Freehold A-REITs and Listed Infrastructure Fund

FREEHOLD Investment Management

March 2021 Investment Update

OVERVIEW

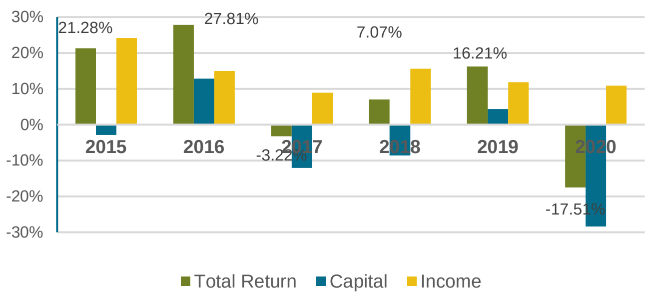
An open-ended fund that provides sustainable income and long-term capital growth from a portfolio of Australia's leading listed real estate and infrastructure securities. Our style overlay screens for core property and infrastructure characteristics and results in minimal exposure to development, currency 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)	5.0%	0.3%	24.9%	5.0%	3.7%	11.8%
Australian Listed Real Assets Index*	4.5%	1.5%	31.5%	4.3%	3.6%	11.3%
Value Add	0.5%	(1.2%)	(6.6%)	0.7%	0.1%	0.5%

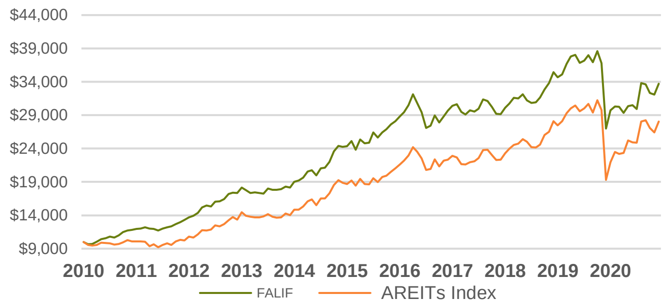
*The Australian Listed Real Assets Index is a subset of the S&P/ASX 300 AREIT Accumulation index and a subset of S&P/ASX 200 Index infrastructure sub industries, as defined by the Global Industry Classification Standard (GICS), combined on 70/30 basis. The index was previously known as A-REITs and Listed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

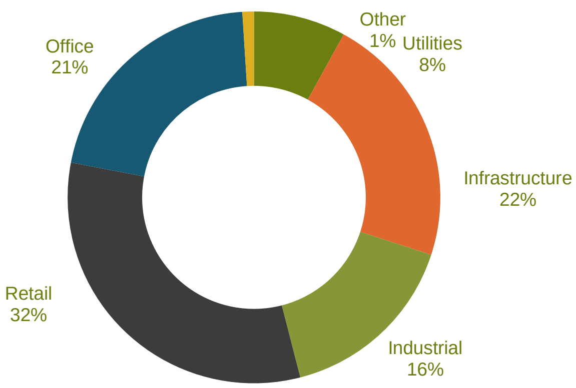


*Income distribution include net realised capital gains

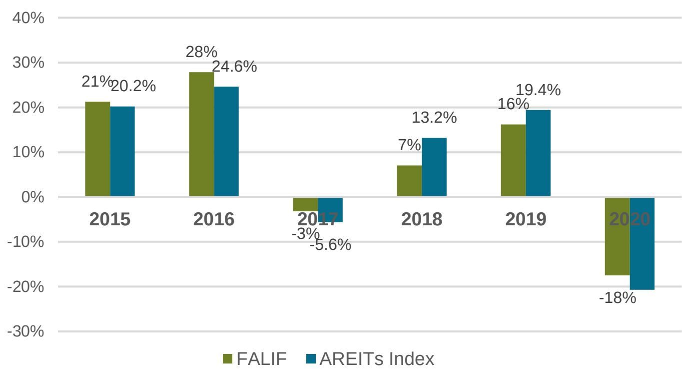
Since Inception Return



Sector Allocation



Financial Year Returns



Level 8, 25 Bligh Street
Sydney NSW 2000

P. +61 2 9228 1400
E. enquiries@freeholdim.com.au

www.freeholdim.com.au

Quarterly Commentary

The Freehold A-REITs and Listed Infrastructure Fund increased by 0.3% during the quarter, albeit returns were volatile due to significant movements in bond yields, given their high correlation. The bond sell-off was severe, with 10-year bond yields almost doubling from 0.97% at the end of December to 1.79% by the end of March. A faster than expected global recovery was the catalyst, fuelling inflationary fears across the market. This also, in turn, underpinned equity markets, sparking a rotation out of defensive and growth / technology sectors into value and cyclical companies. The Fund continues to favour quality, defensive, predictable cash flows, and as a result underperformed its benchmark for the quarter which rewarded 'beaten up' stocks leveraged to the 'reopening trade'.

