

A 360° approach to investment strategies & portfolio construction

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Property markets inherently inefficient, enabling 360° approach

Unique characteristics of property*

- Assets are fixed & heterogeneous in nature
- Capital intensive ownership structure
- Time and costs to transact
- Relatively illiquid compared to bonds and equities with 'lumpy' assets

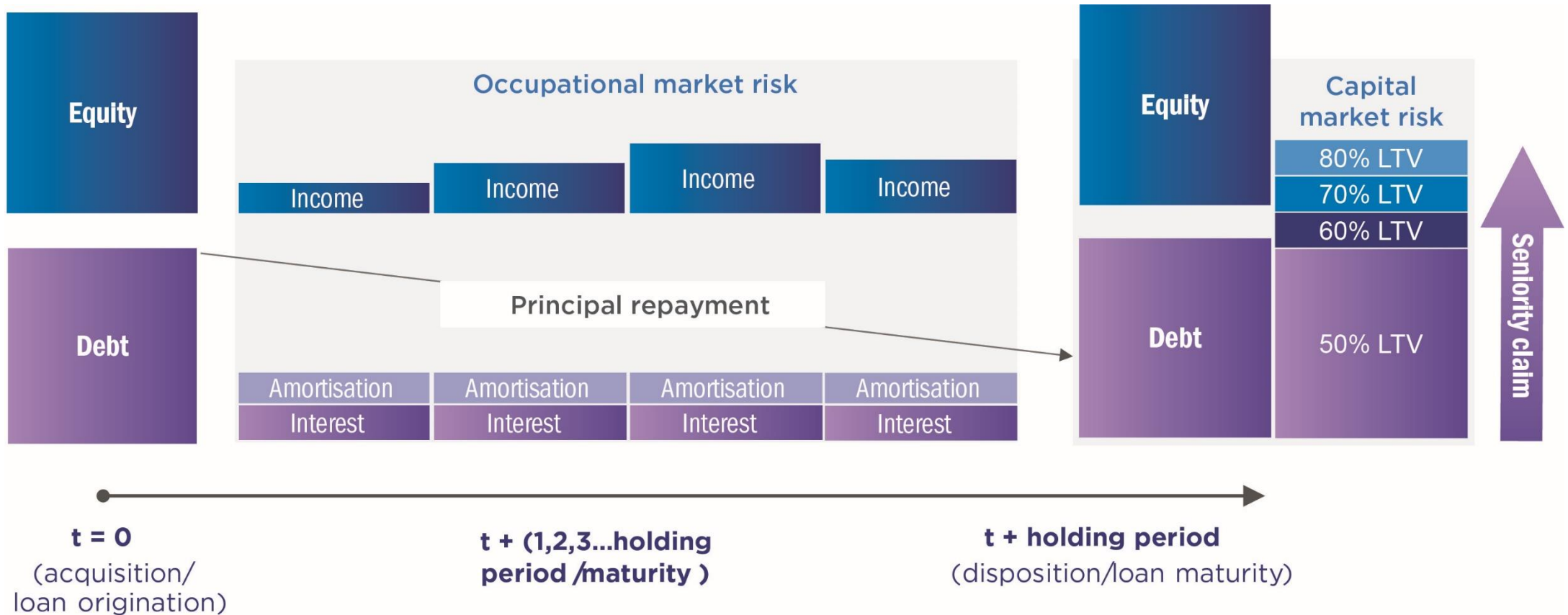
- Appraisal based valuations with no central exchange which limits transparency
- Relatively stable, visible cash flows
- Partial inflation hedge, most notably where leases are indexed
- Occupancy cycle driven by lead time for new construction

*The above lists are illustrative and indicative only and are neither detailed nor exhaustive.

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Relatively stable & visible income streams driven by fundamentals

