

# APN AREIT Fund

ARSN 134 361 229

Annual Report for the Financial Year Ended  
30 June 2021

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# DIRECTORS' REPORT

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The directors of APN Funds Management Limited (ACN 080 674 479), the Responsible Entity of APN AREIT Fund (the "Fund") present the financial report of the Fund for the financial year ended 30 June 2021.

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 financial year and up to the date of this report:

Geoff Brunsdon AM	Independent Chairman
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 fund domiciled in Australia. The principal activity of the Fund is to invest in Australian real estate investment trusts ("REITs").

There were no significant changes in the state of affairs of the Fund during the financial year.

The Fund did not have any employees during the year.

## Review of operations

During the financial year, the Fund continued to manage its assets in accordance with the governing documents of the Fund and the Fund's Constitution.

## Market overview and COVID-19

AREITs staged a strong comeback over FY21 with the AREIT sector returning +33.2%, outperforming the broader Australian equities market by 544bps which returned +27.8% (its best result in 30+ years) over the same period. Despite being known for its defensive characteristics the AREIT sector has seen a year of elevated volatility resulting in a large divergence of returns across the subsectors. The industrial subsector saw the highest returns at +43.9% as the demand for warehousing and logistics property surged as online retail penetration increased, with four in five Australian households purchasing goods online in 2020. Retail was the next best performer, with the sector returning +24.1% albeit off a COVID impacted lower base, with large format homemaker centres the standout alongside grocery anchored neighbourhoods. Office was the weakest of the core sectors but still returned +19.4% over the period with evolving capacity limits and work from home affecting office utilisation and vacancy rates. Despite these uncertainties, investment demand remains strong within the direct office market with both domestic and international capital perusing Australian assets.

With lockdowns easing across the country towards the latter part of 2020 combined with the announcement of a COVID vaccine, retail REITs outperformed strongly, leading the sector to its third best monthly return (November) in over 20 years. Australia's strong economic response and recovery due to its solid management of COVID saw an improvement in real estate operating metrics such as retail foot traffic and office occupancy rates as the economy reopened. These improving conditions gave the majority of AREITs the confidence to provide full year earnings guidance and reinstate distributions which was something that not all REITs were able to do in the previous year.

In February, market movements had priced in rate hikes earlier than suggested by central banks which saw 10-year bond yields peak at 1.88% despite the RBA's commitments to yield curve control and comments of no rate hikes until 2024. AREITs have historically underperformed during the initial period of rising interest rates and this held true once again with the sector underperforming the broader market by -4.1% over this month despite the solid reporting season and an improving outlook. These losses have since reversed as bond yields have moderated with AREITs outperforming by +7% since the end of February.

## DIRECTORS' REPORT (continued)

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Although the current lockdowns are prolonging the economic recovery, a reversion to strong economic growth will occur. The key to a consistent recovery is higher vaccination rates which remove the uncertainty and financial impacts of lockdowns along with providing a sustainable health solution to the pandemic. As such, the AREIT sector's outlook remains positive for FY22 and beyond on the back of a recovering Australian economy. Tourism, education and immigration remain significant levers that will boost growth further and for longer once reinstated, with a continued low interest rate environment also supportive to real estate.

### Results

The results of the operations of the Fund are disclosed in the statement of profit or loss and other comprehensive income. The total comprehensive income for the year ended 30 June 2021 was \$234,802,000 (2020: net loss of \$273,542,000).

### Distributions

Distributions of \$56,460,000 were declared by the Fund during the financial year ended 30 June 2021 (2020: \$71,489,000).

For full details of distributions paid and payable during the financial year, refer to note 7 of the financial statements.

### Matters subsequent to the end of the financial year

Other than those disclosed in note 13, there has not been any other matter or circumstance occurring subsequent to the end of the financial year 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 years.

### Future developments

Subject to any significant further deterioration from the COVID-19 pandemic in the operating environment for AREITs, the Fund's intention is to maintain the distribution at current levels for the 2022 financial year.

The Fund will continue to pursue its investment return objective of increasing returns through active investment selection.

### Non-audit services

During the year, the auditor of the Fund performed certain other services in addition to their statutory duties.

