

Legg Mason Martin Currie Real Income

Quarterly Investment Option Update

30 June 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 |

| Sector Allocation | % |
|--------------------------|----------|
| Diversified REIT | 31.1 |
| Retail REIT | 24.2 |
| Multi utilities | 20.1 |
| Gas & electricity grids | 7.3 |
| Airports, ports & rail | 7.2 |
| Office REIT | 5.1 |
| Industrial REIT | 4.0 |
| Toll roads | 1.0 |

| Top Holdings | % |
|-----------------------------|----------|
| APA Group | 7.4 |
| Aurizon Holdings | 7.0 |
| Dexus Property Group | 6.0 |
| AGL Energy | 5.9 |
| SCA Property Group | 5.4 |
| Scentre Group | 5.4 |
| Ausnet Services | 5.3 |
| Stockland Corporation | 5.1 |
| Charter Hall Retail REIT | 4.7 |
| Charter Hall Long Wale REIT | 4.3 |

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

Portfolio Summary

- All sectors produced a positive return, with real estate the largest contributor, followed by industrials and utilities.
- Scentre Group, Stockland Corporation and Vicinity Centers were the largest positive contributors
- Ausnet Services, Atlas Arteria Group and Charter Hall Long Wale REIT were the biggest detractors.
- A position was initiated in lifestyle and holiday community's provider, Ingenia Communities Group.

Investment Option Commentary

The Investment Option was up in the June quarter. All sectors produced a positive return, with real estate the largest contributor, followed by industrials and utilities. Scentre Group, Stockland Corporation and Vicinity Centers were the largest positive contributors. On the other side, Ausnet Services, Atlas Arteria Group and Charter Hall Long Wale REIT were the biggest detractors.

During the June Quarter the Fund Manager re-positioned the portfolio accordingly by:

- Focusing on securing income and identifying those names that can avoid lasting damage.
- Reducing high end retail, toll roads and airports.
- Increasing gas and electricity grids, long WALE property, office/industrial and convenience retail.

This resulted in 14% turnover for the quarter, well above their typical annualised rate of 22%.

Market Commentary

The Australian real asset universe outperformed the broader Australian equity market in the June quarter.

As the COVID-19 crisis unfolded, it's no understatement to say that some real assets were in the eye of the storm, as the Government's enforced social distancing rules saw a breakdown in everyday behaviours. Equally, it is important to stress that not all real assets are the same. Lock-down rules have significantly affected some real assets in the short term, such as shopping centres, airports and toll roads, while we have seen less impact to pipelines & networks, utilities, regulated rail, data centres and supermarket anchored retail. The differences have been profound.

As COVID-19 lockdown restrictions have eased, we are encouraged by the recovery in everyday activity levels, as indicators like foot traffic and road movements have moved back quickly towards pre-crisis levels, and this does emphasise the artificial nature of the lockdown. We have also see rent collection improvements in those areas most affected.

Therefore, the Fund Manager is seeing the Real Income strategy's income stream snapping back faster than the broader economy, and strong income performance during the quarter.

Outlook

Despite COVID-19 disruptions, utilities such as gas pipelines and integrated utilities face less immediate and medium-term risk, as they satisfy basic household needs and remain extremely defensive, with recent significant increases in household consumption.

Toll roads and airports face the brunt of patronage risk from society behavioural shifts and short-term dividend uncertainty, with downside being driven by the length of restrictions.

As restrictions ease, we expect toll road traffic data will be the first to improve, as commuters show a preference for private transport ahead of shared transport. Airport passenger recoveries will take much longer, and we see business travel negatively impacted long-term due to the significant uptake and success of video conferencing.

The REITs component has been affected by COVID-19, however signs are beginning to emerge of a bounce back, and we remain focussed on longer-term real assets that will continue to satisfy everyday needs of our growing population, which we believe presently offer attractive valuations and yields.

We continue to be vigilant on the impact of incremental information on our base thinking and portfolio positioning.

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



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