



FOLKESTONE MAXIM A-REIT SECURITIES FUND

JULY 2018 REPORT

Folkestone Maxim A-REIT Securities Fund	July 2018 %	3 Months %	1 Year % p.a.	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.	Since Inception % p.a.*
Growth	+0.28	+3.88	+8.42	+6.51	+9.03	+3.86	+1.44
Income Return	+0.00	+1.12	+3.80	+4.34	+5.01	+3.49	+3.66
Total Return (After Fees but Before Tax)**	+0.28	+5.00	+12.22	+10.85	+14.04	+7.35	+5.10
S&P/ASX 300 A-REIT Accumulation Index	+0.96	+6.32	+14.48	+8.33	+12.56	+6.71	+3.91
Value Add	-0.68	-1.32	-2.26	+2.52	+1.49	+0.64	+1.18

*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.

QUALITATIVE RATING



QUANTITATIVE RATING



Overall rating out of 124 Equity Australia Real Estate funds as of 31 July 2018.



MARKET REVIEW

The S&P/ASX 300 A-REIT Accumulation Index returned +0.96% in July, underperforming broader equities by 0.3%, as measured by the S&P/ASX 300 Accumulation Index. On a rolling 12 month basis, the A-REITs have posted a return of +14.5% closing the underperformance gap to equities to 0.2%.

The Health Care A-REIT sub-sector posted the highest return for the month at +7.0%, followed by the Diversified sub-sector at +3.4%, Office at +2.0%, Residential at +1.9%, Specialised at +0.6% and Industrial at +0.2%. Retail posted the only negative return of 0.8%.

SECTOR ACTIVITY

Major news flow over the month included Scentre Group's (SCG) acquisition of a 50% stake in Westfield Eastgardens (which SCG already manage) for \$720 million on a 4.25% capitalisation rate; their first major acquisition since 2012. Charter Hall Group (CHC) sold a 50% stake in Commercial and Industrial Property Pty Ltd (CIP) to ESR Developments Pty Ltd (ESR) for an enterprise value of \$102.5 million. CHC also announced that it had exchanged contracts to acquire a three building amalgamated holding on Queen Street, Brisbane for a net price of \$93.96 million, representing a passing yield of 7.9%.

Rural Funds (RFF) announced a \$149.5 million capital raise through a 3 for 10 accelerated non-renounceable entitlement offer for a finance lease over 5 feed lots, a 10 year guarantee for the supply of cattle and feed lots and the purchase of a cattle property.

The Investa Group (IOF) Board unanimously recommended IOF unitholders vote in favour of Blackstone's (BX) proposal to acquire IOF via a Scheme for an all-cash consideration of \$5.15 per unit. Despite a 5.9% discount to NTA of \$5.47, the Independent Expert Report assessed the Scheme to be "not fair" but "reasonable", given the IOF price would likely fall in the absence of the BX or an alternative proposal.

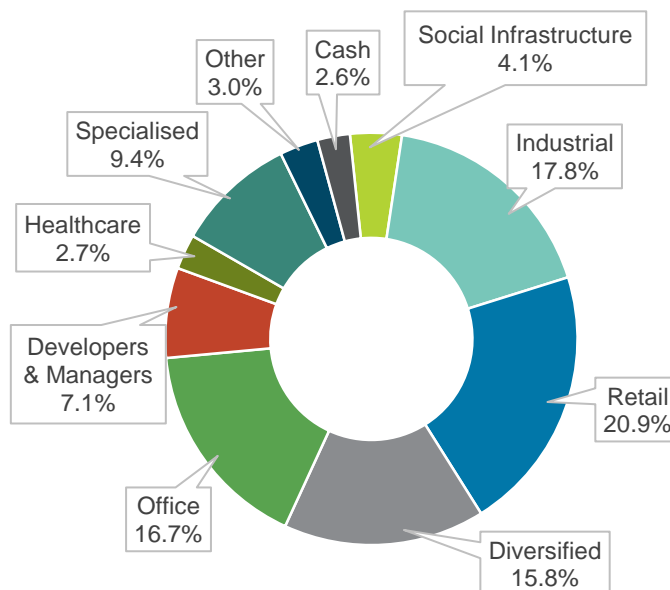
Abacus (ABP) sold 50% of two centres – Ashfield Mall and Lutwyche Shopping Centre – into a new partnership with ISPT. GPT Group (GPT) conducted independent valuations, with GPT's portfolio achieving a 3.7% uplift for the half year with Sydney CBD office being the key contributor.

