STEWARDSHIP

MARTIN CURRIE
A Legg Mason Company

ANNUAL REPORT 2017

www.martincurrie.com

REPORT SUMMARY

ACHIEVEMENTS IN 2016

- Highest possible (A+) rating awarded by the PRI for our stewardship strategy
- Top ranking (Tier 1) by the FRC for our statement of compliance with the UK Stewardship Code
- Successful conclusion to collaborative engagement on 'fracking' practices in the oil & gas industry
- Completion of proprietary industry frameworks, designed to aid integration

ENGAGEMENT ACTIVITY

187
companies engaged with (private)

17
companies engaged with (collaborative)

VOTING ACTIVITY

672
shareholder meetings

8,143
resolutions

PRI RATINGS HISTORY

	Module			
Year	Strategy	Integration	Active Ownership	Reporting period
2016	A+	A+	A	1 Jan 15 – 31 Dec 15
2015	A+	A	A	1 Jan 14 – 31 Dec 14
2014	A	A	A	1 Jan 13 – 31 Dec 13

ACTIVE PARTICIPANTS IN COLLABORATIVE ENGAGEMENT INITIATIVES

WATER RISKS

ANTIBIOTIC USE

CYBERSECURITY

PRI – Principles for Responsible Investment. FRC – Financial Reporting Council. Engagement and voting activity is for the period 1 January 2016 to 31 December 2016.

ABOUT US

We are international equity specialists, crafting high-conviction portfolios for client-focused solutions. We are driven by a shared sense of energy and purpose that has been a defining trait of our company's 135-year history.

Effective stewardship of capital is at the heart of our client proposition. We believe in an investment approach that makes environmental, social and governance (ESG) factors real, with analysis and active ownership fully embedded in the investment process and implemented directly by our portfolio managers. We look to positively influence corporate behaviour and governance, living these values through the management of our own business.

WHAT WE DO

Our investment rationale is considered and focused. As bottom-up stockpickers, our objective is to identify mispriced opportunities, and blend these to deliver attractive and consistent risk-adjusted returns for our clients. As a signatory to the Principles for Responsible Investment (PRI) since 2009, we have integrated ESG analysis into our investment research process. Stewardship is a critical part of our philosophy. It is evident at every stage of our investment process, in particular in our approach to engagement and voting activity.

Throughout our long history, we have adapted and evolved, always keen to find the best solutions for our clients. Today, we offer a focused range of active strategies, underpinned by rigorous research and strong risk-management capabilities. As an independent investment affiliate of Legg Mason, we are self-directed, innovative in our approach, and able to take a long-term view.

WORKING IN PARTNERSHIP

When you become our client, you become a part of our business. We want to build a partnership, working together to meet and exceed your objectives. This means we support you with seasoned professionals, give you access to our expertise and resources, and share our investment insights.

CONTENTS

STEWARDSHIP IS A CRITICAL PART OF OUR PHILOSOPHY. IT IS EVIDENT AT EVERY STAGE OF OUR INVESTMENT PROCESS, IN PARTICULAR IN OUR APPROACH TO ENGAGEMENT AND VOTING ACTIVITY.

FOREWORD

David Sheasby
Head of Stewardship

2016 reminded us of the constancy of change, with major political disruption globally and a surprisingly speedy ratification of the Paris Agreement on climate change – the latter of course, being of particular significance from a sustainability perspective.

We have continued to build on our integration and stewardship efforts, with a busy engagement schedule over the year. On the collaborative front, we saw the conclusion of a two-year PRI-coordinated initiative on fracking practices in the oil & gas industry, where we led a successful engagement with an Asian company. Encouragingly, our work continues to be acknowledged externally, with last year's highlights including a top rating from the PRI (an A+) for our stewardship strategy, and being placed in the top category (Tier 1) by the FRC for our UK Stewardship Code statement. Looking at 2017, we certainly won't be resting on our laurels, with many major issues – such as corporate governance reforms, climate change and the growing threat of antibiotic resistance – demanding significant attention.

John Pickard
Head of Investment

It stands to reason that a multitude of factors – quantitative and qualitative – underpin long-term business success, and therefore returns for investors. The information contained in a company's financial reports, the typical feedstock of investment decisions, tells only part of the story, so relying too heavily on this would give an incomplete picture of risks and opportunities.

In fact, it is not really possible to assess a critical area such as corporate culture, without taking a multi-faceted approach – and our ESG analysis is designed to give us insight into such qualitative matters. For example, we would expect the ripples of a disgruntled workforce to sooner or later appear in a company's financial performance, so understanding policies around say, diversity, remuneration or staff engagement, is vitally important when gauging long-term prospects. There is no denying that this level of research can be time-consuming, and that materiality should be the yardstick, but ultimately we believe it results in better risk-adjusted returns for our clients.

