First State Investments

First State Global Property Securities Fund

August 2018

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.

Global GDP growth continues at long term trend levels, mainly driven by developed countries where economic growth remains broad based across the household, private and Government sectors. Unemployment levels are at very low levels just about everywhere, leading to improved household finances which is supportive of rising consumption levels and increased fiscal revenues. Inflationary expectations continue to rise as consumption increases and wages growth particularly in developed countries is placing pressure on producer prices. The very low global interest rate environment and flat yield curves are contrary to current economic growth, low unemployment levels and rising inflationary expectations. This conundrum continues to support very high and over-inflated fixed and financial asset values. Whilst the United States (US), Canada, Mexico, United Kingdom (UK) and the Czech Republic central banks have started the process of interest rate normalisation, interest rates still remain very low and will likely slowly normalise overtime. However, risks still remain; the current extraordinarily high accommodative central bank polices in Europe and Japan remain a risk to future sustainable economic growth as the flat subsequent yield curves may invert and any consequent spikes to inflation could lead to accelerated short term interest rate rises stymying growth. The robust US economy and ensuing rising US dollar also risks placing pressure on Emerging Markets economies as money supply tightens, credit availability falls and interest rate rises place pressure on the local banking sectors. Whilst risks remain, causing us some caution, our expectation is for the broad based global economic growth, especially in developed countries, to continue over the medium term.

The direct real estate market valuations remain elevated and over-inflated with required returns at very low levels. The further flattening of yield curves and a very low interest environment are continuing to support the current high direct property valuations. With our expectations that interest rates will normalise slowly over a long period of time, we are expecting required returns to increase and for direct property valuations to moderately fall from the current elevated levels. Shy of a major exogenous event impacting financial markets we are not expecting any dramatic falls in valuations. The current economic back drop is very supportive of real estate fundamentals with high occupancy rates just about everywhere and cash flows continuing to grow. Importantly for valuations we are expecting cash flows to continue to grow well into the future. The underwriting of future cash flow growth is a materially supportive factor that will likely mitigate any major falls in valuations as required returns rise. With the positive real estate fundamentals and high occupancy rates, the late cycle supply response is well in train in most property markets. To date, tenant demand has remained robust with supply having a minimal impact on market vacancy rates and market rents. However, cash flow growth is expected to slow to more normalised levels and for real estate fundamentals to continue to remain healthy given the accommodative economic back drop.

An Australian publicly traded landlord purchased an "A" grade office building 60 Station Street in the Parramatta Central Business District (CBD) approximately 20kms west of the Sydney CBD. The purchase price of $277.6m reflects a passing yield of 5.3% before taxes and a value of $10,800 (psm). We estimate the building to be 5%-10% under-rented. The eclipse shaped building totals 25,700 (psm) over 19 floors, it has a glazed façade and 5 star energy rating. Other amenities include end of trip facilities and 148 underground car bays. The building is leased to a variety of tenants with an average lease term of 4.4 years. The building was developed in 2012, purchased by the vendor an Australian Industry Superannuation Fund on completion for $167.5 at the approximate replacement value. We estimate the superannuation fund's return since purchase to be 18.7% p.a.

There is a large amount of Government infrastructure spend occurring in the Parramatta area and as the geographic centre of Sydney, it is cementing Parramatta as Sydney's second CBD. The projects include major motorway connections and light and metro rail as well as new schools. Stage one of the light rail project estimated cost is $1bn. With the population growth experienced in Western Sydney and the large infrastructure spend, land values in Parramatta have soared providing a major windfall for landlords. The Parramatta office market is one of the tightest markets in Australia with vacancy at a low 4.6% (0.9% vacancy for prime assets) and is experiencing rapid increases in market rents. The publicly traded and private landlords are amalgamating development sites to develop new "A" grade office towers. Currently there is only one development under construction, 4 Parramatta Square totalling 62,000 (sqm) and is fully preleased to multiple New South Wales (NSW) Government departments with completion at the end of 2019.

Further developments with approval are expected to commence shortly: 3 Parramatta Square totalling 43,595 (sqm), which is fully preleased to the National Australia Bank to be completed in 2020, and 32 Smith Street totalling 26,500 (sqm) currently has no announced preleasing. Australia's largest shopping centre landlord has submitted a development application to develop a large 112,000 (sqm) office skyscraper on top of the existing shopping mall. We estimate the approximate total office development spend of $2bn in Parramatta over the next 5 years materially increasing quality office accommodation offerings to prospective tenants at rents approximately half of those in the Sydney CBD. Current prime gross net effective rents are $465 (sqm) and have increased 15.8% over the past 12 months. Market rents are forecast to continue to rise with the major developments likely not to commence without major lease pre-commitments. The majority of tenant pre-commitments are likely to be attracted from other areas supporting continued development and growing market rents. Our expectations are for land values to continue to rise and capital values to be supported by a material improvement in office and tenant quality as the Parramatta office market expands from the current total office stock of 740,000 (sqm) to over 1,000,000 (sqm) of office stock over the coming years.

