

# APN Funds Management Property Incoming

## Diversification lets you sleep at night



**Peter Cumming**  
Manager, Research and Strategy

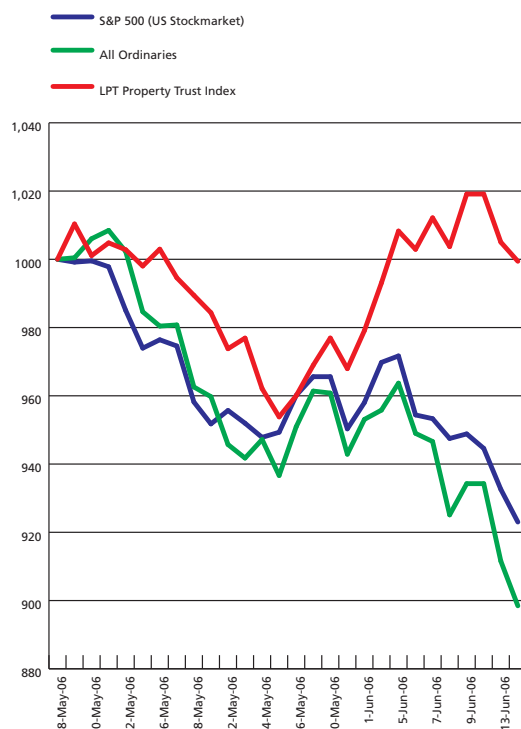
### The US sneezes, the All Ords catches a cold and LPT's just go their own way.

The recent rollercoaster ride on US and Australian stock markets over the last month, which have seen falls of around 7% and 10% respectively, has served as a timely reminder of the need to diversify investments.

While we would never like to suggest that property should put you to sleep, particularly as the returns achieved over a long period are more likely to make you stay up and celebrate, it should at least help you sleep at nights. The returns from the US and Australian stock markets over recent weeks compared to property, as measured by the performance of Australian Listed Property Trusts (LPT's), has meant that if you did have a diversified portfolio with a fair proportion of property, you would have slept much better knowing that a movement (or speculation of a movement) in US interest rates (which was the major trigger of recent stockmarket declines) would not impact your entire investment portfolio.

That is not to suggest that movements in US rates and markets don't affect LPT's or direct property in Australia, but they are certainly less of a factor and impact over different time frames.

As the graph below illustrates, LPT's over the last month have had a totally different return to that of the Australian stockmarket (All Ords) and the US stockmarket (S&P 500).



In the US, the significant falls in the stockmarket have generally been caused by investors reducing exposure to riskier growth related assets and commodities rather than any specific earnings downgrades. While we are delighted that LPT's have outperformed these markets the key point is that they have performed differently. In other words, LPT's have given investors diversification so that all their investments did not fall at once.

The primary reason is relatively simple. The returns from LPT's are primarily underpinned by long term leases to quality tenants. Therefore, while interest rate increases can and do affect the cost of business for these tenants and can have a long term impact on rents (particularly from retail property), by and large the income returns are relatively stable.

Correspondingly, investors in the stock market view the LPT sector as having much less risk and therefore do not seek to sell LPT's the way they would perhaps sell shares in such a climate. This therefore reduces the volatility in the returns for investors.

### All property is equal but some property is more equal than others.

Perhaps this is taking a bit of licence with George Orwells original phrase ("All animals are equal but some animals are more equal than others" – Animal Farm) but it is a wonderful way to look at property and diversification.

While we love to generalise about things to make it easy, when we dig a bit deeper, as investors need to do, there is a huge array of property investment options and property markets which do perform differently at different times.

A classic example of this has been investment in LPT's. The returns from LPT's over the last five years to May 2006 have averaged 15.8% pa, significantly outperforming the broader Australian stockmarket which averaged 12.7% pa over the same period. However buying any LPT within the last five years was certainly not a guarantee of success. In fact the returns from individual LPT's varied over the period from a loss of 0.3% pa (Grand Hotel Group) to a gain of 59.7% pa (FKP Limited).

Equally, investing directly into property results in vastly different returns at different times. In the property recession of the early 90's, retail property clearly outperformed residential, office and industrial property. In the mid 90's industrial property took centre stage, in the late 90's residential property was the stand out. Today we believe office markets offer some of the best value. One is not necessarily better than the other but they are quite different and compliment each other.

