

# How to activate your 'active core'

June 2023

# Franklin Templeton is a global leader in asset management serving clients in over 160 countries

We are the sixth largest independent asset manager in the world, with<sup>1</sup>:

**75+**

years of asset management experience

**\$2.1 Trillion**

(AUD) total assets under management

**1,250+**

investment professionals<sup>2</sup>

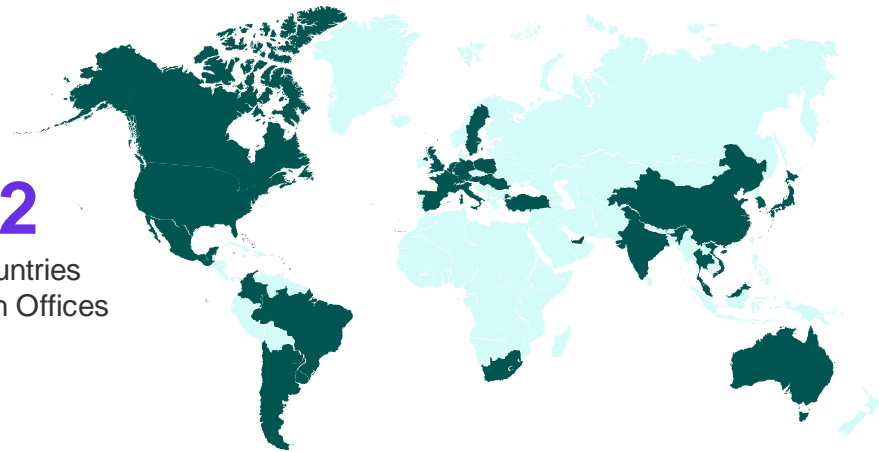
**8,500+**

employees globally

We have one of the industry's broadest global footprints

**32**

Countries with Offices



The strength and experience of a global leader

- We are the world's top cross-border fund manager<sup>3</sup>

1. As of 31/03/2023. Source: Morningstar.

2. Investment professionals include portfolio managers, research analysts, research associates, investment support and executives of Franklin Templeton and subsidiary investment management groups.

3. As of March 2022. Franklin Templeton was ranked first in the cross-border management group category by PwC in their 2022 Benchmark Your Global Fund Distribution Report, which ranks asset managers on the number of countries in which their cross-border funds are distributed. Franklin Templeton has not paid any compensation for obtaining or using the ranking provided by PwC.

# HOW TO BE ACTIVE IN AUSTRALIAN EQUITIES



## By objective:

- Accumulation
- Income



## By Style / factor:

- Value
- Core
- Growth



## By level of ESG alignment:

- Focus on financial returns only
- Incorporate ethical values and beliefs
- Aim to facilitate better outcomes for both stakeholders and for investors

