First State Investments

FIRST STATE GLOBAL PROPERTY SECURITIES

Global Property Securities

Monthly Update

April 2020

Market review

Risk assets fared well in April as investor sentiment was buoyed by the huge monetary and fiscal responses to the COVID-19 pandemic, as well as signs that social distancing measures have been effective in slowing the spread of the virus and hopes that a vaccine could be developed by year-end.

After plunging -22.7% in March, global REITs, as measured by the FTSE EPRA/NAREIT Developed Index (in EUR terms), posted a solid gain of +7.3% in April, trailing global equities, which returned +11.12% (MSCI World Index in EUR terms). All following index returns are expressed in local currency terms.

In North America, US REITS gained +8.3% in April after falling -23.5% the month prior. This was driven by optimism around the flattening of the COVID-19 infection curve and hopes that the domestic economy could soon be re-opened as government-mandated shutdowns are loosened. Rent collections, as measured by the share of typical rent received, varied by sub-sector in April.

Rent collections in the office sector are running in the mid-to-high 90% range, while the industrial sector has been reporting collections in the low-to-mid 90%s. Apartment and single family REITs have reported rent collections of around 95% and 90% respectively. Shopping centre collection has varied widely, with it ranging between around 50-70%. Mall landlords have not yet reported these metrics, however, it is expected that this disproportionately affected sub-sector will experience lower rent collection than other sectors.

The US economy is now expected to contract by 5-6% in 2020. The April jobs report gave the clearest indication to date of the significant destruction of economic activity caused by COVID-19 containment measures. The report showed that nonfarm payrolls decreased by 20.5 million, while the unemployment rate soared from 4.4% in March to a post-Great Depression high in April of 14.7%. However, even this level understates the magnitude of job losses, because of significant falls in the labour force participation rate and due to the soaring number of people classified as 'employed but not at work due to other reasons'. The US Bureau of Labor Statistics conjectured that these people should be classified as unemployed, which would have brought the unemployment rate closer to 23%.

US Federal Reserve Chair Powell's April press conference declared that the Fed is willing to do more with credit policy if needed to support the supply of credit to the economy. Timely and aggressive action by the central bank has kept financial conditions much easier than in past down cycles, including the Great Recession of 2008.

Canadian REITs gained +6.5% in April after declining -27.3% in March. The group bounced back modestly during the month from oversold conditions, although significant uncertainty remains around the long-term effect of COVID-19 on economic growth. Among the Canadian REIT sub-sectors, industrial and multi-family names performed best, while office and healthcare REITs lagged the most.

In Europe, REITs posted a modest gain of +3.7% during April after falling -21.2% the month prior. The best performing market was the UK (+4.7%), followed by Germany (+3.8%) and France (+3.6%). Most companies have now published press releases withdrawing guidance and/or dividends while providing updates on underlying trading conditions amidst COVID-19.

Conditions are unsurprisingly most challenging in the leisure and hospitality sectors, with rent collection for Q2 in the low teens, followed by retail, which had rent collection in the 30-40% range. In office markets, we have seen rents being paid by 70-90% of tenants, while industrial and residential assets fared the best with rent collection in the high 80% to low 90% range.

The extent of the negative impact of lock-downs has become more apparent across Europe and we have seen previously agreed transactions in the private real estate market being cancelled. The most notable is the cancellation of Hammerson's disposal of its £400 million retail park portfolio to Orion European RE Fund V, which had already been agreed at a 22% discount to June 2019 valuation. Orion has walked away from the deal, losing its £21 million deposit in the process.

In Asia, the best performing listed property market was Hong Kong +7.7%, followed by Singapore (+7.0%), while Japan (+1.9%) was more subdued.

Hong Kong will begin easing its lock-downs from the second week of May, however, it is expected to be a slow and gradual process and international borders will remain largely closed. The Hong Kong economy shrank much more than the market anticipated in Q1, with GDP contracting -8.9% YoY. This was the third consecutive quarter of contraction and was the worst quarter on record since the data set commenced in 1974. The government downgraded its 2020 projection to between -4% to -7%.

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.
- **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.
- **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.

Hong Kong Retail sales continued to suffer in March and printed -42% YoY. We expect domestic sentiment and consumption to remain fragile in the near term and expect unemployment to rise further. In property markets, we anticipate negative rental growth and higher vacancy rates to persist across all sub-sectors in 2020 and likely beyond.

In Japan, after containing COVID-19 relatively successfully for most of the first quarter, the country experienced a sharp acceleration in COVID-19 cases in late March and early April. This dampened market sentiment and resulted in the imposition of a month-long State of Emergency by the Japanese government on the 7th of April. This has seen a significant expansion of stay-at-home activity by the general public and many non-essential retail businesses have subsequently closed. The already embattled hotel sector took another hit from the further reduction in domestic travel.

Elsewhere in the pacific, Australian REITs rebounded from their worst month on record (-35.1%) and posted a solid gain of +13.7% in April. The best performing sub-sector was Retail A-REITs (+30.0%), which bounced back after falling dramatically in March, with key contributors being mall landlords Scentre Group (+48.9%) and Vicinity Centres (+44.0%). Meanwhile, A-REITs with material exposure to the Childcare sector also rebounded during April, including Arena REIT (+33.3%) and Charter Hall Social Infrastructure REIT (+31.2%).

Fund performance

The Fund returned 7.7% in April[1], 42 basis points above its benchmark index, the FTSE EPRA/NAREIT Developed Index.

