

First Sentier Global Property Securities Fund

Hedged Share Class

Portfolio Description

This Fund is suitable for investors seeking long term income and growth from global property securities.

Investment Strategy

The Investment Manager actively seeks to identify undervalued global real estate securities with minimal downside risk, sustainable earnings growth and good qualitative attributes. The Fund uses proprietary forecasting and valuation methodologies and a disciplined portfolio construction process with an over-riding focus on absolute and relative risk. The Investment Manager also uses environmental, social and governance scores embedded in the investment process as part of its company selection process. Sustainability considerations including a company's commitment to carbon emission reductions are assessed in the initial screen of companies used to determine the investible universe and the exclusion of companies from the investment universe. The Fund's Hedged Class uses derivatives to hedge its currency exposure to Australian dollars.

Investment Objective

To maximise total returns to the investor by investing in a portfolio of listed property securities from around the world. The Fund aims to outperform the Benchmark, hedged to Australian dollars, over rolling three-year periods before fees and taxes.

Key Investment Personnel and Experience (Industry / Firm)

Stephen Hayes	Head of Property Securities	(1995 / 2012)
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Product Overview

APIR code	PIM2485AU
Inception date	22 March 2022
Fund Size (A\$)	3 million
Benchmark	FTSE EPRA/NAREIT Developed Net Index - AUD Hedged
Number of stock holdings	43
Buy / Sell spread	0.10%/ 0.10%
Minimum investment (A\$)	20,000
Management fees and costs (p.a.)*	0.80%

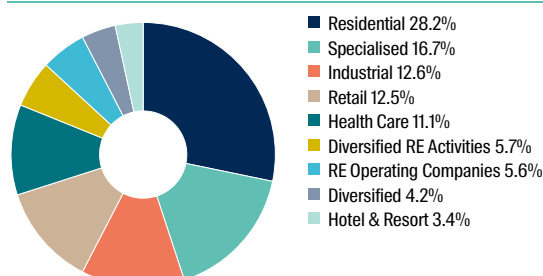
* Information on Management fees and costs (including estimated indirect costs) is set out in the Fund's PDS.

Top 5 holdings

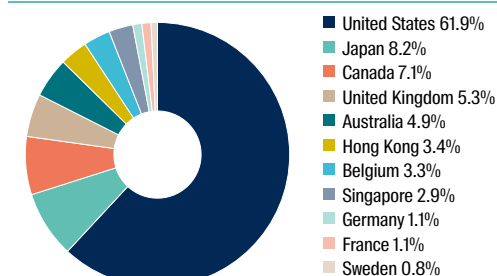
Stock
American Homes 4 Rent Class A
Digital Realty Trust, Inc.
Equity Residential
Life Storage Inc Com
Ventas, Inc.

Sorted alphabetically

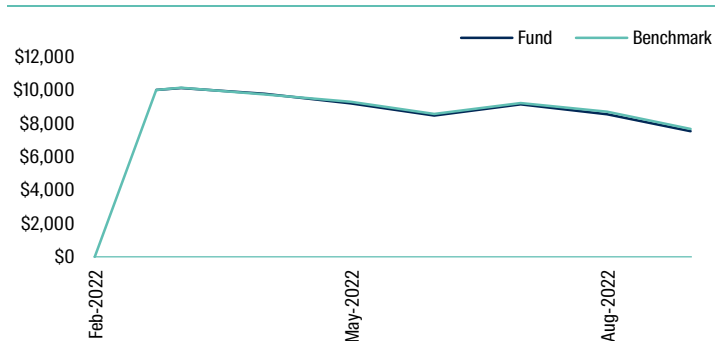
Sector Breakdown



Country Breakdown



Growth of AUD 10,000 Investment Since Inception



Top 5 attributors to performance (3 months)

Country	Attr.
Germany	0.13%
Hong Kong	0.10%
Canada	0.10%
Singapore	0.07%
Australia	0.06%

Top 5 detractors to performance (3 months)

Country	Attr.
United States	-0.77%
United Kingdom	-0.55%
Japan	-0.41%
Switzerland	-0.06%
Israel	-0.03%

Performance returns are calculated net of management fees and transaction costs. Performance returns for periods greater than one year are annualised. Past performance is not a reliable indicator of future performance.

Data source: First Sentier Investors 2022

Data as at: 30 September 2022

Market Review

Property securities markets posted a loss in the September quarter. The FTSE EPRA/NAREIT Developed Index decreased by -10.46% in hedged Australian dollar terms.

