



BROADEN YOUR PROPERTY UNIVERSE

Diversification. Income. Lower Risk.

APN AREIT FUND

September 2019

APN | Property Group

ABOUT APN PROPERTY GROUP

APN | Property Group

A specialist **real estate** investment manager

*...with an income focused,
lower risk philosophy*

Our *'property for income'* philosophy

APN's conservative investment philosophy is focused on the underlying fundamentals of real estate.

APN has a long held belief that investment in commercial property is primarily an investment in a sustainable income stream whereby the lease quality is key. Long term property leases provide protection from the short term business cycle reflected in the market value of other asset classes.

Our commitment to the income benefits from property coupled with a lower level of risk (as measured by volatility) is reflected in our active investment style which focuses on well managed property assets.

PROPERTY FOR INCOME

APN Property Group

Specialist
commercial **real estate**
investment manager

Listed on the ASX
(code: **'APD'**)

Established 1996

\$2.9bn
Funds under
management

12
Funds

45 staff
Melbourne based

Capital light,
co-investment
model

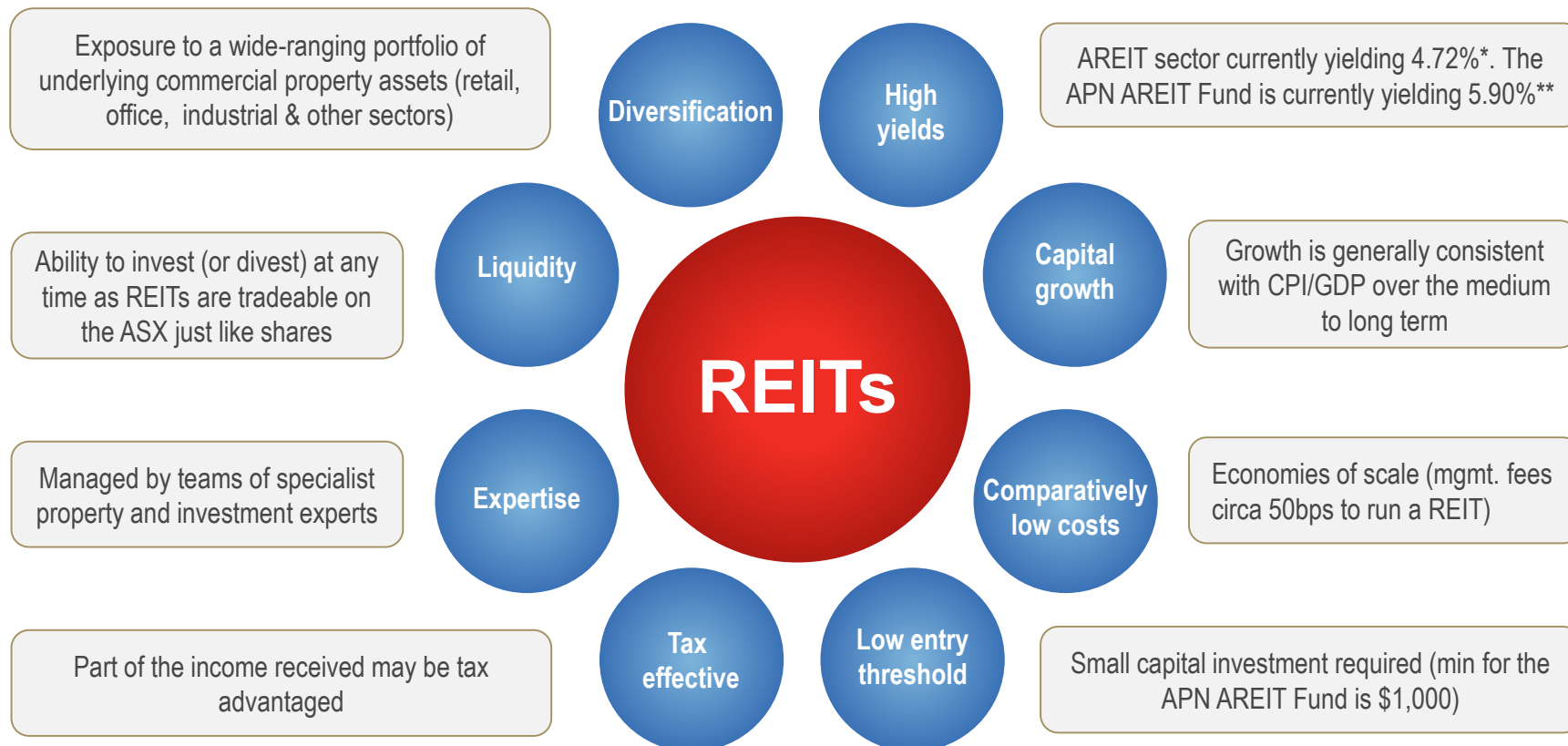
'Property for income'
investment philosophy

As at 31 December 2018
Past performance is not an indicator of future performance

Real Estate Investment Trusts (REITs)

- Low upfront capital
- Liquidity
- Diversification
- Own the best quality assets in Australia

REITs explained



* Approx. S&P/ASX 300 Property Trust Accumulation Index as at 30 June 2019

**Current monthly distribution (annualised) divided by the latest entry unit price (net of management fees and expenses) as at 30 June 2019. Distributions may include a capital gains component. Past performance is not an indicator of future performance.

What REITs are... and what they are not!

Distribution focus



Growth for its own sake



Conservative balance sheets



Over-leveraged



Diversified assets



Highly concentrated



Passive earnings



Active businesses



Defensive with upside potential



Fixed income



Some AREITs you may be familiar with....

Westfield



GPT
The GPT Group



.... just to name a few

Passive AREIT earnings are contracted rent receipts

1. Rents and their cash flows give property its important defensive portfolio characteristics
2. Long contracted lease terms
3. CPI, fixed or market based increases result in growing rental streams
4. High quality tenant covenants: national, multi-national, ASX 100, government bodies
5. Rent is paid in advance by tenants. Ahead of salaries, taxes, debt and shareholder dividends
6. Predictable cash flows, similar to interest on debt / finance leases
7. Management focus on maximising rental receipts

