

# SHAREHOLDERS' RIGHTS DIRECTIVE (SRDII) REPORT TO 31 DECEMBER 2022

## FTGF Martin Currie European Unconstrained Fund

(Formerly known as Legg Mason Martin Currie European Unconstrained Fund)



MARTIN CURRIE

A Franklin Templeton Company

MARCH 2023

## 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 Stewardship, Sustainability & Impact team. 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. Portfolio commentary - Martin Currie Global Long-Term Unconstrained investment team

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

FTGF Martin Currie European Unconstrained Fund targets long-term capital appreciation with outperformance of the MSCI Europe ex UK index over rolling five-year periods.

Our investment philosophy is that proprietary fundamental research can identify long term value-creating companies undervalued by the market. We elaborate on this below:

- The market is myopic and fades returns of quality growth companies too fast.
- Our proprietary fundamental research framework is able to identify these companies.
- Value creating companies compound returns over the long-term.

Our objective is long-term capital appreciation, in delivering this return we would expect to outperform the MSCI Europe ex UK index over rolling five-year periods.

Returns are driven by stock selection and as an unconstrained strategy we have no limits on regional or country allocations (within its investable universe). Risk management is embedded at every stage of the process providing full visibility on all aspects of the portfolio and the delivered outcome.

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

Our aim when producing our proprietary governance and sustainability risk ratings is to provide fundamental insight into material ESG issues that can influence long-term returns for companies, to assess where the companies in which we invest can have a material impact on key common ESG issues such as climate change, human rights, cyber security and workers' rights and to highlight potential areas for engagement. The level of research and engagement varies depending on region, sector and, critically, the materiality of the issues in question. The overarching aim is to assess the extent to which ESG factors will contribute to, or detract from, the long-term value creation of a firm.

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

Stock name	Sector	Fund weight %	Index weight %	Active Weight %	Governance Risk Rating	Sustainability Risk Rating
<b>Ferrari</b>	Consumer Goods	9.01	0.29	8.72	2.50	2.20
<b>ASML Holding</b>	Technology	8.71	2.37	6.34	1.83	1.60
<b>Mettler-Toledo</b>	Health Care	7.41	0.00	7.41	2.67	1.60
<b>Moncler SpA</b>	Consumer Goods	5.66	0.12	5.55	1.83	2.20
<b>Linde</b>	Materials	5.04	0.00	5.04	2.67	3.20

Source: Martin Currie as at 31 December 2022. FTGF Martin Currie European Unconstrained Fund. MSCI Europe Index (Net Dividends) (EUR). 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.

**Ferrari.** With an average selling price of around US\$340k, Ferrari is the iconic premium luxury sports car brand. Management continues to seize the opportunity for higher profitability that its Special Series and Icona launches present. Ferrari's enviable pricing power is best illustrated by the fact that invitations to buy Icona cars are rarely (if ever) declined. Greater personalisation offers further opportunity. On this basis it is likely that the mix impact on profitability will continue to surprise to the upside. The greatest challenge facing Ferrari and the industry is the shift to electrification. Ferrari aims to reduce emissions, and in 2020, the company launched its first hybrid model, the SF90 Stradale, which is currently the company's best-selling model. They now have four hybrid models in the range, and the first fully electric car is planned for 2025. Management have committed to a product line up of 40% electric and 40% in hybrid models by 2030, with hybrids and electric vehicles being 60% of line up in 2026 (55% hybrid/5% electric). To support this, they are building a new 'e-building' and paint shop at the Maranello factory, dedicated to electric vehicle production. With a €1.25 billion budget, this will cover the manufacture of core components, including battery packs, and the vehicle assembly. We also believe that Ferrari's R&D scale and technological expertise should enable the company to make a successful transition towards electrification in the long term.

