

FOLKESTONE MAXIM A-REIT SECURITIES FUND IS THE NO. 1 PERFORMING A-REIT SECURITIES FUND OVER 1, 2 AND 3 YEARS IN THE MERCER SURVEY

Folkestone Maxim A-REIT Securities Fund ARSN 116 193 563 ("Fund") is pleased to announce that it has been reported as the No. 1 performing fund over one, two and three years in the Mercer Investment Performance Survey of Australian Real Estate Securities (REIT) (Active Funds) at 31 December 2016¹.

The Mercer Survey reports that the Fund returned 15.5% (pre fees) for the year ended 31 December 2016 compared to 13.5% for the median manager in the survey and 13.2% for the S&P/ASX300 A-REIT Index ("Index"). The Survey also reports that over three years, the Fund has generated a return of 20.2% p.a. (pre fees) compared to 18.0% p.a. for both the median manager and the Index.

Mr Winston Sammut, Portfolio Manager, said "we are delighted with the strong performance of the Fund versus both other A-REIT securities fund managers and the Index, particularly in the past year. Whilst there is on-going discussion in the market about whether active managers in the A-REIT sector can add value, we have demonstrated through our high conviction active strategy that we can consistently outperform the Index over time."

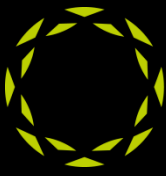
"Given our high conviction strategy we are not wedded to just investing in large cap A-REITs. The largest 8 A-REIT securities comprise 82% of the Index and the retail sector comprises close to 60% of the Index, creating significant concentration risk. Our strategy allows us to look for securities inside and outside the Index. At the end of 2016, the Fund was holding just 12 of the 30 A-REIT securities in the Index and 5 securities outside the Index" said Mr Sammut.

Two of the Fund's biggest contributors to performance in the past year were Rural Funds Group and Asia Pacific Data Centres which returned 35.3% and 28.8% respectively. Both securities were outside the Index when the Fund first invested in them, with Rural Funds entering the Index in March 2016. The Fund was attracted to both securities given the strong top-down thematic associated with the agricultural sector in the case of Rural Funds and the massive increase in cloud computing and consequent demand for data centres in the case of Asia Pacific Data Centres, and the fact that at the time of including both in the Fund, they were under-valued relative to the market.

Mr Sammut said "it is our ability to look outside the big end of town A-REITs that allows the Fund to take advantage of mispriced opportunities that often occur in the mid and smaller cap A-REITs. Going into 2017, we have several views that differ significantly from the Index allocation. Our largest sector overweight is social infrastructure which currently represents 7.3% of the Fund compared to 0.5% of the Index while the largest underweight sector is retail which represents 35.0% of the Fund compared to 48.4% of the Index."

"The social infrastructure sector is benefiting from strong demographics driving demand, investors chasing yield and longer dated lease structures which social infrastructure assets such as childcare and medical typically have. Our underweight in the retail sector is driven by our view that retail is facing enormous headwinds from internet retailing, a competitive retail marketplace with growing number of international retailers entering the market and on-going margin compression" said Mr Sammut.

Mr Adrian Harrington, Head of Funds Management said "looking ahead, the A-REIT sector will remain captive in the short-term to the gyrations of the capital markets. Clearly if bond yields continue to back up further as they did between August and November last year, than we could see additional pricing risk in the short-term. However, the A-REITs are in relatively good shape and almost incomparable to those in the lead up to the GFC. Gearing is lower (circa 30%), refinancing risk in next 2-3 years is low (majority of debt is due to expire FY21+), asset quality has significantly improved, pay-out ratios are respectable and the exposure to offshore real estate is limited (Goodman and Westfield being the two exceptions)."



“However, now is not the time to take a passive approach to the sector (i.e. indexing). We expect the variation of performance across the A-REIT universe will widen in the year ahead. Individual characteristics of each of the A-REITs will be more of a key driver of relative performance within the sector than it has been in the past year or so. Investors now more than ever, will need to focus on those A-REITs that have quality management and can generate real value from their portfolios rather than simply relying on lower debt costs to support earnings and firming cap rates (property yields) to drive underlying asset values higher” said Mr Harrington.

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About Folkestone Maxim

Folkestone Maxim Asset Management is a wholly owned subsidiary of Folkestone and specialises in the management of A-REIT securities.

About Folkestone

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