Commercial real estate capital stack risks*



Source: AXA IM – Real Assets Research

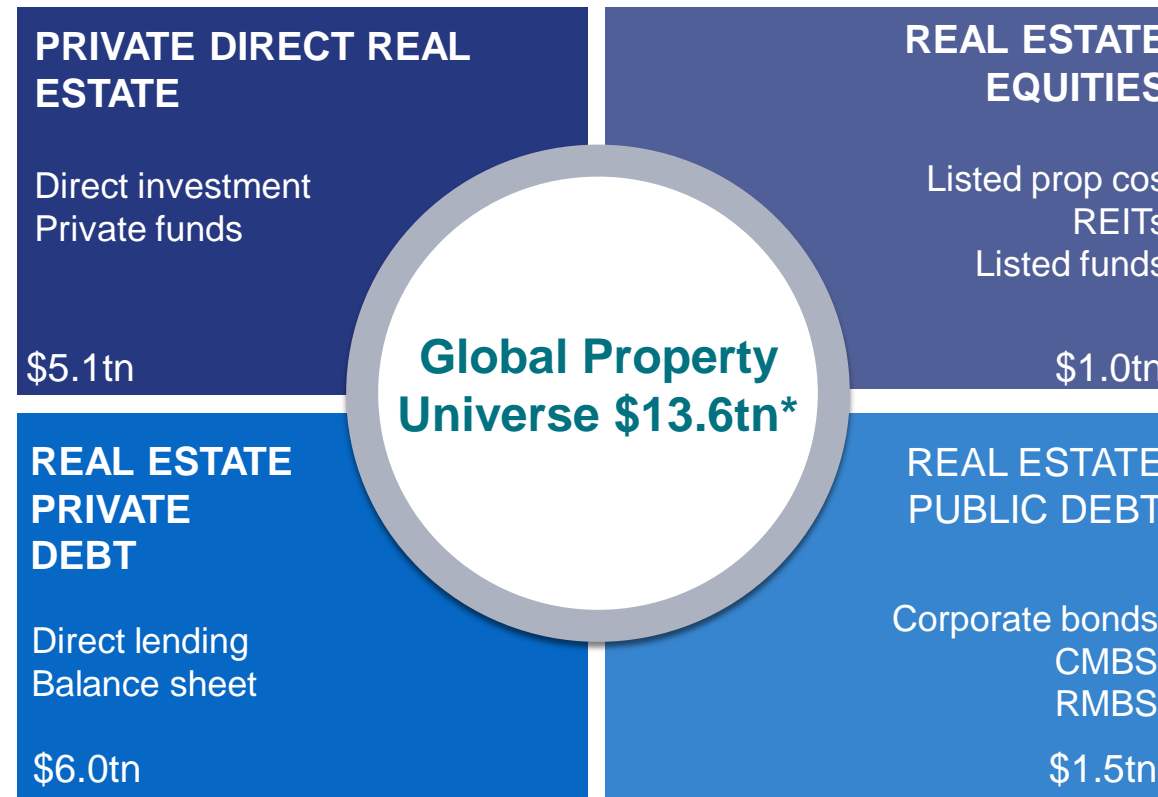
* The cash flow, risks and capital structure depicted are for illustrative purposes only and the actual capital structure, cash flows, and risks associated with a particular real estate investment will depend on the terms and structure of such investment and may differ materially from the example above

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Break down traditional silos and look holistically at four quadrants

“The private market accounts for 82% of the investable universe...”



... with the remaining 18% held in the public realm”

North America
\$4.2tn – 31%

Europe
\$4.4tn – 32%

Asia Pacific
\$5.1tn – 37%

* This estimate is based on the Source: DTZ Money into Property 2015 investment grade stock held by different investor groups and excludes some categories which are not investable such as owner-occupied space

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Calibrating a property portfolio for cycle positioning

Example allocations through the cycle to target an 8% average portfolio level return

	Growth phase – c. 5 -7 yrs				Correction – c. 2 - 3 yrs	
Opportunistic	20%	10%			15%	25%
Development	5%	15%	25%	10%		
Value Add		15%	20%	15%		
Core Liquid	10%	5%		25%	5%	
Core	45%	40%			50%	
Senior Debt	20%	15%	10%		20%	

Source: Various; AXA IM Real Assets

Allocation depicted is for illustrative purposes only and is intended to show the strategy that AXA IM – Real Assets would adopt if it was a low risk investor looking to design its own real estate portfolio. Such allocation is not intended to be investment advice to the recipient and does not take into account the particular needs of the recipient. Definition of investment styles is based on AXA IM – Real Assets’ own subjective interpretation of each such investment style.

