

Do retirees' heirs expect to inherit a climate-friendly portfolio?:

The Search for Sustainably
Sustainable Dividends

Martin Currie Australia

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Client Portfolio Manager
Martin Currie Australia



INTRODUCING MARTIN CURRIE AUSTRALIA (MCA)

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



Specialist investment manager of
Franklin Resources Inc.



40+ years in **Australian equities**
and **Listed Real Assets**



World class
ESG credentials*



Tailored investment options
aligned to client needs



17 member team of
specialist investment analysts



A\$6bn in
Australian equities

Polling question

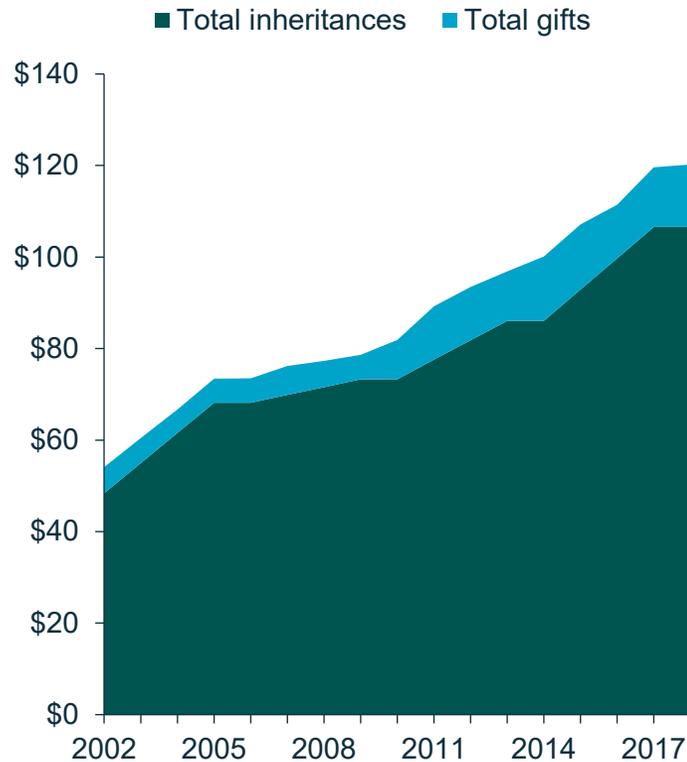
Is the impending wealth transfer already impacting your business?

- 1) Yes
 - 2) No
 - 3) Depends
- 

ESTIMATED A\$3.5 TRILLION WEALTH TRANSFER OVER NEXT 25 YEARS

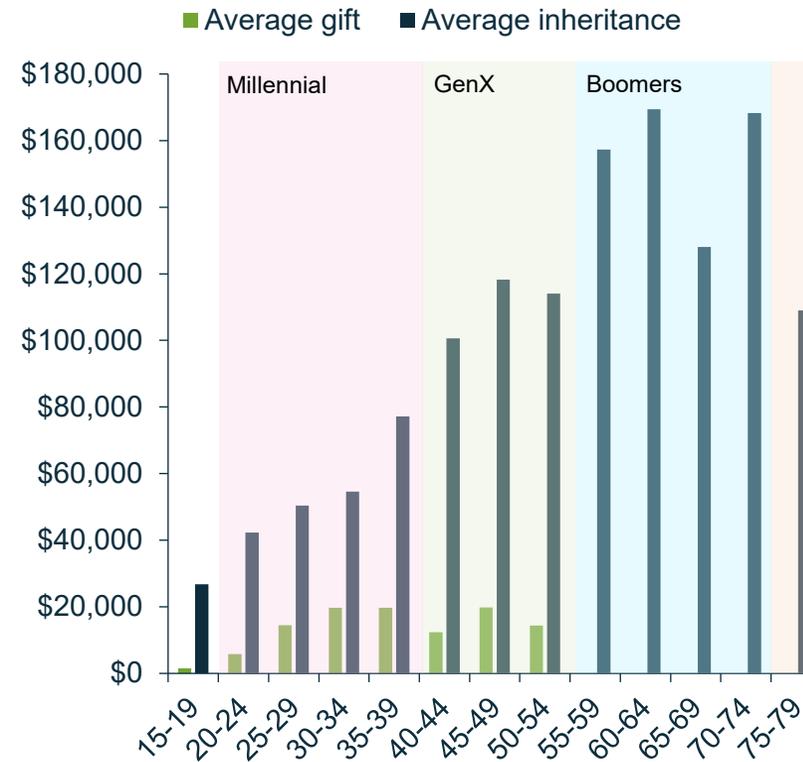
Wealth transfers are large and growing

Growth of wealth transfer by type (A\$ billions)

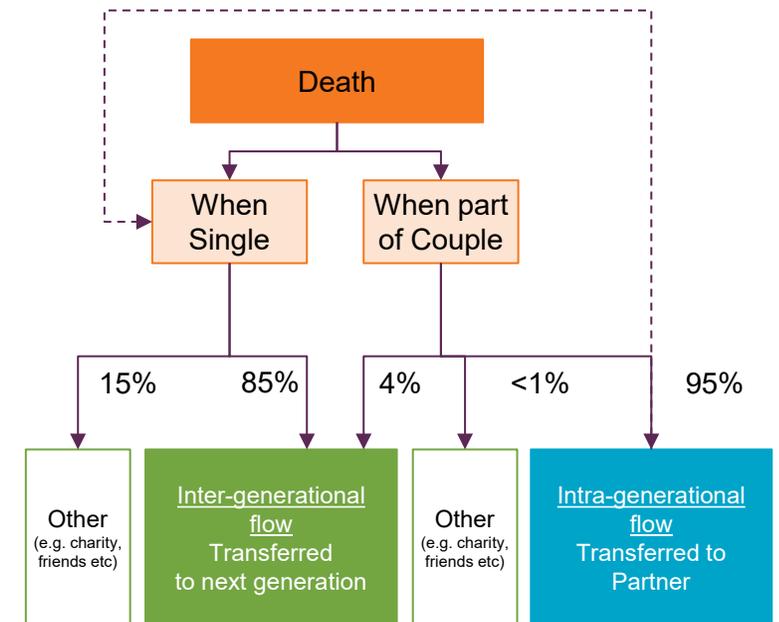


Most transfers are inheritances, mostly given to surviving (mostly female) spouse but then subsequently (adult) children who are increasingly Gen X and Millennials

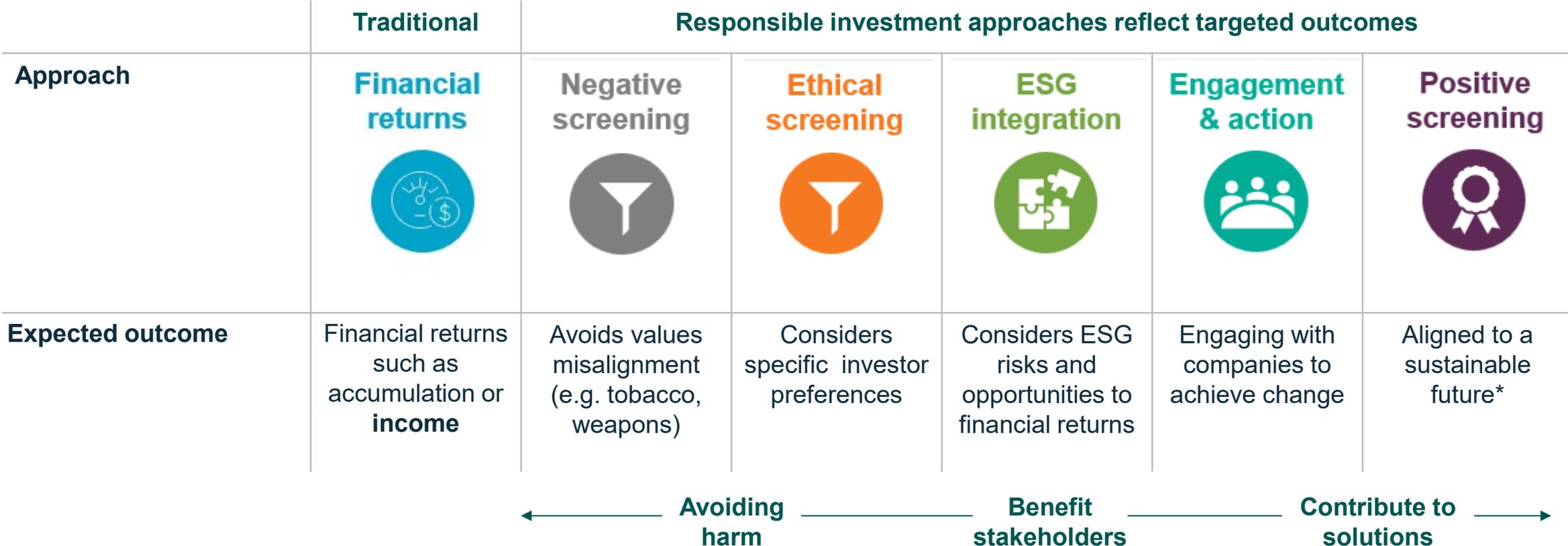
Average wealth transfer by age (in 2018)



