

# AMP Capital Global Infrastructure Securities (Hedged)

Quarterly Investment Option Update

30 June 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](http://www.amp.com.au)

## Investment Option Overview

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

<b>Asset Allocation</b>	<b>Benchmark (%)</b>
Listed Property and Infrastructure	100
Cash	0

<b>Actual Allocation</b>	<b>%</b>
International Shares	86.05
Australian Shares	2.47
Listed Property and Infrastructure	9.95
Cash	1.53

<b>Sector Allocation</b>	<b>%</b>
Oil, Gas Storage & Transportn	45.05
Communications	16.80
Diversified	11.91
Transmission & Distribution	7.24
Water	7.22
Toll Roads	5.17
Airports	5.08
Cash	1.53

Top Holdings	%
Enbridge Inc	7.61
AMERICAN TOWER CORP	7.00
TC Energy Corp	6.09
SEMPRA ENERGY	6.07
KINDER MORGAN INC	5.90
Gibson Energy Inc	4.06
WILLIAMS COMPANIES INC	4.05
RAI Way SpA	3.83
Pennon Group PLC	3.80
Vinci SA	3.80
Region Allocation	%
North America	58.29
Europe ex UK	19.54
United Kingdom	10.76
Australasia	4.06
Asia ex Japan	3.24
Latin America	2.59
Cash	1.53

## Fund Performance

The Fund outperformed the index during June on a total return local basis. At a sector level, the Fund is overweight in diversified, oil, gas storage & transportation, water, toll roads and airports; and is underweight in transmission & distribution, communications and ports. Overall positive contributions to relative returns came from the communications, oil, gas storage & transportation, diversified, toll roads and ports sectors; whilst the transmission & distribution, water and airports sectors were detractors.

The top three individual contributors to relative performance in the period were from overweight positions in RAI Way in communications, Flughafen Zurich in airports, and Plains GP Holdings in oil, gas storage & transportation. RAI Way had positive news flow regarding potential mergers and acquisitions in the Italian broadcasting tower segment. Flughafen Zurich performed well when the regulator backed away from proposed changes to the company's regulatory framework. Plains GP Holdings had positive performance following an analyst day and the announcement of developments in the Red Oak and Liberty pipelines.

The bottom three individual contributors to relative performance in the period were from underweight positions in ONEOK (where we have no holdings) in oil, gas storage & transportation, Transurban Group in toll roads, and Edison International in transmission & distribution. ONEOK performed well in line with its peer group. Transurban Group responded well to falling Australian interest rates. Edison International experienced some volatility around uncertainty on the impact of regulation around wildfire risks.

## Portfolio Positioning

We maintain a positive view on North American oil, gas storage & transportation, as higher oil and gas production in North America will support capital investment. A West Texas Intermediate crude price of around US\$50-60 a barrel should continue to support strong volume growth. In addition, corporate simplification in the segment is almost complete, with improved capital structures, self-funding models in place, growing dividends, high coverage ratios and companies committing to lower than 4.5 times leverage.

We believe the utilities segment is currently trading at unattractive valuations. However, we 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 also positive on the UK water segment, and the regulatory and political concerns that have impacted it over the last one-two years and have enabled us to add high-quality companies at attractive valuations.

Strong performance in North American tower companies has allowed us to selectively take profits. We continue to favour communications generally on the back of a strong secular tailwind; however we prefer European tower companies due to more supportive valuations.

The volatility in equity markets, together with continued uncertainty on the future of global monetary policy, are

likely to be supportive of listed infrastructure as the market supports demand for quality defensive assets as an alternative source of income in times of uncertainty. We continue to search for opportunities where we like the company's fundamental growth outlook and valuations present attractive entry points.

## Market Review

Globally in infrastructure, the Minnesota Court of Appeals issued an opinion stating that it agrees with arguments that the final environmental impact statement for Enbridge's proposed Line 3 Replacement project is "inadequate because it does not address the potential impact of an oil spill into the Lake Superior watershed." The court noted that the Minnesota Public Utilities Commission had acted in a manner unsupported by substantial evidence and had been arbitrary and capricious when it determined the impact statement as adequate. Accordingly, the court has reversed the commission's adequacy determination. However, the opinion noted that the impact statement had properly defined the purpose of the project, sufficiently identified alternatives, including a "no action" alternative, and utilised an appropriate methodology to analyse potential impacts from oil spills.

The Canadian Prime Minister, Justin Trudeau, announced that the federal cabinet has approved the expansion of the existing Trans Mountain pipeline, which the government bought for C\$4.5 billion last year after regulatory and political uncertainty led Kinder Morgan to abandon the project. "Our government has newly approved the Trans Mountain pipeline going forward. The company plans to have shovels in the ground this construction season," Trudeau told reporters, adding that every dollar earned from the pipeline as well as the future sale of it will be invested in clean energy projects. Furthermore, the government wants to start construction this building season. If successful (though litigation and legal challenges may materialise), this timeline could translate into an in-service date of roughly the end of 2021, better than the initial expectation of end of 2023. The approval improves overall Canadian energy investment sentiment as additional infrastructure will be required to support the pipeline operations, including storage tanks and natural gas liquids infrastructure to provide condensate for blending purposes.

**EcoRodovias Infraestruturas e Logística** holds road concessions in Brazil connecting important national infrastructure. It has recently acquired 100% of the capital stock of Concessionária de Rodovias Minas Gerais Goiás. The company now owns and operates Highway BR-050 on the 436.6 km stretch that begins at the intersection with Highway BR-040 in Cristalina and extends to the border of the states of Minas Gerais and São Paulo, in the city of Delta. The acquisition develops the company's strategy of focussing on highway concession assets and lengthening the duration of its portfolio.

**TransCanada Corp** focusses on energy infrastructure in North America, particularly on natural gas transmission and power services. Its original association with the blocked Keystone XL pipeline construction project may be revived, following an appeals court ruling lifting the injunction that had blocked the project. However, environmental groups are fighting the decision reversal and it is too early yet to say with confidence that the project will proceed.

## 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 North American oil, gas storage & transportation remains positive as the shale gas revolution supports attractive volume growth in North America. Efforts to reduce carbon emissions has 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. However, we do see pockets of value emerging, particularly in 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. 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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