By investing in property you diversify your investments and reduce your risk. But don't stop there. Investors need to get diversification within their property investments.



**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 been primarily responsible for the development of APN FM's funds management business and 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 20 years property investment, valuation, consultancy and funds management experience.



**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/UKA European Retail Trust and is the CFO for the Trust.

Charles joined APN FM in December 2004 and has over 11 years experience in the property funds management sector.



**Michael Hodgson**  
**Manager, Development Fund**

Michael is responsible for managing the APN Development Fund No 1. Michael has engineering and business qualifications and has significant experience in property development and construction. He has been with APN Property Group Limited for the past four years.

**The APN Team**

The above mentioned team is supported by other executive directors including Clive Appleton, (Managing Director) Chris Aylward, (Chairman) and 40 employees within the APN Property Group based in offices out of Melbourne, Sydney and London. This provides a considerable depth and experience as a specialist in the management of property funds.

**Retail Funds**



**Michael Doble**  
 Director, Retail Funds

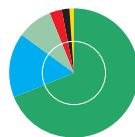
**Unlisted Retail Funds**

**APN | Diversified Property Fund**

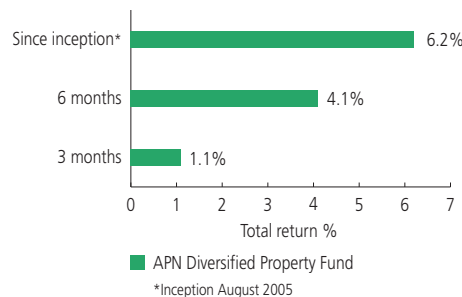
A diversified fund investing in APNs Specialist Property Funds (4 Funds listed on pages 3 and 4).

**Underlying Asset Allocation (31 May 2006)**

Direct Property	69%
Australian Listed Property Trusts	16%
International Listed Property Trusts	9%
Cash & Accruals	3%
Australian Unlisted Property Trusts	2%
International Unlisted Property Trusts	1%



**Performance (31 May 2006)**



**Recent News**

The APN Diversified Property Fund has delivered a total return of 4.1% for the six months ending 31 May 2006.

The returns reflect the durability of the Fund. The diversification benefit, from investing across global and domestic listed and unlisted property securities along with domestic direct property is reflected in recent returns.

The asset allocation committee continues to meet monthly and reviews, a vast range of data to help optimise returns.

Diversification will continue to be enhanced as new investments are added to the Fund.



## Property Securities Funds

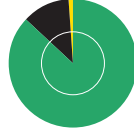


### APN | Property for Income Fund

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

#### Asset Allocation (31 May 2006)

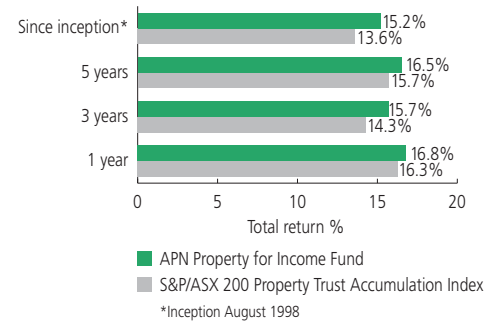
Listed Property Trusts	87%
Unlisted Property Trusts	12%
Cash & Accruals	1%



#### Top 5 Listed Property Securities Holdings (as at 31 May 2006)

Sector	Stock	% of the Fund
1 Diversified	DB RREEF Trust	12%
2 Retail	Centro Properties	12%
3 Retail	CFS Retail Property	9%
4 Industrial	Macquarie Goodman	8%
5 Retail	Westfield Group	8%

#### Performance (31 May 2006)



#### Recent News

The last quarter has been a particularly strong period for the Fund. As we expect, when the Listed Property Securities (LPT's) market falls the defensive nature of the Fund comes to the fore.

The market has fallen 2.17% over the 3 months to 31 May 2006 while at the same time the Fund has outperformed by falling only 0.34%.

The LPT market has been volatile. Market weakness emanating out of the US has impacted the overall Australian sharemarket. LPT's have performed much better than the broader market.

