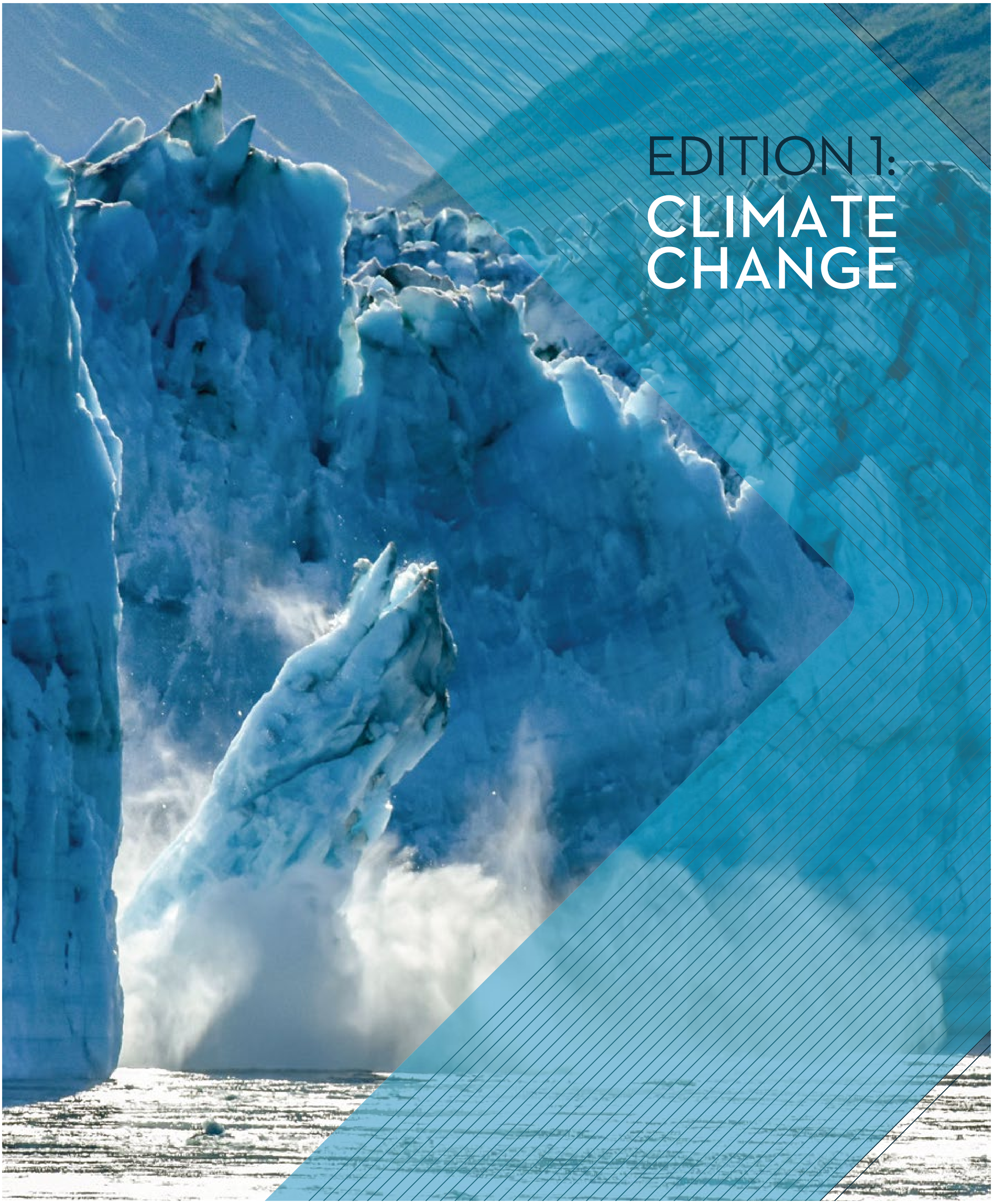
STEWARDSHIP MATTERS

MARTIN CURRIE

STEWARDSHIP & ESG

AUGUST 2020



INVESTING TO IMPROVE LIVES™

www.martincurrie.com

INTRODUCTION

Stewardship is critically important for our global clients, and for us as investors.

It is therefore imperative that we report back to our clients on the outcomes of the stewardship and ESG activities that our investment teams in Edinburgh, Singapore and Melbourne are undertaking on their behalf.

Equally important is that we don't stand still, that we use our global investment reach to lead on ESG issues and are continually evolving our investment approach to make better informed decisions for a more sustainable future.

