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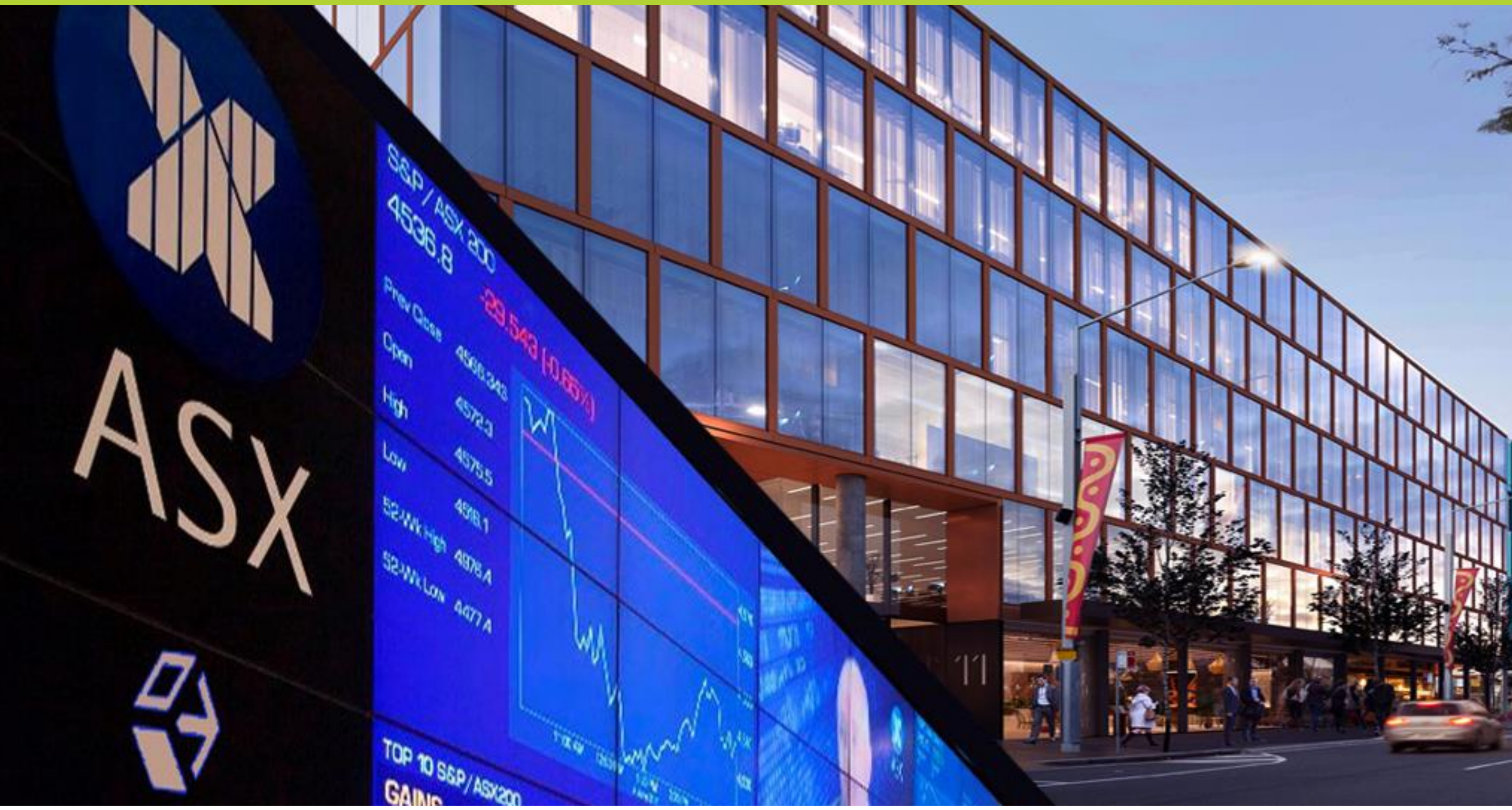
Folkestone
MAXIM A-REIT SECURITIES FUND



