

Fund Update 24 February 2025

Arrow Primary Infrastructure Fund

Dear Investor

Financial Results for half-year to 31 December 2024

I'm pleased to advise that the Fund's financial statements for the half-year to 31 December 2024 have been released and are now available on our website: <https://www.arrowfunds.com.au/fund-announcements/fund-reports/>.

The Fund is continuing to benefit from the major capital works (now nearing completion) at seven of the Fund's properties leased to Baiada Poultry. This investment, together with normal rent increases across the portfolio, has resulted in an increase in the total base rent received from external tenants of 5.2% compared to the previous corresponding period.

Normalised earnings, which excludes non-operating adjustments such as property revaluations, movements in derivatives and non-cash items is considered the best measure of the Fund's operating performance. We also exclude rent received from Boombera Park Macadamias Pty Ltd (BPM) from normalised earnings, as investors in Arrow Primary Infrastructure Fund own stapled units in Arrow Operations Trust, the owner of BPM.

Normalised earnings were down by \$0.1 million for the half-year, as higher interest rates on higher borrowings offset much of the gains in income. Borrowings increased from \$191.3 million at 30 June 2024 to \$197.7 million at 31 December 2024 and the average interest rate paid by the Fund in the half-year was 5.28% compared to 5.13% in the half-year to December 2023.

Key Financial Metrics for the December half-year:

	HY24	HY23	Change
Base rent	\$15.9m	\$14.9m	+ 6.3%
Base rent (excluding BPM)	\$13.5m	\$12.8m	+ 5.2%
Normalised earnings	\$5.7m	\$5.8m	- 2.2%
Normalised earnings/unit (EPU)	3.03 cents	3.13 cents	+ 3.2%
Distribution/unit (DPU)	4.0 cents	4.0 cents	0.0%
	31-Dec-24	30-Jun-24	Change
NAV	\$1.2223	\$1.2290	- 0.5%
Gross assets	\$434.9m	\$429.4m	+ 1.3%
Total debt	\$197.7m	\$191.3m	+ 3.4%
LVR	46.7%	45.8%	+ 2.1%
Hedging (interest cover on debt)	39.1%	40.4%	- 3.2%

Our website includes a snapshot of the Fund as at 31 December 2024 – see <https://www.arrowfunds.com.au/fund-details/fund-snapshot/>. The snapshot shows some additional financial metrics and highlights the results of our long-term focus on premium Australian Primary Infrastructure properties.

Whilst the last two years have been more difficult, it is worth noting that the Fund's 10-year total investment return to 31 December 2024 for investors remains a healthy 17.99% p.a.

Committed future revenue for the Fund is also solid, with a weighted average lease expiry (WALE) of 13.15 years as at 31 December 2024 (excluding the Fund's Boombera Park and Cobbitty Glasshouse properties). The occupancy rate at 31 December 2024 was reduced from 100% to 85.5% as both those properties were excluded.

Distributions

We have continued with a consistent distribution rate of 2.0 cents per quarter, with a total payout of 4.0 cents for the half-year period. A key attribute of our Fund is its long-term investment horizon and directors believe a consistent distribution continues to be appropriate at this stage given the value being created throughout the Fund's portfolio, the positive developments at BPM and Eco Fresh, as well as our stable gearing position.

Boombera Park

The Fund's Boombera Park property continues to receive significant focus as it embarks on its first harvest this year. Between March & May, some 520 hectares out of the total 750 planted hectares will be harvested. As previously advised, commercial operations are carried out by Boombera Macadamias Pty Ltd (BPM), which has its own management team and is owned by the Fund's investors via the Arrow Operations Trust.

We continue to see a bright future for the Australian macadamia industry and believe that Boombera Park is well positioned to play a significant role in this industry, once its trees mature and nut production increases. Our plan is to confirm our orchard's productivity over the next two seasons and then align this substantial property with a key processor/marketer by way of a long-term lease or sale.

Macadamias currently represent less than 2% of global tree nut production and the Australian macadamia industry is comparatively small and fragmented - with 800 growers producing just 53,950 metric tonnes of nut in shell in 2024. As an indigenous nut with excellent food credentials, we see a bright future for Australian macadamias. Given that nut prices are increasing and the Australian dollar is expected to remain relatively low compared to the \$US, we believe that more large corporates will enter the Australian industry and boost production and processing in the next few years.

Cobbitty glasshouse

As advised, Administrators of Green Camel Pty Ltd were appointed in July 2024. Arrow has worked closely with them to ensure that the Fund's Cobbitty glasshouse remains operating and sales continue with customers, which include Woolworths, Coles and Harris Farms.

Although the Cobbitty glasshouse represents only 1.9% (by asset value) of the Fund's portfolio, we have applied significant time and resources to assist in the successful transition of the glasshouse operator, from Green Camel (in Administration) to Eco Fresh Organics Pty Ltd. This was achieved on 25 October 2024, when Eco Fresh commenced operations as a subsidiary of Arrow Operations Trust. I'm pleased to report that significant improvements to the glasshouse operation have been made: Eco Fresh is performing in line with budget and our expectations are that it will trade profitably for the remaining 8 months to 30 June 2025. The future ownership direction of Eco Fresh will be decided later this financial year once the new business achieves proven and consistent production performance.

Outlook

Last week's RBA cut of the official interest rate by 25 basis points has been most welcome and signals future reductions in the Fund's cost of borrowing. The Fund is well placed with 39% of its future interest rate exposure covered by existing fixed rate derivatives, which have an average term of 4.7 years still to run. We are constantly assessing the optimum hedging position for the Fund, noting that we are currently slightly below the mid-point of our 25% to 75% hedge percentage benchmark and towards the shorter end of our 3-to-10-year average term benchmark.

In conclusion, we remain very confident in the industries in which our Fund is invested. The food sector is strong and we own strategic assets in some of Australia's best primary industries. Australian agricultural and horticultural properties continue to be attractive to new entrants particularly given the relatively low Australian dollar, and keen interest from overseas buyers should ensure that the values of our well-located and well-managed properties remain stable.

If you are interested in acquiring additional units in our Fund, you can let us know by email at enquiries@arrowfunds.com.au and we will add you to our Buyers List.

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

Thank you for your continued support.

Yours sincerely



ANDREW ASHBOLT
MANAGING DIRECTOR