

# SHAREHOLDERS' RIGHTS DIRECTIVE (SRDII) REPORT TO 31 DECEMBER 2022

FTGF Martin Currie Global Long-Term Unconstrained Fund

(Formerly known as Legg Mason Martin Currie Global Long-Term Unconstrained Fund)



MARTIN CURRIE

A Franklin Templeton Company

MARCH 2023

## 1. Introduction

As an active manager of long-term concentrated portfolios stewardship sits at the heart of our approach to investment. We are motivated by a belief that this both helps protect and enhance the risk-adjusted return on our clients' capital. Ultimately, we want to ensure that the interests of company managements are aligned with their shareholders (our clients), and that the former take this into account when making decisions. We place a particular emphasis on governance, strategy and capital allocation, and pay significant attention to material 'sustainability' (environmental or social) issues that might influence long term value creation. Our stewardship activity manifests itself principally in monitoring and engagement - both privately or in collaboration with other investors - and our voting activity. With regards to the former we build strong relationships with investee companies, ensuring that our engagement is not constrained by our clients' minority-shareholder status. Nonetheless, we will join collaborative efforts, particularly when deemed likely to be more efficacious than acting alone. Our voting policy is determined by our internal guidelines, with an expectation that companies will comply with (local) best practice or explain why this is not the case. Where clients assign us proxies we will vote with their best interests in mind. When voting against management we endeavour to inform them of our rationale for doing so in advance of the vote so as to allow due time for a response. All resolutions are reviewed in this context, with the responsibility for initial proposals residing with the investment team with oversight by our independent Stewardship, Sustainability & Impact team. As well as our internal research, we utilise the services of proxy advisor Institutional Shareholder Services (ISS), which provides its own research on resolutions presented for company meetings. We use their platform to instruct the votes. Our governance and oversight documents, which apply across all regions, are reviewed annually, to ensure that we stay abreast of developments and best practice.

## 2. Portfolio commentary - Martin Currie Global Long-Term Unconstrained investment team

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

The Martin Currie Global Long-Term Unconstrained (GLTU) strategy targets long-term capital appreciation with outperformance of the MSCI ACWI over rolling five-year periods.

Our investment philosophy is that proprietary fundamental research can identify long term value-creating companies undervalued by the market. We elaborate on this below:

- The market is myopic and fades returns of quality growth companies too fast
- Our proprietary fundamental research framework is able to identify these companies
- Value creating companies compound returns over the long-term

Our objective is long-term capital appreciation, in delivering this return we would expect to outperform the MSCI ACWI over rolling five-year periods.

Returns are driven by stock selection and as an unconstrained strategy we have no limits on regional or country allocations. Risk management is embedded at every stage of the process providing full visibility on all aspects of the portfolio and the delivered outcome.

Governance and sustainability analysis is integrated into our approach with our analysis focusing on those factors that are potentially material to the investment case. We engage with companies both to build our understanding and to focus on change where we identify potential risks or an opportunity for improvement.

This strategy aims to generate significant real returns over the longer term and is unsuitable for investors who want short-term outperformance relative to an index.

### How is the Fund managed in-line with the Prospectus?

The investment team maintains a strong understanding of their mandates and prospectus investment guidelines, and they are the first line of defence in our 'three lines of defence' model. The second line of defence is our Risk and Compliance team which uses a monitoring system called Bloomberg CMGR to code investment guidelines where possible. The third line of defence is internal audit which conducts periodic review and assessment of mandate compliance controls within the first and second lines. Portfolio managers receive regular daily portfolio positioning data generated from Bloomberg AIM, allowing them to monitor compliance with fund investment restrictions.

## 2.1. Commentary on specific Fund investments

Our aim when producing our proprietary governance and sustainability risk ratings is to provide fundamental insight into material ESG issues that can influence long-term returns for companies, to assess where the companies in which we invest can have a material impact on key common ESG issues such as climate change, human rights, cyber security and workers' rights and to highlight potential areas for engagement. The level of research and engagement varies depending on region, sector and, critically, the materiality of the issues in question. The overarching aim is to assess the extent to which ESG factors will contribute to, or detract from, the long-term value creation of a firm.

