

APN | Champion Retail Fund

ARSN 127 948 127

Background

The APN Champion Retail Fund (the Fund) is a fixed term unlisted property fund established in 2008 to invest in a portfolio of 16 supermarkets across Greece. The portfolio's single tenant is Carrefour Marinopoulos SA. The Fund is scheduled to operate until October 2013.

Fund update

Key points

- Greek market remains paralysed
- Portfolio valuation at 31 December 2012 €16.3m (based on a sale completing within a period of less than 12 months)
- Unit price zero
- Negotiating debt facility workout options with lender
- Distributions suspended

The Fund's results for the six months to 31 December 2012 have now been completed and include the following:

- Occupancy unchanged at 100%
- Net operating income ↓ 24% to €1.9m (€2.5 million for the six months to December 2011)
- Property valuation ↓ 55.8% to €16.3m (€36.9 million at June 2012)
- Unit price unchanged at \$0.00

Despite the depressed market conditions the underlying performance of the portfolio has held up in terms of rental collections. However, the situation with effective collapse of the Greek real estate market as reported last June has not improved and consequently there has been a further negative impact on the underlying portfolio valuation. The independent valuation conducted by Cushman & Wakefield in December 2012 reported a portfolio valuation of €16.3million (net of 5% purchasers' costs) based on a sale completing within 12 months due to the pending expiry of the senior debt.

Following the breach of the loan to value covenant of the Fund's senior debt position since June 2012, the Royal Bank of Scotland (RBS) in its capacity as servicing agent to the Bond Loan has been reviewing the options available in terms of an exit strategy. RBS are finalising their analysis and it is expected the options will be presented to the Bond Loan Noteholders within the coming months. The Bond Loan matures in October 2013 and the prospect of achieving a sale at a price that would enable the loan to be repaid in full prior to the debt maturity is not realistic given the current market conditions.



The options available to the Bond Loan Noteholders are likely to be limited to the following:

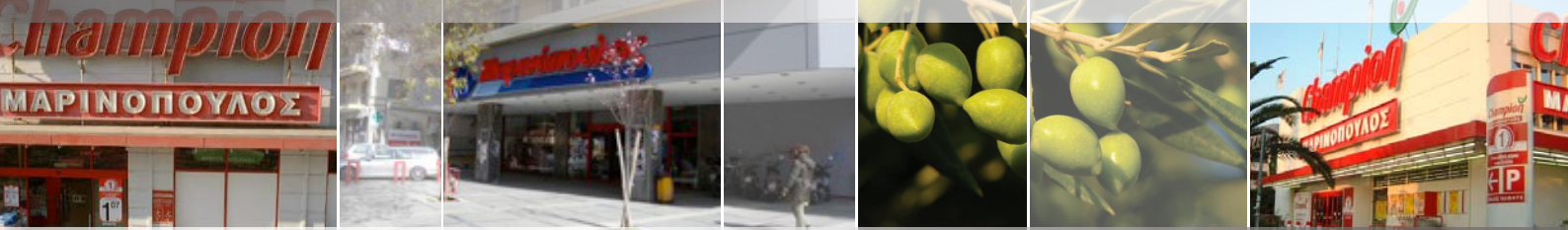
- Enforce the security and exit via an auction process led by a court appointed administrator, this may take several years with no certainty as to the final sale proceeds that may be realised.
- Extend the loan facility for at least three years with flexible amortisation payment terms to facilitate a managed sale and solvent exit if and when market conditions improve.
- Enter into a managed sale process as soon as possible accepting that a sale within the next 12 months will probably require a significant amount of the debt to be written off, this option will probably also require a short term extension to the loan maturity date.

The prognosis for fund unitholders can only be determined once the loan Noteholders have considered their options and APN is pushing to expedite this process.

Market update

Market conditions deteriorated further in the second half of 2012 with the profound weakness in the Greek economy persisting. Over the past three years Greek GDP has contracted by more than 25%, the turbulence is expected to continue throughout 2013 as the country enters its sixth year of recession. Unemployment has reached record levels at 26.4% in December 2012, with youth unemployment at a staggering 59.4%. Public debt is not expected to return to sustainable levels until at least 2020 and any meaningful supply side initiatives to stimulate the economy have yet to be delivered.

As the draconian austerity measures bite and stifle occupier demand the vacancy rates for all real estate asset classes continue to rise, even in prime areas. As a result rents remain under pressure and are expected to decline further, this coupled with the ongoing scarcity of debt and almost non-existent investor appetite continues to drive down asset values.



Key information at 31 December 2012	
Financial information	
Fund gross assets	€21.5 million
Unit price	\$0.00
Senior debt ratios	
Loan to valuation ratio (based on valuation assumption of a sale completing within 12 months)	231.3% (versus limit of 80.0%)
Interest cover ratio (times)	1.9 (versus limit of 1.75)
Currency hedging	Nil
Property Information	
Properties	16
Size (Gross Lettable Area)	51,615m ²
Tenants	1
Weighted average lease expiry	9.9 years
Occupancy (by income)	100.0%
Net operating income (half year to December 2012)	€1.9 million
Independent property valuation	€16.3 million (assuming sale within 12 months)
Valuer	Cushman & Wakefield

Key economic indicators at 31 December 2012	
Greece	
Currency	Euro
Exchange rate	1A\$ = €0.7847
GDP growth (annual change to December 2012)	(6.4%)
Unemployment	26.4%
Inflation (annual, as at December 2012)	1.0%
Retail trade volume growth (year-on-year to December 2012)	(8.3%)

Source: Eurostat

Sector allocation

Retail 100%

Asset allocation

100% European real estate

Contact details for investors

Please contact your financial adviser or alternatively, the **APN Investor Services Hotline** on 1800 996 456.

Contact details for advisers

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