KEY FACTS

- Signatory to Principles for Responsible Investment (PRI) since 2009
- Stewardship at the core of our approach
- Signatory to UK and Japanese Stewardship Codes
- Member of International Corporate Governance Network (ICGN)
- ESG analysis integrated into the investment process
- Integration carried out by the analysts and portfolio managers – who know the companies best
- Implementation overseen by David Sheasby, Head of Stewardship
- Highest possible (A+) rating – for the second year running – from the PRI for our stewardship strategy
- Tier-1 ranking by the FRC for our statement of compliance with the UK Stewardship Code

ESG – A KEY ELEMENT IN OUR APPROACH TO STEWARDSHIP

WHAT IS IT?

ESG refers to factors that may impact the ability of companies to generate durable returns over the long term. It involves understanding the governance structures and culture of a company, employing a broad view of changes taking place in the world and assessing the impact these can have on a company's cash flows, balance sheet, reputation and, ultimately, corporate value.

WHY DO WE DO IT?

As stewards of our clients' capital we take a holistic view of investee companies, looking at all material information, whether quantitative or qualitative. There is compelling evidence that ESG factors correlate with returns over the long term, and therefore have to be incorporated by fiduciaries when assessing risks and opportunities.

HOW DO WE DO IT?

As bottom-up investors, our process starts at the company level. Once an idea has been identified, we subject it to rigorous fundamental analysis and peer review to ascertain whether it merits inclusion in our high-conviction portfolios. ESG analysis is embedded in this assessment, influencing key assumptions such as the cost of capital, revenues or costs and thus our estimate of a company's intrinsic value. Our particular emphasis on governance stems from the belief that this is a fundamental determinant of long-term performance. Problems here are more often than not reflected in a company's environmental and social track record, making it a reliable proxy for broader sustainability. In broad terms, we divide our process into three categories: identification, integration and active ownership.

OUR PARTICULAR EMPHASIS ON GOVERNANCE STEMS FROM THE BELIEF THAT THIS IS A FUNDAMENTAL DETERMINANT OF LONG-TERM PERFORMANCE.

OUR APPROACH

IDENTIFICATION

- Identify key material and relevant ESG factors
- In-house industry frameworks used as a guide
- Understand the potential impact on returns

INTEGRATION

- Incorporation of key ESG factors into the investment case
- Consideration of business aspects likely to be impacted
- Standard component of stock research template

ACTIVE OWNERSHIP

- Monitoring and engagement of investee companies
- Private and collaborative engagement
- Proxy voting
- Disclosures and reporting

IDENTIFICATION

WHAT WE LOOK AT:

Below is a non-exhaustive list of some of the factors we consider as part of our fundamental analysis. The level of research and engagement varies depending on region, sector and, critically, the relevance and the materiality of the issues in question. The overarching aim is to assess the extent to which ESG factors will contribute to/detract from the long-term value of a firm.

Governance

We value transparency and clear accountable governance structures, giving considerable attention to the extent to which a company demonstrates alignment with the interests of long-term investors.

- Board leadership, diversity and independence
- Management remuneration
- Shareholder rights
- Succession planning
- Accounting and audit standards

Environmental

Knowing how a company identifies and manages potential environmental issues helps us to understand how it is preparing for changes to regulation and disclosure requirements.

- Pollution
- Water usage
- Climate change and carbon emissions
- Energy efficiency
- Resource management

Social

How a company treats its people, its customers and other stakeholders, can give valuable insight into its culture – a good proxy for long-term business success.

- Data protection and privacy
- Equality and diversity
- Community relations
- Human capital management
- Product safety and liability
- Supply-chain management

THROUGH THE GOVERNANCE LENS

Governance sits at the heart of our analysis, as we believe this is a fundamental determinant of long-term performance and thus the sustainability of a business. Critically, as global investors, we cannot use a one-size-fits-all approach given the different traditions and levels of corporate maturity in many parts of the world. As an example, many Asian companies are still characterised by owner management – reflecting their family origins – or by a significant government shareholding. In other words, while there are many unambiguous ‘red flags’, our assessment of the quality of governance will take into consideration the local context so as not to unduly penalise a company that may actually be the best governed among its regional peers. Importantly, problems here tend to go hand in hand with issues on the environmental and social front, making it a very useful barometer for the broader sustainability of a business. And the destructive impact that a detour from best practice can have is evident. Examples abound, from Volkswagen to BP and Tesco – all textbook cases of governance errors cascading to the detriment of shareholders.