FOLKESTONE MAXIM A-REIT SECURITIES FUND

SEPTEMBER 2018 REPORT

Folkestone Maxim A-REIT Securities Fund	September 2018 %	3 Months %	1 Year % p.a.	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.	Since Inception % p.a.*
Growth	-0.32	+2.89	+9.24	+8.91	+9.40	+4.28	+1.59
Income Return	+0.34	+0.36	+3.20	+4.42	+4.90	+3.52	+3.68
Total Return (After Fees but Before Tax) **	+0.02	+3.25	+12.44	+13.33	+14.30	+7.80	+5.27
S&P/ASX 300 A-REIT Accumulation Index	-1.55	+1.98	+13.26	+10.30	+12.59	+6.46	+3.91
Value Add	**+1.57**	**+1.26**	**-0.82**	**+3.03**	**+1.71**	**+1.34**	**+1.36**

*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.

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Superior SQM research

HIGHLY RECOMMENDED ATCHISON CONSULTANTS

FUND MANAGER OF THE YEAR 2018 MONEY MANAGEMENT Lonsec WINNER Australian Property Securities

MARKET REVIEW

Global macro conditions remain positive against a backdrop of a US economic recovery. During September, the US continued to lift interest rates, raising them by 25 bps to 2.25%. While rising concerns of an escalation in a trade war between the US and China continue to steal news headlines, it has yet to materially impact economic activity. Global equity markets remain robust, with the S&P/ASX 500 returning 0.4% for the month of September and 7.2% for the September quarter.

Locally, economic data released during September showed Real GDP grew by 3.4% for the year ending June, which was stronger than expected, driven by surprisingly strong household consumption and rising government current expenditure. The NAB Survey of Business Conditions rose by 2pts to +15 index points in August and remains well above average. Retail sales growth remained under par expanding 2.6% annually to July. National dwelling prices fell 0.6% in September and 3.9% for the year, with Sydney recording the weakest performance, falling 6.1% over the year.

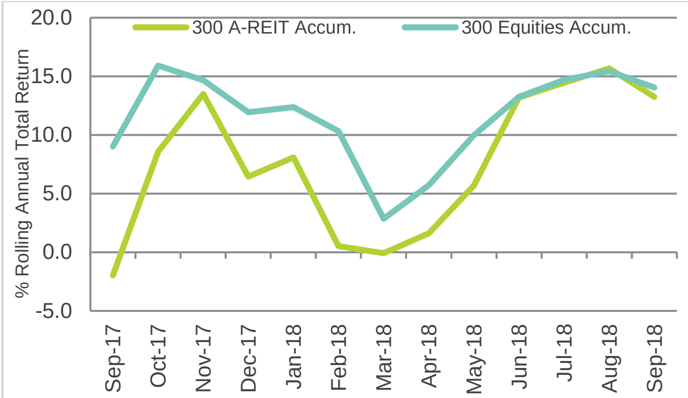
There was no change during the quarter to official interest rates in Australia, with the Reserve Bank (RBA) leaving rates at 1.5%. Australian 10 Year Bonds ended the month at 2.67% were 15 bps higher over the month but only 3 bps higher over the quarter. During the quarter the yield curve in Australia steepened with the spread between 3 year and 10 year bonds reaching 62 bps. Expectations are for no changes to the official rate until 2020.

For the month of September, the S&P/ASX 300 A-REIT Accumulation Index returned -1.5%, underperforming the Australian equities market (S&P/ASX 300 Accumulation Index), which returned -1.2%, as A-REITs were negatively impacted by US rate hikes.

Over the September quarter, A-REITs outperformed Australian equities, with the S&P/ASX 300 A-REIT Accumulation Index delivering +2.0% compared to +1.5% for Australian equities. For the 12 months to September 2018, the S&P/ASX 300 A-REIT Accumulation Index delivered +13.3%, which was below the return for the broader equities market of +14.0% (Figure 1).

