STEWARDSHIP MATTERS

MARTIN CURRIE

07 THE PATH TO NET ZERO

JULY 2022

INVESTING TO IMPROVE LIVES™

www.martincurrie.com

Introduction

Welcome to Edition 7 of the STEWARDSHIP MATTERS magazine, our regular review of Martin Currie's work in the stewardship and ESG space, and our insight into future trends.

In this edition, we have specifically focused on how Martin Currie, alongside our clients, are responding to the climate crisis, our commitments to NZAMI, and our contribution towards the path to Net Zero.

Contents

Stewardship and ESG

Firmwide highlights: Year to date 2022

Engagements

27	Markets covered
137	Companies engaged
290	Total engagements

Top engagement topic:
Environmental – Climate change

Proxy voting

31	Markets covered
323	Total shareholder meetings
100	Meetings where we voted against management

Top voting topic against management:
Director Related

A+ A+ A+

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

Top 9% Worldwide for Active Ownership*

Source: Martin Currie and PRI 2020. These are the latest PRI ratings available, and our 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.

Signatory to the Net Zero Asset Management Initiative (NZAMI)

Foreword

Julian Ide
Chief Executive Officer

I'm delighted to introduce the Net Zero edition of STEWARDSHIP MATTERS.

We became a signatory to the Net Zero Asset Managers Initiative (NZAMI) in July 2021.

As a member of NZAMI, we acknowledge that there is an urgent need to accelerate the transition towards global net zero greenhouse gas emissions, and for asset managers to play their part to help deliver the goals of the Paris Agreement and ensure a just transition.

On the anniversary of becoming a signatory, this edition of STEWARDSHIP MATTERS is our opportunity to discuss how we are formalising those commitments, partnering with our clients, educating our teams, and building tools and structure around carbon measurement.

I am delighted to say that after a period of hard work, and deep consultation with clients, we are initially able to commit 15.4%[1] of Martin Currie's assets under management (AUM) to be managed in line with NZAMI's goal of 'net zero greenhouse gas emissions by 2050' (referred to as 'Net Zero' hereinafter).

Acknowledging the need for collaboration and partnership, we have adopted an opt-in model for client asset commitment. Our initial commitment represents a substantive first step on our part to help guide investee companies towards a more sustainable future.

[1]Based on 31 May 2022 valuations.

We will continue to work with our investment teams and collaborate with our clients over the coming months and years to increase the commitment to 100% of assets by 2040. We are intending to further strengthen and update our commitment target at the next NZAMI progress report on the one-year anniversary of COP26 in October.

This commitment represents the start, and not the end, of our collaborative approach towards a common solution to the climate crisis.

In the following pages, our teams outline:

- How we are partnering with our clients to achieve their ambitions of net zero greenhouse gas emissions by 2050;
- The support we are providing for all clients, irrespective of their current commitment status;
- Our engagement and escalation driven approach to deliver effective climate action;
- Using collaboration and shared insight to solve the complex challenges of Net Zero;
- Recent examples of Net Zero engagements and active ownership;
- Where we see opportunities to invest in climate solutions across legacy and 'unexpected' sectors; and
- How we as a business are playing our own part.

We look forward to updating you with more progress over the coming years.

This commitment represents the start, and not the end, of our collaborative approach towards a common solution to the climate crisis.

What is NZAMI?

The Net Zero Asset Managers initiative (NZAMI) is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C; and to supporting investing aligned with net zero emissions by 2050 or sooner.

Becoming a signatory involves a series of commitments to work towards achieving global Net Zero emissions by 2050 or sooner as summarised below.

We have committed to:

a. Work in partnership with all clients and AUM on their Net Zero goals

b. Set interim targets for the proportion of assets committed

c. Review interim targets at least every five years, and ratchet up covered AUM towards 100%

To fulfil these commitments, we will:

For committed assets

1. Set interim targets for 2030

2. Take account of portfolio Scope 1, 2 and, to the extent possible, Scope 3 emissions

3. Prioritise achievement of real economy emissions reductions within investee sectors and companies

4. Invest in long-term carbon removal (i.e. offsets), only when no viable alternatives exist

5. Create investment products aligned with Net Zero to facilitate investment in climate solutions

Across all AUM

6. Provide clients with information and analytics on Net Zero investing and climate risk and opportunity

7. Implement a Net Zero stewardship and engagement strategy, with a clear escalation and voting policy

8. Engage with key service providers such as exchanges, proxy advisers, consultants and data providers

9. Ensure any relevant direct and indirect policy advocacy we undertake is supportive of Net Zero

Accountability

10. Publish Taskforce for Climate Related Financial Disclosures (TCFD) results and a Climate Action Plan annually, and submit them to the Investor Agenda for review

273

61.3tn

NZAMI currently has 273 signatories covering US$61.3 trillion in AUM[2].

Becoming a signatory involves a series of commitments to work towards achieving global Net Zero emissions by 2050 or sooner.

[2]Source: NZAMI; as of 31 May 2022. Available from https://www.netzeroassetmanagers.org/

Our approach to Net Zero and NZAMI

David Sheasby
Head of Stewardship and ESG

Mel Bucher
Co-Head of Global Distribution

We are excited by the opportunity to partner with our clients on Net Zero to play a leading role in real world emissions reductions.

Martin Currie has made a deep commitment to NZAMI, as we believe it is emblematic of our firm's transformational approach to stewardship and our corporate purpose of **'Investing to Improve Lives'**.

As stewards of our clients' capital, we understand that our fiduciary duty extends beyond the delivery of returns and alpha. We have a responsibility to work with clients and investee companies towards delivering a more sustainable future for society. We see NZAMI as an important way to deliver a signal to the wider capital markets of the importance of a robust climate response.

Our approach to achieving Net Zero covers the following five aspects:

1) **Partnering with clients to commit assets;**
2) **Supporting all clients through disclosure;**
3) **Setting our framework for analysis and measurement;**
4) **Taking on a transformative role through engagement;** and
5) **Playing our own part**

NET ZERO

Partnering with clients to commit assets

To meet our specific commitments as a signatory of NZAMI, we are required to set firm-level targets on the proportion of assets managed in line with Net Zero and the Paris Agreement.

We also acknowledge that the scope for asset managers to invest for Net Zero depends on the mandates agreed with clients, and also clients' and managers' regulatory environments.

This has seen us enter new conversations with our institutional client base to identify if they want their assets to be part of those committed to the ambitions of NZAMI.

What has become apparent is that, globally, many clients are at different stages of understanding and commitment. Part of our role is to work with and help our clients on this journey towards climate action.

As Julian highlighted in the foreword, we are initially able to commit over 15% of our AUM, however we are working closely with all clients to increase our commitment to 100% of assets by 2040.

