STRATEGY GUIDE

Martin Currie Australia Dynamic Value

MARTIN CURRIE
A Franklin Templeton Company

DECEMBER 2024

HELPING INVESTORS BENEFIT FROM VARIANCES IN THE VALUE CYCLE

INVESTING TO IMPROVE LIVES™

www.martincurrie.com/australia

Helping investors benefit from variances in the value cycle

The **Martin Currie Australia (MCA) Dynamic Value** strategy invests in a diversified portfolio of ASX-listed equities, based on allocations to our style-factor neutral Active Insights strategy and our flagship true to label **Value Equity** strategy.

We aim to provide the opportunity for investors to benefit from the variances in the Value cycle, at the right time and with the right risk profile.

By incorporating the portfolio into an existing Australian equity Core/Blend and Value-style allocation, we believe that **MCA Dynamic Value** offers benefits distinct from traditional equity portfolios and value-focused strategies:

Key Pillars of the Strategy

A solution to help navigate the market's style cycles

We help investors to navigate the market's value cycles, determining when to underweight or overweight the Value-style at the appropriate point in the Value/Growth cycle.

Dynamic style-neutral and Value-style exposures in one portfolio

We have combined the benefits of our style-factor neutral **Active Insights** strategy and our flagship true to label **Value Equity** strategy in a single diversified portfolio of ASX-listed equities.

A fundamentally-driven switching signal

Our assessment of the expected market style environment is driven by more than 20 years of fundamental analyst insight.

Proprietary multi-lensed research by an experienced team

The MCA team has over 40 years of experience investing in Australian equities and listed Real Assets using a disciplined and repeatable multi-lensed investment approach.

Fully integrated fundamental Active Ownership approach

Responsibility for Active Ownership lies directly with the research analysts and portfolio managers responsible for making investment decisions.

Key Benefits of the Strategy

Potential for long term excess returns

While equity markets are efficient over the long term, the market's behavioural biases can create temporary mispricing. Investing in shares that are trading with an attractive discount to underlying value offers the potential for excess returns over the long term.

Lower risk of under or over-allocation to Value

The strategy balances the risk of being under or overweight the Value-style for the appropriate market conditions or prevailing value opportunity.

A forward-looking approach to timing

Our Switching Signal uses Valuations that are based on long-term earnings power. This means that we predict style and economic turning points using fundamental forecasts rather than a mechanical approach that favours backwards looking data.

Lower cost and shorter time frames

We rebalance the portfolio from direct equity holdings in a transparent and cost-effective manner, avoiding the costs and delays associated with appointing or terminating managers. This flexibility ensures timely adjustments in response to changing market conditions.

Who the strategy is suited to

The strategy is relevant for investors looking for:

- an active approach to investing, with a focus on alpha generation;
- a lower risk value-style investment philosophy; and
- a diversifying portfolio compared with other equity investments.

We believe that our long-term track record in alpha generation through varied market cycles demonstrates our ability to steer clients' assets through the market's style cycles more carefully and strategically, in a transparent and cost-effective manner.

How we identify opportunities

A solution to help navigate the market's style cycles

Active Fundamental strategies often come with style factor cyclicality and extended periods when an investment style, such as Value, is out of favour. While we are philosophically Value-style investors, we understand that style factor risk may not always be acceptable for investors based on their time horizons and risk tolerances.

MCA Dynamic Value is an investment solution that aims to navigates the market's value cycles and benefit from Value's long-term superiority over the Growth style. The **MCA Dynamic Value** takes on Value-style factor risk only when it is more likely to be rewarded by the expected market environment.

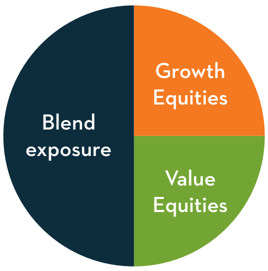
The role of Dynamic Value in an asset allocation

The chart below demonstrates how **MCA Dynamic Value** can enhance a hypothetical Australian Equities (Blend, Growth and Value) allocation, providing a smoother, more responsive approach to capturing the value opportunities in the market.