The directors of the Responsible Entity have considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Responsible Entity and have been reviewed by the Board to ensure they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Fund, acting as advocate for the Fund or jointly sharing economic risks and rewards.

Details of the amounts paid to the auditor, which includes the amounts paid for non-audit services relating to audit of compliance plan and other approved advisory services are set out in note 10 to the financial statements.

## DIRECTORS' REPORT (continued)

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### 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 5.

### Fund information in the directors' report

Fees paid to the Responsible Entity during the financial year are disclosed in note 11 to the financial statements. The Responsible Entity and its associates' security holdings in the Fund are also disclosed in note 11.

The number of securities in the Fund on issue at the end of the financial year is disclosed in note 8 to the financial statements.

The value of the Fund's assets at the end of the financial year is disclosed in the statement of financial position as "total assets" and the basis of valuation is included in note 2 to the financial statements.

### Options granted

As the Fund is an externally managed vehicle, no options were:

- Granted over unissued securities in the Fund during or since the end of the financial year; or
- Granted to the Responsible Entity.

No unissued securities in the Fund were under option as at the date on which this report is made.

No securities were issued in the Fund during or since the end of the financial year as a result of the exercise of an option over unissued securities in the Fund.

### Indemnification of officers of the Responsible Entity and auditors

APN Funds Management Limited ("APN FM") in its capacity as the Responsible Entity of the Fund has agreed to indemnify the directors and officers of APN FM and its related body's corporate, both past and present, against all liabilities to another person (other than APN FM or a related body corporate) that may arise from their position as directors and officers of APN FM and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. APN FM will meet the full amount of any such liabilities, including costs and expenses. In addition, APN FM has paid a premium in respect of a contract insuring against a liability incurred by an officer of the Fund. Under the contract of insurance, disclosure of the nature of the insured liabilities and the amount of premium paid is prohibited. APN FM has not indemnified or made a relevant agreement to indemnify the auditor of the Fund or of any related body (corporate) against a liability incurred by the auditor.

### Rounding of amounts

The Fund is a fund 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 financial report have been rounded to the nearest thousand dollars, unless otherwise stated.

## DIRECTORS' REPORT (continued)

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### Other matters

APN Funds Management Limited has an Error Rectification and Compensation Policy that applies in respect of this Fund. In accordance with this policy, a fixed dollar minimum threshold of \$20 applies before a compensation payment is made to an investor that has previously exited the Fund. The full Error Rectification and Compensation Policy is available at the APN Property Group Limited website [www.apngroup.com.au](http://www.apngroup.com.au).

Signed in accordance with a resolution of the directors of the Responsible Entity made pursuant to section 298(2) of the *Corporations Act 2001*.

On behalf of the directors



Geoff Brunsdon AM

Chairman

Melbourne, 12 August 2021

12 August 2021

The Board of Directors  
APN Funds Management Limited  
Level 30, 101 Collins Street  
MELBOURNE VIC 3000

Dear Board Members

### 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 directors of APN Funds Management Limited, the Responsible Entity, regarding the annual financial report for APN AREIT Fund.

As lead audit partner for the audit of the financial report of APN AREIT Fund for the financial year ended 30 June 2021, 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 audit; and
- (ii) Any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Mark Stretton  
Partner  
Chartered Accountants

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

### *Opinion*

We have audited the financial report of APN AREIT Fund (the "Fund") which comprises the statement of financial position as at 30 June 2021, the statement of profit or loss and other comprehensive, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Fund is in accordance with the *Corporations Act 2001*, including:

- Giving a true and fair view of the Fund's financial position as at 30 June 2021 and of its financial performance for the year then ended; and
- Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### *Basis for Opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Fund in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & 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 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 APN Funds Management Limited (the "Responsible Entity"), would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Other Information*

The directors of the Responsible Entity (the "directors") are responsible for the other information. The other information comprises the Directors' Report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



## *Responsibilities of the Directors for the Financial Report*

The directors are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Fund to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

## *Auditor's Responsibilities for the Audit of the Financial Report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

**Deloitte.**

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU

*M Stretton*

Mark Stretton  
Partner  
Chartered Accountants

Melbourne, 12 August 2021

## DIRECTORS' DECLARATION

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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;
- b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 2 to the financial statements; and
- c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving 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 295(5) of the *Corporations Act 2001*.