We are looking to increase our target further ahead of the anniversary of COP26 in October to include a wider range of pooled vehicles which are taking longer to have their commitment agreed. We are also continuing our engagement with uncommitted segregated clients.

Supporting all clients through disclosure

To support clients in their Net Zero ambitions, irrespective of their current commitment status, we have committed to provide market-leading level of transparency and disclosure of information on:

- Targets set;
- Progress made;
- Engagements conducted in support of Net Zero; and
- Emissions and climate risk within portfolios.

This is an opportunity to build on the enhanced client reporting that we rolled out earlier this year and discussed in the last edition of *STEWARDSHIP MATTERS: NAVIGATING CHANGE*.

Mansco Perry III, CIO of Minnesota State Board of Investments, and his staff have been true partners in supporting this initiative.

'We applaud and endorse Martin Currie's climate risk efforts. We believe partnering with managers to meet the goals set forth in the Paris Agreement and aligning our commitment is a key step in striving for a more sustainable future.'

Setting our framework for analysis and measurement

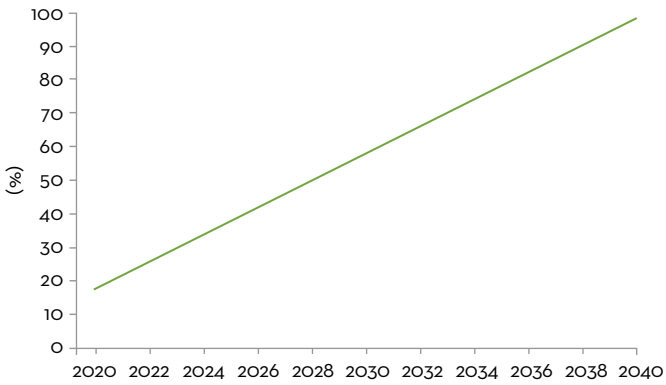
As a signatory to NZAMI, we are also required to set portfolio-level targets for committed assets.

Portfolio level targets refer to the percentage of companies within portfolios which have set science-based targets consistent with a 1.5°C pathway.

We adopted this approach because it is forward-looking in nature, reflects our beliefs in the power of engagement and active stewardship, and provides a clear signal to clients on the progress we are making.

We expect 100% of investee companies in committed portfolios will have a target by 2040 as set out in a representative example below. This includes an interim 2030 target for each portfolio, based on a linear increase from its 2020 baseline.

Portfolio coverage target line (2020 baseline)



Source: Martin Currie. Based on a sample portfolio for illustrative purposes only.

We acknowledge that the expected trajectory of target adoption may vary, not least due to the starting position of portfolio companies and the regions and industries in which they operate. For some sectors, agreed Net Zero methodologies still do not exist.

Consequently, our expectations for each company in a portfolio will vary according to its circumstances.

This is one of the reasons our approach is an engagement driven strategy to encourage adoption of science-based targets.

Taking on a transformative role through engagement

We recognise that it will take some companies longer than others to fully gauge the climate-related risk and opportunities in their business and to develop a credible, science-based transition plan. Most companies are on a journey, and constructive dialogue and ongoing engagement is at the heart of how we plan to achieve change and alignment with Net Zero.

True engagement helps prepare companies for a lower carbon economy as it focusses on what they can and need to do, rather than looking backwards at what has been done. This forward-looking perspective plays to our existing strength in engagement and leverages the relationships we have already built with our investee companies.

We discuss our engagement and escalation activity in more detail in the following section.

Playing our own part

Finally, as a business, we have set ambitious targets for our own carbon footprint that are aligned with the climate science.

50% by 2030

1. *We are targeting a 50% reduction in our emissions intensity by 2030 with an ambition to reduce actual emissions by the same degree.*

200% by 2022

2. *We have also committed to offsetting any remaining emissions by 200% to become a carbon neutral business from FY2021 (FY ending Sept 2022).*

Reducing our own emissions as a business provides credibility when we are asking our investee companies to do so too.

Helping deliver effective climate action through engagement and escalation

John Gilmore
Stewardship & ESG Specialist

Eoghan McGrath
Stewardship & ESG Analyst

The importance of constructive dialogue and engagement with investee companies has led to us strengthen our approach.

Engagement is at the heart of how we plan to achieve our Net Zero ambitions. We have recognised that to be effective, a detailed framework and approach needs to be in place.

We have recently strengthened our framework for climate change engagements and stewardship responsibilities. This formalises our expectations that investee companies will commit to a carbon reduction journey that ultimately takes them to full Net Zero alignment.

Formalising engagement and voting policy

We have captured our specific Net Zero engagement approach in a new *Climate Engagement & Escalation policy*.

Our engagement work will focus on the three key stages of what we refer to as our 'expectations ladder'.

The ambition in each of these steps is to provide a roadmap for corporates to set their own climate ambitions, report transparently to our clients on our progress, and hold ourselves to account in helping meet these targets.

1. **Disclosure:**

   It is often said "You can't manage what you don't measure". Almost half of global companies still do not report on their emissions and this needs to change rapidly.

   Through engagement, we are encouraging companies to disclose their emissions as the first stage in being able to manage them effectively.

   This is a key reason we have become a lead investor in industry-wide collaborative engagements such as the CDP's 2022 Non-Disclosure Campaign to take collective action to influence change and best practice.

2. **Taking initial action on climate:**

   Our next step will include high level engagement with corporates who have not yet set science-based targets.

   We refer to companies in this phase as taking 'Initial climate action', and through engagement, we will look to support them to take even more decisive action over time.

   We do understand that science-based targets are not currently an option in some industries, especially those where there remain technological barriers or industry specific frameworks have yet to be set.

   We also recognise that individual country starting points, current government policies and end markets differ materially, and our engagement and escalation activities will reflect this.

   We believe strongly that companies should take what action they can in reducing emissions even when targets aligned to the Paris Agreement may not be feasible in the short term. This is important as it signals a company's intent to tackle climate change, and also helps deliver more decisive action in the short term.

We recognise thermal coal as a particularly concerning and substitutable, source of carbon emissions.

Through our engagements, we will be advocating that companies transition away from thermal coal as fast as technically, economically and socially practical, and ensure that their direct and indirect lobbying activities do not run counter to this ambition.

3. Setting science-based targets:

We think that the best approach to drive reductions in real world emissions is to encourage companies to set and deliver credible science-based targets.

100% by 2040

For committed portfolios, success for us will be driving the adoption of science-based targets to 100% by 2040.

By design, science-based targets are highly ambitious and require aggressive reductions within a relatively short timeframe (5 to 15 years). However given that this window may exceed the (remaining) tenure of many board members, it may not be possible to have linkage of senior management compensation. We will be encouraging at least some element of incentive compensation to be linked to interim targets of decarbonisation strategies.

