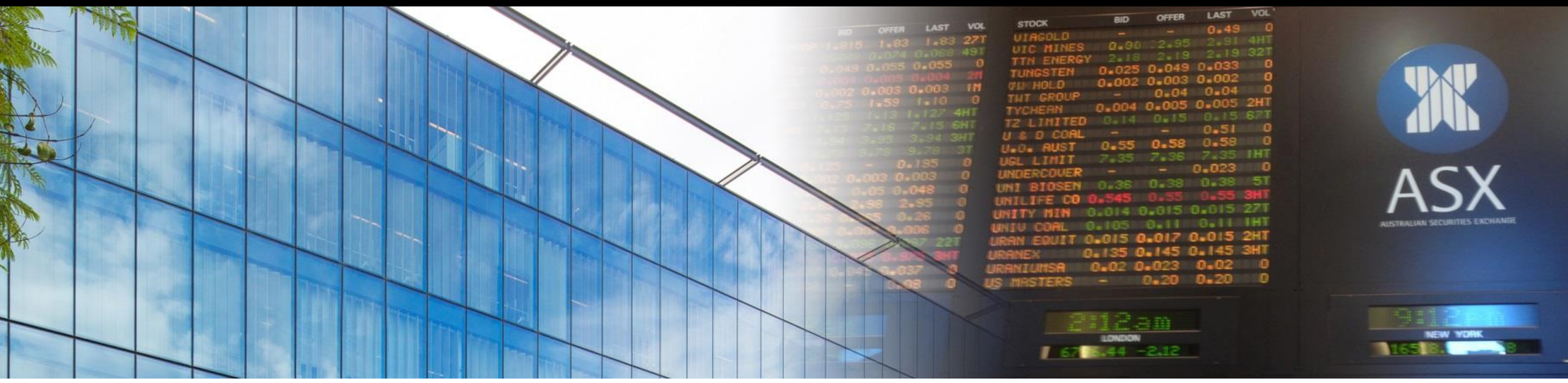
Folkestone
MAXIM A-REIT SECURITIES FUND



FOLKESTONE MAXIM A-REIT SECURITIES FUND

JUNE 2016 REPORT

MARKET REVIEW

The surprise vote by the United Kingdom to leave the European Union ("Brexit") hurt equity markets. The Euro Stoxx 50 index fell 6.5%, while Japan's Nikkei fell over 9%. Despite the Brexit vote, the UK FTSE index actually outperformed over June, rising 4.4% after falling sharply in the immediate days after the vote. In the USA, the S&P 500 Index rose marginally (+0.1%), whilst the Dow Jones Index fared a little better (+0.8%).

The US Fed left rates on hold in June as investors and commentators moved to lower their projections of the timing of rate rises into 2017. Forecasts for the US unemployment rate remained unchanged, whilst their forecasts for inflation were raised marginally.

Base metals rallied in June with the LME Metals Index rising 5.5% over the month. Iron ore rose 11.0% to $55 a tonne as Chinese economic data continued to be modestly supportive of steel production. The West Texas Intermediate oil price fell 1.6% to US $48.30bb and, driven by market uncertainty surrounding Brexit as well as the US Fed's actions over coming months, Gold rose 8.8% to $1,322/oz.

The Australian yield curve flattened with Australia's 3 Year yield falling 7.9bps to 1.56% while the 10 year bond yield fell 31.7bps to 1.99%.

The Reserve Bank left the cash rate unchanged in June at 1.75% with the minutes of the meeting indicating leaving the stance on monetary policy unchanged would be consistent with returning inflation to target.

The Australian equities market, as measured by the S&P/ASX 300 Accumulation Index, fell 2.4% over the month of June 2016 under-performing the S&P/ASX 300 A-REIT Accumulation Index which rose 3.5%. For the June 2016 quarter, equities rose 4.0% underperforming the S&P/ASX 300 A-REIT Accumulation Index which rose 9.2%. Over the 2016 financial year the S&P/ASX 300 A-REIT Accumulation Index rose 24.6%, outperforming the general equities market which only rose 0.9% by 23.7% (Figure 1).

