APN | AREIT Fund ARSN 134 361 229

mFund FOUNDATION MEMBER

ASX Code: APF01

APN's investment philosophy is focussed on generating consistent income returns by actively managing a portfolio of high yielding, Australian commercial property securities. Established in 2009, the APN AREIT Fund (the Fund) was designed with this specific mandate in mind.

The Fund is focussed on delivering a competitive yield with lower risk than the market. Underlying stocks are selected based on a highly disciplined investment approach that has been in place since 1996. The Fund provides access to a wide spread of property-based revenue streams that are specifically analysed, selected and weighted with the aim of delivering strong and sustainable income returns.

The Fund is suited to medium to long term investors seeking a relatively high monthly income and some capital growth over the long term.

Current running yield

APN AREIT Fund	AREIT Index[4]
6.35% pa[1]	**5.05% pa**[1]

Performance 31 October 2016

	1 month	3 months	6 months	1 year	3 years pa	5 years pa	Since inception[5] pa	Standard deviation since inception pa
APN AREIT Fund Income[2]	0.45%	1.22%	2.72%	6.34%	7.51%	8.45%	7.79%	
APN AREIT Fund Total return[3]	(7.10%)	(13.04%)	(3.73%)	8.00%	13.45%	16.63%	15.58%	12.52%
AREIT Index[4]	(7.70%)	(14.04%)	(3.73%)	6.39%	13.59%	16.81%	12.57%	14.89%
Over performance/ (Under perfomance)	0.60%	1.00%	0.00%	1.61%	(0.14%)	(0.18%)	3.01%	

1 As at 31 October 2016. Current running yield is calculated daily by dividing the annualised distribution rate by the latest entry unit price. Distributions may include a capital gains component. Distributions are not guaranteed and past performance is not an indicator of future returns.
2 Distributions may include a capital gains component.
3 Returns after all fees and expenses. Assumes distributions are reinvested. Investors' tax rates are not taken into account when calculating returns. Past performance is not an indicator of future performance.
4 S&P/ASX 300 Property Trust Accumulation Index.
5 Fund inception 19 January 2009.

Fund overview

The APN AREIT Fund ("Fund") is a property securities fund predominantly investing in listed Australian Real Estate Investment Trusts (AREITs).

Investment objectives

The primary investment objectives of the Fund are to:

- provide a high level of distributable income by achieving a gross annual income yield (before management fees and expenses) that is equivalent to at least 110% of the average yield of the S&P/ASX 200 AREIT Dividend Yield;
- endeavour to deliver a tax advantaged income component of distributed income;
- provide a level of capital growth which at least matches increases in CPI over a 5-7 year time horizon; and
- provide lower than market volatility.

Benefits

- Income focussed.
- Distributions paid monthly.
- Access to a diversified portfolio of quality listed property securities which offer relatively high yields.
- Actively managed portfolio whereby underlying securities are valued and re-weighted.
- 100% liquidity.
- Lower than market volatility.
- Nil entry and exit fees.
- Tax advantaged income component.

This Fund is suited to:

- Investors seeking relatively consistent and high levels of income.
- Investors seeking tax effective income.
- SMSFs - investors managing their own retirement.
- Investors wanting access to a diversified portfolio of quality AREITs.
- Medium to long term investment.

AT A GLANCE

Type of fund	Property securities fund
Commencement date	19 January 2009
Fund size	$1,141.80m as at 31 October 2016
Investment timeframe	5 - 7 years
Minimum investment amount	$1,000
Minimum additional amount	$500 ($100 per month with regular investment savings plan)
Income distribution	Monthly - payable 10 days after the end of the month
Unit pricing	Daily
Withdrawals	Daily
Distribution reinvestment plan	Available
Borrowing	Nil
Entry and exit fees	Nil
Management costs	0.85% pa
Buy/sell spread	0.25% buy and 0.25% sell

