

Arrow Primary Infrastructure Fund

ARSN 110 813 851

ASIC Regulatory Guide 46 Disclosure

as at 30 June 2016

This document addresses the benchmarks and disclosure principles for unlisted property fund managers set out in 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 Arrow Primary Infrastructure Fund (the Fund) and to help investors monitor their investment in the Fund.

The summary table below provides a snapshot showing that Arrow Funds Management Limited (**Arrow**) meets all of ASIC's benchmarks for the management of the Arrow Primary Infrastructure Fund (**the Fund**), an unlisted property fund. It also shows the key disclosures in relation to each benchmark. Disclosure principles are contained in section 2 of this document.

Section 1 - Summary table

The table below summarises the benchmarks and disclosure principles as they apply to the Fund.

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 30/06/16 was 39.9% (LVR was 40.8%)	Page 2
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 5.1 times (Bank Interest Cover was 6.1 times)	Page 2
Interest capitalisation	The interest expense of the Fund is not capitalised.	✓	No ASIC disclosure Principle	Page 3
Scheme borrowing	No ASIC benchmark		Information about the Fund's borrowings	Page 3
Portfolio diversification	No ASIC benchmark		Information about the Fund's assets	Page 4
Valuations	Arrow maintains and complies with a written valuation policy that meets ASIC's benchmark.	✓	No ASIC disclosure principle	Page 6
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.	Page 6
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	Page 7
Withdrawal arrangements	No ASIC benchmark		Withdrawal offers, when open, to be made available to all unitholders.	Page 8
Net tangible assets	No ASIC benchmark		Net asset value per unit was \$0.7129 as at 30 June 2016	Page 8

Section 2 - Risk features

This section of the guide sets out the 10 risk factors that ASIC has identified in RG46 and Arrow's disclosure against the 6 benchmarks and 8 disclosure principles.

Risk factor 1 - Gearing

Benchmark 1: Gearing policy

ASIC benchmark: *The Responsible Entity maintains and complies with a written policy that governs the level of gearing at an individual credit facility level.*

Arrow meets this benchmark in relation to the Fund.

Arrow has a Financial Risk Management Policy addressing the risks associated with the Fund's debt facility. The Fund's debt facility has a requirement to maintain a bank loan to valuation ratio (**LVR**) of less than 60% if distributions are to be made.

The LVR is calculated by dividing the amount owing under the Fund's debt facility by the total of the latest independent valuation for each property owned by the Fund.

Arrow monitors the Fund's actual and forecast LVR on a Quarterly basis and provides performance certification on this covenant to the Fund's banker on a six-monthly basis.

Arrow is in compliance with its Financial Risk Management Policy and therefore meets this ASIC benchmark.

Disclosure principle 1: Gearing ratio

The gearing ratio as reported under RG46 is calculated as follows and was 39.9% as at 30 June 2016.

$$\frac{\text{Total interest bearing liabilities}}{\text{Total assets}}$$

The gearing ratio represents the extent to which the assets of the Fund are financed by debt. A higher gearing ratio means a higher reliance on external liabilities (primarily borrowings) to fund assets and exposes a fund to increased costs if interest rates rise. A highly geared fund has a lower asset buffer to rely upon in times of financial stress.

Investors can use the gearing ratio to assess the potential risks a fund may face in the event interest rates rise or property values decrease, and to compare the risk associated with the Fund's return on investment to other similar products.

The gearing ratio differs from the LVR reported to the bank, which was 40.8% as at 30 June 2016.

Risk factor 2 - Interest cover

Benchmark 2: Interest cover policy

ASIC benchmark: *The Responsible Entity maintains and complies with a written policy that governs the level of interest cover at an individual credit facility level.*

Arrow's Financial Risk Management Policy addresses the risks associated with the Fund's debt facility, including the level of interest cover at an individual credit facility level. Arrow's interest cover policy under the Fund's debt facility is to maintain a minimum bank interest cover ratio of 2.0 times, calculated in accordance with the interest cover ratio covenant formula set out in the Fund's debt facility.