Figure 1: A-REITs vs. Equity Performance

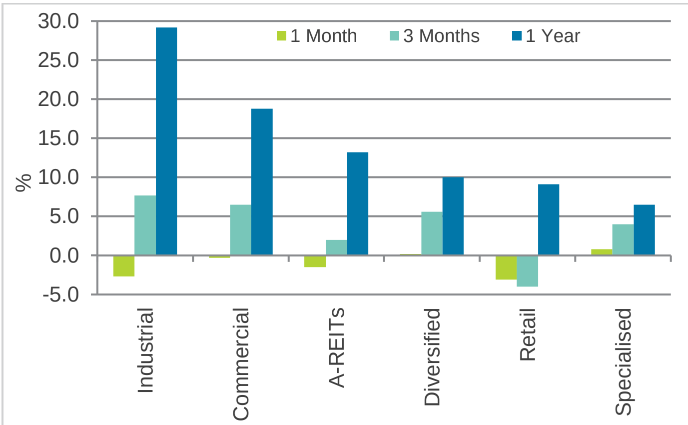
12 months to 30 September 2018



Source: IRESS

Figure 2: A-REIT Sector Performance

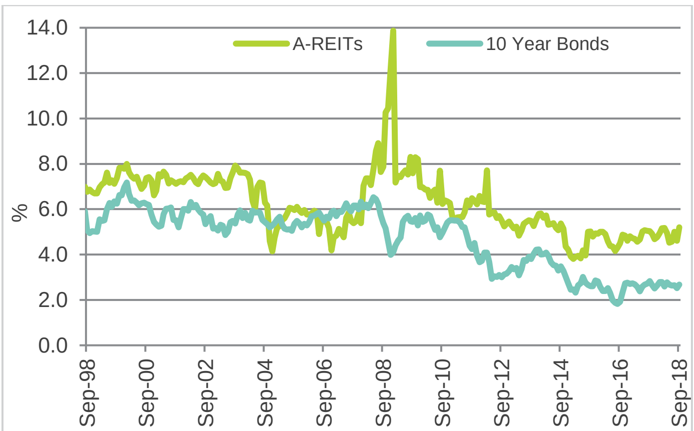
12 months to 30 September 2018



Source: Bloomberg

Figure 3: A-REITs Sector EPS & DPS Yields vs. 10 Year Bond Yields

1996 – 2018



Source: IRESS

At the A-REIT sub-sector level, Health Care A-REITs was the best performer with a return of +11.3%, led by Arena REIT (ARF +11.3%). The next best sub-sector was Industrial A-REITs which returned +7.7%, followed by Office A-REITs at +6.5%, Specialised A-REITs at +4.0%, Residential A-REITs at -0.8% and Retail A-REITs at -4.0%.

The three best performing securities in the S&P/ASX 300 A-REIT Accumulation Index for the September quarter were Centuria Industrial REIT (CIP, 12.3%) due to a bid by Propertylink (PLG), Arena REIT (ARF, 11.3%), and Mirvac Group (MGR, 11.1%) due to a strong FY18 result.

The three worst performing securities for the September quarter were Abacus Property Group (ABP, -9.5%) due to a weaker earnings outlook, Scentre Group (SCP, -7.0%) and Unibail-Rodamco-Westfield (URW, -3.7%), both due to prevailing negative sentiment towards the retail sector.

SECTOR ACTIVITY

During September, Aventus Retail Property Fund (AVN) announced that its proposal to internalise its management had been approved, with 72% of votes cast in favour of the resolutions.

Industria REIT (IDR) also announced it had acquired a small industrial building in Derrimut, Victoria on a 6.6% initial yield and has upgraded its FY19 FFO guidance by 0.5% to 19.05-19.25 cps.

Earlier in the September quarter, most A-REITs delivered their FY18 results with results broadly in-line with market expectations. A-REITs delivered average EPS growth of 4.2% for the year ending 30 June 2018. Cap rate compression continued during the year with NTA's rising 8.2% across the sector, and the largest movements typically being from those with office portfolios.

