

SHAREHOLDERS' RIGHTS DIRECTIVE (SRDII) REPORT TO 31 DECEMBER 2022

FTF Martin Currie UK Smaller Companies Fund



MARTIN CURRIE
A Franklin Templeton Company

MARCH 2023

1. Introduction

As an active manager of long-term concentrated portfolios stewardship sits at the heart of our approach to investment. We are motivated by a belief that this both helps protect and enhance the risk-adjusted return on our clients' capital. Ultimately, we want to ensure that the interests of company managements are aligned with their shareholders (our clients), and that the former take this into account when making decisions. We place a particular emphasis on governance, strategy and capital allocation, and pay significant attention to material 'sustainability' (environmental or social) issues that might influence long term value creation. Our stewardship activity manifests itself principally in monitoring and engagement - both privately or in collaboration with other investors - and our voting activity. With regards to the former we build strong relationships with investee companies, ensuring that our engagement is not constrained by our clients' minority-shareholder status. Nonetheless, we will join collaborative efforts, particularly when deemed likely to be more efficacious than acting alone. Our voting policy is determined by our internal guidelines, with an expectation that companies will comply with (local) best practice or explain why this is not the case. Where clients assign us proxies we will vote with their best interests in mind. All resolutions are reviewed in this context, with the responsibility for initial proposals residing with the investment team with oversight by our independent Stewardship, Sustainability & Impact team. As well as our internal research, we utilise the services of proxy advisor Institutional Shareholder Services (ISS), which provides its own research on resolutions presented for company meetings. We use their platform to instruct the votes. Our governance and oversight documents, which apply across all regions, are reviewed annually, to ensure that we stay abreast of developments and best practice.

2. Portfolio commentary - Martin Currie UK investment team

How do the main elements of the investment strategy contribute to the medium to long-term performance?

The Martin Currie UK Equities Team (the 'Team') expects long-term performance of its investment strategies to be driven primarily by stock selection decisions made by the portfolio managers. Stock selection is the result of an active and disciplined investment approach, based on bottom-up fundamental research and stock valuations.

The Team's bottom-up approach includes a rigorous financial analysis, as well as the consideration of governance and sustainability factors, in order to assess the attractiveness of an investment idea and analyse the risk/reward profile of a company. The team seeks to identify financially robust companies with attractive long-term prospects, sustainable business models, clear ownership and sound governance structures aligned with stakeholders. Any potential exposure to sustainability and governance risks is examined as this may impact long-term performance. Actions taken by management to address those risks, if any, are also assessed. The investment approach followed by the team also involves a notable degree of engagement with company management on key topics, and the consistent exercise of proxy voting aimed at influencing and representing what the team views as being in the best long-term interest of shareholders.

The portfolio is managed in accordance with the investment objectives and policies, as detailed in the policy documentation. As an integral part of the investment process, investment goals, eligible/permissible instruments, exposure to market cap segments and cash limits, are all captured and reflected in the fund during the portfolio construction phase. Moreover, portfolio holdings and characteristics are continuously monitored by the Team, as well as Martin Currie's investment risk oversight function, ensuring that all portfolio holdings and characteristics are in-line with the IMA guidelines.

How is the Fund managed in-line with the Prospectus?

The investment team maintains a strong understanding of their mandates and prospectus investment guidelines, and they are the first line of defence in our 'three lines of defence' model. The second line of defence is our Risk and Compliance team which uses a monitoring system called Bloomberg CMGR to code investment guidelines where possible. The third line of defence is internal audit which conducts periodic review and assessment of mandate compliance controls within the first and second lines. Portfolio managers receive regular daily portfolio positioning data generated from Bloomberg AIM, allowing them to monitor compliance with fund investment restrictions.

2.1. Commentary on specific Fund investments

Our aim when producing our proprietary governance and sustainability risk ratings is to provide fundamental insight into material ESG issues that can influence long-term returns for companies, to assess where the companies in which we invest can have a material impact on key common ESG issues such as climate change, human rights, cyber security and workers' rights and to highlight potential areas for engagement. The level of research and engagement varies depending on region, sector and, critically, the materiality of the issues in question. The overarching aim is to assess the extent to which ESG factors will contribute to, or detract from, the long-term value creation of a firm.