We do understand this is a difficult commitment for some sectors, and one in which we, our clients and investee companies must all go on a journey to achieve.

In some circumstances there may be a disconnect between setting targets that are consistent with 1.5°C climate science and the practicality of those targets, in terms of whether they are technologically viable.

Escalation options

The conversations we have had with companies so far have been open in nature and we have observed that they are, for the most part, on board. Many of our investee companies have already set Net Zero targets and are aligning their operations to meet these ambitions, however many companies are only taking their first steps in their Net Zero strategy.

Should our long-term engagement approach be unsuccessful, or if action is slower than required, we will look to employ our voting rights in order to escalate our concerns directly.

We may eventually reconsider an investment if the attitude of the company's management to climate risk demonstrates flaws in their overall risk governance or financial planning.

NET ZERO

Collaborating and partnering with other investors

Reaching Net Zero will also require a concerted effort from all areas of the economy and the world.

In recognition of this, we take every opportunity to support organisations that are enabling this global coalition and embrace this chance to partner with others, through key investor initiatives or collaborative engagements through **Climate Action 100+** (CA100+), and the **CDP Non-Disclosure Campaign** as mentioned earlier.

CA100+ investor signatories have already secured numerous commitments around setting Net Zero targets (including Ultratech with whom we are a lead investor), improving climate lobbying disclosure and developing decarbonisation strategies.

However, even with the backing of approximately US$68tn in signatory AUM[3], it is not a simple task to effect change at such a large scale. According to the latest progress report, only 17% of targeted companies have set medium-term targets aligned with limiting global warming to 1.5°C[4].

Saying this, both initiatives highlighted recognise the power of collaboration, and it is this mutualism that will help us as an industry, and as a planet, reach Net Zero. It is very much a two-way dialogue in which we can learn as well as provide helpful insight based on discussions with peer companies.

> *We take every opportunity to support organisations that are enabling this global coalition and embrace this chance to partner with others, through key investor initiatives or collaborative engagements*

[3]Source: Climate Action 100+; as of 30 June 2022. Available from https://www.climateaction100.org/whos-involved/investors/

[4]Source: Climate Action 100+; as of 31 March 2022. Available from https://www.climateaction100.org/wp-content/uploads/2022/04/March-2022_Benchmark-assessments_public-summary_Final_.pdf

A complex challenge requires collaboration and shared insight

Finding analytical solutions to the challenges of Net Zero has required extensive input, collaboration and insight from our investment teams.

Delivering a Net Zero target across a full portfolio is a complex process which involves quantifying disclosure, target setting, monitoring delivery of emissions reductions, as well as understanding different regional starting points.

Examples of some of our investment team's work in tackling the challenges in this area are highlighted below. This work builds on and supports our universal approach to engagement and escalation.

UK Equities

Will Bradwell, CFA
Portfolio Manager,
UK Equities

Balancing index and investment constraints while engaging to deliver Net Zero

A key challenge for our team is the lack of visibility on how science-based target frameworks will be codified in high emitting sectors.

In the UK, these sectors, such as Oil & Gas, are significant index components, providers of dividend income and also potential capital to help finance the energy transition.

That being said, UK legislation is providing a strong incentive for corporates to decarbonise. We believe that there will be significant commitments to Net Zero made in the coming years across the listed UK equities universe.

We have also already seen good levels of adoption in the UK relative to other geographies. The number of commitments and approved science based targets reached 402 in December 2021[5]. This is the largest number across any country on an absolute basis, and indeed as a proportion of companies. Adoption of commitments and approved targets has continued into 2022.

Trying to restrict total energy demand is neither equitable nor inclusive.

Asian Equities

Andrew Graham
Head of Asia

Addressing the reality of significant regional differences and starting points

Achieving Net Zero globally will require the whole world to pull in the same direction, but Asia may be the most important and difficult obstacle to overcome.

Asia is home to more than half the world's population, and that population is growing, increasing in wealth, and urbanising.

Fossil fuels – particularly coal – have been instrumental in supplying the surge in electricity demand across the region, including in the biggest countries China and India. However, many Asian countries use a fraction of the energy per capita compared to the most developed nations.

Trying to restrict total energy demand is neither equitable nor inclusive. This creates a clear conflict between economic development and Net Zero goals in the short term, one which is extremely tricky for governments to navigate.

Our engagements so far have clearly shown that most company plans inevitably tie in with their own government's targets. Several of the most important countries including India, China and Indonesia are not currently committed to 2050 – but are targeting later dates. Many other countries are also not well-placed for alternative energy sources or the substantial investment in infrastructure required.

But without that infrastructure in place, it is simply impossible for many of the corporates to achieve Net Zero. Governments and corporates need to be working together.

Companies will firstly and most aggressively respond to the goals and related rules set by their national governments, as failure to do so most readily threatens their 'licence to operate'. Companies operating internationally need to be aware of evolving international norms and also recognize that the court of public opinion matters too.

[5]Source: Science Based Targets initiative data and Martin Currie analysis.

Global Emerging Markets

Alastair Reynolds

Portfolio Manager,
Global Emerging Markets

A nuanced approach to tackling engagement

Similar to the Asia team, one of the main challenges we have found during our engagements is how individual emerging market countries recognise carbon emissions and NZAMI itself, and the influence that has on companies from that country.

That said, roughly 10-15% of holdings by weight[6] have already committed to Net Zero, and others have set targets which place them on that journey.

We do have several tools at our disposal to help with analysis of the impact of climate change on a company's ability to conduct business.

These include proprietary carbon pricing sensitivity analysis (originally a Carbon Value-at-Risk (VaR) tool developed by the MCA team).

The output of these tools helps support our efforts to influence companies to disclose, act and set targets.

Martin Currie Australia (MCA)

Reece Birtles, CFA

Chief Investment Officer,
MCA

Developing tools for carbon risk analysis

We are using our proprietary Carbon VaR tool to capture our fundamental insights into shadow carbon costs and track how well companies are preparing for a Net Zero world.

Given the sector-bias and industry skew of the Australian market, divestment of companies with stranded assets, while always an option, is our least preferred outcome. We would prefer to work with companies on their Net Zero journey.

Our Carbon VaR tool is providing us with valuable data to refer to in our engagements with companies as it considers carbon costs from a Scope 1, 2 and 3 emissions perspective.

Scope 1 and 2 emissions can be mitigated by investment in new technologies to replace and reduce existing assets that contain high carbon emissions. On the other hand, including Scope 3 emissions, which capture upstream and downstream value-chain activities, better reflects a company's strategic risk with regards to carbon. Our model supports the purchase of carbon offsets to reduce the net emissions where no viable alternatives exist.

