Freehold Australian Property Fund

Monthly Investment Update

FREEHOLD Investment Management

September 2018

Overview

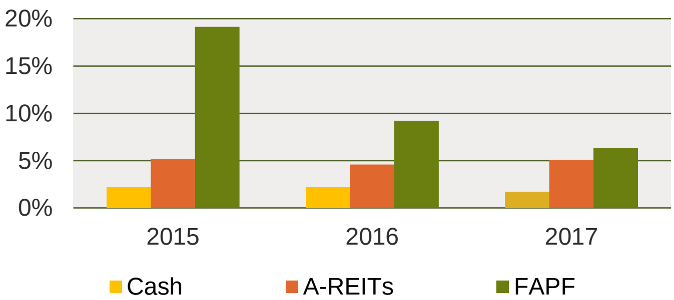
The Fund comprises a hybrid portfolio of listed and unlisted property and infrastructure against a benchmark comprising 50% A-REITs and Listed Infrastructure and 50% Unlisted Property and Infrastructure. Our listed portfolio style overlay screens for pure property and infrastructure characteristics and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

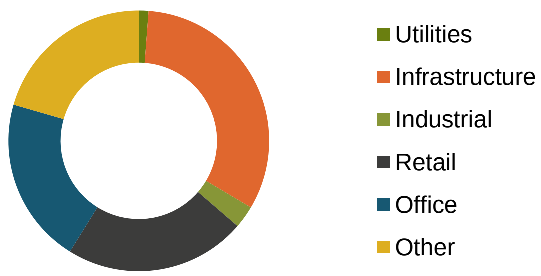
Investment Performance	Month	Quarter	1 Year	3 Years	5 Years	Since Inception**
Freehold Australian Property Fund	(1.2%)	0.1%	9.2%	9.4%	12.9%	13.2%
A-REITs Index*	(1.5%)	2.0%	13.2%	10.6%	14.0%	14.2%
Listed Infrastructure Index*	(3.5%)	(2.0%)	6.1%	11.3%	15.2%	17.4%
Unlisted Property Index*	1.3%	2.1%	11.2%	11.7%	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 decreased by -1.2% in September and outperformed the broader equity market, which was impacted by an increase in US bond yields by 20bpts due to increasing inflationary concerns. Domestic bonds also increased by 13bpts to 2.53% as part of the global rotation out of bonds with the impact flowing through into defensive asset classes such as A-REITs and infrastructure.

News flow was relatively light on as expected given the recent reporting season. Macroeconomic themes continued to drive stock returns with retail stocks coming under the most pressure following what could best be described as the most underwhelming set of results versus market expectations. Corporate activity surrounding Investa Office Fund continued with Canadian Group Oxford being granted due diligence following its indicative and non-binding proposal to acquire all shares for $5.60 cash. In our view, this puts Oxford in the box seat. The other significant corporate activity was around PropertyLink's offer to acquire Centuria Industrial REIT following the acquisition of a significant line of stock on market. This has become more complicated however with ESR Australia submitting a non-binding indicative offer to acquire all PropertyLink shares for $1.15 cash and subject to not proceeding with its bid for Centuria Industrial REIT.

Across infrastructure, the main news flow centred around the ACCC's decision to approve CK Group's current takeover offer for APA Group. Despite this, the stock still trades at circa 10% below the current offer price given it still requires Federal Government approval, which many believe will be unsuccessful given the significant exposure CK Group would have to Australia's main energy market of gas and electricity.

Recently, both the A-REIT and infrastructure sectors have been subject to profit taking following strong gains and increasing bond yields. Earnings growth however, remains intact which should underpin sector pricing given the forward distribution yield is appearing increasingly attractive.

Listed Portfolio Update

Fund attribution for the month included:

Contributors

FET (OW): Posted another strong monthly return on the back of Charter Hall's proposal to acquire the parent company Folkestone and its 12% economic interest in FET.

VCX (UW): Was the worst performing stock within the sector, driven by expectations that its $1bn non-core asset sale programme may require heavy price discounting.

Detractors

IOF (UW): It appears the takeover battle for Investa Office Fund is approaching finalisation, after Oxford delivered a near knockout blow with its $5.60 all-cash proposal.

BWP (UW): No material news during the month. BWP has benefitted from passive investor flows and M&A in the broader industrial sector.

