



## FOLKESTONE MAXIM A-REIT SECURITIES FUND

### MAY 2017 REPORT

#### MARKET REVIEW

Most global equity markets posted gains during the month, led by the S&P500 Index which climbed to record highs in May on the back of evidence of an improved US economy and its Federal Reserve's tightening policy.

The Australian equity market however underperformed due to the large sell-off in bank stocks as talk of a housing cycle correction escalated, the Federal Government's announcement of a levy on the major banks in the May Budget, and further speculation around the imminent arrival of Amazon. As a result, the ASX200 Banks Index fell 9.8% and the Discretionary Retail sector fell 8.9% during the month.

The S&P/ASX 300 A-REIT Accumulation Index returned -1.0% in May, outperforming the S&P/ASX 300 Accumulation Index, which returned -2.7%. However, the A-REITs are still lagging the equities market by 8.5% on a rolling 12 month basis.

The Industrial A-REIT sub-sector posted the highest return for the month of +4.8% driven by Goodman Group (GMG +4.8%), followed by the Healthcare sub-sector at +2.5%, Office at +1.0%, Diversified at -0.7%, Specialised at -1.2% and Retail at -3.2%.

The stark performance differential between the Industrial and Retail A-REIT sectors reflects in part, the markets view that online retailing and Amazon's entry will continue to drive demand for distribution space, while the retail A-REITs were impacted by concerns about the deteriorating retail trading environment.

#### ACTIVITY

During the month of May, a total of \$564m of capital was raised. Charter Hall Group (CHC) raised \$275m to co-invest in eight of its existing Funds, Aventus Retail Fund (AVN) raised \$215m to acquire two large format retail assets in Sydney and Ingenia Group (INA) raised \$74m to acquire five lifestyle communities.

The vote for Investa Office Fund (IOF) to acquire a 50% interest in the Investa management platform failed, leaving Cromwell Property (CMW) now needing to clarify the status of its potential all cash offer to acquire all the units in IOF.

#### SECTOR VALUATION

At the end of May, the sector was trading at a 24.5% premium to NTA. The FY17 DPS yield of 4.9% represents a 317 basis point spread to 90 day bank bills and 250 point spread to 10 year bonds.

#### KEY STATISTICS

as at 31 May 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)

Rural Funds  
Eureka Group Holdings  
APN Property Group  
Folkestone Education Trust  
Industria REIT

Folkestone Maxim A-REIT Securities Fund	May 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	-0.58	+1.19	+1.38	+11.78	+10.29	+8.65	-1.47	+0.99
Income Return	+0.00	+1.10	+5.10	+4.84	+6.84	+5.27	+2.88	+3.71
Total Return (After Fees but Before Tax)**	-0.58	+2.29	+6.48	+16.62	+17.13	+13.93	+1.41	+4.70
S&P/ASX 300 A-REIT Accumulation Index	-1.00	+2.25	+2.30	+15.21	+16.29	+13.12	-0.11	+3.54
<b>Value Add</b>	<b>+0.42</b>	<b>+0.04</b>	<b>+4.18</b>	<b>+1.41</b>	<b>+0.84</b>	<b>+0.81</b>	<b>+1.52</b>	<b>+1.16</b>

\*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 May, as expected, the Reserve Bank of Australia (RBA) left the cash rate unchanged at 1.5%. Key economic data released during the month again highlighted a mixed outlook with business confidence up, consumer confidence lower and a weaker retail environment. Retail sales in March fell a worse-than-expected 0.1% m/m (consensus: +0.3%) bringing the y/y rate to 2.1%, the slowest in almost four years. Residential building approvals for March also fell 10.3% as APRA continues to curb demand from investors. Some market commentators are now toying with a potential rate cut from the Reserve Bank if the weakness in the economy continues.

The A-REIT sector continues to benefit from the continued flow of foreign money chasing premium assets. This has led to further cap rate compression boosting their NTA's. Also, some A-REIT managers are selling down non-core assets to reposition their portfolios and de-leverage their balance sheet.

## FUND PERFORMANCE

Over the month, the Fund returned -0.58% (after fees, before tax) outperforming the Benchmark return of -1.00%. Over the 12 month period ended 31 May 2017, the Fund returned +6.48% (after fees, before tax), substantially outperforming the Benchmark return of +2.30% by +4.18%.

In May, positive contributions to returns came from the Fund's overweight exposure to Eureka Group Holdings (EGH +5.3%) and Asia Pacific Data Centre (AJD +4.1%) and a zero holding in Stockland Group (SGP -2.7%).

Detracting from performance was the Fund's overweight exposure to Folkestone Education Trust (FET -4.5%) and Rural Funds Group (RFF -3.5%).

At the end of May, the Fund's investments comprised 16 ASX listed securities totaling 91.3% of the portfolio, 10 of which were constituents of the S&P/ASX 300 A-REIT Index, with the remaining 6 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 8.6% of the portfolio was held in cash/liquid investments.



### CONTACT US:

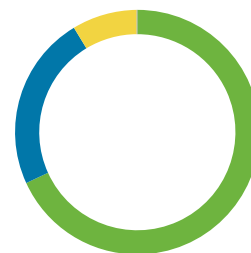
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## ASSET ALLOCATION

As at 31 May 2017



- S&P/ASX 300 A-REIT - 68.2%
- Ex S&P/ASX 300 A-REIT - 23.1%
- Cash - 8.6%
- Unlisted - 0.1%

## SECTOR SPLIT

As at 31 May 2017



- Social Infrastructure - 4.8%
- Industrial - 4.4%
- Retail - 39.2%
- Diversified - 15.9%
- Office - 3.9%
- Developers & Managers - 10.9%
- Specialised - 8.2%
- Other - 4.0%
- Cash - 8.6%
- Unlisted - <0.1%

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