Folkestone
MAXIM A-REIT SECURITIES FUND

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DECEMBER 2014 REPORT

MARKET REVIEW

Equity markets around the world reacted negatively to the oil price collapse to such an extent that, halfway through the month of December, there was a major sell-off before a rally into the end of the year. Market volatility is now back.

Australia was not immune, however, lower bond prices as well as a lower exchange rate saw the Australian equity market rally over the latter part of December adding 2.1% for the month compared to a fall of 2.0% in the MSCI World Index. Collapsing commodity prices and a weaker economic outlook forced the Federal Government to upwardly revise its forecasts for the Budget deficit whilst falling commodity prices and comments by the Reserve Bank (RBA) Governor Glenn Stevens that an AUD exchange rate of US75c "….is better than US85c" put additional pressure on the currency. At the end of December, the Aussie Dollar closed at its lowest monthly close (US81.98c) since June 2010 representing a 3.9% decline over the month.

The cash rate continued to be kept on hold at 2.5% by the RBA in December, although a growing number of forecasters were advocating the prospects of at least one, if not two, rate cuts taking place in the first half of 2015. The Yield on 90 Day Bank Bills rose 9 basis points to 2.77% whilst 10 Year Bonds rallied 29 basis points to also end at 2.77%.

In December, the S&P/ASX 300 A-REIT Accumulation Index rose 4.5%, outperforming the broader equity market's rise of 2.1%. For the year ended 31 December 2014, the S&P/ASX 300 A-REIT Accumulation Index returned 26.8% compared to the broader market's return of 5.6%.

The A-REIT sector was the best performing sector in Australia in 2014, no doubt assisted by a 150 basis points fall in the 10 year Bond rate over the course of the year. In addition, the A-REIT sector also outperformed all other major REIT markets bar two, Germany (+42.4%) and the USA (+30.4%).

During December 2014, the three best performing A-REITs in the S&P/ASX 300 A-REIT Index were BWP Trust (BWP +12.8%), Hotel Property Investments (HPI +10.7%) and Astro Japan Property Group (AJA +10.4%) whilst the three worst performers were Ingenia Group (INA -1.1%), GDI Property Group (GDI -0.3%) and Dexus Property Group (DXS +0.7%).

KEY STATISTICS
as at 31 December 2014

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

Macquarie Wrap Solutions
Netwealth
Powerwrap
Symetry
HUB24

TOP 5 HOLDINGS
(by Portfolio Weight)

Scentre Group
Westfield Corporation
Folkestone Social Infrastructure Trust
Goodman Group
GPT Group

Fund Performance to 31 December 2014

Folkestone Maxim A-REIT Securities Fund	Dec 2014 %	6 Months %	1 Year % p.a.	3 Years % p.a.	5 Years % p.a.	7 Years % p.a.	Since Inception % p.a.*
Growth	+2.74	+10.80	+20.68	+14.93	+6.80	-4.43	-2.44
Income Return	+0.82	+2.50	+5.32	+6.53	+5.44	+2.70	+4.88
Total Return (After Fees but Before Tax)**	+3.56	+13.30	+26.00	+21.46	+12.24	-1.73	+2.44
S&P/ASX 300 A-REIT Accumulation Index	+4.49	+12.69	+26.79	+21.78	+12.04	-2.06	+1.44
Value Add	**-0.93**	**+0.62**	**-0.79**	**-0.32**	**+0.20**	**+0.33**	**+1.00**

*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.

Despite the strong performance of the A-REIT sector in 2014, the variance in individual A-REIT performance continued to be wide. The gap between the best performing and worst performing A-REIT was 677 basis points. Over the year, the best performing A-REITs the Astro Japan Property Group (AJA +54.8%), Arena REIT (ARF +43.0%) and Folkestone Education Trust (FET +39.7%). Ingenia (INA), which was the best performing A-REIT in 2013, was 2014's worst performing A-REIT (-12.9%) followed by GDI Property Group (GDI +4.6%) and Mirvac (MGR +11.2%).

