For professional clients only

First State Investments

Monthly update

Global Properties

First State Global Property Securities Fund

March 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.
- **Currency risk:** changes in exchange rates will affect the value of assets which are denominated in other currencies
- **Global property securities risk:** investments are made in the shares of companies that are involved in property (like real estate investment trusts) rather than property itself. The value of these investments may fluctuate more than actual property.

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

Globally, major property market returns were relatively strong in March against a weak broader market. The FTSE EPRA/NAREIT Developed Index (TR) rose 0.66% in GBP terms. In local currency terms, the UK (4.3%) was the best performing market, while Hong Kong (-2.5%) was the worst.

The FTSE EPRA/NAREIT Australia Index was relatively flat for the month with a rise of 0.05%. Industrial A-REITs (2.7%, Real Estate Investment Trusts) were again the best performing sub-sector while Retail A-REITs (-1.2%) continued their underperformance from February to be the weakest. The performance of Australian REITs was helped by falling Australian 10-year bond yields, which dropped 20bps to 2.6%.

The FTSE EPRA/NAREIT United States Index reversed some of the YTD underperformance versus the broader equity market, returning 3.9% in March. Merger and acquisition (M&A) transactions returned to drive divergent sector performance. Mall REITs fell in the wake of a disappointing second bid for GGP Inc. from Brookfield and hotel REITs reacted positively to Pebblebrook Hotel Trust’s offer for rival LaSalle Hotels. As expected, the Fed funds target range was raised by 25bps to 1.50% - 1.75%. The Canadian REITs delivered another solid month of performance in March, with the FTSE EPRA/NAREIT Canada Index returning 2.2%. REITs likely benefited from their defensive attributes, with equity markets more volatile amid concerns about higher interest rates, trade war fears and the prospect of US government regulation of the technology sector.

The FTSE EPRA/NAREIT UK Index rose 4.3% in an extremely strong performance over the month. The Bank of England left interest rates unchanged in March at 0.5%, but markets are now fully pricing in another rate raise in May 2018. Surprisingly, the UK and EU27 agreed much sooner than expected on arrangements for the transition period, which is going to run from the date of Brexit (29 March 2019) until the end of 2020. The M&A theme also emerged in the UK, with Klepierre making a bid for Hammerson, which was knocked back by the board. In continental Europe, March saw the tail end of the FY2017 results, with all the German residential players reporting good results once again, and significant portfolio revaluation uplifts. The FTSE EPRA/NAREIT Developed Europe ex UK Index rose a strong 3.1%.

In Asia property returns were mixed over the month. Both Japanese REITs (-0.7%) and developers (-1.0%) were slightly down, but outperformed the broader equity market (-2.7%). Developers are starting to gain investor interest as we move towards their full year results in May. The story in Singapore was much the same, with Singapore REITs (0.3%) and developers (-0.6%) outperforming the local market (-2.6%). In Hong Kong, landlords continued to deliver stable organic growth, and retail malls experienced a turnaround with strong sales growth and improved occupancy costs. However, global trade tension was the main driver of the market over the month, which saw the FTSE EPRA/NAREIT Hong Kong Index down by 2.5%, largely in line with the broader market.

Fund performance and activity

The Fund rose 1.39% in March[1], 73 basis points above its benchmark index, the FTSE EPRA/NAREIT Developed Index.

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
FTSE EPRA/NAREIT Australia Index	-11.2	20.9	15.8	25.0	-15.2
FTSE EPRA/NAREIT United States Index	-14.8	17.3	7.4	39.2	-4.8
FTSE EPRA/NAREIT Canada Index	-1.2	22.7	0.8	10.4	-15.6
FTSE EPRA/NAREIT UK Index	6.6	0.0	-5.3	25.3	28.0
FTSE EPRA/NAREIT Developed Europe ex UK Index	13.2	10.8	12.1	23.4	7.4
FTSE EPRA/NAREIT Hong Kong Index	2.6	42.8	-12.8	32.8	-19.5

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 strongest performer for the month was Hammerson, which rose strongly following the revelation that Klepierre made an indicative bid for the whole company at 615p/share, a 41% premium to the previous close. Hammerson's Board rejected the offer as 'wholly inadequate and entirely opportunistic' after earlier underperformance on concerns about its merger with Intu and a wave of UK retailer bankruptcies.

