Folkestone
MAXIM A-REIT SECURITIES FUND

FOLKESTONE MAXIM A-REIT SECURITIES FUND

MARCH 2015 REPORT

MARKET REVIEW

Over the March 2015 quarter, central bank policy support for Europe came by way of the ECB's announcement of a large quantitative easing program as they began a broad based bond purchasing plan, which kicked off early in March with the bank buying German and Italian bonds. Domestically, in February the RBA lowered the official cash rate by 25 basis points to 2.25% whilst in China, the People's Bank of China announced a number of policy adjustments which were aimed at stimulating Chinese growth, and which included a 25 basis points cut to benchmark interest rates. In the USA, the Federal Reserve seemed to delay the timing of interest rate rises when Fed Chair Janet Yellen warned against Fed action as a sign that rate rises were imminent stating that an April increase remained unlikely, providing support for the US financial markets.

In Australia, at its March board meeting, the Reserve Bank kept the cash rate on hold at 2.25% whilst financial markets factored in at least one further rate cut taking place later in 2015. The Yield on 90 Day Bank Bills fell 9 basis points to 2.22% whilst 10 year Bonds rallied 14 basis points ending the month at 2.32%.

The S&P/ASX 300 A-REIT Accumulation Index fell 2.0% in March, underperforming the broader equity market's fall of 0.1%.

Over the 12 month period ended 31 March 2015, the S&P/ASX 300 A-REIT Accumulation Index returned 34.4% compared to the broader market's return of 14.1%.

Over the March 2015 quarter, the Industrial A-REITs as a group performed best, returning 11.6%, followed by the Retail A-REITs which returned 9.3% with the Diversified A-REITs returning 9.1% followed by the Commercial A-REITs which returned 8.8%.

For the quarter ended 31 March 2015, the three best Index stocks were; Novion Property Group (NVN +18.4%), Mirvac Group (MGR +12.9%), and Charter Hall Group (CHC +12.8%), whilst the worst three performing stocks were; Ingenia Group (INA -8.7%), Astro Japan Property Group (AJA -1.6%), and Industria REIT (IDR 0.0%).

In March 2015, the three best performing A-REITs in the S&P/ASX 300 A-REIT Index were Hotel Property Investments (HPI +7.0%), National Storage (NSR +6.7%) and Novion Property Group (NVN +2.0%). The three worst performers were Charter Hall Retail (CQR -5.9%), Abacus Property Group (ABP -4.8%) and INGENIA Group (INA -4.8%).

The gap between the best and worst performing stock in the March quarter was 27.2% with the best being Novion Property

KEY STATISTICS
as at 31 March 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
Scentre Group
Stockland Group
Goodman Group
GPT Group

Fund Performance to 31 March 2015

Folkestone Maxim A-REIT Securities Fund	Mar 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	-1.61	+16.88	+27.26	+16.27	+8.93	-1.13	-2.18	-1.55
Income Return	+0.72	+1.72	+5.16	+6.09	+5.58	+3.24	+4.58	+4.81
Total Return (After Fees but Before Tax)**	-0.89	+18.60	+32.43	+22.36	+14.51	+2.11	+2.40	+3.25
S&P/ASX 300 A-REIT Accumulation Index	-1.96	+21.57	+34.39	+22.56	+14.41	+2.24	+1.46	+2.35
Value Add	**+1.07**	**-2.97**	**-1.96**	**-0.20**	**+0.10**	**-0.13**	**+0.94**	**+0.90**

*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.

Group (NVN +18.4%) whilst the worst was INGENIA Group (INA -8.7%).

ACTIVITY

Abacus Property Group and AM Alpha sold 309 George Street in the Sydney CBD for $112.3 million to a private investor from Hong Kong, on a passing yield sub 6.25%. The asset comprises 9,044m² of NLA (2,236m² retail and 6,808m² commercial). The building is located adjacent to Wynyard Station, where Brookfield will develop 10 Carrington Street, which includes 65,000m² of new office space, circa 9,000m² of new retail space and major upgrades to the station. The re-development of 333 George Street by Charter Hall, which is due to complete in 2016, will further benefit the precinct. Abacus acquired the asset in July 2011 via a JV arrangement with AM Alpha that was split on a 25%/75% ownership basis respectively.

Altis Property Partners have acquired 6 and 7 Eden Park Drive, Macquarie Park for $81.8 million from Investa Commercial Property Fund. The asset comprises two modern A-grade buildings totaling 18,131m² that were developed by Investa and completed in 2008. Each building consists of five office floors with ground floor retail. It is understood the asset was approximately 20% vacant with a 3 year WALE when contracts were exchanged in January, which provides releasing value-add opportunities for Altis. The transaction reflected a yield of approximately 8.0%.

