



# Optimising portfolios for retirees

## IMAP Portfolio Management Conference

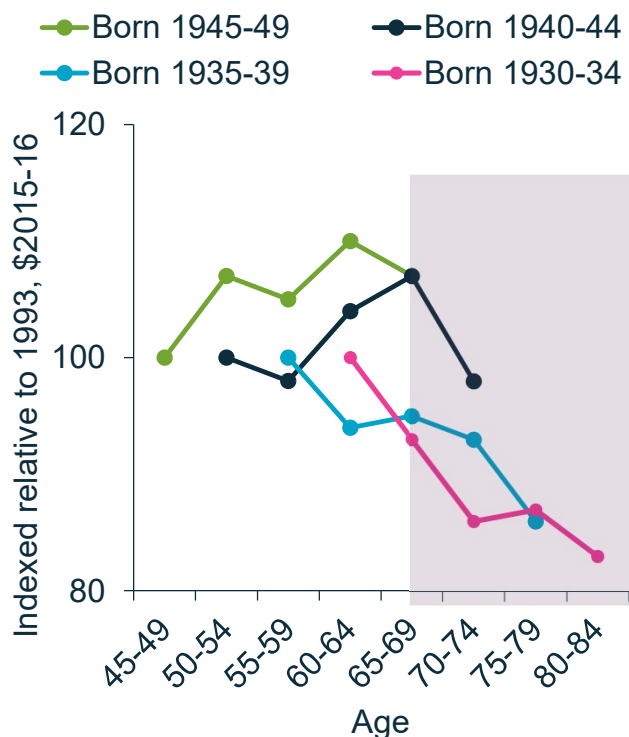
March 2024

Presented by:

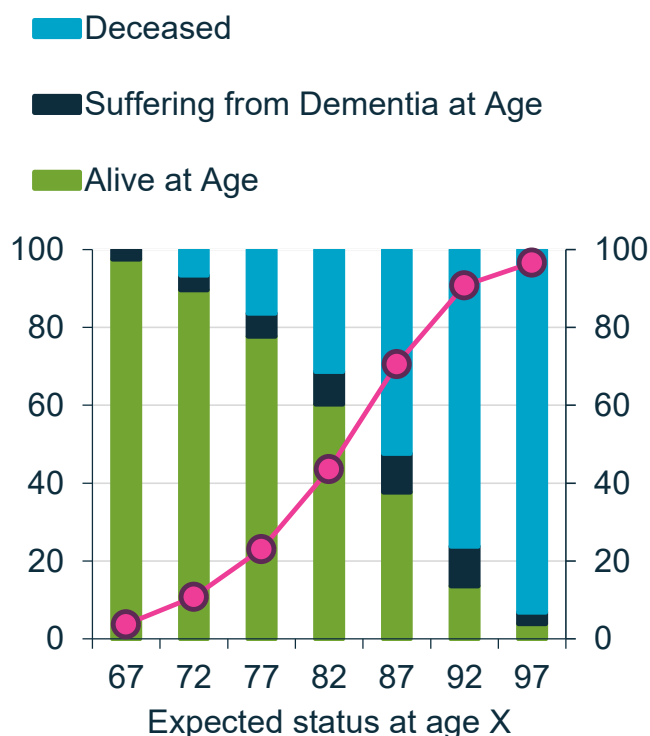
**Reece Birtles**  
Chief Investment Officer  
Martin Currie Australia

# RETIREMENT PHASES PRESENT DIFFERENT CHALLENGES

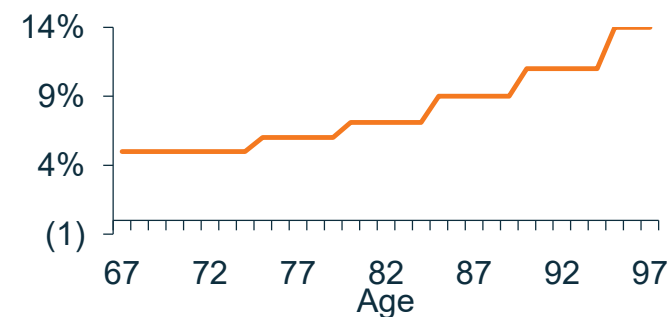
## Retirees spend less as they age



## Most retirees active to 82



## Min drawdown step-ups, contrary to spending



Phase 1: "Active"	Phase 2: "Pivot"	Phase 3: "Frail"
<ul style="list-style-type: none"> <li>Sustain lifestyle / flexibility.</li> <li>Meet minimum drawdown rates.</li> <li>Grow income &amp; capital with inflation.</li> </ul>	<ul style="list-style-type: none"> <li>Adjust for Phase 3.</li> <li>Fund RAD.</li> </ul>	<ul style="list-style-type: none"> <li>Insure for longevity / care needs.</li> <li>Optimise guaranteed income.</li> <li>Reduce admin burden.</li> </ul>

