

**SARASIN**  
& PARTNERS

# Sarasin IE Sustainable Global Real Estate Equity

8 October 2020

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This document is for South African investment professionals only and should not be relied upon by private investors.

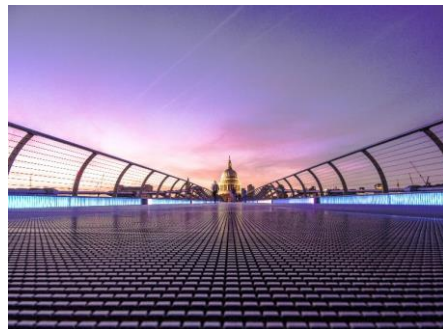




# About Sarasin & Partners



A staff of 217 including  
89 investment  
professionals



Funds under  
management: c.  
£15.2bn\*



A broad range of  
domestic and overseas  
private clients,  
charities, pension  
funds, institutions and  
retail investors



Combined local  
management team  
owns a significant  
portion of  
the equity of the firm

A committed team of investment professionals in the foreground

\* Source Sarasin & Partners LLP as at 30.09.2020, updated quarterly

# Sarasin Global Listed Real Estate



Our macro team helps define regional and sector exposure



REITs and global listed property companies have tax/cost efficient corporate structures with access to a variety of funding sources

Drawing on the expertise of a specialist **risk** team, managers ensure that risk within the portfolio is **managed appropriately**



Allows investors to move freely and cost effectively between regions and property sectors



Sarasin & Partners was one of the first European investors to develop a global listed real estate product



Some of the highest quality real estate is only available via listed stocks

Within the Real Estate franchise we have over **£270m** assets under management (as at 31.12.19)

Our Real Estate GBP Fund launched in **2004** A strong fund management team combining over 30 years of experience



Our direct research consultant, Jones Lang Lasalle has 200+ offices, operates in 1000 locations in 71 countries

# Real Estate Team – Key members



**Raymond Lahaut**

*Analyst / Portfolio Manager,  
Global Real Estate*

- Over 15 years' experience as a portfolio manager in real estate sector
- Bachelor's degree in Marketing (Limburg Business School)
- Masters in Marketing and Marketing Research (University of Nijmegen)
- Chartered Financial Analyst (CFA)



**Phil Collins**

*Co-Fund Manager,  
Global Real Estate*

- Over 30 years' investment experience
- Lead manager of Sarasin's Multi-Asset Charity funds.
- Fellow of the Chartered Institute for Securities & Investment



**Ben Elwes**

*Co-Fund Manager,  
Global Real Estate*

- UK Equity Fund Manager & Analyst
- Nearly 30 years' investment experience
- Degree in Economics and Politics from Bristol University
- Member of the CFA Institute

## Thematic & Strategic Analysts

Digitalisation

Urbanisation

New Commerce

Self Storage

Healthcare

Student Housing

Macro

Strategy

Geopolitics

Jones Lang LaSalle

Risk Team

# Agenda

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1. Review of Q3 2020
2. How we are different in our approach: Digitalisation Theme (feat. Josh Sambrook-Smith)
3. Topical: Real Estate in a (post) Covid world - and the impact this may have on our strategy
4. Outlook Listed Real Estate

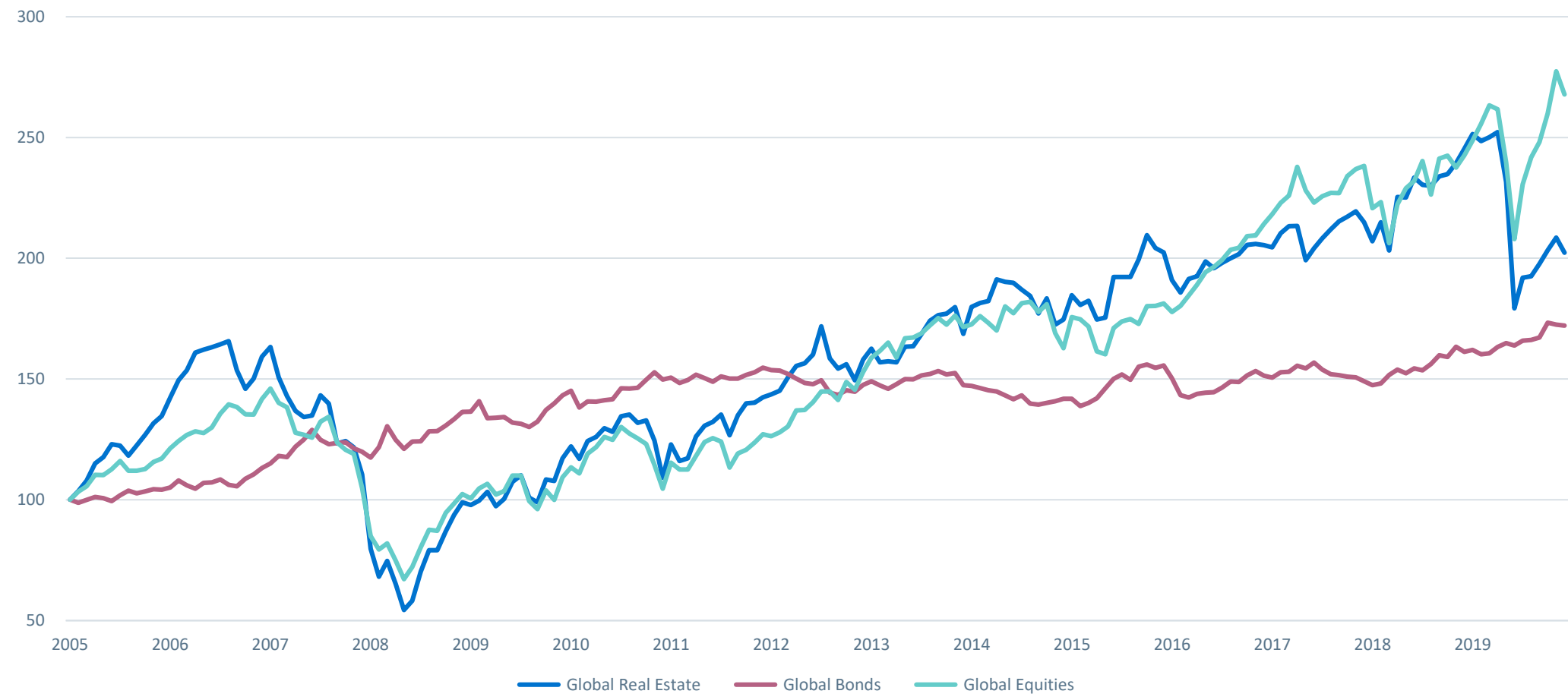
# 01

## Review of Q3 2020

# REIT sector returns



Listed Real Estate vs. Global Equities and Bonds



Source: Sarasin, Bloomberg 30.09.2020

# Q3 Review

Lagging general equity (in GBP); underperformance vs benchmark in Q3

	Relative	Fund	Benchmark
Q3 Performance	-2.4%	-4.1%	-1.7%
YTD Performance	+1.0%	-14.6%	-15.6%

## Positives:

- Being overweight the Industrial sector (Goodman in AU and Prologis in US)
- Being overweight German Residential

## Negatives:

- Being overweight US Residential
- Being overweight European Retail
- CK Asset unexpected dividend cut

