

RARE Infrastructure Value

Quarterly Investment Option Update

31 December 2018

Aim and Strategy

The portfolio's investment objective is to provide investors with regular and stable income, comprised of dividends, distributions and interest, plus capital growth from a portfolio of global infrastructure securities while hedging the Fund's currency exposure back to AUD. The portfolio will aim to outperform a benchmark comprising OECD G7 inflation plus 5.5% p.a. The performance objective for the portfolio is to outperform the benchmark on a per annum basis after fees, hedged back into AUD, over rolling five-year periods.

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au

Investment Option Overview

Investment category	Property and Infrastructure
Suggested investment timeframe	7 years
Relative risk rating	6 / High
Investment style	Value

Asset Allocation	Benchmark (%)	Actual (%)
Listed Property and Infrastructure	N/A	95%
Unlisted Property and Infrastructure	N/A	0%
Cash	N/A	5%

Regional Allocation	%
USA & Canada	48.04
Western Europe	28.24
Asia Pacific Developed	9.46
Latin America	7.07
Asia Pacific Developing	5.13
Middle East	0.44
Cash	1.62

Sector Allocation	%
Electric	27.64
Gas	22.79
Railway	10.06
Communications	4.02
Toll Road	14.13
Airport	5.89
Seaport	3.18
Water	10.67
Cash	1.62

Top Holdings	%
Enbridge Inc.	6.49
National Grid plc	5.09
Emera Inc	5.06
Williams Companies, Inc.	5.06
United Utilities Group PLC	4.85
Transurban Group Ltd.	4.84
Atlantia S.p.A	4.36
Crown Castle International Corp	4.02
Union Pacific Corporation	3.98
American Electric Power Company	3.53

Investment Option Commentary

The top performing stock for the quarter was SCANA (+0.89%). SCANA is a US electricity and gas company with assets in South Carolina, North Carolina and Georgia. On the whole, the US utility sector performed strongly during the month. Specific to SCANA, from late August 2017 the company has been under political pressure since announcing their plans to suspend their nuclear project in July after spending roughly \$9 billion on it with state-owned utility Santee Cooper. At the start of the year, Dominion Energy, a large US utility, announced their plans to buy SCANA and assume the costs associated with their failed nuclear project. The Dominion takeover is subject to regulatory approval. During the quarter, the South Carolina House Speaker, Jay Lucas, announced his support for the terms of the transaction and a civil law suit was settled resulting in the South Carolina Attorney General also endorsing the deal. The share price rallied strongly post these announcements as the market became increasingly confident that Dominion's offer will gain the approval of the regulatory authorities.

On a regional basis, USA & Canada were the top detractors from quarterly performance (-2.01%), of which US gas Williams Company (-0.86%) and US electric PG&E (-0.81%) were the lead detractors.

Elsewhere in the region, US rail operators Union Pacific Corporation (-0.64%) and Genesee & Wyoming (-0.50%) pulled back during the quarter after a strong September. Additionally, the continued US/China trade war tension and fears surrounding the impact of tariffs negatively impacted the sector.

Union Pacific Corporation (UNP) is one of the largest railroad companies in North America. In September, the share price of UNP rallied strongly after the company announced its operations overhaul plan – Unified Plan 2020. In essence, UNP is officially shifting to 'Precision Scheduled Railroading' (PSR) which company management believes will help them achieve their 60% operating ratio (a metric used in the analysis of rail stocks) goal by 2020 and eventually over time reducing to 55%. PSR is the brainchild of celebrated railroad executive, the late Hunter Harrison. It is credited as being behind Harrison's turnaround of railroad companies Illinois Central, Canadian National and Canadian Pacific.

Genesee & Wyoming owns and operates short line and regional freight railroads in the US, Canada, Australia and the UK.

Market commentary

The quarter ended on another wave of risk-off sentiment. Continuing global growth fears, little abatement in trade tensions, cautious language from the Fed and yet another US Federal government shutdown all contributed to a difficult quarter for global equities.

Within Europe, Italy wound back its spending plans to avoid sanctions and to appease the EU which was positively viewed by the market and UK Prime Minister Theresa May survived a non-confidence vote.

Turning to Emerging Markets, the risks around new administrations in Mexico did not help the performance of EM equities. Although Brazilian assets have recovered with the conclusion of the presidential election where far-right candidate Jair Bolsonaro emerged victorious over leftist Fernando Haddad, the president-elect's path for pension reforms lacks clarity and the market will be watching to see if the controversial new administration delivers on economic and budgetary promises.

Given the defensive nature of this asset class, listed infrastructure significantly outperformed general equities during the quarter.

Outlook

On a regional level, the Strategy's largest exposure is in USA & Canada (47%) and consists of exposure to utilities (36%) and economically sensitive sectors (11%). During the year, the Investment Committee increased their conviction in North American pipelines as the valuations have been very attractive.

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 took the opportunity to crystallise some gains by exiting the fund's holdings in Clearway Energy, a US electric company, Eutelsat, a French satellite operator, TAESA, a Brazilian electric company and Terna, an Italian electric company.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1528AU
AMP Flexible Super - Retirement account	AMP1588AU
AMP Flexible Super - Super account	AMP1576AU
CustomSuper	AMP1528AU
Flexible Lifetime - Allocated Pension	AMP1540AU
Flexible Lifetime Investment (Series 2)	AMP2042AU
SignatureSuper	AMP1552AU
SignatureSuper Allocated Pension	AMP1564AU
SignatureSuper Select	AMP1552AU

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