

# **Freehold Australian Property Fund**

ARSN 169 952 738

## **Interim Financial Report For the half-year ended 31 December 2018**

**Responsible Entity:**

**Responsible Entity Partners Limited**

**ABN 11 119 757 596**

**Level 9**

**287-293 Collins Street**

**Melbourne Victoria 3000**

**Freehold Australian Property Fund**  
ARSN 169 952 738  
**Interim Financial Report**  
**For the half-year ended 31 December 2018**

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## Directors' report

The directors of Responsible Entity Partners Limited, the Responsible Entity of Freehold Australian Property Fund, present their report together with the interim financial statements of Freehold Australian Property Fund ("the Fund") for the half-year ended 31 December 2018.

## Principal activities

The Fund is a registered managed investment scheme constituted on 05 June 2014 and is domiciled in Australia.

The Fund is an actively managed portfolio constructed of a concentrated mix of listed A-REIT and infrastructure securities together with unlisted Property Securities where the majority of assets derive a high proportion of earnings from rental, recurring sources or mature/contracted income and have capital growth potential with a medium level of liquidity. The Fund is designed to outperform the Australian Property Customised Index over rolling 3 year periods.

The Fund did not have any employees during the half-year.

There were no significant changes in the nature of the Fund's activities during the half-year.

## Directors

The following persons held office as directors of Responsible Entity Partners Limited during the half-year or since the end of the half-year and up to the date of this report:

	Date Appointed	Date Resigned
Mr Michael Terlet AO (Chairperson)	1 October 2017	
Mr Ronald Beard	23 October 2013	
Ms Fiona McNabb	28 September 2016	
Mr Stephen Miller	1 October 2017	
Mr Andrew Peterson	20 March 2018	
Mr Andre Morony	21 August 2018	28 August 2018

No units of the Freehold Australian Property Fund are held by the directors or any director related entities.

## Operating results and review of operations

	Half-year ended	
	31 December 2018 \$'000	31 December 2017 \$'000
Net operating profit/(loss) for the half-year	8,014	14,780
Distributions paid and payable	6,185	2,783

The value of the Fund's gross assets was as follows:

	As at	
	31 December 2018 \$'000	30 June 2018 \$'000
Gross assets	292,513	339,185

## Significant changes in state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Fund that occurred during the half-year.

## Matters subsequent to the end of the half-year

No matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect:

- (i) the operations of the Fund in future financial years;
- (ii) the results of those operations in future financial years; or
- (iii) the state of affairs of the Fund in future financial years.

**Directors' report (continued)**

**Rounding of amounts**

The Fund is an entity of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* issued by the Australian Securities and Investments Commission (ASIC) relating to the "rounding off" of amounts in the Directors' report. Amounts in the Directors' report have been rounded to the nearest thousand dollar in accordance with that ASIC Corporations Instrument, unless otherwise indicated.

**Auditor's independence declaration**

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

This report is made in accordance with a resolution of the directors.



Fiona Margaret McNabb  
Director  
22 February 2019



Ronald Peter Beard  
Director  
22 February 2019



## *Auditor's Independence Declaration*

As lead auditor for the review of Freehold Australian Property Fund for the half-year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink, appearing to read 'D. Coogan', with a horizontal line extending to the right.

David Coogan  
Partner  
PricewaterhouseCoopers

Melbourne  
22 February 2019

**Freehold Australian Property Fund**  
**Condensed statement of comprehensive income**  
**For the half-year ended 31 December 2018**

