

Freehold Australian Property Fund

Monthly Investment Update



October 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.



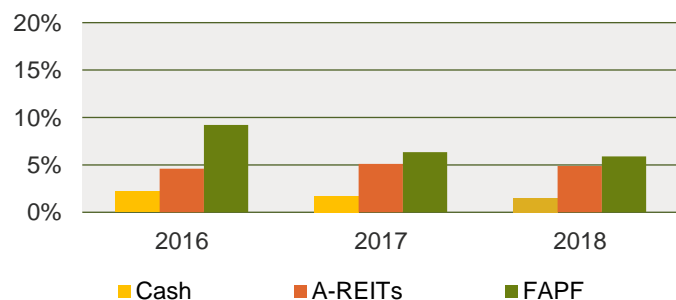
Investment Performance

Investment Performance	Month	Quarter	1 Year	3 Years	5 Years	Since Inception**
Freehold Australian Property Fund	(0.4%)	(0.4%)	7.0%	7.7%	12.0%	13.0%
A-REITs Index*	(3.1%)	(2.1%)	7.3%	7.5%	12.2%	13.5%
Listed Infrastructure Index*	(1.6%)	(2.2%)	2.4%	8.2%	14.1%	17.0%
Unlisted Property Index*	0.4%	2.2%	11.3%	11.7%	11.1%	10.3%

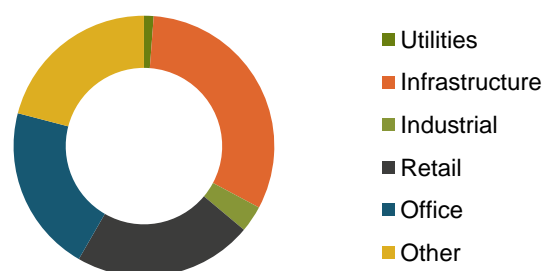
*A-REITs Index is the S&P/ASX 300 AREIT Accumulation index; Listed Infrastructure Index is a subset of S&P/ASX 200 Index infrastructure sub industries, as defined by the Global Industry Classification Standard (GICS); Unlisted Property Index is the Mercer/IPD Australia Core Wholesale Property Fund Index

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

Income Return¹



Sector Allocation



CONTACT DETAILS

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Commentary

The Fund decreased by -0.4% in October, significantly outperforming both broader equities and the AREIT Index. Global markets sold off due to fears of a moderation in global growth, unresolved trade wars and the potential for higher US interest rates. This saw US bonds yields finish the month up 9bps, in what was a volatile month. This wasn't reflected in Australia however, with domestic bonds declining by 5bps amid an increasingly gloomy housing market and an increasingly cautious consumer.

A number of A-REITs provided quarterly updates during the period. Some major themes included the continued strength in key office markets of Sydney and Melbourne, with declining vacancy rates continuing to drive rental growth. Retail sales are showing increased resilience after a subdued period, while the slowdown in residential markets is clearly evident from those stocks that have exposure. In corporate news, SCA Property Group raised \$259m in new equity to acquire a portfolio of assets from listed peer Vicinity Centres, while a number of stocks including Mirvac Group, Stockland and Vicinity Centres all continued to aggressively buy back their own shares.

Within infrastructure, APA shareholders approved Hong Kong based CK Group's current takeover offer, however the bid is still subject to Federal Government approval. Current rhetoric suggests the Treasurer is far from convinced that the transaction is in Australia's best interests given the significant exposure CK Group would have to Australia's main energy markets.

The Fund's inherent defensive characteristics served investors well during October, whilst the recent market de-rating has resulted in many stocks within our universe to trade at attractive discounts to underlying valuations. With volatility expected to remain ever-present, the sector's strong free cash flow yield and highly visible earnings growth represents an attractive risk-adjusted proposition in the current investment climate.

Listed Portfolio Update

Fund attribution for the month included:

Contributors

SKI (OW): Investors were attracted to its highly regulated income streams which provide certainty to investors in periods of market volatility.

APA (UW): Despite gaining shareholder approval to accept the current takeover offer from CK Group, the market is increasingly discounting the likelihood of Federal Government approval

Detractors

MGR (OW): Despite owning one of the highest calibre office portfolios, the stock came under pressure as a result of its exposure to the slowing residential market.

SCP (UW): Experienced good support following its \$259m capital raising to acquire ten assets from Vicinity Centres on a 7.5% yield.

Current & Active Weights

Asset Class	Benchmark	Range	Current	Active Weight
A-REITs	35%	20%-100%	26.3%	(8.7%)
Listed Infrastructure	15%	0-60%	13.9%	(1.1%)
Unlisted Property	50%	0%-80%	58.3%	8.3%
Cash	0%	0%-20%	1.5%	1.5%

Top 6 Portfolio Positions

Security / Fund	Portfolio Weight
Scentre Group	11.1%
Heathley Direct Medical Fund No.2	7.9%
Transurban Group	7.7%
Charter Hall Core Plus Industrial Fund	7.7%
Dexus Property Group	6.0%
8 Station Street Property Unit Trust	4.6%

Fund Details	
Fund Inception Date	Model Portfolio – 7 th Nov 2011 Fund – 15 th 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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