STEWARDSHIP MATTERS

MARTIN CURRIE
A Franklin Templeton Company

11

THE IMPORTANCE OF CULTURE

DECEMBER 2023

INVESTING TO IMPROVE LIVES™

www.martincurrie.com

Introduction

Welcome to Edition 11 of the *Stewardship Matters* magazine, our regular review of Martin Currie's work in stewardship, governance and sustainability, and our insight into future trends.

This edition focuses on ***the importance of culture*** within a business and introduces some of the things that we look for in the companies in which we invest.

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Foreword

I am delighted to introduce this eleventh edition of *Stewardship Matters*.

The culture of a company is inherently important. It can inform the way in which we engage with corporate management and can have an impact on the way in which we do business. And it can influence our view on how we vote our clients' capital.

This edition of Stewardship Matters explores culture from an investor's perspective. When we engage with a company, we look at how culture can dictate business strategy, the motivation and morale of the workforce and how it can ultimately influence the long-term sustainability of a firm.

We investigate how financial data and accounting diagnostics can provide key insights into the ways in which a company is operating and allow us to better-understand behaviours.

We also celebrate our own culture within Martin Currie, where our philosophy is an open, tenacious and 'all-in' approach.

Our employees have Freedom to Perform and embrace our values through their behaviour and daily interactions.

From a personal perspective, my key drivers have always been a curiosity to learn and stretch myself and I enjoy the collective and personal growth of working as a team to overcome challenges and achieve a goal. For me, culture is critical: a culture of excellence and that is inclusive, that creates opportunity and develops and backs its people to perform to their best.

Culture is fundamental to so many aspects of the way in which we operate.

I hope you enjoy this latest edition of ***Stewardship Matters***.

Jen Mair

Chief Executive Officer, Martin Currie

> *"Culture is critical: a culture of excellence and that is inclusive, that creates opportunity and develops and backs its people to perform to their best."*

The importance of **culture**

You might ask why a company's management should be concerned about its culture rather than its profits and its growth prospects. Isn't the bottom line the ultimate measure of success? Well, perhaps. But corporate culture is directly linked to the bottom line in several ways.

What do we mean by culture?

At the simplest level, we might think of culture as the way that a community expresses itself. This includes literature, music, art and spiritual beliefs. But it also includes all the everyday output. Think of the fragments of ancient pottery or metalwork you might see in a museum display – objects made by many different people over many years that still show a common way of doing things. Or images of gods that reflect the shared beliefs of a people from the distant past.

In essence, a culture is what a community does and what it believes: its behaviours and its values. These are the things that define the group. And the sense of belonging they create helps to keep the group together.

But we should also note that culture is something that is grown. The word comes from the Latin verb colere, which means 'to tend or grow'. Or, to use another word from the same root, to cultivate.

That's particularly applicable to the corporate world. A company's culture is something that needs to be nurtured. How, then, do we plant the seeds of a successful corporate culture? What are the signs of a workplace culture that is thriving? And how does a healthy culture help drive the company forward?

Why corporate culture matters

When we think about how culture shapes the success of a company, one of the most obvious measures is the customer experience. When clients feel they're in good hands, they're more likely to come back for repeat business. And if they see evidence that the company is caring, responsible and sustainable, they're more likely to commit for the long term. Being a good business is good for business.

But clients aren't the only consideration. A healthy culture is crucial in attracting and retaining employees. In the wake of the Covid pandemic, we've seen the Great Resignation. During lockdown, many people began to reassess their work-life balance, and many opted to leave their jobs. The Great Resignation is a reminder to never assume that your employees have no other options. After all, if you employ good people, your competitors are probably interested in them too.

So what might keep people at your company? Aside from the obvious considerations around remuneration and career progression, one of the main criteria that usually keeps employees with a company is its culture. They like the place, they like the people, and they like what the company's doing. If they don't, they're much more likely to leave.[1]

[1] *Toxic Culture Is Driving the Great Resignation (mit.edu)*

The keys to a healthy culture

Experts often talk about four types of business culture: clan culture (like a family business), adhocracy (where individuals take the initiative), hierarchy (doing what the boss says) and market culture (aggressively focused on outcomes).[2] We might recognise other ways of describing culture too – such as 'fun', 'laid-back', 'friendly' or 'work hard, play hard'.

But rather than obsessively classifying cultures, we might simply see a spectrum that stretches from 'toxic' to 'healthy'.

So what makes for a healthy corporate culture? There are a few factors, but here are five of the most important: openness, empowerment, diversity, respect and social responsibility.

Openness

Clear communication is essential to a healthy business. This works from both the top down and the bottom up. It's important that senior management communicate frequently and transparently with their staff. And it's equally important that junior employees feel able to speak up – with ideas, constructive criticism or even whistleblowing.

Empowerment

Employees who have greater autonomy and decision-making power are more likely to enjoy their work. And if a company trusts its staff to make decisions about the areas they know best, it's more likely to benefit from innovative approaches. Being able to express opinions and meaningfully contribute to different initiatives also aids career development and progression.

[2] *What are the four types of corporate culture? (www.thecorporategovernanceinstitute.com)*

Diversity

The wider the range of employees, the wider the range of insights available to decision-makers. That's why diversity and inclusivity are so important – quite apart from the compelling moral case for making companies more diverse in a whole range of areas, such as age, language, ethnicity, gender and neurodiversity. There's a virtuous circle here: the more diverse your organisation is, the better equipped it will be to attract diverse employees.

Respect

A healthy corporate culture will go some distance to acknowledge and reward achievements, giving space to people who are struggling with challenges in their personal lives and ensuring that everyone enjoys a good work/life balance.

Social responsibility

Companies need to show that they take their stewardship and sustainability responsibilities seriously. This is increasingly important to both clients and employees. A business with a healthy culture will understand its obligations to the wider community and act accordingly. This might take the form of charitable activities, sponsorships or apprenticeships. But it should also encompass attempts to mitigate the company's environmental impact and that of its supply chain.

> *"Ultimately, a healthy culture is a prime source of sustainability."*

A common purpose

All these factors are important in creating a healthy culture. And a company's leaders must ensure that they are seeded and cultivated. But that's just the start. The leadership should also articulate the company's values and purpose. That's what takes your company's culture beyond merely 'a nice place to work' and defines what your employees are working towards.

There are caveats, of course. A culture shouldn't become a cult. Nor should it degenerate into groupthink. If we always do things 'our way', we might miss out on better ways of doing things. And employees should be able to speak without fear, even when they go against the grain. That's why values such as openness, empowerment and respect can have such a positive effect when they're not just paid lip service but genuinely incorporated into the culture.

Ultimately, a healthy culture is a prime source of sustainability. In recent decades, we've seen plenty of high-profile corporate failures and scandals that stemmed from toxic workplace cultures. By nurturing a positive culture that works for both staff and clients, we can aim to ensure that we avoid those companies' fates and instead create businesses that are built to last.

Martin Currie is a modern, vibrant investment firm with a global presence. An active equity specialist and part of the Franklin Templeton Group, we create concentrated, best-idea investment portfolios that retain conviction in fast-changing markets. These are delivered through innovative strategies and powerful conversations, with stewardship and sustainability integrated throughout every strategy.

Martin Currie provides the environment and infrastructure for talented investors and teams to succeed, removing them from all distractions and to focus on generating investment returns.

Why is Culture important to Martin Currie?

