STEWARDSHIP MATTERS

MARTIN CURRIE

STEWARDSHIP & ESG

JULY 2021

INVESTING TO IMPROVE LIVES™

www.martincurrie.com

INTRODUCTION

Welcome to Edition 3 of STEWARDSHIP MATTERS, our regular review of Martin Currie's work in the stewardship and ESG space, and our insight into future trends.

For each edition, we ask our investment teams in Edinburgh, Singapore and Melbourne to share their sector and regional insights, their ongoing development of ESG tools, and the outcomes of engagement activities that they are undertaking on our clients' behalf.

In this edition, we have specifically focused on **quantifying the impact and opportunities of decarbonisation.**

Mel Bucher
Co-Head of Global Distribution

Kimon Kouryialas
Co-Head of Global Distribution

David Sheasby
Head of Stewardship and ESG

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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.

FOREWORD

Julian Ide
Chief Executive Officer

Now, more than five years on from the original Paris Agreement, we are finally starting to see real commitments and action on lowering carbon emissions from countries, regions, cities, businesses, and investors.

With the 26th UN Climate Change Conference of the Parties (COP26) being held in Glasgow later this year, we are pleased to see that the United Kingdom as hosts are looking to take a leadership role in setting out clear ambitions for the UK economy – the first G20 country to legislate for net-zero greenhouse gas emissions by 2050.

Looking at the momentum of net-zero commitments from across private and public sectors, there is a fundamental change away from reacting to climate risk, towards strategic alignment with the Paris goals and a decarbonised economy.

We recognise that decarbonisation is a journey with significant challenges. For us as investors, the key is about how we can work in partnership with our clients and our investee companies to facilitate this journey. With this is mind, we are proud to have become a signatory to the Net Zero Asset Managers Initiative. Taking action on such a commitment is no small task and we will spend the next 12 months engaging with clients and conducting detailed analysis of portfolios with the intention of setting out our own specific targets in relation to aligning portfolios with net zero by 2050.

In this edition of STEWARDSHIP MATTERS, we have focused on the important work our investment teams are undertaking in quantifying the impact and opportunities of decarbonisation. Specifically, we have highlighted how this supports our investment decision-making and risk management, as well as how we work with clients on their carbon requirements.

While this edition focuses on the evolution of our investment process, it also touches on what we are doing as a business to minimise our own carbon impact and in particular, the work we have been doing to identify and effectively offset those emissions created in the normal course of business. In our next edition in October 2021, we will be expanding on this further as we look more broadly at how we deliver on our corporate mission – **Investing to Improve Lives™**.

STEWARDSHIP AND ESG FIRMWIDE HIGHLIGHTS: 1H 2021

ENGAGEMENTS

27	MARKETS COVERED
147	COMPANIES ENGAGED
361	TOTAL ENGAGEMENTS

TOP ENGAGEMENT TOPIC:
GOVERNANCE

PROXY VOTING

36	MARKETS COVERED
302	TOTAL SHAREHOLDER MEETINGS
129	MEETINGS WHERE WE VOTED AGAINST MANAGEMENT

3,510	TOTAL RESOLUTIONS:
331	RESOLUTIONS VOTED AGAINST MANAGEMENT

TOP VOTING TOPIC AGAINST MANAGEMENT:
DIRECTOR RELATED

FOR US AS INVESTORS, THE KEY IS ABOUT HOW WE CAN WORK IN PARTNERSHIP WITH OUR CLIENTS AND OUR INVESTEE COMPANIES

CARBON THAT GETS MEASURED GETS MANAGED

John Gilmore
Stewardship & ESG Specialist

Martin Currie's Stewardship Institute recently published a four-part series of white papers on climate change. In it, we outlined that the key to limiting warming at any level requires reducing carbon emissions to net zero.

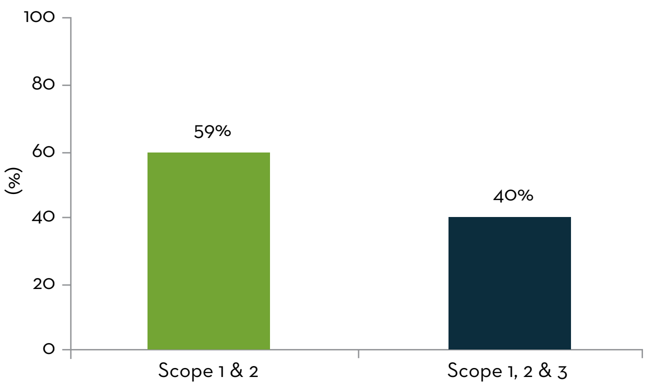
Ultimately, net emissions need to get to zero by 2050 to have a good chance of limiting temperature rises to 1.5 degrees above pre-industrial levels. The pathways that companies can follow to get to net zero are complex and are moving targets as the science and solutions evolve.

There is, however, an implicit 'carbon' budget for any predicted temperature increase, and a key input in assessing this likely temperature rise is the accurate measurement of emissions that are taking place.

Measuring carbon consistently is therefore very important. As management guru Peter Drucker is often quoted to have said, 'What gets measured gets managed'. However, defining the measurement of carbon is part of the challenge. What should be the unit of measurement – emissions or intensity? What type of greenhouse gas emissions should be included? And how wide should the consideration be – Scope 1, 2 or 3?

> **Scope 1:** greenhouse gas emissions based on company-specific direct emissions
>
> **Scope 2:** indirect emissions from electricity generation
>
> **Scope 3:** upstream and downstream value-chain activities

MSCI ACWI stocks that disclose carbon emissions



However, the reality is that even with the increased focus on climate that has happened in the five years following the Paris Agreement, only 59% of companies of the 2,854 companies within the MSCI ACWI disclose Scope 1 & 2 emissions, and even fewer disclose their Scope 3 emissions on top of this[1].

Measuring the authenticity of ambitions

Under the umbrella of the UN Race to Zero campaign, we are seeing an increasing number of companies setting out their ambitions to align with the ambitions of the Paris Agreement. Assessing the authenticity of these ambitions is the next challenge.

It is helpful to get external verification of the targets that companies set and a view of the degree to which these are aligned with these climate ambitions – The Science Based Targets initiative SBTi) is a good example of this: 1,559 companies have joined the SBTi, and around half these already have targets that are verified[2].

Factoring climate change into financials

How companies integrate their approach to climate change and assumptions about the future into their financial accounts is also increasingly in focus, and a useful tool of measurement.

Investors are interested in how the narrative is reflected in financial assumptions, with auditors expected to challenge and hold management to account where these do not line up.

The consequences can be material, as **BP** and **Shell** saw when they had to write down asset values once these were aligned.

