STRATEGY GUIDE

Martin Currie Australia
Green Value

MARTIN CURRIE
A Franklin Templeton Company

JULY 2024 **For institutional, professional and wholesale investors only**

REDUCING CARBON EXPOSURE WITHIN VALUE

The Martin Currie Australia (MCA) Green Value strategy aims to provide for investors who are seeking the long-term capital growth potential of the Value style but with a reduced carbon exposure.

The strategy aims to create long-term value for investors through:

High conviction, sustainable portfolio – An active portfolio of 'best ideas' ASX-listed securities with **Green Valuation** potential, while balancing risks through our focus on **Quality** & **Direction**

Proven investment process – Proprietary multi-lensed investment approach provides broad perspective of expected risk and return

Proprietary carbon cost impact assessment – Quantifying carbon transition risk and opportunity

Fundamental active ownership – Purposeful engagement with companies and client advocacy through proxy voting

Experienced stock pickers with long term track record – Deep industry experience generating 'active insights'

Read more about how the MCA Green Value strategy seeks to exploit the market's behavioural biases and temporary mispricing and divergence from fair value with a reduced carbon exposure.

Overview

Australian Value style strategies often rate poorly on carbon and environmental credentials due to sector biases and industry skew of the S&P/ASX 200. As a result, Value style strategies typically have higher carbon exposure than Quality/Growth style strategies.

The MCA Green Value strategy is designed for investors who are seeking to maintain the long-term capital growth potential of the Value style but with a reduced carbon exposure.

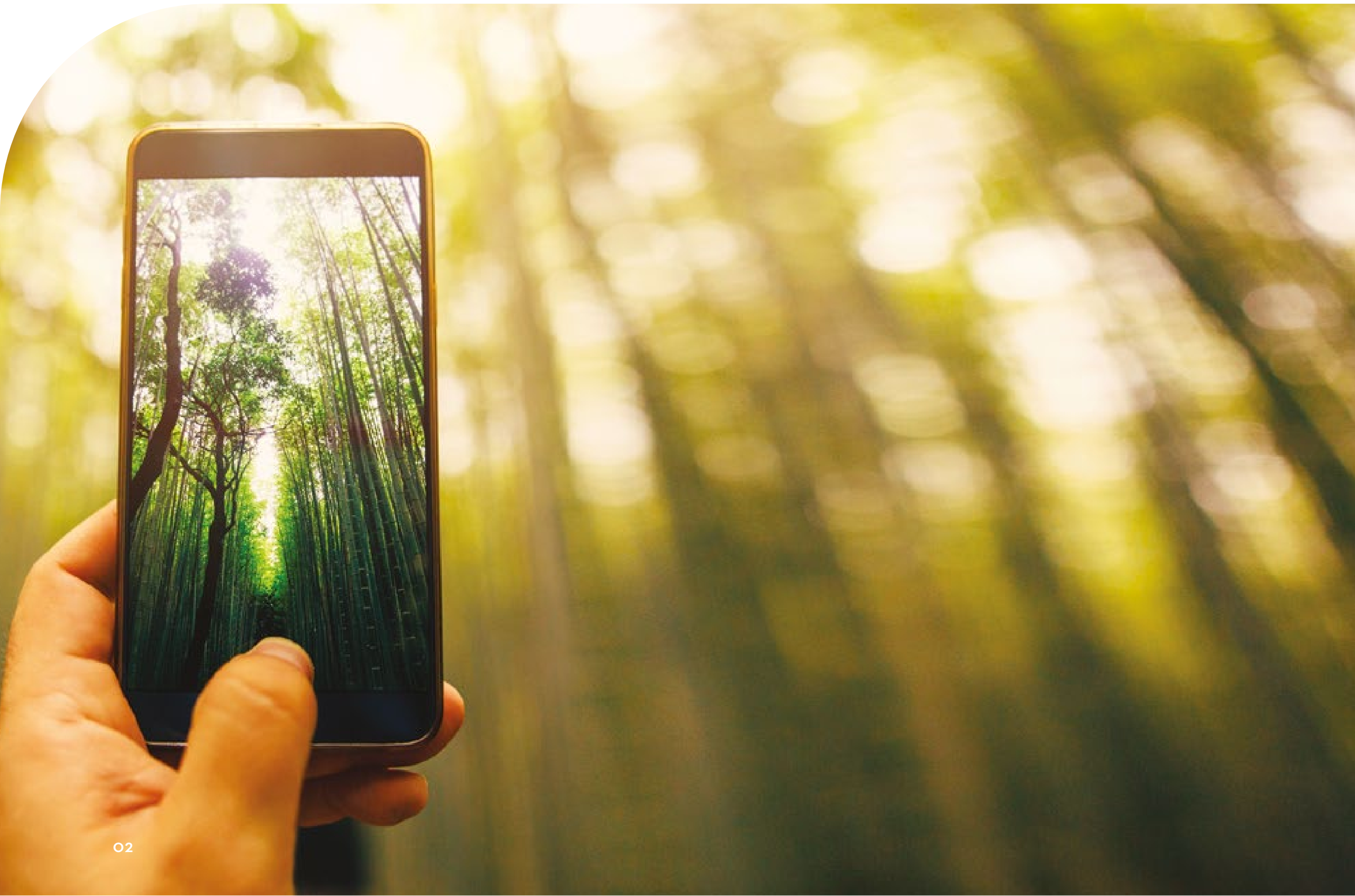
To do this, the strategy provides investors with a diversified and contrarian exposure to our highest conviction Australian equity ideas with strong Green Valuation potential, while balancing risks through our focus on **Quality** and Direction.

