

UBS Clarion Global Property Securities

Quarterly Investment Option Update

31 December 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/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	95.68
Cash	0	4.32

Regional Allocation	%
North America	60.32
Europe (Ex. UK)	13.74
Japan	8.28
Australia & NZ	4.14
United Kingdom	4.01
Asia Pacific Ex. Japan	5.19

Top Holdings	%
Prologis	4.58
Simon Property Group	4.21
Duke Realty Investments	3.29
Vereit	2.91
Cubsmart	2.88
Extra Space Storage	2.53
Ventas	2.41
Invitation Homes	2.23
Vonovia	2.02
American Tower	1.94

Investment Option Commentary

For the fourth quarter, the Fund outperformed in North America and Asia-Pacific regions, but this was offset by underperformance in the European Region. In North America, positive relative performance was driven by the net lease, residential, data centre and retail sectors. In the Asia-Pacific region, outperformance was driven by stock selection in Australia and Singapore. Continental Europe positioning underperformed for the quarter in the portfolio. Simply stated, it was a quarter in which YTD underperformers materially outperformed.

Market Commentary

Real estate stocks rallied materially in the fourth quarter. Real estate stocks may have “bounced,” but the stocks have not “recovered.” Real estate stocks rebounded powerfully in the fourth quarter in response to positive developments concerning the availability of effective COVID-19 vaccines as well as the U.S. Presidential Election outcome.

Despite rallying +11% in the fourth quarter, real estate stocks were down -11% for the year, materially underperforming many asset classes including the S&P 500 (+18%), the Barclays U.S. Aggregate Bond Index (+7.5%), and the MSCI World Index (+16.5%). Global real estate stocks still have tremendous ground to make up versus broader market indices.

Since bottoming in early May, real estate stocks perform well when news is announced about either improving economic conditions or positive news about a vaccine to fight COVID. The Manager believes real estate stocks will outperform when investors become more certain about the timing and scale of an “economic re-opening.” This will help catalyse the realization of the good relative value, improving earnings growth, and attractive dividend yields in the current low yield environment.

Outlook

Based on the Manager’s proprietary valuation dashboard, real estate securities valuations continue to be 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 December 31, 2020, real estate stocks are trading at a global average -5.5% discount to private market real estate value (i.e., NAV), with an implied unleveraged cash flow yield of 5.5%. In the U.S., the spread between implied cap rates and Baa corporate bonds is +245 basis points versus a long-term average of +97 basis points. Outside the U.S., these spreads are also historically wide. Relative to the broader stock market, REITs look cheap as well. 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 improving growth in 2021. They believe that the monetary and fiscal measures that were implemented around the globe will help mitigate the depth and length of the recession resulting from the COVID-19 pandemic.

A potential risk to their positive total return expectations for real estate stocks could be the fear of rising interest rates. They do not believe that rising interest rates will disrupt their total return outlook for real estate stocks for three primary reasons: 1) CBRE Global Investors’ economic forecast projects that market-based interest rates will rise only moderately through the course of 2021 with no central bank raising interest rates during the year; 2) the historically wide yield spreads between real estate stocks and fixed income instruments provide a substantial cushion should interest rates rise above current expectations; and 3) the short-term positive correlation between real estate stocks and interest rates has broken down during this COVID pandemic. In 2020, real estate stocks were negative while interest rates fell. Real estate stocks acted as an “economic re-opening sector,” so it is possible that an increase in interest rates as an indicator of a recovering economy will be a positive for real estate stock performance.

Availability

Product Name	APIR Code
AMP Flexible Super - Super	AMP2029AU
AMP Flexible Super - Retirement	AMP2024AU
CustomSuper	AMP1999AU
Flexible Lifetime - Super	AMP1999AU
Flexible Lifetime - Allocated Pension	AMP2004AU
Flexible Lifetime - Term Pension	AMP2019AU
Flexible Lifetime - Investments (Series 2)	AMP2035AU**
SignatureSuper	AMP2009AU
SignatureSuper - Allocated Pension	AMP2016AU

**Closed to new and existing investors

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