The bank interest cover ratio covenant is calculated as follows and was 6.1 times as at 30 June 2016:

$$\frac{\text{Net rental income (rental from property less costs associated with the property)}}{\text{Gross bank interest}}$$

As with the LVR, Arrow also monitors its compliance with the interest cover obligation under the Fund's debt facility on a Quarterly basis using latest forecasts of interest rates (including any existing swap contracts) and rental income. This enables Arrow to quantify the headroom within the Fund's interest cover ratio covenant and any appropriate action that

needs to be taken. Arrow reports the Fund's actual interest cover ratio covenant against the debt facility covenant to the bank on a six-monthly basis.

Arrow currently complies with its Financial Risk Management Policy and therefore meets this ASIC benchmark.

The above formula differs from the RG46 interest cover ratio (ICR, which was 5.1 times as at 30 June 2016, as calculated below:

$$\text{Interest cover} = \frac{\text{EBITDA} - \text{unrealised gains} + \text{unrealised losses}}{\text{Interest expense}}$$

Disclosure Principle 2: Interest cover

Investors can use the interest cover ratio to assess a fund's ability to meet ongoing interest payments and therefore service debt from its earnings. It is a key measure of the risks associated with a fund's level of borrowings and the sustainability of borrowings. The interest cover ratio also provides an indication of the ability of the Fund to pay expenses of the Fund after the payment of its interest expenses and whether the income of the Fund is sufficient to cover these expenses.

The lower the interest cover, the higher the risk the fund will not be able to meet its interest payments and other expense payments. A fund with a low interest cover only needs a small reduction in earnings (or a small increase in interest rates or other expenses) to be unable to meet its interest payments.

As at 30 June 2016 the interest cover ratio (ICR) of the Fund was 5.1 times. This indicates that the Fund has sufficient earnings to satisfy its interest payments.

As at 30 June 2016 the bank interest cover ratio, which measures the number of times net rental income covers interest expense on a 12 month basis, was 6.1 times, which satisfied the banks covenant of >2.0 times.

Risk factor 3 - Interest capitalisation

Benchmark 3: Interest capitalisation

ASIC benchmark: *The interest expense of the scheme is not capitalised.*

The interest expense of the Fund is not capitalised. Arrow therefore meets this ASIC benchmark.

Risk factor 4 – Scheme borrowing

Disclosure Principle 3: Scheme borrowing

There are risks associated with the Fund's borrowings which are described below. Investors should be aware that their interests in the Fund will generally rank behind lenders and other creditors. This means that if the Fund were to be wound-up, then the Fund's lenders and other creditors would be repaid first, before any capital or outstanding distributions were paid to investors.

Direct borrowings of the Fund

As at 30 June 2016 the Fund had total borrowings of \$70.4 million and an undrawn amount available under that facility of \$13.8 million. The total facility available of \$84.2 million has a current expiry date of 31 July 2018. It is the intention of Arrow to extend the facility term during FY2017 so that it remains a non-current liability on the Fund's Balance Sheet at all times.

Managing risks associated with borrowings of the Fund

There are risks associated with the Fund's borrowings including:

- Refinancing risk
- Interest rate risk
- Breaches of loan covenants

Refinancing risk

Refinancing risk arises when the Fund holds an asset for a longer period than the term of debt used to acquire the asset. Arrow plans to refinance its loan facilities more than 12 months prior to 31 July 2018, the expiry of the current facility. There is a risk that refinancing will be on less favourable terms or not possible at all, and this may be as a result of factors outside of Arrow's control. As a result the Fund may be subjected to higher interest costs, fees and charges, less favourable security arrangements, shorter term debt or other unfavourable terms upon refinancing. These factors may reduce the Fund's net income and therefore negatively affect the Fund's capacity to pay income distributions to investors.

If the Fund's debt facility cannot be refinanced at all, the Fund would be required to sell assets to repay debt. If the assets are sold for less than their most recent valuation, their sale would negatively impact on the Fund's net assets, representing the capital value of investors' investment in the Fund.

Interest rate risk

The Fund hedges a portion of its exposure to changes in interest rates on variable rate borrowings by using floating-to-fixed interest rate swaps. By hedging against changes in interest rates, the Fund has limited its exposure to future changes in interest rates on its cash flows. The portion that is hedged is set by the Responsible Entity and is influenced by the hedging requirements set out in the Fund's debt facility documents and the market outlook.