**ASML Holding.** ASML has established an unparalleled franchise in the leading-edge lithography equipment (in particular, for extreme ultraviolet (EUV) machines). As Moore's Law (an expectation that the speed and capability of our computers increases every couple of years although the cost decreases) continues, even if at a slower rate, more sophisticated lithography machines enable innovation across the value chain. ASML believe that resource scarcity and climate change will be significant drivers in growth of semiconductors, as both solar and wind power requires a high semiconductor content. Electric mobility particularly

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autos will also be a key driver, with electric vehicles having a far higher requirement for semiconductors than their internal combustion engine counterparts. Notable ESG strengths, in our view, are strong management and the board, customer trust, and responsible supply chain management. A renewed geopolitical drive for chip self-sufficiency in the US and Europe also bodes well for future equipment orders. Taxation risk is one of the major ESG risks within common factors that we are monitoring. We are also focusing on cyber security as a risk factor, given a high amount of intellectual property in ASML's operations and business practices.

**Mettler-Toledo.** Headquartered in Switzerland, Mettler-Toledo is the leading global supplier of precision balance instruments and services. It has strong leadership positions in all its businesses and has a global number one position in approximately 75% of them enabling strong pricing power. We believe the key ESG strengths of the company lie in its culture, which is set from the board and senior executive resulting in an operational excellence approach to running the business. This was tested when Mettler underwent a CEO transition in early 2021 and has continued its history of beat and raise earning results. Further, as a provider of tools in end markets such as life sciences and food, Mettler contributes to the QA/QC (Quality Assurance/Quality Control) of critical products, in particular note of late in vaccine and drug development. Mettler products not only contribute to the research and manufacture of life saving drugs but are also aligned behind processes such as single-use rather than stainless steel bioprocessing based drug manufacturing, which is more environmentally friendly using less energy and up to 75% less water than the legacy approach.

**Moncler.** Moncler has undergone a radical period of growth and investment in brand equity. It is the only unique focused outdoor luxury brand, built on superior functionality and high design/fashion, Italian and sports heritage. The brand is focussed on creating demand for its deliberately scarce, full-price product and cementing this with great customer experiences enhanced by progressive investments in digital and people. One of the key challenges it faces is traceability of supply, particularly on goose down – in this area it has led the market, creating clear and transparent protocols. By store, it is underpenetrated, especially in the Asia Pacific region, which means it is under indexed with the China consumer, the fastest-growing cohort. It is also increasing sales densities, moving into adjacent categories including knitwear, childrenswear, shoes and leather accessories.

The company has a 2025 target of 50% recycled nylon. It admits that that this is a demanding target and there are constraints in getting the same technical specification out of recycled nylon as from standard nylon, but the company has been channelling R&D efforts towards achieving breakthroughs. Extending product life is another initiative worth highlighting. Moncler provide the 'Extra Life' repair service for personalised 'patches'. Moncler is also running a 'Take me back' project where consumers can take their jackets into specific stores to get a refresh.

**Linde.** A global leader in industrial gas production was established in 2018 from the merger of Germany's Linde AG with the US's Praxair. A resilient and geographically diverse business, it has high exposure to fast-growing emerging markets, largely inherited from the German entity, combined with a solid base in the Americas. Linde exerts strong pricing power from its leading positions in the regions in which it operates. A major player across the entire hydrogen value chain, Linde looks ideally positioned as its customers seek low carbon energy sources. This is a long-term opportunity, likely to meaningfully impact Linde's business in the late 2020s. As the opportunities will be capital-intensive, forming partnerships will be the key to success. Most of the world's hydrogen is produced using the carbon-intensive Steam Methane Reforming (SMR) method. Indeed, Linde uses SMR in its hydrogen production. Increasingly hydrogen production by SMR is being replaced by the green hydrogen method. This is produced using electrolysis technology powered by renewable energy sources, for example, wind or solar. Linde claims to be the largest operators of green hydrogen, with 80 hydrogen electrolyzers in a joint venture with ITM Power. While the aim is to phase out SMRs over time, for now, for every ton of CO<sub>2</sub> emitted by Linde, its customers avoid emitting more than two tons\*. CEO Sanjiv Lamba set 2021-28 sustainability targets for the company. Linde aims to reduce GHG emissions intensity by 25% and to double its annual purchase of low carbon (solar, wind, hydro, nuclear) energy in that time frame. The recent establishment of a Sustainability Committee to provide oversight on environmental matters is welcome, and at the 2022 AGM, sustainability targets were embedded into financial incentives for management.

