

# STEWARDSHIP MATTERS



STEWARDSHIP & ESG

MARTIN CURRIE

JANUARY 2021



## EDITION 2: SUSTAINABLE DEVELOPMENT GOALS

# INTRODUCTION

Welcome to Edition 2 of STEWARDSHIP MATTERS, our regular review of Martin Currie's work in the stewardship and ESG space, and our insight into future trends.

In each edition of STEWARDSHIP MATTERS we ask our investment teams in Edinburgh, Singapore and Melbourne to share their sectoral and regional Stewardship and ESG insights, updates on the ongoing development of our ESG toolkit, and outcomes of the extensive active ownership activities that we are undertaking on behalf of clients.

This edition provides a review of Stewardship and ESG activity over the second half of 2020, and specifically focuses on a key topic of interest highlighted by our clients - how we are working towards mapping corporate activities and portfolios against the targets of the UN Sustainable Development Goals (UN SDGs).



**Mel Bucher**

Co-Head of Global  
Distribution



**Kimon Kouryialas**

Co-Head of Global  
Distribution



**David Sheasby**

Head of Stewardship and ESG

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# A+ A+ A+

Highest possible ratings by PRI: 2016, 2017, 2018, 2019

Top 9% Worldwide for Active Ownership\*



Source: Martin Currie and PRI 2020. Latest PRI A+ ratings relate to Strategy & Governance, Incorporation and Active Ownership activity for the period 1 January 2019 – 31 December 2019. A copy of the PRI's assessment of Martin Currie and methodology is available on request.

\*Listed Equity - Investment manager peer group.

## FOREWORD



**Sioned Churchill**

Director of Grants,  
Trust for London

For almost 130 years the Trust for London has been at the forefront of efforts to tackle poverty and inequality.

Throughout the Trust's long history, it has strived to champion innovative and often under-represented causes through initiatives that will make a meaningful and lasting difference in people's lives. Much of our current work involves supporting groups and individuals who face sustained and systemic disadvantage in the workplace and wider society. Our **'Moving On Up'** initiative aims to acknowledge and address the issues behind why the employment rate for young black men in London (and elsewhere) is significantly lower than for young white men<sup>1</sup> – particularly in financial services. For graduates the disparity is even starker; young black male graduates are up to four times more likely to be unemployed than young white male graduates. A key element of changing this situation is encouraging employers to take action on their diversity and inclusion policies<sup>2</sup>.

Having been a client of Martin Currie for many years and knowing of its desire to promote greater diversity within its own environment, we began working with them to undertake practical initiatives together. The conversations were, without doubt, informative for both parties and led to Martin Currie directing us towards another organisation it partners with – **Investment 20/20**, which aims to bring more diverse talent into the investment management industry.

The work we have begun with Martin Currie demonstrates the importance they place on diversity and inclusion, a theme which weaves through so many of the UN Sustainable Development Goals.

I am delighted therefore, to introduce this second issue of **STEWARDSHIP MATTERS**, which focuses specifically on how corporate activities are mapped against the targets of the UN Sustainable Development Goals.

## STEWARDSHIP AND ESG FIRMWIDE HIGHLIGHTS: 2H 2020

### ENGAGEMENTS

|     |                   |
|-----|-------------------|
| 32  | MARKETS COVERED   |
| 168 | COMPANIES ENGAGED |
| 429 | TOTAL ENGAGEMENTS |

TOP ENGAGEMENT TOPIC:  
**CONSUMER DISCRETIONARY**

### PROXY VOTING

|     |  |
|-----|--|
| 31  | MARKETS COVERED                            |
| 220 | TOTAL SHAREHOLDER MEETINGS                 |
| 70  | MEETINGS WHERE WE VOTED AGAINST MANAGEMENT |

|       |                                      |
|-------|--------------------------------------|
| 1,543 | TOTAL RESOLUTIONS:                   |
| 182   | RESOLUTIONS VOTED AGAINST MANAGEMENT |

TOP VOTING TOPIC AGAINST  
MANAGEMENT:  
**DIRECTOR RELATED**

HAVING BEEN A CLIENT  
OF MARTIN CURRIE  
FOR MANY YEARS AND  
KNOWING OF ITS DESIRE  
TO PROMOTE GREATER  
DIVERSITY WITHIN ITS  
OWN ENVIRONMENT,  
WE BEGAN WORKING  
WITH THEM TO  
UNDERTAKE PRACTICAL  
INITIATIVES TOGETHER.

<sup>1</sup><https://www.trustforlondon.org.uk/news/uk-youth-unemployment-rate-continues-rise-young-black-men-are-particularly-affected/>

<sup>2</sup>[https://www.london.gov.uk/sites/default/files/inclusive\\_employers\\_toolkit\\_fa.pdf](https://www.london.gov.uk/sites/default/files/inclusive_employers_toolkit_fa.pdf)



# SDGS – A BLUEPRINT FOR A SUSTAINABLE FUTURE



**David Sheasby**  
Head of Stewardship and ESG

**Although the 17 UN Sustainable Development Goals (SDGs) were ostensibly targeted at governments, the private sector also has a significant part to play in achieving them.**

As such, addressing the SDGs not only creates huge opportunities for companies providing solutions to these challenges, but also a blueprint for the kind of behaviours that businesses should adopt to enable long-term sustainable growth.

