Folkestone

MAXIM A-REIT SECURITIES FUND

FOLKESTONE MAXIM A-REIT SECURITIES FUND

MARCH 2016 REPORT

MARKET REVIEW

Global equities rallied during the month driven by the accommodative stance of the central banks, with the ECB cutting rates and expanding its asset purchase program early in the month, followed by the US Fed adopting a more cautious approach regarding the timing of US interest rate rises. Cyclical sectors outperformed whilst the defensive sectors lagged with the exception of REITs which was one of the best performing subsectors globally.

The Australian equities market was up 4.8% for the month. As was the case overseas, cyclical sectors such as Mining & Metals and Materials were the best performing sub-sectors, whilst defensive sectors such as Health Care and Utilities were the worst performing sectors.

On the domestic economic front, data released in March revealed growth was above expectations with Q4 GDP of 0.6% resulting in an upward revision for the year from 2.0% to 3.0% (its fastest pace in almost two years).

Housing stats remain strong with dwelling prices up 0.5% m/m in February to 7.6% y/y (with Melbourne strongest at 11% and Perth the weakest at -3%) albeit slower lending flags moderating house price growth ahead. Residential approvals retraced 7.5% m/m in January after December's 8.6% jump, to a still high 209,000 annual rate.

The RBA left the cash rate steady at 2.0% in March. Most market commentators expect the RBA to remain on hold through to the end of 2016 following the recent better domestic data, and improving business/consumer confidence. However, the uncertainty of the timing of the election may create some weakness in retail and business sentiment whilst a strong currency may cause a rethink from the RBA.

The S&P/ASX 300 A-REIT Accumulation Index returned 2.5% in March, underperforming the broader equity market, which returned 4.8%.

For the March Quarter, the S&P/ASX 300 A-REIT Accumulation Index returned 6.4%, outperforming the broader equity market by 9.0%.

Over the 12 month period ended 31 March 2016, the S&P/ASX 300 A-REIT Accumulation Index returned 11.4% significantly outperforming the broader market's return of -9.3%, by 20.7% (Figure 1).

For the March Quarter, the Retail A-REIT sector returned 8.9%, followed by Industrial at 6.1%, Commercial at 4.8% and Diversified at 2.5%.

KEY STATISTICS
as at 31 March 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
Folkestone Education Trust
Mirvac Group
GPT Group

Fund Performance to 31 March 2016

Folkestone Maxim A-REIT Securities Fund	Mar 2016 %	6 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	+2.50	+12.09	+8.86	+12.51	+10.21	+12.10	-0.34	+0.28
Income Return	+0.55	+2.13	+4.07	+4.81	+5.20	+6.65	+3.74	+3.85
Total Return (After Fees but Before Tax)**	+3.05	+14.22	+12.93	+17.32	+15.41	+18.75	+3.40	+4.13
S&P/ASX 300 A-REIT Accumulation Index	+2.50	+12.78	+11.40	+16.26	+15.83	+17.55	+2.41	+3.18
Value Add	**+0.55**	**+1.44**	**+1.53**	**+1.06**	**-0.42**	**+1.20**	**+0.99**	**+0.95**

*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.

The three best performing securities in the S&P/ASX 300 A-REIT Index in the March Quarter were Astro Japan (AJA 24.7%), Vicinity Centres (VCX 13.9%) and Arena REIT (ARF 11.2%), whilst the three worst performing securities were Ingenia Communities Group (INA -5.1%), Abacus Property Group (ABP -4.2%) and Industria REIT (IDR -4.2%).

New Zealand was the best global REIT market for the March quarter returning (7.0%), followed by Australia (6.8%) and United States (5.8%). On a rolling 12 month basis, the order of performance remains at New Zealand (18.5%), followed by Australia (11.4%) and United States (4.0%) (Figure 2).

ACTIVITY

There were $0.7bn of transactions in March at an average yield of 7.8%. It was the quietest month in over two years and leaves major assets for sale totaling $14.3bn including the $2bn Collins Square complex in Melbourne, Vicinity's four retail centres circa $900m and the David Jones Building in Sydney with an approximate value of $450m.

During the month, National Storage REIT (NSR) acquired a $17m self -storage facility in Highett Melbourne on Nepean Highway.

