Legg Mason Martin Currie Real Income Fund

Quarterly Investment Option Update

30 June 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
Manager style	Single

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	23.6
Retail REIT	25.5
Office REIT	2.6
Industrial REIT	2.5
Gas & electricity grids	10.2
Multi utilities	20.0
Airports, ports & rail	8.8
Toll roads	6.8

Top Holdings	%
Transurban	6.8
Aurizon Holdings	6.2
Stockland Corporation	6.1
Contact Energy	5.8
Scentre Group	5.1
Ausnet Services	4.8
Vicinity Centres	4.6
AGL Energy	4.3
APA Group	4.2
Charter Hall Retail REIT	3.6

Portfolio Summary

- All real assets contributed to return over the quarter, with the Funds allocation to utilities being the largest contributor over the quarter, followed by industrials.
- Aurizon Holdings, Contact Energy and Transurban were the largest positive contributors
- Unibail-Rodamco, AGL Energy and Scentre Group were the biggest detractors.
- The portfolio trimmed its the position in Spark Infrastructure and AusNet Services, with medium-term concerns from lower interest rates flowing through to lower regulatory earnings resets and the ensuing possible drag this well have on dividend growth for the regulated utilities.

Investment Option Commentary

All real assets contributed to return over the quarter, with the Funds allocation to utilities being the largest contributor over the quarter, buoyed by a strong month in June. On a stock level, Aurizon Holdings, Contact Energy and Transurban provided the greatest source of contribution to return for the quarter, followed by Stockland Corporate and Ausnet Services. On the other side, A-REITs were weaker with Unibail-Rodamco, Scentre Group and Shopping Centres Australia being key detractors. The Fund is now expected to provide a dividend yield of 5.5% (grossed up for franking credits) over the next 12 months on a forward-looking basis

Market commentary

The S&P/ASX 300 A-REIT Accumulation Index rose 4.1% in the June quarter, compared with the broader Australian equity market, which was up 8.0% (as measured by the S&P/ASX 200 Accumulation Index). Boosted by the defensive tone to the market, the Australian real asset universe outperformed the broader Australian equity market for the month of June, and all real asset sector delivered positive returns over the quarter.

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 in the latest quarterly updates look to have stabilised albeit at moderated levels, as a result the leasing environment remains subdued. A better wage environment and a healthy employment levels, should see a stronger growth from here but this may take time to translate. Improved supermarket sales are evidence of a better spend in the non-discretionary bucket, but they are contend that 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. Shopping malls continue to re-weight to services, experiences and food, though this is easiest in the most dominant malls which are beginning to demonstrate their quality traits.

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 investment manager are seeing some pressure on both selling prices for new product developed by residential developers and retirement-village operator rents. Retirement villages are also seeing slower clearance rates in established housing markets, putting pressure on occupancy. We are observing higher-density dwellings experience a much larger slowing this cycle, when compared to urban growth corridor master planned communities where population growth remains key. Population growth is ultimately supportive, especially in Victoria and Queensland where affordability is better.

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. They see outer-year electricity prices being set by the marginal cost of existing gas-fired peak plants, while the residual coal plant owners that remain as base load providers will benefit. Asset base growth for gas and electricity grids and networks – pipes, distribution and transmission – will be slower, but volumes continue to be bolstered by material population growth.

For the infrastructure sector, strong volume growth in toll-road traffic 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. In the latest periods, Airport volumes have moderated after a strong period, the outlook now in some sense mirroring the retail environment with ongoing growth still healthy but subdued.

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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