

APN | Property Group

Corporate Governance 2016



Corporate Governance

The APN Property Group comprises a number of companies including parent entity, APN Property Group Limited (APN) and wholly owned subsidiary, APN Funds Management Limited (APN FM). APN FM is the Responsible Entity for the managed investment schemes currently operated by APN.

The boards of APN and APN FM operate independently of each other.

- The board of APN (Board) comprises five directors, who collectively have a relevant interest in over 34% of the issued capital of the company. Two directors are also executives of the company. The Board is responsible for the overall management of the Company and of the APN Group and is strongly focussed on serving the interests of all shareholders.
- The board of APN FM comprises four Directors, three of whom are independent of the business and of the board of APN. All directors of APN FM have a legal obligation to put the interests of investors in the respective managed funds, ahead of their own, and those of APN.

The company secretary is accountable directly to each board, through the chair, on all matters to do with the proper functioning of that board.

The Board considers that separation of the boards ensures that the responsibility for managing the interests of shareholders in APN is completely independent of managing the interests of the APN funds and their respective investors. The separation also assists in enhancing the identification and management of conflicts of interest and related party transactions within the APN Group.

This statement, approved by the Board of APN Property Group Limited on 17 August 2016, outlines the main corporate governance practices in place throughout the 2016 financial year, which comply with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Guidelines), unless otherwise stated.

Directors

The Directors of APN Property Group Limited during or since the end of the financial year are:

Chris Aylward **Executive Chairman**

- A Director since 1996.

Chris commenced his career in real estate in 1972 and has vast experience in the management, marketing, construction and development of residential and commercial real estate.

Prior to his current role, Chris was a principal of Richard Ellis, now CBRE, and responsible for City Sales and Leasing. He joined the Grollo Group as Development Manager and personal assistant to Bruno Grollo, in 1984. In 1987 he became a founding Director in Grocon Pty Ltd and a substantial shareholder retiring in 1994 and from the Board in 1996. He founded Kooyong Wines and APN in 1996 and maintains an interest in the wine industry. He has been Chairman of APN since inception and remains its largest shareholder.

Clive Appleton BEc, MBA, AMP (Harvard), GradDip (Mktg), FAICD

Non-Executive Director

- A Director since 2004

Clive joined APN Property Group as Managing Director in April 2004 following a successful career in property and funds management, having worked for Australia's leading retail property investment, management and development groups. Clive was instrumental in floating APN Property Group in 2005 and was responsible for managing APN's Private Funds division for 5 years. He became a non-executive Director in 2013 and an independent non-executive director in accordance with a determination of the board in 2016.

Prior to joining APN, Clive was the Managing Director of the Gandel Group (1997-2004), which included the iconic Chadstone Shopping Centre, where he was involved in the development of \$1 billion worth of property as well as the acquisition and redevelopment of the Myer Brisbane Centre. Between 1990 and 1997 Clive was Managing Director of Centro Properties Limited (later Federation Centres).

Clive is a Non-executive Director of Gandel Group (since 1997), Aspen Group (since 2012 and Chairman since June 2016), Arrow International (since 2012) and Perth Airports Corporation (since 2014). He is also a Council Member of Cairnmillar Institute.

Howard Brenchley

BEC

Non-Executive Director

- A Director since 1998

Howard has a long history in the Australian property investment industry with almost 30 years' experience analysing and investing in the sector.

Howard joined APN in 1998 and was responsible for establishing the APN Funds Management business. In this capacity he developed a suite of new property securities and direct property funds, including the flagship APN Property for Income Fund, one of the largest property securities funds in Australia. In 2014 Howard transitioned to a non-executive Director.

Prior to joining APN, Howard was co-founder and research director of Property Investment Research Pty Limited, one of Australia's leading independent research companies, specialising in the property trust sector.

Howard is also a director of APN Property Group Limited (since 1998); and National Storage Holdings Limited (since 2014) and National Storage Financial Services Limited (since 2015), both listed as National Storage REIT (ASX: NSR).

Timothy Slattery

BSc, LLB, MBA (London Business School)

Executive Director

- A Director since 12 September 2014.

Tim has over 12 years' of experience across real estate, funds management, investment banking and law.

