AMP Capital Global Infrastructure Securities (Hedged)

Quarterly Investment Option Update

31 March 2020

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	86.95
Listed Property and Infrastructure	11.86
Cash	1.19

Sector Allocation	**%**
Oil, Gas Storage & Transportn	41.79
Communications	18.45
Transmission & Distribution	10.06
Diversified	9.93
Water	6.85
Airports	5.44
Toll Roads	4.52
Rail	1.76
Cash	1.19

Top Holdings	%
AMERICAN TOWER CORP	8.60
ENBRIDGE INC	6.85
SEMPRA ENERGY	5.97
RAI Way SpA	5.76
WILLIAMS COMPANIES INC	5.65
National Grid PLC	5.62
TC Energy Corp	4.90
Gibson Energy Inc	4.28
Flughafen Zurich AG	3.71
Pennon Group PLC	3.53

Region Allocation	%
North America	57.90
Europe ex UK	19.47
United Kingdom	10.83
Asia ex Japan	6.33
Australasia	2.54
Latin America	1.73
Cash	1.19

Fund Performance

The Fund underperformed the index during March on a total return local basis.

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

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

The top three individual contributors to relative performance in the period were from an overweight position in Pennon Group in water; and underweight positions in ONEOK and Targa Resources Corp in oil, gas storage & transportation. Pennon Group had relatively good performance following its announced sale of its Viridor business at a price that exceeded market expectations. ONEOK and Targa Resources Corp were affected by general market movements.

The bottom three individual contributors to relative performance during the period were from overweight positions in Plains GP Holdings and Gibson Energy in oil, gas storage & transportation; and an underweight position in Crown Castle International Corp in communications. Plains GP Holdings and Gibson Energy were both negatively impacted by the lower demand for crude due to the global COVID-19 pandemic, and the oil price war between Saudi Arabia and Russia. Crown Castle International Corp was affected by general market movements.

Portfolio Positioning

The combination of the COVID-19 pandemic and the failed agreement between members of the Organisation of the Petroleum Exporting Countries Plus group has presented a challenging and volatile environment for the Fund. Whilst we are closely following the evolving situation, we also continue to look to take advantage of opportunities as they emerge with a long-term investment horizon.

We maintained a sizeable overweight to the North American oil, gas storage & transportation sector. Our outlook for the energy sector remains positive, despite the recent macroeconomic weakness, as the US shale gas revolution should continue to support strong volume growth in North America.

We also hold an overweight position to the transportation sector. We do not believe the recent share price movements in the sector are fully reflecting changes in fundamental profit expectations. Therefore, we remain reliant on our long-term time horizon to search for dislocations in value.

We also retained an underweight position to the utilities sector due to relatively unattractive valuations. However, we see some opportunities in the transmission and distribution sector, allowing us to selectively add companies that are benefiting from supportive structural growth stories within constructive regulatory regimes.

Market Review

The month started with major share markets falling sharply, as concerns relating to the global economic impact caused by COVID-19 intensified. Earlier in the period, the World Health Organisation declared the situation a pandemic as a result of the global surge in COVID-19 cases. Despite the initial announcements of substantial monetary policy easing globally, including central banks lowering interest rates, share markets fell alongside oil prices, as concerns grew that the global policy responses may be inadequate and the Organisation of the Petroleum Exporting Countries failed to cut oil output, respectively. By mid-March, economic data started to weaken sharply as a result of the shutdowns put in place as major cities tried to contain the spread of COVID-19. In the last week of March, despite the continued rise in COVID-19 cases (especially in the US and Italy) and signs of a slowdown in global economic activity, share markets had a strong rebound in response to announcements of unprecedented stimulus measures by governments and central banks.

In the US, economic data releases were initially positive at the beginning of March, although they preceded the COVID-19 concerns. On 3 March, the US Federal Reserve lowered the Federal Funds Rate to 1.00–1.25% and indicated it was prepared to do more to support the US economy. By mid-March, President Trump declared a national emergency to allow access to Federal aid for increased COVID-19 testing and the purchase of oil for the strategic reserve. On 15 March, the US Federal Reserve further reduced the Federal Funds Rate to 0.00%–0.25%, effectively zero. The central bank also announced it would restart quantitative easing with a significant asset purchasing program. Towards the end of the month, the US Federal Reserve began an open-ended quantitative easing, expanded its lending programs, and also announced the guarantee of loans. The latest US government's spending package, the largest in US history worth $US2 trillion, included loan guarantees, tax concessions and an increase in unemployment benefits. Meanwhile, US jobless claims surged by a record 3.3 million in late March whilst retail sales for February were weak. In Canada, the Bank of Canada lowered its overnight rate target to 0.75% and made a significant amount available to businesses through a credit facility program.

In Europe, Chancellor Merkel stated that Germany will do "whatever is necessary" and announced a package of measures to address the economic impact of COVID-19. Whilst the European Central Bank left its main interest rate unchanged at its historic low of -0.5%, it lowered capital requirements and provided lending support for banks, and substantially expanded its asset purchase program. At the same time, the European Union relaxed its government spending rules though it has been slow to move towards a joint fiscal stimulus. Earlier in March, the Bank of England lowered its Bank Rate and announced a sizable Term Funding scheme. By mid-month, the European Central Bank launched a new Pandemic Emergency Purchase Programme, worth €750 billion, in addition to the significant asset purchase program announced previously. The UK government announced it would provide a significant amount in credit guarantees, in addition to a three-month mortgage respite for homeowners. Later in March, the Bank of England lowered its Bank Rate further and launched a new substantial quantitative easing program. Meanwhile, Germany's business conditions fell sharply in March, reflecting the impact of COVID-19 on productivity.

In Asia, as expected Chinese export and import growth fell in January and February whilst business conditions for February declined sharply, reflecting the decline in economic activity as cities were placed in shutdown in an effort to contain the disease. To counter the negative economic effects from COVID-19, China's central bank announced a reduction in reserve ratios for banks. Towards the end of the period, as China appeared to have reached its peak in new cases of COVID-19, there were encouraging signs the economy may be returning to normality as seen in the rise in its daily activity indicators. Elsewhere in Asia, the Bank of Japan announced it would provide a significant amount of liquidity and expanded its quantitative easing program. The central banks of India, Indonesia, New Zealand, the Philippines, South Korea and Taiwan also lowered their respective benchmark interest rates. The New Zealand government additionally revealed a substantial stimulus package.

The price of oil faced downward pressure as Russia and the Organisation of the Petroleum Exporting Countries producers failed to agree on a proposed reduction in oil production in anticipation of weaker global demand due to the COVID-19 outbreak. Meanwhile, Saudi Arabia decided to significantly increase their oil production supply.

Outlook

The outlook for global listed infrastructure remains 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 cashflow 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 and transportation segment remains positive as the shale gas revolution supports attractive volume growth in North America. In the long term, low-cost US production should continue to drive export growth as overall demand recovers.

The outlook for the transportation sector has changed rapidly for 2020 as COVID-19 is expected to have a substantial negative impact on short-term traffic trends. We expect trends to revert to normal in the coming one-to-two years. We also continue to favour the European communications sector on the back of strong secular tailwind.

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. We will continue to add selectively where we find value.

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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