Our culture plays an important part of our identity. It is critical in creating an environment where there is opportunity for all, our people feel supported in their development, and everyone is empowered to perform to their best. We're open, tenacious and 'all-in'. A 'roll up your sleeves and put your shoulder to the wheel' attitude means that the success of one is the success of all.

Culture is fundamental to the way in which we operate and this is why our employees embrace our values through their behaviour and daily interactions.

Acting autonomously

Martin Currie is a great example of how Franklin Templeton supports and gives space to its independent Specialist Investment Managers (SIMs) to provide deep expertise and boutique specialisation to clients, providing them with global distribution and the backing of strong infrastructure. We actively support and cultivate the investment expertise to create the conditions for our teams to thrive in, so we deliver for our clients.

This unique structure means that Martin Currie has an excellent partnership with Franklin Templeton. We recognise the value in our autonomous investment teams. This is how we will continue to deliver for our clients and grow our value in the wider organisation.

We believe financial security creates opportunity and wellbeing in people's lives, while long-term thinking protects our planet. For our teams, it means diverse and inclusive environments that inspire free thinking and acting. This underpins our purpose of Investing to Improve Lives™.

Jen Mair
Chief Executive Officer at Martin Currie

Spotlight on **Martin Currie's Culture**

Competitive Advantage

Our supportive culture combines three key elements to deliver us a key competitive advantage. These create the environment for our talented investors to focus on better investment outcomes for our clients.

1. **Focus:** We remove operational distractions so our investment teams remain completely focused on research and portfolio management.
2. **Empowerment:** Our autonomous teams implement their own investment philosophy, process and stewardship integration, but share insights to nurture solutions.
3. **Partnership:** We work together to grow the franchise with support from Franklin Templeton's distribution model. With compensation driven by revenue share, our investment teams are aligned to our clients' success.

Freedom to Perform

Our flat structure seeds a culture of trust where everyone contributes ideas, shares perspectives and inspires change.

We're ambitious and driven to win, but not at the expense of humility and care. We're here for each other and encourage diversity, cultivating a rich fabric of support and talent that all teams can lean into.

Our values describe what we truly believe in, how we act and interact with each other and our clients.

They support our culture and act as a compass to guide and measure behaviour, drive decisions and unite us as a business.

Partnerships that Perform

Our teams are free to think, to do, and to act; creating innovative strategies where clients are front and centre. We listen and share insight to stimulate powerful conversations that nurture solutions. The unique and autonomous investment culture allows our talented teams to thrive. With Stewardship at the heart of our philosophy and investment strategies, we work to fulfil clients' aims and ambitions.

Fostering inclusivity

Our Head of Inclusion, Diversity and Equity, Sheena Smith, is passionate about learning and innovation. She believes that giving people opportunities to thrive are central to our collective successes. As part of the Martin Currie Executive team, she leads on sustaining an inclusive culture, collaboration, clear communication, and strategic planning to ensure we deliver on our business objectives.

As we updated in our latest annual report we have made further progress on our own corporate diversity goals. Increasing representation across many areas of the business such as the investment team with gender diversity rising from 16% to 29%[3] and with increased female representation on the Executive Committee and Distribution Executive These have been further supported by new partnerships with Black Professionals Scotland, Investment 20/20 and Salvesen Mindroom.

[3]As of 30 September.

We are the sum of our life experiences and our distinct capabilities.
We are committed to being a truly diverse, inclusive and equitable company.

Sheena Smith, Chief of Staff at Martin Currie

Regional bias: A consideration for international investors.

An Emerging Markets perspective

Investing in emerging markets means we assess companies from 26 countries and more than 50 industries. This means we encounter a wide array of corporate cultures. Culture is an ever-present influence on the companies we invest in, and it is one of the many factors we consider when analysing an investment opportunity. At its extremes, culture could propel a company to greatness or drive it to ruin. The key is to be aware of cultural influences and consider each company's behaviours within that cultural context.

Alastair Reynolds, Global Emerging Markets (GEMs)

Embrace different cultural values

As emerging market investors we are always impressed by the diversity of cultures across our investment universe. This diversity can often be a surprise to clients and we see expectation gaps in areas such as political ideology, gender representation in the workforce and climate transition.

For example, Asian companies often have strict hierarchical lines of command. This leads to relatively autocratic decision-making processes compared to what we experience in the UK and US. But if we predicted investment outcomes based on a single stereotype, we would almost certainly miss the mark. Even within broad national or industry cultural contexts there almost always exists a range of attitudes and behaviours. We have to be aware of cultural influence and consider how it is likely to impact our investment outcome and ownership journey.

Another cultural challenge we face is from the different attitudes company managements have towards outside investors. Some businesses have relied on capital from external investors throughout their lifetime to fund growth. They will have likely developed a culture of trust and openness with investors. Other businesses turn to equity markets at a later stage to monetise success they have already achieved. In these cases there can be greater misalignment of attitudes between the company and its new found owners.

Almost all companies want to present the best version of themselves to investors. But some companies take this to the extreme by being highly selective in the information they disclose. They might apply heavy adjustments to financial disclosures to present the most flattering interpretation of corporate performance. Different attitudes towards what is the most relevant time horizon can also be a source of challenge. Some companies adopt a multi-year perspective whilst others can appear obsessed with meeting quarterly targets.

Technology and in-house innovation impact worker morale

The morale and motivation of a workforce is a clear indicator of cultural strength. We are interested in how each company incentivises its employees, as this is likely to have a strong influence on how they ultimately behave. We look at staff retention rates and whether companies rely on outside contractors rather than direct employees. We can also look at the extent a company relies on technology and automation relative to utilising labour.

We also want to understand whether companies value in-house innovation or favour an acquisitive approach to achieve progress. Rewarding and encouraging innovation from in-house talent can potentially have positive impact on worker morale. We can observe such preferences over time by monitoring Research & Development, Merger & Acquisitions spend and by analysing the staff profile of companies.

Gender diversity shows a cultural shift

One distinct cultural development we have observed is the noticeable shift in favour of greater gender diversity within emerging market companies. To a large extent this entails higher female representation across all levels of seniority within companies. This is of course a global phenomenon and its impact can be seen both at national level and within individual industries.

Our research and engagement ahead of investing in Saudi Arabia's Al Rajhi Bank is one example where we faced a starting point on diversity and inclusion that differed greatly from where we would want it to be. 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. Al Rajhi provides a high level of transparency around its employment diversity and this allows us to track its progress over time. We are encouraged by the progress they have made to date and are confident that the bank's commitment to increase diversity will continue. 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 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[4].

Another example of the increased focus on diversity is the mining industry. Historically, the industry was almost entirely male dominated but companies have introduced numerous policies to change the culture in mining and diversify their workforce.

Chilean copper miner, Antofagasta, is a case in point. Female representation has increased from 8% in 2018 to over 20% currently and the company hopes to reach 30% female representation by 2030. This is being achieved through career awareness programmes at schools and universities, flexible working policies in the company and workforce education to promote respect and inclusion[5].

Attitudes on environmental factors are another area where we are seeing considerable change. Along with greater awareness of the impacts of climate change and the value of biodiversity, national-level emission commitments are leading to a change in cultural attitudes and corporate behaviour. According to Climate Action Tracker, as of November 2022, around 140 countries had announced or are considering net zero targets, covering close to 90% of global emissions[6].

Ask the right questions

Cultural factors influence the nature and quality of engagement we have with management teams. We need to consider the cultural background and experience of the representatives we meet when determining how reliable their insights are likely to be. One aspect of this is to consider whether the attitudes of the company's senior executives are representative of the business as a whole. We often encounter senior management from corporate finance backgrounds who may be culturally different from the industry practitioners employed elsewhere in the firm.