The top five holdings in the fund on an absolute basis and their respective Governance and Sustainability risk ratings are as follows:

| Stock name | Sector | Fund weight % | Index weight % | Active Weight % | Governance Risk Rating | Sustainability Risk Rating |
|------------------|-------------|---------------|----------------|-----------------|------------------------|----------------------------|
| Alpha Group | Financials | 4.70 | — | 5.12 | 1.60 | 2.70 |
| Foresight | Financials | 4.41 | 0.28 | 4.09 | 3.15 | 1.40 |
| Gresham | Financials | 3.95 | — | 3.76 | 2.30 | 1.40 |
| RWS | Industrials | 3.81 | — | 4.16 | 2.70 | 2.55 |
| Big Technologies | Technology | 3.69 | — | 3.55 | 2.45 | 2.40 |

Source: Franklin Templeton as at 31 December 2022. FTF Martin Currie UK Smaller Companies fund. Numis Smaller Companies (Ex. IT) Index used as benchmark.

We use a range of quantitative and qualitative inputs to identify each company's potential exposure to ESG risks as well as its management of ESG risks. This ESG risk analysis helps us form a company specific rating for Governance and Sustainability (environmental and social) respectively. We apply a risk rating from 1 (low risk) to 5 (high risk).

Below we summarise the key ESG risks across the top five holdings and provide further commentary from the portfolio where we feel warranted.

Alpha Group is a global provider of financial solutions for corporate and institutional clients, operating across currency management, global accounts, and mass payments. The business has delivered exceptional growth since IPO in 2017 and central to our case was understanding the culture and alignment to sustain future growth at historical levels and understanding impact of dilution from potential share awards. Thus, the key ESG risks from our perspective relate to governance as the business rates well both environmentally and socially. As the group continues to grow in size, we would welcome the addition of new members to the board.

Foresight is a sustainability-led alternative asset manager with £12.3bn of AUM. We first invested in Foresight Group at IPO in February 2021 and management have more than delivered on their intended strategy since then. The Company was admitted to the premium listing segment of the LSE FTSE SmallCap index at IPO and co-founder Bernard Fairman was appointed as permanent Executive Chair. The combined roles of Chair and CEO represent a deviation from best practice in the UK market. However, given that the Company recently completed its IPO, qualified support for this structure is temporarily considered warranted. Given the business's focus on limiting global temperature increase and its robust sustainability committee, Foresight is a leader in social and environmental metrics.

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. It is not known whether the stocks mentioned will feature in any future portfolios managed by Martin Currie. Any stock examples will represent a small part of a portfolio and are used purely to demonstrate our investment style.

Gresham House is an alternative asset manager with a specific focus on forestry, new energy and sustainable infrastructure, and housing. The solutions Gresham House provides are at the heart of the secular tailwinds driving sustainability on a global basis. Given the secular tailwinds, we believe the Environmental pillar of ESG is more of an upward risk for the business versus a downside risk. Gresham House's focus on housing provides the business with a strong social foundation. For instance, they launched the Gresham House Residential Secure Income scheme, which aims to target investors looking to access the under addressed UK shared ownership residential property market and aims to deliver a quantifiable social impact. We would encourage the business to continue to drive board gender diversity as it has been doing over the last several years.

RWS is a world-leading provider of language translation services operating across Content, AI, and IP divisions. Listed on the AIM, RWS is actively progressing towards achieving the governance requirements expected of a FTSE 250 company, a favourable improvement from our perspective. In 2020 RWS joined the United Nations Global Compact Initiative, a voluntary leadership platform for the development, implementation and disclosure of responsible business practices. The Group's commitment to sustainability is channelled through specific goals which underpin its actions, operations and reputation and are aligned with the United Nations' Sustainable Development Goals (SDGs). The Group is reviewing its climate change impact and going forward it is its intention to develop a carbon emission reduction plan using a science-based target aligned with the Science Based Target initiative (SBTi) criteria and submit the target to the SBTi for official validation. Initially the Group is aiming to reduce carbon emissions by 55% by 2030, using FY22 as a baseline, steps that we view favourably.

Big Technologies is a £650m market cap. business that has the potential to be the world leader in remote electronic monitoring solutions (hardware and software) used to monitor persons in the criminal justice and health sectors. The company joined the market in 2021, with CEO and founder Sara Murray OBE, not selling any shares and retaining just over 25% of the company. All products are designed and manufactured in the UK and the company has an installed base of monitoring products around the world, winning national contracts in many countries including Australia, New Zealand and Columbia. Business practice is strong from both an environmental and social standpoint, with the group's core propositions primarily assisting authorities in delivering adult social care. The company has made steps to improve its board composition with an additional non-executive director being named in January 2022 and Sara Murray's skin in the game represents significant owner/operator alignment.

