

GLOBAL LONG-TERM UNCONSTRAINED

Stock Insights



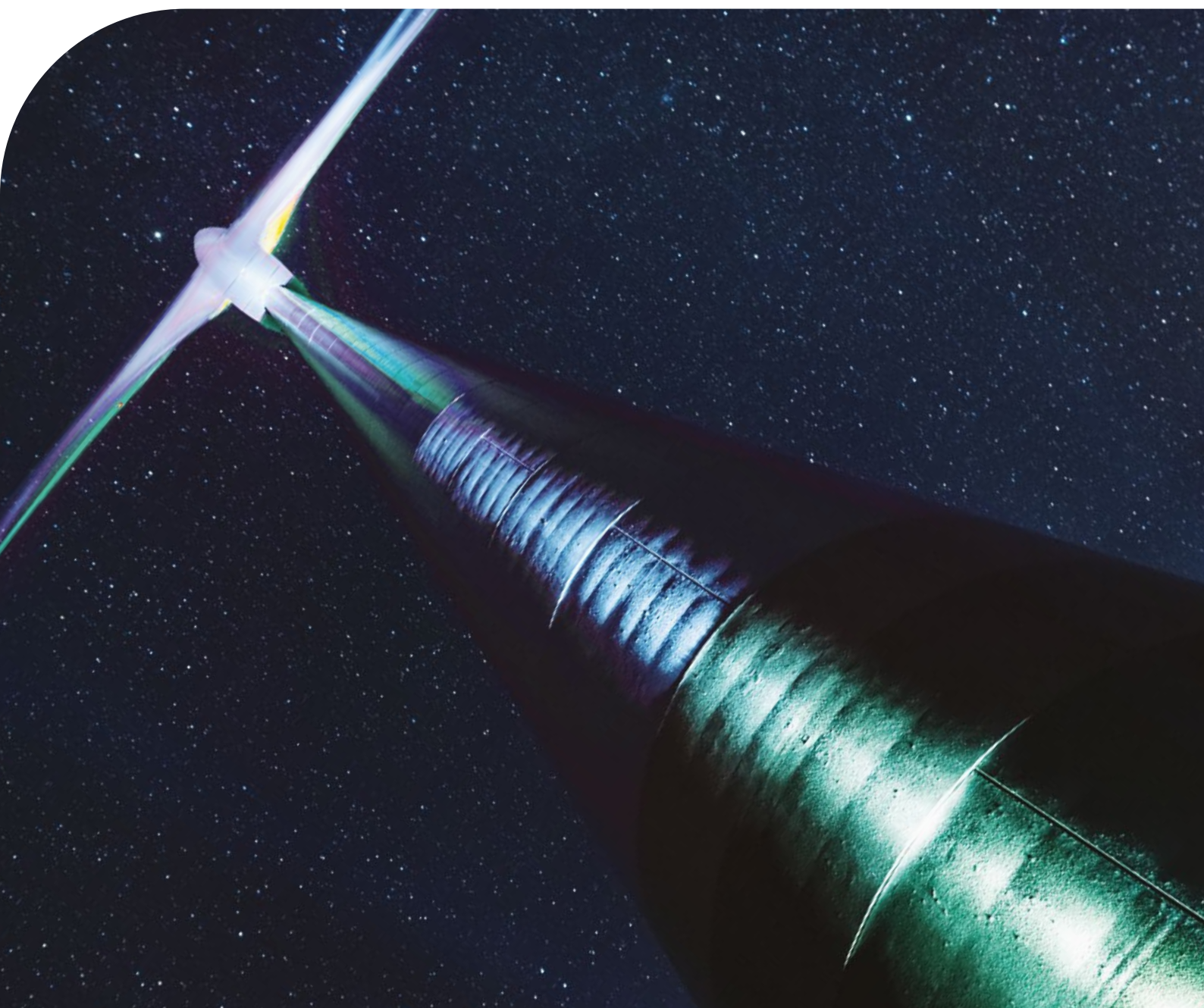
MARTIN CURRIE

A Franklin Templeton Company

MARCH 2023 For professional and wholesale Investors only

Our monthly highlights on company newsflow

Green tailwinds



INVESTING TO IMPROVE LIVES™

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Our Global Long-Term Unconstrained strategy stock focused approach is driven by in-depth fundamental research. Each month we highlight key company newsflow, and where appropriate, insights from any engagement activity the team have undertaken with our investee companies. This is considered in the context of our long-term investment horizon.

