

Legg Mason Martin Currie Equity Income

Quarterly Investment Option Update

31 December 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/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

Sector Allocation	%
Consumer discretionary	13.5
Consumer staples	7.6
Energy	0.0
Non-bank financials	15.8
Banks	17.4
Real estate	10.8
Health care	0.0
Industrials	5.6
Information technology	0.0
Other materials	8.9
Metals & mining	0.0
Communication services	9.6
Utilities	9.1
Cash and other	1.7

Top Holdings	%
National Australia Bank	5.09
Commonwealth Bank of Australia	4.82
Medibank Private Limited	4.75
BHP Billiton Limited	4.68
ANZ Bank	4.38
Coles Group Limited	4.18
Telstra Corporation Limited	3.74
Harvey Norman Limited	3.73
Wesfarmers Limited	3.58
Aurizon Holding Limited	3.45

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

Portfolio Summary

- The portfolio posted a 12-month franked income return of 5.6%, a 58% premium over the index franked income return of 3.6%.
- During the September quarter, allocations to banks and non-bank financials were the largest positive contributors, while utilities and industrials detracted.
- At the stock level, National Australia Bank, ANZ Banking Group and Coca-Cola Amatil were the largest positive contributors, while AGL Energy, Aurizon Holdings and ASX were the biggest detractors.

Investment Option Commentary

The Banks were strong performers as a clear play on the recovering domestic economy, with the portfolio's positions in National Australia Bank, ANZ Banking Group and the Commonwealth Bank of Australia being top contributors. Westpac Banking Corporation and Bendigo & Adelaide Bank also contributed to the portfolio's return. Despite subdued FY20 results from the major banks, the outlook suggests that if the current economic recovery remains on track, bad debt provisions will prove too conservative and will likely be released in 2021 and beyond.

Coca-Cola Amatil's stock price rallied on the back of a takeover bid from Coca-Cola European Partners, the largest independent bottler of Coke. The Manager view the Coca-Cola European bid as opportunistic, but after further analysis do not anticipate a significantly higher bid due to the influence of Coca-Cola USA in the outcome.

Electricity and gas retailer AGL Energy fell after downgrading its earnings guidance for FY21 following the company's transformer incident at its Liddell Power Station in New South Wales.

Rail group Aurizon Holdings was impacted by weak coal port volumes over the quarter, with Chinese import restrictions on Australian coal posing headwinds. However, Martin Currie note that Aurizon's yield remains attractive and strong power demand in Asia over recent months should see better volumes ahead.

Security exchange ASX de-rated as the market became aware of declining futures income and a general under-performance of defensive names. ASX also experienced a major outage in November on its trading platform and blockchain settlement system, which lasted for the majority of the day and was caused by the introduction of a new trading platform.

Market Commentary

The Australian equity market started the quarter on a positive note, with expectations of monetary policy easing, and the reopening of Victoria outweighing concerns over the Northern Hemisphere's escalating COVID-19 crisis. Optimism around the Reserve Bank of Australia (RBA) rate cut, and Quantitative Easing program announced at the start of November, in addition to the Government's relaxation of responsible lending laws also provided tailwinds. During the quarter, Martin Currie witnessed an upbeat AGM season for the top ASX companies. During which, 200+ meetings with investors took place, and the outlooks provided were generally positive in tone. Companies that are dependent on their customers being 'on-premise' provided the most upbeat outlooks and guidance. However, companies exposed to the external economy, especially China, expressed more caution, and new lockdowns in Europe and the US also led to more pessimistic guidance for exporters.

Outlook

Combined fiscal and monetary/quantitative easing stimulus for the economy has been significant in preventing permanent damage. Government infrastructure spending and further stimulus via personal tax cuts & business tax incentives, and pent-up demand will lead to higher levels of consumption and investment. Full COVID-19 impacts should have materialised in Australia during 2020, and Martin Currie expect a recovery in company earnings and dividends into 2021 and 2022.

Australian Equity market has shifted from the recession to the recovery, the market bottom has likely passed at a broad market aggregate level, although Martin Currie expect significant volatility to continue. The Manager have seen a generally positive tone across the outlooks provided by companies during the AGM season. However, companies exposed to the external economy, especially China, have expressed more caution.

Availability

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

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