



# Arrow

## Product Disclosure Statement

Public Offer  
to raise up to  
\$15 million  
April 2017

## Directory

### Arrow Primary Infrastructure Fund

ARSN 110813851

#### RESPONSIBLE ENTITY

Arrow Funds Management Limited

ACN 146 671 276

Level 25, 360 Collins Street  
Melbourne VIC 3000

Phone: 03 9691 5447

[enquiries@arrowfunds.com.au](mailto:enquiries@arrowfunds.com.au)

[www.arrowfunds.com.au](http://www.arrowfunds.com.au)

#### UNIT REGISTRY

Boardroom (Victoria) Pty Limited

ACN 110 851 333

GPO Box 3993  
Sydney NSW 2001

Phone: 1300 737 760

[enquiries@boardroomlimited.com.au](mailto:enquiries@boardroomlimited.com.au)

[www.boardroomlimited.com.au](http://www.boardroomlimited.com.au)

#### CUSTODIAN

Sandhurst Trustees Limited

ACN 004 030 737

Level 5 120 Harbour Esplanade  
Docklands VIC 3008

Phone: 1800 803 173

[www.sandhursttrustees.com.au](http://www.sandhursttrustees.com.au)

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# Important Information

## MANAGER

The Responsible Entity has appointed Agri Management Pty Ltd (ACN 162 669 650) (Agri) to act as manager of the Fund (Manager).

## CUSTODIAN AND CUSTODIAN DISCLAIMER

Sandhurst Trustees Limited (ACN 004 030 737, AFSL 237906) has been appointed as the custodian of the Fund (Custodian). The Custodian's role is limited to holding the assets of the Fund as agent of the Responsible Entity. The Custodian has no supervisory role in relation to the operation of the Fund and is not responsible for protecting your interests. The Custodian has no liability or responsibility to you for any act done or omission made in accordance with the terms of the Custodial Services Deed. The Custodian makes no statement in this PDS and has not authorised or caused the issue of it.

## ELIGIBILITY

The offer made in this PDS is available only to those persons receiving this PDS (electronically or otherwise) within Australia. No action has been taken to register Units or otherwise permit a public offering of Units in any jurisdiction outside Australia. This PDS does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. The distribution of this PDS in jurisdictions outside Australia may be restricted by law and persons who come into possession of this PDS who are not in Australia should seek advice on and observe any such restrictions in relation to the distribution or possession of this PDS. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. Other than as permitted by law, investments in the Fund will only be accepted on receipt of a completed online Application.

## COOLING OFF PERIOD

As the Fund is illiquid, no cooling off period applies.

## MASTER TRUST OR WRAP ACCOUNTS

The Responsible Entity authorises the use of this PDS as disclosure to Indirect Investors who access the Fund through an IDPS or IDPS-like scheme (known commonly as a master trust or wrap account) or nominee or custody service and those investors may rely on this PDS. People who invest in the Fund through a master trust or wrap account do not become Direct Investors. The operator or custodian of the master trust or wrap account (IDPS Operator) will be recorded as the Investor in the Investor register and will be the person who exercises the rights and receives the benefits as an Investor. Reports and documentation relating to the Fund will be sent to the IDPS Operator.

Investors using these services should be aware that they may be subject to different conditions from those set out in this PDS, particularly in relation to:

- ▶ arrangement for the application and transfer of Units;
- ▶ fees and expenses; and
- ▶ distribution calculation and timing.

Indirect Investors in master trusts or wrap accounts should contact their adviser or IDPS Operator with any queries relating to an investment in the Fund using these services.

## NO INVESTMENT ADVICE

The information contained in this PDS is not financial product advice. The information contained in this PDS is general information only and does not take into account your investment objectives, financial situation and particular needs. It is therefore important that you read this PDS in full before deciding whether to invest in the Fund and take into consideration your investment objectives, financial situation and particular needs. If you are in any doubt, you should consider consulting your financial adviser, stockbroker or other professional advisers.

## PRODUCT DISCLOSURE STATEMENT

This product disclosure statement (PDS) relates to an offer to invest in the Arrow Primary Infrastructure Fund ARSN 110813851 (Fund). The Fund is a registered managed investment scheme under the Corporations Act. This PDS is dated 18 April 2017.

This is an important document that needs your attention. You should read this PDS in full before deciding whether to invest in the Fund. If you are in doubt as to how to interpret or deal with this document, you should consider consulting your financial adviser, stockbroker or other professional advisers.

## RESPONSIBLE ENTITY AND ISSUER OF THIS PDS

Arrow Funds Management Limited (ACN 146 671 276, AFSL 439095) in its capacity as responsible entity of the Fund (Responsible Entity, the RE or Arrow) is the issuer of this PDS and the Units offered pursuant to this PDS. Arrow's contact address is Level 25, 360 Collins Street Melbourne VIC 3000.

## DISCLAIMER

An investment in Units in the Fund is not an investment in, or a deposit with or other liability of, the Responsible Entity and is subject to investment and other risks, including possible delay in repayment and loss of income and capital invested. None of the Responsible Entity, the Manager, the Custodian or any of their respective directors, officers or associates gives any guarantee or assurance as to the performance of the Fund or the underlying assets of the Fund or the repayment of capital from the Fund or any particular rate of capital or income return from the Fund.

## NO REPRESENTATIONS OTHER THAN CONTAINED IN THIS PDS

You should only rely on the information in this PDS when deciding whether to invest in the Fund. No person is authorised to give any information or to make any representation in connection with the Fund that is not contained in this PDS. Any information or representation not contained in this PDS may not be relied upon as having been authorised by the Responsible Entity in connection with the Fund.

## ILLIQUID INVESTMENT

Applicants should understand that the Fund is a long term and illiquid investment. As a result, a return of capital will only be possible where assets of the Fund are sold or an alternative liquidity strategy is implemented by the Responsible Entity.

Since July 2014, a conditional Withdrawal Offer has been provided to unit holders on a quarterly basis. Any Withdrawal Offer is provided separately from this PDS.

## INVESTMENT RISKS

You should read this PDS in full before deciding whether to invest in the Fund and if you are in any doubt, you should consider consulting your financial adviser, stockbroker or other professional adviser. Each Applicant shall be considered to have read and understood Section 5 of this PDS.

## PDS AVAILABILITY

This PDS may be viewed online on the Fund's website at [www.arrowfunds.com.au](http://www.arrowfunds.com.au). If you access the electronic version of this PDS, you should ensure that you download and read this PDS in full. A paper copy of this PDS is available free of charge to any person in Australia by calling Arrow on + 61 3 9691 5447.

## UPDATED INFORMATION

Information in this PDS may change from time to time. Information that has changed in relation to the Fund that is not materially adverse but which the Responsible Entity wishes to provide to Investors, will be made available on the Fund's website at [www.arrowfunds.com.au](http://www.arrowfunds.com.au). A printed copy of any updated information will be available from the Responsible Entity free of charge upon request by calling Arrow on + 61 3 9691 5447. The Responsible Entity may issue a supplementary PDS to supplement any relevant information not contained in this PDS, in accordance with its obligations under the Corporations Act. Any supplementary PDS and updated information should be read together with this PDS. A copy of any supplementary PDS and other information regarding the Fund will be made available on the Fund's website at [www.arrowfunds.com.au](http://www.arrowfunds.com.au) and a printed copy will be available from the Responsible Entity free of charge upon request.

## CONTINUOUS DISCLOSURE

In accordance with ASIC Regulatory Guide 198 'Unlisted disclosing entities: Continuous disclosure obligations', the Responsible Entity advises that it will fulfill its continuous disclosure requirements by way of website disclosure which complies with ASIC's good practice guidance. Investors may access material information regarding the Fund from the Fund's website at [www.arrowfunds.com.au](http://www.arrowfunds.com.au).

## DATE OF INFORMATION

Unless otherwise specified, all financial and operational information contained in this PDS is stated as at the date of this PDS.

## PICTURES OF PROPERTIES IN THIS PDS

Unless otherwise specified, all pictures of properties in this PDS are actual pictures of buildings or property which is an asset of the Fund or an asset to be acquired by the Fund.

## FORWARD LOOKING STATEMENTS AND PAST PERFORMANCE

This PDS contains forward looking statements which are subject to known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Fund to be materially different from those expressed or implied in such forward looking statements. Past performance is not a reliable indicator of future performance.

## DEFINED TERMS

Definitions of certain terms used in this PDS appear in the Glossary at Section 9. References to currency are to Australian currency unless otherwise specified, and references to times are to Australian Eastern Daylight Time (AEDT) unless otherwise specified. Unless otherwise specified, the occupancy levels and lease expiry profiles of the Property are weighted and/or determined by their contribution to income.

# Letter from the Board

## Dear Investor,

On behalf of the Directors of Arrow Funds Management Limited (Arrow), we are pleased to present this product disclosure statement for an Offer, with priority to Eligible Unitholders, of New Units (Offer) in the Arrow Primary Infrastructure Fund (APIF, the Fund) to raise up to \$15.0 million.

This PDS also contains detailed information about the Offer, the Fund's Portfolio, operations, financial performance, prospects and risks. There are no conditions which need to be satisfied for the Offer to complete.

## About the Offer

Under the Offer, Eligible Unitholders will be given priority to apply for 1 New Unit for every 10 Units held in the Fund at the Record Date. This will ensure that Eligible Unitholders are able to maintain their existing proportional ownership in the Fund, should they wish to do so.

The Application Price of the Offer is \$0.7470 per New Unit.

Eligible Unitholders may apply for additional New Units above their Priority Offer Allocation. However, these additional New Units may be subject to scale back, at Arrow's absolute discretion.

New Investors will be able to apply for Surplus Units not taken up by Eligible Unitholders under their Priority Offer Allocation.

## Use of Equity Proceeds

The proceeds of the Offer will be used, together with funds from the secured lender, to:

- acquire additional properties;
- undertake capital development expenditure on both existing and new properties; and
- pay for related transaction costs.

The Fund will be completing the acquisition of a new property in the northern rivers region of New South Wales in April 2017 with plans to develop that property into a 1,000 hectare macadamia orchard, to be called Boombera Park.

The acquisition of Boombera Park represents a departure from recent transactions conducted by the Fund, which have all had leases commencing from the date of acquisition, generally as a result of sale and leaseback transactions. The Boombera property was identified as being suitable for growing macadamia nuts during Arrow's due diligence on a much larger portfolio of properties in New South Wales. The property, known as Heaton Park together with two adjoining properties were originally used as prime grazing land and have only recently been cleared of eucalyptus plantation trees.

Arrow directors believe that Boombera Park represents a unique opportunity for the Fund to gain exposure to the macadamia industry at a low entry price. The acquisition cost of \$4.2 million represents 2% of the Fund's portfolio and will further diversify the Fund's industry exposure.

The Boombera Park property has the potential to become one of Australia's largest macadamia orchards, operating with a low cost base and producing approximately 5% of Australia's macadamia nut production. So that the Fund can partake in the anticipated uplift in property valuation - from grazing land to land suitable for a large scale macadamia orchard - Arrow proposes to complete Stage 1, the detailed farm planning process and contracted growing by an off-site nursery of the initial macadamia trees during the first 18 months. Arrow will use this time to engage a suitable lessee for Boombera Park, prior to the initial planting out of the orchard.

## About the Fund

APIF is an established, unlisted public Unit trust that commenced operation in 2004. Arrow's management team was appointed fund manager in 2010 and Arrow became the Responsible Entity of the Fund in 2013.

The Fund currently owns 18 properties, comprising land and infrastructure which are used in the poultry meat, free range egg, almond, citrus, mango and dried fruit industries. Properties are leased to 6 major tenants, each on a triple net lease basis, with the weighted average lease expiry (WALE) of 14.3 years as at 31 December 2016. The Fund's high quality assets are located across Australia and were independently valued at \$183.8 million at 31 December 2016.

The assets owned by the Fund provide investors with a unique investment proposition – an investment in Australian agriculture without exposure to the seasonal volatility normally associated with this sector.

Arrow has successfully completed two previous raisings of new equity for the Fund – a public offer of \$40 million in June 2014 and a wholesale offer of \$15 million in December 2015.

The Fund has borrowing facilities with its secured lender of \$84.2 million expiring in July 2018. These facilities are fully drawn and Arrow has received an indicative term sheet from the lender to increase the facilities limit up to \$109 million and extend its term. A successful completion of the current Offer will ensure that the Fund's gearing remains within the targeted range of 40% - 50%, allowing for anticipated capital expenditure and the acquisition of new properties.

## Impact of Proposed Raising

The Directors believe that the benefits of the proposed capital raising at \$0.7470 per Unit will include:

- ▶ an initial pay down of debt;
- ▶ a forecast Earnings yield of 11.0% – 11.4% for the financial year to 30 June 2018; and
- ▶ a forecast Distribution yield of 11.0% for the financial year to 30 June 2018.

## The Offer

To participate in the Offer, existing and new investors will need to complete an on-line Application Form, which will be made available by our Registry, BoardRoom Pty Ltd. There will be no printed Application Form. Investors without internet access who wish to participate in the Offer will need to contact BoardRoom by telephone. Full details on how to apply are set out in Section 10 of this PDS.

### EXISTING UNITHOLDERS

Eligible Unitholders, as defined in the Important Information section of this PDS, who are recorded on the Fund's unit register at the Record Date will be able to apply on-line, which can be accessed at [www.boardroomlimited.com.au/arrowoffer](http://www.boardroomlimited.com.au/arrowoffer).

As an Eligible Unitholder you may:

1. Take up some or all of your Priority Offer Allocation (1 New Unit for every 10 Units held at 31 March 2017); or
2. Take up all of your Priority Offer Allocation and apply for Surplus Units; or
3. Take no action.

Eligible Unitholders who do not take up their Priority Offer Allocation before 5pm on 5 May 2017 will not receive any value for their Priority Offer Allocation, which will lapse and accordingly their proportionate interest in the Fund will be diluted.

### NEW INVESTORS

New Investors who are not Eligible Unitholders may apply for Surplus Units on-line, via the same address:

[www.boardroomlimited.com.au/arrowoffer](http://www.boardroomlimited.com.au/arrowoffer)

New Investors will need to follow the instructions on that Application Form, including the provision of Government mandated identification details and documents.

You should read this PDS carefully and in its entirety including Section 10 on "How to Invest" and Sections 5 and 7, which sets out risks and fees and other costs associated with investing in the Fund. In addition, you should consider seeking relevant professional advice before making a decision to apply for Units.

Thank you for your consideration of the opportunity to invest in Arrow Primary Infrastructure Fund.

Yours faithfully,



Murray Jones



Andrew Ashbolt



Matthew Reid



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# Key Features of the Offer

Important Dates <sup>1</sup>	Date
Record Date	31 March 2017
Offer Opens	18 April 2017
First Closing Date	26 April 2017
First Allotment	28 April 2017
Priority Offer Close	5 May 2017
Final Closing Date	16 June 2017 unless extended, by the Responsible Entity
Final Allotment	Within 5 days after Final Closing Date

<sup>1</sup> These dates and all other dates in the PDS are indicative only and may be changed by Arrow at its discretion

Key Features	
The Offer	The Offer is an offer to raise up to \$15 million. Eligible Unitholders are being given priority to apply for 1 New Unit for every 10 Units held on the Record Date at the Application Price. Eligible Unitholders and New Investors may apply for Surplus Units.
Conditions of the Offer	Nil
Total Offer Amount	Up to \$15.0 million
Application Price	\$0.7470 per Unit
Minimum Investment	<b>New investors – \$20,000</b> <b>Existing Unitholders – Nil</b>
Purpose of the Offer	The Fund proposes to use the proceeds from the Offer to: <ul style="list-style-type: none"> <li>▶ Fund the acquisition of new properties;</li> <li>▶ Fund Capital Development Expenditure on existing and new properties; and</li> <li>▶ Pay transaction and Offer costs.</li> </ul>
Ranking of New Units	The New Units will rank equally in all respects with existing Units.
Cooling Off	No cooling off period applies to this Offer.
Underwriting	The Offer is not underwritten.



Key Features of the Fund	
Fund Commenced	September 2004
APIR Code	SAI0004AU
Investment Objective	The Fund aims to provide investors with consistent and sustainable income through investment in primary production infrastructure leased to leading operators in primary production industries.
Responsible Entity	Arrow is the Responsible Entity
Manager	Arrow has outsourced a number of its operational functions to Agri Management Pty Ltd.
Asset Manager	Arrow has appointed Agri Management Pty Ltd as manager of the Fund's properties.
Net Asset Value <sup>1</sup>	The latest Net Asset Value per Unit as at the date of this Offer is \$0.7283
Key Highlights	<p>The Directors believe that the benefits of the Offer will include:</p> <ul style="list-style-type: none"> <li>▸ a forecast Earnings yield of 11.0% – 11.4% for the financial year to 30 June 2018;</li> <li>▸ a forecast Distribution yield of 11.0% for the financial year to 30 June 2018;</li> <li>▸ a weighted average lease expiry (WALE) (by income) of 14.3 years at 31 December 2016, with no lease renewals until 2023;</li> <li>▸ a loan to valuation ration (LVR) of 41%;</li> <li>▸ the potential for growth in distributions and capital value through an increased portfolio and rental increases; and</li> <li>▸ the potential to acquire additional assets in Australia's high-growth agricultural sectors</li> </ul>
Key Risks	<p>There are various risks in relation to the Offer, investing in agricultural property, investing in the Fund and general investment risks. These are described in detail in Section 5 and you should read that section carefully. Risks include:</p> <ul style="list-style-type: none"> <li>▸ distributions to Unitholders are not guaranteed;</li> <li>▸ borrowing risks including enforcement of a lender's security over the assets of the Fund if the Fund breaches loan covenants;</li> <li>▸ you may not be able to sell or redeem your investment promptly or at all; and</li> <li>▸ fluctuation in the value of the assets of the Fund and the amount of income they generate.</li> </ul>
Key risks are set out at Section 5.	
Fees and other costs	<p>Certain ongoing fees are payable in relation to an investment in the Fund. These include:</p> <ul style="list-style-type: none"> <li>▸ Management Fee – 1% p.a. of gross assets payable by the Fund to the RE.</li> <li>▸ Funds Administration Expense – estimated at 0.20% p.a. of gross assets payable by the Fund.</li> <li>▸ Property Management Expense – estimated at 0.20% p.a. of gross assets payable by the Fund.</li> <li>▸ Contribution Fee – the RE will charge a contribution fee of 2.5% on all applications for New Units, which will be deducted from application money. The contribution fee is factored into the Application Price and is therefore effectively borne by all investors as an equity raising cost/cost of capital for the Fund.</li> </ul> <p>In addition, expenses relating to this PDS, including property acquisition and capital raising costs, will be expensed to the Fund. These expenses are once off and are not recurrent.</p> <p>There are no performance fees, acquisition fees or disposal fees payable by the Fund to the RE.</p>
Fees and other costs are set out at Section 7.	
Investment type	The Fund is an unlisted unit trust. It presently owns a geographically diverse portfolio of primary infrastructure properties including chicken breeder and broiler farms, a free range egg farm, almond, mango & citrus orchards, dried fruit vineyards and a packing facility. The Fund has no direct exposure to primary production or agribusiness operations, which are the businesses of the Fund's tenants.
Withdrawal rights	Since July 2014, a conditional Withdrawal Offer has been made available to provide limited liquidity to unit holders on a quarterly basis. Any Withdrawal Offer is provided separately from this PDS and the RE reserves the right to cancel a Withdrawal Offer at any time if it is in the best interests of Unitholders to do so.
Liquidity	An investment in the Fund is illiquid.
Distributions	Paid quarterly, pro rata based on the number of days that units were held in the respective quarter.
Distribution timing	The Fund presently pays distributions approximately 30 days after each quarter end.
Distribution reinvestment	The Fund operates a Distribution Reinvestment Plan (DRP) under which Unitholders can nominate to have their Quarterly Distributions converted into units, at the NAV at the end of the respective quarter, with new units allotted on the same day that the cash distribution is paid. The RE may, at its sole discretion, modify, suspend or terminate the DRP at any time.
Debt finance	For the benefit of the Fund, a major Australian bank is providing Arrow with \$84.2 million of secured debt facilities until July 2018 and has provided an indicative terms sheet to increase these facilities up to \$109 million out to July 2020.
Gearing	Target Gearing is 40% to 50% where Gearing is defined as the ratio of total debt owing under the Debt Facilities to total assets. Actual Gearing as at 31 December 2016 was 43.8%.
Target Interest Rate Hedging	25% to 75% of the drawn amount of the debt facilities is to be hedged for the period of the facility.
RG46 Disclosure	A summary of the benchmarks and disclosure principles required under RG46 is set out at Section 8. The RG46 Disclosure is updated every 6 months on Arrow's Website.

