

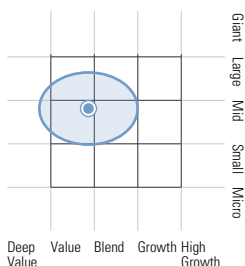
# APN AREIT PIE Fund

## 24111

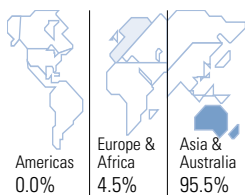


<b>Morningstar Category</b> Equity Region Australia	<b>Category Index</b> S&P/ASX 300 TR	<b>Total Assets</b> 11 Mil NZD	<b>Inception Date</b> 07/02/17	<b>Domicile</b> NZL	<b>Currency</b> NZD	<b>Morningstar Rating</b> —
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### Equity Style Map



### Equity Region Exposure



### People

Michael Doble	02/17
Pete Morrissey	02/17
Total Named Managers	2

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	<b>Performance</b> 30/04/19
											<b>Performance</b> 30/04/19 Growth of 10,000 Annualized NZD: Value NZD 11,734, Ret % 7.99 Fund: Value NZD 11,586, Ret % 7.33 Category: Value NZD 11,390, Ret % 6.45 ▼ Full Manager Change
											Morningstar Rating ***** **** *** ** *
											Quartile Rank in Category 1
											Percentile Rank in Category 80
											Total Return NZD 10.66%
											+/- Category -1.43%
											+/- Index -3.58%
											<b>Process</b> Equity Style Box
											Asset Allocation (Long Positions) ● Equity ● Fixed Interest ● Cash ● Other
											Equity Supersectors → Defensive ↗ Sensitive ↘ Cyclical
											<b>Price</b> Expense Ratio (MER) 1.11%

## Investment team transition but sturdy foundations will keep this strategy on track.

### Analyst View

**Alexander Prineas**  
Associate Director



### Morningstar Pillars

Process   Page 2-3	⊕ Positive
Performance   Page 4	⊕ Positive
People   Page 5	⊕ Positive
Parent   Page 6	⊖ Neutral
Price   Page 7	⊖ Neutral

**Role in Portfolio:** Supporting

### Morningstar Analyst Rating

Morningstar evaluates mutual funds based on five key pillars, which its analysts believe lead to funds that are more likely to outperform over the long term on a risk-adjusted basis.

### Analyst Rating Spectrum



May 30, 2019 | We have the same high confidence in this New Zealand PIE version of APN AREIT as we do in the long running Australian domiciled vehicle, despite a change at the helm.

Comanager Pete Morrissey became this strategy's sole portfolio manager on 1 January 2019, taking on former CEO and leader manager Michael Doble's investment responsibilities. Doble moved to chief investment officer and his involvement at the fund level has been gradually dialed down. Such transitions run the risk of disruption, but APN's gradual approach (they began handover plans years ago) and their experienced bench (for example Morrissey has been with the shop since 2006), leaves them well placed. APN has a blueprint, from when former lead Howard Brenchley handed the reins successfully to Doble a decade ago.

Apart from being hedged into New Zealand dollars, the process for the PIE vehicle is identical to the Australian based APN AREIT fund. It emphasises sustainable income streams, quality assets, good tenants and long leases. APN

limits exposure to foreign income and companies with only a loose association to property, such as infrastructure companies. A long-term mindset is reflected in low portfolio turnover, which is generally below 20%. Morrissey's elevation has seen no major change to the portfolio. There's been subtle evolution as we would normally expect, for example the weight to retail has been reduced, in favour of small sectors such as childcare and service stations, where the team saw better value.

The portfolio of about 30 stocks has had a structural underweighting to the likes of Westfield, Charter Hall Group and Goodman Group due to their overseas, funds management and development revenue. Instead, mid- and small-cap securities often loom larger. APN's conventional income focus means it does well when high-yielding property companies perform, such as 2012 to 2017, but lags when developers lead the market, such as in 2018/19. For those with a long horizon, APN AREIT PIE remains on solid foundations.

