

Income Generator delivers above target

The Income Generator is designed to provide a regular income stream for retirees that, over time, grows in line with inflation. Total distributed income for the 2022/2023 financial year was 3.60%, which included a 30% higher final payment. Franking for the year is expected to add an additional 0.90-1.00%, taking the final gross yield distributed to approximately 4.60%. The 13th distribution at the end of year is again slightly larger than normal, although smaller than last year at around 4.30%. This is made up of a combination of realised capital gains, additional income and some foreign exchange (hedging) profits. This distribution is reinvested automatically and will appear as new units.

For previous financial years, please see the AMP Income Generator performance report, available on our website.

In the 2022/2023 financial year, the Income Generator made monthly distributions of 0.31 cents per unit (CPU), with a 12th distribution of 0.43 cents per unit (CPU) in June. Over the past financial year, income from dividends has been strong, with many sectors in the Australian market still benefiting from the post-COVID recovery and strong commodity prices, whilst also retaining strong balance sheets and reasonable payout ratios. Looking forward, we do expect this strength to ebb as tighter monetary policy works its way through the global economy. The upside to this is higher bond yields, and it's this change that is enabling the fund to increase its new year targets.

Distributions for 2022/2023

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
CPU	0.31	0.31	0.31	0.31	0.31	0.31	0.31	0.31	0.31	0.31	0.31	0.43

Historically, the distribution strategy for the Income Generator is a prominent feature of the portfolio, whereby the 13th distribution at year end is re-invested into new units. Due to larger than normal realised capital gains, plus substantial excess income, the 13th distribution comprised approximately 4.30%. For an investor who had 100,000 units as at 30 June 2023, they should receive approximately 4,500 new units from the 13th distribution.

The table below outlines the contributors of income for the 2022/2023 financial year, based on an investment at the start of the period. The total gross income receipts for the period have met initial forecasts.

Income return summary	% per annum
Regular Income (0.31 CPU)	3.24
Income reserve paid in June	0.42
Franking credits*	0.95
Total Income[^]	4.61

Including capital growth over the 2022/2023 financial year, the total return for investors, including franking credits and after fees, is approximately 8.07%.

Note: The distribution shown above is for investments in Personal investors (Class H), net of fees and before tax.

* Estimated figure and available post the lodgement of relevant tax returns. ^ May not sum to total due to rounding.

Our forward distribution estimates

- > The recent series of rate hikes from the world's central banks is helping to contain inflation, which was exacerbated by both supply disruptions and excess money supply. At present, inflation is on track to reverse its rise by around October 2023. At the same time, the tightening impact is working its way through the system and assuming an 18-24 month lag, should land somewhere around the end of 2023; and with a wide error margin in both timing and size.
- > Currently there are many trends showing that impact. Credit and lending standards are tightening, loan demand is falling and manufacturing activity is slowing. At the same time, much of the lagging data is somewhat buoyant. Housing, employment, profitability, loan stress and defaults are all reasonable. Consumer spending is improving.
- > Regardless of how this potential slowdown plays out, observable future returns (yields) have turned in favour of bonds and high-quality credit, with a likely boost if recession materialises. Equities have become somewhat expensive (notably US tech) in anticipation of a soft landing that is by no means clear-cut. As at the end of June, the gap between the yield on global fixed income (as measured by the Bloomberg Global Aggregate Index) and global share markets (as measured by the MSCI World Index) is almost nil. This is the smallest gap since the global financial crisis and indicates that there are relatively better risk-adjusted returns for fixed income (compared to equities) over the next few years.

Indicative yields across asset classes for the next 12 months are significantly higher than last year. We have set a target annualised yield for the Fund of 4.90%, including franking and after management fees, for the next 12 months.

- **Estimated monthly CPU for 2023/2024 FY: 0.365504 CPU**
- **Estimated tax benefit of franking credits for 2023/2024 FY: 0.65%**
- **Estimated target income yield for 2023/2024 FY (including franking credits): 4.90%**

Income estimate is estimated after fees and including franking credits.

AMP may review and change the investment managers and underlying funds including the level of distributions at any time, consistent with the terms of the Product Disclosure Statement. The information above is a hypothetical estimate only and is not a guarantee. The actual figures may be higher or lower than estimated.

Warning: Please note actual income may vary from the income estimate. The final amount distributed at financial year-end may be higher or lower. It is important to note that the final annualised distribution yield will not be known until the end of the financial year, that the distribution yield estimate is not guaranteed, and that it may change due to market movements in the Fund's unit price. We base our estimate on assumptions set out at the end of this document, and you should be aware that if facts differ from our assumptions, the final distribution yield may differ from the estimate.

What you need to consider before you invest:

AMP estimates the income and franking credits at the start of the financial year based on assumptions of the prevailing portfolio at that time and security level income forecasts. AMP does not revisit the income estimate through the year unless there is a material change in conditions – in particular, conditions which would lead to a widespread change in dividend payments. The estimates are converted to a monthly income figure in cents per unit.

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Estimated Distribution Assumptions: The estimate is based on the amount of income we expect to receive into the Fund over the period from 1 July 2023 to 30 June 2024, based on the current investments held by the Fund, the level of coupons, dividends and other income expected to be earned from investments held in the Fund. If the companies whose securities we hold in the Fund do not pay the coupons, dividends or income they have forecast, or if the Fund portfolio changes materially over the period, this may impact on our estimated distribution amount.

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