

AMP Capital Global Infrastructure Securities

Quarterly Investment Option Update

30 June 2018



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) performance benchmark 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 focusses 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 electricity transmission and distribution, and oil and gas transportation and storage; transportation – including toll roads, airports and ports; communication; and water.

The manager may select unlisted securities only where they consider 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 funds 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 please visit www.amp.com.au

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1874AU
AMP Flexible Super - Retirement account	AMP1879AU
AMP Flexible Super - Super account	AMP1878AU
CUSTOM SUPER	AMP1874AU
Flexible Lifetime - Allocated Pension	AMP1875AU
Flexible Lifetime Investment (Series 2)	AMP2030AU
METCASH SUPERANNUATION PLAN	AMP1874AU
Signature Super	AMP1876AU
Signature Super Allocated Pension	AMP1877AU

Asset Allocation	Benchmark	Range (%)
Global Infrastructure	100	90-100
Cash	0	0-10

Top 10 Securities Exposure	%
AMERICAN TOWER CORP	8.57
Enbridge Inc	8.10
SEMPRA ENERGY	7.21
KINDER MORGAN INC	6.58
TransCanada Corp	6.30
Williams Cos Inc/The	4.51
Pembina Pipeline Corp	3.81
Pennon Group PLC	3.44
Atlantia SpA	3.35
Energy Inc	2.54

Investment Option Overview

Investment category	Infrastructure
Suggested investment timeframe	5 years
Relative risk rating	High
Investment style	Growth

Region	%
North America	63.28
Europe ex UK	17.37
United Kingdom	10.01
Australasia	4.33
Asia ex Japan	2.27
Latin America	2.25

Region	%
Cash	0.49
Japan	0.00

Portfolio Summary

- > The Fund outperformed the benchmark during June
- > Trade war risks remain elevated
- > Oil sees continuing support

Investment Option Commentary

The Fund outperformed the index during June on a total return local basis. At a sector level, the Fund is overweight in water, oil, gas storage & transportation, toll roads and communications and is underweight in transmission & distribution, diversified, ports and airports. Overall positive contributions to relative returns came from the oil, gas storage & transportation, water, transmission & distribution, ports and diversified sectors whilst the communications, airports and toll roads sectors were detractors.

The top three individual contributors to relative performance in the period were from overweight positions in Sempra Energy, APA Group and Enbridge, all in oil, gas storage & transportation. Sempra Energy benefitted from positive management comments following activists taking a stake in the company. APA Group rallied after Hong Kong's CKI Group announced a take-over bid. Enbridge has experienced strong performance following the approval of the Line 3 Replacement Project by the Minnesota Public Utilities Commission.

The bottom three individual contributors to relative performance in the period were from overweight positions in Beijing Capital International in airports, RAI Way in communications and Atlas Arteria in transportation. Beijing Capital International announced that the regulator would cease providing a refund for the airport construction fee, reducing earnings. RAI Way was weak over the month on the back of continued uncertainty in Italian politics and the potential for further delays in consolidation. Atlas Arteria pulled back following some strong year-to-date performance.

Market review

The risks of a full-blown trade war increased during the month, with both the US and China threatening a cycle of counter-retaliatory measures; increasing the risk of an escalating tariff spiral. The US also increased its negative rhetoric with Europe, threatening to impose tariffs on European automotive imports. Against the uncertain global economic environment, sovereign bond yields fell as safe-haven demand increased. On the more positive side, the conclusion of the US-North Korean summit was seen as a tentative move in the right direction, although much remains to be formally agreed.

Following the announcement that the Government of Canada agreed to purchase the Trans Mountain Pipeline system, we decided to take the opportunity to exit our position in Kinder Morgan Canada and reduce our underweight allocation to the utilities sector by initiating a position in Hydro One, an electricity transmission and distribution company located in Ontario.

Additionally, after its recent strong performance, we believe that Enav, an air navigation and transportation support services company in Italy, has realised its full valuation and we decided to exit our position, rotating some of the capital into Atlantia, which we believe has more valuation support, whilst also reducing our exposure to the region due to the geopolitical risks. We continue to closely monitor the political situation in Europe, and also stress the higher quality profile and the bottom-up attractiveness of our companies' holdings.

Companies in the news

Ferrovial operates in the international transportation and industrial sectors. It owns and operates airports and toll roads including owning 25% of Heathrow Airport in the UK. A proposal to add a third runway has won approval in a UK House of Commons vote. The vote represents an important step in the process of increasing airport capacity in the London market, which has been constrained for some time. The scheme is expected to cost between £14-£17 billion. Heathrow's regulatory asset base today is currently around £16 billion, which would therefore almost double upon completion of the runway.

APA Group is Australia's largest natural gas infrastructure business which includes gas distribution networks, pipelines and other assets. It has received an unsolicited, indicative and non-binding proposal from a consortium led by CK Infrastructure Holdings to acquire all of its stapled securities. The consortium has proposed a divestment package which would include APA's interests in the Goldfields Gas Pipeline, Parmelia Gas Pipeline, Mondarra Gas Storage Facility and involve a standalone management team. APA Group has entered into a confidentiality agreement with CK Infrastructure Holdings to allow it the opportunity to undertake due diligence on a non-exclusive basis.

Portfolio strategy & outlook

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 correct way to analyse and value these companies. Whilst macroeconomic trends and more recent geopolitical events have the potential to have a disproportionate impact on the listed infrastructure asset class; we believe such periods can result in large dislocations between fundamental values and market prices. This offers attractive medium to long-term investment opportunities.

Our outlook for the North American oil, gas storage & transportation segment remains positive. Recent regulatory changes led us to re-evaluate our allocation to the segment and, after further analysis, we maintain our conviction on the segment's potential, which is supported by strong underlying cash flows.

Contact Us

Web: www.amp.com.au

Email: askamp@amp.com.au

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

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