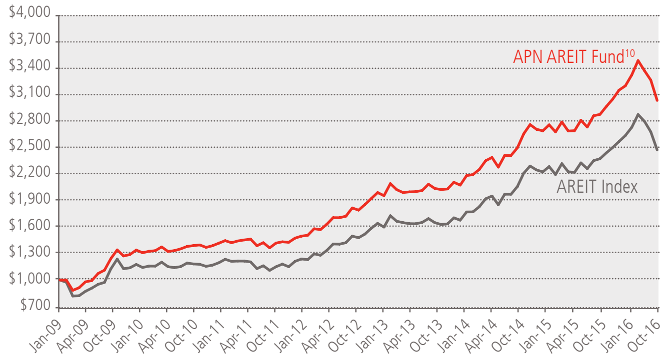
Research ratings

- SQM Research[6] - 4.25 Star Superior rating (September 2016)
- Zenith[7] - Recommended rating (July 2016)
- Lonsec[8] - Recommended rating (June 2016)
- Morningstar[9] Analyst Rating™ - Silver (May 2015)

Superior SQM research | Zenith Investment Partners Recommended | Recommended Lonsec Research | MORNINGSTAR Silver

Financial Review **Smart Investor Blue Ribbon Awards 2016 –**
Winner, best Australian listed property fund, APN AREIT Fund

APN AREIT Fund vs S&P/ASX 300 Property Trust Accumulation Index (AREIT Index) total return since inception



Source: APN FM, Bloomberg

10 Returns after all fees and expenses. Assumes distributions are reinvested. Investors' tax rates are not taken into account when calculating returns.

Note: $1,000 invested since commencement in January 2009.

Top 5 AREIT holdings 31 October 2016

Stock	Sector	% of APN AREIT Fund	% of AREIT Index[11]
Scentre Group	Retail	22%	21%
Vicinity Centres	Retail	11%	9%
Stockland	Diversified	11%	8%
Charter Hall Retail REIT	Retail	6%	1%
Dexus Property Group	Office	5%	7%

11 S&P/ASX 300 Property Trust Accumulation Index.

Asset class allocation 31 October 2016

AREITs[12]	99%	Cash	1%

12 Australian Real Estate Investment Trusts.

Note: Cash includes accrued income and accrued expenses. Asset allocations may change depending on market conditions and in accordance with the Fund's mandate.

Underlying property sector allocation 31 October 2016

Retail	62%	Office	19%
Industrial	12%	Other	7%

Availability

AMP North, Asgard, Asgard Infinity, ASX mFund, Austchoice, Avanteos, BT Wrap, BT Wrap Essentials, CFS FirstWrap, Emerald Wrap, Freedom of Choice, Hub24, IOOF Portfolio Service, IOOF Pursuit, Lifetrack, Linear, Macquarie Wrap, MLC Wrap, Navigator, Netwealth, OnePath Oasis, Portfolio Care, Powerwrap, Praemium, SMF

About the Manager

APN Funds Management Limited (APN FM) is a wholly owned subsidiary of APN Property Group Limited (ASX code: APD), a specialist real estate investment manager. An active investment manager with a concentrated focus on income, APN has a strong record of delivering a range of property based investment solutions for institutional and retail clients since 1996.

Investment team

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Pete Morrissey	Fund Manager, Real Estate Securities
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Quarterly fund commentary

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Since hitting a high in early August, the S&P/ASX 200 AREIT index has since declined around 13%. The fall prompts a few questions, including the reasons for it, the impacts and what we might expect from here. Let's deal with each of those in turn.

Over the past few years AREIT sector returns have been exceptionally strong. In the last financial year alone the sector index rose around 25% and in the past three years it's up around 18%pa. Of course, nothing goes up in a straight line forever. It's inevitable that after such a strong rise a sell off would occur at some stage. But there's a little more going on than that.

