Freehold A-REITs and Listed Infrastructure Fund

FREEHOLD Investment Management

December 2020 Investment Update

OVERVIEW

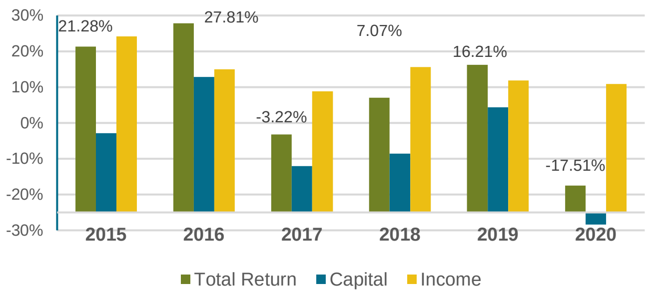
An open-ended fund that provides sustainable income and long-term capital growth from a portfolio of Australia's leading listed real estate and infrastructure securities. Our style overlay screens for core property and infrastructure characteristics and results in minimal exposure to development, currency risk and other 'active' earnings.

Investment Performance

	Month	Quarter	1 Year	3 Years	5 Years	Since inception**
Freehold A-REITs & Listed Infrastructure Fund (net of fees)	(0.5%)	10.3%	(8.9%)	2.6%	4.9%	12.0%
Australian Listed Real Assets Index*	(1.1%)	10.0%	(13.5%)	1.6%	4.7%	11.4%
Value Add	0.6%	0.3%	4.6%	1.0%	0.2%	0.6%

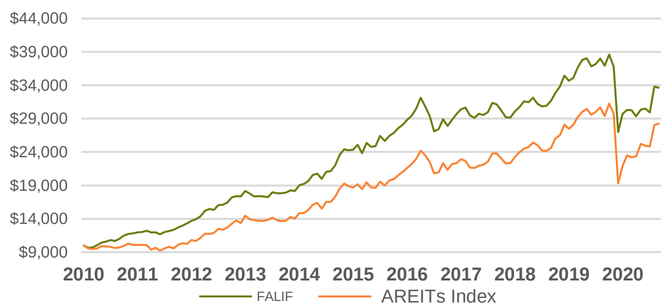
*The Australian Listed Real Assets Index is a subset of the S&P/ASX 300 AREIT Accumulation index and a subset of S&P/ASX 200 Index infrastructure sub industries, as defined by the Global Industry Classification Standard (GICS), combined on 70/30 basis. The index was previously known as A-REITs and Listed Infrastructure Customised Index and was changed on 7th July 2020.
**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.

Return Split by Financial Years

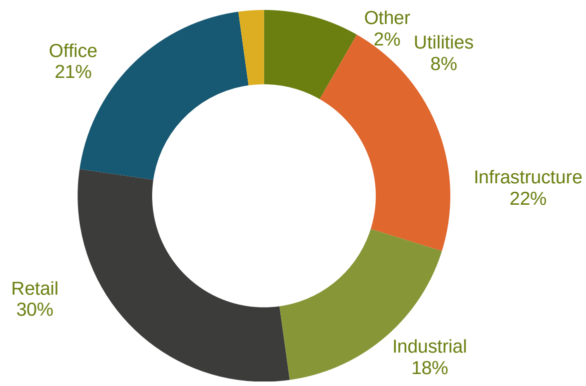


*Income distribution include net realised capital gains

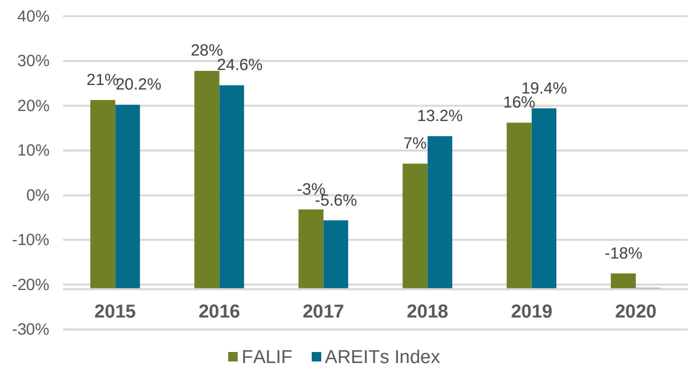
Since Inception Return



Sector Allocation



Financial Year Returns



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Quarterly Commentary

The Freehold A-REITs and Listed Infrastructure Fund increased by 10.3% during the quarter, which was in a large part driven by November's stellar monthly performance. Vaccine developments drove upgrades to global GDP forecasts and the first step towards a sustained global recovery. This, in turn, fuelled equity markets and sparked a rotation out of defensive and growth sectors into beaten-up value and cyclical companies. The Fund's focus on quality, defensive cash flows shone through the period and drove outperformance against its benchmark during the period which rewarded 'beaten up' stocks leveraged to the 'reopening trade'.

