Freehold Australian Property Fund

FREEHOLD Investment Management

JUNE 2020 Investment Update

OVERVIEW

An open-ended fund that provides quarterly tax effective income and long-term capital growth from a portfolio of direct and listed real estate and infrastructure, as well as select value-add and development opportunities.

Investment Performance

	Month	Quarter	1 Year	3 Years	5 Years	Since inception**
Freehold Australian Property Fund (net of fees)	0.8%	5.5%	(3.1%)	5.4%	7.9%	11.3%
A-REITs Index*	(1.2%)	20.2%	(20.7%)	2.3%	4.7%	10.4%
Listed Infrastructure Index*	(1.0%)	13.1%	(7.0%)	7.0%	11.7%	15.8%
Unlisted Property Index*	(0.3%)	(4.0%)	(2.7%)	5.3%	8.1%	8.5%

*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); Unlisted Property Index is the Mercer/IPD Australia Core Wholesale Property Fund Index

** Freehold Australian Property inception date – effective 7 November 2011. Performance numbers are NET and assume reinvestment of distributions.

Return Split by Financial Years

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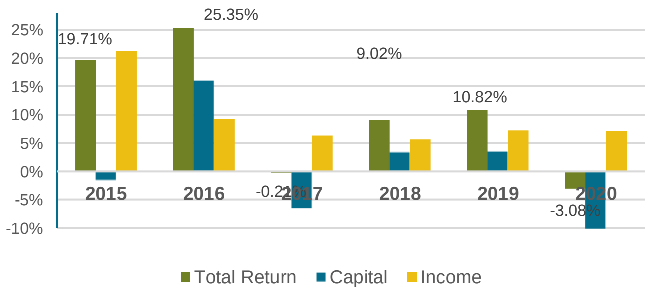
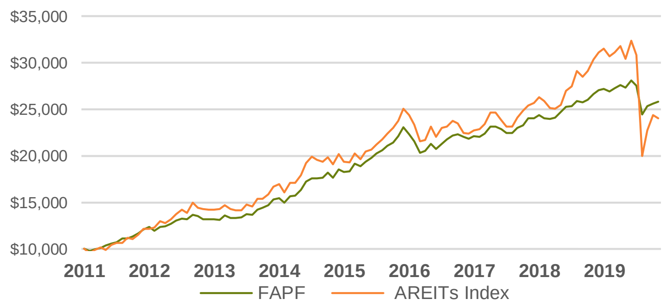
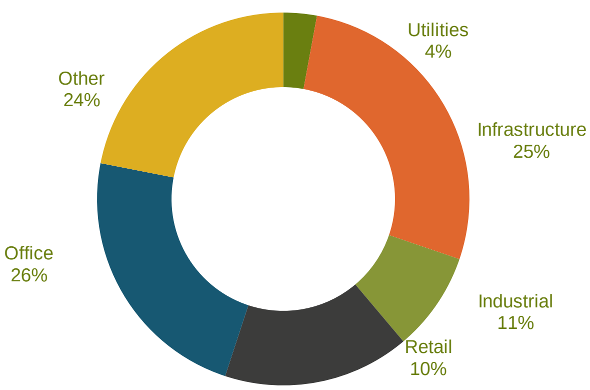


*Income distribution include net realised capital gains

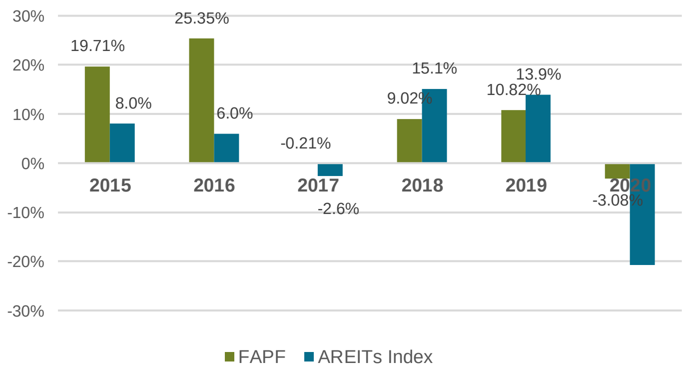
Since Inception Return



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 Australian Property Fund (FAPF) delivered 5.5% 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.

