

APN Asian REIT Fund

This report has been prepared for financial advisers only



Superior

INTRODUCTION

Key Principles

The underlying principles of the assessment process are to:

- identify the long term commercial potential of the Responsible Entity/Investment Manager;
- evaluate management's capabilities, previous performance in the specific industry and the stability of the organisation;
- evaluate identified markets (domestic and international existence, stability and growth potential);
- benchmark key performance assumptions and variables against industry peers;
- weigh up the relevant risks of the Responsible Entity/Investment Manager;
- assess structure and ownership;
- determine if the Responsible Entity/Investment Manager is structured in such a way as to protect investor's interests; and
- allow an opinion to be formed regarding the investment quality of the Responsible Entity/Investment Manager.

Assessment

SQM Research conducts a detailed site inspection of the projects/properties within the Responsible Entity's/Investment Manager's managed funds.

- The site assessment considers the following areas:
- sustainability of the site for the purpose intended;
- management skills, qualifications, capabilities and experience; and
- associated property risks and their management.

Star Rating*

Investment products are awarded a star rating out of a possible five stars and placed on the following websites:
www.sqmratings.com.au

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Fees charged for Report

SQM Research has received a fee from the fund manager for this report and rating.

General Financial Product Advice

This advice will not take into account your, or your clients, objectives, financial situation or needs and will not be provided in respect of any other financial products. Accordingly, it is up to you and your clients to consider whether specific financial products are suitable for your objectives, financial situations or needs.

Report Date: 1 June 2018

Star Rating	Description	Definition	Investment Grading
4½ stars and above	Outstanding	Highly suitable for inclusion on APLs <i>The fund most often outperforms its peers and benchmark. In all cases the fund is operating to its mandate and product disclosure statement (PDS). There are no corporate governance issues. Management is extremely experienced and skilled and has access to significant resources.</i>	High Investment grade rating
4 stars to 4¼ stars	Superior	Suitable for inclusion on most APLs <i>The fund outperforms (or is likely to) its peers and benchmark the majority of the time. The fund most of the time has been operating within its mandate and PDS. There are very little to no corporate governance concerns. Management is of a very high calibre.</i>	High Investment grade rating
3¾ stars	Favourable	Consider for APL inclusion <i>The fund may outperform its peers and benchmark the majority of the time or SQM believes this is a fund that has potential to be an outperforming fund over the medium term. Management is of a quality calibre but may not yet be fully tested. There are no corporate governance concerns or they are of a minor nature.</i>	Approved
3½ stars	Acceptable	Consider for APL inclusion, subject to advice restrictions <i>There is some degree of additional risk attached to the fund by way of performance. The fund may periodically underperform its peers and benchmark or it has not been fully tested. There may be some additional concentration risk. Management is generally experienced and capable. There might be corporate governance issues of a mid-level or concerns over the Responsible Entities/Parent Entities financial position/performance.</i>	Low investment grade rating
3¼ stars	Caution required	Not suitable for most APLs <i>Performance has been significantly under-benchmark and peers. There is a greater than average risk of underperformance over the medium term. There is a risk of the fund not operating to mandate or to its PDS. There are corporate governance concerns. Management has been operating in an average manner.</i>	Unapproved
3 stars	Strong Caution Required	Not suitable for most APLs <i>The fund is unlikely to perform to its mandate over the near term. There might be some greater than average corporate governance concerns. SQM has a number of concerns of management.</i>	Unapproved
Below 3 stars	Avoid or redeem	Not suitable for most APL inclusion	Unapproved

Hold – The rating is currently suspended until SQM Research receives further information. A rating is typically put on hold for a period of two days to four weeks.

Withdrawn – The rating is no longer applicable. Significant issues have arisen since the last report was issued, and investors should avoid or redeem units in the fund.

Not rated – The fund has not been rated by SQM.

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SQM Rating *Superior - Suitable for inclusion on most APLs.*

Fund Details	
Fund Name	APN Asian REIT Fund
ARSN	162 658 200
APIR Code	APN0023AU
Manager	APN Funds Management Limited
Address	Level 30, 101 Collins Street, Melbourne, Victoria 3000
Responsible Entity	APN Funds Management Limited
Custodian	NAB Asset Servicing
Investment Details	
Fund Inception	Seeded capital: 19 July 2011 Open to investors: 28 March 2013
Fund Size	\$19.4 million as at 31 December 2017
Fund Type	Unlisted Trust, Open-ended
Return Objective (PDS)	To generate at least 110% of the average yield of the Bloomberg Asian REIT Index over 5 to 7 years.
Risk Level (PDS)	The Fund is high risk according to the Standard Risk Measure developed by the Association of Superannuation Funds of Australia and the Financial Services Council.
Internal Risk Objective	The Fund aims to provide investors with lower than market volatility
Benchmark	Bloomberg Asian REIT Index
Number of stocks in portfolio	38 as at December 2017 (index 177 members)
Gearing (Fund)	n/a
Investment Specifications Summary	
Minimum Application	\$1,000
Minimum Withdrawal	Nil
Redemption Policy	Daily
Distribution Frequency	Monthly
ICR	0.98% (from 1 April 2018)
MER	0.98%
Performance Fee	n/a
Buy/Sell Spread	0.30% / 0.30%
Currency Hedging	Unhedged
Time Horizon for Investment	5 – 7 Years

Fund Summary

Short Description

The APN Asian REIT Fund (the Fund) is an open-ended unlisted managed investment scheme established with the aim to provide investors with consistent and relatively high levels of income, as well as some capital growth, by investing in a portfolio of Asian Real Estate Investment Trusts (REITs). Exposure to Asian REITs is achieved via investment in real estate securities spread across securities exchanges in the Asia Pacific region (excluding Australia), including but not limited to, Hong Kong, Singapore, Malaysia, Japan and New Zealand. The Fund can also be invested in cash and fixed interest investments (property debt/hybrid instruments).

Investable Universe

The Fund's investment universe is comprised of REITs listed on security exchanges in the Asia Pacific region (excluding Australia) which currently includes Japan, Singapore, Hong Kong, Malaysia, New Zealand, Thailand, Taiwan and South Korea. While Taiwan and South Korea offer REIT-like equity structures, the Fund will not invest in these markets given their relatively illiquid status. The Fund's investment universe is comprised of roughly 180 stocks.

