



29 June 2010

Proposed liquidity solution for APN Property for Income funds

APN Property for Income Fund | ARSN 090 467 208
APN Property for Income Fund No. 2 | ARSN 113 296 110

Dear Investor

We are writing to update you on the progress APN Property Group (APN) is making in its efforts to provide liquidity in the APN Property for Income Fund and APN Property for Income Fund No.2 (the "Funds").

Since redemption facilities were initially suspended in October 2008, we have assessed numerous options and have been working hard at structuring a viable liquidity solution. We believe we are close to finalising a solution that we have concluded is the most practical and equitable alternative to create liquidity for investors. The proposed solution will be a first for managed funds in Australia.

Proposed liquidity solution

Our proposed liquidity solution is based on changing the way that liquidity is provided to investors. Historically, redemptions have been funded from assets held by the Funds. Whilst this works well in normal market conditions, during extreme periods such as those of recent years, the Funds can experience structural pressure.

We are mindful that the majority of investors are keen to retain their investment in the Funds. We have designed a solution that allows those investors wishing to exit the Funds to do so without compromising the underlying investment portfolio, whilst at the same time preserving the inherent value for those investors remaining invested in the Funds.

We have therefore proposed the creation of a new class of units to be listed on the Australian Securities Exchange (ASX) ("listed units"). There will be two unit classes – existing ("ordinary unlisted units") and listed units. Under the proposal, investors wishing to redeem their investment will be able to convert some or all of their ordinary unlisted units to listed units. Investors can also remain in the ordinary unlisted class until such time as they need to liquidate some or all of their holding. Investors who do not wish to liquidate their investment do not need to do anything.

This proposed solution will be a first for managed funds in Australia and we firmly believe it is the most equitable and practical solution that meets the needs of both investor classes; those who wish to remain invested and those seeking liquidity.

It is intended that once the Funds return to appropriate liquidity levels the listed units will convert back to ordinary unlisted units and the traditional redemption facility will be reinstated.

Please turn over

Benefits of this proposed liquidity solution

- Long term investors who wish to *remain invested* in the Funds can do so without the portfolio being compromised in seeking to increase liquidity.
- Investors who convert and wish to *sell* some or all of their investment are able to do so. Any discounting of the unit price will be quarantined to investors wanting to sell their units in this way.
- The listing structure provides both liquidity and the necessary time to rebalance the portfolio to normal asset allocations without having to sell unlisted property trusts at excessive discounts and compromise our investment strategy which would negatively impact continuing investors.
- We believe there is significant upside potential for unlisted property trusts over the medium term which will help us manage the allocation of liquid funds back to more than 80% of the Funds' asset weighting.

A recap on why the Funds closed

The fall-out from the Global Financial Crisis (GFC), initially caused by the US sub-prime mortgage crisis, delivered a particularly painful blow to the Australian Real Estate Investment Trust (AREIT) sector. Furthermore, the introduction of the Federal Government's bank deposit guarantee in October 2008 led to an additional surge in redemptions from investments in non-guaranteed funds. Regrettably, our Funds were not immune to these exceptional external factors and ultimately resulted in the proportion of unlisted property trusts (illiquid assets) in the Funds reaching unacceptably high levels. The Funds subsequently became technically illiquid under the provisions of the Corporations Act, forcing withdrawals from the Funds to be suspended.

Current asset allocations

Currently the proportion of illiquid assets in the Funds stands at around 27%. These allocations of course vary from day to day according to movements in the AREIT market but fall well outside the mandated maximum long term asset allocation of 20% and fall significantly outside the indicative strategic asset allocation to illiquid assets of 15%.

In order to reduce the Funds' weighting to unlisted property trusts we have been exploring the ability to redeem or sell the underlying unlisted investments. However, those funds offering redemption facilities have also been frozen and we have found the sale of units to a third party would have to be at a significant discount to underlying value – if a third party purchaser can be found at all.

While the sale of units at substantial discounts would achieve our goal of reducing the unlisted component to below 20%, selling at steep discounts would permanently devalue the holdings of **all investors**, including the majority of investors who wish to stay invested in the Funds.

What's next?

The ASX is currently settling a formal response to our proposal which we expect will lead to an in principle decision to allow an official application by APN for the Funds to be admitted to the official list of the ASX, subject to a number of conditions.

Whilst we are confident that our proposal will be implemented, we cannot guarantee that the ASX will provide in principle approval (or ASIC, to the extent that it may be involved in the process) or that our admission application to list the Funds will be accepted. There may be additional issues raised during the process which will result in the proposal not proceeding. We will update investors as the position becomes clear.

We apologise for any distress the protracted nature of the suspension of redemptions has caused. We believe this listed option is the best solution for all investors. Unfortunately, due to the fact that this proposed innovative structure is the first of its kind in Australia, the extensive due diligence process has resulted in time delays beyond what we originally anticipated.

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

Yours sincerely



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