# NOT ALL EQUITIES ARE CREATED EQUAL FOR INCOME

INVESTING TO IMPROVE LIVES™



# THINKING DIFFERENTLY ABOUT INCOME

## A “sufficient income for life”

**An income stream**  
to support annual expenses



**Income growth**  
for inflation protection



**Capital growth**  
to manage longevity risk



**Diversified exposures**  
(across a full asset allocation)  
to reduce income sequencing risk

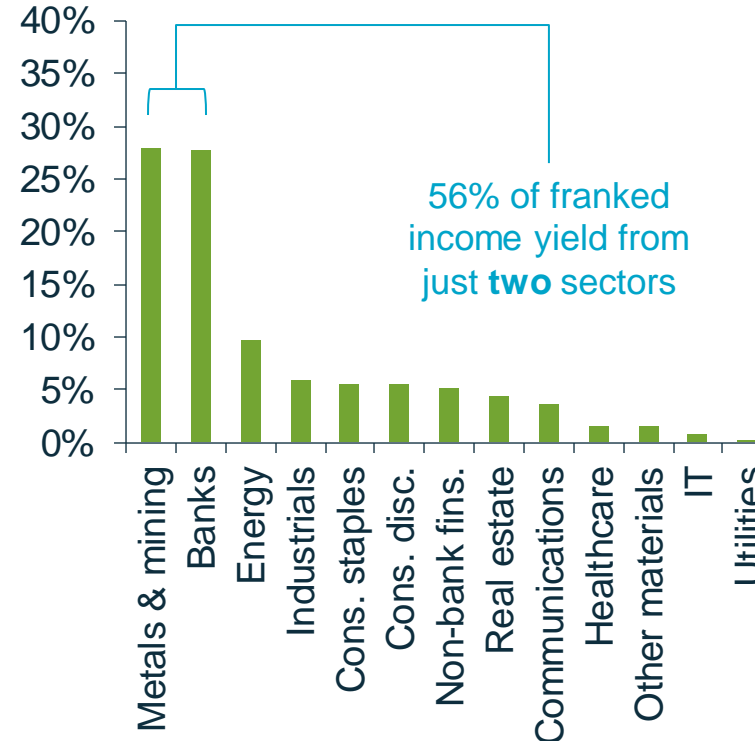


# STRUCTURAL ISSUES FOR INCOME

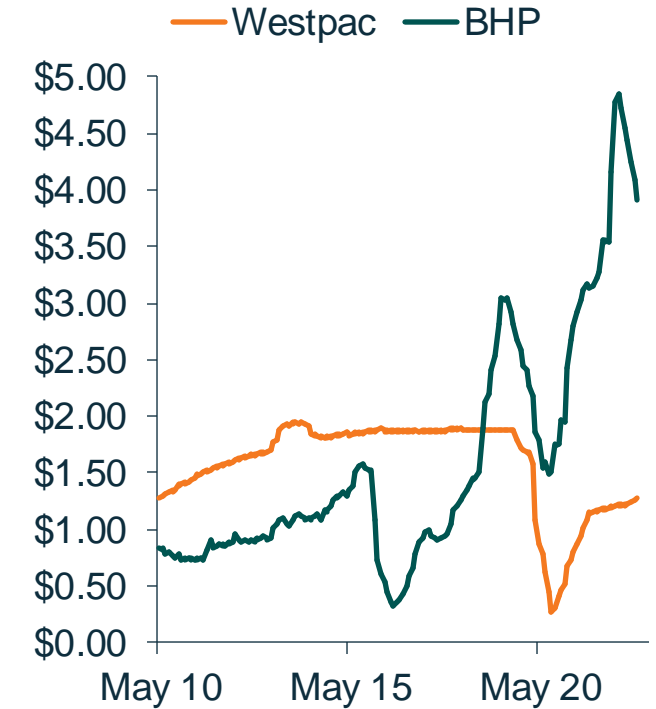
## S&P/ASX 200: Market cap



## NTM expected franked yield contribution by sector\*



## DPS shocks for key index stocks



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

Source: Martin Currie Australia; as 31 March 2023. The information provided should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any of the security transactions discussed here were, or will prove to be, profitable. \*The Expected next 12 Months (NTM) Income is calculated using the weighted average of broker consensus forecasts of each portfolio holding – because of this, the returns quoted are estimated figures and are therefore not guaranteed and may differ materially from the figures mentioned. The figures may also be affected by inaccurate assumptions or by known or unknown risks and uncertainties. In respect of the broker consensus data the number of brokers included for each individual stock will depend on active coverage of that stock by a broker at any point in time. A median of brokers is typically utilised. All estimates avoid stale forecasts which are removed after a certain number of days. Assumes zero percent tax rate and full franking benefits realised in tax return.

# A “SUFFICIENT INCOME FOR LIFE”



## Stock selection consideration

- Dividends that can be sustained
- Protection against inflation
- Focus on higher Quality
- Value franking credits



## Portfolio construction considerations

- Benchmark unaware construction
- Low security / sector concentrations
- No use of derivatives
- Lower turnover

### A process that aims to provide

- Higher income yield than index
  - Higher franking than index
  - Lower concentration risk
  - A skew away from top 20
    - A value-style tilt

# CURRENT STATE OF MARKETS FAVOURS ACTIVE VALUE

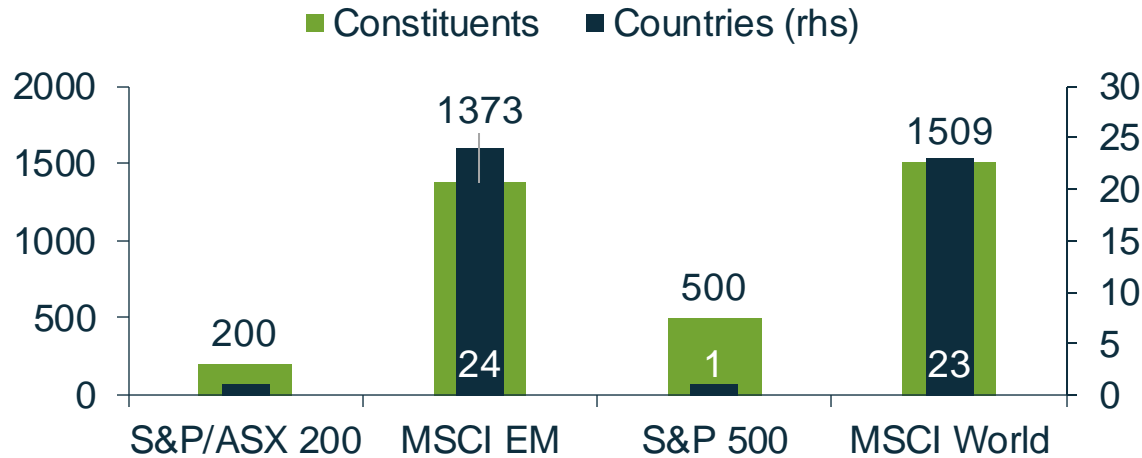
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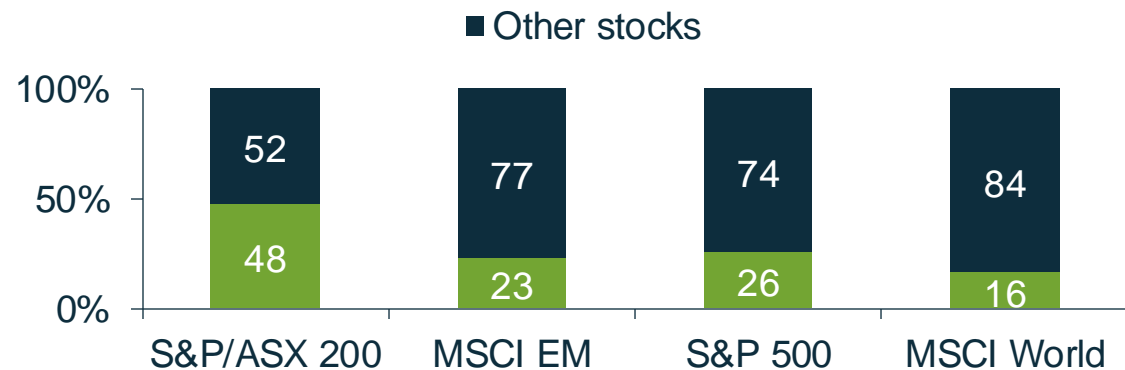


