ACTIVE
VIEWPOINT

MARTIN CURRIE

ASIA PACIFIC REAL INCOME

AUGUST 2019 FOR PROFESSIONAL CLIENTS ONLY

THE POWER OF REAL ASSETS – LOW VOLATILITY & HIGH INCOME

Andrew Chambers
Portfolio Manager,
Martin Currie Australia

Daniel Fitzgerald
Portfolio Manager,
Martin Currie Australia

With the Asia Pacific Real Income strategy recently passing its three-year track record we take a closer look at the power of Asia Pacific Real Assets.

In 2016 we leveraged on the success of our innovative and award winning Australian Real Income strategy, and expanded our investment universe to capture the favourable demographic trends in the Asia Pacific ex Japan region where population, urbanisation and the rising middle class are driving significant growth.

> Our strong income and capital returns have been achieved with much lower volatility and drawdowns.

In the following paper we show:

- **how the Asia Pacific Real Income strategy has delivered on its objectives for lower risk income-focused investors;**
- **how strong performance during volatile markets reflects our differentiated investment approach; and**
- **why the ongoing trade war and any economic downturn has limited impact on the performance of the strategy.**

THREE YEARS OF DELIVERING ON CLIENT INCOME OBJECTIVES

With traditional 'low risk' solutions for income (such as bonds) providing insufficient income, we have long believed that equities needed to be a larger part of an income portfolio. We developed an innovative, low volatility equity-based strategy using listed Asia Pacific ex Japan Real Assets that is suitable for income-focused investors and puts the client's income needs first and foremost.

At the outset, the performance objective we set out for the Martin Currie Asia Pacific Real Income strategy was to provide:

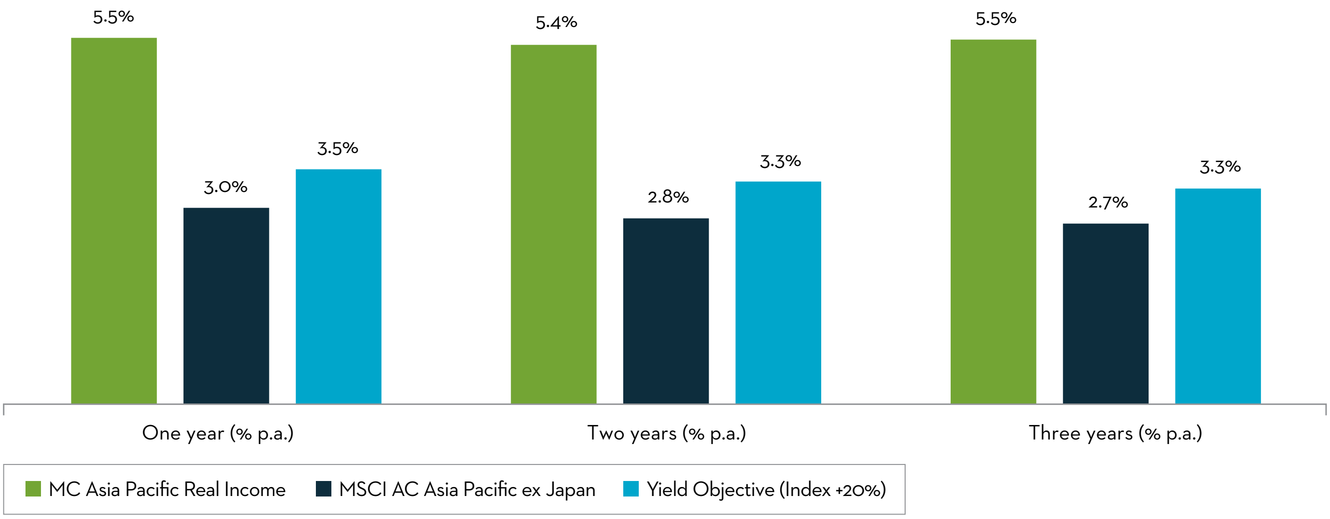
- an income yield of 20% above the MSCI AC Asia Pacific ex Japan Index;
- with volatility 20% less than the index; and
- and to grow this income above inflation.