Annual Performance (% in EUR) to 30 April 2020

Period	12 mths to 30/04/2020	12 mths to 30/04/2019	12 mths to 30/04/2018	12 mths to 30/04/2017	12 mths to 30/04/2016
First State Global Property Securities Fund B EUR ACC	-2.0	13.6	-3.0	4.2	-4.5
FTSE EPRA/NAREIT Developed*	-15.6	18.2	-6.2	7.6	0.6
MSCI World Net Return Index EUR	-1.8	15.8	2.0	21.0	-6.3

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 figures have been calculated since the launch date. 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 from UBS Global Real Estate Investors on 20/05/2013

The Fund's exposure to logistical warehouses in Japan contributed significantly to performance due to the sub-sector's defensive characteristics amid the COVID-19 driven downturn.

Active exposures to US data centre REITs also benefitted performance. Data centres continued to outperform as operators in the sector are poised to benefit from increased reliance on technology and accelerating data consumption in an increasingly digital economy. This secular shift has been propelled by the COVID-19 situation.

After our underweight exposure to retail assets benefited performance considerably in March, our underweight positioning detracted from performance in April as the sector rebounded partially. However, during the month we initiated several opportunistic exposures to retail landlords that had been materially oversold, thus, muting the negative performance impacts of the sector's resurgence in April.

Our exposures to healthcare assets detracted from performance. While the sub-sector outperformed overall and is expected to be a beneficiary of the COVID-19 situation, our positioning was affected by company specific factors during April.

Market outlook and Fund positioning

The Fund has exposure to high quality assets in high barrier to entry urban locations in the world's most bustling cities.

The US economy is in the midst of the sharpest contraction since WWII with record levels of unemployment. US REIT fundamentals will decline across the board given rent deferrals, rent abatements, increased vacancies, increased bankruptcies and higher levels of bad debts. However, on the bright side, US REIT balance sheets heading into the pandemic were the strongest they have ever been. REIT earnings are now expected to be flat in 2020, down from expectations for 5-6% growth at the beginning of the year.

Our focus is on REITs with solid fundamentals and strong balance sheets. In the US, our key exposures are focused on sectors that are expected to hold up better in a recession including single-family rentals, industrial/logistics, data centres, apartments, storage and selective office and healthcare exposures. We recently added selective exposure to grocery anchored shopping centres given significant dislocations this year to date. We are very cautious on the lodging, retail, net lease, and senior housing sectors given very difficult near-term outlooks.

In Canada, we view REITs as relatively attractive in the current context of the COVID-19 crisis. While we expect growth in the Canadian economy to slow down dramatically (and in fact contract on a short-term basis), we believe some of the decline will be tempered by the fact that the economy was in a solid position at the start of the crisis. The Canadian economy is also being supported by accommodative monetary policy and the Canadian government has created programs to help businesses and individuals to weather these adverse circumstances. Our main exposures in Canada are to the relatively defensive apartment and office sub-sectors.

In Europe, following the COVID-19 outbreak, most businesses have shut-down in a number of countries across the continent. While initial expectations were for the impact to be dramatic but short lasting, governments and businesses are now adjusting to the reality that it will be a much more protracted process, with a slow and gradual return to normality. Many economists have cut their economic growth forecasts for 2020, to between -8% and -11% for both the UK and the EU area. By late April, several European countries started phasing out of lock-down, with construction sites and manufacturing opening first, followed by offices, small shops and gradually restaurants. Hotels and travel related sectors are likely to take a lot longer to become operational again.

Against this backdrop, in Europe our portfolio has minimal exposure to the most heavily impacted of retail and hospitality sectors, and we have reduced our exposure to the student accommodation sector to zero. We remain positioned in the relatively insulated industrial and residential sectors. We also maintain exposure to offices in the main European capitals, with concentrations in countries with stronger economies and expectations for a greater degree of financial support, such as the UK, Germany and Norway.

In Japan, as the COVID-19 crisis has progressed, the worst hit sectors have been the hotel and discretionary retail sectors, which have been severely impacted by dramatic declines in domestic travel and weak trading conditions. These two sub-sectors are likely to experience not only cash flow concerns, but also and balance sheet stress, given ongoing debt servicing requirements and the potential for asset devaluations to cause gearing levels to rise. Despite the currently strong dynamics within the Tokyo office market, the weakening economy is likely to see softer demand for office space going forward, which could lead to slightly higher vacancies and slower rental growth.

Accordingly, in Japan we have reduced our exposure to the office sector and have up-weighted our positions in the logistics sector, which continues to operate largely uninterrupted by COVID-19 and actually could stand to benefit from an acceleration in the e-commerce trend going forward. We have also exited from our selective exposure to Japanese developers, given the rising concerns around slowing development pipelines and asset sales as well as the deteriorating letting backdrop.

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

In Hong Kong, we continue to hold an underweight to the region overall and continue to focus on defensive names with stable earnings in the current environment of economic uncertainties. Our holdings include property names with low leverage, strong balance sheets and robust cash flow growth. We continue to avoid pureplay retail exposures in Hong Kong, which are facing significant declines in cash flow and earnings for the first half of 2020 due to tenancy rental rebates, while maintaining a selective exposure to premium malls in China and Hong Kong mass residential.

In Singapore, we continue to have no exposure, given the emerging risk of steep earnings downgrades and dividend cuts amid the COVID-19 uncertainty. With the region now in the midst of a second wave of virus infections, lock-downs will persist until June at least. Landlord cash flows will take on the burden of rental rebates and deferments resulting from these containment measures. SREIT valuations continue to look unattractive relative to global peers.

In Australia, the portfolio remains strategically positioned with selective exposure to logistics, office and manufactured homes A-REITS. We also recently introduced a selective exposure to an Australian mall landlord after the sector was materially over-sold. Combined, we believe these sectors offer attractive relative valuations and a relatively high degree of immunity from the challenging macro operating environment.

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