For professional clients only

Quarterly update — Global Properties

First State Global Property Securities Fund

Q1 2018

RISK FACTORS

This document is a financial promotion for First State Global Property Securities Fund for professional clients only in the EEA and elsewhere where lawful. Investing involves certain risks including:

- **The value of investments and any income from them may go down as well as up and are not guaranteed. Investors may get back significantly less than the original amount invested.**
- **Single sector risk:** investing in a single sector may be riskier than investing in a number of different sectors. Investing in a larger number of sectors helps spread risk.
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Reference to specific securities or companies (if any) are included to explain the investment strategy and should not be construed as investment advice, or a recommendation to invest in any of those companies.

For a full description of the terms of investment and the risks please see the Prospectus and Key Investor Information Document.

If you are in any doubt as to the suitability of our funds for your investment needs, please seek investment advice.

Market Review

The FTSE EPRA/NAREIT Global Developed Index (GBP) decreased 7.7% in the March quarter, which was more than the broader equities market (MSCI World Index -4.8% total return in GBP terms). Global REITs (Real Estate Investment Trusts) struggled over the first half of the quarter before returning to relatively strong returns against a broader market plagued by higher interest rates and trade war fears.

Japan was the strongest performing region in local terms, where the market has been supported by: a strong office market; higher inflationary and wage pressures; and the Bank of Japan keeping interest rates near zero. Canada was the only other region to post a positive return, and continues to benefit from healthy domestic demand, stabilising energy prices, an expanding service sector, and better net exports.

REITs in Australia, New Zealand, and the United States all underperformed during the quarter.

Fund Performance

Annual Performance (% in GBP) to 31 March 2018

Period	12 mths to 31/03/18	12 mths to 31/03/17	12 mths to 31/03/16	12 mths to 31/03/15	12 mths to 31/03/14
First State Global Property Securities Fund B Acc GBP	**-5.7%**	**14.8%**	**-0.7%**	**35.8%**	**-8.1%**
FTSE EPRA/ NAREIT Developed Index*	-7.1%	17.1%	4.6%	30.3%	-7.1%
MSCI World Index	1.3%	31.9%	-0.3%	19.1%	8.4%

These figures refer to the past. Past performance is not a reliable indicator of future results. For investors based in countries with currencies other than the share class currency, the return may increase or decrease as a result of currency fluctuations.

Performance data is calculated on a net basis by deducting fees incurred at fund level (e.g. the management and administration fee) and other costs charged to the fund (e.g. transaction and custody costs), save that it does not take account of initial charges or switching fees (if any). Income reinvested is included on a net of tax basis Source: Lipper IM / First State Investments (UK) Limited. *The benchmark changed name from the UBS Global Real Estate Investors on 20 May 2013.

The Fund fell 6.72% in the quarter[1], 100 basis points above its benchmark index (the FTSE EPRA/NAREIT Global Developed Index).

Some of the biggest contributors to our outperformance were overweight positions in Mitsui Fudosan and Interxion. There was little stock-specific news for Mitsui over the quarter, but the share price was buoyant on continued rental growth and the opening of new office and retail buildings. Also expectations have begun to build around strong full year results and medium term earnings forecasts, to be released in May.

Interxion's share price jumped in January when it announced new expansion projects across seven major European cities including Madrid, Paris and Amsterdam. A number of brokers upgraded their revenue growth forecasts subsequent to the announcement, noting the increased pace of data centre activity in Europe and the increased appeal of Interxion as a takeover target. Analysts further raised their Interxion price targets in March after it delivered solid results with 17% organic revenue growth in Q417, driven by strong demand among cloud and enterprise clients.

Other contributors included Inmobiliaria Colonial, Dream Global REIT, and UNITE Group. UNITE continues to perform consistently, and the level of 2018/2019 reservations made so far supports its outlook of 3.0-3.5% rental growth on a like-for-like basis. Please note that forecasts cannot be guaranteed.

As a result of the weak American market, eight of the top ten detractors for the month were US companies. Data centre provider Equinix was the biggest detractor after falling almost 14% in February despite little company-specific news. It partially recovered in March, returning 6.6%. Another significant detractor was Regency Centers, which likewise fell on little negative news. Nevertheless, investors remained concerned about retail landlord health and the potential for 2018 store closures which are typically announced after the holiday season, as we saw again recently with both Toys R Us and Claire's. Paradoxically, Regency Centers offered conservative 2018 earnings guidance that was below some analysts' expectations, but then went on to outperform its shopping centre peers.

Activity

We established positions in a number of stocks during the quarter, including Prologis, Camden Property Trust, and Mirvac.

Prologis' coastal market-focused portfolio is among the highest quality of its listed industrial peer group (54% assets in high barrier markets), which has resulted in and will continue to drive above average operating metrics. Its development activity should remain elevated and drive external growth, with an in-process pipeline of $3b.

Camden owns a Sunbelt-focused apartment portfolio with its largest markets comprising of Washington DC Metro, Houston, and Atlanta. Sector leading operating income growth should be driven by above average job growth expectations in the Sunbelt markets and easing supply pressures. Additionally, an opportunistic equity raise at the end of 2017 has positioned Camden for potential acquisition opportunities and with leverage levels among the lowest in the residential REIT space.

Mirvac's valuations are driving up its total return expectations and the stock still looks attractive to us despite the negative "noise" around residential earnings.

To fund our purchases, we completely sold out of Vornado Realty and Kimco Realty, and reduced our holding in Simon Property Group. Despite Vornado's attractive valuation and solid internal growth from significant mark to market rents, the overall New York City office outlook is challenging with flat net effective rents and high tenant improvement costs. Vornado's 30% exposure to New York City street retail is also an area of concern, given the increase in store vacancies. We decided to sell Kimco and Simon Property after a better than expected holiday season, as we anticipate still challenging retail news and an uphill 2018 outlook.

Market Outlook and Fund Positioning

The strategy has exposure to very high quality assets in high barrier to entry urban locations in the world's most bustling cities.

In the US, fiscal stimulus from both corporate and individual tax cuts will add to corporate earnings growth in 2018 while real estate earnings growth is not expected to directly benefit. More significant current sector exposures include high quality data centres, single family rentals, West Coast office REITs, Class A regional malls, apartment REITs and an industrial REIT. We view Canadian REITs as fairly valued overall at current levels given modest near-term earnings growth outlooks and the Bank of Canada's move to higher rates.

In Europe and the UK, the potential for future increases in bond yields may lead to increased sector volatility. Our exposures include student accommodation in the UK, German residential, and office buildings in France and Spain.

In Australia, while retail sales are showing signs of stabilisation, systemic shifts in consumer behaviour overlaid with concerns around the residential development cycle offer headwinds against the sector returning to a level at which it could outperform the broader market.

Within Asia, the overall strategy is to have a balanced portfolio with some quality defensive names, and some with strong growth potential in the region. We have been increasingly constructive on Japan where the Bank of Japan continues to run a zero interest rate policy, and the office market vacancy continues to fall.

[1] Performance is based on OEIC B share class, net of fees, expressed in GBP.

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