STEWARDSHIP MATTERS

MARTIN CURRIE
A Franklin Templeton Company

12

THE PATH TO NET ZERO

MARCH 2024

INVESTING TO IMPROVE LIVES™

www.martincurrie.com

Introduction

Welcome to Edition 12 of the *Stewardship Matters* magazine, our regular review of Martin Currie's work in stewardship, governance and sustainability, and our insight into future trends.

This edition focuses on *the path to net zero* and provides an update on the progress being made by our investment teams and the outcome of our Australian conference on sustainability, on our Pathway to 2030.

Contents

Foreword

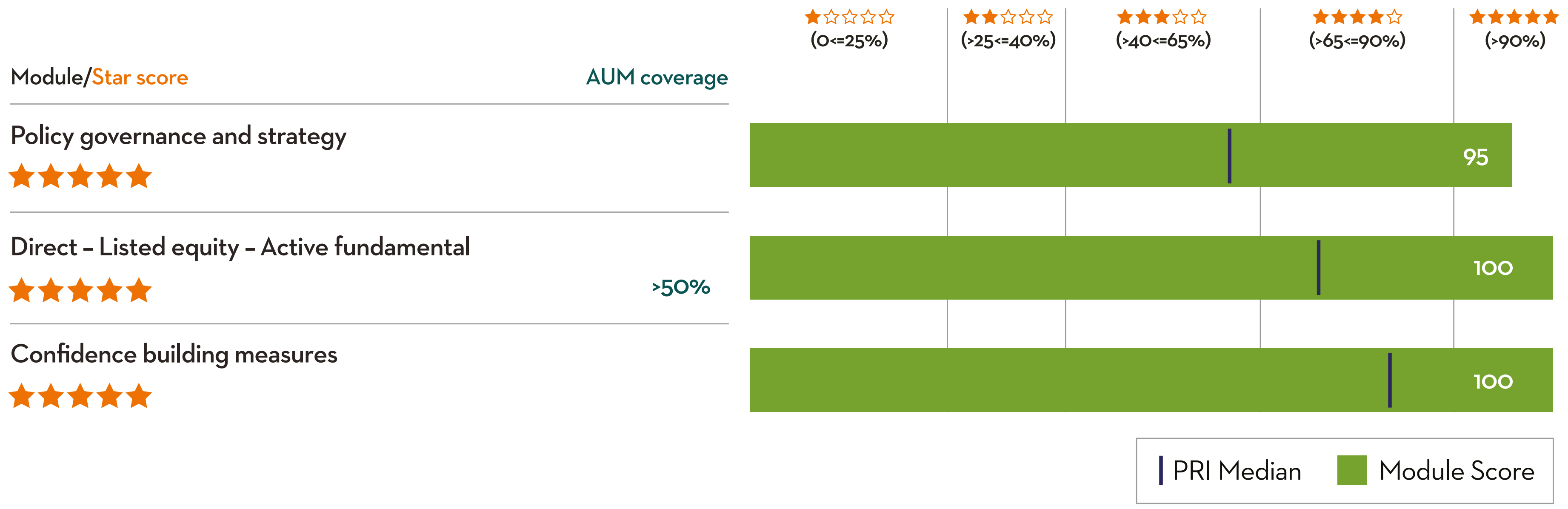
I'm delighted to introduce this twelfth edition of *Stewardship Matters*. This revisits the path to Net Zero and explores the progress that we are making.

As long-term, active equity managers, our ultimate aim is to protect our clients' interests and deliver on financial outcomes. The Net Zero Asset Managers Initiative (NZAMI) is just one lens through which we can mitigate some of the real risks that exist in our portfolios. We recognise the role we can play in the decarbonisation of our society and the transition to a Net Zero economy. The extent to which a company incorporates Net Zero targets into its business strategy can impact its ability to generate long-term sustainable returns for investors. Through our commitment to NZAMI we will use engagement to guide our investee companies on their path to being a part of the low carbon economy. We update on the enhancements to our research and engagement framework, disclosures to clients and our progress in reducing Martin Currie's carbon footprint.

The fundamental message from COP28 in December 2023 was the need to transition away from fossil fuels in energy systems and a plea for all nations to a) triple renewable energy capacity and double energy efficiency globally by 2030, b) speed up efforts to reduce coal use, c) accelerate technologies such as carbon capture and storage, and d) reverse global deforestation.

This was a topic of discussion at our Pathway to 2030 Forum that was held in Melbourne in October, where the focus was on Net Zero in the Real World. The panel acknowledged that to improve the pace of energy transition pipeline fulfilment, we need to think differently and work together to get the required capital flowing globally.

Finally, we are delighted that the Principles of Responsible Investment (PRI), has awarded us a 5-star rating across all the categories relevant to our investment activities for 2022. This is a fantastic endorsement from the world's largest global reporting project for responsible investment.



I hope you enjoy this latest edition of ***Stewardship Matters***.

David Sheasby

Head of Stewardship, Sustainability & Impact, Martin Currie

"We are delighted that the PRI has awarded us a 5-star rating across all categories relevant to our investment activities"

Diary from Dubai

Reflections on COP28

On 13 December, after nearly a full day of overtime, nations at COP28 in Dubai reached agreement on a final text for the highly-anticipated Global Stocktake, marking a global first for its reference to fossil fuels and calls for global action.

The final wording asks for ***"Transitioning away from fossil fuels in energy systems, in a just, orderly and equitable manner, accelerating action in this critical decade, so as to achieve net zero by 2050 in keeping with the science."*** It also makes a plea for a tripling of renewable energy capacity and doubling energy efficiency globally by 2030, speeding up efforts to reduce coal use, accelerating technologies such as carbon capture and storage that can clean up hard-to-decarbonise industries, and a 2030 goal to reverse global deforestation. The 21 pages of text does not mention oil specifically, but this is the first COP transcript that mentions fossil fuels at all, making it a landmark document in the history of the United Nations Framework Convention on Climate Change (UNFCCC).

Recognising the interlinkages between agriculture and climate change, this COP also saw 134 countries sign up to the Emirates Declaration on Sustainable Agriculture, Resilient Food Systems, and Climate Action. One notable exception was India.

This declaration calls for the urgent transformation of food systems to respond to climate change, including language on ecosystem preservation, soil health, and natural disaster preparedness for farmers.

The establishment of the Loss-and-Damage fund, albeit with limited funding to date, which was announced on the first day of the Conference was also an early win in this COP, as was the launch of the United Arab Emirates' Alterra, a US$30bn investment fund focused on climate solutions.

Overall, this COP presented a mixed picture – some progress as outlined in these announcements but some procrastination on mitigation, adaptation, Article 6 (which focuses on carbon markets and sets out how countries can pursue voluntary co-operation to reach climate targets) and notably on finance, where there have been some funding announcements but overall they fall well-short of what is required.

Blended finance

With regards to finance there was a lot of talk about 'blended finance' both in the run-up to COP28 and at the Conference itself. Blended finance is focused on the combination of public, private and philanthropic funding sources. It reflects the differing and unique levels of risk tolerance which allow the funding of higher risk, but essential, projects required to address climate change.

Franklin Templeton (FT) sponsored and co-hosted a roundtable with the Official Monetary and Financial Institutions Forum (OMFIF) on the topic of the Just Transition. This featured senior leaders from the company, including FT President and CEO, Jenny Johnson, FT Global Head of Sustainability, Anne Simpson and Head of Stewardship, Sustainability & Impact (at Martin Currie) and the co-chair of the FT Stewardship and Sustainability Council, David Sheasby. The meeting brought together policymakers, investors and regulators to discuss transition finance, the role of the private sector and blended finance in scaling the capital needed to drive a sustainable economy, and expectations for 2024 in the aftermath of COP28.

Key topics included:

- Transition finance mechanisms and sustainable investments
- Cooperation and convergence of standards
- Role of asset owners, investors and regulators
- Sector-wide transition delivery

Global Ethical Finance Initiative

David Sheasby also took part in the Global Ethical Finance Initiative (GEFI) COP28 programme where he spoke about Islamic Finance and sustainability at the Unlocking Islamic Finance Summit. This event saw the launch of the Tayyib Initiative, which aims to combine Islamic Finance and Sustainability and builds on the Shariah-compliant model of Islamic finance, to develop a Tayyib-inspired approach with enhanced sustainability considerations. You can find out more about the Initiative here: *Global Ethical Finance*

David additionally took part in events hosted by the UK Investment Association (IA) and The Investment Company Institute. Both of these covered a wide range of topics including sustainability disclosure standards, policy and regulatory developments and the geopolitical landscape.