Everything starts with disclosure

When analysing companies for climate change, our expectations begin with disclosures – in particular regarding emission targets.

We also expect companies to identify, manage and integrate associated risks & opportunities into strategy. As supporters of the TCFD, we also look for companies to report through this framework.

These expectations also help frame our company engagement, and there is an increasing emphasis by our investment team on accountability with regards to director and audit-related climate matters.

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.

[1] Source: MSCI, Martin Currie; as of 30 June 2021. Percentage based on equal weighted index.

[2] Source: SBTi, Martin Currie; as of 30 June 2021. Full list of companies available at https://sciencebasedtargets.org/companies-taking-action#table

FUTURE-PROOFING OUR ESG TOOLKIT WITH CARBON MEASUREMENT

At Martin Currie, we are increasingly using Scope 1, 2 and 3 carbon emissions to frame our ESG analysis and engagement. We have continued to develop new initiatives in carbon measurement in our efforts to achieve best-in-class ESG outcomes at the companies we invest in.

MARTIN CURRIE AUSTRALIA

Reece Birtles, CFA
Chief Investment Officer,
Martin Currie Australia

In the first edition of STEWARDSHIP MATTERS, we introduced the proprietary Carbon Value-at-Risk (VaR) tool that the Martin Currie Australia (MCA) team developed and is now in wider use across all Martin Currie investment teams.

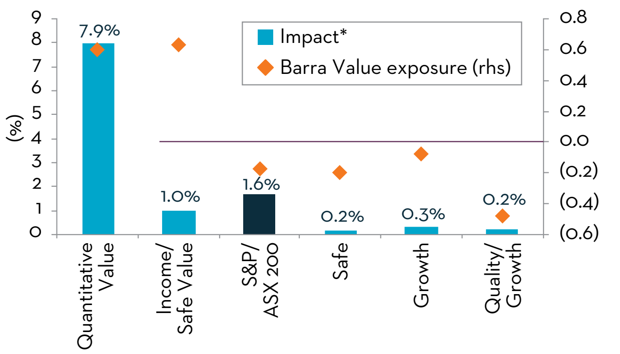
This tool, which applies an implicit 'shadow carbon price' doubles as a very important measure of the overall risk for companies in our investment universe. Importantly, our analysis takes into consideration the ability of a company to pass Scope 1, 2 and 3 carbon costs through to customers.

We would point out that Scope 1 and 2 emissions can be readily offset by companies in the form of purchasing carbon offsets. For example, the investment in new technology (e.g., wind generation, hydrogen, solar) and divestment of activities which have high associated carbon emissions. On the other hand, Scope 3 emissions, which capture downstream value-chain activities, better reflect a company's strategic risk with regards to carbon.

Why does this matter? Think about this example – an Australian company exporting fossil fuels to overseas markets would be at risk should the recipient country transition to new clean energy sources of power which no longer require fossil fuels such as coal or gas.

As MCA is a Value-style investment team, understanding the strategic risks of our portfolio is particularly important as Australian Value strategies often rate poorly on carbon and environmental credentials, due to sector biases and the industry skew of the S&P/ASX 200.

Shadow carbon cost impact for quantative style portfolios



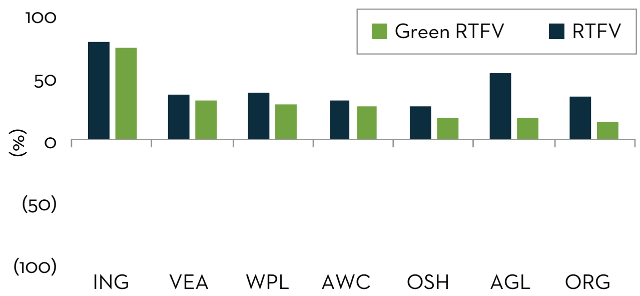
Past performance is not a guide to future returns.

Source: Martin Currie Australia, MSCI Barra; as of 31 March 2021. Based on hypothetical quantitative style portfolios for illustrative purposes only.
*Impact is shown as a negative impact on market cap.

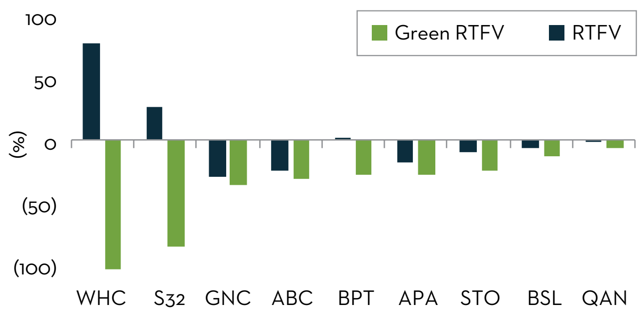
As a result, Value-style strategies typically have higher carbon exposure than Quality/Growth style strategies.

The Carbon VaR tool helps us compare our standard Return to Fair Value (RTFV) metric versus a 'Green' RTFV that incorporates the shadow carbon cost. This distinguishes between stocks that are attractively valued, even after incorporating a carbon cost (such as **Inghams Group**, **Viva Energy** or **Woodside Petroleum**), and those that we think are unlikely to survive in a low-carbon future (such as **Whitehaven Coal**).

High Shadow carbon/attractive valuation



High Shadow carbon/poor valuation



Past performance is not a guide to future returns. The information provided should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any of the security transactions discussed here were, or will prove to be, profitable.

Source: Martin Currie Australia, as of 31 March 2021. Data shown for illustrative purposes only. Shows all SP/ASX 200 stocks with a Shadow Carbon Cost impact of greater than 4%.

The Carbon VaR tool also helps identify Value-style stocks that will either benefit or have a minimal impact on earnings from the transition.

Importantly, the way that our Carbon VaR tool captures the transition to a low-carbon economy is largely based on our own fundamental insights as to how business models will perform in the new world.

FUTURE-PROOFING OUR ESG TOOLKIT WITH CARBON MEASUREMENT

ASIA LONG-TERM UNCONSTRAINED (ALTU)

Andrew Graham
Head of Asia & Portfolio Manager, ALTU

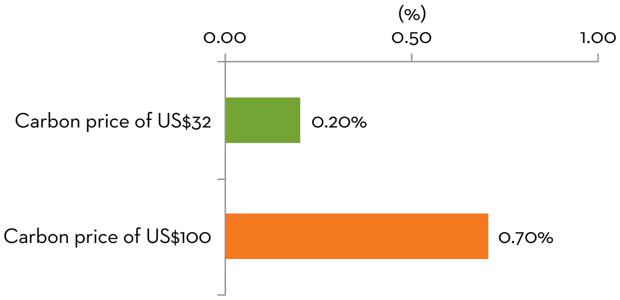
Along with the other Martin Currie investment teams, the Asia team has undertaken a Carbon VaR analysis of portfolios.

