SARASIN IE SUSTAINABLE GLOBAL REAL ESTATE EQUITY

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ECONOMIC AND FUND REVIEW

Real estate companies were up in Q1 2021, which meant the portfolio was also up, although underperforming its benchmark in relative terms.

With mass vaccination programmes across the globe gaining momentum, investors continued to look for post-COVID reopening trades. For real estate, this meant investors buying value stocks in retail and hotel REITs - sectors we are underweight.

The fund's thematic (growth) style was out of favour in the first few months of the year as investors continued to look for deep value stocks in the retail, hotel and to a lesser extent the office sector, as part of the re-opening trade. In contrast, our exposure and focus on more thematic areas in real estate, that should benefit from long-term structural trends, lagged. This meant significant positions in the fund within these sectors such as Prologis and Goodman (evolving consumer), Equinix and American Tower (digitalisation) and Deutsche Wohen and LEG Immobilien (urbanisation), all underperformed companies in the hotel and retail sectors.

Although not reflected in the fund's Q1 performance, this quarter's flurry of FY20 REIT results supported our view that growth sectors should outperform 'old school' real estate sectors over the longer term.

Industrial companies including Prologis and Goodman, once again reported higher than expected growth numbers and guided for strong growth in the years to come. It was a similar story in our digitalisation theme, where companies expect to grow their cash flow and dividend by 5-8% in the years to come. Most retail companies however, have not given any guidance and instead remain focussed on selling assets to reduce leverage.

OUTLOOK

Our long-term outlook for the real estate sector has not changed much in recent months. We continue to believe that the retail and office sectors remain structurally challenged, with ecommerce and working from home becoming more established trends, there's increasing pressure is occupancy rates and rents.

On the other hand, we think our thematic exposure to long-term real estate trends like urbanisation (residential REITs), digitalisation (data centres and tower REITs) and evolving consumer (industrial REITs), will perform well in the medium to long-term. We expect companies in these sectors will show steady, long-term rental and value growth, giving rise to the potential for increasing dividends and net asset values (NAVs).

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IMPORTANT INFORMATION

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There is no minimum investment period, though we would recommend that you view your investment as a medium to long term one (i.e. 5 to 10 years). Risks associated with investing in REITs include the following: declines in the value of real estate, risks related to general and local economic conditions, overbidding and increased competition, increases in property taxes and operating expenses, changes in zoning laws, casualty or condemnation losses, variations in rental income, changes in neighbourhood values, the appeal of properties to tenants and increases in interest rates. In addition, REITs may be affected by changes in the value of the underlying property owned by the trusts or may be affected by the quality of credit extended. REITs are dependent upon management skills, may not be diversified and are subject to the risks of financing projects. The ability to trade REITS in the secondary market can be more limited than other stocks. For efficient portfolio management the Fund may invest in derivatives. The value of these investments may fluctuate significantly, but the overall intention of the use of derivative techniques is to reduce volatility of returns.

The value of the investments of the fund and the income from them can fall as well as rise and investors may not get back the amount originally invested. If investing in foreign currencies, the return in the investor's reference currency may increase or decrease as a result of currency fluctuations. **Past performance is not a guide to future returns and may not be repeated.**

Frequent political and social unrest in Emerging Markets, and the high inflation and interest rates this tends to encourage, may lead to sharp swings in foreign currency markets and stock markets. There is also an inherent risk in the smaller size of many Emerging Markets, especially since this means restricted liquidity. Further risks to bear in mind are restrictions on foreigners making currency transactions or investments.

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