Source: CLOSE UNIT PRICE/Mostly P Acc shares/Net fees October 2020

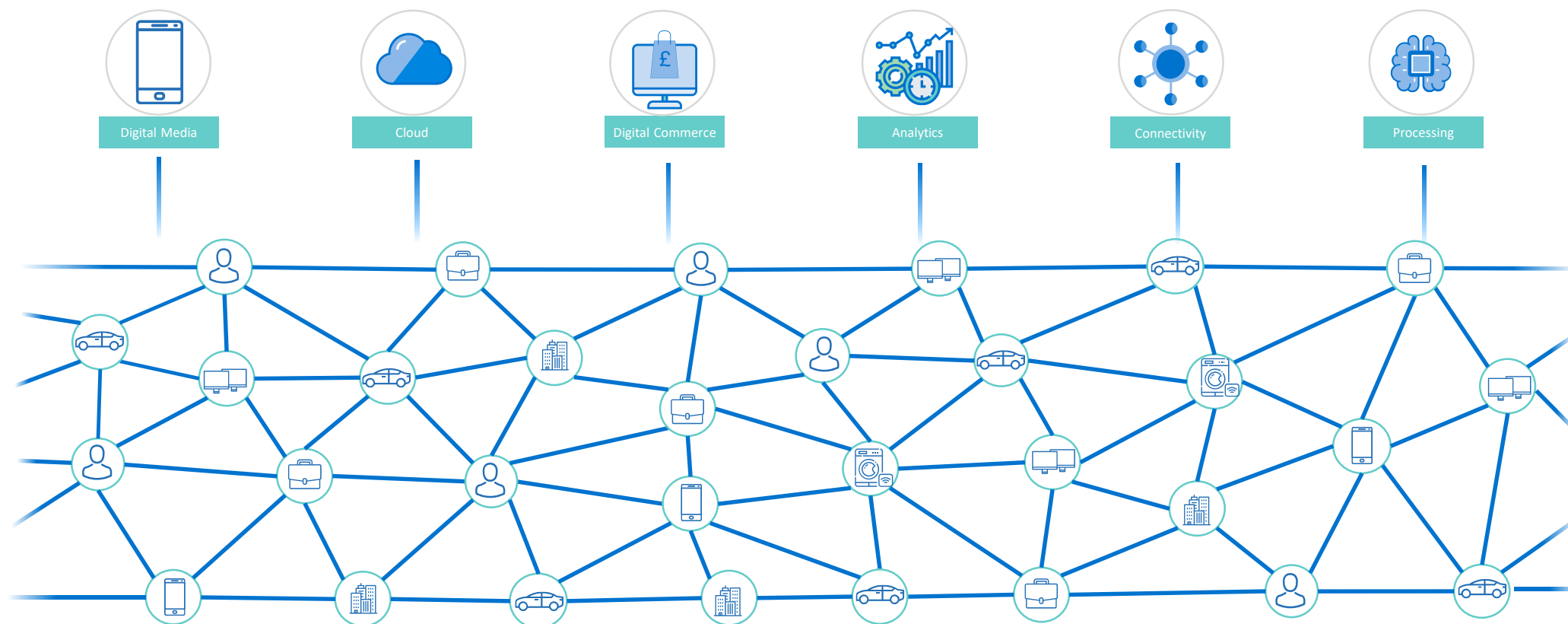


# 02

## How we are different in our approach: Digitalisation

# Digitalisation Theme (10.7% of portfolio)

The rapid adoption of digital products and services within the interconnected economy



# Falling costs of innovation

... mean higher entrepreneurial incentives



## Unit costs for compute, bandwidth and storage (indexed to \$1)



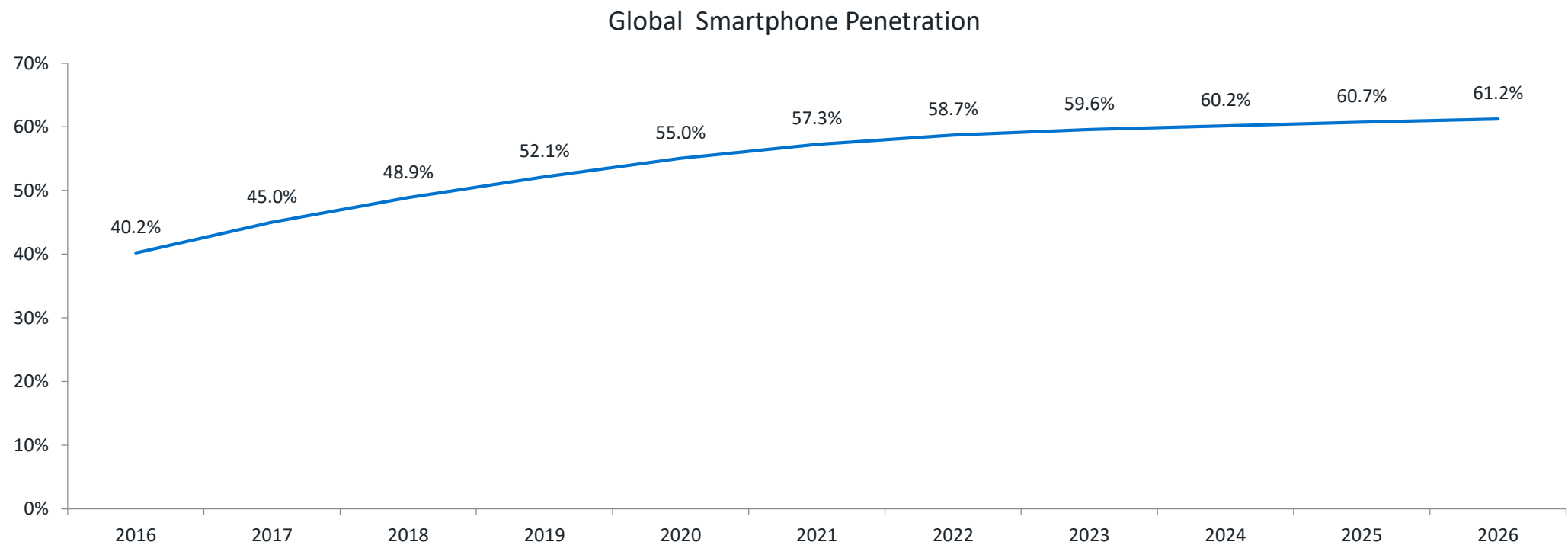
Source: Flamm, K (2017) *Measuring Moore's Law From Price, Cost and Quality Indexes*. University of Texas at Austin; DrPeering.net; Scott-Marcus (2015) *The Economic Impact of Traffic Growth on Network Operators*. WIK Consult.

