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First State Investments

HOW WE AIM TO PRESERVE CLIENTS' CAPITAL IN THE GLOBAL LISTED PROPERTY SECTOR

This paper examines our investment teams' approach to managing a global listed property portfolio and highlights how it aims to preserve clients' capital in a climate of rising interest rates and/or softness in property prices. We own stocks that are lower risk and higher quality. We search broadly for real estate opportunities and do not restrict ourselves to stocks in the index. Our portfolios respond to the size of the market's mispricing opportunity and have a valuation safety buffer against potential soft property prices.

Macro background: economic growth with interest rate rises

The global economic backdrop continues to show trending improvement in growth, especially for developed countries, with momentum likely to accelerate in 2H18. Employment growth and low unemployment levels, such as in the US and the UK, are set to place increasing pressure on wage inflation in these regions. Central banks need to consider adjusting their excessively accommodative monetary policies, particularly in the face of expansionary fiscal policies.

Some fundamentals for global listed property

The prospect of rising interest rates has faced the US listed property sector for some time as a result of stronger economic growth in that region. We have already seen softness in the US listed property segment, particularly for sub-sectors that offer more bond-like returns. Other countries also face the prospect of increased interest rates, though on a slower timetable than in the US.

Annual Performance (% in GBP) to 30 June 2018

Period	12 mths to 30/06/2018	12 mths to 30/06/2017	12 mths to 30/06/2016	12 mths to 30/06/2015	12 mths to 30/06/2014
First State Global Property Securities Fund B Acc GBP	5.45%	5.01%	19.14%	14.71%	1.76%
FTSE EPRA/NAREIT Developed Index*	4.98%	4.09%	32.43%	9.17%	1.46%

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.

RISK FACTORS

This document is a financial promotion for The First State Global Property Securities Strategy. This information is 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.

Currency risk: Changes in exchange rates will affect the value of assets which are denominated in other currencies.

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.

Single country/specific region risk: Investing in a single country or specific region may be riskier than investing in a number of different countries or regions. Investing in a larger number of countries or regions helps spread risk.

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.

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.

Emerging market risk: Emerging markets may not provide the same level of investor protection as a developed market; they may involve a higher risk than investing in developed markets.

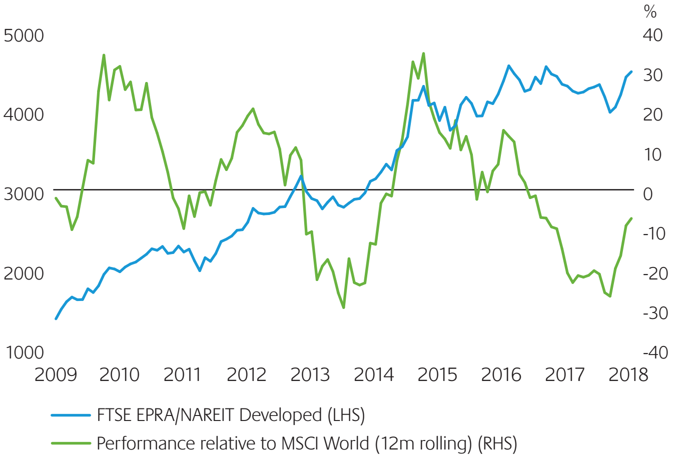
Reference to specific securities or companies (if any) are included to explain the investment strategy and should not be construed as investment advice, or a recommendation to invest in any of those companies.

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

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

In late 2014/early 2015 investors realised that there was a prospect of rising US interest rates. This had an impact on investor preferences, such as the appetite for global listed property stocks. Figure 1 as at June 2018 shows how the overall global listed property market has behaved in the face of US rate rises (noting that more than half of the global index is US stocks). Although global listed property had a strong run since the global financial crisis (GFC) in an absolute sense, it has made little progress since the start of 2015. Rolling annual returns relative to equities have had large positive and negative waves since the GFC but were particularly weak for three years, before starting to recover from early in 2018.