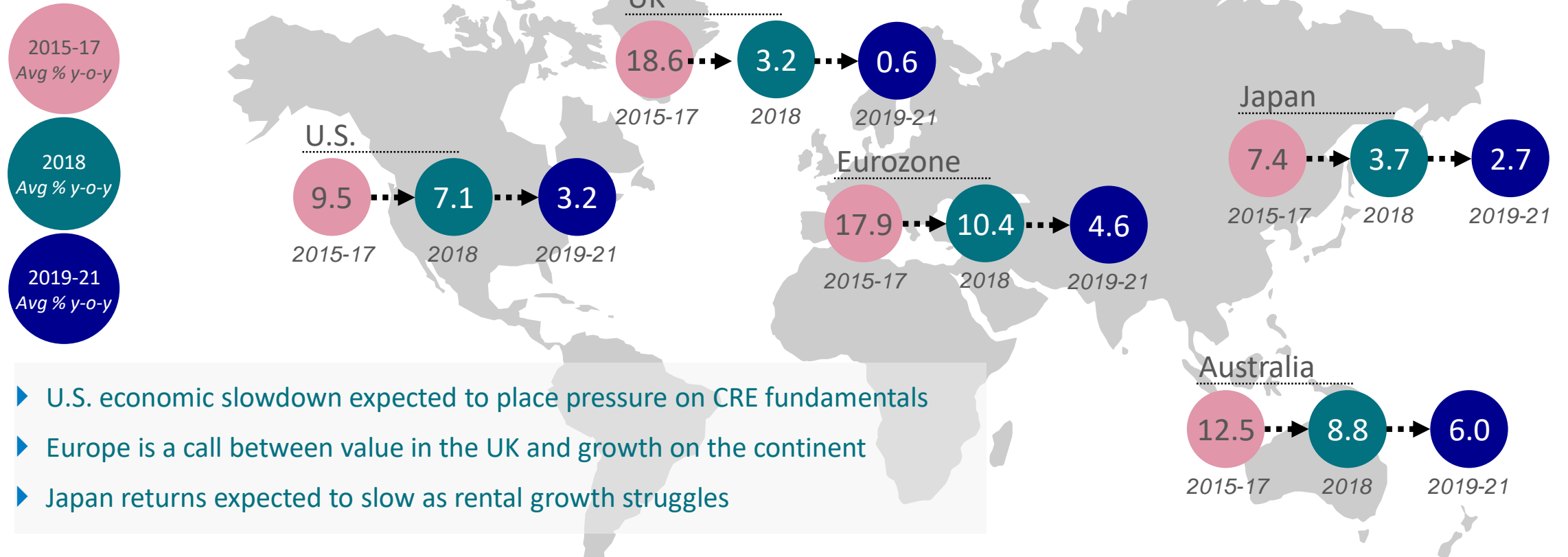
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Market Outlook