The Fund has taken out forward interest rate contracts totalling \$52.5 million until July 2019. This represents a hedged interest rate exposure of 74.6% based on the drawn debt of \$70.4 million as at 30 June 2016 and an exposure of 62.4% if the \$82.4 million debt facility was fully drawn.

Breaches of loan covenants

Most borrowing facilities contain covenants relating to such items as gearing or interest cover which must be adhered to. A breach of a borrowing covenant may result in a lender being able to require immediate repayment of the facility, impose a freeze on any further draw-down on the facility, vary the applicable interest rate, charge additional fees or impose further restrictive covenants on the Fund such as a requirement to sell assets over time to reduce or fully repay debt.

If this occurs, then the Fund could be forced to arrange alternative financing in a short timeframe. Depending on prevailing market conditions and other circumstances this could be difficult for the Fund.

As at the date of this document, the Fund is not in breach of any loan covenants and Arrow is not currently aware that any covenants are likely to be breached.

Risk factor 5 – Portfolio diversification

Generally, the more diversified a portfolio is, the lower the risk that an adverse event affecting one particular asset will place the overall portfolio at risk. Disclosure principle 4 discloses the current composition of the Fund's direct property investment portfolio.

Disclosure Principle 4: Portfolio diversification

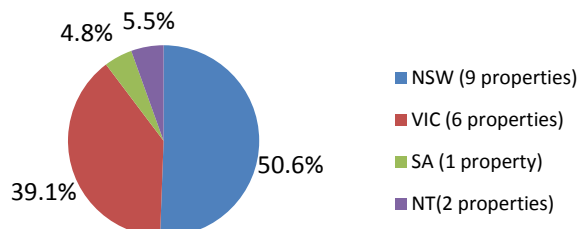
Fund snapshot as at 30 June 2016:

Number of directly held properties:	18
Number of indirect investments:	Nil
Total number of properties Fund has exposure to:	18

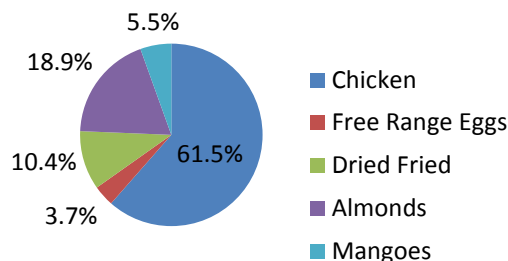
Asset allocation as at 30 June 2016:

Direct property	Unlisted property	Listed property	Fixed interest	Cash and other assets
97.7%	-	-	-	2.3%

Geographic diversification by value as at 30 June 2016



Sector diversification by value as at 30 June 2016



Valuations:

The table below shows details of the Fund's 6 largest direct property assets and their independent valuations as at 30 June 2016.

Description	Valuation (\$million)	Valuation date	Valuation type	Income yield rate
Bidgee Complex, Coleambally, NSW	\$22.4	30/06/16	Independent	10.1%
Lots 5&6 Lake Powell, VIC	\$21.0	30/06/16	Independent	9.2%
Colignan Farm, Nangiloc, NSW	\$17.8	30/06/16	Independent	9.5%
Avenues Complex, Coleambally, NSW	\$15.5	30/06/16	Independent	10.2%
Lot 2 Lake Powell, VIC	\$11.2	30/06/16	Independent	9.1%
Woodleigh Farm, NSW	\$11.2	30/06/16	Independent	10.8%

Tenancy details:

Occupancy rate (Fund): 100%

Weighted average lease expiry (WALE): 14.7 years as at 30/06/16

Tenant details as at 30/06/16:

