Folkestone
MAXIM A-REIT SECURITIES FUND

FOLKESTONE MAXIM A-REIT SECURITIES FUND

JUNE 2014 REPORT

MARKET REVIEW

The Federal Reserve in the US continued to reduce Quantitative Easing and bought US$45 billion of securities in June as the unemployment rate fell marginally to 6.3%. In Europe, Mario Draghi re-affirmed that all options to hold off deflation would be considered at the ECB's upcoming policy meeting whilst economic data from China was generally soft, with the exception of the HSBC China Manufacturing PMI which reversed its 5 previous monthly declines and rose to 50.7.

In Australia, the Reserve Bank of Australia (RBA) kept rates on hold at 2.5% for the ninth consecutive meeting. The Australian Dollar climbed 1.3% higher to end the month at US$0.9432. The Yield on 90 Day Bank Bills fell 1 basis point to 2.68% whilst 10 Year Bonds rallied 12 basis points to end at 3.45%.

The S&P/ASX 300 A-REIT Accumulation Index rose 3.3% during the month. This was the largest monthly outperformance since May 2012, outperforming the broader equity market which fell 1.5%. A-REIT's performed well in part driven by continued M&A in the sector and falling bond yields.

The gap between the best and worst performing securities in the S&P/ASX 300 A-REIT Index was 12.9% with last month's worst performer, Ingenia Group (INA) making up lost ground by rising 11.1%, whilst this month's worst performer, Folkestone Education Trust (FET), fell 1.8%.

For the year ended 30 June 2014, the S&P/ASX A-REIT 300 Accumulation Index returned 11.1% compared to the broader market's return of 17.4%. Over the year, the three best performing A-REITs in the S&P/ASX 300 A-REIT Index were Ingenia Communities (INA +55.1%) driven by their move into its manufacturing housing estates (lifestyle parks), Astro Japan Property Group (AJA +43.5%) driven by capital management initiatives and an improving Japanese market and Folkestone Education Trust (FET +27.3%) as a result of improving acceptance of childcare as an investment, particularly given the strong demand for childcare places, and FET's inclusion in the S&P/ASX 300 Index in March 2014.

The three worst performing A-REITs were Westfield Corp (WFD +6.8%) which was impacted by tough retail leasing conditions in Australia as well as uncertainty around

KEY STATISTICS
as at 30 June 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

Fund Performance to 30 June 2014

Folkestone Maxim A-REIT Securities Fund	June 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	0.72	8.60	7.02	8.61	8.94	-6.45	-3.86
Income Return	1.50	2.61	5.05	5.69	6.80	2.71	4.98
Total Return (After Fees but Before Tax)**	2.23	11.21	12.07	14.30	15.73	-3.74	1.12
S&P/ASX 300 A-REIT Accumulation Index	3.33	12.51	11.08	15.19	14.26	-4.93	0.14
Value Add	**-1.11**	**-1.30**	**1.00**	**-0.89**	**1.48**	**1.20**	**0.98**

*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.

MARKET REVIEW CONT'D

their restructure, GPT Group (GPT +7.2%) which also suffered from tough leasing conditions coupled with a number of large expiries and the unsuccessful takeover attempt of CPA and Goodman Group (GMG +7.8%) despite strong development and leasing activity, remained flat for most of the year.

A-REIT ACTIVITY – JUNE

M&A and corporate activity continued to be a key feature of the market in June. Australand (ALZ) received an all cash offer of $4.48 per share from Frasers Centrepoint Ltd, which is listed on the Singapore Stock Exchange, subject to due diligence being carried out.

ALZ shareholders would also be entitled to the 2014 First Half dividend of 12.75 cents per share. This cash offer, which comes at a higher absolute price than Stockland's mainly scrip offer, is generally expected to see the ALZ Board recommend its acceptance, in the absence of a superior proposal. Whilst no counter offer has yet been made, Stockland stated that they will consider their options and will provide an update in due course.

The adjourned meeting of Westfield Retail (WRT) security holders was held on 20 June at which time approval was given for the merger with the Australian and New Zealand businesses of the Westfield Group (WDC) to form the Scentre Group (SCG).

Stockland (SGP) acquired the Brownes Dairy head office, processing and distribution centre at 22 Geddes Road, Balcatta in Perth at a cost of $53.5m, whilst it also acquired a 28 hectare industrial property in Ingleburn in South West Sydney for $72.5m.

CFS Retail Trust (CFX) along with its wholesale fund announced the sale of the Entertainment Quarter in Sydney to a private consortium of investors in the Carnegie Private Opportunities Fund No 1 that include Gerry Harvey, John Singleton and Mark Carnegie.

Lend Lease announced the sale of its 30% direct interest in the Bluewater Shopping Centre in London for GBP656m on a very firm yield of 4.0%. Federation Centres (FDC) sold the Somerville (Vic) sub-regional shopping centre to a private investor for $42.1m which represented a premium to book value in excess of 10%.

