

STEWARDSHIP MATTERS



MARTIN CURRIE

05 _____ INVESTING IN BIODIVERSITY



Biodiversity is the variety of life on earth and the ecological complexes that support the natural world and, by extension, many aspects of human activity that depend on it.

Introduction

Welcome to Edition 5 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 the important topic of **biodiversity**, and why and how investors should be working to protect it.

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A+ A+ A+

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

Top 9% Worldwide for Active Ownership*

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

*Listed Equity - Investment manager peer group.

Stewardship and ESG

Firmwide highlights:
Calendar year 2021

Engagements

32	Markets covered
227	Companies engaged
668	Total engagements

Top engagement topic:
Governance

Proxy voting

42	Markets covered
496	Total shareholder meetings
180	Meetings where we voted against management

Top voting topic against management:
Director related



Foreword



James Bentley

Director Sustainable
Lending at National
Australia Bank (NAB)

In the field of sustainable business lending, biodiversity has long been the poor cousin to climate change, resource efficiency, renewable energy, and waste management.

In the field of sustainable business lending, biodiversity has long been the poor cousin to climate change, resource efficiency, renewable energy, and waste management.

Without biodiversity, business would simply not exist, and yet the dependence of business on it has been largely obscured or remained too complex for most businesses to comprehend.

Critical inputs to society such as food, fibre, water, soil and a stable climate all depend upon the services that biodiverse ecosystems provision.

Investors can build upon climate risk capabilities to start to understand the impacts and dependencies across their supply chains upon biodiversity.

For example, our food systems depend upon pollinators, which in turn depend upon access to native vegetation.

For businesses such as **NAB**, lending to an agribusiness with fewer costs and reduced exposure to pesticide resistance is clearly a better bet.

On the heels of the UN Biodiversity Conference (COP15), and the pledge to end deforestation by 2030 at COP26, as investors, 2022 must be the year we change tack and take action

Businesses who understand biodiversity risks and opportunities can start to direct investments that build resilience and productivity and unlock new revenue streams from emerging ecosystem markets such as carbon offsets, biodiversity and water quality.

I am delighted that investors like **Martin Currie** are pushing investee companies for tangible targets and accountability for outcomes, as this latest edition of STEWARDSHIP MATTERS demonstrates.

*I am delighted that investors like Martin Currie are pushing investee companies for tangible targets and accountability for outcomes, as this latest edition of **Stewardship Matters** demonstrates.*



The scale of the biodiversity challenge



David Sheasby

Head of Stewardship and ESG

Biodiversity loss presents a real and tangible risk for business, and it is increasingly important that investors consider the potential impact that biodiversity loss might have on investee companies.

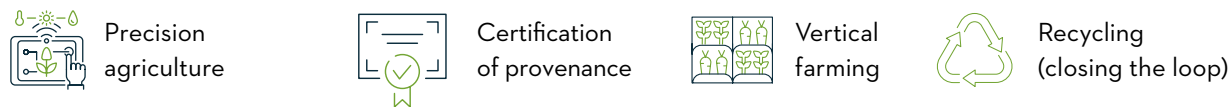
As James touched on in the foreword, investors have increasingly focused on climate change as a material issue, but the reality is that climate change and biodiversity are inextricably linked and a greater focus on biodiversity itself is warranted.

Climate change influences the pace at which biodiversity loss occurs, but equally, biodiversity can slow climate change, providing significant capacity to absorb carbon emissions and improve resilience.

The scale of biodiversity loss that we have already seen is astonishing. The key driver of this loss is human activity:



However, these drivers also provide some clues to the opportunities that lie in addressing biodiversity loss:



There remain some key challenges when considering biodiversity from an investment perspective, one of which is measurement. Unlike climate change risk, where the market has coalesced around carbon emissions as the metric, there is currently no obvious unifying equivalent for biodiversity. Furthermore, investors still lack consistent and transparent data from investee companies, which would enable them to truly incorporate biodiversity into their decisions.

¹Source: UNEP FI and UNEP-WCMC, June 2021. "Guidance for banks (Version 1: June 2021), Principles for Responsible Banking." UNEP Finance Initiative: Geneva. Available from <https://www.unepfi.org/wordpress/wp-content/uploads/2021/06/PRB-Biodiversity-Guidance.pdf>

The reality is that climate change and biodiversity are inextricably linked and a greater focus on biodiversity itself is warranted.

On page 5 we have highlighted the wide and varied metrics and targets that first-mover companies have created so far to try and address this.

Encouragingly, we are seeing biodiversity initiatives emerging that mirror the extensive work that has already been done on climate change. These include:

TCFD TNFD

The Taskforce for Nature-related Financial Disclosure (TNFD) builds off the widely accepted Task Force on Climate-Related Financial Disclosures (TCFD)

SBTi SBTN

The Science Based Targets for Nature (SBTN) leverages the growing momentum behind the Science Based Target initiative (SBTi).

