STRATEGY **GUIDE**

Martin Currie Australia Sustainable Equity

MARTIN CURRIE
A Franklin Templeton Company

JANUARY 2024 **For institutional, professional and wholesale investors only**

AN ACTIVE PATHWAY TO A SUSTAINABLE FUTURE

The Martin Currie Australia (MCA) Sustainable Equity strategy invests in a portfolio of ASX-listed securities that we have assessed using a proprietary approach for understanding sustainability and financial attributes.

The strategy aims to create long-term value for investors through:

- **High conviction, sustainable portfolio –** A portfolio of ASX-listed securities with attractive sustainability and financial attributes
- **Proven investment process –** Proprietary multi-lensed investment approach provides broad perspective of expected risk and return
- **Proprietary carbon cost impact assessment –** Quantifying carbon transition risk & opportunity, and progress on climate change action
- **Fundamental active ownership –** Purposeful engagement with companies and client advocacy through proxy voting – influencing companies to make positive change
- **Experienced stock pickers with long term track record –** Deep industry experience generating 'active insights'

Read more in the following document about why the Martin Currie Australia Sustainable Equity strategy seeks to provide an active pathway to a sustainable future.

Overview

We believe that financial performance and ESG factors are fundamentally intertwined, and that it is possible to generate both sustainable outcomes for stakeholders and long-term investment returns.

The MCA Sustainable Equity strategy invests in companies that have been assessed using MCA's proprietary Active Ownership approach and ratings framework to have more favourable **Sustainability** assessments for **"Sustainability Risk"**, **"Net Sustainability Benefits"** and **"Sustainability Pathway"** and **"Shadow Carbon Cost"**. This approach is premised on our philosophy that companies with these characteristics should prove to be more successful financially over time.

Our strategy is deliberately designed to focus on a company's overarching net benefit based on our assessment of the material benefits and risks that may exist, rather than applying a wide array of negative screens. This is because we believe in the importance of being active investors.

The development of the Sustainable Equity strategy was a natural extension of MCA's investment philosophy. Sustainability inputs and assessments have been embedded directly into our investment process since 2009, the year we became signatories to the PRI.

We believe that by taking an Active Ownership approach, we can encourage greater transparency and gain further insight into the company's governance and their management of key ESG factors. We are very strong believers that Active Ownership should be undertaken directly by those making investment decisions rather than being outsourced. Responsibility lies directly with our experienced team of research analysts and portfolio managers.

Our experienced investment team identifies attractive investment opportunities using a disciplined and repeatable investment approach based on proprietary research into **Valuation**, **Quality**, and **Direction** lenses.

Our proprietary **Sustainability** ratings, which include considerations of modern slavery and human rights risks, contribution to the UN Sustainable Development Goals and other relevant factors, are a also key component of our **Quality** assessments. We also undertake a proprietary **Shadow Carbon Cost** assessment to understand the sensitivity of stocks and portfolios to climate transition risk.

Portfolio construction for MCA Sustainable Equity strategy facilitates the tilting of the portfolio towards companies that we have assessed to have more favourable proprietary **Sustainability** characteristics and **Shadow Carbon Cost** assessments, while maximising expected returns using our multi-lensed proprietary research. We believe that this broad perspective of security expected return drivers leads to higher alpha generation.

We believe that there are few peer strategies available in the market that address the assessment of both sustainability and financial attributes in the way that the MCA Sustainable Equity strategy can.

Proprietary multi-lensed investment process

The MCA Sustainable Equity 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**

Quantitative risk rating based on:

- The 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

ESG research is integrated deeply into MCA's multi-lensed research process and also our 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 unfolds 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, engagement and proxy voting 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, cashflows that our analysts forecast.

- Where material to a company's ability to generate long-term returns, we factor the cost/benefits of ESG inaction or action directly into our **Valuation**.
- The materiality of ESG risk factors is reflected in our Management, Governance and **Sustainability** ratings, which feed into our overall assessment of **Quality**. **Quality** is also used as a component in the stock-specific discount rates used in our **Valuation** model.

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 stocks.

For further information on our embedded ESG process, please refer to our Active Ownership brochure on our ***website***.

Focus on sustainability for higher conviction

Sustainability is a key component of our **Quality** research lens. We outline the key components of each of our proprietary Sustainability insights below, which are complemented with external quantitative data sources to provide a holistic view of sustainability.

Sustainability	MCA's fundamental assessment	External quantitative data
Sustainability risk: Assessment of common Sustainability risk factors faced by a company and its industry	• Common sustainability risk factors and their mitigation • Material issue identification	
Net Sustainability Benefit: Assessment of a company's overall impact on society	• Net benefits and harms to society • Governance Assessment • UN SDG target contribution	• MSCI E&S • Ownership Matters Governance
Sustainability Pathway: Assessment of the level of company management understanding and integration of current Sustainability issues	• Momentum of positive change • Responsiveness to engagement • Assessment of business integration	• MSCI Controversies • Change in MSCI E&S • Change in Ownership Matters Governance

Capturing the impact of carbon

We have also 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 European carbon price (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 where when no viable alternatives exist.