Mel Bucher

Co-Head of Global Distribution

Kimon Kouryialas

Co-Head of Global Distribution

David Sheasby

Head of Stewardship and ESG

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Source: Martin Currie and PRI 2020. Latest PRI A+ ratings relate to activity for the period 1 January 2019 – 31 December 2019.

FOREWORD

Julian Ide

Chief Executive Officer

We are delighted to introduce our new update, STEWARDSHIP MATTERS, which builds on our award-winning Stewardship Annual Report.

The update provides a review of Martin Currie's work over the past six months, but also our insight into future trends in the stewardship and ESG space.

The year to date has clearly been dominated by the COVID-19 crisis, and despite the challenges it has brought for investors and our clients, I am proud of our investment teams globally. They have been able to maintain their steadfast focus on stewardship and ESG, as guided by our company mission statement of 'Investing to Improve Lives'.

Despite the physical barriers imposed by the global lockdown, our investment teams have continued to develop strong ongoing relationships with investee companies, undertaking the extensive engagement and voting activities which lead to positive ESG outcomes for our clients.

The teams have also worked collaboratively to evolve our approach to ESG investing, with key recent innovations including a refinement in our ESG scoring framework, the development of a proprietary carbon sensitivity model, ongoing work to map the UN Sustainable Development Goals (SDGs) to our holdings, and finally, the launch of a new client-driven investment solution: the Martin Currie Australia Sustainable Equity strategy.

A further validation of the time and effort invested in developing our ESG capabilities is our 2019 A+ rating for Strategy and Governance, Incorporation and Active Ownership on this year's PRI scorecard - the fourth year in a row of being awarded the top rating.

In each edition of STEWARDSHIP MATTERS we will also ask our investment teams around the globe to share their sector and regional insights on key ESG issues or future trends. In this edition, we have specifically focused on climate change, which our clients are telling us is the number one issue they want to hear about.

As global asset managers, we believe we have a key role to play in managing the risks and opportunities presented by climate change on behalf of our clients, and this is reflected in many of the examples in this report.

STEWARDSHIP AND ESG HIGHLIGHTS: 1H 2020

ENGAGEMENTS

387	TOTAL ENGAGEMENTS
167	COMPANIES ENGAGED
30	MARKETS COVERED

TOP ENGAGEMENT TOPIC:

GOVERNANCE

PROXY VOTING

33	MARKETS COVERED
289	TOTAL SHAREHOLDER MEETINGS
104	MEETINGS WHERE WE VOTED AGAINST
3,797	TOTAL RESOLUTIONS:
223	RESOLUTIONS VOTED AGAINST MANAGEMENT

TOP VOTING TOPIC AGAINST MANAGEMENT:

DIRECTOR RELATED

A FURTHER VALIDATION OF THE TIME AND EFFORT INVESTED IN DEVELOPING OUR CAPABILITIES IS OUR 2019 A+ RATING FOR STRATEGY AND GOVERNANCE, INCORPORATION AND ACTIVE OWNERSHIP ON THIS YEAR'S PRI SCORECARD - THE FOURTH YEAR IN A ROW OF BEING AWARDED THE TOP RATING.

STEWARDSHIP IN A POST-COVID-19 WORLD

David Sheasby
Head of Stewardship and ESG

The COVID-19 crisis has clearly been the dominant topic on all investor's lips this year. As such, we are frequently being asked by clients if the impact of the pandemic has changed our approach to stewardship and ESG

The reality is that we have not actually needed to change or expand our engagement in response to the pandemic. This is because our sustainability and ESG-related work is already fully integrated into every stage of our investment process. While we cannot travel to meet with with investee companies and stakeholders in person, we have not stopped our intense focus on generating positive ESG outcomes from our engagement activities.

Interestingly, one thing that we are finding is that with all the social distancing and reduced travel occurring worldwide, there has been more availability and willingness from management and boards of our investee companies to engage with us on broader ESG issues than ever before. This is one aspect that has been really encouraging during the COVID-19 period and we hope it continues.

A key thing that has changed, however, is the level of intensity we are seeing from clients around their focus on ESG. The pandemic has been a catalyst for greater scrutiny from clients on the way that asset managers invest on their behalf, to ensure this meets their expectations. They are asking for more hard evidence to support the broad ESG statements managers make regarding their investment process. Investors are being more proactive than ever before and we see that continuing post the pandemic.