Our experienced investment team is solely focused on identifying the best investment opportunities using a disciplined and repeatable investment approach based on proprietary research into Valuation, **Quality**, Direction and Sustainable Dividends. Stewardship is a critical element of our investment philosophy, and our Active Ownership approach, which includes ESG integration, engagement and voting, has been embedded directly into our investment process since 2009.

We use our proprietary Carbon Value at Risk (VaR) tool within our Green Valuation process to clearly distinguish between Value stocks that are attractive, even after incorporating a carbon externality cost, and those that are unlikely to survive in a low carbon future. The Carbon VaR tool also helps identify Value-style stocks that will either benefit or have a minimal impact on earnings from the transition.

Based on this insight, we are able to favour the most attractively valued companies with lower carbon emissions while providing a true value exposure commensurate with our flagship Value Equity strategy.

We believe that there are few peer strategies available in the market that address the Value style alongside carbon reduction in this way, while providing higher returns than the S&P/ASX 200 Accumulation index over the longer term.



Proprietary multi-lensed investment process

The MCA Green Value investment process starts with bottom-up fundamental research by our specialised industry analysts. The importance we place on proprietary research into long-term normalised earnings power, cashflow sustainability, business quality and risk, is reflected in the size, quality and experience of our investment team.

Our analysts' independent insights are captured in a consistent manner via MCA's proprietary research lenses. This creates a common language for expressing our views on the risks and opportunities across the investment universe.

Valuation

Fundamental insights into normalised earnings and risk to determine fair value

Direction

Fundamental insights into the direction of earnings changes

Quantitative assessment of short- and long-term factors such as:

- Price momentum
- Earnings revisions
- Accruals

Quality

Fundamental insights into:

- Business strength
- Management and governance quality
- Sustainability (including considerations of modern slavery and human rights risks, contribution to the UN Sustainable Development Goals and other relevant factors.)

Quantitative risk rating based on:

- MCA Analyst **Quality**
- Leverage
- Predicted beta
- Profitability

Sustainable Dividend

Fundamental estimate of a company's ability to maintain payments to shareholders through different stages of the cash flow cycle

Our analysts and portfolio managers are also supported by the MCA research platform through access to:

- a deep 'Active Ownership toolkit', that includes ESG-specific tools that the team uses to uncover material ESG risks and opportunities within their bottom-up fundamental research;
- big picture analysis to identify changing economic and market conditions that drive factor performance;
- a peer review process that builds collaboration and consistency;
- investment process R&D into new or refined alpha and risk signals; and
- proprietary real-time cloud based analytics.

