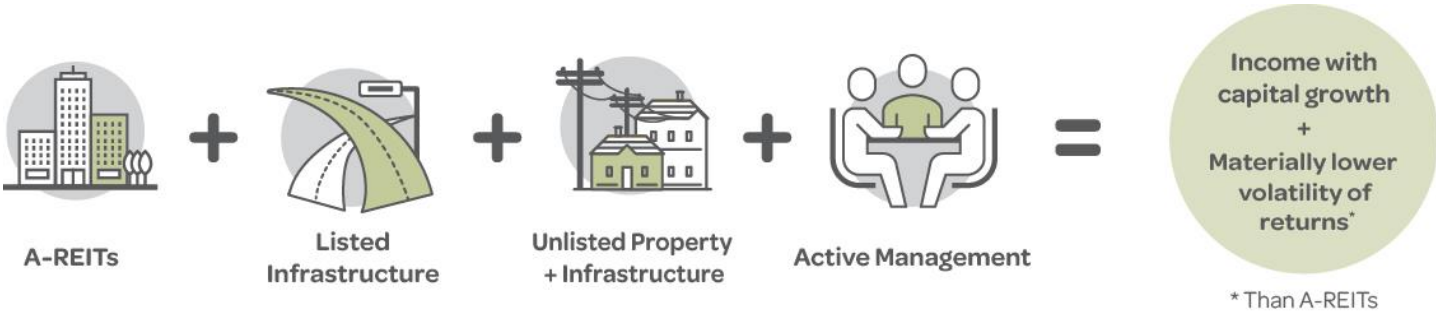
Freehold Australian Property Fund

Monthly Investment Update

August 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.

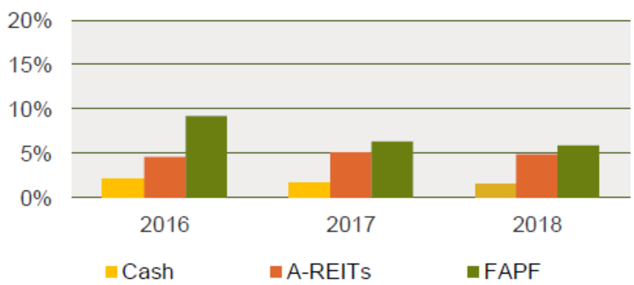


Investment Performance

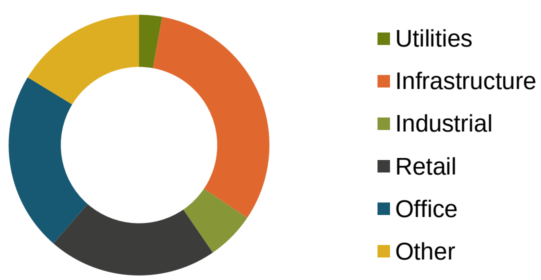
Investment Performance	Month	Quarter	1 Year	3 Years	5 Years	Since Inception**
Freehold Australian Property Fund	0.5%	4.7%	11.7%	6.8%	12.0%	13.3%
A-REITs Index*	1.3%	8.2%	19.7%	9.0%	13.9%	15.3%
Listed Infrastructure Index*	(1.5%)	10.9%	24.2%	12.8%	16.6%	19.0%
Unlisted Property Index**	0.2%	1.4%	7.0%	10.3%	10.7%	9.9%

*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 increased by +0.5% in August, significantly outperforming the broader equities market over the month. There were several catalysts for this. Firstly, the macroeconomic backdrop continues to deteriorate with no real improvement in the ongoing trade dispute between China and the US and this is impacting global growth expectations. Secondly, the month was dominated by reporting season, which, in many cases only reinforced the increasingly difficult global conditions. This is further evidenced by the continued bond market rally which saw US bond yields decline by 50bpts to 1.50% and domestic 10yr bonds fall by 30bpts to 0.89% over the month. Central Banks around the world are also reacting, with official interest rates continuing a downward trend in the hope of stimulating an increase in economic activity and generate some upwards inflationary pressures. It is hard to say if this has been truly successful to date.

Domestically, the story is much the same. Annualised second quarter GDP came in at just 1.4% – its lowest number since the GFC – continuing its downward momentum from a peak annualised rate of 3.0% just 12 months earlier. With current interest rates at an already historically low of 1%, the market is factoring in further interest rate cuts as a means of providing stimulus. We question just how much more of an impact interest rate cuts can have from current levels, with other levers, in our view potentially needing to be explored.

Looking forward, we remain of the view that we are in for a sustained period of low growth for the foreseeable future. Given this backdrop, we expect bond yields to remain low. This should continue to provide support for the AREIT and infrastructure sectors given their historical high correlation. Furthermore, reporting season only reaffirmed our views with respect to portfolio construction, where both the office and industrial sectors were the standouts in the property sector, with the challenges only increasing for retail landlords. As expected, the infrastructure names delivered no real surprises. We expect these trends to only amplify from here, and remain comfortable with our current portfolio positioning as, in our view, stocks with highly predictable earnings streams generated by high quality assets will outperform going forward.

Performance Update

Contributors

CIP (OW): Delivered a solid result in line with market expectations. The portfolio has been repositioned and de-risked and currently offers a sound risk adjusted return at current prices.

VVR (OW): The stock continues to benefit from its triple net leasing structures in place coupled with a long tenor in the leases.

Detractors

CQE (UW): The Fund sold its overweight holding to zero during the month, concerned about its total change in strategy away from an owner of childcare centres to a much broader mandate, which, in our view is more about growth in FUM than anything else.

Current & Active Weights

Asset Class	Benchmark	Range	Current	Active Weight
A-REITs	35%	20%-100%	26.1%	(8.9%)
Listed Infrastructure	15%	0–60%	15.9%	(0.9%)
Unlisted Property	50%	0%-80%	52.5%	2.5%
Cash	0%	0%-20%	5.6%	5.6%

Top 6 Portfolio Positions

Security / Fund	Portfolio Weight
Scentre Group	8.4%
Transurban Group	7.9%
Charter Hall Core Plus Industrial Fund	7.5%
Heathley Direct Medical Fund No.2	7.4%
Dexus Property Group	7.3%
Jade Development Fund No.1	5.3%

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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