The SDGs therefore provide us with a useful lens through which to analyse the sustainability of companies that we invest in. As such, over the course of last year, our investment teams have been looking carefully at how we map products and services of the companies we invest in against the SDGs.

What is clear from this work, is that while the 17 goals set the overall framework, it is the underlying 169 specific targets that are most relevant to companies. Our analysis has therefore focused on the extent to which companies are able to address or contribute to the relevant targets, with more of an emphasis on how (rather than just what) goods and services are delivered.

We have found that mapping company products and services to specific SDGs and targets does present challenges, as although companies have a crucial role to play in sustainable development, the targets were not written for the purpose of corporates or investors.

In some cases, there are clear linkages to the aims of the specific targets.

## SUSTAINABLE DEVELOPMENT GOALS

Companies tend to be complex and surprisingly few will be fully aligned with the targets. Ultimately, in many cases there is therefore an element of informed judgement by our team on materiality – both to the company itself and to the impact on the target. This is where, as long-term owners, we are able to leverage our extensive knowledge of the companies we invest in as well as the meaningful engagement we have with them.

Our work in this area will continue to evolve. As we build this out – reflecting the increasing focus for our clients on the SDGs – we will aim to report on the extent to which companies and portfolios overall are aligned to the goals.

**THE SDGS PROVIDE US WITH A USEFUL LENS THROUGH WHICH TO ANALYSE THE SUSTAINABILITY OF COMPANIES THAT WE INVEST IN. AS SUCH, OUR INVESTMENT TEAMS HAVE BEEN LOOKING CAREFULLY AT HOW WE MAP PRODUCTS AND SERVICES OF THE COMPANIES WE INVEST IN AGAINST THE SDGS.**

# FUTURE-PROOFING OUR ESG TOOLKIT – SDG MAPPING

At Martin Currie we are increasingly using SDG mapping to frame ESG analysis and engagement and we continue to develop new initiatives in our effort to achieve best-in-class ESG outcomes at the companies we invest in.



**Alastair Reynolds**

Portfolio Manager  
Global Emerging Markets

We have started to send letters to any recent purchases, highlighting our presence on their share register and introducing Martin Currie's principles for responsible investing.

We use this introductory letter to offer our support through ongoing engagement on ESG performance, which will include any SDG targets we have mapped for their business based on the level of contribution their goods/services are making in relation to achieving the individual targets.

The response so far has been very encouraging with companies immediately taking up our offer to engage. We intend to adopt this approach with all future purchases in our funds.



**Michael Browne**

Portfolio Manager  
European Long/Short

We have designed and built a new data screen that includes SDGs alongside a wider range of other ESG factors.

This model is able to assess very well both improved climate and environmental goals as well as all the enhanced opportunity goals.

The drive for better societies will be an area that cannot just be assessed quantitatively and as such we will assess subjectively in our research.



**Zehrid Osmani**

Head of Global Long-Term  
Unconstrained (LTU)

As part of our SDG mapping and analysis for LTU strategies, we have a framework that allows us to assess each goal, and relevant targets within each goal, in terms of relevance across a broad array of companies.

Our framework is able to compare our assessment of relevant goals to the corporates' own assessment of goals they are targeting. This will form a topic of engagement with companies where we believe there should be more goals being included in their targets. We also sent a list of over 20 questions to all companies in the portfolio, and engaged with them following their responses.

Our ratings have been structured in a way to also capture corporates that have negative contribution to specific goals, with a rating of 4 or 5 assigned for the negative contributors. These companies will therefore be key targets for engagement to drive positive change.



**Andrew Graham**

Head of Asia Long-Term  
Unconstrained

To long-term investors like us, assessing the risks and opportunities from sustainability issues is key to understanding company value.

Our understanding of sustainability issues continues to develop as we learn. One of the main drivers of the SDG mapping was to improve our ability to communicate with clients and investors about how their investments are contributing to wider sustainable development through their investments in Asia.

However, the exercise itself has provided an interesting and alternative way to think about business opportunity and risk arising from societal and policy change, as well as cost of capital implications as investors focus more on sustainability. All these factors form part of our conversations with existing holdings as well as potential investee companies going forward.