A hypothetical Australian equities allocation

Unable to move with value opportunity

Effective Value exposure is 25% at all times



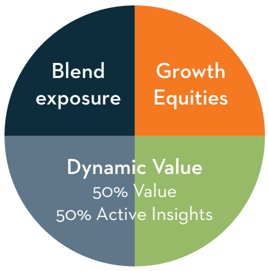
With Value and part of blend allocation moved into Dynamic Value

When value opportunity is **high**

Effective Value exposure can be maximised

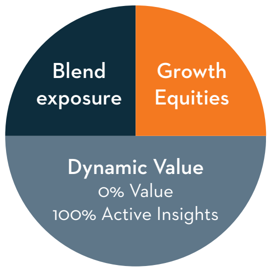
When value opportunity is **average**

Effective Value exposure can be 50%



When value opportunity is **low**

Effective Value exposure can be minimised



Past performance is not a guide to future returns.

Source: Martin Currie Australia. Data shown for illustrative purposes only. Minimum and maximum exposures can be customised based on client guidelines.

- **Without MCA Dynamic Value:** Strategic asset allocations between Blend, Growth and Value investment styles typically require hiring and firing the underlying style managers. This process is often slow, costly, and may miss the optimal timing in the market cycle.
- **With MCA Dynamic Value:** By incorporating an **MCA Dynamic Value portfolio** into an existing Blend and Value-style allocation, when there is a higher opportunity for Value to outperform, the portfolio can quickly reallocates towards the **MCA Value Equity** strategy sleeve. Conversely, when the Value opportunity is lower, the portfolio can tilt towards the **MCA Active Insights** strategy sleeve.

Dynamic style-neutral and Value-style exposures in one portfolio

MCA Dynamic Value combines the benefits of MCA's style-factor neutral **Active Insights** strategy and our flagship true to label **Value Equity** strategy in a single diversified portfolio of ASX-listed equities. We believe forward-looking fundamental insights are the key to investment success, no matter the prevailing style environment.

We dynamically allocate between the two strategies to provide higher risk-adjusted returns when the prevailing Value opportunity is high and a more consistent alpha stream with lower tracking error when the opportunity is lower.

Why MCA Value Equity

The **MCA Value Equity** strategy is designed for investors who seek to maximise returns relative to the S&P/ASX 200 Accumulation Index over the longer term.

We aim to provide for investors seeking the long-term capital growth potential of the Value style through an actively managed exposure to our highest conviction stock ideas with **Valuation** potential.

Key Pillars of the Strategy:

1. Experienced stock pickers with a long-term track record.
2. A high conviction portfolio with a true to label value approach with risk control.
3. A proven process which has been customised to suit the Australian market and avoid "herd mentality" or value traps.
4. Fundamental Active Ownership embedded in the investment process.

Why MCA Active Insights

The **MCA Active Insights** strategy is designed for investors who seek consistent alpha over the S&P/ASX 200 Accumulation Index throughout market cycles.

We aim to provide investors with consistent, lower tracking error returns, regardless of the prevailing factor and sector environment. We do this by focussing on our investment team's 'pure' fundamental insights and minimising unnecessary style factor and sector risks.

Key Pillars of the Strategy:

1. A strategy designed for the evolving landscape of tighter tracking error targets and risk budgets.
2. Forward-looking fundamental research signals from experienced stock pickers.
3. Fundamental Active Ownership embedded in the investment process.
4. A unique factor and sector neutral approach to portfolio construction.

A fundamentally-driven switching signal

Our assessment of the expected market environment is driven by more than 20 years of fundamental analyst insight into the Valuation of ASX-listed stocks, helping to determine the optimal times to adjust allocations between our **MCA Value Equity** and **MCA Active Insights** strategies.

We focus on the dispersion between the cheapest and most expensive parts of the Australian market, and our experience suggests that the wider this spread, the greater the opportunity for the Value style to outperform.

When undervalued securities present a larger opportunity, we increase the weighting towards **MCA Value Equity**. Conversely, if the Value spread is narrower, we shift the emphasis towards **MCA Active Insights**.

