Freehold A-REITs and Listed Infrastructure Fund

FREEHOLD
Investment Management

September 2020 Investment Update

OVERVIEW

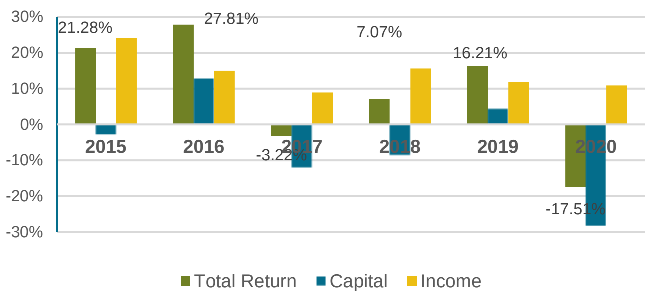
An open-ended fund that provides sustainable income and long-term capital growth from a portfolio of Australia's leading listed real estate and infrastructure securities. Our style overlay screens for core property and infrastructure characteristics and results in minimal exposure to development, currency 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)	0.4%	0.7%	(17.2%)	1.0%	4.2%	11.3%
Australian Listed Real Assets Index*	0.4%	0.8%	(21.3%)	0.2%	4.1%	10.7%
Value Add	(0.0%)	(0.1%)	4.1%	0.8%	0.1%	0.6%

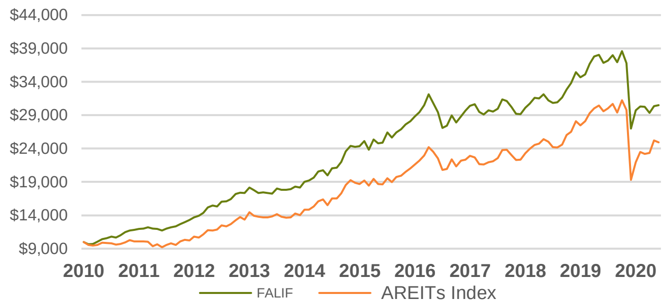
*The Australian Listed Real Assets Index is a subset of the S&P/ASX 300 AREIT Accumulation index and a subset of S&P/ASX 200 Index infrastructure sub industries, as defined by the Global Industry Classification Standard (GICS), combined on 70/30 basis. The index was previously known as A-REITs and Listed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

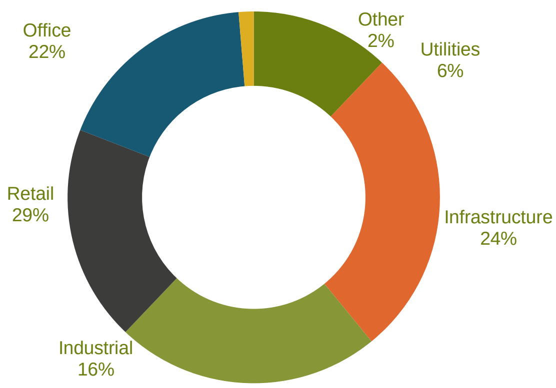


*Income distribution include net realised capital gains

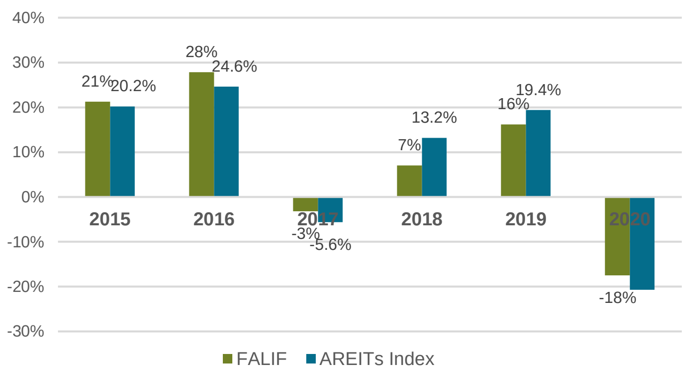
Since Inception Return



Sector Allocation



Financial Year Returns



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Quarterly Commentary

The Freehold A-REIT and Listed Infrastructure Fund (FALIF) increased by 0.7% during the quarter and significantly outperformed its benchmark over the past twelve months. August's much-anticipated reporting season quantified the impact brought upon by COVID-19 and its associated restrictions to the movement of people. Pleasingly, corporate results beat cautious expectations and cash collection held up strongly across office (>90% on average) and industrial (>95%) sectors. Conversely, discretionary malls experienced significant cash collection shortfalls from tenants, which is unsurprising given broader economic shutdowns.

In our view, the onset of COVID-19 has resulted in the acceleration of several structural changes. Greater e-commerce penetration and technological automation are impacting supply chains and operational structures. We believe that these long-term trends are already being priced into asset valuations, whilst ongoing uncertainty and market volatility requires price discovery to better understand what these assets are worth.

