



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

<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>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

Macquarie Wrap Solutions
Netwealth
Powerwrap
Symetry



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 capitilisation 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 Dexu 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

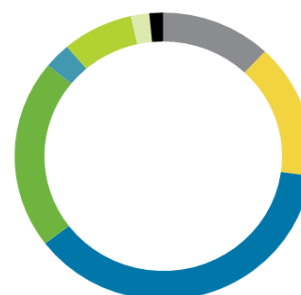
As at 30 September 2014



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

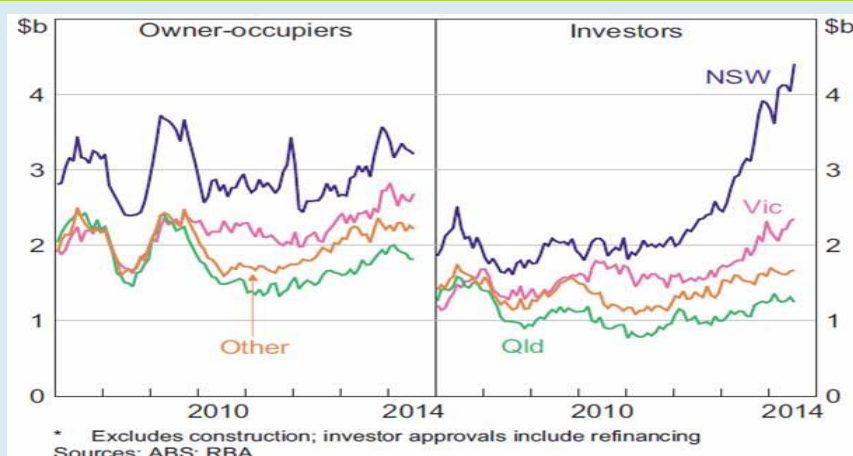
SECTOR SPLIT

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

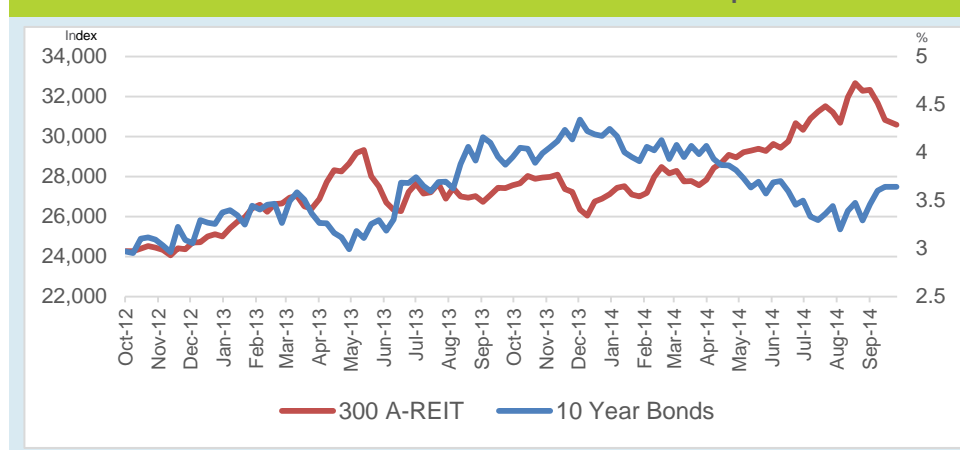
international as well as domestic investors including syndicates, super funds, private investors and A-REITs seeking to acquire income producing assets. On the basis that the Australian economy is expected to improve, supported by housing and consumer spending, the transport and logistics sector of the 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: llossi@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

Disclaimer: Investors should consider the product disclosure statement (PDS) issued by the Responsible Entity, One Managed Investment Funds Limited (ABN 47 117 400 987) (AFSL 297042) (OMIFL) before making any decision regarding the Folkestone Maxim A-REIT Securities Fund (Fund). The PDS contains important information about investing in the Fund and it is important investors read the PDS before making a decision about whether to acquire, continue to hold or dispose of units in the Fund. Folkestone Maxim Asset Management Limited (ABN 25 104 512 978) (AFSL 238349) is the investment manager of the Fund (Folkestone Maxim). Neither OMIFL nor Folkestone Maxim guarantees the repayment of capital or the performance of any product or any particular rate of return referred to in this document. Past performance is not a reliable indicator of future performance. While every care has been taken in the preparation of this document, Folkestone Maxim makes no representation or warranty as to the accuracy or completeness of any statement in it including without limitation, any forecasts. This fact sheet has been prepared for the purpose of providing general information only, without taking account of any particular investor's objectives, financial situation or needs. Investors should, before making any investment decisions, consider the appropriateness of the information in this fact sheet, and seek professional advice, having regard to their objectives, financial situation and needs. OMIFL has not been involved in the preparation of this monthly report and takes no responsibility for its content. Information in this fact sheet is current as at September 2014.

The SQM rating contained in this document is issued by SQM Research Pty Ltd ABN 93 122 592 036. SQM Research is an investment research firm that undertakes research on investment products exclusively for its wholesale clients, utilising a proprietary review and star rating system. The SQM Research star rating system is of a general nature and does not take into account the particular circumstances or needs of any specific person. The rating may be subject to change at any time. Only licensed financial advisers may use the SQM Research star rating system in determining whether an investment is appropriate to a person's particular circumstances or needs. You should read the PDS and consult a licensed financial adviser before making an investment decision in relation to this investment product. SQM Research receives a fee from Folkestone Maxim for the research and rating of the Fund.

*Morningstar Definition
 The Morningstar Rating is an assessment of a fund's past performance – based on both return and risk – which shows how similar investments compare with their competitors. A high rating alone is insufficient basis for an investment decision.*

*Morningstar Disclaimer
 © 2014 Morningstar, Inc. All rights reserved. Neither Morningstar, nor its affiliates nor their content providers guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution. To the extent that any of this information constitutes advice, it is general advice and has been prepared by Morningstar Australasia Pty Ltd ABN: 95 090 665 544, AFSL: 240892 and/or Morningstar Research Limited (subsidiaries of Morningstar, Inc.) without reference to your objectives, financial situation or needs. You should consider the advice in light of these matters and, if applicable, the relevant Product Disclosure Statement (in respect of Australian products) or Investment Statement (in respect of New Zealand products) before making any decision to invest. Neither Morningstar, nor Morningstar's subsidiaries, nor Morningstar's employees can provide you with personalised financial advice. To obtain advice tailored to your particular circumstances, please contact a professional financial adviser. Please refer to our Financial Services Guide (FSG) for more information www.morningstar.com.au/fsg.asp*

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



Folkestone
 MAXIM A-REIT SECURITIES FUND