THE OVERARCHING AIM IS TO ASSESS THE EXTENT TO WHICH ESG FACTORS WILL CONTRIBUTE TO/ DETRACT FROM THE LONG-TERM VALUE OF A FIRM.

INTEGRATION

ESG factors are integrated into our fundamental analysis and decision-making process.
We make both qualitative and quantitative assessments of issues deemed material to long-term performance, using proprietary frameworks to ensure that we focus on the most relevant issues/indicators in each industry.

EXAMPLES OF ESG INTEGRATION FOR THE REPORTING PERIOD:

DONGFENG MOTOR GROUP

Chinese consumer discretionary company

Issue: The company faces exposure to tightening auto emissions standards. Although it has enhanced efforts by reducing carbon emissions in the production stage, it still lags behind its regional peers in managing carbon risks, as its current fuel emissions are above the Chinese industry average. In compliance with the regulatory requirement in China, the company also built carbon footprint targets for all products. The firm will need to invest in developing more efficient engines and in expanding its presence in electric vehicles.

Impact on manager's decision: We forecast ongoing cost pressure at the company, in light of the need to improve fleet-average fuel efficiency and to reflect the ongoing requirement to provide customer warranties. This was reflected in our modelling of declining profit margins.

DELTA ELECTRONICS

Taiwan-based industrials company

Issue: Delta is well positioned to take advantage of opportunities in clean technology due to its substantial involvement in the energy-management and electronic-components business, and the company has undertaken strong efforts to capitalise on these opportunities. The key issue to focus on in this case was the costs associated with these opportunities. Average annual research and development expenditure between FY2012 and 2016, which is a proxy for measuring innovation, was equivalent to approximately 7% of sales – in comparison to the industry median of some 3.7% – and the company has clearly focused some of its investment on clean technologies.

Impact on manager's decision: Given the positioning of the group, we modelled a relatively higher sales growth for Delta, to capture the cleantech opportunity. We did not model any increase in costs relating to alternative sourcing of materials or labour cost increases/disputes. However, we did model higher capital expenditure to take into account Delta's commitment to invest in automation, and ultimately try to reduce its labour force.

INTEGRATION

BHP BILLITON

Anglo-Australian resource company

Issue: BHP Billiton is a global mining group operating in a wide range of geographies. In Brazil, it has a joint venture iron ore mining operation (Samarco) and in late 2015 the failure of a tailings dam caused a devastating flood that resulted in 19 deaths. Following this environmental disaster, we assessed the potential impact and changes necessary and integrated the cost of damages and restoration into our valuation model for this company.

Impact on manager's decision: With the exact costs unknown, we made an assessment based on similar events at other companies. We then incorporated these costs of the disaster, the costs of mitigation and included the additional impact of lost production into the discounted cash flow valuation.

PRIMARY HEALTHCARE

Australia healthcare company

Issue: There have been ongoing governance concerns in this company over management and family interests. Problems have included charges of bribery directed at the CEO by the Australian Securities and Investment Commission (ASIC), relating to a company in which he was a former executive.

Impact on manager's decision: We used this analysis to make an overall assessment of the quality of the management and the business. We reflected the quality assessment in the cost of capital that we applied to the business. In this case, the governance concerns in the company have contributed to assigning the group the lowest rating. By incorporating this poor quality rating into our modelling, we have applied a necessary discount to this company in terms of its intrinsic valuation and as a result the shares were no longer attractive and were screened out from our portfolios.

SEB

Swedish bank

Issue: This bank has avoided substantial mergers and layoffs compared with many European peers. The company has a strong focus on middle-management talent identification, and has training programmes designed to promote senior management from within. While common among Swedish banks, it is among the minority of European banks that offer a share savings programme to all employees, offering discounted purchase of its shares. In addition, it monitors employee satisfaction through a formalised survey and sets clear improvement targets – a sign that employee well-being is an explicit business priority.

Impact on manager's decision: The company has wisely recognised the importance of its employees to business performance. We have assigned the bank the lowest cost of risk (CoR) of the banks analysed to reflect its superior governance.

DELPHI

US industrials company

Issue: As a key player in the auto-components sector, Delphi has potential opportunities from the automotive megatrends of electrification, Advanced Driver Assistance Systems (ADAS) and connectivity. The major drivers of these auto-sector changes are regulation, with tightening requirements on emissions, and an increasing focus on automatic emergency braking.