This analysis allows several benefits to us and our clients.

- Firstly, it allows us to be more aware of carbon risk at both an individual company and portfolio level.
- It also allows us to stress test the portfolio with considerably higher shadow carbon pricing than currently in use in our base case (US$32).
- It is also a good way of cross-referencing likely risk with levels of disclosure. Where we find it lacking, we encourage better disclosure on the most material issues pertinent to a company's prospects.
- Finally, it enables us to report on both overall portfolio exposure to carbon risk and to highlight which holdings would appear to have the greater risks.

The results show that the ALTU portfolios have very low exposure to shadow carbon risk affecting pre-tax profits at either US$32 or higher (stress tested at US$100), with just a few exceptions at the stock level.

Aggregate ALTU portfolio annual profit at risk – base & stress carbon price scenarios



Past performance is not a guide to future returns.

Source: Martin Currie Australia, as of 31 March 2021. Data shown for a representative ALTU portfolio.

Notably those exceptions are companies where a major part of our investment case is specifically how they will be dealing with and benefiting from the transition to a lower carbon economy.

GLOBAL LONG-TERM UNCONSTRAINED (GLTU)

Zehrid Osmani
Head of GLTU,
Portfolio Manager

We have been continuing to deepen our fundamental research on each stock that we cover through enhancement in our assessment of carbon intensity.

Our proprietary geographic database, which estimates geographic exposures of revenues and profits, has now been enhanced to include an assessment of the geographic production bases of each company.

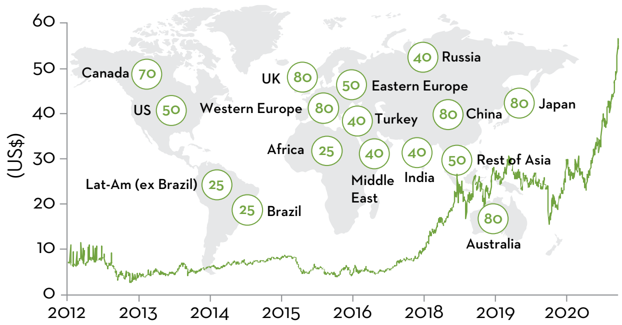
This enhancement permits us to deploy our Carbon VaR analysis on a more granular basis, and also aggregate each company's carbon intensity into portfolio level estimates.

In addition, we have been further segmenting the European geographic exposures into Northern and Southern Europe, to further nuance our analysis.

Our framework permits us to flex our assumptions, based on different country/regional approaches to carbon costs. We are mindful that carbon costs will differ by geography, depending on each region's momentum and appetite to increase carbon costs and incentivise companies to make more rapid progress towards reducing their carbon footprint.

The map below highlights the assumptions that we are currently using per region. Importantly, we can flex these assumptions from spot price assessments to future carbon prices, given the likely ongoing appreciation of carbon prices.

Carbon Emission Futures – price



Source: Martin Currie and FactSet as of 31 March 2021.

Over the next few months, we are planning a series of targeted engagements with all our investee companies, to enhance our database on carbon intensity targets and to better understand the plans and progress towards these targets.

FUTURE-PROOFING OUR ESG TOOLKIT WITH CARBON MEASUREMENT

GLOBAL EMERGING MARKETS

Alastair Reynolds
Portfolio Manager,
Global Emerging Markets

Our process appreciates that Emerging Market (EM) companies, governments and shareholders are on a journey when it comes to carbon emission reduction.

In our experience, there is a clear appetite for engagement and learning from EM companies on carbon.

We have leveraged the Carbon VaR tool to increase our understanding of carbon risk exposures of the companies we invest in, and to shape our discussions on the impact of climate change on the business with their management teams.

Rather than necessarily indicating weak underlying practice, poor carbon results are often a matter of disclosure, with management lacking an awareness of the importance investors attach to these factors.

Our input is increasingly recognised by companies and we are regularly approached to provide input and support to improvement initiatives.

As a result, when a firm initially falls short of our expectations, it will not automatically be ruled out if we can see potential and a willingness to improve. As responsible investors, we encourage companies to pursue environmentally sustainable business strategies irrespective of their industry or location.

> OUR INPUT IS INCREASINGLY RECOGNISED BY COMPANIES AND WE ARE REGULARLY APPROACHED TO PROVIDE INPUT AND SUPPORT TO IMPROVEMENT INITIATIVES.

EXPLORING CARBON THEMES

Below we have gathered some of the key carbon-related insights that our investment teams around the globe have been discussing with investee companies and our clients.

MARTIN CURRIE AUSTRALIA

Will Baylis, GAICD
Portfolio Manager

Carbon emissions and their impact on stock valuations are both a risk and opportunity for Australian stocks in 2021 and beyond.

Our work in shadow carbon is based on the belief that high-emitting companies will ultimately have to pay a large economic cost, via taxes and regulation. The transition to cleaner sources of energy and the potential for stranded assets, such as coal or redundant infrastructure currently employed in the use of fossil fuels, offer both risks and opportunities.

While no punitive carbon policies are currently law in Australia, we need to take pre-emptive investment decisions, so we are not landed in 2023, 2024 or 2025 with a company that has lost half its value. Our challenge as an active fund manager is also to identify the companies that stand to benefit from this thematic over the next 10 years.

We have found that there are a number of Australian companies with high carbon emissions which we believe can pivot successfully toward a lower carbon future.

For example, **Worley** is a global consulting and engineering company in the energy, chemicals and resources industry. Worley has identified that there will need to be substantial investment in renewable capacity over the next decade to meet the Paris climate goals and net-zero emissions 2050 targets. Worley is already exposed to significant work in decarbonisation projects such as hydrogen, waste to energy, carbon capture and electrification. Of Worley's top 20 customers, 70% have publicly stated emissions reduction targets and 100% are investing in decarbonisation[3].

Downer, a service provider to power generation companies is similarly well placed. Disruption of traditional energy infrastructure will be a big opportunity for Downer, as both governments and companies are forced to transition from fossil fuel-based energy grids to renewable energy infrastructure and energy grids.

Australia is also viewed by Japan as an attractive market for renewables investment. Australia and Japan are developing hydrogen as a new source of energy, with Japan a market leader in hydrogen-powered motor vehicles. Australian companies such as **Woodside Petroleum** could also be beneficiaries in 10 or 15 years if they can export hydrogen to Japan. Woodside Petroleum is already operating a pilot green-hydrogen plant at Bells Bay, Tasmania. While there are several technical challenges to make this a full-scale commercial project, especially given the amount of energy required to produce green hydrogen, this journey is underway.

