Freehold Australian Property Fund

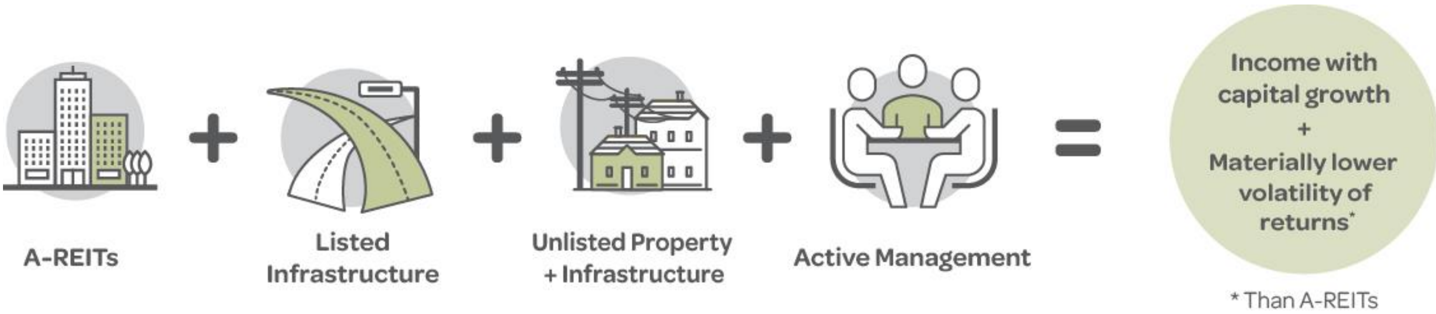
Monthly Investment Update

FREEHOLD Investment Management

December 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.

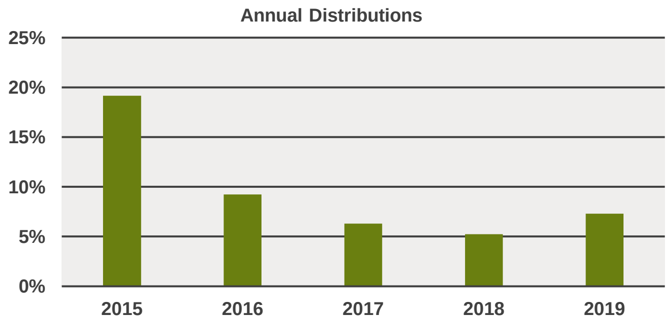


Investment Performance

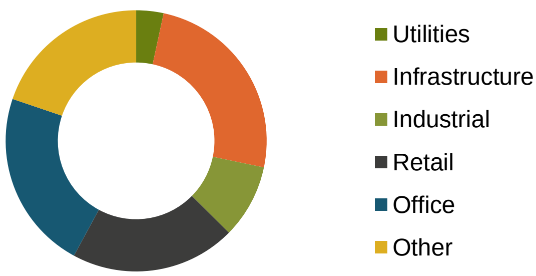
Investment Performance	Month	Quarter	1 Year	3 Years	5 Years	Since Inception**
Freehold Australian Property Fund	(1.1%)	1.5%	10.4%	8.7%	10.8%	12.8%
A-REITs Index*	(4.2%)	(0.7%)	19.5%	9.5%	11.9%	14.1%
Listed Infrastructure Index*	(0.9%)	3.6%	31.3%	16.3%	16.1%	18.4%
Unlisted Property Index**	0.8%	1.4%	5.6%	9.4%	10.4%	9.8%

*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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Listed Commentary

The Fund decreased by -1.1% in December, tracking the broader equities market lower. Australian bond yields increased by +34bps to 1.37% during the month, in response to improving US economic conditions, as well as increased macroeconomic certainty with regards to a trade deal between the US and China, and the decisive political victory for Boris Johnson in the United Kingdom. Despite the monthly sell-off in domestic yields, the Australian 10 year bond rate remains significantly below its prior 2.32% rate at the start of 2019.

The month was dominated by a number of capital raisings from groups such as Centuria and Charter Hall, totalling $700m in aggregate. This placed additional short term pressure on stock prices and took the total amount of capital raised across the A-REIT sector to $5.9bn for CY19.

During the month, many companies announced independent asset valuations, whereby commercial and industrial portfolios continued to demonstrate capitalisation rate compression and market rental growth, whilst retail assets continue to face headwinds. Within the infrastructure sector, Sydney Airport hosted its investor day, outlining its growth opportunities within the aeronautical and commercial aspects of the business. The stock has been a strong recent performer and the Fund trimmed its position in Sydney Airport during the month upon valuation grounds. Meanwhile, speculation that APA Group is nearing its first offshore expansion deal continues to gain traction given the limited opportunities for growth domestically.