Over the 12 month period ended 31 December 2014, the Retail A-REITs as a group returned 32.0%, followed by the Industrial A-REITs which returned 25.0% whilst the Diversified and Commercial A-REITs returned 21.9% and 19.6% respectively.

ACTIVITY

Transactions in the physical markets in 2014 were dominated by office (51%) followed by retail (20%), with the main buyers coming from offshore and domestic wholesale funds. The A-REIT's were net sellers during the year as the competition for assets intensified and most A-REITs maintained investment discipline and did not chase the market.

In December, ISPT purchased a 50% interest in the Riverside Quay development at 2 Riverside Quay in the Southbank precinct of Melbourne for $106m from the Mirvac Group (MGR). The price paid for the half share in the 21,000sqm office project represented a capitalisation rate of 6.12%.

The 360 Capital Office Fund (TOF) acquired an 8,831sqm office building at 576 Swan Street, Richmond (in Melbourne) for $46.5m on an initial yield of 7.7%.

On the retail front, Federation Centres (FDC) acquired the Currambine Central Mall (to the North of Perth WA) from White and Partners for $74m.

EQUITY CAPITAL MARKETS

Equity capital markets remained quiet in December with no new raisings taking place.

The 2014 year saw four new additions to the sector by way of IPOs namely 36 Capital Office Fund (TOF), Mantra Grou (MTR), GPT Metro Office Fund (GMF) an Centuria Metropolitan Fund (CMA), Th largest equity raising via secondar issuance was Charter Hall's $140n placement in Febrary 2014 with th remainder of the secondary issues drive by small cap A-REITs. Total equity deals i 2014 (primary as well as secondar issues) was just over $3.0bn.

DEBT CAPITAL MARKETS

A total of $4 billion of new REIT debt wa issued in 2014. In addition, nearly $9 billio was issued by Westfield Corporation an Scentre Group which effectively replace many of the existing Westfield Group an Westfield Retail debt facilities.

The A-REITs also continued to lengthen it maturity profile as capital market continued to open up, at the same tim reducing the average margin in 2014 t 124 basis points (down from 177 basi points in 2013 and 231 basis points i 2012).

MERGERS & ACQUISITIONS

The following mergers/acquisitions took place in 2014:

- Australand was acquired by Frasers Centrepoint Limited, a Singapore listed entity, for $2.6bn with an all cash offer of $4.48 per share;
- CFS Retail Property Trust (CFX) unitholders supported the internalisation of CFX and the acquisition of CBA's retail property asset management business and subsequently changed its name to Novon Property Group (NVN);
- Challenger Diversified Property Fund was acquired by Challenger following its offer to acquire 41% of units it did not already own;
- Dexus and the CPPIB completed the takeover of CPA.
- Westfield Group and Westfield Retail Trust were restructured into Westfield Corporation (WFD) and Scentre Group (SCG) effective 25 June 2014; and

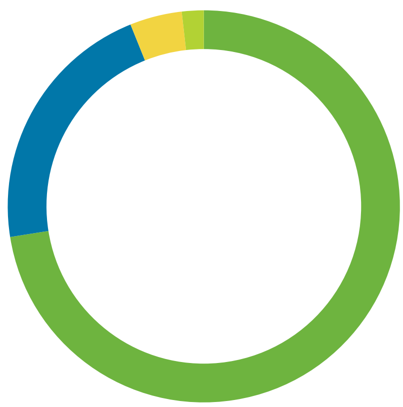
SECTOR SPLIT

As at 31 December 2014

- Social Infrastructure - 15.0 %
- Industrial - 11.7 %
- Retail - 39.3 %
- Diversified - 18.7 %
- Office - 6.5 %
- Developers & Managers - 4.3 %
- Other - 2.7 %
- Cash - 1.8%
- Unlisted - <0.1%

ASSET ALLOCATION

As at 31 December 2014



- S&P/ASX 300 A-REIT - 72.5 %
- Ex S&P/ASX 300 A-REIT - 21.4 %
- Real Estate Developers - 4.3 %
- Cash - 1.8 %
- Unlisted - <0.1%

Please note: Numbers in the graphs may not add up to 100 due to rounding.