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



Geoff Brunsdon AM  
Chairman

Melbourne, 12 August 2021

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2021

	Notes	2021 \$'000	2020 \$'000
<b>Revenue</b>			
Distribution income		46,078	59,226
Interest income		17	182
<b>Total revenue from continuing operations</b>		<b>46,095</b>	<b>59,408</b>
<b>Other income / (loss)</b>			
Net fair value gain / (loss) from investments		197,312	(322,375)
<b>Total other income / (loss)</b>		<b>197,312</b>	<b>(322,375)</b>
<b>Total income / (loss)</b>		<b>243,407</b>	<b>(262,967)</b>
<b>Expenses</b>			
Management fees		(5,682)	(7,524)
Other expenses		(2,923)	(3,051)
<b>Total expenses</b>		<b>(8,605)</b>	<b>(10,575)</b>
<b>Net profit / (loss) for the year</b>		<b>234,802</b>	<b>(273,542)</b>
<b>Other comprehensive income</b>			
Other comprehensive income for the year		-	-
<b>Total comprehensive income / (loss) for the year</b>		<b>234,802</b>	<b>(273,542)</b>

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

# STATEMENT OF FINANCIAL POSITION

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As at 30 June 2021

	Notes	2021 \$'000	2020 \$'000
<b>Assets</b>			
Cash and cash equivalents	3	26,980	6,569
Distribution receivable		16,661	14,904
Trade and other receivables	5	647	1,818
Investments - listed equities	9	978,064	879,571
<b>Total assets</b>		<b>1,022,352</b>	<b>902,862</b>
<b>Liabilities</b>			
Trade and other payables	6	(2,060)	(701)
Distributions payable	7	(4,588)	(4,901)
Redemptions payable		(659)	(250)
<b>Total liabilities</b>		<b>(7,307)</b>	<b>(5,852)</b>
<b>Net assets attributable to unitholders - equity</b>		<b>1,015,045</b>	<b>897,010</b>

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

# STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2021

	Notes	2021 \$'000	2020 \$'000
<b>Balance at the beginning of the year</b>		<b>897,010</b>	<b>1,271,349</b>
<b>Comprehensive income / (loss) for the year</b>			
Net profit / (loss) for the year		234,802	(273,542)
Other comprehensive income		-	-
<b>Total comprehensive income / (loss) for the year</b>		<b>234,802</b>	<b>(273,542)</b>
<b>Transactions with unitholders</b>			
Unit applications		136,417	172,321
Unit redemptions		(211,569)	(221,580)
Units issued upon reinvestment of distributions		14,845	19,951
Distributions paid and payable	7	(56,460)	(71,489)
<b>Total transactions with unitholders</b>		<b>(116,767)</b>	<b>(100,797)</b>
<b>Balance at the end of the year</b>		<b>1,015,045</b>	<b>897,010</b>

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

# STATEMENT OF CASH FLOWS

For the year ended 30 June 2021

	Notes	2021 \$'000	2020 \$'000
<b>Cash flows from operating activities</b>			
Distributions received		44,318	65,333
Interest received		20	175
Expenses paid		(8,732)	(10,962)
<b>Net cash inflows from operating activities</b>	3	<b>35,606</b>	<b>54,546</b>
<b>Cash flows from investing activities</b>			
Payments for investments		(152,741)	(203,015)
Proceeds from sale of investments		254,217	231,191
<b>Net cash inflows from investing activities</b>		<b>101,476</b>	<b>28,176</b>
<b>Cash flows from financing activities</b>			
Receipts from issue of units to unitholders		136,417	172,321
Payments for redemption of units to unitholders		(211,160)	(222,179)
Distributions paid to unitholders		(41,928)	(52,905)
<b>Net cash (outflows) from financing activities</b>		<b>(116,671)</b>	<b>(102,763)</b>
Net increase / (decrease) in cash and cash equivalents		20,411	(20,041)
Cash and cash equivalents at the beginning of the year		6,569	26,610
<b>Cash and cash equivalents at end of the financial year</b>		<b>26,980</b>	<b>6,569</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

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## 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 of the Fund. The registered office and its 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

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following.

