CAPITAL EDITION

HOW THE NEXT GENERATION IS INVESTING

The next generation doesn't feel compelled to honour tradition. Combine that with the wealth and working years on their doorstep, and the demands of investors are on the cusp of an evolution.

CREATING A NEW LEGACY

Carmel Hourigan's push for progress is seen in city skylines, rewarded in investor portfolios and felt by a diverse and global team.

ABILITY IN FOCUS

Ditching the idea of a physical and mental 'norm' for success is a tried, tested and powerful blueprint for workplaces in the 2020s.

THE JACINDA EFFECT

New Zealand's leadership and landscape dominates headlines more than its economy – but what do the numbers tell us about the period ahead?

ASSET SHOWCASE

MARCH 2020
ISSUE 06

AMP CAPITAL

CAPITAL EDITION

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Letter from the Managing Editor

Welcome to the March issue of Capital Edition.

Inclusivity is, more than ever before, an expectation of business leaders and a demand of both employees and investors. Historically, it has been grouped with 'soft' skills alone. But now, there are loud enough voices, and there is strong enough evidence, to show the real-world, economic impact of inclusivity on markets, workplaces and boardrooms.

Inclusivity is a broad term with a simple connotation: there's room for a broad range of abilities, views and skills in a productive society.

A chorus of voices that won't be ignored belongs to Gen Z, the next generation of workers and investors, who are set to inherit both the wealth of their predecessors and a planet facing a climate emergency. The result? A bold, socially conscious and influential group who are willing to invest, and will use their brains and their moral compass to do it. A handful of these investors, sitting in the walls of AMP Capital, are focused on using capital to create change, with a determination and spirit that could – en masse – shape the markets of the future.

In this issue, we also spotlight a common thread for some of the greatest legends of our time – think Stephen Hawking, Andrea Bocelli, John Nash. Each of these supreme talents were recognised and supported for their abilities and passions, despite the norms the developed world typically uses to hunt for talent. We imagine and aspire to a future where ability is in focus – one which is fairer, more inclusive, and significantly more productive.

Talking the talk is easy enough when it comes to inclusivity, walking the walk is something different altogether. The work of Carmel Hourigan, head of AMP Capital's real estate division, can be seen in many different skylines and cityscapes. For her, behind the scenes, it's a progressive, diverse and challenging way of thinking which fuels this work and success – and the legacy she's intending on leaving for future female leaders. Carmel shares her personal and career story with Capital Edition – a testament to what bold vision, diversity of thought and strong leadership can achieve.

Economic insights for the month come from the land of the long white cloud – New Zealand. With a leader that is breaking political norms with her gender advocacy and compassionate disposition, coupled with a few years punctuated by natural and human tragedies, New Zealand has been on the global media stage. But how is the economy performing, and what's set for the year ahead? We take a look beyond the headlines at how the nation is tracking.

There's much more inside and as always, I hope you enjoy. ☐

Many thanks.

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Features

Gutsy, bold and informed: welcome to the next gen of investors

Right down to rejecting familiar city staples like taxis, newspapers and desk phones – the next generation of investors doesn't feel compelled to honour tradition. Combine that with the wealth and working years on their doorstep, and demands of investors are on the cusp of an evolution.

Story by SIMON ANDERSON

Generation Z is wielding an outsized influence on the business and investing world. They don't herald the hallmarks of previous generations – they work where they want, wear what they want, and are healthy sceptics of power and prestige.

The image that conjures is often stereotyped as presumptuous and privileged, but to the contrary, it represents a generation whose investment decisions are far more based on a social consciousness and active involvement than years gone past.

One of the key values they are driving home to businesses worldwide is the concept of diversity and inclusion. To them, it's obvious: diversity creates better business outcomes and being inclusive creates nicer places to work. It's hard for them to imagine such statements were ever up for debate.

And despite their youth – the oldest of them is approaching their mid-20s – they are having a big influence on the older generations around them.

"They set a high bar," says Camille Wynter, a 28-year old Sustainable Investment Analyst at AMP Capital, of the way the new generation thinks. "They say just do it. Get it done. It's a no brainer."

Gen Z is fast replacing Millennials as the topic de jour – and older generations are watching closely, knowing that their attitudes and values will drive many social and economic aspects of society.

This new generation is distinctly different to its predecessors in some important ways.

Definitions of Gen Z are fuzzy – there's often no agreement on these types of generational terms until after they come of age – but most agree it starts with people born from the mid to late 1990s. So they are only just beginning to have an impact on the corporate world.

They have been globally connected through the internet and social media for their entire lives, which has immersed them in diversity and differences of opinion from a young age.

This is driving a more accepting view of diversity and an innate understanding of its benefits. But it's more than that.

Research out of the US shows this generation is also inherently more diverse than the generations before them – and that racial diversity in particular is increasing with time.

"They say just do it. Get it done. It's a no brainer."

– Camille Wynter, AMP Capital

In the US, census data shows that for the first time, white residents who are not-Hispanic make up less than half the nation's population under the age of 15[1].

Gen Z as a whole is 50.9 per cent white in the USA, more diverse than their Millennial predecessors (55.1 per cent white) and the Generation X population before them (59.7 per cent white)[1]. The changes are driven by aging and lower birth rates in the white population alongside strong immigration from Asia.

As these people enter the workforce, they are bringing strongly-held views on diversity and inclusion – along with a range of other social, environmental and ethical issues – that present a challenge for corporations and investment managers alike.

Work habits are one way the next generation are going to extend their influence.

"This cohort find it really difficult to work for a brand that has been found out to not be doing the right thing," says Wynter.

"They get quite defensive about it – they are just not willing to put their name next to brands that they don't think are doing the right thing."

Companies that do not value diversity and actively practice inclusion are going to find it tricky to attract and retain a generation of talent that values these attributes.

Consumption is also a clear way they are driving their preferences home to the corporate world.

Gen Z consumers expect brands to take a stand on issues like diversity – and with strong digital research skills and easy access to information – they are quickly aware of contradictions between a company's statements and its actions[2].

"There's about to be a massive wealth transfer from baby boomers – the biggest transfer of wealth in history – so Millennials and Gen Z are going to have a huge pool of money, trillions of dollars, to play with," says Wynter. >

1. https://www.brookings.edu/research/less-than-half-of-us-children-under-15-are-white-census-shows/
2. https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/true-gen-generation-z-and-its-implications-for-companies

“This cohort find it really difficult to work for a brand that has been found out to not be doing the right thing.”

– Camille Wynter, AMP Capital

“And they are going to make sure that money is being put towards having a positive environmental and social benefit.”

From an investment perspective, AMP Capital is looking for action from companies that goes deeper than mere corporate policy.

Best practice companies are reinforcing their statements on diversity and inclusion with measurable targets that are tied directly to executive remuneration. Diversity remains a key intangible driver of corporate success. Further, repeated studies link gender diversity to business value[3].

AMP Capital produced a study showing companies with more than two women on the board have better quality corporate governance[4], including fewer issues with related-party transactions, half the number of concerns about board composition and stronger independence and better remuneration governance.

Other studies have shown companies with gender diverse boards generate better stock market returns and higher returns on equity than all-male boards[5].

