Having your cake and eating it too

Achieving active management in your portfolio recipe without high fees or high risk

Ross Kent
Client Portfolio Manager
Martin Currie Australia

March 2025

INTRODUCING MARTIN CURRIE AUSTRALIA (MCA)

MARTIN CURRIE
A Franklin Templeton Company

A leading innovator of Australian Equity, Real Asset and Multi-Asset strategies

Specialist investment manager of
Franklin Resources Inc.

40+ years in **Australian equities**
and **Listed Real Assets**

World class
ESG credentials*

Tailored investment options
aligned to client needs

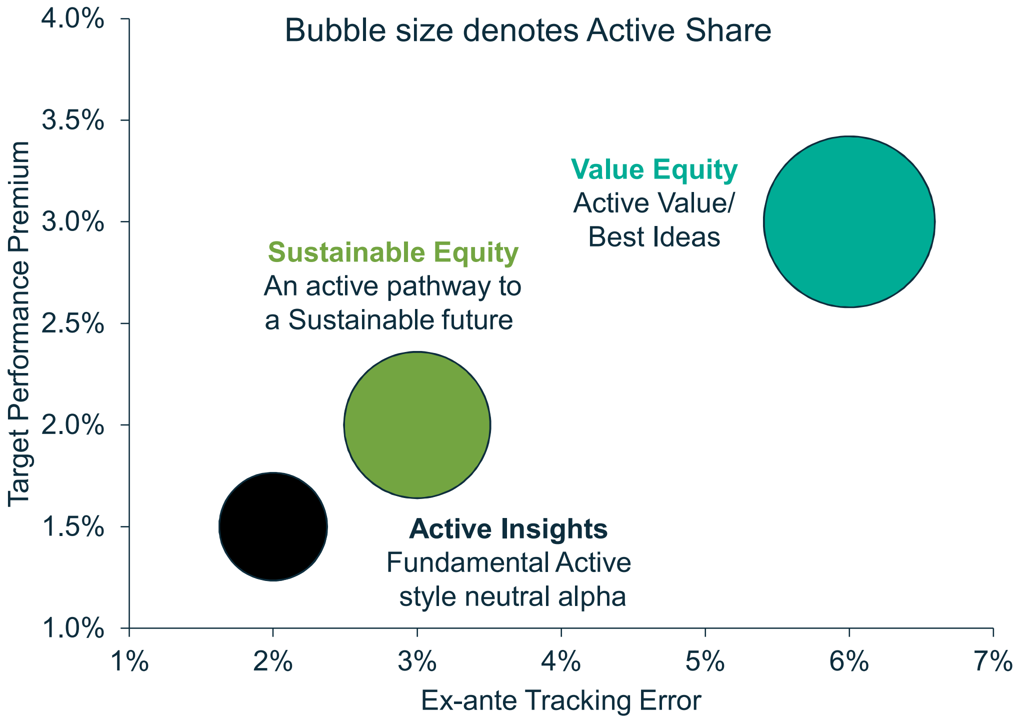
17-member team of
specialist investment analysts

A$6 billion in
Australian equities

Source: Martin Currie, as 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.

STRATEGY PILLARS BUILT OFF ONE COMPLEMENTARY INVESTMENT TEAM, PROCESS AND SUPPORT FUNCTION

Active Australian Equities A$2.3 billion



Australian Equity Income A$3.2 billion

Equity Income

A 'sufficient income for life'. Benchmark unaware, high income portfolio with tax benefits and low-volatility growth

Listed Real Assets A$1.1 billion

Real Income

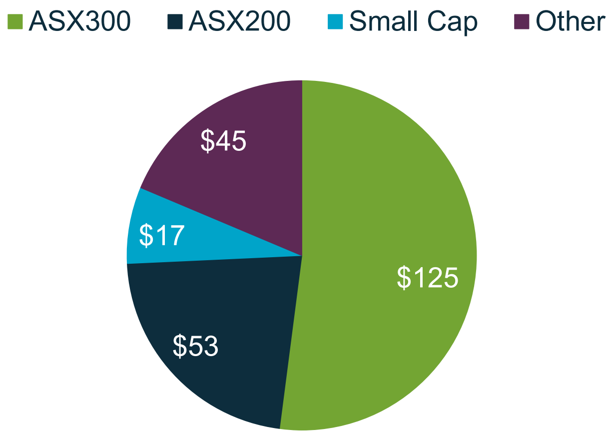
Listed REITs and Infrastructure portfolio, providing high income and low-volatility growth

Source: MCA; as of March 2025. For further information on the characteristics of each MCA strategy and vehicle, please refer to our website: https://www.martincurrie.com/australia/martin-currie-australia.
Data calculated for the representative MCA Equity Income, Real Income and Global Real Income account. Data calculated in A$ gross of management fees.

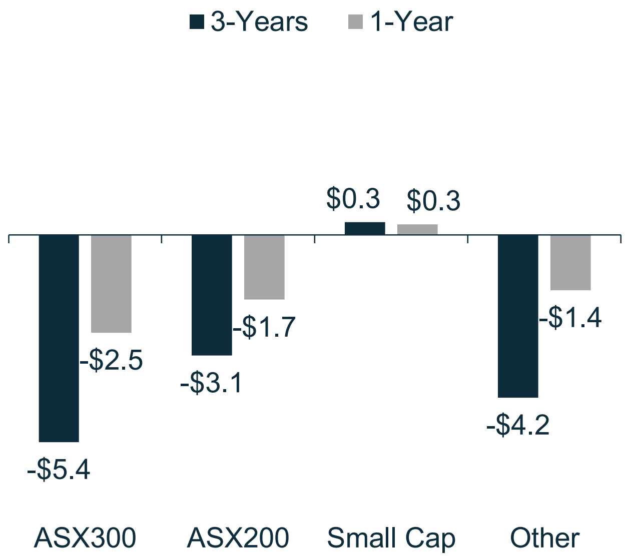
WHERE'S THE MONEY GOING?

