



FOLKESTONE MAXIM A-REIT SECURITIES FUND

OCTOBER 2016 REPORT

MARKET REVIEW

Over the month of October, the Australian yield curve steepened which saw the 10-year bond yield rise 43.8 basis points to 2.35%. This weighed on the equities market, and in particular, the defensive sectors such as Utilities, Health Care and A-REITs.

The Reserve Bank of Australia left the cash rate unchanged at 1.50% in October. In their statement, the Board indicated that with higher commodity prices, GDP growing at “a moderate rate” and mixed employment data, inflation would have to overshoot by a significant margin to warrant further easing in the short term.

The S&P/ASX 300 A-REIT Accumulation Index returned -7.7% in October underperforming the S&P/ASX 300, which returned -2.2%. This was the worst monthly result since October 2009. The pull back in return of the A-REIT sector in the past three months has all but eroded the 12 months rolling outperformance to now be approximately in line with equities at 6.4% for the year.

In October, performance varied across the main A-REIT sectors with the Office sub-sector posting the highest return, albeit negative, at -3.3% driven by Dexis Group (DXS -2.3%), followed

by Industrial at -6.7%, Diversified at -7.2% and Retail at -9.2%.

ACTIVITY

News flow over the month of October was focused on quarterly updates from some of the major A-REITs. A few key themes emerged including:

- (1) quarterly guidance confirming the A-REITs are on track to deliver on their earnings guidance for FY17;
- (2) residential activity levels remain strong with Stockland Group (SGP) reporting sales in the September quarter up 48% on pcp, whilst Mirvac Group (MGR) reporting 17% increase on pcp.
- (3) the retail outlook has moderated with supermarket sales under pressure and slowing specialty sales in the larger retail centres.

SECTOR VALUATION

At the end of October, the sector was trading at approximately a 31% premium to NTA and FY17 DPS yield of 5.1%. This represents a 278 basis points spread to 10-year bonds and a 337 basis points spread to 90-day bank bills.

KEY STATISTICS

as at 31 October 2016

Status	Open
Fund Maturity	Open Ended
Investments	Primarily A-REITs
Investment Horizon	3-5 years
Distribution	Quarterly
Frequency	
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 HOLDINGS (by Portfolio Weight)

Scentre Group
Westfield Group
Goodman Group
Stockland Group
GPT Group

Fund Performance to 31 October 2016

Folkestone Maxim A-REIT Securities Fund	October 2016 %	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	-5.99	-11.95	+6.01	+10.35	+11.69	+7.78	-1.16	+0.38
Income Return	+0.00	+1.52	+5.17	+5.19	+6.08	+5.06	+3.30	+3.78
Total Return (After Fees but Before Tax)**	-5.99	-10.43	+11.20	+15.54	+17.77	+12.84	+2.14	+4.16
S&P/ASX 300 A-REIT Accumulation Index	-7.70	-14.05	+6.39	+13.59	+16.81	+12.06	+0.75	+2.91
Value Add	+1.71	+3.62	+4.81	+1.95	+0.96	+0.78	+1.39	+1.25

*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 sales proceeds to either pay down debt or to fund higher yielding acquisitions or developments. Whilst the operational environment is mixed across the different sub-sectors, earnings certainty remain strong with the September quarter updates reiterating most A-REITs to be on track to deliver earnings guidance for FY17.

However, growing uncertainty regarding the Central Banks' next move on rates, concerns about Deutsche Bank which may have a flow on affect to the European financial sector and the upcoming US presidential election, will likely result in more market volatility in the short term.

FUND PERFORMANCE

In October, the Fund returned -5.99% (after fees, before tax) outperforming the Benchmark return of -7.70% by +1.71%. Over the 12 month period ended 31 October 2016, the Fund returned +11.20% (after fees, before tax), outperforming the Benchmark return of +6.39% by +4.81%.

In October, positive contributions to returns came from the Fund's zero investments in Vicinity Group (VCX -9.5%) and Iron Mountain (INM -12.0%) and an

underweight to Scentre Group (SCG -10.4%).

Detracting from performance were overweight exposures in Folkestone Education Trust (FET -5.0%) and Viva Energy REIT (VVR -5.8%).

At the end of October, the Fund's investments comprised 18 ASX listed securities totaling 97.8% of the portfolio, 12 of which were constituents of the S&P/ASX 300 A-REIT Index, with the remaining 6 non-index stocks. A 0.5% exposure is held in an unlisted fund, which we expect to exit in due course. The balance of 1.7% of the portfolio was held in cash/liquid investments.



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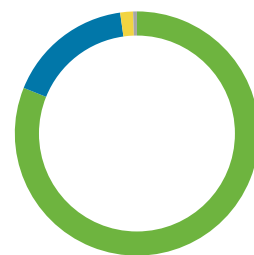
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ASSET ALLOCATION

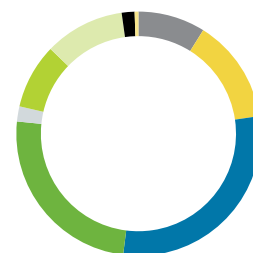
As at 31 October 2016



- S&P/ASX 300 A-REIT - 81.1%
- Ex S&P/ASX 300 A-REIT - 16.7%
- Cash - 1.7%
- Unlisted - 0.5%

SECTOR SPLIT

As at 31 October 2016



- Social Infrastructure - 8.9%
- Industrial - 13.8%
- Retail - 29.3%
- Diversified - 24.6%
- Office - 2.0%
- Developers & Managers - 8.6%
- Specialised REITs - 10.6%
- Cash - 1.7%
- Unlisted - 0.5%

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