

FOLKESTONE MAXIM A-REIT SECURITIES FUND

JANUARY 2016 REPORT

MARKET REVIEW

Global equity markets started the New Year in the negative as investors reacted to a falling oil price as well as a weaker Chinese economy and a disappointing US earnings season. The month saw most equity market lose ground with China's Shanghai Composite index faring the worst, falling 23% in January. Markets however rallied on the last trading day following the announcement by the Bank of Japan of negative interest rates.

The RBA continued to hold the official cash rate at a record low of 2.0%. Given the negative sentiment, the defensive sectors outperformed with the A-REITs standing out as the single best performing sub-sector in the Australian market.

The S&P/ASX 300 A-REIT Accumulation Index returned +0.9% in January, outperforming the S&P/ASX 200, which returned -5.5%.

Over the month of January, Retail was the best performing sub-sector, returning +3.5%, driven by Westfield Group (WFD +4.1%) and Scentre Group (SCG +3.8%).

Over the 12 months ended 31 January 2016, the S&P/ASX 300 A-REIT Accumulation Index returned +7.5%, outperforming the broader market's return of -6.1% by 13.6%.

ACTIVITY

During the month, a number of A-REITs reported increased portfolio valuations as at 31 December 2015, reflective of the continued strong demand for assets in the direct market. The value of Dexusq(DXS) property portfolio increased by \$490m as the average cap rate compressed 41 bps to 6.71%, Stockland's (SGP) portfolio value increased around 5% as the average cap rate compressed 40 bps to 6.11% and Bunningsq(BWP) average cap rate compressed 52 bps to 6.81% resulting in a portfolio value increase of 8.9%.

Mirvac Group (MGR) announced the sale of 1 Woolworths Way, Bella Vista, NSW for \$336.5m reflecting a firm yield of 6.1%.

Early in January, Cromwell Property Group (CWP) announced that it would extend its on-market buy-back program to 20 January 2017. It will be funded primarily from its cash reserves, but may also use proceeds from any asset sales.

Dexus Property Group announced to the market that it had received notice from the Australian Competition and Consumer Commission (ACCC), that it did not intend to conduct a public review of the Dexus proposal to acquire the entire issued capital of Investa Office Fund (IOF) by

KEY STATISTICS

as at 31 January 2016

<i>Status</i>	Open
<i>Fund Maturity</i>	Open Ended
<i>Investments</i>	Primarily A-REITs
<i>Investment Horizon</i>	3-5 years
<i>Distribution</i>	Quarterly
<i>Frequency</i>	
<i>Fund Inception Date</i>	October 2005
<i>Pricing</i>	Daily
<i>Buy/Sell Spread</i>	0.25%/0.25%
<i>Total MER</i>	0.95% up to \$50m Then 0.85% > \$50m
<i>ARSN</i>	116 193 563
<i>APIR Code</i>	COL0001AU

PLATFORMS

Macquarie Wrap Solutions
Netwealth
Powerwrap
Symetry
Hub24

TOP 5 HOLDINGS (by Portfolio Weight)

Westfield Corporation
Goodman Group
GPT Group
Folkestone Education Trust
Scentre Group

Fund Performance to 31 January 2016

Folkestone Maxim A-REIT Securities Fund	January 2015 %	3 Months %	1 Year % p.a.	3 Years % p.a.	5 Years % p.a.	7 Years % p.a.	Since Inception % p.a.*
Growth	-0.520	+1.25	+5.92	+10.31	+9.41	+9.43	-0.21
Income Return	+0.000	+1.45	+4.31	+4.97	+5.27	+5.92	+3.88
Total Return (After Fees but Before Tax)**	-0.520	+2.70	+10.23	+15.28	+14.68	+15.35	+3.67
S&P/ASX 300 A-REIT Accumulation Index	+0.949	+2.06	+7.47	+14.58	+14.93	+13.80	+2.71
Value Add	-1.469	+0.64	+2.76	+0.70	-0.25	+1.55	+0.96

*Fund inception date October 2005. **Please note the Fund's management fee was reduced on 16 May 2014. The Fund's after fees but before tax performance only reflects the new management fee from this date.

way of a trust scheme.

SECTOR VALUATION

At January month end, the sector was trading at approximately a 38% premium to NTA, and FY16 DPS yield of 5.0%, representing a 271 basis points premium to 90 Bank Bills and a 239 basis points premium to 10 year bonds.

OUTLOOK

Whilst asset prices for property may be considered to be nearing their peak, fundamentals in most markets remain sound and stable. With the Half Year reporting season due to commence early this month (February) we expect the sector to continue to deliver a high level of earnings certainty in contrast to the broader equity market.

The combination of a circa 5% yield, sound prospects for some earnings growth, as well as (modest) cap rate compression, the A-REIT sector is expected to continue to outperform over 2016.

FUND PERFORMANCE

The Fund returned -0.52% (after fees, before tax) underperforming the Benchmark return of +0.95% by 1.47%. Over the 12 month period, the Fund returned +10.23% (after fees, before tax) outperforming the Benchmark return of +7.47% by +2.76%. Since inception (15 October 2005), the Fund has outperformed its Benchmark by +0.96% on an after fees, before tax basis.

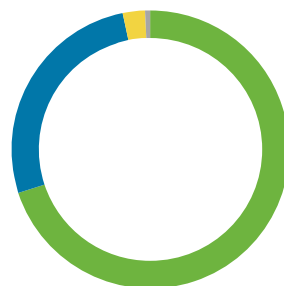
Positive contributions in January came from the Fund's zero weightings to Dexu Property Group (DXS -1.9%) as well as Cromwell Property Group (CWM -5.7%) and its investment in Cedar Woods (+8.4%).

Detracting from performance were underweight exposures to Westfield Group (WFD +4.1%) and Scentre Group (SCG +3.8%) and a nil exposure to Vicinity Centres (VCX +3.9%).

The Fund's investments comprised 19 ASX listed securities at the end of January, totaling 96.8% of the portfolio, of which 13 were constituents of the S&P/ASX 300 A-REIT Index, with the remaining 6 non-index stocks. A 0.6% exposure is held in an unlisted fund, which we expect to exit in due course, whilst the remaining 2.6% of the portfolio was held in cash/liquid investments.

ASSET ALLOCATION

As at 31 January 2016



- S&P/ASX 300 A-REIT - 69.9%
- Ex S&P/ASX 300 A-REIT - 26.9%
- Cash - 2.6%
- Unlisted - 0.6%

SECTOR SPLIT

As at 31 January 2016



- Social Infrastructure - 9.3%
- Industrial - 11.7%
- Retail - 28.4%
- Diversified - 24.7%
- Office - 5.3%
- Developers & Managers - 7.1%
- Other - 10.3%
- Cash - 2.6%
- Unlisted - 0.6%



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