

STRATEGY GUIDE

Martin Currie Australia Real Income



DECEMBER 2024

ESSENTIAL LISTED REAL ASSET INGREDIENTS FOR GROWING INCOME



INVESTING TO IMPROVE LIVES™

www.martincurrie.com/australia

Essential listed Real Asset ingredients for growing income

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

We aim to meet the income needs of investors by providing a consistent and growing income stream that grows with inflation through an actively managed selection of listed Real Assets including Real Estate Investment Trusts (REITs), infrastructure, and utilities.

By investing in a benchmark-unaware manner, with stocks selected carefully by MCA's dedicated Real Assets team and a clear focus on client objectives, our approach is distinct from traditional equity portfolios, income-focused strategies or stand-alone property or infrastructure portfolios.

Key Pillars of the Strategy



Proprietary multi-lensed research by an experienced team

The MCA team has over 40 years of experience investing in Australian equities and listed Real Assets using a disciplined and repeatable multi-lensed investment approach.



Real Assets are essential building blocks of society and the economy

Our unique approach targets listed Real Assets from global developed and emerging market countries with an essential-use nature. We seek dominant assets with a local population growth dynamic, recurring cash flows that can grow with inflation, strong pricing power and balance sheets, and a focus on incremental, brownfields expansion.



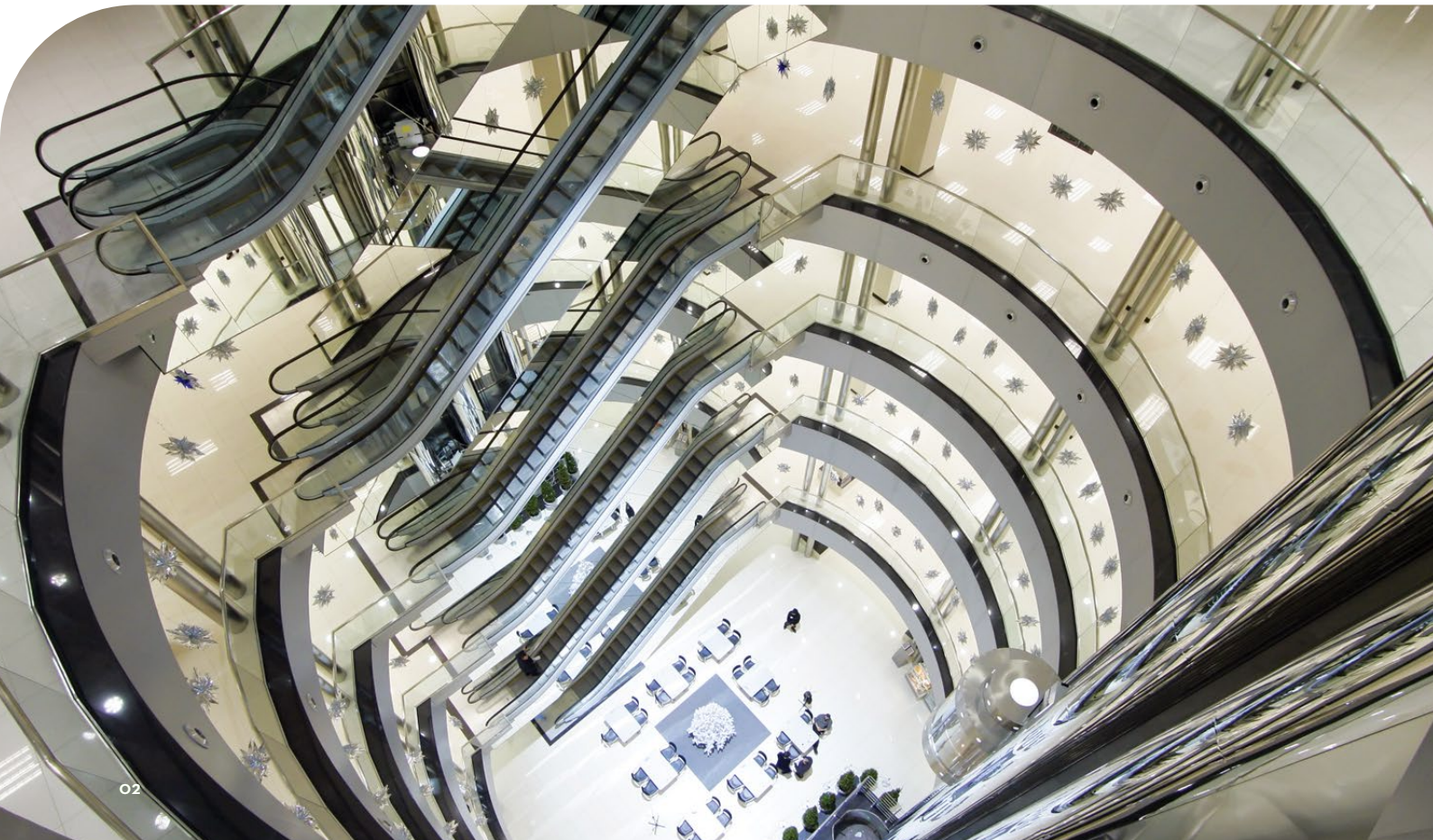
Optimised portfolio construction for income-focused returns