The next strongest contributors were our positions in data centre providers Interxion and Equinix. Analysts raised their Interxion price targets after it delivered solid results with 17% organic revenue growth in Q417, driven by strong demand among cloud and enterprise clients. The company's 2018 revenue and EBITDA[2] guidance were also above consensus. The demand environment in Europe continues to be favourable with increased prospects for bookings from cloud and enterprise deployments. After falling almost 14% in February, Equinix recovered 6.6% in March as investors regained confidence that the overall growth business model is still intact.

Another stock that added to performance over the month was UK student accommodation company 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.

Due to the weak performance of the Hong Kong property market, the Fund's biggest detractors were Sung Hung Kai Properties and Hang Lung Properties. The Hong Kong property sector was sold off together with the broader market as US/China trade tensions raised uncertainty and dampened sentiment. For Hang Lung in particular, China's retail sales remain robust especially in the luxury sector in the 1st and 2nd tier cities, and the stock is well positioned for organic growth. Another detractor was Australian retail landlord Vicinity Centres. Vicinity continues to face challenging structural and cyclical headwinds impacting retail sales, evidenced by January retail sales rising just 0.1% as announced in early March. Along with changes implemented by the new CEO, these factors will have likely weighed on the stock over the course of the month.

After strong performance in March following the bid from Klepierre, we have reduced our position in Hammerson. While we expect Klepierre to make an improved offer, it would have to be a hostile bid given Hammerson's uncooperative board. These have historically been less successful, so we considered it more prudent to partially reduce our exposure given already strong performance.

We also reduced our holdings in two large US retail REITs, Simon Property Group and Regency Centers. Simon remains the best name to own in the mall space, however near-term retail news will likely provide headwinds. Retailers typically announce store closures after the holiday season, as we saw again recently with both Toys R Us and Claire's. Simon's tremendous liquidity allowed us to exit the shares without exerting any undue pressure on price. Although Regency Centers has minimal direct exposure to the troubled tenants, negative sentiment could likewise weigh on the shopping centre sector. While we expect the outlook for retail REITs to remain challenged in the near-term, we believe it could improve later in the year.

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

[2] Earnings before interest, taxes, depreciation and amortization.

Other sales included Kenedix Retail REIT, UNITE Group, and Equinix. Kenedix Retail had outperformed peers, and its relative value proposition was reduced with limited catalysts for earnings growth.

During the month we substantially increased our position in Camden Property Trust, a mid-cap US REIT with an $8b market cap. Camden owns a Sunbelt-focused apartment portfolio with its largest markets comprising of Washington DC Metro, Houston, and Atlanta. Sector leading same store net operating income growth should be driven by above average job growth expectations in the Sunbelt markets and easing supply pressures in certain markets. Additionally, an opportunistic equity raise at the end of 2017 has positioned Camden to capitalise on potential acquisition opportunities and help drive leverage levels among the lowest in the residential REIT space. A new position entered was Japan-based Hulic REIT. Hulic has been sold down after asset sales, and its lower gearing should provide a catalyst for future earnings upgrades.

Market outlook and Fund positioning

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

We expect 2018 to be another year of relative underperformance for the US real estate sector versus a more attractive broader equity market. REIT operating fundamentals are decelerating to more normalised levels. 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. REIT valuations may continue to come under pressure if US 10-year Treasury yields increase materially, and we expect another 3 interest rate hikes in 2018. 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 expect the Canadian economy to generate approximately 2% Gross Domestic Product (GDP) growth in 2018, though month-to-month growth may be somewhat uneven. The Canadian REITs continue to trade at a modest discount to Net Asset Value, though most of the better quality names are trading closer to their underlying asset values. 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.

The Australia REIT sector's underperformance relative to the broader market in calendar year 2018 looks set to continue. 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 anticipate short-term volatility in the market which might present good investment opportunities in Asia and Japan, as with the retail tailwind recovery in Hong Kong and China. Following the sector sell-off over the last two months, Hong Kong property names are trading at a discount to their net asset value, while property fundamentals remain sound. We continue to identify pricing anomalies within the Japan REIT sector, currently targeting under-valued names with strong sponsors. Separately, we expect stronger returns from Japanese developers as we approach full year results and guidance for the next financial year.

For further institutional enquiries contact institutionalenquiries@firststate.co.uk

For wholesale enquiries contact enquiries@firststate.co.uk