Now, the research is broadening beyond gender, finding benefits from diversity of ethnicity, culture, age, socioeconomic background and more.

“Today’s leadership roles are currently dominated by Baby Boomers[6],” says Karin Halliday AMP Capital’s Senior Manager, Corporate Governance.

“As younger generations move into senior roles, not only may corporate priorities change but previous stances on issues may come under increasing criticism.”

“The sooner boards and leadership teams can encompass a broader range of age demographics, the less disruptive this transition will be.”

“Companies achieving – or at least consciously moving towards – broad diversity will deliver several positive outcomes for investors.”

3. One example cited by Harvard Business Review includes: https://www0.gsb.columbia.edu/mygsb/faculty/research/pubfiles/3063/female_representation.pdf
4. https://www.ampcapital.com/au/en/media/articles/2016/December/media-release-investors-must-keep-focusing-on-gender-diversity-amp-capital
5. https://plus.credit-suisse.com/r/NMMnp2AF-WEIY95
6. https://www.ampcapital.com/au/en/insights-hub/articles/2020/January/beyond-gender-a-new-conversation-for-corporate-diversity-in-2020

“In general, Gen Y and Gen X professionals are more enthusiastic about the coaching and mentoring that comes with management jobs than the higher responsibility. However, Gen Z cites higher levels of responsibility and more freedom as attractive attributes of leadership.”

– Harvard Business Review

AMP Capital has been pushing for diversity in skills and geographic background on boards for some years and has also adopted an innovative approach to incorporating the views of younger generations into its investment approach by establishing a Youth Advisory Committee.

The Committee is made up of 12 university students drawn from a diverse range of backgrounds across Australia and New Zealand who meet regularly to debate ethical issues.

“We have representatives from large institutions across Australia and New Zealand who come in a couple of times a year to discuss ethical issues with us and whether a company should be in [one of our] funds. They challenge us on various things. It’s a two-way open channel which is pretty rare in the industry,” says Wynter, who chairs the committee.

“Some of our clients from large super funds said ‘we want to know what our younger members think is important.’ This generation is going to make up a huge part of our member base over the coming decade, so it would be great to get an insight into what they care about and how they think we should be investing their money.”

The first meeting of the Youth Advisory Committee was focused on animal rights in the pharmaceutical and cosmetic industries. Another session worked on data privacy and social media.

“The committee has been a great idea,” Wynter said. “And actually, it was proposed by one of our graduates.” □

Ability in focus

Ditching the idea of a physical and mental 'norm' for success in the workplace is one important step that has supported the rise of some of the greatest musical, intellectual and athletic legends in history. That serves as a lesson, and inspiration, for workers and employers worldwide.

Story by SEAN AYLMER

Tenor Andrea Bocelli was born with congenital glaucoma, a condition that left him visually impaired. A blow during a football game when he was 12 left him completely blind. He went on to sell more than 75 million records and is considered to be one of the greatest tenors of his generation.

Economist John Nash suffered from acute paranoid schizophrenia but fought it and built an academic career that won him the Nobel Prize in economics in 1994 for his work on game theory.

Stephen Hawking, arguably the greatest scientist of his age, was paralysed from head to toe for over 30 years until his death in 2018.

All are and were geniuses in their own sphere of interest, adding to the body of knowledge in their disciplines. All overcame significant obstacles. And all were beneficiaries of workplaces that accepted and adapted to their physical or mental challenges, allowing them to thrive.

But while Bocelli, Nash and Hawking found workplaces that accepted and adapted, they are the exceptions. Most people with disabilities face significant challenges that able-bodied workers seldom consider. And that's before they even start their job.

That said, awareness and action has turned a corner in many ways, which is an encouraging trajectory in the name of fairness, equality and productivity. >

"I believe one of the main reasons that people with disabilities are consistently finding it difficult to gain employment is that employers tend to have this erroneous assumption that [they] will likely under-perform in most areas of their duties. This is far from the truth, for many persons with disabilities are, in fact, intellectually superior and have innate talents."

– Business Times Singapore, via the United Nations

A brief history

Workers with a disability face physical barriers getting to work, accessing buildings and using tools and equipment. Workplace technology often does not support workers with a disability, and there is a general lack of awareness and confidence among employers on how to include people with disabilities. There is also little help and support for workers with disabilities to maintain employment and explore career opportunities. And, small businesses, who employ vast numbers of people, generally have no support mechanisms if they do employ a person with a disability[1].

All that occurs over and above the fact that many people with disability also face societal stigmas and stereotyping.

People with disabilities are among the most under-employed cohort of potential employees across the globe. According to the US Department of Labor, the current labour force participation rate in the US is around 77 per cent, compared to just 37 per cent for people with disabilities[2].

The number of people with a disability is huge, albeit difficult to compare across economies. The European Union estimates 120 million of its people have disabilities[3]. The US estimates the number of working age people with a work limitation is around 16 million[4]. The United Nations estimates one in six people in Asia – or 690 million men, women and children – live with a disability[5]. In Australia, that number is one in five[6].

The economic and social consequences of ignoring the disabled workforce are significant. For individuals, data shows that they participate less in the workforce, are more likely to abandon education systems and are at greater risk of poverty and social exclusion. The risks are greater for women with a disability[7].

For the economy, there is a massive loss in economic output because hundreds of millions of people across the globe are not able to fully contribute in an economic sense, either via the labour market, or through aggregate demand for goods and services.

The tides are turning

While there is a long way to go, there has been some progress made among employers over the past decade. The benefits of employing people with disabilities are starting to accumulate.

The watershed moment for businesses and individuals occurred on 13 December 2006 with the adoption in the United Nations of the Convention on the Rights of Persons with Disabilities. It followed decades of work and negotiations, and shifted people with disabilities from 'objects' of charity, medical treatment and social protection towards 'subjects' with rights, who are capable of claiming those rights and making decisions for their lives based on their free and informed consent, as well as being active members of society[8].

It meant business had to start thinking differently about hiring people with disabilities. According to the United Nations agency, the International Labour Organisation: "There are … many encouraging developments in terms of legislation and policies and practices. Both in the private and public sector, the advantages of disability inclusion are increasingly being recognised[9]."

But it still has a way to go. The ILO (International Labour Organisation) has identified five objectives for the inclusion of people with a disability, based on global megatrends in employment.

The first is that new forms of employment integrate disability inclusion. The jobs of the future, which are often determined by technology, should consider the needs of disabled workers.

The second is that greater effort needs to be made to ensure life-long skills development and learning be available to people with a disability.

Universal design – whereby an environment is created so it can be accessed, understood and used to all people regardless of age or ability – should be embedded in all new infrastructure, products and services. That is the third objective.

The fourth is to make affordable and available assistive technologies. The final objective is to boost measures to include persons with disabilities in growing and developing areas of the economy, in recognition of their abilities.