# MORE STRUCTURAL INEFFICIENCIES

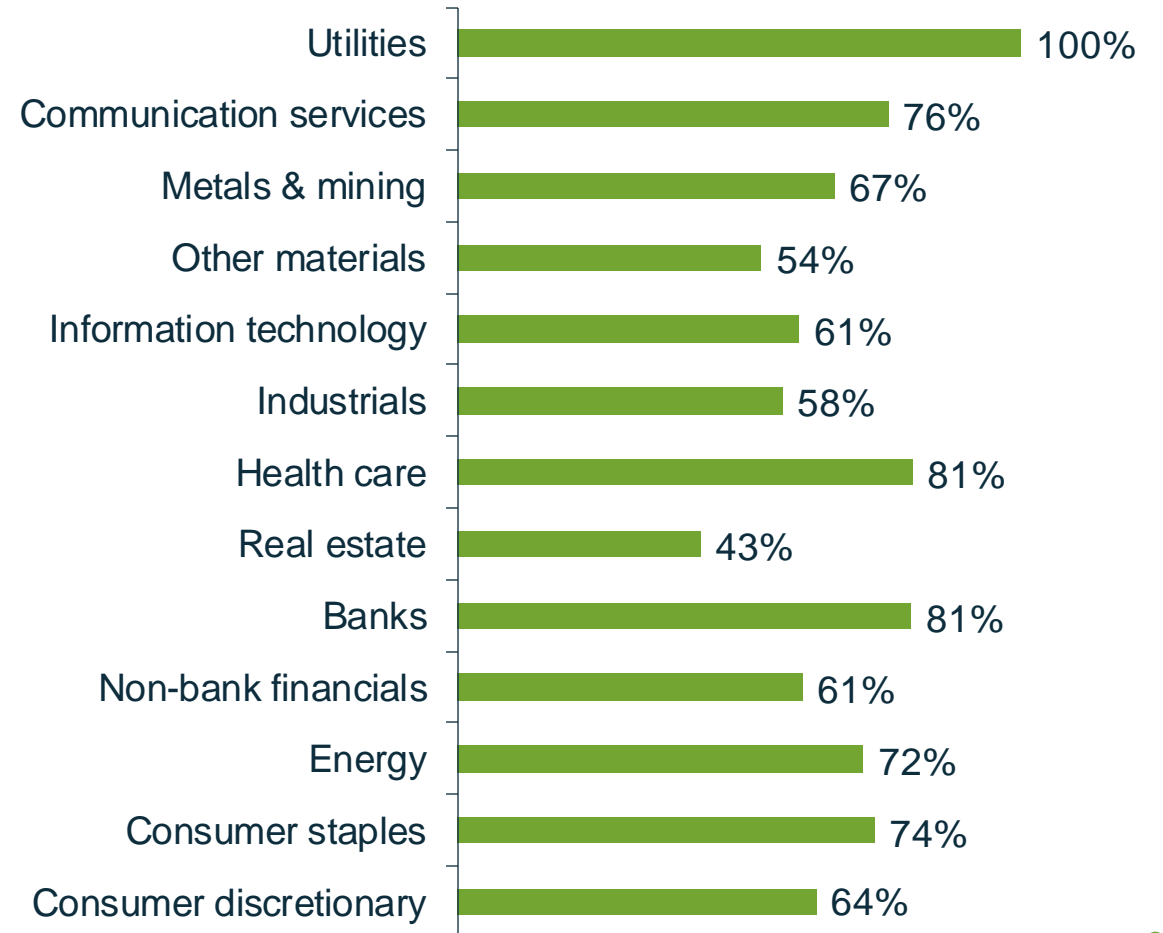
## Opportunity set (number)



