



## FOLKESTONE MAXIM A-REIT SECURITIES FUND

### FEBRUARY 2018 REPORT

#### MARKET REVIEW

The A-REIT market had another volatile month as the bond market was sold off in response to the strongest average hourly earnings data released in the US since 2009.

The S&P/ASX 300 A-REIT Accumulation Index returned -3.2% in February, underperforming equities by 3.5%, as measured by the S&P/ASX 300 Accumulation Index. On a rolling 12 month basis, the A-REITs posted a flat return of +0.5% underperforming the equities market by 9.8%.

The Residential A-REIT sub-sector posted the highest return for the month of +4.1%, followed by the Industrial sub-sector at +1.3%, Health Care at +0.4%, Office at -2.3%, Specialised at -2.5%, and Diversified at -4.0%, with Retail posting the lowest return at -4.2%.

#### ACTIVITY

February saw the majority of A-REITs report their 1H18 earnings. A few key themes emerged including:

1. Results were in line with expectations, with strong earnings growth from Charter Hall Group (CHC), Mirvac Group (MGR), Goodman Group (GMG) and Dexus (DXS), driven by continued strength in residential, office and funds management performance fees.
2. Cap rate compression continuing to push values higher, particularly for

office and industrial, but the rate of compression has slowed.

3. Capital management strategies in the form of buybacks for some of the A-REITs trading at or below NTAs. These included Mirvac Group (MGR) buying back up to 2.6% of capital and Dexus Group (DXS) buying up to 5.0% of issued securities. Vicinity Centres (VCX) and Investa Office Fund (IOF) however, have suspended their buy-backs as they reassess other opportunities such as acquisitions and developments.
4. On a sectorial basis, the retail environment is still challenging with most landlords reporting flat to negative specialty sales growth and a growing number of retailers going into administration.

#### SECTOR VALUATION

At the end of February, the sector was trading at a 10.6% premium to NTA. The FY18 DPS yield of 5.2% represents a 336 basis point spread to 90 day bank bills and a 233 point spread to 10 year bonds.

#### OUTLOOK

The Reserve Bank left interest rates on hold at 1.5% in February for the 18<sup>th</sup> consecutive month, noting that the unemployment rate is gradually reducing with inflation still within their target range of 2.0% - 3.0%.

#### KEY STATISTICS

as at 28 February 2018

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

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

Folkestone Maxim A-REIT Securities Fund	February 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	-2.65	-5.94	+1.56	+4.53	+6.81	+7.74	+1.24	+1.05
Income Return	+0.00	+0.88	+3.67	+4.25	+5.71	+5.13	+2.88	+3.60
Total Return (After Fees but Before Tax) **	-2.65	-5.06	+5.22	+8.78	+12.52	+12.87	+4.12	+4.65
S&P/ASX 300 A-REIT Accumulation Index	-3.15	-6.18	+0.52	+5.04	+10.19	+11.70	+3.27	+3.18
<b>Value Add</b>	<b>+0.50</b>	<b>+1.12</b>	<b>+4.70</b>	<b>+3.74</b>	<b>+2.33</b>	<b>+1.17</b>	<b>+0.85</b>	<b>+1.47</b>



Notwithstanding this, there are interest rate headwinds as Australian 10-year bonds approach the 3% mark following the footsteps of the US. With the high correlation of the A-REIT's performance and 10 year bonds, we anticipate that there will be continued volatility over the short-term.

We continue to favour those A-REITs with exposure to the social infrastructure property sub-sectors. We have been and will continue to add to our position in A-REITs which are attractively priced, are well managed and have the ability to actively drive income growth within their portfolios.

## FUND PERFORMANCE

Over the month, the Fund returned -2.65% (after fees, before tax), outperforming the Benchmark by +0.50%. On a rolling 12 month basis, the Fund returned +5.22%, substantially outperforming the Benchmark return of +0.52% by +4.70%

In February, positive contributions came from the Fund's zero exposure to Stockland Group (SGP -4.3%), Dexus Group (DXS -2.4%) and Investa Office Fund (IOF -4.5%).

Detracting from performance were the Fund's overweight exposure to Eureka Group (EGH -6.3%) and Rural Funds Group (RFF -2.7%).

At the end of February, the Fund's investments comprised 18 ASX listed securities totaling 99.7% of the portfolio, 13 of which were constituents of the S&P/ASX 300 A-REIT Index, with the remaining 5 holdings being non-index stocks. The balance of 0.3% of the portfolio was held in cash/liquid investments.

### QUALITATIVE RATING



### QUANTITATIVE RATING



Morningstar: Overall rating out of 124 Equity Australia Real Estate funds as of 28 Feb 2018

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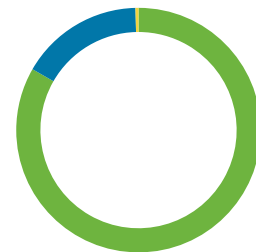
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## ASSET ALLOCATION

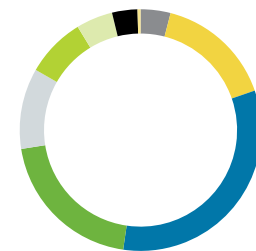
As at 28 February 2018



- S&P/ASX 300 A-REIT - 83.3%
- Ex S&P/ASX 300 A-REIT - 16.3%
- Cash - 0.4%

## SECTOR SPLIT

As at 28 February 2018



- Social Infrastructure - 4.0%
- Industrial - 15.7%
- Retail - 32.6%
- Diversified - 20.2%
- Office - 10.8%
- Developers & Managers - 8.0%
- Specialised - 4.9%
- Other - 3.4%
- Cash - 0.4%

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