

STEWARDSHIP



MARTIN CURRIE

A Legg Mason Company

FOR INSTITUTIONAL, PROFESSIONAL AND WHOLESALE INVESTORS ONLY



THE POWER OF ENGAGEMENT

ANNUAL REPORT 2020

REPORT SUMMARY

HIGHLIGHTS IN 2019

- Highest possible (A+) rating awarded by the PRI* across all three categories
- Winner of the ICGN Global Stewardship Disclosure Award 2019
- Implementation of proprietary ESG Ratings
- Extensive engagement and voting activity on behalf of our clients
- David Sheasby, Head of Stewardship and ESG, appointed to the Investment Association Stewardship Committee
- Research and thought leadership shared with clients and industry

ENGAGEMENT ACTIVITY

178
companies engaged with (private)

8
companies engaged with (collaborative)

VOTING ACTIVITY

665
shareholder meetings

6,931
resolutions

PRI RATINGS HISTORY

Year	Strategy	Module			Reporting period
		Integration	Active Ownership		
2019	A+	A+	A+		1 Jan 18 – 31 Dec 18
2018	A+	A+	A+		1 Jan 17 – 31 Dec 17
2017	A+	A+	A+		1 Jan 16 – 31 Dec 16
2016	A+	A+	A		1 Jan 15 – 31 Dec 15
2015	A+	A	A		1 Jan 14 – 31 Dec 14

ACTIVE PARTICIPANTS IN COLLABORATIVE ENGAGEMENT INITIATIVES



TAX RESPONSIBILITY



WATER RISK



CYBERSECURITY

*PRI - Principles for Responsible Investment. Engagement and voting activity is for the period 1 January 2018 to 31 December 2018.

FOREWORD

from Garth Jones
Group Chief Financial Officer
AIA Group

It is very fitting that Martin Currie has chosen 'The Power of Engagement' as the theme for its 2020 Annual Stewardship Report, since this has been a key element to the constructive dialogue between Martin Currie and AIA for a decade. AIA is the largest publicly listed pan-Asian life insurance group and we believe that we have a vital role to play in helping the many millions of people we serve to embrace our brand promise of Healthier, Longer, Better Lives, as well as driving real change towards a more sustainable future. ESG issues are important to AIA, and we have consistently focused on delivering real value to both our customers and shareholders, while also playing a leading role in the social and economic development of the communities that we serve, either directly or indirectly. We view these two aspects as being symbiotic and self-amplifying.

A core part of achieving our ambition comes from understanding the views of all our stakeholders, including continuous engagement with our investors. As a shareholder with a genuine long-term investment horizon, Martin Currie has been consistently rigorous in its interactions with us since first investing at the company's IPO in 2010. Our conversations often have a strong focus on corporate governance, specifically exploring remuneration, incentivisation and board composition. Disclosure has also featured prominently, with insight sought and shared as to how AIA's strategic commitments align with the United Nation's Sustainable Development Goals (SDGs). In part, as a result of our dialogue, AIA's ESG report focuses on the SDGs where we have the greatest ability to drive change.

We believe the mixture of constructive challenge, informed opinion and collegiate enquiry with which Martin Currie has approached our conversations over the last decade has established an extremely positive template for wider industry discussion. Quite simply, it demonstrates the way in which company management and shareholders can engage constructively together to help address the ESG issues pertinent to creating real, long-term, sustainable value. This point is underlined by the many examples of active ownership and engagement referenced in this report.



Garth Jones
Group Chief Financial Officer
AIA Group

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WE BELIEVE THE MIXTURE OF CONSTRUCTIVE CHALLENGE, INFORMED OPINION AND COLLEGIATE ENQUIRY WITH WHICH MARTIN CURRIE HAS APPROACHED OUR CONVERSATIONS OVER THE LAST DECADE HAS ESTABLISHED AN EXTREMELY POSITIVE TEMPLATE FOR WIDER INDUSTRY DISCUSSION.

THE POWER OF ENGAGEMENT

The investment industry is at a critical juncture. We have reached a point where it is no longer possible, or acceptable, to think of our actions simply defined by the binary outcomes of financial risk and return.

As the pressures of human activity on our planet become increasingly impactful, whether this is through pandemic risk, climate threat or biodiversity loss, we, as asset managers, must find pathways towards reaching a more sustainable economic, societal and environmental model.

For us, fiduciary duty in this sense therefore encompasses a much wider set of responsibilities. It requires aligning our clients' capital with the kind of corporate behaviours that will create long-term sustainable value by considering the welfare of multiple stakeholders, and not just maximising short-term shareholder value: a belief which is also aligned to our overall purpose as a business of 'Investing to Improve Lives'.

This, in our view, is most effectively realised through an active management approach: by fully integrating ESG analysis into the investment process and by using one of the most powerful tools we have at our disposal – engagement.

BUILDING PARTNERSHIPS

By developing strong relationships with companies, we are able to encourage greater transparency, ask more insightful questions and ultimately, gain greater insight into the company's governance. Crucially, though, we can also offer observations of strong practices in other markets. Or, by leveraging our long-standing connections with other management teams, share their experiences.

UNDERSTANDING TRUE VALUE

Engagement allows us to see a company beyond its financial statements. To understand first-hand how a business is evolving, how it is impacted by changes in the external environment and how it can create value for all its stakeholders. In this way, we can identify the non-financial, or more accurately, the 'not-yet-financial' factors that will determine its ability to generate sustainable returns over the long term.

BEING A BUSINESS OWNER

We see ourselves as owners of the businesses we are invested in, not just holders of the shares. As such, ESG analysis is embedded in the day-to-day work of the people who make the investment decisions. It means we have an in-depth understanding of how each company works, its value drivers and its most material risks. So when we talk to boards, we can provide an invaluable external lens, helping to guide them towards a more sustainable business.

KEY FACTS

- Stewardship at the core of our approach
- ESG analysis integrated into the investment process
- Integration carried out by the analysts and portfolio managers who know the companies best
- Implementation overseen by David Sheasby, Head of Stewardship and ESG
- Highest possible (A+) rating from the PRI across all three categories
- Commitment to the 2020 UK Stewardship Code
- Signatory to Principles for Responsible Investment (PRI) since 2009
- Signatory to Japanese and Korean Stewardship Codes
- Member of the International Corporate Governance Network (ICGN)
- Supporter of the International Integrated Reporting Council (IIRC)

STEWARDSHIP YEAR IN REVIEW

SEISMIC MOVES

At the time of writing, the massive societal and economic impacts of the COVID-19 outbreak have yet to be fully understood. But looking back at 2019, the tectonic plates of the investment world were already noticeably shifting. As policy makers searched for economic and legislative responses to climate change, we witnessed heightened levels of activism, as well as growing investor consciousness and action on sustainability and stewardship issues. Elsewhere, there were further signs of the evolving role of the corporate model with the landmark statement in August from the Business Roundtable (a group which consists of CEOs from over 180 leading US companies) formally abandoning the long-held concept of shareholder primacy in favour of broader stakeholder accountability.

CLIMATE CONCERN

Against this backdrop, 2019 was the second-hottest year on record. Further extreme weather events occurred across the globe, culminating in the unprecedented and devastating Australian bush fires at the end of the year and the start of 2020. It was perhaps unsurprising therefore that climate change remained the dominant theme across the ESG universe over the 12 months.

