

STRATEGY INSIGHT



MARTIN CURRIE

MARTIN CURRIE ASIA PACIFIC REAL INCOME

JANUARY 2019 FOR PROFESSIONAL CLIENTS ONLY



The Martin Currie Asia Pacific Real Income strategy seeks to provide a growing income stream by investing in a diversified portfolio of listed real asset securities (such as REITs, infrastructure and utilities) characterised by established physical assets with recurring cash flows from developed and emerging Asia Pacific ex Japan countries.

Asia is one of the fastest-growing regions in the world. Its expanding population and rising incomes are leading to high levels of consumption and increased urbanisation, lifting demand for real assets such as infrastructure, real estate, utilities and essential services.

However, most emerging Asian economies have underinvested in essential infrastructure, and there is a huge opportunity for global investors to participate in their funding.

The strategy offers a unique blend of listed REITs, infrastructure and utilities. These are typically brownfield assets with high recurring cash flows, which allow them to have less exposure to the business cycle. Demand for these assets are typically driven by population growth, which is in-turn re-enforced by control of supply. The ability to raise prices over time provides protection against inflation.

By investing only in listed securities, the strategy is a highly liquid and transparent alternative to more traditional standalone REIT, infrastructure or unlisted property strategies.

PORTFOLIO MANAGEMENT

The Martin Currie Australia investment team includes 18 members with an average industry experience of 22 years (as at 31 December 2018). Our Asia Pacific Real Income portfolio managers Andrew Chambers and David Fitzgerald have 24 and 19 years of experience, respectively. This strategy benefits from the sector research expertise of Daniel Fitzgerald for Asia ex Japan real assets, Andrew Chambers for Australia and New Zealand infrastructure and utilities and Ashton Reid for Australia and New Zealand REITs.

The investment team in Australia also benefit from the global expertise of the specialist equity dealer team in both Australia and Singapore, and also high-conviction Asian research from members of Martin Currie's global analyst team based in the UK and Singapore.

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

PORTFOLIO CHARACTERISTICS

Launch date	28 June 2016
Performance objective	The strategy aims to provide a pre-tax yield above the MSCI AC Asia Pacific ex Japan Index and provide income growth above inflation.
Benchmark	Benchmark unaware
Investable universe	Asia Pacific ex Japan listed real asset securities/all-cap
Number of securities	35-55
Security limits	Absolute 10%
Regional limits	Absolute 50% to Australia/New Zealand
Sector limits	None
Portfolio turnover	Typically 25% p.a.
Risk profile	Medium

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

MANAGERS



Andrew Chambers
Portfolio Manager



Daniel Fitzgerald
Portfolio Manager

INVESTMENT PHILOSOPHY

Our approach is premised on the philosophy that high-quality listed real asset securities can sustain dividends, match rises in the cost of living and are likely to be less volatile than the wider equity market.

We rely on our complementary fundamental and quantitative research, and our collective insights into the current investment landscape, to identify opportunities.

INVESTMENT PROCESS

The Martin Currie Asia Pacific Real Income strategy utilises the proven and successful Martin Currie Australia Real Income investment philosophy, process and team, with a wider investment universe to capture long-term Asian growth.

