AMP Capital Global Property Securities

Quarterly Investment Option Update

30 June 2018

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	%
Prologis Inc	3.47
Alexandria Real Estate Equitie	2.97
Goodman Group	2.77
Welltower Inc	2.62
Invitation Homes Inc	2.51
Simon Property Group Inc	2.39
Segro PLC	2.22
Equinix Inc	2.20
Gecina SA	2.19
Aroundtown SA	2.10

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	%
Industrial REITs	13.93
Residential REITs	13.69
Office REITs	12.88
Retail REITs	11.57
Real Estate Operating Companie	10.23
Diversified REITs	9.65
Specialised REITs	6.82
Diversified Real Estate Activi	6.63
Health Care REITs	5.25
Hotel & Resort REITs	4.98
Real Estate Development	2.01
Cash	1.57
Others	0.79

Regional Exposure	%
North America	52.52
Asia	22.25
Europe	17.82
Australasia	5.89
Cash	1.51

Portfolio Summary

- The fund produced a strong return in the June quarter, though underperformed the global benchmark.
- Global listed real estate markets were generally very strong throughout the period.
- As loose monetary policy is unwound, investors should expect greater volatility than has been seen over recent years.

Investment Option Commentary

The fund produced a strong absolute return in the June quarter, though underperformed the global benchmark.

On an industry sector basis, asset allocation and stock selection slightly detracted from the relative return. Retail and residential sector holdings were the largest contributors to the portfolio's return, while hotels and self storage holdings provided the greatest detraction.

At a stock level, a significant positive contribution to the Fund's relative performance came from our overweight position in Park Hotels & Resorts, a US based owner of Hilton branded hotels in urban markets which was spun out of Hilton Worldwide Holdings in January 2017. The company offers services and amenities such as accommodation, dining, meeting and wedding rooms, spas and fitness centres. It has the potential to reaccelerate its growth in revenue per available room, opportunities to boost internal growth, investment and development and also the potential to generate growth from acquisitions. The stock screens relatively attractive on the valuation metrics. Hotel markets have underperformed over the last two years as global economic weakness lead to a reduction in corporate travel budgets and thus less travel by higher margin business travellers. However since the start of 2018, the US economy in particular has improved following tax reforms, and annual travel budgets have been reset. This has led to improvements in first quarter hotel earnings which has boosted investor sentiment. The company outperformed the market during the period when it released its first quarter 2018 results that announced a 2.0% increase in comparable revenue per available room, relative to the same period 2017.

A significant negative contribution to relative performance came from our overweight holding in Lennar Corp, one of the largest US home builders, based in Miami, Florida. The company primarily sells single-family attached and detached homes in communities targeted to first-time homebuyers, move-up homebuyers, active adult homebuyers and luxury homebuyers. The company's good exposure to the first-time buyer market is especially attractive now that millennials are forming families and creating demand for such properties. Despite announcing improved first quarter earnings the company underperformed the market during the period. Investors appeared to take profits following an extended period of strong market outperformance as the market awaits the impact of its strategic acquisition of CalAtlantic Homes that completed in February.

Market commentary

Global listed real estate made a strong positive return during the period. Global bond yields continued to trend upwards at the start of the period upon expectations of higher inflation and interest rates, but fell back later in the period due to concerns about the possible outbreak of a trade war. US 10-year Treasury yields finished the period 0.12% higher at 2.86%.

The parts of the market with the greatest exposure to the strengthening global economy performed relatively better during the period. Hotels and lodging is the most cyclical part of the market as it features the shortest lease terms and performed particularly strongly. The growth in leisure travel across Asia and the recovery in global business travel contributed to a 3.8% month-on-month rise in revenue per available room in Singapore hotels in April. LaSalle Hotel Properties agreed to be bought by The Blackstone Group; its offer of US$33.50 per share was lower than a bid by Pebblebrook Hotel Trust, but crucially was all-cash.

Healthcare is sometimes perceived as a 'bond proxy' by some investors and has underperformed as bond yields rose over recent months. However, during the period Omega Healthcare Investors announced a restructuring deal with one of its largest tenants, Orianna Health Systems and better than expected reimbursement increases for patients funded by the US Government.

Retail property has underperformed for some time as retailers struggle to adjust to the challenge from e-commerce. The Australian business of Toys 'R' Us entered voluntary administration, although all stores will remain open while attempts are made to sell the business. Scentre Group is the most exposed landlord with eight stores within its portfolio.

