

2015 LEGG MASON GLOBAL INVESTMENT SURVEY



Legg Mason's Global Investment Survey reveals Australian investors are focused towards protecting rather than growing their wealth as an increasing number approach retirement. But their conservative approach and bias towards their home market, particularly domestic real estate, may mean they are achieving reduced returns compared to their expectations.

Australian investors are not like their counterparts in other countries. Australia's economy and financial markets have a number of peculiar features which mean that perceived (and often actual) risks and returns of asset classes are different to what they would be elsewhere in the world.

Australian investors are generally more cautious than their counterparts in other countries. One result of the pervasive caution is that Australian investors tend to shun opportunities outside the country - just under half of Australian investors have virtually no assets outside Australia.

This may be because, over the long-term, the Australian dollar has been a generally strong, but volatile and unpredictable currency.

Because of dividend imputation, and the widespread understanding that major listed companies can provide superior income streams, local equity remains an important asset class for Australian investors, accounting for 20% of their assets. However, local equities are more important elsewhere - globally, investors hold 28% of their assets, on average, in local equities.

In relation to real estate, the numbers are more or less reversed. Property accounts for about 27% of Australian investors' portfolios, but only 16% of the portfolios of global investors.

The implication is that negative gearing, and other benefits from property investing in Australia may have somewhat distorted the country's financial markets.

Finally, Australian investors are more bearish about the future than their foreign counterparts. This holds true in relation to their views of both their own situations, and the prospects for the national economy.

It may be that Australian investors are worried about the impact of the recent falls in prices of minerals (such as iron ore) and energy, and are also concerned about being unable to achieve their retirement goals.

INVESTMENT IS FOR RETIREMENT

As can be expected in a country which is well known for the size and sophistication of its superannuation system, Australian investors invest first and foremost for their retirement. Many are aware of longevity risk – the possibility that they will live longer than their investments – which again makes sense in a country where almost all of the superannuation assets are defined contribution (DC) in nature, rather than defined benefit (DB).

When asked to identify their primary goals of investing, the largest number of Australian investors – some 71% - said that they want to maintain their current lifestyle later in life. Another 58% mentioned not having to depend on others in retirement.

When asked what might prevent them from achieving these goals, some 36% of Australian investors said that they were worried about a potential global market correction. Just under one third said that they were concerned about not saving enough for retirement, and the same percentage said that they were worried about outliving their retirement funds.

Australian investor concerns about not generating enough income may in fact be justified – while local investors are aiming for an average 8.6% annual return on their investments, they are currently getting closer to 6.6%, indicating a 'reality gap' of 2% between expected and actual returns.

PRIMARY GOALS OF INVESTING

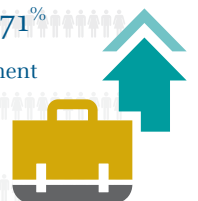
Maintain my current lifestyle later in life



Avoid depending on others in retirement



Grow my wealth



CAUTION REMAINS THE WATCHWORD

Australian investors are cautious, and see themselves as such. Only 29% of Australian investors are prepared to increase their risk profile for the opportunity to earn more income, compared to 66% of investors globally. Some 77% of Australian investors describe themselves as being somewhat, or very, conservative. This is true of 59% of investors globally.

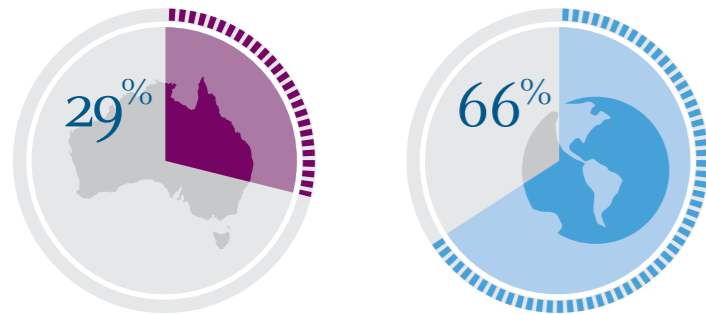
But the results do suggest that Australian investor attitudes may be turning around slowly. Globally, 63% of investors agree to some extent that they are more risk averse than they were a year ago. In Australia, the figure is slightly lower, at 59%.