And, although the COVID-19 pandemic has shifted the focus for our clients somewhat, we have observed that climate change has continued to be the dominant theme for them within the ESG space. More than ever, clients want to understand how we are approaching climate change in our portfolios, how we identify the risks and the potential opportunities. We are receiving an increasing number of requests for portfolio carbon footprints, scenario analysis on climate-related risks, and ESG questionnaires that include climate change questions, as well as client requests for modified portfolios which exclude high fossil fuel producing companies.

Going forward, we expect a bigger focus on decarbonization and opportunities to be part of the transition to a lower-carbon economy. Elsewhere, cyber security and data privacy are also becoming key topics as the world becomes more digitalised, especially as the working-from-home trend continues. SDGs also continue to be a key topic.

COVID-19 has also brought an increasing focus from clients on the 'social' part of the ESG spectrum. We see this particularly around the theme of how companies approach and look after their key asset – their workforce, and how they focus on human rights issues, such as modern slavery within their supply chains. This is particularly pertinent with the new modern slavery legislation coming into force in Australia this year.

As investors, we welcome this increased ESG focus from clients because stewardship for us is about partnership – how we work with our clients, how we partner with them to deliver the outcomes that they're looking for and create long-term, sustainable value for them. This not only helps us to hone our focus but continually evolve and improve our ESG approach and the toolkit available for our investment teams. We outline some of our recent enhancements on the next page.

> **WE HAVE OBSERVED THAT CLIMATE CHANGE HAS CONTINUED TO BE THE DOMINANT THEME FOR OUR CLIENTS WITHIN THE ESG SPACE.**

FUTURE-PROOFING OUR ESG TOOLKIT

While we recognise the strengths that we have in our stewardship capabilities, we continue to evolve and improve our approach. Our learning culture allows us to leverage developments and innovations from across our business, helping us to further build our industry leadership in stewardship and ESG. Below we discuss some of the recent innovations by our investment teams:

PROPRIETARY ESG SCORING

Over the past year we have been refining the analytical framework that our investment teams use to scale ESG research findings across all of our investment universes. This scoring system helps our investors to consistently measure the way companies approach ESG, to identify potential risks, to inform our engagement work with companies, guiding them towards positive change.

The rating system is now composed of two key elements and stocks are ranked 1 (lowest risk) to 5 (highest risk) across the elements:

- **Governance** consistently scales board quality, management quality, remuneration, capital allocation and culture;
- **Sustainability** helps us to form comparative assessments of the extent to which companies integrate material sustainability factors into their business models and strategies.

PRODUCT LAUNCH: SUSTAINABLE EQUITY

As part of our evolving range of client-driven solutions, we launched the Martin Currie Australia (MCA) Sustainable Equity Strategy in May 2020.

The development of this strategy is a direct result of discussions and engagement with investors, who told us that they increasingly want to align their investments with achieving a more sustainable society, environment and economy, without forfeiting financial returns.

It builds on MCA's long-term experience in integrating ESG into its Australian Equity portfolios, and combines the MCA team's unique multi-lensed research process with portfolio construction that tilts towards companies which score highly on our proprietary sustainability assessments.

Fundamentally though, it reflects our belief that companies which focus on sustainability contribute to healthier outcomes for all stakeholders and will, in fact, prove to be more financially successful over time.

MAPPING THE SUSTAINABLE DEVELOPMENT GOALS

This is an extensive piece of work which we have initiated in our Global Emerging Markets team and is in the process of being rolled out across the firm.

The aim of this work has been to map company products and activities to the specific targets that underpin the 17 UN SDGs. We are looking at the extent that companies in the private sector are able to contribute solutions to some of these goals.

The results of this work will help us to develop strong ongoing relationships with investee companies on SDG-related issues. By helping to guide our investee companies towards more sustainable business practices, this then leads to long-term value for our clients.

SUSTAINABLE DEVELOPMENT GOALS

CARBON VALUE-AT-RISK (CVAR)

We have been analysing climate risk in portfolios for some time and we have recently developed a proprietary Carbon Value-at-Risk tool to help us understand the sensitivity and potential impact of carbon pricing on a company's earnings and market cap. This helps us to better understand the future impact of climate and energy policy changes on companies and portfolios.

This has been developed by our team in Australia and is now being leveraged across Martin Currie.

Beyond this, future stewardship developments at Martin Currie are happening at apace. We continue to broaden our investors' toolkit, develop the ways in which we analyse and report on sustainable impacts and, of course, build and deepen client partnerships. We look forward to updating on these developments in our future editions.