Returns of this magnitude, especially in a sector known for its stability and income-driven focus, have a second order effect of reinforcing recent price rises. Exceptionally low interest rates have made it more appealing to a broader audience. In recent years, property trusts have delivered exceptional capital growth in addition to regular, stable income. This has proved a powerful combination, attracting investors not ordinarily interested in the sector.

Bond yields hit an all-time low of 1.82% on August 1, 2016 which, not coincidentally, was also the recent high of the AREIT sector index. Since then, bond yields have risen in Australia due to an uptick in US bond yields, a result of slightly stronger growth and expectations of a December rate increase in the US. That's understandable. A change in bond yields has a direct relationship with sector value. Higher bond yields normally mean lower AREIT value.

What's more surprising is the extent of the fall in AREIT prices which the rise in rates triggered. US bond rates have risen only slightly and there's little expectation of this rise gathering pace. The 'lower for longer' position that interest rates will remain near historical lows remains generally accepted, with plenty of evidence to support it, too. Australia recently launched its first ever bond with a 30-year maturity, at a yield of 3.27% and Ireland and Belgium recently sold 100-year bonds at around 2.3%. Bond yields are unlikely to creep up to anything like the levels we have seen over the last 30 years. And yet the AREIT index has fallen 13% in a few months.

That begs the question why. I'd suggest that non-traditional investors attracted to the sector by the recent impressive capital gains got cold feet. Seeing the bond rate tick up just a little was enough to get them to hit the sell button. Recent returns have been well in excess of long term averages and, as we've been suggesting for a while, should revert to a more realistic 9-10%pa over a period of time (yes, there might be more volatility in the short term but we are investing with a focus for income over a medium term investment timeframe). Short term investors leaving the sector because they don't understand this point is no bad thing.

What, then, of the future? Each sector component is in reasonable shape. The better quality retail property that features in the AREIT sector is structurally sound with high barriers to entry and low vacancy rates of around 1%. Commercial office is particularly strong, especially in Sydney. Industrial is more volatile but will benefit from GDP growth and, while residential has pockets of oversupply, as a small percentage of the sector it's not a huge risk.

Nor are valuations stretched. Although net tangible assets show a high premium to price this is an inappropriate measure as it doesn't account for the distorting impact corporate earnings has on share prices. Net asset value and discounted cashflow valuations are more useful, reliable measures, and they suggest the sector is currently trading below fair value. The message is not to be distracted by the price falls in the sector and concentrate on accurate measures of value. This measure also does not really account for the fact that the majority of REITs which have sold assets recently have done so at healthy premiums to their book values (which is essentially their net asset values).

The economic environment isn't bad, either. GDP growth, at 3.3% p.a. is relatively healthy and unemployment remains low. Meanwhile, the spread between the 10-year bond rate and the AREIT sector's overall yield implies significant room for bond yields to move and for value in AREITs to be maintained. We have expected for the last 12 months (at least), gradual reversion to normalised returns of 9-10% a year. But against the current backdrop long term returns of that magnitude are nothing to be sniffed at.

Even if interest rates do edge up a little, prompting further price falls in the sector, it's important to realise this would be a positive indicator of the health of the overall economy. Over the long term, stronger growth would impact the sector positively, delivering upwards pressure on rents, which would support greater dividend growth and capital values.

The sector's recent fall may be bad news for investors attracted by the flashing lights of recent strong capital growth. But for genuine long term income investors the recent tumble means they can now get a reliable 6.2%[1] yield from APN's AREIT Fund compared to the 5.7%[2] on offer just a few months ago.

Whilst the volatility of the APN AREIT Fund is consistently lower than that of the market and our peers, we do expect more of it. But as an income focussed, low risk fund manager we remain very confident in maintaining the all-important yield of the fund, currently 6.2%. For investors concentrating on that and expecting modest capital growth rather than the excessively high returns of the last few years, the recent price fall is nothing to worry about. And for new investors, which can now get an attractive yield at a cheaper price, it's to be welcomed.

1 As at 17 October 16
2 As at 30 September 16

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