



FOLKESTONE MAXIM A-REIT SECURITIES FUND

OCTOBER 2018 REPORT

Folkestone Maxim A-REIT Securities Fund	October 2018 %	3 Months %	1 Year % p.a.	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.	Since Inception % p.a.*
Growth	-2.91	-0.63	+3.50	+5.71	+8.23	+8.06	+1.31
Income Return	+0.00	+0.60	+3.46	+4.51	+4.96	+3.54	+3.69
Total Return (After Fees but Before Tax)**	-2.91	-0.03	+6.97	+10.21	+13.18	+11.59	+5.00
S&P/ASX 300 A-REIT Accumulation Index	-3.12	-2.13	+7.31	+7.42	+11.30	+9.28	+3.67
Value Add	+0.21	+2.10	-0.34	+2.79	+1.88	+2.31	+1.33

*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 123 Equity Australia Real Estate funds as of 30 September 2018.



MARKET REVIEW

In October, the S&P/ASX 300 A-REIT Accumulation Index returned -3.1%, outperforming equities by +2.9%, as measured by the S&P/ASX 300 Accumulation Index. Investors turned to A-REITs as a safe haven given the increased volatility in world equity markets during the month.

On a rolling 12 month basis, A-REITs have posted a total return of +7.3% versus +2.9% for the broader equities market.

Industrial A-REITs posted the highest return for the month delivering +0.1%, led by Propertylink Group (PLG) +4.9%, followed by Specialised A-REITs with +0.1%, Retail A-REITs with -1.4%, Office A-REITs with -2.8%, Residential A-REITs with -4.0% and Diversified A-REITs with -7.3%.

SECTOR ACTIVITY

October featured a raft of quarterly updates from the large A-REITs. These updates generally demonstrated continued strength in the office and industrial markets, and a moderate improvement in retail turnover over the quarter. By way of example GPT Group (GPT) reported centre comparable MAT growth of 3.4% for the 12 months ending September 2018, compared to 2.3% for the 12 months ending June 2018. Both Mirvac and Stockland reported a weaker residential market.

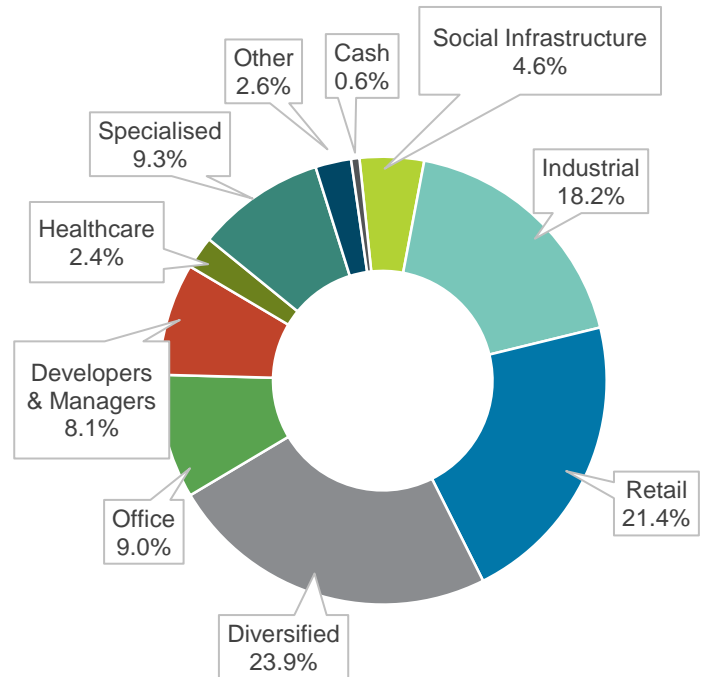
Share buy-backs became prominent during October, particularly for residential developers, with Stockland (SGP), Mirvac (MGR), Peet (PPC), Villaworld (VLW) and Vicinity Centres (VCS) all buying back their shares.

During the month there were three A-REIT equity raisings. Shopping Centres Australia (SCP) raised \$259 million at an issue price of \$2.29 per unit to acquire ten convenience-based shopping centres from Vicinity Group (VCX) for a combined purchase price of \$573 million. Centuria Metropolitan REIT (CMA) raised \$276 million at an issue price of \$2.43 per unit to acquire four metropolitan office assets for \$500 million. While the GARDA Diversified Property Fund (GDF) raised \$25 million at an issue price of \$1.25 per unit, principally to reduce gearing. The Folkestone Maxim A-REIT Securities Fund participated only in the CMA raising.