On its three-year anniversary, we are very pleased that the Martin Currie Asia Pacific Real Income strategy has exceeded its objectives since its inception on 28 June 2016.

1. HIGH YIELD:

The strategy has met its income yield objectives, posting a since inception distribution yield of 5.5% versus the MSCI AC Asia Pacific ex Japan Index yield of 2.7%.

Distribution yield



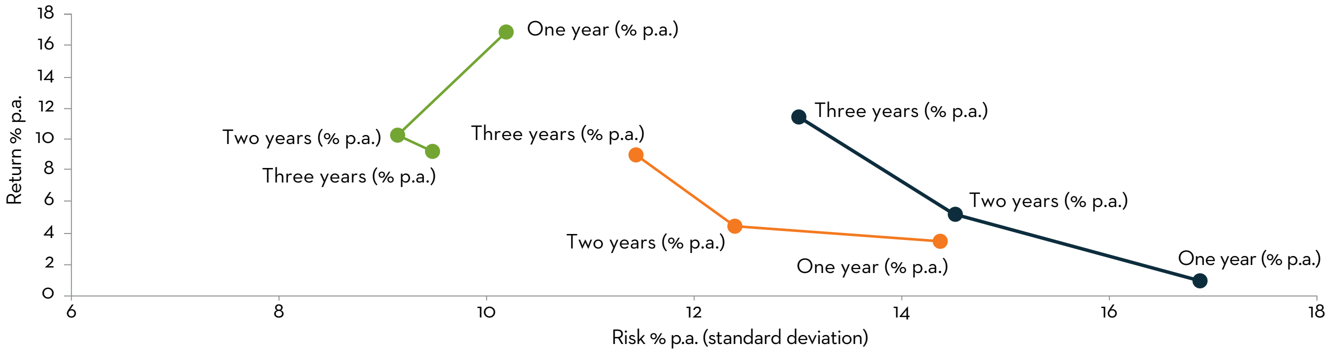
Past performance is not a guide to future returns. Data calculated in US$ net of fees. The return may increase or decrease as a result of currency fluctuations.

Source: Martin Currie, Morningstar Direct, FactSet, Bureau of Labour Statistics; as at 30 June 2019. Data presented is the Martin Currie Asia Pacific Real Income composite in US$, net of investment advisory fees, broker commissions, and all other expenses borne by investors. An annual fee rate of 0.75% has been used in the presentation of net performance data. This is our standard fee offering for a US$100 million mandate for this strategy. This fee may vary from other strategy accounts that the investment advisor manages. The figures provided include the re-investment of dividends. The composite since inception date is 30 June 2016. This performance record is a clear representation of the strategy's performance over the periods shown. Performance information showing five years (or since inception) in complete 12-month periods is available upon request. Please refer to the end of this paper for important disclosures. This strategy is not constrained by a benchmark but we show it versus the MSCI AC Asia Pacific ex Japan Index for illustrative purposes only. Next 12 Months (NTM) Income yield is calculated using the weighted average of broker consensus forecasts of each portfolio holding – because of this, the returns quoted are estimated figures and are therefore not guaranteed. Peer group used is the Morningstar Europe, Asia, and Africa (EAA) Overseas Equity (OE) Asia-Pacific ex-Japan Equity Income category. Consumer Price Index: CPI-All Urban Consumers (Current Series). Retrieved from https://data.bls.gov/

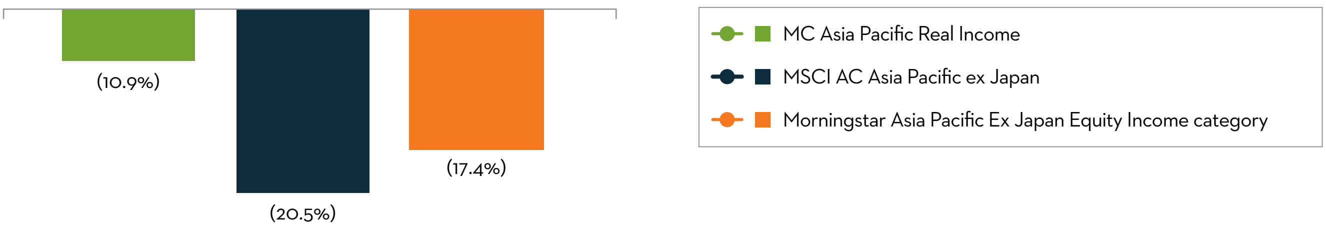
2. LOW VOLATILITY RETURNS:

The strategy has exhibited 27% lower total return volatility and significantly lower drawdowns than the broader market, while providing an attractive total return relative to peers.