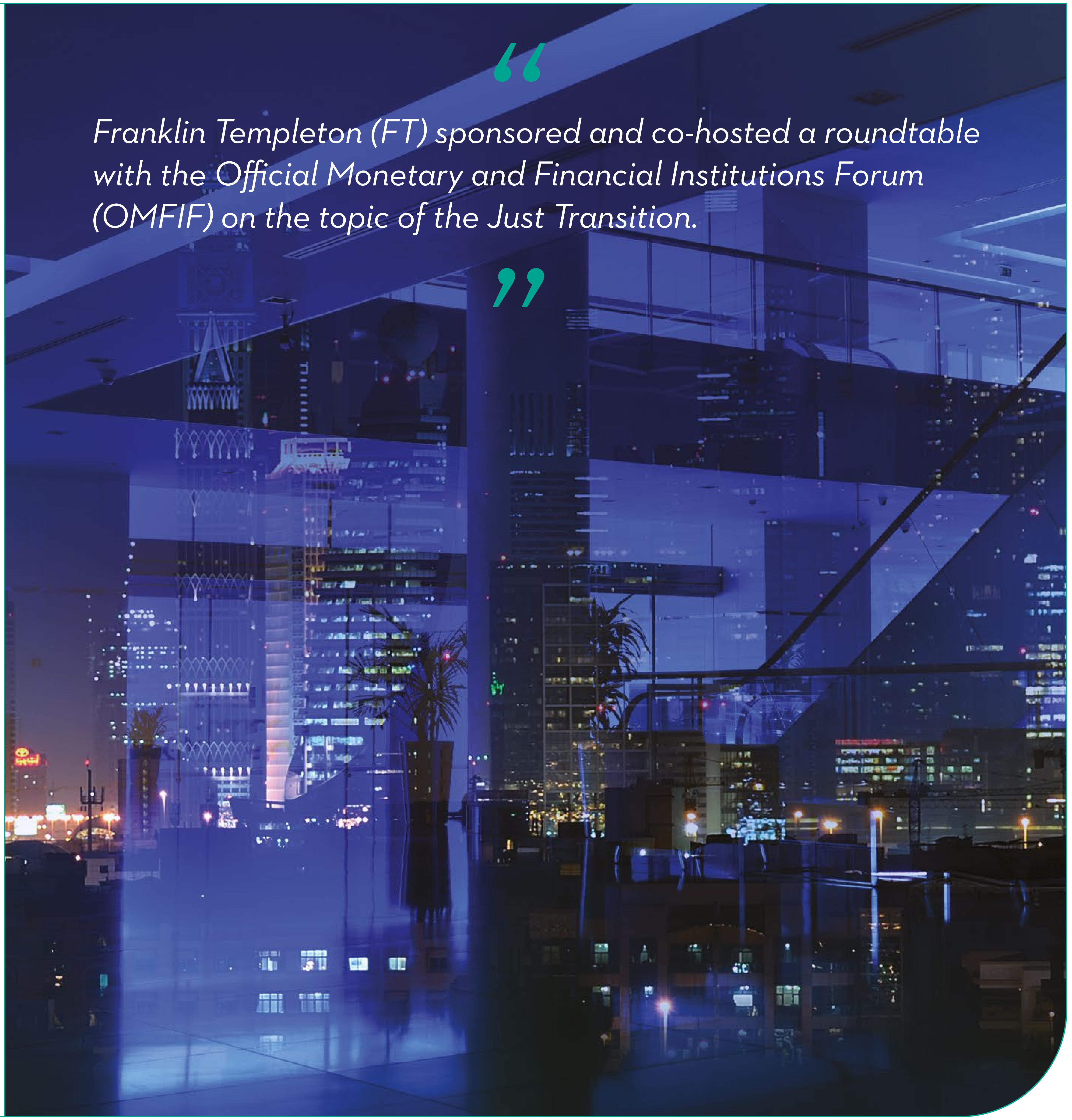
Summary

So, what does all this mean for investors? Three main takeaways from COP28:

i. The targets on renewables and the focus on energy efficiency provide further opportunities for companies playing into these themes.

ii. With the new initiative focusing on the transformation of the food system there will be increasing scrutiny on nature dependencies, agricultural efficiency and impact, and on waste more broadly across the food system.

iii. The lack of progress on Article 6 and carbon markets at this COP will not impede the extension of existing carbon-compliant markets where we expect to see additional industries and geographies captured under these regimes. The debate on voluntary carbon markets continues. This could potentially move towards international standards and looking at how carbon credits are allocated, including an IOSCO (International Organisation of Securities Commissions) proposal to regulate.



"Franklin Templeton (FT) sponsored and co-hosted a roundtable with the Official Monetary and Financial Institutions Forum (OMFIF) on the topic of the Just Transition."

Spotlight on Net Zero in the Real World

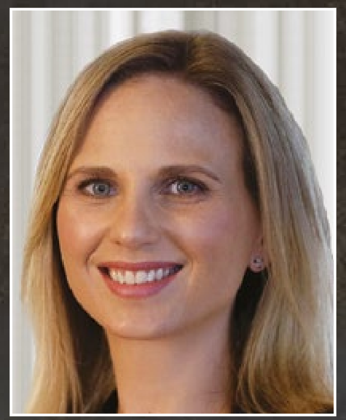
The Implications for Australian companies, investors and regulators

Will Baylis, Portfolio Manager, Martin Currie Australia

Warren Flentje
Industrial Decarbonisation Lead Towards Net Zero, CSIRO

Sue Brown
Executive Group Director, Sustainability, Worley

Tom Penny
Head of Environment, Telstra



Anna Matysek
Head of Climate Change, BlueScope Steel

William F. Hasley, an American Navy Admiral during WWII once said *"All problems become smaller when you confront them instead of dodging them..."*

At our second annual Pathway to 2030 Forum in October 2023, I was honoured to moderate a panel of investors, sustainability experts and leading listed companies to discuss how we can all work together to tackle the enormous issue of Net Zero.

We specifically brought together representatives from **Telstra**, **BlueScope Steel** and **Worley**, with **CSIRO** (Commonwealth Scientific and Industrial Research Organisation) to garner insight from organisations at different stages in their energy transition and emissions reduction pathway. While these are all Australian entities, their insight and experience are global in nature.

The panel discussed how we are all not short of ambition, skill or technology, but in order to improve the pace of energy transition pipeline fulfilment, we need to think differently to work together to get the required capital flowing globally. The panel offered thought-provoking perspectives on the critical elements to achieve this, including transition fuels and carbon offsets, collaboration across and within sectors, a shift away from the traditional way of delivering infrastructure projects, opportunities from the Inflation Reduction Act (IRA), and a focus on community and social licence to operate. From an investor perspective, we shared our views on active ownership as integral to success on Net Zero.

We were privileged to have such extremely qualified panellists share their insights. These companies and organisations are at the forefront of tackling these risks and opportunities. We can learn much from respective pathways.

"Coming together is the beginning. Staying together is progress, and working together is success". **Henry Ford**

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

The current state of play

I asked panellist Warren Flentje to set the scene for this dynamic, but exceedingly complex issue globally. He opined that in Australia, at least, the debate has at last moved on from 'why' and 'at what rate' should we transition to a low carbon economy, to 'how' should we do it.

For a high carbon country, Australia's progress has been positive, but modelling suggests that in the next couple of years, emissions from industrial sectors will exceed those from the electricity sector. Warren noted "we only have 70 or so months to 2030 and we need every sector playing their part if we are to make it."

The key challenge from all panellists was the need for more infrastructure, such as transmission lines and long duration storage. Lack of access has already been documented in delaying final investment decisions for many of the renewable projects in the pipeline.

Involving the whole supply chain

The scale of the problem truly is one that individual companies cannot solve on their own. It's going to require collaboration, up and down the value chain, including governments, emitting companies, suppliers and investors. Warren discussed that as success will be very reliant on new processes, unproven at scale, all parties will need to embrace this risk.

Telstra is one of Australia's largest energy users (accounting for nearly 1% of Australia's overall electricity needs), but an early mover in mobilising the value chain.

Tom Penny spoke at the Forum about Telstra's first power purchase agreement (PPA) using a consortium approach, partnered with several other corporates to get scale. They are also a direct investor in renewable energy generation, investing in solar and wind farms, and more recently battery assets and green hydrogen pilot projects, effectively as a hedging mechanism for their energy bill. Another interesting point was how Telstra are working closely with customers and suppliers to reduce Scope 3 emissions through technology transfer, as they see it as more cost and time effective than trying to go it alone.

Thinking differently about project delivery

Albert Einstein said that *"We cannot solve our problems with the same thinking that we used when we created them".* Einstein's famous quote still rings true, over a century later.

Given the scale and speed required for infrastructure build, a key discussion at the Forum was around what can we do differently.

Worley provide Net Zero project delivery and asset services to some of the most carbon intensive sectors globally. Sue Brown discussed the work the company has been doing with Princeton University over the last three years on improving the discipline of project delivery, and the challenges they have faced with gaining industry level collaboration on Net Zero. They specifically found that the current 'stage gating' process just moves too slowly for success, and that there are different levers that can be pulled to accelerate project delivery and compress delivery schedules by up to 40%.

Sue shared her levers in more detail

1. Broaden the definition of value to include social and environmental value. Communicate that with community stakeholders.
2. Better leverage the technology that is already at our disposal.
3. Standardise low carbon technologies (such as batteries) to provide certainty to supply chains.
4. Keep all technology options open and don't take ideological positions that cut off options too early.
5. Collaborate up, down and across the supply chain, cross pollinate and share learnings within industries and sectors to accelerate progress for all.

Transition fuels to speed up the pathway

Another key issue that we discussed was that when technology needs time to progress, you also need a solution for the transition period.

Iron ore mining is an important industry for Australia's economy and is a necessary enabler of the transition. However, according to the CSIRO, the process of turning iron ore into steel contributes around 7% of global greenhouse gas emissions. 70% of these emissions can be attributed to blast furnaces in China, but as Australia is the largest exporter of iron ore, we have a stake in the industry's transition.

'Green Steel' refers to steel produced with methods to reduce emissions and waste in the production process and renewable energy. I asked Anna Matysek to share her company's views on the use of transition fuels to help with the technical and economic challenges Green Steel still has.

BlueScope Steel currently use different types of steel making technologies within their global asset base, electric arc furnace (EAF) in the US, iron sands in New Zealand, and a blast furnace process in Australia. The company has set clear decarbonisation pathways for all their assets, and an ultimate aim to use green hydrogen to produce iron. But they are considering transition fuels for some more immediate success.

Anna shared how BlueScope has looked at transitioning the Australian steelworks to hydrogen, but at current capacity and technology this would use 15x their current electricity consumption. This isn't yet sustainable or economic until more cost-effective renewable capacity and electricity transmission is available. As such, their emissions pathway will start with converting furnaces to natural gas, which cuts emissions by more than half, and also creates latent demand for green hydrogen, as it can be introduced into the process over time as costs come down.

> *"Given the scale and speed required for infrastructure build, a key discussion at the Forum was around what can we do differently."*

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The opportunities and threats from the Inflation Reduction Act (IRA)

In a *The Australian* newspaper article in 2023, Jennifer Westacott, BCA chief executive declared, *"Forget US President Joe Biden's age. He will become one of the most important US presidents in the past half century because he is defining a new age... This is the clean-energy equivalent of the New Deal of President Franklin Roosevelt."*

I find this an interesting parallel, and the Forum spent time discussing if the IRA, similar to Roosevelt's 1920s plan to get America back on track, would end up leaving other regions behind, or present more opportunities.

Anna regards the IRA as a game changer for the steel industry. They are already seeing investments and projects move from Europe and Canada into the US because of government funding. Despite this, she believes that Australia will not miss out, and remains a prized location for investment given our stable geopolitics, renewable resources, and highly educated workforce.