"To be able to achieve these goals, disability inclusion needs to be further integrated with other initiatives contributing to an equitable future of work," the ILO report says[10]. "Social protection is an important complement to achieving a future of work inclusive of persons with disabilities." >

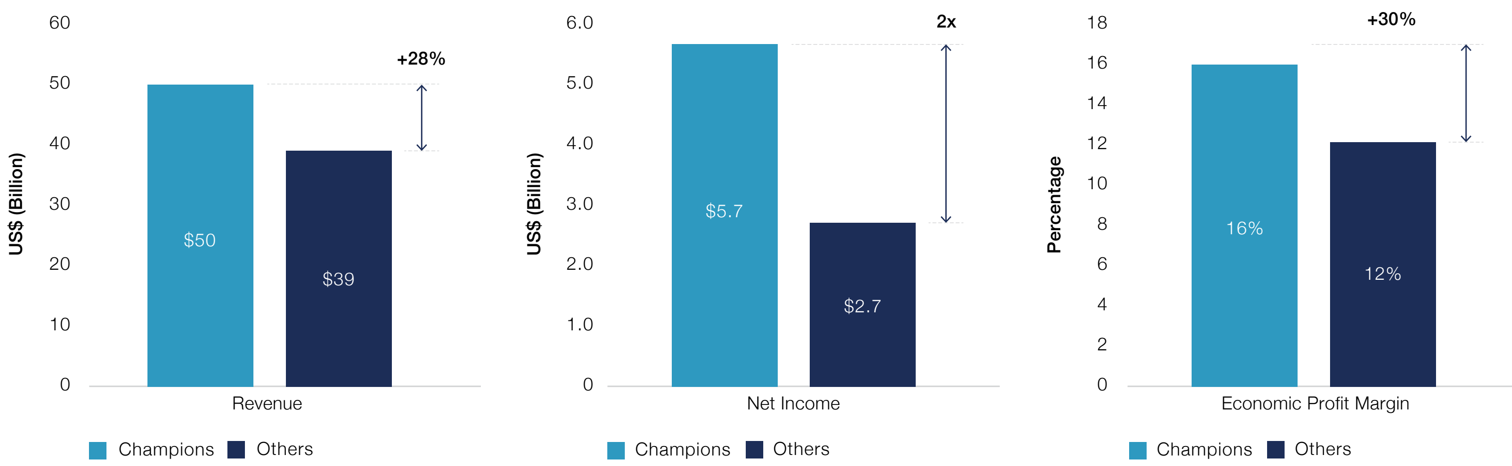
"Many companies have found that by employing persons with disabilities they have been better able to understand and serve their customers with disabilities. Adapting services to meet the diverse needs of persons with disabilities allows business to develop greater flexibility, builds reputation and reaches out to a sizeable market."

– The United Nations

1. Commentary based on International Labour Organisation commentary at www.businessanddisability.org/publications
2. https://www.dol.gov/odep/
3. http://www.businessanddisability.org/publications/
4. University of Cornell. http://www.disabilitystatistics.org/reports/cps.cfm?statistic=prevalence
5. www.unescap.org/sites/default/files/Disability_The_Facts_2.pdf
6. ABS 2016, Disability, Ageing and Carers, Australia: Summary of Findings, Cat. No. 4430.0.
7. http://www.businessanddisability.org/publications/
8. https://www.un.org/development/desa/disabilities/convention-on-the-rights-of-persons-with-disabilities.html
9. http://www.businessanddisability.org/publications/
10. http://www.businessanddisability.org/wp-content/uploads/2019/11/PDF_acc_FoW_PwD.pdf

Champions outperform on profitability and value creation

Chart 1



Source: *Getting to Equal 2018: The Disability Inclusion Advantage*, Accenture

How real estate is adapting and progressing

The United Nations heralds its Sustainable Development Goals as a blueprint for peace and prosperity for people and the planet. One part of this blueprint for the United Nations is ensuring that physical and social spaces are fully inclusive for people living with a disability. The real estate sector has a huge opportunity to work towards this goal in its provision and design of physical spaces, and it's one that AMP Capital is working towards.

The AMP Capital real estate sustainability team is focusing on accessibility as a key priority in its recently launched 2030 Sustainability Strategy, committing to implementing best practice standards globally across our entire managed real estate portfolio by 2026.

What does this look like?

To improve accessibility for people living with some form of disability, AMP Capital has committed to doing things like improving physical access to buildings, providing parent rooms, quiet rooms, adult changing facilities, and developing more legible signage and digital communications.

AMP Capital has also committed to training its employees to understand and respond better to people with special needs. As an early example, AMP Capital has recently opened a quiet room for people who can become easily overwhelmed in bright and busy environments at one of the centres we manage on behalf of clients. AMP Capital also operates two shopping centres in NZ that were the first to achieve a Platinum rating under the 'Be.Accessible' rating system.

You can read more about this in AMP Capital's 'Why Sustainability Maters in Real Estate' paper.

The productivity case

Employing people with a disability isn't just a social obligation. It makes financial sense as well.

A recent report by consulting firm Accenture shows that American companies that embrace best practices for employing and supporting people with disabilities in their workforce have outperformed their peers on financial measures – as seen on the charts above[11]. It compared the performance of 140 US organisations, including 45 companies that were considered disability champions. The results were stark.

In terms of revenue, net income and economic profit margin, firms that championed the employment of people with a disability outperformed those who didn't. Companies who improved internal practices for disabled workers were four times more likely to see stronger shareholder returns[12].

The major reasons companies have not leveraged persons with disabilities range from a lack of understanding of the availability of talent and potential benefits through to misconceptions about the cost versus return on investment of disability inclusion.

In the report, the disabilities rights lawyer and Connecticut state senator, Ted Kennedy Jr, who himself lost a leg to bone cancer when he was 12, says disability inclusion is the next frontier of corporate social investing and mission driven investing.

"Persons with disabilities present business and industry with unique opportunities in labor-force diversity and corporate culture, and they're a large consumer market eager to know which businesses authentically support their goals and dreams."

In an opinion piece in the New York Times[13], Senator Kennedy went further, outlining the common denominators among the organisations best including disabled Americans:

1. They hire people with disabilities, ensuring that they're represented in the workplace.
2. They carry out practices that encourage and advance those employees.
3. They provide accessible tools and technologies, paired with a formal accommodations program.
4. They generate awareness through recruitment efforts, disability education programs and grass-roots-led initiatives.
5. They create empowering environments through mentoring and coaching initiatives.

He added that many companies had yet to recognise that people with disabilities could contribute economically: "Once companies are aware of these potential economic benefits, they should be motivated to bring persons with disabilities into the workforce to thrive as never before."

Looking ahead

Around the globe, businesses are awakening to the social and economic benefits of creating workplaces friendly to people with disabilities. Low unemployment rates in modern economies have helped improve the rate of employment for people with disabilities. But it still remains well below the overall rate of employment. The examples of Andrea Bocelli, John Nash and Stephen Hawking support the data: workplaces which allow people with a disability to thrive will do better than those that don't. ☐

Getting it right

There is no single 'right way' of practicing inclusion for people with a disability in the workplace. What works in one industry may not work in another. What works for a certain form of disability might not be suitable for another individual. Government policies, legislation and incentives are difficult to compare across borders. Comparisons are fraught, though in most major economies not-for-profit organisations and universities have attempted to develop ranking.

Disability:IN, formerly the US Business Leadership Network, is a non-profit organisation that has developed the Disability Equity Index (DEI) in conjunction with the American Association of People with Disabilities. It is a benchmarking tool for disability inclusion.

