UBS Clarion Global Property Securities

Quarterly Investment Option Update

30-June-2018

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*	103.42	90-100
Cash	-3.42	0-10

* Effective exposure may include derivatives.

Holdings

Industry Exposure	%
Retail	17.66
Office	17.68
Residential	15.61
Specialized	13.54
Industrial	10.44
Real Estate Operating Companies	9.80
Diversified	7.01
Hotel & Resort	6.56
Health Care	2.06
Diversified Real Estate Activities	1.52
Real Estate Development	1.52

Regional Exposure	%
North America	66.27
Europe (Ex. UK)	14.11
Japan	7.83
Australia & NZ	3.77
United Kingdom	6.45
Asia Pacific Ex. Japan	3.96

Top Ten Securities	%
Prologis	4.89
Alexandria Real Estate Equities	4.74
Simon Property	4.45
Extra Space Storage	4.28
Invitation Homes	2.79
Equity Residential	2.67
Equinix	2.50
Cubesmart	2.42
Hilton	2.37
Regency Centers	2.31

Market Commentary

Real estate stocks generated positive total return for the third month in a row following a negative 1Q as higher rates are arguably "priced in" and property fundamentals prove solid. North American property companies performed the best for the month followed by Europe and the Asia-Pacific region as global markets suffered from elevated geo-political concern surrounding U.S. tariffs and worries of a potential trade war between the U.S. and China. The U.S. Federal Reserve Bank raised policy rates for the seventh time this cycle in June which property companies continue to digest and discount. Central banks elsewhere generally remain on hold in a global capital markets environment which is seeing higher short-term rates and flatter yield curves. Global macro-economic releases suggest continued gradual economic growth, improving employment and still moderate levels of inflation. The U.S. 10-year Treasury bond yielded 2.85% at month end versus 2.83% one month ago.

Investment Option Commentary

Stock selection in June generated favourable relative performance in the majority of regions and property sectors, but was not enough to offset a difficult May when U.S. stock selection detracted from relative performance despite property fundamentals which remained unchanged. June performance was led by positioning within the U.S. and Europe.

Favourable relative performance in June however was not enough to offset a negative relative month in May, as discussed in last month's letter, which saw unusual reversionary price action, particularly in the U.S., as previous outperformers took a pause and previous underperformers rebounded. This was despite underlying property fundamentals which remained sound and unchanged as conveyed by company management teams in 1Q earnings releases. Relative performance suffered in this environment as we remained disciplined to our investment process and did not "chase" what we believe to be a short-term reversal. The majority of the portfolio's underperformance in May came from the U.S., and was concentrated in a few distinct sectors--the healthcare, and lodging sectors were the largest causes of underperformance during the month as more "defensive" companies with lower growth, higher dividend yield, and lower overall property quality bucked a longer-term trend and outperformed.

M&A continues to be a theme that underpins listed property company valuations with a number of deals announced during the 2Q. Late in June, a position in student housing company Education Realty Trust benefitted from a take-out bid which caused the stock to appreciate over 13% for the month. This follows other deals such as a take-out bid for Australia-based office REIT Investa Office announced in May and an announcement earlier in the quarter that Prologis would acquire DCT Industrial Trust at a sharp premium. The portfolio benefitted from owning each of these securities, and we believe that M&A will continue to be active given sizable discounts to estimated private market value.

Outlook

Solid economic growth and modestly increasing inflation should benefit real estate stocks in 2018. Despite a "sideways" start to the year from a share price perspective, the economic outlook is solid and this will have a positive impact on commercial real estate and listed real estate companies. Economic growth has 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 5% earnings growth and 4% dividend yield with stable multiples. With real estate companies trading at a discount to our estimate of inherent real estate value, or NAV, and an implied capitalization rate of 6% globally, we believe real estate stocks remain attractively priced relative to private real estate and competing asset classes.
In concert with our Sector Ranking Analysis, we are positive on property types and markets with above average growth

and valuations that are attractive relative to this growth. In the U.S., we continue to favor self-storage, technology and class A mall companies and have become more positive on the residential sector. We also are positive on U.S. hotel c-corps, which offer operating platforms that benefit from improved consumer spending and economic growth. Within residential, we like manufactured housing, student housing, single family home-for-rent companies and have been adding to the apartment REITs, which are benefitting from better demand than previously expected. We also favor the gaming companies within the net lease sector, although remain cautious on traditional net lease companies which tend to be more concentrated in the retail sector. In the Asia-Pacific region, we favor stocks showing strong growth relative to real estate valuations. During the quarter we added to HK office (upgraded outlook). We maintained a preference for J-REITs benefiting from improved Tokyo mid-sized office fundamentals as well industrial across the region which continues to benefit from the secular growth in e-commerce. In Australia, we prefer exposures to 1) high-quality retail and 2) well-managed REITs benefiting from improved office and industrial conditions.

The Fund favours the U.K. niche sectors of student housing and self-storage plus the industrial sector. In Continental Europe, we prefer property companies in firming markets, including Spain and Scandinavia. European property fundamentals continue to improve consistent with economic releases which show steady and visible improvement in the eurozone.

The fund manager is cautious and selective in markets and property types with headwinds to earnings growth, either for secular or cyclical reasons. The Fund 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 traditional net lease and healthcare 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, although valuations are becoming more attractive. In Australia, our outlook is mixed as property companies are benefiting from an attractive combination of yield and growth, although strength in property fundamentals range from a robust office market, to an uncertain retail market and a residential market which is meeting headwinds of affordability. Increased M&A activity is generating an underlying bid for the Australian REITs.