Source: Company information, APN FM

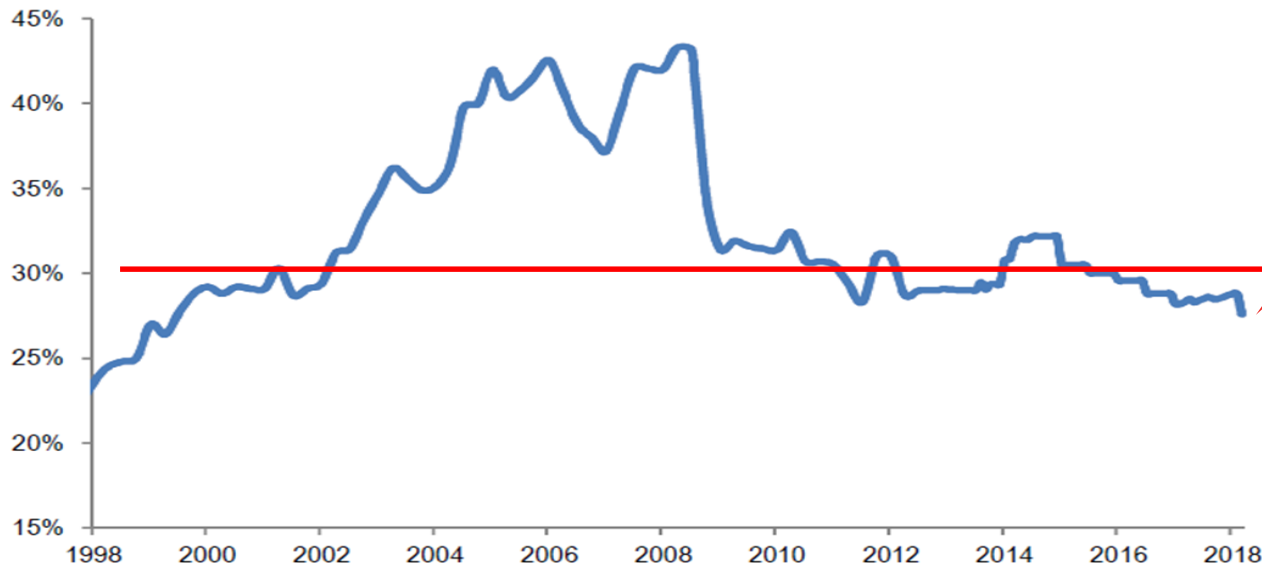
*As at December 2018

“Certain income is superior to uncertain growth”

AREIT Sector	Occupancy %*
Retail	99%
Office	96%

AREIT debt metrics are conservative

AREIT balance sheets are robust and defensively positioned



26% gearing.
Long term avg ~30%.
Lowest since 1999

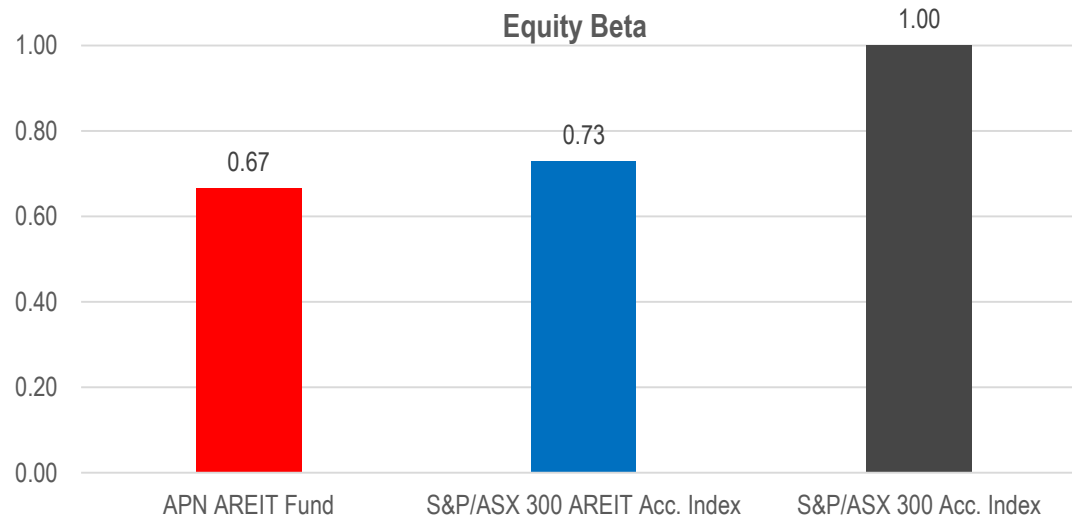
Ave. Cost: 3.6% p.a.

Fixed Debt: 75%+

Maturity: 5.5yrs

Source: JP Morgan, APN FM. Figures at Dec18.

AREITs are Low-Beta (lower risk)