# APN AREIT PIE Fund

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### Process: Approach

**Morningstar Category**  
Equity Region Australia

**Category Index**  
S&P/ASX 300 TR

**Index Proxy**  
Vanguard Australian Shares ETF

#### Ignores indexes and applies fundamental bottom-up research to build this portfolio.

#### Process Pillar + Positive

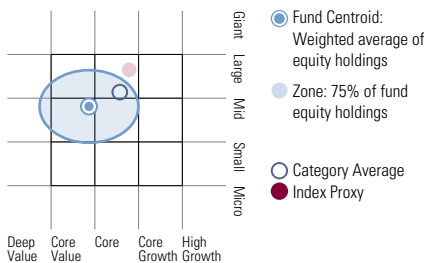
May 30, 2019 | The strategy sets out to deliver a high level of distributable income, with a gross annual yield in excess of 110.0% of the yield of the S&P/ASX200 AREIT Dividend Yield Index. Another key investment objective for the strategy is to achieve capital appreciation in line with the Consumer Price Index over five to seven years.

APN has a conservative approach to investing. At the individual stock level, the team considers management quality, gearing levels, and sources of income, before valuing eligible stocks. Discounted cash flow models are used primarily to derive a net present value, while net asset value is also used. Stocks are ranked on yield and valuation, the foundation for the resulting portfolio. APN uses internally generated forecasts for its valuation models. The firm aims to limit exposure to stocks that generate significant earnings from corporate sources (20%-30%) and restricts the

total level of foreign assets in the portfolio. Stocks that don't meet APN's criteria that are key index components--such as Goodman Group--may be held at a reduced index weighting. Annual turnover is very low, keeping transaction costs to a minimum. APN AREIT is typically fully invested but can hold up to 10% in cash.

#### Equity Style 31/12/18

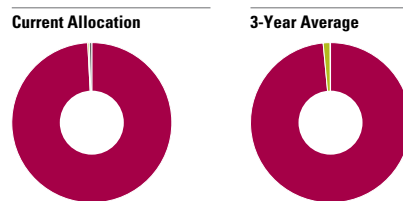
##### Holdings-Based Style Map



##### Equity Style Box Factors

	Fund	3-Yr Avg	Category	Proxy
<b>Market Cap</b>				
Giant/Large	58.5	64.6	53.7	74.4
Mid	14.0	18.1	31.5	18.6
Small/Micro	27.5	17.3	14.9	7.0
Avg Market Cap Bil NZD	6.1	6.6	11.5	22.6
<b>Value Measures</b>				
Price/Prospect. Earnings	12.9	13.9	16.5	16.3
Price/Book	1.0	1.0	1.9	1.9
Price/Sales	6.4	6.4	1.9	2.1
Price/Cash Flow	13.9	14.3	7.4	6.3
Dividend Yield	6.1	5.8	3.9	4.4
<b>Growth Measures</b>				
Long-Term Earnings %	3.8	3.4	8.4	7.4
Historical Earnings %	9.6	20.8	5.2	3.4
Sales %	6.6	6.6	3.6	2.4
Cash Flow %	—	-7.7	9.0	9.6
Book-Value %	8.0	6.7	3.3	3.9

#### Asset Allocation (Net Positions) 31/12/18



Assets %	Fund	3-Yr Avg	Category	Proxy
● Australasian Equity	0.0	0.0	0.0	100.0
● International Equity	99.2	98.5	0.0	0.0
● New Zealand Fixed Income	0.0	0.0	0.0	0.0
● International Fixed Income	0.0	0.0	0.0	0.0
● Cash	0.3	1.4	0.0	0.0
● Other	0.5	0.1	0.0	0.0

#### Region Exposure 31/12/18

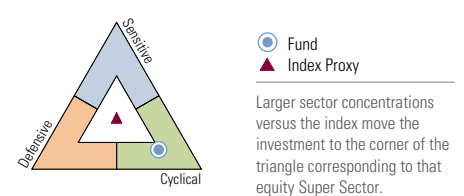
Market Type Equity %	Fund	3-Yr Avg	Category	Proxy
Developed	100.0	100.0	95.8	97.3
Emerging	0.0	0.0	4.2	2.7
<b>Top 5 Countries Equity %</b>				
Australia	95.5	99.3	69.9	95.0
France	4.5	0.7	0.1	0.3