Index Fund Net Flows by Benchmark
January 2025 – A$ billion

AuM by Benchmark
January 2025 – A$ billion



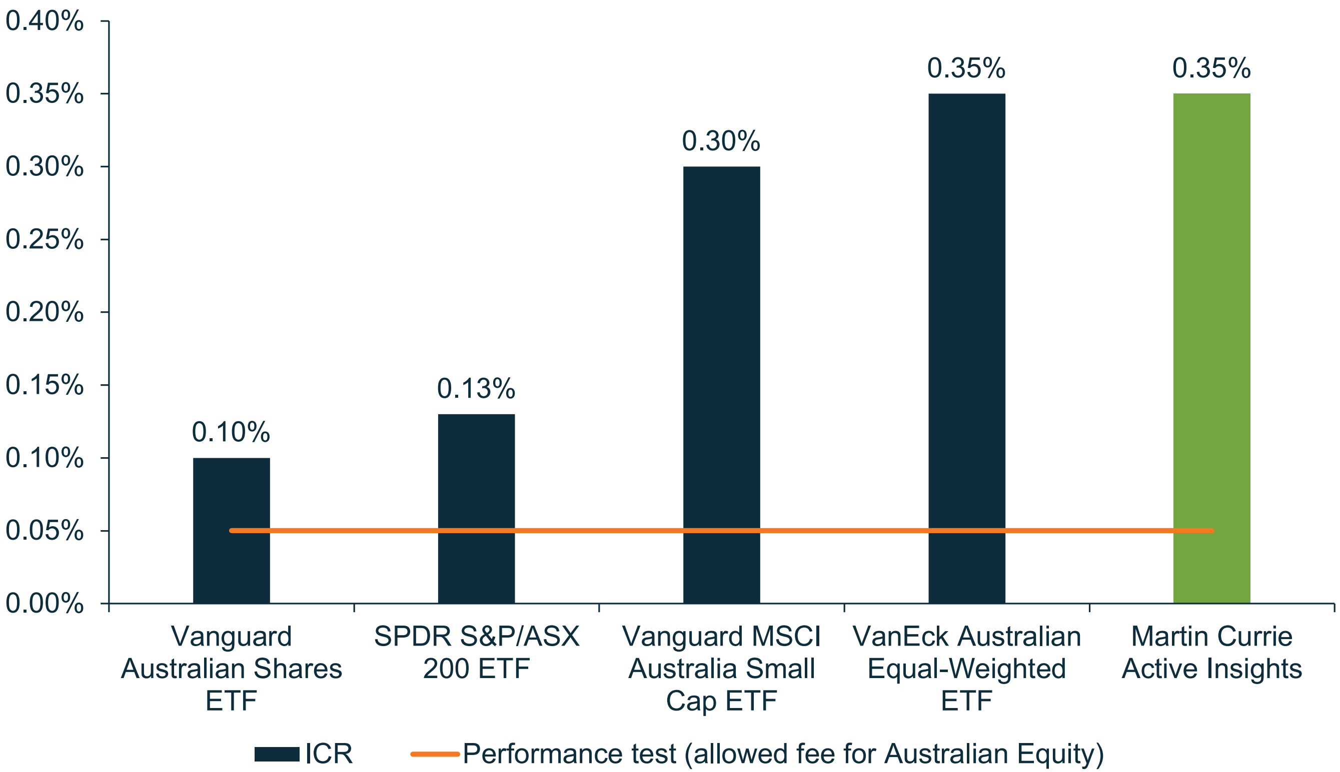
Active Fund Net Flows by Benchmark
January 2025 – A$ billion



Source: Morningstar Direct, as of 31 January 2025.

INDEX FUNDS CARRY FEES AND TRACKING ERROR TOO

PDS Indirect Cost Ratios



- SMAs and managed accounts can be captured by the YFYS performance test
- Measurement is against:
  - S&P/ASX 300 Total Return Index
  - a 5bps investment fee
- Higher fees and use of other benchmarks create divergence
  - Also for index funds

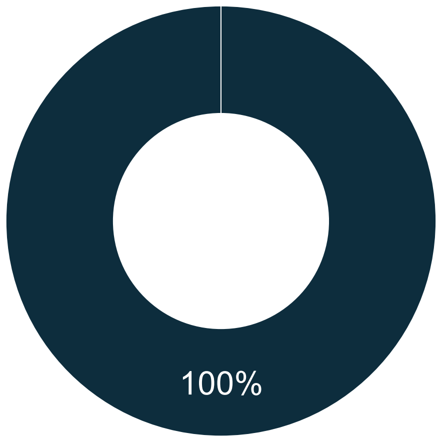
Past performance is not a guide to future returns.
Source: Morningstar Direct; as of 31 December 2024.

BALANCING ACTIVE FEES WITH MORE EFFICIENT ALPHA

Original allocation

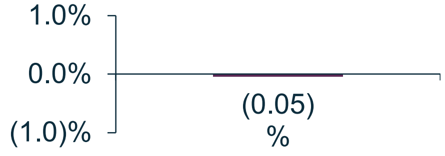
■ MCA Active Insights

■ Vanguard Australian Shares ETF (VAS)

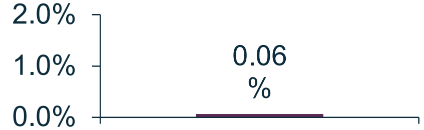


Portfolio weighted fee: 0.10%

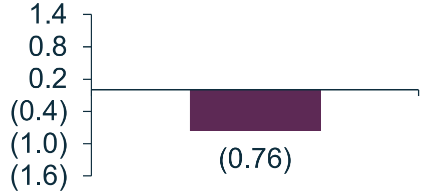
Alpha (p.a.)



Tracking error (p.a.)