We have also recently added to our emissions data sources, and we now have the ability to override and select the most representative data from multiple sources to aide in comparison across firms.

[6]Source: Martin Currie, CDP. Based on a representative account. As of 30 June 2022.

We do have several tools at our disposal to help with analysis of the impact of climate change on a company's ability to conduct business.

Global Long-Term Unconstrained (GLTU)

Zehrid Osmani
Head of GLTU,
Portfolio Manager

Understanding and gathering climate data

While action on Net Zero will ultimately be driven by engagement, this needs to be informed by solid emissions data and science-based targets.

Our target assessment project is one of the most intensive and important ESG research projects that the team has run to date. However, it has presented us with several data challenges:

- **Availability:** The CDP database is the most comprehensive set of reported company emissions data, but only c.50-60% of our GLTU strategy's portfolio holdings have target data available in the CDP database[7].
- **Obsolescence:** Many of the targets only capture the short-term emission reductions goals. As a result, this data can become obsolete quickly. Overall within this dataset we have found that only 30% have targets that have not already passed[7].
- **Uniformity:** Companies measure carbon intensity data and targets in different ways. These include different Scopes (i.e., Scope 1,2 or 3), different base year starting points. Measurements may be absolute or relative to base year or as a proportion of the business growth, to name a few variants.

The challenge of this data shortfall has highlighted the importance of direct engagement to encourage disclosure, and proprietary research and project initiatives. We have already started a direct data gathering project which we plan to populate through our engagement activities over the next 12-18 months.

> *While action on Net Zero will ultimately be driven by engagement, this needs to be informed by solid emissions data and science-based targets.*

[7]Source: Martin Currie, CDP. Based on a representative account. As of 30 June 2022.

Net Zero engagement and active ownership

Below we highlight key Net Zero-focused engagements undertaken by our investment teams over the past six months.

Global Emerging Markets

Alastair Reynolds

Portfolio Manager, Global Emerging Markets

Climate related risks and opportunities

Cosan is an interesting company in this context as it is a significant producer of sustainable bio-fuels, but, as this fuel is derived from sugar cane, the company's agricultural activity is directly exposed to climate risk.

We are encouraged that on the product side, it is pioneering the development of second-generation ethanol, which further reduces the emission intensity of bio-ethanol. It is also introducing biomethane into its natural gas distribution network.

Cosan has also established a Board-level committee to oversee the company's exposure to and management of climate factors. Over the course of 2022, it will conduct a study to improve and expand its awareness of physical and transitional climate risks. The findings will be supported by science-based scenario analysis and incorporated into the company's risk management framework.

Cosan already maintains an inventory of Scope 1, 2 and 3 greenhouse gas emissions for all its listed subsidiaries and reports these via CDP. It has also set numerous climate-related targets, including achieving Net Zero on a Scope 1 and 2 basis at its subsidiary Comgas by 2025.

We will be working closely with the company as it formalises its targets across all business units.

Global Long-Term Unconstrained (GLTU)

Ken Hughes

Portfolio Manager, GLTU

Dealing with carbon-intensive processes

In our first one-on-one meeting with Sanjiv Lamba, the new CEO of **Linde**, we raised the issue of the company's use of steam methane reformers (SMR), a relatively carbon-intensive means of producing hydrogen.

As hydrogen gains greater credibility as a future source of energy, phasing out of SMRs will be a key part of the switch to green hydrogen.

Lamba acknowledged this point and agreed, adding that for every ton of CO_2 emitted by Linde under SMR, customers avoid emitting more than 2 tons. They are, however, focussed on reducing their own emissions and providing more solutions that can lower value chain emissions. They have established 10-year emissions reductions targets and are looking to have these efforts verified by SBTi, a process which we have encouraged them to undertake.

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.

As hydrogen gains greater credibility as a future source of energy, phasing out of SMRs will be a key part of the switch to green hydrogen.

UK Equities

Ben Russon, CFA

Portfolio Manager,
UK Equities

Dealing with carbon intensity in M&A

DCC is a distributor operating across various sub-sectors including energy, healthcare and technology with a strong track record of acquiring businesses.

We recently met with CEO, Donal Murphy to explore the challenges DCC will face in reducing emissions and sustainability issues facing their model of acquiring smaller liquefied petroleum gas (LPG) and retail oil businesses.

We engaged with the business to understand how they factor in the carbon intensity of potential acquisition targets, and we are encouraged that DCC are looking to strengthen their offering through lower carbon acquisitions. Further, the scaling of the energy solutions businesses and EV charging roll out will go a long way to dilute the overall Scope 3 emissions intensity of the business.

DCC introduced scope 1,2 and 3 Net Zero by 2050 targets in May 2022 and they are also setting targets to reduce fossil fuel related operating profit from 49% to 30% or lower by 2030. Given the nature of the core business (retail oil and LPG distribution), we view the scope 3 Net Zero ambition as particularly encouraging.

Currently DCC has not committed to science-based targets as they are classified as an Oil and Gas refinery business. As the business mix changes, we believe that that sector classification will also change, meaning commitment to science-based targets will be possible. We will be continuing to engage with the company on this topic.

Asian Equities

Paul Danes

Portfolio Manager,
Asia Long-Term
Unconstrained (ALTU)

Even the big players have challenges

Our recent engagement with **Samsung Electronics** is a good example of just how early-stage Asia is, even for some of the largest and most well-resourced companies.

Samsung are well aware of the need to address climate change and have over the last few years built a team specifically to look at this.

Whilst current and historical disclosure is good, we have been asking Samsung about specific targets for a while now and they are clear that they wish to align with the Korean national target of Net Zero by 2050.

The initial focus will be mostly on Scope 1 & 2 emissions, where they can have the most influence – with the semiconductor division the obvious focus of attention. At its semiconductor fabs, for example, Samsung is now using 100% renewable energy in China, US and Europe.

This is a challenge in South Korea, and they are currently reviewing how this can be addressed. Progress will need to be aligned with the government and local energy market. Whilst this does not prevent them from having long-term aspirations to achieve Net Zero, it will inevitably need to involve the use of offset activities.

Samsung intend to announce their environmental strategy soon, and we have encouraged maximum disclosure and the use of interim targets. They have considered Science Based Targets initiative (SBTi) methodology, but at the current stage feel they cannot sign up and are looking for credible alternatives.

