

APN AREIT Fund

ARSN 134 361 229

Interim Financial Report for the half-year ended
31 December 2020

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Directors' report

The directors of APN Funds Management Limited (ACN 080 674 479), the Responsible Entity of APN AREIT Fund (the "Fund") submit herewith the interim financial report of the Fund for the half-year ended 31 December 2020.

In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

Information about the directors

The following persons were directors of the Responsible Entity during the half-year and up to the date of this report:

Geoff Brunsdon AM	Chairman and Independent Director
Howard Brenchley	Independent Director
Jennifer Horrigan	Independent Director
Michael Johnstone	Independent Director
Joseph De Rango	Alternate Director for Howard Brenchley

Principal activities

The Fund is a registered managed investment scheme domiciled in Australia. The principal activity of the Fund is to invest in property-based securities.

There has been no significant change in the activities of the Fund during the half-year.

The Fund did not have any employees during the half-year.

Review of operations

The principal investment objective of the Fund is to provide investors with a consistent, relatively high level of income combined with some capital growth, sourced from an appropriately wide spread of Australian Securities Exchange listed Real Estate Investment Trusts ("REITs").

Market overview and COVID-19

The early stages of the COVID-19 pandemic significantly impacted REITs globally with the Australian REIT market more severely impacted due to its higher exposure to retail assets and larger offshore ownership. Since the March 2020 sell-off which saw AREITs decline more than 35%, the sector has staged a significant recovery, ending calendar year 2020 down a modest negative 4%. Investors who stayed the course through a global pandemic unlike the world has seen for over a century, have been rewarded and are set to benefit in 2021 and beyond.

COVID-19 lockdowns, cashflow uncertainty and the mandatory Leasing Code of Conduct imposed on landlords, impacted the majority of AREITs ability to meet their distribution guidance for the June 2020 half with several Trusts cancelling their payments, resulting in the Fund having to reduce its distribution rate accordingly. Australia's strong economic response/recovery along with its successful management of COVID has increased landlord income certainty resulting in distributions being reinstated, albeit some at reduced levels.

Uncertainty remains due to the roll-out timeline and efficacy of the COVID vaccine, the resurgent infection rates around the world and the potential for domestic outbreaks. Australia is in an enviable position in relation to the pandemic, and while this was not achieved without sacrifice, it affords us the luxury of being optimistic about the 2021 outlook. We expect a runway set for growth as the pandemic retreats, driven by businesses operating at full capacity, international borders reopening, foreign students recommencing their studies and even the reintroduction of immigration. The continuing low interest rate environment also underpins a healthy outlook for the AREIT sector, with the funds expected to deliver attractive and sustainable monthly income over 2021 and beyond.

Results

The results of the operations of the Fund are disclosed in the condensed statement of profit or loss and other comprehensive income. Total comprehensive income for the half-year ended 31 December 2020 was \$140,075,000 (31 December 2019: \$41,905,000).

Directors' report (continued)

Distributions

Distributions of \$28,466,000 were declared by the Fund during the half-year ended 31 December 2020 (31 December 2019: \$37,212,000).

For full details of distributions paid and payable during the half-year, refer to note 3 to the condensed financial statements.

Auditor's Independence Declaration

A copy of the external auditor's independence declaration, as required under section 307C of the *Corporations Act 2001* is set out on page 3.

Rounding of amounts

The Fund is an entity of the kind referred to in *ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the directors' report and the interim financial report have been rounded to the nearest thousand dollars unless otherwise stated.

Signed in accordance with a resolution of the directors of the Responsible Entity made pursuant to section 306(3) of the *Corporations Act 2001*.

On behalf of the directors



Geoff Brunsdon AM
Director

Melbourne, 11 February 2021

11 February 2021

The Board of Directors
APN Funds Management Limited
101 Collins Street
MELBOURNE VIC 3000

Dear Board Members

Auditor's Independence Declaration - APN AREIT Fund

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the board of directors of APN Funds Management Limited, in its capacity as the Responsible Entity of APN AREIT Fund.