For the June 2016 Quarter, the Commercial A-REIT sector returned 11.5%, followed by Diversified 10.1%, Industrials 8.4% and Retail at 8.3%.

The three best performing securities in the S&P/ASX 300 A-REIT Index in the June Quarter were Dexus Property Group (DXS +16.2%), Folkestone Education Trust (FET +14.1%) and Stockland Group (SGP +13.2%) whilst the three worst performing securities were Cromwell Property Group (CMW -0.4%), Arena REIT (ARF +0.5%)

KEY STATISTICS
as at 30 June 2016

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

PLATFORMS

BT Wrap
Macquarie Wrap Solutions
Netwealth
Powerwrap
Symetry
HUB24

TOP 5 HOLDINGS
(by Portfolio Weight)

Scentre Group
Westfield Corporation
Stockland Group
Goodman
Mirvac Group

Fund Performance to 30 June 2016

Folkestone Maxim A-REIT Securities Fund	June 2016 %	3 Months %	1 Year % p.a.	3 Years % p.a.	5 Years % p.a.	7 Years % p.a.	10 Years % p.a.	Since Inception % p.a.*
Growth Return	+2.85	+7.99	+21.59	+14.40	+12.43	+11.85	+0.30	+1.07
Income Return	+1.17	+1.23	+4.34	+4.91	+5.32	+5.94	+3.58	+3.82
Total Return (After Fees but Before Tax)**	+4.02	+9.22	+25.93	+19.31	+17.75	+17.79	+3.88	+4.89
S&P/ASX 300 A-REIT Accumulation Index	+3.53	+9.23	+24.59	+18.49	+18.01	+16.52	+2.87	+3.96
Value Add	**+0.49**	**-0.01**	**+1.34**	**+0.82**	**-0.26**	**+1.27**	**+1.01**	**+0.93**

*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.

and Ingenia Communities Group (INA +1.8%).

In local currency terms, Australia was the best performing global REIT market for the June 2016 Quarter returning +9.2%, followed by the US (+6.4%). On a rolling 12 month basis, the order of performance was Australia (+24.6%) followed by USA (+23.3%) and New Zealand (+22.3%) (Figure 2).

ACTIVITY

On 17 June, Australian Unity listed the Australian Unity Office Fund (AOF) with an initial market capitalisation of $280m based on its $2.00 issue price. AOF was keenly sought pre IPO and ended the month at $2.13, representing a 6.5% premium to its issue price.

The strong performance of the A-REIT sector and the continued chase for yield will see more IPO's coming to market before year end. These include Viva Energy REIT, a $2.1bn portfolio of service stations, Propertylink, an owner and fund manager specialising in industrial and logistics properties and the Charter Hall Long WALE A-REIT, which will comprise a diversified portfolio of industrial, office and hospitality assets worth in excess of $1bn and a weighted average lease expiry (WALE) in excess of 12 years.

MERGERS & ACQUISITIONS

On 3 March 2016 Growthpoint Properties Australia Limited, as responsible entity for the Growthpoint Properties Australia Trust (GOZ), submitted a proposal to the Independent Directors of GPT Platform Limited, as responsible entity of the GPT Metro Office Fund (GMF), to acquire 100% of GMF's outstanding units via a trust scheme. The Proposal comprised consideration of 0.3736 GOZ securities and $1.15 cash per GMF Unit which implied a consideration of $2.30 per GMF unit. In response, on 16 March 2016, GMF informed GOZ of its intention to undertake a revaluation of its entire property portfolio, the results of which were to be disclosed to ASX. Based on this information, on 18 March 2016, GOZ formally withdrew their offer. Following the release of the (increased) revaluations on 4 April GOZ re-submitted their original offer to GMF's Independent Directors.