In this regard, we try not to place too much significance on any single interaction as we are conscious that we are speaking to just one representative from what is likely to be a multi-divisional or multi-national company.

We have to compensate for the natural tendency of company representatives to tell us only what they think we will want to hear. To overcome this we can vary our question technique to include open questions, conditional questions to draw out contradictory answers, or questions requiring quantifiable answers.

We also try to understand management attitudes towards risk and which aspects they prioritise more than others. Many companies have risk management committees at Board level and will present their assessments and tolerance of risk as part of their regular shareholder communication.

Transparency is key

Ultimately, we are looking for behaviours to be aligned with the long-term interests of minority investors. Beyond that, we don't have a predetermined ideal culture that we are looking for. However, transparency is the key cultural characteristic we value within senior management teams as we rely on them most for company information.

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

[4]Source: Martin Currie and Al Rajhi Bank as at 31 December 2022. Annual Report 2022.

[5]Source: Martin Currie and Antofagasta as at 31 December 2022. Antofagasta Sustainability report 2022.

[6]Source: Climate Action Tracker as at 10 November 2022.
https://climateactiontracker.org/global/cat-net-zero-target-evaluations

Engagement and Proxy Voting Statistics 2023 YTD

Details of our engagement and proxy voting statistics year to date (to June 2023) are as follows:

Firm-wide engagements

24	Markets covered
75	Companies engaged
317	Total engagements

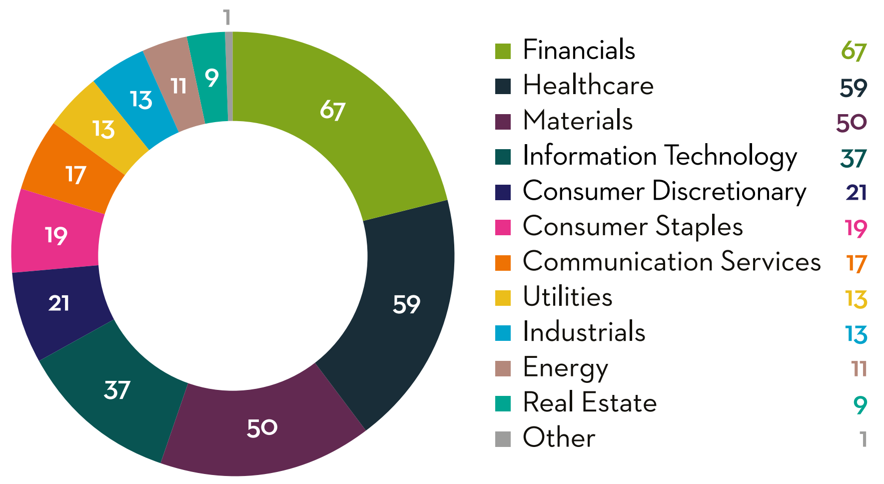
Top engagement topic: Governance – Board, directors and committees

Firm-wide proxy voting

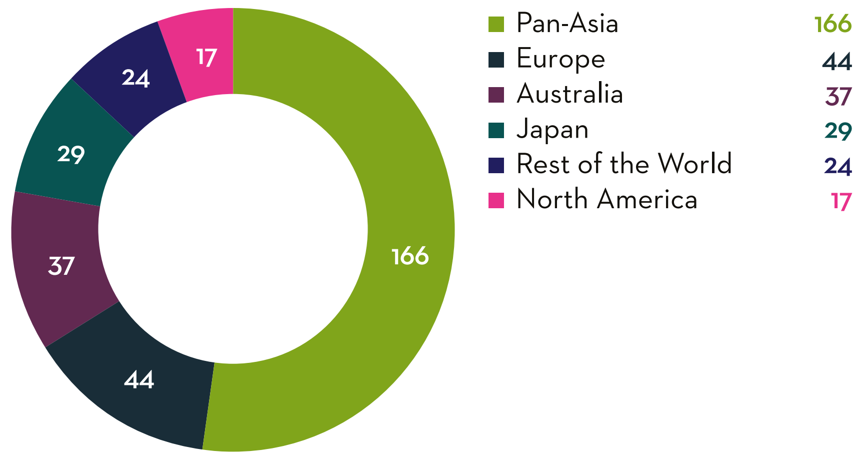
32	Markets covered
314	**Total shareholder meetings**
113	Meetings where we voted against management

