



# LEGG MASON MARTIN CURRIE GF EUROPEAN ABSOLUTE ALPHA FUND

A European equity fund that seeks to capture gains, whilst aiming to protect your capital from downward market movements.

## Fund Snapshot

### A NEW EUROPE

- Despite political and economic uncertainty, Europe remains a global economic power and presents a compelling investment opportunity as its recovery continues
- Although Europe has a large, liquid, equity market, there are still pricing anomalies and inefficiencies that offer investors many opportunities
- A long/short strategy can capture these opportunities while managing volatility and preserving capital

### A NEW WAY OF THINKING



**The Legg Mason Martin Currie GF European Absolute Alpha Fund employs a long/short strategy which seeks to benefit from both upwards and downward movements in share prices. The aim is to capture European equity returns while providing some protection from downward market movements.**

### HOW DOES IT WORK?

- The **Legg Mason Martin Currie GF European Absolute Alpha Fund** seeks to generate returns from both long and short positions – so investors benefit from both upwards **and** downward movements in share prices.
- The Fund, which has no benchmark, consists of a high conviction portfolio of between 40 and 70 mid- to large-cap stocks
- The Fund's managers conduct intensive research into all the companies in which they invest and use a macroeconomic model to identify market inflection points and how much exposure to have to the market



### WHO IS IT FOR?

- Investors who want exposure to potential European equity growth without the same level of volatility
- Investors looking to avoid benchmark driven investing
- Investors with a long-term investment horizon
- Investors who recognise that active fund management strategies offer the potential for more consistent long-term returns from European equities



**Absolute return mindset developed through both bull and bear markets over 15 years**

**2001:** European long/short strategy launched.

**September 2010:** The Legg Mason Martin Currie GF European Absolute Alpha Fund is launched.

Total Strategy AUM of US\$564 million\*

**KEY DIFFERENTIATORS**

**Long and short book alpha generation**

The Fund seeks to generate alpha both from its long and short positions. Long exposure is achieved principally via direct or indirect equity investments. Short exposure is achieved indirectly, via derivatives.

**A focus on fundamental analysis rather than trading**

Stock selection is underpinned by an extensive, bottom-up fundamental process focused on cash flow and cash generation. Analysis of companies and stocks is both quantitative and qualitative in nature.

**A macro matrix that indicates inflexion points**

The matrix helps the managers to identify early signs of change in market sentiment, together with the direction, duration and strength of these changes. They use this information to drive the Fund's short-term net and gross market exposure levels.

**PROCESS**

The main driver of alpha generation in the Fund is stock selection

**The Fund's stock selection is underpinned by a bottom-up, fundamental process that focuses on cash flow and cash generation.**

Quantitative research and screening of a universe of 600 pan-European, mid-large cap stocks

Qualitative analysis – identify business strategy, barriers to entry

Company visits – meet and evaluate management (~300 per year)

Evaluation - pricing the opportunity

**Action: Technical analysis to optimise entry/exit points**

**Long book – typical characteristics**

- Strong balance sheets
- Strong cash flow generation
- High quality management
- Attractive valuations

**Short book – typical characteristics**

- Poor balance sheets
- Declining profits margins/market share
- Underperforming management
- Low or falling barriers to entry

\*Source: Legg Mason, as at 30 September 2015.

## ROBUST RISK MANAGEMENT

The fund has a robust approach to risk management and emphasises the following factors.

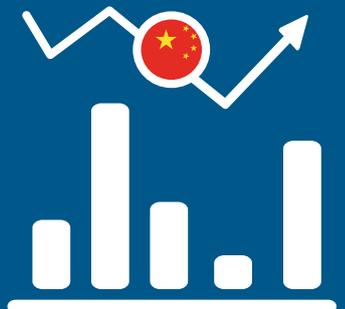
- **Stock correlations.** The managers aim to build a portfolio with a wide range of share price drivers and to avoid concentrations of correlated positions, particularly when such stocks exhibit high volatility.
- **Macro factor sensitivity.** The managers monitor the portfolio's sensitivity to a wide range of factors including commodity prices, currencies, equity indices and interest rates. Since they do not expect to add much value by taking views on these variables, they typically aim to minimise such sensitivities. Where they do accept sensitivity to a factor, they must be able to point to evidence to support this position.
- **Stress testing.** The managers measure the portfolios reaction to a range of extreme scenarios, using statistical methods and historical data.
- **Liquidity.** Liquidity is assessed daily, based on the average volume traded in each of the portfolio's positions over the previous 60 days, assuming the managers can participate in up to one-quarter of this average daily volume. A position is deemed to be illiquid if it would take more than 10 days to unwind.
- **Value at risk (VaR).** Value at Risk is a method used to measure the potential loss in the value of an asset over a set period. For example if the 1-year VaR with a 95% confidence level is a certain amount, then there is a 5% chance of the asset falling in value by more than that amount over a given year.

In the view of the managers, the above factors give a more meaningful picture of the Fund's risk profile than do traditional measures based on net or gross exposure at the sector, country or portfolio level.

