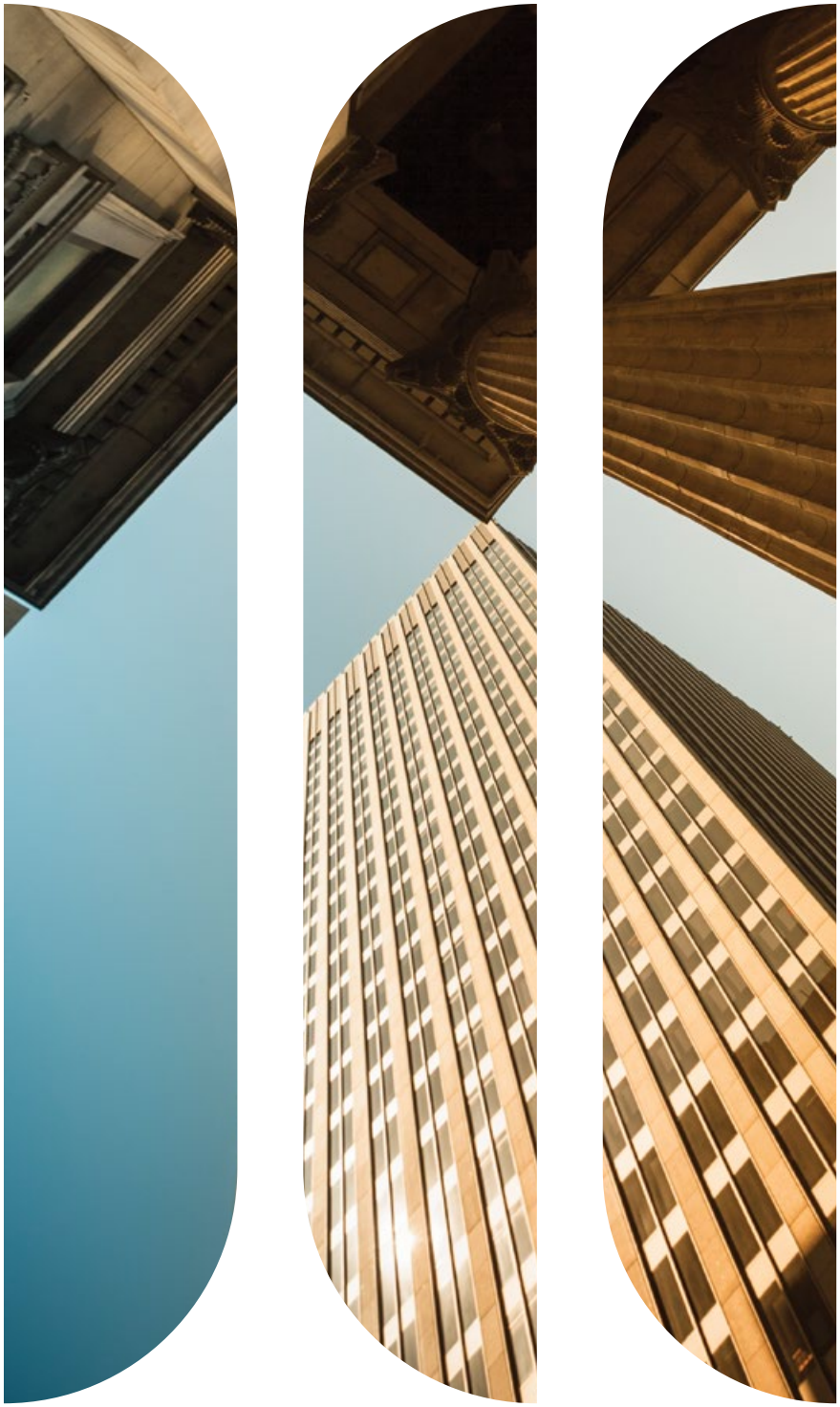
STEWARDSHIP
ANNUAL REPORT 2022



MARTIN CURRIE

REPORTING & REGULATION

APRIL 2022

INVESTING TO IMPROVE LIVES™

www.martincurrie.com

Foreword

Melchior de Muralt
Managing Partner,
De Pury Pictet Turrettini
& CIE SA (PPT)

The pace of change in regulatory reporting of stewardship and ESG has never been faster or more broad-based.

There has been a rapid formalisation of regulatory regimes and initiatives in relation to stewardship, engagement and sustainability. We welcome these developments in helping to provide additional transparency and clarity to end investors around the nature and impact of their investments.

However, regulation should not be the only driver of ambitious change. We firmly believe that regulation should be just one component part of a wider philosophical purpose whereby investors strive to deliver impactful change beyond a minimum required regulatory standard. This has formed the basis of our 'buy and care' strategy over the last 15 years; a focus on driving real world change through investment impact and engaging for all stakeholders is something about which we care deeply.

Our innovative partnership with Martin Currie is delivered through the CADMOS Emerging Markets Engagement Fund. It reflects a shared vision to achieve impactful improvement using the framework of the UN Sustainable Development Goals. Together, we engage with our investee companies to drive specific and quantifiable engagement outcomes that create direct benefit for both shareholders and wider society.

We chose to partner with Martin Currie because of its long-standing focus on both investment excellence and impactful engagement. I am delighted that Martin Currie is committed to staying at the forefront of the asset management industry in its approach to stewardship, as the 2022 Annual Stewardship Report demonstrates. The report highlights some of the results of this commitment including the development of productive ESG engagements, a focus on key issues such as climate change and modern slavery, as well as increasing transparency through enhanced ESG reporting.

We look forward to evolving and enhancing our partnership with Martin Currie, with the ambition of continuing to advance our focus on impactful investment and engagement.

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Report summary

- The primary purpose of this report is to provide insight into our business, the importance of stewardship and examples of how this is incorporated in our investment process and stewardship activities.
- Martin Currie believes strongly in its purpose of **Investing to Improve Lives**.
- This report also serves as our submission in support of the UK Stewardship Code and how we incorporate its 12 principles in discharging our stewardship responsibilities. *These are namely the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, environment and society.*[1]
- This report has been reviewed and approved by the Executive of Martin Currie following review by the Martin Currie Stewardship & ESG Council.
- **We also highlight our key achievements during 2021:**

- *Martin Currie Stewardship & ESG Council established*
- *Franklin Templeton Sustainability and Stewardship Council created – co chaired*
- *Becoming a signatory to NZAMI and TCFD*
- *Continued development work on modern slavery analysis*
- *Carbon metrics included in reporting*

Report approved by Martin Currie ESG Council and represents a fair and balanced view of our stewardship activities.

Julian Ide
Chief Executive Officer

David Sheasby
Head of Stewardship & ESG

[1]FRC Stewardship Code.

Firmwide highlights

Engagements

32	Markets covered
227	Companies engaged
668	Total engagements

Top engagement topic:
Governance

Proxy voting

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

Top voting topic against management:
Director-related

PRI ratings history

A+ A+ A+

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

Active participants in collaborative engagement initiatives

Signatory of Net Zero Asset Managers Initiative (NZAMI), 2021

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.

Stewardship Code summary

Our Stewardship Report acts as a conduit for our reporting under the UK Stewardship Code (the Code). Below we provide a summary and references for how we adhere to the principles and where greater detail on these can be found within this report. The Code is widely regarded for setting ambitious standards for asset managers in relation to their stewardship activities, globally. The code comprises an "apply and explain" set of principles which we utilise across all of our assets, regardless of geography. Through applying these standards, we can deliver strong stewardship outcomes for all of our clients.

Principle 1. Purpose, strategy and culture

Context: Our purpose of **Investing to Improve Lives** is more than just providing world class investment solutions and better financial outcomes for our clients. It is about us providing Outcomes Beyond Alpha. It guides us through our partnerships with clients, as long-term investors in equity markets, our business practices, as an employer, and as members of the community. These are set out in ***Purpose, Strategy & Culture*** section and in more detail in our Purpose documents, and ***Resources*** section which explain our approach to governance, resourcing and activities surrounding our stewardship activities.

Activity: Investing to create long-term, sustainable value is at the heart of our business. We believe in looking beyond the numbers, understanding that the investments we make and the returns we deliver have more than just a financial impact. This informs how we have structured the governance and implementation of our stewardship approach including the ***Resources*** we dedicate in support of this, how this has evolved and improved over time including our approach to ***Training*** and ***Diversity***. Overall, we also show how this is manifested in the ***Identification***, ***Integration***, ***Active ownership*** and ***Voting*** related to our stewardship activity ***Examples***.

Outcome: Investing to create long-term, sustainable value is the ***Purpose*** of our business. By doing so, we not only help fulfil the real-life ambitions of our clients but align with companies that over the long-term will contribute to a more sustainable economy, society and environment. In our view being long-term investors with a focus on stewardship and active ownership has helped provide an environment to deliver returns that meet our clients' expectations. We believe we have been successful in delivering this, over a 10-year period 93% of our assets under management and 83% of portfolios have outperformed their relevant benchmark. Our recent ***Stewardship and ESG insights*** outline how our research responds to client requests in relation to key topics for analysis covering market wide and systemic issues related to stewardship. During 2021 this included a strong focus on net zero and the COP26 climate summit.

Principle 2. Governance, resources and incentives

Activity & Outcome: The resourcing and governance of our stewardship and ESG activities, as well as how we seek continuous improvement, is outlined in our ***Purpose, Strategy & Culture***, ***Evolution & improvements: navigating change*** and our ***Key issue & policy summaries***. This also explains our approach to third-party data, systems and services, diversity, training and remuneration.

Principle 3: Conflicts of interest

Context, Activity & Outcome: Martin Currie has a Conflicts of Interest policy that governs situations where conflicts could arise in our stewardship activities. Our approach is set out in our ***Key issue & policy summaries***. This covers the governance, identification, and process for managing conflicts of interest and examples of how we have addressed actual or potential issues.

> *Our purpose of **Investing to Improve Lives** is more than just providing world class investment solutions and better financial outcomes for our clients.*

Principle 4: Promoting well-functioning markets

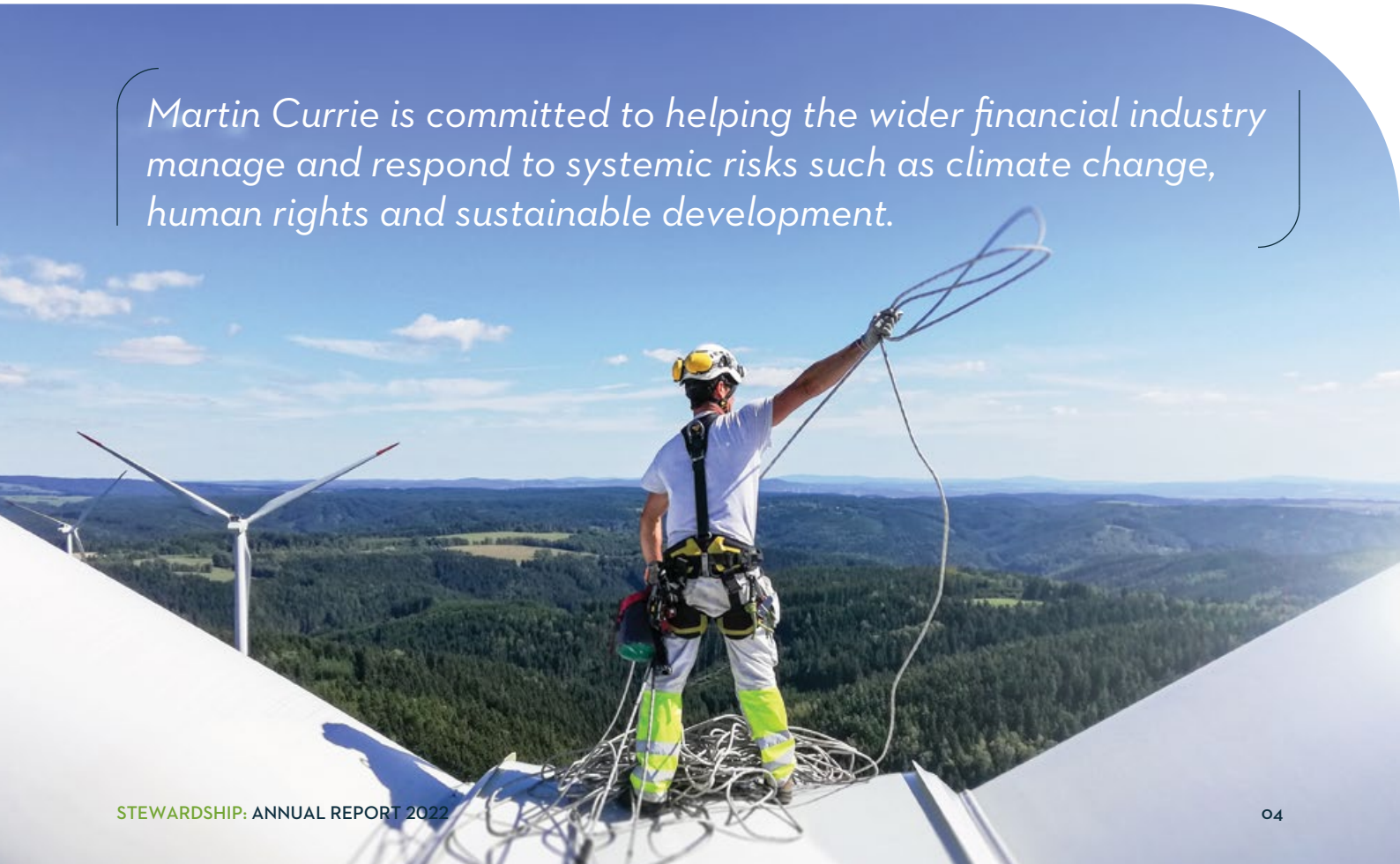
Activity: Martin Currie is committed to helping the wider financial industry manage and respond to systemic risks such as climate change, human rights and sustainable development as set out in our *Purpose, Strategy & Culture*. Our approach to the identification, management and engagement of market-wide systemic risks and well-functioning markets is covered in our sections on *Identification*, Taskforce on Climate-Related Financial Disclosures (TCFD), *Active ownership*, *Collaborative* and *Thematic engagements*, and Industry Initiatives. Collectively these along with our *Integration* case studies outline our contribution to the identification and management of key issues.

Outcome: As highlighted in our *Purpose, Strategy & Culture* section, Martin Currie is committed to helping the wider financial industry manage and respond to systemic risks such as climate change, human rights and sustainable development. Our leadership in being an early signatory to initiatives such as the Net Zero Asset Managers Initiative (NZAMI) and our continuing leadership role promoting industry dialogue through forums such as PRI and Investment Association (IA) committees shows our commitment to promoting an industry response to these issues.

Principle 5 Review and assurance

Activity: Our governance structure combines our processes for managing activities and key stewardship policies. These are described in *Resources*, *Evolution & improvements: navigating change* and in our *Key issue & policy summaries*. Martin Currie continually updates key policies and review the effectiveness of stewardship activities through both internal challenge and review from our key Stewardship Governance forums such as the Stewardship & ESG Council and ESG Regulatory Working Group which have been created to provide a clear forum for internal feedback to augment the structured feedback from bodies such as the FRC and PRI in relation to our stewardship activities. We also regularly discuss best practice through our committee roles in organisations such as the IA.

Outcome: In order to further improve our stewardship policies and processes we have established an expanded governance structure to oversee stewardship activities as described in our *Resources* section. We have introduced a more defined approach to our stewardship reporting in respect of our Stewardship Code obligations through this report and have updated key policies such as our *Responsible Investment Policy* and *Global Corporate Governance Principles*.



Martin Currie is committed to helping the wider financial industry manage and respond to systemic risks such as climate change, human rights and sustainable development.

Principle 6: Client and beneficiary needs

Context: We provide a breakdown of our asset base across client types and geography in *Purpose, Strategy & Culture*. We believe that for effective delivery of our long-term investment strategies a time horizon of over five years is required. This ties into our intention to be active owners and stewards of our clients' capital and allows time to conduct meaningful engagement with investee companies in relation to good governance, business model, strategy and sustainability approach which helps support the delivery of long-term returns which meet our clients' expectations as highlighted in our *Purpose* section.

Activity: Martin Currie is committed to dialogue and transparency with our clients when it comes to structuring and reporting on our stewardship agenda. Client views are sought in relation to their key priorities for stewardship activities and these are reflected in the research conducted, the emphasis on certain engagement topics as part of our *Active ownership* and our recent *Stewardship and ESG insights*.

Outcome: We aim for an open dialogue with clients in relation to whether our stewardship activities are effective in meeting their needs in relation to the activities we undertake on their behalf and how these are reported to them. We have responded by expanding the coverage of our client reporting moving into 2022 and will provide more granularity of stewardship activities on a portfolio specific basis. We have also continued to refine our approach to both the structure of our stewardship reporting (for example the changed structure of this year's Stewardship Annual Report) and by providing enhancements of our engagement reporting, as set out in *Evolution & improvements: navigating change*.

Principle 7: Stewardship, investment and ESG integration

Context: Examples of the key areas we focus in assessing investments are provided in the *identification* of ESG issues as well as an overview of our approach to assessing and engaging on these issues as part of our *Integration* and *Active ownership*.

Activity: We view stewardship, investment and ESG integration as intertwined issues and as such our investment teams take direct ownership of conducting these activities as described in *Integration* and *Active ownership*. Our focus is on identifying material ESG issues and opportunities to inform our long-term investment approach, facilitate ongoing engagement and inform our voting activity. Our preference for using our own judgement and insight means that our investment teams, rather than an external data or service provider, offer a clear sense of accountability and ownership for our stewardship activities.

Outcome: The outcomes of our stewardship activities are highlighted as case studies in our *Integration* and *Active ownership* sections as well as how we have escalated these where necessary through our *Voting activity*.

> *Martin Currie is committed to dialogue and transparency with our clients.*

Principle 8: Monitoring service providers

Activity & Outcome: Our governance structure for overseeing and monitoring service providers is detailed in our *Business summary*. Stewardship and ESG data is procured and overseen centrally by our parent company Franklin Templeton and other services such as proxy voting and client reporting are procured by Martin Currie. During 2021 there was an exercise to compare and procure a wider range of ESG data for both regulatory and research purposes across Franklin Templeton. Our process for ongoing monitoring of service providers is detailed in our *Key issue & policy summaries*.