In September, the 'PRI in Person' conference showcased the release of its updated Inevitable Policy Response (IPR) forecast. The research concluded that meeting the ambitions of the Paris Agreement will entail a sharp and disruptive policy response in the early to mid-2020s with significant consequences for financial assets.

By December, the stage was set to agree the final operational guidelines of the Paris Agreement at the 25th annual UN Climate Change Conference (COP25). However, the conference ended without agreement in a number of areas and a weakened statement overall, which potentially leaves too much on the agenda for COP26 (now rescheduled for 2021) to make meaningful progress.

A FOCUS ON OUTCOMES

2019 was also notable for the continuing build out of regulatory and policy frameworks across the world.

In an attempt to raise ambitions, the revised UK Stewardship Code set out a renewed focus on outcomes of activities (as opposed to policy and process). In addition, there was a development of corporate reporting requirements in markets such as Hong Kong, where the stock exchange has set out ambitious requirements, and in Australia where the Modern Slavery Act has now come into force.

Meanwhile, the Japanese regulator, the FSA, published an updated draft of its stewardship code. This new version effectively sets out enhanced ESG, stewardship and voting

disclosure recommendations and puts pressure on Japanese asset owners to monitor their managers to make sure that they're 'walking the talk' on stewardship.

Finally, in contrast to the policy inertia of COP25, the European Commission launched its much-anticipated Green Deal for the European Union (EU). Through a framework of wide-reaching regulation and legislation, the transformational initiative commits the region to climate neutrality by 2050 and a 50%-55% cut in emissions by 2030.

OUR YEAR IN 2019: ENGAGEMENT, INFLUENCE AND PROGRESS

As the ESG landscape continued to rapidly adjust, we maintained our efforts to be ahead of this change, and where possible, help influence it. I was therefore delighted to join the Investment Association's Sustainability and Responsible Investment and Stewardship Committees. The appointments reflect Martin Currie's long-standing commitment to ESG and acknowledge the valuable input we can bring from an asset management perspective. Similarly, I have been part of the PRI's Stewardship Committee since 2017 and this year brought further engagement in setting the agenda for what will be the influential 'Active Ownership 2.0' document. Another important part of our industry involvement was our company-wide discussion on how we engage on climate-related initiatives, which has led to our 2020 commitment to supporting Climate Action 100+ (CA100+).

2019 also marked further significant evolution in our ESG processes. Specifically, we developed our analytical framework to include a ratings system composed of two key elements – Governance and Sustainability. The former consistently scales board quality, management quality, remuneration, capital allocation and culture; the latter forms comparative assessments of the extent to which companies integrate material sustainability factors into their business models and strategies. Added to this has been an increased focus on scenario analysis to manage climate-related risk and opportunities as part of the transition to a lower carbon economy.

Lastly, we were once again delighted to be awarded the top (A+) rating from the PRI across all categories – Strategy & Governance, Integration and Active Ownership. In addition, we were also extremely proud recipients of the prestigious ICGN Global Stewardship Disclosure Award, specifically recognising our ESG disclosure and reporting credentials.



David Sheasby

Head of Stewardship and ESG

ESG – AN INTEGRAL ELEMENT OF STEWARDSHIP

WHAT IS IT?

ESG refers to a set of factors that may impact the ability of companies to generate sustainable returns over the long term. It involves understanding the governance structures and culture of a company (and its broader social and environmental impacts), employing a broad view of changes taking place in the world and assessing the effect these can have on a company’s cash flows, balance sheet, reputation and, ultimately, corporate value.

WHY DO WE DO IT?

Stewardship is increasingly important for our clients and we engage with them to understand their needs and to ensure that we report our activities (on their behalf) effectively to them. As stewards of our clients’ capital we take a holistic view of investee companies, looking at all material information, whether quantitative or qualitative. There is compelling evidence that ESG factors influence returns over the long term, and therefore have to be incorporated by fiduciaries when assessing risks and opportunities. We leverage both our own analysis and that of external data providers.

HOW DO WE DO IT?

As bottom-up investors, our process starts at the company level. Once an idea has been identified, we subject it to rigorous fundamental analysis and peer review to decide whether it merits inclusion in our high-conviction portfolios. ESG analysis is embedded in this assessment, influencing key assumptions such as the cost of capital, revenues or costs and thus our estimate of a company’s intrinsic value. Our particular emphasis on governance stems from the belief that this is a fundamental determinant of long-term performance. Problems here are more often than not reflected in a company’s environmental and social track record, making it a reliable proxy for wider sustainability. In broad terms, we divide our process into three categories: identification, integration and active ownership. Responsibility for this work lies with the portfolio managers and analysts – the people who know the companies best. This way we can achieve true integration. Our process and the relationships with external data providers is overseen and managed by the Head of Stewardship and ESG.

OUR PARTICULAR EMPHASIS ON GOVERNANCE STEMS FROM THE BELIEF THAT THIS IS A FUNDAMENTAL DETERMINANT OF LONG-TERM PERFORMANCE.

OUR PROCESS

IDENTIFICATION

- Identify material ESG factors
- In-house industry frameworks used as a guide
- Understand the potential impact on returns

INTEGRATION

- Incorporation of key ESG factors into the investment case
- Consideration of business aspects likely to be impacted
- Financial modelling and portfolio construction

ACTIVE OWNERSHIP

- Monitoring and engagement of investee companies
- Private and collaborative engagement
- Proxy voting
- Disclosures and reporting

To explain more about our ESG process and rationale, we have written the following papers:

- *The value of ESG*
- *Accessing the true value of ESG*
- *The positive impact of ESG integration*

Available from our [website](#).

IDENTIFICATION

WHAT WE LOOK AT:

Below is a non-exhaustive list of some of the factors we may consider as part of our fundamental analysis. 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 of a firm.

Governance

We value transparency and clear, accountable governance structures, paying considerable attention to the extent to which a company demonstrates alignment with the interests of long-term investors.

-  Board leadership, diversity and independence
-  Management remuneration
-  Shareholder rights
-  Succession planning
-  Accounting and audit standards

Environmental

Knowing how a company identifies and manages potential environmental issues helps us to understand how it is preparing for changes to regulation and disclosure requirements.

-  Pollution
-  Water usage
-  Climate change
-  Energy efficiency
-  Resource management

Social

How a company treats its people, customers and other stakeholders, can give valuable insight into its culture – a good proxy for long-term business success.

-  Data protection and privacy
-  Equality and diversity
-  Community relations
-  Human capital management
-  Product safety and liability
-  Supply-chain management
-  Human rights

MATERIAL MATTERS

Materiality is a concept used frequently in this report. In simple terms, this refers to the strength of the relationship between an ESG factor and corporate performance. Some of this is common sense. For example, carbon risk is clearly more material to an oil & gas firm than it is to an IT-services business. Similarly, cybersecurity and data protection is likely to be more material to the latter than the former. In other instances, it may be less intuitive. To make the best use of our research time we have created hierarchies of the most material issues industry by industry. This way we can gauge whether managements are focusing on the right areas – an approach that is backed up by research showing a clear link between a firm’s integration of material sustainability issues and enhanced shareholder value (versus a less-discriminating approach). Once the most material issues have been isolated and analysed, the challenge is to translate this information into numbers in our modelling of key financial variables, such as the cost of capital, cash flow, turnover and capital expenditure.

