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6 August 2009

Distributions for the 2009/2010 Financial Year
APN Property for Income Fund No. 2 **|** ARSN 113 296 110

Dear Business Partner

In the recent quarterly distribution statement letter dated 10 July 2009, we wrote that the Fund will be revising its distribution rate for the 2009/2010 year to a level that will align itself with the reduced distribution payout ratios of its underlying investments.

The global financial crisis (GFC) that has disrupted investment markets for well over a year has significantly impacted earnings generated by many entities around the world. Australian Real Estate Investment Trusts (AREITs) and unlisted real estate funds have not been immune. The AREIT sector has suffered deteriorating earnings streams which have been caused by higher debt costs, lower payout levels, new equity raisings and a reduction in operating income. These factors have contributed to a significant decline in the level of income received by the APN Property for Income Fund No. 2 (the “Fund”).

Over the last 12 months, as a result of a combination of falling asset values and uncertainty about the availability of debt finance, many AREITs were priced as if they were unlikely to survive. Concerns abounded over debt levels as most AREITs borrowing limits (as set by the lenders) were close to being breached. This resulted in many AREITs being forced to raise equity. The equity issuance was completed but resulted in significant reductions in distributions per share (as more shares are paid a distribution with similar or even lower earnings).

Indeed, lenders concerns about the outlook for some entities resulted in them demanding the reallocation of income to repayment of debt – ahead of distributions to equity investors. This reduced distributions further. Also, many AREITs that were facing the prospect of not being able to source funding for various capital expenditure commitments (such as property repairs and maintenance) took the step of retaining earnings for this purpose too.

Further, as credit markets collapsed, those lenders who remained in the market took the opportunity to dramatically increase the interest rates they charge. So, even in an environment of falling official interest rates, the cost of debt to many property borrowers has actually increased. Finally, in an environment of highly volatile consumer sentiment, rising unemployment, rising vacancy rates (in some office markets) and concerns about the viability of a range of businesses, we have seen falls in some earnings from AREITs.

The good news is that the sector has recalibrated itself. It has confronted this unprecedented period of global financial market upheaval and adjusted. It is now positioned on a more sustainable footing than prior to the GFC. The payout ratios (distributions to earnings) are lower. AREIT balance sheets are in order and can sustain potential falls in asset values. Credit markets are

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actually starting to normalise and many general economic indicators are beginning to reflect some positive signals.

As a result of the aforementioned upheaval, the Fund has revised its distribution rate for the 2009/2010 year to a level that will align itself with the reduced distribution payout ratios of its underlying investments. We regard this development as the most prudent approach as it would be irresponsible to maintain distributions at current levels. The distribution rate declared for the month is 0.5417 cents per unit (cpu) equating to an annualised rate of 6.5 cpu.

We apologise for this course of action and hope that investors will appreciate the severity of the situation we have been confronted with and the importance of taking a conservative approach to managing through it.

If you have any queries, please contact Investor Services on 1800 996 456 or email us at apnpg@apngroup.com.au.

Yours sincerely
APN FUNDS MANAGEMENT LIMITED

Howard Brenchley
Chief Investment Officer and Executive Director