AMP Capital Global Property Securities

Quarterly Investment Option Update

31 December 2017

Aim and Strategy

To provide total returns (income and capital growth), after costs and before tax, higher than the return from the UBS Global Real Estate Investors Index (net dividends reinvested, hedged back to Australian dollars) on a rolling 3 year basis by investing in property securities listed on share markets around the world. Securities in which the portfolio invests are diversified across a range of asset classes, property sectors and geographic regions. The portfolio includes investments in Real Estate Investment Trusts and property securities companies across North America, Europe and Asia Pacific. The portfolio is managed by an investment team made up of on-the-ground regional investment specialists based in Sydney, Chicago, London and Hong Kong, implementing a research driven process which integrates a macroeconomic (top-down) approach to regional and country allocation, with a stock specific (bottom-up) selection process.

Investment Option Performance

To view the latest investment performances please visit www.amp.com.au

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1596AU
AMP Flexible Super - Retirement account	AMP1620AU
AMP Flexible Super - Super account	AMP1611AU
CUSTOM SUPER	AMP1596AU
Flexible Lifetime - Allocated Pension	AMP1632AU
Flexible Lifetime Investment (Series 2)	AMP2043AU
METCASH SUPERANNUATION PLAN	AMP1596AU
Signature Super	AMP1602AU
Signature Super Allocated Pension	AMP1626AU

Top Ten Securities Exposure	%
Simon Property Group Inc	4.98
Prologis Inc	3.25
Alexandria Real Estate Equitie	3.01
PUBLIC STORAGE	2.77
Mitsui Fudosan Co Ltd	2.74
Welltower Inc	2.65
Sun Hung Kai Properties Ltd	2.57
KILROY REALTY CORP	2.53
InterXion Holding NV	2.50
Healthcare Trust of America In	2.31

Investment Option Overview

Investment category	Property
Suggested investment timeframe	5 years
Relative risk rating	Medium - High
Investment style	Growth

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

Industry Exposure	%
Retail REITs	15.53
Office REITs	14.58
Residential REITs	11.26
Industrial REITs	10.05
Diversified Real Estate Activi	9.03
Diversified REITs	8.60
Real Estate Operating Companie	8.56
Specialised REITs	6.28
Health Care REITs	5.70
Hotel & Resort REITs	3.95
Cash	2.91
Others	2.50
Real Estate Development	1.05

Regional Exposure	%
North America	55.56
Asia	17.98
Europe	17.97
Australasia	4.68
Cash	3.81

Portfolio Summary

- The fund was positive in the December quarter and outperformed the global benchmark.
- Global listed real estate made reasonably good returns across most major markets during the quarter.
- Risks remain from Brexit, the Italian election, a hard landing in China, geo-political uncertainty and elevated residential property valuations in a number of world cities.

Investment Option Commentary

The fund was up strongly in the December quarter and outperformed the global benchmark.

On an industry sector basis, asset allocation was positive, while stock selection was negative. Specialised, healthcare and diversified sector holdings were the biggest positive contributors to the return, while self-storage, retail and hotel sector holdings all detracted.

At a stock level, a significant positive contribution to the Fund's relative performance came from the overweight position in InterXion Holding NV. InterXion Holding provides colocation services, equipment housing, connectivity services, managed services and performance management in data centres across 11 European countries; its head office is in Amsterdam. The fundamental demand for its services is likely to remain solid and the company is well positioned for growth in its operating metrics. It screens relatively cheaply in light of its growth potential and may also provide an attractive opportunity to businesses seeking to access these markets. The stock rose throughout the December quarter as it announced its second quarter earnings which revealed a 16% increase in revenue and a 13% increase in net income compared to the second quarter 2016.

A significant negative contribution to relative performance came from not owning Westfield Corp. Westfield Corp owns a high quality portfolio of regional malls in the US and the UK and has a future regional mall development in Italy. The company has been successfully re-developing its retail portfolio throughout the US and UK with a strategy of significant capital investment in the major gateway cities, such as Los Angeles, New York City and London and starting next year in Milan. The stock outperformed during the period, as it announced that it had agreed to be acquired by Unibail-Rodamco in a A$33 billion deal. This represents a purchase price at a 17.8% premium to the previous close and led to the company outperforming the market.

Market commentary

Global listed real estate made reasonably good returns across most major markets during the period, as longer-term bond yields rose modestly upon gradually improving economic sentiment. Markets were largely driven by a series of corporate activities that reflected a desire to grow scale or take advantage of historically high market valuation levels.

While US listed real estate was little changed over the period, malls and shopping centres outperformed as companies seek to either grow scale or take advantage of the opportunity to realise market valuations at premiums to recently subdued price levels.

Unibail-Rodamco announced the acquisition of Westfield Corp, owner of 35 Westfield-branded malls in the US and London, in a US$26 billion deal. Unibail-Rodamco is however paying what many analysts consider to be a full price in light of the challenges facing US mall owners as many tenant stores report slowing sales and more space is dedicated to leisure retail. Moreover it will be a significant challenge to dispose of many of its newly acquired properties in the US at this time.

