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

LEGG MASON IF MARTIN CURRIE ASIA UNCONSTRAINED FUND

MARTIN CURRIE

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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 Asia investment team

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

Asia is a dynamic region with GDP growth rates which exceed those available globally. This strategy seeks to capture nominal Asia ex Japan GDP growth, which is not always reflected in stock market returns.

This is done by investing in businesses that are able to grow with the region, but which more importantly can translate that growth into good returns for shareholders. Acquiring them on a reasonable valuation, based on an in-depth assessment of their long-term potential.

These opportunities are scarce and when we find one, we aim to make a long-term capital commitment – to minimise costs and maximise the positive effect of compounding high returns from good businesses.

The strategy is unconstrained by any benchmark and typically consists of between 20-40 high quality stocks held for the long term.

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 conduct a detailed accounting review for companies held so as to gain assurance over the returns and governance profiles we are attracted to.

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
Samsung Electronics	Technology	9.79	5.10	4.69	2.0	2.0
Tencent Holdings	Technology	8.22	5.99	2.23	3.0	3.0
Taiwan Semiconductor Manufacturing Company	Technology	7.68	6.65	1.03	1.0	1.0
Alibaba	Consumer Services	7.47	6.31	1.16	4.0	3.0
HDFC Bank	Financials	5.08	–	5.08	1.0	1.0

Source: Martin Currie as at 31 December 2020. Legg Mason IF Martin Currie Asia Unconstrained Fund. Index: MSCI AC Asia ex-Japan Index (Net) (GBP). 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.

Samsung Electronics. Samsung Electronics is a leader in smartphones, semiconductors and display technologies. Following the boom in smartphones, Samsung earned significant returns from memory semiconductors, where it benefits from an oligopolistic market structure with significant entry barriers. The company is well positioned to benefit from the growth of AI, cloud computing and 5G technology. Historically, one of the biggest concerns from an ESG perspective has been certain aspects of the company's governance profile, where the gradually reforming chaebol structure still presents a risk of mismanagement as well as a lack of transparency. This risk extends to South Korean politics and the often blurred lines between chaebols and the government. Product recall also remains a risk, as was most visibly illustrated with the impact of the Galaxy Note 7 recall. On the governance side we are encouraged by the ongoing improvement in terms of shareholder focus as well as increased awareness of ESG issues at an operational level which help to mitigate the identified risks.

Tencent Holdings. The company has a powerful market position as the leading internet platform in China, with a large active-user base. It is a world leader in gaming and has the dominant Chinese chat app alongside the Weixin ecosystem providing services across the economy from news to entertainment to delivery and payments. Regulation (including censorship, gaming, privacy and anti-monopoly legislation) remains a notable, overarching threat to the business case. Other inherent risks for Tencent are data security and the wellbeing of its workforce. With regard to governance issues, there is some concern about the long tenure of several members of the board (three of the independent directors have held their roles since 2004), as well as a lack of board diversity. In addition, greater clarity is also required from the firm on how remuneration for senior management is structured. Capital allocation decisions also need to be monitored. Elsewhere, Tencent is making improvements in evolving the depth of accessibility of its reporting, with disclosure improving. And although it has not been formally articulated, the company is involved in initiatives that effectively relate to many of the UN SDG targets.

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Taiwan Semiconductor Manufacturing Company. With the growth of fabless semiconductor design, Taiwan Semiconductor Manufacturing Company (TSMC) has been taking share at each new technology node. The company has been able to use this enviable market position to price its services appropriately to make a good return on capital. TSMC should benefit from the continued growth of the semiconductor market and, in particular, the requirement for faster and less power-hungry chips. TSMC currently scores well on our proprietary scoring system, with good transparency on overall operations and strong reporting practices. More broadly, the extent to which artificial intelligence is rapidly being adopted to answer many sustainability issues will be beneficial to TSMC as a leading chip manufacturer. Pertinent risks from an ESG perspective include water scarcity – because of the quantities of water required in its production process – as well as exposure to potentially rapidly changing regulatory and geopolitical environments, specifically because its production base in Taiwan. Elsewhere, the recruitment and retention of a highly skilled workforce and robust protection of intellectual property are also potential ESG-related risks to the investment case.

Alibaba. Alibaba is the world's largest online retail commerce business in terms of gross merchandise volume (GMV). It primarily operates in China via its online retail businesses Taobao and Tmall. Alibaba also has a growing cloud business, offering a suite of cloud-related services. It holds a 33% equity stake in Ant Financial, which provides financial services to consumers and merchants in China. It's strong ecosystem and large user base provides both a strong moat, as well as excellent future monetisation opportunities. Regulation is a key ESG-issue for Alibaba and one which recently came to the fore at the end of 2020, with the cancellation of the Ant Group's IPO as well as a draft paper on internet regulation. Although the implications of the regulations mean Alibaba's growth will slow somewhat as practices are adjusted, we don't believe this significantly changes its core business model at the moment. Also, given the scale of Alibaba's reach, regulation around data security/privacy will always be a possible risk, as well as the actual risk of cyber security breaches. Elsewhere, Alibaba's business model has aligned well with the pandemic environment, helping the transformation of businesses to digital operations, a trend which we believe COVID-19 has merely accelerated. We are also noting a good alignment from Alibaba on several of the UN Sustainable Development Goals.