AGL Energy is also working on a pilot hydrogen plant adjacent to its Loy Yang generator in the Latrobe valley, in partnership with the Japanese, Victorian and Australian governments. The technology converts brown coal into hydrogen, and should this be successful, will put Australia in a competitive position for the export of hydrogen.

Finally, a separate opportunity we are seeing is Australian companies changing their business structure to become more appealing to ESG-focused investors. **AGL Energy** is in the preliminary stages of demerging its clean energy and retail division from its coal-fired power generation businesses. The catalyst for this change is that many investors cannot buy AGL shares due to its coal assets. Also, retail customers increasingly want clean energy options. Furthermore, the changes should lead to the market fully valuing the renewable energy components of AGL's generation business which is a key part of AGL's transition towards renewable energy for its entire portfolio.

> **THE TRANSITION TO CLEANER SOURCES OF ENERGY AND THE POTENTIAL FOR STRANDED ASSETS, SUCH AS COAL OR REDUNDANT INFRASTRUCTURE CURRENTLY EMPLOYED IN THE USE OF FOSSIL FUELS, OFFER BOTH RISKS AND OPPORTUNITIES.**

[3]Source: Worley, Macquarie Conference 2021 presentation, available from https://company-announcements.afr.com/asx/wor/26bdb502-ac5f-11eb-9373-3a2146ca3430.pdf

EXPLORING CARBON THEMES (CONT)

ASIA LONG-TERM UNCONSTRAINED (ALTU)

Paul Danes

Portfolio Manager, ALTU

Asia is home to over half the world's population and is steadily growing in prosperity, but this will bring increase increased energy demands and carbon emissions.

Some of the largest economies (China and India) remain heavily dependent on coal as a primary energy source. This creates a major challenge for the region.

How do you transition to a lower-carbon economy while also growing rapidly and pulling more and more people out of poverty?

Three of the more developed and highest emitting countries – China, Japan and Korea, have in the last 12 months committed to a carbon-neutral target. The dates set are 2060 for China and 2050 for the others. This long runway points to the challenges, but also suggests great risk in execution in the early years.

Nevertheless, with the transition underway both in the region and globally, there are some important drivers where Asian companies have a dominant market position.

One example is electric vehicle (EV) batteries, where almost all the major manufacturers are listed companies in Asia, with **LG Chem** being a key example. Leading-edge semiconductor companies, (for instance, **Samsung Electronics** and **TSMC**), are also very concentrated in listed Asia, and will be vital not only for EV's but also as a driver of more energy-efficient electronics in general.

> THREE OF THE MORE DEVELOPED AND HIGHEST EMITTING COUNTRIES – CHINA, JAPAN AND KOREA, HAVE IN THE LAST 12 MONTHS COMMITTED TO A CARBON NEUTRAL TARGET.

GLOBAL LONG-TERM UNCONSTRAINED (GLTU)

Robbie McNab

Portfolio Manager, GLTU

Globally, improved progress on carbon disclosure will lead to healthy competition and growth.

For us, reducing carbon emissions goes hand in hand with long-term investing. After all, sustainable investing is about growth, coupled with positive impact of a company's activities on its social and natural environments.

Generally speaking, most of the companies in our GLTU investment universe either have targets related to lowering their carbon intensity and/or have net-zero related ambitions or are in the process of considering integrating these into their mid-term plans.

We believe that this will continue to be a growing trend, with the prediction that in due course, all the companies that we own will have goals related to net zero targets.

In our view, this will lead to a healthy competitive dynamic between corporates. That is, a race to try and reach their respective net-zero targets (or beyond) sooner than each other.

For example, **L'Oreal** a sustainability leader across several pillars, is committed to carbon neutrality across all of its sites by 2025[4]. **Autodesk**, a US technology design and engineering firm has achieved net-zero carbon across its business and value chain in FY21 and is using 100% renewable energy for its cloud services[5]. Within the auto industry, **Ferrari,** the luxury manufacturer, is seeking to make an impact on emissions and has a commitment to 60% hybridisation in 2022[6].

> FOR US, REDUCING CARBON EMISSIONS GOES HAND IN HAND WITH LONG TERM INVESTING. AFTER ALL, SUSTAINABLE INVESTING IS ABOUT GROWTH.

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.

[4]Source: L'Oreal, Fighting Climate Change, available from https://www.loreal.com/en/commitments-and-responsibilities/for-the-planet/fighting-climate-change/

[5]Source: Autodesk, The Journey to Net Zero and Beyond , available from https://adsknews.autodesk.com/views/journey-to-net-zero

[6]Source: Ferrari, 2019 company presentation, available from https://corporate.ferrari.com/sites/ferrari15ipo/files/2019_05_-_company_presentation.pdf

EXPLORING CARBON THEMES (CONT)

GLOBAL EMERGING MARKETS

Andrew Mathewson, CFA
Portfolio Manager,
Global Emerging Markets

The trend of increased disclosure on carbon and other greenhouse gas emissions is also noticeable in the Emerging Markets.

At present, there is no single measurement standard or method of audit that companies have adopted. However, most EM companies now produce reasonably informative English-language sustainability reports.

The area for ongoing improvement is the adoption of audited sustainability reporting standards and the provision of consistent data, and it is becoming standard practice to disclose at least Scope 1 and 2 emission data.

Within the more energy-intensive sectors there is a growing expectation that firms will have to adopt a reporting method consistent with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). This should bring a much-needed boost to the consistency of measurement and disclosure across emerging markets.

In the most recent annual reporting round, there has been a far higher level of direct acknowledgement of host country-level net-zero ambitions when companies are disclosing their own emission levels and setting reduction targets. This highlights the role that net-zero targets will play in aligning the policies of corporates even before governments form their own regulations to assist with achieving their country-level ambitions.

Our investments in energy-intensive sectors favour businesses that are already driving the transition towards carbon reduction. Through **China Gas** we have exposure to gas distribution, a growing industry through which increased gas adoption is displacing coal consumption. With an increasing choice of competitive energy sources available to consumers in emerging markets our strategy excludes investment in the highest carbon-exposed areas such as thermal coal mining and coal-based power generation.

On the renewable side of the spectrum, we have a diverse mix of opportunities covering energy production and renewable technology manufacturing. Our investments include renewable energy solutions for transport with Brazilian bio-ethanol producer, **Cosan**, as well as three of the world's leading electric vehicle battery manufacturers **Samsung SDI, LG Chem** and **CATL**. Beyond transport, we also have an investment in the world's largest supplier of solar glass, Xinyi Solar.

WITHIN THE MORE ENERGY-INTENSIVE SECTORS THERE IS A GROWING EXPECTATION THAT FIRMS WILL HAVE TO ADOPT A REPORTING METHOD CONSISTENT WITH THE RECOMMENDATIONS OF THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD).

