Folkestone
MAXIM A-REIT SECURITIES FUND

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DECEMBER 2015 REPORT

MARKET REVIEW

Global equity markets were down for the first half of the month in the face of an expected rise in the Fed Funds rate. The U.S. Federal Reserve finally raised its Fed Funds target rate range by 25 basis points to 0.25-0.50% on the 16th December, ending a policy of near zero interest rates that had been in place since 2008. Also weighing on equities markets was turmoil in the junk bond market and a collapse in the oil price. The Energy sector was by far the worst performing global sector, as oil prices continued their collapse – now down from $105 a barrel in June 2014 to $37 a barrel in December.

The Australian equities market fell almost 5% in the first half of the month, dragged lower by global equities as well as collapsing commodity prices. However, the market rallied in the second half to finish the month up 2.7% in local currency terms to be one of the best performing markets during the month.

On the domestic economic front, data released in December revealed employment growth was again very strong, rising 71,000 in November (consensus – 10,000) – one of the largest rises on record.

The unemployment rate fell to 5.8% (consensus: 5.9%) and GDP for Q3 rose stronger than expected 0.9% q/q (consensus 0.7%).

The RBA held the cash rate in December at a record low rate of 2.0%. Most market commentators expect the RBA to remain on hold through to the end of 2016 following the recent better domestic data, and improving business/consumer confidence. However, the capex outlook remains ‘recessionary’, and the need to stimulate growth may still arise in 2016.

The S&P/ASX 300 A-REIT Accumulation Index returned 4.0% in December, outperforming the broader equity market, which returned 2.7%.

For the December Quarter, the S&P/ASX 300 A-REIT Accumulation Index returned 6.0% slightly underperforming the general market’s return of 6.5%.

Over the 12 month period ended 31 December 2015, the S&P/ASX 300 A-REIT Accumulation Index returned 14.4% significantly outperforming the broader market’s return of 2.6%, by 11.80% (Figure 1). This is the fourth time in the past five calendar years, the A-REIT sector has outperformed equities.

For the December Quarter, the Diversified A-REIT sector returned 10.5%, followed by Industrial at 9.2%, Commercial at 7.1% and Retail at 2.8%.

KEY STATISTICS
as at 31 December 2015

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)

Westfield Corporation
Goodman Group
Folkestone Education Trust
GPT Group
Scentre Group

Fund Performance to 31 December 2015

Folkestone Maxim A-REIT Securities Fund	Dec 2015 %	6 Months %	1 Year % p.a.	3 Years % p.a.	5 Years % p.a.	7 Years % p.a.	9 Years % p.a.	Since Inception % p.a.*
Growth Return	+2.576	+7.657	+12.297	+11.794	+9.829	+8.948	-2.817	-0.162
Income Return	+1.465	+2.356	+4.545	+5.15	+5.35	+5.67	+3.09	+3.92
Total Return (After Fees but Before Tax)**	+4.041	+10.013	+16.843	+16.948	+15.175	+14.618	+0.269	+3.754
S&P/ASX 300 A-REIT Accumulation Index	+4.045	+7.225	+14.376	+15.869	+15.252	+12.016	-1.088	+2.638
Value Add	**-0.004**	**+2.788**	**+2.466**	**+1.080**	**-0.076**	**+2.602**	**+1.356**	**+1.116**

*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.

The three best performing securities in the S&P/ASX 300 A-REIT Index in the December Quarter were Mirvac Group (MGR 17.8%), Folkestone Education Trust (FET 16.1%) and Ingenia Communities Group (INA 13.8%), whilst the three worst performing securities were Growthpoint Group (GOZ -0.3%), GDI Property Group (GDI -2.3%) and Westfield Corporation (WFD -4.6%).

For the month of December 2015, the three best performing A-REITs in the S&P/ASX 300 A-REIT Index were Generation Healthcare (GHC 15.5%), Ingenia Community Group (INA 10.0%) and Abacus Property Group (ABP 8.8%). The three worst performers were GDI Property Group (GDI 1.0%), Dexus Property Group (DXS 0.7%) and Westfield Corporation (WFD -0.9%).

The New Zealand sector was the best performing global REIT market for the December Quarter returning (8.2%), followed by Singapore (7.5%) and United States (7.4%). Australia was the third best performing REIT market in 2015 (14.4%) behind Continental Europe (18.8%) and New Zealand (15.6%) (Figure 2).

