

Legg Mason Martin Currie Real Income

Quarterly Investment Option Update

30 September 2019

Aim and Strategy

To provide a growing income stream by investing in a diversified portfolio of Australian listed real assets (such as A-REITs, utility and infrastructure securities) characterised by established physical assets with recurring cash flows.

The investment manager's approach is premised on the philosophy that high-quality listed real assets can sustain dividends, match rises in the cost of living and are likely to be less volatile than the wider equity market.

The portfolio expects to hold about 20 to 45 securities. At the time of purchasing securities, the portfolio aims to limit exposure to individual securities to 9% of the portfolio and hold cash and cash equivalents of no more than 10% of the portfolio.

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au

Investment Option Overview

Investment Category	Property and Infrastructure
Suggested investment timeframe	3 to 5 years
Relative risk rating	7 / Very High
Investment style	Diversified Property
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Listed Property and Infrastructure	90-100	97.90
Cash	0-10	2.10

Sector Allocation	%
Diversified REIT	22.5
Retail REIT	25.0
Office REIT	4.3
Industrial REIT	4.2
Gas & electricity grids	11.7
Multi utilities	19.8
Airports, ports & rail	6.7
Toll roads	5.8
Diversified REIT	22.5
Retail REIT	25.0

Top Holdings	%
Vicinity Centers	6.30
Scentre Group	5.83
Transurban Group	5.68
Stockland	5.59
Ausnet Services	5.21
AGL Energy Limited	5.14
APA Group	4.93
Mirvac Group	4.84
Aurizon Holding Limited	4.45
Contact Energy Limited	4.18

Portfolio Summary

- The Funds allocation to A-REITs was the largest contributor over the quarter.
- Mirvac Group, Meridian Energy and Stockland were the largest positive contributors
- AGL Energy, Scentre Group and Transurban were the biggest detractors.
- The portfolio trimmed its position in Scentre Group. The underlying operations and quality of Scentre Group's assets remain high, but following strong share-price gains, Legg Mason have reduced the position as part of their overall portfolio construction process.

Investment Option Commentary

Funds allocation to A-REITs and Utilities sectors were the main contributors to performance for the quarter, while the industrial sector detracted. On a stock level, Mirvac Group, Meridian Energy and Stockland Corporation provided the greatest source of contribution to return for the quarter. On the other side, AGL Energy, Scentre Group and Aveo Group detracted. The Fund is now expected to provide a dividend yield of 5.9% (grossed up for franking credits) over the next 12 months on a forward-looking basis.

Market Commentary

The S&P/ASX 300 A-REIT Accumulation Index rose 2.0% in the September quarter, compared with the broader Australian equity market, which was up 1.5% (as measured by the S&P/ASX 200 Accumulation Index). Globally, real estate investment trusts (REITs) were down on higher bond yields. In the year to date, the S&P/ASX 300 A-REIT Accumulation Index rose 5.1%, while the broader market was up 5.9%. At the A-REIT subsector level over the quarter, healthcare and industrials were the strongest areas, while retail and residential were the weakest.

In Australian economic news, the low level of interest rates continued to support the Australian economy as the Reserve Bank of Australia (RBA) left the official cash rate unchanged at 1.5% as expected. In its September statement, the RBA noted the unemployment rate has fallen to 5.3%, the lowest level in nearly six years. Further progress in reducing unemployment and neutralising inflation to return to target levels will be continued at a gradual rate.

Outlook

During most of 2017, lead indicators of global economic growth, such as world purchasing managers' indices had pointed to the strongest levels of expected growth in more than a decade. Against this backdrop, and as anticipated, the Fund Manager has seen interest rates rise, especially for longer-dated money. The Fund Manager believes the economy is more than 18 months into the current cyclical expansion, and LEGG MASON can see tight capacity utilization and employment producing an environment of increased pricing power and ultimately inflation. However, December 2017 may have marked the peak of this up cycle, with the change in the six-month moving average of PMIs turning negative, signaling tapering growth now in most regions around the world, with the one exception of China.

Conversely, the outlook for the Australian economy is still looking positive for the medium term, as the Australian economic cycle is running behind that of the US recovery. Australian bond yields are now below US yields for the first time since 2000. From here, Legg Mason believe that Australian yields will either need to rise in step with the stronger GDP growth and higher commodity prices, or the value of the Australian dollar will likely fall.

For the real asset sector, and in particular Australian real estate investment trusts (A-REITs), the result has been material market-price volatility, despite a lack of any cash flow or dividend impacts. It's an important point to make, as the price volatility seen has been driven by the macro backdrop and interest rates moves. Sector cash flows evidenced by the latest reporting season and quarterly updates look robust.

Legg Mason continues to point to the wide spread of the attractive A-REIT earnings and dividend yields over relatively low cash rates and long bond yields. High relative yields mean A-REITs are also attractive, compared with other global real asset options, and the sector also offers an attractive investment opportunity for offshore investors. Legg Mason continues to see strong evidence of a healthy bid by offshore capital for A-REITs, evidenced by recent corporate activity in the sector.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1819AU
AMP Flexible Super - Retirement account	AMP1789AU
AMP Flexible Super - Super account	AMP1795AU
CustomSuper	AMP1819AU
Flexible Lifetime - Allocated Pension	AMP1813AU
SignatureSuper	AMP1807AU
SignatureSuper Allocated Pension	AMP1801AU

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