Our benchmark unaware portfolio is constructed to minimise concentration risks, income shocks and capital impairment.



Fully integrated fundamental Active Ownership approach

Responsibility for Active Ownership lies directly with the research analysts and portfolio managers responsible for making investment decisions.



Key Benefits of the Strategy



Greater income certainty

A focus on high quality, consistent dividend paying listed Real Assets and portfolio construction that avoids income concentration, provides access to a more predictable income stream and inflation protection, no matter the economic cycle or capital movements of a stock.



Lower total volatility

As income is a greater driver of total returns, Real Assets typically exhibit lower total volatility compared to broader equity markets or sector-specific strategies, providing greater income stability.



Diversification benefits

The multi-sector blend of high-quality Real Assets has lower economic sensitivity and lower correlation to equity markets, offering diversification benefits and a differentiated source of income and growth.



Portfolio liquidity and transparency

Listed Real Assets also provide liquidity, pricing transparency, diversification and trading cost benefits not typically found in direct investments or unlisted funds.

Long term return potential from alignment with secular megatrends

Positions aligned with population growth, energy demand and data growth megatrends allow the strategy to benefit from future growth opportunities.



- Shift towards green energy supports demand for renewable generation, grid enhancements, and electrification initiatives.
- Exponential growth in data consumption driven by AI boosts demand for data centres, fibre optic networks, and telecommunication infrastructure.

Who the strategy is suited to

The strategy is relevant for investors looking for:

- an active approach to investing, with a focus on income generation;
- absolute returns; and
- a diversifying portfolio compared with other equity investments.

We believe that our long-term track record in income generation through varied market cycles demonstrates our ability to deliver stable and dependable returns to investors seeking income-oriented strategies.



How we identify opportunities

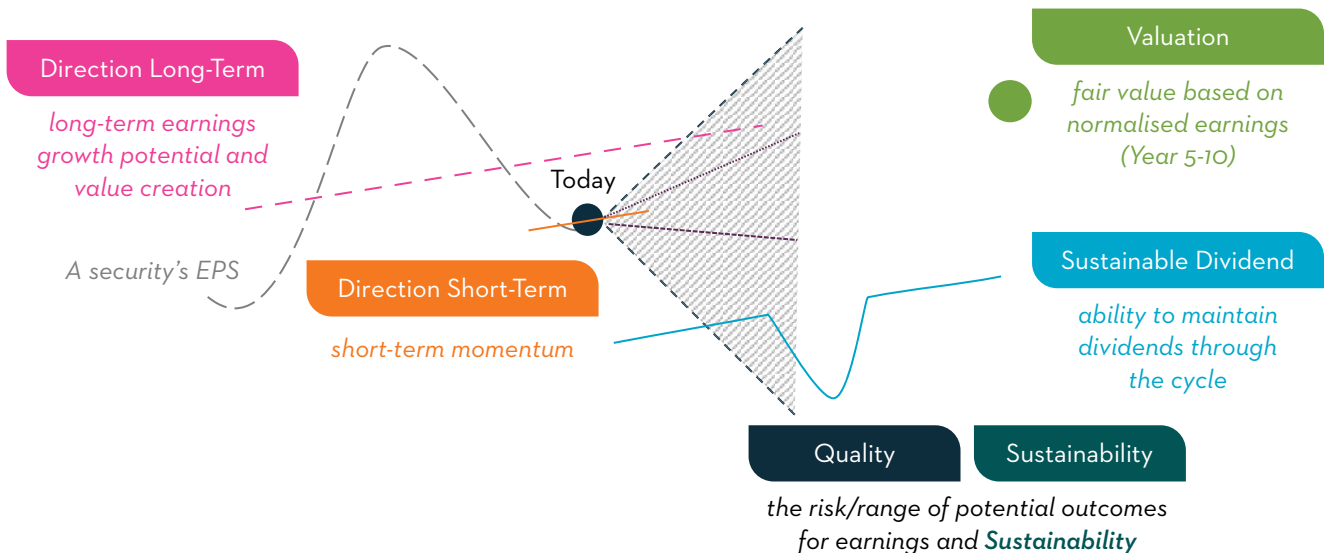
Proprietary multi-lensed research by an experienced team

