

Freehold Australian Property Fund

Monthly Investment Update



28 February 2018

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	(1.8%)	(2.9%)	5.4%	8.5%	11.2%	13.3%
Combined Benchmark Index**	(1.3%)	(1.9%)	7.2%	9.8%	11.7%	12.7%
Value Added	(0.5%)	(1.0%)	(1.8%)	(1.3%)	(0.5%)	0.6%
S&P/ASX 300 A-REIT Accumulation Index	(3.2%)	(6.2%)	0.5%	5.0%	10.2%	13.1%

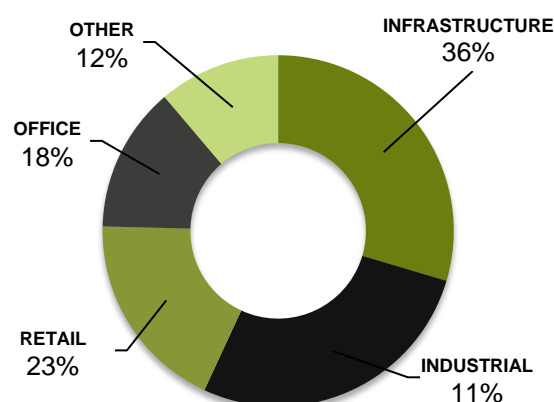
* Performance numbers are NET and assume reinvestment of distributions. Freehold Australian Property inception date – effective 7 November 2011.

** 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%	34.7%	(0.3%)
Listed Infrastructure	15%	0-60%	19.8%	4.8%
Unlisted Property	50%	0%-80%	43.9%	(6.1%)
Cash	0%	0%-20%	1.6%	1.6%

Sector Allocation



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Market Commentary

The Fund's Benchmark declined in February, underperforming the broader market over the period. The ongoing selloff in US Bonds continues to represent a major headwind for defensive sectors such as A-REITs and Infrastructure securities. That said, while US Bond yields increased by a further 16bps during the month, Australian 10-year bonds remained virtually unchanged. This likely reflects the different economic backdrop the respective economies are experiencing in the current climate where the US are forecasting 3 interest rate increases over CY18 compared to no expected change in Australia.

Reporting season dominated the month of February. Most stocks either reaffirmed or tightened full year guidance expectations and asset values continued to increase, driven by a combination of both cap rate compression and income growth. Office markets in particular continue to experience strong underlying effective rental growth while better retail assets are displaying the highly defensive qualities expected from the sector where occupancy levels remain near full capacity and sales growth remains resilient. Across the residential space there remains high visibility of forward settlements with strong embedded margins. Industrial property also continues to be resilient. Results across the infrastructure space were also largely in line with expectations, underpinned by highly predictable revenue growth and cost line that will continue to drive solid earnings growth going forward.

The decline in both A-REITs and Infrastructure sectors over the past two months is not the result of a deterioration in underlying fundamentals or earnings, rather the increase in bond yields, particularly in the US. This clearly has the potential to run further, creating an ongoing headwind for defensive asset classes. That said, balance sheets remain in good shape and underlying property market fundamentals remain sound. Furthermore, the recent selloff has seen an increasing disconnect between listed and direct asset classes which we know from experience is unlikely to remain for too long. The recent pullback across the sector offers a relatively attractive entry point from a valuation standpoint, however we remain cognisant of the underlying macroeconomic events that may continue to impact the markets.

Listed Portfolio Update

Fund attribution for the month included:

Contributors

SKI (OW): Regained much of the previous month's underperformance following a stabilisation in domestic bond rates and a sold result that delivered strong underlying cashflows.

VCX (UW): At their recent result the implications of an increasingly challenging retail trading environment are starting to emerge, while the market also remains cautious on their new strategy of undertaking mixed use developments in off balance sheet structures.

Detractors

SCP (UW): Owner of a large portfolio of supermarket anchored convenience shopping centres, the Group's result reinforced the highly defensive characteristics of this asset class.

Top 6 Active Listed Positions

Asset Class	Sector Weight	Active Weight*
Spark Infrastructure	5.9%	3.8%
Folkstone Education	4.2%	3.6%
Scentre Group	26.9%	3.3%
Vicinity Centres	4.1%	(5.1%)
Dexus Property Group	7.7%	(3.2%)
GPT Group	7.3%	(2.6%)

*Post application of style screens

Top 6 Unlisted Positions

Fund	Portfolio Weight	Sector Weight
Heathley DMF No.2	7.4%	16.8%
Charter Hall Core Plus Industrial Fund	6.8%	15.5%
AMP Capital Wholesale Office Fund – Class A	3.8%	8.6%
8 Station Street Property Unit Trust	3.7%	8.4%
AMP Capital Diversified Infrastructure Trust A	3.4%	7.8%
Alceon Senior Debt No.8 Trust	3.3%	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