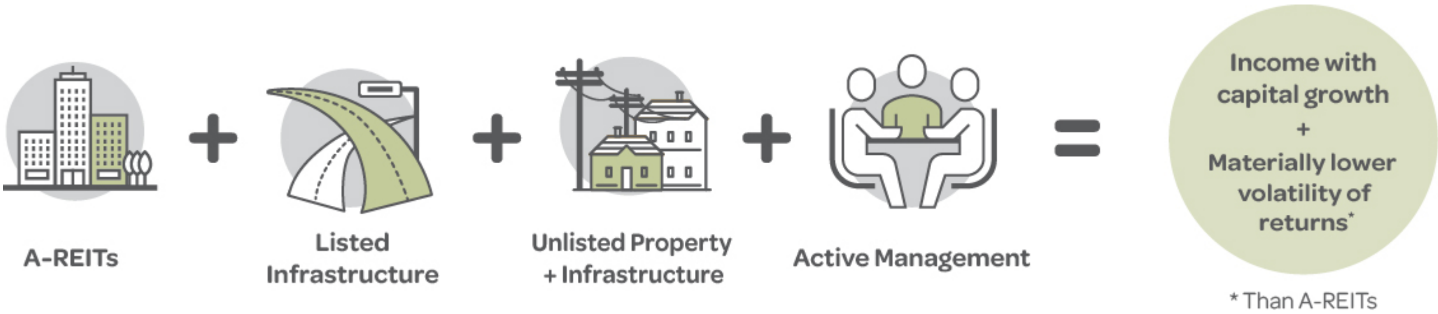
Freehold Australian Property Fund

Monthly Investment Update

March 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.

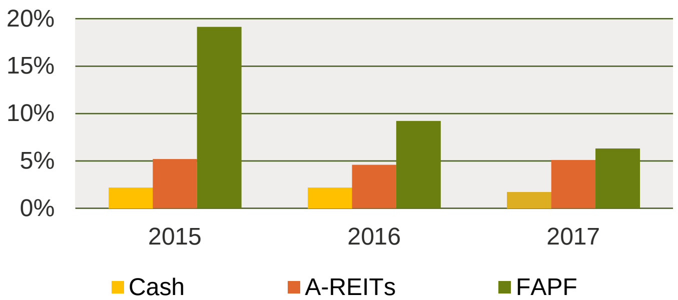


Investment Performance

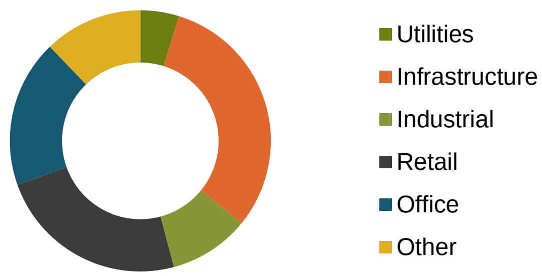
Investment Performance	Month	Quarter	1 Year	3 Years	5 Years	Since Inception**
Freehold Australian Property Fund	0.0%	(2.9%)	3.2%	8.6%	11.2%	13.1%
A-REITs Index*	0.1%	(6.2%)	(0.1%)	5.8%	10.8%	13.6%
Listed Infrastructure Index*	(2.7%)	(5.4%)	(1.0%)	6.9%	10.6%	11.6%
Unlisted Property Index*	1.6%	2.3%	12.1%	12.3%	11.0%	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 was flat in March, outperforming the broader market by over 3% for the period. Both US and Australian bonds rallied during the month following news that the United States is planning to impose trade restrictions to support its own industries. This prospect of a 'trade war' saw the market begin to rotate back towards more defensive stocks. Domestically meanwhile, Q4 GDP was released below market expectations at 0.4% (consensus 0.5%) and the unemployment rate ticked up slightly to 5.6%. These softer figures suggested an increased sense of caution is beginning to hang over the economy.

News flow was relatively quiet during March, which is not unexpected given almost all companies reported in February. Cromwell Property Group announced that it had secured a new 'cornerstone' investor in ARA Group via its acquisition of a 19.5% stake and subsequent convertible note offer, which saw the Group deliver the strongest gain for the month.

Meanwhile, Unibail-Rodamco received approval by the FIRB to proceed on its proposed acquisition of Westfield Group. This represents one of the first major hurdles in the process, with the Westfield unitholder meeting planned for May 24, 2018 to vote on the proposed takeover. Across the infrastructure space, Transurban announced the acquisition of the A25 toll road in Canada for CAD 840m. The asset was opened in 2011 and has a concession in place until 2042 and represents Transurban's second offshore holding.

The sector's outperformance during March again reinforced the strong defensive characteristics of listed property and infrastructure. Balance sheets remain in good shape and underlying market fundamentals remain sound with a high level of visibility around earnings growth over the medium term. The recent share price pullback offers an attractive entry point from a valuation standpoint in our view, however we remain cognisant of the underlying macroeconomic events that will continue to impact markets over the short to medium term.

Listed Portfolio Update

Fund attribution for the month included:

Contributors

VCX (UW): The Fund continues to benefit from its underweight position in the stock. The implications of an increasingly challenging retail trading environment are starting to emerge, whilst the market also remains cautious on its new strategy of undertaking mixed use developments in off balance sheet structures.

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

Detractors

SCP (UW): Continues to re-rate with investors attracted to its defensive cash flows underpinned by structured rental growth.

