Freehold Australian Property Fund

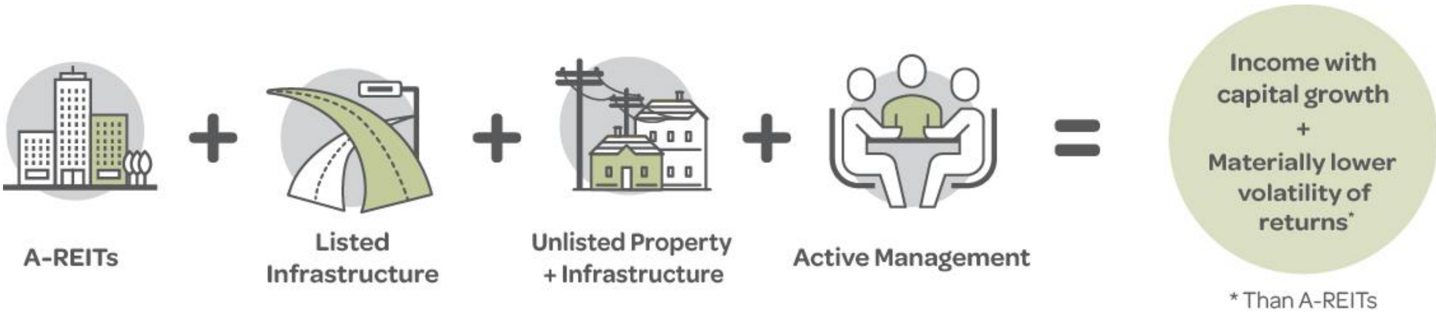
Monthly Investment Update

FREEHOLD Investment Management

June 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.

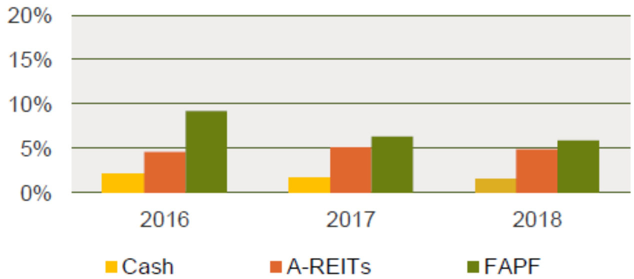


Investment Performance

Investment Performance	Month	Quarter	1 Year	3 Years	5 Years	Since Inception**
Freehold Australian Property Fund	2.4%	2.9%	10.8%	6.4%	12.6%	13.3%
A-REITs Index*	4.2%	4.1%	19.4%	8.2%	14.5%	15.1%
Listed Infrastructure Index*	8.6%	11.8%	23.6%	12.2%	17.3%	19.1%
Unlisted Property Index***	0.9%	1.5%	7.2%	10.4%	10.8%	10.1%

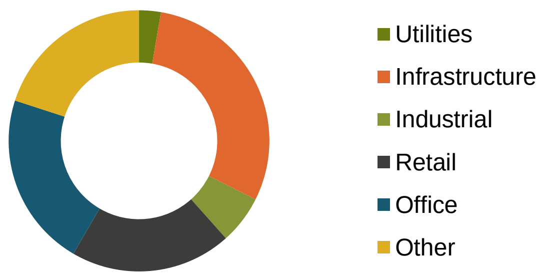
*A-REITs Index is the S&P/ASX 300 AREIT Accumulation index; Listed Infrastructure Index is a subset of S&P/ASX 200 Index infrastructure sub industries, as defined by the Global Industry Classification Standard (GICS); Unlisted Property Index is the Mercer/IPD Australia Core Wholesale Property Fund Index
** Freehold Australian Property inception date – effective 7 November 2011. Performance numbers are NET and assume reinvestment of distributions.

Income Return[1]



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

Sector Allocation



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Commentary

The Fund increased by 2.4% in June, underperforming broader equities for the month. A deteriorating global growth outlook continues to push both the cash rate and global bond yields lower. This has driven a flight to defensive sectors such as A-REITs and infrastructure, given their historical high correlation. As a result, brokers continue to upgrade many of these defensive names given the lower risk free rate used in their valuation models.

That said, domestic headwinds continue to intensify. The Australian housing market remains sluggish and lending restrictions are tight, whilst inflation and wages growth are anaemic. In an attempt to stimulate the economy, the RBA cut official interest rates to a record low 1% during the month, with further rate cuts expected over the remainder of the year.

In the A-REIT sector, despite a swathe of equity capital raisings during the month, the sector continue to be well supported, reinforcing our view that investors are keen to increase their defensive allocations amid the increasingly uncertain economic backdrop.

