Freehold A-REITs and Listed Infrastructure Fund

FREEHOLD Investment Management

June 2020 Investment Update

OVERVIEW

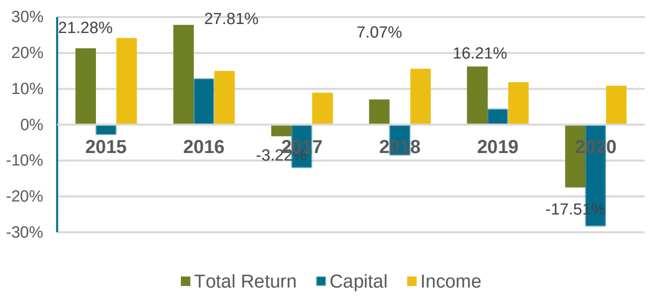
An open-ended fund that provides sustainable income and long-term capital growth from a portfolio of Australia's leading listed real estate and infrastructure securities. Our style overlay screens for core property and infrastructure characteristics and results in minimal exposure to development, currency 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)	(0.2%)	12.2%	(17.5%)	0.9%	4.9%	11.5%
Australian Listed Real Assets Index*	(0.4%)	16.8%	(20.9%)	0.1%	4.7%	10.9%
Value Add	0.2%	(4.7%)	3.4%	0.8%	0.2%	0.6%

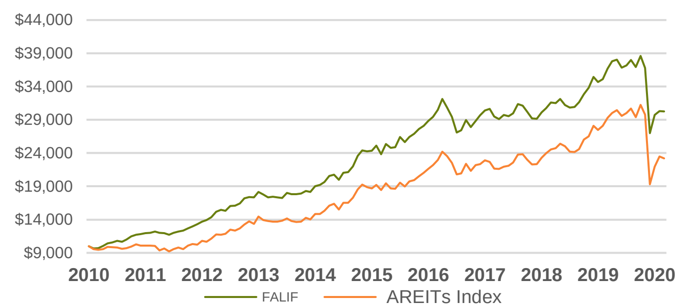
*The Australian Listed Real Assets Index is a subset of the S&P/ASX 300 AREIT Accumulation index and a subset of S&P/ASX 200 Index infrastructure sub industries, as defined by the Global Industry Classification Standard (GICS), combined on 70/30 basis. The index was previously known as A-REITs and Listed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

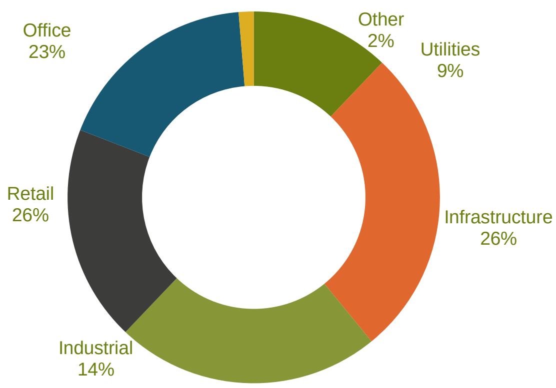


*Income distribution include net realised capital gains

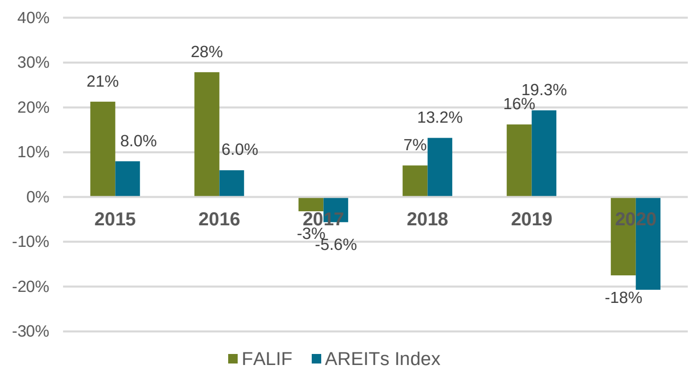
Since Inception Return



Sector Allocation



Financial Year Returns



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Quarterly Commentary

The Freehold A-REIT and Listed Infrastructure Fund increased by 12.2% over the June quarter, and has materially outperformed ASX 300 AREIT index over the FY20 financial year and since inception. The significant market selloff in the previous quarter as a result of the COVID-19 outbreak triggered unprecedented global fiscal and monetary stimulus responses, which provided immediate support for markets. Anecdotal evidence suggests that a significant amount of equities buying originated from retail investors, whilst institutional investors similarly ran down a portion of their high cash levels during the period. In summary, stocks that were hardest hit during the March quarter were generally the ones that rebounded the most during the June quarter, with large retail mall owners such as Vicinity Centres and Scentre Group being two of the best performers in the index as the economy slowly reopened.

