

# Martin Currie Equity Income

Quarterly Investment Option Update

31 March 2022

## 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	98.8
Cash	0	1.2

Sector Allocation	%
Financials	30.9
Consumer Discretionary	13.1
Materials	11.7
Communication Services	10.2
Real Estate	10.0
Industrials	9.4
Consumer Staples	6.5
Energy	3.7
Utilities	3.3
Cash & Cash Equivalents	1.2

Top Holdings	%
NAB	5.1
BHP	4.5
ANZ	4.3
Telstra	4.2
Medibank	4.1
Harvey Norman	3.6
Aurizon	3.4
NINE	3.4
JB Hi-Fi	3.3
Alumina	3.1

## Portfolio Summary

At the sector level, metals & mining and banks were the largest positive contributors, while non-bank financials and other materials were the biggest detractors.

At the stock level, BHP Group, Woodside Petroleum and National Australia Bank were the largest positive contributors, while Medibank Private, Wesfarmers and Inghams Group were the biggest detractors.

## 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.

However, while deeper value stocks performed well initially in the recovery, the fund is now seeing the portfolio's higher quality value names and income stocks becoming stronger performers as the economic recovery becomes more sustained, and this has led to strong outperformance over the index for the month of March.

## Market Commentary

Rising inflation, war in Ukraine, the Australian company reporting season and Omicron cases peaking early in the period were the dominant themes throughout the quarter.

Australian and US 10-year yields surged on expectations of tightening monetary policy from the Reserve Bank of Australia and the US Federal Reserve given high inflationary data. Both short and long-term interest rates also rose with debate about whether inflation is transitory a continuing theme. The inflationary dynamic is particularly extreme in US and European markets, and this is impacting commodity prices which in turn has seen the Australian dollar appreciate over the quarter, with very high terms of trade and interest rate expectations key drivers of the currency.

The US purchasing managers index (PMI), a key indicator of the country's economic health, while still strong is softening, and in China economic growth has noticeably slowed, although the Chinese Government has announced stimulatory measures to address its weak economy. This stimulus talk helped iron ore prices rise a further ~25% during the quarter. In addition to iron ore, there was broad strength across commodities, with nickel up ~50%, oil ~40% and aluminium up ~25%.

Within this environment, Australia has been a strong outperformer on a global basis, as Australia's economy is better positioned for higher inflationary dynamics given its barbell exposure to resources and banks. Strength of the domestic economy was highlighted throughout the very positive Australian company reporting season, that wrapped up at the end of February. Positive earnings per share revisions were largely driven by the theme of inflation as companies showed varying ability to pass on cost increases.

During the quarter, the global outperformance of Value-style stocks relative to Growth was notable, most starkly in Australia, supporting good opportunities for Value-style investors.

## Outlook

### **Australian economy remains strong despite Omicron disruption:**

- With the Government already spending billions on stimulus, there is capacity (on a debt to GDP basis) for more.

### **With a looming federal election, Martin Currie expect additional stimulative fiscal policies.**

- Australians have a very high savings ratio which is being spent post lockdowns.
- Business confidence is for the first time in several years stronger than consumer confidence, which should be positive for capital expenditure and business growth initiatives.
- Wages growth remains subdued, but a tightening labour market, particularly in sectors such as mining and construction, is likely to result in stronger wages growth throughout 2022.
- Infrastructure build is a key Federal budget focus, both large-scale projects and residential, supported by the stimulus spend, credit demand and strong house prices.
- Immigration is a significant long-term driver of economic growth, with international borders and immigration now reopened.
- The work from home and regional Australia shift will continue to be important themes, with an accelerating battle for the household wallet amongst large consumer facing companies.

Australian Equity market resilient against a volatile global backdrop, but divergence remains across sectors and

styles:

- February's company reporting season saw net EPS revision upgrades for most
- sectors, with the greatest positive skew to beneficiaries of rising inflation, high commodity and energy prices, and higher interest rates.
- Overall expectation for earnings and dividend growth is modest given the significant rebound in earnings over the past year, and slower growth expectations for resources going forward.
- Growth stocks have seen a severe price reversion as economic reopening gathers momentum, with Value returns strong in January and February, and the start of a narrowing in the valuation gap. However, Value-style stock prices have yet to fully reconnect with the pace of world economic growth and inflation.
- As the inflation dynamic becomes more significant, companies will either try to mitigate via inflation protection for their revenue streams and supply chains and/or have sufficient market power by holding or growing profit margins, passing on the higher cost of goods sold to the customer.
- On net zero targets, many companies have now developed a strategy for emissions reductions, but the level of capex spend is not yet close to what is needed to reach 2050 targets. Martin Currie expect opportunities from 'carbon transformers' who can develop new low carbon emitting technologies and replace existing fossil fuel sources of energy. This will be a major source of renewable energy capex.
- Sustainability is set to be a key strategic focus for companies in 2022. In addition to net zero, issues around modern slavery, biodiversity and non-financial sustainability targets incorporated into remuneration policies will continue to be a significant component of company disclosure and investor engagement.

**Portfolios across Martin Currie's range of Australian active equity strategies are based on the manager's valuation and risk discipline:**

- While income growth will moderate, Martin Currie have positive income return (yield plus growth) expectations for the high-quality Financials, Real Assets, Industrials and Resource stocks their Income strategies invest in. Looking forward, Martin Currie expect income growth to come from a combination of COVID-recovery stocks and COVID-winners.
- The outlook for Martin Currie's valuation-driven style of investing continues to be one of optimism and opportunity. Wide value spreads and increasing bond yields and inflation are a good predictor of stronger future Value style returns.

As the Australian economy reopens, Martin Currie expect those value spreads will narrow and that will drive strong performance for their Value strategies.

## Availability

Product name	APIR
SignatureSuper*	AMP8310AU
SignatureSuper Allocated Pension*	AMP3336AU

\*Closed to new investors

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