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

EXPLORING ESG THEMES – CLIMATE CHANGE

Climate change can be considered a systemic and 'unhedgeable' risk, presenting major, long-term challenges to the global economy, as well as to the health and well-being of nations around the world. Unsurprisingly, it therefore continues to be the key topic that our clients are most concerned about.

While the COVID-19 pandemic has temporarily diverted policy makers' attention from dealing with the challenges of global warming, it has arguably also highlighted the need for far greater, long-term resiliency in the face of a global crisis. More than ever, clients are looking for a much deeper understanding of the risks and opportunities associated with climate change within their portfolios.

Below we have gathered some of the key insights that our investment teams around the globe have been sharing with our clients.

Alastair Reynolds
Portfolio Manager,
Global Emerging Markets

Decarbonisation brings risks and opportunities

I think the move to decarbonise is an inevitable response to climate change, and what we're seeing in the energy space that I follow is that renewables are already highly competitive against fossil fuel. As such, there will be increasing cost pressure within the fossil fuel sector if it is to remain competitive. We were also seeing gas prices coming down, and this is displacing coal.

In the transport sector we are witnessing real opportunities in electrification, with battery-based power displacing oil. And despite the disruption from COVID-19, we're still seeing the rollout of mainstream fully-electrified vehicles from all of the global auto brands. That's the first sign we're registering of fossil fuel being displaced in the market.

> DESPITE THE DISRUPTION FROM COVID-19, WE'RE STILL SEEING THE ROLLOUT OF MAINSTREAM FULLY-ELECTRIFIED VEHICLES FROM ALL OF THE GLOBAL AUTO BRANDS.

Zehrid Osmani
Head of Global Long-Term
Unconstrained

The most obvious avenue is not always the right opportunity

While consumers have so far been slow to switch on to electric vehicles (EVs), there is evidence of growing consumer support for greener transportation measures and that EVs will become the norm, rendering the internal combustion obsolete.

But for us, the EV manufacturers themselves are not necessarily the best opportunity for investors with regards to this important climate change thematic.

We prefer to analyse the whole ecosystem and value-chain of EV and find opportunities in attractively priced higher value-add areas throughout the value-chain, where there is typically more pricing power. Think suppliers to the major semiconductor chip suppliers, battery makers and lithiuim miners, technology and connectivity companies, or even smart grid systems.

> WE PREFER TO ANALYSE THE WHOLE ECOSYSTEM AND VALUE-CHAIN OF EV AND FIND OPPORTUNITIES IN ATTRACTIVELY PRICED HIGHER VALUE-ADD AREAS.

EXPLORING ESG THEMES – CLIMATE CHANGE (CONT)

Will Baylis
Portfolio Manager,
Martin Currie Australia

Carbon offsets are not the solution

Carbon offsets are often discussed as a solution for companies with high emissions, but we don't believe that just buying carbon offsets is enough. We believe that offsets are not going to work in the long-term because they ultimately don't change the underlying behaviour.

What we need to see is genuine evidence from companies that they are working towards reducing energy use and their reliance on thermal-based electricity load. For instance, have they got power purchase agreements (PPAs) with renewable energy providers? Do they have a strong focus on recycled waste and water? We look for companies to have a board member who oversees environmental issues. Companies who collaborate with each other also see better outcomes for the environment.

We have been pushing Australian companies hard in this space in our engagements and we have had quite detailed conversations with the likes of **Qantas** and **Woodside Petroleum** on how effective their carbon offset usage really is. Where we are also really pushing companies is on how they are dealing with Scope 3 emissions. Scope 1 and 2 emissions basically come from the company itself and can be mitigated through some of the examples above, but Scope 3 is much more involved.

> WE BELIEVE THAT OFFSETS ARE NOT GOING TO WORK IN THE LONG-TERM BECAUSE THEY ULTIMATELY DON'T CHANGE THE UNDERLYING BEHAVIOUR.

Ashton Reid
Portfolio Manager,
Martin Currie Australia

Real assets are not immune from climate change risk

We have already seen impact from climate change-induced extreme weather events on real assets around the world. For an investment manager investing in these real asset entities, it has become increasingly pivotal to embed ESG factors in the investment process, to actively engage with the underlying real estate companies and to make sure they are on the right path to a sustainable future.