THE OVERARCHING AIM IS TO ASSESS THE EXTENT TO WHICH ESG FACTORS WILL CONTRIBUTE TO, OR DETRACT FROM THE LONG-TERM VALUE OF A FIRM.

INTEGRATION

ESG factors are integrated into our fundamental analysis and decision-making process. We make both qualitative and quantitative assessments of issues deemed material to long-term performance, leveraging our proprietary industry frameworks to ensure that we focus on the most relevant issues/indicators in each industry.

EXAMPLES OF ESG INTEGRATION FOR THE REPORTING PERIOD:

WESTPAC BANKING CORPORATION



Australian banking group

Issue: This Australian banking group had been identified as breaching good practice by the Australian Transaction Reports and Analysis Centre (AUSTRAC) relating to ‘International Funds Transfer Instruction (IFTI) reports’ and LitePay merchant payments which could have apparently been used for child exploitation purposes, but which the bank allegedly failed to adequately detect.

Impact on manager’s decision: We met with the company’s chair to discuss the background to the breaches and AUSTRAC issues. We had previously engaged with the company on the issue of IFTI transactions - but there was no indication at the time that it could have included an element of child exploitation payments. The day after our meeting, the CEO resigned, and it was announced that the chair would retire in the first half of 2020. We support the management changes made and see this as a necessary step for Westpac Banking Corporation to move forward. We think the chair’s actions to replace board and management, while initially slower than the media demanded, has shown appropriate accountability. Despite the improvements, we continue to ascribe a lower Quality rating to the group and, as such, increased our assessment of the cost of capital in our valuation modelling.

E[S]G

CHINA GAS



Chinese utility company

Issue: This company has been expanding its natural gas network into residential towns where the fuel used for household energy needs has traditionally been coal. While the replacement of coal by natural gas is a net benefit to the environment, we have been trying to understand the nature and sustainability of the impact of this switch in the energy mix on the company’s financials, as we see this as a potentially durable positive change for the company and society.

Impact on manager’s decision: Our analysis of the projects undertaken by the company would indicate that the strategy is both a net benefit to the environment and the company financials, which has increased our conviction in the investment thesis. Knowledge gained for modelling the projects has been enhanced via trips to the locations where the energy supply is being converted and through our consistent engagement with management.

[E]S G

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

SOUTHERN COPPER



Peruvian mining company

Issue: The company operates in locations where the interests of local communities are generally poorly served by their national governments. This leads to social unrest and disruption to mining operations when local communities protest to raise awareness of their concerns.

Impact on manager's decision: In modelling the future revenue streams for the company, we recognise the challenges that the broad social unrest can present to the company's ability to operate its mines effectively. In addition, we expect tougher environmental licensing processes will be put in place for all mining groups. To reflect these risks, we therefore model future production growth at levels below management guidance to account for the likelihood of disruption from protests and the tightening environmental licencing.

E[S]G

CSL



Australian healthcare company

Issue: We know that remuneration can provide useful clues as to how a company is run. This company's remuneration structure has changed in recent years following a 'first strike' (more than 25%) vote against its 2016 remuneration report. Through this period, we have continued to engage with the company as we felt the previous plan encouraged management to leverage the business to conduct buybacks which contributed to increasing their pay - effectively a transfer of wealth from shareholders. Structural challenges remain due to it being an Australian company held to domestic standards of governance, while being a global business competing for talent on a global basis.

Impact on manager's decision: Given the new metrics upon which management are paid, we have adjusted the approach we have taken in modelling balance sheet leverage to fund buybacks. This cash builds on the balance sheet, to be deployed into partnerships or bolt-on M&A (when announced) bolstering the pipeline, which is the lifeblood of a biotech company. Further, because compensation is now related to return on invested capital (ROIC), we can make long-term inferences about the capital intensity and profitability that management expect to achieve through time - again, supporting our view of the sustainability of the business model and its value. We continue to engage with the company; for example, encouraging it to extend the vesting period of long-term incentive (LTI) awards. However, given disclosure is improving and pay is increasingly performance linked, we voted in line with the remuneration report.

E S [G]

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INTEGRATION

SSY GROUP



Chinese healthcare company

Issue: We had concerns over the environmental impact of the 1.6 billion plastic intravenous (IV) bags the company produces annually. We were also concerned about the implications of over-prescription of IV bags in China, both in terms of potential regulatory restrictions and the consequential social and economic implications. However, more widely in China, IV bags are generally not recycled and usually disposed of as medical waste. In terms of the apparent overuse of IV bags in China relative to developed markets, management explained the higher per capita use is partly because of the use of smaller bags of 200-250ml in China vs 500-1000ml in Western markets. IV bags are also used to administer traditional Chinese medicine formulations not found in Western markets.

Impact on manager's decision: With this issue representing a potential barrier to investment, the integration of this analysis into our investment process enabled us to perform an informed assessment of both the likelihood and materiality of risks in this area. Through engagement with the company and wider due diligence, we established that SSY's large-selling non-PVC bags and single-dose ampules are biodegradable. SSY uses water mainly for rinsing the outer layer of IV bags, but no chemical processes are involved and therefore the effluent is unpolluted. We were able to conclude that neither aspects represented a barrier to investment.

[E]S G

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

ACTIVE OWNERSHIP

As an active manager of long-term concentrated portfolios, we place a significant emphasis on stewardship. Engagement is a key element of this. We are motivated by a firm belief that this both helps protect and enhance the risk-adjusted return on our clients' capital. We build strong relationships with investee companies and engage in a constructive manner. Our focus will always be on issues that are most material and thus could have an impact on long-term shareholder value, such as strategy, capital structure, governance and wider sustainability matters. While we typically engage in private, we will continue to join collaborative efforts, particularly when deemed likely to be more effective than acting alone. Our decision to pursue the latter will, among other things, be a function of: the specific nature of the issue; the likely efficacy against acting privately; and the degree of alignment with the other investors. We are aware of the potential conflicts that can arise in active ownership and we have therefore clearly set out our approach in our conflicts of interest policy (available on request). In addition, we recognise that engagement requires patience and persistence and in spite of our constructive approach, engagement is not always successful. We set out our overall approach and escalation process in our Stewardship and Engagement policy, also available on request.

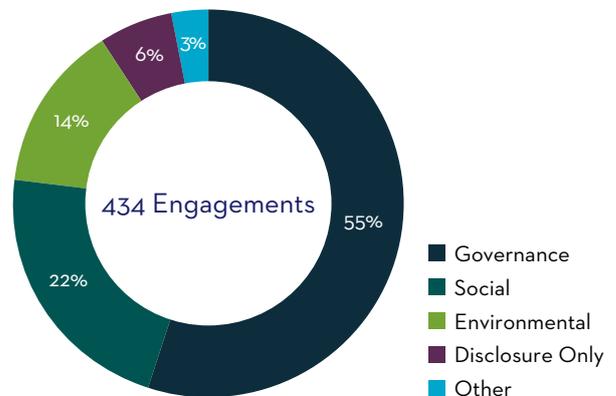
OUR FOCUS WILL ALWAYS BE ON ISSUES THAT ARE MOST MATERIAL AND THUS COULD HAVE AN IMPACT ON LONG-TERM SHAREHOLDER VALUE, SUCH AS STRATEGY, CAPITAL STRUCTURE, GOVERNANCE AND WIDER SUSTAINABILITY MATTERS.