Over Tim's career, he has practised law at Herbert Smith Freehills as a qualified corporate lawyer and worked in corporate finance advisory within Goldman Sachs' investment banking division.

Tim has worked on mergers, acquisitions and financing transactions worth several billion dollars within Australia and internationally including a number of significant commercial real estate transactions.

He has led both private and public capital raising projects for real estate investments and successfully completed asset acquisitions, sales and asset management projects across a range of different real estate asset classes.

Tony Young

FCA, ASIA, AAIB(Snr)

Independent Non-Executive Director

- A Director since 17 December 2015.

Tony is a professional investor with a significant investment in APN Property Group Limited as well as a number of other real estate investments.

He is also a Director of Morningstar Australia, a leading global provider of independent fund management and equity investment research; the co-owner of Timebase Pty Limited, an Australian online law library/legal database and other services provider; and co-founder of Aspect Huntley (Australia's leading internet equity research company and publisher of Huntleys Your Money Weekly and IFA) which was sold to Morningstar in 2006.

Tony qualified as a Chartered Accountant in 1980 with Price Waterhouse. In the 1980's he qualified as a member of Securities Institute of Australia and the Australian Institute of Bankers. His early career as an analyst included time at Westpac, Macquarie Bank, James Capel Australia (Head of Equity Capital Markets), First Pacific Stockbrokers (founding shareholder/director) and Credit Suisse First Boston (Head of Research).

He is director of a number of private companies involved in investment and research industries and is also an active counsellor with Lifeline Australia.

Company Secretary

John Freemantle

B.Bus, CPA

- Company Secretary since 2007

John has been involved in the property industry since 1977. Before joining APN in 2006, he worked with Dillingham Constructions, Jennings Property Group and Federation Centres (formerly Centro Property Group), where he held the roles of Chief Financial Officer and Company Secretary for 17 years.

The Board of APN has adopted the following Corporate Governance policies and procedures:

Role and responsibility of the Board

The Board is responsible for the overall management of the Company and of the APN Group including the determination of the APN Group's strategic direction.

Without limitation to the duties and responsibilities of directors under the Corporations Act, the Constitution and all applicable laws, the Board is responsible for:

- Oversight of the APN Group, including its control and accountability systems;
- Setting the aims, strategies and policies of the APN Group, in particular in respect of:
 - the direction of the APN Group's property funds management business (including the establishment of new funds from time to time); and
 - the decisions to co-invest in APN managed funds;
- Appointing and removing the managing director of APN (or equivalent); and where appropriate, ratifying the appointment and the removal of senior executives of APN including, but not limited to, the chief financial officer (or equivalent) and company secretary;
- Providing input into and final approval of management's development of corporate strategy and performance objectives for the APN Group;
- Reviewing, ratifying and monitoring systems of risk management and internal compliance and control, codes of conduct and legal compliance for the APN Group;
- Monitoring senior management's performance and implementation of strategy and ensuring appropriate resources are available;
- Approving and monitoring the progress of major capital expenditure, financial reporting, capital management and acquisitions and divestitures within the APN Group; and
- Approving and monitoring financial and other reporting obligations of entities within the APN Group.

Audit and risk management

The Board has not appointed an audit and risk management committee (though it presently intends to do so) and accordingly is responsible for the audit and risk management functions in respect of the Company. The audit and risk management functions of the Board are:

External audit

- to determine the appointment and removal of external auditors;
- to monitor compliance with the Corporations Act in relation to auditor rotation;
- to undertake periodic reviews in order to monitor the effectiveness, objectivity and independence of the external auditor;
- to review and consider the adequacy of the audit plan proposed by the external auditors;
- to review all of the external auditor's reports;
- to commission such enquiry by the external auditors as the Board deems appropriate;

- to consider management's responses to matters that arise from external audits;
- to conduct regular reviews of management's activity pertaining to audit findings to ensure any issues are being dealt with in a timely manner; and
- to perform annual assessments of the external auditor's compliance with any applicable laws, regulations and any other relevant requirements.