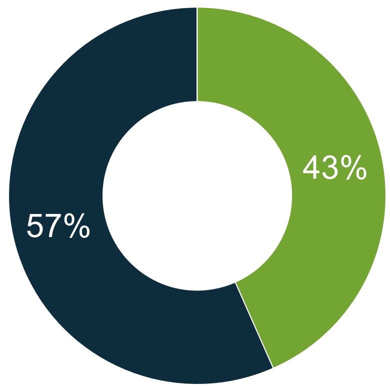
Information ratio



Asset allocation constrained to maximise alpha at 1% tracking error

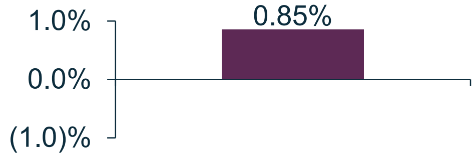
■ MCA Active Insights (actual)

■ Vanguard Australian Shares ETF (VAS)

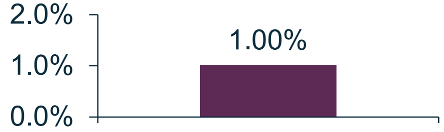


Portfolio weighted fee: 0.21%

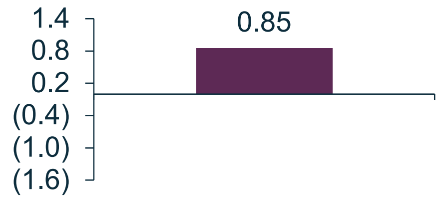
Alpha (p.a.)



Tracking error (p.a.)



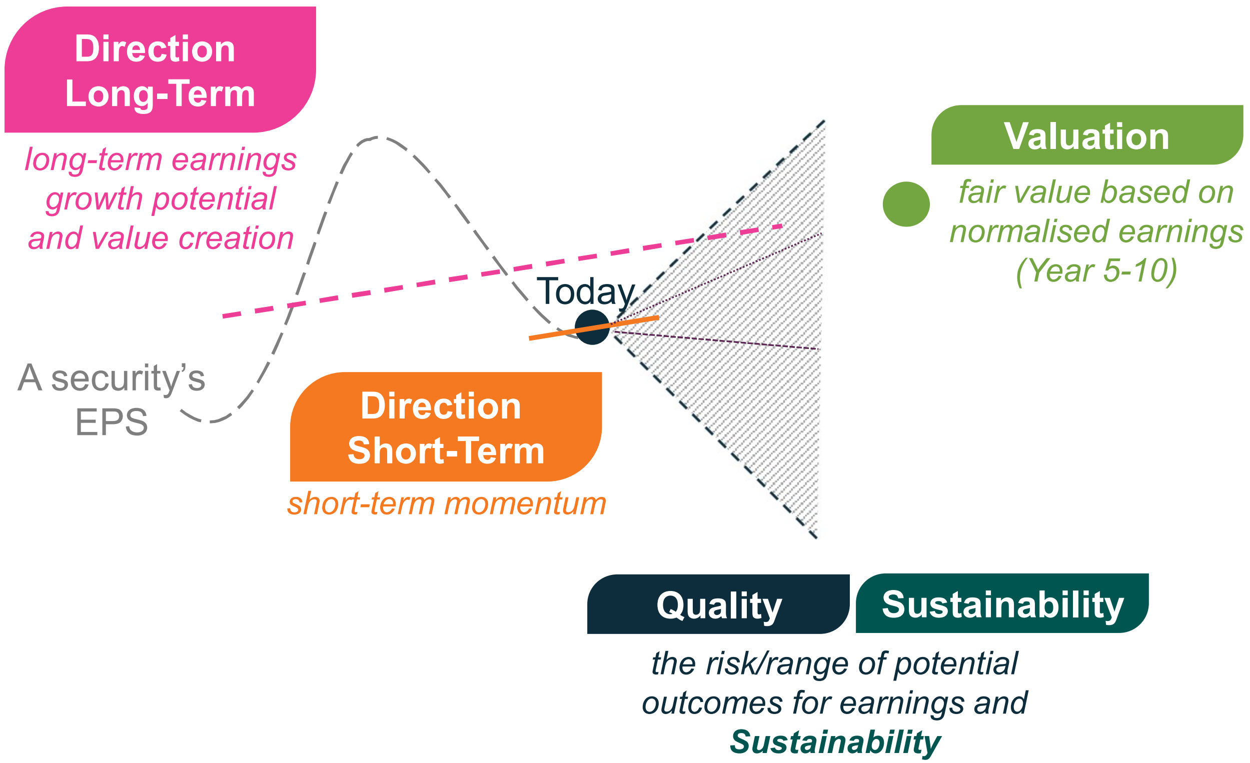
Information ratio



Past performance is not a guide to future returns.
These numbers do not represent the performance of an actual portfolio and should not be considered as an indication of future returns.
Source: MCA, Morningstar Direct, FactSet; as of 28 February 2025. Data shown for a representative Active Insights account, and specified ETFs. Index: S&P/ASX 300 Accumulation. Data shown for illustrative purposes only. Returns shown from 1 December 2021. Multi manager portfolio alpha, tracking error and information ratios calculated using a portfolio optimisation process based on gross of fee monthly returns reported to Morningstar with the ICR disclosed to Morningstar deducted from returns monthly. The paper portfolio is rebalanced monthly, but returns do not represent the impact of trading.
This data has been used to demonstrate the longer-term track record of the investment manager. There are differences between the above representative account and the Martin Currie Active Insights Fund, including differences in the number of holdings, the amount of assets under management, cash flows, fees and expenses.

INVESTMENT BELIEFS

1. Markets can take time to incorporate all available information.
2. In the short run, behavioural biases can diverge from fair value.
3. In the long run, equity markets are efficient in smoothing out over- and under-valuation.
4. Team-based review of DCF company valuation provides a robust, repeatable process for updating fair value.
5. Valuation provides scant information on timing of return to fair value.



Past performance is not a guide to future returns.
Source: MCA; data shown for illustrative purposes only.

THE PROBLEM FACING STYLE MANAGEMENT….