Global real estate returns to slow, income expected to take centre stage

Prime all property return forecasts

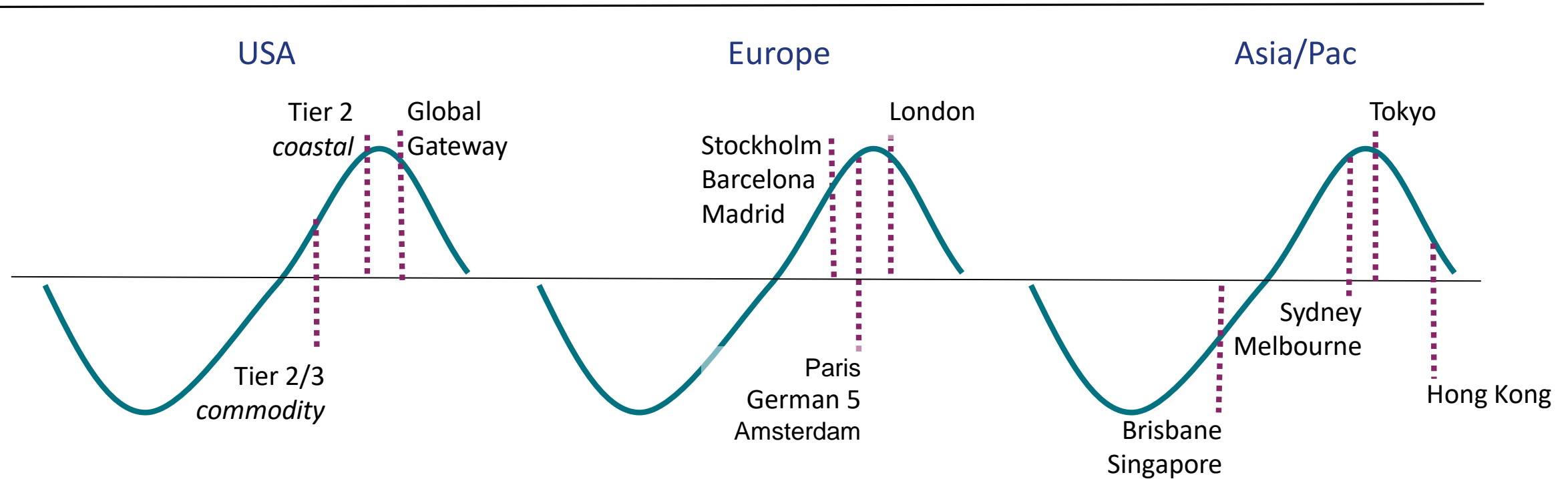


Source: CoStar, PREA, MSCI/IPD, PMA, AXA IM – Real Assets (forecasts as at 21 March 2019)

Global property markets in mature stage of the occupancy cycle

Driver of property returns shifted from yield compression to underlying income and rental value growth

Property occupancy cycle by region



Source: AXA IM – Real Assets

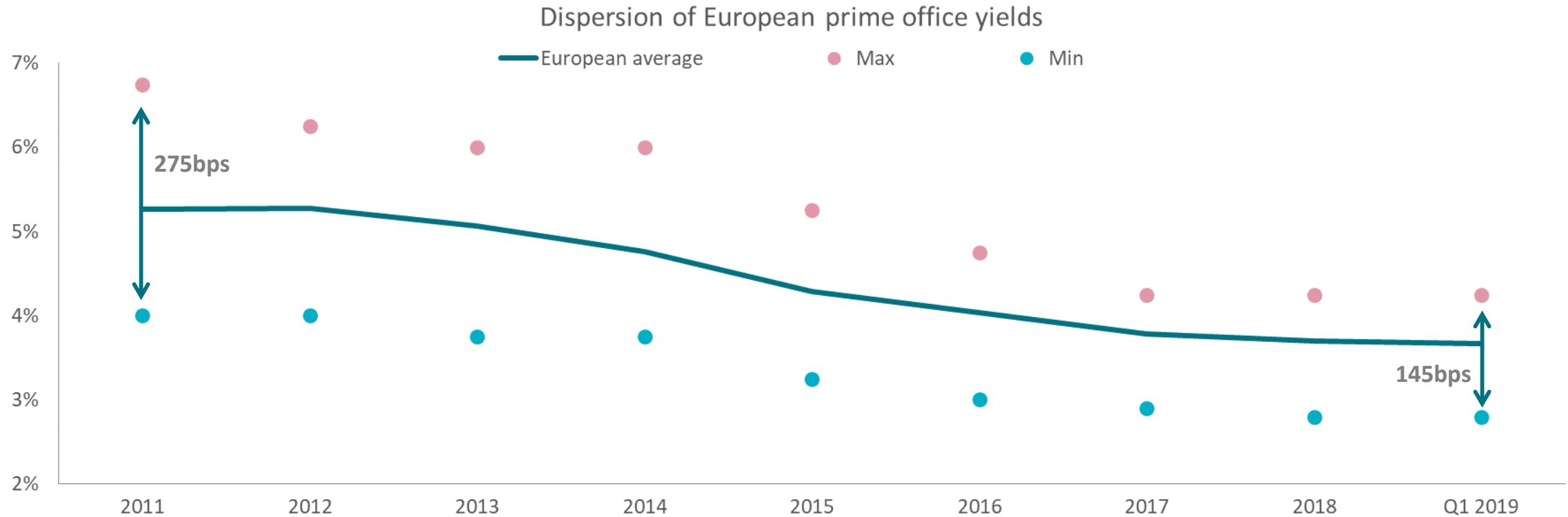
Note: this is a stylised property occupancy cycle and not drawn to scale. Forecasts as at April 2019

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Vintage year risk: importance of asset management capabilities returns to the fore



