Freehold Australian Property Fund

Monthly Investment Update

December 2018

Overview

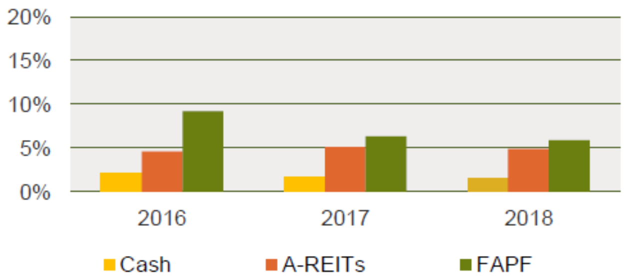
The Fund comprises a hybrid portfolio of listed and unlisted property and infrastructure against a benchmark comprising 50% A-REITs and Listed Infrastructure and 50% Unlisted Property and Infrastructure. Our listed portfolio style overlay screens for pure property and infrastructure characteristics and 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	2.5%	2.8%	6.9%	8.5%	13.1%	13.1%
A-REITs Index*	1.7%	(1.7%)	3.3%	7.8%	13.2%	13.4%
Listed Infrastructure Index*	1.6%	(0.3%)	0.7%	8.5%	14.6%	16.7%
Unlisted Property Index***	0.7%	1.6%	9.0%	11.0%	11.0%	10.3%

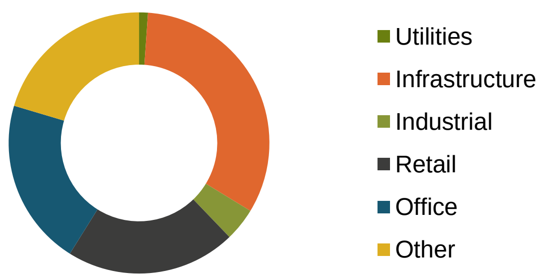
*A-REITs Index is the S&P/ASX 300 AREIT Accumulation index; Listed Infrastructure Index is a subset of S&P/ASX 200 Index infrastructure sub industries, as defined by the Global Industry Classification Standard (GICS); Unlisted Property Index is the Mercer/IPD Australia Core Wholesale Property Fund Index
** Freehold Australian Property inception date – effective 7 November 2011. Performance numbers are NET and assume reinvestment of distributions.
*** Unlisted Property Index includes an estimate of 8% per annum due to the late release of Mercer/IPD Australia Unlisted Wholesale PFI data.

Income Return[1]



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

Sector Allocation



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Commentary

The Fund increased by 2.5% in December, significantly outperforming both the broader market and AREIT Index for the third consecutive month. Equity markets continued to remain under pressure as global growth concerns, Brexit uncertainty and the US Government partial shutdown continue to weigh on risk assets. These concerns were highlighted by the extreme moves in bond markets with US and Australian bond yields declining by 35bpts and 30bpts respectively during December. This was also despite the US Federal Reserve increasing official interest rates by 0.25% to 2.5% during the month, which was also a headwind for equity markets. Domestically, market concerns continue to increase around the slowing housing market which has seen prices start to decline – in particular within Sydney and Melbourne –and home sales slow. This has resulted in an increasingly cautious consumer given the significant wealth most people have in the residential market.

In stock specific news, a number of AREITs released their most recent valuation updates. Strong gains continue to be experienced across the office sector in particular, driven by both cap rate compression and income growth. Across the retail sector however, asset revaluations look as though they are near peak levels, with anecdotal evidence suggesting rents are coming under increasing pressure despite cap rates remaining firm. This ties in to our portfolio positioning where the Fund is overweight office and heavily underweight the retail sector given our increasing concerns around the leasing market and asset values over the medium to longer term.

Across the infrastructure sector, the rally in bond yields underpinned strong relative gains for the month, given their historical high correlation. We expect this sector to continue to remain in focus for equity investors should market volatility continue and cyclical stocks come under pressure.

The strong recent performance of the Fund has coincided with increasing caution in the market. This comes as no surprise to us as the Fund design is very much to protect investor's capital by investing in high quality companies with highly predictable earnings profiles. Looking forward into 2019, volatility is unlikely to dissipate and holding a defensive strategy as part of a diversified portfolio remains a prudent option for investors, in our view.

Performance Update

Contributors

VVR (OW): Rallied strongly, more than offsetting its underperformance the month prior. The stock offers good growth underpinned by long term leases.

VCX (UW): The market is increasingly cautious with respect to the outlook for retail property. There is also increasing skepticism surrounding the Group's ability to create a $1Bn wholesale fund with Singapore's Keppel Capital, as previously announced to the market.

