

STRATEGY GUIDE

Martin Currie Australia Active Insights



JANUARY 2025

TRANSFORMING PURE INSIGHTS INTO ALPHA



Transforming pure insights into alpha

"Traditional" active fundamental equity portfolios which depend on style or factor mean reversion to drive alpha are often associated with high tracking error and longer time horizons. We recognise that these types of portfolios are increasingly becoming less aligned with the risk budget of asset owners facing strict performance benchmarks such as the Your Future, Your Super (YFYS) performance test. However, we still believe that true alpha is best derived from fundamental analyst insights.

The **Martin Currie Australia (MCA) Active Insights** strategy invests in a diversified portfolio of ASX-listed equities. We aim to provide investors with a 'goldilocks' efficient portfolio with consistently higher returns than the benchmark with a lower tracking error by focussing on our investment team's 'pure' fundamental insights and minimising unnecessary style factor and sector risks relative to the S&P/ASX 200.

With the influence of style factor cyclicalities and sector biases substantially reduced, and with deep fundamental insight and disciplined risk control, we believe the MCA Active Insights strategy offers benefits distinct from active fundamental portfolios, systematic smart beta or passive strategies.

Key Pillars of the Strategy



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.



Combining fundamental research with risk control

Our stock ideas are grounded in our fundamental, bottom-up **Valuation** research. Risk is managed by incorporating our **Quality**, **Direction Short-Term** and **Direction Long-Term** lenses.



Fully integrated fundamental Active Ownership approach

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



Unique portfolio stabilisers that minimise unnecessary style factor and sector risks

Our proprietary **Mispricing** process combines our fundamental research expertise with proprietary alpha & risk signals to identify attractive stocks that help to neutralise the influence of style or sector bias.



Key Benefits of the Strategy



A smoother alpha stream with style control

Alpha generated with lower tracking error and factor influence, independent of mean reversion, can reduce the risk of extended periods of under-performance that exceed the time horizon and relative risk tolerance of most investors.



Greater net of fee portfolio efficacy

With the potential for greater portfolio efficacy (such as information ratio and fee per unit of alpha), and alpha unbiased by the influence of factors whose use may be widespread elsewhere in a client's portfolio, the strategy may be suitable for use within asset allocations that are subject to YFYS performance tests, and tighter tracking error targets/risk budgets.



Lower cost access to true fundamental insights

With lower fees than traditional active strategies, we offer the cost-effective fundamental insights and Active Ownership approach of a highly experienced investment team, alongside the disciplined risk control of a more systematic strategy.



A key role to play within modern portfolios

Potential uses include:

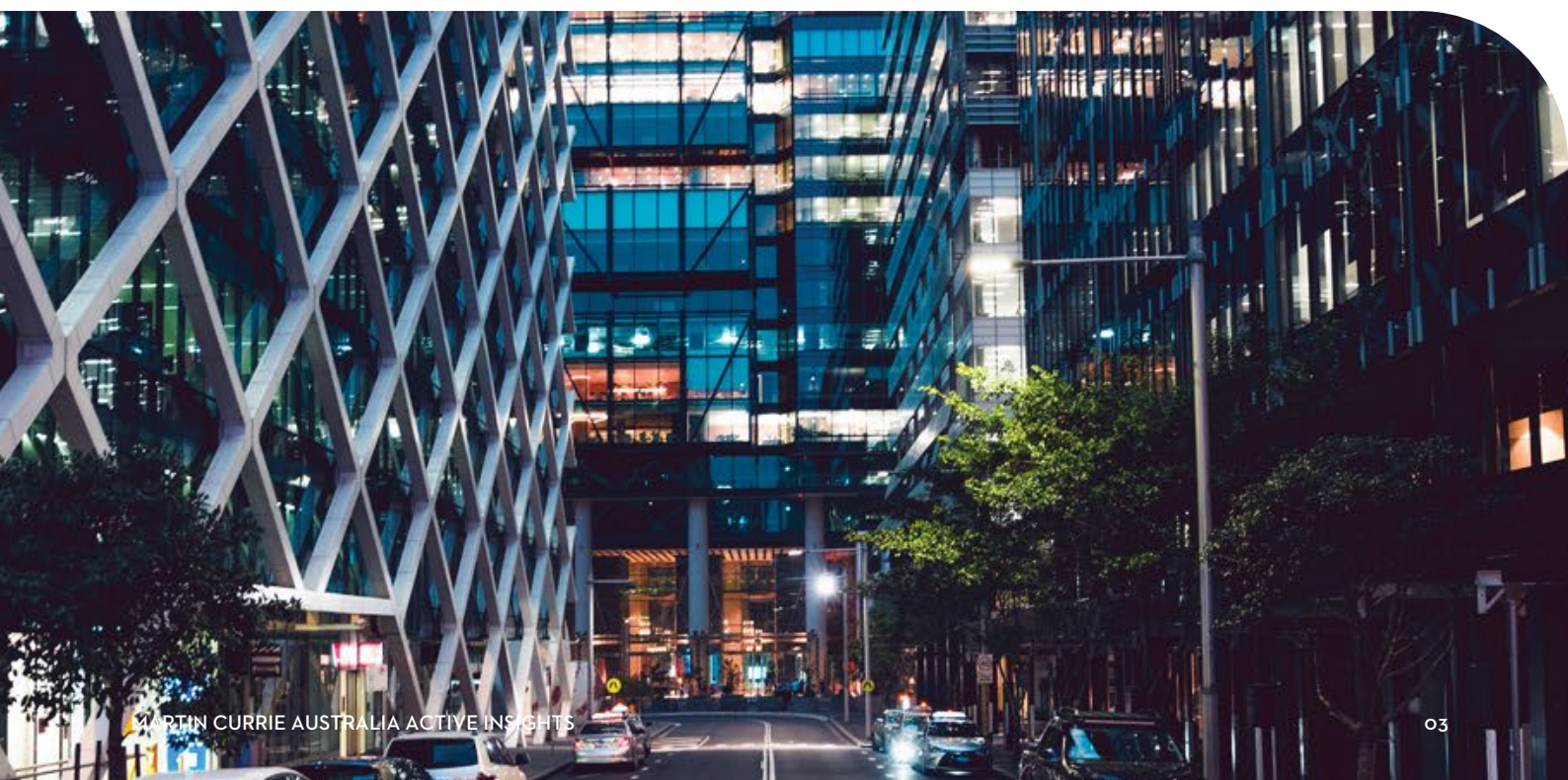
- a complementary exposure alongside existing passive or smart-beta factor portfolios, without additional factor & sector risk; and
- a replacement for an Active Fundamental strategy, either stand-alone or within a multi-manager Australian equity roster.