### 2.1. Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations, and complies with other requirements of the law. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Fund comply with International Financial Reporting Standards ("IFRS").

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

The financial statements were authorised for issue by the directors on 12 August 2021.

### 2.2. Going concern

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

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

### 2.3. Basis of preparation

The financial statements have been prepared on the basis of historical cost, except for the revaluation of investments 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 a fund 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 financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

### 2.4. Financial assets held at fair value through profit or loss

#### (a) Classification

The Fund's investments comprising of listed equities and investment schemes are classified as at fair value through profit or loss as they are managed, and performance evaluated on a fair value basis.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

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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. In estimating the fair value of an asset or a liability, the Fund takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such as basis.

### *(b) Recognition and derecognition*

The Fund recognises financial assets on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets from this date.

Financial assets are derecognised when the right to receive cash flows from the investments has expired or the Fund has transferred substantially all risks and rewards of ownership.

### *(c) Measurement*

Subsequent to initial recognition, all financial assets held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of profit or loss and other comprehensive income.

- Fair value of listed equities and investments schemes is based on their quoted closing prices on the relevant stock exchanges at the end of the reporting date.
- Fair value of unlisted equities and investment schemes is based on the net asset value determined and advised by the relevant external fund manager.

## **2.5. Investment income**

Income is measured at the fair value of the consideration received or receivable. Distribution income is recognised on a receivable basis at the quoted ex-distribution date.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Fund and the amount of income can be measured reliably. Interest income is accrued on a pro-rata basis taking into account the effective yield on the financial asset.

## **2.6. Distributions to unitholders**

In accordance with the Fund's Constitution, the Fund fully attributes its taxable income to unitholders by way of a cash distribution or distribution reinvestment into the Fund. Distributions are payable monthly.

## **2.7. Applications and redemptions**

Applications received for units in the Fund are recorded net of any entry fees payable to the issue of units in the Fund. Redemptions from the Fund are recorded net of any exit fees payable.

The application and redemption prices are determined by reference to the Fund's net asset value adjusted for the estimated transaction costs, divided by the number of units on issue on the date of the application or redemption.

## **2.8. Expenses**

All expenses, including management fees, are recognised in the statement of profit or loss and other comprehensive income on an accruals basis.

## **2.9. Income tax**

The Fund is a "flow-through" entity for Australian income tax purposes and has elected into the Attribution Managed Investment Trusts rules on and from 1 July 2017, such that the determined trust components of the Fund will be taxable in the hands of the beneficiaries (the unitholders) on an attribution basis.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

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Accordingly, deferred taxes have not been recognised in the financial statements in relation to differences between the carrying amounts of assets and liabilities and their respective tax bases, including taxes on capital gains/losses which could arise in the event of a sale of investments for the amount at which they are stated in the financial statements.

Realised capital losses are not attributed to unitholders but instead are retained within the Fund to be offset against realised capital gains. The benefit of any carried forward capital losses are also not recognised in the financial statements. If in any period realised capital gains exceed realised capital losses, including those carried forward from earlier periods and eligible for offset, the excess is included in taxable income attributed to unitholders as noted above.

### **2.10. Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, deposits held at call with banks, other short-term investments in money market with original maturities of three month or less, bank overdrafts and money market funds with daily liquidity and all highly liquid financial instruments that mature within three months of being purchased.

### **2.11. Trade and other receivables**

Receivables are recorded at fair value and subsequently at amortised cost in accordance with AASB 9 *Financial Instruments* ("AASB 9"). Receivables may include amounts for dividends, interest, trust distributions and unsettled trades.

#### *Impairment of receivables and other financial assets*

Financial assets, other than those at fair value through profit or loss, shall recognise a loss allowance by applying the simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all receivables.

### **2.12. Payables**

Payables include liabilities and accrued expenses owing by the Fund and redemptions payable which are unpaid redemptions as at the end of the reporting period.

Purchases of financial instruments that are unsettled at reporting date are included in payables. Redemptions payable are recognised when the unitholder returns their holdings back into the Fund foregoing all rights associated with the units, with the payment yet to be released.

The distribution amount payable to unitholders as at the reporting date is recognised separately on the statement of financial position when unitholders are presently entitled to the distributable income under the Fund's Constitution.

