

STRATEGY INSIGHT



MARTIN CURRIE

MARTIN CURRIE AUSTRALIA PROPERTY SECURITIES

APRIL 2019 FOR PROFESSIONAL CLIENTS ONLY



The Martin Currie Australia Property Securities strategy seeks to maximise expected returns for longer term investors by investing in a diversified portfolio of Australian and Asian listed property and property-related equities which are trading below our assessment of intrinsic value, whilst considering each securities' quality. The strategy invests in securities trading at the deepest discounts to intrinsic value based on the proprietary fundamental and quantitative analysis of Martin Currie Australia's long-serving investment team. The dedicated property securities team's local knowledge and forward looking insights into replacement cost rents and sustainable cash flows can be quickly and consistently implemented across portfolios. The portfolio's high liquidity and transparent pricing, by investing only in listed securities, avoids common problems faced by unlisted property funds.

PORTFOLIO MANAGEMENT

The Martin Currie Australia investment team includes 18 members with an average industry experience of 22 years (as at 31 December 2018). Our Property Securities portfolio managers Ashton Reid and Andrew Chambers have 27 and 24 years of experience, respectively.

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

MANAGERS



Ashton Reid
Portfolio Manager



Andrew Chambers
Portfolio Manager

INVESTMENT PHILOSOPHY

Our approach is premised on the philosophy that the equity market is efficient over the long term, with REIT 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.

PORTFOLIO CHARACTERISTICS

Launch date	1 August 1988
Performance objective	The strategy aims to earn an after fee return in excess of the S&P/ASX 300 A-REIT Accumulation Index over rolling three-year periods.
Benchmark	S&P/ASX 300 A-REIT Accumulation Index
Investable universe	Australian and Asian listed property and property-related equities/all-cap
Regional limits	Up to 30% in non-ASX securities from Asia ex Japan (including New Zealand)
Number of securities	15-35
Security limits	Benchmark +6% No underweight constraint Exposure to non-benchmark securities is no more than 7.5%
Sector limits	None
Portfolio turnover	Typically 30% p.a.
Risk profile	Medium

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

INVESTMENT PROCESS

The strategy has a disciplined and repeatable investment approach that is based on two 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.

These research outputs are combined to determine target security weightings in each portfolio and this, ultimately, drives the investment process.

IDEA GENERATION

The security universe is screened for attractive opportunities, using both our team members' insights and quantitative value screening to generate ideas for in-depth research.

Complementing the initial idea-generation process, the team has an active company visitation program, with over 600 visits annually to company management, their competitors, customers and suppliers. These meetings provide essential opportunities for us to better understand businesses and their management, as well as to rigorously test our views on a company's future prospects.

IN-DEPTH RESEARCH

VALUATION

Once we have uncovered a potential investment idea, we focus on fundamental bottom-up research to identify intrinsic value. The importance we place on this is reflected in the size and quality of resource that the team assigns to security selection, with our specialised industry analysts building their own independent forecasts.

QUALITY

We believe that we can improve our risk-adjusted returns if we consider a security's risk level combining fundamental and quantitative approaches. This risk assessment drives our individual security position limits.

- **Quantitative analysis:** We find that quantitative risk flags can incorporate a broad set of incremental news in a timely and balanced manner. We estimate the risk of each security based on size, leverage, fundamental quality rating, market beta and volatility.
- **Fundamental analysis:** Fundamental analysis is clearly needed when assessing a company's market power, quality of management and future opportunities. A business strength assessment is conducted by our analysts on each individual security. This is combined with a 32-factor checklist that takes into account leverage, earnings quality, management and environmental, social and governance (ESG) standards. The quality rating applied by our analysts impacts the security-specific discount rate, and the strategy will take larger positions in securities with a higher-quality rating.

Experience has shown us that higher-quality companies offer a far greater probability of their earnings returning to normal following shocks, and thus will exhibit lower volatility than the broader market. We have also found that the returns of the highest-risk securities tend to be heavily influenced by direction, while 'safer' securities are typically driven by valuation.

DIRECTION

Whilst this is not used as a lens within the Property Securities strategy, our analysts build conviction into Valuation forecasts by creating a Direction signal that identifies which securities are the most likely to surprise the market on the upside. This Direction signal is based on our analysts' expectations of the change in consensus EPS, and quantitative measures of price momentum, earnings revisions, profitability and accruals.

SUSTAINABLE DIVIDEND

Sustainable Dividend is an estimate of a company's ability to maintain payments to shareholders. Whilst this is not used as a lens within the Property Securities strategy, our analysts also undertake an assessment of Sustainable Dividend as part of their fundamental research for each security in the universe. Our analysts judge companies' Sustainable Dividend paying power by assessing the free cash flow generation of companies through different stages of the economic cycle and looking through any financial engineering that may artificially boost headline/near-term dividends. Sustainable free cash flow analysis is a natural component of our fundamental research approach.

INVESTMENT THESIS

Analysts conclude their assessments with an investment thesis detailing why each security is attractive or unattractive, how our views are different from market expectations, along with rationales for key assumptions and sensitivities of Valuation, Quality, Direction and Sustainable Dividend.



ONCE WE HAVE UNCOVERED A POTENTIAL INVESTMENT IDEA, WE FOCUS ON FUNDAMENTAL BOTTOM-UP RESEARCH TO IDENTIFY INTRINSIC VALUE. THE IMPORTANCE WE PLACE ON THIS IS REFLECTED IN THE SIZE AND QUALITY OF RESOURCE THAT THE TEAM ASSIGNS TO SECURITY SELECTION...



