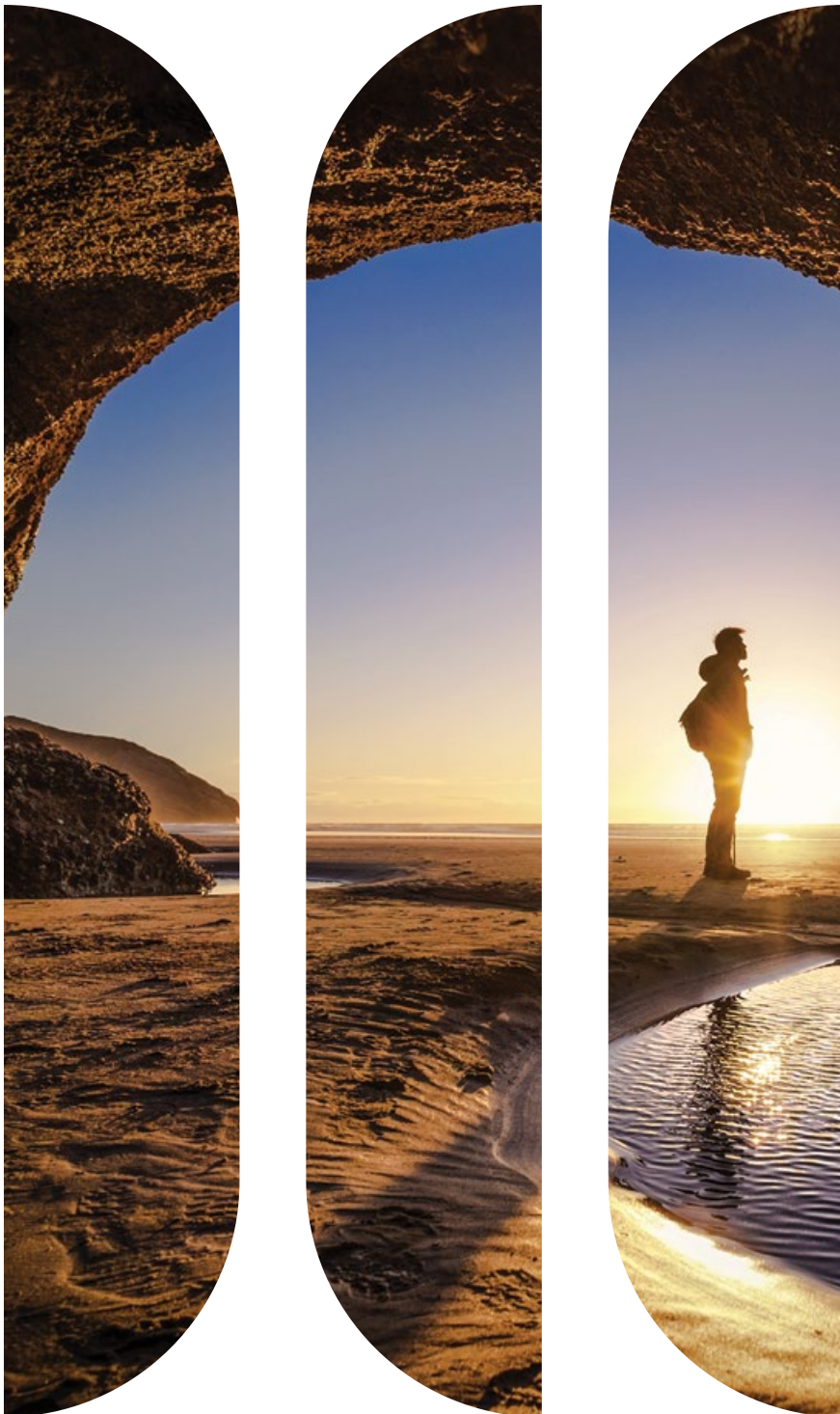


# STEWARDSHIP ANNUAL REPORT 2023



MARTIN CURRIE

# MOVING BEYOND ESG



INVESTING TO IMPROVE LIVES™

APRIL 2023

[www.martincurrie.com](http://www.martincurrie.com)

# Foreword



## Anne Simpson

Global Head of  
Sustainability, Franklin  
Templeton

**Sustainable investment has become a significant trend in financial markets as science and society address a growing range of issues that pose risk and opportunity: biodiversity protection, water management, extreme weather events, diversity, equity and inclusion, are just some of the issues on investors' minds.**

The complexity and urgency of these have prompted a rethink on how sustainability is fundamental to exercising our fiduciary duty to manage other peoples' money with prudence, loyalty and care. This means that fiduciaries do not have an option to ignore what matters to generating repeatable, risk adjusted returns on behalf of clients and beneficiaries. If it's pecuniary, it's fiduciary.<sup>1</sup>

This focus on finance within sustainability brings clarity to this agenda. The quip that it is time to say RIP to ESG sums up the need for fresh thinking.<sup>2</sup> We are returning to the underlying economics of value creation. ESG has always been weakened by the absence of the letter F to stand for finance. Hence, we have shaped our sustainable investment strategy at Franklin Templeton on the understanding that value creation and effective risk management require us to steward financial, human and natural capital. This holistic approach means we can bring insight, data, analytical tools and stewardship to develop a new paradigm for investment which Martin Currie is pioneering. That puts a premium on fundamental analysis with a focus on impact, not just intentions.

Critics of ESG have argued that the acronym is not fit for purpose. I am inclined to agree with them but not in the way they may expect. In addition to the absence of finance and its companion, fiduciary duty in this shorthand term there is also 'aggregate confusion'<sup>3</sup> on what the term includes. Put simply, there has been a lack of specificity about what ESG is, how it is used and what it has come to represent. This has enabled unwarranted criticism of essential and investment-relevant actions in the industry because they can too easily be misrepresented.