### **2.13. Goods and services tax**

The goods and services tax ("GST") incurred on the costs of various services provided to the Fund by third parties such as custodial services and investment management fees have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits ("RITC") hence, investment management fees, custodial fees and other expenses have been recognised in the statement of profit or loss and other comprehensive income net of the amount of GST recoverable from the Australian Taxation Office ("ATO").

Accounts payable and accrued expenses are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the statement of financial position. Cash flows relating to GST are included in the statement of cash flows on a gross basis.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 2.14. New accounting standards and interpretations

- (a) *New and revised AASBs affecting amounts reported and/or disclosures in the consolidated financial statements*

The Fund has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current year.

- (b) *Standards and interpretations in issue not yet adopted*

There are no other standards that are not yet effective and that are expected to have a material impact on the Fund in the current or future reporting periods and on foreseeable future transactions.

### 2.15. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Fund's accounting policies, the directors have made judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The judgements, estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Whilst the COVID-19 pandemic may have impacted listed equity prices, it does not create any greater degree of judgement or estimate in financial reporting as prices of the Fund's investments are all quoted in active markets.

For the majority of the Fund's financial instruments, quoted market prices are readily available. However, from time to time, certain financial instruments maybe fair valued using other valuation techniques that are validated and reviewed periodically.

## 3. CASH AND CASH EQUIVALENTS

### 3.1 Reconciliation of profit / (loss) to net cash flows from operating activities

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments net of outstanding bank overdrafts.

	2021 \$'000	2020 \$'000
<b>Reconciliations of cash and cash equivalents</b>		
Cash and cash equivalents	26,980	6,569
<b>Reconciliation of net profit / (loss) to net cash flows from operating activities</b>		
Net profit / (loss) for the year	234,802	(273,542)
<i>Adjustments for:</i>		
Net (gains) / losses on disposal of investments	(12,661)	51,249
Net (gains) / losses on revaluation of investments	(184,651)	271,126
<i>Changes in assets / liabilities:</i>		
(Increase) / decrease in receivables	(2,145)	4,467
(Decrease) / increase in payables	261	1,246
<b>Net cash provided by operating activities</b>	<b>35,606</b>	<b>54,546</b>

### 3.2 Non-cash financing and investing activities

During the year distributions declared totalling \$14,845,000 (2020: \$19,951,000) were reinvested by unitholders for additional units in the Fund.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 4. DISTRIBUTIONS RECEIVABLE

Distribution receivable are non-interest bearing and are generally on 30-90 day terms. An impairment loss would be recognised when there is an expected credit loss. As at 30 June 2021, no receivables were impaired nor past due (2020: \$nil).

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

### 5. TRADE AND OTHER RECEIVABLES

	2021 \$'000	2020 \$'000
Expense recoveries	364	89
GST receivable	134	149
Application monies receivable	149	23
Unsettled trades	-	1,557
	<b>647</b>	<b>1,818</b>

### 6. TRADE AND OTHER PAYABLES

	2021 \$'000	2020 \$'000
Accounts payable	(841)	(672)
Accrued expenses	(120)	(29)
Unsettled trades	(1,099)	-
	<b>(2,060)</b>	<b>(701)</b>

### 7. DISTRIBUTIONS

	2021		2020	
	Cents per unit	\$'000	Cents per unit	\$'000
Distribution paid during the year	7.6505	(51,872)	9.3895	(66,588)
Distribution payable	0.6955	(4,588)	0.6955	(4,901)
<b>Total distributions paid and payable</b>	<b>8.3460</b>	<b>(56,460)</b>	<b>10.0850</b>	<b>(71,489)</b>

### 8. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS – EQUITY

#### Number of securities on issue

	2021 No.	2020 No.
At the beginning of the financial year	704,605,056	720,887,229
Unit applications	97,465,662	107,344,583
Unit redemptions	(153,258,968)	(135,997,475)
Units issued upon reinvestment of distributions	10,872,521	12,370,719
<b>At the end of the year</b>	<b>659,684,271</b>	<b>704,605,056</b>

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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Under AASB 132 *Financial Instruments: Presentation* ("AASB 132") puttable financial instruments meet the definition of a financial liability to be classified as equity where certain strict criteria are met. The Fund shall classify a financial instrument as an equity instrument from the date when the instrument has all the features and meets the conditions.

