

# ASIC REGULATORY GUIDE 46 DISCLOSURE

UNLISTED PROPERTY SCHEMES | IMPROVING DISCLOSURE FOR RETAIL INVESTORS



SECTION 2: DISCLOSURE PRINCIPLES AS THEY APPLY TO FUNDS

**APN** | Property Plus Portfolio

ARSN 101 227 614

**APN Funds Management Limited**

ABN 60 080 674 479

Australian Financial Services Licence (No. 237500)

REPORTING DATE: 31 DECEMBER 2016

The practical application of the enhanced disclosure principles and benchmarks as required by RG 46 for the APN Property Plus Portfolio is presented below. An overview of each of the principles and benchmarks, including detailed explanations and definitions can be found [here](#).

### **Fund overview**

The APN Property Plus Portfolio is an unlisted property trust that invests in a geographically diversified portfolio of Woolworths, 7-Eleven and Shell petrol stations.

The principal activity of the Fund is to invest in quality properties that are primarily retail properties or fuel outlets. The principal investment objective is to maximise unitholder value through investment in properties with strong lease covenants that offer relatively secure income streams and have the potential for capital growth.

The information set out below has been calculated based on the latest financial statements for the period ended 31 December 2016.

## Gearing

### **Disclosure principle 1: Gearing ratio**

Gearing ratio: 40.10%

Look-through gearing ratio: N/A

As at the reporting date the Fund complies with its gearing related financial covenants for its financing facilities. The Fund does not have any off-balance sheet financing.

### **Benchmark 1: Gearing policy**

**Benchmark:** The responsible entity maintains and complies with a written policy that governs the level of gearing at an individual credit facility level.

**Met or not met:** APN FM as responsible entity complies with Benchmark 1 and meets the Gearing requirements.

## Interest cover

### **Disclosure principle 2: Interest cover ratio**

Interest cover ratio: 3.63 times

As at the reporting date the Fund's interest cover ratio exceeds the minimum interest cover covenants contained in its financing facilities.

### **Benchmark 2: Interest cover policy**

**Benchmark:** The responsible entity maintains and complies with a written policy that governs the level of interest cover at an individual credit facility level.

**Met or not met:** APN FM as responsible entity complies with Benchmark 2 and meets the Interest Cover requirements.

## Interest capitalisation

### Benchmark 3: Interest capitalisation

Benchmark: The interest expense of the fund is not capitalised.

Met or not met: APN FM as responsible entity complies with Benchmark 3.

## Borrowings

### Disclosure principle 3: Fund borrowing

#### 3.1 Refinancing risk – total credit facility and expiry profile

As at the reporting date, the maturity profile and undrawn credit facilities is as follows:

1 year \$'000	1-2 years \$'000	2-3 years \$'000	3-4 years \$'000	5+ years \$'000	Total \$'000	Undrawn credit facilities \$'000
36,271	-	-	-	-	36,342	71

Subsequent to balance date, management has initiated discussions with the current debt financier to extend the maturity of the existing facility which expires in July 2017.

#### 3.2 Interest rate risk

Percentage of borrowings subject to fixed interest rates: 50%

On the 20 July 2015, APN Property Plus Portfolio entered into a new interest rate swap agreement. Under this agreement, 75% of borrowings were subject to fixed interest rates for one year. On 21 July 2016, 50% of borrowings become subject to fixed interest rates for a further year. The current debt facility and interest rate swap agreement will both expire on 20 July 2017.

#### 3.3 Currency risk

The Trust is not exposed to currency risk.

## Portfolio diversification

### Disclosure principle 4: Portfolio diversification

As at the reporting date the Trust's investment portfolio comprised the following:

#### Geographic allocation

State	Value \$m	Allocation % (based on value)	No. of properties
WA	\$12.03	13.83%	2
QLD	\$50.21	57.75%	12
SA	-	-	-
VIC	\$12.12	13.94%	3
NSW	\$12.59	14.48%	2
Total	\$86.95	100%	19

### Sector allocation

State	Value \$m	Allocation %	No. of properties
Retail	\$86.95	100%	19

### Valuations

Eighteen of the nineteen properties were independently valued by Savills and dated 31 December 2016. An unconditional sales contract was used to determine the fair value of the remaining property as at 31 December 2016. The entire portfolio was valued at \$86,945,000 as at 31 December 2016. Weighted average capitalisation rate adopted: 7.33% (excluding the property which is held for sale).