As such I'm delighted to be invited to write the foreword to Martin Currie's Stewardship Annual Report as I feel that this report is a real contribution to what should ultimately replace ESG as we communicate with our clients with greater specificity and transparency. ESG has become a dreaded acronym in the industry – two adjectives and a noun now thrown together and used as a noun. It is fitting that Martin Currie is at the heart of driving this debate forward as to what should replace it. They have always had a clear focus on stewardship and investor led integration throughout their history. The new paradigm brings forward the missing piece: impact. Reframing 'ESG' through the key elements of: Stewardship – the actions of the investment manager to act as effective and responsible stewards of capital on behalf of clients; Sustainability – the analysis of sustainability related risks and opportunities as well as investee company behaviour, and now, Impact – the focus on real world outcomes driven by impactful investor engagement and an intentional commitment of capital to those companies providing solutions shows how innovation can open up new possibilities.

By being clear as to the intention, scope and actions associated with each we can better serve our clients who rely upon us as their fiduciaries for generating repeatable, risk adjusted returns. This in turn allows us to position ourselves more effectively for driving positive societal change at times of competing demands and complex challenges ahead. I am looking forward to continuing our partnership across Franklin Templeton, to learn from and build on the tremendous work being led by David Sheasby, his team and the wider industry going forward.

<sup>1</sup>If it's commercial, it's our duty to act on our clients' behalf.

<sup>2</sup>Reference from the Official Monetary and Financial Institutions Forum (OMFIF) Dinner at the House of Lords (February 24, 2023), and written up in a 'Big Read' by Moral Money and Gillian Tett of the Financial Times.

<sup>3</sup>Aggregate Confusion: The Divergence of ESG Ratings, Florian Berg, Julian F Kölbel, Roberto Rigobon (August 15, 2019), Massachusetts Institute of Technology (MIT).



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## Report summary

- The primary purpose of this report is to provide insight into our business, the importance of stewardship and examples of how this is incorporated in our investment process and stewardship activities.
- Martin Currie believes strongly in its purpose of **Investing to Improve Lives**.
- This report also serves as our submission in support of the UK Stewardship Code and how we incorporate its 12 principles in discharging our stewardship responsibilities. These are namely the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, environment and society.<sup>4</sup>
- This report has been reviewed and approved by the Executive of Martin Currie following review by the Martin Currie Stewardship & ESG Council.
- We also highlight our key achievements during 2022:

- *Improved stewardship resources and oversight through a new ESG Oversight and Investment Risk Group*
- *Becoming a lead investor to PRI Advance*
- *Submitted our initial targets to Net Zero Asset Management Initiative (NZAMI)*
- *Reported on actions to reduce emissions at firm level*

Report approved by Martin Currie Stewardship & ESG Council and represents a fair and balanced view of our stewardship activities.





**Julian Ide**  
Chief Executive Officer





**David Sheasby**  
Head of Stewardship,  
Sustainability & Impact

## Firmwide highlights

### Engagements

31	Markets covered
405	Companies engaged
591	Total engagements
3	Active collaborative engagements

### Top engagement topic:

#### Environmental - Climate Change

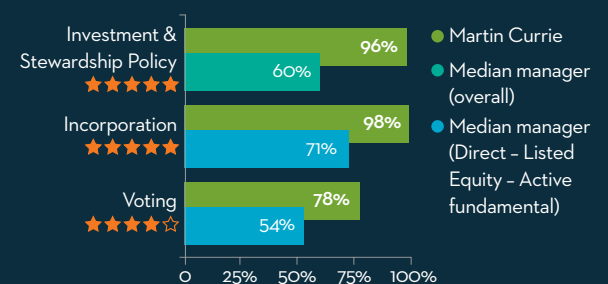
### Proxy voting

42	Markets covered
496	Total shareholder meetings
180	Meetings where we voted against management
50.5%	Voted for a majority of shareholder proposals

### Top voting topic against management:

#### Director-related

### Martin Currie 2021 PRI assessment<sup>5</sup>



<sup>5</sup>Source: Martin Currie and PRI 2022. Ratings relate to the period 1 January 2021- 31 December 2021. A copy of the PRI's assessment and transparency report are available from [our website](#). Please note, in the 2021 Reporting Framework, the PRI introduced accountability measures around the accurate representation of PRI Assessment Reports with the aim of improving transparency and accuracy of representation of the scores. The 2021 scoring methodology also changed to reflect the new Reporting Framework, by moving away from letter ratings to star ratings (from 1 to 5 stars (with 5 being strong)) and scores. The new ratings are therefore incomparable with scores from previous PRI years.

Martin Currie was previously awarded the highest possible ratings by PRI across Strategy & Governance, Incorporation and Active Ownership activity for the years 2016, 2017, 2018, 2019.

<sup>4</sup>FRC Stewardship Code.



# NZAMI and our own carbon footprint

Martin Currie became a signatory to the Net Zero Asset Managers Initiative (NZAMI) in July 2021. As a member of NZAMI, we acknowledge that there is an urgent need to accelerate the transition towards global net zero greenhouse gas emissions, and for asset managers to play their part to help deliver the goals of the Paris Agreement and ensure a just transition.

Recognising a need for collaboration and partnership, we adopted an opt-in model for client asset commitment. After a period of hard work, and consultation with clients, on the first anniversary of becoming a signatory we were initially able to commit 15.4% of Martin Currie’s assets under management (AUM) to be managed in line with NZAMI’s goal of ‘net zero greenhouse gas emissions by 2050’ (referred to as ‘Net Zero’ hereinafter). This represented a substantive first step on our part to help guide investee companies towards a more sustainable future. We further strengthened our commitment to 18.9% of AUM ahead of the NZAMI progress report on the one-year anniversary of COP26 in October.