Risk and returns



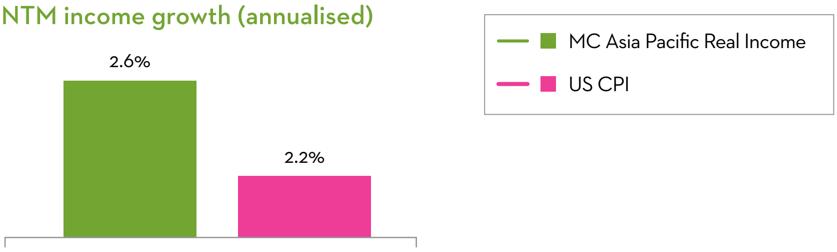
Maximum drawdown



3. GROWING INCOME STREAM:

The expected next twelve-month (NTM) dollar income stream has also grown steadily since inception, at a level ahead of the rate of inflation.

NTM income growth (annualised)



> On its three-year anniversary, we are very pleased that the Martin Currie Asia Pacific Real Income strategy has exceeded its objectives since its inception on 28 June 2016.

Past performance is not a guide to future returns. Data calculated in US$ net of fees. The return may increase or decrease as a result of currency fluctuations.

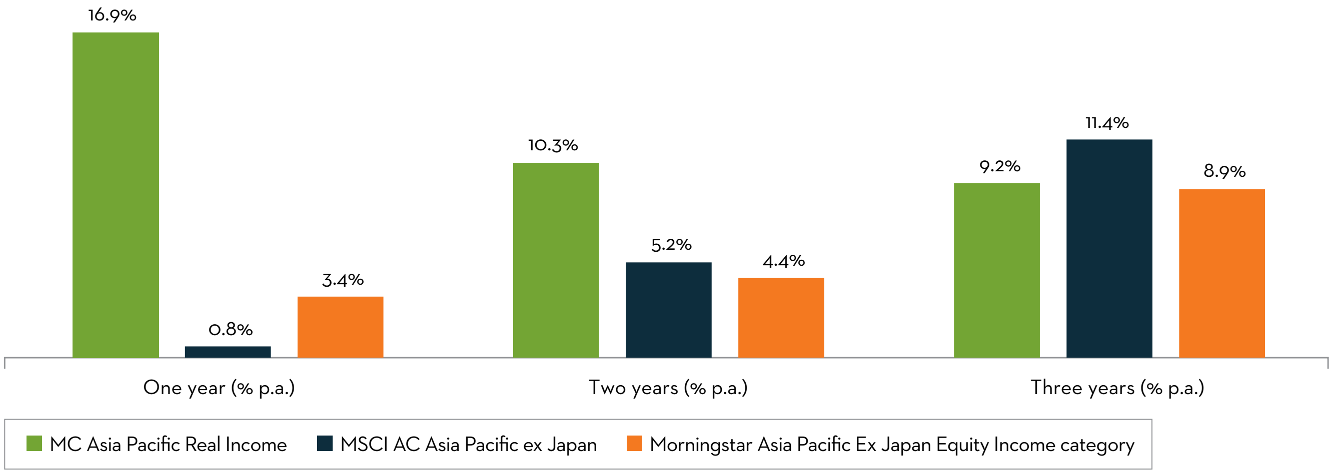
Refer to disclaimers on page 2.

PERFORMANCE DURING MARKET VOLATILITY A RESULT OF OUR DIFFERENTIATED APPROACH

We understand that investors will compare our total returns to an index, even though we target an income outcome.

Since inception, while total returns have been slightly behind the MSCI AC Asia Pacific ex Japan Index, they have been in line with regional income peers.

