Folkestone
MAXIM A-REIT SECURITIES FUND

FOLKESTONE MAXIM A-REIT SECURITIES FUND

SEPTEMBER 2014 REPORT

MARKET REVIEW

As a consequence of rising business investment and export growth, which was revised higher to 11.1%, USA GDP growth for 2nd Quarter 2014 was revised up by 0.6% to 4.6%. The FOMC reaffirmed its commitment to having a “considerable” lag between the end of QE and the first rate hike. However, a strengthening US economy led to increased speculation around the Fed raising rates in early 2015, which steered investors to general selling in yield stocks, to which Australia was not immune. Just after the S&P 500 Index reached a new closing high of 2011.0 halfway through September, the Index ended the month lower at 1,972 representing a fall of 1.6% over the month.

In Australia, the Reserve Bank of Australia (RBA) kept the cash rate on hold at 2.5% for its 12th consecutive meeting. With investors preparing for an October scheduled end to Quantitative Easing, the US Dollar had its strongest month in nearly 2 ½ years which saw the Aussie Dollar fall to end the month at US$0.872 as weak commodity prices and soft Chinese data added to the downward pressure. The Yield on 90 Day Bank Bills fell 1 basis point to 2.68% whilst 10 Year Bonds rose 19 basis points to end at 3.48% although earlier in the month bond yields were sold off before rallying later in the month.

The S&P/ASX 300 A-REIT Accumulation Index fell 5.1% for the month, slightly outperforming the broader equity market which fell 5.4%.

For the year ended 30 September 2014, the S&P/ASX 300 A-REIT Accumulation Index returned 12.3% compared to the broader market’s return of 5.9%. Over the year, the three best A-REITs in the Index were Arena REIT (ARF +36.0%), Astro Japan Property Group (AJA +34.8%) and Folkestone Education Trust (FET +33.3%) whilst the three worst were Ingenia Group (INA +0.7%), Mirvac Group (MGR +4.0%) and Cromwell (CMW +5.3%).

For the month, the gap between best to worst performing stock in the S&P/ASX 300 A-REIT Index was 24.6% with Arena REIT (ARF) returning +15.1%, whilst the worst performer was Charter Hall Group (CHC) returning -9.5%.

Over the 12 month period ended 30 September 2014, the Commercial A-REITs as a group returned 16.4%, followed by the Retail A-REITs returning 12.4% whilst the Industrial and Diversified A-REITs returned 10.4% and 10.7% respectively.

KEY STATISTICS
as at 30 September 2014

Status	*Open*
Fund Maturity	*Open Ended*
Investments	*Primarily A-REITS*
Investment Horizon	*3-5 years*
Distribution	*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

Macquarie Wrap Solutions
Netwealth
Powerwrap
Symetry

Favourable SQM research

MORNINGSTAR ★★★★

Fund Performance to 30 September 2014

Folkestone Maxim A-REIT Securities Fund	Sep 2014 %	6 Months %	1 Year % p.a.	3 Years % p.a.	5 Years % p.a.	7 Years % p.a.	Since Inception % p.a.*
Growth Return	-4.98	8.35	8.85	12.74	4.36	-6.52	-3.47
Income Return	1.51	3.30	5.70	6.62	5.24	2.45	4.95
Total Return (After Fees but Before Tax)**	-3.48	11.65	14.28	19.36	9.60	-4.07	1.48
S&P/ASX 300 A-REIT Accumulation Index	-5.14	10.55	12.28	18.98	8.55	-5.45	0.27
Value Add	**1.66**	**1.10**	**2.00**	**0.38**	**1.05**	**1.38**	**1.21**

*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.

ACTIVITY

In Melbourne GPT Group (GPT) recorded Melbourne's largest office sale on record, by buying the CBW office complex development from Cbus Property for $608.1m, representing a yield of 6.5%. The CBW complex comprises two office buildings and a retail component and is situated at the corner of Bourke and Williams Street. GPT, together with the GPT Wholesale Office Fund will each have a 50% interest in a 26 level A-Grade tower, a 19 level A-Grade tower and a retail component.

