

APN Funds Management Property Incoming

Understanding Property Investment and Risk

Howard Brenchley
Director & Chief Investment Officer

There have already been copious columns written in our newspapers and magazines about the collapse of Westpoint and the losses by private investors who invested into Westpoint's mezzanine finance instruments. There is bound to be even more written over the next few months.

It is important, not only to understand why investors lost money in Westpoint, but to remind investors of the fundamentals of investment. In the end, reprisals, litigation and other processes are only short term solutions. What is more important in the long term is that investors are more educated – and thankfully investor education appears to be a direction our corporate watchdog, ASIC, appears to be promoting.

Those who have been around for some time will recall numerous instances of investment failures, Estate Mortgage, Pyramid, being just a couple in the last twenty years. In all cases, investors have failed to appreciate that in seeking a higher return they have ventured into higher RISK territory.

So how does APN FM minimise risk?

To start off with it is important to have a detailed knowledge of the sector in which you are investing, including its history. Just as an experienced driver knows where and when accidents can happen, so the experienced investor can often anticipate potential risks. In my experience, for instance, hotel and tourism properties can provide great returns – at the right time in the cycle. Get your timing wrong, and we know from history, there can be tragedy.

In APN PFIF we generally exclude such properties because historically, they have never fitted into our risk/return matrix.

Property development can provide excellent returns to investors, but the risks are higher. For example, we manage a Development Fund for wholesale investors which has a deliberately higher risk/return profile but we determined that development was unsuitable for a relatively conservative fund like APN PFIF, so we exclude it from our investment universe. This means that even if we had suffered a short term mental aberration (albeit unlikely), our disciplined approach would have precluded our investment in something like Westpoint, which carried huge development risk.

For APN PFIF we value rental income streams above all else. Rents and the leases that underpin rental streams are what make commercial property a unique investment sector. Leases insulate investors from short term economic fluctuations, providing commercial property investors with long term income stability and predictability.

And in the last few years total returns have been pretty good as well.

But don't let anyone sell you an investment that is "as good as money in the bank". There is no such thing, particularly if the return is higher than that from bank deposits.

All investment carries some level of risk. What the investor must do is balance risk and return with their personal investment objectives. Trusting investment managers with stable investment teams and proven skills in managing risk provides a good starting point.

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Investment is all about risk and return. And the best investment managers are those who can achieve higher than expected returns without taking greater levels of risk.

The APN Property for Income Fund (APN PFIF) is our flagship investment fund which is a property securities fund that invests in numerous listed and unlisted property funds. It has been operating for over seven years, through a number of cycles and has over \$1.6 billion in assets. It has, over that period consistently outperformed its underlying benchmark (the S&P/ASX 200 Property Accumulation Index), whilst at the same time achieving a significantly lower volatility than the Index, or, indeed, any of its competitors.

Volatility is one of the major measures of risk. A skilful manager is one who can achieve higher performance than its peers with lower levels of risk. This can be measured. And it is as a result of such measurements that APN FM has won the Macquarie Skilled Manager of the Year three years in a row for its management of the APN PFIF.

For an update on each APN FM Fund refer to pages 2-7

Retail Funds 02



ASX Listed Funds 07



Wholesale Funds 07





**Howard Brenchley
Director & Chief Investment
Officer**

Howard is a Director and Chief Investment Officer of APN FM. He is also an executive director of APN Property Group.

Howard has a high profile in the property trust industry as an investor, researcher and commentator for over 19 years. Prior to joining APN FM in 1998, Howard was research director of Property Investment Research Pty Limited, an independent Australian research company specialising in the property trust sector.

Howard has been primarily responsible for the development of APN FM's funds management business and the suite of APN FM funds. Howard continues to oversee all investment management and product development for APN FM.



**Michael Doble
Director,
Retail Funds**

Michael is an executive director and Director, Retail Funds of APN FM.

Michael joined APN FM in 2003 and is responsible for APN FM's retail property securities and direct property funds. Michael has a total of 19 years property investment, valuation, consultancy and funds management experience. Before joining APN FM, Michael was Head of Property at ANZ Funds Management Limited.



**Charles Raymond
Director,
Listed Funds**

Charles is an executive director and Director, Listed Funds of APN FM.

Charles was instrumental in the establishment of the APN/JKA European Retail Trust. He is the CFO for the Trust and is responsible for capital management, treasury, risk management, financial analysis and operational management.