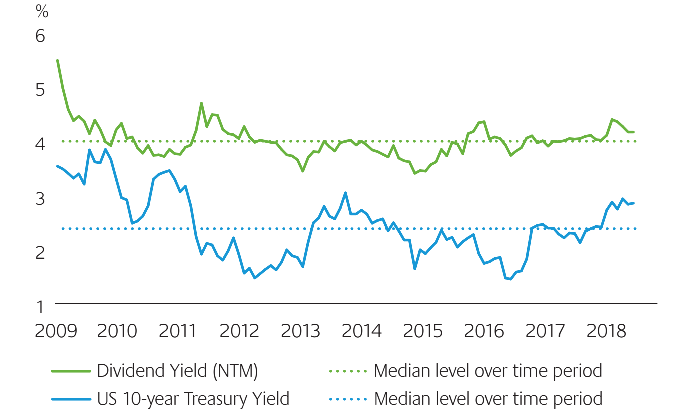
Figure 1: Global listed property index level and performance relative to MSCI World Index



Source: Factset. Data is for FTSE EPRA/NAREIT Developed Index and MSCI World Index. Data as at 30 June 2018.

Figure 2 as at June 2018 shows the sector's dividend yield and the yield on US Treasuries since the GFC. The yield premium of global listed property to Treasuries has narrowed in recent years. Weakness in global listed property has been influenced to a degree by the sector being viewed as a bond proxy.

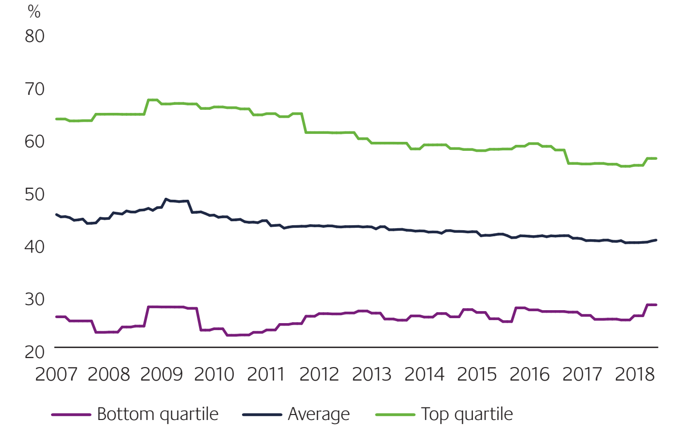
Figure 2: Dividend yield (next twelve months) for global listed property index and US 10- year Treasury yield



Source: Factset. Data is for the FTSE EPRA/NAREIT Developed Index and the US 10-year Treasury yield. Data as at 30 June 2018.

The sector's average gearing (debt to total assets) is lower as at June 2018 than during the peak of the GFC. This suggests less scope for rising interest rates to impact profits materially. The extent of de-gearing has been more evident for stocks with a greater level of debt, yet highly- geared stocks are still far more geared than lowly-geared stocks, which have broadly maintained their gearing over most of the period, albeit with some expansion in recent months. In the next part of the report we investigate the interaction between stock indebtedness and our investment process.

Figure 3: Gearing (debt to total assets) for the global listed property index in quartiles (monthly)



Source Factset. Data is historical debt to total assets for the FTSE EPRA/NAREIT Developed Index. Data as at 30 June 2018.

Three ways our investment approach preserves client capital

Our global listed property investment team has operated a process with unchanged steps over many years. The following section highlights three distinguishing characteristics of our investment approach that are even more relevant in order to support returns during interest rate rises.

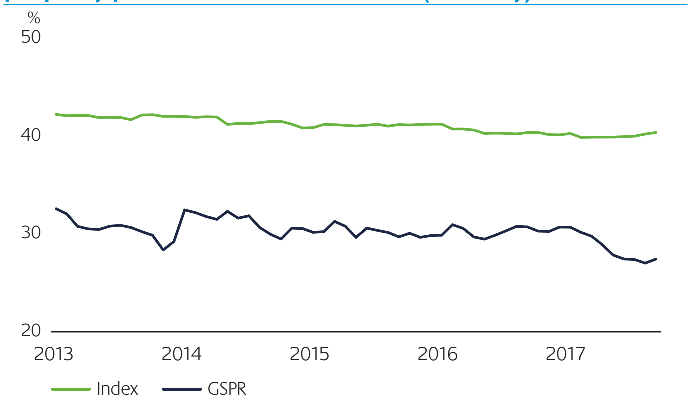
1. Our research process is led by the assessment of stocks' risk and quality.

Our investment approach aims for property-like returns by focussing on stocks with lower risk and higher quality. We evaluate stock risks in terms of: a) regulatory/policy/political b) liquidity and c) financial. If a stock fails in any of these three aspects of risk it is screened out. We evaluate stock quality in terms of: a) security of cashflow b) quality of assets and c) ESG[1]. Stocks need an overall 'pass' rating on quality aspects to satisfy this section of our screening process. Fundamental research then generates stock forecasts and valuation metrics for use in our portfolio construction process.

