Freehold A-REITs and Listed Infrastructure Fund

FREEHOLD
Investment Management

March 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. 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.

Investment Performance

	Month	Quarter	1 Year	3 Years	5 Years	Since inception**
Freehold A-REITs & Listed Infrastructure Fund (net of fees)	(26.6%)	(26.9%)	(23.8%)	(3.1%)	2.2%	10.5%
A-REITs Index*	(35.2%)	(34.3%)	(31.3%)	(4.8%)	0.5%	6.9%
Listed Infrastructure Index*	(18.4%)	(20.8%)	(8.0%)	4.5%	8.4%	15.5%

*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.

Return Split by Financial Years

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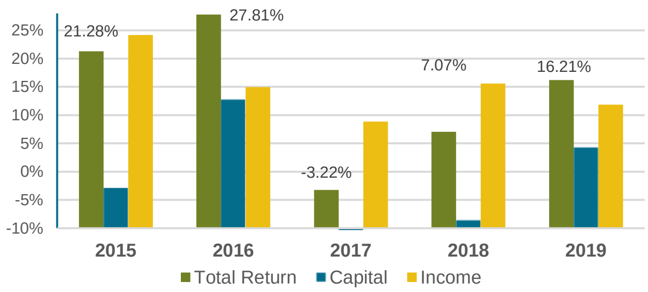
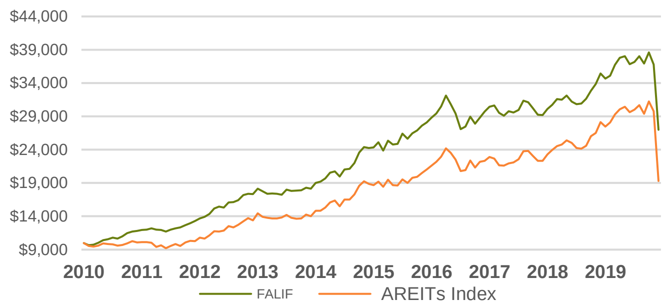
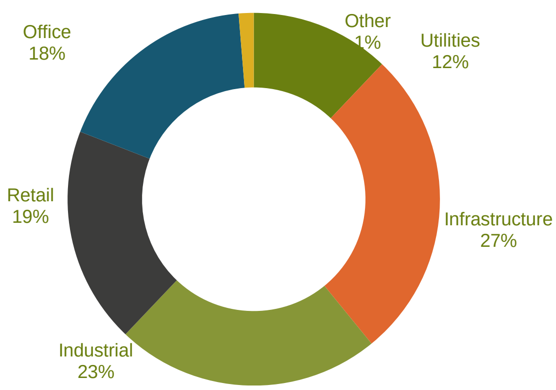


*Income distribution include net realised capital gains

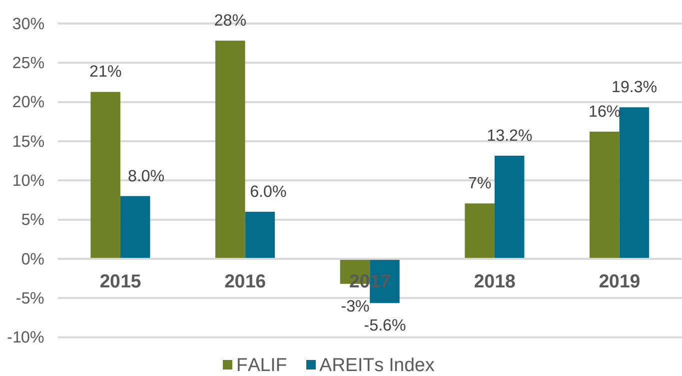
Since Inception Return



Sector Allocation



Financial Year Returns



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Quarterly Commentary

The Freehold A-REITs and Listed Infrastructure Fund (FALIF) declined by 26.6% over the March quarter, outperforming the A-REIT Benchmark by 8.6% for the period. The Coronavirus (COVID-19) was the catalyst for the extreme selloff late in the quarter, with A-REITs selling off even more than equities. This can largely be attributed to the aggressive selloff of retail landlords – especially those with a high exposure to discretionary spending – given they constitute a significant weight in the Listed Property Benchmark. We have been concerned about the structural changes occurring in the discretionary retail landscape for some time and as a result our significant underweight towards these stocks this was a significant contributor to the Fund's outperformance.

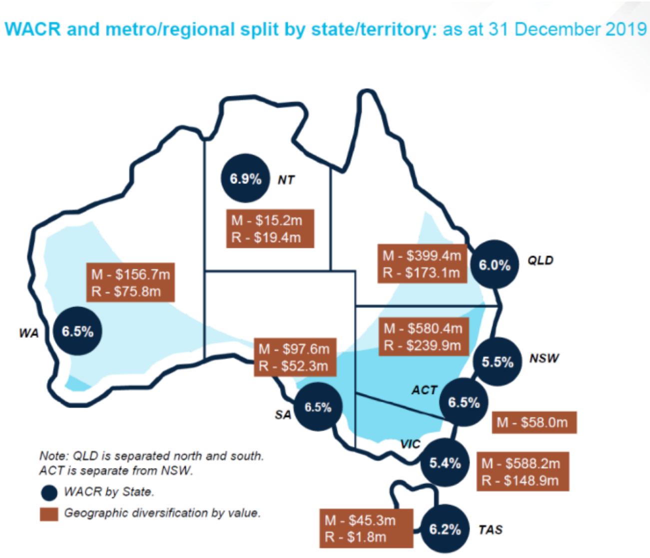
Investors focus was instead to seek out stocks with high levels of income security and predictability, with an increasing awareness on the counterparty that was paying the rent. The Fund's significant exposure a number of infrastructure names such as Transurban, APA Group, Sydney Airport and Spark Infrastructure Group was the other main driver of the Fund's strong relative performance given they all possess the high quality earnings streams that investors were seeking given the heightened sense of uncertainty.

