

# Freehold Australian Property Fund

Monthly Investment Update



April 2019

## 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

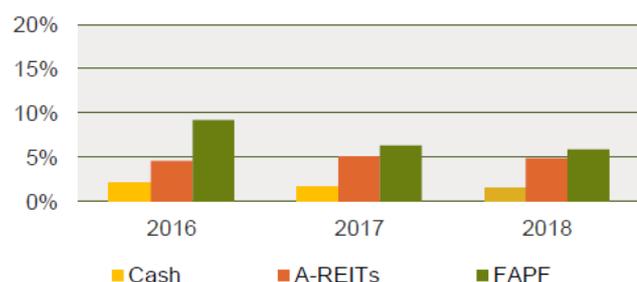
Investment Performance	Month	Quarter	1 Year	3 Years	5 Years	Since Inception**
Freehold Australian Property Fund	(0.4%)	2.1%	12.1%	7.0%	12.6%	13.1%
A-REITs Index*	(2.3%)	5.5%	18.0%	7.9%	13.7%	14.5%
Listed Infrastructure Index*	0.6%	9.7%	17.7%	10.8%	15.6%	17.9%
Unlisted Property Index***	0.7%	1.5%	8.9%	10.8%	11.0%	10.2%

\*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

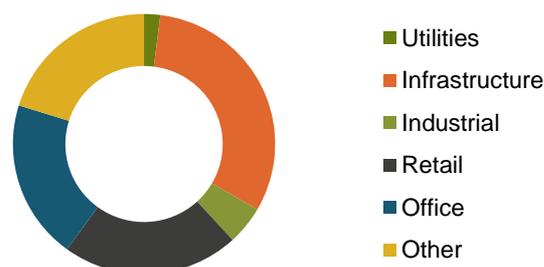
\*\* Freehold Australian Property inception date – effective 7 November 2011. Performance numbers are NET and assume reinvestment of distributions.

\*\*\* Unlisted Property Index includes an estimate of 8% per annum due to the late release of Mercer/IPD Australia Unlisted Wholesale PFI data.

## Income Return<sup>1</sup>



## Sector Allocation



### CONTACT DETAILS

Level 8, 25 Bligh Street  
Sydney NSW 2000

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

[www.freeholdim.com.au](http://www.freeholdim.com.au)

## Commentary

The Fund decreased by -0.4% in April, underperforming the broader market which posted its fourth consecutive positive month following a challenging December quarter. A rebound in US retail sales and a GDP reading coming in above expectations saw bond yields in the US increase slightly over the month, despite recent rhetoric by the Federal Reserve that any interest rates likely remain on hold. Domestically, the housing sector continues to see valuation declines impacting consumer sentiment. Furthermore, inflation for the quarter was well below expectations leading many market participants to speculate an interest rate cut may be imminent. Finally, the outcome of the upcoming Australian federal election may be a catalyst for markets given proposed changes to negative gearing and capital gains tax relief.

A number of quarterly updates were released during the period, highlighting varying operating conditions. Sydney and Melbourne commercial office markets continue to be underpinned by record low vacancy rates, which are driving effective rental growth. This strength was highlighted by the significant acquisition of 80 Collins Street, Melbourne by Dexus which undertook a \$900m capital raising to fund the purchase. On the flip side, retail landlords continue to face increasing structural headwinds from a slowing sales environment and declining rents. With over \$11bn of retail assets reportedly on the market, investors are seeking price discovery. The Fund remains significantly underweight retail landlords.

Looking forward, we continue to remain confident in our long held view of 'lower for longer' and see no clear catalyst for this to change. Global headwinds remain prevalent and the yield curve continues to imply a low inflation outlook, which is supportive of defensive sectors such as AREITs and infrastructure. At this point in the cycle, the Fund continues to invest in quality businesses with valuation support and a focus on preserving capital.

## Performance Update

### Contributors

**CQE (OW):** Successfully undertook a \$120m capital raising to support further growth opportunities for the Group. We have been supporters of the name for some time, and the stock is now getting to a sufficient size to attract larger investors.

**GPT (UW):** Despite reaffirming earnings guidance at the recent quarterly update, the market is increasingly concerned about the Group's significant exposure to the retail sector, which is facing significant challenges.

**TCL (OW):** A key beneficiary of the low bond yield environment. The Group's annual investor day reaffirmed the long-term outlook and opportunities from technology to add capacity to its network.

### Detractors

**SCG (OW):** Despite reaffirming earnings guidance during the month, the underlying sales numbers were mixed, highlighting the sluggish retail environment. This is the Fund's only overweight exposure within the listed retail sector, which the Team is currently reviewing.

\*Contributors and detractors are based on February 2019 Mercer/IPD Australia Unlisted Wholesale PFI – Post Fee fund data.

## Current & Active Weights

Asset Class	Benchmark	Range	Current	Active Weight
A-REITs	35%	20%-100%	26.3%	(8.7%)
Listed Infrastructure	15%	0–60%	14.8%	(0.2%)
Unlisted Property	50%	0%-80%	56.8%	6.8%
Cash	0%	0%-20%	1.6%	1.6%

## Top 6 Portfolio Positions

Security / Fund	Portfolio Weight
Scentre Group	9.7%
Charter Hall Core Plus Industrial Fund	7.6%
Heathley Direct Medical Fund No.2	7.5%
Transurban Group	7.2%
Dexus Property Group	5.7%
Jade Development Fund No.1	5.4%

Fund Details	
<b>Fund Inception Date</b>	Model Portfolio – 7 <sup>th</sup> Nov 2011 Fund – 15 <sup>th</sup> Feb 2015
<b>Objective</b>	Outperform the Benchmark on a rolling 3-year basis
<b>Benchmark</b>	Derived as the A-REITs and Listed Infrastructure Customised Index and the Unlisted Property and Infrastructure Customised Index, combined on a 50/50 basis.
<b>Investment Timeframe</b>	3-5 Years
<b>Minimum Investment</b>	\$10,000
<b>Income Distribution</b>	Quarterly
<b>Unit Pricing</b>	Daily
<b>Management Costs</b>	0.165% to 1.015% p.a. (incl. GST)
<b>Buy / Sell Spread</b>	0.25% / 0.25%
<b>Responsible Entity</b>	Trustee Partners
<b>ARSN</b>	164 098 855

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

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