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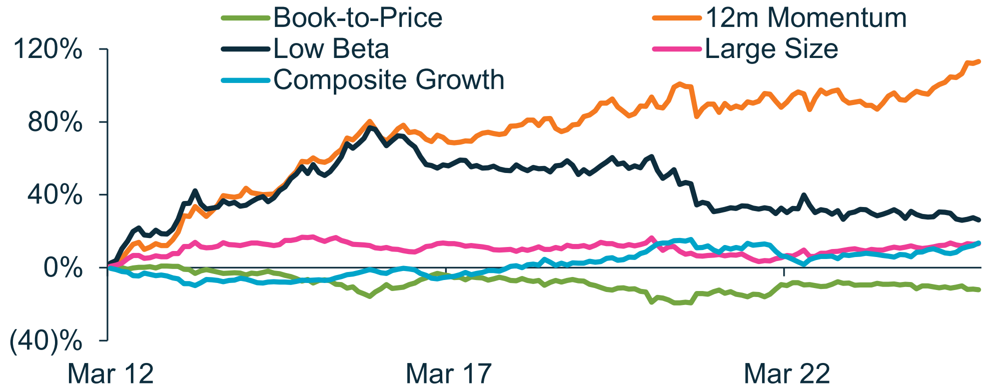
Pure alpha is getting harder to isolate

- Markets are becoming more concentrated
- YFYS benchmarks are a constraint
- Factors are trending longer (and maybe changing)

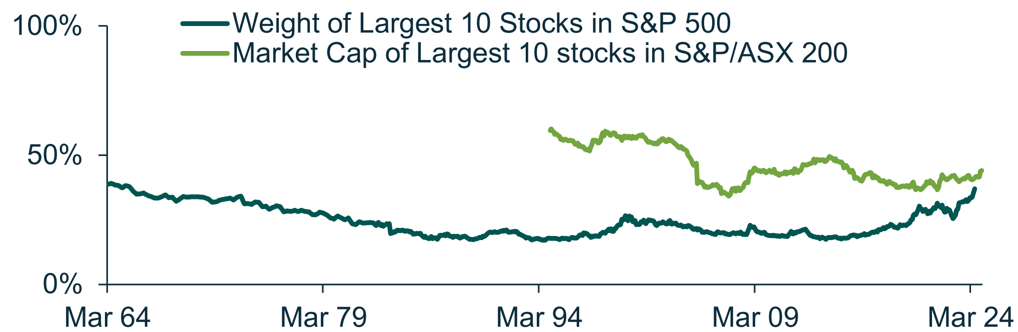
Style is colliding against some common goals

- Investors have less tolerance for out-of-favour styles; they require consistent alpha
- Are cost-efficiency and transparency more valued than alpha?

FM risk premiums (cumulative)



Index concentrations



Past performance is not a guide to future returns. These numbers do not represent the performance of an actual portfolio and should not be considered as an indication of future returns.
Source: MCA, FactSet; as of 31 January 2025. Time series data shown for illustrative purposes only. Depicts monthly investment horizons up to 36 months. Cumulative factor returns are based on chain-linked monthly alpha. Back test sample period from 31 March 2011. Data is relative to the S&P/ASX 200 Accumulation Index. Gross performance data is presented without deducting investment advisory fees, broker commissions, or other expenses that reduce the return to investors. Theoretical results are shown without transaction costs that would reduce the return to investors.

WHAT ARE THE SOLUTIONS TO THESE DYNAMICS?

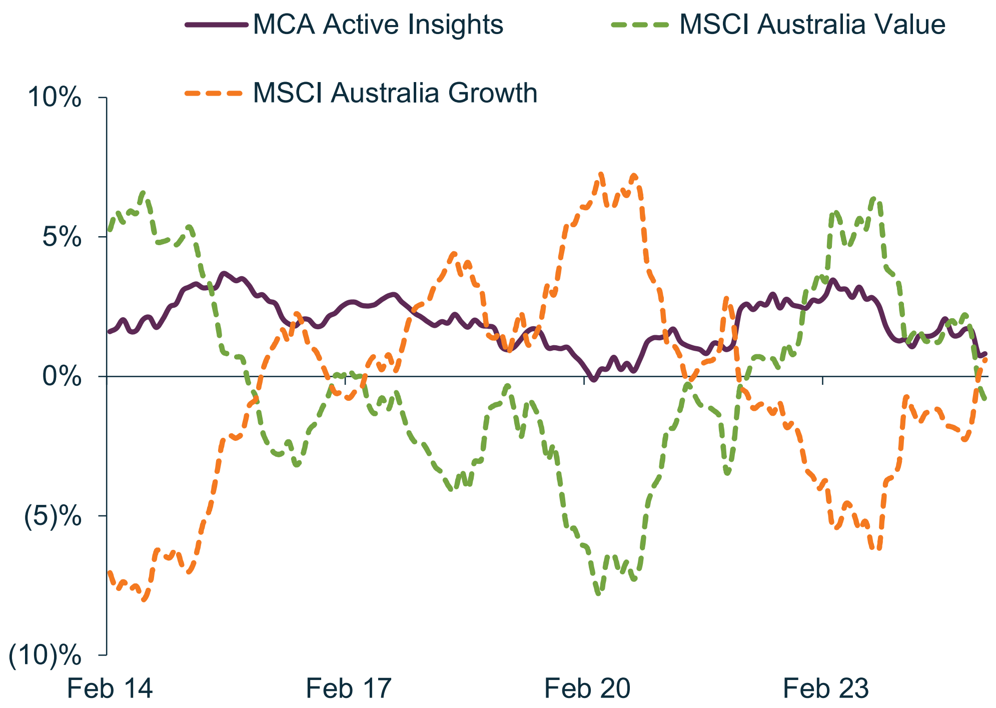
Use quantitative risk controls to isolate fundamental insights by:

- Managing style risk dynamically
- Identifying alpha signals separate from style biases
- Monitoring factors and risk shifts in real time

The end result:

- Smoother alpha profile
- Shorter duration of alpha cycle

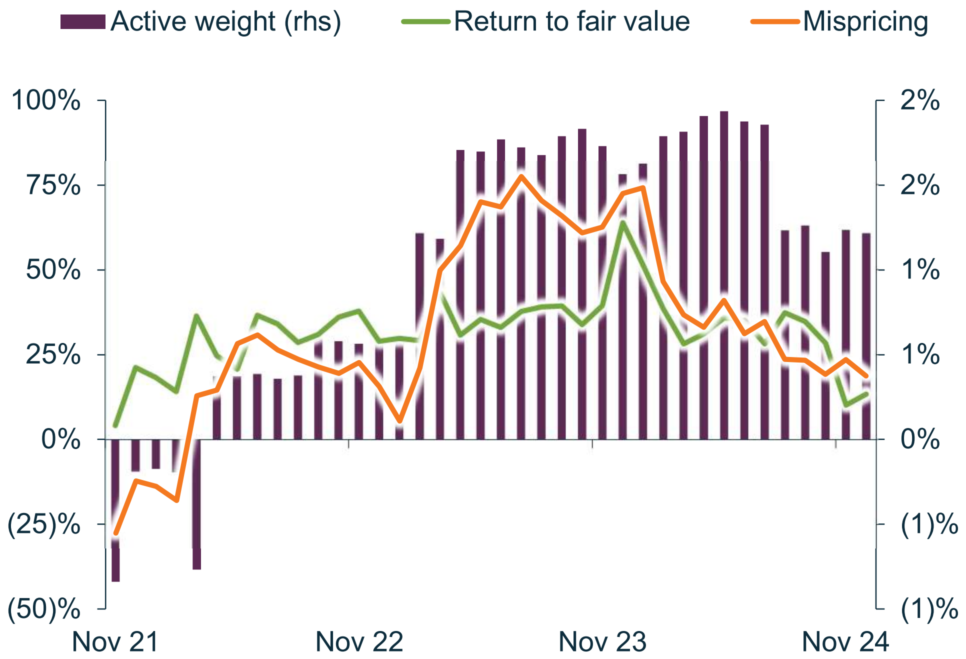
Rolling three-year active return



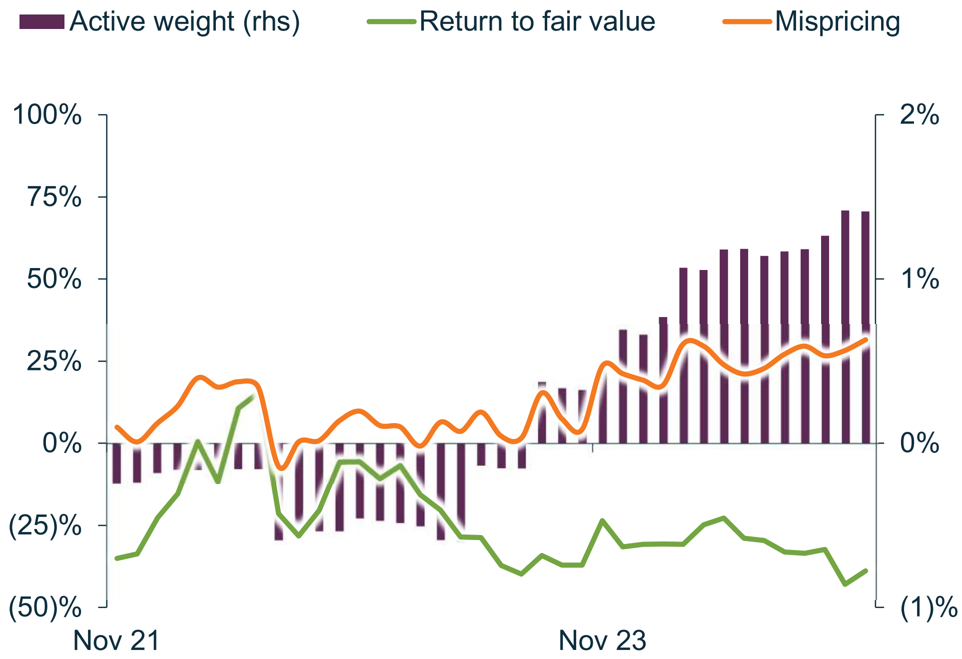
Past performance is not a guide to future returns. These numbers do not represent the performance of an actual portfolio and should not be considered as an indication of future returns.
Source: MCA; as of 28 February 2025. Data shown for a representative Active Insights account and Active Insights back test. Index: S&P/ASX 200 Accumulation. Data shown for illustrative purposes only. Back test sample period from 31 March 2011. Actual returns shown from 1 December 2021. Gross performance data is presented without deducting investment advisory fees, broker commissions, or other expenses that reduce the return to investors. Theoretical results are shown without transaction costs that would reduce the return to investors.