<sup>1</sup> Value of water entitlements (which are classified as intangible assets under accounting principles) is included in the calculation of asset value of the scheme.

The Properties	Proforma at 31 December 2016	
Valuation	\$187.7 million	
Number of assets	19	
Locations	Vic, NSW, SA and NT	
Occupancy and WALE	100% occupied with a WALE of 14.3 years	
Tenants (% of rental income)	62%	Subsidiaries of Baiada Pty Ltd (Baiada Poultry Pty Limited and Bartter Enterprises Pty Limited)
	16%	Select Harvests Limited
	10%	Murray River Organics Ltd
	4%	Turi Foods Farm Division Pty Ltd
	4%	Seven Fields Operations Pty Ltd
	4%	Pace Farms Pty Ltd
Lease type	Triple net leases where tenant pays all property operating costs, repairs and maintenance and property holding costs such as rates and taxes, water levies, insurance etc.	
Rent	Rent is paid quarterly in advance and increases following any capex paid by the Fund. Rent is adjusted using either CPI or a fixed percentage increase.	

# The Offer

## 1.2 About the Offer

Arrow will issue up to 20.080 million New Units in the Fund. Eligible Unitholders will be given a Priority Offer Allocation based on their percentage unitholdings in the Fund at the Record Date. The Application Price of \$0.7470 per New Unit is payable in full on application. New Investors may apply for Surplus Units at the same Application Price.

## 1.3 Dilution

The Offer has been structured to enable all Eligible Unitholders to participate on equal terms if they choose to do so. Those Unitholders who are unable, or do not wish to take up their full priority allocation under the Offer will have their percentage Unit holding in the Fund diluted.

## 1.4 Frequently Asked Questions

FAQ's	Answer
Who is eligible to participate in the Priority Offer?	The Priority Offer is open to Eligible Unitholders on the register of the Fund on the Record Date.
What is my allocation under the Priority Offer?	If you are an Eligible Unitholder, you will be given priority to apply for 1 New Unit for every 10 Units that you hold on the Record Date.
Can I apply for more than my Priority Offer Allocation?	Yes, as an Eligible Unitholder, you may apply for as many New Units as you would like. If the Priority Offer is not fully subscribed and you have applied for additional New Units over and above your Priority Offer Allocation, then you will be allocated additional New Units according to the Arrow's allocation policy (see Section 1.10).
Can I transfer my Priority Offer Allocation?	No.
What are my options?	As an Eligible Unitholder, you can: <ul style="list-style-type: none"> <li>▸ apply for your full Priority Offer Allocation;</li> <li>▸ apply for part of your Priority Offer Allocation;</li> <li>▸ apply for additional New Units in excess of your Priority Offer Allocation, that may become available; or</li> <li>▸ do nothing and allow your Priority Offer Allocation to lapse.</li> </ul>
New Investors	New Investors are able to apply for Surplus Units. Refer to "How to Invest" in Section 10.

## 1.5 Arrow's Unitholding in the Fund

Currently, Arrow and its associates own 9.1% of the Units in the Fund.

## 1.6 Priority Offer Allocation will lapse if not taken up

Eligible Unitholders who do not take up their Priority Offer Allocation by 5.00pm on Priority Offer Close will not receive any value for their Priority Offer Allocation. They will continue to own the same number of Units, however their percentage unitholding in the Fund will be diluted.

## 1.7 Nominees

The Priority Offer is being made to all Eligible Unitholders (as defined in the Important Information Section of this PDS). Unless required by anti-money money laundering and counter terrorism financing (AML/CTF) Legislation, Arrow will not determine whether or not any registered Unitholder is acting as a nominee or the identity or residence of any beneficial owners of Units. Where any holder is acting as a nominee for a foreign person, that holder in dealing with its beneficiary, will need to assess whether indirect participation by the beneficiary in the Offer is compatible with applicable foreign laws. Arrow is not able to advise on foreign laws.

## 1.8 Multiple Holdings

If you have more than one holding of Units, you will have a separate Priority Offer Allocation for each separate holding.

## 1.9 What do you need to do?

Eligible Unitholders and New Investors should refer to the Section 10 "How to Invest", and follow the instructions on the relevant Application Form.

## 1.10 Allocation Policy for the Offer

New Units not taken up by Eligible Unitholders in accordance with their Priority Offer Allocation are Surplus Units.

Arrow reserves the right to allot any Surplus Units to Eligible Unitholders and New Investors at its absolute discretion.

Accordingly, Applicants may be allocated a lesser number of Surplus Units applied for, or you may be allocated no Surplus Units, in which case excess Application Money will be refunded without interest.





# 2.

## Arrow and the Fund

### 2.1 Background on Arrow

Arrow is a specialist agricultural fund manager, based in Melbourne. Its directors and management team have specialist skills in horticultural and agricultural property management, acquisition and disposal of properties, capital management, debt funding and all facets of listed and unlisted property trust operations.

In February 2010, the Arrow management team was contracted by Orchard Funds Management Limited (Orchard), the previous Responsible Entity of the Fund, to act as fund manager and conduct a strategic review of the Fund's operations. At the time of the appointment, entities associated with Arrow were granted the right to be appointed Responsible Entity. This review resulted in restructured leases and the sale of 8 properties totalling some \$22 million, the pay down of bank debt and a significant improvement in the operations and net asset value (NAV) of the Fund.

Due to a number of corporate actions taking place within the Orchard group during 2012, the change of Responsible Entity did not occur until 2013.

Arrow was re-appointed as fund manager in March 2013 and became Responsible Entity on 2 September 2013 following a meeting of the Fund's Unitholders. Arrow changed the name of the Fund to Arrow Primary Infrastructure Fund on 10 September 2013.

As Responsible Entity, Arrow has successfully completed two previous raisings of new equity for the Fund – a public offer of \$40 million in June 2014 and a wholesale offer of \$15 million in December 2015.

### 2.2 Arrow's Strategy

Arrow's objective is to provide investors with stable cash returns and the potential for income and capital growth by investing in agriculture focussed property and infrastructure. This objective is based on Arrow's 'property for income' philosophy with a focus on minimising the risks normally associated with agricultural investments.

### 2.3 Arrow's Board

Andrew Ashbolt (Managing Director) has extensive agricultural experience having specialised in the agriculture sector for 38 years. A qualified Chartered Accountant, he was previously a General Manager and Executive Director with Tasmanian listed agricultural company, Webster Limited from 1982 – 2004. He has had direct exposure to management of a number of horticultural operations including almonds, walnuts, citrus, table grapes, olives and glass house operations and managed agricultural property funds over the last 12 years.



Matt Reid (Director) has 22 years professional experience covering a broad range of corporate finance roles across a number of industries, both as an advisor and as part of a company. He has significant experience in the management of Managed Investment Schemes and is currently a partner at PwC in Melbourne. He previously ran his own property advisory business, Reid Advisory, and was an executive at Austock Corporate Finance and Becton Property Group.

Murray Jones (Director) has over 28 years' service as a risk and compliance management specialist. His expertise encompasses investment management, superannuation and insurance. He is the managing director of Compliance & Risk Services Pty Ltd, a company he founded in 2002 which provides services to financial institutions including funds managers, superannuation trustees, financial advisers and private equity. He has acted as an independent expert under ASIC enforceable undertakings, chaired institutional compliance committees and acted as a responsible manager for AFS licences. He is currently a non-executive director of Diversa Trustees Ltd. He previously held senior roles with National Mutual/AXA Group and worked for the Australian Securities Commission.





## 2.4 Overview of the Fund

The Fund was established in 2004 and is an open ended, unlisted property fund that owns agricultural property assets. It is a registered scheme with ASIC and borrows from a major Australian bank to enhance returns to investors. The secured lender holds a first mortgage over all of the Fund's assets. Sandhurst Trustees Limited acts as custodian and holds all the Fund's assets in its name. Boardroom (Vic) Pty Ltd provides registry services for the Fund.

## 2.5 Arrow's Investment Philosophy

Arrow's objective for the Fund is to provide investors with stable cash returns and the potential for income and capital growth by investing in agri infrastructure and property.

The strategy for the Fund is to create a stable and attractive investment vehicle with liquidity options. In particular:

- ▶ **Assets and leases** – focus on improving the value of existing assets, leases and tenant tenure via capex development and lease extensions and being a pro- active landlord;
- ▶ **Profitability and value enhancing** – focus on expansion activities on existing assets and new asset acquisitions that are value accretive;
- ▶ **Scale** – create an investment vehicle that enables the Fund to attract and access cheaper capital (debt and equity);
- ▶ **Income for investors** – seek to optimise the distribution yield for investors, whilst maintaining a sensible balance sheet and excess amount of cash flow to take advantage of opportunities should they arise;
- ▶ **Stable returns** – provide Investors with an attractive, consistent, quarterly yield on their investment so that units in the Fund will be sought by other investors; and
- ▶ **Cultivate multiple liquidity options for investors** –
  - create a stable and attractive investment vehicle that investors desire;
  - promote the Fund to a wide range of investors, including institutions; and
  - provide a limited withdrawal/redemption facility.

## ACQUISITIONS

Arrow may acquire additional properties for the Fund in the future that satisfy its investment objectives.

Arrow's current investment policy is to own agri property infrastructure assets which:

- ▶ are linked to strong agri sectors;
- ▶ will be leased to high quality tenants;
- ▶ preserve or enhance the Fund's geographic diversity; and
- ▶ are capable of being acquired on terms that ensure the Fund's risk and return objectives can be achieved.

Arrow may undertake future acquisitions and other growth initiatives on behalf of the Fund via an equity raising or borrowings, in which case:

- ▶ if the acquisition is funded by a future equity raising, the ownership interests of Unitholders may be diluted depending on their participation in the equity raising; and
- ▶ if the acquisition is funded by debt, the Fund's Gearing may increase.

Arrow will review this investment policy from time to time and may vary the criteria, or acquire a property that does not meet some or all of the criteria, where it considers it in the best interests of Unitholders to do so.

The extent to which the Fund acquires properties in the future will depend on the particular circumstances at the relevant time including the proposed terms of purchase and the availability of debt and equity funding.

## DIVESTMENTS

Arrow will consider the sale of a property where it no longer meets its objective or strategy for the Fund, or where the funds can be better employed as capex on existing sites. There is, however, no present intention to reduce the size of the Portfolio.

## DEVELOPMENT AND CAPITAL EXPENDITURE (CAPEX)

Arrow's policy for the Fund is to acquire properties which are either completed, or where development or delivery risk to the Fund has been substantially mitigated. Any development activity conducted will be with the intention to hold and ultimately derive new or increased rent from the property.

Capex paid by the Fund does not include expenditure on plant and equipment, unless it is an integral part of the building, water/ irrigation infrastructure or utility and backup services on the property. It is intended that the Lessee owns and is responsible for all removable and mobile operational plant and equipment.

Capex will only be undertaken and paid for by the Fund if the expenditure will result in an increase in the valuation of the respective property.

Any Capex paid for by the Fund will result in an immediate increase in the rent received for that property, at the yield specified in that property's lease agreement.

## 2.6 Borrowing Policy

Arrow will utilise a mix of debt and equity to finance the Fund's activities.

### GEARING RATIO (BENCHMARK 1 AND DISCLOSURE PRINCIPLE 1)

Arrow has adopted a target Gearing range and LVR range of between 40% and 50%. The Fund's Gearing and LVR were both 44% as at 31 December 2016 and are forecast to remain within the above range throughout FY2017 and FY2018.

Gearing will magnify the effect of any movement (both gains and losses) in the value of the properties or any changes in the interest rate. Higher gearing may also adversely affect the ability of the Fund to comply with its debt covenants. If the LVR exceeds 60%, the Fund will not be allowed to pay distributions and if the LVR exceeds 65% the Fund will be in breach of its Debt Facilities and may be required to repay the debt. Refer to Section 5 – Risks and Section 8.3 – Summary of the Fund's Debt Facilities, for more information about the potential risk and consequences of gearing.

### INTEREST COVER RATIO (BENCHMARK 2 AND DISCLOSURE PRINCIPLE 2)

The Fund has adopted and complies with a policy which requires the Interest Cover Ratio (ICR) to be 2.5 times or more.

The ICR was 6.2 as at 31 December 2016. It is forecast to be 6.4 at 30 June 2017.

The ICR is defined as earnings before interest, tax, depreciation and amortisation (EBITDA) divided by bank interest expense. It provides a measure of how well the Fund is able to pay the interest expense from its earnings. The higher the ICR, the more easily the Fund is able to pay its interest costs, as well as pay distributions and expenses after interest. Conversely, the lower the ICR, the less easily the Fund is able to pay its interest costs and accordingly distributions and expenses. If the ICR falls below 2.0, the Fund will be in breach of its Debt Facilities and may be required to repay the debt. Refer to Section 5 – Risks, for more information about the potential risk consequences of the ICR.

## 2.7 Interest Rate Hedging Policy

It is Arrow's policy for the Fund to use derivative financial instruments to hedge the risk associated with interest rate fluctuations. It will manage this exposure by:

- ▶ targeting a range for fixed interest rate exposure of between 25% and 75% of drawn borrowings; and
- ▶ the use of derivative contracts and/or other agreements to fix future interest payment obligations; and

As at 31 December 2016 the Fund had interest rate derivatives in place equal to 65% of drawn borrowings.

## 2.8 Valuation Policy

Arrow will determine the valuation methods and policies it will apply from time to time in determining the net asset value of the Fund. Arrow has adopted a valuation policy in relation to Properties.

The fair value of Properties is reviewed by the Board at the end of each reporting period (every six months). The Board's assessment of fair value for each individual property will be confirmed by an independent expert valuer.

Arrow may determine the requirement for a valuation at any time but has adopted a valuation program that provides for each Property to be independently valued by a suitably qualified valuer at least once every three years. Changes in market conditions may necessitate more frequent independent valuations of Properties.

Arrow's valuation policy requires that an independent valuation be obtained before a property is purchased. All new properties are to be valued on an 'as is' basis and where appropriate, development properties are also to be valued on an 'as if complete' basis. Independent valuations are also to be obtained within two months after the directors of Arrow form a view that there is a likelihood that there has been a material change in the value of a property.

Independent valuations are to be performed by a qualified valuer who is registered with an appropriate professional body and has a minimum of five years' relevant experience. All independent valuations must comply with relevant industry standards and codes. If Arrow becomes aware of any potential conflicts of interests concerning a valuation, then the conflict will be managed in accordance with its Conflicts of Interests policy. If a valuer is perceived to be conflicted, then that Board will replace that valuer with another valuer who is not conflicted.

## 2.9 Distribution Policy

Arrow intends that distributions will be paid out of the cash profit generated from the Fund's operations (i.e. not from borrowings) and that a minimum of the Fund's taxable income be distributed in each financial year. A portion of distributable income may be withheld in one period to smooth out earnings and/or provide additional working capital for future periods.

Arrow intends to pay quarterly distributions to Unitholders at the end of October, January, April and July (subject to the availability of distributable income). The first distribution to be paid on New Units issued in relation to the Offer will be made in July 2017 and will be for the pro-rata period from Allotment to 30 June 2017.

All distributions are paid by direct credit into investors' nominated bank accounts. If an investor has not provided a TFN or exemption category, or if their application shows a non-Australian country of residence, Arrow will deduct the relevant amount of tax from all distributions to that investor.

## 2.10 Distribution Reinvestment Plan

A Unitholder can choose to receive all or part of a distribution as cash deposited into their bank account and/or have it reinvested as additional Units in the Fund, calculated using the NAV.

Unitholders can choose to participate in the DRP or rescind a previous nomination at any time during the respective quarter.

Arrow reserves the right to suspend or terminate the DRP at any time.

## 2.11 Financial Reporting

The Fund operates on a 30 June financial year end basis for both financial reporting and tax purposes.

Formal financial reporting will be provided to Unitholders as at 30 June (full year) and as at 31 December (interim) each year.

To keep you informed about your investment and its performance, Arrow will lodge regular reports, Fund updates and financial statements on Arrow's Website: [www.arrowfunds.com.au](http://www.arrowfunds.com.au)

In addition, Arrow will confirm transactions and any offers in writing within the following timeframes.

Report type	When you will receive it
Transaction confirmations	Within 5 Business Days
Distribution statements	Payments will usually be made at the end of the month following each Quarter. Statements will be issued within 5 days of payment.
Half year report	March
Annual report	September
Annual taxation statement	Within three months of the end of the financial year
Periodic statement	Within six months of the end of the financial year

As the Fund currently has more than 100 Investors, it is classified as a disclosing entity under the Corporations Act, and is subject to regular reporting and disclosure obligations. These require the Fund to lodge annual and half yearly reports and notice of other important events with ASIC. This information will be posted on Arrow's website where it can be downloaded. Investors can request hard copies of this information free of charge by contacting or writing to us at the address listed in this PDS.