# Smartphone Penetration

More to go



Emerging market users driving growth

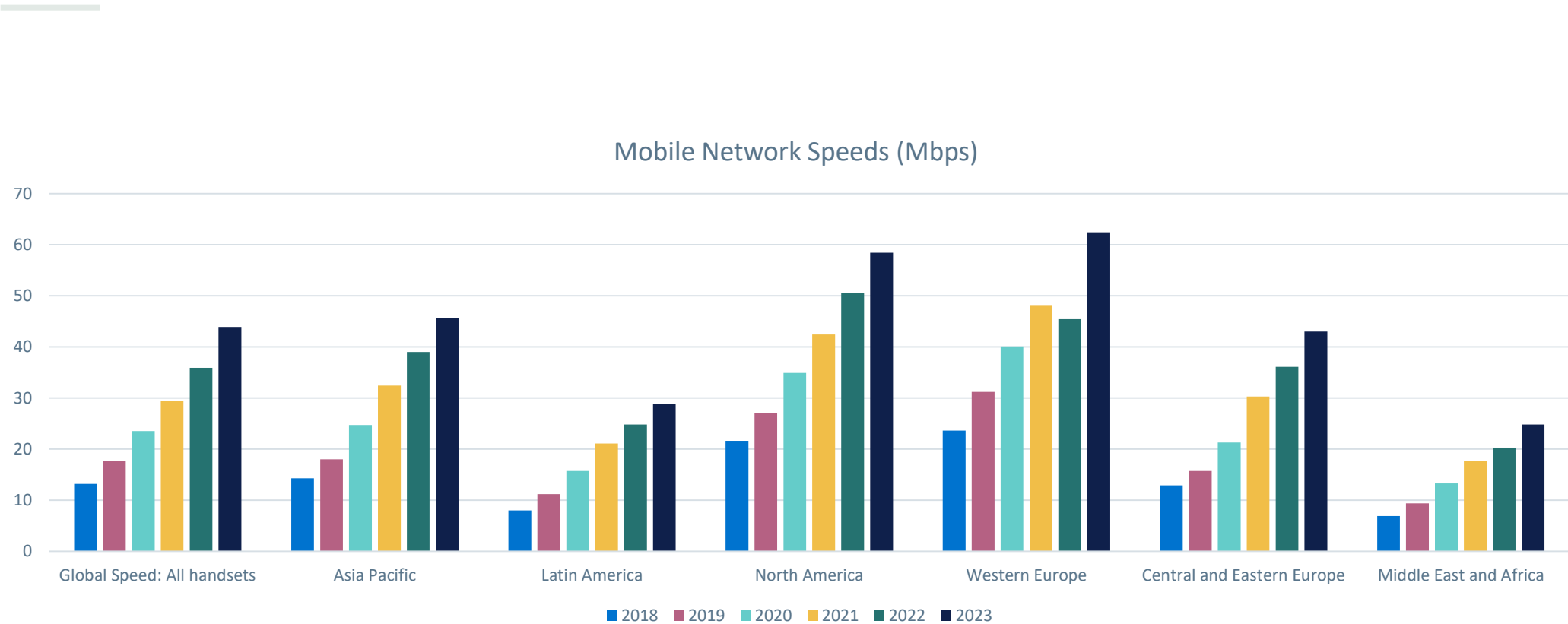


Source: Strategy Analytics, Sarasin October 2020



# Rising Mobile Connection Speeds

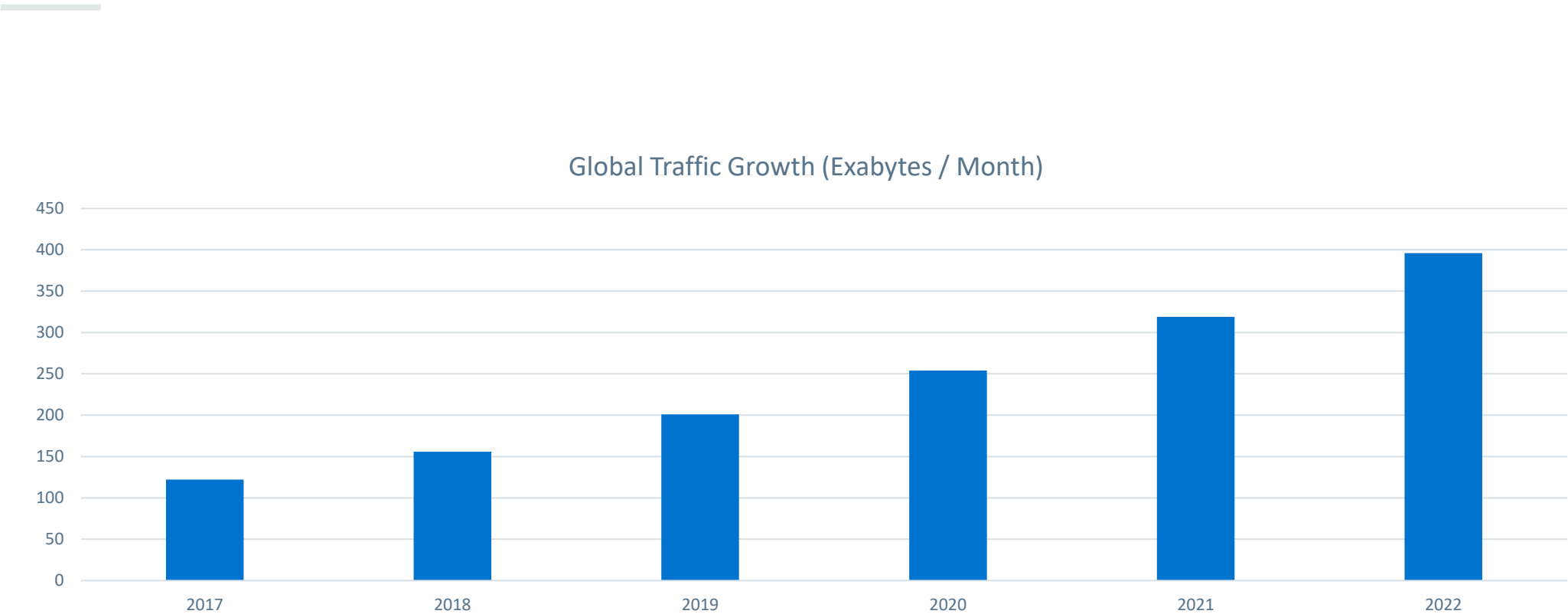
30% growth every year



Source: Cisco Annual Internet Report (2018-2023)

# Network Traffic is skyrocketing

>30% growth per year

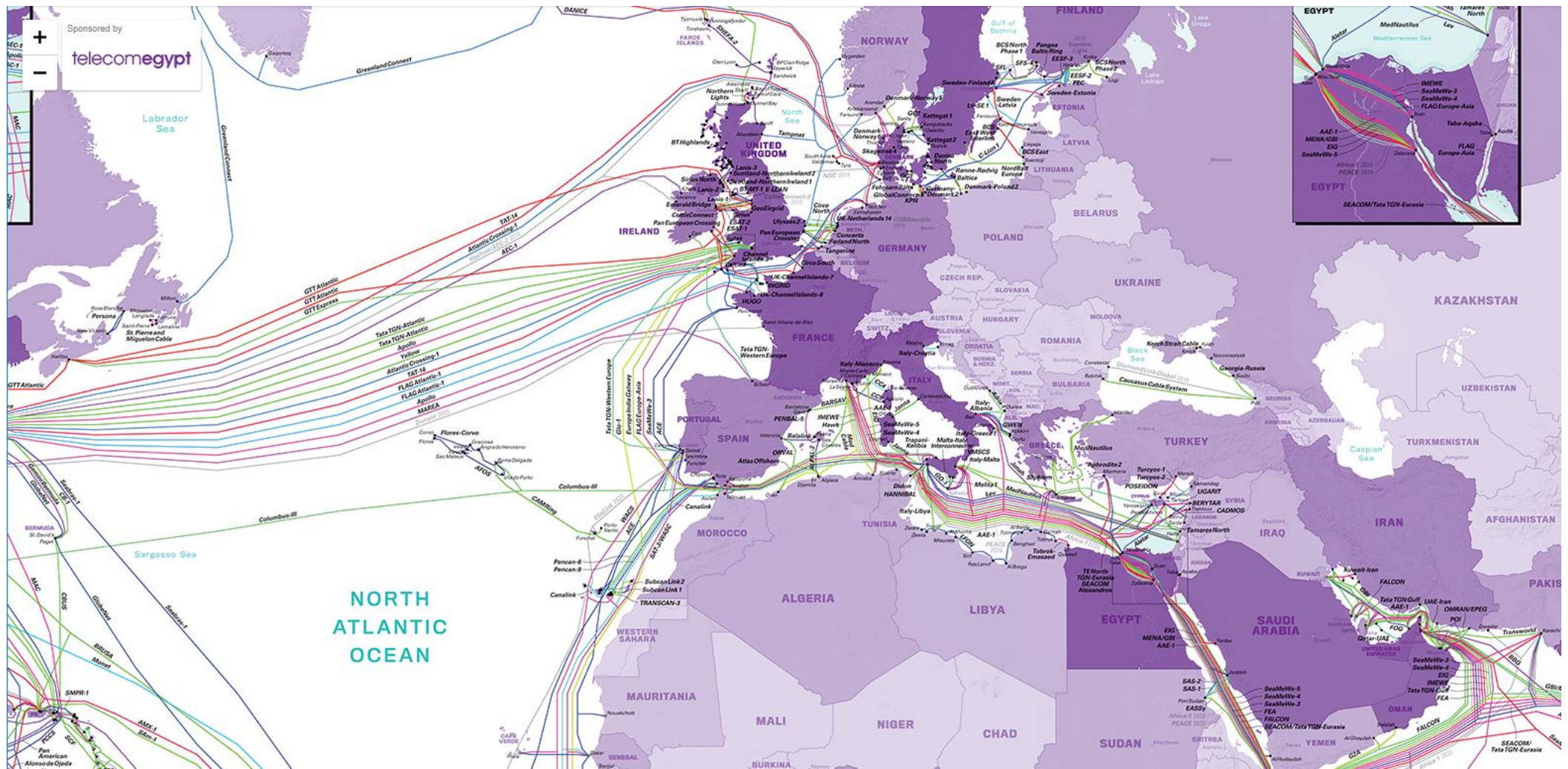


1 exabyte = 1,000,000,000,000 megabytes (2.8bn hours of video)