Tenant	Property	% of portfolio income
Baiada Poultry Pty Ltd	Boronia Breeder Farms, Lynwood Breeder Farm, Woodleigh Breeder Farms, Bearii Breeder Farm, Rhynie Breeder Farm, Nagambie Broiler Farm, Bidgee Complex, Avenues Complex, Bowlers Lane Farms, Tangaratta Breeder Farm, Glenara Park Breeder Farms	60.8%
Turi Foods Farming Division Pty Ltd	Myers Breeder Farm	4.4%
Select Harvest	Lake Powell Lot 2 and Lots 5 and 6	17.1%
Seven Fields	Eumaralla Mango Farm and Katherine Packing Shed	4.4%
Pace Farm Pty Ltd	Kelso Park	3.5%
Murray River Organics Pty Ltd	Colignan Farm	9.8%

Lease expiry profile (by rental income):

Lease expires during (financial year)	Vacant	FY2023	FY2024	FY2025+
Percent expiring	Nil	4.4%	13.0%	82.6%

Arrow's investment strategy for the Fund:

To invest in agri infrastructure and property so as to provide investors with stable cash returns and the potential for income and capital growth.

Risk factor 6 – Valuations

Benchmark 4: Valuation policy

ASIC benchmark: *The Responsible Entity maintains and complies with a written valuation policy that requires:*

- a) a valuer to:
 - i. be registered or licensed in the relevant state, territory or overseas jurisdiction in which the property is located (where a registration or licensing regime exists), or otherwise be a member of an appropriate professional body in that jurisdiction; and
 - ii. be independent;
- b) procedures to be followed for dealing with any conflicts of interest;
- c) rotation and diversity of valuers;
- d) valuations to be obtained in accordance with a set timetable; and
- e) for each property, an independent valuation to be obtained:
 - i. before the property is purchased:
 - for a development property, on an 'as is' and 'as if complete' basis; and
 - for all other property, on an 'as is' basis; and
 - ii. within 2 months after the directors form a view that there is a likelihood that there has been a material change in the value of the property.

Pursuant to the Constitution of the Fund, the Responsible Entity may determine the valuation methods and policies it will apply from time to time in determining the net asset value of the Fund.

The initial value of a property asset will be its purchase price. Subsequently, the value of the property will be the amount shown in the most recent valuation. Arrow's policy is to obtain an independent valuation on each direct property asset at least every three years. A desktop review will be conducted for each property at the end of each half-year and each end of financial year. If the desktop review results in a material movement of greater than 10%, Arrow will obtain a formal independent valuation. All movements in a property's valuation must be approved by the Arrow Board.

Independent valuations must be performed by a qualified valuer who is registered with an appropriate professional body and has a minimum of 5 years' relevant experience. All independent valuations must comply with relevant industry standards and codes.

Arrow maintains and complies with a written valuation policy that meets the requirements of benchmark 4.

Risk factor 7 – Related party transactions

Benchmark 5: Related party transactions

ASIC benchmark: *The Responsible Entity 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.*

Arrow has established a procedure which sets out the processes for identifying, managing and resolving situations where conflicts of interest and related party transactions arise, or might be perceived to arise. This procedure has been prepared in accordance with the Conflicts of Interests Policy approved by the Arrow Board and *ASIC Regulatory Guide No. 181: Licensing: Managing Conflicts of Interests*.

The Constitution of 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. Where such related party transactions occur, the Responsible Entity will ensure that contracts are on an arm's length basis. If an intermediate vehicle was to be used, the Responsible Entity must ensure that the use of the intermediate vehicle does not result in any material increase in the management costs of the Fund.

There are risks associated with related party transactions as a result of the potential conflicts of interest which may arise. Related party transactions may carry the risk that they could be assessed and monitored less rigorously than arm's length third party transactions.

Any potential transactions with related parties will undergo an assessment process and must be approved by the Board. No related party transactions can be approved or entered into unless they are on arm's-length, commercial terms (or have been approved by investors). The Board must consider and document its consideration in respect of whether the related party transaction is on arm's length terms. Directors with an interest in the transaction may be precluded from voting on the approval of the transaction. An external valuer or other independent expert may be engaged to verify that the transaction is on arm's length terms.

The policy also requires the making of appropriate disclosures to investors in relation to related party transactions. Related party transactions are monitored by Arrow's compliance officer and the Board. The compliance officer reviews the policy and will update the policy in response to changes in internal structure, legislation and regulations and market developments where necessary.

