AMP Capital Global Property Securities

Quarterly Investment Option Update

30 September 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 sharemarkets 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 for each product, please visit www.amp.com.au

Investment Option Overview

Investment category	Property and infrastructure
Suggested minimum investment timeframe	5 years
Relative risk rating	Very High
Investment style	Active
Manager style	Single

Asset Allocation	Benchmark (%)
Listed Property and Infrastructure	100
Cash	0

Actual Allocation	%
International Shares	11.34
Listed Property and Infrastructure	89.24

Sector Allocation	%
Diversified REITs	14.52
Residential REITs	14.02
Industrial REITs	14.00
Office REITs	11.72
Real Estate Operating Companie	9.58
Retail REITs	8.35
Health Care REITs	8.04
Diversified Real Estate Activi	7.78
Specialised REITs	6.86
Hotel & Resort REITs	2.78
Real Estate Development	1.54
Others	1.37

Top Holdings	%
Prologis Inc	4.59
Welltower Inc	3.47
Mitsui Fudosan Co Ltd	3.30
Alexandria Real Estate Equitie	3.22
AvalonBay Communities Inc	2.81
Ventas Inc	2.71
Vonovia SE	2.66
Sun Hung Kai Properties Ltd	2.59
Sun Communities Inc	2.46
VICI Properties Inc	2.06

Region Allocation	%
North America	58.89
Asia	21.68
Europe	15.44
Australasia	4.57

Fund Performance

The Fund produced a strong absolute return in the September quarter and outperformed the benchmark for the period.

On an industry sector basis, asset allocation and stock selection were both positive. Our overweight exposure to the net lease and residential rentals sectors positively contributed to the performance, while our overweight to the diversified sector detracted, despite positive stock selection within the segment. On a regional basis, stock selection in the Asia pacific region was particularly strong.

The Fund's overweight position in Sun Communities Inc was a significant contributor to relative performance. Sun Communities owns and operates a portfolio of manufactured housing communities and recreational vehicle communities primarily in the mid-west and southeast of the US. The market segment overall and the company specifically, possess extremely strong supply and demand fundamentals and continue to have attractive growth prospects. The company's organic growth has been quite stable, supported by growth in average rent and high occupancy levels. The company has enjoyed meaningful external growth via a combination of acquisitions and development and the pipelines remain healthy. During the period, the company reported very strong Q2 2019 results attributed to strong demand, with total portfolio occupancy of 96.6% at the end of Q2 2019, and an increase in revenue-producing sites. The company also increased its earnings guidance for the full-year 2019.

The Fund's overweight position in Goodman Group was a significant detractor from relative performance. Goodman Group is an integrated industrial property group concentrated in Australia, although it also has operations in New Zealand, the UK, Asia and Europe. The company's activities include property investment, funds management, property development and property services. Its portfolio includes business parks, industrial estates, office parks, warehouses and distribution centres. It is likely to be one of the greatest beneficiaries of Amazon's entry into the Australia market and our relative conviction for the business remains. Similar to many other Australian listed real estate companies, during the period the company's share price declined due to the shift of capital into less defensive assets.

Market Review

Global listed real estate markets generally rose over the September quarter, with the US and European markets performing well while Asia Pacific markets posted mixed returns. The Hong Kong market again suffered, as it continued to fall in the face of ongoing local political issues and global trade and economic concerns.

Globally, listed real estate markets were broadly supported as investors sought safe-havens amid heightened concerns about Brexit and the escalating US-China trade dispute, and the likely impact these will have on global economic conditions. Listed property real estate markets also benefitted as central banks eased monetary policy conditions during the period, which saw the US Federal Open Market Committee deliver two cuts of 0.25% apiece to the official target interest rate range at its July and September meetings. US 10-year treasury yields fell to 3-year lows and were down 0.35% to 1.66% during the period.

Most regional listed real estate markets saw continued divergence in returns by segment, with industrial and office names generally performing strongly, while retail names again lagged. In addition, the more defensive segments, such as healthcare, manufactured homes and self-storage performed well, a pattern which was also evident in earnings results announced during the latest reporting season.