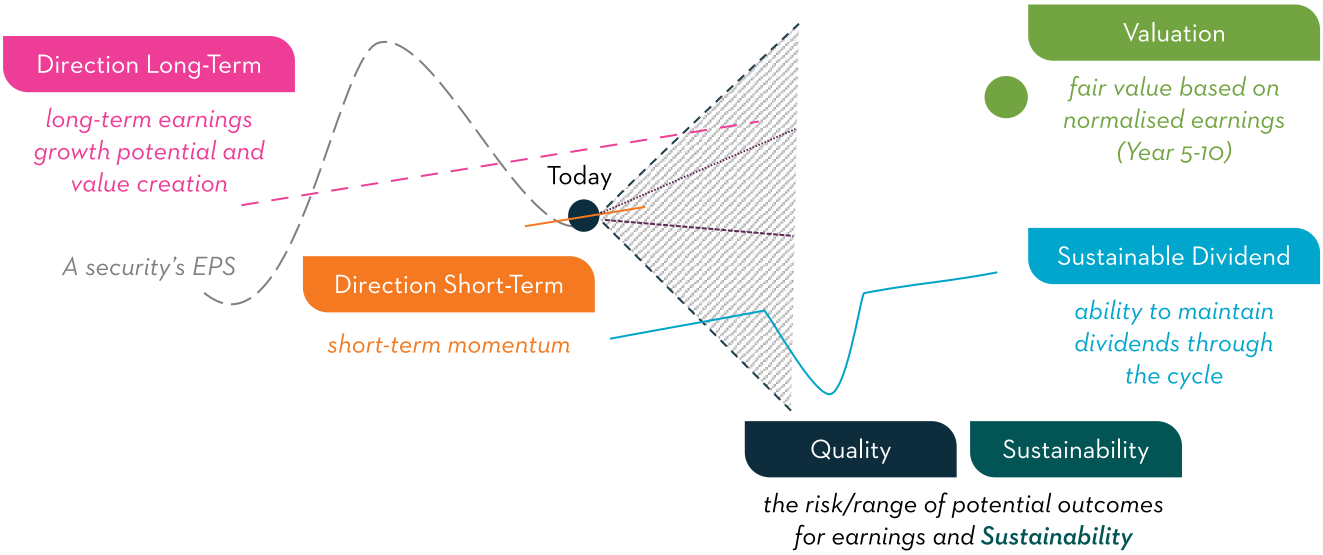
Forward-looking fundamental research from experienced stock pickers

Unlike 'traditional' quantitative-only funds that rely on backward-looking signals, stock selection for our **MCA Value Equity** and **MCA Active Insights** strategies is underpinned by MCA's fundamental expertise in Australian equities.

The MCA investment platform offers full access to the multi-lensed fundamental insights and Active Ownership activities of a highly experienced research team. Our disciplined portfolio construction process can be fully customised to provide strong alpha potential across a range of Australian equity and listed Real Asset solutions. We believe our forward-looking fundamental insights are the key to investment success, however we also recognise how our quantitative risk flags can incorporate a broad set of incremental information in a timely and balanced manner.

The investment process for all MCA strategies starts with bottom-up fundamental research by our specialised industry analysts. The size, quality, and experience of our investment team underpin our proprietary research efforts into long-term normalised earnings power, cashflow sustainability, business quality, and risk of listed equities.

Our approach recognises the importance of multiple drivers in generating returns. We have designed our framework to capture forward-looking fundamental and qualitative insights across our **Valuation**, **Quality**, **Direction Short-Term**, **Direction Long-Term** and **Sustainable Dividend** research lenses. **Sustainability** is a key component of our **Quality** research lens.



Past performance is not a guide to future returns.

Source: Martin Currie Australia; data shown for illustrative purposes only.

This multi-lensed framework allows our analysts to detail their independent insights in a step-by-step and consistent manner. It creates a common language for expressing our views on the risks and opportunities for each company across the investment universe, fostering an environment of team ownership and ongoing improvement.

