

Freehold Australian Property Fund

Monthly Investment Update



February 2020

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.



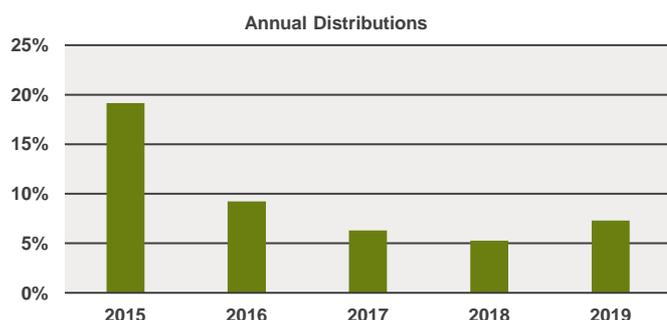
Investment Performance

Investment Performance	Month	Quarter	1 Year	3 Years	5 Years	Since Inception**
Freehold Australian Property Fund	(1.9%)	(0.2%)	8.6%	8.9%	9.4%	12.7%
A-REITs Index*	(4.7%)	(3.0%)	12.2%	10.3%	9.8%	14.0%
Listed Infrastructure Index*	(5.4%)	(3.7%)	16.9%	14.2%	13.2%	17.6%
Unlisted Property Index**	0.3%	1.4%	5.6%	9.3%	10.3%	9.7%

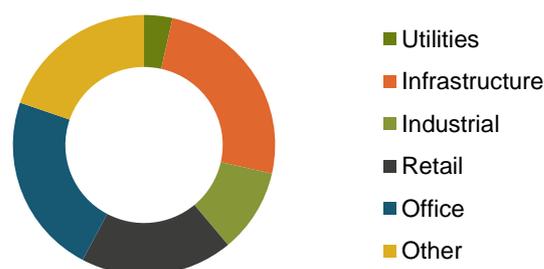
*A-REITs Index is the S&P/ASX 300 AREIT Accumulation index; Listed Infrastructure Index is a subset of S&P/ASX 200 Index infrastructure sub industries, as defined by the Global Industry Classification Standard (GICS); Unlisted Property Index is the Mercer/IPD Australia Core Wholesale Property Fund Index

** Freehold Australian Property inception date – effective 7 November 2011. Performance numbers are NET and assume reinvestment of distributions.

Income Return¹



Sector Allocation



CONTACT DETAILS

Level 8, 25 Bligh Street
Sydney NSW 2000

P. +61 2 9228 1400
E. enquiries@freeholdim.com.au

www.freeholdim.com.au

Commentary

The Fund declined by -1.9% in February and offered superior downside protection by outperforming the broader market return of -8.2%. February can be viewed as a period of two halves; the first half of the month was dominated by reporting season, where stocks for the most part reported solid results in line with market expectations resulting in ongoing price gains. The later part of the month saw Coronavirus fears take hold, with sharp market declines overshadowing underlying stock fundamentals.

The February reporting season reiterated the Team's bullish views on both office and industrial markets, whilst our long held cautious view on retail landlords was similarly vindicated, as evidenced by the earnings downgrade by Vicinity Centres. Sydney Airport guided to an uncertain 2020 earnings outcome, given the travel impact of the Coronavirus. In our view, fundamentally this is a great business but will be susceptible to fluctuating passenger numbers and short term share price volatility. The Fund neutralised its exposure during the month and will be seeking opportunities to take advantage of future mispricing.

With regards to corporate activity, both Gaw Capital and Warburg Pincus dropped out of the process to acquire National Storage REIT (NSR). Only the US listed Public Storage REIT remains active in the bidding process and given current market dislocations, we would not be surprised to see a revised bid tabled to NSR lower than the current indicative, non-binding offer of \$2.40. The other major transactional event during February was the sell-down by Viva Energy REIT's corporate parent Viva Energy. Interestingly, the acquisitive Charter Hall Group and its affiliates acquired a 10% stake during the sell-down process, suggesting that the portfolio of 469 service station and convenience retail properties may now also be "in play".

Looking forward, we expect markets to remain volatile given the unprecedented impact from the Coronavirus on global economies, business supply chains and consumer spending patterns. The landscape is rapidly evolving, and it remains to be seen whether the direct impacts will prove to be transient or longer lasting. Navigating through this challenging environment, our portfolio construction process will continue to favour high quality businesses with strong balance sheets and predictable, recurring cash flows.

Listed Performance Update

Contributors

VCX (Not held): Downgraded full year guidance at its half yearly result, citing the impact of the Coronavirus is having on retail foot traffic and sales. We remain very cautious on the stock.

VVR (Overweight): Viva Energy sold down its 35% stake in the Viva Energy REIT during the month, with Charter Hall raiding its share register. Aside from corporate activity, VVR benefits from its strong defensive cash flows in the current uncertain investment climate.

Detractors

NSR (Not held): The Group's share price was underpinned by live takeover offers from three separate bidders, however now only one remains.

Current & Active Weights

Asset Class	Benchmark	Range	Current	Active Weight
A-REITs	35%	20%-100%	29.7%	(5.3%)
Listed Infrastructure	15%	0-60%	14.7%	(0.3%)
Unlisted Property	50%	0%-80%	53.4%	3.4%
Cash	0%	0%-20%	2.2%	2.2%

Top 6 Portfolio Positions

Security / Fund	Portfolio Weight
Dexus Property Group	8.2%
Transurban Group	7.9%
Charter Hall Core Plus Industrial	7.9%
Scentre Group	7.7%
GPT Group Property Trust	5.1%
Freehold Debt Income Fund	5.0%

Fund Details

Fund Inception Date	Model Portfolio – 7 th Nov 2011 Fund – 15 th 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	Responsible Entity Partners Ltd
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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Sydney NSW 2000

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E. enquiries@freeholdim.com.au

www.freeholdim.com.au

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