- Folkestone Social Infrastructure Trust (FST) unitholders voted in December for the merger with the Folkestone Education Trust (FET), with the implementation effective in January 2015.

SECTOR VALUATION

As at the end of December, the A-REIT sector was trading at a 5.5% premium to fair value with a FY15 estimated distribution yield of 5.5% (Ex WFD) which represents a 300 basis points premium to Cash and a 270 basis points premium to 10 Year bonds. Sector look through gearing has edged up marginally to 32%.

PERFORMANCE REPORT

The Fund returned +3.55% (on an After Fee but Before Tax basis) in December, under-performing the Fund's Benchmark (the S&P/ASX 300 A-REIT Index) which returned +4.49%.

For the year ended 31 December 2014, the Fund returned +26.00% whilst its Benchmark returned +26.79%. Over the 5 year period ended 31 December 2014, the Fund has returned +12.24% p.a. outperforming its Benchmark (S&P/ASX 300 A-REIT Accumulation Index) by 0.20%, whilst, since inception (15 October 2005), the Fund has outperformed its Benchmark by 1.00% p.a.

During the month of December, positive contributions to returns came for the Fund's exposures to Folkestone Social Infrastructure Trust (FST), Australian Industrial REIT (ANI) and GPT Metropolitan Office Fund (GMF) which rose 3.2%, 7.6% and 3.1% respectively. Detracting from returns were investments in Cedar Woods (CWP) which fell 10.3% as well as nil holdings in Federation Centres and the Mirvac Group as they rose 4.3% and 6.7% respectively.

A December Quarter distribution of 0.548277 cents per Unit was paid to investors early in January, taking total distributions for the 12 months ended 31 December 2014 to 3.0419 cents.

At the end of December, the Fund's investments comprised 15 ASX listed securities totaling 98.2% of the portfolio. Of the 15 securities held, 10 were constituents of the S&P/ASX 300 A-REIT Index with the remaining 5 being Ex Index securities. The remaining 1.8% of the portfolio was held in Cash/Liquid investments.

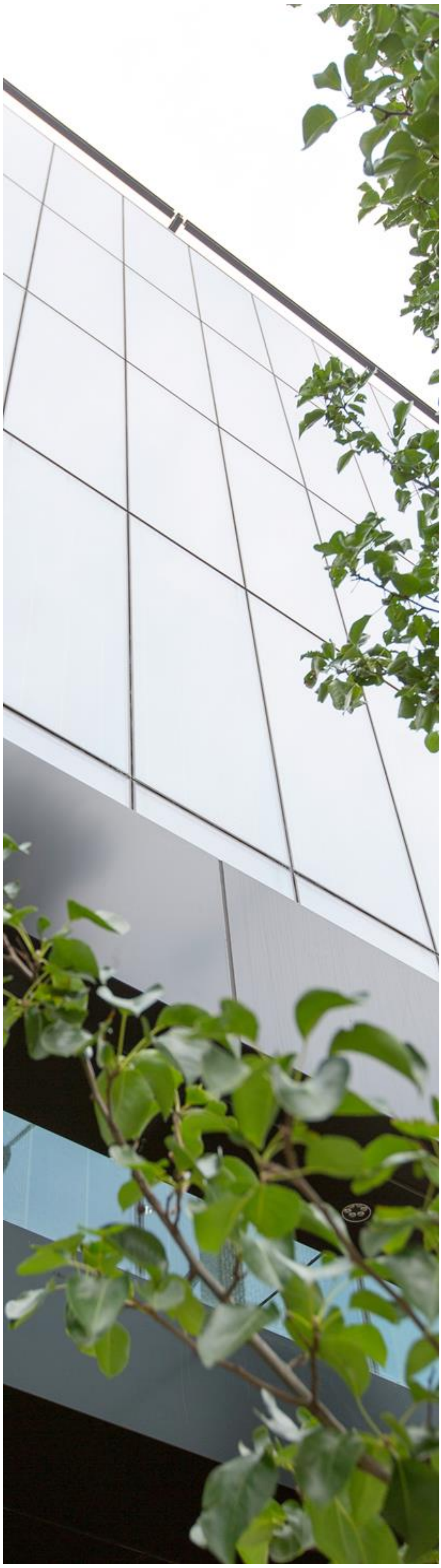
OUTLOOK

Property markets remain difficult as leasing conditions in both the commercial and retail markets continue to be tough.

