UBS Clarion Global Property Securities

Quarterly Investment Option Update

31 March 2020

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
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Listed Property and Infrastructure	100	98.87
Cash	0	1.13

Regional Allocation	%
North America	62.24
Europe (Ex. UK)	13.80
Japan	10.81
Australia & NZ	2.22
United Kingdom	5.08
Asia Pacific Ex. Japan	4.71

Top Holdings	%
Prologis	6.90
Equity Residential	3.73
Healthpeak Properties	3.04
Vonovia	3.00
Avalonbay Communities	2.95
Duke Realty Investments	2.63
Healthcare Trust Of America	2.60
Alexandria Real Estate Equities	2.43
Equinix	2.42
Crown Castle	2.28

Investment Option Commentary

Absolute performance was quite negative for the quarter, but relative performance was very strong. All three regions generated significant positive relative performance for the quarter. Outperformance in the North American region was driven by positioning in the healthcare, hotel, mall, and technology sectors. In the healthcare sector, the investment manager have been underweight senior housing and skilled nursing since the beginning of the year as a result of a lack of earnings growth, concerns about new supply in senior housing, and unattractive valuations.

The portfolio was also underweight hotels since the beginning of the year, given the investment manager's cautious view of the earnings outlook for the sector. There have been dramatic disruptions to travel in the current environment which has put the hotel business and stocks under immense pressure.

Elsewhere, "technology real estate" (data centres and communication towers) materially outperformed for the quarter. The technology real estate sector was the best performing sector for the quarter.

The Asia-Pacific Region had positive relative outperformance driven by good stock selection. In Australia, the outperformance was the result of not owning retail landlords Vicinity and Scentre Group. Retail fundamentals were challenged by the growth of e-commerce and have been worsened by the social distancing required for combating COVID-19. In Japan, the investment option benefited from overweighting the outperforming industrial J-REITs and underweighting the underperforming retail and hotel J-REITs.

In Europe, they outperformed for the quarter due to good stock selection. In the U.K., Segro (Industrial Logistics), Derwent London (London's West End properties), Safestore and Big Yellow (storage) and Grainger (residential) all outperformed. On the Continent, outperformance was driven by an overweight to residential stocks LEG (German), Grand City (German) and Kojamo (Finnish), and to industrial stocks (Tritax and Warehouses DePauw). They also benefited from an underweight across the region to underperforming retail stocks.

Market Commentary

Real estate stocks fell materially in March and for the first quarter, as a recession induced by the COVID-19 pandemic and the related social distancing measures began to take shape. Investors sought liquidity in the stock markets around the world in March, there was not a material differentiation among the regional performances for real estate stocks in the pullback. Hong Kong performed better in March due mostly to having experienced the impact of COVID-19 in both day-to-day life and the stock market earlier than the rest of the world.

Despite poor performance during the month and quarter, real estate securities should fare relatively well in this environment given comparatively stable cashflows, attractive yields, and quality balance sheets. No company will be totally immune from either an economic recession or the effects of COVID-19, but after recent price declines there are resilient regions, property sectors, and companies that the investment manager find very attractively priced after recent price declines.

Outlook

UBS Clarion believes the first quarter sell-off in real estate securities provides long-term investors an opportunity to invest in high-quality real estate assets at discounted valuations. Based on their proprietary valuation tools, they believe that real estate securities are cheap relative to the private real estate market, the fixed income market, and the broader stock market. It is atypical for real estate securities to be "cheap" relative to all three asset classes at the same time. Real estate stocks are trading at a global average -21% discount to private market real estate value (i.e., NAV), with an implied unleveraged cash flow yield of 6.2%. In the U.S., the spread between implied cap rates and Baa corporate bonds is an eye-popping +160 basis points versus a long-term average of +80 basis points. Outside the U.S., these spreads are also historically wide. Relative to the broader stock market, REITs look cheap as well. The forward multiple of global REIT earnings is -1.9x below the Price to Earnings ratio of the MSCI World Equity Index; normally the multiples are the same.

CBRE Global Investors economic forecast calls for a sharp global recession in the first half of 2020, followed by a partial rebound in the second half of 2020, and positive growth in 2021. They believe that the monetary and fiscal measures being introduced around the globe will help mitigate the depth and length of the recession resulting from the COVID-19 pandemic.

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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