Investment process in action

Our global portfolios have lower gearing than the index. The following chart as at June 2018 shows that the index's gearing has reduced slightly but not as much as our portfolio. The debt to total assets ratio for our global portfolio is under 30% compared to the gearing for the index at around 40%.

Figure 4: Gearing (debt to total assets) ratio for global listed property portfolio and for the Index (monthly)

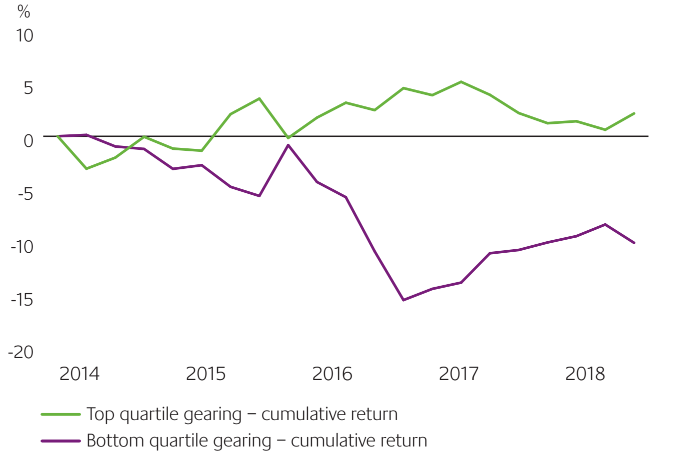


Source: First State Investments and Factset. Data is for the First State Investments Global Property Securities Fund (GSPR). Index is FTSE EPRA/NAREIT Developed Index. Data as at 30 June 2018.

[1] Environmental, Social and Governance criteria.

The previous analysis focusses on the overall gearing for the entire index. The level of gearing for high versus lowly-geared stocks may influence their returns. Figure 5 as at June 2018 shows that until mid- 2015 there was little difference in returns of stocks based on gearing. Over the following year lowly-geared stocks were sold by investors in a period of the lowest interest rates. This pattern then reversed as the election of President Trump coincided with rising interest rates, assisting portfolios (such as ours) that have more exposure to stocks with lower levels of gearing.

Figure 5: Cumulative returns for top and bottom quartile stocks classified on gearing (calculated quarterly) in the index



Data is for the top quartile and bottom quartile leveraged stocks in the FTSE EPRA/NAREIT Developed index, reformulated on a quarterly basis. Data as at 30 June 2018.

2. We search broadly for real estate opportunities. We don't focus on an index.

When assessing real estate opportunities, index inclusion is not important to us and we are comfortable owning high quality real estate that is not in the index or has a low index weighting. We manage global portfolios on an absolute return basis while being cognisant of relative returns.

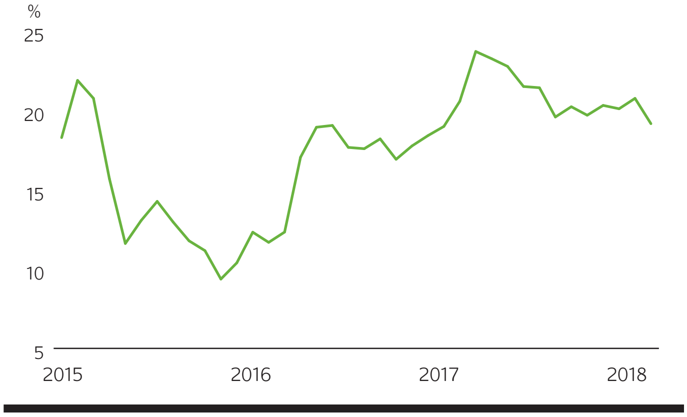
Investment process in action

Our global portfolios can have 20% or even more invested in stocks that are not in the index. We are focussed on finding the best quality real estate opportunities on a risk reward basis. Index inclusion does not define risk, quality or return. Figure 6 as at June 2018 shows our portfolio's ex-index weighting.

"We focus on high quality urban infill assets in high barrier to entry markets in the world's most bustling cities. We use rigorous risk assessment when investing in order to preserve clients' capital."

Stephen Hayes
Head of Global Listed Property

Figure 6: Global listed property portfolio- share of portfolio held in stocks that are not in the index (monthly)



Source: First State Investments and Factset. Data is for the First State Investments Global Property Securities Fund. Index is FTSE EPRA/NAREIT Developed Index Net. Data as at 30 June 2018.

