

JULY 2024 For institutional, professional and wholesale investors only

TRANSFORMING PURE INSIGHTS INTO ALPHA

The Martin Currie Australia (MCA) Active Insights strategy aims to transform pure fundamental insights into alpha. We aim to provide investors with consistently higher returns than the benchmark throughout market cycles.

The strategy aims to transform our pure fundamental insights into alpha through:



Portfolio driven by proprietary fundamental insights – MCA's unique insights into **Valuation**, **Direction**, **Quality** (including **Sustainability**)



Unique factor and sector neutral approach – Identifying mispricing based on forward looking 'active insights', without unnecessary style risk



Proven investment process – Proprietary multi-lensed investment approach using a broad perspective of expected return and risk to build portfolios

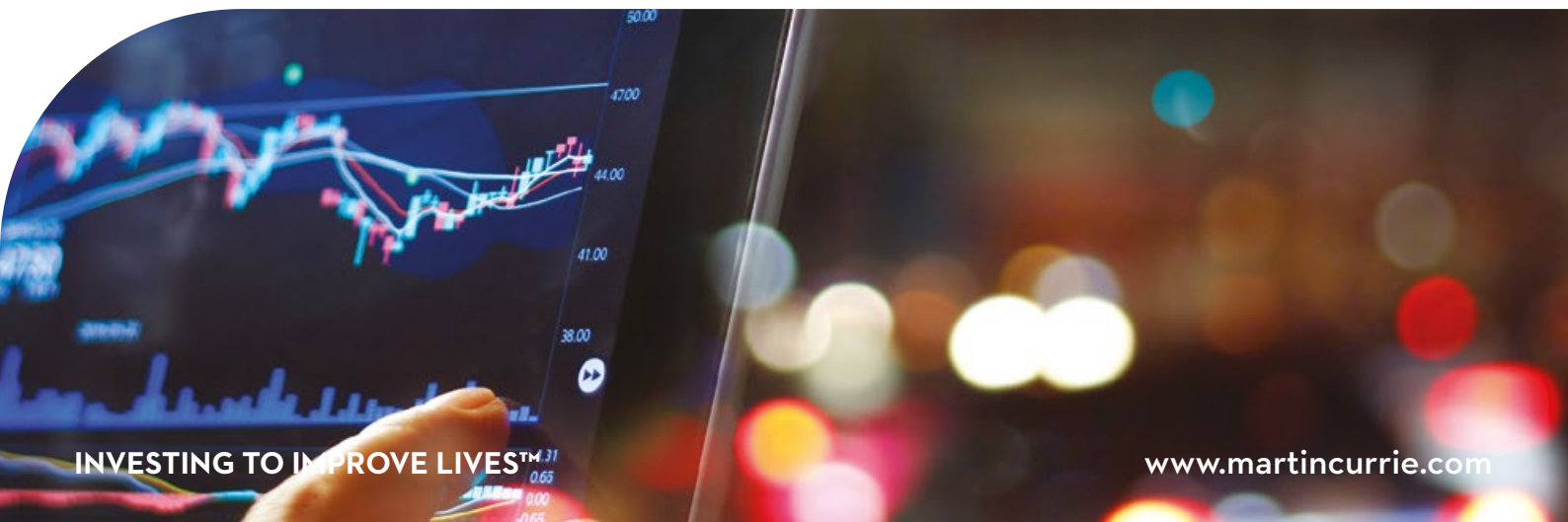


Fundamental active ownership – Purposeful engagement with companies and client advocacy through proxy voting



Experienced stock pickers with long term track record – Translating team's 'active insights' into portfolios that manage style bias and risk

Read more in the following document about how the MCA Active Insights strategy seeks to avoid unnecessary style risk.



Overview

Institutional investors globally are facing tighter tracking error budgets and increased fee constraints. Simultaneously, Investment Committees and Boards have built increased conviction in the persistence and efficacy of factor premia to deliver higher information ratios, net of fees.

The Australian equity market presents investors with a conundrum. While the long-run efficacy of factor premia is not unlike other developed markets, the concentrated and relatively small size of the Australian market does offer the potential for active strategies to outperform.

Against this background, MCA Active Insights, our low tracking error, pure fundamental alpha strategy, aims to provide investors with consistently higher returns than the benchmark throughout market cycles.