## 2.12 Changing your Details

We require changes to address or banking details to be made in writing and signed by the registered Unitholder(s). If the holding is in joint names we will require both signatures.

## 2.13 The Custodian

Sandhurst Trustees Limited is the custodian of the Fund (Custodian). Sandhurst is a long-established and respected trustee company that was incorporated in Victoria in 1888 and is a wholly-owned subsidiary of Bendigo and Adelaide Bank Ltd. It provides a wide range of services to financial institutions and is dedicated to giving efficient service to assist fund managers in obtaining the best possible returns for investors.

The Custodian's role is to have custody of the assets of the Fund. The Custodian can only deal with the assets as instructed by the Responsible Entity in accordance with the provisions of the Compliance Plan and Constitution, the Corporations Act and the agreement between the Responsible Entity and Sandhurst. The Custodian is not a trustee appointed to protect your interests.

The Custodian is not the issuer of this PDS and has not prepared this PDS. The Custodian makes no representation in and takes no responsibility for the accuracy or truth of any statement in or any omission from any part of this PDS. The Custodian and its directors or associates do not guarantee the performance or success of the Fund, the repayment of capital, or any particular rate of return of either capital or income.



EUMARALLA MANGO ORCHARDS, NT



## 2.14 Labour Standards and Environmental, Social and Ethical Considerations

While Arrow intends to conduct itself in an ethical and sound manner, our investment criteria do not give additional weight to labour standards or environmental, social or ethical considerations when making or realising an investment of the Fund.

## 2.15 Related Party Transactions

Related party transactions can carry a risk that they could be assessed and monitored less rigorously than arm's length transactions with unrelated parties. Arrow's current related party transactions are set out below. Arrow is conscious of this risk and has established a policy and procedure for managing this risk.

Arrow has in place a policy for dealing with Conflicts of Interests, which encompasses a procedure for managing related party transactions. These procedures require all related party transactions to be considered by the Board and to meet the requirements of the Corporations Act in relation to related party transactions. In particular, the Board will only approve related party transactions where a transaction is considered to be in the best interests of the Unitholders and it made is on arm's length, commercial terms or better.

The Constitution for the Fund provides that the Responsible Entity (and people or entities associated with it) may enter into a transaction with the Fund or with a person dealing with the Fund, or have an interest in any such transaction.

Arrow and its associates currently own 9.1% of the issued Units in the Fund and may make further investments in the Fund from time to time.

Murray Jones, an independent director, has been appointed as an external member of the Compliance Committee formed under the Corporations Act for the purposes of monitoring the Responsible Entity and the Fund. He receives an annual fee of \$10,000 for this work. This fee is charged as an expense to the Fund.

An entity associated with Murray Jones, Compliance & Risk Services Pty Ltd provides legal, compliance and risk management services to Arrow on behalf of the Fund, including their online CRS Certus compliance system. Total fees paid or payable for these services in the last 12 months, including estimated legal fees associated with this PDF were \$18,000.

An entity associated with Andrew Ashbolt (Managing Director of Arrow), Agri Management Pty Ltd ("Agri"), has been appointed by Arrow to undertake management services on its behalf. These services are paid for out of the Management Fee received by Arrow and are not an additional cost to the Fund.

In July 2014, Arrow separately engaged Agri to act as asset manager for the Properties held in the Fund. The fees for that engagement are charged to the Fund as expenses on an arm's length, commercial basis. Since 1 July 2014, Agri has received monthly payments of \$1,375 per property for these services, which will be increased by CPI as from 1 July 2017.

In the last six months Agri has engaged additional personnel and expertise to manage the extra services associated with sourcing, negotiating the acquisition and due diligence associated with the acquisition of the Fund's proposed macadamia property (Boombera Park). Agri will be paid an arm's length commercial fee by the Fund of \$78,500 for those additional services, half of which will be paid to an external party, Managed Growth (Australia) Pty Ltd ("MGA") for its assistance in this lengthy process.

As Agri will be responsible for managing the development of the Bombera Park property on behalf of the Fund, the asset management fee for that property has been agreed at an initial amount of \$5,000 per month during Stage 1 of the development.

## 2.16 Other Contracts

Arrow has contracted MGA under a management agreement to act as the on-site development manager for Stage 1 of the Bombera Park development on a retainer of \$15,000 per month, inclusive of incidental costs. MGA has agronomic and macadamia expertise as well as experience in the development of Greenfield horticultural operations, and is independent of both Arrow and Agri. MGA will receive a performance incentive fee equal to 20% of the over-performance of the Bombera Park property over an ungeared IRR of 15% per annum, less the retainer amounts paid or payable to MGA up to the termination date of the agreement.

All of the above fees and expenses have been incorporated into the financial forecast included within this PDS.





# 3.

## The Properties

### FUND PORTFOLIO SUMMARY

Property	Description	Tenant	Value <sup>1</sup> \$M	Annual Rent \$M	Passing Yield	WALE (Years)
Boronia Farm, Lees Road, Duri	18 Shed Chicken Breeder Farm	Baiada Poultry P/L	\$8.10	\$0.89	11.0%	10.0
Lynwood Farm, Loomberah, NSW	15 Shed Chicken Breeder Farm	Baiada Poultry P/L	\$9.40	\$0.98	10.5%	9.7
Woodleigh Farm, Curlewis, NSW	24 Shed Chicken Breeder Farm	Baiada Poultry P/L	\$11.40	\$1.17	10.3%	11.7
Bowlers Lane Farms, Tamworth, NSW	24 Shed Chicken Broiler / Breeder	Baiada Poultry P/L	\$10.45	\$1.03	9.9%	18.6
Tangarratta Farm, Tamworth, NSW	8 Shed Chicken Breeder Farm	Baiada Poultry P/L	\$3.20	\$0.30	9.5%	17.6
Glenara Park, Manilla, NSW	6 Shed Chicken Breeder Farm	Baiada Poultry P/L	\$4.70	\$0.45	9.5%	18.6
Bidgee Complex, Coleambally, NSW	44 Shed Chicken Breeder Farm	Bartter Enterprises P/L	\$27.80	\$2.82	10.1%	15.6
Avenues Complex, Coleambally, NSW	30 Shed Chicken Breeder Farm	Bartter Enterprises P/L	\$15.60	\$1.56	10.0%	19.6
Bearii Farm, Strathmerton, VIC	12 Shed Chicken Breeder Farm	Baiada Poultry P/L	\$4.70	\$0.54	11.4%	10.7
Myers Farm, Stewarton, VIC	8 Shed Chicken Breeder Farm	Turi Foods FD P/L	\$7.10	\$0.76	10.7%	6.1
Rhynie Farm, Rhynie, SA	10 Shed Chicken Breeder Farm	Baiada Poultry P/L	\$8.50	\$0.88	10.4%	12.8
Nagambie Broiler Farm, Nagambie, VIC	6 Shed Chicken Broiler Farm	Baiada Poultry P/L	\$5.70	\$0.60	10.5%	7.9
Lake Powell Lot 2 Orchard, VIC	204 ha Almond Orchard	Select Harvests Ltd	\$11.20	\$1.00	9.0%	7.5
Lake Powell Lots 5 & 6 Orchard, VIC	405 ha Almond Orchard	Select Harvests Ltd	\$21.00	\$1.87	8.9%	10.5
Eumaralla and Goldings Farms, NT	135 ha Mango / 48 ha Citrus	Seven Fields Op P/L	\$7.20	\$0.60	8.3%	13.3
Katherine Packing Shed, NT	4,501sqm Packing & Storage Shed	Seven Fields Op P/L	\$1.59	\$0.14	9.0%	13.3
Kelso Park, Duri, NSW	7 Shed Free Range Egg Farm	Pace Farm Pty Ltd	\$6.96	\$0.66	9.5%	18.8
Colignan Farm, Nangiloc, VIC	518ha Dried Fruit Vineyard/ 33ha Citrus	Murray River Organics Ltd	\$19.20	\$1.80	9.4%	24.0
Boombera Park, Lawrence, NSW <sup>2</sup>	Proposed Macadamia Orchard	Vacant	\$3.93	—	—	—
<b>Total or Weighted Average</b>			<b>\$187.72</b>	<b>\$18.06</b>	<b>9.8%<sup>3</sup></b>	<b>14.33</b>

### 3.1 Portfolio Overview

The Fund's Portfolio, including Boombera Park, comprises 19 properties spread across a variety of agricultural industries. The properties are located in NSW, Victoria, NT and South Australia and include a mix of new and mature primary infrastructure assets.

The Properties are leased under long-term leases to six tenants, being some of Australia's leading primary industry operators. The weighted average lease expiry (WALE) of the current properties (by income) at 31 December 2016 was 14.33 years.

At the date of the PDS all properties were fully leased, except Boombera Park which is being acquired in mid-April 2017 and will be under development until completion of Stage 1. Excluding Boombera Park, the Fund has a portfolio occupancy rate of 100% by property value.

All leases are triple net leases, which means that, in addition to rent, tenants pay all property operating costs, repairs and maintenance and property holding costs such as rates and taxes and insurance.

At the date of this PDS, the market value of the Portfolio is \$187.72 million, which reflects a Passing Yield of 9.8%.

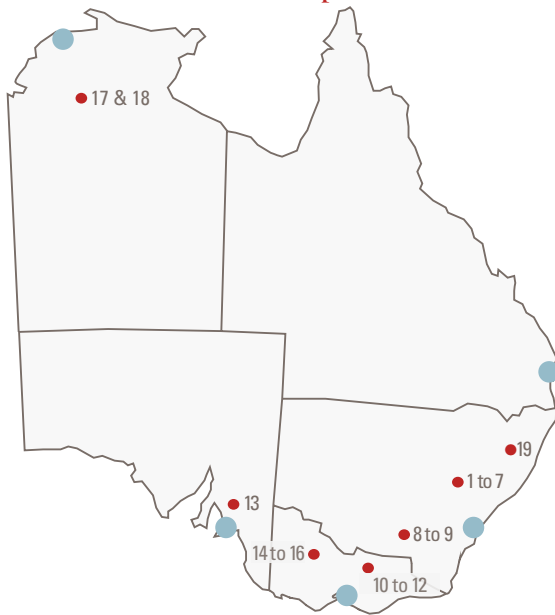
<sup>1</sup> Proforma 31/12/2016, refer valuation policy Section 2.8.

<sup>2</sup> Colliers valuation 27/02/2017 due to settle mid-April 2017.

<sup>3</sup> Excludes Boombera Park currently under development.

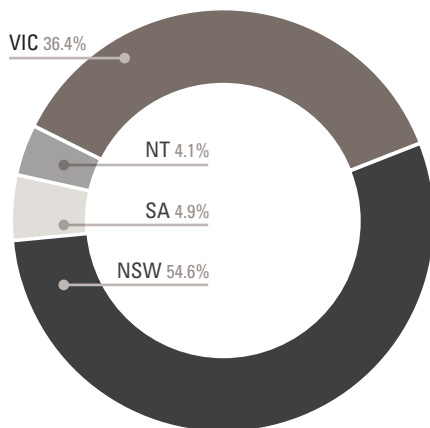
### 3.1 Portfolio Overview *continued*

**CHART 1 PIF Portfolio Asset Map**

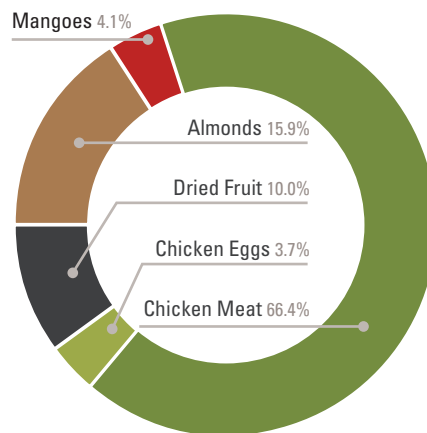


Ref.	Property	Type
1	Boronia Farm, Lees Road, Duri NSW	Chicken Breeder
2	Lynwood Farm, Loomberah NSW	Chicken Breeder
3	Woodleigh Farm, Curlewis NSW	Chicken Breeder
4	Bowlers Lane Farms, NSW	Broiler / Breeder
5	Tangarratta Farm, NSW	Chicken Breeder
6	Glenara Park, NSW	Chicken Breeder
7	Kelso Park, Duri, NSW	Free Range Eggs
8	Bidgee Complex, NSW	Chicken Breeder
9	Avenues Complex, NSW	Chicken Breeder
10	Bearii Farm, Strathmerton VIC	Chicken Breeder
11	Myers Farm, Stewarton VIC	Chicken Breeder
12	Nagambie Broiler Farm, VIC	Chicken Broiler
13	Rhynie Farm, Rhynie SA	Chicken Breeder
14	Lake Powell Lot 2 Orchard, VIC	Almonds
15	Lake Powell Lots 5 & 6 Orchard, VIC	Almonds
16	Colignan Farm, Nangiloc, VIC	Dried Fruit & Citrus
17	Eumaralla and Goldings Farms, NT	Mangoes & Citrus
18	Katherine Packing Shed, NT	Packing/Storage Shed
19	Boombera, Lawrence, NSW	Macadamia Orchard Development

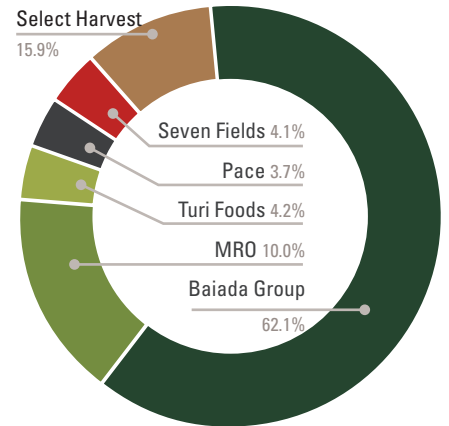
**CHART 2 Geographical Spread by Income**  
as at 31 December 2016



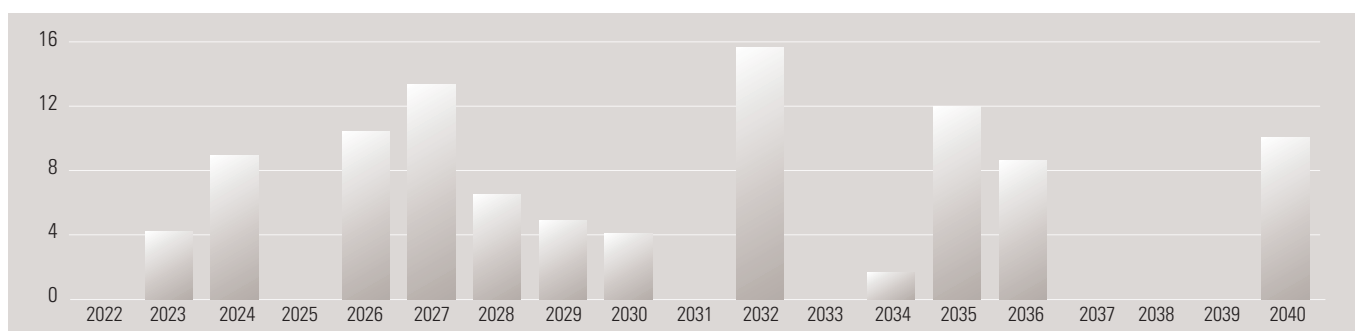
**CHART 3 Revenue by Industry**  
as at 31 December 2016



**CHART 4 Revenue by Tenant**  
as at 31 December 2016



**CHART 5 Lease Expiry by Income (%)**



## 3.1 Portfolio Overview *continued*

### Summary of The Fund's Tenants



**Baiada Poultry Pty Limited and Bartter Enterprises Pty Limited – 62.1% of lease income**

Baiada Poultry Pty Limited together with Bartter Enterprises Pty Ltd lease eleven properties from the Fund. Both companies are wholly owned subsidiaries of Baiada Pty Ltd (Baiada).

Baiada is a privately owned Australian company which produces premium quality poultry products throughout Australia. Its business operations include broiler and breeder farms, hatcheries, processing plants, feed milling and protein recovery. Their products include sales of live poultry including breeding stock, poultry feed, fertile eggs, day old chickens, primary processed chicken (raw) and further processed chicken products and pet food.

Baiada trades under two main brands – Steggles and Lilydale Select Free Range Chicken – and its major operating centres are located in New South Wales at Griffith and Tamworth. It also operates throughout Victoria, Southern Queensland and in South Australia.



**SELECT HARVESTS**

**Select Harvests – 15.9% of lease income**

Select Harvests Limited is a listed company (ASX: SHV) and Australia's largest vertically integrated nut and health food company. It is one of Australia's largest almond growers and exports almonds throughout the world. It is the country's leading manufacturer, processor and marketer of nut products.

Select Harvests operates more than 4,000 hectares of orchards in Victoria, South Australia and New South Wales. Select owns, leases and has joint venture almond orchards. The Fund's Lake Powell orchards represent the only orchards leased by Select in Victoria.

Select Harvests also own and operate a primary processing facility at Carina West in north-west Victoria which is only a few kilometers from the Fund's Lake Powell orchards.



**Turi Foods Farming Division Pty Ltd – 4.2% of lease income**

Turi Foods Farming Division Pty Ltd leases the Fund's Myers Breeder Farm, located in Northern Victoria. It is a related entity of Turi Foods, a family owned Australian company which commenced in 1976 and is based in Victoria.

Turi Foods' brands include La Ionica, Bannockburn Free Range Chicken and Golden Farms Chicken.



**Seven Fields Operations Pty Ltd – 4.1% of lease income**

Seven Fields Operations Pty Ltd leases the Fund's mango farm and packing shed at Katherine, Northern Territory. It is a wholly owned subsidiary of Seven Fields Pty Ltd, which is now 100% owned by Nutrano Produce Group, a newly formed group which distributes fresh produce throughout Australia.

Seven Fields grows mangoes, lemons and grapefruit at the Fund's Eumaralla Farm 30 kilometers south of Katherine, NT. It also leases the Fund's packing shed in Katherine where the Kensington Pride mangoes and Eureka lemons are sorted, packed and shipped to markets throughout Australia.



**Murray River Organics Ltd – 10.0% of lease income**

Murray River Organics Ltd leases Colignan Farm located at Nangiloc in Victoria. Murray River Organics is an Australian producer, marketer, manufacturer and seller of certified organic, natural and better-for-you food products.

As at November 2016 Murray River Organics controlled some 4,400 acres of certified organic farmland, a certified organic processing facility in Mourquong, NSW and new organically certified packaging facility in Dandenong, Victoria, making them the largest fully integrated producer of dried vine fruit in Australia, and the largest vertically integrated producer of organic dried vine fruit in the world. Murray River Organics listed on the ASX in December 2016 with a market capitalization of \$113.2m.



