

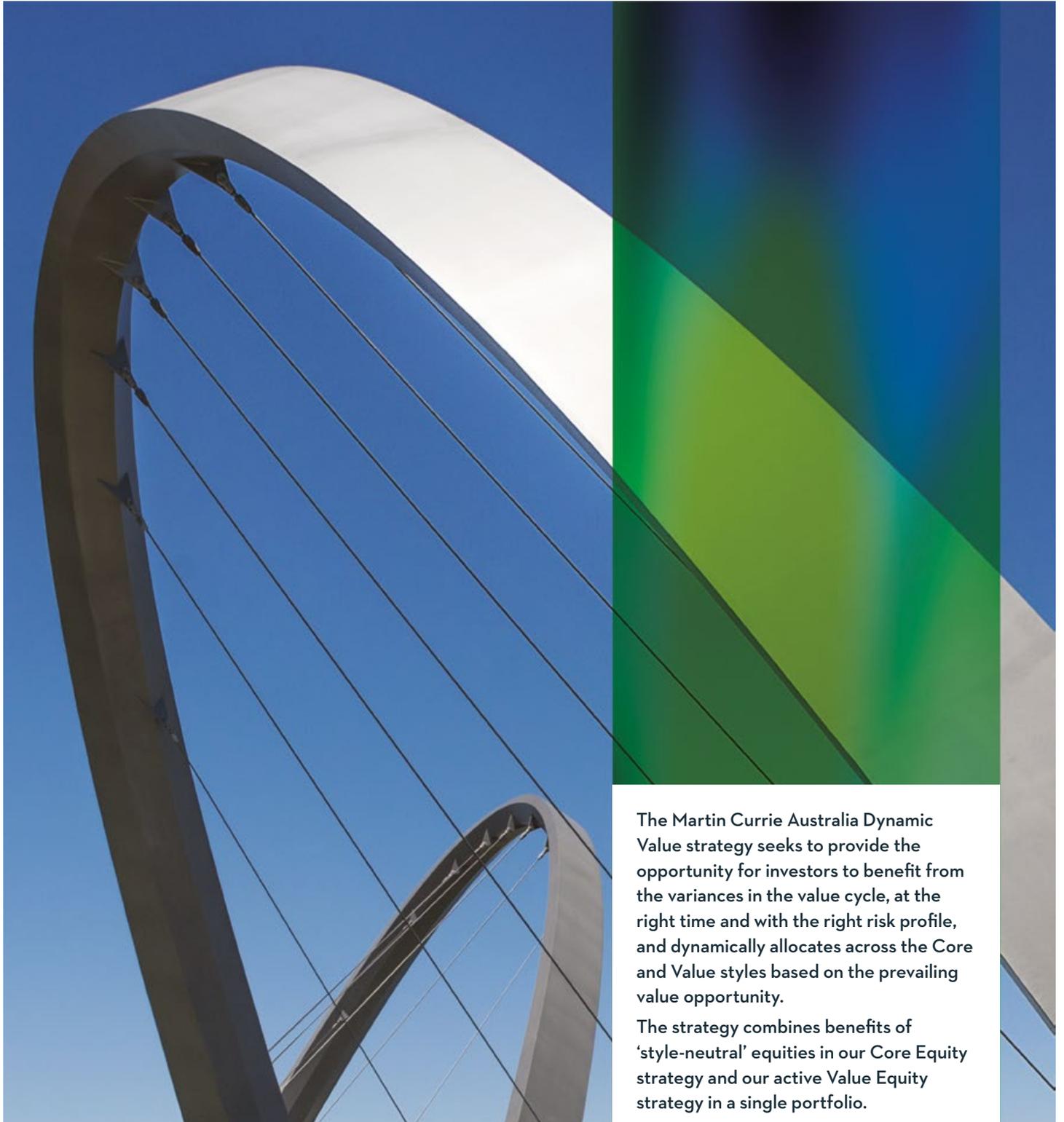
# STRATEGY INSIGHT



MARTIN CURRIE

## MARTIN CURRIE AUSTRALIA DYNAMIC VALUE

AUGUST 2019 FOR PROFESSIONAL CLIENTS ONLY



The Martin Currie Australia Dynamic Value strategy seeks to provide the opportunity for investors to benefit from the variances in the value cycle, at the right time and with the right risk profile, and dynamically allocates across the Core and Value styles based on the prevailing value opportunity.

