

Unlisted Property Trust Report

Freehold Australian Property Fund

June 2019

Diversified fund providing exposure to listed and unlisted property investments

Freehold Australian Property Fund

Contents

1.	Overview	2
2.	Key Considerations	3
3.	Key Metrics	4
4.	Overview	5
5.	Fund Portfolio	12
6.	Financial Analysis	13
7.	Management & Corporate Governance	14
8.	Past Performance	16
9.	Appendix – Current Portfolio Snapshot	17
10.	Appendix – Ratings Process	18
11.	Disclaimer & Disclosure	19

About Core Property Research

Core Property Research Pty Ltd was established in July 2017 to provide market leading and insightful research on the property funds sector for its clients and investors. Our ratings and research cover sector level research, ratings and recommendations on listed and unlisted property funds, and is built upon the extensive research experience of its staff.

The Core Property team collectively, has over 50 years' experience across property, financial services and investment markets. The team has also evaluated over 500 different funds across multiple sectors and a range of investment structures over the last decade.

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Freehold Australian Property Fund

June 2019

The Freehold Australian Property Fund (*"the Fund"*) is an open-ended property fund that invests in a diversified portfolio of listed and unlisted investments in the property and infrastructure sectors holding institutional-grade property assets in Australia. The Fund is managed by Freehold Investment Management Limited (*"the Manager"*). The independent Responsible Entity (the *"RE"*) is Responsible Entity Partners Ltd and not related to the Manager.

The main objective of the Fund is to outperform its customised benchmark (see *Investment Strategy* for more details) on a rolling 3-year basis. The Fund predominantly targets investments in assets with stable recurring income with potential for rental income growth which could support capital growth.

The Fund has delivered an average return of 13.4% p.a. since inception, slightly above its benchmark of 13.1% p.a. However, it is important to note that past performance is not a reliable indicator of future performance.

Core Property considers the Manager's strategy to be supportive of stable long-term returns with benchmark investment allocations as follows:

- Listed investments (50% allocation): targets investments in ASX-listed securities in the S&P/ASX300 A-REITs Index as well as Infrastructure securities. The manager adopts a high-conviction approach with a focus on stable rental income producing assets in Australia. As such, the Fund does not invest in securities with a large component of funds management earnings, large offshore earnings or securities with large development earnings.
- Unlisted investments (50% allocation): targets unlisted property funds with target allocations to Core strategies (35% allocation) as well as investments in Value Add (10%) and Development (5%) funds.

As at the end of April 2019, the Fund remains within its target allocation limits.

Asset Class	Benchmark	Target Range	Current Allocation (30 April 2019)
Listed Property (A-REITs)	35%	20% - 100%	28%
Listed Infrastructure	15%	0% - 60%	15%
Unlisted Property	50%	0% - 80%	55%
Cash	0%	0% - 20%	2%

The Fund does not invest in direct properties and does not borrow directly, however the underlying investments are currently geared at 31.5% on a look-through basis.

Core Property calculates the Fund to be delivering a current distribution yield of 4.1% p.a. (annualised). The listed securities provide a moderate level of liquidity for investors and, as such, investors should expect the portfolio characteristics to change over time.

Core Property considers the Fund fees to be in line with peers, estimated at 0.67% p.a. of net assets on the current portfolio, or 0.72% p.a. of net assets based on the target portfolio. A notable feature is that performance fees are payable only on listed assets and are subject to a 'high watermark', removing the impact of profit accruals from prior periods (Refer *Fee Analysis* section).

Investor Suitability

Investors need to decide between choosing their own investments amongst multiple products, versus choosing one manager to invest across a diversified pool of listed and unlisted property securities that derive a high proportion of earnings from passive income.

Core Property believes the Fund would suit investors who: (a) seek a regular income distribution, (b) seek to have some liquidity, and (c) are comfortable with the risks associated with managed funds investing in listed investments and unlisted property securities.

Recommended

See the Appendix for a description of our ratings. The above rating must be viewed in the context of comparable Funds and not across all products

Fund Details

Offer Open:	Open-ended
Offer Close:	No close date
Min. Investment:	\$10,000 ¹
Unit Price:	\$1.1545 (30 April 2019)
Entry / Exit Price:	\$1.1574 / \$1.1516 ²
Liquidity:	Weekly withdrawals capped at 5% of NAV per quarter. Periodic Liquidity Event to be offered within 3 months of 15 December 2019 and every 5 years thereafter
Distributions:	3.4 cpu (9 months to 31 March 2019)
Distribution Frequency:	Quarterly
Recommended Investment Period:	3-5 years
	1. Minimum investment \$10,000. Subsequent additional applications of \$2,000. 2. Based on a Buy/ Sell Spread of +0.25% / -0.25% 3. Based on the Manager's forecasts.

Fund Contact Details

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Fund – Website

<http://www.freeholdim.com.au>

Note: This report is based on the Freehold Australian Property Fund Product Disclosure Statement dated 29 September 2017, together with other information provided by Freehold Investment Management.

Key Considerations

Management: Positives include the presence of a largely independent board, an independent RE, and good depth and breadth of experience across the investment team. The Manager has a good track record of generating total returns and broadly in line with benchmark returns since inception. Core Property also notes a good level of governance – for example, the Manager will not receive fees from this fund for internally managed funds.

Fund Strategy: The Fund invests in a diversified portfolio of listed A-REITs, listed infrastructure securities, unlisted infrastructure funds and unlisted property funds, with a small allocation to cash. As the Fund emphasises “passive” rental income, Core Property believes it should be seen as an income generator producing a moderate distribution yield. The Fund’s FY19 distribution yield is currently around 4.1% on an annualised basis.

Portfolio construction: Core Property believes the Fund has a well-defined allocation policy. However, it is important to note that the performance of hybrid funds (blending listed and unlisted investments) has been varied through the GFC - some managers were forced to hold illiquid investments that paid no distributions for extended periods of time. Should market conditions deteriorate, the RE may temporarily suspend withdrawals and in extreme cases, suspend distributions.

Listed Investments: The Manager adopts a high conviction style strategy and invests in a selection of stocks in the S&P/ASX300 A-REITs Index and the Infrastructure securities. Stock selection is based around securities which provide a stable recurring rental income to support distributions.

Unlisted investments: The Fund currently invests in 18 unlisted property and infrastructure funds with a good diversification across sectors. As investments mature and units in investments are redeemed, the Fund’s cash balance may rise, resulting in lower distribution yields.

Fee structure: The Fund charges a Management Fee of 0.85% p.a. of NAV for listed securities and 0.165% p.a. of NAV for unlisted investments that are externally managed. The Fund does not charge an additional management fee on unlisted investments that are internally managed by Freehold. We consider the average Management Expense Ratio (MER) to be appropriate for the Fund - 0.67% p.a. for the current portfolio, or 0.72% p.a. based on the Fund’s target benchmark allocation. The Fund also charges a Performance Fee on the listed portfolio where the returns are in excess of the benchmark, which are subject to a high watermark (see *Fees Charged by The Fund*).