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 style agnostic 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 deliver investors with a more persistent and efficient alpha stream at a lower cost, in a way that is difficult for passive, systematic or quantitative strategies to emulate.



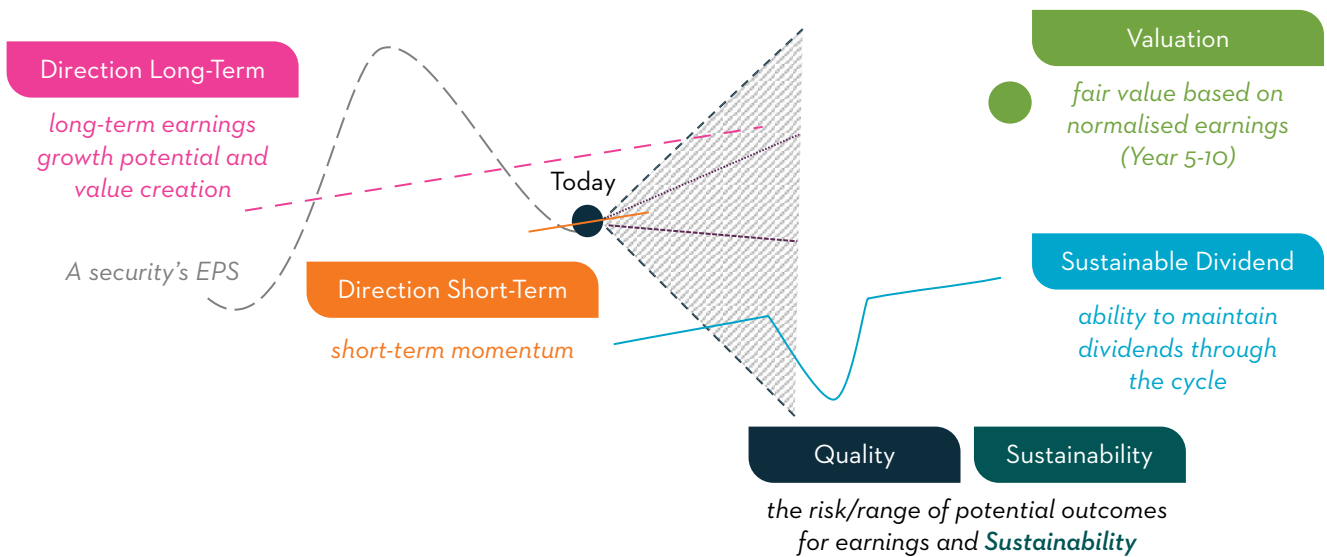
How we identify opportunities

Proprietary multi-lensed research by an experienced team

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, including **MCA Active Insights**, 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 and can help to incorporate a broad set of incremental information in a timely and balanced manner.

Combining fundamental research with risk control

Our team's forward-looking fundamental insights are the key to identifying ASX-listed securities with the risk adjusted **Valuation** potential for inclusion in our **MCA Active Insights** strategy. We are typically seeking stocks that have a return upside when their fundamentals are fully recognised by the market.

Stocks ideas are first selected using a disciplined and repeatable investment approach, grounded in our fundamental, bottom-up **Valuation** research. Risk is managed by incorporating our **Quality**, **Direction Short-Term** and **Direction Long-Term** lenses.