There are also some interesting sector developments, such as the Principles for Responsible Banking (PRB)'s first guidance on biodiversity target setting¹. We have observed that regulators are looking at biodiversity as a potentially material financial risk, for example in elements of the upcoming European Sustainable Finance Disclosure Regime (SFDR).

For us as investors, a key element of how we approach biodiversity is to focus our efforts towards those companies where the potential impact or dependencies that they have is material. We have been leveraging our experience and strength in active ownership, notably engagement, to understand the investment risks and opportunities that arise from companies addressing biodiversity loss.

We discuss how we are fostering biodiversity as an investment thematic on pages 7-13.

Going forward, our focus will also be on identifying the frames of reference for the risk assessments and questions to support our engagements.

We provide insight into the ongoing work on our biodiversity framework on page 14.

Next quarter we will publish our Annual Stewardship Report. The July edition of the Stewardship Matters magazine will focus on the important topic of Diversity.

²Source: World Economic Forum, January 2020. "Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy". New nature Economy Series. Available from https://www3.weforum.org/docs/WEF_New_Nature_Economy_Report_2020.pdf

³Source: WWF, 2020. "Living Planet Report 2020. Bending the curve of biodiversity loss: a deep dive into the Living Planet Index." Marconi, V., McRae, L., Deinet, S., Ledger, S. and Freeman, F. in Almond, R.E.A., Grooten M. and Petersen, T. (Eds). WWF, Gland, Switzerland. Available from <https://f.hubspotusercontent20.net/hubfs/4783129/LPR/PDFs/ENGLISH%20-%20TECH%20SUPPLEMENT.pdf>

⁴Source: Royal Botanical Gardens, Kew, September 2020. "Kew State of the Worlds Plants and Fungi". Available from <https://www.kew.org/sites/default/files/2020-09/Kew%20State%20of%20the%20Worlds%20Plants%20and%20Fungi.pdf>

US\$44tn



More than half of the world's GDP is moderately or highly dependent on the biodiversity services that nature provides².

68%



Since 1970 vertebrate populations have declined by 68%³.

40%



An estimated 40% of plants are threatened with extinction⁴.

Snapshot of the state of biodiversity reporting

Acknowledging the importance of biodiversity to their businesses, some companies have begun to create their own biodiversity-related targets and metrics.

As can be seen in the following section, the methods companies have used to measure biodiversity-related targets are truly varied, and typically based on internally created factors and metrics rather than an industry wide standard.

We praise these companies for their first-mover efforts in this space and performance so far. These represent some of the best examples of metrics that we have come across to date for their respective industry sectors.

However, the lack of consensus around how to consistently evaluate and manage exposure to the financial risks and opportunities resulting from biodiversity, even within industry sectors, does limit their usefulness as investment tools.

As investors, we welcome the work that the TNFD is undertaking to create a consistent and comprehensive framework for organisations to report on nature-related risks within mainstream corporate reporting⁵.

 Company	Stockland (Diversified property group, Australia) ⁶	Fortescue Metals Group (Iron ore producer, Australia) ⁷	Brambles (Pooled pallet provider, Australia) ⁸
 Target	All new eligible master-planned residential communities to make an aggregated net positive contribution to biodiversity value.	Achieve a net positive impact on biodiversity. Achieve zero significant environmental incidents.	Zero environmental harm (eliminating deforestation while protecting, restoring, and promoting the sustainable use of forests). 100% chain of custody certification for all lumber supply by 2020.
 Key biodiversity factors	Impact on threatened species.	Impact on significant ecological communities. Noise and vibration. Environment-related incidents, fines, sanctions, or grievances.	Source of lumber.
 Measurement	Internal Biodiversity Calculator / Index developed by Green Building Council of Australia and Eco Logical Australia.	Internal Environment Policy, Biodiversity Standard and Environmental Management System framework.	Certification and verification.
 Performance versus target	FY 2020 Achieved a positive Index Score in the two projects assessed. Rehabilitated and restored native biodiversity on 165 hectares of land.	FY 2021 A\$2.6 m invested in research and conservation programs. Zero significant environmental incidents. Zero fines or sanctions.	FY 2021 100% certified sourcing. 69% chain of custody certification.






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.

⁵Source: Taskforce on Nature-related Financial Disclosures, June 2021. "TNFD nature in scope: A summary of the proposed scope, governance, work plan, communication and resourcing plan of the TNFD". Available from <https://tnfd.global/wp-content/uploads/2021/07/TNFD-Nature-in-Scope-2.pdf>

⁶Source: Stockland, June 2020. "Sustainability Performance". Available from <https://www.stockland.com.au/sustainability/performance>

⁷Source: Fortescue Metals Group, June 2021. "Sustainability Report". Available from https://www.fmgil.com.au/docs/default-source/announcements/fy21-sustainability-report.pdf?sfvrsn=a017d45c_4

