

AMP Capital Global Property Securities

Quarterly Investment Option Update

31 December 2019

Aim and Strategy

To provide total returns (income and capital growth) after costs and before tax, above the FTSE EPRA/NAREIT Developed Net Total Return Index (hedged back to Australian dollars) on a rolling three-year basis, by investing in property securities listed on sharemarkets around the world. Securities in which the portfolio invests are diversified across a range of asset classes, property sectors and geographic regions. The portfolio includes investments in real estate investment trusts and property securities companies across the Americas, Europe and Asia Pacific. The portfolio is managed by an investment team made up of on-the-ground regional investment specialists based in Sydney, Chicago, London and Hong Kong, implementing a research driven process that integrates a macroeconomic (top-down) approach to regional and country allocation, with a stock specific (bottom-up) selection process.

Investment Option Performance

To view the latest investment performances for each product, please visit www.amp.com.au

Investment Option Overview

Investment category	Property and infrastructure
Suggested minimum investment timeframe	5 years
Relative risk rating	Very High
Investment style	Active
Manager style	Single

Asset Allocation	Benchmark (%)
Listed Property and Infrastructure	100
Cash	0

Actual Allocation	%
International Shares	10.98
Australian Shares	0.27
Listed Property and Infrastructure	85.59
Cash	3.17

Sector Allocation	%
Industrial REITs	15.16
Diversified REITs	13.74
Residential REITs	13.63
Office REITs	11.10
Real Estate Operating Companies	8.71
Retail REITs	7.89
Diversified Real Estate Active	7.24
Specialised REITs	6.46
Health Care REITs	5.29
Hotel & Resort REITs	3.73
Cash	3.17
Others	2.09
Real Estate Development	1.79

Top Holdings	%
Prologis Inc	5.58
Alexandria Real Estate Equities	3.00
Mitsui Fudosan Co Ltd	2.98
Welltower Inc	2.96
Vonovia SE	2.72
AvalonBay Communities Inc	2.61
Sun Hung Kai Properties Ltd	2.41
VICI Properties Inc	2.11
Sun Communities Inc	2.09
Invitation Homes Inc	2.08

Region Allocation	%
North America	54.50
Asia	20.26
Europe	16.84
Australasia	5.23
Cash	3.17

Fund Performance

The Fund produced a positive return in the December quarter, outperforming the benchmark for the period.

On an industry sector basis, asset allocation and stock selection were both positive. Overweight exposure to the specialised and residential rentals sectors were significant positive contributors to the relative return, while underweight exposures to the healthcare and retail sectors detracted. On a regional basis, stock selection in the North America and Asia Pacific regions both positively contributed.

An overweight position in VICI Properties Inc was a significant contributor to relative performance. The company was spun out of Caesars Entertainment Corp via an initial public offering in 2017. Its property portfolio consists of experiential real estate assets; largely gaming, hospitality, entertainment, and leisure destinations. A significant proportion of the company's properties are leased to Caesars Entertainment Corp through a master lease agreement. The company is expected to benefit from Caesars Entertainment Corp's position as the largest gaming and entertainment company in the world. During the quarter, the company announced strong Q3 2019 results and revised up its full-year 2019 earnings guidance. In addition, its significant assets in Las Vegas are expected to be revalued higher, following news of the Bellagio sale.

An overweight position in Ventas Inc was a significant detractor from relative performance. Ventas is one of the largest healthcare real estate investment trusts in the United States. It acquires, develops, leases, disposes and manages healthcare assets all around the US and Canada and has several new projects in the pipeline which are based right near university and research hubs. During the period, the company reported Q3 2019 results which surprised analysts, with much worse than expected net operating income from its Senior Housing operating business, which was down 5% compared to the same period last year.

Market Review

Global listed real estate markets were mixed during the December quarter, but generally underperformed broader share markets as some ongoing geopolitical uncertainties relating to US-China trade tensions and Brexit dissipated during the period. Most significantly, the looming mid-December deadline for additional US tariffs on Chinese products resulted in the two countries reaching a Phase 1 trade deal during December which saw investors switch out of defensive assets, such as listed real estate, into more cyclical assets. Elsewhere, the UK's General Election during December resulted in Boris Johnson's Conservative party sweeping to a landslide victory, driving a rally in UK listed real estate which was the best-performing of the major markets during the period, followed by Europe.

Interest rates were also quite volatile during the period which put pressure on listed real estate, particularly in the US. In October, markets benefited when the US Federal Reserve cut the Federal Funds rate by 0.25%, for the third time this year, taking the target range to 1.50-1.75% and the Reserve Bank of Australia lowered the official cash rate by 0.25% to an historical low of 0.75%. However, there was pressure from higher rates later in the period. US 10-year treasury yields rose 0.26% to 1.92% during the period.

Performance divergence by segment continued to feature during the period, with industrial and office companies generally outperforming while retail names again lagged.

