

Stewardship refers to how we manage and protect our clients' assets by monitoring investee companies. This includes engaging with company management on strategy, performance, governance, capital structure and risk management. We apply our approach on stewardship to all companies that we invest in, in Japan and all other markets, on behalf of our clients.

This document outlines how Martin Currie applies the seven Principles of the Japanese Stewardship Code ('The Code') and discharges its responsibilities under the code. The Code was adopted by the Financial Services Agency (FSA) in February 2014 and updated in 2017

## Principle 1

**Institutional investors should have a clear policy on how they will fulfil their stewardship responsibilities and publicly disclose it.**

As an active manager of long-term concentrated portfolios, Martin Currie takes stewardship very seriously. 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 make sure 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, but also pay significant attention to 'sustainability' issues, including those of an environmental and social nature.

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 try to build strong relationships with investee companies, ensuring that our engagement is not constrained by our clients' minority-shareholder status. Nonetheless, we will continue to join collaborative efforts, particularly when deemed likely to be more efficacious than acting alone. As for our voting policy, this 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. When voting against management on material issues we endeavour to inform them of our rationale for doing so in advance of the vote so as to allow due time for a response. All resolutions are reviewed in this context, with the responsibility for initial proposals residing with the investment team. Following this, proposals are signed off by our independent Head of Stewardship and ESG, David Sheasby.

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.

## Principle 2

**Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.**

We make significant efforts to identify potential conflicts of interest and have detailed management policies in place to mitigate these should they arise. These policies are owned and signed off by our Executive and shared with our clients. In addition, we disclose to our clients the nature and source of conflicts and our processes and controls around them, to ensure that risks of damage to the interests of a client will be mitigated. The types of scenarios covered by our conflicts of interest policy are:

- Where the interests of Martin Currie conflict with those of a client
- Where the interests of one Martin Currie client conflicts with interest of another client
- Where the interests of an employee of Martin Currie conflicts with the interest of a client



One specific conflict relates to investment in the shares of our parent company Legg Mason. In order to manage this conflict, our policy is that Martin Currie does not invest client portfolios in shares of Legg Mason.

Our policy places responsibility on all staff to identify and report any potential conflicts. These are reported to our compliance team and placed on our conflicts register. There is an established process for managing each conflict, with an owner assigned to each and controls put in place and regularly reviewed to ensure that they remain relevant and effective.

We principally manage money for institutional investors – many on a segregated basis – who all receive our policy, but we do not publish this on our website, as we do not believe it is appropriate or beneficial to share with a wider audience. The policy contains sensitive and confidential information and full public disclosure may therefore not be in our clients' best interest.

David Sheasby, Head of Stewardship and ESG, reports into our Head of Investment, and is independent of both the investment and client servicing teams, which helps guard against any potential conflicts. We maintain a conflicts register and assess our controls on a quarterly basis. We also provide our staff with regular training in 'conflict management' to ensure company-wide clarity about our policies.

### Principle 3

**Institutional investors should monitor their investee companies so that they can appropriately fulfil their stewardship responsibilities with an orientation towards the sustainable growth of the companies.**

As bottom-up investors we pay very close attention to developments at investee companies, using publicly available information, third-party research and direct communication. We hold regular meetings with management of the companies in which we invest our clients' money, to discuss strategy, sustainability and performance, and to review management processes against best practice. As mentioned, we actively engage with investee firms on issues put to shareholder vote, especially in instances where we disagree with the resolutions tabled.

Where a company chooses not to comply with the Japanese corporate governance code we will consider the explanation provided in the context of the particular circumstances for that business. When further information is required, or the explanation is unclear, we will seek to engage with the company.

We aim to establish an open dialogue with investee companies. Our in-depth research, which is refreshed at least annually, regular contact with management of companies we invest in, and assessment of resolutions put to shareholder vote, help us identify potential issues or changes at investee companies. As long-term investors we also want companies to consult with us when there are material changes and issues which impact long-term shareholder value, such as strategy, capital structure, governance and wider sustainability matters.

We aim to engage with companies in an informed, constructive and discrete manner. We adopt a case-by-case approach to engaging on material governance, environmental or social issues. We will engage with management in an appropriate manner and make a record of this engagement. Under certain circumstances – when we deem it to be in the best interest of our clients – we will agree to being made insiders in investee companies for a limited period of time, but we expect the latter to seek our explicit approval beforehand and to exercise due caution in what information they share with us during this process. Where we do become an insider, we follow the procedures in our 'Insider Dealing and Market Abuse' policy.

We have an internal research database where we also record our engagement and voting activity and ISS, our proxy voting provider, publishes our voting records on their platform. We also publish our voting record on our website.



## Principle 4

**Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.**

We want to establish an open dialogue with investee companies. Our in-depth research, which is refreshed at least annually, regular contact with management of companies we invest in, and assessment of resolutions put to shareholder vote, help us identify potential issues or changes at investee companies. As long-term investors we also want companies to consult with us when there are material changes and issues which impact long-term shareholder value, such as strategy, capital structure, governance and wider sustainability matters.

