# Freehold A-REITs and Listed Infrastructure Fund

**Monthly Investment Update**

June 2018

**Overview**

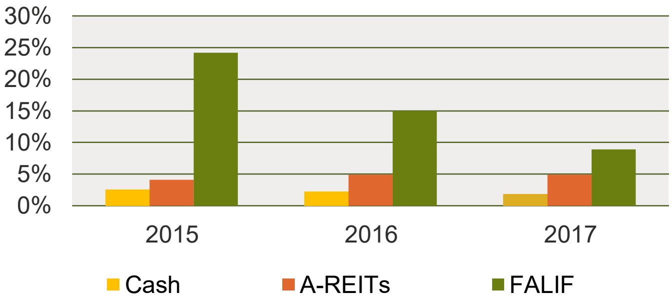
The Fund comprises a portfolio of A-REITs and Listed Infrastructure securities that exhibit income and growth characteristics. Our style overlay screens for pure property and infrastructure characteristics and results in minimal exposure to development, currency risk and other 'active' earnings. Investable securities must generate a minimum 90% of their income via rental income, or recurring, contracted/mature infrastructure income, and have at least 75% of their assets 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** |
|---|---|---|---|---|---|---|
| Freehold A-REITs & Listed Infrastructure Fund (net of fees) | 2.8% | 8.3% | 7.1% | 9.8% | 12.7% | 15.1% |
| A-REITs Index* | 2.3% | 9.8% | 13.2% | 10.8% | 13.0% | 14.4% |
| Listed Infrastructure Index* | 3.9% | 10.2% | 6.5% | 14.8% | 17.1% | 18.5% |

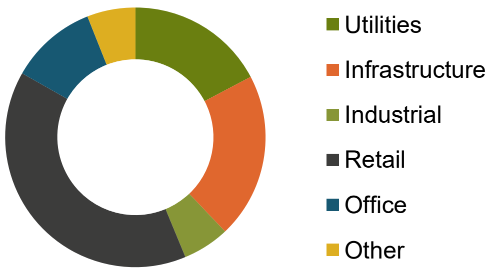
*A-REITs Index is the S&P/ASX 300 AREIT Accumulation index; Listed Infrastructure Index is a subset of S&P/ASX 200 Index infrastructure sub industries, as defined by the Global Industry Classification Standard (GICS).
**AREITs/Listed Infrastructure inception date - 1 May 2010. Performance returns assume reinvestment of income and returns greater than 1 Year are expressed as %p.a.

## Income Return*




* Income Return for FALIF is the fund distribution and will include net realised capital gains.

## Sector Allocation

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Investment Management

## Commentary

The Fund increased by 2.8% in June, slightly underperforming the broader market for the period. Bond yields sold off at the start of the month in anticipation of further US rate rises, before increasing trade tensions saw this reverse. Domestically, economic conditions remain broadly resilient following a solid Q1 GDP print (+1.0%) which was slightly above market expectations. Declining residential prices, albeit only modest, continue to remain topical and are influencing softer consumer sentiment. While we do not expect an interest rate rise in the near term to place further downward pressure on residential prices, the increasingly restrictive availability of credit and low wages growth has added to consumer pressures.

Within real estate, the revised NTA for Investa Office was reported at $5.48 following its latest asset revaluations. Interestingly, this is above the live takeover offer by Blackstone Group of $5.15 which has been recommended by the independent directors. We are closely watching how this plays out, with the current bid below NTA unlikely to gain widespread support, although we view the potential for a higher bidder emerging as unlikely. Meanwhile, APA Group received an unsolicited proposal from a consortium led by CK Infrastructure Holdings (CKI) to acquire all units at $11.00, or a 33% premium to its previous trading price. While its share price initially rose sharply, APA still trades significantly under the proposed offer. Given the market concentration associated with owning more than 9,000 miles of critical gas pipelines, the proposed takeover will require numerous regulatory approvals, including ACCC and FIRB.

Strong quarterly performance has bridged the gap between listed and direct valuations, reinforced by recent corporate activity. While global bond movements will continue to influence short term returns, we remained focussed on the upcoming reporting season and in particular forward earnings guidance. Current valuations offer investors a yield in excess of 5% with sound earnings growth, which underpins a solid defensive proposition in the current economic environment.

## Performance Update

### Contributors

**VCX (UW):** Experienced profit taking after last month's strong gains.

**VVR (OW):** We have been strong supporters of the Viva Energy REIT model for some time, with the market realizing inherent value during the month.

### Detractors

**APA (UW):** An unsolicited proposal from CK Group to acquire all units in the stock at a 33% premium to its trading price resulted in strong gains.

**MGR (OW):** Increasing concerns surrounding the Group's residential exposure continue to weigh on the stock price. We are confident that Mirvac will report a strong financial result in August and believe the short term negative sentiment has opened up compelling value.

## Current & Active Weights

| Asset Class | Benchmark | Range | Current | Active Weight |
|---|---|---|---|---|
| **A-REITs** | 70% | 40–100% | 67.5% | (2.5%) |
| **Listed Infrastructure** | 30% | 0–60% | 29.2% | (0.8%) |
| **Cash** | 0% | 0–20% | 3.3% | 3.3% |

## Top 6 Active Positions

| Security | Portfolio Weight | Active Weight* |
|---|---|---|
| **Mirvac Group** | 4.2% | 4.2% |
| **Scentre Group** | 28.2% | 3.5% |
| **Transurban Group** | 15.8% | 2.8% |
| **APA Group** | 0.0% | (5.6%) |
| **Vicinity Centres** | 3.8% | (5.0%) |
| **Investa Office Fund** | 0.0% | (2.7%) |

*Post application of style overlay

| **Fund Details** | |
|---|---|
| **Fund Inception Date** | Model Portfolio – 1st May 2010<br>Fund – 20th 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 |

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