LEGG MASON
GLOBAL ASSET MANAGEMENT

Legg Mason Martin Currie
Asia Pacific ex-Japan Real Income Fund

Fund performance

Annualised (%)[1]	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	Since inception
Class X Acc USD	**0.37**	**5.91**	**5.90**	**6.80**	**NA**	**NA**	**7.29**
Class X Acc USD (inclusive of sales charge)	0.37	5.91	5.90	6.80	**NA**	**NA**	7.29

Past performance is not a reliable indicator of future results.

Monthly review

What happened in the market? The Asia Pacific ex Japan region was up in February (as measured by the MSCI Asia Pacific ex-Japan Index). The region underperformed developed equities (MSCI World). The strongest markets over the month were China, Australia and Taiwan. The weakest market was Indonesia, followed by the Philippines and India. With the market continuing a risk-on tone, the regional real asset sectors (listed real estate, utilities and infrastructure) underperformed the wider market in February.

What happened in the Fund? In absolute terms, the Fund delivered a positive return in February. The utilities and industrials sectors contributed positively to the Fund's return, while real estate detracted. At the stock level, APA Group, Sydney Airport and Wharf Real Estate were the biggest positive contributors, while Vicinity Centres, Stockland and NHPC were the main negative contributors.

- **APA Group** rose after reporting earnings before interest, tax, depreciation and amortisation (EBITDA) and net profit after tax (NPAT) at the upper end of expectations. The company, which owns and operates natural gas and electricity assets, also discussed how it is resuming its examination of acquisition opportunities in the U.S.
- **Sydney Airport** rose on the back of the release of the Productivity Commission's draft review into the economic regulation of Australian airports, which presented no major changes for the airport. Its results were also broadly in line with expectations, and traffic was up in January.
- **Wharf Real Estate** rose with market recognition of its attractive valuation and position as a beneficiary of strong inbound Hong Kong tourism numbers.
- **Vicinity Centres**, the real estate investment trust, fell despite results that were broadly in line with expectations. The trust admitted it is delaying a deal to create a $1 billion wholesale fund with Singapore's Keppel Capital amid softer retail sales.
- **Stockland** fell after the property developer downgraded guidance, warning that a slower housing market could impact growth.
- **NHPC** fell on a soft third-quarter result for the hydropower generation company. This was driven by a ramp-up in costs for new capacity, higher employee costs, and some one-off items.

What did the portfolio manager do? As part of our overall portfolio construction process, during the month we trimmed outperforming names into price strength, reallocating into securities that look more attractive on prospective yield and valuation. We added to **Contact Energy** and trimmed **Meridian Energy**. Both companies have benefited from rising New Zealand electricity prices and dry weather in the north of the country. Meridian has benefited the most from these factors, and the favourable weather will reverse at some stage. Contact's recent strong results were partly attributable to weather but also to structural factors, with its costs-reduction program working better than expected.

We increased **Sydney Airport** exposure due to its significant underperformance compared with other transport infrastructure names, such as Transurban, since mid-2018. We believe this underperformance was due to some uncertainty from the Productivity Commission Australian airport review. During February, the Productivity Commission draft report was released and it supported the current regulatory regime, hence we increased our Sydney Airport position due to the improved certainty. This increase was funded by trimming Transurban.

We purchased an initial position in **Aurizon** and **Aboitiz Power**, and we funded this by trimming some of the strong recent performers, including **Transurban, Link REIT, GPT Group, EGCO** and some New Zealand utilities.

Investment Aim: The Fund seeks to provide income, with a secondary objective of long-term capital appreciation, by investing in equity securities and equity-related securities that are listed or traded on markets located in the Asia Pacific region.

PLEASE REFER TO THE IMPORTANT INFORMATION ON THE FINAL PAGE.

- With more clarity on the regulatory network returns and **Aurizon** management and consensus formally cutting dividend expectations, we are now more confident in the income outlook for Aurizon. Furthermore, demand growth for coal from Asia is strong, thereby giving some comfort around Aurizon growth's outlook. Adding Aurizon into Asia Pac Real is accretive to the Fund's yield, valuation and growth.
- We also introduced **Aboitiz Power** into the portfolio; this is a name we have been following for a few years but had not yet held. The company is a Philippines integrated utility (retail, generation and distribution) with strong growth over 2018-2020, driven by its generation business and partly offset by lower return risks in the next regulatory review period from the regulated components (similar to Manila Electric). Aboitiz does have some risk around acquisitions and debt. However, this risk is offset by the company's diversification and offtake agreements. We are funding Aboitiz by selling emerging market stocks that have been strong. Funding is from stocks with lower yields and lower growth (**Manilla Electric & EGCO**), hence this emerging market utility switch boosts the Fund's growth and yield.

What is the outlook? The combination of the significant yield premium over bonds and general equities and the defensive characteristics of real assets remains attractive in a period of volatile markets globally. The reporting season has continued, with many results across both Asia and Pacific countries. Some highlights from companies reporting during February included a strong rebound in electricity consumption growth in the Philippines, rising wholesale electricity prices in New Zealand, solid growth in Hong Kong tourism, and strong demand and rents for industrial and office assets across Asia. Some areas with a softer short-term outlook include slower Australia and New Zealand domestic air travel, the potential for lower allowed regulatory returns from falling bond rates, and more cautious outlook statements from Australian utilities heading into the federal election.While the Fund continues its lower-volatility defensive characteristics, we continue to see significant performance divergence in various individual names. We believe this is helpful for our active management to improve the Fund's growth, valuation and yield characteristics. The increase in activity seen over the last month may continue in the short term, as we take advantage of opportunities in the current volatile market environment. On a forward-looking basis, the Fund is offering an attractive gross yield of 5.2% over the next 12 months.

IMPORTANT INFORMATION:

This Fund is managed by Martin Currie Investment Management

[1] Source: Legg Mason. Performance is calculated on a NAV to NAV basis (in USD terms) with income and dividends reinvested, if any, without initial charges but reflecting annual management fees. Performance for periods above one year is annualised. **Investment involves risks. Past performance is not indicative of future results.** Inception Date: 28 June 2016.

IMPORTANT INFORMATION

The Fund may invest in certain types of derivatives for investment purposes and efficient portfolio management purposes. Due to the investment policies of the Fund, the Fund may have a particularly volatile performance. Please refer to the prospectus for more information.

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