FOCUS ON CARBON ENGAGEMENTS

Below we highlight recent carbon-focused engagements undertaken by our investment teams.

MARTIN CURRIE AUSTRALIA

Michael Slack, CFA
Head of Research,
Martin Currie Australia

We have had ongoing engagement with several Australian resource-focused companies on the topic of carbon emissions and plans for their reduction.

While companies such as **BHP** and **Rio Tinto** have announced ambitious 2030 targets for Scope 1, 2, and 3 emissions, a particularly interesting engagement topic has been the merit of carbon offsets within net zero targets.

We discuss our recent conversations with Woodside Petroleum below:

- **Woodside Petroleum** (WPL) produces significant levels of Scope 1 and 2 emissions as a by-product of producing LNG. In 2020, WPL committed to be carbon neutral by 2050 with the aim to meet these targets by avoiding emissions through design, reducing emissions through operations and offsetting emissions, by both acquiring and originating quality offsets in the form of planting native trees.
- While we have traditionally been sceptical on offsets versus actual reduction, its regulator sees efforts on tree offsets as sufficient.
- Woodside has told us that it believes that *"tree planting (in Australia) has significant potential to deliver carbon offsets due to the availability of suitable land, and the biodiversity and regional economic development co-benefits that it can bring*[7]*"*.
- In 2020, it acquired three properties in Western Australia for this goal. It has also committed to incorporate appropriate measures to link remuneration with carbon targets, and work on design and operational activities to reduce its baseline through carbon-capture technology and flare reduction.

We will continue to engage and monitor its progress in this space.

WE HAVE HAD ONGOING ENGAGEMENT WITH SEVERAL AUSTRALIAN RESOURCE-FOCUSED COMPANIES ON THE TOPIC OF CARBON EMISSIONS AND PLANS FOR THEIR REDUCTION.

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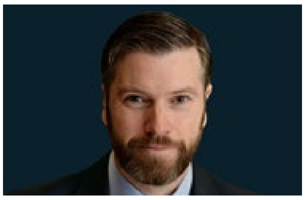
[7] Woodside 2020 Sustainable Development Report.

FOCUS ON CARBON ENGAGEMENTS (CONT)



ASIA LONG-TERM UNCONSTRAINED (ALTU)

Damian Taylor, CFA
Portfolio Manager, ALTU

The style of ALTU, with its long-term focus on sustainable, high-return companies, has meant that we have never been highly exposed to companies with significant carbon risks.

As a result, carbon exposure and risk have tended to be the subject of company engagements in more nuanced ways.

The first has been engaging with companies which can benefit from decarbonisation trends and understanding the progress their business is making to align with that goal.

- With **ENN** for instance, we have been actively speaking with management about progress in its Integrated Energy Business. While the main energy input here remains natural gas (itself a vital transition fuel in China to a lower emission and less polluting energy mix), it is also engaged in including more renewable sources, particularly solar, biomass and geothermal heat, which have resulted in projects significantly cutting carbon emissions. Furthermore, a key element of the proposal is more efficient use of energy, for example waste energy recycling.
- In the case of **LG Chem** and **Minth**, we have focused on how decarbonisation trends are positively impacting each business. For the former with regard to its EV battery business, and for the latter, in relation to its supply of housing for batteries. Specifically, we have a particular interest in new contract wins and an understanding of capacity expansions.

> CARBON EXPOSURE AND RISK HAVE TENDED TO BE THE SUBJECT OF COMPANY ENGAGEMENTS IN MORE NUANCED WAYS.

ASIA LONG-TERM UNCONSTRAINED (ALTU)

Andrew Graham
Head of Asia & Portfolio Manager, ALTU

We have also been engaging with banks and insurance companies who can make an impact via changing their lending policies and portfolio investments in the carbon extractive and power plant industries.

- In the case of AIA, our engagement led to a greater understanding of the company's roadmap to divest from coal-linked assets and the opportunity, as a leading regional institutional investor, to more generally reduce the carbon impact of its investment portfolio by encouraging investee companies to take steps in that regard. AIA has a clear ambition to lower carbon exposure as a percent of AUM each year.
- Through engagements, United Overseas Bank (UOB) has explained its carbon approach, where for example it stopped making loans for coal-fired power plants. It has also highlighted its own ESG ratings which in turn lead to greater levels of due diligence by taking into account ESG-related risks and opportunities. UOB has recently appointed its Head of Finance as Chief Sustainability Officer, adopting green goals including the development of specific targets for the bank's own carbon footprint and more broadly for its performance indicators.

We look forward to continuing our constructive engagements with these companies and view positively the steps both have already taken.

> IN THE CASE OF **AIA**, OUR ENGAGEMENT LED TO A GREATER UNDERSTANDING OF THE COMPANY'S ROADMAP TO DIVEST FROM COAL-LINKED ASSETS

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FOCUS ON CARBON ENGAGEMENTS (CONT)

Global Long-Term Unconstrained (GLTU): We have recently been engaging with companies across all sectors on carbon intensity and how they are tackling the related business challenges.

GLOBAL LONG-TERM UNCONSTRAINED (GLTU)

Ken Hughes
Portfolio Manager, GLTU

In the autos sector, the clear challenge is one of tackling the need to rapidly transition its products from combustion engines to fully electric engines, as regulation across various geographies is increasingly becoming more demanding and bringing a ban on new sales of combustion engines sooner into the future.

- **Ferrari** is our only holding in the autos sector, so this topic has been an important discussion point in many of our interactions with the company.

  We understand that it is likely that Ferrari, being a luxury sports cars specialist, will be later than the industry average in fully transitioning, but we believe that given its R&D focus and innovation, it will be able to manage the transition, and fully shift its product line-up to fully electric over the next 1-2 decades.

  Saying that, its first mass-produced hybrid offering, the SF90 Stradale, is already the best-selling car of its current product line-up.

> IN THE AUTOS SECTOR, THE CLEAR CHALLENGE IS ONE OF TACKLING THE NEED TO RAPIDLY TRANSITION ITS PRODUCTS FROM COMBUSTION ENGINES TO FULLY ELECTRIC ENGINES

GLOBAL LONG-TERM UNCONSTRAINED (GLTU)

Zoe Hutchison
Investment Analyst, GLTU

We have been having some interesting engagements with industrials companies:

- **Hexagon** is involved in helping corporates increase their robotics and automation throughout their production lines, which itself is part of helping companies reduce their carbon footprints over time.

  Hexagon appointed Maria Luthström as Head of Sustainability last year, which marked an important step towards a more coordinated approach to sustainability across the group.

  We have engaged with Hexagon and discussed the progress the company has already made towards its net-zero targets, where it sees more work needing to be done and opportunities to be a positive contributor to global carbon neutral goals, both through internal practices and the products they produce.