American companies self-report their disability policies and practices and receives a score out of 100. Last year, 111 companies achieved the maximum rating of 100[14].

The International Labour Organisation's Global Business and Disability Network (GBDN) includes 23 for-profit organisations, mostly headquartered in Europe, whose goal is to promote persons with disabilities.

The companies range from a hotel group and retailer, through to financial services firms, luxury brand groups and telcos.

Japan is one of the few developed economies with legislated quotas for the employment of people with disabilities[15]. The country, which was selected to host the Olympic and Paralympic Games this year, has a legal employment quota of 2.2 per cent for all companies with more than 45 employees, although many companies do not meet this requirement[16].

11. https://www.accenture.com/t20181108T081959Z__w__/us-en/_acnmedia/PDF-89/Accenture-Disability-Inclusion-Research-Report.pdf#zoom=50
12. https://www.accenture.com/t20181108T081959Z__w__/us-en/_acnmedia/PDF-89/Accenture-Disability-Inclusion-Research-Report.pdf#zoom=50businessanddisability.org/wp-content/uploads/2019/11/PDF_acc_FoW_PwD.pdf
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16. https://www.ft.com/content/44cac7dc-3be5-11e8-bcc8-cebcb81f1f90

Creating a new legacy

Carmel Hourigan's push for progress is seen in city skylines, rewarded in investor portfolios and felt by a diverse and global team.

Story by SEAN AYLMER
Pictures by NIC WALKER

Carmel Hourigan only has half an hour. The head of AMP Capital's real estate division has had a whirlwind twelve months and is about to travel overseas to visit clients again.

She sits with her team in Australia's first skyscraper – AMP Capital's gold-hued, heritage-listed tower that presides over Sydney Harbour's spectacular Circular Quay.

When it opened in 1962, the AMP Building was almost double the height of anything else in Sydney. Now, it's overshadowed by an even greater monument to progress, AMP Capital's ultra-modern Quay Quarter Tower which is on track for completion in 2022.

Hourigan sees the value in inclusion and diversity and wants to talk about Sydney's western suburbs; "I'm the Deputy Chancellor at Western Sydney University. We have students who are the first to go to university in their family," she says.

"The cultural diversity there is just amazing. There are people from low socio-economic backgrounds. We have the highest number of refugee students. For these families, going to university is an incredible leap forward in terms of the economics of that family."

That focus on opportunity and the celebration of difference mark Hourigan's time at AMP Capital.

AMP Capital's real estate division employs more than 600 people and manages circa AUD$30 billion of commercial real estate assets across the office, retail and logistics sectors[1].

"At AMP Capital, we think inclusion is incredibly important. We need to be in a situation where people can bring their whole self to work, we need to drive an innovative culture where new ideas are always welcome and we can have the right debates and question each other," she says.

"Investment decisions are getting harder and harder to make – we cannot have people who think the same way all the time."

Hourigan sat down with *Capital Edition* to talk about real estate, education and her own pathway to a leadership role in one of Australia's largest and most competitive industries. >

1. As at December 31 2019

Tell us about your background and journey into real estate.

I have to start by saying my father had a big influence on my life. He was an academic at Hawkesbury Agricultural College [Sydney's oldest agricultural college and now part of Western Sydney University]. He ran the food technology course there and all my life he had been teaching and talking to me about how you must go to university. He said – 'why don't you come out to Hawkesbury Ag – my mate is running this course called Land Economics. You could have your own business and as a woman wouldn't it be fantastic to have the freedom.' It was a long time ago, probably a bit ground-breaking. I did that course with around 15 girls and 150 boys.

And then worked through Sydney's real estate industry?

It's been an interesting journey. My mission was to be a broking analyst, so I went and got research jobs and I went here and there, I moved around a lot. I developed a really strong grounding and pedigree in research. I went to [Australia's largest bank] Commonwealth Bank and became an assistant fund manager and 18 months later, I took on the role of fund manager. I ran the investment management platform at Lend Lease and then took on the role of Chief Investment Officer at GPT Group, before taking up the opportunity four years ago to become the Global Head of Real Estate for AMP Capital.

Tell us about real estate at AMP Capital.

Historically, AMP Capital has been one of the biggest players in real estate in Australia – and one of the first. We have influenced the skyline in many capital cities. We built the first skyscraper in Sydney – which we're sitting in right now.

We manage around AUD$30 billion which puts us as one of the largest wholesale fund managers in the Asia Pacific. We have had tremendous growth in the last six or seven years, particularly offshore.

The really interesting thing is we have been growing our client base through that time. Historically, we used to manage a large proportion of AMP money. But now the majority of the money we manage is on behalf of external clients. We have just over 80 clients from all over the world – around 75 per cent are domestic, 25 per cent offshore.

Our focus in real estate is to deliver performance for our clients. We want to be the most trusted global real estate partner for our clients. Performance and trust go hand in hand.

You're becoming increasingly global too?

Our business is divided into two components. One is separate accounts where we manage bespoke direct real estate solutions for around 10 clients, some of those we've had for a very long period of time and they're trusted clients. And we have a pooled funds business. Since I've been here, we made the decision to take the business globally and have expanded into the US.

We thought if we want to expand the business, do we put a team on the ground and grow organically or do we acquire a specialist in that market? How do we attract the funds? How do you build trust with clients? We came to the realisation that with real estate, you have to be best in your market to be worthy of attracting the capital. So, we looked for a best-in-class partner in an area where we didn't play so we could actually acquire a capability and learn a new way of doing things.

In late 2017, we acquired a 24.9 per cent interest in [a US-based debt and equity specialist] PCCP. They have been operating for 21 years in the US debt and equity markets based out of Los Angeles, San Francisco and New York. Culturally I see a lot of alignment to our business which is important. That business has grown significantly so now they are close to the USD$10 billion-mark funds under management as at the end of September 2019.

We also have a great shareholding partner there with CalSTRS and we have the founders and the employees who sit alongside us too.

How did real estate fare in 2019? How are you feeling about 2020?

Well, 2019 was a wild year – bond markets and equity markets rallied. For real estate, on balance it's been another strong year in terms of returns. We continue to see real estate in Australia deliver, particularly as the hunt for yield creates a very competitive landscape for offshore investors.

Why Australia? Well from a relative yield and risk-adjusted return point of view, Australian real estate will remain very attractive during 2020. Australia is also seen as politically stable, has experienced an extended period of economic expansion and has one of the strongest population growth rates in the OECD.

With domestic players fairly full on their real estate allocations, the opportunity is there for offshore investors, who are particularly interested in logistics and well-located prime offices.

And what about retail?

There's no doubt that retail has had its challenges which I think all retail owners in Australia are feeling. Given the dire state of the US retail market, people are looking to Australian retail and asking is this going to happen here?

The short answer is no. Certainly not to that extent. I strongly believe we are better placed than our global counterparts to manage the rapidly-changing retail landscape.

The reason is we have some distinguishing factors compared to the US and other global counterparts which will protect us, such as stronger population growth and better planning frameworks. This limits the potential for oversupply of retail space as experienced in markets such as the US.

