

JULY 2024 For institutional, professional and wholesale investors only

INCOME-FOCUSED RETURNS FROM THE UPSIDE OF URBAN POPULATION GROWTH

The Martin Currie Australia (MCA) Real Income strategy invests in a diversified portfolio of quality listed Real Assets from Australia and other developed market countries.

The strategy aims to deliver a growing income stream through:



A unique blend of listed Real Assets with income growth driven by long-term demographic themes - Listed REITs, utilities and infrastructure - the essential building blocks of an economy for a growing urban population's every-day needs



Income-focused return profile - Unique investment approach aligns stock selection and portfolio construction with the need to reduce income shock and grow income with inflation



Benchmark unaware portfolio construction - Low security concentrations to provide income diversification so no single stock dominates



Fundamental active ownership - Purposeful engagement with companies and client advocacy through proxy voting



Experienced stock pickers with long term track record - Deep industry experience generating 'active insights'

Read more in the following document about how the MCA Real Income strategy seeks to capture income-focused returns that reflect the trends of long-term urban population growth.



Overview

As the urban population grows, the demand for the essential services that listed Real Assets provide rises, and helps to grow dividends irrespective of the business cycle.

By putting the income needs of clients at the heart of product design, the MCA Australia Real Income strategy aims to provide for investors looking for a consistent and growing income stream.

Our approach is premised on the philosophy that the performance of Real Assets such as listed REITs, infrastructure and utilities is driven by their unique leverage to the multi-decade megatrend opportunity of urban population growth.

Our key thesis is that as urban population grows, so too will demand for Real Assets to service everyday needs. With a growing demand, coupled with the nondiscretionary nature of the services provided, Real Assets often have strong pricing power, proven cash flows, and the ability to grow income distributions regardless of the economic cycle. Given these attractive characteristics, real assets are generally less volatile than the wider equity market or sector-specific strategies and have a lower correlation with the returns of other asset classes.

While the global megatrend of urban population growth is enduring and is expected to hold well into the future, not all countries and cities are growing, and some are in fact going backwards. Our approach is to invest where Real Asset demand growth is underpinned by a naturally growing customer base, avoiding low growth regions like Japan where population declines become an investment headwind. As such we focus on select target countries, regions and cities in Australia and other global developed markets with the most attractive demographic growth.

Our experienced investment team is solely focused on identifying the best listed Real Asset investment opportunities using a disciplined and repeatable investment approach based on proprietary research into **Valuation**, **Quality**, **Direction** and **Sustainable Dividends**. Stewardship is a critical element of our

investment philosophy, and our Active Ownership approach, which includes ESG integration, engagement and voting, has been embedded directly into our investment process since 2009.

Real Assets also help build the sustainable cities of the future. Embedded into our process is a focus on the sustainable economic pathway of every investment we make; critically we believe that through fundamental active ownership we can achieve better returns that also help make the world a better place.

For income investors, we also don't think it is appropriate to include any particular security in our portfolio just because it has a large weight in an arbitrary index. Our benchmark unaware portfolio construction, with low security and sector concentrations, addresses the common problems that equity indices face with concentration, income impairment and inflation protection. Our diversified portfolio of listed real assets also addresses the issues that direct-investing or unlisted funds face with diversification, liquidity and transparency. To improve capital growth, we also avoid income enhancement derivative strategies.

We have over 10 years of experience in managing income strategies through very varied market cycles, including the COVID-19 impacted 2020, and we believe this shows that our unique methodologies to maximise income-focused returns can provide a stable and dependable income that few asset classes can match.

We believe that there are few peer strategies available in the market that address income in the way that the MCA Real Income strategy can.



Income focused investment approach

We have found that stocks that 'pass the grade' for traditional equity accumulation funds may not be suitable for income portfolios. The overarching belief for all of our income-focused strategies is that companies that have solid earnings can sustain dividend pay-outs and are likely to be less volatile than other stocks. Even in times of market volatility, such companies are expected to continue paying dividends and provide regular income.

Essential building blocks of society with low economic sensitivity

We focus on listed Real Assets (REITs, infrastructure and utilities) that we believe are the true essential building blocks of the economy.