#### Key Ratios 31/12/18

	Fund	3-Yr Avg	Category	Proxy
Net Margin %	67.6	67.4	20.0	23.2
ROA %	9.0	9.2	7.6	6.6
Debt/Total Capital %	31.4	31.8	34.1	37.2
ROE %	14.6	15.2	17.7	17.8

#### Sectors 31/12/18

##### Sector Delta



Equity Sectors	Fund	3-Yr Avg	Category	Proxy
<b>Defensive</b>	0.0	0.0	20.5	15.6
Consumer Defensive	0.0	0.0	7.1	5.2
Healthcare	0.0	0.0	8.6	8.4
Utilities	0.0	0.0	4.8	1.9
<b>Sensitive</b>	0.0	0.0	23.9	20.1
Communication Serv.	0.0	0.0	3.3	2.8
Energy	0.0	0.0	5.1	5.2
Industrials	0.0	0.0	8.7	7.8
Technology	0.0	0.0	6.8	4.3
<b>Cyclical</b>	100.0	100.0	55.6	64.3
Basic Materials	0.0	0.0	17.1	17.2
Consumer Cyclical	0.0	0.0	9.2	7.8
Financial Services	0.0	0.0	25.1	31.7
Real Estate	100.0	100.0	4.1	7.6

#### Economic Moat 31/12/18

	Fund	3-Yr Avg	Category	Proxy
Wide Moat	0.0	0.0	21.6	30.5
Narrow Moat	74.2	78.6	40.0	34.9
No Moat	25.8	21.4	38.4	34.6
Coverage Ratio	76.5	81.7	73.6	94.3

# APN AREIT PIE Fund

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Morningstar Analyst Rating  
 Silver

### Process: Portfolio

**Morningstar Category**  
Equity Region Australia

**Category Index**  
S&P/ASX 300 TR

**Index Proxy**  
Vanguard Australian Shares ETF

#### Favours higher-yielding Australian listed property trusts with a material small-cap tilt.

##### Process Pillar Positive

May 30, 2019 | APN AREIT typically prefers holding around 30 securities which have a main source of revenue domestic rental income, rather than foreign or corporate earnings. As this strategy isn't beholden to an index, it has long maintained a substantial underweighting in overseas-focused Westfield (recently bought by Uni-

bail Rodamco), and an overweighting in local rent collectors such as Scentre Group and Charter Hall Retail REIT. The vanilla holdings reduce the level of risk from property development and overseas earnings but increase sensitivity to the local economy and interest rates. The thirst for income results in a material small cap tilt, and APN participates in selected small-cap property IPOs. The strategy historically has invested 10%-30% of its portfolio here, exceeding the index weighting, though it can swing around. Small-cap exposure declined from about 28% in 2011 to about 7% in

2015 before rebounding to around 25% in early 2019. The lower small-cap weighting contributed to active share falling from around 46% in 2013 down to about 31% in 2019, but this remains high compared with rivals. Annual portfolio turnover of less than 10% each financial year from 2016 to 2018 is remarkably low.




#### Similarity to Index Proxy 31/12/18

Index Proxy Overlap	Number of Equity Holdings	Top Five Index Holdings	Fund %	Proxy %	Top Five Index Sectors	Fund %	Proxy %
Fund	0	Commonwealth Bank of Australia	—	8.26	 Financial Services	0.00	31.75
Index Proxy	301	BHP Group Ltd	—	6.53	 Basic Materials	0.00	17.20
Fund Overlap With Index Proxy		Westpac Banking Corp	—	5.57	 Healthcare	0.00	8.43
Holdings Overlap	0	CSL Ltd	—	5.43	 Industrials	0.00	7.80
Asset Overlap	0.0%	Australia and New Zealand Banking Group Ltd	—	4.59	 Consumer Cyclical	0.00	7.78

#### Portfolio Holdings 31/12/18

Previous Portfolio Date	Equity Holdings	Bond Holdings	Other Holdings	Assets in Top 10 Holdings	Turnover Ratio (Reported)
31/10/18	0	0	4	99%	7%

