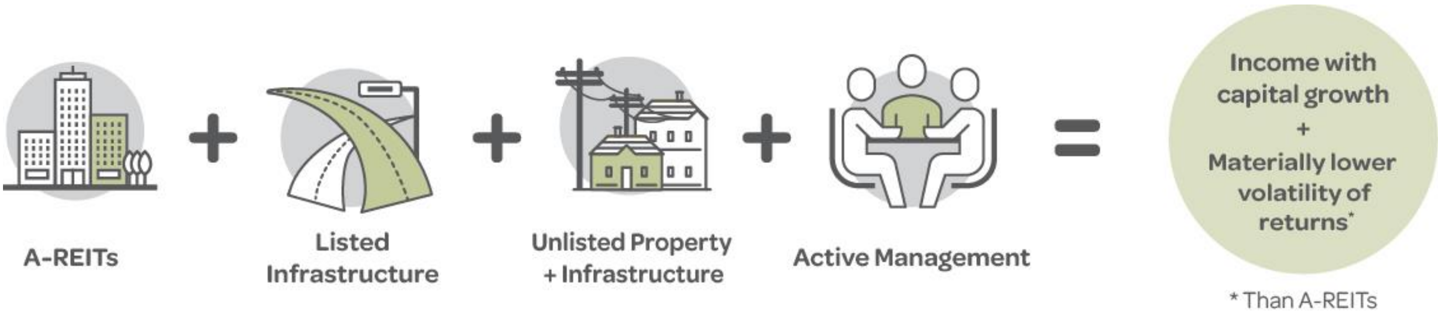
Freehold Australian Property Fund

Monthly Investment Update

March 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.

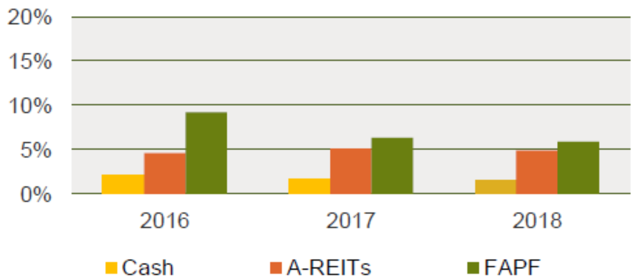


Investment Performance

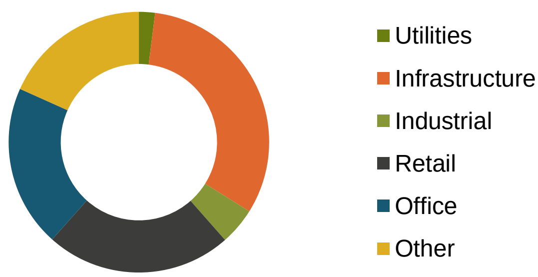
Investment Performance	Month	Quarter	1 Year	3 Years	5 Years	Since Inception**
Freehold Australian Property Fund	2.1%	4.7%	15.2%	7.9%	13.6%	13.4%
A-REITs Index*	6.0%	14.4%	25.9%	10.0%	15.6%	15.0%
Listed Infrastructure Index*	3.6%	13.1%	21.8%	11.1%	15.9%	18.1%
Unlisted Property Index***	0.7%	1.3%	8.7%	10.8%	11.0%	10.2%

*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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FREEHOLD
Investment Management

Listed Commentary

The Fund increased by +2.1% in March, outperforming the broader market as investors continued to search for high quality defensive names given the increasingly cautious economic outlook. These investor concerns are best highlighted by the strong rally in bonds during the month, with both US and domestic bond yields declining by approx. 30bpts to 2.4% and 1.8% respectively. This backdrop is very supportive for yield sensitive sectors such as A-REITs and infrastructure securities. Domestically, the declining housing market continues to weigh on consumer sentiment with the market no doubt looking to the impending Federal Election for any supporting policy initiatives. In the US, the increasingly dovish tone in the latest Federal Reserve minutes saw a flight to defensive stocks while in the UK, Brexit negotiations continue to stall providing a constant source of uncertainty for markets.