Impact on manager's decision: The company has been aggressively repositioning its product portfolio towards these key growth drivers, making it one of the best placed among the diversified suppliers. Its embrace of the potential opportunity is illustrated by the increase in the number of software engineers from 2,000 in 2010 to 5,000 today, and plans for 8,000 by 2020. We factored this strong positioning in our modelling of revenues, projecting the company to comfortably outpace auto-fleet growth.

ACTIVE OWNERSHIP

As an active manager of long-term concentrated portfolios, we place a significant emphasis on stewardship. Engagement is a key element of this. We are motivated by a firm belief that this both helps protect, and enhance the risk-adjusted return on, our clients' capital. We build strong relationships with investee companies and engage in a constructive manner. Our focus will always be on issues that are most material and thus could have an impact on long-term shareholder value, such as strategy, capital structure, governance and wider sustainability matters. While we typically engage in private, we will continue to join collaborative efforts, particularly when deemed likely to be more effective than acting alone. Our decision to pursue the latter will, among other things, be a function of: the particular nature of the issue; the likely efficacy against acting privately; and the degree of alignment with the other investors.

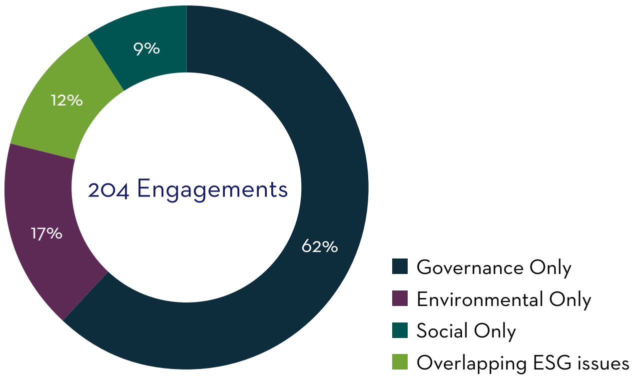
WE BUILD STRONG RELATIONSHIPS WITH INVESTEE COMPANIES AND ENGAGE IN A CONSTRUCTIVE MANNER. OUR FOCUS WILL ALWAYS BE ON ISSUES THAT ARE MOST MATERIAL AND THUS COULD HAVE AN IMPACT ON LONG-TERM SHAREHOLDER VALUE, SUCH AS STRATEGY, CAPITAL STRUCTURE, GOVERNANCE AND WIDER SUSTAINABILITY MATTERS.

NUMBER OF ENGAGEMENTS

187: NUMBER OF COMPANIES PRIVATELY ENGAGED

17: NUMBER OF COMPANIES ENGAGED VIA COLLABORATIVE INITIATIVES

ENGAGEMENTS BY THEME



Source: Martin Currie. Engagement activity is for the period 1 January 2016 – 31 December 2016.

PRIVATE ENGAGEMENT ACTIVITY EXAMPLES: ENGAGEMENT COMPLETE

SHIRE

UK pharmaceuticals company

Reason for engagement: We were concerned that that the disproportionate rise in the CEO's remuneration suggested a lack of depth in the management team, and additionally, that there was insufficient alignment between the articulated corporate strategy and the metrics used in the remuneration framework.

Objectives: We were looking to understand the reasons behind the changes to the CEO's remuneration, encourage a commitment to developing greater depth of talent and see a greater emphasis on returns-based metrics in the remuneration framework, given the focus on acquisitions in the growth ambitions for the group.

Scope and process: We wrote to the company, setting out our concerns ahead of the annual general meeting (AGM), at which the remuneration was being put to a shareholder vote. We held a call with the chair of the remuneration committee ahead of this vote, at which she laid out the thought process behind the changes, but also made a commitment to return to the issue after the AGM. We voted against the proposal and set up a follow-up call with the company's CFO and remuneration consultant, during which we outlined our concerns and pointed them to some examples of good practice at other companies with similar ambitions. The company committed to come back to us, having had the opportunity to reflect on the suggestions and comments made. We held a subsequent call with the chair of the remuneration committee where she explained some proposed changes. The chair of the company subsequently wrote to us to confirm the changes were being made.

Engagement outcome: As a result of the engagement, the company has made changes to its remuneration structure, which we believe better aligns the structure to the strategy. The company has also made a further commitment regarding the CEO's remuneration and talent development. We regard this engagement as a success.

TATTS GROUP

Australian lotteries and gambling company

Reason for engagement: We engaged with Tatts following the board's decision to recommend a merger by scheme of arrangement with competitor Tabcorp, and then again following a subsequent alternative proposal from a consortium. We were concerned that the board's decision to recommend the Tabcorp merger did not reflect the true value of Tatts' lottery business and therefore was not in shareholders' best interests.