As a scientist, Warren finds the IRA exciting. He concurs that people think it may lead to a brain drain elsewhere, but to him it is great to see growing investment into research and technology development. He believes that it will increase collaboration between government counterparts around the world.

We also discussed how the IRA is an important opportunity for Australia's critical minerals industry – e.g., lithium, copper, nickel, cobalt, rare earths. The IRA will provide incentive to work directly with the market and establish a protected supply chain.

PATHWAY TO 2030

A 90 minute recording of the Forum is available on our website.

Within our discussions, an interesting point that Sue shared was how IRA funding will be associated with a 'social licence operate'. In a real shift of culture, projects will be rated on their ability to create social and environmental value. This is an important signpost that governments are broadening the value of projects beyond just the financials.

Carbon credits as part of the solution

Investors often have had a cynical view about carbon credits, so I was interested in hearing about this from a practitioner perspective.

Tom spoke about how Telstra is a significant player in the voluntary carbon credit arena. While these credits don't count towards their headline commitments, they are getting to a point where to contribute beyond value chain mitigation, they need to remove carbon from the atmosphere rather than just avoid it. They have formalised guidelines on permitted types of credits and have built due diligence requirements for credibility and integrity.

Telstra are also now involved in generating their own credits. Tom shared the details of a pilot *carbon farm scheme* in regional NSW (New South Wales) where they are working with the community to plant more than 150,000 trees and using new technology such as drone planting in hilly areas and Internet of Things (IOT) monitoring to improve growth and viability. They are using this project to work out whether it's scalable to accelerate action elsewhere. Harking back to 'social licence' discussions earlier, this kind of activity is also a great example of how co-development with local communities can enable more social value.

Anna explained that while BlueScope isn't using offsets yet, they are seeing demand for them from their customers who are looking to front run access to green steel. BlueScope is exploring the potential to staple quality offsets to products where it meets a customer demand.

This is a trend in the offset space that I think we will likely see in many industries globally, where companies use emissions reductions from within their own supply chain to create low carbon embodied products for their customers.

Importance of carbon capture and storage

Warren also shared how important it is that we don't just focus on decarbonisation strategies, but also on long-term, high-quality permanent storage solutions. We need progress on both.

Warren spoke of some of the ways that the scientific community are seeing progress in carbon capture. The CSIRO have recently established their *CarbonLock Future Science* platform, which is looking to dramatically expand the capacity of the biosphere to absorb CO2, not just through traditional vegetation, but also methods like mineral carbonation.

Sue shared Worley's experience so far with carbon capture projects, and how they are working with *Occidental* in delivering direct air capture (DAC) technology. DAC effectively sucks air from the atmosphere away from the source of emissions, so good for hard-to-abate sectors. Occidental's pilot facility in Texas will be the largest scale DAC in the world and is designed to annually sequester at least half a million tonnes of CO2. These kind of projects should do well from IRA funding.

The real challenge for investors

Investors like us (Martin Currie Australia (MCA)) have a key role to play in the shape and speed of the transition. While returns available from the heavy emitters may be attractive today, as active investors, we must hold our investee companies to account on Net Zero and fund the companies who are moving in the right direction. I am concerned that the rise in passive investing and managers who outsource engagement and proxy voting to third party advisors exacerbates a lack of accountability by the market.

MCA believe that direct active ownership is key to our Net Zero contribution. We are using the strong relationships between our investment decision makers and companies to encourage real change, better capital allocation decisions, and ultimately, as we believe more sustainable business practices are drivers of risk and return, long-term value for our clients.

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Can we meet our 2030 and 2050 targets?

My final question to the panel was if Australia, and other regions can really meet the ambitious greenhouse gas emission reduction targets set at many countries at COP26.

The conclusion was that we are not short on ambition and technical ability, but it is not going to be an easy run to the finish if we don't change our way of delivering on projects.

There is still an extraordinary amount of carbon that we need to take out every year, and time, funding and access to transmission are the biggest challenges.

What gives me optimism is that public consciousness around Net Zero has improved, and that's driving transparency and action at both the government and corporate level.

> *"Investors like us (MCA) have a key role to play in the shape and speed of the transition."*

Global Emerging Markets: on the path to Net Zero

Many emerging market (EM) companies are leading the way in a global marketplace and are considered best-in-class, without true developed market peers. EM companies are also actively contributing to a worldwide effort to reduce fossil fuel use. For example, companies in this region are global leaders in electric vehicle battery production, key suppliers to both developed and emerging market automobile companies.

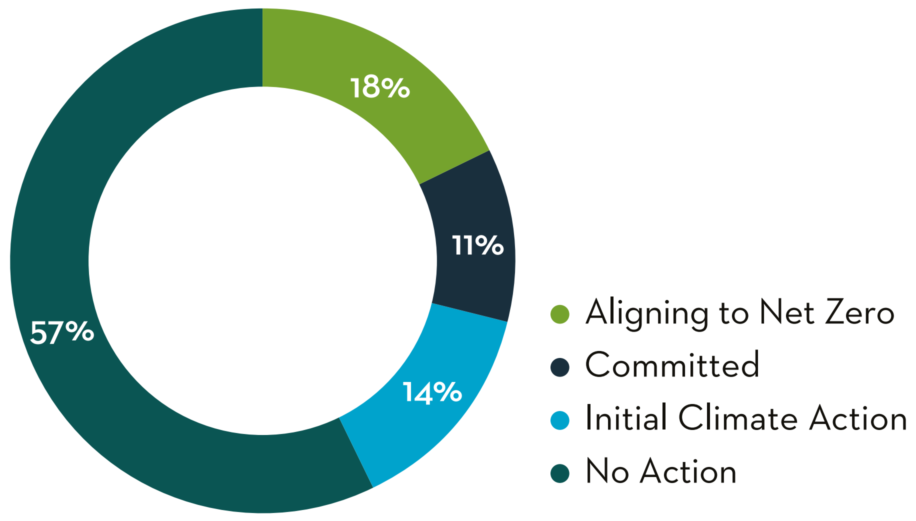
In line with Martin Currie's NZAMI commitments, our Global Emerging Market strategy has a target that by 2040, 100% of our portfolio holdings will have science-based targets. To achieve this, engagement and dialogue are a key part of how we work with our investee companies. This is important – as long-term investors we need to understand the potential impact to a company's financial returns from climate-related risks and opportunities.

Progress to Net Zero

In July 2022 we reported that 10-15% of our portfolio holdings by weight[1] had already committed to Net Zero. We are pleased to say we have seen progress. 18% of our portfolio holdings by name have now set science-based targets (SBTs) for achieving net zero. In addition, almost a quarter of the portfolio have either committed to setting SBTs or are actively reducing emissions.

There is no escaping that c. 60% are yet to take any meaningful action. But this does not mean these companies do not recognise the importance of reducing carbon emissions. Fossil fuels play an important role in supplying surging energy needs. Several large nations such as China, India and Indonesia are not yet committed to 2050, targeting dates beyond 2060. Without the appropriate alternative energy infrastructure in place, it can be a significant challenge to companies to meet net zero targets.

Company transition to Net Zero: Global Emerging Markets



Source: Martin Currie as at 21 February 2024. Representative Global Emerging Markets portfolio shown.

This is considered within our research, and we need to take a nuanced approach in our engagement. The team's proprietary carbon pricing sensitivity analysis is a vital tool in understanding the impact of climate change on a company's ability to conduct business. The output of which helps support our efforts to influence companies to disclose, act and set targets.

Climate change engagement has been a notable theme with several of our Indian holdings. Indian conglomerate **Reliance Industries** has diverse business interests from energy through to media and retail. This makes aligning with SBTs a complex task due to its organisational structure. Despite this, the company has announced a 2035 net zero target. Its green energy business will have a key impact on its decarbonisation, including solar cell and battery manufacturing established in 2023. The firm is also looking to align to the Task Force on Climate-Related Financial Disclosures (TCFD) and we will continue to monitor progress. Other holdings including a car manufacturer and jewellery firm have both acknowledged the importance of improved disclosures and net zero initiatives but are yet to publicly commit to SBTs. This underlines the importance of continued engagement and dialogue.

[1]Source: Martin Currie, CDP. Based on a representative Martin Currie Global Emerging Markets portfolio. As of 30 June 2022.

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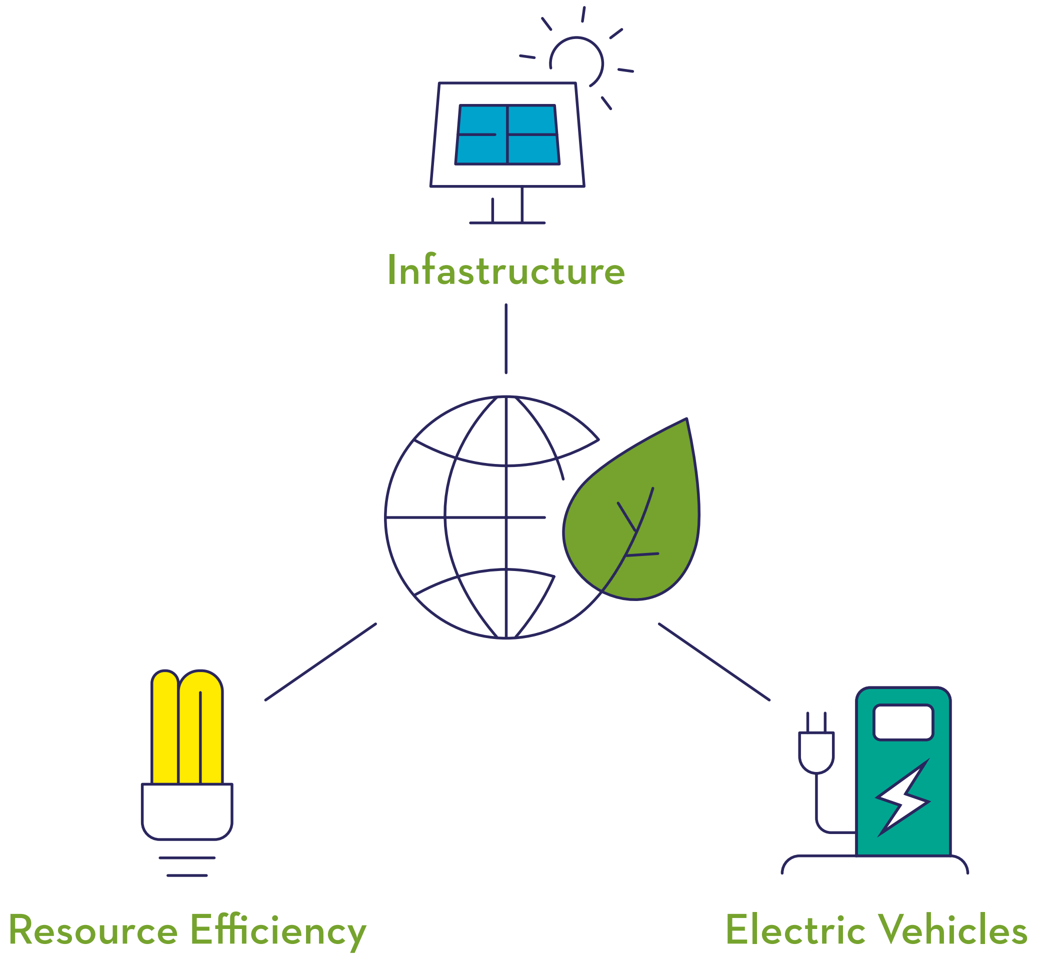
Emerging leaders in climate solutions

Emerging market companies face domestic and governmental challenges tackling net zero emissions. But they are also playing a leading role bringing technologies and the equipment to the global market to tackle these challenges.