The publicly traded landlords continue to trade at a discount to private market values. Capital management initiatives continue for many as they return capital back to shareholders mainly via stock buyback programmes. Given the attractive valuations, merger and acquisition activity continues via sector consolidation and "go private" deals as market participants looks to take advantage of the valuation disparities between the publicly traded landlords and private market values. Asset recycling is also prominent as the publicly traded landlords continue to take advantage of the strong capital markets and selling non-core assets at elevated prices recycling capital into redevelopment and funding buybacks. Bottom line cash flow and dividend growth continues as the publicly traded landlords' high quality portfolios concentrated in the world's major cities continue to experience high occupancy rates and market rental growth. Sector total return dispersions remain elevated but have reduced slightly with the greatest pricing anomalies by property type existing in shopping centres and malls. The teams focus remains on allocating capital to its most efficient use into those real estate opportunities globally offering the greatest risk adjusted returns, with the current pricing anomalies and healthy real estate market fundamentals giving us comfort that total returns should be consistent with through-the-cycle returns.

With the US core inflation for July increased 2.4% (yoy) the highest increase since 2008, the US Federal Reserve left interest rates unchanged at 1.75% - 2.0%,however they changed their language on the US economy to "strong" and indicated another rate increase at the September meeting. Non-farm payrolls for July increased by 157,000, with average hourly earnings increasing 2.7% (yoy). The participation rate remained flat at 62.9% with the unemployment rate falling to 3.9%, an 18 year low. Employment and wages growth are improving household finances which is very beneficial to multi and single family rental assets where market rents continue to rise as new supply comes online. Occupancy rates remain very high and improving household finances give greater scope for future rental increases.

Improving household finances are also beneficial to consumption, with July retail sales increasing 6.4% (yoy) supporting shopping centres with the retailer bankruptcies from last year successfully being backfilled, however, the retailing environment continues to remain highly competitive with profit margins remaining low. Overall, real estate fundamentals remain healthy with high occupancies across most property types and geographies, with the standout being logistical warehousing where tenant demand is very strong. The Strategy has a 41.7% exposure to the US, with concentrations in coastal city and Sun Belt apartments and single family residences in Los Angeles and Florida, "A" grade office buildings in Los Angeles, San Francisco and Seattle, and business exchange data centres, industrial warehouses and hotels nationally.

The Bank of England raised interest rates by 25bps to 75bps. The unemployment rate in June fell 0.2% to 4.0% -the lowest rate since 1975. Average earnings increased 2.7% (yoy), with real wages growth accelerating. The economic growth does continue to lag the other developed countries with June GDP increasing 0.4% (qoq) and 1.3% (yoy), with low private investment due to Brexit uncertainty curtailing GDP growth. The retailing environment remains challenged, whilst London office fundamentals remain reasonable with high occupancies in the West End and the city, tenant demand remains benign with the lack of business decision making. The Strategy has a 6.2% exposure in the UK in student accommodation and apartments.

The Eastern European countries continue to lead the economic recovery in Europe with the Romania and Poland June GDP growth at 4.1% (yoy) and 5.1% (yoy) respectively. The Czech National Bank raised rates 25bps to 1.25% whilst the National Bank of Romania left rates unchanged at 2.5%. Core inflation remains relatively low in Poland at 0.9% (yoy) and Romania at 2.3% (yoy), with retail sales remaining very strong in June at 9.3% (yoy) and 7.9% (yoy) respectively. In Western Europe, the economic recovery is also continuing to be driven by Germany, the Netherlands and Spain. Importantly for the large manufacturer, German IP (intellectual property) in June increased 2.6% (yoy) with GDP for June increasing 2.3% (yoy). The German unemployment rate in July remained at 5.2%, the lowest level since reunification, with employment growth of 1.4% (yoy). The German real estate markets are experiencing increasing occupancies on the back of strong tenant demand, particularly in Berlin where the housing market is very strong. Residential rents continue to rise after increasing 9.1% in 2017 with median rents now over €11 sqm per month doubling since 2008. Median annual rents for a 60 (sqm) apartment are approximately €8,000 p.a., which is low by global standards. Berlin condominium prices have increased 9.1% (yoy) with the median condominium price of €3,840 (sqm) also low by global standards. With the strong residential market, Berlin has experienced a lot of office building conversions to apartments over the past few years reducing office supply with the Berlin office market vacancy rate now at a very low 3.2%. With high office tenant demand driving office take-up by an estimated 850,000 (sqm) this year, the market office vacancy rate is likely to fall under 3.0% into 2019. The supply response has now started with the first round of newly completed developments likely in 2020, although with tenant demand remaining robust we are expecting the occupancy market to remain tight as the new supply comes online, potentially driving further market rental growth. The Strategy has a 17.3% exposure to Europe with concentrations in data centres in Paris, Amsterdam and Frankfurt and "A" grade offices Madrid and Paris, apartments in Berlin and Finland and hotels.

