Global Property Securities
Why active Global Property Securities?

Global Property Securities | September 2020

For professional clients only

COVID-19 has sent shockwaves through capital markets, and property securities have been no exception. The crisis has plunged the global economy into recession and has given rise to the remote work and learning thematic, while seemingly fast-tracking the rise of e-commerce.

These well documented trends have rightly called into question the long-term outlook of office buildings and shopping malls, among other types of real estate, which has seen some investment industry pundits subsequently question whether property securities is still a prudent place to gain liquid exposure to real assets. The answer is a profound 'yes'.

In this piece, we explore how the extensive and highly diverse global property securities universe is much more than just office buildings and shopping malls, offering active investors a plethora of compelling investment opportunities in the current environment.

Global Property Securities – much more than just shopping malls and CBD* office buildings

Global listed real estate markets are extensive and highly diverse, offering investors a plethora of opportunities across a wide range of sub-sectors and regions. This enables the construction of diversified property-based portfolios that are dynamically positioned in the most attractive investments based on the prevailing market conditions.

The modern global property securities sector is much more than just traditional real estate assets like office buildings and shopping malls, and offers investors an abundance of attractive opportunities across the £1.1 trillion, ~650 constituent sector[1], including residential assets, logistical warehousing, data centres and health care assets such as hospitals.

The eclectic opportunity set enables active investors to avoid distressed or structurally challenged parts of the economy affecting real estate, like shopping malls, CBD office buildings and hotels, among others, while capitalising on highly compelling opportunities by investing into the beneficiaries of the economic and thematic backdrop.

On the other hand, passive investors are poorly placed in our view. By indiscriminately investing into the whole sector, including in landlords facing severe headwinds, passive funds have borne the full brunt of the pandemic and are likely to continue to experience significant challenges going forward.

Therefore, we believe the widening disparity between property types and markets underpins the growing importance of having an actively managed exposure to the highly diverse global property securities sector.

* Central Business Districts

1 Source: FactSet and First Sentier Investors as at 31 August 2020. The total market value is based on the total market capitalisation of the FTSE EPRA NAREIT Developed Index, while the constituent count is based on our internal modelling of our total screened universe.

RISK FACTORS

This is a financial promotion for The First Sentier Global Property Securities Fund. This information is for professional clients only in the UK and 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.**
- **Charges to capital risk:** The fees and expenses may be charged against the capital property. Deducting expenses from capital reduces the potential for capital growth.
- **Currency risk:** the Fund invests in assets which are denominated in other currencies; changes in exchange rates will affect the value of the Fund and could create losses. Currency control decisions made by governments could affect the value of the Fund's investments and could cause the Fund to defer or suspend redemptions of its shares.
- **Single sector risk:** investing in a single economic sector may be riskier than investing in a number of different sectors. Investing in a larger number of sectors helps to spread risk.
- **Property securities risk:** the Fund invests in the shares of companies that are involved in property (such as real estate investment trusts) rather than in property itself. The value of these investments may fluctuate more than the underlying property assets.
- **Emerging market risk:** Emerging markets tend to be more sensitive to economic and political conditions than developed markets. Other factors include greater liquidity risk, restrictions on investment or transfer of assets, failed/delayed settlement and difficulties valuing securities.

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

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

How our strategy is positioned

Our global property strategy[2] is actively positioned in a range of sub-sectors that we believe are very well placed to benefit from prominent structural tailwinds in the 'new life' post COVID-19.

Our largest exposure is to residential assets, which have been very resilient amidst COVID-19, reporting robust rent collections and maintaining high levels of occupancy. These cash flow stable assets are poised to benefit from de-centralisation, as renters increasingly move from dense urban centres to less dense urban and suburban locations.

The defined long-term trend from home ownership to rental accommodation also supports further strong tenant demand on top of natural population growth. Our strategy has concentrations in apartments and detached housing in US coastal gateway cities and the Sun Belt, as well as London and Germany.

We also have material exposure to logistical warehousing, with concentrations in the UK, the US and Japan. These modern buildings are experiencing extraordinarily strong levels of tenant demand as 3rd Party Logistics Providers (3PL's), retailers, e-tailers and wholesalers invest large amounts of capital into modernising their supply chains.

