



13 February 2009

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Update to temporary suspension of new applications and redemptions for APN Property for Income funds

Dear <Contact Name>

We are writing to update you on the current situation with regard to the APN Property for Income funds managed by APN Funds Management Limited (APN FM).

Temporary suspension of new applications and redemptions

As you would be aware, in October 2008, APN FM announced the temporary suspension of applications and redemptions for the following funds:

- APN Property for Income Fund;
- APN Property for Income Fund No. 2; and
- APN International Property for Income Fund.

The unprecedented decline in the value of the listed Australian real estate investment trusts (AREITs) and surge in redemptions following the announcement of the Australian Government's bank deposit guarantee, resulted in the unlisted proportion of the funds reaching unacceptable levels. This in turn forced the funds' temporary suspension of applications and redemptions in order to protect the interests of all unitholders.

Commercial real estate sector – market update

The AREIT sector has continued to feel the impact of the deepening global financial crisis. The scarcity and rising cost of debt, combined with rapidly deteriorating economic conditions, has led to a sharp decline in the AREIT sector which is now down more than 55% over the 12 months to December 2008 and down 24.3% from 24 October (when the funds were suspended) to 10 February 2009. Whilst there are anecdotal signs that the market may have significantly overreacted, the duration and severity of the economic downturn and its impact on asset pricing remains to be seen.

There is also considerable uncertainty surrounding the value of unlisted trusts which have become an increasingly large component of our portfolios. Whilst direct property values fell only modestly during 2008 (5-10%), there is a strong expectation that property values will fall further, however, we consider it unlikely that direct property values will fall as dramatically as the AREIT sector.

Please turn over

Protecting unitholders

It is critical that we ensure that all unitholders are treated fairly and equally whether they are applying for units, redeeming units or remaining invested in the fund. In the current environment of considerable uncertainty surrounding the value of unlisted trusts, the recent sharp sell-off in AREITs and the subsequent reduction in liquidity levels in each of the portfolios, we find it impossible to strike a unit price that treats all investors fairly and equally.

Restoring liquidity

The current market volatility and uncertainty surrounding the true underlying value of our unlisted portfolio makes it very difficult to accurately assess the most suitable options to provide liquidity at this point. We expect to have greater clarity as to the suitability of options following the June 2009 reporting period, when we are likely to have seen a greater number of direct property transactions from which to make a more accurate assessment.

In the interim, we continue gathering feedback from advisers, investors and business partners to help us determine the most feasible and appropriate options which may include:

- continuing the temporary suspension of applications and redemptions;
- reopening the fund to applications only and offering regular limited liquidity opportunities;
- temporary listing on a suitable stock exchange;
- splitting the fund's assets into liquid and illiquid components; or
- a combination of the above.

Some of these options may require a vote of unitholders at a unitholder meeting.

Intensive management of the funds

You can be assured that we are working hard to reinstate liquidity in one form or another at the earliest possible opportunity. Against this backdrop, we also remain mindful of our overriding duty to manage the funds in the investor's best interest at all times and to ensure that unitholders are treated equitably. APN FM remains firmly committed to the intensive management of our portfolios, continuing distribution payments and focussing on our key objectives (maximising income, minimising volatility and delivering capital growth greater than CPI).

Once markets stabilise and optimal asset allocations and cash flows return, normal application and redemption procedures will be restored. We believe that the high quality of the underlying assets in our portfolios will provide resilience in the medium to long term and we are committed to allocating maximum resources to the ongoing management of our funds.

Next steps

We recognise investors may be uncomfortable about the temporary suspension of applications and redemptions and to help ease these concerns we will provide you with a written update in April, followed by options for liquidity by no later than August.

Our team of experienced investment managers and Key Account Managers are always available to directly discuss your concerns and answer queries via our dedicated Adviser Services hotline on 1300 027 636.

You can also receive electronic newsletters that are published each month which provide comprehensive market commentary and APN FM specific fund updates – these newsletters can be downloaded from www.apnfm.com.au. Alternatively, you can subscribe to receive these alerts automatically by clicking on 'e-News Subscriptions' or calling the Adviser Services hotline.

Thank you for your continued support whilst we work through these difficult and challenging times.

Yours sincerely

APN FUNDS MANAGEMENT LIMITED



Howard Brenchley
Chief Investment Officer and Executive Director