## Weight of top ten

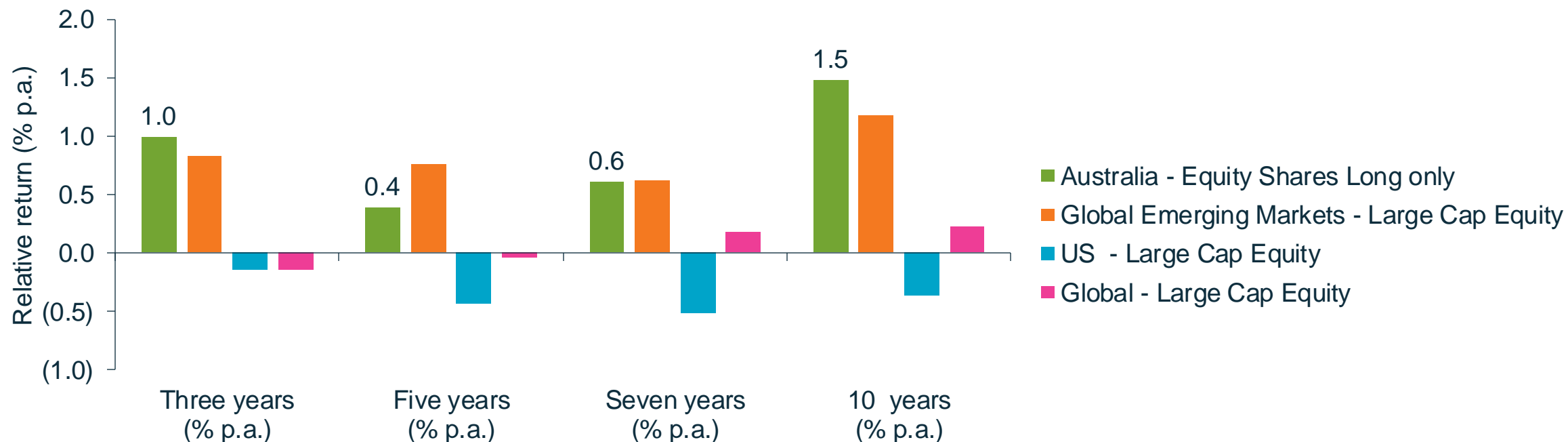


## Market share concentration (weight of top three within sector)



# ACTIVE AUSTRALIAN EQUITIES = MORE ALPHA THAN GLOBAL & US

## Median manager excess returns through December 2022

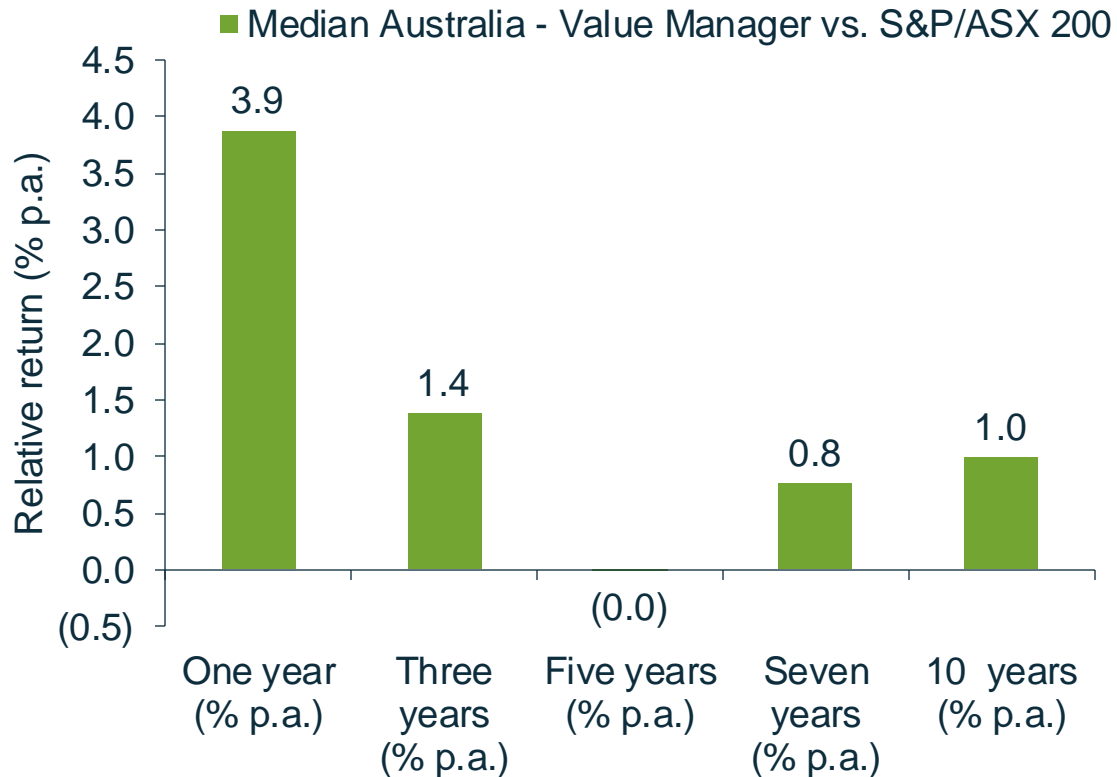


**Past performance is not a guide to future returns.**

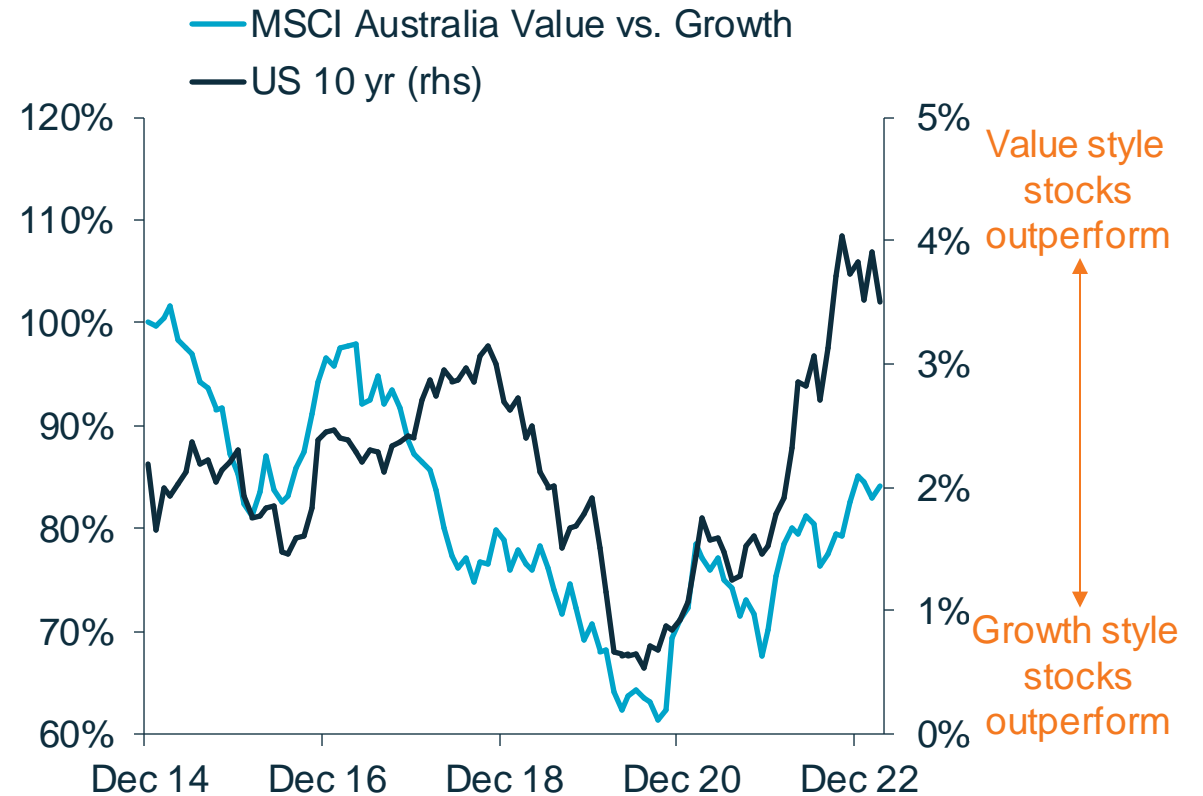
Source: Martin Currie Australia, eVestment; as of 31 December 2022. Data is presented in A\$, gross of investment management fees, custody fees, administration fees, net of trading expenses, and includes the reinvestment of distribution income which is net of non-reclaimable withholding taxes. Franking credits are also excluded. Periods over a year are annualised. Benchmarks used for relative returns: S&P/ASX 200 Accumulation Index, MSCI EM Index (ND), S&P 500 Index, MSCI World Index (ND)

