



# AMP Capital Global Infrastructure Securities (Hedged)

Quarterly Investment Option Update

31 December 2019

## Aim and Strategy

To provide total returns (income and capital growth) after costs and before tax, above the Dow Jones Brookfield Global Infrastructure Index (Australian dollar hedged) over the long term. The portfolio invests primarily in infrastructure securities around the world, with a focus on infrastructure companies operating in developed markets, and may invest in infrastructure companies operating in growing, emerging markets. The portfolio focuses on companies that own and operate infrastructure assets, derive most of their cash flow from those assets, and have liquid market listings on major global stock exchanges. Investments are diversified across geographic regions and infrastructure sectors, with a focus on four major sectors: energy - including oil and gas transportation and storage, transportation - including toll roads, and airports, communications and utilities. The manager may select unlisted securities only where it considers that the security is likely to be listed within 12 months of its inclusion in the portfolio. The portfolio may also invest in other financial products such as managed strategies where this is consistent with the investment objective and approach. International investments are generally hedged back to Australian dollars. The portfolio may also use derivatives such as options and futures.

## Investment Option Performance

To view the latest investment performances for each product, please visit [www.amp.com.au](http://www.amp.com.au)

## Investment Option Overview

<b>Investment category</b>	Property and infrastructure
<b>Suggested minimum investment timeframe</b>	5 years
<b>Relative risk rating</b>	High
<b>Investment style</b>	Active
<b>Manager style</b>	Single

<b>Asset Allocation</b>	<b>Benchmark (%)</b>
Listed Property and Infrastructure	100
Cash	0

<b>Actual Allocation</b>	<b>%</b>
International Shares	89.02
Australian Shares	0.75
Listed Property and Infrastructure	8.02
Cash	2.21

<b>Sector Allocation</b>	<b>%</b>
Oil, Gas Storage & Transportn	43.64
Communications	16.55
Transmission & Distribution	9.94
Diversified	9.76
Water	7.47
Airports	5.78
Toll Roads	4.15
Cash	2.21
Rail	0.49

Top Holdings	%
ENBRIDGE INC	8.11
AMERICAN TOWER CORP	6.75
WILLIAMS COMPANIES INC	6.08
SEMPRA ENERGY	5.49
TC Energy Corp	5.43
National Grid PLC	4.79
RAI Way SpA	4.72
Gibson Energy Inc	4.49
Kinder Morgan Inc/DE	4.44
Pennon Group PLC	3.88
Region Allocation	%
North America	58.75
Europe ex UK	18.40
United Kingdom	11.29
Asia ex Japan	5.04
Latin America	2.29
Cash	2.21
Australasia	2.02

## Fund Performance

The Fund outperformed the index during December on a total return local basis.

At a sector level, the Fund is overweight in oil, gas storage & transportation, diversified, water, and airports and rail; and is underweight in transmission & distribution, communications, toll roads, and ports.

Overall positive contributions to relative returns came from the water, oil, gas storage & transportation, diversified, toll roads, transmission & distribution, airports, ports and rail sectors; whilst the communications sector detracted. From a sector asset allocation perspective, positive contributions came from toll roads, water, ports, oil, gas storage & transportation and rail sectors; whilst diversified, transmission & distribution, communications and airports were detractors. At a stock selection level, positive contributions came from water, oil, gas storage & transportation, diversified, transmission & distribution, toll roads and airports; whilst communications and rail detracted. There was a neutral effect from ports.

The top three individual contributors to relative performance in the period were from overweight positions in Pennon Group in water, Gibson Energy in oil, gas storage & transportation; and an underweight position Transurban Group (where we have no holding) in toll roads. Pennon Group had strong returns following the UK election result, which removed the threat of nationalisation. Gibson Energy continued its strong performance, supported by the announcement of the 2020 capital expenditure budget and additional storage tanks. Transurban Group was affected by general market movements.

The bottom three individual contributors to relative performance in the period were from overweight positions in RAI Way in communications and Flughafen Zurich in airports; and an underweight position in Crown Castle International (where we have no holding) in communications. RAI Way performed well after it released an updated network services agreement with its main customer. Flughafen Zurich was affected by slow traffic trends which continued during the quarter whilst negative sell-side opinions weighed on the company. Crown Castle International was affected by general market movements.

## Portfolio Positioning

We maintained a sizeable overweight position to the North American oil, gas storage and transportation sector, as higher oil and gas production in North America should support capital investment in the sector. Management teams are focused on executing the most attractive projects, further de-leveraging the balance sheets, improving return on invested capital whilst solidifying the move to self-funding and retained cash flow model.

We also retained an underweight position to the utilities sector as we believe it is currently trading at unattractive valuations. However, we see some opportunities in the North American transmission and distribution segment, allowing us to selectively add companies that are benefiting from supportive structural growth stories within constructive regulatory regimes. At the same time, we maintained an overweight position in the UK water sector as

we believe the regulatory and political concerns that have impacted the sector over the last one-to-two years were overstated. However, we have trimmed our position to take advantage of the sector's recent strong performance on the back of the recent UK election results.

We still favour the communications sector on the back of strong secular tailwind. However, we prefer tower companies outside of the US, such as Europe and China, due to more supportive valuations.