Distribution of wealth at death into inter- and intra-generational flows



THE SEARCH FOR **SUSTAINABLY SUSTAINABLE** DIVIDENDS: SPECTRUM OF CLIENT ESG GOALS



Past performance is not a guide to future returns.

Source: MCA, Responsible Investment Association Australasia (RIAA); as of 31 December 2024. Modified from RIAA's ['Responsible and Ethical Investment Spectrum'](#)

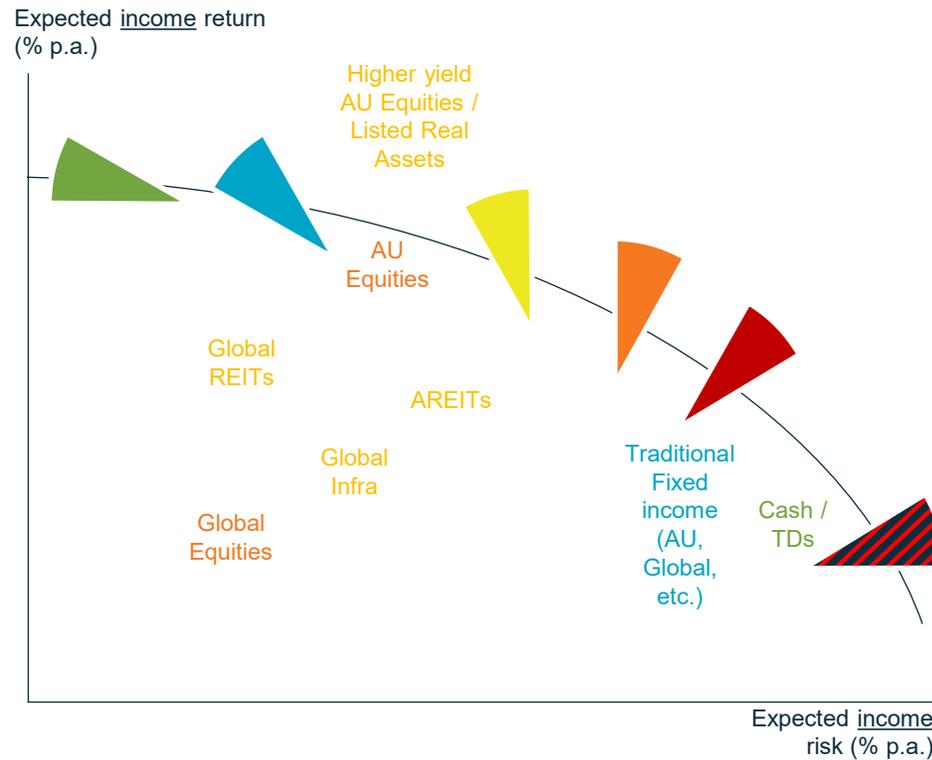
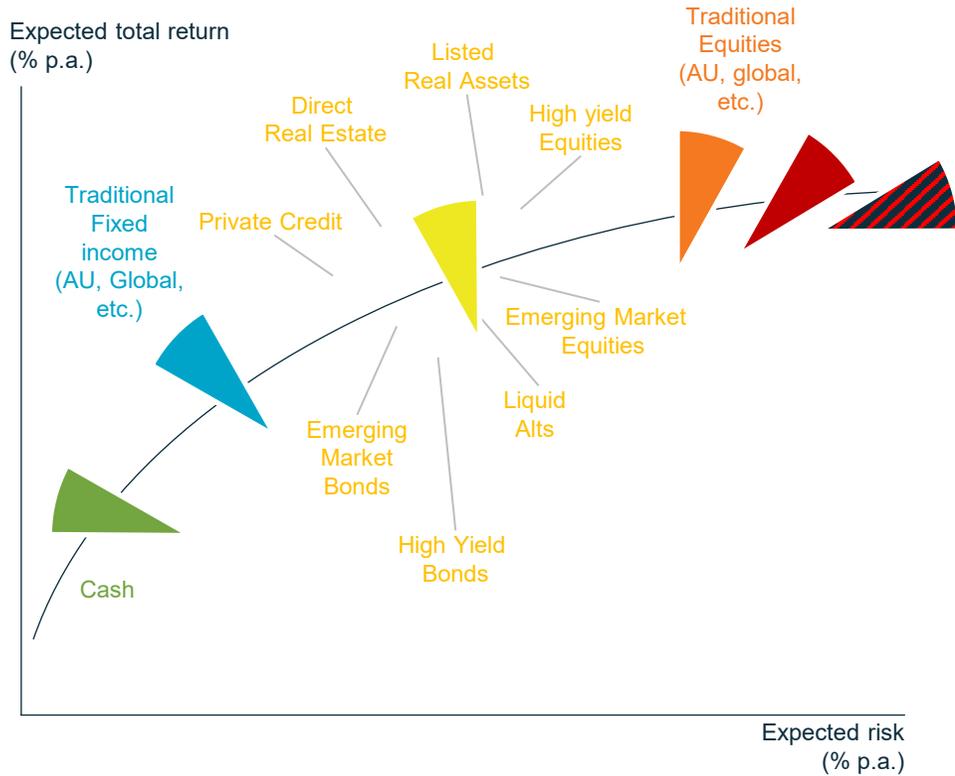
*targeting companies or industries assessed to have better ESG performance relative to benchmarks or peers" as per RIAA.