PORTFOLIO CONSTRUCTION

Investment decisions draw on the close collaboration of the entire Martin Currie Australia team, leveraging specific skills and expertise across fundamental and quantitative research.

We aim to build a high conviction portfolio of the most undervalued securities that will produce a positive security price return to fair value, whilst controlling for risk exposure. Security conviction and position sizes are a function of our investment thesis, and the Quality, and Valuation rankings of each security.

KEY STRENGTHS OF THE INVESTMENT APPROACH

MAXIMISES LONG TERM RETURNS AND REDUCES RISKS THROUGH DIVERSIFICATION

- Seeks to invest in Australian and Asian listed property and property-related equities trading at the deepest discounts to intrinsic value based on MCA analysis.

DEEP RESOURCES AND LOCAL KNOWLEDGE

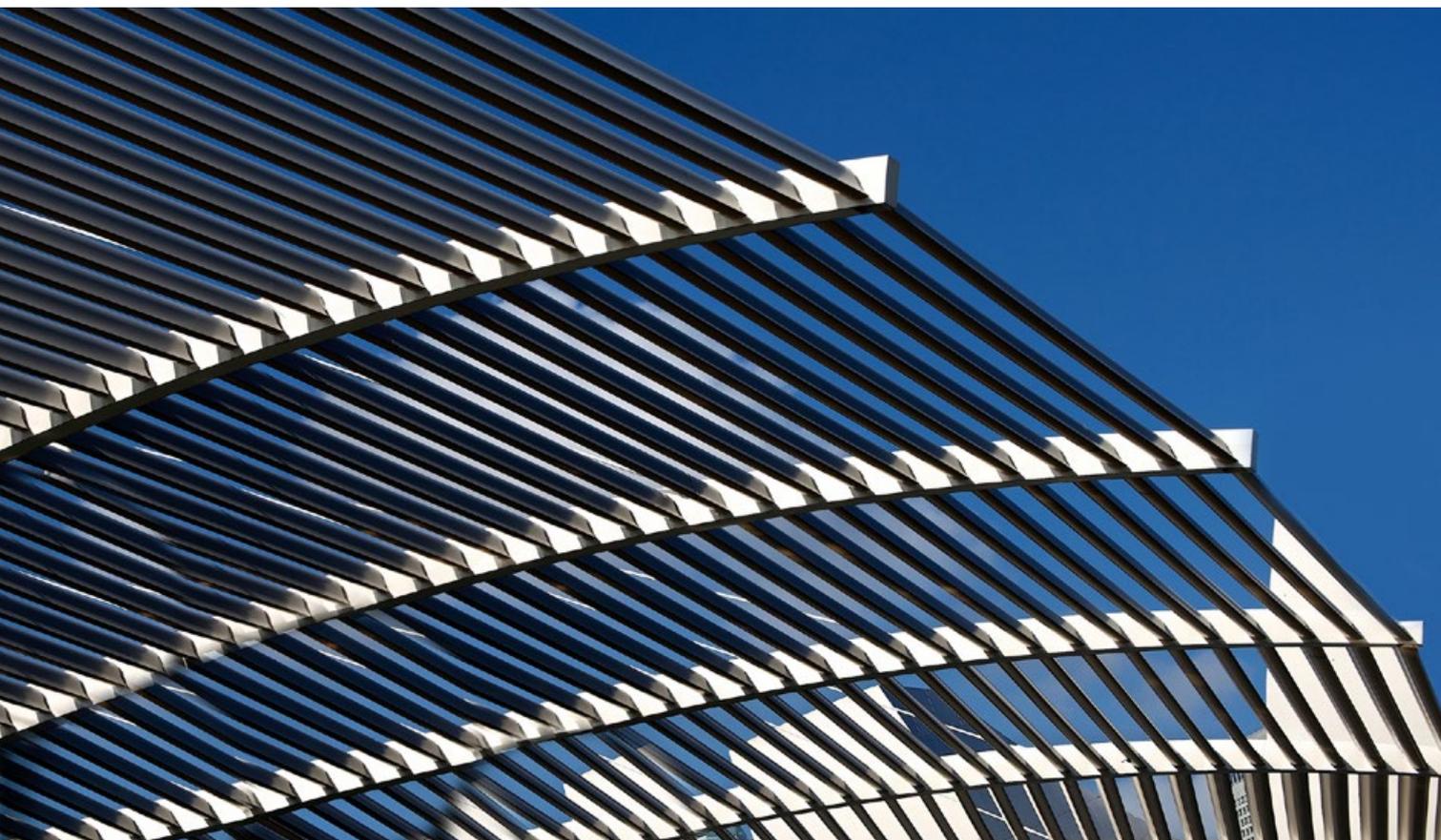
- Dedicated property securities team has deep knowledge of Australian and Asian markets.
- Captures in-depth fundamental and qualitative insights from MCA's long-serving 18-member investment team.
- Local knowledge and expertise captures insights quickly and consistently across portfolios.

FOCUS ON RISK CONTROL

- High liquidity and transparent pricing by investing only in listed securities, avoiding common problems faced by unlisted property funds.

FORWARD LOOKING INSIGHTS DRIVE SECURITY SELECTION

- Focus on replacement cost rents and sustainable cash flows.
- 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 two different investment lenses – quality and value – provides a broad perspective of security expected returns.



FIND OUT MORE

For further information on the Martin Currie Australian equities range please visit our website - www.martincurrie.com
You can find your local contact at www.martincurrie.com/contact_us

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Past performance is not a guide to future returns.

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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.

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.

For Investors in the USA, the information contained within this document is for Institutional Investors only who meet the definition of Accredited Investor as defined in Rule 501 of the United States Securities Act of 1933, as amended ('The 1933 Act') and

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