STEWARDSHIP MATTERS

MARTIN CURRIE

08

THE POWER OF **DIVERSITY & INCLUSION** IN INVESTING

OCTOBER 2022

INVESTING TO IMPROVE LIVES™

www.martincurrie.com

Introduction

Welcome to Edition 8 of the STEWARDSHIP MATTERS magazine, our regular review of Martin Currie's work in the stewardship and ESG space, and our insight into future trends.

In this edition, we have specifically focused on the important topic of **Diversity and Inclusion (D&I)**.

We discuss why D&I and financial returns are correlated, what we are doing as a firm within portfolios, as well as within our own business, and the role investors have in contributing to better outcomes in this space.

Contents

Stewardship and ESG

Firmwide highlights: Year to date 2022

Engagements

28 Markets covered

183 Companies engaged

405 Total engagements

Top engagement topic:

Environmental – Climate change

Proxy voting

34 Markets covered

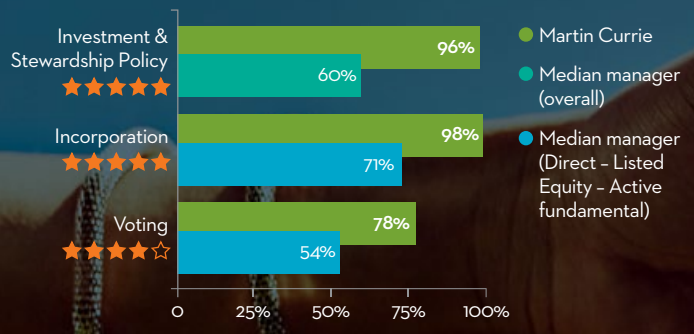
406 Total shareholder meetings

282 Meetings where we voted against management

Top voting topic against management:

Director Related

Martin Currie 2021 PRI assessment[1]



[1]Source: Martin Currie and PRI 2022. Ratings relate to the period 1 January 2021– 31 December 2021. A copy of the PRI's assessment and transparency report are available from *our website*. Please note, in the 2021 Reporting Framework, the PRI introduced accountability measures around the accurate representation of PRI Assessment Reports with the aim of improving transparency and accuracy of representation of the scores. The 2021 scoring methodology also changed to reflect the new Reporting Framework, by moving away from letter ratings to star ratings (from 1 to 5 stars (with 5 being strong)) and scores. The new ratings are therefore incomparable with scores from previous PRI years.

Martin Currie was previously awarded the highest possible ratings by PRI across Strategy & Governance, Incorporation and Active Ownership activity for the years 2016, 2017, 2018, 2019.

Foreword

Karis Stander
Managing Director
Investment20/20

I'm delighted to introduce the D&I edition of Martin Currie's STEWARDSHIP MATTERS magazine.

Supporting diverse talent in our industry is vital. Not only does a diverse workforce bring new ideas, perspectives and skills that help businesses thrive and be more resilient, it also helps our industry better reflect the investors, communities and people we serve.

As the world of work continues to encounter rapid change, a focus on inclusive and accessible entry-level jobs that enable people from different backgrounds to start their career must remain a priority.

At *Investment20/20*, we provide the platform and structure for our industry to reach people who may not have previously considered a career in investment management and to support managers in hiring for potential rather than on experience. This year we are delighted to have welcomed over 250 new trainees into the industry and we are keen to continue growing the number of opportunities in the coming years.

Over the UK 2022 summer, we launched a short film, *'It Can Be You'*, which showcases inspiring young people from a wide range of backgrounds sharing their stories about their journey into the investment management industry.

Our industry is open to everyone with a real passion, purpose and drive to succeed, and this is an important perspective we share with Martin Currie as one of our member firms. It is through the commitment and support of industry firms like Martin Currie that enables Investment20/20 to help drive a forward looking, responsible and inclusive investment industry that attracts, develops and retains talented people from all backgrounds.

Building a sustainable and diverse future talent pool is needed now more than ever, and in partnership with the industry, Investment20/20 delivers a range of powerful initiatives that drive meaningful long-term change.

We look forward to continuing our relationship with Martin Currie over the coming years and supporting young people's ambitions to enter the investment management industry.

Our industry is open to everyone with a real passion, purpose and drive to succeed, and this is an important perspective we share with Martin Currie.

Why D&I matters for investors

David Sheasby
Head of Stewardship & ESG

There is increasing evidence of a positive link between greater corporate focus on D&I and financial performance.

There are multitudes of academic studies and investment industry research that show that the more diversity within a team, whether it be gender, cultural, generational, ethnic, socio-economic or any other diversity measure, the better they are enabled to consider challenges from multiple lenses and perform better than teams that are less diverse.

This is also reflected in the growing body of research linking board-level diversity (and management diversity) with corporate performance.

A study from McKinsey[2] in 2020 showed that companies in the top quartile of gender diversity on executive teams were 25% more likely to experience above average profitability. More recently, a study from the Financial Reporting Council (FRC)[3] has also shown a causal link between diversity and future financial performance.

These studies reinforce the importance of a long-term focus on diversity as part of effective talent management within investee companies and why improving diversity and promoting inclusion should be considered from an investment perspective.

Enhancing 'license to operate', and returns

Overall, visible D&I at a board level and in senior management echelons almost certainly strengthens a company's image, enhances its 'license to operate' and sends an important signal to employees, suppliers and customers.

It also positively contributes to organisational resilience and adaptability, and as such is a key factor in how we assess the ability of a company to generate long-term financial returns.

Proprietary research and integration needed to go beyond just gender

While gender diversity data is becoming more available at the board level from traditional data providers, there is still a lack of transparency further down the corporate structure for middle/lower management and the broader workforce, and for other diversity factors.

Cognitive diversity, retention, culture, succession planning, licence to operate and brand value are but a few pieces to the diversity puzzle that are also difficult to pin down from a purely statistical approach.

This difficulty highlights the importance of the in-depth proprietary research from our investment team and our fundamental research process which truly integrates ESG analysis.

What differentiates our approach is that we seek insight from diverse sources, and not just from data. We seek to analyse key elements that are indicative of the mechanism transforming policies into business value.

Andrew Graham
Head of Asia & Portfolio Manager, Asia Long-Term Unconstrained (ALTU)

Considering age diversity for performance

One board-level diversity topic that does not receive as much attention as gender and ethnicity, is age.

A survey of company directors by FCLTGlobal[4] revealed that respondents rated the importance of age diversity above both gender, race and other forms of diversity. Their research also showed that companies with younger boards outperformed.