In our view, the biggest factors to consider when managing climate risks, and key questions we ask of companies are:

- Recognising climate risks and understanding the nature of their impact on real assets, both the physical impact on the properties vs. the financial impact on the company. For example, do they have proper insurance coverage of the assets?
- Assessing a company's focus on efficiency, and its ability to measure and mitigate its carbon footprint. For example, are their sustainability reports and disclosures sufficient? Are they developing and gaining green certifications for their buildings?
- Understanding of a company's macro exposure. For example, do government policies, regulations and standards on constructions/design build impact their ability to withstand climate risks?

> FOR AN INVESTMENT MANAGER INVESTING IN THESE REAL ASSET ENTITIES, IT HAS BECOME INCREASINGLY PIVOTAL TO EMBED ESG FACTORS IN THE INVESTMENT PROCESS.

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EXPLORING ESG THEMES – CLIMATE CHANGE (CONT)

Kim Catechis
Head of Investment Strategy

Climate change toolkit – Country Risk Framework

Within our Stewardship and ESG toolkit is the proprietary Country Risk Framework. Our database covers 125 variables for 70 countries, and is a holistic risk tool used to help identify top-down and structural challenges (such as climate change), culminating in a five-year investment outlook designed for long-term investors.

The investment outlook is built on quantifiable data but viewed through the lens of contextual inputs. The data that we consider quantifiable builds a picture of the practical constraints, vulnerabilities and institutional readiness of a country.

One particular ESG area that we cover is climate change, and we focus on the vulnerabilities, capabilities and preparedness of countries. This analysis examines a range of material factors including carbon emissions, air pollution, vulnerability to physical risk such as coastal flooding, and water stress. This analysis informs our overall country risk assessment and has also been a key input to our recent research paper looking at the geopolitical risks of climate change.

> OUR DATABASE COVERS 125 VARIABLES FOR 70 COUNTRIES, AND IS A HOLISTIC RISK TOOL USED TO HELP IDENTIFY TOP-DOWN AND STRUCTURAL CHALLENGES.

David Sheasby
Head of Stewardship and ESG

Climate change collaboration – CA100+ and PRI

Climate change is a systemic issue and as such impacts across markets and sectors. Effectively addressing climate change therefore requires co-ordinated action across the different participants in the financial markets.

One effective way to do this is through collaborative engagement and we are signatories of Climate Action 100+ (CA100+) which is the largest collaborative engagement to date and is focused in particular on the higher-emitting sectors.

I also sit on a committee within the PRI who look specifically at effective ways to engage on and mitigate the challenges of climate change. This work helps provide our investment teams with the resources and a standardised approach required to tackle such a big and complex issue. It is a really good framework in terms of how to think about effective ways of mitigating carbon emissions and how to engage with companies on this and on some of the technical factors around disclosure as well as standards that they could be meeting.

> EFFECTIVELY ADDRESSING CLIMATE CHANGE THEREFORE REQUIRES CO-ORDINATED ACTION ACROSS THE DIFFERENT PARTICIPANTS IN THE FINANCIAL MARKETS.

As an active asset manager, climate change has for a long time formed a core part of our assessment of how companies generate sustainable returns and is accordingly fully embedded into our investment process. While some investors have chosen the divestment path, in our view, the more effective route to manage risk and drive change is through active ownership and, specifically, through engagement.

FOCUS ON CLIMATE CHANGE ENGAGEMENTS

SYDNEY AIRPORT

Sector: Industrials **Region:** Australia
Purpose: Monitor **Action:** One on one meeting
Outcome: Ongoing

We met with the Head of Sustainability to discuss the company's adoption of the SDGs and other sustainability initiatives.

Sydney Airport is a member of the UN Global Compact Network and adopts the UN SDGs. It reports data via Sustainalytics for its sustainability linked loan. Sydney Airport aims to be carbon neutral by 2025 and net zero for carbon by 2050 as part of a global aviation initiative.

We learned that for the airport, Scope 1 and 2 emissions are very small. However, Scope 3 emissions include the movement of service providers at the airport and all take offs and landings up to 1,000 meters from aircraft, which is the equivalent to 900,000 tonnes in 2019.

In order to reduce Scope 3 as much as possible, ground power for aircraft is provided by the airport, as well as air conditioning to avoid using auxiliary power. This saves aircraft fuel and emissions on the ground. Sustainable aircraft fuel is regarded as a near future event, and this will be huge in further reducing Scope 3 carbon emissions.

In order to reduce carbon further, the airport has established a PPA with Origin Energy, for 75% of power from wind farming.* It is not clear what power is sourced when the wind is not blowing, and we have queried the detail on this contract. At the airport itself, solar panels have been used only in a limited manner due to PPA, but there is plenty of scope to increase the solar panel footprint in the future.