The strategy combines benefits of 'style-neutral' equities in our Core Equity strategy and our active Value Equity strategy in a single portfolio.

We use our collective valuation insights to assess the value spread to determine whether to under or over-weight value at the appropriate point in the value/growth cycle. This aims to provide better risk-adjusted return when the value opportunity is high, and consistent returns with lower risk when the opportunity is lower.

This strategy is transparent and cost-effective, benefiting from the removal of costs or delay required to appoint or terminate managers.

## PORTFOLIO MANAGEMENT

The Martin Currie Australia investment team includes 18 members with an average industry experience of 22 years (as at 30 June 2019). Our Dynamic Value portfolio managers Reece Birtles and Matthew Lambert have 26 and 22 years of experience, respectively.

The investment process draws on a wide range of proprietary fundamental and quantitative research metrics, and the strategy benefits from the close collaboration of a well-resourced, proven and experienced team.

## MANAGERS



**Reece Birtles**  
Chief Investment Officer,  
Martin Currie Australia



**Matthew Lambert**  
Portfolio Manager and  
Quantitative Research

## PORTFOLIO CHARACTERISTICS

Launch date	1 April 2013
Performance objective	The strategy aims to earn an after fee return in excess of the S&P/ASX 200 Accumulation index over rolling three to five-year periods.
Benchmark	S&P/ASX 200 Accumulation Index
Investable universe	Australian listed securities/all-cap
Number of securities	25-85
Security limits	Benchmark +/-6%
Sector limits	Benchmark +/-12%
Portfolio turnover	Typically 35% p.a.
Asset allocation range	<ul style="list-style-type: none"> <li>Value Equity: 0-100%</li> <li>Core Equity: 0-100%</li> </ul>
Risk profile	Medium to high

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



THE INVESTMENT PROCESS DRAWS ON A WIDE RANGE OF PROPRIETARY FUNDAMENTAL AND QUANTITATIVE RESEARCH METRICS, AND THE STRATEGY BENEFITS FROM THE CLOSE COLLABORATION OF A WELL-RESOURCED, PROVEN AND EXPERIENCED TEAM.



## INVESTMENT PHILOSOPHY

Our approach is premised on the philosophy that the Australian equity market is efficient over the long term, with security prices ultimately reflecting the present value of future cash flows.

However, in the short term, the market's behavioural biases can create temporary mispricing and divergence from fair value that can be exploited by our disciplined investment process.

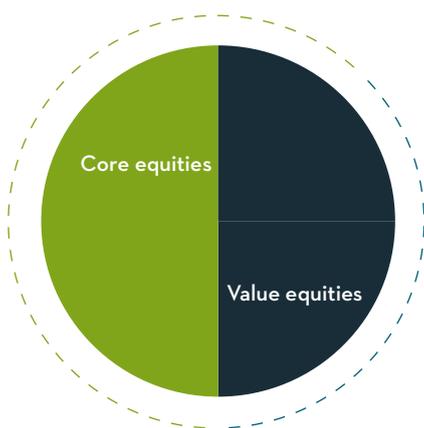
We rely on our complementary fundamental and quantitative research, and our collective insights into the current investment landscape, to identify opportunities.

## DYNAMIC VALUE IN ACTION

In the chart below, we show a hypothetical Australian equities allocation. Without Dynamic Value, strategic asset allocations between different investment styles can typically only be changed through hiring and firing of underlying managers, and this is hard to do in a timely and cost-efficient manner. However, when our switching signal shows that the Value spread is wide and the opportunity for Value to outperform is high, the Dynamic Value portfolio is able to rebalance to Value efficiently. Conversely, if the switching signal indicates the value opportunity is low, we tilt the portfolio towards Core.