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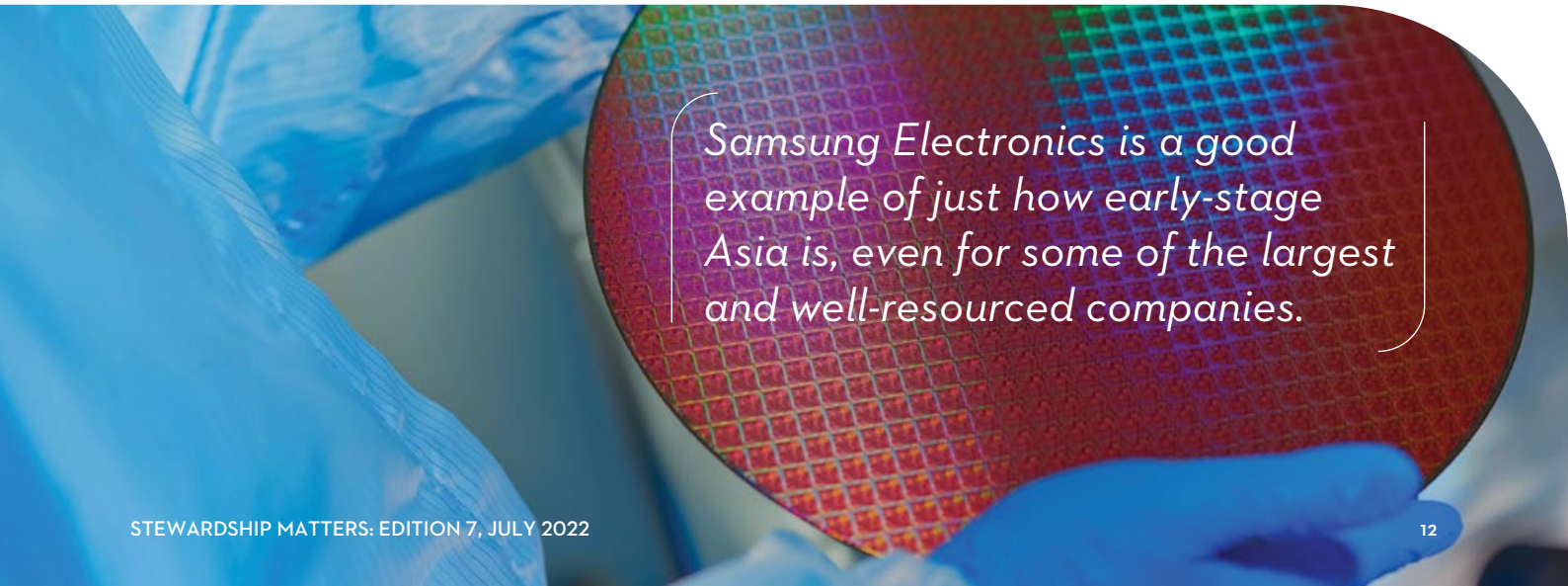

Samsung Electronics is a good example of just how early-stage Asia is, even for some of the largest and well-resourced companies.

Martin Currie Australia (MCA)

Chris Schade

Research Analyst, MCA

Pushing for Net Zero commitment

As part of our ongoing discussion with **Amcor** on broader sustainability topics, we had engaged regarding their lack of commitment to Net Zero targets. The company had flagged as one of the few ASX 100 companies with more than 1m tonnes of Scope 1, 2 and 3 emissions but no 'Net Zero' commitment.

At the time in late 2021, the company's response was that this was on the agenda for consideration, however they were grappling with the reality of setting targets for future management teams in the context of an uncertain pathway. They responded that the feedback was appreciated, especially their standing out on the above-mentioned screen of ASX 100 companies with high emissions.

On the back of our engagement, we were pleased to see the company announce in early 2022 that it had further increased in its sustainability efforts by committing to Net Zero science-based targets.

We recently met again with the Head of Sustainability and IR to discuss the commitment. Amcor believe that SBTi is becoming industry standard and therefore it makes sense to have consistency in targets and disclosures with customers and others in the industry.

Amcor have so far completed internal due diligence around reduction pathways for scope 1 and 2, and what assumptions would be required for scope 3, but have not yet set the actual targets. Given 80% of Amcor's emissions are scope 3, raw materials and the company's supply chain are critical to reaching Net Zero.

We will continue to engage with the company on this matter as they formulate their in-depth strategies to meet these targets and also on how they communicate these with investors.

Martin Currie Australia (MCA)

Andrew Chambers

Portfolio Manager, Real Assets

Pushing for Net Zero commitment

AGL Energy had been proposing to split into two businesses, AGL Australia (to house their non-coal assets) and Accel Energy (carbon intensive assets), with a shareholder vote on the subject taking place in June 2022.

We engaged extensively with AGL and other stakeholders such as Cannon Brooks (Grok), environmental groups, energy groups and proxy advisors. We were looking to formulate ways to reduce the cons under each scenario to best position AGL for future shareholder returns, based on an assumption of the need for an orderly Net Zero transition.

We believe in the long-term the economics and transition credentials of AGL will be better kept together rather than the parts left in demerger. The combined entity is best positioned to develop a stronger Paris-aligned transition plan, lower its cost of capital, as well as better manage increasingly volatile energy markets.

We advised the AGL board that we were not supportive of the proposed split, hoping that the company would not proceed with the demerger. The proposal was subsequently withdrawn.

Going forward, we will be engaging with AGL to ensure the board has good governance, and the required expertise and vision, particularly experience with the energy transition. A much stronger Paris-aligned strategy is very important in unlocking the true value of AGL.

On the back of our engagement, we were pleased to see the company announce in early 2022 that it had further increased in its sustainability efforts.

Investing in Climate Solutions

Part of our commitment to NZAMI is to facilitate investment in climate solutions across portfolios. Here we highlight how our teams have been approaching this across legacy and 'unexpected' sectors.

Global Emerging Markets

Divya Mathur
Portfolio Manager, Global Emerging Markets

Users and developers of renewables and battery technology

Emerging market companies continue to play a leading role in bringing the technologies and the equipment to the global market that will allow us to pursue a more electrified world. Emerging markets are also expected to be significant consumers of these products.

The breadth of climate-related opportunities in emerging markets is wide, and our portfolio is exposed to several different areas which could be considered 'climate solutions'.

For example, these include:

- solar energy, through solar glass manufacturer **Xinyi Solar**;
- other renewable energy sources, such as Brazilian company **WEG's** wind turbine business; and
- different parts of the electric vehicle (EV) ecosystem and value chain:
  - batteries (**Samsung SDI**, **LG Energy Solution**);
  - charging stations (**Delta Electronics**); and
  - copper wiring (**Antofagasta**).

Electrifying our power needs also has a huge role to play in the next phase of decarbonisation and the pathway towards Net Zero. We have already seen this in the prominence of emerging market companies in the EV supply chain, but we remain at the early stages of a long-term transition, and they still have much more to offer.

