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RADAR ALERT – FIRST STATE GLOBAL PROPERTY SECURITIES

First State Global Property Securities fund returns seven times the peer group average as global focus pays dividends

Regional expertise key for First State's Nicholas

First State is mainly known in the UK for its range of emerging markets funds, but it also has offerings in more specialist areas, such as its top-performing Global Property Securities fund.

Since Andrew Nicholas took on lead management of the fund in 2009, the £67m portfolio has climbed to the top rung of the IMA property sector over three years, posting a return of 43% against an average of 7.3%, according to Morningstar.

Nicholas heads up a team of four portfolio managers in New York, three in London, two in Hong Kong and two in Sydney. Nicholas said regional expertise is crucial to performance, driving its 'local' mindset.

Twofold stockpicking

"The property sector is still a local one so it is crucial to be in the region where companies' assets are allocated. We want to have people who can understand the cultures and environments in which we are investing," Nicholas said.

About 20% of the fund is allocated by region, with an assessment of macroeconomic factors. Each region has a budget that goes into the selection of top stocks, which are then subject to valuation and qualitative screening.

High conviction

The investment team selects stocks on a three- to five-year outlook, but monitors the movements of the holdings relative to their price target on a daily basis, which translate into an average holding period of

around one and a half years.

"We do try to pursue a reasonably high conviction allocation of 65 to 70 stocks, because we want to closely understand a company before we invest in it," he said.

The importance to Nicholas of holding reliable businesses is evident in the fund's top holdings, with three out of its five favoured stocks having been in the portfolio for the long run.

Simon Property Group, a S&P 500-listed company which makes up 6.6% of the fund, has been held since 2007, while Unibail-Rodamco at 3.2% has been in the fund continuously since launch in 2006.

Risk controls

Nicholas's approach to stockpicking includes strict diversification and risk controls.

"We control the risk in each region by capping the off-benchmark allocation," he said. "Benchmarking against the UBS Global Real Estate Investor index, we hold a total of 30% off-benchmark weightings, which actually gives us quite a bit of flexibility".

Nicholas said this year the regional allocation to the US has been disappointing, while the fund has benefitted from exposure to the UK, despite the high rate of rental growth.

He has since gone underweight US, instead favouring markets such as Canada.

The manager believes merging markets will be highly attractive in the future compared to the fully developed markets, but their poor levels of capitalisation, liquidity and transparency has

led him to adopt a "wait and see" approach.

"The outlook for a country like Brazil is very strong – it will undertake big residential programs and the commercial office part is still underdeveloped," he said. "Conversely, we are cautiously watching countries like Indonesia, India and Thailand, which have different degrees of political risk that reduces the access to quality entry points in the market.

"In the case of China, we are only investing in stocks listed in Hong Kong, which are of a greater quality."

Nicholas will continue to favour larger and safer markets like Hong Kong, Singapore, Japan, Australia and indirect China until emerging property markets in the EMEA region start to offer better levels of disclosure and transparency of management, he said.



ANDREW NICHOLAS

- Joined First State Investments in 2006 and became head of property securities in 2009, specialising in Asian and Australian property stocks.
- Worked with UBS Global Asset Management on its domestic and global property securities funds.
- Worked at Deutsche Bank for 10 years as head of equity research and deputy head of Asian equity research.

DARIUS McDERMOTT MD, Chelsea Financial Services

We have preferred global property securities funds to UK funds for diversification since they became more available to UK retail investors. Most of our clients do not make allocations directly to this asset class but will have some exposure via their global equity funds. That said, we do see the attraction of this type of fund at various stages in the cycle.

With the UK economy barely showing growth, we would not expect a big pick-up in commercial property over the next 12 months. Having access to a fund that offers property equity exposure, but also geographical diversification, is sensible across the investment cycle, particularly at the moment.

First State is well placed to offer this type of fund, with its property team having analysts and managers spread across the globe. It has team members in the US, London and a strong presence in Asia. It also has a third party relationship with Colliers, which provides further research to the team. Those looking for global property equity exposure should consider this fund.