The MCA investment platform offers full access to the multi-lensed fundamental insights and Active Ownership activities of a highly experienced research team. Our disciplined portfolio construction process can be fully customised to provide strong alpha potential across a range of Australian equity and listed Real Asset solutions. We believe our forward-looking fundamental insights are the key to investment success, however we also recognise how our quantitative risk flags can incorporate a broad set of incremental information in a timely and balanced manner.

The investment process for all MCA strategies, including **MCA Real Income**, starts with bottom-up fundamental research by our specialised industry analysts. The size, quality, and experience of our investment team underpin our proprietary research efforts into long-term normalised earnings power, cashflow sustainability, business quality, and risk of listed equities.

The **MCA Real Income** strategy benefits from a dedicated Real Assets team integrated within the broader investment team. The research process is the same for all our portfolios, no matter the sector or regional market, and we see this as a significant competitive advantage.

Our approach recognises the importance of multiple drivers in generating returns. We have designed our framework to capture forward-looking fundamental and qualitative insights across our **Valuation**, **Quality**, **Direction Short-Term**, **Direction Long-Term** and **Sustainable Dividend** research lenses. **Sustainability** is a key component of our **Quality** research lens.



Past performance is not a guide to future returns.

Source: Martin Currie Australia; data shown for illustrative purposes only.

This multi-lensed framework allows our analysts to detail their independent insights in a step-by-step and consistent manner. It creates a common language for expressing our views on the risks and opportunities for each company across the investment universe, fostering an environment of team ownership and ongoing improvement.

Real Assets are essential building blocks of society and the economy

We invest in a distinctive blend of listed Real Assets, including Real Estate Investment Trusts (REITs), infrastructure, and utilities. To us, this blend of listed Real Assets captures the essential building blocks of society and a growing economy.

We are looking for Real Assets operating in regions experiencing strong demographic growth, avoiding areas with declining populations and thus declining demand. In addition to Australia, we have found large and liquid listed Real Asset companies with long histories of paying consistently growing dividends with attractive investment opportunities to capture long-term urbanisation-led growth particularly in Asia (ex Japan), UK, Europe, Canada and the US.

We are specifically looking for listed Real Assets that own less risky assets that generate high free cash flows and resilient, **Sustainable Dividends**. Our diverse pool of investment opportunities includes REITs, Utilities & Infrastructure subsectors such as supermarket-anchored shopping centres, multi-family housing & student accommodation, data centres, telecommunication towers, healthcare facilities, ports & toll roads, gas & water pipelines, and renewable electricity generators.

Within this universe, we specifically seek listed Real Assets with what we call the 'essential ingredients' that can enable stable recurring cash flows with lower volatility and consistent dividend growth regardless of short-term economic cycles.

These 'essential ingredients' include access to **local urbanisation and population growth** that drives increased demand for the Real Assets that cater to essential community needs. Due to their essential-use nature, and often monopolistic nature and high barriers to entry, the higher quality listed Real Assets we target are **dominant assets** in their catchment and exhibit inelastic demand. These characteristics provide them with lower volatility **recurring cashflows**, and the pricing power to raise their prices over time. We favour listed Real Assets with **strong balance sheets** and a focus on incremental, **brownfields expansion** rather than risky greenfields developments. We feel it is not appropriate to take on significant development risk for investors focused on stable income. Furthermore, many of these listed Real Assets possess cash flows tied to **inflation** through regulatory or contractual mechanisms, enhancing their ability to further maintain and potentially increase their income over time.

