

### Key Points:

- APN is an ASX-listed fund manager specialising in property investment, with an investment team of six. Established in 1996, APN now has FUM of \$A2.1bn including four REIT (Real Estate Investment Trust) funds.
- APN's Asian REIT Fund invests in a portfolio of 25-40 listed Asian REITs with a core philosophy of investing in properties with a sustainable rental income streams.
- The resulting portfolio has a key objective of achieving a gross income 10% higher than the yield of the benchmark Bloomberg Asia REIT Index, and capital growth matching Asian CPI.
- The emphasis on lower than benchmark volatility is achieved by the defensive nature of the higher yielding REITs in the portfolio.
- To date the Fund has provided out-performance against the benchmark over the longer-term with a sound distribution profile.
- The Fund is Index-unaware, actively managed and has low portfolio turnover.

### Management Company Overview:

ASX-listed APN Property Group Limited (APN) was listed on the ASX in June 2005, and net assets of \$56m, no debt and \$20m cash at bank. Over 50% of the shares in APN are controlled by directors and management. The board of APN consists of four directors, two of whom are non-executive.

APN Funds Management (APN FM) is a fully-owned subsidiary of APN, and currently manages \$A2.1bn including a range of four REIT funds. The Asian REIT fund was launched as a retail offering in April 2013 after APN seeded it in July 2011. APN FM has a separate board from the parent, with only one common director, Howard Brenchley, who joined APN in 1998 and was originally responsible for establishing the APN Fund Management business. Brenchley, who is now a non-executive director, has over 30 years' experience in the property sector, and is a member of the Investment Committee

The senior management of APN FM all have significant experience in their fields. They include CEO Real Estate Securities, Michael Doble who has 25 years' experience having held various senior roles specialising in real estate valuation, consultancy and funds management. Immediately prior to joining APN in 2003 he was Head of Property at ANZ Funds Management. He is a fellow of the Australian Property Institute and FINSIA as well as holding a Bachelor of Business (Property).

CFO Michael Groth, who is also an executive alternate director for Howard Brenchley worked for KPMG for 7 years both in Melbourne and the UK, prior to joining APN in 2006. He has broad exposure across all areas of the Group, most recently in the role of Director, Corporate Finance with responsibility for accounting, taxation and treasury across the business and contributing to the business's direction and strategy.

The team consists of Portfolio Manager Corrine Ng, Fund

## APN | Property Group

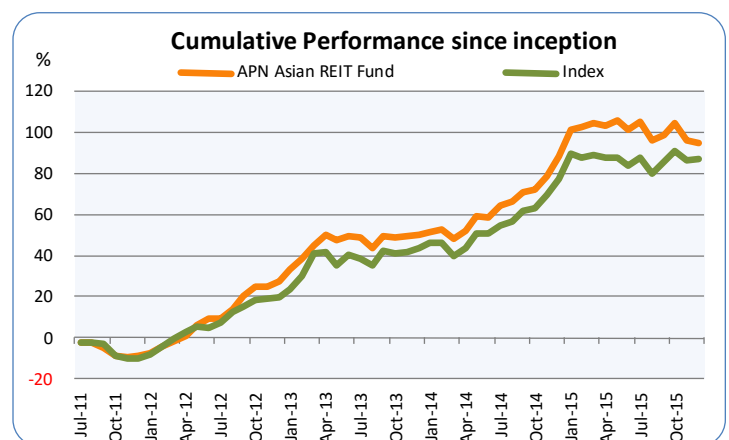
Key Performance Statistics	APN	Index*
Dec-15	-0.48	-2.45
Annualised Return	15.97	15.15
Latest 3 Months	-2.09	3.59
Latest 6 Months	-3.11	-0.65
Latest 12 Months	3.61	10.11
Latest 24 Months p.a.	13.83	14.74
Latest 36 Months p.a.	15.22	16.19
Latest 60 Months p.a.	0.00	0.00
% Positive Months	69.81	62.26
Best Month	7.20	8.22
Worst Month	-4.67	-5.82
Largest Drawdown	-9.65	-10.43
Average +ve Return	2.72	3.06
Average -ve Return	-1.93	-1.90
Annualised Standard Deviation	9.43	10.33
Downside Deviation (Since Inception)	5.05	5.71
Sharpe Ratio (Since Inception)	1.36	1.14
Sortino Ratio	2.37	1.97

\*Index is BBAREIT adjusted since Fund's Inception

Analyst Anyu Tan and APN's experienced Fund Manager Peter Morrissey who, amongst other duties, acts as joint Portfolio Manager with Ng on this fund.