M&A continued to be a feature of the A-REIT market, with Australian Unity Office Fund (AOF) receiving a \$2.95 cash takeover offer from Starwood Capital Asia. Elsewhere, Propertylink (PLG) advised the market of its intention to recommend the \$1.20 takeover bid of its group by ESR

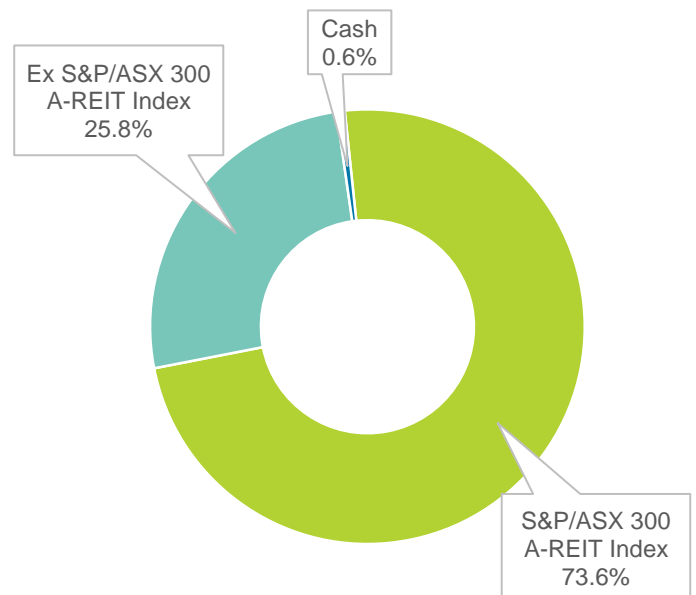
FUND SECTOR SPLIT

As at 31 October 2018



FUND ASSET ALLOCATION

As at 31 October 2018



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

Real Estate. While, NEXTDC successfully acquired the 360 Capital (TGP) stake in Asia Pacific Data Centres (AJD), taking its interest in AJD to 97.0%, and will now move to compulsory acquisition.

SECTOR VALUATION

At the end of October, the A-REIT sector was trading at a 15.9% premium to NTA (-3.9% ex GMG/CHC), and FY19e DPS yield of 5.5%.

These multiples look attractive, especially given the 284bp premium to 10-year bonds (2.6%).

FUND PERFORMANCE

Over the month, the Fund returned -2.91% (after fees, before tax), outperforming the Benchmark by +0.21%. On a rolling 12-month basis, the Fund returned +6.97%, underperforming the Benchmark return of +7.31% by 0.34%.

Positive Fund contributions in October came from the Fund's zero weighting to Unibail-Rodamco Westfield (URW -9.56%) and an overweight exposure to Australian Unity Office Fund (AOF +7.55%).

Detracting from the Fund's performance was a zero exposure to Shopping Centres Australasia (SCP +7.08) and an overweight exposure to Mirvac Group (MGR -9.96%).

At the end of October, the Fund's investments comprised 20 ASX listed securities totaling 99.4% of the portfolio, 12 of which were constituents of the S&P/ASX 300 A-REIT Index, with the remaining 8 holdings being non-index securities. The balance, 0.6% of the portfolio, was held in cash/liquid investments.

OUTLOOK

A-REIT share prices will continue to remain sensitive to changes in bond rates. 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.

Should equity markets continue their volatility to the new year we would expect general equities funds to seek shelter in the sector.

Generally, commercial property fundamentals such as occupancy and rental growth remain positive, which bodes well for A-REIT performance. However, despite the recent positive news from A-REIT quarterly reports, the Retail sector outlook remains challenging.

The Fund therefore maintains a specific underweighting to the retail sector, while overweighting in specialised sectors such as Seniors Living, Childcare and Rural sectors. This approach is consistent with the Fund's high conviction active management strategy.

TOP 5 ACTIVE OVERWEIGHTS

By Portfolio Weight

Australian Unity Office Fund
Rural Funds Group
Folkestone Education Trust
Industria REIT
Vital Harvest

FUND OVERVIEW

As at 31 October 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
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IOOF Pursuit
Powerwrap
Symetry
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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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