We specifically want to ensure that demand for an asset exists before we invest and we want to see the asset operating, and we will only own it once it has fully proven itself commercially. As such we specifically screen out companies with significant development risk. This is a particular problem for the Property indices. Consider, for example, a property group developing offices. Early on, these assets have engineering and construction risks and uncertain capital expenditure, but even when construction is reaching completion, the demand for these assets is uncertain (now more so than ever) and debt levels are at their peak. We are very conscious that companies might build too much capacity or take on speculative developments that may not actually lease out.

We also avoid the more risky Real Assets that some fund managers may include in their Real Asset definition such as unlisted property, utilities & infrastructure, commodities and resource stocks, timberlands & agriculture investments or even inflation-linked bonds.

Spotlight on our Sustainable Dividend research lens

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.

Sustainable free cash flow analysis is a natural component of our fundamental research approach, and **Sustainable Dividend** is our fundamental estimate of a company's ability to maintain payments to shareholders.

Analysts judge each company's dividend paying power by assessing free cash flow generation through different stages of the economic cycle and look through any financial engineering that may artificially boost headline or near-term dividends. They explicitly model a 'bear case' scenario, rather than the 'worst case' dividend, because that is always going to simply be zero for every company. The advantage of this 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.

We also take into consideration debt levels and refinancing expectations, potential business threats to dividends, and sustainable levels of franking based on tax domicile, geographic mix and capital structuring. Our downside scenario analysis 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.

Overall, **Sustainable Dividend** is a conservative estimate, generally below the current dividend and reflecting the free cash flow we forecast that a company is likely to generate near the bottom of the economic cycle.

Optimised portfolio construction for income-focused returns

When looking at portfolio construction through an income lens, we do not think it is appropriate to include any particular security in a portfolio just because it has a large weight in an arbitrary index. Stocks with low dividend pay-outs, higher volatility or lower quality may not align with income generation goals.

Rather than being built to satisfy traditional benchmark-relative alpha targets or tracking error measures, the portfolio is highly diversified to minimise income concentration risks and income shocks. This ensures that portfolio total yield is not dominated by any one security, or impacted by an income shock in any one high index weight stock.

By combining and blending REITs, infrastructure, and utilities with attractive income attributes, we can strategically manage exposures to components within each sector. This helps to improve income generation characteristics and mitigate risks associated with individual sectors or assets – such as higher risk office/commercial properties, low-yield airports, or ESG-challenged utilities.

To improve capital growth, we also avoid the use of derivative strategies for income enhancement or the use of high turnover to harvest dividends.



Fully integrated fundamental Active Ownership approach

A cornerstone of our investment approach is Active Ownership, which includes comprehensive Environmental, Social, and Governance (ESG) integration, engagement with portfolio companies, and voting.

Active Ownership has been deeply embedded in our investment process since 2009, and reflects our belief that ESG factors can impact the risk of companies delivering the normalised earnings and dividends that our analysts forecast. Our **Sustainability** assessments feed into our **Quality** and **Valuation** lenses.

ESG factors underlie the growing pressures faced by all companies from their key stakeholders. Regulators, customers, suppliers, investors, local communities, employees and environmental groups all present companies with challenges and opportunities that ultimately have to be addressed by management. Companies that fail to address the needs of key stakeholders by managing these challenges effectively may face substantial reputational and financial damage in the future.

We see that these types of ESG factors can impact the normalised earnings that our analysts forecast in our **Valuation** lens, and therefore the long-term intrinsic value and potential long-term performance of a company. Where material to a company's ability to generate long-term returns, our analysts factor in the costs/benefits of ESG inaction or action directly into their normalised earnings (five years of earnings per share forecasts).

Quality for us is a key measure of risk, and we include our *Management*, *Governance* and **Sustainability** ratings directly in our overall assessment of **Quality** for each stock. This **Quality** rating is also used as a component in the stock-specific discount rates used for **Valuation**.

The MCA investment team uses **Quality** and **Valuation**, among other factors, to build conviction in securities and to set target position sizes across all portfolios. As a result, the combination of Quality and Valuation adjustments can tilt our assessment of fair value on these stocks, and ESG factors can directly impact the size of an individual security position in a portfolio, or our decision to invest in, or divest from these companies.

Unlike many quantitative-only and passive funds, responsibility for Active Ownership lies directly with research analysts and portfolio managers responsible for making investment decisions as we believe they are best positioned to develop an informed view of the ESG risks, opportunities, and impacts that companies face or create. Our investment team's long-term experience and strong relationships and open dialogues with boards and management teams allow them to express concerns and encourage greater transparency in how companies manage these risks.

