SHAREHOLDERS' RIGHTS DIRECTIVE (SRDII) REPORT TO 31 DECEMBER 2020

LEGG MASON MARTIN CURRIE EUROPEAN ABSOLUTE ALPHA FUND

MARTIN CURRIE

MARCH 2021

1. Introduction

As an active manager of long-term concentrated portfolios stewardship sits at the heart of our approach to investment. We are motivated by a belief that this both helps protect and enhance the risk-adjusted return on our clients' capital. Ultimately, we want to ensure that the interests of company managements are aligned with their shareholders (our clients), and that the former take this into account when making decisions. We place a particular emphasis on governance, strategy and capital allocation, and pay significant attention to material 'sustainability' (environmental or social) issues that might influence long term value creation. Our stewardship activity manifests itself principally in monitoring and engagement – both privately or in collaboration with other investors – and our voting activity. With regards to the former we build strong relationships with investee companies, ensuring that our engagement is not constrained by our clients' minority-shareholder status. Nonetheless, we will join collaborative efforts, particularly when deemed likely to be more efficacious than acting alone. Our voting policy is determined by our internal guidelines, with an expectation that companies will comply with (local) best practice or explain why this is not the case. Where clients assign us proxies, we will vote with their best interests in mind. When voting against management we endeavour to inform them of our rationale for doing so in advance of the vote so as to allow due time for a response. All resolutions are reviewed in this context, with the responsibility for initial proposals residing with the investment team with oversight by our independent Head of Stewardship and ESG, David Sheasby. As well as our internal research, we utilise the services of proxy advisor Institutional Shareholder Services (ISS), which provides its own research on resolutions presented for company meetings. We use their platform to instruct the votes. Our governance and oversight documents, which apply across all regions, are reviewed annually, to ensure that we stay abreast of developments and best practice.

2. Commentary – Martin Currie European Long/Short investment team

How do the main elements of the investment strategy contribute to the medium to long-term performance?

The European market offers a large and liquid opportunity set with multiple pricing inefficiencies. The Martin Currie European Absolute Alpha Fund has been designed to efficiently capture uncorrelated European equity returns with managed volatility and downside protection. We do this by identifying valuation anomalies (in both long and short opportunities) and investing in the differential.

Implemented by experienced investors who have worked together for over thirty years, the strategy utilises a bottom-up, fundamental investment process based on extensive stock research to generate alpha on both the long and short books. Within the process, a disciplined macro framework guides exposure management. We aim to limit drawdowns and manage volatility through active balance sheet management and disciplined risk management.

In our view, a process led by a successful portfolio manager partnership, with a fundamental stock-focus, macro and credit awareness and disciplined beta management is the best way to achieve long-term growth while controlling risk in Europe.

Governance and sustainability analysis is integrated into our approach with our analysis focusing on those factors that are potentially material to the investment case. We engage with companies both to build our understanding and to focus on change where we identify potential risks or an opportunity for improvement.

This strategy aims to generate significant real returns over the longer term and is unsuitable for investors who want short-term outperformance relative to an index.

How is the Fund managed in-line with the Prospectus?

The investment team maintains a strong understanding of their mandates and prospectus investment guidelines, and they are the first line of defence in our 'three lines of defence' model. The second line of defence is our Risk and Compliance team which uses a monitoring system called Bloomberg CMGR to code investment guidelines where possible. The third line of defence is internal audit which conducts periodic review and assessment of mandate compliance controls within the first and second lines. Portfolio managers receive regular daily portfolio positioning data generated from Bloomberg AIM, allowing them to monitor compliance with fund investment restrictions.

2.1. Commentary on specific Fund investments

All of our work on ESG/Governance and Sustainability is focused ultimately on the economic success of the underlying business – essentially understanding how these factors may influence the ability of the company to generate sustainable returns (over the long term). We also express these views in our Governance and Sustainability ratings.

We assess the material Governance and Sustainability issues at an individual holding and portfolio level using a combination of primary research and secondary resources which can be both qualitative and numerical.

In assessing Governance and Sustainability risks, we consider the materiality of identified issues, their impact on a company, and management actions (taken and proposed) to address them.