Sustainable Planet is one of our three mega-themes (alongside Demographics and Technology). Approximately a third of our portfolio's companies have exposure to our three sub-themes of resource efficiency, electric vehicles and infrastructure. A reflection of the breadth of climate related opportunities in emerging markets.



The region's companies are playing a crucial role in the electric vehicle value chain beyond the manufacturers. These are represented in the portfolio as shown *opposite*.

Focused on reducing fossil fuel use, EM companies are also major players in renewable energy. Captured under our themes of resource efficiency and infrastructure, our holdings include solar glass manufacturer **Xinyi Solar** and Brazil's **WEG's** wind turbine business.

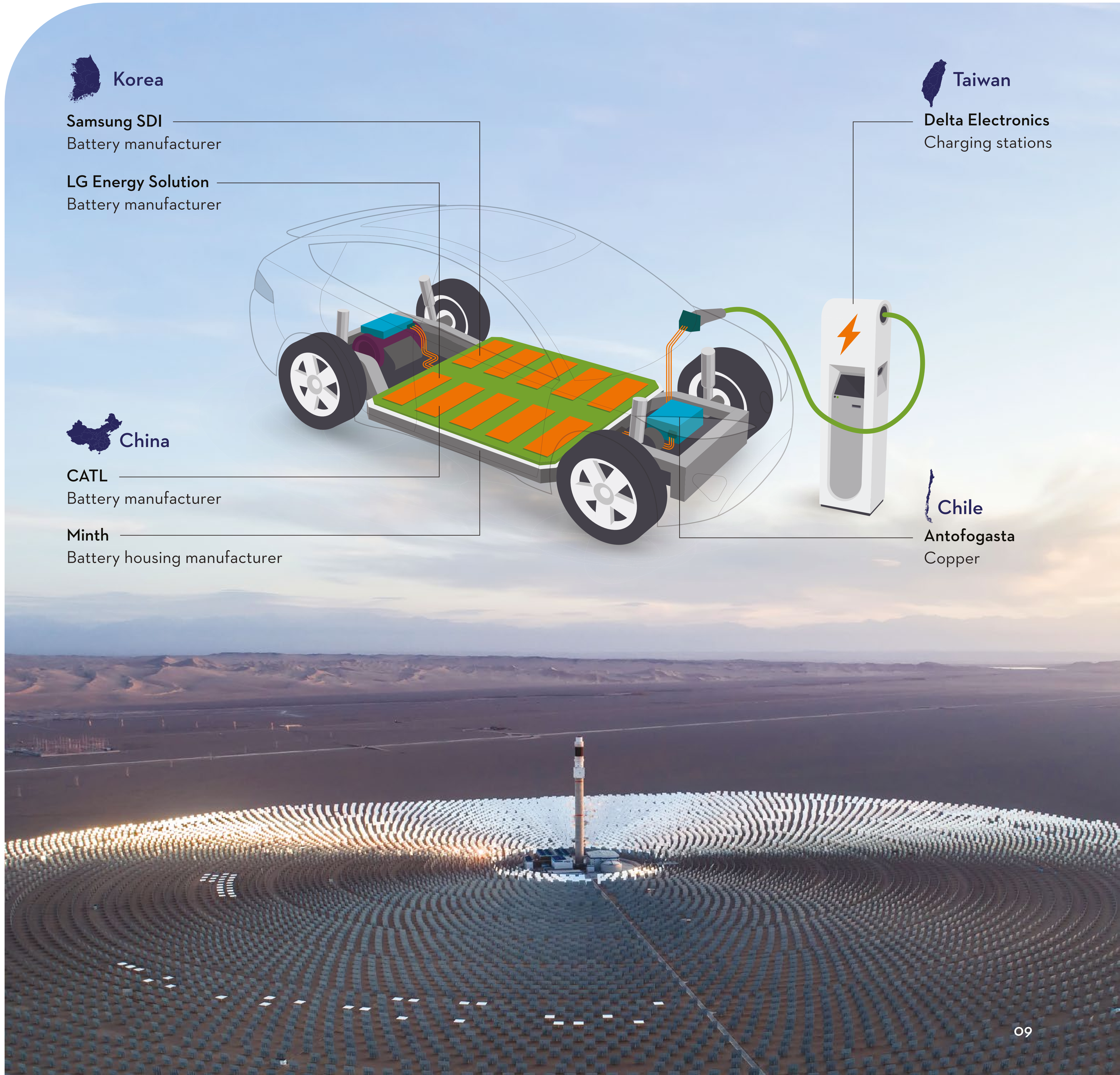
Like the electric vehicle value chain, renewable energy has a diverse ecosystem. Semiconductors are fundamental to the development of renewable energy infrastructure, at the heart of wind, solar and electrical grid systems. Taiwan's **TSMC** is a world leader here.

Industrial technology also has role to play. China's **Shenzhen Inovance** specialises in industrial automation, the firm's products are closely to aligned to the manufacturing of components for sustainable energy infrastructure.

Increase competitiveness and reduce risk

While some EM countries have less-than-ambitious net zero targets, it is becoming increasingly critical for EM companies to introduce carbon reduction targets to remain competitive. Multi-national firms are increasingly imposing sustainability criteria on suppliers. Those who do not meet these risk losing contracts or being excluded from global supply chains. Conversely, those introducing carbon reduction measures can benefit through cost savings from improved energy efficiency and waste reduction.

From our perspective this highlights the need to undertake rigorous stock-level research to provide an appreciation of each company's sustainability positioning, and its impact on the longer-term investment case.



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Engagement and Proxy Voting Statistics 2023

Firm-wide engagements

29	Markets covered
233	Companies engaged
647	Total engagements

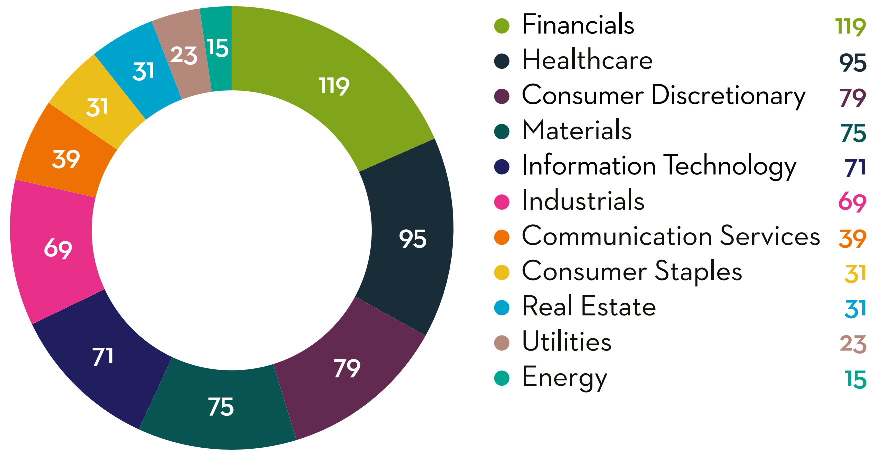
Top engagement topic: Governance – Board, directors and committees

Firm-wide proxy voting

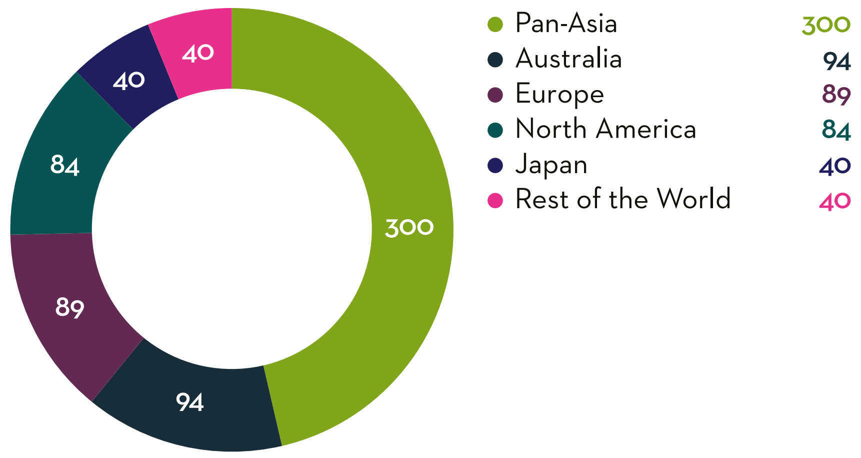
34	Markets covered
530	**Total shareholder meetings**
160	Meetings where we voted against management