Investa Office Fund (IOF) bought 6 O'Connell Street, Sydney for $136m on an initial yield on cost (post acquisition costs) of 6.5%.

In other news, Dexus Property Group (DXS) announced the establishment of a new capital partnership (industrial) with the Future Fund on a 50/50 basis and also announced the partnership acquired the final stage (25.64ha) of the Greystanes Estate Development known as Quarrywest for $50.5m.

Capital raising activity was subdued in June with only Growthpoint Properties (GOZ) raising $125m through the issue of 52m new shares at $2.40 per share to assist in funding its acquisition of the NSW Police Headquarters in Parramatta, Sydney.

A-REIT ACTIVITY - YEAR TO JUNE

M&A activity was a key feature of the A-REIT sector in the 12 months ended 30 June 2014. Dexus Property Group (DXS) in partnership with the Canada Pension Plan Investment Board acquired the listed Commonwealth Property Office Fund (CPA) after GPT pulled out of bidding for the entire platform. GPT was able to secure a number of assets from the Dexus Consortium as part of their deal to withdraw their offer.

Stockland Group made an offer for Australand Property Group (ALZ) in April 2014 which was followed by an increased offer from Singapore's Fraser Centrepoint Group in June. At the time of writing, the transaction is yet to be completed.

Capital raisings over the year were low compared with historical numbers as the A-REITs found it difficult in the current market to acquire quality assets. In fact, for many of the A-REITs, they were either net sellers of assets, or in some cases such as Mirvac, used the proceeds of asset sales to acquire other assets. Dexus, GPT and SCA Property took the opportunity to buy back their stock in the absence of better alternatives.

YEAR TO JUNE ACTIVITY CONT'D

A-REITs continued to take advantage of lower credit margins and global appetite for corporate bonds by bypassing the banks and issuing corporate debt via MTN issues and private placements into the US market (USPP). Some of the bigger issues during the year included SCA Property Group (SCP) issuing $210m in a USPP split US$100m over 13 years and $110m over 15 years, Bunnings Warehouse (BWP) issued $200m of MTN's over 5 years, GPT issued $188m through a USPP over 15 years and Mirvac (MGR) issued $506m in a USPP split over 9, 11 and 12 years. The most surprising aspect of the Mirvac issue was it was 4 times oversubscribed from the initial $150 million target which shows both the depth of the bond market and global investor's acceptance of debt issuances from quality A-REITs.

IPO activity picked up in FY14 with 6 IPO's completed during the year. The largest IPO was GDI which raised $567.8m in December 2013. A feature of the IPO activity was the number of IPO's focusing on alternate assets such as the Rural Funds Group (agriculture) and National Storage (self-storage).

In FY 2014, the Diversified A-REITs as a group fared best returning 15.6%, Commercial A-REITs were next, returning 14.9% over the period whilst the Retail A-REITs and the Industrial A-REITs returned 8.5% and 7.8% respectively.

SECTOR VALUATION

At the end of June, the A-REIT sector was trading at a slight premium to fair value with a FY15 estimated distribution yield of around 6.0% which represents a 350 basis points premium to cash and a 255 basis points premium to 10 Year bonds. Sector look through gearing remains around 30% - an acceptable level and well below the 37% prior to the GFC.

Within the sector, Folkestone Maxim is of the view that well managed, focused small-cap A-REITs are well positioned to outperform their larger peers in the year ahead, driven either by their exposure to real estate social infrastructure assets and /or undertaking value-enhancing acquisitions as well as selective development.

Real estate markets have been tough as evidenced by subdued leasing conditions in both the commercial and retail markets. However, the weight of money chasing yield has been strong and has resulted in higher prices being paid for bricks and mortar as well as financial assets. Looking ahead, interest rates are expected to remain low and therefore, investors will continue to search for yield. The A-REIT sector is likely to continue to be a key beneficiary. With the sector's half yearly distributions due, in the main, to be paid in August and coupled with around $850m of capital being returned to investors in Westfield Retail, we expect support for the sector to continue to occur at least over the first half of the 2015 financial year.

FUND PERFORMANCE REPORT

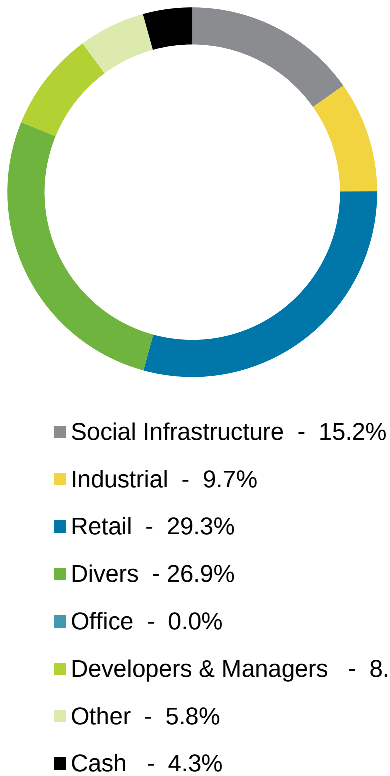
The Fund returned +2.23% (on an After Fee but Before Tax basis) in June, underperforming the Fund's Benchmark[1] which returned +3.33%. In the year ended 30 June 2014, the Fund returned +12.08% outperforming the Benchmark return of +11.08% by 1.0%. Over the 5 year period ended 30 June 2014, the Fund returned +15.74% p.a. outperforming its Benchmark by 1.48%. Since inception (15 October 2005), the Fund has outperformed its Benchmark by 0.98%.