There is clearly some sort of re-pricing going on in retail. It was always top of the pops – now you're seeing that loosen off, and you're seeing logistics and office become the most sought-after sectors. >

"Investment decisions are getting harder and harder to make – we cannot have people who think the same way all the time."

"Having reached this position, there's a role that I can play to influence more inclusion in the industry. The property industry was always very male dominated. It's seen a massive change in the last 20 years."

Tell us more about the retail landscape.

Asset owners or landlords are now asking what the future shopping centre is going to look like. Quite simply, it will become more than just a shopping centre. The mixed-use and diversification opportunities could see residential, healthcare, lifestyle, aged-care and other amenities added to the mix – as well as the typical retail plus food and beverage offering. What are all the things that the community needs in that location to thrive? That's what the shopping centre will look like.

I often question why it has taken so long. Well it's probably because the pricing of pure retail has been so high that it was always the highest and best use.

That equation is definitely changing now and you're going to see some really interesting things developing in retail assets.

Are you making that change already or is it in the future?

We are already re-positioning some of the shopping centres we manage and master planning across our entire retail portfolio. For some centres, such as Karrinyup in Western Australia, the transformation is well under way with residential apartments being added around the centre. We also have concept approval to build four mixed-use towers on Macquarie Centre [a shopping centre in Sydney's second largest business district]. That will take us some time – we will do that over 10 to 15 years.

In the meantime, we continue to believe that shopping centres in highly sought-after locations will deliver the best investment outcomes for our clients, supported by an active management approach that retains and builds customers and engages with the community.

What else are you excited about?

Quay Quarter being built here in Sydney. It is amazing. It's not often you get told at parties they like your facade! Quay Quarter Tower is one of Australia's premium office developments in one of Australia's most globally recognised locations at Circular Quay. As well as AMP, I'm really excited to have Deloitte moving their Sydney head office in there – they are going to be a great partner because they're pushing us to the boundaries on technology and collaboration.

I'm also really proud at what we've been able to achieve through this development from a sustainability perspective. I couldn't be prouder of the team working on this once in a lifetime project which will see us play our part, again, in transforming the Quay.

Turning to sustainability, how are ESG factors driving your investment decisions?

We really are focused on ESG – it's one of our key strategic priorities. We carry a big environmental and social responsibility and we recognise that what we do will have a major impact.

We recently launched our 2030 Real Estate Sustainability strategy which includes a commitment to buying a piece of land the size of our entire portfolio to create a bio-diversity conservation reserve. I look forward to seeing what we can deliver in this space in 2020 and beyond.

Who's leading the push for sustainability in real estate – investors or tenants?

It's a bit of both. In the office sector, the industry is rated annually through the Global Real Estate Sustainability Benchmark (GRESB) survey. Pleasingly, we are very strongly rated. We can't attract quality tenants unless we have certain sustainability and wellbeing ratings. The ability to achieve these ratings starts from the culture in your business – how you are pushing sustainability initiatives down to recycling within the assets you manage – which is business as usual for the real estate sector.

You're also now Deputy Chancellor at your alma mater?

It's a privilege. Western Sydney University has just under 50,000 students. I officiate at graduation ceremonies there. It is easy to forget how important these days are for these students. The range of different nationalities receiving their degrees – it is amazing to be a part of. For these families, going to university is such a leap forward in terms of their quality of life.

That focus on diversity is a big deal for you.

It's a passion. Having reached this position, there's a role that I can play to influence more inclusion in the industry. The property industry was always very male dominated. It's seen a massive change in the last 20 years.

I'm chair of the Inclusion & Diversity Council for AMP Capital and a Special Advisor for the real estate industry for the Male Champions of Change [a high-profile group of CEOs and chairs driving gender equality in Australia]. I work with the other CEOs in the real estate industry to discuss how we can make change.

I also went to the United Nations in March last year for the Commission on the Status of Women. That was 'blow your mind' stuff – 9,000 delegates from around the world connecting, collaborating and trying to come up with agreed principles and targets for the next year.

It actually made me realise we are in a really good position in Australia, although there's a lot more work to be done. We need to play an active role as a leader for gender equality on the global stage.

And inclusion particularly matters in investing, right?

At AMP Capital, we understand inclusion is incredibly important. We need to be in a situation where people can bring their whole self to work and actually have the right debates and question each other in an environment of respect. Investment decisions are getting harder and harder to make – we cannot have people who think the same way all the time.

Training people to think like that and not be upset by the fact that you're having a debate about something is not easy. But I think we're definitely getting there, and as a result we will see sharper decision making which delivers better outcomes for our clients. □

Diversity at work and economic growth

There has been a growing realisation that better use of workplace minorities will have a direct positive influence on the Holy Grail of economics – increasing productivity growth.

DIANA MOUSINA
Senior Economist, AMP Capital

Workplace minorities come in all shapes and sizes. They are based on gender, age, ethnicity, religion, sexual preference or a myriad of other traits. While some minorities were known for specific skills, it has been difficult to explain, let alone quantify, the overall benefit of diversity in the workforce.

The emergence of technology has triggered an explosion in potential markets for goods and services, as well as sellers of products. Free-trade agreements and specific policies to promote minorities have provided a powerful boost to different segments of the labour market and economy as well.

According to the Organisation for Economic Cooperation and Development[1], as much as half of total economic growth in countries is due to innovation. Innovation often builds on what is already known. But a necessary ingredient is creativity.

Creativity is more likely to emerge if there are disparate people in a room trying to solve a problem. How to sell products to the massive Chinese market is a perennial question for many organisations. Having Chinese speakers, and people with family backgrounds from China, in a room debating the solution with others in an organisation is a good way to start.

Part of successful creativity is social cohesion. Enabling workers from all types of backgrounds to collaborate is a necessary condition for creativity. These sorts of *social* drivers of economic health are critical for future prosperity.

Former Reserve Bank of Australia board member, Professor Ian Harper of Deloitte Access Economics, wrote a report[2] last year where he says: "How well people relate to one another facilitates creativity; social connectivity helps labour markets function efficiently; and a healthy population adds to overall economic welfare. This is where concepts such as diversity and inclusion fit in the economic landscape."

The World Economic Forum[3] has taken a much greater interest in social inclusion supporting economic growth.

"Economic growth coupled with social inclusion is one of the world's most pressing global issues that require a concerted effort between businesses, governments and civil society," the Forum says.

One of the drivers of greater social cohesion and inclusion has been technology. Technology has literally opened up global markets for local producers of goods and services. Selling to different markets takes different skill sets. Employing a more diverse workforce better enables a company to attract sales.

Technology has enabled teams to better collaborate. Working from home, or across borders, is now a realistic option for many workers. It allows people to manage their work-life balance better and be part of the labour market. Attracting workers into the market, particularly in part-time roles, aids in addressing a chronic labour market challenge in many western economies – underemployment.

Technology has also been a boon for trade across borders. From initial sales meetings to logistics and payments in different currencies, technology has smoothed the process. It has also allowed some older economies to become 'new' economies. In Australia's case, the country's trade is gradually shifting off the teat of agriculture and mining towards the services sector.

These changes and opening up of markets mean companies need a more diverse talent pool to recruit from.

