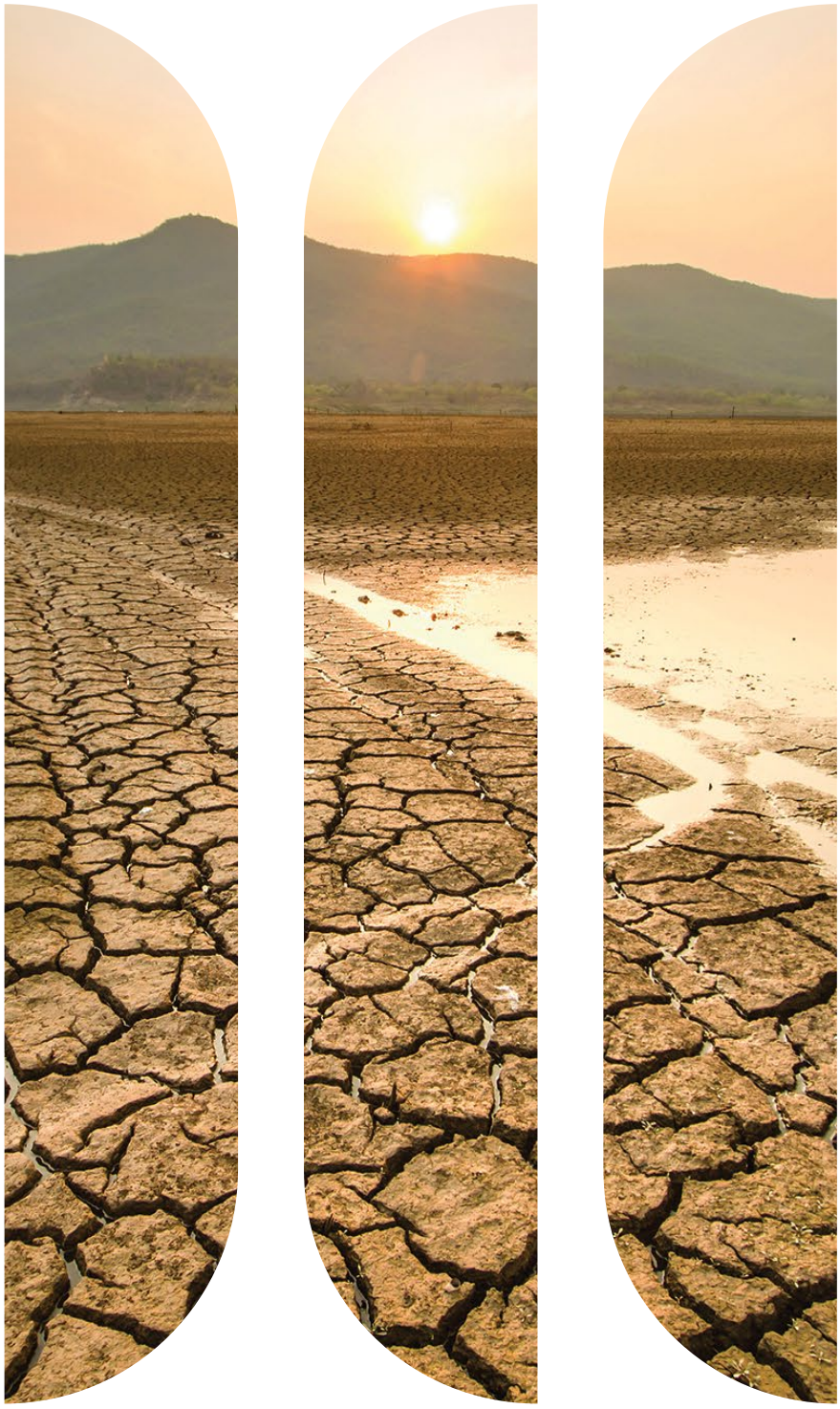
STEWARDSHIP **MATTERS**

MARTIN CURRIE

JANUARY 2022

For institutional, professional and wholesale investors only



SEVEN IMPORTANT STEWARDSHIP THEMES FOR 2022

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

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Stewardship, ESG, sustainability and responsible investment continues to shift into the investment mainstream in 2022. Given stewardship is central to our investment philosophy and process, we are excited by this evolution.

Martin Currie has a distinct and recognised competitive edge in this area having been a signatory of the UN-supported Principles for Responsible Investment (PRI) since 2009 and being awarded an A+ (highest) rating for each of strategy and governance incorporation and active ownership by the PRI since 2016.

As we enter our 13th year of integrating ESG within our investment process, we have outlined below the seven key stewardship themes that we will be focussing on in the coming year, as investors and as an asset management business.

1. ESG fund flows

Putting COVID-19 aside, a key feature of the last year has been the continued substantial flows into Environmental, Social & Governance (ESG) and Sustainable Funds.