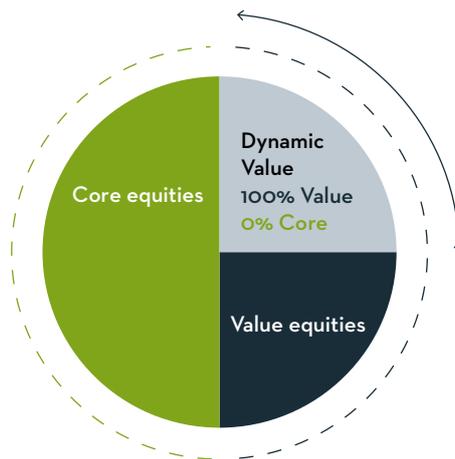
### A HYPOTHETICAL AUSTRALIAN EQUITIES ALLOCATION

Unable to move with value opportunity  
Effective Value exposure is 50%  
at all times

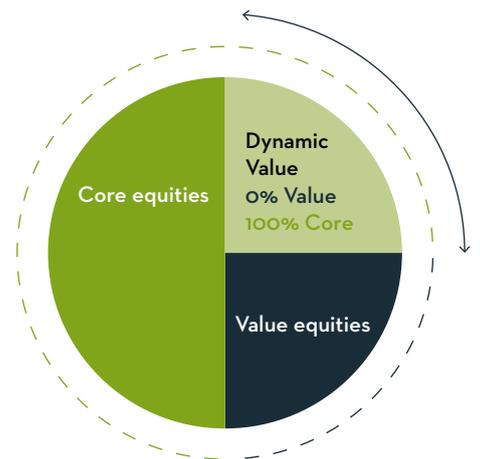


### WITH HALF OF VALUE ALLOCATION MOVED INTO DYNAMIC VALUE

When value opportunity is high  
Effective Value exposure is 50%



When value opportunity is low  
Effective Value exposure is 25%



### Past performance is not a guide to future returns.

Source: Martin Currie Australia. Shown for illustrative purposes only.

When the value spread is

- **wide:** Dynamic Value overweights Value
- **narrow:** Dynamic Value overweights Core

By combining the benefits of 'style-neutral' equities in our Core Equity strategy and our active Value Equity strategy in a single portfolio, Dynamic Value is able to take risk when it is rewarded by the expected market environment, in a transparent and cost-effective manner, without the cost or delay required to hire or fire managers.

By replacing a portion of an existing core and value allocation with Dynamic Value, we believe that investors can benefit from our collective insights into the nature of the current investment landscape to enjoy better risk-adjusted return when the opportunity is high, and consistent returns with lower risk when the opportunity is lower.

## INVESTMENT PROCESS

The underlying Core Equity and Value Equity strategies have a disciplined and repeatable investment approach that is based on three distinct lenses:

- **Valuation** is based on the analysts' fundamental insights into forecasting normalised earnings power, as well as risk, to determine fair value.
- **Quality** is a fundamental and quantitative assessment of business strength, management quality, environmental, social and governance (ESG) issues, balance-sheet strength, returns and earnings quality.
- **Direction** of earnings includes our analyst's fundamental insights into earnings changes, and quantitative measures such as accruals, return on capital and momentum.

These research outputs are combined in different ways to determine the target security weightings in each individually constructed portfolio.

We then use our proprietary switching signal, described in further detail below, to tilt between the Core and Value strategies depending on the expected market environment. Signals used to calculate the portfolio's weightings are reassessed at least monthly for potential rebalance. The portfolio is rebalanced from direct equity holdings.

[For more detail on the process of each underlying strategy, please refer to the corresponding Core Equity and Value Equity Strategy Insights on our website.](#)

