

# UBS Clarion Global Property Securities

Quarterly Investment Option Update

30 June 2020

## 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](http://amp.com.au)

## Investment Option Overview

<b>Investment Category</b>	Property and Infrastructure
<b>Suggested Investment timeframe</b>	5 years
<b>Relative risk rating</b>	7 / Very High
<b>Investment style</b>	Global Listed Property - Active
<b>Manager style</b>	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Listed Property and Infrastructure	100	96.01
Cash	0	3.99

Regional Allocation	%
North America	60.27
Europe (Ex. UK)	13.83
Japan	10.06
Australia & NZ	3.94
United Kingdom	3.66
Asia Pacific Ex. Japan	4.26

Top Holdings	%
Prologis	5.41
Vonovia	3.30
Healthpeak Properties	2.62
Invitation Homes	2.60
Duke Realty Investments	2.38
Cubesmart	2.32
Alexandria Real Estate Equities	2.25
Equity Residential	2.22
Life Storage	2.17
Avalonbay Communities	2.15

## Investment Option Commentary

Relative performance to the index was quite strong in the second quarter and all three regions generated positive relative performance. The strategy best relative performance for the quarter was in North America. CBRE Global Investors continue to benefit from their investments in technology real estate (data centres and communication towers), which offer resilient earnings growth given the positive demand for data and connectivity. Stock selection in this sector was the top contributor to their relative outperformance as their specific holdings in this sector significantly outperformed the sector. Stock selection in the net lease sector was also a strong contributor led by an overweight position in outperforming VREIT.

In the Asia-Pacific region, Australia was the strongest performing country for the quarter gaining over 16%. The Investment Option's overweight to Australia helped contribute to the absolute performance for the quarter as did strong stock selection. Japan was the largest driver of relative outperformance with an overweight to outperforming industrial stocks being the primary driver. Industrial fundamentals are quite strong in Japan, with demand for new space outpacing supply.

In Europe, stock selection in U.K. drove outperformance. Positive performance was driven by overweights to outperforming industrial stock Segro, while on the Continent, Shurgard Self Storage and Vonovia (Germany) added value.

## Market Commentary

Building on gains in April and May, real estate stocks were positive in June and generated over a 9% total return for the second quarter. Despite delivering strong returns in the second quarter, global real estate stocks significantly underperformed the nearly 20% gains in the broader equity market and remain down over 21% for the year. As the global economy begins to reopen, CBRE Global Investors believe real estate stocks are in a bottoming process and offer investors good relative value and an attractive dividend yield in a low-yield environment.

They are encouraged by the massive stimulus already enacted by central banks and political leaders around the world. Unlike during the Global Financial Crisis, real estate companies' balance sheets are in good shape and most companies have had consistent access to capital markets. This economic recession is about demand destruction as a result of shutting down the economy. As a result, the focus is on underwriting the depth of demand destruction and the subsequent pace of demand recovery for the various property sectors and regions. No company will be totally immune from an economic recession or the effects of COVID-19, but after significant price declines, there are resilient regions, property sectors, and companies that they find very attractively priced.

With global real estate stocks in bear market territory at mid-year, CBRE Global Investors believe long-term investors have a unique opportunity to invest in high-quality real estate assets at very attractive valuations.

## Outlook

Based on the Fund Manager's proprietary valuation tools, real estate securities valuations are very compelling relative to the private real estate, fixed income, and broader stock markets. It is unusual for real estate securities to be "cheap" relative to all three of these broader asset classes at the same time. At June 30, 2020, real estate stocks are trading at a global average -11.7% discount to private market real estate value (i.e., NAV), with an implied unleveraged cash flow yield of 5.8%. In the U.S., the spread between implied cap rates and Baa corporate bonds is an eye-popping +250 basis points versus a long-term average of +93 basis points. Outside the U.S., these spreads are also historically wide. Relative to the broader stock market, REITs look cheap as well. The forward multiple of global REIT earnings is 15.4 versus the 20.2 Price to Earnings ratio of the MSCI World Equity Index; normally the multiples are the same and the present gap of 4.8x has not been seen since the Global Financial Crisis. These types of valuation disparities in the past have often been followed by periods of very strong absolute and relative performance of listed real estate.

CBRE Global Investors' economic forecast calls for a sharp global recession in the first half of 2020, followed by a partial rebound in the second half of 2020, and positive economic growth in 2021. They believe that the monetary and fiscal measures being introduced around the globe will help mitigate the depth and length of the recession a resulting from the COVID-19 pandemic. They believe the U.S. Federal Reserve is applying lessons learned in the GFC to implement appropriate monetary policy and avoid a broader credit market freeze.

## 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

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