The Fund may utilise derivatives for risk management purposes. Under the Fund's current policy, it will not use derivatives for currency hedging, leverage purposes or for speculative activities.

Fund Rating

The Fund has achieved a rating of **4 stars**, which represents an upgrade from the previous rating of 3.75 stars.

Star Rating	Description	Definition	Investment Grading
4.00 stars	Superior	Suitable for inclusion on most APLs	High Investment Grade Rating

This rating reflects the following attributes:

- The investment team of the Fund is able to leverage the resources within the broader APN Group.
- The Fund offers retail investors a channel to gain exposure to a portfolio of Asia-focussed REITs.
- The Fund has been able to record solid outperformance compared to its stated benchmark since inception.
- The Fund has been able to record lower volatility in comparison to peers and the benchmark since inception.

- Detailed and consistent proprietary modelling techniques are applied to stock valuation and research.
- Fund under management was recorded at \$19.4 million as at 31 December 2017. This is up from \$9.9 million a year earlier.

SQM Research's Review

About the Manager

APN Funds Management (APN FM) is the Responsible Entity (RE) and the Fund Manager of the Fund. APN FM is a specialist property funds management company, established in 1998 as a wholly owned subsidiary of APN Property Group (ASX: APD). The business focus is to create and manage funds that invest in property and property securities both in Australia and overseas. APN FM has over 40 staff members based in its Melbourne office.

Return Objective & Performance

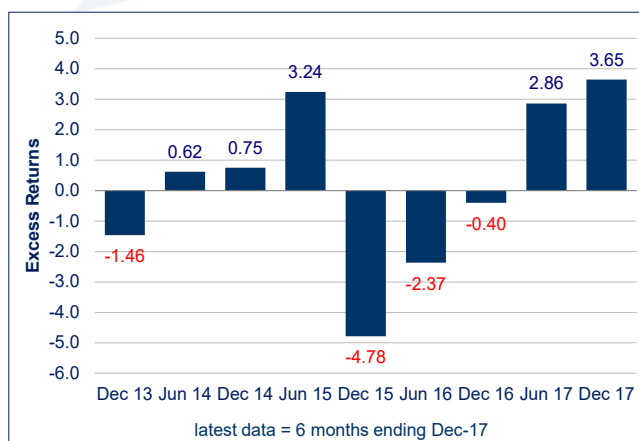
The Fund's formally stated return objective is to generate at least 110% of the average yield of the Bloomberg Asian REIT Index over five to seven years. This stated return objective highlights the manager's strong focus on generating sustainable income from the Fund's investments.

In SQM Research's view, and having regard to the Fund's fee structure, a reasonable expectation of outperformance to benchmark over a three to five-year horizon would be in the order of 2.50 to 3.00% per annum before fees.

Since inception, the Fund has returned 13.8% on an annualised basis. This compares well to the benchmark at 12.3% and peers of 12.2%.

Over the year to 31 December 2017, the Fund returned 8.8% compared to the benchmark of 2.1% and peers of 9.0%.

Fund Excess Returns %: Half-yearly (net of fees)



Risk Objective

The Fund's only formal reference to risk levels is to provide investors with lower than market volatility.

Over the Fund's track record the volatility of returns has been 9.4% per annum compared to 10.3% p.a. volatility over the same time for the benchmark and volatility of 12.4% for the peer average, highlighting the manager's focus on providing lower than market volatility.

Investment Philosophy, Style, Security Selection and/or Screening

The Fund Manager is an active, income focussed manager with a value bias. The manager has commitment to income coupled with a lower level of risk (as measured by volatility and a bottom-up assessment of asset, management and financial risk). This is reflected in the manager's style of investment which focuses on well managed property assets that hold long leases to strong tenants.

The Fund is fundamentally bottom-up focused, while applying a top-down overlay. The Fund's investment and portfolio construction process is defined in the following stages:

1. Initial Screening
2. REIT Analysis:
3. Macroeconomic Overlay:

The output of the valuation models provide a guide for investment decisions. There are two levels to this process:

- a. Security Type: The Investment Committee determines the level of investment permitted in listed trusts and property debt or hybrid instruments. This decision is based on recommendations from the investment team's analysis of dividend yield, value and the total returns of individual stocks and the property sector as a whole.

FUM (Funds under Management)

Fund under management was recorded at \$19.4 million as at 31 December 2017. This is up from \$9.9 million a year earlier. Over this time, funds under management have doubled, driven by strong net fund flows.

Fund Performance to 31 December 2017 (% p.a.)							
	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund	-1.22	6.72	5.85	8.76	6.92	12.52	13.76
Benchmark	-2.56	4.27	2.20	2.09	6.17	12.16	12.27
Peer Average	1.15	4.66	5.56	8.99	6.29	9.95	10.21
Excess	1.34	2.45	3.65	6.67	0.75	0.36	1.38

1. Assumes dividend reinvestment. Returns for periods greater than one year are annualised. Return history starts Jul-2011
2. Benchmark: Bloomberg Asia REIT Index

- b. Property Sector: The Investment Committee also provides the Fund Manager with sector allocation guidelines based on return expectations.

Investment Team - Experience and Stability

The team is led by Fund Manager Pete Morrissey and Portfolio Manager Corrine Ng. In addition to the Fund under review, Mr. Morrissey manages APN Property for Income Funds No 1 and 2 and assumes the analyst role for APN's flagship strategy - the APN A-REIT Fund. Ms. Ng joined APN in February 2015 as Portfolio Manager.

Portfolio construction responsibility jointly rests with Mr. Morrissey and Ms. Ng.

It should be noted that the CEO of Real Estate Securities, Michael Doble, will transition to CIO of Real Estate Securities during 2019, meaning Pete Morrissey will transition to out of his Fund Manager role to the CEO of Real Estate Securities role. SQM Research is comfortable with what has been a well-planned transition.

