STRATEGY INSIGHT

MARTIN CURRIE

MARTIN CURRIE AUSTRALIA EQUITY INCOME

JANUARY 2019 FOR PROFESSIONAL CLIENTS ONLY

The Martin Currie Australia Equity Income strategy seeks to provide a growing income stream by investing in a diversified portfolio of high-quality companies.

The strategy invests in securities that pay higher income, provide inflation protection and have lower volatility than the share market. The benchmark unaware portfolio construction, with low security and sector concentrations, avoids income shocks, and greater diversification across economic sectors helps to hedge against inflation / cost of living. It also avoids costly derivatives strategies for income enhancements or capital protection to improve capital growth.

The strategy is designed to extract full benefit of franking credits and maximise after tax income for 0% tax payers.

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 Equity Income portfolio managers Reece Birtles and Michael Slack have 26 and 29 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 and experienced team.

MANAGERS

Reece Birtles
Chief Investment Officer,
Martin Currie Australia

Michael Slack
Head of Research,
Martin Currie Australia

INVESTMENT PHILOSOPHY

Our approach is premised on the philosophy that high-quality companies that have solid earnings can sustain dividends, match rises in the cost of living and are likely to be less volatile than the wider equity market.

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

The strategy is managed in a tax-aware manner in order to benefit from franking credits.

PORTFOLIO CHARACTERISTICS

Launch date	22 May 2010
Performance objective	The strategy aims to provide an after tax yield above the S&P/ASX 200 Index and to provide income stream growth above inflation.
Benchmark	No formal benchmark. S&P/ASX 200 Accumulation Index may be used for comparison (over periods longer than 5 years).
Investable universe	Australian listed securities/all-cap
Number of securities	40-60
Security limits	Absolute 6%
Sector limits	Absolute 22%
Portfolio turnover	Typically 25% p.a.
Risk profile	Medium

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

"THE STRATEGY IS MANAGED IN A TAX-AWARE MANNER IN ORDER TO BENEFIT FROM FRANKING CREDITS."

INVESTMENT PROCESS

The strategy has a disciplined and repeatable investment approach that is based on four 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.
- **Sustainable Dividend** is the analyst's estimate of a company's ability to maintain payments to shareholders. It is the assessment of a company's free cash flow through different stages of the cash flow cycle and therefore its sustainable dividend-paying capability.

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

We 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. 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.

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 portfolio with a lower-than-market total risk outcome, above average Sustainable Dividend yield, lower debt and higher quality than the broader market, without consideration of tracking error relative to an index. Security conviction and position sizes are a function of our investment thesis, and the Quality, Valuation, Direction and Sustainable Dividend rankings of each security.

KEY STRENGTHS OF THE INVESTMENT APPROACH

GROWING INCOME STREAM

- Aims to deliver an attractive and growing income stream by investing in high quality Australia companies, with lower volatility than the share market.
- Avoids costly derivatives strategies for income enhancements or capital protection to improve capital growth.

INCOME FOCUSSED PORTFOLIO CONSTRUCTION

- Benchmark unaware portfolio construction, with low security and sector concentrations to avoid income shocks.
- Diversification across economic sectors to hedge against inflation/cost of living.

AFTER TAX EFFICIENCY

- Designed to extract full benefit of franking credits and maximise after tax income for 0% tax payers.
- Low turnover.

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

- 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 four different investment lenses – quality, value, direction and sustainable dividend – 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**

Alternatively please call our global offices, press office or global consultant team on the numbers below:

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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.

Income strategy charges are deducted from capital. Because of this, the level of income may be higher but the growth potential of the capital value of the investment may be reduced.

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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