Consideration of ESG factors in the investment process

ESG research is integrated deeply into MCA's multi-lensed research process and portfolio construction.

Our experience has demonstrated to us that ESG analysis, engagement and voting should be done by those making investment decisions rather than being outsourced as they are best positioned to develop an informed view of the ESG risks, opportunities and impacts that companies face or create. Therefore, this responsibility lies directly with our experienced team of research analysts and portfolio managers.

Drawing from our extensive experience, we've come to understand that engagement is an ongoing, iterative process that demands both patience and a persistent effort yielding results that unfold over time. Our investment team's long-term experience with management engagements bolsters our ability to effectively affect company level changes. We have cultivated strong relationships and established open dialogues giving us the opportunity to express any areas of concern and encourage greater transparency on their management of these risks.

By incorporating material and relevant ESG factors that we have uncovered through our bottom-up fundamental research, engagement and proxy voting activities into the **Quality** and **Valuation** lenses, the investment process specifically reflects how ESG factors can increase or reduce the risk of companies delivering the normalised earnings that our analysts forecast.

- Where material to a company's ability to generate long-term returns, we factor the cost/benefits of ESG inaction or action directly into our **Valuation**.
- The materiality of ESG risk factors is reflected in our Management, Governance and Sustainability ratings, which feed into our overall assessment of **Quality**. **Quality** is also used as a component in the stock-specific discount rates used in our **Valuation** model. As a result, the combination of **Quality** and **Valuation** adjustments can tilt our assessment of fair value on these stocks, and ESG factors can directly impact the size of an individual security position in a portfolio, or our decision to invest in, or divest from these stocks.

For further information on our embedded ESG process, please refer to our Active Ownership brochure on our ***website***.

Capturing the impact of carbon

We have also developed a proprietary **Carbon Value at Risk (VaR) tool** to assess the sensitivity of each stock and the portfolio to climate transition risk.

Our tool looks at how a company's valuation could be impacted by applying a **Shadow Carbon Cost**, and this helps us to identify stocks that will either benefit or have a minimal impact on their earnings from the energy transition.

We base our assessments on a carbon cost assumption of A$80. The rationale is that this price is where there would be an economic incentive for energy companies to switch from coal to gas, and it is also similar to the European carbon price (i.e., the most liquid market).

Importantly, our analysis takes Scope 1, 2 and 3 carbon emissions into consideration. Scope 1 and 2 emissions can be mitigated by investment in new technologies to replace and reduce existing assets that contain high carbon emissions, but it is Scope 3 emissions which capture downstream value-chain activities, which we believe better reflect a company's strategic risk with regards to carbon. Our model supports the purchase of carbon offsets to reduce the net emissions when no viable alternatives exist.

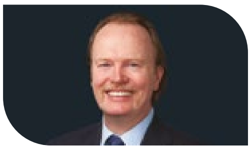
Based on our overall Carbon VaR assessment, we then capitalise the future value of these shadow carbon costs into the normalised earnings forecasts in our **Valuation** model. This adjusted valuation is what we call a **Green Valuation**, and for the MCA Green Value strategy we use the **Green Valuation** rating in our portfolio construction. This enables us to build portfolios that have lower carbon, but don't forfeit their underlying Value style characteristics.

Shadow carbon cost assessment

- **Based on Scope 1, 2 and 3 carbon emissions**
- **Carbon cost of A$80/t CO_2-e**
- **Evaluation of transition path towards a low carbon world**
- **Ability of a company to pass carbon costs through to customers**

The MCA investment team

The MCA Green Value strategy is managed by Reece Birtles, Chief Investment Officer & Portfolio Manager, and Michael Slack, Portfolio Manager & Head of Research. Reece Birtles has ultimate management responsibility for the Green Value strategy.