# FUTURE-PROOFING OUR ESG TOOLKIT – SDG MAPPING



**Chris Schade**

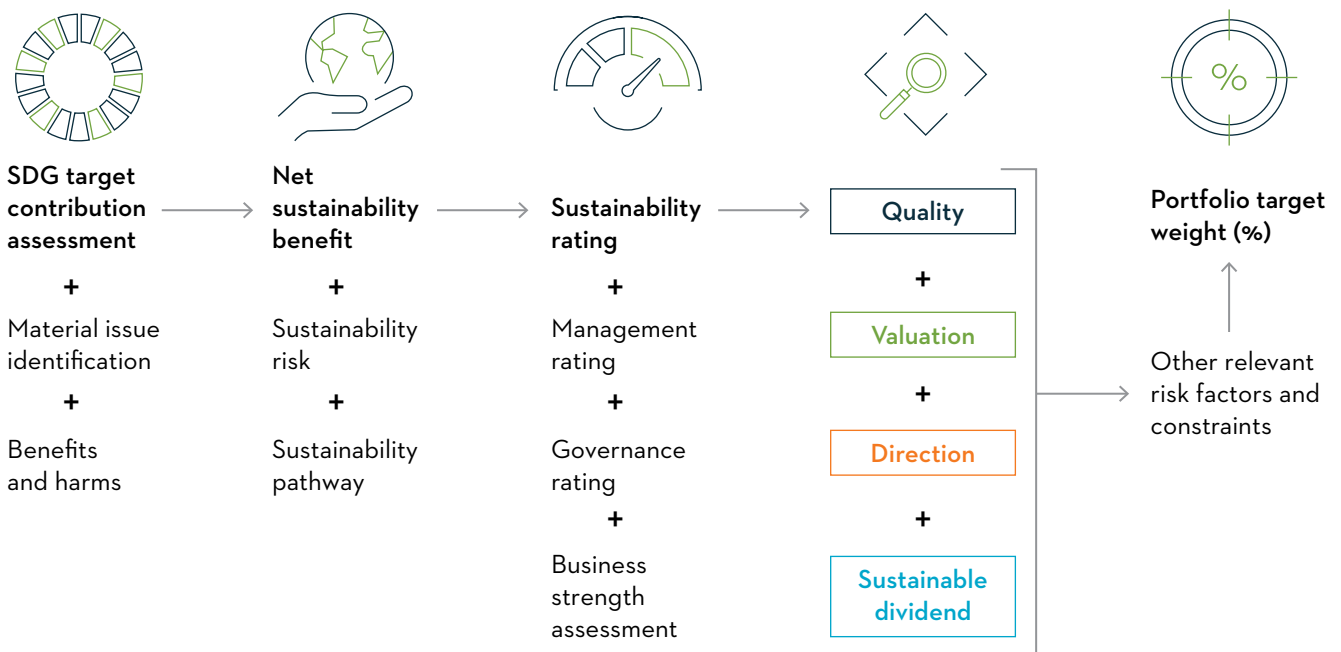
Research Analyst  
Martin Currie Australia

Our overarching view is that companies that can generate healthier outcomes for all stakeholders – such as employees, communities, customers and broader society – should also prove to be more successful financially over time.

The results of our SDG mapping now feed into metrics that directly impact the ‘investability’ of a company within the MCA investment process.

Specifically, our analysis of a company’s contribution to each relevant SDG target forms an important part of our proprietary ‘Net Sustainability Benefit’ assessment which rates companies on the basis of their level of benefit to society versus any harm caused. This rating is an important component of our overall assessment of Quality, which MCA portfolios use, among other factors, to build conviction in securities and to set target position sizes.

**THE RESULTS OF OUR SDG MAPPING NOW FEED INTO METRICS THAT DIRECTLY IMPACT THE ‘INVESTABILITY’ OF A COMPANY WITHIN THE MCA INVESTMENT PROCESS.**



Source: Martin Currie Australia.

## EXPLORING SDG THEMES

Below we have gathered some of the key insights related to the SDGs that our investment teams around the globe have been discussing with investee companies and our clients.

While the SDGs are articulated as 17 separate goals, they are in fact interlinked and as such there are distinct themes that can be drawn from them.

For example, an area which touches many of the goals is diversity and inclusion – whether this be **SDG #5** (gender equality), **SDG #8** (decent work and economic growth), **SDG #9** (industry, innovation and infrastructure) or **SDG #10** (reduced inequalities).

A number of the SDGs are clearly linked to addressing basic needs – **SDG #1** (no poverty), **SDG #2** (zero hunger), **SDG #3** (good health and well-being), **SDG #4** (quality education), **SDG #6** (clean water and sanitation) and **SDG #7** (affordable and clean energy).

The ecosystem and climate change are other themes that run through a number of the goals with **SDG #13** (climate action), **SDG #14** (life below water) and **SDG #15** (life on land) the most clearly aligned to this.

Finally, the sustainability theme runs through **SDG #11** (sustainable cities and communities) and **SDG #12** (responsible consumption and production).

In the following insights, our investment teams draw out important sub-themes such as human rights, cyber security, the rising middle class, fiduciary responsibility and sustainability disclosures.

### David Sheasby

Head of Stewardship & ESG



### Paul Desoisa

Portfolio Manager  
Global Emerging Markets

We received numerous enquiries from clients and consultants on the management of human rights risks.

This increased focus reflects the adoption in developed economies of legislation aimed at eradicating modern slavery wherever it may occur in global supply chains.

From an investment perspective, we see this being related to **SDGs #5** (gender equality), **#8** (decent work and economic growth), **#10** (reduced inequalities) and **#16** (peace, justice and strong institutions).

Our efforts in this area cover both the due diligence we perform before investing, as well as the ongoing management of risk at the companies we invest in.

Given its illegal nature, slavery and other human rights abuse will typically be hidden from the view of investors and consumers. We use an in-house human rights risk matrix to identify potential exposure at companies through geographic, industry and business model characteristics. This directs us to give higher priority to human rights related factors when analysing and engaging with potentially exposed companies.