In the commercial markets, we expect net effective rental growth to remain subdued in 2015 and likely to be negative in both the Brisbane and Perth markets. Rising supply and modest white collar employment growth will curb growth. Our portfolio exposure to the office A-REITs currently sits with Investa Office (IOF) and the recently listed GPT Metro Office Fund (GMF). The IOF exposure is predicated by the prospects of potential corporate activity that is expected to be by way of internalisation or be the subject of a merger/acquisition target. GMF is a recent listing in which we did not participate but have been accumulating since listing at a discount to the initial issue price of $2.00, generating an attractive yield just under 8%.

As expected, retail spending has been subdued, notwithstanding Australia's low interest environment. The prospect of further interest rate cuts early in 2015 has risen whilst the dramatic fall in fuel prices should put more dollars into consumer's pockets. This hopefully should flow through to increased consumer spending over the course of 2015. Whilst retail rental growth is expected to improve over time, our exposures in the sector is limited to three stocks, Westfield Corporation (WFD) for its international exposure (primarily in the USA) which will benefit from the falling Australian dollar, Scentre Group (SCG) the owner of most of the largest and best shopping centres in Australia and Carindale Property Trust (CDP), whose sole investment is a 50% interest in Westfield Carindale, one of Brisbane's largest regional shopping centres currently generating annual sales of $700m and is trading at a discount to its NTA.

Australia's residential market has picked up over the course of 2014 and this trend is expected to continue in 2015. Of particular note has been the increasing demand for affordable housing which is a



positive for those entities with exposure to this segment of the market such as Stockland Group (SGP). We are not attracted to an investment in the Mirvac Group (MGR) given its reliance on the investor market for its residential apartment product.

In the industrial property sub-sector, residential developers have been acquiring parcels of industrial land that are, or can be, easily rezoned to residential. These assets, particularly located in inner suburbs, are evolving from blue collar industrial precincts to mixed use precincts accompanied higher density residential developments. Our exposures include Goodman Group (GMG) not only as it is benefiting from this inner city gentrification by selling to the residential developers but also for its growth prospects in offshore markets such as Asia and more recently, the USA. An exposure to the Australian Industrial REIT (ANI) is also held.

We continue to have a positive outlook for the social infrastructure sector which includes the ownership of child care centres. Exposure in the past has been principally through holdings in both the Folkestone Education Trust (FET) as well as the Folkestone Social Infrastructure Trust (FST). Effective 6 January a merger of the two entities will result in one combined larger vehicle, FET.

The December half yearly distributions are typically paid in February, and we expect a large proportion of these funds will be re-invested back into in the sector.

A-REIT results for the half year and, for some A-REITs, the full year ending 31 December 2014, will be released over the month of February 2015. At that time we anticipate NTA growth from revaluations of underlying assets given the continued firming of property yields.

The weak outlook for commodity prices, a domestic economy growing below trend, speculation that the RBA may cut rates and on-going volatility in the broader equity market will see investors looking for safe haven investments that can offer an attractive yield. Despite the strong performance of A-REITs in 2014, we expect A-REITs will continue to provide investors with an attractive alternative to general equities in the year head. The key downside risk to the sector is interest rates. With interest rates at or near historical lows, if investors begin to expect interest rates to rise, we would expect the A-REIT to come under pressure as investor's transition out of the sector.

We are of the view that the year ahead will be one for the stock pickers. How each of the A-REITs manage their portfolios to drive earnings in a low growth environment and implement their capital management strategies will be critical to their performance. We will continue to focus on A-REITs that maintain a strict acquisition discipline, that take advantage of the competition for assets by selling underperforming assets and avoid the temptation to leverage up while debt costs remain low.

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