**Pace Farm Pty Ltd – 3.7% of lease income**

Pace Farm Pty Ltd leases Kelso Park located at Duri, NSW, where they farm free range eggs for the retail market, national and international hotels, restaurants, and food manufacturers. Pace Farm is a 100% Australian, family owned and operated company, which has been supplying eggs for more than 35 years.



## 3.2 Features of Current Leases

### RENT GUARANTEES

- ▶ In the case of 16 leases, the Fund holds bank guarantees that provide security for the tenant's rental obligations.

### CAPITAL EXPENDITURE

- ▶ The Fund has a best endeavors obligation to undertake capital expenditure where it improves the value of the property.
- ▶ Where the capital expenditure exceeds 10% of the original acquisition cost, the lease term will be extended.
- ▶ If the Fund elects to undertake capital expenditure, the future lease rentals will increase by the same yield that applied in the case of the original purchase price. For example if the capital amount is \$100,000 and the initial rental yield when the property was purchased was 10%, then the rent would increase by \$10,000.
- ▶ As at 31st December 2016 the Fund has capital commitments due within the next 6 months of \$5,312,000, and a further \$11,648,500 of commitments between 6 months and 4 years.

### RENT REVIEWS

- ▶ All of the Fund's leases are subject to CPI and/or fixed percentage increases, which are applied on the anniversary date. In the case of Kelso Park and Colignan Farm leases, where significant capex was planned to occur following acquisition, annual reviews were deferred for 2 years.

### OTHER CLAUSES

- ▶ Sale of property by the Fund – tenant has the first right of refusal. The property cannot be sold to a competitor of the tenant nor a party that would result in a conflict of interest, unless the tenant defaults.
- ▶ Change of control of the Fund – the control of the Fund/Lessor cannot pass to a competitor of the tenant nor a party that would result in a conflict of interest.
- ▶ Assignment of the lease by the tenant – requires prior written approval of the Responsible Entity, which cannot be unreasonably withheld.
- ▶ Ownership of plant and equipment – the Fund does not own any plant and equipment, unless it is an integral part of the building, water / irrigation infrastructure or utility and backup services for the property. The lessee owns and is responsible for operational plant and equipment such as feeding and egg collection systems, tractors, harvesting equipment, etc.





## 4.

## Industry Overview

## 4.1 Poultry

Australian consumers currently spend around A\$5.6 billion p.a. on poultry meat, with per capita chicken meat consumption growing at a compound rate of 2.6% p.a. between 2003 and 2015.

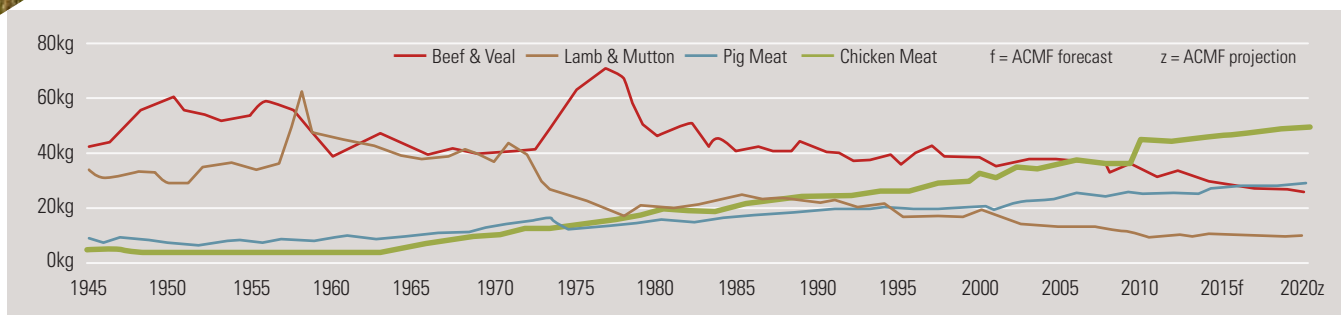
This growth has been underpinned by a number of factors, including:

- The relative affordability of chicken
- Consistently high and reliable product quality
- Greater public awareness of the health benefits of chicken
- Consumer preferences for increased variety (and chicken's considerable versatility)
- Growth in free range production
- Trends towards convenience shopping and further processed meals (with chicken being a key beneficiary)
- Increased availability and expanded product ranges through supermarkets and quick service restaurants
- Advancements in further processing/value-add

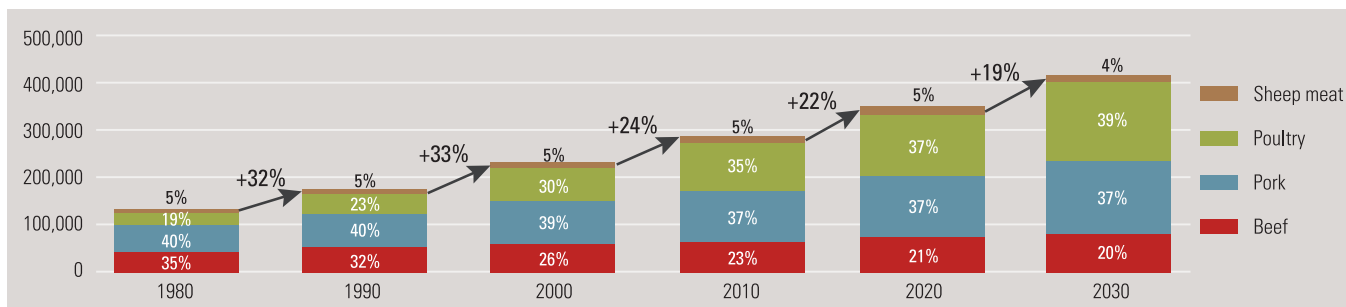
Chicken is forecast to be the highest consumption meat globally by 2030. *(Rabobank, 2011)*

- **1990** – annual global demand for meat was 173 million tonnes, of which poultry made up 23 per cent.
- **2010** – annual global demand for meat sat at 285 million tonnes, with poultry comprising 35 per cent or 100 million tonnes of that figure. *(Rabobank, 2011)*
- **2030** – OECD-FAO estimate that global food production needs to increase by more than 40 per cent by 2030 to meet the needs of an ever increasing global population. *(OECD-FAO, 2009)*
- Poultry's growth rate is expected to be the highest at 60 per cent, with poultry forecast to make up 39 per cent of worldwide meat demand by 2030 and become the most consumed meat globally. *(Rabobank, 2011)*

**CHART 6 Historical per Capita Australian Meat Consumption Index** SOURCE: Australian Chicken Meat Federation Inc.



**CHART 7 Global Meat Demand Growth estimates 2010 – 2030 (kt)** SOURCE: Rabobank, 2011



## 4.1 Poultry *continued*

### EXPORTS AND IMPORTS

Less than 3% of Australian chicken meat is exported, representing significant growth opportunities in the future.

Chicken meat cannot be freely imported into Australia due to strict quarantine requirements in place to protect both local commercial poultry and native birds from disease and consumers from certain food safety hazards. Quarantine conditions focus on nine diseases and pathogens of concern, and any chicken meat products from regions which are not free of all of these diseases need to be cooked to various extents depending on the disease in question in accordance with the relevant import protocol. As a result, Australia is not a significant importer of chicken meat. In the ten years to 2010, Australia imported 60 tonnes of chicken meat, whereas it produced well over 7,000,000 tonnes of chicken for Australia's consumers.

### BARRIERS TO ENTRY

There are significant barriers to entry for new entrants:

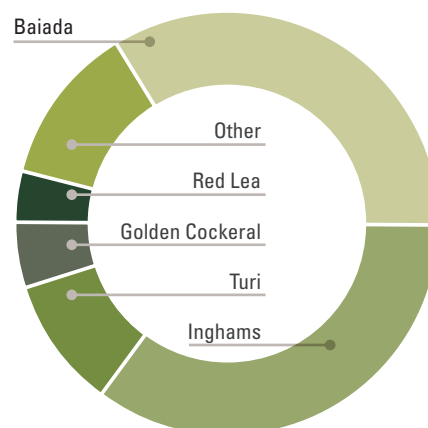
- ▶ **Consumer Supply Chain:** the major retail customers are increasingly moving to distribution centre delivery models and planning on a national basis.
- ▶ **Food Safety, Animal Welfare and Environmental Regulations:** a number of national and state/territory departments and agencies regulate the poultry industry in Australia and ensure industry compliance with strict food safety, animal welfare and environmental standards.
- ▶ **Import Restrictions:** Australia has stringent quarantine restrictions to protect native birds and local commercial poultry from disease and consumers from certain food safety hazards.
- ▶ **Consolidated Industry:** major players have strong existing relationships with key customers, which represents a significant hurdle for new entrants.
- ▶ **Capital Commitment Cost:** significant capital outlay is required to secure a viable supply chain operation.

## MAJOR PLAYERS IN AUSTRALIA

### Poultry Production

- ▶ Total industry annual sales are estimated to be \$6 billion.
- ▶ Over 95 per cent of the chicken meat grown and eaten in Australia is produced by seven privately owned Australian chicken meat processing companies.
- ▶ The two largest, Baiada Poultry and Inghams Enterprises, supply between 60 to 70 per cent of Australia's chicken meat, with the next five companies each supplying between 3–9 per cent of the market. A large number of smaller processors make up the balance.

**CHART 8 Australian Chicken Meat Market Share** SOURCE: *The Australian Chicken Meat Industry: An Industry in Profile*



## 4.1 Poultry *continued*

### POULTRY CYCLE

#### Breeder farms:

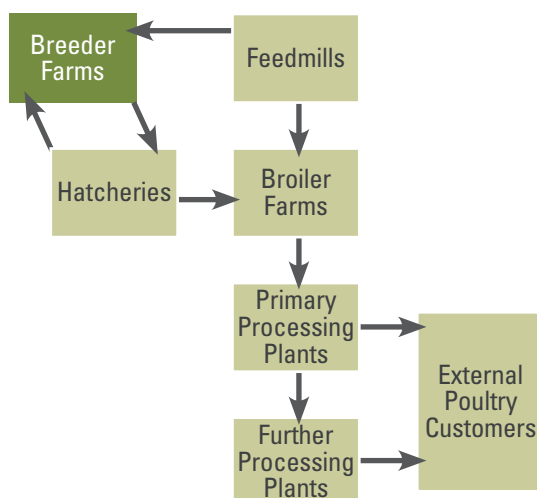
- ▶ The entire chicken meat industry is dependent upon production of quality fertilised eggs produced at breeder farms.
- ▶ Breeder farms and their IP represent the most critical part of the supply chain.
- ▶ The Fund owns 11 breeder farms with a total of 195 sheds (approx. 1.885 million birds) representing 19% of Australian production  
(Arrow estimate)

#### Hatchery

- ▶ Once chicks are 7 to 10 days old they are transferred from a hatchery to a broiler farm where they are grown out for chicken meat in approximately 59 days.

#### Broiler farms

- ▶ Broiler farms have about 5 flock turnovers per year
- ▶ The Fund owns 1 modern broiler farm at Nagambie, VIC, with a capacity of approximately 300,000 birds
- ▶ The Fund's strategy has been to focus on owning breeder farms due to their critical status in the poultry meat supply chain. Processors (such as Baiada and Turi Foods) rarely relinquish operational control over these facilities
- ▶ In contrast, broiler farms are often outsourced by the processors to third parties on take or pay contracts
- ▶ This results in the tenants of breeder farms being extremely strong tenants, i.e. the major poultry processors, while the tenants of broiler farms are often private operators
- ▶ Given the high degree of importance of breeder farms in the poultry cycle, there is a big incentive for tenants to maintain these assets in great condition and continue tenure via lease renewals

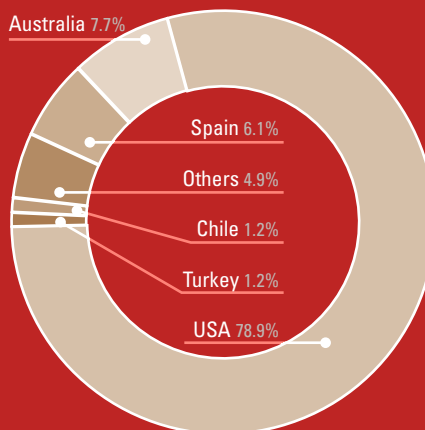


## 4.2 Almond Industry

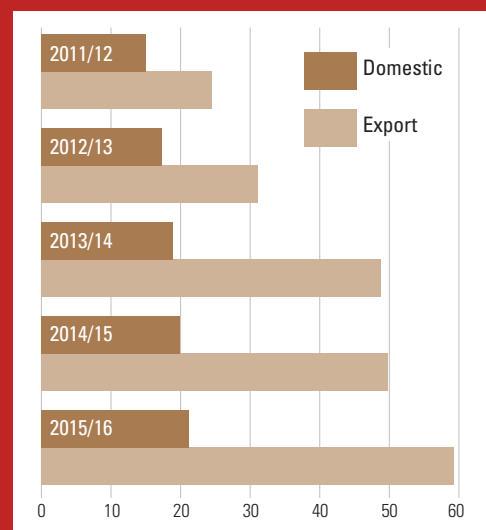
The Australian Almond industry represents one of the few industries in which Australia has a strategic advantage (only major Southern Hemisphere producer), is a significant global producer (approx. 7.7% of world production, 2nd behind USA) with a relatively low cost of production.

- ▶ Australian Almond production has increased by 111% over the five year period to 2015.
- ▶ In 2015, Almonds remained Australia's number 1 horticultural export by value.
- ▶ In the 5 years to 2015, Australian domestic consumption increased by 46%
- ▶ Export Sales have increased by 481% in the five years to 2015.

**CHART 9 World Almond Production 2015** SOURCE: US 2014 Crop Production figures



**CHART 10 Australian Export and Domestic Supply (Marketing Year) Kernel equivalent** SOURCE: Almond Board of Australia, "Almond Insights 2015/16"





### 4.3 Organic Dried Fruit Industry

Dried vine fruit is a popular food ingredient and snacking product, not only on account of its unique sweetness, flavour and texture, but also because of its extremely long shelf life and versatility of use.

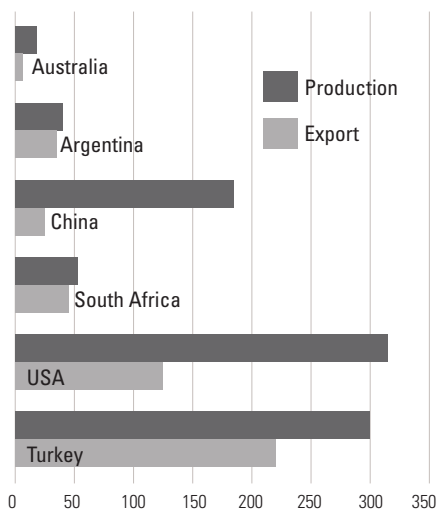
Global consumption of dried vine fruit is estimated to rise from 1.18 million tonnes in 2015/16 to 1.23 million tonnes in 2016/17.

Globally, the United States, Turkey, and China are the largest producers of dried vine fruit.

In Australia, around 80% of the country's dried vine fruit growers are located in the Sunraysia region, however due to the high barriers to entry, there are no certified organic dried fruit producers of scale in Australia apart from Murray River Organics.

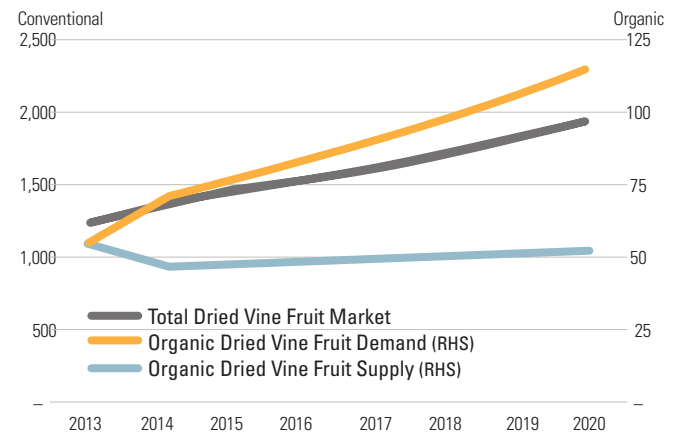
Growth in demand for organic dried vine fruit is forecast to be 10% per annum with historical figures at 14% per annum.

**CHART 11 Dried vine fruit production and export volumes 2016/17** SOURCE: United States Department of Agriculture (USDA)



**CHART 12 Global dried fruit market organic supply & demand**

SOURCE: International Seedless Dried Grape Producing Conference 2014





#### 4.4 Macadamia Industry

Australia is the world's largest producer and exporter of macadamia nuts. It provides approximately 28 per cent of the world supply to more than 40 countries, ahead of South Africa and Hawaii, supplying 25 per cent and 16 per cent of macadamia kernels respectively.

It is the only Australian native food crop that has seen significant commercial development for local and export markets.

The first commercial macadamia processing plant was established in 1954 and now there are more than 850 growers across three states, producing around 50,000 tonnes, worth in excess of \$200m annually with 70% of production exported as kernel to the world market.

The main growing region stretches around 1,000 kilometres along Australia's east coast; from the mid north coast of New South Wales up to Mackay in Queensland and the industry annually brings more than \$400 million economic value to local communities.

The industry is expanding rapidly as planting and production increases with production forecasts of 54,000 tonnes in 2017.

The unique flavour, the nutritional benefits and the versatility of the macadamia nut either raw, roasted or in recipes are increasingly being recognized in international markets. Export sales have grown continuously over the last decade with Europe and Japan continuing to grow.

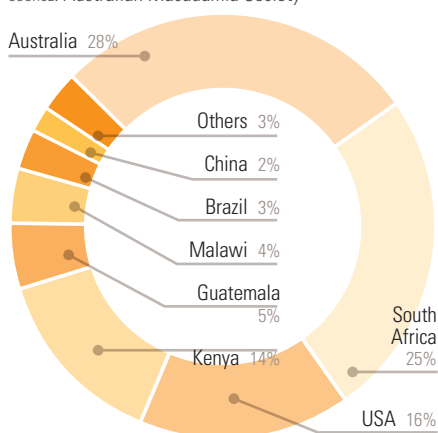
The domestic market consumes 35 per cent of local kernels, with the Asia Pacific region now the second largest representing 40 per cent of overall sales. The appeal of Australian macadamias is developing in international markets including Taiwan and Korea

Growing competition comes from South Africa and Central America, but currently macadamias account for less than 3 per cent of the world tree nut market, so with marketing into existing and new markets, there is unlimited potential for Australian macadamias.

