



FOLKESTONE MAXIM A-REIT SECURITIES FUND

AUGUST 2017 REPORT

MARKET REVIEW

The S&P/ASX 300 A-REIT Accumulation Index returned +1.5% in August, outperforming equities by +0.8%, as measured by the S&P/ASX 300 Accumulation Index. The Australian equities market was relatively flat, as investors reacted to lackluster 2017 full-year results and concern with the weak FY18 guidance. On a rolling 12 month basis, the A-REITs are still lagging the equities market by 16.2%.

The Health Care A-REIT sub-sector posted the highest return for the month of +12.1%, followed by the Specialised sub-sector at +9.5%, Diversified at +6.0%, Industrial at 4.1%, Office at 2.0%, and Residential at 1.2%. Retail posted the only negative return of -2.8%.

ACTIVITY

News flow over the month of August was focused on the reporting season and FY18 earnings guidance. A few key themes emerged including:

1. FY17 results were generally in line with consensus numbers and the earning outlook for FY18 was reasonably positive.
2. Cap rate compression to continue for office and industrial properties, but to a lesser extent than in the previous two years.

3. Dividend payout changes with Scentre Group (SCG) looking to maintain DPS growth at 2.0% pa until it reaches a payout ratio of 85.0% to allow more retained earnings for their development pipeline. Vicinity Centres (VCX) amended its distribution policy to 95-100% of adjusted funds from operations to better align the distribution to operating cashflow.
4. Capital management in the form of buybacks for some of the A-REITs trading at or below NTAs. These include Investa Office Fund (IOF), Charter Hall Retail (CQR), Vicinity Centres (VCX) and Industria REIT (IDR).
5. On a sectorial basis, the retail environment is still challenging as expected; office metrics are strong, but not able to transform into strong earnings growth due to tenant incentives, capital expenditure programs and residential earnings ahead of expectations with record sales volumes.

SECTOR VALUATION

At the end of August, the sector was trading at a 16.0% premium to NTA. The FY18 DPS yield of 5.1% represents a 339 basis point spread to 90 day bank bills and a 240 point spread to 10 year bonds.

KEY STATISTICS

as at 31 August 2017

<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

Asgard
BT Wrap
Hub24
IOOF Pursuit
Macquarie Wrap Solutions
Netwealth
Powerwrap
Symetry

TOP 5 ACTIVE OVERWEIGHTS (by Portfolio Weight)

Rural Funds
Industria REIT
Carindale Property Trust
Folkestone Education Trust
Centuria Metropolitan REIT

Folkestone Maxim A-REIT Securities Fund	August 2017 %	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	+1.76	-0.30	-5.43	+8.46	+9.09	+8.327	-0.86	+0.98
Income Return	+0.00	+0.69	+4.35	+4.76	+6.16	+5.280	+2.37	+3.66
Total Return (After Fees but Before Tax)**	+1.76	+0.39	-1.08	+13.22	+15.25	+13.61	+1.52	+4.64
S&P/ASX 300 A-REIT Accumulation Index	+1.51	-3.21	-6.73	+10.30	+13.35	+12.03	-0.22	+3.17
Value Add	+0.25	+3.60	+5.65	+2.92	+1.90	+1.58	+1.74	+1.47



OUTLOOK

The A-REIT sector has benefited from the continued flow of foreign capital chasing premium assets. This has led to cap rate compression boosting NTA's and enabling some managers to de-leverage their balance sheet through asset sales or to fund higher yielding acquisitions/developments. We believe that the cap rate compression cycle is coming to an end over the next year, albeit we don't see cap rates moving back up.

Unless there is a material increase in 10 year bond yields (A-REITs are highly correlated to movements in 10 year bonds), near term performance will be driven by fundamentals and tenant performance, and also increased M&A activity in the sector.

We continue to favour those A-REITs with exposure to the social infrastructure property sub-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.

FUND PERFORMANCE

Over the month, the Fund returned +1.76% (after fees, before tax), outperforming the Benchmark by +0.25%. On a rolling 12 month basis, the Fund returned -1.08%, substantially outperforming the Benchmark return of -6.73% by +5.65%.

In August, positive contributions came from the Fund's overweight exposure to Folkestone Education Trust (FET +9.84%),

Rural Funds Group (RFF +8.77%) and Kangaroo Island Plantation Trust (KPT +13.00%).

Detracting from performance were the Fund's zero exposures to Stockland Group (SGP +5.48%) and Goodman Group (GMG +4.15%).

At the end of August, the Fund's investments comprised 16 ASX listed securities totaling 96.7% of the portfolio, 8 of which were constituents of the S&P/ASX 300 A-REIT Index, with the remaining 8 holdings being non-index stocks. A 0.1% exposure is held in an unlisted fund (a spin-off from GPT), which we expect to exit in due course. The balance of 3.2% of the portfolio was held in cash/liquid investments.



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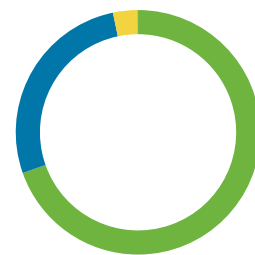
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ASSET ALLOCATION

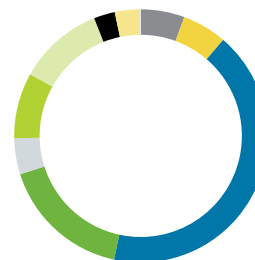
As at 31 August 2017



- S&P/ASX 300 A-REIT - 69.6%
- Ex S&P/ASX 300 A-REIT - 27.1%
- Cash - 3.2%
- Unlisted - 0.1%

SECTOR SPLIT

As at 31 August 2017



- Social Infrastructure - 5.6%
- Industrial - 5.7%
- Retail - 42.1%
- Diversified - 16.7%
- Office - 4.6%
- Developers & Managers - 8.4%
- Specialised - 10.9%
- Other - 2.7%
- Cash - 3.2%
- Unlisted - 0.1%

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