Earmarked for a residential conversion in the Sydney CBD, 130 Elizabeth Street was acquired by Aoyuan Property Group and Ecove (JV) for $121 million. The 14-storey office building was purchased from Cbus Property with the intention for redevelopment into a 38-storey residential tower accommodating 138 apartments, 203m² of retail and a 91 bay basement carpark.

Preliminary construction has commenced on the WestConnex road project with Stage 1 proposed to be completed by 2017. The first stage is expected to commence construction in May 2015 and involves widening the existing M4 to four lanes, in each direction, for 7.5 kilometres between Parramatta and Homebush. Stage 1 is forecast to cost $500 million and is being part-funded by both State and Federal governments, as well as a new toll for motorists circa $3-$4 when completed. The WestConnex project is expected to cost $11.5 billion and scheduled in three stages over the next ten years. It brings together a number of important road projects which form a vital link in Sydney's Orbital Network.

Following a record level of transactional activity in 2014, an estimated $3.1 billion in Australian commercial property changed hands in the first quarter of 2015 - representing a relatively subdued start to the year. The value of the office assets changing hands in the first quarter held up more strongly than retail and industrial sales. Expectations are for increased activity over the remainder of 2015 in light of the strong interest from offshore buyers for Australian assets.

EQUITY CAPITAL MARKETS

In January, GPT Group raised $325 million of capital through a placement of new shares priced at $4.23 per share for the purpose of repurchasing Exchangeable Securities owned by GIC.

The only capital raising undertaken in March, was the Abacus Property Group for an amount of $12 million by way of a 1 for 12 entitlement offer at a price of $2.82 which represented a 4.7% discount to the then prevailing market price and providing a yield of 6.0%. Proceeds from this raising were used to reduce debt following Abacus' acquisition of the Oasis Shopping Centre situated on Queensland's Gold Coast.

DEBT CAPITAL MARKETS

In February, CMW settled €200 million of convertible bonds at 2% to acquire Valad Europe. There were no debt issuances in March in the A-REIT sector whilst over the previous 12 months, the average margin on issues that had taken place was around 120 basis points as the sector sought to lengthen its maturity profile.

MERGERS & ACQUISITIONS

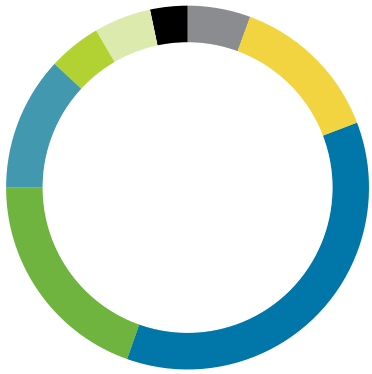
In January Cromwell Property (CMW) announced its acquisition of Valad Europe from Blackstone for $A208 million resulting in Valad Europe representing circa 10% of CMW's earnings.

In February, Morgan Stanley Real Estate announced its intention to sell the Investa property platform which oversees a property book totaling $9 billion including the ASX listed Investa Office Fund (IOF).

Federation Centres (FDC) and Novion Property (NVN) announced a merger in February (subject to ACCC approval) whereby FDC is to acquire NVN to create the third largest A-REIT in the sector with a market capitalisation of $11.5 billion.

SECTOR SPLIT

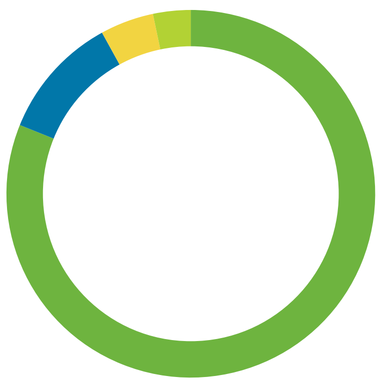
As at 31 March 2015



- Social Infrastructure - 5.6 %
- Industrial - 13.6%
- Retail - 36.2 %
- Diversified - 19.6%
- Office - 11.9 %
- Developers & Managers - 4.7 %
- Other - 5.1 %
- Cash - 3.3 %
- Unlisted - <0.1%

ASSET ALLOCATION

As at 31 March 2015



- S&P/ASX 300 A-REIT - 81.1 %
- Ex S&P/ASX 300 A-REIT - 10.9 %
- Real Estate Developers - 4.7 %
- Cash - 3.3 %
- Unlisted - <0.1%

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

360 Capital Industrial Fund's (TIX) tilt at acquiring Australian Industrial REIT (ANI) initially announced in December 2014, continued to be played out in the March quarter. TIX's initial offer was increased late in March to 0.9 units in TIX plus cash payments totaling 14.5 cents which are subject to certain conditions being met. The battle for control of ANI is expected to continue for some time as the hostile bid persists in being defended by the incumbent management.

