

Legg Mason Martin Currie Equity Income

Quarterly Investment Option Update

30 June 2020

Aim and Strategy

To provide an after-tax income yield above the S&P/ASX 200 Index and to grow this income above the rate of inflation by investing in a diversified portfolio of high-quality companies listed on the ASX. The investment manager's approach is premised on the philosophy that high-quality companies that have solid earnings can sustain dividends, match rises in the cost of living and are likely to be less volatile than the wider equity market. The portfolio is managed in a tax-aware manner in order to benefit from franking credits. The portfolio is generally expected to hold 40 to 60 securities and exposure to an individual sector (as determined by Martin Currie Australia) is no more than 22%.

Note: The portfolio will not invest in securities issued by companies involved in the production or distribution of cluster munitions or the manufacture of tobacco products.

Investment Option Performance

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

Investment Option Overview

Investment Category	Australian Listed Equities
Suggested Investment timeframe	3 to 5 years
Relative risk rating	6 / High
Investment style	Specialist
Manager style	Single Manager

Sector Allocation	%
Consumer discretionary	14.7
Consumer staples	11.6
Energy	0.0
Non-bank financials	15.5
Banks	14.2
Real estate	8.9
Health care	0.0
Industrials	6.4
Information technology	0.0
Other materials	1.8
Metals & mining	6.0
Communication services	9.9
Utilities	10.6
Cash and other	0.3

Top Holdings	%
Coles Group Limited	4.96
National Australia Bank Limited	4.74
Medibank Private Limited	4.57
Bhp Billiton Limited	4.46
Telstra Corporation Limited	4.43
AGL Energy Limited	4.42
Aurizon Holding Limited	4.25
ANZ Bank	4.07
Wesfarmers Limited	4.03
JB Hi-Fi Limited	3.77

Asset Allocation	Benchmark (%)	Actual (%)
Australian Listed Equities	100	99.7
Cash	0	0.3

Portfolio Summary

- The portfolio posted a 12-month franked income return of 6.0%, a 35% premium over the index franked income return of 4.5%.
- During the June quarter all sectors rose, with the portfolio's allocation to consumer discretionary and real estate the largest positive contributors, while utilities and consumer staples lagged.
- At the stock level, JB Hi-Fi, Wesfarmers and Star Entertainment Group were the largest positive contributors, while Insurance Australia Group, Ausnet Services and Coca-Cola Amatil were the biggest detractors.

Investment Option Commentary

A major contributor to performance was retailer of home consumer products JB Hi-Fi, which has been resilient throughout the quarter. The company released a positive trading update in June, highlighting strong sales and upgraded FY20 guidance, and management cited strong sales growth driven by customers spending more time working, learning, and enjoying entertainment at home.

Another strong contributor to the portfolio's performance was Wesfarmers. The conglomerate has continued to climb from its March low, particularly benefiting from its defensive characteristics as the market became risk-off during June, due to increasing fears of a second wave of COVID-19.

Wealth management group IOOF Holdings also contributed to the portfolio's performance, as it was strong on improved flows and rising equity markets.

A detractor to the portfolio's performance was general insurance group Insurance Australia Group, which announced the retirement of its CEO during May. IAG has also experienced poor investment returns during the COVID-19 crisis.

Energy company Ausnet Services slightly detracted from performance, as it fell despite releasing FY20 results during May that were overall slightly better than expected. Ausnet did guide to a slightly lower FY21 distribution as it retains cash for growth projects in electricity transmission and provides some billing relief to customers impacted by COVID-19. AST was also weaker in June on little news flow, however due to the large number of growth opportunities available in the electricity transmission segment, there was market talk of the company raising equity to pursue more growth capex.

Beverage manufacturer and distributor Coca-Cola Amatil was also a slight drag on the portfolio's performance. The company fell after providing an update on trading conditions and its response to the COVID-19 crises, citing social restrictions causing many customers to close their businesses or have reduced sales across all of their markets.

Market Commentary

The COVID-19 situation has been very unusual in that in order to reduce transmission of the virus, the Government's social distancing measures resulted in activity levels in the economy down around 70%. So, instead of a liquidity problem like what occurred in the GFC, the COVID-19 crisis resulted in company revenue completely disappearing, or for some sectors, free cash flow going negative. However, the Australian Government has provided significant stimulus to support businesses and consumers, and Australia looks in a much stronger position than many countries around the world.

All sectors rose during the quarter, with information technology the best performer, supported by low bond yields. This was followed by consumer discretionary, which has seen strong sales buoyed by pent up demand, stimulus and the magnitude of people working from home. Healthcare lagged, along with the other defensive sectors, utilities and consumer staples.

Outlook

Australian Equity market value spreads have started to narrow, however remain at elevated levels. The unprecedented and unexpected impacts from COVID-19 have meant that the near-term outlook for dividends from Australian and Global equities is challenging. The Value style, despite volatility, has made some recovery since suffering through the COVID-19 crisis, and we expect it to continue to improve as the market shifts its focus from the impending recession to the recovery.

Availability

Product name	APIR
AMP Flexible Super	AMP8310AU
AMP Flexible Super - Retirement	AMP3336AU
CustomSuper	AMP4368AU
Flexible Lifetime - Allocated Pension	AMP9778AU
Flexible Lifetime - Super	AMP4368AU

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