AMP Capital Global Property Securities

Quarterly Investment Option Update

31 March 2019

Aim and Strategy

To provide total returns (income and capital growth) after costs and before tax, above the FTSE EPRA/NAREIT Developed Net Total Return Index (hedged back to Australian dollars) on a rolling three-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 the Americas, 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 that 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

Investment Option Overview

Investment category	Property and Infrastructure
Suggested investment timeframe	5 years
Relative risk rating	High
Investment style	Active

Asset Allocation	Benchmark (%)
Listed property & infrastructure	100
Cash	0

Regional Allocation	%
North America	54.82
Asia	20.80
Europe	16.86
Australasia	5.67
Cash	1.85

Sector Allocation	%
Industrial REITs	14.94
Residential REITs	12.65
Office REITs	10.79
Retail REITs	10.85
Diversified REITs	14.94
Real Estate Operating Companies	9.74
Diversified Real Estate	6.86
Specialised REITs	5.20
Health Care REITs	5.53
Hotel & Resort REITs	3.13
Real Estate Development	2.03
Cash	1.85
Others	1.49

Top Holdings	%
Prologis Inc	5.19
Vonovia SE	3.20
Mitsui Fudosan Co Ltd	3.17
AvalonBay Communities Inc	3.15
Alexandria Real Estate Equities	3.07
Goodman Group	2.99
Welltower Inc	2.87
Simon Property Group Inc	2.51
Taubman Centers Inc	2.13
Link REIT	2.07

Fund Performance

The Fund produced a very strong performance in the March quarter, and outperformed the benchmark.

On an industry sector basis, asset allocation and stock selection both positively contributed to the Fund's relative performance. All sector holdings provided strong absolute returns.

At a stock level, the largest positive contribution to the Fund's relative performance came from our overweight position in Charter Hall Group. The company is a diversified group that manages real estate investment funds and owns and manages a wide range of office buildings, supermarket-anchored retail centres and industrial assets. Its exposures to the Australian office and logistics markets are poised to benefit the company as both are expected to show the strongest rental and capital growth over the next two to three years. During the period, the company continued to outperform the market after reporting its 1H 2019 operating earnings grew 13% to A$107.5 million compared to the 2H 2018, and revenue was up 19.5% to A$156 million. The company also raised its earnings guidance after increasing its assets under management by 22% to A$28.4 billion.

Our overweight holding in Healthcare Trust of America provided a negative contribution to relative performance, despite still providing a strong absolute return. Healthcare Trust of America owns medical office buildings, hospitals and assisted living facilities and stands to benefit from strong demand for work space to treat a growing number of patients. Patient volumes have been rising steadily due to the aging population and the Affordable Care Act, which continues to expand the number of insured persons across the US. However, its share price has underperformed since reporting disappointing Q4 2018 results and soft 2019 guidance amid increasing debate about a possible repeal of the Affordable Care Act.

Market Review

Global listed real estate markets rose strongly over the March quarter, generally outperforming broader global share markets as investors shifted capital into more defensive assets, such as listed real estate. This shift was spurred by slowing global growth, central banks becoming more dovish and the subsequent falls in 10-year government bond yields. In particular, US 10-year treasury yields fell significantly over the period, dipping below three-month treasury bills for the first time since 2007.

Data centres were one of the standout performers, especially in the US, boosted by Equinix which reported strong Q4 2018 results with improving margins, stronger pricing power and accelerating revenue growth.

Industrial real estate also started the year well, supported by strong fundamentals. US logistics giant Prologis kicked off the earnings season with a solid result. Its core-funds-from-operations per share rose to US$3.03 for the full-year 2018, from US$2.81 for the full-year 2017, and its balance sheet improved after completing debt refinancing in the fourth quarter of 2018.

Australian logistics power-house Goodman Group showed its ongoing strength in its 1H 2019 results. The company reported better-than-expected performance fees over the period and upgraded its earnings per share growth guidance for financial year 2019 to 9.5%, from 7%. It also noted that it would target a dividend payout ratio in the 'low 50% range', and that the current dividend of A$0.30 per security would be delivered again in financial year 2020, suggesting a double-digit earnings growth outlook.

Office and industrial real estate companies that are growing, such as Australian property funds manager Charter Hall Group, are performing particularly well. The company reported that its 1H 2019 operating earnings grew 13% to A$107.5 million compared to the previous period, and revenue was up 19.5% to A$156 million. It also raised its earning guidance after increasing its assets under management by 22% to A$28.4 billion.