Principle 9: Engagement

Activity & Outcome: Martin Currie is a strong proponent of engagement and active ownership and view this as a core part of delivering client outcomes. Our approach, case studies and a qualitative and quantitative review of activity including the outcomes of our engagement is included in our review of engagement activity for the year in *Active ownership*.

Principle 10: Collaboration

Activity & Outcome: Although most of our engagement is private, we have participated in a number of collaborative efforts to address specific systemic issues that impact companies held in our clients' 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 activities and outcomes of our collaborative engagement activity is described in the *Collaborative engagement* section.

Principle 11: Escalation

Activity & Outcome: Our structured approach to selecting issues for engagement and escalation examples are included in our *Thematic engagement* review and in case studies within our *Voting activity* and *Active ownership* and within our review of overall statistics and themes of our engagement and voting activity. These examples include the outcome of engagements in terms of specific actions. Our statistics also provide a summary of current stage of completion of engagements for change which informs the potential timing of escalation activity and how our voting escalation has differed by geography.

Principle 12: Exercising rights and responsibilities

Context: We explain how we exercise our voting rights and responsibilities and how this differs depending on key regional or sector considerations used in arriving at decisions in our *Voting Policy*. This also includes how we use of proxy advisors in providing voting recommendations, and the rights of clients to set their own specific policies or use direct voting in segregated mandates and the considerations regarding stock lending,

Activity & Outcome: Our voting activity for the year is summarised in the statistics in our *Voting activity* section. Case studies are used to reflect our approach to clients in this section in respect to the rationale for certain decisions. The wider management of our voting activity including execution and monitoring of third-party services is also included in the *Key issue & policy summaries*.

> *Martin Currie is a strong proponent of engagement and active ownership and view this as a core part of delivering client outcomes.*

Purpose, Strategy & Culture

Our Purpose remains *Investing to Improve Lives*

At Martin Currie, our purpose of Investing to Improve Lives is more than just providing world class investment solutions and better financial outcomes for our clients. It is about us providing Outcomes Beyond Alpha. It guides us through our partnerships with clients, as investors in equity markets, our business practices, as an employer, and as members of the community.

Strategy – creating long-term value

Investing to create long-term, sustainable value is at the heart of our business strategy. We believe in looking beyond the numbers, understanding that the investments we make and the returns we deliver have more than just a financial impact. By doing so, we not only help fulfil the real-life ambitions of our clients but align with companies that over the long-term will contribute to a more sustainable economy, society and environment. In our view being long-term investors with a focus on stewardship and active ownership has helped provide an environment to deliver returns that satisfy our clients' expectations. We have been successful in delivering this; over a 10-year period 93% of our assets under management and 83% of portfolios have outperformed their relevant benchmark[2]. Given the average tenure of our client base is around seven years we believe this is an appropriate timeframe to measure client outcomes which in part reflect our approach to managing material governance and sustainability risks and opportunities. As investors, we are aware that the perfect company does not exist. Reflecting this on the outcomes of our own stewardship approach we will continue to improve our governance, integration, oversight and disclosures over time.

[2]Martin Currie Performance Data as of 31/12/2021.

Beyond the balance sheet

As investors, we believe financial returns and ESG factors are fundamentally intertwined. ESG analysis is therefore fully embedded in our investment processes, allowing us to meaningfully improve our understanding of investee companies, their material risks and their opportunities to the benefit of our clients.

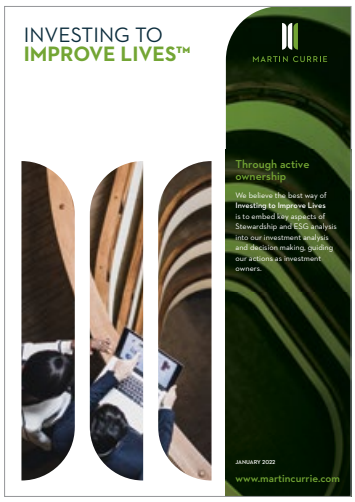
More than a business

We understand that our business is bigger than its sum of parts and that its influence reaches many stakeholders. It is why we hold ourselves to the same exacting standards that we expect of others: fostering a diverse and inclusive workplace, being trusted advisors to our clients, and positively contributing to where we live and work.

We have conducted significant work in 2021 in articulating the purpose of our business, our culture, how we operate and how we influence the activities of our investment teams. We have codified these as publicly available purpose documents.

Our purpose of Investing to Improve Lives is a vital component of being a sustainable business. When we generate market-beating returns for our clients, profits for our financial stakeholders and good compensation for our employees, we can also do more to benefit the communities in which we operate.

Find out more about our purpose of Investing to Improve lives by clicking below.



Business summary

Our aim is to develop true partnerships with our clients and provide Outcomes Beyond Alpha. The expertise and insights from our investment floor can add significant value for our clients. We are focused on sharing our knowledge through a range of avenues including risk analytics, data sharing, thought leadership, client round tables, bespoke client training and reporting. We develop strategic partnerships where we become an extension of our clients' investment teams and staff. We do this from a position of complete alignment, recognising that we fulfill the same role within the value chain of Investing to Improve Lives. Asset owners today want a relationship that is more than just alpha generation. A deeper partnership which sees Martin Currie at the centre of their portfolio and decision making enables a closer alignment and ability to deliver for all stakeholders. This has contributed to our success in building a business with a focus on both institutional clients and in pooled vehicles within long only active equity, which represents nearly 100% of our assets.

The following table shows the split of assets under management between institutional and retail clients and by geography at 31 December 2021:

Channel	Client region	% of AuM	Value (US$ millions)
Institutional	Africa & Middle East	15.5	1,537.1
	Asia & Australia	39.6	3,934.8
	North America	41.0	4,079.3
	South America	0.5	52.1
	United Kingdom	3.4	338.8
Institutional total		44.8	9,942.0
Retail	Asia & Australia	53.0	6,500.3
	Europe	5.60	685.5
	North America	31.5	3,862.2
	United Kingdom	10.0	1,225.5
Retail total		55.3	12,273.5
Total			22,215.5

Source: Martin Currie, 31 December 2021.

Total assets under management as of 31 December 2021 in US dollar billions, split by region of domicile of the client.

Africa & Middle East
Total: 1.5

Asia & Australia
Total 10.4

Europe
Total 0.7

Americas
Total 8.0

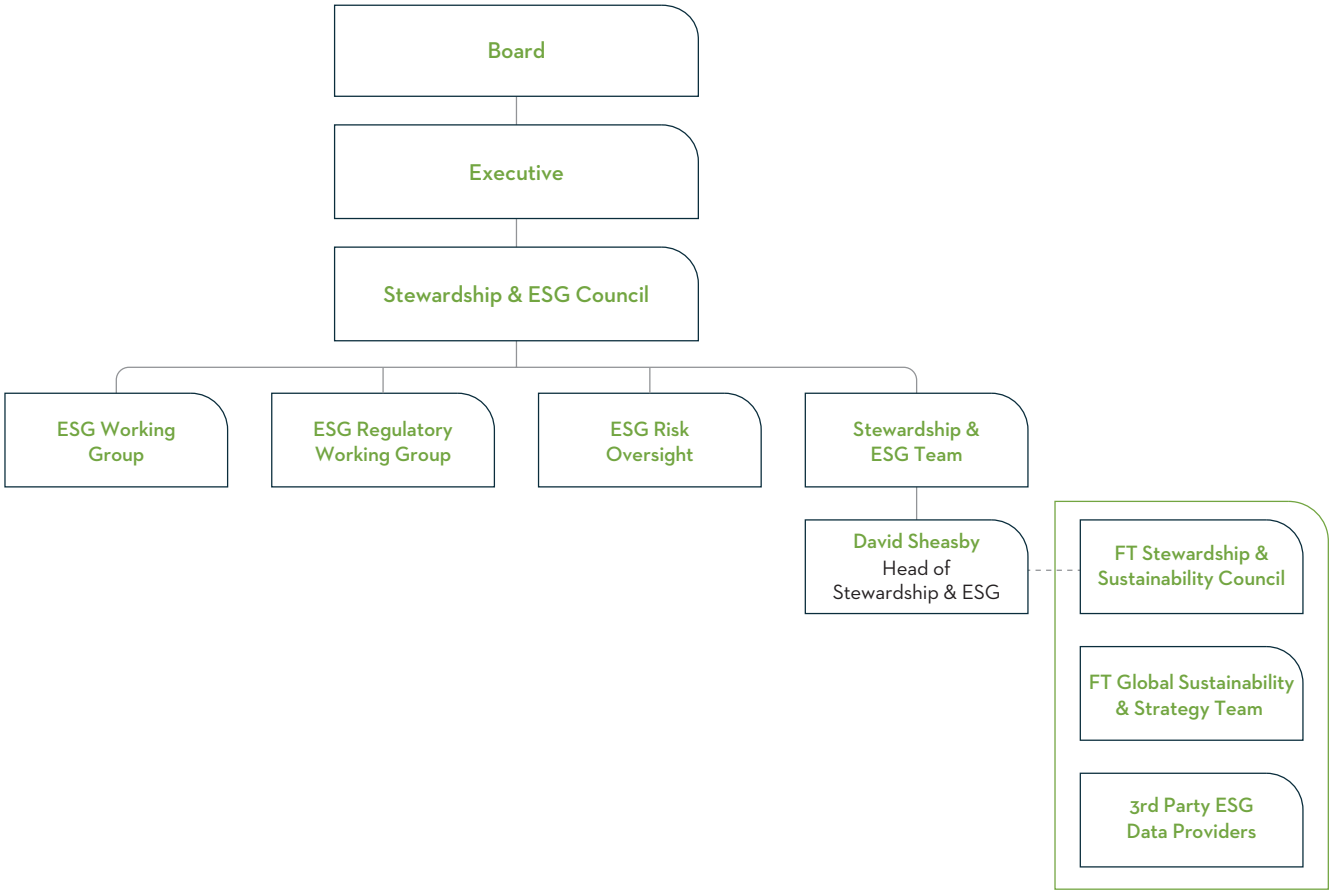
UK & Channel Islands
Total 1.6

TOTAL ASSETS UNDER MANAGEMENT US$22.2 billion

Resources

The structure and governance of stewardship and ESG at Martin Currie is outlined below, highlighting the central role of the investment team together with the collective resource and oversight that is dedicated to activity in this area in specialist teams and forums.

This structure has evolved in 2021 to include the Martin Currie Stewardship & ESG Council (the Council) that provides a dedicated high-level decision making and oversight body in relation to stewardship and ESG. It also saw the establishment of the ESG Regulatory Working Group, responding to and reflecting the increased level of change in ESG regulation. We continue to enhance and expand our resources and governance structure in this area to meet both increased client expectations and regulatory requirements in relation to stewardship and ESG. These enhancements have increased our capacity to deliver effective stewardship outcomes for our clients. During 2021 we expanded the size of our Stewardship & ESG Team to three to support the increasing volume and complexity of both regulation and client expectations. This investment along with the changes to our governance structure around stewardship and ESG represents an evolution from our approach in previous years and brings both more resources and greater focus to our stewardship activities.



We continue to enhance and expand our resources and governance structure in this area to meet both increased client expectations and regulatory requirements in relation to stewardship and ESG.

Overall accountability lies with the Board of Martin Currie. They have delegated oversight and implementation of stewardship and ESG to the Executive.

Overseeing stewardship and ESG strategy at the firm is the newly created Stewardship & ESG Council (the Council). This body was created in 2021 to have a dedicated high-level forum specifically related to stewardship and ESG at Martin Currie, to oversee the corporate approach to sustainability, to ensure that we are fulfilling our stewardship responsibilities and provides a channel for assurance, feedback, evolution and improvement of our stewardship activities. The Council has delegated authority from the Executive for these matters. It is co-chaired by Michael Browne (Head of Investment Strategy and Oversight) and David Sheasby (Head of Stewardship & ESG). Also on the Council are representatives from other key business areas. The Council is the steering body for Martin Currie's stewardship and ESG principles, long-term goals, and execution. This includes future planning, regulatory accountability and sign-off, ownership of Martin Currie's stewardship and ESG policies and assurance that appropriate resources and training are in place. It also has oversight of third-party vendors in relation to proxy voting and client reporting. The Council reports to the Executive Committee.

Responsibility for carrying out ESG analysis and active ownership resides with the investment teams. All stock research is required to consider the material and relevant environmental, social and governance factors that could impact the ability of a company to generate sustainable returns. These factors are recorded in a standard dedicated section of our proprietary stock analysis templates. This requires an explanation on how these factors have been incorporated into the analysis. In addition, we have established industry frameworks that provide guidance on material factors to consider when looking at each industry, reflecting the wide variation in what may be significant and relevant across different industries.

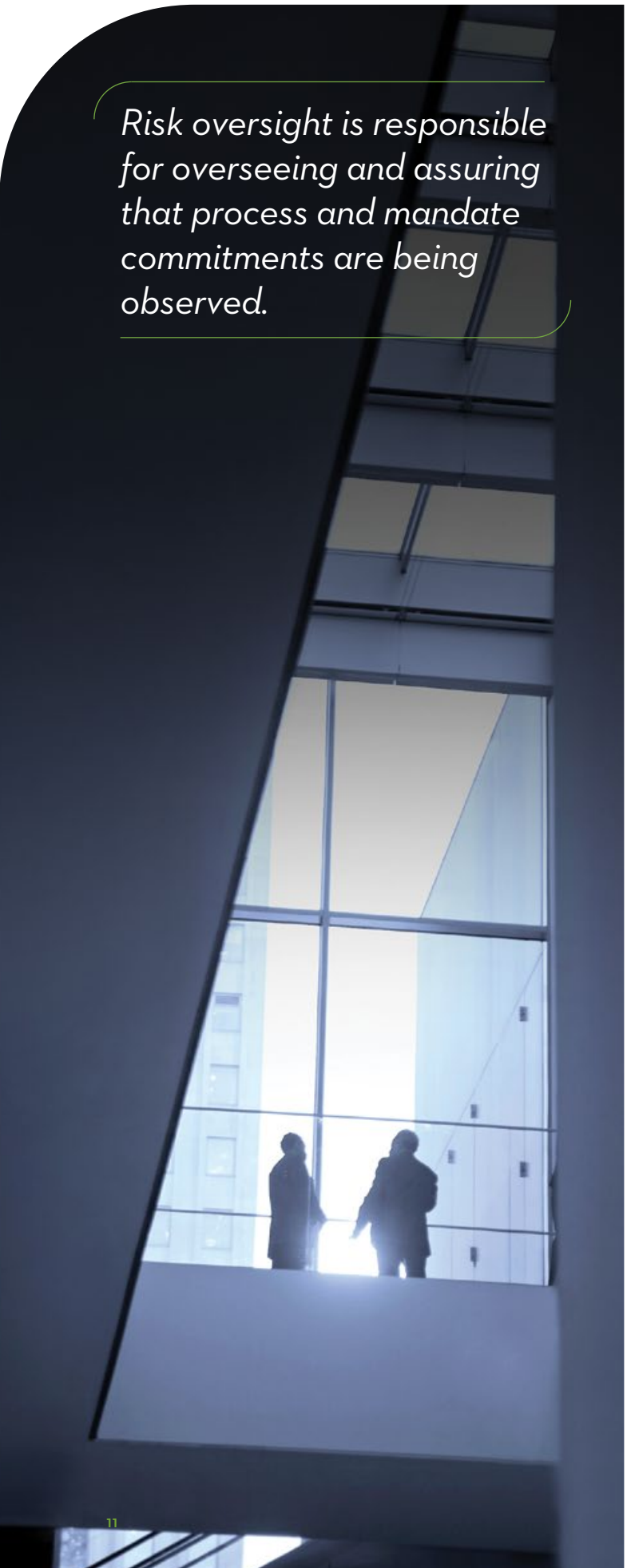
The overall research process is overseen by the Investment Executive (IE), whose primary goal is to support the investment teams to work effectively and efficiently. The Investment Executive's specific ESG objective is to ensure best practice is followed and that we continuously evolve and develop this analysis.

Stewardship and ESG Forums:

1. *Martin Currie Stewardship & ESG Council*
2. *Martin Currie Stewardship & ESG Team*
3. *Martin Currie ESG Working Group*
4. *Martin Currie ESG Regulatory Working Group*
5. *Martin Currie ESG Risk Oversight*
6. *Franklin Templeton Sustainability and Stewardship Council (SSC)*
7. *Franklin Templeton ESG Equity Working Group*

We have a dedicated Stewardship & ESG Team of three that works with the investment teams on how to incorporate responsible investment more explicitly into analysis and how to incorporate best practice on stewardship. This team, whose roles are 100% focused on stewardship and ESG, comprises the Head of Stewardship & ESG, David Sheasby, supported by John Gilmore, Stewardship & ESG Specialist, and Eoghan McGrath, a Stewardship & ESG Trainee Analyst. The team reports directly to the Executive and is independent of the investment teams, having oversight of the overall stewardship approach as well as reporting on stewardship activities including engagement and active ownership. David Co-Chairs Franklin Templeton's Stewardship and Sustainability Council (SSC).

The team works with investors to develop frameworks for analysis of ESG, providing guidance and oversight in all aspects of stewardship and ESG. They work with the investment teams on relevant issues such as corporate engagement, proxy voting and questions around integration. They provide expertise as well as context and a global perspective on stewardship and ESG matters. The team, along with Investment Risk, is responsible for the oversight of Martin Currie's process on corporate governance and responsible investment. The *Responsible Investment Policy*, the *Global Corporate Governance Principles*, *Stewardship and Engagement Policy* and *Voting Policy*, set the framework for stewardship and ESG-related investment activities.



Risk oversight is responsible for overseeing and assuring that process and mandate commitments are being observed.

There are also three stewardship and ESG forums, each with the aim of focusing on continuous improvement and sharing ideas, insights and best practice:

- **ESG Working Group –** comprising representatives from each investment team, the Stewardship & ESG Team and the Head of Investment Strategy and Oversight. It is led by the Head of Stewardship & ESG.

