

Macquarie Property Securities

Quarterly Investment Option Update

31 December 2021

Aim and Strategy

To outperform the S&P/ASX 200 A-REIT Index over the medium term to long term (before fees) and provide a consistent level of income and some capital growth.

The option provides exposure to an actively managed and diverse portfolio of listed property securities. The investment manager's active investment process aims to add value by focusing on the sources of uncertainty in property securities markets including sustainability of current earnings, long-term earnings growth, and quality of management.

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	7 years
Relative risk rating	7 / Very High
Investment style	Listed Properties
Manager style	Single Manager

Sector Allocation	%
Diversified	32.67
Retail	21.45
Industrial	31.97
Commercial	8.37
Specialised	2.40
Residential	1.57
Other	0.16
Cash	1.41

Top Holdings	%
National Storage REIT	0.26
Charter Hall Group	0.22
Arena REIT No 1	0.20
Centuria Industrial Reit	0.20
HealthCo Healthcare & Wellness REIT	0.10
Abacus Property Group	0.09
Newmark Property REIT Stapled Units	0.06
Ingenia Communities Group	0.04
Unibail-Rodamco-Westfield	0.04
GPT group	0.04

Asset Allocation	Benchmark (%)	Actual (%)
Listed Property	95-100	98.59
Cash	0-5	1.41

Investment Option Commentary

The biggest contributors to relative performance for the quarter included an overweight position in Goodman Group (GMG), and underweight positions in Dexus (DXS) and Waypoint REIT (WPR).

Goodman Group (GMG) outperformed after the company upgraded its FY22 earnings guidance as it expects operating earnings per security growth to be more than 15% as compared to prior guidance of 10% growth. Management attributed this to rental growth, increased development activity, stronger than expected performance from their Partnerships, and generally higher levels of profitability.

The main detractors from relative performance included overweight positions in Unibail-Rodamco-Westfield (URW), Healthco Healthcare and Wellness REIT (HCW), and Newmark REIT (NPR).

Global retail property group Unibail-Rodamco-Westfield (URW) underperformed following its quarterly update to the market. Despite the reopening across Europe driving improvements in rent collections and vacancy levels, management noted that rental income in Germany remained lower and COVID-19 impacts persisted for its conventions and exhibitions venues.

Market Commentary

The S&P/ASX 200 Property Accumulation Index returned 10.07% for the December quarter, materially outperforming the broader S&P/ASX 200 Accumulation Index which returned 2.09%. For the past 12 months, AREITs returned 26.14%, while the broader equity market returned 17.23%.

Globally, REITs returns 9.2% (in USD terms) for the quarter. The U.S (+16.3%) was the best performing region, while Japan (-7.1%) was the worse.

November and December were the clear standouts in the quarter for REITs, with October returns slightly softer. Performance remains driven by a recovery in commercial real estate fundamentals, particularly across pandemic impacted sectors, the ongoing supportive backdrop of tight credit spreads and the thirst for reopening trades, particularly in markets with strong vaccine rollouts, amplified by structural shifts accelerated by the pandemic (e.g. warehouse demand).

As rising bond yields again come back into focus, Macquarie is reminded that real estate represents a 'bond proxy with growth' – that is, if rates are rising on inflation and growth expectations, sectors with pricing power will see rising rents and real estate's inflation hedging characteristics should endure.

Outlook

As rules surrounding isolation and testing continue to be relaxed in Australia, markets are expected to normalise. However, investor focus remains on the impact of the Omicron variant and potential emergence of further virus mutations.

Domestically, the economic rebound continues to be a key theme for investors, with the easing of restrictions being met with strong consumer and corporate demand. With a Federal election expected in May, government policy will be an important contributor to economic activity in the coming months.

In global markets, inflation above pre-COVID levels will continue to impact investment decisions. As a result, central bank policy should be monitored closely by investors, with higher interest rates likely throughout 2022.

The REITs yield compared to 10 year bonds still remains attractive, as the average forward dividend yield of 3.9% is 2.2% greater than the 10 year bond yield (currently 1.67%).

Availability

Product name	APIR
SignatureSuper*	AMP0961AU

*Restricted. Please see your Product Disclosure Statement

Contact Details

Web: www.amp.com.au

Email: askamp@amp.com.au

Phone: 131 267



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