



# Fund Bites

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## *First State Global Property Securities Fund*

The First State Global Property Securities Fund is a new addition to the portfolios in 2013. This “fund bites” is a summary of the recent meeting we had with two senior portfolio managers, Boudewijn Van Loen and Daniela Lungu.

## Introduction

Property is never going to be the most exciting asset class. Last year we looked to dampen down volatility in the lower risk portfolios by holding the L&G Property Trust. This is a bricks and mortar property fund and the performance has been poor in this market.

We therefore looked across the spectrum of funds to identify different opportunities. The conclusion was that TR Property Trust was the best opportunity within the Investment Trust Field, the Schroder Property Maximiser Fund provided reduced volatility and First State blended well with these funds.

As investors turn away from bonds property securities offer a good alternative to bonds and for this reason the fund, as well as other property portfolios, have posted strong performance figures.

The risk to all property funds is the change in interest rates, i.e. going up. The counter argument is that using a global fund enables the manager to seek opportunities where he sees them irrespective of this risk. It is not constrained to one benchmark so could in theory hold 100% in Asia.

## The Fund



The fund currently favours markets where property is strong and the two main areas they like are Hong Kong and Australia. They are underweight in the US and Japan.

Changes to behaviour patterns in Europe and the UK where REITS are looking to model themselves around US and Australian models will produce opportunities.

The approach to investing is cautious, they don't assume much growth and therefore expectations are low. There are opportunities but this normally involves additional risk which they avoid.

When looking at opportunities they will look at the management, with property management is the predictable element.



Debt is not a bad thing but it can be punished by the market, for example

British Land has around 45% leverage and has been punished by the market for this. The managers like British Land; it offers good exposure to the London retail and office market as well as up and coming regions and provides a good dividend yield.

Another company they like is Hammerson who are retail specialists focused in the UK and France. They are reducing debt and refocusing their portfolio.

The fund does have a macro focus as stocks are looked at from a global level and then they can identify where they can get the best returns without undue risk. An example of this is Japan where they are underweight because the value of REITS has gone up considerable making the opportunities less attractive.

In the UK they are concentrated mainly in London rather than regional opportunities as they see London as almost a separate entity.



Another stock example we discussed was Corio, this is similar to a company called Klipia. Both are operators of retail shopping centres across Europe. Klipia had 22% purchased by a competing company in the US stopping what was seen as value destruction by the management. As a result it is now trading at a premium. Corio is in a similar position with value destruction and they believe a reverse will happen and therefore investing in this company offers potential opportunities.

In summary property is in a sweet spot as investors look for alternatives to bonds. Effective negative interest rates are also helping. The risk is in any change in interest rates however this is a global fund with a small portfolio and therefore it should be able to adjust its exposure to protect against this. It has a good long term track record and management team.

### **Conclusion**

Property is never going to be an exciting investment opportunity but it is important to find a fund which can respond to the market and we believe a global fund with teams in the UK, Europe, Asia and the US is best placed to do this.

*The source of information in this note has been provided by First State and is correct as at 25 April. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase this fund. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise.*