UBS Clarion Global Property Securities

Quarterly Investment Option Update

31 December 2018

Aim and Strategy

To provide capital growth and income from a diversified portfolio of listed global real estate companies. The option aims to outperform (after management costs) the FTSE EPRA/NAREIT Developed Rental Net Return Index (AUD Hedged) when measured over rolling three year periods. The strategy can invest in listed real estate securities, or those equity securities in the process of being listed, on any recognised stock exchange in the developed or emerging markets. The strategy may also invest in cash, financial derivatives and currency instruments.
The investment manager places an emphasis on analysing countries and property sectors experiencing the strongest fundamentals and invests in companies run by quality management team.

The Fund expects to hold about 60 to 90 securities and can invest up to 10% in cash.

Regional Allocation	%
North America	65.75
Europe (Ex. UK)	13.88
Japan	9.31
Australia & NZ	3.37
United Kingdom	4.69
Asia Pacific Ex. Japan	5.67

Top Holdings	%
Prologis	4.73
Simon Property	4.37
Equity Residential	3.98
Welltower	3.64
Avalonbay Communities	3.56
Link REIT	2.88
Healthcare Trust of America	2.62
Cubesmart	2.42
Sun Communities	2.42
Extra Space Storage	2.40

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au

Investment Option Overview

Investment category	Property and Infrastructure
Suggested investment timeframe	5 years
Relative risk rating	7 / Very High
Investment style	Global Listed Property - Active

Asset Allocation	Benchmark (%)	Actual (%)
Listed Property and Infrastructure	100	102.67
Unlisted Property and Infrastructure	-	-
Cash	-	-2.67

Investment Option Commentary

Sector performance was influenced by increased investor concerns of slowing economic growth, which began in earnest during 2Q. Property types with perceived relative safety outperformed in this environment, including the bond-like (higher dividend yielding, little-to-no earnings growth) U.S. healthcare and U.S. net lease companies, J- REITs, and property types/companies with visible and steady growth, including self-storage and industrial. M&A was also a catalyst to many property types, as private capital continues to generate a strong bid for listed real estate. Significant acquisitions were announced in the U.S. mall, industrial, net lease, student housing and lodging sectors as well as transactions in Europe and Australia.

With near 50 basis points of relative outperformance in December, we finished the year on a strong note, but this strong finish to the year was not enough to generate positive relative performance for the year. Our 2018 relative underperformance was driven by poor stock selection in the U.S. and the Asia-Pacific region. The primary drivers of U.S. underperformance were an underweight to the outperforming healthcare and net lease sectors combined with an overweight to the underperforming technology sector.

In the Asia-Pacific region, underperformance was driven by poor J-REIT and Hong Kong landlord stock selection coupled with an overall underweight to outperforming Japan.

Europe was a bright spot for positive relative performance in our portfolio. Stock selection was quite strong. We correctly avoided the retail sector, which underperformed as the result of growing concerns of how increased on-line shopping will impact brick and mortar companies. We also added value by investing in northern Europe via the Swedish companies, which benefited from strong rental demand. Positioning in the U.K benefited from avoiding London office and retail and positioning within the niche sectors of student housing, self-storage and industrial.

Market commentary

Global real estate stocks were down for the year. Performance of real estate stocks for 4Q and the year was better than equities but worse than bonds. Listed real estate companies trailed equities for much of the year until the fourth quarter when they were “down less” as investors became more defensive, seeking the stability and dividend yield of listed real estate. Equity markets became particularly volatile late in the year on concerns of slowing global economic growth and elevated geo-political risk. These concerns increasingly brought into question the magnitude of a corporate earnings slowdown, economic deceleration and monetary policy which has been tightening globally, led by the U.S. Federal Reserve Bank which raised its policy rate four times in 2018 to a 2.25- 2.5% target range by the end of the year.

Sentiment and macro forces superseded real estate fundamentals in many parts of the world in 2018. European property companies were beset by worries surrounding the Brexit process and Italy’s budget and finished the worst performing region for the year. U.S. REITs rebounded after a lousy 1Q to be the best performing region until the 4Q, when real estate stocks succumbed to a broad market sell-off. Asian property companies suffered from negative sentiment from the ongoing trade tariff dispute between the U.S. and China and recorded negative returns in Hong Kong and Singapore. Japan, however, acted as a regional safe haven and held up better than the rest of the Asia-Pacific region with J-REITs having a particularly good year.

Outlook

Economic growth is improving but decelerating into 2019, although the fund manager is not calling for recession. The fading of fiscal stimulus in the U.S. combined with continued monetary tightening, however moderated, will weigh on economic activity, as will negative sentiment surrounding elevated geo-political risk such as Brexit, U.S. trade policy uncertainty, and a slowing China. This will ease inflationary pressures and the pace at which monetary policy is tightening which will help keep interest rates range-bound. Weak energy markets will also act to counter-balance any inflationary pressures.

The fund manager believes this “not too hot, not too cold” economic environment will be good for estate stocks which, given unwarranted weakness in 2018, could generate a double-digit total return in 2019 on mid-single digit earnings growth, a 4-5% dividend yield and steady multiples. They believe that real companies will be rewarded for their steady earnings growth, predictable nature of cash flows and conservative balance sheets and cheap valuations relative to private market value.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1999AU
AMP Flexible Super - Retirement account	AMP2024AU
AMP Flexible Super - Super account	AMP2029AU
CustomSuper	AMP1999AU
Flexible Lifetime - Allocated Pension	AMP2004AU
Flexible Lifetime - Term Pension	AMP2019AU
Flexible Lifetime Investment (Series 2)	AMP2035AU
SignatureSuper	AMP2009AU
SignatureSuper Allocated Pension	AMP2016AU

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