

#23

FOR ADVISERS & INVESTORS

Winter issue 2019

FEATURES

THE ETHICS OF INVESTING IN SOCIAL MEDIA

INVESTMENT CORNER – THE CHANGING ROLE OF BENCHMARKS

PRODUCT SPOTLIGHT – AMP CAPITAL GLOBAL PROPERTY SECURITIES FUND

Opportunities in global listed real estate



Features

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Image: Goodman Interlink,
Hong Kong – Goodman Group

Cover image: Goodman ATL
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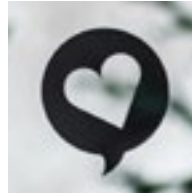


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AMP Capital Global Property Securities Fund



Welcome

Kia ora

AND WELCOME TO THE 2019 WINTER
ISSUE OF TAKING STOCK.



Bevan Graham
NZ Managing Director
& Chief Economist

It's been a great start to the year for us with AMP Capital's fixed income team winning the Morningstar Fixed Interest Fund Manager of the Year award for 2019. This award recognises the continuing success of our fixed income strategy and the outstanding performance of the NZ Fixed Income team.

On the subject of awards, we were delighted to sponsor the People's Choice Community Changemaker Awards through our partnership with Philanthropy New Zealand. The awards deservedly went to RAW (Reclaim another woman) for their work with disadvantaged women, and WhyOra for its work to boost the number of Māori working in health. We are very proud to sponsor these awards and to recognise projects that have achieved positive change in New Zealand.

The main theme for this issue is global property, and in particular the listed property sector. Following the recent visit by our Head of Global Listed Real Estate, James Maydew, the lead story looks at the opportunities in global listed real estate and the role this asset class can play in the current low interest rate environment. You can also take an in-depth look at AMP Capital's Global Property Securities Fund in the Product Spotlight section.

On a more serious note, the Christchurch shootings in March has put social media companies under the spotlight and their management of the content they host. Our ESG team had already been engaging with social media companies on offensive content and ethical issues. But following the shootings and the Christchurch Call, AMP Capital joined forces with a group of over 60 New Zealand and international companies calling for action on the monitoring of extremist content and livestreaming, to prevent such content from being uploaded to social media. In April we also announced that AMP Capital New Zealand would be divesting from companies involved in the production of civilian firearms, a move which complements our existing firm-wide controversial weapons policy.

Against this background, it is more important than ever we continue to focus on responsible investment and the integration of environmental, social and governance (ESG) across our asset classes. In July we changed the name of our Responsible Investment Leaders (RIL) range of funds to 'Ethical Leaders' to better reflect the ethical philosophy underpinning our responsible investments. The basic structure of the funds has not changed, but the emphasis on ethical investing has evolved over time so the name change recognises this greater ethical focus. Make sure you visit the responsible investing page of the website to view the changes and updated resource material.

I hope you enjoy this latest issue of Taking Stock and look forward to sharing more insights, ideas and perspectives over the remaining year.

Ngā mihi

A handwritten signature in dark ink, appearing to read 'B. Graham', written in a cursive style.

News

WHAT'S BEEN HAPPENING AT AMP CAPITAL

Philanthropy Summit 2019

Undoubtedly the highlight of the Summit was the final keynote presenter of the event, Dr Jane Goodall.



As part of our long-standing partnership with Philanthropy New Zealand we were proud to support their Summit event held at Te Papa in May. With over 500 delegates attending, including many of our clients, it was a fantastic three days of interesting and inspiring speakers.

With interest growing in the impact investing space in New Zealand, ESG Investment Specialist NZ, Rebekah Swan, and Co-Head of Sustainable Investment, Emily Woodland, presented an educational workshop session on this emerging theme. It was great to see a full room of attendees for this and some valuable discussion on what impact investing can achieve.

Undoubtedly the highlight of the Summit was the final keynote presenter of the event, Dr Jane Goodall. To have a speaker of this calibre tell her story and emphasise the environmental challenges the world is facing shows why the Summit event is a key highlight in the calendar. Congratulations to Philanthropy New Zealand for staging such a successful event.

Philanthropy Summit 2019

Bevan Graham speaking
at the Philanthropy
New Zealand 2019
Awards



AMP Capital People's Choice Awards for Community Changemakers

Congratulations to the finalists across all award categories on the night. We were proud to support and recognise some special people driving change in grass-roots community organisations.

Another highlight of this year's Philanthropy Summit was the Philanthropy New Zealand 2019 Awards announced at Parliament. These awards recognise outstanding achievement, innovation and leadership in the philanthropic and grant-making sector.

We presented the AMP Capital People's Choice Award to two worthy category winners on the night. The Community Organisation award was presented to RAW (Reclaim Another Women), who support women emerging from incarceration with the support they need to turn a life of crime into a life of promise. The Kaupapa Māori Community Organisation award went to WhyOra, a Taranaki organisation dedicated to boosting the number of Māori working in health.

Congratulations to the finalists across all award categories on the night. We were proud to support and recognise some special people driving change in grass-roots community organisations.

Collaborative engagement on social media

In relation to the Christchurch terror attacks, AMP Capital was pleased to join the NZ Super-led shareholder engagement initiative aimed at pressuring social media companies to strengthen controls on objectionable content.

This collaborative shareholder engagement brings together 62 companies (30 from New Zealand and 32 international) to collectively call on social media companies to take more responsibility for what is published on their platforms, and to strengthen controls to prevent this sort of material being uploaded and shared.

As an issue that we feel very strongly about, it was important to join on behalf of our clients. While we believe social media can provide a public good, this is being compromised through nefarious usage. Our preference in this situation is to use our voice as a shareholder as fully as possible to ensure these social media companies know that we expect change, rather than to divest. Collective action from multiple investors is the most impactful, and the combination of New Zealand's investor voice and a global coalition of shareholders will be immensely powerful.

