Freehold Australian Property Fund

Monthly Investment Update

September 2019

Overview

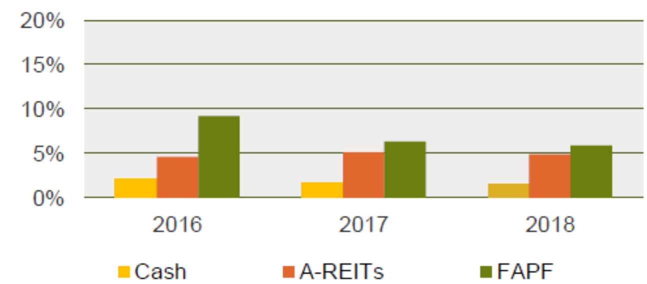
The Fund comprises a hybrid portfolio of listed and unlisted property and infrastructure against a benchmark comprising 50% A-REITs and Listed Infrastructure and 50% Unlisted Property and Infrastructure. Our listed portfolio style overlay screens for pure property and infrastructure characteristics and 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	(1.2%)	1.0%	11.7%	7.7%	12.4%	13.0%
A-REITs Index*	(2.7%)	1.0%	18.3%	9.7%	14.4%	14.7%
Listed Infrastructure Index*	(1.8%)	0.2%	26.4%	13.5%	17.2%	18.5%
Unlisted Property Index***	0.7%	1.3%	6.4%	10.0%	10.6%	9.9%

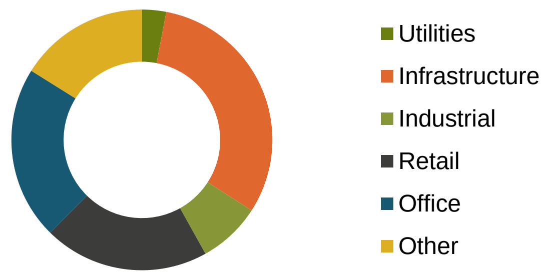
*A-REITs Index is the S&P/ASX 300 AREIT Accumulation index; Listed Infrastructure Index is a subset of S&P/ASX 200 Index infrastructure sub industries, as defined by the Global Industry Classification Standard (GICS); Unlisted Property Index is the Mercer/IPD Australia Core Wholesale Property Fund Index
** 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 declined by -1.2% in September, benefiting from its exposure to unlisted assets. The increase in bond yields both domestically (+13bpts) and in the US (+16bpts) was a key driver of weakness within listed equity markets, given the long term negative relationship. Bond yields at the long end of the curve rose despite the US Federal Reserve cutting its official cash rate by -25bpts to 1.75% and the RBA cutting to 0.75%. These increasingly aggressive actions by central banks are responses to stimulate economic activity, however, it is questionable whether these actions have so far proved to be successful amid a backdrop of global geopolitical tensions.

Domestically, the economy continues to face headwinds with GDP reporting its fifth consecutive quarterly decline. Retail sales continue their downward trajectory, with the annualised growth rate having now declined for nine consecutive quarters. News headlines citing ongoing store closures continue to impact overall retailer sentiment. Whilst declining bond yields and a lack of transactional evidence are yet to materially impact retail asset valuations, the Team continues to anticipate that a rebasing of valuations is inevitable. As a result, the portfolio remains heavily underweight retail landlords.

Looking forward, we continue to anticipate a period of sustained low growth for the foreseeable future. This environment will be supportive for defensive equity sectors that display a high level of earnings visibility. At this stage in the cycle, the Team believes that risk has not been priced correctly, and that the valuation gap between prime and secondary grade assets will widen from current levels.

Performance Update

Contributors

APA (OW): The market continues to be attracted to the Group's strong free cash flow and highly predictable earnings profile.

RFF (UW): The Group's accounting practices have been brought into question by activist hedge funds.

Detractors

DXS (OW): Performance during the month was impacted by general economic headwinds and a moderation in domestic business conditions.

VCX (UW): The stock offers one of the highest yields in the sector, however we believe the market is not adequately pricing the Group's significant operational headwinds, which will ultimately impact valuations.