Past performance: Core Property’s analysis of past performance of the listed investment portfolio suggests that relative to its benchmark, the Manager has delivered higher returns over the long term.

Portfolio gearing: The Fund will not borrow directly, although it will have an indirect exposure through its investments. On a ‘look-through’ basis, the Fund’s gearing is currently around 31.5%, well below the Fund’s target to be below 50%.

Liquidity: Although the Fund has redemption facilities in place on a weekly basis, the RE may limit net withdrawals to 5% of the fund’s Net Asset Value per quarter. If withdrawals sought are above this threshold, the RE intends to fulfil those withdrawals on a pro-rated basis. A periodic liquidity event will be offered within three months of 15 December 2019 and every five years thereafter.

Investment Scorecard

Management Quality	★★★★☆
Governance	★★★★☆
Portfolio	★★★☆☆
Income Return	★★★★☆
Total Return	★★★★☆
Gearing	★★★☆☆
Liquidity	★★★☆☆
Fees	★★★☆☆

Key Metrics

Trust Structure					
An unlisted registered Managed Investment Scheme investing in a portfolio of listed property and infrastructure stocks and unlisted property funds.					
Management					
Freehold Investment Management is a fund manager that focuses on domestic investments within property and infrastructure. The management has deep experience within construction, design and project management across these sectors with a strong track record in performance.					
30 Apr 2019	Listed Property	Listed Infrastructure	Unlisted Property	Cash	Total Portfolio
Benchmark:	35%	15%	50%	0%	100%
Target Range:	20% - 100%		0% - 80%	0% - 20%	100%
Actual Allocation:	26.3%	14.8%	56.8%	2.1%	100%
Valuation:	\$77.7M	\$43.8M	\$167.3M	\$6.2M	\$294.9M
Key Holdings:	ASX: SCG; DXS; GPT	ASX: TCL, SYD	Heathley DMF2; Charter Hall Core Plus Industrial		
Return Profile					
Current Distributions:	\$0.0340 (9 months to 31 March 2019), equivalent to a 4.1% p.a. yield (annualized)				
Distribution Frequency:	Quarterly				
Tax advantage:	FY19: estimated 24% tax deferred ¹				
Investment Period:	3-5 years (recommended)				
Note 1: Based on Manager's estimates. Final amount is subject to final distributions from underlying investments.					
Risk Profile					
Property/Market Risk:	The Fund does not hold any direct property assets however is exposed to a diverse portfolio of properties held by its underlying investments. Investors will be exposed to a potential capital gain or loss, based on market conditions.				
Interest Rate Movements:	The Fund does not hold any debt, however is exposed to debt risks held by its underlying investments. Any changes in the cost of debt may impact investment returns of the Fund.				
Property Specific Risks:	Property investments are exposed to a change in vacancy rates, prevailing market rents, and economic supply and demand.				
For a more detailed list of the key risks, refer to the "Risks" section of the Product Disclosure Statement.					
Fees Paid					
Core Property considers the Fees charged by the Fund to be appropriate for the nature of the Fund (see Figure 5: Fees in Perspective).					
Establishment / Contribution Fees:	Nil				
Withdrawal / Exit Fees:	Nil				
Buy/Sell Spread:	0.25% / 0.25%				
Management Fees:	% of NAV	Asset Type			
	Nil	Unlisted – Internally Managed			
	0.165%	Unlisted – Externally Managed			
	0.85%	Listed			
Responsible Entity Fee:	0.165% of NAV (includes Administration & Custody Fees)				
Fund Costs and Expenses:	0.05% p.a. of NAV (est.)				
Performance Fee:	16.5% of the amount above the benchmark (being the Customised A-REIT and Infrastructure Index). Subject to a high watermark.				
The Fund also incurs Indirect Costs which are paid out the Fund's assets.					
Debt Metrics – as at 30 April 2019					
Look-through gearing:	31.5%				
Target look-through gearing:	Below 50%				
Legal					
Offer Document:	Freehold Australian Property Fund Product Disclosure Statement dated 29 September 2017.				
Wrapper:	Unlisted Unit Trust				
Manager:	Freehold Investment Management Limited (ACN 099 959 958)				
Responsible Entity:	Responsible Entity Partners Ltd				
Administrator & Custodian:	Mainstream Fund Services Pty Ltd (ABN 81 118 902 891)				

Overview

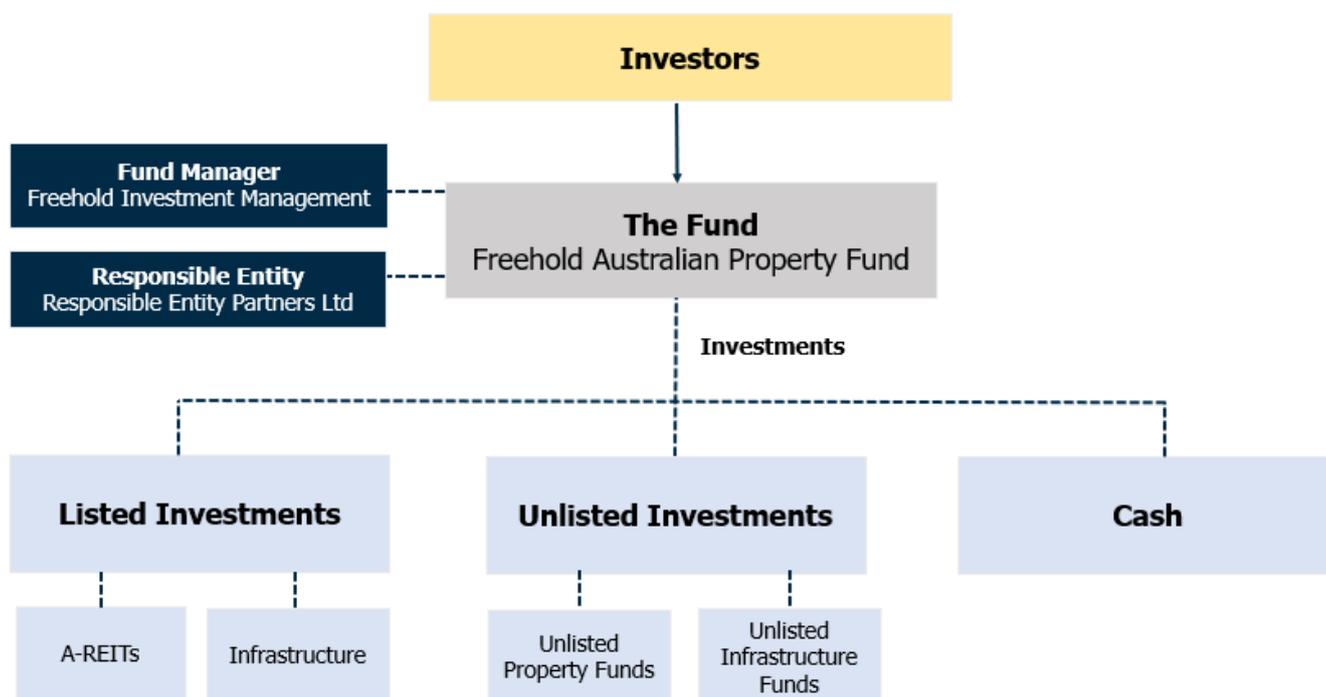
The Fund provides investors the opportunity to invest in diverse portfolio of unlisted property funds as well as listed property and infrastructure securities, with the objective of providing a quarterly distribution plus the potential for capital growth.