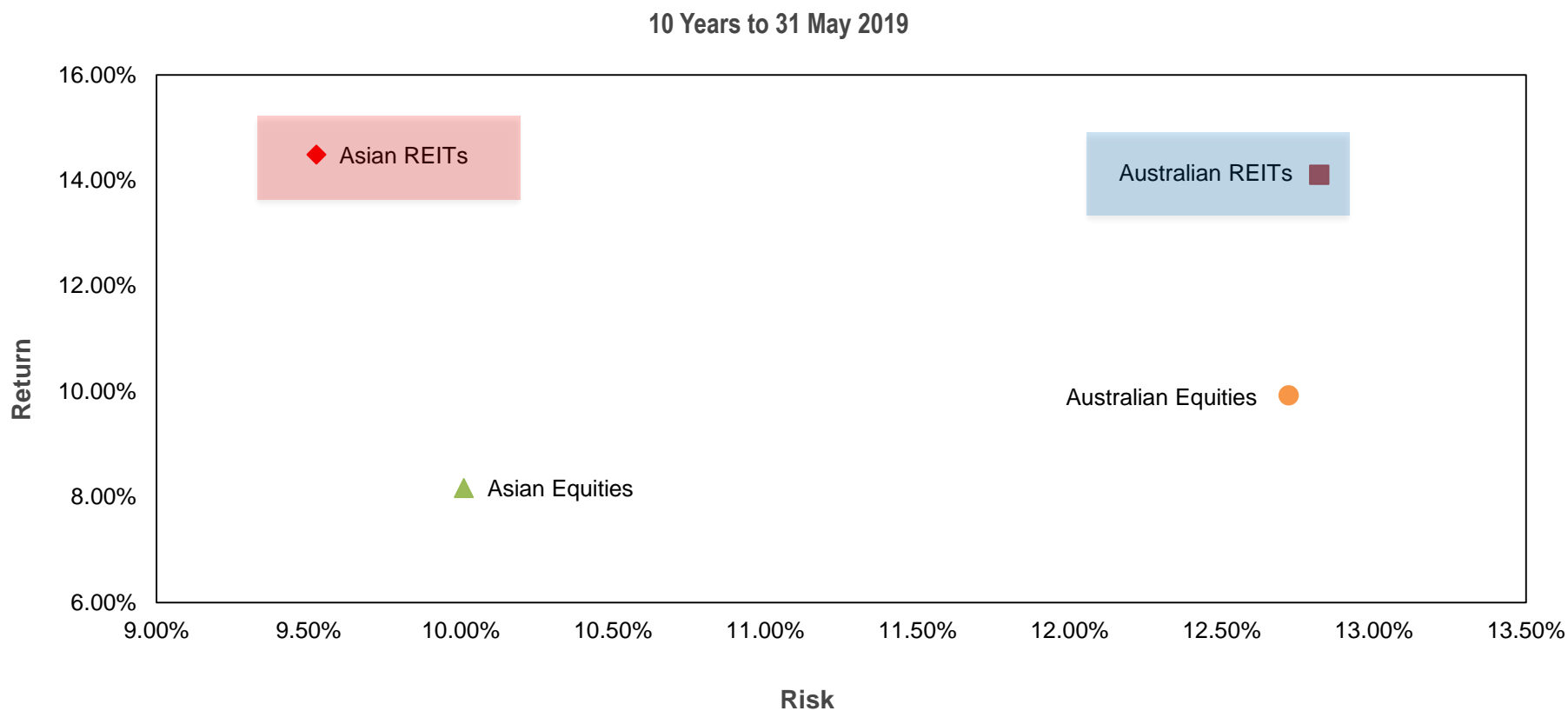


Sources: IRESS, APN . *Based on monthly returns January 2009 to December 2018

- Comparative analysis of **Equity Betas** shows AREITs are lower risk (less volatile than the market)
- AREIT beta (0.73) is circa 27% lower than equity market highlighting they do perform differently
- APN AREIT Fund provides investors with lower than equity and AREIT market risk¹

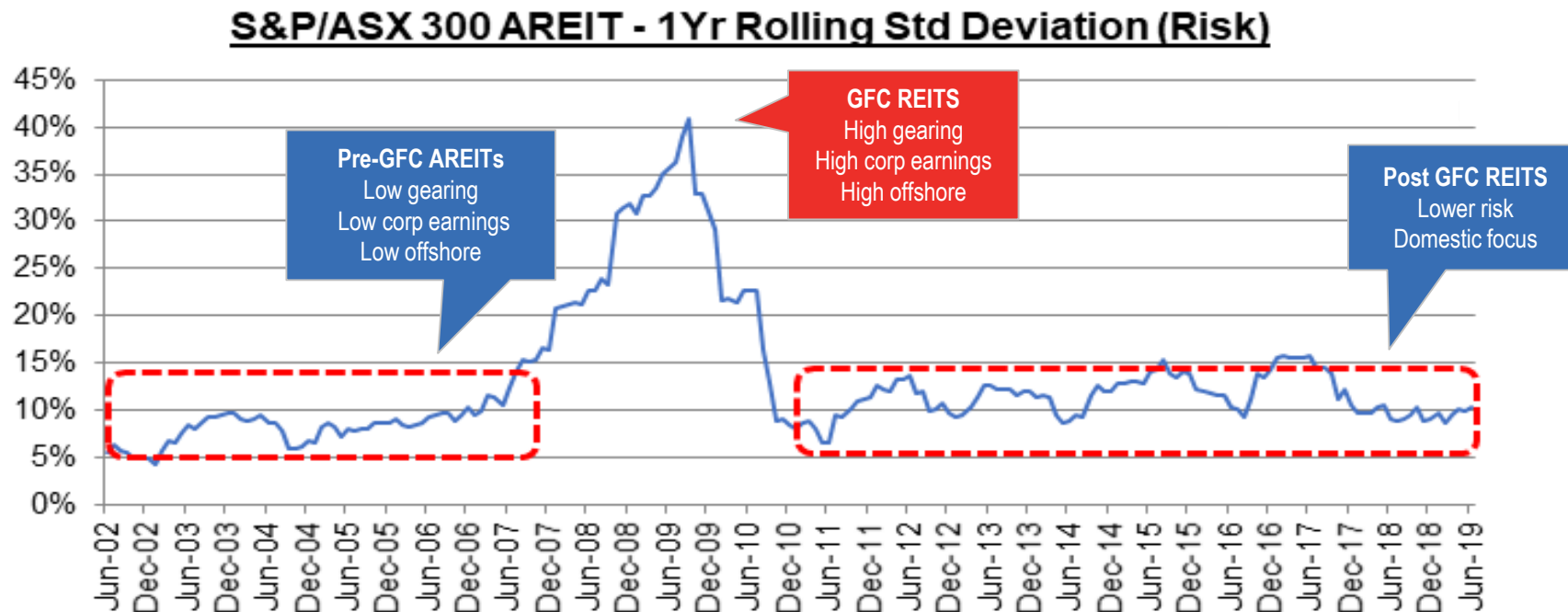
1. The APN AREIT Fund aims to provide lower than market volatility compared with the S&P/ASX 300 AREIT Index over a 5-7 year time horizon.

REITs: superior risk adjusted returns to Equities



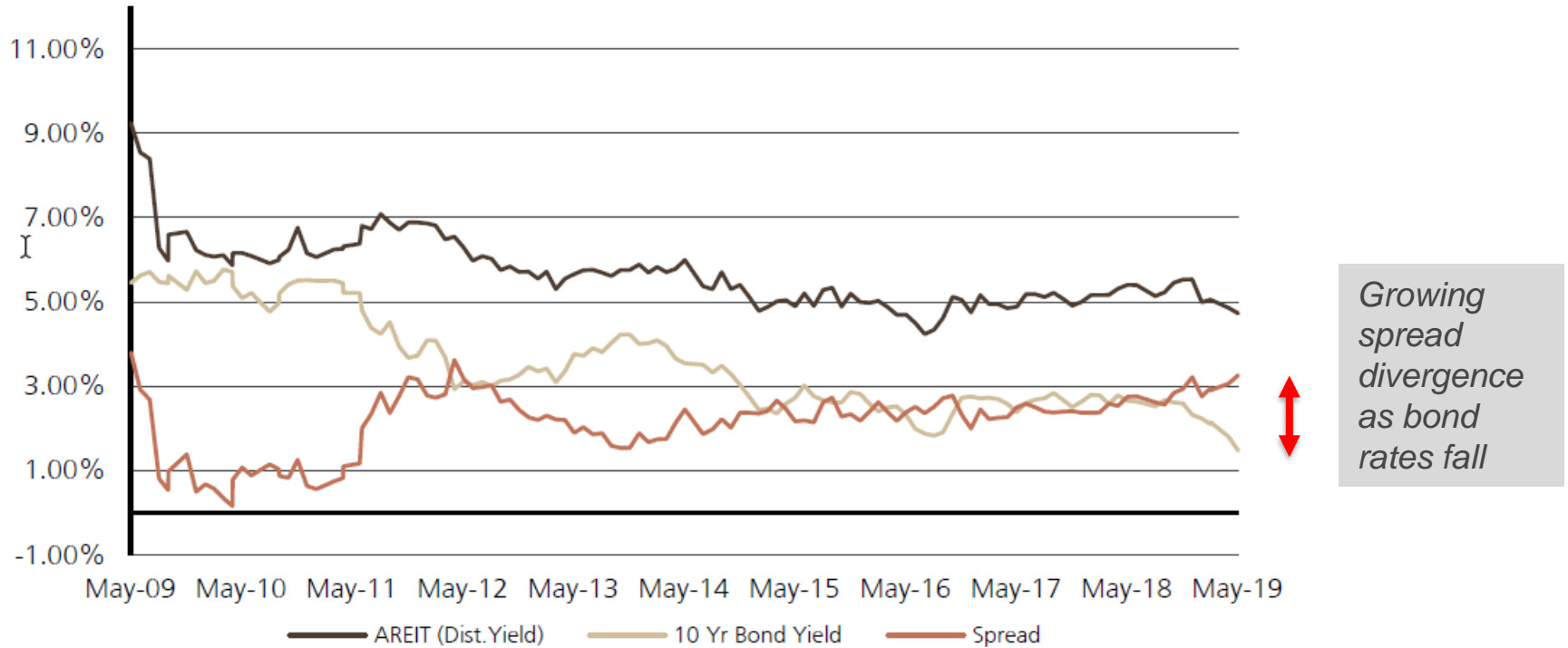
Assumes distributions are reinvested. Investors' tax rates are not taken into account when calculating returns. Past performance is not an indicator of future performance. Asian REIT Index: Bloomberg Asian REIT Index. Australian Equities: S&P/ASX 200, Australian REITs: S&P/ASX 300 AREIT Index, Asian Equities: MSCI Asia Index