3. Fund review of turnover and turnover costs

| | | |
|--|------------|---|
| Annual turnover % | 16.50 | <i>Lesser of (purchases or sales)/Average fund size x 100</i> |
| Portfolio transaction costs (GBP) | 764,397.42 | <i>Total brokerage and execution charges</i> |

Source: Franklin Templeton as at 31 December 2022. FTF Martin Currie UK Smaller Companies fund. Numis Smaller Companies (Ex. IT) Index.

4. Proxy voting

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

Where clients assign us the proxies Martin Currie's starting point is to act in the best interests of our clients. Our voting decisions are informed by both our own internal work and that of our proxy advisor and specialist governance advisor. We assess voting matters on a case-by-case basis, taking into account a company's circumstances but are guided by our over-arching principles on good corporate governance. The assessment is carried out by the member of the investment team with responsibility for the stock in conjunction with our independent Stewardship, Sustainability & Impact team. We recognise that regulatory frameworks vary across markets and that corporate governance practices vary internationally. Where the recommendations of our advisors, both for and against proposals, are supported by our guidelines and our internal research we will generally vote in accordance with these recommendations.

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4.1 Significant votes

| Company Name | A.G. Barr | Devolver | Hotel Chocolat |
|---|---|--|--|
| Company descriptor | Consumer goods business | Video game publisher | Confectionery business |
| Issue | Remuneration policy | Restricted stock plan | Director election |
| Governance, Environmental or Social | Governance | Governance | Governance |
| Objective | We aim to ensure that the remuneration policy is in line with industry best practice. | We aim to ensure that director incentives are in line with industry best practice. | We aim to reduce potential for conflicting interests amid board members. |
| Scope and process (of relevant engagement) | There was no further direct engagement but we will closely monitor the FY23 update. | We will use this outcome to help inform our vote at the 2023 AGM on issues surrounding remuneration, and continue to monitor changes to the remuneration policy. | The Company is aware of this conflict and as a result has sought to resolve the issue. Andrew transferred his shareholdings to the Group for a consideration of £1, and does not retain any beneficial interest in the venture. The Group acquired Rabot's inventories and other assets, as well as liabilities which included an outstanding loan amount owed to Andrew Gerrie totalling £744,249 which the Group settled through the issue of 203,903 new ordinary shares of 0.1 pence each. |
| (Voting) outcome | We viewed the re-based LTIP incentives as insufficiently stretching having re-based as a result of Covid-19 pandemic. In addition, we viewed certain metrics such as revenue as inappropriate. Thus, we voted against management. | We voted against management due to their extension of the 2022 LTIP to NEDs and its lower performance hurdles | We abstained on the basis that Andrew Gerrie, the NED on the Audit Committee was not independent as he is a shareholder in Rabot 1745 Ltd, in which the Group has a joint venture with for Hotel Chocolat beauty range. |

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5. Conflicts of interest

A fundamental ethical principle of Martin Currie is to pay due regard to the interests of our clients and to manage potential conflicts of interest fairly. We take a holistic view of conflict risk and conflict mitigation and have policies, systems and controls in place to identify such potential conflicts between ourselves and our clients, as well as between one client and another, to achieve consistent treatment of conflicts of interest throughout the business. We aim to manage any conflicts of interest that may arise and to ensure, as far as practicable, that such conflicts do not adversely affect the interests of our clients. A robust conflict management process is in place which is owned by the Executive Risk Group (ERG). Activities which could create a potential conflict of interest are recorded on the conflicts register and are reviewed by the business regularly to ensure that controls in place remain adequate to mitigate any risk of a conflict arising. The output of this review is reviewed by the ERG. There were no conflicts of interest in relation to this fund during 2022.

6. Securities lending policy

We do not participate in security lending for this fund.

Important information

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

Risk warnings – Investors should also be aware of the following risk factors which may be applicable to the strategy shown in this document.

- Investing in foreign markets introduces a risk where adverse movements in currency exchange rates could result in a decrease in the value of your investment.
- This strategy may hold a limited number of investments. If one of these investments falls in value this can have a greater impact on the strategy's value than if it held a larger number of investments.
- Smaller companies may be riskier and their shares may be less liquid than larger companies, meaning that their share price may be more volatile.



MARTIN CURRIE
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