

# Freehold Australian Property Fund

Monthly Investment Update



August 2018

## Overview

The Fund comprises a hybrid portfolio of listed and unlisted property and infrastructure against a benchmark comprising 50% A-REITs and Listed Infrastructure and 50% Unlisted Property and Infrastructure. Our listed portfolio style overlay screens for pure property and infrastructure characteristics and results in minimal exposure to development, currency risk and other 'active' earnings. The unlisted portfolio comprises institutional-grade assets within a diversified portfolio of internally and externally managed funds that spans the property risk spectrum. The target unlisted allocation is 70% Core, 20% Value Add and 10% Development.



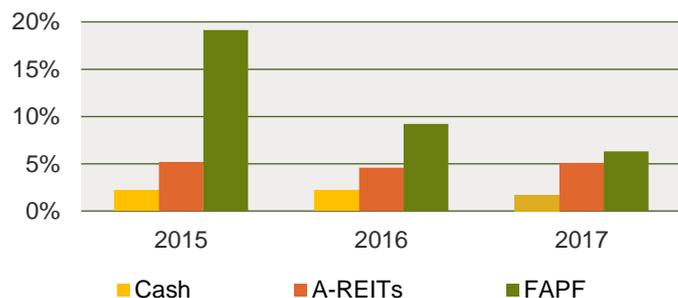
## Investment Performance

Investment Performance	Month	Quarter	1 Year	3 Years	5 Years	Since Inception**
Freehold Australian Property Fund	1.2%	4.6%	10.3%	10.0%	13.1%	13.6%
A-REITs Index*	2.6%	5.9%	15.7%	11.2%	14.2%	14.6%
Listed Infrastructure Index*	3.0%	5.5%	6.2%	13.1%	16.6%	18.3%
Unlisted Property Index*	0.4%	2.8%	11.9%	12.1%	11.0%	10.3%

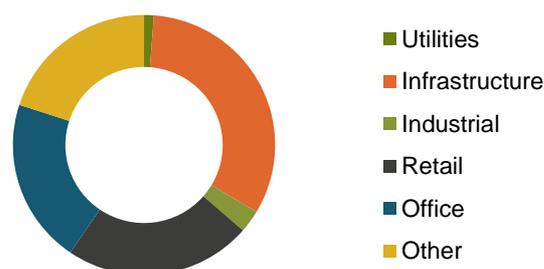
\*A-REITs Index is the S&P/ASX 300 AREIT Accumulation index; Listed Infrastructure Index is a subset of S&P/ASX 200 Index infrastructure sub industries, as defined by the Global Industry Classification Standard (GICS); Unlisted Property Index is the Mercer/IPD Australia Core Wholesale Property Fund Index

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

## Income Return<sup>1</sup>



## Sector Allocation



## CONTACT DETAILS

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## Commentary

The Fund increased by +1.2% in August, significantly outperforming the broader market for the period, with global bond yields movements supporting defensive asset classes. The market largely shrugged off significant political events in Canberra, with the focus instead on reporting season.

Broadly speaking, across the AREIT sector results were in line with market expectations with balance sheets in good shape and clear visibility on sustainable earnings profiles going forward. Office was the standout with strong rental and NTA growth evident, especially from Sydney markets. Retail stocks were at the other end of the spectrum with data highlighting an increasingly challenging sales environment and occupancy costs increasing. There was also clear evidence that the residential sales environment is slowing with both Stockland and Mirvac forecasting a reduced number of settlements in FY19 versus FY18, however this should not have come as a surprise to investors with profit margins importantly forecast to be maintained.

Corporate activity was also evident across the sector with the takeover battle for Investa Office Fund between Blackstone and new entrant Oxford Properties Group still unresolved at time of writing. While Blackstone's original bid was below NTA the emergence of Oxford as an alternate bidder has ensured investors will receive 'at least' NTA. Aventus Retail Fund announced its intention to internalise the management platform, whilst Charter Hall Group announced a takeover offer for boutique funds management group Folkstone during the month.

The infrastructure sector also delivered results that contained few surprises, with the focus instead around the \$4.2bn entitlement offer to acquire WestConnex. This was highly anticipated by the market and should set up Transurban for long term growth.

Looking forward, the AREIT sector has had a very strong run however we still believe there are some good investment opportunities at current prices. Reporting season reaffirmed the strong defensive characteristics which will prove invaluable should another equity market correction occur.

## Listed Portfolio Update

Fund attribution for the month included:

### Contributors

**MGR (OW):** Delivered a high quality result and solid earnings guidance. The Group continues to benefit from its high quality office portfolio and clear strategy.

**DXS (OW):** Another stock to benefit from the very strong growth in office markets. A lack of supply in the short term, particularly in Sydney, should continue to be supportive in the short term.

### Detractors

**SCG (OW):** A solid result but is not immune to the slowing sales environment occurring in the retail sector. We believe this has been overdone and represents good value at current prices of circa 10% discount to an understated NTA.

**VCX (UW):** Despite delivering what we view as one of the worst results of reporting season, the market is backing management to be liquidate its poorer performing assets.

## Current & Active Weights

Asset Class	Benchmark	Range	Current	Active Weight
A-REITs	35%	20%-100%	25.2%	(9.8%)
Listed Infrastructure	15%	0-60%	14.8%	(0.2%)
Unlisted Property	50%	0%-80%	51.2%	1.2%
Cash	0%	0%-20%	8.8%	8.8%

## Top 6 Portfolio Positions

Security / Fund	Portfolio Weight
Scentre Group	10.6%
Transurban Group	7.8%
Heathley Direct Medical Fund No.2	7.1%
Charter Hall Core Plus Industrial Fund	7.0%
Dexus Property Group	5.6%
8 Station Street Property Unit Trust	4.1%

Fund Details	
<b>Fund Inception Date</b>	Model Portfolio – 7 <sup>th</sup> Nov 2011 Fund – 15 <sup>th</sup> Feb 2015
<b>Objective</b>	Outperform the Benchmark on a rolling 3-year basis
<b>Benchmark</b>	Derived as the A-REITs and Listed Infrastructure Customised Index and the Unlisted Property and Infrastructure Customised Index, combined on a 50/50 basis.
<b>Investment Timeframe</b>	3-5 Years
<b>Minimum Investment</b>	\$10,000
<b>Income Distribution</b>	Quarterly
<b>Unit Pricing</b>	Daily
<b>Management Costs</b>	0.165% to 1.015% p.a. (incl. GST)
<b>Buy / Sell Spread</b>	0.25% / 0.25%
<b>Responsible Entity</b>	Trustee Partners
<b>ARSN</b>	164 098 855

Note 1 - Income Return for FAPF is the fund distribution and will include net realised capital gains.

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