This was a surprising finding as academic literature tends to find that other elements of diversity, most notably gender, are more closely correlated with corporate performance. It may well be that age is still an under-researched diversity topic.

[2]Source: McKinsey & Company, May 2020. "Diversity wins: How inclusion matters." Available *here*.

[3]Source: Financial Reporting Council, July 2021. "Board Diversity and Effectiveness in FTSE 350 Companies." Available *here*.

[4]Source: FCLTGlobal (Ariel Fromer Babcock, Director), April 19, 2019. "The Long-term Habits of a Highly Effective Corporate Board." Available from *Harvard Law School Forum on Corporate Governance*.

Ben Russon
Co-Head, UK Equities (Large Cap)

Succession planning, a key determinant of long-term success and effective governance

Rather than just focussing on immediate change, we believe a thoughtful D&I strategy should also focus on longer terms trends and objectives.

We closely track succession planning and related diversity targets to ensure investee companies adopt a long-term focus on promoting increased diversity while maintaining a meritocratic approach to their hiring process.

Clear succession planning can safeguard the enduring success of a company, identify, develop, and retain talent for future critical roles, and indeed mitigate business interruption during times of crisis. D&I qualities including diversity of thought, gender, ethnicity and social background are increasingly important components of effective succession planning.

Consequently, our proprietary sustainability and governance scoring system incorporates various D&I measures. Should a business score poorly, we look to actively engage with the company to understand their long-term plans for promoting board and executive D&I.

Visible D&I at a board level and in senior management echelons almost certainly strengthens a company's image, enhances its 'license to operate' and sends an important signal.

Putting a spotlight on our own progress

Jen Mair
Chief Operating Officer, Head of Inclusion, Diversity and Equality

As an investment manager with strong Environment, Social and Governance (ESG) credentials and a corporate purpose of Investing to Improve Lives, we are committed to becoming a truly diverse, inclusive, and equitable company.

We believe a focus on D&I can help create the best conditions for optimal decision making, enabling us to deliver positive outcomes for all stakeholders. It also provides credibility when we are asking our investee companies to improve their own D&I.

We acknowledge that sentiment needs action, and our work in the D&I space continues to evolve. We are committed to implementing D&I policies and initiatives and to hold our leaders to account on this.

As a firm, we have committed to:

- creating a supportive and inclusive working environment for our people
- gender parity targets across the business and investment professionals
- annual publication of diversity outcomes regarding recruitment and gender representation
- a direct link between gender parity targets and executive remuneration

Measuring our progress and targets

Martin Currie's diversity targets are set by our Executive Committee, and we measure our progress annually.

We have put in place two key performance indicators (KPIs) related to D&I change management. Given our available talent pool, we believe that gender mix should be the key priority for our business going forward and our KPIs reflect this.

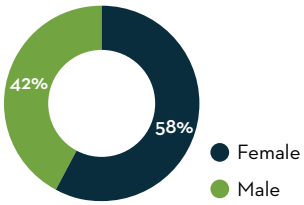
50:50 *50:50 by 2030 across the whole business*

≥40% *At least 40% female investment professionals by 2030*

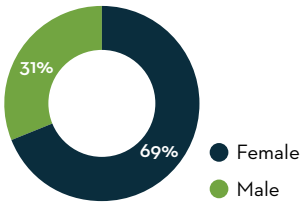
We publish the following statistics on an annual basis:

Split of recruitment by gender

FY20 – year to 31 December 2020 hires

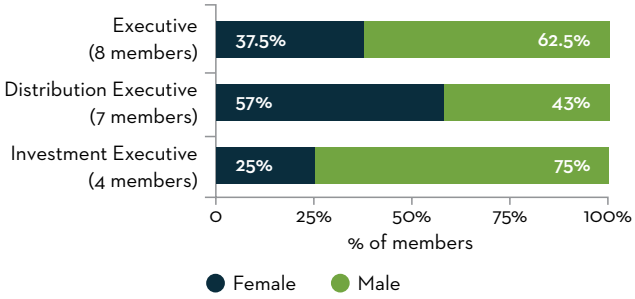


FY21 – year to 31 December 2021 hires



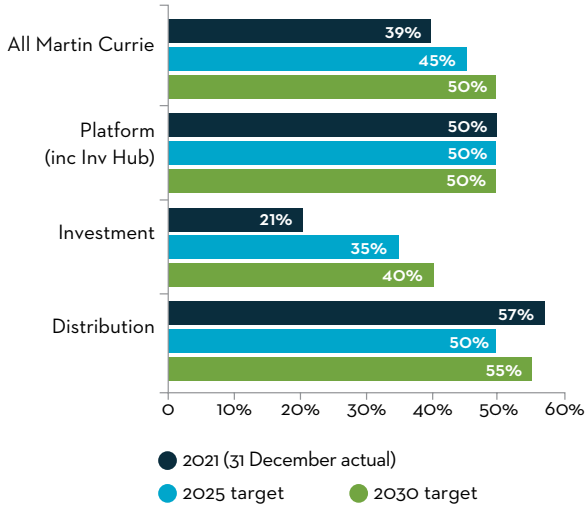
Split by gender of representation on key forums within the organisation

FY21 – year to 31 December 2021



Gender parity outcomes and targets

(% female)



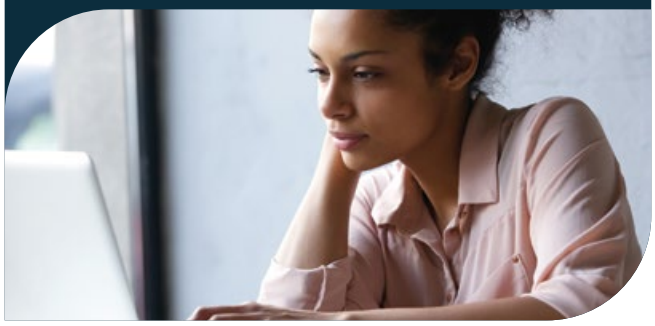
Although we have set gender targets, we strive to be an inclusive organisation that considers all aspects of diversity. We continue to partner with other organisations to ensure our focus is wider than just gender.

D&I partnerships

Through participating in various external partnerships focused on fostering new talent for the finance sector, we have been privileged to engage with and present to talented students who are passionate about our industry.

In addition to our work with Investment20/20, earlier this year, we announced a partnership with *Black Professionals Scotland* (BPS). By establishing key partnerships with businesses such as Martin Currie, BPS provide partners with access to its talent pool, the design of various bespoke initiatives to help businesses attract and retain black talent, and general consultancy around ethnicity.