  This group is focused on the work of our investment teams with the aim of continuing to evolve the approach in each team, building expertise and sharing best practice. Through this we ensure broad consistency and efficiency in our approach and are able to identify resourcing and training needs.

- **ESG Regulatory Working Group –** comprising representatives from Distribution, Legal, Risk, the Stewardship & ESG Team and Compliance.

  Reflecting the rapid evolution in the regulatory environment, this group reviews upcoming regulation, oversees the necessary resourcing and implementation to meet these requirements and reviews the effectiveness of the frameworks established. This group is overseen by the Head of Stewardship & ESG and consists of key stakeholder representatives from across the business.

- **ESG Risk Oversight –** comprising the Head of Investment Risk, Head of Investment Strategy and Oversight and the Head of Stewardship & ESG.

  This forum is responsible for overseeing and assuring that process and mandate commitments are being observed. This includes, but is not limited to, oversight of the proprietary governance and sustainability risk ratings, compliance with fund specific restrictions (both sector and norms based) and risk rating thresholds as well as monitoring, oversight and challenge on ESG risk data and controversies.

In addition to these Martin Currie forums, there are workstreams in place across Franklin Templeton with a view to tackling common challenges across the group.

- **Franklin Templeton Stewardship & Sustainability Council –** David Sheasby is Co-Chair of this Council. This group focuses on strategic and regulatory issues affecting all Franklin Templeton's Specialist Investment Managers (SIMs), with the objective to share best practice and coordinate activity where appropriate.
- **The Franklin Templeton Equity ESG Working Group –** members include ESG representatives from each of Franklin Templeton's SIMs, with the objective to share best practice and coordinate activity where appropriate.
- **The Franklin Templeton Global Sustainability & Strategy Team (GSST) –** has a role in coordinating multi-stakeholder areas in relation to sustainability at Franklin Templeton. In terms of Martin Currie's governance and oversight structure, the GSST is responsible for the central provision and oversight of ESG-related data providers such as MSCI, S&P Trucost and ISS. The GSST shares responsible data provider recommendations and oversees the appropriate delivery of service.

Training, Remuneration & Diversity

Training

Beyond our governance structure supporting our stewardship activities, we are committed to supporting the continuous improvement and deepening of ESG understanding across the investment floor, and the wider business.

The Stewardship & ESG Team is responsible for ESG training and the team ensures there are regular learning sessions and mentoring. Training sessions are either provided internally by the Stewardship & ESG Team, or externally provided by experts in their field.

Examples during 2021 included internal sessions on regulation, biodiversity, climate and net zero as well as numerous sessions at a team level to focus in more detail on a specific topic. The provision of expert training from outside the business is a key evolution this year to provide domain-specific expertise in complex areas. Most recently, a training session was held on carbon pricing and climate modelling and we plan on expanding the use of such resources in the future.

Employees are encouraged to pursue ESG-related professional qualifications, such as the CFA Institute's Certificate in ESG Investing, or the new Certificate in Climate and Investing from the CFA Society of the United Kingdom. Other qualifications pursued have included the Fundamentals of Sustainability Accounting (FSA).

Remuneration

The management of sustainability risks and other ESG factors is an integrated aspect of the firm's investment process and is, as such, also considered in the performance measurement of each member of our investment teams. Compliance with the firm's ESG policies, which govern the monitoring and management of sustainability risks, is among the nonfinancial metrics which determine compensation outcomes.

We are committed to the continuous improvement and deepening of ESG understanding across the investment floor, and the wider business.

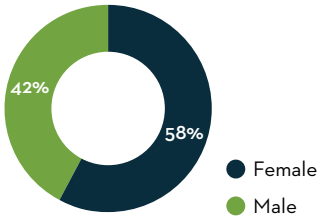
Diversity

A healthy and vibrant workplace for all creates the best possible conditions for optimal decision making, and thus the best outcomes for all stakeholders. As part of our corporate purpose of Investing to Improve Lives, we are on a continuous journey to improve Martin Currie's diversity. We are also working to create a more inclusive environment for our employees that recognises how our different perspectives, knowledge and attitudes can best inform our approach to providing solutions for our clients. We know that like many companies in the financial services industry, we have much to improve upon in this area. During 2021 we set ambitious diversity targets across the business reflecting our ambition to address diversity challenges in a systematic manner. Specific improvements have been made over the past year, particularly in gender balance across the business which has been reflected in our recruitment approach, where 60% of new hires during 2021 were female. 2021 has seen progress in increasing representation across many areas of the business such as the investment team with gender diversity rising from 16% to 21% and with increased female representation on the Executive Committee and Distribution Executive.

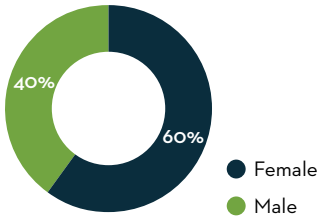
> *Specific improvements have been made over the past year, particularly in gender balance across the business which has been reflected in our recruitment approach, where 60% of new hires during 2021 were female.*

Split of recruitment by gender

FY20 – year to 31 December 2020 hires

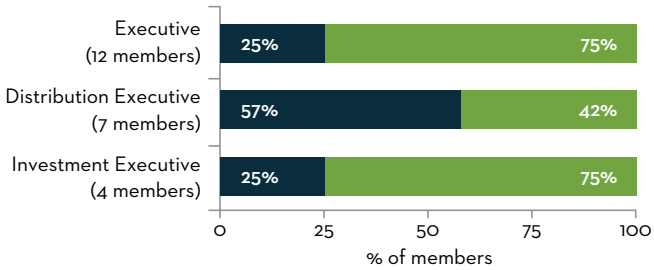


FY21 – year to 31 December 2021 hires

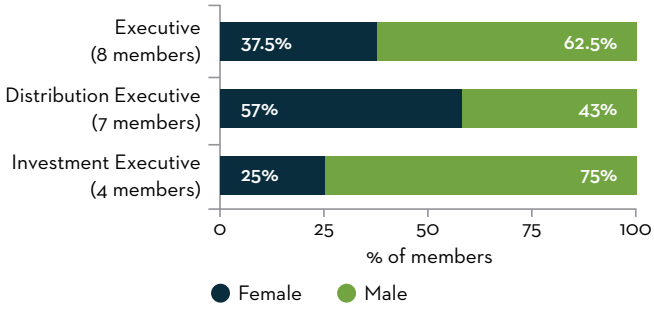


Split by gender of representation on key forums within the organisation

FY20 – year to 31 December 2020

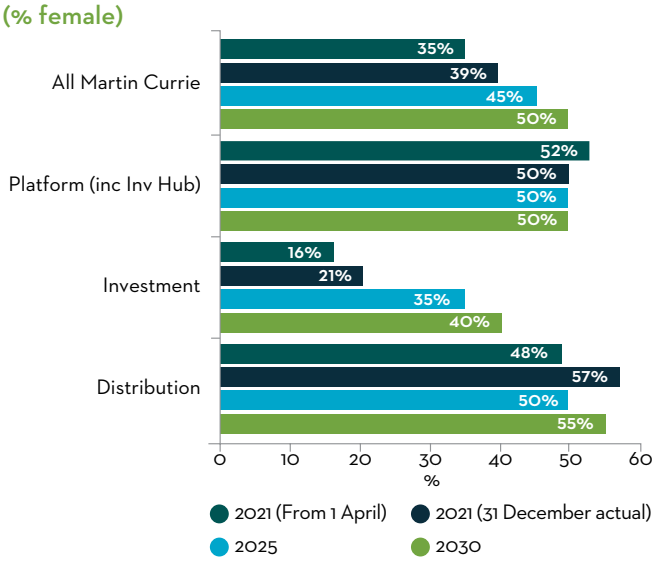


FY21 – year to 31 December 2021



Gender parity targets

(% female)



Evolution & Improvements: *Navigating Change*

David Sheasby
Head of Stewardship & ESG

John Gilmore
Stewardship & ESG Specialist

The stewardship environment has continued to evolve at pace over the course of the last year in terms of the expectations from our clients, market practices, regulation and our own activities.

Recognising the increased demands on assets managers but also the desire to maintain excellence in how we approach these requirements, we have been delighted to expand our Stewardship & ESG Team, adding both a highly experienced analyst as well as a graduate trainee to the team. In addition, we have put in place a new stewardship and ESG governance structure with the establishment of our Council made up of senior leaders in the business to ensure there is a clear link to our strategic priorities, independent oversight and that adequate resourcing is in place to meet the upcoming requirements.

A key element for us has been evolving our client reporting, aiming to make this more relevant and insightful in terms our stewardship approach, with an increased focus on quantitative metrics alongside qualitative disclosures. These enhancements reflect the work that we have done to understand what is important to our clients and their end beneficiaries. This signifies our desire to give clients greater transparency on the stewardship work that we undertake and takes into account areas of feedback where they want greater detail in relation to ESG for portfolios and insight into our stewardship activities at a portfolio rather than firm level.

We have gained this insight through client roundtables, our regular one-on-one meetings with investors and the emergence of particular topics that we have observed in specific client reporting requests. Our focus has been on greater transparency on key issues such as climate change, carbon risk, diversity and more detailed information on voting and engagement activity, as well as articulating the positive impact of our investments which we assess through contribution to the UN Sustainable Development Goals (SDGs). Our coverage of these topics aims to help clients understand how we are acting as responsible stewards of their capital.

To support our clients, we have also introduced a quarterly stewardship report, *Stewardship Matters*, that features a topic of particular interest, for example biodiversity, and provides insights into our stewardship activities including progress that we are (or are not) making on engagements relevant to these topics.

To support our clients, we have also introduced a quarterly stewardship report, ***Stewardship Matters.***

We have also made a conscious decision to significantly evolve and improve our client reporting in relation to stewardship and ESG. As a result of this we have rolled out a significant enhancement which will for the first time give our clients portfolio specific information on key ESG metrics, climate profile, voting and an insight into how we assess both governance and sustainability risks for their portfolios. Previously much of this was available on request but had not been made available systematically. Delivering this has required significant investment in data management, automation and collaboration with our service providers. We are proud of this evolutionary change which will increase transparency and insight across our entire client base and is part of our commitment to remain at the forefront of the industry in having an open dialogue with investors.

Our reporting evolution has been enabled by the work that we continue to do to evolve our investment approach with ownership of this sitting squarely with our investment professionals. Our internal ESG Working Group, which consists of representatives from each of our investment teams, is a forum for identifying potential areas for improvement, sharing best practice, and implementing enhancements to our process. These include the work on climate, human rights and the SDGs.

We have substantially broadened the range of ESG data that we have access to and have built a platform to capture both internal and external data that has facilitated enhanced insights and consequential reporting.

In addition, we have been working with our investors to meet the significantly increased regulatory reporting requirements with a particular focus on the EU Sustainable Finance Disclosure Regulation (SFDR) for those funds captured by this regime (domiciled in Europe).

While we have continued to evolve our stewardship approach we recognise that there is more to do. During the course of 2022 we will be working on a new phase of client reporting which will broaden to include our engagement activity at portfolio level and greater detail around climate transition risk.

While most of our engagement is focused on one-on-one activity and dialogue with investee companies we also recognise the power of collaborative engagement. We are already members of the climate initiative, Climate Action 100+, where we are leading the engagement with one of the Indian cement companies that we are invested in on behalf of our clients. We are also hoping to join the upcoming PRI-led engagement on human rights that is currently being worked on.

As signatories to the Net Zero Asset Managers Initiative (NZAMI) we will be working extensively with clients to identify the extent to which they want their assets to be part of those committed to the ambitions of the initiative. We will also revisit the articulation of our stewardship approach with respect to the initiative and the work we will be doing with our investment teams.

While most of our engagement is focused on one-on-one engagement with investee companies we also recognise the power of collaborative engagement.

Stewardship: the year in review

David Sheasby
Head of Stewardship & ESG

Eoghan McGrath
Stewardship & ESG Analyst

A key feature of 2021 was the continued substantial flows into ESG and sustainable funds. With an abundance of product innovation and continued improvements being seen in the availability and quality of ESG-related data this is an incredibly exciting time to work in the asset management industry.

The onus has been placed on regulators to keep pace, and over the year we saw some significant announcements that will shape the industry for years to come, indicating that the importance of credibility and authenticity within responsible investment is being recognised. This is most apparent in Europe with the implementation of the SFDR and the TCFD in the UK. David Sheasby expands on these, and what is to come, in *Regulatory Change and Outcomes*.

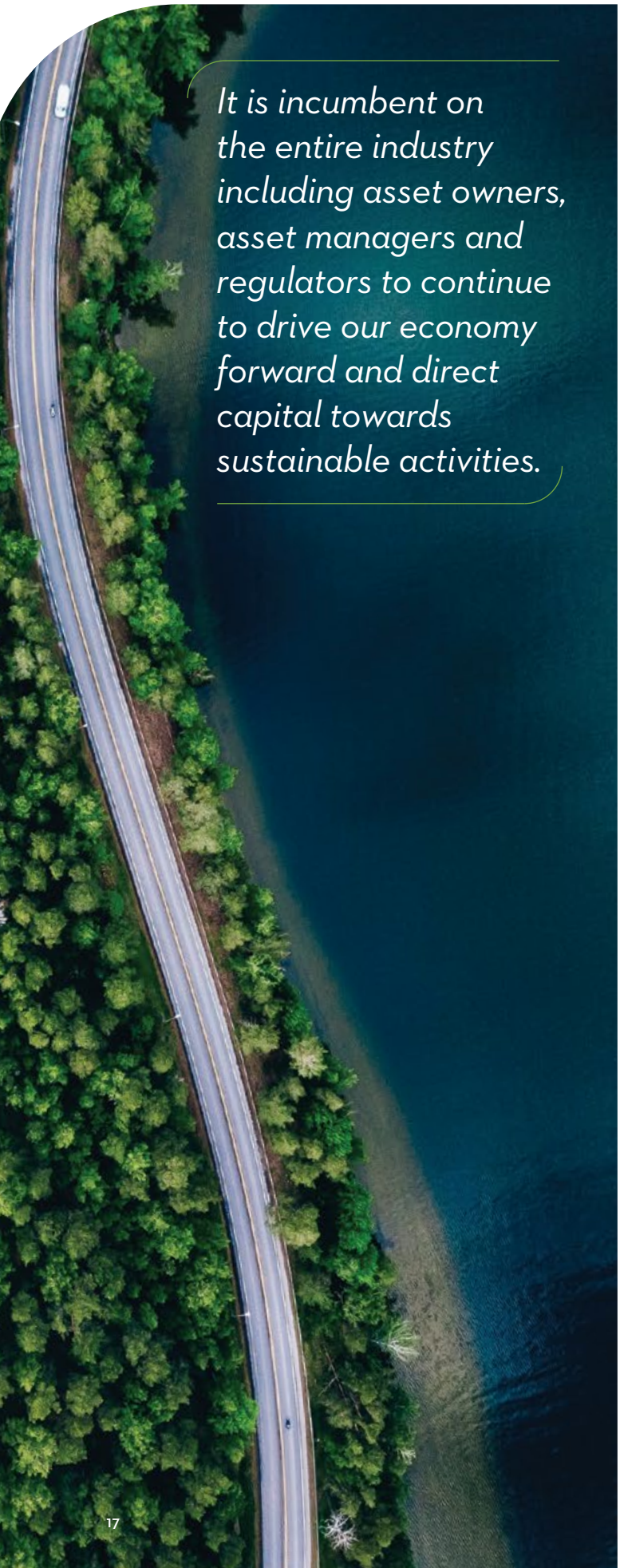
Disclosure of ESG-related information received due attention, promoting transparency and greater specificity in the measurement of aims and outcomes. A focus on systemic issues such as climate change persisted over the year with a growth of frameworks on the subject, buoyed by the global COP26 summit in November 2021. At Martin Currie, we have always focused on the importance of materiality and the identification of long-term value drivers, and we are pleased to see regulatory initiatives beginning to understand its importance too. We have also seen regulation broadening to encompass alternative investments. While all this creates significant work for the asset management industry it can only be beneficial for clients: as clarity, consistency and comparability are achieved, asset owners will be able to make informed choices on where to invest their money.

This is crucial as interest in ESG investing continues to grow, with one survey reporting that "two of every three investors now view ESG factors as important or very important"[3]. At Martin Currie we have long believed the impact our investments can have in delivering both returns and positive societal outcomes, captured in our purpose of Investing to Improve Lives.

We have continued to evolve our fund range to meet both client and regulatory demands, and are proud of the fact that all our European-domiciled funds report in line with Article 8 under EU SFDR which requires binding elements (such as exclusionary criteria) and the promotion of positive environmental and social characteristics. In recognition of the role we can play as an asset manager in the decarbonisation of the economy, we have become signatories to the NZAMI. Our membership commits us to working with clients to reach net zero across all assets under management by 2050, setting specific targets for portfolios committed and encouraging progress across all assets through our stewardship and engagement activities. We will be fully reporting our targets in the next edition of *Stewardship Matters* in July 2022.

> *At Martin Currie, we have always focused on the importance of materiality and the identification of long-term value drivers, and we are pleased to see regulatory initiatives beginning to understand its importance too.*

[3]Capital Preferences, https://www.capitalpreferences.com/wp-content/uploads/2021/12/2021-ESG-Preferences-Study-Capital-Preferences.pdf



It is incumbent on the entire industry including asset owners, asset managers and regulators to continue to drive our economy forward and direct capital towards sustainable activities.

But whilst voluntary action is important, it is vital that a strong regulatory environment drives the systemic change necessary to reach a net zero economy by 2050. We can look back at COP26 and see marked gains in climate-related policy, however there is a feeling that there should have been more significant action around key areas such as the phase out of coal and the end of fossil fuel subsidies. We expect to see more stringent regulation coming into place, as pressure grows on governments to enact on more ambitious climate pledges as we set out in our series on *Net Zero* we published during the run up to COP26.

