

Martin Currie Closed-End Funds

In this publication, we take a look at Edinburgh-based fund manager, Martin Currie and provide a snapshot of its three investment trusts – Securities Trust of Scotland (STS), Martin Currie Global Portfolio (MNP) and Martin Currie Asia Unconstrained (MCP).

Securities Trust of Scotland

Mark Whitehead became the manager of Securities Trust of Scotland's portfolio in May 2016. Mark, who joined Martin Currie from Sarasin in November 2015, heads up a new, better resourced, income team. This includes STS's previous manager, Alan Porter, and this has helped to ensure a smooth transition for the trust. QuotedData takes a look at STS's progress to date and how the trust is performing under the new strategy.

Martin Currie Global Portfolio

Martin Currie Global Portfolio has been managed by Tom Walker since January 2000. The trust aims to be a core low risk holding, particularly for the smaller investor, and its ongoing charges are relatively low within its peer group at 0.71%. Liquidity is aided by its zero-discount policy. MNP has a large allocation to North America (an area where its manager has a very high level of experience) and has benefitted recently as this market has rallied and sterling has weakened. QuotedData takes a look at MNP's strategy, the manager's views on the US and MNP's recent performance.

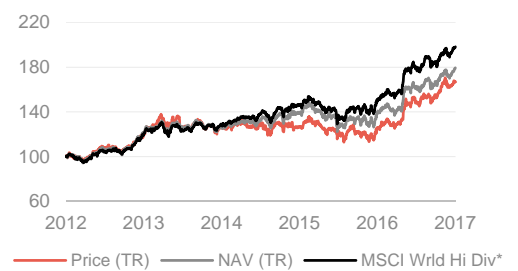
Martin Currie Asia Unconstrained

Martin Currie Asia Unconstrained has been managed by Andrew Graham since May 2011. MCP shifted to its unconstrained approach in July 2014. This is a long-term, low turnover strategy that is designed to capture the benefits of investing in Asia, while mitigating the downside. Since its inception in 2008 the strategy has delivered returns in line with GDP growth, but with less volatility than the MSCI AC Asia ex Japan index. The process uses in depth forensic accounting to enhance the quality and conviction in research ideas.

Absolute returns since the strategy change have been strong and there has also been a marked improvement in performance relative to the main equity market indices. QuotedData takes a look at the strategy's recent performance and the manager's views on why Asian markets have lagged rates of Asian economic growth.

Securities Trust of Scotland performance

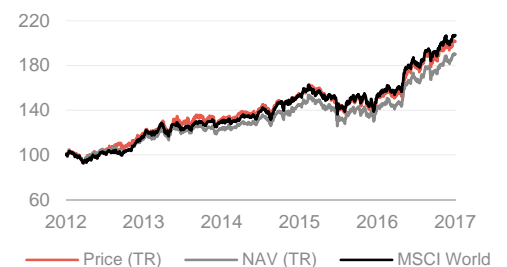
Time period 29/2/2012 to 28/2/2017



Source: Bloomberg, Morningstar, Marten & Co. *Note: STS's official benchmark is its peer group. The MSCI World High Yield Index is used as a means of comparison.

Martin Currie Global Portfolio performance

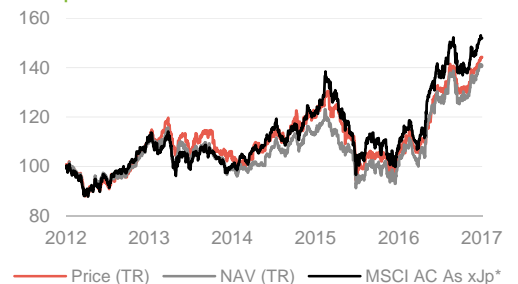
Time period 29/2/2012 to 28/2/2017



Source: Bloomberg, Morningstar, Marten & Co.

Martin Currie Asia Unconstrained performance

Time period 29/2/2012 to 28/2/2017



Source: Bloomberg, Morningstar, Marten & Co. *Note: MCP does not have an official benchmark. The MSCI AC Asia ex Japan Index is used as a means of comparison.

Recent developments at Martin Currie

Increased commitment to income

Martin Currie established a new income team in November 2015. This is headed up by Mark Whitehead who joined from Sarasin, but also includes STS's previous manager, Alan Porter, who focuses on global equities; Ross Watson, who focuses on European income; Virginia Martin-Heriz who focuses on the financials sector as well as Laurie Lochtie who is a specialist income analyst with a roving remit.