We are working with BPS to better learn how to be a truly inclusive organisation and to help Martin Currie be seen as an employer of choice. Over the coming months we will be embarking on an exciting series of events and interactions that will allow us to support each other in learning and growth.



Accountability at the highest levels

Accountability is key to the overall success of our D&I strategy. To ensure that this strategic priority remains key in the minds of the leaders of the business, each member of the Executive Committee shares a specific D&I performance-related target that impacts their remuneration.

Our series of Investing to Improve Lives brochures showcases the evolution and priorities of our D&I work.

Find out more *here*.

Tracking towards a more diverse business

The metrics we track demonstrate that, so far:

1. Our ambitious targets and efforts to improve diversity in recruitment have resulted in a higher intake of women.
2. We are in a good position regarding female representation on senior committees, although this can still be improved.

In the next 12 months we aim to achieve even greater success across the diversity spectrum and further embed inclusion in our day-to-day operations and decision making.

Zehrid Osmani
Head of the Global Long-Term Unconstrained (GLTU) & Portfolio Manager

The importance of a diverse investment team

As leader of the Global Long Term Unconstrained (GLTU) team, I attach significant importance towards ensuring that D&I runs deep within our team culture.

Having a diverse team and an inclusive culture within the team, has increased our overall cognitive diversity, and therefore has enhanced our ability to consider investment opportunities and challenges while optimising our decision-making.

Since taking on the leadership of the team in 2018, we have moved from a low degree of diversity across all fronts, to a team with better gender balance, six different cultures, three different ethnicities, and generational diversity ranging from 4 years' work experience to 28 years' work experience.

We have also increased the team's geographic diversity away from just Edinburgh. Studies have shown that teams with diverse geographic locations bring further diversity in viewpoints.

The state of play and what *good* looks like

John Gilmore
Stewardship & ESG Specialist

Eoghan McGrath
Stewardship & ESG Analyst

There is no "one size fits all" when it comes to how to tackle diversity globally. While change is still slow, putting the onus on companies works. Applying global principles with a nuanced regional perspective offers the best opportunity for improved outcomes.

Starting with regulation

Our investment teams invest across various jurisdictions, and we have found that the approaches being taken to improve diversity at the senior levels of corporates can be bundled into several categories.

These include approaches in reaction to:

- a legal mandate issued by a regulator;
- a listing requirement set by an exchange;
- recommended practice from a national code or principles;
- and where none of these other incentives are in place, pressure from investors.

Most regulation focuses on board gender

Most of these initiatives specifically focus on board gender diversity, given the relative ease in measurement. More recently we have started to see some expand to include ethnicity and race.

While gender, ethnicity and race can be useful lenses through which to view diversity, we highlight that cognitive diversity is also likely to support a strong board. Cognitive factors include age, socio-economic background, nationality, skills and experience. This aspect of inclusion has been less prominent in regulation but is in part being driven by the culture of an organisation for which Boards are also accountable.

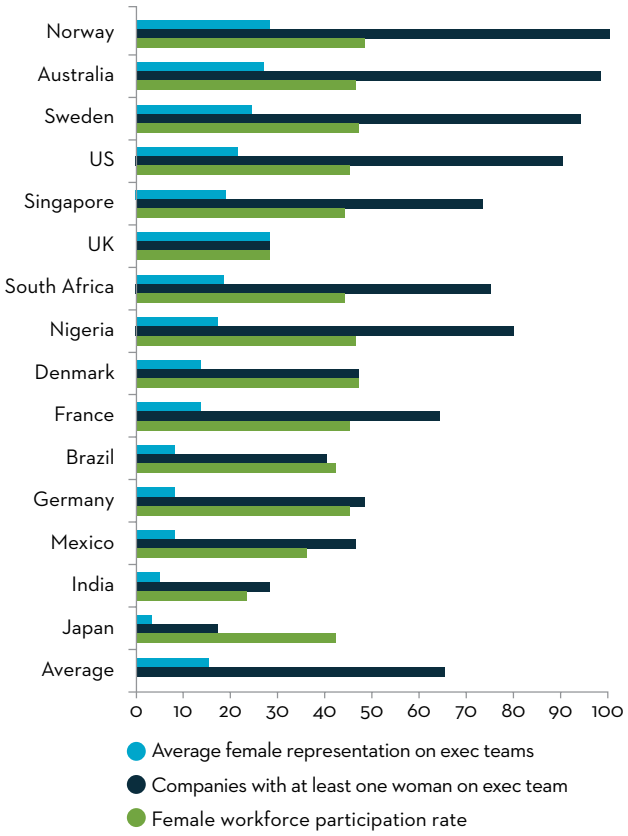
We have highlighted several stand out regulations and their progress on *page 9*.

Progress is too slow despite starting point

What we can say is that progress is lacking everywhere, irrespective of a country's starting point or existence of regulation.

McKinsey's seminal work[5] on gender diversity shows that in all geographies they analysed, women were significantly under-represented at executive level.

Female representations (%)



What we can say is that progress is lacking everywhere, irrespective of a country's starting point or existence of regulation.

[5]Source: McKinsey & Company, May 2020. "Diversity wins: How inclusion matters." Available *here*.

The McKinsey data set also suggests that at the current rate of progress, it will take 29 years and 24 years respectively for US and UK companies to reach executive team gender parity, and 18 years and 13 years on boards. For emerging countries this is starker, and as an example, comparable figures for Brazil are 238 years on executive teams and 27 years on boards.

Only a third of the firms that McKinsey analysed have achieved any real gains in top-team diversity over the five-year period covered. In some, gender and cultural representation has even gone backwards.

Diversity is the winner when the onus is on companies

Looking at the existing regulatory initiatives and mixed progress, it is not currently obvious if any one method will lead to the greatest increase in diversity.

What is more certain is that the introduction of *any* mechanism that places the onus on companies to increase diversity is effective.

While we encourage boards to seek greater diversity, we also highlight that it should not be rushed at the expense of quality. The benefits of diversity should not be undone by greater friction in decision making or the presence of tokenism within a board.

What is essential is that the top-level representation permeates throughout the company influencing culture, retention and ultimately performance. Therefore, once we believe board diversity is optimised, we should continue to monitor how this filters down through an organisation.

Principles rather than rules and regulations allows for nuance

This is however a complex, globally nuanced topic. Through our experience engaging with companies in all jurisdictions globally, we have found that a principle rather than a rule-based approach works best.