Despite equities bouncing back, the underlying impact on businesses is already playing out. Given the significant uncertainty and rapidly changing environment, many corporates have withdrawn earnings guidance from the market, creating outperformance opportunities for active investment managers. Similarly, numerous capital raisings were undertaken during the June quarter, with companies looking to fortify balance sheets.

Already, we are seeing meaningful valuation declines within the retail property sector, especially for those assets with a high proportion of discretionary trade. Office assets to date have fared much better with valuations largely holding steady, while industrial assets continue to remain in high demand as the ongoing e-commerce thematic grows. Listed infrastructure names have continued to demonstrate resilience throughout the period and their inclusion in our broadened real assets universe has delivered significant annualised excess returns since the Fund's inception.

Outlook

One major positive for defensive sectors such as A-REITs and listed infrastructure is that bond yields are expected to remain very low for a long period of time. This will be supportive of asset values, provided the income levels remain stable. While the domestic economy continues to slowly reopen, for us the real question is what will 'the new normal' look like? How will businesses adjust the size of their workforces and office footprint? How will rising unemployment impact the housing market? Will consumers increasingly adopt online shopping? Many of these questions remain unanswered and will play out over time, albeit potentially now accelerated.

As reporting season approaches, our investment universe is largely characterised by strong balance sheets with funding avenues open and liquid. The defensive qualities of the Fund's listed infrastructure holdings such as APA Group and Transurban Group should continue to be in high demand. We remain in unchartered waters and whilst volatility persists, we will continue to bias the portfolio towards quality with a strong focus on sustainable cash flows.

Stock in focus – Transurban Group

Transurban owns, operates and develops toll roads across the east coast of Australia, Washington and Montreal. The mature assets in the portfolio generally provide traffic growth in line with population growth and toll price increases in line with inflation, whereas its newly developed assets typically offer higher toll growth profiles. As the Group's revenues are directly linked to traffic utilisation across its networks, its ordinarily predictable income has recently been brought into question given travel restrictions and social distancing enforced across the globe.

Taking a closer look at recent traffic numbers across Transurban's global network, performance has been mixed across geographies and traffic class. The Sydney and Brisbane networks have demonstrated stronger traffic performance versus Melbourne, which aligns with State by State COVID-19 developments. Similarly, suburban roads with greater commercial exposure have outperformed city-centric roads, whilst larger vehicles that pay higher tolls have proven to be resilient; a reflection of the rise in e-commerce. Traffic declines have been sharper across the US network as a lack of congestion diminishes the value proposition of tolled roads versus the alternative un-tolled general-purpose lanes.

Pleasingly, Transurban's June traffic update demonstrated a substantial recovery across its global network, with its Australian roads recovering approximately two-thirds of the traffic declines experienced since the April lows. As the economic recovery continues, the Group is continuing to engage with governments on future infrastructure projects to support the economy and drive growth.

Looking forward, Transurban has lowered its dividend policy to a more sustainable framework in line with underlying free cash flow. Excess capital releases will now be used to fund future development projects or improve asset level credit metrics. The Group is in a strong capital position with significant headroom on its debt financial covenants and we forecast near term project completions will drive medium-term double-digit distribution growth. Whilst future traffic developments will continue to be sensitive to Government responses, we continue to be strong supporters of Transurban Group and expect its defensive growth characteristics will continue to be highly sought after by investors.

Source: company data.

Quarterly Performance Update

Contributors

CLW (not held) – Charter Hall Long WALE REIT is seen by many as a prime candidate to raise capital given current gearing levels and its parent's appetite to grow funds under management.

CIP (overweight) – Centuria Industrial REIT is a beneficiary of the e-commerce thematic whilst also gained index inclusion during the period.

AST (not held) – AusNet Services is a regulated utility that failed to rally with the market given its low-growth, stable cash flows.

Detractors

SCG (underweight) – Scentre Group was sold down aggressively in March but recovered strongly as shopping centres began to open during the June quarter.

VCX (underweight) – Despite undertaking a $1.2bn capital raising during the quarter at a significant discount to net asset value, Vicinity Centres rallied as investors piled in to oversold names.

Current & Active Weights

Asset Class	Benchmark	Range	Current	Active Weight
A-REITs	70%	40–100%	62.7%	(7.3%)
Listed Infrastructure	30%	0–60%	33.3%	3.3%
Cash	0%	0–20%	4.0%	4.0%

Top 6 Active Positions

Security	Portfolio Weight	Active Weight*
Dexus Property Group	17.8%	4.8%
Goodman Group	4.7%	4.7%
Centuria Industrial REIT	5.0%	3.6%
Vicinity Centres	-	(7.3%)
GPT Group	8.0%	(2.6%)
BWP Trust	-	(2.5%)

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