AMP Capital Global Property Securities

Quarterly Investment Option Update

31 March 2020

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	10.17
Australian Shares	0.25
Listed Property and Infrastructure	88.27
Cash	1.31

Sector Allocation	%
Industrial REITs	16.61
Residential REITs	15.69
Specialised REITs	13.96
Diversified REITs	10.49
Real Estate Operating Companie	10.24
Office REITs	9.89
Diversified Real Estate Activi	7.96
Retail REITs	6.39
Health Care REITs	5.35
Cash	1.31
Hotel & Resort REITs	1.01
Real Estate Development	0.75
Others	0.36

Top Holdings	%
Prologis Inc	5.94
DIGITAL REALTY TRUST INC	3.80
Alexandria Real Estate Equitie	3.20
Vonovia SE	3.19
PUBLIC STORAGE	3.09
Mitsui Fudosan Co Ltd	2.85
Sun Hung Kai Properties Ltd	2.65
Welltower Inc	2.53
LEG Immobilien AG	2.18
UDR Inc	2.17

Region Allocation	%
North America	56.06
Asia	21.60
Europe	16.88
Australasia	4.15
Cash	1.31

Fund Performance

Amid plunging broader markets due to COVID-19 related fears, the Fund was sharply negative in the March quarter, despite outperforming the benchmark for the period.

On an industry sector basis, asset allocation provided a major positive contribution to the relative performance, with our strategic underweight to the retail sector particularly aiding the relative return. Overall stock selection was also positive. An overweight exposure to the specialised sector and our small cash holding both aided the relative return as markets fell. On an absolute return basis, the portfolio's European holdings performed slightly better than others, though they were still sharply negative, as there was almost nowhere to hide from the broad market falls across listed real estate and other asset classes.

An overweight position in InterXion Holding NV was a significant contributor to relative performance. The company provides co-location services, equipment housing, connectivity services, managed services and performance management in data centres across Europe and its head office is in Amsterdam. Fundamental demand for its services is likely to remain solid over the medium term, especially in Europe and the UK where the data sovereignty laws are among the most severe globally. This will lead to a significant duplication of data strategies across governments and corporates, which will help fuel data centre growth. During the period, US data centre operator Digital Realty Trust completed its takeover of the company and the company's association with data consumption saw it benefit from the extensive containment measures as more people are quarantined in the US and elsewhere.

An overweight position in Ryman Hospitality Properties was a significant detractor from relative performance. Ryman Hospitality Properties is a Nashville, Tennessee-based real estate investment trust that owns large format group hotels. It is a market leader in providing group meetings of over 1,000 delegates in its five oversized convention assets that average just under 2,000 rooms each. The company's hotels are all managed by Marriot International and are strategically concentrated in Orlando, Dallas, Nashville, Washington DC and Denver. Furthermore, with a significant development pipeline completing over the next two to five years, the company is expected to deliver substantial revenue growth. Although this is still the case, there are increasing concerns about the impact of COVID-19 on business confidence and non-essential travel, which has implications for the company's earnings potential over the near term. During the period, the company's share price came under significant pressure alongside other companies in the lodging segment and as investors favoured more defensive investments.

Market Review

Global listed real estate markets generally started the March quarter positively, outperforming broader share markets as investors shifted into defensive assets due to increasing concerns about the impact of COVID-19 on China's economic growth and the flow on impact on global economic growth. However, listed real estate markets lost ground for the remainder of the period, as did broader share markets, with sharp falls experienced as concerns deepened about the spread of COVID-19 outside China and the impact of the extensive containment measures on economic activity. Later in the period, amid highly volatile interest rate markets which saw US 10-year treasury yields drop to record lows, there was however some respite for listed real estate markets following government and central banks announcing policy support.

Performance divergence by segment was significant during the period, as investors generally favoured the more defensive segments such as industrial, data centres and storage, whereas lodging was unsurprisingly hit hard and retail names again lagged on the back of the increasing containment measures. Those segments which saw underperformance also particularly featured amongst the many listed real estate companies during the latter part of the period which withdrew their earnings guidance for financial year 2019-20, and in some cases suspended dividends.

The retail segment has been impacted by social distancing, as malls and shopping centres are usually where a lot of people congregate. This has especially been the case in those malls and shopping centres that evolved to provide entertainment facilities, as non-essential businesses have been forced to close. While it is usually viewed as relatively defensive, the triple-net-lease segment has suffered as a result, due to its higher exposure to restaurants and cinemas. Adding to these woes, consumers who were previously reluctant to shop online are increasingly being compelled to, which is expected to accelerate the long-term transition to online shopping. In what was already difficult conditions, retail landlords are likely to come under pressure as tenants push for rent relief or experience credit issues.

