

APN | Convenience Retail REIT

CORPORATE GOVERNANCE STATEMENT

AUGUST 2019



APN | Property Group

CORPORATE GOVERNANCE STATEMENT

APN CONVENIENCE RETAIL REIT

OUR COMMITMENT AND FUND OVERVIEW

APN Convenience Retail REIT (**Fund**) is a triple stapled entity comprising the following three managed investment schemes (**MIS**):

- Convenience Retail REIT No. 1;
- Convenience Retail REIT No. 2; and
- Convenience Retail REIT No. 3.

Securityholders in the Fund hold a unit of each of the above entities that are stapled together, such that an individual unit in one of the above entities may not be transferred or dealt with without the others. The Fund is listed on the Australian Securities Exchange (**ASX**) under code AQR.

APN Funds Management Limited is the Responsible Entity (**APN FM or Responsible Entity**) of each of the three MIS's. APN FM is a wholly owned subsidiary of APN Property Group Limited (**APN PG**), a company listed on the ASX. APN PG and its subsidiaries together are referred to as the "**APN Group**" in this Statement. APN FM oversees the management and strategic direction of APN's listed and unlisted managed investment schemes and mandates (**APN Funds**) in its role as responsible entity, trustee and/or manager.

The board of APN FM (**Board**) comprises four Independent Directors (including the Chairman), one of whom is also an APN PG Director. Each Director has a legal obligation to put the interests of investors in the funds for which APN FM is responsible entity and/or trustee of ahead of their own and those of APN FM's sole shareholder, APN PG.

The Responsible Entity is committed to achieving and demonstrating the highest standards of governance. The Fund's Corporate Governance Statement (**Statement**) has been prepared in accordance with the principles and recommendations set by the ASX Corporate Governance Council (Corporate Governance Principles and Recommendations 3rd Edition) (**Recommendations**), and any departure from these Recommendations are stated below.

The Responsible Entity's governance framework, as summarised in the Statement has been designed to ensure that the Fund meets its ongoing statutory obligations, discharges its responsibilities to all stakeholders and acts with compliance and integrity.

This Statement outlines the main corporate governance practices in place throughout the financial year ended 30 June 2019 (**Reporting Period**) and incorporates the requirements of market regulators, adopted codes and charters, documented policies and procedures and guidance from industry best practice. These policies and practices remain under regular review as the corporate governance environment and good practices evolve.

As APN FM does not employ staff directly the necessary management and resources for the operation of the Fund are provided by APN PG. For this reason, staff are governed by APN Group policies. The policies, charters and codes referred to in this Statement are available on the Fund's website at <https://apngroup.com.au/fund/apn-convenience-retail-reit/about-us/corporate-governance/>

This statement was adopted by the Board on 15 August 2019.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Roles and responsibilities of the Board and Management

The Board is responsible for the overall management and governance of the Fund. The Board is governed by the Fund's Constitution, the Compliance Plan, the Corporations Act 2001 (Cth), ASX Listing Rules and all applicable laws.

The Board has expressly reserved its powers in relation to certain matters and has delegated its powers in relation to other matters to management. The Board has delegated the day-to-day management of the Fund to the Managing Director/Chief Executive Officer and Senior Executives, including the Fund Manager, all of whom are required to work within authority limits and delegations set out in the Delegated Authority Policy (an internal policy approved by the Board) or otherwise by way of decisions and determinations of the Board. These delegations are reviewed on a regular basis.

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The Board has adopted a Charter that details the functions and responsibilities of the Board. The Board Charter, which is summarised below, provides an overview of the functions and responsibilities of the Board.

Board Charter

Its key functions and responsibilities are:

- the oversight of APN FM, including its control and accountability systems;
- subject to its overriding duties to securityholders in the Fund, setting the aims, strategies and policies of APN FM and its funds management business;
- where appropriate, ratifying the appointment and the removal of senior executives including, but not limited to the fund managers of the Fund;
- providing input into and final approval of management's development of strategy and performance objectives in respect of the Fund;
- reviewing, ratifying and monitoring systems of risk management and internal compliance and control, codes of conduct and legal compliance, particularly in respect of the Fund;
- without limiting the above, identifying conflict of interest situations within APN FM's business and the business of the Fund and:
 - determining whether the conflict of interest situation is to be avoided or whether it can be appropriately controlled; and
 - if the conflict of interest situation can be appropriately controlled, determining and implementing the procedure necessary to control the conflict;
- monitoring senior management's performance and implementation of strategy and ensuring appropriate resources are available;
- approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures in respect of the Fund;
- approving the issue of disclosure documents in respect of the Fund; and
- approving and monitoring financial and other reporting obligations of the Fund, in particular ensuring compliance with the continuous disclosure obligations of the Fund under the Corporations Act and the Listing Rules.