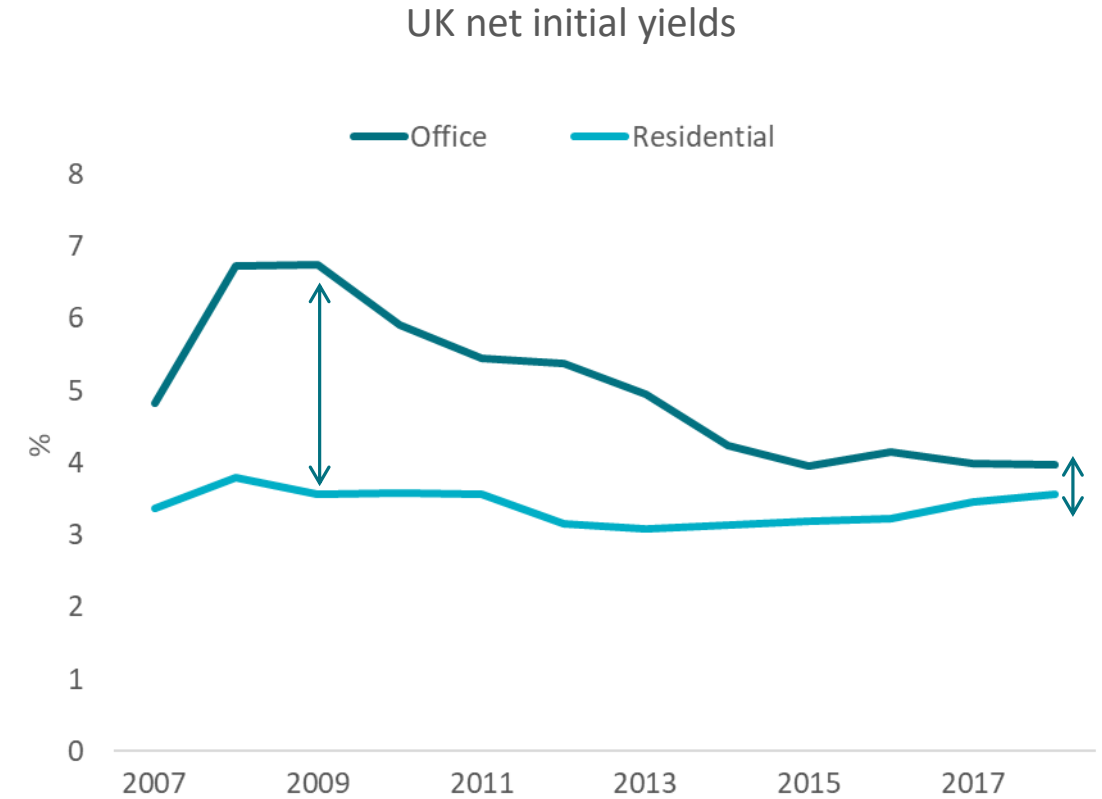
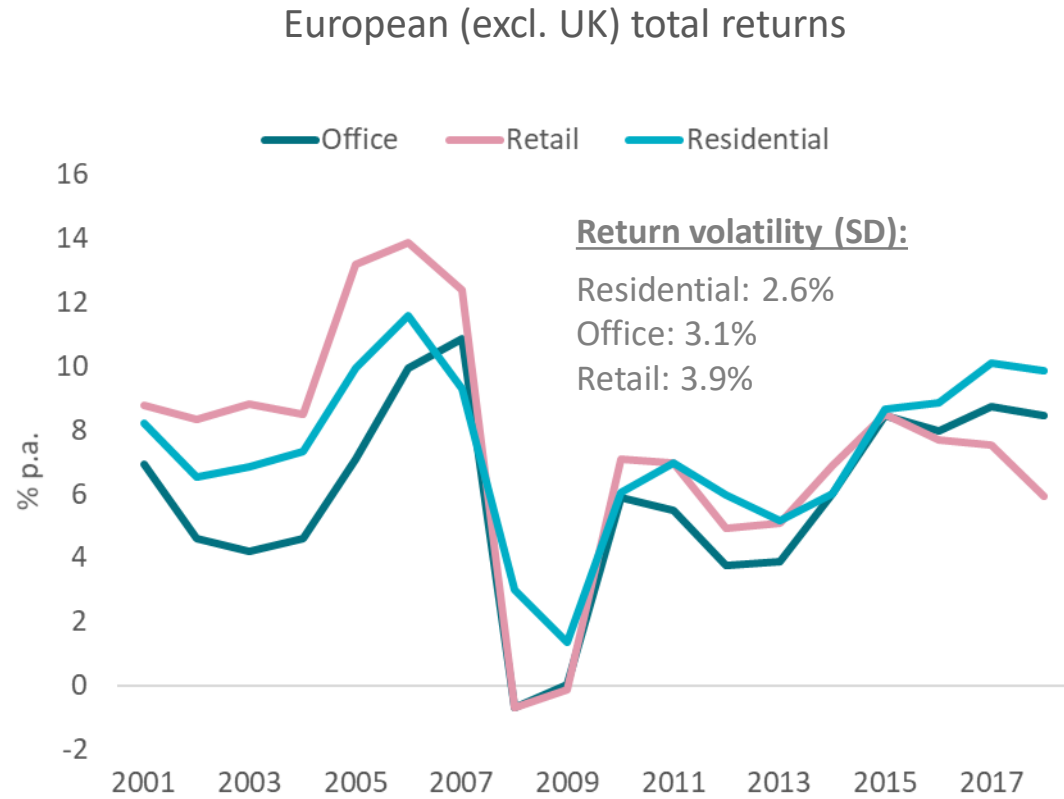
Source: CBRE, JLL, AXA IM – Real Assets, data as at 25 Apr 2019

