

Martin Currie Global Long-Term Unconstrained Fund

SEP 2022 | Commentary

Investment objective

The Fund objective is to provide capital appreciation through investment in global equities (ex Australia). The Fund is expected to generate returns in excess of the benchmark over rolling five-year periods. The Fund is unhedged and performance is measured in Australian dollars before fees and taxes.

Performance (%)

	1 mth	3 mths	1 year	3 years p.a.	5 years p.a.
Fund (net)	-6.66	-5.13	-30.89	-1.40	5.92
Benchmark	-3.54	-0.34	-10.96	5.48	8.73

Fund details

Inception date	December 2015
Benchmark	MSCI All Country World Index (ex Australia) in AUD
ISIN	AU60SSB00660
APIR	SSB0066AU

Calendar year performance (%)

	2021	2020	2019	2018	2017
Fund (net)	19.54	15.09	32.16	6.13	20.82
Benchmark	25.99	6.04	26.86	0.71	14.86

Monthly review

What happened in the Fund?

Global equities (as represented by the MSCI ACWI ex Australia index (AUD)) fell during the month by 3.54%. The Fund was also negative, falling 6.66% in September. Continued concerns over inflation and the outlook for economic growth led to negative returns for developed market indices in September. Both the European Central Bank and the Federal Reserve raised interest rates during the month.

Inflationary pressures have remained elevated as a result of the price moves within energy and commodities. Whilst inflation prints have indeed been surprising on the upside across geographies over the summer, the next few datapoints will be critical for setting direction for markets, with weaker prints potentially providing some relief. In the meantime, central banks are likely to continue on their path towards rapid normalisation of monetary policies, with likely stronger and stronger rate hikes to be expected this year, despite the weakening economic momentum.

While we continue to believe we are in a sharp slowdown phase of the economic cycle for 2022, with an ongoing deterioration in leading indicators, and a further upward shift in interest rate expectations, the risk of a bleaker scenario for 2023 has increased. Geopolitical risks also remain omnipresent. In Europe, there is an uncertain backdrop of energy rationing for the coming winter, while in Asia there are increased tensions between China and Taiwan.

The rapidly slowing economic cycle could risk leading to downgrades given an already low corporate earnings growth outlook. While the consensus is still for mid-single digit growth in global earnings in 2022, in our view the Ukraine-Russia armed conflict, Covid-related disruptions in China throughout this year, and deteriorating economic trends are likely to bring this figure to closer to zero at the global level and to -5% at the European level. We anticipate a higher occurrence of profit warnings over the next few quarters, a trend that has already picked up since the start of the year, particularly from corporates with margin pressure linked to more pronounced input cost inflation. We also expect to see downgrades related to companies exiting from their Russian presences. In such an uncertain environment, with higher risk of downgrades to corporate earnings and scarcity of growth in general, there will be an even greater emphasis in the market on companies with consistent growth, higher structural growth profiles, and with enough pricing power to protect their margins from higher inflationary pressures. We remain focused on companies with strong fundamentals: significant pricing power and solid balance sheets, and with exposure to long-term structural growth themes.

At the Fund level, Ferrari contributed positively after unveiling its first ever sports utility vehicle, the Purosangue, aimed at high-net-worth families and the Chinese market where Ferrari is underrepresented. Exclusivity remains a clear focus, and production will be limited approximately 3,000 models. Linde also contributed in September after it announced it will build, own and operate a 35MW electrolyser to produce green hydrogen in Niagara Falls, New York. The plant is expected to start up in 2025 and is the first of several US plants Linde plans building to address burgeoning demand for green hydrogen. US medical technology firm Masimo also made a slight positive contribution over the month.

On the other side, Chinese biotech firm Wuxi Biologics was weak following the issuance of a US Executive Order (EO). The market interpreted this, incorrectly in our view, as an attempt to nationalise biologic drug production, which would skew bioprocessing business away from Wuxi Biologics. The EO commits US\$2bn to various endeavours, including the Department of Defence investing US\$1bn in domestic biologic drug manufacturing infrastructure over five years. For comparison, Wuxi Biologics' overseas capital expenditure to 2025 is US\$3bn. US software firm Adobe experienced difficulties resulting from growing evidence of longer sales cycles and deal delays in some parts of the software market. These became more pronounced after Adobe announced its acquisition of Figma, a collaborative product design platform, for US\$20bn. Investors expressed concerns over the price paid and unprofitability of the acquisition, amid a weaker macroeconomic environment. After a difficult August, US graphics company Nvidia underperformed again in September, after the company announced lower than anticipated earnings per share during the month.

There were no new buys or outright sales in the month of September.

Highlights

- Invests in a concentrated global portfolio (ex Australia) of stocks across developed and emerging markets
- Focuses on companies' cash flow and assets, which the Martin Currie believes are better long-term indicators of corporate sustainability
- A low turn-over, unconstrained global equity portfolio in which investments are not restricted by country or sector limits, but determined by the conviction of the investment team

About us

Franklin Templeton

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Martin Currie

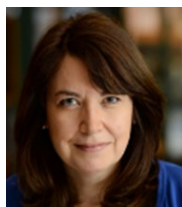
Martin Currie, our global equity specialist manager, has had a presence in Australia since 1954. Today Martin Currie is a leading provider of active equity solutions in Australia, managing a growing suite of equity, multi-sector and tailored strategies across a common investment research platform.

Meet the team

The Global Long-Term Unconstrained team is led by Zehrid Osmani. Focused on identifying companies capable of generating long-term value creation, the team combine a background in portfolio management, sector research and corporate accountancy.



Zehrid Osmani, CA
Head of Global Long-Term Unconstrained
With firm since 2018



Amanda Whitecross
Portfolio Manager
With firm since 2008

Ratings

Qualitative



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