The top five long holdings in the fund on an absolute basis and their respective Governance and Sustainability risk scores are as follows:

Stock name	Sector	Fund weight %	Index weight %	Active Weight %	Governance Score	Sustainability Score
Carlsberg	Consumer Goods	4.81	0.17	4.64	2.3	3.8
SGS SA	Industrials	4.36	0.19	4.17	2.8	3.5
BIM Birlesik Magazalar	Consumer Services	3.96	–	3.96	3.9	4.5
Sika AG	Industrials	3.86	0.39	3.47	2.5	3.3
Linde	Basic Materials	3.82	–	3.82	3.8	3.8

Source: Martin Currie as at 31 December 2020. Legg Mason Martin Currie European Absolute Alpha Fund. Index: MSCI Europe (Net). We use a range of quantitative and qualitative inputs to identify each company's potential exposure to ESG risks as well as its management of ESG risks. This ESG risk analysis helps us form a company specific rating for Governance and Sustainability (environmental and social) respectively. We apply a risk rating from 1 (low risk) to 5 (high risk).

Below we summarise the key ESG risks across the top five holdings and provide further commentary from the fund where we feel warranted.

Carlsberg. WWith leading local and global brands, Carlsberg has good structural growth drivers in terms of market share and geographic mix enabling mid-high single digit growth. Management has transformed Carlsberg into a commercial and performance-focused business. Asia is high growth, giving an earnings driver in 2020 while other geographies suffered from lockdowns. Strong free cash flow linked with a strong balance sheet enables internal investment and product development. The key risk for beverage companies has been the closure of off-trade premises due to the COVID crisis. However, this has been mitigated somewhat by Asia which is over 30% of earnings. It has a strong implied debt rating of IG3 helped by a free cash flow margin of 10% and Net Debt/ Earnings before interest, taxes, depreciation, and amortization (EBITDA) 1.5*. With strong ESG ratings, the main issue is the split share class structure, which is common place in Denmark, and single-use delivery packaging for off-trade where improvements are being made, but material effects are unlikely and will rely on third-party collection and recycling. Management score highly as does awareness of social issues linked to the use of alcohol. Carlsberg has committed to science-based targets with Science Based Targets initiative (SBTi).

SGS. A global leader in testing & certification. ESG will become an earnings driver as customers will require environmental testing & certification to meet local and industry regulations. SGS's business model is low cyclicality, high margins and free cash flow, no large customers and structural growth of 4-6%. The management have given an increasing focus to Economic Value Added (EVA) in recent years therefore reducing higher-risk business areas such as oil and gas. The largest risk to earnings is the cyclical areas of oil & gas, industrial and minerals. Unlike some peers, SGS hasn't spent aggressively on acquisitions at high prices. The balance sheet is strong with Net Debt/ Earnings before interest, taxes, depreciation, and amortization (EBITDA) of 1.3*, Moody's A3 rating, and a free cash flow margin of 15%. MSCI ESG ratings are very high for both governance and sustainability. In the past, the main ESG risk was government contracts in developing countries; however, these have been reduced and there have been no controversies. SGS has committed to science-based targets with Science Based Targets initiative (SBTi).

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BIM. BIM is the largest food discounter in Turkey and has enjoyed strong growth for more than a decade as a result of its mix of low prices and strong distribution. The company has demonstrated its ability to deliver good quality food, at the lowest price to the widest number of people in Turkey as well as its operations in Morocco and Egypt, which were started several years ago. Its strong free cash generation has been re-invested into the business and growing the number shops, which now total 9,147 with the company opening around 800 new stores each year. The resilience of the company's distribution and sourcing process was proved during 2020 COVID crisis when sales (to the third quarter 2020) footfall was down 8.3% year on year, but basket size rose 38.7% resulting in an overall like-for-like, year-on-year sales growth of 27.2%. The company has a number of governance issues that require addressing, which it flags in its own compliance report. These are the separation of chairman and CEO, the small size of the board, family involvement on the board [albeit with good Independent representation (2 out of 5)] and subsequent audit, governance and risk committees. There are no female directors. There is currently no report into social and environmental issues, but we believe the company will address this in forthcoming reporting and focus on the key issues of waste, packaging and CO_2 emissions within it.