An Engagement Plan has been agreed by the lead investors in the group, and the first engagement letter sent to the Chairman of the Board and CEOs of each company requesting in-person meetings.

FundSource awards AA rating for Global Companies Fund

In the Summer issue of Taking Stock we shone the Product Spotlight on the AMP Capital Global Companies Fund, as well as a feature piece on the impact of short termism on markets by Head of Global Equities, Simon Steele. Many of you have also met the team behind this new global capability on their visits to New Zealand and heard how their approach aims to deliver double-digit returns for investors over the long term.

FundSource have added their independent lens on the new fund in a new qualitative research report. These reports independently rate funds across six core research process categories, with the Global Companies Fund receiving an 'AA: Recommended' rating. The report notes that this Fund is likely to add diversification and correlation benefits to an investor's global equity portfolio, due to the Fund typically holding different companies to most global equity funds.

[Download the report](#)



Māori Fisheries Conference

A new event we supported this year was The Māori Fisheries Conference 2019, one of the leading hui for iwi organisations. This was in partnership with Te Ohu Kaimoana which was established through the Māori Fisheries Act 2004 and works to advance Māori interests in the marine environment. While not the traditional investment or finance-focused event we are normally involved with, the strong alignment to iwi provided a unique opportunity to connect and share our expertise.

The theme for the conference was 'Te hā o Tangaroa kia ora ai tāua' – the breath of Tangaroa sustains us – which relates to the interconnectedness of humanity with the environment. There was an interesting and diverse line-up of speakers exploring various aspects on this theme, and with a clear export-focus in this sector our global economic update was well received with plenty of questions from the audience.

It was a privilege to see first-hand the aims and aspirations of iwi in attendance, as well as the strong environmental focus which is vital to the sustainability of the fisheries industry for future generations. We hope to continue to be a part of this event in years to come.

Divestment of civilian firearms

As part of our ongoing commitment to responsible and ethical investment we were proud to announce earlier this year that we will be divesting from companies involved in the production of civilian firearms. This move complements our existing firm-wide controversial weapons policy and reflects the changing attitudes of New Zealanders following the tragic terrorist attacks on mosques in Christchurch.

While we firmly believe in company engagement first to effect meaningful change, there are many risks surrounding civilian firearms that we don't believe meet the standards of our clients or the wider community. The divestment activity represents approximately \$4 million of holdings including any company that derives any revenue from the production of civilian firearms, including assault weapons, automatic firearms, semi-automatic firearms, repeating firearms, single-shot firearms, and ammunition or high capacity magazines.

The process to progressively sell down these holdings is underway and is expected to be completed by 30 September 2019.

OPPORTUNITIES IN GLOBAL LISTED REAL ESTATE

Goodman ATL Logistics Centre, Hong Kong
– Goodman Group



Introduction

Interest in global real estate has increased in recent years as investors seek a combination of defensive growth, yield and duration in an ultra-low interest rate environment. In this environment, global real estate is uniquely placed, sitting somewhere between a bond and an equity, and offering a good source of income and protection against inflation, but still linked to economic growth. Part of the appeal of real estate has been that it has proven to be a great 'store of value' with prices rising over the long term. It can also offer a steady income stream, particularly commercial real estate.

There are many ways to invest in real estate, but by investing in a listed vehicle an investor is provided with greater diversification, potentially lower fees, and superior liquidity. With listed real estate funds the underlying assets comprise a range of some of the best real estate that are only commercial and not residential, such as logistics warehouses, manufactured housing, aged care, healthcare and office space, so rentals are more certain, and risk is spread and reduced.

In this article we explore the listed real estate market and the role global listed real estate funds can play in a diversified investment portfolio as well as some of the key themes driving portfolio returns.





Global listed real estate provides access to high quality assets around the world in a highly liquid form, enabling investors to quickly act on opportunities.”

James Maydew

Head of Global Listed Real Estate

Global real estate

Some of world's largest and best real estate owners, builders and developers are listed on global stock exchanges, including London, New York and Tokyo. The trouble with this is that it is very difficult for a small investor to take advantage of these opportunities due to the enormous amount of research it takes to understand the dynamics of the global economy, local real estate markets and the quality of the management teams running the assets. For this reason, investing in global real estate is often best done through a fund as it offers a more expansive investment universe and diversification benefits.

With a generally low correlation to other asset classes, a strategic allocation to global real estate offers another layer of diversification in a multi-asset portfolio. The New Zealand listed real estate sector is very small by world standards and currently comprises just nine listed real estate trusts. Any investor who limits themselves to the New Zealand market is missing out on a major opportunity set, while also being exposed to a higher degree of risk by just focusing on the domestic market.

Performance in different regions of the world is also uncorrelated, so when one country performs poorly, another may perform well. This can serve as an additional diversifier in the portfolio.



Lake Conjola, NSW
- Ingenia

Key trends for real estate

Through a global securities portfolio investors can get exposure to the evolving 'new' economy and how it intersects with secular trends in the underlying global real estate markets. For example, the growth of online shopping has led to an increasing need for logistics facilities. The growth in e-commerce and technology is another key theme that will influence the shape of the economy in the future, and industrial and data centres offer good investment opportunities.

Retail has been the best risk-adjusted real estate sector and market leader for a long time, but this is changing. Changing spending habits, rapid technological development and e-commerce is driving competition for the retail dollar. There is now negative momentum in the sector, and it is likely to be a structural, long-term change as e-commerce gains market share and the balance of power moves from landlord to tenant.

Technology disruption is another trend impacting the performance of real estate assets and their values. The convergence of traditional real estate and technology firms is blurring what a real estate business is, so new entrants have an opportunity to disrupt the sector and steal market share.