Looking forward, the upcoming reporting season is just around the corner in February, with companies typically in ‘blackout’ at present. In the interim, macroeconomic factors will continue to influence yields and stock price movements.

Performance Update

Contributors

VCX (not held): The Group continues to remix its portfolio via the acquisition of an additional factory outlet at Uni Hill, Victoria and the sale of Lennox Village in NSW at a -15% discount to its December 2017 book value

APA (overweight): Announced it had entered a new gas transportation agreement with AGL on the East coast grid, extending the existing contract in place**.**

Detractors

GMG (overweight): Continues to face investor churn following the Group’s deletion from the FTSE EPRA NAREIT global property index. The Fund has taken advantage of recent price weakness to build a position in the stock.

CIP (overweight): Announced a discounted capital raising to acquire two industrial properties leased to Arnott’s during the month at average capitalisation rates of 5.2%.

Current & Active Weights

Asset Class	Benchmark	Range	Current	Active Weight
A-REITs	35%	20%-100%	30.2%	(4.8%)
Listed Infrastructure	15%	0–60%	14.1%	(0.9%)
Unlisted Property	50%	0%-80%	52.2%	2.2%
Cash	0%	0%-20%	3.5%	3.5%

Top 6 Portfolio Positions

Security / Fund	Portfolio Weight
Scentre Group	10.1%
Dexus Property Group	8.2%
Transurban Group	7.8%
Charter Hall Core Plus Industrial	7.4%
Freehold Debt Income Fund	4.9%
GPT Group Property Trust	4.8%

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	Sargon
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
Charter Hall Core Plus Industrial Fund	7.4%	14.3%
Freehold Debt Income Fund	4.9%	9.4%
AMP Capital Wholesale Office Fund - Class A units	4.4%	8.6%
8 Station Street Property Unit Trust	4.4%	8.5%
AMP Capital Diversified Infrastructure Trust	4.0%	7.7%
Jade Development Fund No.1	3.8%	7.4%
Freehold Development Trust 2	3.4%	6.6%
Palisade's Renewable Energy Fund	3.4%	6.5%
Dexus Healthcare Wholesale Property Fund	3.2%	6.3%
Westpac House Investment Trust	2.8%	5.3%
Investa Commercial Property Fund	1.9%	3.6%
Caboolture Retail Trust	1.5%	3.0%
Freehold Development Trust 3	1.4%	2.7%
Micro Nest Holding Trust	1.4%	2.6%
Alceon UPG Trust	1.2%	2..3%
Bolton Street Property Unit Trust	1.2%	2.3%
Alceon Apartment Finance Trust	0.9%	1.7%
Perth Rail Link Property Trust	0.8%	1.5%
TOTAL	**55.1%**	**100.0%**

Unlisted Portfolio Update

CPIF: The Charter Hall Prime Industrial Fund owns 64 prime grade industrial assets located across Australia with 34% in NSW; 32% in Victoria and 19% in QLD. Approximately 70% of assets are distribution/logistics centres and a further 17% are industrial estates. During the quarter, the Fund announced the off market acquisition of a significant freehold industrial site of 20 hectares in south east Melbourne. The property is being purchased from Viridian Glass via sale & leaseback for $100m on triple net terms, reflecting a capitalization rate of 5.75%.

EPGBS: Following the execution of the new 15 year lease to the Family Courts, work has commenced on their substantial fitout. Eagle Property Group expect these works to be finished in around April 2020. Following this Eagle will finish the upgrade of the air-conditioning system including the installation of a new cooling tower. This will see the completion of the repositioning of the asset. An off market offer has been received for this asset with the party in exclusive due diligence. We will know in late January if the party intends to transact and if not, the asset will be taken to market upon completion of the Family Court fitout.

AWOF: The 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 AMP Wholesale Office Fund delivered a return of 2.91% for the December quarter, underpinned by valuation gains at Angel Place in Sydney, Collins Place in Melbourne and the Quay Quarter Tower development in Sydney.

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. We expect a series of partial term-outs over the next 12 – 24 months that will allow for return of capital.

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, AMP Capital reached financial close for a 34-year concession of 4,184 beds across ten existing residences on the Australian national University campus in Canberra, whilst the Fund's University of Melbourne asset reached 100% occupancy. Melbourne Airport reported strong international passenger growth, whilst Port Headland International Airport continued its rebound in total aircraft tonnage landed and passenger volumes.

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 full commissioning is expected by May 2020. The Australian energy market continues to transition to a generation mix dominated by wind, solar and other forms of sustainable energy. Recent bushfires may serve to hasten policy initiatives. During the period, a mew thirty year Operations & Maintenance agreement was agreed for the Waterloo Wind Farm with guaranteed availability for the next twenty years.