The strategy aims to deliver this pure fundamental alpha return stream without the supplemental systematic or common style factors that are likely to be present already in an institutional investor's core portfolio. In this regard it may complement an investor's existing passive or systematic / quantitative core allocation.

Forward-looking fundamental research signals

Unlike 'traditional' quantitative-only funds that rely on backward-looking signals, the pure alpha mispricing that Active Insights aims to deliver is drawn from MCA's fundamental expertise in Australian equities.

Our experienced investment team is solely focused on identifying investment opportunities using a disciplined and repeatable forward-looking investment approach based on proprietary research into **Valuation, Direction and Quality** (including **Sustainability**) lenses.

Stewardship is also a critical element of our investment philosophy, and our Active Ownership approach, which includes ESG integration, engagement, and voting, is fully embedded directly into the investment process.

Unique portfolio construction approach with discipline and active oversight

We believe that style and other systematic risk can be removed through use of our proprietary alpha & risk signals in portfolio construction.

The consistent extraction of a pure alpha return stream, combined with strong proprietary risk control and experienced fundamental oversight, results in a highly diversified portfolio with a high information ratio.

Providing flexible investment options for client needs

With lower fees than traditional fundamental-only strategies, the strategy is designed to be used as a standalone strategy or fundamental complement to a diversified portfolio.

We believe that it is suitable for use in more concentrated separately managed account (SMA) portfolios and can also be readily customized to suit client needs for different tracking error levels and select factor exposures.

Furthermore, as portfolio alpha is less cyclical, it is likely to be suitable for investors with a shorter active risk investment time horizon.



Unique fundamental insights

The MCA Active Insights 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

Quantitative assessment of direction factors:

- **Short-term Direction:**
 - Price momentum measures
 - Earnings revision measures
- **Long-term Direction:**
 - Capital deployment
 - ESG momentum
 - Profitability
 - MCA Growth



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

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

Unlike quantitative-only and passive funds, 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.



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 improve corporate practice. Our practice 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.



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 with companies on contentious proposals.

By incorporating material and relevant ESG factors that we have uncovered through our bottom-up fundamental research and engagement activities directly 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.

For further information on fully embedded ESG process, please refer to our Active Ownership brochure on our [website](#).

Building a style neutral portfolio from fundamental insights

In constructing the portfolio for the Active Insights strategy, investment decisions draw on the close collaboration of the entire MCA team, leveraging specific skills and expertise across fundamental and quantitative research.

Determine security conviction based on MCA's research lenses

Our proprietary **Valuation**, **Quality**, and **Direction** (including **Sustainability**) research lenses are combined based on a proprietary weighting system and a stock's ranking relative to the universe to determine our expected returns or the "Return to **VDQ** (RtVDQ)".

Neutralising for style factors & super sectors to determine factor neutral stock mispricing

We then neutralise each stock's RtVDQ by undertaking a multi-factor regression against common style factors and super sectors, to leave a residual that represents a stock's true mispricing or our pure 'active insight'.