Financial statements

- to review APN's financial statements and related notes, and ensure they are consistent with information known to Board members and that they reflect appropriate accounting principles, standards and regulations ^(Note 1);
- to review the external auditor's reviews or audits of APN's financial statements and corresponding reports;
- to consider any significant changes required in the external auditor's audit plans;
- to review accounting and reporting issues as they arise; and
- to review any disputes or issues that may arise during the course of an audit.

Note 1

Prior to approval of the entity's financial statements for any financial period, the Committee receives from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Risk management

- to monitor the management of risks relevant to the APN Group;
- to review the APN Group's current risk management program (including all internal policies developed and implemented to manage and identify all of the identified risks (Governance Policies)) and whether it identifies all areas of potential risk and also ensures the APN Group has in place:
 - a procedure for identifying risks and controlling financial or other impacts on the APN Group;
 - an adequate system of internal control, management of business risks and safeguarding of assets;
 - a system for reporting and investigating breaches of the APN Group's compliance and risk management procedures and Governance Policies; and
 - a review of internal control systems and the operational effectiveness of the Governance Policies and procedures related to risk and control; and
- to ensure that regular audits of the Governance Policies are conducted to monitor compliance;
- to monitor compliance with the APN Group Conflicts of Interest and Related Party Transactions Policy and comply with its obligations under the policy;
- to oversee investigations of allegations of fraud or malfeasance.

The Board will immediately delegate the audit and risk management functions to a board committee if so required by the Listing Rules, Corporations Act or any other applicable laws.

A review of the risk management program took place during the year.

Nomination and remuneration

The Board has not appointed a nomination and remuneration committee (though it presently intends to do so) and accordingly is responsible for the nomination and remuneration functions in respect of the entities within the APN Group. The nomination and remuneration functions of the Board are:

- determining the appropriate size and composition of the Board, together with the board of APN FM;
- the appointment, re-appointment and removal of directors;
- developing formal and transparent procedures and criteria for the selection of candidates for, and appointments to, the Board and the board of APN FM in the context of each board's existing composition and structure;
- developing a succession plan for the Board and the board of APN FM and regularly reviewing the succession plan;
- implementing induction procedures designed to allow new directors to participate fully and actively in Board decision-making at the earliest opportunity;

- implementing induction programs that enable directors to gain an understanding of:
 - the APN Group's financial, strategic, operational and risk management position;
 - their rights, duties and responsibilities which, in the case of directors of APN FM, includes their specific duties and responsibilities as directors of a corporate trustee and responsible entity; and
 - the role of the Board and Board committees;
- providing directors and key executives with access to continuing education to update their skills and knowledge and provide them access to internal and external sources of information which enhance their effectiveness in their roles;
- developing a process for performance and remuneration evaluation of the Board, its committees and individual directors and key executives, which can be made available to the public;
- developing remuneration and incentive policies which motivate directors and management to pursue the long-term growth and success of the APN Group within an appropriate control framework;
- developing policies which demonstrate a clear relationship between key executive performance and remuneration;
- the remuneration and incentive policies for senior executives within the APN Group; and
- the remuneration packages of senior executives and directors.

A copy of the APN Board Charter is available on the Company's website at: <http://apngroup.com.au/about-us/governance/>

The Board of APN FM has adopted Corporate Governance policies and procedures as follows:

Roles and responsibility of the Board of APN FM

The Board is responsible for the overall management of the Company and in particular the proper governance as Responsible Entity for the managed investment schemes currently operated by APN.

A copy of the APN FM Board Charter is available on the Company's website at: <http://apngroup.com.au/about-us/governance/>

Audit, Compliance and Risk Management Committee for Managed Investment Schemes – APN FM

The board of APN FM has established an Audit, Compliance and Risk Management Committee. Responsibility for overseeing APN FM's responsibilities for audit, compliance and risk management for itself and each APN fund is managed by this committee.

A copy of the Charter for the APN FM Audit, Compliance and Risk Management Committee is available on the Company's website at: <http://apngroup.com.au/about-us/governance/>

Nomination and Remuneration Committee for Managed Investment Schemes – APN FM

The board of APN FM has established a Nomination and Remuneration Committee for overseeing APN FM's responsibilities for ensuring adequacy of the size and composition of the board of APN FM for itself and each APN fund.

