AMP Capital Global Infrastructure Securities (Hedged)

Quarterly Investment Option Update

30 September 2019

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) 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 focuses 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 oil and gas transportation and storage, transportation - including toll roads, and airports, communications and utilities. The manager may select unlisted securities only where it considers 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 strategies 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 for each product, please visit www.amp.com.au

Investment Option Overview

Investment category	Property and infrastructure
Suggested minimum investment timeframe	5 years
Relative risk rating	High
Investment style	Active
Manager style	Single

Asset Allocation	**Benchmark (%)**
Listed Property and Infrastructure	100
Cash	0

Actual Allocation	**%**
International Shares	90.89
Australian Shares	0.81
Listed Property and Infrastructure	8.87

Sector Allocation	**%**
Oil, Gas Storage & Transportn	45.59
Communications	16.14
Diversified	11.83
Transmission & Distribution	8.97
Water	8.53
Airports	5.37
Toll Roads	4.15

Top Holdings	**%**
Enbridge Inc	8.02
American Tower Corp	7.65
Sempra Energy	6.06
TC Energy Corp	5.90
Kinder Morgan Inc	5.35
Pennon Group PLC	4.77
Williams Companies Inc	4.13
Gibson Energy Inc	4.11
Rai Way Spa	3.97
National Grid PLC	3.90

Region Allocation	%
North America	61.84
Europe ex UK	19.08
United Kingdom	12.43
Asia ex Japan	3.23
Australasia	2.03
Latin America	1.96

Fund Performance

The Fund outperformed the index during September on a total return local basis.

At a sector level, the Fund is overweight in oil, gas storage & transportation, diversified, water, and airports; and is underweight in transmission & distribution, communications, toll roads, and ports.

Overall positive contributions to relative returns came from the oil, gas storage & transportation, communications, water, diversified, airports, and port sectors; whilst the transmission & distribution, and toll roads sectors were detractors. From a sector asset allocation perspective, positive contributions came from communications, oil, gas storage & transportation, ports, toll roads, diversified, and airports; whilst transmission & distribution, and water were detractors. At a stock selection level, positive contributions came from oil, gas storage & transportation, communications, water, diversified, and airports; whilst transmission & distribution, and toll roads detracted. There was a neutral effect from ports.

The top three individual contributors to relative performance in the period were from overweight positions in SemGroup Corp in oil, gas storage & transportation, and Pennon Group in water; and an underweight position in Crown Castle International Corp (where we hold no position). SemGroup Corp performed well following the buyout offer from Energy Transfer. Pennon Group was strong on the back of abating political nationalisation risk and the announcement of a strategic review regarding its waste business. Crown Castle International Corp was affected by general market movements.

The bottom three individual contributors to relative performance in the period were from underweight positions in Eversource Energy and Consolidated Edison in transmission & distribution (where we held no positions); and an overweight position in Plains GP Holdings in oil, gas storage & transportation. Eversource Energy and Consolidated Edison were affected by general market movements. Plains GP Holdings was impacted by some concerns on recent Permian Basin oversupply and flattish earnings projections into 2020.

Portfolio Positioning

We maintained a positive view on the North American oil, gas storage & transportation segment, as higher oil and gas production in North America will support capital investment. A West Texas Intermediate crude price around the US$50-60 a barrel range should continue to support strong volume growth. Segment corporate restructuring is also almost complete, with self-funding models in place, growing dividends, high coverage ratios and companies committing to lower leverage.

Conversely, we remain more negative on the utilities segment, which we believe it is currently trading at an unattractive valuation. However, we do see some opportunities in North American transmission and distribution, allowing us to selectively add companies that are benefitting from supportive structural growth stories within constructive regulatory regimes. We are more positive on the UK water segment as we believe the regulatory and political concerns that have impacted the segment over the last one-two years have enabled us to add to high quality companies at attractive valuations.

There was a recent sell-off event in the North American towers segment, and we are comfortable with our relatively subdued view of this segment. However, overall, we still favour the communications segment on the back of a strong secular tailwind, but we prefer tower companies outside the US, such as Europe and China, due to more supportive valuations.

The volatility in the equity market, together with continued uncertainty on the future of global monetary policy, is likely to support the listed infrastructure valuations as the market continues to look for quality defensive assets as an alternative source of income in times of uncertainty.

We continue to search for opportunities where the company's fundamental growth outlook and valuations present attractive entry points.