The best performing listed real estate markets during the quarter were Japan (-1.1%), France (-5.6%) and Australia (-6.7%). On the other hand, laggards included Germany (-23.4%), the United Kingdom (-19.4%) and Hong Kong (-11.3%). (All regional performance data is in local currency)

REIT's performed poorly in the September quarter as macroeconomic headwinds continue to influence investor sentiment. Central bank and bond market activity dominated headlines, with large rate hikes occurring in most regions and confirmation of further monetary tightening ahead.

US REITs are now also underperforming year-to-date (YTD), down 28.2%, 440 bps below the 23.8% decline of the S&P 500. REITs have not suffered two quarters of -10%+ drawdowns since 2008-2009. The 10-year Treasury rate increased another 58bps to 3.83% at month end.

Increased debt costs and lower debt availability continue to be dominant real estate sector concerns driven by central banks raising interest rates at the fastest pace in more than 40 years. Unsecured REIT debt spreads have widened 200 bps+ year-to-date (YTD), banks have reduced term loan issuance, and the commercial mortgage backed securities market (CMBS) remains closed. As a result, real estate transaction markets have slowed dramatically given a very wide bid-ask spread. While REITs have strong balance sheets and laddered debt maturities, this creates near term earnings headwinds and impacts REIT's ability to execute on external growth and asset funding/recycling plans.

Canadian REITs (as measured by the S&P/TSX Capped REIT Index) declined in the September quarter. After a strong start to the quarter in July, gaining 5.9%, the Canadian REIT market declined, shedding 4.8% in August and then a further 8.3% in September.

Behind much of North American equity markets decline in the quarter was US Federal Reserve President Jerome Powell's continued hawkish commentary in response to a stronger than expected US employment report as well as hotter than expected US inflation (CPI). Powell made clear his intention to bring inflation under control despite the discomfort it might create, dashing hopes for a "pivot" from the Federal Reserve to more accommodative monetary policy. Year-to-date, through September, the Canadian indices have fared modestly better than their American counterparts with the Canadian REITs 24.0% lower and the Canadian broader markets off 11.1%. In comparison, the US REITs (RMZ) are down 28.3% with the US broader markets lower as well: S&P 500 (-23.9%), the Nasdaq Composite (-32.0%) and the Dow Jones Industrial Average (-19.7%).

AREITs declined -5.6% in the quarter. Australian Retail sales rose 0.6% month-on-month in August following on from the 1.3% month-on-month gain in July. The solid rise signals the consumer remains resilient to monetary tightening seen to date. There has been increased volatility in dwelling approvals over the past couple of months, which has been driven by large swings in attached dwelling (apartment) approvals. Detached housing approvals were 4.1% higher in August, following a 0.8% rise in July. Despite the rise, detached house approvals remain 26% below their pandemic demand and stimulus induced peaks in March 2021.

European REITs (as measured by the FTSE EPRA Nareit Europe index) were down -16.4% in the quarter, underperforming Eurostoxx 600 by ~12% on the back of a sharp rise in government bond yields. During the period, we had a number of European central banks raising rates in the attempt to fight inflation. Notably, Sweden's central bank raised interest rates by 1% or 25bps above market expectations in September warning of more to come over the next six months. Elsewhere, the Swiss National Bank raised interest rates by 75 basis points, lifting borrowing costs above zero for the first time in almost eight years. I

The new UK Chancellor unveiled a new growth plan aimed at tackling energy costs to bring down inflation, backing businesses and helping households, financed via a large amount of tax cuts; given the current tough economic environment, markets participants showed concerns in the ability of this plan to address short/medium term risks sending the pound to the lowest level since 1985.

Throughout Asia, negative news continued from China with lockdowns reintroduced in major districts such as Shenzhen, Guangzhou, Chengdu & Dalian. This news dampened market sentiment leading into the October golden week, the yearly one week long of public holidays. Hong Kong finally ended hotel quarantine rules, which although positive is likely to affect outbound travel more so than inbound travel in the short term.

Singapore property fundamentals continue to improve across all sectors, with positive retail sales YoY, higher office rental rates and improving occupancy numbers. The broader reopening of Singapore has also seen a recovery in the lodging sector.

Fund Performance

The fund returned -10.46% in the September quarter, underperforming the benchmark by 65 bps.