HDFC Bank. HDFC Bank is India's leading private sector bank and has been gaining market share in new loans due to struggles at India's poorly capitalised public-sector banks. It has a strong retail deposit base giving it low funding costs compared with peers and its relatively low non-performing loan balance underlines the quality of its lending. Sector-leading operating efficiency metrics should persist as the bank continues to enjoy the benefits of its expanding scale and also leverages its digital banking infrastructure. From a governance perspective, the bank has a solid track record with good clarity around its strategic plan, specifically with good identification of ESG-related risks in its loan book. Elsewhere, its shareholder engagement is very good, and ESG reporting is ahead of most of its peers with firm targets for certain metrics. Recently, the bank incurred regulatory action from India's central bank (the RBI) regarding several IT-system issues it has experienced over the past three years. The RBI imposed curbs on sourcing new credit-card customers and new launches under its 'Digital 2.0' programme. The near-term business impact of this will be small, although risk of reputational damage requires monitoring. Elsewhere, the firm could do more to link compensation to management-level goals.

3. Fund review of turnover and turnover costs

Annual turnover %	35.25	*Lesser of (purchases or sales)/Average fund size x 100*
Fund transaction costs (GBP)	39,523.48	*Total brokerage and execution charges*

Source: Martin Currie as at 31 December 2020. Legg Mason IF Martin Currie Asia Unconstrained Fund. Index: MSCI AC Asia ex-Japan Index (Net) (GBP).

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 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.

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4.1. Significant votes

Company Name	Alibaba Group Holding	Guangdong Investment Ltd	Jardine Matheson Holdings (JMH) & subsidiaries
Company descriptor	Chinese e commerce and internet giant	Chinese water distributor and property development company	Pan-Asian conglomerate primarily focused on consumer, real estate and industrial exposure
Issue	2 Directors up for election, neither independent by our way of thinking, on a board without a majority of independents. One was an appointee of Softbank and one was the company CFO, Maggie Wu.	Shareholder approval for the re-election of a potentially over boarded independent non-executive director (INED).	We hold positions across different strategies in both JMH and some of its listed subsidiaries (collectively JMH Group). For many years, aspects of the JMH Group governance structures have lacked adequate representation for minority investors, with the company contenting that investors were best represented by experienced & well connected directors rather than others who may meet the definition of being 'independent', but bring less strategic value to the board. Meanwhile, simply appointing additional directors was also rejected due to concerns it would create an excessively large board which may impair decision making.
Governance, Environmental or Social	Governance	Governance	Governance
Objective	We would prefer to see boards which have a majority of independent's and also a diverse board. In this case the two objectives were slightly at odds. Maggie Wu's appointment would improve the diversity but take the board further away from independence.	We were concerned that this INED is currently on the board of seven other companies, including China Mobile, China Resources Beer and Town Gas. We also noted that he is classified as an INED, but has been on the company's board since 1999.	Historically, although we engaged regularly with the company to encourage additional independent representation, we felt that the long-term record of disciplined capital alloca-tion and attractive returns profile of the JMH Group justified its stance. However, following a generational change in the leadership of the business over recent years, we felt the company has had an opportunity to gradually restructure the board to improve representation of and protection for minority investors via. the appointment of new independent directors, splitting the role of Chair and CEO and enhancing the structure and membership of board committees. Given the decline in both growth rates and returns experienced by the business in recent years, we also felt that one of the primary reasons for maintaining the status quo with regard to corporate structure had been eroded.

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4.1. Significant votes (cont)

Company Name	Alibaba Group Holding	Guangdong Investment Ltd	Jardine Matheson Holdings (JMH) & subsidiaries
Scope and process (of relevant engagement)	Alibaba is held across multiple strategies at Martin Currie and a discussion took place between team representatives to debate the relative weighting of our various objectives. Ultimately it was felt that the company had ample opportunity to improve diversity without needing to appoint the CFO.	We engaged with the company on this and while we understand the company's position about the valuable contribution that this INED makes to the GDI board, we believe his long tenure and over-boarding need to be addressed.	We have engaged with senior management within the JMH Group companies over many years, so the company was already aware of our stance regarding the constitution of the board. However, while some positive changes have been made – such as the appointment of new independent directors – we believe both the pace and extent of change has been too slow. As such, we informed the company of our intention to either abstain from voting or voting against the re-election of certain ex-ecutive and non-independent directors.
(Voting) outcome	We decided to vote against both appointments.	We decided to vote against management for this item at the AGM.	As the company failed to address our concerns, we abstained from voting for an executive director and voted against the re-election of a non-independent non-executive director. We took the same approach for our holdings in certain JMH Group subsidiaries as appropriate to the specific circumstances and board profiles at those companies.

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.

IMPORTANT INFORMATION

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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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