



FOLKESTONE MAXIM A-REIT SECURITIES FUND

FEBRUARY 2017 REPORT

MARKET REVIEW

Equity markets in the U.S. rallied to new highs in February on the back of anticipated economic stimulus from the Trump administration. This caused a simultaneous rally in equities and bond markets both globally and domestically.

As bond yields drifted lower over the month, defensive sectors such as Consumer Staples, Health Care and REITs outperformed while cyclical sectors underperformed.

The S&P/ASX 300 A-REIT Accumulation Index returned +4.1% in February outperforming the S&P/ASX 300 Accumulation Index, which returned +2.2%. However, the A-REITs are still down -0.9% on a YTD basis.

The Industrial sub-sector was the best performer over the month with a return of +8.6% driven by Goodman Group (GMG +9.1%), followed by the Diversified and Health Care sub-sectors both at +7.0%, Office at +4.3%, Specialised A-REITs at +3.0% and Retail at 1.6%. The underperformance of the Retail sub-sector was primarily driven by the two largest A-REITs in the Index, Scentre Group (SCG +1.5%) and Westfield Corporation (WFD +2.0%).

ACTIVITY

The reporting season saw the majority of A-REITs performing in line with or above market expectations. As anticipated the office A-REITs delivered a solid performance, with the Sydney office market, in particular, strong due to a lack of new supply and low vacancy rates whilst the retail operating environment remains challenging. Discount department stores continue to underperform and increased competition from new international retailers and online retailing, continue to impact speciality store sales.

Guidance for FY2017 looks on track, with upside for those A-REITs that are able to grow their funds management business or grow their portfolio through development of existing assets.

The reporting season also highlighted the continued growth in NTAs albeit at more modest rates. The weighted average cap rate of the sector is now 5-7% down 20 basis points over the past 6 months.

SECTOR VALUATION

At the end of February, the sector was trading at a 21.8% premium to NTA. The FY17 DPS yield of 5.0% represents a 229 basis point spread to 10-year bonds.

KEY STATISTICS

as at 28 February 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
Macquarie Wrap Solutions
Netwealth
Powerwrap
Symetry

TOP 5 ACTIVE OVERWEIGHTS (by Portfolio Weight)

APN Property Group
Folkestone Education Trust
Rural Funds Group
Industria REIT
Centuria Metropolitan REIT

FUND PERFORMANCE TO 28 FEBRUARY 2017

Folkestone Maxim A-REIT Securities Fund	February 2017 %	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	+4.14	-6.29	+7.67	+12.22	+10.67	+8.30	-1.48	+0.86
Income Return	+0.00	+2.62	+4.97	+5.20	+6.80	+5.18	+2.95	+3.74
Total Return (After Fees but Before Tax)**	+4.14	-3.67	+12.64	+17.42	+17.47	+13.48	+1.47	+4.60
S&P/ASX 300 A-REIT Accumulation Index	+4.13	-5.75	+8.20	+15.87	+16.57	+12.67	-0.01	+3.41
Value Add	+0.01	+2.08	+4.44	+1.55	+0.90	+0.81	+1.48	+1.

*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

In February, as expected the Reserve Bank of Australia (RBA) left the cash rate unchanged at 1.5%. Inflation remains low and the labour market is still viewed as "mixed". In the RBA's Statement on Monetary Policy, their near term GDP and inflation forecasts were revised downward. With this in mind, we believe the lower for longer interest rate environment remains.

The recent A-REIT reporting season confirmed the earnings certainty of the sector, with the majority of the A-REITs reconfirming, or in some cases, tightening their FY17 earnings forecast to the upper end of their range. NTA growth remains a feature of the market but the outlook is for growth to moderate over the next year.

An emerging theme in the A-REIT sector appears to be increased M&A activity. This is due to the relatively low cost of capital still on offer (both debt and equity) and the relative inability for A-REITs to acquire assets in the direct market.

FUND PERFORMANCE

Over the month, the Fund returned +4.14% (after fees, before tax) in line with the Benchmark return of +4.13%. Over the 12 month period ended 28 February, the Fund returned +12.64% (after fees, before tax), substantially outperforming the Benchmark return of +8.20% by +4.44%.

In February, positive contributions to

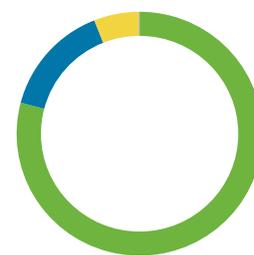
returns came from the Fund's overweight exposure to Folkestone Education Trust (FET +12.4%), Rural Funds Group (RFF +4.1%) and Viva Energy REIT (VVR +6.7%).

Detracting from performance was the Fund's zero exposures to Charter Hall Group (CHC +11.9%), Stockland Group (SGP +8.5%) and Vicinity Centres (VCX +1.0%).

At the end of February, the Fund's investments comprised 16 ASX listed securities totaling 94.0% of the portfolio, 11 of which were constituents of the S&P/ASX 300 A-REIT Index, with the remaining 5 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 5.9% of the portfolio was held in cash/liquid investments.

ASSET ALLOCATION

As at 28 February 2017



- S&P/ASX 300 A-REIT - 79.1%
- Ex S&P/ASX 300 A-REIT - 14.9%
- Cash - 5.9%
- Unlisted - 0.1%

SECTOR SPLIT

As at 28 February 2017



- Social Infrastructure - 5.4%
- Industrial - 14.0%
- Retail - 31.6%
- Diversified - 15.9%
- Office - 13.2%
- Developers & Managers - 6.3%
- Other - 7.6%
- Cash - 5.9%
- Unlisted - <0.1%



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