

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

FTF Martin Currie Japan Equity 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. Commentary - Martin Currie Japan investment team

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

The ideology of the 'New Japan' has now been reverberating through Japanese society for multiple decades. Acknowledging the complex challenges presenting themselves to the nation, this programme of structural reform targets economic growth through technological progress and resource mobilisation within efficiently operating sectors. The emergence of new growth industries, new products, and innovative means of employment are a culmination of the powerful tailwinds propelling companies exposed to this dynamic.

This structural socio-economic shift presents a significant opportunity to invest in profitable and growing companies. The Japan Equity strategy applies this practically by screening the investment universe for alignment to 3 distinct 'New Japan' sub-themes: The ageing population, the digital transformation, and the labour shortage. The strategy aims to outperform the Topix index over 3-5 year periods by investing in line with these societal drivers.

The strategy is unconstrained by any benchmark and typically consists of between 30-50 high quality stocks held for the long term. These stocks are typically trading on reasonable ratings to avoid a 'growth at any price' mentality.

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 conduct a detailed accounting review for companies held so as to gain assurance over the returns and governance profiles we are attracted to.

We engage with companies both to build our understanding and to focus on change where we identify potential risks or an opportunity for improvement.

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
Baycurrent Consulting	Services	7.17	0.12	7.05	2.20	1.80
Pan Pacific International Holdings	Retail Trade	6.66	0.21	6.45	3.00	3.00
M3	Services	6.42	0.27	6.15	2.70	2.40
GMO Payment Gate-way	Communication	6.03	0.09	5.94	2.50	3.00
SMS	Services	5.37	0.05	5.33	1.80	2.20

Source: Martin Currie as at 31 December 2022. FTF Martin Currie Japan Equity Fund. Index: TOPIX. 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.

Baycurrent Consulting is a consulting company focused on their domestic market and growing as they employ more consultants able to satisfy the increasing demands for projects from their clients. Their business is benefiting from the growth of DX (Digital Transformation) projects in Japan. These projects are being driven by Japan's aging population and the resulting requirement for businesses to operate more efficiently and with higher productivity. Additionally, although still relatively small, the company has been winning consulting work to help companies develop their own ESG strategies including decarbonization strategies. As a consulting company the company relies heavily on highly skilled labour and higher turnover is something we monitor at a time when the competition for such workers is growing. From a Governance perspective the main issue is that the board lacks diversity both from a gender perspective and from an industry one. This lack of diversity extends to the overall workforce which is predominantly male.

Pan Pacific International Holdings is a discount retailer operating primarily through the Don Quijote format, UNY and general merchandise stores. The company has been making efforts to expand internationally, particularly in the USA and Asia, which now accounts for approximately 15% of sales. As a retailer packaging and raw material sourcing is an obvious source of carbon risk, however the company's disclosure here is relatively minimal. Whilst the company is able to provide some evidence of awareness on the issue it is important to appreciate the importance that the company maintains a strong reputation in the eyes of consumers on this issue. The culture of the company is a positive from a workers viewpoint with workers encouraged to take responsibility early and much decision making being taken at an individual store level. This has helped the company adapt to consumer preferences in a timely manner over the years. The board has functioned effectively over the years however may benefit from some international experience as they diversify overseas. The founder has been very successful in driving Pan Pacific to where it is today, but his role in the company is somewhat unclear as he no longer an executive or Chair, but clearly remains influential.

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 securities discussed here were or will prove to be profitable. It is not known whether the stocks mentioned will feature in any future portfolios managed by Martin Currie. Any stock examples will represent a small part of a portfolio and are used purely to demonstrate our investment style.

M3 is an operator of an integrated medical digital platform which serves as marketing platform for pharmaceutical companies, to which they add offline marketing support services. The business expansion lies to clinical trial business, doctor recruitment, and onsite support services for hospitals. Pharmaceutical companies have increasingly shifted its marketing to online and a well-combined on and offline strategies. M3's corporate mission to reduce the healthcare cost on a macro-level as well as an individual level is integral for sustainability. Sony holds 33.9% of the company as it has financed the establishment of the company by the current CEO Itaru Tanimura in Sep-2000. While the business with Sony represents less than 1% of total revenue, Kenichiro Yoshida, CEO of Sony since April 2018, serves as M3's director since 22 years; which may be perceived as insufficient independence. There is no nomination committee and the board falls short of 1/3 independence, which shows rooms for improvement in governance.