### 9. FINANCIAL RISK MANAGEMENT

The Responsible Entity is responsible for ensuring a prudent risk management culture is established for the Fund. This is reflected in the adoption of a Risk Management Framework that clearly defines risk appetite and risk tolerance limits which are consistent the Fund's investment mandate.

The Fund's Manager is responsible for overseeing the establishment and implementation of appropriate systems, controls and policies to manage the Fund's risk. The focus is on ensuring compliance with the approved Risk Management Framework whilst seeking to maximise the returns derived for the level of risk to which the Fund is exposed.

The effective design and operation of the risk management systems, controls and policies is overseen by the Responsible Entity and its Audit, Risk and Compliance Committee.

Risk management in respect to financial instruments is achieved via written policies that establish risk appetite and tolerance limits in respect to exposure to interest rate risk, credit risk, the use of derivative financial instruments and non-derivative financial instruments and the investment of excess liquidity. Compliance with these policies and exposure limits is reviewed by the Responsible Entity on a continuous basis.

National Australia Bank Limited acts as the master custodian on behalf of the Responsible Entity and, as such, provides services including physical custody and safekeeping of assets, settlement of trades and collection of income.

#### 9.1 Financial instruments

The Fund holds a range of financial instruments including:

- cash and cash equivalents;
- receivables;
- investments in listed equities and funds; and
- payables.

Transactions in these instruments expose the Fund to a variety of financial risks including market risk (which includes interest rate risk and other price risks), credit risk, and liquidity risk. The Fund does not enter into or trade financial instruments, including derivatives, for speculative purposes.

##### (a) Categories of financial instruments

	2021 \$'000	2020 \$'000
<b>Financial assets</b>		
Cash and cash equivalents	26,980	6,569
Listed equities	978,064	879,571
Trade and other receivables	17,308	16,722
<b>Total financial assets</b>	<b>1,022,352</b>	<b>902,862</b>
<b>Financial liabilities</b>		
Trade and other payables	(2,060)	(701)
Distributions payable	(4,588)	(4,901)
Redemptions payable	(659)	(250)
<b>Total financial liabilities</b>	<b>(7,307)</b>	<b>(5,852)</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 9.2 Market risk

Market risk is the risk that the fair value or future cash flows of the Fund's financial instruments will fluctuate because of changes in market prices. The Manager manages the financial risks relating to the operations of the Fund in accordance with an investment mandate set out in accordance with the Fund's Constitution and Product Disclosure Statement. The Fund's investment mandate is to provide investors with a consistent, relatively high level of income combined with some capital growth, sourced from an appropriately wide spread of property-based revenue streams. There has been no change to the Fund's exposure to market risks or the manner in which it manages and measures the risk. Components of market risk to which the Fund is exposed are interest rate risk and price risk.

### 9.3 Interest rate risk

The Fund's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis.

The Fund's policy is to hold up to a maximum of 2% of its total investments in cash and fixed interest securities.

#### *Interest rate sensitivity*

The sensitivity analyses below have been determined based on the Fund's exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period, in the case of instruments that have floating interest rates. A 25-basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. The interest rate movements have been determined based on management's best estimate, having regard to historical levels of changes in interest rates and the current environment in which the Fund operates.

Actual movements in the interest rate may be greater or less than anticipated due to a number of factors, including unusually large market shocks both in the global and domestic markets. As a result, historic variations in interest rates are not a definitive indicator of future variations.

The following table illustrates the effect on net profit / (loss) from a change in market risk that is reasonably possible based on the risk the Fund was exposed to at the reporting date.

	Change in variable (+ / -)		Effect on net profit / (loss) \$'000	
	2021	2020	2021	2020
Interest rate risk	25 bp	25 bp	99	85

An increase/(decrease) in interest rates will result in an increase/(decrease) in net profit/(loss) respectively.

### 9.4 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Fund. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail unitholders, including outstanding receivables and committed transactions.