CASE STUDY: ADJUSTING TARGET WEIGHTS TO REFLECT MISPRICING OPPORTUNITY

Mispricing in action: QBE Insurance Group



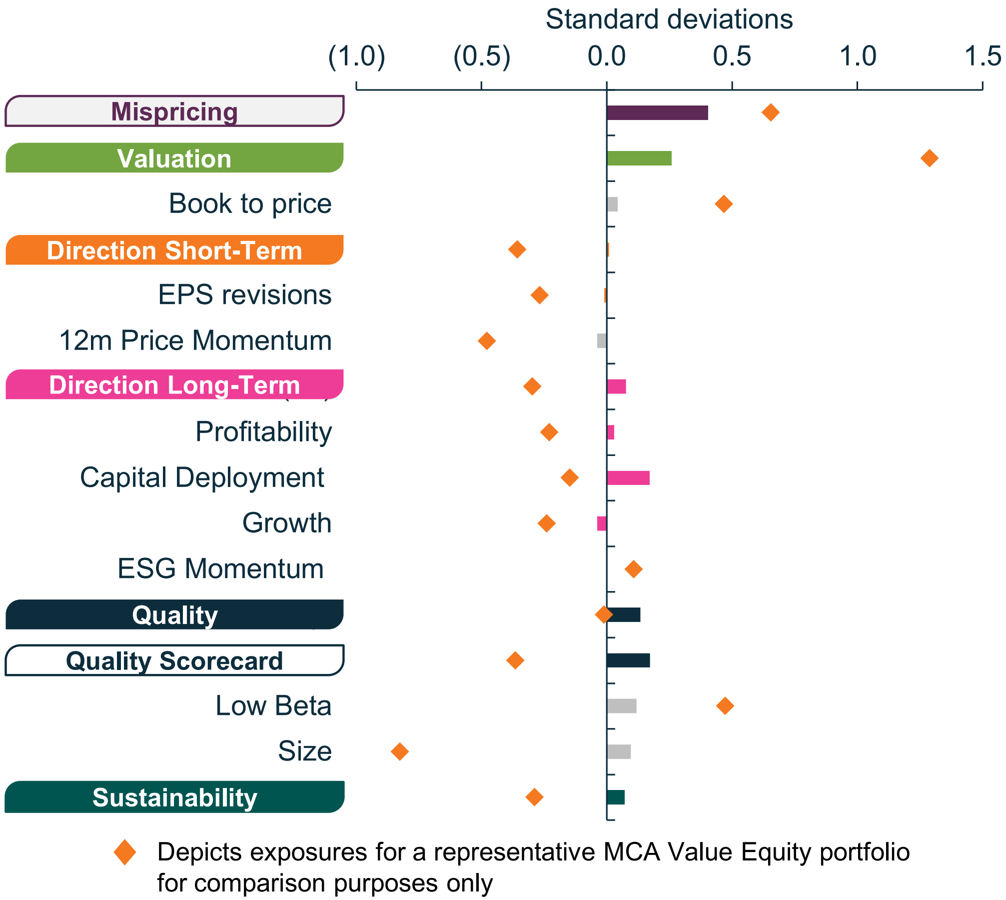
Mispricing in action: Xero



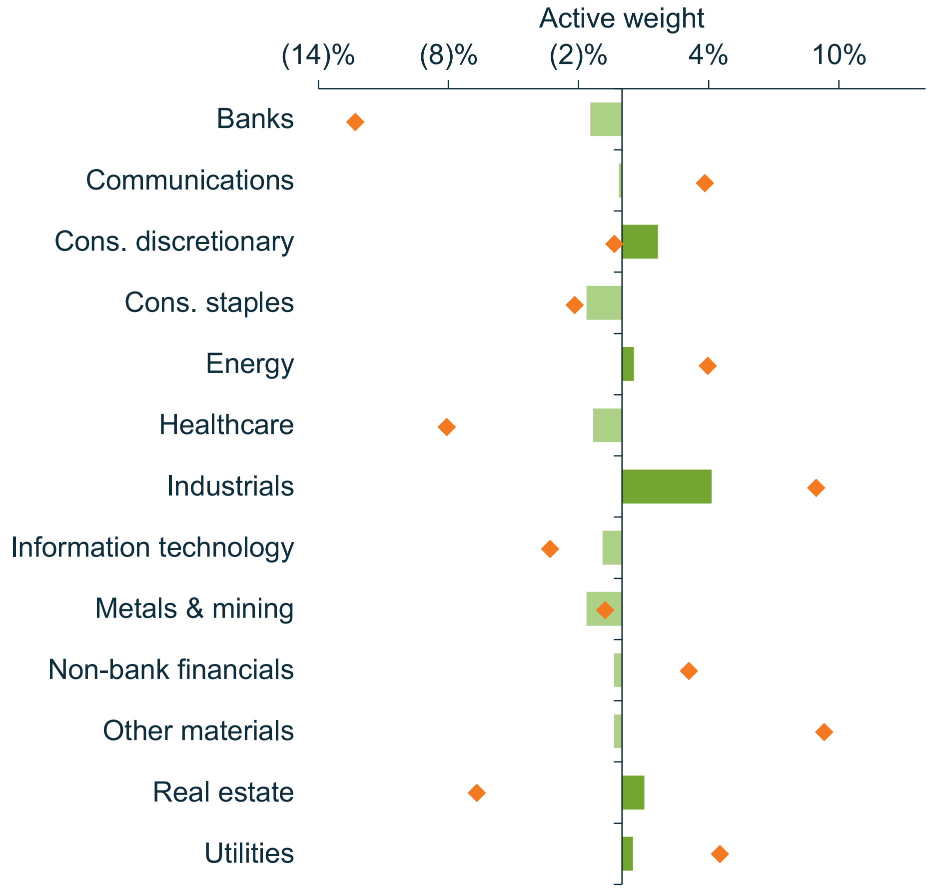
Past performance is not a guide to future returns. These numbers do not represent the performance of an actual portfolio and should not be considered as an indication of future returns.
Source: MCA; as of 31 December 2024. Data shown for a representative Active Insights account. Index: S&P/ASX 200 Accumulation. Data shown for illustrative purposes only. Gross performance data is presented without deducting investment advisory fees, broker commissions, or other expenses that reduce the return to investors. The information provided should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any of the security transactions discussed here were, or will prove to be, profitable.

PORTFOLIO FOCUSED ON THE MISPRICING OPPORTUNITY

Style exposures – relative to S&P/ASX 200



Sector exposures – relative to S&P/ASX 200



Past performance is not a guide to future returns. Source: MCA; as of 31 December 2024. Data shown for a representative Martin Currie Australia Active Insights portfolio.