⁸Source: Brambles, June 2021. "Sustainability Highlights". Available from https://brambles.com/Content/cms/sustainability-2021/documents/Brambles_Sustainability_Highlights_2021.pdf

 Company	Kering (Luxury goods brand, France) ⁹	L'Oréal (Cosmetics company, France) ¹⁰	CATL (Lithium-ion battery manufacturer, China) ¹¹
 Target	Reduce Environmental Profit & Loss (EP&L) intensity by 40% by 2025 using 2015 baseline.	By 2020: <ul style="list-style-type: none"> No ingredients or raw materials linked to deforestation. 100% of products to have improved environmental/social profile. By 2030: <ul style="list-style-type: none"> 100% of bio-based ingredients will be traceable and from sustainable sources. 100% of industrial sites to have a positive impact on biodiversity. No increased land occupancy needed to source ingredients. 	Reduce impact of supply chain operations on the environment. Adhere to effective environmental protections within the supply chain. No extracting from World Heritage sites or legally protected areas.
 Key biodiversity factors	Carbon emissions. Water consumption. Air and water pollution. Land use. Waste production.	Environmental footprint of packaging. Source of palm oil, soya oil supplies. Source of wood fibre-based products.	Impact on soil, air and water. Remedy of pollution issues.
 Measurement	Internally calculated measure of EP&L intensity relative to revenue.	Certification and verification. Deforestation risk evaluation tool from NGO Global Forest Watch. Sustainable Palm Index. Internal Sustainable Product Optimisation Tool (SPOT).	Third party auditors conduct on-site audit and risk identification.
 Performance versus target	CY 2020 Achieved an EP&L intensity of 35, which is tracking ahead of reduction target.	CY 2020 96% of new or renovated products with improved environmental or social profile. 100% of supplies of palm oil, palm oil derivatives and palm kernel oil derivatives, and soy extract and derivatives certified. 100% of paper used for instructions and cardboard for product boxes certified.	CY 2020 39 audits conducted with no related risks identified. Deficiencies actively followed up on with suppliers and implementation of rectifying actions supervised. 60% of wooden packaging recycled, preventing felling of 3.2 million birch trees.

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.

⁹Source: Kering, December 2020. "Environmental profit & loss (EP&L)". Available from <https://keringcorporate.dam.kering.com/m/123011b213f0bbf4/original/Rapport-Kering-Environmental-Profit-and-Loss-report-2020-EN-only.pdf>

¹⁰Source: L'Oréal, December 2020. "Sharing Beauty with all - The L'Oréal sustainability commitment". Available from <https://www.loreal.com/-/media/project/loreal/brand-sites/corp/master/lcorp/documents-media/publications/sbwa/sbwaprgroupe2020eng0.pdf>

¹¹Source: CATL, October 2021. "Social Responsibility Report". Available from https://www.catl.com/en/uploads/1/file/public/202110/20211020163409_7xt4vouecn.pdf

Fostering biodiversity as a global investment theme

Our investment teams around the globe have been looking at the impact of biodiversity loss on the investment case for the companies, sectors and regions they invest in through in-depth research and engagement.

In particular, where biodiversity is material, this analysis and engagement helps build confidence in the investment case for these companies. We share below some of our key insights on how companies are dealing with biodiversity risks, and on the opportunities to mitigate and/or have a positive impact.



Global Long-Term Unconstrained (GLTU)

Zehrid Osmani

Head of GLTU,
Portfolio Manager

For many companies, capturing the impact that their business activities have on biodiversity is not a priority.

We believe that corporates must assess their impact in the broader sense of the term, by capturing the whole ecosystem of their business activities, from raw materials to final production, and to utilisation and end-of-life cycle of the products that they produce.

For GLTU, we consider biodiversity through resource intensity within our Environmental risk assessment.

We also look at biodiversity through the lens of SDG 14 (Life below water) and 15 (Life on land), which sadly have some of the lowest levels of stated focus or alignment by management. We have assessed that, on average, our investee companies have just a 16% alignment with SDG 14 and just 11% with SDG 15¹² versus an ideal 100% alignment.

We know that a much greater effort needs to be made by corporates to ensure a biodiversity-friendly approach to running their business activities. As part of our ongoing environmental risk assessments, over the course of the next 12 months we will be engaging with each corporate in our portfolio to help drive positive momentum in biodiversity, and to see them better embrace the aims of SDG 14 and 15.

Consumer-facing companies stand to benefit from a commitment to biodiversity.

Consumer company operations and supply chains can have a material impact on biodiversity, but they also stand to benefit from more resilient supply chains, more reliable sourcing and also reputational gain amongst conscientious consumers.

Compared to other sectors, we are pleasingly seeing strong commitments in the consumer space through our engagements with investee companies.



Global Long-Term Unconstrained (GLTU)

Robbie McNab

Portfolio Manager, GLTU

A good example is French-based luxury goods brand **Kering**. Through our discussions, we have been pleased to see them build out a new biodiversity strategy during 2020.