**Condensed statement of comprehensive income**

		<b>Half-year ended</b>	
		<b>31 December</b>	<b>31 December</b>
		<b>2018</b>	<b>2017</b>
	Notes	<b>\$'000</b>	<b>\$'000</b>
<b>Investment income</b>			
Interest income		100	15
Dividend/distribution income		6,155	6,502
Net gains/(losses) on financial instruments held at fair value through profit or loss	4	2,874	9,555
<b>Total net investment income</b>		<u>9,129</u>	<u>16,072</u>
<b>Expenses</b>			
Management fees		767	907
Administration fees		115	151
Audit and accounting fees		-	17
Transaction costs		187	196
Other expenses		46	21
<b>Total operating expenses</b>		<u>1,115</u>	<u>1,292</u>
<b>Operating profit</b>		<u>8,014</u>	<u>14,780</u>
<b>Finance costs attributable to unit holders</b>			
Distributions to unit holders	7	(6,185)	(2,783)
(Increase)/decrease in net assets attributable to unit holders	6	(1,829)	(11,997)
<b>Profit for the half-year</b>		<u>-</u>	<u>-</u>
Other comprehensive income		-	-
<b>Total comprehensive income for the half-year</b>		<u>-</u>	<u>-</u>

The above condensed statement of comprehensive income should be read in conjunction with the accompanying notes.

**Freehold Australian Property Fund**  
**Condensed statement of financial position**  
**As at 31 December 2018**

**Condensed statement of financial position**

		As at	
		31 December	30 June
		2018	2018
	Notes	\$'000	\$'000
<b>Assets</b>			
Cash and cash equivalents		10,071	6,821
Receivables	8	5,110	9,284
Financial assets held at fair value through profit or loss	5	<u>277,332</u>	<u>323,080</u>
<b>Total assets</b>		<u><b>292,513</b></u>	<u><b>339,185</b></u>
<b>Liabilities</b>			
Trade and other payables	9	171	267
Distribution payable		<u>3,816</u>	<u>8,588</u>
<b>Total liabilities (excluding net assets attributable to unit holders)</b>		<u><b>3,987</b></u>	<u><b>8,855</b></u>
<b>Net assets attributable to unit holders – liability</b>	6	<u><b>288,526</b></u>	<u><b>330,330</b></u>

The above condensed statement of financial position should be read in conjunction with the accompanying notes.

**Freehold Australian Property Fund**  
**Condensed statement of changes in equity**  
**For the half-year ended 31 December 2018**

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**Condensed statement of changes in equity**

	Half-year ended	
	31 December 2018 \$'000	31 December 2017 \$'000
<b>Total equity at the beginning of the half-year</b>	-	-
Profit for the half-year	-	-
Other comprehensive income	-	-
Total comprehensive income	-	-
Transactions with unit holders	-	-
<b>Total equity at the end of the half-year</b>	-	-

Under Australian Accounting Standards, net assets attributable to unit holders are classified as a liability rather than equity. As a result there was no equity at the start or end of the half-year.

The above condensed statement of changes in equity should be read in conjunction with the accompanying notes.



**Freehold Australian Property Fund**  
**Condensed statement of cash flows**  
**For the half-year ended 31 December 2018**

**Condensed statement of cash flows**

	Half-year ended	
	31 December	31 December
	2018	2017
	\$'000	\$'000
<b>Cash flows from operating activities</b>		
Proceeds from sale of investments	82,410	50,071
Payment for purchase of investments	(32,390)	(82,686)
Dividends/distributions received	8,919	8,043
Interest received	100	15
Management fees paid	(863)	(824)
Administration fees paid	(115)	(151)
Audit fee paid	-	(17)
Other expenses paid	(221)	(173)
<b>Net cash (outflow) from operating activities</b>	<u>57,840</u>	<u>(25,722)</u>
<b>Cash flows from financing activities</b>		
Proceeds from applications by unit holders	25,619	53,435
Payments for redemptions by unit holders	(69,252)	(18,592)
Distributions paid	(10,957)	(10,132)
<b>Net cash (outflow)/inflow from financing activities</b>	<u>(54,590)</u>	<u>24,711</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>3,250</b>	<b>(1,011)</b>
Cash and cash equivalents at the beginning of the half-year	6,821	5,633
<b>Cash and cash equivalents at the end of the half-year</b>	<u>10,071</u>	<u>4,622</u>
Non cash financing activities	<u>5</u>	<u>5</u>

The above condensed statement of cash flows should be read in conjunction with the accompanying notes.