UK retail is also struggling with Brexit uncertainty, sterling weakness, rising rents in some locations, business rate revaluations and growing labour costs. House of Fraser announced plans to close 31 of its 59 UK and Ireland department stores, including its Oxford Street flagship and City of London stores, and will also pay reduced rent on 10 further stores. Meanwhile discount retailer Poundworld with 335 stores entered administration having failed to find a buyer. Department store Debenhams issued a second profit warning this year and is to review the future of 10 stores and 25 leases that mature over the next five years.

However, first half-year results from Central London retailer Shaftesbury highlighted how West End shops remain largely insulated from current retail weakness across the country. Earnings per share rose by 2.4% while lettings, lease renewals and rent reviews increased by 4.2% over the period. The West End's catering venues and small speciality shops remain attractive to millennials who work or study locally, visit the area to socialise or travel from overseas on short-breaks.

Online shopping continues to drive growth in the logistics market. In Australia, Goodman Group announced its nine months to 31 March 2018 earnings results that revealed a 3.1% like-for-like net property income growth over the period. This reflects the company's attractive exposure to e-commerce growth, especially its relationship with Amazon.

In Singapore, Mapletree Logistics Trust announced the proposed acquisition of a 50% interest in each of 11 logistics properties in China for a price of RMB985.3 million or S$205.3 million at a net property income yield of 6.4%. The properties give access to three key economic corridors along the One Belt One Road initiative and the deal reflects the growing demand for logistics facilities in China.

The office market continues to perform well as the global economic recovery remains ongoing. Despite its current political uncertainty Spain is especially attractive, where Inmobiliaria Colonial, which owns prime Madrid, Barcelona and Paris offices, announced its first quarter 2018 earnings results during the period. Total rental income increased by 19%, while like-for-like rental income rose by 6% overall and by a particularly strong 8% in Madrid.

In the Eurozone, Foncière des Régions announced that it was in talks to fully acquire the Italian office and retail group Beni Stabili in which it holds a 52.4% interest, in order to increase its exposure to the attractive Milan office market.

The ongoing strength of the Tokyo office market was revealed in March data published by Miki Shoji that reported a 5.2% year-on-year rise in advertised rents in Tokyo's five central wards.

CapitaLand Commercial Trust in Singapore announced that it had agreed a lease with its first office anchor tenant in its new CapitaSpring complex. US banking group JPMorgan Chase & Co will occupy 155,000 square feet in the 280 metres-high mixed-use sky-scraper.

The Hong Kong office market continued to strengthen, especially in Central where demand is growing as banking and professional services firms expand. Rents grew at their fastest rate for two years according to JLL, rising 1.1% month-on-month as vacancy rates remain low at 4.4% overall and just 1.5% in Central. Swire Properties announced the sale of the holding company which owns the retail and office towers Cityplaza Three and Cityplaza Four to Hengli Investments for HK$15 billion.

The Blackstone Group made a A$3.14 billion offer to acquire Australia's Investa Office Group, a 13.2% premium to its 25 May closing market price and a 4.0% premium to net tangible assets. The proposed deal for the 37-property portfolio highlights the ongoing strength of the Australian office market.

Education Realty Trust which is one of the largest owner and managers of student housing in the US has agreed to be acquired by a fund affiliated to Greystar Real Estate Partners. This highlights the growing attraction of college accommodation, which offers investors an attractive yield with good inflation protection and counter-cyclical properties.

The UK's Big Yellow Group announced full year results to 31 March 2018, with like-for-like revenue increasing by 7% and adjusted profit before tax rising by 12%. The UK population is becoming more familiar with the self-storage concept as professionals spend longer periods enjoying urban living in space-constrained homes.

Portfolio positioning and outlook

Global listed real estate remains reasonably well positioned to generate positive medium-term returns as the global economic recovery continues and interest rates remain low, with rises likely to be gradual and predictable. However, as loose monetary policy is unwound, investors should expect greater volatility than has been seen over recent years.

More retailers entering bankruptcy, rescheduling debts and/or closing loss-making peripheral stores is expected as they seek to adjust to the e-commerce challenge and evolving customer habits. The owners of malls that offer an attractive leisure experience to premium demographics will continue to outperform those that are exposed to secondary developments which are more likely to struggle with e-commerce disruption.

Companies with shorter lease periods that are more exposed to economic recovery such as offices and hotels will likely outperform during the next stage of the economic cycle. However, those perceived by some investors to be 'bond proxies' such as net lease businesses and health care are expected to underperform as global bond yields continue to rise.

Listed real estate companies exposed to longer-term secular growth trends in e-commerce and connectivity, such as logistics and data centres are positioned to grow earnings independently of the business cycle.

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