Charles joined APN FM in December 2004 and has over 11 years experience in the property funds management sector. Prior to joining APN FM, Charles held senior finance and management roles at ISPT, Mirvac, GRW Property and VFMC.



**Michael Hodgson
Manager,
Development Fund**

Michael is responsible for managing the APN Development Fund. Michael has engineering and business qualifications and has significant experience in property development and construction. He has been with the APN Property Group Limited for the past four years.

Retail Funds



Michael Doble
Director, Retail Funds

APN Funds Management Ltd

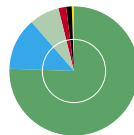
Unlisted Retail Funds

APN | Diversified Property Fund

A diversified fund investing in APNs Specialist Property Funds (4 Funds listed on pages 3 and 4)

Underlying Asset Allocation (Feb 2006)

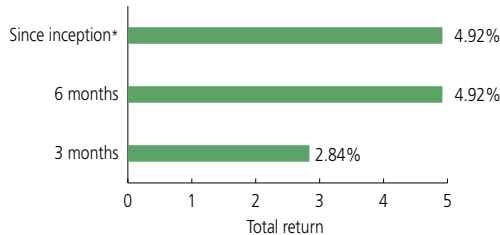
Direct Property	75.79%
Australian Listed Property Trusts	12.88%
International Listed Property Trusts	7.62%
Australian Unlisted Property Trusts	1.87%
Cash & Accruals	1.29%
International Unlisted Property Trusts	0.54%



Recent News

True to its name, the APN Diversified Property Fund aims to achieve a consistent and relatively high level of income via diversification. Pleasingly, since its launch in August 2005, the Diversified Fund continues to benefit from an underlying investment in over 100 different listed property securities in Australia and Overseas, providing exposure to commercial, industrial, retail and other property sectors. It also benefits from its investment in the APN Direct Property Fund with its continued expansion from initially one Victorian commercial property to now include two Queensland industrial/high tech properties.

Performance (Feb 2006)



■ APN Diversified Property Fund

*Inception August 2005



Property Securities Funds

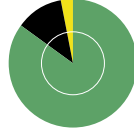


APN | Property for Income Fund

A property securities fund with total assets of \$1.6 billion predominantly investing in Australian listed property securities

Asset Allocation (Feb 2006)

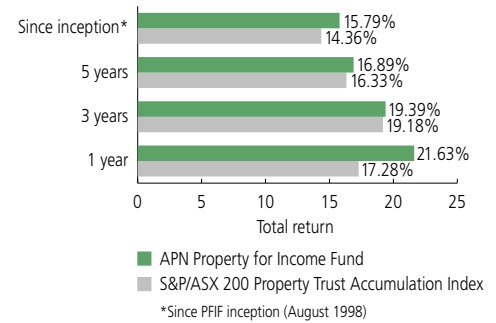
■ Listed Property Trusts	85.08%
■ Unlisted Property Trusts	12.14%
■ Cash & Accruals	2.78%



Top 5 Listed Property Securities Holdings (as at 28 February 2006)

Sector	Stock	% of the Fund
1 Retail	Centro Properties	11.58%
2 Diversified	DB RREEF Trust	10.83%
3 Retail	Gandel Retail	9.05%
4 Retail	Westfield Group	8.60%
5 Office	Commonwealth Office Property	7.62%

Performance (Feb 2006)



Recent News

The last 12 months performance from the Fund has been a continuation of the strong total and income returns we have come to expect from the fund. Investors will recall that our prime returns objective relates to income. The fund continues to achieve its objective of delivering a yield of 10% greater than that of the Listed Property Trust (LPT) market.

We expect to see a total return from the LPT market of between 9-10% over calendar year 2006. The key theme in the market remains the move to international property.