## **1 General information**

These interim financial statements cover Freehold Australian Property Fund ("the Fund") as an individual entity. The Fund is a registered managed investment scheme pursuant to the *Corporations Act 2001* and domiciled in Australia. The Fund was constituted on 5 June 2014 and was registered with the Australian Securities and Investments Commission on 19 June 2014.

The Responsible Entity of the Fund is Responsible Entity Partners Limited (the "Responsible Entity"). The Responsible Entity's registered office is Level 9, 287-293 Collins Street, Melbourne, VIC 3000. The interim financial statements are presented in Australian currency unless otherwise noted.

The objective of the Fund is to outperform the Australian Property Customised Index over rolling 3 year periods via an actively managed portfolio constructed of a concentrated mix of listed A-REIT and infrastructure securities together with unlisted Property Securities that have a high proportion of rental or mature/contracted income.

The Fund is suited to Investors with an investment horizon of five years or more. It will suit Investors that want exposure to 'pure' property and infrastructure listed/unlisted securities that derive a high proportion of earnings from rental, recurring sources and mature/contracted income.

The interim financial statements were authorised for issue by the directors of the Responsible Entity on 22 February 2019. The directors of the Responsible Entity have the power to amend and reissue the interim financial statements.

## **2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated in the following text.

### **(a) Basis of preparation**

These interim financial statements have been prepared in accordance with Australian Accounting Standards AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standards IAS 34 *Interim Financial Reporting*.

These interim financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these interim financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2018 and any public announcements made in respect of the Fund during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

### **(b) Significant accounting policies**

Except as disclosed below, the accounting policies applied in these interim financial statements are the same as those applied to the Fund's financial statements for the year ended 30 June 2018.

The Fund had to change some of its accounting policies as a result of new and revised accounting standards which became effective for the first time in the current reporting period. The affected policies are:

- AASB 9 *Financial Instruments* (and applicable amendments)

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. It has now also introduced revised rules around hedge accounting and impairment. The adoption of the amendment does not have a significant impact on the recognition, classification and measurement of the Fund's financial instruments as they are carried at fair value through profit or loss. The derecognition rules have not changed from the previous requirements, and the Fund does not apply hedge accounting. AASB 9 introduces a new impairment model. However, as the Fund's investments are all held at fair value through profit or loss, the change in impairment rules does not have a material impact on the Fund.

- AASB 15 *Revenue from Contracts with Customers*

AASB 15 replaces AASB 118 *Revenue* which covers contracts for goods and services and AASB 111 *Construction Contracts* which covers construction contracts. AASB 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The Fund's main sources of income are interest, dividends and distributions, and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As a consequence, the adoption of AASB 15 does not have a significant impact on the Fund's accounting policies or the amounts recognised in the financial statements.

### 3 Fair value measurement

The Fund measures and recognises the following assets and liabilities at fair value on a recurring basis.

The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

AASB 13 requires disclosure of fair value measurements by level of the following fair value hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

#### (a) Fair value in an active market (level 1)

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs.

The Fund values its investments in accordance with the accounting policies set out in Note 2 to the financial statements. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

#### (b) Fair value in an inactive or unquoted market (level 2 and level 3)

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at the end of the reporting period. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

#### (c) Recognised fair value measurements

The table below presents the Fund's financial assets and liabilities measured and recognised at fair value as at 31 December 2018 and 30 June 2018.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>As at 31 December 2018</b>				
<b>Financial assets</b>				
Financial assets designated at fair value through profit or loss:	113,420	163,912	-	277,332
<b>Total</b>	<b>113,420</b>	<b>163,912</b>	<b>-</b>	<b>277,332</b>
<b>As at 30 June 2018</b>				
<b>Financial assets</b>				
Financial assets designated at fair value through profit or loss:	171,870	151,210	-	323,080
<b>Total</b>	<b>171,870</b>	<b>151,210</b>	<b>-</b>	<b>323,080</b>