The preservation of human rights rarely receives much attention beyond the most flagrant abuses of child-labour, so it is encouraging to see it becoming a more prominent topic of interest within the investment community.



## EXPLORING SDG THEMES (CONT)



**Yulia Hofstede**

Portfolio Manager  
Global Long-Term  
Unconstrained

Cyber security is just as important for a company in the tech, financial and consumer sectors, as it is in healthcare or industrials.

Cyber security, directly or indirectly, covers a number of targets across **SDGs #9 (industry, innovation and infrastructure)**.

We have conducted focused engagements with all of our investee companies on the topic of cyber security in order to assess their approach and to enable us to identify corporates that are well prepared versus those that are at risk. Most recently we met with **Ferrari** in the autos sector to better understand their approach in this area.

Cyber security is one of our key areas of assessment in terms of sustainability of any business model. It is easy to understand that cyber security breaches can potentially have a major negative impact on corporate reputation and can also have significant financial repercussions, which would then adversely impact shareholder value. Cyber security has also become a board level consideration, which highlights the importance that corporates are now putting on this sensitive area of risk.

**CYBER SECURITY IS ONE OF OUR KEY AREAS OF ASSESSMENT IN TERMS OF SUSTAINABILITY OF ANY BUSINESS MODEL.**



**Paul Danes**

Portfolio Manager  
Asia Long-Term Unconstrained

Asia offers a fantastic universe in which to search for investments which can both benefit from and contribute to the SDGs. It is a region with a large population, where incomes are rising fast and millions are moving from subsistence to middle-class levels of consumption.

This provides opportunity in areas like housing, food, financial inclusion and far more, covering **SDGs #1 (no poverty)** to **#8 (decent work and economic growth)**. Portfolio examples include **HDFC Bank** working to extend loans to low income households in India and improve financial inclusion and **Tata Consulting Services**, where software upgrades can improve economic productivity.

But with this development comes problems. How can the region make this transition without damaging the environment? As the world's largest consumer of energy (with much of it being fossil-fuel based) and with rapid urbanisation, **SDG #7 (affordable and clean energy)**, **#11 (sustainable cities and communities)** and **#15 (life on land)** provide both challenges and opportunities. **ENN**, for example, as a natural gas utility offers a key transition energy, which is actively supported Chinese Government policy, as the country turns away from coal, in turn significantly improving air quality and city sustainability. However, despite offering a far cleaner form of energy, in the very long term natural gas will also have challenges as a fossil fuel.

Encouragingly, the region is leading in many areas of technology, in both hardware and software, which can help solve some of these development problems, either directly or as an enabler of others. **SDG #9 (industry, innovation and infrastructure)** contributors in Asia include **Singapore Technologies Engineering** who have multiple 'Smart City' projects or the leading internet players in China, such as **Tencent** and **Alibaba** whose technologies are a key infrastructure in their own right allowing affordable access to many services previously unavailable.

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## EXPLORING SDG THEMES (CONT)



**Megan Scott**  
Chief Operating Officer  
Martin Currie Australia

We have been increasingly engaging with Australian companies that are adopting the SDGs as a key focus for their own fiduciary duties to their stakeholders, including shareholders, employees, community, suppliers and regulators.

In a number of cases, companies are themselves working through the various SDGs and selecting the appropriate goals and targets to align with their own operations as KPIs in their remuneration models. For example:

- **SDG #3 (good health and well-being):** Transurban, a toll road operator, is working towards eliminating fatalities and injuries associated with the use of its roads through road safety strategies and improved road design.
- **SDG #6 (clean water and sanitation):** Mining companies like **Worley** are working towards recycling up to 100% of the water used in production to address water scarcity.
- **SDG #12 (responsible consumption and production):** Supermarkets and retailers such as **Woolworths** and **Wesfarmers** are supporting 'E Waste' initiatives and tracking progress in minimising food waste. Packaging manufacturers like **Coca-Cola Amatil** are investing in plastic recycling technologies to work towards waste reduction targets.

We expect to see this become more common place in the Australian market as customers and investors demand it. We welcome this change as we see targets such as these can lead to more sustainable economic returns.

IN A NUMBER OF CASES,  
COMPANIES ARE  
THEMSELVES WORKING  
THROUGH THE VARIOUS  
SDGS AND SELECTING THE  
APPROPRIATE GOALS AND  
TARGETS TO ALIGN WITH  
THEIR OWN OPERATIONS



**Michael Browne**  
Portfolio Manager  
European Long/Short

In Europe, we are seeing a sharp improvement in the understanding and reporting of SDGs by companies. In several European countries, annual reports must now cover these factors, while in others we believe that requirement will come into effect soon.

We do believe that EU legislation will, over time, force significantly more SDG-based disclosure, and those that are able to answer these questions today will be able to take advantage of more opportunities.

As reporting improves, we will be able to assess and monitor who is progressing on these goals (and who is not), and as a result, monitor the added shareholder value that this work creates. As we do so, we will be able to refine and focus on those areas that are most important as opportunities in the short, medium and long term.

We do believe that helping companies along this path with constructive dialogue, is also an important element in achieving sustainable development. As a strategy that can short stocks as well as go long, we also have a strong focus on identifying the potential value destruction that comes from companies with lower levels of sustainability and stakeholder awareness.

