Freehold Australian Property Fund

Monthly Investment Update

FREEHOLD Investment Management

February 2019

Overview

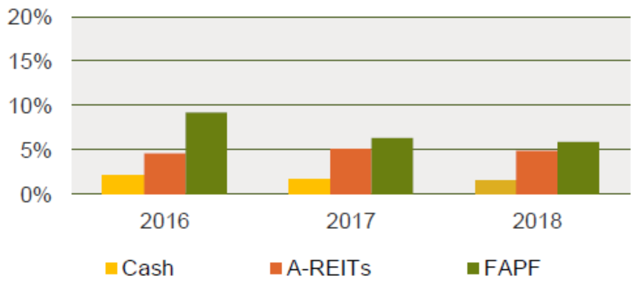
The Fund comprises a hybrid portfolio of listed and unlisted property and infrastructure against a benchmark comprising 50% A-REITs and Listed Infrastructure and 50% Unlisted Property and Infrastructure. Our listed portfolio style overlay screens for pure property and infrastructure characteristics and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

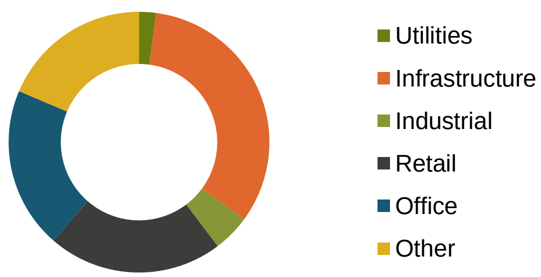
Investment Performance	Month	Quarter	1 Year	3 Years	5 Years	Since Inception**
Freehold Australian Property Fund	0.4%	5.1%	12.8%	7.7%	13.0%	13.2%
A-REITs Index*	1.8%	9.7%	18.9%	8.8%	13.9%	14.3%
Listed Infrastructure Index*	5.2%	10.9%	17.4%	10.2%	15.2%	17.7%
Unlisted Property Index***	0.7%	2.3%	10.1%	11.2%	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.
*** 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[1]



Sector Allocation



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Commentary

The Fund increased by +0.4% in February, underperforming the broader market which continued to rebound following a very difficult December quarter. Australian bond yields continued to rally during February following the release of mixed economic data, which has prompted a shift in leading economist expectations to an RBA easing bias over the course of the year. In the US, despite an increasingly cautious statement from the US Federal Reserve on its outlook for US growth, there was increasing optimism over a trade resolution with China following President Trump's decision to postpone an increase in tariffs citing 'substantial progress' in discussions.

Reporting season dominated the month with a number of very clear themes emerging. Sydney and Melbourne commercial office markets continue to post strong effective rental growth, underpinned by record low vacancy rates. Industrial assets are in high demand with elevated pricing driving capitalisation rate compression, benefiting from significant growth in e-commerce. On the flip side, retail landlords continue to feel the impact of structural changes that are occurring across the industry with rents and asset values expected to remain under pressure for some time. Weak market conditions were reported in the residential sector, whilst infrastructure stocks posted a solid set of results and the sector's share prices benefited from the recent bond rally.

Looking forward, the cautious optimism from equity investors is in stark contrast to the increasingly difficult economic outlook debt markets are pricing in. Central bank policy and political headlines will continue to influence equity market returns and the Fund's defensive bias should perform in an environment of heightened volatility.

Performance Update

Contributors

VCX (UW): Delivered a result below market expectations and delayed its wholesale fund launch with Keppel Group. Asset values remain under pressure and this remains one of the Fund's largest underweight positions.

SYD (OW): Benefited from a favourable outcome from the Productivity Commission regarding anti-competitive behaviour.

VVR (OW): Undertook a $100m capital raise to fund an accretive pipeline of acquisitions. The Group's triple net lease structure is also driving solid NTA growth.

Detractors

SKI (OW): The Group's tax approach relating to customer contributions and gifted assets was rejected by the Federal Court, placing a drag on near term dividend growth.

*Contributors and detractors are based on January 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%	24.9%	(10.1%)
Listed Infrastructure	15%	0–60%	15.7%	(0.7%)
Unlisted Property	50%	0%-80%	54.8%	4.8%
Cash	0%	0%-20%	4.6%	4.6%

Top 6 Portfolio Positions

Security / Fund	Portfolio Weight
Scentre Group	9.9%
Charter Hall Core Plus Industrial Fund	7.6%
Heathley Direct Medical Fund No.2	7.6%
Transurban Group	7.4%
Dexus Property Group	5.6%
Sydney Airport	4.5%

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	5 years or more.
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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