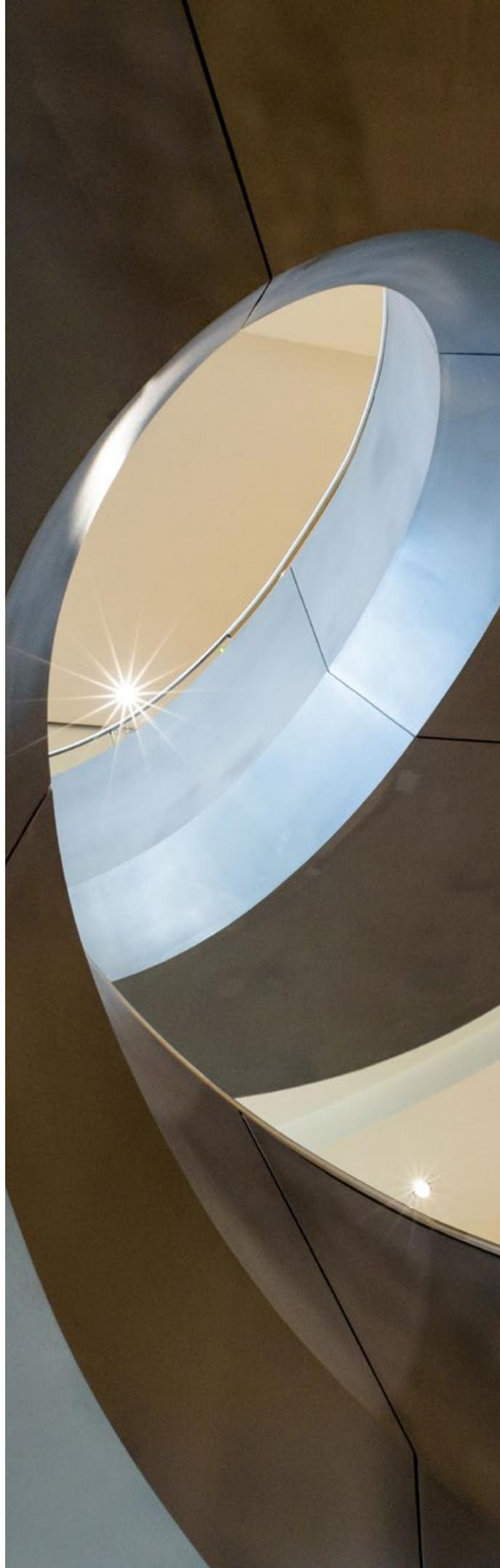
## VALUATION OF SECURITIES ACROSS THE AUSTRALIAN MARKET

All of our investment decisions draw on the close collaboration of the entire Martin Currie Australia team with skills across fundamental and quantitative research.

The importance we place on fundamental, bottom-up research is reflected in the size and quality of resource that we assign to our specialised industry analysts in building their own independent forecasts.

The weighting of the strategy towards either Value or Core allocations depends heavily on our analysts' forward-looking valuations of securities across the Australian market.

The 'Martin Currie Australia Valuation Model' is our primary forward-looking valuation tool. It ties together all our analyst's key research insights into a "fair value" estimate and calculates the net present value of future cash flows accruing to equity owners of each firm.



## DYNAMIC VALUE SWITCHING SIGNAL

Our proprietary switching signal uses the insights in our 'Martin Currie Australia Valuation Model' to calculate the magnitude of the valuation spread between our analysts' proprietary forward-looking valuations of the most undervalued securities in the market and the market average.

The switching signal compares the upside to fair value of the 90th percentile security versus the median. We then take the spread, and based on a matrix that considers the 20+ year distribution of observed Value spreads, use this to determine a target weight to Core/Value.

When undervalued securities are offering a much larger value opportunity than the rest of the market, we place a greater weighting towards Value. Conversely, if the Value spread is narrower, the emphasis towards Core will be higher. The chart below shows how the magnitude of the Value spread impacts portfolio allocations:

Very narrow (<25%)	Moderately narrow (25-32%)	Slightly narrow (32-39%)	Slightly wide (39-45%)	Moderately wide (45-52%)	Very wide (>59%)
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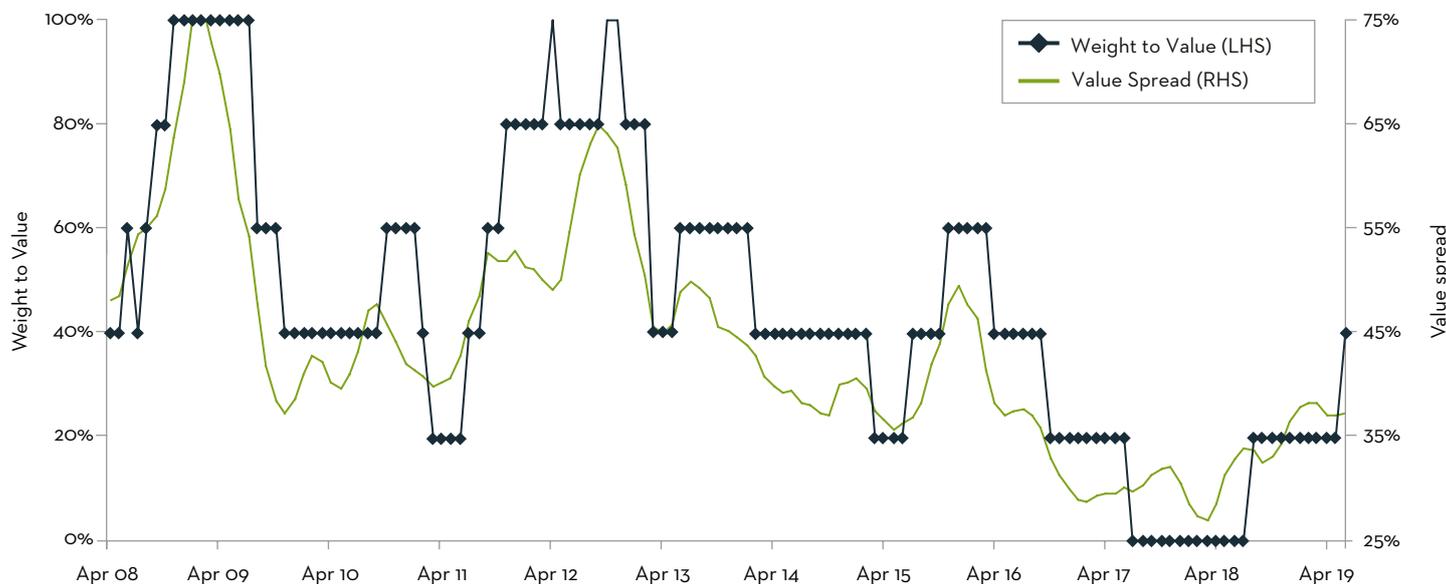
### Dynamic Value Exposure

Core Equity	100%	80%	60%	40%	20%	0%
Value Equity	0%	20%	40%	60%	80%	100%

### Past performance is not a guide to future returns.

Source: Martin Currie Australia. Shown for illustrative purposes only.

Using back-test and live portfolio data, the chart below highlights how we have changed the allocation to Value over time, in line with the changes in the Value spread.



### Past performance is not a guide to future returns.

Source: Martin Currie over periods shown to 30 June 2019. Data shown for illustrative purposes only.

Back-test data used prior to inception of live portfolio on 1 May 2013 is based on the Core and Value Equity representative accounts.

As indicated by the chart, at times when the value spread has been at its widest, indicating the greatest opportunity for deeply undervalued companies, we have allocated 100% of the portfolio towards Value. If the converse were true, we could allocate 100% towards Core.

## KEY STRENGTHS OF THE INVESTMENT APPROACH

### RISK BALANCED WITH EXPECTED MARKET ENVIRONMENT

- Aims to provide better risk-adjusted return when the value opportunity is high, and consistent returns with lower risk when the opportunity is lower.
- Combines benefits of 'style-neutral' equities in our Core Equity strategy and our active Value Equity strategy in a single portfolio.
- Balances the risk of being under or overweight value or momentum for the appropriate market conditions.

### TRANSPARENT AND COST-EFFECTIVE

- Removes cost or delay required to appoint or terminate managers.
- Portfolio rebalances from direct equity holdings, with signals assessed monthly.