Europe

- **Kingspan** – benefiting from positive green tailwinds
- **ASSA Abloy** – CEO updates on acquisitions and disruption
- **Ferrari** – Purosangue is exceeding order expectations
- **Kering** – management deliver an upbeat outlook after a difficult quarter
- **L’Oreal** – sales across geographies outperform

United States

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- **Illumina** – NovaSeq X launch ahead of expectations



Zehrid Osmani

Head of Global Long Term
Unconstrained
Senior Portfolio Manager

Our long-term fundamental approach

Our research is focused on finding undervalued companies operating in industries with high barriers to entry, and that have dominant market positions, strong pricing power, low disruption risk, high structural growth prospects, generating high returns or with the potential to generate high returns over time, with solid balance sheets and compounding cash flows, and that have strong corporate culture and quality management, and sustainable business models well positioned in a transitioning world.

Our three mega-trends, (i) **Demographic Changes**, (ii) **Future of Technology**, and (iii) **Resource Scarcity**, provides us with opportunities to capture long term structural growth themes. Within these mega-trends, there are thematic opportunities with supportive structural growth prospects, such as the eight medium-term opportunities that we have identified.



 **Future of
Technology**

 **Resource
Scarcity**

Green & Alternative Energy



 **Future of
Technology**

 **Resource
Scarcity**

5G Telephony



 **Future of
Technology**

 **Resource
Scarcity**

Energy-efficient Infrastructure



 **Future of
Technology**

Cloud Computing & Cyber Security



 **Future of
Technology**

 **Resource
Scarcity**

Electric transportation – High Speed Railways & Electric Vehicles



 **Future of
Technology**

 **Resource
Scarcity**

Robotics & Automation



 **Future of
Technology**

 **Demographic
Changes**

Healthcare Infrastructure



 **Future of
Technology**

Metaverse & Quantum Computing



Ken Hughes
Portfolio Manager

Europe

Kingspan, Ireland, Industrials

Benefiting from positive green tailwinds

We met Kingspan's management in February, the company offers us exposure to energy efficient infrastructure. We discussed how Kingspan's 2021 acquisition of Danish company Logstor has led to its supply of pre-insulated pipes to district heating networks, notably the FWS-West Hamburg district heating project, Europe's largest urban redevelopment project in a city centre. We also discussed, more generally, how on-going regulatory tailwinds globally should boost insulation panel sales.



Energy-efficient Infrastructure



Future of Technology



Resource Scarcity

Participating in Hamburg District Heating through Logstor acquisition

Kingspan is participating in several projects benefitting from a €3billion German government subsidy to phase out fossil fuels in district heating. This decarbonization will reduce Germany's dependence on Russian natural gas.

The FWS-West Hamburg project replaces natural gas with locally generated industrial waste heat. The industrial waste heat is piped 2.5km through pre-insulated pipes over the Elbe River to a newly constructed district, HafenCity East. It will eventually be home to 6,000 households. Other smaller scale projects in Germany are focused on increasing the insulation on existing district heating pipes.

Company's product mix benefiting from regulatory tailwinds

The EU is considering phasing in requirements to install solar power on all new public and commercial buildings. Kingspan has developed PowerPanel, an insulation panel with integrated solar photovoltaic (PV) cells to meet this need. Despite some issues with the supply chain from China, the product should be available for sale in 2023.

PowerPanel is a variant of Kingspan's QuadCore product, the firm's most advanced insulated panels. Quadcore now accounts for 17% of the company business mix and revenues from it grew +46% in 2022, a significant contributor to Group margin expansion.

