Freehold Australian Property Fund

Monthly Investment Update

May 2019

Overview

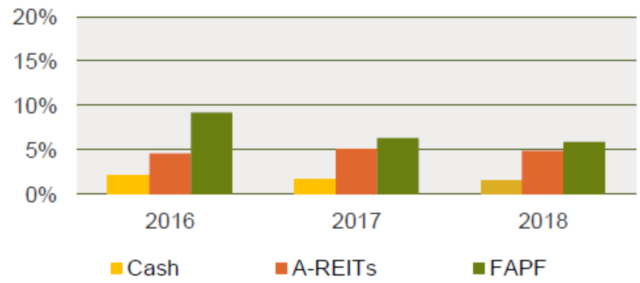
The Fund comprises a hybrid portfolio of listed and unlisted property and infrastructure against a benchmark comprising 50% A-REITs and Listed Infrastructure and 50% Unlisted Property and Infrastructure. Our listed portfolio style overlay screens for pure property and infrastructure characteristics and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

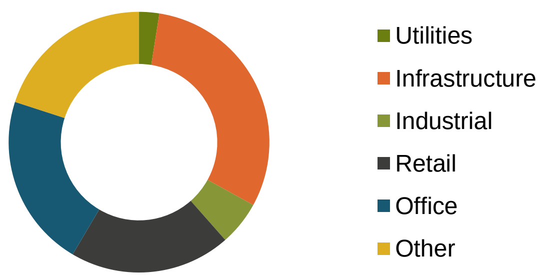
Investment Performance	Month	Quarter	1 Year	3 Years	5 Years	Since Inception**
Freehold Australian Property Fund	0.8%	2.5%	11.6%	6.7%	12.5%	13.1%
A-REITs Index*	2.3%	6.0%	17.2%	8.1%	14.2%	14.6%
Listed Infrastructure Index*	2.3%	6.7%	18.2%	10.3%	15.6%	18.1%
Unlisted Property Index***	0.7%	1.6%	8.8%	10.8%	11.0%	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.
*** 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

Commentary

The Fund increased by +0.8% in May, driven by an ongoing decline in bond yields due to a deteriorating global growth outlook and ongoing trade disputes. This decline in yields continues to drive investors' appetite for interest rate sensitive asset classes such as AREITs and listed infrastructure.

Domestically, the Federal election result and its absence of changes to negative gearing and capital gains taxation buoyed the broader equity market, and in particular residentially exposed names re-rated sharply during May. The broader backdrop however remains challenging, characterised by low core inflation, persistent slack in employment and a housing market constrained by lending restrictions. As a result, the Reserve Bank cut the cash rate to 1.25% as widely expected, addressing spare capacity in the labour market to progress towards the inflation target.

In sector news, both Dexus and Mirvac undertook significant capital raisings of $964m and $750m respectively to drive growth initiatives. Despite the size of these raisings, these were absorbed seamlessly, indicating the depth of capital seeking exposure to the asset class.

Additionally, the first significant regional retail transaction was completed by Scentre Group selling a 50% stake in Westfield Burwood to Perron Group at a slight premium to book value, which brought relief to other retail names by demonstrating price discovery. This compares to Vicinity's October 2018 transaction of sub-regional and neighbourhood shopping centres at a -5% headline discount, and the Group's recent June valuation update which posted net declines within these categories. This weakness within the retail category is in stark contrast to commercial office and industrial valuations, where direct market transactions indicate further valuation gains driven by income growth and capitalisation rate compression.

Looking forward, the Fund is defensively positioned with an overweight bias to both office and infrastructure, with a significant underweight weighting towards the retail sector. Global headwinds continue to build and the yield curve continues to imply a negative outlook, which is supportive of defensive sectors such as AREITs and listed infrastructure. With both sectors going 'ex distribution' in late June, this should provide further support heading into the August reporting/confession season.

Performance Update

Contributors

CQR (UW): The market is becoming increasingly cautious on the outlook for lower tier retail assets, with sales and rents both under pressure.

VVR (OW): The stock continues to see good support from investors, attracted to its long term triple net leases and highly predictable earnings profile.

Detractors

CQE (OW): Experienced reversion from the previous month's strong outperformance.

*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%	26.9%	(8.1%)
Listed Infrastructure	15%	0–60%	14.4%	(0.6%)
Unlisted Property	50%	0%-80%	55.9%	5.9%
Cash	0%	0%-20%	2.7%	2.7%

Top 6 Portfolio Positions

Security / Fund	Portfolio Weight
Scentre Group	8.5%
Transurban Group	7.7%
Dexus Property Group	7.7%
Charter Hall Core Plus Industrial Fund	7.5%
Heathley Direct Medical Fund No.2	7.5%
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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