UBS Clarion Global Property Securities

Quarterly Investment Option Update

30-June-2016

Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP2024AU
AMP Flexible Super – Choice (Super)	AMP2029AU
CustomSuper	AMP1999AU
Flexible Lifetime – Allocated Pension	AMP2004AU
Flexible Lifetime – Super	AMP1999AU
Flexible Lifetime – Term Pension	AMP2019AU
SignatureSuper	AMP2009AU
Flexible Lifetime Investment (Series 2)	AMP2035AU

Investment Option Performance

Investment performances are subject to product fees and where relevant tax as outlined in the product PDS. Therefore investment performance may differ between products. In addition, activity on your account such as contributions and deductions will also impact the investment performance specific to you. To view the latest investment performances for each product, please visit **www.amp.com.au**. You can also view the last investment performance specific to you by visiting your My Portfolio account.

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Overview

Aim & Strategy: The strategy aims to provide investors with a total return (after management costs) in excess of the FTSE EPRA/NAREIT Developed Rental Net Return Index (AUD Hedged) when measured over rolling three-year periods. The strategy can invest in real estate securities listed, or in the process of being listed, on any recognised stock exchange in the developed or emerging markets, cash, derivatives and currency instruments. The strategy seeks to provide investors with attractive returns over the long term through the construction of a diversified portfolio of publicly traded securities in real estate companies / trusts. As an active manager, UBS seeks to outperform its benchmark by taking meaningful positions at the company or trust level, having regard to property type and geography, and by seeking to identify the best opportunities to add value. The strategy places an emphasis on analysing countries and property sectors experiencing the strongest fundamentals. To do this UBS aims to invest in companies run by quality management teams, who it considers are likely to maintain conservative balance sheets and deliver above average cash flow yield and earnings growth.

Investment category: Global listed property

Suggested Investment Timeframe: 5 years

Standard Risk Measure: 6/ High

Asset Allocation	Benchmark (%)	Range (%)
Global Property Securities*	100	90-100
Cash	0	0-10

* Effective exposure may include derivatives.

Holdings

Industry Exposure	%
Retail	34.7
Specialised	11.8
Diversified	10.7
Office	10.2
Residential	10.0
Health Care	9.8
Industrial	4.7
Real Estate Operating Companies	4.6
Hotel & Resort	2.3
Diversified Real Estate Activities	0.4
Cash	0.8

Regional Exposure	%
North America	63.7
Europe (Ex. UK)	11.9
Japan	8.6
United Kingdom	7.0
Australia & NZ	5.2
Asia Ex. Japan	2.8
Cash	0.8

Top Ten Securities	%
Simon Property	7.57
Welltower	4.36
Equity Residential	4.20
Public Storage	3.37
General Growth Properties	3.34
Avalonbay Communities	3.16
SL Green Realty	2.87
Unibail-Rodamco	2.70
Kimco Realty	2.47
Prologis	2.45

Market Commentary

Real estate stocks finished positive for the month and quarter despite significant market volatility following the Brexit vote. Property companies globally were sharply lower following the improbable June 23rd vote by the U.K. electorate to leave the European Union, but subsequently rebounded within a week as investors held out hope that the ultimate global impact may not be as negative as initially feared. Regionally, European property shares failed to recapture the losses, causing negative regional performance for the month and quarter, with the majority of the negative performance occurring in the last week of June following the Brexit vote. Share prices of listed property companies elsewhere in the world performed relatively well for the quarter, with North American REITs up approximately 6% and Asia- Pacific property shares up more than 3% (in local currency terms). The yield of longer-term sovereign debt reflected a “flight to safety,” with the yield on the U.S. 10-year Treasury falling to 1.47% at June 30th versus 1.77% three months ago and 2.27% at the beginning of the year. In local currency, year-to-date a global real estate securities portfolio is up solidly in the high single-digit range.

The Brexit vote introduces a high degree of political and therefore economic uncertainty. The Brexit referendum vote on the face of it sets into a motion a political process which carries many uncertainties and will take years to fully unfold, as the U.K. finds a new economic and political path in its relationship with the EU. There remains a possibility, however distant, that Britain finds a way to revisit this decision or otherwise mitigate its eventual impact. The political burden will be carried by the next Prime Minister of the U.K., given that the current Prime Minister David Cameron has announced his intention to step down. In the meantime, we can only assume that Brexit will become a gradual reality and therefore reflect its impact into underwriting assumptions. U.K. property took the brunt of the selling with bright spots globally including German property companies and other “safe haven” geographies including U.S. REITs and Australian REITs.