A DIFFERENT PLAN FOR ACCUMULATION AND RETIREMENT

phase solutions focus on
and total risk

Retirement focus needs to be on
income returns and income risk





THINKING DIFFERENTLY ABOUT INCOME: OUR FOCUS IS ON A SUFFICIENT INCOME FOR LIFE

A high and stable franked dollar income stream
to support annual expenses



Income growth
for inflation protection



Capital growth
to manage longevity risk



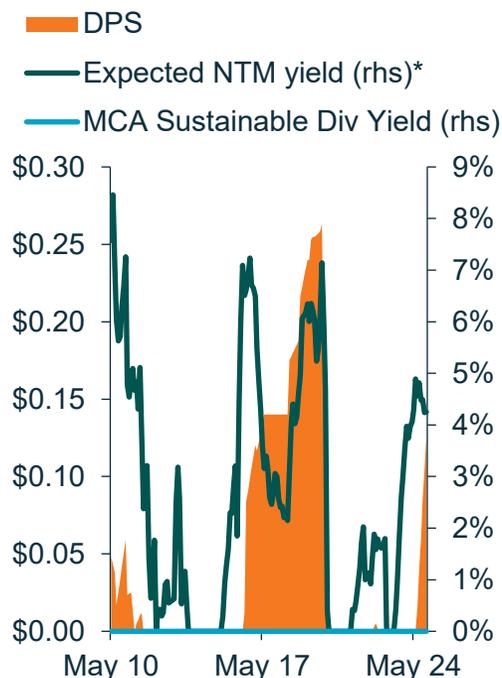
Diversified exposures
(across a full asset allocation)
to reduce income sequencing risk



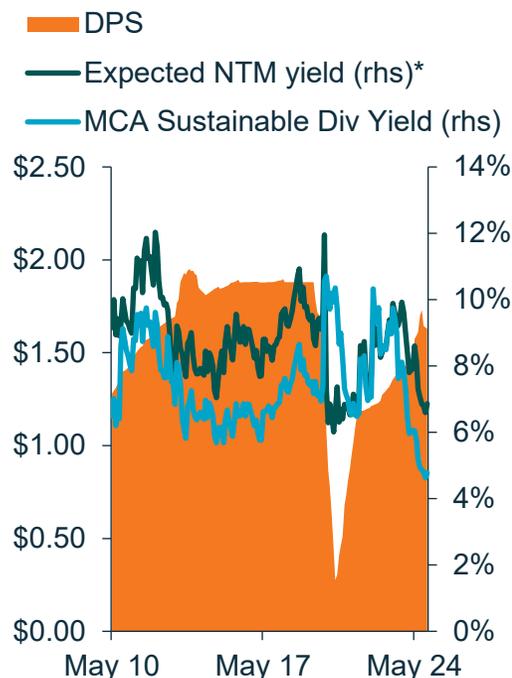


SEEKING TO MINIMISE INCOME SHOCKS THROUGH HIGHER QUALITY, GROWING, MORE RESILIENT DIVIDENDS

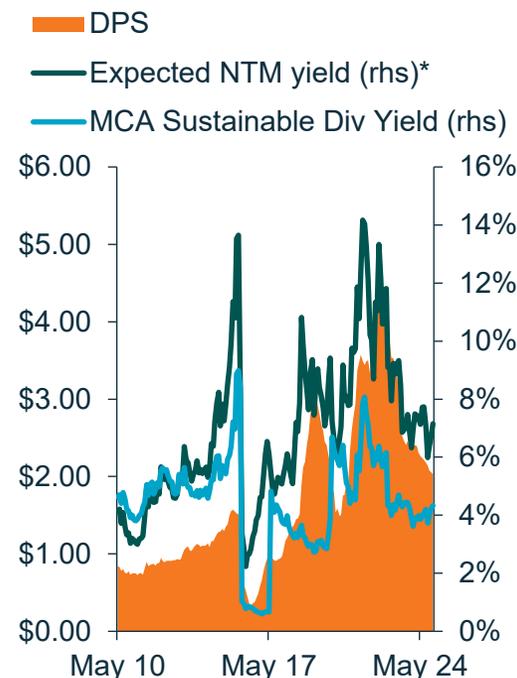
Qantas: low returns



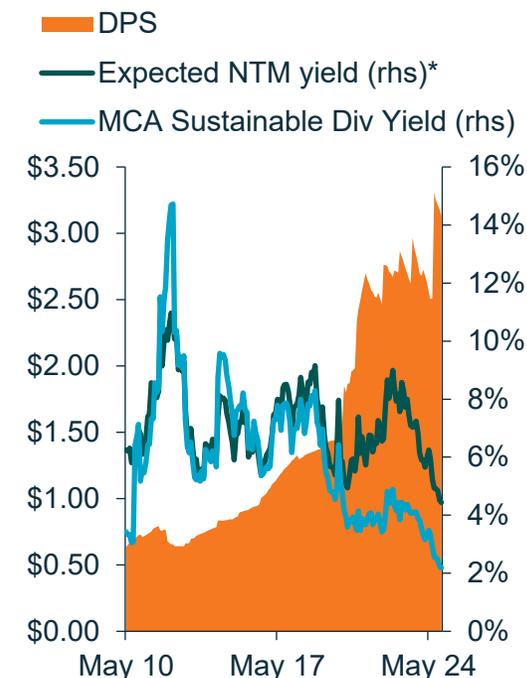
Westpac: recessions



BHP: big cycle



JB Hi-Fi: cycle



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Source: MCA, FactSet; as 31 December 2024.

Sustainable Dividend refers to MCA's proprietary assessment of the ability to maintain dividends through the cycle. **Quality** refers to MCA's proprietary assessment of the level of risk/range of potential outcomes for the normalised earnings that MCA analysts have forecast. Refer to the Fund's Additional Information Booklet for further information. <https://www.franklintempleton.com.au>.

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

*Expected next 12 Months (NTM) data is calculated using the weighted average of broker consensus forecasts of each portfolio holding – because of this, the returns quoted are estimated figures and are therefore not guaranteed and may differ materially from the figures mentioned. The figures may also be affected by inaccurate assumptions or by known or unknown risks and uncertainties. In respect of the broker consensus data the number of brokers included for each individual stock will vary depending on active coverage of that stock by a broker at any point in time. A median of brokers is typically utilised. All estimates avoid stale forecasts which are removed after a certain number of days. Assumes zero percent tax rate and full franking benefits realised in tax return.