Furthermore, we discussed the 'Airport Operating License' that Sydney Airport is establishing so it can influence service providers to reduce emissions, such as through electrification of vehicles.

COVID-19 has led to a reduction in Scope 3, notwithstanding the reduced number of flights, with travellers choosing to use the car park rather than take taxis, the reduction in car journeys (two individual car trips rather than four) is an emissions reduction. On the flip side, a reduction in the use of public transport, with people favouring cars, is offsetting that reduction in emissions.

Its Quarterly Safety, Environmental and Sustainability Committee present to the executive and also the board. Jane Roxby heads up the committee and reports to the board each quarter.

L'OREAL

Sector: Consumer Staples **Region:** Europe
Purpose: Examining leadership **Action:** Group meeting
Outcome: Ongoing

L'Oreal has long been considered a leader in the sustainability arena but this does not stop it being ambitious even from this strong starting point. In June this year it set out its vision for 'L'Oreal for the Future' a new sustainability ambition building on its existing foundations. One of the central elements of this is its approach to climate change. This approach is based on ensuring everything it does is within the planetary boundaries and when looking at climate change it uses science-based targets aligned with a 1.5-degree scenario.

It is by no means starting from scratch, considering its leadership in this area. Since 2005, the group has reduced the CO_2 emissions of its plants and distribution centres by 78% in absolute terms, exceeding its initial target of 60% by 2020, while production volume increased by 37% over the same period.*

At the end of 2019, L'Oréal had 35 carbon neutral sites (meaning they use 100% renewable energy), including 14 factories.

By 2025 it is aiming for 100% of its sites to be carbon neutral by improving energy efficiency and using 100% renewable energy alongside a 50% reduction in green house gases (GHGs) per finished product (from 2016). It has already achieved this for water (and by 2030 will be using 100% recycled water in industrial process).

Scope 3 emissions are also part of the science-based targets and, as is the case for many companies, Scope 3 emissions account for most of its overall emissions profile. Around half of these are derived from the consumer use of its product with the remainder sitting in the supply chain. As such this requires extensive work to try to meet its overall commitment on Scope 3.

With sustainability at the core of its approach and clear leadership already, it will be interesting to watch how it delivers on these new ambitions.

*Source: Company reports.

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PURPOSEFUL ENGAGEMENT ACTIVITY

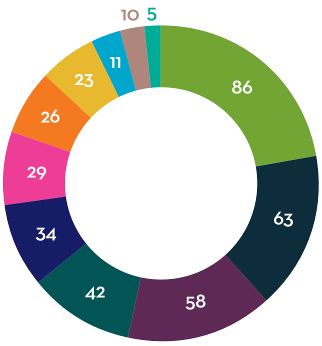
We believe monitoring and engagement are an essential part of being a shareholder in a company. It allows us to improve our understanding of investee companies and their governance structures, so that our voting decisions may be better informed. In addition, it enables us to understand to what extent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

OVERVIEW: 1H 2020

ENGAGEMENTS

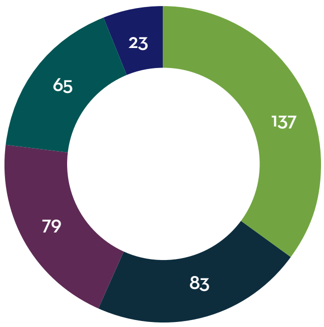
387	TOTAL ENGAGEMENTS
167	COMPANIES ENGAGED
30	MARKETS COVERED

ENGAGEMENTS BY SECTOR



Financials	86
Consumer Discretionary	63
Information Technology	58
Consumer Staples	42
Health Care	34
Industrials	29
Real Estate	26
Communication Services	23
Energy	11
Materials	10
Utilities	5

ENGAGEMENTS BY REGION



Pan-Asia	137
North America	83
Europe	79
Australia	65
Rest of the World	23

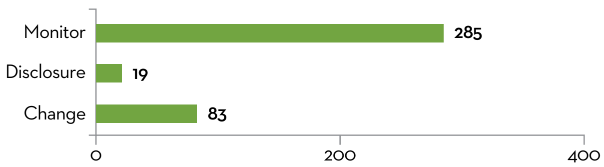
ENGAGEMENTS BY TOPIC

CLIMATE CHANGE ENGAGEMENTS WITH:

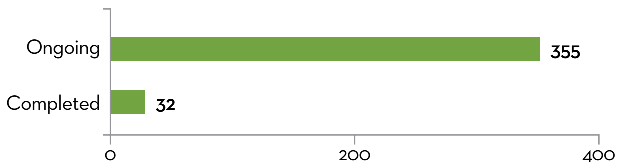
- Accenture
- adidas
- AGL Energy
- Aurizon Holdings
- Ausnet Services
- B3 SA – Brasil, Bolsa, Balcao
- Beazley
- Canadian National Railway Company
- Cisco Systems
- Coca-Cola Amatil
- Greencoat UK Wind
- Insurance Australia Group
- Leggett & Platt
- Lendlease Group
- L'Oreal*
- Mirvac Group
- Origin Energy
- PTT Exploration & Production
- Qantas
- Scor
- South 32
- Starbucks Corporation
- Suncorp Group
- Sydney Airport*
- Vail Resorts.
- Viva Energy Group

**See examples on previous page*

PURPOSE OF ENGAGEMENT



OUTCOME OF ENGAGEMENT



Source: Martin Currie. Engagement activity is for the period 1 January 2020 – 30 June 2020.

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ADVOCACY THROUGH PROXY VOTING ACTIVITY

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

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

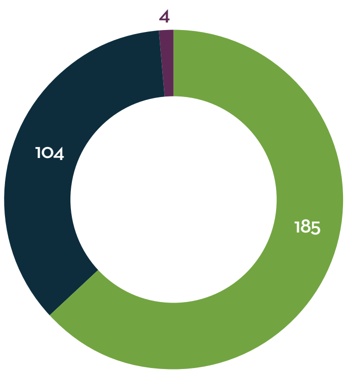
During the past half year, we have actively voted across our portfolios globally.

OVERVIEW: 1H 2020

PROXY VOTING

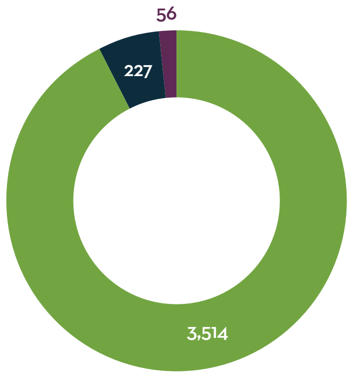
33	MARKETS COVERED
289	**TOTAL SHAREHOLDER MEETINGS**
104	SHAREHOLDER MEETINGS WHERE WE VOTED AGAINST
3,797	**TOTAL RESOLUTIONS:**
223	RESOLUTIONS VOTED AGAINST MANAGEMENT

TOTAL MEETINGS



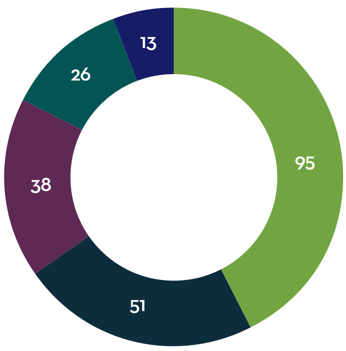
Voted in line with management	185
Voted at least once against management	104
Unvoted	4

TOTAL RESOLUTIONS



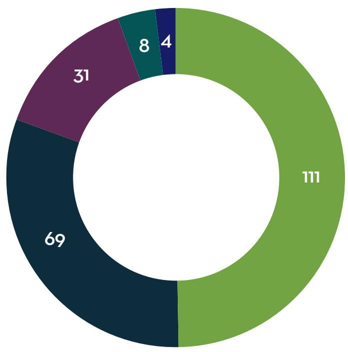
Voted in line with management	3,514
Voted at least once against management	227
Unvoted	56

RESOLUTIONS VOTED *AGAINST* BY PROPOSAL TYPE



Director related	95
Governance & Control	51
Compensation	38
Business matters	26
Other	13

RESOLUTIONS VOTED *AGAINST* BY REGION



Pan-Asia	111
Europe	69
North America	31
Australia	8
Rest of the World	4

Source: Martin Currie. Engagement activity is for the period 1 January 2020 – 30 June 2020.

ADVOCACY THROUGH PROXY VOTING ACTIVITY

VOTING THEMATICS

The second quarter of the year is traditionally the peak of the annual proxy season in Europe, the US and Asia. In many cases physical distancing rules meant that legislation had to be rushed through to allow virtual AGMs – something that investors generally have been wary of given the risk of reduced accountability. That said, the season appears to have passed relatively smoothly. In our experience, companies have been very open to engagement and very responsive in the run-up to the meetings.