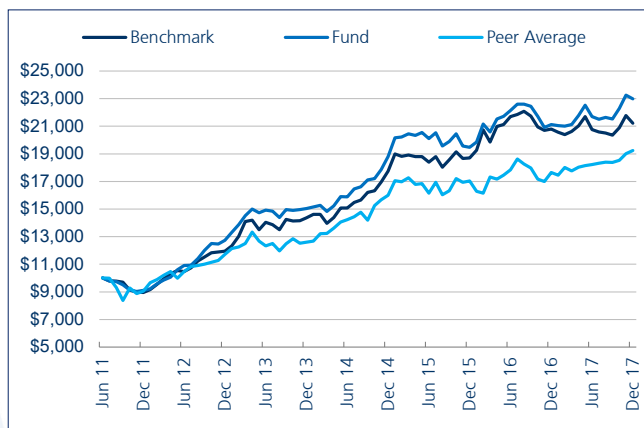
Fee Structure

The Fund's base management fee including expense recoveries has been capped at 0.98% of net asset value (NAV), which is broadly in line with peers.

Governance

SQM Research is comfortable that the experience of the Board of APN is well suited and beneficial to the company. As the company grows, SQM Research would expect the board composition to further fall in line with best practice. Further, the corporate governance structures in relation to the Fund Manager and the Responsible Entity are best practice.

Growth of \$10,000



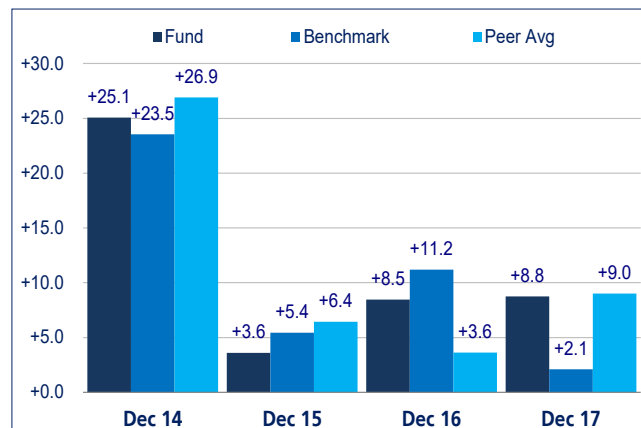
Strengths of the Fund

- The investment team of the Fund is able to leverage the resources within the broader APN Group.
- The Fund offers retail investors a channel to gain exposure to a portfolio of Asia-focussed REITs.
- The Fund has been able to record solid outperformance compared to its stated benchmark since inception.
- The Fund has been able to record lower volatility in comparison to peers and the benchmark since inception.
- Detailed and consistent proprietary modelling techniques are applied to stock valuation and research.

Other Considerations

- Fund under management was recorded at \$19.4 million as at 31 December 2017. This is up from \$9.9 million a year earlier.
- The Fund is an unhedged offering.
- The Fund adopts a high conviction, benchmark-unaware view and seeks to invest in securities that provide optimal income and value returns.
- Fund Manager Pete Morrissey, along with some members of the investment team, are also responsible for managing other APN funds and are not purely dedicated to the Fund under review. Co-Fund Manager Corrine Ng and Analyst Patrick O'Reilly are dedicated fund resources.
- The Fund's overall costs over 12 months are marginally above the peer group comprised of global property securities funds. The manager has reduced the Fund's MER from 1.20% to 0.98% from 1 April 2018.

Annual Returns

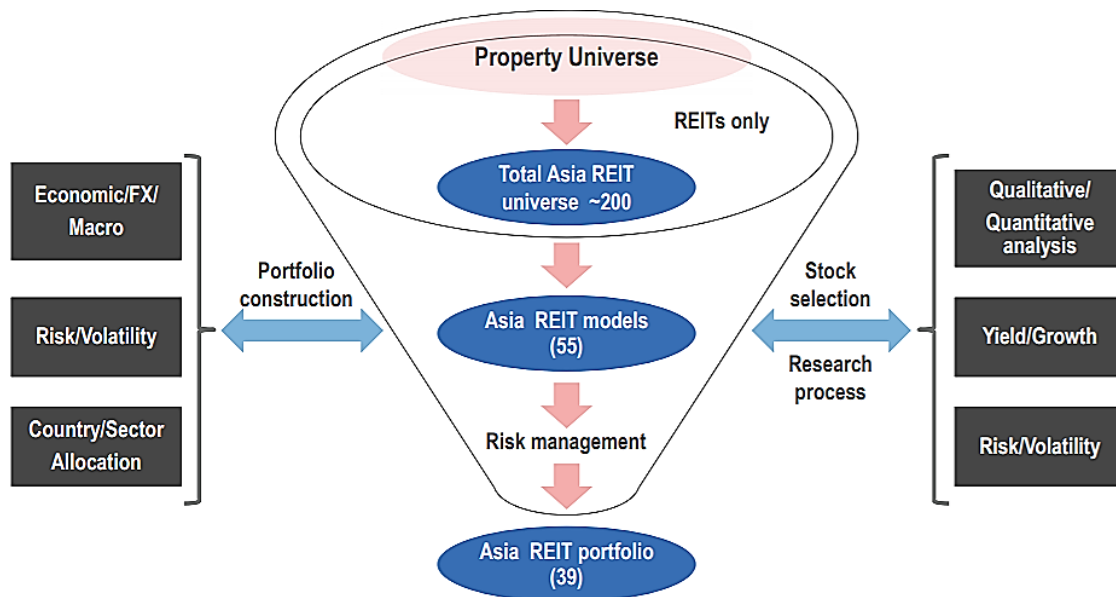


2017 data = 12 months ending Dec-17

Key Changes Since the Last Review

- The CEO of Real Estate Securities, Michael Doble, will transition to CIO of Real Estate Securities during 2019, meaning Pete Morrissey will transition from his Fund Manager role to the CEO of Real Estate Securities role. He will continue to co-manage the Asian strategy.
- APN FM has agreed to cap the investment management fees and expense recoveries it charges to the Fund at 0.98% p.a (previously the ICR was forecast at 1.20%).

Investment Process Diagram



Combination of research, analysis, risk management best practices combined with APN trademark portfolio management to ensure consistent, long-term performance

Process Description

Universe

Investable Universe The Fund’s investment universe is comprised of REITs listed on security exchanges in the Asia Pacific region (excluding Australia) which currently includes Japan, Singapore, Hong Kong, Malaysia, New Zealand, Thailand, Taiwan and South Korea. While Taiwan and South Korea offer REIT-like equity structures, the Fund will not invest in these markets given their relatively illiquid status. The Fund’s investment universe is comprised of roughly 180 stocks.

The Fund may utilise derivatives for risk management purposes and under the Fund’s current policy, will not use derivatives for currency hedging, leverage purposes or for speculative activities.