3. Our portfolio responds to the level of opportunity.

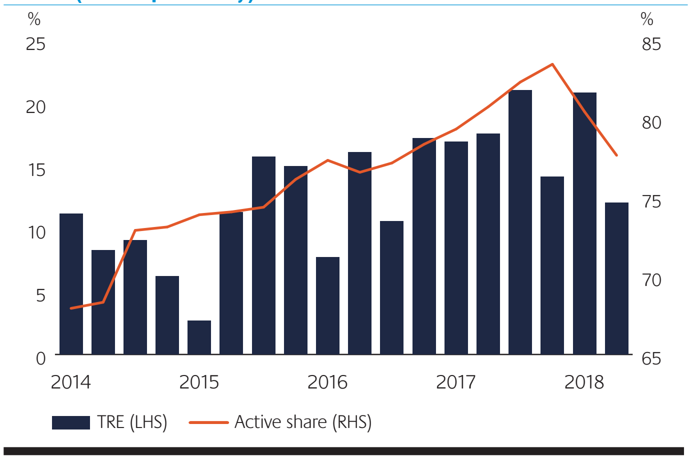
Our portfolio construction responds to the size of the available mispricing opportunity. If we see a high level of dispersion in projected stock returns for our screened universe, our portfolios' Total Return Expectation (TRE) and Active Share are typically higher than usual. TRE measures the portfolio weighted average discount of the market valuation to the fair value estimate of the current portfolio holdings. It is not a measure of actual portfolio performance and is not a forecast of portfolio returns. Active Share is the percentage of the portfolio that differs from the index. We manage our exposure to stocks that create excessive concentration risk for the portfolio, by adding to stocks that allow a superior risk/return profile for the portfolio.

Investment process in action

Our portfolio construction process is responsive to the level of mispricing. Based on the current dispersion in TREs for stocks in our screened universe we see ample mispriced opportunities for investment. Our portfolio's TRE and Active Share are both correspondingly high.

Figure 7 shows these two metrics for our global portfolio on a quarterly basis to June 2018.

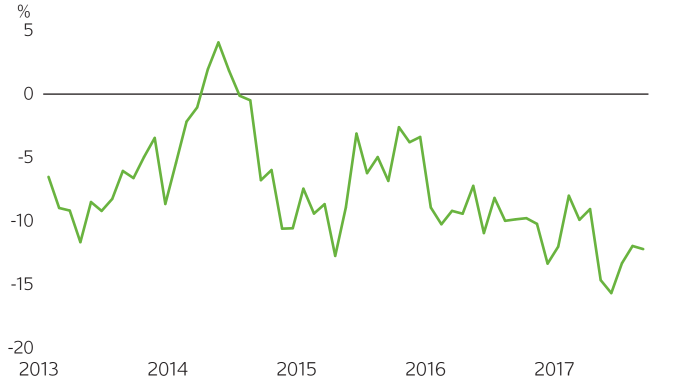
Figure 7: Global listed property portfolio – TRE and Active Share (both quarterly)



Source: First State Investments. Data is for the First State Investments Global Property Securities Fund. Index is FTSE EPRA/NAREIT Developed Index Net. Data as at 30 June 2018.

The price for the stocks in our global portfolio is well below our calculated Net Asset Value (NAV) for the stocks as shown by Figure 8 as at June 2018. NAV is our assessed value of property assets plus the value of businesses not on the balance sheet. While we see valuation risk for direct property, our portfolio has a greater discount to the underlying NAV than we have seen in recent years. This is viewed as an important safety buffer in the event of market weakness.

Figure 8: Global listed property portfolio – Price to NAV (calculated monthly)



Source: First State Investments. Data is for the First State Investments Global Property Securities Fund. Index is FTSE EPRA/NAREIT Developed Index Net. Data as at 30 June 2018.

"Our global listed property team builds portfolios of stocks with modest levels of risk and with quality characteristics that aim to deliver stable returns in times of market weakness."

Richard Cahill
Investment Director

Conclusion

We feel that our investment team's process for managing listed property portfolios is well suited to the current market conditions. Our investment approach is to focus on less risky and higher quality stocks, which should provide greater downside protection in a climate of rising interest rates and/or softer direct property prices. Our aim to preserve clients' capital has been delivered over a number of years, however we should always remember that past performance is not indicative of future performance.

Our portfolios are managed with respect to the size of the available mispricing opportunity and we feel that the portfolio is cheap relative to direct property-driven values. We believe that our investment approach leads to efficient allocation of capital and is positioned with the potential to drive competitive risk adjusted real estate returns.