The powerful combination of our multi-lensed approach provides a broad perspective of expected returns. Each of our research lenses has a track record of providing alpha through market cycles and blending them helps to ensure there are fewer concentrated risks. This approach also recognises the value of quantitative insights can help to incorporate a broad set of incremental information in a timely and balanced manner.

Fully integrated fundamental Active Ownership approach

A cornerstone of our investment approach is Active Ownership, which includes comprehensive Environmental, Social, and Governance (ESG) integration, engagement with portfolio companies, and voting.

Active Ownership has been deeply embedded in our investment process since 2009, and reflects our belief that ESG factors can impact the risk of companies delivering the normalised earnings and dividends that our analysts forecast. Our **Sustainability** assessments feed into our **Quality** and **Valuation** lenses.

ESG factors underlie the growing pressures faced by all companies from their key stakeholders. Regulators, customers, suppliers, investors, local communities, employees and environmental groups all present companies with challenges and opportunities that ultimately have to be addressed by management. Companies that fail to address the needs of key stakeholders by managing these challenges effectively may face substantial reputational and financial damage in the future.

We see that these types of ESG factors can impact the normalised earnings that our analysts forecast in our **Valuation** lens, and therefore the long-term intrinsic value and potential long-term performance of a company. Where material to a company's ability to generate long-term returns, our analysts factor in the costs/benefits of ESG inaction or action directly into their normalised earnings (five years of earnings per share forecasts).

Quality for us is a key measure of risk, and we include our *Management*, *Governance* and **Sustainability** ratings directly in our overall assessment of **Quality** for each stock. This **Quality** rating is also used as a component in the stock-specific discount rates used for **Valuation**.

The MCA investment team uses **Quality** and **Valuation**, among other factors, to build conviction in securities and to set target position sizes across all portfolios. 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 companies.

Unlike many quantitative-only and passive funds, responsibility for Active Ownership lies directly with research analysts and portfolio managers responsible for making investment decisions as we believe they are best positioned to develop an informed view of the ESG risks, opportunities, and impacts that companies face or create. Our investment team's long-term experience and strong relationships and open dialogues with boards and management teams allow them to express concerns and encourage greater transparency in how companies manage these risks.

Using engagement to influence companies to make positive change

Engagement is an important source of fundamental information that helps us improve our understanding and conviction in investee companies and their governance structures. It enables us to understand to what extent companies have identified material ESG risks and how they are managing these and also provides us with an opportunity to share best practice and help steer companies towards improved corporate practice. Our approach is to engage not only with the management of companies, but also with a range of other stakeholders for each business such as competitors, customers, suppliers and government agencies to develop a more rounded view of relevant ESG risks and opportunities.

Promoting stewardship through proxy voting

Proxy voting at AGMs is a core element of our approach to active ownership. We believe it is our job as fiduciaries to make a stand where we see an issue as critical to a stock's performance in the long term. Annual General Meeting (AGM) season (typically October to December in Australia) is a critical time for us as investors to re-emphasise our stance regarding a board's progress on ESG matters and we engage directly with companies on contentious proposals.

The Dynamic Value Portfolio

Experienced portfolio management

The **MCA Dynamic Value** strategy is co-managed by Reece Birtles, Chief Investment Officer & Portfolio Manager, and Matthew Davison, Portfolio Manager. Reece has ultimate management responsibility for the strategy.

Reece Birtles
Chief Investment Officer
& Portfolio Manager

Matthew Davison
Portfolio Manager

The strategy is supported by the broader MCA investment team through detailed fundamental research analysis across MCA's four research lenses for each company within the investment universe. In addition, our quantitative research function is continually looking for new ways to improve the investment process and the efficacy of our stock decisions and portfolio risk/return outcomes.

Fundamentally driven portfolio construction

Regardless of the strategy, our investment team's multi-lensed research provides the foundation for our portfolio construction process, with fundamental research outcomes feeding directly into our expected returns for each stock.