- We aim to engage with companies in an informed, constructive and discrete manner. We adopt a case-by-case approach to engaging on material governance, environmental or social issues. We will engage with management in an appropriate manner and make a record of this engagement. Where we have identified an issue we will endeavour to assist investee companies with practical, constructive input. Where we have particular concerns, where our normal engagement process does not yield a satisfactory response and where it is necessary to protect our clients' interests, we will consider escalating our stewardship and engagement activities. Circumstances include situations where minority shareholder rights are being compromised, where we have concerns about board structure, or where we have concerns about sustainability factors that may compromise a company's future earnings potential.
- We will assess the most appropriate course of action on a case-by-case basis which may include engaging with independent board members, the senior independent director or the chairman of the board.

We are willing to act in concert with other investors when this is in our clients' best interest. For example, we are an active participant in a number of Principles for Responsible Investment (PRI) collaborative engagements. As well as leading engagements on targeted companies in certain cases, we will also set the terms and targets for the engagements. Our decision to pursue a collaborative effort will, among other things, be a function of: the particular nature of the issue; the likely efficacy against acting privately; and the motivations of the other investors. Our focus here will always be on issues that are material and thus could have an impact on long-term shareholder value.

## Principle 5

**Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist: it should be designed to contribute to sustainable growth of investee companies.**

We endeavour to vote on all our clients' shares when this responsibility has been delegated to us. Our protocol is set out in our Governance Oversight of Investee Companies and Proxy voting policy. Our policy is not to automatically support the management and we will consider to what extent the proposals are in line with our policy. We focus on the extent to which managers of the business have been good stewards of shareholder capital and in particular we will pay attention to:

1. Board structure and election of directors
2. Directors' remuneration
3. Audit and appointment of auditors
4. Reporting and financial disclosure
5. Technical issues – particularly shares without pre-emption rights
6. Capital allocation in the interests of all shareholders



Our voting policy and process is overseen by our head of stewardship and ESG. As mentioned, we employ Institutional Shareholder Services (ISS) as our proxy voting advisor. Although their recommendations are typically in line with our corporate governance and proxy voting guidelines, we do not delegate responsibility for deciding how to vote our clients' proxies – these decisions are all made on a case-by-case basis by the investment team in conjunction with the head of stewardship and ESG.

As already outlined, we encourage the companies in which we invest to focus on delivering sustainable shareholder value. This means management should consider the long-term risks and opportunities presented by environmental, social and governance (ESG) factors. How the company behaves in this respect will inform our voting decisions. When voting against a resolution, we seek to inform management of our reasons for doing so before the vote and will engage with the company where appropriate.

We disclose our voting records on our website one quarter in arrears. Where clients request it, we will also provide a reason for each vote against management. Martin Currie does not provide clients with a stock lending service. Should they want to lend their stock, they have to make their own arrangements, and assume responsibility for calling back their shares if they wish to exercise their voting rights.

## Principle 6

**Institutional investors in principle should report periodically on how they fulfil their stewardship responsibilities, including their voting responsibilities to their clients and beneficiaries.**

Transparency is critical to Martin Currie and this includes communicating stewardship activities. Our quarterly client reports include a section on ESG (often encompassing voting information) and we produce articles on our engagement activities, which are sent to clients and posted on our website. In addition, when requested, we provide our institutional clients with detailed quarterly reports on our engagement and voting activities. We also produce an annual report on our Stewardship work for broader dissemination and this explains our approach, engagement and voting activities, and outlook on key themes.

We record all of our voting and engagement activity on our internal research database and publicly disclose a summary of our voting activities on our website. In an effort to make sure we do not depart from best practice we also solicit external assurance of our voting processes, in particular with reference to conflict management. This is under the SSAE16 framework.

Our collaborative engagement is predominantly carried out in conjunction with the PRI. The PRI set out a clear process and parameters around each engagement which provide a framework within which we operate.

## Principle 7

**To contribute positively to the sustainable growth of investee companies, institutional investors should have an in-depth knowledge of the investee companies and their business environment and skills and resources needed to appropriately engage with the companies and make proper judgments in fulfilling their stewardship activities.**

As a specialist equity house, knowledge, skills and resources are central to our investment process. Our experienced Japanese equity team have built up a deep knowledge and understanding of the companies in the Japanese market. We undertake extensive qualitative research which facilitates a constructive dialogue with the companies that we invest in on behalf of our clients.



We adopt a case-by-case approach to engaging on material governance, environmental or social issues. We will engage with management in an appropriate manner and make a record of this engagement. Where there are positive steps that could be taken to improve corporate governance practices we will aim to assist companies in an appropriate manner

We publish a summary and highlights of our global stewardship activity in our stewardship annual report which is also published on our website.

## CONTACT



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