Looking forward, the next catalyst for the sector is the upcoming August reporting season. The Fund remains positioned in quality defensive companies with predictable earnings that exhibit a low probability of negative earnings revisions. Of particular interest will be the full year independent portfolio revaluations, with our expectations that office and industrial assets will continue to post strong gains, whilst the retail sector may continue to face external pressures. Furthermore, being a full year result for most, earnings guidance for most companies will really put the spotlight as to the future of these stocks.

The Fund is, in our view, appropriately positioned to benefit from these themes.

Performance Update

Contributors

TCL (OW): Continues to benefit from declining bond yields, which resulted in some broker upgrades during the month.

SYD (OW): Delivered a stronger set of traffic numbers than the market was expecting.

Alceon Senior Debt #8: (OW): The Fund benefited from the receipt of capital and interest payments from the borrowers during the month.

Detractors

Westpac House (OW): The impending departure of the SA Government in December this year impacted the valuation, despite good progress being made on re-letting.

Current & Active Weights

Asset Class	Benchmark	Range	Current	Active Weight
A-REITs	35%	20%-100%	27.7%	(7.3%)
Listed Infrastructure	15%	0–60%	14.3%	(0.7%)
Unlisted Property	50%	0%-80%	54.9%	4.9%
Cash	0%	0%-20%	3.1%	3.1%

Top 6 Portfolio Positions

Security / Fund	Portfolio Weight
Scentre Group	8.3%
Dexus Property Group	7.8%
Charter Hall Core Plus Industrial Fund	7.4%
Heathley Direct Medical Fund No.2	7.4%
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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Unlisted Portfolio Update

Fund	Portfolio Weight	Sector Weight
Charter Hall Core Plus Industrial Fund	7.5%	13.5%
Heathley Direct Medical Fund No.2	7.5%	13.4%
Jade Development Fund No.1	5.4%	9.7%
AMP Capital Wholesale Office Fund - Class A units	4.4%	8.0%
8 Station Street Property Unit Trust	4.3%	7.8%
AMP Capital Diversified Infrastructure Trust	4.0%	7.3%
Palisade's Renewable Energy Fund	3.8%	6.9%
Westpac House Investment Trust 1	3.2%	5.7%
Freehold Development Trust 2	3.0%	5.4%
Investa Commercial Property Fund	1.8%	3.3%
Alceon Apartment Finance Trust	1.7%	3.0%
Alceon Senior Debt No.8 Trust	1.6%	2.9%
Caboolture Retail Trust	1.5%	2.8%
Freehold Development Trust3	1.4%	2.6%
Micro Nest Holding Trust	1.3%	2.4%
Bolton Street Property Unit Trust	1.2%	2.1%
Alceon UPG Trust	1.0%	1.8%
Perth Rail Link Property Trust	0.9%	1.6%
Total	**55.6%**	**100%**

HDMF2: The Heathley Direct Medical Fund No. 2 is an unlisted property fund that invests in a portfolio of direct medical properties throughout Australia. Heathley had now paid an amount to FAPF as a result of not providing liquidity for our position prior to 31 December 2018 as an extension fee. Further payments are expected to provide them with an extension of time until liquidity is provided. Heathley has received an offer to acquire 63% of the company from the listed AREIT manager Centuria. It is expected that Centuria will facilitate our exit from the fund before 31 October 2019 and an agreement is being drafted to that effect with penalty clauses should this not occur. The distribution yield on the existing units is 5.75%.

CPIF: The Charter Hall Prime Industrial Fund holds 61 prime grade industrial assets located across Australia. Approximately 70% of assets are distribution/logistics centres and a further 18% are industrial estates. During the quarter, a $600m equity raise was launched in line with the Fund's five year liquidity event at 31 July 2019. Proceeds will be used towards any redemption requests, its committed acquisition pipeline and the buildout of its remaining land bank.

EPGBS: Eagle Property Group has executed a Heads of Agreement for the Bolton St Newcastle asset to increase the space the Family Law Court occupy to allow for an additional court and relocate admin to Level 1 of the adjacent building. The fitout works are anticipated to be completed in December 2019 following which landlords works to upgrade the lifts will be undertaken. The fund has gearing of 45.6% and is distributing 6.3%.

AWOF: The AMP Wholesale Office 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 fund returned 2.71% for the quarter and 12.18% for the Calendar year. The Fund continues to benefit from its key fund-through development assets at South Everleigh and Wynyard Place, Sydney delivering strong returns of 7.8% and 4.4% respectively for the quarter. The portfolio is currently 98.4% occupied and is well placed, in our view to continue to benefit from the strong office markets on Australia's eastern seaboard.

