

# Martin Currie Equity Income

Quarterly Investment Option Update

31 December 2021

## Aim and Strategy

To provide an after-tax income yield above the S&P/ASX 200 Index and to grow this income above the rate of inflation by investing in a diversified portfolio of high-quality companies listed on the ASX. The investment manager's approach is premised on the philosophy that high-quality companies that have solid earnings can sustain dividends, match rises in the cost of living and are likely to be less volatile than the wider equity market. The portfolio is managed in a tax-aware manner in order to benefit from franking credits.

The portfolio is generally expected to hold 40 to 60 securities and exposure to an individual sector (as determined by Martin Currie Australia) is no more than 22%.

Note: The portfolio will not invest in securities issued by companies involved in the production or distribution of cluster munitions or the manufacture of tobacco products.

## Investment Option Performance

To view the latest investment performances for each product please visit [amp.com.au/performance](http://amp.com.au/performance)

## Investment Option Overview

<b>Investment Category</b>	Australian Listed Equities
<b>Suggested Investment timeframe</b>	3 years
<b>Relative risk rating</b>	7 / Very high
<b>Investment style</b>	Specialist
<b>Manager style</b>	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100	99.6
Cash	0	0.4

Sector Allocation	%
Banks	16.1
Equity Real Estate Investment Trusts (REITs)	11.3
Insurance	10.2
Metals & Mining	9.0
Diversified Telecommunication Services	7.2
Capital Markets	6.6
Food & Staples Retailing	5.3
Multiline Retail	5.2
Specialty Retail	4.3
Transportation Infrastructure	3.7
Road & Rail	3.4
Media	3.3
Hotels, Restaurants & Leisure	3.2
Oil, Gas & Consumable Fuels	2.0
Auto Components	1.8
Food Products	1.8
Packaging & Containers	1.6
Multi Utilities and Gas Utilities	3.6
Cash & Cash Equivalents	0.4

Top Holdings	%
National Australia Bank Ltd	5.1
Medibank Pvt Ltd	4.7
Telstra Corp Ltd	4.5
Australia & New Zealand Banking Group Ltd	4.5
BHP Group Ltd	3.8
Harvey Norman Holdings Ltd	3.5
Aurizon Holdings Ltd	3.4
Nine Entertainment Co Holdings Ltd	3.3
JB Hi-Fi Ltd	3.1
Coles Group Ltd	3.1

## Portfolio Summary

The Australian equity market rose 2.1% in the December quarter (as measured by the S&P/ASX 200 Accumulation Index), and December's gains lifted calendar year 2021 returns to 17.2%, with the market unconcerned over rising COVID-19 case numbers.

## Investment Option Commentary

The Equity Income strategy has a significant exposure to high quality companies and these quality characteristics protected the portfolio to a significant drawdown in the income stream during the height of the COVID 19 crisis.

At the sector level, energy was the best performer as shortages in multiple regional markets drove up gas, coal and oil prices. Non-bank financials were also strong. Metals & mining was the weakest sector due to falling iron ore prices, which after being well above historical levels for some time, have halved over the last two months. This fall is in response to China's slowing growth, with concerns around the country's environmental policy reducing steel production and the collapse of Chinese property giant, Evergrande.

## Market Commentary

While rising COVID-19 Omicron cases globally and further evidence of inflation not just being transitory were dominant themes over the quarter for the Australian market, superseding these were an overall positive AGM season, the Government's upgraded mid-year economic update and record high employment data.

During Australia's AGM season market performance was flat, however the more upbeat tone to broker consensus revisions, the muted price reaction to bottom of cycle earnings data, and the positive outlooks from companies was consistent with the MCA positive outlook for the Australian market. As well as an increased focus on ESG by both companies and investors, other observed investment themes included supply chain disruptions to inventory, labour & input costs, and higher cost guidance from most companies, particularly in relation to energy costs.

Bond yields edged higher in December despite notable inflation prints, although over the quarter movement was modest.

Within this environment, Australian Low-Volatility and Growth-style strategies were the best performers, while Small Cap and Value-style were the weakest. However, this trend reversed towards the end of the quarter as the consequences of another wave of COVID-19 returned focus to mobility, consumption and disruption, and provided a backdrop for Value to rebound. Value has continued to outperform into January. Value spreads remain at extreme levels, with inflation and monetary policy catalysts for value spreads to close.

## Outlook

Australian Equity market is still close to record highs, but divergence remains across sectors and styles:

- Consensus outlook for the market has sales growth looking consistent across each of the big sectors, unlike the wide divergence across sectors over the last two years. Earnings growth for the ASX 200 companies is expected to be more than 10% for the next 12 months based on consensus forecasts.
- Continued profit margin expansion will be difficult given profit margins have already returned to pre-COVID-19 levels, with increased cost expenditure and supply chain pressures building.
- Despite the price of Australian shares being at record highs, there is divergence across sectors. The high prices being paid for Growth style stocks versus Value style stocks is still being driven by low rates and the weak local economy.

While the share market has recently passed all-time highs, the Equity Income portfolio's income yield has continued to grow, in contrast to the S&P/ASX 200 income yield. The expected next twelve-month (NTM) income yield on the Equity Income portfolio of 7.0% is at a near record spread over the S&P/ASX 200 at 4.7%, and Australian 10-year bonds at 1.7%. This suggests the equity market remains undervalued when considering yield and income growth. Positive outlook statements given throughout the AGM season affirmed the investment manager's view that companies are also in a strong position to continue to raise their dividends going forward.

## Availability

Product name	APIR
SignatureSuper*	AMP2952AU
SignatureSuper Allocated Pension*	AMP2619AU

\*Closed to new investors

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