RARE Infrastructure Value

Quarterly Investment Option Update

30-June-2016

Availability

Product name	APIR
Flexible Super – Choice (Retirement)	AMP1588AU
Flexible Super – Choice (Super)	AMP1576AU
CustomSuper	AMP1528AU
Flexible Lifetime – Allocated Pension	AMP1540AU
Flexible Lifetime – Super	AMP1528AU
Signature Super	AMP1552AU
Signature Super – Allocated Pension	AMP1564AU

Investment Option Performance

Investment performances are subject to product fees and where relevant tax as outlined in the product PDS. Therefore investment performance may differ between products. In addition, activity on your account such as contributions and deductions will also impact the investment performance specific to you. To view the latest investment performances for each product, please visit **www.amp.com.au.** You can also view the last investment performance specific to you by visiting your My Portfolio account.

Contact Us

Web: www.amp.com.au

Email: askamp@amp.com.au

Phone: 131 267 (Mon. to Fri 8:30am to 6:00pm AEST)

Overview

Aim & Strategy: To provide investors with regular and stable income comprised of dividends, distributions and interest received, plus capital growth. The benchmark used is an accumulation index comprised of the OECD G7 Inflation Index plus 5.5% per annum. The portfolio intends to invest in securities which offer positive absolute returns, rather than selecting securities because they are included in a particular industry standard index. It aims to provide investors with sustainable returns over the medium-to-long term from a diversified portfolio of global securities with attractive risk/return characteristics. The main investments include:

- securities listed on stock exchanges from around the world (developed and developing nations);
- cash (and cash equivalents such as other investment grade interest-bearing securities);
- derivatives; and
- depository receipts or other such securities where the underlying securities are inaccessible or illiquid.

The investment manager may invest up to 20% of the portfolio in unlisted securities should opportunities arise. The investment manager:

- may use options, futures and other derivatives to reduce risk or gain exposure to underlying physical investments. Derivatives are not used speculatively and are not used for the purpose of gearing;
- may borrow for the purposes of ensuring the portfolio maintains adequate liquidity but will not borrow to make investments; and
- intends to substantially hedge all currency exposure back to Australian dollars.

Investment category: Alternative strategies

Suggested Investment Timeframe: 3 to 5 years

Relative Risk Rating: Medium to high

Investment Style: Active

Asset Allocation	Benchmark (%)	Range (%)
Listed Infrastructure securities	n/a	80-100
Unlisted Infrastructure securities	n/a	0-20
Cash	n/a	0-20

Holdings

Industry Exposure	%
Cash	4.27
Electric	27.13
Gas	17.82
Water	5.06
Other Essential	0.0
Airports	4.43
Rail, Port and logistics	27.80
Communications	13.49

Regional Exposure	%
Cash	4.27
North America	38.65
West Europe	32.06
Asia	0.0
Mid East	1.34
South America	4.81
Pacific	18.88

Top Ten Securities	%
Sempra	5.83
American Tower	4.87
APA Group	4.72
Spark Infrastructure Group	4.70
Groupe Eurotunnel	4.56
Norfolk Southern	4.25
Iberdrola	3.94
Crown Castle	3.88
Nextera	3.58
Atlantia	3.47

Market Commentary

During the March quarter, the RARE Infrastructure Value Fund Hedged returned +1.6% (net), outperforming its benchmark (+1.1%) and the MSCI AC World Index (local) (-1.5%).

The equity markets remained volatile during the December quarter. A noticeable trend over the year was increased currency and monetary policy divergence between the US and the rest of the world. This divergence was made evident in the Federal Open Market Committee's (FOMC) decision to raise the target range for the Fed Funds rate by 25bps in December while most other Central Banks such as European Central Bank and Bank of Japan continued to operate under a policy-easing mode.

Investment Option Commentary

Portfolio Performance

In the March quarter, regional contribution was led by USA & Canada (+3.13%) and Latin America (+1.32%). Western Europe (-1.19%), Asia Pacific Developed (-0.68%), Asia Pacific Emerging Market (-0.38%) and Middle East (-0.31%) all detracted from quarterly portfolio performance.

On a sector level, toll roads (+1.60%), gas (+1.24%) and electric (+0.76%) contributed to performance, while rail (-1.28%), airports (-0.33%) and ports (-0.31%) detracted.

On a stock level, Mexican toll road OHL Mexico (+0.91%), US gas Sempra (+0.76%) and Kinder Morgan (+0.71%) all added positive returns to the portfolio. French railway Groupe Eurotunnel (-0.70%), Japanese electric J Power (-0.51%), Spanish electric Iberdrola (-0.42%) and Chinese gas Beijing Enterprise Holdings (-0.38%) detracted from quarterly performance.

All returns are in local currency.

Outlook

Over the quarter, the US Federal Open Market Committee left the Fed Fund rate target range at 0.25-0.50%. The Fed appeared to take a more 'dovish' turn, with various Federal Reserve officials highlighting downside risks to the US economic outlook as a result of subdued non-US growth and financial market volatility. The US dollar weakened over the quarter on the back of the Fed's outlook. At RARE, we take a constructive view on the US economy. As such we retain a significant exposure to more GDP-sensitive US companies, in particular the rail companies.

While European data remains consistent with an economic recovery, albeit a gradual one, inflation is stubbornly low. The European Central Bank (ECB) unveiled a raft of policy measures in March. Chief among these initiatives was a cut to the deposit rate by 10 bps to - 0.4% and an expansion of its asset purchases program to include corporate debt and a faster monthly run rate. Over the quarter, the British pound fell to multi-year lows against the US dollar as risks of

'Brexit' grew. With the 23 June referendum approaching, debate around Britain's exit from the European Union ensued over the quarter.

Turning to the Japanese economy, at the start of the quarter the Bank of Japan (BOJ) introduced a tiered system of policy rates, including a -0.10% rate on parts of banks' reserves held with the BoJ.

The aim of this policy action was to try and force the banks to lend to the real economy. In reality, there has been a shift towards government bonds, forcing up the price of government bonds and lowering the yield. The yield on the 10-year Japanese Government Bond (JGB) fell to -0.135%.

The weak US dollar helped capital inflows to Emerging Market (EM) economies. The EM equities markets rose over the 2nd half of the quarter, aided by equity prices and helped by currency appreciation vs. the US dollar. These developments came despite further challenges in several EM countries. The political crisis in Brazil intensified over the quarter as the Brazilian President, Dilma Rousseff, moved closer to impeachment as her coalition party began to unravel. Additionally central banks in Turkey and Hungary cut rates to combat slowing economies.

In an attempt to calm investors jitters over the world's second largest economy, the Chinese central bank, the People's Bank of China, cut the required reserve ratio (RRR) for banks by 50 basis points. This sees a cut in the amount of capital the country's banks are required to hold. This was the 1st RRR cut since October 2015 and came amidst a weak set of activity data in early 2016.