The top five holdings in the fund on an absolute basis and their respective Governance and Sustainability risk ratings are as follows:

| Stock name     | Sector         | Fund weight % | Index weight % | Active Weight % | Governance Risk Rating | Sustainability Risk Rating |
|----------------|----------------|---------------|----------------|-----------------|------------------------|----------------------------|
| ASML Holding   | Technology     | 5.69          | 0.39           | 5.31            | 1.83                   | 1.60                       |
| Linde          | Materials      | 5.41          | 0.29           | 5.12            | 2.67                   | 3.20                       |
| Microsoft Corp | Technology     | 5.21          | 3.02           | 2.18            | 2.33                   | 1.80                       |
| Resmed Inc     | Health Care    | 4.46          | 0.05           | 4.40            | 2.17                   | 2.00                       |
| L'Oreal        | Consumer Goods | 4.29          | 0.15           | 4.14            | 2.33                   | 1.40                       |

Source: Martin Currie as at 31 December 2022. FTGF Martin Currie Global Long-Term Unconstrained Fund. Index: MSCI AC World Net Dividends Index (USD). We use a range of quantitative and qualitative inputs to identify each company's potential exposure to ESG risks as well as its management of ESG risks. This ESG risk analysis helps us form a company specific rating for Governance and Sustainability (environmental and social) respectively. We apply a risk rating from 1 (low risk) to 5 (high risk).

Below we summarise the key ESG risks across the top five holdings and provide further commentary from the fund where we feel warranted.

**ASML Holding.** ASML has established an unparalleled franchise in the leading-edge lithography equipment (in particular, for extreme ultraviolet (EUV) machines). As Moore's Law (an expectation that the speed and capability of our computers increases every couple of years although the cost decreases) continues, even if at a slower rate, more sophisticated lithography machines enable innovation across the value chain. ASML believe that resource scarcity and climate change will be significant drivers in growth of semiconductors, as both solar and wind power requires a high semiconductor content. Electric mobility particularly autos will also be a key driver, with electric vehicles having a far higher requirement for semiconductors than their internal combustion engine counterparts. Notable ESG strengths, in our view, are strong management and the board, customer trust, and responsible supply chain management. A renewed geopolitical drive for chip self-sufficiency in the US and Europe also bodes well for future equipment orders. Taxation risk is one of the major ESG risks within common factors that we are monitoring. We are also focusing on cyber security as a risk factor, given a high amount of intellectual property in ASML's operations and business practices.

**Linde.** A global leader in industrial gas production was established in 2018 from the merger of Germany's Linde AG with the US's Praxair. A resilient and geographically diverse business, it has high exposure to fast-growing emerging markets, largely inherited from the German entity, combined with a solid base in the Americas. Linde exerts strong pricing power from its leading positions in the regions in which it operates. A major player across the entire hydrogen value chain, Linde looks ideally positioned as its customers seek low carbon energy sources. This is a long-term opportunity, likely to meaningfully impact Linde's business in the late 2020s. As the opportunities will be capital-intensive, forming partnerships will be the key to success. Most of the world's hydrogen is produced using the carbon-intensive Steam Methane Reforming (SMR) method. Indeed, Linde uses SMR

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in its hydrogen production. Increasingly hydrogen production by SMR is being replaced by the green hydrogen method. This is produced using electrolysis technology powered by renewable energy sources, for example, wind or solar. Linde claims to be the largest operators of green hydrogen, with 80 hydrogen electrolyzers in a joint venture with ITM Power. While the aim is to phase out SMRs over time, for now, for every ton of CO<sub>2</sub> emitted by Linde, its customers avoid emitting more than two tons\*. CEO Sanjiv Lamba set 2021-28 sustainability targets for the company. Linde aims to reduce GHG emissions intensity by 25% and to double its annual purchase of low carbon (solar, wind, hydro, nuclear) energy in that time frame. The recent establishment of a Sustainability Committee to provide oversight on environmental matters is welcome, and at the 2022 AGM, sustainability targets were embedded into financial incentives for management.

\*Source: company supplied information in meeting on 3rd September 2021.

**Microsoft Corp.** Microsoft is set to benefit from an increased share of growing technology intensity and IT spend globally; for example, through integrated offerings such as 'Azure' (preferred in the hybrid environment) and collaboration software 'Teams'. In security, Microsoft is also going for end-to-end user integration. Competitive pressures, however, remain in cloud computing. Generally, the Software as a Service (SaaS) landscape continues to evolve, with new disruptive business models emerging. The market has also been questioning whether a continued margin improvement is going to enhance Microsoft's growth algorithm. Meanwhile, we are cognisant of an M&A risk, for example in the consumer arena, where Microsoft has a mixed track-record and so far, has stayed clear of the social networks. ESG strengths, in our view, are strong management and a relatively diverse board. We note Microsoft's positive contribution to tackling climate change and social issues with such initiatives as 'AI for Earth' and various educational programmes. There has been some incremental positive change to executive compensation, but remuneration and broader human capital management practices are the main ESG risks we continue to monitor.