European weighted average: France, Italy, Spain, UK, Benelux, Denmark, Sweden and Germany

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Rented residential properties offer a less cyclical, more defensive income stream



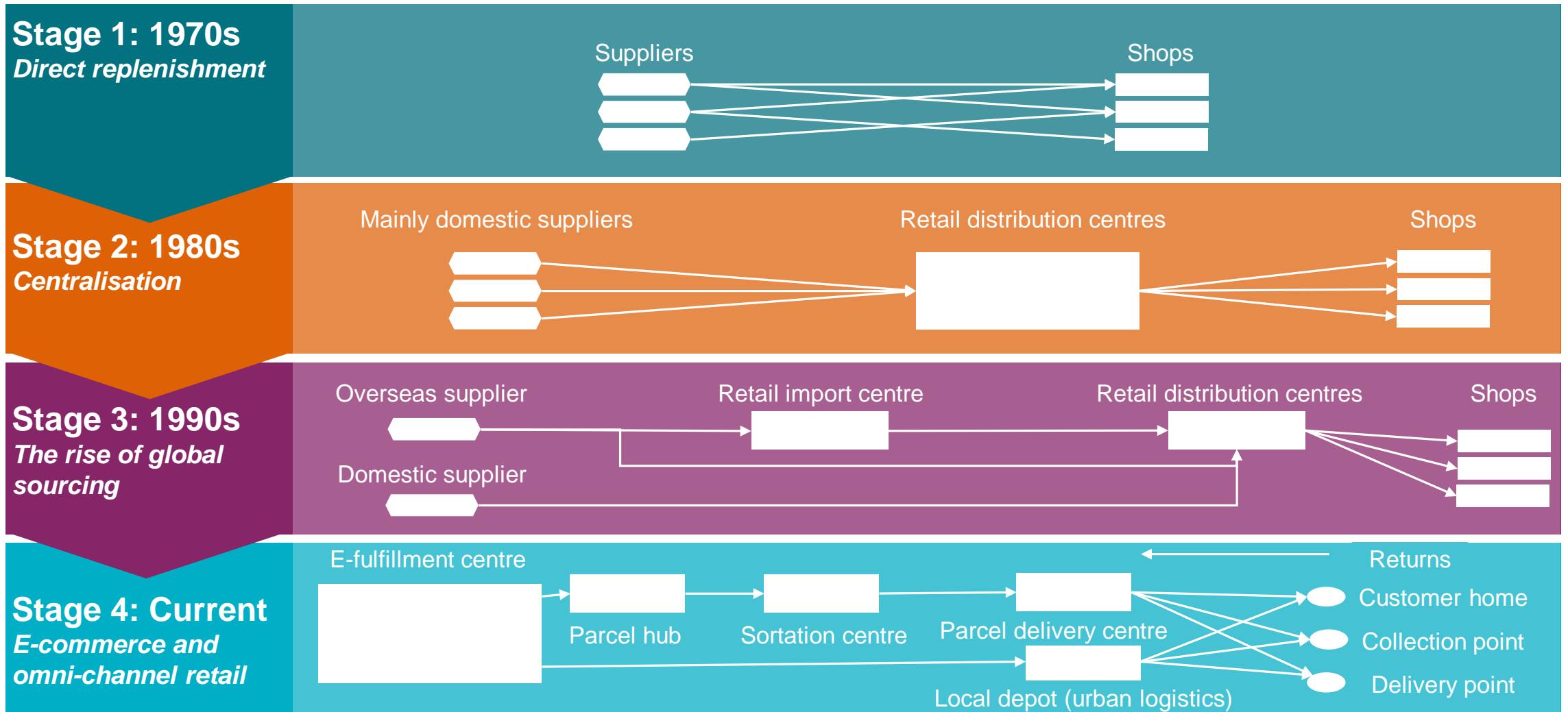
Source: MSCI, AXA IM – Real Assets, data as at April 2019