Regulation may be a first step, however we believe that better outcomes can be achieved by pushing forward individual companies through ongoing engagement discussions.

We have built this concept into our own *Global Corporate Governance Principles*, which draw on the International Corporate Governance Network (ICGN) *Global Governance Principles*. These principles determine how we engage and interact with investee companies and inform how we will cast votes on behalf of our clients.

In terms of diversity, our expectations of investee companies are that a board:

- is not dominated by one gender and is at least one-third (gender) diverse.
- takes account of diversity in its broadest sense when considering candidates for the board and other senior positions.
- discloses the company's policy on diversity (gender, ethnicity, cognitive and social) in relation to its senior management and board.
- discloses clear gender diversity goals and regularly reports progress towards achievement over a defined timeframe.

Our principles understand that many countries and companies have different starting points so the best way to drive meaningful results is to focus on the level and speed of progress towards change.

Tackling progress through a balanced engagement-led approach

To accelerate change we must push harder for companies to set specific long-term goals and targets and hold them accountable for creating a culture that can support a more diverse workforce. It is vital we do not have to wait 30 let alone 230 years to achieve more diverse outcomes at executive and Board level.

As the case studies from our Emerging Markets and Japanese Equity teams highlight *below*, a "one size fits all" approach doesn't work. This does make effective engagement on this topic much more difficult, especially in some geographies if there is no other expectation outside of governance best practice as defined by Western best practice.

Instead, this is where true engagement can shine and customised to consider nuanced demographics, and the current pace of any progress.

Regulation and progress by region

Global Emerging Markets

Alastair Reynolds
Portfolio Manager,
Global Emerging Markets

We tailor our approach to achieve D&I progress across Emerging Markets

When investing in emerging markets we encounter a complex mix of D&I challenges, often shaped by national or religious identity. These factors impact female participation in the workforce, ethnic diversity, and the influence of hierarchy on authority and decision making. It leads to a wide range of outcomes in the markets we cover.

In **South Africa**, D&I is assertively influenced by law. The Broad-Based Black Economic Empowerment Act aims to redress the economic imbalances brought about by racial segregation under the Apartheid system. Under the Act, each business is measured on an empowerment scorecard which, in turn, determines its applicability for business tenders and licence applications.

In the absence of targeted legislation, the differences between countries can be stark.

- **China** has some of the highest levels of female workforce participation globally yet has a predominantly Chinese ethnicity,
- **Saudi Arabia**, meanwhile, has low female workforce participation yet a high percentage of foreign workers in the employment base.

Culturally, both countries have relatively hierarchical lines of command as well as relatively autocratic decision-making processes; different to what we experience in the **UK**, **US**, or **Australia**.

Applying liberal-Western ideology and expectations to the analysis of this rich mix of societal influences unearths many contradictions and requires a flexible strategy to avoid disappointment when engaging for change.

That is not to say that we consider D&I goals as being unattainable or incomparable across companies. At the very least we would expect companies to comply with the anti-discrimination principles laid out in UN Global Compact and, by comparing our prospective companies against national and industry levels of diversity, we can align investments towards progressive companies that are willing to pursue best practice.

Japan

Reiko Mito
Head of Japan
Strategy and Research

Using our voting to reinforce expectations for greater diversity in Japan

On the back of research highlighting its poor female representation, D&I is becoming an increasingly important topic in Japan.

A recent significant event is the revisions to the Corporate Governance Code in Japan in 2021. It now states that to ensure diversity, "Companies should present their policies and voluntary and measurable goals for ensuring diversity in the promotion to core human resources, such as the promotion of women, foreign nationals, and mid-career hires to middle managerial positions, as well as disclosing their status."

Under the Abe administration in the 2010s, work style reform was introduced to include more flexible working, contracts based on job descriptions (as opposed to the conventional vague contract with the entire company) and ability for employees to have a side job.

The Abe administration also promoted female participation as a solution to labour shortage in the long term. This allowed many companies to make it possible for female employees who had resigned upon childbirth to come back at the same rank they had earned prior to resignation.

While these changes have started to contribute to female representation at wider firm, executive and board levels, there is a long way to go. Currently only 12.6% of board seats held by women[11]. This highlights the need for continued engagement, especially with those companies that have zero under-represented demographics on their board.

We are encouraging the corporates in which we invest to pursue these aims as we believe a more significant focus on D&I will enhance corporate value in the long term. We also exercise our proxy voting accordingly in favour of companies that have female representation at the board.

[11]Source: Nikkei Asia, 9 June 2022. "Japan falls behind on women in boardrooms as Europe makes strides". Available *here*.

Europe

The scope of regulation and recommendation within Europe is broad and varies between Western and Eastern Europe, with regulation being set by the EU Commission and at a country level. Across the continent, gender is still the focus of governance codes and regulation.

- The Council and European Parliament reached a deal in June on a law requiring listed companies to aim for 40% of non-executive directors or 33% of the entire board to be of an under-represented sex, by 2026.
- Spain, France, Norway, and Italy have all introduced stronger 40% gender targets for boards.

Success has varied[6]: France and Italy have seen significant improvements, while Spain has failed to keep pace with progress, perhaps due to the lack of punitive measures for non-compliance. Norway, the first European country to adopt a gender diversity quota in 2006 experienced a rapid increase from 29% to 44% over two years. Although Norway already had a high baseline, this increase perhaps highlights the positive impact that an enforceable quota can achieve.

To highlight a leader in Eastern Europe, we can look to Poland, however, there remain numerous laggards that weigh on the region. This highlights the room for improvement within the region, but also the challenges faced.

- The Warsaw Stock Exchange (GPW) has introduced a best practice target of 30% diversity at a management and supervisory board level for listed companies.
- The Bucharest Stock Exchange Corporate Governance Code in Romania states, "The Board and its Committees should have the appropriate balance of... gender diversity".[7]
- The Budapest Stock Exchange sets a similarly low bar, stating only that companies "should seek to have both sexes represented in the Board of Directors/ Governing Board and the Supervisory Board".[8]
- As we descend into the smaller economies, the Bulgarian Stock Exchange makes no mention of diversity in its Code for Corporate Governance.[9]

UK

Following the Hampton-Alexander Review and Parker Review, the UK's FCA has set an ambitious target for FTSE 350 boards to have:

- a minimum 40% female representation (previously 33%),
- one member from a non-White ethnic minority,
- at least one woman in the role of either Chair, Chief Executive, Finance Officer or Senior Independent Director.

Reporting against these targets will be on a 'comply or explain' basis from 2022 onwards.