Global Long-Term Unconstrained (GLTU)

Sam Cottrell
Portfolio Manager, GLTU

Seeking innovative solutions

Combining our proprietary ESG risk assessments and thematic analysis, we constantly look at companies that can provide climate solutions across a broad range of aspects.

These solutions can be related to

- production activities,
- the environmental impact of product/services,
- how they contribute to mitigating climate change, and
- how these companies seek to influence their suppliers to improve their environmental impact.

Ultimately, we are looking to see how they plan to deliver on their Net Zero targets.

We are finding opportunities in the healthcare sector. Sequencing technologies from providers such as **Illumina** and **Oxford Nanopore** enable genomic and synthetic biology approaches looking to mitigate the effects of climate change.

Bioengineered trees can accelerate carbon sequestration and reduce carbon respiration while algal biotechnology can be used in a similar way but also to produce biomass and biofuels naturally. Biomaterials could replace chemical feedstocks with bio-derived alternatives, reducing the reliance on fossil fuel or replace textiles, protecting ecosystems while lowering carbon emissions.

> *Emerging market companies continue to play a leading role in bringing the technologies and the equipment to the global market that will allow us to pursue a more electrified world.*

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UK Equities

Jo Rands, CFA

Portfolio Manager, UK Equities

Existing energy players scaling up climate solutions

High emitting sectors – such as oil and gas – can still potentially play a significant role in the energy transition and we see a potentially attractive investment case based upon this.

The energy transition will require long-term commercial investment to become self-sustaining over time, the scale and complexity of projects are something that the oil majors can deliver. As owners of some of these companies in our UK Equity portfolios, we are looking to increasingly use our votes to reflect our views that they should be deploying capital at scale to accelerate the development of renewable energy infrastructure for a lower carbon future.

As a specific example, **Shell** sells around 4.6% of final energy consumed in the world and produce around 1.4% of total primary energy[8]. To reduce their scope 3 emissions, it is imperative that they change the mix of energy their customers use to lower carbon alternatives. Through initiatives such as the Clean Skies for Tomorrow Coalition, which Shell co-founded, and working with customers like Rolls Royce to test and show how aircraft engines can operate on 100% sustainable aviation fuel, Shell is using their expertise to create routes to Net Zero.

High emitting sectors – such as oil and gas – can still potentially play a significant role in the energy transition and we see a potentially attractive investment case based upon this.

Asian Equities

Tom Wills

Portfolio Manager, ALTU

A focus on low carbon technologies

One of the challenges we face as long-term investors is that low carbon technologies are typically at a much earlier stage of their life cycle, meaning the end markets have high growth potential but a limited history, making assessment of their potential future returns more difficult.

However, there are several industries where established Asian companies are leveraging their existing expertise to rapidly transform their business models towards lower carbon versions of their products, or to enter new markets where their historic expertise gives them a competitive advantage in the development of new industries.

The most material exposure to this in ALTU portfolios is through the electric vehicle (EV) revolution, primarily through batteries and the battery value chain.

According to the International Energy Agency, global transport emissions represented over 20% of global CO_2 emissions in 2018 (pre Covid-19)[9], of which almost half came from road passenger vehicles[10]. Consequently, the transition to zero-emission EVs will be a significant contributor to Net Zero globally.

From a technological perspective, the development of batteries capable of storing sufficient charge to give EVs a similar range to internal combustion engine (ICE) vehicles has been the primary barrier to the development of the EV industry, along with cost and charging infrastructure.

Asian companies, such as **LG Energy Solution** (LGES), are global leaders in EV battery technology, with huge capacity expansion currently underway. Underpinned by its parent **LG Chem**, a long-term global leader in specialty chemicals, LGES has demonstrated clear technological capability. Meanwhile, their significant JV capex investments with multiple auto manufacturers demonstrate not only the confidence of its customers in its operational competence, but also provide clear visibility over its future growth potential. With parent LG Chem also making investments in the battery supply chain, we believe the EV battery industry provides both a compelling long-term investment opportunity and acts as a key enabler of global Net Zero targets.

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[8]Source: Shell; Energy Transition Strategy 2021, available from https://www.shell.com/investors/shareholder-meetings/_jcr_content/par/expandablelist_copy/expandablesection_11.stream/1618407326759/7c3d5b317351891d2383b3e9f1e511997e516639/shell-energy-transition-strategy-2021.pdf

[9]Source: IEA, Global CO_2 emissions by sector, 2018, available from https://www.iea.org/data-and-statistics/charts/global-co2-emissions-by-sector-2018

[10]Source: IEA, Transport sector CO_2 emissions by mode in the Sustainable Development Scenario, 2000-2030, available from https://www.iea.org/data-and-statistics/charts/transport-sector-co2-emissions-by-mode-in-the-sustainable-development-scenario-2000-2030

Martin Currie Australia (MCA)

Will Baylis
Portfolio Manager, MCA

Investing in building the transition and future

In Australia there is an accelerating push to decarbonise the energy supply chain, specifically to replace traditional coal-fired power generation plants to reduce carbon emissions.

We see that this is creating a material thematic opportunity for companies involved in the substantial level of infrastructure and services investment required to make the transition to renewable energy generation.

Macquarie Group has evolved into a diversified business, offering banking, green finance, advisory, investment and funds management. Macquarie have a significant pipeline of opportunities in developing and investing in green energy, creating climate resilient infrastructure, and enabling the decarbonisation of clients and portfolio companies. Macquarie have a strong team of experienced and focused professionals, with the acquisition of Green Investment Group adding to the 100+ Macquarie Capital staff already focussed on renewables.

Worley is an Australian-based global engineering, advisory and project management services company. Worley have a notable exposure to decarbonisation, with a fast-growing pipeline of renewables capex opportunities and construction of critical energy transition projects for the global energy supply chain. Worley also has significant beneficial exposure to capex spends in the Oil & Gas sector.

While the long-term push toward renewables generation will ultimately shift the paradigm, we see that Gas in particular has an important role to play as a core energy transition commodity, given its scope to replace coal-powered energy generation with lower carbon intensity.

Woodside Petroleum, an oil and gas producer with operations in Australia and Senegal and pre-development assets in Canada, are a key player for base load energy mix during the transition. There will be an ongoing need to ensure contingency measures for renewables generation in periods of insufficient environmental supply. This highlights the importance of natural gas going forward as a key energy transition commodity.

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Looking forward

David Sheasby
Head of Stewardship and ESG

Making the commitment to NZAMI in July 2021 was uncomfortable but perhaps the easiest part of the process.

The hard work now begins. Essentially, this will build on the work that we have already started on understanding climate risks and opportunities, and leverage the strong engagement capabilities that we have in place.

