

Freehold A-REITs and Listed Infrastructure Fund

Monthly Investment Update



31 January 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)	(2.9%)	0.8%	8.3%	8.6%	11.9%	15.3%
Benchmark Index¹	(3.5%)	1.1%	10.3%	10.0%	13.7%	15.2%
Value Added – Style²	1.0%	(0.1%)	(2.0%)	(0.6%)	(0.3%)	(0.2%)
Value Added – Stock Selection³	(0.4%)	(0.2%)	0.0%	(0.8%)	(1.5%)	0.3%
S&P/ASX 300 A-REIT Accumulation Index	(3.2%)	2.0%	8.1%	7.5%	11.7%	11.4%

1. Benchmark Index is derived as the S&P/ASX 300 A-REIT 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.

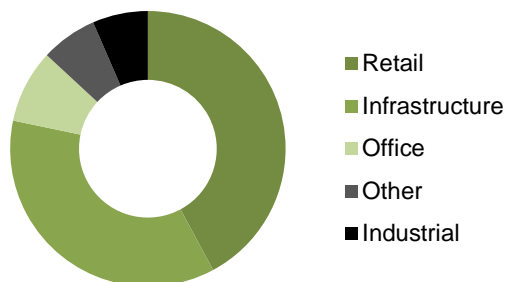
3. Stock selection is attributed post investment screen, net of fees.

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%	62.2%	(7.8%)
Listed Infrastructure	30%	0–60%	34.9%	4.9%
Cash	0%	0–20%	2.9%	2.9%

Sector Allocation



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Market Commentary Performance Update

The Fund's Benchmark declined by 3.5% in January, significantly underperforming the broader market over the period. The selloff across the defensive asset classes can be primarily attributed to the sharp increase bond yields during the month, with US Bond yields increasing by 30bpts on the back of increasing inflationary expectations coinciding with an improving US economy. Domestically, AUD bond yields also increased by 13bpts to 2.79% – the 4th consecutive monthly increase – putting downward pressure on both listed property and infrastructure securities. This was primarily driven by movements in the US rather than any imminent increase in domestic rates, especially given the latest inflation figure was below the RBA band and wages growth remains anaemic.

Market news during the month was relatively subdued, which was not surprising given companies are in black out in the lead up to the upcoming reporting season. Despite this, a number of companies chose to release their latest asset revaluations which on the whole continued to place upward pressure on NTAs. In the infrastructure space the long serving CEO of Sydney Airport Kerrie Mather retired and was replaced by Geoff Culbert. The Group posted another solid set of traffic numbers, particularly from international passengers.

We are in interesting times with the fairly significant increases in bond yields over the past few months leaving investors to wonder just how much further they have to go and what it means for equity valuations. While rising bond yields no doubt represent a significant headwind for defensive sectors, balance sheets remain in good shape and underlying property market fundamentals sound. This should be reinforced during the upcoming reporting season where we do not expect any major surprises. That said, we continue to position the portfolio towards the quality end of the spectrum given our view that risk has been mispriced over the late stage of the cycle. The recent pullback in the sector offers a relatively attractive entry point from a valuation standpoint, however, macroeconomic events may continue to impact the sector over the short to medium term.

Contributors

CQR (UW): Owns a portfolio of sub-regional and neighbourhood shopping centres which are facing increasing structural headwinds. Also saw Moody's downgrade their credit outlook during the month.

AST (UW): A regulated utility owner impacted by the selloff in bonds given their high negative correlation rather than any underlying business issues.

Detractors

SKI (OW): As per Ausnet (AST.ASX) this is a regulated utility owner impacted by the selloff in bonds given their high negative correlation rather than any underlying business issues.

MGR (OW): The slowdown across residential markets has put downward pressure on Mirvac's share price, with the market also expecting a skew to the second half for residential settlements.

Top 6 Active Positions

Asset Class	Portfolio Weight	Active Weight*
Mirvac Group	4.5%	4.5%
Scentre Group	28.3%	4.0%
Westfield Corp	3.5%	3.5%
Vicinity Centres	4.0%	(5.5%)
Dexus Group	5.3%	(5.3%)
Investa	0.0%	(2.4%)

*Post application of style 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