Legg Mason Martin Currie Real Income

Quarterly Investment Option Update

31 March 2020

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	26.8
Retail REIT	24.5
Multi utilities	14.9
Gas & electricity grids	10.7
Toll roads	7.5
Airports, ports & rail	7.2
Office REIT	4.3
Industrial REIT	4.1

Top Holdings	%
APA Group	7.4
Aurizon Holdings	7.3
AGL Energy	7.2
SCA Property Group	5.7
Transurban Group	5.4
Scentre Group	4.6
Stockland Corporation	4.5
Charter Hall Long Wale REIT	4.5
Genesis Energy	3.7
Charter Hall Retail REIT	3.4

Portfolio Summary

- All sectors produced a negative return, with real estate the largest detractor, followed by infrastructure and utilities.
- National Storage REIT, Centuria Metropolitan REIT, and Ausnet Services, were the largest positive contributors
- AGL Energy, Scentre Group and Transurban were the biggest detractors.
- The portfolio trimmed its the positions in Unibail-Rodamco-Westfield and National Storage REIT, and also exited the position in Sydney Airport.

Investment Option Commentary

The Portfolio was down in the March quarter. All sectors produced a negative return, with real estate the largest detractor, followed by infrastructure and utilities. At the stock level, National Storage REIT, Centuria Metropolitan REIT, and Ausnet Services, were the largest positive contributors, while Scentre Group, Stockland Corporation, and Vicinity Centres were the biggest detractors.

In the current market environment, the investment manager have focused on identifying cashflow impacts from shutdowns and social distancing, while also looking at relative debt positions with a view to how likely dilutive equity raises could be.
They have also note:

- They have looked to de-risk the portfolio income by moving the portfolio away from airports, discretionary shopping centres and childcare into names with more secure cash flows, like gas pipes lines, office, petrol stations, storage and regulated rail networks.
- They still hold some real assets that might have short-term dividend risks, because they can avoid lasting income damage, they continue to offer attractive valuations and long-term Sustainable Dividend yields.
- They see less immediate and medium-term dividend risk from the following sector exposures: gas pipelines, integrated utilities, rail coal haulage, triple net lease property (e.g. petrol stations) and supermarket anchored retail (which represents ~50% of the portfolio). Legg Mason Martin Currie expect to see household consumption of basic needs to be extremely defensive despite the disruptions.
- Larger discretionary shopping centres and toll roads clearly face short-term dividend uncertainty and downside will be driven by the length of society behaviour shifts, (these holdings represent ~15% of the portfolio).
- The remaining 35% portfolio exposure has reduced immediate income risk, for example office properties, industrial sheds and storage, but heightened medium-term tenant risk may see some cash-flow impacts emerge.

Market Commentary

The Australian real asset universe underperformed the broader Australian equity market in the March quarter.

- The listed real estate market was down -34.3% in the March quarter (as measured by the S&P/ASX 300 A-REIT Accumulation Index).
- Infrastructure was down -24.5% in the March quarter (as measured by the S&P/ASX Infrastructure Accumulation Index).
- Utilities were down -9.6% in the March quarter (as measured by the S&P/ASX 300 Utilities Accumulation Index).

In comparison, the Australian equity market fell -23.1% in the March quarter (as measured by the S&P/ASX 200 Accumulation Index).

Outlook

It is important to acknowledge dividend and cashflow uncertainty in 2020, as the investment manager believes many companies including some real assets will reduce dividends in 2020 due to COVID-19 disruptions; so, they expect short term dividend risk. They see active management as critical: understanding where the lasting damage will be (debt, liquidity, changed behaviors) and taking advantage of the universal sell-off to best position portfolios is vital.

In this environment, they would highlight the benefits of listed markets where transparency on pricing and liquidity is available when you need it most. Navigating the current environment is essential in identifying those names that can avoid lasting income damage, but longer-term Real Assets will continue to satisfy everyday needs of our growing population and they believe they offer attractive valuations and yields.

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

Contact Details

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267

INSIGHTS
IDEAS
RESULTS