Source: Martin Currie Australia, Grattan Institute, Financial Services Council; latest available as of 31 December 2023. Charts based on Grattan Institute: April 2023 *"Super savings: Practical policies for fairer superannuation and a stronger budget"*, Financial Services Council: April 2023 *"A Roadmap for Australian Retirement Income Policy"*, Grattan Institute: November 2018 *"Money in Retirement – More Than Enough"*. Australian Bureau of Statistics (2019-2021), Life tables, ABS Website, Table 1.9 – Number of males surviving to exact age x; accessed 25 August 2023. Australian Institute of Health and Welfare, Dementia in Australia, AIHW Website, Web Report updated 23 February 2023; accessed 25 August 2023. Australian Institute of Health and Welfare, GEN Aged Care Data: Admissions into aged care, AIHW Website, accessed 25 August 2023.

# A SUFFICIENT INCOME FOR LIFE

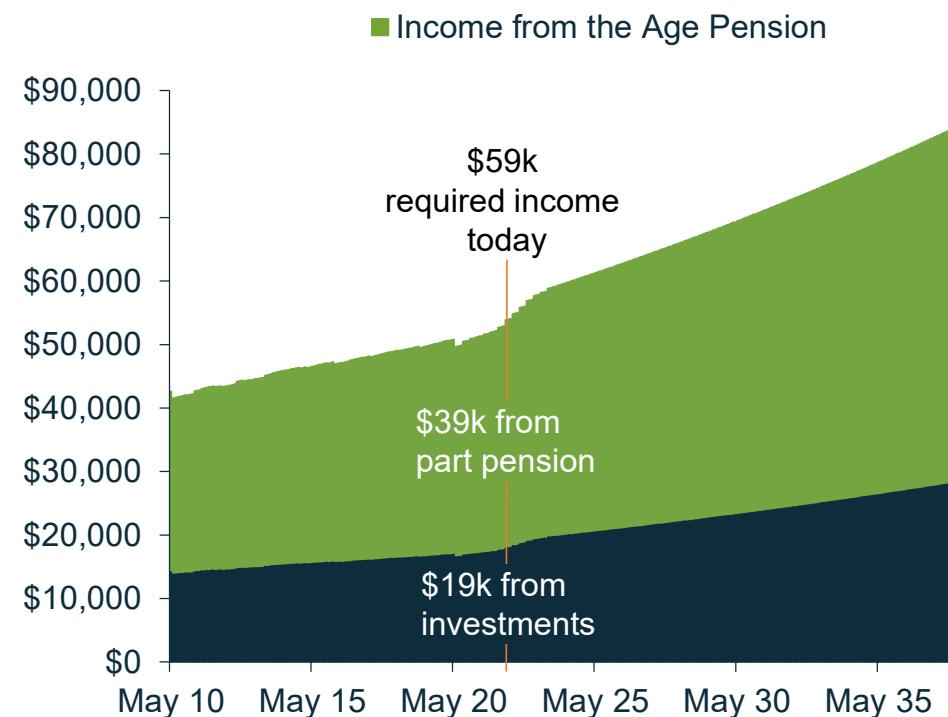
## The problem –

- Retirees are reluctant to spend during the initial active years of retirement

## The reason

- Low yield/low growth or so-called “low risk” asset allocations
- Traditional accum. phase products based on parameters of total risk / total return
- No focus on income growth or inflation

## Sources of required annual income for “active” years of retirement



Past performance is not a guide to future returns.

Source: Martin Currie Australia, FactSet, ASFA, ATO, DHS; as of 31 December 2023.

Assuming income required on 31 December 2023 is based on mid-point between ASFA's retirement standard for a modest and comfortable retirement for a couple as of September quarter 2023.

