Global Property Securities
Why active Global Property Securities?

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. We believe the answer is '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 US$1.4 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 very 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, 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.

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 should 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.

[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.

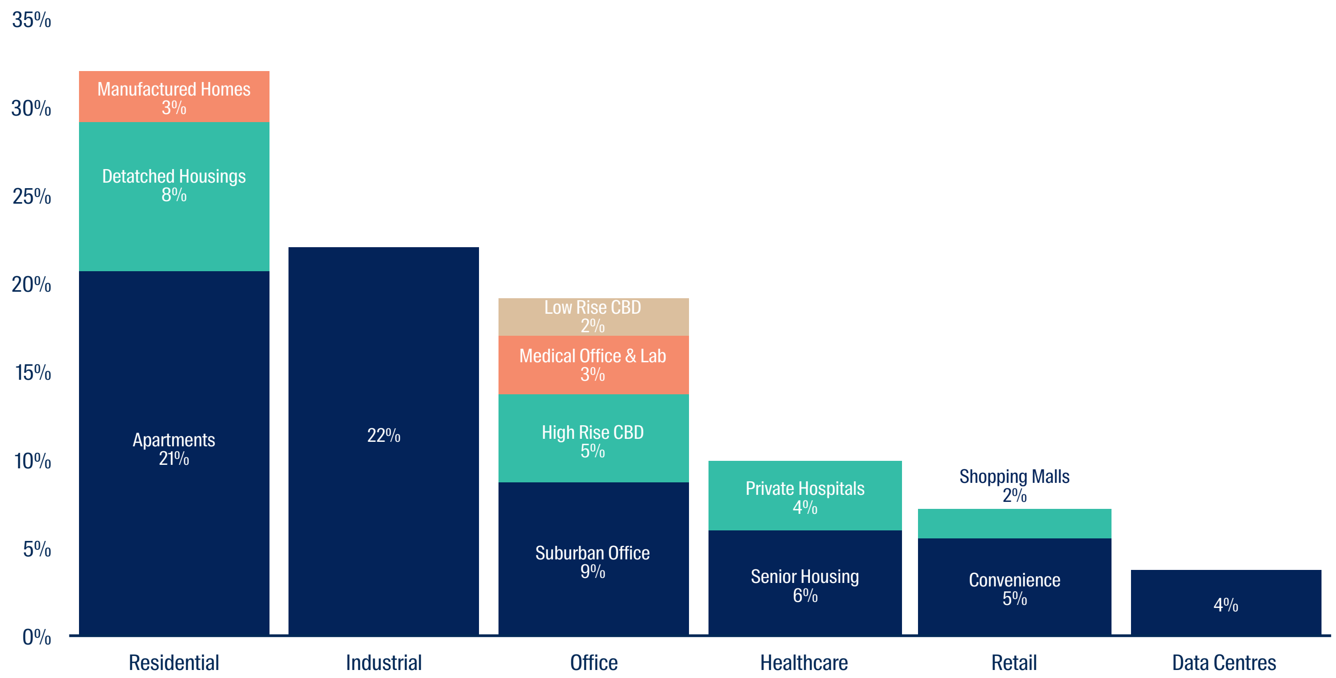
[2] Source: First Sentier Investors as at 31 August 2020. Exposures reflect the First Sentier Global Property Securities Fund (OEIC). The fund is not available for investment by US persons.

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). The fund is not available for investment by US persons.

Source: First Sentier Investors as at 31 August 2020.

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[3]. Importantly, we typically outperform our benchmark in down markets, which has resulted in the portfolio better preserving clients' capital amidst market turbulence by recording less significant drawdowns[4].

Performance (% in USD, gross of fees and expenses) to 31 August 2020

Period	6 mths	CYTD	1 yr	2 yrs	3 yrs	5 yrs	7 yrs	10 yrs	Since Inception
Global Real Estate Strategy (USD)	-3.5	-8.0	-0.9	3.8	4.9	5.1	6.7	8.1	4.7
Benchmark	-10.4	-17.1	-13.7	-3.4	-0.5	2.9	4.0	6.5	2.7
Relative Performance	**6.9**	**9.1**	**12.8**	**7.2**	**5.4**	**2.2**	**2.7**	**1.6**	**2.0**

Source: First Sentier Investors as at 31 August 2020. First Sentier Global Property Securities Composite compared to FTSE EPRA NAREIT Developed Index. All data in USD terms. Inception date is 1 October 2006. Benchmark since inception to May 20 2013: UBS Global Real Estate Investors. From 1 June 2013: FTSE EPRA/NAREIT Developed Index. The funds within the composite are not available for investment by US persons. Composite information is being provided as an example of First Sentier Investors' expertise in the strategy. Periods greater than 1 year are annualized returns. Past performance is not indicative of future performance. Performance figures do not reflect the deduction of investment advisory fees. A client's return will be reduced by the investment fees. If a client placed $100,000 under management and a hypothetical gross return of 10% were achieved, the investment assets before fees would have grown to $259,374 in 10 years. However, if an advisory fee of 1% were charged, investment assets would have grown to $234,573, or an annual compounded rate of 8.9%.

[3] Since inception, the annualised volatility of the First Sentier Global Property Securities Composite (USD) has been 18.79%, while the annualised volatility of the benchmark has been 20.36%. Source: First Sentier Investors as at 31 August 2020.

[4] Over the last 10 years, the maximum drawdown of the First Sentier Global Property Securities Composite (USD) was -23.2%, while the maximum drawdown of the benchmark was -29.0%. Source: Mercer as at 31 August 2020.

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 around 30 - 50 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. The inherent lack of stock-selection associated with passive funds means that capital may be 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, we believe 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.