Investment Process

Top-down or Bottom-up The Fund is fundamentally bottom-up focused, while applying a top-down overlay.

Research and Portfolio Construction Process

Idea Generation

The Fund’s investment and portfolio construction process is defined in the following stages:

- 1. Initial Screening:** From the Fund’s investable universe of circa 200 stocks the stock selection model screens the universe based around yield, growth, volatility and liquidity. This provides the Fund with an initial set of securities which can be included in its portfolio.
- 2. REIT Analysis:** Following the initial screening, the shortlisted securities are further analysed. The analysis is split into bottom-up stock research and a top-down study of macroeconomic factors. The bottom-up research focuses on both quantitative and qualitative factors which are incorporated into the Fund’s Discounted Cash Flow (DCF) models through the Geared Beta Matrix. Complete and detailed valuations are conducted on 56 securities which are ranked in APN’s proprietary model. The output of the valuation models provide a guide for investment decisions.

Research and Portfolio Construction Process
...continued

3. **Macroeconomic Overlay:** When reviewing macroeconomic factors, the Fund takes into account economic and property fundamentals as well as property demand and supply. An overlay of micro local market knowledge is also considered and involves reviewing market outlooks and leveraging off networks to assess local nuances.

The management team has recently enhanced the Fund’s modelling efficiency through the introduction of REIT market intelligence provider SNL. APN believes this has improved stock modelling efficiency by up to 50% along with broadening the range of tools available to assist with investment decisions.

Portfolio Construction

The output of the valuation models provide a guide for investment decisions. There are two levels to this process:

- a. Security Type: The Investment Committee determines the level of investment permitted in listed trusts and property debt or hybrid instruments. This decision is based on recommendations from the investment team’s analysis of dividend yield, value and the total returns of individual stocks and the property sector as a whole.
- b. Property Sector: The Investment Committee also provides the Fund Manager with sector allocation guidelines based on return expectations.

Risk Management

The portfolio is monitored during weekly Investment Committee meetings, via attribution/contribution analysis and monthly performance reports. Any deviance from the portfolio mandate triggers buying/selling in the portfolio.

Trading / Implementation

Trade Execution

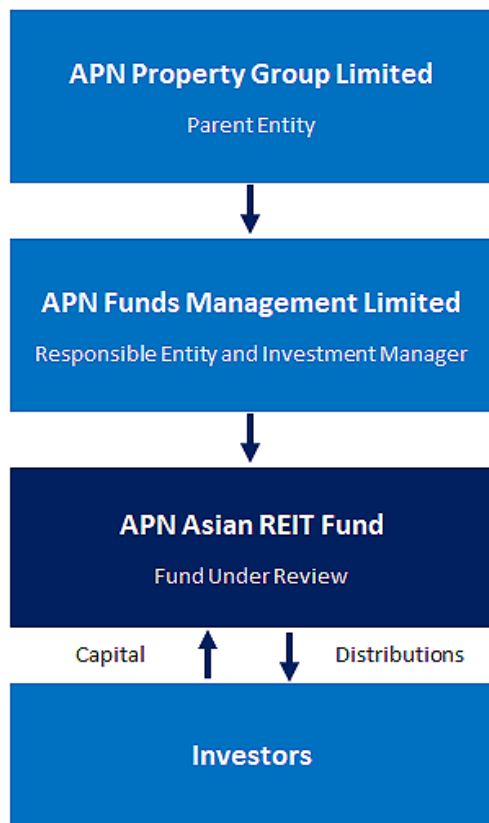
Trading for the Fund is managed by Corrine Ng. In terms of the process, the Portfolio Managers indicate the stocks which need to be traded. These stocks are then traded, taking into account minimum trading levels to minimise transactional costs. The trades are then initiated via an electronic trading platform.

The Fund primarily utilises key broker relationships at a country level along with Bloomberg Tradebook to execute transactions.

Hedging and Derivatives

The Fund does not hedge its currency exposure back to Australian Dollars.

Key Counterparties



Parent Company

Established in 1996, APN Property Group Limited (APN PG) is a specialist real estate investment manager headquartered in Melbourne. APN PG has been listed on the Australian Securities Exchange (ASX) since June 2005 (ASX code: APD). At 31 December 2017, APN PG managed AU\$2.8 billion of real estate and real estate securities.

APN's approach to real estate investment is based on a "property for income" philosophy. This philosophy remains central to APN's four businesses (Real Estate Securities, Industrial REIT, Convenience Retail REIT and Direct Funds).

Overall, the financial performance for FY2017 was strong. Funds under management increased 18% from the previous year to AUD \$2.6 billion. The group reported operating earnings of \$7.3 million (up 95%). As at 30 June 2017 net assets was recorded at \$112 million down from \$137.1 million. Included in net assets was cash totalling \$18 million.

Board of Directors

The Board of APN PG is comprised of five members out of which two members are independent non-executive directors.

The Chairman of the Board is Chris Aylward who was formally the Chief Executive Officer of APN. The other members of the Board include Tim Slattery (CEO), Howard Brenchley, Clive Appleton and Tony Young, with the latter two being independent. (Mr Appleton hasn't worked for APN for >5yrs making him independent)

In terms of corporate government, APN deviates from the ASX corporate governance guidelines, including:

Recommendation 2.1 - a majority of the Board should be independent directors.

Recommendation 2.2 - the Chairperson should be an independent director.

While these deviations are not best practice, SQM Research is comfortable that the experience of the Board of APN is well suited and beneficial to the company. As the company grows, SQM Research would expect the board composition to further fall in line with best practice. SQM Research note that APN are making good progress towards falling in line with best practice, with the CEO and Chairman roles now being undertaken by different individuals. Further, the corporate governance structures in relation to the Fund Manager and the Responsible Entity are best practice (as discussed below).

Responsible Entity and Fund Manager

APN Funds Management (APN FM) is the Responsible Entity (RE) and the Fund Manager of the Fund. APN FM is a specialist property funds management company, established in 1998 as a wholly owned subsidiary of APN PG. The business focus is to create and manage funds that invest in property and property securities both in Australia and overseas.

The Board of Directors of APN FM is comprised of five Directors, four of whom are non-executive directors and three of whom are independent including the chairman. Importantly, the Responsible Entity also has both Compliance and Nomination Committees in place both comprised of three independent directors, providing for an extra level of oversight.