Objectives: We wanted to put forward our case that the proposed merger with Tabcorp was not in the best interests of Tatts' shareholders and that alternative strategies to unlock value should be considered.

Scope and process: We held a conference call with the chair and management team following the announcement of the merger with Tabcorp. We subsequently met the chair and management team. In both meetings we expressed our view that the deal was not in the best interests of Tatts' shareholders. We discussed alternative strategies to unlock the value of its lotteries business by separating it and the wagering business in two. We also sought to understand how the board became comfortable recommending the merger proposal, given a pending anti money-laundering court case and ongoing bribery investigation involving Tabcorp. We had a further meeting, in the absence of the board's chair, with the chair of the audit and risk committee, to express our view that the board should engage with a competing subsequent bidder as a means of realising value not apparent in the Tabcorp merger structure.

Engagement outcome: At the time of writing the merger between Tatts Group and Tabcorp is yet to receive approval from the competition commission and Tatts' shareholders. While considering our view, the board remains of the opinion that the merger with Tabcorp was the best option for shareholders in the absence of a superior offer – its view being that the alternative bid was less attractive, due to its incomplete and conditional nature.

PRIVATE ENGAGEMENT ACTIVITY EXAMPLES: ENGAGEMENT ONGOING*

Japanese industrial conglomerate

Reason for engagement: The company approached us, as investors with considerable experience in the Japanese market, seeking input on how to improve its ESG reporting. This followed on from a similar exercise we undertook for another Japanese company the previous year.

Objectives: To help the company to improve its ESG reporting and provide examples of good practice elsewhere in the market.

Scope and process: Our Head of Stewardship reviewed the information provided and prepared a detailed response for the company, focusing on areas that were already strong in its reporting and highlighting areas for improvement, with specific suggestions and examples. These improvements included some broad principles, as well as suggested metrics and reporting that would help investors understand the material factors for the group.

Engagement outcome: We were encouraged by the company's proactive approach. The engagement is ongoing as we will need to monitor to what extent it takes the suggested improvements on board in the next reporting round.

UK media group

Reason for engagement: The group's majority shareholder tabled an offer to buy the shares held by minority investors. This offer was supported by the independent directors at the group. We wanted to understand the approach the independent directors had taken in evaluating the bid, as we felt the takeover price potentially did not reflect the full value of the group.

Objectives: We wanted to understand the approach that the independent directors had taken in evaluating the bid (and coming to the decision to support it) and what the potential outcomes might be.

Scope and process: We initially wrote to the company to outline our concerns and sought input from the independent directors on the process. We then held a call with the lead independent director, talking through our concerns and gaining the perspective of the independent directors.

Engagement outcome: From our discussion with the lead independent director we had some success, gaining greater clarity as to the approach that it took. However, we are not entirely satisfied with the reasoning given and consider this engagement as ongoing while we monitor how the bid situation develops.

*We have chosen not to name companies where engagement is ongoing.

ACTIVE OWNERSHIP

COLLABORATIVE ENGAGEMENT ACTIVITY

Although most of our engagement is private, we have participated in a number of collaborative efforts to address specific issues at companies held in our portfolios. Finding a coalition of like-minded shareholders is a good way of sharing knowledge and can generate more tangible results than acting alone. The following are a few examples of activities we are, and have been, involved in:

Signatory of: *

PRI Principles for Responsible Investment

Hydraulic fracturing ('fracking')	Improving disclosure and encouraging the adoption of best practice in the areas of governance/strategy, water use and quality, air emissions and community impact and consent. **Status: complete.**
Water risks in the agricultural supply chain	Improving disclosure and encouraging the adoption of best practice from food, beverage, apparel, retail and agricultural companies, based on their exposure to water risks. **Status: ongoing.**
Antibiotic use in the food sector	This is an engagement co-ordinated in the UK by ShareAction, in conjunction with Farm Animal Investment Risk and Return (FAIRR), focusing on livestock production and the prophylactic use of antibiotics. We were invited to join this collaborative initiative and decided to offer our support. Many of the companies targeted have responded to initial correspondence, but we are still at an early stage in the process. **Status: ongoing.**
Cybersecurity	The PRI has assembled an advisory committee of investors to build a collaborative engagement project on cybersecurity that will begin in the first half of 2017. We have been working with the rest of the committee members over the last year to refine the scope of the forthcoming engagement, including its main objectives and timeline. **Status: begins first half 2017.**

FINDING A COALITION OF LIKE-MINDED SHAREHOLDERS IS A GOOD WAY OF SHARING KNOWLEDGE AND CAN GENERATE MORE TANGIBLE RESULTS THAN ACTING ALONE.