# SKILLED ACTIVE MANAGER ADVANTAGE

## Excess returns through December 2022



## Relative performance of MSCI Australia style indices and US bonds



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Source: Martin Currie Australia, eVestment; as of 31 March 2023. Data is presented in A\$, gross of investment management fees, custody fees, administration fees, net of trading expenses, and includes the reinvestment of distribution income which is net of non-reclaimable withholding taxes. Franking credits are also excluded. Periods over a year are annualised.

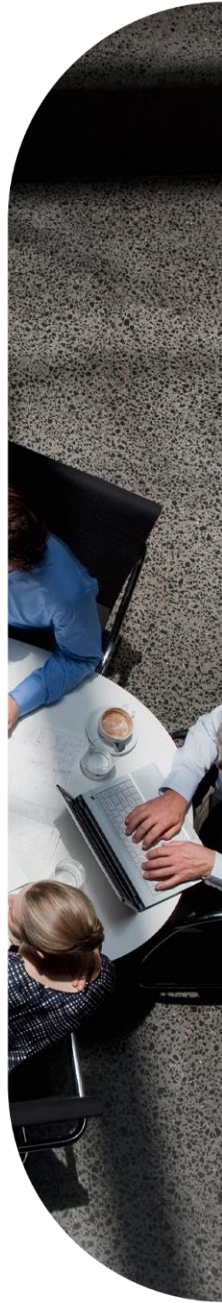
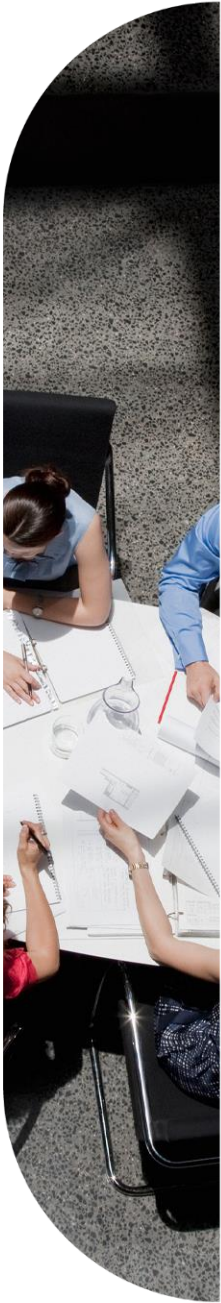
# VALUE AND SIZE OPPORTUNITY REMAINS

## MSCI Australia: Next twelve month P/E ratio



## S&P/ASX 20 Accumulation Index vs. S&P/ASX Small Ordinaries Accumulation Index





# TABLE DISCUSSION: CAN VALUE-STYLE PORTFOLIOS BE SUSTAINABLE?

**Traditional sustainability funds are often highly focused on tech stocks as they have low/no carbon emissions. On the other hand, they shun energy companies, manufacturers, and utilities, which are typically seen as Value-style stocks.**







- **Can Value-style portfolios be made more sustainable?**
- **Do Growth-style portfolios contribute to future sustainability improvements?**

# BEING ACTIVE THROUGH LEVEL OF ESG ALIGNMENT

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# SPECTRUM OF CLIENT ESG GOALS

	Traditional	Responsible investment approaches reflect targeted outcomes				
Approach	<b>Financial returns</b> 	<b>Negative screening</b> 	<b>Ethical screening</b> 	<b>ESG integration</b> 	<b>Engagement &amp; action</b> 	<b>Positive screening</b> 
Expected outcome	Financial returns such as accumulation or income	Avoids risk, values misalignment (e.g. tobacco, weapons)	Considers specific investor preferences	Considers ESG risks and opportunities to financial returns	Engaging with companies to achieve change	Aligned to a sustainable future*
		← <b>Avoiding harm</b>	<b>Benefit stakeholders</b>	<b>Contribute to solutions</b> →		

Source: Martin Currie Australia, Responsible Investment Association Australasia (RIAA); as of 29 May 2023. Modified from RIAA's '[Responsible and Ethical Investment Spectrum](#)'  
\*targeting companies or industries assessed to have better ESG performance relative to benchmarks or peers" as per RIAA.