## EXAMPLES

### Volatility in China

- During late July, the team became increasingly worried that markets were becoming too richly valued. This was driven by concerns about China, the pace of global growth and the negative impact of falling oil prices on companies serving the energy sector. As a result the team reduced their net exposure to 40%.
- During August, following the surprise Chinese devaluation, the team further reduced its net exposure to 26% as volatility rose dramatically. They shorted cyclical companies and cut exposure to consumer companies, to protect investors' capital.
- As the month progressed and markets began to look oversold, the team took the opportunity to buy attractive companies at knock-down prices, raising net exposure to 56%.
- The **Fund delivered a return of 1.48%** in August while its benchmark **MSCI Europe LC Index fell 7.28%**.



### Long-term growth and strong cash generation

- The team at Martin Currie likes companies that can demonstrate steady long-term growth and strong cash generation.
- One such example is Autoliv, a Swedish company that develops safety products such as airbags, as well as products that enable night vision and advanced braking and lane changing systems.
- The company, has historically generated growing revenues in the mid-single digits and earnings in the high-single digits while consistently generating free cash flow.



### Ability to short companies

- A highly leveraged UK transport franchise, which the team had been concerned about for some time had a warning from Standard and Poor's that it would downgrade the stock. Therefore significantly increasing its interest costs and confirming the team's negative opinion.
- The team, was able to profit after a fall in the value of the transport stock, having taken a short position through a derivative.



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## MEET THE MANAGERS



### Michael Browne – portfolio manager

- Michael joined Martin Currie in 2010
- He co-manages the European equity long/short strategy with Steve Frost.
- Michael began his career in 1986 at BZW Investment Management.



### Steve Frost – portfolio manager

- Steve joined Martin Currie in 2010
- He co-manages the European equity long/short strategy with Michael Browne
- Steve began his career at BZW Investment Management.

Class X	ISIN
EUR acc	IE00BHBFD705
EUR acc (hedged)	IE00BHBFD812
GBP acc	IE00BSZLQG13
GBP acc (hedged)*	IE00BHBFD929
USD acc	IE00BJVDNR83
USD distr	IE00BPYD8729

## About Martin Currie

- Martin Currie has a history dating back to 1881. The firm is a specialist in active international equities, with investment capabilities across global equities, global emerging markets, Asian equities and European equities.
- Martin Currie believes stock-focused portfolios, driven by fundamental research, are the best way to exploit market inefficiencies and generate consistent outperformance.
- Martin Currie has 40 investment professionals who are supported by an independent risk-management function.

“ Discussing a company’s positioning, products, balance sheet and long-term strategy is a cornerstone of our investment process. ”

Michael Browne, Portfolio Manager

\*Available on all major platforms.

The Legg Mason Martin Currie GF European Absolute Alpha Fund is a sub-fund of Martin Currie Global Funds (“MCGF”), an umbrella fund with segregated liability between sub-funds established as a Luxembourg investment company organised as a ‘société anonyme’ incorporated on 7 August 1998 for an unlimited period. The Company is organised under Part I of the Luxembourg law of 20 December 2002 on undertakings for collective investment, as amended, as a ‘Société d’Investissement à Capital Variable’ (‘SICAV’). It comprises several sub-funds, which are described in the full Prospectus. It should be noted that the value of investments and the income from them may go down as well as up. Investing in a sub-fund involves investment risks, including the possible loss of the amount invested. Past performance is not a reliable indicator of future results. 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Derivatives: The fund makes significant use of derivatives which will result in the fund being leveraged (magnifies the exposure of the fund to be greater than the underlying investments). The use of derivatives can result in greater fluctuations of the fund’s value and may cause the fund to lose as much as or more than the amount invested. Geographical focus: This fund invests primarily in Europe, which means that it is more sensitive to local economic, market, political or regulatory events in Europe, and will be more affected by these events than other funds that invest in a broader range of regions. Concentrated fund: The fund invests in fewer companies than other funds which invest in shares usually do. This means that the fund does not spread its risk as widely as other funds and will therefore be affected more if an individual company has significant losses. Fund currency: Changes in exchange rates between the currencies of investments held by the fund and the fund’s base currency may negatively affect the value of an investment and any income received from it. Fund operations: The fund is subject to the risk of loss resulting from inadequate or failed internal processes, people or systems or those of third parties such as those responsible for the custody of its assets. Hedged class currency: The value of your investment may fall due to changes in the exchange rate between the currency of your share class and the base currency of the fund. The fund manager will try to protect the value of your investment against such changes, but it may not succeed. For further explanation on the risks associated with an investment in the fund, please refer to the section entitled “RISK WARNINGS” in the prospectus. Before investing investors should read in their entirety MCGF’s application form and a sub-fund’s share class KIID and the Prospectus (which describe the investment objective and risk factors in full). These and other relevant documents may be obtained free of charge in English, German, Swiss German, Italian, Dutch and Swedish from the Fund’s Investment Manager at Saltire Court, 20 Castle Terrace, Edinburgh EH1 2ES or www.martincurrie.com, or from the Fund’s Management Company at 65 rue d’Eich, L-1461, Luxembourg or www.kinetic-partners.com. This material is not intended for any person or use that would be contrary to local law or regulation. Legg Mason is not responsible and takes no liability for the onward transmission of this material. 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Copies of the Articles of Association, the Prospectus, the Key Investor Information Documents and the annual and semi-annual reports of the Company may be obtained free of charge from the representative in Switzerland. 115018\_Legg Mason Martin Currie GF European Absolute Alpha Fundv4