Ng joined APN in February 2015 having previously worked in portfolio management / investment analyst roles for REIT managers such as Aviva Investors, Goldman Sachs in New York and previously HSBC / Challenger here in Australia. She has extensive experience in REITs across Asia Pacific and North America.

The team receives dedicated support from Fund Analyst, Anyu Tan, who joined APN's Singapore office in 2013 and



Performance - Net of Fees (%)													APN Asian REIT Fund	
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	
2015	7.20	0.34	1.15	-0.60	1.11	-2.19	2.13	-4.67	1.64	2.82	-4.32	-0.48	3.61%	
2014	0.81	0.75	-2.88	2.74	4.39	-0.16	3.68	0.91	2.96	0.63	3.81	5.23	25.06%	
2013	4.46	4.18	4.69	3.36	-1.75	1.26	-0.49	-3.14	3.96	-0.40	0.42	0.51	18.03%	
2012	1.16	4.01	2.72	2.22	5.41	2.86	0.19	4.33	5.25	4.12	-0.34	2.22	39.78%	
2011	-	-	-	-	-	-	-2.25	-0.31	-2.38	-4.09	-0.97	0.85	-8.88%	

subsequently relocated to APN's Melbourne head office. Prior to APN she worked for Bloomberg in Singapore as a Data Analyst in the Global Data department specialising in equities for the Asia Pacific region.

Morrissey joined APN in 2006 and has over 15 years financial markets experience. He has authored academic research papers on both commercial real estate cycles and global property cycles. His role has been critical in developing advanced valuation tools to improve the investment processes. Previously he worked at Lonsec and also managed an internationally focused private investment fund, as well as spending several years as an analyst in the UK for Nomura.

### Investment Structure and Sector

Real Estate Investment Trusts or REIT's as they are more commonly known, are listed vehicles on various stock exchanges which specialise in the property sector. They can vary in their scope and focus, ranging from single property investments, to more varied and diversified vehicles investing across multiple properties, or sectors, such as commercial, industrial or retail.

