



Folkestone

MAXIM ASSET MANAGEMENT



Q&A WITH WINSTON SAMMUT

JULY 2014

What is your philosophy for investing in Australian listed real estate securities (A-REITs)?

Australian real estate investment trusts listed on the ASX (A-REITs) should behave like direct real estate over the long term, but due to being listed they are periodically mispriced due to market inefficiencies. It is also important to recognise that there is a close relationship between the economic and real estate cycle and listed A-REITs do not operate in isolation from the macro economic environment, in particular real estate markets. After all, the underlying cash flow of an A-REIT security comes from its investments in real estate assets and for some A-REITs also real estate businesses such as development and funds management.

Building a portfolio of A-REIT securities, utilising an active, high conviction, benchmark unaware approach compels us to choose the 'best of breed' securities, with exposure to the real estate sub-sectors that we like, to generate attractive risk-adjusted returns for our investors.

How do you think A-REITs will perform in the next 12 months?

At current levels and on a number of metrics, the A-REIT sector may be considered overvalued. However, given cash rates remain at historically low levels, investors continue to chase yield and the yield from A-REITs is relatively

attractive compared to cash, and most fixed interest and general equity securities, we expect the A-REIT sector will continue to remain buoyant for some time to come.

Equity markets are at high levels, with the US markets in particular trading at all-time highs. This has been predicated by the consensus view that the US is now firmly in recovery mode. Notwithstanding this scenario, it is considered that there are a number of areas of concern relating to the strength and depth of that recovery, coupled with a Europe not yet out of the woods as well as concerns about the Chinese economy. As a result, many investors are still cautious about the future outlook and are on the hunt for investments that offer low levels of volatility, yet still generate secure income streams. Accordingly A-REIT's offer an attractive investment in the current environment.

There is no question that the weight of money flowing in both Australian direct and listed real estate from overseas investors, particularly from Asia, will continue. Australia is seen as a safe haven given its high transparency, its quality legal title system and our yields offer a premium to yields in most other major markets.



Winston Sammut is the Managing Director of Folkestone Maxim Asset Management.

With more than 30 years experience in funds management and equities investing, the last 15 years specialising in investing in listed real estate securities, Winston is one of the most experienced managers in the sector. He regularly appears on Sky Business as a commentator on A-REIT market and also writes columns for the real estate section of the Sydney Morning Herald.

Folkestone Maxim A-REIT Securities Fund

Investment Return Objective:
Outperform S&P/ASX 300 A-REIT Accumulation Index by 1.5% pa over rolling 3 year periods

Investment Timeframe:
3-5 years

Distribution:
Quarterly

Minimum Investment:
\$5,000

Responsible Entity:
One Managed Investment Funds Limited

Investment Manager:
Folkestone Maxim Asset Management

What does benchmark unaware mean?

By managing a portfolio of listed A-REIT securities to a benchmark, a fund is required to hold securities, relative to their weightings in a particular benchmark. In the case of most A-REIT securities funds, the benchmark is the S&P/ASX 300 A-REIT Index.

Benchmark unaware means that a fund like the Folkestone Maxim A-REIT Securities Fund does not have any restrictions particularly those around index weightings with respect to selection of securities nor does it have specific portfolio construction parameters around the market capitalisation of individual securities¹. This is important given the relative size of the Australian A-REIT sector and the dominance of the large cap A-REIT securities - the top 8 currently represent approximately 79% of the Index. Also, from our perspective, the ability to invest in quality A-REITs outside the S&P/ASX 300 A-REIT Index as well as quality listed real estate developers and managers is a source of value-add.

Also, there will be times when a particular A-REIT security becomes overpriced relative to other securities. A strategy that is tied to a benchmark has little choice but to hold such over-priced securities even in an underweight position whereas a benchmark unaware manager like us does not have to hold it.

It is important to point out that being benchmark unaware does not imply a disregard for risk. We are conscious that risk management plays an important role in the investment process particularly around portfolio construction.

¹ With the exception of the Westfield Corporation and Scentre Group.

What do you look for when selecting quality A-REIT securities?

We look for A-REIT securities with high quality portfolio of real estate assets, sustainable earnings and distribution growth, sound management, conservative gearing and an appropriate corporate structure. These securities tend to have less downside risk and perform better in the event of a general market correction or negative return period. The performance of these securities in an up-cycle is generally positive relative to the S&P/ASX 300 A-REIT Index.

A critical part of our process is our assessment of the quality of management. We believe that the performance of an A-REIT is largely dependent on the ability of management to successfully deliver on their investment strategies.

Folkestone acquired Maxim Asset Management in April 2014, what does this mean for the A-REIT Securities Fund?

Folkestone is an ASX listed leading real estate fund manager and developer and Folkestone Maxim will be able to leverage from Folkestone's real estate expertise to further enhance its analysis of Australian real estate markets and listed real estate securities. In addition, Folkestone's team now provides additional business support including marketing and distribution, corporate accounting and compliance.

Also, we took the opportunity to change the name of the Maxim Property Securities Fund to the Folkestone Maxim A-REIT Securities Fund to reflect we are now part of the Folkestone group and to also recognise that the sector is now known widely known as the A-REIT sector rather than the listed property trust sector.

ABOUT FOLKESTONE

Folkestone Maxim Asset Management is a boutique property investment manager, specialising in A-REIT securities and real estate debt. It was founded in 2003 and acquired by Folkestone in 2014.

Folkestone is an ASX listed (ASX: FLK) real estate funds manager and developer providing real estate wealth solutions to private clients and select institutions.

Folkestone's funds management platform offers real estate funds to private clients and select institutional investors across income, value-add and opportunistic (development) real estate investments. Folkestone's on balance sheet activities focus on value add investments and developments

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