The composition and independence of the RE's Board of Directors and independent Compliance and Nomination Committees are viewed positively as it is consistent with best practice guidelines. As APN FM is both the responsible entity and fund manager, it is important that corporate governance guidelines are adhered to.

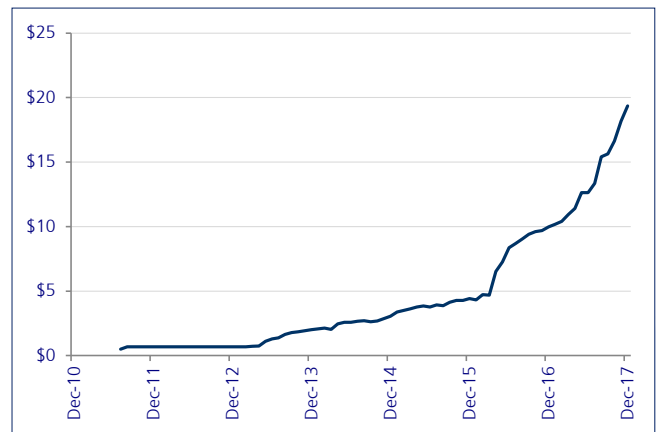
Management Risk

Funds management encompasses not only the operational capabilities of key counterparties but also the corporate abilities of the Responsible Entity to monitor operational performance and to meet the regulatory and statutory responsibilities required. For all property funds there is a risk that the financial position and the deterioration of management performance may temporarily or permanently compromise financial or regulatory outcomes.

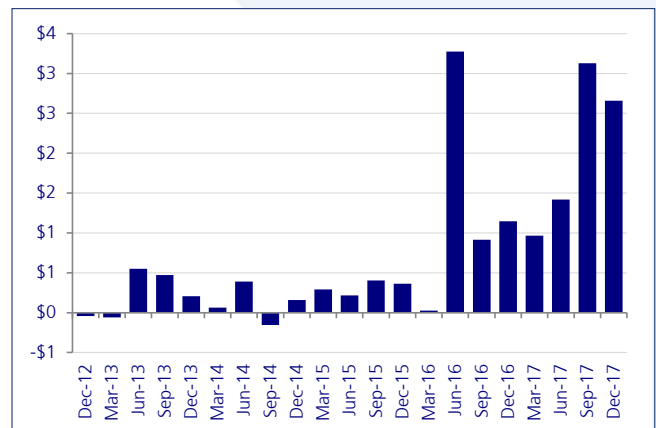
SQM Research believes that APN FM and APN PG are appropriately qualified to carry out their assigned responsibilities. Based on this assessment, SQM Research rates management risk as being in line with peers.

Funds under Management (FUM)

FUM for Fund under Review (\$million)



Quarterly Net Flows (\$million)



Fund under management was recorded at \$19.4 million as at 31 December 2017. This is up from \$9.4 million a year earlier. Over this time, funds under management have grown, driven by strong net fund inflows.

Key Investment Staff					
Name	Responsibility	Qualifications	Years with APN	Investment Experience	Previous Employment
Michael Doble	CEO, Real Estate Securities	BBus(Prop), AssDipVals, GDipAppFin	12	30	ANZ Funds Management
Pete Morrissey	Fund Manager, Real Estate Securities	BCom, MVal/Prop Mgmt, MAppFin	11	20	Lonsec, ING Barings
Corrine Ng	Portfolio Manager, Asian Real Estate Securities	BCom (Fin & Eco), BA (Political Science)	3	16	Aviva Investors, Goldman Sachs & Co, Challenger Group/HSBC Asset Management, Urbis/JHD Advisors
Patrick O'Reilly	Fund Analyst, Real Estate Securities	BEnv(Prop), MMgmtFin	1	4	Pitcher Partners
Location of Team	Melbourne		Portfolio Managers	2	
Investment Offices	1		Analysts	1	

Investment Team

The team is led by Fund Manager Pete Morrissey and Portfolio Manager Corrine Ng. In addition to the Fund under review, Mr. Morrissey manages APN Property for Income Funds No 1 and 2 and assumes the analyst role for APN's flagship strategy – the APN A-REIT Fund. Ms. Ng joined APN in February 2015 as Portfolio Manager. Ms. Ng had exposure to Asian real estate securities earlier in her career when she worked as an analyst with Challenger Group/HSBC Bank. Ms. Ng also has experience in the Asian direct real estate market and was involved as a consultant to several major REIT IPOs in Singapore. Ms. Ng's previous roles as an investment analyst have concentrated on North American, Canadian and European real estate securities.

It should be noted that the CEO of Real Estate Securities, Michael Doble, will transition to CIO of Real Estate Securities during 2019, meaning Pete Morrissey will transition out of his Fund Manager role to the CEO of Real Estate Securities role. SQM Research is comfortable with what has been a well-planned transition.

Portfolio construction responsibility jointly rests with Mr. Morrissey and Ms. Ng. In addition, they are supported by Analyst Patrick O'Reilly.

Stock research for the Fund is primarily conducted by Ms. Ng and Mr. O'Reilly while support is provided by Mr. Morrissey and the broader investment team based in Melbourne. All members have stock coverage responsibilities and are collaboratively involved in the research and portfolio construction process. Research responsibilities for each region and sector are split between multiple members of the team to ensure that no one particular member is solely responsible for a particular region or sector (with the exception of New Zealand which is managed

by Mr. Morrissey given the small investment universe size). This helps mitigate key person's risk to an extent. Mr. Morrissey and Ms. Ng are ultimately responsible for the investment decisions of the Fund. Mr O'Reilly forms part of an analyst group of three that is available to this Fund and the AREIT Fund. The structuring of the analyst responsibilities centrally, appears to be a positive move.

In terms of travel, it's noted that the team generally travel overseas six to eight times a year to meet with overseas based managers.

The team consolidation into Melbourne over recent years has been a success and has aided in ensuring the team is fostering a positive culture, taking full advantage of the broader APN Group. Analysts are structured to be available across the suite of APN Funds, which appears to also be a good move.

Trading for the Fund is conducted by Corrine Ng. The Melbourne-based back office team is also responsible for the Fund's day-to-day administrative functions. The team also leverages off the wider APN Group, which incorporates an array of direct property expertise. The investment team of the Fund occupies a prominent position within the Group's corporate structure and benefits from the company's commitment to ensuring that investment teams are appropriately resourced, which has been proven since the inception of the Fund.