Reece Birtles
Chief Investment Officer
& Portfolio Manager

Michael Slack
Portfolio Manager
& Head of Research

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

Deep industry expertise generating best ideas

- MCA team of 17 led by Chief Investment Officer Reece Birtles
- Average tenure of 14 years, average industry experience of 22 years - across a variety of industry backgrounds[1]
- Additional insights from broader Martin Currie global investment floor

A learning culture and growth mindset

- Investment expertise and rigour gained through peer review
- Key focus on continuous development and improvement
- Team culture, built on coaching and mentoring

Highest standard of professional conduct

- Living the values of investing to improve lives through the responsible management of our own business

Passion for investment excellence and focus on risk management

- Consistent investment philosophy and process applied to an extensive range of investment products
- Tailored investment options aligned to client needs
- Sophisticated, interactive risk analysis
- Robust risk culture

[1]As of 31 December 2023.

Key facts

Launch date	13 November 2019
Performance objective	The strategy aims to earn an after fee return in excess of the benchmark over rolling five-year periods
Benchmark	S&P/ASX 200 Accumulation index
Investable universe	Australian listed securities/all-cap
Number of securities	Typically 33
Security limits	Benchmark +/-7%
Sector limits	Benchmark +/-12%
Portfolio turnover	Typically 25% p.a.
Tracking error	We do not target a specific tracking error level
How to access	Segregated mandate

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

Industry recognition

Signatory of:

PRI Principles for Responsible Investment

Since 2009

Latest PRI Rating[1]

★★★★★ Policy governance and strategy

★★★★★ Direct – Listed equity – Active fundamental

★★★★★ Confidence building measures

Top quartile Ranking vs peers across all three pillars[2]

[1]Source: Martin Currie and PRI 2022. Ratings relate to the period 1 January 2022 – 31 December 2022.

Martin Currie has been awarded the highest possible rating from the Principles of Responsible Investment (PRI), with a five-star rating across all categories relevant to its investment activities. A copy of the PRI's assessment and transparency report are available on our *website*.

[2]Policy governance and strategy: 95%; Direct – Listed equity – Active fundamental: 100%; Confidence building measures: 100%

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About Martin Currie Australia

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

Specialist investment manager of **Franklin Resources Inc.**

40+ years in **Australian equities**

World class **ESG credentials***

Tailored investment options aligned to client needs

17 member team of **specialist investment analysts**

A$6 billion in **Australian equities**

Source: Martin Currie, as at 31 December 2023.

For further information on our market leading ESG credentials please refer to full details on our website:
www.martincurrie.com/our-story/our-stewardship-approach

Important information

This information is issued and approved by Martin Currie Investment Management Limited ('MCIM'), authorised and regulated by the Financial Conduct Authority. It does not constitute investment advice. Market and currency movements may cause the capital value of shares, and the income from them, to fall as well as rise and you may get back less than you invested.

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Past performance is not a guide to future returns.

The distribution of specific products is restricted in certain jurisdictions, investors should be aware of these restrictions before requesting further specific information.

The views expressed are opinions of the portfolio managers as of the date of this document and are subject to change based on market and other conditions and may differ from other portfolio managers or of the firm as a whole. These opinions are not intended to be a forecast of future events, research, a guarantee of future results or investment advice.

The analysis of Environmental, Social and Governance (ESG) factors forms an important part of the investment process and helps inform investment decisions. The strategy/ies do not necessarily target particular sustainability outcomes.

Risk warnings – Investors should also be aware of the following risk factors which may be applicable to the strategy shown in this document.

- 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.
- 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 strategy's value than if it held a larger number of investments.
- Smaller companies may be riskier and their shares may be less liquid than larger companies, meaning that their share price may be more volatile.
- The strategy may invest in derivatives (index futures) to obtain, increase or reduce exposure to underlying assets. The use of derivatives may restrict potential gains and may result in greater fluctuations of returns for the portfolio. Certain types of derivatives may become difficult to purchase or sell in such market conditions.

For wholesale investors in Australia:

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