These include diverse assets such as supermarket-anchored shopping centres, data centres, telecom towers, healthcare facilities, ports & toll roads, gas & water pipelines, and renewable electricity generators.

Due to their essential 'every-day' nature, demand for the services provided is typically inelastic and less correlated to the economic cycle.

Even in times of market volatility and inflation, high quality Real Asset companies can continue paying regular dividends and provide defensive growth.



REITs

- Supermarket-anchored shopping centres
- Office & industrial sheds
- Data centres
- Residential
- Healthcare



Utilities

- Gas & electricity grids
- Multi-utilities & pipelines



Infrastructure

- Toll roads
- Railroads & ports
- Telco towers & fibre networks
- Airports

Returns driven by secular megatrends

The Real Assets that we focus on are really the tangible building blocks of the economy that are used every day. Due to their essential 'every-day' use nature, demand for Real Assets is typically inelastic, and is driven more by demographic themes rather than being pegged to the business or economic cycle.

Quite simply, the more a population grows, the higher the volume of demand for Real Assets serving their everyday needs. To name a few of the increased demands, there will be more people:



Cooking, cleaning and heating

Benefits gas, electricity and water grids



Driving on the roads

Benefits toll roads



Doing their daily shop

Benefits supermarket-anchored shopping centres



Making use of online delivery services

Benefits datacentres, airports, rail and distribution sheds

High-quality assets with pricing power = inflation protection

The type of Real Assets we target can generally manage the risk of rising inflation against their income streams, and many can also see dividends benefits from rising inflation.

Real Assets with pricing power can often accelerate cash flows to match, or in some cases outpace, inflation due to regulatory and contractual inflation escalators and pass-through mechanisms, doing so in a way that the pass through is affordable / acceptable to underlying users without impacting demand.

Multi sector blend offers broad and diverse opportunity set

By blending listed Real Estate with Infrastructure & Utilities, we can access a broader opportunity set and limit individual security, sector and industry concentration risk.

We believe this helps to ensure a more stable income stream and avoid drawdowns or income shocks in any one stock. Blending also provides the ability to move between asset sub-sectors when valuation opportunities arise.

The addition of Real Estate provides further access to urban population growth.

Consistent dividend payers = reliable income

By investing where dividends are a larger part of a stock's total return, and by diversifying across a blend of listed REITs, infrastructure and utilities, we aim to provide more certainty in the dollar income amount of income distributions, no matter what the capital gains or losses may be.

We also specifically screen out companies with development risk, and favour known income payers with stable cash flows.

What we avoid:





Transparency of listed pricing and liquidity

By focussing only on listed securities, we can evade the common problems that direct-investing or unlisted investments in property, utilities and infrastructure face while retaining the same economic exposure.

Listed Real Assets avoid high concentration in single assets through exposure to hundreds of underlying assets across different regions and sectors.

This provides daily liquidity and clear pricing transparency.

	Listed Real Assets 	Unlisted Real Assets 
Concentration	can be exposed to hundreds of underlying assets	often have large exposures to single assets
Diversification	allows for diversification across different regions and sectors at a lower investment size	may require large individual investments
Liquidity	can offer daily liquidity and are readily accessible	may have long lock up periods and are infrequently traded
Pricing transparency	have a clear market price	often rely on subjective director valuations
Cost	can be traded in the same manner as other listed securities	may have high transaction costs

Proven investment process

When analysing each Real Asset security, our analysts look for what we call the 'essential ingredients'. These are key attributes that identify a security as being appropriate for income investors and are a solid framework to identify the best Real Assets to access the upside of urban population growth.

These essential ingredients give us a solid framework to identify the best Real Assets, and they are all interlinked.

The 'essential ingredients' of quality assets



Real assets are often **dominant assets** in a catchment and are well placed to benefit from attractive **local population growth**. We favour Real Assets which have these attractive dynamics along with strong balance sheets and a focus on incremental, brownfields expansion rather than risky greenfields developments. The monopolistic nature and high barriers to entry for these types of assets gives them the **pricing power** to raise their prices over time with population driven demand growth and often with in-built inflation protection. Due to their everyday use and proven demand, they tend to have more **recurring cash flows** that are less exposed to business cycle than higher-risk development/greenfield assets. These characteristics combined help to protect income streams against inflation and provide dollar income growth.