We continue to work with our investment teams and collaborate with our clients to increase the commitment to 100% of assets by 2040.

## Our own carbon footprint

How we choose to run our own business is particularly important when we consider our role often involves advising companies that we engage with worldwide on how to adopt best practice.

It is why we hold ourselves to the same exacting standards that we expect of the companies in which we invest. By maintaining the highest ethical standards, positively contributing to our local environment through net zero carbon targets and mapping our business contributions to the UN SDGs, we demonstrate the same practices as we expect of investee companies.

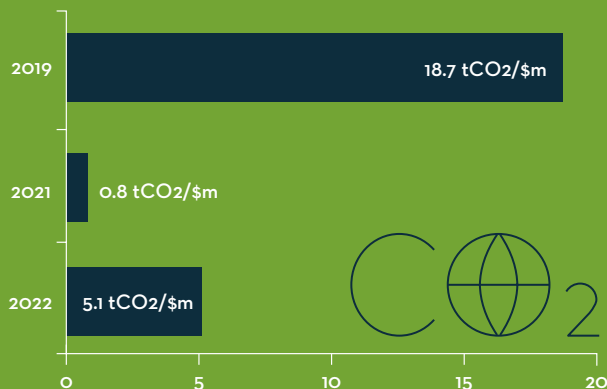
**We have set ambitious targets in relation to our own Carbon Footprint. We have made a commitment to:**

- 50% ↓ by 2030**  Reduce our Carbon Intensity by 50% before 2030 (from 2019 level)
- 200% by 2022**  Offset 200% of any remaining emissions to become a carbon neutral business

In 2022 we estimate that we emitted 413 Tonnes of CO<sub>2</sub>, (the majority of which is generated by business travel) a significant reduction from our 2019 baseline of 1,260 Tonnes. This equates to a carbon intensity of 5.1 tCO<sub>2</sub>/\$mln revenue versus our baseline of 18.7 tCO<sub>2</sub>/\$mln in 2019.<sup>6</sup> It is important to note however that this is likely to increase in the near-term, as there is still an ongoing normalisation following the COVID-19 pandemic and global reopening. We continue to monitor our CO<sub>2</sub> profile and take steps where possible to avoid emissions, however our corporate emissions may rise in the short term.

<sup>6</sup>Source: C-Level, based on carbon data for 2022, provided by Martin Currie.

Emissions intensity figures:



*We hold ourselves to the same exacting standards that we expect of the companies in which we invest.*

# Stewardship Code summary

Our Stewardship Report acts as a conduit for our reporting under the UK Stewardship Code (the Code). Below we provide a summary and references for how we adhere to the principles and where greater detail on these can be found within this report. The Code is widely regarded for setting ambitious standards for asset managers in relation to their stewardship activities, globally. The code comprises an “apply and explain” set of principles which we utilise across all of our assets, regardless of geography. Through applying these standards, we can deliver strong stewardship outcomes for all of our clients.



## Principle 1. Purpose, strategy and culture

**Context:** Our purpose of **Investing to Improve Lives** is more than just providing market leading investment solutions and better financial outcomes for our clients. It is about us providing Outcomes Beyond Alpha.<sup>7</sup> It guides us through our partnerships with clients, as long-term investors in equity markets, our business practices, as an employer, and as members of the community. These are set out in **Purpose, Strategy & Culture** section and in more detail in our Purpose documents, and **Business Summary & Resources** section which explain our approach to governance, resourcing and activities surrounding our stewardship and our business approach to key issues such as diversity and climate change.

**Activity:** Investing to create long-term, sustainable value is at the heart of our business. We believe in looking beyond the numbers, understanding that the investments we make and the returns we deliver have more than just a financial impact. We believe the best model to implement our stewardship approach is an ‘investor led’ model. This informs how we have structured the governance and implementation of our stewardship approach including the **Resources** we dedicate in support of this, how this has evolved and improved over time as does our approach to **Training** and **Diversity**. Overall, we show how this is manifested in the **Identification & Engagement** around governance and sustainability issues and **Voting** related to our stewardship activity.

**Outcome:** Investing to create long-term, sustainable value is the purpose of our business. By doing so, we not only help fulfil the real-life ambitions of our clients but align with companies that over the long-term will contribute to a more sustainable economy, society and environment. In our view being long-term investors with a focus on stewardship and active ownership has helped provide an environment to deliver returns that meet our clients’ expectations. We believe we have been successful in delivering this; over a 10-year period 90% of our assets under management and 76% of portfolios have outperformed their relevant benchmark.<sup>8</sup>

Our recent **Stewardship and sustainability insights** outline how our research responds to client requests in relation to key topics for analysis covering market wide and systemic issues related to stewardship. During 2022 this included a strong focus on systemic issues such as action on biodiversity, net zero and diversity and inclusion. We also established a new impact capability in our Stewardship, Sustainability & Impact team.



## Principle 2. Governance, resources and incentives

**Activity & Outcome:** We set out the rationale surrounding resourcing and governance of our stewardship and sustainability activities, as well as how we seek continuous improvement. This is outlined in our **Resources, Evolution & improvements** and our **Key issue & policy summaries**. This also explains our approach to third-party data, systems and services, diversity, training and remuneration.



## Principle 3: Conflicts of interest

**Context, Activity & Outcome:** Martin Currie has a Conflicts of Interest policy that governs situations where conflicts could arise in our stewardship activities. Our approach is set out in our **Key issue & policy summaries**. This covers the governance, identification, and process for managing conflicts of interest and examples of how we have addressed actual or potential conflicts.

