

F&C Real Estate Equity Long/Short Fund



August 2014

Manager Commentary

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The Fund (GBP C share class) was down -29bp (net of fees) in July which is disappointing.

The major corporate news in July was the recommended all paper takeover of Corio by Klepierre, which will create the second largest continental European shopping landlord with a portfolio value of €21bn. The parity (1.14 Klepierre shares for each Corio share) represents a 9% premium to the last Corio NAV reflecting both its relatively lower asset quality but also the expectation of potential synergies (€60m guidance over 5 years). Corio rose 10% on the day of the announcement whilst Klepierre fell slightly reflecting the nervousness from Klepierre

shareholders of the scale of the turnaround required in much of the undermanaged Corio portfolio.

We are always quite sad to see a company being de-listed as we need a sufficient stock universe in order to generate alpha by exploiting dispersion of returns. The pair trade Klepierre vs Corio has been quite lucrative over time. Over the past 3 years Klepierre has outperformed Corio by a staggering +49%.

The largest Pan-European company Unibail underperformed again this month with no apparent reason. The company announced the sale of around €1bn of smaller French shopping centres to the recently formed Carmila (Carrefour Property). This will continue to enhance the portfolio quality and increase its share of jumbo, high sales density shopping malls. We have maintained an overweight position in Unibail as we believe that the earnings valuation remains compelling given the superior portfolio quality: 5.3% dividend yield coupled with superior growth

prospects (6% EPS CAGR).

We have not changed our portfolio positioning and themes materially during the course of the month and continue to favour German residential, Central London offices, UK self-storage and Swedish office companies.

The largest relative performance detractor in July was German residential (-39bp) driven by profit taking in our largest overweight position Gagfah. We derived most alpha from our select short position in French offices, still facing a challenging occupational market. We also generated +14bp through our tactical investment in Merlin Properties, the €1.25bn Spanish commercial property IPO.

The revised strategy of REELS, which commenced at the end of October 2013, is progressing in line with expectations, returning +4.72% net of fees, with exceptionally low volatility of 2%.

Fund performance to 31.07.2014 (%)

	NAV per share	Current month	YTD	1 Year	Inception to date
C £ Acc	£10.42	-0.29	+3.37	+5.15	+4.20

Source: F&C Management Limited

Allocation by market (%)

LARGE	19.0	-22.1	-3.1
MID	11.5	-14.4	-2.9
SMALL	9.6	-3.9	5.7
TOTAL	40.1	-40.4	-0.3

Mid Cap 1bn - 3bn US\$

£ Statistics since launch

Annualised return (%)	+2.5
Annualised volatility (SD%)	3.0
Worst drawdown (%)	-2.07
Sharpe ratio	0.69
Sortino ratio	0.73

Source: F&C Management Limited, Bloomberg. Start date 03.12.2012. These figures are calculated with monthly NAV figures.

Return history (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2014	+1.09	+0.69	+0.58	+0.10	+0.48	+0.67	-0.29	-	-	-	-	-	+3.37
2013	-0.20	+0.60	+0.10	-0.00	-0.89	+0.50	-1.20	+2.52	-1.57	-0.50	+0.80	+0.50	+0.60
2012	-	-	-	-	-	-	-	-	-	-	-	+0.20	+0.20

Source: F&C Management Limited

Key facts

Fund objective: Absolute return strategy focused on Pan-European real estate securities with the ability to invest globally on an opportunistic basis. The fund aims to capitalise on the structural inefficiencies of the listed real estate sector through a long/short market neutral strategy with an overriding bias towards real estate fundamentals.

Fund size: €41.5 mn

Share classes: € (base)

Launch price: £10 on 03.12.2012

Minimum investment: GBP 100,000

Dealing: Daily

Domicile: Ireland/Dublin

Legal status: UCITS (Financial Conduct Authority recognised)

Listing: Irish Stock Exchange

Unit type: Accumulation

Management fee: C £ 1% (institutional)

Performance fee: 15% above 3 month LIBOR in EUR over the quarterly performance period

Investment manager:
Thames River Capital LLP
ISIN code: IE00B8GGKQ36

IMPORTANT NOTICE - REGULATORY INFORMATION AND RISK WARNINGS

Past performance is not a guide to future performance. Values may fall as well as rise and investors may not get back the full amount invested. Changes in rates of exchange may have an adverse effect on the value, price or income of investments. The Fund may invest in fixed interest assets; receiving the income due from such debt instruments is dependant upon the provider's ability to pay. Changes in interest rates can affect the value of the fixed interest holdings. Due to the restricted diversification, investments are concentrated on property market companies, performance may therefore differ in direction and degree from that of the overall stock market. The Fund may invest in smaller companies which carry a higher degree of risk and their value can be more sensitive to market movement; their shares may be less liquid and performance may be more volatile. Suitable only for sophisticated investors.

Key facts - other share classes

Fund objective: Absolute return strategy focused on Pan-European real estate securities with the ability to invest globally on an opportunistic basis. The fund aims to capitalise on the structural inefficiencies of the listed real estate sector through a long/short market neutral strategy with an overriding bias towards real estate fundamentals.

Share classes: A £ Acc/A NOK Acc/A \$ Acc/B £ Acc/B NOK Acc/C £ Acc

Launch price: €/\$10, NOK100 on 03.12.2012

Minimum: Class A (Retail): £/\$100,000, NOK 1,000,000. Class B (Institutional): €5mn, NOK 50 mn. Class C: £5mn

Unit type: Accumulation*

Management fee: A \$,NOK 1.75% (retail). B €,£,NOK and C £ 1% (institutional)

Performance fee: 15% above 3 month LIBOR in EUR over the quarterly performance period

ISIN codes:

A € Acc IE00B7V30396

A £ Acc IE00B804FJ18

B € Acc IE00B7WC3B40

A \$ Acc IE00B87NSN68

Custodian: State Street Custodial Services (Ireland) Limited

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*This share class will apply for reporting status.

Fund performance to 31.07.2014 (%) - other share classes

	NAV per share	Current month	YTD	1 Year	Inception to date
A \$ Acc	\$10.37	-0.48	+2.77	+4.22	+3.70
A £ Acc	£10.30	-0.39	+2.90	+4.36	+3.00
A € Acc	€10.32	-0.39	+3.30	+4.88	+3.20
B € Acc	€10.37	-0.38	+3.18	+4.85	+3.70

Source: F&C Management Limited. 3 year figures will be published once the fund has 36 month track record.

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Geographical allocation (%)

Country	Long	Short	Gross	Net
UK	13.0	-8.3	21.3	4.7
GERMANY	8.0	-11.6	19.5	-3.6
FRANCE	6.9	-4.6	11.5	2.3
SWITZERLAND	3.1	-5.3	8.3	-2.2
SWEDEN	4.6	-2.6	7.2	2.0
SPAIN	2.0	-3.3	5.2	-1.3
NETHERLANDS	0.7	-1.6	2.3	-1.0
AUSTRIA	0.6	-1.4	2.1	-0.8
BELGIUM	0.2	-1.5	1.7	-1.4
NORWAY	0.9	-0.0	1.0	0.9
FINLAND	0.2	-0.2	0.4	0.0
ITALY	0.0	-0.1	0.1	-0.1
Total	40.1	-40.4	80.6	-0.3

Figures above shown on a look-through basis.

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This Fund is only available to sophisticated investors.

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