WE DO BELIEVE THAT EU  
LEGISLATION WILL OVER TIME  
FORCE SIGNIFICANTLY MORE  
SDG-BASED DISCLOSURE

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## FOCUS ON SDG ENGAGEMENTS

Below we highlight a number of the key SDG-focused engagements undertaken by our investment teams over the past six months.



**Matt Davison**

Senior Research Analyst  
Martin Currie Australia

### SUNCORP GROUP

**Sector:** Non-bank financials  
**Region:** Australia  
**Purpose:** Discuss level of SDG adoption  
**Action:** Group meeting  
**Outcome:** Ongoing

Suncorp has recently identified its most material risks using the SDGs as guidance for what that it believes needs to be embedded into its own sustainable business targets and actions.

We recently met with its Head of Corporate Responsibility and Head of Investor Relations to discuss the company's progress on a number of the SDGs:

- **SDG #12 (Responsible Consumption and Production).**  
Customer complaints have accelerated during COVID-19. Suncorp now has a 'Customer Advocate Committee' which reports to the board. 95% of complaints are received by frontline staff. A key focus is lifting the percentage of resolved complaints.
- **SDG #9 (Industry, Innovation and Infrastructure); #11 (Sustainable Cities and Communities); #13 (Climate Action).**  
Climate change is treated as both a strategic and financial risk for the firm's bank and insurance operations. Suncorp continue to build on the work they have already done to do to incorporate climate risk into all its insurance policies, especially the physical impact on residential properties from weather events and rising sea levels.
- **SDG #5 (Gender Equality)**  
51% of all people in leadership roles are female, achieving very good diversity and is in alignment with the SDGs.

We are pleased with how Suncorp are using the SDGs to remain focused on sustainable activities and ensuring positive outcomes for staff, customers, suppliers and the community. We note that **SDG #13 (Climate Action)**, which requires companies to ensure appropriate assessment of the risks and opportunities associated with climate change and its incorporation into corporate strategy, is particularly pertinent for Suncorp given it is a large provider of insurance for home, motor vehicles and also a bank lender to SMEs and home owners.

Going forward, Suncorp's use of SDGs will be a useful framework for our future engagement, especially around measuring and tracking its progress in meeting these important goals.



**Divya Mathur**

Portfolio Manager  
Global Emerging Markets

### ULTRATECH CEMENT

**Sector:** Other materials  
**Region:** Emerging Markets (India)  
**Purpose:** Advise on climate commitments  
**Action:** Collaborative engagement  
**Outcome:** Ongoing

We recently joined a leading domestic investor and a leading Japanese investor to engage with Ultratech, a leading Indian and emerging market cement company under the banner of Climate Action 100+.

Climate Action 100+ is an investor initiative to systematically engage with companies that have significant opportunities to address greenhouse gas emissions and drive a transition to a cleaner energy mix. These topics align with **SDG #7 (Affordable and Clean Energy)**, **#9 (Industry, Innovation, and Infrastructure)**, **#11 (Sustainable Cities and Communities)**, **#12 (Responsible Consumption and Production)** and **#13 (Climate Action)**.

The outputs from this engagement are clear. This focused group of investors will advise Ultratech on best practice for its climate commitments, using case studies to guide the company. As well as helping to ensure that Ultratech continues to improve governance on climate change, we will encourage it to strengthen climate-related financial disclosures around its targets.

This conversation on targets extends into the medium-term (beyond 2022) so is very much in line with our typical investment horizon. In this regard, we are sharing best practice and helping to provide context which is our responsibility given our ESG leadership.

\*Source: Suncorp Responsible Business Report 2019-2020.

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## FOCUS ON SDG ENGAGEMENTS



### Damian Taylor

Portfolio Manager  
Asia Long-Term  
Unconstrained

### FENG TAY ENTERPRISES AND SHENZHOU INTERNATIONAL

**Sector:** Consumer discretionary

**Region:** Asia (China)

**Purpose:** Monitoring supply chain risk

**Action:** One-on-one meeting

**Outcome:** Ongoing

The Asia Long-Term Unconstrained team recently engaged with Feng Tay Enterprises and Shenzhou International, two Asian companies involved in the design and manufacturer of sports shoes and apparel, respectively.

These companies supply the world's leading sportswear brands and we were keen to learn more about their supply chain.

The monitoring of supply chains in the textile industry is a crucial part of our assessment for alignment with [SDG #8 \(Decent Work and Economic Growth\)](#) as well as [SDG #9 \(Industry, Innovation and Infrastructure\)](#).

There were two aspects to our discussions with these companies: firstly, on factory location; and secondly on sourcing of materials. The COVID-19 outbreak in 2020 has tested the resilience of global supply chains across many industries and as part of our ongoing monitoring of our portfolio holdings, we were keen to reconfirm our understanding of how these companies had been responding to the pandemic and the shifting sands in US trade rules.

The shoe and textile industry has been at the forefront of diversifying its production footprint away from China to countries such as Vietnam, Cambodia and India. But these moves haven't only been about production. Increasing pressure on product cycles has meant that supply chains have also had to adjust. The ability for companies like Feng Tay and Shenzhou to source locally for their production inputs has improved considerably. For example, nearly all of the products Shenzhou International ships to the US are now made in its factories in Vietnam and Cambodia, and the yarn it uses is produced in Vietnam, too. By increasing the depth of the supply chain in several geographies, companies like Shenzhen have been able to mitigate operating risks.

