The Interview: Jakes Ferguson, Sarasin & Partners: "With one of the greatest responsibilities for CO2 emissions, real estate faces moral, financial and legislative pressures to adapt quickly"

Jakes Ferguson, a partner and head of real estate at Sarasin & Partners, believes that the Sarasin Sustainable Equity - Real Estate Global EUR fund launched in July will benefit from increasing awareness and demand for sustainable investment products from all client groups, and as the sector achieves traction with real estate investment trusts and property companies.

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GFM: What is the background to your company and fund?

JF: Sarasin & Partners had GBP7.2bn in assets under management at the end of June, while the Bank Sarasin Group as a whole had assets of CHF69.7bn at the end of 2008. The Sarasin Sustainable Equity - Real Estate Global EUR fund was launched on July 10 with around EUR7m in assets, with between CHF20m and CHF30m expected from Switzerland. I am the manager of the fund, with Guy Mountain as portfolio manager and Geoffrey Armstrong as real estate analyst.

GFM: Who are your key service providers?

JF: The auditor is Ernst & Young, our law firm is Linklaters, the fund administrator is European Fund Administration and the fund's custodian is Banque Générale du Luxembourg.

GFM: What is the profile of your current and targeted client base, and the split of your assets between institutional and private clients?

JF: There is evidence of institutional investors re-entering the property market in general and more specifically adopting a global approach. We are also seeing enhanced awareness and demand for sustainable investment products in general across all client groups. Our client base is almost equally split between institutional and private clients.

GFM: What is the investment premise of the fund? What types of property companies do you invest in, and where?

JF: The Sarasin Sustainable Equity - Real Estate Global EUR fund invests globally in the shares of listed real estate investment trusts and property companies that have been screened for sustainable, environmental and social criteria.

GFM: What is your investment process?

JF: The S&P Developed Property Index - the fund's benchmark, which comprises some 400 stocks in more than 20 countries - has been screened by leading Swiss sustainability consultants Asset4 and Sarasin's nine-strong team of sustainability analysts based in Basel to produce an initial universe of 160 stocks. These have been further screened down to 65 stocks. From these the global real estate team in London has constructed a risk-adjusted portfolio of around 60 stocks across retail, industrial, office, specialist and residential sectors.

GFM: How do you generate ideas for your funds?

JF: Sarasin's sustainable team is a leader in this field, managing around CHF8bn of funds. The Sarasin & Partners global real estate team in London has been managing global listed real estate funds since 2004, and is today responsible for some USD395m in global listed real estate investment.

The real estate team receives research on global, regional and national real estate from about 50 sources globally, including research on direct property as well as listed and indirect real estate. Sarasin is close to the appointment of one of the world's leading consultants in sustainable real estate as adviser to the fund. The fund manager has been researching this sector for 12 months in preparation for the fund's launch.

GFM: What is your approach to managing risk?

JF: The model portfolio has been back-tested by Sarasin's risk office over various timeframes. Going forward the risk office and independent risk analysts will run regular risk reports on the fund for the chief investment officer and risk committee.

GFM: How has your performance compared with your expectations?

JF: The fund was only launched in July, so it is too early to measure performance. According to Bloomberg, its predecessor fund, Sarasin Real Estate Equity IIID Eur, outperformed the S&P Developed Property index by 17.3 per cent between April 2, 2007 and July 10 this year.

GFM: What opportunities are you looking at right now?

JF: The universe is expected to grow, as much as several times, as awareness of the opportunity to invest in sustainable real estate increases, and the sector achieves traction with Reits and property companies.

As a sector with one of the greatest responsibilities for carbon dioxide emissions, real estate faces moral, financial and legislative pressures to adapt quickly. It may be commercial suicide for landlords not to adapt, and globally authorities are already devising both carrot and stick measures.

GFM: What developments do you expect to see in the real estate sector in your target market over the year ahead, and in other political and economic areas that may impact it?

JF: We expect increasing awareness among landlords, tenants, contractors and investors that sustainable real estate matters, and that the net present value payback is hugely positive. We believe that Reits and property companies will be eager not to be excluded from such a universe.

Sustainable real estate is a virtuous circle, as tenants want buildings that are more energy-efficient and economic to occupy. Staff, customers, suppliers and investors of companies that occupy sustainable buildings value this approach - and companies like the resulting image enhancement.

There is some evidence to suggest that such buildings are let more quickly and command higher rents. In due course this will lead to a two-tier market as developed between air-conditioned and non-air conditioned buildings.

GFM: How will these developments affect your own portfolio?

JF: As market leaders in sustainable investment and with a large charity and not-for-profit client base, we expect this fund to attract interest from those keen to participate in the pick-up in global real estate markets, enjoying diversification across the range of real estate sectors and across economies globally, and the 4 per cent-plus yield from global Reits today, all in a vehicle screened for sustainability.

GFM: Are investors' expectations shifting between capital preservation and growth? If so, how do you deal with this?

JF: Investors have a mix of strategies, one of which is capital growth. Others want income or a combination of the two. These goals can be achieved from some of the best Reits and real estate companies, owning some of the best real estate in the world. The global real estate sector has fallen about 60 per cent from its peak in February 2007, so many investors see an opportunity today to participate as property values recover.

GFM: What differentiates you from other managers in your sector?

JF: Sarasin has managed global real estate funds since 2004 and was the first in London to launch a global listed real estate fund. We have an established team following disciplined research and with a breadth of skills. I have more than 30 years' real estate experience, Guy Mountain has worked in investment management for more than 12 years, and Geoffrey Armstrong is a qualified accountant who came from the real estate team at Deloitte.

GFM: How do you view the environment for fundraising in 2009? How does this affect your funds?

JF: With an established team and track record in global listed real estate, we have enjoyed reasonable inflows of new money into our real estate funds in 2009, and we forecast that this will grow as the real estate market recovers.

GFM: Do you have any plans for other product launches in the near future?

JF: Not at the moment, though we remain constantly ready to bring out new funds when we believe the time is right.
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