UBS CBRE Global Property Securities

Quarterly Investment Option Update

30 June 2022

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	n/a	111.49
Cash	n/a	-11.49

Regional Allocation	%
North America	80.12
Europe (ex. UK)	9.30
Japan	7.09
Australia & NZ	4.57
United Kingdom	4.45
Asia Pacific ex Japan	5.97
Other	0.00
Cash	-11.49

Top Holdings	%
Prologis	8.01
Cubesmart	4.98
Sun Communities	4.82
Extra Space Storage	4.22
Realty Income	3.64
Digital Realty	3.48
Alexandria Real Estate	3.43
Camden Property	3.27
Rexford Industrial Realty	2.96
Essex Property Trust	2.89

Investment Option Commentary

The portfolio outperformed the benchmark for the quarter.

In the Americas region, relative outperformance was driven by portfolio positioning in the U.S. healthcare, self-storage and tower sectors. In the healthcare sector, an overweight to outperforming medical office REITs Healthcare Trust of America and Physicians Realty Trust added value. An out-of-index position in cell tower landlord Crown Castle also added value as the defensive attributes of their business led to material outperformance in what was a turbulent three months for markets.

In the Asia-Pacific region, from a stock selection perspective, key positive contributors to outperformance in the region were overweights to Orix-JREIT (Japan; diversified); Japan Hotel REIT and Lendlease Global Commercial REIT (Singapore diversified). The Asia-Pacific Region, excluding Australia, appears to be in a bottoming process after underperforming relative to the global index for an extended period. The reopening of the economies in Japan, Hong Kong, and China should help sentiment in this region.

In the European Region, Continental Europe generated the best relative performance of any region in the portfolio this quarter. The portfolio benefited from a position in Deutsche Euroshop, a shopping center REIT that was privatized at a 35% premium and an underweight to the Swedish property market, which fell sharply after material outperformance in 2021.

Market Commentary

Global real estate stocks fell -16.6% in the second quarter, underperforming the S&P 500 (-16.1%) and the MSCI World Index (-14.2%). Given the strong 2022 earnings outlook, healthy supply-demand fundamentals, and the considerable amount of capital at private equity platforms that needs to be invested, CBRE believes global real estate stocks are oversold. CBRE also believes investors committing capital to listed real estate at this time have the potential to earn an attractive absolute and relative long-term total return.

The material negative performance for global real estate stocks is not related to real estate specific information or data; rather, it can be traced to a plethora of challenging macroeconomic and geopolitical issues that have caused both broad equity and fixed income investments to fall in value during the first half of 2022. The rapid rise in interest rates globally this year, exemplified by the bellwether U.S. 10 Year Treasury Yield's move from 1.51% on January 1 to 2.98% on June 30, has certainly acted as a negative catalyst for real estate stock performance. When interest rates rise rapidly in a compressed time period, real estate stocks have typically struggled. However, with real estate stocks down -19.8% year to date, if 2022 ended now, it would be the second worst year of performance for real estate stocks going back to 1991, which was the first year of the "modern REIT era." Real estate stocks are oversold.

Outlook

The earnings outlook for real estate stocks is reslient and superior to broad market earnings where growth is moderating. We believe any moderation or pause in the rapid rise in interest rates we have experienced during the first half of 2022 should help sooth the capital markets, and act as a positive catalyst for real estate stocks. We believe investors committing capital to listed real estate at this time have the potential to earn an attractive absolute and relative long-term total return.

Based on our proprietary valuation dashboard, real estate securities valuations are attractive relative to the private real estate, fixed income, and broader stock markets. At 06/30/22, real estate stocks are trading at a discount of -19% to NAV with an implied unleveraged cash flow yield of 6%. In the U.S., the spread between implied cap rates and Baa corporate bonds is +58 basis points. Outside the U.S., these spreads are wide as well. The forward multiple of global REIT earnings is 15.4x versus the 14.5x Price-to-Earnings ratio of the MSCI World Equity Index. We would expect REIT earnings to trade at a premium given their more attractive growth prospects and stability.

We are overweight North America with an emphasis on storage, residential, industrial, and lodging. In Japan, we prefer mid-cap diversified, industrial and hotel J-REITs that are providing earnings growth and resiliency at very attractive relative valuations. In Hong Kong, we are overweight diversified companies with a commercial bias and non-discretionary retail. In Australia, we prefer nondiscretionary retail, industrial, and a few select diversified companies. In the U.K., we favor the storage sector. Within Continental Europe, we own industrial companies, residential companies and high-quality retail companies.

We believe active management has the ability to offer significant relative return potential at this time when investors have a unique opportunity to invest in listed real estate at attractive valuations.

Availability

Product name	APIR
SignatureSuper*	AMP2009AU
SignatureSuper Allocated Pension*	AMP2016AU
SignatureSuper Term Pension*	AMP2016AU

*Closed to new investors

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