

Freehold A-REITs and Listed Infrastructure Fund

Monthly Investment Update



28 February 2018

Overview

The Fund combines Australian Real Estate Investments Trusts (A-REITs) and Listed Infrastructure securities into a portfolio exhibiting income and growth characteristics. The benchmark allocation for the Fund is 70% A-REITs and 30% Listed Infrastructure securities. The portfolio is screened for pure property and infrastructure characteristics and has minimal exposure to development, currency risk and other 'active' earnings. This is defined below as Value Added – Style. Securities suitable for this strategy generally include a minimum of 90% of property rental income, recurring source or contracted/mature infrastructure income and have 75% of their assets located in Australia. The Fund typically holds 12-20 securities in the portfolio.

Investment Performance

Investment Performance	Month	Quarter	1 Year	3 Years	5 Years	Since inception ⁴
Freehold A-REITs & Listed Infrastructure Fund (net of fees)	(3.3%)	(6.8%)	1.4%	6.2%	11.0%	14.7%
Benchmark Index¹	(2.9%)	(6.6%)	3.1%	7.7%	12.5%	14.6%
Value Added – Style²	(0.7%)	(1.0%)	(1.8%)	(0.9%)	(0.5%)	(0.3%)
Value Added – Stock Selection³	0.3%	0.8%	0.1%	(0.6%)	(1.0%)	0.4%
S&P/ASX 300 A-REIT Accumulation Index	(3.2%)	(6.2%)	0.5%	5.0%	10.2%	10.8%

1. Benchmark Index is derived as the S&P/ASX 300 AREIT Accumulation index and a subset of S&P/ASX 200 Index infrastructure sub industries, as defined by the Global Industry Classification Standard (GICS), combines on a 70/30 basis.

2. Application of investment screen, as defined in Overview.

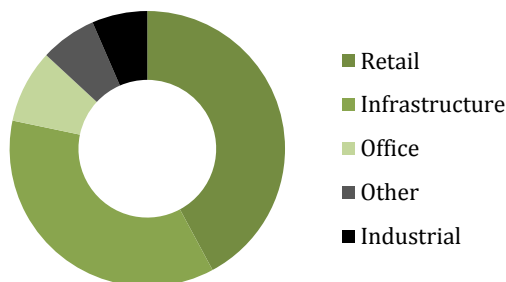
3. Stock selection is attributed post investment screen, net of fees.

4. AREITs/Listed Infrastructure inception date - 1 May 2010: AREITs/Listed infrastructure Customised Benchmark changed from a ratio of 50/50 to 70/30 on 1st December 2010 and from a style based index on 1st December 2016. Performance returns assume reinvestment of income and returns greater than 1 Year are expressed as %p.a.

Current & Active Weights

Asset Class	Benchmark	Range	Current	Active Weight
A-REITs	70%	40–100%	60.2%	(9.8%)
Listed Infrastructure	30%	0–60%	35.2%	5.2%
Cash	0%	0–20%	4.6%	4.6%

Sector Allocation



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Market Commentary

The Fund's Benchmark declined by 2.9% in February, underperforming the broader market by circa 3.0% over the period. The ongoing selloff in US Bonds continues to represent a major headwind for defensive sectors such as A-REITs and Infrastructure securities given their strong historical correlation. That said, while US Bond yields increased by a further 16bps during the month, Australian 10-year bonds remained virtually unchanged. This likely reflects the different economic backdrop the respective economies are experiencing in the current climate where the US are forecasting 3 interest rate increases over CY18 compared to no expected change in Australia.

Reporting season dominated the month where most stocks either reaffirmed or tightened full year guidance expectations. Asset values also continued to increase, driven by a combination of both cap rate compression and income growth. Office markets in particular continue to experience strong underlying effective rental growth. The better retail assets are displaying the highly defensive qualities expected from the property sector where occupancy levels remain at or near full capacity and sales growth proving resilient. Across the residential space their remains a high level of visibility of forward settlements with strong embedded margins. Results across the infrastructure space were also in line, displaying highly predictable revenue growth expected from this asset class.

The decline in both A-REITs and Infrastructure sectors over the past two months is not the result of a deterioration in underlying fundamentals or earnings, rather the increase in bond yields that we are experiencing, particularly in the US. Balance sheets remain in good shape and underlying property market fundamentals remain sound with a high level of visibility around earnings growth over the medium term. The recent pullback across the sector offers a relatively attractive entry point from a valuation standpoint, however we remain cognisant of the underlying macroeconomic events that will continue to impact the markets over the short to medium term.

Performance Update

Contributors

SKI (OW): Regained much of the previous month's underperformance following a stabilisation in domestic bond rates and a solid result that delivered strong underlying cashflows.

VCX (UW): The Fund continues to benefit from its underweight position in the stock. At their recent result the implications of an increasingly challenging retail trading environment are starting to emerge, while the market also remains cautious on their new strategy of undertaking mixed use developments in off balance sheet structures.

Detractors

SCP (UW): Owner of a large portfolio of supermarket anchored convenience shopping centres, the Group's result reinforced the highly defensive characteristics of this asset class.

AST (UW): Another owner of regulated utilities, the stock, like Spark Infrastructure, regained much of the previous month's sell-down that can be attributed to the selloff in global bonds.

Top 6 Active Positions

Holding/Security	Portfolio Weight	Active Weight*
Mirvac Group	4.5%	4.5%
Spark Infrastructure	5.9%	3.7%
Scentre Group	26.9%	3.3%
Vicinity Centres	3.7%	(5.5%)
Dexus Group	7.6%	(3.2%)
GPT	7.2%	(2.7%)

*Post application of investment screens

Fund Details	
Fund Inception Date	Model Portfolio – 1 st May 2010 Fund – 20 th August 2013
Objective	To outperform the broad benchmark index over rolling 3-year periods
Benchmark	Derived as the S&P/ASX 300 A-REIT Accumulation Index and a subset of the S&P/ASX 200 Index infrastructure sub industries, combined on a 70/30 basis.
Investment Timeframe	3-5 Years
Minimum Investment	\$25,000
Income Distribution	Half Yearly
Unit Pricing	Daily
Management Costs	0.85% per annum
Buy / Sell Spread	0.33% / 0.33%
Responsible Entity	Trustee Partners
ARSN	164 098 855
APIR Code	LAM0042AU
Platforms	BT Wrap, Asgard eWrap, Asgard Infinity Wrap