Source: Martin Currie and Kingspan as at 17 February 2023.

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Ken Hughes
Portfolio Manager

Assa Abloy, Sweden, Industrials

CEO updates on acquisitions and disruption

In February Atlas Copco, hosted an update meeting with CEO Nico Delvaux, the company is a global leader in access solutions, or more prosaically, locks and keys. He discussed the latest on the acquisition of HHI, potential market disruptors and the legacy of COVID.

Assa Abloy is exposed to infrastructure development. Digitization of access solutions is gaining traction via the adoption of smart locks. In 4Q 2022 Assa Abloy reported organic growth of +9%, partly supported by smart lock adoption. The firm also reported doubling operational cashflow.

HHI acquisition offers greater leadership in multiple channels

In September 2021, Assa Abloy announced the agreed \$4.3bn acquisition of HHI (“Hardware and Home Improvement”) from Spectrum Brands. The acquisition, the largest in Assa Abloy’s history, is opposed by the US Dept of Justice on anti-trust grounds. Management is confident of a positive ruling when a judge finally makes a ruling, scheduled for April 2023. HHI offers Assa Abloy a unique opportunity to enter the US residential access solutions market. Assa Abloy’s current exposure in the US is skewed to commercial and industrial buildings. HHI also offers potential leadership in the DIY channel and a low-cost base in Mexico, Thailand, Philippines and China

Disruption risk and legacy of COVID

Disruption risk is assessed under ‘Industry risks’, within our fundamental research framework. As mentioned, the company is exposed to the structural growth of smart locks. So where does the firm see the threat of technological disruption? In the CEO’s words ‘we are our biggest enemy’. The access solutions market is notoriously conservative and any new technology will always need a mechanical component, where Assa Abloy is the leading player.

On the legacy of Covid, Assa Abloy management observes that people have short memories, and that trade fairs, for example, are once again full. They also see an acceleration in the shift from mechanical and electro-mechanical and from electro-mechanical to digital access solutions. They are unconcerned by persistence, post-pandemic, of hybrid working patterns. It is the number of people that have access to buildings rather than the number of visits that they make that drives Assa Abloy’s revenues. Within the office space, if anything, a shift away from open plan configurations is positive as more meeting rooms means more door openings.



Robotics & Automation



Industry risks

	1	2	3	4	5
Competition					
New entrant risk					
Customer power					
Supplier power					
Disruption risk					
Pricing power					
Supply chain dependency					

Source: Martin Currie and ASSA Abloy as at 3 February 2023.

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Ken Hughes
Portfolio Manager

Ferrari, Italy, Consumer Discretionary

Purosangue is exceeding order expectations

With revenue and EBITDA growth of +12% and +8% respectively, Ferrari's 4Q 2022 results exceeded expectations. This was the first quarter with meaningful contributions from deliveries of the Purosangue SUV and the SP3 Daytona (Icona model). Both models are priced above the Group average selling price and therefore accretive to margin. Ferrari also issued 2022 revenue and EBITDA above consensus.

Orders at an all-time high

Key aspects of the Ferrari investment case are the significant pricing power and resilience of demand for a highly sought after, and scarce product. Despite an increasingly difficult economic backdrop, Ferrari reported orders at an all-time high. Orders for the Purosangue were 'well beyond initial expectations' across all regions. As Ferrari's first SUV model, the Purosangue is an important element in the firm's long-term strategy to gain share in China.

