

APN | Funds Management

14 September 2009

Limited liquidity opportunity – Withdrawal offer

APN Diversified Property Fund | ARSN 113 296 263

Dear Investor

Temporary suspension of applications and withdrawals

As you would be aware, the APN Diversified Property Fund (**Fund**) was temporarily suspended to applications and withdrawals on 13 October 2008 due to the unlisted portion of the Fund reaching unacceptable levels. The unprecedented wave of economic events that led to major declines in the value of the listed Australian real estate investment trust (AREIT) market and the surge in redemptions in the wake of the introduction of the Federal Government's bank deposit guarantee resulted in the proportion of unlisted property trusts (illiquid assets) in the Fund reaching unacceptable levels. Regrettably, the Fund was not immune to these external factors and liquidity fell well below an appropriate level for a fund of this nature. The Fund's illiquid status under the provisions of the Corporations Act forced the temporary suspension of applications and redemptions of the Fund and was designed to protect the interests of all unitholders.

Limited liquidity opportunity – Withdrawal Offer

It has always been our intention to provide investors with an opportunity to redeem their investment at the earliest opportunity, without compromising the value or portfolio structure for remaining unitholders. Following the June reporting season, we now have greater clarity regarding the underlying value of the unlisted property portfolio which in turn enables a more accurate assessment of value. As a result, we are now in a position to offer a limited opportunity for those investors who wish to apply to withdraw some or all of their investment.

At this point in time, total funds available for the withdrawal offer is capped at \$3 million. Accordingly, unitholders wishing to redeem their investment in the Fund and who have lodged a redemption request in accordance with the requirements below may have their withdrawal scaled back on a pro-rata basis if the total cumulative withdrawal requests received exceed the amount of \$3 million (see over page).

It is our intention to make a withdrawal offer every quarter. The withdrawal amount offered each quarter will depend on the level of liquidity in the Fund which in turn relies on the proportion of listed (liquid) assets continuing to rise. There is no guarantee a further withdrawal offer will be made.

Intensive management of the Fund

We continue to rigorously manage the portfolio back to normal asset allocations. Importantly, monthly distributions continue to be paid and neither the temporary suspension of the Fund or the limited liquidity offer should impact investment performance. We believe that the high quality of the underlying assets in the Fund's portfolio should provide resilience in the medium to long term and we remain confident that the Fund will achieve its investment objectives over the long term.

When the real estate market stabilises and optimal asset allocations and cash flows return, normal application and redemption procedures are expected to be restored. In order to support a full re-opening of the Fund to "business as usual", the unlisted (illiquid) portion of the Fund needs to return to less than 50%. We are continually seeking ways in which to improve the liquidity position of the Fund.

Distribution Reinvestment Plan (DRP)

You can now opt to reinvest your monthly distributions in the form of additional units in the Fund. By reinvesting your monthly distributions, you are taking advantage of the well known investment technique known as 'dollar cost averaging'. Regularly buying units in the Fund ultimately averages out the entry price at which you invest, thereby smoothing out the market volatility.

Should you wish to elect for your distributions to be reinvested, please complete and return the enclosed form.

Please note that if you had a DRP in place prior to the temporary suspension of the Fund, your monthly distributions have been paid in cash since 13 October 2008 and the DRP will not automatically be reactivated. If you wish to reactive the DRP, please complete the enclosed election form.

New applications

It is our intention to open the Fund to receive new applications during the fourth quarter of calendar year 2009. A supplementary PDS (**SPDS**) is required to describe the change in asset allocations (from the original mandate) and risks, before we can accept new applications. An SPDS is currently being prepared and we will provide a further written update along with the SPDS during the fourth quarter of 2009.

Withdrawal Offer

APN Funds Management Limited ACN 080 674 479 (**Responsible Entity**) is making a withdrawal offer (**Withdrawal Offer**) in its capacity as responsible entity of the Fund. This Withdrawal Offer is made to all holders of ordinary units in the Fund (**Units**). Details of the terms and conditions of the Withdrawal Offer are set out below.

Timeline of important events

This Withdrawal Offer will open on 28 September 2009 and will remain open until 5pm, 19 October 2009. Any withdrawal requests received from the date of this letter will be retained and treated as if the request had been made in the offer period. Withdrawal requests must be received by 5pm Australian Eastern Standard Time on 19 October 2009. Any withdrawal requests received after this time will not be accepted by the Responsible Entity. Any withdrawal requests received prior to the date of this letter will not be accepted by the Responsible Entity.

Once a withdrawal request has been received by the Responsible Entity it cannot be revoked by the unitholder. Please note that a withdrawal request submitted in response to this letter will only relate to this withdrawal offer which will close on 19 October 2009. Accordingly, if a unitholder's withdrawal request is not able to be satisfied in full under this withdrawal offer, the unitholder will have to wait until a further withdrawal offer is made, and make a further request under that offer, to have more units redeemed. The withdrawal of further units will be on the terms and conditions of such further withdrawal offer.

Funding the Withdrawal Offer

Withdrawal requests will be funded out of cash held in the Fund in the amount of \$3 million which has been allocated for the purposes of funding this Withdrawal Offer. In accordance with section 601KD of the Corporations Act, if this amount is insufficient to satisfy all requests received by unitholders in the Fund, then the Responsible Entity will process each unitholder's withdrawal request on a proportionate basis in accordance with the following formula:

$$\text{Amount of funds available to satisfy withdrawal requests} \times \frac{\text{Number of Units requested to be redeemed by unit holder}}{\text{Total number of Units requested to be redeemed by all unit holders under the Withdrawal Offer}}$$

Withdrawal Price

The Responsible Entity publishes daily unit prices for the Fund on its website (www.apngroup.com.au).

The actual Withdrawal Price will be calculated on the basis of the Fund's net asset value as at the close of business on 19 October 2009, in accordance with the Fund's constitution. In accordance with the Fund's constitution and APN Funds Management's Unit Pricing Policy, the Responsible Entity may round the Withdrawal Price.

Payment of the Withdrawal Price

The Responsible Entity will satisfy withdrawal requests under this Withdrawal Offer by payment of the Withdrawal Price within 21 days of the close of this Withdrawal Offer.

All amounts to be paid to unitholders in satisfaction of the withdrawal requests will be paid as directed by the unitholder in the withdrawal form, or as subsequently amended by written instructions to the office of the Responsible Entity.

Cancellation of Withdrawal Offer

In accordance with the Corporations Act, the Responsible Entity may cancel this Withdrawal Offer at any time before it closes if the offer contains a material error and must do so if it is in the best interests of unitholders in the Fund to cancel the offer.

Cancellation of Units

All Units redeemed pursuant to this Withdrawal Offer will be cancelled by the Responsible Entity.

Withdrawal form

If you wish to accept this Withdrawal Offer please complete the attached withdrawal form and return it to:

Reply paid
APN Funds Management Limited - Withdrawal Offer
PO Box 18011
Collins Street East VIC 8003

Further information

In accordance with our investment mandate, we can assure you that our team of investment specialists continue actively managing the Fund to deliver a consistent, relatively high level of income combined with some capital growth over the long term.

We will continue closely monitoring and managing the proportion of liquid assets and keep you informed of the next available Withdrawal Offer which we aim to make each quarter until a more permanent solution is delivered. However, if you have any queries in the interim, please contact your financial adviser or APN 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