# PROPRIETARY SUSTAINABILITY RATINGS

## Sustainability risk

- Common ESG risk factors and mitigation
- Material issue identification
- Modern Slavery assessment

## Net Sustainability Benefit:

- Net benefits and harms to society
- UN SDG target contribution



## Sustainability Pathway:

- Momentum of positive change
- Responsiveness to engagement
- Assessment of business integration

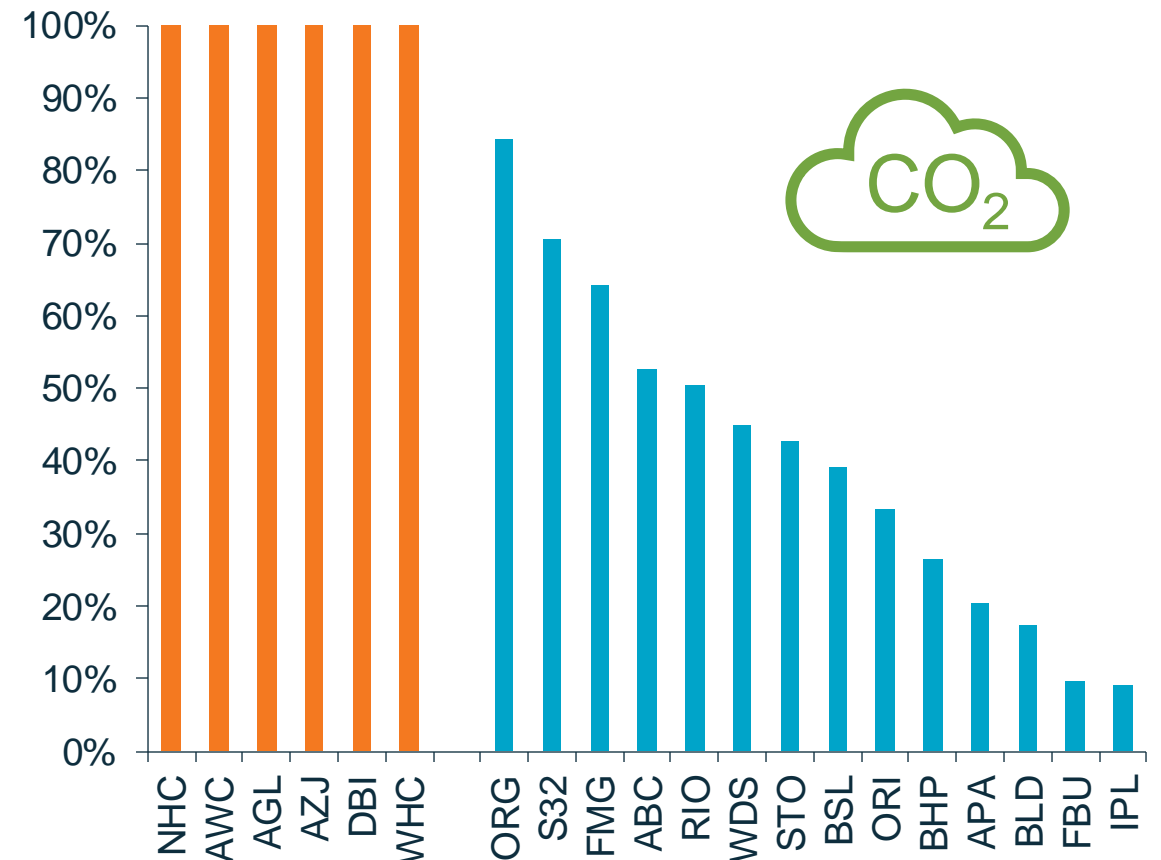


# ASSESSING SHADOW CARBON COSTS

## MCA's Carbon VaR analysis helps to evaluate:

- the carbon transition risk for a company
- a company's low carbon transition path
- the ability to pass carbon costs to customers
- stock and portfolio sensitivity to carbon impacts
- future impacts of climate and energy policy
- stocks that will either benefit or have a minimal impact on earnings from the transition

## Highest MCA Carbon VaR\* for S&P/ASX 200 stocks



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

Source: Martin Currie Australia; as of 31 March 2023.

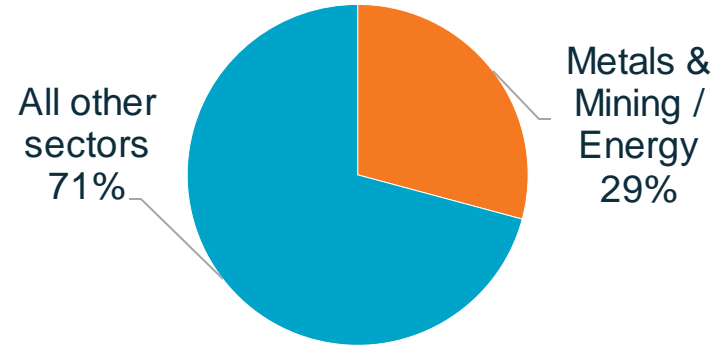
Data shown for illustrative purposes only. The information provided should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any of the security transactions discussed here were, or will prove to be, profitable. \*MCA Carbon VaR is the size of the negative impact of a shadow carbon cost on market cap.