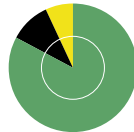


APN | Property for Income Fund 2

A property securities fund with total assets of \$140 million predominantly investing in Australian listed property securities

Asset Allocation (Feb 2006)

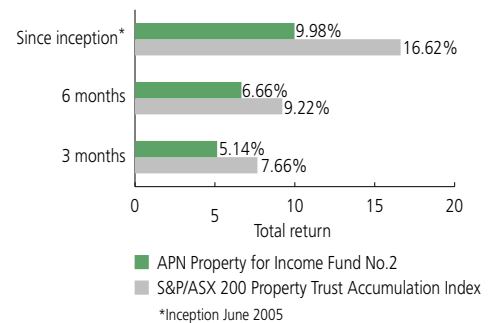
■ Listed Property Trusts	82.90%
■ Unlisted Property Trusts	10.16%
■ Cash & Accruals	6.94%



Top 5 Listed Property Securities Holdings (as at 28 February 2006)

Sector	Stock	% of the Fund
1 Diversified	DB RREEF Trust	11.56%
2 Retail	Westfield Group	8.97%
3 Office	Investa Property Group	7.90%
4 Office	Commonwealth Office Fund	7.74%
5 Office	Macquarie Office Fund	6.57%

Performance (Feb 2006)



Recent News

The Fund was opened in June 2005. The fund has similar risk/returns objectives as the APN Property for Income Fund.

The last 12 months has seen a steady rebound in demand for office accommodation around the country. The fund is particularly well positioned to take advantage of this upswing with a relative overweight position in office LPTs.

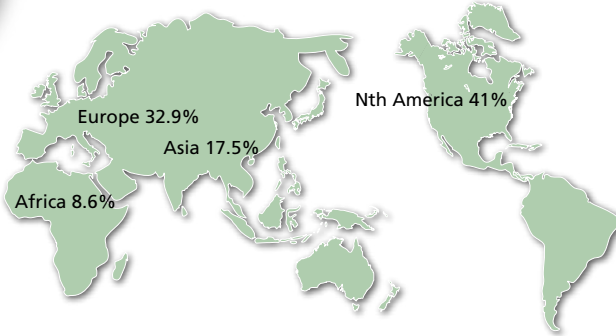
The key theme in the market remains the move to international property. In the last 12 months around 70% of all assets acquired by LPTs have been for offshore acquisitions.



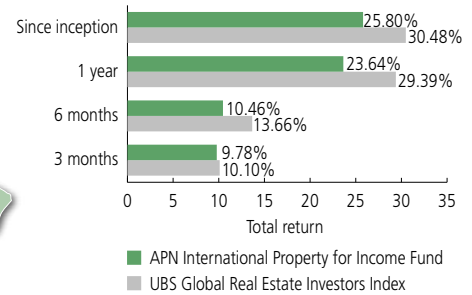
APN | International Property for Income Fund

A property securities fund with total assets of \$31 million predominantly investing in International listed property securities.

Underlying Asset Allocation



Performance (Feb 2006)



Top 5 Underlying Listed Property Securities (as at 28 February 2006)

Stock	Country	Sector	% of Fund
1 Growthpoint Property UT	South Africa	Diversified	3.9%
2 Vastned Offices/IND	Netherlands	Office	2.9%
3 Gecina SA	France	Diversified	2.4%
4 Equity Inns INC	United States	Leisure	2.3%
5 Strat Hotel Cap INC	United States	Leisure	2.2%

Recent News

The Fund has delivered a strong total returns since inception in July 2004 of 25.80% (to 28 February 2006).

The fund has been designed to generate diversification within a portfolio. With investments across North America, Europe, Asia and Africa the Fund is achieving this objective.

The outlook for Global Real Estate Investment Trusts (REITs) remains positive. New markets are emerging with the UK and Germany expected to create REIT markets over the next 18 months, thereby increasing the investment opportunities for the Fund.

Direct Property Funds

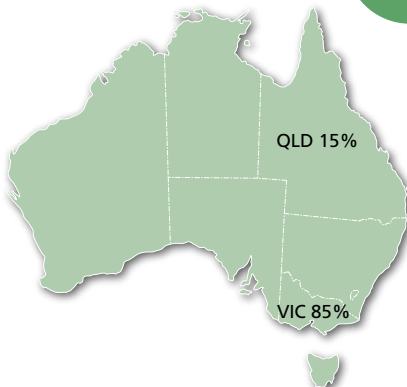
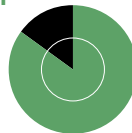


APN | Direct Property Fund

A direct property fund predominantly investing in retail, office and industrial properties throughout Australia.

Direct Property Asset Allocation

Office	85%
Industrial/high tech/office	15%



Recent News

The first direct property investment of the Direct Property Fund was 120 Harbour Esplanade, Docklands, Melbourne. It is a new office tower of approximately 8,300sqm and is 100% leased to Bendigo Bank Limited for a ten year term.