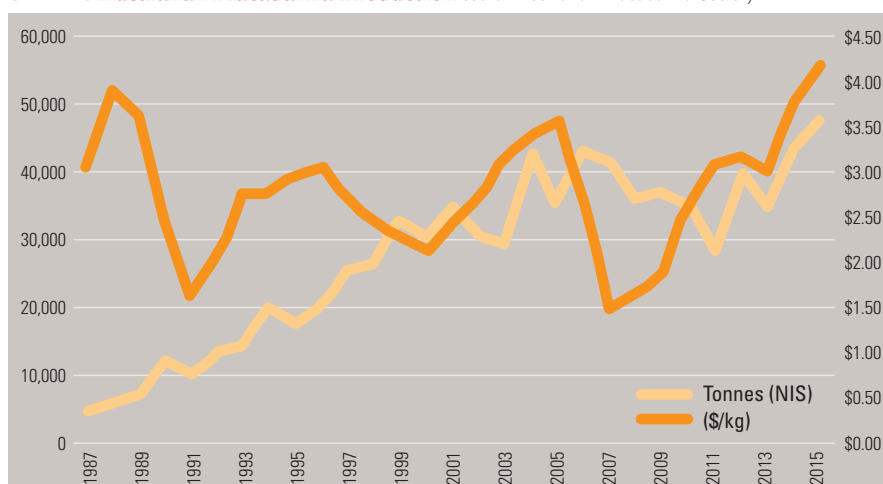
Most macadamia farms sell their nuts ex-farm gate on a dried recovery and graded basis. On most farms operating modern harvesting equipment, nuts are 95% de-husked when picked up by machines in the field and then placed in large skip bins and sent to a local mill where the mill removes any remaining husks and dry the in-shell nuts to a 10% moisture content before colour sorting and size grading. They are then either shipped to buyers or further processed to have the nut extracted.

**CHART 14 Global Macadamia Production**

SOURCE: Australian Macadamia Society



**CHART 13 Australian Macadamia Production** SOURCE: Australian Macadamia Society





# 5.

## Risks

As with all investments, an investment in the Fund will be subject to risks, some of which are outside the control of Arrow or the Manager. If they eventuate, these risks may reduce or require suspending your Distributions from the Fund and/or reduce the capital value of your investment. Before deciding whether to invest in the Fund, you should consider your attitude towards the following, and other, potential risks. The risks discussed in Section 5 are not an exhaustive list. It is Arrow's current opinion that the following are key risks of an investment in the Fund:

- ▶ **agricultural property investment risks** – including the risk that the property values decline and the risk that there is a decrease in Fund income due to a tenant being unable to pay its rent or not renewing its lease, or a replacement tenant not being able to be found;
- ▶ **fund investment risks** – including the limitations on the liquidity of your investment, investment horizon, gearing, diversification risk and the risk that additional transaction costs may be levied; and
- ▶ **general investment risks** – including that the economy and market conditions may affect asset values and returns.

These risks are outlined in more detail in this section. You should read this PDS in full before deciding whether to invest in the Fund and consider consulting your financial adviser, stockbroker or other professional advisers. As well as considering these risks, you should also consider how an investment in this product fits into your overall investment portfolio.

### 5.1 Agricultural Property

#### INVESTMENT RISKS

These risks relate to investing in real estate, particularly, the Fund's primary production assets:

#### TENANCY RISK

One or more of the tenants of the Fund's properties may be unable to honour their lease obligations. The Fund's forecast income is dependent upon tenants paying rent in accordance with their lease terms. There is a risk that these tenants may default on the terms of their lease or that the Fund does not provide agreed minimum service standards, either of which could result in a reduction in rental income for the Fund, and additional expenses or delays associated with re-leasing the tenancy or enforcement action.

Vacancy periods may have an adverse impact on the Fund's net income and distributions, the Fund's ability to comply with its debt covenants, the capital value of the relevant property and potentially, the NAV per Unit.

The Fund's major tenant, Baiada Poultry Group provides 62% of the Fund's rental income. If anything adverse should happen to the Baiada Group or its entities which hold leases with the Fund (Baiada Poultry Pty Limited and Bartter Enterprises Pty Limited), that could impact their ability to pay rent and become a serious issue for the Fund. Such a risk may arise due to issues only impacting Baiada or it could be due to broader industry issues such as a reduction in chicken meat consumption.

#### REVALUATION

The market value of each property is influenced by various factors, including a change in market conditions such as supply and demand, capitalisation rates, lease expiry and comparable rentals. There is no guarantee that the Fund will achieve a capital gain upon the sale of all or any of the Properties or that the value of any Property will not fall as a result of the assumptions upon which the relevant valuations are based changing, or proving to be incorrect.



## 5.1 Agricultural Property *continued*

### AGRICULTURAL RISK

In the main, the Fund will be exposed to general agricultural risk in its capacity as landlord only. However, sustained reductions in the profitability of its tenants due to poor seasonal or commodity market conditions may lead to the failure of their business, or to a reduction in the value of the Fund's assets. In addition, sustained periods of adverse climatic conditions, disease or natural disasters may result in physical damage to the Fund's assets, which may result in a reduction in their value, or require remediation works or additional capital expenditure. These costs must in the main be borne by the Fund as it is often impractical or impossible to effectively insure trees.

### DEVELOPMENT RISK

In certain circumstances, the Fund may be exposed to development risk. The majority of development expenditure undertaken by the Fund is part of ongoing lease arrangements, in which the tenant is responsible for paying an increased rental in relation to the new development based on the level of capital expenditure. In the case of Boombera Park, however, the Fund is proposing to complete Stage 1 of the proposed development - the detailed farm planning process and contracted growing by an off-site nursery of the initial macadamia trees- during the first 18 months ownership. It is Arrow's belief that the development risk associated with Stage 1 is mitigated due to the fact that, prior to the planting of macadamia trees, the Boombera Park property remains in its existing state capable of being run as a grazing property, or several sub-dividable properties, and there is a ready market for the contracted trees.

### NATURAL PHENOMENA OR FORCE MAJEURE EVENTS

There is a risk that natural phenomena or force majeure events may affect any of the Fund's properties. There are certain events for which insurance cover is not available or for which the Fund does not have cover. If the Fund is affected by an event for which it does not have cover, this would result in a loss of capital and a reduction to the NAV per Unit and overall investor returns. An event of this type could also result in an increase in insurance premiums.

### WATER

The Fund's properties are dependent upon given volumes of good quality water supplies for irrigating trees or vines, or supplying drinking water for chickens. Water is supplied from various sources including rivers, community irrigation schemes, aquifers and town water systems. In most cases, water licences owned by the Fund govern the amount of water that is allowed to be drawn and used on each property and these licences are included in the property assets leased to tenants. In cases of continuing drought there is a risk that the respective water authority may reduce the water allocation or change the terms or conditions of the water licence. Whilst this is an operational risk of the tenant and may result in them incurring additional cost to acquire temporary water there is a risk that reduced water allocations or unfavourable changes to the licence terms and conditions may affect the value of the property or its long-term viability.

### PESTS & DISEASE

Poultry, trees and vines each have the potential to be affected by pests or contract various diseases, most of which can be treated by good veterinary or horticultural treatment. In the event that pests or diseases remain untreated or are incapable of being remedied then there is a risk that the value of the Fund's property value may reduce.

In the event that an avian disease or control measures resulting from an avian disease outbreak renders a Fund property substantially unfit for occupation and use by the Lessee, or otherwise has a material adverse effect on the operation of the Lessee's business from the property, then the rent from that property may be reduced by 50% for the period of loss, up to a maximum of six months. This would cause a loss of revenue to the Fund and may also reduce the value of the Fund's property.

### PROPERTY LIQUIDITY

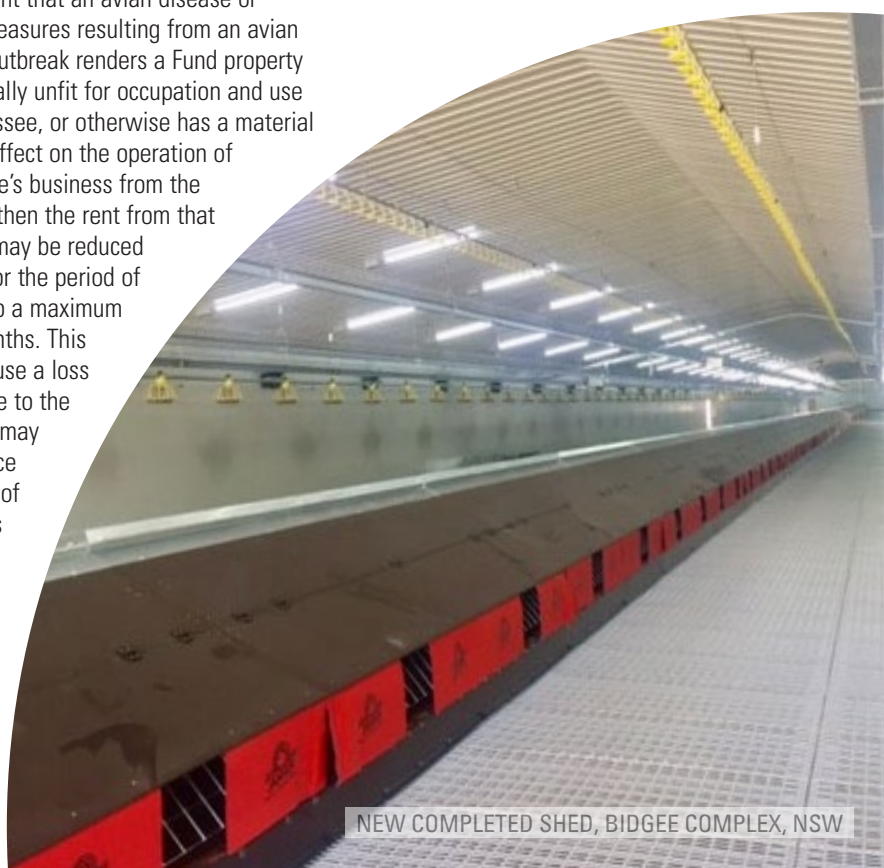
Direct agriculture property investments are by their nature, illiquid investments. It may be difficult for Arrow to dispose of a property or properties in a timely manner or at an optimal sale price. This may affect Arrow's ability to return capital to investors and may reduce NAV per Unit.

### PROPERTY CONTAMINATION

Property income or valuations of the Property could be adversely affected by:

- ▶ discovery of an environmental contamination; or
- ▶ incorrect assessment of costs associated with an environmental contamination or with property preservation.

This risk may occur irrespective of whether the contamination was caused by the Fund or prior owners.



NEW COMPLETED SHED, BIDGEE COMPLEX, NSW



## 5.2 Fund Investment Risks

These risks relate specifically to an investment in the Fund:

### LIQUIDITY

While Units may be transferred, there is no liquid secondary market for Units.

Other than the Fund's limited redemption facilities, Unitholders are therefore reliant upon locating buyers for their Units in the event that they wish to sell.

### DEBT AND GEARING

The Fund is a geared investment product. Gearing will magnify the effect of any movement (both gains and losses) in the value of the properties. Higher gearing may also adversely affect the ability of the Fund to comply with its debt covenants.

A breach of a debt covenant may also result in a debt financier enforcing its security over the relevant assets. The financier may require payment of the facility, possibly prior to its expected expiry. This could result in an early sale of some or all of the Properties at a less than optimal sale price, for instance, in a depressed market; additional equity being required; or distributions being reduced or suspended to be used to repay the borrowings.

If the borrowings are refinanced, the terms (including fees and the interest rate margin payable) may be less favourable than those applying to the prevailing borrowings. In the worst case, refinancing may not be possible, resulting in a forced sale of the Fund's assets and in turn, resulting in a loss of capital and a reduction to NAV per Unit and overall investor returns.

### INDUSTRY CONCENTRATION RISK

Generally, the more diversified a portfolio, the lower the impact that an adverse event affecting one property or lease will have on the income or capital value of an investment. The Fund owns a number of poultry properties. If the poultry industry is adversely impacted (e.g. by disease or a downturn in demand), this may have a material, adverse impact on the Fund's activities, financial position and distributions.

### TENANT RISK

The Fund has significant exposure to the Baiada Lessees and the poultry meat industry, with rental from Baiada Lessees representing 62% of its rental income. If the Baiada Lessees were to default on their lease obligations, this may have a material, adverse impact on the Fund's activities, financial position and distributions.

### DILUTION RISK

As the Fund issues Units to new Investors, your proportional ownership in the underlying assets of the Fund may be reduced. Similarly, if you do not participate in the DRP and reinvest your distributions, your beneficial ownership in the Fund will be diluted.

### INTEREST RATE RISK

There is a risk that a debt facility or an interest rate hedge (i.e. fixing the future interest rate) may not be available on the same terms upon extension or refinancing, or when new finance or hedging strategies are sought. There is also a risk that interest rates may rise. These risks may have a material, adverse impact on the Fund's activities, financial position and distributions.

### COMPLIANCE RISK

The Fund is a managed investment scheme, which means that Arrow is subject to strict regulatory and compliance arrangements under the Corporations Act and ASIC policy. If Arrow does anything to jeopardise its Australian Financial Services Licence, then ASIC may take action to suspend or revoke the licence, which in turn may adversely impact the Fund.

### CONFLICT OF INTEREST AND RELATED PARTY TRANSACTIONS

The Fund may be affected by certain inherent conflicts of interest. There is a risk that these conflicts may not be managed appropriately and may have a material, adverse impact on the Fund's activities, financial position and distributions. Related party transactions can carry a risk that they could be assessed and monitored less rigorously than arm's length transactions with unrelated parties.

## 5.3 General Investment Risks

These risks relate to the overall risk of most investments:

### ECONOMY AND MARKET CONDITIONS

There is the risk that changes in the economy and market conditions may affect asset returns and values, which in turn result in reduced distributions and may decrease the NAV per Unit.

The overall investment performance of the Fund may be affected by changing economic or property market conditions. These may include movements in interest rates, exchange rates, securities markets, inflation, consumer spending, employment and the performance of individual, local state, national and international economies.

### INSURANCE

Any losses due to uninsured risks may adversely affect the performance of the Fund. Insurance premium increases could occur, for example, if the Fund claims under any insurance policy for significant losses in respect of any Property. Any failure by the company or companies providing insurance (or any reinsurance) may adversely affect the Fund's ability to make claims under its insurances.

### LITIGATION

In the course of operations, the Fund may be involved in disputes and possible litigation. It is possible that a material or costly dispute or litigation could affect the value of the assets or expected income of the Fund.

### LEGAL AND REGULATORY MATTERS

There is the risk that changes in any law, regulation or government policy affecting the Fund's operations (which may or may not have a retrospective effect) will have an effect on the properties and/or the Fund's performance.

### TAXATION

Changes to taxation law and policy might adversely impact the Fund and Investors are advised to seek professional taxation advice in relation to their own position.

## 6.

Financial  
Information

## 6.1 Overview

The financial information contained in this Section 6 has been prepared by Arrow and includes:

- ▶ historical income statement for the financial year ended 30 June 2016 (FY16);
- ▶ pro-forma statement of financial position as at 31 December 2016;
- ▶ forecast income statements for the financial years ending 30 June 2017 (FY17) and 30 June 2018 (FY18) (Forecasts);
- ▶ forecast statement of financial position for the financial years ending 30 June 2017 (FY17) (Forecasts);
- ▶ forecast Distributions for FY17 and FY18; and
- ▶ statement of sources and uses of funds attributable to the Offer,

collectively, the Financial Information.

The Financial Information has been prepared to reflect the completion of the Offer before 30 June 2017.

Rounding in the Financial Information may result in some minor discrepancies between the sum of components and the totals outlined within the tables and percentage calculations.

The Financial Information should be read in conjunction with all information provided in this PDS, including the sensitivities outlined later in this Section and the risk factors outlined in Section 5.

## 6.2 Basis of Preparation and Presentation of Financial Information

Significant accounting policies relevant to the Financial Information are disclosed in Section 6.9.

The Financial Information in this Section has been prepared in accordance with the Australian Accounting Standards as adopted by the Australian Accounting Standards Board (AASB's) except that information has been presented in summarised format to make it more readily understandable to investors.

### PREPARATION OF HISTORICAL FINANCIAL INFORMATION

The historical financial information is derived from the audited financial statements for the Fund for FY16.

### PREPARATION OF FORECAST FINANCIAL INFORMATION

The forecast financial information has been prepared based on various assumptions which represent our best estimate of future events. The forecast financial information should be read in conjunction with:

- ▶ the key assumptions detailed in Section 6.7 – Base Case Assumptions and footnotes to the tables;
- ▶ the summary of significant accounting policies which are described in detail in Note 2 to the annual financial statements of APIF for the reporting period ended 30 June 2016; and
- ▶ the risks noted in Section 5.

Investors should note that assumptions are not guaranteed and events outside our control can significantly affect the actual outcome. Prospective investors should consider the risks of investing in APIF noted in Section 5 - Risks.

The Forecasts and pro-forma statement of financial position have been prepared on the basis that an amount of \$10 million has been raised and the Offer is completed in May 2017. The Directors draw potential investors to the sensitivity table at Section 6.8 which includes a summary of the impact on FY17 Forecast earnings and distributions, based on the maximum raising of \$15 million.

Prospective investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the Forecasts, and that any deviation in the assumptions on which the Forecasts are based may have a material positive or negative effect on the Fund's actual financial performance or position.

Investors are advised to review the base case assumptions set out in paragraph 6.7, in conjunction with the sensitivity analysis set out in paragraph 6.8, the risk factors set out in Section 5 and other information set out in this PDS.

## 6.3 Historical and Forecast

### FINANCIAL INFORMATION

The table below shows the historical and forecast income statements of APIF for FY16 (actual), FY17 (forecast) and FY18 (forecast).

#### Historical and Forecast Income Statements

\$Millions	Actual FY16	Forecast	
		FY17	FY18
<b>Income</b>			
Net rental income	\$16.1	\$18.0	\$19.5
Other income	\$0.0	\$0.0	\$0.0
<b>Expenses</b>			
Management fees	\$(1.59)	\$(1.86)	\$(2.02)
Other fund expenses	\$(0.98)	\$(1.01)	\$(1.16)
<b>Net operating income (EBIT)</b>	<b>\$13.6</b>	<b>\$15.2</b>	<b>\$16.3</b>
<b>Interest</b>			
Interest expense (net)	\$(2.53)	\$(2.56)	\$(3.03)
<b>Net income before tax (normalised)</b>	<b>\$11.03</b>	<b>\$12.64</b>	<b>\$13.30</b>
Statutory non operating adjustments	\$8.82	\$0.95	\$(0.04)
<b>Statutory profit before tax</b>	<b>\$19.84</b>	<b>\$13.58</b>	<b>\$13.26</b>
Normalised EPU – cents	8.638	8.912	8.530
DPU – cents	7.500	8.000	8.250

*Past performance is not a reliable indicator of future performance.*

The historical income statement for FY16 has been prepared using the audited financial accounts of the Fund.