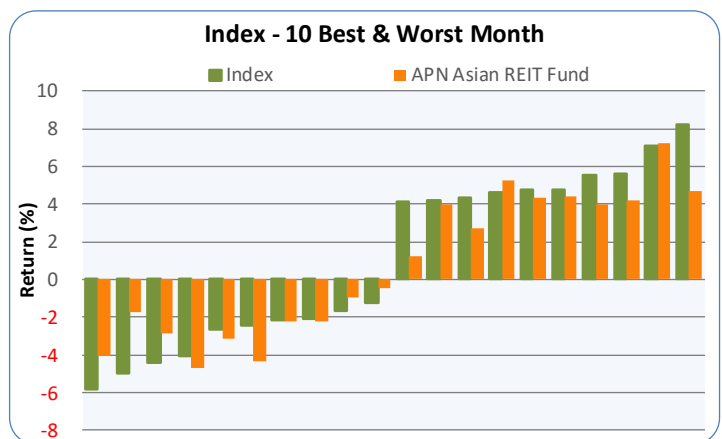
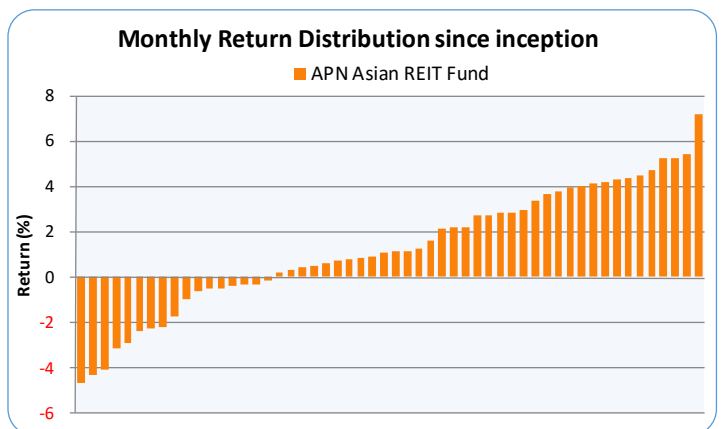
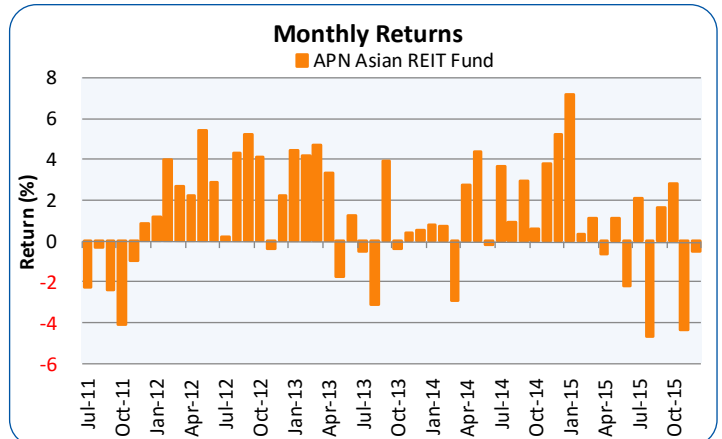
Unlike unlisted or direct property investments, REITs have the benefit of being exchange traded, providing liquidity and transparency for investors.

The REIT market is highly developed and is notable for its world class governance. Governments in the Asian region have developed specific REIT legislation along the lines recommended by APREA, the Asia Pacific Real Estate Association, and the industry body for the suppliers and users of capital in the real estate sector in the Asia Pacific region. The legislation applied to REITs in the region is now regarded as world class both in terms of governance and disclosure. The legislation has also has an emphasis on ensuring steady income from rental with limits on development and gearing allowed in REITs.

### Investment Strategy & Style: "Income-Focused Asian REITs"

The Manager believes that Asia offers significant scope and opportunity for attractive investment in property and real estate, believing the region is anticipated to be the economic growth engine of the global economy over the next 20 – 25 years. They also hold the view that with the economic development of the region driving the demographic movement and of the "middle classes" in Asia, that investment in a diversified portfolio of property makes sound economic sense.

The APN Asian REIT Fund (the "Fund") is a diversified, long-only strategy investing in 25 to 40 underlying REITs, each of which is listed on a stock exchange in the Asian region. Each underlying investment is selected for its ability to deliver a consistent income distribution in a range of property market conditions, across various countries in the region, and grow the distribution in a sustainable manner over time. The emphasis on income is demonstrated by the Fund's key objective to deliver a gross distribution yield that exceeds the yield of the relevant Index by 10% - in other words if the index was yielding 4%, the Fund's target yield would be 4.4%.



### Performance Review

- The Fund has recorded a positive 15.97% p.a. since inception with a volatility of 9.43% as compared to the BBAREIT Index data of +15.15% and 10.33% respectively.
- The Fund's defensive characteristics are shown by the Sharpe ratio of 1.36 and Sortino ratio of 2.37, both well above the comparative benchmark.
- The Fund's Up and Down Capture ratios are 0.89 and -0.72 respectively and the maximum drawdown of -9.65% as compared to -10.43%.

The Fund is a value investor, and aims to invest in REITs that will provide a higher total return over a five to ten-year timeframe

than comparable property investments with similar risks. This is achieved by intensive research of the fundamentals of the assets within each REIT under consideration. There is a strong focus on the quality of the income streams from each asset by investing in high quality, well located commercial property with attributes such as sound tenant profile and lease terms, intensive asset management and a demonstrated capital management record.