Proprietary multi-lensed research

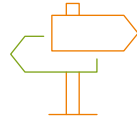
Once we find a Real Asset with these key ingredients, our specialised industry analysts undertake bottom-up fundamental research. The importance we place on proprietary research into long-term normalised earnings power, cashflow sustainability, business quality and risk, is reflected in the size, quality and experience of our investment team.

Our analysts' independent insights are captured in a consistent manner via MCA's proprietary research lenses. This creates a common language for expressing our views on the risks and opportunities across the investment universe.



Valuation

Fundamental insights into normalised earnings and risk to determine fair value



Direction

Fundamental insights into the direction of earnings changes

Quantitative assessment of short- and long-term factors such as:

- Price momentum
- Earnings revisions
- Accruals



Quality

Fundamental insights into:

- Business strength
- Management and governance quality
- Sustainability (including considerations of modern slavery and human rights risks, contribution to the UN Sustainable Development Goals and other relevant factors.)

Quantitative risk rating based on:

- MCA Analyst **Quality**
- Leverage
- Predicted beta
- Profitability



Sustainable Dividend

Fundamental estimate of a company's ability to maintain payments to shareholders through different stages of the cash flow cycle

Our analysts and portfolio managers are also supported by the MCA research platform through access to:

- a deep 'Active Ownership toolkit', that includes ESG-specific tools that the team uses to uncover material ESG risks and opportunities within their bottom-up fundamental research;
- big picture analysis to identify changing economic and market conditions that drive factor performance;
- a peer review process that builds collaboration and consistency;
- investment process R&D into new or refined alpha and risk signals; and
- proprietary real-time cloud based analytics.

Consideration of ESG factors in the investment process

ESG research is integrated deeply into MCA's multi-lensed research process and portfolio construction.

Our experience has demonstrated to us that ESG analysis, engagement and voting should be done by those making investment decisions rather than being outsourced as they are best positioned to develop an informed view of the ESG risks, opportunities and impacts that companies face or create. Therefore, this responsibility lies directly with our experienced team of research analysts and portfolio managers.

Drawing from our extensive experience, we've come to understand that engagement is an ongoing, iterative process that demands both patience and a persistent effort yielding results that unfold over time. Our investment team's long-term experience with management engagements bolsters our ability to effectively affect company level changes. We have cultivated strong relationships and established open dialogues giving us the opportunity to express any areas of concern and encourage greater transparency on their management of these risks.

By incorporating material and relevant ESG factors that we have uncovered through our bottom-up fundamental research and engagement activities directly into the **Quality** and **Valuation** lenses, the investment process specifically reflects how ESG factors can increase or reduce the risk of companies delivering the normalised earnings that our analysts forecast.

For further information on our embedded ESG process, please refer to our Active Ownership brochure on our [website](#).

Benchmark unaware portfolio construction

In line with our belief that not all equities are created equally for income, we set out to build our Real Income portfolios from the bottom up, and employ unique methodologies which seek to capture income-focused returns from the upside of urban population growth.

This results in a portfolio that looks very different to both traditional equities and other income-focused strategies.

We outline some of the key characteristics below.



1. Resilient dividends

When a company pays a very high dividend that cannot be sustained, and then ends up cutting it, it can create an income shock to the dollar income level of the portfolio as a whole. And if sold out automatically after the yield fell, it can also result in an impaired capital value despite maintaining a steady headline yield.

In portfolio construction we place great importance on a stock's **Sustainable Dividend**, rather than a current or consensus dividend.

As part of their fundamental research, our team of analysts assesses each company's dividend paying power by analysing free cash flow generation through different stages of the economic cycle and explicitly modelling a two-year bear case scenario, i.e., can a dividend be paid in 8 out of the next 10 years, rather than the 'worst case' dividend, because that is always going to simply be zero for every company. The advantage of our 8/10 approach is it allows us to consider a significant downside scenario for each company and what level of dividend they can pay in a crisis.

Our downside scenario analysis also includes higher interest rates and inflation; our process therefore has a strong preference for owning stocks that can deliver on our income growth objectives even in a rising interest rate environment.

