Specialist Property and Infrastructure Fund

Quarterly Investment Option Update

30 June 2018

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	%
Australasia	40.44
North America	36.62
Europe ex UK	8.87
United Kingdom	5.20
Asia ex Japan	4.97
Japan	2.49
Cash	1.42
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 produced a very strong absolute performance in the June quarter.
- Both Global listed infrastructure and listed real estate generated strong returns during the period.
- The search for defensive assets with attractive yields is expected to continue in this low-rate environment.

Investment Option Commentary

The Specialist Property and Infrastructure Fund produced a very strong absolute performance in the June quarter and marginally outperformed the benchmark. All our underlying allocations produced positive returns, though were mixed in terms of benchmark-relative performance. The AMP Australian Property Index Fund produced the strongest absolute return, while the unlisted property funds investing in the retail sector were the lowest performer, despite still producing a positive absolute return for the period. The AMP Capital Global Property Securities portfolio and the AMP Capital Global Infrastructure Securities Fund were also both very strong in absolute terms

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%.

Australian listed real estate made a strong positive return during the period. The pressurised retail listed real estate market was boosted when Scentre Group released its first quarter earnings update, which rose by 1.1% in the first quarter, driven by the major retailers. Earlier in the period it surprised the market by announcing an on-market share buy-back of up to approximately A$700 million. However, the challenge facing retail was illustrated by Vicinity Centres' announcement that it plans to sell up to A$1 billion of sub-regional and neighbourhood shopping centres and news that the Australian business of Toys 'R' Us entered voluntary administration. In other retail news, shareholders approved the takeover of Westfield Corp by Unibail-Rodamco.

Listed infrastructure, as measured by the Dow Jones Brookfield Global Infrastructure Composite Yield Index, outperformed global equities during the quarter. The risks of a full-blown trade war increased during the month, with both the US and China threatening a cycle of counter-retaliatory measures; increasing the risk of an escalating tariff spiral. The US also increased its negative rhetoric with Europe, threatening to impose tariffs on European automotive imports. Against the uncertain global economic environment, sovereign bond yields fell as safe-haven demand increased. On the more positive side, the conclusion of the US-North Korean summit was seen as a tentative move in the right direction, although much remains to be formally agreed.

In direct Australian property, the quarter saw an improvement in leasing activity across the various sectors. Amid historically low interest rates, commercial real estate transaction values were higher than last quarter, with evidence of higher prices being paid particularly in the larger markets of Sydney and Melbourne. The office sector showed an improvement in vacancy rates across the all the major capital city markets. In industrial property, there was a general increase in leasing activity primarily in existing assets. Melbourne has seen strengthened demand, particularly from the e-commerce and transport & logistics sectors and limited vacancy additions in the prime assets.

Outlook

For global listed infrastructure and listed real estate, we continue to see the potential for future outperformance as investors seek quality defensive assets that provide sustainable yield profiles in the current low interest rate environment. The low interest environment and a generally robust macro-economic outlook are likely to continue to support reasonable returns in the Australian real estate market. In the Sydney and Melbourne office markets, constrained supply and high tenant demand are likely to be positive for rental growth. 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. The residential markets in the east coast capital cities are likely to have peaked as high levels of personal debt, tighter lending standards and the absence of wage growth are expected to keep the market subdued.

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