

# Freehold Australian Property Fund

## Monthly Investment Update



31 December 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	0.0%	5.0%	8.8%	12.3%	12.8%	14.2%
Combined Benchmark Index**	0.9%	5.1%	11.0%	13.0%	13.2%	13.5%
Value Added	(0.9%)	(0.1%)	(2.2%)	(0.7%)	(0.4%)	0.7%
S&P/ASX 300 A-REIT Accumulation Index	0.1%	7.8%	6.4%	11.3%	13.4%	14.7%

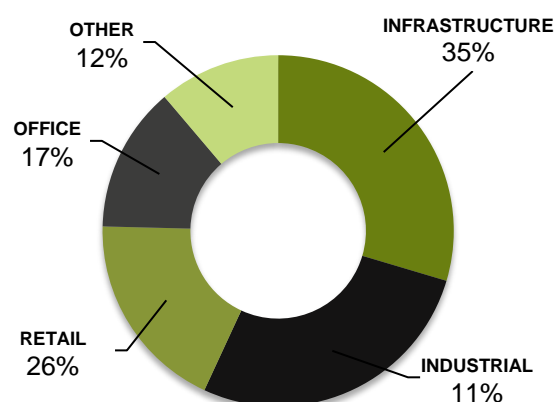
\* Performance numbers are NET and assume reinvestment of distributions. Freehold Australian Property inception date – effective 7 November 2011.

\*\* 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%	36.6%	1.6%
Listed Infrastructure	15%	0-60%	20.6%	5.6%
Unlisted Property	50%	0%-80%	40.9%	(9.1%)
Cash	0%	0%-20%	1.9%	1.9%

## Sector Allocation



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## Market Commentary

The Fund was flat in December, underperforming the broader market over the period. Corporate activity dominated the month, headlined by Unibail-Rodamco entering into an agreement to acquire Westfield Corporation at an implied enterprise value totalling \$USD27.4bn. The proposed deal has been unanimously recommended by both Boards and the Lowy family intends to retain a substantial investment in the newly merged Group. The deal is expected to close in the first half of 2018 and follows a broader shake-up in global retail malls as landlords brace for online disruption, such as Hammerson's £GBP3.4bn bid for Intu in the United Kingdom, and Brookfield's \$USD14.8bn takeover offer for General Growth Properties in the United States.

Additionally, Transurban announced the contractual close of its West Gate Tunnel project, funded partially by a \$1.9bn equity entitlement offer to existing investors. As part of the transaction, Transurban negotiated a concession extension on its CityLink toll road to 2045 and fixed rate toll escalation exceeding CPI, improving the growth outlook for the Group. The Victorian Government has guaranteed the return profile from the CityLink amendments by making substitution payments in the absence of parliamentary support. As expected, the announcement and entitlement offer was strongly supported during the month.

The current low interest rate environment globally, coupled with transactional market evidence, continues to be supportive of higher asset valuations. We continue to focus on the sustainability of income levels and have positioned the portfolio at the quality end of the investment spectrum. Whilst earnings growth remains highly visible and the sector yield remains at a healthy spread to long term bonds, we continue to believe the combined listed property and infrastructure sectors offer a sound risk-adjusted return over the medium term.

## Listed Portfolio Update

Fund attribution for the month included:

### Contributors

**WFD (OW):** In the biggest announcement of 2017, Westfield Corporation received a takeover offer from Unibail-Rodamco, representing an 18% premium to the previous close price and an implied enterprise value of \$USD27.4bn.

**TCL (OW):** As previously detailed, Transurban announced the financial close of its \$4bn Westgate Tunnel project and superior pricing outcomes from its CityLink toll road, upgrading the Group's longer dated earnings.

**APA (UW):** APA Group underperformed during December as investors continue to assess the impact of a stricter regulatory environment, enforcing increased information disclosure and arbitration from contractual disputes.

### Detractors

**VCX (UW):** Vicinity Centres benefited from a re-rate to market pricing following the Westfield announcement, however we remain cautious given the challenged growth outlook and large tail of unproductive centres within the Group's portfolio.