Arrow currently complies with its policies and procedures in relation to entering into any related party transactions and therefore meets this ASIC benchmark.

Disclosure Principle 5: Related party transactions

This section describes the related party transactions to which Arrow is a party with respect to the Fund, which are relevant to an investment decision.

As at 30 June 2016, Arrow and its related parties have the following ongoing transactions with the Fund. Investor approval was not required for these transactions which were conducted on arm's length and commercial terms.

Transaction	Est. value of financial benefit
Murray Jones, a director of Arrow, receives an annual fee for acting as an external member of the Compliance Committee formed under the Corporations Act for the purposes of monitoring the Responsible Entity and the Fund	\$10,000 per annum
Agri Management Pty Ltd, an entity associated with Andrew Ashbolt, Managing Director of Arrow, is engaged as property manager for the properties held in the Fund on an arm's length, commercial basis. The fees for this engagement are charged monthly to the Fund.	\$16,500 per annum per property

As at the date of this report, parties related to Arrow held the following number of units in the Fund:

Unitholder	No. of units
Agri Management Pty Ltd	11,000,000
AH & RH Ashbolt	917,428
Reid Advisory Pty Ltd	362,545
MJJ Nominees (Vic) Pty Ltd	168,919

Arrow is in compliance with its policies and procedures for entering into related party transactions for the particular related party arrangements listed above. Compliance with these policies and procedures is monitored by Arrow's compliance officer on a regular basis and any new or varied related party transactions are recorded in Arrow's conflicts of interest register and reported to the Board.

Risk factor 8 – Distribution practices

Benchmark 6: Distribution practices

ASIC benchmark: *The scheme will only pay distributions from its cash from operations (excluding borrowings) available for distribution.*

The distributable income of the Fund generally consists of rent and interest received, less the expenses of the Fund. Distributions will be paid after deducting any taxes that are applicable. The Fund will only pay distributions from its cash from operations (excluding borrowings) available for distribution. Arrow therefore meets this ASIC benchmark.

Disclosure Principle 6: Distribution practices

Source of current distribution:

Cash from operations.

Source of forecast distributions:	Cash from operations.
Are the current and forecast distributions sustainable over the next 12 months?	Yes
If the current or forecast distribution is not solely sourced from cash from operations (excluding borrowings) available for distribution, the sources of funding and the reasons for making the distribution from these other sources:	Not applicable.
If the current or forecast distribution is sourced other than from cash from operations (excluding borrowings) available for distribution, whether this is sustainable over the next 12 months:	Not applicable.
The impact of, and any risks associated with, the payment of distributions from the Fund from sources other than cash from operations (excluding borrowings) available for distribution:	Not applicable.

Risk factor 9 – Withdrawal arrangements

Disclosure Principle 7: Withdrawal arrangements

The Constitution provides for the manner in which investors may withdraw their investment from the Fund. Investors can only withdraw an investment in the Fund when Arrow makes a withdrawal offer to all investors. This is because the Fund does not have sufficient 'liquid' assets (as defined in the Corporations Act) that could be realised within 90 days (the period specified in the Constitution for satisfying withdrawal requests). By their nature, investments in real property are generally illiquid. An investment in the Fund should therefore be considered long term and illiquid.

When the Fund is illiquid

If the Fund is illiquid, as it currently is, investors can only withdraw an investment in the Fund when Arrow makes a withdrawal offer to investors. Arrow is not obliged at any time to make a withdrawal offer and it may suspend withdrawals if certain conditions are not satisfied. If Arrow makes a withdrawal offer, Arrow may determine the terms of the withdrawal offer in its absolute discretion.

A withdrawal offer is currently open and closes on 30 September 2016. Details are available on the Fund's website: www.Arrowfunds.com.au

If the Fund is liquid

If the Fund becomes liquid, meaning that at least 80% of the Fund's assets could be realised for its market value within 90 days to fulfil the value of the withdrawal request, an investor may make a request for withdrawal for some or all of their units. If Arrow gives effect to an investor's withdrawal request, it would then be required to make payment within 90 days of receiving the withdrawal request. Arrow need not give effect to certain withdrawal requests which are below the minimum application amount, unless the withdrawal request relates to the remaining balance of the investor's investment in the Fund.