The portfolio's exposures in the Americas detracted from fund performance in the quarter, due to the wider sell off of US REITs. Amidst volatility in US REIT markets, a tactical position in the logistics sector benefitted the funds' performance in the month as a continuation of M&A activity drove further increases in its share price. The funds' exposures to growth oriented sectors such as the data center sector and logistics sector detracted from performance in the quarter. Data centers were more affected by increases in the cost of debt, which is likely to slow future development activity whereas the logistics sector mostly detracted due to heightened recession risks, which swayed investor confidence in the ability to pass through inflation although the sector remains fundamentally sound. The funds' exposures to the seniors housing sector also detracted from performance, 2Q earnings came in below expectations. The earnings miss was driven by cost pressures driven by elevated labour expense.

Throughout Europe, macroeconomic headline risk continued to influence listed property markets which was reflected by the greater sell-off of the market. Regionally, the funds' exposures through France were more defensive although still declining in the month. At a sector level, the Logistics and German Residential sectors detracted from fund performance as markets factored in property yields expansion weighing down on performance.

The funds' exposures to Asia were more resilient in the quarter as the region continues to demonstrate defensive characteristics at times when confidence in American and European property markets wanes. Holdings in large Japanese property landlords continued to aid the portfolio's resilience in the quarter, as elevated inflation expectations, a material discount to net asset values and hospitality exposures likely to benefit from the reopening of Japan have aided investor sentiment in the space. Similarly, exposures to the hotel and retail sectors in Japan benefitted the funds' performance in the month.

Market Outlook and Fund Positioning

The strategy invests in a range of high quality assets in high barrier to entry urban locations in the world's most bustling cities.

The portfolio remains well positioned in the residential-for-rent sector, which includes apartments, detached housing, manufactured homes and student housing. The risk-adjusted returns currently offered by the sector are compelling as residential assets typically deliver very stable cash flows through the cycle. Housing affordability is a major issue for younger generations and we believe the aspiration to own a home will continue to wane as priorities shift towards lifestyle and experiences, which should underpin continued tenant demand for institutionally owned residential-for-rent assets that are able to maintain real pricing power amidst volatile macroeconomic conditions.

We have reduced our exposures to logistical warehousing as risks of a recession in the short to medium term have decreased confidence in the ability to maintain pricing power in the sector. We still believe that any short term over-estimations of required supply are transitory, outweighed in significance by the long term tailwinds in the sector. In the short term, the funds' exposures will be concentrated in areas that benefit from positive demand/supply profiles in markets that are undersupplied and continue to report strong occupancies.

We are bearish on the shopping mall sector, which is challenged by the long term structural shift towards online retailing. We expect that shopping malls will deteriorate materially as retailers increasingly shift their sales to the online channel and demand for physical shopfronts declines. That said, the outlook is more optimistic for smaller convenience and sub-regional shopping centres, which are far less exposed to the risks associated with the greater adoption of e-commerce as they typically have tenant mixes tailored towards non-discretionary sales such as fresh food and services.

Similarly, we maintain a cautious outlook for CBD office buildings given the expected secular shifts towards more flexible working arrangements in the future, which is likely to result in lower natural levels of tenant demand overall. However, we expect to witness a bifurcation between heavily disrupted CBD based high rise office towers, to the benefit of modern, "A grade", suburban and city fringe office buildings.

We are also invested in Hotels and Leisure assets. We believe these assets to be well placed over the medium term as community mobility increases overtime. The assets are not exposed to long term disruption and offer attractive valuations. Shorter term, we remain cautious on the sector as it continues to demonstrate sensitivities to changes in macroeconomic conditions.

We are also invested in data centres. These assets are well placed over the medium to long term as they are integral to supporting the growth of the digital economy. Recent acquisitions in the sector have highlighted the value of data centres and reaffirmed the need for global scale. The fund is also invested in the healthcare sector through seniors housing companies. Senior housing fundamentals continue to strengthen as well as being generally supported amidst a period where rates are expected to rise.

Risks are now rising for 2H22 and 2023. A recession is now a greater possibility driven by a rapid run up in borrowing costs, tightening financial conditions and persistent high inflation. This is causing a deterioration in consumer sentiment and a moderation in the outlook for corporate profits.

Whilst the short term outlook is not likely to be linear, we are optimistic on the real estate fundamentals over the medium and longer terms, particularly in sectors that continue to demonstrate real pricing power.

Portfolio Net Zero Date 2041



Proxy voting information

<https://www.firstsentierinvestors.com.au/au/en/adviser/responsible-investment/responsible-investment-proxy-voting.html>

www.firstsentierinvestors.com.au

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