



FIDELITY'S INTERNATIONAL PROPERTY PORTFOLIOS

Steve Buller

I am Steve Buller, Portfolio Manager of the Fidelity Funds - Global Property Fund.

There are three primary reasons why one could invest in Global Property Securities: first, the total return potential; second, the income component; and third, the diversification benefits.

An investor in this fund should expect to have exposure to the Sydney office market as well as to the Amsterdam logistics market, to the American apartment market.

The fund is diversified by a variety of property types: retail, office, residential, logistics and hotels. The benchmark for the Fidelity Funds - Global Property Fund will be the EPRA/NAREIT Global Property Securities Index.

An investor should expect that this fund will have 50 to 70 different holdings. There is no market cap bias within this fund, as there are very large property companies throughout the world—such as British Land Securities—and new emerging type property companies throughout the world—such as Titan Global in Thailand.

The current geographical exposure of the fund itself is approximately 50% United States, 20% Europe and 30% Asia-Australia.

We would anticipate with the introduction of more REIT-like securities in both Asia and Europe that this split will generally change.

Fidelity has looked at launching this fund for many years. We finally felt comfortable that there were enough names (approximately 300 within the benchmark), equity market capitalisation (over US\$600 billion today) and the potential growth through the introduction of more REIT-like securities throughout the world that there will be even more names to invest in, in the future.

Approach

My investment approach is very typical Fidelity: bottoms/up, scrutinising the fundamentals and the valuations of the individual companies and securities. In most respects I'm not beholden to any investment strategy. I am neither a growth manager nor a value manager.

I'm willing to adapt to what the investment environment is. Currently Fidelity has 16 property analysts throughout the world looking at property securities.



What he looks for in a company

Although there has been tremendous growth in the number of listed property securities and market capitalisation throughout the world, generally speaking they're not the most liquid of securities, whereby there are still many inefficiencies that can be exploited through the research process.

What are we looking at? First, the quality of the company's management; second, the earnings growth that this company should provide in the coming years; third, the quality of the assets and where they are located; fourth, the property markets—that is the supply and demand of property within this market; and lastly, the quality of the balance sheet.

Securitisation Trend

There is a securitisation trend of property occurring throughout the world. What does that mean? That is the transformation of the ownership of properties from private—and the term 'private' can mean individuals, corporations, life insurance companies and real estate opportunity funds—to publicly listed vehicles.

Currently that securitisation of commercial property stands at 8% throughout the world. We would anticipate, with the introduction of more REIT-like securities, especially in countries like Germany and the United Kingdom, that this securitisation trend will accelerate.

The current equity market capitalisation of global property securities is approximately US\$600 billion today. Here at Fidelity we anticipate that this will grow to over US\$1 trillion by the year 2010.

Property Bubble?

I often get the question whether or not we are in a property bubble. When I get this question, I first ask: "Are you referring to a residential property bubble or a commercial one?" The majority of time they're referring to a residential bubble.

Residential real estate performance historically doesn't have strong correlations to commercial real estate markets. The underlying drivers are very different.

We do not believe that there is a bubble in commercial property. Although the returns have been very good the past few years in global property securities, in some respects that is a reaction to what has gone on in the equity markets, or a lack of good returns, and in the fixed income world, whereby interest rates have remained relatively low.

One should also put into context that global property fundamentals have been gradually improving in the past few years. And we'd anticipate this trend to continue.



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