The volatility in equity market together with continued uncertainty on the future of global monetary policy is likely be supportive of listed infrastructure as the market supports demand for quality defensive assets as an alternative source of income in times of uncertainty. We continue to search for opportunities where we like the company's fundamental growth outlook and valuations present attractive entry points.

## Market Review

Despite the initial growing concerns of a slowing global economy, most major markets made strong gains in 2019, reflecting a recovery from the falls seen in 2018, global monetary easing, trade tensions subsiding and better-than-expected economic data overall.

The month started positively following further negotiations and the eventual agreement between the US and China on the Phase One trade deal. The deal, expected to be signed in January 2020, should avert the threatened tariff hikes of 15 December, lower the September tariff hike from 15% to 7.5%, and see China make "substantial" additional purchases of US agriculture products. The US House of Representative's decision to impeach President Donald Trump, which was largely expected, had little impact on financial markets. The impeachment was largely supported by the Democrat representatives with no support from Republicans. This suggests that it is extremely unlikely the vote to remove President Donald Trump from office in early 2020 would succeed, as it would need the support of at least 20 Republicans. US economic data was generally positive following the slight rise in the business conditions with consumer spending rising solidly, consumer sentiment remains strong and gains were seen in home builder conditions, housing starts and permits, job openings and industrial production. Payrolls were stronger-than-expected in November while the unemployment rate fell to 3.5%, matching the September figure which was the lowest since 1969. The Federal Reserve held monetary policy on hold in December with Chairman Jerome Powell reiterating that he wants to see "a significant move up in inflation that is also persistent before raising rates". In addition, US Congress averted another US Government shutdown from 20 December whilst there was a Congressional agreement on the US-Mexico-Canada Agreement, which replaces the North American Free Trade Agreement.

In Europe, business conditions in the Eurozone were flat in December but remain up from their low and the German business sentiment index rose, adding to confidence that Eurozone growth may be stabilising or improving. The European Central Bank made no changes to monetary policy whilst affirming Mario Draghi's stimulus program. Meanwhile, the Swedish central bank raised rates from -0.25% to zero, ending roughly five years of negative rates. In the UK, the Bank of England left rates on hold with a neutral bias, however it may need to ease again given ongoing Brexit-related risks. Meanwhile, Boris Johnson's Conservative party won the general election, gaining its biggest majority at Westminster since Margaret Thatcher's 1987 election victory. The prime minister will seek to prevent an extension of the Brexit transition period beyond the end of 2020. Nonetheless, the continuation of negotiations remains a reminder that there is still some uncertainty around Brexit and this could weigh on UK business confidence and conditions in 2020. Discussions for a free trade deal between the EU and UK could end in a hard exit if no free trade agreement is reached. However, the threat of economic disruption should mitigate this.

For the past few years, Jeremy Corbyn, the leader of the UK Labour party, had been particularly vocal about bringing several industries back into public ownership, including energy and water utilities. This had been a key risk for utilities in the UK, resulting in these companies to trade at their cheapest levels in years. Consequently, the sector performed very well on the back of the Conservative election victory.

In Asia, Japan's gross domestic product growth for the September quarter was revised up significantly due to stronger consumer spending and business investment. Meanwhile, Japan's business sentiment indicators were flat in December though remains up from its sales-tax-hike related low in October. Core inflation in November rose to 0.8% year-on-year, albeit lower if the sales tax hike is excluded. The government announced fiscal stimulus plans in December to offset the impact of the October sales tax hike. The Bank of Japan left monetary policy on hold as expected. In China, data for November was generally better than expected, with a stronger-than-expected acceleration in growth in industrial production and retail sales. Business conditions were flat or slightly down in December, however they remain higher than its 2019 lows suggesting positive signs for growth. China's central bank also undertook further monetary easing.

## Outlook

The outlook for global listed infrastructure remains very positive, supported by robust economic activity and industry-wide structural investment tailwinds. The investment team continues to rely on its investment process, focusing on the long-term cash flow generation of core infrastructure assets, which we firmly believe is the best way to value these companies.

Our outlook for the North American oil, gas storage & transportation segment remains positive as the shale gas revolution supports attractive volume growth in the region. Additionally, we are seeing North American oil production outpacing takeaway capacity, particularly in Canada.

Although we remain cautious on the utilities sector, due to relatively unattractive valuations, we see some opportunities in the North American transmission and distribution sector. Elsewhere, we continue to find value in European and UK utilities.

We continue to favour the communications sector on the back of strong secular tailwind. Within the sector, we favour European and developing economies' assets over the US due to more supportive valuations.

For global listed infrastructure as an asset class, we continue to see the potential for future out-performance as investors seek quality defensive assets that provide sustainable yield profiles in the current low interest rate environment. We will continue to add selectively where we find value.

## Availability

Product Name	APIR
AMP Flexible Lifetime Super	AMP1874AU
AMP Flexible Super - Retirement account	AMP1879AU
AMP Flexible Super - Super account	AMP1878AU
CustomSuper	AMP1874AU
Flexible Lifetime - Allocated Pension	AMP1875AU
Flexible Lifetime - Investments (Series 2)	AMP2030AU
SignatureSuper	AMP1876AU
SignatureSuper - Allocated Pension	AMP1877AU

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