**Resmed Inc.** The company is a global leader in the development of medical devices and cloud-based software applications that diagnose, treat, and manage respiratory disorders including sleep disordered breathing (more commonly known as sleep apnea), asthma and chronic obstructive pulmonary disorder (COPD). The company has a very attractive long-term revenue growth outlook. It is estimated that more than 424 million individuals globally have moderate to severe sleep apnea, with the percentage diagnosed below 20%\* and the percentage treated by ResMed below 3%\*, despite the company being market leader. The combined potential patient base including asthma and COPD numbers in excess of 1 billion globally. We have continued to engage with management to gain comfort with board structure and composition, given the presence of the current CEO and previous CEO (and founder). We see this as having been substantially addressed with several recent additions bringing diversity, relevant experience in technology, route to market and local emerging markets, and the decision in 2022 to declassify the board. Cybersecurity is an area we continue to monitor given the company's position as a connected device manufacturer with data on millions of active patients and clinical trial participants. One ongoing point of focus is the use of plastics in disposable components contributing to an increased environmental footprint, although this must be weighed up in the context of superior healthcare outcomes, lower costs, the reduced carbon emission and waste because of a reduction in hospital visits. We also have had an ongoing dialogue with management on remuneration since they have moved away from a relative total shareholder return (TSR) scheme due to a lack of suitable peers towards absolute return and an absolute earnings figure. It is important if using absolute metrics that ambitious but achievable targets are set, and while operational performance has been strong and we see targets as reasonable, we continue to communicate that we think the compensation plan can be improved from here.

\*Source: company data as at June 08, 2022.

**L'Oreal.** L'Oreal is the number one firm in global beauty (in 2021 by revenue\*), with market leadership maintained through strong research and development (R&D), and its marketing capability. Growth opportunities come from its leadership in the underpenetrated e-commerce market, and an Asian business harnessing increased travel in the region. At the forefront of sustainability, the 'L'Oreal for the Future' program has quantifiable objectives to limit its impact on climate change and natural resources, alongside social focused initiatives. The 'L'Oreal for the future' programme launched in 2020, has ambitious sustainability goals, backed by clear targets. On climate change, science-based targets are aligned with a 1.5-degree scenario, and it is committed to carbon neutrality across all its sites by 2025 (a process begun in 2005). This will be achieved through 100% usage of renewable energy and a 50% cut in greenhouse gases - all sites in USA and North Asia are now carbon neutral. Goals are also focused on its wider environmental footprint, banning raw materials linked to deforestation, by 2030 all bio-ingredients will be from traceable, sustainable sources, and 100% of sites will have a positive impact on biodiversity. Social engagement programmes are targeting reaching three million people by 2030, and in 2021 they had reached over 900K people.

\*Source company reports, August 2022. Based on 2021 beauty sales from the 10 leading global beauty companies.

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### 3. Fund review of turnover and turnover costs

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|                              |            |  |
|------------------------------|------------|--|
| Annual turnover %            | 52.36      | Lesser of (purchases or sales)/Average fund size x 100 |
| Fund transaction costs (GBP) | 179,596.51 | Total brokerage and execution charges                  |

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Source: Martin Currie as at 31 December 2022. FTGF Martin Currie Global Long-Term Unconstrained Fund.

### 4. Proxy voting

ISS is our proxy voting advisor and provides voting recommendations for Martin Currie in accordance with their own policy which is closely aligned with our internal policy. As appropriate, they engage with public issuers, shareholders, activists, and other stakeholders to seek additional information and to gain insight and context in order to provide informed vote recommendations.

Where clients assign us the proxies Martin Currie's starting point is to act in the best interests of our clients. Our voting decisions are informed by both our own internal work and that of our proxy advisor and specialist governance advisor. We assess voting matters on a case-by-case basis, taking into account a company's circumstances but are guided by our over-arching principles on good corporate governance. The assessment is carried out by the member of the investment team with responsibility for the stock in conjunction with our independent Stewardship, Sustainability & Impact team. We recognise that regulatory frameworks vary across markets and that corporate governance practices vary internationally. Where the recommendations of our advisors, both for and against proposals, are supported by our guidelines and our internal research we will generally vote in accordance with these recommendations.

