RARE Infrastructure Value

Quarterly Investment Option Update

30-June-2018

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	21.32%
Water	10.48%
Toll Roads	14.21%
Airports	6.69%
Rail	9.91%
Ports	2.71%
Communications	7.53%
Electric	25.08%
Cash	2.06%

Regional Exposure	%
USA & Canada	39.73%
Western Europe	35.30%
Asia Pacific Developed	10.15%
Latin America	7.98%
Middle East	0.54%
Asia Pacific Emerging	4.24%
Cash	2.06%

Top Ten Securities	%
Enbridge Inc.	6.94%
VINCI SA	5.73%
Williams Companies, Inc.	4.14%
Crown Castle International Corp	3.76%
Atlantia S.p.A	3.72%
Spark Infrastructure Group Ltd.	3.46%
Pennon Group Plc	3.45%
Transurban Group Ltd.	3.44%
United Utilities Group PLC	3.38%
Severn Trent Plc	3.34%

Market Commentary

Alongside the broader equity market, global listed infrastructure rebounded following a weak Q1 2018. Within the listed infrastructure space, North American Gas and Western European Satellite operators were the lead contributors to returns.

During the quarter, political noise weighed heavily on equity markets. Within Europe, Italy was the focus after political turmoil in the country spread over to the financial markets. The markets also reacted to Spanish Prime Minister Rajoy facing a no-confidence vote towards the end of May as well as the uncertainty surrounding the outcome of the July Presidential elections in Mexico.

Turning to North America, the noise surrounding the US-China trade dispute dominated headlines as did the US's denuclearisation treaty with North Korea. Amidst this background, however, the US continued to produce strong economic data while the Chinese equity market weakened significantly.

Investment Option Commentary

North American gas sub-sector was the lead contributor to quarterly performance, of which Enbridge and Cheniere Energy were the top performers.

Enbridge's (ENB) core business is owning and operating one of the largest oil and gas pipeline networks in North America. These pipelines either operate under long-term contracts or a regulated framework. The company also owns regulated gas distribution utilities in Ontario, and a fast-growing portfolio of renewable power assets in North America and Europe. The share price of Enbridge rallied significantly during the quarter for the following reasons: 1) In May ENB announced plans to simplify their corporate structure which would involve streamlining ENB's corporate and capital structure. In effect this could see all of the company's core liquid and gas pipeline assets come under the umbrella of one single listed entity. The market reacted positively to this announcement. 2) In May ENB also announced a $3.2 billion asset sale in an effort to address leverage concerns. 3) Lastly, at the end of the quarter, the Minnesota Public Utilities Commission approved a new Enbridge Energy Line 3 oil pipeline. While this is subject to a number of approvals, this announcement provided a boost to the share price of the stock.

Cheniere Energy is an energy infrastructure company that owns and operates US liquefied natural gas (LNG) export facilities. The gas is sold under long-term take or pay contracts. During the quarter, Cheniere reported an outstanding quarterly result and raised 2018 guidance for their existing eight LNG trains. An LNG train is a LNG plant's liquefaction and purification facility. The share price rallied significantly after a mini analyst day in which Cheniere's CEO announced the possible expansion of their LNG trains which could incrementally add USD500 million in Earnings Before Income, Tax, Depreciation and Amortisation (EBITDA).

Turning to Western Europe, Luxembourg-based satellite operator SES S.A. (+0.95%) and UK water company Pennon (+0.73%)

also performed strongly during the quarter.

SES S.A. (SES) is the world's second-largest commercial satellite operator, with a strong presence in the US and Europe, and rapidly growing exposure to Latin America, the Middle East, Africa and central/eastern Europe. During the quarter, the share price of SES rebounded after being oversold from the previous quarter and late last year on weak guidance and a changing management team. The share price rallied as the market grew more comfortable post the announcement on the C-band spectrum in the US and the optionality that may provide for operators like SES.

Pennon (PNN) is a UK regulated water and waste services company. During the quarter, PNN announced their FY18 results which were very pleasingly ahead in terms of their EBIDTA and earnings per share results. Additionally, UK bond yields fell during the quarter, which helped support the share price of PNN.

The largest detractor from quarterly performance was Beijing Capital International Airport Limited (-0.62%). Beijing Capital International Airport Limited (BCIA) is the operator of Beijing Airport in China, the largest airport in China (close to 100 million passengers a year). During the quarter, BCIA announced that they had received notice from the Ministry of Finance that the Civil Aviation Fund refund (or airport development fee) the company had been receiving for over 15 years would be cancelled from December 2018. The abrupt policy change surprised the market as original expectation were for a late 2020 removal, and will result in a meaningful earnings correction. Additionally, the overall weakness in the Chinese market in June further depressed the share price of this stock.

While the news was disappointing, the Fund Manager believes that the market over-reacted as the impact on valuation is limited. The Fund Manager believes that BCIA's longer-term growth outlook remains intact with rising international travel demand and expanding non- aeronautical business a multi-year structural theme.

Outlook

On a regional level, the Strategy's largest exposure is in USA & Canada and consists of exposure to utilities (32%) and economically sensitive sectors (8%). The Fund has increased its conviction in North American pipelines as the valuations have been very attractive. Additionally US Utilities are starting to show signs of value and, as such, the Investment Committee has slowly increased the Strategy's exposure to this sub-sector.

For the RARE Infrastructure Value Strategy, the primary quantitative tool in portfolio construction is the Excess Return, on which RARE 's stock ranking system is based. As such, driven by valuation, the Investment Committee initiated a position in US electric companies Dominion Energy and Edison International, Emera, a Canadian electric company, American Water, a US water company and Terna, an Italian electric company.

The Fund Manager also took the opportunity to crystallise some gains by exiting holdings in low expected return stocks such as Brazilian electric companies CESP and CTEEP, Iberdrola, a Spanish electric company and J-Power, a Japanese electric company.