A copy of the Charter for the APN FM Nomination and Remuneration Committee is available on the Company's website at: <http://apngroup.com.au/about-us/governance/>

Composition, Structure and Processes

The Board currently comprises five directors (two of whom are also executives of the company). Each has a significant relevant interest in the Company. The names and biographical details of the directors are set out above.

Terms of appointment

The Board has adopted a letter of appointment that contains the terms on which non-executive directors are to be appointed, including the basis upon which they will be indemnified by the Company. Non-executive directors are entitled to take independent advice at the cost of the Company in relation to their role as members of the Board.

Review of Board performance

The performance of the Board is reviewed at least annually by the Board. The evaluation includes a review of:

- the Board's membership and the charters of the Board and its committees (if any);
- Board processes and its committees' (if any) effectiveness in supporting the Board; and
- the performance of the Board and its committees (if any).

A review of each Director's performance is undertaken by the Chairman, after consultation with the other directors, prior to a director standing for re-election.

Ethical Standards, Market Communication and Conflict of Interest

Code of Conduct

The Board of the Company has adopted a Code of Conduct that applies to all directors and employees of the Company and its subsidiaries. The purpose of the Code of Conduct is to clarify the standards of ethical behaviour required of the Company directors and all employees and encourage the observance of those standards, and to ensure high standards of corporate and individual behaviour are observed by all of the Company's employees in the context of their employment with the Company. By adoption of the Code of Conduct, the Company wants to ensure that all persons dealing with the Company, whether it be employees, shareholders, investors, customers or competitors, can be guided by the stated values and policies of the Company.

The Code of Conduct also sets out the Board's view on conflicts of interest and related party transactions involving directors and employees and other legal and compliance obligations of the Company including corporate opportunities, confidentiality, fair dealing, protection of and proper use of Company information and assets, compliance with laws and regulations and encouraging the reporting of unlawful or unethical conduct.

A copy of the Code of Conduct is available at the Company's website at:
<http://apngroup.com.au/about-us/governance/>

Securities Trading Policy

The Company has adopted a Securities Trading Policy that summarises the law relating to insider trading and other relevant provisions and sets out the procedures of the Company and its subsidiaries for permission and disclosure of trading by directors and employees in APN Group securities.

The Securities Trading Policy applies to all directors, executives, senior management and other employees of the Company and its subsidiaries and is designed to prevent breaches of the insider trading provisions by directors and employees of the Company and its subsidiaries. The Securities Trading Policy confirms that it is the responsibility of all directors and employees to comply with the insider trading provisions of the Corporations Act and to bring information in relation to any actual or potential insider trading to the attention of the relevant officer of the Company or its subsidiaries, as appropriate.

A copy of the Securities Trading Policy is available at the Company's website at:
<http://apngroup.com.au/about-us/governance/>

Continuous Disclosure

The Company has adopted a Continuous Disclosure Policy to ensure that shareholders and the market have equal and timely access to material information regarding developments in relation to the Company in accordance with applicable disclosure requirements in both the Corporations Act and the ASX Listing Rules. Such information will relate to matters including the financial position, performance, ownership and governance in relation to the Company.

A copy of the Continuous Disclosure Policy is available at the Company's website at:
<http://apngroup.com.au/about-us/governance/>

Communication with shareholders

The Company has adopted a Communication Policy in order to ensure that there is effective communication between the Company and its shareholders, and also to encourage shareholders to participate at general meetings.

In accordance with the Company's Communication Policy, the APN Group website (www.apngroup.com.au) is a significant component of the communications strategy. The Company ensures that its website is continually updated and contains recent announcements, webcasts, presentations, disclosure documents, market information and answers to frequently asked questions.