Industrial assets are benefiting from this disruption. Demand for logistics assets is underpinned by demographic change, undersupply and e-commerce. This creates opportunities for investors to develop and own industrial assets, offering a growing, stable income source.

The challenge is finding growth assets. With asset scarcity and sharp prices, investors are on a global hunt for the next growth asset, prompting strong interest in alternative real estate investments like manufactured housing, logistics centres and healthcare. Real estate is also linked to long-term, mega trends such as demand for aged care facilities.

The following explores some of these key trends. We've also included some case studies which help showcase the diverse range of global real estate opportunities available.

Why consider Global listed real estate



01

E-Commerce

Online shopping is a global mega trend. Consumption trends have been shifting for many years from retail stores to online platforms, spearheaded by the rise of e-commerce titans Amazon and Alibaba. But while the storefronts have moved online, physical storerooms have taken on a new significance.

Logistics facilities have been nicknamed 'cheap malls' in certain real estate circles, for the way in which they have taken over the role of shopping malls in e-commerce transactions, providing storage and access to goods. Online retailers are investing heavily in their logistics centres, with automation and proximity to transport hubs such as airports and intermodal rail becoming vital assets in their quest to beat their competitors on price and delivery speed.

The resulting improvements in cost and convenience are only increasing the trend to online. The UK is one of the leaders of this structural trend, with e-commerce penetration approaching 16 per cent and forecast to move towards 20 per cent in the coming years. This is driven in part by the proliferation of mobile technology and growth in online sales via mobile devices.

Chinese e-commerce

The total amount of e-commerce transacted in China every year is the equivalent of all the online sales from the US and Japan combined¹. And the latter two economies have high rates of internet penetration, whereas only one-in-two people in China have online access. It's a startling statistic that demonstrates the opportunities in e-commerce in China, not just for retailers but for everyone along the supply chain from manufacturers to delivery companies.

Annual spending online in China, which is currently at US\$450 billion, is forecast to grow at a compound rate of 16 per cent over the next few years². At the heart of this growth is the rise in disposable income in China. In the major cities, household income per capita is forecast to increase at a 6.5 percent³ compound annual growth rate over the next decade.

The Chinese government understands the opportunity, and back in 2013 launched a massive spending project to develop infrastructure, from roads and railways to distribution centres and delivery vehicles across more than 65 countries. The project, which was renamed The Belt and Road Initiative, has massive economic benefits for China and surrounding economies.

One sector already benefiting from the combination of e-commerce in China and The Belt and Road Initiative is logistics property. The surging demand to ship goods has put pressure on the logistics capabilities of the region, and property trusts are buying into sites with e-commerce-related tenants to fill the void. China, Hong Kong and Singapore are key logistics markets in the region.

1, 2, 3 Mapletree Logistics Trust, Strategic expansion in the attractive China logistics market, May 2018

02

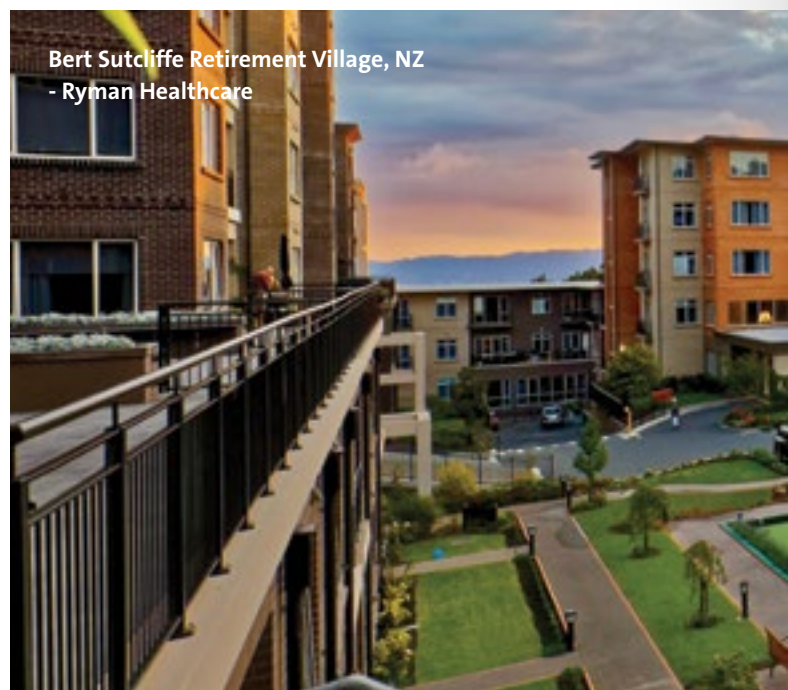
Global Logistics

The surge in online retailing, particularly through Amazon, has heralded a structural shift in the marketplace and had profound effects in overseas property markets. The so-called 'Amazon effect' has sent US industrial price-to-earnings (PE) ratios sharply higher, and mall PE ratios sharply lower. Rental growth has underpinned this divergence. Industrial real estate is outperforming both other property sectors and its own historical performance in the US.

And it's not only about Amazon and online retailers. Traditional players are adapting their supply chain management to become more competitive and driving more capital into their ecommerce offerings which drives demand for modern logistic facilities even higher.

The big driver in industrial markets is the need for online retailers to be close to their customer. Transportation costs are 50 per cent of operating costs within supply chains, significantly more than rental costs. As customers expect quicker delivery times, retailers need to have efficient modern logistics facilities close to the wealthy urban population. Retailers will pay more for rent to drive their transportation costs lower.

Concurrently, industrial floor space in major cities now comes at a premium, as industrial property has been re-zoned over the last twenty years to higher-value land use, such as residential. This is causing an inflection point today in the logistics market, squeezing rents, capital values and occupancy to all-time highs in modern facilities located close to the consumer.