- Kering have already been working extensively with third parties to meaningfully measure the end-to-end impact of their value chain and the materiality of these impacts on the climate through their environmental profit and loss (highlighted on page 6).
- They have recognised that the largest impact occurs in tier 4 of their supply chain, i.e., raw material production, and is far greater in the land use category. It is this analysis that has had them look for solutions and offsets.
- Kering say that their products begin their lives in farms, fields, forests and other ecosystems globally, acknowledging the need to safeguard nature within the supply chain and champion transformative action beyond that to “ensure humanity operates within planetary boundaries”.
- Specifically, Kering’s new biodiversity strategy commits them to a net positive impact on biodiversity by 2025. They plan to achieve this by regenerating and protecting an area, about six times their total land footprint, including one million hectares of critical, “irreplaceable” habitat outside of the supply chain.

Food company **Kerry Group** also have discussed with us their multipronged approach to mitigating and improving biodiversity.

Given their strong position within the supply chain providing end to end food and nutrition solutions to their clients, sustainable sourcing has been particularly critical to their biodiversity efforts.

In engagements with Juan Aguiriano (Head of Sustainability), he has highlighted how Kerry now map their supply chains to identify key issues depending on the specific raw material. This also allows them to understand the biodiversity impact (such as deforestation) of switching consumption from one product to another and to provide optimal solutions.

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¹²Source: Martin Currie. As of 31 December 2021. Calculated for a representative GLTU portfolio.

The Emerging Market investment category encompasses many of the world's biodiversity hotspots; identified as being simultaneously rich in biodiversity while suffering significant loss due to human activity.



Global Emerging Markets

Alastair Reynolds

Portfolio Manager,
Global Emerging Markets

From an industry perspective, agriculture and extractive industries stand out as having the greatest direct exposure to biodiversity risks in Emerging Markets. This is not only a result of the land-intensive nature of these activities, but also a consequence of their location within the biodiversity-rich tropical and sub-tropical regions.

For example, one of our portfolio holdings, **Cosan**, is exposed to biodiversity risk through its ownership of sugar cane plantations in Brazil, and biodiversity is front of mind for management.

- In 2011 Cosan's operating subsidiary, Raizen, became the first company globally to gain certification under the internationally recognised Bonsucro standard. The certification process consists of a rigorous external audit process to ensure compliance with the highest environmental, social and economic criteria for the cultivation and processing of sugarcane and its by-products.
- Raizen also developed Environmental Management Plans (EMPs) for each of its sites that define measurable actions to minimise environmental impacts across biodiversity, ecosystem services, air, water, climate change, sugarcane burning, by-products, noise, soil and the use of chemicals.

Our portfolios also have exposure to oil and gas production in ecologically sensitive areas of Russia via **Lukoil** and **Novatek**.

- From our interactions with the companies operating in these areas, the companies have sound processes in place to monitor the land and water-based biodiversity throughout every stage of their activity.
- As well as policies to avoid and limit ecological impact, they also fund programs to restock marine life, reforest land and restore habitats damaged during Soviet-era production.

Through our engagements, we are satisfied that our investee companies with larger biodiversity risks are becoming more aware of their responsibilities and are taking the relevant steps to mitigate these.

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Cosan is exposed to biodiversity risk through its ownership of sugar cane plantations in Brazil, and biodiversity is front of mind for management.





Global Emerging Markets

Paul Sloane

Portfolio Manager,
Global Emerging Markets

The Emerging Market banking sector's significant indirect biodiversity exposure.

We recognise that there is a role for the financial sector to play in addressing biodiversity risk and, in this respect, it is interesting to see how some of the banks that we are invested in are addressing this.

HDFC Bank is an Indian bank we have been invested in for several years. Agriculture is a huge industry in India and HDFC are the country's biggest lender.

- Management has specifically outlined a goal to “provide access to capital for environmentally sustainable projects that contribute to climate change mitigation”.
- The group has a specific Social and Environmental Management System framework which assesses various parameters including negative environmental impact when deciding whether to lend to a business.

Another Indian bank **ICICI Bank** takes a very proactive approach.

- Rather than excluding firms with bad practices, it has a specific group which seeks to find and lend to projects promoting biodiversity or environmental sustainability.
- It has also intervened with many rural agricultural businesses or farmers to provide education to help transform their crop rotation, paddy cultivation, pest control and food security.

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Management has specifically outlined a goal to “provide access to capital for environmentally sustainable projects that contribute to climate change mitigation”.





Asia Long-Term Unconstrained (ALTU)

Paul Danes

Portfolio Manager, ALTU

Biodiversity and the reputational risk to investments.

We have owned **Jardine Matheson** shares for several years. As a conglomerate with a holding company structure where there are subsidiaries of subsidiaries, and with economic interests covering multiple industries across most of Asia, it is always a challenge to understand and follow all the moving parts.

In ESG matters, as with any other investment case consideration, the key is materiality.