Martin Currie's income approach aims to deliver high yielding, high conviction portfolios that deliver sustainable growing income. These tend to have fewer, larger holdings on the basis that the manager is strongly convinced of their merit. Income growth, rather than yield is the team's key focus and the investment process has been redesigned to make it more robust. Enhancements include credit analysis and stress testing of cash flows, to ensure dividend growth is sustainable, as well as the integration of governance and sustainability analysis.

Martin Currie Investment Management

Martin Currie is focused solely on providing active equity solutions. It had US\$14.4bn of assets under management as at 31 December 2016.

Martin Currie Investment Management is a global investment manager that is focused solely on providing actively managed equity portfolios for its clients. It offers a comprehensive range of strategies that can be accessed through a selection of funds designed for both private and institutional investors (further details on Martin Currie's strategies can be found at its website www.martincurrie.com). Martin Currie's main offices are in Edinburgh and London. It employs over 60 investment professionals globally and is recognised for its bottom up fundamental approach to selecting stocks (one that constructs a portfolio by selecting the best stocks on their individual merits rather than being driven by "top down" macroeconomic views). As at 31 December 2016, Martin Currie had US\$14.4bn (£11.7bn) of assets under management.

Martin Currie's three pillars

Martin Currie groups these strategies into its three 'investment pillars' of Income, Absolute Return and High Active Share. Its Income strategies are high-dividend strategies that also aim to provide capital growth. Its Absolute Return strategies aim to produce long-term positive returns with a smoother investment journey (i.e. lower volatility than the market). Its High Active Share strategies are relative-return strategies that aim to generate alpha (excess returns over a relevant index) and grow more than the market.

Large supportive parent

Martin Currie is an independently managed investment affiliate of Legg Mason Global Asset Management. Martin Currie was acquired by Legg Mason in July 2014. Legg Mason owns a number of boutique asset management firms. Martin Currie has retained its investment and operational autonomy, while benefitting from the economies of scale in distribution and marketing provided by its large supportive parent (Legg Mason Global Asset Management is one of the world's largest asset management firms).

Securities Trust of Scotland (STS)

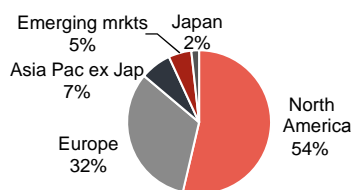
More opportunities to focus on dividend growth

STS aims to achieve rising income and long-term capital growth by investing in a portfolio of global equities. More information can be found at

www.securitiestrust.com

Mark Whitehead became manager of STS's portfolio on 11 May 2016. Under his direction, the trust has moved to an unconstrained, benchmark agnostic approach (the portfolio is constructed without reference to any equity index). Mark says that this has expanded the trust's opportunity-set significantly. Mark's income strategy has a strong growth focus and his team now looks further down the market cap scale in search of opportunities, with the aim of identifying companies with strong capacity to grow dividends (dividend growth rather than dividend yield is the starting point for the team's analysis). A key differentiator is that the team employs credit analysis and stress test cash flow generation to ensure dividend sustainability. Options are also being used to underpin income generation.

Figure 1: Geographic allocation as at 31 January 2017*



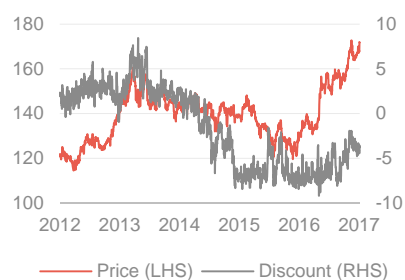
Source: Morningstar, Marten & Co *Note: geographic allocation excludes net gearing, which accounted for 9.9% of net assets as at 31 January 2017.

STS operates a progressive dividend policy. It grew its dividend by 18% last year. As at 8 March 2017, this is equivalent to a dividend yield of 3.4%, which is broadly in line with its AIC global equity income peer group average of 3.7%, but it does not rely on a high fixed income exposure to boost portfolio yield.

Asset allocation

STS maintains a relatively concentrated portfolio of between 35 and 55 higher yielding stocks (50 as at 31 January 2017). As illustrated in Figure 1, STS has a large allocation to the US and Europe. The manager has recently added Greencoat UK Wind, Hastings, Civitas Social Housing, Huntington and Apax Global Alpha. Sales include CTT, Anheuser-Busch InBev, Fibrá Uno and Intesa Sanpaolo (some of these additions would not have been possible under the constraints of the old benchmark).