A copy of the Communication Policy is available at the Company's website at: <http://apngroup.com.au/about-us/governance/>

Meetings of Directors

The number of meetings of Directors of APN and number of meetings attended by each director during the financial year ended 30 June 2016, is set out below

	Chris Aylward	Clive Appleton	Howard Brenchley	Tim Slattery	Tony Young
Board Meetings:					
Total Attended	10	9	10	10	5
Total Held	10	10	10	10	5 ⁽¹⁾

⁽¹⁾ Appointed 17 December 2015

The number of meetings of Directors of APN FM, including meetings of committees of directors, and number of meetings attended by each director during the financial year ended 30 June 2016, is set out below

	Geoff Brunsdon	Michael Johnstone	Jennifer Horrigan	Howard Brenchley	Michael Groth (alt for H Brenchley)
Board Meetings:					
Total Attended	18	18	18	14 ⁽¹⁾	13 ⁽¹⁾
Total Held	18	18	18	18	18
Audit, Compliance & Risk Management Committee meetings					
Total Attended	9	9	9	n/a	n/a
Total Held	9	9	9	n/a	n/a
APN FM Nomination & Remuneration Committee meetings					
Total Attended	2	2	2	n/a	n/a
Total Held	2	2	2	n/a	n/a

⁽¹⁾ Abstained from attending 4 meetings due to conflict of interest

Diversity

APN Property Group, including APN Funds Management Limited embraces a practice of Workplace Diversity as follows:

What is Workplace Diversity?

Workplace diversity recognises and leverages the different skills and perspectives people bring to our organisation through their gender, culture, physical and mental ability, sexual orientation, age, socio-economic background, language, religion, education, and family / marital status. It also refers to diverse ways of thinking and ways of working.

Statement of Commitment

As an organisation we recognise the benefits to be gained from a diverse workforce where the differing skills, perspectives and experiences of individuals from different backgrounds can lead to more innovative and efficient business practices.

We are committed to creating an environment in which the principles of diversity are embedded in the culture and systems of the organisation and where every individual has the opportunity to excel.

Diversity Policy

APN Property Group has adopted a Diversity Policy (a copy of which is available at the Company's website (<http://apngroup.com.au/about-us/governance/>)). The aims of the Diversity Policy are:

- to articulate the APN Property Group's commitment to diversity within the organisation at all levels (including employee level, senior executive level and Board level); and
- to provide a framework for establishing objectives and procedures which are designed to foster and promote diversity within APN Property Group. This includes placing obligations on APN Property Group and the Board to set objectives, measure against those objectives and disclose progress at appropriate intervals.

Gender Diversity Objectives

In accordance with its Diversity Policy, APN Property Group has set measureable objectives to achieve gender and other diversity, and has appointed the Compliance Officer to monitor compliance with those objectives and to report to the Board of APN Property Group at least annually.

For the financial year 2016/2017, APN Property Group has set the following measureable objectives for gender and other diversity:

- the selection process for Board appointments, having regard for the need to maintain an appropriate mix of skills, experience, expertise and diversity will consider at least one female candidate wherever reasonably possible;
- the selection process for senior management appointments, having regard for the need to maintain an appropriate mix of skills, experience, expertise and diversity will consider at least one female candidate wherever reasonably possible;
- the process for recruitment of new employees, having regard for the skills and expertise required for the role, will consider at least one female candidate wherever reasonably possible;
- flexible work arrangements to balance family and other commitments with the role will continue to be considered for all employees, where the requirements of the role permit;
- Mentoring support to be available to all staff;
- the Diversity Policy is available to all employees at all times; and
- all employees responsible for employment and promotion of employees will be reminded of the Diversity Policy and these objectives at least annually.

APN Property Group will report on the outcome of these measurable objectives each year.

For the financial year 2015/2016, APN Property Group set similar measureable objectives for gender and other diversity. These objectives and a report on the outcome are set out below:

- *the selection process for Board appointments, having regard for the need to maintain an appropriate mix of skills, experience, expertise and diversity will consider at least one female candidate wherever reasonably possible.*

The Board made one new appointment during the year. Mr Tony Young was appointed in December 2015 in accordance with the objective of transitioning to an independent Board. Mr Young was appointed following strong endorsement from a significant shareholder in APN. There were no changes to the Board of APN FM during the year.

- *the selection process for senior management appointments, having regard for the need to maintain an appropriate mix of skills, experience, expertise and diversity will consider at least one female candidate wherever reasonably possible.*

There were three new senior management appointments in this financial year including the internal promotion of a female manager (33%).