The Fund continues to achieve its objective of delivering a yield of 10% greater than that of the LPT market.

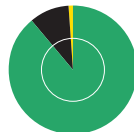


### APN | Property for Income Fund No. 2

A property securities fund with total assets of \$213 million predominantly investing in Australian listed property securities.

#### Asset Allocation (31 May 2006)

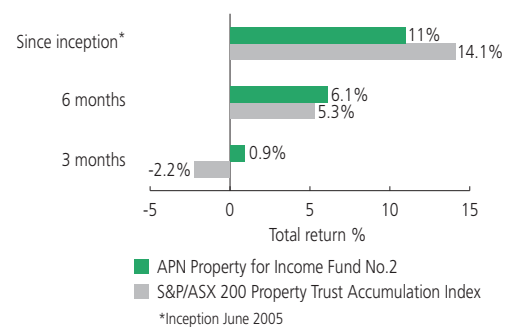
Listed Property Trusts	89%
Unlisted Property Trusts	10%
Cash & Accruals	1%



#### Top 5 Listed Property Securities Holdings (as at 31 May 2006)

Sector	Stock	% of the Fund
1 Diversified	DB RREEF Trust	9%
2 Industrial	ING Industrial Fund	7%
3 Retail	Westfield Group	7%
4 Retail	APN/UKA European Retail Trust	6%
5 Diversified	Trinity Consolidated Group	6%

#### Performance (31 May 2006)



#### Recent News

Over the last quarter we have seen the Fund deliver on its low risk, income oriented strategy. During the last 3 months the market has fallen 2.17%. Over the same period the Fund has delivered a total return of 0.9%. The weakness in the LPT market was driven by the broader Australian sharemarket (which fell in response to US market weakness).

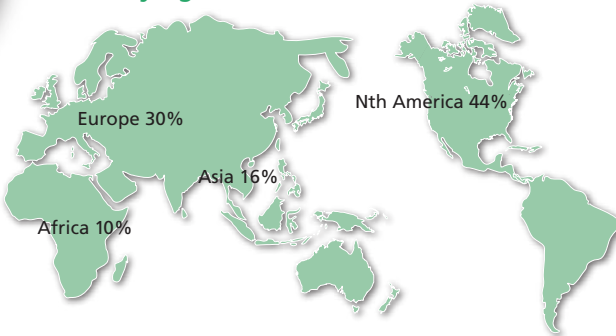
We expect to see total returns from the LPT market moderating back toward more sustainable long term levels (in the order of 8-10%). We remain focussed on delivering on our income oriented, low risk strategy.



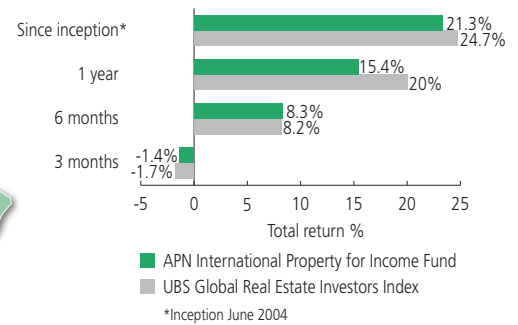
## APN | International Property for Income Fund

A property securities fund with total assets of \$38 million predominantly investing in International listed property securities.

### Underlying Asset Allocation

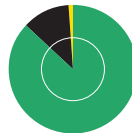


### Performance (31 May 2006)



### Asset Allocation (31 May 2006)

International Property Securities Funds	90%
Unlisted Property Trusts	9%
Cash & Accruals	1%



### Recent News

The Fund has delivered a total return over the 3 months (to the end of May 2006) of -1.35%. This return compared favourably with the market (as measured by the UBS Global Real Estate Investors Index – \$A return) of -1.70%. The Fund is delivering on its low risk, income oriented strategy.

We expect the Fund to outperform in times of market weakness. As the Fund grows and increases its exposure to the unlisted property sector, we expect to see more defensive return characteristics from the Fund.