The Goodman Group (GMG) announced that it has secured 100% of its operating platform in Brazil that it held in joint venture with WTorre. Goodman now controls more than 338,000 sq.m. of industrial assets in Brazil.

On the leasing front, Dexus (DXS) secured heads of agreement with the Vic Government for a 10 year lease renewal across 22,791 sq.m. at 8 Nicholson Street Melbourne, H&WT for renewal across 10,191 sq.m. at Southgate Complex Melbourne, and Department of Immigration for the renewal at Customs House and Allara House.

DEBT CAPITAL MARKETS

During the month there were three major debt transactions which all involved issuing long dated offshore bonds.

Scentre (SCG) issued €500m seven year fixed rate notes with a coupon of 1.375% and Vicinity (VCX) issued €350m of 10 year fixed rate notes at a coupon of 3.375% under its European MTN programme.

GPT Group (GPT) issued HK$400m (A$69m) of bonds for 10 years at less than 200bps margin.

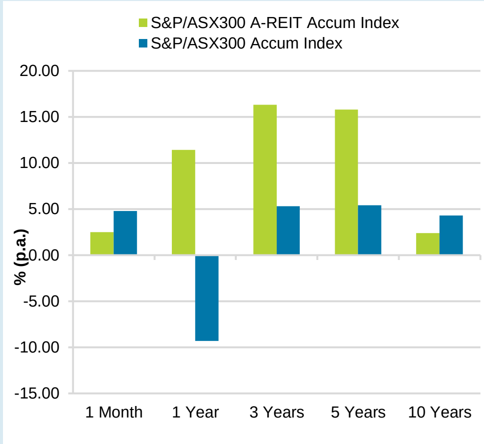
Of note is that the average margin over the last 12 months of 149bps has been increasing over the past four months given the volatility in the capital markets.

MERGERS & ACQUISITIONS

Dominating headlines this month has been the potential takeover of Investa Office Fund (IOF) by Dexus Property Group (DXS). Early in the month, the proposal received support from both the Independent Expert and Independent Directors. The initial offer was 0.424 DXS securities and $0.8229 in cash per IOF unit. The sticking point is whether Morgan Stanley, who owns 8.9% of IOF, could vote. During the month, DXS announced subject to its proposal becoming effective, IOF unitholders will receive a 7 cents special distribution paid by IOF, in addition to the DXS Proposal Consideration. The combined consideration would be $4.24. DXS have lodged an application with the Takeovers Panel seeking to prevent Morgan Stanley from voting it's stake at the upcoming IOF unitholders meeting on 15 April 2016.

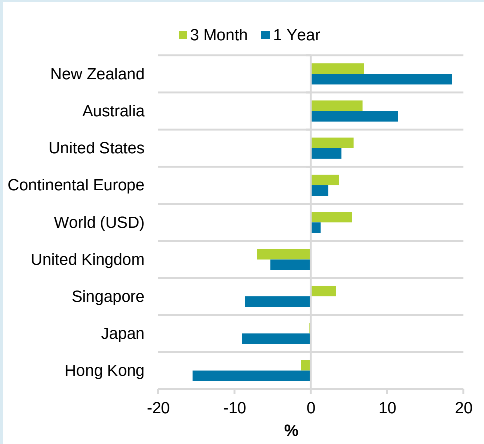
At the time of writing, both the Supreme Court and the Takeovers Panel had ruled Morgan Stanley could vote it's interest, however the Takeovers Panel found unacceptable circumstances in relation to the disclosure by Investa Office Management Holdings. The Takeovers Panel ordered further disclosure in relation to the role of the manager, fees payable under its current arrangements and the effect of the Sale Agreement if the DXS Proposal should exceed or fail. We have both publicly and privately voiced our concerns that it is incumbent on all parties to ensure investors have all relevant information to make an informed decision, particularly where related parties are involved. We look forward to the vote on 15 April to allow **all** investors to have their say in the future of IOF.