Risk factor 10 – Net tangible assets

Disclosure Principle 8: Net tangible assets

Arrow discloses the net tangible asset per unit on its website. The net tangible asset shows the value of the Fund's assets upon which the value of units is determined. The net tangible asset per unit of the Fund was \$0.7129 as at 30 June 2016 and is the value of the Fund's assets less the Fund's liabilities (including appropriate adjustments), calculated in accordance with the Constitution of the Fund. This calculation is equivalent to the formula provided by ASIC to calculate the net tangible asset per unit, as set out below:

$$\text{Net tangible assets} = \frac{\text{Net assets} - \text{intangible assets} +/- \text{other adjustments}}{\text{Number of units on issue}}$$

Note that the following adjustment has been made in the calculation of the Fund's net tangible asset:

- The net tangible assets includes water licences as they have a tradable value in the market and are attached to the property assets leased to the tenants. Water licences are therefore considered a tangible asset.

In practical terms, the net tangible assets calculation is a measure of the amount per unit that an investor's investment in the Fund may be worth. However, there is no guarantee that units can be realised for this value as there is no liquid market for units and any disposal would need to be negotiated individually between willing buyers and sellers. The value may be affected by various factors including transaction costs for properties, costs associated with capital raisings or fees paid to the Responsible Entity or third parties.

If the net tangible assets per unit is less than the price that an investor paid to acquire units in the Fund (prior to any capital return paid during the Fund's term), then there is a risk that investors will not have their capital repaid when exiting the Fund or upon the winding up of the Fund.

Section 3 - Definitions

Bank interest cover ratio	The interest cover ratio assesses the Fund's ability to meet ongoing interest payments and service debts from its earnings. The bank interest cover ratio covenant is calculated by the net rental income (rental from property less costs associated with the property) divided by the gross bank interest.
Bank loan to value ratio	Relates to the loan to value ratio of bank debt (drawn bank debt/value of the Fund's directly held properties).
Debt facility	Cash Advance Loan based on Bank Bill Rate (BBSY).
Gearing ratio	The gearing ratio represents the extent to which the assets of the Fund are financed by debt.
Interest cover ratio	Interest cover ratio, meaning the ratio: (earnings before interest tax, depreciation and amortisation less unrealised gains plus unrealised losses)/interest expense.
Lender	Commonwealth Bank of Australia and any party who provides an interest bearing loan to the Fund.
Loan to value ratio	Loan to value ratio (LVR) is determined by the loan amount divided by the market value of the property.
Net asset value	Net asset value (NAV) is calculated as total assets minus total liabilities.
Net tangible asset	Net tangible assets (NTA) is calculated as total assets minus total liabilities minus intangible assets. As water licences owned by the Fund are tradeable and attached to the property assets leased to tenants they are considered tangible assets for the purposes of this calculation. NTA is therefore equal to Net Asset Value (NAV).

This document is dated 31 August 2016. Information in this report is based on audited financial statements of the Fund for the financial year ended 30 June 2016. Arrow believes that this information is a fair representation of the Fund's accounts at that date. All amounts are expressed in Australian dollars unless otherwise indicated.

Arrow will update investors for ongoing disclosure against the 8 disclosure principles in RG46 by publishing updated or continuous disclosure on its website www.arrowfunds.com.au. Arrow will generally update this information at least twice per year and when there are material changes to this information. Investors should also refer to the Fund's most current information such as the annual and half-year financial statements, continuous disclosure notices and investor letters which can also be found at www.arrowfunds.com.au.

This document has been prepared as general information only and does not take into account the investment objectives, financial situation or needs of a particular person.

Issued by Arrow Funds Management Limited ACN 146 671 276, AFSL No. 439095, the Responsible Entity of the Arrow Primary Infrastructure Fund ARSN 110 813 851

A hard copy of this document is available upon request by contacting Arrow on (03) 9691 5447, email to enquiries@arrowfunds.com.au or by post to Level 25, 360 Collins Street, Melbourne VIC 3000.