# CONCENTRATION OF INDEX CARBON

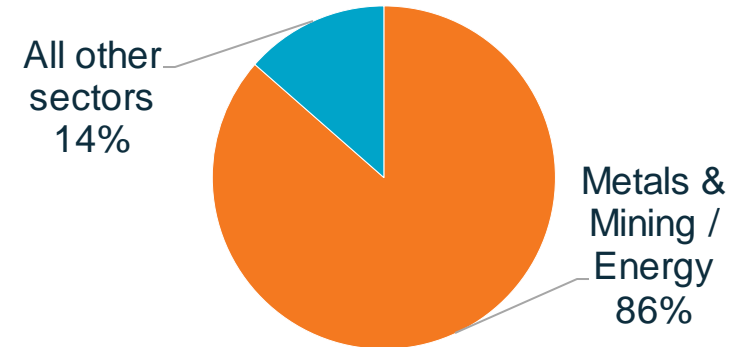
## MCA Carbon VaR\*: S&P/ASX 200



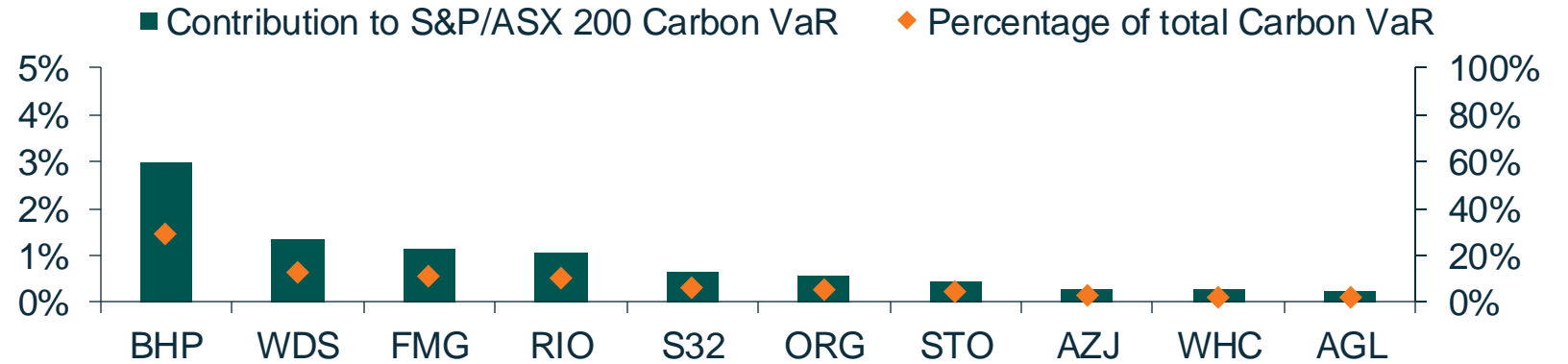
## Sector weight



## Sector contribution to MCA Carbon VaR\*



## Highest stock contributors to MCA Carbon VaR\*



Past performance is not a guide to future returns.

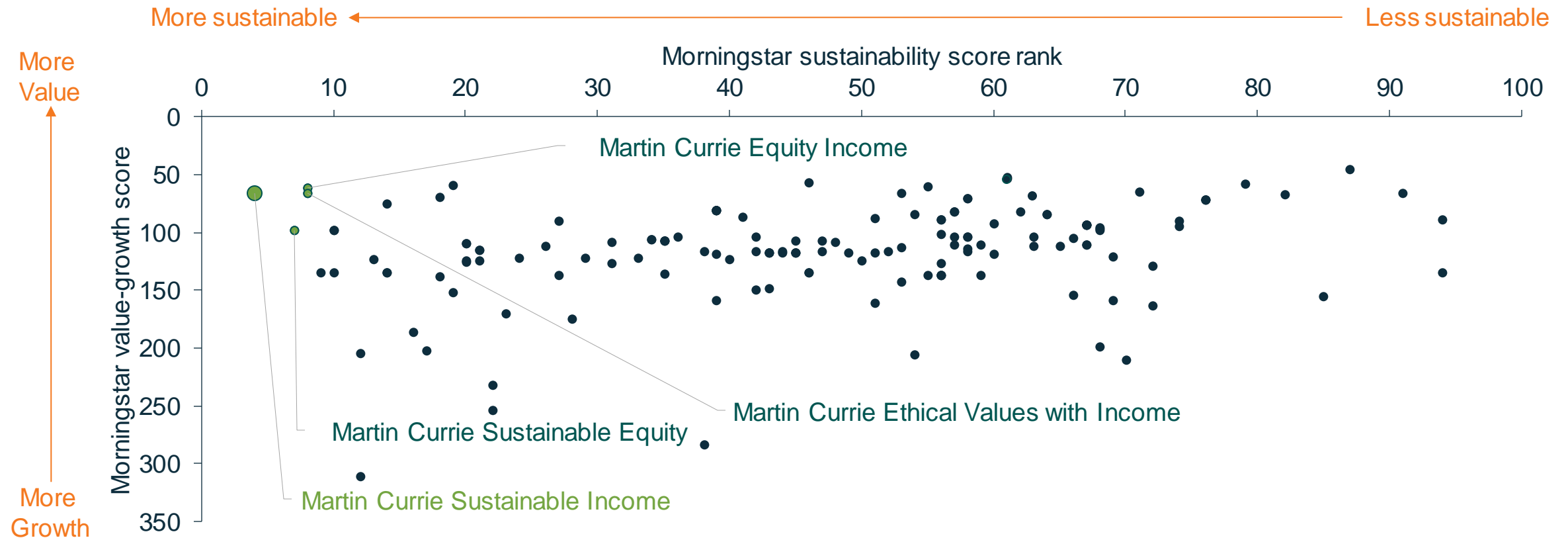
Source: Martin Currie Australia, MSCI; as of 31 March 2023. Data shown for illustrative purposes only. The information provided should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any of the security transactions discussed here were, or will prove to be, profitable.

\*MCA Carbon VaR is the size of the negative impact of a shadow carbon cost on market cap.