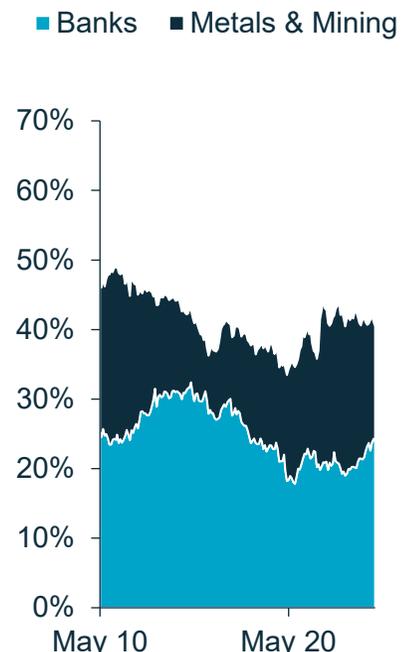


MINIMISING THE INCOME CONCENTRATION RISK OF AUSTRALIAN STOCKS THROUGH DIVERSIFICATION

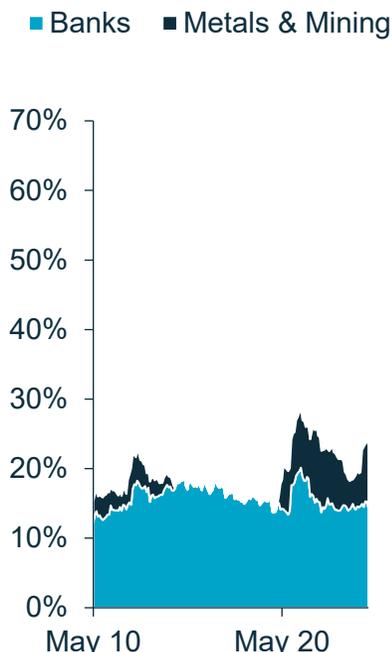
S&P/ASX 200 top 20 stock weight



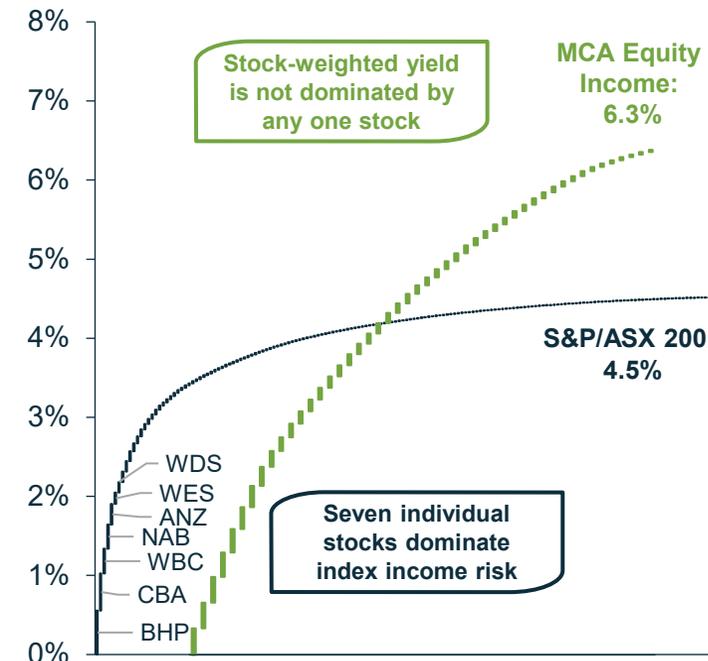
Sector weight concentration S&P/ASX 200



MCA Equity Income



NTM expected franked yield breakdown*



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Source: MCA, FactSet; as 31 December 2024. Data calculated for the representative Martin Currie Australia Equity Income account.

This strategy is not constrained by a benchmark, however for comparison purposes it is shown against the S&P/ASX 200 Accumulation Index

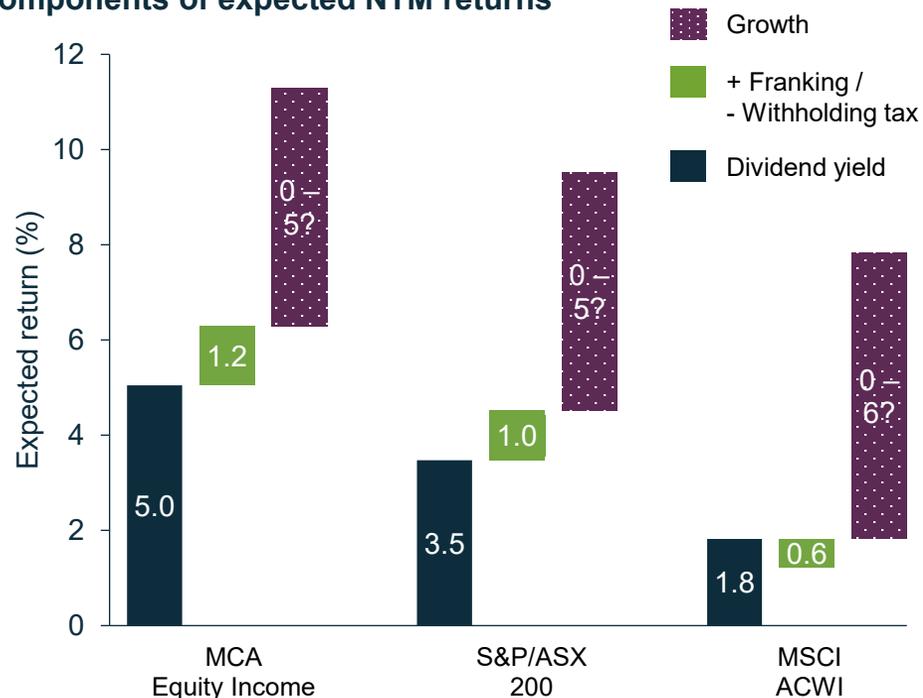
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MAXIMISING FRANKING CREDITS AND AVOIDING CAPITAL IMPAIRMENTS

Components of expected NTM returns*



Some portfolio construction and trading strategies are detrimental to capital, and thus income growth

Derivatives that provide income enhancements or capital protection

Potentially detrimental as the cost is borne by the capital base

High turnover strategies

Turn capital into income by constantly moving to the next dividend-paying stock

Past performance is not a guide to future returns.

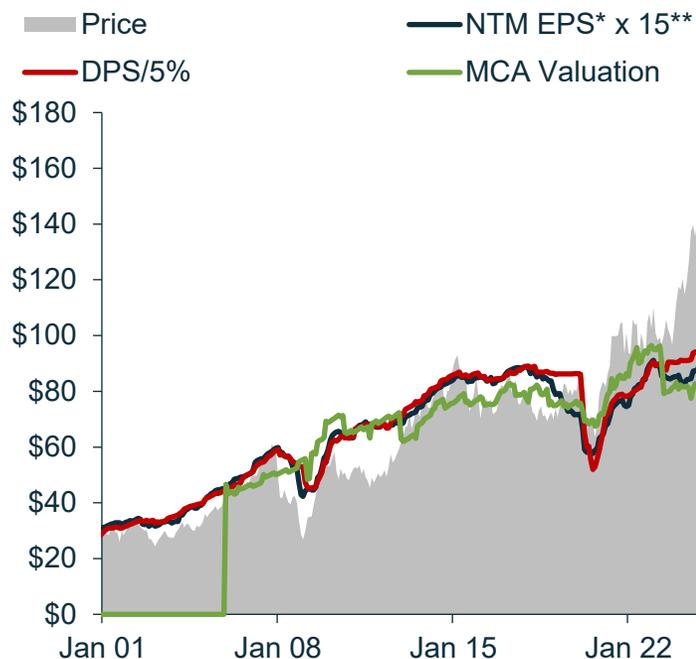
Source: MCA, FactSet; as of 31 December 2024. Data shown for illustrative purposes only. Data calculated for a representative Martin Currie Australia Equity Income account in A\$ gross of management fee; gross performance data is presented without deducting investment advisory fees, broker commissions, or other expenses that reduce the return to investors. This strategy is not constrained by a benchmark, however for comparison purposes the representative account is shown against the S&P/ASX 200 Accumulation Index. Forecast data shown for illustrative purposes only.

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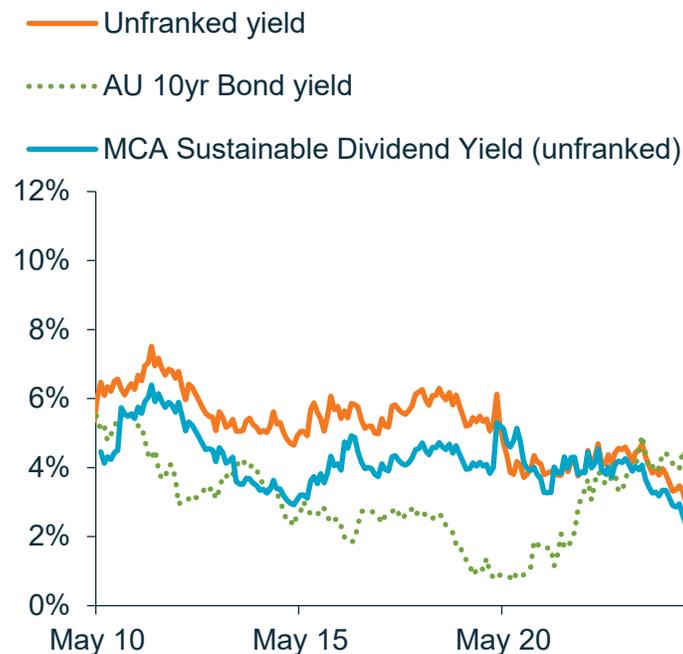


BUBBLES NEVER LAST: WHERE TO FOR COMMONWEALTH BANK OF AUSTRALIA?

