Legg Mason Martin Currie Real Income

Quarterly Investment Option Update

31 March 2019

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

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	97.83
Unlisted Property and Infrastructure	N/A	N/A
Cash	0-10	2.17

Regional Allocation	%
Australia	100

Sector Allocation	%
Diversified REIT	21.7
Retail REIT	24.9
Office REIT	2.8
Industrial REIT	3.0
Gas & electricity grids	6.3
Multi utilities	26.8
Airports, ports & rail	7.8
Toll roads	6.7

Top Holdings	%
Transurban	6.54
Scentre Group	5.67
Contact Energy	5.50
Stockland Corporation	5.22
Aurizon Holdings	5.20
AGL Energy	5.19
Ausnet Services	5.02
Vicinity Centres	4.77
Meridian Energy	4.20
APA Group	4.19

Portfolio Summary

- The Funds allocation to Utilities was the largest contributor over the quarter.
- Meridian Energy, Transurban and Contact Energy were the largest positive contributors
- Vicinity Centres, APN Industria REIT and were the only detractors.
- The portfolio added to the existing position in Unibail Rodamco-Westfield over the quarter as the stock had a weak finish to 2018 and the sell-off provided us with an opportunity to acquire the stock at a significant discount to our valuation. Further, the company is expected to pay quite attractive dividends during the next 6 months.

Investment Option Commentary

All real asset sectors contributed to performance over the quarter with the Funds allocation to A-REITs and Utilities sectors the main contributors. On a stock level, Meridian Energy, Transurban and Contact Energy provided the greatest source of contribution to return for the quarter. On the other side, Vicinity Centres and APN Industria REIT only slightly detracted from contribution over the quarter. The Fund is now expected to provide a dividend yield of 5.7% (grossed up for franking credits) over the next 12 months on a forward-looking basis

Market commentary

The listed real estate market was up 14.4% in the March quarter (as measured by the S&P/ASX 300 A-REIT Accumulation Index). By comparison, the broader Australian equity market rose 10.9% in the March quarter (as measured by the S&P/ASX 200 Accumulation Index), making it the best quarter since September 2009, and was up 12.1% for the prior 12 months. At the A-REIT subsector level in the March quarter, industrial and diversified were the strongest areas, while specialised and retail were weakest.

In The low level of interest rates continued to support the Australian economy, as the Reserve Bank of Australia (RBA) left the official cash rate unchanged at 1.5% for the 29th meeting in a row, as expected. In its March statement, the RBA said it still expected the economy to grow by about 3% in 2019 thanks to a strong labour market.

In the most recent April RBA statement, The RBA referred to the current soft conditions in the Australian housing market and a slowdown in demand from investors. “Offsetting these factors, higher levels of spending on public infrastructure and an upswing in private investment are supporting the growth outlook, as is the steady growth in unemployment”.

Outlook

For the real asset sector, the outlook is for robust from an earnings perspective and this supports an attractive dividend yield, which looks even more attractive given the fall in long bond rates which has seen a wide yield spread emerge.

Retail sales despite a slower December 2018 quarter look to have bottomed, 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 rental growth will still need to match underlying tenant sales, as occupancy costs are unlikely to rise from current levels. Online retail continues to win share of the retail pie, but overall, the ‘whole’ continues to grow where those with dual ‘clicks and mortar’ solutions look best placed to meet customer needs.

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 expect more affordable suburban markets to mirror the observed strength they have 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 they 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.

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

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

Contact Details

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267 (Mon. to Fri. 8:30am to 7:00pm AEST)

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