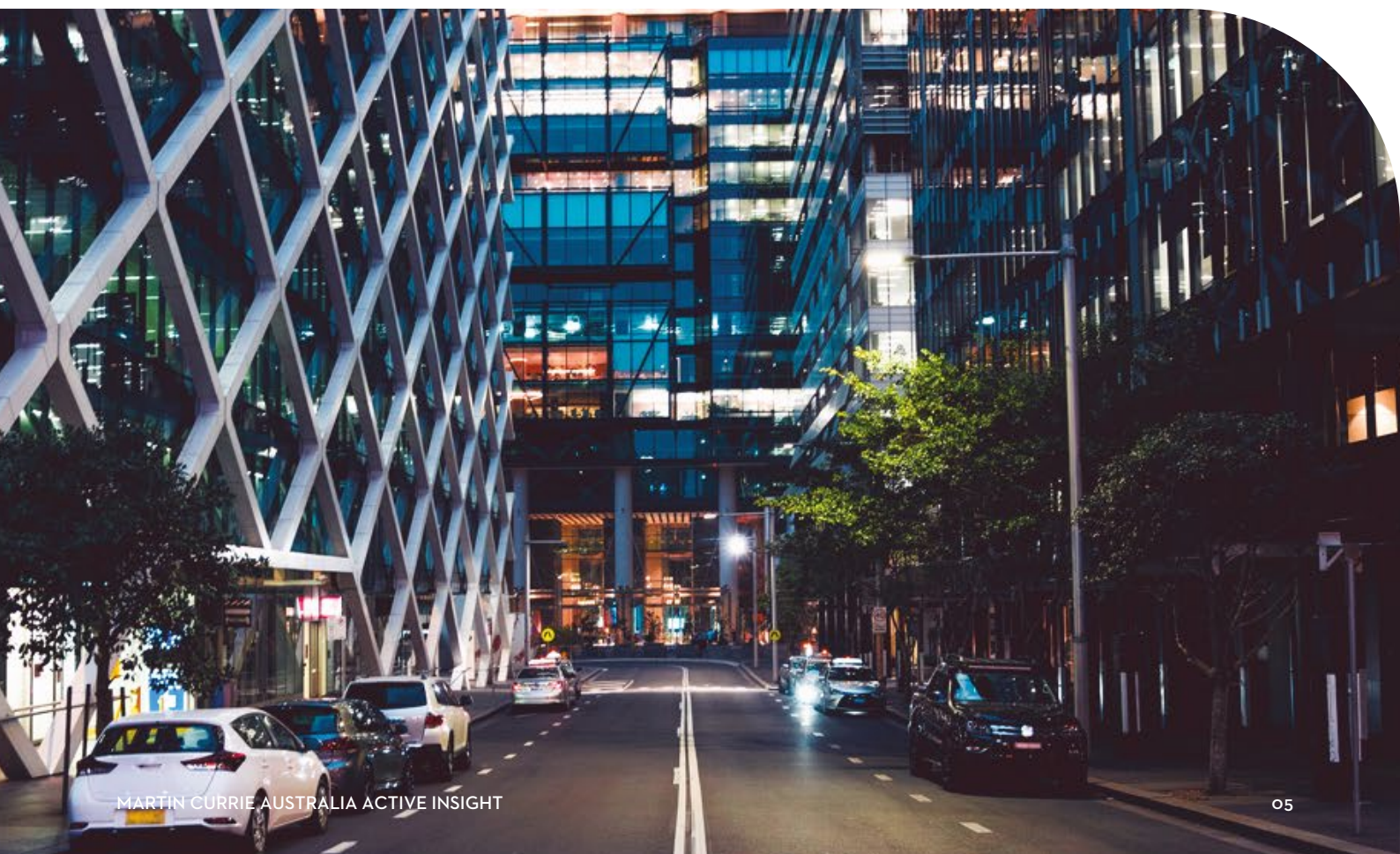


The MCA Active Insight model does not rely on a past time series optimisation, rather it employs point in time cross section analysis of style factors and sectors. The benefit of this is that by not relying on historical correlations and sensitivities, it can be style neutral at all points in time.

The target stock portfolio is generated daily.

Stock selection, risk control and portfolio construction

Experienced fundamental oversight, together with systematic rebalancing rules are used to ensure the portfolio maximises pure active insights, and controls for factor risk and low turnover.



The MCA investment team

MCA's Active Insights strategy is managed by Matt Davison and Sam Li. Matt Davison has ultimate responsibility for the Active Insights strategy.



Matthew Davison
Portfolio Manager



Sam (Bowe) Li
Portfolio Manager

The Active Insights 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 backgrounds¹
- 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

¹As of 31 December 2023.



Key facts

The strategy is also available at customised alpha/tracking error levels. Concentrated portfolios are available for use in SMA structures or to focus on specific factor exposures such as low beta/quality.

Launch date	24 November 2021
Performance objective	The strategy seeks to earn an after fee return in excess of the benchmark over rolling three-year periods
Benchmark	S&P/ASX 200 Accumulation index
Investable universe	Australian listed securities/all-cap
Number of securities	Typically 60
Security limits	Benchmark +/-4%
Sector limits	Benchmark +/-6%
Active share	Typically 30%
Portfolio turnover	Typically 40% p.a.
Tracking error	Typically 2% p.a. (ex ante)
How to access	Segregated mandate

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

Industry recognition

Signatory of:



Since 2009

Latest PRI Rating¹



Policy governance and strategy



Direct - Listed equity - Active fundamental



Confidence building measures

Top quartile

Ranking vs peers across all three pillars²

¹Source: 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](#).

²Policy 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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