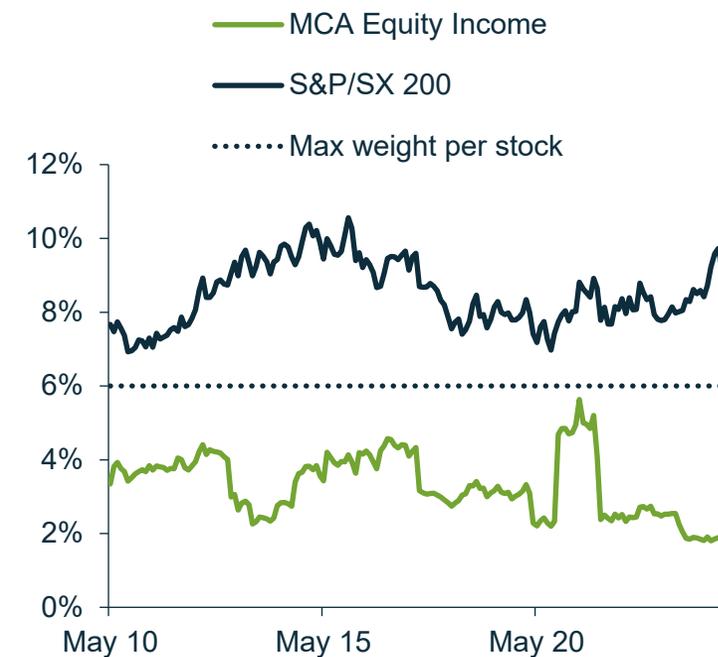
CBA: Price versus its fundamentals



CBA: NTM expected income yield*



CBA: Stock weight



Past performance is not a guide to future returns. The investment vehicles shown may have different risk profiles and a direct comparison may not be appropriate.

Source: MCA, FactSet; as 31 December 2024. Data calculated for the representative Martin Currie Australia Equity Income account. This strategy is not constrained by a benchmark, however for comparison purposes it is shown against the S&P/ASX 200 Accumulation Index. **Sustainable Dividend** refers to MCA's proprietary assessment of the ability to maintain dividends through the cycle.

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**Long-run P/E ratio of the Australian market

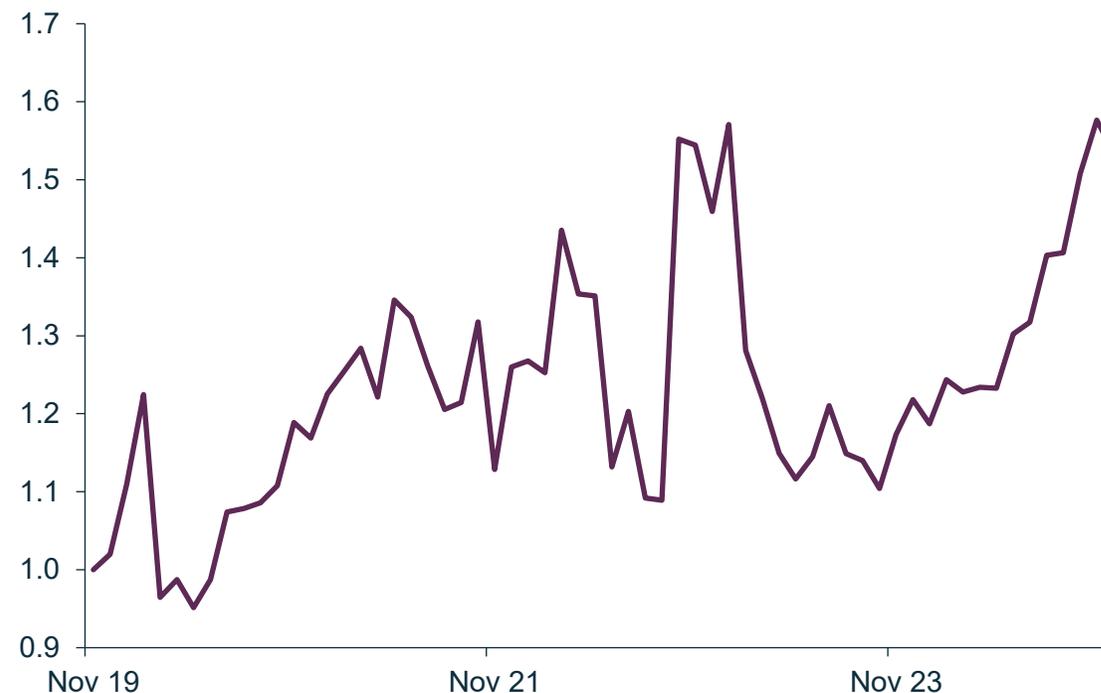


MEDIBANK (OVERWEIGHT) VS. COMMONWEALTH BANK (UNDERWEIGHT)

Fundamentals do not stack up for CBA to continue to outperform

	Medibank (MPL)	Commonwealth Bank (CBA)
PE NTM*: today	17.3x	25.4x
PE NTM*: 10-yr average	19.2x	16.6x
	-10%	53%
EPS Growth: FY24-26	6.4%	4.1%
EPS Growth: Last 10 years (p.a.)	8.0%	0.8%
ROE	24.2%	13.5%
Div Yield	4.7%	3.1%

Total return ratio: CBA / MPL



Past performance is not a guide to future returns.

Source: MCA, FactSet; as of 31 December 2024.

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A SUFFICIENT INCOME FOR LIFE



Not all equities are created equal.
A “sufficient income for life” requires:

- Higher **Quality**
- Stable income delivery through **Sustainable Dividend**
- A focus on franking
- Income growth for inflation protection



Optimised portfolio construction for
income-focused returns

- Benchmark unaware construction
- Low security / sector concentrations
- Active, no derivatives, low turnover

A process that aims to provide

- Higher income yield than index
- Higher franking than index
- Lower income concentration risk
 - A skew away from top 20
 - Lower beta than index

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Source: MCA, as 31 December 2024.

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Polling question

In your opinion, what percentage of the S&P/ASX 200 market cap is likely to be ineligible for a Sustainable Income portfolio?

- 1) **Less than 10%**
- 2) **10-20%**
- 3) **More than 20%**



Negative screening



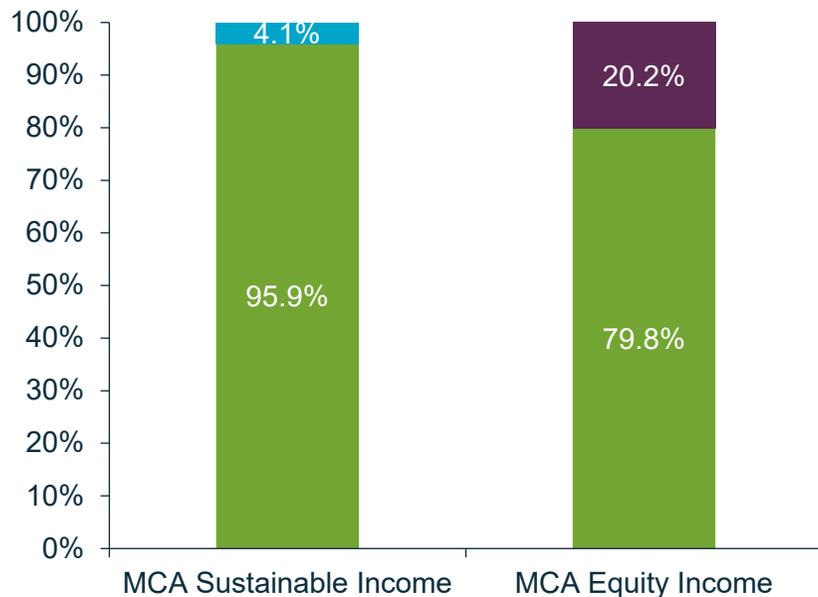
Ethical screening



LIMITED INCOME STOCKS CAPTURED BY NEGATIVE AND ETHICAL SCREENS

Breakdown of portfolio weight

- Replacement stocks
- Screened stocks
- Common stocks to both portfolios



Replacement stocks
Chorus
EBOS Group
GPT Group

Screened stocks held in MCA Equity Income	Screening Reason (revenue)
AGL Energy	Thermal Coal, Oil & gas
Ampol	Oil & Gas
APA Group	Oil & Gas
Aurizon Holdings	Thermal coal
Coles Group	Alcohol, Tobacco
Endeavour Group	Alcohol, Tobacco
Macquarie Group	Oil and gas
Orora	Alcohol
Lottery Corporation	Gambling
Woolworths Group	Tobacco

Past performance is not a guide to future returns.