As we have discussed over the previous sections, a key initial focus will be using engagement to encourage disclosures where these are not yet in place.

Looking for more government action at the next COP

Our NZAMI commitments are made based on the expectation that governments will follow through on their own Paris commitments, including their Nationally Determined Contributions (NDCs).

In the near term, we will be closely watching for progress on their NDCs in the run-up to COP27 in Egypt later this year. There will continue to be calls on governments to take stronger action as the conference approaches, and a new round of submissions is expected ahead of this.

On a related topic, the increased focus on biodiversity that we started to see last year will likely accelerate. The COP15 Biodiversity Conference has again been delayed and will now take place in Montreal in December.

Progress on this is an important element if the path to Net Zero is to succeed. We continue to build on our initial work on biodiversity that we outlined in *edition 5 of STEWARDSHIP MATTERS* earlier this year.

Upcoming publications from Martin Currie

We will shortly be publishing an Investor Climate Action Plan (ICAP) that summarises our action and progress to date.

Alongside the work that we are doing on NZAMI, we are continuing to build on our work around our corporate purpose of Investing to Improve Lives.

In *edition 4 of STEWARDSHIP MATTERS*, we outlined our overall approach, with a particular focus on our role as investors. We have since been building out a range of supporting publications that bring to life how this influences the investment process of each of our investment teams. These are now available on our website.

In October 2022, edition 8 of STEWARDSHIP MATTERS will be shining the spotlight on Diversity, Equality and Inclusion, a key pillar of our corporate purpose.

There is an exciting and busy year ahead for us, and we look forward to reporting back on our progress.

The hard work now begins. Essentially, this will build on the work that we have already started on understanding climate risks and opportunities.

Summary of our purposeful engagement activity

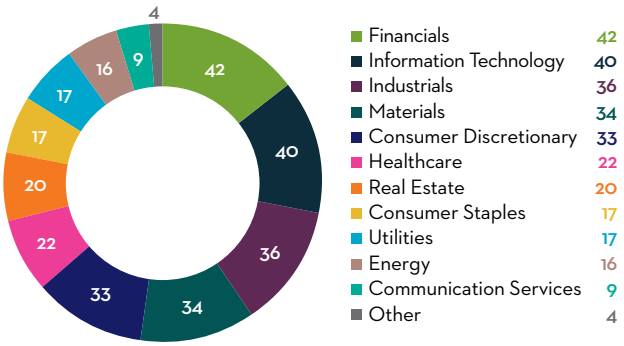
We believe monitoring and engagement is an essential part of being a shareholder in a company. It allows us to improve our understanding of investee companies and their governance structures, so that our voting decisions may be better informed. In addition, it enables us to understand to what extent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

Overview: Year to date 2022

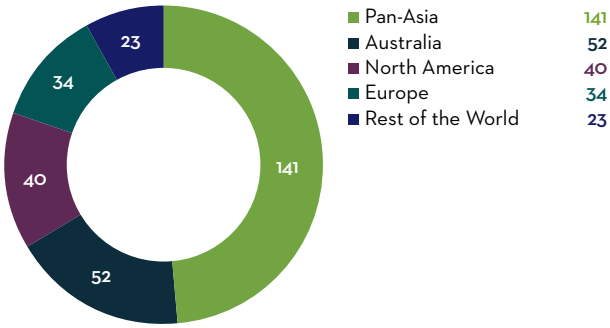
Firm-wide engagements

27	Markets covered
137	Companies engaged
290	Total engagements

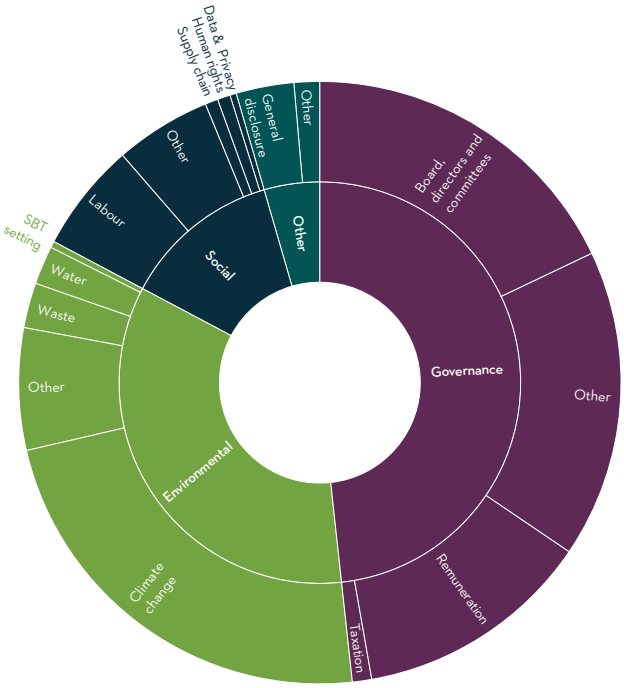
Engagements by sector



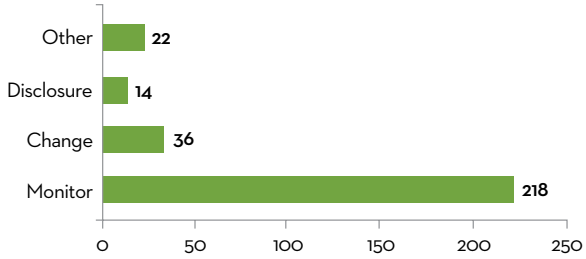
Engagements by region



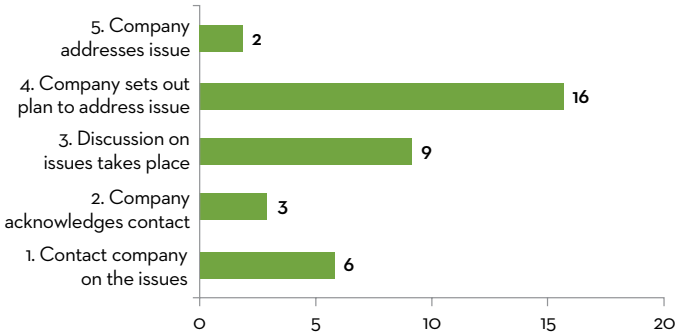
Engagements by topic



Purpose of engagement



Stage of completion for *change*



Source: Martin Currie. Engagement activity is for the period 1 January 2022 – 30 June 2022.

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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.

