AMP Capital Global Property Securities

Quarterly Investment Option Update

30 June 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	10.99
Australian Shares	0.38
Listed Property and Infrastructure	87.98
Cash	0.65

Sector Allocation	%
Industrial REITs	18.68
Residential REITs	17.26
Specialised REITs	10.82
Office REITs	9.76
Real Estate Operating Companie	9.65
Diversified REITs	9.00
Retail REITs	7.92
Diversified Real Estate Activi	7.41
Health Care REITs	6.09
Hotel & Resort REITs	1.42
Real Estate Development	0.69
Others	0.66
Cash	0.65

Top Holdings	%
Prologis Inc	6.57
Vonovia SE	3.49
DIGITAL REALTY TRUST INC	3.28
Alexandria Real Estate Equitie	3.00
Mitsui Fudosan Co Ltd	2.77
Sun Hung Kai Properties Ltd	2.46
UDR Inc	2.25
Welltower Inc	2.13
Equity Residential	2.06
Invitation Homes Inc	2.05

Region Allocation	%
North America	56.58
Asia	20.63
Europe	17.06
Australasia	5.08
Cash	0.65

Fund Performance

The Fund produced strong return for the June quarter, though slightly underperformed the benchmark as markets bounced back from their March lows.

On an industry sector basis, asset allocation and stock selection were negative for the quarter. An overweight exposure to the residential rentals sector was a significant positive contributor to relative performance, while and underweight allocation to high barrier CBD property detracted. On an absolute return basis, the portfolio's US holdings were the strongest performers, though the portfolio's European and Asia Pacific holdings also performed well.

An overweight position in Spirit Realty Capital Inc was a significant contributor to relative performance. The company invests in single-tenant, operationally essential real estate throughout the US that is leased on a long-term, triple-net basis primarily to tenants engaged in retail, service and distribution industries. We believe that further growth will be derived from acquisitions, where the market pipeline is deep and the company has a good track record. It recently reported solid Q1 2020 results and announced that it collected approximately 70% of its rent in April. During the period, the company's share price rose as it is expected to start recovering as lockdown measures are lifted.

An overweight position in Japan Real Estate Investment Corp was a significant detractor from relative performance. The Japan-based company aims to achieve stable earnings over the medium to long term through investment in office buildings and other assets mainly located in the Tokyo metropolitan area and other major cities. It has a conservative financial approach and maintains a low debt ratio. During the period, while there was no significant company-specific news, the company underperformed along with the broader Japanese listed real estate market as the nation saw relatively slow and gradual reopening from soft lockdown measures, with office landlords also being negatively impacted by enduring longer vacancies, as outlined previously in this report.

Market Review

Global listed real estate markets generally rallied for most of the June quarter, in response to the ongoing significant economic stimulus provided by policymakers globally and as mandatory COVID-19 lockdowns began to be lifted. However, towards the end of the period markets retreated somewhat as some countries, especially the US, reported a 'second wave' of new infections, suggesting further lockdowns could be imminent. Hong Kong's listed real estate market lagged other markets after suffering a correction which was triggered by concerns about China's influence and whether sufficient autonomy can still be afforded the city. US 10-year treasury yields fell slightly early in the period, but by the end of the period were just one basis point lower at 0.66%.

Earlier in the period, the highly uncertain environment saw many listed real estate companies continue to withdraw their earnings and dividend guidance, with the reporting of March quarter results being typified by many companies announcing lower dividend payments or suspending dividends in order to preserve cash. Several companies also drew down on their lines of credit to boost cash holdings, especially in the retail segment. However, the results announced covered a period prior to mandatory lockdowns and so were not fully indicative of their resilience or weakness. Throughout the period, many companies also opportunistically raised capital or renewed and extended debt facilities to maintain liquidity, fund acquisitions and improve their balance sheets.

