Martin Currie Real Income

Quarterly Investment Option Update

31 December 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

Investment Option Overview

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

Asset Allocation	Benchmark (%)	Actual (%)
Listed Property and Infrastructure	90-100	99.30
Cash	0-10	0.70

Sector Allocation	%
Retail REITs	26.3
Diversified REITs	21.3
Electric Utilities	11.4
Highways & Railtracks	8.9
Office REITs	6.4
Industrial REITs	6.2
Specialized REITs	5.2
Gas Utilities	5.0
Railroads	3.5
Multi-Utilities	2.2
Residential REITs	1.9
Health Care REITs	1.0
Cash & Cash Equivalents	0.7

Top Holdings	%
Scentre Group	6.1
Shopping Centres	5.4
Atlas Arteria	5.3
Stockland	5.1
APA Group	5.0
AusNet Services	4.9
Charter Hall Retail REIT	4.0
Transurban Group	3.7
Vicinity Centres	3.6
Aurizon Holdings	3.5

Portfolio Summary

The Australian real asset universe outperformed the broader Australian equity market in the December quarter.

- The listed real estate market was up 10.1% in the December quarter (as measured by the S&P/ASX 300 A-REIT Accumulation Index).
- Infrastructure was up 5.5% in the December quarter (as measured by the S&P/ASX Infrastructure Accumulation Index).
- Utilities were up 11.4% in the December quarter (as measured by the S&P/ASX 300 Utilities Accumulation Index).

In comparison, the Australian equity market rose 2.1% in the December quarter (as measured by the S&P/ASX 200 Accumulation Index).

Investment Option Commentary

At the sector level, real estate was the largest positive contributor, followed by utilities, while infrastructure was flat. At the stock level, APA Group, SCA Property Group, and Centuria Industrial REIT were the largest positive contributors, while Genesis Energy, Aurizon Holdings and Stockland were the biggest detractors.

Market Commentary

The Australian Real Asset market shrugged off inflation and Omicron concerns as well as bond yields drifting higher, to post a solid finish to the year, reinforcing Legg Mason's view that the Australian Real Asset outlook perspective is that of both optimism and opportunity.

Despite several rolling disruptions from periodic COVID-19 driven lockdowns across different Capital Cities, the key message for Real Assets is that everyday activity has been quick to rebound as restrictions ease. And this theme has been re-enforced by commentary from Real Asset landlords in recent trading updates and during and Australia's AGM season.

At the A-REIT subsector level over the quarter, industrial names were the strongest and REITs with exposure to the re-opening theme also performed well, with the market unconcerned over rising COVID-19 case numbers, as everyday needs retail and toll road names were notably stronger. Property fund managers continued to deliver positive updates, with rising Funds Under Management and performance fees accompanied by strong growth in transactional activity. We also saw smaller cap names rally on corporate appeal as possible takeover targets. Utilities also proved robust, with the market liking APA Group's price discipline regarding its Ausnet Services bid, as it continued to re-rate.

Outlook

Utilities

- 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.
- As COVID-19 restrictions have eased, Legg Mason are seeing toll road traffic data rapidly improving, with commuters showing a preference for private transport ahead of shared transport.
- Airport passenger traffic recoveries are expected, but the recovery is expected to be lengthy and significant uncertainty remains around the outlook, Legg Mason see some airports as lacking pricing power going forward as prolonged travel closures impact airline tenant health. Longer term for airports, Legg Mason see business travel negatively impacted due to the significant uptake and success of video conferencing.
- Rail infrastructure revenues are proving to be very resilient, and Legg Mason are seeing positive signs around investments in assets that support the worlds energy transition, however there is short-term uncertainty around the coal divestment outcomes.

REITS

Retail

Most affected by COVID-19 but bouncing back.

- Local, everyday needs doing well, with robust sales driving strong tenant demand, while both valuations and rental multiples are on the rise.
- Despite periodic, short lockdowns, re-opening data is tracking well for larger, more discretionary malls, but CBD's are lagging.
- On the other side of this crisis dual 'clicks and mortar' retail solutions look best placed to meet customer needs, Legg Mason continue to like the convenience asset class the most.

Office

Long tenant leases are buffering any immediate COVID-19 impacts, while buying interest remains strong.

- While vacancy may have stabilised at elevated levels, rental incentives have remained high with tenant demand in the suburbs and in the CBD premium assets faring best. The 'unhappy middle' (older and lower grade properties) being the place to avoid.
- Office owners continued to be cushioned from immediate impacts by average lease terms of 4/5 years.
- Work from home headwinds, softer demand from bigger users will weigh on markets for some time.
- Legg Mason's preference remains lower priced, more affordable office space rents with a suburban skew where tenants are less impacted by work from home downsizing.
- Strong direct property demand pricing supporting listed NTA valuations.

Residential

Population still driving demand, standalone houses look better for volume growth but some signs of improving apartment markets

- Lower borrowing costs still driving strong demand for house and land, while medium density is showing some signs of life, as pricing of apartments is looking better on a relative basis.
- Existing dwelling prices up strongly with ongoing credit availability the driving force, underlying housing demand from no immigration not yet a factor.
- Higher-density dwelling volumes will see a much deeper slowing cycle, Legg Mason prefer urban growth corridor master-planned communities but select developers in apartments starting to appeal.
- Overall population growth will ultimately be supportive with pent up demand already in the system, especially in the more affordable States of Victoria and Queensland.

Industrial

Attractive returns supported by strong demand.

- Demand remains very strong from logistics innovation, online retail and growing cities driving the need for new space from new and existing tenants.
- Land scarcity (especially in Sydney and somewhat now in Melbourne) is resulting in rising rents but less so in other markets.
- Fundamentals look the most robust of all the sub-sectors, AREIT landlords deploying new capital here as balance sheet rental assets increase with close to 10% rental mark to market positive for the outlook.

Availability

Product name	APIR
SignatureSuper*	AMP1807AU
SignatureSuper Allocated Pension*	AMP1801AU

*Closed to new investors

Contact Details

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267