For this quarter, the voting has been dominated by director elections more than anything else, and we have been paying close attention, in particular, to the nomination process including how this promotes increased diversity on boards. In our discussions we have tried to gain an understanding of the process and the general approach. In some cases, this has resulted in us voting against the chair of the nomination committee where we have particular concerns.

VOTING AGAINST DIRECTOR ELECTIONS TO PROMOTE BETTER DIVERSITY

In the case of **Minth**, the Chinese auto parts manufacturer, we were concerned about the process to appoint a new chairperson to the board of the company and the close links to the former chair and founder of the group.

We engaged with the company and the nomination committee chair on this and set out our concerns about the lack of independence and the process governing the appointment. We felt that on this occasion the company would be better served with an independent chair.

As such, we voted against the appointment of the new chairperson.

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NEW SEC GUIDELINES CREATE CONCERN

An important recent regulatory development in the proxy space has been the Securities and Exchange Commission (SEC) approval of final new rules on proxy voting advice. The main target of the SEC's overhaul is proxy advisor firms themselves, but the ruling also provided guidance for investment managers, who will now be expected to wait to cast their votes until after they have given the issuer a chance to respond to the proxy advisor's recommendation.

We are concerned that this ruling could undermine the independence of proxy advice and could prolong the voting process. We are in the process of reviewing our own proxy voting procedures to identify any adjustments that we may need to make on the back of this change.

LOOKING TOWARD THE POST-COVID-19 WORLD

While remuneration has also continued to be a theme through the last quarter, the COVID-19 crisis has seen many CEOs at North American and European companies take salary and/or bonus cuts in sectors that have experienced heavy layoffs.

As we move into the recovery phase, the focus will shift to the level of discretion used by remuneration committees, any one-time adjustments and any changes to in-flight awards – but this is more likely to be a theme for next year's voting.

Resilience will be a key focus going forward and there is a question about whether ESG-related pay metrics will gain more prominence to promote corporate resilience and maintain the social contract.

> **RESILIENCE WILL BE A KEY FOCUS GOING FORWARD AND THERE IS A QUESTION ABOUT WHETHER ESG-RELATED PAY METRICS WILL GAIN MORE PROMINENCE TO PROMOTE CORPORATE RESILIENCE AND MAINTAIN THE SOCIAL CONTRACT.**

REACHING FORWARD

The stewardship landscape continues to evolve rapidly. Asset owners are increasingly focused on how their capital is being used, while the regulatory environment is also moving at pace – most notably in Europe. Given stewardship is central to our approach, we are excited by this evolution.

In this edition of STEWARDSHIP MATTERS, we have featured our approach to climate change, a key systemic issue for our clients and for our portfolios. Our future editions will feature more detail on some of our initiatives on the other topics we highlight in the introduction – in particular our proprietary work on ESG scoring, SDG mapping and modern slavery – and we will use our global investment reach to explore the key emerging issues that we believe are most relevant to our clients.

OUR FUTURE EDITIONS WILL FEATURE MORE DETAIL ON SOME OF OUR INITIATIVES ON THE OTHER TOPICS WE HIGHLIGHT IN THE INTRODUCTION – IN PARTICULAR OUR PROPRIETARY WORK ON ESG SCORING, SDG MAPPING AND MODERN SLAVERY.

OUR RECENT STEWARDSHIP AND ESG INSIGHTS

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

- **Global Emerging Markets – Through the ESG Lens**

  Emerging markets have made great strides when it comes to ESG over the years, and there is now a constellation of companies which can go head to head with their developed-market peers.

  1 April 2020

- **Stewardship Annual Report: The power of engagement**

  Our Stewardship Annual Report details the extensive engagement and voting activity on behalf of our clients, collaborative work with external parties, and our continued development of our in-house ESG expertise:

  22 April 2020

- **Podcast: Emerging Markets – our ESG advantage**

  Colin Dishington, Portfolio Manager for Global Emerging Markets, explains why ESG factors are crucial to investing in emerging markets, how Martin Currie has achieved its industry-leading position, and the ways our approach continues to evolve.

  29 April 2020

- **Podcast: Sustainable investing through the crisis**

  Zehrid Osmani, Head of Global Long-Term Unconstrained, outlines why sustainability and Environmental, Social and Governance (ESG) issues remain vitally important.

  4 June 2020

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MARTIN CURRIE

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**

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