Shadow carbon cost assessment

- Based on Scope 1, 2 and 3 carbon emissions
- Carbon cost of A$80/t CO2-e
- Evaluation of transition path towards a low carbon world
- Ability of a company to pass carbon costs through to customers

A balanced portfolio for sustainability-adjusted expected returns

Our proprietary **Valuation**, **Quality**, and **Direction** research outputs are combined with our proprietary **Sustainability** assessments and **Shadow Carbon Cost** to help quantify our sustainability-adjusted expected returns.

The portfolio construction process facilitates tilting of the portfolio towards companies with good Sustainability characteristics and low shadow carbon costs while maximising expected returns. Stocks with unsustainable business practice, poor quality, high risk of sustainability issues, or poor future sustainability outcomes, are penalised through this process.

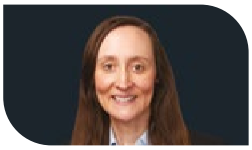
In deriving and quantifying the sustainability-adjusted expected return, fundamental proprietary signals make up a larger portion of the weight. Portfolio construction is fundamentally thus driven. Target bet guide sizes for the portfolio are risk adjusted based on the sustainability-adjusted expected return forecast, market cap, liquidity and a blended risk measure.

Final stock selection is augmented by Portfolio Manager judgment, and takes into consideration the impact of any changes on the portfolio's style skyline and risk characteristics. This ensures the portfolio has a low carbon footprint and attractive sustainability and financial attributes relative to the market.

The MCA investment team

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 Baylis has ultimate management responsibility for the Sustainable Equity strategy.

Will Baylis
Portfolio Manager



Naomi Bant
Portfolio Manager

The Sustainable Equity 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 backgrounds[1]
- 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

[1]As of 31 December 2023.

Key facts

Launch date	18 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%
Exclusions	We specifically exclude companies involved in the • the production of controversial weapons • the manufacture of tobacco products • mining, extraction, refinement, transportation, distribution, and power generation from thermal coal, conventional & unconventional oil and gas (subject to a 20% revenue threshold) We exclude companies that do not meet MCA's assessment of Modern Slavery (including child labour)
Portfolio turnover	Typically 30% p.a.
Tracking error	Typically ~3% p.a. (ex-ante)
How to access	Segregated mandate Martin Currie Sustainable Equity Fund (An Australian Unit Trust)

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

Industry recognition

Signatory of:

PRI Principles for Responsible Investment

Since 2009

Latest PRI Rating[1]

★★★★★
Policy governance and strategy

★★★★★
Direct – Listed equity – Active fundamental

★★★★★
Confidence building measures

Top quartile
Ranking vs peers across all three pillars[2]

Holder of highest Morningstar Sustainability Rating™[3]

[1]Source: 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*.

[2]Policy governance and strategy: 95%; Direct – Listed equity – Active fundamental: 100%; Confidence building measures: 100%

[3]Sustainability Score and Sustainability Rating as of 30 November 2023. Data shown for the Martin Currie Sustainable Equity Fund. Sustainalytics provides company-level analysis used in the calculation of Morningstar's Sustainability Score. Based on 96% of AUM. Data is based on long positions only.

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.

The information contained in this document has been compiled with considerable care to ensure its accuracy. However, no representation or warranty, express or implied, is made to its accuracy or completeness. Martin Currie has procured any research or analysis contained in this document for its own use. It is provided to you only incidentally and any opinions expressed are subject to change without notice.

This document may not be distributed to third parties. It is confidential and intended only for the recipient. The recipient may not photocopy, transmit or otherwise share this [document], or any part of it, with any other person without the express written permission of Martin Currie Investment Management Limited.

This document is intended only for a wholesale, institutional or otherwise professional audience. Martin Currie Investment Management Limited does not intend for this document to be issued to any other audience and it should not be made available to any person who does not meet this criteria. Martin Currie accepts no responsibility for dissemination of this document to a person who does not fit this criteria.

The document does not form the basis of, nor should it be relied upon in connection with, any subsequent contract or agreement. It does not constitute, and may not be used for the purpose of, an offer or invitation to subscribe for or otherwise acquire shares in any of the products mentioned.

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 security transactions discussed here were or will prove to be profitable.

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:

Any distribution of this material in Australia is by Martin Currie Australia ('MCA'). Martin Currie Australia is a division of Franklin Templeton Australia Limited (FTAL), (ABN 76 004 835 849). Franklin Templeton Australia Limited is a wholly owned subsidiary of Franklin Resources, Inc., and holds an Australian Financial Services Licence (AFSL No. 240827) issued pursuant to the Corporations Act 2001.

MARTIN CURRIE
A Franklin Templeton Company

Martin Currie Investment Management Limited, registered in Scotland (no SC066107)
2nd Floor, 5 Morrison Street, Edinburgh EH3 8BH
Tel: (44) 131 229 5252 Fax: (44) 131 228 5959 **www.martincurrie.com**
Please note that calls to the above number and any other communications may be recorded.