Figure 2: Share price and premium/(discount)



Source: Morningstar, Marten & Co

Discount on a narrowing trend

STS traded at a premium to net asset value (NAV) prior to mid-2014, but moved to a discount during the second half of 2014, reflecting both increased market uncertainty and an ongoing period of relative underperformance relative to its then benchmark. However, more recently (post the referendum and Mark's appointment), the discount has been on a narrowing trend. Arguably, this reflects demand for STS's new strategy, its yield growth and strong recent performance. As at 8 March, STS was trading at a discount of 3.5%; this is modestly wider than its five-year average of 1.7%.

Performance summary

It is early days for the new strategy but, as illustrated in Figure 3, absolute returns have been strong, benefitting from sterling's weakness post the EU referendum, while NAV performance has been comparable to the MSCI World High Dividend Yield Index (price performance has been stronger reflecting the recent discount narrowing).

Figure 3: Cumulative total return performance to 28 February 2017

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)	MW managed (%)**
STS NAV	4.9	8.2	10.7	29.7	41.6	79.5	26.1
STS share price	3.0	7.8	12.0	34.1	32.0	67.0	29.1
MSCI World High Dividend Yield*	4.2	8.0	10.7	32.6	54.0	98.3	26.7

Source: Morningstar, Marten & Co *Note: STS official benchmark is its peer group. The MSCI World High Dividend Yield Index is used here as a means of comparison; this index was STS's benchmark until August 2011. **Note: Mark Whitehead has managed STS's portfolio since 11 May 2016.

Martin Currie Global Portfolio (MNP)

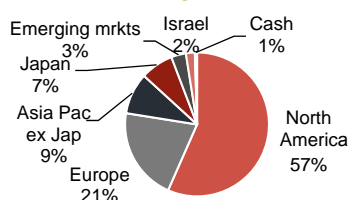
Market neutral strategy focusing on undervalued stocks

MNP aims to achieve long-term capital growth in excess of the FTSE World Index. More information can be found at

www.martincurrieglobal.com

Tom Walker, head of the global long-term unconstrained team at Martin Currie, has managed Martin Currie Global Portfolio since January 2000 and oversaw the transition to a fully global strategy in June 2011. The manager does not take big bets on macroeconomic developments and MNP's portfolio is constructed so that its volatility is comparable to the market and its primary source of risk is stock specific. Stocks are selected based on fundamental analysis, taking a three-to-five-year view. The manager looks to identify undervalued companies with strong or improving fundamentals (he likes markets that have barriers to entry, or are consolidating, as well as long-term and self-help driven growth stories).

Figure 4: Geographic allocation as at 31 January 2017



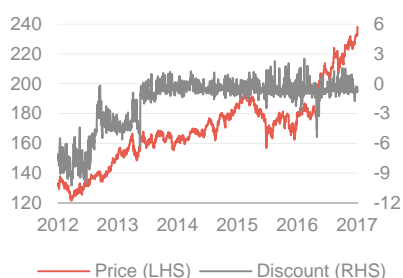
Source: Morningstar, Marten & Co

In the US, Tom says that whilst President Trump is drawing a lot of interest, it is difficult to form a strategy around his policies. He thinks it likely that government spending policies will push interest rates higher (at least in the US) and Trump's actions could bring to an end the strong market in bonds (equities could benefit). However, a strong US dollar and a more protectionist US administration are potential headwinds for emerging markets equities and, whilst there is talk of an infrastructure boom in the US, Tom believes that this will fall short of China's boom times.

Asset allocation

As illustrated in Figure 4, MNP has a truly global portfolio that is well diversified by country. Typically, it comprises circa 50 of Martin Currie's best global ideas (53 positions as at 31 January 2017). Recent purchases include Visa, Sky, Pioneer Natural Resources and Unilever. MNP is permitted to use borrowings, but has none at present and has not used borrowings during the last 10 years. Recent sales include Schneider, M1, Royal Dutch Shell and 21st Century Fox.

Figure 5: Share price and premium/(discount)



Source: Morningstar, Marten & Co

MNP – a pioneer of the zero-discount policy

MNP's discount has been actively managed since its launch and so it is natural that it became one of the first trusts to adopt a zero-discount policy (the trust buys and sells its shares to ensure that it trades close to a zero discount). As illustrated in Figure 5, the policy has been very effective since its introduction in July 2013 (during the last 12 months, MNP has traded at an average discount of 0.5%). The policy is designed to give investors confidence of being able to trade in and out of MNP at close to NAV.

Performance summary

MNP has provided strong absolute returns in recent years. These are particularly strong over the one-year horizon. MNP's global portfolio has benefitted from the marked depreciation of sterling, following the EU referendum, and its high allocation to the US, which has rallied as markets have digested news of Trump's electoral win.