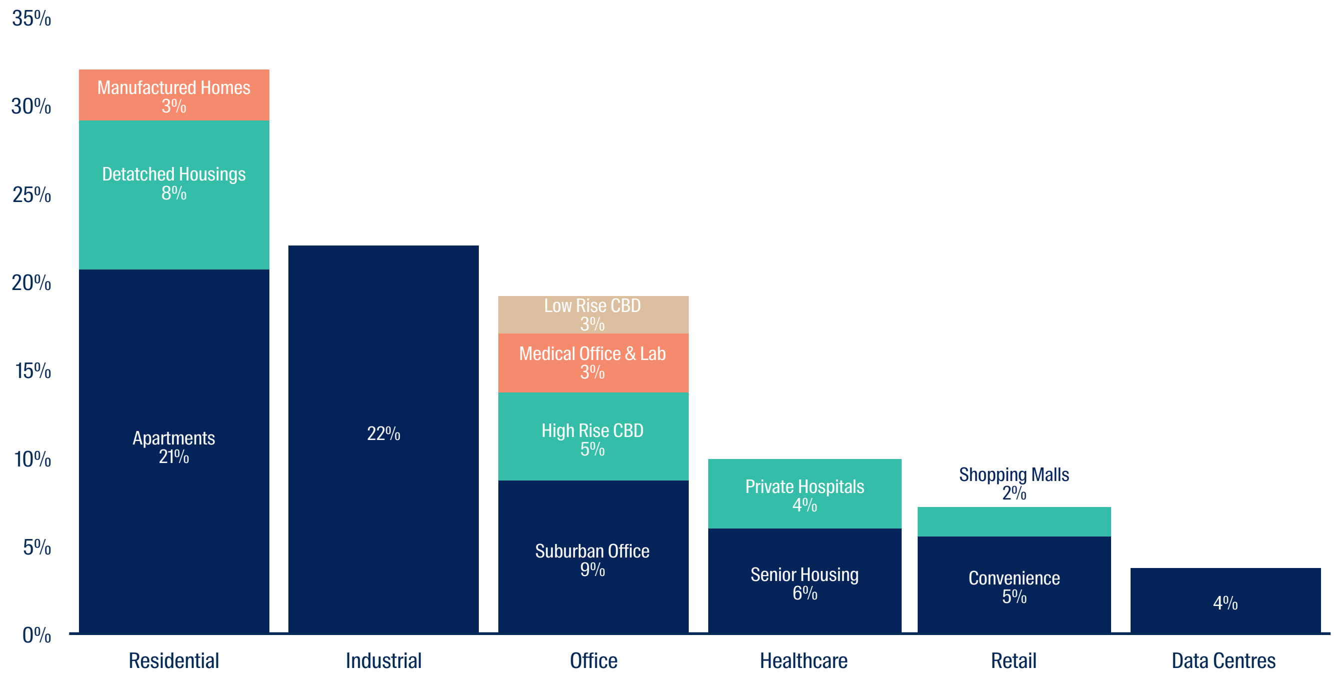
Our strategy is also invested into modern "A" grade suburban and city-fringe office buildings, which we believe could benefit from de-centralisation and the flexible working dynamic, while CBD high rise buildings as a whole are likely to be a casualty of these trends. Our exposures to the office sub-sector are primarily in Tokyo, Western Europe and the West Coast of the US.

We are also invested into a number of healthcare assets in the US, including seniors housing, private hospitals, medical office buildings and bio-tech laboratories, which are well placed amidst the renewed attention on the 'fitness for purpose' of healthcare systems and ongoing demographic change, such as ageing populations.

Our portfolio has selective exposure to retail assets, including convenience and non-discretionary oriented shopping centres in the US, which are largely insulated from e-commerce headwinds and could in fact benefit from de-centralisation.

The strategy also has exposure to data centres in the US. These specialist assets are a beneficiary of the rapid take up of the internet globally, the rise in social media and e-commerce and the corporate migration to "cloud computing". The emergence of the 'work/study/play from home' dynamic amidst COVID-19 has accelerated society's adoption of digital technologies and internet usage continues to soar.

The main exposures of our strategy



Note: these metrics are for the portfolio on a 'look through' basis (i.e. they represent the portfolio's actual exposure to different property types, without reference to the GICS classification or other industry standards). Exposures reflect the First Sentier Global Property Securities Fund (OEIC).

Source: First Sentier Investors as at 31 August 2020.

[2] Source: First Sentier Investors as at 31 August 2020. Exposures reflect the First Sentier Global Property Securities Fund (OEIC).

Delivering superior investor outcomes

An abundance of capital has flowed into low-cost passive global property exposures in the decade following the Global Financial Crisis, as the accommodative monetary environment created by central banks globally has seemingly caused a secular appreciation in asset prices. However, as the COVID-19 pandemic continues to impact financial markets and the real economy, the material drawbacks of passive investing and the benefits of active management have become increasingly clear.

Our global property strategy has delivered investors above benchmark returns, with lower levels of volatility, during COVID-19 and over the longer term. Importantly, we typically outperform our benchmark in down markets – although this cannot be guaranteed, which has resulted in the portfolio better preserving clients' capital amidst market turbulence by recording less significant drawdowns[3].