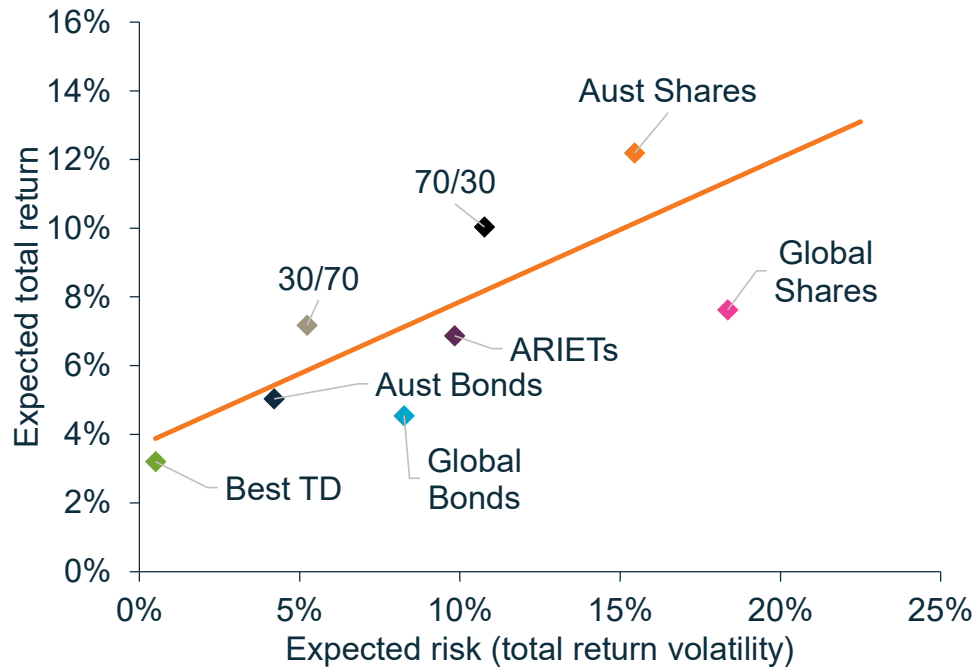
Age pension eligibility is based on asset and income tests for homeowner couple with \$500k in assets.

Using a 2.5% p.a. long term forward inflation assumption. Data prior to December 2023 deflated by actual CPI.

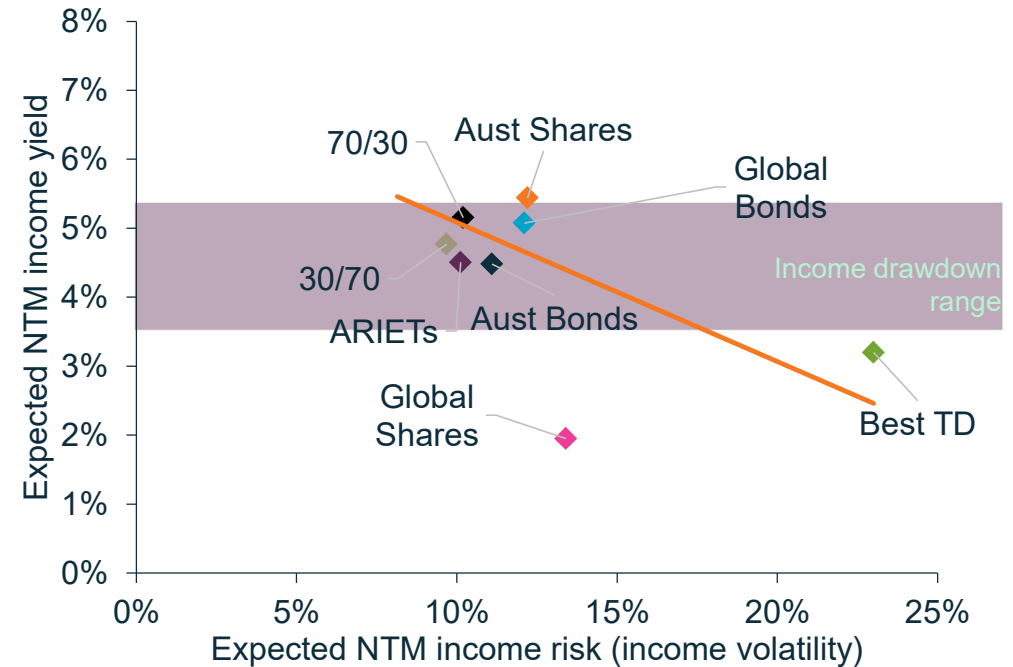
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# INCOME VOLATILITY = RISK OF IMPAIRMENT