  This will be an area of ongoing regular discussions with the company to see how it is progressing and how its targets are evolving.

> WE HAVE ENGAGED WITH HEXAGON AND DISCUSSED THE PROGRESS THE COMPANY HAS ALREADY MADE TOWARDS ITS NET-ZERO TARGETS

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FOCUS ON CARBON ENGAGEMENTS (CONT)

GLOBAL LONG-TERM UNCONSTRAINED (GLTU)

Amanda Whitecross
Portfolio Manager, GLTU

In the consumer sector, and specifically within the luxury segment, carbon intensity is related to both the production of goods, but also to excessive consumption (notably in the fast fashion segment).

- We have been engaging with **Moncler's** Head of Sustainability to discuss the company's approach to reducing the carbon footprint of its activities, and to influence consumers' behaviours as a way of helping to reduce waste, given the brand's origins and DNA of being close to nature, and therefore the importance of safeguarding nature's beauty.

  We have been engaging notably on the approach to stimulating the circular economy. Moncler has created a fully carbon-neutral jacket ('Grenoble') from significant recycled materials and offsetting the emissions as a result. The company has a 2025 target of 50% recycled nylon[8], even if it admits that this is a demanding target. It admits that there are constraints in getting the same technical specification out of recycled nylon as from standard nylon, but the company has been channelling R&D efforts towards achieving breakthroughs.

  Extending product life is another initiative worth highlighting. Moncler provide the 'Extra Life' repair service for personalised 'patches'. Moncler is also running a 'Take me back' project where consumers can take their jackets into specific stores to get a refresh.

THE COMPANY HAS A 2025 TARGET OF 50% RECYCLED NYLON, EVEN IF IT ADMITS THAT THIS IS A DEMANDING TARGET.

GLOBAL EMERGING MARKETS

Divya Mathur
Portfolio Manager,
Global Emerging Markets

Cement is one of the most energy intensive production processes that we have in our society today, and India is one of the most coal dependent countries in the world.

We have had ongoing engagement with **UltraTech**, a leading Indian cement company, both privately since 2016, and also collectively under the banner of Climate Action 100+ since 2020.

We have been on a journey since 2015 with the company, engaging with it right across the value chain regarding best practice on carbon emissions, targets and disclosures.

Discussions over the years have helped us to understand the carbon impact of its business practices.

The company has implemented initiatives to source a cleaner and renewable energy source for meeting some of its production-related energy requirements. It has also undertaken energy conservation and production optimisation initiatives to reduce energy consumption.

The company has been implementing emissions reduction initiatives over a period of time and has been lowering the percentage of clinker in the mix, as well as using alternative materials in its manufacturing process which help reduce GHG emissions. UltraTech also collects waste from municipal bodies and other industries for co-processing in its kilns. This not only helps the units in reducing the consumption of fossil fuels but also helps in eliminating harmful waste from environment.

We are working with the company to identify the key areas of carbon reduction and the setting of key targets is still ongoing. UltraTech is very proactive so far and we expect this to continue with its CFO leading the project.

DISCUSSIONS OVER THE YEARS HAVE HELPED US TO UNDERSTAND THE CARBON IMPACT OF ITS BUSINESS PRACTICES.

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[8]Source: Moncler, Results & targets, available from https://www.monclergroup.com/en/sustainability/think-circular/results-and-targets

PURPOSEFUL ENGAGEMENT ACTIVITY

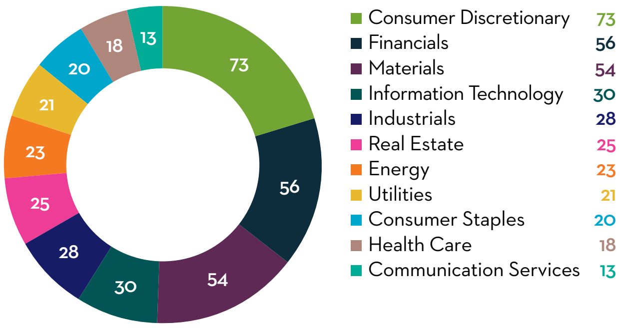
We believe monitoring and engagement is an essential part of being a shareholder in a company. It allows us to improve our understanding of investee companies and their governance structures, so that our voting decisions may be better informed. In addition, it enables us to understand to what extent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

OVERVIEW: 1H 2021

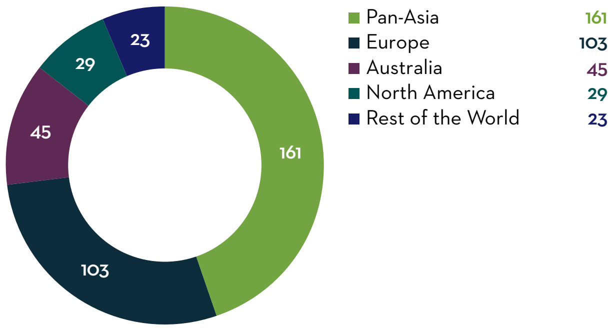
FIRM-WIDE ENGAGEMENTS

27	MARKETS COVERED
147	COMPANIES ENGAGED
361	**TOTAL ENGAGEMENTS**

ENGAGEMENTS BY SECTOR



ENGAGEMENTS BY REGION

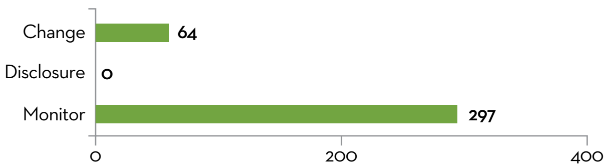


ENGAGEMENTS BY TOPIC

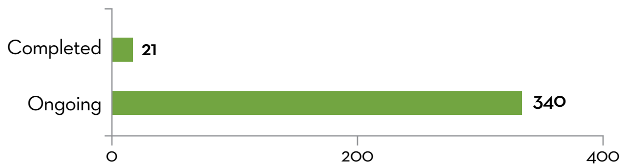
ENVIRONMENT ENGAGEMENT ON CLIMATE CHANGE WITH:

- Aalberts
- AC Energy
- adidas
- AIA Group
- ALD
- Alibaba Group
- Antofagasta
- Burberry Group
- BWP
- Coloplast
- Cosan
- Coway
- CWY
- FirstRand
- FMG
- GNE
- Guangdong Investment
- Hexagon
- ICICI Bank
- Indorama Ventures
- JDE Peet's
- Linde
- LVMH
- Manila Electric
- Maruti Suzuki India
- Monde Nissin
- Nickel Asia
- Lukoil
- Orbia Advance
- Partners Group
- PT Bank Negara Indonesia
- PT Vale Indonesia
- Reliance Industries
- Shenzhou International
- Spirax-Sarco Engineering
- TC Energy
- TCL
- UltraTech Cement
- United Overseas Bank
- Zomato

PURPOSE OF ENGAGEMENT



OUTCOME OF ENGAGEMENT



Source: Martin Currie. Engagement activity is for the period 1 January 2021 – 30 June 2021.

