

**SHINING A LIGHT ON.....
PREMIER ASSET MANAGEMENT
PAN EUROPEAN PROPERTY SHARE FUND**

At a glance

Property Funds have a tendency to make me nervous; and I believe for good reason. Many property funds are 'bricks and mortar', which in plain English mean they own the properties within the fund. This is fine when the market is buoyant and people are investing but when the market takes a down turn and everyone wants out then there is a problem as we saw in 2008. You can't just sell a property, so when the cash is exhausted the only way to get cash is to put an embargo on when people can get the money and force a sale of properties at potentially lower than perceived market value.

On the flipside you could argue that 2008 was a one-off event; but that is something potential investors need to consider carefully. However, another option is a fund which invests in property companies, called REITS. Because REITS are traded on the open market in theory liquidating assets should be fairly easy to do. The potential downside is that in a rising interest rate environment there is a perception that these funds should be avoided, because rising interest rates are assumed to drive down returns.

These challenges aside property tends to be seen as less volatile and less risky than pure equities. In this latest fund review we talk to Alex Ross, Manager of the Premier Asset Management Pan European Property Share Fund (this invests in REITS).

Alex joined Premier Asset Management in 2005 specifically to design and manage a flexible real estate securities fund. Previously he had managed the Aberdeen Property Share Fund. He brings 15 years' investment experience onto the table.

Q: "In a rising interest rate environment should investors consider selling REITS?"

Alex explained that initially when interest rates rise then there should be an expectation that REITS will fall by around 5 to 10%. He went on to explain firstly that this is a UK and European Fund so the actual fall for the fund will be less depending on the holdings in the UK.

Secondly he pointed out that he believes the fall will be a short term overreaction. Over the long term he believes that during the first 2/3rds of a rising interest rate cycle REITS will increase and actually tend to outperform general equities. This reflects up an upturn in Economic Growth and as a result rental growth. The time to come out is in the final third which is during an economic downturn and when voids start to increase.

Alex added that investors shouldn't be nervous about interest rate rises in the UK as he feels they will remain low for a long time, and increases will reflect this. His argument is that unlike the US, the UK mortgage market is dominated by interest only mortgages and there is greater consumer debt. It therefore restricts how quickly rates can go up, if they go too hard then consumers will not be able to take it. So it will be a balancing act to get it right.

In summary there may be a short term overreaction but this should correct over the medium term with positive returns being delivered (although of course this is not guaranteed). The time to consider moving away from REITS is as we enter an economic slowdown.

LWM Consultants Ltd

Q: "Why opt for a European / UK REIT Property Fund, why not global?"

Alex believes that European and UK REITS offer better growth potential due to supply and tighter planning constraints across Europe and the UK when compared to Asia, US and Australia. In these economies planning laws are more relaxed and therefore there tends to be an oversupply. Oversupply means that property companies have less pricing power, and therefore less opportunity to create value.

The major capital cities of Europe all have much tighter laws. For example, the maximum height of properties in Paris is 6 floors and in London the likes of the West End are in the main within a conservation area. In many of these cities there is a lack of office space which means pricing power is much stronger.

Q: "Explain how your fund is different?"

Alex explained that the process behind the fund has been built up over a 15 year period. Initially when he was at Aberdeen and latterly at Premier Asset Management. One of the key areas of difference is active management, Alex is looking for management who have shares in the companies they run so they are aligned directly with shareholder interests but more importantly those managers who are looking to create value via active management.

We discussed a few examples but one area that Alex focused on was London where the value is in re-developing areas. So for example Shaftesbury have been involved in redeveloping Carnaby Street and Covent Garden, and Derwent London Shoreditch and Farringdon. Where it is difficult to build in London (or almost impossible) redeveloping is where value can be created.

He also explained that regional real estate outside of London can also create value. With cash these companies can develop retail parks and re-engineer them into prime assets.

I asked about debt and how this could hamper growth especially in a rising interest rate environment. Leverage Alex explained is part of the selection process and he is looking for low leveraged businesses. The weighted average across the fund is 34% although some may have more or less. For example, German Real Estate is around 50% leverage.

With German Real estate – two thirds of German property is rental. Although there is a cap on rents overall rents have gone up 20% over the last three years so the potential for growth allows for greater flexibility on the leverage.

Q: "Is there any value left in the market?"

Alex explained that the yield on property has been flat over the last five years.

He went onto to explain that in 2009 commercial property accounted for 10% of bank lending market (they made up 75% of all the lending). The US in contrast was less geared so could deleverage in one go. The UK banks have been deleveraging selling £70 billion of property over the last five years. This has kept the yield compressed however this is now coming to end.

