

# RARE Infrastructure Value

## Quarterly Investment Option Update

31 March 2019

### 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 Index 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](http://amp.com.au)

### Investment Option Overview

|                                       |                             |
|---------------------------------------|-----------------------------|
| <b>Investment category</b>            | Property and Infrastructure |
| <b>Suggested investment timeframe</b> | 7 years                     |
| <b>Relative risk rating</b>           | 6 / High                    |
| <b>Investment style</b>               | Value                       |

| Asset Allocation                     | Benchmark (%) | Actual (%) |
|--------------------------------------|---------------|------------|
| Listed Property and Infrastructure   | N/A           | 98.21%     |
| Unlisted Property and Infrastructure | N/A           | 0%         |
| Cash                                 | N/A           | 1.79%      |

| Regional Allocation     | %     |
|-------------------------|-------|
| USA & Canada            | 48.53 |
| Western Europe          | 28.81 |
| Asia Pacific Developed  | 10.14 |
| Latin America           | 5.95  |
| Asia Pacific Developing | 4.77  |
| Cash                    | 1.79  |

| Sector Allocation | %     |
|-------------------|-------|
| Electric          | 28.99 |
| Gas               | 24.28 |
| Railway           | 8.21  |
| Communications    | 2.19  |
| Toll Road         | 14.47 |
| Airport           | 6.35  |
| Seaport           | 2.88  |
| Water             | 10.84 |
| Cash              | 1.79  |

| Top Holdings               | %    |
|----------------------------|------|
| Enbridge Inc.              | 6.72 |
| Williams Companies, Inc.   | 5.17 |
| National Grid plc          | 5.11 |
| Transurban Group Ltd.      | 4.91 |
| United Utilities Group PLC | 4.88 |
| VINCI SA                   | 4.56 |
| Union Pacific Corporation  | 4.28 |
| Sempra Energy              | 4.22 |
| Emera Inc                  | 4.13 |
| Severn Trent Plc           | 3.94 |

## Investment Option Commentary

During the quarter, North American utilities were the lead contributors to performance (+3.46%), of which US gas utility Williams Company (+1.62%) and Canadian gas utility Enbridge (+1.12%) were the top performers. Williams Company (WMB) owns and operates natural gas pipelines and associated midstream assets in the United States. These assets are either regulated or under long-term contracts. The share price of WMB rebounded strongly during the quarter after a weak December, when overall market weakness saw midstream gas companies underperform their utility counterparts.

Enbridge's (ENB) core business is owning and operating one of the largest oil and gas pipeline networks in North America. The company also owns regulated gas distribution utilities in Ontario, and a fast-growing portfolio of renewable power assets in North America and Europe. These assets operate under long-term contracts or a regulated framework. ENB's share price rallied during the quarter after news that the company had received regulatory approval for the Line 3 Replacement project by Minnesota regulators, as well as the continued successful execution of key strategic initiatives, including simplifying the corporate structure and de-leveraging the balance sheet through non-core asset sales.

Turning to Western Europe, Italian toll road operator Atlantia also performed strongly, contributing +1.14% to quarterly performance.

Atlantia (ATL) is an Italian diversified infrastructure company, operating both toll road and airport concessions. The primary value driver for ATL is ASPI, the Italian motorway network, which traverse the entire length and width of the country. The network is a user-pays concession and has few free alternatives, making it an effective monopoly. Additionally, the (inflation-linked) tariff structure is set out for the life of the concession.

ATL's equity story faced political headwinds with the Genoa bridge collapse incident in August 2018, which triggered threats from the Italian government to potentially revoke Atlantia's key Italian Toll Road concession, Autostrade per l'Italia. Since the collapse, the risk of revocation has decreased. ATL has booked provisions towards rebuilding the bridge and community aid, and along with freezing the interim dividend, this has eased some of the negative government rhetoric.

The largest detractor from quarterly performance was PG&E Corporation (-0.85%). PG&E Corporation (PG&E) is a regulated utility operating in central and northern California that serves 5.3 million electricity customers and 4.4 million gas customers in 47 of the State's 58 counties. All of PG&E assets and revenue are subject to regulation, either by the Californian Public Utilities Commission (CPUC) or Federal Energy Regulatory Commission (FERC).

During the quarter, shares in PG&E declined after the company filed for Chapter 11 reorganisation, in order to better navigate the mounting liabilities they are facing as a result of the 2017 and 2018 wildfires.

All returns are in local currency.

## Market commentary

Global markets were significantly higher during the first quarter of 2019, recovering from the extreme weakness of the fourth quarter of 2018. This recovery was driven by the decisive dovish policy moves by the US Federal Reserve and the view that an acceleration in China was likely following a broad range of stimulus measures. However, some gains were pared amid growth concerns as global economic data remained soft. Economic data has generally disappointed for the last six months, with the United States decelerating in each of 4Q18 and further in 1Q19 and Chinese industrial output growth coming in at 17 year lows. Lower global bond yields were a boost for many regulated utility and transport infrastructure assets.

## Outlook

On a regional level, the Strategy's largest exposure is in USA & Canada and consists of exposure to utilities (39%) and economically sensitive sectors (9%).

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 company First Energy and Canadian electric Hydro One.

The fund exited holdings in UAE port operator DP World, US electric utility Pattern Energy, and French rail operator GetLink.

## 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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