Q&A

ANSWERS
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ON PROPERTY SECURITIES: COLIN MCINNES, MANAGING PARTNER, QUARTET CAPITAL PARTNERS: How will the manager of the First State Global Property Securities Fund generate returns when global growth is weak and a sharp rebound is not widely expected?
Global property securities overall should benefit from low interest rates and greater availability of funds, together with a general improvement in the real estate environment. We are seeking Reits that generate sustainable dividend yields and property companies capable of developing their businesses without taking excessive risks.

In today's markets, yields are becoming an increasingly attractive feature of property securities funds for investors. As forecasts for economic growth are wound back, expectations for capital growth are also curtailed. This makes income an important component of total return, in the near term becoming its dominant part. Although it seems unlikely bond yields are sustainable at present levels, in our view Reits are well placed to benefit from today's market environment.

Over the medium to long term, the outlook is still positive however in the short term valuations are looking more expensive due to the positive returns over the past six months. Fundamentals are still good as supply continues to be constrained across most markets and new developments are still limited. Rents are on average picking up and demand is gradually improving. Capital is getting less scarce although there are large differences between markets.

ON INFRASTRUCTURE: CM: Is the listed infrastructure fund more of a global equity vehicle rather than 'infrastructure specific'?
It is both. The Global Listed Infrastructure Fund invests globally whilst targeting lower risk, cashflow generating assets and favouring infrastructure companies operating in stable regulatory, political and legal systems. Many investors are attracted to infrastructure funds by the relatively high yields they typically offer and the simplicity of the infrastructure sector's underlying business models.

The current environment of lower economic growth, elevated inflation and higher volatility is well suited to infrastructure. Regulated or contracted revenues provided solid financial outcomes during the global financial crisis. We continue to see significant opportunities for investment in most infrastructure sectors. Urbanisation and increasing wealth are placing massive strains on road and airport systems. Geographic imbalances and environmental restrictions are creating opportunities in energy pipelines and storage. Demand for mobility and innovation in technology require greater capacity from mobile towers and satellites. We would caution that large capital investments do not always translate into positive returns.

An understanding of the regulatory regime, the risk of political interference, the degree of competition, and the strength of the legal system are critical components to assessing the sustainability of returns from infrastructure.

ON GLOBAL RESOURCES: JAMES HUTSON, CIO AT ARJENT: How do you gain exposure to rare earths? Are you considering taking 'early stage' positions in US Rare Earth miners where possible?
We apply the same investment philosophy to rare earths equity investments as we do to other resource sub-sectors and look for companies with long-life assets, low cash costs, credible growth plans and a strong management team with a proven track record. Rare earths is a relatively new investment sub-sector, because China has traditionally supplied up to 95% of global production. Therefore, there are limited ways to invest in equities with leverage to rare earths prices. Most of the listed companies in this area are at an early stage of their development and there is only one western company (Molycorp in the US) that is already in production.

JH: Is nuclear the only power source to bridge the fossil/renewable energy gap and where do you see demand heading for Uranium?
Nuclear is one option that could bridge the fossil/renewable energy gap, although it is probably the most advanced. Despite the negative reaction to nuclear power post-Fukushima, we believe it will remain a key energy source for developed and emerging economies as the world looks to control its carbon emissions. China, India and South Korea have aggressive nuclear build out plans, while Saudi Arabia, United Arab Emirates, Turkey and Vietnam have all announced new nuclear build plans. These build outs will offset any lost uranium demand from Germany's decision to close its reactors by 2020.

ON AGRIBUSINESS: JH: It is a given that global food demand is growing. How are you positioning the fund to take advantage of differing food demand rates in different nations?
The growth in demand for food is being driven by emerging nations, as increasing wealth is leading to a change in dietary patterns. With a finite amount of arable land available globally, the agricultural industry must focus on improving productivity via yield improvements. The International Grains Council reported that in 2010 the global agricultural industry produced the third largest crop on record and yet global inventories of grain continued to decline. The low level of global grain inventories was the catalyst forcing grain prices dramatically higher over the past year, which in turn means good cash flows and returns for farmers, who are highly incentivised to maximise acreage and yields. Demand for farm inputs remains very robust, evidenced by Agrium's recent 17% profit forecast increase on June 20 and Monsanto is more modest 3% profit upgrade on 29 June.