UBS Clarion Global Property Securities

Quarterly Investment Option Update

31 March 2021

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/performance

Investment Option Overview

Investment Category	Property and Infrastructure
Suggested Investment timeframe	5 years
Relative risk rating	7 / Very High
Investment style	Active
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Listed Property and Infrastructure	100	97.98
Cash	0	2.02

Regional Allocation	%
North America	62.61
Europe (ex. UK)	12.28
Japan	8.16
Australia & NZ	4.06
United Kingdom	4.81
Asia Pacific ex Japan	5.30
Other	0.76
Cash	2.02

Top Holdings	%
Prologis	5.86
Simon Property Group	4.94
Extra Space Storage	3.92
CubeSmart	3.45
Duke Realty Investments	3.34
Camden Property Trust	3.13
American Tower	3.12
Vonovia	2.79
Ventas	2.31
Vereit	2.28

Investment Option Commentary

The fund outperformed the benchmark for the quarter. After generating strong relative performance throughout 2020, the portfolios continued to deliver relative outperformance in 2021. During the first quarter, positioning in the Americas and Asia-Pacific were the key drivers of relative outperformance.

In the U.S., positive relative performance was driven by positioning in the mall, storage, and data centre sectors. In the mall sector, an overweight of Simon Property Group generated outperformance as the stock was up 35% for the quarter. In the storage sector, the fund shifted to an overweight during 4Q20, capturing an acceleration of both revenue and earnings growth in 2021 that was not being priced-in by the market. Storage companies raised 2021 earnings guidance in mid-February, propelling the sector to outperform for the quarter and the fund's overweight to the two best performing storage stocks, Extra Space and CubeSmart, contributed positively to stock selection. The portfolio moved to an underweight of the data centre sector in 3Q20. Data centre stocks were a material laggard in 1Q21 as earnings guidance was lacklustre relative to expectations.

In the Asia-Pacific region, positive relative performance was led by stock selection in Australia. A position in small-cap necessity-based retail landlord Home Consortium was a stand-out performer, up 12% for the quarter.

Market Commentary

After a very difficult 2020, real estate stocks were up 6.7% for the first quarter of 2021, modestly outpacing the MSCI World Equity Index. Since the global pandemic arrived approximately one year ago, real estate stocks have lagged the broader stock indices as public market investors discounted a very difficult operating environment for real estate landlords.

Economic conditions are rapidly improving. With COVID vaccine distribution accelerating in most parts of the world, combined with government stimulus and central bank backstops for capital funding markets, investors appear to be pricing in a strong economic bounce in 2021 and a durable economic recovery beginning in 2022. All of these factors are good news and real estate landlords and real estate stocks will be a beneficiary.

CBRE Global Investors' economic forecast calls for improving growth in 2021. Along with the success of vaccine distribution, the monetary and fiscal measures implemented around the globe will help accelerate the economic recovery. The U.S. Federal Reserve is implementing monetary policy to promote growth and provide liquidity to the credit markets. The Biden Administration will likely enact economic stimulus packages to help the unemployed, pursue a pro-growth economic agenda, and rebuild America's infrastructure. Assuming the vaccines and health policies are effective and that the global economy can re-open in 2021, it is estimated that earnings for real estate stocks will grow in excess of 5% in 2021 and over 7% in 2022.

It is unlikely rising interest rates will disrupt the positive total return outlook for real estate stocks for three primary reasons: 1) CBRE Global Investors' economic forecast projects that market-based interest rates will rise only moderately through the course of 2021, with no central banks raising interest rates during the year; 2) the historically wide yield spreads between real estate stocks and fixed income instruments provide a substantial cushion should interest rates rise above current expectations; and 3) the short-term positive correlation between real estate stocks and interest rates has broken down during the pandemic. In 2020, real estate stocks were negative while interest rates fell. Real estate stocks are acting as an "economic re-opening sector," so it is likely that a measured increase in interest rates as an indicator of economic recovery will be a positive for real estate stock performance.

One potential risk for the broader equity markets is the direction of the corporate tax rate in the U.S. With U.S. spending programs being passed and budget deficits soaring, it seems reasonable to assume that the Biden Administration will likely propose a plan to increase corporate tax rates in the U.S. At a minimum, it is possible that the plan will just eliminate the corporate tax rate cuts put in place by the Trump Administration in 2017. It is interesting to note in 2017 real estate stocks materially underperformed the broader stock market as the Trump corporate tax rate cut was introduced and passed. Because REITs do not pay taxes at the corporate level, they received no benefit from the Trump corporate tax rate cut, which is presumably why REITs underperformed both the broader market and most sectors which did receive tax rate cut benefits. If a corporate tax rate increase is passed in late 2021 or early 2022, REITs are well positioned as they will not be affected.

Outlook

Real estate securities valuations continue to be compelling relative to private real estate, fixed income, and broader stock markets. It is unusual for real estate securities to be “cheap” relative to all three of these asset classes at the same time. These types of valuation disparities in the past have often been followed by periods of very strong absolute and relative performance of listed real estate.

The fund holds a well-balanced portfolio of securities that have been screened for growth prospects in combination with the quality of business models, assets, balance sheets, and management teams. In the U.S., towers, industrial, retail, and storage are preferred areas of the market. In Japan, mid-cap office stocks that are providing earnings resiliency are at very attractive relative valuations. In Hong Kong, the fund is overweight residential companies, diversified companies with a residential bias, non-discretionary retail, and decentralized office. In Australia, the fund has a preference for residential, industrial, and a few select value-oriented companies. In the U.K., the are opportunities in storage, industrial, and residential sectors. In Continental Europe, the fund holds German residential companies, and mid to small cap stocks in Germany and the Nordics.

Availability

Product Name	APIR Code
AMP Flexible Super - Super	AMP2029AU
AMP Flexible Super - Retirement	AMP2024AU
CustomSuper	AMP1999AU
Flexible Lifetime - Super	AMP1999AU
Flexible Lifetime - Allocated Pension	AMP2004AU
Flexible Lifetime - Term Pension	AMP2019AU
Flexible Lifetime - Investments (Series 2)	AMP2035AU**
SignatureSuper	AMP2009AU
SignatureSuper - Allocated Pension	AMP2016AU

**Closed to new and existing investors

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