



FOLKESTONE MAXIM A-REIT SECURITIES FUND

AUGUST 2016 REPORT

MARKET REVIEW

Most global equity markets posted modest gains during the month, driven by the Banking sector, whilst Mining & Metals and defensive sectors including Utilities, Health Care, REITs and Telecommunications underperformed.

Federal Reserve Chair Janet Yellen indicated that in the US “the case for an increase in Federal funds rate has strengthened in recent months”. This seems to be at odds with Australia with a well anticipated 25 basis points cut in the cash rate in August by the RBA, taking it to a record low of 1.50%. Market commentators are forecasting further rate cuts in the year ahead.

The S&P/ASX 300 A-REIT Accumulation Index returned -2.7% in August underperforming the S&P/ASX 300, which returned -1.8%. Despite the weaker August result, for the year ended 31 August 2016, the S&P/ASX 300 A-REIT Accumulation Index returned +26.0%, outperforming the broader market’s return of +9.7% by +16.3%.

In August, performance varied across the main A-REIT sectors with the Industrial sub-sector posting the highest return with 0.7% driven by 360 Capital Industrial Fund (TIX +5.1%), followed by

Commercial at -1.2%, Diversified at -1.3% and Retail at -4.3%.

ACTIVITY

News flow over the month of August was focused on the reporting season and FY17 earnings guidance. A few key themes emerged including:

- (1) cap rate compression to continue for office and industrial properties, but has materially slowed for retail;
- (2) residential activity levels remain strong especially in Sydney and Melbourne with Mirvac Group (MGR) surprising the market with a strong guidance of 8-11% EPS growth for FY17; and
- (3) the retail outlook has moderated with supermarkets under pressure and slowing specialty sales in the larger retail centres.

SECTOR VALUATION

At the end of August, the sector was trading at approximately a 41% premium to NTA and FY17 DPS yield of 4.4%. This represents a 258 basis points spread to 10-year bonds and a 267 basis points spread to 90-day bank bills.

KEY STATISTICS

as at 31 August 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

BT Wrap
Hub24
Macquarie Wrap Solutions
Netwealth
Powerwrap
Symetry

TOP 5 HOLDINGS (by Portfolio Weight)

Scentre Group
Westfield Group
Goodman Group
Stockland Group
GPT Group

Fund Performance to 31 August 2016

Folkestone Maxim A-REIT Securities Fund	August 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	-1.10	+6.90	+25.41	+15.75	+14.38	+9.84	+0.23	+1.54
Income Return	+0.00	+1.17	+4.30	+4.89	+5.59	+4.91	+3.40	+3.79
Total Return (After Fees but Before Tax)**	-1.10	+8.07	+29.71	+20.64	+19.97	+14.75	+3.63	+5.18
S&P/ASX 300 A-REIT Accumulation Index	-2.68	+6.16	+25.95	+19.79	+19.51	+14.09	+2.49	+4.43
Value Add	+1.58	+1.91	+3.76	+0.85	+0.46	+0.66	+1.14	+0.90

*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

The FY16 A-REIT reporting season has highlighted the certainty of earnings in the sector, with the majority of the A-REITs meeting their earnings forecast, and in the case of some developers and fund managers such as Mirvac and APN Property Group, exceeding market expectation. This fares well when compared to the mixed results from the broader equities market.

In previous reports we have highlighted that the A-REITs will be moving to their own GICS classification (Real Estate) rather than being part of the Financials sector. The MSCI Index will implement the change from 1 September 2016. We envisage little change to the sector initially, but will monitor its impact with potential demand from global index funds and equity funds.

FUND PERFORMANCE

In August, the Fund returned -1.10% (after fees, before tax) outperforming the Benchmark return of -2.68% by +1.58%. Over the 12 month period ended 31 August 2016, the Fund returned +29.71% (after fees, before tax), outperforming the Benchmark return of +25.95% by +3.76%.

In August, positive contributions to returns came from the Fund's investments in APN Property Group (APD +9.8%), Elanor

Investors Group (ENN +7.8%) and a zero weighting to Vicinity Centres (VCX -4.3%). Detracting from performance were overweight exposures to Gateway Lifestyle (GTY -18.5%) and Industria REIT (IDR -4.5%)

At the end of August, the Fund's investments comprised 17 ASX listed securities totaling 97.2% of the portfolio, 11 of which were constituents of the S&P/ASX 300 A-REIT Index, with the remaining 6 non-index stocks. A 0.5% exposure is held in an unlisted fund, which we expect to exit in due course. The balance of 2.3% of the portfolio was held in cash/liquid investments.



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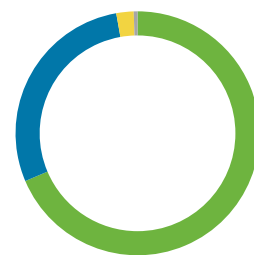
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ASSET ALLOCATION

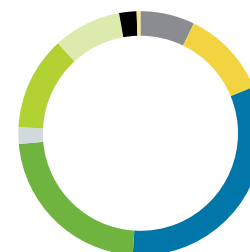
As at 31 August 2016



- S&P/ASX 300 A-REIT - 68.6%
- Ex S&P/ASX 300 A-REIT - 28.6%
- Cash - 2.3%
- Unlisted - 0.5%

SECTOR SPLIT

As at 31 August 2016



- Social Infrastructure - 7.2%
- Industrial - 11.6%
- Retail - 32.2%
- Diversified - 22.6%
- Office - 2.2%
- Developers & Managers - 12.4%
- Specialised REITs - 9.0%
- Cash - 2.3%
- Unlisted - 0.5%

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