Bert Sutcliffe Retirement Village, NZ
- Ryman Healthcare

03 Healthcare

Demographics drive everything and we have an impending ageing population crisis on the horizon in many western countries as this massive cohort stops accessing credit, spending on consumption and begin drawing down on their capital through retirement. As the number of baby boomers increase, we will see demand for goods and services that assist their changing lifestyles.

One aspect as we age is the increasing need for healthcare and healthcare services. People are living longer than ever before and the elderly – 80 years and older - are gradually accounting for a larger proportion of global population. In addition, improved medical intervention is leading to an increasing number of individuals medically and mentally unfit who require ongoing long-term support.

Given the increasing need for health-care services that will inevitably follow, there is a substantial tailwind for property offering high-quality health care facilities that cater to this demand, such as aged care facilities. We expect continued pressure on existing healthcare infrastructure and a significant long-term structural tailwind for real estate owners that offer high-quality health care facilities that match this demand.

04 Manufactured housing

Manufactured housing is a resilient asset class and an attractive investment proposition. Shipments of new manufactured houses have grown by 60 per cent over the past five years, and prices have risen sharply through the first three quarters of 2018 while prices for site-built homes remained stagnant .

Affordability is a key factor in this resurgence, with the average price for a new manufactured home is less than US\$80,000. This is especially attractive to so-called 'snowbirds' looking to migrate from Canada and the northern states and relocate to warmer climates, a phenomenon that is accelerating as the population ages. And as baby boomers continue to retire over the next 20 years, the manufactured housing market that focuses on age-restricted parks is set for unprecedented strong demand.

Recent developments in the financing of manufactured homes have the potential to drive this growth even further. Traditionally, borrowing for manufactured housing has been considerably more difficult and expensive than for site-built homes, based on the presumption that these assets would depreciate, rather than appreciate in value. However, continually improving offerings from manufacturers and a change in policy direction by the US Government have turned that model on its head.

While demand for shipments remains high, so too will demand for land and facilities to accommodate them. REITs with assets concentrated in residential parks gain from exposure to market upside with low overheads, such as maintenance and customer turnover, compared to traditional property assets. In addition, the reluctance of local authorities to approve new residential park developments means that constrained supply is likely to preserve or increase the value of these investments for some time to come.



Pan-Asian logistics

– case study

01



Mapletree Logistics Hub, Hong Kong
- Mapletree Logistics Trust

Mapletree Logistics Trust (MLT)

Continued growth in e-commerce around Asia, especially China, is putting pressure on the logistics capabilities of e-commerce businesses and creating strong demand. Mapletree Logistics Trust invests in a portfolio of quality, well-located, income producing logistics real estate with key geographic exposures to Singapore and Hong Kong. Assets also span Japan, China, Australia, South Korea, Malaysia and Vietnam.

The company is managed by Singapore's private developer, Mapletree Investments, and is owned by Temasek Holdings, a Singapore government entity. It is Singapore's first Asia-Pacific focused logistics REIT and provides exposure to the key growth markets of Hong Kong and China logistics, along with exposure to the recovery in the Singapore logistics sector.

Earnings are supported by internal and external growth, with the sponsor historically injecting an attractive pipeline at 1-3% discounts to independent valuations. Overall tenant quality is high and well diversified across sectors and geographies.

Global logistics

– case study
02

Goodman Ichikawa, Japan
- Goodman Group



Goodman Group (GMG)

Goodman Group is a fully integrated global logistics property group that owns, develops and manages industrial real estate in 17 countries, including logistics and industrial facilities, warehouses and business parks. At the heart of the business is their 'own + develop + manage' model, an integrated customer service offering.

The company has a clear focus on investing and developing high quality industrial properties in strategic locations, close to large urban populations and in major gateway cities globally, where demand is strong for e-commerce. A focus on e-commerce logistics and warehousing also provides a great hedge against retail property.

With total assets under management of \$42.9 billion, \$3.1 billion of available liquidity, and low gearing of 6.5%, the company is in a strong capital position. Tight supply in their locations has continued to support strong performance across the portfolio, with net property income growth of 3.2% and occupancy maintained at 98% as at 31 December 2018.

Other investment highlights include work-in-progress of \$3.6 billion across 68 projects, which is forecast to rise to \$4 billion+, and development commencement of \$1.9 billion with 54% committed and a weighted average lease expiry of 10.9 years.

Healthcare

– case study
03



Welltower (WELL)

Welltower was founded in 1970 and converted to REIT status in 1985. The company owns interests in properties in the US, Canada and the UK, consisting of seniors housing and post-acute communities plus outpatient medical properties. It also partners with the leading seniors housing operators, post-acute providers and health systems to fund real estate infrastructure.

The company is one of the largest REITs in the US by enterprise value, with a diversified portfolio of over 1,500 health care properties and servicing over 300,000 residents.

Seniors housing makes up two-thirds of the portfolio with strong growth in projected demand for senior housing, especially in assisted living and memory care. Many cities are grossly under equipped to deal with the rising incidence of Alzheimer's disease because of the high cost associated with full time care.

A Welltower-commissioned survey confirmed the majority of seniors want to stay in their city. However, many places have inadequate resources in place to care for them. For example there are only 70 fully licensed memory care beds in Manhattan. Welltower have made significant investment into the delivery of a new facility with memory care beds to increase the availability to more Manhattan residents in need by 2020.

Manufactured housing

– case study

04



Equity Lifestyle Properties (ELS)

The largest US operator of manufactured housing, Equity LifeStyle Properties has grown its net operating income every single quarter going back to the late 1990s, including during the Global Financial Crisis. Founded in 1969 and converted to REIT status in 1993, the company owns and operates lifestyle-oriented properties consisting primarily of manufactured home communities, recreational vehicle resorts and campgrounds. The properties attract retirees, vacationing families and second homeowners.