Top voting topic against management: Director related

Engagements by sector

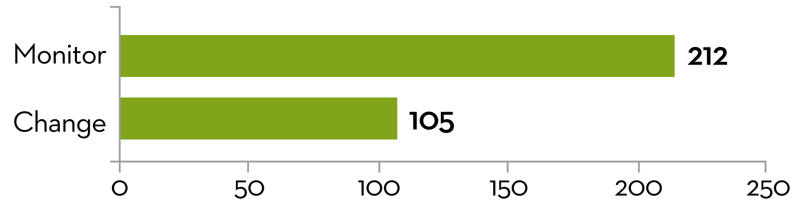


Engagements by region

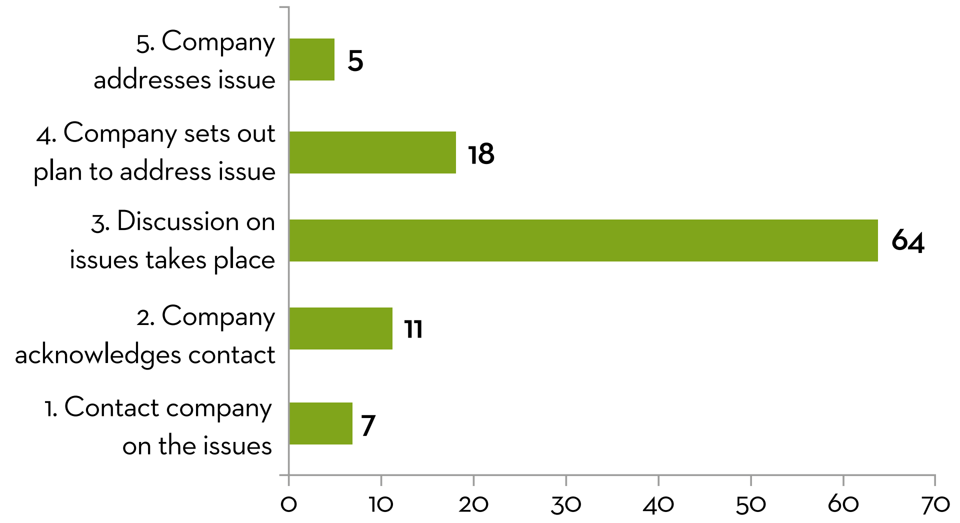


Engagements by topic

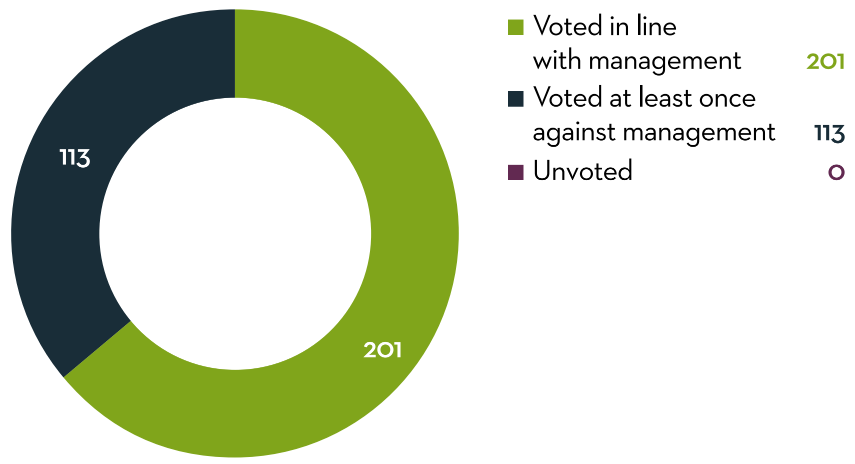
Purpose of engagement



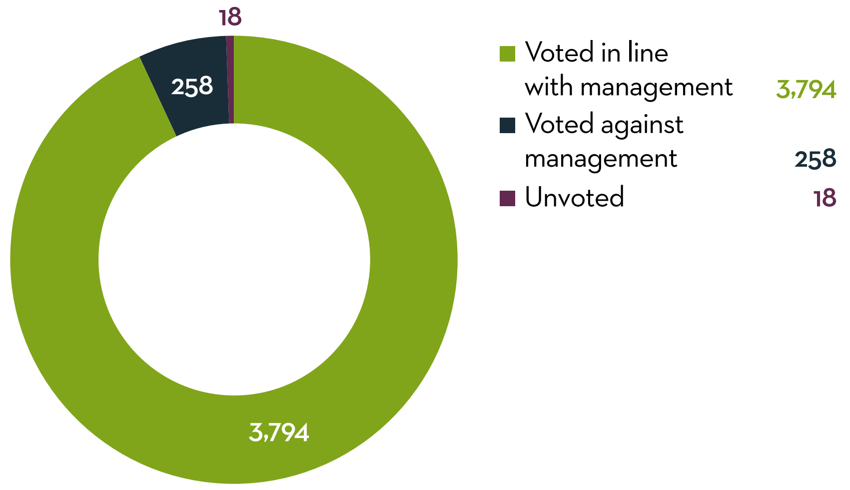
Stage of completion for change



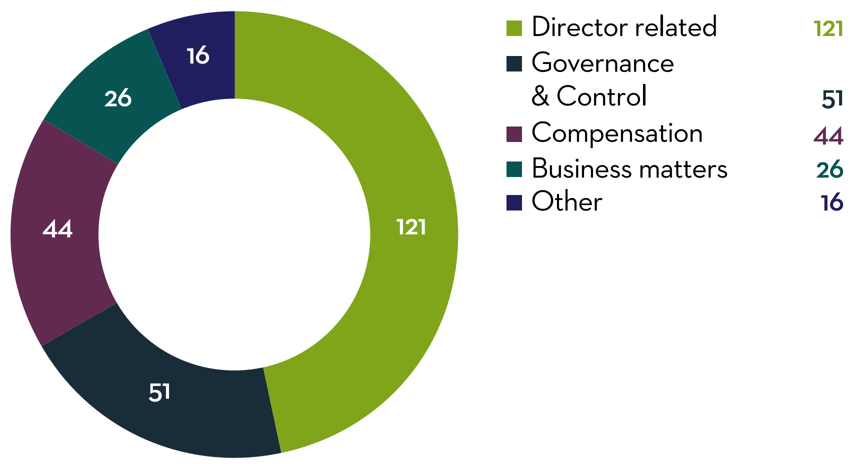
Total meetings



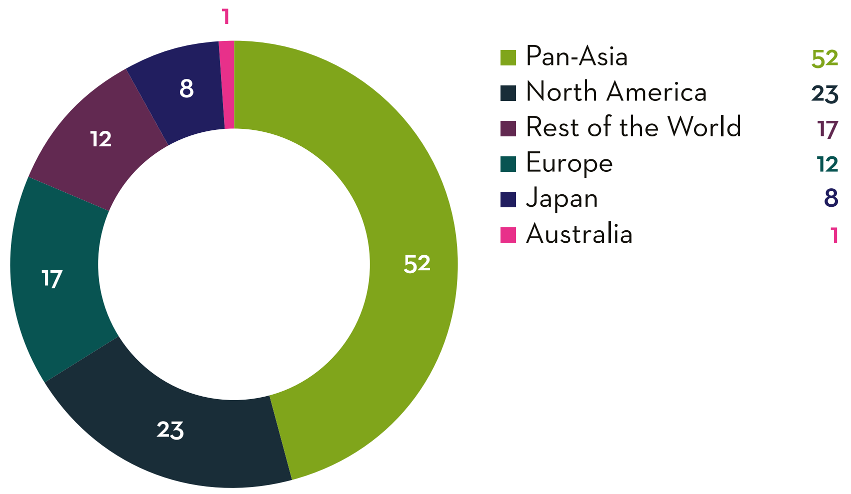
Total resolutions



Resolutions voted *against* by proposal type



Resolutions voted *against* by region



Source: Martin Currie, Six months to 30 June 2023.

Evolving capabilities: **what do company financials reveal about culture?**

Martin Currie has almost 15 years of experience of looking at governance from an accounting diagnostics perspective. It can provide key insights into the ways in which a company is operating. It allows us to understand behaviours and how things are being presented. Financial data, like all things, evolves and we are not standing still.

Asia Long-Term Unconstrained (ALTU)

Andrew Graham, Head of Asia

Tom Wills, Portfolio Manager, Asia

As long-term investors our due diligence needs to deliver the necessary conviction to commit our clients' capital. We do this through our 'accounting diagnostics' work - a thorough analysis of a company's historic reports and accounts. The output forms an important component of our overall corporate-governance and sustainability assessment.

This is the final level of due diligence before we add a stock to the portfolio. As our assessment goes deeper it provides colour on financial heath, governance and culture of a firm.

A necessary approach to understand Asian firms

In an Asian context, assessing a company's corporate governance structure is not straightforward. The developed market approach, which focuses on the governance structure, is more suited to a world in which equity ownership is heavily institutionalised and there is clear separation between the managers of a business and its owners, as represented by the Board. This is not always the case in Asia. Asian companies can still be characterised by owner management, reflecting their family origins and culture, or by a significant government shareholding.

In these situations, a narrow application of developed-market governance ideals can be dangerous. Our solution is a qualitative assessment that looks at the governance record, gets to know the management and the board, and considers to what extent our interests are aligned. Through our research and experience, we believe we are well equipped to incorporate these judgements into our decision-making approach.

Track changes

Our research is a consistent analysis of the company reports and accounts year after year. Why do we do this? By tracking how accounting policies change over time, we analyse why management teams make the financial reporting choices they do. This is considered against the context of the flexibility inherent in International Financial Reporting Standards (IFRS) or local Generally Accepted Accounting Principles (GAAP). For example, we want to establish whether these choices are becoming more aggressive or more conservative over time. We also track changes in the quality of disclosure – is a company becoming more opaque or offering greater clarity?

The benefits of this process are:

Clues as to management's attitude towards company stewardship

Is there a creep towards more aggressive accounting policies over time and, if so, what is their motivation for doing this? Often, we can draw inferences on this from an analysis of areas such as executive compensation structures, restructuring in family shareholdings and planned or recent Mergers & Acquisitions (M&A).