Vitally, the public and private sectors can work in unison to facilitate the shift necessary to avert a critical level of global warming. This is why we take every opportunity to provide feedback on consultations issued by organisations such as the FCA, through the IA. Our Head of Stewardship & ESG, David Sheasby plays an active role on committees of the IA and the PRI, providing valuable expertise to these organisations and helping inform policy at an industry level. During 2021 we participated in consultations on UK Sustainability Disclosure Requirements (SDR), diversity and inclusion, and metrics and targets under TCFD, with the aim of improving outcomes for all stakeholders.

We fully expect this rate of change in the industry to be maintained, if not accelerate further, with it now incumbent on the entire industry including asset owners, asset managers and regulators to continue to drive our economy forward and direct capital towards sustainable activities. At Martin Currie, we are proud to be a part of this journey and recognise the role we can play in it, through the delivery of Outcomes Beyond Alpha.

Regulatory Change & Outcomes

David Sheasby
Head of Stewardship & ESG

John Gilmore
Stewardship & ESG Specialist

In this section of the report, we outline the key regulatory changes that have been implemented during 2021. The outcome of these changes has influenced the way in which we report to clients and the metrics that we will share.

Martin Currie has continued to be an active participant in industry-led initiatives and we look ahead to further regulatory change that will come into force during 2022 / 2023.

Regulation in 2021

- *Shareholder Rights Directive (SRD II)*
- *EU Sustainable Finance Disclosure Regulation (SFDR)*
- *Taskforce for Climate-Related Financial Disclosures (TCFD)*

2021 has seen a dramatic shift in the regulatory landscape around stewardship, ESG and sustainability. Key amongst these have been the extensive changes that have come into effect in Europe – notably the stewardship reporting under SRD II and the EU SFDR that has necessitated detailed work on ESG and sustainability disclosures. The embedding of TCFD in the UK regulatory regime has also been a key development that will frame disclosures across the finance industry in the years to come.

2021 has seen a dramatic shift in the regulatory landscape around stewardship, ESG and sustainability.

Our extensive preparations in advance of SRD II supported a smooth process in terms of the reporting under this particular regime. For the EU SFDR the initial body of work focused on identifying how our European-based funds would be 'categorised' under the new regime and ensuring that the data is in place to support the required future disclosures. Reflecting our overall approach to stewardship and ESG all of our EU-based funds have been 'categorised' as Article 8 funds.

Our work on the evolving regulatory regimes has been informed by our membership of key industry committees such as the IA Stewardship Committee, the IA Sustainability & Responsible Investment Committee and the PRI Stewardship Advisory Committee. These have also allowed us to provide input and feedback into the evolution of policy through the consultation processes associated with the changes.

Internally our preparatory work has been focused through our ESG Regulatory Working Group with representation from the key stakeholders across our business. Our ESG Working Group, which is focused on investment, has also been playing a key role in establishing the tools and insights that we believe will be needed to authentically meet current and future requirements under these regimes. Our Stewardship & ESG Council provides the governance and oversight to ensure that these also inform our strategic decisions as a business and that we are adequately resourced to support this work and through our co-chairmanship of the Franklin Templeton Stewardship & Sustainability Council we have been able to leverage the extensive capabilities across the broader group.

What lies ahead 2022/2023?

- *UK Sustainability Disclosure Requirements (SDR)*
- *How we measure and use engagement to reach better targets and track this data*
- *The pace of change*
- *Markets that are affected – who is being left behind?*

As we look forward to 2022 and 2023 we recognise that there is a lot more that is likely to change.

A key development will be the establishment of SDR in the UK. Through our committee memberships and our internal work, we will be closely monitoring the shape of the upcoming regime with an expectation that we will be able to provide input to the consultation due out in the first half of this year. As it stands, we believe that the work we have done in advance of SFDR will be very supportive.

TCFD will be another focus. One element of this will be ensuring that we can support clients in meeting their own requirements in parallel with our own requirements as an asset manager. We know that TCFD is a journey and have already started to report at a high level under this framework and improvements in data and tools to support this will allow us to increase transparency and insights in this regard.

While not a regulatory requirement, delivery on the commitments we have made under the NZAMI will also be key.

The underlying driver of much of the regulation is increased transparency and providing an understanding of the impact or the 'so what?' of both stewardship and ESG. As such we believe that measurement is going to feature heavily in the expectations to come. As we articulate in our purpose document, *Investing to Improve Lives – Active ownership*, this is a fundamental element of our approach to stewardship and a key way in which we can bring about positive change in the companies that we invest in for our clients. We recognise that engagement takes both patience and persistence and that we also need to build on the strategies that yield success and capture data that help us report in the most effective manner.

The pace of change in regulation in Europe is astounding but this is not the case across the board. Parts of Asia are also seeing an increased emphasis on disclosures and more detailed work around taxonomies but in the US, for example, while we have seen a significant change under President Biden the approach currently remains very light touch compared to across the Atlantic. We believe the overall change agenda will remain in place and as an asset manager we have been careful to consider the implications for our business and ensure the right structures and resources are in place to meet these challenges.

Identification

What we look at

Our aim when conducting our proprietary governance and sustainability research is to provide fundamental insight into material ESG issues that can influence long-term returns for companies, to assess where the companies in which we invest can have a material impact on key common ESG issues such as climate change, human rights, cyber security and workers' rights and to highlight potential areas for engagement. The level of research and engagement varies depending on region, sector and, critically, the materiality of the issues in question. The overarching aim is to assess the extent to which ESG factors will contribute to, or detract from, the long-term value creation of a firm. We use a variety of resources to identify potentially material stewardship and ESG issues including third-party data which we use to inform our proprietary governance and sustainability risk ratings along with other publicly available stewardship and ESG information. We use third-party data as an input rather than an output of our process. We believe it is important to have our own view on material governance and sustainability issues as this allows us to have a better-informed approach in relation to engagement, voting and escalation as well as providing a source of insight for producing better risk adjusted returns.

Our sustainability analysis is fully integrated into our investment process and as standard, we consider material sustainability factors when analysing the investment case for a company. We explicitly model some of these impacts and for factors that are not as explicit, such as regulatory change, this can be stressed via a cost of capital sensitivity. Since we started more than a decade ago, our approach has always been that in order to fully integrate this analysis, responsibility resides with the individual research specialists and portfolio managers. David Sheasby, Head of Stewardship & ESG, has specific responsibility for overseeing this aspect of our research process alongside a focus on continuous improvement and sharing best practice driven by the ESG Working Group. At Martin Currie we focus on those factors that are relevant and material to the investment case. This applies equally to fundamental factors as to ESG factors.

The rationale for our stewardship and ESG approach is best summarised in the diagram below:

Our sustainability analysis is fully integrated into our investment process and as standard, we consider material sustainability factors when analysing the investment case for a company.

Proprietary Ratings

All of our work on ESG, Governance and Sustainability is focused ultimately on the economic success of the underlying business – essentially understanding how these factors may influence the ability of the company to generate sustainable returns (over the long term). We express the views in our Governance and Sustainability ratings. These proprietary risk ratings assess each measure of Governance and Sustainability from 1 (low risk) to 5 (high risk) representing our analysis of material issues for each investment.

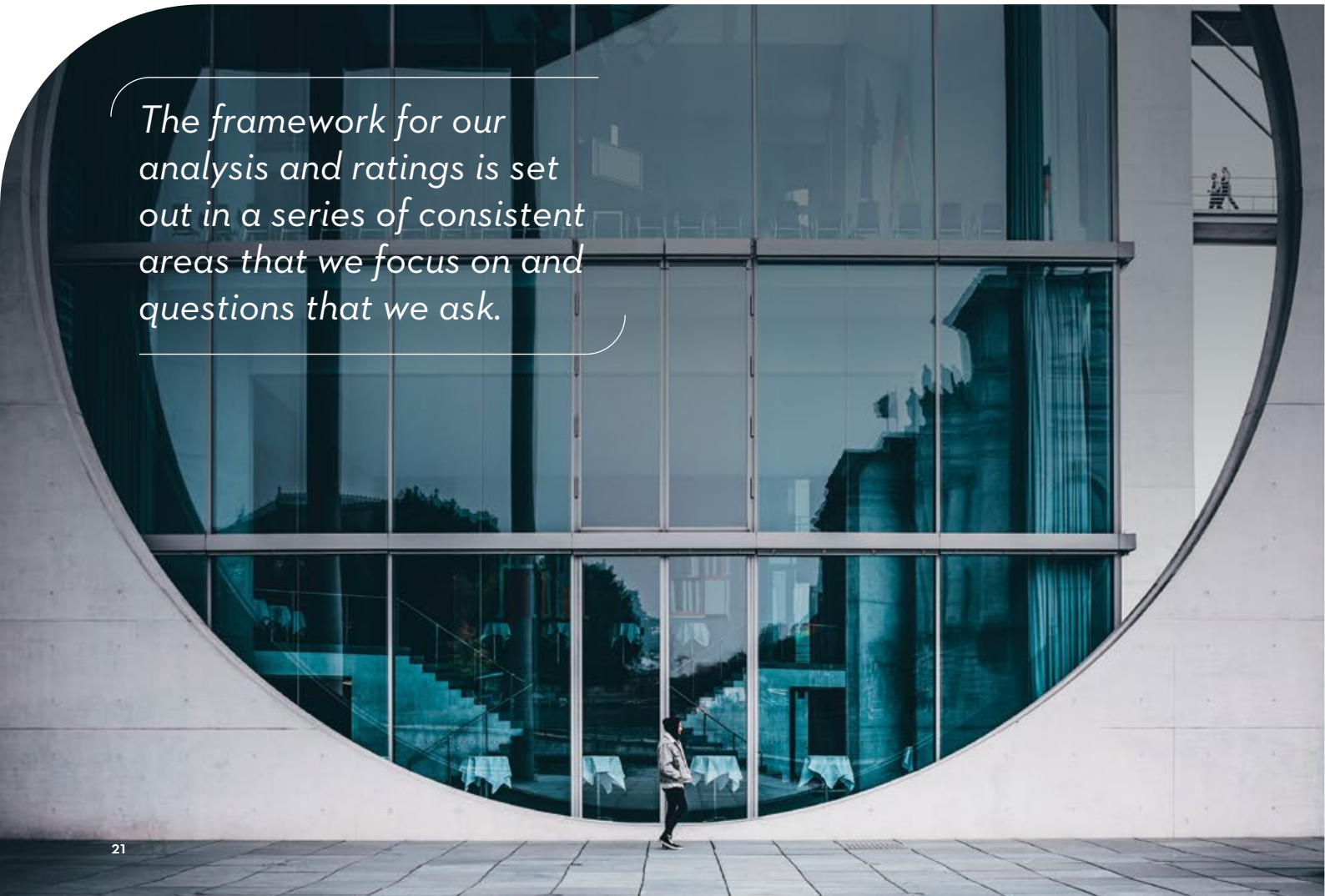
The first component is Governance. Recognising the different governance frameworks across the globe and our clients' international portfolios we take a 'principles', as opposed to a 'rules'-based approach.

This provides the opportunity to assess governance in the context of individual company circumstances and identify any particular areas of weakness. Our focus is on board quality, management quality, remuneration, capital allocation and culture.

The second part is Sustainability. An assessment of the extent to which the company has integrated sustainability into its business model and strategy. In referring to sustainability we think about it in economic terms – what might impact the ability of a company to generate long-term sustainable returns?

Our focus is therefore on what is potentially material to the business – relevant environmental risks and social risks – and common factors including climate change, human capital, cyber security, and tax We also consider the scale of impact that companies have on wider environmental and societal issues.

The framework for our analysis and ratings is set out in a series of consistent areas that we focus on and questions that we ask. This framework allows us to leverage our deep knowledge of the companies and our understanding of the context of the underlying companies. The analytical framework helps to identify risks, opportunities and areas for engagement. The resulting ratings from each team are based on consistent informed judgement of the extent to which the companies demonstrate strong practice or face potential risks in the various aspects of governance and sustainability.



The framework for our analysis and ratings is set out in a series of consistent areas that we focus on and questions that we ask.

A summary of the key factors used in our analysis is shown below.

Governance

We value transparency and clear, accountable governance structures, paying 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
- Energy efficiency
- Resource management

Social

How a company treats its people, 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
- Human rights

Material matters

Materiality is a concept used frequently in this report. In simple terms, this refers to the strength of the relationship between an ESG factor and corporate performance. Materiality also covers the scale of impact that companies have on wider environmental and societal issues. Some of this is common sense. For example, carbon risk is clearly more material to an oil and gas firm than it is to an IT-services business. Similarly, cybersecurity and data protection is likely to be more material to the latter than the former. In other instances, it may be less intuitive. To make the best use of our research time we have created hierarchies of the most material issues industry by industry. This way we can gauge whether managements are focusing on the right areas – an approach that is backed up by research showing a clear link between a firm's integration of material sustainability issues and enhanced shareholder value (versus a less-discriminating approach). Once the most material issues have been isolated and analysed, the challenge is to translate this information into numbers in our modelling of key financial variables, such as the cost of capital, cash flow, turnover and capital expenditure.

> *The overarching aim is to assess the extent to which ESG factors will contribute to, or detract from the long-term value of a firm.*

Integration: *examples for the reporting period*

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

AGL Energy (AGL)

Australian energy company

Key Issue: Governance

The CEO's sudden resignation in April 2021 during a critical time of the de-merger proposal, being a split into two business - carbon neutral, 'New AGL', and carbon intensive, 'PrimeCo'.

AGL has seen significant change in senior management in recent years, with this departure showing the CEO's lack of long-term commitment, and given the Chairman became CEO, this indicates a lack of succession planning.

Impact on manager's decision: We met with AGL immediately after Brett Redman's resignation announcement, which came off the back of Redman not being prepared to commit to the AGL group for at least another 5 years.

At the time AGL said they did not want to make an existing Executive into the CEO as they wanted Executives to focus on current jobs during de-merger.

A key concern with the AGL messaging is that the new CEO (former Chairman Graeme Hunt) also would not commit to 5 years either, hence the outcome we have today is that AGL still has a short-term CEO but now with less AGL hands on experience.

To us this was not a great outcome and resulted in the downgrading of our Management rating from 3 to 4. We also downgraded our Governance rating from 2 to 3. The overall Quality rating was subsequently downgraded from 3 to 4. We do note that the demerger split could result in the 'New AGL' emerging with a more favourable Quality rating.

We have been engaging with the company on the make-up of the new business and its management, however ongoing uncertainty and mixed messaging compels us to maintain the lower Management and Governance ratings for now. We continue to closely monitor for improvements or changes that would warrant an upgrade.

E S [G]

Star Entertainment

Australian operator of casinos/resorts

Key Issue: Governance and Social

Media reports in October 2021 alleged serious misconduct and governance failings at its casinos, and public hearings into these issues started in March 2022 (the Bell inquiry).

Impact on manager's decision: While we have met with Star Entertainment management regularly as part of our engagement program, we spoke with management immediately following the misconduct allocations. Whilst we would note that the allegations are disappointing, discussions with management have given us some confidence that the issues are likely more isolated than systemic and are thus less likely to warrant extreme outcomes. This doesn't mean that there haven't been instances of wrongdoing, but it seems less likely that the worst-case scenario of losing a license will play out. We also note Star Entertainment has been more willing to acknowledge failings and work proactively with authorities to address them compared to the other major Australian casino operator. However, as a result of the issues, we believe that it was prudent to reduce our Management rating from 2 to 4 and our Governance rating from 3 to 4. The overall Quality rating was downgraded from 2 to 3.

While these ratings do not preclude us from investing in the stock, they will impact the size of our investment. The higher the Quality, the lower the 'risk'. Within the MCA investment process, Higher Quality results in a lower discount rate which improves relative Valuation, and thus its attractiveness to invest. The lower the Quality, the higher the hurdle to invest.

We believe that these downgrades are warranted until we can gain greater certainty that Star Entertainment is a responsible operator and deserve more favourable ratings. We continue to closely monitor the situation, the Bell inquiry, and the outcomes of the Bergin recommendations. We note that the MD/CEO subsequently resigned in late March 2022. Whilst disappointing, we see the move as necessary considering recent revelations from the Bell inquiry regarding transactions facilitated via China Union Pay cards. We are looking to engage with the Board to understand the decision and the way forward for the company.

E [S G]

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Linde

US/German industrial gases company

Key Issue: Environmental

Given the industrial processes typically associated with the production of atmospheric gases, the company appears to have a high carbon footprint. The new CEO, appointed in March 2022, has taken some time to thoughtfully developing more ambitious ESG goals, seeking to set science-based targets within the next year. The company's targets include: a 35% reduction in greenhouse gas (GHG) intensity versus EBITDA from 2018-2028, maintaining or reducing scope 2 greenhouse gas emissions at the same time as substantially increasing power use, more than doubling procurement of low carbon power sources, and increasing renewable and low-carbon energy source usage from 35% to >50%. We await the setting of science-based targets before reviewing our sustainability score.

Impact on manager's decision: Linde is a major player in the hydrogen value chain. In recent years, the production of hydrogen using renewable energy sources to create so-called "green hydrogen" has attracted a lot of investor attention as a long-term alternative to hydrocarbons. While green hydrogen is still in its infancy, Linde is investing in pilot projects and forming partnerships with infrastructure owners to reinforce its inherent advantage in this molecule. In typical Linde style, the Group commits to remaining disciplined in selecting green hydrogen projects e.g., where natural gas infrastructure already exists. Such investments are likely to underpin our assumption that Linde can continue to grow at a material premium to global industrial production from the second part of this decade. Until then, the Group's core business is to provide atmospheric gases to its customers through its onsite plants. In so doing, it can help its customers to reduce their own carbon emissions. Every tonne of CO_2 that Linde plants emit, helps customers avoid two tonnes of CO_2.[4]

[E]S G

Southern Copper

Mexican mining company

Key Issue: Social

Labour management concerns: our analysis suggested that the company's attitude towards labour management fell short of our expectations, with little expectation for this to improve meaningfully. Controversies raised by ESG research provider MSCI suggest that the company fails to uphold some of the principles of the UN Global Compact. Our experience suggests that this situation is unlikely to change rapidly.