At a sub-sector level, the retail sector maintained its resilient high occupancy levels, although income growth was weak with re-leasing spreads deteriorating. Office remained strong given favourable fundamentals driving both income and valuation growth. Residential developers maintained their above cycle margins, although pre-sales were weaker highlighting what's yet to come. Fund Managers continue to demonstrate strong net inflows and growth in FUM as investors continue to chase yield type investments.

MERGERS & ACQUISITIONS

M&A activity in the A-REIT sector reached new heights in September with six different listed property companies being involved in some form of M&A.

Finally, the long-winded saga for the right to own Investa Office Fund (IOF) seems to be coming to a close. During the month, Canadian based Oxford Properties (Oxford) made a cash $5.50 bid for IOF. This was later matched by Blackstone with a $5.52 bid, and then a further bid by Oxford at $5.60. Critical in this tussle was the agreement of Investa Commercial Property Fund (ICPF) to sell its 19.99% in IOF to Oxford Properties Group, which was quickly followed by Blackstone no longer being a substantial shareholder for IOF. Oxford now has four weeks of due diligence to decide whether it wants to proceed.

Elsewhere, PropertyLink (PLG) has become the subject of takeover action both as bidder and acquirer. First, by making a $3.04 bid for Centuria Industrial REIT (CIP). Centuria Capital (CNI), the manager of CIP, then responded by saying as a shareholder in PLG it had lost confidence in PLG and was seeking to remove its board. These events were quickly followed by a non-binding indicative $1.15 cash offer to acquire PLG from ESR Real Estate (ESR). What makes this interesting is that ESR is owned by US private equity giant Warburg Pincus and ESR owns a 19% stake in PLG and 15% stake in CNI.

In addition, Hometown now looks certain to takeover Gateway Lifestyle (GTY), having reached a 50% ownership in GTY, and satisfied FIRB approval.

DEBT AND CAPTIAL MARKETS

National Storage REIT (NSR) completed the retail component of its $175m equity raising during September. The raising, which was announced in August, comprising a $50m institutional placement and 5 for 37 pro-rata accelerated non-renounceable entitlement offer at $1.66, will be used to reduce gearing levels to ensure sufficient headroom for growth and longer-term financial flexibility.

During September Unibail-Rodamco-Westfield placed U.S.$1.0bn of bonds in the United States market, which was 2x oversubscribed. The two-tranche bond issuance comprised a $500m bond with a 10-year maturity at 4.125% and a $500m bond with a 30-year maturity at 4.625%.

Continuing with the recent trend of share buybacks in the A-REIT sector, Stockland Group (SGP) announced in September its intentions to initiate an on-market buy-back for up to $350 million of SGP securities.

SECTOR VALUATION

As at the end of September, the A-REIT sector was trading on a FY19 estimated distribution yield of 5.2%. While low by historical levels, this is a function of the low interest rate environment in Australia at present.

A-REIT distribution yields continue to look attractive relative to interest rates, with near record spreads. Currently the A-REIT sector distribution yield offers a 370 bps premium to the RBA Cash Rate and a 253 bps premium to 10 Year Bonds (Figure 3).

The A-REIT sector is also currently trading on a 19% premium to net tangible assets (NTA), which is at a slight premium to the 25 year average of 15.7%. It's also worth highlighting this premium reduces to just 6% if active A-REITs are excluded.

