



FOLKESTONE MAXIM A-REIT SECURITIES FUND

MAY 2018 REPORT

Folkestone Maxim A-REIT Securities Fund	May 2018 %	3 Months %	1 Year % p.a.	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.	Since Inception % p.a.*
Growth	+1.19	+3.00	+3.43	+5.57	+8.19	+2.07	+1.26
Income Return	+0.00	+0.73	+3.27	+4.29	+4.87	+3.01	+3.61
Total Return (After Fees but Before Tax)**	+1.19	+3.73	+6.70	+9.86	+13.06	+5.08	+4.86
S&P/ASX 300 A-REIT Accumulation Index	+2.98	+7.50	+5.69	+7.71	+11.46	+4.57	+3.70
Value Add	-1.79	-3.77	+1.01	+2.15	+1.60	+0.51	+1.16

*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 28 Feb 2018.



MARKET REVIEW

The S&P/ASX 300 A-REIT Accumulation Index returned +3.0% in May, outperforming equities by +1.8%, as measured by the S&P/ASX 300 Accumulation Index. The outperformance was driven by further M&A activity, a 10 basis point fall in 10-year bond yields and capital reallocation out of Westfield Corporation (WFD) into the large cap listed real estate securities (due to their liquidity) ahead of the merger with Unibail-Rodamco. On a rolling 12-month basis, the A-REITs are up 5.7% compared to the equities market of 10.0%.

The Office A-REIT sub-sector posted the highest return for the month of +5.3%, followed by the Industrial sub-sector at +2.9%, Diversified at +2.8%, Retail at +2.8%, Residential at +0.4%, Specialised A-REIT at -1.7% and Health Care at -1.8%.

SECTOR ACTIVITY

Key news in May included:

1. Westfield de-listed on 30 May post securityholders approving the proposed merger of Westfield Corporation (WFD) with Unibail-Rodamco (UL) and the demerger of OneMarket Limited (OMN). As part of the transaction, WFD unitholders will receive a cumulative \$7.4bn in cash on 7 June 2018 with both UL CDIs (URW) and OMN securities commencing trading on the ASX on a normal settlement basis on 12 June 2018.
2. Investa Office Fund (IOF) received a takeover offer from Blackstone of \$5.25 cash per unit (\$5.15 ex distribution). The price implies a 4% premium to December 2017 NTA of \$4.95 and 13% premium to the securities pre-offer close price. The IOF board is recommending acceptance in the absence of a superior offer. Separately, Investa Property Group, IOF's responsible entity, announced they were in final stages of consulting ICPF (a satellite fund that owns 20% of IOF) unitholders in relation to a potential strategic initiative with an institutional partner for the Investa management platform.

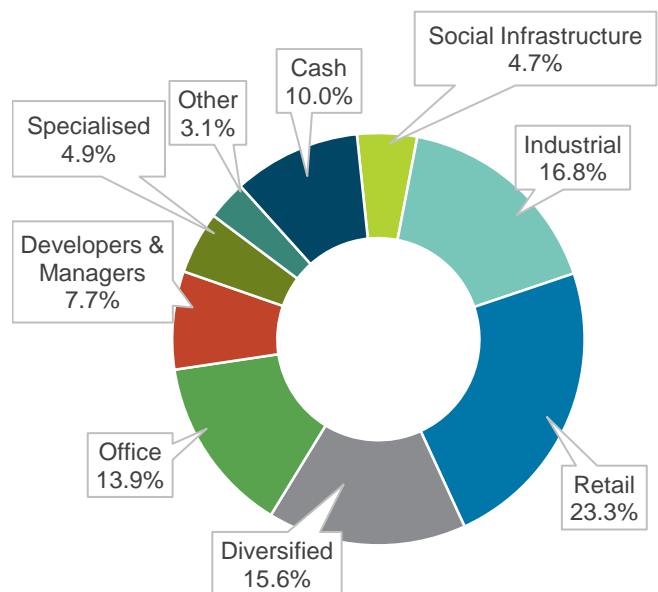
SECTOR VALUATION

At the end of May 2018, the sector was trading at a 17% premium to NTA. The FY18 DPS yield of 5.1%, represents a 312 basis point spread to 90 day bank bills and a 243 point spread to 10 year bonds.

We are of the view that near term performance is expected to be driven by property fundamentals and tenant performance, as well as increased M&A activity in the sector.

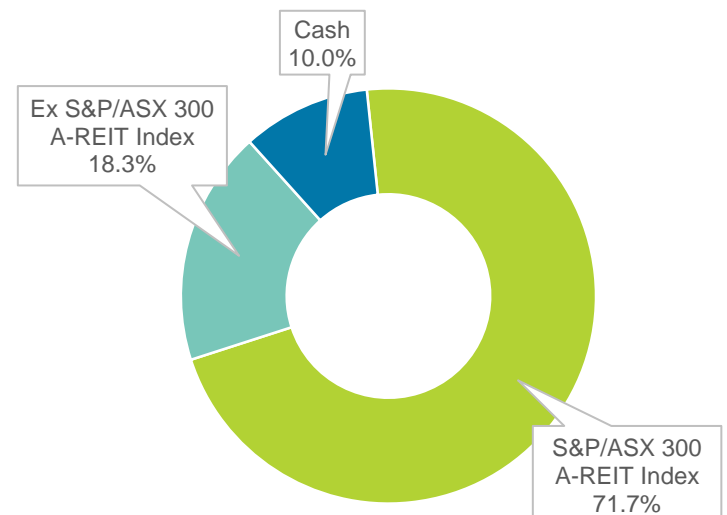
SECTOR SPLIT

As at 31 May 2018



ASSET ALLOCATION

As at 31 May 2018



FUND PERFORMANCE

Over the month, the Fund returned +1.19% (after fees, before tax), underperforming the Benchmark by -1.79%. On a rolling 12 month basis, the Fund returned +6.70%, outperforming the Benchmark return of +5.69% by +1.01%.

In May, positive contributions came from the Fund's exposure to Lifestyle Communities Ltd (LIC +5.6%), Centuria Metropolitan REIT (CMA +2.1%) and APN Property Group (APD +3.6%).

Detracting from performance were the Fund's zero exposure to Vicinity Centres (VCX +9.4%) and Investa Office Fund (IOF +15.0%).

At the end of May, the Fund's investments comprised 17 ASX listed real estate securities totaling 90% of the portfolio, 10 of which were constituents of the S&P/ASX 300 A-REIT Index, with the remaining 7 holdings being non-index securities. The balance of 10% of the portfolio, was held in cash/liquid investments.

OUTLOOK

The Reserve Bank of Australia (RBA) kept rates on hold at 1.5% in May. This marked 22 months in a row that the RBA have held rates unchanged due to low inflation and wage growth.

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.

Near term performance is expected to be driven by property fundamentals and tenant performance, as well as increased M&A activity in the sector.

We continue to favour those A-REITs with exposure to the industrial and social infrastructure property sub-sectors, and those securities with relative attractive yields. We maintain a focus on quality management teams with the ability to actively manage portfolios and drive income growth in the year ahead.

TOP 5 ACTIVE OVERWEIGHTS

By Portfolio Weight

Rural Funds Group
Carindale Property Trust
Industria REIT
Folkestone Education Trust
Centuria Metropolitan REIT

FUND OVERVIEW

As at 31 May 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
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".

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