STRATEGY GUIDE

Martin Currie Australia Sustainable Equity

MARTIN CURRIE
A Franklin Templeton Company

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AN ACTIVE PATHWAY TO A MORE SUSTAINABLE FUTURE

An active pathway to a more sustainable future

The **Martin Currie Australia (MCA) Sustainable Equity** strategy invests in a diversified portfolio of ASX-listed equities.

We aim to create long-term value for investors through an actively managed selection of companies which have been assessed using our proprietary approach for understanding sustainability and financial attributes.

This approach results in a portfolio distinct from traditional equity portfolios and sustainability-focused 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.

A unique approach to Sustainability assessments

We seek companies that provide more benefit than harm to society, have a management that focuses on their sustainability risks, and have a clearly articulated pathway towards a sustainable environmental, social & economic future.

Fully integrated fundamental Active Ownership approach

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

A focus on active pathways, rather than exclusions

Rather than excluding companies based on specified activities, we seek out companies who have the ability to improve their sustainable practices and benefit financially as they move forward.

Key Benefits of the Strategy

A financial grounding for all investments

The investment process starts with bottom-up fundamental research by our specialised industry analysts.

Sustainability driven portfolio construction

The positive tilt towards companies with more favourable proprietary **Sustainability** and **Shadow Carbon Cost** assessment results in a portfolio with a lower carbon footprint and more attractive **Sustainability** attributes relative to the market.

Value-style exposure with risk control

By focusing on **Valuation**, and incorporating our **Quality**, **Direction Short-Term** and **Direction Long-Term** lenses for risk control, we invest in stocks that are undervalued based on their financial and **Sustainability** characteristics, and investors can benefit as these valuation opportunities are recognised by the market.

An ability to challenge for real change

By having a seat at the table as investors and proxy voters, we can develop strong ongoing relationships with investee companies and challenge them towards more sustainable business practices and long-term value for clients.

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 value-style investment philosophy;
- positive screens that facilitate better outcomes for both stakeholders and for investors; 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 for investors who increasingly want to generate healthier outcomes for stakeholders without forfeiting the financial returns from their investments.

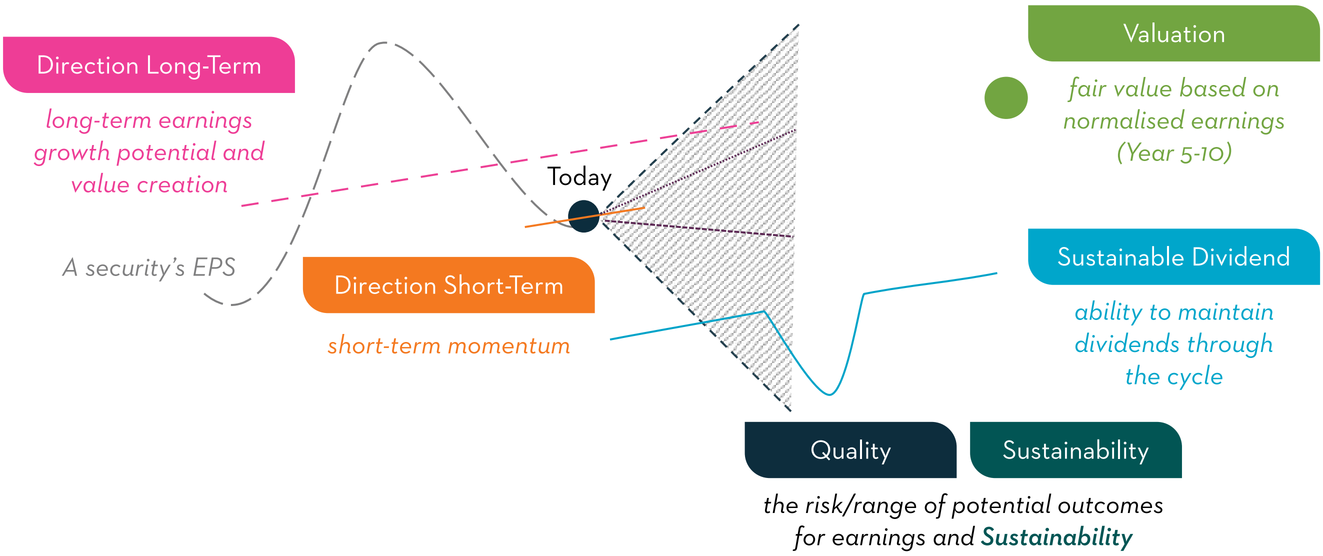
How we identify opportunities

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 Sustainable Equity**, 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.

