

Martin Currie Real Income

Quarterly Investment Option Update

31 March 2022

Aim and Strategy

To provide a growing income stream by investing in a diversified portfolio of Australian 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 20 to 45 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 years
Relative risk rating	6 / High
Investment style	Active
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Listed Property and Infrastructure	100	99.4
Cash	0	0.6

Sector Allocation	%
Retail REITs	25.6
Diversified REITs	21.5
Highways & Railtracks	11.2
Electric Utilities	6.5
Office REITs	6.4
Industrial REITs	6.0
Gas Utilities	5.4
Specialized REITs	5.3
Railroads	3.8
Multi-Utilities	3.6
Renewable Electricity	1.7
Residential REITs	1.6
Health Care REITs	0.9
Cash & Cash Equivalents	0.6

Top Holdings	%
Transurban	6.1
Scentre	6.0
APA	5.4
Shopping Centres	5.4
Stockland	5.3
Atlas Arteria	5.1
Vicinity Centres	4.0
Charter Hall Retail	4.0
Aurizon Holdings	3.8
AGL Energy	3.6

Portfolio Summary

The Australian real asset universe underperformed the broader Australian equity market in the March quarter.

- The listed real estate market was down -6.7% in the March quarter (as measured by the S&P/ASX 300 A-REIT Accumulation Index).
 - Infrastructure was up 8.9% in the March quarter (as measured by the S&P/ASX Infrastructure Accumulation Index).
 - Utilities were up 14.1% in the March quarter (as measured by the S&P/ASX 300 Utilities Accumulation Index).
- In comparison, the Australian equity market rose 2.2% in the March quarter (as measured by the S&P/ASX 200 Accumulation Index).

Investment Option Commentary

At the sector level, utilities were the largest contributor, followed by infrastructure, while real estate detracted.

At the stock level, AGL Energy, Vicinity Centres and APA Group were the largest positive contributors, while Centuria Capital Group, Abacus Property Group and Ingenia Communities Group were the biggest detractors.

Electricity and gas retailer AGL Energy was strong on the back of an improvement in the forward electricity price curve, which gives us comfort around an earnings and dividends recovery from FY23. As the reopening gathered momentum, Vicinity Centres performed well, with the retail REIT showing continued improvement in key leasing data.

Pipeline owner APA Group performed well given it is 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. Additionally, the company is benefitting from Russian bans given they create new volume opportunities for Australia.

Centuria Capital Group was weaker despite upgrading FY22 to a 20.8% increase on FY21 OEPS, a 9.9% increase over the group's initial FY22 OEPS forecast. Solid deal flow in both the unlisted sectors of healthcare and agriculture looks supportive of future growth opportunities from here.

Diversified REIT Abacus Property Group was weaker as the market digested its large capital raise. The proceeds are to be used for continued deployment into acquisitions, the development and expansion pipeline in Abacus' self-storage portfolio and repaying debt. Martin Currie find the storage outlook attractive, with Abacus affirming that first half storage strength has continued into this half, and re-leasing rents are ahead of budget.

Lifestyle and holiday community's provider Ingenia Communities Group was down despite releasing a FY21 result that highlighted strong performance of its development business, which is growing at a good rate and inorganic growth opportunities are plentiful. EPS growth of 7% reflects strength in its development and holiday segments, with the start of the second half showing very strong demand. The market was likely expecting a stronger 1H22 result and improved guidance, which may be delayed somewhat by the floods, slower supply chains and labour scarcity but Martin Currie would note that demand remains very robust, and any issues relate to timing of deliveries.

Market Commentary

The macro environment for the Australian Real Asset market over the quarter was one of increasing inflation, with Australian 10-year yields rising on expectations of tightening monetary policy from the Reserve Bank of Australia given increasing inflationary pressures, with the Australian company reporting season and Omicron cases peaking early in the period further themes.

Over the quarter there was broad strength across the infrastructure and utilities subsectors. The very positive Australian company reporting season wrapped up at the end of February, having highlighted the strength of the domestic economy, with earnings per share revisions largely driven by the theme of inflation as companies showed varying ability to pass on cost increases.

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.
- 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, 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 Martin Currie are seeing positive signs around investments in assets that support the world's energy transition and energy security needs.
- Airport passenger traffic recoveries are expected, but the recovery is expected to be lengthy and significant uncertainty remains around the outlook for business travel negatively impacted due to the significant uptake and success of video conferencing.

REITS

Retail

Re-opening sees retail bouncing back.

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.
- Work from home headwinds, softer demand from bigger users will weigh on markets for some time.
- The manager's preference remains lower priced, more affordable office space rents with a suburban skew where tenants are less impacted by work from home downsizing.

Residential

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

- Prospect of higher borrowing costs crimping affordability the big focus but for now still seeing strong demand for house and land, while medium density showing some signs of life, as pricing of apartments looks better on a relative basis.

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.

Martin Currie are focused on real assets that have strong pricing power with capital deployment options that can satisfy everyday needs of our growing population. The manager sees strong re-opening growth in income as a catalyst.

Availability

Product name	APIR
SignatureSuper*	AMP1807AU
SignatureSuper Allocated Pension*	AMP1801AU

*Closed to new investors

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