Martin Currie Real Income

Quarterly Investment Option Update

30 June 2022

Aim and Strategy

To provide a growing income stream by investing in a diversified portfolio of Australian & Developed Market listed real assets (such as A-REITs, utility and infrastructure securities) characterised by established physical assets with recurring cash flows.

The investment manager's approach is premised on the philosophy that high-quality listed real assets can sustain dividends, match rises in the cost of living and are likely to be less volatile than the wider equity market.

The portfolio expects to hold about 35 securities. At the time of purchasing securities, the portfolio aims to limit exposure to individual securities to 9% of the portfolio and hold cash and cash equivalents of no more than 10% of the portfolio.

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au/performance

Investment Option Overview

Investment Category	Property and Infrastructure
Suggested Investment timeframe	3 to 5 years
Relative risk rating	6 / High
Investment style	Diversified Property
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Listed Property and Infrastructure	100	99.55
Cash	0	0.45

Sector Allocation	%
Retail REITs	25.62
Diversified REITs	15.85
Highways & Railtracks	14.07
Electric Utilities	6.73
Gas Utilities	6.55
Industrial REITs	5.24
Specialized REITs	5.12
Office REITs	4.73
Railroads	4.56
Multi-Utilities	4.52
Alternative Carriers	2.67
Renewable Electricity	1.71
Residential REITs	1.49
Health Care REITs	0.71
Cash & Cash Equivalents	0.45

Top Holdings	%
Transurban Group	7.54
APA Group NpV	6.55
Atlas Arteria NpV	6.53
Scentre Group	6.00
SHOPPING CENTRES	5.93
Stockland NPV	5.21
Aurizon Holdings Ltd. NpV	4.56
AGL Energy Ltd	4.52
Vicinity Centres NpV	4.50
Charter Hall Retail REIT	4.18

Portfolio Summary

At the sector level, infrastructure positively contributed to the portfolio's return, while real estate and utilities detracted. At the stock level, Atlas Arteria, Transurban Group and APA Group were the largest positive contributors, while Centuria Capital Group, Scentre Group and Centuria Industrial REIT were the biggest detractors.

Martin Currie initiated a position in Chorus, New Zealand's largest telecommunications infrastructure business, which has recently become fully regulated. Chorus maintain and build a network predominantly made up of real assets such as local telephone exchanges, copper, and fibre cables. The Company's fibre network rollout is nearing completion, and this should offer the potential for operational efficiencies and more economies of scale. Chorus offers a strong yield of ~5.5% with inflation linked regulated asset base and revenues, which is expected to deliver good dividend growth over the next few years.

Martin Currie exited the position in Irongate Group, which is under takeover offer and now trades more like a cash position.

Investment Option Commentary

Positives

Global toll road operator Atlas Arteria was strong over the quarter as a beneficiary of economies reopening post COVID-19 and given its toll price regime also benefits from inflation. The Company's European toll roads have seen significant traffic and mobility improvement recently and this augers well for cashflow and dividends. Atlas Arteria rose further in June on the back of IFM Investors acquiring ~15 per cent of the company and asking for access to its financial books, with the Australian pension manager considering proceeding with a full non-binding takeover bid.

Toll road operator Transurban Group continues to be a beneficiary of higher inflation as well as the reopening theme delivering strong volume and toll revenue growth. The Group also declared its final FY22 distribution of 26cps, which was +21% above the previous corresponding period's distribution and was also above market expectations.

Pipeline owner APA Group also performed well as an inflationary beneficiary. APA Group's long-term contracts escalate prices with inflation (mix of Australian and USA CPI); therefore, APA has strong pricing power and stronger revenue and cashflow growth in a more inflationary environment.

Negatives

Centuria Capital Group was weak along with other fund managers as investors adjust growth expectations to account for higher interest rates and the potential for property asset values to fall as cap rates expand.

Shopping centre landlord Scentre Group was weaker; however, it performed significantly better than the AREIT index. While rising interest rates is a headwind, Martin Currie highlight that rents are linked to inflation and reopening post COVID-19 is expected to see accelerating rental and cashflow growth ahead.

Market Commentary

The Australian real asset universe outperformed the broader Australian equity market in the June quarter. The listed real estate market was down -17.5% in the June quarter (as measured by the S&P/ASX 300 A-REIT Accumulation Index). Infrastructure was up 3.9% in the June quarter (as measured by the S&P/ASX Infrastructure Accumulation Index). Utilities were up 1.7% in the June quarter (as measured by the S&P/ASX 300 Utilities Accumulation Index). In comparison, the Australian equity market fell -11.9% in the June quarter (as measured by the S&P/ASX 200 Accumulation Index).

The dominant themes over the quarter impacting the Real Asset market were rising inflation, higher bond rates and increasing fears of an economic recession in 2023.