- Jardine's interests include an indirect holding in **Astra** in Indonesia, which includes amongst its many businesses Palm Oil plantations and indirectly, via **United Tractors**, mines. These are obviously industries at the heart of biodiversity risks.
- At first glance, these both represent very small percentages of the total value of Jardine, such that any economic issue in these businesses is unlikely to significantly change the economics of the investment.
- However, there are great risks from a reputational standpoint and in terms of governmental relationships for example.

Jardine has taken a major step forward with regards to sustainability over the last two years. Disclosure can still be improved but is progressing in the right direction.

In its annual report, it calls out biodiversity directly as one of the company's three key sustainability focuses under responsible consumption. The group has also set out frameworks which are now being filtered down the organization to the various operating companies. It is an area we continue to monitor and follow the company's progress on.

Indirect engagements highlight potential biodiversity issues.

An indirect biodiversity engagement came about because our ALTU accounting diagnostic process highlighted an intangible asset for water usage and a noticeable increase in hazardous waste at a textile company **Shenzhou International Group**.

We engaged to further our understanding, which highlighted possible implications of these items on biodiversity.

- We learnt that the hardness and hard metal content of the water local to the factory are ideal for fabric dyeing. The water is however not suitable for drinking.
- The intangible asset arose from agreement with the local government to a 20-year exclusivity licence – a competitive advantage.
- The higher waste numbers came about partly due to expansion, but also due to changes in disclosure regulations - the previous numbers were disclosed on a voluntary basis and were not like-for-like. This highlights the issues discussed earlier about reporting standards for biodiversity issues and the need for engagement to help uncover the full detail.

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The rate of biodiversity loss in Australia since European settlement 230 years ago is concerning. Changes have been chiefly driven by high population growth, more intensive agriculture & forestry practices, increased drought & fires from climate change, and introduced pest species.



Australia is one of 17 of the world's 'megadiverse' countries¹³.



Australia is home to ~10% of all species on the earth¹⁴.



Martin Currie Australia (MCA)

Will Baylis, GAICD
Portfolio Manager



Martin Currie Australia (MCA)

Chris Schade
Research Analyst

From a lender's perspective, a business with fewer costs and less exposure to the risk of biodiversity loss is a better bet.

As financiers start to better understand and price the benefits of risk mitigation, landholders will face stronger incentives to invest.

Understanding that there is a link between natural capital and profitability, Australian banking giant **NAB** has put a 'dollar value' on investments in natural capital.

NAB have worked with valuation experts to explore the links and dependencies between the good management of natural capital assets, financial performance and business resilience.

Initially, this approach has been focused upon agribusiness customers, however they plan to extend this across the entire business.

By integrating this understanding into products and services they can reward clients that demonstrate they are working to lower their impact and risk across issues such as soil health, water scarcity, energy cost, runoff, waste.

Such products include discounted loans for energy efficient and renewable energy assets like water efficient irrigators, and fuel-efficient farm equipment, green bonds to assist investors in prioritising investments that finance climate change solutions.

Australian companies are positioning themselves to offer products and services to help manage biodiversity risk.

Australian-listed crop protection manufacturer and distributor **Nufarm** has witnessed a growing shift toward sustainability across all its markets in recent years, but most notably Europe, where the European Union's Farm to Fork strategy has seen certain higher risk crop protection products banned due to environmental externalities.

The challenge for farmers, that require support from crop protection companies, is how to maintain and grow agricultural productivity to feed a growing population, while minimising adverse environmental impacts. This has presented growth opportunities for Nufarm's biological crop protection business, NuBio.

Australian explosives and fertiliser company, **Incitec Pivot**, runs one of the country's leading nutrient testing laboratories and is seeing growing demand for their intensive soil testing services. Such testing provides detailed and accurate soil health information which helps farmers improve both soil health and plant nutrition, and also better manage input costs and optimise crop yields in the most sustainable way.

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¹³Source: UNEP-WCMC, December 2020. "Summaries of globally relevant systems to identify areas of importance for biodiversity: Megadiverse Countries". Available from <https://www.biodiversity-a-z.org/content/megadiverse-countries>

¹⁴Source: Australian Government, Will Steffen (Lead Author), 2009. "Australia's biodiversity and climate change: a strategic assessment of the vulnerability of Australia's biodiversity to climate change". A report to the Natural Resources Management Ministerial Council commissioned by the Australian Government. Available from <https://www.awe.gov.au/sites/default/files/documents/biodiversity-vulnerability-assessment.pdf>



**Martin Currie Australia
(MCA)**

Ashton Reid

Portfolio Manager,
Real Assets

Australian property trusts and developers are prioritising protection of the biodiversity surrounding their assets.

While the property sector seems well advanced of others in understanding the importance of biodiversity, recent discussions with diversified property group **Stockland's** incoming CEO have flagged the company's strong credentials on biodiversity within their urban communities.