\*Source: company supplied information in meeting on 3rd September 2021.

### 3. Fund review of turnover and turnover costs

<b>Annual turnover %</b>	26.44	<i>Lesser of (purchases or sales)/Average fund size x 100</i>
<b>Fund transaction costs (GBP)</b>	187,273.46	<i>Total brokerage and execution charges</i>

Source: Martin Currie as at 31 December 2022. FTGF Martin Currie European Unconstrained Fund.

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## 4. Proxy voting

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 our independent Stewardship, Sustainability & Impact team. 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	Ferrari	Nemetschek	Moncler
Company descriptor	Sportscar manufacturer	Construction and engineering software	Luxury jacket manufacturer
Issue	Director overboarding and special voting shares	Board structure	Approval of 2022-2024 remuneration policy
Governance, Environmental or Social	Governance	Governance	Governance
Objective	Concerns of two directors being overboarded. In addition, the board were proposing issues special voting shares.	Nemetschek were proposing to expand the board to six member (from four). We believed this provided the opportunity to establish a majority independent board.	Establishing whether company had addressed shareholder dissent from 2021 annual shareholder meeting.

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## 4.1. Significant votes (cont)

Company Name	Ferrari	Nemetschek	Moncler
<b>Scope and process (of relevant engagement)</b>	<p>We voted against the election of non-executive director Adam Keswick, in line with our proxy voting advisor's (ISS) recommendation. However, we did support the election of board member John Elkan, despite overboarding concerns due to relevance of the boards he sits on. We also voted against ISS recommendation, and approved incoming CEO's Benedeto Vigna's welcome bonus as we believed this was required to attract the right level of talent.</p> <p>Finally we voted against the board proposed to issue special voting shares as this is against the principle of one vote, one share.</p>	<p>The founder family member was stepping aside, and management were proposing to increase the board size from four to six members. While overall board independence remained low at 33%, we saw this on balance, as progress. While proxy voting advisor proposed voting against, after engaging with CFO we voted for the proposal. Although we will continue to monitor them on overall board supervision.</p> <p>We voted against the company's remuneration policy as overall disclosures levels were poor compared to market practice.</p>	<p>In the annual shareholders meeting in April 2021, only 70% of shareholders voted to support the remuneration plan. Our proxy voting provider proposed voting against approving the remuneration on the grounds that shareholder dissent hadn't been addressed. We engaged with management and established the report for the April 2022 meeting had been prepared taking into account continuous dialogue with stakeholders. Therefore, we were prepared to vote in line with management.. Additionally, we also voted in line with management on the Performance Shares programme. ISS recommended against this on the grounds of the lack of disclosure on performance targets. The performance targets were disclosed to us, although we would like to see post-ante disclosure of targets.</p>
<b>(Voting) outcome</b>	<p>Voted against management on the election of Adam Keswick and introduction of voting shares. Voted with management for the election of John Elkan, and the CEO remuneration.</p>	<p>Voted for management, but against our proxy voting advisor on expanding the board from four to six members. Voted against management</p>	<p>Voted with management to approve both 2021 remuneration and the performance share plan, the was against our proxy advisor ISS's recommendation.</p>

## 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 2022.

## 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/ies do not necessarily target particular sustainability outcomes.**

**Risk warnings – Investors should also be aware of the following risk factors which may be applicable to the strategy shown in this document.**

- Investing in foreign markets introduces a risk where adverse movements in currency exchange rates could result in a decrease in the value of your investment.
- This strategy may hold a limited number of investments. If one of these investments falls in value this can have a greater impact on the strategy's value than if it held a larger number of investments.
- Smaller companies may be riskier and their shares may be less liquid than larger companies, meaning that their share price may be more volatile.



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