Source: MCA; as of 31 December 2024. Based on the representative Sustainable Income and Equity Income portfolio for illustrative purposes only. Please note, further listed ASX stocks are excluded but they are not included in our initial investible universe from a sustainable income perspective. Implementation of Ethical screens differ between MC Ethical Values with Income and MC Sustainable Income Funds. See Product Disclosure Statement/Additional Information Booklet for further details relating to how screens are applied. The information provided should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any of the security transactions discussed here were, or will prove to be, profitable.

ESG
integration



Engagement
& action



MEASURING OUR CONTRIBUTION TO A
SUSTAINABLE FUTURE

Environment



Biodiversity



Carbon
Footprint

Social



First Nations
Outcomes



Worker
Safety



Diversity



Modern
Slavery

Governance



Engagement and
partnership



Momentum of
Positive change

ESG integration



Engagement & action



CHALLENGING COMPANIES TOWARD REAL CHANGE, MORE SUSTAINABLE PRACTICES, AND LONG-TERM VALUE



Coca-Cola Amatil

(Sugar)

Prior to the firm being taken private in late 2021, we had engaged extensively regarding the lack of sugar reduction targets in developing markets and to push for a change in regional strategy.

AGL Energy

(Net Zero / governance)

We engaged with AGL and key stakeholders to best position AGL for the future, and an orderly Net Zero transition. Our engagements may have contributed to the withdrawal of the demerger proposal

Amcor

(Net Zero)

Amcor was a ASX100 company with >1m tonnes of CO₂ emissions without a Net Zero commitment. We engaged with the company to encourage them to secure a Science Based net zero commitment.

Alumina

(Governance)

We were concerned with a lack of urgency from a management in redressing the return outlook for shareholders. We engaged the board to look at alternative beyond equity issuance. They accepted our proposition and agreed to engage a Corporate Advisor.

Corporate Travel Management

(Social)

We engaged with management regarding the company's UK government contact for asylum seekers barge accommodation. Despite our concern, the company would not acknowledge the controversy and associated risk. We chose to exit the stock.

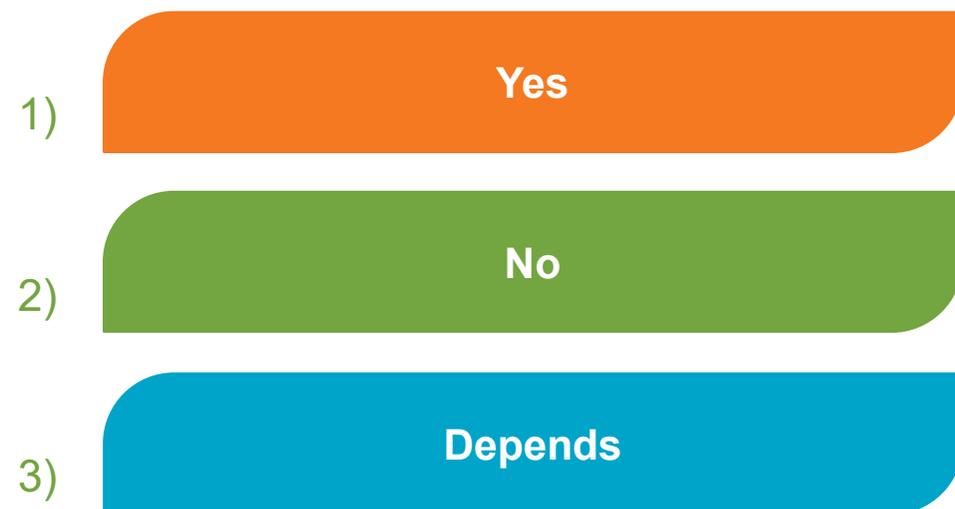
Rio Tinto

(Social)

After multiple disappointing engagements with management and board on the Juukan Gorge incident in 2020, we 'red flagged' the stock and lowered our **Quality** ratings. This led to selling of some positions. We continued to engage on their progress.

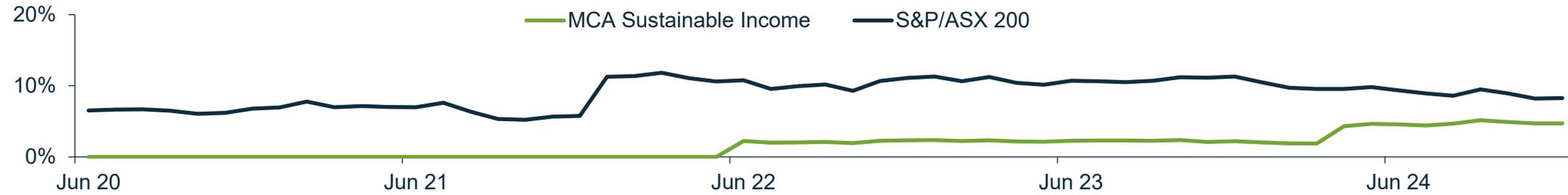
Polling question

In your opinion, would you hold BHP in a Sustainable Income portfolio?



BHP: ACTIVE OWNERSHIP ACTIVITIES AND ONGOING RESEARCH DRIVES PORTFOLIO POSITIONING

Portfolio weight



MCA investment team's Active Ownership activities

Activity Type	Topic 1	Topic 2	Topic 3	Topic 4	Topic 5	Topic 6	Topic 7	Topic 8
Engage on key topic	Cultural heritage	Modern slavery	Diversity and inclusion, SBTi	Biodiversity	Climate reports, SBTi	ESG round table	Electric fleet	SBTi
Proxy voting								
Material rating change	Net benefit rating upgraded to from 4 to 3 to reflect metals of the future	Quality rating downgraded from 2 to 3 to bring risk profile in line with peers	Screened in after sale of Petroleum division	Management rating upgraded from 2 to 1 reflects new team quality				Valuation improved on Copper price upgrade

Source: MCA; as of 31 December 2024. Based on a representative Sustainable Income portfolio for illustrative purposes only. This strategy is not constrained by a benchmark, however for comparison purposes the representative account is shown against the S&P/ASX 200 Accumulation Index. The information provided should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any of the security transactions discussed here were, or will prove to be, profitable.



POSITIVE TILT TOWARDS COMPANIES WITH MORE FAVOURABLE PROPRIETARY **SUSTAINABILITY** RATINGS

Sustainability risk

- Common sustainability risk factors that we believe are faced by a company and its industry.
- Includes consideration of
 - Biodiversity;
 - Modern Slavery; and
 - Other factors.

Net Sustainability Benefit:

- Assessment of a company's overall impact on society.
- Includes consideration of
 - Balance between positive benefits and negative harm;
 - UN Sustainable Development Goals (SDG) mapping; and
 - Other factors.

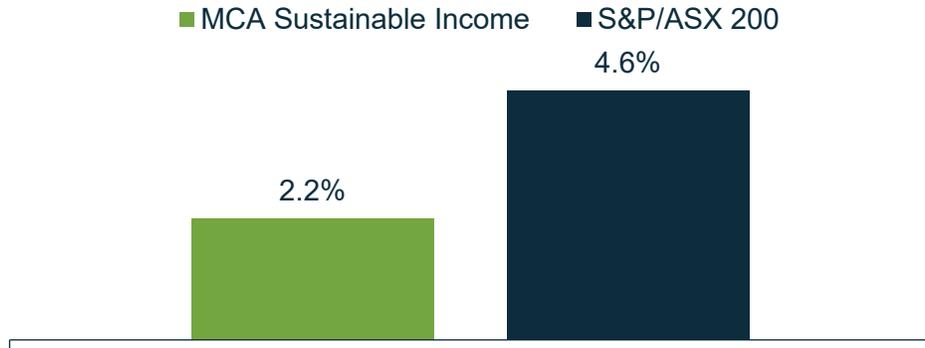
Sustainability Pathway:

- Assessment as to whether material ESG factors are likely to improve for a company.
- Includes consideration of:
 - Gender representation;
 - First Nations outcomes;
 - Momentum of change;
 - Responsiveness to feedback; and
 - Other factors.

