

RARE Infrastructure Value

Quarterly Investment Option Update

31-March-2017

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.

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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	Actual (%)	Range (%)
Listed Infrastructure securities	95%	80-100
Unlisted Infrastructure securities	0%	0-20
Cash	5%	0-20

Holdings

Industry Exposure	%
Gas	23%
Water	7%
Toll Roads	6%
Airports	5%
Rail	16%
Ports	1%
Communications	12%
Cash	5%

Regional Exposure	%
USA & Canada	36%
Western Europe	34%
Asia Pacific Developed	19%
Latin America	5%
Middle East	1%
Cash	5%

Top Ten Securities	%
Sempra	5.41%
Groupe Eurotunnel	5.26%
Spark Infrastructure Group	4.96%
Kinder Morgan	4.56%
APA Group	4.45%
Atlantia	4.32%
Nextera	4.12%
Enbridge Inc	4.09%
American Tower	3.95%
Crown Castle	3.45%

Market Commentary

During the March quarter, RARE Infrastructure Value Fund - Hedged outperformed its benchmark and the MSCI AC World Index (local)

RARE delivered a solid quarterly result. Broadly, global equities experienced a strong start to 2017 with emerging markets noticeably outperforming developed markets. The US equity market performed well despite a sluggish March, with the S&P 500 experiencing its best quarter since Q4 2015. Towards the end of the quarter, a relatively more benign political backdrop, combined with strong economic data, saw European equities outperform.

Investment Option Commentary

On a regional basis, North America was the largest contributor to quarterly performance (+3.65%). This strong performance was underpinned by the portfolio's investments in US rail stocks, in particular east-coast rail operator CSX (+0.75%). In January, news broke that Hunter Harrison had stepped down as CEO of Canadian Pacific (a Canadian rail company) and teamed up with an activist investor in an attempt to shake up CSX by placing Harrison into a senior management position. Given Harrison's track record in improving the operational efficiency at Canadian Pacific, the market positively viewed this news which saw the share price spike to \$45.51, up 23.4%.

Elsewhere in the region, US gas company Sempra (+0.57%) and US tower owner American Tower (+0.53%) also added to performance. In March, Sempra (SRE) reported their Q4 2016 results. The share price reacted favourably as overhangs relating to guidance and further delays in the Cameron Liquid natural gas facility dissipated. American Tower (AMT) experienced a tailwind from the company's emerging markets exposure (India and Brazil).

Towards the end of the quarter, investors began profit taking in the US and reallocating into Europe on strong economic data. On the back of this stronger growth background, infrastructure stocks, particularly airport and toll roads performed well. This was reflected in the performance of the portfolio's Western European exposure which contributed +2.82% to performance. Airport operators Fraport (+0.41%) and ADP (+0.35%) were the top performing stocks within this region. For both companies, stock price was bolstered on news of strong traffic results.

Turning to Emerging Markets (EM), the portfolio's 5% exposure to this region aided quarterly performance, contributing +0.69%. Underpinning this performance was Mexican toll road operator, OHL Mexico (+0.53%) that rallied during the quarter on takeover speculation. Whether this bid will eventuate is unclear. Regardless, we retain our strong convictions in the company's toll road assets and strong traffic numbers.

Our Japanese holdings were the largest detractors from quarterly performance (-0.31%). Broadly, the Japanese equity market underperformed the US and European markets during the quarter. There were no stock-specific reasons for this weak performance, as such, our long-term conviction in these securities remain.

All returns are in local currency.

Outlook

The Investment Committee (IC) has positioned the portfolio's core exposure to growth-orientated utilities balanced against selective exposure to the more growth-sensitive infrastructure sectors.

On a regional level, the portfolio's largest exposure is the US and Canada (35%). RARE has had a constructive view on the US economy for some time, and in 2017, our conviction remains. During the quarter, the IC initiated a position in American Electric Power (AEP), an US electric company, on valuation grounds. Relative to Ameren, our detailed company analysis indicated that AEP is a more favourable US electric holding. As such, we exited Ameren.

The portfolio has approximately 34% invested in Western Europe, split between utilities and infrastructure. During the quarter, the IC increased holdings in United Utilities, UK water utility, and Eurotunnel, a French rail stock. The IC's trade decisions were underpinned by positive valuation signals.

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