By investing in stocks with the most attractive **Sustainable Dividends**, the dividend component of a stock's total return is more stable, thus providing lower income volatility and more certainty in the dollar income amount no matter what the capital gains or losses may be for a stock.



2. A focus on Quality

High Quality companies tend to generate high free cash flows, which in turn generate attractive **Sustainable Dividends** as discussed above. Payout ratios alone are not a good indicator of sustainability, and our analysts fundamentally assess the free cash flow generation of companies through different stages of the economic cycle and look through any financial engineering that may artificially boost headline or near-term dividends.

As part of their stock research, our analysts assess each company's **Quality**. We deeply understand that ESG factors can lead to an increased or reduced risk of companies delivering the normalised earnings that our analysts have forecast. These factors are reflected by the way Sustainability is an important part of our overall assessment of **Quality**.

We use a 1-5 scale, with lowest quality 4 and 5 rated stocks excluded completely from the investable universe. We have found that screening out stocks with lower quality and skewing towards higher quality stocks results in a portfolio that has naturally less volatile income than the market, i.e., less income shocks when a dividend that cannot be sustained ends up being cut.



3. Avoiding over concentration

When you look at portfolio construction through an income lens, minimising the concentration risk within equity benchmarks (especially within the S&P/ASX 300 A-REIT index) is more important than benchmark-relative alpha and tracking error measures.

We use a non-benchmark portfolio construction approach to limit security concentration risk, and we believe this helps to ensure a more stable income stream and avoid income shocks in any one stock.

We promote diversification by focusing on a low absolute concentration of security weights. We limit individual securities to a maximum 9% of the portfolio, meaning the portfolio's total yield is not dominated by any one security. This limit means that the portfolio is structurally underweight the largest A-REITs, one of the most concentrated markets in the world.

Due to the concentrated nature of the Australian market, Australian REIT benchmarks are not actually a very good mirror of the effect that Australian inflation has on long-term income requirements. Therefore, we have structured our portfolios to have better diversification across the domestic economy, across REITs, utilities and infrastructure, and this means that they have income growth more correlated to income needs.





4. Avoiding capital impairments

Finally, we believe that an important way to improve or maintain capital growth is to not do anything unnecessary that could impair capital.

- Strategies that use derivatives to provide income enhancements or capital protection are in fact potentially detrimental to capital growth, and thus income growth, as the cost is borne from capital.
- Strategies that automatically sell stocks because of an income shock, such as rules based high yield ETFs, can result in an impaired capital value despite maintaining a steady headline yield.
- High turnover strategies also are more likely to impair capital due to excessive trading as they are turning capital to income by constantly moving to the next dividend paying stock.

Our income strategies do not use derivatives, are fully active, and are designed to be low turnover. We also seek a significant spread between the **Valuation** and **Sustainable Dividend** signal of securities we are trading to provide a buffer to ensure that trading is necessary.

The MCA investment team

Martin Currie's suite of Real Income strategies are managed by the experienced MCA Real Asset team. Ashton Reid has ultimate management responsibility for the MCA Real Income strategy.



Ashton Reid, CFA
Portfolio Manager
Research: Australian listed property



Andrew Chambers
Portfolio Manager
Research: Australian and New Zealand listed property, utilities, infrastructure



Daniel Fitzgerald, CFA
Portfolio Manager
Research: Global Real Assets



Raven Vi
Associate Analyst
Research: Global Real Assets

The Real Income investment process draws on a wide range of proprietary fundamental and quantitative research metrics, and the strategy benefits from the close collaboration of the well-resourced and experienced MCA investment team.



Deep industry expertise generating best ideas

- MCA team of 17 led by Chief Investment Officer Reece Birtles
- Average tenure of 14 years, average industry experience of 22 years - across a variety of industry backgrounds¹
- Additional insights from broader Martin Currie global investment floor



A learning culture and growth mindset

- Investment expertise and rigour gained through peer review
- Key focus on continuous development and improvement
- Team culture, built on coaching and mentoring



Highest standard of professional conduct

- Living the values of investing to improve lives through the responsible management of our own business



Passion for investment excellence and focus on risk management

- Consistent investment philosophy and process applied to an extensive range of investment products
- Tailored investment options aligned to client needs
- Sophisticated, interactive risk analysis
- Robust risk culture

¹As of 31 December 2023.

