FIDELITY'S INTERNATIONAL PROPERTY PORTFOLIOS

Richard Skelt

My name is Richard Skelt, and I'm the Chief Investment Officer for the Investment Strategies Group here at Fidelity International in London.

I have responsibility and oversight for our two MultiManager platforms—that's our fettered Fidelity-only MultiManager platform and also our third party MultiManager platform; and I also have oversight of our tactical and our strategic asset allocation processes.

I think that property can bring a number of benefits to a diversified portfolio. First off, it is an asset class where there is a relative lack of correlation with mainstream equity and fixed income. And also actually within the asset class itself there is considerable diversification. For example, property is a very local business, and it may well be that the outlook for property in perhaps Germany is very different to that within France. And that gives an extra layer of diversification within the asset class itself.

There are a number of factors, I think, which are going to drive the returns for property going forward. One of it is around more the supply side. It's very interesting that a lot of property that was hitherto unavailable to investors is being brought into REIT structures, which is increasing the opportunity set.

The other is on the demand side. You know, famously, they're not making any more land. And as the population increases, there is more demand for real estate, both on the residential and on the commercial side.

An additional point to remember is that allocations from institutional portfolios are rising, and that increased demand for real estate securities is also likely to positively benefit returns in property.

Investing in European Property Funds

There are a lot of things you need to bear in mind when you're thinking about a suitable fund to give you property exposure. There's quite a bewildering variety of different funds that are available that encompass physical property or real estate securities. Many of them are managed with different objectives, either in terms of the sorts of returns that people are looking for and the benchmarks.

It's very important to have a very clear objective yourself as to what it is you're looking for in that sort of exposure and then make sure that you have got the right sort of manager to suit your requirements.

Another factor to consider is the commitment that the asset management company has made to real estate. There's a wide variation in the size of the teams, and generally we have a preference for real estate managers who have a pan-European presence which is very well resourced so they're able to pick out the best opportunities within Europe. Equally we recognise there is a place for specialists, particularly in niche markets.

I think one of the benefits of taking a MultiManager approach to property is that it gives you an opportunity to blend the different styles that are available to you. Many property funds are managed in different ways, and a diversity of exposure to the management styles is as important as exposure to the underlying property securities and markets.

There are a variety of different approaches that are used. Some managers have a more bottom/up focus; some have a more top/down. And it's also important to get exposure across a range of different sectors and geographies.

Another advantage, of course, with broadly diversified pan-European exposure is that you are somewhat insulated from unpleasant shocks in particular markets. And so if put together properly, the resultant portfolio will have better risk-adjusted characteristics.

Market Themes

In our conversation with managers, a number of themes often come up. Germany is one of those. The German real estate market is actually very interesting because, in contrast to a market like France, where all the office is located in Paris, you know, Germany is much, much more diversified. So you have major office centres in Frankfurt and in Bonn and in Berlin. And in an area like Frankfurt, for instance, office continues to be very attractively valued. Many managers cite the Nordic markets as being attractive too.

I think the factor that most people would probably point to being the most important is the roll-out of REIT legislation throughout Europe and the increasing opportunities for investment that that brings. And in fact, over the long run I think that's probably the most significant factor for influencing returns.

FMM European Property Securities Fund

The fund is benchmarked against the FTSE/EPRA NAREIT European Property Securities Index. Typically, the Fidelity MultiManager European Property Securities Fund has about six holdings. There'll be a mixture there of well resourced large asset managers, but also from time to time you may see exposure to the boutiques to get exposure to niche markets. We do have the ability to go to 10% in physical real estate in addition to the real estate securities side.

We also have the opportunity to vary the country bias through increasing exposure to particular markets if we think they're attractive.

The process of identifying the right funds to put in the portfolio is really quite a long and complex one. Our team travels extensively to meet managers wherever they're based in Europe, and we use a mixture of quantitative and qualitative screening to identify managers who could be included.

I think it's important to remember that the key point is identifying the best managers. Whilst there is a role for tactical asset allocation between the countries and the sectors, you know, on the whole we leave that to the underlying managers to choose where the most appropriate opportunities are.

We give a lot of thought to the way that we put the portfolio together. On the one hand we're very concerned about the correlation between managers. We are looking for managers who are uncorrelated both in return terms and also in terms of their investment process. And that enables us to build a more diversified portfolio. But uppermost in our mind is the returns that those managers are going to bring us, so that, whilst we have a diversified portfolio, it's also a portfolio that's going to deliver decent returns.