An in-depth understanding of the company

Issues raised provide us with a list of insightful questions with which to engage management. The unique nature of our questions can actually benefit our relationship with management teams, leading to better corporate access and engagement thereafter

Building models that forecast future returns of a business requires trust in the historical return profile

This provides a greater degree of comfort as to underlying historical trends

Occasionally we will uncover an issue that we find outstandingly bad

If management's explanation is unsatisfactory or even non-existent, then we do not invest in the company

> *"We find that the way companies interact with us on the subjects we raise, gives a useful insight into their approach to shareholders and to disclosure."*

Understand management, understand the business

The next stage is to review a company's corporate governance practices and benchmark these against international standards. We want to assess management's track record in delivering value for minority shareholders and build confidence in their use of capital. This focuses on:

(i) Whether the use of capital and cash flows is in the interest of shareholders and aimed at maximising long-term returns.

(ii) The motivations of management, these in turn can explain some of the accounting policy choices.

(iii) Look for alignment of interest between the management team and our clients as prospective minority investors.

Our key governance considerations

- Board independence
- Quality of disclosures
- Division of duties between Chairman and CEO
- Management compensation
- Track record in treatment of minority stakeholders
- Implications of family ownership

Company interactions are essential

We will always talk to a company before making an investment. The output of our accounting diagnostics helps build our agenda on what areas to question with management. We find that the way companies interact with us on the subjects we raise, gives a useful insight into their approach to shareholders and to disclosure. These are important in helping us to understand the future direction of businesses and the likely deployment of capital.

Global Long-Term Unconstrained (GLTU)

Zehrid Osmani, Head of Global Long-Term Unconstrained

Sam Cottrell, Portfolio Manager, Global Long-Term Unconstrained

We only invest in companies where we are comfortable with the accounting practices. The aim is to protect our clients' assets from companies with aggressive accounting practices. Understanding this behaviour can identify whether management are creating value, but also provide insight into a firm's approach to stewardship and culture.

The published reports and accounts are the most important primary source of information on the financial health of a business. Our proprietary accounting assessment is a systematic analysis, of where possible, 10 years of historic financial data. We are long-term investors, and by looking over as long a period as possible we can begin to identify behavioural patterns from company management. Most importantly this analysis links financial with non-financial analysis.

Our assessment is looking to identify what we consider to be red flags. These can include conversion of earnings into free cash and unusual movement in the balance sheets; we are looking at M&A activity, working capital movement, cash conversion, and excessive capex. As we look at the presentation of the accounts over time, we watch out for any changes in reporting framework, or in the accounting principles to ensure that these are explainable.

Increased conviction

Taste and nutrition ingredients firm – Conducting M&A

Commissioned an independent review into M&A accounting. Calculation of intangibles and goodwill had benefitted adjusted earnings and remuneration.

Management responded in a transparent fashion:

- Demonstrated adjusted metrics were in line with industry practice
- Accepted feedback we prefer unadjusted metrics to calculate remuneration
- Introduced additional sustainability metrics for management remuneration.

Didn't invest

Biotech firm – Accounting disclosure practices

The firm had continually restated historic accounts and changed the segmentation of revenues. This flagged to us potential poor internal controls and raised significant concerns around overall management, quality and integrity.

Exited position

Investment fund platform – Timing of accounting adjustments

The firm included treasury income that was benefitting from rising interests in its core income. This was not part of the original guidance. Additionally long-term incentives were removed from the firm's Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA).

The timing of these adjustments ahead of meeting published financial guidance led us to question the Management/Investor Relations (IR) of the firm's accounting practices. Management/IR did not offer an explanation.

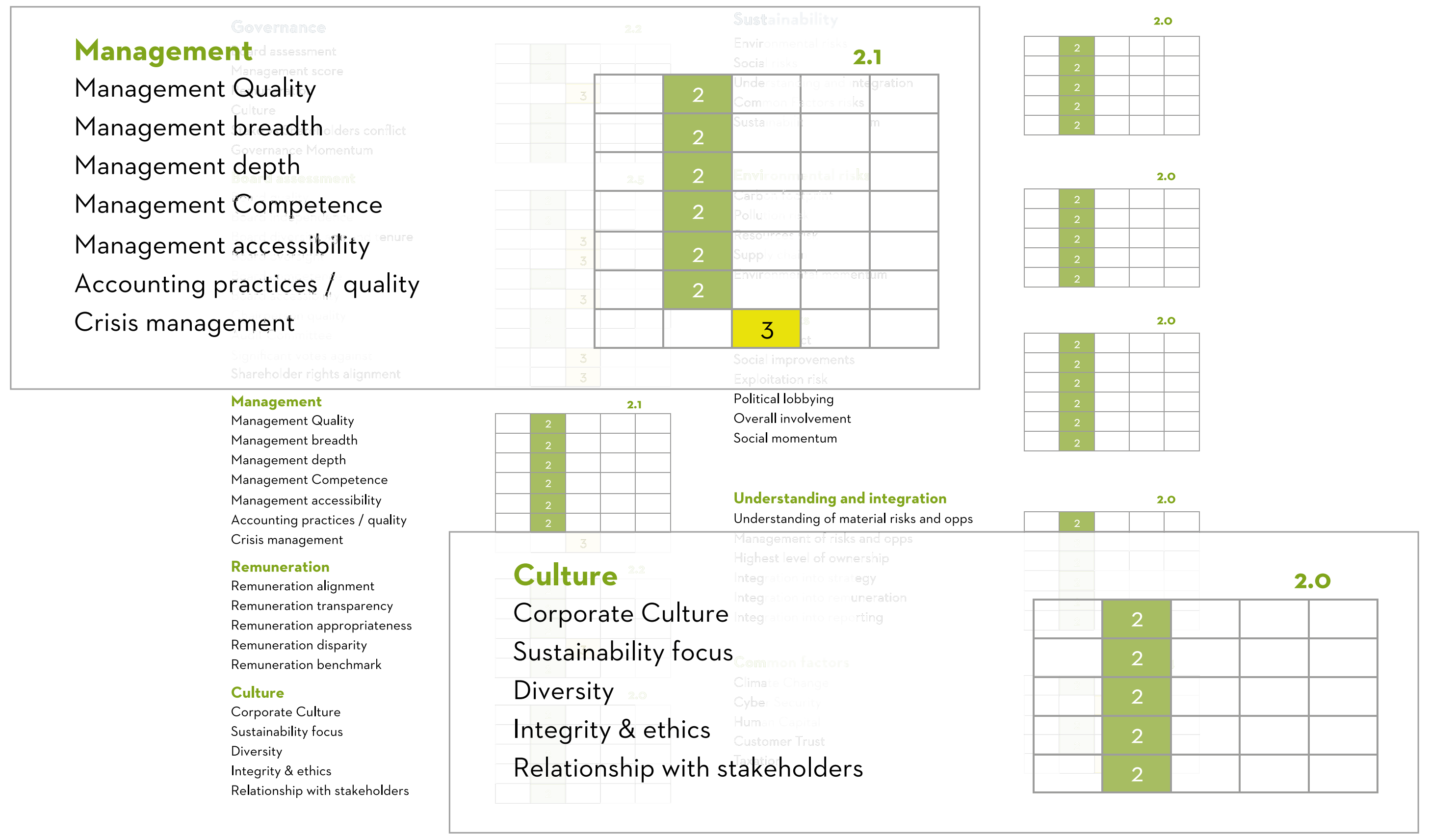
With increased management integrity risk, we exited the position.

Understand the motivation of management

All of these can be common enough accounting practices, but we need to understand management's motivation to carry these out. To delve deeper we regularly commission in-depth accounting reports with specific expert accounting diagnostics companies. We integrate the output of these reports into our own fundamental research, and it forms part of our engagement agenda.