*We believe the best model to implement our stewardship approach is an ‘investor led’ model.*

<sup>7</sup>Alpha is a measure of the active return on an investment, the performance of that investment compared with a suitable market index.

<sup>8</sup>Over ten years to 31 December 2022 (for accounts that have been in place for the duration of that period).



## Principle 4: Promoting well-functioning markets

**Activity:** Martin Currie is committed to helping the wider financial industry identify, manage and respond to systemic risks such as climate change, human rights and sustainable development as set out in our [Purpose, Strategy & Culture](#). Our approach to the identification, management and engagement of market-wide systemic risks and well-functioning markets is covered in our sections on [Identification & Engagement](#), Taskforce on Climate-Related Financial Disclosures (TCFD), [Collaborative](#) and [Thematic engagements](#), and industry Initiatives.

Collectively these along with our [Engagement](#) case studies outline our contribution to the identification and management of key issues. Our actions to promote well-functioning markets during 2022 are set out in more detail in [Stewardship: the year in review](#).

**Outcome:** As highlighted in our [Purpose, Strategy & Culture](#) section, our leadership in being an early signatory to initiatives such as the Net Zero Asset Managers Initiative (NZAMI) and our continuing leadership role promoting industry dialogue through forums such as PRI and Investment Association (IA) committees, as well as being a lead investor in multiple industry wide [Collaborative engagements](#), shows our commitment to promoting an industry response to these issues. Our [Identification & Engagement](#) section describes and provides case studies of how we have identified material issues and aligned our investment approach to these systemic risks. As an investment manager focused on concentrated, long-only equity strategies, our primary mechanism for aligning our investments to these risks is through the identification of them in our analysis and engagement activities both privately and in collaboration with others.

We assess the effectiveness of our actions through the progress on engagement and on industry-wide initiatives such as NZAMI.



## Principle 5 Review and assurance

**Activity:** The section of the report on [Resources](#) covers our governance structure, key forums in respect of Stewardship, our processes for management and oversight of these activities and our rationale for our chosen model - investor led research and stewardship activity supported by areas of expertise within the business from an implementation and oversight perspective. Key stewardship policies around governing these are summarised in our [Key issue & policy summaries](#). Martin Currie continually updates key policies and reviews the effectiveness of stewardship activities through both internal challenge and review from our key Stewardship Governance forums such as the Stewardship & ESG Council, ESG Oversight and Investment Risk Group and Regulatory Working Group which have all been created to provide a clear forum for internal feedback on our investor led approach and to provide expertise, oversight and challenge to augment the structured feedback from bodies such as the FRC and PRI in relation to our stewardship activities. We also regularly discuss best practice through our committee roles in organisations such as the IA. As part of the assurance process, funds that are covered by SFDR are also subject to annual review by the ESG Product Advisory Group (EPAG) of Franklin Templeton. In addition, in 2022, Franklin Templeton internal audit undertook a broad review of the approach to sustainable investing across the group including the Specialist Investment Managers (SIMs) which includes Martin Currie.

**Outcome:** In order to further improve our stewardship policies and processes we significantly reworked and expanded our governance structure in 2021 to more effectively oversee our stewardship activities as described in our [Resources](#) section. In 2022, this was expanded further with the creation of the ESG Oversight and Investment Risk Group, as described in [Evolution & Improvements](#). For example, we have further segmented a more defined approach to our stewardship reporting in respect of our Stewardship Code obligations through this report and have updated key policies such as our [Responsible Investment Policy](#) and [Global Corporate Governance Principles](#), as well as establishing new policies such as our [Climate Engagement and Escalation policy](#).

*Martin Currie is committed to helping the wider financial industry manage and respond to systemic risks such as climate change, human rights and sustainable development.*





## Principle 6: Client and beneficiary needs

**Context:** We provide a breakdown of our asset base across client types and geography in [Business Summary](#). We believe that for effective delivery of our long-term investment strategies a time horizon of over five years is required. This ties into our intention to be active owners and stewards of our clients' capital and allows time to conduct meaningful engagement with investee companies in relation to good governance, business model, strategy and sustainability approach. In turn, engagement on these topics helps support the delivery of long-term returns which meet our clients' expectations as highlighted in our [Purpose](#) section.

**Activity:** Martin Currie is committed to dialogue and transparency with our clients when it comes to structuring and reporting on our stewardship agenda. Quarterly client reporting at portfolio level on our stewardship and sustainability activities includes research, engagement and voting. Client views are sought in relation to their key priorities for stewardship activities and these are reflected in the research conducted, and the emphasis on certain topics as part of our [Engagement](#) and our recent [Stewardship and sustainability insights](#).

**Outcome:** We aim for an open dialogue with clients in relation to whether our stewardship activities are effective in meeting their needs in relation to the actions we undertake on their behalf and how these are reported to them. We have responded by expanding the coverage of our client reporting during 2022 and will provide more granularity of stewardship activities on a portfolio specific basis. We have also continued to refine our approach to both the structure of our stewardship reporting (for example the continued evolutions of the structure of this report) and by providing enhancements of our engagement reporting, as set out in [Evolution & Improvements](#). During 2022 we sought client views around commitment of assets to NZAMI and received feedback on what climate-related data they wanted on an ongoing basis.



## Principle 7: Stewardship, investment and ESG integration

**Context:** Examples of the key areas we focus in assessing investments are provided in the [identification](#) of Governance and Sustainability issues as well as an overview of our approach to assessing and engaging on these issues as part of our [Identification & Engagement](#) examples.

