

# Legg Mason Martin Currie Real Income

Quarterly Investment Option Update

31 March 2021

## 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/performance](http://amp.com.au/performance)

## Investment Option Overview

<b>Investment Category</b>	Property and Infrastructure
<b>Suggested investment timeframe</b>	3 to 5 years
<b>Relative risk rating</b>	6 / High
<b>Investment style</b>	Diversified Property
<b>Manager style</b>	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Listed Property and Infrastructure	100	98.5
Cash	0	1.5

Sector Allocation	%
Retail REITs	28.8
Diversified REITs	21.8
Electric Utilities	15.4
Office REITs	9.8
Highways & Railtracks	5.7
Industrial REITs	5.2
Railroads	5.0
Gas Utilities	4.4
Specialized REITs	2.4
Cash & Cash Equivalents	1.5

Top Holdings	%
Scentre Group	6.1
DEXUS Property Group	5.3
Shopping Centres	5.2
Charter Hall Long WALE	5.1
Aurizon Holdings	5.0
AusNet Services	4.8
Charter Hall Retail REIT	4.6
APA Group	4.4
Genesis Energy	4.3
Stockland	4.3

## Portfolio Summary

The Australian real asset universe underperformed the broader Australian equity market in the March quarter.

- The listed real estate market was down 0.6% in the March quarter (as measured by the S&P/ASX 300 A-REIT Accumulation Index)
- Infrastructure was down 2.2% in the March quarter (as measured by the S&P/ASX Infrastructure Accumulation Index)
- Utilities were down 1.8% in the March quarter (as measured by the S&P/ASX 300 Utilities Accumulation Index)

In comparison, the Australian equity market rose 4.3% in the March quarter (as measured by the S&P/ASX 200 Accumulation Index)

## Investment Option Commentary

The recovery in everyday activity levels continues, with indicators like foot traffic and road movements heading back quickly towards pre-crisis levels, as people show willingness to get back to their everyday lives as COVID restrictions have eased. Real assets have also experienced a strong rebound, although CBDs have lagged in recovery.

Rising interest rates were a dominating factor over the quarter, although there was some pullback towards the end of the period, resulting in better sector performance. Property fund managers were weaker as higher interest rate tailwinds shifted to headwinds. On the flipside, REITs with exposure to residential and the shorter end of the yield curve, for example urban sprawl land owners, childcare and land lease landlord names outperformed, while REITs with discretionary retail exposure continued to perform well on the re-opening theme. Since mid-December, New Zealand utilities have also been unusually volatile with large price rises and falls ostensibly driven by flows from clean energy index focussed ETFs.

Another significant factor was the positive February 2021 reporting season, which brought in the strongest earnings per share (EPS) revisions seen for Australian companies in 10 years, similar to the recovery observed coming out of the GFC lows in 2011. A key thematic was both the stability of some AREITs and the recovery in people movement, which has accompanied recovering cashflows and a cyclical dividend profile. Many of the REITs reported solid results and there were some dividend upgrades, namely Vicinity Centres, GPT Group, Charter Hall Retail REIT, Stockland Property Group and Waypoint REIT. Reporting season also highlighted that REIT legacy debt costs are relatively high, therefore cost of debt still has room to fall.

## Market Commentary

The Australian equity market rose 4.3% in the March quarter (as measured by the S&P/ASX 200 Accumulation Index). In absolute terms, the portfolio was up 0.8% in the March quarter. Over the last 12 months, the portfolio gained 26.8%, and posted a dividend yield of 5.4%, a significant premium over the index income return of 2.8%.

Despite COVID-19 and La Nina weather disruptions, utilities such as gas pipelines and electricity grids face less risk, as returns are largely regulated or contracted, they satisfy basic household needs and remain defensive. Many transmission/distribution utilities are well positioned to facilitate growth of renewable energy connections.

Australian integrated generation utilities face short-term headwinds from lower energy prices and reduced volumes from La Nina weather patterns. However with wholesale energy prices below operating costs of some higher cost generators, supply side rationalisation is expected to increase electricity prices over the medium term. Business re-structuring is also a potential theme.

As COVID-19 restrictions ease, toll road traffic volume data is rapidly improving, with commuters showing a preference for private transport ahead of shared transport. Airport passenger recoveries are expected to take much longer and business travel will likely be negatively impacted long-term due to the significant uptake and success of video conferencing.

## Outlook

The fund remains focussed on longer-term real assets that will continue to satisfy everyday needs of the growing population, which offer attractive valuations and yields.

## Availability

Product Name	APIR Code
AMP Flexible Super - Super	AMP1795AU
AMP Flexible Super - Retirement	AMP1789AU
CustomSuper	AMP1819AU
Flexible Lifetime - Super	AMP1819AU
Flexible Lifetime - Allocated Pension	AMP1813AU
SignatureSuper	AMP1807AU
SignatureSuper - Allocated Pension	AMP1801AU

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