The Fund's investments will provide exposure to predominantly Australian-based, ASX-listed A-REITs and infrastructure securities. The Fund will also invest in unlisted funds across the property sector risk spectrum, as well as cash.

Ultimately, the Fund's investment focus will be such that a majority of the investments derive a high proportion of earnings from rental income or mature/ contracted income.

The Fund is a registered Managed Investment Scheme. The Responsible Entity is Trustee Partners. The RE has appointed Freehold Investment Management Ltd as the Investment Manager. Freehold is a specialist investment management company with key capabilities in the real estate and infrastructure sectors. See the Management section for more details. Core Property considers the legal structure to be akin to a typical fund of funds structure.

Figure 1: Fund structure



Source: Freehold, Core Property

History of the Fund

The Fund's origin dates back to November 2011 with Freehold investing in four unlisted property funds through three separately managed accounts on behalf of investors. In February 2015, Freehold consolidated the managed accounts into a fund structure and opened the Fund to new investors.

Over the next two years the portfolio remained weighted towards listed investments, however since June 2017, the Fund has maintained a majority weighting to unlisted property investments. The Fund portfolio has grown to \$294.9M as at 30 April 2019. Figure 2 provides a brief history of the Fund. The distributions in FY15 has been considerably higher than the following years due to the distribution of realised capital gains following the consolidation of the Fund into its current structure.

Figure 2: History of the Fund

Freehold Australian Property Fund	June 2015	June 2016	June 2017	June 2018	As at 30 April 2019
Total FUM	\$54.0M	\$188.7M	\$267.2M	\$330.6M	\$294.9M
Investment Weightings (% of portfolio)					
Listed Property	53.0%	47.4%	36.5%	35.6%	26.3%
Listed Infrastructure	15.4%	29.5%	21.7%	16.0%	14.8%
Unlisted Property	30.4%	20.7%	40.4%	45.1%	56.8%
Cash	1.2%	2.4%	1.4%	3.3%	1.6%
Unit Price	\$0.9882	\$1.14742	\$1.0613	\$1.1108	\$1.1545
Distributions per unit	\$0.25352 ¹	\$0.08387	\$0.07203	\$0.05812	\$0.0340 (9mths)
Distribution yield (%)		8.5%	6.3%	5.3%	4.1% (annualised)

Note 1: Includes the distribution of realised capital gains. Source: Freehold

Investment Strategy

The Fund aims to provide investors with a stable return from a diversified portfolio of listed and unlisted investments in property and infrastructure assets.

- The listed securities investments provide an exposure to pure property and infrastructure assets underpinned by recurring income generated from tenants with long leases or contractual revenue. The portfolio targets a minimal exposure to development, currency risk and other active" earnings "such as funds management operations, trading profits.
- The unlisted securities investments focus primarily on institutional grade core assets, including infrastructure, in addition to some limited exposure to higher returning assets.

From a total return perspective, the main objective of the Fund is to generate returns in excess of a customised benchmark over rolling 3-year periods. The customised total return benchmark is determined as follows:

- 50% of the customised benchmark for listed property and infrastructure securities. This benchmark is a subset of the S&P/ASX300 REIT Accumulation Index and the S&P/ASX300 Infrastructure Accumulation Index, combined on a 70/30 basis respectively; and
- 50% of the Mercer/IPD Australia Core Wholesale Property Fund Index.

The Fund has also defined authorised investments for its listed investments as follows:

- A minimum of 90% of income must be derived from property rent or, in the case of infrastructure assets, contracted/ mature income; and
- A minimum of 75% of assets must be located in Australia.

As such, Core Property believes the Manager's well-defined investment criteria are focussed on delivering a moderate level of income distributions. The investment philosophy provides for a diversified portfolio with income predominantly supported by recurring rental income. As such, we do not expect the Fund will experience the volatility of returns (positively or negatively) typically associated with investments such as high growth fund managers, businesses with significant overseas earnings, or residential developers. Instead, we expect the Fund to deliver a relatively steady, "through the cycle" style of return largely underpinned by rental income growth and valuation movements. To illustrate, the Fund appears to have done better over a 5-years plus horizon where its strategy has slightly outperformed its benchmark, whilst it has underperformed over shorter time horizons.

Core Property uses the Sharpe ratio to measure the performance of the Fund by adjusting for the underlying risk. In simplicity, the higher the Sharpe ratio, the better an investment is on a risk adjusted basis. Given a ratio of 1.57 relative to the Sharpe ratio of the benchmark at 2.13 the Fund has essentially underperformed its benchmark largely due to the Fund not investing in property funds management securities (such as Goodman Group and Charter Hall Group) which form part of the Index but are screened out in the customised benchmark. We examine the performance and composition of the portfolio in more detail in the subsequent sections.

Core Property emphasises the historical returns should be considered as indicative and should not be construed as forecasts for the Fund. Moreover, past performance is not a reliable indicator of future performance.

Figure 3: Past performance history

Investment Performance – as at 31 March 2019	1 Year	3 Years	5 Years	Since Inception
Freehold Australian Property Fund	15.2%	7.9%	13.6%	13.4%
Fund Benchmark	16.3%	10.4%	13.3%	13.1%
Over / Under Performance	-1.1%	-2.5%	+0.3%	+0.3%
Comparable Indices				
■ A-REITs Index	25.9%	10.0%	15.6%	15.0%
■ Listed Infrastructure Index	21.8%	11.1%	15.9%	18.1%
■ Unlisted Property Index	8.7%	10.8%	11.0%	10.2%
Annualised Standard Deviation FAPF (%)	4.5%	7.6%	8.2%	7.8%
Annualised Standard Deviation Benchmark (%)	4.5%	5.9%	5.8%	5.3%
Annualised Sharpe Ratio (%)	2.99	0.81	1.45	1.57

Source: Freehold

Target Asset Allocation

The Fund's investment allocations are provided in the table below.