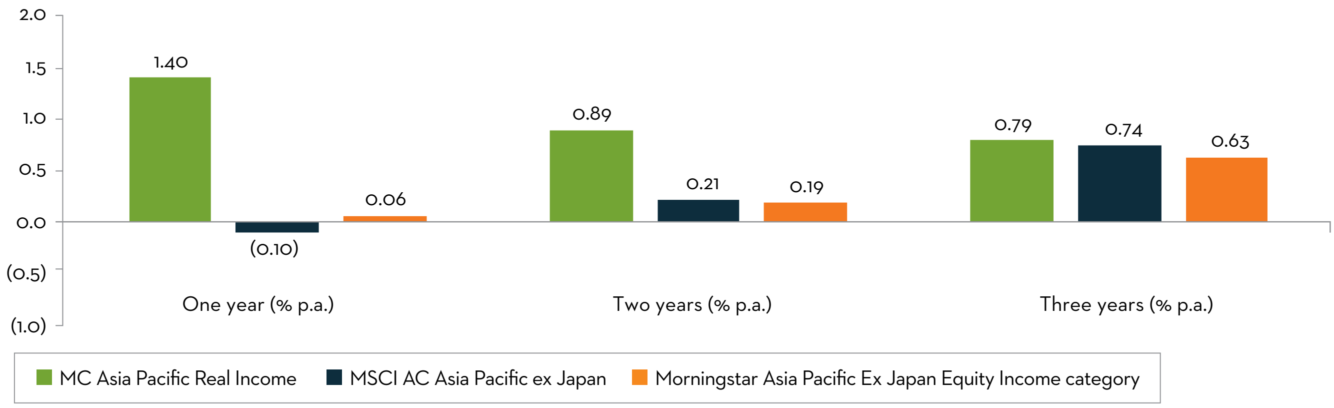
Total returns



Returns have been particularly strong in the last 12 months, driven by the strong population, urbanisation and middle-class income growth as well as falling bond yields. Holdings leveraged to these themes across the region, such as **CapitaLand Mall Trust** (SG), **Transurban** (AU), **Contact Energy** (NZ), **Link REIT** (HK) and **Guangdong Investment** (HK/CN), have been the key contributors.

Importantly, our strong income and capital returns have been achieved with much lower volatility and drawdowns than both the wider equity market and income peers across all periods, and a highlight is the funds positive return in May 2019 when global equity markets slumped. This is reflected in the attractive Sharpe ratios shown below.

Sharpe ratio



Past performance is not a guide to future returns. Data calculated in US$ net of fees. The return may increase or decrease as a result of currency fluctuations.

Refer to disclaimers on page 2.

WHY OUR KEY CONTRIBUTORS PROVIDE LOW VOLATILITY RETURNS:

CapitaLand Mall Trust (SG) is a prime example of a company benefiting from population and middle-class income growth. The company has proven rent collection, low development exposures, and a strong position in key catchment areas in Singapore.