To us, the themes that were evident during reporting season are only amplifying and we see no reason to make significant wholesale changes to our current positions. The positives include the strength of Sydney and Melbourne commercial office markets, underpinned by record low vacancy rates that are continuing to drive rental growth, together with the strength in national industrial markets which continue to benefit 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. We are continuing to witness increasing problems across tenants with Big W announcing plans to close up to 30 stores in the near future, further placing occupancy pressure on retail landlords. The Fund remains significantly underweight retail landlords.

Looking forward, our long held view of 'lower for longer' is playing out. The yield curve continues to imply a cautious outlook and against this backdrop, the Fund's defensive bias should continue to reward investors.

Performance Update

Contributors

BWP (Underweight): Took a breather after recent strong gains. The stock is expensive on traditional measures and the Group's lease expiries require distributions to be supported by capital profits.

CQR (Underweight): Raised $150m capital via a fully underwritten institutional placement to acquire Rockdale Plaza.

Detractors

SKI (Overweight): 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. We are of the view this is reflected in the current price.

GPT (Underweight): Was the beneficiary of significant defensive buying into the sector. GPT also announced the sale of its 50% interest in the MLC Centre to its joint venture partner Dexus at an attractive price.

*Contributors and detractors are based on February 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%	27.5%	(7.5%)
Listed Infrastructure	15%	0–60%	15.4%	(0.4%)
Unlisted Property	50%	0%-80%	54.5%	4.5%
Cash	0%	0%-20%	2.5%	2.5%

Top 6 Portfolio Positions

Security / Fund	Portfolio Weight
Scentre Group	10.6%
Transurban Group	7.8%
Charter Hall Core Plus Industrial Fund	7.6%
Heathley Direct Medical Fund No.2	7.5%
Dexus Property Group	5.9%
AMP Capital Wholesale Office Fund - Class A units	4.4%

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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Unlisted Property Portfolio

Fund	Portfolio Weight	Sector Weight
Charter Hall Core Plus Industrial Fund	**7.7%**	**13.9%**
Heathley Direct Medical Fund No.2	7.6%	13.8%
AMP Capital Wholesale Office Fund - Class A units	4.5%	8.1%
8 Station Street Property Unit Trust	4.4%	8.0%
Jade Development Fund No.1	4.1%	7.4%
AMP Capital Diversified Infrastructure Trust	4.1%	7.4%
Palisade's Renewable Energy Fund	3.8%	6.8%
Westpac House Investment Trust 1	3.2%	5.8%
Freehold Development Trust 2	2.6%	4.6%
Alceon Senior Debt No.8 Trust	2.1%	3.8%
Investa Commercial Property Fund	1.8%	3.3%
Alceon Apartment Finance Trust	1.7%	3.1%
Caboolture Retail Trust	1.6%	2.8%
Micro Nest Holding Trust	1.5%	2.8%
Freehold Development Trust 3	1.5%	2.6%
Bolton Street Property Unit Trust	1.2%	2.2%
Alceon UPG Trust	1.0%	1.9%
Perth Rail Link Property Trust	0.9%	1.6%
TOTAL	55.1%	100.0%

Unlisted Portfolio Update

HDMF2: The Heathley Direct Medical Fund No. 2 is an unlisted property fund that invests in a portfolio of direct medical properties throughout Australia. The portfolio currently holds 10 assets valued at $191m. Heathley continues to look at wholesale funding alternatives to unlock this fund for new applications and redemptions following the failed IPO attempt last year. We have a separate agreement with Heathley where they paid FAPF an additional upfront fee as a type of underwrite to seed the fund and were due to provide liquidity for our position prior to 31 December 2018. At this point they have not delivered on this and we continue discussions on the terms to provide an extension of time. The distribution yield on the existing units is 5.75%.

CPIF: The Charter Hall Prime Industrial Fund holds 62 prime grade industrial assets located across Australia with 35% in NSW; 32% in Victoria and 20% in QLD. Approximately 70% of assets are distribution/logistics centres and a further 18% are industrial estates. During the quarter, Charter Hall announced the settlement of six recent acquisitions totalling $237m. The Fund externally revalued 100% of its properties at 31 December 2018, resulting in 19bps capitalisation rate compression to a weighted average of 5.76%. The net revaluation increase saw the Fund's total asset value reach $3.4bn with an additional committed development pipeline in excess of $300m.