Non-Executive and Independent Directors are entitled to take independent advice at the cost of the Company in relation to their role as members of the Board.

The Company Secretary is accountable directly to the Board, through the Chair, for all governance matters to do with the proper functioning of the Board. All Directors have direct access to the Company Secretary for all governance matters.

Appointment, Election and Re-election

A Director is appointed by a written letter that contains the terms on which the Director is to be appointed, including but not limited to remuneration, time commitment envisaged, compliance with APN Group policies such as the Code of Conduct and Securities Trading Policy and the basis upon which they will be indemnified by the Company. Prior to appointment, the APN Group undertakes appropriate checks in relation to the candidate's experience, education, character, criminal record and bankruptcy history. Written consent to act is received by each Director.

All Senior Executives responsible for the Funds management and operations are appointed by APN PG under a written agreement which sets out the terms of their appointment including their position, duties and responsibilities, remuneration and entitlements, circumstances in which their service may be terminated and where applicable, the basis upon which they will be indemnified by APN Group. Senior Executives are also subject to appropriate checks prior to being appointed.

Diversity and Inclusion

The APN Group has adopted a Diversity Policy. The APN Group recognises the benefits to be gained from a diverse and inclusive workforce where the differing skills, perspectives and experiences of individuals from different backgrounds can lead to more innovative and efficient business practices. The APN Group is committed to facilitating an environment in which the principles of diversity and inclusion are embedded in the culture and systems of the organisation and where every individual has the opportunity to excel.

The APN Group adopted the following measurable objectives for the Reporting Period:

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FY19 Diversity Objectives	FY19 Outcomes
The selection process for Board appointments, having regard for the need to maintain an appropriate mix of skills, experience, expertise and diversity will consider at least one female candidate wherever reasonably possible.	There were no new Board appointments in the Reporting Period.
The selection process for senior management* appointments, having regard for the need to maintain an appropriate mix of skills, experience, expertise and diversity will consider at least one female candidate wherever reasonably possible.	There was one internal promotion to the senior management* team in the Reporting Period.
The process for recruitment of new employees, having regard for the skills and expertise required for the role, will consider at least one female candidate wherever reasonably possible;	There were 10 new appointments made during the Reporting period of which 5 (50%) were female.
Flexible work arrangements to balance family and other commitments with the role will continue to be considered for all employees, where the requirements of the role permit;	Flexible work arrangements have been agreed with a number of employees to address family balance, parental needs and illness.
The Diversity Policy is accessible to all employees at all times.	The policy is available on APN 's website and intranet and as such is available to all staff at all times.
All employees responsible for employment and promotion of employees will be reminded of the Diversity Policy and these objectives at least annually.	Employees responsible for employment and promotion were reminded of the Diversity Policy and these objective during the Reporting Period.
Mentoring support to be available to all employees.	Mentoring support was available to all employees during the Reporting Period.

As at the end of the Reporting Period the proportion of gender diversity of the APN Group was;

	Men	Women	Movement from FY18
Board of APN Property Group Limited	100%	Nil	No change
Board of APN Funds Management Limited	75%	25%	No change
Senior Management* of the APN Property Group Limited	75%	25%	No change
All employees of APN Property Group	55%	45%	↑ (from 42%)

*Senior Management is characterised in terms of reporting hierarchy to the CEO and is defined as a manager having a direct reporting line to the CEO (i.e. CEO-1). It also includes the CEO role itself.

Review of Board and Senior Executives performance

The performance and effectiveness of the Board is reviewed regularly by the Board, with the assistance of the Remuneration and Nomination Committee. Each Director completes a Board Effectiveness questionnaire to evaluate the Chairman, the Board as a whole, the Boards processes and governance framework and the Committees effectiveness in supporting the Board. Based on the feedback from the questionnaire, the Board discusses the findings and analyses the Board and Committees performance, including suggestions for changes or improvements. The Boards performance and effectiveness was reviewed during the Reporting Period. The Board did not complete a Board Effectiveness Questionnaire

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during the Reporting Period however they did implement the recommendations from the findings from the FY18 Board Effectiveness Questionnaire including adopting a Succession Plan and Key Resourcing Practices Framework.

