AMP Capital Global Property Securities

Quarterly Investment Option Update

30 June 2022

Aim and Strategy

The Fund aims to provide total returns (income and capital growth), after costs and before tax, above the FTSE EPRA/NAREIT Developed Index Hedged in AUD Net TRI on a rolling three-year basis.

The Fund provides exposure to a diversified portfolio of global listed real estate, primarily real estate investment trusts, that are listed, or about to be listed, on exchanges globally, focusing on investments in Europe, the Americas and the Asia Pacific. The Fund may also invest in other regions.

Investment Option Performance

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

Investment Option Overview

Investment Category	Global Listed Real Estate
Suggested Investment timeframe	5+ years
Relative risk rating	7/ Very High
Investment style	Fundamental
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Equities	90%-100%	97.9%
Cash	0-10%	2.1%

Sector Allocation	%
Data_Centre	7.3%
Diversified	6.2%
Gaming	3.2%
HealthCare	6.4%
Hotels	2.7%
Industrial	16.5%
Lab_Space	3.5%
Net_Lease	3.2%
Office	10.3%
Resi_Rentals	18.9%
Resi_Sales	4.2%
Retail	6.8%
Self_Storage	7.5%
Towers	1.2%
Cash	2.1%

Top Holdings	%
PROLOGIS INC	7.6%
WELLTOWER INC	4.1%
DIGITAL REALTY TRUST INC	3.8%
ALEXANDRIA REAL ESTATE EQUITIES INC	3.5%
EXTRA SPACE STORAGE INC	3.2%

Investment Option Commentary

Like all risk assets, June and Q2 have remained a challenging period of performance for Listed Real Estate, both on an absolute basis and relative to broader equities as Macquarie saw funding costs continue to move higher as central banks address the challenges of sustained high inflation.

The challenging macro backdrop is at odds with the current strength in real estate fundamentals and the role real estate plays as an inflationary hedge, however the market continues to focus more on the potential recessionary consequence of monetary policy and the impact that could have on these fundamentals if the economy deteriorates further.

Given the macro backdrop, as the quarter progressed and specifically in June there has been a shift in performance into more defensive real estate markets and away from cyclicals. Asia has continued to deliver stronger relative returns versus all other markets, particularly in the developer space which is at odds with cyclical rotation in other regions, as it remains a relative value option and as a consequence greater downside protection for now as global inflation remains elevated. In addition, Asia has begun to play catch up from a re-opening perspective as government restrictions are eased and is supported by more accommodative monetary policy relative to other global markets, so providing somewhat of a place to protect capital in the near term.

Market Commentary

The US REIT Index returned about -5% in June, with Canadian REITs posting -10%. US REITs performed about in line with the S&P with equities bouncing back into month end after a volatile period in which 10yr Treasuries, and most debt maturities across the curve moved significantly higher.

The rates market is pricing almost 7 more rate hikes into year end, which would see the Feds Fund rate at almost 3.5% by Year end. Macquarie would argue that the monetary tightening has been greater overall than the rate hike alone as the Fed is also embarking on 'Quantitative Tightening', reducing the size of its balance sheet investments and effectively reducing overall money supply.

The Fed remains hyper focused on reducing inflation and has thus far managed to thread the needle of slowing economic momentum, taking the top off asset prices, without sparking a jobs recession. Most major commodities have negative price returns month to date, with major agricultural food groups like wheat down double digits, and the all-important oil price has stabilized around ~$110.

All told, inflation breakeven expectations are about flat month to data and terms premium, although still negative, are moving closer to neutral.

Real estate fundamentals remain robust with high occupancies, strong net operating income growth and low levered balance sheets hallmarks of the index. Despite rising debt costs, investment capital markets have proven resilient as well with May commercial real estate volumes up 2.8% year on year when including entity deals. Even after excluding entity deals, volume was only down 1.4% with large upward revisions to both March & April's data. Lodging, retail & apartments continue to experience solid year on year growth, whilst office saw the largest decline. Direct market cap rates continue to stay well bid at about 5.5%, much tighter than the public market which estimates cap rates greater than 6%, with the listed stocks therefore trading at greater than 10% discount to private market transactions.

Much like most risk assets globally, European listed real estate had a volatile and weak month. The index was down circa 12% over the period underperforming both the global listed real estate index and wider Stoxx 600 index. European credit markets also had a particularly difficult month as both rates and credit spreads widened as central banks continue to attempt to curtail inflation and credit investors fear some mix of inflation and recession. Real estate bonds were one of the hardest hit among corporates, with many credit investors scratching their heads. Some postulate that real estate, while not historically dependent on bond markets have become a staple over the last few years, with this high volume and limited history leading to the large spread widening. From a sector perspective it is hard to draw strong correlations as most sectors were hit at some stage during the period. However, from a high level view cyclicals, being office, hotels and retail were hit hardest with traditionally defensive sectors like healthcare, storage and food retailers being relative outperformers. A clearer picture emerged on a country basis, with Sweden, a traditionally risky market, performing worst and defensive Switzerland doing best.

The Hong Kong listed real estate market was flat in June but outperformed the rest of the global market. Due to the USD currency peg, the aggressive Fed tightening, and rising US interest rates resulted in the HK interest rate facing upward pressure. We saw HIBOR spiked from 0.229 to 0.884 during the month, which will cause some pressure on HIBOR-based mortgages.

The Japan listed real estate market fell during June but outperformed the rest of the global listed real estate market, as Japan continues to reopen its borders earlier in the month, allowing inbound tourists. During the month, the market was focused on higher-than-expected inflation in US and resulting aggressive Fed tightening, while Bank of Japan reiterated its ultra-easy monetary policy. The bond market tested the upper end of the target range of +25bps at 10-year government bond yield under BoJ's yield curve control.

Outlook

Macquarie remain focussed on investing in high quality real estate opportunities with a sustainable growth trajectory and allocating our risk budget where possible to stock and sector selection. As the economy transitions to a new macro environment of higher rates, inflationary pressures and the growing risk of recession, the focus on sustainable earnings and quality will make this emphasis even more important.

Availability

Product name	APIR
Signature Super*	AMP1692AU
SignatureSuper – Allocated Pension*	AMP1626AU

*Closed to new investors

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