The AMP's Wholesale Office Fund acquired NAB's recently completed headquarters in Docklands, a 14 storey A-grade office building comprising 63,000sqm of NLA, a child care centre, auditorium and a two level podium car park, for $433.5m from Cbus Property. This asset was sold with a WALE of 13.6 years and an initial yield of 5.75% with 4% fixed annual rental increases.

Charter Hall's Core Plus Industrial Fund (CPIF) acquired a 46,000 sqm industrial facility at 32-58 William Angliss Drive, Laverton North from Goodman Group's Wholesale Property Fund for $43.5m. The sale reflects a passing yield of 8.0% with a WALE of 3.7 years and is leased to four different tenants.

In Brisbane, EG Funds Management purchased North West Plaza Shopping Centre for $41.2m fully leased with a WALE of 9.0 years reflecting a yield of 7.6%, whilst elsewhere in Queensland, Fort Street Real Estate Capital acquired Northpoint Shopping Centre, North Toowoomba for $36.5m. The centre was acquired by Fort Street Real Estate Capital for its Australian Property Opportunities Fund No2 for $36.5m. The centre is anchored by a Coles supermarket with an additional 6,686sqm of NLA which includes a medical centre and 24 specialty stores and represents a fully leased yield of 7.7%. A number of other neighbourhood retail centres have also recently been sold which include Jimboomba Shopping Centre purchased by Sentinel Property Group for $20m, Hilltop Shopping Centre, North Lakes purchased for $15.2m by a private investor and Village Travel Centre, Chinchilla purchased for $10.1m.

In Sydney, Arena Office Fund exchanged a conditional contract to sell 85 Harrington Street for $50m to an undisclosed investor. The office and retail asset was 98.7% occupied with a 2.5 year WALE as at 30 June 2014. It is anticipated to be redeveloped by the new owner.

In Perth, the New Zealand listed medical property investor, Vital Healthcare bought a 31 bed hospital in Subiaco from the Catholic Diocese of Bunbury for $13.5m with a view to undertaking a $10.8m expansion/redevelopment project. The purchase reflected an initial yield of 8.5%.

CAPITAL MARKETS

There was little activity in the A-REIT equity capital markets during September, except for Ingenia Group (INA) raising $89.1m through an institutional placement and a 1 for 7 entitlement offer to existing investors at a price of $0.45c per share. Proceeds from the capital raising were earmarked for an acquisition of 3 Lifestyle Parks as well as providing a bank for further acquisitions. On the share buyback front, Astro Japan property Group (AJA) announced an on-market buyback of up to 5% of outstanding shares.

For the September quarter, equity raised totaled $197m and was concentrated in the small caps. In addition to the INA raising, National Storage (NSR) raised $46m and 360 Capital Industrial Fund (TIX) raised $61m.

Post the Westfield restructure, both Scentre Group (SCG) and Westfield Corporation (WFD) have issued debt in the Euro and US medium term note (MTN) markets. In July, Scentre issued its A$3.045bn Euro senior guaranteed MTN notes to partially repay its A$5bn bridge facility, whilst early in September, Westfield entered the US debt markets issuing US$3.5bn senior fixed guaranteed notes ranging from 3-30 years, with the proceeds primarily being used to also pay down its bridge facility.

Australian Industrial REIT (ANI) and Growthpoint Properties Australia (GOZ) were admitted into the S&P/ASX 300 A-REIT Index, whilst Aspen Group (APZ) was removed from the Index in September.

SECTOR VALUATION

At the end of September, the A-REIT sector was offering a FY15 estimated distribution yield of 5.7%, representing a 300 basis points premium to Cash and a 220 basis points premium to 10 Year bonds. Sector look through gearing has remained around the 30% level.