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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.

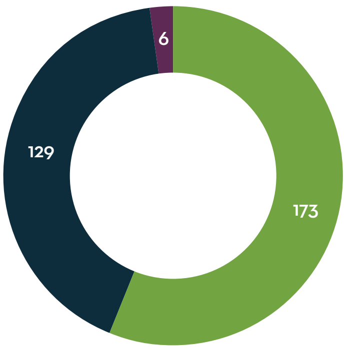
During the past half year, we have actively voted across all of our portfolios.

OVERVIEW: 1H 2021

FIRM-WIDE PROXY VOTING

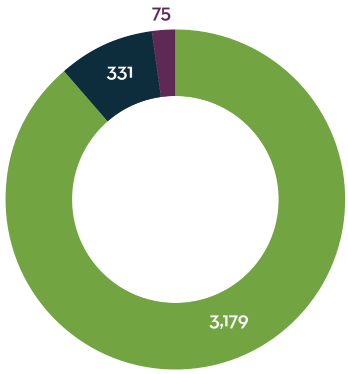
36	MARKETS COVERED
302	**TOTAL SHAREHOLDER MEETINGS**
129	MEETINGS WHERE WE VOTED AGAINST MANAGEMENT
3,510	**TOTAL RESOLUTIONS:**
331	RESOLUTIONS VOTED AGAINST MANAGEMENT

TOTAL MEETINGS



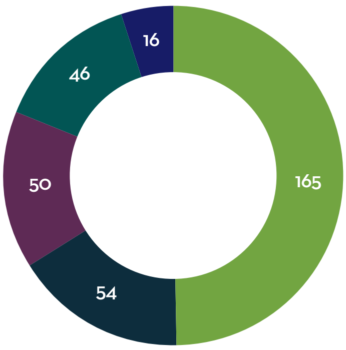
Voted in line with management	173
Voted at least once against management	129
Unvoted	6

TOTAL RESOLUTIONS



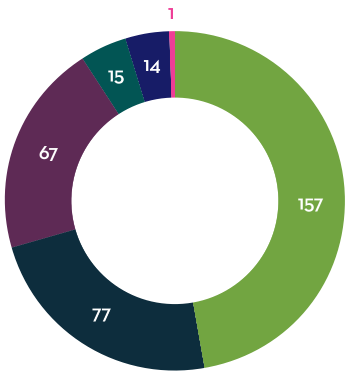
Voted in line with management	3,179
Voted at least once against management	331
Unvoted	75

RESOLUTIONS VOTED *AGAINST* BY PROPOSAL TYPE



Director related	165
Compensation	54
Business matters	50
Governance & Control	46
Other	16

RESOLUTIONS VOTED *AGAINST* BY REGION



Pan-Asia	157
North America	77
Europe	67
Australia	15
Rest of the World	14
Japan	1

Source: Martin Currie. Proxy activity is for the period 1 January 2021 – 30 June 2021.

VOTING THEMATICS

David Sheasby
Head of Stewardship and ESG

While there is an increasing focus on climate change and how companies are managing the potential risks and opportunities, in many markets this is not necessarily an issue that appears explicitly as a votable item on the company proxies.

Shareholder resolutions bring focus to climate change

Over the course of the last few years a substantial portion of shareholder resolutions have been focused on environmental issues, and climate change in particular. One change, however, has been a shift away from shareholder resolutions looking for companies to set goals and targets, towards setting out transition plans.

Outcomes from the 'Say on Climate' initiative not clear cut

The 'Say on Climate' is one such initiative looking to work with companies to set robust net zero transition plans. Essentially, this initiative is asking for companies to provide annual disclosure of emissions, present a plan to manage those emissions and hold a vote on the plan at their AGM. While some proposals have been put forward this year, we expect to see an increase in proposals as part of this initiative in 2022.

While elements of this campaign are aligned with our expectations, it also presents some challenges. It potentially steps away from director accountability and is being compared to the Say-on-Pay policies which has done little in the US, for example, to moderate overall levels of pay.

We think the debate will move to director elections and director accountability over time, but our starting point is always engagement and working with investee companies.

Voting must focus on clients' best interest

When voting, we take a 'principles-based' rather than 'rules-based' approach. Every company and every board are different, and as a global investor it is not pragmatic for us to set hard-and-fast rules that are followed blindly.

As such any shareholder proposal on climate, or other material issues are always considered on their own merits. When considering them, our decisions are framed by what is in the best interest of the clients on whose behalf we are voting.

Our proxy voting focus so far in 2021

Remuneration

Looking back over the first half of this year, some of the main topics that we had seen during 2020 have remained in play. Remuneration is still high on the agenda, although the focus this year has also included the degree to which the outcomes for executives have been aligned with the experiences of the wider workforce. This has previously not always been the case!

Board diversity

Board diversity is another topic that has featured in both our voting and engagement, but we are seeing slow progress in several markets. In many of these cases we see accountability lying with the nomination committee and the processes around this.

Over-boarding

Finally, the issue of over-boarded or long-tenured directors has been a common topic for discussions and ultimately voting over the course of the last six months.

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 in regards to key environmental and social and governance issues.

> WHEN VOTING, WE TAKE A 'PRINCIPLES-BASED' RATHER THAN 'RULES-BASED' APPROACH. EVERY COMPANY AND EVERY BOARD ARE DIFFERENT, AND AS A GLOBAL INVESTOR IT IS NOT PRAGMATIC FOR US TO SET HARD-AND-FAST RULES THAT ARE FOLLOWED BLINDLY.

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REACHING FORWARD

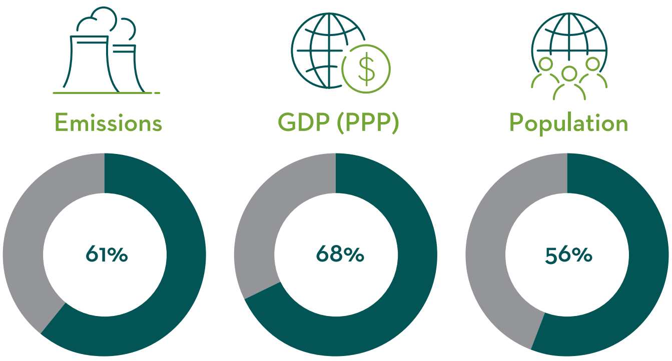
David Sheasby
Head of Stewardship and ESG

COP26 in Glasgow is an opportunity for the world to refocus attention on achieving the goals of the Paris Agreement after attention was diverted by the COVID-19 response during 2020.

