AMP Capital Global Infrastructure Securities (Hedged)

Quarterly Investment Option Update

30 June 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	86.48
Listed Property and Infrastructure	12.70
Others	0.00
Cash	0.81

Sector Allocation	%
Oil, Gas Storage & Transportn	44.44
Communications	15.43
Diversified	11.64
Transmission & Distribution	10.17
Airports	7.64
Toll Roads	4.54
Water	3.33
Rail	2.00
Cash	0.81

Top Holdings	%
AMERICAN TOWER CORP	7.82
ENBRIDGE INC	7.04
SEMPRA ENERGY	6.43
WILLIAMS COMPANIES INC	6.14
National Grid PLC	6.11
RAI Way SpA	5.26
Gibson Energy Inc	4.50
CenterPoint Energy Inc	4.49
TC Energy Corp	4.17
Flughafen Zurich AG	3.97

Region Allocation	%
North America	61.33
Europe ex UK	18.82
United Kingdom	7.94
Asia ex Japan	5.78
Australasia	2.91
Latin America	2.40
Cash	0.81

Fund Performance

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

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

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

The top three individual contributors to relative performance in the period were from overweight positions in RAI Way in communications, CenterPoint Energy Inc in diversified, and Grupo Aeroportuario del Sureste in airports. RAI Way had a positive month on the back of increased optimism about consolidation of the broadcasting tower sector in Italy. CenterPoint Energy was a strong performer during the month following a recapitalisation of the business initiated by activist and long-term investors. Grupo Aeroportuario del Sureste shares have shown some recovery from their lows, but still remain below intrinsic value.

The bottom three individual contributors to relative performance during the period were from overweight positions in Plains GP Holdings in oil, gas storage and transportation and Flughafen Zurich in airports, and an underweight position in Cellnex Telecom in communications. Plains GP Holdings was impacted by conservative commentary from management on recovery prospects. Flughafen Zurich, in line with many European airports, reversed some of its gains in June. We expect to see a recovery in traffic over the July/August period. Cellnex Telecom performed well on the back of increased optimism around mergers and acquisitions activity and several broker upgrades.

Portfolio Positioning

We maintained a sizeable overweight allocation to the North American oil, gas storage & transportation segment. Our outlook for the energy segment remains positive, as we believe that low-cost US production will continue to drive export growth as overall demand recovers.

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

We also retained an underweight allocation to the utilities segment due to relatively unattractive valuations. However, the recent market correction has resulted in increased volatility within the segment. As the segment is relatively insulated from the economic cycle this has created opportunities, allowing us to selectively add companies and reduce the underweight position during the month.

Market Review

Global equities have seen rapid swings from a risk-on to a risk-off bias due to shifting sentiment. However, net, the equity markets have seen a sharp rebound. This leaves them open to the risk of a correction. In addition, there is the risk of further waves of COVID-19, especially in the more densely populated countries, and the risk of economies falling back once working capital supplied by government policies peters out and companies review their strategies and demand. The World Bank, the Organisation for Economic Co-operation and Development, and the International Monetary Fund all indicate they expect the worst global recession since the Great Depression.

In the US, the upcoming election at the end of the year will put pressure on the administration to keep the stock market buoyant, provide ongoing stimulus to the underlying economy, and keep social unrest to a minimum. As the election nears, there may also be the temptation for a ramp-up of the rhetoric against China which could have flow-on impacts in the real economy if it escalates. The US Federal Reserve reiterated its concerns, with a negative economic prognosis and stating there is little short-to-medium probability of the bank raising rates. Quantitative easing measures will continue to be implemented with a 'whatever it takes' approach. The central bank is now moving closer to the direct purchase of corporate bonds. However, US data was better than generally expected. While construction spending has fallen more than anticipated, the Institute for Supply Management manufacturing and non-manufacturing conditions indices have shown some improvement, with retail and auto sales also seeing significant bounces. Jobs data was much better than expected, although there have been some issues with data collection and quality due to the COVID-19 restrictions.

In Asia, China's business conditions purchasing managers' indices have improved from the deep plunge in February and at this juncture indicate a V-shaped recovery. Credit growth has continued to accelerate, consistent with the ongoing policy easing. Chinese home price growth is also trending higher. In Japan, recent data showed a fall in wages, but the Economy Watchers household and business conditions indices have showed signs of improvement. Japanese inflation remains subdued.

In Europe, Germany's coalition government agreed a new bigger than expected fiscal stimulus. The programme will focus on increased spending and tax cuts. The European Central Bank extended its pandemic quantitative easing bond buying programme, extending out to mid-2021. Latest data showed German industrial production fell, but Eurozone sentiment readings indicate a more buoyant forward-looking perspective. France announced a third round of fiscal stimulus over-and-above the recent additional stimulus measures from Germany and the European Commission. In combination with the German initiatives and the planned Europe-wide Recovery Fund, Europe is buttressing against increasing economic stress.

Listed infrastructure underperformed relative to broader equities as a global increase in Covid-19 cases spurred doubt on the strength of the demand recovery.

Asian airports are back to March lows, as it looks increasingly unlikely international borders will open significantly in 2020. On the other hand, European airlines have continued to restart their operations, although aircraft seat capacity will only be around 40-60% of 2019 levels in the July/August period.

Mergers and acquisitions activity continues in the European tower segment, with Phoenix Tower International reportedly offering €550 million for EI Towers' telecom mast business. Phoenix Tower International is a relative newcomer to the European market and is looking to expand its footprint beyond France and Ireland. Additionally, Telecom Italia completed the reduction of its stake in Infrastrutture Wireless Italiane in a sale to an Ardian-led investor consortium and Canson Capital Partners, highlighting the continued interest from private equity in European communication infrastructure.

Outlook

The combination of the COVID-19 pandemic and the volatility in commodity prices presents a challenging environment for global listed infrastructure. However, our long-term outlook for the asset class remains positive, supported by a recovery in 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. Whilst we are closely monitoring current developments, we will continue to look to take advantage of opportunities as they emerge with a long-term investment horizon.

Our outlook for the North American oil, gas storage & transportation segment remains positive. In the short term, we believe US oil production growth will moderate given lower commodity prices, reflecting the impact of the COVID-19 pandemic on overall demand. We also believe the investment community will assess energy and production counterparty exposure with additional scrutiny, due to the potential pressure on spreads, volumes, and tariffs on incumbent pipelines. However, in the long term, low-cost US production will continue to drive export growth as overall demand recovers.

Availability

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

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