Top voting topic against management: Director related

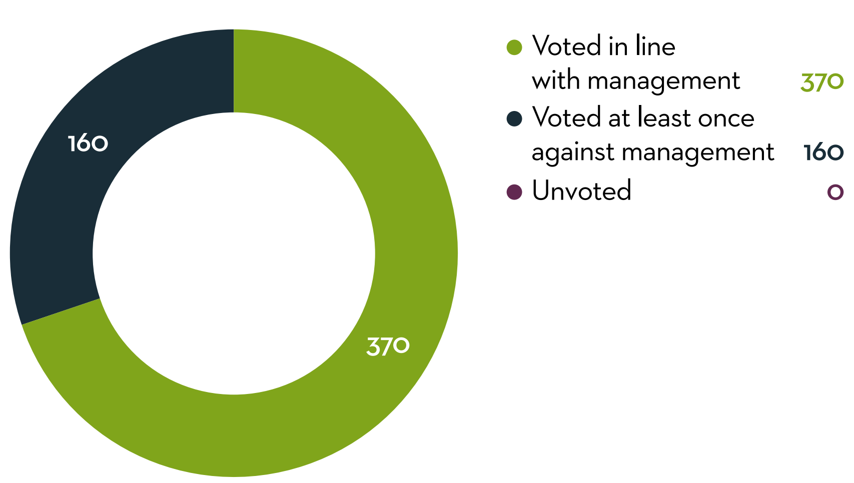
Engagements by sector



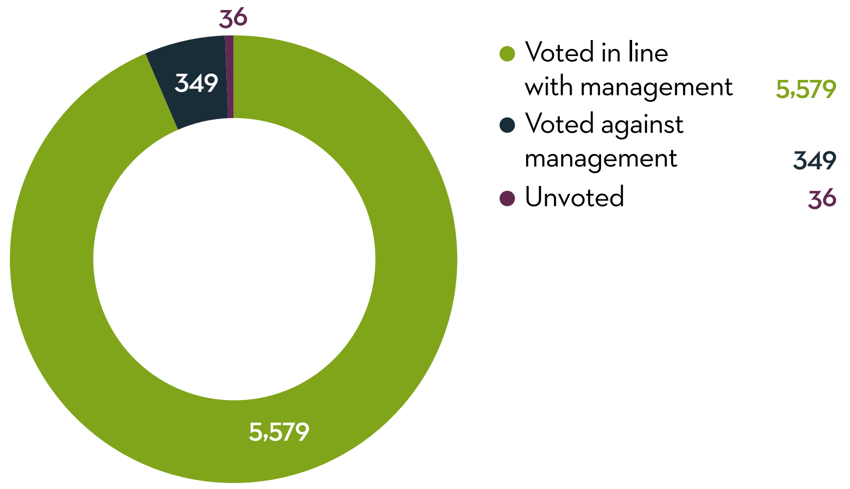
Engagements by region



Total meetings

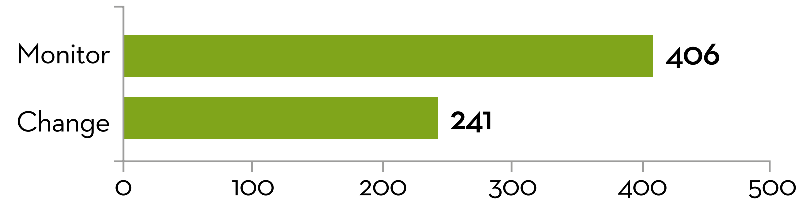


Total resolutions

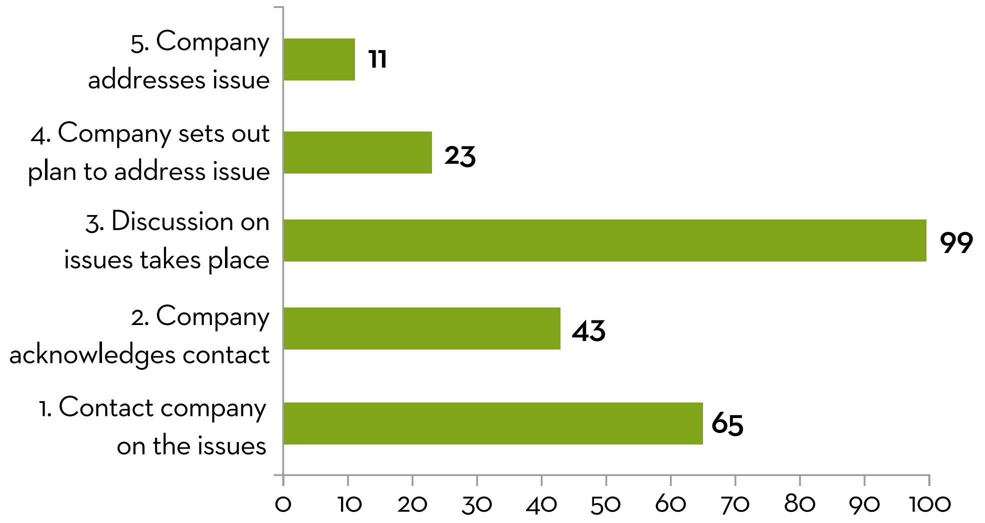


Engagements by topic

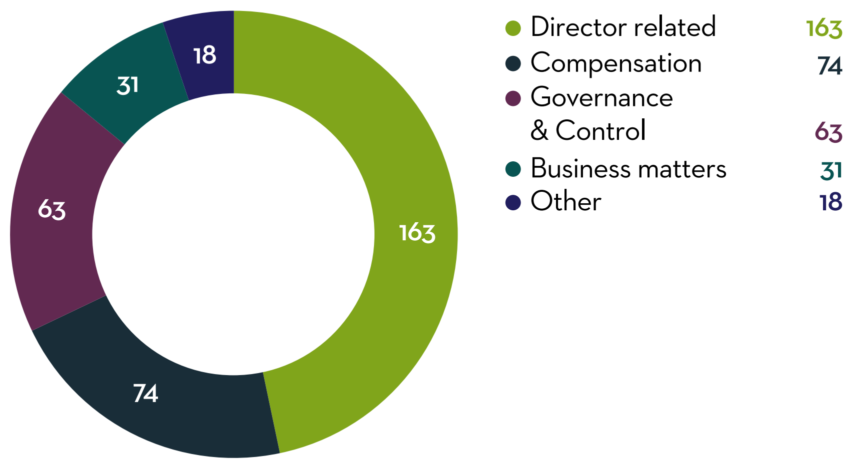
Purpose of engagement



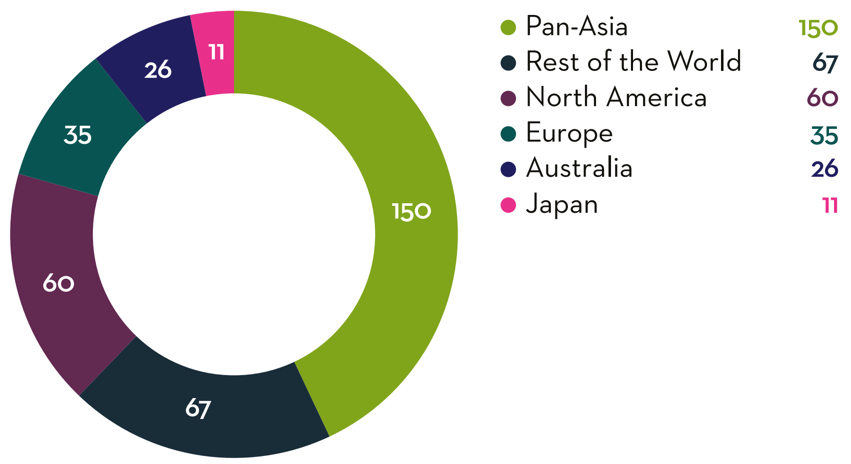
Stage of completion for change



Resolutions voted *against* by proposal type



Resolutions voted *against* by region



Source: Martin Currie, 12 months to 31 December 2023.

Our approach to NZAMI

Martin Currie signed up to Net Zero Asset Managers Initiative (NZAMI) in July 2021. One year on in Stewardship Matters VII (July 2022), we stated making the commitment was the easy part – now the hard work begins.

So where are we now, what progress have we made? Our approach to achieving net zero covers five aspects. We address each one in turn.

- Partnering with clients to commit assets
- Supporting all clients through disclosure
- Setting our framework for analysis and measurement
- Taking on a transformative role through engagement
- Playing our own part

Partnering with clients to commit assets

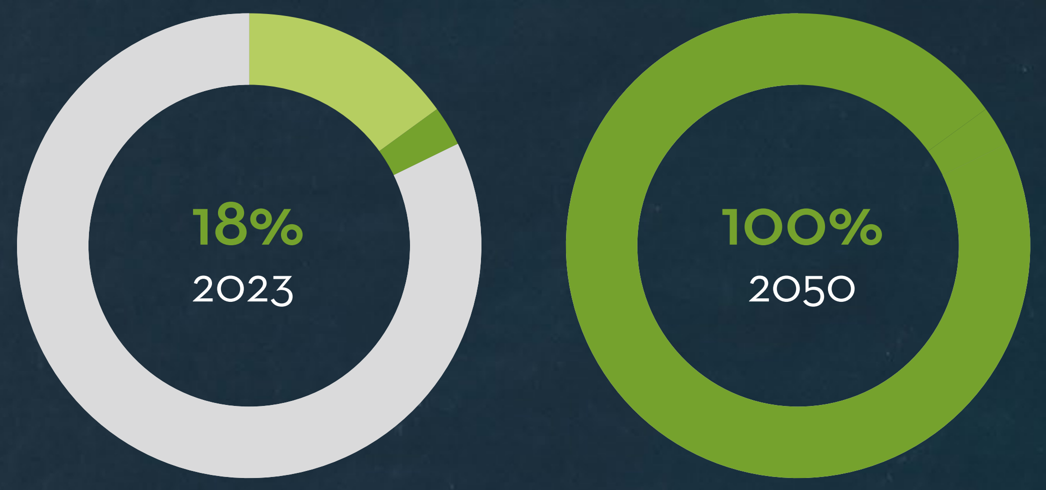
Being a signatory to NZAMI means setting firm level targets on the proportion of assets managed in line with Net Zero and the Paris Agreement.

We have an ambitious target of committing 100% of assets by 2050. With c. 18% committed, there is still much work to be done. This is understandable as our diverse client base are at different stages in their journeys and commitment.

To play our part we will continue actively engage with our institutional client base.

After initially committing 15% of our assets in 2021, this has increased to 18% as of 31 December 2023.

But our long-term commitment is 100% of assets by 2050.



