



APN | Property Group

A specialist real estate investment manager

Error Rectification and Compensation Policy **APN Funds Management Limited** **AFSL 237500**

June 2015

Error Rectification and Compensation Policy – Overview

Introduction

Unit pricing errors or errors that have a unit pricing impact are rectified in accordance with APN's Error Rectification and Compensation Policy (**the Policy**). The Policy has been drafted in accordance with the relevant standards and guidance notes issued by the Financial Services Council (**FSC**) and Regulatory Guide 94: Unit Pricing: Guide to Good Practice (**RG 94**) and has been approved by the board of APN Funds Management Limited (**APN FM, us or we**), as responsible entity (**RE**) of the registered managed investment schemes listed in Appendix 1. The Policy should be read in conjunction with APN's Unit Pricing Policy which is available from our website.

Unit Pricing Errors and their Impact

If there are errors in unit pricing, unit holders do not receive the share of the value of the fund to which they are entitled. Unit pricing errors can arise from a variety of sources. There may be errors in the number of units allocated or there may also be errors in the price per unit. Furthermore, errors can either adversely affect unit holders on entry and exit or adversely affect ongoing unit holders.

Where errors are not detected for long periods, compensation costs can be substantial, as the unit price determines both numbers of units issued and amounts received on redemption. Where there is a pricing error for a transaction, the effect of that error – whether number of units on issue or price of units – flows through all subsequent transactions, in addition to the effect of repeating the initial error in subsequent transactions, until the error is identified and rectified.

Managing Unit Pricing Errors

In the event of a unit pricing error occurring APN FM will follow the below steps:

1. We will limit the consequences as far as possible and monitor new applications and redemptions while we identify the extent of the problem;
2. We will determine the number of disadvantaged unit holders who have entered and exited the relevant scheme during the period of the error;
3. We will consider the need for compensation by determining who has gained and who has lost, and by how much;
4. We will compensate unit holders, the individuals or the fund, if compensation is appropriate. This includes making reasonable efforts to contact former unit holders; and
5. We will communicate appropriately with unit holders. Depending on the nature of the error we may communicate with all unit holders, whether or not affected. We will consider the circumstances and our obligations in each case.

Compensation

The objective of compensation is to return unit holders to the financial position that would have existed if the error had not occurred. Depending on the circumstances, including whether unit holders are ongoing or exited, and whether performance has been positive or negative, appropriate compensation may include amounts for:

1. Investment performance (the investment rate of return applied to the amount of the error for the relevant period); or
2. The time value of money (a rate such as the RBA cash rate applied to the amount of the error for the period of the error).

When determining whether compensation is payable, we will consider the aggregate impact on each individual unit holder of the unresolved error(s). More specifically we will:

1. Compare the value that would have accumulated if the unresolved error(s) had not arisen with the value that accumulated in the presence of the error(s), from the date the error(s) started to the date the effect of the error(s) ceased.
2. If the difference is equal to or greater than 0.30% (30 basis points) of the value that would have accumulated without the error, we will pay compensation. Compensation may include:
 - a. Payment of cash
 - b. Issue/adjustment to units issued to affected investors
 - c. Reimbursement by the manager to the fund
3. If the difference is less than 0.30%, we will consider whether compensation should be paid.

For example:

- a. Where an error arises due to miscalculation of management fees payable to the RE, it will be compensated in all cases; and
- b. There may be other circumstances when it is appropriate to compensate when the difference is less than 0.30%. Compensation may be considered, notwithstanding the materiality threshold, where the impact of the error derives a significant impact on an individual member in absolute dollar terms. We will consider the circumstances and our obligations on a case by case basis.

Payments to Exited Members

For exited unit holders a fixed dollar minimum will apply to compensation amounts. APN FM has a de-minimis threshold for exited unit holders of \$20 before payment will be made. As we have chosen to apply a fixed dollar minimum threshold our relevant funds will include this disclosure in their annual financial reports.

Communication of Errors to the Regulator

We will notify the Australian Securities and Investments Commission (**ASIC**) as soon as we become aware of any material errors. These include, but are not limited to:

1. All errors where the difference is equal to or greater than 0.30% (0.30% impact of the transaction itself or 0.30% p.a. for cumulative errors);
2. All errors which arise from a miscalculation of management fees payable to the RE; and
3. Any other errors which our compliance department deem to be reportable.

Furthermore we will provide full disclosure to ASIC as soon as possible and will detail our proposed course of action.

Other

Where unit holders have gained an advantage due to a unit pricing error, the RE may choose to bear the cost, or may seek to recover the amount from the relevant unit holders. It may not be feasible or legally possible to recover amounts overpaid to unit holders in some cases. We will consider the circumstances on a case by case basis.

If required we will involve the Australian Tax Office (**ATO**) when considering errors and compensation. There may be consequential impacts on unit holders – for example, regarding overpaid tax or compensation for tax. These impacts will be factored into our approach when determining compensation.

Ownership and Review

Owner of the Error Rectification and Compensation Policy

The APN FM board will review and approve the Policy with APN FM's Investment Committee having ultimate ownership of the Policy.

Review and assessment – Roles and Responsibilities

The Policy may be updated from time to time. The APN FM Investment Committee will review this Policy at least annually to ensure that it remains relevant, current and compliant with all applicable laws, standards and guidance notes. Any amendments to the Policy will be put before the APN FM board for final approval. The APN FM board will also review the Policy on an annual basis if it has not been amended.

APPENDIX 1

Open Securities Funds – Continuous issuer funds

- APN Property For Income Fund (ARSN 090 467 208) **(PFIF)**
- APN Property For Income Fund No.2 (ARSN 113 296 110) **(PFIF2)**
- APN AREIT Fund (ARSN 134 361 229) **(AREIT)**
- APN Asian REIT Fund (ARSN 162 658 200) **(ASREIT)**

Closed Securities Funds – Non-continuous issuer open-ended funds

- APN Unlisted Property Fund (ARSN 156 183 872) **(UPF)**

Closed Direct Property Funds – Non-continuous issuer open-ended funds

- APN Property Plus Portfolio (ARSN 101 227 614) **(PPP)**
- APN Coburg North Retail Fund (601 833 363) **(CBG)**
- APN Poland Retail Fund (ARSN 112 452 779) **(PRF)**
- APN Champion Retail Fund (ARSN 127 948 127) **(CRF)**
- APN Euro Fund (ARSN 123 172 930) **(EURO)**

Terminated – Terminated funds currently in wind-up

- APN Vienna Retail Fund (ARSN 119 990 840) **(VRF)**