The investment team of the Fund conducts weekly formal meetings to discuss research efforts, market conditions and outlook. The meetings also serve as a forum for discussions to minimise the knowledge gap between team members. Outside of the formal meeting structure, the team interacts frequently.

In addition to the team meetings, the Fund has also setup an Investment Committee comprised of Pete Morrissey, Corrine Ng, Patrick O’Reilly, members of the AREIT Fund IC and is chaired by Michael Doble (CEO Real Estate Securities) who oversees the strategic portfolio management of APN’s property securities funds. The Committee is responsible for reviewing the investment process and investment guidelines. Although Mr. Morrissey and Ms. Ng have the ultimate authority to make asset allocation decisions within the current investment mandate, investment decisions outside the current mandate require the Committee to review the impact on the portfolio. This approach has the advantage of combining accountability

with the ability to react quickly to a changing market. The Committee convenes on a weekly basis.

The Fund’s investment process is driven by bottom-up research, combined with a top-down overlay. Individual stocks are selected according to value income, relative value and total return criteria, whilst maintaining an overall asset allocation framework based on type of security and sector of the property market.

The table below shows meetings that form part of the overall process.

Meeting Schedule

Meeting	Purpose	Frequency	Participants
Investment Team	Discuss research efforts, market conditions and outlook	Weekly	Investment Team
Investment Committee	Review the investment process and investment guidelines	Weekly	Investment Committee

The portfolio construction and stock selection decisions are collectively made by Mr. Morrissey and Ms. Ng. Furthermore, in addition to their stock coverage responsibilities, the Melbourne-based team, which is supported by the broader APN Group, is also responsible for Fund compliance, trade execution and other fund administrative functions.

Investors should note that team members Michael Doble and Pete Morrissey are also responsible for the management of other APN funds. As such, they are not purely dedicated to the Fund under review.

Staffing Changes

The investment team has not changed since the last review.

Average Tenure/Experience (years)	Co-PM’s	Analyst	All Staff
Years with Company	7	1	5
Years of Investment Experience	18	3.5	13

SQM Research observes that the investment team are highly qualified and generally well established at the firm. There are high levels of investment experience across the senior investment team.

Remuneration and Incentives

Remuneration is comprised of a base salary component plus an incentive component. The base salary is determined using market rates depending on the individual’s experience and qualifications while the overall size of the incentives is based on the profitability of APN’s Real Estate Securities business unit as well as performance of the individual, relative to a set of KPIs.

profitability of APN’s Real Estate Securities business unit. The incentives pay-out is staggered and it is paid out in equal instalments over three years.

SQM Research has reviewed the staff remuneration and incentives structure and believes that it is line with the industry average.

The incentives component of the salary is capped at 30% of the base salary. Roughly 60% of the incentives pay-out is dependent on the Fund-related KPIs such as performance and risk measures. The remaining 40% is dependent on the

	Fund
Buy Spread (%)	0.30%
Sell Spread (%)	0.30%
	Fund
Cost of Fund ¹ (% p.a.)	0.98%
ICR ² (% p.a.)	0.98%
Performance Fee	There is no performance fee applicable

1. Management fee and expected expense recoveries.
2. Indirect costs ratio

Buy/Sell Spread

A buy/sell spread of 0.60% is applicable and payable at +0.30% when investors seek to purchase their units and -0.30% when sold. This spread represents the difference between the application price and the withdrawal price of the Fund, a reflection of transaction costs relating to the underlying assets.

The Fund buy/sell spread is above the peer average total of 0.38%.

Ongoing Fees

The annual management fee of the Fund is 0.98% p.a. of the Fund's net assets. This cost includes the normal recovery expenses relating to the operation of the Fund, although it does not take into account abnormal expenses which may also be payable from assets of the Fund. The key change in relation to last year relates to APN FM, who has agreed to cap the investment management fees and expense recoveries it charges to the Fund at 0.98% p.a (previously the ICTR was forecast at 1.20%).

The Fund's ongoing fee structure of 0.98% is broadly in line with the peer average total of 0.94%.

SQM Research believes that the ongoing fee structure of the Fund in-line with its peers.

Risk/Return Data to 31 December 2017							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund ¹	-1.22	6.72	5.85	8.76	6.92	12.52	13.76
Benchmark ²	-2.56	4.27	2.20	2.09	6.17	12.16	12.27
Peer Average	1.15	4.66	5.56	8.99	6.29	9.95	10.21
Excess	1.34	2.45	3.65	6.67	0.75	0.36	1.38

Metrics	1-Year	3-Year	5-Year	Inception
Tracking Error (% p.a.) - Fund	1.83	3.36	4.15	4.62
Tracking Error (% p.a.) - Peer Average	9.13	12.74	12.95	14.69
Information Ratio - Fund	3.66	0.22	0.09	0.30
Information Ratio - Peer Average	0.77	0.01	-0.17	-0.14
Sharpe Ratio - Fund	1.06	0.70	1.33	1.45
Sharpe Ratio - Peer Average	1.81	0.57	0.91	0.82
Volatility - Fund (% p.a.)	8.26	9.81	9.40	9.39
Volatility - Peer Average (% p.a.)	5.15	10.93	10.99	12.54
Volatility - Benchmark (% p.a.)	8.61	10.23	10.68	10.34
Beta based on stated Benchmark	0.94	0.91	0.81	0.81

1. Assumes dividend reinvestment. Returns for periods greater than one year are annualised. Return history starts Jul-2011
2. Benchmark: Bloomberg Asia REIT Index

Quantitative Insight¹

SQM Research has compiled a peer group comprised of managed funds investing in global property securities for comparison purposes. The performance of the peers is based on the broader performance of the global property securities market, with the Fund only representing a subset of the market. As such, under and outperformance relative to peers on an absolute basis will be driven by the performance of the Asian REIT market.

The Fund has produced strong returns since its inception (with seeded capital) in July 2011. At 31st December 2017, the Fund recorded an annualised net return of 13.8% p.a. compared to the benchmark index's 12.3% p.a. and the broader peer group's 10.2% p.a. The Fund has been able to achieve this outperformance while keeping the volatility in its portfolio below that of the benchmark and the peer group. At the end of December 2017, the Fund has recorded since-inception standard deviation at 9.4% p.a., compared to the benchmark's 10.3% p.a. and the broader peer group's 12.5% p.a.