Scentre Group is a case in point, which booked low levels of cash collection during the period. In the absence of direct market transactional evidence, the Group undertook a USD$3bn subordinated hybrid issue to address its rising debt burden. Whilst this alleviates pressure on the Group's credit metrics, in our view Scentre's balance sheet remains stretched when considered from the perspective of an equity investor.

Within commercial office markets, there are positive signals emerging with direct market transactions expected to change hands at or near book value, which should support the share prices of listed commercial office landlords that are currently trading at significant discounts to their net asset position. Listed infrastructure securities reported mixed performance over the quarter. Despite Australia's international borders remaining closed, the 'reopening trade' has underpinned Sydney Airport's price recovery as investors start to price in the potential of increasing flight movements. In contrast, APA Group's result caught the market on the hop by reporting declines in its variable gas transportation volumes and the postponement of large customer-led growth projects.

Outlook

So where to from here? There are many unknowns that will have a long-term impact on markets. Some of these include the timing of a COVID-19 vaccine, if at all; the upcoming US election, and government policy to support individuals and businesses. We believe volatility will remain prevalent and we anticipate interest rates will remain low around the globe, which will be supportive of real asset values, provided income levels remain stable.

While the economy slowly reopens, for us the real question is what will 'the new normal' look like? There is no question that both individuals and businesses are re-evaluating the same thing. Will their jobs be safe? What happens to the housing market once government stimulus is wound back? Will employees continue to work from home? How will consumer shopping habits change? Many of these questions remain unanswered and will play out over time. Despite the unprecedented level of uncertainty facing investors, we believe that the market is currently pricing overly pessimistic outcomes and is offering attractive value for patient investors.

Stock in focus – Centuria Industrial

Centuria Industrial REIT (CIP) is Australia's largest pure play listed industrial vehicle with a portfolio value of approximately $2bn across 53 assets. We have a 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.

It is no secret that industrial and logistics assets are currently in high demand as businesses look to optimise supply chains with strategic warehouse sites. This trend has accelerated since the GFC in 2008 with e-commerce now accounting for over $35bn in sales within Australia, representing a growth rate exceeding 20% per annum. The advent of COVID-19 has only served to accelerate this rapid growth. As a result, industrial asset values across the eastern seaboard have witnessed strong price growth and yields have compressed considerably. Once deemed 'the ugly duckling' behind both office and retail, industrial has fast become the most sought-after sector with many large institutions looking to rotate portfolio exposures into this newly favoured asset class.

In August, the manager announced a transformational acquisition and undertook a $340m capital raise to purchase a Telstra Data Centre complex in Clayton. This asset was acquired on a very tight 4.25% capitalisation rate, due to its 30-year sale and leaseback to Telstra. The asset represents a crucial plank in Telstra's data storage and connectivity with its clients and has significant infrastructure invested. This large acquisition strengthens the portfolio's overall security of income underpinned by strong industry thematics.

Centuria Industrial REIT is conservatively geared with high levels of occupancy and a long lease expiry profile. We believe this provides a steady path to distribution growth, coupled with the prospect of further asset price appreciation as the current low interest rate environment drives continued investor appetite

Source: Telstra, Centuria

Quarterly Performance Update

Contributors

GMG (overweight) – Goodman Group reported a high-quality result that has been a key beneficiary of the booming e-commerce thematic. The Group's development pipeline is also growing considerably due to increasing demand.

GPT (underweight) – We believe GPT Group lacks any clear strategy and has significant exposure to the discretionary retail mall asset class, which is facing major headwinds at present.

Detractors

CLW (not held) – Charter Hall Long WALE REIT regained some of its recent underperformance. The Group undertook a capital raising last month to acquire a 50% interest in a portfolio of BP service stations in New Zealand.

DXS (overweight) – Dexus was impacted by negative sentiment towards office markets, due to changing work patterns during lockdown. The question remains whether COVID-19 has brought about a prolonged structural shift to remote workplace behaviour.

Current & Active Weights

Asset Class	Benchmark	Range	Current	Active Weight
A-REITs	70%	40–100%	68.9%	(1.1%)
Listed Infrastructure	30%	0–60%	30.1%	0.1%
Cash	0%	0–20%	1.0%	1.0%

Top 6 Active Positions

Security	Portfolio Weight	Active Weight*
Dexus	15.7%	3.3%
SCA Property Group	5.7%	2.8%
Mirvac Group	2.6%	2.6%
Vicinity Centres	3.1%	(3.7%)
Charter Hall Long WALE	-	(2.8%)
Charter Hall Retail	-	(2.2%)

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

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