## Accumulation focus on total returns: Return vs. Return risk



## Retirement focus on income returns: Income vs. Income risk



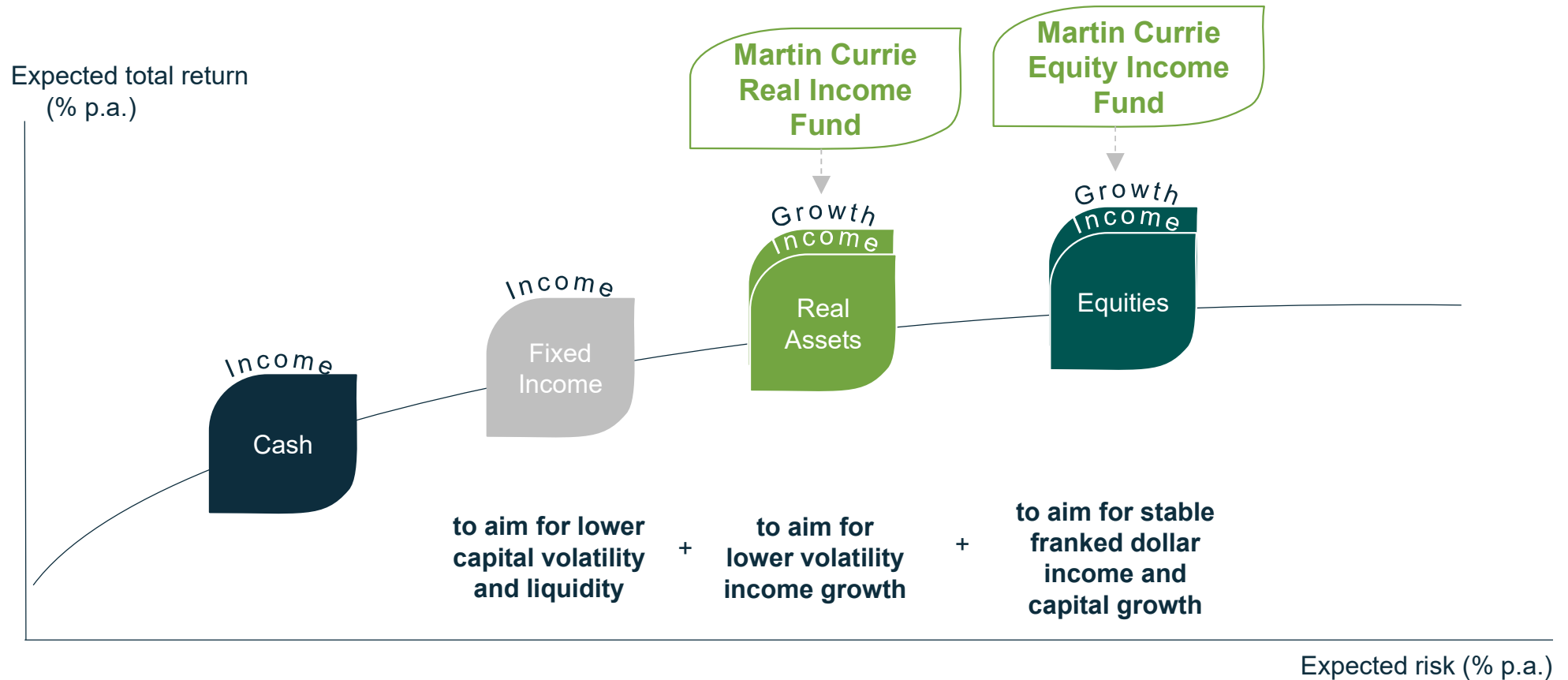
Past performance is not a guide to future returns. The investment vehicles shown may have different risk profiles and a direct comparison may not be appropriate.

Source: Martin Currie Australia, FactSet; as of 31 December 2023.

Expected next 12 Months (NTM) Income 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.