Manufactured housing offers a solution to the high cost of US housing, with a lower cost alternative that benefits from the favourable customer demographics of an ageing population. It presents a unique business model of owning the land and allowing customers to place factory built homes, cottages, cabins or RVs either permanently or on a short-term basis.

ELS have a nationwide presence in the US and British Columbia, which creates strong brand-awareness to the high end of the market along with economies of scale in operations. Many communities are found in highly sought after locations along lakes, near beaches, nestled among mountains or overlooking scenic desert landscapes.

Compared to other types of real estate companies, the business model is characterised by low maintenance costs as well as low customer turnover costs. ELS have built up an extensive network of experienced community managers.

Final thoughts

Despite mixed global economic signals, real estate remains a high-value investment for clients looking for defensive, income-generating assets. Real estate delivers consistent returns when interest rates are at record lows. In addition, global volatility means investors are focused on low-risk, stable, long-term returns, producing demand for this asset class.

A key benefit of investing in global listed real estate is that it provides access to investment opportunities that may otherwise require a large capital outlay and significant acquisition costs if purchased directly. By investing in a portfolio of listed real estate trusts, investors have access to a range of different types of real estate and are also able to withdraw small amounts of capital if needed.

Listed real estate also provides diversification by investing in a wide variety of real estate sectors and geographies. From a global perspective, as more countries introduce REIT structures like India, Korea and the Philippines, there are now even greater opportunities for global investment and portfolio diversification.

With increasing instability from geopolitical challenges and uncertainty, a greater demand for defensive assets such as real estate in investor portfolios is likely to continue, especially as the fundamentals of supply and demand remain in check globally. We believe 2019 will continue to see further allocation of capital towards long-term structural trends, including e-commerce (industrial) and aging demographics (healthcare).

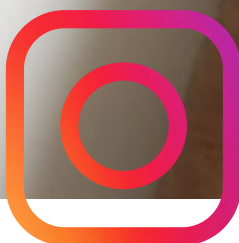
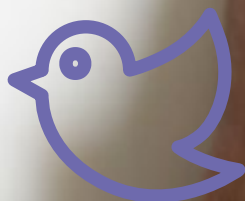


Oakdale Industrial Estate, NSW
- Goodman Group



James Maydew
Head of Global Listed
Real Estate







THE ETHICS OF INVESTING IN SOCIAL MEDIA

Social media companies offer myriad social benefits, enabling users to connect to friends and family but also in terms of freedom of expression. With social media, freedom of speech is no longer limited to those who have control over traditional media – everyone can be heard globally, for better or worse.

People have used social media as a means of raising awareness and fighting injustice. It has helped foster political movements, including playing a major role in enabling massive protests in Tunisia and Egypt to bring down dictatorships. Social media campaigns and attention on global supply chains have also exposed abusive labour practices, particularly child labour, and made consumers more aware of environmental issues.

On the flip-side, newly empowered voices are not necessarily desirable voices. For example, Facebook Live has broadcast numerous accounts of appalling violence and all social media companies face a constant fight against the spread of hatred and bullying. Social media companies are increasingly tasked with the implied responsibility of acting as some form of moderator of public discourse.

There has been a lot of attention on large tech businesses and whether these companies are fair trustees of the massive amounts of user data they collect and whether they are appropriately managing the content they host. Do companies have a responsibility to protect their users from abuse, from a breach of their private data, from controversial topics? These are the questions faced by the tech giants that we use and interact with every day.

What is social media?

Social media comprises technologies like websites and applications/'apps' that enable users to create and share information and to network. Social media technologies include blogs, forums, business and social networks, photo/video sharing, social gaming and virtual worlds.

How do social media companies make money?

Social media companies typically make money by collecting user data and then using that data to sell advertising space. By collecting profile information, monitoring what pages are liked and tracking what other websites are visited, social media companies aim to identify specific types of users on their platforms and target advertisements accordingly. The more targeted the advertising, the more the companies pay for the privilege to reach specific users.

Most social media users are cognisant that the price they pay for their 'free' access to the platform is that their data and personal information will be used to subject them to targeted advertising. This is similar to accessing free-to-air commercial television, the main difference being the greater precision with which advertising or other content can be targeted within social media.

Why all the fuss about privacy?

How social media companies protect their users' privacy is a hot topic because without the trust of their users, the social media business model – particularly for 'free' services – falls apart.

The trust users place in social media companies goes beyond a desire to simply have their information protected from theft by hackers. Users also trust that social media companies will only access and use their personal information in ways that they expect, such as advertising. However, with the rise of fake news, fake profiles and algorithm-driven profiling, users are increasingly at risk of having more than their shopping habits influenced, for example their political or social opinions. Social media companies must perform a very delicate balancing act between retaining the trust of their users and managing their relationships with commercial and other influences.

Governments are starting to respond to privacy concerns with regulation – such as the European Union's General Data Protection Regulation that was implemented in 2018 – and users will decide whether social media companies can be trusted. The way social media companies respond to these and other laws and regulations being considered by governments all over the world to deal with privacy and the protection of users' data will be critical. Investors will be watching the response of these companies carefully.

Content moderation

How social media companies manage privacy and commercial pressures is only part of the story. When it comes to handling other issues such as the freedoms of thought, opinion, word etc the path is even less clear. For example, how do we handle conflicts of human rights within social media – is there a point at which censoring or removing hate speech from social media is an infringement on the right to freedom of thought and opinion? How do we determine and agree where those tipping points are?