**Activity:** We view stewardship, investment and integration of governance and sustainability factors as intertwined issues. Our investment teams take direct ownership of conducting these activities as described in [Identification & Engagement](#). Our focus is on identifying material governance and sustainability issues and opportunities to inform our long-term investment approach prior to investment and facilitate ongoing engagement. These inform our voting activity during our holding period. Our preference is for using our investor-led judgement and insight from our investment teams, rather than an external data or service provider. We believe this offers a clear sense of accountability and ownership for our stewardship activities and is the most effective way to reflect these in our portfolio management decisions.

**Outcome:** The outcomes of our stewardship activities are highlighted as case studies in our [Identification](#) section and [Engagement](#) examples. In addition, we detail how we have escalated these where necessary through our [Voting activity and case studies](#).

*We have expanded the coverage of our client reporting in 2022.*



### Principle 8: Monitoring service providers

**Activity & Outcome:** Our governance structure for overseeing and monitoring service providers is detailed in our [Business summary](#). Most data utilised in our Stewardship, Sustainability and Impact activities is procured and overseen centrally by our parent company, Franklin Templeton, while other services such as proxy voting and client reporting are procured by Martin Currie. During 2021 there was an exercise to compare and procure a wider range of ESG data for both regulatory and research purposes across Franklin Templeton. During 2022 there was an exercise at Franklin Templeton, including the Specialist Investment Managers (SIMs), focusing on data quality. This exercise including our process for ongoing monitoring of service providers is detailed in our [Key issue & policy summaries](#).



### Principle 9: Engagement

**Activity & Outcome:** Martin Currie is a strong proponent of our proprietary research around governance and sustainability forming the basis of our engagement and stewardship activity. We view this as a core part of delivering client outcomes. Our approach, case studies and a qualitative and quantitative review of activity including the outcomes of our engagement is included in our review of engagement activity for the year in the [Identification & Engagement](#) section. This also covers our approach to collaborative engagement where we see this as an important tool for tackling systemic issues.



### Principle 10: Collaboration

**Activity & Outcome:** Although most of our engagement is private, we have participated in a wide range of collaborative efforts to address specific systemic issues that impact companies held in our clients' portfolios. Finding a coalition of like-minded shareholders is a good way of sharing knowledge and can generate more tangible results than acting alone specifically in relation to systemic issues. The activities and outcomes of our collaborative engagement activity is described in the [Collaborative engagement](#) section which describe the nature of the initiatives we have joined as lead investors.



### Principle 11: Escalation

**Activity & Outcome:** Our structured approach to selecting issues for engagement and escalation examples are included in our [Thematic engagement](#) review and in case studies within our [Voting activity](#). These issues are typically highlighted in our [Identification & Engagement](#) around material Governance and Sustainability issues. We summarise our review of overall statistics and themes of our engagement and voting activity. These examples include the outcome of engagements in terms of specific actions. Our statistics also provide a summary of the current stage of completion of engagements for change which informs the potential timing of escalation activity and how our voting escalation has differed by geography.



### Principle 12: Exercising rights and responsibilities

**Context:** We explain how we exercise our voting rights and responsibilities and how this differs depending on key regional or sector considerations used in arriving at decisions in our [Voting Policy](#). This also includes how we use proxy advisors in providing voting research and recommendations, and the rights of clients to set their own specific policies or use direct voting in segregated mandates together with considerations regarding stock lending.

**Activity & Outcome:** Our voting activity for the year is summarised in the statistics in our [Voting activity](#) section. Case studies are used to reflect our approach to clients in respect to the rationale behind certain decisions. The wider management of our voting activity, including execution and monitoring of third-party services, is also included in the [Key issue & policy summaries](#).

*Although most of our engagement is private, we have participated in a wide range of collaborative efforts to address specific systemic issues that impact companies held in our clients' portfolios.*

## Purpose, Strategy & Culture

### Our Purpose remains *Investing to Improve Lives*

At Martin Currie, our purpose of Investing to Improve Lives is a vital component of being a sustainable business. When we generate returns for our clients, profits for our financial stakeholders and good compensation for our employees, we can also do more to benefit the communities in which we operate. It guides us through our partnerships with clients, as investors in equity markets, our business practices, as an employer, and as members of the community.

### Strategy - creating long-term value

Investing to create long-term, sustainable value is at the heart of our business strategy. Our belief is that, through our focus on concentrated long-term equity portfolios, we are in the best position to deliver on our client expectations. This also informs our approach to stewardship and sustainability activities, which are most effective when investor-led. As investors, we believe financial returns and governance and sustainability factors are fundamentally intertwined. This investor-led analysis is fully embedded in our investment processes, allowing us to meaningfully improve our understanding of investee companies, their material risks and their opportunities to benefit our clients. By looking beyond the numbers, we also gain a greater understanding of the real world contributions and impacts that companies we invest in have, beyond the financial returns. In doing so, we not only help fulfil the real-life ambitions of our clients but align with companies that over the long-term will contribute to a more sustainable economy, society and environment.

*Investing to create long-term, sustainable value is at the heart of our business.*

In our view being long-term investors with a focus on stewardship and active ownership has helped provide an environment to deliver returns that satisfy our clients' expectations. We have been successful in delivering this; over a 10-year period 90% of our assets under management and 76% of portfolios have outperformed their relevant benchmark.<sup>9</sup> Given the average tenure of our client base is around seven years, we believe this is an appropriate timeframe to measure client outcomes which in part reflect our approach to managing material governance and sustainability risks and opportunities. As investors, we are aware that the perfect company does not exist. Reflecting this on the outcomes of our own stewardship approach we will continue to improve our governance, integration, oversight and disclosures over time.



#### This year we have focused our attention on:

- Improving our stewardship resources and oversight through the addition of the ESG and Investment Risk Oversight Group.
- Enhancing our focus on systemic issues such as climate change and human rights through the publication of our initial NZAMI asset commitments and expanding our collaborative engagement activities through becoming a lead investor in the industry wide collaborative initiatives.
- Expanding our investment capability with the creation of the Stewardship, Sustainability & Impact (SSI) team.