This is certainly an ambitious move as 30.1% of board seats held by women currently means that the UK lags most European developed nations.

Additionally, within the UK Corporate Governance Code there are provisions outlined to encourage the promotion of gender, social and ethnic minorities, as well as cognitive and personal strengths. The need to report on the role of the Nominations Committee is also made more explicit in the recent Code.

Key initiatives such as "At Least One by '21" from the Parker Review aim for minority ethnic representation on every FTSE100 board.

The UK Government recently commissioned a taskforce to boost the socio-economic diversity in financial and professional services.

We are encouraged to see that lesser considered aspects of diversity are being targeted for improvement in the UK.

We are encouraged to see that lesser considered aspects of diversity are being targeted for improvement in the UK.

[6]Source: HSBC Global Research, date. December 2021. "Diversity Challenges: Looking beyond gender in the boardroom". Available *here*.

[7]Source: Bucharest Stock Exchange, 11 September 2015. "Code of Corporate Governance." Available *here*.

[8]Source: Budapest Stock Exchange, 08 December 2020. "Corporate Governance Recommendations." Available *here*.

[9]Source: National Corporate Governance Committee (NCGC), April 2016. "Bulgarian National Corporate Governance Code." Available *here*.

United States

In the US, the NASDAQ's diversity rule has mandated company boards to:

- report on board's demography, with the target of improving diversity to include at least two diverse directors by 2026,
- disclose why they are not attaining these quotas if they fall short.

The NASDAQ was the first US stock exchange to introduce such requirements, and it is an interesting space to watch to see if other American exchanges follow.

At a national level, there have been no quotas set requiring the presence of minorities on company boards, however there is a disclosure rule from the SEC requiring reporting on human capital management.

However there has been a divergence in some states such as California and Washington where quotas have been introduced to increase diversity. Many other states seem to be following their lead, however the way that US states polarise on this, as well as other social factors, is somewhat concerning.

At a national level, there have been no quotas set requiring the presence of minorities on company boards.

Australia

Under the ASX Listing Rules, listed entities must report on an annual basis regarding whether they have complied with each of the Recommendations. Recommendation 1.5, which was strengthened in 2019, includes:

- the introduction of a requirement to disclose a diversity policy in full,
- the introduction of a specific gender diversity target for ASX 300 entities of at least 30 percent of directors of each gender on its board,
- a requirement to disclose measurable objectives for each reporting period aimed at achieving gender diversity in the composition of the board, among senior executives, and across the workforce generally.

Similar to the NASDAQ rule, where an entity has not complied, it must say so and explain why not (known as 'if not, why not' reporting). In the latest report from the ASX, of the entities that had not yet set gender diversity targets, most gave the reasons such as their smaller size and early stage of development[10].

Under the ASX Listing Rules, listed entities must report on an annual basis regarding whether they have complied with each of the Recommendations.

[10]Source: ASX, KPMG, June 2022. "ASX Corporate Governance Recommendations: Diversity". Available here.

D&I engagements and active ownership

Below we highlight several company engagements undertaken by our investment teams where D&I and its impact on corporate culture and customers have been the key focus.

These issues have ranged from racial discrimination within the workplace, improving levels of females in the workplace, through to products that have been perceived to be discriminating.

Asian Equities

Andrew Graham

Head of Asia
& Portfolio Manager

Shining example of multicultural diversity, with scope for enhanced gender diversity

As one of the region's leading financial services companies and a highly trusted brand in the 18 countries in which it operates, we consider **AIA Group Limited** to be exemplary of good operational and governance practices.

One subject that we have had a constructive engagement with AIA on is diversity. For many years the company has operated with a diverse, multicultural employee base and there is a deeply held belief in the value of having local talent managing local operations. This is also reflected at board and senior management levels, the members of which are drawn from across the region.

The company's progress in D&I is visible in the structure of its workforce with, for example, women accounting for more than half (58%) of employees and 42% of senior leaders at end 2021.

While AIA has also had a female board member since 2015, there was scope for enhanced gender diversity. Through our regular engagements with AIA, we encouraged further enhancement of gender diversity of its board, while also recognising that the sitting board was nonetheless of a high quality and independent.

The company had indicated that it too saw the value in doing so but also wanted to enhance the board by adding a person with strong experience in managing an online business, something that has become increasingly important to AIA's own operations.

We were therefore very supportive of the election at the most recent AGM of Ms. Jie Sun as an independent non-executive director. As CEO of China's largest online travel agency and a board member of other online businesses, Ms. Sun appears to be a good addition to the Board. We are not without our reservations, however, and note that as a highly qualified female Ms. Sun is in high demand and may be at risk of over-boarding, holding a board position on 6 listed companies. However, for now we judge that this risk is more than offset by what she might be able to contribute to AIA.

Global Emerging Markets

Paul Sloane

Portfolio Manager,
Global Emerging Markets

Improvements from a low base, with strong transparency

Our research and engagement ahead of investing in Saudi Arabia's **Al Rajhi Bank** is one example where we faced a starting point on D&I that differed greatly from where we would want it to be.

Currently, only 17% of Al Rajhi's employees are female, and females account for only 1% of the Bank's senior management. These figures do, however, show continued progress from a level of only 11% female participation five years ago.

This change is being driven by a younger cohort of female workers entering the workforce. Amongst the 18–30-year-old category, over 30% of Al Rajhi's new hires over the past five years have been female. Guided by goals in the Kingdom's Vision 2030, Al Rajhi Bank intends to achieve 30% female workforce participation by 2030.

Al Rajhi provides a high level of transparency around its employment diversity, and this allows us to track its progress over time and engage with management on its ongoing commitment to increase diversity. We intend to use this strong disclosure to track their progress and continue to hold them to account for delivering progress in this area.

Where we would like to see improvement is for the Bank to address the lack of diversity at Board and senior management level, initially through the setting of targets against which we can track progress. We have seen some regional peers setting similar targets and are encouraged that further engagement on this can yield positive results.

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.

Martin Currie Australia (MCA)

Will Baylis
Portfolio Manager, MCA

Creating a more respectful and inclusive workforce through diversity

The widespread reports of sexual assault and harassment, racism and bullying within the mining industry have been a focus of our engagements with **BHP Group**.

Through our discussions, we can see that BHP understands how a more respectful and inclusive workforce goes hand in hand with diversity and the company has been making steady steps in the right direction.