Source: MSCI, AXA IM – Real Assets, data as at April 2019

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Reconfiguration of retail supply chains driving a structural shift in logistics real estate demand



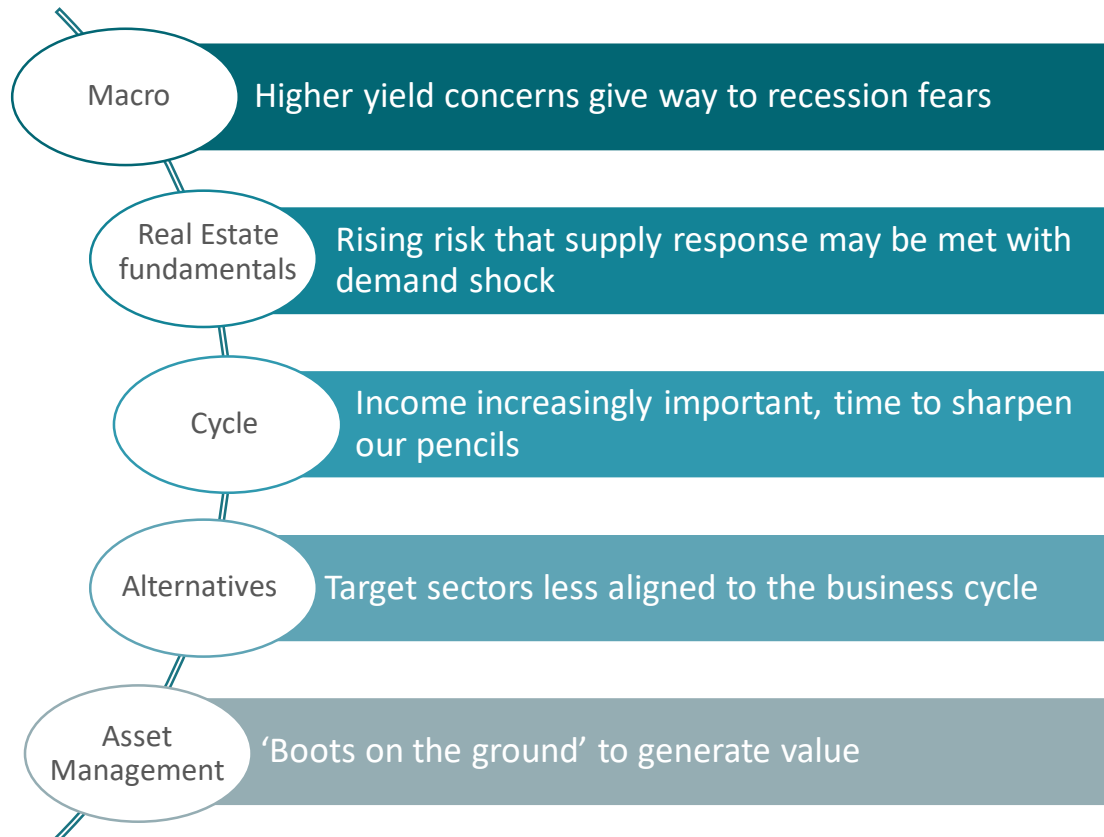
Source: JLL, data as of November 2013

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Summary: income expected to drive property level total returns

Structural shifts supporting new 'alternative' property types and impacting traditional sectors



- Property fundamentals mostly sound but markets in the mature phase of the occupancy cycle with signs that the supply response is emerging
- Yield compression has been widespread with pricing across regions converging; pricing no longer differentiates risk so now is the time for caution
- As we progress further into the cycle managing vintage risk is expected to become ever more critical
- Incorporate alternative property types which are less exposed to business cycles and more aligned towards structural shifts in the economy as portfolio diversifiers
- Engage with tenants to actively manage assets and keep pace with structural shifts impacting the way we use CRE

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