# THE VALUE STYLE AND SUSTAINABLE INCOME - NOT MUTUALLY EXCLUSIVE

## Morningstar style mapping of Australian Equity Funds universe










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

Source: Martin Currie Australia, Morningstar Direct, FactSet; as of 31 March 2022. Style mappings are as of 31 December 2022. Includes Funds within Australia Fund Equity Australia Large Blend, Large Value and Large Growth universes. Morningstar uses five value factors and five growth factors to assess style score. For more information see <https://www.morningstar.com.au/learn/investing/225138/morningstar-style-box-methodology>

# COMBINING FINANCIAL OBJECTIVES & ESG GOALS

## The Martin Currie Sustainable Income Fund combines:

<p><b>Financial returns</b></p> 	<p><b>Negative screening</b></p> 	<p><b>Ethical screening</b></p> 	<p><b>ESG integration</b></p> 	<p><b>Engagement &amp; action</b></p> 	<p><b>Positive screening</b></p> 
<p>Experienced investment team</p> <p>Unique multi-lensed proprietary research</p> <p>Bottom-up methodologies to maximise a 'sufficient income for life'</p>	<p>Exclusion of companies involved in unsustainable activities such as companies directly involved in:</p> <ul style="list-style-type: none"> <li>controversial weapons</li> <li>tobacco products</li> <li>Modern Slavery</li> </ul>	<p>Screens based on client-specific ethical values:</p> <ul style="list-style-type: none"> <li>Adult entertainment</li> <li>Alcohol</li> <li>Gambling</li> <li>GMO</li> <li>Fur</li> <li>Nuclear power</li> <li>Tobacco</li> <li>Thermal coal</li> <li>Oil &amp; gas</li> <li>International norms</li> </ul>	<p>MCA's proprietary <b>Sustainability</b>  inputs and assessments embedded directly into investment process</p>	<p>Active Ownership undertaken directly by those making the investment decisions</p>	<p>Investing in companies assessed by MCA to have more favourable assessments for "<b>Sustainability Risk</b>", "<b>Net Benefits</b>" and "<b>Sustainability Pathway</b>" and <b>Shadow Carbon Cost</b>*</p> <p><b>Process enhancement from 29 May 2023</b></p>
<p><b>Objective</b> Deliver a growing income stream</p>	<p><b>Objective</b> Incorporate client-driven ethical values and beliefs</p>	<p><b>Objective</b> Facilitate better outcomes for both stakeholders and for investors</p>			

\*Please refer to the PDS for more information, and also see section 'Environmental, Social and Ethical Factors and Labour Standards' of the Additional Information Booklet for an explanation of this approach and these terms.

# MARTIN CURRIE SUSTAINABLE INCOME FUND (SSB4946AU)

## Performance (%) as of 31 March 2023

	3 mths	1 yr p.a.	3 yr p.a.	5 yr p.a.	S.I p.a.
Fund (net)	1.78	(2.58)	15.85	5.03	4.93
Fund (gross)	2.00	(1.75)	16.82	5.92	5.83

## Forecast Yield % – Next 12 months\*\*

	Portfolio	S&P/ASX 200
Forecast unfranked yield	5.4	4.4
Forecast franked yield	6.8	5.9

## Ratings:



## Recent Awards:



## Morningstar Sustainability Ratings\*:



**Portfolio Sustainability Score: 20**  
**Peer Rank in Equity Australia Large Value Category: 3 / 84**

**Past performance is not a guide to future returns.** Source: Martin Currie Australia; as of 31 March 2023. Data calculated for the Martin Currie Sustainable Income Fund in A\$. Periods over a year are annualised. Inception date: 25 July 2017 \*Sustainability Score and Sustainability rating as of 28 February 2023. Sustainability provides company-level analysis used in the calculation of Morningstar's Sustainability Score. Based on 90% of AUM. Data is based on long positions only. \*\*The Expected next 12 Months (NTM) Income is calculated using the weighted average of broker consensus forecasts of each portfolio holding – because of this, the returns quoted are estimated figures and are therefore not guaranteed and may differ materially from the figures mentioned. The figures may also be affected by inaccurate assumptions or by known or unknown risks and uncertainties. In respect of the broker consensus data the number of brokers included for each individual stock will depend on active coverage of that stock by a broker at any point in time. A median of brokers is typically utilised. All estimates avoid stale forecasts which are removed after a certain number of days. Assumes zero percent tax rate and full franking benefits realised in tax return.

Prior to 29 May 2023, the Martin Currie Sustainable Income Fund ('Fund') was named the Martin Currie Ethical Income Fund (Inception: 25 July 2017). Please see the Client Notice for information in regards to the key changes to the investment approach of the Fund. The performance data shown includes both past returns from the Martin Currie Ethical Income Fund prior to 29 May 2023 and actual returns from the Martin Currie Sustainable Income Fund. Past performance should not be relied upon as indicators of future performance of the Fund.

See further Fund and Rating disclaimers at end.

# LEARNING OUTCOMES: HOW TO BE ACTIVE IN AUSTRALIAN EQUITIES

**Moving away from passive investing allows for greater customisation to consider a client's objective, investment style and level of ESG alignment**

- **Income Objectives:**
  - Not all equities are created equal for a 'sufficient income for life'
  - Benchmark-unaware construction can be more critical for income portfolios to diversify risk
- **Value Style:**
  - The Australian market conditions favour active management more so than for global or US equities
  - There remains a significant valuation spread in favour of value-style over the growth-style in Australia
- **ESG alignment:**
  - Implementing an ESG philosophy in Australia can capture value style benefits too

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Please read the relevant Product Disclosure Statements (PDSs) and any associated reference documents before making an investment decision. In accordance with the Design and Distribution Obligations and Product Interventions Powers requirements we maintain Target Market Determinations (TMD) for each of our Funds. All documents can be found via [www.franklintempleton.com.au](http://www.franklintempleton.com.au) or by calling 1800 673 776.

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Franklin Templeton Australia Limited as Responsible Entity has appointed Martin Currie Australia as the fund manager for the Martin Currie Sustainable Income Fund (ARSN 618 906 068)

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