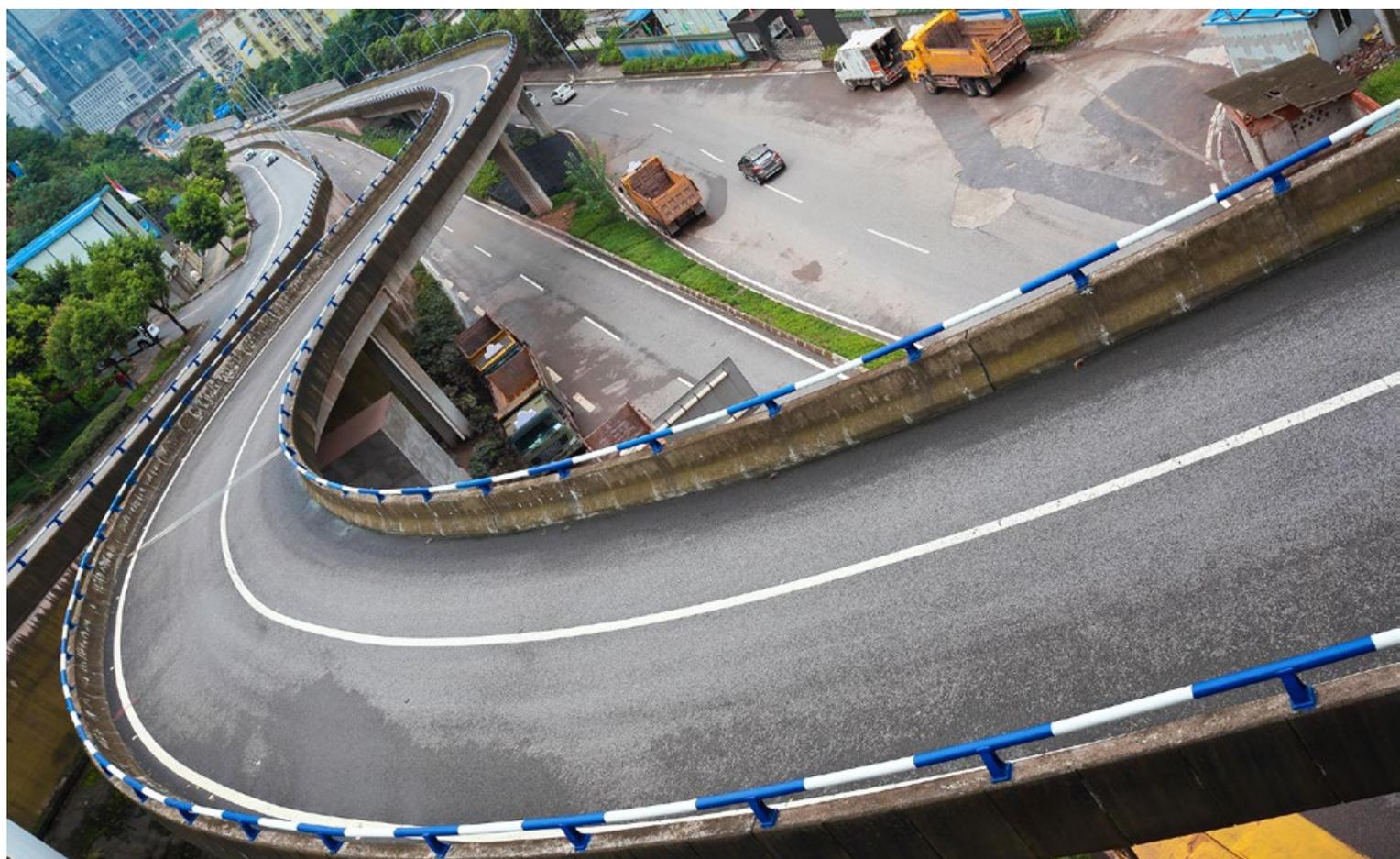
The strategy focuses on three main sectors within the Asia Pacific (ex Japan) universe:

- Listed REITs, which include shopping centres, office buildings and industrial sheds,
- Infrastructure, such as toll roads, airports and railroads,
- Utilities and essential services, such as gas and electricity grids.

The strategy has a disciplined and repeatable investment approach that is based on four distinct lenses:

- **Valuation** is based on the analysts' fundamental insights into forecasting normalised earnings power, as well as risk, to determine fair value.
- **Quality** is a fundamental and quantitative assessment of business strength, management quality, environmental, social and governance (ESG) issues, balance-sheet strength, returns and earnings quality.
- **Direction** of earnings includes our analyst's fundamental insights into earnings changes, and quantitative measures such as accruals, return on capital and momentum.
- **Sustainable Dividend** is the analyst's estimate of a company's ability to maintain payments to shareholders. It is the assessment of a company's free cash flow through different stages of the cash flow cycle and therefore its sustainable dividend-paying capability.

These research outputs are combined to determine target security weightings in each portfolio and this, ultimately, drives the investment process.



IDEA GENERATION

The Martin Currie Asia Pacific Real Income strategy targets securities which display limited financial and fundamental risks and have attractive and sustainable yields.

The security universe is screened for attractive opportunities, using both our team members' insights and quantitative value screening to generate ideas for in-depth research. When analysing securities, our analysts look for the following 'essential ingredients':

- recurring income streams
- a large sunk capital base
- an ability to grow without capital expenditure
- real pricing power
- low volatility

Complementing the initial idea-generation process, the team has an active company visitation program, with over 600 visits annually to company management, their competitors, customers and suppliers. These meetings provide essential opportunities for us to better understand businesses and their management, as well as to rigorously test our views on a company's future prospects.

IN-DEPTH RESEARCH

VALUATION

Once we have uncovered a potential investment idea, we focus on fundamental bottom-up research to identify intrinsic value. The importance we place on this is reflected in the size and quality of resource that the team assigns to security selection, with our specialised industry analysts building their own independent forecasts.

QUALITY

We believe that we can improve our risk-adjusted returns if we consider a security's risk level combining fundamental and quantitative approaches. This risk assessment drives our individual security position limits.

- **Quantitative analysis:** We find that quantitative risk flags can incorporate a broad set of incremental news in a timely and balanced manner. We estimate the risk of each security based on size, leverage, fundamental quality rating, market beta and volatility.
- **Fundamental analysis:** Fundamental analysis is clearly needed when assessing a company's market power, quality of management and future opportunities. A business strength assessment is conducted by our analysts on each individual security. This is combined with a 32-factor checklist that takes into account leverage, earnings quality, management and environmental, social and governance (ESG) standards. The quality rating applied by our analysts impacts the security-specific discount rate, and the strategy will take larger positions in securities with a higher-quality rating.

