on each lease to underpin any capital expenditure required. These issues are particularly relevant in the case of poultry farms where sheds have a limited (approximately 40 year) lifetime. The benefits of a timely capital expenditure upgrade can be extremely beneficial for both the tenant and the landlord.

I'm pleased to report that Arrow has recently reached agreement for the Fund to provide up to \$45.2 million in capital expenditure improvements on a number of properties in exchange for rental incentives and extended lease terms. The overall impact of the above lease variations is positive for the Fund: The capex will include the construction of new sheds and associated infrastructure as well as refurbishment of older sheds and will take place over the next 2½ years, with rent paid by tenants increasing as the funding is provided.

As a result of these changes the Weighted Average Lease Expiry (WALE) of the Fund's portfolio will increase from 12.1 years to 16.4 years as at 30 June 2021.

Change in tenant

On 3 May 2021, PigCo Pty Ltd sold its entire business to SunPork Pty Ltd, Australia's largest pork producer. PigCo was the developer and tenant of the Fund's Pig Grow-out facility at Thyra, NSW and the sale included the assignment of the lease, which occurred that same day.

We have enjoyed our relationship with PigCo since purchasing their brand new Thyra facility in October 2019, and are pleased that SunPork has retained the PigCo Thyra management team, which should ensure a smooth operational changeover.

We highly rate the pork industry in Australia and see the move by SunPork as similar to the many consolidations which have occurred in the poultry industry over the last 15 years.

Outlook

The outlook for Australian agricultural property and its producers is looking good despite continuing political and tariff risks for some Australian commodities in relation to China, a relatively high Australian dollar and recent, extreme weather conditions.

We continue to believe that certain sectors of Australian agriculture will continue to do well, particularly those with a domestic sales component and/or where Australia has a sustainable advantage over its international competitors. That is where our Fund is focussed.

We are continuing with our plans to optimise the value of Boombera Park before it is leased. Whilst our aim is to commence receiving a return on this exceptional asset as soon as possible, we need to ensure that the best tenant and lease terms are selected for the long-term benefit of the Fund.

Capital commitments for FY2022 are \$32.0 million and will be funded by a combination of equity and debt. Over the next 12 months the Fund will continue to benefit from an equity injection of approximately \$5.0 million from the Distribution Reinvestment Plan and we are seeking an increase in our banking facilities for the balance.

As mentioned previously, there is increasing interest in Australian agricultural assets from overseas investors. More recently, Australian institutional investors, including major superannuation funds, have started to invest in agriculture because they see the resilience and counter cyclical nature of the sector. This has led to increased prices paid for agricultural properties and a tightening in the rental capitalisation rates used for valuing leased properties. With current low interest rates and low rental returns in other property sectors it is no wonder that the current agricultural property market is currently in high demand.

As a consequence, we are expecting increases in a number of the Fund's independent property valuations as at 30 June 2021.

The June Quarter distribution is expected to be 2.0 CPU and paid on 30 July 2021. This will bring the paid FY2021 distribution to 8.0 CPU, similar to previous years.

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