We believe that this momentum will gather pace globally as we move into 2022, supported by European regulation in the form of SFDR, the upcoming UK Sustainability Disclosure Regime (SDR) and change of tone in ESG regulation in the US.

We have been integrating ESG for over a decade now and have continued to develop our internal tools and support to enhance our own work in this area. We believe that the broader industry adoption of ESG across the globe underpins our approach.

2. Climate change, and the transition to net zero

In terms of other front of mind topics, climate change will remain at the top of investors' agenda.

COP26 in Glasgow in November 2021 has increased the sense of urgency around addressing climate change and this is being supported by the momentum we are seeing behind investor-led initiatives such as the Net Zero Asset Managers Initiative (NZAMI), which we are proud to be a signatory to.

In our recent wrap up of the conference, ***COP26: A meaningful step forward in combatting the climate crisis?***, we also discussed how investors need to start prioritizing investment in genuinely additive solutions to the climate crisis and hold companies to account for their emissions.

For investors this will mean further work on assessing the extent to which companies and portfolios are aligned to net zero, and we believe this is likely to increase the focus on engagement as a key tool to work with companies in achieving this.

In this sense, the transition of large emitters will be a key focus, recognizing that it is these companies that can make a material difference.

3. Proxy voting, with purpose

In 2022, we should see more scrutiny of company climate transition plans and we will begin to see 'consequential voting' – either on climate change transition plans directly or for the directors responsible for these plans.

We touched on the theme of shareholders using proxy voting to push for action across the whole ESG agenda in ***ESG issues at the forefront during Australia's AGM season***, and we expect this to become a global trend, not just in Australia.

We do believe that it is through strong interaction with both boards and management, via engagement and proxy voting, where we will ultimately see better outcomes for all stakeholders regarding all key ESG issues.

4. Increased 'social' awareness

The other area that we expect to gain more traction is the 'Social' in ESG.

This has been less in focus until now, but as our work on modern slavery has shown, this is gaining prominence and the COVID-19 pandemic has brought many of the Social ESG issues to the fore.

In Europe, there is an increasing investment regulatory focus looking at how investors are approaching human rights due diligence and the engagement around this. The PRI has also just launched a collaborative engagement on human rights which we will be looking to join.

Ongoing analysis and engagement with boards and management on how they are dealing with social issues will help us as investors build confidence in our investment case for companies.

5. Focus on diversity, equity and inclusion

A key social issue that we see rising in prominence is Diversity, Equity and Inclusion (DEI), for businesses and investors.

DEI is a key pillar for our business, and we discussed our approach in detail in the context of our corporate purpose in last quarter's *STEWARDSHIP MATTERS* magazine – "Investing to Improve Lives"

As investors, DEI will remain one of our priorities for engagement with corporates in the coming year. It is also likely to remain a key topic for shareholder proposals and proxy voting. The July edition of our STEWARDSHIP MATTERS magazine will focus specifically on DEI from an investment perspective.

6. Taxonomies, reporting standards and materiality

There is a growing array of taxonomies which look to clearly define sustainable economic activities and, we believe, the coalescing of reporting standards.

A key recent development is the announcement of International Sustainability Standards Board (ISSB) which is set to develop a corporate disclosure standard.

One area to keep an eye on here is the framing of materiality. The ISSB is likely to classify this in terms of financial materiality, whereas we believe there is real value in identifying and understanding dual materiality. That is, where a company can have a high impact on an aspect of sustainability through its direct operations or supply chain; or where sustainability has a high impact in its operations or value chain. An obvious example is climate change, where companies can be both materially impacted by climate change as well as have a material impact on climate change through the emissions that they generate.

We believe that it is important to consider both aspects of materiality if there is any chance of addressing the sustainability challenges that society faces and that are articulated in the UN Sustainable Development Goals (SDGs).

7. Rise of biodiversity

In the latest edition of our *STEWARDSHIP MATTERS* magazine, published in January 2022, we highlighted the increasing prominence of biodiversity as an issue that is intertwined with climate change.

The second stage of the COP15 on biodiversity (the equivalent of the COP focused on climate) is due to take place in April/May 2022. Out of this we should see the final version of the Convention on Biological Diversity and the Post-2020 Biodiversity Framework, which will set out key priorities for the next decade.

The current lack of consensus around how to consistently evaluate and manage exposure to the financial risks and opportunities resulting from biodiversity is hindering its application within the investment world.

The first version of the Taskforce for Nature-related Financial Disclosure (TNFD) reporting framework is set to be published early next year, building on the widely accepted Task Force on Climate-Related Financial Disclosures (TCFD). This will hopefully create a consistent and comprehensive framework for organisations to report on nature-related risks within mainstream corporate reporting.

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Throughout 2022 we will see significant changes in the stewardship landscape as it comes even more into mainstream investing. Given stewardship is central to our investment philosophy and process, we are excited by this evolution.

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