Experience has shown us that higher-quality companies offer a far greater probability of their earnings returning to normal following shocks, and thus will exhibit lower volatility than the broader market. We have also found that the returns of the highest-risk securities tend to be heavily influenced by direction, while 'safer' securities are typically driven by valuation.

DIRECTION

We build conviction into Valuation forecasts by creating a Direction signal that identifies which securities are the most likely to surprise the market on the upside. This Direction signal is based on our analysts' expectations of the change in consensus EPS, and quantitative measures of price momentum, earnings revisions, profitability and accruals.

SUSTAINABLE DIVIDEND

Sustainable Dividend is an estimate of a company's ability to maintain payments to shareholders. Our analysts judge companies' Sustainable Dividend paying power by assessing the free cash flow generation of companies through different stages of the economic cycle and looking through any financial engineering that may artificially boost headline/near-term dividends. Sustainable free cash flow analysis is a natural component of our fundamental research approach.

INVESTMENT THESIS

Analysts conclude their assessments with an investment thesis detailing why each security is attractive or unattractive, how our views are different from market expectations, along with rationales for key assumptions and sensitivities of Valuation, Quality, Direction and Sustainable Dividend.



COMPLEMENTING THE INITIAL IDEA-GENERATION PROCESS, THE TEAM HAS AN ACTIVE COMPANY VISITATION PROGRAM, WITH OVER 600 VISITS ANNUALLY TO COMPANY MANAGEMENT, THEIR COMPETITORS, CUSTOMERS AND SUPPLIERS.



PORTFOLIO CONSTRUCTION

Investment decisions draw on the close collaboration of the entire Martin Currie Australia team, leveraging specific skills and expertise across fundamental and quantitative research.

We aim to build a portfolio with a lower-than-market total risk outcome, above average Sustainable Dividend yield, lower debt and higher quality than the broader market, without consideration of tracking error relative to an index. Security conviction and position sizes are a function of our investment thesis, and the Quality, Valuation, Direction and Sustainable Dividend rankings of each security.



INVESTMENT DECISIONS DRAW ON THE CLOSE COLLABORATION OF THE ENTIRE MARTIN CURRIE AUSTRALIA TEAM, LEVERAGING SPECIFIC SKILLS AND EXPERTISE ACROSS FUNDAMENTAL AND QUANTITATIVE RESEARCH.



KEY STRENGTHS OF THE INVESTMENT APPROACH

UNIQUE STRATEGY

- Invests in a blend of listed REITs, infrastructure and utilities.
- Brownfield assets with high recurring cash flows means less exposure to the business cycle.
- Demand is typically driven by population growth which is in-turn re-enforced by control of supply.
- Ability to raise prices over time provides protection against inflation.

LIQUID AND TRANSPARENT ALTERNATIVE

- Provides an alternative to more traditional standalone REIT, infrastructure or unlisted property strategies.
- High liquidity and transparent pricing by investing only in exchange listed securities.

GROWING INCOME STREAM

- Aims to deliver an attractive and growing income stream by investing in high quality Asia Pacific ex Japan real asset securities, with lower volatility than the share market.
- Avoids costly derivatives strategies for income enhancements or capital protection to improve capital growth.

INCOME FOCUSED PORTFOLIO CONSTRUCTION

- Benchmark unaware portfolio construction, with low concentration to avoid income shocks.
- Diversification across economic sectors to hedge against inflation/cost of living.
- Population driven growth avoids business cycle risk.

DEEP RESOURCES AND INSIGHTS

- Captures insights from Martin Currie's long-serving investment team in Australia, UK and Singapore.

FORWARD LOOKING INSIGHTS DRIVE SECURITY SELECTION

- Benefits from our collective insights into the current investment landscape.
- Looks through the short-term market noise with a focus on the long-term normalised earnings power of companies.
- ESG embedded into the investment process.
- Powerful combination of four different investment lenses – quality, value, direction and sustainable dividend – provides a broad perspective of security expected returns.

FIND OUT MORE

For further information on the Martin Currie Australian equities range please visit our website - www.martincurrie.com
You can find your local contact at www.martincurrie.com/contact_us

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Investors should also be aware of the following risk factors which may be applicable to the Strategy shown in this document.

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.

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.

Emerging markets or less developed countries may face more political, economic or structural challenges than developed countries. Accordingly, investment in emerging markets is generally characterised by higher levels of risk than investment in fully developed markets.

Smaller companies may be riskier and their shares may be less liquid than larger companies, meaning that their share price may be more volatile.

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 portfolio's value than if it held a larger number of investments.

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