MAKING THE COMMITMENT TO NET ZERO

> *Making the commitment was the easy part – now the hard work begins.*

Supporting all clients through disclosure

We are committed to providing market-leading transparency and disclosure on net zero to all our clients. Through our regular reporting, we aim to cover from targets set and progress made to emissions and climate risk. Most of our client reports now include a full breakdown of the carbon profile (see diagram). We have also begun rolling out breakdowns of the portfolio holdings alignment and progress for achieving science-based target (SBTs) on net zero.

The majority of client reports now include a carbon profile look through versus the market index

This includes the sensitivity of the portfolio to climate transition risk*

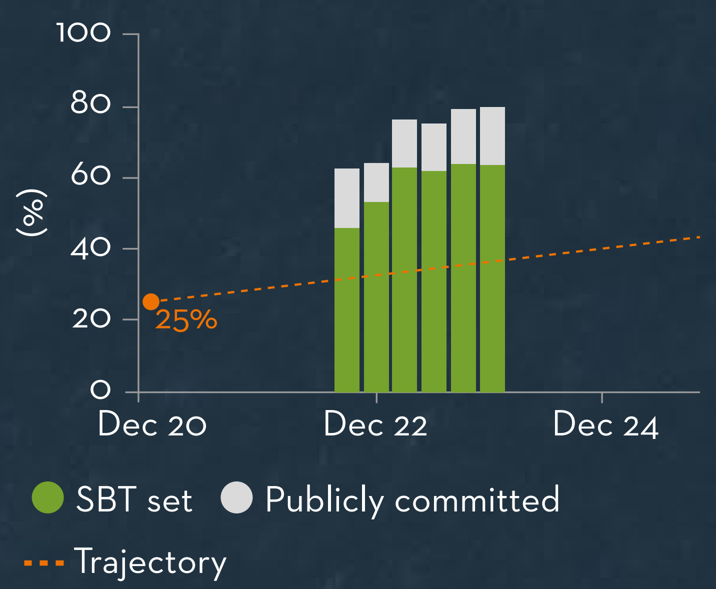
Along with our holdings' carbon emissions and fossil fuel reserves

Chart shown for illustrative purposes only.

*Carbon Cost Analysis

On portfolios committed to the Net Zero by 2050 – we are showing the trajectory

Science-Based Target status and goal setting



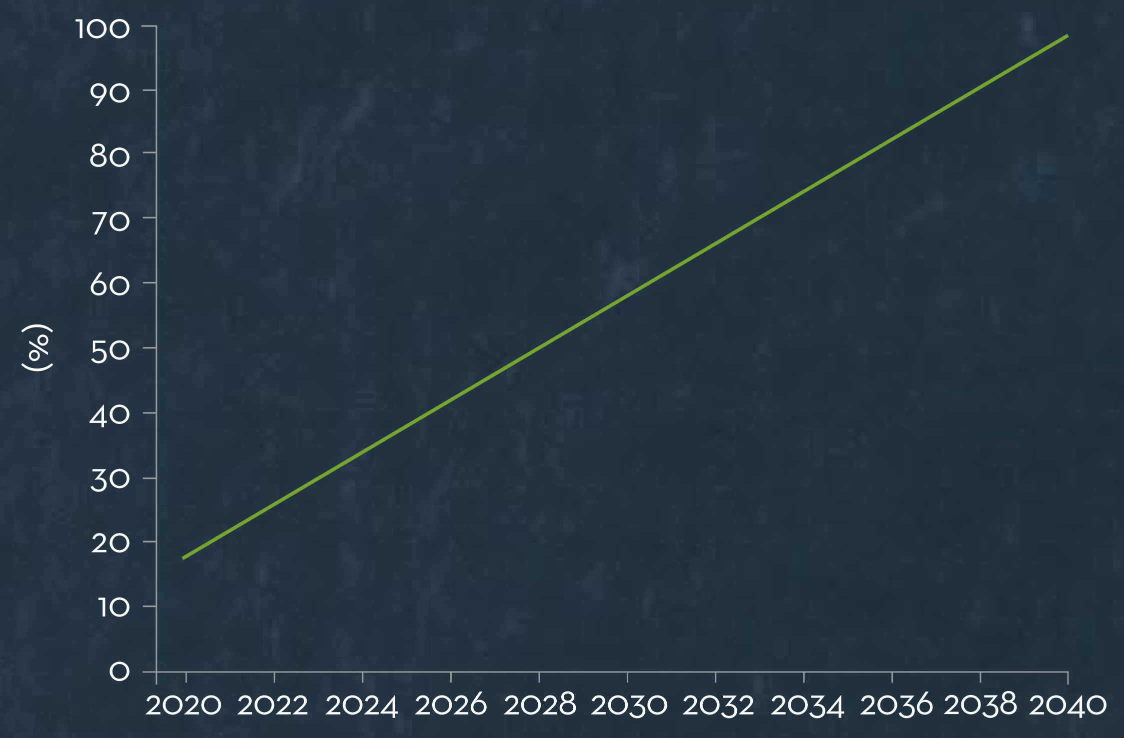
Setting our framework for analysis and measurement

As a signatory we are also required to set portfolio-level targets for committed assets. This is the percentage of companies in our portfolios that have set SBT consistent with a 1.5ºC pathway.

We expect 100% of investee companies in committed portfolios will have set a targe by 2040. We fully acknowledge that adoption rates will vary – in some sectors, Net Zero methodologies are yet to be agreed. So our expectations will vary according to circumstances but this is one of main drivers of our engagement-driven strategy.

Our portfolios are seeing a general increase in percentage weight that is invested in companies with Net Zero targets. This is a reflection of firms translating Net Zero commitments into verified targets. Our forthcoming TCFD report will provide greater transparency, and we cover this in more detail in the net section.

Portfolio coverage target line (2020 baseline)



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

Taking on a transformative role through engagement

Engagement is at the heart of how we have been working to achieve our Net Zero ambitions. In 2023, we undertook over 70 engagements related to science-based targets, and over 100 on wider climate change issues. This represents over a quarter of our total engagement activities.

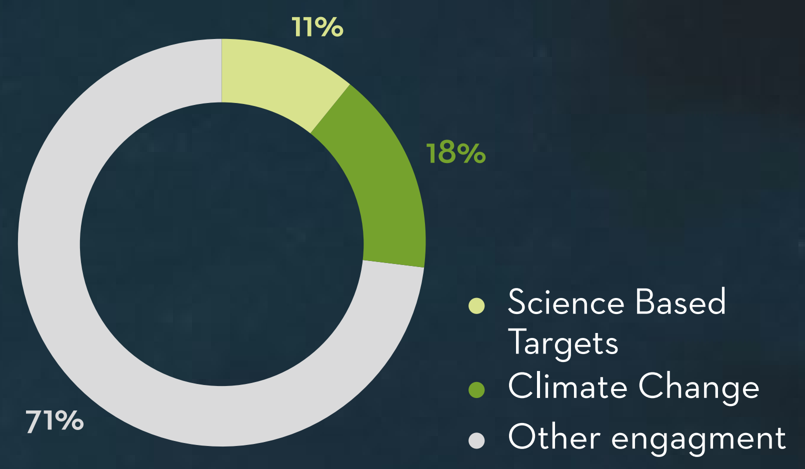
We strengthened our framework for climate change engagements. As shown below, our assessment is based on six categories from 'No Action' to 'Achieving Net Zero'.

In our engagement activity we consider a firm's overall awareness of climate risk. We want to understand the emission disclosures, the reduction strategy, and the ambitions for aligning to Net Zero. In high impact sectors, how is the firm's capital expenditure aligned to emission reductions? Are the financial statements aligned with the climate ambitions?

Through these efforts we aim to support investee companies moving from their current position in the transition to the top category 'Achieving net zero'.

Over a quarter of our 2023 engagements were related to science-based targets and climate change

2023 engagement



Source: Martin Currie as at 31 December 2023.

Our six criteria for assessing Net Zero progress

Playing our own part

Crucially, we have to turn the lens on ourselves as a business and set ambitious targets aligned with the climate science. Reducing our own emissions as a business provides credibility when we are asking our investee companies to do so too.

We acted on our commitment to offset 200% of our residual emissions in 2022. This involved using third party validation of our emissions and investing in robust carbon offsetting projects under the Plan Vivo standard (verified emission reductions through community projects). In recent years we have fulfilled this promise by supporting projects protecting and restoring indigenous forests in Uganda.

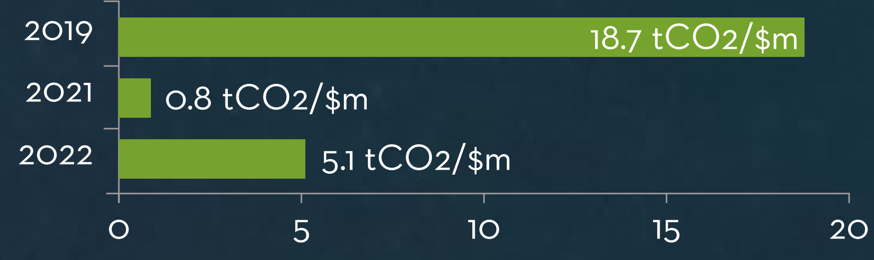
We will update on our latest progress on emission reduction in the 2024 Annual Stewardship Report, available in early Q2 this year.

We have set ambitious targets in relation to our own Carbon Footprint. We have made a commitment to:

50% by 2030 — Reduce our Carbon Intensity by 50% before 2030 (from 2019 level)

200% — Offset 200% of any remaining emissions to become a carbon neutral business

Emissions intensity figures:



Source: C-Level, based on carbon data for 2022, provided by Martin Currie.

TCFD reporting:

a vital framework for dialogue in the path to Net Zero

What is TCFD?

In June 2017 the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) released a framework for companies and other organsations to develop more effective climate-related financial disclosures. The framework for disclosures sought to balance the needs of the users (financial institutions such as ourselves) with the challenges facing the underlying companies. This has the aim of creating a singular accessible framework for climate-related financial disclosures. The framework consists of 11 recommended disclosures covering governance, strategy, risk management, and metrics and targets.