As lead audit partner for the review of the half-year financial report of APN AREIT Fund for the half-year ended 31 December 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Mark Stretton
Partner
Chartered Accountants

Independent Auditor's Review Report to the Unitholders of APN AREIT Fund

Conclusion

We have reviewed the half-year financial report of APN AREIT Fund ("the Fund"), which comprises the condensed statement of financial position as at 31 December 2020, and the condensed statement of profit or loss and other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out in pages 6 to 14.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Fund is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Fund's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Fund in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Responsible Entity of the Fund (the "Directors"), would be in the same terms if given to the Directors as at the time of this auditor's review report.

Directors' Responsibility for the Half-Year Financial Report

The Directors are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Fund's financial position as at 31 December 2020 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

A handwritten signature in black ink that reads "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink that reads "M Stretton".

Mark Stretton
Partner
Chartered Accountants

Melbourne, 11 February 2021

Directors' declaration

The directors of APN Funds Management Limited, the Responsible Entity of APN AREIT Fund, declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and
- (b) in the directors' opinion, the attached condensed financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and give a true and fair view of the financial position and performance of the Fund.

Signed in accordance with a resolution of the directors of the Responsible Entity made pursuant to section 303(5) of the *Corporations Act 2001*.

On behalf of the directors of the Responsible Entity, APN Funds Management Limited.



Geoff Brunsdon AM
Director

Melbourne, 11 February 2021

Condensed statement of profit or loss and other comprehensive income

for the half-year ended 31 December 2020

		Half-year ended 31 December 2020	Half-year ended 31 December 2019
	Notes	\$'000	\$'000
Income			
Distribution income		20,452	33,230
Interest income		12	108
Net fair value gains from investments		123,855	14,281
Total income		144,319	47,619
Expenses			
Management fees	6	(2,770)	(4,271)
Other expenses		(1,474)	(1,443)
Total expenses		(4,244)	(5,714)
Net profit for the period		140,075	41,905
Other comprehensive income			
Other comprehensive income		-	-
Total comprehensive income for the period		140,075	41,905

Notes to the condensed financial statements have been included in the accompanying pages.

Condensed statement of financial position

as at 31 December 2020

	Notes	31 December 2020 \$'000	30 June 2020 \$'000
Assets			
Cash and cash equivalents		14,644	6,569
Distributions receivable		15,326	14,904
Trade and other receivables		443	1,818
Listed equities	5	951,787	879,571
Total assets		982,200	902,862
Liabilities			
Trade and other payables		(1,564)	(701)
Distribution payable	3	(4,721)	(4,901)
Redemptions payable		(56)	(250)
Total liabilities		(6,341)	(5,852)
Net assets attributable to unitholders – equity		975,859	897,010

Notes to the condensed financial statements have been included in the accompanying pages.

Condensed statement of changes in equity

for the half-year ended 31 December 2020

	Notes	Half-year ended 31 December 2020 \$'000	Half-year ended 31 December 2019 \$'000
Balance at the beginning of the half-year		897,010	1,271,349
Comprehensive income for the half-year			
Profit for the period		140,075	41,905
Other comprehensive income		-	-
Total comprehensive income for the half-year		140,075	41,905
Transactions with unitholders			
Unit applications		71,395	96,104
Unit redemptions		(111,954)	(124,717)
Units issued upon reinvestment of distributions		7,799	10,344
Distributions paid and payable	3	(28,466)	(37,212)
Total transactions with unitholders		(61,226)	(55,481)
Balance at the end of the half-year		975,859	1,257,773

Notes to the condensed financial statements have been included in the accompanying pages.