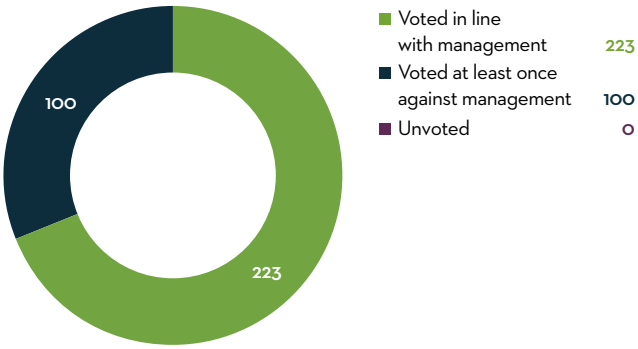
When voting on behalf of our clients, we will always seek to do so in their best interests considering the long-term impact of these voting decisions.

Overview: Year to date 2022

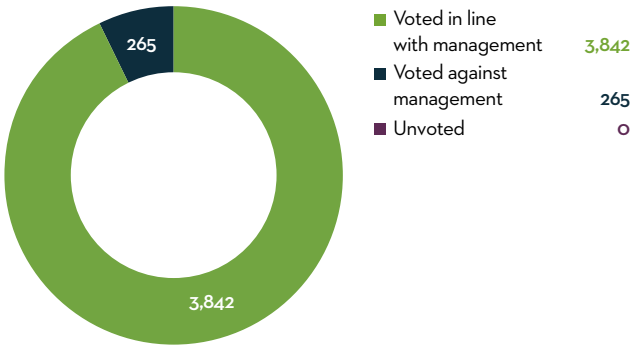
Firm-wide proxy voting

31	Markets covered
323	**Total shareholder meetings**
100	Meetings where we voted against management
4,107	**Total resolutions:**
265	Resolutions voted against management

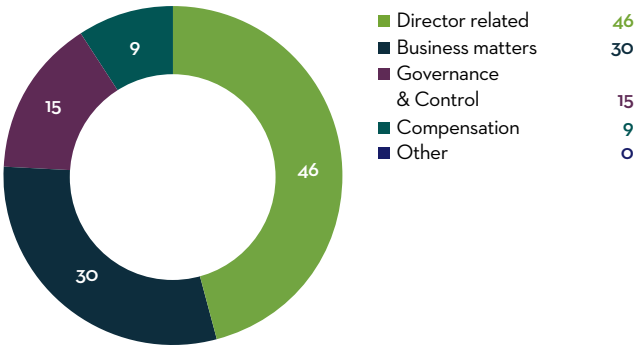
Total meetings



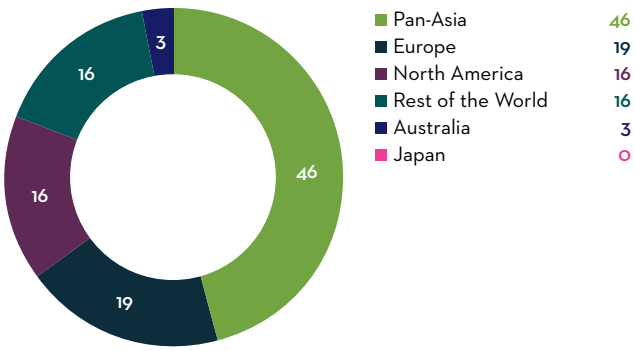
Total resolutions



Resolutions voted *against* by proposal type



Resolutions voted *against* by region



Source: Martin Currie. Engagement activity is for the period 1 January 2022 – 30 June 2022.

Our recent Stewardship and ESG insights

Over the course of the reporting year, we have responded to client requests and have sought their views on the stewardship and ESG insights that we produce in terms of topics that have most relevance and urgency. During 2021 this focussed most significantly on net zero and the COP26 summit as well as emerging issues such as biodiversity and regulation (the focus of this report).

Thought leadership is published regularly on our *website*. The following list of content explores relevant sector-specific, market-wide and systematic risks which we have identified:

- **Stewardship Matters – Edition 6: Navigating Change**

  The ongoing evolution of the stewardship environment has impacted expectations from clients, market practices, regulation, and our own activities. Our latest edition looks at how to navigate the fast pace of change.

  20 April 2022

2022 Stewardship Annual Report

This detailed report provides further insight into our business, the importance of stewardship, and examples of how this has been incorporated in our investment process and stewardship activities over the past 12 months.

8 April 2022

- **Seven important Stewardship themes for 2022**

  All around the globe, 2022 will see significant changes in the stewardship landscape as it moves even more into mainstream investing.

  26 January 2022

- **Stewardship Matters – Edition 5: Biodiversity**

  Investors have increasingly focused on climate change as a material issue, but the reality is that climate change and biodiversity are inextricably linked and a greater focus on biodiversity itself is warranted. EDITION 5 specifically focusses on the important topic of biodiversity, and why and how investors should be working to protect it.

  19 January 2022

- **COP26: A meaningful step forward in combatting the climate crisis?**

  Now that COP26 has finished, we have assessed what was achieved, what needs to happen next, and the implications for investors.

  29 November 2021

- **COP26: A climate for change?**

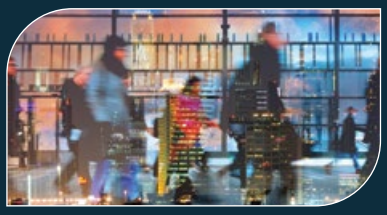
  Martin Currie's urgent call to action ahead of COP26 for governments, companies, and investors; NOW is the time for change and accelerated action.

  22 October 2021

- **Stewardship Matters – Edition 4: Investing to Improve Lives**

  As a firm, our aim is to be a leader in ESG. To do this, we need to measure our own inputs and outcomes to the same set of standards that we expect of the companies we invest in. EDITION 4 provides us with an opportunity to hold a mirror to how we are Investing to Improve Lives.

  20 October 2021



- **Stewardship Matters – Edition 3: Quantifying Decarbonisation**

  Decarbonisation is a journey with significant challenges. EDITION 3 looks at how as investors, the key is about how we can work in partnership with our clients and investee companies to facilitate this journey.

  13 July 2021

- **Net zero: managing the wider impact of economic and capital displacement**

  While focusing on climate action, it is important not to lose sight of other societal and developmental priorities that may occur as the economy is reprofiled.

  15 June 2021

- **Net zero: the role of capital markets**

  Looking at ways that markets and investors can help realise the goals of net zero.

  4 May 2021

- **Net zero: from policy to action**

  Identifying the key challenges ahead in the journey to net zero.

  19 March 2021

- **The impacts of Sustainable Finance Disclosure Regulation on the European distribution landscape**

  Investors will see important changes in the way their asset managers provide sustainability related information on their products and updated sustainability policies, resulting from requirements from the EU SFDR.

  9 March 2021

- **COP26 and the Importance of 'Net Zero'**

  2021 could prove to be a pivotal year in the fight against climate change and the race towards Net Zero emissions.

  17 February 2021

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