

UBS Clarion Global Property Securities

Quarterly Investment Option Update

31 March 2019

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.

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	99.60
Unlisted Property and Infrastructure	-	-
Cash	-	0.40

Regional Allocation	%
North America	63.38
Europe (Ex. UK)	13.97
Japan	8.30
Australia & NZ	2.84
United Kingdom	5.17
Emerging Markets	0.51
Asia Pacific Ex. Japan	5.43

Top Holdings	%
Prologis	3.78
Equity Residential	3.46
Avalonbay Communities	3.33
Link REIT	3.32
Simon Property	2.65
Cubesmart	2.51
Welltower	2.49
Vonovia SE	2.49
Healthcare Trust Of America	2.42
HCP	2.31

Investment Option Commentary

Both absolute performance and relative performance were strong. Strong absolute performance was enhanced by favourable stock selection across all major geographies and most property sectors. In the U.S., sectors and stocks with attractive value relative to their growth outperformed. Relative performance was generated in all property sectors with healthcare, technology, self-storage, and malls being the largest contributors. Positioning in the healthcare sector added value via life sciences company Alexandria Real Estate, a long-time investment which outperformed on continued strong earnings and dividend growth. In the office sector, a position in TIER REIT (up nearly 40% for the quarter) paid off on an all-stock bid from Cousins Properties, another office REIT with portfolios in the southeast and southwest, including Atlanta and Austin. We were the largest investor in TIER REIT.

Positioning in the Asia-Pacific region modestly added value. Performance in Australia was good, by owning outperforming diversified company Mirvac and avoiding the underperforming retail sector. Positions in outperforming Hong Kong real estate company Hong Kong Land added to relative performance while Wharf REIC underweight position was a detractor to performance.

Lastly, stock selection in Europe was good driven by outperforming positions in the U.K, as investors recognize that U.K. property companies may have more than discounted potential Brexit outcomes. Positions in industrial REIT SEGRO and self-storage REIT Safestore were all up in the 20% range.

Changes in positioning during the quarter were largely intra-regional as stocks which scored expensively in our Relative Value Analysis were sold, and those that ranked more attractively were bought. In the U.S., investments in the office sector were modestly increased, with existing positions increased in office REITs Piedmont Office Realty Trust and Vornado Realty Trust. Capital was added to the lodging sector with new positions in Host Hotels, but conversely reduced in the residential and mall sectors, as positions in Sun Communities (residential) and Simon Property Group (malls) were both reduced after outperformance.

Market commentary

Real estate stocks surged in one of their strongest quarters on record. Listed real estate companies generated double-digit performance across the globe for the first three months of 2019 catalysed by a pause in central bank monetary tightening and earnings reports showing that property fundamentals continue to be good. In January, the U.S. Federal Reserve Bank signalled that policy rates will remain on hold pending further data on economic conditions which was widely viewed as a monetary policy pivot. The European Central Bank followed suit by suggesting that policy rates will next be raised in 2020 at the earliest. With interest rates and the yield curve moving lower during the quarter, investors showed renewed interest in buying real estate stocks, an asset class characterized by above average dividend yields. The yield on the U.S. 10-year Treasury bond ended the quarter at 2.42% versus 2.68% at December 31, 2018.

Outlook

Economic growth is improving but decelerating into 2019. The Fund Manager believes this “not too hot, not too cold” economic environment will be good for real estate stocks. The economic expansion will continue this year but is slowing, potentially exacerbated by geo-political risk including Brexit, U.S. trade policy uncertainty, and a slowing/bottoming China. Inflationary pressures although are easing and monetary policy globally is more accommodative.

Real estate companies will generate earnings growth in the 4% range. Earnings growth will remain steady in 2019 versus decelerating earnings growth in broad equities. With earnings of real estate companies generated by contractual leases, the quality and consistency of earnings is high. This contrasts with broad equities which are seeing sharply decelerating earnings growth. The growth in S&P 500 earnings alone is decelerating from 22% in 2018 to less than one-third of this in 2019 versus real estate company earnings which remain in the 4% range. Additionally, real estate dividend yield remains attractive at nearly 4% and will grow again in 2019 at least in-line with earnings.

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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