SECTOR VALUATION

The A-REIT sector was trading at an 8.5% premium to Net Asset Value at the end of March, with a FY16 estimated distribution yield of 5.0% (Ex WFD) representing a 275 basis points premium to Cash and a 265 basis points premium to 10 Year Bonds whilst. Sector look through gearing has remained around the 32% level.

PERFORMANCE REPORT

On an After Fee but before Tax basis, over the March Quarter, the Fund returned +8.41%, underperforming the Benchmark return of 9.22%.

In March the Fund returned -0.89% (on an After Fee but Before Tax basis) out-performing the Fund's Benchmark (the S&P/ASX 300 A-REIT Accumulation Index) which returned -1.96%.

For the 12 month period ended 31 March 2015, the Fund returned +32.43% whilst its Benchmark returned +34.39%. Over the 5 year period ended 31 March 2015, the Fund has returned +14.51% p.a. which was marginally ahead of Benchmark (S&P/ASX 300 A-REIT Accumulation Index) by 0.10%, whilst, since inception (15 October 2005), the Fund has outperformed its Benchmark by 0.90% p.a.

For the March quarter, positive contributions to returns came from the Fund's exposures to Folkestone Education Trust (FET +12.2%), APN Property Group (APD +17.6%) and GPT Metropolitan Fund (GMF+10.2%. Detracting from returns were zero holdings in Novion Property Group (NVN +18.4%, Mirvac Group (MGR +12.9%) and Federation Centres (FDC +5.9%).

In March, positive contributions to returns came from the Fund's zero exposures to the Mirvac Group (MGR) and Charter Hall Retail (CQR) which fell 3.4% and 5.9% respectively whilst the Fund's exposure to Australian Industrial REIT (ANI) which rose 1.3%, also delivered a positive contribution. Detracting from returns were investments in Cedar Woods (CWP) which fell 8.3% as well as zero holdings in Novion Property Group (NVN) and Federation Centres (FDC) as both rose 2.0% over the month.

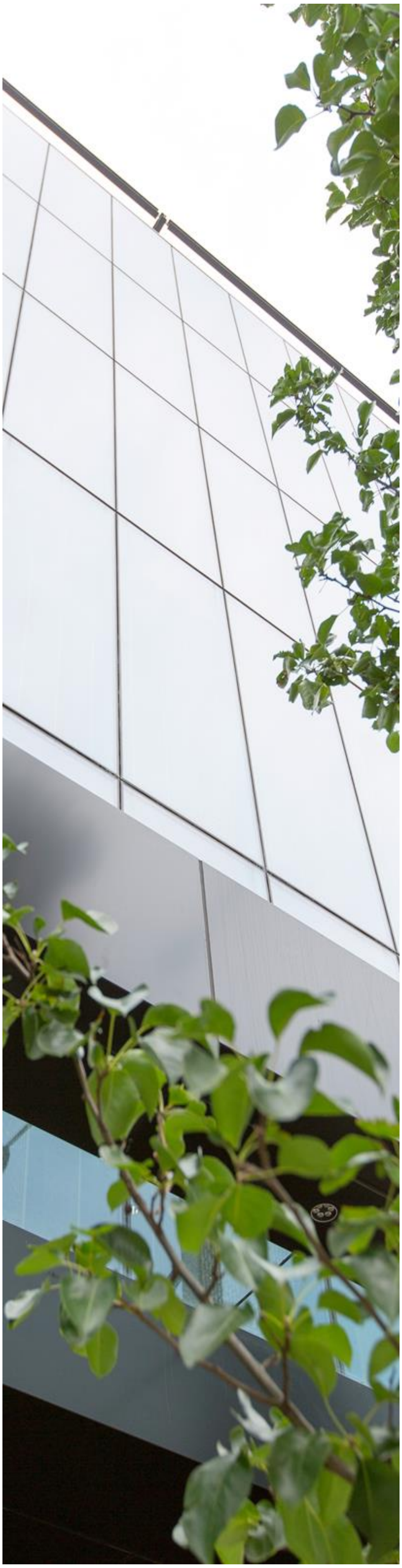
A March quarter distribution of 0.538387 cents per Unit is due to be paid to investors early in April, taking total distributions for the 12 months ended 31 March 2015 to 3.0133 cents per Unit.