#### 4.1. Significant votes

| Company Name                        | Masimo  | Ferrari  | Moncler  |
|-------------------------------------|---|--|--|
| Company descriptor                  | Medical technology firm                               | Sportscar manufacturer   | Luxury jacket manufacturer   |
| Issue                               | CEO remuneration and board oversight                  | Director overboarding and special voting shares  | Approval of 2022-2024 remuneration policy  |
| Governance, Environmental or Social | Governance  | Governance   | Governance   |
| Objective                           | Understand components of the CEO remuneration package | Concerns of two directors being overboarded. In addition, the board were proposing issues special voting shares. | Establishing whether company had addressed shareholder dissent from 2021 annual shareholder meeting. |

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## 4.1. Significant votes (cont)

| Company Name                                      | Masimo   | Ferrari  | Moncler   |
|---|--|--|---|
| <b>Scope and process (of relevant engagement)</b> | <p>Our proxy voting advisor recommended voting against the CEO remuneration package on the inclusion of double/modified single trigger cash severance clause, should the CEO leave. The policy itself is unchanged aside from adding a death and disability clause, which is common practice.</p> <p>We have engaged with management, but have fed back that our support is conditional on the following expectations in 2023. A board member with consumer expertise appointed, to see sufficient compensation metrics that capture the Sound United acquisition, and that achievements versus target in the long-term incentives should be disclosed at least ex-post.</p> | <p>We voted against the election of non-executive director Adam Keswick, in line with our proxy voting advisor's (ISS) recommendation. However, we did support the election of board member John Elkan, despite overboarding concerns due to relevance of the boards he sits on. We also voted against ISS recommendation, and approved incoming CEO's Benedetto Vigna's welcome bonus as we believed this was required to attract the right level of talent.</p> <p>Finally we voted against the board proposed to issue special voting shares as this is against the principle of one vote, one share.</p> | <p>In the annual shareholders meeting in April 2021, only 70% of shareholders voted to support the remuneration plan. Our proxy voting provider proposed voting against approving the remuneration on the grounds that shareholder dissent hadn't been addressed. We engaged with management and established the report for the April 2022 meeting had been prepared taking into account continuous dialogue with stakeholders. Therefore we were prepared to vote in line with management.. Additionally we also voted in line with management on the Performance Shares programme. ISS recommended against this on the grounds of the lack of disclosure on performance targets. The performance targets were disclosed to us, although we would like to see post-ante disclosure of targets.</p> |
| <b>(Voting) outcome</b>                           | <p>We voted in line with management and against our proxy voting advisor to support the CEO remuneration package.</p>  | <p>Voted against management on the election of Adam Keswick and introduction of voting shares. Voted with management for the election of John Elkan, and the CEO remuneration.</p>   | <p>Voted with management to approve both 2021 remuneration and the performance share plan, the was against our proxy advisor ISS's recommendation.</p>  |

## 5. Conflicts of interest

A fundamental ethical principle of Martin Currie is to pay due regard to the interests of our clients and to manage potential conflicts of interest fairly. We take a holistic view of conflict risk and conflict mitigation and have policies, systems and controls in place to identify such potential conflicts between ourselves and our clients, as well as between one client and another, to achieve consistent treatment of conflicts of interest throughout the business. We aim to manage any conflicts of interest that may arise and to ensure, as far as practicable, that such conflicts do not adversely affect the interests of our clients. A robust conflict management process is in place which is owned by the Executive Risk Group (ERG). Activities which could create a potential conflict of interest are recorded on the conflicts register and are reviewed by the business regularly to ensure that controls in place remain adequate to mitigate any risk of a conflict arising. The output of this review is reviewed by the ERG. There were no conflicts of interest in relation to this fund during 2022.

## 6. Securities lending policy

We do not participate in security lending for this fund.

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**The analysis of Environmental, Social and Governance (ESG) factors forms an important part of the investment process and helps inform investment decisions. The strategy/ies do not necessarily target particular sustainability outcomes.**

**Risk warnings – Investors should also be aware of the following risk factors which may be applicable to the strategy shown in this document.**

- Investing in foreign markets introduces a risk where adverse movements in currency exchange rates could result in a decrease in the value of your investment.
- This strategy may hold a limited number of investments. If one of these investments falls in value this can have a greater impact on the strategy's value than if it held a larger number of investments.
- Smaller companies may be riskier and their shares may be less liquid than larger companies, meaning that their share price may be more volatile.



**MARTIN CURRIE**  
A Franklin Templeton Company

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