Impact on manager's decision: We took the decision to exit the position in early 2021, based on two key items: ESG and valuation. From a valuation perspective the company no longer appeared undervalued relative to its own trading history or against its materials sector peers. This was combined with the ESG concerns highlighted above. We instead looked to other companies which could provide exposure to the pro-cyclical style factor that Southern Copper had given us, without the same level of ESG risk relating to labour management.

E[S]G

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[4]Source: https://www.linde.com/-/media/linde/merger/documents/sustainable-development/carbon-productivity-chart.pdf?la=en

JD.com

Leading Chinese e-commerce company

Key Issue: Governance
Shareholder engagement.

Impact on manager's decision: We have been interested in JD.com as an innovative, high-growth company that has made a significant contribution to the development of e-commerce and the internet industry in China. It has committed significant capital to fuel the growth of its core business and adjacencies, causing considerable variability in its returns. This feature needn't discourage us from making a sizeable and long-term portfolio investment, but it requires us to have conviction in the governance of the business and a deep understanding of the rationale behind capital allocation, its liability profile and the accounting choices it makes in the presentation of its financial statements. All of this requires constructive engagement.

Engagement with the company has been a slow process requiring patience. However, we were ultimately encouraged by the depth of responses to questions we had on accounting, with all query items either resolved or with a plausible explanation that we can monitor. One other area requiring further engagement is governance. Specifically, JD.com has held one AGM since listing in 2014, which was in June 2021. Previously only listed in the USA as an ADR, JD.com is now listed in Hong Kong and must conduct AGMs annually. Since listing, minority shareholders have effectively been deprived of the opportunity to vote on key issues, such as the election of directors, approval of the financial statements and appointment of auditors. We believe the company should organise agenda items such that active owners can express their approval or otherwise on these and other key matters. We were disappointed that at the 2021 AGM, only two special resolutions were tabled and the appointment of a new Independent Non Executive Director (INED) was not a voting item.

We encouraged the company to consider adding such 'standard' AGM items next year, a message the company spokesman promised to relay to the Board.

The slow but ultimately fruitful engagement on accounting and other business matters has given us some encouragement that this interesting company is on a journey towards a more constructive dialogue with serious, engaged, long-term investors and we have positively, albeit cautiously, reassessed it in light of this. The funds received a small amount of JD.com shares as a distribution from Tencent. Whilst we were initially planning to sell these, the good progress outlined here has led us to hold onto these shares whilst we continue to consider the company for a more substantial holding.

E S [G]

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United Overseas Bank (UOB)

Singapore-listed banking and finance company

Key Issue: Environmental
Linkage of compensation to the bank's sustainability agenda.

Impact on manager's decision: We have long regarded UOB as one of Asia's leading financial institutions from a sustainability perspective, a fact increasingly evidenced by the growing number of awards it has won in this area in recent years.

UOB has a sensible, pragmatic approach to sustainability in keeping with its role as one of the leading banks in the region. Its reporting and engagement on sustainability is among the best we have encountered in Asia and includes quantifiable targets for sustainability factors (e.g., in 2018 UOB set out to double its renewable energy portfolio, achieving these three years ahead of plan; it also aimed build a sustainable finance portfolio of S$15bn by 2023 but by the end of 2021 had already growth this to S$17bn). It has many other initiatives, including a new goal to have 90% of its material suppliers in Singapore acknowledge UOB's GSSP (Group Supplier Sustainability Principles).

As evidenced above, the bank is clearly serious in its intentions and has made good progress towards its goals. We have, however, believed that the durability of this commitment should also find, where sensible, some expression in staff compensation practices.

We were therefore very encouraged to learn from the company that it is embarking on this path also, with a characteristically pragmatic approach: in Wholesale Banking, where UOB feels the promotion of sustainability with corporate clients can have the largest positive impact, there is now a weighting in Key Performance Indicators (KPIs) for managers to have ESG in their client conversations. This served to further deepen our conviction that not only does UOB have a serious, well considered approach to sustainability but that it also views it positively as a growth opportunity to such an extent that it is linking part of the compensation of key client-facing managers to it. In our valuation work we most commonly look at what is discounted in the current share price and then consider how realistic those assumptions are. The progress in sustainable finance appears to offer some top line benefit as well potentially as slightly higher margins. Both make the current assumptions embedded in the share price less aggressive looking to us, important in a stock which has been performing strongly.

[E]S G

Summary of our purposeful engagement activity

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

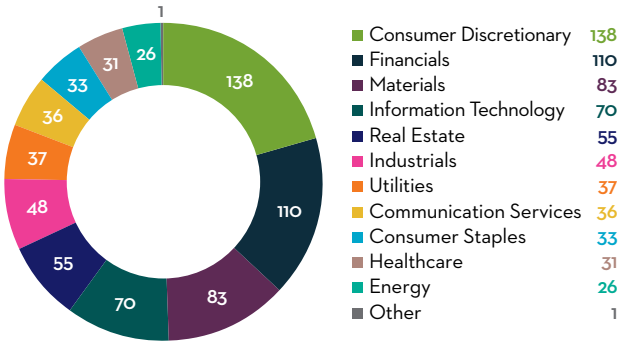
Overview: Calendar year 2021

Firm-wide engagements

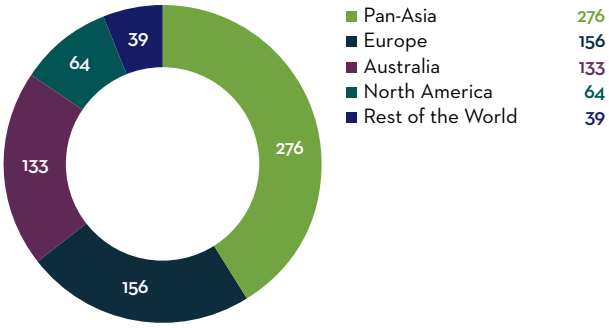
32	Markets covered
227	Companies engaged
668	Total engagements

The extent, objectives and type of escalation through engagement will differ depending on the materiality of the issue, mechanism of engagement, local market practice which may lead to differing types of escalation across funds, assets or geographies. This is reflected in the regions in which we have conducted our engagements being more weighted to areas where standards of disclosure or market practice may still lag global standards.

Engagements by sector

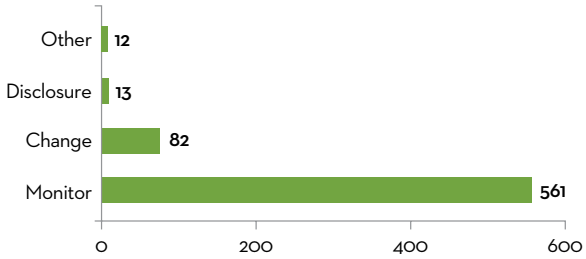


Engagements by region

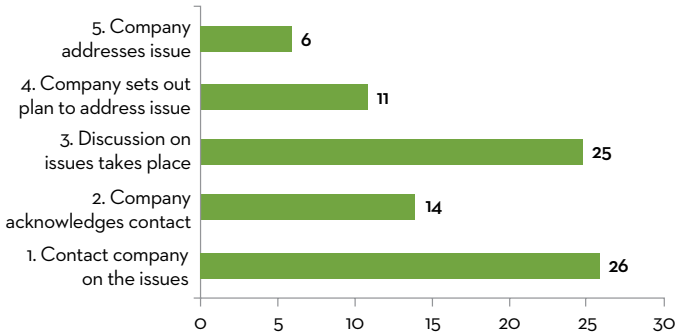


Engagements by topic

Purpose of engagement



Stage of completion for *change*



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

Active ownership: *engagement activity examples*

Below we highlight recent focused engagements undertaken by our investment teams and the associated outcomes including the nature and extent of escalation where this was required.

Amcor

Australian consumer packaging company

Reason for Engagement: Environmental
One of the few ASX 100 companies with more than 1m tonnes of CO_2 emissions but no 'net zero' commitment.

Objectives: We aimed to secure a net zero commitment from the company.

Scope & Process: As part of our ongoing discussion with the company on broader sustainability topics such as recycling plastic waste, in October 2021 we engaged with the IR team regarding their lack of commitment to net zero targets.

At the time, the company's response was that this was on the agenda for consideration, however they were grappling with the reality of setting targets for future management teams in the context of an uncertain pathway.

They responded that the feedback was appreciated, in particular regarding their standing out on the above-mentioned screen of ASX 100 companies with high emissions.

We would note that the company does have near term (2025 and 2030) targets for substantial reductions. (2030 intensity down 60% on 2006 levels). Their internal focus on scope 3 emissions as that is where the bulk of their emissions are.

Engagement Outcome: The company's focus on reducing emissions across all scopes is positive, but we believe that it will be important that they remain on top of this issue. There is also an opportunity for better investor communication here.

We were pleased to see that in January 2022, the company publicly announced that it has further increased in its sustainability efforts by committing to science-based targets to reduce greenhouse gas (GHG) emissions and to achieve net zero emissions by 2050.

This commitment has been recognized by the Science Based Targets initiative (SBTi) and builds on the success of the company's EnviroAction program.

We will continue to engage with the company on this matter as they formulate their in-depth strategies to meet these targets.

Engagement Stage of Completion: 5. Company addresses issue.

[E]S G

Guangdong Investment

Hong Kong listed Chinese utility/ infrastructure conglomerate

Reason for Engagement: Governance
Concerns around board composition.

Objectives: We aimed to facilitate improvements in the company's governance profile.

Scope & Process: We engaged with the company's Investor Relations team via letter to express our views around board composition which from our perspective revolve around independence and sponsor influence.

We expressed that while the group's Board technically has met the minimum 1/3 Independent rule according to the HK listing rules, this seems like a relatively low bar.

We believe that the Board cannot be considered truly independent as only 5/13 of the directors are independent and the Chairman (Wai Lin Hou) is also the Chairman of the group's sponsor.

We shared our perspective that the company's governance profile and Board could be improved in a number of ways, including adding more independent directors, refreshing directors with a tenure of 10+ years (to encourage true independence) and having an independent Chairman with less executives/more females on the board.

Engagement Outcome: The company has taken on our feedback, and our letter has been shared with senior management as well as the ESG team.

We do note that as a Chinese State-Owned Enterprise (SOE), change can be slow from a governance perspective, and we will be monitoring this through ongoing dialogues and engagements with Guangdong Investments.

Engagement Stage of Completion: 3. Discussion on issues take place.

E S [G]

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ASML

Dutch semiconductor equipment company

Reason for Engagement: Environmental
Supply chain transparency.

Objectives: The purpose of our engagement was to understand supply chain sustainability and transparency. ASML has c. 4,700 suppliers in its total supplier base and they need to conduct regular risk assessments on these.

Scope & Process: We discussed these issues with management as part of a broader engagement with the firm. The company spoke about its commitment to improve its disclosure in this area and the ESG framework at large, as well as its contribution to UN SDGs. Specifically, regarding the environmental aspects, the company emphasised its pivot to circular economy, with the modular design of its products allowing to extract the most value from the materials and products across their life cycles. With regards to the responsible supply chains, the company highlighted three main KPIs by 2025: i) RBA self-assessment completed for >90% of key suppliers (vs 88% in 2020); ii) evaluation of all suppliers with high risk on sustainability; iii) extending circular procurement to re-use reducing inventory scrap.

Engagement Outcome: At a subsequent Capital Markets Day in September 2021, the company highlighted ESG as part of the 'sustainable value' creation core to the overall strategy presented by Peter Wennink, ASML's President and CEO. The company aims to achieve net zero emissions across Scope 1,2 &3 by 2040. Sourcing and supply chain come under their Scope 3 emissions targets, and through collaboration with their suppliers they are targeting net zero emissions in this area by 2030. 'Responsible Supply Chain' is also one of the company's sustainability priorities, aligning with UN SDG 12 'Responsible Production and Consumption'.

Engagement Stage of Completion: 4. Company sets out plan to address issue.

[E]S G

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Hexagon

Swedish-based global leader in sensor, software and autonomous solutions

Reason for Engagement: Environmental
Progress on environmental goals.

Objectives: The company is involved in helping corporates increase the use of robotics and automation throughout their production lines, which itself is part of helping companies reduce their carbon footprints over time. The company appointed a Head of Sustainability in Q3 2020, Maria Luthström. This marked an important step towards a more coordinated approach to sustainability across the group, and our engagement has focused on understanding what progress the firm has made towards its targets.

Scope & Process: We have engaged with Hexagon and discussed its approach 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 has been an area of ongoing regular discussions with the company to see how it is progressing and how its targets are evolving.

Engagement Outcome: Hexagon's sustainability agenda is much clearer and its focus on the automation benefits the products can provide to its customers are consistently framed through the lens of sustainable value creation. Hexagon see a lot of opportunities for benefits including waste reduction and energy efficiency from their products. Hexagon's agriculture business has been able to reduce customers' use of agrochemicals by 25% and through automation of machinery reduce fuel use by more than 10%. Over the course of the year these discussions and interactions have increased our conviction in their sustainability credentials.

We have also focused on discussing its ability to continue to provide more measurable outcomes, as well as discussing how its focus on providing sustainable solutions to customers can translate into internal measurable targets that performance metrics can be linked to. We have made it clear we would like to see more detailed, quantifiable evidence of how their solutions are able to aid their customers' sustainability goals and the measurable outcomes they have been able to generate there. We have been encouraged by the increasing commentary around its sustainability goals (such as to become carbon neutral in its scope 1 and 2 emissions by 2030) and tying key performance indicators into remuneration. This is an ongoing conversation we continue to have with Hexagon.

Engagement Stage of Completion: 3. Discussion on issues take place.

[E]S G

Asian Paints

India's leading manufacturer and distributor of paints, coatings and related services

Reason for Engagement: Governance
Board construction.

Objectives: Reflect our view that this extremely well-run company does not have a majority independent board in global best practice terms.

Scope & Process: We engaged directly with the company on this issue and replayed our view that although the company describes its board as majority independent, this is only possible by using a local definition of independence to classify individual board members. In our view, long tenure of a director is an issue for independence. The company asked us to follow up our views in writing to allow them to pass these on to senior executives and the board.

Engagement Outcome: The company has indicated that it is sticking to strict local definitions of independence. However, the situation is fluid in terms of the potential retirement of a long-standing director. If this happens, we may be able to concur with the company on the board's independent status. This not yet being the case, we escalated our engagement into our voting decisions and voted against the election of two non-independent directors.

Engagement Stage of Completion: 3. Discussion on issues take place.

E S [G]

AIA Group

Hong Kong-listed insurer

Reason for Engagement: Governance
Board diversity.

Objectives: Reshape the Board of Directors and enhance its gender diversity.

Scope & Process: AIA has acknowledged in these conversations that this has been an area of focus for the company and that it has been considering this alongside other needs identified by the Board, such as injecting technology expertise (particularly internet industry expertise).

Engagement Outcome: Earlier this year, AIA announced the appointment of a new INED, Ms Jie Sun (aka "Jane Sun"), to the Board. Ms Jie Sun brings extensive experience in operating and managing online travel businesses, M&A, and financial reporting and operations.

AIA had said one of the key attributes the Board wished to add with a new INED appointment was expertise in operating an online business, and her appointment certainly does bring this, both in her capacity as CEO of China's largest online travel agency but also as board member of the other online businesses.

This appointment has achieved both gender and skill objectives with a most impressive individual.

Engagement Stage of Completion: 4. Company sets out plan to address issue.

E S [G]

Godrej Consumer Products

Indian consumer goods company

Reason for Engagement: Governance
Concerns for independence of CEO appointment following previous CEO stepping down in 2020. They were replaced by the Chairperson who was a founding family member.

Objectives: Express our concerns and ideally lead to a separation of responsibility. Whilst we were sympathetic to the rationale presented by the company – that this ensured continuity in the midst of the COVID crisis – we generally prefer to see a separation of these roles.

Scope & Process: Through discussion with the CFO during our annual accounting diagnostic analysis and later through engagement with the Chair/CEO herself, we were able to express our concerns directly – emphasising the benefits of separation of responsibility, particularly in instances such as this where the individual concerned also represents the interests of the majority shareholder.

The company has a good record on broader governance matters and had been receptive to our previous engagements – with the Chair acknowledging our concerns on this matter.

Engagement Outcome: Following our engagement, we were pleased to note the Chair and CEO roles being split off again following the appointment of a new, high calibre CEO in 2021 – within a year of the issue arising.

Engagement Stage of Completion: 5. Company addresses issue.

E S [G]

Antofagasta

A London-listed Chilean copper producer

Reason for Engagement: Governance and Social
Pre-investment knowledge building, followed by performance monitoring and provision of feedback.

Objectives: As a mining company operating in a water-scarce region alongside rural communities, it was imperative to gain a full understanding of the company's ESG exposures before investing and to continue to monitor ESG performance on an ongoing basis.

Scope & Process: Over the course of the year we had numerous engagements with Antofagasta's management for the purposes of information gathering, performance monitoring, shareholder voting, and to provide input and feedback on the company's sustainability reporting. We interacted with representatives from across the company, including their Head of Sustainability and we participated in an external investor perception study conducted on behalf of the company. This multi-faceted engagement demonstrates our active approach to ownership and our desire to foster strong partnerships with the companies in which we invest. Strong partnership need not, however, mean we will agree with every aspect of what a Board seeks to achieve. One illustration of this is that we voted against the company's adoption of revised Articles of Association, on the basis that they afforded the Board unlimited borrowing powers which we deemed unnecessary.

During 2021, the company faced additional operating challenges in the form of Covid-19 and a worsening drought in the Coquimbo Region of Chile. The company responded in commendable fashion to both challenges and kept us well informed of their progress.

Engagement Outcome: The company published its 2020 Annual Report in line with the recommendations of the TCFD. They followed this with a TCFD progress report in the fourth quarter of 2021 which outlined the adaptation and mitigation measures the company is taking in pursuit of sustainability. This included accelerated investment in water desalination plants, increased use of renewable energy, five-year emission reduction targets and a commitment to achieve carbon neutrality by 2050.

Engagement Stage of Completion: 5. Company addresses issue.

