



FOLKESTONE MAXIM A-REIT SECURITIES FUND

JANUARY 2018 REPORT

MARKET REVIEW

Over the month of January, the S&P/ASX 300 A-REIT Accumulation Index returned -3.3%, underperforming the general equities market, as measured by the S&P/ASX 300 Accumulation Index, by 2.9%. This underperformance was primarily driven by a rise in bond yields, with Australia's 10-year bond yield up 16 basis points to end the month at 2.79%

In January, the Healthcare sub-sector fared best returning 1.3%, whilst all other sub-sectors were down. Office A-REITs returned -2.2%, Retail -2.3%, Industrial -3.8%, Diversified -4.7% and Specialised A-REITs -7.8%.

ACTIVITY

As expected, January turned out to be a relatively quiet month for Australian listed property transactions with Vicinity Centres (VCX) and the Abu Dhabi Investment Council both selling their 50% interest in a shopping centre in Toormina NSW for \$83m, representing a slight premium to the \$40.5m value carried in Vicinity's books.

A small number of transactions took place outside the listed space which included China's Dalian Wanda Group sale of its Circular Quay residential/hotel/mixed-use project in Sydney, as well as its Gold Coast residential project for \$1.13bn to developer Yuhu Group.

A commercial office building at 800

Collins Street, Melbourne was bought by Manulife, a Canadian insurer for \$300m on a 5.15% yield.

The Blackstone Group acquired a Sydney CBD commercial building at 1 York Street from the HNA Group, which reportedly generated a profit of \$88m over book value.

299 Elizabeth Street, Sydney, an office building with strong residential development potential located opposite Hyde Park, was sold to Chinese investors for \$90m on a yield of 4.2%.

Vicinity Centres (VCX) released its December 2017 valuations (covering 80% of its portfolio) announcing an overall uplift of \$408m, of which \$324m was assigned to Chadstone Shopping Centre, with its cap rate firming to an Australian record low of 3.75%.

SECTOR VALUATION

At January month end, the sector was trading at a 19.5% premium to NTA, whilst the FY18 DPS yield of 4.9% represented a 313 basis point spread to 90 day bank bills and a 211 point spread to 10 year bonds.

OUTLOOK

With no Reserve Bank Board meeting in January, the cash rate stayed on hold.

Fundamentally, the sector is in good shape offering defensive earnings with generally strong balance sheets, sustainable payout ratios and acceptable

KEY STATISTICS

as at 31 January 2018

Status	Open
Fund Maturity	Open Ended
Investments	Primarily A-REITs
Investment Horizon	3-5 years
Distribution	Quarterly
Frequency	
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

Asgard
BT Wrap
Hub24
IOOF
Macquarie Wrap Solutions
Netwealth
Powerwrap
Symetry
uXchange
Colonial First State – First Wrap

TOP 5 ACTIVE OVERWEIGHTS (by Portfolio Weight)

Industria REIT
Carindale Property Trust
Lifestyle Communities
Rural Funds Group
Folkestone Education Trust

Folkestone Maxim A-REIT Securities Fund	January 2018 %	3 Months %	1 Year % p.a.	3 Years % p.a.	5 Years % p.a.	7 Years % p.a.	10 Years % p.a.	Since Inception % p.a.*
Growth	-3.31	+1.20	+8.74	+6.71	+7.97	+8.53	+1.11	+1.29
Income Return	+0.00	+0.93	+3.82	+4.40	+5.81	+5.25	+2.76	+3.62
Total Return (After Fees but Before Tax) **	-3.31	+2.13	+12.56	+11.11	+13.78	+13.78	+3.87	+4.91
S&P/ASX 300 A-REIT Accumulation Index	-3.25	+2.00	+8.09	+7.46	+11.67	+12.74	+3.01	+3.47
Value Add	-0.06	+0.13	+4.47	+3.65	+2.11	+1.04	+0.86	+1.45



levels of gearing. However, after the sector's solid run over recent years, driven by falling interest rates and rising asset values due to cap rate compression, it is difficult to see the A-REITs outperforming equities in 2018.

Equity markets are expected to better cope with the anticipated rise in bond yields providing it occurs gradually and so can be offset by rising earnings. However, a large rapid increase in bond yields will likely cause more of a concern. Investors should therefore expect more volatility in equity markets over the coming months.

Although there are interest rate headwinds, the A-REIT sector's short-term refinance risk is considered low and as current payout ratios are conservative, distributions can continue to be sustained around current levels, thereby providing support to pricing.

FUND PERFORMANCE

The Fund returned -3.31% (after fees, before tax), marginally under performing its Benchmark by 0.06%. On a rolling 12 month basis, the Fund returned +12.56%, substantially outperforming the Benchmark return of +8.09% by +4.47%.

Positive contributions in January came from the Fund's zero exposures to Iron Mountain Incorporated (INM -12.6%)

Stockland Group (SGP -5.8%) and an underweight holding in Westfield Corporation (WFD -3.7%).

Negative contributors for the month included exposures to Lifestyle Communities (LIC -10.3%), Rural Funds Group (RFF -5.2%) and the Carindale Property Trust (CDP -5.1%).

The Fund's investments comprised 18 ASX listed securities totaling 98.4% of the portfolio, 13 of which were S&P/ASX 300 A-REIT Index constituents, with the remaining 5 holdings being non-index stocks. The balance of 1.6% was held in cash/liquid investments.



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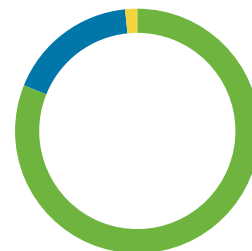
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ASSET ALLOCATION

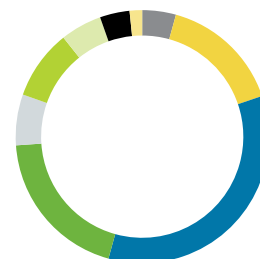
As at 31 January 2018



- S&P/ASX 300 A-REIT - 81.1%
- Ex S&P/ASX 300 A-REIT - 17.3%
- Cash - 1.6%

SECTOR SPLIT

As at 31 January 2018



- Social Infrastructure - 4.3%
- Industrial - 15.5%
- Retail - 34.5%
- Diversified - 19.6%
- Office - 6.5%
- Developers & Managers - 8.9%
- Specialised - 5.3%
- Other - 3.8%
- Cash - 1.6%

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