Spotlight on our Valuation research lens

Our team of fundamental analysts maintains more than 200 proprietary company models for stocks.

Our specialised industry analysts conduct independent research on key business drivers, considering economic, industry, product lifecycle dynamics and ESG impacts on cashflows and normalised earnings. We supplement this with up to 20 years of historical financial and operational data, alongside five years of our analysts' proprietary forecasts.

These forecasts undergo peer review to ensure cross-referencing with other industry insights and expertise, and we compare financial and operating metrics with industry peers.

Our **Valuation** model captures the peer-reviewed research insights and financial modelling for each stock to calculate an expected Return to Fair Value (RtFV) based on the net present value of future cash flows accruing to equity owners of each firm. This means, for example, if an analyst's **Valuation** for a stock is 1.4 times its current price, we say it has an RtFV of +40%, as it would deliver that return if the price were to rise to meet our **Valuation**.

Our process avoids common errors associated with discounted cash flow models, such as extrapolating ever-increasing returns on invested capital, by ensuring increasing mean reversion after five to fifteen years. When calculating RtFV, we also use a stock-specific discount rate to consider the impact of a company's **Quality** rating, which is influenced by our **Sustainability**, **Management**, and **Governance** ratings, on the risk of a stock.

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.

Constructing the Active Insights portfolio

Experienced portfolio management

The MCA Active Insights strategy is co-managed by Portfolio Managers Matthew Davison and Sam Li. Matthew has ultimate responsibility for the strategy.



Matthew Davison
Portfolio Manager



Sam (Bowe) Li
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 Active Insights strategy, we start by combining the **Valuation**, **Quality**, **Direction Short-Term** and **Direction Long-Term** outputs from our multi-lensed research to build expected return forecasts to identify attractive stocks for inclusion in the portfolio. However, at this point they may still carry factor/sector biases resulting from the characteristics of the research lenses and interactions between them.

Our objective is to take our expected return estimates and adjust them using our proprietary alpha & risk signals to reduce the influence of style or sector bias, while maintaining the alpha generating ability from our investment team's 'pure' fundamental insight. In other words, we seek to isolate where our insights are most unique, and unexplained by any common factor and super sector risks.

To do this, we undertake a proprietary multi-factor regression of these expected returns against common style factors and super sectors. The process is dynamic, and is updated twice daily. Firstly, we estimate the exposure of each stock to style factors such as book-to-price, price momentum, beta, size and growth. We can then calculate the combined expected return exposures for each style factor for our entire covered universe of ASX listed stocks. Secondly, we seek to adjust a stock's expected return by the degree of average variation for its super sector versus the market (e.g., if the average of all Financials is trading at a 10% discount, we subtract that from the stock's expected return).



The amalgamation of our regression-based adjustments for each stock's expected returns creates a style and sector neutral measure we call **Mispricing**, isolating and capturing only our pure fundamental insights.

Mispricing can result in an amplified raw expected return forecast for an individual stock if it has positive factor or super sector exposure that can help to neutralise a lower universe exposure. Conversely, **Mispricing** also can result in reduced raw expected return forecasts for stocks that have negative exposures to certain factors or super sectors in order to neutralise a higher universe exposure.

We use this style and sector neutral **Mispricing** in our portfolio construction, together with experienced fundamental oversight, proprietary alpha & risk signals and systematic rebalancing rules, to construct the portfolio.

Final stock selection is augmented by the Portfolio Manager's fundamental judgement, and the resultant portfolio typically holds around 60 stocks. The result is a portfolio where the influence of style or sector biases has been minimised relative to the index. As our active positions are aligned with the magnitude of their **Mispricing**, the portfolio positioning aligns directly with our fundamental expertise in Australian equities.



Key facts

Launch date	November 2021
Performance objective	The strategy aims to earn an after fee return in excess of the S&P/ASX 200 Accumulation Index 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%
Portfolio turnover	Typically 40% p.a.
How to access	Martin Currie Active Insights Fund (An Australian Unit Trust) <ul style="list-style-type: none">• APIR: SSB2241AU Segregated mandate Also available as a concentrated separately managed account (SMA) The portfolio can also be customised to suit client needs for different tracking error levels and select factor exposures.

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



About Martin Currie Australia



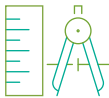
Specialist investment manager
of **Franklin Resources Inc.**



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 31 December 2024.

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



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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.

Franklin Templeton Australia Limited as Responsible Entity has appointed Martin Currie Australia as the fund manager for Martin Currie Active Insights Fund (ARSN 673 996 720, APIR SSB2241AU).

Please read the relevant Product Disclosure Statements (PDSs) and any associated reference documents before making an investment decision. In accordance with the Design and Distribution Obligations and Product Interventions Powers requirements we maintain Target Market Determinations (TMD) for each of our Funds. All documents can be found via www.franklintempleton.com.au or by calling 1800 673 776.

