Legg Mason Martin Currie Real Income

Quarterly Investment Option Update

30 June 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.

Sector Allocation	%
Diversified REITs	30.0
Retail REITs	25.1
Multi Utilities	12.7
Office REITs	8.1
Gas and Electricity Grids	7.2
Toll Roads	6.4
Industrial REITs	5.3
Airports, Ports and Rail	4.7
Cash & Cash Equivalents	0.5

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au/performance

Investment Option Overview

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

Asset Allocation	Benchmark (%)	Actual (%)
Listed Property and Infrastructure	90-100	99.5
Cash	0-10	0.5

Top Holdings	%
Scentre Group	5.8
Charter Hall Long Wale REIT	5.6
Stockland	5.5
SCA Property Group	5.2
Aurizon Holdings	4.6
Ausnet Services	4.6
Charter Hall Retail REIT	4.2
Genesis Energy	4.1
APA Group	3.9
Transurban Group	3.8

Portfolio Summary

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

- The listed real estate market S&P/ASX 300 A-REIT Accumulation Index was up 10.7%.
- Infrastructure was up 0.6% based on the S&P/ASX Infrastructure Accumulation Index.
- The S&P/ASX 300 Utilities Accumulation Index was down 4.5%.

In comparison, the Australian equity market rose 8.3% in the June quarter (as measured by the S&P/ASX 200 Accumulation Index).

Investment Option Commentary

Real estate was the largest contributor to portfolio performance, followed by infrastructure and utilities. At the stock level, Contact Energy, Growthpoint Properties Australia and Dexus Property Group made the greatest contribution, while APA Group, Aurizon Holdings and Scentre Group were the biggest detractors.

Market Commentary

While Australian real assets have lagged global peers in the recovery, local COVID impacts have been much more muted than they have been offshore, particularly in June, with real assets rising sharply alongside the broader equity market.

During the quarter, REITs produced the strongest returns, with a sharp tightening of the Australian 10-year bond yield, reflecting greater market confidence that long-term inflation can be contained, which in turn provided a tailwind for the sector. There was also plenty of encouraging news flow within the REIT space, with revaluations seeing assets 5% higher for the six months to 30 June and cap rates tightening on average 25bps. Notably, industrial revaluations were up 12% on extremely strong transaction activity. REIT dividend announcements throughout the quarter were also very positive, leading to dividends upgrades.

Amongst REITs, the property fund managers and office owners were the best performers while retail REITs and names with CBD and Victorian exposure lagged due to ongoing local lock-downs.

Outlook

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, satisfy basic household needs, and remain defensive.

Many transmission/distribution utilities are well positioned for growth from a large renewables spend, as they facilitate connections to the network. Australian integrated generation utilities headwinds are beginning to abate as lower energy prices and weather impacts pass through. Higher input costs are seeing rising wholesale energy prices and supply side rationalisation over the medium term is expected. Business re-structuring is also a potential theme.

In infrastructure, as COVID-19 restrictions have eased, toll road traffic data is rapidly improving, with commuters showing a preference for private transport ahead of shared transport. Airport passenger traffic recoveries continue to be pushed out, with international border closures persisting. Longer term, there is potential for business travel to be negatively impacted with significant uptake and success of video conferencing.

Real Assets look well placed to maintain high payouts and strong dividend growth given the tailwinds of population growth, urbanisation, the cashflow recovery from re-opening, and the pricing power of real assets. The portfolio's current yield will likely remain stable, with the potential for income growth from these levels.

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
AMP Flexible Lifetime Super	AMP1819AU
AMP Flexible Super - Retirement account	AMP1789AU
AMP Flexible Super - Super account	AMP1795AU
CustomSuper	AMP1819AU
Flexible Lifetime - Allocated Pension	AMP1813AU
SignatureSuper	AMP1807AU
SignatureSuper Allocated Pension	AMP1801AU

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