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.

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.

Listed 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	35%	20%-100%	24.4%	(10.6%)
Listed Infrastructure	15%	0–60%	13.0%	(2.0%)
Unlisted Property	50%	0%-80%	55.7%	5.7%
Cash	0%	0%-20%	2.0%	2.0%

Top 6 Portfolio Positions

Security	Portfolio Weight	Sector
Dexus Property Group	6.9%	Office
Transurban Group	6.9%	Infrastructure
Freehold Debt Income Fund Ordinary	6.8%	Other
8 Station Street Property Unit Trust	5.4%	Office
Scentre Group	5.3%	Retail
Charter Hall Core Plus Industrial Fund	5.0%	Industrial

Unlisted Property Portfolio

Fund	Portfolio Weight	Sector Weight
Freehold Debt Income Fund Oridinary	6.8%	12.3%
8 Station Street Property Unit Trust	5.4%	9.7%
Charter Hall Core Plus Industrial Fund	5.0%	9.0%
AMP Capital Wholesale Office Fund - Class A units	4.9%	8.9%
Freehold Development Trust 2	4.9%	8.8%
Jade Development Fund No.1	4.2%	7.5%
AMP Capital Diversified Infrastructure Trust	4.0%	7.2%
Palisade's Renewable Energy Fund	3.8%	6.7%
Dexus Healthcare Wholesale Property Fund	3.7%	6.6%
Westpac House Investment Trust 1	3.4%	6.0%
Investa Commercial Property Fund	2.0%	3.7%
Caboolture Retail Trust	1.8%	3.2%
Freehold Development Trust3	1.5%	2.7%
Bolton Street Property Unit Trust	1.4%	2.5%
Alceon UPG Trust	1.3%	2.4%
Micro Nest Holding Trust	0.8%	1.5%
Perth Rail Link Property Trust	0.8%	1.4%
TOTAL	**55.7%**	**100.0%**

Unlisted Portfolio Update

CPIF: The Charter Hall Prime Industrial Fund (CPIF) owns 64 prime grade industrial assets located across Australia with 34% in NSW; 32% in Victoria and 19% in QLD. Approximately 70% of assets are distribution/logistics centres and a further 17% are industrial estates. Sector tailwinds are strengthening, whilst market yields have firmed during the COVID outbreak. This strong performance has been captured in recent CPIF returns and as such, the Fund redeemed half of its holding in CPIF via a secondary market sale to take advantage of relative mispricing within listed equities. Simultaneously, Charter Hall announced a $900m equity raise to execute on several off-market opportunities that are in exclusive due diligence.

EPGBS: The works associated with the new 15-year lease to the Family Courts are now complete and been handed over to the tenant. The final stage of the property repositioning is underway with the new lift upgrade program having commenced and the final stage of the air conditioning upgrade underway. The new cooling towers have also been craned onto site. During the quarter Eagle have been liaising with the tenants in line with the government guidelines for the landlord tenant relationship during the Covid-19 period. There has been requests for rent assistance from two of the smaller non-government tenants, however, the amounts agreed were not significant and will not affect investor distributions. Following off-market interest early in the year, which was withdrawn following Covid-19, enquiries are once more being received due to strength of the government tenant covenant.

AWOF:

The Fund holds a 13 asset portfolio of prime and A-grade office buildings focused on the eastern seaboard, with 59% of the portfolio in Sydney and 39% in Melbourne. The AMP Wholesale Office Fund declined by 2.11% for the June quarter, impacted by COVID-19. During the period, the Fund achieved practical completion of The Foundry, South Eveleigh (building 2) which was the final stage to be delivered in the Fund's investment in this revitalized technology and innovation hub. Pleasingly, this project delivered a project IRR of 14.6%.