Credit risk controls assess the credit quality of the counterparty, taking into account its financial position, past experience and other factors. The Fund has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from default. The Fund's investment objective is to find high quality counterparties predominately with a stable credit history. The Fund measures credit risk on a fair value basis.

Derivative counterparties, broking relationships and cash transactions are limited to financial institutions that meet the treasury risk management policy's minimum credit rating criteria or comply with Trade Management Procedure requirements. Credit risk arising on loans and receivable balances is monitored on an ongoing

## NOTES TO THE FINANCIAL STATEMENTS (continued)

basis with the result that the exposure to bad debts by the Fund is not significant. There are no significant financial assets that have had renegotiated terms that would otherwise have been past due or impaired.

The maximum exposure to credit risk as at 30 June 2021 and 30 June 2020 is the carrying amounts of financial assets recognised in the statement of financial position of the Fund. The Fund holds no collateral as security and the credit quality of all financial assets that are neither past due or impaired is consistently monitored in order to identify any potential adverse changes in the credit quality.

The Fund does not have any significant credit risk exposure to any single counterparty or counterparties having similar characteristics.

### 9.5 Liquidity risks

Liquidity risk includes the risk that the Fund, as a result of its operations:

- will not have sufficient funds to settle a transaction or unit redemption on the due date;
- will be forced to sell financial assets at a value which is less than what they are worth; or
- may be unable to settle or recover a financial asset at all.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions without materially affecting the price realised. The Fund manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

To help reduce these risks the Fund:

- has a liquidity policy which targets a minimum and average level of cash and cash equivalents to be maintained;
- generally invests in instruments that are tradeable in highly liquid markets; and
- has a liquidity portfolio structure that requires surplus funds to be invested in various types of liquid instruments ranging from highly liquid to liquid instruments.

Units on issue are payable on demand. The Fund's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities. As the Fund is currently considered liquid in accordance with the *Corporations Act 2001*, unitholders are able to withdraw their units at any time and the Fund is therefore exposed to the liquidity risk of meeting unitholders' withdrawals at any time. As the Fund's primary investment objective is to invest in listed property securities which are considered liquid, the Fund's exposure to liquidity risk is considered to be low.

The table below shows an analysis of the contractual maturities of key liabilities which forms part of the Fund's assessment of liquidity risk excluding liabilities attributable to unitholders.

	Less than 3 months \$'000	3 months to 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>2021</b>					
<b>Liabilities</b>					
Trade and other payables	(2,060)	-	-	-	(2,060)
Distributions payable	(4,588)	-	-	-	(4,588)
Redemptions payable	(659)	-	-	-	(659)
<b>Total</b>	<b>(7,307)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(7,307)</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

	Less than 3 months \$'000	3 months to 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>2020</b>					
<b>Liabilities</b>					
Trade and other payables	(701)	-	-	-	(701)
Distributions payable	(4,901)	-	-	-	(4,901)
Redemptions payable	(250)	-	-	-	(250)
<b>Total</b>	<b>(5,852)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5,852)</b>

The Fund is able to sufficiently meet its liquidity obligations through the receipt of distribution income, additional applications received from investors and also via the sale of listed investments where required.

### 9.6 Price risk

The Fund has investments in equity instruments, which exposes it to price risk. Price risk is the risk that the total value of investments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The Manager manages the Fund's market risk on a daily basis in accordance with the Fund's investment objectives and policies, as detailed in the Fund's Product Disclosure Statement and Constitution.

As the Fund's financial instruments are carried at fair value with changes in the fair value recognised in the statement of profit or loss and other comprehensive income, all changes in market conditions will directly affect investment income.

The COVID-19 pandemic has created unprecedented uncertainty, actual economic events and conditions in the future may be materially different from those estimated by the Fund at the reporting date. The following table illustrates the effect on net profit / (loss) from possible change in price risk that were reasonably possible based on the risk the Fund was exposed to at reporting date.

	Change in variable (+ / -)		Effect on net profit / (loss) \$'000	
	2021	2020	2021	2020
	Price risk	10%	10%	97,806

An overall increase/(decrease) in market price will result in an increase/(decrease) in net profit/(loss) respectively.

### 9.7 Capital risk management

The Responsible Entity's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for unitholders in accordance with the Fund's investment strategy.

