First Eagle Investments

First Eagle Amundi Funds

Did you Know?

Trust must be earned

Amundi

First Eagle Talks Self Storage

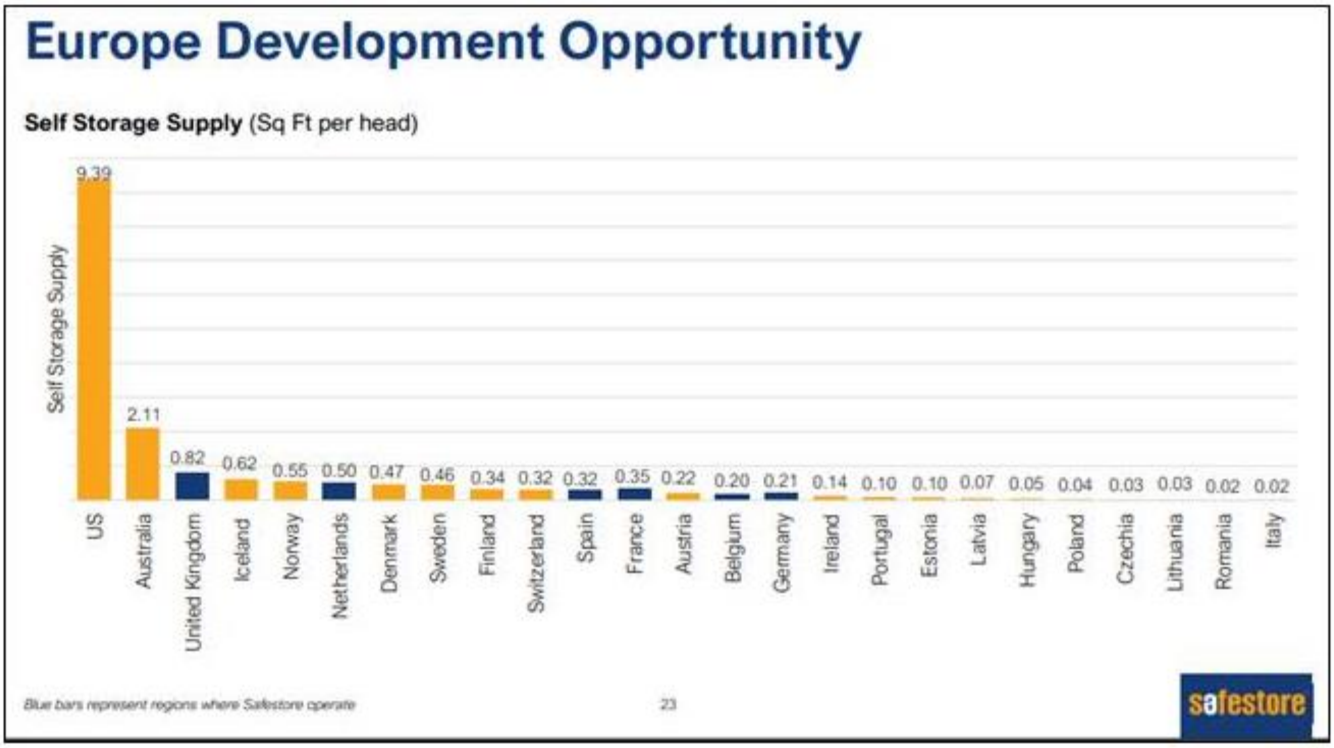
While self-storage, a subsector of real estate, fell out of market favour amid rising interest rates, the investment team responsible for the First Eagle Amundi funds finds the industry to be structurally appealing due to a range of factors. Further, self-storage has distinct business dynamics to the broader real estate space.

See below to learn more about why we like the self-storage space:

- **Apartment-like rents for storage units**: majority of the tenants are residential customers (using the storage unit as an extension of their home) so operators can charge residential-like rents while they enjoy warehouse-like construction costs
- **Potential to hike rents more often than home/apartment**: each storage building is like a big hotel or apartment building with many rooms, each room with a different monthly rate which allows for rent hikes at varying rates over time for different tenants
  - Not subject to residential guidelines on rents and there is typically no limit in terms of ability to raise rents
  - Many customers are relatively price insensitive and propensity to move out is not materially impacted by incremental rate increases
- **Sticky customer base**: many customers look to store their belongings for a short time yet end up renting the storage unit longer than planned (average existing customer is around 2 years or more1)
- **Historically consistent demand**: The 4 Ds (Death, Disaster, Divorce, & Dislocation) are the primary drivers of self-storage demand and these are realities of life that aren't going away
- **Pricing power**: self-storage is usually addressing an immediate or near-term need for space and ease of access is important
  - Customers typically choose from among a few stores that are most convenient
- **Operational efficiency**: low operating costs required with few on-site employees and turnover for a new tenant requires a quick clean
  - Plus no delinquency cost because many units are paid by credit card and storage operator can sell the contents of the unit if rent is not paid
- **Scale matters with high barriers to profitability:** scale and local market density of properties drives potential success, benefiting the largest operators
  - Rents are publicly posted but increases in rents are opaque so the more storage an operator owns in each market, the more visibility it has to true customer price sensitivity thus greater potential for price optimization.

- **AI and pricing software has improved dynamics:** self-storage is a game of optimization in adjusting the trade-off between customer acquisition costs, upfront rents, and increases in existing tenant rents

We believe that the most efficient operators are able to grow their footprints in ways that have and can continue to add to their overall intrinsic value. For example, in an environment with the cost of borrowing for mortgages remaining elevated and where self-storage penetration is low—which is particularly the case in the UK and Europe—storage serves as a low-priced alternative to extra square footage in the home. There also exists substantial development opportunity for these locations.



In the First Eagle Amundi Sustainable Value Fund, we have invested in three UK-based self-storage companies including Big Yellow, Shurgard & Safestore. These are three of the four primary operators in the oligopolistic London market - dominating 80% of market share. Big Yellow is primarily in the UK (the #1 operator in the UK) while Safestore is also in Paris, Belgium and Spain and Shurgard is in many countries across Europe. Shurgard is #1 in Stockholm, the Netherlands, and Copenhagen. Shurgard and Safestore are #1 and #2, respectively, in Paris.

The opportunity to purchase what we believe to be high quality self-storage companies at a discount was made available as the investment community punished the entire self-storage category given the macro pressures of rising interest rates and a broader slowdown in real estate.

For all three companies, we believe they have the scale, brand recognition, and ability to maximize operational efficiencies to dominate amid cyclical downturns. As high rates have historically made it more challenging for private groups to finance development, we believe that these three public REITS may have an advantaged access to capital. Further, we believe they are well positioned to benefit from rent and demand increases over time.

For additional *Did you know* commentaries and all marketing collateral for First Eagle Amundi funds, CLICK HERE to visit the First Eagle Amundi funds landing page.

1.Source: Big Yellow, reflective of average number for Big Yellow as of end of January 2024.

Definition

"Intrinsic value" is based on our judgment of what a prudent and rational business buyer would pay in cash for all of the company in normal markets.

Marketing Communication

As of end of February 2024; given for illustrative purposes only. Portfolio holdings should not be considered as a recommendation to buy or sell individual securities and are subject to risk. Past performance is not indicative of future performance.

IMPORTANT INFORMATION

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Date of first use: 19/03/2024

Doc ID: 3457043