Using engagement to influence companies to make positive change

Engagement is an important source of fundamental information that helps us improve our understanding and conviction in investee companies and their governance structures. It enables us to understand to what extent companies have identified material ESG risks and how they are managing these and also provides us with an opportunity to share best practice and help steer companies towards improved corporate practice. Our approach is to engage not only with the management of companies, but also with a range of other stakeholders for each business such as competitors, customers, suppliers and government agencies to develop a more rounded view of relevant ESG risks and opportunities.

Promoting stewardship through proxy voting

Proxy voting at AGMs is a core element of our approach to active ownership. We believe it is our job as fiduciaries to make a stand where we see an issue as critical to a stock's performance in the long term. Annual General Meeting (AGM) season (typically October to December in Australia) is a critical time for us as investors to re-emphasise our stance regarding a board's progress on ESG matters and we engage directly with companies on contentious proposals.

The Real Income Portfolio

Proprietary multi-lensed research by an experienced team

The **MCA Real Income** strategy is co-managed by Ashton Reid, Portfolio Manager, and Andrew Chambers, Portfolio Manager. While Ashton has ultimate management responsibility, all decisions are made after significant team research, team discussion as well as wider group peer review.



Ashton Reid, CFA
Portfolio Manager
Research: Australian listed property



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

The strategy is supported by the broader MCA investment team through detailed fundamental research analysis across MCA's four research lenses for each company within the investment universe. In addition, our quantitative research function is continually looking for new ways to improve the investment process and the efficacy of our stock decisions and portfolio risk/return outcomes.

Fundamentally driven portfolio construction

Regardless of the strategy, our investment team's multi-lensed research provides the foundation for our portfolio construction process, with fundamental research outcomes feeding directly into our expected returns for each stock. For each strategy, we calculate these expected returns in a customised manner by tilting towards inputs from the most relevant research lenses, thus aligning stock selection and portfolio construction with the specific objectives of each strategy. The resultant expected return is the difference between our **Valuation** post any strategy-specific **Quality/Sustainability**, **Direction Short-Term**, **Direction Long-Term** and **Sustainable Dividend** adjustments and the stock's current market price.

For our **MCA Real Income** strategy, we aim to build a high-quality portfolio that can provide investors with growing income stream. As such, we weight the calculation of our expected returns towards Sustainable Dividend to a greater extent than in other strategies.

We also use benchmark-unaware disciplined portfolio construction rules to maximise income. 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. Our income strategies do not use derivatives, are fully active, and are designed to be low turnover.

Final stock selection is augmented by the Portfolio Manager's fundamental judgement, and the portfolio typically holds around 35 stocks.



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	Martin Currie Real Income Fund (An Australian Unit Trust) <ul style="list-style-type: none">• APIR: SSB0026AU BetaShares Martin Currie Real Income Fund (An Exchanged Traded Managed Fund) <ul style="list-style-type: none">• ASX: RINC Generation Life Martin Currie Real Income Fund (An Australian Investment Bond) <ul style="list-style-type: none">• APIR: ALLO018AU Segregated mandate

Investment vehicles only available in certain jurisdictions. The characteristics shown are guidelines only and are not hard risks limits.



About Martin Currie Australia



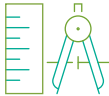
Specialist investment manager
of **Franklin Resources Inc.**



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 Australia; as of 30 June 2024.

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



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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.

The information provided should not be considered a recommendation to purchase or sell any particular strategy / fund / security. It should not be assumed that any of the securities discussed here were or will prove to be profitable.

It is not known whether the stocks mentioned will feature in any future portfolios managed by MCA. Any stock examples will represent a small part of a portfolio and are used purely to demonstrate our investment style.

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.

Franklin Templeton Australia Limited as Responsible Entity has appointed Martin Currie Australia as the fund manager for the Martin Currie Real Income Fund (ARSN 146 910 349, APIR SSB0026AU)

Please read the relevant Product Disclosure Statements (PDSs) and any associated reference documents before making an investment decision. In accordance with the Design and Distribution Obligations and Product Interventions Powers requirements we maintain Target Market Determinations (TMD) for each of our Funds. All documents can be found via www.franklintempleton.com.au or by calling 1800 673 776.