The performance (on a rolling three-year returns basis) has varied with the Fund noting periods of both outperformance as well as underperformance compared to the benchmark index and the broader peer group. The majority of the Fund's

outperformance with respect to the benchmark occurred throughout the early history of the Fund. Over more recent times, the Fund has performed in line with the benchmark or above peers (over three-year periods). It should be noted that significant outperformance of the benchmark was recorded over the past year. As a consequence of its performance, the Fund's cumulative excess returns chart to its benchmark has also shown some volatility and has trended upwards over recent times. At 31st December 2017, the Fund recorded a cumulative excess return of 17.5%, which is well down on a year prior.

The Fund's Snail Trail chart which depicts the rolling three-year excess returns and volatility to its benchmark indicates that the Fund's performance has vacillated between the upper and lower left quadrants. Over its history the Fund has largely been recorded in the upper and lower left quadrants, meaning it's recording lower volatility to the benchmark with either positive or negative excess returns. As at 31 December 2017, the Fund was recorded in the upper left quadrant, indicative of lower volatility and positive excess returns, when compared to the benchmark.

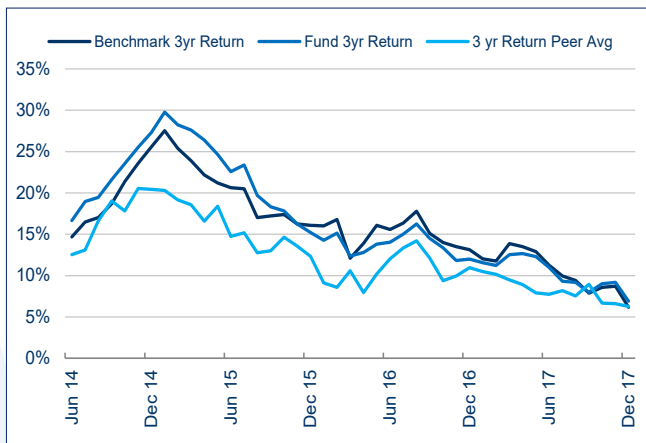
1. Note: Sharpe and Information Ratios are not reliable comparison tools in periods where both the Fund and its peers/benchmark record a negative result

The tail risk chart below shows a modest positive correlation in equity market extremes while providing outperformance to Australian equities over that time. The chart illustrates the worst monthly returns for the ASX 300 over the Fund's lifespan, compared to the Fund's performance over this period. Using these data points, the Fund has outperformed at a majority of points.

Since the last review the Fund's performance has been varied, with returns well above the benchmark over the past year, and only slightly below peers. Over all outperformance of peers and benchmark is noted since inception. SQM Research will continue to monitor the performance and any changes to the Fund's investment team going ahead.