For each strategy, we calculate these expected returns in a customised manner by tilting towards inputs from the most relevant research lenses, thus aligning stock selection and portfolio construction with the specific objectives of each strategy. The resultant expected return is the difference between our Valuation post any strategy-specific **Quality/ Sustainability**, Direction Short-Term, Direction Long-Term and Sustainable Dividend adjustments and the stock's current market price.

- For our **MCA Value Equity** strategy, we aim to build our portfolio based on our conviction in the undervalued securities which we believe will produce a positive price return to fair value. As such, we prioritize our analysts' fundamental insights on Valuation, while also balancing risk through the addition of **Quality**, Direction Short-Term and Direction Long-Term into our expected returns.
- For the **MCA Active Insights** strategy, our objective is to take the expected return estimates based on Valuation, **Quality**, Direction Short-Term and Direction Long-Term, and adjust them to reduce the influence of style or sector bias, while maintain the alpha generating ability from our investment team's 'pure' fundamental insight.

Our analysts' insights into Valuation drive our assessment of the expected market environment, helping to determine the optimal times to adjust allocations between our **MCA Value Equity** and **MCA Active Insights** strategies. We constantly measure the spread between the most undervalued and overvalued securities in the Australian market based on the expected return to fair value (RtFV) from our proprietary forward-looking Valuation research. Our experience has found that the wider the spread, the greater the opportunity for the Value style to outperform. Specifically, we compare the expected RtFV of the 80th percentile security versus the 20th percentile security in the S&P/ASX 200, avoiding extreme outliers and value traps.

The **MCA Active Insights** and **MCA Value Equity** sleeves are individually constructed from direct equities. Minimum and maximum exposures to each strategy can be customised based on client requirements. Final portfolio sleeve weights are augmented by the Portfolio Manager's fundamental judgement.

Key facts

Launch date	April 2013
Performance objective	The strategy aims to earn an after fee return in excess of the S&P/ASX 200 Accumulation Index over rolling three to five-year periods
Benchmark	S&P/ASX 200 Accumulation Index
Investable universe	Australian listed securities/all-cap
Number of securities	Typically 30-60
Security limits	Benchmark +/-7%
Sector limits	Benchmark +/-12%
Asset allocation range	Typically • MCA Value Equity: 0-100% • MCA Active Insights: 0-100% Minimum and maximum exposures to each strategy can be customised based on client requirements.
Portfolio turnover	Typically 35% p.a.
How to access	Segregated mandate

Investment vehicles only available in certain jurisdictions. The characteristics shown are guidelines only and are not hard risks limits.