The REIT sector is now trading at, or above, NTA for large cap REITs and slightly below NTA for smaller REITs. However price to NTA varies widely and is dependent on a number of factors such as earnings growth, market capitlisation and for smaller REITs in particular, leverage. Notwithstanding, in relation to REIT pricing, investors seem to be focused more on yield than NTA.

We continue to be of the view that focused small-cap A-REITs are well positioned to outperform. In spite of the recent pullback, entities exposed to real estate social infrastructure assets and /or undertaking value-enhancing acquisitions are expected to hold-up in the main.

FUND PERFORMANCE

The Fund returned -3.48% (on an After Fee but Before Tax basis) in September, out-performing the Fund's Benchmark (S&P/ASX 300 A-REIT Accumulation Index) which returned -5.14%. In the year ended 30 September 2014, the Fund returned +14.28% outperforming the Benchmark return of +12.28% by 2.00%. Over the 5 year period ended 30 September 2014, the Fund has returned +9.60% p.a. outperforming its Benchmark by 1.05%, whilst, since inception (15 October 2005), the Fund has outperformed its Benchmark by 1.21%.

During the month of September, positive contributions to returns came from Fund's zero exposures to Dexus Property Group (DXS), Mirvac Group (MGR) and CFS Retail Trust (CFX) which fell 7.9%, 6.3% and 7.2% respectively over September. Detracting from returns included the Fund's exposures to Villa World (VLW -10.1%) Goodman Group (GMG -7.4%) and Scentre Group (SCG - 4.8%).

A September Quarter distribution of 1.0020 cents per Unit was paid taking the total distributions for the 12 months ended 30 September 2014 for the Folkestone Maxim A-REIT Securities Fund to 3.3305 cents.

At September month end, the Fund's investments comprised 13 ASX listed securities totaling 98.4% of the portfolio. Of the 13 securities held, 9 were constituents of the S&P/ASX 300 A-REIT Index with the remaining 4 being Ex Index securities. Exposure to unlisted property was 0.1% with the remaining 1.5% of the portfolio held in Cash/Liquid investments.

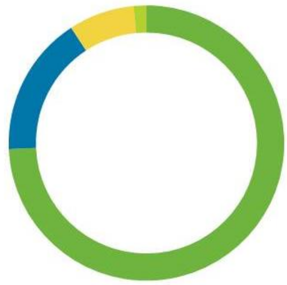
OUTLOOK

Looking ahead, in the residential sector, the strong performance is likely to taper off, although we expect housing activity to remain buoyant. Housing loan levels, particularly from investors (see Chart 1) have grown strongly, and it will be interesting to see how investors react to the strong signals being sent from the RBA and APRA in relation to potential intervention to curb investor activity.

With regards to the office markets, overall demand remains subdued however, investors continue to chase assets, pushing yields down.

ASSET ALLOCATION

As at 30 September 2014



- S&P/ASX 300 A-REIT - 74.3%
- Ex S&P/ASX 300 A-REIT - 16.5 %
- Developers & Managers - 7.7 %
- Cash - 1.5 %

SECTOR SPLIT

As at 30 September 2014

- Social Infrastructure - 12.0 %
- Industrial - 15.2 %
- Retail - 37.4 %
- Diversified - 21.3 %
- Office - 2.9 %
- Developers & Managers - 7.7 %
- Other - 2.0%
- Cash - 1.5 %

Chart 1: Housing Loan Approvals by State: 2007 - 2014

The Property Council's recent Office Market Report revealed that the Australian CBD vacancy rate increased from 10.4% in January to 10.7% in July 2014. However, vacancies in Sydney and Melbourne fell in part by a small pick-up in demand and some withdrawals of older style stock for refurbishment and/or development. Vacancy rates in the resources states, Western Australia and Queensland, have risen as those states transition from the mining investment boom which suggests there are challenges ahead for these office markets as demand dries up.

Enquiry levels are expected to pick up in Sydney and Melbourne but with elevated vacancies and high incentives, we expect the office market to remain challenging and underperform relative to retail, industrial and the real estate social infrastructure sector in the next 12 months.