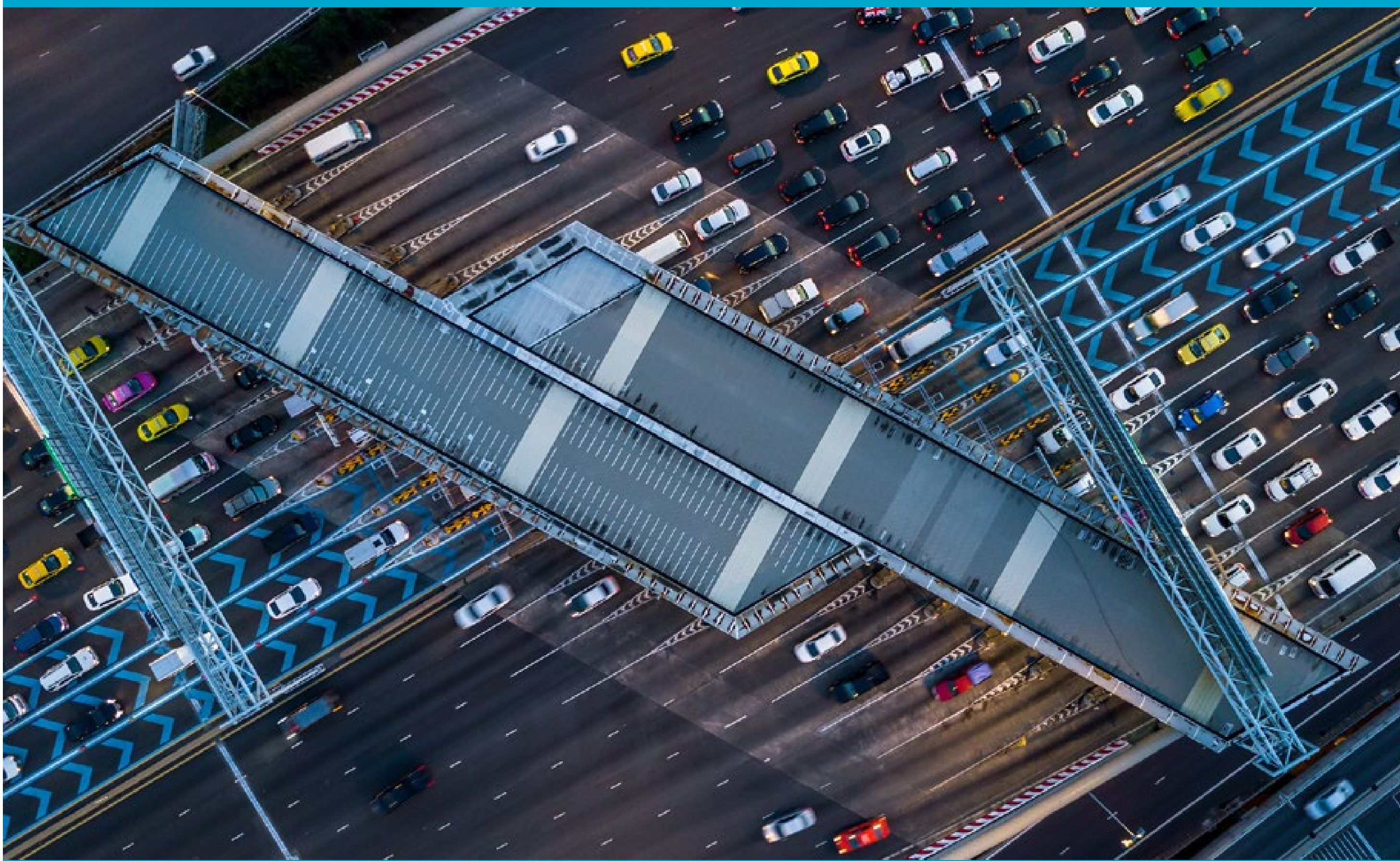
Transurban (AU) has a dominant market position in toll roads which leverages Australia's strong population growth, particularly from overseas and interstate migration, the subsequent rising number of motor vehicles and increased government spending in infrastructure.

Contact Energy (NZ) is a high-quality integrated utility which provides electricity, gas, broadband, and solar power services, and has strong dividend growth due to the New Zealand market growing from high birth rates and immigration.

Link REIT (HK) is an example of a regional government selling down assets to pay for new infrastructure. The company was formed in 2005 with several mall and car park assets owned by the Hong Kong Housing Authority, with the aim being to recycle the capital into additional housing developments. It has grown to become the highest quality retail REIT in Asia.

Guangdong Investment (HK/CN), a water utility with modest leverage, based in the Greater Bay area, which is seeing very strong urbanisation-led population growth. While China faces various well-known challenges around ageing demographics and debt, populations in 'Tier 1' cities in China such as Shenzhen are expected to grow at some of the fastest rates globally.

The information provided should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any of the security transactions discussed here were, or will prove to be, profitable.



> Over the last year the strategy has delivered class leading returns of 16.9% with low risk and volatility, including a 5.5% distribution yield.