These actions have reinforced our ability to both deliver greater investment and stewardship insights, contribute more effectively to addressing systemic issues and most importantly to respond effectively to client needs and enquiries.

<sup>9</sup>Martin Currie Performance Data as of 31/12/2022.



**More than a business – our culture and values support our commitments to delivering on our social and environmental ambitions.**

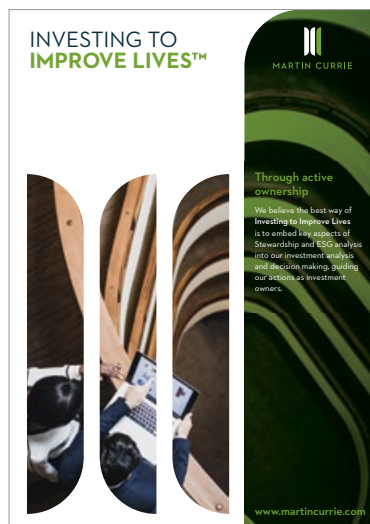
We understand that our business is bigger than its sum of parts and that its influence reaches many stakeholders. It is why we hold ourselves to the same exacting standards that we expect of others: fostering a diverse and inclusive workplace, being trusted advisors to our clients, and positively contributing to where we live and work.

Our people are at the heart of our business. Harnessing all our life experiences, distinct capabilities and talents is key to our success. We value these differences, but know they require the right environment to flourish. It is why we are committed to being a truly diverse, inclusive, and equitable company. This supports delivery of our stewardship activities and wider business success by creating a supportive, diverse and inclusive working environment for our people. We believe this helps create the best conditions for optimal decision making, enabling us to deliver positive outcomes for all stakeholders. Systemic issues such as climate change also require a credible system wide response. In order to have credibility in pressing our investee companies to deliver on setting climate targets for example, it is important we act with authenticity with regard to our own response.

We have continued to deliver on our diversity and environmental commitments during 2022.

- We have publicly announced our Initial Asset Commitment under NZAMI and have continued to work with our clients to expand this commitment.
- We have offset 200% of our corporate emissions during 2022 and we are continuing to develop our response in support of reducing our own emissions intensity by 50% by 2030
- We have made further progress on our own corporate diversity goals which have been further supported by new partnerships with Black Professionals Scotland, Investment 20/20 and Salvesen Mindroom
- We have expanded our own actions in supporting industry change by becoming an active participant in the Global Ethical Finance Initiative (GEFI).

*Find out more about our purpose of Investing to Improve lives by clicking [below](#).*



## Business summary

**Our aim is to develop true partnerships with our clients and provide Outcomes Beyond Alpha. The expertise and insights from our investment floor can add significant value for our clients.**

We are focused on sharing our knowledge through a range of avenues including risk analytics, data sharing, thought leadership, client round tables, bespoke client training and reporting. We develop strategic partnerships where we become an extension of our clients' investment teams and staff. We do this from a position of complete alignment, recognising that we fulfill the same role within the value chain of Investing to Improve Lives. Asset owners today want a relationship that is more than just alpha generation. A deeper partnership which sees Martin Currie at the centre of their portfolio and decision-making enables a closer alignment and ability to deliver for all stakeholders. This has contributed to our success in building a business with a focus on both institutional clients and in pooled vehicles within long only active equity.

The following table shows the split of assets under management between institutional and retail clients and by geography at 31 December 2022:

Channel	Client region	% of AuM	Value (US\$ millions)
<b>Institutional</b>	Asia & Australia	14.9	3,102.3
	Europe	0.2	45.7
	North America	16.2	3,377.8
	South America	0.2	32.7
	United Kingdom	13.6	2,836.0
<b>Institutional total</b>		<b>45.1</b>	<b>9,394.5</b>
<b>Retail</b>	Asia & Australia	17.6	3,676.6
	Europe	1.8	374.6
	North America	16.4	3,412.3
	United Kingdom	19.1	3,989.5
<b>Retail total</b>		<b>54.9</b>	<b>11,453.0</b>
<b>Total</b>			<b>20,847.5</b>

Source: Martin Currie, 31 December 2022.

Total assets under management as of 31 December 2022 in US dollar billions, split by region of domicile of the client.



