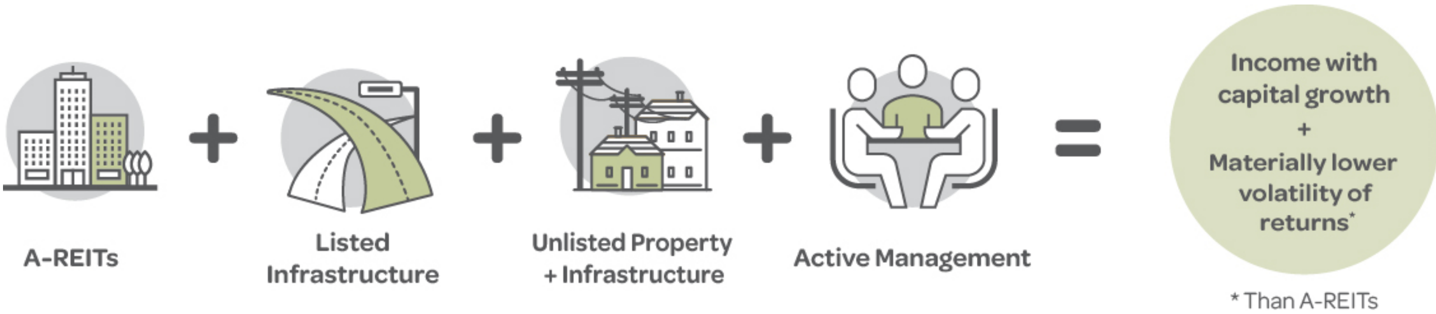
Freehold Australian Property Fund

Monthly Investment Update

June 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.

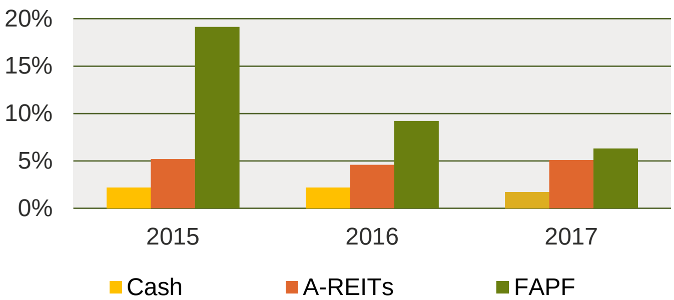


Investment Performance

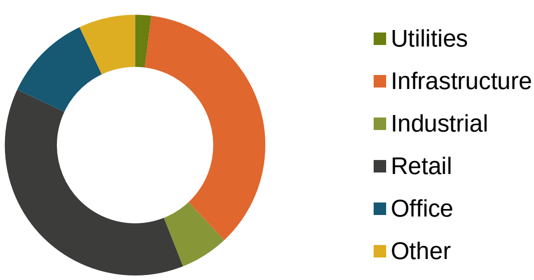
Investment Performance	Month	Quarter	1 Year	3 Years	5 Years	Since Inception**
Freehold Australian Property Fund	3.2%	6.9%	9.0%	10.9%	12.7%	13.7%
A-REITs Index*	2.3%	9.8%	13.2%	10.8%	13.0%	14.4%
Listed Infrastructure Index*	3.9%	10.2%	6.5%	14.8%	17.1%	18.5%
Unlisted Property Index*	2.0%	2.8%	12.0%	12.3%	11.1%	10.5%

*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



CONTACT DETAILS
Level 29, 259 George Street
Sydney, NSW 2000
P. +61 2 9228 1400
E. enquiries@freeholdim.com.au
www.freeholdim.com.au

Commentary

The Fund increased by 3.2% in June, slightly underperforming the broader market for the period. Bond yields sold off at the start of the month in anticipation of further US rate rises, before increasing trade tensions saw this reverse. Domestically, economic conditions remain broadly resilient following a solid Q1 GDP print (+1.0%) which was slightly above market expectations. Declining residential prices, albeit only modest, continue to remain topical and are influencing softer consumer sentiment. While we do not expect an interest rate rise in the near term to place further downward pressure on residential prices, the increasingly restrictive availability of credit and low wages growth has added to consumer pressures.