Investment Option Commentary

Leading up to the Brexit referendum, many of our holdings in the U.K., including Land Securities and British Land, traded in excess of 25% discounts to our estimates of net asset value (NAV), with implied cap rates in the mid to high 5% range versus private market transactions regularly in the 4% range. Despite the attractive valuations, with the improbable "Leave" vote winning the referendum the U.K. stocks fell hard during the last week of June. In addition, several of our favourite larger cap Continental European stocks traded off in sympathy on the Brexit vote, including pan-European retail companies Unibail and Klepierre, and thus turned positive contributors in Europe for the second quarter into negative contributors in one swift move. While U.S REITs were up 6% for the quarter as investors sought the relative safety and stable growth of the U.S. real estate markets, U.S. stock selection was challenged by an investment environment which favoured dividend yield over all other valuation metrics. High dividend yield stocks in the U.S. have dramatically outperformed. In fact, the difference between the highest yielding companies versus the lowest yielding companies year-to-date is 13%, a trend which was exacerbated during the 2Q.

While an important part of the total return over time, dividend yield has rarely been the key determinant of U.S. REIT stock selection outperformance. The quest for yield is understandable in a low return environment but unlikely to persist as the primary driver of relative performance. It is rare that dividend yield “lasts” as a primary driver of the relative returns of property companies. In 2001, for a period of about six months, stocks with higher dividend yields materially outperformed their peers despite lower quality portfolios and weaker balance sheets. This occurred again more recently during the first quarter of 2013. Each time period coincided with risk averse equity investor sentiment combined with a falling yield on the 10-year Treasury.

However, our experience in this sector is that over any longer period of time, the market takes a more balanced consideration of dividend yield in the context of the other factors which have more persistently driven absolute and relative total returns to real estate stocks: namely, earnings growth, management quality, property quality and valuation (i.e., price to underlying real estate value or NAV), balance sheet capacity and quality, company strategy, and direction of underlying real estate fundamentals. These are the many factors underlying our fundamental analysis of property companies, which we believe determine the best investments to include in the portfolio. Investors’ current scramble for dividend yield has hampered our short-term relative performance, but the effectiveness of our investment process, which underwrites these factors with a longer-term view, has proven to add value over time. The significant outperformance of the higher-yielding and often lower-growth companies is a trend that we expect will eventually reverse itself and we remain committed to the multiple factors underlying our relative value analysis. Despite recent underperformance, we believe our investment discipline will ultimately be vindicated.

In addition to being hurt by the extreme outperformance of dividend yielding stocks, our positioning in the apartment sector detracted from relative performance for the quarter. Apartment REITs underperformed as a result of a combination of below average dividend yield and a macro concern that growth rates are peaking despite still being robust, particularly in the Bay Area and New York City as a result of worries surrounding demand from the technology and financial sectors, respectively. Overweight positions in bi-coastal apartment REITs Equity Residential and AvalonBay underperformed despite same-property net operating income which remains in the 4-5% range for each of these companies and tenant demand which remains robust. We like these bicoastal regional exposures because of the strong employment and therefore demand characteristics combined with the cost and time it takes to develop new apartment units. These companies have portfolios where the cost of home ownership remains expensive and rental demand remains high. We expect these companies to continue to generate attractive levels of growth at this stage of the real estate and economic cycles, with stabilised occupancies in excess of 95% and earnings growth in the 7% range looking out to 2017.

A relative bright-spot during the quarter was portfolio positioning in the Asia-Pacific region, with positive stock selection in Australia, Japan and Hong Kong. Key contributors included overweight positions in Australian diversified REIT Mirvac Group, Japanese REITs Fukuoka REIT and Nippon Prologis REIT, and Hong Kong-based shopping centre landlord Link REIT.