Condensed statement of cash flows

for the half-year ended 31 December 2020

	Notes	Half-year ended 31 December 2020 \$'000	Half-year ended 31 December 2019 \$'000
Cash flows from operating activities			
Distributions received		20,027	33,638
Interest received		15	108
Expenses paid		(4,184)	(14,639)
Net cash inflow from operating activities		15,858	19,107
Cash flows from investing activities			
Payments for investments		(89,062)	(40,483)
Proceeds from sale of investments		142,879	69,860
Net cash inflow from investing activities		53,817	29,377
Cash flows from financing activities			
Receipts from issue of units to unitholders		71,395	96,101
Payments for redemption of units to unitholders		(112,148)	(125,111)
Distributions paid to unitholders		(20,847)	(26,957)
Net cash outflow from financing activities		(61,600)	(55,967)
Net increase / (decrease) in cash and cash equivalents		8,075	(7,483)
Cash and cash equivalents at the beginning of the half-year		6,569	26,610
Cash and cash equivalents at the end of the half-year		14,644	19,127

Notes to the condensed financial statements have been included in the accompanying pages.

Notes to the condensed financial statements (continued)

1. GENERAL INFORMATION

APN AREIT Fund is a registered managed investment scheme domiciled in Australia.

APN Funds Management Limited, a public company incorporated and operating in Australia, is the Responsible Entity and the Manager of the Fund. The address of its registered office and principal place of business is as follows:

Level 30
101 Collins Street
MELBOURNE VIC 3000
Tel: (03) 8656 1000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Statement of compliance

The interim financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The interim financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual report.

For the purposes of preparing these condensed financial statements, the Fund is a for-profit entity.

The financial statements were authorised for issue by the directors on 11 February 2021.

2.2. Going concern

The Responsible Entity of the Fund remains comfortable that the Fund can continue as a going concern considering its underlying investments are fully liquid and diversified and will be able to meet any redemption requests as per the Fund's Product Disclosure Statement ("PDS").

The condensed financial statements have therefore been prepared on a going concern basis.

2.3. Basis of preparation

The condensed financial statements have been prepared on the basis of historical cost, except for the revaluation of certain assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. All amounts are presented in Australian dollars, unless otherwise noted.

The Fund is an entity of the kind referred to in *ASIC Corporations (Rounding in Financials / Directors' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the interim financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The accounting policies and methods of computation adopted in the preparation of the interim financial report are consistent with those adopted and disclosed in the Fund's annual financial report for the financial year ended 30 June 2020, except for the impact from the adoption of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Notes to the condensed financial statements (continued)

2.4 Adoption of new and revised Australian Accounting Standards and interpretations

The Fund has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current half-year. The new and revised Standards did not have any material impact to the Fund.

New and revised Standards and amendments thereof and Interpretations effective for the current half-year that are relevant to the Fund are:

- AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material
- AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework
- AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia

3. DISTRIBUTIONS

	31 December 2020		31 December 2019	
	Cents per security	\$'000	Cents per security	\$'000
Distributions paid during the period	3.4775	23,745	4.3470	31,035
Distributions payable	0.6955	4,721	0.8694	6,177
Total distributions paid and payable	4.1730	28,466	5.2164	37,212

4. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS - EQUITY

Number of securities on issue

	31 December 2020 No.	31 December 2019 No.
At the beginning of the period	704,605,056	720,887,229
Unit applications	52,289,745	52,829,761
Unit redemptions	(84,058,800)	(68,876,187)
Units issued upon reinvestment of distributions	5,920,836	5,696,675
At the end of the period	678,756,837	710,537,478

Each unit represents a right to an individual share in the Fund per the Constitution. There are no separate classes of units and each unit has the same rights attaching to it as all other units in the Fund.

5. FINANCIAL INSTRUMENTS

Fair value hierarchy

The following table provides an analysis of financial instruments that are measured at fair value at 31 December 2020, grouped into Levels 1 to 3 based on the degree to which the fair value inputs are observable:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
31 December 2020				
Financial assets at FVTPL				
Listed equities	951,787	-	-	951,787

Notes to the condensed financial statements (continued)

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
30 June 2020				
Financial assets at FVTPL				
Listed equities	879,571	-	-	879,571

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). The fair value of the unlisted equities and funds are determined using the latest available net asset value ("NAV") per unit / share provided by the investment managers of the underlying investments using models with unobservable inputs and assumptions that may not necessarily be supported by prices from observable current market transaction.