Asia & Australia  
Total 6.8



Europe  
Total 0.4



Americas  
Total 6.8



United Kingdom  
Total 6.8

**TOTAL ASSETS UNDER MANAGEMENT US\$20.8 billion**

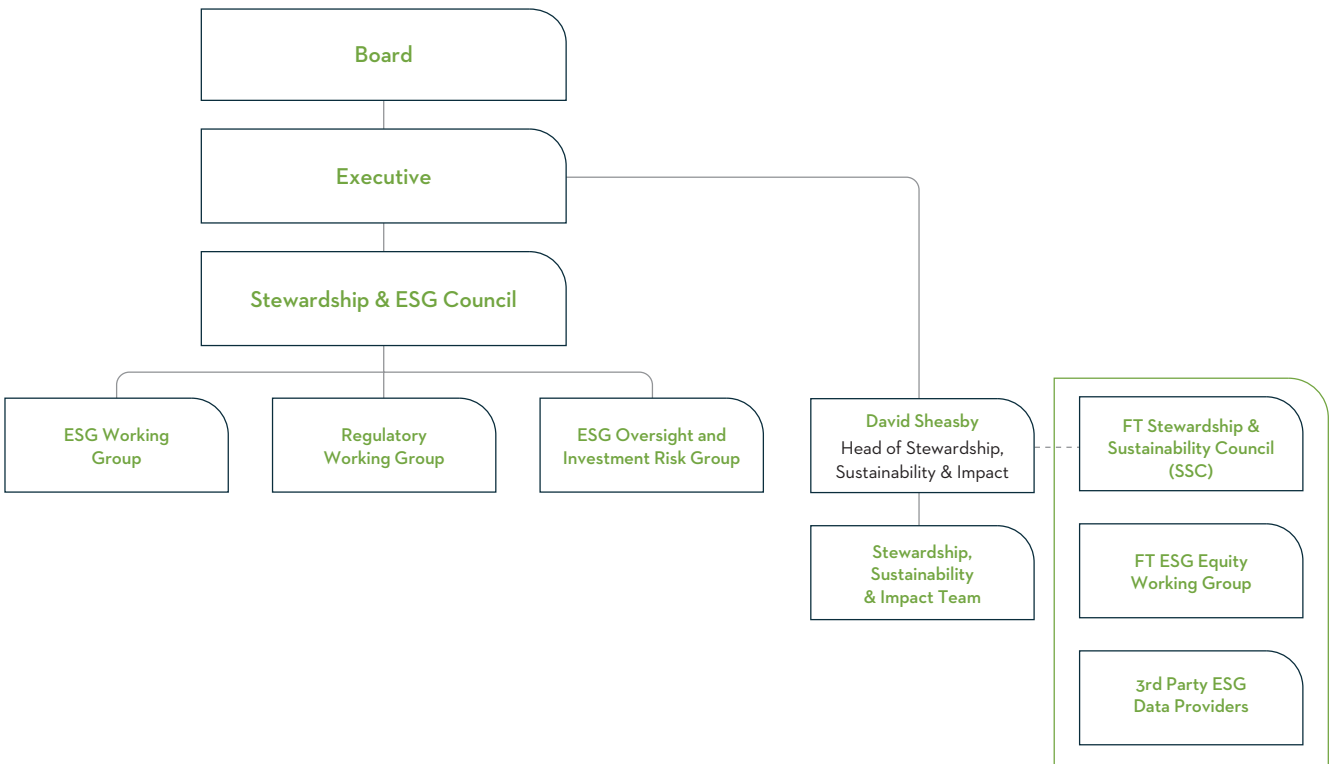
# Resources

The structure and governance of our stewardship and sustainability activities at Martin Currie is outlined below, highlighting the central role of the investment team together with the collective resource and oversight that is dedicated to activity in this area in specialist teams and forums.

A central tenet to our approach to stewardship and sustainability is that responsibility for carrying out analysis and stewardship sits with the investment teams. This creates clear accountability and in our view, provides the best method for authentically integrating this into investment decisions. This section sets out our approach to the structure, governance and oversight of stewardship and sustainability at Martin Currie and outlines the resources and forums that are in place to support this.

In 2021 we evolved our governance and oversight structure with the establishment of the Martin Currie Stewardship & ESG Council (the Council). This was further enhanced in 2022 with the establishment of the ESG Oversight and Investment Risk Group. These enhancements have increased our capacity to deliver effective stewardship outcomes for our clients. During 2022 we expanded our investment capabilities with the addition of dedicated UK and Japanese equity teams. To further expand our stewardship and sustainability activities we added a dedicated person to the UK team to help support the increasing volume and complexity of both regulation and client expectations. This investment, our dedicated Stewardship, Sustainability & Impact (SSI) team and the enhancements to our governance structure around stewardship and sustainability represents a continued evolution in our approach and brings both more resources and greater focus to our stewardship activities. This model has been effective in allowing us to expand our analytical toolkit in respect of our stewardship activities, respond to regulatory change and to meet and oversee client mandates which have specific stewardship requirements.

The chart below shows the overall governance and oversight structure for our approach:



*A central tenet to our approach to stewardship and sustainability is that responsibility for carrying out analysis and stewardship sits with the investment teams.*



Overall accountability lies with the **Board** of Martin Currie. They have delegated oversight and implementation of stewardship and sustainability to the Executive.

Overseeing stewardship and sustainability strategy at the firm is the **Stewardship & ESG Council** (the Council). This body was created in 2021 to have a dedicated high-level forum specifically related to stewardship and sustainability at Martin Currie, to oversee the corporate approach to sustainability, to ensure that we are fulfilling our stewardship responsibilities and to provide a channel for assurance, feedback, evolution and improvement of our stewardship activities. As a relatively small, focused equity asset manager running concentrated long-term portfolios, the Council has strong visibility and deep knowledge of our internal approach. Assurance on stewardship activities focuses on validating that we do what we say we do and assessing the effectiveness of the controls and oversight in place. The Council has delegated authority from the Executive for these matters. It is co-chaired by Michael Browne (Head of Investment Strategy and Oversight) and David Sheasby (Head of Stewardship, Sustainability & Impact). Also on the Council are representatives from other key business areas. The Council is the steering body for Martin Currie's stewardship and sustainability principles, long-term goals, and execution. This includes future planning, regulatory accountability and sign-off, ownership of Martin Currie's stewardship and sustainability-related policies and assurance that appropriate resources and training are in place. It also has oversight of third-party vendors in relation to proxy voting and client reporting. The Council reports to the Executive Committee.

Responsibility for carrying out sustainability analysis and active ownership resides with the investment teams. All stock research is required to consider the material and relevant governance and sustainability factors that could impact the ability of a company to generate sustainable returns. These factors are recorded in a standard dedicated section of our proprietary stock analysis templates. This requires an explanation on how these factors have been incorporated into the analysis. In addition, we have established industry frameworks that provide guidance on material factors to consider when looking at each industry, reflecting the wide variation in what may be significant and relevant across different industries.

