AMP Capital Global Property Securities

Quarterly Investment Option Update

30 June 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	12.46
Listed Property and Infrastructure	85.92
Cash	1.61

Sector Allocation	%
Diversified REITs	15.71
Industrial REITs	15.63
Residential REITs	13.38
Office REITs	11.85
Real Estate Operating Companie	9.01
Retail REITs	7.76
Diversified Real Estate Activi	7.50
Health Care REITs	7.32
Specialised REITs	5.03
Hotel & Resort REITs	2.84
Real Estate Development	1.84
Cash	1.61
Others	0.51

Top Holdings	%
Prologis Inc	5.23
Mitsui Fudosan Co Ltd	3.41
Alexandria Real Estate Equitie	3.27
Goodman Group	3.27
Vonovia SE	3.22
Welltower Inc	3.14
AvalonBay Communities Inc	3.14
Sun Hung Kai Properties Ltd	2.57
Sun Communities Inc	2.17
BOSTON PROPERTIES INC	2.05

Region Allocation	%
North America	55.96
Asia	20.56
Europe	15.73
Australasia	6.14
Cash	1.61

Fund Performance

The Fund produced a positive return in the June quarter and outperformed the benchmark, which was negative.

On an industry sector basis, asset allocation was positive, though stock selection were negative. Stock selection within the residential rentals sector made a significant contribution, as did our overweight allocation to the industrial sector. An overweight allocation to the residential rentals sector also contributed positively.

The Fund's overweight position in Goodman Group was a significant contributor to 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. Its activities include property investment, funds management, property development and property services. Its portfolio includes business parks, industrial estates, office parks and warehouse/distribution centres. The company is likely to be one of the greatest beneficiaries of Amazon's entry into the Australia market and in December 2018 it announced a new logistics park in the Ile-de-France region. During the period, the company hosted its annual investor day and indicated that demand for logistics assets in its operating markets remains solid and this boosted its share price.

The Fund's overweight position in Taubman Centres Inc was a significant detractor from relative performance. Taubman Centers owns, develops, acquires, leases and manages regional, super-regional and outlet shopping centres in the US and Asia that have relatively high productivity. US regional mall segment has underperformed the market recently as the market discounts slower rental growth as e-commerce continues to take market share and a number of retailers file for bankruptcy. More specifically, during the period, Taubman Centers underperformed the market after reporting worse than expected revenue.

Market Review

Global listed real estate markets posted mixed returns over the June quarter, with the US market fairly flat, European markets down moderately and Asia-Pacific markets up significantly. Global listed real estate markets were impacted by short-term volatility that is affecting all risk assets, amid ongoing trade tensions, geopolitical uncertainty and concerns about slowing economic growth. During the period, the US Federal Reserve officially ended its Monetary Policy tightening cycle and guided towards interest rates cuts by the end of the year. US 10-year treasury yields fell to 21-month lows and were down 0.40% to 2.01% over the period.

Despite the threat from trade tensions, industrials continued to be supported by strong fundamentals as the structural shift to e-commerce sees companies reconfigure their supply chains and take up more space in warehouses. US logistics giant Prologis benefitted from this, announcing stronger-than-expected Q1 2019 results, despite being generally lower than its Q1 2018 results. It also increased its full-year guidance to reflect its strong performance and more optimistic outlook. In addition, the company was rumoured to be vying to buy the US operations of Singapore-based warehouse owner GLP, in a deal worth roughly US$20 billion.

Similarly, Australian logistics-giant Goodman Group provided a positive Q3 2019 operations update during the period. The company reported improving operating conditions, which are expected to benefit its full-year 2020 earnings. It also reported development work-in-progress in excess of A$5 billion which will benefit development earnings beyond 2020, as well as increase assets-under-management to over A$45 billion by full-year 2019.

Lower interest rates expedited merger and acquisition activity over the period. For instance, a large transaction was announced by The Blackstone Group, which has agreed to acquire assets from Japanese logistics company GLP's three funds for US$18.7 billion. This overall transaction nearly doubles the size of The Blackstone Group's existing US industrial footprint. Also, Blackstone Real Estate Income Trust has agreed to purchase a 90% stake in a portfolio of single-tenant, data-centre shell properties from Corporate Office Property Trust for US$238.5 million.

Meanwhile in Europe, the UK underperformed, as ongoing Brexit uncertainty and the resignation of Prime Minister May weighed on sentiment. In addition, listed real estate companies with exposure to the Berlin residential market were down significantly, with several, such as ADO Properties and Deutsche Wohnen, posting falls of more than 20%. The weakness occurred after the Berlin Senate approved four key points in proposed legislation to regulate residential rents. The proposed legislation is still not final and has a few more hoops to jump through before becoming law in January 2020. If it is successful, it will be applied retroactively as of 18 June 2019. It is anticipated it will cover approximately 1.5 million existing rental apartments, with rent-restricted units and new constructions the only exclusions.

Political upheaval in Hong Kong particularly affected the residential market there, driving weekly transaction volumes down to their lowest since the start of the year. The subsequent announcement that the proposed extradition laws had been suspended was a welcome reprieve.

Office conditions in major commercial centres in Europe, Asia and Australia remain strong. For example, the strength of office market in Hong Kong was demonstrated by commercial property giant Swire Properties which announced the sale of its entire 50% interest in a commercial building located in North Point for HK$2.375 billion. The disposal gain is expected to be an impressive HK$965 million.

In Japan, the May Miki Shoji Corp data continued to highlight the strength of the Central Tokyo office market. In the city's five central wards, average vacancy rates remained at low levels of just 1.64%, while average asking rents increased for the 65th consecutive month, up 0.6% in May to ¥21,396 per tsubo per month.

Meanwhile, the UK retail segment remained under pressure. Fashion retailer Arcadia Group is reported to have secured backing for a restructuring plan following approval at a meeting of creditors. The plan is said to entail the closure of 23 stores, with rents on a further 194 stores reduced by up to 70%. Landlords who voted in favour of the plan will share around £40 million from a compensation fund, and if Arcadia Group is sold they will receive 20% of any equity value ascribed to it.

Retail conditions in Asia have also softened, with Hong Kong retail sales falling 4.5% in April and 1.3% in May, compared to the same periods last year, and Singapore retail sales, excluding motor vehicles, declining 1.5% in March and 2.0% in April, compared to the same periods last year.

Towards the end of the period, the US listed real estate market was buoyant and several companies took advantage of this to raise equity capital. For instance, casino property specialist VICI Properties commenced a public offering of US$2.15 billion worth of new equity capital, or over 20% of its market capitalisation, to finance a transaction with Eldorado Resorts and the acquisition of five additional casinos.

Investment giant The Blackstone Group placed a large holding of housing services provider Invitation Homes on the market in a secondary offering of around 40 million shares, which is equivalent to over 7% of Invitation Homes' market capitalisation. This was the first time the company had issued equity since its initial public offering in 2017.

In addition, there was a significant amount of new equity issued by companies using their at-the-market programs, which allows them to raise capital incrementally and fund smaller transactions.

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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