AREITs – focus on sustainable growth



Source: APN FM

AREIT Distribution yield spreads



Source: FactSet, UBS estimates

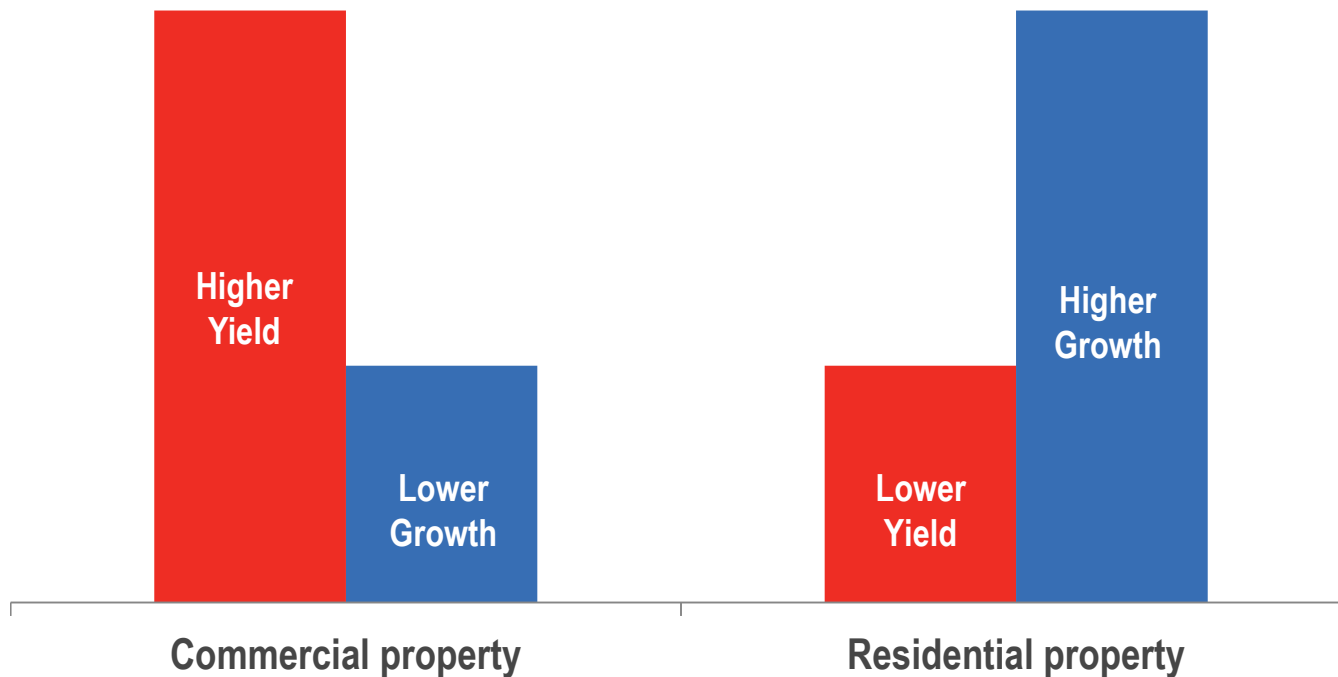
Residential versus Commercial real estate

	Residential property	Commercial property
Effective cash yield¹	2-4% per annum	Around 6-7% per annum
Property types	Houses, apartments, flats and townhouses	Office, retail, industrial and others such as: healthcare, hotels and storage facilities
Leases	Short term (typically on year)	Long term (typically 5+years)
Rental reviews	Upon lease renewal, determined by local market conditions	Most leases contracts have locked-in rent reviews linked to fixed rates or Consumer Price Index (CPI)
Tenants	Individuals	Corporate tenants (several)
Legal protection	The state Residential Tenancy Act favours the tenant.	Balanced legislation between landlord and tenant. Commercial tenancy agreements are dealt as business contracts and are negotiated at arm's length between the parties.
Property costs	Costs borne largely by the landlord	Cost borne largely by the tenant

1. Effective cash yield takes into account deductions such as: agents fees, advertising, repairs and maintenance, vacancy on renewals, insurance, cleaning/ damage. Source: APN models, research and external broker reports.