Sika. A global leader in construction chemicals with proprietary technology due to its R&D-led strategy (at 3% of sales, it is the highest in the industry) to develop leading-edge highly innovative additive products to enable construction industry customers to perform their contracts faster, with higher quality and less volumes of raw materials. Sika benefits from urbanisation and stricter building & environmental standards. The company's structural organic growth is at 6–8%, new products account for 25% of revenues, it has high margins (15–18%), and a free cash flow margin of 13%; meanwhile it has a Net Debt/Earnings before interest, taxes, depreciation, and amortization (EBITDA) of 1.3* and a high implied debt rating of IG2. The largest risks are related to acquisitions that may disappoint; however, this has not been the case historically. MSCI ESG ratings are mixed with main issues around water stress (usage). The EU Green Deal is an opportunity for Sika, as products such as additives help customers use less water and will enable cement customers to use less emission-generating cement clinker. Sika has not been involved in any controversies.

Linde. Linde is the world's leading compressed gas company built on the merger of the US Praxair and German Linde businesses in 2019. As a result, it has extensive gas production plants worldwide, producing gas used in industrial, construction and healthcare sectors. The merger has led to a number of changes in management structures, including a new headquarters and incorporation in the UK, listings in Germany and USA. The company is going through a significant restructuring as a result of the merger and within that, a major change in opportunities. As a result of the merger, the current board structure (in place until the end of 2021) no longer has any employee representation. Five of the 12 members will have to retire due to age in 2021. Gender diversity is average at 25% but the company intends to raise it above the 30% threshold by 2023. The company has significant Scope 1, 2 and 3 emissions based on T/CO_2 per million of sales. We expect a specific target to reduce Scope 1 emissions by 2028. Addressing this is a key focus for the business as is its transformational leadership role and business opportunity in the production of green hydrogen. The company has committed to significant science-based targets for emissions reduction and is targeting net zero carbon emissions. One third of its current R&D budget is spent on decarbonisation such as carbon capture, greenhouse gas intensity and green hydrogen. Its developments include the coatings for turbines and jet engines as well as the use of hydrogen to replace sulphur and carbon emissions. We expect grey hydrogen production to have been completely stopped before 2040.

Other Environmental Risks in the Fund

There is a significant amount of new data available to allow managers to assess Environmental risks in the portfolio. We have modelled this data and are now able to focus on specific risks to a company, be it carbon emissions, to the board's understanding and approach to managing them. In the case of Carlsberg, we can see that the management has a keen awareness of the issue and has been active in planning and improving is own processes, in particular reducing water usage. However, we also recognise the carbon footprint of their business and are looking to engage with management how they can reduce and mitigate these environmental risks.

Other Social Risks in the Fund

When looking at Social risks of any company we assess a number of factors at board, management and staff level. Do they have targets for female participation? What is their pay like relative to others in the sector? Do board members have a great number of other directorships? What are the safety procedures for staff, the accident ratios and how much staff engagement and satisfaction is there? We have found that we can obtain and measure and asses much of this data quantitively and focus on key issues: In the case of Linde the German unions lost their board representation but gained a prolonged no redundancy agreement. What impact has this had? As part of the merger, the retirement age for board members was waived until the end of 2021, when five of the twelve will have to retire. We were able to engage with the company on the plans for succession and wider board diversity.

Other Governance Risks in the Fund

One of the most common issues in Europe is dual shareholder structures with differential voting systems. This has enabled founders and their following generations, to maintain voting control of companies even though they do not have the majority of the capital at risk. This structure has re-emerged recently notably in a number on Internet stocks. This structure may not work to the detriment of other shareholders as long as proper safeguards are in place e.g. A majority of Independent Directors on the board. In particular we analyse the board committees such as renumeration and accounting. We can see this at work in some companies, such as Carlsberg but not in others such as BIM. Where that is the case, we will engage to promote best practice and change.

3. Fund review of turnover and turnover costs

Annual turnover %	436.93	*Lesser of (purchases or sales)/Average fund size x 100*
Fund transaction costs (EUR)	540,822.74	*Total brokerage and execution charges*

Source: Martin Currie as at 31 December 2020. Legg Mason Martin Currie European Absolute Alpha Fund.