NUMBER OF ENGAGEMENTS

426: NUMBER OF PRIVATE ENGAGEMENTS

8: NUMBER OF COMPANIES ENGAGED VIA COLLABORATIVE INITIATIVES

ENGAGEMENTS BY THEME

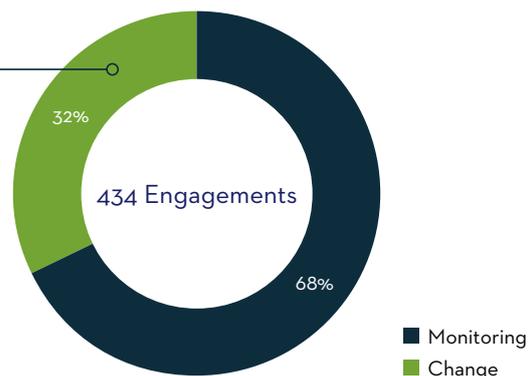


Source: Martin Currie. Engagement activity is for the period 1 January 2019 - 31 December 2019.

ENGAGEMENT OUTCOMES



ENGAGEMENTS BY PURPOSE



Source: Martin Currie. Engagement activity is for the period 1 January 2019 - 31 December 2019.

ACTIVE OWNERSHIP

ENGAGEMENT ACTIVITY EXAMPLES:*



Australian consumer staples company

Reason for engagement: Concerns about the health risks posed by drinks with high sugar content, combined with a lack of strategy around this issue.

Objectives: We were looking for the company to develop, implement and disclose a sugar-reduction strategy in developing markets in order to address a potential threat to the long-term growth profile of this part of the business.

Scope and process: We were concerned that this Australian drinks group was exposed to material business risk in developing markets, a key growth area, given the increased awareness of the health risks posed by drinks with high sugar content, combined with a lack of strategy around this issue. We first initiated a discussion with the board in early 2018, when we highlighted the challenges to the long-term sustainability of growth in this market and the stronger practices being demonstrated by key competitors. We have subsequently followed this up on multiple occasions, the last being at a meeting with the CEO, CFO and investor relations.

Engagement outcome: At our most recent engagement, the company confirmed it is now working on specific targets for developing markets for the 2020-2025 period and has also upgraded its targets for its Australia & New Zealand markets for 2020-2025. We will continue to engage with the company on this matter until we are satisfied that relevant targets and strategies are in place for developing markets, and we will monitor its success in reaching these targets. We also continue to follow up with the group on its industry-leading ESG work in sugar reduction, energy consumption and plastics recycling initiatives, and look forward to these being rolled out in developing markets. The company indicated it was committed to change.



Australian consumer staples company

Reason for engagement: This engagement focused on the use of plastics by an Australian retailer.

Objectives: To set out plans for how the company could reduce its overall use of plastics.

Scope and process: The government in Australia is targeting a reduction in the use of plastic packaging, with a particular focus on diversion away from landfill. As a food retailer, this group has a key role to play in this change and we therefore initiated a discussion with the CEO, CFO and investor relations to emphasise the potential risks presented by these changes and to help build our understanding of the company's plastic-reduction strategy.

Engagement outcome: The group has been working towards 'closing the loop' by encouraging recycling, through its partnership with recycling programme REDcycle in which soft plastics are turned into furniture. It is also trialling reduction of plastic packaging from one of its major fruit and vegetable suppliers. Through the engagement we also encouraged the group to next target third-party branded suppliers' use of plastics, as these represent the majority of the company sales. We will continue to engage with the company on this process. The company indicated it was committed to change.

*We have chosen not to name some of the companies in this section.



Australian consumer discretionary company

Reason for engagement: Concerns about a misalignment of the remuneration and oversight of remuneration at this Australian group.

Objectives: To see material changes to the remuneration structure that would better align the outcomes to those of long-term shareholders. In particular, our concerns focused on the structure of incentive schemes and the level of director fees.

Scope and process: We initiated a discussion with the chair of the board and the chair of the People & Remuneration Committee to set out our concerns. We also voted against the remuneration report, and in conjunction with other shareholders voting the same way, this resulted in a ‘first strike’ under the Australian system.

Engagement outcome: As a result, the company made some substantial changes to the overall remuneration structure, with director fees being reduced and frozen until 2021. The short-term incentive target pay-out for the CEO was lowered and long-term incentives removed. In addition, the remuneration packages for senior management for fiscal year 2020 were reduced and none of the long-term incentives granted in 2015 vested. The company indicated it was committed to change.



Korean IT company

Reason for engagement: We were contacted by the ESG team at this company which was looking for our thoughts on what more it could do to improve its ESG profile and approach, particularly relative to other global semiconductor companies.

Objectives: We had met with the company many times over the years and it was aware of our experience and credentials with regards to ESG. As such, this objective was to help evaluate the company’s current ESG practices and assist the company towards an improved ESG approach across all areas of its operations.

Scope and process: We organised a conference call with the group during which we set out our observations on what the company already does from an ESG perspective. In particular, we highlighted the material ESG issues facing the company and areas where we thought it should focus on. This included better disclosure around the use/recycling of water and gaining a better understanding of the supply chain of raw materials.

Engagement outcome: Following the initial engagement, we wrote to the company management, setting out eight key recommendations focused on improvements to its ESG policies and to its disclosure. We will now monitor its progress on the areas we identified. The company indicated it was committed to change.

ACTIVE OWNERSHIP

ENGAGEMENT ACTIVITY EXAMPLES:



Indian financial company

Reason for engagement: Sub-optimal board structure and insufficient independence on the audit committee.

Objectives: Our aim was to communicate these deficiencies to the company, an Indian mortgage finance company, with a view to understanding the rationale for maintaining them and/or encouraging improvement.

Scope and process: The engagement happened against the backdrop of a torrid 18 months for both the stock itself and the wider Indian non-bank financials sector. In a meeting with the chairman, we communicated what we believed to be the key deficiencies in the governance structure and why they concerned us. Specifically, we discussed the following two matters. Firstly, we noted that the board structure appeared sub-optimal, lacking a majority of independent directors. In addition, non-executive directors, classified by the company as independent, were on the boards of listed sister companies. The husband of one non-executive director also sat on the board of one of the listed sister companies. Secondly, we also observed that of the four-person audit committee, only three were independent.

Engagement outcome: The company chairman indicated that while he accepted the points made, they had not been raised as issues in the past by shareholders - demonstrating the importance of our engagement. Additionally, under a business reorganisation that will see the company fully exit from the ownership of one of the listed sister companies, many of the issues raised will be resolved. The chairman also indicated that he would consider our recommendation for a fully independent audit committee. We continue to monitor the company for evidence of the changes being implemented. The company indicated it was committed to change.



Singaporean financial company

Reason for engagement: To understand how sustainability targets and measures are integrated into lending decisions.

Objectives: This Singaporean bank has clear strategic priorities set out in its public reporting, including sustainability factors, but we were keen to understand how it sets targets and measures such factors and how these were integrated into lending decisions.

Scope and process: As long-term shareholders we have met representatives from the company over a number of years. We most recently had the opportunity to meet with the CEO, who was able to provide significant additional context around how the bank incorporates ESG analysis into its lending decisions.