E [S G]

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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, or have been, involved in:

Climate Action 100+

CA100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. It is the largest collaborative engagement to date with more than 540 asset owners and asset managers signed up, representing more than US$50 trillion of AUM. In early 2020, as the engagement expanded the number of targeted companies to the current 167, there was an opportunity for us to join this collaborative engagement as the lead investor on an Indian company which we have been long-term holders of and already have a strong relationship with. Climate change is an important issue for our clients and for us as investors and is routinely factored into our analysis of companies that we invest in. In signing up to this initiative we further our commitment to engaging with companies on climate change and it has therefore been exciting to join this engagement with the opportunity to drive change in this important area. This represents one of a number of ways in which we are engaging on climate change alongside our obligations under the NZAMI and private engagement with underlying portfolio holding companies.

Status: *ongoing*

Climate change is an important issue for our clients and for us as investors and is routinely factored into our analysis on companies that we invest in.

Cybersecurity

Martin Currie was on the steering forum for the PRI-led collaborative engagement on cybersecurity and led the engagement with a number of companies across developed and emerging markets as part of this process. In particular, this engagement has focused on the governance and disclosure around cybersecurity. The final report on this engagement has been published providing investors with:

- An analysis of how companies within this initiative progressed on corporate reporting over the two years;
- Insights from the PRI collaborative engagement that shed light on how cyber risks are being perceived and addressed among companies from diverse sectors; and
- A set of investor recommendations on engagement, including tools to benchmark disclosure and set expectations. This was a useful exercise in launching an ongoing structured engagement that we have commenced across some of our global holdings.

Status: *concluded*

Water risk

This engagement targeted food, beverage, apparel, retail and agricultural companies based on their exposure to water risks. The aim was to gain an understanding of the degree to which companies are aware of the risks, understand to what extent the companies measure or assess water risks in their key agricultural supply chains, assess the material value of these risks, how the companies are responding and examine what information the companies disclose. The final benchmarking report demonstrated significant progress in a substantial proportion of those companies targeted with clear disclosures around the relevant business risk, the mapping of suppliers in high water risk areas and the provision of support and education to suppliers.

Status: *concluded*

Active ownership: *thematic engagements*

Thematic engagements we have participated in, in relation to climate change and modern slavery, form part of our response to what we have identified as market-wide and systemic risks. By taking action in these areas, we aim to improve disclosure and outcomes in these areas to create wider societal positive impact and to promote well-functioning financial markets in relation to these risks.

Carbon emissions and net zero target engagement by Martin Currie Global Long-Term Unconstrained Team

Focus: Global listed companies

Reason for Engagement: Environmental

Martin Currie has joined the NZAMI, and as part of our proprietary ESG risk assessment we are assessing companies' net zero targets and gathering more information on the magnitude and timeline for reducing their carbon emissions, as well as the basis on which each company's targets are set.

Objectives: To assess the risks to companies' activities from climate change impacts and gather information on their net zero targets.

Scope & Process: As part of our systematic proprietary ESG risk assessments, for both the companies held across our portfolio and those within our research pipeline, we assess the climate change impact from, and the risks related to their activities, combined with this is an assessment of each company's net zero targets. We have been engaging with each company to gather more information around this matter, notably seeking more details about their ambitions in terms of magnitude and the timeline for reduction in their carbon emissions, as well as the basis over which these are measured and the scope captured.

Since beginning this engagement program in H2 2021 we have spoken to representatives from all our portfolio holdings and across our research pipeline.

This has allowed us to update our risk assessments, gain insight into the companies net zero targets and where possible, provide guidance where we see scope for improvement. This is an ongoing project that will continue to progress this year.

Engagement Outcome: What is clear is the challenge of gathering targets that are not always uniform both in terms of scope, base year, target type, and way it is being measured and assessed. Furthermore, many companies are at different stages of implementation and sophistication in implementing net zero and other sustainability targets. Therefore, this is a high priority area of ongoing engagement for the team. Notably a number of material and technology companies are seeking not only to reduce their own carbon emissions but are actively working with customers to reduce their carbon footprints through usage of their products and services. A further welcome development is the introduction of ESG targets in management remuneration, and we have provided feedback to several management teams that this is an initiative we are seeing from the most sustainable companies.

[E]S G

As part of our proprietary ESG risk assessment we are assessing companies' net zero targets.

Case Study: Modern Slavery Engagement by Martin Currie Australia (MCA)

There are still too many Australian companies that do not have the appropriate policies, procedures, and disclosures in place or have not made it a priority.

Focus: Australian listed companies

Reason for Engagement: Social

Following the introduction of the Australian Modern Slavery Act, which heralded new reporting requirements on modern slavery for Australian companies, the Martin Currie Australia investment team undertook a structured engagement with all investee companies on modern slavery.

Objectives: We aimed to identify risk factors and behaviours that may indicate modern slavery risk.

Scope & Process: In August 2021, we wrote to the bulk of the ASX 200 companies, and also took the opportunity, where possible, to engage directly with management.

Over 80% of companies (by market cap) replied to our engagements.

We assessed the responses against a proprietary modern slavery template to identify a minimum level of modern slavery compliance, as well as the leaders and laggards in Australia, and best practice.

We provided all companies with a summary of our findings, as well as our view of best practice to help companies to self-assess their efforts and work to reduce their risk.

Engagement Outcome: Our research found most large Australian companies have policies and procedures to deal with modern slavery risk.

However, there are still too many Australian companies that do not have the appropriate policies, procedures, and disclosures in place or have not made it a priority.

These deficiencies are both a social risk and a financial risk and need to be considered when assessing an investment case.

Our project to influence modern slavery practices will remain a key topic for future engagements and we will be pushing boards and management teams for positive change.

E[S]G

How TCFD reporting provides a vital framework for dialogue

Our commitment to TCFD

We believe the Task Force on Climate-Related Financial Disclosures (TCFD) reporting framework is a vitally important tool to understand how companies are managing climate-related risks. It is designed to enable decision-useful disclosure of information on climate-related risks and opportunities for better integration of the financial impacts of climate change into the investment process. Reflecting this we are public supporters of TCFD and have joined CA100+, where one of the objectives is to encourage disclosure using the TCFD framework. This is a fundamental part of the way we engage with companies, shaping our dialogue on climate change around the four key areas of disclosure as recommended by the TCFD:

1. Governance

'Disclose the organization's governance around climate-related risks and opportunities'.

Our overall approach is overseen by the Stewardship & ESG Council and co-ordinated through our ESG Working Group. Climate change forms part of our assessment of the material risks and opportunities that companies face in generating sustainable returns over the long term and as such is embedded into our investment process. Our sustainability and ESG-related work is fully integrated into our investment process, considering factors including climate change when analysing the investment case for a company. All stock research is required to consider the material and relevant ESG factors that could impact the ability of the company to generate sustainable returns.

Our sustainability and ESG-related work is fully integrated into our investment process, considering factors including climate change when analysing the investment case for a company.

2. Strategy

'Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material'.

We have worked extensively over the course of the last year to produce an assessment of the Carbon Value-at-Risk for each of the companies that we invest in as well as overall portfolios. This has been a collaboration between the investment teams to share ideas and best practice as this has evolved. In addition, we produce a carbon footprint for portfolios, looking at both overall emissions as well as carbon intensity, which identifies the overall profile and main contributors to a portfolio's carbon footprint. With an increasing number of companies announcing net zero ambitions, we are also looking at the substance behind these ambitions and the extent to which companies are setting out science-based targets. Tools such as the Transition Pathway Initiative (TPI) also help identify the degree to which companies held are aligned with the transition to a lower-carbon economy. We continue to explore tools to help us with broader scenario testing including the PRI's Inevitable Policy Response. Our sustainability and ESG-related work is fully integrated into our investment process, considering factors including climate change when analysing the investment case for a company.

3. Risk Management

'Disclose how the organisation identifies, assesses, and manages climate-related risks'.

As active owners we look for companies to identify, manage and disclose material risks and opportunities. Climate change forms part of an assessment of the material risks and opportunities that companies face in generating sustainable returns over the long term and as such is embedded into the investment process. We use both company disclosed and estimated data to help us identify and manage climate-related risks. This includes carbon footprint and weighted average carbon intensity as well as the work that we have been doing on Carbon Value-at-Risk (VAR) which looks across the company value chain. We believe that the TCFD framework is a robust framework for disclosure of climate-related risks and opportunities and, as such, we encourage companies to adopt this approach. We have engaged with a number of companies over the last year to encourage them to use this framework and are an investor signatory to Climate Action 100+ and are the lead investor on one of the target companies.

4. Metrics & Targets

'Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material'.

For most of our portfolios we produce a carbon footprint each quarter looking at the carbon emissions based on scope 1 and 2 emissions, and the intensity of emissions, including the weighted average carbon intensity, relative to its benchmark. In addition, we look at our Carbon VAR. For some clients, a more detailed report is produced looking at the individual company contributions by scope and for those clients based in France a report compliant with Article 173 is produced, where required. One of the areas of focus for us is how companies are approaching climate change: the commitments that they are making – for example, net zero; and what scenarios and modeling they are carrying out. We recognise that there is not one set transition pathway, but we encourage companies to adopt science-based targets and provide sufficient disclosure for investors to make informed decisions. Initiatives such as the NZAMI and the Net Zero Asset Owner Alliance are set to drive increased transparency and frame some of the guidance around metrics and disclosures. As the scenarios and transition pathways develop and become more established, we are likely to increasingly use these.

Climate change forms part of an assessment of the material risks and opportunities that companies face in generating sustainable returns.

Summary of our voting activity

Proxy voting is a key component of stewardship, plays a crucial role in our overall approach to engagement and can be used to escalate our engagement where this has not been adequately addressed though initial engagement. Our voting escalation is not prescriptive and will differ depending on the materiality of the issue, duration and extent of prior engagement as well as local market practice. This may lead to differing types of escalation across funds, assets or geographies.

This is shown below with differing proportions of meetings where we voted against management. The highest proportion was in the US and Asia while the lowest was in Japan. The highest proportion of votes against were on director or remuneration related votes.

Overview: Calendar year 2021

Firm-wide proxy voting

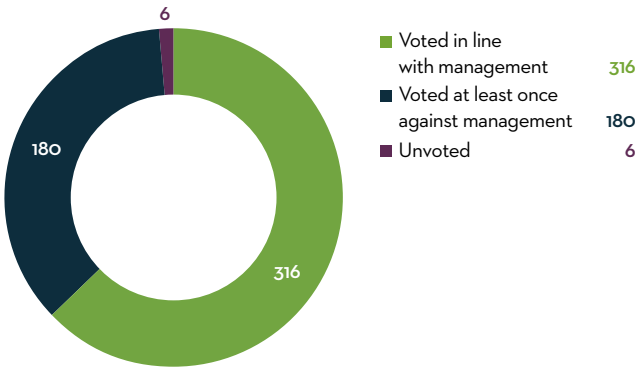
42	Markets covered
496	**Total shareholder meetings**
180	Meetings where we voted against management
4,727	**Total resolutions:**
422	Resolutions voted against management

	Meetings voted against management	Total meetings	Proportion of total meetings where we voted against management
Australia	26	108	24%
Pan-Asia	79	173	46%
Rest of World	11	33	33%
North America	33	59	56%
Europe	37	85	44%
Japan	2	47	4%

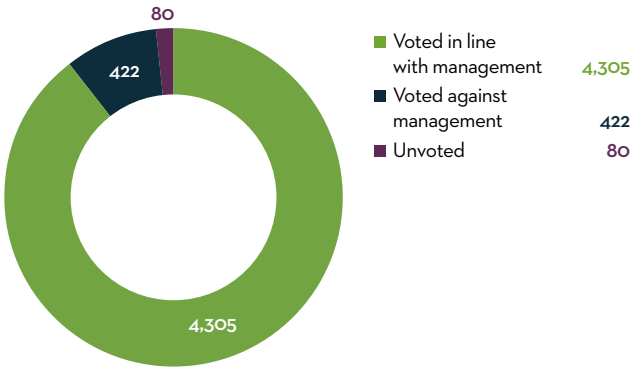
When voting on behalf of our clients, we will always seek to do so in their best interests considering the long-term impact of these voting decisions. We seek to vote all of our proxies and the proportion of resolutions voted in 2021 is shown below. Instances in which we have not voted have been a result of these being non-votable resolutions, where power of attorney was not yet in place or where votes took place during the process of fund transitions.

A full record of our voting activity is made publicly available on our website one quarter in arrears.

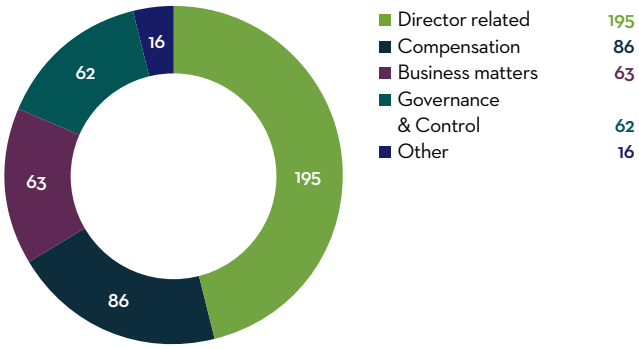
Total meetings



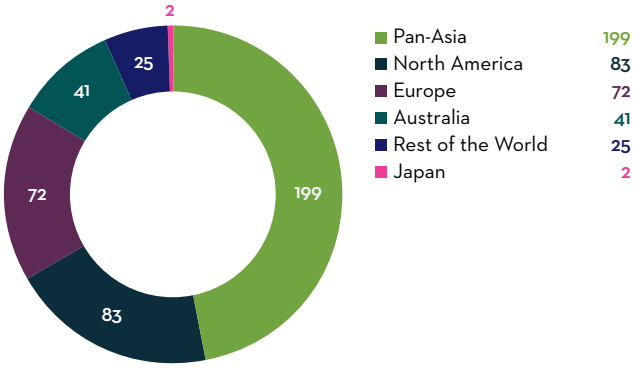
Total resolutions



Resolutions voted *against* by proposal type



Resolutions voted *against* by region



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

Proxy voting to escalate and facilitate change

Proxy voting is most commonly associated with a focus on governance issues given the formal structure around AGMs. However, proxy voting can support an approach to facilitate change that also benefits society on broader issues such as the environment and human rights, but there are challenges to overcome. We are increasingly using proxy voting as an 'escalation' tool as part of our engagement strategy to vote against management recommendations on matters where we are looking to facilitate change.

There are however, challenges in aligning the objectives of an engagement with the ability to vote on a particular sustainability topic, and this can create a barrier to holding a company to account or bringing about a targeted positive change. Where there is no direct route through voting, there are other ways that votes can be used to send a strong signal to a company.

Through shareholder resolutions

Shareholder resolutions are one way that this can be addressed. With sustainability issues increasingly in focus, it is no surprise that diversity, equity and inclusion, climate, and human rights and labour practices focused shareholder proposals have seen record levels of support during the 2021 proxy season.

This is not, however a route that is permitted in all markets, and is most commonly seen in the US, Europe and Australia. The mechanics of these votes and the nature of them, whether they are advisory, as is the case in the US or the UK, or binding as in Australia, can present additional challenges. Advisory shareholder proposals do not necessarily bring about change directly, but when the majority of shareholders support a proposal it sends a very clear signal to the board of directors that change is expected.

For example, in the US, for meetings up to 30 June 2021, 20% of shareholder proposals received majority support which compares to just 3% achieving the same level of support 5 years ago[5]. In Australia, we have also seen an increasing number of shareholder resolutions. Unfortunately, both the binding nature of the resolutions and the high threshold for success (75% for) do not lend themselves to being an effective tool to address these types of issues.

Through director election

In many cases, we turn to the election of the directors who are ultimately accountable for the strategy and oversight of the company. Where the change we seek focuses on diversity, this may mean voting against the chair of the nomination committee or voting against candidates where the approach to diversity is being entrenched. On climate change, we may focus on the chair of the board or a relevant committee within the board. In these cases, it is important that we clearly explain to the company why we are approaching the director elections in this way.

Looking forward

We expect to see an increasing number of shareholder proposals put forward on sustainability issues. Climate change will feature prominently as attention on this issue continues to grow and the 'Say on Climate' campaign starts to gain traction. Human rights will likely become more of a focus, with the PRI for example establishing a new major collaborative engagement on the topic. Diversity and inclusion, which has been a focus for us, will also continue to feature. Topics that we expect to emerge include biodiversity.

We are increasingly using proxy voting as an 'escalation' tool as part of our engagement strategy to vote against management recommendations on matters where we are looking to facilitate change.

[5]Source: EY, as of 3 Aug 2021; What boards should know about ESG developments in the 2021 proxy season, available from: https://www.ey.com/en_us/board-matters/esg-developments-in-the-2021-proxy-season

Voting examples

Worley

Australian engineering, advisory and project management services company

Reason for Engagement: Governance
Concerns about over boarding.

Objectives: We believe that the Board member, Andrew Liveris, is over-boarded. We voted against the proposal to re-elect Andrew Liveris as Director.

Scope & Process: Andrew Liveris serves on five boards and is the Deputy Chair and Lead Independent Director of the company. Liveris' workload is further exacerbated by the sheer enormity of the companies he sits on plus the NFP seat at Minderoo Foundation and his role as an advisor to the Crown Prince of Saudi.

We do acknowledge that Liveris's business experience as CEO and Chairman of DowDupont, yielding 40 years of global chemicals industry leadership experience, and his presence on the Saudi Aramco Board would be extremely valuable to the company.

However, we believe the company would be better served if his public company workload was lessened.

This would remove any perception that he cannot give the attention to the company that shareholders expect.

Voting Outcome: We believe that informed voting can send a strong signal to a company.

While the vote to Re-elect Andrew Liveris as Director was recommended by proxy advisors, and ultimately upheld by the majority of shareholders, we used our vote against the re-election of the director in question to highlight out concerns on this important topic.

We will be using subsequent engagement opportunities to discuss our concerns.

E S [G]

Westpac

Australian bank

Reason for Engagement: Governance
Concerns about appropriateness of remuneration.

Objectives: We believe that the company's disproportionately high remuneration outcomes did not reflect the poor experience for shareholders with the share price falling significantly in the last quarter of 2021.

In order to express our concerns around accountability, we voted against the remuneration report.

