

Legg Mason Martin Currie Equity Income

Quarterly Investment Option Update

31 March 2021

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

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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	98.0
Cash	0	2.0

Sector Allocation	%
Banks	18.7
Equity Real Estate Investment Trusts (REITs)	10.4
Insurance	8.6
Multiline Retail	7.7
Metals & Mining	7.7
Diversified Telecommunication Services	6.6
Capital Markets	6.3
Food & Staples Retailing	4.7
Specialty Retail	4.5
Electric Utilities	4.3
Media	3.3
Road & Rail	3.2
Multi-Utilities	2.3
Food Products	1.8
Containers & Packaging	1.7
Hotels, Restaurants & Leisure	1.6
Gas Utilities	1.4
Auto Components	1.3
Building Products	0.9
Transportation Infrastructure	0.8
Cash & Cash Equivalents	2.0

Top Holdings	%
National Australia Bank	5.4
Aust & NZ Banking Group NPV	5.0
BHP	4.6
Commonwealth Bank of Australia	4.6
Harvey Norman Ltd	4.2
Medibank	4.1
Telstra Corp Ltd.	3.9
Wesfarmers Ltd NPV	3.5
JB Hi-Fi Ltd.	3.4
Nine Entertainment	3.3

Portfolio Summary

The portfolio outperformed compared with the S&P/ASX 200 Accumulation index, which rose 4.3% in the March quarter. At the sector level, banks and consumer discretionary were the largest positive contributors to the portfolio's absolute return, while utilities and consumer staples were the biggest detractors.

At the stock level, ANZ Banking Group, Harvey Norman Holdings, and National Australia Bank were the largest positive contributors to the portfolio's absolute return, while AGL Energy, Coles Group and Medibank Private were the biggest detractors

Investment Option Commentary

The Equity Income strategy has a significant exposure to high quality companies and these quality characteristics protected the portfolio to a significant drawdown in the income stream during the height of the COVID 19 crisis.

However, while deeper value stocks performed well initially in the recovery, the fund is now seeing the portfolio's higher quality value names and income stocks becoming stronger performers as the economic recovery becomes more sustained, and this has led to strong outperformance over the index for the month of March.

Market Commentary

2020 was clearly a difficult environment for income, with COVID 19 's impact felt deep across the real economy, significantly reducing company revenues, earnings and therefore dividends. While the Equity Income strategy also disappointingly provided lower income to clients in 2020 due to the strategies focus on quality and dividend sustainability, the -22% dip was a much better income stream outcome than the -36% fall in S&P/ASX 200 income and delivered a 5.6% yield. The fund was also able to help protect the future income earning potential of the portfolio with high levels of active management throughout the year.

Like consumers, companies were very conservative in 2020 hoarding cash against the economic uncertainty and paying down debt. They now have more free cash flow available to pay dividends and it is therefore likely that dividend payout ratios will be much higher in 2021 than 2020 The outlook is for Australian company earnings and dividends to rebound strongly as the economy reopens and the fund is expecting double digit earnings and dividend growth, the strongest outlook seen for quite a while.

The Equity Income portfolio is well positioned to capitalize on the dividend potential of companies in the Australian market The Equity Income portfolio is offering an attractive franked next twelve month forecast yield of 6.7%. With term deposits yielding just 0.3% and the S&P/ASX 200 franked yield at 5.0% the yield premium that the portfolio has over the index is still close to record highs.

Outlook

During the quarter, the fund continued to focus on the true fundamentals which drive companies' long term earnings power The portfolio remains positioned to benefit from the COVID recovery, through an Income and Value style tilt and increased exposure to select toll road, shopping centre and suburban office names The portfolio also retains a conscious size bias towards the smaller caps given the fund sees a reduced COVID impact relative to the larger caps.

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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