

# FOLKESTONE MAXIM A-REIT SECURITIES FUND

## AUGUST 2018 REPORT

Folkestone Maxim A-REIT Securities Fund	August 2018 %	3 Months %	1 Year % p.a.	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.	Since Inception % p.a.*
Growth	+2.94	+5.70	+9.80	+8.86	+9.56	+3.72	+1.65
Income Return	+0.00	+1.11	+3.72	+4.50	+4.98	+3.31	+3.66
<b>Total Return (After Fees but Before Tax)**</b>	<b>+2.94</b>	<b>+6.81</b>	<b>+13.52</b>	<b>+13.36</b>	<b>+14.54</b>	<b>+7.03</b>	<b>+5.30</b>
S&P/ASX 300 A-REIT Accumulation Index	+2.61	+5.94	+15.70	+10.76	+13.16	+5.98	+4.10
<b>Value Add</b>	<b>+0.33</b>	<b>+0.87</b>	<b>-2.18</b>	<b>+2.60</b>	<b>+1.39</b>	<b>+1.05</b>	<b>+1.21</b>

\*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 +2.6% in August, outperforming equities by +1.2%, as measured by the S&P/ASX 300 Accumulation Index. The strength in the A-REIT sector coincided with a relatively strong reporting season and a fall in the Australian 10 year bond rate from 2.6% to 2.5%.

On a rolling 12 month basis, A-REITs have posted a total return of +15.7% versus +15.4% for the broader equities market.

Industrial A-REITs posted the highest return for the month delivering +10.5%, led by Goodman Group (GMG) +11.1%, followed by Office A-REITs with +4.6%, Specialised A-REITs with +2.4%, Diversified A-REITs with +1.9%, Retail A-REITs with -0.2% and Residential A-REITs with -2.4%.

## SECTOR ACTIVITY

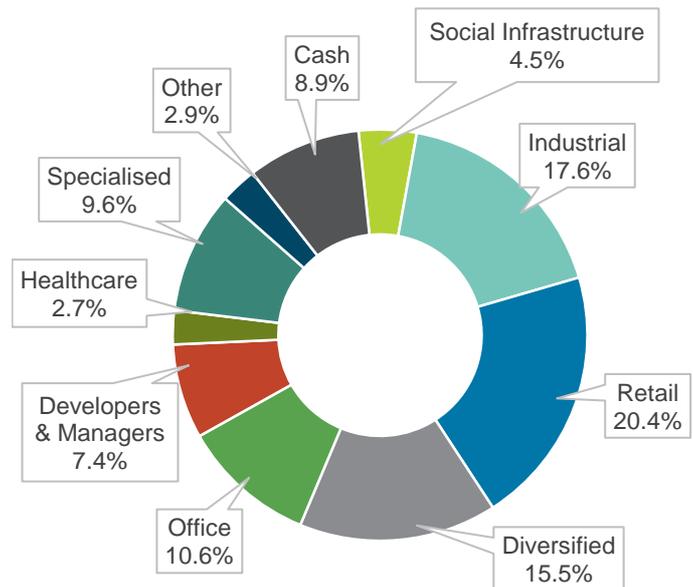
News flow over the month of August was focused on the reporting season and FY19 earnings guidance. A few key themes emerged including:

1. FY18 results were generally in line with consensus earnings, with guidance of 4.0% earnings growth for FY19, driven by the buoyant office and industrial markets and active A-REITs with strong development pipelines.
2. Cap rate compression has been the key driver of NTA growth over the past three years, driven by office and industrial A-REITs with retail A-REITs lagging. This has resulted in gearing levels now being at the lowest level since 1999 at 26% (net debt/assets). This leads to the question as to whether gearing measures should be based on earnings (net debt/EBITDA) given booming asset valuations.
3. A number of A-REITs such as Vicinity (VCX) and GPT Group (GPT) are currently exploring mixed use opportunities such as selling air rights to income producing assets (ie office, hotel or build to rent) or residential developments, to generate earnings growth.
4. On a sectorial basis, the retail environment is still challenging with negative leasing spreads; office metrics remain strong (driven by solid income growth from Sydney and Melbourne), whilst the residential sector remained resilient despite moderation in volume driven by strong margins and pre-sales.

