Freehold Australian Property Fund

Monthly Investment Update

FREEHOLD Investment Management

30 June 2017

Overview

The Fund is designed as a hybrid portfolio of listed and unlisted securities. The benchmark comprises 50% A-REITs and Listed Infrastructure portfolio and 50% Unlisted Property and Infrastructure funds. The listed securities portfolio is screened for pure property and infrastructure characteristics and has minimal exposure to development, currency risk and other 'active' earnings. The unlisted securities portfolio comprises a combination of institutional-grade, internally & externally managed unlisted funds, providing a diversified portfolio across the property risk spectrum. The target allocation to unlisted assets is 70% Core, 20% Value Add and 10% Development.

Investment Performance

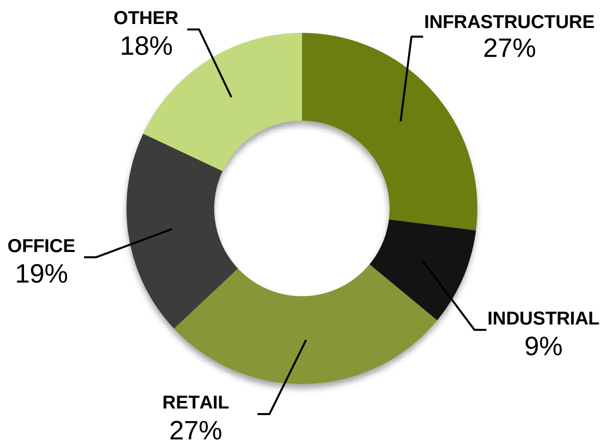
Investment Performance	Month	Quarter	1 Year	3 Years	5 Years	Since Inception*
Freehold Australian Property Fund	(1.0%)	(1.7%)	(5.4%)	12.5%	12.5%	14.1%
Combined Benchmark Index**	(0.5%)	(1.1%)	0.8%	12.3%	12.7%	13.2%
Value Added	(0.5%)	(0.6%)	(6.2%)	0.2%	(0.2%)	0.9%
S&P/ASX 300 A-REIT Accumulation Index	(0.2%)	(5.6%)	(10.6%)	10.4%	13.0%	13.9%

* Performance numbers are NET and assume reinvestment of distributions. Freehold Australian Property inception date – effective 7 November 2011.
** Freehold Australian Property Benchmark Index is derived as the A-REITs & Listed Infrastructure Customised Index and the Unlisted Property and Infrastructure Customised Index combined on a 50/50 basis.

Current & Active Weights

Asset Class	Benchmark	Range	Current	Active Weight
A-REITs	35%	20%-100%	36.1%	1.1%
Listed Infrastructure	15%	0–60%	20.4%	5.4%
Unlisted Property	50%	0%-80%	40.4%	(9.6%)
Cash	0%	0%-20%	3.1%	3.1%

Sector Allocation



CONTACT DETAILS

Level 29, 259 George Street
Sydney, NSW 2000

P. +61 2 9228 1400
E. enquiries@freeholdim.com.au

www.freeholdim.com.au

Market Commentary

The Fund's Benchmark fell by 0.5% over July, underperforming the broader A-REIT market for the period. 'Jawboning' by central banks saw bond yields continue to rise at the start of the month, however increasing concerns surrounding moderating inflationary expectations saw this partially reverse towards the end of the month. Nevertheless, these movements continued to have ramifications for the A-REIT sector and other bond proxies such as infrastructure and utility stocks given their high correlation, putting downward pressure on stock prices.

With reporting season set to dominate August, all stocks remained in blackout during the month. The release of revaluations by a number of companies was one of the only newsworthy releases for the period, with the overriding theme being one of ongoing cap rate compression and asset valuation gains. The other major news was the announcement by Vicinity Group that it intended to undertake a buyback post the release of their results. This has been suggested by many for a while given its trading price was at a discount to NTA and balance sheet in good shape. The stock reacted very positively and, as a result, we would not be surprised to see capital management initiatives implemented by a number of companies during reporting season.

Reporting season should contain very few surprises, if any, with the underlying fundamentals across the A-REIT and infrastructure space remaining strong, supported by a very low interest rate environment and robust direct market fundamentals. While an increase in global bond yields does pose a major headwind for the defensive sectors, we believe this is largely priced in as evidenced by the increasing disconnect between direct and indirect markets. Given the current yield of circa 5% and circa 4% EPS growth on average expected in FY18, the A-REIT and infrastructure sectors offer good relative value in our view.

Listed Portfolio Update

Fund attribution for the month included:

Contributors

MGR (OW): Announced the sale of a 50% stake in its Collins Street office development in Melbourne, at a very tight cap rate of 4.8%, delivering the Group a significant profit. Mirvac is expected to deliver one of the better quality results after recently guiding the market to the top of its range.

AST (UW): The selloff in bond proxies at the start of the month hit utility stocks particularly hard, with Ausnet one of those impacted.

Detractors

VCX (UW): Announced a buyback would be in place following the release of its results this month. This was very well received by the market with the stock rallying as a result.

FET (OW): The DRP pricing period coincided with a weak performance period for the stock during the month.

Top 6 Active Listed Positions

Asset Class	Sector Weight	Active Weight*
Mirvac Group	4.2%	4.2%
Spark Infrastructure Group	5.9%	3.6%
Scentre Group	27.8%	3.5%
SCA Property Group	0.0%	(1.7%)
Vicinity Centres	4.7%	(5.3%)
Dexus Property Group	3.9%	(6.6%)

*Post application of style screens

Top 6 Unlisted Positions

Fund	Portfolio Weight	Sector Weight
Charter Hall – Prime Industrial Fund	7.6%	18.6%
Heathley DMF No.2	4.4%	11.0%
AMP Wholesale Office Fund	3.9%	9.7%
AMP Diversified Infrastructure Trust	3.7%	9.2%
Eagle Property 8 Station St Property Trust	3.3%	8.2%
Westpac House Investment Trust 1	3.3%	8.1%

Fund Details	
Inception date	Model Portfolio – 7th Nov 2011 Fund – 15th Feb 2015
Objective	Outperform the Benchmark on a rolling 3-year basis
Benchmark	Derived as the A-REITs and Listed Infrastructure Customised Index and the Unlisted Property and Infrastructure Customised Index, combined on a 50/50 basis.
Investment Timeframe	3 – 5 Years
Minimum Investment	$10,000
Income Distribution	Quarterly
Unit Pricing	Weekly
Management Costs	0.165% to 1.015% p.a. (incl. GST)
Buy / Sell Spread	0.25% / 0.25%
Responsible Entity	Trustee Partners
ARSN	169 952 738
APIR Code	LAM0044AU