While Stockland's business activities do facilitate potentially damaging urban sprawl (by transforming farmland into less productive low-density housing), they have sought to balance retention and activation of biodiversity to enhance the long-term success of their master-planned communities.

Importantly, they have set a specific biodiversity target to make a net positive contribution to biodiversity value and have been actively tracking this using a biodiversity calculator since FY15. They have also clear Executive-level accountability for appropriately overseeing their biodiversity efforts.

They have plans to restore over 2,000 hectares of natural areas across projects currently under development and are working with local conservation groups, local, state and federal governments, and biodiversity experts to identify best practice design, restoration and engagement approaches on their project sites.

By proactively minimising and mitigating the impacts on biodiversity, Stockland have shown that they are able to have more productive conversations at all levels of government.

Based on their success so far, we have emphasised Stockland's important role in driving sustainable outcomes with government and peers, as regulation in Australia is still lagging.

We have also emphasised Stockland's need to educate their customer base on the importance of biodiversity. We see that this could be a real sustainable economic pathway and competitive edge for their brand, product and economics, while still delivering positive customer experiences that supports biodiversity.

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While Stockland's business activities do facilitate potentially damaging urban sprawl, they have sought to balance retention and activation of biodiversity to enhance the long-term success of their master-planned communities.



**Martin Currie Australia
(MCA)**

Michael Slack, CFA
Head of Research, MCA

While biodiversity is front of mind for management, biodiversity risks have impacted operations.

In February 2021, global mining and metals company **South32's** proposed mine life extension for its Dendrobium mine was rejected by the NSW Government Independent Planning Commission on grounds that environmental impact risks are “likely to be irreversible”. Concerns about the mine design included its impact on biodiversity, drinking water, Aboriginal cultural heritage, and greenhouse gas emissions¹⁵.

Management do appear acutely attuned to biodiversity risks, and in May 2021 the company launched proceedings to have the expansion rejection overturned, redesigning the proposal to reduce impact and work with stakeholders.

We have had ongoing discussions with South32 management about the biodiversity risks of this project, and their environmental impact more broadly.

South32 are endeavouring to improve sustainability each year through rehabilitation, and conservation efforts.

For example, at Illawarra Metallurgical Coal, where the rejected extension for the Dendrobium mine is located, they already have programs in place to protect and manage a number of sensitive vegetation communities and nationally listed species, such as *Persoonia hirsute*, which occurs within and adjacent to operations.

Of their 634,521 hectares of land holdings in FY21, 90% are in Australia. Of these landholdings, they have disturbed around 2% but already rehabilitated half of this¹⁶. They have also set aside land for conservation at operations that are exposed to elevated biodiversity risk due to their proximity to protected areas and high biodiversity value areas, or interaction with threatened species.

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¹⁵Source: NSW Government Independent Planning Commission, February 2021. “Dendrobium Extension Project SSD 8194: Statement of Reasons for Decision. Available from https://www.ipcn.nsw.gov.au/resources/pac/media/files/pac/projects/2020/10/dendrobium-extension-project-ssd-8194/determination/210205_ssd-8194-dendrobium-extension-project_statement-of-reasons.pdf

¹⁶Source: South 32, June 2021. “Sustainability Databook 2021”. Available from https://www.south32.net/docs/default-source/all-financial-results/2021-annual-reporting-suite/sustainability-databook-published-2021.xlsx?sfvrsn=aa4b747d_16

South32 are endeavouring to improve sustainability each year through rehabilitation, and conservation efforts.



Our biodiversity framework

To better incorporate biodiversity into our investment process, we are developing a framework for identifying companies for which biodiversity and ecosystem factors are most material. This will provide guidance that can be used to augment current sustainability analysis.

As with climate change analysis, we recognise that for biodiversity there is dual materiality. A business may have a:



high dependency through its direct operations or supply chain; or



high impact in its operations or value chain.

These criteria tend to be more profound in certain sectors. Obvious examples are the food and beverage industries, while material impacts are recognised in construction and mining.

In much the same way that we approached our work on modern slavery, we looked at those sectors with high impacts or dependencies. This enables us to more effectively identify those companies that are most at risk, the dependencies they have and any evidence of impact.

To establish which companies require further assessment under the framework, we will use a market-leading, independent, third-party data provider to identify companies with:



Exposure to business operations with land or ecosystem disturbance.



Operational sites in, or adjacent to, protected areas or areas of high biodiversity value.



Previous controversies relating to ecosystems.

The results of this screen will help guide our investors on areas where biodiversity should be considered and recognise areas for potential engagement.

As well as risks, growth opportunities will be highlighted in the framework. Solution providers or best practitioners with a potential to benefit from a transition to a biosphere positive business model will be recognised alongside examples of best practice.

As data and disclosure around biodiversity develops, for example with the TNFD, we expect more companies in relevant industries to adopt a biodiversity policy. This will ensure that investors have more oversight of business operations and the relationship to ecosystems. It will also allow us to continue to fine-tune our framework and embed it fully within our investment teams.

