

# RARE Infrastructure Value

Quarterly Investment Option Update

30 June 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 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
<b>Manager style</b>	Single manager

Asset Allocation	Benchmark (%)	Actual (%)
Listed Property and Infrastructure	N/A	95.85%
Unlisted Property and Infrastructure	N/A	0%
Cash	N/A	4.15%

Regional Allocation	%
USA & Canada	47.76
Western Europe	31.36
Asia Pacific Developed	8.88
Latin America	3.99
Asia Pacific Developing	3.86
Cash	4.15

Sector Allocation	%
Electric	34.03
Gas	20.10
Toll Roads	15.55
Water	12.46
Rail	5.98
Airports	3.41
Ports	2.19
Communications	2.13
Cash	4.15

Top Holdings	%
Enbridge Inc.	5.70
Transurban Group Ltd.	4.74
National Grid plc	4.68
VINCI SA	4.59
Cheniere Energy, Inc.	4.46
Sempra Energy	4.39
United Utilities Group PLC	4.36
Emera Incorporated	4.32
Severn Trent Plc	4.24
Union Pacific Corporation	4.12

## Investment Option Commentary

On a regional basis, USA & Canada was the top contributor to quarterly performance (+2.67%) of which US electric PG&E Corporation (+0.46%), US gas company Sempra (+0.39%) and US water Aqua America (+0.39%) were the lead performers.

PG&E Corporation (PG&E) is a regulated utility operating in central and northern California, serving 5.3 million electricity customers and 4.4 million gas customers in 47 of the State's 58 counties. During the quarter, PG&E outperformed as the Governor proposed favourable legislation to mitigate wildfire risk before the legislative recess on 12 July. The company also settled claims with a number of California cities, demonstrating further progress to the market on wildfire claims resolutions.

Sempra (SRE) is a Californian based utility that owns stable regulated utilities and contracted assets across the US, Mexico and South America. During the quarter, the share price of Sempra rallied after there was legislative progress in California which reduced the regulatory risk for the company's Californian utilities, along with progress in contracting the Port Arthur LNG facility, with a 5mtpa agreement signed with Aramco.

Aqua America (WTR) provides water, wastewater and gas utility services to customers across several states within the United States. Aqua America performed well during the quarter after it successfully raised capital to fund the acquisition of Peoples, a gas distribution company. In addition, US utilities also made strong gains with investors favouring the water utilities.

Turning to the Asia Pacific, Australian toll road operator Transurban performed strongly, contributing +0.62% to quarterly performance.

Transurban (TCL) owns a suite of intra-urban toll road assets that dominate the Australian toll road network in the three state capital cities on the eastern seaboard. Additionally, they have several toll roads in North America, predominantly the Washington DC area of Virginia, USA. TCL's share price performed strongly during the quarter owing to falling bond rates, which combined with minimum toll increases on many roads, increases the value of the company's future cash flows.

The largest detractor from quarterly performance was China Merchants Port Holdings (-0.48%). China Merchants Port Holdings (CMP) is China's largest port operator across China's five major port regions, including key hub port assets in The Pearl River Delta and Yangtze River Delta.

The share price of CMP fell during the quarter after the US raised the tariff on the US\$200b tranche of imports from China from 10% to 25%, renewing concerns on US-China trade tension in early May. During June, President Trump and President Xi met at the G20 summit; Trump agreed not to impose new tariffs on Chinese imports with trade talks resuming soon. Uncertainty on the upcoming trade talks between China and the US remains high.

All returns are in local currency.

## Market commentary

Listed infrastructure, global equities and fixed income all showed solid performance during the second quarter (as well as year-to-date). This is in contrast to the weak underlying backdrop for economic activity, investment, wages, profits and GDP growth. The growth signal from RARE's macroeconomic overlay has been weak for the last three quarters. There was a slight improvement in leading indicators and data during 2Q19 compared to 1Q19, but this was concentrated early in the quarter and June has disappointed.

## Outlook

On a regional level, the Strategy's largest exposure is in USA & Canada and consists of exposure to utilities (41%) and economically sensitive sectors (6%).

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 Spanish electric Red Electrica, US water Aqua America, UK electric SSE, US electric utility Clearway Energy.

The fund exited holdings in Mexican electric utility CFE Capital, US electric Edison International, US gas utility Kinder Morgan and US electric NextEra Energy.

## 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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