

Legg Mason Martin Currie Equity Income

Quarterly Investment Option Update

30 June 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

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 years
Relative risk rating	6 / High
Investment style	Specialist
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100	99.5
Cash	0	0.5

Sector Allocation	%
Consumer discretionary	15.2
Consumer staples	7.0
Energy	0.0
Non-bank financials	16.0
Banks	18.9
Real estate	10.3
Health care	0.0
Industrials	4.9
Information technology	0.0
Other materials	1.7
Metals & mining	8.0
Communication services	10.4
Utilities	7.1
Cash and other	0.5

Top Holdings	%
National Australia Bank	5.2
Commonwealth Bank of Australia	4.9
ANZ Banking Group	4.8
BHP Group	4.5
Medibank Private	4.5
Telstra Corporation	4.3
Harvey Norman Holdings	4.0
Nine Entertainment	3.4
JB Hi-Fi	3.2
Coles Group	3.2

Portfolio Summary

The portfolio underperformed compared with the S&P/ASX 200 Accumulation index, which rose 8.3%.

At the sector level, non-bank financials and banks were the largest positive contributors, while utilities and industrials detracted. At the stock level, Commonwealth Bank of Australia, IOOF Holdings and Medibank Private were the largest positive contributors, while AGL Energy, Harvey Norman Holdings and Alumina 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.

The Australian equity market rose 8.3% in the June quarter (as measured by the S&P/ASX 200 Accumulation Index). At the sector level, information technology was the best performer, supported by a decline in bond yields, which fell on peak growth data and tapering talk from the US Federal Reserve, despite concerns of inflation which is seen as transitional. The technology sector is also benefitting from the banking sector's adoption of Buy Now Pay Later (BNPL) services. Consumer discretionary was also strong, while utilities were the weakest sector, dragged down by AGL Energy. Unusually, energy was also weak despite an elevated oil price.

Market Commentary

The market's strong performance over the quarter was helped by better-than-expected employment data, rising commodity prices, particularly iron ore, and May's stimulatory Federal Budget. The end of the June quarter capped off the Australian share market's best financial year in more than three decades, as it recovered from the COVID-19-induced sell-off in the early months of 2020.

The US purchasing managers index (PMI), a key indicator of the country's economic health, reached a peak during the quarter before edging down and there is now talk of the US Federal Reserve looking to taper its quantitative easing program. These factors changed the bond yield dynamic, which in turn flowed through to style performance, with the Australian market experiencing a relatively defensive rally. This saw bond yields fall and the Australian dollar softer against both the US dollar and Japanese yen.

Outlook

The Portfolio is an active equity strategy based on MCA's valuation and risk discipline:

The income drawdown period has well and truly ended. The August 2021 reporting season is expected to show strong growth in company dividend income, supported by sound capital management activities.

Between now and the August 2021 reporting season, investors can expect to see strong growth in the dividend income available for income-focused investors, and for this to be supported by sound capital management activities from high-quality Australian companies.

2020 was clearly a difficult environment for income, but as experienced in the February 2021 reporting season, Australian company earnings have begun to rebound along with the strong economic recovery underway in Australia. Many companies have high franking balances and are holding high levels of cash on their balance sheets. 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 than a year ago. Banks are also releasing the high levels of bad debt provisions, given that COVID-19 economic modelling was based on worse expectations than happened in the real economy.

There is increased optimism in the outlook statements from company management and a restart in capex spend. This all bodes well for rising earnings and dividends at the August 2021 results, and it is expected that capital management activities will contribute to the income growth available to investors, particularly those with low, or zero tax rates such as retirees and super funds. Consensus expectations of strong dividend income growth and capital management activities are being built back into Australian company earnings and dividends forecasts.

Availability

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

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