Freehold Australian Property Fund

Monthly Investment Update

31 January 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	(1.1%)	2.1%	10.4%	9.9%	11.9%	13.8%
Combined Benchmark Index**	(1.6%)	2.1%	11.0%	11.0%	12.3%	13.1%
Value Added	0.5%	0.0%	(0.6%)	(1.1%)	(0.4%)	0.7%
S&P/ASX 300 A-REIT Accumulation Index	(3.2%)	2.0%	8.1%	7.5%	11.7%	13.9%

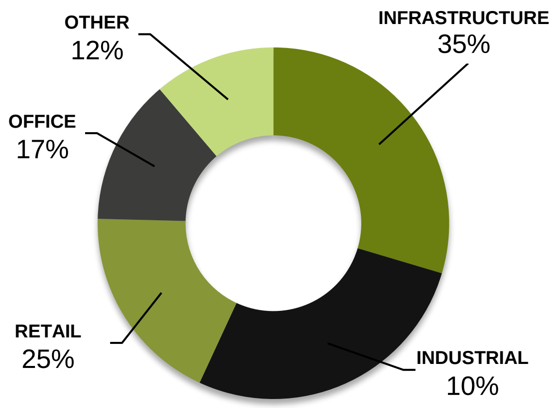
* Performance numbers are NET and assume reinvestment of distributions. Freehold Australian Property inception date – effective 7 November 2011.

** 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%	35.6%	0.6%
Listed Infrastructure	15%	0–60%	20.0%	5.0%
Unlisted Property	50%	0%-80%	42.5%	(7.5%)
Cash	0%	0%-20%	1.9%	1.9%

Sector Allocation



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FREEHOLD
Investment Management

Market Commentary

The Fund's Combined Benchmark declined by 1.6% in January. The listed portfolio was the main detractor, with its selloff primarily attributed to the sharp increase bond yields during the month, with US Bond yields increasing by 30bpts on the back of increasing inflationary expectations coinciding with an improving US economy. Domestically, AUD bond yields also increased by 13bpts to 2.79% – the 4th consecutive monthly increase – which in turn placed downward pressure on both listed property and infrastructure securities. This was primarily driven by movements in the US rather than any imminent increase in domestic rates, especially given the latest inflation figure was below the RBA band and wages growth remains anaemic.

Market news during the month was relatively subdued, which was not surprising given companies were in black out in the lead up to reporting season. Despite this, a number of companies chose to release their latest asset revaluations which on the whole continued to place upward pressure on NTAs. In the infrastructure space the long serving CEO of Sydney Airport Kerrie Mather retired and was replaced by Geoff Culbert. The Group posted another solid set of traffic numbers, particularly from international passengers.

We are in interesting times with the fairly significant increases in bond yields over the past few months leaving investors to wonder just how much further they have to go and what it means for equity valuations. While rising bond yields no doubt represent a significant headwind for defensive sectors, balance sheets remain in good shape and underlying property market fundamentals sound. This should be reinforced during the upcoming reporting season where we do not expect any major surprises. That said, we continue to position the portfolio towards the quality end of the spectrum given our view that risk has been mispriced over the late stage of the cycle. The recent pullback in the sector offers a relatively attractive entry point from a valuation standpoint, however, macroeconomic events may continue to impact the sector over the short to medium term.

Listed Portfolio Update

Fund attribution for the month included:

Contributors

CQR (UW): Owns a portfolio of sub-regional and neighbourhood shopping centres which are facing increasing structural headwinds. Also saw Moody's downgrade their credit outlook during the month.

AST (UW): A regulated utility owner impacted by the selloff in bonds given their high negative correlation rather than any underlying business issues.

Detractors

SKI (OW): As per Ausnet (AST.ASX) this is a regulated utility owner impacted by the selloff in bonds given their high negative correlation rather than any underlying business issues.

MGR (OW): The slowdown across residential markets has put downward pressure on Mirvac's share price. There will also be a skew to the second half for residential settlements.

Top 6 Active Listed Positions

Asset Class	Sector Weight	Active Weight*
Scentre Group	28.1%	3.8%
Spark Infrastructure	5.5%	3.5%
Folkstone Education	3.9%	3.2%
Vicinity Centres	4.0%	(5.5%)
Dexus Property Group	5.3%	(5.3%)
Investa Office Fund	0.0%	(2.4%)

*Post application of style screens

Top 6 Unlisted Positions

Fund	Portfolio Weight	Sector Weight
Heathley DMF No.2	7.3%	17.2%
Charter Hall Core Plus Industrial Fund	6.7%	15.9%
AMP Capital Wholesale Office Fund – Class A	3.7%	8.8%
8 Station Street Property Unit Trust	3.7%	8.6%
AMP Capital Diversified Infrastructure Trust A	3.4%	8.0%
Alceon Senior Debt No.8 Trust	3.3%	7.7%

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