Since 2018, BHP has completed two reviews, implemented an action program, and also made a submission to the Western Australia (WA) enquiry on sexual harassment in the mining industry. By 2019 the company had formally defined sexual harassment as a health and safety risk, at the highest priority category of incidents for investigation. BHP also made racism a similar classification more recently.

We have been asking BHP for more transparency and evidence of its actions and improvements. We are using our learnings from dealing with Rio Tinto's Juukan Gorge issues to shape the questions we are asking BHP to go beyond just a specific issue at hand, as it can be a symptom of broader issues for overall corporate culture.

We recently attended BHP's Inclusion, Diversity and Workplace Culture Investor Roundtable, which was hosted by the company's CEO alongside their head of Inclusion and Diversity, and Chief of Staff. This is the first of a series of ESG days that the company has scheduled.

At this event, they told us how BHP has improved female participation in their 85,000+ workforce from 17% to 31% since 2016 when they set a target to achieve a gender balanced workforce by 2025. They have also increased the proportion of female leaders amongst that cohort from 25% to ~40%. Furthermore, BHP have now implemented significant training programs and appear to use consistent disciplinary consequences.

BHP have made significant progress on these issues and they have answered the call to be more transparent and improve their communication and access to the CEO. We are pleased to see that the CEO has taken full ownership, and executive remuneration scorecards now have links to sexual assault and harassment.

We do see that more work can be done and that the company remains on a journey. We are looking for continued communication and positive action on all ESG issues, including diversity. We attended the most recent of the company's ESG days in early October and will report on this to clients in due course.

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.

BHP has improved female participation in their 85,000+ workforce from 17% to 31% since 2016.

Global Long-Term Unconstrained (GLTU)

Amanda Whitecross
Portfolio Manager, GLTU

Learning from negative fallout

In February 2019, the Gucci brand, owned by **Kering**, became involved in significant diversity controversy. This was caused by a sweater in that season's collections which offended many in the black community. The negative fallout in the press significantly impacted sales in the US and led to a re-setting of the business in that geography.

The company apologised immediately and removed the offending garment from sale, saying *"We consider diversity to be a fundamental value to be fully upheld, respected, and at the forefront of every decision we make. We are fully committed to increasing diversity throughout our organization and turning this incident into a powerful learning moment for the Gucci team and beyond"*.

Our engagements with the company gave us more insight into the accountability that Gucci creative director Alessandro Michele felt for this mistake, and his and the Kering leadership's desire to allocate and focus more resources on representation within Gucci's design team and the wider business.

The company went on to hire a new Chief of Diversity, Inclusion and Talent in late 2019, and has continued this journey. In Spring 2022 it announced that it was moving to a regional structure by further adding in three regional heads of D&I to sit under the Global head. Each owned company and geographic region of Kering now has its own D&I committee, demonstrating the increased focus and resource that has been added. We will continue to engage with them on this topic to monitor the effectiveness of these changes.

> *We believe that this strategy of making bold changes to the recruitment process and criteria for non-executive roles is a major step forward.*

Bringing diversity to the Board

Another area of focus in our systematic governance assessment is broadening the depth of individuals who are being nominated to non-executive roles. To this end, we noted **Kering** nominating actress and activist Emma Watson to its Board in June 2020. On engagement with the company, we discussed her experience and capability as an activist for women's rights and sustainable fashion, the generational diversity brought with her appointment and her position as UN Women Global Goodwill Ambassador which Kering believe will bring incremental and deeply interesting perspectives to their Board discussions.

Interestingly we followed up on this point in our AGM voting engagement in 2021, where Kering discussed how impactful Emma Watson has been in her first year saying, *"she has the skills to challenge the Board and the Company"*.

In a similar vein, **Moncler** appointed Maria Sharapova, the five time Grand-Slam winning tennis champion, investor and entrepreneur, to the Board in April 2022, along with two other highly qualified female directors, including former Nike Director, Jeanne Jackson. Remo Ruffini, Moncler founder and CEO, said their addition would *"reinforce our vision of Beyond Fashion, Beyond Luxury"*.

Like Kering, we supported the Board's move to bring a much more diverse experience set to the discussion both through our engagement and our votes at the relevant AGM. We believe that this strategy of making bold changes to the recruitment process and criteria for non-executive roles is a major step forward in demonstrating a commitment at the highest level to inclusion which is entirely aligned with maximising the performance of the business.

We continue to engage with both companies about the evolution of their boards. This is not just a gender issue; it's about ensuring candidates with diverse and pertinent backgrounds are appointed who understand the consumers they serve. Our engagements aim to understand the motivation behind such appointments and the impact this had. The end goal is to improve overall board capability and decision making.

Looking forward

David Sheasby
Head of Stewardship and ESG

Over the next 12 months and beyond, improving D&I will remain a priority for us, and the market.

As we have seen, a lot of focus in D&I regulation and guidance has been on gender and, more recently, ethnic diversity. This however only goes part of the way to address the current challenges and open opportunities presented by increasing diversity.

The real benefits of analytical diversity – avoiding groupthink and getting access to a broad array of talent – come from considering diversity across multiple dimensions – gender, ethnicity, socio-economic backgrounds, age, and occupation backgrounds.

As such, we need to see an evolution in the way companies manage and report on this both at the board level. This has been a focus for a lot of our discussions in this edition, but also more broadly across the workforce. This should aim to provide the transparency investors and other stakeholders need.

There is also a clear gap in transparency around inclusion, which is supported by the culture of an organisation. It is difficult to 'measure' culture, but we can get a sense of this in the disclosures that a company makes, how it is perceived by the different stakeholders (i.e., the employees and investors) and our experience interacting with the company as one of those stakeholders.

As we consider D&I, in the broadest sense we can think of it as elements of human capital management. It is now common for companies to claim in their reporting, 'our people are our greatest asset' - this is evidently true with every aspect of value creation dependent on people. How this key asset is managed and the investment that goes into people is often less clear, and it is only in more recent years that we have really started to see a move from 'cost' to 'asset' when considering human capital.

There are some recent initiatives that we see are supporting better disclosure:

- The SEC disclosure requirements introduced in August 2020 are designed to provide stakeholders with better insight into human capital and help them understand the extent to which a business has the right workforce to meet current and future challenges and opportunities.

  These requirements are however principles based and avoid defining 'human capital' or providing a list of metrics to disclose. Essentially the rule requires disclosure of human capital objectives or measures used to manage the business if material to the business.
- A (voluntary) initiative is the Workforce Disclosure Initiative (WDI) led by ShareAction, a UK based non-governmental organisation (NGO), which is focused on improving disclosure across a broad range of workforce practices including policies and practices related to employee well-being and actions relating to supply chain management.