JDF1: The Jade Development Fund principally invests in Junior Notes issued by the Securitisation Trust in respect of a Funding Warehouse Series, which holds a pool of insured and uninsured mortgages. The notes are intended to be held by the fund to maturity. We expect a series of partial term-outs over the next 12 – 24 months that will allow for return of capital.

ADIT: The AMP Diversified Infrastructure Trust (ADIT) provides exposure to airports, electricity and gas distribution, roads, rail rolling stock and student housing. The major asset in the portfolio is a minority ownership of Australia Pacific Airports Corporation (APAC), which owns Melbourne Airport. During the quarter, AMP Capital undertook interim valuations across its assets as domestic economic conditions deteriorated. The largest impact was witnessed within Melbourne Airport due to enforced travel restrictions and extraordinary airline capacity cuts. Broader border closures have also hindered international students recommencing on-campus studies; however, this is yet to impact longer term valuations of the student accommodation asset class. Pleasingly, ADIT's diversified exposure has largely offset its single valuation decline within Melbourne Airport due to the current difficulties faced within the aviation industry.

PREF: The Palisade Renewable Energy Fund's assets include wind farm assets in Waterloo and Hallett, South Australia and Granville Harbour, Tasmania, and Ross River Solar Farm in QLD. The Australian energy market continues to transition to a generation mix dominated by wind, solar and other forms of sustainable energy. Recent bushfires may serve to hasten policy initiatives. During the period, Palisade sought to extend the term of its portfolio beyond 31 December 2020, which aligned with the initial Renewable Energy Target deadline. Our team has engaged extensively with Palisade during the quarter and has resolved to redeem its investment to take advantage of relative mispricing within listed equities. Anticipated completion of the secondary market sale is within the next quarterly period.

IWEST: The ICAM Westpac House Investment Trust is a single asset fund holding Westpac House in Adelaide. The Fund continues to focus on re-letting the space that was vacated by the State Government at the end of December. Currently, capex works are being undertaken to upgrade the Grand Hall, Lobby and low rise to assist with the reletting. Releasing is progressing, albeit the recent COVID-19 impact has led to many tenant's delay making decisions regarding their space requirements. The valuation has not been changed since December and is currently $93.7m for ICAM's 50% share.

FDT2:

The fund comprises the subdivision of two parcels of residential land in the Western Sydney suburbs of Oakville and Vineyard for the owner occupier market. The Development Applications for both sites remain contingent on the state government department IPART (Independent Pricing and Regulatory Tribunal) setting the infrastructure contributions for the region before Hawkesbury Council can issue the DA. Following historical conflicts of interest between developers and elected officials there are limited avenues to lobby to have this process completed in a timelier manner. Given the delay, additional equity was raised from the majority of existing unitholders at a 34% discount, in lieu of introducing debt to settle the Harkness Rd site in June 2020. While a sale of the sites following receipt of the DA's has been contemplated and the market soft sounded, due to Covid-19 there is very little liquidity in the market and so plans to continue through to construction continue.

ICPF: Investa Commercial Property Fund and ICPF Holdings are a stapled entity comprising a portfolio of 15 prime and A-Grade office assets plus the operating platform. The Fund's resilience was evident amid the current COVID-19 period, recording a decline of just 0.8% for the quarter. Like all landlords, ICPF worked with their tenants impacted by the COVID restrictions having 63 tenant requests approved with respect to rental relief while maintaining a current occupancy of 95.8%.

ACRT: The Alceon Caboolture Retail Trust is a single asset fund holding the Caboolture Square shopping centre in Brisbane. The fund is delivering a ~7.0% yield and the target return of 17% IRR is still anticipated to be achieved. The strategy was to acquire at well below replacement cost and lease up the vacant space before putting back on the market. Distributions were held over during the March quarter with uncertainty over COVID-19 but have now resumed after limited impact on rental income. The K-Mart tenancy has been converted into a regional distribution centre which has proved to be a success. The timing of the asset sale is being considered in the broader market context to maximise certainty and value. We hold this as a value add asset.