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## PURPOSEFUL ENGAGEMENT ACTIVITY

We believe monitoring and engagement are an essential part of being a shareholder in a company. It allows us to improve our understanding of investee companies and their governance structures, so that our voting decisions may be better informed. In addition, it enables us to understand to what extent companies have identified material ESG risks and how they are managing these.

### OVERVIEW: 2H 2020

#### FIRM-WIDE ENGAGEMENTS

32

168

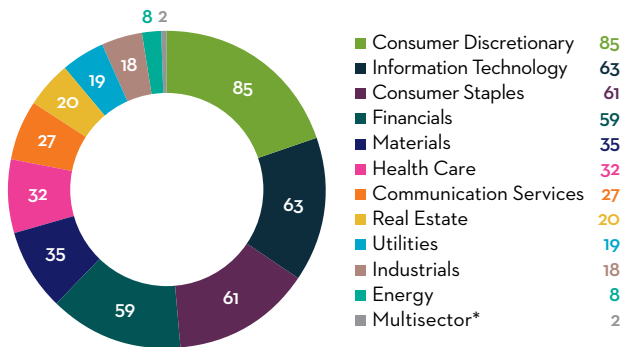
429

MARKETS COVERED

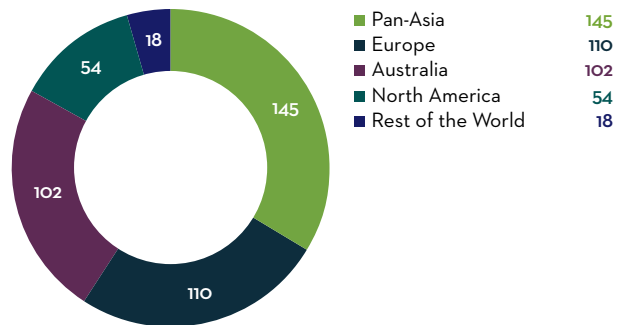
COMPANIES ENGAGED

TOTAL ENGAGEMENTS

#### ENGAGEMENTS BY SECTOR



#### ENGAGEMENTS BY REGION



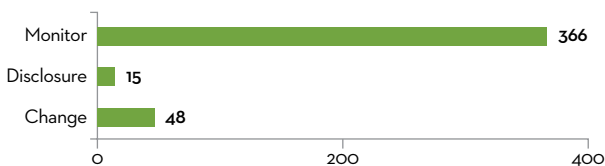
#### ENGAGEMENTS BY TOPIC



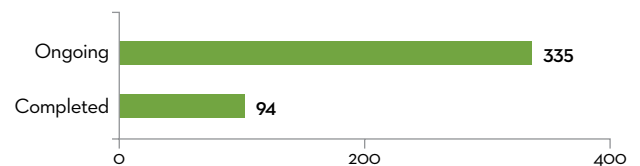
#### SDG ENGAGEMENTS ON DIVERSITY WITH:

- Starbucks Corporation
- HDFC Bank Limited
- Techtronic Industries Co., Ltd.
- Moncler SpA
- Growthpoint Properties Australia
- Estee Lauder Companies Inc. Class A
- Moncler SpA
- WEG S.A.
- Visa Inc. Class A
- AGL Energy Limited
- Kering SA
- Southern Copper Corporation
- Constellation Software Inc.
- Turkcell Iletisim Hizmetleri A.S.
- NHPC
- Spark NZ
- Amcort

#### PURPOSE OF ENGAGEMENT



#### OUTCOME OF ENGAGEMENT



Source: Martin Currie. Engagement activity is for the period 1 July 2020 – 31 December 2020.

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# ADVOCACY THROUGH PROXY VOTING ACTIVITY

Proxy voting is a key component of stewardship and plays a crucial role in our overall approach to engagement.

When voting on behalf of our clients, we will always seek to do so in their best interests considering the long-term impact of these voting decisions.

During the past half year, we have actively voted across all of our portfolios.