The performance of Senior Executives is reviewed annually by APN PG against their position descriptions and key performance indicators. The performance of Senior Executives was reviewed within the Reporting Period.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Nomination and Remuneration Committee

The Board has established a Nomination and Remuneration Committee. The composition of the Nomination and Remuneration Committee during the Reporting Period was:

Name	Position
Michael Johnstone	Independent Director and Chair of Nomination and Remuneration Committee Member
Geoff Brunsdon AM	Independent Chairman and Nomination and Remuneration Committee Member
Jennifer Horrigan	Independent Director and Nomination and Remuneration Committee Member

The Board has adopted a Charter that details the functions and responsibilities of the Nomination and Remuneration Committee. The Nomination and Remuneration Committee operates under this Charter, a summary of which is provided below.

Nomination and Remuneration Committee Charter

Its key functions and responsibilities are:

- determine the appropriate size and composition of the Board;
- oversee and provide recommendations to the Board in respect of the appointment, re-appointment and removal of directors;
- develop formal and transparent procedures and criteria for the selection of candidates for, and appointments to, the Board in the context of each board's existing composition and structure;
- developing a succession plan for the Board and to regularly review the succession plan;
- implement induction programs that enable directors to gain an understanding of:
 - the Company's and the Fund's financial, strategic, operational and risk management position;
 - their rights, duties and responsibilities; and
 - the role of the Board and Board committees;
- provide directors and key executives with access to continuing education to update their skills and knowledge and provide them access to internal and external sources of information which enhance their effectiveness in their roles;
- develop a process for performance and remuneration evaluation of the Board, its committees and individual directors and to the extent applicable, key executives, which can be made available to the public;
- to the extent applicable, develop and influence remuneration and incentive policies which motivate directors and management to pursue the long-term growth and success of the Company and the Funds within an appropriate control framework;
- to the extent applicable, develop and influence remuneration and incentive policies which demonstrate a clear relationship between key executive performance and remuneration; and
- to the extent applicable, determine the remuneration packages of directors.

All matters determined by the Nomination and Remuneration Committee are put to the Board as a whole, as recommendations for the Board's decision. Minutes of the Nomination and Remuneration Committee meeting are tabled at a subsequent Board meeting. Attendance records at Nomination and Remuneration Committee meetings are provided in the Director's Report of the Fund's Annual Report.

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Board Skill Matrix

With the input of APN PG, the Board has adopted a skills matrix to ensure that there is an appropriate mix of skills and experience on its Board and Committees to enable the Board to deliver the Responsible Entity's objectives, and to effectively discharge its corporate governance and oversight responsibilities.

Directors are invited to join the Board based on their skills and experience in relation to the Responsible Entity's and Funds activities. The Board is fully apprised with the operations of the Fund, the APN Group and the environment in which it operates.

The following table sets out the key skills and experience that the Board considers to be most relevant and which are represented collectively on the Board.

Key Skills and Experience
Leadership, people and inclusion
Strategic Planning
Funds Management
Property/Development
Capital Structure
Financial Acumen
Governance, Legal, Risk, Health and Safety
Customer Experience and Marketing
Information Technology and Innovation
Sustainability and Corporate Responsibility
Crisis Management
People and Remuneration

Directors Independence and Length of Service

The composition of the Board as at the end of the Reporting Period was:

Name	Position	Length of service (yrs)
Geoff Brunsdon AM	Independent Chairman	10
Jennifer Horrigan	Independent Director	7
Michael Johnstone	Independent Director	10
Howard Brenchley	Independent Director	21

The Board is currently comprised of Independent Directors. The independence of Directors is assessed in accordance with the guidelines outlined in the Recommendations. The Board considers Geoff Brunsdon, Jennifer Horrigan, Michael Johnstone and Howard Brenchley to be Independent Directors, as they do not have a material interest, position, association or relationship that could reasonably be perceived to materially interfere with the independent exercise of their judgement.

All Directors must disclose any interests or conflicts in accordance with Corporations Act 2001 (Cth), and APN Group policies prior to the consideration of matters at the meetings of the Board.

The Fund's Annual Report details offices held by Directors with other listed organisations within the past 3 years (Director's Report) and related party dealings (Notes to the Financial Statements) as required by law.

With the input of APN PG, the Board has carefully considered its size and composition, together with the specialist knowledge of the funds management, property and property securities sector of its directors, and has formed the view that based on its current composition, it has the necessary skills and experience to

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ensure that the Fund performs strongly, and there is sufficient accountability in the structure of the Board to ensure the outcomes and objectives sought by the Recommendations are achieved.

Induction Program for Directors

Induction for newly appointed Directors is provided on appointment, which includes a detailed pack outlining APN FM and APN Funds information and key policies including the Code of Conduct and Securities Trading Policy. Directors are expected to be adequately informed in respect of relevant industry and regulatory issues and changes.