Figure 4: Fund target asset allocation as at April 2019

Asset Class	Current	Benchmark	Target Range
Listed Assets	43%	50%	20% – 100%
○ A-REITs	28%	35%	
○ Infrastructure Assets	15%	15%	
Unlisted Assets	55%	50%	0% – 80%
Cash	2%	0%	0% – 20%

Source: Freehold

Within the benchmark allocations for unlisted funds, the Manager also intends to diversify with asset allocations as follows:

Unlisted Assets (50% benchmark allocation) with guidelines for:

- Core investments (including infrastructure) – 35% (including 10% to Infrastructure and the balance to office, retail, industrial and alternative assets)
- Value add investments – 10%
- Development – 10%

Listed Investments

The Manager aims to deliver a total return (after fees and costs) in excess of a customised benchmark on a rolling 3-year basis, while exhibiting lower portfolio volatility than the benchmark.

The main objective of the listed investments is to provide investors with a distribution yield that at least matches the yield on the benchmark, the S&P/ ASX300 A-REIT Accumulation Index.

Management expects that the Fund will hold up to 26 securities from a universe of around 40 stocks. The Fund is mandated such that it can only hold 0- 20% of its size in cash to manage liquidity alongside other ASX-listed property and infrastructure-related securities. Core Property notes that such a narrow pool of holdings suggests that the Manager is adopting a high-conviction approach to stock selection.

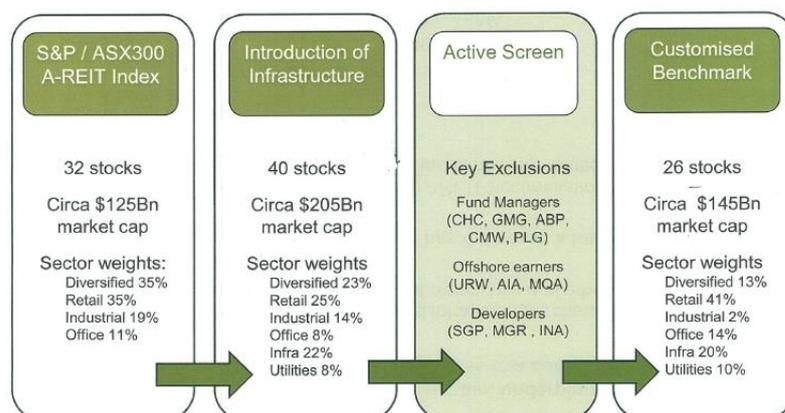
Stock selection process

The Manager has defined authorised investments based on the following criteria:

- A minimum of 90% of income from an investment must come from property rent or, in the case of infrastructure investments, from contracted or mature income. Essentially, the investments need to have a level of predictable income streams to be qualified as an authorised investment;
- A minimum of 75% of an investment's asset base must be domiciled in Australia; and
- The listed portfolio of investments will have minimal exposure to development, currency risk, and other non-property related income.

Core Property believes the Fund's listed investment portfolio is designed to provide investors an income yield that is essentially derived from 'passive' earnings that exhibit low volatility and whose earnings growth is tied into annual rent growth or contracted income growth.

Figure 5: Stock selection process



Source: Freehold

Valuation approach

The Manager employs bottom-up analysis and uses detailed cash flow models and other filters in its stock selection process. The Manager uses the Discounted Cash Flow model as its main valuation methodology. The use of a Net Asset Valuation model is a secondary valuation tool. These models are further supplemented by regular meetings with the management teams of various entities, external research inputs, and other qualitative factors. Overall, Core Property believes the Manager's approach is consistent with that of its industry peers.

Portfolio Construction

Given the limited pool of investments to choose from, the Manager employs a 'relative value' ranking system in its portfolio construction. The focus is mainly to deliver the highest risk-adjusted return and an income yield that is above the benchmark.

Listed performance metrics

The listed investment component of the portfolio follows the same investment criteria as the Freehold A-REIT & Listed Infrastructure Fund that is managed by Freehold IM. The Manager has provided the performance metrics of this fund on a stand-alone basis below.

Figure 6: Freehold A-REIT & Listed Infrastructure Fund – performance metrics

Investment Performance – as at 31 March 2019	1 Year	3 Years	5 Years	Since Inception
Freehold A-REIT & Listed Infrastructure Fund	21.5%	8.1%	14.3%	15.2%
Fund Benchmark	24.9%	10.5%	15.9%	15.6%
Over / Under Performance	-3.4%	-2.4%	-1.6%	-0.4%
Annualised Standard Deviation FAPF (%)	7.7%	11.1%	11.2%	9.6%
Annualised Standard Deviation Benchmark (%)	9.1%	11.8%	11.8%	10.5%
Annualised Sharpe Ratio (%)	2.57	0.57	1.13	1.41

Source: Freehold

The Sharpe ratio has become the most widely used method for calculating the risk-adjusted return. Generally, the greater the value of the Sharpe ratio, the more attractive the risk-adjusted return. Modern Portfolio Theory states that adding assets to a diversified portfolio that have low correlations can decrease portfolio risk without sacrificing return.

Adding diversification should increase the Sharpe ratio compared to similar portfolios with a lower level of diversification. For this to be true, investors must also accept the assumption that risk is equal to volatility which is not unreasonable but may be too narrow to be applied to all investments.

Unlisted Investments

Overview

The objective of the Fund is to create exposure to a portfolio of unlisted property funds, primarily through institutional-grade core assets and, in addition, through some limited exposure to funds targeting higher returns. Ultimately, the aim is to outperform the Mercer/ IPD Australia Core Wholesale Property Fund index on a rolling 3-year basis.

Core Property believes the inclusion of unlisted property funds as part of the overall allocations will likely reduce portfolio volatility, at the expense of lower liquidity. During the GFC, redemption requests forced fund managers to sell listed securities while retaining their exposure to unlisted securities. The Manager intends to manage this risk by investing in funds with a range of maturities.

Portfolio construction

The manager seeks to invest in a combination of internally and externally managed unlisted funds. Internally managed unlisted funds will be capped at 30% of the total unlisted investment portfolio, and Freehold will not charge a fee on the Fund's investments in internally managed funds.

The target allocation within the unlisted investment portfolio is as follows:

- 70% core – these are investments in funds which have established income-producing property and modest gearing;
- 20% value add – these are funds where a majority of the income is generated from established assets, but there is an opportunity to add value by repositioning the asset, improving occupancy, or redeveloping the asset to increase its capital value; and
- 10% development – these are funds which are mainly development projects, generally have a higher risk/ return profile, and often have higher levels of gearing. Core Property's discussions with the manager suggest that the higher risk/return funds will most likely be internally managed, as they require a high level of oversight rather than relying on third party managers.

While the manager has not set pre-defined allocations, the primary sectors for investment are office, retail, and industrial property. The manager may also take positions in alternate sectors such as hotels/ leisure and residential property.

Fund selection process

The Manager has developed a proprietary model to initially identify and screen fund managers. A detailed dossier of information is collated on each fund based on meetings with the manager and information provided by the unlisted fund.