The December quarter was similarly characterised by AGM Season, where corporates generally reported increases in rent collection, particularly within the retail sector, albeit Melbourne continued to lag due to its recent lockdown measures. Commercial office markets reported their worst year on record, with Sydney and Melbourne vacancy levels sharply increasing. Net effective rents within the major cities declined due to a rise in incentives as landlords increasingly fought to protect their occupancy levels. Despite the deteriorating demand outlook, valuations have held firm as prime yields remain at historic spreads to the long-term bond rate. Several transactions during the December quarter reinforced commercial office valuations, which in our view highlights the current pricing dislocation between private markets and publicly listed REITs. In our view, the publicly listed office REITs look cheap on a comparative basis.

During the same period, listed residential developers have benefited from government stimulus measures and an acceleration in e-commerce demand has underpinned valuation gains and yield compression within the industrial sector. Whilst listed infrastructure companies are temporarily impacted by border closures and stay-at-home orders, we anticipate that their stable, long term cash flows will continue to be highly sought after.

Outlook

As the world inches closer to a coordinated vaccine rollout, the pace and magnitude of the global recovery will continue to drive equity markets. Longer-term structural shifts to employment and consumer spending habits are still playing out, which are critical to how the Team frames its investment decisions. We are closely watching developments abroad, particularly as the United States has handed control of the Senate to the Democrats, and the implications to stimulus for consumers and small businesses. We have already seen in the first week of January that the 'Blue Wave' political scenario in the United States has brought forward global recovery expectations and an associated yield curve steepening. While it may be premature to celebrate the world's 'silver bullet', we're looking towards 2021 with renewed optimism.

Stock in focus – Centuria Office REIT

Centuria Office REIT (COF) is Australia's largest pure play listed office vehicle with a portfolio value of approximately $2bn across 23 assets. We have high regard for the manager, Centuria Capital, which has successfully reduced the Trust's debt burden and enhanced the underlying income profile since it acquired the management rights in January 2017. Approximately 80% of the portfolio's assets are located on the eastern seaboard in affordable metropolitan markets, with a diverse tenancy mix of predominately government, ASX-listed and multi-national corporates. This strong tenant covenant has enabled Centuria to collect over 90% of its rent since the introduction of the National Code of Conduct in April 2020, which compares to the discretionary retail sector, where over half of tenants ceased trading or paying rent during the height of COVID-19.

Despite the portfolio's high occupancy of 98% and strong levels of cash collection, negative sentiment towards office markets amid increasing work-from-home arrangements has seen COF's share price sharply de-rate. This is contrary to the portfolio's high proportion of government tenants, and the location of its assets which may in fact benefit from COVID-19 as companies seek to lower costs via hub and spoke models. Whilst the portfolio has several large tenant leases expiring over the next twelve months to work through, Centuria is in a fortunate position to offset any downtime with a lease surrender payment that it has received from Foxtel at its asset in Robina, Queensland.

The Fund introduced COF into its portfolio during August 2020 and is currently offering investors an attractive distribution yield in excess of 8%. The current share price is also trading at a significant discount to the portfolio's net asset valuation. In our view, this implied market pricing is overly pessimistic, given the level of capital market demand for high-quality metropolitan office assets, which offer affordability relative to premium CBD locations.

Source: company data.

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Monthly Performance Update

Contributors

MGR (overweight) – Mirvac benefited from strong enquiry levels, sales and settlements across its residential portfolio.

BWP (overweight) – No material news flow for the month of December. BWP announced an expected 1H21 dividend of 9.0c.

Detractors

CQE (not held) – Charter Hall Social Infrastructure REIT announced the acquisition of a purpose-built South Australian Emergency Services Command Centre and adjacent multi-deck carpark, which is currently under construction. The purchase price is $103m and reflects a passing yield of 4.8%.

ARF (not held) – Arena REIT announced a fund update which demonstrated a strong rebound in early learning centre attendances post the easing of COVID-19 related restrictions.

Current & Active Weights

Asset Class	Benchmark	Range	Current	Active Weight
A-REITs	70%	40–100%	68.3%	(1.7%)
Listed Infrastructure	30%	0–60%	29.0%	(1.0%)
Cash	0%	0–20%	2.7%	2.7%

Top 6 Active Positions

Security	Portfolio Weight	Active Weight*
Goodman Group	3.2%	3.2%
Centuria Industrial REIT	4.6%	3.0%
Waypoint REIT	5.4%	3.0%
Vicinity Centres	3.3%	(3.7%)
Scentre Group	13.3%	(2.9%)
Charter Hall Long WALE	-	(2.7%)

Fund Details	
Fund Inception Date	Model Portfolio – 1st May 2010 Fund – 20th August 2013
Objective	To outperform the benchmark index over rolling 3-year periods
Benchmark	Comprises a subset of 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	0.25% / 0.25%
Responsible Entity	Responsible Entity Partners Ltd
ARSN	164 098 855
APIR Code	LAM0042AU
Platforms	BT Wrap, Asgard eWrap, Asgard Infinity Wrap

Important Notice

the directors. Freehold, nor the directors give any assurance that the forecast performance in the forecasts or any forward-looking statement contained in this presentation will be achieved.