Freehold Australian Property Fund

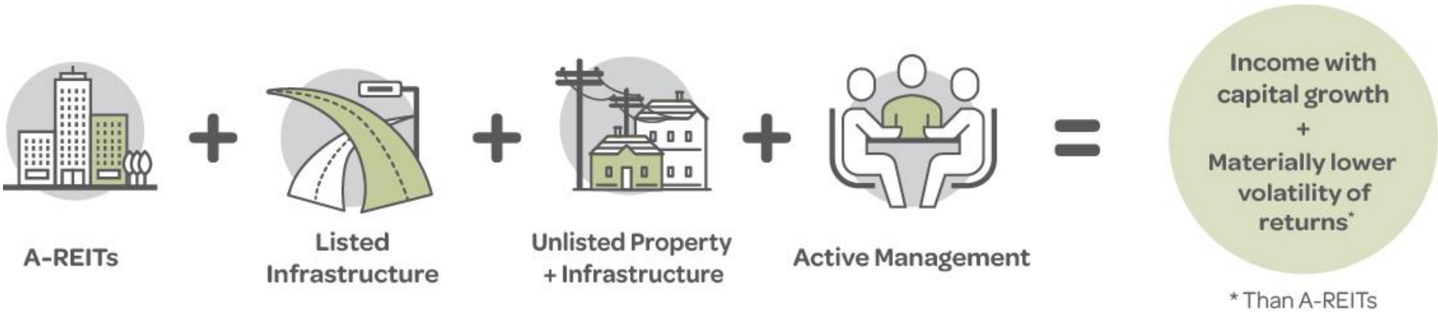
Monthly Investment Update

FREEHOLD Investment Management

July 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.

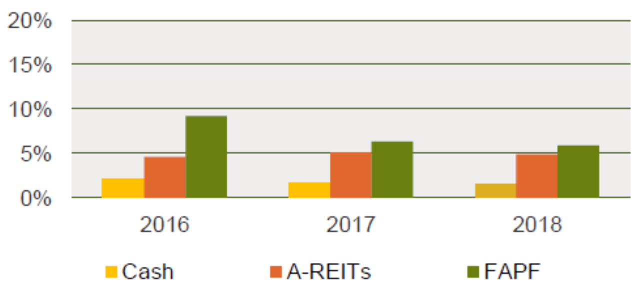


Investment Performance

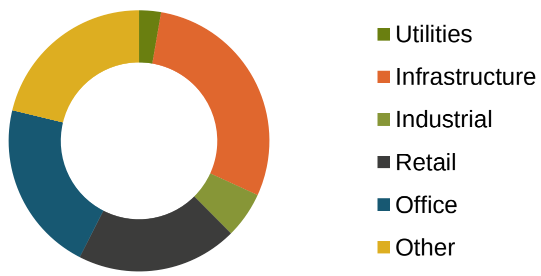
Investment Performance	Month	Quarter	1 Year	3 Years	5 Years	Since Inception**
Freehold Australian Property Fund	1.7%	5.0%	12.5%	5.5%	12.1%	13.4%
A-REITs Index*	2.5%	9.2%	21.2%	7.1%	13.8%	15.2%
Listed Infrastructure Index*	3.7%	15.2%	29.9%	11.2%	17.5%	19.4%
Unlisted Property Index**	0.3%	1.5%	7.2%	10.4%	10.7%	10.0%

*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 +1.7% in July as defensive equities continue to be underpinned by declining global bond yields. The ongoing trade dispute between China and the US continues to gain momentum with neither side looking to back down from their respective views. Meanwhile in the UK, Boris Johnson became the new Prime Minister replacing outgoing Theresa May. With Johnson perceived as a hardliner towards Brexit, the uncertainty as to how this plays out continues to be a headwind for the market. This ever increasing uncertainty is being reflected in the ongoing bond yield rally – with Aussie 10yr bonds declining by a further -14bpts in July. Central banks around the world are also reacting, cutting official interest rates in the hope of stimulating an increase in economic activity and to generate upward inflationary pressures. To date this has been met with mixed success.

Domestic headwinds also continue to intensify. The housing market remains sluggish with anecdotal evidence suggesting a number of property developers are finding it difficult to sell completed stock. This is being further fuelled by potential purchasers' cautious tone, given the backdrop of tight lending restrictions and anaemic wages growth. As a result, we, and the market are forecasting further domestic rate cuts over the remainder of the calendar year which should continue to support both the A-REIT and infrastructure sectors.

During the month, news flow was limited given companies were in 'black-out' ahead of reporting season that will dominate August. This reporting season will be a litmus test for underlying operational conditions and the associated outlook. In our view, the market will continue to pay a premium for high quality defensive companies with predictable earnings, whilst remaining keen to avoid downgrades to earnings or outlook statements. These themes are consistent with our thoughts heading into August, and the team remains comfortable the fund is positioned comfortably up the quality end of the curve across the portfolio.

Performance Update

Contributors

NSR (UW): Experienced selling pressure following its recent capital raising, with earnings guidance also at the lower end of market expectations.

AST (UW): Failed to rally in line with the sector, with regulatory headwinds confronting the stock.

Detractors

VCX (UW): Recent share price performance has been supported by an above average dividend yield, despite the portfolio's increasing operational challenges.

DXS (OW): Has been one of the best performing stocks over the financial year and was subject to profit taking. We anticipate a strong August financial result with strong earnings guidance continuing into FY20.

Current & Active Weights

Asset Class	Benchmark	Range	Current	Active Weight
A-REITs	35%	20%-100%	27.8%	(7.2%)
Listed Infrastructure	15%	0–60%	14.2%	(0.8%)
Unlisted Property	50%	0%-80%	53.6%	3.6%
Cash	0%	0%-20%	4.4%	4.4%

Top 6 Portfolio Positions

Security / Fund	Portfolio Weight
Scentre Group	8.5%
Charter Hall Core Plus Industrial Fund	7.6%
Dexus Property Group	7.6%
Heathley Direct Medical Fund No.2	7.5%
Transurban Group	7.0%
Jade Development Fund No.1	5.4%

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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