Increasing the hybrid mix

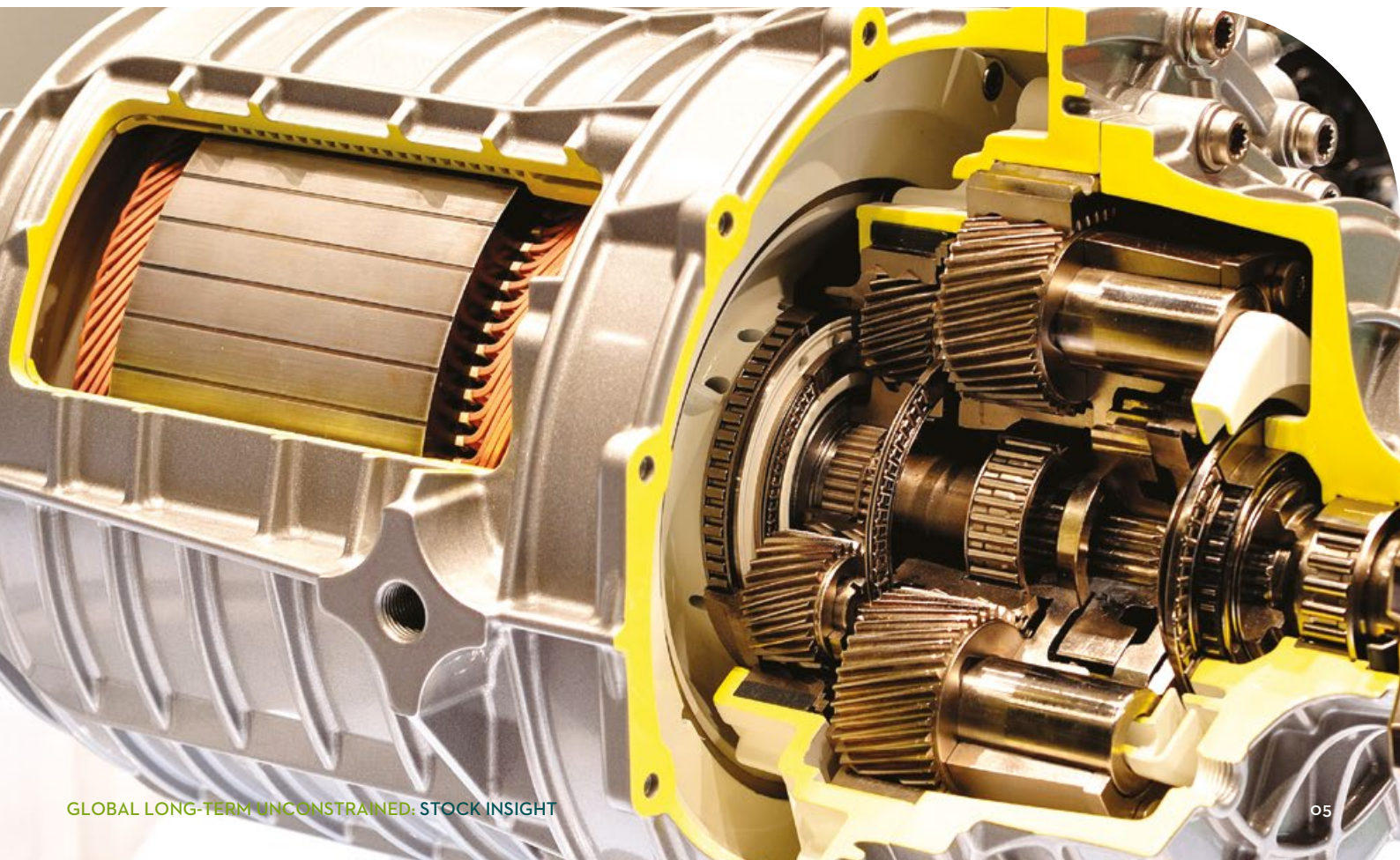
Over the course of the year 2022, the proportion of hybrid powertrains increased from 20% to 35%. Ferrari intends to reach a mix of 60% hybrid and full electric (and therefore only 40% internal combustion engine) by 2026. The first full electric Ferrari will be launched in 2025.

Source: Martin Currie and Ferrari as at 24 February 2023.