4. Proxy voting

ISS is our proxy voting advisor and provides voting recommendations for Martin Currie in accordance with their own policy ISS is our proxy voting advisor and provides voting recommendations for Martin Currie in accordance with their own policy which is closely aligned with our internal policy. As appropriate, they engage with public issuers, shareholders, activists, and other stakeholders to seek additional information and to gain insight and context in order to provide informed vote recommendations.

Where clients assign us the proxies Martin Currie's starting point is to act in the best interests of our clients. Our voting decisions are informed by both our own internal work and that of our proxy advisor and specialist governance advisor. We assess voting matters on a case-by-case basis, taking into account a company's circumstances but are guided by our over-arching principles on good corporate governance. The assessment is carried out by the member of the investment team with responsibility for the stock in conjunction with the Head of Stewardship and ESG. We recognise that regulatory frameworks vary across markets and that corporate governance practices vary internationally. Where the recommendations of our advisors, both for and against proposals, are supported by our guidelines and our internal research we will generally vote in accordance with these recommendations.

4.1. Significant votes

Company Name	Arkema	JDE Peet	Volkswagen
Company descriptor	French Chemicals	Dutch coffee manufacturer	German auto manufacturer
Issue	Concerns about combined CEO/Chairman role	Concerns regarding management compensation KPIs. Short term/cash compensation is linked to revenue, Ebit growth & working capital but Medium/LT compensation is opaque.	Ongoing concerns about governance
Governance, Environmental or Social	Governance	Governance	Governance

4.1. Significant votes (cont)

Company Name	Arkema	JDE Peet	Volkswagen
Objective	Thierry Le Henaff has been co Chairman & CEO for 14 years, his tenure ends in 2024. The company's chair/CEO is proposed to re-election under Item 5. Following the renewal of his mandate, the company amended his termination package and concluded a non-compete agreement. Pursuant to the enactment of the PACTE law, these are no longer subject to the related-party transactions procedure and are submitted under the remuneration policy.	Management compensation linked to KPIs is an important metric. The objective of engagement has been to understand how compensation will be linked to various KPIs to enhance the company's ability to create shareholder value rather than simply focusing on growth. Metrics would include ROIC & ESG factors	Following the 'dieselgate' scandal there were ongoing concerns about the overall governance of the group. The formal discharge of the management board ad supervisory board present an opportunity to express these concerns.
Scope and process (of relevant engagement)	We have noted when meeting management that we are not supporters of the joint CEO & Chairman structure as an independent Chairman provides the checks and balances on the executive team. Note that Arkema has materially changed its operational & financial risk through divestments of cyclical busi-ness, acquisition of robust businesses & reduced debt.	At the IPO meeting in May '20 we discussed management compensation KPIs and that there was insufficient disclosure detail.	The annual formal discharge of the management board and supervisory board represents shareholder approval of actions taken during the year. Discharge is a tacit vote of confidence in the company's management and policies. In this case there were outstanding questions regarding the company's governance and internal control systems.
(Voting) outcome	We voted against the reappointment of Le Henaff as Chairman & CEO.	We voted against the amendments to directors' remuneration due to continued lack of details.	We voted against the discharge of the management and supervisory board.

5. Conflicts of interest

A fundamental ethical principle of Martin Currie is to pay due regard to the interests of our clients and to manage potential conflicts of interest fairly. We take a holistic view of conflict risk and conflict mitigation and have policies, systems and controls in place to identify such potential conflicts between ourselves and our clients, as well as between one client and another, to achieve consistent treatment of conflicts of interest throughout the business. We aim to manage any conflicts of interest that may arise and to ensure, as far as practicable, that such conflicts do not adversely affect the interests of our clients. A robust conflict management process is in place which is owned by the Executive Risk Group (ERG). Activities which could create a potential conflict of interest are recorded on the conflicts register and are reviewed by the business regularly to ensure that controls in place remain adequate to mitigate any risk of a conflict arising. The output of this review is reviewed by the ERG. There were no conflicts of interest in relation to this fund during 2020.

6. Securities lending policy

We do not participate in security lending for this fund.

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The analysis of Environmental, Social and Governance (ESG) factors forms an important part of the investment process and helps inform investment decisions. The strategy does not necessarily target particular sustainability outcomes.

MARTIN CURRIE

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