Engagement outcome: The CEO was able to explain more about areas and activities which the bank does not lend to. These include new coal-fired power plant construction, new financing of coal-fired power plant projects (since January 2018), and project financing for greenfield thermal coal mines. This policy is aligned with the company's support of the United Nations Sustainable Development Goal 13: Climate Action. Similarly, in the plantations sector (a significant industry in the ASEAN region) the bank has specific targets. Elsewhere, the bank employs an ESG rating to ensure higher-risk industries include greater due diligence. Overall its approach was consistent with its typically conservative attitude to management, but also with the role the bank believes it should be playing in the ASEAN region. Singapore is the developed financial centre for the whole ASEAN region and, as one of the leading banks in Singapore, the bank's management believes it has a responsibility to play a leadership role to encourage ESG compliance, while recognising that there are very uneven stages of development across the region, as well as different applications of local law. The company cooperated in sharing this information.

 Singaporean industrial company

Reason for engagement: Concerns about share dilution and a lack of transparency.

Objectives: In the case of this Singaporean industrial group, we were concerned about the potential level of dilution that could result from a new performance share plan that the company management was seeking approval for at its AGM. In addition, there were some concerns about the lack of transparency regarding any performance conditions attached to restricted stock awards under a restricted share plan. We wanted to express this view to the company and seek a response.

Scope and process: We initially contacted investor relations at the company via email ahead of its AGM in order to set out our concerns. We then had subsequent discussions with them in the run-up to the AGM.

Engagement outcome: Over the course of our interactions, the company was able provide much more clarity on the detail for both share plans. On the restricted share plan, we established that the plan was moving to a longer vesting schedule to better align with shareholder interests. In addition, on the performance share plan, the company was able to demonstrate a commitment to much lower dilution than was suggested. Following our request, the company also chose to make additional disclosure about both plans. Given the greater disclosures and the responsiveness of the group to our concerns we decided to support management on both items.

 Dutch materials company

Reason for engagement: To understand targets around emissions and ESG initiatives.

Objectives: We engaged with this Dutch materials company to understand how the company was incorporating science-based targets around emissions and how these and other ESG initiatives were being reflected in board and executive responsibilities and remuneration.

Scope and process: We met company management and subsequently corresponded with them to gain an understanding and clarification about the board and executive-level responsibility around ESG goals. In addition, we were able to identify in greater detail how these goals were set and how they impacted the underlying operations of the business. This was part of a wider exercise in understanding the dynamics of how companies who had signed up to the science-based targets initiative were implementing this in practice.

Engagement outcome: Engagement with the company revealed that climate-related metrics form part of the short-term and long-term incentives of the managing board. We found out that the part of the short-term incentives that is linked to shared sustainability as well as to individual targets, represents 25% of base salary for 'on target' performance. Regarding long-term incentives, the managing board members are eligible to receive performance-related shares. Under the performance share plan, shares will conditionally be granted to managing board members. Vesting of these shares is conditional on the achievement of certain predetermined performance targets at the end of a three-year period - these include energy efficiency improvement and greenhouse gas efficiency improvement. While the company is already demonstrating leadership here, further refinement/adaptations of performance measures in the area of sustainability and their relative weight should take place following proper evaluation and further engagement with the company. Engagement with the company is ongoing.

ACTIVE OWNERSHIP

ENGAGEMENT ACTIVITY EXAMPLES:



UK materials company

Reason for engagement: To understand the impact of various, materially significant sustainability issues.

Objectives: This UK business has a potentially significant exposure to negative (cost and market position) and positive (opportunity to gain market share through innovation) sustainability issues, including the sugar drinks levy, deposit return schemes and increased use of recycled PET in packaging. We wanted to understand how these issues were likely to impact the long-term health of the business in terms of brand position, revenue growth and manufacturing costs.

Scope and process: We discussed these issues directly with senior management (CEO and CFO) in a face-to-face meeting to understand how management of these issues was included in decision making at the highest levels within the company. We had a follow-up meeting with them later in the year to understand the progress being made.

Engagement outcome: We were reassured with the accountability demonstrated by top management and their commitment to give further detail around the impact of packaging initiatives as part of cost savings and innovation in the business. This was also reinforced by a commitment to give specific detail around the impact of energy-efficiency measures on business performance going forward. We continue to monitor both the company's progress in relation to its goals to increase use of recycled PET in manufacturing and the ability of the company to manage shifting demand patterns and costs related to both product reformulation and deposit return schemes. We will maintain an ongoing dialogue as part of structured engagement related to waste-reduction initiatives.

ACTIVE OWNERSHIP

COLLABORATIVE ENGAGEMENT ACTIVITY

Although most of our engagement is private, we have participated in a number of collaborative efforts to address specific issues at companies held in our portfolios. Finding a coalition of like-minded shareholders is a good way of sharing knowledge and can generate more tangible results than acting alone. The following are a few examples of activities we are, or have been, involved in:

Signatory of: *



Water risk

This engagement targeted food, beverage, apparel, retail and agricultural companies based on their exposure to water risks. The aim was to gain an understanding of the degree to which companies are aware of the risks, understand to what extent the companies measure or assess water risks in their key agricultural supply chains, assess the material value of these risks, how the companies are responding and examine what information the companies disclose. Our significant experience in emerging markets and our broader engagement experience put us in a strong position to contribute to this engagement and we therefore led it with a number of targeted companies. We have also been involved in the second round of this engagement.

Status: concluding stages

Cybersecurity

Martin Currie was on the steering forum for the collaborative engagement on cybersecurity and led the engagement with a number of companies across developed and emerging markets as part of this process. Cybersecurity has come under increased scrutiny in the aftermath of recent high-profile cases and is an area where we see significant potential risks as well as opportunities. This engagement has focused on the governance and disclosure around cybersecurity.

Status: concluding stages

Tax responsibility

Aggressive tax practices can present earnings, reputational and legal risks for investors' portfolio companies. This engagement aims to make companies aware that investors are concerned about aggressive corporate tax practices; to encourage the development of responsible corporate tax strategies and relevant implementation practices; to improve company disclosure across policy, governance and financial reporting; and to identify existing best practices. We led the engagement on a number of companies where we already have strong relationships.

Status: concluding stages

*The trademark shown is that of the respective owner and is used for descriptive and illustrative purposes only. The company trademark shown is not in any way associated, or to be deemed to be associated, with Martin Currie or its group companies.

FINDING A COALITION OF LIKE-MINDED SHAREHOLDERS IS A GOOD WAY OF SHARING KNOWLEDGE AND CAN GENERATE MORE TANGIBLE RESULTS THAN ACTING ALONE.