GMO Payment Gateway is a payment services company expanding domestically as digital payments gain share both on and offline. Given the data which the company holds, credit card information, addresses, emails etc, data security is clearly a key risk for the company. The company has a number of certifications to attest to the standards to which they operate as well as conducting suitable staff training programs. The business itself is beneficial to productivity, something needed by Japan for future development, however as Japan adopts digital payments consumer and business awareness of fees does risk becoming an issue of controversy. From a governance perspective the main issue is that Parent company GMO Internet owns over 40% of the shares and has directors on the board, so the oversight for a minority shareholder could in theory be compromised.

SMS is a provider recruitment services for long-term care and medical nurses. The company is well positioned to provide solutions to Japan's growing aging population which result in high demand for care givers and nurses. Mr Shuhei Morofuji, the largest shareholder owning 18% of outstanding shares, has entirely retired from SMS' business in 2014 and does not present any governance issue. Since Jul-22, SMS has one female director (20% of total) and female ratio of managers' level amount to 40%, which showcase solid diversity. As a recruitment services provider, it is material for the company to warrant personal data security. It appears the data security initiatives are in line with those of industry peers.

3. Fund review of turnover and turnover costs

Turnover %	3.69*	<i>Lesser of (purchases or sales)/Average fund size x 100</i>
Portfolio transaction costs (GBP)	41,405.47*	<i>Total brokerage and execution charges</i>

Source: Martin Currie as at 31 December 2022. FTF Martin Currie Japan Equity Fund

*Martin Currie took over the direct management of the fund on 23 September 2022. These figures cover the period from 23 September 2022 to 31 December 2022.

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.

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4.1. Significant votes

Company Name	Medical networking company	GMO Payment Gateway	Medical Data Vision
Company descriptor	Update articles of incorporation	Financial services company	Medical data company
Issue	Governance	Director election	Director election
Governance, Environmental or Social	We wish to ensure that shareholders retain the ability to hold company directors accountable for the management of the firm.	Governance	Governance
Objective	ISS recommended voting against management who proposed amending Articles to allow virtual only shareholder meetings. Whilst we recognised that there is a case for flexible shareholder meeting formats, the proposed language allows the company to conduct virtual only meetings with no indication of the situations under which the company might seek to do so. This may inhibit shareholders' ability to hold directors accountable, and may hinder meaningful exchanges between directors, management, and shareholders. For instance, shareholders may find it difficult to submit questions, or get companies to answer them.	We wish to ensure that the board composition is effective and in line with corporate governance best practice	We wish to ensure that the board composition is effective and in line with corporate governance best practice

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4.1. Significant votes (cont)

Company Name	Medical networking company	GMO Payment Gateway	Medical Data Vision
Scope and process (of relevant engagement)	We agreed with ISS and voted against management	ISS recommended voting against President and Chairman election on the grounds that the con-trolled company falls short of the 1/3 independence thresh-old enforced. However, we disagree on their conclusion as to whether Hokazono Yumi is independent or not. ISS concluded that she is non-independent as she used to work for the precursor of EY who became auditors last year. However, we believe that she is independent of the company itself. If concerns arise over her attitude towards the auditor, the fact that the audit committee is 4 people and all others are also independent helps. Overall, it is reasonable inde-pence and it seems unnecessary and undesirable to vote against the most senior management on this basis.	ISS recommended voting against the election of a statutory auditor who will be designated as an outsider as they proposed a pre-existing affiliation with the business. However, we confirmed with the Company that the nominee didn't involve any auditing works of the Company when he worked at the Company's audit firm. Also, the nominee does not offer professional services such as legal advice, financial ad-vice, tax advice or consulting services to the Company in question. Thus, we concluded that the nominee has a sufficient level of independence.
(Voting) outcome	We had a meeting with the Chair and key board members to discuss board composition ahead of the AGM .	We voted with management and against ISS recommendations	We voted with management and against ISS recommendations

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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.



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