We will use our biodiversity framework to guide our structured engagement program, through which we will work with investee companies to ensure biodiversity is considered and maintained.

We will report on progress of the work on our biodiversity framework in coming months through our regular reporting to clients.

We will use our biodiversity framework to guide our structured engagement program, through which we will work with investee companies to ensure biodiversity is considered and maintained.



Summary of our purposeful engagement activity

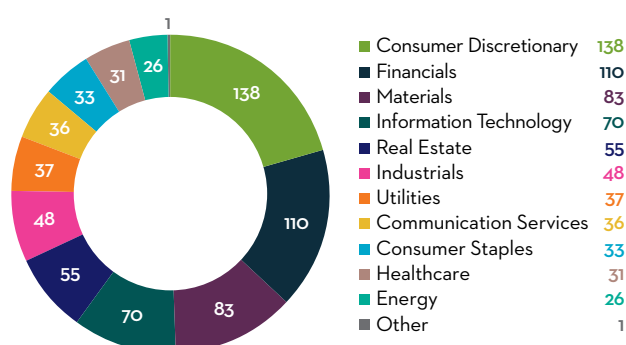
We believe monitoring and engagement is an essential part of being a shareholder in a company. It allows us to improve our understanding of investee companies and their governance structures, so that our voting decisions may be better informed. In addition, it enables us to understand to what extent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

Overview: Calendar year 2021

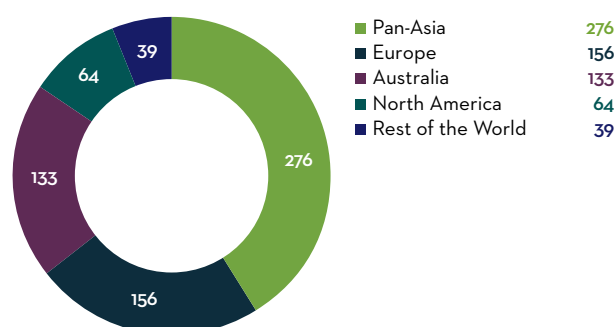
Firm-wide engagements

32	Markets covered
227	Companies engaged
668	Total engagements

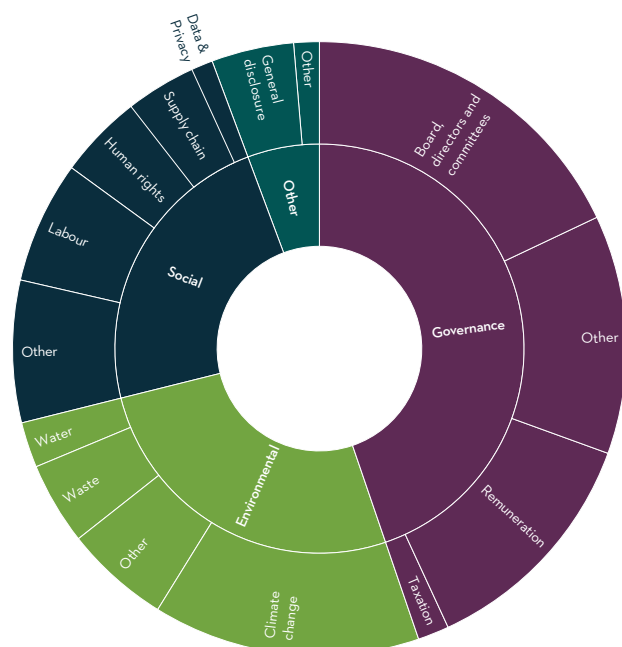
Engagements by sector



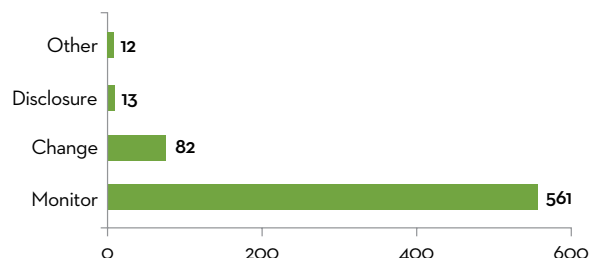
Engagements by region



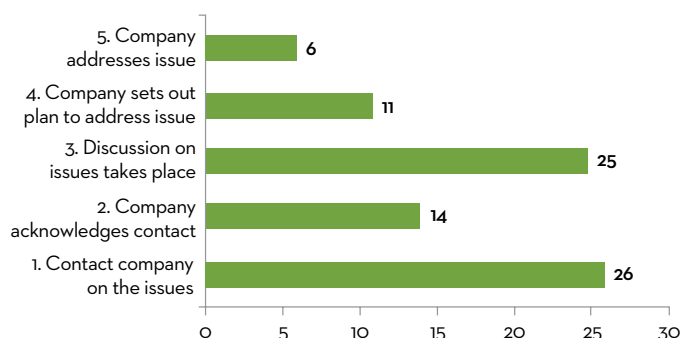
Engagements by topic



Purpose of engagement



Stage of completion for change



Source: Martin Currie. Engagement activity is for the period 1 January 2021 – 31 December 2021.