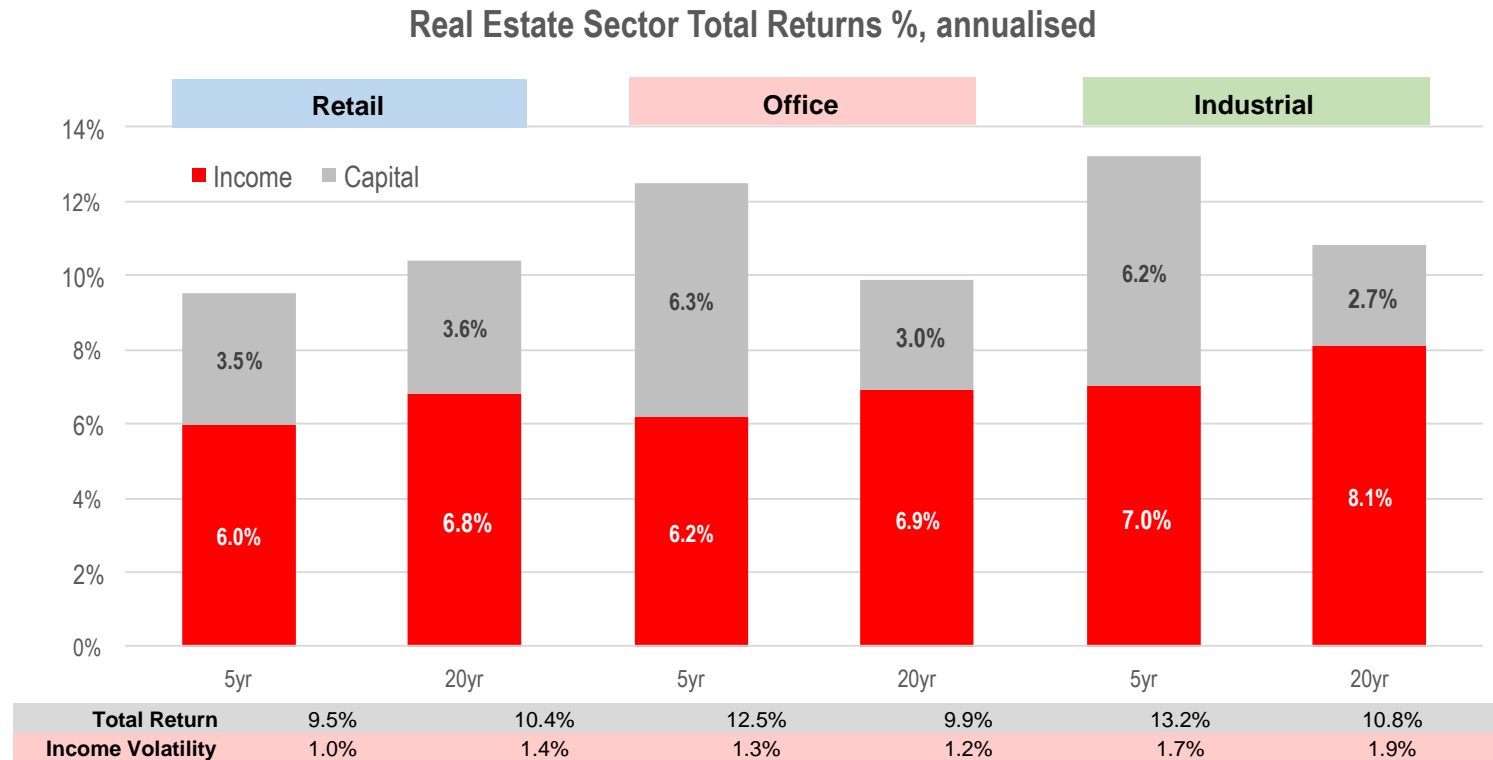
Residential versus Commercial real estate

In general, commercial property is seen as a defensive, income-focused, low capital growth investment. Residential property, in contrast, is viewed as a lower yielding, higher capital growth investment.



Commercial real estate returns underpinned by stable income

All commercial sectors have provided attractive long term returns underpinned by income.



Source: Dexus/MSCI (April 2019)

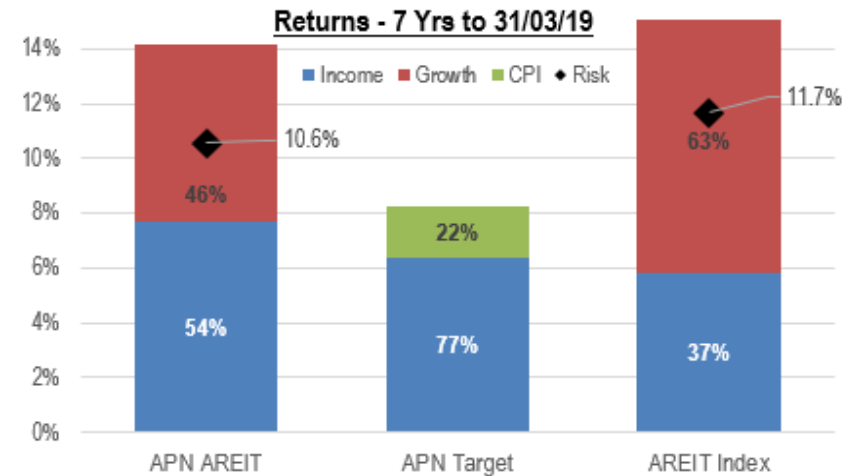
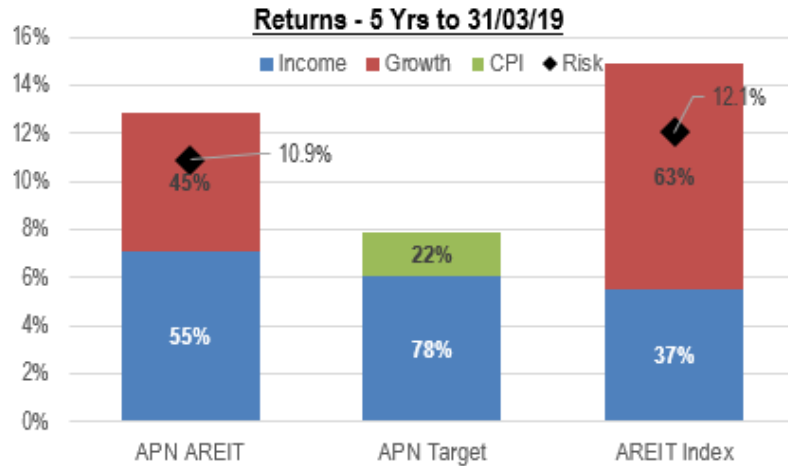
APN AREIT FUND

APN AREIT Fund – Aims to provide a consistent, relatively high level of income with lower risk¹

Strategy	Objective	Investment benefits
<ul style="list-style-type: none">▪ Invests in a diversified pool of AREITs▪ Actively managed to optimise distributable income▪ Bias towards passive rental receipts derived from Australian assets▪ High-conviction with relatively low portfolio turnover	<ul style="list-style-type: none">▪ Gross annual income that equates to 110% of the average yield of the S&P/ASX 200 AREIT Index Dividend Yield▪ Less than market volatility¹▪ High proportion of tax advantaged income▪ Capital growth at least matching CPI over 5-7 years	<ul style="list-style-type: none">▪ High certainty of return in the form of monthly distributions▪ Lower than market volatility¹▪ Access to a portfolio of diversified real estate securities▪ Investment philosophy has been proven over a 20 year track record across the Australian and▪ Experienced, proven management team and corporate platform▪ 100% liquid

1. The APN AREIT Fund aims to provide lower than market volatility compared with the S&P/ASX 300 AREIT Index over a 5-7 year time horizon.