These initiatives are useful additional steps in helping investors understand how companies manage and invest in their key asset but there is more work to do in this area.

As we look to the next 12 months and beyond, D&I, and the different lenses we can apply to these, remain a priority in our analysis and engagement with companies as well as how we are running our own business.

We have made a start on improving our own reporting and will be working with investee companies to do the same.

There is an exciting and busy year ahead, and we look forward to reporting on ours and the market's progress in future publications.

The real benefits of analytical diversity – avoiding groupthink and getting access to a broad array of talent – come from considering diversity across multiple dimensions – gender, ethnicity, socio-economic backgrounds, age, and occupation backgrounds.

Summary of our purposeful engagement activity

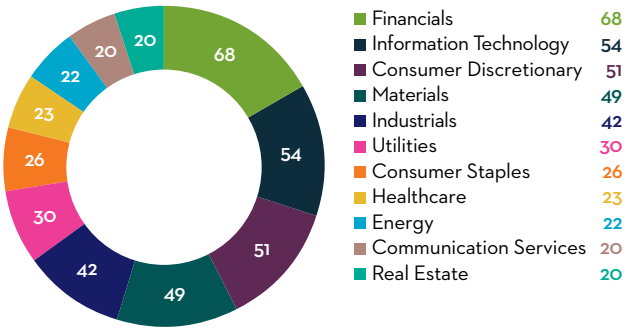
We believe monitoring and engagement is an essential part of being a shareholder in a company. It allows us to improve our understanding of investee companies and their governance structures, so that our voting decisions may be better informed. In addition, it enables us to understand to what extent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

Overview: Year to date 2022

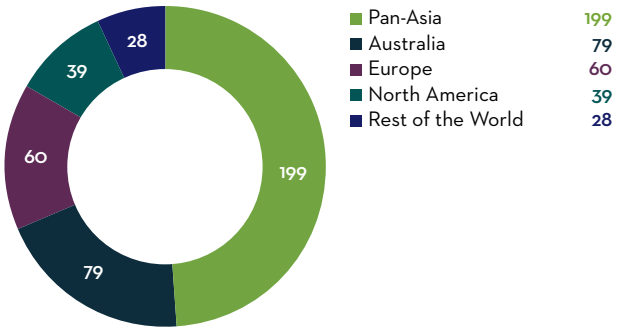
Firm-wide engagements

28	Markets covered
183	Companies engaged
405	Total engagements

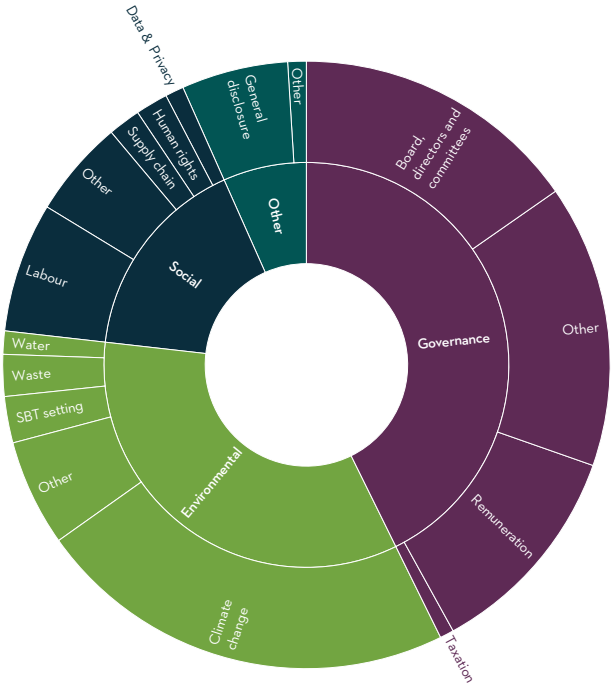
Engagements by sector



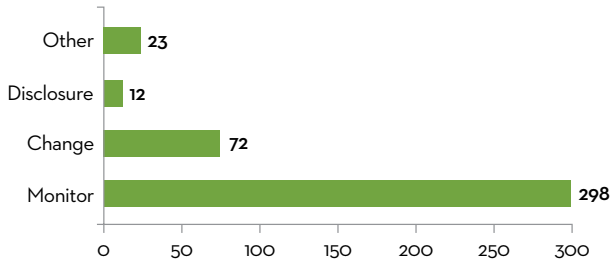
Engagements by region



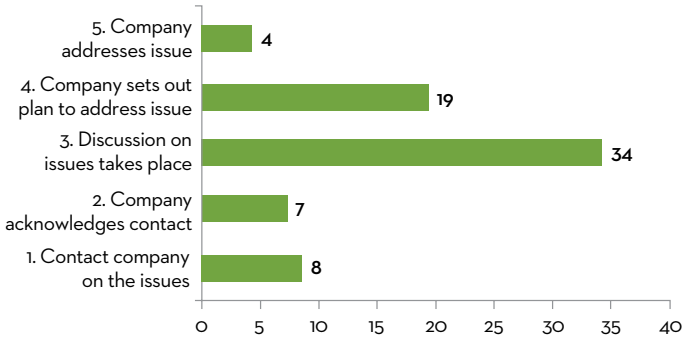
Engagements by topic



Purpose of engagement



Stage of completion for *change*



Source: Martin Currie. Engagement activity is for the period 1 January 2022 – 30 September 2022.

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.

Advocacy through proxy voting activity

Proxy voting is a key component of stewardship and plays a crucial role in our overall approach to engagement.

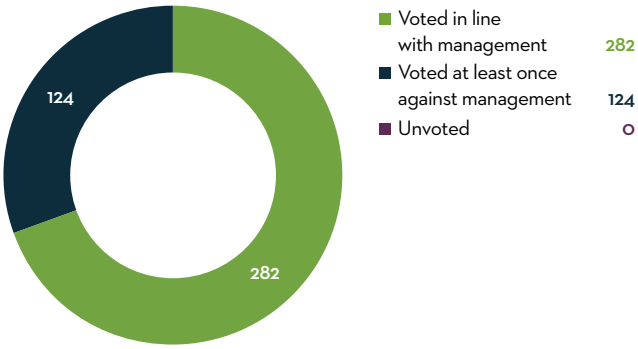
When voting on behalf of our clients, we will always seek to do so in their best interests considering the long-term impact of these voting decisions.

