Freehold Australian Property Fund

Monthly Investment Update

FREEHOLD
Investment Management

July 2018

Overview

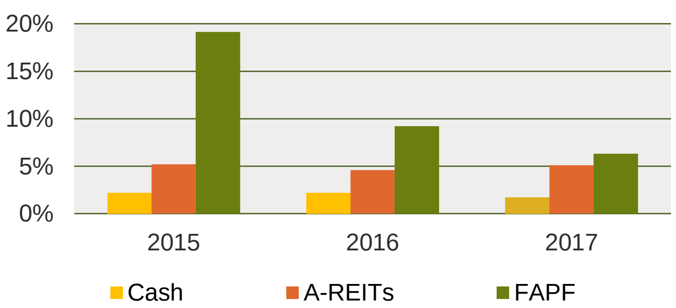
The Fund comprises a hybrid portfolio of listed and unlisted property and infrastructure against a benchmark comprising 50% A-REITs and Listed Infrastructure and 50% Unlisted Property and Infrastructure. Our listed portfolio style overlay screens for pure property and infrastructure characteristics and 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

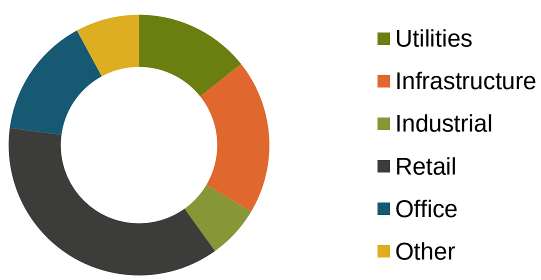
Investment Performance	Month	Quarter	1 Year	3 Years	5 Years	Since Inception**
Freehold Australian Property Fund	0.2%	4.7%	10.3%	9.1%	12.8%	13.5%
A-REITs Index*	1.0%	6.3%	14.5%	9.1%	13.4%	14.4%
Listed Infrastructure Index*	(1.4%)	4.4%	9.8%	11.5%	15.9%	18.0%
Unlisted Property Index*	0.3%	2.8%	11.9%	12.2%	11.1%	10.4%

*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[1]



Sector Allocation



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Commentary

The Fund increased by 0.2% in July, underperforming the broader market for the period. Australian bond yields generally traced higher, only to close the month flat as a result of ongoing US trade tensions overshadowing its increasingly positive economic data, where underlying US GDP remains over +4% in annual terms. Domestically, the RBA remained on hold and indicated that rates are unlikely to increase for some time, underpinning returns from defensive asset classes such as REITs and infrastructure.

In sector news, Blackstone's ongoing takeover proposal for Investa Office Fund saw the Independent Expert unsurprisingly announce the current offer of $5.15 to be 'not fair but reasonable' given the implied discount to its $5.45 net tangible backing. Given there are no competing bids, Blackstone is unlikely to increase its offer; yet current owners may not support the deal, thus creating a stalemate. Within the residential sector, both Stockland and Mirvac reaffirmed earnings guidance at the top of their respective ranges. In contrast to negative news headlines, we have retained confidence in the earnings outlook for both residential names, and pleasingly these holdings were strong contributors to the Fund's performance during July. Additionally, the ACCC announced a delay to the WestConnex competition review thereby putting uncertainty around Transurban's eligibility in the bid process. It is yet to be seen whether the State Government will remain committed to its original approval time frame.

The month ahead will be dominated by reporting season, which will provide investors with a good assessment as to how underlying businesses are travelling. Given the Fund's defensive positioning and the highly predictable nature of underlying earnings, we are not expecting any major surprises within the portfolio.

Listed Portfolio Update

Fund attribution for the month included:

Contributors

MGR (overweight): The Group tightened its FY18 earnings guidance and also announced the launch of its Build-to-Rent capability with the Clean Energy Finance Corporation.

SGP (overweight): Despite negative residential sentiment, the stock performed strongly after tightening earnings at the top end of its guidance range.

Detractors

SCG (overweight): Experienced profit taking after a period of strong relative gains. Announced the acquisition of a 50% interest in Westfield Eastgardens at a 4.25% cap rate which further reinforces Scentre's underlying portfolio value given its current implied cap rate is over 5%.

TCL (overweight): WestConnex uncertainty and its potential funding continues to influence short term trading in Transurban.

Current & Active Weights

Asset Class	Benchmark	Range	Current	Active Weight
A-REITs	35%	20%-100%	31.8%	(3.2%)
Listed Infrastructure	15%	0–60%	18.0%	3.0%
Unlisted Property	50%	0%-80%	47.8%	(2.2%)
Cash	0%	0%-20%	2.3%	2.3%

Top 6 Portfolio Positions

Security / Fund	Portfolio Weight
Scentre Group	13.7%
Transurban Group	8.2%
Heathley Direct Medical Fund No.2	6.7%
Dexus Property Group	6.6%
Charter Hall Core Plus Industrial Fund	6.5%
Sydney Airport	4.7%

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

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

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