About Martin Currie Australia

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

40+ years in **Australian equities**

World class **ESG credentials***

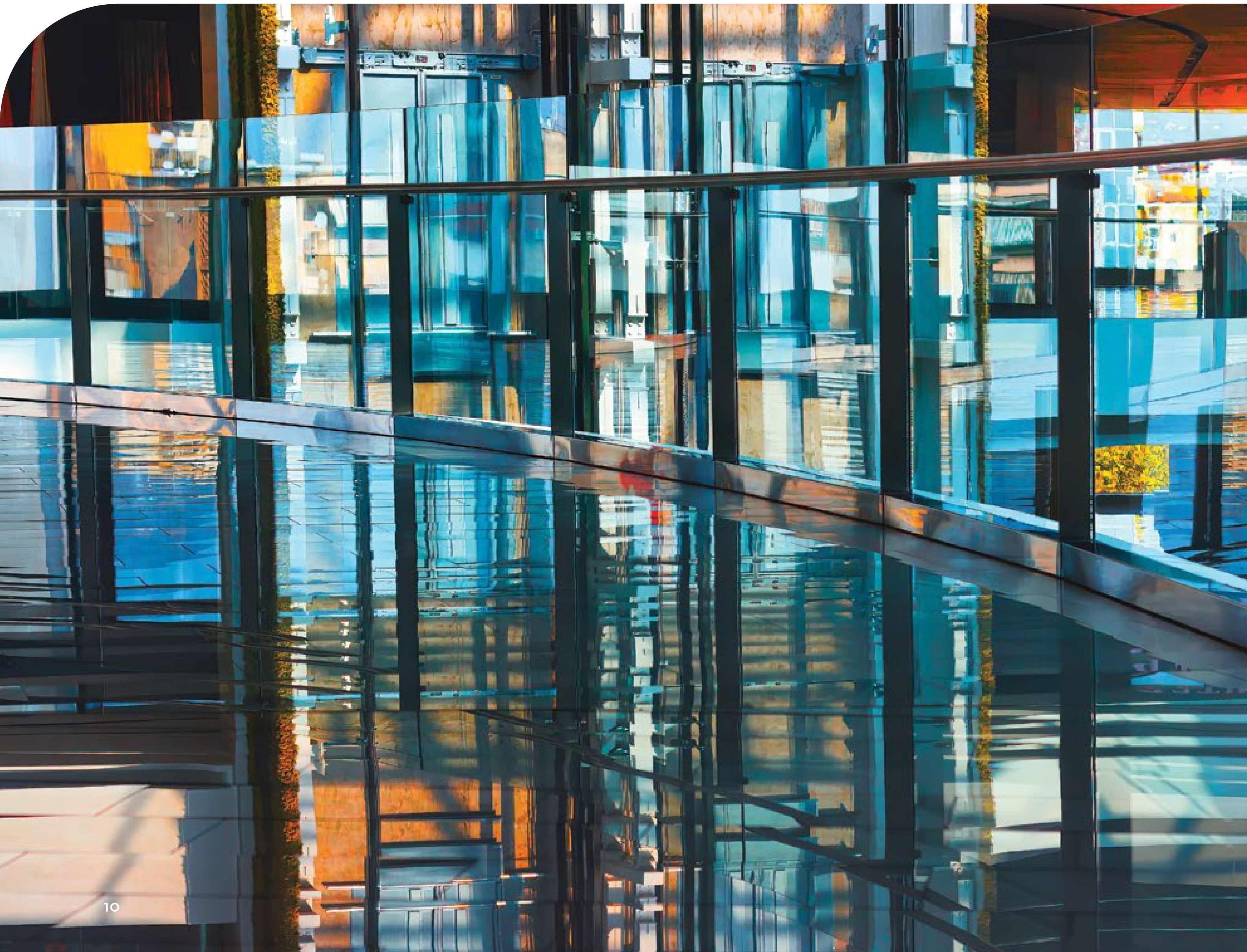
Tailored investment options aligned to client needs

17 member team of **specialist investment analysts**

A$6 billion in **Australian equities**

Source Martin Currie Australia; as of 30 June 2024.

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



Important information

Any distribution of this material in Australia is by Martin Currie Australia ('MCA'). Martin Currie Australia is a division of Franklin Templeton Australia Limited (ABN 76 004 835 849). Franklin Templeton Australia Limited is part of Franklin Resources, Inc., and holds an Australian Financial Services Licence (AFSL No. 240827) issued pursuant to the Corporations Act 2001.

This publication is issued for information purposes only and does not constitute investment or financial product advice. It expresses no views as to the suitability of the services or other matters described in this document as to the individual circumstances, objectives, financial situation, or needs of any recipient. You should assess whether the information is appropriate for you and consider obtaining independent taxation, legal, financial or other professional advice before making an investment decision.

Neither MCA, Franklin Templeton Australia, nor any other company within the Franklin Templeton group guarantees the performance of any Fund, nor do they provide any guarantee in respect of the repayment of your capital.

The document does not form the basis of, nor should it be relied upon in connection with, any subsequent contract or agreement. It does not constitute, and may not be used for the purpose of, an offer or invitation to subscribe for or otherwise acquire shares in any of the products mentioned.

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 information provided should not be considered a recommendation to purchase or sell any particular strategy / fund / security. It should not be assumed that any of the securities discussed here were or will prove to be profitable.

It is not known whether the stocks mentioned will feature in any future portfolios managed by MCA. Any stock examples will represent a small part of a portfolio and are used purely to demonstrate our investment style.

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.