### Top 5 Underlying Listed Property Securities (as at 31 May 2006)

Sector	Stock	Country	% of Fund
1 Office	Champion REIT	Hong Kong	4%
2 Diversified	Growthpoint Property UT	South Africa	3%
3 Retail	Hyprop Investments	South Africa	3%
4 Retail	Simon Property Group	United States	3%
5 Office	Biomed Realty Trust	United States	3%

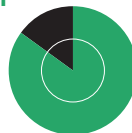
## Direct Property Funds

### APN | Direct Property Fund

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

### Direct Property Asset Allocation

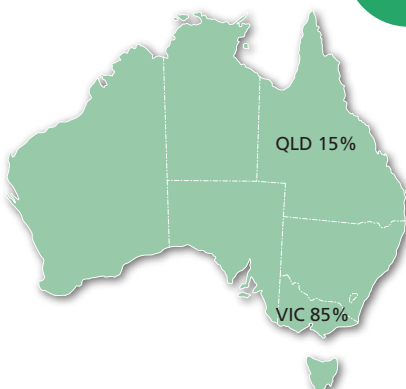
Office	85%
Industrial/high tech/office	15%



### 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 100% pre-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, Geelong which is multi-tenanted industrial property to the north of the Brisbane CBD.





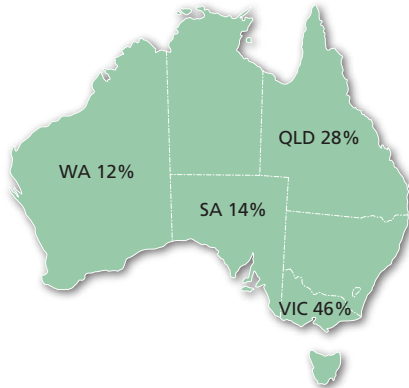


## APN | National Storage Property Trust

A Direct Property Fund with assets of \$220 million invested in storage properties throughout Australia.

### Asset Allocation

■ Storage 100%



### Recent News

APN FM in conjunction with National Storage (the tenant) is in the process of constructing additional storage units at two sites owned by the Fund that had an excess land component. Both subject properties are located in Adelaide; in the suburbs of Klemzig & Old Reynella. Building contracts have been executed and construction is to be completed by November. The construction is to be financed predominantly via bank debt. National Storage will be paying additional rent on the newly constructed space.

The Klemzig project will include the construction of a large two level building which will house a new office and residence, large refrigerated wine storage area and temperature controlled upstairs. Also, an additional one level storage building will be constructed on the site.

Old Reynella will include the construction of two single level general storage buildings. Capacity at this centre will almost double in size.

APN FM is currently in advanced negotiations to purchase an additional five properties with similar lease covenants as previous acquisitions.



## 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 are trading well with both Coles and Bi-Lo reporting increased trade on the previous year's comparable sales.

Also at Grafton, the existing bakery and tobacconist who were previously on a month by month leases have now committed to new 5 year leases thus strengthening the overall tenancy profile of the shopping centre.

Coinciding with the proposed construction at Parkes, Coles has decided to replace the current Kmart store with a Target Country. This is viewed as positive for the property as it is anticipated turnover at the Centre will increase.



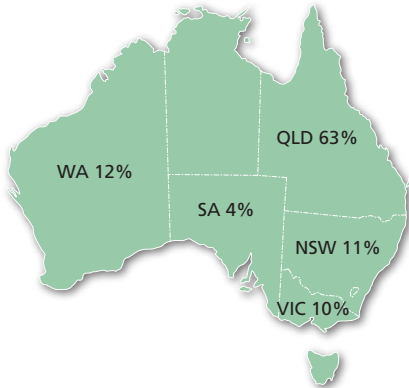


## APN | Property Plus Portfolio

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 Pty Limited ("7-Eleven"®) for the Fund. 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.

There are two major tenants in the portfolios, Woolworths and 7-Eleven. Woolworths is Australia's largest listed retailer and had more than 450 fuel/retail outlets as parts of its business in August 2005. The second largest tenant is 7-Eleven. There are over 300, 7-Eleven stores in Australia.

Since inception the Fund has achieved its original forecasts.



## 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.

APN expects to be able to distribute income during the 2007 financial year at the annual rate of 25 cents per unit.



Charles Raymond  
Director, Listed Funds

## ASX Listed Property Trusts



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

A Listed Property Trust with total assets of approximately \$800 million (as at May 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 21% as at May 31 2006, along with an entitlement to receive a forecast 12 month distribution in excess of 9%.