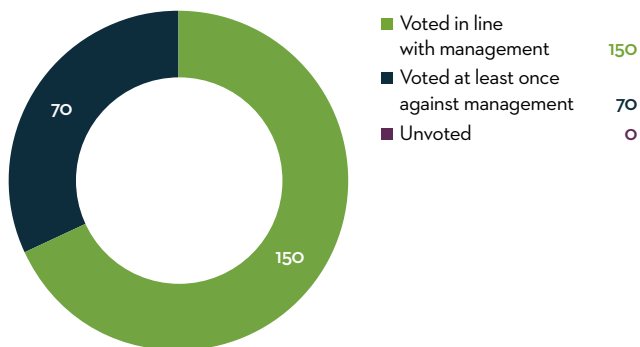
## OVERVIEW: 2H 2020

### FIRM-WIDE PROXY VOTING

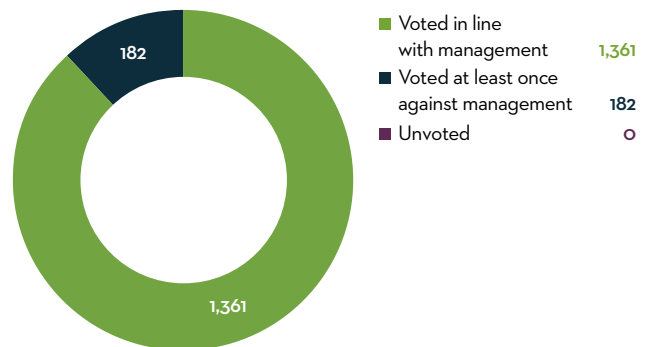
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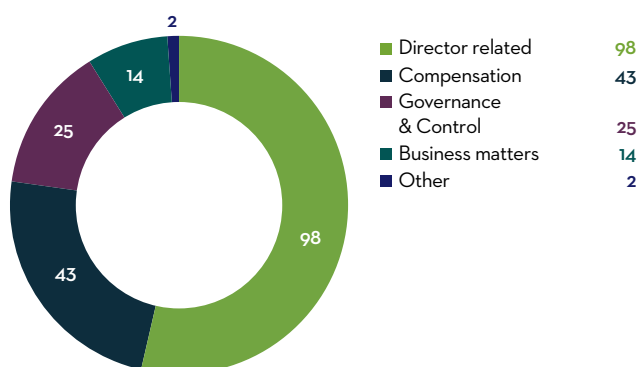
### TOTAL MEETINGS



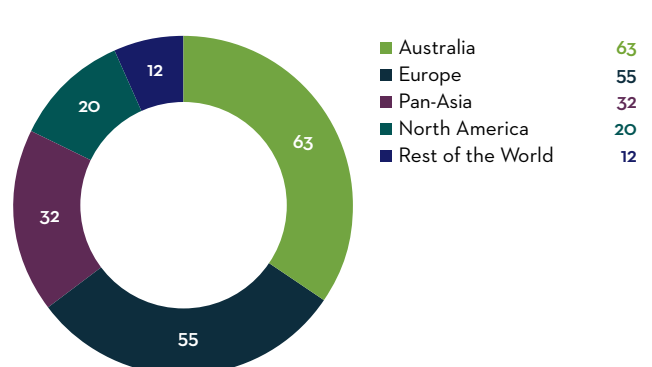
### TOTAL RESOLUTIONS



### RESOLUTIONS VOTED AGAINST BY PROPOSAL TYPE



### RESOLUTIONS VOTED AGAINST BY REGION



Source: Martin Currie. Proxy activity is for the period 1 July 2020 – 31 December 2020.

## VOTING THEMATICS

As you can see in the data on the previous page, the activity of our investment team in the second half of 2020 has been dominated by the Australian proxy season, with the team participating in 93 meetings in Australia out of 220 globally.

Of particular interest is that shareholders of Australian companies have been increasingly using Annual General Meetings (AGMs) as a forum to push the ESG agenda. Will Baylis, Portfolio Manager, Martin Currie Australia highlights the key ESG themes coming out of these AGMs:



**Will Baylis**

Portfolio Manager  
Martin Currie Australia

### Focus on a 'reasonable' remuneration measure

Leading into the AGMs, boards have, in several cases, announced performance rights as part of the long-term incentives for the CEO. These have been based on a very low share price, often associated with the trough in earnings due to COVID 19. This has not resonated well with the market, given that many companies have shown markedly improved earnings and higher share prices as the economy begins to reopen.

In Australia, some boards have also caused controversy when declaring executive team bonuses while in receipt of government support.

### Increasing regular sustainability reporting

We are seeing a push for the annual reports prepared in advance of AGMs to include information on the risks and actions taken during the year to deal with climate change and waste. Many companies now publish detailed scope 1,2,3 carbon emissions, and examples of how they are improving their recycling efforts.

### Indigenous heritage

Following the events with **Rio Tinto** and the **Juukan Gorge**, Indigenous relations has become a significant theme for investors in Australia. However, we do note that activist resolutions related to cultural heritage at **BHP** and **Insurance Australian Group** have subsequently been withdrawn following company engagement.

### Focus on stakeholder rights and shareholder accountability

The topic of shareholder rights and responsibility to stakeholders is becoming more contentious. Corporate actions, recapitalisations and acquisition decisions made during COVID-19 have been significant. We have looked closely at directors who haven't protected shareholder interests in these deals. Shareholders have been vocal about structured placements/equity issuance, or badly priced incentives that have impaired shareholder returns in the short and medium term.

### Trend towards virtual AGMs

A final evolving theme worth noting is the push by companies for virtual-only AGMs in the future. While we understand that this year it was unavoidable, we recognise that virtual meetings can limit smaller shareholders' abilities to engage with corporate officials and to raise questions, as well as hindering the transparent expression of views.

As a large institutional investor, we have very good access to company management. As such, it is less of a concern for investors like us, but we join the call for a hybrid model to help avoid anything that results in reduced transparency to the governance process.

Read the full article [here](#).