6. RELATED PARTY TRANSACTIONS

6.1 Transactions with key management personnel

The Fund does not employ personnel in its own right. However, it is required to have a Responsible Entity to manage the activities of the Fund. As such there are no staff costs (including fees paid to directors of the Responsible Entity) included in the condensed statement of profit or loss and other comprehensive income.

6.2 Transactions with the Responsible Entity and related bodies corporate

The Responsible Entity and Manager of APN AREIT Fund is APN Funds Management Limited. APN FM's immediate and ultimate parent entity is APN Property Group Limited (ACN 109 846 068). Accordingly transactions with entities related to APN Property Group Limited are disclosed below:

	31 December 2020		31 December 2019	
	Paid / (Received)	Payable / (Receivable)	Paid / (Received)	Payable / (Receivable)
	\$'000	\$'000	\$'000	\$'000
Management fees ¹	2,466	532	3,595	739
Registry fees ¹	535	113	654	143
Accounting fees ¹	10	10	10	10
Expense recoveries – MER rebates ²	(149)	(287)	(42)	(38)
Distributions	1	-	90	15
Reimbursements of costs paid on behalf of the Fund	79	21	42	53
	2,942	389	4,349	922

¹ Management fees, registry fees and accounting fees disclosed above excludes expense recoveries – MER rebates.

² Expense recoveries – MER rebates are presented net of the expenses that the Responsible Entity is entitled to recover as and when they are incurred in the condensed statement of profit or loss and other comprehensive income.

Notes to the condensed financial statements (continued)

6.3 Unitholdings and associated transactions with related parties

The Responsible Entity, its key management personnel and their related parties hold units in the Fund, either directly, indirectly or beneficially as outlined below. Eligible APN Property Group employees are able to acquire units in the Fund at a reduced Management Expense Ratio (MER) compared with other unitholders in the Fund.

	31 December 2020		31 December 2019	
	Number of units	Distributions \$	Number of units	Distributions \$
Clive Appleton	393,532	16,407	390,653	20,359
Howard Branchley	98,964	4,126	98,240	5,120
Chris Aylward	756,487	10,523	-	-
APN Property Group	16,750	1,054	16,814	581
Total	1,265,733	32,110	505,707	26,060

6.4 Related party investments held by the Fund

The Fund may acquire investments in entities that are also managed by APN Property Group Limited or its related bodies corporate (Related Parties), in accordance with its Product Disclosure Statement. As at reporting date, the investments held are as follows:

	31 December 2020		31 December 2019	
	Number of units	Distributions \$	Number of units	Distributions \$
APN Convenience Retail REIT	6,359,334	648,764	2,311,802	236,609
APN Industria REIT	5,365,956	448,042	5,045,730	430,711
Total	11,725,290	1,096,806	7,357,532	667,320

7. COMMITMENT AND CONTINGENCIES

There are no commitments or contingencies in effect as at 31 December 2020 (31 December 2019: nil).

8. SUBSEQUENT EVENTS

The COVID-19 pandemic had created unprecedented uncertainty. Whilst Australia's strong economic response / recovery along with its successful management of COVID has increased landlord income certainty resulting in distributions being reinstated, albeit some at reduced levels, uncertainty remains due to the roll-out timeline and efficacy of the COVID vaccine. At the date of issuing the condensed financial statements, an estimate of future impact on the Fund's investments cannot be made as this will depend on resurgent infection rates around the world and potential for domestic outbreaks.

Actual economic events and conditions in the future may materially differ from those estimated by the Fund at the reporting date.

Other than the above, there has not been any other matter or circumstance occurring subsequent to the end of the financial period that has significantly affected, or may significantly affect, the operations of the Fund, the results of the Fund, or the state of affairs of the Fund in future financial periods.