Figure 1: A-REIT vs. Equity Total Returns – To 31 March 2016



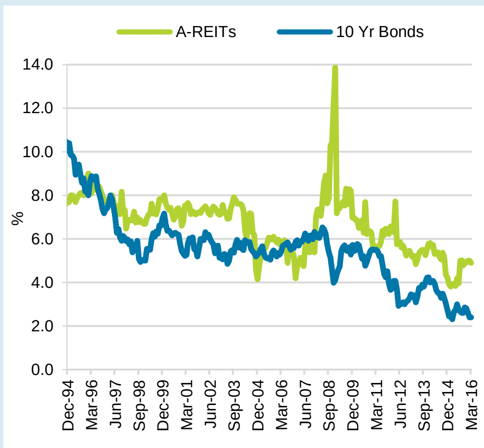
Source: IRESS

Figure 2: Global REIT Performance – To March 2016



Source: UBS, returns in local currencies

Figure 3: A-REIT Sector EPS and DPS Yields vs. 10 Year Bonds Yields – 1994-2016



Source: JP Morgan

SECTOR VALUATION

The A-REIT sector was trading at a FY16 estimated distribution yield of 4.9%, representing a 290 basis point premium to Cash and a 240 basis point premium to 10 Year Bonds (Figure 3).

The A-REIT Sector was trading at a premium to NTA of 31.3% compared to the long-term average of 11.0%, and a premium to NPV of 5.4%. Sector look-through gearing currently stands at a reasonable 30.0%.

PERFORMANCE REPORT

For the month of March, the Fund returned +3.05% (on an After Fee but Before Tax basis), outperforming the Fund's Benchmark (S&P/ASX 300 A-REIT Accumulative Index) by 0.55%.

Over the month positive contributions to returns came from the Fund's overweight exposure to Rural Funds Group (RFF 12.8%) and Mirvac Group (MGR 5.7%) and a zero weighting to National Storage REIT (NSR 2.6%). Detracting from returns was an overweight exposure to Industria REIT (IDR -4.2%) and zero exposure to Hotel Property Investments (HPI 9.1%) and Vicinity Centres (VCX 2.6%).

Over the March Quarter, the Fund returned +4.79% (on an After Fee but Before Tax basis), underperforming it's Benchmark by 1.59%.

Positive contributions to returns in the March Quarter came from the Fund's exposure to Rural Funds (RFF 12.0%), GPT Metro Office Fund (GMF 1.9%) and a zero weighting to Abacus Property Group (ABP -4.2%). Detracting from returns included our zero holdings in Vicinity Centres (VCX 13.9%), and our exposure to Westfield Corporation (WFD 6.9%) and Industria REIT (IDR -4.2%).

On a rolling year to 31 March 2016, the Fund returned +12.93% (After Fee but Before Tax), outperforming its Benchmark by 1.53%.

At the end of March 2016, the Fund's investments comprised 16 ASX listed securities totaling 98.1% of the portfolio. Of these, 11 securities were constituents of the S&P/ASX 300 A-REIT Index with the remaining 5 being Ex-Index securities. Unlisted securities comprised 0.6% of the portfolio whilst the remaining 1.3% was held in Cash/Liquid investments.

A March Quarter distribution of 0.4348 cents per Unit was paid to investors on the 8 April, taking total distributions for the year ended 31 March 2016 to 2.9819 cents per Unit.

SECTOR CLASSIFICATION

The Global Industry Classification Standard (GICS) is the leading global securities classification system and is adopted by S&P and MSCI. From 1 September 2016, Real Estate is being moved out of the Financials Global Industry Classification Standard (GICS) sector and into a newly created Real Estate GICS sector. This change to the GICS classification system represents the first additional sector added since its creation in 1999. Promoting Real Estate to its own sector recognises 'its growing position in today's global economy. The market generally perceives real estate companies as fundamentally different from companies in other sectors under GICS, including financial companies'.

The Real Estate sector will comprise REITs as well as real estate management and development companies including LLC and AOG and based on current values, will comprise circa 9.0% of the Australian market. We see the move to separate real estate as a positive for demand for stocks in the sector which should promote flows into real estate stocks and A-REITs.

Folkestone Maxim's investment universe already includes real estate management and development companies which presently sit outside of the Funds Benchmark Index.

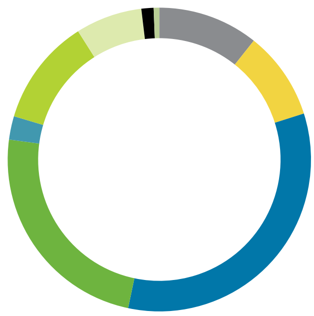
OUTLOOK

The outcome of the March FOMC meeting was unexpectedly dovish. The US Fed continues to adopt a more cautious stance as to when and how much they will raise rates. It is expected that the US Fed will push out their softening of rates, implying only two hikes this year.