In December 2005 the Fund invested in the APN Wholesale Direct Property Pool (WDPP). The WDPP is comprised of two industrial properties in the outer Brisbane market. 85 Brandl Street comprises an office and laboratory buildings located in the Brisbane Technology Park. The second property is 140-150 Robinson Rd, Geebung which is a multi-tenanted industrial property to the north of the Brisbane CBD.

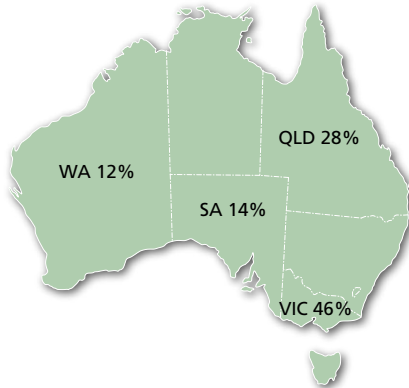


APN | National Storage Property Trust

A Direct Property Fund with assets of \$219 million invested in storage properties throughout Australia.

Asset Allocation

■ Storage 100%



Recent News

In November 2005 the Fund settled on an additional four properties located in Victoria and Western Australia. The total value of the portfolio's 30 properties stands at approximately \$207 million. The average weighted lease expiry for the entire portfolio is 13.4 years by income.

APN FM is currently in negotiations with the tenant exploring the feasibility of redeveloping a number of the properties and further enhancing the portfolio.

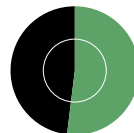


APN | Regional Property Fund

A Direct Property Fund with assets of \$76 million invested in retail and office properties in regional Australia.

Asset Allocation

■ Retail 52%
■ Office 48%



Recent News

Grafton Mall and Greenpoint Shopping Village have increased occupancy and trading due to a recent leasing campaign.

A revised plan to enclose the Mall area at Parkes Shopping Centre, which would make it more attractive to food retailers, has been accepted by council. Construction to begin shortly.

On the 31st October 2005 the Fund completed the construction of an office tower in Newcastle named the 'PricewaterhouseCoopers Centre'. The building was completed on time and on budget and is fully leased to PricewaterhouseCoopers & the NSW Government.



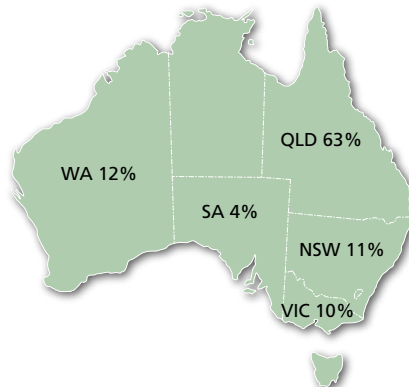


APN | Property Plus Portfolio

A Direct Property Fund with assets of \$85 million invested in retail/petrol outlet properties throughout Australia.

Asset Allocation

■ Petrol/Retail Outlets 100%



Recent News

In November 2005 APN FM purchased a further eight properties primarily leased to 7-Eleven Stores. As a result of the acquisition late last year APN FM believes the portfolio was enhanced, particularly with regard to tenant and individual property diversification.

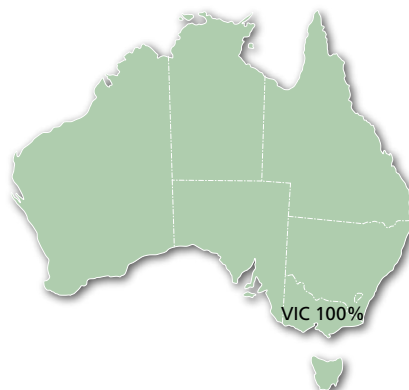


APN | Retirement Properties Fund

A Direct Property Fund with assets of \$34 million invested in retirement properties.

Asset Allocation

■ Retirement Property 100%



Recent News

The Fund's Villages continue to perform in line with expectations. This is partly due to an increase in the acceptance of retirement village living by the ageing population. At the same time there has been a sharp increase in interest from investors wanting to secure a position in this expanding property sector.

The Responsible Entity expects to be able to distribute income during the 2005/06 financial year at the annual rate of 24 cents per unit.