### DEEP RESOURCES AND INSIGHTS

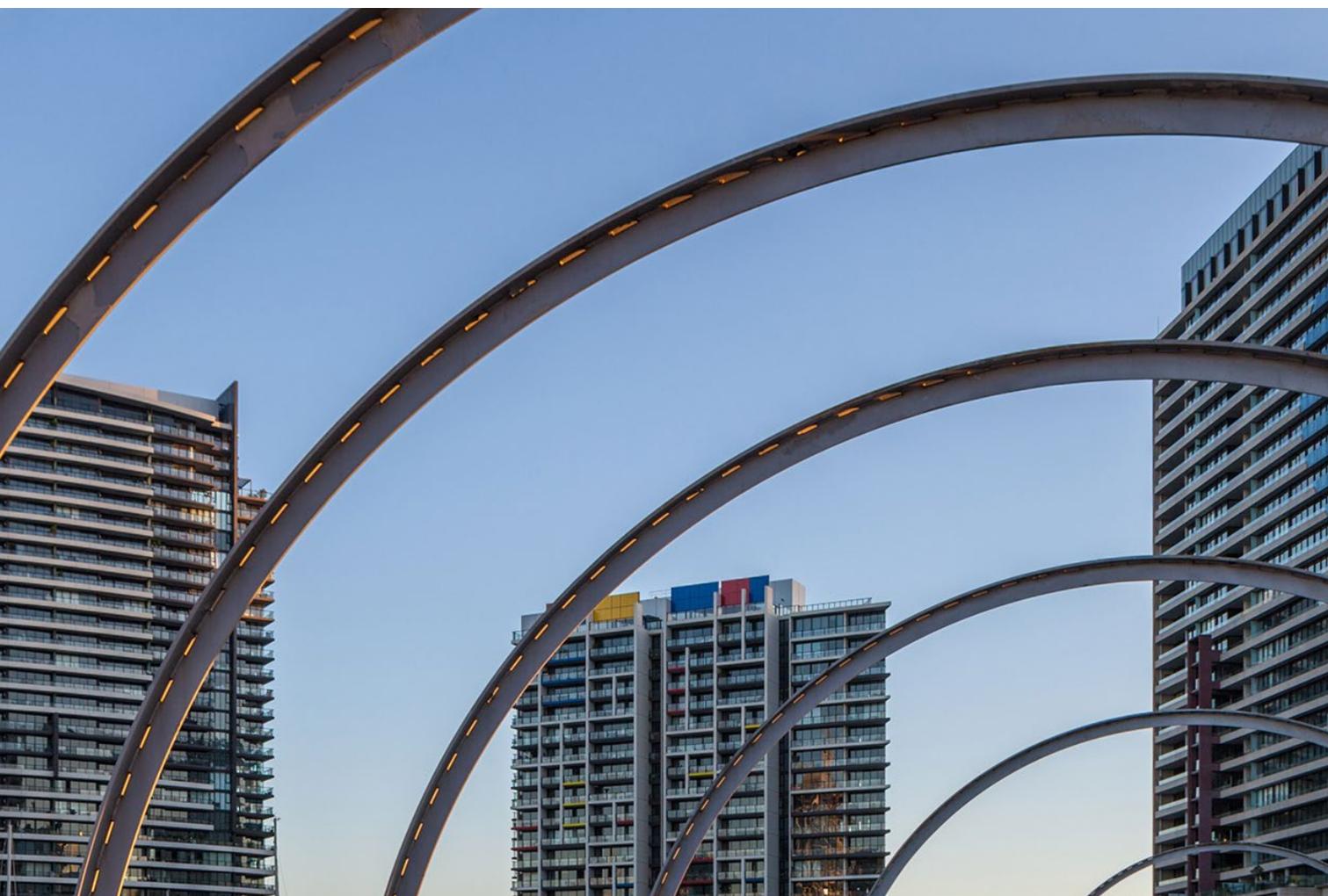
- Captures in-depth fundamental and qualitative insights from MCA's long-serving 18-member investment team.

## FORWARD LOOKING INSIGHTS DRIVE SECURITY SELECTION

- Fundamental research assesses the value spread which directs the proprietary switching signal to determine target weights.
- Benefits from our collective insights into the current investment landscape.
- Looks through the short-term market noise with a focus on the long-term normalised earnings power of companies.
- ESG embedded into the investment process.
- Powerful combination of three different investment lenses - quality, value and direction - provides a broad perspective of security expected returns.



COMBINES BENEFITS OF 'STYLE-NEUTRAL' EQUITIES IN OUR CORE EQUITY STRATEGY AND OUR ACTIVE VALUE EQUITY STRATEGY IN A SINGLE PORTFOLIO.



## FIND OUT MORE

For further information on the Martin Currie Australian equities range please visit our website - [www.martincurrie.com](http://www.martincurrie.com)  
You can find your local contact at [www.martincurrie.com/contact\\_us](http://www.martincurrie.com/contact_us)

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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.

Smaller companies may be riskier and their shares may be less liquid than larger companies, meaning that their share price may be more volatile.

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 portfolio's value than if it held a larger number of investments.

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