Legg Mason Martin Currie Real Income

Quarterly Investment Option Update

31 December 2018

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](amp.com.au)

Investment Option Overview

Investment category	Property and Infrastructure
Suggested investment timeframe	3 to 5 years
Relative risk rating	7 / Very High
Investment style	Diversified Property

Asset Allocation	Benchmark (%)	Actual (%)
Listed Property and Infrastructure	90-100	97.90
Unlisted Property and Infrastructure	N/A	N/A
Cash	0-10	2.10

Regional Allocation	%
Australia	100

Sector Allocation	%
Diversified REIT	22.8
Retail REIT	23.5
Office REIT	3.2
Industrial REIT	4.4
Gas & electricity grids	10.7
Multi utilities	21.2
Airports, ports & rail	7.3
Toll roads	6.9

Top Holdings	%
Transurban	6.9
Stockland Corporation	5.8
Vicinity Centres	5.8
AGL Energy	5.4
Scentre Group	5.4
Ausnet Services	5.0
Aurizon Holdings	4.6
Contact Energy	4.4
APA Group	4.3
Charter Hall Retail REIT	4.2

Portfolio Summary

- The Funds allocation to utilities was the largest contributor over the quarter, while A-REITs detracted
- Charter Hall Retail REIT, Transurban and Meridian Energy were the largest positive contributors at a stock level
- Stockland Corporation, APA Group and Unibail-Rodamco were the biggest detractors at a stock level
- Investa Office Fund was removed from the portfolio after it was taken over by Oxford Properties Group in early December and the position in Mirvac Group was reduced due to relative share price strength.

Investment Option Commentary

Funds allocation to utilities was the largest positive contributor over the quarter. This was followed by industrials, which also contributed positively to the portfolio's return. Real estate contributed negatively to the portfolio's return. At the stock level, Transurban, Charter Hall Retail REIT and Meridian Energy were the largest positive contributors, while Stockland Corporation, APA Group and Unibail-Rodamco were the biggest detractors. Over the last 12 months, the Fund posted a dividend yield of 6.1%, a 36% premium over the index income return of 4.3%.

Market commentary

The listed real estate market was down 1.7% for the December quarter (as measured by the S&P/ASX 300 A-REIT Accumulation Index), and up 3.3% for the full 2018 year. Infrastructure was down 11.1% for the December quarter (as measured by the S&P/ASX Infrastructure Accumulation Index) and fell 0.2% for the full 2018 year. Utilities was down 3.1% for the December quarter (as measured by the S&P/ASX 300 Utilities Accumulation Index) and fell 4.9% for the full 2018 year. In comparison, the broader Australian equity market fell 8.2% for the December quarter (as measured by the S&P/ASX 200 Accumulation Index) and was down 2.8% for the full 2018 year.

The Reserve Bank of Australia (RBA) left the official cash rate unchanged at 1.5% for the 26th meeting in a row, as was widely expected. In its December statement, the RBA acknowledged there are "some signs of a slowdown in global trade, partly stemming from ongoing trade tensions", and that it has concern about some banks "having a reduced appetite to lend" for housing purposes. However, outside of lending it noted that the "Australian economy is performing well". During December, the government released its mid-year economic and fiscal outlook, revealing the budget is set to "return to a surplus in 2019–2020 after a decade of deficits", as a result of the strong economy.

Outlook

For the real asset sector, and Australian real estate investment trusts (A-REITs), the outlook is for robust from an earnings perspective and this supports an attractive dividend yield.

Retail sales look to have bottomed late in 2018, signaling a better outlook for retail real estate investment trusts (REITs). With a better wage environment and healthy employment levels, this trend should continue. Improved supermarket sales are evidence of a better spend in the non-discretionary bucket, but are contend that rental growth will still need to match underlying tenant sales, as occupancy costs are unlikely to rise from current levels.

Office demand remains strong, in-line with robust GDP. Office cap rates look to have bottomed for this cycle, but there no pressure yet for these to start rising. The fund manager expects more affordable suburban markets to mirror the observed strength seen in the CBDs.

Residential credit tightening is still affecting the forward order books of developers, but at this stage this is more about future volumes than settlements of past sales. A reduction in existing dwelling prices is playing out as expected, and the fund manager are seeing some pressure on both selling prices for new product developed by residential developers and retirement-village operator rents.

In utility markets, policy uncertainty is seeing investment capital sit on the sidelines, with gas- plant based new electricity generation build unlikely to be executed. Renewable investment impacts are still to play out in energy markets, as some older less efficient coal-fired electricity generation exits the market over time. Renewables will need battery/pumped hydro and interconnector investment to complement.

For the infrastructure sector, strong volume growth in toll-road traffic, airport passengers and child-care patronage is expected. Toll-road regime optimisation remains an important driver, especially as truck tolls rebase upwards.

Foreign capital is still eyeing Australia's attractive internal rate of return (IRR), for yield and growth, with supportive appeal from the high levels of disclosure and transparency in real asset markets.

Legg Mason Martin Currie remain positive on the prospects for high-quality real assets, with conservative balance sheets and cash flows and distributions.

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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