The forecast income statement for FY17 has been prepared using:

- ▶ Actual results for the period 1 July 2016 to 31 December 2016 derived from the Fund's half year audited reviewed financial accounts; and
- ▶ Forecast results for the period 1 January 2017 to 30 June 2017 using the base case assumptions.

The forecast income statement for FY18 has been prepared using the base case assumptions.

Statutory non-operating accounting adjustments:

- ▶ Net Income Before Tax (normalised) is reported before statutory non-operating accounting adjustments to allow investors to more readily compare the historical and forecast financial information derived from the operating activities of the Fund. The statutory accounting adjustments include accounting for fair value movements in investment properties and other financial assets, straight line lease accounting and other non-cash items such as amortisation of debt establishment fees.
- ▶ Transaction Costs have been excluded from the forecast income statements on the basis that they do not form part of the operating income of the Fund.



## 6.4 Pro-forma Statement of Financial Position with FY17

The table below sets out the pro-forma statement of financial position of the Fund using actuals as at 31 December 2016 prepared on the basis of a raising amount of \$10 million, and the forecast financial position for FY17, based on the base case assumptions in Section 6.7.

### APIF Pro-forma & Forecast Statement of Financial Position

Statement of Financial Position \$Millions	Pro-forma Adjustments & Forecast			
	Actual 31 Dec. 2016	(A) \$10m Offer	Pro-forma 31 Dec. 2016	Forecast Jun-17
<b>Assets</b>				
Cash and cash equivalents	\$1.0	\$3.2	\$4.2	\$1.2
Other current assets	\$0.5	–	\$0.5	\$0.6
<b>Total current assets</b>	<b>\$1.5</b>	<b>\$3.2</b>	<b>\$4.7</b>	<b>\$1.8</b>
Investment property	\$183.8		\$183.8	\$193.8
<b>Total non-current assets</b>	<b>\$183.8</b>	<b>–</b>	<b>\$183.8</b>	<b>\$193.8</b>
<b>Total assets</b>	<b>\$185.3</b>	<b>\$3.2</b>	<b>\$188.5</b>	<b>\$195.6</b>
<b>Liabilities</b>				
Other liabilities	\$3.4	–	\$3.4	\$3.6
<b>Total current liabilities</b>	<b>\$3.4</b>	<b>–</b>	<b>\$3.4</b>	<b>\$3.6</b>
Long-term borrowings	\$81.1	(\$6.5)	\$74.6	\$79.9
<b>Total non-current liabilities</b>	<b>\$81.1</b>	<b>(\$6.5)</b>	<b>\$74.6</b>	<b>\$79.9</b>
<b>Total liabilities</b>	<b>\$84.5</b>	<b>(\$6.5)</b>	<b>\$78.0</b>	<b>\$83.5</b>
Net assets	\$100.72	\$9.70	\$110.42	\$112.14
<b>Equity</b>				
Contributed equity	\$103.33	\$9.75	\$113.08	\$114.16
Retained earnings	\$(2.60)	\$(0.05)	\$(2.65)	\$(2.03)
<b>Equity</b>	<b>\$100.72</b>	<b>\$9.70</b>	<b>\$110.42</b>	<b>\$112.14</b>
<b>Net Asset Value (NAV)</b>	<b>0.7251</b>		<b>0.7251</b>	<b>0.7291</b>
<b>Total Units (m)</b>	<b>138.910</b>	<b>13.387</b>	<b>152.297</b>	<b>153.793</b>
Loan to Value % (Borrowings / Property Value)	44.1%		40.6%	41.2%
Gearing - % (borrowings/total assets)	43.8%		39.6%	40.8%

*Past performance is not a reliable indicator of future performance.*

The pro-forma statement of financial position at 31 December 2016 has been prepared based on the following:

- (i) 31 December 2016 actual derived from the Fund's half year audited reviewed financial accounts; and
- (ii) Other pro-forma adjustments, as at 31 December 2016, to reflect the impact of the Offer including completion of the \$10 million Offer.

The forecast statement of financial position for FY17 is prepared on the basis of:

- ▶ Actual results for the period 1 July 2016 to 31 December 2016 derived from the Fund's half year audited reviewed financial accounts;
- ▶ Forecast results for the period 1 January 2017 to 30 June 2017 formulated on the basis of the base case assumptions.

## 6.5 Statement of Sources and Uses

The table below shows the Sources and Uses of funds from the Offer, for an equity raising of \$10.0 million and an equity raising of \$15.0 million.

### Source and Uses of Offer Funds

	Equity Raising \$10m	Equity Raising \$15m
<b>Sources - \$M</b>		
Equity raising	\$10.00	\$15.00
<b>Uses - \$M</b>		
Repayment of existing bank debt	\$6.50	\$11.00
Equity Raising Costs*	\$0.05	\$0.05
Equity Contribution Fee**	\$0.25	\$0.38
<b>Total Uses</b>	<b>\$6.80</b>	<b>\$11.43</b>
Net Funds Retained for Working Capital Purposes	\$3.20	\$3.58

\* This includes an estimate for all costs associated with the Offer.

\*\* The contribution fee is 2.5% of the total equity raised.

## 6.6 Forecast Distributable Earnings and Distributions

Distributable Earnings represents net income before tax (excluding Transaction Costs) adjusted for straight lining of rental income, valuation adjustments and mark-to-market adjustments for derivatives and other non-cash items such as amortisation of debt establishment fees.

The below table provides a reconciliation of the FY17 & FY18 forecast net profit before tax (excluding Transaction Costs) to Distributable Earnings and other financial metrics.

Arrow forecasts a FY17 full year distribution of 8.0 cents per Unit by the Fund to Unitholders, reflecting a payout ratio of 89.7% of Distributable Earnings.

Current policy is for distributions to be paid on a quarterly basis at the end of the month following the respective quarter.

### Distribution Reconciliation

Distributable Earnings and Distributions	FY17 Forecast <sup>1</sup> \$Millions	FY18 Forecast <sup>1</sup> \$Millions
Net profit before tax (excluding transaction costs) <sup>2</sup>	\$12.64	\$13.30
Other non cash items	—	—
Distributable Earnings	\$12.64	\$13.30
Distribution	\$11.34	\$12.86
Weighted Average Units on issue (millions) <sup>4</sup>	141.8	155.9
Earnings per Security (cents)	8.91	8.53
Distribution per Security (cents)	8.00	8.25
Earnings Yield <sup>3</sup>	11.9%	11.4%
Distribution Yield <sup>3</sup>	10.7%	11.0%
Payout ratio (Distribution / Distributable Earnings)	89.7%	96.7%

<sup>1</sup> FY17 & FY 18 Forecast prepared on the basis of the base case assumptions

<sup>2</sup> Transaction Costs will be funded from the proceeds of the Offer and do not affect the operating cash flow of the Fund

<sup>3</sup> Yield is computed upon the Application Price of 74.70 cents per Unit subscribed

<sup>4</sup> Assumes the continuing operation of the existing DRP with 19.5% of Unitholders participating.

## 6.7 Base Case Assumptions

Key assumptions relating to the preparation of the Forecast Financial Information are set out below.

Variable	Assumption	Comment /Source
<b>Macro Factors</b>		
Legislative regime and regulatory environment in the jurisdictions in which APIF operates	No changes	The RE is not aware of any announcements or proposals to change existing legislation.
Australian income tax legislation	No changes	The RE is not aware of any announcement or proposal to change existing tax legislation, to the extent that it relates to the taxation treatment of managed investment schemes.
<b>Fund Specifics</b>		
Average interest rates on borrowed funds	FY17 – 3.2% FY18 – 3.6%	Interest rates are based on the forecast Bank Bill Swap Bid Rate (BBSY) + Margin + Line Fee + Amortisation of Front End Fee (FEF) + Swap adjustment. The number used for BBSY is based on the Forward Rate Agreements sourced from Bloomberg at time of this PDS and assumes the hedging assumption as set out below.
Debt Facilities hedged on fixed rate	\$52.5 million	Current Swap expires 16th July 2019.
RE Fees paid to Arrow	1% p.a. of Gross Assets Paid quarterly in arrears	In accordance with Constitution of the Fund.
Fund Administration expenses (e.g. audit, legal, valuation, share registry, insurance and other costs which the RE expect to incur as directly attributable to the Fund)	FY17 – \$0.34 million FY18 – \$0.49 million	Estimates based on a combination of external quotes, historical payments, and external benchmarks.
Contracted Acquisitions of properties	Boombera – \$4.2 million (including acquisition costs)	Unconditional contract to purchase Bombera to settle mid April 2017.
Divestments of properties	None	Current policy of the RE
Contract disputes or litigation	None	There are no current claims against the Fund and the RE is not aware of any pending disputes of claims.
Distribution reinvestment plan	19.5% of distribution to be reinvested.	Current DRP participation.
Withdrawals	FY17 – \$0.36 million FY18 – Nil	FY17 includes actual to December 2016.
<b>Property Specifics</b>		
Rental income	FY17 – \$18.0 million FY18 – \$19.5 million	Forecast rental income and outgoings recoveries have been calculated in accordance with relevant lease provisions and growth rates as set out below. <ul style="list-style-type: none"> <li>• The RE considers all existing leases are enforceable and are performed in accordance with their terms</li> <li>• Rental growth rates are based on our assessment of the outlook for CPI ( 2.0%)</li> <li>• It is assumed that leases with fixed increases are processed in accordance with the agreement. These increases range from 2.25% to 2.75%..</li> </ul> Rental income has been recognised on an accruals basis.
Property Outgoings (Fully Recovered)	FY17 – \$0.36 million FY18 – \$0.33 million	Direct property related expenses recovered from the Tenant.
Property Management and Accounting expenses	FY17 – \$0.31 million FY18 – \$0.33 million	FY17 Estimates based on \$16,500 per property up to December 2016, then \$17,166 to June 2017. FY18 estimates based on \$17,510 per property.



## 6.7 Base Case Assumptions *continued*

Variable	Assumption	Comment /Source
<b>Property Specifics <i>continued</i></b>		
Vacancy and Re-letting	Boombera is vacant for the forecast period.	All other properties are fully let and no leases expire during the forecasts periods. Refer Section 3 on WALE.
Expansion Capex	January 17 – June 17 <ul style="list-style-type: none"> <li>Boombera – \$0.9million</li> <li>Other Properties – \$5.0 million</li> </ul> FY18 <ul style="list-style-type: none"> <li>Boombera – \$2.8million</li> <li>Other Properties – \$11.5 million</li> </ul>	Boombera is forecast to spend capex over the period, however as it is vacant no rent is forecast to be received.  Capex relating to all other properties, the annual rent is forecast to increase by 10% for each \$1 invested, as per the current leases.
Property values	Values increase in line with all capital expenditure (\$1 of capex increases the value by \$1).	The RE completes a detailed review of each capex project and will only commit funds when we believe it will add value to the property.
Identified Potential Opportunities	FY17 – Nil FY18 – \$1.6 million	Potential property acquisitions or expansion capex projects identified and not yet contracted.  The Rental is assumed to increase by 10% for each \$1 invested.
<b>Proposed Offer Costs Specifics</b>		
Contribution Fee	\$0.25 million	Based on 2.5% of a \$10 million raising.
Other	\$0.05 million	Based on agreed or estimated fees of professional advisers or other suppliers for acquisition legal, PDS and equity raising legal, transaction advisory, due diligence and PDS production.

## 6.8 Sensitivity Analysis of Forecast Distributable Earnings

The forecast distributable earnings and distributions are based on a number of estimates and assumptions that are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the RE. These estimates are subject to change.

To assist potential investors in assessing the significance of key assumptions used in the forecasts for distributable earnings and distributions of the Fund, the sensitivity to changes in key assumptions to those distributions is set out below.

This sensitivity analysis is a forecast only and variations in the actual performance may exceed the ranges shown. Potential investors should note that results of the Fund may be significantly influenced by the results other factors. Refer to Section 6 - Risks, for a description of the risks associated with an investment in APIF.

The table on the right is a summary of the sensitivity to certain changes in a number of key operational variables from the base case assumptions. Changes in the key variables as set out in the sensitivity analysis are not intended to be indicative of the complete range of variations that may be experienced.

### Sensitivity – Distributable Earnings

		FY17 Forecast		FY18 Forecast	
		\$	Cents per Unit	\$	Cents per Unit
Distributable Earnings		\$12,636,518	8.912	\$13,296,417	8.530
Impact of change from assumption					
100 basis point change in average interest rate	+ / -	\$108,627	0.0766	\$310,805	0.1996
100 basis point increase in CPI	+ / -	\$(6,933)	(0.0049)	\$23,648	0.0152
100 basis point decrease in CPI	+ / -	\$6,865	0.0048	\$(65,019)	(0.0417)

The Directors have assessed that, having regard to the risk mitigation strategies -in place and other factors, it is unlikely that any of the key variables individually will have any impact on the FY17 full year Forecast Distribution of 8.0 cents per unit.

## 6.8 Sensitivity Analysis of Forecast Distributable Earnings *continued*

The table below sets out a summary of the sensitivity of forecast financial metrics relating to the Fund to different ranges of equity raised under the Offer:

- ▶ \$10.0 million (base case assumption)
- ▶ \$15.0 million

### Sensitivity – Equity Raising

Size of Equity Raising	Pro-forma FY17F		Pro-forma FY18F	
	\$10.0M	\$15.0M	\$10.0M	\$15.0M
Units on issue – M	153.8	160.5	157.2	164.0
EPU – \$	8.91	8.84	8.53	8.25
Earning Yield	11.9%	11.8%	11.4%	11.0%
DPU – \$	8.00	8.00	8.25	8.25
Distribution Yield	10.7%	10.7%	11.0%	11.0%
Payout Ratio	89.7%	90.4%	96.7%	100.0%
Gearing (Net debt / property)	40.8%	38.5%		
Bank LVR	41.2%	38.9%		

## 6.9 Significant Accounting Policies

The principle accounting policies applied in the preparation of the Financial Information are described in detail in Note 2 to the APIF Annual Report for the reporting period ended 30 June 2016. Those policies have been consistently applied, unless otherwise stated.

A copy of the APIF 2016 Annual Report/Financial Statements is available at [www.arrowfunds.com.au](http://www.arrowfunds.com.au) or by requesting a free paper copy from Arrow by calling (03) 9691 5447.

## 6.10 Expected Commitments and Debt Draw Downs

APIF has drawn Debt Facilities of \$84.2 million. If an amount of \$10 million is raised then the drawn amount as at 30 June 2017 is expected to be \$79.9 million.

As highlighted at Section 6.5 – Sources and Uses of Funds, the final amount of debt drawn down as at 30 June 2017 will be influenced by the amount of equity funds received under the Offer.





Under Australian Government regulations, all product disclosure statements are required to include the following standard consumer advisory warning

## Consumer Advisory Warning

# 7.

## Fees and Other Costs

### DID YOU KNOW?

Small differences in both investment performance and fees and costs can have a substantial impact on your long-term returns.

For example, total annual fees and costs of 2% of your fund balance rather than 1% could reduce your final return by up to 20% over a 30-year period (for example, reduce it from \$100,000 to \$80,000).

You should consider whether features such as superior investment performance or the provision of better member services justify higher fees and costs.

You may be able to negotiate to pay lower contribution fees and management costs where applicable. Ask the fund or your financial adviser.

### TO FIND OUT MORE

If you would like to find out more, or see the impact of the fees based on your own circumstances, the Australian Securities and Investments Commission (ASIC) website ([www.fido.asic.gov.au](http://www.fido.asic.gov.au)) has a managed investment fee calculator to help you check out different fee options.



This section shows fees and other costs that you may be charged. These fees and costs may be deducted from your money, from the returns on your investment or from the Fund assets as a whole. Taxes and insurance costs are set out in another part of this document. You should read all the information about fees and costs as it is important to understand their impact on your investment.

Type of fee or cost	Amount	How and when paid
<b>Fees when your money moves in or out of the Fund</b>		
<b>Establishment fee</b> The fee to open your investment.	Nil	Not applicable
<b>Contribution fee</b> The fee on each amount contributed to your investment.	Up to 2.563% of application money paid to acquire Units (including GST net of reduced input tax credits, if applicable).	Paid from application money upon the issue of Units.
<b>Withdrawal fee</b> The fee on each amount you take out of your investment.	Nil	Not applicable
<b>Exit fee</b> The fee to close your investment.	Nil	Not applicable
<b>Management costs</b>		
The fees and costs for managing your investment.	Management fee and costs of up to 1.225% p.a. of the gross value of the Fund's assets (including GST net of reduced input tax credits, if applicable).	Calculated and accrued daily and payable in arrears to the RE on the last day of every month out of the Fund assets .
<b>Service fees</b>		
<b>Investment switching fee</b> The fee for changing investment options.	Nil	Not applicable

### Example of Annual Fees and Costs for this Fund

This table gives an example of how the fees and costs for the Fund can affect your investment over a one year period. You should use this table to compare this product with other managed investment products.

		Balance of \$50,000 with a contribution of \$5,000 during the year
Contribution fees	Up to 2.563%	For every additional \$5,000 you put in, you will be charged between \$0 and \$128.
PLUS Management costs	1.225% p.a.	And, for every \$50,000 you have in the Fund, you will be charged up to \$613 each year.
EQUALS Cost of Fund	3.788%	If you had an investment of \$50,000 at the beginning of the year and you put in an additional \$5,000 during a year, you would be charged from \$613 to \$741. <sup>1</sup> The total cost of your investment may also depend on any fees you negotiate with your financial adviser.

<sup>1</sup> The annual management fees are incurred progressively throughout the year, but for the purpose of these fee examples we have not included any annual management fees incurred on the \$5,000 contributed during the year.

## 7.1 Additional Explanation of Fees and Costs

### CONTRIBUTION FEE

The contribution fee is factored into the Unit Price, so it does not affect the number of Units you receive. For example, if you invest \$10,000 when the Unit Price is \$1.00, then you will receive 10,000 Units.

The fee forms part of the issue price for the Units rather than as a reduction to your application amount.

While the contribution fee is charged once, at the time of each investment, it may cause the withdrawal price you receive to be lower than the issue price paid on entry to the Fund.

### WITHDRAWAL

When calculating the withdrawal price of a Unit, we subtract an allowance for transaction costs of 5% from the NAV, which is an estimate of the costs incurred in selling assets of the Fund. In circumstances when a withdrawal offer is funded through the issue of new Units (which is not the case with this PDS Offer), the withdrawal price will equal the current issue price for a Unit, less the amount of the contribution fee, which may which is the cost to the Fund of issuing the new Units.

