

6 September 2017

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## Performance and strategy update APN Regional Property Fund | ARSN 110 488 821

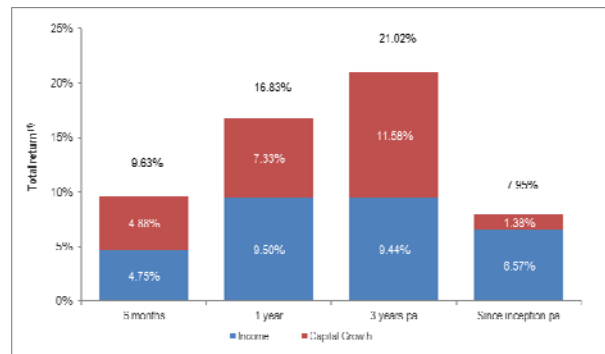
Dear Investor

Following the National Stock Exchange (NSX) announcement made on 17 August 2017, APN Funds Management Limited (APN) as responsible entity of the APN Regional Property Fund (the "Fund") is pleased to provide a performance and strategy update below. The full FY2017 Financial Report for the Fund is available at [www.apngroup.com.au/funds/](http://www.apngroup.com.au/funds/) or the NSX.

### Fund update and FY2017 financial results

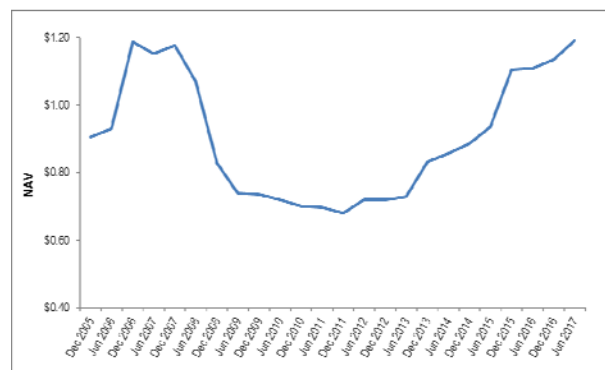
The APN Regional Property Fund performed well in FY2017 and continues to deliver steady returns. The distribution rate of 9.50 cents per unit reflects a yield of approximately 8.0% on current net asset value (NAV) and 9.5% on the original \$1.00 unit price. Going forward, the distribution guidance has been maintained at 9.50 cents per unit for FY2018.

As at 30 June 2017 the portfolio is valued at \$45.3 million, representing a \$1.8 million (4.1%) increase compared to 30 June 2016. The increase in value is predominantly due to a firming of the capitalisation rate at both properties, reflective of stronger market conditions in Newcastle. As at 30 June 2017, the weighted average capitalisation rate of the portfolio stands at 8.36%.



<sup>1</sup> Performance is based on original fully paid units of \$1.00

Following the increase in the portfolio's value, the Fund's current net asset value per unit increased to \$1.19 from \$1.11 at 30 June 2016. The Fund's gearing has also reduced from 34.5% at June 2016 to 33.1% currently.



The Fund's debt facility, which was due to expire in May 2017, has successfully been extended until 31 December 2018 at slightly improved terms. The facility will be kept at a floating rate as this will provide flexibility for a liquidity event to occur for fund investors in FY2018 without incurring hedging break costs. Please see below for a further update on fund strategy.

The portfolio is 99% leased and a Heads of Agreement has been entered into for the last vacancy of the portfolio, a small 97sqm retail tenancy on the ground level of 26 Honeysuckle Drive. The lease, which is to a plastic surgeon, is currently being finalised.

APN is also pleased to report that an existing lease to The Commonwealth of Australia, represented by Australian Customs & Border Protection Services, was recently renewed for a further five-year term commencing 1 December 2017. This has increased the Fund's weighted average lease expiry (WALE) from 2.4 to 2.7 years (post FY2017 end).

Works have commenced to enhance the energy efficiency of the properties, with a target of reaching a minimum 4.5 star NABERS rating. The completion of the works, which is anticipated in September 2017, will be beneficial for retaining the existing Government tenants as it will align with their environmental targets. It will also reduce the buildings' outgoing expenses and hence make the properties more attractive to prospective tenants.

### **Fund Strategy**

As always, units can be traded on the NSX under the APN Regional Property Fund ticker code APR. While there has at times been significant trading activity in the Fund's units on the NSX, APN is aware that prices have reflected a discount relative to NTA. We believe that such a discount demonstrates that the current liquidity alternatives available to investors are not as effective as we would like.

As previously outlined in our letter to investors on 22 November 2016, the Board is committed to providing investors with a liquidity event by 30 June 2018. This may include an outcome such that those investors who wish to retain their investment in the Fund are able to do so. We will write to investors in due course once the strategy for the Fund has been finalised.

In the meantime, Management will continue to work proactively to further secure and maximise the portfolio's financial performance through lease renewal initiatives, active management of operating expenses, and undertaking of capital projects ensuring the properties' strong position in the market is maintained. In addition to the ongoing energy upgrade works, Management will also prioritise repainting of the assets to ensure the properties present their best and are well positioned to maximise investor return upon fund wind-up.

As always, should you have any questions at all please don't hesitate to contact APN Investor Services on 1800 996 456.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Tim Slattery', with a long horizontal flourish extending to the right.

Tim Slattery  
Chief Executive Officer  
APN Property Group Limited