LOW CORRELATION TO AN ONGOING TRADE WAR AND ANY ECONOMIC DOWNTURNS

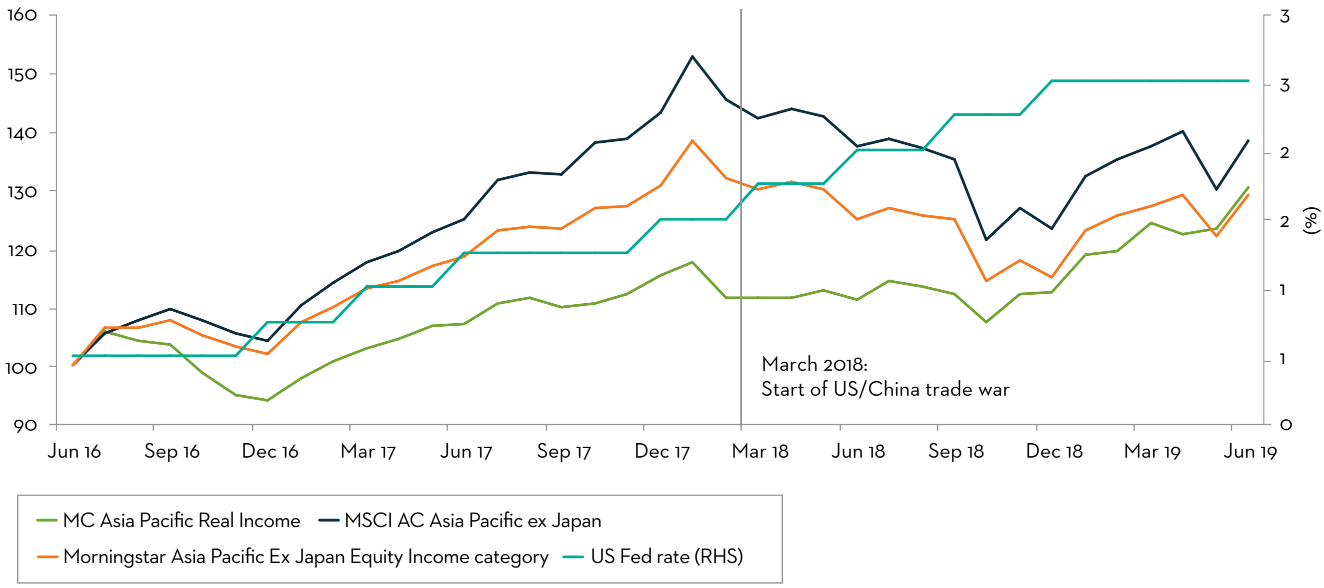
We expect that returns for the strategy will continue to be uncorrelated to the business or economic cycle but instead driven by the Asia Pacific ex Japan region's demographic drivers.

Economic growth in China coupled with US/China trade war protraction and political uncertainty continues to impact capital markets, with expectations for US interest rate reductions gaining traction.

While risks to economic growth do appear to be increasing globally, the Real Assets that the Martin Currie Asia Pacific Real Income strategy invests in are typically of a **long-term non-discretionary nature, often monopolistic and importantly, domestically focussed** with little external risk. For example, a trade war with China will not impact the growing population and increased power demand in India or the Philippines.

Growth in the Asia Pacific ex Japan region's Real Assets will continue to be driven by the **strong population, increasing urbanisation** and **middle-class income growth**, rather than by trade cyclical business-cycle driven growth. In fact, this has been the experience so far, with solid, consistent income and total returns, and low volatility for the strategy since inception, despite the headwinds for the wider equity markets that started in early 2018.

Cumulative returns since inception



Furthermore, declining interest rates and bond yields in the current environment act to reduce the cost of debt for Real Assets, therefore providing further support for earnings and dividends growth.

Additionally, global companies are also looking more closely at the Asian region as an alternative manufacturing source, alongside China, to avoid US tariffs. While many are in early stages of their investigations, key countries of interest include Malaysia, Singapore, Thailand and Vietnam. This provides a positive backdrop to more investment in the region and should bode well for all Real Asset sectors.