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Electric transportation – High Speed Railways & Electric Vehicles





Amanda Whitecross
Portfolio Manager

Kering, France, Consumer Discretionary

Management deliver an upbeat outlook after a difficult quarter

Kering Q4 results were challenged by a confluence of factors including volatile trading circumstances due to COVID in China, a negative media event in the US in December for Balenciaga and continued underperformance from Gucci, where they have recently announced a new creative director. Overall group sales missed consensus expectations by 3% with largest brand Gucci's sales -14% in Q4. The division in which Balenciaga resides had sales 11% below consensus, and this impacted the US results. Whilst Q4 of 2022 was difficult, management highlighted a stronger start to 2023 and an upbeat outlook.



Growth in Emerging Markets Middle Class



Demographic Changes

China recovering

Chinese New Year trading was above plan and very encouraging, the company commented that malls in China are full, and there are no concerns amongst consumers that they will see a reversal of lifting of the Covid restrictions. The local authorities are very supportive of quality consumption and growth. Outside Mainland China, Macau is back strongly, Hong Kong is recovering, there is some travel now in Southeast Asia.

Significant investment in Gucci

Gucci is awaiting the arrival of new creative director, Sabato de Sarno, however there is no lull in investment spend behind the brand. There is significant investment around two key pillars; travel, with a new luggage collection, and a new men's fall/winter collection unveiled at a major show in January. Two more shows are planned, women's collection in Milan in April and men's again in September. 2023 sales should be supported by the reopening of China, but also by recent price actions and positive product mix.

Balenciaga incident fading... but still impacting

Following the media storm in response to the very poor execution on the Balenciaga December marketing campaign, there have been extensive structural changes to internal procedures and oversight. Beyond the immediate apology, amongst other measures, the image department at Balenciaga has been "reshuffled" and the house has created a "brand safety" oversight officer position. Kering believe the impact of the issue will likely be behind the house by the end of Q2, when considering the remediation actions.

Source: Martin Currie and Kering as at 15 February 2023.

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Robbie McNab
Portfolio Manager

L'Oreal, France, Consumer Staples

Sales across geographies outperform

L'Oreal's brand portfolio and digital execution helped it outperform in terms of sales in 2022. Whilst the beauty market grew at 6% in 2022, the company delivered double digit revenue growth (1.8x the market) with outperformance in all regions, divisions, and categories. The CEO highlighted that (global) market growth of 4-5% is expected to continue in 2023 and beyond with L'Oreal set to gain further share.

Digital execution in China

Part of our investment case for L'Oreal is based upon the growth potential for beauty products in China and the wider Asian region, through the firm's e-commerce and travel retail segments.

With public health restrictions in China, the market backdrop was challenging in 2022 for the company. However, the company grew revenues against a declining market, and generated double digit online sales. Most notably in the luxury channel the company surpassed 30% market share in China. L'Oreal are well placed to capture further share as the Chinese market reopens in 2023. Elsewhere they recorded double digit growth in Japan and Korea.

On the sustainability front, all L'Oréal sites in the North Asia Zone became "carbon neutral" in 2022.