- *the process for recruitment of new employees, having regard for the skills and expertise required for the role, will consider at least one female candidate wherever reasonably possible.*

Thirteen new appointments were made during the year of which five (38%) were female;

- *flexible work arrangements to balance family and other commitments with the role will continue to be considered for all employees, where the requirements of the role permit.*

Flexible work arrangements have been agreed with a number of employees in relation to family balance, maternity needs and illness;

- *the Diversity Policy is available to all employees at all times.*

The policy was available on the company intranet which is available to all staff at all times;

- *all employees responsible for employment and promotion of employees will be reminded of the Diversity Policy and these objectives at least annually.*

Employees were reminded on each occasion of a new appointment.

Gender Diversity in APN Property Group

At the date of this report, the proportion of women in APN Property Group was:

- Board of APN Property Group Limited: nil
- Board of APN Funds Management Limited: 25%
- Senior Management of the APN Property Group: 33%
- All employees of APN Property Group: 39%

Sustainability

APN Property Group, including APN Funds Management Limited believes that the sustainability of the business is intrinsically linked to the successful management of its financial, social and environmental risks, obligations and opportunities. We believe those companies that adopt sustainable practices are more likely to generate better long term returns for investors.

This philosophy is embedded in the culture of the business and monitored to ensure critical business risks are carefully managed. This is evidenced in the following key objectives:

Our Investors

- Prioritise the interests of investors;
- Separate Boards operating independently of each other to manage conflicts between the interests of investors in APN PG and investors in the funds we manage;
- Strong focus on investment performance;
- Regular and meaningful communications to investors.

Our Community

- Significant value attributed to 'sustainability conscious' companies in the investment decision process of the APN managed 'real estate securities' funds;
- Bias to 'green' rated direct property investments and development opportunities;
- Corporate values ethos required of all staff - integrity, passion, respect, accountability and professionalism.

Our Staff

- Demanding recruitment standards;
- Attractive remuneration incentives for strong performance;
- Focus on diversity;
- Employee engagement in overall business performance, including regular staff briefings.

Our Governance

- Independent Board to manage the Responsible Entity of APN's managed funds;
- Strict compliance regime to ensure compliance with legislative framework overseen by independent Board Compliance Sub-Committee;
- Documented compliance programme and Company Policies to regulate compliance requirements;
- Annual compliance audits.

Compliance with ASX Guidelines

The Company complies with all of the ASX Corporate Governance Principles and Recommendations, including, as not specifically addressed above:

- That at each AGM, the external auditor attends and is available to answer questions from security holders relevant to the audit.
- That shareholders have the option to receive communications from, and send communications to, the entity and its security registry electronically.
- That the Board has reviewed the risk management framework during the financial year ended 30 June 2016.

except in relation to the following:

- Recommendation 2.1.(a).1-2, 2.3, 2.4, 2.5 – the Board should establish a nomination committee comprising at least 3 members, a majority of independent directors and chaired by an independent director, and should not be the same person as the CEO of the entity.
- Recommendations 4.1.(a).1-2 – the Board should establish an audit committee comprising at least 3 members, only non-executive directors, a majority of independent directors and chaired by an independent director, who is not a chair of the board.
- Recommendation 7.1.(a).1-2 – a majority of the Board should be independent directors and chaired by an independent director.
- Recommendation 8.1.(a).1-2 – the Board should establish a remuneration committee comprising at least 3 members, a majority of independent directors and chaired by an independent director

The Board has carefully considered its size and composition, together with the specialist knowledge of the property and property securities sector of its directors, and formed the view that based on its current composition, it has the necessary skills and motivation to ensure that the Company performs strongly, and there is sufficient accountability in the structure of the Board, to ensure the outcomes and objectives sought by the ASX Guidelines are achieved. The Board considers that this has been enhanced through the separation of the boards of APN and the Responsible Entity of the APN funds, APN FM.

Having regard for the size of the APN Group and separation of responsibilities between the Board of the Company and the independent board of APN FM, the Board considered that incorporating the audit and risk management and nomination and remuneration procedures into the function of the Board has been an appropriate way of addressing the accountability and efficiencies sought to be achieved by the ASX Guidelines.

However given the current objective of transitioning to an independent board and the recent appointment of an additional director, the Board now intends to establish a separate Nomination & Remuneration sub-committee and Audit sub-committee in accordance with ASX Guidelines.



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