A number of A-REITs issued updated guidance leading into reporting season including Mirvac (MGR) which tightened its FY18 guidance to 15.6 cents per stapled security and Stockland forecast 6.5% growth in Funds From Operations – both at the upper end of their guidance range.

The earnings outlook for A-REITs continues to be robust, driven by the strong office and industrial sectors and development pipelines over the medium term.

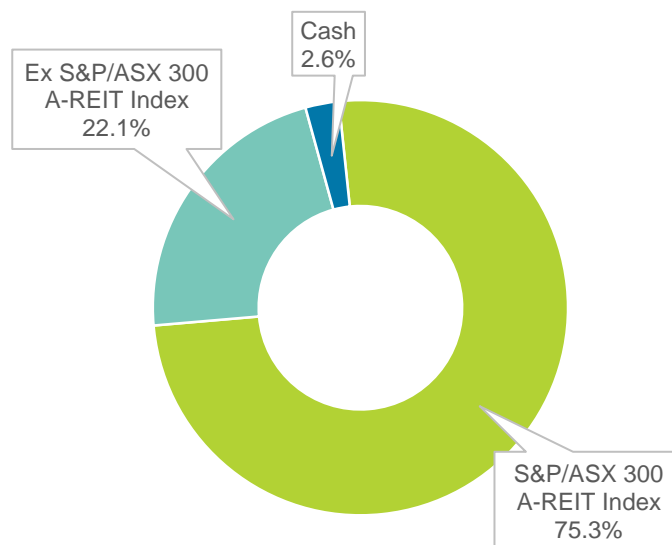
SECTOR SPLIT

As at 31 July 2018



ASSET ALLOCATION

As at 31 July 2018



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

SECTOR VALUATION

At the end of July, the sector was trading at a 24% premium to NTA. The FY18 DPS yield of 5.2% represents a 326 basis point spread to 90 day bank bills and a 252 point spread to 10 year bonds.

FUND PERFORMANCE

Over the month, the Fund returned +0.28% (after fees, before tax), underperforming the Benchmark by 0.68%. On a rolling 12 month basis, the Fund returned +12.22%, underperforming the Benchmark return of +14.48% by 2.26%.

In July, positive contributions came from the Fund's zero exposure to Investa Office Fund (IOF -1.34%) and an overweight exposure to Mirvac Group (MGR +5.07%).

Detracting from performance were the Fund's zero exposure to Vicinity Centres (VCX +2.70%) and an overweight exposure to Rural Funds (RFF -4.38%), which was sold down due to their \$149.5 million capital raising.

At the end of July, the Fund's investments comprised 19 ASX listed securities totaling 97.4% of the portfolio, 12 of which were constituents of the S&P/ASX 300 A-REIT Index, with the remaining 7 holdings being non-index stocks. The balance of 2.6% of the portfolio was held in cash/liquid investments.

OUTLOOK

The earnings outlook for A-REITs continues to be robust, driven by the strong office and industrial sectors and development pipelines over the medium term.

For the FY18 reporting season, the focus will be on retail A-REITs and the residential developers. For retailers, the market is looking for a stabilisation of retail sales and further guidance of leasing spreads and the level of capital expenditure required in the next few years to ensure their centres remain competitive. For residential developers, the impact of credit tightening from the banks on sales volumes and defaults on settlements will be critical.

The Reserve Bank left interest rates on hold at 1.5% in July as expected, noting a gradual increase in full-time employment with inflation still within their target range of 2.0% - 3.0%. Therefore, we don't expect the RBA to be in any hurry to raise rates.

Notwithstanding this, there are interest rate headwinds should the Australian 10-year bonds approach the 3.0% mark following in the footsteps of the US. With the high correlation of the A-REIT's performance and movement in 10 year bonds, we anticipate that if the long end of the

curve moves up, there will be ongoing volatility in A-REIT pricing over the short-term.

We continue to favour those A-REITs with exposure to the social infrastructure property sub-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.

TOP 5 ACTIVE OVERWEIGHTS

By Portfolio Weight

Rural Funds Group
Industria REIT
Centuria Metropolitan REIT
Folkestone Education Trust
Convenience Retail

FUND OVERVIEW

As at 31 July 2018

Status	Open
Fund Maturity	Open Ended
Investment	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

Asguard
Colonial First State FirstWrap
BT Panorama
BT Wrap
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Folkestone Maxim Wins Industry Leadership Award

In December 2017, Folkestone Maxim won the inaugural Financial Standard Investment Leadership Award for Australian Listed Property.

The Financial Standard award recognises *"investment strategies that showcase all the qualities investors - whether they be advised or self directed - are looking for in a manager"*.

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