Source: Cisco Visual Networking Index (VNI) Complete Forecast Update, 2017–2022

# Connectivity

Submarine cables provide vast international bandwidth

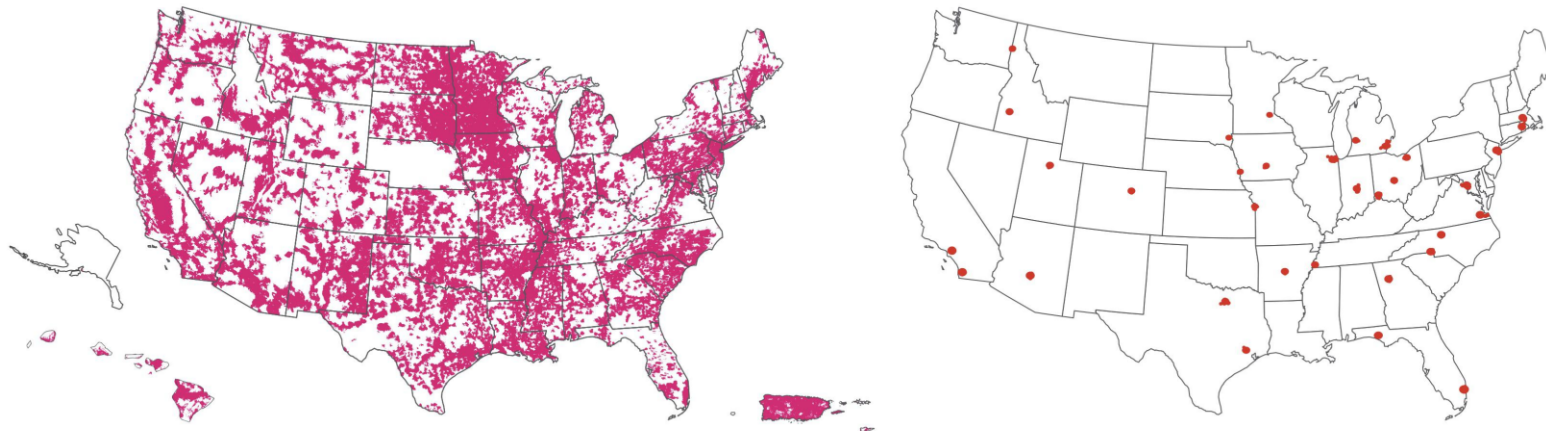


Source: Telegeography "Submarine Cable Map 2019". <https://submarine-cable-map-2019.telegeography.com/>

# Mobile Connectivity

Increasing spend on coverage

## T-MOBILE 5G AND VERIZON 5G



■ – T-Mobile 5G Coverage ■ – Verizon 5G Coverage

Includes 600 MHz and mmWave coverage; capable device required.

Source: T-Mobile October 2020



# Towers and Data Centres

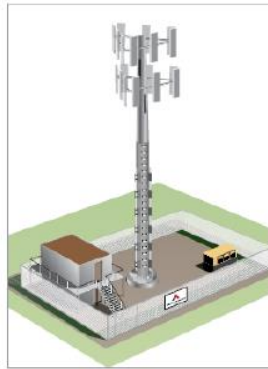
Attractive secular growth and unit economics

## Towers

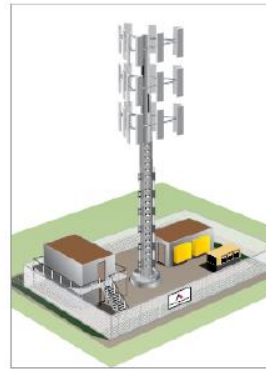
One Tenant



Two Tenants



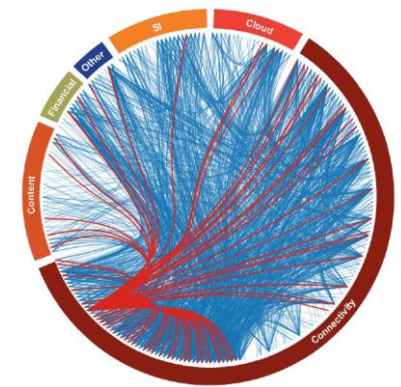
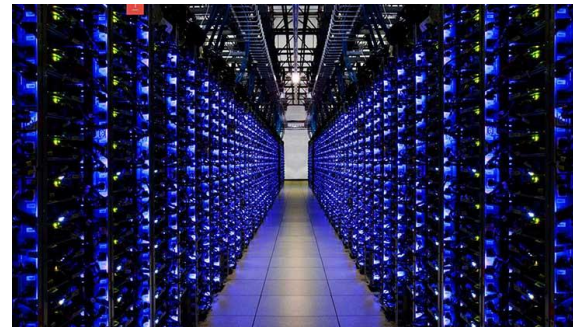
Three Tenants



- 20 year contracts
- Secular mobile data growth
- High margins

Source: American Tower Investor Presentation October 2020

## Data Centres



- 5 year contracts, 1% churn!
- Secular cloud and data growth
- High margins

Source: Telecity Q1-15 Investor Presentation, [www.datacenterfrontier.com](http://www.datacenterfrontier.com) October 2020

# 03

**Topical: Real Estate in a (post) Covid world - and the impact this may have on our strategy**

# The best of both worlds

Solid dividend yield combined with NAV growth

Dividend plus NAV growth

Income

- Best real estate assets around the world
- Most attractive locations/sectors
- Best REIT management teams
- Stable and growing income
- Total return target: 5% - 8%

Thematic

- Exposure to long-term themes
- Growing companies/ NAV's
- Total return target: 10% - 15%

Allocation

	Allocation	Yield		Allocation	Yield
Diversified	12.3%	2.69%	Digitalisation	10.7%	
Office	11.1%	5.14%	Healthcare	6.5%	
Residential	12.0%	3.25%	Industrial	14.2%	
Retail	9.2%	7.51%	Self Storage	2.1%	
	44.6%	4.44%	Student Housing	2.6%	
			Urbanisation	18.0%	
				54.1%	2.8%

Best opportunities, best-in-class real estate managers

- Income portfolio focussed on stable dividend generation and global exposure.
- Thematic part of the portfolio focusses on stronger NAV growth.
- Portfolio construction based on conviction not on benchmark.
- Expected dividend yield: 3.0% - 4.0% (now 3.7% vs Benchmark yield of 4.4%).

# Will income provide income?

**Offices: Not 'The End', but demand could decrease and drive polarization.**

For the office sector, the key question is how the lockdown-accelerated trend of working from home (WFH) alters corporates' long-term real estate strategies. There is no doubt that WFH will continue to grow, with many corporates already announcing changes to their real estate strategy. The impact may be stronger where commute times are typically longer and homes typically bigger (e.g. the US).

But...

1. Workspace density now may need to decrease to allow increased social distancing.
2. Shared workstations or 'hot-desking' is now less appealing, and in some cases may be regulated against.
3. A long-term trend in office demand has been for corporates providing quality space to attract and retain talent. This 'flight to quality' is likely to drive polarization within the market, with lower-grade, grey (i.e. non-sustainable buildings) and peripheral assets likely to lose.
4. WFH will not appeal to all employees
5. There will be many roles that aren't allowed to move to a home location for security and insurance purposes.
6. On top of these factors are the 'softer' social benefits that draw us to office working: team building, bonding, relationships, talent mentoring, corporate culture building, efficiency, management oversight, creative collaboration etc.

1980's



2020





# Will income provide income?

## Retail: Accelerating downward trends

### The Ten Plagues of Retail

1. Online retail
2. CVA's
3. Lockdowns
4. Tenants not paying the rent
5. Rents going down
6. Values going down
7. LtV's going up (=issue new shares)
8. Retailers downsizing
9. Most retail REITs are trying to sell
10. The 'must hate' sector



Source: Queues in Westfield after re-opening, BBC (July 2020).