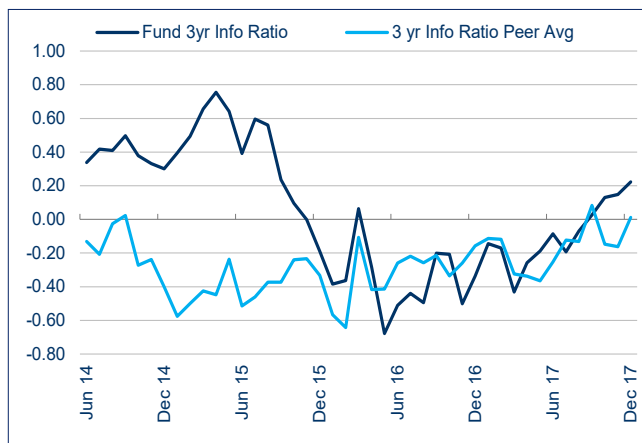
Returns

Three Year Rolling Returns

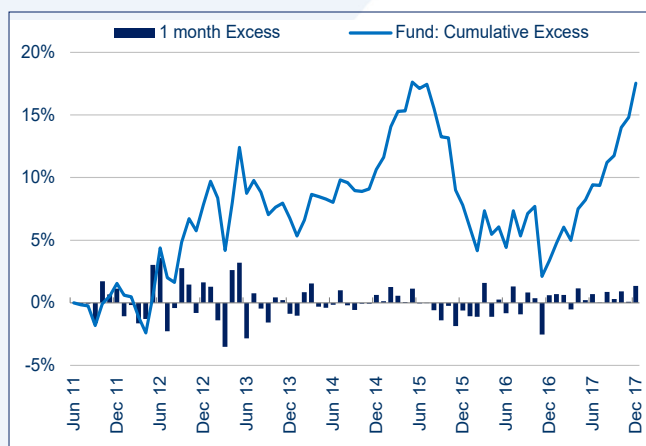


Risk-Return & Efficiency

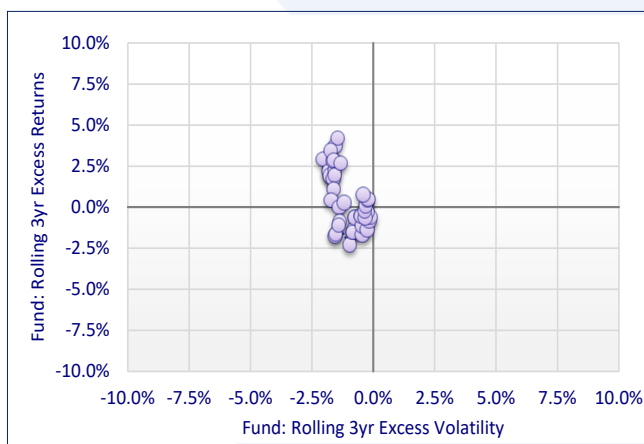
Three Year Rolling Information Ratio



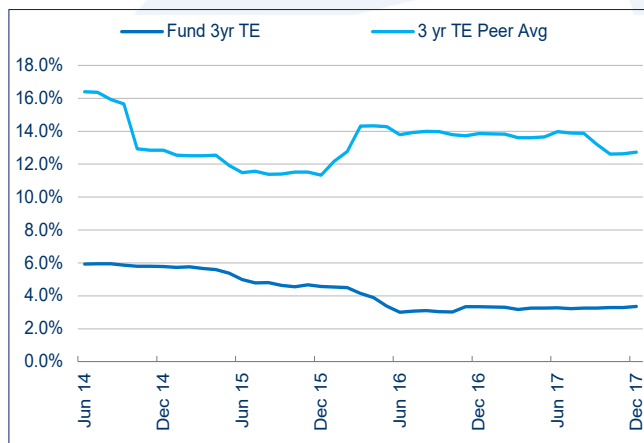
Cumulative Excess Returns



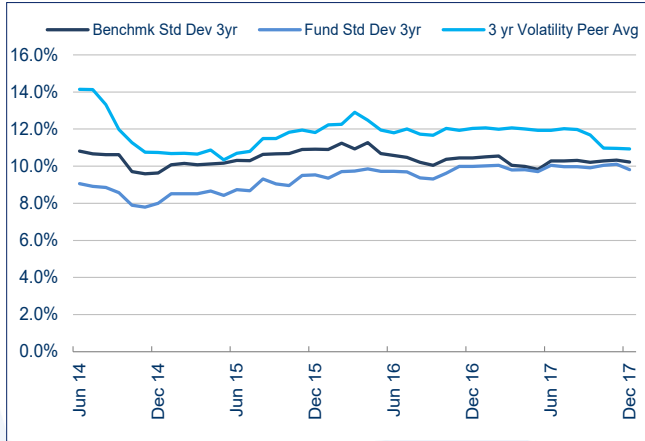
Three Year Rolling Snail Trail



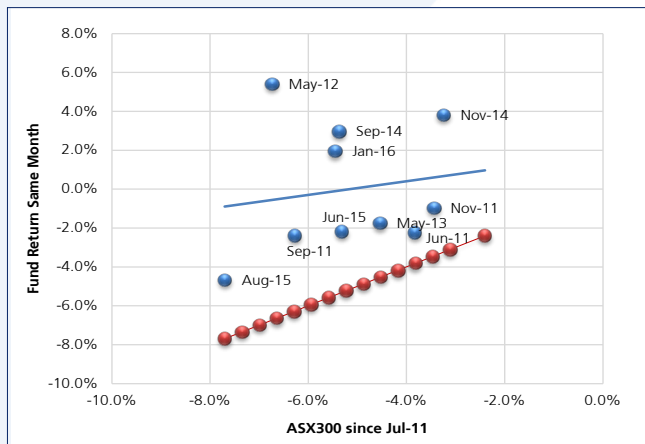
Three Year Rolling Tracking Error



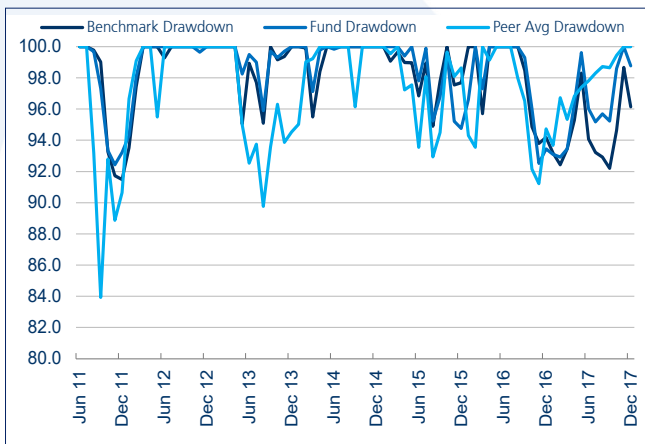
Three Year Rolling Volatility



Tail Risk - Returns in Equity Down Markets



Drawdowns



Outlined below are details of risk limits and other Fund constraints:

Fund Constraints	Target	Lower Bound	Upper Bound
Cash Position	2.00%	0.00%	10.00%
New Zealand REITs	2.00%	0.00%	10.00%
Asian REITs	96.00%	80.00%	100.00%

Recent Positioning (as at 31 December 2017)

As at 31 December 2017, The Fund held 38 securities, which is slightly down on the 39 held a year earlier. Benchmark holdings accounted for 92.3% of the Fund.

On a geographic basis, the Fund focus is on Japan and Other Asia (includes Singapore and Hong Kong) at 40.4% and 44.7% respectively. These weighting are largely unchanged on last year. In comparison to the benchmark, the largest overweight was Other Asia (includes Singapore and Hong Kong) at 10.8%, with the Fund underweight 7.5% Japan.

Sector Profile	Weight	Net Weight	Bench/Neutral	Active
Hotel	2.30%	+2.30%	7.20%	-4.90%
Cash and Other	3.97%	+3.97%	0.00%	+3.97%
Residential REITs	4.51%	+4.51%	7.80%	-3.29%
Other	5.86%	+5.86%	4.40%	+1.46%
Industrial REITs	21.80%	+21.80%	15.80%	+6.00%
Office REITs	26.22%	+26.22%	30.70%	-4.48%
Retail REITs	35.34%	+35.34%	33.90%	+1.44%

Country Profile	Current Weight	Bench/Neutral	Active
Other Asia	44.70%	33.90%	+10.80%
Japan	40.40%	47.90%	-7.50%
China	5.20%	4.70%	+0.50%
Australia	3.70%	2.20%	+1.50%
Other	3.20%	6.90%	-3.70%
Malaysia	1.60%	3.20%	-1.60%
Other Europe	1.20%	0.50%	+0.70%
USA	0.00%	0.50%	-0.50%
UK	0.00%	0.20%	-0.20%

Geographic Profile	Current Weight	Bench/Neutral	Active
Asia (incl Japan)	95.10%	96.60%	-1.50%
Australia	3.70%	2.20%	+1.50%
Europe (incl UK)	1.20%	0.70%	+0.50%
North America	0.00%	0.50%	-0.50%

Top 5 Stocks Weight (% of Fund)

Name	% of Portfolio	% of Index	GICS Sector	Ticker	Country
Ascendas REIT	4.78%	2.66%	REIT	AREIT SP	Singapore
GLP J-REIT	4.38%	1.47%	REIT	3281 JP	Japan
Link REIT	4.32%	9.24%	REIT	823 HK	Hong Kong
Japan Retail Fund	4.26%	2.23%	REIT	8953 JP	Japan
Mapletree Greater China Commercial Trust	3.85%	1.15%	REIT	MAGIC SP	Singapore

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