Scope & Process: The annual incentive outcomes for FY21 appeared to be disproportionately high against the company's own performance targets, with all executives set to receive at least 43% of maximum.

Through our engagement program we had a number of separate discussions with board members to outline our concerns about board underperformance, particularly on costs, core earnings and net promoter score targets.

Voting Outcome: In terms of costs, the fact that over-spend was on compliance improvements did not mitigate our concerns.

We voted against the remuneration report, along with 30% of Westpac shareholders. As a result, Westpac received a "first strike".

In Australia, any company with an against vote on the remuneration report greater than 25% in two consecutive years must submit a conditional resolution to the second AGM authorising a meeting to consider the removal of all incumbent non-executive directors.

E S [G]

The information provided should not be considered a recommendation to purchase a particular strategy/fund or sell any particular security. It should not be assumed that any of the securities discussed here were or will prove to be profitable.

Asian Paints

India's leading manufacturer and distributor of paints, coatings and related services

Reason for Engagement: Governance
Lack of Board independence.

Objectives: We voted against the election of two non-independent directors as we believe the Board lacks an independent majority. There are two "independents" that have board tenures of over 20 years, so we do not view them as truly independent in the way that the company does. These were not the same two people we voted against.

Scope & Process: Our email correspondence with the company shows that it understands our perspective. The company points to its adherence to Securities and Exchange Board of India (SEBI) regulations. Our voting decision was an escalation of the previous engagement we had with the company on this subject.

Voting Outcome: Voted against management to re-elect these directors. The directors were re-elected with a vote against of around 8%.

E S [G]

Microsoft

US technology firm

Reason for Engagement: Governance and Social
Shareholder proposals to improve disclosure of gender/racial remuneration gaps and lobbying positions.

Objectives: (i) A vote in favour of improving disclosure on the racial and gender pay gaps means shareholders could benefit from the median pay gap statistics that would allow them to measure the progress of the company's diversity and inclusion initiatives. (ii) Reporting on the company's public position with its political partners' lobbying positions would provide shareholders needed information about reputational risks that may arise from publicity around perceived inconsistencies.

Scope & Process: We believe improving disclosure on gender and racial pay gaps are important to drive transparency which we believe could increase accountability for the diversity efforts that the group is making. Essentially this provides a line of sight to the seniority profile of the gender / racial profile of the company. Reporting on lobbying activity is an area where there has been an increasing focus in the US especially in regard to climate, as such this helps ensure that the lobbying that companies do is aligned with their policy statements.

Voting Outcome: We voted for these shareholder motions and against management in both cases. These resolutions did not pass but gained significant shareholder support of 40% and 38% respectively. Future engagement will continue our dialogue on these issues given the substantial support already shown.

E [S G]

The information provided should not be considered a recommendation to purchase a particular strategy/fund or sell any particular security. It should not be assumed that any of the securities discussed here were or will prove to be profitable.

Adidas

German sportswear firm

Reason for Engagement: Governance and Social
Engagement on changes to the remuneration policy and Board diversity.

Objectives: The company remuneration plan was to include a longer vesting period, the removal of special awards and the addition of a new malus clawback provision. In addition, the election of former athlete and philanthropist Jackie Joyner Kersee to the supervisory board was proposed.

Scope & Process: We have previously engaged with Adidas both on the renumeration policy and increasing diversity for example the increased representation of Black and Latino leaders in the US business. We believe the addition of former US athlete Jackie Joyner-Kersee to the board will bring useful experience at both a professional level and also with regards to racial equality and women's rights.

Voting Outcome: We voted in line with management on these issues as they reflected progress on some of the concerns that we had been engaging with Adidas on. Both of these resolutions passed with 83.4% and 99.9% support respectively.

E [S G]

Alibaba Group Holding Limited

Chinese multinational technology company specialising in e-commerce, retail and internet

Reason for Engagement: Governance
The election of two non-independent directors (Joe Tsai, co-founder and Executive Vice-Chairman, and Michael Evans, President). A vote in favour of both would have preserved the current Board split of 50:50 between independent and non-independent directors. Therefore the removal of one non-independent director would shift the Board to an independent majority. We have engaged with the company in the past on the value of the latter.

Objectives: We chose to vote against Michael Evans as a way of sending a clear message that we continue to seek majority independence on the Board.

Scope & Process: Disappointingly, the company was not responsive on this issue, hence our resorting to the use of a vote against the appointment of one director. We believe this was a proportionate response, given our objective of improving the Board structure.

Voting Outcome: We voted against election of Michael Evans. His appointment was approved but with a significant vote against of 18.2%.

E S [G]

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The election of former athlete and philanthropist Jackie Joyner Kersee to the supervisory board was proposed.

Regulatory change in 2021: *setting standards*

David Sheasby
Head of Stewardship & ESG

The key regulatory change has been in Europe with the aim to transform EU economy into a greener and more resilient financial system framed by the Paris Climate Agreement and the UN SDGs. This is also likely to be mirrored in other jurisdictions going forward. It is important therefore to have a view of what this regulation should seek to achieve. Our view of this is clear. Regulations in this area should seek to provide decision useful information for both investors and our end clients. This creates the best potential conditions for real world change in both capital flows driving impact and increased regulation and transparency creating an incentive for companies and investors to improve both their communication and performance in relation to key aspects of sustainability such as climate change, governance, human rights and diversity.

There are three pillars to the regulatory regime in Europe and all three are important for financial institutions:

- Sustainable Finance Disclosure Regulation (SFDR) which places new disclosure requirements on all financial market participants regarding sustainability
- The EU Taxonomy – this is a framework to assess the environmental sustainability of economic activities – what companies produce or services that they provide
- Legal frameworks to embed sustainability into organisations and investment decision making

This regulation affects all asset managers selling products to EU clients and in our experience is very complex and detailed.

In addition, the regulation covers company disclosures under the Corporate Sustainability Reporting Directive (CSRD) with the aim of streamlining disclosures and bringing sustainable reporting on par with financial reporting.

The EU regulation has also looked to define different aspects of investment – for example what constitutes a 'sustainable investment'.

Following Brexit the UK is now looking at establishing its own regime – (Sustainability Disclosure Requirements – SDR) but is more advanced in other aspects of regulation – for example requiring climate disclosures under the TCFD framework from companies as well as asset managers and, for example, pension funds.

Preparing for these changes has required extensive work across our business. This has included acquiring additional data sets to help provide new insights as well as meet the reporting needs. We have been working with our investors to ensure that relevant information is surfaced in a way that supports their work and equally ensuring that we can gather and report on the information that is required under the new regulation. The advancing regulation has also often required legal interpretation to ensure that the requirements are clear and embedded in our risk and oversight frameworks.

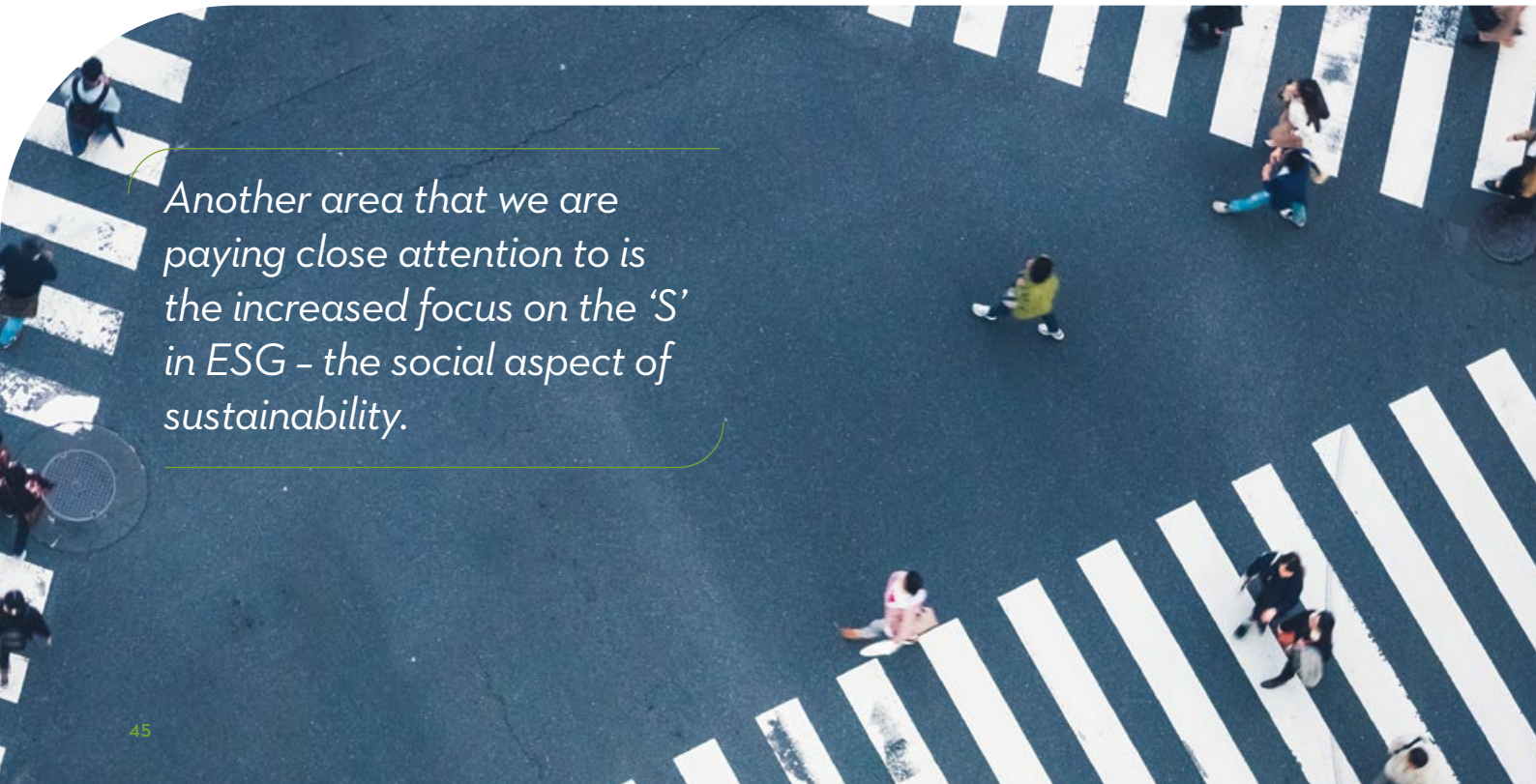
The asset management industry has faced some challenges presented by the sequencing of some of the regulatory disclosures especially regarding aspects of the EU Taxonomy where the requirements on asset managers have come into effect before companies themselves are required to disclose the information needed. This gap is however temporary in nature with the obligations on more detailed company disclosures taking effect as of next year.

We are also closely following what is happening in other jurisdictions for both the corporates that we invest in and what we are required to do as an asset manager. The focus in many cases is on climate – for example the environmental disclosures that asset managers will be required to make in Singapore later this year and the expectations regarding climate reporting for companies that will be published by the SEC this year. This focus on climate is no surprise given the urgency of the climate crisis as has been articulated in the Intergovernmental Panel on Climate Change (IPCC) Assessment Report 6 (AR6) reports that informed the debate at the COP26 conference in November. The support of global leaders as well as the huge impetus that the conference has provided to the finance industry means that the focus and regulation in this area is only likely to increase.

We have seen governments such as the UK legislating on their net zero targets and the launch of initiatives such as NZAMI have been key developments that will frame the role that the finance industry and asset managers in particular will play in supporting this ambition.

While the focus of COP26 was clearly climate change the announcement of the establishment of the International Sustainability Standards Board (ISSB) is another important step in embedding sustainability into how companies report and provide investors with decision useful information – we expand on this in the next section.

Another area that we are paying close attention to is the increased focus on the 'S' in ESG – the social aspect of sustainability. We have already done a lot of work looking at aspects such as modern slavery risk and the work mapping companies' products and services to the UN SDGs. We can also see the focus that is being placed by regulators on supply chains and due diligence that is going to be expected of companies – this is articulated in the first draft of European Corporate Sustainability Due Diligence (CSDD) directive published at the end of February 2022. At the same time the initial social taxonomy was also published – essentially a proposed structure for a social investment classification system that leans on pre-existing frameworks and principles such as the Universal Declaration on Human Rights, the European Pillar of Social Rights, the UN SDGs, and international norms. It focuses on three main stakeholders: (i) workers; (ii) consumers; and (iii) communities. This will be the basis for additional disclosures required in Europe over the coming couple of years.



Another area that we are paying close attention to is the increased focus on the 'S' in ESG – the social aspect of sustainability.

The changes we are seeing also impact on Governance (the 'G' in ESG). One aspect to note is the updated listing regime in the UK where, following the review by Lord Hill and a period of consultation and feedback, a targeted form of dual class share structures have been added to the listing rules for premium listed companies. This is part of an effort to make the UK a more attractive venue for high growth (often technology) companies to list there but also follows on from similar moves by other exchanges in what some are describing as a 'race to the bottom' on potential governance standards.

Ultimately however regulation should be just one component of driving change. Universal regulation has a role in creating a higher floor for standards and behaviour but should not be seen as an optimum solution. Martin Currie believes that as part of our purpose of Investing to Improve Lives we should strive to go beyond this in meeting our clients' expectations. This has been the guiding principle in providing more detailed disclosure to our clients through this report where we have responded to feedback from multiple stakeholders from our clients to the FRC, and in our updated and more detailed client reporting to give our clients better insight into how their capital is being deployed and managed. We have also tried to go further by adopting and improving our proprietary analysis around impact through the lens of the UN SDGs and seeking to understand and manage risk in key areas such as modern slavery and climate change. We view continuous evolution, improvement and commitment to driving real change as an equal if not more powerful vector for change as regulation.

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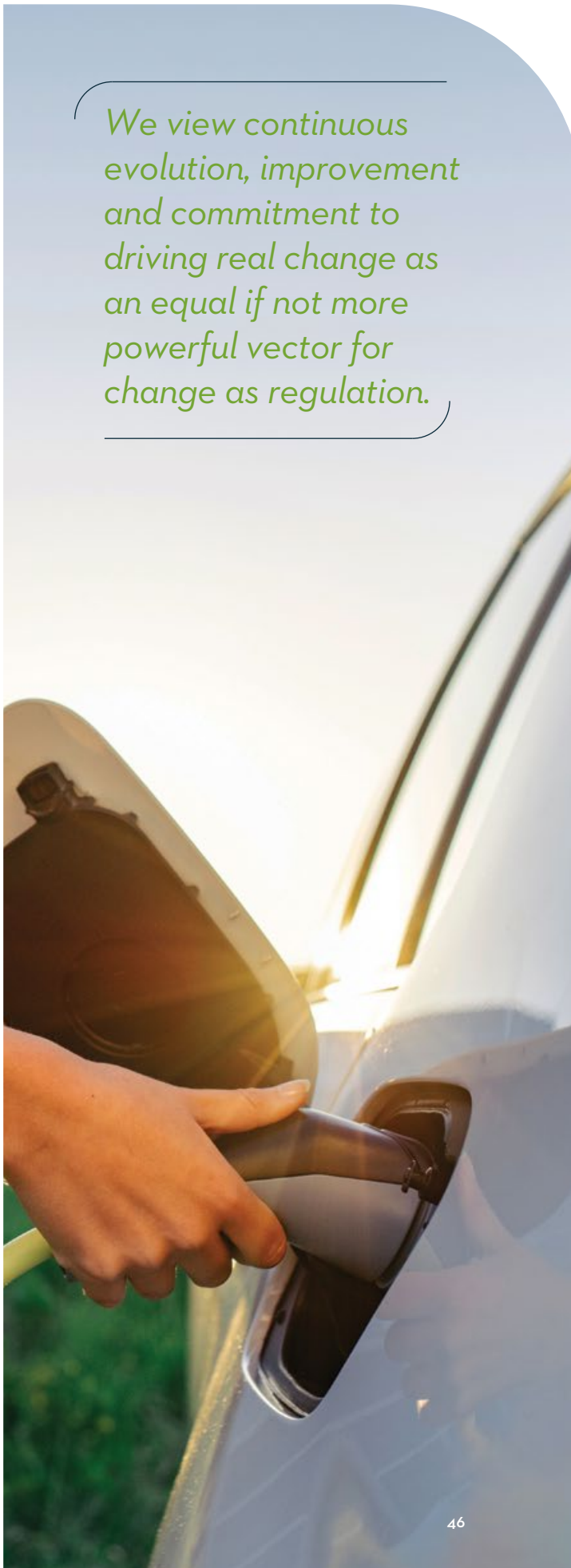

Reaching forward

We believe that the formation of the International ISSB is a landmark in the evolution of sustainability reporting standards. The ISSB is setting out to establish a comprehensive global baseline for high quality sustainability disclosure standards to address an information void for investors by creating consistent, comparable and verifiable sustainability disclosures standards. What underpins this however is enabling effective capital allocation, improving business and sustainability performance and embedding sustainability disclosures in the capital market infrastructure on a par with financial reporting.

The ISSB will be building on already established and accepted frameworks, including the TCFD (for climate related risks) and Sustainability Accounting Standards Board (SASB) (for industry specific disclosures) and the International Integrated Reporting Council (IIRC) (for the interlinkage to business practices). As such it is likely to have broad support and these building blocks facilitate an accelerated process in setting out these standards. Exactly how materiality is incorporated into the frameworks will be important to monitor. The IIRC has taken a stakeholder approach to the use of, and value created from, the different types of capital available to companies whereas SASB had focused on financial materiality. Materiality in any form is however dynamic as regulation changes, new issues come to light and products evolve. Certainly, something that we will be monitoring.

The other positive news is that the coalescing of standards under the ISSB may mean fewer acronyms to contend with. The Value Reporting Foundation (VRF) (itself a merger of the SASB and the IIRC) and the Climate Disclosure Standards Board (CDSB) will be consolidated in the International Financial Reporting Standards (IFRS) Foundation which has established the ISSB.

It is no surprise that climate reporting is on the agenda for an increasing number of regulators in 2022 with the SEC in the US and MAS in Singapore following the example of the UK and Europe and demanding more evidence of how companies are integrating climate risks (and opportunities) into their reporting and disclosures.