FUND PERFORMANCE REPORT

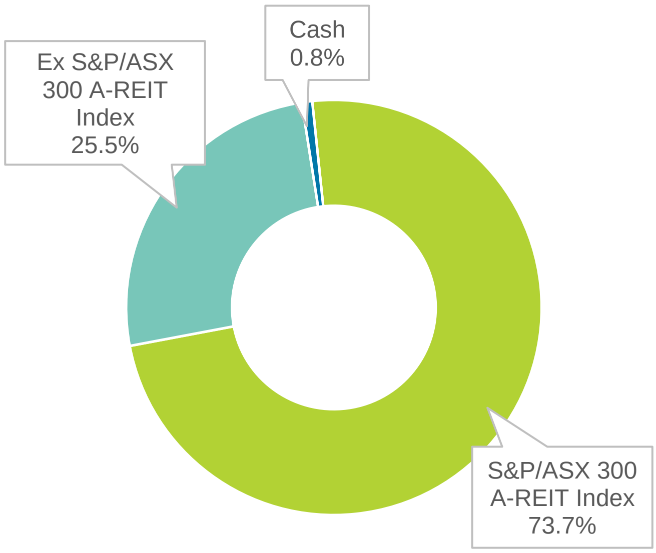
September 2018

For the month of September 2018, the Fund returned +0.02% (on an After Fee but Before Tax basis), outperforming the Fund's Benchmark (S&P/ASX 300 A-REIT Accumulation Index) by +1.57%.

Positive contributions to returns in September 2018 came from the Fund's zero holdings in Unibail-Rodamco-Westfield (URW -2.8%) and Vicinity Centres (VCX -5.4%) and a holding in Vital Harvest (VTH +6.7%).

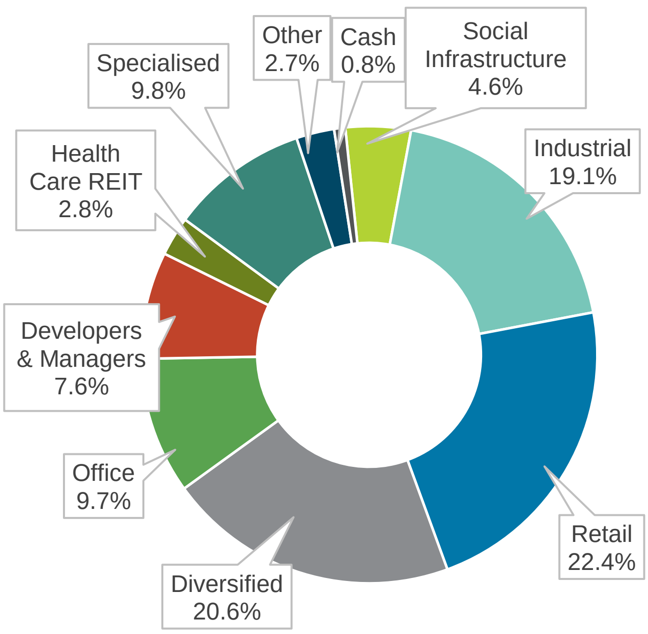
Fund Asset Allocation

As at 30 September 2018



Fund Sector Split

As at 30 September 2018



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

Negative contributions to returns came from a holding in Kangaroo Island Plantations (KPT, -3.4%) and zero holdings in Investa Office Fund (IOF +3.6%) and GPT Group (GPT +0.8%).

September Quarter 2018

For the September 2018 Quarter, the Fund returned +3.25% (on an After Fee but Before Tax basis), outperforming the S&P/ASX 300 A-REIT Accumulation Index by +1.26%.

Positive contributions to returns in the September Quarter came from the Fund's exposure to Australian Unity Office Fund (AOF +7.6%), a zero weight in Unibail-Rodamco-Westfield (URW -3.7%), and an overweight position in Folkestone Education Trust (FET +6.3%).

Negative contributions to returns in the September Quarter came from only a part period exposure to Dexus (DXS +8.8%) and zero weightings in Stockland (SGP +4.5%) and GPT Group (GPT +3.0%).

Year to September 2018

For the 12 months to September 2018, the Fund returned +12.44% (after Fees but Before Tax), underperforming its benchmark by 0.82%.

The table below highlights the Fund's key active positions, which have contributed most to its outperformance over the year to September 2018.

Rural Funds Group	
Australian Unity Office Fund (AOF)	Overweight
Industria REIT (IDR)	Overweight
Centuria Metro REIT (CMA)	Overweight

At the end of September 2018, the Fund's investments comprised 20 ASX listed securities totaling 99.2% of the portfolio, 12 of these securities were constituents of the S&P/ASX 300 A-REIT Index, whilst the remaining 8 securities were Ex-Index securities. The remaining 0.8% was held in cash/liquid investments.