Outlook

Global property stocks continue to offer prospects for positive total returns for the balance of 2016. The Brexit referendum vote has caused global economic forecasts to be revised down from already sluggish levels. GDP projections in the U.K. were decreased by CBRE economists by a cumulative 3.5% by the end of 2018, perhaps reaching technical recession, although growth is never projected to go negative in any one calendar year. Economic projections elsewhere have been negatively impacted, particularly in Continental Europe. Economic impact beyond Europe however is expected to be minor. Despite macro-economic headwinds, positive yet sluggish economic growth combined with historically low long-term interest rates bodes well for real estate and real estate securities versus other asset classes. The slower pace of economic activity, subdued development starts, a low inflation/low interest rate environment, and a wide spread between initial yields on real estate and high quality bonds should support investor demand for real estate. Central bank policy will remain accommodative, including the U.S. Federal Reserve Bank. We expect continued monetary stimulus to help mitigate any economic slowdown. Listed property company earnings will generally be unaffected in this environment, with stable to improving occupancies, higher rents, and active transaction markets. While risks have become more elevated in the aftermath of the Brexit vote, we continue to believe any meaningful volatility creates a potential opportunity to buy high quality real estate companies with visible earnings at discounted prices.

The spread between cap rates and 10-year sovereign bond yields remains at historically wide levels, and suggests that there is plenty of "cushion" should bond yields ultimately increase, which near-term appears unlikely. Looking out over the next twelve months, we expect long-term rates to remain low given sluggish economic growth globally, generally accommodative central bank policy, a decelerating China and current negative rates in Europe and Japan.

Low levels of new construction globally are also a positive in a slowing world and suggest that owners of existing properties should continue to enjoy some degree of improved pricing power. With visible earnings growth in the 6% range for this year and next, dividends growing at a slightly higher pace than earnings, and many listed property companies trading at a discount to private market values, listed real estate remains attractively valued versus the private market and continues to offer investors an investment option supported by current income via the dividend.

The U.S. should continue to outperform as investors seek favourable risk-adjusted total return. In the U.S., we prefer attractively valued stocks that offer visible earnings growth, conservative balance sheets and modest development pipelines. Specifically, we favour the class A mall companies, data centres, and CBD office companies; we are underweight the net lease, suburban office and lodging sectors. We remain selective on the more bond-like companies that offer modest growth and trade at large premiums to our estimate of underlying private market real estate value.

Property companies in the U.K. have sold off hard to levels which reflect much of the impact of a Brexit scenario but risk remains elevated. Companies on the Continent will hold up better, depending on geography and property type. Listed European property companies have sold off materially since the Brexit vote. Given continued uncertainty surrounding the future economic and political relationship between the U.K. and EU, and issues surrounding where we are in the economic and real estate cycles, we believe caution is warranted. We expect an average basket of U.K. commercial property in the private market to fall in gross asset value by 12% in the medium term (through 2018) and by 16% peak to trough (from 2016 to 2020). These are private market underwriting projections which the listed companies have already discounted. U.K. retail values will fall by around half the amount of London offices and be viewed as a more stable asset class, particularly Class A regional malls. As such, we favour over time the more economically stable sectors of grocery-anchored retail, dominant regional malls and self-storage versus the more cyclical London office sector, particularly as longer-term questions arise surrounding the future of London as the financial capital of Europe.

The Continental European listed property stocks will not be as volatile as the U.K. but they are likely to come under pressure as the process of the U.K.'s withdrawal continues. We consider our positions in the German residential and dominant European mall companies to be more defensive and therefore more desirable in this uncertain environment. Our positioning in the Paris office market might benefit from any future relocation of companies from the U.K., but this will take time and may be offset by political worries that France and perhaps other EU countries that may ultimately conduct their own referendums regarding EU membership. We remain selective on the office markets in Paris and on the Continent.

In the Asia-Pacific region, we like the Japanese REIT sector, Australia, and non-discretionary retail in Hong Kong. In Japan, we prefer REITs with exposure to the Tokyo office market, which continues to experience improved rental growth as vacancies approach the 4% threshold, and retail in urban locations which is benefiting from strong inbound tourism; in addition, we like companies with access to robust acquisition pipelines from their sponsor which should lead to above average earnings growth. Australian investments are benefiting from an attractive combination of yield and growth, plus the potential for mergers and acquisitions activity given wide access to attractively priced capital by quality institutional investors with scale. We are generally cautious in Hong Kong and Singapore as the result of the indirect impact of weaker demand from mainland China, which is weighing on demand across all property types; non-discretionary retail in Hong Kong remains resilient.

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