## Top 6 Active Listed Positions

Asset Class	Sector Weight	Active Weight*
<b>Scentre Group</b>	28.0%	3.9%
<b>Sydney</b>	11.2%	3.3%
<b>Folkstone Education</b>	3.9%	3.2%
<b>Vicinity Centres</b>	4.0%	(5.4%)
<b>Dexus Property Group</b>	5.2%	(5.4%)
<b>Investa Office Fund</b>	0.0%	(2.4%)

\*Post application of style screens

## Top 6 Unlisted Positions

Fund	Portfolio Weight	Sector Weight
<b>Heathley DMF No.2</b>	7.1%	17.4%
<b>Charter Hall Core Plus Industrial Fund</b>	6.7%	16.3%
<b>8 Station Street Property Unit Trust</b>	3.5%	8.7%
<b>AMP Capital Wholesale Office Fund</b>	3.5%	8.6%
<b>Alceon Senior Debt No.8</b>	3.2%	7.8%
<b>AMP Capital Diversified Infrastructure</b>	3.1%	7.6%

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

## Unlisted Property Portfolio

Fund	Portfolio Weight	Sector Weight
Heathley DMF No.2 (HACPF)	7.1%	17.4%
Charter Hall Core Plus Industrial Fund (CPIF)	6.7%	16.3%
8 Station Street Property (EPG8SS)	3.6%	8.7%
AMP Wholesale Office (AWOF)	3.5%	8.6%
AMP Diversified Infrastructure Trust (ADIT)	3.3%	8.1%
Alceon Senior Debt No.8 (ASDT8)	3.2%	7.8%
Westpac House Investment Trust 1 (WEST)	2.8%	6.9%
Palisade's Renewable Energy Fund (PREF)	2.1%	5.2%
Freehold Development Trust 2 (FDT2)	2.1%	5.1%
Investa Commercial Property Fund (IPG)	1.6%	3.8%
Caboolture Retail Trust (CRT)	1.5%	3.6%
Bolton Street Property Unit Trust (EPGBS)	1.0%	2.5%
Perth Rail Link Property Trust (EGPRL)	0.9%	2.1%
Freehold Development Trust 3 (FDT3)	0.8%	1.9%
Alceon Senior Debt No.2 Trust (ASDT2)	0.8%	1.9%
<b>TOTAL</b>	<b>40.9%</b>	<b>100.0%</b>

## Unlisted Portfolio Update

**HDMF2:** The Heathley Direct Medical Fund No. 2 is an unlisted property fund that invests in a portfolio of direct medical properties throughout Australia. The fund will pay its first distribution on 19<sup>th</sup> January equivalent to 5.75%, which is enhanced for our investment by a further 0.85% in the first year for providing the initial capital. The portfolio currently holds 6 assets valued at \$113m. The manager has exchanged contracts on a further 3 assets comprising 1 development asset in Concord West and 2 existing assets in Wollongong, NSW and Murarrie, QLD

**CPIF:** The Charter Hall Prime Industrial Fund CPIF holds 52 prime grade industrial assets located across Australia with 63% in NSW and Victoria. Around 67% of the assets are distribution/logistics centres and a further 27% of industrial estates. There is \$322m of committed development projects and a further \$119m of development projects at HOA stage. The fund returned 2.2% for the quarter and 9.8% for the year.

**EPG8SS:** The Eagle Property Group, 8 Station St Wollongong asset is 100% leased to the Department of Defence. As at the 1st July the yield increased from 10.3% to 10.7% on purchase price. During the quarter the asset was revalued with a resulting increase in unit price of 22%. The Department has commenced their tender process committing nearly \$7m to refurb/security/IT in building which is half of the purchase price, illustrating the importance of this asset to them. As owners we have certain obligations to do some minor work but will also use the opportunity to bring the building up to 5 star NABERS to future proof it.

**AWOF:** The AMP Wholesale Office Fund holds a 13 asset portfolio of prime and A grade office buildings focused on the eastern seaboard, with 59% of the portfolio in Sydney and 39% in Melbourne. The fund holds a single asset in Perth representing the balance of 2%. AWOF has completed \$214m of a \$300m raising of new capital to ensure the gearing remains within its target range during the funding of the investment pipeline of Wynyard Place, Quay Quarter Tower, Loftus Land and Australian Technology Park. The fund returned 4.6% for the quarter and 13.9% for the year.

**ADIT:** The AMP Diversified Infrastructure Trust provides exposure to airports, electricity and gas distribution, roads, rail rolling stock and student housing. The major asset in the portfolio is a minority ownership of Australia Pacific Airports Corporation, which owns Melbourne airport. The fund is currently raising capital for the recapitalisation and refinancing of Reliance Rail which will reduce the funds exposure to APAC from 64% to 54%. Reliance Rail is a PPP that was established to finance, design, manufacture and maintain Sydney's 78 double-decker Waratah suburban passenger trains. The fund returned 5.9% for the quarter and 14.7% for the year.

**ASDT8:** The Alceon Senior Debt Trust #8 provides debt finance to residential developers on a first mortgage basis, stepping into the gap left by the major banks who have withdrawn from this area of the market. The trust is 100% drawn with a 12% coupon on drawn capital.