This analysis provides valuable insights into the financial health of a firm. But it also provides another window into the firm's culture and overall stewardship approach. The approach to accounting can align with wider governance issues, and provides with other perspective to our fundamental research.

Therefore, our accounting research also feeds into our proprietary governance and sustainability analysis, shown below. Analysis of accounting practices/quality is one of 52 parameters, and this is intrinsically linked with management integrity, remuneration, the firm's ethics and overall culture.



Ratings are illustrative.

Does a **strong culture** equate to a **strong investment?**

We are often asked by clients if we believe that a strong corporate culture equates to a strong investment.

We have long found that problems within corporate culture, governance and management are often expressed through its environmental and social track record. To us, this makes culture a reliable proxy for broader sustainability and long-term performance.

Will Baylis, Portfolio Manager, MCA

Why do companies with poor culture persevere?

As long-term active owners, we have long believed there is a real connection between corporate culture and returns, we do see that this has often been ignored by the market in the short term.

There has been a big rise in passive investing and active managers who fully outsource proxy voting to third party advisors. This trend exacerbates a growing lack of analysis of governance and corporate sustainability by the market, as well as a reduction in shareholder engagement with boards to enact positive change, allowing poor governance to persist in many large corporates.

How do we measure, track, and impact culture

We believe that direct engagement by our investment decision makers is one of the most important ways to understand and improve a company's culture.

A key objective of our engagement activities is to achieve positive outcomes through strong relationships and establish open dialogues with both the Board and management teams of investee companies. This direct approach allows us to express any areas of concern, encourage greater transparency on their management of these risks, and work to improve investor outcomes.

Transurban

During Covid we contacted the Transurban board regarding its capital structure plans, to ensure governance activities followed best practice.

We expressed our concern on dilutive equity raisings creating unnecessary lasting damage post-Covid. Pleasingly, when the Board discussed raising equity it decided against it, agreeing with our reasoning.

Annual General Meeting (AGM) votes and shareholder resolutions are also an opportunity for us to express our opinion on performance and culture.

While we seek to engage in the first instance, when we have a poor view of a Board's overall governance quality, we often use proxy voting to re-emphasise our stance.

Qantas

We recently used proxy voting season to make a statement about our disappointment in Qantas' corporate culture. We have for some time had concerns around a lack of balance at Qantas, including a reduced focus on the customer and front-line staff.

Through interactions, we also perceived an inability for corporate management to consider perspectives that conflict with what we considered overly biased head office-based messaging, which differed from the real-world perspectives we encountered via Qantas staff and customers.

While Qantas' strong market position allowed this to go unnoticed for some time, ultimately, it has culminated in considerable damage to their corporate image and increased organisational instability. While these issues are still evolving, we believe there will be genuine lasting damage - the question is to what magnitude?

We voted against the remuneration report, and also the re-election of Todd Sampson (as a Board member), on the basis of Board accountability for the deterioration in Qantas' public standing and a lack of Board oversight of management, and the fact that the executive received only trivial penalties in their remuneration.

More than 80% of shareholders also voted against the remuneration report at the AGM, resulting in a 'first strike' against the board. A second-strike next year will result in a board spill. We note management are taking positive steps to resolve the issues and we will closely monitor their progress.

How does culture impact position sizing?

We capture our analysis of corporate culture through our proprietary **Management** and **Governance** ratings framework. These ratings help us quantify good management teams, better understand their motivation, and determine whether culture, strategy and interests are aligned with investors.

Management and **Governance** ratings go on to form a key component of our **Quality** research lens. A poor **Quality** rating reflects our belief that these factors can lead to an increased risk to the normalised earnings that our analysts have forecast. As such, our **Quality** ratings directly impact the size of an individual security in our portfolios, or our decision to invest or divest.

We monitor companies on an ongoing basis and can quickly update ratings if our fundamental research or engagement activities uncover material issues or changes.

Rio Tinto

Insights from our engagement with Rio Tinto, in addition to the independent inquiry review regarding the Juukan Gorge incident in 2020, exposed a complete lack of Governance and Board oversight.

Through this incident, Rio Tinto not only severely damaged their reputation, but their actions highlighted change in culture and raises important unanswered questions about the Board and management structure.

This caused us to downgrade our Management and Governance ratings, resulting in a Quality downgrade and exit from some portfolios.

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Case Study of a 1-rated stock: Wesfarmers (WES)

Wesfarmers is a stock that has our highest rating of 1 (out of 5) by our team on both its Management and Governance.

Wesfarmers structure of headquarters' (HQ) asset allocation and well supported operating companies has worked well over a long period of time and generated a long-term return driven culture.

They have great talent development capability within their diverse operating businesses / Mergers and Acquisitions (M&A) division, leading to an ability to fill gaps internally. The current CEO has experience across multiple WES operating divisions.

The management team have a clear, consistent strategic plan, and a strong ability to deliver against plan. Overall, they care deeply about public impact and its perception.

In terms of the Board, it is of high quality, with appropriate level of experience, tenure and gender diversification. Workload is not a major issue except for Sharon Warburton who is a non-executive director on the boards of four listed companies. She has disclosed that she intends to reduce her workload over the next 12 months.

Wesfarmers has comprehensive policies covering sustainability principles, risk management, data security, health and safety of staff, governance policies, investor and stakeholder engagement. Wesfarmers demonstrates actions across all policies including modern slavery, product sourcing etc.

WES' Key Executive Equity Performance Plan (KEEPP) awards have seen executives, CEO and CFO and other senior executives, receive substantial bonuses with high maximums.

What does good look like to us?

Our team's stewardship and sustainability analysis has evolved over time, but we have always placed particular emphasis on seeking out companies with good corporate governance and management.

JB Hi-Fi

Another company that we rate highly on its culture is JB Hi-Fi, a low-cost consumer electronics retailer. Focus on the customer, service, and supplier has been a key part of their long-term growth, and the level of empowerment and involvement that they provide to staff has been a key enabler.

The questions to the right form the backbone of how we seek to identify companies that are looking out for the interests of all stakeholders, and generating long-term and sustainable wealth for shareholders.

Summary

In terms of analysing culture's impact on long term returns, we see a real benefit from having a long tenured investment team. Analysts who have years of experience with dealing with certain sectors and individual companies, allows them to instinctively identify changes, be it improvement or deterioration.

Long term interactions with various stakeholders also importantly helps to differentiate between head office messaging of culture, and the real world we encounter when we meet customers and front-line staff.

It's easy for corporates to talk to a good culture. What ultimately matters to long term returns is if that corporate messaging translates to real world behaviours that improve a company's staff and customers experience, and thus bottom line.

Our questions

MCA Management rating

The company's culture:

- Does the culture of the company add to its performance or create a risk?
- Do they have a Sustainability focus?
- Is Diversity front of mind?
- Do management instil Integrity and ethics from the top?

The company's strategic plan:

- Is the strategic plan a good plan?
- Is it consistent?
- How is execution/delivery against the plan?

The competency of key personnel:

- Do they have a good track record here and at other companies?
- Is the management internal or external?
- Are they visionary?
- Do they have the technical skills?
- What is the tenure of the management team?

The level of financial responsibility:

- Are there any questionable representations of the company's financial accounts?

MCA Governance rating

Board & CEO performance:

- Have board members demonstrated a positive contribution?
- Do they truly hold themselves accountable governance oversight?
- Have they set the right tone for culture of the whole organisation?