On 24 May 2016 Centuria Property Funds Limited (CPFL), as Responsible Entity of the Centuria Metropolitan REIT (CMA), submitted an indicative non-binding proposal to merge CMA and GMF via a trust scheme (Centuria Proposal). The offer of 1 CMA Unit plus $0.27 cash, valued GMF at $2.46 a share. In addition CPFL announced that it had acquired a 3.5% interest in GMF, whilst Centuria Capital Limited (CNI) had acquired a 12.6% interest in GMF resulting in a total combined GMF interest of 16.1%.

On 16 June 2016 CPFL further sweetened the offer to one CMA stapled security plus 31 cents cash (an increase of 4 cents) valuing the offer at $2.48 per GMF security. CNI also announced that it had entered into a number of agreements with GPT Group (GPT) including a Facilitation and Property Rights Deed to ensure an orderly transition of responsible entity management rights to CPFL subject to payment of $9m and CMA holding at least a 50.1% relevant interest in CMA. On 22 June 2016 GMF's Independent Board Committee recommended the CMA takeover bid for GMF to its investors in the absence of a superior offer. GOZ undertook to respond by 30 June 2016, but no announcement had been made as at 30 June.

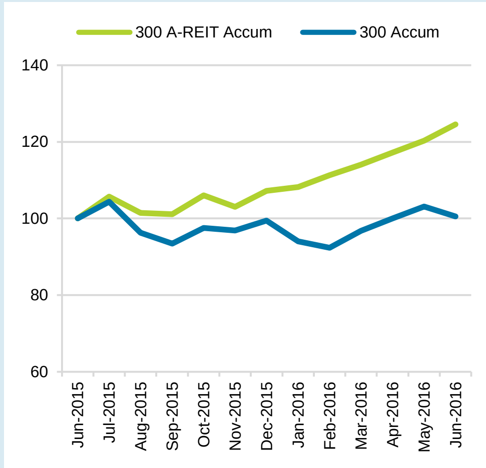
APN Property Group (APD) surprised the market late in June 2016 by announcing that it would be selling its management rights and its co-investment stake in listed Generation Healthcare REIT (GHC) for $92.6m to a Canadian REIT, Northwest Healthcare Properties. GHC represents ~ 18% of APD's funds under management and delivers ~18% of APD's management fees.

GHC has performed very well for APD since listing and has generated non-recurring fees (e.g. performance fees) however, the deal was considered too attractive for APD to pass up and on settlement, it will provide them with $73m in available cash which it will use for new initiatives. In addition, it raises APD's net tangible assets (NTA) by 10 cents to 43 cents.

SECTOR VALUATION

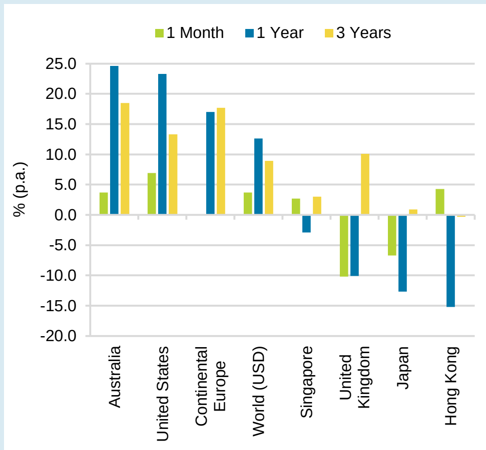
The A-REIT sector was trading at a FY17 estimated distribution yield of 4.5%, representing a 253 bps premium to the