Listed real estate companies in markets more able to adjust their pricing as economic sentiment improves, performed more strongly. Highly-cyclical lodging outperformed upon rising expectations of increasing occupancy levels and achievable room rates in a more buoyant economic environment. San Francisco-focussed hotels especially will gain from a strong local economy and the reopening of the renovated Moscone Convention Centre.

Amazon's third-quarter results – largely driven by Amazon Web Services - exceeded analysts' expectations, highlighting the secular growth trend in cloud computing. This trend is fuelling demand for services provided by data centres, which continued to outperform, especially Equinix which announced further acquisitions and new facilities.

Health care underperformed as some investors perceive it to be a 'bond proxy' as longer-term bond yields rise. The tax reform bill also overturned the Obamacare requirement to buy health insurance policies or pay a tax penalty. Any reduction in numbers of insured implies fewer medical appointments which will impact demand for health care real estate.

Australian listed real estate strengthened significantly during the period, driven in part by the Westfield Corp announcement.

The e-commerce growth trend continues to drive interest in Australian industrial and logistics properties, as shown by The Blackstone Group acquiring a third portfolio of such assets. The purchase from Goodman Group for approximately A$400 million will lift its Australian property portfolio to around A$3 billion.

However retail remains under pressure as shopping habits move online, with the apparel retailer Specialty Fashion Group announcing that it would close around 300 of its 1,019 stores in Australia. Those in better locations are likely to be quickly re-let but this will further pressurise some of the more marginal shopping developments.

European listed real estate companies performed strongly during the period. This was especially true in the UK, where Hammerson announced that it is to acquire Intu Properties, another UK listed shopping centre owner with a small exposure to Continental Europe at a significant premium. It will create a £21 billion pan-European real estate investment trust in the all-stock transaction. Hammerson is hopeful that expected synergies and rationalising the enlarged portfolio through further disposals of non-core assets will deliver shareholder value. However it faces the risks associated with the late stage of the business cycle, weakening consumer spending, Brexit-related uncertainty and the disruptive impact of the growth in e-commerce.

Self-storage company Big Yellow Group announced its first half-year 2017 earnings results, which reported 6% revenue growth, a 13% increase in adjusted profit before tax and a 13% increase in the interim dividend. This reflects the on-going strength of this market, which is supported by the long-term trend towards urban living as professionals spend more of their lives in homes where storage space is limited.

Great Portland Estates which is focussed on the Central London office market, that is particularly sensitive to Brexit-related sentiment, also announced its first half-year 2017 results. Net asset value per share increased by 1.8% over the six-months to 30 September and earnings per share rose 15.7% as tenant demand remained strong.

In Italy Beni Stabili announced a 1.5% like-for-like rental growth in its nine-month earnings report, which was down from the 2.9% reported in its first half-year report. This was reasonably well received by investors who have seen Italian listed real estate outperform as the hunt for yield led to longer-term government bond yields falling over recent years. However these yields do not necessarily reflect the elevated political risk as Italy approaches its 2018 general election.

The Japan REIT market strengthened moderately during the period. Net outflows from actively managed REITs slowed as investment by financial institutions and overseas investors increased. This is thought to have been encouraged by share buybacks, merger activity and recent divestments of assets by Nippon Building Fund and Daiwa Office Investment Corp at elevated valuation levels.

Capitalisation rate compression may be reaching its conclusion in prime Central Tokyo office markets such as in the Marunouchi/Otemachi District where expected rates now stand at just 3.5%, according to the survey. Retail property capitalisation rates in the Ginza and Omotesando districts of Tokyo fell to 3.6% and 3.7% respectively, hotels fell to 4.5% in Tokyo and warehouses fell to 4.6% in Coastal Tokyo.

Demand for hotel rooms appears to be strengthening; data released in December showed that revenue per available room grew by 7.8% in November across Japan’s hotel market. This reflects continued but moderating tourism growth in Japan, which is diversifying to cities beyond Tokyo.

The Singapore listed real estate market was much stronger during the period. Offices are now performing well as absorption rates of new space are increasing and rental growth is now positive. This follows a significant fall over the last couple of years as the domestic economy weakened. The recovery is also positive for hotels, which are benefitting from increased visitor arrivals.

Hong Kong listed real estate made a strong return during the period, as investors focussed on asset values in Central. This followed the announcement that CK Asset Holdings is selling its 75% stake in The Center, an office building located in Central, for HK$40.2 billion. This would represent a capitalisation rate of just 2.3%.

Portfolio positioning and outlook

Global listed real estate companies continue to enjoy a favourable outlook, supported by low interest rates and reasonably positive economic sentiment. Companies more exposed to the business cycle such as offices and hotels and firms sensitive to the long-term secular growth trend in technology and e-commerce, such as data centres and logistics are expected to continue to grow earnings. The growth of on-line shopping is expected to continue to drive a divergence in the returns of companies able to create an attractive experience for premium demographics and those less well positioned. Risks remain from Brexit, the Italian election, a hard landing in China, geo-political uncertainty and elevated residential property valuations in a number of world cities.

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