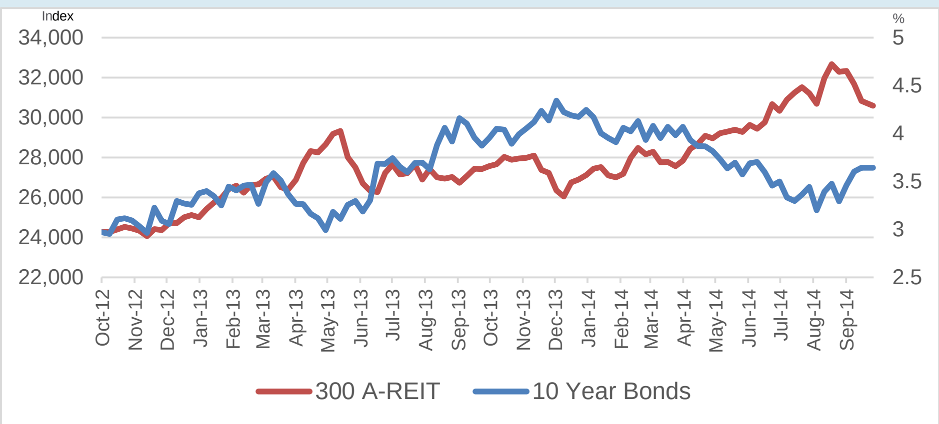
The improvement in retail spending environment over the last 12 months should continue albeit at a slow pace. Record low interest rates have continued to fuel growth in house prices strengthening household balance sheets and pushing up spending. A generally weaker Australian Dollar (AUD) should now help in trimming some of the spending leakages to offshore online shopping as well as outbound tourism. We expect demand for investment grade, well positioned retail assets, particularly regional and neighbourhood centres to continue to be strong from both international as well as domestic investors including syndicates, super funds, private investors and A-REITs seeking to acquire income producing assets. On the basis that the Australian economy is expected to improve, supported by housing and consumer spending, the transport and logistics sector of the industrial market is expected to offset the decrease in industrial demand for manufacturing.

Given we expect the demand for affordable residential housing to continue be a feature over the remainder of 2014 and into 2015, we have a preference for stocks with exposure to the residential sector and these include Stockland Group, Cedar Woods and Ingenia. Having regard to the benign outlook for the office market we remain underweight this property asset class.

Our exposure to the industrial sector is by way of Goodman Group who are expected to do well in the domestic market due to the continued demand for inner city industrial assets suitable for conversion to high density residential developments as well as Goodman's international exposures and funds management operations which we expect to continue to grow.

We maintain our positive outlook for the social infrastructure sector, which includes the ownership of child care assets by maintaining exposures to Folkestone Education Trust and the Folkestone Social Infrastructure Trust.

Chart 2: A-REIT Returns vs 10 Year Bond Yields: 2 Years to September 2014



CONTACT US:

Winston Sammut
Managing Director
Folkestone Maxim Asset Management
e: wsammut@folkestone.com.au
t: + 671 2 8667 2825

Adrian Harrington
Head of Funds Management
Folkestone Limited
e: aharrington@folkestone.com.au
t: + 61 2 8667 2882

Lula Liossi
Investor Relations Manager, Funds
Folkestone Limited
e: lliossi@folkestone.com.au
t: + 61 3 8601 2886

www.folkestone.com.au

TOP 5 HOLDINGS
(BY PORTFOLIO WEIGHT)

Scentre Group
Stockland Group
Goodman Group
Westfield Corp
Folkestone Social Infrastructure Trust

Folkestone Maxim Asset Management Ltd
ACN 104 512 978 AFSL 238349

e: office@folkestone.com.au
www.folkestone.com.au

Sydney Office
Level 10, 60 Carrington Street
Sydney NSW 2000

t: +61 2 8667 2800
f: +61 2 8667 2880

Melbourne Office
Level 12, 15 William Street
Melbourne Vic 3000

t: +61 3 8667 2092
f: +61 3 9200 2282

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