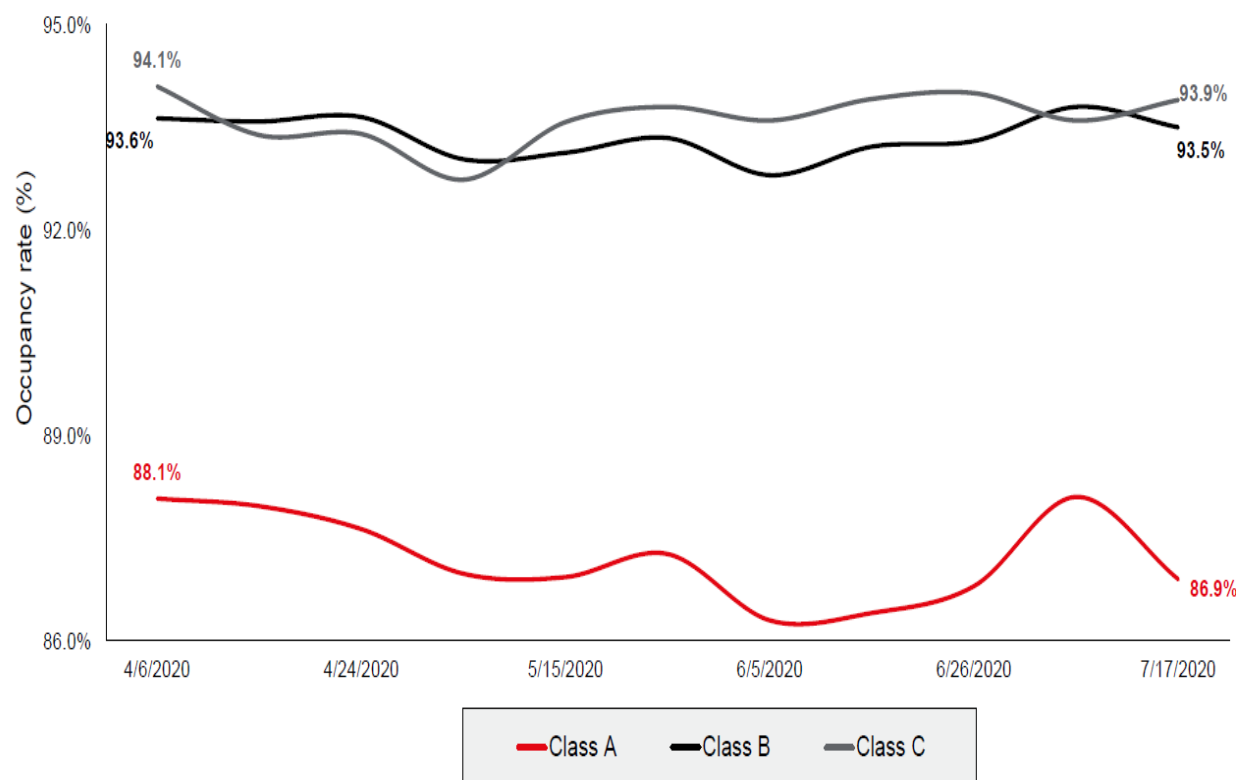
### Never again retail?

Although retail real estate is (and has been) hardest hit by structural changes and by the impact of Covid, it is perhaps too easy (and unwise) to disregard the sector altogether. We should remember that although online retail is on the up, more than 70-75% of all sales are still done in bricks and mortar shops. Retail as we know it has definitely changed and that change has not yet finished but some retail landlords will come out on top once the dust has settled.

# Will income provide income?

## Residential: Steady as you were

Although there are many challenges in the housing market (ageing of society, (de-)urbanization and energy efficiency to name but a few), Covid is not one of them. Across the developed world, residential landlords have seen limited impact on their portfolios, be it on occupancy, rent collection or values. The sector is still going strong.



Source: Occupancy rates US Residential stock, JLL (July 2020).

# Has Covid impacted our six themes?

## The Good

### DIGITALISATION



#### Datacentres and Towers: The lighthouse in the storm

The data centre providers have been by far the best performing real estate subsector due to:

1. The sector's **growth profile**, coupled with solid balance sheets.
2. While some other sectors have sold off aggressively due to concerns over tenant issues/liquidity, data centres have been untouched in this regard as their largest **tenants are of the highest credit quality** (Microsoft, Salesforce, Facebook etc.).
3. The sectors are likely to continue to benefit as **workplaces become more agile, flexible and cloud-based** in a post-Covid world, with rising data usage and increased carrier activity.

### NEW COMMERCE



$$I = R * -1$$

The same e-commerce trends that threaten the retail sector are likely to benefit logistics. The growing of ecommerce is actually only one of the upside themes providing the industrial sector with a tailwind and Covid has made that tailwind a tail storm.

1. **Higher Inventory Levels:** each 100bps of growth in inventories is estimated to require an additional 57M Sft of US logistics demand.
2. **Modernization of logistics supply chains:** Faster e-commerce adoption should require greater supply chain investments from low-penetration industries such as grocery.

# Has Covid impacted our six themes?

## The Mixed Bag

HEALTHCARE



Senior Housing

1. Increased number of 'involuntary move-outs'.
2. Increasing cost base.
3. Vacancy may remain high due to hesitance of people moving in.

MOB

1. Increasing demand for specialized office buildings (e.g. laboratories).
2. Not effected by WFH-trend.

Triple Net

No impact



# Has Covid impacted our six themes?

## The Question Marks

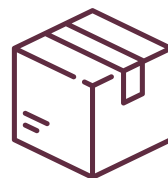
### URBANISATION



Potentially, increased adoption of WFH could change attitudes to commute lengths, changing the location desirability: a longer commute may be more tolerable if only required 2-3 days a week rather than 5. Early indicators show three key trends:

1. **De-densification:** Home sharing may become less popular.
2. **De-urbanization:** Commuting less often may justify a longer commute.
3. **Sun Belt migration:** Specifically for the US there might be a trend to move to sunnier Sun Belt states like Texas and Florida.

### SELF STORAGE



The Self-Storage sector has performed well in 2020, mostly based on its perceived resilient cash flows. Back in the 2009 financial crisis, the Self-Storage REITs were also among the best performers given their strong balance sheets and resilient cash flows. But:

1. **Supply growth** is still near peak levels.
2. **Costs** may continue to go up as Self Storage companies try to outbid one another on marketing for a decreasing number of consumers along with modest growth in labour costs due to increased cleaning/personnel costs as a result of Covid.

### STUDENT HOUSING



Binary outcome: will universities offer onsite classes or online classes? The former will result in students moving back to campus. The latter will result in students moving back home.

# Conclusion

## Change of strategy?

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No, but slowly moving to more thematic in the medium to long term.

- Prime office space, safe residential stock and surviving retail should provide solid income/dividend.
- Bar a few slight changes in long term trends, our thematic approach should continue to deliver above average NAV growth.

# 04

## Outlook Listed Real Estate

# Global Listed Real Estate Outlook

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The outlook for most real estate sectors remains cautiously optimistic:

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- Real Estate **Office** markets between WFH and social distancing forces.
- Growing emphasis on agility and technology supports rise of flexible office space.
- **Retail** focuses on new ways to differentiate.
- **Logistics** markets maintain strong performance.
- Investors look for scale and target logistics and **Alternative Real Estate** sectors.
- **Non Real Estate Risks** increased: Social unrest in HK, governmental intervention Berlin residential market, Covid-19

Company balance sheets are robust, and financing easy to access at attractive rates.

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Yield spreads remain well above average versus 10 year government bonds around the world.