CASE STUDY: FRACKING

The practice of hydraulic fracturing – commonly referred to as fracking – as a means to extract oil and gas has grown very rapidly over the past decade, particularly in the US, due in no small measure to a quantum leap in technology. However, the enthusiasm for this extractive method has, in many cases, not been matched by an adequate consideration (and accompanying disclosure) of the negative externalities generated – including greenhouse-gas emission leaks, water contamination and a host of other risks. As part of our stewardship efforts we have been keen to explore the issues around fracking more thoroughly. This is why, in 2014, we joined a PRI-coordinated initiative – alongside 41 other signatories, representing some US$5.1 trillion worth of assets – on fracking practices, taking the lead on the engagement with an Asian oil and gas company. Although it took some time to 'break the ice' with senior management and the board, who had not experienced investor questioning in this area before, the eventual dialogue proved very fruitful.

The project, which concluded in 2016, focused on disclosure across four areas – governance, water, emissions and community impact – with the business in question benchmarked against 56 key performance indicators (KPIs), before and after the engagament, to gauge progress. The following are some of the most encouraging outcomes:*

- In 2013, the company had only reported on one of the 56 KPIs. This increased to 41% of the indicators across all four areas by 2016.
- Fracking is now addressed in its sustainability report.
- It has also released its first ESG shale report, covering areas such as water, emissions and community engagement.

The company made a particularly large improvement with regards to water-related disclosure, after not having reported on this at all in 2013. By the end of the engagement, the water disclosure rate had risen to 39% for the water metrics. The company now reports on the hydrological investigation of subsurface water it conducts before the commencement of drilling and well construction.

*Principles for Responsible Investment (PRI) – '*Engaging with oil and gas companies on fracking*' (final engagement report – 2016).

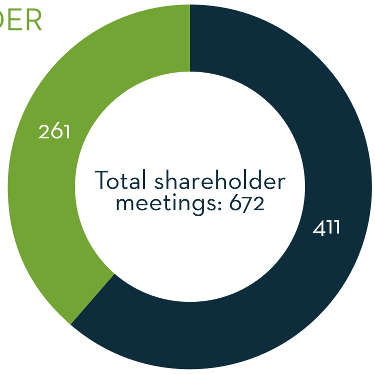
The firm has also disclosed its commitment to well-integrity standards – designed to avoid impact on, and contamination of, groundwater supplies. Seepage and pressure testing is carried out before a well is put into operation. In addition, it now reports on waste-water discharge, including its treatment of flowback and produced water. 100% of waste water is recycled, with flowback and produced water mixed with fresh water for reuse in operations. Although there is still work to do, the company has clearly taken on board some of our feedback and we believe the positive outcome is further evidence of the added influence that can be exerted through joint engagement.

VOTING ACTIVITY

Proxy voting is a key element of stewardship. When voting on behalf of our clients, we consider the long-term economic impact of our voting decisions. Through the course of 2016, a number of common themes were prominent at company AGMs. Remuneration remains under scrutiny and, if anything, the rhetoric is hardening, with a particular focus on quantum, levels of disclosure and the alignment of pay and performance. In addition, following the Paris Climate Agreement in December 2015 (which was subsequently ratified at the end of last year), there were an increasing number of climate-related proposals put to US companies – many of which we have supported. Insufficient independent director representation on boards remained a common issue and, in Asia, we continue to see requests for large, potentially dilutive share issuance authorities. We review all meeting proposals on a case-by-case basis, with our clients' best interests at the heart of all our decisions.

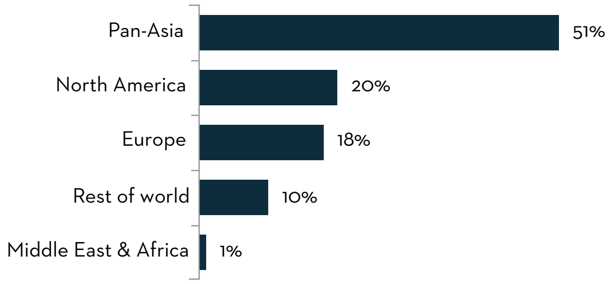
> **...FOLLOWING THE PARIS CLIMATE AGREEMENT IN DECEMBER 2015 (WHICH WAS SUBSEQUENTLY RATIFIED AT THE END OF LAST YEAR), THERE WERE AN INCREASING NUMBER OF CLIMATE-RELATED PROPOSALS PUT TO US COMPANIES – MANY OF WHICH WE HAVE SUPPORTED.**