**IWEST:** The ICAM Westpac House Investment Trust is a single asset fund holding Westpac House in Adelaide. The fund wrote off acquisition costs in the previous quarter and had a minor uplift in valuation with the net impact a ~11% reduction in unit price. This is expected to be fully recovered once the lease renewal of the State Government tenancy is finalised. The fund continues to distribute an 8.2% yield which is increased to 9% once the rebate of all fees is factored in, an arrangement negotiated by Freehold.

**PREF:** The investment into the Palisade Renewable Energy Fund has now been drawn to 75% of the commitment. The Fund's assets include a wind farm asset in Waterloo, South Australia which is a 131MW facility located near the town of Clare, South Australia. Stage 1 comprises 37 turbines (111MW) and has offtake agreements with Hydro Tasmania and Energy Australia for 15 years. Stage 2 (19.8MW) comprises 6 turbines. A second site is located further North in Hallett. Hallett Wind Farm is a 94.5MW facility located in South Australia. Hallett comprises 45 turbines and has a long-term offtake agreement with AGL, taking all electricity generated and renewable energy certificates in return for an agreed schedule of payments. A third asset is the Ross River Solar Farm under development in QLD which is currently 50% owned however agreement has been reached to acquire the balance of the asset.

**FDT2:** The first 4 capital drawdowns for the Freehold Development Fund 2 have occurred representing 70% of committed capital. The fund comprises the subdivision of two parcels of residential land in the Western Sydney suburbs of Oakville and Vineyard for the owner occupier market. The subject sites have now been formally rezoned in December 2017 in accordance with expectation. In anticipation the majority of works required to submit the Development Application(s) are complete with lodgement to occur in February and March respectively in line with the critical path. Preliminary tender discussions are now commencing in relation to programmed construction delivery.

**ICPF:** Investa Commercial Property Fund and ICPF Holdings are a stapled entity comprising a portfolio of 16 prime and A-Grade office assets plus the operating platform. The portfolio is 64% weighted to Sydney and 23% to Melbourne with the balance in Brisbane and Perth. ICPF has increased its stake in its listed stablemate, IOF, which represents 10.5% of the portfolio. The fund returned 6.1% for the quarter and 16.9% for the year.

**ACRT:** The Alceon Caboolture Retail Trust is a single asset fund holding the Caboolture Square shopping centre in Brisbane. The fund is delivering an 8.6% yield which is above the forecast 6.4%. Leasing activities have been strong and recently executed deals will see the yield on purchase increasing from 6.8% at purchase to 9.1% by early 2018. The strategy was to acquire at well below replacement cost and lease up the vacant space before putting back on the market in 2-4 years. We hold this as a value add asset.

**EPGBS:** Eagle Property Group has advanced discussions underway for the Bolton St Newcastle asset to increase the space the Family Law Court occupy to allow for an additional court and relocate admin to Level 1 of the adjacent building. Leasing of the remaining vacant space on Level 2 will be the subject of a fresh marketing campaign. The air conditioning upgrade is complete and lift modernisation program will be complete in February 2018. We hold this as a value add asset due to the level of vacancy on acquisition. The fund has gearing of 45.6%, is distributing 6.26%.

**EGPRL:** The units in the EG Funds Management Perth Rail Link Trust were acquired at a 15% discount to current valuation. There are two remaining assets in the fund sitting close to the Burswood Casino in Perth and next to the local train station. EG are seeking Development Applications for the sites and have commenced soft marketing of the assets to Asian buyers. The fund has 4.7% gearing sufficient to provide working capital. The fund will pay no distributions over the remaining holding period with the uplift expected to be in the range of 20-50% on the discounted purchase price of the units. We hold this as a Development asset.

**FDT3:** The first capital drawdowns for the Freehold Development Fund 3 has occurred representing 25% of committed capital. The fund comprises the subdivision of a parcel of residential land in the Western Sydney suburb of Box Hill for the owner occupier market. The site is zoned and serviced and is progressing through the pre-development consent program, with the preparation of various submissions, engineering designs and more detailed bill of quantities for the civil works phase underway. Lodgement of Development Applications will occur in March in line with the critical path.

**ASDT2:** The Alceon Senior Debt Trust #2 provides debt finance to residential developers on a first mortgage basis, stepping into the gap left by the major banks who have

withdrawn from this area of the market. The trust has repaid 75% of the capital as the underlying borrower repaid early including an early repayment penalty which has increased the return. The balance of the funds will be repaid in the Q1 of 2018.