Figure 1: A-REIT vs. Equity Performance –12 months to 30 June 2016



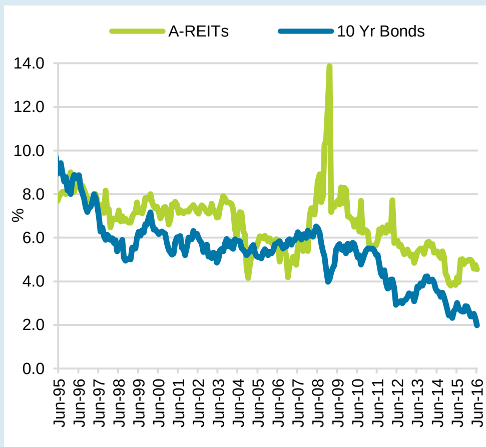
Source: IRESS

Figure 2: Global REIT Performance – To June 2016



Source: UBS, returns in local currencies

Figure 3: A-REIT Sector EPS and DPS Yields vs. 10 Year bonds Yields – 1995-2016



Source: JP Morgan

RBA Cash rate and a 250 bps premium to 10 Year Bonds (Figure 3).

The Sector look-through gearing currently stands at an acceptable 30.0%. The A-REIT sector was trading at a premium to NTA of 39.0% (31.5% ex WFD and GMG) compared to the long-term average of 11.0%.

PERFORMANCE REPORT

For the month of June 2016, the Fund returned +4.02% (on an After Fee but Before Tax basis), outperforming the Fund's Benchmark (S&P/ASX 300 A-REIT Accumulation Index) by 0.49%.

Positive contributions to returns in June 2016 came from the Fund's investments in APN Property Group (APD +8.7%) and Carindale Property Trust (CDP +7.7%) and an overweight exposure to Folkestone Education Trust (FET +5.6%). Detracting from returns, included underweight exposure to Scentre Group (SCP +5.6%), zero exposures to Shopping Centres Australasia (SCP +3.6%) and Vicinity Centres (VCX +4.7%).

Over the June 2016 Quarter, the Fund returned +9.22% (on an After Fee but Before Tax basis), marginally underperforming its Benchmark by 0.01%.

Positive contributions to returns in the June Quarter came from the Fund's exposure to Folkestone Education Trust (FET +15.6%), APN Property Group (APN +19.1%) and Carindale Property Trust (CDP +19.9%). Detracting from returns included our zero holdings in Charter Hall Group (+12.0%), Vicinity Centers (VCX +10.8%), and our exposure to Scentre Group (+10.8%).

For the 12 months to 30 June 2016, the Fund returned +25.93% (After Fees but Before Tax), outperforming its Benchmark by 1.34%.

At the end of June 2016, the Fund's investments comprised 16 ASX listed securities totaling 97.8% of the portfolio. 11 of these securities were constituents of the S&P/ASX 300 A-REIT Index whilst the remaining 5 securities were Ex-Index securities.

Unlisted securities comprised 0.6% of the portfolio and the remaining 1.6% was held in Cash/Liquid investments.

A June 2016 Quarter distribution of 0.9843 cents per Unit (paid to investors on 8 July 2016), took total distributions for the year ended 30 June 2016 to 3.1036 cents per Unit.

SECTOR CLASSIFICATION

The upcoming addition to the original ten Global Industry Classification Standard (GICS) and the shift out of the GICS Financial Sector is expected to provide support for the REIT sector both domestically as well as on the global stage. This move validates real estate as a distinct asset class in the listed market.

Notwithstanding the strong performance of REITs globally, generalist equity managers have been underweight REITs for a long period of time. Accordingly, we expect to see them shift into the REIT sector due to the greater exposure and emphasis on REITs arising from the new classification.

OUTLOOK

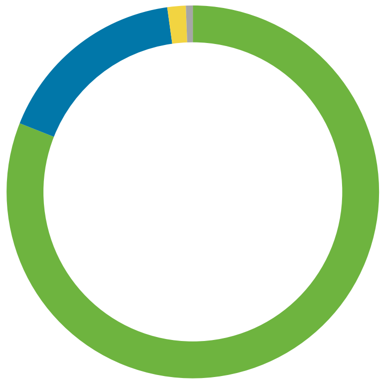
The upcoming FY16 year-end reporting season will be one of the most dissected in many years. The A-REITs have continued their strong run relative to equities, and with growing uncertainty engulfing the global markets and the trajectory of the economy, investors and analysts will be watching closely for the outlook statements of the A-REIT management teams.