SHAREHOLDER MEETINGS

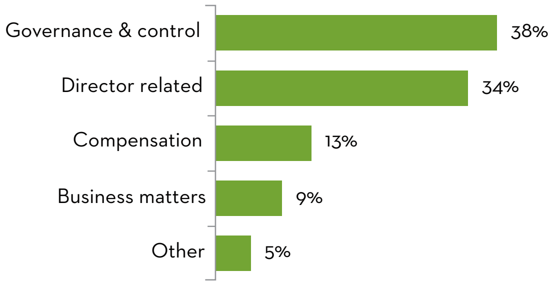


- Number of shareholder meetings at which we voted in line with management
- Number of shareholder meetings at which we voted against management on at least one resolution

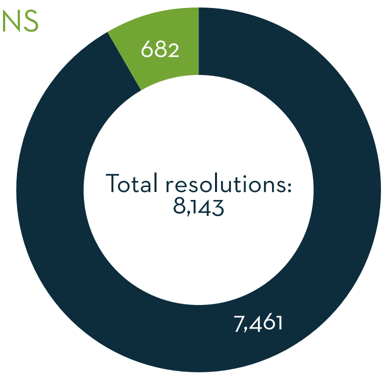
GEOGRAPHICAL BREAKDOWN OF VOTES AGAINST MANAGEMENT



CATEGORIES FOR VOTES AGAINST MANAGEMENT



RESOLUTIONS



- Number of resolutions voted in line with management
- Number of resolutions voted against management

Source: Martin Currie. Voting activity between 1 January 2016 and 31 December 2016.

VOTING EXAMPLES*

South African retail company

Issue: Concerns over a large increase in remuneration for the CEO without sufficient explanation.

Objectives: We were looking to understand the justification for a second significant salary increase for the CEO without any link to performance and any commitment from the company to manage this process in the future.

Scope and process: We contacted the company to outline our concerns. We then arranged an initial call with investor relations and followed this up with a call to the chair of the remuneration committee and the chair of the board.

Outcome: The company provided a clear explanation of why it had chosen to increase the remuneration of the CEO. While it was ultimately the right decision for the business, it understood our concerns about the lack of performance metrics attached. The issue also raised a question about depth of the management team, and we were encouraged to hear this is being addressed. While we understand some of the issues facing the group, we maintained our vote against management and will continue to monitor and engage with them on these issues.

UK industrials company

Issue: Concerns over salary increases above inflation for executives at the company.

Objectives: Our initial intention was to not support management on the remuneration policy and report given the lack of clarity provided around the reasons for the increases.

Scope and process: We contacted the company to outline our concerns. We then scheduled a call with the chair of the remuneration committee to discuss the issues and hear the company's perspective on the proposals.

Outcome: The company provided a clear explanation of the approach it had taken. The group has been growing fast and continues to do so profitably. The alignment of pay with performance is being maintained and peer benchmarking suggests that remuneration levels actually remain relatively modest, while reflecting the tighter market in this particular industry. It confirmed that this is a one-off adjustment, made a commitment to no further changes and also reassured us that any slippage in performance would equally see steps taken to reduce overall packages. In view of this, we accepted that the approach the company had taken was rational and pragmatic, with a firm forward commitment to no further change and we decided to support management on these proposals.

*We have chosen not to name companies in this section.

VOTING ACTIVITY

US consumer company

Issue: Shareholder proposal to provide proxy access.

Objectives: Proxy access is an important shareholder right. It complements other best-practice governance features and is standard in many markets. In our view, proxy access, if structured properly, can provide shareholders with a means of effecting change without incurring the expense of launching a proxy contest. As such, we were looking for the company to adopt proxy access.

Scope and process: We contacted the company to outline our thoughts, highlighting why we felt it appropriate to support the proposal.

Outcome: At the 2016 AGM, the shareholder proposal to adopt a proxy access bylaw was supported by a majority of the shares that voted on the proposal. Subsequently, the group amended its bylaws to permit a shareholder, or a group of up to 20 shareholders, owning three percent or more of the outstanding common stock continuously for at least three years, to nominate and include in our proxy materials director nominees constituting up to two individuals, or 20% of the board, whichever is greater, provided that the shareholder(s) and the nominee(s) satisfy the requirements specified in the bylaws.

Indian Bank

Issue: Director election in question, due to apparent poor board meeting attendance record.

