STRATEGY GUIDE

Martin Currie Australia Value Equity

JANUARY 2025

HIGH CONVICTION VALUE APPROACH

High conviction value approach

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

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 undervalued stock ideas, selected carefully by MCA's investment team.

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

High conviction portfolio, combining a true to label value approach with risk control

Our contrarian 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.

A proven process, customised to suit the Australian market

We have reflected the Australian market's deeply ingrained structural inefficiencies into our proprietary multi-lensed investment process.

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.

A contrarian view

Our bottom-up fundamental research helps us to look past the market's short-term noise, allowing divergences from true fair value to be exploited by our disciplined Value-style investment process.

A forward-looking approach

Our valuations are based on long-term earnings power. This means that we can typically perform better through style and economic turning points as we base our stock decisions on fundamental forecasts rather than a mechanical approach that favours backwards looking data.

Diversification when blended with other styles

Our true to label Value style blends well with other investment styles in a diversified asset allocation, providing a sound exposure to the Value style's long-term superiority over Growth.

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; 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 during Value tailwinds, while providing investors with genuine protection through periods where the Value-style faces into thematic headwinds.

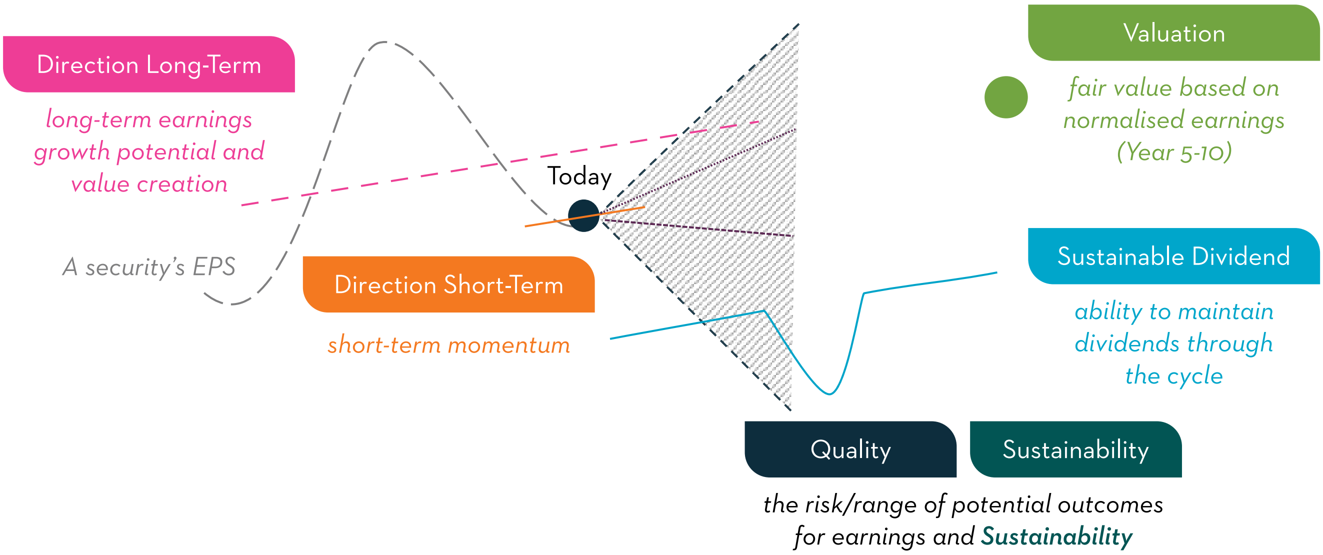
How we identify opportunities

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 Value 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.

High conviction portfolio, combining a true to label value approach with risk control

Our team's forward-looking fundamental insights are the key to identifying the 'best ideas' ASX-listed securities with true Valuation potential for our **MCA Value Equity** strategy. We seek stocks that have the greatest return upside when its fundamentals are fully recognised by the market.

These contrarian stock ideas for our high conviction portfolio are 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.

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.

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.

A proven process, customised to suit the Australian market

Australia has a unique market structure. The combination of a high concentration in large cap stocks, high sector concentration, franking benefits that accrue to domestic investors only, and the market's propensity to be impacted by global equity factors has led to mixed success for traditional Value factors.

We have found that a multi-lensed approach can offer a better perspective of fair value than any one method can on its own. Our extensive experience has allowed us to design a customised investment process that specifically reflects the Australian market's deeply ingrained structural inefficiencies. Our deep understanding of the Value style, market behaviour, and expected return & risk drives our contrarian positions, and helps us to avoid any 'herd mentality' or value traps.

High benchmark concentration

Dominance of large caps, finance and materials stocks

- We are high conviction and we have a natural bias away from the largest securities.
- We cover all market capitalisations and sectors.

Few stocks per industry/sector

- We use a common framework to research stocks across the whole Australian market rather than by sector.
- We leverage Martin Currie global investment floor knowledge on global peers.
- We improve diversification via nonbenchmark stocks such as IPOs and dual listed names.

Oligopolistic nature of Australian companies

- Our process explicitly considers the impact of market structure within our **Quality**, Direction Short-Term and Direction Long-Term lenses.

Benefit of franking credits for domestic investors only

- Significant portion of international investors in Australian equities leads to inefficient valuing of companies with high franking levels.
- We explicitly value franking credits and penalise unfranked dividends in our Valuations.

Market's propensity to be impacted by global equity factors

- We undertake big picture analysis of global markets and their factors and their impact on Australian companies.
- Our portfolio construction process is factor aware

Mixed success of traditional Value factors in Australia

- While we are stylistically Value managers, we have tools to help us avoid falling into value traps.
- Our Valuation model is risk-adjusted based on **Quality**, Debt and Size.
- We use Momentum as a component in our Direction Short-Term and Direction Long-Term signals.

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 Value Equity Portfolio

Experienced portfolio management

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

Reece Birtles
Chief Investment Officer
& Portfolio Manager

Michael Slack
Portfolio Manager
& Head of Research

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.

Final stock selection is augmented by the Portfolio Manager's fundamental judgement, and the portfolio typically holds around 33 stocks.

Key facts

Launch date	October 2006
Performance objective	The strategy aims to earn an after fee return in excess of the S&P/ASX 200 Accumulation Index 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.
How to access	Martin Currie Select Opportunities Fund (An Australian Unit Trust) • APIR: SSB0009AU Segregated mandate 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 Select Opportunities Fund (ARSN 122 100 207, APIR SSB0009AU)

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.