Key facts

Launch date	17 November 2010
Performance objective	The strategy aims to provide a pre-tax yield above the S&P/ASX 200 Index yield and to provide an income stream growth above inflation
Benchmark	No formal benchmark
Investable universe	Australian and global developed market listed real asset securities / all-cap
Number of securities	Typically 35
Security limits	Absolute 9%
Sector limits	None
Regional limits	Up to 20% in non-ASX securities from global developed markets
Portfolio turnover	Typically 25% p.a.
Tracking error	We do not target tracking error but total risk outcome is typically 90% of the market
How to access	Segregated mandate Martin Currie Real Income Fund (An Australian Unit Trust) BetaShares Martin Currie Real Income Fund (managed fund) ASX: RINC

The characteristics shown are guidelines only and are not hard risks limits.

Industry recognition

Signatory of:



Since 2009

Latest PRI Rating¹



Policy governance and strategy



Confidence building measures



Direct - Listed equity - Active fundamental

Top quartile

Ranking vs peers across all three pillars²



Holder of highest Morningstar Sustainability Rating^{TM3}

¹Source: Martin Currie and PRI 2022. Ratings relate to the period 1 January 2022 - 31 December 2022.

Martin Currie has been awarded the highest possible rating from the Principles of Responsible Investment (PRI), with a five-star rating across all categories relevant to its investment activities. A copy of the PRI's assessment and transparency report are available on our [website](#).

²Policy governance and strategy: 95%; Direct - Listed equity - Active fundamental: 100%; Confidence building measures: 100%

³Sustainability Score and Sustainability Rating as of 30 November 2023. Data shown for the Martin Currie Real Income Fund. Sustainalytics provides company-level analysis used in the calculation of Morningstar's Sustainability Score. Based on 96% of AUM. Data is based on long positions only.

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About Martin Currie Australia



A leading innovator of **Australian Equity, Real Asset and Multi-Asset strategies**



Specialist investment manager
of **Franklin Resources Inc.**



40+ years in
Australian equities



World class
ESG credentials*



Tailored investment options
aligned to client needs



17 member team of
specialist investment analysts



A\$6 billion in
Australian equities

Source: Martin Currie, as at 31 December 2023.

For further information on our market leading ESG credentials please refer to full details on our website:
www.martincurrie.com/our-story/our-stewardship-approach



Important information

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Past performance is not a guide to future returns.

The distribution of specific products is restricted in certain jurisdictions, investors should be aware of these restrictions before requesting further specific information.

The views expressed are opinions of the portfolio managers as of the date of this document and are subject to change based on market and other conditions and may differ from other portfolio managers or of the firm as a whole. These opinions are not intended to be a forecast of future events, research, a guarantee of future results or investment advice.

Some of the information provided in this document has been compiled using data from a representative account. This account has been chosen on the basis it is an existing account managed by Martin Currie, within the strategy

referred to in this document. Representative accounts for each strategy have been chosen on the basis that they are the longest running account for the strategy. This data has been provided as an illustration only, the figures should not be relied upon as an indication of future performance. The data provided for this account may be different to other accounts following the same strategy. The information should not be considered as comprehensive and additional information and disclosure should be sought.

The analysis of Environmental, Social and Governance (ESG) factors forms an important part of the investment process and helps inform investment decisions. The strategy/ies do not necessarily target particular sustainability outcomes.

Risk warnings – Investors should also be aware of the following risk factors which may be applicable to the strategy shown in this document.

- Investing in foreign markets introduces a risk where adverse movements in currency exchange rates could result in a decrease in the value of your investment.
- This strategy may hold a limited number of investments. If one of these investments falls in value this can have a greater impact on the strategy's value than if it held a larger number of investments.
- Smaller companies may be riskier and their shares may be less liquid than larger companies, meaning that their share price may be more volatile.
- Income strategy charges are deducted from capital. Because of this, the level of income may be higher but the growth potential of the capital value of the investment may be reduced.

For wholesale investors in Australia:

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