Freehold Investment
MANAGEMENT

December 2015 Report
Freehold Absolute Return Fund

The Freehold Absolute Return Fund takes long and short positions in listed securities exposed to assets such as office and industrial real estate, residential development, retail shopping centres, airports, ports,toll roads, rail and utilities.

Investment Objectives

Generate returns of between 12–15% per annum over rolling three year periods

Target portfolio volatility of less than 15%

Average Fund Statistics for December 2015

Number of positions:	15-20
Net Position:	~35% long
Total Long Positions:	~45%
Total Short Positions:	~10%
Gross Exposure:	~55% (longs + shorts)

Fund Performance

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2013							0.52%	4.22%	2.79%	2.14%	1.93%	-0.19%	11.90%
2014	0.57%	1.01%	1.21%	1.69%	1.71%	1.34%	1.80%	1.75%	0.36%	1.73%	0.81%	3.22%	18.59%
2015	1.49%	1.11%	0.23%	1.53%	-1.77%	1.81%	1.45%	-0.65%	-1.38%	1.29%	-0.18%	1.95%	7.15%

Performance

Rolling Quarter:	3.08%
Rolling 12 month:	7.15%
Since Inception total return:	42.19%
Since Inception annualised return:	15.12%
Observed daily volatility:	~4.9%
Positive monthly returns since inception:	87%

Attribution

Positive Contributors:	Investa Office, Vicinity Centres and Stockland
Negative Contributors:	Abacus Property Group, Transurban and GPT Group

Fund Profile

Trustee:	Freehold Capital Partners Pty Ltd, AFSL 344 188
Major Shareholders of the Trustee:	ASX listed Treasury Group (TRG) and Freehold Executives
Fund Managers:	Andrew Smith
Firm Funds Under Management:	AUD $360 million
Prime Broker and Custodian:	UBS AG
Administrator:	Citco Fund Services
Middle Office:	Mainstream BPO
Auditors and Tax:	PricewaterhouseCoopers
Legal:	DLA Piper Australia
Regulator:	Australian Securities and Investment Commission (ASIC)

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Fund Commentary and Positioning

The fund delivered a positive 1.95% for the month of December. This was the fund's strongest return for six months. The S&P/ASX300 equity index delivered a positive 2.7% return for the month. We increased the net long position of the fund during the month's early weakness enabling us to be well positioned to capture the dividends for the stocks going ex on 29th December. Many names held a portion of the dividend contributing to the fund's strong performance.

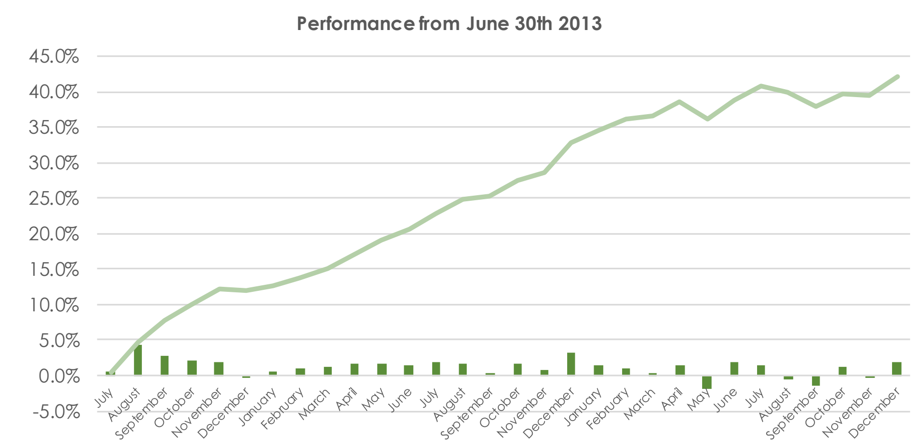
We are moving toward Half Year Results season in February. There will unlikely be any significant stock specific news announced between now and then as many companies undertake a blackout period. The key focusses for us when companies report will be: incentives and occupancy levels for the office exposed names, specialty productivity and occupancy costs for retail, weighted average lease terms and new tenant signings for indutrial and evidence of turning revenue growth into profit growth for Transurban and Sydney Airports. The two largest positions in the fund presently are Investa Office (IOF) and Westfield Group (WFD). The reasons for holding these positions are:

Investa - Has received a takeover offer from Dexus in the form of 80% scrip and 20% cash. The current metrics are below the recently updated net tangible asset backing of $3.91. Historically in the real estate sector, takeovers have not been successful unless the final offer price is north of a 10% premium to net tangible asset backing. In Investa's case, this would be approximately $4.30. Some background to this is that Morgan Stanly owns the right to manage the entire Investa Group's assets (not just the listed IOF). They are currently seeking to sell the management rights and in June, the Investa Property Trust (IPT - unlisted) was sold to the the China Investment Corporation (CIC) for a reported $2.5bn. Interestingly it is being touted in the financial press that CIC is looking to launch a takeover for IOF and battle it out with Dexus. If this was to eventuate, the price of IOF would surely appreciate. It is also worth considering that Blackstone raised US$17bn for a real estate buyout fund in May. They may have interest in the listed IOF. The point is that many potential buyers are interested in acquiring IOF, especially based on where the market price is today, below asset backing.

Westfield - we have written about the investment case for Westfield previously, however a reminder of the positive attributes we see are:

Value creation by development - WFD has a pipeline of US6.3bn representing 28% of its total portfolio. We think they will be able to meet their development schedule and also derive excellent returns for investors. When the developments start coming to fruition in the next twelve months, we expect WFD to have sector leading earnings growth of approximately 10%. It is also a direct beneficiary of the falling currency versus the $US. The underlying portfolio has evolved over time to now include worldclass flagship centres in all of the most demographically favourable global markets such as New York, Los Angeles, London, Milan and Sydney. Each of these assets has fortress like characteristics that will hold up well versus other real estate classes if we continue to see signs of global growth slowing. As we also know, management are most likely the best in class gloabally and have a keen focus on maximising investor returns.

Freehold Absolute Return Fund – Since Inception



Source: Freehold Investment Management

Fund returns remain solid, with low levels of volatility…

The Fund continues to deliver solid absolute returns with low levels of volatility, the chart on the left highlights this.

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The individual fund performance figures are based on an investment in the Fund's June 2013 Series made on July 1st, 2013, the date of the Funds' inception. The performance numbers are based on the net asset value of the Fund and are calculated net of management fees, brokerage commissions, administrative expenses, and accrued performance allocation, if any, and include the reinvestment of all dividends, interest, new issue income or loss, and capital gains.

The Firm and the Fund have a limited operating history. This report is not an offer to buy or sell any security. Offering by private offering memorandum only.

Investing in hedge funds such as the Freehold Absolute Return fund is risky and investors are exposed to capital loss. Investors should review the offering memorandum for the Fund, which contains a complete description of the investment program and its risks, in its entirety before investing.

The Fund focuses on real estate and infrastructure investments, which can be volatile and subject to market factors beyond the control of the manager.

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Volatility is calculated by using the annualised standard deviation of monthly returns since inception of the Freehold Absolute Return Fund. Standard deviation measures the distribution of returns around the mean return. Low standard deviations reflect low variation in monthly results; higher variability is usually interpreted as higher risk. Standard deviations are based on monthly results, and then annualised.

The Sharpe Ratio is the ratio of "excess return" to volatility. Excess return is defined as the annualised rate of return less the risk-free rat), using monthly returns since inception. The volatility measure is the annualised standard deviation of monthly excess returns since inception.

Reference to the S&P 500, the MSCI REIT Index are not intended to imply that the Funds invest in securities in such indices, are intended to track such indices, are invested in a manner similar to such indices, or will achieve returns, volatility or other results similar to such indices, but rather serve as an indication of the correlation between the performance of the Funds and the performance of such indices. Indices are unmanaged and cannot be invested in directly.

Any investment in the Fund is speculative and involves substantial risk, including the risk of losing all or substantially all of such investment. No representation is made that the Funds will or are likely to achieve their objective, that any investor will or is likely to achieve results comparable to the estimated performance shown, will make any profit at all or will be able to avoid incurring substantial losses.

Past performance is not necessarily indicative of future results. Year to date figures are calendar year returns, based on a hypothetical January 1st investment for each year.

Comparisons of the performance of actively managed accounts such as the Funds with passive securities indices involved material inherent limitations.

Performance estimates are presented only as of the date referenced above and may have changed materially since such date.

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