Within real estate, the revised NTA for Investa Office was reported at $5.48 following its latest asset revaluations. Interestingly, this is above the live takeover offer by Blackstone Group of $5.15 which has been recommended by the independent directors. We are closely watching how this plays out, with the current bid below NTA unlikely to gain widespread support, although we view the potential for a higher bidder emerging as unlikely. Meanwhile, APA Group received an unsolicited proposal from a consortium led by CK Infrastructure Holdings (CKI) to acquire all units at $11.00, or a 33% premium to its previous trading price. While its share price initially rose sharply, APA still trades significantly under the proposed offer. Given the market concentration associated with owning more than 9,000 miles of critical gas pipelines, the proposed takeover will require numerous regulatory approvals, including ACCC and FIRB.

Strong quarterly performance has bridged the gap between listed and direct valuations, reinforced by recent corporate activity. While global bond movements will continue to influence short term returns, we remained focussed on the upcoming reporting season and in particular forward earnings guidance. Current valuations offer investors a yield in excess of 5% with sound earnings growth, which underpins a solid defensive proposition in the current economic environment.

Listed Portfolio Update

Fund attribution for the month included:

Contributors

VCX (UW): Experienced profit taking after last month's strong gains.

VVR (OW): We have been strong supporters of the Viva Energy REIT model for some time, with the market realizing inherent value during the month.

Detractors

APA (UW): An unsolicited proposal from CK Group to acquire all units in the stock at a 33% premium to its trading price resulted in strong gains.

MGR (OW): Increasing concerns surrounding the Group's residential exposure continue to weigh on the stock price. We are confident that Mirvac will report a strong financial result in August and believe the short term negative sentiment has opened up compelling value.

Current & Active Weights

Asset Class	Benchmark	Range	Current	Active Weight
A-REITs	35%	20%-100%	35.6%	0.6%
Listed Infrastructure	15%	0–60%	16.0%	1.0%
Unlisted Property	50%	0%-80%	45.1%	(4.9%)
Cash	0%	0%-20%	3.3%	3.3%

Top 6 Portfolio Positions

Security / Fund	Portfolio Weight
Scentre Group	15.1%
Transurban Group	8.6%
Heathley DMF No.2	6.7%
Dexus Property Group	6.4%
Charter Hall Prime Industrial Fund	6.1%
GPT Group	5.1%

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	Weekly
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.

FREEHOLD
Investment Management

Unlisted Property Portfolio

Fund	Portfolio Weight	Sector Weight
Heathley DMF No.2	6.7%	14.8%
Charter Hall Core Plus Industrial Fund	6.1%	13.6%
AMP Capital Wholesale Office Fund	3.7%	8.1%
AMP Capital Diversified Infrastructure Trust	3.4%	7.6%
8 Station Street Property Unit Trust	3.3%	7.4%
Palisade's Renewable Energy Fund	3.2%	7.1%
Alceon Senior Debt No.8 Trust	3.0%	6.6%
Westpac House Investment Trust 1	2.7%	5.9%
Jade Development Fund No.1	2.2%	5.0%
Freehold Development Trust 2	2.1%	4.6%
Investa Commercial Property Fund	1.5%	3.4%
Alceon Apartment Finance Trust	1.5%	3.3%
Caboolture Retail Trust	1.4%	3.1%
Micro Nest Holding Trust	1.4%	3.0%
Bolton Street Property Unit Trust	1.0%	2.1%
Perth Rail Link Property Trust	0.8%	1.8%
Freehold Development Trust 3	0.8%	1.6%
Heathley Medical Development Fund No.3	0.5%	1.0%
TOTAL	45.1%	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 $176m. Of the 10 assets, 3 of these are fund throughs and 1 is a development in Ashgrove, Brisbane. There is a pipeline of a further 3 modern single storey day surgery assets totalling $21.5m. The fund has distributed 5.75% for the full year.

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. Around 65% of the assets are distribution/logistics centres and a further 22% of industrial estates. During the quarter Charter Hall sold its 50% interest in the Commercial & Industrial Property (CIP) to ESR Developments Australia following an unsolicited approach. The CIP partnership delivered both a pipeline and development management platform to CPIF. Charter Hall now believe they have sufficient internal capability. The fund returned 4.0% for the quarter and 9.8% for the year.