The increase in female participation in the workforce in Australia – female participation rates have gone from around 54 per cent 20 years ago, to above 61 per cent today[4] – is an example of a workplace minority boosting economic growth. It has helped use up spare capacity in the economy. Around half of the female workforce are in part-time employment, decreasing underemployment.

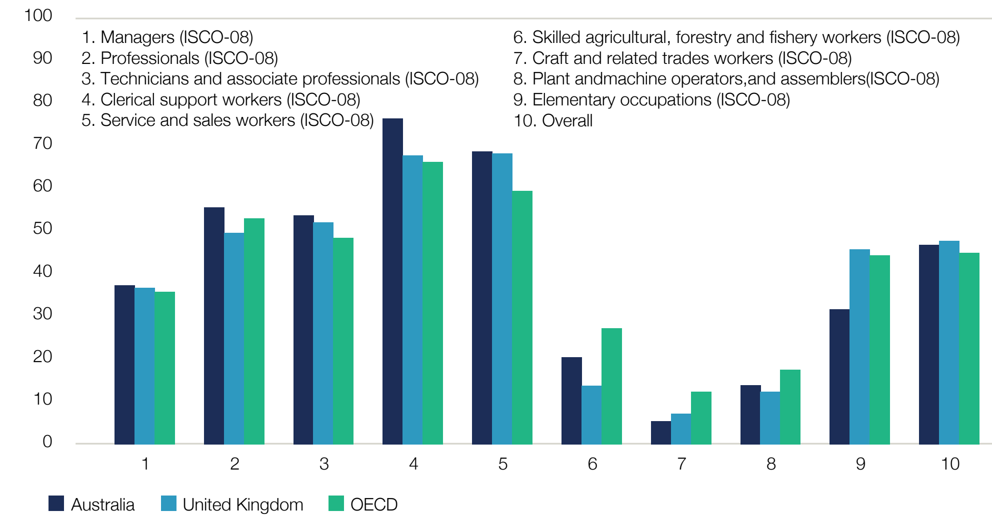
1. https://www.oecd.org/sti/OECD-Innovation-Strategy-2015-CMIN2015-7.pdf
2. https://www2.deloitte.com/content/dam/Deloitte/au/Documents/Economics/deloitte-au-economics-benefits-improving-social-inclusion-270819.pdf
3. World Economic Forum 2016, Global Challenge Initiative: Economic Growth and Social Inclusion
4. https://www.wgea.gov.au/data/fact-sheets/gender-workplace-statistics-at-a-glance

Fast facts

As part of the International Women's Day initiative, the Global Institute for Women's Leadership and Kings College London studied global attitudes towards gender equality in society and the workplace. The research has found notable progress, but there's still a way to go worldwide. Key findings include:

- In most countries childcare is no longer seen as the preserve of the woman; three-quarters globally (75%) disagree that a man who stays at home to look after his children is less of a man compared with just one in five (18%) agreeing.
- Three-quarters of people globally (75%) say they would be comfortable with having a female boss. Only 17% say they would feel uncomfortable. Men would be more uncomfortable with this than women (20% vs 14%).
- More people disagree (49%) than agree (42%) that, when it comes to giving women equality, things have gone far enough. This marks a change from 2018 where 45% both agreed and disagreed with this statement – suggesting that perhaps the push for equality is gaining wider traction.

Chart 1
Female representation (by occupation)



Source: https://www.wgea.gov.au/data/fact-sheets/gender-segregation-in-australias-workforce

"Twenty years ago, there were around 140,000 workers over the age of 65. That number is now closer to 600,000[5]. People are living longer adding to spending in the economy."

That's good for employment levels, wage expectations and the rest of the economy.

Similarly, older workers are contributing more to the Australian economy. Twenty years ago, there were around 140,000 workers over the age of 65. That number is now closer to 600,000[5]. People are living longer, adding to spending in the economy.

An economy like Australia, over the longer term, has had excellent outcomes in employment growth, compared to the United States. Higher GDP growth and the avoidance of the Global Financial Crisis are key reasons behind this. However, Australia's high migration rate could also be a reason that isn't often mentioned. Half of Australia's population growth is driven by migration. And migration boosts output and drives economic growth[6].

There are also several instances of policies and debate that promotes inclusion driving better outcomes. Academic research[7] in Australia shows that since the inclusion of more women on listed-company boards became a topic of discussion, better bottom-line outcomes and greater diversity have gone hand-in-hand.

The trillion dollar question is whether this all leads to rising productivity and higher living standards. The jury is still out on that one, at least in Australia.

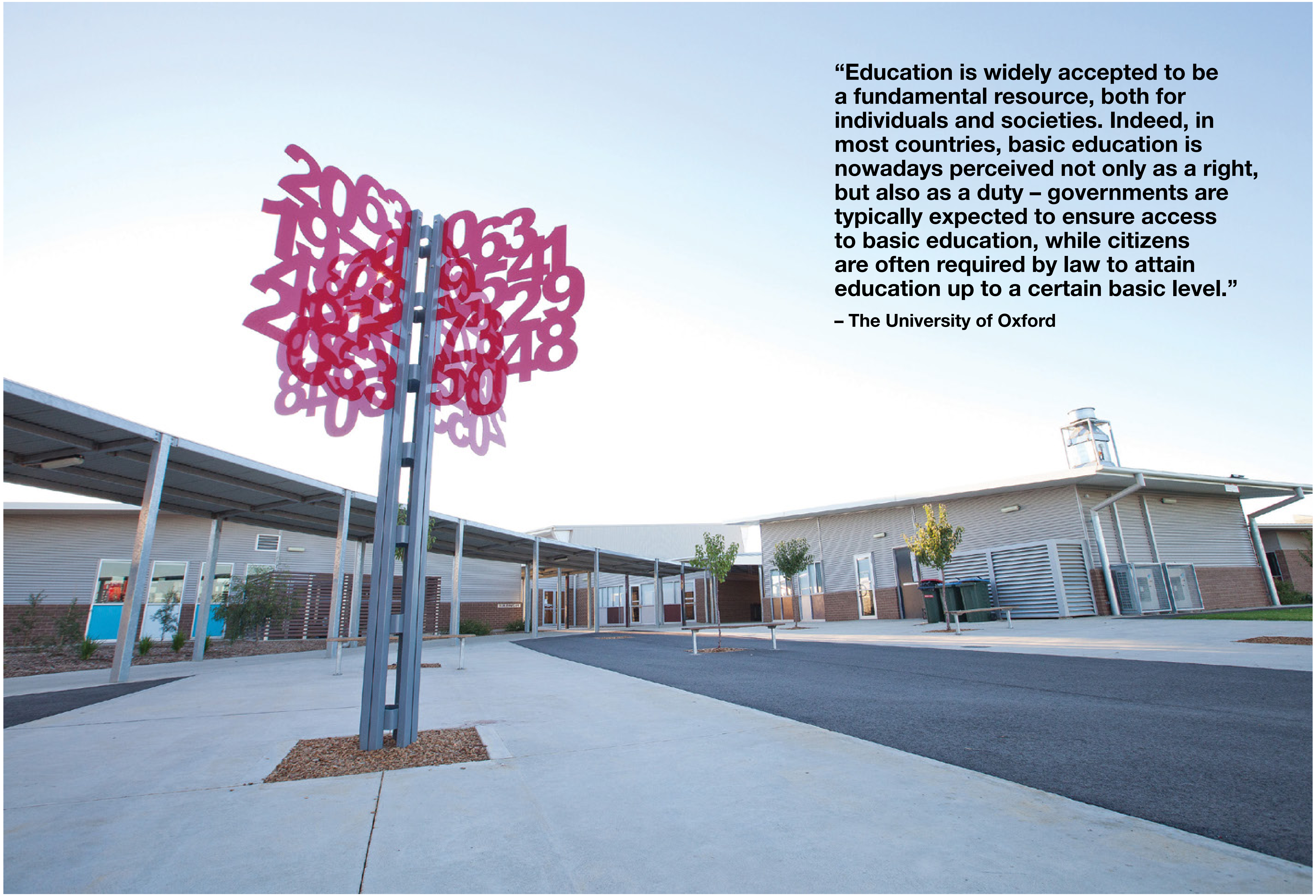
Labour productivity growth has averaged around 0.8 per cent each year over the past five years, which is lower than the OECD average of 1.0 per cent. But it is still below the long-term average. We won't know for sure for a few years yet.