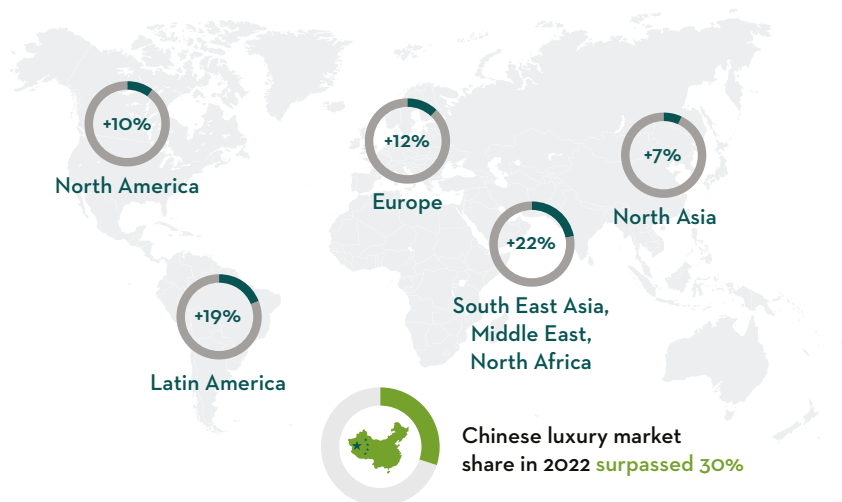
Growth in Emerging Markets Middle Class



Demographic Changes

L'Oréal FY 2022 results by geography

Revenue growth



Channel highlights



Consumer Products

Delivered best growth for 20 years



Professional

+10% growth in 2022, reaching 2.5m hair stylists every week



Luxe

+10% like for like sales growth outperforming global beauty market



Active

Is currently 8% of global beauty market - could grow to 15%

¹Source: L'Oreal as 9 February 2023. A site can claim "carbon neutral" status if it meets the following requirements: • Direct CO₂ (Scope 1) = 0, with the exception of: the gas used for catering, the fuel oil used for sprinkler tests, fossil energy consumptions during maintenance of on-site renewable facilities, cooling gas leaks if they are lower than 130 tonnes CO₂eq./year; and • Indirect CO₂ Market Based (Scope 2) = 0. The renewable energy sources must be located on site or less than 500 kilometres from the site, and be connected to the same distribution network. The "carbon neutral" status, as defined above, is achieved without carbon offsetting.

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Robbie McNab
Portfolio Manager

United States

Estée Lauder, United States, Consumer Staples

Disruption to travel retail impacts Q2 results

Second quarter (December 2022) results reported net sales down 17% year on year. While this was 1% ahead of consensus, the firm cut guidance for the financial year. The weaker guide reflects a slower recovery in China with weakness in travel retail, driven by destocking. We see these issues as transitory and therefore don't alter our FY24 estimates.



Growth in Emerging Markets Middle Class



Demographic
Changes

**Strength in Fragrance channel -
but Covid impacts Skincare**

**Covid continues to disrupt -
but a mixed picture in Asia**



- 1** Lower tourism has caused inventory issues in the important Hainan region
- 2** The roll-back of supportive measures in Korean duty free is creating transitory pressure
- 3** COVID recovery drove strong net sales growth in most other countries, led by Japan, Australia, Malaysia and the Philippines.
- 4** As China reopens, we believe travel retail across all regions will benefit

Source: Martin Currie and Estée Lauder as at 2 February 2023.

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Sam Cottrell
Portfolio Manager

Illumina, United States, Healthcare

NovaSeq X launch ahead of expectations

The genetic sequencing firm's Q4 results were in line with pre-announced expectations, revenue of \$1.075 billion, was +1.1% vs consensus. The company have guided revenue growth of 7-10% in 2023, management have taken a deliberately conservative tone, reflecting the challenging macro operating environment and a demand air pocket caused by new product launches.

Orders of the new NovaSeq X remain ahead of guidance

The NovaSeq X allows customers to deliver ultra-high throughput projects at production scale. These are data-intensive processes, a 'high-throughput' in sequencing refers to the amount of DNA molecules that are read. Various innovations, including in optics, reagent chemistry and automated analysis effectively allow an increased volume of even more accurate sequencing, in less time, which lowers cost per whole genome to customers by ~65% (at full utilization).

There have been 155 orders placed for NovaSeq X and 250+ advanced pipeline prospects, almost reaching the target of 300 for the entire year by February, and only constrained by manufacturing capacity. The order mix includes 35% clinical customers and 15% new-to-high-throughput customers, both of which were above management expectations, thus Illumina is growing with existing customers, but also growing the overall addressable market with new customers.

Emerging competition

The company also reported mid-throughput order placements at record levels, despite concerns around emerging competition in this lower-end market segment. It is worth noting this relates to 10% of revenues and that Illumina will launch new mid-throughput products through 2024.

Source: Martin Currie and Illumina as at 7 February 2023.

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Bespoke Healthcare



**Future of
Technology**



**Demographic
Changes**



21st Century Diseases



**Demographic
Changes**



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- 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.
- 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.

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