As platforms for a rapidly growing portion of public and private discourse, social media companies are playing a key role in what content their users do and don't see. What is viewed as free speech by one user may well be felt as persecution by another and social media companies – profit-driven corporations which are not democratically elected – are taking on the role of being arbiters. Reaching a public consensus on the requisite ethical behaviour is a long way off, and may never be reached at all, so these issues are largely being tackled by the social media companies themselves.

Why improving business practices matters

Many social media users feel that providing their private data, which can then be monetised, is a fair exchange for the free services of social media platforms such as Facebook, Twitter and YouTube. But if user data is sold, stolen or mishandled, consumers question the safety of their information, undermining the companies' business models. Therefore the main concern for these companies is that more and more people will turn against these platforms, which will adversely impact the revenue they can bring in from advertising fees.

The business model of social media companies is built upon the trust of its users. Both allowing misleading or offensive content onto their platforms and misusing or neglecting the privacy of user's data erodes the trust of users, which in turn can impact the financial performance of the social media company.

Is social media addictive/causing social harm?

Social media companies have been accused of using tactics similar to those used by the gambling industry to get their users 'hooked' on their platforms. There has also been speculation that users experience a release of dopamine whenever they receive likes or comments on posts.

Harm may also be caused to unsophisticated users who do not fully comprehend the nature of social media with online expressions being automatically recorded and archived. It can also be hard to identify original content versus modified content and of course the potential visibility of content is enormous. Finally, there is public/private blurring with not all audiences being visible.

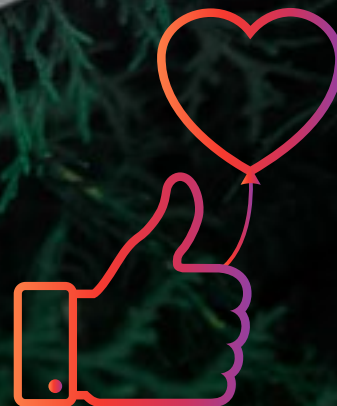
What we are doing about it

AMP Capital has been considering the numerous privacy and ethical issues associated with social media companies. As part of this work, we have entered discussions with other investors globally around engaging with social media companies on their efforts to manage user data with integrity and ensure there are appropriate safeguards in place to keep user data secure.

Ultimately, we want companies like Facebook, Alphabet and Twitter to put controls in place to prevent the live streaming and distribution of content that promotes or supports acts of torture, extreme violence or cruelty, rather than accepting that it may take social media companies time to take the content down. In addition, we want the data they collect to be safeguarded from theft, manipulation or other misuse.



Fiona Manning
Senior ESG Research Analyst
AMP Capital Australia



THE CHANGING ROLE OF B E N C H M A R K S

Benchmark-aware and index investing will likely always have a role to play in the investment world. But as markets have evolved and diversification has become progressively more important, investors are increasingly looking at using a benchmark unaware approach.

INVEST
CORNER

Background

A benchmark is any definable market cross-section. Most are weighted by market capitalisation, but they can also be equal-weighted or fundamentally-weighted, among other measures.

The S&P/NZX 50 Index is the main stock market index in New Zealand. It is designed to measure the performance of the 50 largest, eligible stocks listed on the Main Board (NZSX) of the New Zealand Exchange (NZX). The index is float-adjusted, covering approximately 90% of New Zealand equity market capitalisation.

Equity benchmarks help explain the risks and returns that stem from equity investments. They can also help investors understand fundamental factors such as profitability when trying to figure out average corporate performance. Benchmarks are a simple way of providing context for investors to help judge fund manager success and compare their performance. Given they are published and highly rules-based, they can also be easily tracked.

Challenges with benchmarks

It is important to remember that benchmark-aware investing is only one approach. This is important, as large parts of a benchmark may be inappropriate to meet an investor's requirements. Income is one example.

In the run up to the Global Financial Crisis of 2007/2008, the banking sector produced more than a third of the total dividend income for the UK's FTSE 100 index. An income investor following a benchmark strategy would have lost 35 per cent of their income as the share market fell following the financial crisis. As a result, this strategy would have been inappropriate for an investor seeking income security.

Additionally, smaller, evolving sectors tend to have a lower weighting in benchmark indices versus mature industries such as banking, energy and mining. Compared to smaller businesses, companies in these sectors may be relatively more cyclical, competitive and capital-hungry. The ability to generate value (and therefore future market returns) may also be more limited.

Importantly, becoming benchmark unaware is liberating as it offers the freedom to find a more flexible approach. Often teams work within a more generalist model, rather than as sector specialists, which can lead to more collaboration on investment decisions, aiding objective decision-making.



Alternative approach

As a result, some investors are seeking alternatives to benchmarks. Becoming benchmark unaware does require a shift in mindset and in the focus of an investment team. In contrast to benchmark investing, fund managers are tasked with finding stocks they believe will deliver the outcome clients are seeking.

In this approach, analysis is focused almost entirely upon the stocks that are likely to meet the client's needs, since the need to 'cover' a stock because it is in a benchmark is removed. This typically increases the depth of research and insights on stocks that are potential investments for the fund. It means that each investment is chosen on its own merit, which is the expected payoff it is expected to generate.

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Tracking performance

Being benchmark unaware is no excuse for failing to outperform an index over time. But ignoring the benchmark in the near-term in some circumstances may lead to stronger performance longer term versus the benchmark.

The key is to be clear about the investment process and what's needed to drive an asset's long-term performance. For an income fund, that may be cash flow and dividend cover. For a fund seeking capital growth, earnings and cash flow growth may be the salient factors to measure.

Investment teams can track these underlying drivers and demonstrate they are moving in line with a client's proposition. This will help provide comfort that the outcome they are seeking – income or capital growth, for instance – should be delivered over time.

Ultimately what matters to clients is absolute outcomes after all costs. Research suggests that this is more often achieved via less benchmark awareness. It seems clear that our industry is increasingly heading this way.