Board composition:

- Does the board have diversity?
- Does it have industry experience?
- Are board members "over-loaded" or "over-boarded", and unable to give due focus?

Shareholder protections:

- What conflicts of interest, dilution risks, poison pills exist?

Social license to operate:

- Are the operating procedures of the company accepted by the public?

CEO relationship with the board:

- Does the CEO have a good working relationship with the board?

Alignment of interests with shareholders:

- Are incentives and rem packages justified?
- Are they aligned to shareholders and the long-term interests of the company?

Catching up with Zehrid Osmani, Senior Portfolio Manager and Head of Global Long-Term Unconstrained

Tell us about your background and investment experience.

Prior to joining Martin Currie in May 2018, I held several senior roles at BlackRock. I was a senior portfolio manager with responsibility for managing several high-conviction, unconstrained pan-European equity funds, as well as being Head of European Equities Research. Before this, I managed equity portfolios at Scottish Widows Investment Partnership (SWIP), and was a specialist sector analyst at Commerzbank Securities, UBS Warburg and Credit Lyonnais. I started my career as a trainee portfolio manager at Scottish Investment Trust, on UK equities.

At Martin Currie, I lead the Global Long-Term Unconstrained (GLTU) Equities team, and have a specific focus on building unconstrained, high-conviction long-term portfolios focused on attractively priced companies that have pricing power, low disruption risk, face structural growth opportunities, have solid balance sheets, and that generate high returns over the long term.

Is there a strong team culture within Global Long-Term Unconstrained?

Having a strong and entrepreneurial team culture, driving excellence and therefore team growth, is something that we've been particularly focused on instilling within our GLTU team. Passion to invest and perform, and intellectual curiosity are two important components of our culture, which we seek for everyone in the team to have.

I lead a team of nine highly diverse, analysts and portfolio managers. We manage four geographic strategies: Global, Global ex-US, European, and US equities.

Our team is diversified across gender, culture, ethnicity, and generation. This increases cognitive diversity, generating a broad range of viewpoints through multiples lenses. This diversity enhances our ability to analyse investment opportunities from different angles, as well as ensures that we achieve longevity in our franchise.

Are there different areas of accountability throughout the team?

Yes, there are. While I have oversight and overall responsibility for all processes of the team, I have allocated some areas of process accountability to each member. I believe that it is important for each member of the team to have responsibility for a key aspect of our investment process. Each team member then works with me on ensuring that part of the process is managed efficiently.

This encourages efficient team organisation and drives an ownership culture aligned with our broad ambitions for our strategies. It also promotes continual improvements and a focus on delivering a better investment outcome.

Name	*Process Accountability*
Zehrid Osmani	*Head of Team, Overall Processes, Portfolio Construction*
Ken Hughes	*Research Process*
Amanda Whitecross	*Investment Process*
Yulia Hofstede	*Thematics*
Robbie McNab	*Research Process*
Sam Cottrell	*Data Analytics*
Jonathan Regan	*Data Analytics*
Jackie Cui	*Accounting Analytics*
Anna Shevkunova	*Accounting Analytics*

In addition, everyone has specific sector research responsibilities, and we all share responsibility for stock research, idea generation and analysis. Each member will look at individual stock ideas and see them through each stage of the research process.

How do you collaborate with other investment teams within Martin Currie?

We meet frequently with members of the other investment teams. Generally, we discuss and share ideas on different markets and themes.

The area in which there's most crossover (stock exposure in other investment strategies), is the healthcare sector. This has sparked conversation around proxy voting and in some cases we've held joint meetings with colleagues from our Impact Equities team and the investee company.

We also access a central database of research information that each investment team feeds into, so we can see the latest discussions that have taken place with various companies.

MEET THE MANAGER

Can you share an example of where culture has played a key part in the decision-making process of whether to invest in a company?

Culture of a company is an important area of our assessment within the governance segment of our analysis, whenever we conduct research. Within culture, we assess corporate culture per se, sustainability focus, diversity within the organisation, integrity & ethics, and a company's relationship with various stakeholders. All of these fields contribute to us forming an overall assessment of a company's corporate culture. One can see, through the list of fields that we assess, that corporate culture can be an important determinant of whether a company creates value for shareholders, hence the importance we attach to this.

There are many examples of companies that we have not invested in, due to some elements of risks we have foreseen in some parts of the culture, notably on the integrity & ethics front, but also in the lack of focus on sustainability, but we won't mention any of these here.

On the positive side, the example of Moncler, where the company's strong focus on sustainability, the drive on diversity, the high integrity & ethics of the CEO permeating throughout the organisation, and the relationship the company has with all its stakeholders, gives us the conviction that the company has a strong culture that can both retain high calibre talent, and attract new talent to keep fuelling the positive energy needed in what is a highly creative industry.

What excites you about this opportunity?

Moncler has shown that it can attract high calibre talent, ambitious people, and very experienced managers, to continue to drive its creativity and dynamism, and its operational momentum. This is not something that is easy to do in an industry where some might say the creative director can be egocentric at times. Yet Remo Ruffini, the CEO and Creative Director of the company, has an approach that fosters creative talent, welcomes challenges from all parts of his organisation, gives his executives the means and autonomy to deliver ambitious targets, which therefore leads to a company that remains innovative and creative, and is able to achieve ongoing attractive growth and returns profile, whilst keeping a prudent approach to store openings.

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Tell us about some of the ways in which the team work together?

A large proportion of time is focused on reviewing opportunities, researching stock ideas in detail, talking to companies and industry leaders, analysing long-term structural growth opportunities and themes. I travel extensively to meet with companies we are invested in, with experts in their fields, and with our investors.

We constantly assess the portfolio exposures across the various fundamental and risk assessments that we have put in place. These assessments feed into our engagement agenda with company management and how we vote during the proxy voting periods.

The fundamental research we produce is regularly and robustly reviewed across our team, to ensure rigour throughout the process. We use behavioural analysis to optimise decision making, and to avoid 'groupthink' and bias in our research debates. This pushes our investment process to the boundaries of industry standards in our view, as behavioural biases risk assessment should in my view be a relevant component of any fundamental investment process.

During each stock discussion, each member of the team will assess the debate and monitor for any behavioural biases. The aim is to ensure we are not falling victims of some biases as we debate ideas. This helps to optimise decision making backed by continual learning and improvement. If a debate is judged to have shown behavioural biases on some of the important measures we assess, we will re-run the meeting to ensure each investment idea is subjected to robust scrutiny again. Fundamental research and portfolio analysis are the most time-consuming elements, but critical when managing highly concentrated portfolios.

