Macquarie Property Securities

Quarterly Investment Option Update

31 December 2019

Aim and Strategy

To outperform the S&P/ASX 200 A-REIT Index over the medium term to long term (before fees) and provide a consistent level of income and some capital growth.

The option provides exposure to an actively managed and diverse portfolio of listed property securities. The investment manager's active investment process aims to add value by focusing on the sources of uncertainty in property securities markets including sustainability of current earnings, long-term earnings growth, and quality of management.

Investment Option Performance

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

Investment Option Overview

Investment Category	Property and Infrastructure
Suggested Investment timeframe	7 years
Relative risk rating	7/ Very High
Investment style	Listed Properties
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Listed Property	95-100	99.51
Cash	0-5	0.49

Sector Allocation	%
Diversified	39.28
Retail	27.47
Industrial	19.28
Commercial	12.07
Specialised	0.95
Cash	0.49

Top Holdings	%
Charter Hall Group	2.43
Goodman Group	1.78
Mirvac Group	1.24
GPT Group	1.17
Scentre Group Ltd	1.06
Dexus Property Group	0.48
Aventus Retail Property Fund	0.31
Unibail-Rodamco-Westfield	0.29
Stockland	0.18
Viva Energy	0.14

Investment Option Commentary

Key contributors to Outperformance

Mirvac Group (MGR) held its annual general meeting in November, where FY20 guidance of 3-4% EPS growth and 5% DPS growth was reaffirmed. MGR continues to benefit from a recovering residential market. In December the property group announced that its consortium with engineering contractor John Holland has been selected to deliver Sydney Metro's integrated station development at Waterloo in collaboration with the NSW government.

Key contributors to underperformance

Unibail-Rodamco-Westfield (URW) and Shopping Centres Australasia Property Group (SCP) both outperformed over the quarter, despite no material news flows.

Market Commentary

The S&P/ASX 200 Real Estate Accumulation Index was down 0.99% for the quarter, underperforming the broader Australian equity market indices. The persistent, global low-interest rate environment has continued to incentivise investors away from bond markets and into bond-proxy stocks (infrastructure, real estate, utilities). Australian REIT performance was supported by a further RBA cut to the cash rate, from 1.00% to 0.75% in October. Expansionary monetary policy globally is likely to support future REIT performance. 2019 saw Australian REITs raise $5.6b, a record since 2009. Importantly, this equity was raised to fund future expansion rather than focused on balance sheet repair. The retail subsector was the worst performing for the 4th year in a row, returning 5.8%. For calendar year 2019, Australian REITs underperformed both equities and global REITs. No major shifts were identified in the AGM season, and REITs saw AGMs where guidance was broadly reaffirmed.

The Australian market lagged all other major developed markets over the quarter and was the only major market to fall for the month of December. Developed markets lagged emerging markets for the quarter, with the MSCI World index and MSCI Emerging Markets index finishing the quarter up 7.6% and 9.6% respectively (in local currency terms). Geopolitical news continued to be dominated by the on-going US-China trade dispute, Brexit negotiations, unrest in Hong Kong, and renewed tensions in the Middle East. Brexit looks set to finally happen in Q1 2020, after 3 years of on-off negotiations. This comes after the UK Conservative party won a snap election by a landslide, giving Prime Minister Boris Johnson a clear mandate. Over the quarter, there was increased optimism surrounding the US-China trade dispute, which was thrown into doubt in November when President Donald Trump signed two pro-democracy human rights bills supporting Hong Kong. Despite this, the US and China struck a "Phase 1" trade deal to avoid further tariff hikes. The deal was notably skinny. US tariffs enacted on 1st September will be reduced to 7.5%, while the Chinese Government has committed to increasing the purchase of US products.

Growth sectors such as Health and Technology took the lead as top performing sectors for the calendar year, benefitting from a sustained decline in long-term interest rates. However there continues to be questions raised globally about stretched valuations in Technology stocks. Notable failed IPOs like WeWork indicated a potential 'turning of the tide' on sentiment in such names. Banks were the worst performing sector for the quarter (-9.3%), with the sector struggling on the back of weak operating trends, capital raisings and governance issues.

On the commodities front, oil prices returned 11.3% for the quarter after OPEC members agreed to cut annual production by 500,000 barrels. Gold was softer this quarter (3.0% vs 9.1% in Q3) as risk appetite increased and safe haven flows receded. Iron ore prices were relatively flat for the quarter (-1.1%). In domestic economic news, the RBA cut the cash rate from 1.0% to 0.75%. Despite this, the low interest rate environment has failed to boost the retail sector, which continues to disappoint. The turnaround in the housing market pressed ahead, with housing values in Sydney and Melbourne going from strength to strength.

Outlook

Australian and US ten year bond yields rose during the quarter. Despite the Australian yields settling at their highest level since July 2019, this is still a significant discount to the forecast DPS yield of the REIT sector at 4.7% for FY20. Macquarie still view the sector as offering growth opportunities within subsectors and stable attractive yields within the current low interest rate environment.

Availability

Product name	APIR
SignatureSuper	AMP0961AU#

Restricted. Please see your Product Disclosure Statement

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