The ongoing pressure being experienced by much of the struggling retail segment was evident during April, when Moody's Investors Service placed the credit rating of Australia's Scentre Group on 'negative outlook,' citing COVID-19 containment measures and liquidity as key risks. In response, the company obtained additional unsecured bank facilities to boost liquidity. Meanwhile in the US, retail malls had the worst operating conditions, as mandatory lockdowns limited tenants' ability to pay rent.

In the UK, further confirmation of retail weakness was seen when Hammerson announced a major transaction involving seven retail parks failed to go through as the vendor withdrew from the sale, despite the previous exchange of unconditional contracts.

However, during June the retail segment was the main beneficiary of the lifting of mandatory lockdowns. In the US, net lease, regional malls and shopping centres have all benefited from increased foot traffic and retail spending. That said, more pain is on the horizon as several retailers, such as Apple, reclosed some of their stores in southern US states.

Simon Property Group has sought to use the impact of the COVID-19 lockdowns to back away from its US$3.6 billion deal to acquire Taubman Centers. Simon Property Group claims that Taubman Centers breached a covenant of the deal because the pandemic disproportionately affected the latter's operations and it failed to take timely action to lay off staff or cut executive compensation to reduce expenses. The deal will be decided in the courts later this year, with a renegotiation of terms expected.

The office segment has held up relatively well overall. For instance, in Australia Charter Hall Group announced its 2H 2020 distribution, which was higher than its full-year 2019 distribution per share and in line with its full-year 2020 guidance. This followed news during May that the value of its office portfolio had fallen by only 0.5%.

In Germany, alstria office REIT delivered decent Q1 2020 results, maintaining its short-term earnings guidance given the minimal impact it had seen from COVID-19 containment measures thus far. However, it did not rule out making a future adjustment.

In Japan, office landlords are assuming longer downtime for vacant spaces, with the latest Miki Shoji Corp data showing that the office vacancy rate in Tokyo's five central wards rose by 0.08% over the month to 1.64% in May, up for a third straight month.

The residential segment has been mixed. In the US, apartment landlords continued to struggle on lower demand, which put pressure on occupancy and new lease rent increases, especially in urban locations. However other residential, such as single-family rentals and homebuilders, performed well with record occupancy and new home sales stimulated by low interest rates.

In Germany, LEG Immobilien announced the acquisition of two residential unit portfolios, the largest from Deutsche Wohnen. According to LEG Immobilien, around two thirds of the units are in high-growth markets and a third are in stable markets.

Meanwhile the industrial segment has benefited from accelerating structural change. In Australia, Goodman Group provided a strong update for the March 2020 quarter, reaffirming its full-year earnings and dividend per share guidance, citing increased demand for temporary and permanent space. It also acknowledged that medium-term tailwinds, including e-commerce, data usage and higher inventory levels were accelerating.

The data centre segment remains strong and is very defensive as demand has grown significantly.

The healthcare segment generally performed well, with company performance varying depending on the types of asset held. In the US, life science assets are experiencing strong demand from existing tenants, underpinned by funding from both government and private sources. Medical offices have been resilient, although tenants have been affected by patients postponing non-essential medical visits. Skilled nursing is under pressure because of the 'at-risk' population, although it is supported by government reimbursements. Senior Housing remains challenged due to lower occupancy and higher expenses.

The lodging segment was weak, as occupancy levels and revenue per available room dropped, with prospects not improving by the end of the period as further lockdowns loom.

Outlook

Global listed real estate markets will likely be subject to near-term volatility, which is affecting all risk assets, due to the impact of extensive COVID-19 containment measures on economic activity 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. However, this has not occurred yet due to the challenges some segments of real estate face because they are usually places where people gather. 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 Super	AMP1611AU
AMP Flexible Super - Retirement	AMP1620AU
CustomSuper	AMP1596AU
Flexible Lifetime - Allocated Pension	AMP1632AU
Flexible Lifetime - Investments (Series 2)	AMP2043AU
Flexible Lifetime - Super	AMP1596AU
SignatureSuper	AMP1602AU
SignatureSuper - Allocated Pension	AMP1626AU

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