Traditional Australian industries, such as mining, agriculture and manufacturing, depend on scale and technical innovation to improve productivity. But as Professor Harper says, greater productivity in the services sector depends on innovation driven by creativity and imagination.

Those traits are stimulated by human interaction.

"The more diverse we are when we gather, the more we stimulate, challenge and goad one another to greater heights of imagination and creativity," Professor Harper says. "But for diversity to work its magic, there must also be inclusion." □

5. Australian Bureau of Statistics and Parliamentary Budget Office report, 2019, 'Australia's Ageing Population'
6. For more information, see: https://esacentral.org.au/images/Islam2.pdf
7. https://www.ey.com/en_au/assurance/how-to-get-more-women-in-the-boardroom



“Education is widely accepted to be a fundamental resource, both for individuals and societies. Indeed, in most countries, basic education is nowadays perceived not only as a right, but also as a duty – governments are typically expected to ensure access to basic education, while citizens are often required by law to attain education up to a certain basic level.”

– The University of Oxford

Investing for life

Education is one of the single-most transformative experiences in life. For nations worldwide, it is a staple of life, and there is an ever-present social need for supportive infrastructure and facilities. Investors can play a transformative role in this equation, including through the provision of Public Private Partnerships (PPP), which is an arrangement between a unit of government and a business in the private sector.

On behalf of its investors, and in partnership with the South Australian government, AMP Capital announced the successful refinance of the South Australian Schools Project’s AUD$172 million debt facility last year. The South Australia Schools portfolio includes six newly constructed ‘super schools’ in Adelaide, providing education to over 4,600 students across primary, middle, secondary, special education and childcare. All schools have been completed and are operating. □

“A growing body of empirical research suggests that better education yields higher individual income and contributes towards the construction of social capital and long-term economic growth.”

– The University of Oxford

Beneath the long white cloud

Story by SIMON ANDERSON

New Zealand's leadership, lifestyle and natural beauty dominates headlines more often than its economic outlook. Here, we take a look at what's happening on the ground, and what the numbers tells us about the period ahead.

It's often called the world's favourite country. With its snow-capped mountains, fabulous wines and friendly locals, New Zealand regularly tops international polls of must-visit destinations[1].

The love affair goes beyond its natural assets. NZ Prime Minister Jacinda Ardern – the surprise winner of a tight 2017 election – has won hearts around the globe for her inclusive style and compassionate leadership in the wake of 2019's Christchurch mosque attacks that killed 51.

But with an economic slowdown in recent years that has proved longer and deeper than expected, questions are being raised about New Zealand's outlook.

And with an election called for September 2020, global attention is turning once again to New Zealand.

In this special report, we look at the economic outlook for NZ in this an important year for the land of the long white cloud. >

1. https://www.telegraph.co.uk/travel/galleries/The-worlds-best-countries-in-pictures/1/

> "As the global economic outlook weakened over 2019, central banks around the world responded by easing policy. The question for us now is whether enough has been done, and how confident we can be of sustainably achieving our dual policy mandate for inflation and employment."
>
> – Christian Hawkesby, Reserve Bank of New Zealand

NZ enjoyed a remarkable recovery in the ten years after the global financial crisis. But the recovery topped out in 2016 and the economy has been slowing as capacity constraints emerge, costs rise, and population growth slows.

The slowdown became more apparent in 2019 as annual NZ economic growth hit a low of around 2 per cent[2]. That pace would be welcome in many western economies, but not in an economy which only three years earlier was growing at a 4.5 per cent clip[3]. The slowdown, which was worse than many had expected, reflected the sluggish global economy and the confidence sapping US-China trade war.

Looking ahead to 2020, modestly higher growth is likely, underpinned by easier monetary policy, fiscal expansion, an improving global economy and a recovery in business confidence.

But it's not clear how long the recovery will last.

"We don't see a massive nor prolonged bounce in growth," says Bevan Graham, AMP Capital's NZ managing director and chief economist. "Capacity constraints will continue to persist, capping any significant resurgence in growth."

AMP Capital is forecasting 2.4 per cent growth this calendar year and 2.3 per cent in 2021[4].

The key factor affecting the NZ outlook is the global economy. As a small, open economy with a population of just 4.9 million, NZ is highly dependent on global conditions and its capital markets rely on funding from international markets.

NZ's central bank, the Reserve Bank of New Zealand, estimates a 1 percentage point decrease in growth among its trading partners typically translates to a 0.6 percentage point decrease in New Zealand's growth[5]. And that change flows through quickly to people's everyday lives.

The economy's exports are traditionally driven by the primary sector, led by milk, meat and forest products, and have benefited in recent years from higher prices driven by pork supply problems in Asia and dry summers globally driving up dairy prices.

NZ has also enjoyed lower import prices as the global economy slowed, leaving the economy with favourable terms of trade.

While the country's trade relations are strong predictors of growth, the composition of exports and imports are changing.

For the first time last year, tourism overtook dairy to be NZ's number one export and the technology sector is expanding faster than much of the rest of the economy. Technology is now NZ's third largest export sector[6], growing 11 per cent to NZ$8 billion annually[7].

This changes NZ's outlook. Commodity exports are subject to global price movements, but volumes stay relatively stable year-to-year. However, services like tourism are subject to demand fluctuations that can further expose NZ to global events. RBNZ says visitor numbers flatlined in the middle of 2019 as Chinese and American tourists stopped travelling amid trade tensions. The China-based coronavirus also poses a specific threat to tourism.

NZ's open financial markets also expose its economy to the world.

Like many Western countries, NZ is a net borrower, relying on international capital to fund consumption and investment. In recent years, it has benefited from relatively stable and historically low funding costs, while it's floating exchange rate successfully acts as a buffer.

"In summary, the trade and financial channels do not look like they have been a drag on New Zealand's growth," RBNZ Assistant Governor Christian Hawkesby told a conference earlier this year.

"If anything, they have helped insulate our economy from the global slowdown, helped in part by our shift to an easing bias in early 2019."