LEARNING AND PARTNERSHIP – A LOOK BACK AT THE LAST DECADE OF ESG ENGAGEMENT

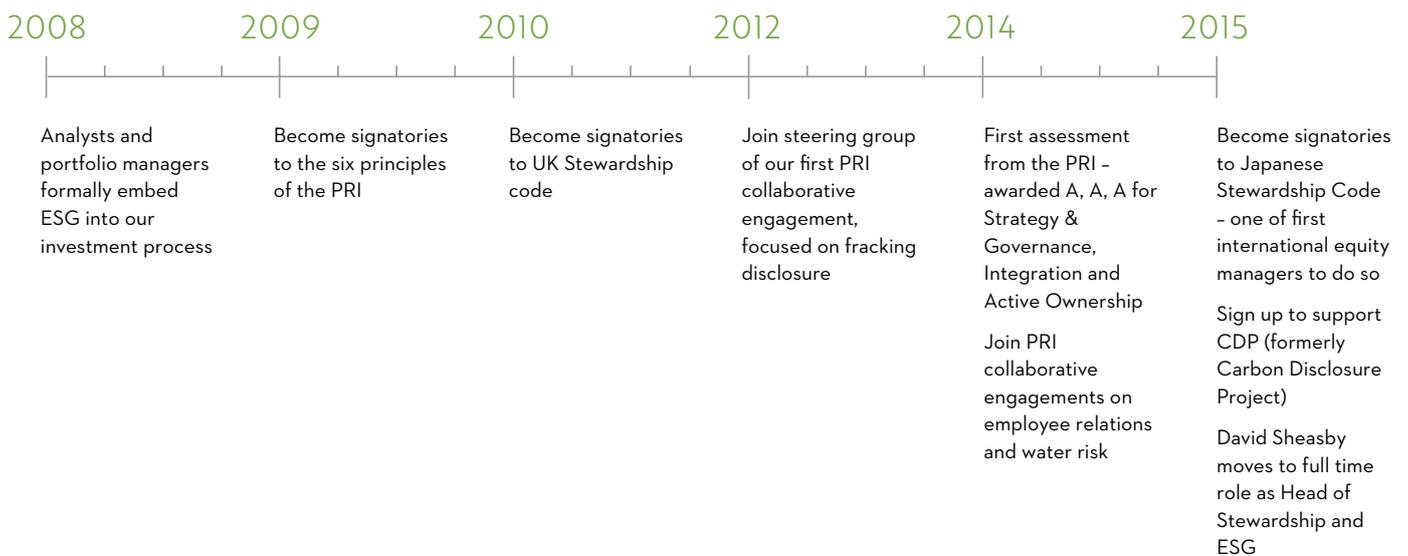
The incorporation of ESG analysis and engagement has, for a very long time, been a fundamental part of our investment process. Because of this, we were early adopters of the six Principles for Responsible Investment, becoming signatories to the PRI and publicly committing to the principles in 2009.

At that time, when many other institutional investors had yet to fully grasp the relevance of sustainable corporate practice on the outcomes for long-term returns, we were clear on the benefits the PRI’s framework could offer – not just in terms of our own fiduciary duty, but also for promoting wider industry best practice.

In the decade since then, a lot has changed. ESG and sustainability issues have now well and truly entered the investment mainstream. But while reference to them has become increasingly commonplace, we believe our journey in the past ten years allows us unique insight into some vital learnings on ESG engagement.

1. TRUE ENGAGEMENT TAKES TIME

By developing strong relationships with companies, we believe we are able to encourage greater transparency, ask more insightful questions and ultimately, gain greater insight into their governance – and by extension the sustainability of the business model. But this, in our experience, takes time. Over the years we have fostered many productive working relationships enabled by our long-term outlook, lengthy holding periods and a consistency of dialogue from the people who know the companies the best – our portfolio managers and analysts. In many cases we have worked with individuals over significant periods of time, maintaining relationships as they have advanced to senior levels within their business. In our view, there is no shortcut to this kind of engagement or the insight it brings.



2. COLLABORATION MEANS COMMITMENT

As well as our ongoing private engagements with investee companies, we have also undertaken multiple collaborative engagements in the past decade, predominantly carried out in conjunction with the PRI. We have learnt that the value of these collaborative approaches comes from the forum they create to share insights and leverage collective expertise. For our part, this means being fully involved in every aspect of the process. In addition to leading engagements on targeted companies, we have also set the terms and targets for discussion and ensured we can help develop constructive relationships with the company in question.

Being committed in this way is about knowing what we can bring to the table. Often, whether it has been engagement on issues as wide ranging as employee relations, fracking, or water scarcity, we have been able to provide an in-depth external viewpoint on the subject, sharing our experiences of best practice from a global perspective. As a result, our opinion has also been sought even after engagements have ended.

3) LEADERSHIP IS ABOUT DOING MORE

In our minds, it is inconceivable to approach investment decisions without considering every way a company creates and delivers value for its stakeholders both now, and long into the future. This is fundamental to the reason for integrating ESG analysis in our investment process and is why we have always striven to push the boundaries of our stewardship activities.

As well as being early signatories to the PRI, we have also looked to support other industry initiatives, whether it has been early support for stewardship codes, the CDP (formerly Carbon Disclosure Project), becoming a member of the International Corporate Governance Network, or endorsing the International Integrated Reporting Council (IIRC) investor statement. Being at the forefront of change for us, has also meant leading change: setting the frameworks for collaborative engagement, influencing policy, clearly articulating our approach, and evolving our proprietary analysis.

We continue to build on the solid foundations we already have. In his role as Head of Stewardship and ESG, David Sheasby provides assurance over our current approach, but is also responsible for driving our agenda to ensure that we can retain a leadership position in this area.



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 vote in their best interests considering the long-term impact of these voting decisions. Our approach is framed by our global corporate governance principles, our proxy voting policy and, for some clients, their bespoke policy.

We commit to voting all proxies as far as possible, which will include voting on many procedural matters and voting where the stakes held are relatively small. There are, however, other votes where following consideration, we will vote against management recommendations on more significant matters. We show the breakdown of these topics here and have used some examples from voting over the reporting period to demonstrate our approach.

In 2019 we saw a continuation of themes that have been prevalent for a number of years, including remuneration where there remains a broad push to increase transparency and bring incentive plans into greater alignment with the long-term interests of shareholders. Board structure has been another key issue and, although we observed somewhat less instances of over-boarding than in previous years, independence and diversity remain challenges.

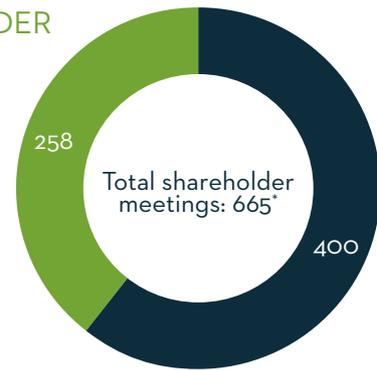
Support for well-thought-out shareholder proposals has generally been on the rise, although only a minority still achieve majority support. That said, as support increases, we expect management and boards to respond more directly to these shareholder concerns.

As we write this, the COVID-19 crisis is having a direct impact on the upcoming 2020 AGM season, and with the attendant material effects on businesses and their stakeholders, investors will need to approach this season pragmatically.

Our voting records can be found on our website: www.martincurrie.com

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 VOTE IN THEIR BEST INTERESTS CONSIDERING THE LONG-TERM IMPACT OF THESE VOTING DECISIONS.