The Asian REIT market provides the Manager with a range of opportunities and geographies to exploit in the search for sustainable rental income in the growth markets of Asia. The combined Indices currently have a market cap of over \$A200bn, from a value of under \$A10bn in early 2002, with the largest Index component being Japan with an Index weight of 47.6%, followed by Singapore at 28.3%.

### Investment Process

The investment process has five steps, moving from the macro economy to the analysis and modelling of individual REITs and assets as follows:

1. An overview of the macro factor affecting each Asian economy and property sector, including supply and demand fundamentals.
2. An overlay of the analysis with the Manager's market knowledge to assess local issues and nuances.
3. An assessment of factors impacting risk and return, including interest rates and investment flows.
4. The Manager then screens all REIT managers to build a detailed Asian database.
5. Finally, detailed valuations on identified REIT's drive the portfolio construction process.

The Manager uses a number of valuation techniques while conducting detailed proprietary modelling. Currently the Manager has models on 57 of the 147 Index components or around 70% by market capitalisation, with significant flexibility to deal with a range of valuation methodologies.

The risk management process evaluates a range of macro factors such as market and economic influences. Financial market risks, including interest rates, currency and equity flows are assessed, following which a risk analysis is conducted at the specific property manager level. After each REIT has been evaluated, the overall portfolio is finally analysed.

Discounted Cash Flow (DCF) along with NAV are the preferred valuation methods, applied to dividends per unit, and earnings per unit forecasts. Particular emphasis is placed on applying the appropriate discount rate, and in order to arrive at the correct rate the Manager evaluates each investment's cash flows, balance sheet strength, and quality of management. More recently the Manager has placed an increased emphasis on Net Asset Value analysis with inputs from a range of sources including APREA, Bloomberg, brokers and agents such as CBRE and DTZ amongst others. The Manager adds these to their own detailed analysis to confirm their valuation of potential assets under consideration.

The resulting portfolio typically consists of 25 to 40 listed REITs which exhibit consistent distribution growth, excellent management credentials, and long term market expansion potential.

### Portfolio Construction and Risk Limits

The Fund is long only, and given the strategy mandate and objectives has an exposure range of 90 to 100% Asian REITs, and up to 10% cash/fixed interest (which includes hybrids issued by property companies). The Fund will therefore be fully exposed to the performance of listed Asian property markets.

The portfolio provides a broad Asian REIT diversification across 5 main markets with a geographic exposure as of December 2015:

Geographic Exposure	%
Japan	39.70
Singapore	26.50
Hong Kong / China	23.90
Other	9.90

As of December 2015 the top five holdings comprised of over 23% of the portfolio with 5 holdings above 4% each.

There are a number of restrictions that the fund is not permitted to invest in;

- Property trusts or companies that have greater than 30% of their total earnings that are corporation based (which includes property development, funds management, property management, property development or properties that service the tourism, leisure or entertainment sector);
- Those that specialise in the tourism, leisure or entertainment sectors, unless the income is substantially insulated from the business risk of the operators;
- Directly in real property or mortgages;
- Mortgage trusts or securitised mortgage instruments.

Furthermore, the Fund will not act as, or invest as a property developer, contractor or project manager.

These exclusions underline the Manager's philosophy regarding the importance of underlying income streams of the Fund's investments. This combination results in a portfolio with the following attributes (amongst others);

- The underlying REITs mostly are capped at 10% corporate earnings making this comment redundant;
- Above bench market income along with lower than benchmark volatility
- Has a low historical turnover of 15 to 30% pa.

The Manager believes currency hedging can detract from returns and their consistent focus on income and the Fund therefore has no currency hedging in place such that the resultant exposure to a basket of Asian currencies reduces regional portfolio correlations, while providing portfolio diversification.

The Fund has a long-term buy/hold approach resulting in low portfolio turnover. In practice changes to the portfolio are driven either by changed fundamentals and/or the view that

other REIT investments offer a stringer value proposition in adding to a better longer term risk adjusted portfolio.