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.

Advocacy through proxy voting activity

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

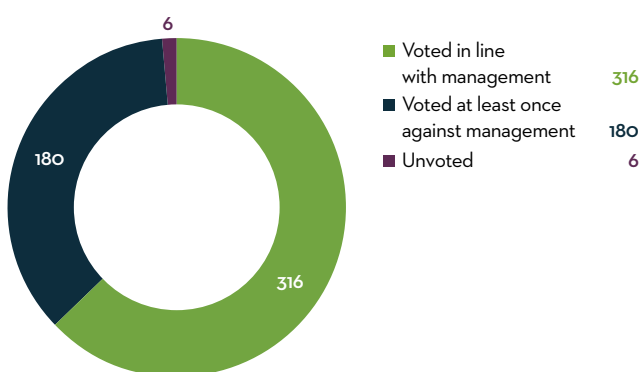
When voting on behalf of our clients, we will always seek to do so in their best interests considering the long-term impact of these voting decisions.

Overview: Calendar year 2021

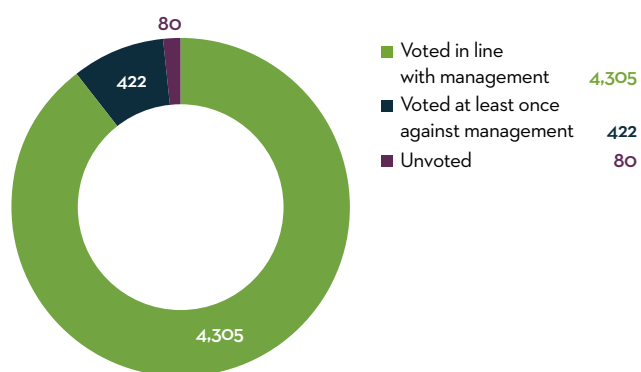
Firm-wide proxy voting

42	Markets covered
496	Total shareholder meetings
180	Meetings where we voted against management
4,727	Total resolutions:
422	Resolutions voted against management

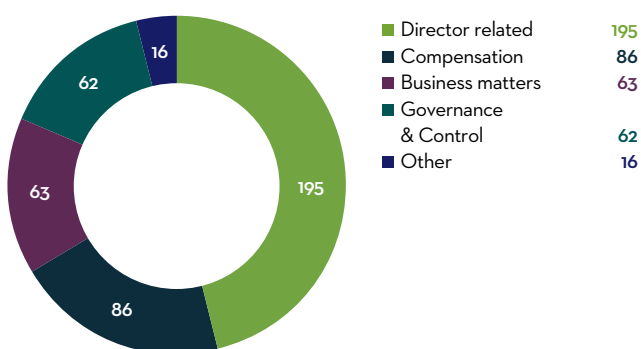
Total meetings



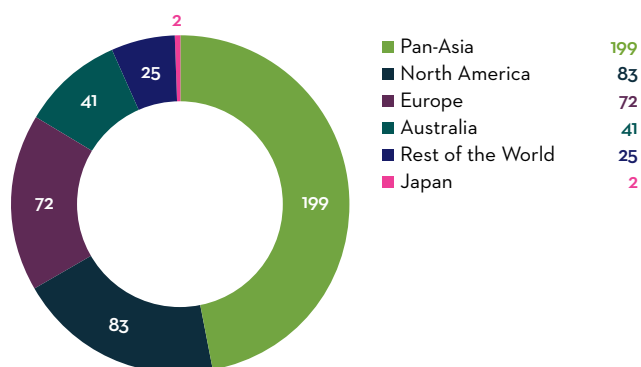
Total resolutions



Resolutions voted **against** by proposal type



Resolutions voted **against** by region



Source: Martin Currie. Proxy activity is for the period 1 January 2021 – 31 December 2021.

Our recent Stewardship and ESG insights

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

- **ESG issues at the forefront during Australia's AGM season**

Our annual summary of the investment thematic areas arising from ASX-listed company AGMs, and how these guide our voting and engagements.

3 December 2021



- **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



- **Mining shouldn't cost the Earth**

How one Latin American copper miner is striving for sustainability.

10 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.

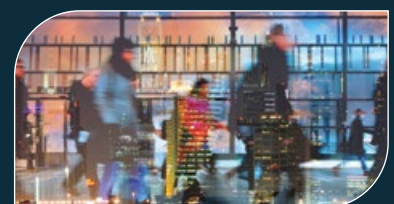
22 October 2021



- **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



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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.

Martin Currie Investment Management Limited, registered in Scotland (no SC066107) **Martin Currie Inc**, incorporated in New York and having a UK branch registered in Scotland (no SF000300), Saltire Court, 20 Castle Terrace, Edinburgh EH1 2ES

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