UBS CBRE Global Property Securities

Quarterly Investment Option Update

30 September 2021

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	Active
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Listed Property and Infrastructure	100	99.86
Cash	0	0.14

Regional Allocation	%
North America	67.34
Europe (ex. UK)	11.56
Japan	6.51
Australia & NZ	3.52
United Kingdom	4.34
Asia Pacific ex Japan	5.80
Other	0.79
Cash	0.14

Top Holdings	%
Prologis	6.68
Extra Space Storage	4.77
CubeSmart	4.43
Camden Property Trust	4.08
Simon Property	4.04
Duke Realty Investments	3.34
Sun Communities	3.18
Ventas	3.08
American Tower	2.52
VEREIT	2.51

Investment Option Commentary

The portfolio outperformed the benchmark for the third quarter, building on the positive relative performance delivered year-to-date with all three regions delivering positive relative performance.

For the third quarter, North America was the best performing region, followed by the European region and the Asia-Pacific region. In the U.S., outperformance was driven by positioning in the data centre, storage, and industrial sectors. In the storage sector, the portfolio benefited from being overweight the sector and outperforming Extra Space Storage and CubeSmart. In the industrial sector, the portfolio benefited from a sector overweight and a position in outperforming Prologis while not owning underperforming, operating intensive cold storage company Americold. Americold fell over 20% after it cut earnings guidance for the third time in 2021, suffering from a substantial increase in operating costs.

Positive stock selection in the U.K., driven by overweights to outperforming industrial and storage stocks, drove outperformance in Europe for the quarter. In the case of storage, being overweight outperforming Shurgard and SafeStore positively contributed to performance. Overweights to outperforming industrial stocks that added relative performance include: SEGRO and Montea.

In the Asia-Pacific region, positive performance was driven by contributions in Australia and Japan. In Australia, being overweight outperforming fund manager Home Consortium "HomeCo" positively contributed to performance. HomeCo's assets under management were boosted following successful capital raising efforts including HealthCo REIT (new HomeCo sponsored REIT) debuting in early September after an initial public offering (IPO) raising A$650m.

Market Commentary

Real estate stocks were up +0.1% for the third quarter, underperforming with the MSCI World Index (+0.7%) and outperforming the Barclays Global Bond Index (-0.9%).

On a year-to-date basis, real estate stocks are up +17.3%, outpacing the MSCI World Equity Index (+15.3%) and the Barclays Global Bond Index (-4.1%). After several years of relative underperformance, real estate stocks are among the best performing asset classes in 2021. Rising from the depths of the "pandemic recession" in 2020, improving employment, pent-up consumer demand, and supportive government and central bank policies are very good news for the economic outlook and real estate landlords, and real estate stocks will continue to be beneficiaries of these trends.

After strong year-to-date performance through August, global real estate stocks consolidated approximately -6% during September. Overall, "headline news" turned negative during September, creating volatility throughout the capital markets, and real estate stocks were not immune to this volatility. In the United States, Congress is struggling to agree on the budget, the debt ceiling, and President Biden's infrastructure bill. None of these struggles inspire confidence in the near-term. In China, residential property developer Evergrande has $300 billion in debt outstanding and cannot make its current debt payment obligations. Given the Chinese government's "Three Red Lines Policy" focused on controlling the over-heated residential sector as well as the expansion of highly geared developers, the market believes that Evergrande can restructure their debts only with the help of Beijing's intervention. The capital markets are concerned about possible contagion related to Evergrande's inability to repay its debts on a timely basis.

While "headline news" appeared to be all dark clouds in September, "real estate owner/operator news" for the third quarter can be described as quite constructive. Real estate fundamentals, in most parts of the world and for most property sectors, are both healthy and improving. The manager estimates 2022 earnings growth should be close to 8%. In addition, NAVs are moving up approximately 5% on average.

Outlook

Based on the manager's proprietary valuation dashboard, real estate securities valuations are attractive relative to the private real estate, fixed income, and broader stock markets. At September 30, 2021, real estate stocks are trading at a global average discount to private market real estate value (i.e., NAV) of -5.2% 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 +199 basis points versus a long-term average of +100 basis points. Outside the U.S., these spreads are wide as well. The forward multiple of global REIT earnings is 18.4x versus the 18.7x Price-to-Earnings ratio of the MSCI World Equity Index, whereas normally the multiples are similar.

In addition to attractive valuation metrics, there are additional thematic reasons to be positive about real estate stocks, including: 1) real estate stocks are outperforming broader stock market indices for the first time in the last five years, which suggests a change in stock market leadership; 2) real estate clearly benefits from a re-opening economy; 3) short lease duration sectors can quickly re-price rental rates in an inflationary environment, thus offering an inflation hedge; and 4) fund flows to dedicated real estate mutual funds and ETFs have turned positive in 2021 after several years of anaemic flows, signalling improving investor interest in the sector.

In the U.S., the fund is overweight storage, towers, industrial, retail, and hotels. In Japan, the fund prefers industrial, and mid-cap diversified and office J-REITs that are providing earnings resiliency at a very attractive relative valuation. In Hong Kong, the fund is overweight diversified companies with a commercial/retail bias, and non-discretionary retail. In Australia, the manager prefers non-discretionary retail, residential, and a few select diversified companies.

In the U.K., the fund favours the storage and industrial sectors. In Continental Europe, the fund prefers the German residential companies and property companies in markets with a positive earnings growth profile, which favours mid to small cap stocks in Germany and the Nordics.

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

**Closed to new and existing investors

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