WFD (OW): The stock has increasingly come under pressure as the market questions the likelihood of Unibail-Rodamco succeeding in its cash and scrip takeover offer.

Current & Active Weights

Asset Class	Benchmark	Range	Current	Active Weight
A-REITs	35%	20%-100%	35.3%	0.3%
Listed Infrastructure	15%	0–60%	20.6%	5.6%
Unlisted Property	50%	0%-80%	43.7%	(6.3%)
Cash	0%	0%-20%	0.4%	0.4%

Top 6 Portfolio Positions

Security / Fund	Portfolio Weight
Scentre Group	14.8%
Transurban Group	9.3%
Heathley DMF No.2	7.1%
Charter Hall Prime Industrial Fund	6.5%
Sydney Airport	6.1%
Dexus Property Group	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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Unlisted Property Portfolio

Fund	Portfolio Weight	Sector Weight
Heathley DMF No.2	7.3%	16.8%
Charter Hall Core Plus Industrial Fund	6.8%	15.5%
AMP Capital Wholesale Office Fund – Class A	4.0%	8.6%
8 Station Street Property Unit Trust	3.7%	8.4%
AMP Capital Diversified Infrastructure Trust	3.4%	8.2%
Palisade's Renewable Energy Fund	3.3%	7.7%
Alceon Senior Debt No.8 Trust	3.3%	7.6%
Westpac House Investment Trust 1	2.9%	6.7%
Freehold Development Trust 2	2.2%	4.9%
Investa Commercial Property Fund	1.6%	3.7%
Caboolture Retail Trust	1.5%	3.5%
Bolton Street Property Unit Trust	1.1%	2.4%
Perth Rail Link Property Trust	0.9%	2.0%
Freehold Development Trust3	0.8%	1.9%
Alceon Senior Debt No.2 Trust	0.8%	1.8%
Micro Nest Holding Trust	0.1%	0.3%
TOTAL	43.7%	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 9 assets valued at $158m. The manager has a pipeline of a further 2 assets comprising fund throughs of 3-storey medical office property in Maroochydore, QLD, and a radiation oncology specialist centre in Concord West development asset in Concord West, NSW.

CPIF: The Charter Hall Prime Industrial Fund CPIF holds 52 prime grade industrial assets located across Australia with 63% in NSW and Victoria. Around 67% of the assets are distribution/logistics centres and a further 27% of industrial estates. During the quarter CPIF acquired a strategic 58 hectare industrial development site for a consideration of $55.35 million ($94/sqm). The property is located in Melbourne's prime logistics precinct of Laverton/Truganina. The fund returned 1.2% for the quarter and 9.6% 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%. AWOF has been oversubscribed for its $300m raising of new capital to ensure the gearing remains within its target range during the funding of the investment pipeline of Wynyard Place, Quay Quarter Tower, Loftus Land and Australian Technology Park. The fund returned 1.4% for the quarter and 12.5% 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 was revalued with a resulting increase in unit price of 22% and so the yield on current unit price is 8.75%. 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 Departments occupation for the long term.

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. The fund has completed the acquistion of Reliance Rail which will has reduced the funds exposure to APAC from 64% to 54%. Reliance Rail is a PPP that was established to finance, design, manufacture and maintain Sydney's 78 double-decker Waratah suburban passenger trains. The fund returned 5.9% for the quarter and 14.7% for the year.

PREF: The investment into the Palisade Renewable Energy Fund has now been drawn to 100% of the commitment. The Fund's assets include a wind farm asset in Waterloo, South Australia which is a 131MW facility located near the town of Clare, South Australia. Stage 1 comprises 37 turbines (111MW) and has offtake agreements with Hydro Tasmania and Energy Australia for 15 years. Stage 2 (19.8MW) comprises 6 turbines. A second site is located further North in Hallett. Hallett Wind Farm is a 94.5MW facility located in South Australia. Hallett comprises 45 turbines and has a long-term offtake agreement with AGL, taking all electricity generated and renewable energy certificates in return for an agreed schedule of payments. A third asset is the Ross River Solar Farm under development in QLD which is now 100% owned following the acquisition of the remaining 50%. The fund returned 1.8% for the quarter and 15.6% 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 wrote off acquisition costs in the previous quarter and had a minor uplift in valuation with the net impact a ~11% reduction in unit price. This is expected to be fully recovered once the lease renewal of the State Government tenancy is finalised prior to the end of financial year. 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.

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. Preliminary tender discussions are now commencing in relation to programmed construction delivery as well as preparations for the marketing process.

ICPF: Investa Commercial Property Fund and ICPF Holdings are a stapled entity comprising a portfolio of 16 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. ICPF has increased its stake in its listed stablemate, IOF, which represents 10.5% of the portfolio. The fund returned 1.7% for the quarter and 16.1% for the year. The manager has issued a notice providing the opportunity to participate in the 10 year liquidity window.

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.

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 will be the subject of a fresh marketing campaign. The lift modernisation program will be complete in April 2018. 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%.

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 Development Applications for the sites and have commenced soft marketing of the assets to Asian buyers. The fund has 4.7% 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 25% 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 an anticipated plan to lodge a DA c. mid May 2018. Preliminary tender discussions are now commencing in relation to programmed construction delivery as well as preparations for the marketing process.

ASDT2: The Alceon Senior Debt Trust #2 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 has repaid 75% of the capital as the underlying borrower repaid early including an early repayment penalty which has increased the return. The balance of the funds will be repaid in the Q2 of 2018.

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 on the North Shore of Sydney. 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.