Detractors

SKI (OW): The final report by the Australian Energy Regulator was released during the month, which was broadly in line with market expectations. These changes will impact Spark's earning profile for the five year period beginning in late 2020.

Current & Active Weights

Asset Class	Benchmark	Range	Current	Active Weight
A-REITs	35%	20%-100%	25.0%	(10.0%)
Listed Infrastructure	15%	0–60%	14.4%	(0.6%)
Unlisted Property	50%	0%-80%	56.7%	6.7%
Cash	0%	0%-20%	3.9%	3.9%

Top 6 Portfolio Positions

Security / Fund	Portfolio Weight
Scentre Group	9.9%
Heathley Direct Medical Fund No.2	7.7%
Charter Hall Core Plus Industrial Fund	7.5%
Transurban Group	7.5%
Dexus Property Group	6.0%
8 Station Street Property Unit Trust	4.5%

Fund Details	
Fund 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	Daily
Management Costs	0.165% to 1.015% p.a. (incl. GST)
Buy / Sell Spread	0.25% / 0.25%
Responsible Entity	Trustee Partners
ARSN	164 098 855

FREEHOLD
Investment Management

Unlisted Property Portfolio

Fund	Portfolio Weight	Sector Weight
Heathley Direct Medical Fund No.2	**7.9%**	**13.7%**
Charter Hall Core Plus Industrial Fund	7.7%	13.4%
8 Station Street Property Unit Trust	4.6%	7.9%
AMP Capital Wholesale Office Fund - Class A units	4.4%	7.6%
Jade Development Fund No.1	4.3%	7.4%
AMP Capital Diversified Infrastructure Trust	4.1%	7.1%
Palisade's Renewable Energy Fund	3.8%	6.6%
Alceon Senior Debt No.8 Trust	3.5%	6.2%
Westpac House Investment Trust 1	3.3%	5.8%
Freehold Development Trust 2	2.4%	4.2%
Investa Commercial Property Fund	1.8%	3.2%
Alceon Apartment Finance Trust	1.8%	3.1%
Caboolture Retail Trust	1.6%	2.8%
Micro Nest Holding Trust	1.6%	2.8%
Freehold Development Trust 3	1.5%	2.6%
Bolton Street Property Unit Trust	1.3%	2.2%
Alceon UPG Trust	1.0%	1.8%
Perth Rail Link Property Trust	0.9%	1.6%
TOTAL	57.6%	100.0%

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 portfolio currently holds 10 assets valued at $191m. Heathley attempted to list the portfolio via an IPO, however, the offer was pulled after it became clear the market was unlikely to support it in the form it was offered. We have a separate agreement with Heathley where they paid FAPF an additional upfront fee as a type of underwrite to seed the fund and were due to provide liquidity for our position prior to 31 December 2018. At this point they have not delivered on this and we have commenced discussions on terms to provide an extension of time. The distribution yield on the existing units is 5.75%.

CPIF: The Charter Hall Prime Industrial Fund holds 53 prime grade industrial assets located across Australia with 33.5% in NSW, 30.2% in Victoria and 22.2% in QLD. Approximately 65% of the assets are distribution/logistics centres and a further 22% of industrial estates. During the quarter Charter Hall announced the acquisition of two core logistics properties in Dandenong South, VIC and Kewdale WA. Both assets are underpinned by strong investment grade tenant covenants on long term leases and offer potential expansion opportunities.

EPG8SS: The Eagle Property Group, 8 Station St Wollongong asset is 100% leased to the Department of Defence. Tenant upgrade works were expected to be finished on the 18th of December however new additional works were added to the tenants upgrade programme which are estimated to add approximately 4.5 weeks to the programme. Works will recommence in January. Leasing negotiations are underway to extend the Department's occupation for the long term. The distribution based on initial purchase price has increased to 11.2% and approximately 7.6% on current valuation.

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 did hold a single asset in Perth representing the balance of 2%, however, during the quarter the Fund completed the sale of its 50% interest in Exchange Plaza, Perth. The asset was sold for a net price of $154.7 million (AWOF 50% interest), reflecting a premium to book value of 5.6%. The divestment focuses the Fund's portfolio purely on the outperforming markets of Sydney and Melbourne, with the exposure to these markets aligning with the Fund's strategy to provide investors with stable, risk-adjusted returns.

JDF1: The Jade Development Fund principally invests in Junior Notes issued by the Securitisation Trust in respect of a Funding Warehouse Series, which holds a pool of insured and uninsured mortgages. The notes are intended to be held by the Fund to maturity. The Trustee may elect to dispose of some or all of the notes at any time 18 months after the establishment of the Fund (or an earlier date approved by a vote of 75% of units voting at a meeting). Freehold has negotiated a strong fixed monthly return (margin + BBSW) with the Trustee for the investment.

