Legg Mason Martin Currie Real Income

Quarterly Investment Option Update

31 December 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	97.37
Cash	0-10	2.63

Sector Allocation	%
Diversified REIT	26.2
Retail REIT	29.3
Office REIT	5.0
Industrial REIT	5.6
Gas & electricity grids	7.0
Multi utilities	11.8
Airports, ports & rail	8.7
Toll roads	6.4

Top Holdings	%
Scentre Group	6.8
Stockland Corporation	6.0
AGL Energy	5.8
Aurizon Holdings	5.2
APA Group	4.8
Vicinity Centres	4.8
Transurban Group	4.8
Unibail-Rodamco-Westfield	4.6
SCA Property Group	4.0
Charter Hall Long Wale REIT	3.6

Portfolio Summary

The option's allocation to A-REITs was the largest contributor over the quarter.

- Stockland AGL Energy and Aventus Group were the largest positive contributors
- Contact Energy and Aurizon Holdings were the biggest detractors.
- The portfolio initiated a position in Atlas Arteria by participating in its equity raising which saw an increase its stake in its existing major toll road network asset. The investment option also added to the positions in Centuria Metropolitan REIT and Charter Hall Long WALE REIT. These were funded by trimming positions in New Zealand integrated utilities Mercury NZ and Contact Energy and selling out of Meridian Energy.

Investment Option Commentary

At the sector level, real estate was the largest positive contributor, while utilities and infrastructure detracted from absolute returns. At the stock level, AGL Energy, Stockland Corporation, and Aventus Group, were the largest positive contributors, while Contact Energy, Aurizon Holdings, and Meridian Energy were the biggest detractors to absolute returns.

The investment option is now expected to provide a dividend yield of 5.8% (grossed up for franking credits) over the next 12 months on a forward-looking basis.

Market Commentary

The Australian real asset universe outperformed the broader Australian equity market in the December quarter. The listed real estate market was down 0.7% in the December quarter (as measured by the S&P/ASX 300 A-REIT Accumulation Index). Infrastructure was up 3.0% in the December quarter (as measured by the S&P/ASX Infrastructure Accumulation Index). Utilities were up 1.5% in the December quarter (as measured by the S&P/ASX 300 Utilities Accumulation Index). In comparison, the Australian equity market rose 0.7% in the December quarter (as measured by the S&P/ASX 200 Accumulation Index).

Global growth indicators improved during the quarter which resulted in a +35bp increase in 10yr bond yields and some rotation out of defensive real assets such as infrastructure, utilities and property into mining and value stocks. Underlying real asset cash flows remain solid and company outlook statements were broadly re-affirmed across the period.

Outlook

A robust earnings outlook and attractive dividend yield is key for the real asset sector. An historically wide yield spread has emerged with a bottoming in long bonds at very low levels. Accordingly, real asset pricing is reflective of materially higher rates from here. Furthermore, customer and tenant base expansion from world leading population growth is bolstered for most real assets by re-financing debt to these much lower rates, which will deliver an earnings and dividend tailwind.

Retail sales have broadly stabilised, while Legg Mason Martin Currie expect the leasing environment to remain subdued. A better wage environment and healthy employment levels should see a stronger growth from here but this may take time to translate. Improved supermarket sales are evidence of a better spend in the non-discretionary bucket, but Legg Mason Martin Currie contend that rental growth will still need to match underlying tenant sales, as occupancy costs are unlikely to rise from current levels.

Office demand looks to have peaked and the Fund Manager are focused on affordable rents in a still healthy sub-sector, but they think they have seen the best of market growth rates. Office cap rates may still yet move lower on the aforementioned lower rates and weight of capital.
In utility markets, policy uncertainty is seeing investment capital sit on the sidelines. New renewables build will need firming into peak periods and network capacity will need to be re-matched to these new sources of production. Outer-year electricity prices are still expected to be set by the marginal cost of existing gas-fired peak plants, while residual coal plants delivering base load will benefit.

For the infrastructure sector, Legg Mason Martin Currie see strong long-term themes with volume growth in toll-road traffic and child-care patronage is expected with these growth rates maturing in outer years. Toll-road regime optimisation will remain an important factor. Foreign capital is still eyeing Australia's attractive internal rate of return (IRR), for yield and growth, with supportive appeal from our high levels of disclosure and transparency in real asset markets. They are yet to see any deterioration in the prospects for high-quality real assets, with conservative balance sheets and cash flows and distributions.

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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