Folkestone
MAXIM A-REIT SECURITIES FUND

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JULY 2017 REPORT

MARKET REVIEW

The Australian equity market was affected by currency movements during the month, with a sharp rise in the Australian dollar. Stocks with large foreign earnings such as Health Care underperformed. The S&P/ASX 300 Accumulation Index finished the month flat, despite a strong performance from both the Mining and Bank subsectors.

The spike in the AUD was mainly driven by strong commodity prices and the market jumping to conclusions that the RBA may adopt a more hawkish monetary policy by targeting a “natural cash rate of 3.5%”. This was subsequently watered down by Deputy Governor Guy Debelle, noting that “no significance should be read into it”.

The S&P/ASX 300 A-REIT Accumulation Index returned -0.2% in July, slightly underperforming the S&P/ASX 300 Accumulation Index, which was flat. On a rolling 12 month basis, the A-REITs are still lagging the equities market by 17.6%.

The Industrial A-REIT sub-sector posted the highest return for the month of +1.0% driven by Goodman Group (GMG +1.1%), followed by the Retail sub-sector at +0.5%, Office at -0.4%, Specialised at -0.9%, Residential -1.2%, Diversified -1.4% and Health Care at -8.4%. The Retail sub-sector finally posted a positive return of 0.5% for the month, after a year of significant underperformance by 8.7% relative to the sector. This was mainly driven by Vicinity Centres (VCX +7.0%) after it announced a 5% buyback and asset revaluations which saw NTA increase from $2.73 to $2.82.

ACTIVITY

Mergers and acquisitions activity continued in the sector during the month. NextDC (the sole tenant of Asia Pacific Data Centre (AJD) announced an unconditional all-cash takeover offer to acquire all AJD securities that it does not already own at $1.87 per security. This followed 360 Capital’s (TPG) acquisition of a 19.8% stake in AJD on 2 May 2017, with a proposal to remove AJD’s responsible entity and replace it with a nominee of 360 Capital. Currently, TPG’s competing offer is $1.80 per security and is conditional on a three-week due diligence process.

Other major news included Arena REIT (ARF) raising $52m via a placement to acquire nine early childhood centres at an initial yield of 6.25%.

SECTOR VALUATION

At the end of July, the sector was trading at a 18.0% premium to NTA. The FY17 DPS yield of 5.2% represents a 350 basis point spread to 90 day bank bills and a 261 point spread to 10 year bonds.

KEY STATISTICS
as at 31 July 2017

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
Asgard
BT Wrap
Hub24
Macquarie Wrap Solutions
Netwealth
Powerwrap
Symetry

TOP 5 ACTIVE OVERWEIGHTS
(by Portfolio Weight)
Rural Funds
Folkestone Education Trust
Carindale Property Trust
Centuria Metropolitan REIT
Industria REIT

Folkestone Maxim A-REIT Securities Fund	July 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	+0.49	-2.61	-8.16	+8.59	+8.87	+8.360	-0.50	+0.83
Income Return	+0.00	+0.69	+4.30	+4.87	+6.21	+5.370	+2.52	+3.69
Total Return (After Fees but Before Tax)**	+0.49	-1.92	-3.86	+13.46	+15.08	+13.73	+2.03	+4.52
S&P/ASX 300 A-REIT Accumulation Index	-0.20	-5.61	-10.59	+10.36	+12.98	+12.34	+0.38	+3.07
Value Add	**+0.69**	**+3.69**	**+6.72**	**+3.10**	**+2.10**	**+1.39**	**+1.65**	**+1.45**

*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

As expected, the Reserve Bank of Australia (RBA) left the cash rate unchanged at 1.5% in July. Headline CPI for Q2 remains weak at +1.9% year-on-year, which continues to be below the RBA's 2-3% target. The economic landscape still reflects low wage growth and a relatively weak retail environment.

Going into reporting season, the market continues to focus on retail A-REITs with weak earnings sentiment, due to increased competition from on-line retailing and foreign retailers, increased utility costs and a rise in the number of retailers going into administration. The question is, have these risks been fully priced in, as some of the retail REITs such as Vicinity Centres are currently trading at a 2.4% discount to NTAs.

With continued strong transactional evidence (GPT Wholesale Shopping Centre Fund acquired 25% of Highpoint on a 4.2% yield), we believe this will support further cap rate compression in the sector, enhancing the underlying A-REIT NTAs.

FUND PERFORMANCE

Over the month, the Fund returned +0.49% (after fees, before tax) outperforming the Benchmark by +0.69%. Over the 12 month period ended 31 July 2017, the Fund returned -3.86% (after fees, before tax), substantially outperforming the Benchmark return of -10.59% by +6.72%.

In July, positive contributions to returns came from the Fund's overweight exposure to Rural Funds Group (RFF +8.13%) and Asia Pacific Data Centre (AJD +7.12%) as well as a zero holding in Stockland Group (SGP -4.11%).

Detracting from performance was the Fund's overweight exposure to Folkestone Education Trust (FET -8.96%) and Centuria Metropolitan Fund (CMA -3.66%)

At the end of July, the Fund's investments comprised 16 ASX listed securities totalling 97.9% 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 2.0% of the portfolio was held in cash/liquid investments.

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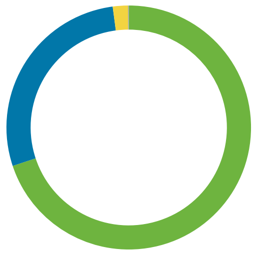
ASSET ALLOCATION

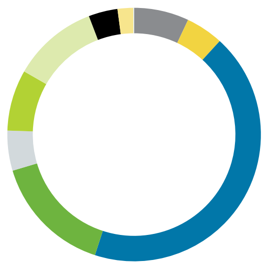
As at 31 July 2017



- S&P/ASX 300 A-REIT - 69.9%
- Ex S&P/ASX 300 A-REIT - 28.0%
- Cash - 2.0%
- Unlisted - 0.1%

SECTOR SPLIT

As at 31 July 2017



- Social Infrastructure - 7.0%
- Industrial - 4.8%
- Retail - 43.2%
- Diversified - 15.4%
- Office - 5.1%
- Developers & Managers - 7.8%
- Specialised - 10.9%
- Other - 3.7%
- Cash - 2.0%
- Unlisted - 0.1%

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