APN AREIT Fund investment return objectives

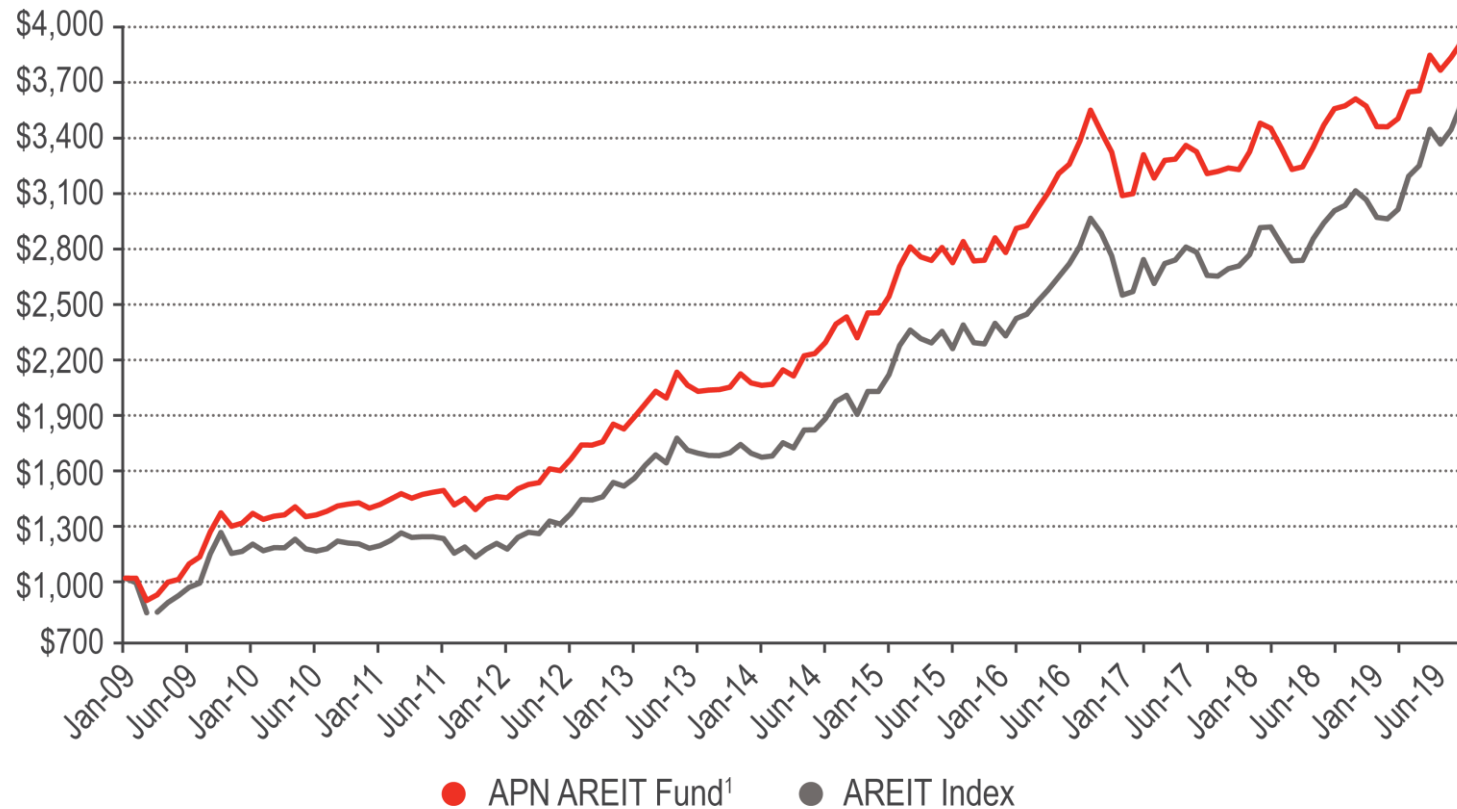


- APN AREIT Fund has consistently outperformed income objectives
- Fund capital growth is ahead of CPI over 5-7 years
- AREIT Fund returns circa 10% less volatile than the Index¹

1. The APN AREIT Fund aims to provide lower than market risk compared to the S&P/ASX 300 AREIT Index over a 5-7 year time horizon.

APN AREIT Fund performance versus the Index

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



1. APN AREIT Fund total return based on a \$1,000 investment since inception 19 January 2009 to 30 June 2019. Retail returns (net of all fees and expenses) annualised for periods greater than one year. Assumes distributions are reinvested. Investors' tax rates are not taken into account when calculating returns. Past performance isn't an indicator of future performance.

APN AREIT Fund versus the Index

APN's highly active investment style is what drives the Fund's superior running yield and lower risk⁷ factors compared to the Index

Metric	APN AREIT Fund	Index ¹
Current/running yield	5.90% ²	4.72% ³
Number of investments	29 (cover 37)	29
Offshore exposure	8.3%	14.2%
Domestic exposure	91.7%	85.8%
Corporation earnings exposure ⁴	16.6%	21.2%
Look through gearing ⁵	29.17%	26.5%
5 year standard deviation ⁶	10.80%	12.01%
Fund size/Market Cap (\$b)	\$1.3	\$145.2

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

2. Approx. current monthly distribution (annualised) divided by the latest entry unit price (net of management fees and expenses) as at 30 June 2019. Distributions may include a capital gains component. Past performance is not an indicator of future performance.

3. Approx. S&P/ASX 300 Property Trust Accumulation Index as at 30 June 2019.

4. Earnings that are deemed non-passive, for example, development and funds management.

5. J.P Morgan. Weighted average gearing as at 30 June 2019.

6. Standard deviation calculation based on monthly returns.

7. The APN AREIT Fund aims to provide lower than market volatility compared with the S&P/ASX 300 AREIT Index over a 5-7 year time horizon.

Source: UBS/APN/JPM

APN AREIT Fund performance versus the benchmark

The Fund aims to deliver 110% of the Index's dividend yield and has a strong record of outperformance

Period ¹	APN AREIT Fund Yield ²	Benchmark Yield ³	110% of Benchmark Yield	Outperformance
Year ending Jun 2019	6.16%	4.72%	5.19%	0.97%
Year ending Jun 2018	6.11%	5.25%	5.78%	0.33%
Year ending Jun 2017	6.05%	4.66%	5.12%	0.93%
Year ending Jun 2016	6.38%	4.71%	5.18%	1.21%
Year ending Jun 2015	6.84%	4.41%	4.85%	1.99%
Year ending Jun 2014	7.73%	5.48%	6.03%	1.70%
Year ending Jun 2013	7.99%	5.33%	5.86%	2.13%
Year ending Jun 2012	9.26%	6.75%	7.42%	1.84%
Year ending Jun 2011	8.82%	6.13%	6.75%	2.07%
Year ending Jun 2010	8.88%	6.29%	6.92%	2.28%
Year ending Jun 2009	11.93%	8.54%	9.40%	2.53%

1. Yield is expressed as the annualised trailing twelve months yield.

2. Average distributions after management fees and expenses. Distributions may include a capital gains component. Past performance is not an indicator of future performance.