A significant minority of Australian investors (10%) also strongly disagree with the suggestion, which means that they are taking a more aggressive approach to investment than they were in early 2014. Globally, this is true of only 5% of investors.

Australian investors as a group will tolerate a maximum drawdown of about 10% in search of additional returns. This is true whether they are looking to get 2%, 5%, 10% or 15% in additional returns.

Put another way, Australian investors generally want capital stability for 90% or so of their portfolios. Globally, investors tend to see a clearer relationship between additional risk and additional return: while they would risk 7% of their portfolios for 2% in additional return, they would risk 15% of their portfolios for an extra 15%.

PREPARED TO INCREASE RISK PROFILE

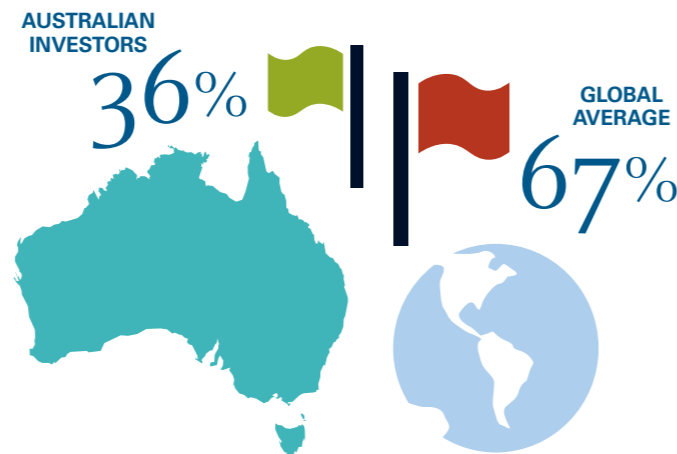


INTERNATIONAL ASSETS HAVE LIMITED APPEAL

On average, Australian investors hold 16% of assets overseas. This percentage is similar for global investors. Crucially, though, only 53% of Australian investors actually hold more than 1% of their assets outside Australia. Globally, 77% of investors have more than 1% of their wealth outside their respective home countries.

Only 36% of Australian investors will be increasing their focus on international assets in the coming year. Conversely, this is true of 67% of investors globally. Further, Australian investors are unconvinced that their investment results would have been helped in the past by international diversification. When asked what they would do differently, if they were able to invest all over again, some 30% of investors globally said that they would be more diversified across international markets. This was true of just 7% of Australian investors.

INCREASING FOCUS GLOBALLY



THE LOVE AFFAIR WITH PROPERTY CONTINUES

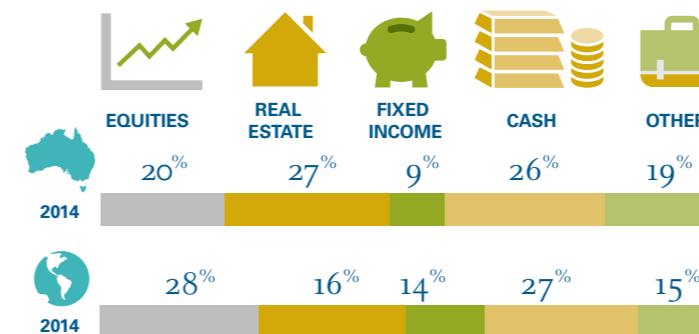
Australian investors maintain a bias towards property. Typically, they hold 27% of their assets in investment real estate. Globally, the figure is 16%.

The counterpart to this is that Australian investors on average hold 20% of their assets in equities – or a lot less than the global norm of 28%. Cash – at 26-27% of assets – is the other main asset class for both global and Australian investors.