#### Recent News

The Fund recently completed the acquisition of shopping centres in Greece and Germany which takes the total number of retail properties owned by the Trust to 32 with properties also located in Spain and Italy.

The capital raising to acquire the Trust was significantly oversubscribed by investors. Investors have already benefited from capital growth with units acquired in April 2006 at \$1.11 per unit which increased in value to close at \$1.155 as at 31 May 2006. Those units are entitled to an income distribution of approximately 9% for the 2007 financial year.

The Trust has an impressive range of tenants which include Carrefour and Metro which are the 2nd and 3rd largest retail tenants worldwide and the 2nd and 3rd largest tenants within the Trust's portfolio.

## 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/Development	42%
■ Industrial/Office Dev. Rights	41%
■ Industrial/Land Subdivision	17%

\* Based on current overall fund exposure

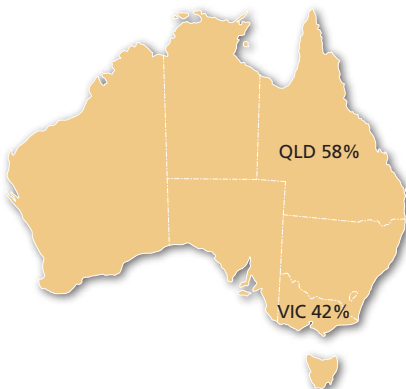


#### Recent News

The Fund has recently acquired a development site at 565 Collins Street Melbourne. The site has a development approval for a 50,000 square metre office tower.

The timing of the development will cater for a strengthening Melbourne office market characterised by low vacancies in A grade space (7.3%), and extremely limited opportunities to secure a Melbourne CBD Collins Street address. In addition, new supply earmarked to be completed in 2006 and 2007 already has high levels of pre-commitment estimated at 78% and 60% respectively.

The company and its Board members have significant experience in the development of major office towers. In 2005 APN Property Group completed the successful development of 380 Latrobe Street Melbourne. In addition, Chairman, Chris Aylward, as the former Managing Director of Grocon, brings enormous experience in the development of quality office towers having been significantly involved with the development of 101 and 120 Collins Street in Melbourne and the Governor Phillip and Governor Macquarie towers in Sydney, all of which are considered amongst the pre-eminent office towers in Australia.



## General APN News

### Recent Appointments



#### John Freemantle Chief Financial Officer

John has been involved in the property industry since 1977. Before joining APN in 2006, he worked with Dillingham Constructions, Jennings Property Group and Centro Properties (formally Jennings Property Group), where he held the roles of Chief Financial Officer & Company Secretary for 17 years.

## FAQ's

### Q Why should I participate in a Distribution Reinvestment Plan (DRP)?

A "Reinvesting distributions makes lots of "cents"

The DRP allows investors to increase their investment in a fund in a relatively easy manner at typically the same cost or lower than would be associated with a new investment in the same fund.

A fundamental benefit which is often not fully appreciated, is that by participating in a DRP, investors are immediately getting returns on their distributions or in other words "returns on returns", (i.e. compound returns).

DRP participation helps those investors, who are not reliant on distributions to meet lifestyle needs, to re-invest the distributions from their investments efficiently. This is particularly important for investment in property funds where a significant proportion of total returns are received as distributions and therefore these funds should be re-invested quickly to ensure investors get the most out of their hard earned investments.

To illustrate the positive effect participation in a DRP can have, assuming a unitholder invested \$100,000 in the APN Property for Income Fund since inception (August 1998) and reinvested each of their distributions into the fund, their total initial investment would have grown in value (before tax) to \$299,534 as at 30 April 2006.

Compare this to an investor who took their distributions in cash and not invested/re invested their distributions at all, the total value of their initial investment would be worth \$163,899. This equates to a difference of around \$135,000 from an initial investment of \$100,000.

It is therefore worth considering participating in DRP's or if a fund does not operate one, seeking to reinvest distributions into other property funds.

## 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 30, 101 Collins Street, Melbourne 3000 or visit [www.apnfm.com.au](http://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). It has offices in Melbourne (Head office) as well as Sydney and London.

The company currently manages 11 different property funds which have total assets of over \$3.1 billion.

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