David Allen

Global Chief Investment Officer, Equities
London, United Kingdom



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ABOUT THE
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Product Spotlight

AMP CAPITAL GLOBAL PROPERTY SECURITIES FUND

Global listed real estate funds were developed to give investors access to a diversified portfolio of property assets from all around the world. In the current low growth environment, global listed real estate is uniquely placed to offer investors a good source of income and protection against inflation, whilst also giving them access to property-like returns, just with the added benefit of liquidity.

Product spotlight takes an in-depth look at the AMP Capital Global Property Securities Fund and the approach we take to managing this investment strategy.



Fund description

The AMP Capital Global Property Securities Fund provides access to listed property investment opportunities from around the developed world through a single fund. The Fund aims to generate medium to high returns over the long term by investing in global listed property securities, Real Estate Investment Trusts (REITs) and property-focused companies in North America, Europe, Asia and Australia. AMP Capital Australia is the international investment manager of the fund.

Investment philosophy

AMP Capital believes that investment in global real estate securities requires a globally integrated approach that utilises local expertise to identify attractive investment opportunities. This philosophy centres on the belief that real estate securities supported by a sustainable business model and quality assets, run by experienced and capable management, will outperform over the long-term.

Successful property investment requires a rigorous and disciplined investment approach. Real estate securities around the world vary a great deal in terms of structure, geography, governance and sector exposure. We also believe successful global real estate investment requires local expertise, with investment professionals located in key markets around the world. By situating regional investment teams in local markets, we are better positioned to predict trends and changing conditions.

Investment approach

The investment approach we have at AMP Capital is underpinned by a strong focus on quality. We believe a company with a high-quality real estate management strategy, coupled with a strong balance sheet, will outperform through any real estate cycle. High quality is our first and highest priority.

AMP Capital believes that investment in global real estate securities requires a globally integrated approach that utilises local expertise to identify attractive investment opportunities.

Investment strategy and style

Our global listed real estate strategy adopts a bottom-up and top-down approach, with a strong focus on valuation-based stock selection methodology. We identify and capitalise on investment opportunities through an integrated approach to security-level analysis and macro themes impacting real estate markets. The aim is to add value through applying combined research sources in a disciplined and systematic manner, taking account of mispricing opportunities and the level of risk they bring to the portfolio.

This investment style and philosophy has been consistently and successfully applied to generate an attractive track record. The investment team also periodically re-evaluates and seeks to enhance the investment process in line with developments in real estate markets.

Investment process

The investment process consists of a fundamental, bottom-up, valuation-based stock selection methodology, complemented by a top-down overlay:

Bottom-up fundamental research

Comprehensive and detailed research is a key element of the investment process. Our globally integrated approach applies a rigorous focus on bottom-up company fundamentals. Analysts with primary coverage of a company are further complemented by team members with secondary coverage, which encourages peer review and debate. Bottom-up fundamental research is central in producing the measures used to identify and rank securities suitable for investment.

Mispricings can also occur due to differing valuation methods used by other market participants. As a result, the investment process allows for flexibility to use the valuation method that the team believes is the most relevant in the current market environment.

Top-down macroeconomic research

A top-down macroeconomic view is a critical component in building a global real estate securities portfolio. Macroeconomic factors influence not only real estate securities within a region, but are a tool in comparing property securities and the factors driving their performance across regions. The investment team's view for a country is based on factors such as demographics, economic variables, financials, valuation, sentiment and volatility. This is then aggregated into an overall score and used to determine active country weights.

Portfolio construction

Portfolio construction is implicit across the investment process. The output of both fundamental bottom-up research as well as top-down macroeconomic research is used not only to identify and rank suitable investments but as a tool in determining a security's weighting in the portfolio. As a result, all analysts/portfolio managers have an active input into the portfolio construction process.