ACTIVITY

Non-residential real estate transaction levels were very healthy throughout 2015, with $28.4bn of sales, dominated by office (52%) and retail (32%). Thematically, the key takeaway in 2015 was the level of incoming foreign capital, accounting for 41% of all transactions.

Two key transactions included CIC's $2.5bn acquisition of the Investa office portfolio and Ascendas REIT's $1.1bn acquisition of the GIC industrial portfolio, resetting cap rates down 30-50bps across both sectors in 2H15.

A-REITs took advantage of the demand for assets by repositioning their portfolios, selling non-core assets and acquiring newer, higher quality assets. Acquisition volumes by the A-REITs were up slightly on 2014 levels at $2.6bn but down from the $4.7bn in 2013.

In December, GPT Group (GPT) announced the sale of Dandenong Plaza to Armada Funds Management for $197m, on a yield of 8.0%.

Cromwell Property Group (CMW) has agreed terms for the sale of a commercial office tower at 100 Waymouth Street, Adelaide for $73m. The sale price represents a premium of 17.6% over book value of $62.1m with a yield of 6.77%.

Vicinity announced their strategic review identifying $750m-$1bn of asset recycling opportunities, subject to market conditions. The proceeds will be redeployed into value-accretive development and acquisition opportunities.

EQUITY CAPITAL MARKETS

In 2015, six of the S&P/ASX 200 A-REITs raised $1.4bn of equity in secondary markets, up substantially from just $140m in 2014. A-REITs continued to struggle to compete with wholesale funds, sovereign weather and pension fund capital in acquiring assets. However, they took advantage of liquidity in the direct market to recycle assets, largely offsetting the need to raise money. A number of A-REITs also continued to use DRPs to assist their funding requirements.

DEBT CAPITAL MARKETS

The A-REIT sector announced $9.8bn of debt issuance in 2015, at a weighted average term of 5.7 years and margin of 130 basis points. This was dominated by the refinance of Federation/Novion (FDC/NVN) debt post-merger.

In December, GrowthPoint Properties (GOZ) entered into $250m of new debt capital market facilities for seven years at a weighted average, all-fixed interest rate of 4.46% per annum, with the proceeds being used to repay existing bank debt.

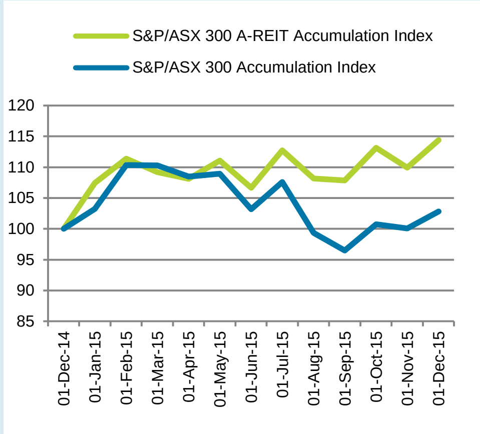
Vicinity Centres (VCX) also announced an additional $700m of 3-5 year facilities with offshore banks, priced at a margin of 100-125bp.

MERGERS & ACQUISITIONS

Sector consolidation continued in 2015. The merger of Federation (FDC) and Novion (NVN) in June created the second largest retail landlord in Australia. The agreement consisted of FDC acquiring NVN with a scrip-for-scrip bid at an implied price of $2.55, representing a 34% premium to NTA. The merged vehicle was subsequently renamed Vicinity Centres (VCX).

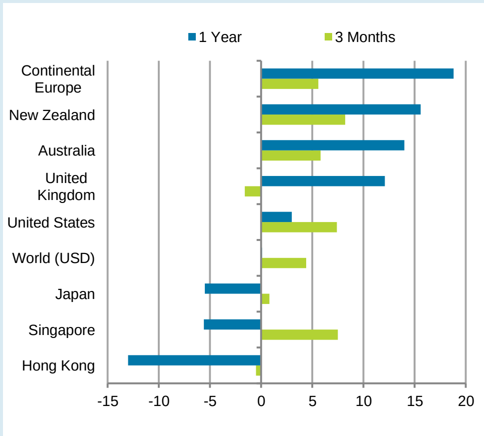
The long awaited outcome of Investa Office Fund's (IOF) strategic review ended with