The success of the investment strategy is indicated by the fact that as at year-end for each of 2013, 2014 and 2015 the Fund's yield was in excess of the benchmark Index yield by more than their goal of 10%, with volatility also below that of the Index since inception.

### Portfolio Risk Management Philosophy

Being 'index unaware' in portfolio construction, the Manager is more focused on absolute than relative risk, and manages the portfolio with a focus on income, while also comparing performance and volatility against a REIT benchmark. Risk is controlled through portfolio construction limits around stock and country exposure to ensure that the Fund is not overly concentrated. The Manager regards the Fund's mandate as the primary risk control as their research concentrates on the low risk universe by avoiding investments with volatile earnings. In addition, their focus on rental earnings (as opposed to other earnings) in those REITs with sound management in mature capital markets is considered another significant factor in reducing risk.

The Manager does not utilise hard stop loss limits, however they do monitor the profit and loss of each position, and significant under-or out-performance is considered as part of their assessment. The Manager endeavors to have average market liquidity of not more than 20 days based on the 52 week average trading daily trading volume of each investment.

The Manager monitors risk using monthly performance reporting and analysis, as well as attribution/contribution analysis with compliance monitored by software.

### Operational Risk and Management

APN has a dedicated Compliance Manager, Chantal Churchill, who has 12 years' experience in financial services with a number of senior audit, compliance and training roles with funds management firms, including Arena Funds Management, Tabcorp and Invesco. There is an appropriately constructed Compliance Committee representing all relevant parties. The members of the Compliance Committee are Geoff Brunson (Chair) with Jennifer Horrigan and Michael Johnstone both independent directors. Compliance officers are the CFO, Groth, Company Secretary, Freemantle, with Peter Morrissey specifically responsible for compliance for the Asian AREIT Fund.

Key person risk for the Fund is judged to be low. In addition to the extensive experience of Doble in the event of Morrissey's departure are the back-up of two analysts, Chai and Mazarella. This together with Ng and Tan significantly reduces risk. Given the Fund's strategy, investments and current FUM, there does not appear to be excessive risk in the event of any sudden unavailability of key personnel. Other key person back-up plans are in place as appropriate.

### Investor Relations and Marketing

Peter Mill is Head of Channel Development and Simone Newman who is Head of Group Marketing and Distribution is responsible for sales and is the point of contact for investors.

The Fund has issued a retail PDS dated 1 January 2015. The Manager provides a two-page monthly performance report which provides commentary and exposure details for the five major investments, along with geographic and sector composition of the portfolio.

### Terms and Fees

APN Asian REIT Fund Key Terms	
Strategy	Equity Long
Geographic Mandate	Asia
Domicile/Structure	Australia
Investor Type	Wholesale
Min. Investment	\$1,000
Additional Investment	\$500
Management Fee	1.20% p.a. of NAV (including all expenses)
Performance Fee	NA
Hurdle	NA
Min. Term	1 Month
Investment/Redemption	Daily (minimum \$1000 withdrawal)
Buy/Sell Spread	0.30%/0.30%
Liquidity	Daily
Inception Date	Jul-11
Fund Size	\$4.34m
Manager's Total FUM	\$2,100m
Status	Open

### Structure and Compliance/Counterparties

The APN Asian REIT Fund is an Australian based Unit Trust open to wholesale and retail investors. APN Funds Management Pty Limited (ABN 60 080 674 479) holds an AFS License 237 500.

#### Responsible Entity:

<b>Custodian:</b>	Standard Chartered
<b>Administrator:</b>	APN FM
<b>Auditor:</b>	Deloitte
<b>Executing Broker:</b>	Morgan Stanley

**This Report is valid till February 2016**

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This enables investors or their advisors to understand the objective and processes behind each fund's strategy, and structure and operations of the management company. When used in conjunction with the quantitative comparison of the fund's key performance and risk indicators (KPI's) included in each Fund Review, the reader is in a better position to make an informed decision regarding the suitability of the fund for individual investor's requirements.

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