The capital structure of the Fund consists of cash and cash equivalents and the proceeds from the issue of the units of the Fund. The Manager aims to ensure that there is sufficient capital for possible redemptions by unitholders by maintaining up to 10% of its total investments in cash and cash equivalents.

The Fund has no restrictions or specific capital requirements on the application and redemption of units other than those imposed by *Corporations Act 2001*. The Fund's overall investment strategy remains unchanged from the prior year.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 9.8 Fair value of financial instruments

The following table provides an analysis of financial instruments that are measured at fair value at 30 June 2021, grouped into Levels 1 to 3 based on the degree to which the fair value inputs is observable:

- 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), including dealer quotations or alternative pricing sources supported by observable inputs.
- 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.

Fair value measurement as at 30 June 2021				
Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000	
Listed equities	978,064	-	-	978,064

  

Fair value measurement as at 30 June 2020				
Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000	
Listed equities	879,571	-	-	879,571

There were no transfers between Levels during the financial year.

## 10. REMUNERATION OF AUDITORS

	2021 \$	2020 \$
<b>Deloitte and related network firms</b>		
Audit or review of financial reports	15,098	14,432
Statutory assurance services required by legislation to be provided by the auditor	4,600	4,600
Other assurance and agreed-upon procedures under other legislation or contractual arrangements	17,963	16,854
	<b>37,661</b>	<b>35,886</b>

The auditor of the Fund is Deloitte Touche Tohmatsu.

## 11. RELATED PARTY TRANSACTIONS

### 11.1 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 statement of profit or loss and other comprehensive income.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 11.2 Transactions with the Responsible Entity and related bodies corporates

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.

	2021		2020	
	(Paid) / Received \$'000	(Payable) / Receivable \$'000	(Paid) / Received \$'000	(Payable) / Receivable \$'000
Management fees <sup>1</sup>	(5,599)	(553)	(6,981)	(489)
Registry fees <sup>1</sup>	(1,205)	(116)	(1,319)	(106)
Accounting fees <sup>1</sup>	(30)	(10)	(30)	(10)
Expense recoveries – MER rebates <sup>2</sup>	569	331	97	81
Distributions	(2)	-	(2)	-
Reimbursements of costs paid on behalf of the Fund	(156)	(15)	(260)	(4)
	<b>(6,423)</b>	<b>(363)</b>	<b>(8,495)</b>	<b>(528)</b>

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

<sup>2</sup> 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 statement of profit or loss and other comprehensive income.

### 11.3 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 acquire units in the Fund at a reduced Management Expense Ratio (MER) compared with other unitholders in the Fund.

	2021		2020	
	Number of units	Distributions paid / payable \$	Number of units	Distributions paid / payable \$
APN Property Group Limited	17,163	1,762	33,564	1,940
Howard Brenchley	99,343	8,268	98,593	9,916
Clive Appleton	503,002	37,127	392,053	39,429
Chris Aylward	1,480,181	67,257	-	-
<b>Total</b>	<b>2,099,689</b>	<b>114,414</b>	<b>524,210</b>	<b>51,285</b>

### 11.4 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:

	2021		2020	
	Number of units	Distributions paid / payable \$	Number of units	Distributions paid / payable \$
APN Convenience Retail REIT	6,869,334	1,373,034	5,529,155	663,941
APN Industria REIT	2,330,956	782,857	5,053,617	861,187
<b>Total</b>	<b>9,200,290</b>	<b>2,155,891</b>	<b>10,582,772</b>	<b>1,525,128</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

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### 12. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no commitments and contingencies in effect at 30 June 2021 (2020: \$nil).

### 13. SUBSEQUENT EVENTS

#### 13.1 Acquisition of APN Property Group

On 27 July 2021, securityholders in APN Property Group (ASX: APD), the ultimate and immediate parent entity of APN Funds Management Limited, passed resolutions to approve the acquisition of APD by Dexu Nominee Pty Limited (an entity controlled by Dexu, ASX: DXS). Subsequently, on 4 August 2021 the Supreme Court of Victoria approved the scheme of arrangement and trust scheme. As a result, the transaction will be implemented on 13 August 2021.

Other than the above, there has not been any other matter or circumstance occurring subsequent to the end of the financial year 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.