On the one hand, the sector looks in good shape, but with retail sales growth slowing, the residential cycle close to peaking and the demand in the office sector trickling along (with the exception of Sydney CBD, which is having a strong run), the underlying fundamentals are far from robust.

The weight of money that has flowed into Australian non-residential real estate is set to continue, driven by offshore investors who see Australia as a safe haven, and attractive on a relative yield basis. This will ensure that cap rates at the quality end of the spectrum remain firm. The question is how much further can cap rates tighten. We believe we are entering the closing stages of the cap rate firming cycle, and as a result, the strong increases in values over the past few years will moderate but still remain positive. As a result, there is still upside to NTA growth of A-REITs.

ASSET ALLOCATION

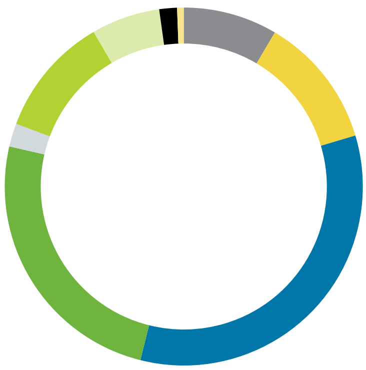
As at 30 June 2016



- S&P/ASX 300 A-REIT - 81.0%
- Ex S&P/ASX 300 A-REIT - 16.8%
- Cash - 1.6%
- Unlisted - 0.6%

SECTOR SPLIT

As at 30 June 2016



- Social Infrastructure - 8.5%
- Industrial - 11.9%
- Retail - 33.5%
- Diversified - 24.7%
- Office - 2.1%
- Developers & Managers - 10.9%
- Specialised REITs - 6.2%
- Cash - 1.6%
- Unlisted - 0.6%

Please note: Numbers in the graphs may not add up to 100 due to rounding.

Overall, balance sheets of the A-REITs remain in a sound position as proceeds from asset sales have been used to either lower gearing, or to fund higher yielding acquisitions/developments.

We are forecasting a circa 10% total return for REITs in 2016 as the fundamentals drive modest earnings growth over the year. A-REIT sector growth continues to compare well to the earnings growth of the broader equity market and given the ongoing volatility in the broader markets, we believe A-REITs will continue to be supported.

Having regard to both the cash rate and 10 Year bond yields, the A-REIT sector's dividend yield spread will continue to remain attractive for some time to come, particularly, if as expected by the market, the RBA cut rates further. The upcoming August meeting of the RBA will be very important, as the June 2016 quarter CPI will be realised, and the RBA will have had more time to gauge the fallout from Brexit.

Notwithstanding this positive outlook, there are a number of risks to this scenario which include interest rates rising faster than expected, as the sector is sensitive to rising cost of debt. In addition large increases in valuations and asset pricing could be conducive to asset bubbles which may ultimately lead to a downturn.

Evidenced by the battle for control of GMF and the recent play for Generation Healthcare (GHC), both M&A activity and IPO is expected to continue to be a feature of the A-REIT sector going forward.

We believe yield will continue to remain relevant as a key investment attribute in the year ahead. We favour those A-REITs with exposure to industrial and social infrastructure sectors, and securities with quality management that have the ability to actively manage their portfolios to drive income growth over time.

Superior SQM research

Recommended Lonsec Research

MORNINGSTAR ★★★★ TM

ATCHISON CONSULTANTS RECOMMENDED

Folkestone Maxim Asset Management Ltd
ACN 104 512 978 AFSL 238349

e: office@folkestone.com.au
www.folkestone.com.au

Sydney Office
Level 10, 60 Carrington Street
Sydney NSW 2000

t: +61 2 8667 2800
f: +61 2 8667 2880

Melbourne Office
Level 14, 357 Collins Street
Melbourne VIC 3000

t: +61 3 9046 9900
f: +61 3 9046 9999

Folkestone
MAXIM A-REIT SECURITIES FUND