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# BUILDING BLOCKS FOR “ACTIVE” RETIREMENT



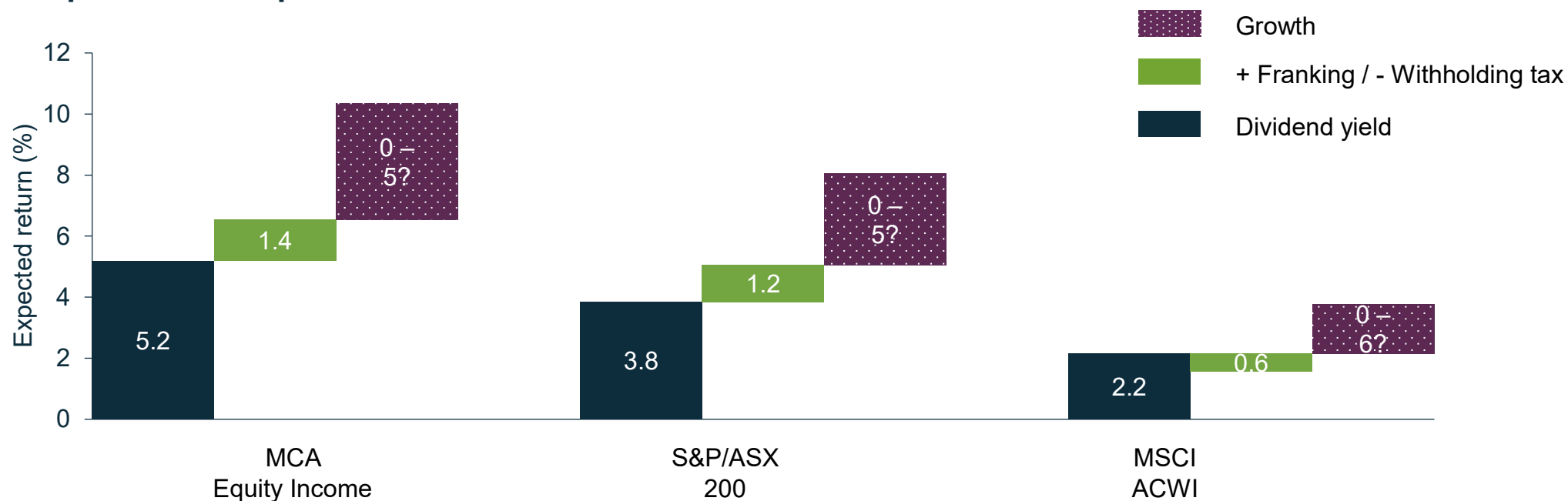
Past performance is not a guide to future returns. The investment vehicles shown may have different risk profiles and a direct comparison may not be appropriate.

Source: Martin Currie Australia; for illustrative purposes only. See Fund disclaimers at end.

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# A FRANKED 'LUNCH'

## Components of expected NTM returns\*



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Source: Martin Currie Australia, FactSet; as of 31 December 2023. Data shown for illustrative purposes only.

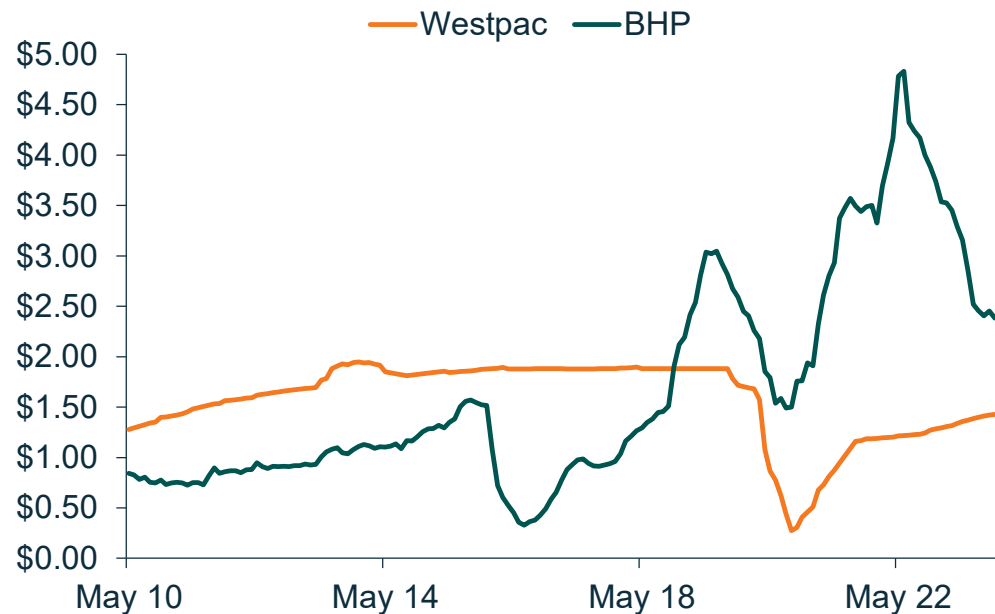
Data calculated for a representative Martin Currie Australia Equity Income account in A\$ gross of management fee; gross performance data is presented without deducting investment advisory fees, broker commissions, or other expenses that reduce the return to investors. This strategy is not constrained 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.