Current & Active Weights

Asset Class	Benchmark	Range	Current	Active Weight
A-REITs	35%	20%-100%	26.4%	(8.6%)
Listed Infrastructure	15%	0–60%	14.9%	(0.1%)
Unlisted Property	50%	0%-80%	57.6%	7.6%
Cash	0%	0%-20%	1.2%	1.2%

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 – 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 Direct Medical Fund No.2	**7.9%**	**13.7%**
Charter Hall Core Plus Industrial Fund	7.7%	13.4%
8 Station Street Property Unit Trust	4.6%	7.9%
AMP Capital Wholesale Office Fund - Class A units	4.4%	7.6%
Jade Development Fund No.1	4.3%	7.4%
AMP Capital Diversified Infrastructure Trust	4.1%	7.1%
Palisade's Renewable Energy Fund	3.8%	6.6%
Alceon Senior Debt No.8 Trust	3.5%	6.2%
Westpac House Investment Trust 1	3.3%	5.8%
Freehold Development Trust 2	2.4%	4.2%
Investa Commercial Property Fund	1.8%	3.2%
Alceon Apartment Finance Trust	1.8%	3.1%
Caboolture Retail Trust	1.6%	2.8%
Micro Nest Holding Trust	1.6%	2.8%
Freehold Development Trust 3	1.5%	2.6%
Bolton Street Property Unit Trust	1.3%	2.2%
Alceon UPG Trust	1.0%	1.8%
Perth Rail Link Property Trust	0.9%	1.6%
TOTAL	57.6%	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 $191m. Heathley is proposing to staple a number of funds they manage together and list the vehicle in an Initial Public Offer (IPO). The vote by existing unitholders will take place on the 6th November with a proposed listing on the 12th December. As part of the proposal, Dexus will acquire 28.5% of Heathley with the right to go to 50%, as well as invest in 10% of securities on issue at IPO. We are currently assessing the offer. The distribution yield on the existing units is 5.75%.

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. Approximately 65% of the assets are distribution/logistics centres and a further 22% of industrial estates. During the quarter Charter Hall took investors on a tour of the 70,000 sqm Woolworths distribution centre in Dandenong. Paul Ford, who held the role as Head of Industrial, has left the business with Richard Stacker taken over his role. The fund returned 1.1% for the quarter and 9.3% for the year.

EPG8SS: The Eagle Property Group, 8 Station St Wollongong asset is 100% leased to the Department of Defence. Tenant upgrade works are tracking according to schedule with practical project completion expected on the 18th December 2018. Upgrade works include a new Uninterrupted Power Supply room and associated equipment in the car park as well as new server rooms with intruder detection equipment installed and commissioned as well as multiple security upgrades. Leasing negotiations have commenced to extend the Department's occupation for the long term. The distribution based on initial purchase price has increased to 11.2% and approximately 7.6% on current valuation.

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%, which will likely be divested. The fund revalued 9 assets during the quarter bringing the portfolio cap rate down by 7 basis points to 5.05%. Development work on Quay Quarter Tower and Wynard has progressed. The fund returned 2.8% for the quarter and 12.2% for the year.

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

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 raised $47m of new equity and submitted a binding proposal for a student housing opportunity. The fund returned 0.9% for the quarter and 18.7% for the year.

PREF: The Palisade Renewable Energy Fund's assets include wind farm assets in Waterloo and Hallett, South Australia and Granville Harbour, Tasmania, and Ross River Solar Farm in QLD. Granville Harbour is currently in construction phase and due to be operational by the end of 2019. Ross River Solar Farm development was completed during the quarter and has now commenced exporting electricity. The fund returned 4.2% for the quarter and 19.0% for the year.

ASDT8: These Alceon Senior Debt Fund 8 provide 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 ASDT8 senior debt 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. Discussions have concluded with respect to the lease renewal of the State Government tenancy where they have advised they will not exercise their 3-year option. The current lease expires on 31 December 2019 so there is still significant time for ICAM to look for an alternative for the space, which represents around a third of the building. 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. Development Applications for both sites have been lodged during March but are currently disputed legally with council. This is the result of the developer disputing the introduction of additional development contribution payments (Sec94) rather than the development itself. A court decision is anticipated in Q1 2019. Preliminary demolition works are commencing in the meantime to prepare a marketing and construction after DA 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 sold 50% of the management platform to Macquarie Capital as well as agreement was reached to sell their holding of 19.9% in IOF to another party. The benefit of this will flow through the unit price in October. The 10 year liquidity window has now closed in which we chose not to participate. The fund returned 1.6% for the quarter and 15.7% for the year.

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 6 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 a 7.0% yield and is on track to deliver or exceed the target return of 17% IRR. 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 early 2019. 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 a Co-Living strategy. 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 has been lodged with council. 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.

FDT3: The capital drawdowns for the Freehold Development Fund 3 have all occurred. 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 Development Approval is excepted in Q4 2018. Advanced tender discussions to programmed construction delivery as well as preparations for the marketing process and sourcing debt financing is underway. Initial demolishing works will commence in Q4 2018.

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. Upgrade works are now complete and the majority of leases renegotiated. 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 6.3%.

AUPG: The Alceon Universal Property Group debt fund 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 AUPG junior debt trust is 58% drawn with a coupon of 14%.

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. 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. The timeframe for realisation has been pushed out from December 2018 to June 2019. We hold this as a Development asset.