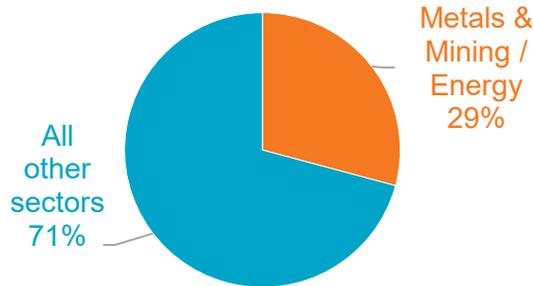
Our **Sustainability** ratings also feed into our overall assessment of company **Quality** and where material, our assessment of normalised earnings, **Sustainable Dividends** and **Valuations** for all our portfolios.



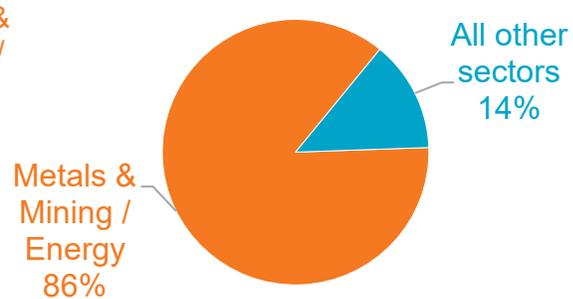
MCA Carbon VaR*



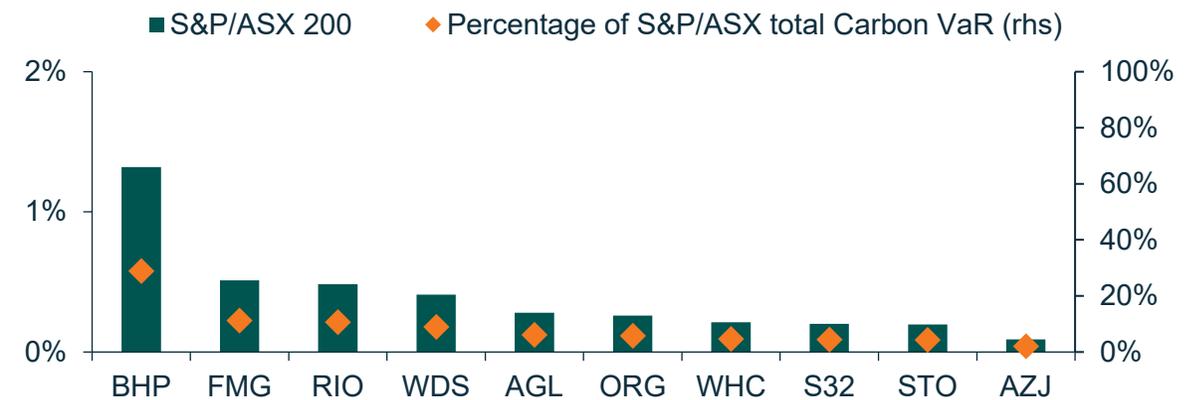
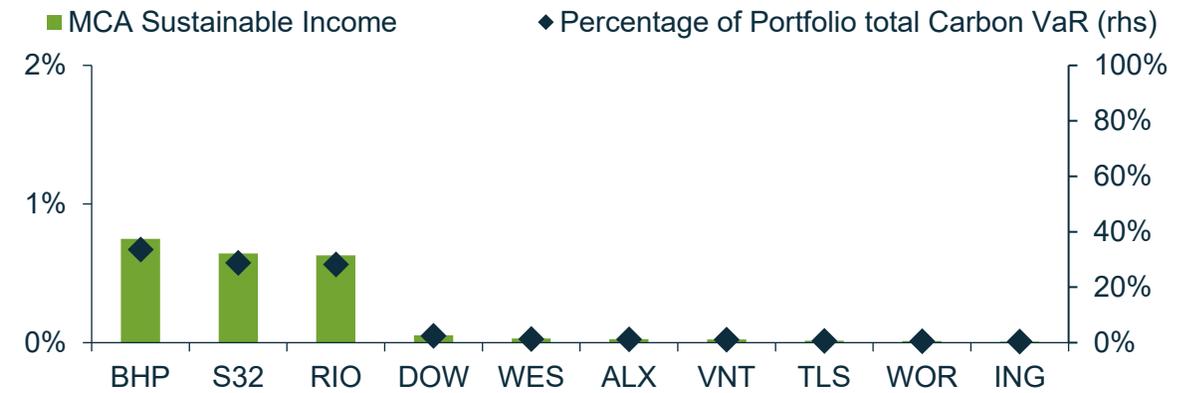
S&P/ASX 200: Sector weight



S&P/ASX 200: Contribution to MCA Carbon VaR*



Highest stock contributors to MCA Carbon VaR*



Source: MCA; as of 31 December 2024. Data calculated for the representative Martin Currie Australia Sustainable Income portfolio. *MCA Carbon VaR is the size of the negative impact of a shadow carbon cost on market cap. The information provided should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any of the security transactions discussed here were, or will prove to be, profitable. See Product Disclosure Statement/Additional Information Booklet for further details relating to how screens are applied.

IMPLEMENTING INCOME AND SUSTAINABILITY OBJECTIVES FOR MCA EQUITY INCOME AND SUSTAINABLE INCOME PORTFOLIOS



MCA Equity Income: Top 10 absolute weights

Stock	Sector	Weight (%)	NTM expected franked yield (% p.a.)*
Medibank Private	Non-bank financials	4.9	6.7
Telstra Group	Communications	4.6	7.0
ANZ Group	Banks	4.4	7.4
BHP Group	Metals & mining	4.3	6.7
Suncorp Group	Non-bank financials	4.2	6.5
APA Group	Utilities	3.7	8.3
National Australia Bank	Banks	3.6	6.6
QBE Insurance Group	Non-bank financials	3.5	4.8
Aurizon Holdings	Industrials	3.5	7.5
Transurban Group	Industrials	2.8	5.0
Portfolio NTM expected franked yield*:			6.3%

MCA Sustainable Income: Top 10 absolute weights

Stock	Sector	Weight (%)	NTM expected franked yield (% p.a.)*
Telstra Group	Communications	5.5	7.0
Medibank Private	Non-bank financials	5.4	6.7
ANZ Group	Banks	5.1	7.4
BHP Group	Metals & mining	4.7	6.7
QBE Insurance Group	Non-bank financials	4.3	4.8
Transurban Group	Industrials	4.1	5.0
Scentre Group	Real estate	4.0	5.4
National Australia Bank	Banks	4.0	6.6
Suncorp Group	Non-bank financials	3.8	6.5
Atlas Arteria Group	Industrials	3.6	8.4
Portfolio NTM expected franked yield*:			6.3%

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Source: MCA, FactSet; as of 31 December 2024. Data calculated for the representative Martin Currie Australia Equity Income and Sustainable Income account.