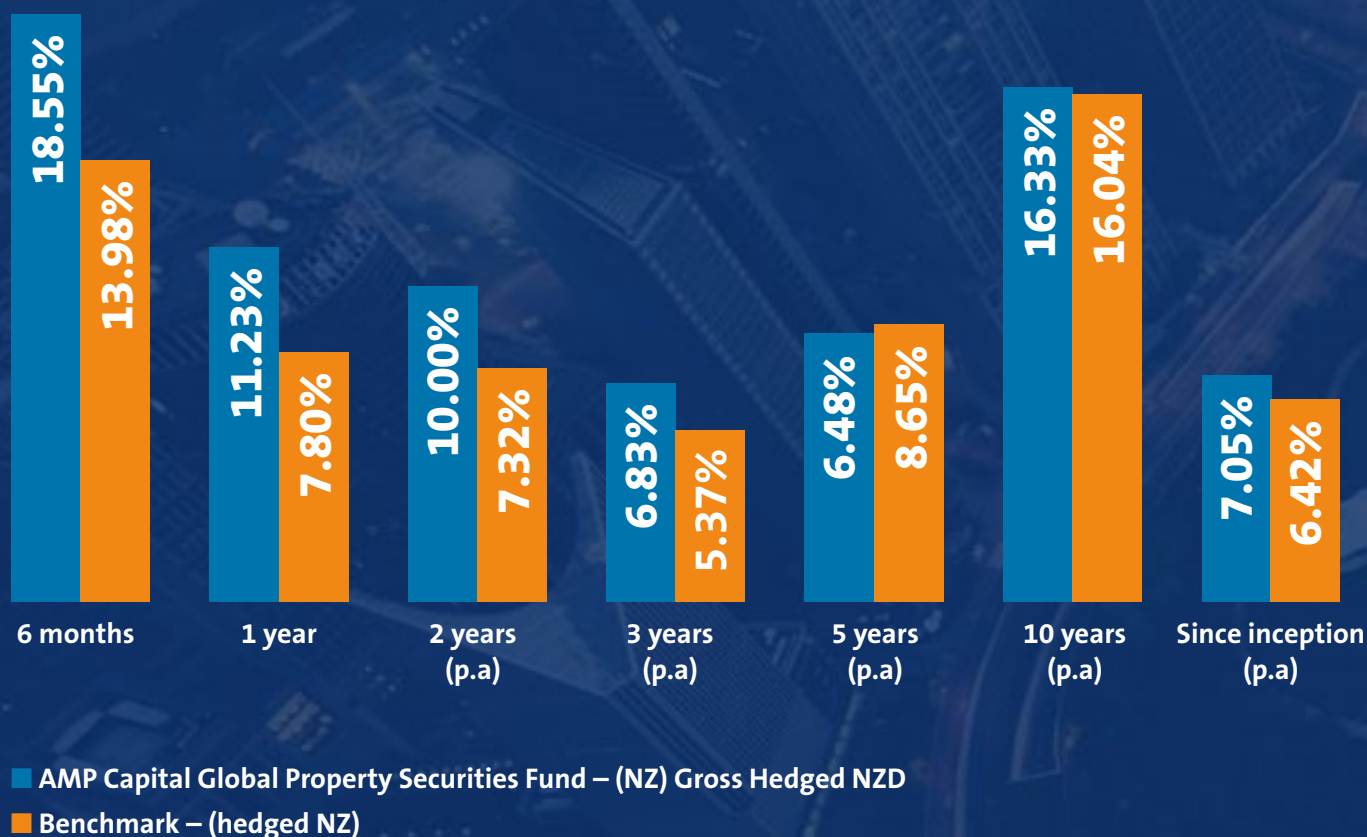
Performance summary

AMP Capital launched its flagship Global Property Securities Fund in New Zealand in 2007 and the Fund has delivered close to 7.0% since inception.

*Current benchmark is the FTSE EPRA/NAREIT Developed Total Return Index with net dividends reinvested. It is fully hedged to the New Zealand dollar.

As at 30 June 2019	1 year %	3 years (pa) %	5 years (pa) %	10 years (pa) %	Since inception (pa) %
AMP Capital Global Property Securities Fund (Gross) – Hedged NZD	11.23	6.83	8.48	16.33	7.05
Benchmark*	7.80	5.37	8.65	16.04	6.42
Excess return	3.44	1.45	-0.17	0.28	0.63

Outperformance since inception





Investment team

The global listed real estate team is led by James Maydew as Head of Global Listed Real Estate. James manages a team of 14 regional investment professionals based in Sydney, Chicago, London and Hong Kong. The portfolio managers within each region are local experts and the team's on-the-ground presence provides insights into local trends and changing market conditions. Information sharing across regional teams and regular property visits with property managers are key to managing the portfolio's investments.

Portfolio managers/analysts are responsible for researching stocks and sectors within their respective regions. Research responsibilities are split across the key regions and primary analysts are complemented by secondary analyst coverage. While portfolio decisions are made on a team basis, the Head of Global Listed Real Estate retains ultimate accountability.

What makes this fund different?

Our fund is different because we have a boots-on-the-ground approach to portfolio construction. We have individual analysts who are dedicated to the craft of investing in listed real estate positioned in one of our four offices around the world. And that's how we construct the portfolio – from the bottom up as opposed to the top down. This means our global listed real estate investment strategy offers a number of benefits for investors:

- **Global diversification by region and sector**
The Fund invests in both Australasian and global listed real estate, so investors have access to a broader range of regions, sectors and securities, which provide the potential for income and capital growth.
- **Proactive investment approach**
By actively managing the fund, we are able to act on market opportunities as they arise and where we have a high conviction in the performance potential of specific companies and sectors.
- **Local specialists with local knowledge**
Our expert global listed real estate teams on the ground in Sydney, Hong Kong, London and Chicago provide insights into local trends and changing market conditions.



“

The fund invests in global property securities so essentially that's a liquid form of real estate, and we invest in some of the highest quality real estate that exists around the world.”

James Maydew
Head of Global Listed Real Estate

New York
The Empire State Building

Conclusion

In summary:



Successful global property investment requires a globally integrated, rigorous and disciplined investment approach.



Local expertise is a necessity in understanding local trends and changing market conditions.



Risk is prevalent across a range of variables and needs to be carefully assessed at each point in the process.



In the short-term, a flexible approach to valuation is needed to take advantage of mispricings between regions, countries, sectors and stocks.



In the long-term, real estate securities supported by a sustainable business model and quality assets, run by experienced and capable management, will outperform.

Investors should read the relevant Product Disclosure Statement (PDS) before investing. The PDS contains important information on the Fund including specific risks. A copy of the PDS can be obtained from the AMP Capital Investors (New Zealand) Limited website www.ampcapital.com, by contacting the Client Service Centre on 0800 400 499, or by visiting the Disclose website www.business.govt.nz/disclose. The Manager and the Issuer of the Fund is AMP Investment Management (NZ) Limited, Meridian Building, Level 1, 55 Lady Elizabeth Lane, Queens Wharf, Wellington. While every care has been taken in the preparation of this communication, AMP Capital Investors (New Zealand) Limited makes no representations as to the accuracy or completeness of any statement in it. Past performance is not a reliable indicator of future performance. This communication has been prepared for the purpose of providing general information, without taking account of any particular investor's objectives, financial situation or needs. An investor should, before making any investment decisions, consider the appropriateness of the information in this communication and seek professional advice, having regard to the investor's objectives, financial situation and needs.

AMPCAPITAL 

AMP Capital Global Companies Fund

**Invest in exceptional
companies from around
the world**

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