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Investors should look at real assets for growing yield: Legg Mason

For investors who are focused on income, real income continues to provide an attractive yield and income growth from defensive assets which benefit from population growth, employment growth and infrastructure spending in the Australian domestic economy.

The return of market volatility, along with continued uncertainty regarding the status of cash refunds on franking credits, is sending a strong signal to income-oriented investors to consider weighting their portfolios more heavily towards real assets, says BetaShares Legg Mason Real Income Fund (managed fund) (ASX: RINC) Portfolio Manager, Ashton Reid.

“We saw bond yields rise in early 2018 in response to strong global economic growth and higher inflation expectations that caused central banks, especially the US Federal Reserve, to start to tighten monetary policy and unwind quantitative easing policies, with the top in yields around June.”

“But as the year progressed, signs of moderation in US growth, and heightened risks, including US-China trade tensions, Brexit uncertainty and geopolitical tensions, fueled investor uncertainty. This caused bond yields to fall again, a situation acknowledged by the US Federal Reserve’s decision to signal the cancelling of any more interest rate rises this year.”

“In this environment, investors are understandably looking for more stable equity investment options – and real assets (companies that own hard physical assets such as property, utilities and infrastructure) can help provide a defensive shield.”

Reid says these companies typically have strong market positions and growing demand driven by population growth, giving them the capacity to raise prices, in some cases above the inflation rate, regardless of the business cycle.

“These companies form part of everyday life and often are monopolistic in nature. Their demand profile is therefore relatively inelastic and not pegged to the business cycle, and consequently these companies have more predictable free cash flows and dividends,” he says.

Since its launch in February 2018, the Betashares Legg Mason Real Income Fund (managed fund) (ASX: RINC) has experienced steady demand from investors seeking out a defensive, income-focused equity fund providing investors with a combination of solid income and a lower volatility target in difficult market conditions.

RINC’s total return since inception[1] (net of fees) has been a strong 18.25%. The Fund is currently forecast to provide a dividend yield of 5.5% (excluding any franking credits) over the next 12 months on a forward-looking basis[2]. RINC is “Recommended” by Lonsec and Zenith[3].

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[1] As at 29 Mar 2019; inception date – 13 February 2018. Past performance is not indicative of future results.
[2] As at 28 Feb 2019. Yield forecast is calculated using the weighted average of broker consensus forecasts for each portfolio holding and research conducted by Legg Mason Australia, and excludes the Fund’s fees and costs. Actual yield may differ due to various factors, including changes in the prices of the underlying securities and the number of units on issue. Neither the yield forecast nor past performance is a guarantee of future results.
[3] Ratings are only one factor to be to be considered when deciding whether to invest in a financial product.

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"We believe the outlook for RINC is positive as key drivers of the income stream will continue to be population growth and the pricing ability of the businesses held."

Current top holdings include Transurban Group, Stockland, Vicinity Centres and AGL Energy. Other stock holdings that significantly contributed to the recent performance of the Fund include a number of New Zealand energy companies such as Meridian Energy (GNE), Contact Energy (CEN) Genesis Energy (GNE) and Mercury New Zealand (MCY). Other good performers were Charter Hall Group (CHC) and APA Group (APA) while Stockland (SGP), Aveo Group (AOG) and Unibail Rodamco Westfield (URW) were notable detractors[4].

About Legg Mason
Guided by a mission of Investing to Improve Lives™, Legg Mason helps investors globally achieve better financial outcomes by expanding choice across investment strategies, vehicles and investor access through independent investment managers with diverse expertise in equity, fixed income, alternative and liquidity investments. Legg Mason's assets under management are AUD$1 trillion as at 31 December 2018.

Legg Mason provides centralised business and distribution support for its nine affiliated fund managers that include: Brandywine Global, Clarion Partners, ClearBridge, EntrustPermal, Martin Currie, RARE Infrastructure, Royce & Associates, QS Investors and Western Asset. Each affiliate operates independently under its own brand and investment process and is considered an industry expert in its asset class.

Australia Facts:
- Legg Mason's Australian business was established in 1954
- Assets Under Management (AUM) in Australia are AUD$52.4 billion as at 31 December 2018 (Source: Rainmaker Data. Consists of AUM managed in Australia for Australian and offshore investors and AUM managed offshore for Australian investors)
- Legg Mason Australia was awarded the Money Management/Lonsec Fund Manager of the Year in 2015, 2017 and 2018.

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[4] 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.

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The Lonsec Rating assigned as follows Betashares Legg Mason Real Income Fund (managed fund) (ASX:RINC) - February 2018; presented in this document are published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421445. The Ratings are limited to "General Advice" (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial products. Past performance information is for illustrative purposes only and is not indicative of future performance. They are not a recommendation to purchase, sell or hold Legg Mason Asset Management Australia Limited products, and you should seek independent financial advice before investing in these products. The Ratings are subject to change without notice and Lonsec assumes no obligation to update the relevant documents following publication. Lonsec receives a fee from the Fund Manager for researching the products using comprehensive and objective criteria. For further information regarding Lonsec's Ratings methodology, please refer to our website at: http://www.beyond.lonsec.com.au/intelligence/lonsec-ratings.