The Australian 10-year yield rose in response to tightening monetary policy from the Reserve Bank of Australia (RBA). While Martin Currie note that the prospect of higher interest rates is likely to be contractionary, Martin Currie expect the RBA to be cautious, and a recession in Australia is not the manager's base case.

Rising interest rates proved a headwind for the REITs, particularly lower yielding names, with real estate a notable underperformer over the quarter. Within the subsectors, REITs with childcare exposure, such as Arena REIT, and defensive convenience retail fared best, namely SCA Property Group which continues to deliver growth. REITs with higher leverage and long WALEs with fixed rental growth lagged, as did the property fund managers due to their high interest rate sensitivity through the prospects of weaker property valuations creating headwinds for earnings.

Infrastructure and utilities were the strongest sectors as they are generally well positioned from a pricing power perspective as cash flows can accelerate to match or outpace inflation. Such low economic beta, inflation hedges as Transurban Group and APA Group performed best.

Corporate activity also continued throughout the period. Martin Currie note that A-REIT Net Tangible Assets (NTAs) are still rising at the margin, but it is late in the cycle and unlisted valuations look to have peaked for now. Notably, unlisted property deals are starting to stall, and a bid-ask spread has emerged between buyers and sellers.

Outlook

Utilities

- Many transmission/distribution utilities are well positioned for growth from energy transition and a large renewables spend, as they facilitate connections to the network. They also have strong pricing power or regulatory mechanisms that benefit from higher inflation.
- Australian integrated generation utilities headwinds during COVID-19 have now turned to strong tailwinds as Martin Currie have seen a significant recovery in wholesale electricity and gas prices, which significantly improves the earnings outlook for 2023 and beyond.
- Recent corporate activity in utilities reflects inflation protection and attractive transition driven investment opportunities, where transition growth opportunities may be up to three times more normal population growth like levels.

Infrastructure

- As COVID-19 restrictions have eased, toll road traffic data has rapidly improved and in mid 2022 it is now generally above pre-COVID-19 levels even despite high oil prices, with commuters showing a preference for private transport ahead of shared transport.
- Rail infrastructure revenues are proving to be very resilient and benefitting from rising inflation, and the manager is seeing positive signs around investments in assets that support the worlds energy transition and energy security needs.
- Airport passenger traffic recoveries are also underway and further recovery is expected. However, the airport recovery is expected to be lengthy and high oil prices appear to be having more impact on aviation than other forms of transport.

REITS

Retail

Re-opening sees retail bouncing back.

- Local, everyday needs doing well, with robust sales driving strong tenant demand, while rents are on the rise.
- Re-opening tracking well for larger, more discretionary malls seeing tenant demand but CBD's lagging.
- Dual 'clicks and mortar' retail solutions look best placed to meet customer needs, Martin Currie continue to like the convenience asset class the most.

Office

Lease-term buffering longer dated WFH impacts, while buying interest remains strong.

- While vacancy has stabilised at higher levels, take-up of leased space on a net basis relative to market size strongest in metro markets (+3.3%) in CY21 vs CBD's (+0.5%)
- Rental incentives have stabilised but remain high in the face of new competing supply.
- The 'unhappy middle' (older and lower grade properties) are best avoided, with observed flight to quality.
- Work from home headwinds, softer demand from bigger users will weigh on markets for some time.

- Martin Currie's preference remains lower priced, more affordable office space rents with a suburban skew where tenants are less impacted by work from home downsizing.
- Direct property demand pricing has eased and may begin to weigh on listed NTA valuations.

Residential

Demand remains strong, standalone houses look better over lagging apartment markets.

- Prospect of higher borrowing costs crimping affordability the big focus with moderating demand for house and land, while medium density looks better on a relative basis pre-sales levels are waning.
- Existing dwelling prices up strongly but now peaked with strong historic credit growth the driver, underlying housing demand from no immigration not yet a factor.
- Higher-density dwelling volumes seeing a deeper cycle and Martin Currie prefer urban growth corridor master-planned communities, but rising build costs will be an issue for affordability.
- Land lease communities look particularly appealing for on balance sheet capital spend by landlords with rents affordable and demand high without the reliance on a leveraged buyer.
- Overall population growth ultimately supportive, evidence of pent-up demand already in the system, especially in the more affordable States of Victoria and Queensland.

Industrial

Attractive returns supported by strong demand.

- Demand remains very strong from logistics innovation, online retail and growing cities driving the need for new space from new and existing tenants.
- Land scarcity (especially in Sydney and somewhat now in Melbourne) is resulting in rising rents but less so in other markets.
- Fundamentals look the most robust of all the sub-sectors, AREIT landlords deploying new capital here as balance sheet rental assets increase with close to 10% rental mark to market positive for the outlook.

Availability

Product name	APIR
SignatureSuper*	AMP1807AU
SignatureSuper Allocated Pension*	AMP1801AU

*Closed to new investors

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