The Fund's investments comprised 18 ASX listed securities totaling 96.7% of the portfolio at the end of March. 14 of the 18 securities held were constituents of the S&P/ASX 300 A-REIT Index with the remaining 4 being Ex Index securities. The remaining 3.3% of the portfolio was held in Cash/Liquid investments.

OUTLOOK

A combination of lower interest rates, a depreciating currency, a strengthening US economy and a modest improvement in Europe have started to benefit demand for commercial space. In spite of large headwinds facing the national economy, there have been a number of conditions in place, particularly in New South Wales, that have started to support growth. As a result, Sydney CBD net absorption in the six months to January 2015 measured 54,279m², equivalent to 1.2% of total stock, in the strongest result since the second half of 2010. The result was also the strongest in the country and, indicative of the mixed nature of the Australian economy. Apart from Sydney and to some extent Melbourne, elsewhere in Australia, property market leasing conditions have remained difficult as Sydney's CBD tenant demand has outperformed other national markets. In spite of the pending arrival of new supply completions (Barangaroo), the vacancy rate is forecast to fluctuate between 7.0% and 8.0% over the next few years. Strong demand, particularly from offshore buyers, for residential conversion opportunities is considered to have offset the impact of new supply on stock and vacancy levels.

Over the last 12 months, the weight of capital moving into commercial property has maintained momentum as high levels of capital inflow continue to result in heightened transaction volumes and firming yields. In the year ahead, we expect that the depth of buyers seeking opportunities will likely sustain high levels of capital inflow and transaction activity. Low interest rates are expected to continue to be a positive for asset prices with bond spreads suggesting further yield compression in 2015. Helping to boost the buying power of offshore investors is the expected continuing depreciation of the Australian dollar. Given



these circumstances, we expect asset prices primarily for both Sydney and Melbourne commercial property to outperform over the medium term, and these remain our preferred geographical exposures.

In a statement from the RBA, easy monetary policy globally was said to be driving demand for the nation's office buildings, notwithstanding rising vacancy levels and falling rents, raising risks of a future price slump. In its semi-annual financial stability review, the RBA highlighted a notable increase in the share of transactions involving foreign purchasers, particularly in Sydney.

According to research from Jones Lang LaSalle, the competition for assets and a re-assessment of return expectations for prime real estate has resulted in lower yields across a number of major office markets, in Sydney and Melbourne, with yields for some of these properties falling below 6% for the first time since 2008.

On the topic of residential property, referring to the high proportion of property investors in the market the RBA also noted that the ongoing strong speculative demand would tend to amplify the run-up in housing prices and increase the risk that prices in at least some regions might fall significantly later on. It also added that whilst indicators of household stress were at low levels, they could start to increase if labour market conditions were to weaken further than currently envisaged.

In the retail property sector, over recent years, there has been is a clear shift away from department stores and discount department stores (DDS), towards specialties and mini majors, and to a lesser extent, towards supermarkets and leisure/entertainment. This re-weighting away from department stores has predominantly come about through developments. The advent of international retailers coupled with larger and better food offerings has also helped landlords offset the demise of the fashion retailers.

We continue to have a positive outlook for the Social Infrastructure sector and in particular for entities with exposure to ownership of childcare centres.

With regards to the longer term outlook for property, the Federal Government released the 2015 Intergenerational Report in March which projected that over the next 40 years Australia's population will grow 1.3% per annum to reach 30.7 million by 2055. As a consequence of this growth, Australia will need to add 9 million dwellings, to more than double its housing stock over the next 40 years. The report also highlighted that more brownfield sites will be essential to meet the increased demand for multi-density housing. Another aspect of the report highlighted Australia's ageing population with the number of Australians aged 65 and over projected to double by 2054-55. In addition, the number of people aged 15 to 64 for every person aged 65 and over has fallen from 7.3 people in 1975 to an estimated 4.5 people today and by 2055, this is projected to nearly halve again to 2.7 people.

The upward trend in both housing demand and the ageing population are considered to have significant medium to long term positive impacts on residential markets as well as demand for aged care facilities. Taking a long term view, although they may be subject to some degree of volatility from time to time, these property sub-sectors are expected to do well over the medium to longer term.

CONTACT US:

Winston Sammut
Managing Director
Folkestone Maxim Asset Management
e: wsammut@folkestone.com.au
t: + 61 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

Superior SQM research

MORNINGSTAR ★★★★