These form the inputs into a factor model to determine relative ranking and a list of funds that achieve a recommended rating. The list is further narrowed down by applying a qualitative overlay and further discussions with the fund managers. There are several variables taken into consideration, including (although not limited to) asset valuation and core metrics, fund liquidity, fund duration, fees, sector and geographic location of assets, and unit pricing policies.

All unlisted investments are required to be approved by the Investment Committee which comprises the Senior Management of the Manager. Where there is an issue or a conflict of interest, the investment will need to be approved the Board of the Manager. The unlisted portfolio maintains a maximum weighting of 20% exposure to any one investment or any one Fund Manager, at the time of entry in the investment.

Valuation approach

A majority of the unlisted investment funds are priced in relation to the book value of assets. In turn, this relies on the periodic independent valuation of properties (typically every 1- 3 years). As such, unit prices tend to change when asset values change, or when assets are acquired or divested. The level of gearing also tends to influence unit prices, depending on the +ve/-ve spread between asset yields and interest rates.

Core Property notes that the Manager also uses variables such as the accounting treatment of fund setup costs, asset acquisition costs, and other fees to assess the impact on the initial NTA of a fund.

On balance, Core Property believes that the Fund has a well-defined structure and rationale for managing an unlisted investment portfolio. That said, there may be periods where asset allocation can become skewed due to the size of particular investments or due to liquidity constraints. This may require the manager to rebalance its investments to satisfy its portfolio constraints.

Debt Metrics

The Fund does not borrow directly, but it does have an indirect exposure to debt through the investments in listed and unlisted securities. On a look-through basis, the Fund has a target gearing of less than 50%. In the event gearing increases above 50%, the Manager will look to rebalance the portfolio such that look-through gearing falls back below 50%. For instance, one option would be to increase cash holdings by selling the more liquid listed investments.

Based on the proposed allocation highlighted, Core Property estimates that the Fund currently has a look-through gearing of around 31.5% which is well below the maximum target portfolio gearing of 50%. Overall, Core Property believes the Fund's look-through gearing should be manageable under most circumstances, but investors should note this may change as the composition of the portfolio changes over time or where the gearing may temporarily increase in the event of extreme market deterioration.

Figure 7: Portfolio estimated look through gearing – as at April 2019

Asset	Listed Property	Listed Infrastructure	Unlisted Property	Cash	Total Portfolio
Size (\$M)	\$77.7M	\$43.8M	\$167.4M	\$6.16M	\$294.9M
Gearing	29.8%	51.1%	26.7%		31.5%

Source: Core Property estimates, Freehold.

Liquidity / exit strategy

The Fund allows investors to redeem their units on a weekly basis, with payments made within 10 business Days. The RE may limit the Net Withdrawals for all investors up to 5% of the Funds Net Asset Value (NAV) per quarter. If withdrawals sought are above this threshold, the RE may accept the withdrawal on a pro-rata basis or reject the withdrawal at its discretion.

Should readily realisable assets drop below a threshold, the RE may be forced to restrict redemptions and, in extreme cases, suspend withdrawals for an extended period. This may be a necessary step to ensure withdrawal requests do not turn the Fund into a forced seller of assets.

The RE will also offer an opportunity for investors to exit the Fund via a Periodic Liquidity within three months of 15 December 2019 and every five years thereafter. Investors will be offered the opportunity to exit the Fund at the predetermined exit price. If more than 50% of the units held in the Fund seek withdrawal as part of the Periodic Liquidity Event, then the Manager will wind up the Fund and return the proceeds to investors.

Unit Pricing

The Unit Price is calculated based on the Net Asset Value of the Fund divided by the number of units in the Fund. All transaction costs for the Fund's investments are deducted from the Net Assets of the Fund and, as there are no direct properties, the Fund does not amortise any acquisition costs.

The Fund applies a Buy/Sell spread of +0.25% / -0.25% to the Unit price to cover the transaction costs of issuing or selling units in the Fund. Where the actual transaction costs are higher or lower than this, the balance is retained by the Fund.

Fees Charged by the Fund

Overall, Core Property considers the fees charged by the Fund to be low for investors and appropriate for a fund of funds investment structure.

Performance Fees: The Manager is entitled to a performance fee only on the listed investment portfolio, and only when it outperforms the Fund's customised benchmark (discussed previously under the investment objective section). We note the following:

- A performance fee equating to 16.5% (GST inclusive) is payable when the Fund exceeds its benchmark return;
- Performance fees are accrued daily but payable on a six-monthly basis.
- The performance fee is payable only on the listed investments, and not the whole portfolio; and
- A performance fee is payable only when the Fund return is in excess of both the performance fee benchmark and a high watermark. The higher number of the benchmark or the high watermark is used to determine the performance fee payable.
- The high watermark is also reset such that the Fund must outperform total prior period profits before performance fees are

payable. Core Property believes this is a strong feature of the Fund.

- The performance high watermark is adjusted to remove the impact of net fund flows, changes to asset allocation and transactional issues.

A summary of the fees charged by the Fund is presented below.

Figure 8: Summary of Fees charged by the Fund

Fee Type	Fee Charged (incl GST)	Core Property Comment
Entry/ Establishment Fee:	Nil	
Exit/Withdrawal Fee:	Nil	
Buy/Sell Spread:	0.25% / 0.25%	The Buy/Sell Spread is not charged directly to investors but is reflected in the Entry and Exit Price of units.
Management Expense Ratio (MER):	The Fund charges Management Fees based on the Net Asset Value (NAV) of the Fund as follows:	The Fund is entitled to charge a management fee up to a maximum of 2.0% of NAV p.a. However it has elected to waive a part of this Fee in favour of the fees listed below. Fees are charged on the portion of the portfolio invested in the assets.
	Unlisted funds (internally managed) NIL	The Fund does not charge an Ongoing Management Fee as this fee is already charged by the underlying investments.
	Unlisted funds (externally managed) 0.165% of NAV	
	Listed investments (including cash allocated for listed investments) 0.85% of NAV	
	RE, Administration, Custody Fees 0.17% of NAV	The Manager has currently capped the costs at 0.20% p.a. of NAV and will bear any amount in excess of this. If this cap is removed, the Manager will advise investors with 30 days written notice.
Performance Fee:	16.5% of returns over the benchmark (excluding any allocation to Unlisted Assets). Payable six-monthly provided the Fund maintains or increases any earlier outperformance over the benchmark (ie the performance must exceed the prior high watermark).	Core Property considers the Performance Fee provides an appropriate incentive for the Manager to continually maintain and improve any outperformance for investors. The benchmark is the A-REITs & Listed Infrastructure Index prepared by TAG Asset Consulting (trading as Atchison Consultants), a related party of a director of the Manager. The benchmark is derived from the S&P/ASX300 accumulation index and a subset of the S&P/ASX200 Index infrastructure sub industries, combined on a 70/30 basis.