Top 10 Equity Holdings	Country	Assets % 31/12/18	Assets % 31/10/18	Index % 31/12/18	Days Trading	Morningstar Rating for Stocks	Economic Moat	Sector	1-Yr Total Ret % (NZD)
Change since previous portfolio:  Increase  Decrease  New									

# APN AREIT PIE Fund

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### Performance

**Morningstar Category**  
Equity Region Australia

**Category Index**  
S&P/ASX 300 TR

**The longer-running Australian version of APN AREIT has outshone most peers since it commenced.**

**Performance Pillar** + Positive

May 30, 2019 | APN AREIT PIE Fund only launched in March 2017, and is a New Zealand dollar hedged version of the longer running APN AREIT. That Australian vehicle has handily surpassed most peers since its inception in February 2009 to 30 April 2019, despite some blips. The structural underweighting to Westfield has played a major

role in relative returns. This strategy outperformed the benchmark in 2010-11. However, the fund lagged most peers during the market's strong rise in 2012, which is to be expected given the more-conservative process employed. In contrast, APN outpaced the benchmark in 2013, largely attributable to the underweighting to Westfield, with Challenger Diversified and Investa Office also faring relatively well. APN fell behind a rapidly ascending market in 2014. The comparably small weighting in Westfield hurt as investors favoured its overseas earnings in the

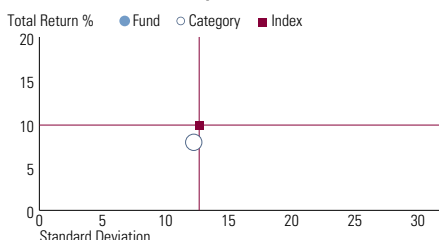
face of a depreciating Australian dollar. In contrast, Astro Japan, Abacus Property, and the underweighting in Mirvac fared better. The strategy did well in 2015 and 2016, largely thanks to the underperformance of Westfield, strong performance from rent-collecting stocks favoured by APN, and solid results in small caps. However, APN lagged in 2017 and 2018, due in part to strong performance from Goodman Group, which APN is structurally underweight due to its overseas and asset management revenue.

#### Morningstar Rating and Risk 30/04/19

Period	Total Ret %	Morningstar Ret vs Cat	Morningstar Risk vs Cat	Morningstar Rating
3 Years	—	—	—	—
5 Years	—	—	—	—
10 Years	—	—	—	—
Overall Morningstar Rating	—			

#### Risk Analysis 30/04/19

##### 3-Year Return and Risk Analysis



##### 3-Year Risk Measures

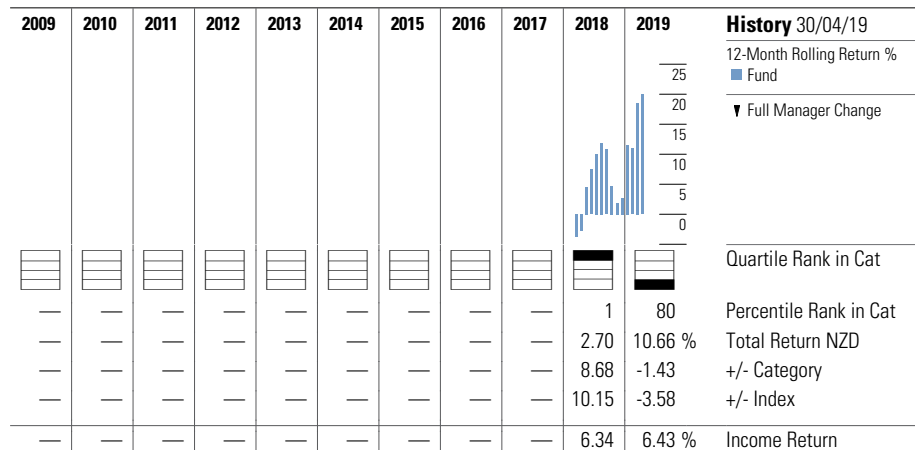
	Fund	Category	Index
Standard Deviation	—	12.24	12.67
Sharpe Ratio	—	0.55	—
R-Squared	—	80.80	—
Beta	—	0.87	—
Alpha	—	-0.81	—