The conference is likely to focus on specific plans for implementing the Paris Agreement, turning policies into action that can feasibly put the planet on a path to limiting warming to 1.5 degrees. However, the run up to COP26 is also likely to be equally as significant with many countries creating their Nationally Determined Contributions (NDCs) for the first time and committing to transition away from coal. Countries are also likely to update their 2030 climate pledges (NDCs) ahead of the conference with further detail on how they plan to reach net zero by the mid-century.

The US commitment to net zero and submission of its NDC in April means that now almost 70% of global GDP is covered by a net zero pledge[9].

Representation of net zero commitments[9]



Alongside country pledges, we have also seen a significant ramp up in corporate pledges around net zero and science-based targets with 1,559 companies now having science-based targets on global warming, of which 456 are aligned to a trajectory keeping warming below 1.5 degrees[10].

We also expect to see increasing detail about moving from policy to specific action, as we highlighted in Martin Currie's Stewardship Institute's recent thought leadership series on net zero.

This has been mirrored in the detail of what we are integrating into our own investment process, with a focus on engaging with investee companies on carbon reduction targets, analysis around where our investments currently sit on the pathway to net zero, how they can move towards this path and finally how we integrate the risks and opportunities associated with the green transition into our investment thinking.

From an asset manager perspective, we have also seen strong interest in becoming part of the solution to net zero, with initiatives such as the Net Zero Asset Managers Initiative (NZAM) encouraging asset managers to commit to aligning portfolios to net zero and creating specific carbon reduction targets for portfolios which will help harness the power of capital markets in acting as an agent for change.

Martin Currie is proud to be part of this solution by becoming a signatory to the NZAM and signalling our intent to be part of the capital markets solution to the climate crisis. Taking action on such a commitment is no small task. We will spend the next 12 months engaging with clients and conducting detailed analysis of portfolios. We intend to set out our own specific targets, with the goal of aligning portfolios with net zero by 2050.

At Martin Currie, we have also responded to this by committing to both offset our existing emissions and establish our own our own carbon reduction targets with the aim of becoming net zero as a business. We will be explaining our approach in more detail in the next edition of Stewardship Matters which will look more broadly about how we deliver our mission as a firm of **Investing to Improve Lives™**.

But climate should not be the singular focus of investors. The upcoming UN Biodiversity Conference in October 2021 (which includes COP15 on Biological Diversity) should act as a catalyst for investors and policy makers to also refocus on the wider risk of biodiversity loss of which climate change is a key part. We plan to tackle the topic of biodiversity in detail as part of a future edition of STEWARDSHIP MATTERS.

[9]Source: Energy & Climate Intelligence Unit; as of 23 March 2021, available from https://eciu.net/analysis/reports/2021/taking-stock-assessment-net-zero-targets. Chart reproduced under Creative Commons Attribution-NoDerivatives 4.0 International License.

[10]Source: SBTi, Martin Currie; as of 30 June 2021. Full list of companies available at https://sciencebasedtargets.org/companies-taking-action#table

OUR RECENT STEWARDSHIP AND ESG INSIGHTS

Thought leadership written by the investment team is published regularly on our website.

- **Stewardship Matters – Edition 2**

  Our regular update of Martin Currie's work in the stewardship and ESG space and our insights into future ESG trends. Edition 2 focuses on the United Nation's Sustainable Development Goals.

  20 January 2021

- **Australian opportunities in the renewable transition**

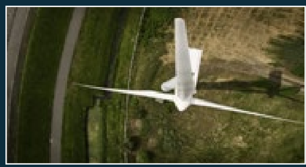
  Australian companies are well-placed to benefit from the transition away from fossil fuels towards renewable energy over the next decade.

  4 March 2021

- **A lower carbon perspective for Australian equities**

  MCA's client-focused investment platform has been evolving to deliver sustainable low-carbon solutions for Australia equity investors.

  4 March 2021



- **Inclusion, diversity and equality**

  Recognising women's achievements and the contribution that women make to society on International Women's Day 2021.

  8 March 2021

- **The impacts of sustainable finance disclosure regulation**

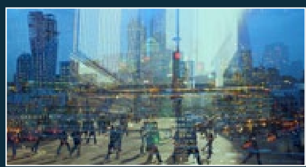
  Investors will see important changes in the way their asset managers provide sustainability-related information on their products and updated sustainability policies.

  9 March 2021

- **Stewardship Annual Report 2021**

  The Report highlights the results of our sustained commitment to the development of productive ESG engagements embedded in our investment process.

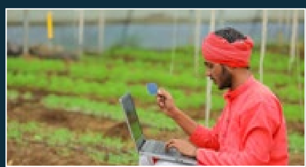
  2 November 2020



- **Financial inclusion is driving investment opportunity in Emerging Markets**

  Increasing financial inclusion across emerging markets (EM) is creating opportunities for both financial returns as well as enabling positive social change.

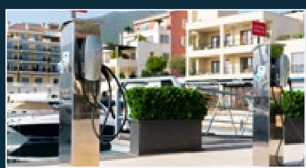
  12 May 2021



- **Emerging Market companies are key to building a sustainable planet**

  Following decades of investment in tech innovation, emerging market companies are now at the heart of global supply chains and uniquely placed to provide many of the solutions required to combat global warming.

  26 May 2021



- **Voicing our concern on the planned proxy rule changes in Australia**

  We do not agree with the Australian Treasury's suggestion that institutional investors are overly influenced by the research provided by proxy advisors.

  1 June 2021

STEWARDSHIP INSTITUTE INSIGHTS

Professional Investors can access original insights and thought leadership papers here.

- **COP26 and the importance of 'net zero'**

  2021 could prove to be a pivotal year in the fight against climate change and the race towards Net Zero emissions.

  17 February 2021

- **Net zero: from policy to action**

  David Sheasby, Head of Stewardship & ESG and John Gilmore, Portfolio Manager / Stewardship & ESG Specialist identify the key challenges ahead in the journey to net zero.

  19 March 2021

- **Net zero: the role of capital markets**

  Martin Currie's Stewardship and ESG leadership team, David Sheasby and John Gilmore, look at the ways that markets and investors can help realise the goal of net zero.

  4 May 2021

- **Net zero: managing the wider impact of economic and capital displacement**

  David Sheasby, Head of Stewardship & ESG and John Gilmore, Stewardship & ESG Specialist highlight that while focusing on climate action, it is important not to lose sight of other societal and developmental priorities that may occur as the economy is reprofiled.

  15 June 2021

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