It is no surprise that climate reporting is on the agenda for an increasing number of regulators in 2022.

During 2022 a big focus for Martin Currie is the work we will be doing to support the ambitions of the NZAMI.

The initiative requires us to (among other things)

- Set interim targets for 2030 for the assets managed in line with the goal of net zero
- Implement a stewardship and engagement strategy with a clear escalation and voting policy that is consistent with the initiative's goal
- Prioritise the achievement of real economy emissions reductions through engaging with portfolio companies to increase their carbon reduction ambitions

Our first steps have been to establish the methodologies used to assess portfolio alignment with net zero and working with clients to understand how we can support them in their ambitions. The initiative also leverages our strengths in engagement and active ownership with a commitment to engage across the companies we invest in to address gaps in their disclosures, targets they have set, and the alignment of their businesses with net zero.

This will be framed by our Investor Climate Action Plan (ICAP) that will build on the work that we already doing on climate both in terms of the integration into our analysis and engagement that we do. We will be publishing this alongside a specific Climate Engagement and Escalation Policy and we commit to report on the progress that we make, annually. We will be publishing further details publicly in July 2022 along with the specific targets set and asset commitment to NZAMI.

During 2022 a big focus for Martin Currie is the work we will be doing to support the ambitions of the NZAMI.

We are signatories of the following initiatives

Signatory of: UK STEWARDSHIP CODE | 2021

NET ZERO ASSET MANAGERS INITIATIVE

IIGCC The Institutional Investors Group on Climate Change

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

CDP INVESTOR SIGNATORY

Climate Action 100+ Global Investors Driving Business Transition

Our recent Stewardship and ESG insights

Over the course of the reporting year, we have responded to client requests and have sought their views on the stewardship and ESG insights that we produce in terms of topics that have most relevance and urgency. During 2021 this focussed most significantly on net zero and the COP26 summit as well as emerging issues such as biodiversity and regulation (the focus of this report).

Thought leadership is published regularly on our *website*. The following list of content explores relevant sector-specific, market-wide and systematic risks which we have identified:

- **Seven important Stewardship themes for 2022**

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

  26 January 2022

- **Stewardship Matters – Edition 5: Biodiversity**

  Investors have increasingly focused on climate change as a material issue, but the reality is that climate change and biodiversity are inextricably linked and a greater focus on biodiversity itself is warranted. EDITION 5 specifically focusses on the important topic of biodiversity, and why and how investors should be working to protect it.

  19 January 2022

- **COP26: A meaningful step forward in combatting the climate crisis?**

  Now that COP26 has finished, we have assessed what was achieved, what needs to happen next, and the implications for investors.

  29 November 2021

- **COP26: A climate for change?**

  Martin Currie's urgent call to action ahead of COP26 for governments, companies, and investors; NOW is the time for change and accelerated action.

  22 October 2021

- **Stewardship Matters – Edition 4: Investing to Improve Lives**

  As a firm, our aim is to be a leader in ESG. To do this, we need to measure our own inputs and outcomes to the same set of standards that we expect of the companies we invest in. EDITION 4 provides us with an opportunity to hold a mirror to how we are Investing to Improve Lives.

  20 October 2021

- **Stewardship Matters – Edition 3: Quantifying Decarbonisation**

  Decarbonisation is a journey with significant challenges. EDITION 3 looks at how as investors, the key is about how we can work in partnership with our clients and investee companies to facilitate this journey.

  13 July 2021

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

  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

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

  Looking at ways that markets and investors can help realise the goals of net zero.

  4 May 2021

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

  Identifying the key challenges ahead in the journey to net zero.

  19 March 2021

- **The impacts of Sustainable Finance Disclosure Regulation on the European distribution landscape**

  Investors will see important changes in the way their asset managers provide sustainability related information on their products and updated sustainability policies, resulting from requirements from the EU SFDR.

  9 March 2021

- **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

- **Stewardship Matters – Edition 2: Sustainable Development Goals**

  2021 is likely to bring significant changes in the ESG landscape, and if anything, bring it even more into mainstream focus. Within this backdrop and reflecting the increasing focus on the UN Sustainable Development Goals (SDGs) by our clients, EDITION 2 focusses on how we are working towards mapping corporate activities and portfolios against these targets.

  20 January 2021

- **Our Corporate Purpose: Investing to Improve Lives – Active Ownership**

  As investors, we believe financial returns and environmental, social and governance (ESG) factors are fundamentally intertwined. ESG analysis is therefore fully embedded in our investment processes, allowing us to meaningfully improve our understanding of investee companies, their material risks and their opportunities.

Appendix: *Key issue & policy summaries*

Proxy Voting

We recognise that we have a duty to act in the best interests of our clients. To that end, our Proxy Voting Policy is designed to enhance shareholders' long-term economic interests. All our voting decisions are made in-house and are undertaken in accordance with our Global Corporate Governance Principles and in line with our clients' best interests. Proxy voting is integral to stewardship and as such we will routinely inform management of our investee companies when we are voting against them on material matters and provide our rationale.

Our policy which covers all funds where we have the right to vote is updated at least annually, taking into account emerging issues and trends, the evolution of market standards, and regulatory changes. The policy considers market-specific recommended best practices, transparency, and disclosure when addressing issues such as board structure, director accountability, corporate governance standards, executive compensation, shareholder rights, corporate transactions, and social/ environmental issues. The framework for making these decisions is set out in our Global Corporate Governance Principles.

Our proxy voting advisors also provide voting recommendations for Martin Currie in accordance with their own policies, which are closely aligned with our internal policy. As appropriate, our proxy voting advisors engage with public issuers, shareholders, activists, and other stakeholders to seek additional information and to gain insight and context in order to provide informed vote recommendations.

Voting assessments are carried out by the member of the investment team with responsibility for the stock, in conjunction with the Stewardship & ESG Team. We recognise that regulatory frameworks vary across markets and that corporate governance practices differ internationally. We will normally vote on specific issues in line with the relevant market guidelines.

Our voting decisions are informed by both our own internal work and that of our proxy advisor. We assess voting matters on a case-by-case basis, taking into account a company's circumstances. We are guided by our overarching principles on good corporate governance. Ownership of the votes lies with the investment teams

Clients with segregated accounts have the capacity to set their own voting policies and we may enter into client relationships where voting discretion is retained by clients or where client input into voting decisions are sought. Client directed voting in segregated accounts can be facilitated but is not used for pooled accounts.

Martin Currie does not provide clients with a stock lending service. Should they want to lend their stock, they have to make their own arrangements, and assume responsibility for calling back their shares if they wish to exercise their voting rights. Where we are aware that securities are on loan and if we judge a vote to be material, we may advise the relevant clients recall that stock in order to cast a proxy vote. In circumstances where it is not possible or practical to assess the materiality or where it is not possible to recall the security (e.g. where the events subject to voting are not communicated by the company in sufficient time) no votes will be cast.

Full details around our voting approach are contained in our *Global Corporate Governance Principles* and our *Proxy Voting Policy*.

> *We assess voting matters on a case-by-case basis, taking into account a company's circumstances but are guided by our overarching principles on good corporate governance.*

Monitoring Service Providers

In addition to our own in-house research, we access a range of external ESG-specific service providers. Because these providers are used as inputs rather than outputs in our research and voting process i.e. for information not action, our key area of focus in supporting our stewardship activities is related to data quality, accessibility and compiling information. Assessments in relation to material ESG issues are covered by our own proprietary ratings and proxy voting decisions not outsourced to third-party providers.

Our third-party suppliers in relation to our stewardship activities include:

MSCI ESG research – covers most of the MSCI ACWI constituents and produces industry research, focusing on: key material Environmental, Social and Governance risks and opportunities by industry, with a focus on financial implications; and company reports, based on how individual companies are performing against these risks and opportunities, and ranking them relative to peers. In addition, they provide carbon emissions data, carbon intensity and historic time-series of these for each company. They also produce an assessment of corporate performance against internationally accepted normative standards of behaviour, with the UN Global Compact supporting effective benchmarking.

Institutional Shareholder Services (ISS) – produces research reports which focus on voting recommendations for shareholder meetings. These provide useful insight into the corporate governance of the companies covered.

ISS ESG DataDesk – Provides ESG data including datapoints on SFDR Principle Adverse Impact (PAI) indicators, EU Taxonomy alignment, and climate solutions. As this is a relatively new provider for us, we are still in the process of assessing how best we can use the data sets.

S&P TruCost – Provider of ESG data sets including Trucost Physical Risk, EU Taxonomy Revenue Share and SFDR PAI Data Solution. As this is a relatively new provider for us, we are still in the process of assessing how best we can use the data sets.

All Street Sevva – A service that uses AI to instantly read ESG data points from a data lake of sources, and automatically calculates ESG ratings based on the UN SDGs.

Broker research – some of the leading brokerage houses produce ESG-themed research as part of their general research offering and incorporate relevant and material ESG factors into their stock research. This research can help frame the risks and opportunities both in broad terms and at a company level.

This external research complements our own ESG research capabilities. Our proprietary ESG research includes extensive engagement with companies which allows us to obtain relevant material data and ascertain the key non-financial factors that will impact a company's performance.

We review the quality of the research and service provided on an ongoing basis and provide feedback on the rare occasions that we come across any issues. We also provide extensive input into the annual investor outreach program and policy roundtables that help frame the evolution of the voting polices and approaches.

Each service provider has a designated contract owner within Martin Currie who is responsible for the ongoing assessment of the effectiveness of the relationship and for monitoring performance of the service provider. For outsource service providers a written outsourcing agreement and a service level agreement (SLA) are a mandatory requirement. The specifics of the ongoing monitoring of service providers will differ depending on the services being provided but in the case of key service providers will include day to day monitoring of reports provided by the service provider, regular calls with relationship contacts, regular servicer review meetings (typically monthly) and an annual due diligence exercise.

Where appropriate, a detailed SLA is agreed with the service provider that ensures each party is clear about responsibilities and requirements. The designated contract owner within Martin Currie will ensure that the services being delivered meet our requirements.

Any issues that occur with the service being provided are typically one off issues rather than being systemic failings by the provider. These are managed by the contract owner. Most issues are resolved quickly through investigation and agreement of any action required to ensure that any service issue is remedied and action implemented to prevent a recurrence. If necessary issues will be escalated to senior management at the service provider and/or Martin Currie to ensure resolution.

Third-party data provision in relation to ESG is procured centrally by our parent company Franklin Templeton. In these instances, the above functions are carried out and overseen by the GSST as highlighted in the ESG oversight organisation chart in the business summary.

Conflicts of Interest

A fundamental ethical principle of Martin Currie is to pay due regard to the interests of our clients and to manage potential conflicts of interest fairly. We take a holistic view of conflict risk and conflict mitigation and have policies, systems and controls in place to identify such potential conflicts between ourselves and our clients, as well as between one client and another, to achieve consistent treatment of conflicts of interest throughout the business. We aim to manage any conflicts of interest that may arise and to ensure, as far as practicable, that such conflicts do not adversely affect the interests of our clients. A robust conflict management process is in place which is owned by the Executive Risk Group (ERG). Activities which could create a potential conflict of interest are recorded on the conflicts register and are reviewed by the business regularly to ensure that controls in place remain adequate to mitigate any risk of a conflict arising.

Martin Currie has a Conflicts of Interest Policy that applies to Martin Currie as a whole and governs situations where conflicts could arise due to the business activities of different entities within Martin Currie. The policy applies to all clients, irrespective of their regulatory classification, and must be observed by all employees, without exception. We have policies, systems and controls in place to identify such potential conflicts between Martin Currie and its clients, as well as between one client and another, to achieve consistent treatment of conflicts of interest throughout its business. Martin Currie aims to manage any conflicts of interest that may arise and to ensure, as far as practicable, that such conflicts do not adversely affect the interests of its clients.

In managing conflicts of interest, Martin Currie:

- Prepares, maintains and implements an effective conflicts of interest management framework.
- Maintains detailed policies and procedures for identified activities to prevent conflicts of interest adversely affecting the interests of one or more clients. These include adequate measures to assess and evaluate potential conflicts identified.
- Prevents or limits any person from exercising inappropriate influence over the way in which services and activities are carried out; and
- Prevents or controls the simultaneous or sequential involvement of a person in separate activities or services where such involvement may impair the proper management of conflicts of interest.
- Has appropriate monitoring and oversight arrangements in place to ensure policies and procedures are being observed in practice.
- Ensures its organisational structure has sufficient and effective segregation of responsibilities.
- Ensures that senior management periodically receive written reports detailing actual and potential conflicts of interest.

For example in relation to our stewardship and ESG we have highlighted examples of actual and potential conflicts of interest during 2021 below.

1. Conflicts of interest in relation to proxy voting activity where investments are commonly held across strategies. Where investments are held in multiple strategies, we encourage a collaborative approach to discussing and resolving key issues related to proxy voting to establish a common position across funds.
2. Potential conflicts of interest around M&A transactions. There is the potential in capital markets transactions to have exposure to both sides of a transaction across different client accounts. In such a situation our approach would be to vote in line with the interests of clients in each strategy separately rather than attempting to establish a net position on the transaction as a whole. Such a situation did not arise during 2021.
3. Potential conflicts of interest when assessing compliance with global norms such as the UN Global Compact which form a restriction on some funds. The initial assessment of compliance is made using a third party data provider, but there is the capacity for this to be overridden following further research that leads to a different conclusion. This creates a potential conflict of interest in relation to the investment teams proposing that this threshold is not met. This is managed by having independent sign off of any override by the Head of Stewardship & ESG. There were no examples of this in 2021.
4. Potential conflict of interest in proxy voting where a fund that we manage owns funds that we run as in the case of the Martin Currie pension scheme. In such situations voting decisions are made in line with Proxy Advice from our proxy adviser or at the discretion of the pension trustees rather than the fund managers.

Responsible Investment Policy

Our Responsible Investment Policy covers the importance of ESG, our approach to ESG integration, our focus on governance and materiality and the emphasis we place on our responsibilities as active and engaged owners.

As an equity house our responsible investment policy applies to all investments made on the behalf of our clients. We believe that sustainability or ESG factors create risks and opportunities for investors. It is in the interests of our clients to consider these factors when making an investment in a company, and for the companies themselves to manage these appropriately.

We believe the sustainability of a company's business model is critical to maintaining its competitive industrial positioning and strong capital returns. Incorporating ESG analysis alongside traditional financial analysis provides valuable insight into the companies we invest in and the quality of the management in those companies. We believe that well-managed companies exhibiting strong governance are more likely to be successful, long-term investments.

Our ESG approach helps identify good management teams, understand their motivation and determine whether their interests are aligned with minority investors. As long-term investors, engagement and active ownership are key elements to our overall approach to stewardship. Our focus is on issues that may impact the ability of investee companies to generate long-term sustainable returns. Our *Responsible Investment Policy* is made available to investors via our website, and it is reviewed on an annual basis.

Stewardship and Engagement Policy

Our *Stewardship and Engagement policy* outlines our overall approach to active ownership, setting out how we monitor investee companies, our approach to engagement (both private and collaborative), when we will escalate our activities, how we vote proxies, and how we report on our activities.

Our stewardship activity is led by the portfolio managers and analysts and manifests itself principally in monitoring and engagement – both privately or in collaboration with other investors – and our voting activity. We aim to build strong relationships with investee companies, ensuring that our engagement is not constrained by our clients' minority-shareholder status and our focus is on the issues likely to be material to long-term value creation.

Our aim is to establish an open dialogue with investee companies. We aim to engage with companies in an informed, constructive and discrete manner. We will join collaborative efforts on material issues, particularly when deemed likely to be more efficacious than acting alone. We recognise that our 'standard' engagement approach – seeking constructive dialogue with management – may not always yield the results aimed for and in these circumstances, we will consider escalating our stewardship activities. This will include seeking additional meetings with the company, contacting the non-executive directors or company advisors, or voting against management. Scenarios that would warrant this include when minority shareholders' rights are being compromised; when we are concerned about board structure; or sustainability issues that could undermine a company's future earnings' potential.

As long-term investors we expect the companies in which we invest to focus on delivering durable shareholder value. Transparency is critical to Martin Currie, and this includes communicating stewardship activities. Our quarterly client reports include a section on ESG and we produce articles on our engagement activities, which are sent to clients and posted on our website. In addition, when requested, we provide our institutional clients with detailed quarterly reports on our engagement and voting activities. We also produce the annual report on our stewardship and ESG work for broader dissemination and this explains our approach, engagement and voting activities, and outlook on key themes. We record all of our voting and engagement activity and publicly disclose a summary of our *voting activities* on our website.

Global Corporate Governance Principles

All our voting decisions are made in-house and when voting on behalf of our clients, we will always seek to vote in their best interests considering the long-term impact of these voting decisions.

Our approach is framed by our Global Corporate Governance Principles, our proxy voting policy and, for some clients, their bespoke policy. Our Global Corporate Governance Principles are closely aligned to the International Corporate Governance Network (ICGN) Global Governance Principles, which set out a primary standard for well-governed companies with the intention of being widely applicable, irrespective of national legislative frameworks or listing rules. Differences in national market regulation mean that a single set of detailed guidelines is unlikely to be appropriate for all the markets in which we invest. Where overseas corporate governance codes are consistent with our overall principles, we will adopt these.

At a minimum, we would expect companies to comply with the accepted corporate governance standard in their domestic market or to explain why doing so is not in the interest of shareholders. The principles focus on a number of areas: board role and responsibilities; leadership and independence; composition and appointment of the board members; corporate culture; risk oversight; remuneration; reporting and audit; and shareholder rights. For each of these, we set out our high-level expectations and what we regard as best practice. The Martin Currie *Global Corporate Governance Principles* can be found on our website.

Important information

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The views expressed are opinions of the portfolio managers as of the date of this document and are subject to change based on market and other conditions and may differ from other portfolio managers or of the firm as a whole. These opinions are not intended to be a forecast of future events, a guarantee of future results or investment advice.

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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.

The analysis of Environmental, Social and Governance (ESG) factors forms an important part of the investment process and helps inform investment decisions. The strategy/ies do not necessarily target particular sustainability outcomes.

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