Overview: Year to date 2022

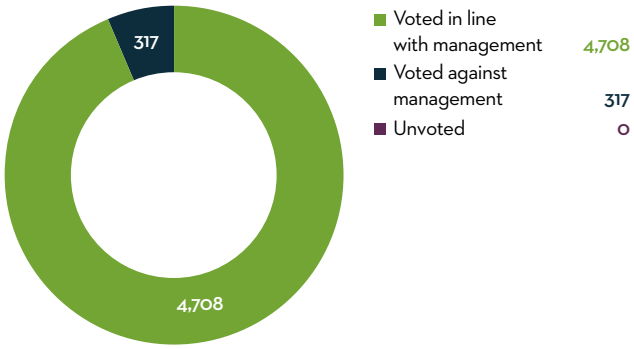
Firm-wide proxy voting

34	Markets covered
406	**Total shareholder meetings**
282	Meetings where we voted against management
5,025	**Total resolutions:**
317	Resolutions voted against management

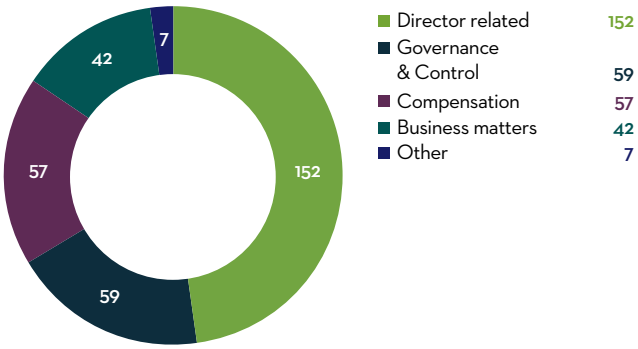
Total meetings



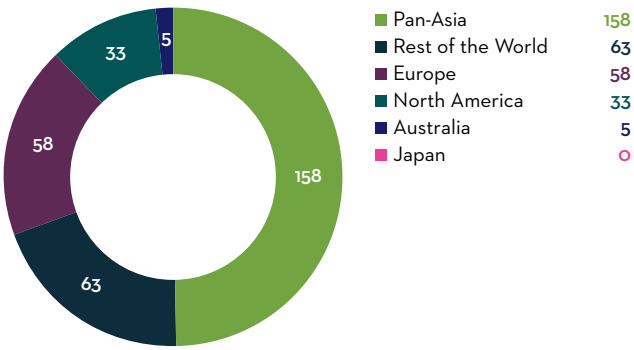
Total resolutions



Resolutions voted *against* by proposal type



Resolutions voted *against* by region



Source: Martin Currie. Proxy voting activity is for the period 1 January 2022 – 30 September 2022.

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:

- **Stewardship Matters – Edition 7: The path to Net Zero**

  On the anniversary of becoming a NZAMI signatory, our latest edition of STEWARDSHIP MATTERS discusses how we are formalising our commitments, partnering with our clients, educating our teams, and building tools and structure around carbon measurement.

  20 July 2022

Natural capital's key role in sustainable food systems

David Sheasby contributes to a wider Franklin Templeton series on investing in the future of the food supply chain across sustainable processes and best practices.

12 Jul 2022

- **Investing in the UN Sustainable Development Goals: Good health and wellbeing**

  Using our knowledge and engagement with corporates, we look at structural trends and companies making material contributions toward SDG 3.

  1 Jul 2022

- **Stewardship Matters – Edition 6: Navigating Change**

  The ongoing evolution of the stewardship environment has impacted expectations from clients, market practices, regulation, and our own activities. Our latest edition looks at how to navigate the fast pace of change.

  20 April 2022

- **2022 Stewardship Annual Report**

  This detailed report provides further insight into our business, the importance of stewardship, and examples of how this has been incorporated in our investment process and stewardship activities over the past 12 months.

  8 April 2022

- **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

Important information

This information is issued and approved by Martin Currie Investment Management Limited ('MCIM'), authorised and regulated by the Financial Conduct Authority. It does not constitute investment advice. Market and currency movements may cause the capital value of shares, and the income from them, to fall as well as rise and you may get back less than you invested.

The information contained in this document has been compiled with considerable care to ensure its accuracy. However, no representation or warranty, express or implied, is made to its accuracy or completeness. Martin Currie has procured any research or analysis contained in this document for its own use. It is provided to you only incidentally and any opinions expressed are subject to change without notice.

This document may not be distributed to third parties. It is confidential and intended only for the recipient. The recipient may not photocopy, transmit or otherwise share this [document], or any part of it, with any other person without the express written permission of Martin Currie Investment Management Limited.

This document is intended only for a wholesale, institutional or otherwise professional audience. Martin Currie Investment Management Limited does not intend for this document to be issued to any other audience and it should not be made available to any person who does not meet this criteria. Martin Currie accepts no responsibility for dissemination of this document to a person who does not fit this criteria.

The document does not form the basis of, nor should it be relied upon in connection with, any subsequent contract or agreement. It does not constitute, and may not be used for the purpose of, an offer or invitation to subscribe for or otherwise acquire shares in any of the products mentioned.

Past performance is not a guide to future returns.

The distribution of specific products is restricted in certain jurisdictions, investors should be aware of these restrictions before requesting further specific information.

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.

Please note the information within this report has been produced internally using unaudited data and has not been independently verified. Whilst every effort has been made to ensure its accuracy, no guarantee can be given.

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.

For institutional investors in the USA:

The information contained within this presentation is for Institutional Investors only who meet the definition of Accredited Investor as defined in Rule 501 of the United States Securities Act of 1933, as amended ('The 1933 Act') and the definition of Qualified Purchasers as defined in section 2 (a) (51) (A) of the United States Investment Company Act of 1940, as amended ('the 1940 Act'). It is not for intended for use by members of the general public.

For wholesale investors in Australia:

Any distribution of this material in Australia is by Martin Currie Australia ('MCA'). Martin Currie Australia is a division of Franklin Templeton Australia Limited (ABN 76 004 835 849). Franklin Templeton Australia Limited is part of Franklin Resources, Inc., and holds an Australian Financial Services Licence (AFSL No. 240827) issued pursuant to the Corporations Act 2001.

Martin Currie Investment Management Limited, registered in Scotland (no SC066107) **Martin Currie Inc,** incorporated in New York and having a UK branch registered in Scotland (no SF000300), Saltire Court, 20 Castle Terrace, Edinburgh EH1 2ES

Tel: (44) 131 229 5252 Fax: (44) 131 222 2532 **www.martincurrie.com**

INVESTING TO IMPROVE LIVES

MARTIN CURRIE