### MANAGEMENT COSTS

The following section contains additional information on Fund costs.

Agri has been appointed to manage the Fund's investments. For this service Agri will receive a fee of 0.90% per annum of the gross value of the Fund's assets. This fee is payable by Arrow and is not included in the Management fee.

Arrow is also entitled to reimbursement for all expenses incurred in the proper performance of its duties in respect of the Fund. Arrow estimates that the Fund will incur administration expenses of approximately 0.2% per annum of the gross value of the Fund's assets. This is an estimate only and the actual expenses incurred by Arrow may differ.

Examples of the expenses which may be incurred which Arrow will be entitled to recover include, but are not limited to:

- ▶ costs related to the administration of the Fund, including legal fees, due diligence fees, agent fees, leasing fees, management fees paid to third party managers or administrators, brokerage fees and valuation fees;
- ▶ costs paid to the Fund's external advisors, including the Fund's auditors;
- ▶ fees payable to the Custodian;
- ▶ fees payable to the registry; and
- ▶ costs related to the promotion of the Fund, including equity raising costs.

Arrow is entitled to recover all such expenses from the assets or income of the Fund, including any amounts payable to a related party. Any amounts paid to a related party will be under arrangements that are on an arm's length basis where the fees are in accordance with market rates for the relevant services provided.

## 7.2 Service Fees

### ADVISER REMUNERATION AND COMMISSIONS

Arrow may pay brokerage or commission to persons who are engaged to promote the Fund where the law permits such payment.

### WHOLESALE CLIENTS

Arrow may negotiate with 'wholesale clients' (as defined in the Corporations Act), on an individual basis, in relation to contribution fees and ongoing management fees in circumstances permitted by the Corporations Act or applicable relief granted by ASIC. These rebates are payable by Arrow from its own resources and therefore do not affect the fees paid by, or any distributions to, other Unitholders. Alternatively, Arrow may reduce the Unit Price payable by wholesale clients by an agreed amount equivalent to and in lieu of a contribution fee rebate.

### INVESTOR-DIRECTED PORTFOLIO SERVICES

Individuals investing through an investor-directed portfolio service (IDPS) should be aware that in addition to the fees and charges described above, they will be liable to pay fees to the operator of the service as outlined in that IDPS's offer document or guide.

Arrow may pay fees to the operator of an IDPS where they provide marketing and product support in relation to the Fund, or Arrow may draw on its own resources to provide marketing and product support to an IDPS.

### GOODS AND SERVICES TAX

All fees and charges outlined in this section are quoted inclusive of GST and net of any reduced input tax credit (RITC). Unless otherwise indicated, the fees include an allowance for an RITC.

For additional details on the taxation implications associated with an investment, please see Section 10.



# 8.

## Additional Information

Taxation of the Fund

Constitution

Investor Information

Debt Facilities

The taxation information provided in this PDS is of a general nature only and should not be relied upon by Investors as specific taxation advice. If you are uncertain as to your tax position, you should obtain independent professional advice.

### 8.1 Taxation of the Fund

The Fund is structured as an unlisted unit trust.

Australian taxation legislation states that such trusts are treated as 'flow through' vehicles. This means that the Fund will not be subject to tax on any net income that it distributes to Unitholders, provided the investments of the Fund are limited to certain types of assets.

On the basis that the Fund invests only in property primarily for the purpose of deriving rental income the Fund should be treated as a flow through vehicle.

#### TAX LOSSES

As at the date of this PDS, the Fund has no carried-forward revenue losses.

Where a revenue loss or net capital loss is incurred by the Fund, the loss cannot be passed on to Unitholders for tax purposes. Instead, revenue tax losses will, provided the relevant trust loss rules are satisfied, be carried forward in the Fund and offset against assessable income derived by the Fund in future income years. The relevant trust loss rules for carrying forward revenue losses include a continuity of more than 50% of the ownership interests in the Fund.

As at the date of this PDS, the Fund has \$17.416 million of carried forward losses on capital account.

Net capital losses will be carried forward in the Fund and offset against future capital gains. There are currently no restrictions on carrying forward capital losses incurred by a trust.

#### MANAGED INVESTMENT TRUST RULES

For the Fund to continue to qualify as a managed investment trust in relation to an income year, it must satisfy a number of conditions including conditions relating to being widely held by Unitholders. Arrow believes the Fund will satisfy the conditions for it to be a managed investment trust including the widely held conditions, although final determination of this is possible only once the Unitholders are known.

Managed investment trust status generally provides favourable withholding tax rates for distributions from the Fund to Unitholders resident in certain foreign jurisdictions. If this applies to you, you should seek your own tax advice as it is not considered in this taxation information.



## 8.1 Taxation of the Fund *continued*

### TAXATION OF AUSTRALIAN RESIDENT UNITHOLDERS

Distributions from the Fund retain their nature and source in the hands of the Unitholders. This means that both income and deductions that would apply if you owned the asset directly also apply to the distributions you receive from your investment in the Fund. You will be advised of the nature and source of distributions in your annual tax statement, which is mailed within two months of the end of the financial year.

#### TIMING OF INCOME

All assessable distributions must be declared in that financial year, whether or not they have been received. Generally you must count the June quarter distribution as assessable income for the financial year ending in that June, even though you will generally not receive your distribution until the end of July.

#### TAX-ADVANTAGED DISTRIBUTIONS

Unitholders may also receive periodic cash distributions from the Fund that exceed its taxable income. These excess distributions are referred to as 'deferred tax' distributions and may arise due to:

- differing taxation and accounting depreciation rates applying to real property assets;
- building allowances on real property assets;
- establishment and borrowing costs that may be written off over time for taxation purposes while being immediately expensed or capitalised for accounting purposes; or
- other timing differences.

If you receive a tax-advantaged amount, you do not have to include it in your assessable income. However, you are required to reduce the capital gains tax cost base of your Units by the relevant tax-advantaged amount.

If your cost base is reduced to nil by these distributions, any subsequent tax-advantaged amounts will be treated as a capital gain. You may be entitled to claim the capital gains tax discount on such a capital gain. For details, please see 'Capital Gains Tax' section.

Where a return of capital is made by the Fund, the taxation implications will be similar to the taxation treatment of tax-advantaged amounts as outlined above.

You should wait until you receive your tax statement for the Fund each year before completing your tax return. The tax statement will provide you with full details of the income paid to you during the year in order to complete your tax return. The tax statement will be sent within three months of the end of the financial year.

### CAPITAL GAINS TAX

When the Fund makes a capital gain (taking into account carried forward capital losses) on the sale of an investment, your proportionate interest in the capital gain will be distributed to you. If the Fund has held that investment for at least 12 months, the 50% capital gains tax discount should apply. However, you will have to gross up the distribution and apply any current or prior year capital losses against the grossed up capital gain to arrive at your net capital gain position. Depending on your personal circumstances, you may be able to apply the discount percentage (namely 50% for individuals or trusts and 33% for complying superannuation entities) to your capital gain.

Similarly, if you sell or redeem your Units for an amount that is more than their current cost base, you will be able to apply the relevant discount percentage to your capital gain provided you have held the Units for at least 12 months.

Unitholders that are companies are not entitled to the capital gains tax discount.

#### DISTRIBUTION REINVESTMENT

If you receive your distributions in the form of additional Units in the Fund, you must still include the taxable portion of the distribution in your assessable income. This will be made clear in the tax statement you receive from us after the end of each financial year.

#### ATTRIBUTION MANAGED INVESTMENT TRUST ('AMIT') TAX REGIME

A new optional regime for the taxation of managed investment trusts (the 'AMIT Rules') was passed in 2016 to permit qualifying trusts to apply the AMIT Rules. The Fund qualifies to apply the AMIT Rules and the Responsible Entity may amend the Constitution in the future, to permit the Fund to apply the AMIT Rules if the Responsible Entity elects to do so. The effect of the AMIT Rules, is, in summary:

- to deem the Fund to be a 'fixed trust' for taxation law purposes;
- to allow the Fund to treat classes of Units as separate for the purposes of the AMIT Rules and apply income streams to classes of Units accordingly; for example, permit income preferred classes or capital preferred classes; and
- to allow the Responsible Entity to make year-on-year adjustments to reflect under-or-over distributions of the Fund's income ('under and overs').

Australian Resident Unit Holders for tax purposes will be subject to tax on the income of the Fund attributed to them under the AMIT Rules. The tax payable (if any) depends on the Unit Holder's individual tax profile and applicable tax rate in the same way that a Unit Holder is currently subject to tax on income to which they are 'presently entitled'.

If the Responsible Entity makes an election to apply the AMIT Rules to the Fund, it will give Unit Holders 30 days' notice of the change.

#### OTHER INVESTORS

Non-residents, those who invest via corporate structures, and those who hold their investment on a revenue account should seek professional advice in relation to the taxation treatment of their investment.

## 8.1 Taxation of the Fund *continued*

### QUOTATION OF TFN OR ABN

Under the Pay As You Go system, we may be required to withhold tax from distributions if you do not quote a Tax File Number (TFN) or claim an appropriate exemption.

Where you invest in Units as part of carrying on a business, you may quote your Australian Business Number (ABN) instead.

### GOODS AND SERVICES TAX

The issue of Units is a financial supply for GST purposes and, accordingly, no GST is payable on the acquisition of Units. Further, there should be no requirement for GST to be imposed on:

- the distributions paid to Unitholders; or
- the receipt of interest and dividends, or proceeds from disposals of investments by the Fund.

## 8.2 Constitution

The Constitution is the primary document governing the relationship between the Responsible Entity and investors, and governs the rights of investors in the Fund. It contains information about:

- the rights of Unitholders and the Responsible Entity;
- the powers of the Responsible Entity (which includes a power to borrow);
- the fees payable to the Responsible Entity under the Fund;
- the Responsible Entity's right of indemnity out of the Fund; and
- winding up of the Fund.

The Constitution provides for a calculation of the Net Asset Value (NAV) of the Fund, which is a factor to be taken into account in calculating the issue price and withdrawal price of Units. The NAV shows the value of the Fund's assets upon which the value of Units is determined.

Net Asset Value is calculated by the value of all the Fund's assets less liabilities, including appropriate provisions, calculated in accordance with the Constitution. Water entitlements, which are technically classified as 'intangible assets', are included in the Net Asset Value of the Fund.

Other than the inclusion of water entitlements, the calculation of NAV is equivalent to the formula provided by ASIC to calculate NTA per unit as set out below:

$$\frac{(\text{Net assets} - \text{intangible assets} + / - \text{any other adjustments})}{\text{Units on issue}}$$

## SUMMARY OF INVESTOR RIGHTS

Each Unit gives you an equal and undivided interest in all the Fund's assets. However, a Unit does not give an interest in any particular part of the Fund and does not entitle you to have any part of the Fund transferred to you. Subject to the Constitution, your rights include:

- the right to obtain a copy of the Constitution;
- the right to receive distributions of income and capital from the Fund;
- the right to attend and vote at meetings of Unitholders;
- the right to request the withdrawal of your investment in certain circumstances; and
- the right to participate in the winding up of the Fund.

The Constitution contains provisions intended to limit the liability of Unitholders to their investment in the Fund. There is no absolute assurance that the liability of Unitholders will be limited as intended by these provisions, as the determination of the ultimate liability of Unitholders rests with the courts.

The Constitution is available for inspection at the offices of the Responsible Entity and you have a right to obtain a copy free of charge by calling Arrow on + 61 3 9691 5447.

## 8.3 Summary of New Debt Facilities

The Fund has borrowing facilities with its secured lender of \$84.2 million expiring on 31 July 2018. These facilities are fully drawn and Arrow has received an indicative terms sheet from the lender to increase the facility limit and extend the term (New Debt Facilities).

The New Debt Facilities are expected to provide the Fund with new facilities of up to \$109 million and for a period out to 31 July 2020, comprised of \$87 million to refinance existing facilities and assist in acquiring additional secured properties including transaction costs (Facility A) and up to \$22 million to assist with funding agreed Capex on existing secured properties and funding acquisitions pre-approved by the lender (Facility B).

The key terms of the New Debt Facilities are expected to be as follows:

### (a) Conditions to terms sheet

The lender has provided indicative terms under a non-binding terms sheet. Once the terms sheet has received credit approval, the lender's commitment will then only be subject to satisfactory documentation of the New Debt Facilities and the satisfaction of the conditions precedent summarised overleaf.

### 8.3 Summary of New Debt Facilities *continued*

#### (b) Conditions precedent

The provision of funds by the lender will be subject to satisfaction of conditions precedent which Arrow considers customary and usual for a financing of this nature. The material conditions are expected to include:

- ▶ providing property due diligence reports satisfactory to the lender;
- ▶ completion of other legal due diligence satisfactory to the lender;
- ▶ providing full details of any proposed Capex program;
- ▶ providing property valuations to the lender;
- ▶ providing the lender with a verification certificate with the usual attachments (including constitutions, trust deeds and specimen signatures) and confirmation of solvency and that no event of default is subsisting;
- ▶ providing security documents in registrable form to the lender; and
- ▶ obtaining insurance required by the lender.

Arrow expects there will be a number of other conditions precedent to drawdown under the New Debt Facilities. These are considered by Arrow to be mechanical and within its control, and Arrow is not aware of any reason why these conditions precedent cannot be satisfied.

#### (c) Undertakings

The New Debt Facilities are expected to contain a number of standard undertakings which Arrow considers customary and usual for a financing of this nature, along with the following financial undertakings:

- ▶ maximum loan to value ratio (LVR) of 65%, calculated as the ratio of total debt owing under the Debt Facility to the most recent valuation of the Properties. The Proforma LVR is 40.6%;
- ▶ minimum interest coverage ratio (ICR) of 2.0 times, calculated as the ratio of EBITDA to interest expense incurred in respect of the Properties. The ICR was 6.2 as at 31 December 2016 and is forecast to be 6.4 at 30 June 2017;
- ▶ not more than 30% of leases (by proportion of rental income) with a residual lease term less than the remaining term of the debt facilities. As at Completion Date, 0% of leases have a residual lease term less than three years; and
- ▶ distribution lockup (i.e. distributions to be suspended) if the loan to value ratio (LVR) exceeds 60%, calculated as the ratio of total debt owing under the Debt Facility to the most recent valuation of the Properties. The Proforma LVR is 40.6%.

#### (d) Events of default

The New Debt Facilities will be subject to certain events of default which Arrow considers customary and usual for a financing of this nature. Such events are expected to include:

- ▶ failure to pay amounts due under a loan document;
- ▶ a representation or warranty is incorrect;
- ▶ a breach of a financial undertaking;
- ▶ a breach of an undertaking (subject to cure periods);
- ▶ cross default above \$300,000;
- ▶ reduction of capital;
- ▶ change in ownership or of control of the responsible entity;
- ▶ material adverse change; or
- ▶ an insolvency event occurs.

#### (e) Review events

The New Debt Facility will be subject to review events which Arrow considers customary and usual for a financing of this nature. A review event entitles the lender to review and renegotiate the terms of the New Debt Facility. If these negotiations are not successful, it may result in the funds lent to APIF under the New Debt Facility being repayable.

The review events are expected to include:

- ▶ more than 30% of leases applicable to the Properties (by proportion of rental income) have a residual lease term (excluding option terms) less than the remaining term of the New Debt Facilities;
- ▶ insolvency of a lessee that constitutes more than 10% of total rental receipts;
- ▶ if a long term lease satisfactory to the lender has not been entered into by Arrow on behalf of the Fund by June 2019 in relation to Boombera Park; and
- ▶ any other event or circumstance relating to or affecting the Responsible Entity or the Fund which the Lender reasonably determines may warrant a review of the pricing terms or continuation of the New Debt Facilities.

#### (f) Security

The New Debt Facilities will be secured facilities, and the lender will be granted the following securities which Arrow considers customary and usual for a financing of this nature, including:

- ▶ first ranking real property mortgages over the Properties;
- ▶ general security deed over all present and subsequently acquired property granted by Arrow (as Responsible Entity of APIF), any sub-trust and asset owning entity; and
- ▶ ancillary securities over water rights and licences customary for a facility of this nature.



## 8.4 Investor Protection – ASIC RG46

### BENCHMARKS AND DISCLOSURE PRINCIPLES SUMMARY

Arrow regularly reports the Fund's financial performance and operations against ASIC's benchmarks and disclosure principles for unlisted property fund managers under ASIC Regulatory Guide 46 – Unlisted property schemes: improving disclosure for retail investors (RG46). This information is intended to assist investors in understanding the key issues affecting the risks and returns of the Fund and deciding whether the Offer and an investment in the Fund is suitable for them.

The summary table below was provided in Arrow's RG46 disclosure for the Fund as at 31 December 2016. It shows that Arrow met all of ASIC's benchmarks for the management of the Fund. It also shows the key disclosures in relation to each benchmark and cross-references to information in this PDS.

Risk feature	Benchmark	Benchmark met	Disclosure principle	Further information
Gearing	Arrow maintains and complies with a written policy that governs the level of gearing for the Fund under which it seeks to maintain a bank loan to valuation ratio (LVR) of less than 60%.	✓	The Fund's gearing ratio at 31/12/16 was 43.8% (LVR was 44.1%)	Section 2.6
Interest cover	Arrow maintains and complies with a written policy that governs the level of interest cover for the Fund under which it seeks to maintain a minimum interest cover ratio of greater than 2.0 times.	✓	The Fund's interest cover ratio was 6.2 times (Bank Interest Cover was 7.0 times)	Section 2.6
Interest capitalisation	The interest expense of the Fund is not capitalised.	✓	No ASIC disclosure Principle	Section 2.6
Scheme borrowing	No ASIC benchmark		Information about the Fund's borrowings	Sections 2.6 and 8.3
Portfolio diversification	No ASIC benchmark		Information about the Fund's assets	Section 3
Valuations	Arrow maintains and complies with a written valuation policy that meets ASIC's benchmark.	✓	No ASIC disclosure principle	Section 2.8
Related party transactions	Arrow maintains and complies with a written policy on related party transactions, including the assessment and approval processes for such transactions and arrangements to manage conflicts of interest.	✓	Information about any related party transactions relevant to an investment in the Fund is disclosed.	Section 2.16
Distribution practices	The Fund will only pay distributions from its cash from operations (excluding borrowings) available for distribution.	✓	Distributions to be paid from cash from operations available for distribution	Section 2.9
Withdrawal arrangements	No ASIC benchmark		Withdrawal offers, when open, to be made available to all unitholders.	Sections 1 and 8.7
Net tangible assets	No ASIC benchmark		Net asset value per unit was \$0.7251 as at 31 December 2016	Section 8.2

## 8.5 Investor Protection

The Fund is registered as a managed investment scheme under the relevant provisions of the Corporations Act, and Arrow has been appointed as the responsible entity of the Fund.