##### Max Drawdown 01/04/17 to 30/04/19

	Fund	Category	Index
Max Drawdown (%)	-6.74	-12.10	-9.50
Peak Date	01/18	09/18	09/18
Valley Date	03/18	12/18	12/18
Max Drawdown (Months)	3	4	4

##### Upside/Downside 01/04/17 to 30/04/19

	Fund	Category	Index
Upside Capture Ratio	60.91	82.17	100.00
Downside Capture Ratio	34.38	71.03	100.00



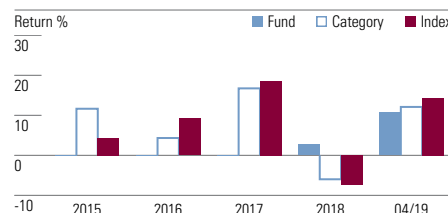
#### Returns 30/04/19

Trailing Returns	Total Ret %	Investor Ret %	% Rank in Cat	Cat Ret %	Index Ret %
1 Year	19.99	19.28	1	7.66	8.69
3 Years	—	—	—	7.85	9.84
5 Years	—	—	—	7.13	7.09
10 Years	—	—	—	7.60	7.71
Tenure 02/17	8.78	—	—	10.10	10.69
Inception 02/17	8.78	—	—	10.10	10.69

#### Rolling Return Summary

0%	36-Month Rolling Periods 0 Observations, 0 Years  The shading and percentages correspond to how often the fund returns landed in each category quartile.
0	
0	
0	

#### Calendar Year Returns



Year	Fund %	Category	Index %
2015	—	11.64	4.35
2016	—	4.33	9.24
2017	—	16.74	18.55
2018	2.70	-5.98	-7.46
04/19	10.66	12.09	14.24

# APN AREIT PIE Fund

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## People

**Morningstar Category**  
Equity Region Australia

**Category Index**  
S&P/ASX 300 TR

### A large team under transition.

#### People Pillar

+ Positive

May 30, 2019 | Former CEO and lead manager Michael Doble handed over to Peter Morrissey on 1 Jan 2019. Morrissey joined APN in 2006, and comanaged this strategy from 2009, so he's had admirable tenure. Doble became CIO, while Morrissey became sole portfolio manager. Despite occasional turnover the team is in solid shape.

#### Management Team

Number of Managers	Longest Tenure
2	2.25 Years

#### Advisor

APN Funds Management Ltd

#### Subadvisor (0 of 0)

—

Longtime portfolio manager Damian Diamantopoulos left in 2014, Steven Chai was promoted and analyst Mark Mazzarella was hired from Ernst & Young. In early 2016, Chai departed, replaced by Matthew Coleman. Patrick O'Reilly joined APN in 2017 from Pitcher Partners. On 1 Jan 2018, Mark Mazzarella was appointed assistant portfolio manager of APN AREIT. The team is larger than most, though they are expanding their coverage, and along with two other staffers, they also manage an Asian REIT fund. While running more than one fund runs the risk of being a dis-

traction, APN's measured product development has offered career opportunities for staff, and brought additional insights.

The team's remuneration pool is closely linked to the real estate securities business unit, as opposed to the overall APN Group. Since 2014, performance remuneration criteria were split between whether a fund meets its objectives (60%), notably in attaining an above-market yield and lower volatility, and more-subjective criteria (40%).

#### Michael Doble 02/17 to Present

Years of Experience	Current Funds Managed	Fund AUM
32	3	181 Mil NZD

#### Largest Funds Managed

	Tenure Dates	Role	Net Assets Mil NZD	Portfolio Turnover %	Tenure Ret %	Index Ret %
<b>APN - Property for Income Fund</b>	<b>01/19-to Present</b>	<b>Lead</b>	<b>128</b>	—	<b>7.63</b>	<b>11.76</b>
APN Property for Income Fund No. 2	01/19-to Present	Lead	42	—	8.35	11.76
APN AREIT PIE Fund	02/17-to Present	1 of 2	11	7	8.78	10.31