Office markets remain relatively robust, which is especially supportive of those real estate companies with exposure to higher-growth commercial centres. For example, the continued strength of the Central Tokyo office market was highlighted in the February data released by Miki Shoji Corp. In the city's five central wards, average vacancy rates decreased a further 0.04% over the month to just 1.78% and average asking rents increased 0.43% over the month, or 8.21% year-on-year, to ¥21,101 per tsubo per month.

Notwithstanding Brexit-related uncertainty, the Central London office market remains resilient. In particular, high-quality space in London's West End remains in demand. This was reinforced by the recent announcement that The GHS Limited Partnership, one of Great Portland Estates' joint ventures, has pre-let 53,900 square feet of office space in its Hanover Square development, to Glencore, the global natural resource company. This follows its announcement last year that it has pre-let 57,200 square feet to Kohlberg Kravis Roberts & Co. Partners and leaves only 16,500 square feet on the first floor available.

German residentials remain attractive, reporting strong results during the period. For example, Deutsche Wohnen announced its full-year 2018 results, delivering net asset value per security of €42.3, up 18% over the year. The value of its property portfolio increased by €2.2 billion, or 11%, and rental growth reached 3.4%. The company's forward guidance is also positive, with rental growth conservatively estimated at 3%, while its funds from operations is estimated to increase by 12% to €535 million over 2019.

Homebuilders in the US are benefiting from mortgage rates dropping to 13 month lows. Lennar Corporation announced its Q1 2019 results, which showed revenue rose 30% to US$3.87 billion, compared to a year ago and earnings per share climbed to US$0.74, compared to US$0.53 in Q1 2018. These results were lower than the average estimates of analysts, but were well received as they showed increased interest in new home purchases as a result of an improving and stabilising housing market.

More defensive segments in the US, such as net lease and healthcare, remain robust. An illustration of net lease strength was the successful capital raising by Essential Properties Realty Trust. The company issued 14,030,000 shares, raising around US$234.5 million which it will use to repay outstanding borrowings and for general corporate purposes, including potential future investments.

Similarly, an indication of healthcare strength was the capital raising by Healthcare Realty Trust, which issued 3,250,000 shares, raising US$102.1 million for general corporate purposes, including the acquisition and development of outpatient healthcare facilities.

Globally, retail remains under significant pressure and malls in particular are facing challenges. More store closures were announced by US retailers, including: Charlotte Russe liquidating its remaining 416 stores and 10 Peek Kids stores; Family Dollar closing up to 390 stores; and Payless planning to close all of its 2,500 stores in what could be the largest retail liquidation in history.

Hong Kong retail conditions seem to be the exception, with the Census & Statistics Department announcing that the value of total retail sales rose notably in January, up 7.1% year-on-year. This benefitted Wharf Real Estate Investment Company, the owner of Harbour City and Times Square shopping malls, which reported its full-year 2018 results showing underlying net profit, excluding investment properties revaluations, rose 6% year-on-year to HK$10.053 billion. Harbour City remained the key driver of the group's performance, contributing 63% of revenue and 72% of operating profit. With average sales per square foot per month of HK$2,700, the mall is among the most productive in the world.

Outlook

Global listed real estate markets are likely to be further impacted by short-term volatility that is affecting all risk assets, while investor focus remains on trade tensions, the path of global interest rate rises and concerns about slowing economic growth. However, listed real estate plays a defensive role in portfolios and is therefore likely to remain well supported while volatility is high.

Modest global growth, supported by historically low interest rates, is an environment in which global listed real estate is expected to deliver reasonably solid medium-term returns. Opportunities to acquire individual companies at attractive valuation levels may arise in 2019 as geopolitical developments lead to heightened volatility and diverging stock performance.

Office markets in major commercial centres in Europe, Tokyo, Sydney and Melbourne, continue to see rental growth and strong transaction activity. However, retail is expected to remain challenged and see further store closures, especially those in peripheral locations with commoditised market propositions. Long-term structural growth trends in e-commerce and connectivity as well as demographic headwinds are likely to provide growth opportunities in logistics, data centres and healthcare through the business cycle.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1596AU
AMP Flexible Super - Retirement account	AMP1620AU
AMP Flexible Super - Super account	AMP1611AU
CustomSuper	AMP1596AU
Flexible Lifetime - Allocated Pension	AMP1632AU
Flexible Lifetime - Investments (Series 2)	AMP2043AU
SignatureSuper	AMP1602AU
SignatureSuper - Allocated Pension	AMP1626AU

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