\* Expected next 12 Months (NTM) Income 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.

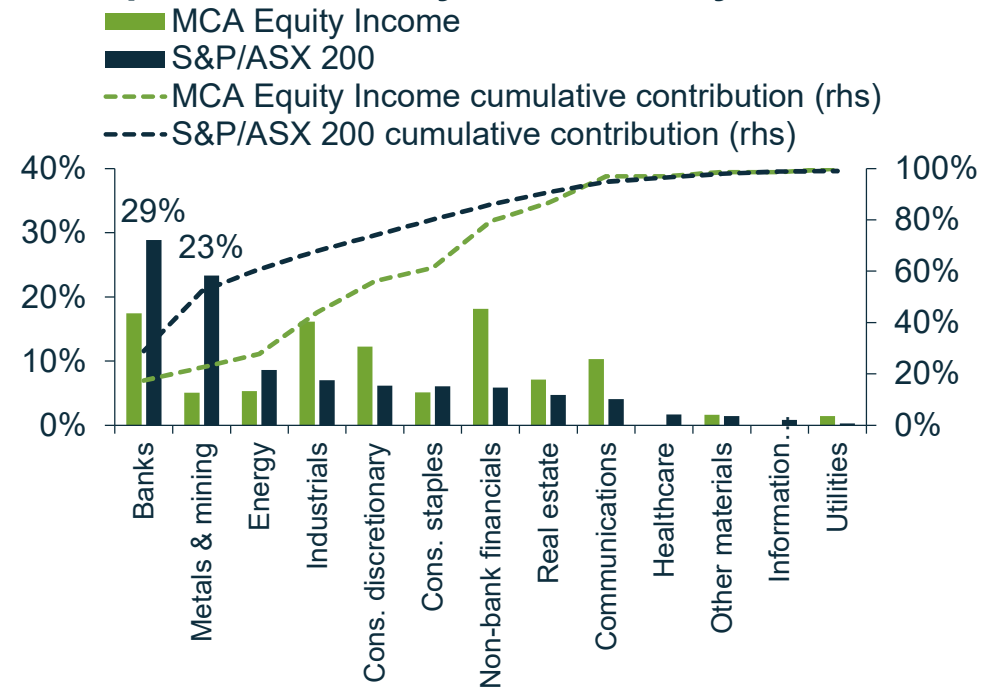
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# AVOIDING THE ASX'S STRUCTURAL ISSUES

## DPS shocks for key income stocks



## NTM expected franked yield\* contr. by sector



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Source: Martin Currie Australia FactSet; as 31 December 2023. 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. 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.

\*The Expected next 12 Months (NTM) Income 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.

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# THE LONG-TERM APPEAL OF LISTED REAL ASSETS

Returns driven by secular megatrends:

- population growth
- energy transition
- technology / data



Essential building blocks of society with low economic sensitivity



High-quality assets with pricing power = inflation protection



Consistent dividend payers = reliable income



Multi sector blend offers broad and diverse opportunity set



Transparency of listed pricing and liquidity



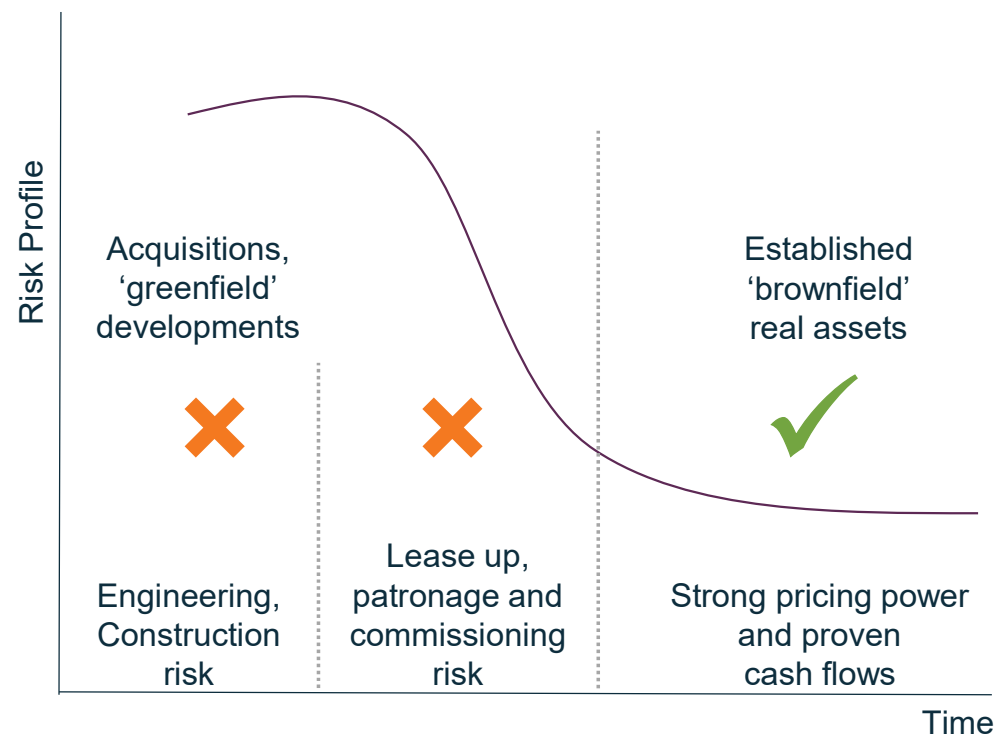
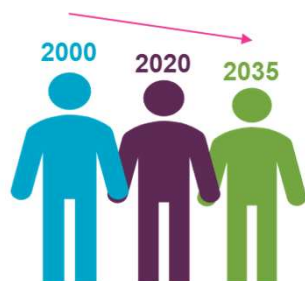


# IDENTIFYING THE BEST REAL ASSETS



## What we avoid = risk

- Low urban population growth countries, regions and cities
- Property developers & 'Greenfield'
- Commodities, Gold or Resources
- Unlisted investments
- Inflation linked bonds
- Timberlands & Agriculture