In summary, the Federal Government's decision to effectively shut down the economy has had a significant and immediate effects on almost all businesses. As a result, we have seen all but a few A-REITs withdraw their earnings guidance from the market since providing it only a month prior, so has been the magnitude and speed of the impact of the Coronavirus on the economy. It has led to landlords question many of their tenants ability to fulfil their current rental obligations under the terms of their lease, or are under pressure from these tenants to provide either a rental reduction or even an abatement. While the levels of Government intervention to provide support for the economy is unprecedented, this uncertainty has flowed through into a number of downgrades to earnings by many brokers. So what is priced in? That is the $64 dollar question given nobody can honestly say how long this will last. With opinions wide and varied, we expect volatility to continue over the short to medium term and will stick with owning quality stocks given the current backdrop.

Stock in focus – Viva Energy REIT (VVR.ASX)

Viva Energy REIT owns a portfolio of 469 service station / convenience retail properties underpinned by 2.2m square metres of land. The stock possesses a highly predictable income stream underpinned by a 100% occupancy rate, average lease expiry of greater than 11 years and fixed annual reviews of circa 3%. The security of this income is enhanced by the quality of the majority of the tenant covenant – Viva Energy who possess the sole right to use the Shell brand in Australia for the sale of fuel. Conservatively geared at circa 30% and with the tenant responsible for all additional expenses to the properties the stock provides a high quality defensive and predictable dividend yield in the current environment, which, on current prices and guidance is circa 6.5%.

In our view, VVR.ASX will be one of the few stocks in the A-REIT sector not impacted by the current COVID-19 crisis given their tenants are well capitalised, continuing to trade and make money in the current environment while being secured by long term leases. It is a simple story but one which should provide investors with a stable and secure dividend going forward, with steady growth which is rare given the current macroeconomic backdrop.



Outlook

The current COVID-19 situation has played havoc with the stock market, resulting in some dramatic price declines amongst stocks. The Freehold A-REIT and Listed Property Fund has significantly outperformed both it's Benchmark and the broader A-REIT universe over this period, reinforcing the Fund's underlying investment principles of investing in high quality stocks that offer highly predictable earnings streams supported by either long term contracts or leases.

Despite the sector possessing strong balance sheets and debt metrics before the impact of COVID-19 was unleashed, the devastation to the broader economy has put enormous uncertainty over the potential income streams of many A-REITs. This has also led to massive uncertainty over underlying asset values, causing transaction markets to freeze.

So where to from here?

There remains so much uncertainty as to how long the current economic landscape will remain in place and as a result there are very few companies that can provide any real certainty as to where their earnings will fall at their next result.

While balance sheets were broadly in pretty good shape entering this period, we would not discount the potential for some capital raisings to occur as corporates look to make their balance sheets bullet proof and not be reliant on debt markets for capital going forward. We also expect some asset values to 'rebase' from here, with investors putting a premium on the counterparty with significant evaluation regarding the long-term viability of some tenants.

We remain in unchartered waters and while we believe the initial sell off has thrown up some excellent investment opportunities, we also remain relatively cautious on the short to medium term outlook and will continue to have a bias I the portfolio towards quality.

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Performance Update

Contributors

Vicinity Centres (not held): the 'social distancing' and extreme measures put in place to combat COVID-19 will hit retail landlords harder than most. The VCX portfolio has a high level of exposure to discretionary and luxury retail which is likely to have a material impact to earnings going forward.

Viva Energy REIT (OW): Has exposure to a high-quality counterparty and a long term lease expiry profile meaning the REIT should be immune from any impact arising from COVID-19.

APA Group (OW): Another business with a high-quality counterparties where their revenue streams derived from owning a large east coast gas pipeline predominantly should be relatively immune from the current environment.

Detractors

Ausnet (not held): was the beneficiary of its regulated revenue streams that should not be impacted by the current economic backdrop. The Fund offset this by owing Spark Infrastructure which also are exposed to regulated cashflows.

Current & Active Weights

Asset Class	Benchmark	Range	Current	Active Weight
A-REITs	70%	40–100%	58.5%	(11.5%)
Listed Infrastructure	30%	0–60%	37.6%	7.6%
Cash	0%	0–20%	3.9%	3.9%

Top 6 Active Positions

Security	Portfolio Weight	Active Weight*
Viva Energy REIT	8.1%	5.6%
Centuria Industrial REIT	5.7%	4.6%
Goodman Group	4.3%	4.3%
Vicinity Centres	-	(5.3%)
Scentre Group	9.1%	(4.2%)
GPT Group	7.1%	(4.1%)

Fund Details	
Fund Inception Date	Model Portfolio – 1st May 2010 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	0.25% / 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

as to future events which may or may not be correct. There are usually differences between forecast and actual results because events and actual circumstances frequently do not occur as forecast and these differences may be material. They are based on a number of estimates, assumptions that are subject to business, scientific, economic and competitive uncertainties and contingencies, with respect to future business decisions, which are subject to change and, in many cases, are outside the control of Freehold and 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.