The March quarter was dominated by reporting season, where companies provided investors with a snapshot of where their respective businesses are positioned as the economy slowly reopens following the COVID-19 pandemic. The performance of respective asset classes was mixed. The tailwinds underpinning industrial property were evident, demonstrating strong cash collection and unabated investor demand fuelling asset price growth. In contrast, discretionary retail landlords continue to confront the structural challenges confronting the asset class. Anecdotal evidence suggests a resetting of rents within regional malls is playing out to ensure the long-term viability of its tenants.

Commercial office markets are perhaps the most polarising in the market at present, with opinions mixed as to future business accommodation needs. That said, a number of direct market transactions have taken place validating book values and providing confidence in asset valuations. Whilst we can see short-term headwinds such as increasing vacancy rates putting downward pressure on rents, we believe there is a current dislocation between private market pricing and publicly listed REITs. In our view, the publicly listed office REITs screen cheap on a comparative basis and we have positioned the Fund accordingly, which to date has assisted performance.

The listed infrastructure sector was impacted even more severely than listed property due to the bond sell-off. At an operational level, toll road traffic is recovering from COVID-19 impacts and there are green shoots within the airline industry, however a full recovery still appears to be a long way off.

Outlook

Co-ordinated global stimulus continues to support markets and investment outcomes. That said, longer-term structural shifts to employment and consumer spending habits are still playing out, which are crucial to framing our investment decisions going forward. We anticipate our investment landscape could be influenced by corporate activity over the remainder of the calendar year, which may serve to underpin asset valuations and Fund performance.

Stock in focus – Vicinity Centres

Vicinity Centres (VCX.ASX) is one of Australia's largest pure play listed retail property groups with $24bn of assets under management across the full spectrum of retail offerings, albeit with a strong bias towards major regional and CBD centres. Whilst longer term structural issues confronting traditional bricks and mortar retail have been playing out, the onset of COVID-19 proved a significant setback for Vicinity, given its concentrated exposure in Melbourne, high-end and CBD retail; being the three most impacted retail sub-sectors.

During the year, the Vicinity undertook a $1.4bn capital raising to support its balance sheet and offset significant asset write-downs exceeding $2Bn across its portfolio. Whilst gearing at a headline level has been brought down to a manageable 25% level, the threat of further asset write-downs remains. This is because we are yet to see a significant direct market transaction occur, which, when it does will set a new benchmark for asset pricing. We expect price discovery to occur this year and believe the full impact of asset price erosion is yet to be fully reflected in the Group's share price, which is currently trading at a 20% discount to the Group's net tangible asset position.

Just recently, the Group placed three of its Sydney CBD assets on the market. Once highly productive centres, these assets have felt the brunt of COVID-19 impacts and the transaction will be viewed as a true litmus test for this asset class.

Despite a stated occupancy rate of 98%, cash collection over the first 6 months of FY21 stands at just 72% of gross billings. While this has slowly been increasing, the expiry of JobKeeper stimulus measures and the SME Code of Conduct, whereby landlords were enforced to collaboratively 'share the pain' with their tenants has now expired in all states, placing further strain on tenants. The stress on specialty retailers is playing out in declining rents, where new rental agreements are being struck at an average decline of 12.6% versus passing rents.

Despite owning some of the best shopping centres in Australia, we believe the market does not fully grasp the structural headwinds facing the Group's total portfolio. As negotiating power has shifted to favour tenants versus landlords, we anticipate continued pressure on earnings and occupancy and continue to maintain a significant underweight position within the Fund.

Source: Vicinity Direct Property Portfolio Handbook, December 2020

Monthly Performance Update

Contributors

CIP (overweight) – Centuria Industrial REIT benefited from very strong revaluation gains in March, reflecting strong investor demand for the industrial asset class.

DXS (overweight) – Dexus continues to move closer to acquiring the management rights of AMP Capital Diversified Property Fund (ADPF) which has over $5Bn of assets under management. The unitholder vote is late April, which, if successful would boost Dexus' funds management fees.

Detractors

COF (overweight) – Despite offering one of the highest dividend yields in the sector, the Centuria Office Fund has a number of lease expiries to manage in challenging market conditions.

AST (not held) – AusNet Services successfully priced a EUR 700m hybrid security issue in the form of non-convertible subordinated notes with a 60-year maturity and 1.625% fixed rate.

Current & Active Weights

Asset Class	Benchmark	Range	Current	Active Weight
A-REITs	70%	40–100%	67.4%	(2.6%)
Listed Infrastructure	30%	0–60%	28.5%	(1.5%)
Cash	0%	0–20%	4.2%	4.2%

Top 6 Active Positions

Security	Portfolio Weight	Active Weight*
Centuria Industrial REIT	5.4%	3.7%
Goodman Group	3.4%	3.4%
Waypoint REIT	5.3%	3.1%
Vicinity Centres	3.2%	(3.9%)
Charter Hall Long WALE	-	(2.7%)
GPT Group	7.4%	(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

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