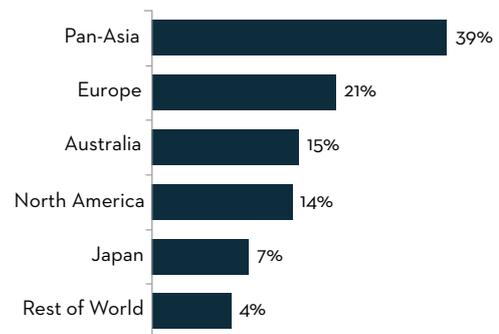
SHAREHOLDER MEETINGS



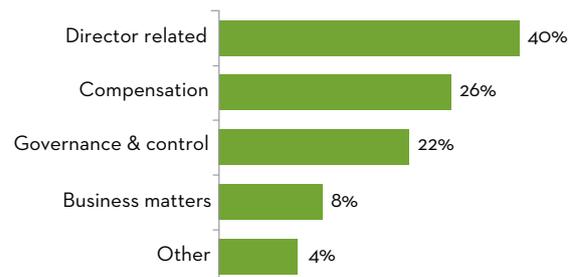
- Number of shareholder meetings at which we voted in line with management
- Number of shareholder meetings at which we voted against management on at least one resolution

*Total meetings at which we were unable to vote equals 7

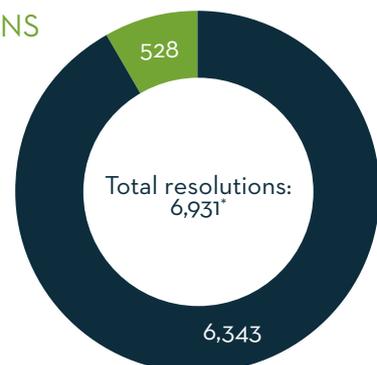
GEOGRAPHICAL BREAKDOWN OF VOTES AGAINST MANAGEMENT



CATEGORIES FOR VOTES AGAINST MANAGEMENT



RESOLUTIONS



- Number of resolutions voted in line with management
- Number of resolutions voted against management

*Number of non-voting resolutions equals 60.

Source: Martin Currie. Voting activity between 1 January 2019 and 31 December 2019.

VOTING EXAMPLES*



Australian materials company

Issue: Addressing CEO remuneration and director performance.

Objectives: We engaged with this Australian building and construction materials company with the objective of sending a message to the board that the next CEO's remuneration should be a lot less than it is currently, and that one of the directors was not suitable due to her poor track record.

Scope and process: We engaged with the company face to face, speaking to the board chair, the chair of the remuneration committee and investor relations to set out our concerns. In our discussions, the company tried to justify the CEO's remuneration, but did not provide a convincing case for the level of pay.

Outcomes: As such, we voted against the remuneration report and the CEO's long-term incentives grant as it amounted to more than (and at best similar to) the total CEO remuneration opportunity at some of the largest ASX companies which, we believe, makes it excessive. We believe it is important to send a message to the board that the next CEO should get paid a lot less.



US healthcare company

Issue: Concerns about remuneration structure.

Objectives: We had a number of concerns about this US-based company. We were concerned about two points on remuneration. Firstly, the short-term incentive paid out the maximum possible amount, but with 2018 targets (revenue growth and operating margin) lower than they were in 2017, we questioned whether the targets were challenging enough. Secondly, the CEO was awarded an incremental share grant worth up to US\$15 million, on top of his three-year trailing realised pay of nearly US\$100 million. We wanted to understand what justified this magnitude of pay. In addition to these remuneration concerns, we also wanted to discuss the group's lack of a stated global tax policy, as well as the 22-year tenure of their current auditors.

Scope and process: We outlined our position to the company. We spoke to investor relations, human resources and the company's general counsel raising concerns that targets on the short-term incentive (STI) were below company guidance and therefore not sufficiently challenging.

Outcomes: The company indicated that the operating margin target in the STI reflected the investment cycle for the group and as such the target remained challenging. The company indicated that the rationale for the incremental grant for the CEO was for rewarding good performance and to ensure his retention. We fed back that this raised concerns about succession planning. In this case, our engagement did not lead to signs of change and, as we believe that informed voting can send a strong signal to a company, we voted against the proposed remuneration package for management.

*We have chosen not to name some of the companies in this section.

VOTING ACTIVITY

VOTING EXAMPLES



Italian industrial company

Issue: Concerns about over-boarding and remuneration.

Objectives: We wanted to know more details about the other board commitments of one of the non-executive directors, who was up for re-election. In addition to his role as non-executive director at the company, we were aware that he also served on five public boards, two of which as executive director. Elsewhere, we wanted further clarification on the rationale for the award package for the new CEO, who was effectively stepping into an 'in-flight' award package, 86% of the way through the term of the package.

Scope and process: We wrote to the company and then set up a conference call with the head of investor relations to voice our concerns.

Outcomes: The company explained that the non-executive director in question brings geographical expertise as an Asia-based manager and that the five boards that he serves on are all part of the same group of companies. We explained that, as these are all subsidiaries with publicly traded stocks, we regard these as boards in their own right. Regarding the remuneration concerns, the company explained that the new CEO had not been a passive by-stander under his predecessor's leadership given that he sat on the board. We were not convinced by this argument as, prior to being appointed CEO, his position on the board was as a non-executive. As such, we decided to vote against both the director appointment and the CEO remuneration.



US energy company

Issue: Management of key environmental risks.

Objectives: We had concerns about the level of understanding, exposure and ambition that this US oil company had with regards to its management of key environmental risks around carbon and water. In this case, a shareholder proposal on each item was put forward and we wanted to get the company to release more detailed information about its approach on both of these issues.

Scope and process: Ahead of the AGM, we wrote a letter to management outlining our concerns in a number of areas. In particular, this focused on disclosure around reporting on its approach to the human right to water and on plans to reduce its climate footprint in line with Paris Agreement goals. We set out why investors require more detailed evidence than the company was giving on the management of these issues.

Outcomes: On climate change, the company indicated that in its view, a decrease in overall fossil fuel emissions is not inconsistent with continued or increased fossil fuel production by the most efficient producers, of which they consider themselves one. There is, however, a continued lack of clarity in the assumption that it is coming to with this conclusion. With respect to the human right to water, we sought a more comprehensive report from the company that includes major sources of water and regional/local areas with current or future potential risk concerns and company-wide targets/goals. In both instances we voted against management.



Australian consumer discretionary company

Issue: Concerns about board leadership and over-boarding of some board members.

Objectives: We had significant ongoing concerns about the board leadership, over-boarding of some board members and an apparent lack of accountability at this Australian gaming group. These have been issues on which we have engaged on a number of occasions and to date we had been unsuccessful in getting the changes that we thought were required.

Scope and process: Ahead of the AGM we initiated a discussion with the chair of the board and the chair of the people & remuneration committee. We voted against the 2018 remuneration report, on which the company received a 'first strike'. It advised us that this drove change in the 2019 remuneration report, in which director fees had been reduced and frozen until 2021. The quantum for the CEO's target for STI had also been lowered and the LTI removed for the time being. In addition, the fiscal year 2020 remuneration packages for senior management were reduced and none of the LTIs granted in 2015 were vested. However, directors remained over-boarded and, as a result, have not provided the oversight required, resulting in several regulatory and other events that we felt should not have happened. It has been the same chair through all of this, but she refuses to accept any responsibility and, in our view, a two-year time frame to her retirement is too long.

Outcome: This time we voted against the remuneration report as there is a possibility of a 'second strike' prompting a board spill and directors seeking re-election. We believe this to be the only clear course of action to drive change in what is an underperforming board.



Chinese utility company

Issue: Clarity on remuneration structure.

Objectives: We engaged with this Chinese gas distributor ahead of the AGM where it was seeking approval for a new remuneration structure. Our main concerns centred on a lack of performance criteria and a potential conflict whereby directors could be involved in setting their own remuneration.

Scope and process: We wrote to management to express our concerns and explain our thoughts about the remuneration structure - notably the potential amount of capital that could be issued under the scheme, the lack of holistic performance criteria and meaningful vesting periods in the scheme. In addition, the directors were eligible to receive options under the scheme despite being involved in its administration.