Figure 6: Cumulative total return performance to 28 February 2017

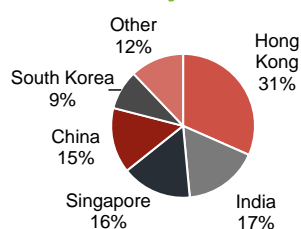
	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)	Fully global strategy (%)**
MNP NAV	4.6	8.9	13.5	34.6	53.8	90.3	94.6
MNP share price	3.9	6.6	13.3	31.9	52.3	101.6	110.2
MSCI World	4.0	8.3	13.7	36.6	59.4	107.1	110.4

Source: Morningstar, Marten & Co **Note: Following shareholder approval, MNP moved to a fully global strategy with effect from 1 June 2011.

Martin Currie Asia Unconstrained (MCP)

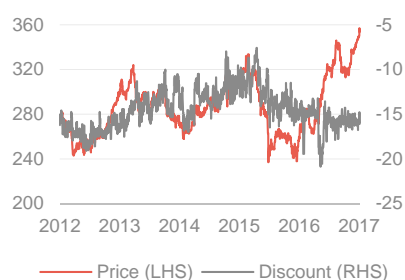
MCP aims to achieve returns commensurate with Asia ex Japan GDP growth. More information can be found at www.martincurrieasia.com

Figure 7: Geographic allocation as at 31 January 2017



Source: Morningstar, Marten & Co

Figure 8: Share price and premium/(discount)



Source: Morningstar, Marten & Co

Focus on companies with strong capital discipline

MCP’s manager believes that, despite the region’s strong GDP growth, high demand for exposure to the Asian growth story has, over the last 30 years, led to a glut of capital. As capital has been readily available, companies have not been disciplined in its use. This has led to both overcapacity and an unhealthy tendency towards dilution (i.e. raising additional equity capital thereby diluting the returns of existing investors); thus the benefits of GDP growth have not translated into stock market growth.

MCP’s manager believes that it is crucial to focus on companies that are highly disciplined in their use of capital as this will allow the benefits of growth to accrue over time. He looks for companies with strong business franchises, strong corporate governance, high quality earnings and strong balance sheets as he believes these should protect against value destruction. The manager has adopted an extra step in their process that involves forensic accounting analysis of a minimum of five years of accounts. It is this that gives him high conviction to hold positions for the long term.

Asset allocation

Whilst MCP’s manager constructs a concentrated portfolio (20-30 stocks) of high conviction ideas, the portfolio is still well diversified by geography (as illustrated in Figure 7) and industry. The manager recently disposed of holdings in Tsingtao and M1 and added positions in Tencent and Matahari Department Store. The trust added £5m of borrowing in November 2015 and is fully invested.

MCP’s discount has narrowed and is close to its five-year average

MCP’s discount was on a widening trend in the run up to the EU referendum. This continued following the result, with MCP’s discount hitting a five-year high of 20.9% as at 7 July 2016. However, as markets have settled, MCP’s discount has narrowed so that it is now trading close to its five-year average of 14.6% (MCP’s discount as at 8 March was 15.7%). MCP’s board does not believe that repurchases improve liquidity in the long-term, but considers it appropriate to intervene, in particularly uncertain markets, to provide stability, and will repurchase shares when they are deeply discounted. The board was particularly active in repurchasing shares during the first half of 2016, but has not made any repurchases since June 2016.

Performance summary

As illustrated in Figure 9, MCP’s absolute returns since the strategy change in 2014 have been strong and are now in line with the MSCI AC Asia ex Japan Index (MCP had previously underperformed this index). Much of this performance has come during the last 12 months. The one-year figures reflect the recent resurgence in Asian markets and sterling weakness as well as difficult markets at the beginning of 2016 following China’s slowdown and the commodity price collapse.

Figure 9: Cumulative total return performance to 28 February 2017

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)	Strategy change (%)**
MCP NAV	3.7	9.2	10.0	40.1	41.9	40.6	39.6
MCP share price	3.2	9.4	9.6	39.2	39.1	44.3	35.7
MSCI AC Asia ex Japan*	4.5	8.0	10.0	41.7	51.0	52.0	40.4

Source: Morningstar, Marten & Co *Note: MCP does not have an official benchmark. The MSCI AC Asia ex Japan Index is used as a means of comparison. **Note: shareholders approved the change to an unconstrained approach on 10 July 2014.

QuotedData

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