

Fund Update – 27 February 2023

Arrow Primary Infrastructure Fund

Dear Investor

Half-year Results

Our Fund has continued to perform well during the six months to 31 December 2022. Base rentals were up 9.6% due primarily to the substantial capital improvements that have been undertaken across a number of the Fund's poultry properties.

Capex spent during the half-year was \$5.5 million, increasing the total amount of capex investment made by the Fund over the last 18 months to \$31.8 million.

Our Fund has been impacted by rising interest rates. During the six months to December 2022, the Fund borrowed an average \$160.1 million, with the average interest rate paid by the Fund over the last 6 months being 4.13% pa, compared to 3.2% over the last two financial years. The Fund has long-term, fixed interest rate derivatives totalling \$77.2 million, which cover 48% of current borrowings. These derivatives are fixed at lower than current rates and will provide some protection if interest rates remain at these levels and significant protection if they increase further.

As the Fund's borrowings have increased, the resulting finance costs for the period were up 50% to \$3.3 million compared to the half-year to December 2022.

Normalised earnings for the six months, which is the net profit excluding statutory non-operating and non-cash accounting adjustments, was \$6.4 million, down 3.2% when compared to December 2021. This is largely due to the rise in finance costs outstripping rental income growth.

The Fund's EPU has continued to slowly reduce (now 3.50 cents/unit) due to the significant development capex which has been invested at Boombera Park; where no income is currently being derived but significant value is being created.

As reported previously, we are continuing a process to lease Boombera Park to either a third party tenant or to a newly established operating vehicle.

Key Financial Metrics for HY 31-Dec-22:

Base Rent	\$12.0m	↑ 9.6% (Dec-21 \$10.9m)
Finance costs	\$(3.3)m	↑ 50.0% (Dec-21 \$2.2m)
Other operating expenses	\$(2.3)m	↑ 9.4% (Dec-21 \$2.1m)
Normalised earnings	\$6.4m	↓ 3.2% (Dec-21 \$6.6m)
Earnings per unit (EPU)	3.50cpu	↓ 5.7% (Dec-21 3.71cpu)
Gross Assets	\$394.5m	↑ 1.0% (Jun-22 \$390.6m)
NTA	\$1.2341	↓ 0.4% (Jun-22 \$1.2385)
WALE	15.88 years	↓ 3.2% (Jun-22 16.41 years)
DPU	4.0 cents	unchanged
Total Debt	\$162.5m	↑ 1.2% Jun-22 \$160.5m)
LVR	42.6%	unchanged (Jun-22 42.6%)
Hedging	47.5%	↓ 1.2% (LY 48.1%)

Net Asset Value (NAV) at 31 December 2022 was \$1.2341 per unit compared to \$1.2385 at 30 June 2022 and \$1.1721 a year ago. There was a minor reduction in property values over the 6 months of \$0.6 million due primarily to a change in independent valuers who adopted slightly different valuation assumptions.

The distribution rate of 8.0 cents per annum now represents a distribution yield of 6.5% on the Fund's latest NAV.

The weighted average lease expiry (WALE) of the Fund's portfolio remains a very healthy 15.88 years as at 31 December 2022 and is expected to increase when Boombera Park is leased.

The Fund's borrowing facility has been increased by \$20 million to \$190 million to fund continuing capex commitments. As at 31 December 2022 the facility was drawn down to \$162.5 million.

The Fund's full financial statements for the half-year to 31 December 2022 have been released and are available from our website: <https://www.arrowfunds.com.au/fund-announcements/fund-reports/>.

Also included on our website is a handy snapshot of the Fund as at 31 December 2022, which includes some of the financial metrics discussed above: <https://www.arrowfunds.com.au/fund-details/fund-snapshot/>

Outlook

Longer term interest rates have now steadied over the last few months, which is hopefully a sign that interest rates are nearing their peak. We will continue to hold interest rate derivatives covering approximately 50% of our interest rate exposure.

Investor interest in Australian primary industry properties remains solid and good assets are keenly sought, particularly by overseas interests. Local institutional investors are now starting to take a fresh look at this asset class, which has out-performed traditional infrastructure over the last few years.

A total of \$25.3 million of capex is committed to be invested on existing leased properties over the next twelve months which, in addition to annual increases, will automatically boost rentals.

Our focus remains long-term – ensuring that we are in the right industries with the right properties and the right tenants, and that they all continue to perform well.

As mentioned, our key objective over the balance of this financial year is to lease the Fund's Boombera Park macadamia property. We will keep investors updated on progress.

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