**CORPORATE ACTIONS,  
RECAPITALISATIONS AND  
ACQUISITION DECISIONS  
MADE DURING COVID-19  
HAVE BEEN SIGNIFICANT.**

## REACHING FORWARD

Looking ahead to the start of this year, there are two significant dates for the first part of 2021:

### 20 January 2021 – US inauguration

With the arrival of Joe Biden in the White House, we will likely see a change in tone regarding ESG issues – in particular, it is probable that we will see renewed efforts on limiting climate change. There may also be an increased mandating and standardising of ESG disclosures, and perhaps an attempt to reverse some of the recent developments with regards to fiduciary duty and the US Department of Labor (DoL) rulings.

### 10 March 2021 – SFDR

The second date is when the EU Sustainable Finance Disclosure Regulation (SFDR) comes into effect. This has been more than two years in the making, but some of the details still remain unclear. However, a principal aim of the reform is to redirect capital flows towards sustainable investment, and the EU has established a (taxonomy) framework to outline what economic activities can be considered (environmentally) sustainable.

The regulation also imposes significant new disclosure obligations on both asset managers and financial advisers concerning sustainability. This is with a view to make informed investment choices easier for investors, increase transparency and prevent ‘green-washing’.

The regulation also requires asset managers to consider carefully how their investment products in Europe are categorised, along with a set of disclosures that asset managers must make. Broadly this falls into three definitions:

- **Article 6:** where sustainability risks are integrated into investment decisions.
- **Article 8:** where ESG is a key focus, has binding ESG criteria and is a fund that promotes environmental or social characteristics.
- **Article 9:** where a core objective is sustainable investment and achieving a positive impact.

Having integrated ESG into our investment processes for well over a decade, we welcome these changes. We recognise that the EU plan is ambitious, and we have been working in detail on how we categorise our strategies and funds in Europe.

Reflecting our approach, almost all our strategies and funds are likely to meet the requirements of Article 8 and we are in the process of formalising this.

A key challenge will continue to be the data required for the disclosures given that, in many cases, companies do not yet provide some of this information. There are additional regulatory initiatives to push for an alignment of corporate disclosure with what will be required for asset managers, but engagement with corporates will clearly be vital in addressing some of the gaps.

**As such, the start of 2021 is likely to see some significant changes in the ESG landscape, and if anything, bring it even more into mainstream focus.**



# OUR RECENT STEWARDSHIP AND ESG INSIGHTS

Thought leadership written by the investment team is published regularly on our [website](#).

- **Stewardship Matters – Edition 1**

Introducing our new update on the Stewardship and ESG activities that we are undertaking on clients' behalf.

18 August 2020



- **Aftermath: the ESG opportunity?**

Do governments have an opportunity to relaunch their economies and go green at the same time? Will companies begin to operate with greater socially responsibility?

18 August 2020



- **Our GLTU ESG integration**

Zehrid Osmani explains how ESG is integrated throughout the investment process. From determining which stocks progress forward for in-depth fundamental research to explaining the GLTU team's proprietary ESG risk scoring system as well as how analysis of ESG exposures help determine the overall portfolio shape.

20 August 2020



- **Aftermath: EU Green Deal**

EU policymakers remain committed to a green reboot, but will COVID-19 and the massive stimulus packages deployed to deal with it have a direct and adverse impact on the timing of the Green Deal?

24 August 2020



- **Martin Currie, leading the Stewardship & ESG evolution**

Martin Currie's panel of Stewardship & ESG experts join with representatives from Australian companies that are leading on the sustainability front in a multi-part webcast series.

24 August 2020



- **ESG – our ELTU expertise**

Zehrid Osmani explains the in-depth analysis and processes that underpins our world-class ESG credentials in the European Long-Term Unconstrained strategy.

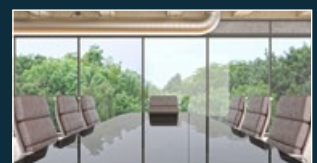
2 November 2020



- **ESG matters for Australia's upbeat AGM season**

Australia's quasi 'third earnings reporting period' has become a forum for earnings outlooks and ESG matters.

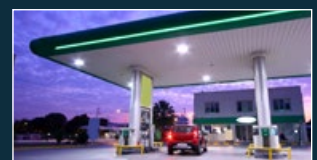
7 December 2020



- **The search for sustainable investments in the fossil fuel sector**

We are in a climate emergency but are fossil fuel producers going anywhere soon? Alastair Reynolds discusses how we navigate transformational change in the energy landscape.

11 December 2020





# LONG TERM INVESTMENT INSTITUTE STEWARDSHIP AND ESG INSIGHTS

Stewardship and ESG has been a keen focus for our LONG-TERM INVESTMENT INSTITUTE. Professional Investors can access original insights and thought leadership papers [here](#).

- **Stakeholder primacy in the post-Covid world**

Despite the truly unprecedented societal and economic challenges the world has faced this year, we believe stakeholder primacy has gathered significant momentum.

11 November 2020



- **Climate Change opportunities**

Exploring how efforts to limit climate change and the transition to a lower-carbon economy present a range of opportunities for investors.

9 October 2020



- **Climate Change – an inevitable risk**

Setting out how we build our understanding of climate change risk, and how we identify the opportunities that present themselves.

4 July 2020



- **Climate Change and the impact on geopolitics**

How climate change will influence the investment outlook as it causes shifts in geopolitics.

4 June 2020



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