Note: Fees charged are in addition to fees in the underlying funds, however do not include any offsets from reduced input tax credits. Source: Freehold, Core Property

All-in fee analysis

Core Property has analysed the fees based on the Fund's target asset allocation, as well as the fees currently paid by investors based on the Fund's present allocation. Core Property notes that these fees are based on the Fund's net assets and are not on a 'look-through' basis.

As the Figure below shows, the estimated Management Expense Ratio (MER), based on the target allocation, would be 0.72% of net assets of the Fund. However, based on the Fund's current portfolio of investments, the present MER is lower at 0.67% of the Fund's net assets. This is mainly due to the higher allocation to unlisted investments, which attract a lower management fee. As such, the MER is likely to vary over time as the composition of investments changes. Core Property also notes this estimate excludes any performance fees that may become payable in the future. Some of the other points to note:

- The fees are calculated and accrued on a daily basis and paid monthly in arrears; and
- The fees shown below are GST inclusive and do not include any benefits the Fund may receive from reduced input tax credits.

Figure 9: Fund Fee - Portfolio Average Fee

Fee type	Fee (% of NAV)	MER based on Target allocation	MER based on Current allocation
Investment management fee:		50.0%	42.8%
Listed securities (incl Cash allocated)	0.85%	50.0%	52.8%
Unlisted – externally managed (incl Cash allocated)	0.165%	-	4.5%
Unlisted – internally managed (incl Cash allocated)	0.0%		
RE, Admin, Custody fees & other expenses	0.17%	100%	100%
Total management fee (or MER as a % of NAV)		0.72%	0.67%

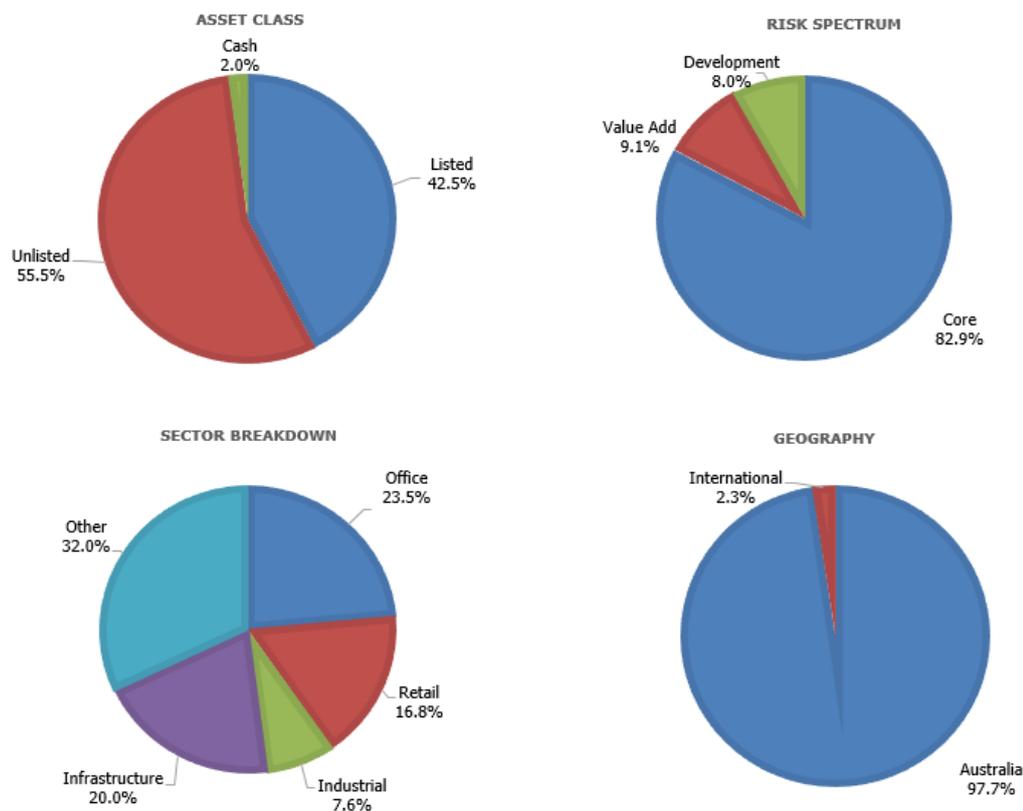
Source: Core Property

Fund Portfolio

The Fund currently has assets under management of around \$295M. Most of the portfolio can be classified as core investments. Core investments are those that generate passive rental income from property or infrastructure assets where the income can be classified as mature or contracted. Majority of the income-producing investments are Australian. Only 2.3% of the income comes from indirect exposure to offshore assets.

A detailed listing of the portfolio investments can be found in "Appendix: Current Portfolio Snapshot"

Figure 10: Portfolio Diversification



Source: Freehold

Financial Analysis

The Fund has delivered a total return of 13.1% p.a. since inception (as at 30 April 2019).

We note the Fund has typically delivered a historical return which reflects a blend of the Unlisted and Listed indices that form its benchmark. We also note that the Fund adopts a high conviction strategy for its Listed investments and, as such, the may experience periods of underperformance as shown in its returns over the past 3-year period.

Investors should note that past performance may not be a reliable indicator of future performance as the Fund's investment holdings may change over time.

Figure 11: Investment Performance of the Fund as at 30 April 2019

Total Returns as at 30 April 2019	1 year % p.a.	3 years % p.a.	5 years % p.a.	Since Inception ¹ % p.a.
The Fund (Freehold Australian Property Fund)	12.1%	7.0%	12.6%	13.1%
Comparable indices				
Listed Property Index (A-REITs Index) ²	18.0%	7.9%	13.7%	14.5%
Listed Infrastructure Index ²	17.7%	10.8%	15.6%	17.9%
Listed Customised Index – assume 70/30 split of Property and Infrastructure indices	17.9%	8.8%	14.3%	15.5%
Unlisted Property Index ²	8.9%	10.8%	11.0%	10.2%

Note 1: Based on Freehold Australian Property inception date effective 7 November 2011. Performance numbers are net and assume reinvestment of distributions.

Note 2: Comparable indices include the S&P/ASX300 AREIT Accumulation Index (Listed Property), a subset of the S&P/ASX200 index infrastructure sub industries as defined by the Global Industry Classification Standard (GICS) (Listed Infrastructure) and the Mercer/IPD Australia Core Wholesale Property Fund Index (Unlisted Property).