Disclosure is coalescing around TCFD recommendations

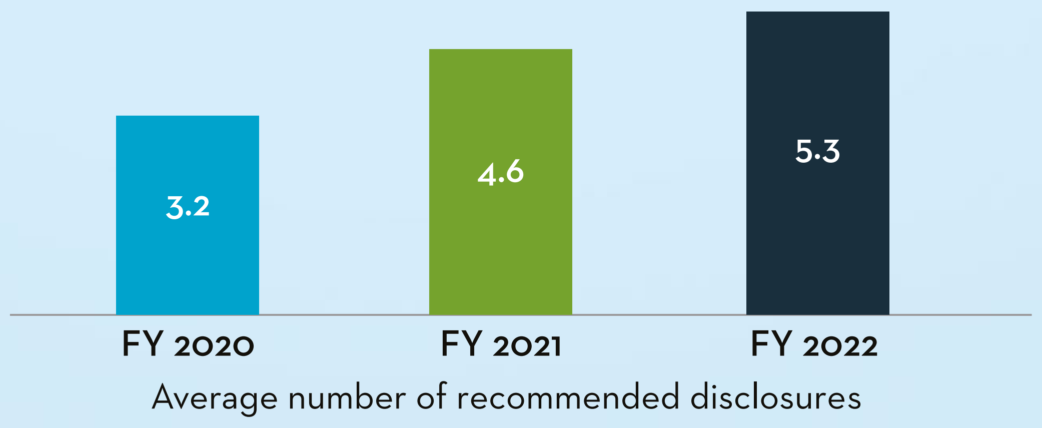
In establishing the framework, the TCFD emphasised the importance of transparency in pricing risk - including risk related to climate change - to support informed, efficient capital-allocation decisions. It has also been a key driver of greater consistency in climate-related disclosures and has formed the basis for a number of far-reaching disclosure regimes. These include the PRI, CDP and most recently the International Sustainability Standards Board's (ISSB's) release of its climate-related and general sustainability-related disclosure standards. Regulators have also adopted the recommendations and increasingly require mandatory disclosures in line with the TCFD recommendations including, for example, the UK FCA.

TCFD recommendations are increasingly being adopted

The TCFD has broad support in the markets – in 2023 there were more than 4,850 supporters including corporates and financial institutions. Martin Currie is one such supporter. The TCFD has also published a 'Status Report' each year since the implementation of the disclosures which provides an overview of how aligned current climate-related financial disclosure practices are to TCFD recommendations. To assess the current state and evolution of climate-related financial disclosures, the Task Force reviewed reports of more than 1,350 public companies over a three-year period — fiscal years 2020, 2021, and 2022 – and in 2022 also looked at a broader set of around 3,100 companies. This latest status report shows a continued rise in adoption of the TCFD recommendations. TCFD reporting is described as a 'journey' and while a relatively small proportion of companies are currently aligned with all 11 recommended disclosures, the proportion has continued to increase across the entire range.

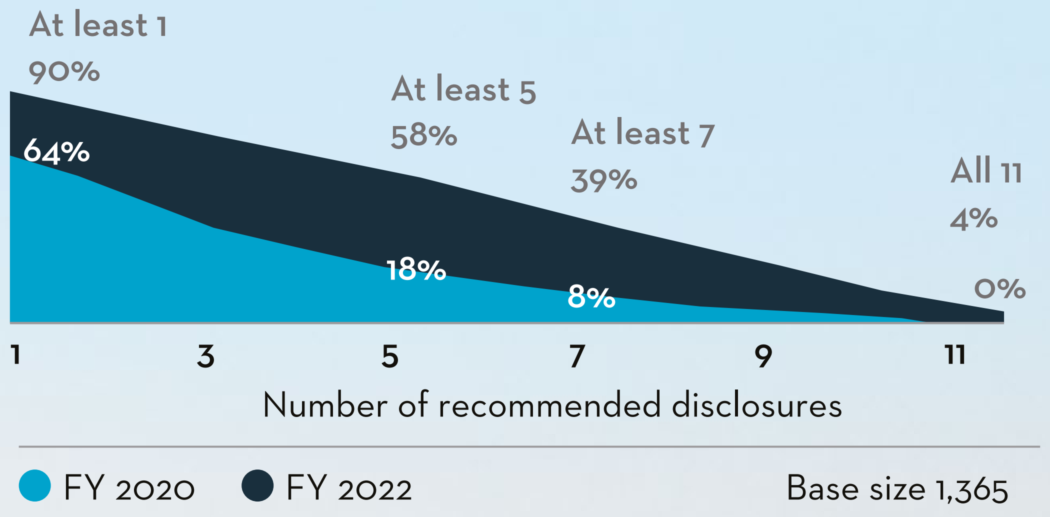
AI review of results for fiscal years 2020-2022

Average number of disclosures per company



Base size 1,365

Percent of companies disclosing



Base size 1,365

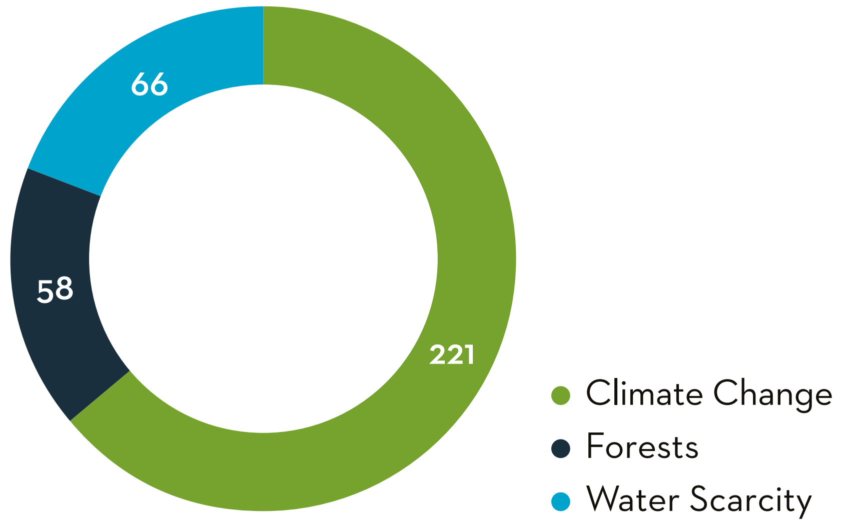
Source: Financial Sustainability Board, *2023 TCFD Status Report: Task Force on Climate-related Financial Disclosures*, 12 October 2023.

We can encourage reporting as part of the CDP NDC

The CDP was established as the 'Carbon Disclosure Project' in 2000, asking companies to disclose their climate impact. Since then, the CDP has broadened the scope of environmental disclosure to incorporate deforestation and water security. The disclosures are aligned with the TCFD recommendations and provide an essential, consistent data source for investors. Each year, in parallel with the main disclosure requests made to almost 15,000 issuers, the CDP runs a non-disclosure campaign (NDC). It targets companies failing to disclose their data in previous years via CDP disclosure requests. In the case of the NDC, this relies on direct engagement from participating financial institutions, such as ourselves, to lead with company engagements. We have actively participated in this effort over the last few years; it is an important opportunity to work with portfolio companies to encourage disclosure to CDP where this is not already in place. In 2023, of the 1,590 non-disclosing companies engaged by financial institutions, 317 companies disclosed through CDP for the first time[1]; a response rate 2.2 times higher than among those companies not engaged.

[1]Source: CDP, *2023 CDP Non-Disclosure Campaign: Results Report*, January 2024.

Disclosure topics for the 317 companies newly disclosing through CDP in 2023



Source: CDP, 2023 CDP Non-Disclosure Campaign: Results Report, January 2024.

Paving the way for Net Zero

As a supporter of TCFD we encourage the companies that we invest in, through private as well as collaborative engagement, to make disclosures aligned with the TCFD recommendations. As a signatory to NZAMI and as a regulated entity in the UK, Martin Currie will make our own TCFD aligned disclosures. These disclosures consist of both an entity level report which will describe our approach to Governance, Strategy, Risk Management and Metrics and Targets, and product-level reports for those funds that are managed by the UK regulated entity.

These disclosures will detail the oversight structures for climate-related risks, how these risks or opportunities influence business and investment strategy, how they are identified and managed, and detail the targets that we have set, for example with regards to NZAMI and also for our business operations.

The recommendations of TCFD provides a vital framework as we progress towards the Net Zero. Through disclosure, companies and financial institutions can better understand the climate impact created as a result of their operations, and be held to account for minimising it. As an asset manager, we play a crucial role in encouraging companies to report in line with TCFD recommendations because we are in a position to have an impact and lead through example.

> *In 2023, of the 1,590 non-disclosing companies engaged by financial institutions, 317 companies disclosed through CDP for the first time[1]; a response rate 2.2 times higher than among those companies not engaged.*

MEET THE MANAGER

Catching up with Andrew Mathewson, Portfolio Manager within Global Emerging Markets

Tell us about your background and investment experience?

I've been an equity investor for more than 20 years. I'm currently a portfolio manager of our Global Emerging Markets (GEMs) strategy with responsibility for researching stocks in the consumer sector.

I joined Martin Currie in 2005 from the Scottish Investment Trust, where I was an investment manager for UK equities.

I'm responsible for the overall management of our Emerging Market team and I'm also a member of the Martin Currie Stewardship & ESG Council.

What's your view on sustainable investments and the role that you can potentially play in moving towards net zero?

The discussion often focusses on the negatives; risks businesses face and the cost of implementing measures to reduce emissions. However, in the emerging market equity space we see many opportunities to invest in companies that offer world leading solutions that are helping industries make the transition. Our long-term investment approach can benefit from investing in these global leaders based in emerging markets. We believe these businesses can deliver low-cost solutions to drive the journey towards net zero whilst also offering attractive returns to investors.

Tell us about the clients that have signed up to Net Zero Asset Managers Initiative (NZAMI)?

Our GEMs strategy has a truly global client base from North America to Australia. We've been engaging with clients over the past couple of years and out of USD7.2 billion, exactly a third of the assets we manage are aligned to NZAMI. Set against the wider company percentage of aligned assets (c.18%) we feel that we've made good, positive progress in this area.

How do you approach this sort of topic with companies?

We actively engage to promote real change in investee companies where needed.

We'll usually set out our expectations of companies regarding climate change and how we prioritise, conduct and escalate engagements relating to climate risks and decarbonisation.

This will focus on disclosure, setting credible net-zero aligned targets and holding companies accountable for these goals.