### Valuations of significant properties

Property	State	Valuation amount \$m	Cap rate %
370 Vardys Rd, Kings Park	NSW	\$7.43	7.50%
Cnr Amherst & Nicholson Rd, Canning Vale	WA	\$6.50	8.50%
753 North Lake Rd, South Lake	WA	\$5.53	8.50%
1233 Wynnum Rd, Murrarie	QLD	\$5.24	7.25%
397 Pacific Hwy, Belmont North	NSW	\$5.16	7.25%

### Weighted average lease expiry (WALE)

The weighted average lease expiry for directly held property is:

- 6.45 yrs (by income)
- 5.57 yrs (by net lettable area (NLA))

### 5 year lease expiry profile for directly-held property assets

Lease expires	FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2020/21+
As % of net income	6.06%	0.74%	0.41%	0.90%	91.89%
As % of NLA	9.74%	0.39%	0.00%	3.12%	86.75%

### Occupancy

Occupancy rate: 94.71%

### Tenancy

The portfolio consists of 19 retail/fuel outlets. Thirteen of these are Woolworths branded outlets accounting for approximately 68% of net income. Four outlets are 7-Eleven branded outlets accounting for approximately 18% of net income. No other tenant accounts for more than 5% of net income. The portfolio's property at South Dandenong is vacant, however it is held for sale in the financial statements with settlement expected to occur on the 6 March 2017.

### Property development

There are no property developments being undertaken within the Fund at this time.

## Valuations

### Benchmark 4: Valuation policy

Benchmark: The responsible entity maintains and complies with a written valuation policy that requires the following:

- 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 conflict 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 two 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.

Met or not met: APN FM as responsible entity complies with Benchmark 4.

Eighteen of the nineteen properties were independently valued by Savills and dated 31 December 2016. An unconditional sales contract was used to determine the fair value of the remaining property as at 31 December 2016. The entire portfolio was valued at \$86,945,000 as at 31 December 2016. Weighted average capitalisation rate adopted: 7.33% (excluding the property which is held for sale).

## Related party transactions

### Disclosure principle 5: Related party transactions

Related party transactions are disclosed in the Fund's annual financial statements including details of investments in loans, guarantees and fees to any related party. The most recent disclosure available can be found in the latest annual report for each fund, available from our website: [www.apngroup.com.au](http://www.apngroup.com.au)

See page 19 of the APN Property Plus Portfolio 2016 Annual Report.

### Benchmark 5: Related party transactions

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 conflict of interest.

Met or not met: APN FM as responsible entity complies with Benchmark 5.

## Distribution practices

### Disclosure principle 6: Distribution practices

The Fund maintained payment of quarterly distributions to unitholders during the period ended 31 December 2016.

### Benchmark 6: Distribution practices

Benchmark: The fund will only pay distributions from its cash from operations (excluding borrowings) available for distribution.

Met or not met: APN FM as responsible entity complies with Benchmark 6.

## Withdrawal arrangements

### Disclosure principle 7: Withdrawal arrangements

This Fund has a half-yearly limited liquidity facility that is made available at the discretion of APN FM. Investors can exercise their withdrawal rights when a withdrawal offer is made by APN FM. Any proposed withdrawal offer would be a limited liquidity offer and investors would be withdrawing on a proportionate basis if withdrawal requests exceeded the amount of liquidity available. Withdrawals from this Fund are not intended to be funded by any external means.

Risk factors or limitations that may affect the ability of investors to withdraw from the scheme include:

- the state of the interest rate markets;
- the Fund's ability to secure debt;
- the state of the property markets; and
- the Fund's ability to dispose of assets at favourable results for investors.

There is no withdrawal offer currently available.

## Net tangible assets

### Disclosure principle 8: Net tangible assets

31 December 2016: \$2.0683

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