Specialist Property and Infrastructure Fund

Quarterly Investment Option Update

31 December 2017

Aim and Strategy

To provide total returns (income and capital growth) after costs and before tax, above the return of 20% of the S&P/ASX200 A-REIT Accumulation, 35% FTSE EPRA NAREIT Developed Net Total Return (Hedged to AUD), 30% Dow Jones Brookfield Global Infrastructure Net Accumulation (Hedged to AUD) and 15% Mercer / IPD Australian Pooled Property strategy indices on a rolling 3 year basis. The strategy provides exposure to a diversified portfolio of direct property, listed property and infrastructure securities, both in Australia and around the world. The portfolio may also invest in direct infrastructure and up to 10% in cash.

The strategy diversifies manager risk across a range of both active and passive investment managers by using a multi-manager approach. Active exposures are to active managers who demonstrate competitive advantages within the various investment styles that are used when investing in the Australian and international property and infrastructure markets.

Investment Option Performance

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

Availability

Product name	APIR
MultiFund Flexible Income Plan	AMP0987AU
Signature Super	AMP0954AU
Signature Super Allocated Pension	AMP1161AU
Custom Super	AMP0861AU
Flexible Lifetime - Allocated Pension	AMP0877AU
Flexible Lifetime – Investments	AMP1007AU
Flexible Lifetime – Investments (Series 2)	AMP1423AU
AMP Flexible Lifetime Super	AMP0861AU
AMP Flexible Super - Retirement	AMP1359AU
AMP Flexible Super - Super	AMP1488AU
Flexible Lifetime - Term Pension	AMP0931AU
AMP Growth Bond	AMP1192AU

Asset Allocation	Benchmark	Range (%)
Australian Property	35	0-70
Global Property	35	15-55
Global Listed Infrastructure	30	10-50
Cash	0	0-10

Region	%
North America	38.38
Australasia	37.67
Europe ex UK	9.73
United Kingdom	4.71
Asia ex Japan	4.52
Cash	2.53
Japan	2.47
Others	0.00

Investment Option Overview

Investment category	Property
Suggested investment timeframe	5 - 7 years
Relative risk rating	Medium - High
Investment style	Multi - Manager

Portfolio Summary

- The Fund delivered a positive return and outperformed its benchmark during the quarter.
- Global listed real estate markets were strong, while infrastructure returns were more modest, yet still positive for the period.
- Despite the recent rise in yields, the search for defensive assets with attractive yields is expected to continue.

Investment Option Commentary

The Fund delivered a positive return and outperformed its benchmark for the December quarter. Performance within the Fund's underlying components was mixed, though all positive. In absolute terms, the AMP Australian Property Index Fund posted the strongest returns, followed by the AMP Capital Global Property Securities Fund and the AMP Capital Wholesale Office Fund.

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.

Australian listed real estate strengthened during the period with the surprise announcement by Unibail-Rodamco that it had agreed the acquisition of Westfield Corp, owner of 35 Westfield-branded malls in the US and UK, in a A$33 billion deal. This represents a purchase price at a 17.8% premium to the previous close. 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.

Listed infrastructure, as measured by the Dow Jones Brookfield Global Infrastructure Composite Yield Index, underperformed global equities during the month. Further infrastructure projects were announced in Australia, with the Victorian Government finalising the contract for the West Gate Tunnel, a A$6.7 billion transport infrastructure project to be developed by Transurban Group; and the New South Wales Government progressing the development of the WestConnex project, a series of toll roads in Sydney, with an estimated price tag of A$16 billion. In the US, the State of California saw further disastrous wildfires, which has impacted the operational environment of the electric utility, Edison International.

In direct property, the low cost of capital environment is anticipated to continue into 2018, however pricing for assets remains sharp, with yields for prime assets in Sydney, Melbourne and to a lesser extent Brisbane seeing an average yield compression of 40 basis points during calendar year 2017. Retail consumption conditions remain the one weak economic spot in an otherwise comparatively rosy outlook for Australian markets. Consumer confidence continues to weaken, as wage growth stalls. However business confidence conditions, backed by record levels of business investment has seen confidence rise to its highest levels since 2007. Globally, the world economy is moving into a period of strategic adjustment as technological change and adaptation drive structural economic changes. Australia is not immune to these changes, with Amazon launching operations in December, creating a significant boost to online sales growth in the short to medium term. Investors are paying keener attention to fundamentals in assets, and pricing them appropriately.

Outlook

Looking ahead, encouraging European economic data and improving fundamentals should support the region, and enable infrastructure companies to continue to grow. While we like the structural story for many of the North American transmission & distribution firms, we remain cautious as the spike in bond yields in late 2016 and 2017 highlighted the risks to the current high valuation levels. We see the potential for future outperformance as investors search for defensive assets that provide attractive yield in the current low interest rate environment and will add selectively where we find value.

A low interest environment and a generally robust macro-economic outlook are likely to continue to support reasonable returns in the Australian listed real estate market. In the Sydney and Melbourne office markets, constrained supply and high tenant demand is likely to be positive for rental growth, while overseas investor interest will contribute to a buoyant transaction market. However, companies exposed to the retail market are likely to continue to disappoint as they struggle to adjust to changing consumer habits and changing market dynamics, such as the market entry of Amazon. The residential markets in the east coast capital cities are likely to have peaked as high levels of personal debt, the absence of wage growth and regulatory concerns about lending risk are expected to slow the market.

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