Figure 1: A-REIT vs. Equity Performance –12 months



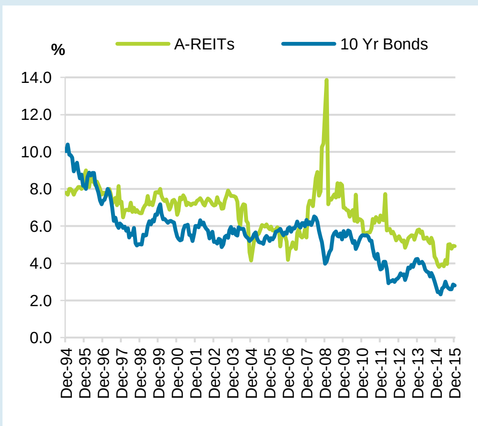
Source: IRESS

Figure 2: Global REIT Performance – To December 2015



Source: UBS, returns in local currencies

Figure 3: A-REIT Sector EPS and DPS Yields vs. 10 Year bonds Yields – 2000-2015



Source: JP Morgan

Dexus Property Group (DXS) announcing in December that it had entered into an implementation agreement with IOF to acquire all of IOF's units with a mixture of cash (20%) and scrip (80%) at an implied bid price of $4.10. A vote is expected to take place in early April.

SECTOR VALUATION

The A-REIT sector was trading at a FY16 estimated distribution yield of 5.0%, representing a 262 basis point premium to Cash and a 218 basis point premium to 10 Year Bonds (Figure 3).

The A-REIT Sector was trading at a premium to NTA of 30.4% compared to the long-term average of 10.9%, and a premium to NPV of 0.6%. Sector look-through gearing currently stands at a reasonable 31.0%.

PERFORMANCE REPORT

For the month of December, the Fund returned +4.04% (on an After Fee but Before Tax basis), matching the Fund's Benchmark of 4.04%.

Over the month a positive contribution to returns came from the Fund's overweight exposure to Folkestone Education Trust (FET 4.7%), APN Property Group (APD 5.0%) and Ingenia Communities Group (INA 10.0%). Detracting from returns was an underweight position in Investa Office Fund (IOF 6.2%), Scentre Group (SCG 4.7%) and a zero weighting to Vicinity Centres (VCX 6.5%).

Over the December Quarter, the Fund returned +9.00%, on an After Fee but Before Tax basis, outperforming its Benchmark (S&P/ASX 300 A-REIT Accumulation Index) by 2.98%.

Positive contributions to returns in the December Quarter came from the Fund's exposure to Folkestone Education Trust (FET 16.1%), APN Property Group (APD 25.4%) and Rural Funds (RFF 22.1%). Detracting from returns included our zero holdings in Vicinity Centres (VCX 5.4%), Dexus Group (DXS 8.1%) and an under-weight holding of Scentre Group (SCG 7.4%).

In the year ended 31 December 2015, the Fund returned +16.84%, (on an After Fee but Before Tax) outperforming its Benchmark by 2.47%.

Over the 5 year period ended 31 December 2015, the Fund returned +15.18% p.a. (on an After Fee but Before Tax Basis) marginally underperforming the Benchmark by 0.08%, whilst since inception (15 October 2005), the Fund outperformed its Benchmark by 1.12% p.a.

At the end of December 2015, the Fund's investments comprised 20 ASX listed securities totaling 97.0% of the portfolio. Of these, 14 securities were constituents of the S&P/ASX 300 A-REIT Index with the remaining 6 being Ex-Index securities. Unlisted securities comprised 0.6% of the portfolio whilst the remaining 2.4% was held in Cash/Liquid investments.

A December Quarter distribution of 1.098809 cents per Unit was paid to investors on the 13th January, taking total distributions for the year ended 31 December 2015 to 3.0854 cents per Unit.

OUTLOOK

The Federal Reserve relieved the financial community of the "will they…won't they" speculation, with the first hike since June 2006 to increase the Fed funds target range to 0.25%-0.50%. The FOMC stated that any further adjustments will be data dependent, with some market commentators expecting further hikes during 2016.

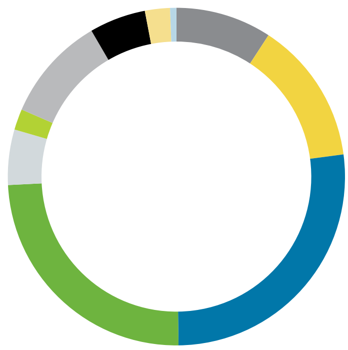
Turmoil in China's equity markets has continued into January, causing further nervousness across global equities markets. In response, Chinese authorities adopted early closing of the market and extended a ban on trading of certain stocks in an attempt to stabilize the market. Equity markets are expected to remain volatile in the year ahead, and investors will continue to look for safe havens to invest.