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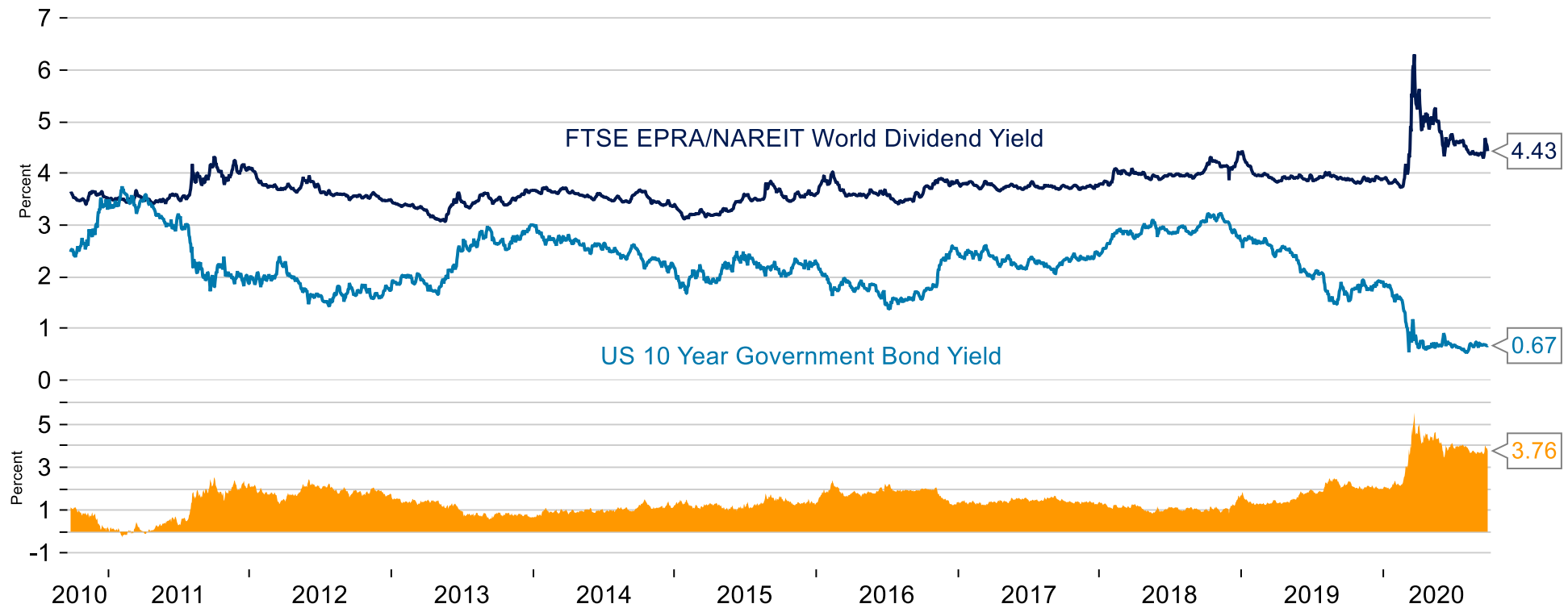


# Yield premium on Global REITs approaching decade highs

## Global REIT and Bond Yields



World REIT Yields less 10 Year US Bond Yield



Source: Macrobond 30.09.2020

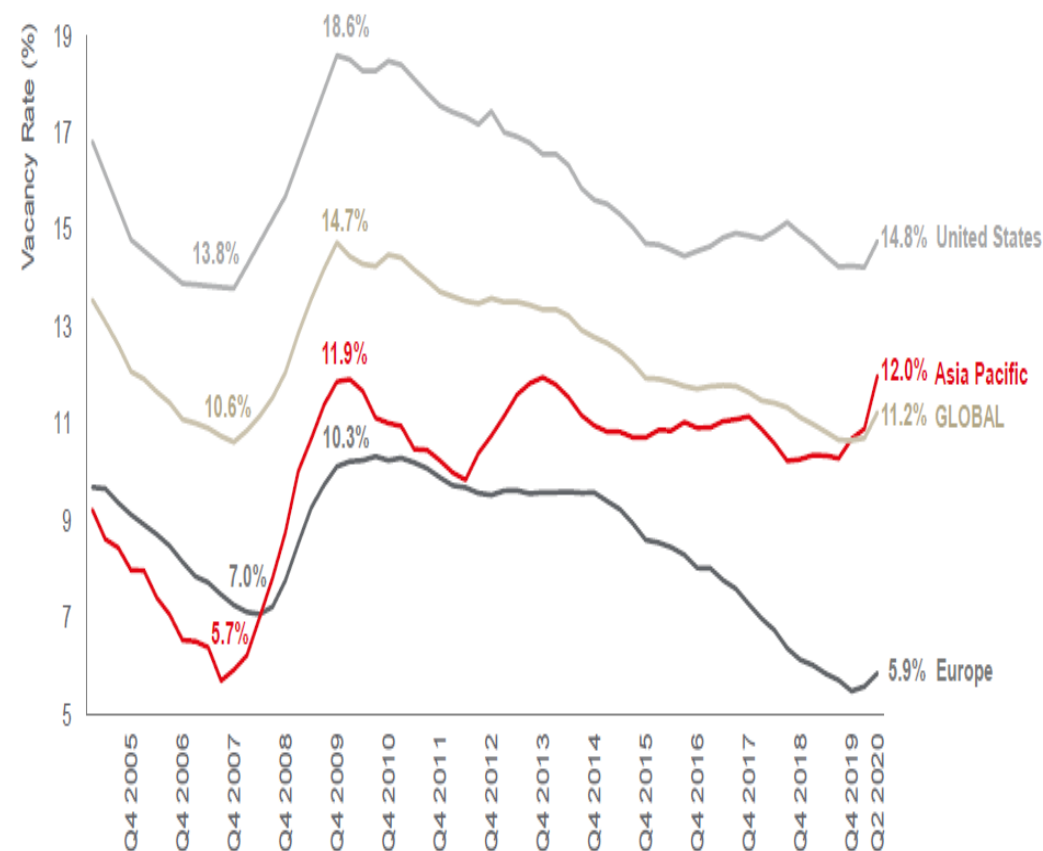
# Outlook and Opportunities

## Office

- Vacancy moves higher in all regions. Polarisation between prime and secondary locations.
- Steady office rental growth (indexation) expected for 2020/21.
- Office vacancy rates expected to tick up slightly from historic lows as new developments comes online and due to the impact of Covid-19 and the expected recession.

### Portfolio Implications

- Overweight US West Coast, European and developed Asia office sector.
- Underweight Mid America and UK office sector.



Source: Jones Lang LaSalle Global Real Estate; August 2020



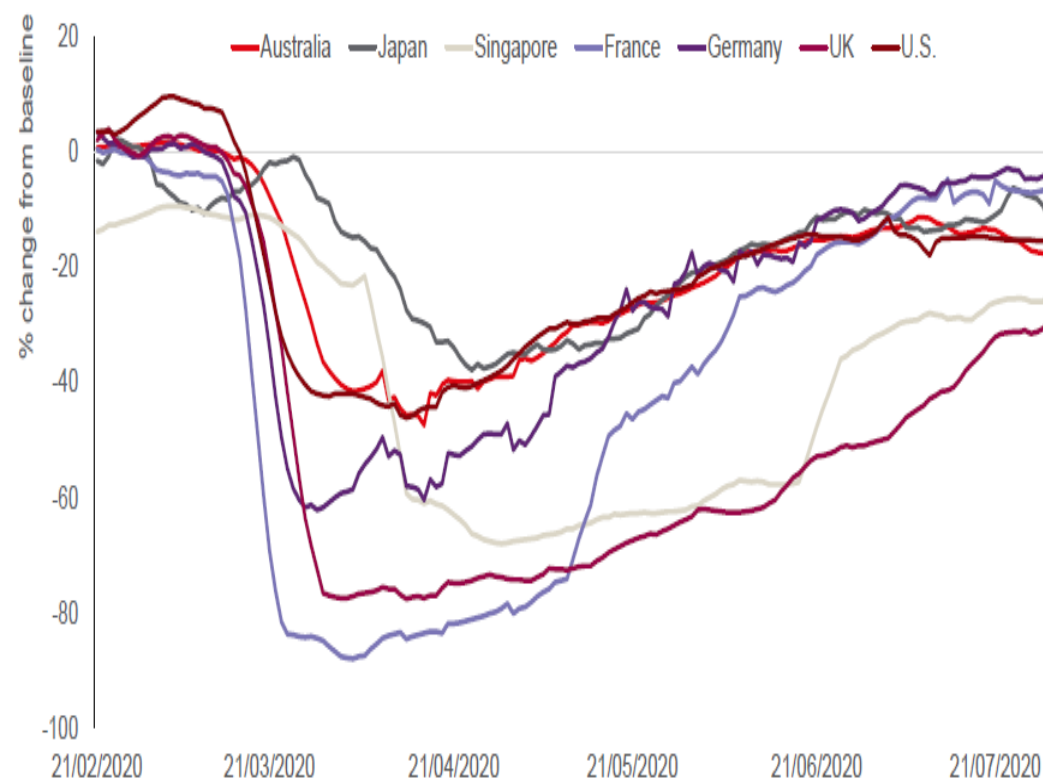
# Outlook and Opportunities

## Retail

- Longer term looking to offset the loss of revenue from their physical store portfolios (more 'experience' and f&b).
- Increased adoption of online grocery shopping.
- Sector slowly recovering from lockdowns

### Portfolio Implications

- Decreased our underweight with focus on long term winners.