Training sessions, including governance refreshers and presentations by experts are scheduled around Board meeting dates as required or by the request of the Board. Directors may raise other training requirements or professional development opportunities at any time to ensure that their skills and knowledge are updated and enhanced.

PRINCIPLE 3: ACT ETHICALLY AND RESPONSIBLY

Code of Conduct and Securities Trading Policy

The APN Group has adopted a Code of Conduct that applies to all directors and employees (including temporary staff and contractors) of the Company and its subsidiaries. The purpose of the Code of Conduct is to clarify the standards of ethical behaviour required of the Company directors and employees and to ensure that the high standards of corporate and individual behaviour are observed by all in the context of their employment with the Company. By adoption of the Code of Conduct, the Company seeks to ensure that all stakeholders dealing with the Company, whether it be employees, shareholders, investors, customers or competitors, can be guided by the stated values and policies of the Company.

The Code of Conduct also sets out the Board's view on conflicts of interest and related party transactions involving directors and employees and other legal and compliance obligations of the Company including corporate opportunities, confidentiality, fair dealing, protection of and proper use of Company information and assets, compliance with laws and regulations and encouraging the reporting of unlawful or unethical conduct.

The APN Group has adopted a Securities Trading Policy that summarises the law relating to insider trading and other relevant provisions and sets out the procedures of the Company and its subsidiaries for permission and disclosure of trading by directors and employees in APN Group securities.

The Securities Trading Policy applies to all directors and employees of the Company and its subsidiaries and is designed to prevent breaches of the insider trading provisions by directors and employees of the Company and its subsidiaries. The policy includes an overriding prohibition against trading while in the possession of inside information and the restrictions of trading during closed (black out) periods. It is the responsibility of all directors and employees to comply with the insider trading provisions of the Corporations Act and to bring information in relation to any actual or potential insider trading to the attention of the relevant officer of the Company or its subsidiaries, as appropriate.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN CORPORATE REPORTING

Audit, Risk and Compliance Committee

The Board has established an Audit, Risk and Compliance Committee. The composition of the Audit, Risk and Compliance Committee during the Reporting Period was:

Name	Position
Jennifer Horrigan	Independent Director and Chair of Audit, Risk and Compliance Committee
Geoff Brunson AM	Independent Chairman and Audit, Risk and Compliance Committee Member
Michael Johnstone	Independent Director and Audit, Risk and Compliance Committee Member

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The Board has adopted a Charter that details the functions and responsibilities of the Audit Risk and Compliance Committee. The Audit, Risk and Compliance Committee operates under this Charter, a summary of which is provided below.

Audit, Risk and Compliance Committee Charter

Its key functions and responsibilities are to:

Financial statements

- to review the Company's and the Fund's financial statements and related notes, and ensure they are consistent with information known to Board members and that they reflect appropriate accounting principles, standards and regulations;
- to review the external auditor's reviews or audits of the Company and the Fund's financial statements and corresponding reports;
- to consider any significant changes required in the external auditor's audit plans;
- to review accounting and reporting issues as they arise; and
- to review any disputes or issues that may arise during the course of an audit.

External audit

- to determine the appointment and removal of external auditors;
- to monitor compliance with the Corporations Act in relation to auditor rotation;
- to undertake periodic reviews in order to monitor the effectiveness, objectivity and independence of the external auditor;
- to review and consider the adequacy of the audit plan proposed by the external auditors;
- to review all of the external auditor's reports;
- to commission such enquiry by the external auditors as the Board deems appropriate;
- to consider management's responses to matters that arise from external audits;
- to conduct regular reviews of management's activity pertaining to audit findings to ensure any issues are being dealt with in a timely manner; and
- to perform annual assessments of the external auditor's compliance with any applicable laws, regulations and any other relevant requirements.

Risk management

- to monitor the management of risks relevant to the Company and the Fund;
- to review APN FM's current risk management program (including all internal policies developed and implemented to manage and identify all identified risks (Governance Policies)) and whether it identifies all areas of potential risk;
- to review and make recommendations to the Board on the strategic direction, objectives and effectiveness of the Company's financial and risk management policies; and
- to oversee investigations of allegations of fraud or malfeasance.

Compliance

- to monitor the compliance of the Company and Fund with:
 - the Corporations Act;
 - the compliance plan of the Fund;
 - the constitution of the Fund;
 - the Australian Financial Services Licence (AFSL) of APN FM; and
 - to the extent the Fund remains a Listed Scheme, the Listing Rules;
- to report to the Board any breach of the obligations listed in above;
- to report to the Australian Securities and Investments Commission (ASIC) if the Committee is of the view that APN FM has not taken, or does not propose to take, appropriate action to deal with a matter reported;
- to assess at regular intervals whether the Fund's compliance plan is adequate;
- to report to the Board on its assessment of the Fund's compliance plan; and
- to make recommendations to the Board about any changes that it considers should be made to the Fund's compliance plan.