IWEST: The ICAM Westpac House Investment Trust is a single asset fund holding Westpac House in Adelaide. The Fund continues to focus on re-letting the space that was vacated by the State Government at the end of December which, while impacting short term cash flows will provide the manager the opportunity to upgrade and reposition the asset. Releasing is progressing well and ahead of the valuer's assumptions leading to a slight increase in the underlying value of the asset (circa 2%) while DA has been achieved to upgrade the Grand Hall and Lobby with works scheduled to commence soon.

FDT2: 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 were lodged in March 2018 but were held up due to the council disputing the introduction of additional development contribution payments (Sec94). While this has now been resolved, the DA's will not be formally issued until 2020. The seventh and final capital call was made with an additional equity capital offer made to existing unitholders at a 25% discount in lieu of introducing debt to settle the Commercial Rd site in November 2019. Through unitholder consultation it was agreed the best course of action is to obtain the development application and seek to sell one or both of the sites during the course of 2020 as opposed to continuing to fully develop these sites. If a sale is not possible then funding to pay the final instalment to settle Harkness Rd and pay development costs will be obtained via debt funding.

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 Fund returned 3.12% over the December quarter, underpinned by a 10bpt contraction in the portfolio cap rate to 4.98% reflecting the very high quality of the portfolio. The key achievement was the completion of the new 60 Martin Place development with the first occupants moving in during the period.

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 Fund is performing well and is on track to deliver a forecast 11.0% p.a. IRR. About 46% of the original capital commitment has been returned and the remainder remains well secured against completed apartments with a blended LVR of 50%. Full repayment of capital is expected in Q1 – Q2, 2020.

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 the target return of 17% IRR is still anticipated to be achieved. The strategy was to acquire at well below replacement cost and lease up the vacant space before putting back on the market. The asset is now nearly fully leased but before a sale, negotiations with one anchor tenant need to be finalised. These are expected to be concluded between Q1 – Q2, 2020. 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 property in Ashfield is being redeveloped into 29 units. 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. Through the quarter we met with the manager and agreed to commit a small amount of additional equity instead of the fund introducing debt the fund the preconstruction activities. It is expected that practical completion will be achieved in Q1 2021.

FDT3: The fund comprises the subdivision of a parcel of residential land in the Western Sydney suburb of Box Hill for the owner occupier market. Construction works are now well advanced with debt financing released to enable all construction works to be completed which is expected to be done in Q1 2020. Enquiry level continues to be strong across the whole precinct dominated by Domaine and Clarendon with feedback that the completion of the construction works is a key determinant for buyer interest.

EPG8SS: The Eagle Property Group, 8 Station St Wollongong asset is 100% leased to the Department of Defense. Following the completion of building works a new lease has been agreed for a further 10 year period with 2x5 year options on strong terms with lease document awaiting signatures. Several off market offers have been received on the back of these new lease terms which we continue to discuss with Eagle with the alternative to continue to hold this long term. Investigative reports into the buildings cladding revealed that it will be required to be replaced. Further investigative works will soon be undertaken to understand the detailed make up of the façade and carry out preliminary design analysis for the full reclad of the building, replacement of the existing cladding with non-combustible material, compliant with current BCA requirements and will include upgrades to the exposed brickwork, steel elements and sunshades.

AUPG: The Alceon Universal Property Group debt fund provides debt finance to a residential developer 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 c.70% drawn with a coupon of 14% and is currently delivering its target returns. It is anticipated that the facility will be fully drawn in Q3 2020.

EGPRL: The units in the EG Funds Management Perth Rail Link Trust were acquired at a 15% discount to 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 put the assets to market in the June quarter in an Expression of Interest campaign but received no offers. With no further enquires post the campaign the assets are expected to be put back to the market in Q1 2020. Freehold undertook a site inspection of the assets in December 2019 with a reasonably high level of supply of completed stock in the immediate area still available.

FDIF: The Freehold Debt Income Fund's objective is to provide investors with a total annualised return of between 7 - 8% p.a. derived from a diversified pool of loans originated by Alceon, a leading non-bank corporate lender and investment firm. The underlying portfolio of loans is primarily secured by registered first ranking mortgages held over Australian property and primarily finances real estate development, construction and ownership across the east coast of Australia. The Fund has negotiated a fee structure for its capital that materially enhances the return relative to FDIF's target.

Dexus: The Dexus Healthcare Wholesale Property Fund (HWPF) represents a new investment made by the Fund in December. The major assets are the North Shore Health Hub which is located in St Leonards and adjacent to North Shore Private hospital with an 'as complete' asset value of $225m. The other major asset is the recently completed Calvary Adelaide Hospital with 343 overnight beds and 60-day surgery beds leased to Calvary for 30 years on a triple net basis. We believe this asset class will continue to gain institutional recognition and remain confident of the long-term prospects for the Group.

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