



1 May 2020

APN Property for Income Fund No.2 – reduction of distribution rate

APN Property for Income Fund No.2 - ARSN: 113 296 110

Dear Investor

As you will be all too aware, the social distancing measures imposed by the National Cabinet to halt the spread of COVID19 have resulted in the closure of many businesses, and the Australian Real Estate Investment Trust (AREIT) sector has certainly felt the deep impact of the crisis.

The Government introduced a mandatory Code of Conduct on 7 April 2020, outlining broad principles which effectively means that commercial landlords are to shoulder the burden experienced by their tenants. To date, the impact of this Code of Conduct on AREITs is unknown as landlords negotiate with their tenants. However, we are expecting a large number of tenants will be provided with rental relief in the form of a discount, deferral or even waiver.

The AREIT sector is reliant on rents to provide their distributions to security holders. Due to COVID19, we are expecting a reduction in AREIT earnings, which will in turn, negatively impact distributions. As the APN Property for Income Fund No.2 ("Fund") is reliant on those distributions from our underlying investment in AREITs, we expect the income we receive from these investments to decline.

Distributions to be reduced from May 2020

The current exceptional circumstances have forced us to review our expectations of underlying income for the balance of FY20 and into FY21, requiring us to make the difficult decision to reduce our distribution rate.

As a result, the Fund's monthly distribution rate will reduce from 0.005417 cents per unit per calendar month to 0.004604 cents per unit per calendar month, which is equivalent to a 15% reduction. This new distribution rate will be effective from May 2020 (paid on 10 June 2020). Based on the current unit price, the Fund's current running yield (based on the new distribution rate) is 6.33%¹.

After many years of paying a consistent distribution rate, we acknowledge it is disappointing to reduce the rate. We certainly don't take this decision lightly, however, during these unprecedented times, we believe this is the only prudent approach to manage investors' best interests, protect capital and ensure the Fund is able to provide a sustainable distribution for the long term.

¹As at 29 April 2020. Current running yield is calculated daily by dividing the annualised distribution rate by the latest entry unit price. Distributions may include a capital gains component. Past performance is not an indicator of future returns.

Asset allocation update

Due to recent unprecedented market conditions and the fall in the value of the AREIT component of the Fund, we have moved to ensure the Fund remains liquid and open to applications and redemptions. Accordingly, the threat of breaching the statutory limit of illiquid assets (20%) in a fund that offers daily redemptions resulted in our decision to liquidate our unlisted holding (the Goodman Australia Industrial Partnership). That transaction has now settled, and we are taking the opportunity to invest the majority of the proceeds of this sale into AREITs, which are currently trading at attractive prices. When market volatility has reduced, we will be looking for opportunities to redeploy capital into unlisted property investments. Whilst this means that the asset allocation is outside normal targets, we believe this is a prudent strategy to enhance Fund returns.

Outlook

The speed of recovery and return to some form of normality will be largely dependent on when the lock down measures are relaxed, together with the Government's support package. We will continue to closely monitor the market and will be particularly focused on earnings and distribution guidance from managers during the upcoming reporting season.

Expectations are that we will be in for a far longer period of low interest rates as a result of COVID19. Accordingly, AREITs will continue to play an important role within investor portfolios as they provide significantly higher income streams than fixed interest and most equity investments.

Further information or support

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

If you have any queries regarding distributions or wish to discuss any other matter regarding your investment further, please reach out to us by contacting our Investor Services phone line on 1800 996 456 or apnpg@apngroup.com.au.

Yours sincerely



Pete Morrissey
Chief Executive Officer, Real Estate Securities
APN Property Group