#### Pete Morrissey 02/17 to Present

Years of Experience	Current Funds Managed	Fund AUM
18	2	1,344 Mil NZD

#### Largest Funds Managed

	Tenure Dates	Role	Net Assets Mil NZD	Portfolio Turnover %	Tenure Ret %	Index Ret %
<b>APN AREIT Fund</b>	<b>01/19-to Present</b>	<b>Lead</b>	<b>1,333</b>	—	<b>7.49</b>	<b>11.76</b>
APN AREIT PIE Fund	02/17-to Present	1 of 2	11	7	8.78	10.31

# APN AREIT PIE Fund

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Parent

**Morningstar Category**  
Equity Region Australia

**Category Index**  
S&P/ASX 300 TR

### APN has offered a wide product range over the years.

#### Parent Pillar

Neutral

May 30, 2019 | APN's listed property funds team is a REIT specialist within ASX-listed APN Property Group. APN was founded in 1996 with the first listed property fund, APN Property for Income Fund, launched in 1998. APN has a range of products, including some direct property vehicles that were closed or terminated after the 2008 financial crisis.

The REIT team has launched several successful funds, including the APN AREIT fund in January 2009, an Asian REIT fund, which began in July 2011 and launched publicly in 2013, and has made its AREIT capability available to clients in New Zealand and Asia, and in 2018 the team began to research global property stocks.

The investment team has been relatively stable, and sporadic turnover has been handled well. Business founder Howard Brenchley remains a non-executive director since he handed portfolio management duties to Michael Doble

over a decade ago. In January 2019, Doble became the Chief Investment Officer and handed over portfolio management duties to Peter Morrissey who also boasts a decade of tenure, backed by a large and experienced team.

In late 2013, APN linked employee incentive payments more closely to the REIT business unit, as opposed to the overall APN Group. It revised the remuneration structure in 2014. Senior staff also hold equity stakes in the ASX-listed parent company. These measures help with retention and alignment.

### Fund Family Details

Largest Funds	Category Name	Net Assets Mil NZD	Morningstar Rating Overall	Return % 3-Year	Rank in Cat % 3-Year	Return % 5-Year	Rank in Cat % 5-Year	Fee Level
APN AREIT	Equity Australia Real Estate	1,263.5	★★★★	4.37	81	10.71	71	Low
APN WS Plus AREIT	Equity Australia Real Estate	227.3	★★	4.61	79	—	—	Low
APN Property for Income	Equity Australia Real Estate	121.2	★★★	5.24	72	10.99	65	Avg
APN Property for Income No. 2	Equity Australia Real Estate	40.2	★★★	5.51	66	11.30	53	Avg
APN Asian REIT	Equity World Other	37.2	—	9.52	—	13.16	—	—

Best Performing Funds	Category Name	Net Assets Mil NZD	Morningstar Rating Overall	Return % 3-Year	Rank in Cat % 3-Year	Return % 5-Year	Rank in Cat % 5-Year	Fee Level
APN Property for Income No. 2	Equity Australia Real Estate	40.2	★★★	5.51	66	11.30	53	Avg
APN Property for Income	Equity Australia Real Estate	121.2	★★★	5.24	72	10.99	65	Avg
APN WS Plus AREIT	Equity Australia Real Estate	227.3	★★	4.61	79	—	—	Low
APN AREIT	Equity Australia Real Estate	1,263.5	★★★★	4.37	81	10.71	71	Low
CFS FC-APN Wholesale AREIT	Equity Australia Real Estate	25.8	★★★	4.04	84	10.39	76	Below Avg

Worst Performing Funds	Category Name	Net Assets Mil NZD	Morningstar Rating Overall	Return % 3-Year	Rank in Cat % 3-Year	Return % 5-Year	Rank in Cat % 5-Year	Fee Level
BT WE APN AREIT	Equity Australia Real Estate	7.1	★★	3.23	89	9.44	86	Above Avg
CFS FC-APN Wholesale AREIT	Equity Australia Real Estate	25.8	★★★	4.04	84	10.39	76	Below Avg
APN AREIT	Equity Australia Real Estate	1,263.5	★★★★	4.37	81	10.71	71	Low
APN WS Plus AREIT	Equity Australia Real Estate	227.3	★★	4.61	79	—	—	Low
APN Property for Income	Equity Australia Real Estate	121.2	★★★	5.24	72	10.99	65	Avg