Outcome: Management were very prompt in their response and understood the basis of our concerns and outlined that performance criteria had been included in the scheme - the only Hong Kong-listed gas company to do so. While this addressed one of our key concerns, we remained unhappy that the beneficiaries of the scheme continued to be involved in the establishment of it and as such a potential conflict of interest still existed. Because of this, while we recognised the improvements, we ultimately voted against the proposal.

CLIMATE-CHANGE ENGAGEMENT

HOW TCFD REPORTING PROVIDES A VITAL FRAMEWORK FOR DIALOGUE

Our commitment to TCFD

As the effects of global warming become increasingly evident, businesses of all shapes and sizes need to consider both the physical impacts of climate change and the implications of the transition to a lower-carbon environment. We believe asset managers have a hugely important role to play in this journey, not only in their duty of fiduciary care to clients on this issue, but also in guiding companies towards consistent and measurable practices.

In this respect, we believe the Taskforce for Climate Related Financial Disclosures (TCFD) reporting framework is a vitally important tool to understand how companies are managing climate-related risks. It is designed to enable decision-useful disclosure of information on climate-related risks and opportunities for better integration of the financial impacts of climate change into the investment process.

Asset managers are also expected to use TCFD as a reporting framework. As such, alongside our work on corporate reporting, we are committing to using the TCFD as the framework for our climate change reporting from this year onwards. It will therefore feature as part of Martin Currie's Stewardship Annual Review in 2021, with the intention that this disclosure will be evolved and enhanced over time. Crucially though, we do not see this merely as a box-ticking exercise. This will become a fundamental part of the way we engage with companies, shaping our dialogue on climate change around the four key areas of disclosure as recommended by the TCFD:



1. Governance

'Disclose the organization's governance around climate-related risks and opportunities'.

Climate change forms part of our assessment of the material risks and opportunities that companies face in generating sustainable returns over the long term and as such is embedded into our investment process.

Our sustainability and ESG related work is fully integrated into our investment process, considering factors including climate change when analysing the investment case for a company. All stock research is required to consider the material and relevant ESG factors that could impact the ability of the company to generate sustainable returns. The investment team has day-to-day responsibility for responsible investment activities, with oversight from Martin Currie's Head of Stewardship and ESG.

In terms of our company, we measure the carbon footprint of our overall business activity - the majority of which is generated by air travel. We encourage the use of technology where possible to reduce the need for travel and the associated carbon footprint and we are also exploring the most effective way in which we can offset the remaining impact.



2. Strategy

'Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material'.

We have established proprietary industry frameworks which set out the key material risks and opportunities for each industry which may include climate change. In addition, we produce a carbon footprint, or carbon price sensitivity for portfolios, which identify the overall profile and main contributors to its carbon footprint. Access is also provided to the Transition Pathway Initiative (TPI) tool to help identify the degree to which companies held are aligned with the transition to a lower-carbon economy and we have started exploring tools to help us with broader scenario testing including the PRI's Inevitable Policy Response (IPR) framework.

Transition climate risks that we consider include the likely required regulatory changes necessary to address climate change. For example, the potential for clearer pricing on carbon, the impact of technological change, changes in demand for products and services, and the impact of changes to consumption patterns. We also consider the physical risks associated with climate change. For example, the availability of water and the potential for supply chain disruption. In each case, as bottom-up investors, we consider the potential materiality of these impacts on the businesses concerned.

We also recognise that the transition to a lower-carbon economy creates opportunities in many areas. These include reduced operating costs through more efficient use of resources; the opportunities for new products and technologies to support the change in the energy mix; the development of new products and services to meet the potential changes in consumption patterns; and the opportunities presented by the need for companies to build resilience into their operations.



3. Risk Management

'Disclose how the organisation identifies, assesses, and manages climate-related risks'.

Our expectation is that companies facing material risks in the transition to a lower-carbon economy will build their understanding of these and incorporate them into the strategy of the business. We have established proprietary industry frameworks which highlight the factors likely to be most material to each industry, and in particular where they are especially exposed to climate-related risks and opportunities.

We have started to build our own sensitivity model to look at company and portfolio exposures to carbon pricing and climate change. This has helped us identify potential climate valuation at risk (VaR) metrics and can provide some guidance on sensitivities to different pathways. We have also started to look at the IPR research in more detail now that the underlying forecasts are available, and we also have access to the International Energy Agency scenarios as an alternative.

We encourage companies to perform and report on sensitivities to climate change through scenario analysis, which should include a range of scenarios. As signatories to the CDP we also use ongoing disclosures to inform our engagement priorities. We have supported a number of shareholders proposals asking for this.

At present, our focus is on identifying climate-related risks (and opportunities) at a company level. However, we do produce aggregate portfolio exposures monthly to ensure that there is an awareness developed of these risks.

As active owners we look for companies to identify, manage and disclose material risks and opportunities. We believe that the TCFD framework is a robust framework for disclosure of climate-related risks and opportunities and as such encourage companies to adopt this approach. We have engaged with a number of companies over the last year to encourage them to use this framework and have been participating in an FRC-led examination of climate reporting standards. We also signed the Global Investor Statement on Climate Change encouraging strong domestic and international climate and clean energy policies. In addition we are in the process of joining CA100+, one of the objectives of which is to encourage disclosure using the TCFD framework.



4. Metrics & Targets

'Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material'.

For most of our portfolios we produce a carbon footprint each month looking at the carbon emissions based on Scope 1 and 2 emissions, and the intensity of emissions, including the weighted average carbon intensity, relative to its benchmark. For some clients, a more detailed report is produced looking at the individual company contributions by scope and for those clients based in France a report compliant with Article 173 is produced.

To produce these reports, we generally use data supplied by MSCI ESG. This includes a mixture of reported emissions and, where these are not available, estimated emissions. The estimations are derived from MSCI models which reflect the industry and countries in which the company operates.

We recognise the shortcomings of carbon footprints as a true indicator of risk and are looking at how better to capture this risk more broadly.

We have also carried out an extensive piece of work looking at climate change and carbon pricing, to make an assessment of the sensitivities of a range of companies to carbon pricing based on company emissions data. Following this work, we have started to build a portfolio-sensitivity model, looking at VaR under different carbon pricing scenarios. As signatories to the CDP, we also use the emissions data produced by companies to help inform our investment decisions and frame our engagement with the companies concerned.

One of the areas of focus for us is how companies themselves are approaching climate change and what scenarios and modelling they are carrying out. While we encourage companies to consider a 2°C pathway, we recognise that there is not one set transition pathway. As the scenarios and transition pathways develop and become more established, we are likely to increasingly use these. The Transition Pathway Initiative and the IPR, for example, provide some useful guidance on this, which is made available to our investment teams.

THE 2020 UK STEWARDSHIP CODE PRINCIPLES

REFERENCES WITHIN THE REPORT

Purpose and Governance

- | | |
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| 1. Purpose, strategy and culture | page 2 |
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| 3. Conflicts of interest | page 9 (For our full voting disclosure, please visit our website) |
| 4. Promoting well-functioning markets | page 3 |
| 5. Review and assurance | page 17 |

Investment approach

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| 7. Stewardship, investment and ESG integration | pages 4-8 |
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Exercising rights and responsibilities

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This report also aims to meet the disclosure requirements of Shareholder Rights Directive II (SRD II)

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