UBS Clarion Global Property Securities

Quarterly Investment Option Update

30 September 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:
www.amp.com.au/performance

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	99.06
Cash	0	0.94

Regional Allocation	%
North America	62.17
Europe (Ex. UK)	13.98
Japan	9.96
Australia & NZ	4.23
United Kingdom	3.79
Asia Pacific Ex. Japan	4.93

Top Holdings	%
Prologis	5.38
Vonovia	3.60
Ventas	3.24
Invitation Homes	2.86
CubeSmart	2.68
Duke Realty Investments	2.58
Simon Property Group	2.50
Leg Immobilien	2.35
Healthcare Trust Of America	2.34
CyrusOne	2.30

Investment Option Commentary

The investment manager materially outperformed the benchmark for the quarter. Stock selection within Continental Europe, Australia and Japan were the biggest contributors to performance. In Continental Europe, outperformance was driven by both overweight and underweight positions. The largest contributor to performance for the quarter was not owning pan-European mall company Unibail, which fell sharply on the news that it was recapitalizing its balance sheet with an approximately $4 billion equity rights offering and an additional $2 billion in asset sales. Positive relative performance was also driven by their overweight to Germany, particularly their investments in German residential stocks. Throughout Europe, residential fundamentals remain quite resilient while retail fundamentals have yet to bottom.

In the Asia-Pacific region, their stock selection in Japan and Australia drove outperformance for the quarter. In Japan, their overweight positioning in mid-size office stocks Orix and Sankei outperformed for the quarter. The mid-size office stock theme is durable in their opinion, as office assets are holding up quite well in greater Tokyo, where employees are back to work. Due to the small size of a typical residential apartment, they do not believe "work from home" will have a lasting influence on Tokyo office demand.

In North America, positive sector allocation was offset by negative stock selection. The strategy benefited from an underweight to the underperforming office, apartment and lodging sectors and an overweight to the top performing storage sector. This was offset by lagging stock selection, particularly in the technology sector where long-standing positions in American Tower (cell towers) and CyrusOne (data centers) took a pause in the third quarter after strong year-to-date performance. They maintain their overweight positions in these names.

Market Commentary

Real estate stocks were up +1% for the third quarter. Real estate stocks have had a positive total return for two quarters in a row, are transitioning out of a bottoming phase, and yet remain down -20% year-to-date.

During the pandemic, equity investors are treating real estate stocks as "economic re-opening" stocks. Since their bottom in early May, real estate stocks clearly perform well when either improving economic news is released or when positive news about a vaccine to fight COVID is announced. As the global economy begins to re-open, they believe real estate stocks will outperform as an "economic re-opening sector" that offer investors good relative value, improving growth, and an attractive dividend yield in a low yield environment.

Although positive over the last two quarters, real estate stocks continue to underperform the broader stock market indices. The underperformance of real estate stocks versus the broader stock market over the last several years is similar to the 1997 to early 2000 timeframe, when real estate stocks materially underperformed the broader market that was led by technology and "dot.com" stocks. This period was followed by material outperformance by real estate securities from early 2000 to early 2007.

With global real estate stocks down -20% year-to-date, the investment manager believes long-term investors have a unique opportunity to invest in high-quality real estate assets at very attractive valuations. Based on their proprietary analytical tools, they believe that real estate securities are cheap relative to the private real estate market, the fixed income market, and the broader stock market. They believe investors committing capital to listed real estate at this time have the potential to earn above average absolute and relative long-term total returns.

Outlook

Based on the investment 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.

Their investment priority is to add high quality, heavily discounted stocks into the portfolio. When the COVID-19 pandemic took hold they appropriately focused on owning the most resilient companies in their investable universe, based on a company's business model, tenant exposure, and financial strength. This strategy helped them outperform their benchmark during the depths of the pandemic and economic crisis. As they begin to look toward 2021, they are encouraged by the massive stimulus responses enacted by central banks and political leaders around the world. Listed real estate companies have continued to have full access to the capital markets at a reasonable cost of capital. As a result, the public companies are very well-positioned to weather this economic crisis and be first movers as active investors.

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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