When asked to identify the top three investments that offer the best opportunities for the coming year, the greatest number of investors – 68% - mentioned domestic stocks. The smallest number – 14% - highlighted domestic bonds. Globally, the corresponding figures were 77% and 41%.

Some 54% of Australian investors see real estate as being one of the three most attractive investments. Globally, this is true of 31% of investors.

GLOBAL PORTFOLIO ALLOCATIONS



THE FUTURE IS A WORRY

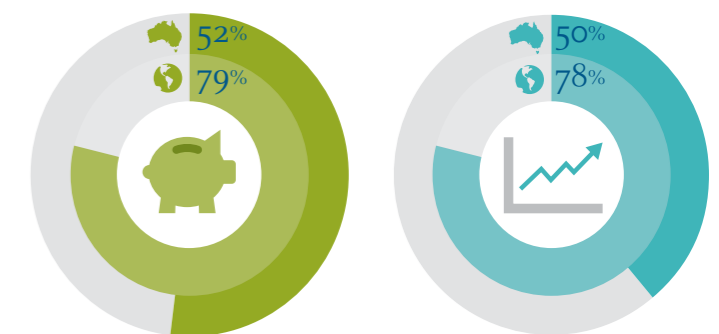
Australian investors are less optimistic about their own futures than their counterparts in other countries. Only 50% of Australian investors say that they are making (very) good progress towards not depending on other people in their retirement. Globally, the figure is 78%.

While 75% of investors worldwide feel that they are on the way to being able to maintain their current lifestyle later in life, this is true of just half of Australian investors.

When asked to take a 15 year view, some 77% of Australian investors said that they were somewhat or very optimistic about their personal finances. A much lower number – 50% - said that they were somewhat or very optimistic about the prospects for the national economy. Some 51% are positive about the prospects for the global economy.

Among global investors, 81% are positive about the long-term prospects for their personal finances, while 66% are positive about the prospects for their own economies. These results indicate a markedly lower level of optimism – particularly when it comes to local economic performance – among Australian investors.

PROGRESS TOWARDS GOALS



PROTECTING MY WEALTH

AVOID DEPENDING ON OTHERS IN RETIREMENT

Methodology

Recognising that investing is truly global, Legg Mason commissioned research to see how investors around the world feel about their investment requirements, the financial advice they receive, the worries that keep them awake at night and how they view their financial futures. The study was conducted by Northstar Research Partners, an independent research firm with offices in New York, Toronto and London. The survey was completed in December 2014 and covered more than 4,000 respondents in 20 countries/ markets: the UK, France, Spain, Italy, Germany, Switzerland, Belgium, US, Brazil, Chile, Mexico, Colombia, Hong Kong, Singapore, Japan, Taiwan, China, South Korea and Australia.

Market	Sample size
United States	Total: 458
Europe (UK, France, Spain, Italy, Germany, Switzerland, Belgium, Sweden)	Total: 1,600 (200-201 per market)
Asia (China, Hong Kong, Singapore, Japan, Taiwan, South Korea)	Total: 1,150 (150-200 per market)
Latin America (Brazil, Chile, Mexico, Colombia)	Total: 800 (200 per market)
Australia	Total: 200

Respondents had to meet the following screening criteria:

- Sole or joint decision-maker for household investment decisions
- US\$200,000+ investable assets (includes investment real estate but not primary residence/vacation property)
- Age 40-75

Field work for the survey was conducted between November and December 2014. In each market, samples included roughly equal numbers of respondents for the US\$200K-US\$999K group and US\$1MM+ group; the data was then weighted to be representative of the US\$200K-US\$999K and US\$1MM+ household total investable assets populations. Global investor figures are composites based on weighted average of market-specific findings, weighted by relative incidence of qualified investors in each country/market.

Global figures quoted are based on average of all surveyed countries / markets.

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