Performance (% in GBP, net of fees and expenses) to 31 August 2020

Period	6 mths	CYTD	1 yr	3 yrs	5 yrs	10 yrs	Since Inception
First Sentier Global Property Securities Fund B GBP Acc	-8.3	-8.4	-9.9	10.4	41.4	134.6	139.5
FTSE EPRA Nareit Developed Index*	-14.5	-18.0	-21.5	-5.2	33.6	120.5	112.1
Relative Performance	**6.2**	**9.6**	**11.6**	**15.6**	**7.8**	**14.1**	**27.4**

Period	12 mths to 31/08/2020	12 mths to 31/08/2019	12 mths to 31/08/2018	12 mths to 31/08/2017	12 mths to 31/08/2016
First Sentier Global Property Securities Fund B GBP Acc	-9.9	15.6	6.0	1.6	26.0
FTSE EPRA Nareit Developed Index*	-21.5	15.4	4.6	1.5	38.8
Relative Performance	**11.6**	**0.2**	**1.4**	**0.1**	**-12.8**

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 figures have been calculated since the launch date. 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). Since launch performance calculated from 12 September 2006. Income reinvested is included on a net of tax basis. Source: Lipper IM / First Sentier Investors (UK) Funds Limited.
*The benchmark changed from UBS Global Real Estate Investors on 20/05/2013

These outcomes are a consequence of our rigorous investment process, which aims to allocate capital efficiently, with an overarching emphasis on absolute and relative risk, through detailed screening, bottom-up fundamental research and stock selection, coupled with disciplined, benchmark-unaware portfolio construction. We also have the flexibility to take a conviction-based approach where pricing anomalies warrant, such as when stocks are materially oversold amidst market dislocations.

The result is a well-diversified portfolio of 35 - 80 securities, which gives investors liquid exposure to attractively valued, high quality real estate, with an overriding emphasis on asset and balance sheet quality.

This is starkly different to how passive strategies are managed, which effectively 'buy and hold' the entire sector in an indiscriminate manner. In our opinion, the inherent lack of stock-selection associated with passive funds means that capital is allocated partly towards securities that could own low quality assets, trade at unappealing valuations, face material structural or cyclical headwinds, have weak fundamentals or stressed balance sheets and could be exposed to unacceptable amounts of risk.

On the other hand, because our experienced investment team continually monitors our investible universe for risks and opportunities, our strategy is able to be positioned dynamically during rapidly changing market conditions, meaning we only invest into truly compelling investment opportunities at any given point in time. By utilising this dynamic investment approach, we believe that our strategy is best placed to preserve and grow clients' capital through the cycle.

[3] Over the last 10 years, the maximum drawdown of the First Sentier Global Property Securities Composite (GBP) was -18.4%, while the maximum drawdown of the benchmark was -27.7%. Source: First Sentier Investors as at 31 August 2020.

For further institutional enquiries contact institutionalenquiries@firstsentier.com
For wholesale enquiries contact enquiries@firstsentier.com

Important Information

This document has been prepared for informational purposes only and is only intended to provide a summary of the subject matter covered and does not purport to be comprehensive. The views expressed are the views of the writer at the time of issue and may change over time. It does not constitute investment advice and/or a recommendation and should not be used as the basis of any investment decision. This document is not an offer document and does not constitute an offer or invitation or investment recommendation to distribute or purchase securities, shares, units or other interests or to enter into an investment agreement. No person should rely on the content and/or act on the basis of any material contained in this document.

This document is confidential and must not be copied, reproduced, circulated or transmitted, in whole or in part, and in any form or by any means without our prior written consent. The information contained within this document has been obtained from sources that we believe to be reliable and accurate at the time of issue but no representation or warranty, express or implied, is made as to the fairness, accuracy, or completeness of the information. We do not accept any liability whatsoever for any loss arising directly or indirectly from any use of this information.

References to “we” or “us” are references to First Sentier Investors.

In the UK, issued by First Sentier Investors (UK) Funds Limited which is authorised and regulated by the Financial Conduct Authority (registration number 143359). Registered office Finsbury Circus House, 15 Finsbury Circus, London, EC2M 7EB number 2294743. Outside the UK, issued by First Sentier Investors International IM Limited which is authorised and regulated in the UK by the Financial Conduct Authority (registered number 122512). Registered office: 23 St. Andrew Square, Edinburgh, EH2 1BB number SCO79063.

Certain funds referred to in this document are identified as sub-funds of First Sentier Investors ICVC, an open ended investment company registered in England and Wales (“OEIC”). Further information is contained in the Prospectus and Key Investor Information Documents of the OEIC which are available free of charge by writing to: Client Services, First Sentier Investors (UK) Funds Limited, Finsbury Circus House, Finsbury Circus, London, EC2M 7EB or by telephoning 0800 587 4141 between 9am and 5pm Monday to Friday or by visiting www.firstsentierinvestors.com. Telephone calls may be recorded. The distribution or purchase of shares in the funds, or entering into an investment agreement with First Sentier Investors may be restricted in certain jurisdictions.

Representative and Paying Agent in Switzerland: The representative and paying agent in Switzerland is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich, Switzerland. Place where the relevant documentation may be obtained: The prospectus, key investor information documents (KIIDs), the instrument of incorporation as well as the annual and semi-annual reports may be obtained free of charge from the representative in Switzerland.

First Sentier Investors entities referred to in this document are part of First Sentier Investors a member of MUFG, a global financial group. First Sentier Investors includes a number of entities in different jurisdictions. MUFG and its subsidiaries do not guarantee the performance of any investment or entity referred to in this document or the repayment of capital. Any investments referred to are not deposits or other liabilities of MUFG or its subsidiaries, and are subject to investment risk including loss of income and capital invested.

MAR000701_0920_UKEU