The industrial segment continues to benefit from extremely healthy fundamentals, from both cyclical and secular perspective, with the latter due to rapidly increasing ecommerce demand and the related reliance on warehouse space. This has led many industrial landlords to grow organically and through acquisitions. Earlier in the period, private equity giant Blackstone Group continued to be particularly active in the segment, announcing that it has entered into agreements to acquire US logistics assets from Colony Capital. Meanwhile, in Singapore Ascendas Real Estate Investment Trust announced further growth plans, with a proposed acquisition of a portfolio of 28 business park properties in the US and two business park properties in Singapore from its sponsor CapitaLand. In addition, Frasers Commercial Trust and Frasers Logistics Trust announced that they will merge to house combined assets of S\$5.7 billion across a portfolio of 98 assets diversified across Australia, Singapore and Europe, which includes warehouses, offices and business parks.

The office segment in major commercial centres in Europe, Tokyo, Sydney and Melbourne continued to report

robust conditions during the period. For example, Australia's largest office landlord Dexu reported a solid September quarter 2019 update, with 98.1% occupancy across its office portfolio. It remained optimistic about being able to drive rental growth in its quality office properties in Sydney and Melbourne and indicated that offshore interest in its office properties was increasing. In Japan, the latest Miki Shoji Corp data showed that the Tokyo office market remains strong, with the vacancy rate in the five central wards again falling and asking rents increasing, having risen for 71 consecutive months since January 2014.

Residential markets remain mixed. In the US, multi-family or apartment segment rental growth is expected to weaken, although remain positive, as peak leasing season ends and supply picks up. In the single-family housing segment, demand is still strong due to lack of affordable housing, household formation and supportive demographics, especially in high-barrier-to-entry markets.

In Germany, where the Berlin Ministry for Housing is introducing legislation to regulate the city's residential rents, acquisition activity has been elevated as companies diversify their portfolios. ADO Properties announced a voluntary offer to purchase ALDER Real Estate, a smaller German residential business, as well as announcing a takeover attempt of German house builder, Consus Real Estate. Elsewhere, German residential landlord Vonovia reported a strong outlook for growth in its asset values during the period, albeit with a slightly lighter rental growth outlook amid ongoing regulatory changes.

In the healthcare segment, the long-term demographic trends are extremely positive. In the US, senior housing supply remains elevated, however fundamentals are likely to bottom over the next twelve months. Life science fundamentals remain strong, but valuations are rich, and a hard-left Democratic nominee for US President could negatively impact sentiment. Hospitals and skilled-nursing facilities have attractive costs-of-capital and can thus invest accretively. Medical office building companies remain stable.

During the period, the mixed fortunes of healthcare segment companies was evidenced by US aged-care providers Ventas and Welltower which reported Q3 2019 results which surprised analysts. Ventas reported much worse than expected net operating income from its Senior Housing operating business, down 5% compared to the same period last year. This was in sharp contrast to Welltower, which reported better than expected net operating income from its Senior Housing operating business, up 2.8% compared to the same period last year. This difference can partially be attributed to the high barriers to entry for competitors in the Welltower property locations.

In stark contrast, the retail segment continues to suffer due to the secular headwinds which are benefitting the industrial segment. This was evident earlier in the period in the results of two of the largest retail real estate companies in continental Europe, Klepierre and Unibail-Rodamco-Westfield, where sales growth over the first three quarters of 2019 was muted. In the US, store closures were already at elevated levels over previous years, but in 2019 they set a new record. In Australia, department-store chain Harris Scarfe was placed into receivership and will reportedly undergo a major restructuring, which may impact large capitalisation retail landlords such as Scentre Group and Vicinity Centres which have some exposure to Harris Scarfe stores.

Within the retail segment, it remains abundantly clear that the stronger, better-located properties continue to benefit at the expense of the weak. This has led retailers to continue their migration upward in quality.

Outlook

Global listed real estate markets are likely to be further impacted by short-term volatility that is affecting all risk assets, while investor focus remains on trade tensions, geopolitical uncertainty and concerns about slowing economic growth. However, listed real estate plays a defensive role in portfolios and is therefore likely to remain well supported while volatility is high.

Modest global growth, supported by historically low interest rates, is an environment in which global listed real estate is expected to deliver reasonably solid medium-term returns. When there is a fall in the risk-free rate because central banks around the world are loosening their monetary policy, investors often turn to listed real estate as a reliable alternative for yield and a defensive asset class. Opportunities to acquire individual companies at attractive valuation levels may also arise as geopolitical developments lead to heightened volatility and diverging stock performance.

Office markets in major commercial centres in Europe, Tokyo, Sydney and Melbourne, continue to see rental growth and strong transaction activity. However, retail is expected to remain challenged and see further store closures, especially those in peripheral locations with commoditised market propositions. Long-term structural growth trends in e-commerce and connectivity as well as changing demographics are likely to provide growth opportunities in logistics, data centres and healthcare through the business cycle.

Availability

Product Name	APIR
AMP Flexible Lifetime Super	AMP1596AU
AMP Flexible Super - Retirement account	AMP1620AU
AMP Flexible Super - Super account	AMP1611AU
CustomSuper	AMP1596AU
Flexible Lifetime - Allocated Pension	AMP1632AU
Flexible Lifetime - Investments (Series 2)	AMP2043AU
SignatureSuper	AMP1602AU
SignatureSuper - Allocated Pension	AMP1626AU

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