Objectives: We were looking to establish the reasons for the poor attendance record of the director concerned and ready to not support his re-election if no clear and justified reason was given.

Scope and process: We contacted the company to outline our concerns, underlining the importance of board attendance for a director to be able to discharge their duty to shareholders. The company then contacted us to explain that in one case the director concerned had to participate in a board meeting by phone rather than in person. While this is recognised as 'attendance' in many countries, the Indian Companies Act 2013 does not recognise audio participation as attendance.

Outcome: The company provided a rationale for the director's inability to attend in person and we recognise that in many countries audio participation is permitted. As a result, we chose to support the director nomination.

South Korean materials company

Issue: Proposed acquisition.

Objectives: We were looking to understand the rationale for the deal and the potential dilution it could cause.

Scope and process: We contacted the company to express our concerns, specifically those regarding the dilution from the deal and the fact that the target company's activities are not related to the historic core areas of the acquiring business.

Outcome: The company provided a rationale for the transaction with regards to the stability and attraction of the business overall. However, it did not address our concerns about diversification and dilution.
As such, we decided to vote against the proposal.

US tobacco company

Issue: Potential director 'overboarding'.

Objectives: We were concerned that one of the independent directors on the board of what is a complex company, was not in a position to dedicate sufficient time to this role. The firm had previously made a commitment that the external board positions held by this individual would be reduced.

Scope and process: We contacted the company to outline our concerns, explaining our view that all directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively and that directors with substantial full-time roles elsewhere have even less time to devote to outside board directorships.

Outcome: The company had previously made the commitment that the number of boards on which this individual served was going to be reduced. However, this was not the case, and it was unable to provide a satisfactory explanation or future commitment to bring this about. In light of this, we chose not to support the director nomination.

OUTLOOK

Many of the themes highlighted in last year's stewardship report – such as water scarcity, cybersecurity and technological disruption – continue to be highly relevant for investors in 2017. There have been significant changes on the global political scene over the past 12 months, some of which cannot be ignored from a sustainability perspective. In particular, we will watch developments in the US as these will be of both domestic and international consequence.

While the contours of President Donald Trump's policy agenda are slowly emerging, there is still significant uncertainty as to his ultimate approach in many areas – climate change and energy being particularly hard to call.

However, taking the long view, we believe global efforts to decarbonise will at most be slowed (and not reversed), particularly following the swift ratification of the Paris Agreement on climate change and the rapidly improving economics of clean energy technologies. We continue to assess the extent to which companies are transitioning from treating climate change as an operational issue to a strategically important one. And, critically, we believe leadership here is likely to translate into significant competitive advantages over time.

Elsewhere, the UN Sustainable Development Goals (SDGs) are coming into increasing focus by asset owners and the investment management industry. Although the large number of goals (17 in total, encompassing a mighty 169 targets) poses some challenges, the general framework is a useful reference point for companies and investors seeking to align their strategies with sustainability.

Looking at specific areas of research for the year ahead, we are likely to spend more effort around major issues such as food safety and corporate governance reform. The importance of the former cannot be overstated, with the World Health Organisation (WHO) having warned that antibiotic resistance is one of the biggest threats to global health today. Worryingly, an expanding list of infections, including pneumonia, tuberculosis and blood poisoning are becoming increasingly difficult and sometimes impossible to treat. The overuse of antibiotics in agriculture is widely recognised as a contributing factor to this crisis. As investors, we need to understand the attendant systemic risk affecting the food, farming and pharmaceutical industries and, as mentioned, we are involved in an ongoing collaborative engagement initiative in this specific area.

As for the hot topic of corporate governance, we expect to see greater government-led efforts (particularly in the UK, where proposals are currently out for consultation) spanning topics such as executive pay, directors' duties and board composition. This is not to say that companies and investors are not also pushing for change, with the US-focused 'Commonsense Corporate Governance Principles' and other initiatives led by large asset managers illustrating the seriousness with which this issue is being taken. Tied to this, we note the continued proliferation of stewardship codes – with a revision of Japan's code likely – and evolution of alternative reporting frameworks, such as that developed by the Sustainability Accounting Standards Board. Again, these show the global momentum behind better disclosure and more long-term thinking; trends which we at Martin Currie will play an active part in.

WE CONTINUE TO ASSESS THE EXTENT TO WHICH COMPANIES ARE TRANSITIONING FROM TREATING CLIMATE CHANGE AS AN OPERATIONAL ISSUE TO A STRATEGICALLY IMPORTANT ONE.

For access to some of our insights on stewardship, visit our website
www.martincurrie.com

IMPORTANT INFORMATION