All matters determined by the Audit, Risk and Compliance Committee are put to the Board as a whole, as recommendations for the Board's decision. Minutes of the Audit, Risk and Compliance Committee meeting

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are tabled at a subsequent Board meeting. Attendance records at Audit, Risk and Compliance Committee meetings are provided in the Director's Report of the Company's Annual Report.

CEO and CFO Declaration

Prior to approval of the entity's financial statements, the Board receives from its Chief Executive Officer and Chief Financial Officer a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal controls which is operating effectively.

Auditors attendance at AGMs

The Fund is not required by the Corporations Act 2001 (Cth) to hold an Annual General Meeting (**AGM**). In the event the Fund holds a Members Meeting the Fund's external auditor, Deloitte Touche Tohmatsu (Deloitte) would be invited to attend as per the requirements of the Corporations Act 2001 (Cth).

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

Communications and Continuous Disclosure Policy

The APN Group has adopted a Communications and Continuous Disclosure Policy to ensure that securityholders and the market have equal and timely access to material information regarding developments in relation to the Company and the Funds in accordance with applicable disclosure requirements in the Corporations Act 2001 (Cth), Chapter 3 of the ASX Listing Rules and ASX Listing Rules Guidance Note 8. Such information will relate to matters including the Fund's financial position, performance, prospects, ownership and governance.

PRINCIPLE 6: RESPECT THE RIGHTS OF SECURITY HOLDERS

Website, Communications Policy and Securityholder communication

The Responsible Entity is committed to providing all stakeholders with accessible, accurate and timely information on all significant developments and activities affecting the Fund. The APN Group has adopted a Communications and Continuous Disclosure Policy in order to ensure that there is effective two-way communication between the Responsible Entity and its stakeholders.

The Fund website (<https://apngroup.com.au/fund/apn-convenience-retail-reit>) is the primary location for all Fund and governance related information as outlined in the Recommendations. The Responsible Entity ensures that its website is continually updated and contains recent announcements, webcasts, presentations, disclosure documents, market information and answers to frequently asked questions. Securityholders also have the option to receive communications from, and send communications to, the Responsible Entity and its security registry electronically.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Audit, Risk and Compliance Committee

Please refer to Principle 4 for the composition and key responsibilities of the Audit, Risk and Compliance Committee.

Risk Management Framework

The Responsible Entity recognises that risk management is a core component of APN Group's governance framework. APN Group has a documented Risk Management Framework (**Framework**) which sets out the APN Groups policy, strategy, process and approach to risk management and incorporates the guidelines described in the Australian/New Zealand Standard on Risk Management (AS ISO 31000:2018). The Framework documents how APN Group identifies, assesses, manages, monitors, records and reports key risks. The Managing Director/Chief Executive Officer and Senior Executives are responsible for managing material risks and implementing mitigating strategies. Regular updates are provided to the Board and Risk and Audit Committee on any material risks. The Fund is not exposed to material economic, environmental

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or social sustainability risks. The Board reviewed the Framework during the year and is satisfied that it remains effective and is operating as designed. A summary of the Framework is available on the APN Group website.

The Responsible Entity does not have a dedicated internal audit function however the APN Group governance framework incorporates risk-based compliance reviews on key operations and processes. Compliance reviews are reported to the Board and where applicable, to the Board of APN FM and are accompanied with recommendations for any changes to the Company's processes, systems and controls in accordance with legal and regulatory requirements.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Nomination and Remuneration Committee

Please refer to Principle 2 for the composition and key responsibilities of the Nomination and Remuneration Committee.

Remuneration policies and practices

With input from APN PG, the Nomination and Remuneration Committee assists the Board with oversight of the remuneration policies and practices. The Company's remuneration policies and practices are aimed to attract, motivate and retain high calibre Non-Executive Directors, Executive Directors and Senior Executives.

The remuneration policies and practices include competitive market rates (independent professional advice may be sought) and fixed and variable rewards that are aligned to meeting the Company's strategic objectives.

Further information is provided in the Remuneration Report outlined in the Directors Report of APN PG's Annual Report, including the remuneration paid for Directors and Key Management Personnel (KMP) in the Reporting Period.

Equity based remuneration schemes

The Responsible Entity's Non-Executive/Independent Directors do not receive any equity-based remuneration.