There continued to be merger and acquisition activity in the retail segment, at least up until the latter part of the period when merger and acquisition activity ceased across all segments or has been placed on hold for the time being. During February, notably US regional mall operator Simon Property Group agreed to acquire an 80% interest in its rival Taubman Centers, through The Taubman Realty Group Limited Partnership vehicle, at a significant premium to the latter's pre-announcement closing price and total enterprise value.

One listed real estate market which fared relatively better overall during the period was Hong Kong, which saw most retail landlords offering rental concessions during February for their tenants being affected by COVID-19. For instance, Hang Lung Properties set up a relief fund and offered a 50% rental concession to its mainland China mall tenants to ease operational pressures. The company has also extended its rental relief made to Hong Kong tenants since the second half of 2019 due to the social unrest, based on individual situations.

Meanwhile, segments which facilitate data usage, such as towers and data centres outperformed, because they are the main beneficiaries of the extensive COVID-19 containment measures. As millions of people are quarantined and told to stay home, many are turning to the internet to work, communicate and relieve boredom.

The industrial segment is usually more leveraged to the economy but is experiencing increased activity due to online shopping requirements as companies reorganise their supply chains and need to be closer to the consumer. This highlights the desire for less reliance on China and more inventory and warehouse space in future. While the COVID-19 concerns seemed to outweigh many earnings releases, some companies were supported by solid results announced during the period. Australian logistics giant Goodman Group reported very strong 1H 2020 earnings per security and upgraded its full-year 2020 earnings per security growth guidance, driven by strong development returns.

The office segment has been mixed, as the impacts of COVID-19 are assessed as part of the medium to long-term decision making by corporates. For instance, long-term office leases may not be needed after the massive work-from-home 'experiment' is over if employees are able to effectively do their jobs from home. Shared workspace organisations, such as WeWork, could become stretched as they are locked into long-term liabilities, but provide short-term leases to their tenants.

Storage is usually perceived to be a defensive segment and many storage companies have strong balance sheets which provided support.

Elsewhere, in Germany the controversial Berlin rent-freeze finally began during the period, as part of the much-discussed regulations came into effect. While Berlin's government has pointed to the changes aiding affordability for its residents, the regulations have been criticised by others as being anti-capitalist in nature. The story will be closely watched by investors, with residential companies such as Deutsche Wohnen likely to be in focus over the coming year to help gauge initial impacts.

Outlook

Global listed real estate markets will likely be subject to near-term volatility, which is affecting all risk assets, due to deepened concerns about the spread of COVID-19 and the impact of the extensive containment measures on economic activity in the US and globally. We have reduced risk in segments that are directly impacted, such as lodging, and we will continue to assess and actively manage these risks, as well as those in segments that are indirectly impacted as additional information becomes available.

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. We expect this to happen once the extensive containment measures have been relaxed and economic activity begins to recover. Opportunities to acquire individual companies at attractive valuation levels may arise as geopolitical developments lead to heightened volatility and diverging stock performance.

However, retail is expected to remain challenged and see further store closures, especially those in peripheral locations with commoditised market propositions. Growth in online shopping, connectivity and data usage are likely to provide opportunities in logistics and data centres 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

Contact Details

Web: **www.amp.com.au**
Email: askamp@amp.com.au
Phone: 131 267

INSIGHTS
IDEAS
RESULTS

What you need to know

This publication has been prepared by AMP Life Limited ABN 84 079 300 379, AFSL No. 233671 (AMP Life). The information contained in this publication has been derived from sources believed to be accurate and reliable as at the date of this document. Information provided in this investment option update are views of the underlying Investment Manager only and not necessarily the views of the AMP Group. No representation is given in relation to the accuracy or completeness of any statement contained in it. Whilst care has been taken in the preparation of this publication, to the extent permitted by law, no liability is accepted for any loss or damage as a result of reliance on this information. AMP Life is part of the AMP Group. In providing the general advice, AMP Life and AMP Group receives fees and charges and their employees and directors receive salaries, bonuses and other benefits.

The information in this document is of a general nature only and does not take into account your financial situation, objectives and needs. Before you make any investment decision based on the information contained in this document you should consider how it applies to your personal objectives, financial situation and needs, or speak to a financial planner.

The investment option referred to in this publication is available through products issued by AMP Superannuation Limited ABN 31 008 414 104, AFSL No. 233060 (ASL), AMP Capital Funds Management Limited ABN 15 159 557 724, AFSL 426455 (AMPCFM), ipac asset management limited ABN 22 003 257 225, AFSL 234655 (ipac) and/or AMP Life. Before deciding to invest or make a decision about the investment options, you should read the current Product Disclosure Statement for the relevant product, available from the issuer or your financial planner.

Any references to the "Fund", strategies, asset allocations or exposures are references to the underlying managed fund that the investment option either directly or indirectly invests in (AMP Capital Global Property Securities). The investment option's aim and strategy mirrors the objective and investment approach of the underlying fund. An investment in the investment option is not a direct investment in the underlying fund.