3. S&P/ASX 200 AREIT Index Dividend Yield (average per calendar month) via Bloomberg data.

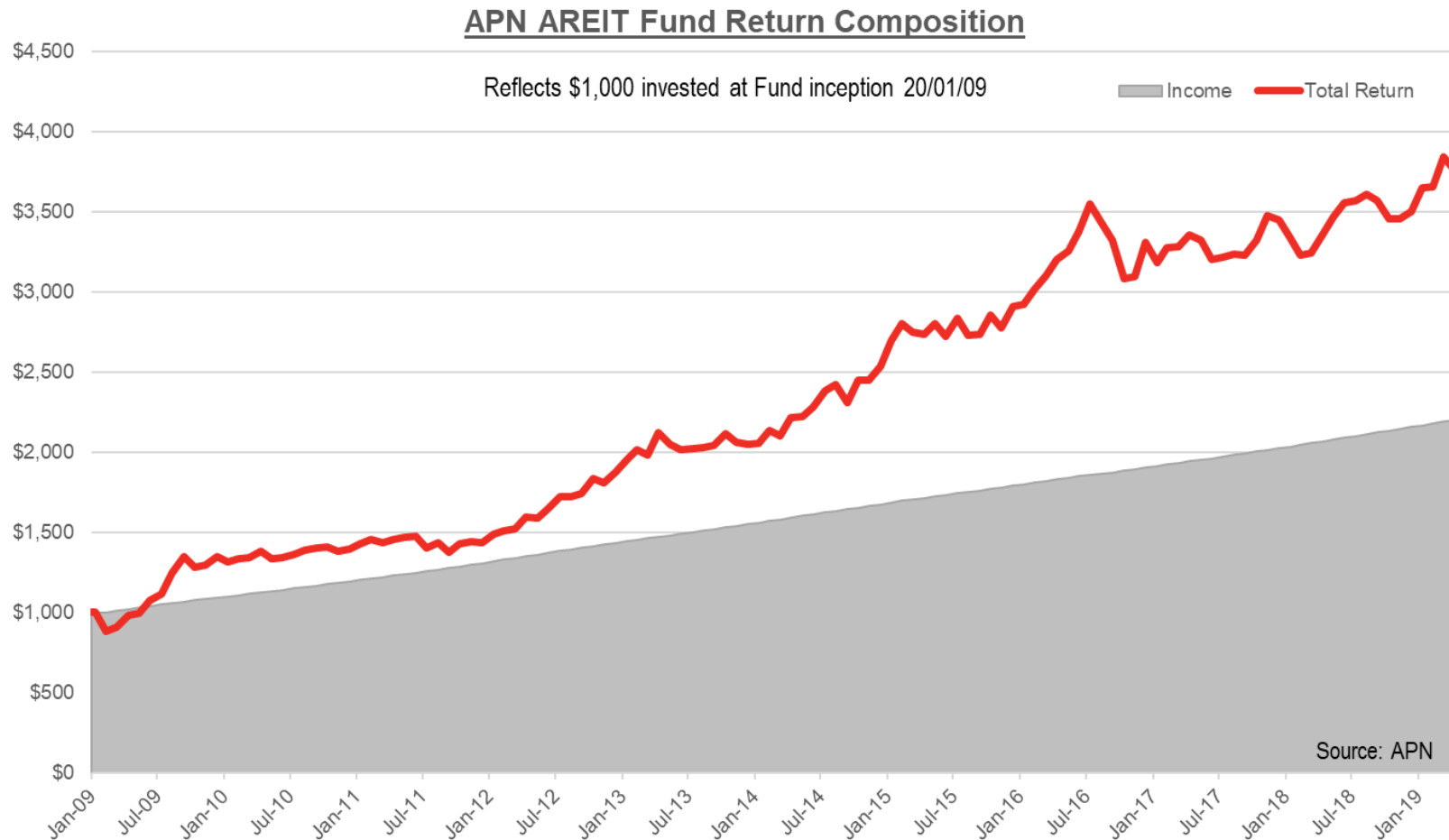
APN AREIT Fund performance benchmark – tax advantaged income

Tax year	APN AREIT Fund tax advantaged component of income
FY 19	56.0%*
FY 18	20.8%*
FY 17	27.5%
FY 16	51.6%
FY 15	65.2%
FY 14	42.0%
FY 13	42.6%
FY 12	54.7%
FY 11	57.8%
FY 10	39.3%
FY 09	28.3%

The APN AREIT Fund endeavors to deliver tax advantaged income

* For an Australian resident individual investor holding their investment on capital account, this % of distributions paid ('Attributed Non-assessable Amounts') was tax advantaged. Tax advantaged amounts are not taxed in the year received but instead are deferred (via a tax cost base adjustment) until an investor redeems or sells their APN AREIT Fund units, where it then forms part of the associated capital gains tax calculation. The Attribution Managed Investment Trust Annual Tax Statement (AMMA Statement) provided to all Australian resident investors identifies the tax cost base adjustment refer to above so that investors can update their reduced tax cost base schedule in respect to their investment in the APN AREIT Fund. We strongly recommend investors seek professional advice on the tax treatment of their investment in the APN AREIT Fund based on their own personal circumstances. Past performance is not an indicator of future performance.

APN AREIT Fund – Income focus drives consistency



APN's income focus reflected in the consistency of income returns and the larger contribution they make to Total Returns.

APN AREIT Fund performance to 30 June 2019

	APN AREIT Fund Growth	APN AREIT Fund Income ¹	APN AREIT Fund Total Return ²	Index ³	Relative Performance	APN AREIT Fund Standard Dev ⁴	Index Standard Dev	Relative Standard Dev.
1 month	1.71%	0.51%	2.22%	4.16%	(1.94%)			
6 months	8.50%	3.37%	11.87%	19.10%	(7.23%)			
1 year	3.60%	6.59%	10.19%	19.39%	(9.20%)	8.27%	10.34%	(2.07%)
3 years pa	-1.23%	6.27%	5.04%	8.44%	(3.40%)	10.70%	11.97%	(1.27%)
5 years pa	4.51%	6.89%	11.40%	13.81%	(2.41%)	10.80%	12.01%	(1.21%)
7 years pa	5.67%	7.50%	13.17%	14.81%	(1.64%)	10.53%	11.66%	(1.13%)
Since inception ⁵ pa	5.63%	8.34%	13.97%	12.86%	1.11%	11.77%	13.87%	(2.10%)

Tracking Error: 3 year 2.74%, Since inception 3.92%

Information Ratio: 0.2839 since inception

Sharpe Ratio: 1.187 since inception

1. Distributions may include a capital gains component.

2. Returns after all fees and expenses. Assumes distributions are reinvested. Investors' tax rates are not taken into account when calculating returns. Past performance is not an indicator of future performance.

