



28 April 2009

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

Dear Investor

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

Temporary suspension of 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.

Consistent with our previous correspondence, the unprecedented decline in the value of the listed Real Estate Investment Trusts (REITs) 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.

Intensive management of the funds

We continue working hard to reinstate liquidity in one form or another at the earliest possible opportunity. APN FM remains firmly committed to the intensive management of our portfolios, continuing distribution payments and focussing on our key objectives of maximising income, minimising volatility and delivering capital growth greater than CPI.

We are still of the view that 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.

Commercial real estate sector – market update

Real estate investments appear to have found a base in the last few months as a steady return of investors willing to invest has helped the market rally from its lows. In Australia, the benchmark index (the S&P/ASX Property 200 Index) reached a low point 9 March 2009 at 546.9 and has since rebounded 21.57% as at 27 April 2009. In the US, the Real Estate Investment Trust (REIT) market has rallied 63.7% off its low point. Whilst not heralding an end to the Global Financial Crisis (GFC) it does nevertheless point to a modestly positive shift in investor confidence.

As signs slowly emerge of an end to the GFC, we remain confident that the AREIT (Australian Real Estate Investment Trust) sector to continue the rebound and attractive returns are expected to be delivered again.

A level of uncertainty regarding the true value of direct property still remains due to the exceptionally low number of sales upon which valuers could base their assessments. Given the avalanche of negative economic and financial market news,

many investors decided that the real value of assets was substantially lower than the assessed valuations. However, without the evidence of sales transactions supporting this assessment, it is difficult to form a solid conclusion. In this environment, property values were written down by approximately 8% in the six months to 31 December 2008 in the AREIT market. We expect a further 5-10% decline in asset valuations over 2009 resulting in a total reduction in asset values of around 20%. This is of course, significantly less than the severe reduction of the AREIT sector, which reinforces our belief that the AREIT sector has overreacted to the actual property fundamentals.

Protecting unitholders

As previously communicated, it is critical that we ensure that all unitholders are treated fairly and equitably 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 sharp sell-off in AREITs and the subsequent reduction in liquidity levels in each of the portfolios, we find it impossible to determine a unit price that accurately values the unlisted trusts and treats all investors fairly and equitably.

Restoring liquidity

We remain of the belief that the 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 valuers will be better able to make a more accurate assessment of value.

The feedback we have gathered from investors, advisers and business partners to help us determine the most feasible and appropriate options continue to endorse the following options:

- continue the temporary suspension of applications and redemptions;
- reopen the fund to applications only and offering regular limited liquidity opportunities;
- temporary listing on a suitable stock exchange;
- split 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.

Since we last wrote to you, we lodged an application with the Australian Securities and Investment Commission (ASIC) seeking relief for financial hardship applications in relation to the funds. We are pleased to advise that relief has now been granted by ASIC and further information on the relief will be made separately detailing the application guidelines and protocols.

Next steps

We expect to have greater certainty regarding the value of the physical assets in the unlisted portfolios in August, following the June 2009 reporting period. This in turn should provide us with greater clarity regarding unit pricing and the confidence to consider options to reopen the funds.

We will provide you with a further written update in August. However, in the interim, please feel free to contact your financial adviser or speak to one of our dedicated client services consultants by contacting our Investor Services hotline on 1800 996 456.

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 Investor 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