Source: Freehold, Core Property

Figure 12: Historical Balance Sheet – as at 31 December 2018

Balance Sheet – \$M	As at 31 December 2018
Cash & cash equivalents	10.1
Receivables	5.1
Financial assets at fair value	277.3
Total Assets	292.5
Trade and other payables	0.2
Distributions payable	3.8
Total Liabilities	4.0
Net Assets	288.5
Units on Issue	258.1M
NTA per unit	\$1.118

Source: Freehold

Management & Corporate Governance

The Responsible Entity (RE) of the Fund is Responsible Entity Partners (recently rebranded as Sargon) and is responsible for operating the Fund and fulfils the role of administration and compliance of the Fund. Sargon was founded in 2013 and specialises in providing a technology and infrastructure platform to build and grow investment funds and financial products. The Sargon platform has over \$40B in assets under trusteeship and supervision and operates in Australia, New Zealand, and Hong Kong.

Core Property believes the appointment of an independent and experienced RE allows the investment manager to focus on its core responsibilities: stock selection, portfolio management, and improving fund performance.

The RE has appointed Freehold Investment Management to be the investment manager of the Fund. Freehold is a boutique investment management company specialising in the real estate and infrastructure sectors. Freehold commenced operations in April 2010 and currently has Assets Under Management (AUM) of over \$500M.

Figure 13: The Board of the Investment Manager

Name & Role	Experience
<p>Michael Doery Non-Executive Chairman</p>	<p>Michael has over 10 years' board experience across a diverse range of industries in the listed, public and private spheres. Most recently Michael was Managing Director of Viatek Services Pty Ltd a significant provider of digital and technology services. Previously Michael was a partner of KPMG gaining significant experience in financial services and regulatory environments. Michael has also served as CEO of the listed telco services Service Stream Limited. Michael was appointed as an independent director and Chairman of the Board of Freehold Investment Management Limited in June 2019.</p>
<p>Jarrod Sanfilippo Non-Executive Director</p>	<p>Jarrod leads Burbank with over 10 years' industry experience and has been involved in all facets of the Burbank Group of Companies' many projects and developments. A decade of experience outside the family business with Holden provided Jarrod with an enhanced understanding of corporate structure, procedure and the discipline of targets and deadlines. Jarrod's leadership strength has further grown through his father's mentorship and an appreciation of the Burbank vision for the most part of his life. His active participation on a number of industry committees and boards has assured the latest ideas, technologies and strategies are applied to the day - to - day practices of the group.</p>
<p>Ashley Killick Non-Executive Director</p>	<p>Ashley is a senior financial executive, qualified as a chartered accountant, with a background of substance in both corporate and advisory roles, across a broad range of industries and geographies, including Asia, the United Kingdom and the United States of America. Ashley joined Pacific Current Group as interim Chief Financial Officer with expertise in the areas of financial & management reporting, corporate valuation, financial analysis, mergers and acquisitions, capital raising, ASX listing, corporate restructure and litigation. This is supported by a successful record of managing highly effective teams of professionals and proactive business development including regular presentations at seminars and conferences across Australia as well as active involvement in bodies such as the ICAA, AICD, GIA and Finsia.</p>
<p>Grant Atchison Managing Director</p>	<p>Grant co-founded Freehold and oversees all aspects of the group's investment strategies. Grant was previously a Senior Consultant with Atchison Consultants. Grant spent over 10 years at Lend Lease and AIM listed property group ISG in London in a range of roles.</p>
<p>Omar Khan Executive Director</p>	<p>Omar has over 14 years' experience within private equity, funds management and real estate businesses. His experience extends across structuring, due diligence, capital raising, as well as managing and growing funds management businesses. Prior to Freehold, Omar was Managing Director of First Quay Capital (a family office private equity fund), Strategy Director at Crescent Wealth and Associate Director at Lendlease Ventures.</p>

Source: Freehold

Figure 14: Senior Management Team

Name & Role	Experience
Grant Atchison Managing Director	Grant co-founded Freehold and oversees all aspects of the group's investment strategies. Grant was previously a Senior Consultant with Atchison Consultants. Grant spent over 10 years at Lend Lease and AIM listed property group ISG in London in a range of roles.
Grant MacKenzie Senior Portfolio Manager	Grant is the co-lead real estate and infrastructure analyst where he is responsible for portfolio construction while serving as a member of the investment committee. Prior this role he served as senior investor relations at Federation Centres, now known as Vicinity Centres. Grant has more than 10 years of experience as a Portfolio Manager of the Australian Listed Real Estate Fund for Macquarie Group and served as a Property Analyst with BBY Stockbroking.
Simon Karlsson Portfolio Manager	Simon is currently a portfolio manager and co-lead real estate and infrastructure securities analyst. Prior to his role at Freehold, Simo worked as a dealer with Macquarie Group and as an assistant portfolio Manager/Analyst with Perennial Real Estate Investments.
Sascha Harms Head of Direct Property	Sascha's responsibilities include managing the direct property strategies from core through to development for Freehold's domestic and international property mandates, partnerships and joint venture relationships. Over 15 years' experience in global and domestic real estate markets. Prior to Freehold, he was Managing Director & Head of Schroders Plc Real Estate Investment business in Germany and has transacted c.\$2B in direct real estate in Europe and Australia.
Omar Khan Head of Capital & Investment	Omar has over 14 years' experience within private equity, funds management and real estate businesses. His experience extends across structuring, due diligence, capital raising, as well as managing and growing funds management businesses. Prior to Freehold, Omar was Managing Director of First Quay Capital (a family office private equity fund), Strategy Director at Crescent Wealth and Associate Director at Lendlease Ventures.

Source: Freehold

Compliance and Governance

The RE has established a compliance plan for the Fund, which is monitored by the Board of the RE. The plan sets out the key processes, systems and measures that the RE has in place to ensure compliance with its AFSL, the Corporations Act, the Constitution, ASIC, regulatory guides and disclosure documents.

Core Property has not reviewed the RE's Compliance Plan but notes that the RE has established a Compliance Committee made up of internal and external members. The RE's compliance plan is audited annually with a report lodged with ASIC.

Core Property's discussions with the Manager and the RE suggest that there have been no material and reportable breaches under the AFSL obligations by the Fund since inception.

The Manager has advised that all related party transactions or conflicts of interest will need to be reviewed by the Board of the Manager. This includes any investments in related entities (for example, in funds also managed by Freehold) which need to be approved by the independent members of the Board.

Past Performance

Freehold was established in 2010 and currently manages over \$500M across two main funds, the Freehold Australian Property Fund, and the Freehold Listed A- REIT & Infrastructure Fund. Freehold has provided a summary of the performance of the two funds which is summarised in the table below. The table below also highlights total returns or expected total returns on Freehold's direct property investments. Overall, Core Property considers the returns to be above comparable direct investments and at a fund level, slightly above comparable benchmark returns.

Investors should note that past performance is not a reliable indicator of future performance as each fund, and its respective underlying property, has its own specific risks and attributes.