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 condition precedent to this continuing has now been met with a DA received from the City of Newcastle to allow a connection between the buildings. The fund has gearing of 45.6% and is distributing 6.3%.

AWOF: The AMP Wholesale Office Fund holds a 12-asset portfolio of prime and A-grade office buildings having exposure to only the strongest domestic markets of Sydney and Melbourne. The fund delivered a solid 1.80% return for March quarter which represents a rolling 12 month return of 12.31%. The Fund is in a very strong position to continue to benefit from the robust office markets that we are currently experiencing, with ongoing effective rental growth and strong asset pricing. Current occupancy sits at 99.4%, fund gearing is only 7.5% and the weighted average lease expiry sits at 6.4 years highlighting the Funds defensive bias. Key focus for the management team is on delivering some of their current development projects underway including Wynyard Place and Quay Quarter which should underpin the portfolio growth over the medium term.

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. The Trustee may elect to dispose of some or all of the notes at any time 18 months after the establishment of the Fund (or an earlier date approved by a vote of 75% of units voting at a meeting). Freehold has negotiated a strong fixed monthly return (margin + BBSW) with the Trustee for the investment.

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 announced the purchase of the Australian National University's student accommodation concession for 4,184 beds across ten existing residences on the ANU campus in Canberra. The transaction is valued at over $700m on a 34-year inflation-linked concession, and grows the Fund's student accommodation platform to over 5,000 beds.

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 quarter, Palisade reached construction completion on Ross River Solar Farm, with the facility now exporting its full output to the grid.

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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 Q1 2019, approximately 40% of the facility capital has been paid back. Overall, the underlying developments are affected by the general residential market downturn. Yet, tt is anticipated that the remainder of the facility will be paid by during 2019 and the targeted return will be achieved.

IWEST: The ICAM Westpac House Investment Trust is a single asset fund holding Westpac House in Adelaide. The Funds main focus remains on backfilling the State Government tenancy that will become vacant at the expiry of their lease later in the year given it represents approx. one-third of the building. We continue to work closely with ICAM interrogating their plans with respect to refinancing their upcoming debt facilities and funding capital expenditure for the asset in light of the upcoming vacant space. There is some risk attached to this position as a result of this and will continue to monitor and influence the outcome where appropriate.

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 with 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 Fund delivered investors a very respectable 13.3% return for CY18 and is continuing to benefit from the robust office markets. Investa continues to make good progress on their new commercial development located at 60 Martin Place, Sydney. With a forecast estimated yield on cost of 6.75% upon completion, this asset should provide a significant upside to unitholders once complete.

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 credential developers and forecasts an IRR of 11% to investors.

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 in 2-4 years. The asset is now nearly fully leased. 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 which will make the build consistent with plans for all future sites. Two further sites have been optioned up and combined on the North Shore of Sydney and a DA for approx. 70 units has been lodged with council. A substantial number of objections have been received and a consultation process underway. At this point Micronest has not managed to raise further equity capital from other investors to facilitate the settlement of the two additional sites, which introduces risk to our existing position in the fund. 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 has been received in November 2018. Tender discussions are nearly finalised and construction start is subject to finalisation of debt financing and the pre sales quota being achieved.

EPG8SS: The Eagle Property Group, 8 Station St Wollongong asset is 100% leased to the Department of Defense. Tenant upgrade works are now complete and our landlord works are well advanced in terms of lift upgrades. Leasing negotiations are underway to extend the Department's occupation for the long term. The distribution based on initial purchase price has increased to 11.2% and approximately 7.6% 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 60% drawn with a coupon of 14% and is currently delivering its target returns.

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 have confirmed that all the necessary approvals are in place and is now only subject to gazetting. EG can now reinitiate the sales campaign where the sites will be advertised both nationally and internationally. We hold this as a Development asset.

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