



MARCH 2022

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 and ESG 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?

Legg Mason 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

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 fund 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 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
ASML	Technology	9.12	2.93	6.19	2.00	1.80
Ferrari	Consumer Goods	6.62	0.29	6.33	2.33	2.20
Kering	Consumer Services	5.42	0.53	4.89	2.50	2.20
Mettler-Toledo	Health Care	5.28	0.00	5.28	2.50	2.20
Infineon Technology	Technology	4.85	0.53	4.32	2.83	1.80

Source: Martin Currie as at 31 December 2021. Legg Mason 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.

ASML. 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. The key risk to the operational delivery is progression of the customer's technological maps. Typically, this risk manifests itself more so during a step-change in the underlying technology, which is going to be from 2nm and beyond with an introduction of high-NA EUV machines (it is currently targeting 2023 for R&D purposes and 2025-26 for high-volume manufacturing). Notable ESG strengths, in our view, are strong management and the board, customer trust, and responsible supply chain management. A strategy reset from Intel in the US doubling down on chip manufacturing, announcing a US\$20 billion investment into new plants is supportive for ASML's 2022 outlook. 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.

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 information provided should not be considered a recommendation to purchase or sell any particular strategy/fund/security. It should not be assumed that any of the security transactions discussed here were or will prove to be profitable.

The greatest challenge facing Ferrari and the industry is the shift to electrification. Leveraging off its own Formula 1 team's R&D on hybrid engines, in 2020 Ferrari launched the first of its hybrid models, the SF90 Stradale, that went on to be its bestselling model in its current line-up. Ferrari are seeking to make an impact on emissions and have committed to 60% hybridisation by 2022. They are releasing two new hybrid models in 2022, with their first all-electric car scheduled for 2025. Further underscoring their commitment to electrification, they appointed a new CEO, Benedetto Vigna, in September 2021 from STMicroelectronics, an electronics and semiconductor manufacturer.

Kering. Kering is one of a small group of luxury brand portfolio businesses which are taking share in an ever-more digital landscape driven by authentic brand heritage and investment to effectively connect with the consumer across generations and different geographies. Gucci remains the dominant brand in the portfolio, with strong traction in key cohorts like millennials and Chinese customers. The brand is able to drive traffic directly to owned distribution, which is increasingly the way that customers are choosing to purchase, with a target of 90% of sales through owned retail, controlled concession and first-party e-commerce for this brand. Positive margin drivers are pricing power and premiumisation, plus geography, product and channel. Income growth in China and a structural tailwind in quality over quantity supports the luxury industry in the medium term. Beyond Gucci, we see Yves Saint Laurent and Bottega Veneta in multi-year growth mode supported by the Gucci infrastructure and learnings. Kering has spearheaded attempts to improve ethical and environmental standards, with chairman and CEO François-Henri Pinnault leading the 'Fashion Pact'.

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 recently tested as 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 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.

Infineon Technology. The German semiconductor company is a notable beneficiary of the transition towards EV/Hybrid and autonomous cars, Infineon has a wide range of products for the automotive industry that goes from power controllers to Advanced Driver Assistance Systems (ADAS), and has a leadership position in the autos, a position it further cemented with the acquisition of Cypress in 2019, expanding their capabilities in microcontrollers and connectivity. In 2021, the firm announced changes to their compensation policy, an area the company felt they were behind the market. These were the removal of medium-term incentives, the introduction of a peer group in order to assess compensation and the introduction of new long-term incentives, including an ESG based component. The ESG based component reflects diversity and environmental targets, the latter including carbon neutrality goals. The rationale is to create incentives for managing the company on a sustainable basis in the best interest of stakeholders by having clear link between ESG targets, Infineon's business and sustainability strategies, and current market requirements.

3. Fund review of turnover and turnover costs

Annual turnover %	13.5	<i>Lesser of (purchases or sales)/Average fund size x 100</i>
Fund transaction costs (GBP)	583,310.40	<i>Total brokerage and execution charges</i>

Source: Martin Currie as at 31 December 2021. Legg Mason 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 and ESG 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	Adidas	Coloplast	Infineon
Company descriptor	German sportswear company	Danish ostomy and urology medical devices firm	German semiconductor manufacturer
Issue	Remuneration and board composition	Concerns over benchmarking the remuneration policy and re-election of a long-standing board director	Our proxy voting provider recommended a contentious vote with management on changes to their remuneration policy
Governance, Environmental or Social	Governance and Social	Governance	Governance
Objective	Remuneration plan to include a longer vesting period, the removal of special awards and the addition of a new malus clawback provision. Election of Jackie Joyner Kersee to the board.	We wanted to obtain additional disclosure around the peer group benchmarking beyond that detailed in their remuneration report. This included compactor companies and explicit targets in pay benchmarking. We also sought to oppose the re-election of Lars Soren Rasmussen (ex-CEO) as Director on the basis of Mr Rasmussen contributing to the non-independence of the remuneration committee.	We wanted to understand management proposed changes that included the introduction of an ESG component to the long-term incentive plan, removal of medium term incentives, restricted stock units and special or recognition bonuses.

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4.1. Significant votes (cont)

Company Name	Adidas	Coloplast	Infineon
Scope and process (of relevant engagement)	<p>We have previously engaged with Adidas both on the remuneration policy and increasing diversity, for example the increased representation of Black and Latino leaders in the US business. We believe the addition of former US athlete Jackie Joyner-Kersey to the board will bring useful experience at both a professional level and also with regards to racial equality and women's rights.</p>	<p>We fed back to Coloplast that it would be best practice to at least release ex-post achievement against benchmarking targets to allow investors to more rigorously assess pay for performance. In regard to Mr Rasmussen's re-election, we saw Coloplast as having an opportunity to appoint an independent board member to this role. Subsequently, Coloplast reached out to notify us that they intend to amend the composition of this committee, for example by adding a further board member.</p>	<p>We spoke to Michael Ferrari, Head of Global Head of Compensation and Benefits. He explained that changes were being implemented as the firm felt it was behind the market. By eliminating the medium-term incentives from the compensation structure, they have replaced a "stable" component with "high-risk" long-term incentives. We also felt that the introduction of an ESG component to the LTIs backed up the company's green credentials.</p>
(Voting) outcome	<p>We voted in line with management on these issues having engaged previously on them.</p>	<p>We voted in line with the new remuneration policy but voted against management in terms of Mr Rasmussen's re-election.</p>	<p>We voted in line with management to approve the new changes to the compensation structure as we saw this as clear positive momentum.</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 2021.

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

Martin Currie Investment Management Limited, registered in Scotland (no SC066107)

Martin Currie Inc, incorporated in New York and having a UK branch registered in Scotland (no SF000300), Saltire Court, 20 Castle Terrace, Edinburgh EH1 2ES

Tel: (44) 131 229 5252 Fax: (44) 131 222 2532 www.martincurrie.com

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