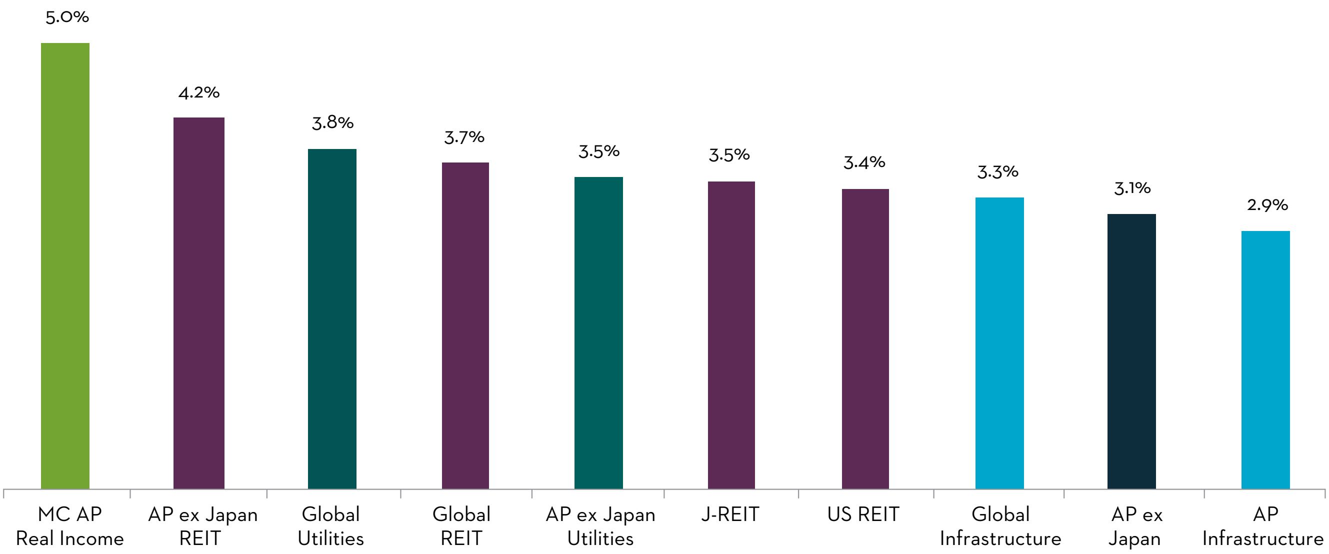
Past performance is not a guide to future returns. Data calculated in US$ net of fees. The return may increase or decrease as a result of currency fluctuations.

Refer to disclaimers on page 2.

SUMMARY

As at the end of June 2019, the strategy is offering a next twelve-month (NTM) yield of 5.0%, compared with 3.1% for the MSCI AC Asia Pacific ex Japan Index. We believe this is attractive, especially when compared to regional, and global sector-specific indices, bond and cash rates.

High yield relative to global real asset options



The Martin Currie Asia Pacific Real Income strategy forms part of Martin Currie Australia's A$12 billion income solutions book, which also includes the Australia Real Income, Equity Income, Ethical Income and Diversified Income strategies.

In total, Martin Currie manages over A$23 billion for clients worldwide (as at 30 June 2019).

Past performance is not a guide to future returns.

Source: Martin Currie Australia, FactSet; as of 30 June 2019. Data shown for a representative Asia Pacific Real Income portfolio. Next 12 Months (NTM) Income yield is calculated using the weighted average of broker consensus forecasts of each portfolio holding – because of this, the returns quoted are estimated figures and are therefore not guaranteed. A-REIT: S&P/ASX A-REIT Index, AP ex Japan REIT: MSCI Asia Pacific ex Japan REIT Index, Global Utilities: MSCI Global Utilities Sector Index, Global REIT: MSCI Global REIT Index, AP ex Japan Utilities: MSCI Asia Pacific ex Japan Utilities Index, Global Infra: MSCI World Core Infrastructure Index, AP ex Japan: MSCI AC Asia Pacific ex Japan Index, US REIT: S&P US REIT Index, J-REIT: TSE REIT Index, AP Infra: MSCI AP Infrastructure Index.