Micronest: The Micronest Holding Trust is a fund set up to participate in the build to rent sector, initially through a Co-Living strategy. The development of the property in Ashfield has now received its Construction Certificate following receipt of the Development Application. Covid-19 has had a material impact on the strategy of this fund which was to have a large number of 'micro' apartments with a number of common areas to create the community, not conducive to social distancing. We continue to have regular meetings with the manager to assess the prospects of continuing with this strategy or selling either the Ashfield site or units in the trust. The value of this holding has been written down to reflect a potential sale of the existing house and land as a residential residence.

FDT3: The fund comprises the subdivision of a parcel of residential land in the Western Sydney suburb of Box Hill for the owner occupier market. Following practical completion work is underway to complete the land swaps with adjoining owners which are the individual lots which straddle the site boundaries. The government stimulus has had an immediate impact with sales strong for the smaller lots that fit the criteria for the housing grant. With 27 lots sold in total there are only 3 further lot sales required to meet debt cover before sales start to contribute towards repayment of investor capital and then profit.

EPG8SS: The Eagle Property Group, 8 Station St Wollongong asset is 100% leased to the Department of Defense on a 10 year lease. The tender process to undertake the cladding replacement works with a non-combustible material has been completed and a contract awarded. A valuation took place during the quarter which saw a strong uplift which is now reflected in the unit price. Refinancing of the debt facility is currently underway to provide the capital necessary to complete the works. With the value of a long term government tenant now at a premium, where they continue to meet 100% of their contracted lease obligations through the crisis, we will continue to benefit from this income stream and may consider realising some of the value uplift by divesting a minority stake in the asset.

AUPG: The Alceon Universal Property Group debt fund provides debt finance to a residential developer on a first mortgage basis, stepping into the gap left by the major banks who have withdrawn from this area of the market. The AUPG junior debt trust is c.74% drawn with a coupon of 14% and is currently delivering its target returns. It is anticipated that the facility will be fully drawn in Q3 2020.

EGPRL: The units in the EG Funds Management Perth Rail Link Trust were acquired at a 15% discount to valuation. There are two remaining assets in the fund sitting close to the Burswood Casino in Perth and next to the local train station. The divestment of this position has been delayed further as a result of Covid-19 with a further campaign to off shore buyers likely to be pushed in the early part of 2021.

FDIF: The Freehold Debt Income Fund's objective is to provide investors with a total annualised return of between 7 - 8% p.a. derived from a diversified pool of loans originated by Alceon, a leading non-bank corporate lender and investment firm. The underlying portfolio of loans is primarily secured by registered first ranking mortgages held over Australian property and primarily finances real estate development, construction and ownership across the east coast of Australia. The Fund has negotiated a fee structure for its capital that materially enhances the return relative to FDIF's target.

Dexus: The Dexus Healthcare Wholesale Property Fund (HWPF) represents a new investment made by the Fund in December. The major assets are the North Shore Health Hub which is located in St Leonards and adjacent to North Shore Private hospital with an 'as complete' asset value of $225m. The other major asset is the recently completed Calvary Adelaide Hospital with 343 overnight beds and 60-day surgery beds leased to Calvary for 30 years on a triple net basis. We believe this asset class will continue to gain institutional recognition and remain confident of the long-term prospects for the Group.

Fund Details	
Fund Inception Date	Model Portfolio – 7th Nov 2011 Fund – 15th Feb 2015
Objective	Outperform the Benchmark on a rolling 3-year basis
Benchmark	Derived as the A-REITs and Listed Infrastructure Customised Index and the Unlisted Property and Infrastructure Customised Index, combined on a 50/50 basis.
Investment Timeframe	3-5 Years
Minimum Investment	$10,000
Income Distribution	Quarterly
Unit Pricing	Daily
Management Costs	0.165% to 1.015% p.a. (incl. GST)
Buy / Sell Spread	0.25% / 0.25%
Responsible Entity	Responsible Entity Partners Ltd
ARSN	164 098 855
APIR Code	LAM0044AU
Platforms	BT Wrap, Asgard eWrap, Asgard Infinity Wrap, Netwealth

Important Notice

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.