Why is regular engagement important?

Engagement drives better outcomes for all stakeholders. Ultimately, we want to ensure that the interests of company management are aligned with our clients when making investment decisions. By engaging regularly, we can monitor the progress being made towards those goals.

Regular engagement places emphasis on topics such as governance, strategy and capital allocation, while also paying attention to sustainability issues like climate transition risk and the commitments being made towards net zero.

The focus in engagement is always on relevance and materiality and this is equally true for any engagement focused on ESG factors. The team sets annual key engagement objectives for every stock held in the strategy and then directly engage with companies on these matters.

Powerful conversations can lead to powerful outcomes. We seek a constructive dialogue around potential issues so that we can set out clear objectives for change.

What's the main purpose for engagement?

We want to identify and understand how companies are managing and mitigating the material risks to their businesses. Ultimately, we're in pursuit of companies that are robust and sustainable over the longer term. And engagement can help drive positive change.

What are your thoughts as we look to the year ahead?

I'm excited for the year ahead. We're at an interesting juncture as we enter 2024, where all five points of fundamentals, valuation, positioning, politics and policy are in positive alignment. This is a powerful combination, and we think it places Emerging Market (EM) companies and countries in a strong position. They're set to benefit from strong earnings growth, attractive valuation, a supportive fiscal and political environment and the prospect of a potential normalisation in global/EM asset allocations. We're curious to see how companies and the market respond to this favourable environment.

What excites you about this?

There are three things I'd highlight:

i) The return of EM growth stocks:

Firstly, in an environment of slowing global economic growth and peaking interest rates, emerging market growth stocks are well placed to lead the way in 2024. This is after three years of consecutive outperformance of value companies. While US growth stocks have already started to outperform, EM growth stocks have yet to play catch up.

ii) China – misconceptions create opportunities:

Secondly, recent misconceptions about China are now creating opportunities. The performance of the Chinese market has been a drag on overall EM returns. This has caused a disconnect between share prices and fundamentals. With signs of geopolitical repair and more domestic shareholder-friendly messaging around private businesses in the country, we think investors will start to reassess their cautious approach to China.

iii) Structural opportunities – technology and India:

Finally, we see structural opportunities in both technology and India.

Over the long term, technology has been the best performing sector in EM and represents around a fifth of the MSCI Emerging Market Index. The sector remains a fantastic long-term opportunity. Despite narratives around onshoring, the reality is that the global technology supply chain continues to be heavily reliant on companies within EM countries. These companies are essential for the advancement of global technology, providing investors with a good, diverse range of opportunities.

We think India is the greatest economic opportunity globally. Importantly, there's a rich presence of companies that display long-term structural growth potential and with well-regarded management teams. These range from luxury retailers that harness the power of technology in a market historically reliant on in-person service, to retail and corporate banks reaching historically underpenetrated parts of the market using technology and innovative business practices, or global industry-leading materials companies driving positive change in an environmentally lagging sector. We expect these types of companies to continue to ride the wave of the Indian economic opportunity.

How do you interact with the Stewardship, Sustainability & Impact (SSI) team?

Being a member of the Stewardship & ESG Council (the Council), I speak with David Sheasby, Head of SSI, regularly. The Council meets quarterly to oversee the corporate approach to sustainability including climate, biodiversity, human rights and regulation. It ensures that we are fulfilling our stewardship responsibilities and to provide a channel for assurance, feedback, evolution and improvement of our stewardship activities.

On a day-to-day basis, the GEMs portfolio managers are responsible for ESG analysis, proxy voting and engagement with our investee companies.

The SSI team regularly discuss a range of ESG topics with investment teams as part of our integrated approach to research. Recently they've been working with us to develop our approach to scenario analysis and provide guidance on alignment assessment and the extent to which investee company climate targets and ambitions are aligned with net zero.

Members of the GEMs team have also worked closely with the SSI team on collaborative engagements with investee companies as part of several PRI coordinated initiatives. The intrinsic value of a collaborative engagements is in shared insights and the ability to leverage collective expertise.

Do you collaborate with other investment teams within Martin Currie?

Yes, we collaborate with other investment teams to share investment ideas and insights. An example is the ESG Working Group that comprises representatives from each team, the Head of SSI and our Chief Investment Officer (CIO). This group focuses on building expertise and sharing best practice. It helps ensure broad consistency and efficiency in our overarching approach towards stewardship and sustainability.

GEMs developed an approach to assess the alignment of holdings with Sustainable Development Goals (SDGs) within the strategy. This was socialised amongst the other teams and ultimately became part of the framework used by all teams to report on Sustainable Finance Disclosure Regulation (SFDR).

What do you do in your spare time to relax?

Outside of work, I enjoy time with my family. I'm a volunteer coach for my children's rugby team and I'm a keen road cyclist.


"Outside of work, I enjoy time with my family. I'm a volunteer coach for my children's rugby team and I'm a keen road cyclist."

Recent Stewardship & Sustainability Insights

One significant observation over recent years has been the evolution of stewardship and sustainability and how to address a growing range of issues. Details of thought leadership that we have published on our *website* over the course of 2023 are as follows:

Improving Society: Three Pillars

Improving Society: 12 Days of Impact

Tales from the road: Semiconductors sustainability journey in Taiwan

Impact Report 2023

Stewardship Matters – Making an Impact

Martin Currie Investment Outlook 2024

Stewardship Matters – The Importance of Culture

Impact Investing is Now

NEWS ROUNDUP

PRI Principles for Responsible Investment

The latest news on our initiatives, regulatory changes and events.

Taskforce for Climate Related Financial Disclosures (TCFD) Reporting

We continue to work towards producing both entity and product level TCFD reports for June 2024. These will include our approach to governance, our strategy for identifying climate related risks and opportunities, and risk management, as well as a range of metrics used to assess and measure the impact of these.

New Generation Finance

Lauran Halpin spoke at the New Generation Finance conference in London in January 2024. This was an opportunity to discuss our Improving Society investment strategy while considering the theme of Maximising Return Through Social Impact.

PRI Ratings

We are delighted to share that the Principles of Responsible Investment (PRI), has awarded us a 5-star rating across all the categories relevant to our investment activities for 2022. This is a fantastic endorsement from the world's largest global reporting project for responsible investment. In 2021, under the new reporting framework, we were previously awarded two 5-star ratings and one 4-star rating.

The five stars have been awarded across the PRI's modules, which include the 'Public Governance and Strategy,' and 'Confidence building measures' that apply to all asset managers. We also received a five-star rating in the category of 'Direct – Listed equity- Active Fundamental,' which is specific to the equity asset class. Our commitment as a firm to integration, transparency and reporting our activities to clients has contributed to our ratings.

Copies of the PRI Public Transparency Report 2023 and the PRI Assessment Report 2023 for Martin Currie are available from our website: *Martin Currie Document Library*

EU confirms emission target, as UK confirms a halving of emissions

In February 2024, the European Commission recommended that the European Union (EU) slash net greenhouse gas emissions by 90% by 2040, from 1990 levels. The target is an ambitious one and is likely to test political appetite for continued action on climate change as certain measures continue to face pushback. Certain sectors face particular challenges, with farming particularly vocal about the efforts recently, while traditional industrial sectors note fierce competition from China. In response, and as part of an effort to take a "balanced approach", the specific target of a 30% reduction in farming emissions was removed from a previous draft. In order to achieve the target, the Commission pointed to the final phasing out of coal, continued reliance on nuclear energy and significant investments in carbon capture and green technologies.

With EU elections looming in June, the pursuit of the target may hinge on which political side of the spectrum is victorious.

While progress toward the EU's goal has been reasonable – cutting emissions by a third from 1990 to 2022 – the UK announced that it has halved its emissions over the same period, while growing the economy by 80%. The progress emanated from a shift in the energy production mix, with renewables up to 40% of electricity production (from 7% in 2010); and coal-based production falling from 40% in 2012 to zero later this year, potentially showing a path for others.

EU regulators crack down on ESG ratings

European lawmakers have reached an agreement to finalise the regulation of ESG rating providers, with increased oversight and transparency of the methodologies underpinning the ratings. Under the new rules, ESG ratings providers operating in the European Union (EU) will be required to register with regulators and comply with strict conflict of interest policies, quality standards, and reporting rules. The latest development comes amidst rising criticism of overreliance on ESG ratings from investors in guiding sustainability-linked investment decisions, with the lack of regulatory guardrails raising concerns about potential greenwashing and risks from poor quality or unreliable ratings. By authorising the European Securities and Markets Authority (ESMA) to supervise ratings providers directly, the regulation aims to stamp out opacity and inconsistent standards.

Smaller, niche providers are likely to face heavier compliance burdens under the centralised oversight, however, exemptions are being considered during an initial transition period as a means of avoiding a reduction in competition. ESG ratings providers have long been the target of criticism, with the likes of Elon Musk highlighting their inefficiencies in assessing company performance. Overall, though, if done right, developing accountability structures in the EU can serve to enhance the credibility of sustainability performance benchmarks, while reducing avenues of attack for their critics.

Australia proposes new law on climate reporting

The Australian government has proposed a new law to establish a climate risk disclosure framework, introducing new reporting requirements for companies. The draft legislation amends the Australian Securities and Investment Commission Act 2001 and the Corporations Act 2001 to introduce standardised climate-related reporting requirements.

The proposals aim to help Australia take advantage of the economic opportunities of cleaner, cheaper and more reliable energy, while helping it manage climate change risks by ensuring businesses are making high-quality climate-related financial disclosures.

The Treasury department also commented that proposed changes would give investors and companies the transparency, clarity and certainty they needed to make informed decisions investing in new opportunities as part of the net zero transformation.

The draft legislation will give companies the chance to expand their capacity to make high-quality climate risk disclosures as it provides them with early visibility of the proposed reporting requirements. The proposed rules also include measures to expand the breadth of entities required to report over time. The consultation period for the draft legislation closed on 9 February 2024.

In September 2023, the Australian government agreed to publish a statement on the Department of Treasury's website flagging that climate change represents a significant risk for the Australian economy in a landmark settlement.

Climate Action 100+ found in October 2023 that many heavy emitting Australian companies are not doing enough to meet short-term net zero targets, despite steady progress in the making of commitments and disclosure.

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