Healthy fundamentals from both cyclical and secular perspectives have been a boon for many industrials, as the surging appetite for e-commerce has supported demand for warehouse space. In the US, Prologis reported better-than-expected core funds from operations per security for Q2 2019, up 8.5% compared to the same period last year. Likewise, in the UK Segro delivered strong 1H 2019 results, while Australian logistics giant Goodman Group reported very strong full-year 2019 results and earnings guidance for 2020, as well as a significant expansion of its development pipeline.

Moderate economic growth, together with dovish central banks has supported the office segment, generating rental growth and potential yield compression. During the period, French office landlord Gecina reported strong 1H 2019 results, with better-than-expected net asset value growth of 5%. The company also increased guidance for its full-year 2019 adjusted earnings per share growth and its like-for-like office rental income growth.

In Australia, Charter Hall Group increased its 2019-20 financial year operating earnings per security growth guidance to over 24%, from 14-17% previously. The company also announced that it has formed a partnership to acquire Telstra Corporation's headquarters in Melbourne's central business district for A$830 million, reportedly at a 4.5% capitalisation rate.

In Japan, the latest Miki Shoji Corp data showed that the Tokyo office market remains strong, with a steady vacancy rate in the five central wards and improving asking rents.

During the period, US self-storage landlord Public Storage reported healthy Q2 2019 results, benefiting from low debt levels compared to its peers and domestic operations which are unaffected when external trade tensions arise. Meanwhile, healthcare real estate company Ventas delivered strong Q2 2019 results, benefiting from increasing demographic demand and growth of its portfolio, which led it to increase its earnings guidance for the full-year 2019.

In stark contrast, the retail segment overall has continued to struggle, in particular US malls, with high levels of bankruptcies and store closures so far this year signalling it is more likely there is some way to go, especially for lower-quality malls. However, better located properties continue to benefit at the expense of the weaker properties, with retailers looking to migrate upwards in quality. As a result, retail real estate companies have been net disposers of assets this year.

Significant company specific news in the US came from retail landlord VEREIT, which announced towards the end of the period that it has entered into agreements to settle its outstanding litigation for US$765.5 million. It subsequently held a capital raising of US$887.2 million to finance the settlement. The news was received positively by investors as it reduces uncertainty surrounding the timing and costs of litigation, and allows management to refocus on growing the business.

Merger and acquisition activity overall has remained elevated, underpinned by lower interest rates and increased competition for duration, income-orientated assets.

In Australia, office landlords continue to benefit from strong conditions and good deal flow. For example, Charter Hall Group and Abacus Property Group announced that together, they have entered into a binding agreement to acquire all of the units in Australian Unity Office Fund that they do not already hold.

Later in the period, Japanese residential landlord Advance Residence Investment Corp raised ¥12.5 billion to partially fund the acquisition of assets worth around ¥15 billion, while in Singapore, the listed real estate market was spurred by large-scale acquisitions, including an announcement by Keppel DC REIT of the acquisition of two data centres in Singapore for S$585.1 million, which will be funded by a S$473.8 million equity raising and debt.

Meanwhile, in Germany, Aroundtown announced a potential merger with TLG Immobilien which would create one of the largest commercial real estate companies in Europe. In addition, the Berlin Ministry for Housing published its draft legislation to regulate residential rents in Berlin. The proposed legislation continues to put pressure on the German residential segment and has led to heightened deal activity. For instance, late in the period Vonovia announced that it has further diversified its holdings outside of Berlin by acquiring a 61.2% stake in Swedish residential company Hembla. The fundamentals of the German residential segment remain solid, especially for those companies with holdings diversified outside of Berlin. Demonstrating this, during the period Vonovia, TAG Immobilien and LEG Immobilien all reported strong 1H 2019 results.

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, geopolitical uncertainty 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. When there is a fall in the risk-free rate because central banks around the world are loosening their monetary policy, investors often turn to listed real estate as a reliable alternative for yield and a defensive asset class. Opportunities to acquire individual companies at attractive valuation levels may also arise 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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