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 (APAC), which owns Melbourne airport. During the quarter AMP Capital announced a partnership with the University of Melbourne to develop two student accommodation facilities under a 40-year agreement delivering long term inflation-linked cash flows. The initial two residences "303 Royal Parade" and "Little Hall" will deliver 954 beds and will be operated under the University of Melbourne brand.

PREF: The Palisade Renewable Energy Fund's assets include wind farm assets in Waterloo and Hallett, South Australia and Granville Harbour, Tasmania, and Ross River Solar Farm in QLD. Granville Harbour is currently in construction phase and due to be operational by the end of 2019. During the quarter Palisade announced the partial sell down of Granville Harbour Wind Farm, whilst maintaining a strategic 50.2% interest in the project. The proceeds received from the sell down are in excess of two times capital invested over a 15 month hold period. Additionally, PREF announced the successful refinancing of a new $140m, 11.5 year debt facility for its Waterloo Wind Farm project, with strong demand witnessed from Japanese institutional investors.

ASDT8: These Alceon Senior Debt Fund 8 provide 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 ASDT8 senior debt trust is 100% drawn with a 12% coupon on drawn capital. As of end 2018, approximately 25% of the facility capital has been paid back. It is anticipated that the remainder of the facility will be paid by during 2019.

IWEST: The ICAM Westpac House Investment Trust is a single asset fund holding Westpac House in Adelaide. Discussions have concluded with respect to the lease renewal of the State Government tenancy where they have advised they will not exercise their 3-year option. The current lease expires on 31 December 2019 so there is still significant time for ICAM to look for an alternative for the space, which represents around a third of the building. During the quarter we have worked closely with ICAM interrogating their plans for their debt facilities and funding capital expenditure for the asset in light of the upcoming vacant space. There is some risk attached to this position as a result of this and will continue to monitor and influence the outcome where appropriate.

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. Development Applications for both sites have been lodged during March but are currently disputed legally with council. This is the result of the developer disputing the introduction of additional development contribution payments (Sec94) rather than the development itself. A court decision is anticipated in circa Q1 2019. Preliminary demolition works are commencing in the meantime to prepare for construction after DA as well as preparations for the marketing process and the introduction of financing.

ICPF: Investa Commercial Property Fund and ICPF Holdings are a stapled entity comprising a portfolio of 15 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. During the quarter Investa continue to make good progress on their new commercial development located at 60 Martin Place, Sydney. During the quarter, construction continued to progress with the core completed up to level 30 and leasing commitments currently totalling over 75%. With a forecast estimated yield on cost of 6.75% upon completion, this asset should provide a significant upside to unitholders once complete.

AAFT: The Alceon Apartment Finance Trust provides debt finance to residential developers on a first mortgage basis to finance completed apartments which haven't been sold prior to completion. The fully drawn fund invests in stock of 6 highly credential developers and forecasts an IRR of 11% to investors.

ACRT: The Alceon Caboolture Retail Trust is a single asset fund holding the Caboolture Square shopping centre in Brisbane. The fund is delivering a 7.0% yield and is on track to deliver or exceed the target return of 17% IRR. 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 and this is likely to see the asset divested early to mid 2019. We hold this as a value add asset.

Micronest: The Micronest Holding Trust is a fund set up to participate in the build to rent sector, initially through a Co-Living strategy. The first asset has been secured which is a property in Ashfield that will be redeveloped into 29 units. Two further sites have been optioned up and combined on the North Shore of Sydney and a DA for approx. 70 units has been lodged with council. There will be an initial development phase followed by a longer-term hold during which the targeted cash flow yield will be in the order of 6%pa.

FDT3: The capital drawdowns for the Freehold Development Fund 3 have all occurred. 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 Development Approval has been received in November 2018. Advanced tender discussions to programmed construction delivery as well as preparations for the marketing process and sourcing debt financing is underway. Initial demolishing works will commence in Q1 2019.

EPGBS: Eagle Property Group has executed a Heads of Agreement 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. The only condition is obtaining an approved DA from the City of Newcastle to allow a connection between the buildings.. The fund has gearing of 45.6% and is distributing 6.3%.

AUPG: The Alceon Universal Property Group debt fund 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 AUPG junior debt trust is 58% drawn with a coupon of 14% and is delivering its target returns.

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 have confirmed that all the necessary approvals are in place and is now only subject to gazetting. EG can now reinitiate the sales campaign where the sites will be advertised both nationally and internationally. We hold this as a Development asset.