UBS Clarion Global Property Securities

Quarterly Investment Option Update

31 December 2019

Aim and Strategy

To provide capital growth and income from a diversified portfolio of listed global real estate companies. The option aims to outperform (after management costs) the FTSE EPRA/NAREIT Developed Rental Net Return Index (AUD Hedged) when measured over rolling three year periods.
The strategy can invest in listed real estate securities, or those equity securities in the process of being listed, on any recognised stock exchange in the developed or emerging markets. The strategy may also invest in cash, financial derivatives and currency instruments.
The investment manager places an emphasis on analysing countries and property sectors experiencing the strongest fundamentals and invests in companies run by quality management team.

The Fund expects to hold about 60 to 90 securities and can invest up to 10% in cash.

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	5 years
Relative risk rating	7 / Very High
Investment style	Global Listed Property - Active
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Listed Property and Infrastructure	100	95.89
Cash	0	4.11

Regional Allocation	%
North America	60.90
Europe (Ex. UK)	13.22
Japan	9.31
Australia & NZ	2.48
United Kingdom	6.23
Asia Pacific Ex. Japan	3.75

Top Holdings	%
Prologis	4.74
Healthpeak Properties	3.50
Equity Residential	3.36
Link REIT	2.51
Cubesmart	2.44
Sankei Real Estate	2.41
Camden Property Trust	2.37
Invitation Homes	2.32
Healthcare Trust Of America	2.30
Alexandria Real Estate Equities	2.10

Investment Option Commentary

For the year, all three regions (North America, Europe, and the Asia-Pacific), generated significant positive relative outperformance to the index. For the fourth quarter, positive relative performance was generated in the Americas and Asia-Pacific regions, while the European region marginally underperformed the index.

For the fourth quarter, the outperformance in the Americas region was driven by strong stock selection, with the largest drivers coming from the healthcare and net lease sectors. In the healthcare sector, not owning materially underperforming Ventas (poor 3Q earnings call and disappointing forward guidance) drove most of the outperformance in the sector for the quarter. UBS Clarion did a nice job of underwriting disappointing results for Ventas versus Wall Street expectations. In the net lease sector, their overweight to the outperforming gaming REIT Vici Properties was the top contributor to positive stock selection for the quarter. UBS Clarion continue to believe that gaming REITs are well-positioned to deliver attractive earnings and dividend growth at more than reasonable stock valuations.

In the Asia-Pacific region, stock selection in Australia and Japan REITs drove the preponderance of outperformance for the quarter. J-REIT stock selection also added positively to quarterly outperformance, as positions in Sankei Real Estate and mid-cap industrial J-REITs outperformed as result of attractive fundamentals combined with reasonable valuations.

While European stock selection was positive for the year, it was modestly below the index for the fourth quarter. Positive stock selection in the U.K. was generated via niche sector overweight investments in storage (Safestore) and student housing (Unite). Positive stock selection in the U.K. was offset by negative stock selection in Continental Europe, where an overweight in year-to-date outperforming position in Scandinavia (Fabege) underperformed in the fourth quarter. It appears to us that the fourth quarter change in relative performance could be nothing more than a short-term reversal in a longer-term trend.

Market Commentary

Real estate stocks generated a strong total return in 2019. After several lackluster performance years, real estate stocks had an impressive bounce-back year in 2019. Performance was broad-based, led by European and North American companies. Overall, real estate stocks were driven by the stock specific attributes of attractive valuations, stable earnings, and well-covered dividends. The stocks also benefited from a favorable macro backdrop as exemplified by three 25 basis point cuts in policy rates by the U.S. Federal Reserve Bank (to a now 1.50 – 1.75% range), continued accommodative central bank policies around the world, a possible breakthrough in trade negotiations between the U.S. and China, and a U.K. election in December 2019 that appears to have brought clarity to the direction of the Brexit process in 2020. Given that many of the real estate and macro characteristics that defined 2019 are expected to remain in place for the foreseeable future, they expect 2020 to be another attractive total return year for real estate stocks.

Outlook

UBS Clarion believe real estate stocks are positioned to deliver an 8% to 12% total return in 2020. Real estate stocks have a stable earnings outlook and a mid-3% dividend yield that should grow in line with earnings. Real estate stocks are attractively priced versus the private real estate and fixed income markets. There is also a significant amount of capital amassing in the private real estate market that could lead to increased M&A activity.

They believe this moderate global economic environment is good for real estate stocks. The economic expansion should continue in 2020, but they acknowledge that this economic expansion (which is the longest in generations) could be derailed by geopolitical risks including Brexit, U.S. trade policy and a slowing/bottoming Chinese economy. As a result of these geopolitical risks, they believe that central banks around the world will remain accommodative and interest rate increases will be on hold for 2020. Inflationary pressures are tame at this time.

UBS Clarion are cautious and selective in markets and property types which screen expensive relative to the rate of earnings growth. This includes Singapore, Canada and the U.S. skilled nursing, hotels and net lease sectors. This also includes Class B mall/shopping center companies globally. In Europe, they are cautious on the German residential sector given its renewed regulatory risk in Berlin. They also remain cautious on retail despite more attractive valuations. In Australia, UBS Clarion outlook is mixed as fundamentals range from robust industrial market,

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1999AU
AMP Flexible Super - Retirement account	AMP2024AU
AMP Flexible Super - Super account	AMP2029AU
CustomSuper	AMP1999AU
Flexible Lifetime - Allocated Pension	AMP2004AU
Flexible Lifetime - Term Pension	AMP2019AU
Flexible Lifetime Investment (Series 2)	AMP2035AU
SignatureSuper	AMP2009AU
SignatureSuper Allocated Pension	AMP2016AU

Contact Details

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267

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