Top Analyst Rated Funds	Category Name	Net Assets Mil NZD	Morningstar Analyst Rating	Return % 3-Year	Rank in Cat % 3-Year	Return % 5-Year	Rank in Cat % 5-Year	Fee Level
APN AREIT	Equity Australia Real Estate	1,263.5	Silver	4.37	81	10.71	71	Low
APN AREIT PIE Fund	Equity Region Australia	10.9	Silver	—	—	—	—	—

Most Recent Fund Launches	Category Name	Net Assets Mil NZD	Inception Date	Total Return % Since Inception	MER	Fee Level
APN AREIT PIE Fund	Equity Region Australia	10.9	2017-02-07	8.78	1.11	—
APN WS Plus AREIT	Equity Australia Real Estate	227.3	2014-11-03	8.25	—	Low
APN Asian REIT	Equity World Other	37.2	2011-07-19	11.34	—	—
BT WE APN AREIT	Equity Australia Real Estate	7.1	2009-11-02	8.00	—	Above Avg
APN AREIT	Equity Australia Real Estate	1,263.5	2009-01-19	11.89	—	Low

# APN AREIT PIE Fund

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### Price

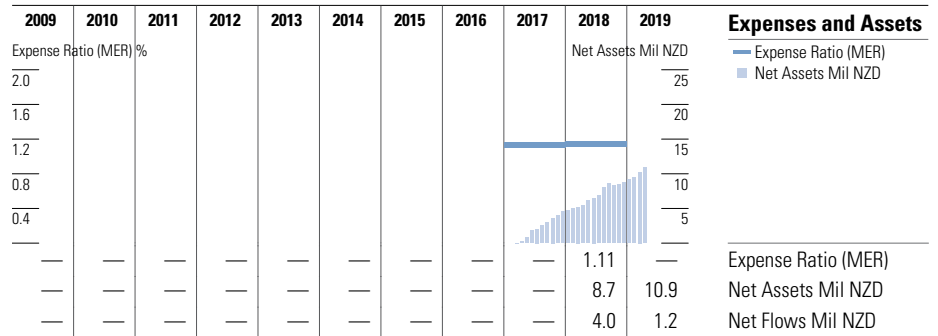
**Morningstar Category**  
Equity Region Australia

**Category Index**  
S&P/ASX 300 TR

#### Management fee in line with peers.

**Price Pillar** ● Neutral

May 30, 2019 | APN charges 1.11% for the New Zealand PIE version of APN AREIT. This is considerably more expensive than the 0.85% fee for the longer-running Australian vehicle, but about on par with rival New Zealand property funds. Investors will need to weigh up whether the additional fee for the PIE vehicle is worth it for the currency hedging and the tax simplification that comes from the dedicated PIE vehicle.



#### Expense Breakdown

Management Expense Ratio (MER)	
Annual Report 31/03/18	1.11
Performance Fee	
Actual Performance Fee	N. Ap
Hurdle	N. Ap
High Watermark	N. Ap
Selected Components	
Max Management	1.10
Tax Cost Ratio (3-Year)	—

#### Fee Level

Fee Level	Peer Group
—	—
Fee Level Breakpoints	
High	>0.00
Above Average	0.00-0.00
Average	0.00-0.00
Below Average	0.00-0.00
Low	<0.00
◀ Fund	—
◀ Peer Median	—

#### Share Class Information Largest 1 of 1

Share Class	APIR	Category Name	Fee Level	MER	Fees (Max) — Mgmt Admin	Minimum Initial Inv	Assets Mil NZD	1-Yr Flow Mil NZD
APN AREIT PIE Fund	—	Equity Region Australia	—	1.11	1.10 —	1,000	10.90	4.09

# Morningstar Global Fund Report Disclosure

## Currency

This Research Report is current as at the date on the report until it is replaced, updated or withdrawn. Our financial product research may be withdrawn or changed at any time as other information becomes available to us. This report will be updated if events affecting the report materially change.

## Research Criteria

For further information as to:

- the scope and expertise of our research,
- the process by which products are selected for coverage,
- the filters and research methodology applied, and
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