Economic forecasts point to continued below trend economic growth in Australia of circa 2.75% in 2016. In such an environment, monetary policy needs to be accommodative in order to stimulate investment and capital expenditure.

The Aussie dollar has remained stubbornly high due to better than expected economic data to end the month up (0.8%) against the greenback at $0.73. Further depreciation against the USA dollar is needed to stimulate exports particularly

SECTOR SPLIT

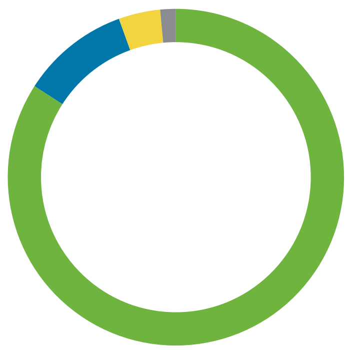
As at 31 December 2015



- Social Infrastructure A-REIT - 9.2%
- Industrial A-REIT - 13.7%
- Retail A-REIT - 26.9%
- Diversified A-REIT - 24.4%
- Office A-REIT - 5.3%
- Residential REIT - 2.0%
- Other A-REIT - 10.1%
- Real Estate Managers & Developers - 5.4%
- Cash - 2.4%
- Unlisted - 0.6%

ASSET ALLOCATION

As at 31 December 2015



- S&P/ASX 300 A-REIT - 70.5%
- Ex S&P/ASX 300 A-REIT - 26.5%
- Cash - 2.4%
- Unlisted - 0.6%

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

given the significant fall in key commodity prices.

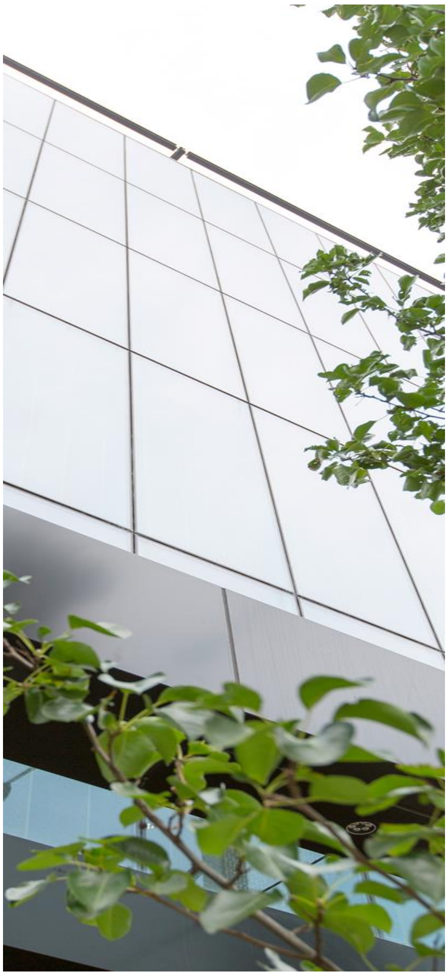
Despite continued low interest rates, we expect the housing market to slow in 2016, with housing approvals falling back to circa 180,000 from recent highs of 230,000. Tighter credit conditions and deteriorating affordability in Sydney, and to a lesser extent Melbourne, will take the heat out of the market in 2015.

Accommodative monetary conditions globally have generated a much larger pool of global liquidity looking for an attractive investment home. This will generate further demand for Australian non-residential assets and further cap rate compression circa (25bps), pushing cap rates to near cycle lows. This environment will continue to see many A-REITs taking the opportunity to reposition their portfolios by selling down non-core assets.

While in 2015 a key theme was the growth in capital values driving upgrades in NTA, the key theme in 2016 will be the ability of the A-REIT's to drive earnings. With a 5% dividend yield, and forecast earnings growth of around 4%, the A-REIT sector looks well positioned for another year of relative outperformance verses the equities market, albeit total returns should moderate to circa 10%.

We expect the A-REIT sector to better weather than the equity market concerns arising from the slowdown in China's economy and volatility in commodity prices, although short-term fluctuations in A-REIT pricing will continue to be a feature of the market in 2016.

With this in mind we favour those A-REITs with exposure to industrial and social infrastructure sectors, and those securities with quality management and relative attractive yields that have the ability to actively manage their portfolios to drive income growth in the year ahead. We believe yield will continue to remain relevant as a key investment attribute in the year ahead.



Superior SQM research

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Investment Grade Lonsec Research

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