### CORPORATE GOVERNANCE

The Responsible Entity's main responsibilities are to make sure that the Fund is managed according to the Constitution, the Corporations Act and the established investment policy, as well as to properly administer the Fund. In carrying out its duties, the Responsible Entity is subject to the Corporations Act and must, among other things:

- ▶ act honestly and in the best interests of Unitholders;
- ▶ exercise care and diligence; and
- ▶ treat investors of the same class equally, and investors of different classes fairly.

The board of the Responsible Entity meets on a regular basis and is required to discuss pertinent business developments and review the operations and performance of the Fund. The board of Arrow comprises 3 directors, as outlined in Section 2.3.

### THE COMPLIANCE PLAN

As required by law, the previous Responsible Entity has prepared and lodged with ASIC, a Compliance Plan that sets out the measures by which the Responsible Entity will apply in operating the Fund to ensure compliance with the Corporations Act and the Constitution. Arrow is bound by the Compliance Plan. A copy of the Compliance Plan is available upon request, free of charge, from Arrow's offices.

### RELATED PARTY TRANSACTIONS

There are a number of related party transactions described in this PDS in relation to the Fund, which are disclosed at Section 2.16.

## COMPLAINTS

The Constitution contains provisions governing the procedures for dealing with complaints by Unitholders. If you have a complaint, please contact Arrow directly. Arrow will acknowledge both written and verbal complaints within five Business Days. We will investigate the complaint with a view to resolving it and advise you as soon as possible. We will contact you within 28 days of the complaint to advise of the outcome of our investigation or give you an update on our progress.

If you are not satisfied with our response, and you are a retail client as defined by the Corporations Act, you can refer your complaint to the Financial Ombudsman Service Limited (FOS), an external complaints-handling body that provides an independent assessment of your complaint. Its contact details are:

#### Financial Ombudsman Service Limited

GPO Box 3, Melbourne VIC 3001  
 Telephone 1300 780 808  
 Fax: (03) 9613 6399  
 Email: [info@fos.org.au](mailto:info@fos.org.au)  
 Website: [www.fos.org.au](http://www.fos.org.au)

### UNITHOLDERS' RIGHT TO INFORMATION

As a disclosing entity, the Fund is subject to regular reporting and disclosure obligations. Copies of documents lodged with ASIC in relation to the Fund may be obtained from, or inspected at, an ASIC office. Unitholders have a right to obtain a copy of the following documents:

- ▶ an annual financial report for the Fund most recently lodged with ASIC;
- ▶ any half-year financial report for the Fund lodged with
- ▶ ASIC; and
- ▶ any continuous disclosure notices for the Fund given to ASIC.

## ANTI-MONEY LAUNDERING AND COUNTER-TERRORISM FINANCING

Arrow is required to collect certain customer identification information (and verify that information) in compliance with AML/ CTF Legislation before it can issue Units to an Applicant.

Customer identification information may include detailed know your customer (KYC) information in relation to the Applicant, such as, for an individual Applicant, their name, address, and date of birth and for an Applicant that is a business entity, detailed of their directors and beneficial owners, and where the Applicant is a trustee, details of the trust and beneficiaries. In addition to this information, Arrow may require further KYC information such as information concerning the business activities, structure and source of funds of Applicants and from time to time, may require an Applicant to provide, in addition to the information an Applicant is required to provide in the Application Form, updated or additional KYC information.

Arrow may refuse to accept an Application Form or decline to issue Units to an Applicant until it has satisfactorily concluded its customer identification procedure in relation to the Applicant. Arrow may compulsorily redeem any Units, or may delay or refuse any request or transaction, including by suspending the issue or redemption of Units, if Arrow is concerned that the request or transaction may cause Arrow to contravene the AML Legislation (or any other legislation). Arrow will incur no liability to the Applicant if it does so. For more detail, refer to Section 12.

## 8.6 Privacy Policy

Arrow has adopted a privacy policy which is based on the requirements of the Privacy Act and the Australian Privacy Principles developed under that Privacy Act. You do not need to give us any information about you in connection with your investment in the Fund, or in any other document or communication relating to the products or services we supply you. However, without this information, we may not be able to process your application or provide you with an appropriate level of service. By completing the Application Form, you agree to us:

- ▶ collecting, holding and using your personal information to process your application as well as managing and administering the Fund. This includes monitoring, auditing, and evaluating the Fund, modelling data, testing data, communicating with you or dealing with any complaints or enquiries;
- ▶ providing your personal information on a confidential basis to our agents, contractors or other third party service providers which provide administrative or other services for the purposes of the Fund. This may include for example, mail houses or professional advisers; using your personal information to offer products or services that may be of interest to you unless you request us not to (including for the purposes of the Spam Act 2003 (Cth), via commercial emails). You can request not to receive that information and we will ensure you do not receive this information in future. Please allow two weeks for your request to be processed.
- ▶ supplying your financial adviser with information about your investment, if a financial adviser's stamp appears on the Application Form or there is evidence to their status and with your consent, providing your information to other third parties (e.g. accountant); and
- ▶ disclosing your personal information to other parties if you consent or if we believe that the law requires or permits us to do so.

If you have any concerns in regard to this, please contact us using one of the methods listed in this PDS. We will not sell your personal information to other organisations to enable them to offer products or services to you. Under the Privacy Act, you may request access to any of your personal information that we hold. You can contact us to make a request relating to the privacy of your personal information. A copy of Arrow's privacy statement is available by visiting our website at [www.arrowfunds.com.au](http://www.arrowfunds.com.au).

In the event that you are dissatisfied with how we deal with complaints concerning your personal information, you may refer your complaint to the Federal Office of the Australian Information Commissioner.

Arrow's unit registry functions are outsourced to Boardroom (Victoria) Pty Limited which has its own privacy policy. Further information on this can be found at: [www.boardroomlimited.com.au](http://www.boardroomlimited.com.au).

## 8.7 Withdrawals, Transfers and Redemptions

The Fund is a long-term, illiquid investment and investors have no right to withdraw from (or require the redemption of their Units in) the Fund.

The Constitution provides for the manner in which Unitholders may withdraw their investment from the Fund. Unitholders can only withdraw an investment in the Fund when Arrow makes a withdrawal offer to Unitholders. Since July 2014, Arrow has provided a limited withdrawal offers on a quarterly basis, under which investors can apply to withdraw part or all of their investment in the Fund. Full details of any current withdrawal offer can be downloaded from Arrow's website: [www.arrowfunds.com.au](http://www.arrowfunds.com.au).

This PDS does not contain any withdrawal offer and Arrow reserves the right to cease or cancel any withdrawal offer at any time.

If Unitholders wish to sell or transfer their Units then, with the prior written consent of the Arrow, they may do so. Arrow may refuse to register a transfer of Units in its absolute discretion.

If requested, Arrow will provide general information about the process required for an assignment or transfer of units in the Fund.

## 8.8 Consents

The following companies have given, and at the date of this PDS have not withdrawn, their consent to be named in this PDS in the form and the context in which it is named:

- ▶ Agri Management Pty Ltd
- ▶ Boardroom Pty Ltd
- ▶ Compliance & Risk Services Pty Ltd
- ▶ Managed Growth Australia Pty Ltd
- ▶ Sandhurst Trustees Limited

## 8.9 Issue of PDS

This PDS was issued with the authority of the directors of the Responsible Entity on 18 April 2017.





## 9.

## Glossary



Term	Meaning
ABN	Australian Business Number as defined in the Corporations Act.
ACN	Australian Company Number as defined in the Corporations Act.
AFSL	Australian Financial Services Licence as defined in the Corporations Act.
Agri	Agri Management Pty Ltd (ABN 162 669 650).
Allotment	The allotment of Units to Applicants on an allotment date.
AML Legislation	<i>Anti-Money Laundering and Counter Terrorism Financing Act 2006</i> (Cth), <i>Financial Transaction Reports Act 1988</i> (Cth) and/or any similar legislation.
APIF	Arrow Primary Infrastructure Fund ARSN 110 813 815
Applicant	A person or entity who applies to subscribe for Units.
Application Form	The application form which can be accessed on-line at <a href="http://www.boardroomlimited.com.au/arrowoffer">www.boardroomlimited.com.au/arrowoffer</a>
Application Moneys	Moneys received from Applicants.
Application Price	\$0.7470 cents per New Unit.
ARSN	Australian Registered Scheme Number as defined in the Corporations Act.
ASIC	Australian Securities and Investments Commission.
Arrow	Arrow Funds Management Pty Ltd (ABN 72 146 671 276, AFSL 439095) in its capacity as responsible entity of the Fund.
Baiada	Baiada Poultry Pty Limited and Bartter Enterprises Pty Ltd, wholly owned subsidiaries of Baiada Pty Ltd, lessee of eleven of the Fund's properties.
Board	The full board of directors of Arrow.
Boombera Park	A property, previously called Heaton Park, located at Lawrence in northern New South Wales, which is being acquired by the Fund in mid-April 2017.
Business Day	A weekday on which banks are open in Melbourne, Victoria.
Capex	Development and capital expenditure on properties, including Expansion Capex.
Compliance Plan	The Fund's compliance plan, which sets out the measures that the Responsible Entity will apply in operating the Fund to ensure compliance with the matters as required under the Corporations Act.
Constitution	The constitution of the Fund (as amended from time to time).
Corporations Act	<i>Corporations Act 2001</i> (Cth).
Custodian	Sandhurst Trustees Limited (ABN 16 004 030 737, AFSL 237906).
Debt Facilities	The debt facilities entered into by Arrow, as outlined in Section 8.3.
Direct Investors	Unitholders who own units in the Fund in their own name

Term	Meaning
Eligible Unitholders	Unitholders on the register at the Record Date.
Forecast & Financial Information	The financial information described in Section 6.
First Close Amount	\$10.0 million.
Fund	Arrow Primary Infrastructure Fund ARSN 110 813 851 (or APIF, where the context requires).
Gearing	Gearing or Gearing Ratio is calculated by dividing the drawn Debt Facility by total assets of the Fund.
GST	Goods and Services Tax as defined in the A New Tax System (Goods and Services Tax) Act 1999 (Cth).
Historical Financial Information	The financial information described in Section 6.
ICR	Interest cover ratio, calculated as Earnings before interest, tax, depreciation and amortisation (EBITDA) divided by bank interest expense.
Indirect Investors	Investors who invest in the Fund through another entity such as a master trust or a wrap account.
Loan to Valuation Ratio (LVR)	LVR is calculated by dividing the drawn Debt Facility by the latest valuation of the Portfolio of properties owned by the Fund.
Manager	Agri.
Murray River Organics	Murray River Organics Ltd is the lessee of Colignan Farm at Nangiloc in Victoria.
NAV	Net asset value, or net assets, of the Fund including accrued income and expenses calculated as the total assets less total liabilities of the Fund.
New Investors	Persons who are not existing Unitholders at the Record Date and who subscribe for Surplus Units under this PDS.
New Units	Any Units issued as a result of applications under the Offer.
Offer	The offer of Units under in this PDS.
Pace Farm	Pace Farm Pty Ltd is the lessee of Kelso Park, the Fund's free range egg farm at Duri, near Tamworth, NSW.
Passing Yield	Rent received divided by the property valuation.
PDS	This product disclosure statement dated 10 June 2014.
Portfolio	All properties owned by the Fund from time to time. The properties owned by the Fund at the date of this PDS are outlined in the table in Section 3.
Priority Offer Allocation	The offer of New Units to Eligible Unitholders under this PDS, refer dates on page 6.
Privacy Act	<i>Privacy Act 1988</i> (Cth).
Proforma	31 December 2016 actuals incorporating the effect of the Offer.
Property	A property owned by the Fund, forming part of the Portfolio.
Record Date	31 March 2017.
Responsible Entity or RE	The responsible entity of the Fund from time to time; at the date of this PDS, Arrow.
RG46	ASIC Regulatory Guide 46: Unlisted property schemes – improving disclosure for retail investors dated March 2012.
RITC	Reduced Input Tax Credit.
Seven Fields	Seven Fields Operations Pty Ltd, lessee of Eumaralla Mango Farms and Katherine Packing Shed.
Surplus Units	New Units made available to Eligible Unitholders and to New Investors as a consequence of Eligible Unitholders not taking up their Priority Offer Allocation.
Total Offer Amount	Up to 15 million Australian Dollars.
Turi Foods	Turi Foods Farming Division Pty Ltd, lessee of Myers Farm, Stewarton VIC.
Unit	An ordinary Unit in the Fund.
Unit Price	The price at which a Unit is priced as determined under the Constitution.
WALE	Weighted average lease expiry.
Withdrawal Offer	The Conditional Withdrawal Offer made available to Unitholders from time to time, which is not part of the Offer made in this PDS.

# 10.

## Application Instructions

Applications for New Units in the Arrow Primary Infrastructure Fund can only be submitted using the online application supplied by our Registry, BoardRoom (Victoria) Pty Ltd.

Please access the Application Form at [www.boardroomlimited.com.au/arrowoffer](http://www.boardroomlimited.com.au/arrowoffer).

Arrow Funds Management has the sole discretion whether to accept or reject an application. Arrow will reject an application if application monies are not received in full and in cleared funds. If your application is rejected, wholly or in part, then Arrow will notify you in writing and return the relevant application monies, within 30 business days. By sending a completed application form, you are making an offer to become an investor in the Fund and you are agreeing to be legally bound by the Constitution and the terms of this PDS. A summary of the Constitution is included in Section 8.2 of this PDS. Copies of this PDS are available at [www.arrowfunds.com.au](http://www.arrowfunds.com.au), or by contacting Arrow Funds Management Limited by email: [enquiries@arrowfunds.com.au](mailto:enquiries@arrowfunds.com.au) or phone +61 3 9691 5447.

Please note that only individuals or legal entities are allowed to hold units in the Fund. Applications must be in the name(s) of natural person(s), companies or other legal entities acceptable to the Fund. At least one full given name and the surname are required for each natural person. The name of the beneficiary or any other non-registerable name may be included by way of an account designation, if completed exactly as described in the example of correct forms of registerable title shown below.

Type of Investor		Correct format of Registerable Name	Incorrect format
Individual & Joint	Use given names, not initials	John Alfred Smith	J A Smith
Company	Use company name, not abbreviations. Director(s) names. Must be completed using given names.	ABC Pty Ltd	ABC P/L or ABC Co
Superannuation Funds	The full name off the fund must be exactly as registered with the ATO	Jane Smith Super Fund	Jane Smith Pty Ltd
	Use full name of trustee of fund	Jane Smith	J Smith
Trust <sup>1</sup>	Use trustee(s) names	Sue Smith	S Smith
Family Trust	Use the full name of the trust	Sue Smith Family Trust	Sue Smith
Deceased Estates <sup>2</sup>	Use the full name of the deceased estate	Estate of the Late Jon Lennon	Jon Lennon
	Use trustee/executor(s) names	Sue Lennon	S Lennon
A Minor (less than 18 years old) <sup>3</sup>	Use full name of the Minor	Junior Smith	J Smith
	Use Trustee(s) personal names	Sue Smith	Smith

<sup>1</sup> If there are two or more trustees, please name each. All trustees should sign.

<sup>2</sup> A copy of the grant of probate or letters of administration, certified as being a true and accurate copy of the original by a Justice of the Peace, a lawyer or a commissioner of declarations should be attached.

<sup>3</sup> If the Minor does not hold a TFN, please supply the TFN of one of the trustees.

If you are an existing unitholder in the Fund, you will need your 10 digit unitholder number to complete the online Application Form. Please ensure that your holder number is preceded with the letter 'U' in Application Form.



## FATCA

In order to comply with Government legislation, all investors must confirm if they are a US Citizen or tax resident. In accordance with the Foreign Account Tax Compliance Act (FATCA), Arrow Funds Management Limited is required to provide the ATO with certain information about the following investors:

- ▶ Investors identified as US citizens or tax residents (information about corporations and trusts with US substantial owners or controlling persons will also be reported);
- ▶ Investors who do not confirm their FATCA status; and
- ▶ Certain financial institutions that do not meet their FATCA obligations (non-participating foreign financial institutions).

The ATO may in turn disclose that information to the US Internal Revenue Service (IRS).

Following completion of the online form you will receive a confirmation email, which will include a copy of the completed application form, as well as any other documentation or information requests which may need to be completed and returned to our Registry, BoardRoom. This may include a signature specimen form as well identity verification requests for new investors.

## AML/CTF

As a result of the Federal Government enacting the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (AML/CTF), Arrow needs to be 'reasonably satisfied' that investors are who they claim to be.

All new investors will be required to provide a number of identification documents together with their application for Units.

Your confirmation email may ask you to provide certified identification documents.

The following people are allowed to certify AML/CTF identification documents:

- ▶ a Justice of the Peace
- ▶ a member of the Institution of Chartered Accountants in Australia, CPA Australia or the National Institute of Accountants
- ▶ a person who is enrolled on the roll of the Supreme Court of a State or Territory, or High Court of Australia, as a legal practitioner (however described)
- ▶ a judge of a court or a magistrate
- ▶ a permanent employee of Australia Post employed in an office supplying postal services to the public with 5 years continuous service
- ▶ a full time teacher at a school or tertiary institution
- ▶ a police officer
- ▶ a person who, under a law in force in a State or Territory, is currently licenced or registered to practice one of the following occupations: Chiropractor, Dentist, Medical practitioner, Nurse, Optometrist, Pharmacist, Physiotherapist, Psychologist, Veterinary surgeon
- ▶ an officer with, or authorised representative of, a holder of an Australian financial services licence, having 2 or more continuous years of service with one or more licensees
- ▶ any other persons mentioned in Part 1 and Part 2 of the Statutory Declarations Regulations 1993 – Schedule 2

We may request additional information from you where we reasonably consider it necessary to satisfy our obligations under the AML/CTF Act, and applications will not be processed until all requested information is provided.

For units to be allotted in the Fund, all required documentation must be returned and monies paid.

The online application form allows you to pay for your new units via Direct Credit, BPay or Cheque. Payment details will also be included in the confirmation email. Cheques are to be made payable to BoardRoom Pty Ltd ITF Sandhurst Trustees APIF Offer. If paying by Direct Credit please ensure that you include the reference number given to you in the payment description.

If your application to acquire New Units is accepted you will be allotted your units within 5 days of the Closing Date and confirmed in writing.

Applications can only be submitted as outlined above and receipts for payment will not be issued.





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[www.arrowfunds.com.au](http://www.arrowfunds.com.au)