FIND OUT MORE

For further information on the Martin Currie Australian equities range please visit our website – **www.martincurrie.com**
You can find your local contact at **www.martincurrie.com/contact_us**

Alternatively please call our global offices, press office or global consultant team on the numbers below:

Edinburgh (headquarters)
44 (0) 131 229 5252

London
44 (0) 20 7065 5970

Asia and Australia
(61) 3 9017 8640

Global consultants
44 (0) 131 479 5954

New York
1 (212) 805 6000

Media
44 (0) 131 479 4767

IMPORTANT INFORMATION

GIPS Performance and disclosure notes

Martin Currie Australia (MCA) claims compliance with the Global Investment Performance Standards (GIPS). The composite contains fully discretionary accounts containing diversified portfolios of Asia Pacific ex Japan real estate investment trust, utility, infrastructure and like securities that are listed on an Asia Pacific ex Japan-based Stock Exchange. For purposes of compliance with the GIPS®, the Firm is defined as Martin Currie Australia ("MCA") formerly Legg Mason Australian Equities (LMAE), and comprises all assets managed or advised on a discretionary or non-discretionary basis. MCA is a division of Legg Mason Asset Management Australia Limited (LMAMAL), which is a wholly owned subsidiary of Legg Mason Inc. MCAs predecessor firm for GIPS® purposes, was LMAMAL. The MCA team has and continues to manage the Australian domestic equities portfolio of LMAMAL. The US Dollar is the currency used to express performance. A GIPS compliant presentation and/or the firm's list of composite descriptions can be obtained by contacting info@martincurrie.com

Important information and risk warnings

This information is issued and approved by Martin Currie Investment Management Limited ('MCIM'). It does not constitute investment advice. Market and currency movements may cause the capital value of shares, and the income from them, to fall as well as rise and you may get back less than you invested.

The information in this document has been compiled with considerable care to ensure its accuracy. But no representation or warranty, express or implied, is made to its accuracy or completeness. The document may not be distributed to third parties and is intended only for the recipient. The document does not form the basis of, nor should it be relied upon in connection with, any subsequent contract or agreement. It does not constitute, and may not be used for the purpose of, an offer or invitation to subscribe for or otherwise acquire shares in any of the products mentioned.

Some of the information provided has been compiled using data from a representative account. This account has been chosen on the basis that it is longest running account for the strategy. This account is an existing account managed by Martin Currie, within the strategy. This data has been provided as an illustration only, the figures should not be relied upon as an indication of future performance. The data provided for this account may be different to other accounts following the same strategy.

The information should not be considered as comprehensive and additional information and disclosure should be sought ahead of any planned investment. The distribution of specific products is restricted in certain jurisdictions, investors should be aware of these restrictions before requesting further specific information.

For Investors in the USA, the information contained within this presentation is for Institutional Investors only who meet the definition of Accredited Investor as defined in Rule 501 of the United States Securities Act of 1933, as amended ('The 1933 Act') and the definition of Qualified Purchasers as defined in section 2 (a) (51) (A) of the United States Investment Company Act of 1940, as amended ('the 1940 Act'). It is not for intended for use by members of the general public.

Any distribution of this material in Australia is by Martin Currie Australia ('MCA'). Martin Currie Australia is a division of Legg Mason Asset Management Australia Limited (ABN 76 004 835 849). Legg Mason Asset Management Australia Limited holds an Australian Financial Services Licence (AFSL No. AFSL240827) issued pursuant to the Corporations Act 2001.

Performance notes:

A fee rate of 0.75% has been used in the presentation of net performance data. This is our standard fee offering for a US$100 million mandate for this strategy. This fee may vary from other strategy accounts that the investment advisor manages.

Risk warnings - Investors should also be aware of the following risk factors which may be applicable to the strategy.

Investing in foreign markets introduces a risk where adverse movements in currency exchange rates could result in a decrease in the value of your investment.

Emerging markets or less developed countries may face more political, economic or structural challenges than developed countries. Accordingly, investment in emerging markets is generally characterised by higher levels of risk than investment in fully developed markets.

This strategy may hold a limited number of investments. If one of these investments falls in value this can have a greater impact on the strategy's value than if it held a larger number of investments.

Smaller companies may be riskier and their shares may be less liquid than larger companies, meaning that their share price may be more volatile.

Income strategy charges are deducted from capital. Because of this, the level of income may be higher but the growth potential of the capital value of the investment may be reduced.

Martin Currie Investment Management Limited, Registered in Scotland (no SC066107).
Registered office: Saltire Court, 20 Castle Terrace, Edinburgh EH1 2ES

Tel: (44) 131 229 5252 Fax: (44) 131 228 5959 **www.martincurrie.com**

Authorised and regulated by the Financial Conduct Authority. Please note that calls to the above number may be recorded.