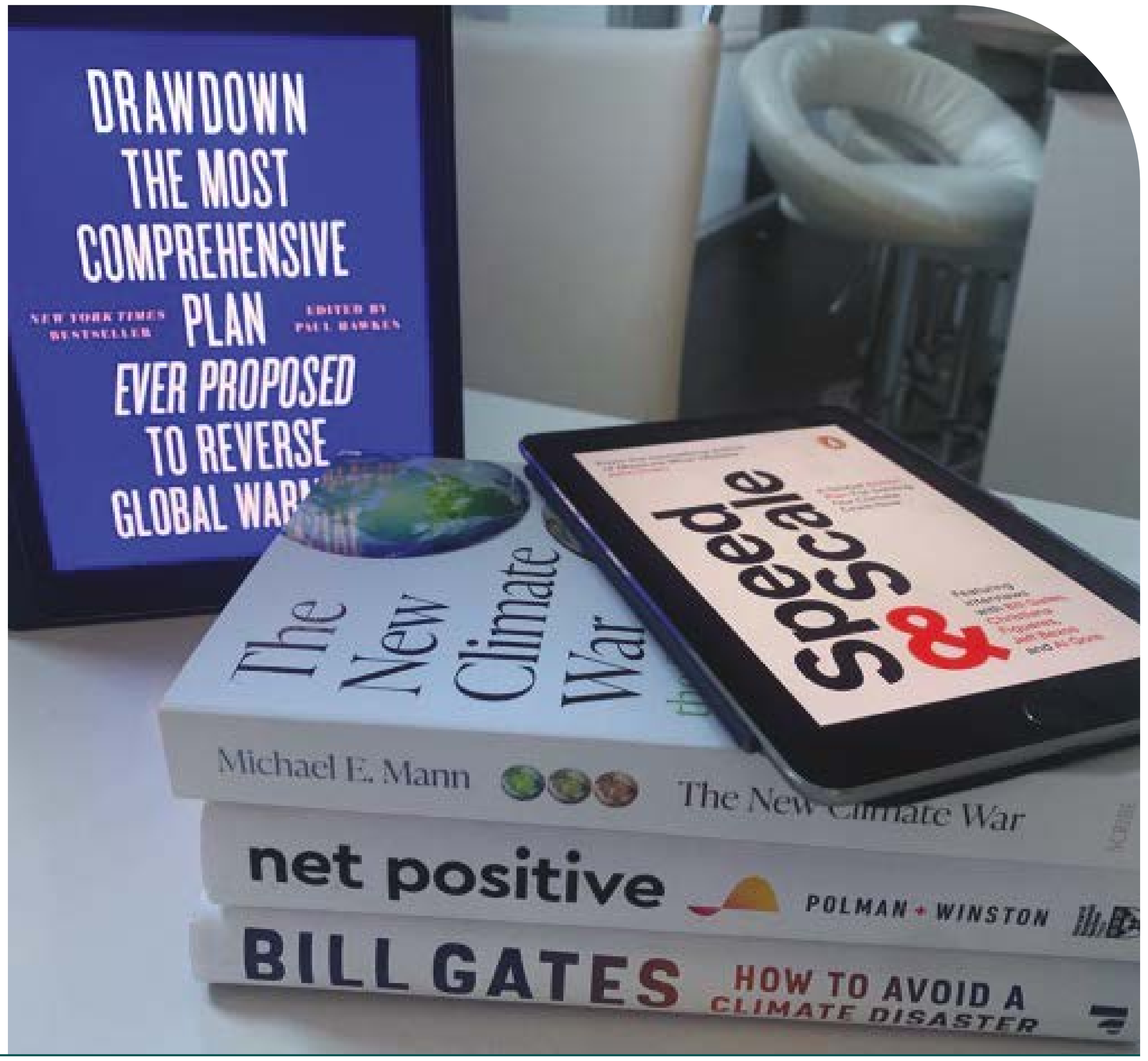
We also hold a team offsite on a regular basis. This provides an opportunity to get together to examine and agree further improvements that we can make to the different elements of our process. It's a further opportunity for everyone to think afresh, and continue to drive excellence in all parts of our process.

What do you do in your spare time to relax?

I am an avid reader and enjoy expanding my knowledge in investing styles, portfolio risk management, industry analysis and developments, innovation, corporate and team management, and leadership in general. I tend to always have two to three diverse books across these topics on the go at any one time. Some of the most interesting books that I've read recently have been on artificial intelligence, on inflation risks, and on confidence risk in decision making.

We introduced a book club within Martin Currie and in 2021/22 we covered four books in the sphere of disruption and innovation, which were interesting from a professional perspective as they tackled issues that form part of our structured fundamental analysis. We also recommended a series of books on climate change, energy transition and the challenges and opportunities related to net-zero targets.

I also ensure that I exercise every day, whether it is running, or playing tennis generally. I used to play football at Paris Saint Germain when I was under 19, so my love of sport has stayed with me. I start my day with some yoga and meditation, and also end my day with meditation. All the physical exercise helps my sleep quality – I put a lot of importance on ensuring good sleep quality, as it is an important element of good judgement and decision making.



Our recent Stewardship & ESG Insights

One significant observation over recent years has been the evolution of stewardship and sustainability and how to address a growing range of issues. Details of thought leadership that we have published on our website over the course of 2023 are as follows:

Electrification – Infrastructure's staggering task ahead

Moving Beyond ESG – Stewardship, Sustainability & Impact

Real Assets: Making a real difference

Moving beyond ESG – Replacing ESG

The Seven Sustainable Development Goals

2023 Stewardship Annual Report

Stewardship Matters Edition 10: Making an Impact

Stewardship Matters Edition 9: Introducing active ownership

NEWS ROUNDUP

The latest news on our initiatives, regulatory changes and events.

Global Ethical Finance Initiative (GEFI) are at the centre of action on ethical finance, curating conversations between a broad coalition of stakeholders throughout financial services. Martin Currie were active participants in the Ethical Finance Global Summit and the Sustainable Development Goals (SDG) Hive Sessions that were held in Edinburgh in September 2023 and which featured roundtables on a number of issues, with David Sheasby, Head of Stewardship, Sustainability & Impact, being a panel member on the Investment Management Question Time panel, 'Overcoming Greenwashing', and Lauran Halpin, Head of Impact Equities, speaking at the 'Asset Management - ESG Emergency? (From promises to solutions)' debate.

Martin Currie continues to work with GEFI in the Path to COP28, taking place in Dubai in November 2023. This will bring together thought leaders from across the globe for positive climate action that supports a just transition for all.

PRI in Person

David Sheasby attended the PRI in Person conference in Tokyo, Japan in October 2023. This was the largest PRI-in person to date with 1300 delegates from 50 countries across 700 organisations.

There was a strong focus on climate and nature throughout the conference following the launch of Taskforce on Nature-related Financial Disclosures (TNFD) in September 2023.

There were keynotes from the prime minister of Japan and the governor Tokyo. The prime minister outlined the huge pool of savings in Japan (Yen2,100 trillion) and is targeting policy to move these into investment both locally and globally.

He also set out four policy priorities:

1. Green transformation;
2. Supporting start-ups;
3. Enhancing human capital; and
4. Strengthening finance that supports 'sustainability outcomes' (a PRI phrase).

Citywire ESG Forum

Lauran Halpin spoke at the Citywire ESG Forum in London in September 2023 to introduce our Improving Society investment strategy.

Taskforce for Climate Related Financial Disclosures (TCFD) Reporting

Working towards producing both entity and product level TCFD reports for June 2024. These will include our approach to governance, our strategy for identifying climate related risks and opportunities, and risk management, as well as a range of metrics used to assess and measure the impact of these risks and opportunities.

Net Zero Conference

Our colleagues in Martin Currie Australia (MCA) held the second annual conference on sustainability. The Net Zero in the Real World – Implications for Australian Companies, Investors and Regulators was hosted by Will Bayliss.

Will led a panel discussion with representatives from corporates, Telstra, Bluescope Steel and Worley, and the CSIRO (Commonwealth Scientific and Industrial Research Organisation).

Naomi Bant and Chris Schade discussed how they implement Net Zero within our portfolios. The event showcased our abilities and demonstrated that we mean business and are committed to this initiative.

We will feature more information about this event in our next edition of Stewardship Matters.

A recording of the event is available here:

www.martincurrie.com/australia/insights/pathway-to-2030-forum-net-zero

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