PERFORMANCE SUMMARY: REPRESENTATIVE ACCOUNT

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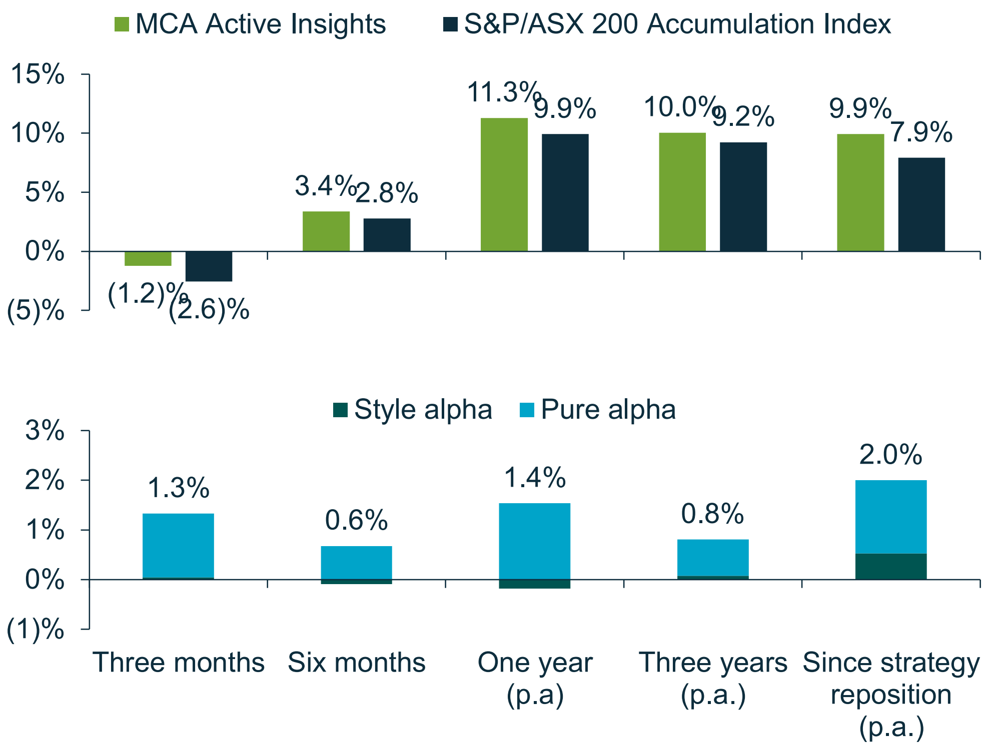
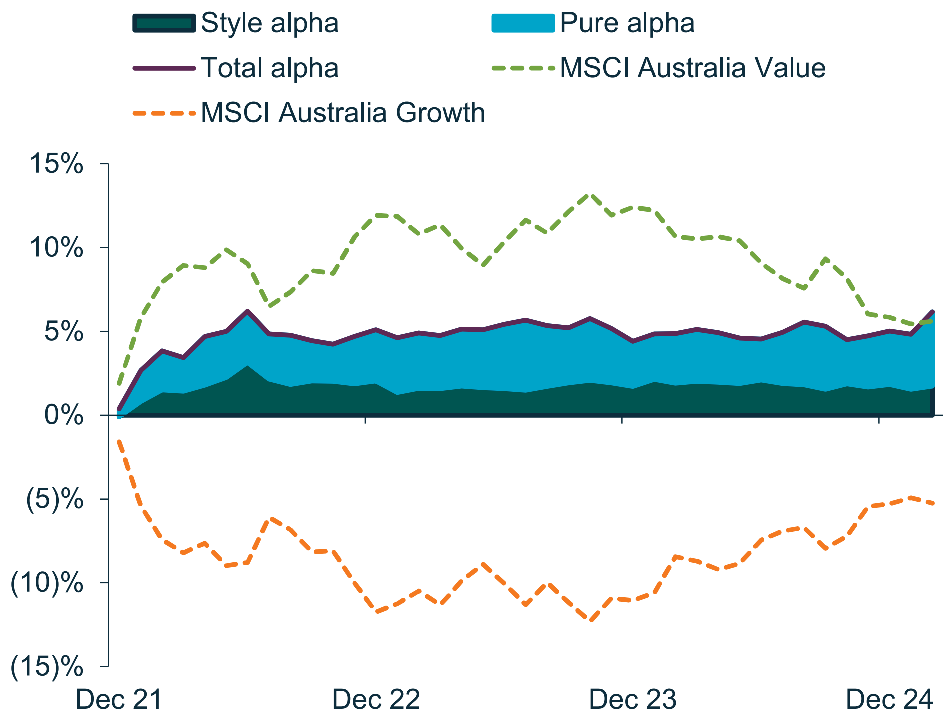
Performance over periods to 28 February 2025



Cumulative active return vs S&P/ASX 200



Past performance is not a guide to future returns. Source: MCA; as of 28 February 2025. Data calculated for the representative Martin Currie Australia Active Insights account in A$, gross of management fees. Inception Date: 1 December 2021. Multivariate attribution approach is applied. Style factors consist of book-to-price, momentum, growth, beta and size.

This data has been used to demonstrate the longer-term track record of the investment manager. There are differences between the above representative account and the Martin Currie Active Insights Fund, including differences in the number of holdings, the amount of assets under management, cash flows, fees and expenses.

VALUE OPPORTUNITY: DIVE IN OR DIP THE TOE IN?

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A Franklin Templeton Company

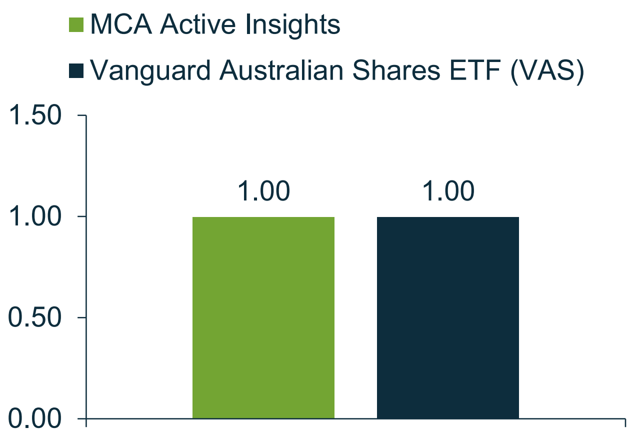
MCA Valuation Spread*:

- Historic valuation spreads are flashing opportunity signals
- Market euphoria is masking fundamentals
- Multiple ways to capitalise:
  - **Martin Currie Select Opportunities Fund**
    - High active share, concentrated portfolio of contrarian stock picks with strong fundamentals
  - **Martin Currie Active Insights Fund**
    - Harvest fundamental insight from a diversified portfolio with tight sector and style risk management