During the month of June, positive contributions to returns came for the Fund's exposures to Villa World (VLW), APN Property Group (APD) and Carindale Property Trust (CDP) which rose 6.3%, 5.6% and 3.7% respectively. Detracting from returns included the Fund's exposure to one of the previous month's best contributors to returns, Folkestone Ltd (FLK) whilst underweight exposures to CFS Retail Trust Group (CFX) and the Investa Office Fund (IOF) also detracted from returns as they rose 2.8% and 4.3% respectively.

A June Quarter distribution of 0.924594 cents per Unit was paid taking the total distributions for the 12 months ended 30 June 2014 to 2.938 cents.

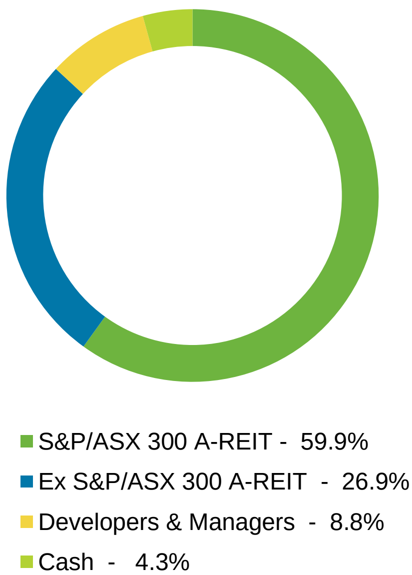
SECTOR SPLIT

As at 30 June 2014



ASSET ALLOCATION

As at 30 June 2014



[1] S&P/ASX 300 A-REIT Accumulation Index

In the 12 months ended 30 June 2014, positive contributions to returns came from the Fund's investment in the Folkestone Social Infrastructure Trust (FST) which benefitted from its exposure to real estate infrastructure assets, generating a portfolio return of +29.3% over the period.

The Fund's exposures to Stockland and Mirvac also provided positive contributions as they benefitted from their exposures to the residential sector providing returns of +19.0% and 17.2% respectively to the portfolio over the year.

Detracting from the Fund's performance during the year included underweight exposures to both Westfield Group and GPT Group as well as the Fund's exposure to Industria REIT (since exited the position) as they generated returns to the portfolio of +2.9%, -0.1% and -9.45%.

At June month end, the Fund's investments comprised 16 ASX listed securities totaling 95.6% of the portfolio. Of these, 8 were constituents of the S&P/300 A-REIT Index with the remaining 8 being Ex Index securities. Exposure to unlisted property was 0.1% with the remaining 4.3% of the portfolio held in Cash/Liquid investments.

The Fund holds an overweight position relative to the Index in A-REITs with exposure to real estate related social infrastructure assets and developers with residential activities.

We believe that the real estate social infrastructure A-REITs offer a compelling investment proposition given the social and demographic changes driving the demand for space in assets such as child care and manufactured housing. At the same time, these A-REITs typically trade on higher yields than the larger office and retail A-REITs.

A-REITs and developers with exposure to residential sector are attractive given the positive outlook for both the apartment and land sub-division subsectors in most markets.

We continue to maintain a nil weighting to the office A-REITs as we believe the office leasing market will continue to be tough in the coming 12 months. Vacancies and lease incentives remain elevated and rental growth subdued. We have some exposure to the office sector via our holdings in Dexus (which we now consider to be diversified given their increasing exposure to the industrial sector), Stockland and Mirvac.

TOP 5 HOLDINGS
(by Portfolio Weight)

- Scentre Group
- Stockland Group
- Folkestone Social Infrastructure Trust
- Westfield Corp
- Mirvac Group

NEW STAFF MEMBER

We are pleased to announce that Amy Pham has joined Folkestone Maxim as a Portfolio Manager. Amy has more than 12 years experience in the management of A-REIT securities funds. Amy has previously worked at IAG, Deutsche Asset Management, Paladin and Perpetual.

ABOUT THE MANAGER

Folkestone Maxim Asset Management is a boutique investment manager, specialising in A-REIT securities and real estate debt. It was founded in 2003 and acquired by Folkestone in 2014.

Folkestone is an ASX listed (ASX: FLK) real estate funds manager and developer providing real estate wealth solutions to private clients and select institutions.

Folkestone's funds management platform offers real estate funds to private clients and select institutional investors across income, value-add and opportunistic (development) real estate investments. Folkestone's on balance sheet activities focus on value add investments and developments.

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