A September 2018 Quarter distribution of 0.5406 cents per Unit (paid to investors on 10th October 2018), took total distributions for the 12 months ended 30 September 2018 to 2.9375 cents per Unit.

OUTLOOK

Folkestone's view is that the outlook for the A-REIT sector will remain favourable supported by the underlying strength in commercial property markets, low interest rates, and continued offshore demand for Australian real estate.

The recent publication of the PCA/IPD Australia Property Index, which showed the performance of commercial property in Australia to June 2018, demonstrated solid performance, with a total annual return of 11.7%. At a sub-sector level, we note returns aligning with the performance of underlying portfolios in the A-REIT sector and the prevailing sentiment towards those sectors. Total returns for the 12 months ending June 2018 were 8.4% for retail, 12.5% for industrial and 14.7% for office.

Looking forward, we expect further strength in the office market and for A-REITs with office exposure. In September, Colliers forecast continued tight vacancy of under 5.0% for both Sydney and Melbourne, while it highlighted a strong pick-up in demand in Brisbane, reducing the vacancy rate from 16.1% to 14.6%.

With a difficult retail environment, we believe the outlook for retail landlords and retail A-REITs looks tough. Retail continues to battle both a cyclical decline from weak consumer sentiment and a structural decline due to the threat of online retail. Online retail now comprises 8.5% of retail spending and grew 18.8% for the 12 months ended July 2018. While retail focused A-REITs appear to remain somewhat immune to these affects due to their long leases, we expect to see a continuation of below average rental growth and in some instances, weakness in asset prices, particularly those centres in poor locations, with weak tenancy mixes.

Indications are that the industrial sector will remain strong, underpinned by both the urbanisation of inner metro areas and the need for warehouse space to meet the growing demand for online retail. We believe these trends may continue. A recent positive trend has been the reduction in available space in the west of Melbourne, which is now leading to falls in incentives, according to Knight Frank. We expect industrial A-REIT portfolios to continue their solid performance in the near term.

Sentiment towards the residential sector has clearly turned, albeit at this point in the cycle, is really a Sydney/Melbourne story. Other states are generally in recovery mode and didn't appear to experience the recent housing boom to the extent that Sydney and Melbourne have. Recent data on housing finance and auction clearance rates all point to a slowdown, influenced by tighter lending conditions imposed by APRA and concerns from banks about the fallout from the Banking Royal Commission. Across the A-REIT sector, residential development margins and volumes are holding up well, but the weaker performance from pre-sales is a sign that performance will deteriorate. We remain positive about the medium-term prospects for the residential sector, given Australia's strong underlying population growth.

We expect elevated levels of corporate activity in the A-REIT sector to continue. The current environment of cheap debt, lower premium to NTA's, and a low Australian dollar, are very conducive to M&A. We note historically, targets tend to be smaller externally managed A-REITs.

Movements in 10 year bond rates may well continue to influence the performance of the A-REIT sector. These moves appear more likely to weigh on sentiment rather than anything else in the near term, with positive yield spreads still evident for most direct commercial property. Therefore, we believe A-REITs, like other defensive sectors, to be susceptible in the short-term to major sell-offs in the bond markets (i.e. bond yields moving higher).

Overall, we feel the A-REIT sector could continue to deliver relatively attractive returns, underpinned by sound performance from commercial property.

The A-REIT sector also looks well placed to meet any unforeseen negative events, with low gearing of 26%; this is significantly lower than the +40% levels recorded prior to the GFC.

We believe our high conviction and active strategy allows us to focus more on specific A-REIT sectors which we believe will outperform the Index or focus on individual A-REITs which we believe can deliver superior performance to the broader A-REIT sector.

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 30 September 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

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Folkestone
MAXIM A-REIT SECURITIES FUND

QUANTITATIVE RATING

Overall rating out of 127 Equity Australia Real Estate funds as of 31 July 2018.

CROWN FUND RATING

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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