The key question is what happens next, with the RBNZ noting risks to the economy were tilted to the downside and committing to add further monetary stimulus if needed. The official cash rate is currently at 1 per cent, relatively high compared to other western economies.

The outlook is clouded by an unclear domestic picture and an economy adjusting to policy changes.

As the Ardern government clamps down on immigration, growth in the number of people available for work is declining which is having an impact across the economy.

RBNZ is forecasting annual net immigration of working-age people to fall from 40,000 in 2018 to as low as 28,000 in 2021 and expects the decline to be a contributor to lower GDP growth[8].

But that decline is being offset by declining demand for labour as the economy slows, leaving the unemployment rate low at 4.2 per cent. Little change is expected in 2020.

AMP Capital believes that rate is in line with estimates of full employment which should see wage growth slowly move higher.

RBNZ concurs, saying employment is currently 'near its maximum sustainable level', causing annual wage inflation to rise to around 2.6 percent in early 2022 as the labour market tightens.

Wages growth is also likely to be supported by the Ardern government's policy to lift the minimum wage to NZ$20 an hour by 2021[9], which will be one of the highest levels relative to median wage in the OECD[10].

Those wage gains will start to see inflation ticking higher again, although RBNZ says the minimum wage increase itself will be mostly absorbed in firms' margins.

Inflation reached its lowest point in more than a year last September when the annual rate came in 1.5 per cent. It is expected to head back to more than 2 per cent in the first half of calendar 2020, with headline inflation of 2.2 per cent in the year to March 2020 and holding above 2 per cent over 2020 and into 2021[11].

"It's a kind of Goldilocks inflation – neither too hot nor too cold. Consistent with continuing accommodation in monetary policy, despite the inflation impulse from expected fiscal stimulus."

– Bevan Graham, AMP Capital

"It's a kind of Goldilocks inflation – neither too hot nor too cold," says Graham. "Consistent with continuing accommodation in monetary policy, despite the inflation impulse from expected fiscal stimulus."

That benign outlook hides some concerns. Underlying inflationary pressures are on the rise domestically, with non-tradeable inflation – headed by higher prices for property rates and rentals – running at more than 3 per cent per annum[12]. Tradeable inflation is keeping a lid on the headline figure.

Rising home prices have become a political lightening rod but they are underpinning a brighter outlook for NZ businesses, which have also been buoyed by government promises to lift spending on infrastructure.

The Ardern government's novel approach to budgeting – the so-called Well-Being Budget – prioritises a range of quality of life measures over traditional short-term economic measures.

The five current priorities are funding mental health services, reducing child poverty, lifting employment among the indigenous Maori, transitioning the economy to cope with climate change and investing in hospitals and schools.

The true impact on the economy of the new approach remains to be seen but there is optimism from some – notably the OECD – that lifting well-being could lift aggregate demand.

That all means the RBNZ is likely to hold monetary policy steady going through 2020, according to Mr, after cutting interest rates by a total of 75 basis points over May to August in 2019, as fiscal policy steps up late in the cycle. □

2. https://www.stats.govt.nz/indicators/gross-domestic-product-gdp
3. https://www.stats.govt.nz/indicators/gross-domestic-product-gdp
4. https://www.ampcapital.com/content/dam/capital/04-articles/insights-nz/2019/NZ-insights-Dec-2019.pdf
5. https://www.rbnz.govt.nz/-/media/ReserveBank/Files/Publications/Speeches/2020/speech2020-01-29.pdf?revision=642b17d5-fc56-47e4-8bad-079a06b9ca4a
6. https://www.beehive.govt.nz/release/strong-exports-lift-top-200-high-tech-firms
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8. https://www.rbnz.govt.nz/-/media/ReserveBank/Files/Publications/Monetary%20policy%20statements/2019/mpsnov19.pdf?revision=d0d191e5-704f-4820-9e75-2e8a6e367a2f
9. https://www.employment.govt.nz/about/news-and-updates/minimum-wage-rises/
10. https://www.oecd-ilibrary.org/sites/9b89401b-en/1/2/3/34/index.html?itemId=/content/publication/9b89401b-en&_csp_=dfa9d861509505eac6168a6630ad633f&itemIGO=oecd&itemContentType=book
11. https://www.ampcapital.com/content/dam/capital/04-articles/insights-nz/2019/NZ-insights-Dec-2019.pdf
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About AMP Capital

AMP Capital is a global investment manager offering private market and public market solutions to clients, with a strong focus on ESG.

Our home strength in Australia and New Zealand has enabled us to grow internationally, and today we have operations in Dubai, China, Hong Kong, India, Ireland, Japan, Luxembourg, the United Kingdom and the United States. With over 250 investment professionals working in 17 locations around the world, we're able to deliver the capabilities and investment solutions that help our clients achieve their financial goals. We also collaborate with a network of global investment partners, leveraging our shared capabilities to provide greater access to new investment opportunities.

We are entrusted to manage A$200 billion[1] in assets under management on behalf of our clients, across a range of single sector and diversified funds. We work with more than 300 international clients and manage almost A$19 billion in assets on their behalf[1].

Direct real estate

With a heritage spanning over 50 years, we actively manage real estate across all stages of the cycle. We realise true value for clients through the investment management, property management and development of a portfolio of some of the most iconic shopping centres, industrial estates and office buildings, from Australia's first skyscraper to the transformational Quay Quarter Sydney development.

Direct infrastructure

Backed by a truly global infrastructure platform, we're able to capture what we consider to be the best investment opportunities from around the world. It's earned us a name on a global stage, and a place as one of the top 10 infrastructure managers worldwide[2].

With 30 years' experience, we bring a breadth of insight that spans energy, power, transport, utilities, airports, seaports, communications infrastructure, social infrastructure, aged care and more. The combined expertise of close to 100 infrastructure investment specialists also allows us to cover all aspects of capital structure giving our clients more investment options for their future.

Public markets

Our well-established public markets business, including fixed income, listed equities and multi-asset solutions, requires shifting from traditional actively managed products to a specialist active offering of targeted solutions which meet specific client needs. Our public markets team remains focused on delivering investments that match our client's needs as we manage A$140.7 billion[3] across our global fixed income, multi-asset solutions, Australian equities, global listed real estate, global listed infrastructure and global equities solutions.

ESG and responsible investment

We believe considering ESG factors provides greater insight into areas of risk and opportunity that impact the value, performance and reputation of investments we make on behalf of our clients.

We recognise that all investments we make have a purpose and a wider impact and it's up to us to help make it a positive one for our clients and the global markets and communities in which we invest.

By looking at what we do as part of a bigger picture, we've developed a portfolio of responsible investment options for our clients. We are one of the first investment managers globally to sign the UN-backed Principles for Responsible Investment (PRI)[4]. Many of our funds have been recognised for their ESG performance. We continue to challenge and evolve our thinking, our processes and product offerings to meet our clients' growing expectations, partnering with them as they too look to fulfil their own goals and commitments to responsible investing. ☐

1. As of 30 June 2019. Represents draw down amount on a fully funded basis
2. Willis Towers Watson Global Alternatives Survey 2017
3. As of 30 June 2019
4. www.unpri.org

CAPITAL EDITION

MARCH 2020
ISSUE 06

AMP CAPITAL