Japan's GDP in June increased 0.5% (qoq) and 1.0% (yoy). The economy continues to grow with the unemployment increasing by 0.1% in July but still remains at a very low 2.5%. Total wages in June increased 3.6% (yoy) and basic wages increased 1.3% (yoy), both increasing at the fastest pace since 1997. Importantly for the large manufacturing nation, industrial production in July rebounded to 2.3% (yoy). Trade exports for July increased 3.9% (yoy) mainly on the back of price increases, exports to China increases 7.9% (yoy). Core inflation remained very low at 0.3% in July well below the Bank of Japan's target of 2.0%. The healthy corporate sector is leading to increased business spending and expanding office requirements with tenant demand remaining strong, particularly in central Tokyo where office vacancy rates are at a very low 2.6%, driving market rental growth of 6.8% (yoy) with rents increasing for 54 straight months. Business expenditure is also flowing through to increased demand for logistical warehousing where vacancy rates also remain low in Tokyo, although high supply levels are stifling market rental growth. The strategy has a 12.5% exposure to Japan with concentrations in central Tokyo skyscrapers and logistical warehousing.

The Strategy is focused on high quality urban infill assets in high barrier to entry markets in the world's most bustling cities. The Strategy has an 18.5% exposure to premium and "A" grade office buildings, with concentrations in Seattle, San Francisco, Los Angeles and Tokyo. The Strategy has a 16.9% exposure to shopping centres, with concentrations in the major Metropolitan Statistical Areas (MSAs) in the US, Canada, Hong Kong, China and Australia. The Strategy has a 27.4% exposure to residential buildings, with concentrations in apartments and single family housing in Los Angeles, the US Sun Belt Region, Finland and Berlin, and student accommodation and apartments in London, Sheffield and Bristol. The Strategy has an 11.8% exposure to hotels and all-inclusive resorts in the US, Europe and the Caribbean. The Strategy has a 12.1% exposure to logistical warehousing in the US and Japan. The Strategy has a 6.8% exposure to data centres in the major US MSAs, as well as in London, Paris, Amsterdam and Frankfurt. The Strategy's cash flows are very secure, underpinned by contracted rental income streams with a weighted average lease term of 3.5 years, including the Strategy's 39.2% exposures to shorter dated residential leases and hotels. Additionally, positive rental reversions of 6.1% are driving embedded cash-flow growth. Given the Strategy's exposure to very high quality assets in high barrier to entry urban locations, we estimate the projected three year dividend compound annual growth rate (CAGR) may be 11.6%.

Developed country sovereign bond yields decreased in August. The US 10-year Treasury yield fell to 2.86%; the German 10-year Bund yield fell to 0.32%; the 10-year UK Gilt yield rose to 1.43%; the Japanese 10-year Government Bond yield was unchanged at 0.11%; and the Australian 10-year CGS yield fell to 2.50%. The 10-year Canadian Bond yield fell to 2.23%.

In US dollar terms, the global property securities market as measured by the FTSE EPRA NAREIT Developed Total Return USD Index returned 1.0% in August and 2.8% year-to-date. The Strategy refers to a composite of Colonial First State Global Asset Management and First State Investments (CFSGAM / FSI) global real estate securities funds.. The Strategy's cash weighting is 0.9%. The Strategy's discount to Net Asset Value is -12.7%, with look-through gearing at 27.9%. The interest coverage ratio is 7.0 times, with an average debt maturity of 5.1 years. The number of stocks held fell to 39, with non-benchmark exposure at 18.9% and active share at 75.7%*.

Fund Performance

Annual Performance (% in GBP) to 31 July 2018

Period	12 months to 31/07/18	12 months to 31/07/17	12 months to 31/07/16	12 months to 31/07/15	12 months to 31/07/14
First State Global Property Securities Strategy	**1.4**	**0.2**	**4.5**	**3.8**	**1.8**
FTSE EPRA/NAREIT Developed Index TR GBP**	1.5	0.4	5.8	4.3	1.6
FTSE EPRA/NAREIT Developed Index TR USD	5.6	2.5	39.0	3.6	12.1

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 (a model fee of 75bps has been applied) from a gross of fee return. The internally calculated gross of fee return excludes all costs (e.g. custody costs), save that it does not exclude costs associated with buying or selling securities within the portfolio. Income is re-invested on a gross of tax basis. Lipper IM / First State Investments (UK) Limited. **The benchmark changed name from the UBS Global Real Estate Investors on 20 May 2013.

Source: All data is sourced from CFSGAM/FSI and Bloomberg and are expressed in local currency unless otherwise stated.

*Active share is a measure of how much the position of holdings in the portfolio differs from the benchmark index.

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