MARTIN CURRIE

FRANKLIN TEMPLETON

Martin Currie Global Long-Term Unconstrained Fund

SEP 2023 I 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 MSCI All Country World Index ("ACWI") (ex Australia) expressed in Australian dollars 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)	-8.10	-8.39	12.92	15.31	5.40
Benchmark	-3.82	-0.37	13.45	11.00	6.67

Calendar year performance (%)

	2022	2021	2020	2019	2018
Fund (net)	-30.09	19.54	15.09	32.16	6.13
Benchmark	-12.73	25.99	6.04	26.86	0.71

Fund details

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

Monthly review

What happened in the market?

Global equities continued their decline in September in the face of higher bonds yields, with energy the only sector in positive territory. Against this context, Growth fell more than Value. From a regional perspective, Europe fell less than the US. The economic narrative remains unchanged: solid economic data in the US continued to suggest an economic expansion, and while core inflation declined, the headline rate increased again, driven by higher oil prices. The US Federal Reserve (Fed) paused its rate hiking programme in September, which left the market digesting the likelihood of a further rate hike later this year and a more restrictive policy for 2024. While Europe remained in contraction territory with both headline and core inflation easing further, the European Central Bank (ECB) raised rates by another 25 basis points in September. Meanwhile, economic data from China proved better than expected, showing the economy was growing faster than market anticipated with headline inflation out of negative territory. We reiterate that even though the path of recovery for China has been bumpier and uneven, the country is still expected to grow its gross domestic product (GDP) by c.5% this year.

What happened in the Fund?

The Fund was down 8.10% over the month of September, in comparison the benchmark as measured by (MSCI All Country World Index (Ex Australia) expressed in AUD was down 3.82% in September. At the Fund level, positives included Wuxi Biologics, the world's number two in CRDMO (an outsourced contract research, development, and manufacturing company for biologic drugs for pharma and biotech) continued its recovery on the back of improved biotech funding and the end of destocking. Atlas Copco held up better following two strong sets of quarterly results and in the absence of specific news flow in September.

On the other side, ASML was down last month, on the back of news flow that the US government was planning additional curbs on semiconductor exports to China as early as October. We do not expect this will impact ASML's ability to continue to ship their low-end immersion system to China as is currently allowed under the rules. In the unlikely event that it does, China should purchase more of the less productive tools and any lost production may incrementally be added outside of China. Moncler fell alongside luxury goods sector last month, in the absence of stock specific news flow. Broadly speaking, the sector was impacted by growth normalisation in the US and Europe (from unusually high levels during Covid), which partly offset a recovery in Asia/China. Our conviction in Moncler and the luxury goods sector remains strong. Nvidia was impacted by the broader sell-off in the tech sector and could be partly affected by the statement from Microsoft chief technology officer that the supply of Nvidia's graphics processing units (GPUs) was "still tight" but improving. However, Microsoft was early in the queue to benefit from any ramp-up in Nvidia's supply and this doesn't change the broader picture that there remains a significant shortage of demand for Nvidia's GPUs overall.

While much of the positive investor sentiment during the first half of 2023 came from expectations that the US federal funds rate might be close to peaking, we believe inflation could remain higher and longer lasting generally. It will be critical to continue to observe wage inflation trends, as these have the potential to turn inflation into a more structural rather than frictional phenomena.

We still believe central banks (both the Fed and the ECB notably) are unlikely to pivot until sometime in H2 2024. Central banks have now shifted to being more data-dependent, which will bring more volatility with every data point. We note that expectations of rate cuts in 2023 have now evaporated, and also note that expectations of a rapid shift towards cuts in H1 2024 have now been pushed into H2, closer to our initial and current view. In any case, whether we see a pivot early in 2024, or later on that year, we are closer to the end of the rate hike cycle, which we forecast to happen by the end of this year, which should itself be supportive for Quality and Growth stocks in our view.

In terms of the macroeconomic cycle, China's reopening supported our central scenario of a sharp slowdown rather than recession at the global and US level during the first part of the year. Despite the recent loss of momentum on Chinese leading indicators, we expect the Chinese economy to grow at +5-6% this year, albeit more likely at the bottom end of that range, which should in itself be fairly supportive. At the same time, the US economy has been showing impressive resilience, confounding the sceptics and with growth of 2% expected this year. This has led to a more supportive backdrop for global growth. Europe, being more cyclically exposed to China, has experienced a weaker momentum generally, with the region being closer to the stagflation scenario that we had predicted as most likely.

Highlights

- The Fund invests in a concentrated portfolio of globally listed companies (ex-Australia).
- A professionally managed unconstrained portfolio, focused on selecting companies on their ability to generate high and sustainable returns over the long -term.
- The Fund combines fundamental bottom-up research with long-term thematic megatrends (demographic changes, future technology and resource scarcity).

About us

Franklin Templeton

Franklin Resources, Inc., is a global investment management organisation, operating as Franklin Templeton, which is headquartered in California. Franklin Resources, Inc., provides, through its subsidiaries, deep investment expertise across all asset classes - including equity, fixed income, and multi-asset options. Franklin Resources, Inc. is listed on the New York Stock Exchange and has employees in over 34 countries.

Martin Currie

Martin Currie Investment Management (MCIM) is a Specialist Investment Manager (SIM) within Franklin Resources Inc. and part of the Franklin Templeton group. MCIM is an active equity specialist with investment capabilities across global equities, global emerging markets, Asian equities, and European equities. The firm is a leader in integrating Environmental, Social and Governance (ESG) and responsible stewardship of capital into its investment process. MICM is based in Edinburgh, Scotland, and has a long history extending back to 1881.

Ratings

Qualitative

Zenith RECOMMENDED

Recommended Lonsec Research

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
Head of Global Long-Term Unconstrained
With firm since 2018

Amanda Whitecross
Portfolio Manager
With firm since 2008

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