Our unique approach to Sustainability assessments

Our investment approach reflects our belief that financial returns and ESG impacts are fundamentally intertwined, and that it is possible to generate both sustainable outcomes for stakeholders and long-term investment returns.

The following **Sustainability** assessments are undertaken for all stocks in our investment universe:

- Sustainability Risk: an assessment of common sustainability risk factors that we believe are faced by a company and its industry. This includes consideration of Biodiversity, Modern Slavery and other factors. Our proprietary Carbon Value at Risk (VaR) tool is also used to consider Shadow Carbon Cost risk.
- Net Sustainability Benefits: an assessment of a company's overall impact on society. UN Sustainable Development Goals (SDG) mapping forms part of this assessment.
- Sustainability Pathway: an assessment as to whether material ESG factors are likely to improve for a company's operations, products, and services. We consider factors such as gender representation on boards and First Nations outcomes, the momentum of change, and responsiveness to feedback.

Capturing the impact of carbon

We have 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 EU Carbon Allowance EUA physical future (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.

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**

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.

A focus on active pathways, rather than exclusions

Traditional sustainability funds are often highly focused on tech stocks as they have low/no carbon emissions. On the other hand, they shun energy companies, manufacturers, and utilities, which are typically seen as Value-style stocks. Many of these funds may have what looks like good sustainability scores due to low carbon emissions, but the questions for us are, “what are they doing to contribute to a more Sustainable future, and are they overvalued based on this low future contribution?”

We have intentionally created a strategy that focuses on a company’s overall Sustainability Pathway, rather than employing a range of negative screens. We instead seek out companies who are on an improving Sustainable Pathway. A stock’s carbon emissions today also do not take into consideration any work to improve. Our proprietary Carbon VaR tool helps us to avoid those stocks that are unlikely to survive in a low carbon future and the focus on those that may be high emitters today but are making the transition.

This results in a larger investment universe with optimal returns and risk characteristics relative to the benchmark. This distinguishes our approach from many ESG funds where negative screening is the primary focus, and as **Valuation** is a key focus of our investment approach, this also means we are more Value-style titled than most peers.

Furthermore, excluding companies based on specified activities removes an opportunity to work with companies to move them towards more sustainable practices, and benefit financially from that shift as companies move forward.

The Sustainable Equity Portfolio

Experienced portfolio management

The **MCA Sustainable Equity** strategy is co-managed by Portfolio Managers Will Baylis and Naomi Bant, combining our highly-experienced Quantitative research effort with our dedicated ESG expertise. Will has ultimate management responsibility for the strategy.

Will Baylis
Portfolio Manager

Naomi Bant
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 Sustainable Equity** strategy, we aim to tilt the portfolio towards companies with good **Sustainability** characteristics and low **shadow carbon cost** while maximising expected returns relative to the S&P/ASX 200 Accumulation Index. As such, we weight the calculation of our expected returns towards the **Sustainability** component of **Quality** to a greater extent than in other strategies.

Final stock selection is augmented by the Portfolio Manager's fundamental judgement, and the portfolio typically holds around 40 stocks.

Key facts

Launch date	May 2020
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 40
Security limits	Benchmark +/-6%
Sector limits	Benchmark +/-11%
Portfolio turnover	Typically 30% p.a.
How to access	Segregated mandate Martin Currie Sustainable Equity Fund (An Australian Unit Trust) • APIR: SSB0125AU Also available as an SMA

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*

Important information

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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 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 Sustainable Equity Fund (ARSN 088 668 820, APIR SSB0125AU)

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.

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