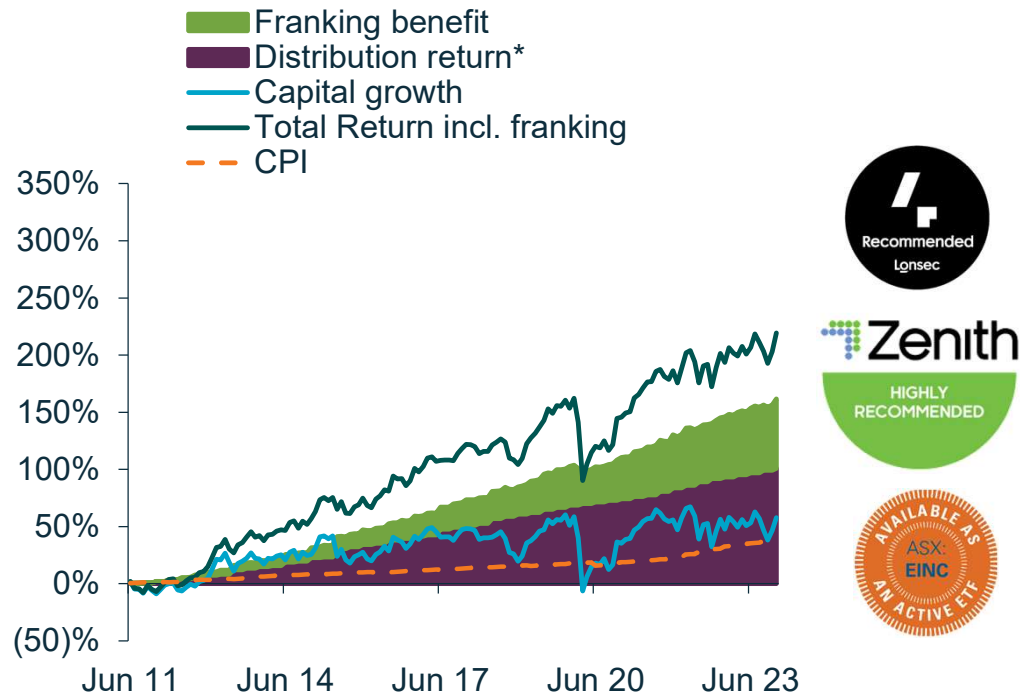
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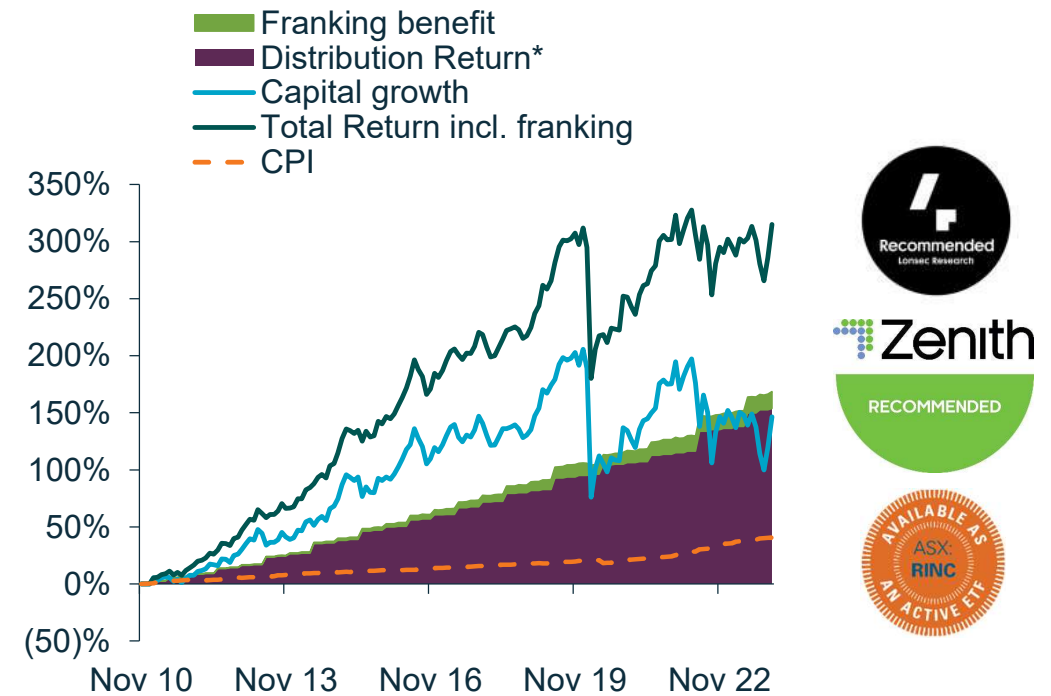
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# GROWTH OF INCOME & CAPITAL, WITH INFLATION

## Cumulative franked returns since inception: Martin Currie Equity Income Fund



## Cumulative franked returns since inception: Martin Currie Real Income Fund



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Source: Martin Currie Australia, Franklin Templeton; as of 31 December 2023. Data calculated for the Martin Currie Australia Equity Income Fund and Real Income Fund in A\$. See Fund and ratings disclaimers at end. Periods over a year are annualised. Inception Date: Equity Income Fund - June 2011; Real Income Fund - December 2010. Performance figures are net of fees and expenses. Franking is based on the Fund Distributions and assumes a zero percent tax rate and that franking benefits accrued monthly into the return and are realised in tax return at financial year end. It is not to be interpreted as the offset achieved by unit holders during this period. For both the Fund and the Index, Distribution Return equals Total Return less Capital Growth across all time periods. Total returns assume the reinvestment of all distributions. Cash Distributions are paid net of fees. \*Fund Distribution Returns reflect cash dividends, and also includes any realised capital gains and returns of capital.

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# A “SUFFICIENT INCOME FOR LIFE”



## A “sufficient income for life”

- An **income stream** to support annual expenses
- **Income growth** for inflation protection
- **Capital growth** to manage longevity risk
- **Diversified growth exposures** (across a full asset allocation) to reduce income sequencing risk



## Not all equities are created equal

- Dividends that can be sustained
- Protection against inflation
- High Quality
- Franking credits



## Portfolio construction for consistent income

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

Past performance is not a guide to future returns.

Source: Martin Currie Australia

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