Figure 15: Freeholder Investment Management – Fund Performance

Fund As at 30 April 2019	1 Year	3 Year	5 Year	Since Inception
Freehold A-REITs & Listed Infrastructure Fund	15.1%	6.3%	12.8%	14.8%
Freehold Australian Property Fund	12.1%	7.0%	12.6%	13.1%

Direct Investment Funds	Size	Yield	IRR	Horizon
Apartment Development	\$37M	-	21%	2012-2016
Commercial Office	\$31M	8.4%	20%	2015-2017
Residential Sub-Division	\$20M	-	50%	2017-Present (2019 Expected windup) ¹
Commercial Office	\$20M	10.3%	-	2016-Present (2022 Expected windup)
Residential Sub-Division	\$23M	-	22-27%	2016-Present (2020 Expected windup) ¹

Source: Freehold Note 1: Based off current forecasts

Appendix: Current Portfolio Snapshot

The following table provides a snapshot of the current investment portfolio as at 30 April 2019. Investors should note that, as an open-ended fund, the portfolio is expected to change over time.

Figure 16. Current portfolio characteristics

As at 30 April 2019	Portfolio \$M	Portfolio %	Description
Listed Property			
Scentre Group (ASX: SCG)	\$28.6M	9.7%	Portfolio of Westfield shopping centres in Australia/New Zealand
Dexus (ASX: DXS)	\$16.7M	5.7%	Diversified portfolio of Office/Industrial assets in Australia.
GPT Group (ASX: GPT)	\$10.1M	3.4%	Diversified portfolio of Retail/Office/Industrial assets in Australia.
Vicinity Centres (ASX: VCX)	\$7.3M	2.5%	Portfolio of retail assets across Australia.
Viva Energy REIT (ASX: VVR)	\$5.5M	1.9%	Portfolio of petrol stations and convenience store assets.
Charter Hall Education Trust (ASX: CQE)	\$4.8M	1.6%	Portfolio of early learning centres
Centuria Industrial REIT (ASX: CIP)	\$4.7M	1.6%	Portfolio of industrial property across Australia.
Total Listed Property	\$77.7M	26.3%	
Listed Infrastructure			
Transurban Group (ASX: TCL)	\$21.3M	7.2%	Road operator that develops and manages urban toll roads
Sydney Airport (ASX: SYD)	\$11.6M	3.9%	International Airport in Sydney, Australia.
APA Group (ASX: APA)	\$5.7M	1.9%	Owns and operates natural gas and electricity assets.
Spark Infrastructure (ASX: SKI)	\$5.2M	1.8%	Diversified portfolio of international utility infrastructure assets.
Total Listed Infrastructure	\$43.8M	14.8%	
Unlisted Property			
Charter Hall Core Plus Industrial Fund	\$22.4M	7.6%	Portfolio of prime grade industrial assets in NSW, QLD and VIC.
Heathley Direct Medical Fund No. 2	\$22.3M	7.5%	Portfolio of healthcare properties.
Jade Development Fund No.1	\$16.0M	5.4%	Debt fund investing in Junior Notes in Securitisation Trust.
AMP Capital W'sale Office Fund – Class A	\$13.1M	4.4%	Portfolio of 12 prime and A-grade office assets in Sydney/Melbourne.
8 Station Street Property Trust	\$12.9M	4.4%	Single office asset at 8 Station St Wollongong NSW. FAPF owns 100%.
AMP Capital Diversified Infrastructure Trust A	\$10.9M	3.7%	Diversified infrastructure trust investing in airports, electricity and gas distribution, roads, rail rolling stock and student housing.
Westpac House Investment Trust 1	\$9.4M	3.2%	Single asset fund investing in Westpac House, Adelaide SA.
Freehold Development Trust 2	\$8.9M	3.0%	Development, subdivision of 2 residential land parcels, western Sydney
Palisade's Renewable Energy Fund 1	\$6.7M	2.3%	Solar Farm asset in QLD.
Alceon Senior Debt No.8 Trust	\$6.1M	2.1%	Debt Fund investing in first mortgage loans to residential developers.
Investa Commercial Property Fund	\$5.4M	1.8%	Stapled investment consisting of 15 prime and A-grade office assets plus funds management platform.
Alceon Apartment Finance Trust	\$5.0M	1.7%	Debt fund to residential developers on a first mortgage basis.
Alceon Caboolture Retail Trust	\$4.6M	1.6%	Single asset fund in the Caboolture Square Shopping Centre, Brisbane.
Palisade's Renewable Energy Fund 2	\$4.6M	1.6%	Windfarm assets in SA and Tasmania.
Micronest Holding Trust	\$4.5M	1.5%	Fund investing in build to rent sector with one asset in Ashfield NSW.
Freehold Development Trust 3	\$4.3M	1.4%	Development fund, residential subdivision in Box Hill in western Sydney.
Bolton Street Property Unit Trust	\$3.5M	1.2%	Two adjacent office properties in Bolton St Newcastle NSW.
Alceon UPG Trust	\$3.2M	1.1%	Debt finance to a residential developer on a first mortgage basis.
Perth Rail Link Property Trust	\$2.6M	0.9%	Development assets located in Burswood, Perth WA.
AMP Capital Diversified Infrastructure Trust B – Wholesale	\$1.0M	0.4%	Diversified infrastructure trust investing in airports, electricity and gas distribution, roads, rail rolling stock and student housing.
Total Unlisted Property	\$167.3M	56.8%	
Cash	\$6.2M	2.1%	Includes cash held as part of listed and unlisted investments.
Total Portfolio	\$294.9M	100%	

Source: Freehold

Appendix – Ratings Process

Core Property has developed a framework for rating property and property related investment product offerings in Australia. The methodology gives consideration to a number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product and underlying portfolio construction; strength and depth of management team, product structure, risk management, financial analysis, and likely outcomes.

It is important for financial planners and investors to view the recommendation and rating in the context of comparable products only and not across all products rated by Core Property.

The Ratings

Financial Advisers and investors should note that for all ratings categories, the product may not suit the risk/return profiles of all investors.

Rating	Definition
Highly Recommended	This is the highest rating provided by Core Property and is indicative of the product exceeding the requirements of our review process across a number of parameters.
Recommended	Indicates that the product has an above average grade profile across a number of Core Property's parameters and has the potential to deliver above average risk adjusted total returns.
Approved	Indicates that the product has met the aggregate requirements of Core Property's criteria. The product has an acceptable risk/return trade-off and is potentially able to generate risk-adjusted returns in line with stated investment objectives.
Speculative	Core Property believes this is a product that has a number of positive attributes; however, there are a number of risks that make investing in this product a speculative proposal. While Core Property does not rule out investing in this product, investors should be very aware of, and be comfortable with the specific risks. The product may provide unique diversification opportunities, although concerns over one or more features mean that it may not be suitable for most investors.
Not Approved	Indicates that the product has failed to meet the minimum aggregate requirements of Core Property's criteria. While the product may have some positive attributes, Trusts in this category are considered high risk.

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