Legg Mason Martin Currie Equity Income

Quarterly Investment Option Update

30 September 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 www.amp.com.au/performance

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

Asset Allocation	Benchmark (%)	Actual (%)
Australian Listed Equities	100	98.3
Cash	0	1.7

Sector Allocation	%
Consumer discretionary	14.1
Consumer staples	11.3
Energy	0.0
Non-bank financials	14.6
Banks	13.1
Real estate	9.9
Health care	0.0
Industrials	6.4
Information technology	0.0
Other materials	8.3
Metals & mining	0.0
Communication services	10.1
Utilities	10.4
Cash and other	1.7

Top Holdings	%
Coles Group Limited	4.57
National Australia Bank Limited	4.49
Medibank Private Limited	4.48
BHP Billiton Limited	4.33
Telstra Corporation Limited	4.30
AGL Energy Limited	4.11
Aurizon Holding Limited	3.98
ANZ Bank	3.94
Wesfarmers Limited	3.80
JB Hi-Fi Limited	3.72

Portfolio Summary

- The portfolio posted a 12-month franked income return of 5.7%, a 41% premium over the index franked income return of 4.0%.
- During the September quarter, allocations to consumer discretionary and real estate were the largest positive contributors, while non-bank financials and banks were the biggest detractors.
- At the stock level, Harvey Norman Holdings, Nine Entertainment and JB Hi-Fi were the largest positive contributors, while IOOF Holdings, AGL Energy and Medibank Private were the biggest detractors

Investment Option Commentary

It was a strong quarter for discretionary retail names, with furniture and appliances retailer Harvey Norman Holdings a major contributor to the portfolio's performance, with the company announcing strong like-for-like sales and profit growth over the period. Harvey Norman has benefitted from strong consumer sales as families spend more time at home, cooking and entertaining.

Media entertainment group Nine Entertainment Group was also strong, announcing a deal in September with Adobe to develop a model based around data that will potentially compete with Facebook and Google in Australia, which highlights how the company is continuing to pivot its business. NEC has also seen strong growth in free to air and digital assets such as the Stan streaming service, which benefitted from COVID-19 lockdowns driving up subscriptions.

It was a similar story for retailer of home consumer products JB Hi-Fi, which was another large contributor to the portfolio's performance, as it has also seen strong sales growth driven by customers spending more time working, learning, and enjoying entertainment at home. JB Hi-Fi has been particularly successful in adapting to change, highlighting how nimble its model is, with online fulfillment coping well with a volume surge for both delivery and 'Click & Collect'.

Health insurance company Medibank Private was a drag over the quarter despite relatively resilient earnings, strong cash-flow and improving operational metrics. Like all insurance companies Medibank has suffered from lower interest rates on investment earnings and at the full year result took the conservative position to provision for all COVID-19-delayed claims to either return or be refunded via lower premiums. The broader private health insurance industry has been seeing declining profits, which may have weighed, however we expect Medibank to emerge a winner from structural change. In the meantime, reported cash-flow has been strong and should support ongoing healthy dividends.

Market Commentary

The September quarter was driven by company results, with the Australian market enduring another results season that was overshadowed by social issues, this time being the ongoing social distancing required to curb the spread of COVID-19.Leading into this result season, it was clear that the impact of COVID-19 on consensus sentiment was wide-ranging, with S&P/ASX 200 stocks suffering the largest 'lead-in revision' downgrades across sales, earnings and dividends since the GFC. Against downgraded expectations, actual results generally surprised on the upside, with more beats than misses at both the sales and EPS levels. However, there was wide dispersion within the Earnings per share (EPS) surprise, with some large beats and big misses, and not many companies coming in in-line, which reflected the uncertainty of the economic outlook and the lack of guidance companies were able to provide in this environment.

Outlook

Combined fiscal and monetary/quantitative easing stimulus for the Australian economy will be significant in preventing permanent damage. The direct payment nature of the Australian government's Fiscal stimulus is helping to address unemployment risk. Full COVID-19 impacts will have been felt in Australia during 2020, and we expect a recovery in company earnings and dividends into 2021 and 2022.

Australian Equity market valuation spreads remain at extreme levels, The market bottom may have already passed at a broad market aggregate level, although we expect significant volatility to continue. The near-term outlook for dividends from Australian and Global equities is challenging. We expect the Value style to continue to improve as the market shifts its focus from the impending recession to the recovery. Companies in affected industries have enacted restructuring, strategic reviews on capex and in many cases raised new equity.

Availability

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

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

INSIGHTS
IDEAS
RESULTS