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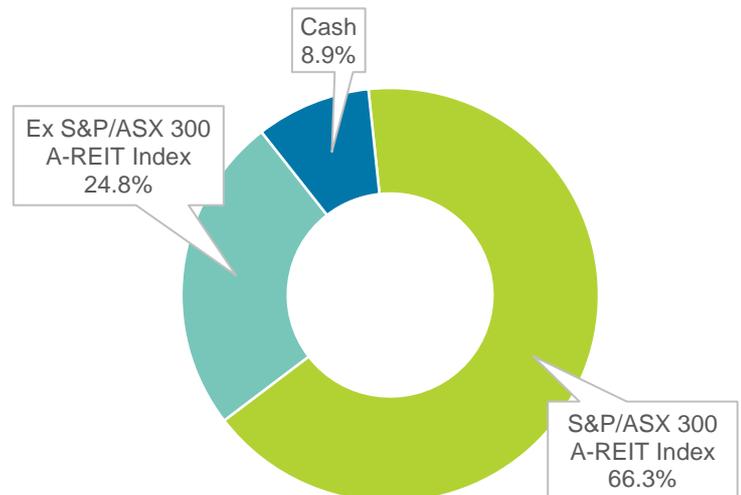
## FUND SECTOR SPLIT

As at 31 August 2018



## FUND ASSET ALLOCATION

As at 31 August 2018



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

## SECTOR VALUATION

At the end of August, the sector was trading at a 25% premium to NTA. The FY19 DPS yield of 5.1% represents a 319 basis point spread to 90 day bank bills and a 262 point spread to 10 year bonds.

## FUND PERFORMANCE

Over the month, the Fund returned +2.94% (after fees, before tax), outperforming the Benchmark by +0.33%. On a rolling 12 month basis, the Fund returned +13.52%, underperforming the Benchmark return of 15.70% by 2.18%.

In August, positive contributions came from the Fund's overweight exposure to Rural Funds Group (RFF +8.00%) and a zero weighting to Unibail-Rodamco Westfield (URW -2.35%).

Detracting from performance were the Fund's zero exposures to Vicinity Centres (VCX +4.14%) and an overweight exposure to Abacus Property Group (ABP -6.95%).

At the end of August, the Fund's investments comprised 19 ASX listed securities totaling 91.1% of the portfolio, 11 of which were constituents of the S&P/ASX 300 A-REIT Index, with the remaining 8 holdings being non-index stocks. The balance of 8.9% of the portfolio was held in cash/liquid investments.

## OUTLOOK

The Reserve Bank of Australia (RBA) kept rates on hold in August at 1.5%. The RBA has now held rates unchanged for 24 months, due to low inflation and low wages growth.

Over the past twelve months, there has been growing interest rate headwinds, brought on by the rise of wholesale funding costs for the banks. Some of these costs have now been passed on to A-REITs. However, to date this change has been moderate. A-REITs remain well placed to counter these changes given strong balance sheets and conservative payout ratios, which supports distributions going forward, thereby providing support to current pricing.

We continue to favour A-REITs with exposure to social infrastructure property, and A-REITs with high quality management teams 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
Australian Unity Office
Centuria Metropolitan REIT
Industria REIT
Folkestone Education Trust

## FUND OVERVIEW

As at 31 August 2018

<b>Status</b>	Open
<b>Fund Maturity</b>	Open Ended
<b>Investment</b>	Primarily A-REITs
<b>Investment Horizon</b>	3-5 Years
<b>Distribution Frequency</b>	Quarterly
<b>Fund Inception Date</b>	October 2005
<b>Pricing</b>	Daily
<b>Buy/Sell Spread</b>	0.25%/0.25%
<b>Total MER</b>	0.95% up to \$50m Then 0.85% >\$50m
<b>ARSN</b>	116 193 563
<b>APIR Code</b>	COL0001AU

## PLATFORMS

Asguard
Colonial First State FirstWrap
BT Panorama
BT Wrap
HUB24
Macquarie Wrap Solutions
Netwealth
IOOF Pursuit
Powerwrap
Symetry
uXchange



### 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"*.

### CONTACT US

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