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. Freehold has negotiated a strong fixed monthly return (margin + BBSW) with the Trustee for the investment. However, two recent rate reductions have also reduced the BBSW by about 50 BPS and hence reduced fixed monthly rate paid to the Fund.

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, the manager raised an additional $255m in equity commitments and successfully refinanced its debt facility to provide greater flexibility for new deal flow opportunities.

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 due to be operational by the end of 2019. During the period, Palisade reached construction completion on Ross River Solar Farm, with the facility now exporting its full output to the grid. Financial close was also reached on a $140m, 11.5 year debt facility for the Waterloo Wind Farm. As a result of the 49.8% sale of the investment in Granville Harbour Wind Farm to John Laing the project was independently revalued, resulting in a valuation uplift of +11.4% from the previous carrying value.

ASDT8: The Alceon Senior Debt Fund #8 provides debt finance to residential developers on a first mortgage basis, stepping into the gap left by the major banks who have withdrawn from this area of the market. As of end Q2 2019, two out of three projects have been closed and approximately 50% of the facility capital has been paid back. It is anticipated that the remainder of the facility will be paid by during July 2019 and the targeted return will be slightly exceeded from an IRR of 11.6% to c12.1%.

IWEST: The ICAM Westpac House Investment Trust is a single asset fund holding Westpac House in Adelaide. The fund value declined by 2.2% over the year, impacted by the departure of the SA Government upon expiry of their lease in December, 2019. Of the nine low-rise floors being vacated, two are now committed with active enquiry on others. The fund will continue to remain focused on re-tenanting these vacant floors as well as re-financing their upcoming debt facility expiry with the Commonwealth Bank in November.

FDT2: The first 6 capital drawdowns for the Freehold Development Fund 2 have occurred representing 96% of committed capital. 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). The DA's should be received within Q3 2019.

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 portfolio is 67% weighted to Sydney and 20% to Melbourne with the balance in Brisbane and Perth. The fund returned 5.9% for the quarter underpinned by the sale of 242 Exhibition St in Melbourne at a 17% premium to book value and remains well placed to continue to benefit from the strong office markets.

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 fully drawn fund invests in stock in a number of well credentialed developers and forecasts an IRR of 11% to investors. The fund will likely reach it's targeted end in September 2019.

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. 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 first asset has been secured which is a property in Ashfield that will be redeveloped into 29 units. A revision to the approved DA is proceeding through council where certain matters were referred to the Land and Environment Court prior to the Council making a decision on the DA. Micronest have been successful with the LEC hearing in removing a rent limitation covenant amongst others will of the councils objections declined by the court. The outcome of the revised DA should be known during July. During the quarter we declined to provide further funding for the second asset in Fairlight which had only been secured under option and Micronest had not managed to raise further equity capital from other investors to facilitate the settlement of the sites. Without this funding FAPF would have required to provide settlement funding at approximately $7m without knowing the outcome of the DA for this site which introduced too much risk. We have taken a small write down on the position as a result but expect to recover this through the Ashfield asset. 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.

FDT3: The capital drawdowns for the Freehold Development Fund 3 have all occurred. The fund comprises the subdivision of a parcel of residential land in the Western Sydney suburb of Box Hill for the owner occupier market. The Development Approval was received in November 2018. Partial construction works will commence in July 2019 and debt financing is been secured to settle the remainder of the land purchase price following the initial strategy. As the general market has been significantly slowing down and the fund term as a consequence been delayed, the development manager will test a potential positive change in market sentiment after the federal election, APRA relief on lending criteria and RBA rate decisions with a new marketing campaign until end October 2019 to then reconsider best way forward.

EPG8SS: The Eagle Property Group, 8 Station St Wollongong asset is 100% leased to the Department of Defense. Following the tenant upgrade works our landlord works now also complete including the lift upgrades. Leasing negotiations continue to extend the Department's occupation for the long term. A new loan has been entered into for the fund with an expiry date of June 2021. The distribution based on initial purchase price has increased to 11.7% and approximately 8.0% on current valuation.

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.60% drawn with a coupon of 14% and is currently delivering its target returns. It is anticipated that the facility will be fully drawn in Q3/2019.

EGPRL: The units in the EG Funds Management Perth Rail Link Trust were acquired at a 15% discount to current 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. They now intend to try and extract an offer from one of the parties that inspected the assets during the campaign. Exit from this position is now likely to be in Q1 2020. We hold this as a Development asset.