The weakness in China's economy, with the 2016 growth target being lowered to a range of 6.5-7% along with the accommodative stance of the ECB has led

SECTOR SPLIT

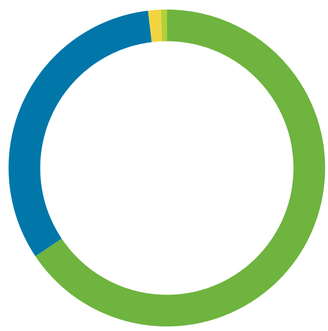
As at 31 March 2016



- Social Infrastructure - 10.7%
- Industrial - 9.4%
- Retail - 33.2%
- Diversified - 23.8%
- Office - 2.5%
- Developers & Managers - 11.4%
- Other - 7.1%
- Cash - 1.3%
- Unlisted - 0.6%

ASSET ALLOCATION

As at 31 March 2016



- S&P/ASX 300 A-REIT - 65.6%
- Ex S&P/ASX 300 A-REIT - 32.5%
- Cash - 1.3%
- Unlisted - 0.6%

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

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MORNINGSTAR

Investment Grade Lonsec Research

Australia to adopt a wait and see stance on interest rates.

During the month, the AUD rose 7.6% against the Greenback and appreciated against most of its trading partners (CNY 6.2%, JPY 7.3% and EUR 2.7%). This was mainly due to the improvement in commodity prices. Further currency depreciation is necessary in order for Australia's terms of trade to improve which will be at the forefront of policy maker's mind in the near future.

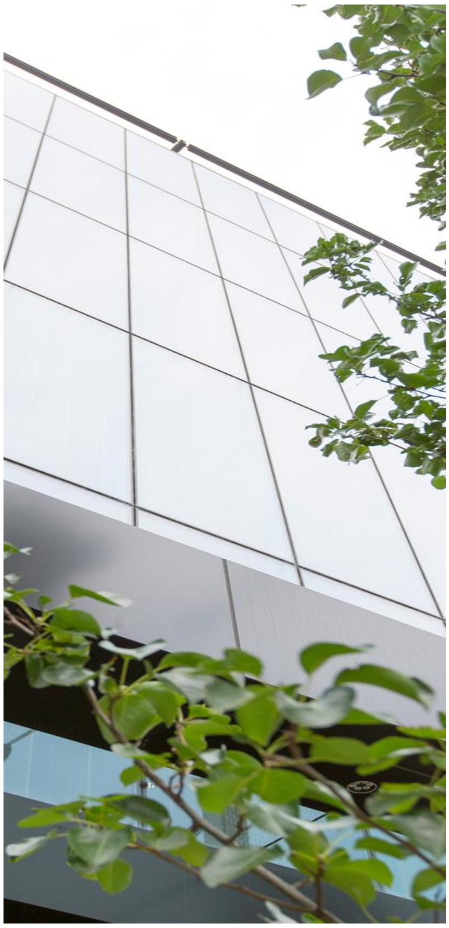
In a "lower for longer" interest rate environment, we believe that the A-REIT sector will continue to be well supported.

The A-REIT sector is considered to be in good shape after the positive half year reporting season in February. Overall balance sheets are in a sound position and we expect asset income growth of around 3.0%.

As we have noted in previous reports, we expect M&A activity to be a feature of the A-REIT sector in 2016. The IOF/Dexus takeover should be resolved during April 2016, and the attention will then move to Growthpoint's (GOZ) recent offer to take over the GPT Metro Office Fund (GMF). With asset pricing at elevated levels, the A-REITs are finding it difficult to acquire assets on market, hence the focus on M&A to grow.

Over the past two years cap rates have compressed by an average of 100bps across the sector. This was mainly driven by offshore demand for high quality assets. We expect that A-REITs will persist in selling non-core assets with a view to funneling proceeds into higher yielding developments as opportunities arise. Accordingly, we remain positive on the sectors' outlook on a relative basis, albeit we do not expect it to maintain its current high level of outperformance.

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



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

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