UBS Clarion Global Property Securities

Quarterly Investment Option Update

31-December-2017

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	Actual (%)	Range (%)
Global Property Securities*	96.01	90-100
Cash	3.99	0-10

* Effective exposure may include derivatives.

Holdings

Industry Exposure	%
Retail	25.61
Diversified	12.85
Residential	9.61
Office	12.15
Specialised	8.26
Industrial	10.41
Real Estate Operating Companies	6.10
Hotel & Resort	6.16
Health Care	4.86
Diversified Real Estate Activities	0.00

Regional Exposure	%
North America	61.87
Europe (Ex. UK)	13.06
Japan	5.40
Australia & NZ	4.06
United Kingdom	6.92
Asia Pacific Ex. Japan	4.70

Top Ten Securities	%
Simon Property	4.76
Prologis	4.31
Link Real Estate Investment Trust	3.29
Avalonbay Communities	3.07
Alexandria Real Estate Equities	2.87
General Growth Properties	2.63
Regency Centers	2.38
Extra Space Storage	2.26
Equinix	2.18
Klepierre	1.98

Market Commentary

Real estate stocks finished the year with a strong 4Q and a mid-single digit total return for the year. While surging equity markets globally got all the attention, real estate stocks had a respectable year. Performance was underpinned by improving fundamentals, broad economic recovery, a strong private bid for real estate as an asset class, and attractive valuations versus the private market.

Property companies in Europe and Asia faired best, as economic growth in those regions improved during the year off low expectations, while the U.S. REIT market paused following several years of outperformance. European property companies surged on improved confidence that economic conditions and real estate fundamentals are improving. Asia, ex-Japan returns were also good, as Hong Kong and Singapore property companies moved sharply higher beginning early in the year following a weak 4Q16 as it became clearer that these markets were at a positive inflection point. U.S. REITs underperformed a global strategy for the first time in four years, likely the result of short-term negative sentiment from higher policy rates in the U.S. and net outflows from mutual funds in both the U.S. and Japan.

Investment Option Commentary

Stock selection during the quarter was strong in the U.S. healthcare, residential, lodging, self-storage and technology property types, as well as in Hong Kong (via shopping center company The Link REIT) and in Continental Europe (via positions in German residential companies Buwog and LEG Immobilien, Paris office company Gecina and French retail landlord Klepierre). In the U.S. healthcare sector, performance benefited from our preference for medical office buildings and lab space and cautious view of companies exposed to the weak skilled nursing sector. In the U.S. residential sector, the Fund benefitted from investment in the single- family home for rent and manufactured housing business while avoiding the student housing REITs. In the lodging sector, the Fund added value via operating companies Marriott and Hilton Hotels, which are benefitting from improving demand and low capital expenditure needs.

Sector allocation also added value for the quarter, driven by portfolio positioning in the U.S., especially the overweight to U.S. malls. Investments in the mall sector came alive during November as the result of a string of M&A activity commencing with a bid by a unit of Brookfield Asset Management for the 66% of General Growth Properties that it does not already own. General Growth Properties is the second largest mall REIT in the U.S., an owner of over 125 primarily Class A malls and shopping centers. News of activist investors taking stakes in mall REITs Macerich and Taubman Centers added fuel to the investment thesis that listed mall companies have been oversold, are cheap relative to asset value and ripe for consolidation. General Growth, Macerich and Taubman were up +15%, +21% and +33%, respectively, for the quarter (in USD). The mall bid went “global” with the subsequent announcement that Paris-based Unibail would acquire Australian-based Westfield Corp in a 65%/35% stock/cash deal. Sector allocation was also positive in Hong Kong and Europe.

Outlook

Improving economic growth and modestly increasing inflation will benefit real estate stocks which the fund manager believe swill generate +10% total return in 2018. The economic outlook is improving and this will have a positive impact on commercial real estate and listed real estate companies. Global economic growth is improving in a more synchronized manner than previously expected which is reflected in generally robust property fundamentals. Economic growth is gaining momentum in an economic expansion which continues to have “legs” at this point of an extended cycle.

Monetary policy will tighten in the U.S. but remain relatively more accommodative elsewhere. Total return among property companies will be generated by 6% earnings growth and 4% dividend yield with stable multiples. We do not believe that multiples will contract, an out-of-consensus view, given attractive valuations, a strong M&A bid for listed real estate companies, a year of underperformance versus equities and an earnings multiple (funds from operation) which is now inline-to-lower than that of the S&P 500. With real estate companies trading at an approximate 7% discount to our estimate of inherent real estate value (or NAV), and an implied capitalization rate approaching 6% globally, we believe real estate stocks remain attractively priced relative to private real estate and competing asset classes.

Tax reform in the U.S. will be good for the U.S. economy. The new tax law will lower income tax rates for both individuals and companies in the U.S., which should stimulate both corporate and consumer spending and therefore boost economic growth. We believe the consumer will feel stronger as the result of higher disposable income, increased confidence in the economy, and a positive “wealth effect” from a higher stock market. Corporations will benefit from a materially lower corporate tax rate at 21% versus 35% previously, the ability to repatriate foreign cash at a lower tax rate and increased confidence from more visibility to the tax and regulatory environment. Demand for all users of commercial real estate will benefit from increased confidence and spending potential among both corporations and individuals.

The fund manager is cautious and selective in markets and property types with headwinds to earnings growth, either for secular or cyclical reasons. It also remains cautious on the more bond- like sectors that offer modest growth and trade less attractively relative to our estimate of underlying private market real estate value. This includes the net lease, healthcare and suburban office sectors in the U.S., as well as the Canadian companies and the REITs in Singapore. Asian REITs generally have low organic growth and external growth which is dependent on a constant need for new equity to fund the acquisitions.

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