Source: Jones Lang LaSalle Global Real Estate; August 2020

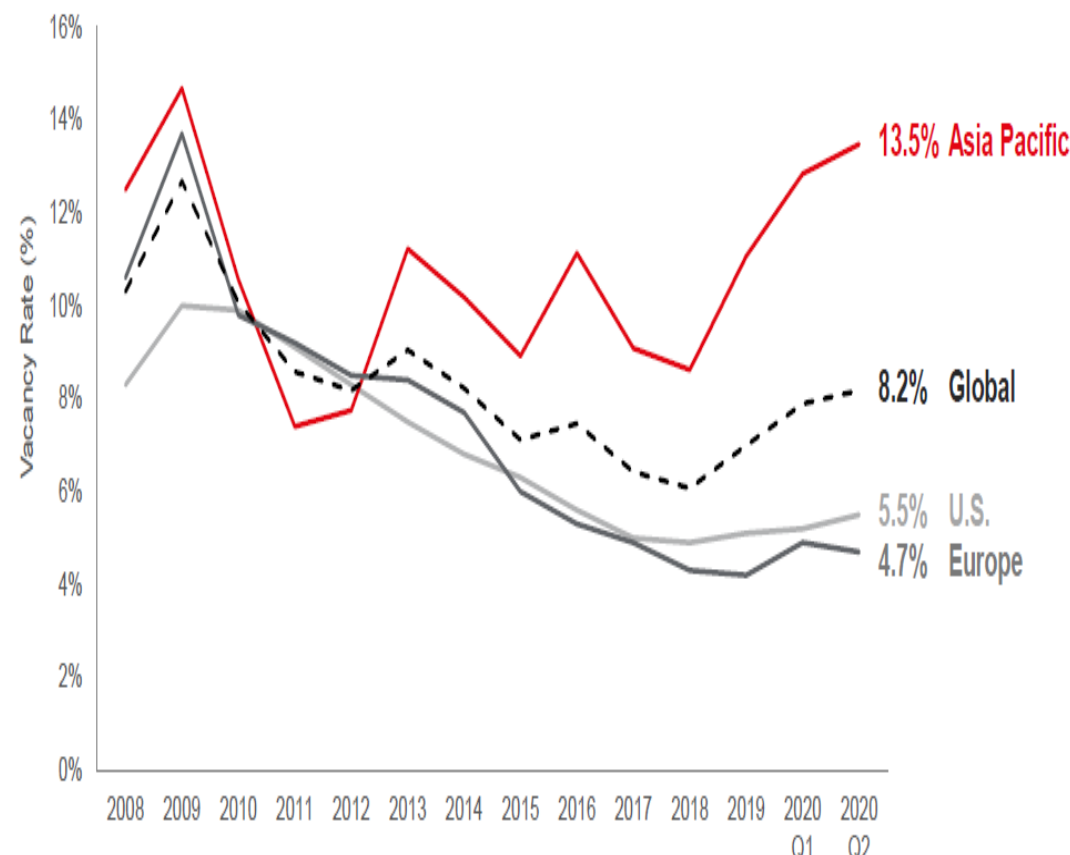
# Outlook and Opportunities

## Industrial

- Companies with lean supply chains may increase inventories
- Acceleration of existing trend:
  - Online retail (especially grocery)
  - Integration of technology
  - Higher specification
- Supply chain rethink creates additional regional demand:
  - Re-shoring/ near shoring
  - Diversification of sourcing
  - Diversification of transport modes

### Portfolio Implications

- Overweight selective logistics stocks due to stock valuations



Source: Jones Lang LaSalle Global Real Estate; August 2020

# Outlook and Opportunities

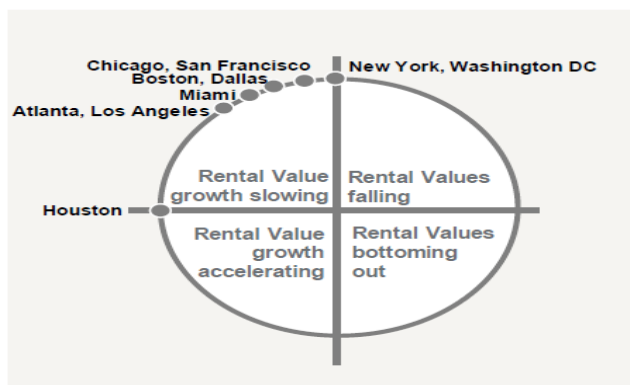
## Residential

- Residential sector keeps showing strong rental growth; impact from Covid-19 limited.
- New legislation to cap rents a risk.

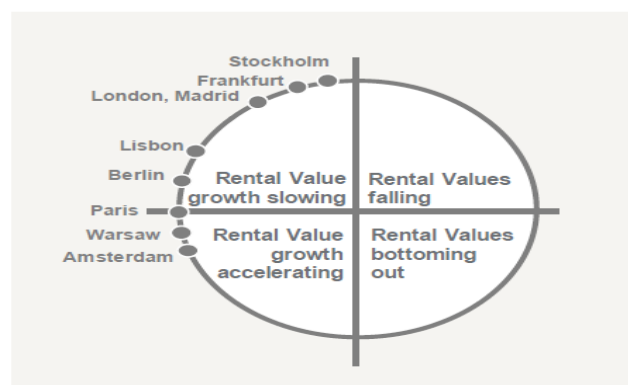
### Portfolio Implications

- Overweight East/ West Coast and Sunbelt US and German residential

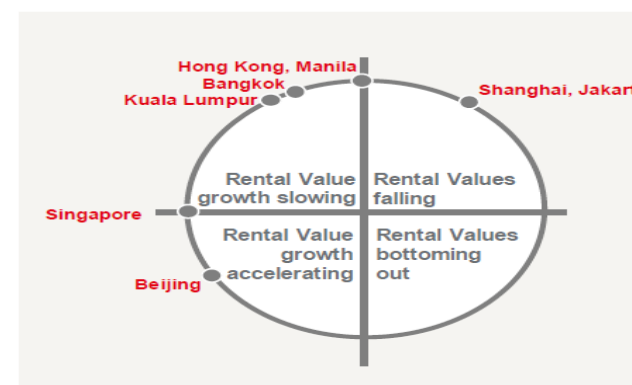
#### U.S.