LWM Consultants Ltd

His view is that bank lending is now a third below the previous highs and with yield compressed he believes the market remains attractively valued. His view is that returns, for the underlying property market (all things being equal), should be around 8% p.a. over the next five years but investors should be aware that returns from property securities will not be smooth and are subject to short term market volatility and sentiment.

Q: "How liquid is the fund and is there a limit on the size of the fund?"

The fund size is £300 million and they constantly test liquidity. Currently they can liquidate 80% of the fund in one trading week. This is the big difference when comparing to bricks and mortar. More importantly of the companies Alex invests in he holds less than 1% of the company share capital in 90% of the fund so a sudden sale wouldn't create a problem with most of these businesses.

He pointed out that as the fund reaches £500 million Alex will review the liquidation ratio and review whether they need to cap new money into the fund.

Q: "Describe other features of the fund which might appeal to investors?"

Alex explained that currency is hedged, it means that the fund provides a pure property return by taking out currency risk.

Secondly the fund is currently 50 / 50 split between the UK and Europe, he explained he is not afraid to move to having a lower weight in Europe or vice versa depending on where the opportunities lie.

And thirdly where the fund tends to underperform is where everything goes up including the poor quality, the 'dash for trash'. So in 2009 /10 the fund underperformed and also at the start of 2015.

COMMENT

When compared to the iShares Developed Markets Property Yield ETF and the First State and Schroders Global Property Funds, the Premier Asset Management Fund considerably outperforms over a five year period. One could argue that this supports the comment that there is greater value in Europe and the UK. The counter risk is that having a global fund may diversify assets especially if there is a downturn in Europe or the UK. This therefore should be a consideration for potential investors.

The direct comparison would appear to be with TR Property. The TR trust demonstrates stronger performance over the five year period. However, investors should consider other facts. Between TR and Premier Asset Management they have 38 of the same stocks which assuming a 50 / 50 split of holdings would make up 73% between the two, Premier Asset Management has 16 unique holdings (6%) and TR Property 28 (8%) with the balance in cash. Effectively the make-up of the funds is fairly similar.

The pendulum of favour would therefore appear to point to TR however there are two points to consider. Firstly the Premier Asset Management is less volatile; property is often selected as it is less volatile than general equities. Over 3 years the volatility on Premier Asset Management is 13.32% and TR 18.69%, over 5 years Premier Asset Management drops to 10.09% compared to 14.94% on TR. What this means is that although over 5 years the TR fund outperforms by about 10% the journey is much more volatile and this might not suit all investors.

LWM Consultants Ltd

The second point is that unlike the TR Fund, this fund is currency hedged. Effectively this takes out the currency risk, and with the weaker Euro this has clearly benefited the fund in 2015. If we assume the currency will remain weak for some time to come then again this may be another factor for investors to consider.

In summary this is not a bricks and mortars fund and therefore it overcomes the liquidity issue should investors want to get out of property, there is a short term risk when interest rates rise but over the medium term interest rate rises should be positive for the fund. The argument for European and UK seems strong compared to Global REITS but there is the risk of not diversifying especially if the UK and European markets fall out of favour. For those looking at Europe certainly the TR property fund has performed stronger but it is more volatile which may not appeal to all investors and there is no currency hedge.

Fund performance

Five year performance figures are shown below as well as performance in 2015 to date:

	2011	2012	2013	2014	2015*
Premier Asset Management Pan European Property Share Fund	-11.63%	27.15%	21.38%	23.60%	10.92%
TR Property Trust	-14.79%	30.90%	35.69%	29.29%	4.82%
First State Global Property Securities Fund	-0.55%	17.46%	0.38%	24.11%	6.21%
Schroder Global Property Securities Fund	-7.01%	21.33%	-1.01%	18.49%	3.89%
iShares Developed Markets Property Yld	-4.65%	12.93%	-4.17%	24.81%	0.71%

*To 30 April 2015

	1 Year	3 Years	5 Years
Premier Asset Management Pan European Property Share Fund	26.79%	92.60%	107.11%
TR Property Trust	23.22%	123.22%	118.05%
First State Global Property Securities Fund	27.47%	41.72%	66.11%
Schroder Global Property Securities Fund	19.34%	33.85%	50.87%
iShares Developed Markets Property Yld	18.74%	28.52%	40.37%

Performance data and volatility ratings sourced from Morningstar. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

The source of information in this note has been provided by Premier Asset Management and is correct as at May 2015. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. 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

LWM Consultants Ltd

should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.