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

4. Calculated monthly, Standard deviation is based on returns (net of all fees).

5. Fund inception 19 January 2009.

APN AREIT Fund - Leading research house ratings



SQM Research rates the APN AREIT Fund **'4.25-stars'** on the belief that *"the Fund pays distributions on a monthly basis, which is a positive for income-focused investors. This is a distinct feature as compared to peer funds, which generally pay on a quarterly basis. ...The investment team is well resourced, especially considering the concentrated nature of the AREITs sector."*

(SQM Research, September 2019)



Morningstar rates the APN AREIT Fund **'Silver'** on the belief that the Fund *"... has handily surpassed most peers since its inception in February 2009 to 30 April 2019...While running more than one fund runs the risk of being a distraction, APN's measured product development has offered career opportunities for staff and brought additional insights."*

(Morningstar, May 2019)



Lonsec has maintained the Fund's **'Recommended'** rating. Lonsec's considers APN's investment process to be detailed and highly repeatable. Lonsec has observed limited drift in the Manager's investment style and a strong adherence to the Fund's yield objective.

(Lonsec, April, 2019)



Zenith rates the APN AREIT Fund **'Recommended'** on the belief that *"APN's valuation models utilise standardised templates that exhibit a high level of attention to detail which enhances the rigour and consistency of the process. Zenith believes APN's investment philosophy makes the Fund an attractive offering within the sector."*

(Zenith, July 2019)



Further information regarding the ratings is available at www.apngroup.com.au
General and specific risks apply to an investment in APN funds

An actively managed Australian property securities fund

- Income focused
- Monthly distributions
- Lower than market volatility
- Highly rated: SQM, Zenith, Morningstar, Lonsec

Superior running yield and risk adjusted returns compared to the Index

Metric	APN AREIT Fund ¹	Index ²
Current running yield	5.90% ³	4.72%
Standard deviation since inception	11.77%	13.87%
Total return pa since inception ⁴	13.97%	12.86%

1. As at 30 June 2019 net of management fees and expenses. Past performance is not necessarily an indicator of future performance. Assumes distributions are reinvested. Investors' tax rates are not taken into account when calculating returns.
2. S&P/ASX 300 Property Trust Accumulation Index as at 30 June 2019.
3. Current monthly distribution (annualised) divided by the latest entry unit price as at 30 June 2019. Distributions may include a capital gains component.
4. APN AREIT Fund inception: 19 January 2009.

MARKET OUTLOOK AND VALUE

Australian commercial property sectors

Retail	Office	Industrial	Residential
<ul style="list-style-type: none"> ▪ Highest barriers to entry ▪ New supply down on 2017 with 2019 lower again. ▪ Long term higher returns lower risk, most secure income ▪ AREIT NOI growth 2.1% (Dec18 results) ▪ ABS retail sales 2.4% (May19) ▪ Consumer confidence, wages and house price/ household inflation headwinds ▪ Online now 9.0% of sales (Apr19) ▪ International retailer demand ▪ Destination, experience, selection and convenience preferred 	<ul style="list-style-type: none"> ▪ Lower barriers to entry ▪ AREIT NOI growth of 4.9% (Dec18 results) ▪ Sydney net effective rent growth 3.4%; Melbourne: 2.7% (Jun19) ▪ Sydney & Melbourne low vacancy: 4.1% & 3.8% ▪ Brisbane & Perth weaker (11.0% & 20.3% vacant) but improving ▪ New supply risk ~2-3 yrs but macro/micro conditions support absorption ▪ Co-working concepts to be monitored, flexibility provides opportunity ▪ Capital investment demand deep, offshore and local sources 	<ul style="list-style-type: none"> ▪ Lowest barriers to entry ▪ Low availability of industrial stock on market relative to demand ▪ NOI growth 5.1% (Dec 18 results) ▪ GDP growth 2.3% p.a. (Dec 18) ▪ Extensive infrastructure spend supports growth ▪ E-retailing supports demand for logistics accommodation ▪ Prime asset valuations supported by transactions reflecting increased demand and limited supply ▪ Highest yield, historically most volatile but maturing ▪ Lowest barriers to entry 	<ul style="list-style-type: none"> ▪ Avg prices down across most Australian markets led by Sydney & Melbourne ▪ Suburban divergence within cities. ▪ Construction & approvals moderating: rolling 12 month basis, total approvals down to ~170,000 (30/6/19) ▪ Supply per capita is at equilibrium ▪ Debt costs remain low but material impacts from tighter lending restrictions ▪ 5% unemployment and low interest rates should support demand ▪ Not institutionally owned, but build-to-rent (BTR) may change this ▪ Low yield, higher risk, lower quality covenants

Sources: JP Morgan, Macquarie Bank, APNFM, NAB Online survey, RBA, JLL Office data, Core Logic 5 Capital City Aggregate.










Australian REIT sector outlook

Fundamentals	<ul style="list-style-type: none">▪ Transparent and secure property markets - High occupancy and steady rental growth▪ Further NTA growth anticipated
GDP growth	<ul style="list-style-type: none">▪ Steady GDP growth and economy still expanding▪ Resource prices▪ Forecast GDP growth: slowing ~2.34%¹ is OK for property
High yields	<ul style="list-style-type: none">▪ ~6%² forecast FY20 dividend yield for APN AREIT Fund▪ Widening spread of market yield to risk free rate of 336bps³ (10 year Bond) is well above long term averages (~2.2%³) providing capital buffer
Capital growth	<ul style="list-style-type: none">▪ APN valuations imply capital upside at current pricing level▪ Favourable credit spreads make acquisitions accretive (and enhance value)▪ Demand for underlying assets should support capital values
Defensive	<ul style="list-style-type: none">▪ Strong balance sheets; Conservatively geared▪ Diversified and intensively managed borrowings
Fund Return Outlook	<ul style="list-style-type: none">▪ Income yield ~6%⁴ expected for the next 12 months

1. RBA May 2019; 2. Updated by APN as at 30 June 2019; 3. UBS Updated as at 30 June 2019

4. APN updated as at 30 June 2019 returns after all fees and expenses. Assumes distributions are reinvested. Investors' tax rates are not taken into account when calculating returns

2019 Direct Real Estate Sector Outlook

	Industrial	Office	Retail
Rental growth			
Capital growth			
New supply			

■ Industrial

- Rental growth underpinned by strong tenant activity and limited availability of industrial stock on market
- Increased demand from offshore capital supporting current valuations

■ Office

- Rental growth slowing but to continue underpinned by low vacancy in Syd/Mel
- Capital values – slowing but underpinned by low vacancy & rental growth
- New supply risk ~2-3 years but macro/micro conditions support absorption, sustainable rent growth

■ Retail

- Rental growth slowing due to negative renewals. Annual escalations provide support.
- Capital growth will vary by type. High Street & Sub-regional appear vulnerable. Mixed/alternative use potential will assist in underpinning values.
- Reducing new supply will assist market in finding a base

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