Legg Mason Martin Currie Australian Real Income

Quarterly Investment Option Update

30-June-2018

Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP1789AU
AMP Flexible Super – Choice (Super)	AMP1795AU
CustomSuper	AMP1819AU
Flexible Lifetime – Allocated Pension	AMP1813AU
Flexible Lifetime – Super	AMP1819AU
Signature Super	AMP1807AU
Signature Super – Allocated Pension	AMP1801AU

Investment Option Performance

Investment performances are subject to product fees and where relevant tax as outlined in the product PDS. Therefore investment performance may differ between products. In addition, activity on your account such as contributions and deductions will also impact the investment performance specific to you. To view the latest investment performances for each product, please visit **www.amp.com.au**. You can also view the last investment performance specific to you by visiting your My Portfolio account.

Contact Us

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Overview

Aim & Strategy: To provide a total return from a portfolio invested in Australian real estate investment trusts, utility, infrastructure and similar securities that are listed on the Australian Securities Exchange (ASX). For example, securities may be from companies that hold physical assets such as A-REITs, toll roads, ports, airports, electricity and gas grids. The portfolio expects to hold about 20 to 25 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 category: Property

Suggested Investment Timeframe: 3 to 5 years

Relative Risk Rating: Medium to High

Investment Style: Active

Asset Allocation	Actual (%)	Range (%)
Australian Equities	99.1	90-100
Cash	0.9	0-10

Holdings

Industry Exposure	%
Retail REIT	26.8
Diversified REIT	22.6
Multi utilities	20.5
Gas & electricity grids	11.3
Airports, ports & rail	5.6
Toll roads	5.3
Office REIT	4.1
Industrial REIT	3.8

Regional Exposure	%
Australia	100
Japan	0.0
North America	0.0
UK	0.0
Europe (ex UK)	0.0
Emerging Markets	0.0

Top Ten Securities	%
Scentre Group	7.2
Vicinity Centres	6.8
AGL Energy	5.9
Stockland Corporation	5.5
Transurban	5.3
APA Group	5.0
Ausnet Services	4.8
Mirvac Group	4.4
Contact Energy	4.2
Charter Hall Retail REIT	3.7

Market Commentary

The Australian real asset universe return of 11.1% (as measured by the blended 50% A-REITs / 50% Infrastructure index) outperformed the broader Australian equity market return of 8.5% (as measured by the S&P/ASX 200 Accumulation Index) in the June quarter. Australian real estate investment trusts (A-REITs) was up 9.8% (as measured by the S&P/ASX 300 A-REIT Index). Infrastructure was up 12.3% (as measured by the S&P/ASX Infrastructure Accumulation Index). Utilities was up 9.3% (as measured by the S&P/ASX 300 Utilities Accumulation Index).

In domestic economic news, the Reserve Bank of Australia (RBA) left the official cash rate unchanged at 1.5% throughout the quarter. In its June statement, the RBA noted that the low level of interest rates continued to support the Australian economy and continued to make progress in reducing unemployment and returning inflation to target levels. In political news, the government's income tax cuts passed the Senate. The proposed corporate tax cuts for companies with revenues less than A$50 million are now supported by the opposition. However, the government is continuing to negotiate with the Senate to have the entire package passed, which would see the corporate tax rate fall from 30% to 25% by 2025.

Investment Option Commentary

The portfolio's allocation to real estate was the largest positive contributor over the quarter. This was followed by the utilities and infrastructure sectors, which also contributed positively to the portfolio's return.

At the stock level, APA Group, Scentre Group and Vicinity Centres were the largest positive contributors, while Aveo Group, AusNet Services and Spark Infrastructure were the biggest detractors.

APA performed strongly after announcing it received an all-shares non-binding indicative offer from a consortium led by CK Infrastructure Holdings Limited for A$11/share. While the price offered appears reasonably attractive, we have held meetings with various legal experts who suggested that there are some risks around FIRB/ACCC approvals and hence we expect APA to trade at a discount to the offer price, and the review process is likely to take many months.

Scentre performed well in-line with large-cap REITs, with investors looking for high-quality retail exposures post the Unibail-Rodamco-Westfield deal.

Vicinity Centres performed well after releasing improved tenant retail sales data with 31 March 2018 specialty tenant moving annual turnover (MAT) of +0.4%, versus -0.7% at 31 December 2017. In addition, the company announced further asset sales at a premium to book value.

Aveo Group declined despite reaffirming cents-per-security (cps) guidance for the 2018 financial year.

AusNet Services and Spark Infrastructure were weaker during the quarter due to sector uncertainty leading into the Australian Energy Regulator Draft return guidelines, as well as ongoing political noise on energy prices.

Outlook

For the real asset sector, and in particular Australian real estate investment trusts (A-REITs), the result has been material market-price volatility, despite a lack of any cash flow or dividend impacts. It's an important point to make, as the price volatility we have seen has been driven by the macro backdrop and interest rates moves. Sector cash flows evidenced by the latest reporting season and quarterly updates look robust.

The Fund continues to point to the wide spread of the attractive real asset earnings and dividend yields over relatively low cash rates and long bond yields. High relative yields mean Australian real assets are also attractive, compared with other global real asset options, and the sector also offers an attractive investment opportunity for offshore investors. The Fund Manager continues to see strong evidence of a healthy bid by offshore capital, evidenced by recent corporate activity in the A-REIT sector. In addition, transactions in the physical market continue to highlight the value on offer in the real asset space.

The Real Income portfolio continues to provide attractive characteristics, when compared with a term deposit or fixed-income securities. The current next-twelve-month (NTM) expected yield in excess of 6% and expected growth in that income of approximately 4%, offers an attractive total return expectation, with a low-volatility risk profile against equities. Real asset dividend yield spreads to Australian Government 10-year bonds are supportive of sector pricing, as this differential continues to sit at levels that are above long-run averages. We remain positive on the prospects for the portfolio with conservative balance sheets and robust cash flows supporting distributions.