Charles Raymond
Director, Listed Funds

ASX Listed Property Trusts



APN | UKA European Retail Trust (ASX code: AEZ & AEZCA)

A Listed Property Trust with total assets of approximately \$900 million (by June 2006) invested in retail properties throughout Europe

Asset Allocation

■ Retail 100%



Performance

Investors in the original raising in July 2005 have benefited from capital growth of over 23% as at March 28 2006, along with an entitlement to receive a forecast 12 month distribution in excess of 9%.

Recent News

The Manager has recently announced it is undertaking a capital raising to fund the acquisition of three shopping centres in Germany and Greece. The capital raising is a non renounceable entitlement offer which allows existing investors to acquire an additional 11 new Fully paid units at \$1.11 each for every 25 Fully and or Partly paid units they own. The total amount of the capital raising including debt is \$309 million.

Wholesale Funds

APN Funds Management Ltd



Michael Hodgson
Fund Manager, Wholesale Funds

Wholesale Property Funds

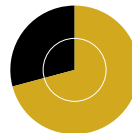


APN | Development Fund No.1

A wholesale property development fund

Asset Allocation

■ Office/Industrial 71%
■ Industrial 29%

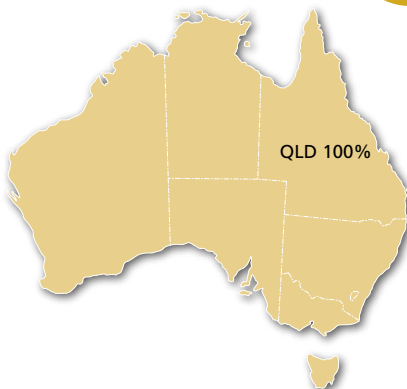


Recent News

The Fund is well progressed with two substantial industrial land subdivisions being undertaken at Coolum and Yatala in Queensland. There have been good pre-sales to date.

The Fund has also acquired the Graystone Property Group which opens up further development opportunities in the Queensland market and the Manager is currently assessing other opportunities in Victoria and NSW.

The Fund has the ability to undertake over \$300 million worth of property developments around Australia.



General APN News

Recent Appointments



Peter Cumming Manager, Research and Strategy

Peter Cumming joined APN in 2005 and is responsible for Research and Strategy. Peter has 11 years experience in research and funds management covering equity and property related products, including hybrid products. Peter has been a fund manager of direct property, property development and property securities in roles with AXA, HSBC and Centro Properties.

He holds qualifications in Economics and Accounting and is a Chartered Financial Analyst.

FAQ's

Q What are the main differences between investing in one of your funds and buying a residential property investment?

A There are a substantial number of differences such as diversification benefits, cost to invest and flexibility. However one of the key differences which is often not understood or appreciated is that the bulk of returns from Residential property are primarily derived from capital growth whereas the bulk of returns from investing in commercial property such as shopping centres and office blocks is primarily derived from income.

The significant advantage of a property investment deriving most of its return from income is that income returns are fairly predictable and sustainable. You are therefore not so reliant on capital growth, which is much less reliable and predictable, to still have a good investment.

How to Invest

Six of the funds mentioned in this Newsletter are open to new investment.

For investment in our unlisted funds which are open to new investment, allotments or issues of securities will be made only on receipt of an application form attached to a copy of the relevant Product Disclosure Statement each of which has been lodged with the Australian Securities & Investment Commission. A copy of the Product Disclosure Statement is available from the Manager, APN Funds Management Limited, at Level 32, 101 Collins Street, Melbourne 3000 or visit www.apnfm.com.au or phone our Investor Services Line on 1800 996 456.

To invest in our listed funds such as the APN/UKA European Retail Trust (Listed on the Australian Stock Exchange) or the APN Regional Property Fund (Listed on the Bendigo Stock Exchange) please contact your stockbroker or financial adviser.

Contact Details

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About APN

APN Funds Management Limited specialises in managing property funds which allow both small and large investors to invest in a wide range of property investments.

APN Funds Management was established in 1997 and has received numerous industry awards for its funds management capability. The company is managed by some of the most respected property investment professionals in Australia. APN FM is owned by APN Property Group Limited, which is listed on the Australian Stock Exchange (ASX code APD).

The company currently manages 11 different property funds which have total assets of approximately \$3 billion.