Market Review

The US-China trade dispute made little progress during the month although talks are due to resume in October. However, a false dawn has happened before so it is too early to read how negotiations will pan out; although both sides have made some conciliatory gestures, with China exempting certain US products from last year's tariffs and the US delaying the additional 5% tariff on around US$250 billion of Chinese imports. Elsewhere, disruptive drone attacks on Saudi Arabian oil facilities saw an initial spike in oil prices and have the potential to move the market to a risk-off bias if risks of further attacks are considered likely by the market.

In the US, Federal Reserve Chairman Jerome Powell said the Federal Reserve is monitoring "significant risks" and will "act as appropriate" to sustain economic expansion. Against this background, the Federal Reserve reduced the Federal Funds Rate range by 25 basis points to 1.75-2.0%. Overall, economic data has been mostly benign. Recent retail sales rose more than expected and small business confidence remains strong, although latest labour market indicators have been more mixed. Recent US industrial production figures have also risen and housing starts increased to their highest rate since 2007. The short-term repo funding rate spiked as corporate tax obligations and short-term borrowing requirements pushed the rate up. The central bank responded swiftly by entering the repo market to push rates down. Politically, in further acrimonious developments in US politics, the Speaker of the House of Representatives, Nancy Pelosi, announced there would be a formal impeachment movement against Donald Trump.

In Asia, unrest in Hong Kong has continued although the size of demonstrations has moderated somewhat. In China, exports are falling as the trade dispute starts to impact, with imports also pulling back. However, credit remains relatively buoyant and this is likely to be supported by the reduction in banks' required reserve ratios. In Japan, composite business conditions purchasing managers' indices have risen. The Bank of Japan has raised concerns that it is having trouble reaching its 2% inflation target, suggesting it may increase accommodative measures in the near term.

In Europe, the European Central Bank became more accommodative, lowering the bank reserve interest rate by 0.1% to a new negative 0.5%, reviving quantitative easing measures to buy debt to the value of €20 billion a month, and implementing more favourable long-term funding arrangements for banks.

In the UK, Brexit has been further complicated with increased uncertainty by a legal ruling that an extended suspension (proroguing) of Parliament was unlawful. This has seen Parliament return but operate under an impasse; with no sides yielding and no clear way forward.

The attack on Saudi Arabian crude oil infrastructure is a strong reminder of global risks. However, given the cash flow stability of energy midstream companies, they have less leverage to oil price volatility compared to exploration, production and service companies. That said, a higher crude oil price environment is positive for sentiment. In addition, compression in the cost of capital could also speed up pipeline development projects which would be beneficial for Enbridge's Line 3 as well as TC Energy Corp's Keystone XL project.

During the month, the Minnesota Supreme Court rejected the hearing of the Line 3 Replacement Final Environmental Impact Statement appeals. The decision now allows Enbridge to move forward. The next step will be for the court to provide guidance on the remaining process and permitting schedule. Enbridge is currently targeting to have Line 3 in service in the second half of 2020.

Also in September, Enbridge announced a memorandum of understanding with NextDecade Corporation to jointly pursue the Rio Bravo Pipeline and other natural gas pipelines in South Texas to enable NextDecade Corporation's Rio Grande liquefied natural gas project. The Rio Bravo Pipeline is designed to transport natural gas from the Agua Dulce area to the Rio Grande liquefied natural gas facility. This announcement furthers Enbridge's push to expand its liquefied natural gas export connectivity in North America.

Outlook

The outlook for global listed infrastructure remains very positive, supported by robust economic activity and industry-wide structural investment tailwinds. 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 best way to value these companies.

Our outlook for the North American oil, gas storage & transportation segment remains positive, as the shale gas revolution supports attractive volume growth in North America. Efforts to reduce carbon emissions have seen China's liquefied natural gas imports surge and supply investment is still needed to avoid the forecasted shortfall by mid-2020. Additionally, we are seeing oil production outpacing takeaway capacity due to the years of delay in building new pipelines, and the value of storage assets, particularly in Canada, continuing to increase on the back of this bottleneck.

We remain cautious on utilities and communications in North America as the segments are currently trading at unattractive valuations and are particularly sensitive to interest rates. However, we do see pockets of value emerging, particularly in the UK utilities and European communication companies.

For global listed infrastructure as an asset class we continue to see the potential for future outperformance as investors seek quality defensive assets that provide sustainable yield profiles in the current low interest rate environment.

Availability

Product Name	APIR
AMP Flexible Lifetime Super	AMP1874AU
AMP Flexible Super - Retirement account	AMP1879AU
AMP Flexible Super - Super account	AMP1878AU
CustomSuper	AMP1874AU
Flexible Lifetime - Allocated Pension	AMP1875AU
Flexible Lifetime - Investments (Series 2)	AMP2030AU
SignatureSuper	AMP1876AU
SignatureSuper - Allocated Pension	AMP1877AU

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