**4 Net gain/(loss) on financial instruments held at fair value through profit or loss**

	Half-year ended	
	31 December 2018 \$'000	31 December 2017 \$'000
Net gain/(loss) on financial assets designated as at fair value through profit or loss	2,874	9,555
Net gain/(loss) on financial assets held at fair value through profit or loss	2,874	9,555
Net realised gain/(loss) on financial assets held at fair value through profit or loss	1,933	2,165
Net unrealised gain/(loss) on financial assets held at fair value through profit or loss	941	7,390
	2,874	9,555

**5 Financial assets held at fair value through profit or loss**

	As at	
	31 December 2018 \$'000	30 June 2018 \$'000
<b>Designated at fair value through profit or loss</b>		
Domestic equities (listed)	113,420	171,870
Domestic equities (unlisted)	163,912	151,210
	277,332	323,080

**6 Net assets attributable to unit holders**

Movements in the number of units and net assets attributable to unit holders during the half-year were as follows:

	Half-year ended		Half-year ended	
	31 December 2018 Units '000	31 December 2018 \$'000	31 December 2017 Units '000	31 December 2017 \$'000
Opening balance	297,171	330,330	248,146	266,683
Applications	22,866	25,614	49,324	53,429
Redemptions	(61,965)	(69,252)	(17,106)	(18,592)
Units issued upon reinvestment of distributions	4	5	5	5
Increase/(decrease) in net assets attributable to unit holders	-	1,829	-	11,997
Closing balance	258,076	288,526	280,369	313,522

As stipulated within the Fund Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

Units are redeemed on demand at the unit holder's option. However, holders of these instruments typically retain them for the medium to long term. As such, the amount expected to be settled within twelve months after the end of the reporting period cannot be reliably determined.

**7 Distributions to unit holders**

The distributions for the half-year were as follows:

	Half-year ended		Half-year ended	
	31 December 2018 \$'000	31 December 2018 CPU	31 December 2017 \$'000	31 December 2017 CPU
Distribution paid	2,369	0.9349	2,368	0.8617
Distribution payable	3,816	1.4786	415	0.1479
<b>Total Distributions</b>	6,185	2.4135	2,783	1.0096

**8 Receivables**

	As at	
	31 December 2018 \$'000	30 June 2018 \$'000
Unsettled sales	2,804	4,202
Dividends/distribution receivable	2,273	5,037
Goods and services tax recoverable	33	45
	5,110	9,284

**9 Payables**

	As at	
	31 December 2018 \$'000	30 June 2018 \$'000
Trade and other payables	171	267
	171	267

**10 Events occurring after the reporting period**

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the condensed statement of financial position as at 31 December 2018 or on the results and cash flows of the Fund for the half-year ended on that date.

**11 Contingent assets and liabilities and commitments**

There are no outstanding contingent assets, liabilities or commitments as at 31 December 2018 (30 June 2018: nil)

**Directors' declaration**

In the opinion of the Directors of Responsible Entity Partners Limited, the Responsible Entity of Freehold Australian Property Fund:

- (a) The interim financial statements and Notes set out on pages 5 to 12 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Fund's financial position as at 31 December 2018 and of its performance for the half-year ended on that date.
- (b) There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors of the Responsible Entity.



Fiona Margaret McNabb  
Director  
22 February 2019



Ronald Peter Beard  
Director  
22 February 2019



## **Independent auditor's review report to the unitholders of Freehold Australian Property Fund**

### ***Report on the Half-Year Financial Report***

We have reviewed the accompanying half-year financial report of Freehold Australian Property Fund (the Registered Scheme), which comprises the statement of financial position as at 31 December 2018, the statement of changes in equity, statement of cash flows and statement of profit or loss and other comprehensive income for the half-year ended on that date, selected other explanatory notes and the directors of the Responsible Entity's declaration.

### ***Directors of the Responsible Entity's responsibility for the half-year financial report***

The directors of the Responsible Entity of the Registered Scheme are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors of the Responsible Entity determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Freehold Australian Property Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### ***Independence***

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Freehold Australian Property Fund is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

*David Coogan*

David Coogan  
Partner

Melbourne  
22 February 2019