



FOLKESTONE MAXIM A-REIT SECURITIES FUND

MAY 2016 REPORT

MARKET REVIEW

Global equity markets rose sharply late in the month as a response to the US Federal Reserve's commentary of a possible rate rise in June. Subsequently, there was a sell-off in bonds and an appreciation in the US dollar.

The Australian equities market was boosted by the 25 basis points rate cut early in the month to a record low of 1.75%. The RBA also revised their inflation forecast down by a substantial 1% to 1.5% due to weaker than expected wage growth numbers.

The S&P/ASX 300 A-REIT Accumulation Index returned +2.7% in May underperforming the S&P/ASX 300, which returned +3.1%.

The Diversified A-REIT sector was the best performer, returning +5.0% driven by Chater Hall Group (CHC +10.0%) and GPT Group (GPT +7.0%), followed by Industrial at +2.9%, Office at +2.7% and Retail at +1.4%.

For the year ended 31 May 2016, the S&P/ASX 300 A-REIT Accumulation Index returned +15.6%, outperforming the broader market's return of -2.1% by 17.7%.

ACTIVITY

The quarterly updates from the retail A-REITs showed a slow down in retail sales particularly in Victoria and Western Australia and continued weakness in supermarket sales across most centres. Westfield Corporation (WFD) announced at their AGM of their decision to maintain its primary listing in Australia for the time being; whilst Vicinity Centres (VCX) increased their divestment program from \$1.0 billion to \$1.5 billion. A number of the A-REITs also took the opportunity to reaffirm their FY16 earnings guidance.

Australian Unity raising \$155 million to list their unlisted office portfolio of eight A and B grade assets. The proposal is to be voted on by existing unitholders on 16 June 2016.

SECTOR VALUATION

At the end of May, the sector was trading at approximately a 26% premium to NTA and FY17 DPS yield of 4.7%. This represents a 238 basis points spread to 10-year bonds and a 270 basis points spread to 90-day bank bills.

KEY STATISTICS

as at 31 May 2016

Status	Open
Fund Maturity	Open Ended
Investments	Primarily A-REITs
Investment Horizon	3-5 years
Distribution	Quarterly
Frequency	
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
Hub24
Macquarie Wrap Solutions
Netwealth
Powerwrap
Symetry

TOP 5 HOLDINGS (by Portfolio Weight)

Westfield Corporation
Scentre Group
Goodman Group
Mirvac Group
GPT Group

Fund Performance to 31 May 2016

Folkestone Maxim A-REIT Securities Fund	May 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	+3.42	+7.65	+12.74	+12.85	+11.50	+11.71	+0.27	+0.75
Income Return	+0.00	+0.55	+3.97	+4.73	+5.24	+6.08	+3.78	+3.79
Total Return (After Fees but Before Tax)**	+3.42	+8.20	+16.71	+17.58	+16.74	+17.79	+4.05	+4.54
S&P/ASX 300 A-REIT Accumulation Index	+2.68	+8.14	+15.56	+16.75	+17.02	+16.74	+3.13	+3.65
Value Add	+0.74	+0.06	+1.15	+0.83	-0.28	+1.05	+0.92	+0.89

*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.

OUTLOOK

Whilst asset prices for property may be considered to be nearing their peak, fundamentals in most markets remain sound.

The quarterly updates provided by the A-REITs revealed operational conditions remain positive and in the case of GPT Group (GPT) and Mirvac Group (MGR) have tightened earnings guidance range for FY16.

In a "lower for longer" interest rate environment, we believe that the A-REIT sector will continue to be well supported given its earnings certainty compared to the broader equities market and we forecast FY16 yield of circa 5% and earnings growth of 2-3%.

FUND PERFORMANCE

In May, the Fund returned +3.42% (after fees, before tax) outperforming the Benchmark return of 2.68% by +0.74%. Over the 12 month period ended 31 May 2016, the Fund returned +16.71% (after fees, before tax), outperforming the Benchmark return of +15.56% by +1.15%. Since inception (15 October 2005), the Fund has outperformed its Benchmark by +0.89% on an after fees, before tax basis.

In May, positive contributions to returns came from the Fund's investments in APN Property Group (APD +13.6%), Rural Funds Group (RFF +6.0%), Folkestone Education Trust (FET +3.2%) and a zero

holding Vicinity Centres (VCX -1.8%).

Detracting from performance were zero exposure to Dexus Property Group (DXS +2.9%) and Charter Hall Group (CHC +10.0%).

At the end of May, the Fund's investments comprised 16 ASX listed securities totaling 98.3% of the portfolio, 11 of which were constituents of the S&P/ASX 300 A-REIT Index, with the remaining 5 non-index stocks. A 0.6% exposure is held in an unlisted fund, which we expect to exit in due course. The balance of 1.1% of the portfolio was held in cash/liquid investments.



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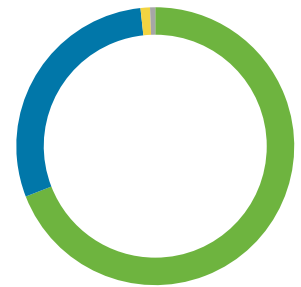
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ASSET ALLOCATION

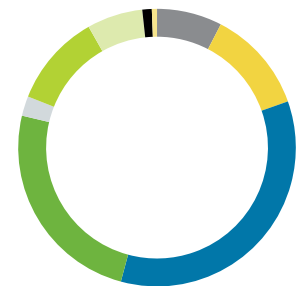
As at 31 May 2016



- S&P/ASX 300 A-REIT - 69.1%
- Ex S&P/ASX 300 A-REIT - 29.2%
- Cash - 1.1%
- Unlisted - 0.6%

SECTOR SPLIT

As at 31 May 2016



- Social Infrastructure - 7.6%
- Industrial - 12.0%
- Retail - 34.6%
- Diversified - 24.5%
- Office - 2.3%
- Developers & Managers - 10.8%
- Specialised REITs - 6.5%
- Cash - 1.1%
- Unlisted - 0.6%

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