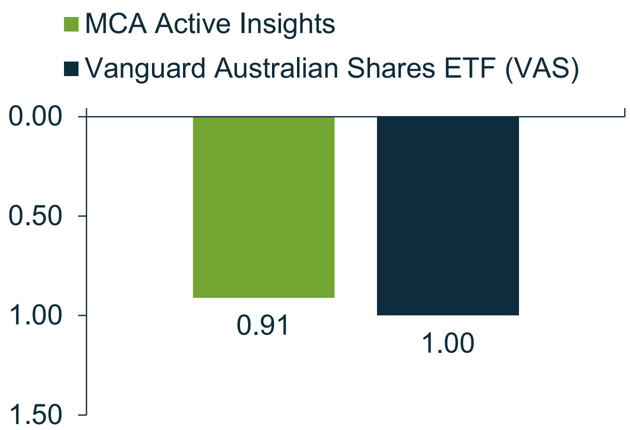
Past performance is not a guide to future returns. Source: MCA, FactSet; as of 28 February 2025. See Fund disclaimers at end.
*Based on valuations for a representative MCA Value Equity account vs. S&P/ASX 200 (log).

PHILOSOPHY UNDERPINNING FUNDAMENTAL RESEARCH SHINES THROUGH

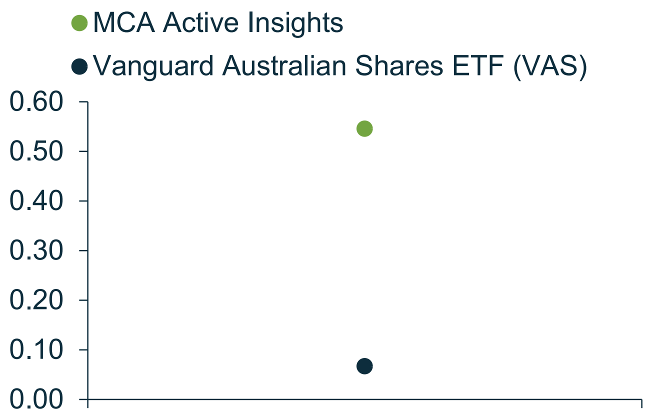
Upside capture vs S&P/ASX 300 Accumulation Index



Downside capture vs S&P/ASX 300 Accumulation Index



Correlation of alpha vs S&P/ASX 300 with MSCI Australia Value



- Despite tight style and sector risk control, the fundamental research shares a common heritage and philosophy
- Though not perfectly correlated, portfolio alpha tends to move in concert with Value style returns relative to the Index

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Source: MCA, Morningstar Direct, FactSet; as of 28 February 2025. Data shown for a representative Active Insights account, and specified ETFs. Index: S&P/ASX 300 Accumulation. Data shown for illustrative purposes only. Returns shown from 1 December 2021. Based on gross of fee monthly returns reported to Morningstar with the ICR disclosed to Morningstar deducted from returns monthly.
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KEY TAKEAWAYS

1. **Market preference for low-cost, passive and smart-beta strategies poses a challenge to fundamental managers.**
   - How to deliver consistent alpha over a short horizon at a competitive fee

2. **Tight control of style and sector risks can isolate “pure” fundamental research insight in a diversified portfolio.**

3. **Net of fees, with modest tracking error constraints, active management can enhance portfolio outcomes under the Performance Test.**

Q&A

Gateway to investment specialists

FRANKLIN TEMPLETON

$2.5 Trillion Assets under management[1]

75+ Years of active management experience

150+ Countries with investors

1,600+ Investment professionals

Our Investment Capabilities (AUD Billion)

Equity — $1,001.7

- Emerging/Frontier
- Global
- Preferred/Convertibles
- Sector
- Shariah
- Single Country Equity
- Thematic
- US Equity

Fixed Income — $758.5

- Bank Loans
- Corporate Credit
- Currencies
- Government
- Multi-Sector
- Municipals
- Securitised
- Sustainable Bonds

Alternatives — $402.0

- Alternative Credit
- Digital Assets
- Hedged Strategies
- Private Equity
- Real Estate
- Secondaries
- Venture Capital

Multi-Asset — $281.1

- Balanced
- Income
- Managed Volatility
- Model Portfolios
- Target Date
- Target Risk
- Target Volatility

Our Investment Managers

Our Investment Managers	Asset Classes			
Franklin Templeton (1947)	●	●	●	●
Alcentra (2002)			●	
Benefit Street Partners (2008)			●	
Brandywine Global (1986)	●	●		
Clarion Partners (1982)			●	
ClearBridge Investments (2005)	●			
Lexington Partners (1994)			●	
Martin Currie (1881)	●			●
Putnam Investments (1937)	●			
Royce Investment Partners (1972)	●			
Western Asset (1971)		●		

Complemented by innovations in Sustainable and Impact investing, ETFs, Custom Indexing, Frontier Risk Alternatives, and others

1. AUM is in AUD as of 31/12/2024. Total AUM of $2.5 Trillion includes $102.4 Billion in cash management that is not represented here.

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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.

Some of the information provided in this document has been compiled using data from a representative account. This account has been chosen on the basis it is an existing account managed by Martin Currie, within the strategy referred to in this document. Representative accounts for each strategy have been chosen on the basis that they are the longest running account for the strategy. This data has been provided as an illustration only, the figures should not be relied upon as an indication of future performance. The data provided for this account may be different to other accounts following the same strategy. The information should not be considered as comprehensive and additional information and disclosure should be sought.

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.
- Emerging markets or less developed countries may face more political, economic or structural challenges than developed countries. Accordingly, investment in emerging markets is generally characterised by higher levels of risk than investment in fully developed markets.
- 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.

Risk warnings for the back-test

- The back-test results presented in this document are based on simulated performance results. Please be aware these have certain limitations.
- Back-tested performance returns do not represent the impact of trading. The trades in the back testing have not been executed and may not fully reflect the impact of market factors such as liquidity.
- Martin Currie makes no representation that any account will or is likely to achieve returns similar to those illustrated as a result of the back testing presented in this document.

Fund disclaimers

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