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 holds a single asset in Perth representing the balance of 2%. During the quarter the Quay Quarter Tower and Loftus Lane developments progressed with demolition occurring at both sites. Wynyard Place and South Eveleigh development sites are also progressing with in ground works underway. The fund returned 2.8% for the quarter and 11.9% for the year.

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 the fund divested its position in Interlink Roads through a sale to Transurban, delivering a strong uplift in unit price. The fund returned 6.0% for the quarter and 17.9% for the year.

EPG8SS: The Eagle Property Group, 8 Station St Wollongong asset is 100% leased to the Department of Defence. As at the 1st July the yield increased from 10.3% to 10.7% on purchase price. In the previous quarter the asset had a further revaluation resulting in a further increase in unit price of 15%. The Department has commenced their fitout works having committed to ~$7m to refurb/security/IT in the building, which is more than half of the purchase price, illustrating the importance of this asset to them. Leasing negotiations have commenced to extend the Department's occupation for the long term.

PREF: The Palisade Renewable Energy Fund's assets include wind farm assets in Waterloo and Hallett, South Australia, and Granville Harbour, Tasmania. Granville Harbour is currently in construction phase and due to be operational by the end of 2019. A further asset is the Ross River Solar Farm under development in QLD which is now 100% owned following the acquisition of the remaining 50%. This asset is due to be complete by Q3 of 2018. The fund returned 9.0% for the quarter and 16.2% for the year.

ASDT8: The Alceon Senior Debt Trust #8 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 trust is 100% drawn with a 12% coupon on drawn capital.

IWEST: The ICAM Westpac House Investment Trust is a single asset fund holding Westpac House in Adelaide. The Fund's unit price still reflects the write off of acquisition costs Discussions continue with the lease renewal of the State Government tenancy following the recent election process with put this on hold. The fund continues to distribute an 8.2% yield which is increased to 9% once the rebate of all fees is factored in, an arrangement negotiated by Freehold.

JDF1: The Jade Development Fund principally invests in Junior Notes issued by the Securitisation Trust in respect of the 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 compelling fixed monthly return (margin + BBSW) with the Trustee for the investment.

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. The subject sites have now been formally rezoned in December 2017 in accordance with expectation. Development Applications for both sites have been lodged during March in line with the critical path. Tender discussions are now commencing in relation to programmed construction delivery 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 reported that they have discussed selling 50% of the management platform to Macquarie Capital which will be put to unitholder vote. The fund returned 5.6% for the quarter and 16.4% for the year. The manager has issued a notice providing the opportunity to participate in the 10 year liquidity window.

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 4 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 an 6.0% yield and is on track to deliver the target return of 17% IRR. However, the manager has held back a forecast return of capital payment to fund further capex requirements distributing $750k as opposed to $2.7m. 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 late 2018. 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 the of new generation boarding house model. 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 is being prepared. 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.

EPGBS: Eagle Property Group has advanced discussions underway 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. Leasing of the remaining vacant space on Level 2 is nearly complete. We hold this as a value add asset due to the level of vacancy on acquisition. The fund has gearing of 45.6% and is distributing 6.71%. An uplift in valuation saw an uplift in unit price of 10%.

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 are seeking Council approval for a planning scheme amendment to bring the Council's local planning scheme in line with the State Governments Structure plan. EG has commenced soft marketing of the assets to Asian buyers. The fund has 5.8% gearing sufficient to provide working capital. The fund will pay no distributions over the remaining holding period with the uplift expected to be in the range of 20-50% on the discounted purchase price of the units. We hold this as a Development asset.

FDT3: The first capital drawdowns for the Freehold Development Fund 3 has occurred representing 50% of committed capital. 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 site is zoned and serviced and is progressing through the pre- development consent program, with the DA lodged on 20th of June. Preliminary tender discussions are now commencing in relation to programmed construction delivery as well as preparations for the marketing process and sourcing debt financing.

HMDF3: The Heathley Medical Development Fund 3 was a short term funding facility which returned a 25%pa income return on $1.5m over 3 months, plus an upfront establishment fee. The investment has now been fully realised.

CONTACT DETAILS

Level 29, 259 George Street
Sydney, NSW 2000

P. +61 2 9228 1400
E. enquiries@freeholdim.com.au

www.freeholdim.com.au