#### EMEA



#### Asia Pacific



Source: Jones Lang LaSalle Global Real Estate; August 2020

# 05

## Fund Data

## **Sarasin IE Sustainable Global Real Estate Equity**

# Sarasin IE Sustainable Global Real Estate Equity

P shares performance as at 30 September 2020 (net of fees)



## PERFORMANCE AS AT 30 SEPTEMBER 2020

Annual performance	1 month	3 months	YTD	2019	2018	2017	2016	2015
Sarasin IE Sustainable Global Real Estate Equity	-2.12	-4.28	-14.55	11.18	-3.45	1.60	20.77	6.66
Benchmark	0.35	-1.71	-15.58	17.00	-1.19	2.47	24.56	5.82
Cumulative performance	1 year	3 years	5 years	AGR 3 years	AGR 5 years	% change since launch**	AGR	Vol.*
Sarasin IE Sustainable Global Real Estate Equity	-18.55	-4.69	21.55	-1.59	3.98	127.79	5.34	15.39
Benchmark	-20.06	0.40	33.74	0.13	5.98	226.67	7.77	
Discrete performance	30.09.19 to 30.09.20	30.09.18 to 30.09.19	30.09.17 to 30.09.18	30.09.16 to 30.09.17	30.09.15 to 30.09.16			
Sarasin IE Sustainable Global Real Estate Equity	-18.55	11.31	5.13	-2.73	31.12			
Benchmark	-20.06	19.21	5.34	-0.78	34.26			

Performance is provided net of fees. Past performance is not a reliable guide to future performance. Performance is calculated in GBP on the basis of net asset values (NAV) and gross dividends reinvested. \*\*P share class launched 15.10.12. Performance prior to this date is from A shares launched 06.12.04.

Source: Sarasin & Partners LLP and Morningstar as at 30.09.20. Annualised Growth Rate (AGR) is the increase or decrease in value of an investment, expressed as a percentage per year. \*The source for the annualised volatility measurement is Morningstar and this measurement is expressed using the standard deviation of the Fund's UK Sterling monthly returns over the most recent 36 month period. Benchmark: S&P Developed Property Net Total Return implemented September 2011. \*The benchmark of this fund has changed over time. Please visit [www.sarasinandpartners.com/docs/global/benchmarkhistory](http://www.sarasinandpartners.com/docs/global/benchmarkhistory) for a full history. Prior to 30 September 2019, the fund was named Sarasin IE Global Real Estate Equity

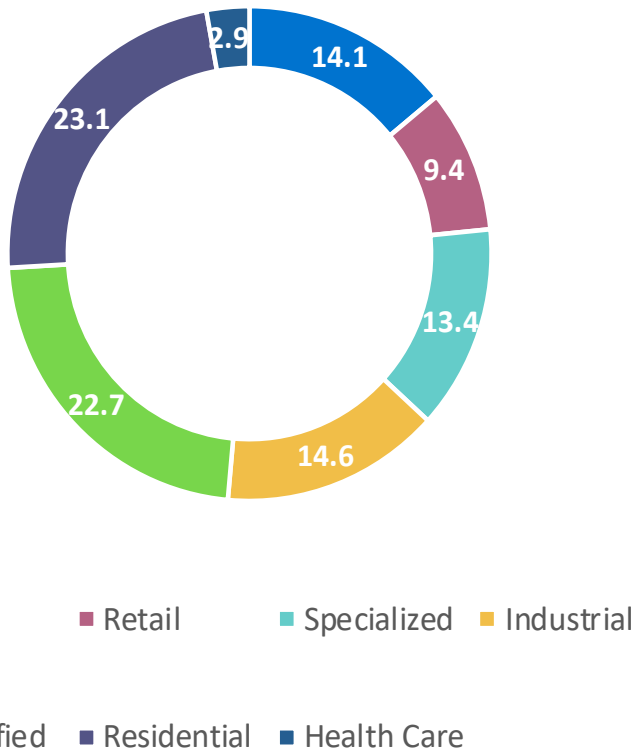
Performance is provided net of fees. Past performance is not a reliable guide to future performance



# Sarasin IE Sustainable Global Real Estate Equity

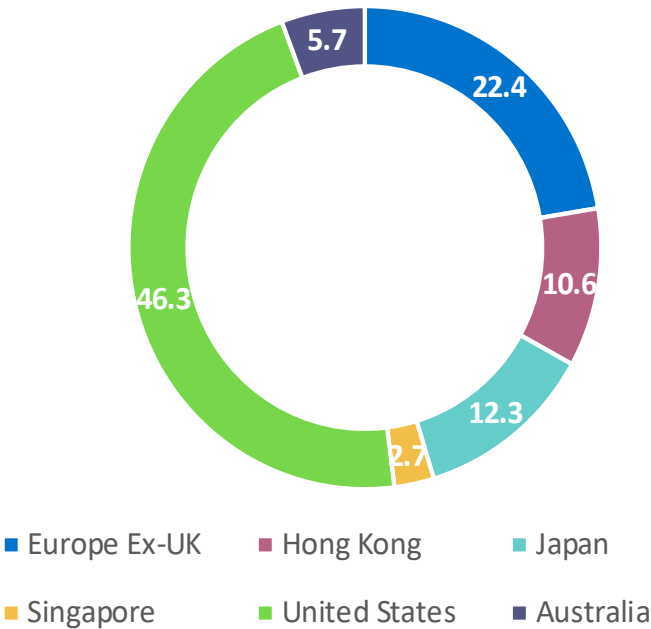
Allocations as at 30 September 2020

 Sector allocation



Source: Sarasin & Partners

 Geographic allocation



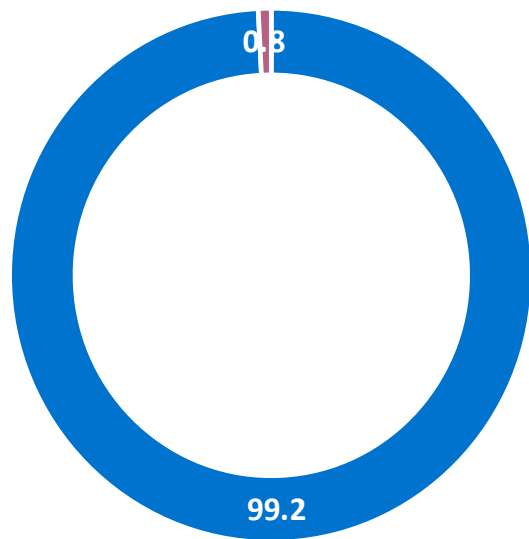
Source: Sarasin & Partners

# Sarasin IE Sustainable Global Real Estate Equity

Allocations as at 30 September 2020



## Asset allocation



■ Equities ■ Liquid Assets

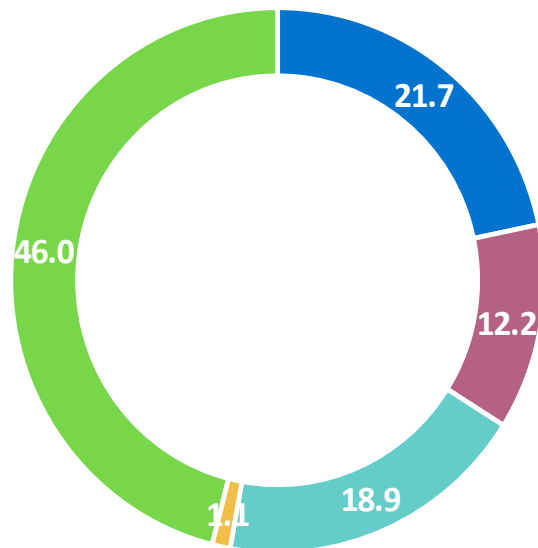
Source: Sarasin & Partners

# Sarasin IE Sustainable Global Real Estate Equity

Allocations as at 30 September 2020



## Currency allocation



- Euro
- Japanese Yen
- Other
- Sterling
- US Dollar

Source: Sarasin & Partners

# Important information

**This document is investment professionals only and should not be relied upon by private investors and is for residents of South Africa only.**

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The investments of the fund are subject to normal market fluctuations. **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.**

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.

Collective Investment Schemes are generally medium to long term investments. The value of participatory interests may go down as well as up and past performance is not necessarily a guide to the future. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Collective Investment Schemes are traded at ruling prices and can engage in borrowing and script lending. A schedule of fees and charges and maximum commissions is available on request from the scheme. Commission and incentives may be paid and if so, would be included in the overall costs. Daily forward pricing is used. A prospectus is available from Prescient Management Company Limited, Tel: +27 21 700 3600.

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# SARASIN

& PARTNERS

Juxon House  
100 St Paul's Churchyard  
London  
EC4M 8BU

T: +44 (0) 20 7038 7000  
[www.sarasinandpartners.com](http://www.sarasinandpartners.com)