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COMBINING FINANCIAL OBJECTIVES & ESG GOALS ACROSS MCA INCOME FUNDS

Approach	Traditional	Responsible investment approaches reflect targeted outcomes				
	Financial returns 	Negative screening 	Ethical screening 	ESG integration 	Engagement & action 	Positive screening 
MCA's approach	<p>Experienced investment team</p> <p>Unique multi-lensed proprietary research</p> <p>Bottom-up methodologies to maximise a 'sufficient income for life'</p>	<p>Exclusion of companies involved in unsustainable activities such as companies directly involved in:</p> <ul style="list-style-type: none"> the production of controversial weapons the manufacture of tobacco products MCA's assessment of Modern Slavery 	<p>Revenue screens based on client-specific ethical values such as:</p> <ul style="list-style-type: none"> Adult entertainment Alcohol Gambling GMO Fur Nuclear power Tobacco Thermal coal Oil & gas 	<p>MCA's proprietary Sustainability inputs and assessments embedded directly into investment process</p>	<p>Active Ownership undertaken directly by those making the investment decisions</p>	<p>Investing in companies assessed by MCA to have more favourable assessments for "Sustainability Risk", "Net Benefits" and "Sustainability Pathway" and Shadow Carbon Cost</p>
MC Equity Income / Real Income Fund	✓	✓		✓	✓	
MC Ethical Values with Income Fund	✓	✓	✓*	✓	✓	
MC Sustainable Income Fund	✓	✓	✓*	✓	✓	✓

Past performance is not a guide to future returns.

Source: MCA; as of 31 December 2024. See Product Disclosure Statement and associated reference documents for further clarification on our proprietary sustainable investment approach and exclusions.

*Implementation of Ethical screens differ between MC Ethical Values with Income and MC Sustainable Income Funds. See Product Disclosure Statement/Additional Information Booklet for further details relating to how screens are applied.

LEARNING OUTCOMES: THE SEARCH FOR **SUSTAINABLY SUSTAINABLE** DIVIDENDS

With large-scale wealth transfer to Gen X and Millennials heirs on the horizon, it is becoming increasingly important to consider Sustainability when assessing the structure of a retiree's income generating portfolio

Research and portfolio construction methods can be used to uncover sustainable (persistent) dividend growers while emphasising client-driven values and sustainability themes

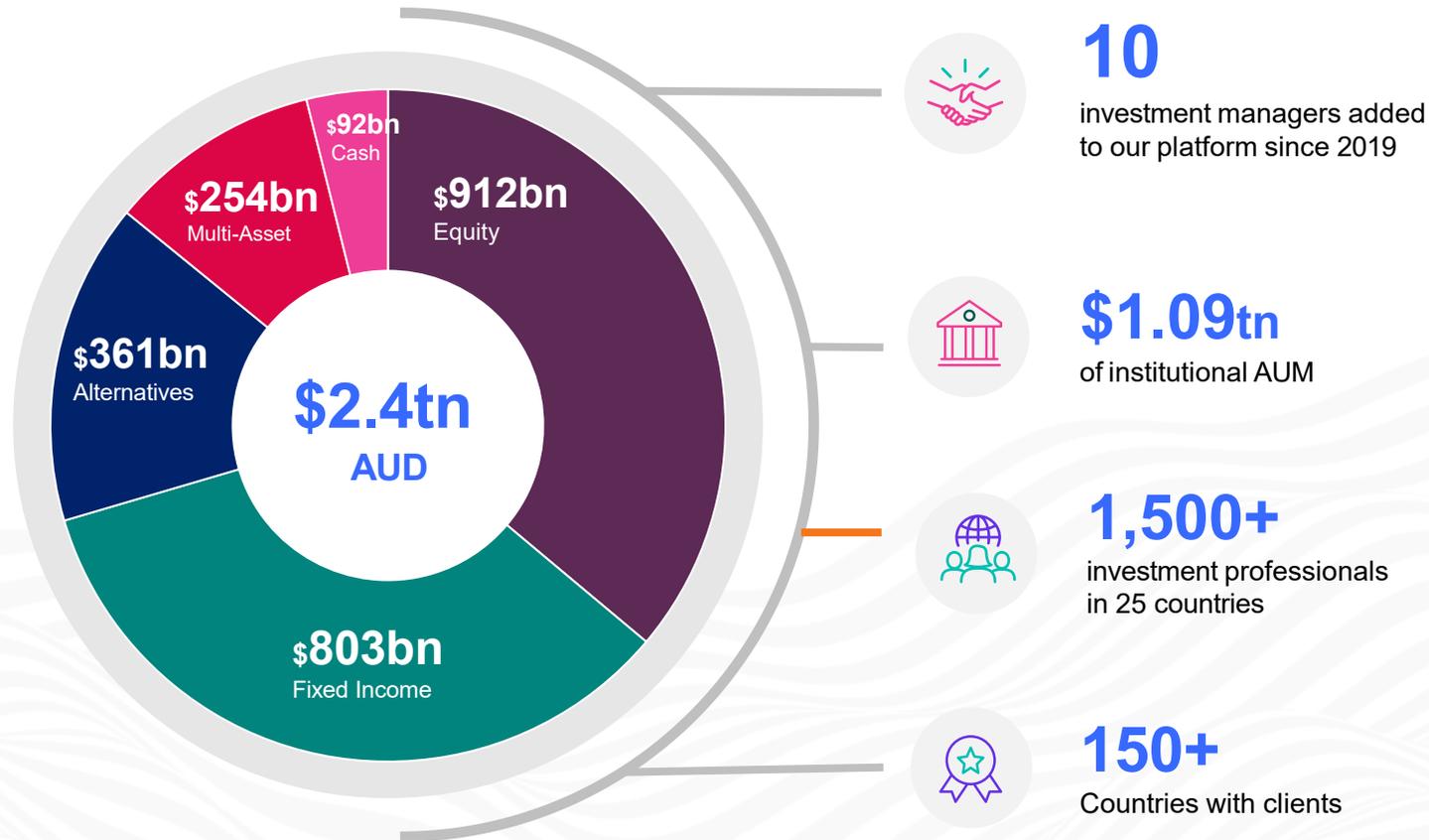
- **Ensuring income objectives paramount**
 - Not all equities are created equal for a 'sufficient income for life'
 - Benchmark-unaware construction can be more critical for income portfolios to diversify risk
 - Focus needs to be on stocks with high quality, stable income delivery, franking and Income growth, while avoiding concentration risk and actions that are detrimental to capital, and thus income growth
- **Applying a complementary responsible investment approach**
 - Given existing focus on high quality stocks, it is possible to implement negative and positive screens and meet income objectives
 - Active ownership integral to challenge companies toward real change and long-term value

Q&A



Extensive range of specialised capabilities

\$2.4 trillion in assets under management¹

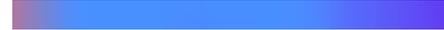


1. All data is in AUD as of 30 September 2024 unless otherwise noted.

Gateway to investment specialists

Our Investment Capabilities

Equity  **\$912bn** **Fixed Income**  **\$803bn**



Emerging / Frontier
Global
Preferred / Convertibles
Sector
Shariah
Single Country Equity
Thematic
US Equity

Loans
Credit
Emerging Markets
Government
Green / Social Bonds
Multi-Sector
Securitised
Sukuk

Alternatives  **\$361bn** **Multi-Asset**  **\$254bn**



Alternative Credit
Digital Assets
Hedged Strategies
Private Equity
Real Estate
Secondaries
Venture Capital

Balanced
Income
Managed Volatility
Model Portfolios
Target Date
Target Risk
Target Volatility

Complemented by innovations in

Sustainable and Impact investing, Smart Beta, Custom Indexing, Frontier Risk Alternatives, and others

Our Investment Managers Asset Classes

Investment Manager	Asset Classes
Franklin Templeton (1947)	   
Alcentra (2002)	
Benefit Street Partners (2008)	
Brandywine Global (1986)	 
Clarion Partners (1982)	
ClearBridge Investments (2005)	
K2 Advisors (1994)	
Lexington Partners (1994)	
Martin Currie (1881)	 
Putnam Investments (1937)	
Royce Investment Partners (1972)	
Western Asset (1971)	

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