



FOLKESTONE MAXIM A-REIT SECURITIES FUND

JANUARY 2017 REPORT

MARKET REVIEW

The global equities market continues to strengthen with the S&P 500 Index posting a third consecutive monthly gain. January saw a 1.8% rise due to strong reported earnings, with most companies reporting outperformance of EPS estimates.

The Mining and Metals sub-sector recorded the best performance both domestically and globally over the month, whilst REITs and Banking stocks underperformed.

The S&P/ASX 300 A-REIT Accumulation Index returned -4.7% in January underperforming the S&P/ASX 300 Index, which returned -0.8%.

In January, most of the major A-REIT sub-sectors posted negative returns with the exception of the Specialised sub-sector posting a positive return of +0.7% driven by Iron Mountain (INM +5.4%) and the Healthcare sub-sector pushing a return of (+1.2%) driven by Generation Healthcare (+3.1%). The Office sub-sector posted the weakest return of -5.5% driven by Dexus Property Group (DXS -6.7%), followed by Diversified at -5.2%, Retail at -5.0% and Industrial at -2.9%.

ACTIVITY

There was little news flow in January with the main announcement being Vicinity Centres revaluing their portfolio, resulting in a 3.5% increase in value over the 6 months to December 2016. Notably, within this portfolio, there was a net \$286m uplift in Chadstone Shopping Centre, which is now valued at \$5.25bn on a yield of 4.25%.

In other major news, following Centuria Capital (CNI) acquiring the management rights to a number of funds from the 360 Capital Group, the Centuria Metro REIT (CMA) has acquired 8.8% of the 360 Office Fund (TOF).

Major transactions included Dexus Group (DXS) selling 79-99 St Hilliers Road, Auburn locking in a \$37m trading profit, and Investa Office Fund settling 383 La Trobe Street, Melbourne for \$70.7m, achieving a 31% premium to book value.

SECTOR VALUATION

At the end of January, the sector was trading at approximately a 22.6% premium to NTA and FY17 DPS yield of 5.2%. This represents a 283 basis point spread to 10-year bonds and a 343 basis point spread to 90-day bank bills.

KEY STATISTICS

as at 31 January 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 HOLDINGS (by Portfolio Weight)

Folkestone Education Trust
Rural Funds Group
APN Property Group
Industria REIT
Carindale Property Trust

Fund Performance to 31 January 2017

Folkestone Maxim A-REIT Securities Fund	January 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	-3.82	-11.14	+5.60	+12.30	+10.17	+7.82	-1.88	+0.50
Income Return	+0.00	+2.62	+4.97	+5.20	+6.80	+5.19	+2.95	+3.76
Total Return (After Fees but Before Tax)**	-3.82	-8.52	+10.57	+17.50	+16.97	+13.01	+1.07	+4.26
S&P/ASX 300 A-REIT Accumulation Index	-4.71	-11.91	+6.83	+15.92	+16.15	+12.25	-0.46	+3.07
Value Add	+0.89	+3.39	+3.74	+1.59	+0.82	+0.76	+1.53	+1.19

*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

Overall, the A-REIT sector remains in good shape. Balance sheets remain strong with many A-REITs using non-core asset sale proceeds to either pay down debt or to fund higher yielding investment opportunities (acquisitions or developments). With the half year reporting season upon us, we expect earnings certainty to remain strong. The main focus will be the outlook for cap rates and the likely further uplift in NTA's, retail trading conditions and whether the strength in the office sector will continue throughout 2017.

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

In January, the Fund returned -3.82% (after fees, before tax) outperforming the Benchmark return of -4.71% by 0.89%. Over the 12 month period ended 31 January 2017, the Fund returned +10.57% (after fees, before tax), outperforming the Benchmark return of +6.83% by +3.74%.

In January, positive contributions to returns came from the Fund's zero weight in Dexus Group (DXS -6.7%) and underweight in Scentre Group

(SCG -5.2%), as well as a zero weight holding in Vicinity Centres (VCX -4.3%).

Detracting from performance was the Fund's overweight exposures to Folkestone Education Trust (FET -2.0%), Rural Funds Group (RFF -2.6%) and Asia Pacific Data Centre (AJD -3.5%).

At the end of January, the Fund's investments comprised 15 ASX listed securities totaling 98.1% of the portfolio, 11 of which were constituents of the S&P/ASX 300 A-REIT Index, with the remaining 4 holdings being non-index stocks. A 0.5% exposure is held in an unlisted fund (a spin-off from GPT), which we expect to exit in due course. The balance of 1.4% of the portfolio was held in cash/liquid investments.



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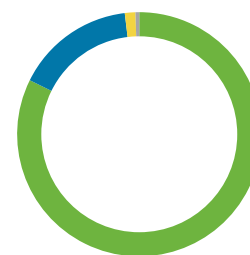
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ASSET ALLOCATION

As at 31 January 2017



- S&P/ASX 300 A-REIT - 82.3%
- Ex S&P/ASX 300 A-REIT - 15.8%
- Cash - 1.4%
- Unlisted - 0.5%

SECTOR SPLIT

As at 31 January 2017



- Social Infrastructure - 7.3%
- Industrial - 13.9%
- Retail - 34.9%
- Diversified - 16.0%
- Office - 13.3%
- Developers & Managers - 4.6%
- Specialised - 8.1%
- Cash - 1.4%
- Unlisted - 0.5%

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