AMP Capital Global Infrastructure Securities (Hedged)

Quarterly Investment Option Update

30 September 2020

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/performance

Investment Option Overview

Investment category	Property and infrastructure
Suggested minimum investment timeframe	5 years
Relative risk rating	6 / High
Investment style	Active
Manager style	Single

Asset Allocation	Benchmark (%)
Listed Property and Infrastructure	100
Cash	0

Actual Allocation	%
International Shares	89.11
Listed Property and Infrastructure	11.94

Sector Allocation	%
Oil, Gas Storage & Transportn	44.24
Communications	15.56
Diversified	11.74
Transmission & Distribution	10.08
Airports	9.10
Toll Roads	5.77
Water	3.27
Rail	1.30

Top Holdings	%
ENBRIDGE INC	7.37
SEMPRA ENERGY	6.85
AMERICAN TOWER CORP	6.81
National Grid PLC	6.09
WILLIAMS COMPANIES INC	5.73
CENTERPOINT ENERGY INC	4.90
Gibson Energy Inc	4.74
RAI Way SpA	4.74
TC Energy Corp	4.21
Flughafen Zurich AG	4.19

Region Allocation	%
North America	60.05
Europe ex UK	21.08
United Kingdom	7.84
Asia ex Japan	6.37
Australasia	2.93
Latin America	2.77

Fund Performance

The Fund underperformed the index during September on a total return local basis.

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

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

The top three individual contributors to relative performance in the period were from overweight positions in Zhejiang Expressway Co in toll roads, Infrastrutture Wireless Italiane in communications, and National Grid in transmission & distribution. Zhejiang Expressway Co Ltd saw a strong rebound in toll road volumes despite the end of the toll-free period. Infrastrutture Wireless Italiane was weak post a large placing of stock earlier this year; however, the stock rebounded as there was increasing optimism around the organic growth story and an upcoming business plan in November. National Grid has seen a has seen a rebound although there was no fundamental driver.

The bottom three individual contributors to relative performance during the period were and from an overweight position in Plains GP Holdings in oil, gas storage & transportation, an underweight position in Crown Castle International Corp in communications, and an overweight position in Gibson Energy Inc in oil, gas storage & transportation. Plains GP Holdings was impacted by concerns on Permian Basin takeaway overcapacity and recontracting risk. Crown Castle International Corp has seen a rally from its COVID-19 lows. Gibson Energy Inc saw weakness from crude oil sentiment.

Portfolio Positioning

We maintained a sizeable overweight allocation to the North American oil, gas storage & transportation sector. Our outlook for the energy sector remains positive, as the short-term moderation of volume growth favours cash flow growth and deleveraging.

We also held an overweight allocation to the transportation sector. We do not believe the recent share price movements in the sector are fully reflecting changes in fundamental profit expectations and remain reliant on our long-term time horizon to search for dislocations in value.

We also maintained an underweight allocation to the communications sector. Although we are positive on the tailwinds for the sector, valuations have become even more stretched on the back of the flight-to-safety due to COVID-19 concerns.

We retained an underweight allocation to the utilities sector due to relatively unattractive valuations. However, the recent market correction has resulted in increased volatility within the sector, and we continue to look to take advantage of opportunities as they emerge.

Market Review

Global equity markets suffered a pullback during the month, led by the technology sector which later broadened to other sectors. Energy was impacted as the oil price pulled back. For COVID-19, conditions and outlook remained uncertain. During the month, the global death count from the pandemic exceeded the one million mark.

In the US, there is likely to be further downward pressure on the US dollar as quantitative easing measures continue to ramp up. As we near the presidential election in November, acrimonious rhetoric has increased. Overall unemployment remains high. However, business conditions data is currently relatively benign, with a generally positive forward-looking outlook at this stage for employment. The month saw further strength in home sales, strong gains in house prices, a continuing recovery in underlying capital goods orders and the business conditions purchasing managers' index remaining solid.

