SUSTAINABLE GLOBAL REAL ESTATE SECURITIES

Market & Strategy Update

September 2017 – By Jana Sehnalova, Portfolio Manager

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Dear Investors and Prospects,

La Française LUX – Sustainable Real Estate Securities fund was launched and fully invested in the second half of June 2017. Hence, it is the right time to provide the first overview of what happened in the summer in the global real estate securities arena to investors and prospects.

The aim of the fund is to be invested in securities that have an above average ESG score (as independently determined via a thorough analysis of environmental, social and governance factors by Inflection Point Capital Management UK Ltd. ("IPCM"), an ESG focused adviser which is part of La Française Group), combined with an above average, risk adjusted forward looking equity return (as analyzed by La Française Forum Securities, "LFFS"). The invested portfolio is well diversified geographically and by sector, invested in 42 individual real estate securities with an average weight of 2.3% and an average market cap of USD 12.5 bn, i.e. a large cap investment bias underpinned by the fact that larger cap names tend to – generally speaking – possess higher ESG focus and awareness. The fund's average ESG score stands at 6.5, in comparison with the universe average of 5.6.

If we analyze the main share class of the fund for the period July 7th – end of August 2017 the fund delivered a +1.2% performance; Singapore was the best performing market generating 9.7% returns, followed by Western Europe, up by 6.7%. The weakest markets included Japan (-1.5%), Hong Kong & China (-0.3%) and the United States (-0.2%). By sector, specialty, storage and residential were the strongest sectors (all up by 5-6%), the weakest performer in this period was healthcare (-3.7%).

As the fund was just established, little rotational activity occurred at the fund level. Positions in Singapore (CapitaLand Commercial Trust and City Development) were reduced and re-invested in the US, in healthcare and retail, sectors that have been under pressure. If compared to a standard benchmark, the fund is overweight in Western Europe, Singapore and Australia, underweight in the United States, Canada and Japan. These deviations from the standard benchmark are a function of both ESG ratings and expected returns. The underweight to the US is more meaningful (ca 890bp) due to the fact that a lower proportion of US companies achieve above average ESG scores. The cash at the end of the month of July stood at 5.8%, about 1.5% higher than at the end of July, as share class hedges produced realized gains at the end of the month and these will be subsequently re-invested at the fund level.

Current outlook for real estate securities remains neutral, supported by an 8.5% discount to NAV, 4% gross p.a. dividend yield for the industry, resulting in a 240 basis points average spread to 10 year treasuries. We are currently underwriting single digit expected returns, with better value than in the US, Australia, Continental Europe, Hong Kong and Japanese developers. Earnings remain solid, with continued rental growth and capital growth; capital markets remain active on all fronts – be it M&A activity, continued debt issuances or share buybacks. The public real estate market is currently trading at cheaper valuations then the private real estate market, which is continuing to attract large volumes of capital around the world. This creates an attractive opportunity for identifying of mispriced opportunities in the public real estate domain; currently, global retail, US office markets and Japanese developers seem to exhibit greater than normal gap in pricing between public and private markets, in particular high quality asset owners seems to offer an attractive entry point on selective basis. The biggest risk to the asset class is a risk of a sharp movement in bond yields, risk of global recession or an exogenous geopolitical risk.

From a sustainability perspective, one highly encouraging development is a marked upward trend in company ESG scores over time, even in regions such as North America where scores generally lag those of Europe and Australia. The competitive "bar" continues to rise…

Sources

As at August 31, 2017. FTSE EPRA/NAREIT Global Developed Index (RUGL Index); IPCM and LFFS internal analysis, Bloomberg PORT Attribution Analysis.

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