Current & Active Weights

Asset Class	Benchmark	Range	Current	Active Weight
A-REITs	35%	20%-100%	28.3%	(6.7%)
Listed Infrastructure	15%	0–60%	16.1%	1.1%
Unlisted Property	50%	0%-80%	53.3%	3.3%
Cash	0%	0%-20%	2.4%	2.4%

Top 6 Portfolio Positions

Security / Fund	Portfolio Weight
Scentre Group	8.7%
Transurban Group	8.3%
Charter Hall Core Plus Industrial Fund	7.6%
Heathley Direct Medical Fund No.2	7.5%
Dexus Property Group	7.4%
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	Sargon
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	7.6%	14.3%
Heathley Direct Medical Fund No.2	7.4%	14.0%
Jade Development Fund No.1	5.3%	10.1%
AMP Capital Wholesale Office Fund	4.5%	8.4%
8 Station Street Property Unit Trust	4.3%	8.1%
AMP Capital Diversified Infrastructure Trust	4.0%	7.6%
Palisade's Renewable Energy Fund	3.4%	6.5%
Freehold Development Trust 2	3.0%	5.6%
Westpac House Investment Trust	2.8%	5.3%
Investa Commercial Property Fund	1.9%	3.6%
Caboolture Retail Trust	1.6%	3.0%
Freehold Development Trust 3	1.4%	2.7%
Micro Nest Holding Trust	1.4%	2.7%
Alceon Apartment Finance Trust	1.3%	2.5%
Bolton Street Property Unit Trust	1.2%	2.3%
Alceon UPG Trust	1.0%	1.8%
Perth Rail Link Property Trust	0.8%	1.6%
TOTAL	**52.9%**	**100.0%**

HDMF2: The Heathley Direct Medical Fund No. 2 is an unlisted property fund that invests in a portfolio of direct medical properties throughout Australia. Following the acquisition of Heathley by Centuria, we have now agreed terms for Centuria to sell down the units in this fund at a substantial premium to NTA and a premium to our holding value. The sell down is progressing with around a third of units having been sold and we are told that applications for the remaining units have been received. We anticipate reinvesting some of the proceeds back into another institutional grade medical fund.

CPIF: The Charter Hall Prime Industrial Fund owns 64 prime grade industrial assets located across Australia with 34% in NSW; 32% in Victoria and 19% in QLD. Approximately 70% of assets are distribution/logistics centres and a further 17% are industrial estates. The Fund achieved multiple leasing successes over the period, extending the overall WALE to 10.0 years and an occupancy level of 98.5%. In addition, the Fund externally revalued 100% of its properties at 30 June 2019, resulting in 15bps capitalisation rate compression to a weighted average of 5.62%. The net revaluation increase saw the Fund's total asset value reach $3.7bn.

EPGBS: Eagle Property Group has an Agreement For Lease 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. An off market offer has been received for this asset with Freehold discussing this with Eagle.

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. During the quarter, the Fund acquired an additional 5% interest in Darling Park Towers 1&2 as well as Cockle Bay Wharf taking their interest in the asset to 25%. 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. During the month, the fund returned $2.7m in capital after a successful partial public term out.

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 reached financial close for a 34-year concession of 4,184 beds across ten existing residences on the Australian national University campus in Canberra, whilst the Fund's University of Melbourne asset reached 100% occupancy. Melbourne Airport reported strong international passenger growth, whilst Port Headland International Airport continued its rebound in total aircraft tonnage landed and passenger volumes.

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 full commissioning is expected by May 2020. Construction completion has been achieved on the Ross River Solar Farm project, with the facility now exporting its full output to the grid, of which 80% is underpinned by a Power Purchase Agreement with EnergyAustralia until 31 December 2030.

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. In September 2019, the fund returned the last of the remaining capital achieving an IRR of 12.6%, slightly above the targeted IRR of 11.6%.

IWEST: The ICAM Westpac House Investment Trust is a single asset fund holding Westpac House in Adelaide. During the quarter, the Fund has seen vacancy fall from 12.7% to 5.7%. The Group also successfully entered a new financing agreement with existing financier CBA for a further 3 year period at an all in cost below 3% p.a., mitigating what, in our view was an impeding short term risk for the Fund.

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). While this has now been resolved, the DA's will not be formally issued until 2020.

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. During the quarter, the Fund leased, or had under negotiation circa 50,000sqm of office space. Also, practical completion was reached at their new 60 Martin Place development with the asset in excess of 90% leased and discussions ongoing around the balance. This asset will provide an excellent return for investors.

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 by the end of Q4 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. These are expected to be concluded before the end of 2019. 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 property in Ashfield is being redeveloped into 29 units. A revision to the approved DA has not been approved by council however certain matters relating to rent restrictions that were referred to the Land and Environment Court have been approved. 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. Construction works have commenced and debt financing was secured to settle the remainder of the land purchase price which occurred in August. Enquiry level has picked up across the whole precinct and sales have now reached 35% of the site, which equates to 65% of debt cover.

EPG8SS: The Eagle Property Group, 8 Station St Wollongong asset is 100% leased to the Department of Defense. Following the completion of building works a new lease has been agreed for a further 10 year period with 2x5 year options on strong terms. Several off market offers have been received on the back of these new lease terms which we are discussing with Eagle.

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 Q4/2019.

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. With no further enquires post the campaign the assets are expected to be put back to the market in Q1 2020. We hold this as a Development asset.