However, the US relationship with China continues to deteriorate with the recent inclusion of Chinese company Semiconductor Manufacturing International Corp on the Entity List, which requires US companies to obtain an export license before trading with it. Furthermore, a new US fiscal package remains elusive, with Democrats stymying a stimulus package worth US$500 billion, citing it was too small compared to the US$3 trillion stimulus package previously proposed. Further political gamesmanship is to be expected the closer we get to the election date on 3 November.

The US Federal Reserve continued its ultra-dovish shift to inflation-average targeting and is aiming "to achieve inflation moderately above 2% for some time so that inflation averages 2% over time"; supporting this approach with improved forward guidance and the intention to keep rates unchanged at 0-0.25% until full employment has been reached. The central bank's dot plot of official interest rate expectations indicates no hike until 2023.

In Asia, the election in Japan of Yoshihide Suga as Liberal Democratic Party leader and Prime Minister should ensure a continuation of Abenomics. Japan's business conditions purchasing managers' index rose slightly in September. In China, business conditions remain buoyant, with the manufacturing purchasing managers' index supportive. China's trade surplus increased as export growth strengthened, bolstered by global demand for personal protective equipment and work-from-home goods. Recent Consumer Price Index data showed only a marginal increase for both headline and core inflation; with food prices low and remaining a drag on inflation. Production and investment continue to lead the recovery.

In Europe, eurozone consumer prices have fallen, increasing the chances of a deflationary environment, with core consumer prices remaining very low. Eurozone retail sales showed some recent moderation, following a sizeable increase in the immediate post-lockdown months. Despite some rise in COVID-19 cases again in Europe, third quarter eurozone GDP is expected to be stronger. There was further accommodative news from the European Central Bank, with comments by President Lagarde that were consistent with an increase in quantitative easing in the months ahead. Economic data saw the eurozone's composite business conditions purchasing mangers' index fall further in September, driven by services, although it remains around pre COVID-19 levels. Against this, business surveys in Germany and France showed further small improvements.

As rising coronavirus cases placed pressure on the global share markets in September, listed infrastructure outperformed global equities, although the asset class has continued to lag the broader equity market year-to-date.

In the UK, the government announced that travellers departing England, Scotland and Wales for European Union countries will be able to purchase duty free goods from 1 January 2021. However, value added tax refunds for overseas visitors in UK shops will be removed. Although the net impact is unknown, we believe this could hurt UK airport retail sales and shift high value retail tourism outside the UK.

The Australian Energy Regulator released the draft revenue determinations for Victorian electricity distributors. The regulator's draft determinations allow lower revenues than for the previous regulatory period, although elements of the draft determinations may change in the final decision as the regulator considers responses from consultations with the public and businesses.

Outlook

The combination of the COVID-19 pandemic and the volatility in commodity prices presented a challenging environment for global listed infrastructure. However, our long-term outlook for the asset class remains positive, supported by a recovery in economic activity and industry-wide structural investment tailwinds. The investment team continues to rely on its investment process, focussing on the long-term cash flow generation of core infrastructure assets, which we firmly believe is the best way to value these companies. Whilst we are closely monitoring current developments, we will continue to look to take advantage of opportunities as they emerge with a long-term investment horizon.

Our outlook for the North American oil, gas storage & transportation sector remains positive. In the short term, we believe that liquids production growth will moderate given lower commodity prices, reflecting the impact of the COVID-19 outbreak on overall demand. We also believe that the investment community will assess exploration & production counterparty exposure with additional scrutiny, due to the potential pressure on spreads, volumes, and tariffs on incumbent pipelines.

For global listed infrastructure as an asset class we continue to see the potential for future outperformance 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 Super - Retirement	AMP1879AU
AMP Flexible Super - Super	AMP1878AU
CustomSuper	AMP1874AU
Flexible Lifetime - Allocated Pension	AMP1875AU
Flexible Lifetime - Investments (Series 2)	AMP2030AU
Flexible Lifetime - Super	AMP1874AU
SignatureSuper	AMP1876AU
SignatureSuper - Allocated Pension	AMP1877AU

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