## Stewardship and Sustainability Forums:

1. *Martin Currie Stewardship & ESG Council*
2. *Martin Currie Stewardship, Sustainability & Impact (SSI) Team*
3. *Martin Currie ESG Working Group*
4. *Martin Currie Regulatory Working Group*
5. *Martin Currie ESG Risk Oversight and Investment Risk Group*
6. *Franklin Templeton Sustainability and Stewardship Council (SSC)*
7. *Franklin Templeton ESG Equity Working Group*

We have a dedicated **Stewardship, Sustainability & Impact Team (SSI)** that works with the investment teams on how to incorporate responsible investment more explicitly into analysis and how to incorporate best practice on stewardship. This team of four, led by Head of Stewardship, Sustainability & Impact, David Sheasby, reports directly to the Executive and is independent of the investment teams, having oversight of the overall stewardship approach as well as reporting on stewardship activities including engagement and active ownership. David is Co-Chair of Franklin Templeton's Stewardship and Sustainability Council (SSC).

The team works with investors to develop frameworks for governance and sustainability analysis, providing guidance and oversight in all aspects of stewardship and sustainability. They work with the investment teams on relevant issues such as corporate engagement, proxy voting and questions around integration. They provide expertise as well as context and a global perspective on stewardship, governance and sustainability matters. The team, along with Investment Risk, is responsible for the oversight of Martin Currie's process on corporate governance and responsible investment.

The **Responsible Investment Policy**, the **Global Corporate Governance Principles**, **Stewardship and Engagement Policy**, **Climate Engagement & Escalation Policy** and **Voting Policy**, set the framework for stewardship and sustainability -related investment activities.

There are also three stewardship and sustainability-related forums, each with the aim of focusing on continuous improvement and sharing ideas, insights and best practice:

- **ESG Working Group** - comprising representatives from each investment team, the SSI team and the Global Head of Investment Strategy and Oversight. It is led by the Head of SSI.

This group is focused on the work of our investment teams with the aim of continuing to evolve the approach in each team, building expertise and sharing best practice. Through this we ensure broad consistency and efficiency in our approach and are able to identify resourcing and training needs.

- **Regulatory Working Group** - comprising representatives from Distribution, Legal, Risk, the SSI team, Data Platform & Quant and Compliance.

Reflecting the rapid evolution in the regulatory environment, this group reviews upcoming regulation, oversees the necessary resourcing and implementation to meet these requirements and reviews the effectiveness of the frameworks established. This group is chaired by the Head of SSI and consists of key stakeholder representatives from across the business.

- **ESG Oversight and Investment Risk Group** - comprising the Head of Investment Risk, Head of Investment Strategy and Oversight and the Head of SSI and Head of Compliance.

This forum is responsible for overseeing and assuring that process and mandate commitments are being observed. This includes, but is not limited to, oversight of the proprietary governance and sustainability risk ratings, compliance with fund specific restrictions (both sector and norms based) and risk rating thresholds as well as monitoring, oversight and challenge on ESG risk data and controversies.

In addition to these Martin Currie forums, there are workstreams in place across Franklin Templeton with a view to tackling common challenges across the group.

- **Franklin Templeton Stewardship & Sustainability Council** - David Sheasby is Co-Chair of this Council. This group focuses on strategic, regulatory and emerging sustainability issues affecting all Franklin Templeton's Specialist Investment Managers (SIMs), with the objective to share best practice and coordinate activity where appropriate.
- **The Franklin Templeton Equity ESG Working Group** - members include ESG representatives from each of Franklin Templeton's equity focused SIMs, with the objective to share best practice and coordinate activity where appropriate.
- **The Franklin Templeton Global Sustainability & Strategy Team (GSST)** - has a role in coordinating multi-stakeholder areas in relation to sustainability at Franklin Templeton. In terms of Martin Currie's governance and oversight structure, the GSST is responsible for the central provision and oversight of sustainability-related data providers such as MSCI, S&P Trucost and ISS. The GSST shares responsible data provider recommendations and oversees the appropriate delivery of service.

As part of the assurance process the Martin Currie funds that are covered by SFDR are also subject to annual review by the ESG Product Advisory Group (EPAG) at our parent Franklin Templeton. This includes a review of all disclosures, investment process and any binding criteria with regards to sustainability or stewardship.

In addition, in 2022, Franklin Templeton internal audit undertook a broad review of the approach to sustainable investing across the group including the SIMs which includes Martin Currie. As a result of this there were a number of recommendations made, however none of these impacted directly on Martin Currie.

*There are three stewardship and sustainability-related forums, each with the aim of focusing on continuous improvement and sharing ideas, insights and best practice.*

## Training, Remuneration & Diversity

### Training

Beyond our governance structure supporting our stewardship activities, we are committed to supporting the continuous improvement and deepening of stewardship and sustainability understanding across the investment teams, and the wider business.

The SSI team is responsible for sustainability-related training and the team ensures there are regular learning sessions and mentoring. Training sessions are either provided internally by the SSI team, or externally provided by experts in their field.

Examples of training where we have leveraged external providers and the teams at Franklin Templeton are as follows:

- Update on sustainability topics to investment teams (run by PwC)
- Session on Franklin Templeton's ESG Product Advisory Group (EPAG),<sup>10</sup> which helps assess product suitability to provide Article 8/9 disclosures, provided to investment teams by the GSST.
- Sustainable finance Q&A sessions run by PwC for investment teams
- EU Sustainable Finance Disclosure Regulation (SFDR) interpretation for key investment teams and Stewardship and Sustainability Council (provided by PwC)
- Mapping the Principle Adverse Indicators (PAI) (provided by PwC)
- Net zero sessions for investment teams from the GSST

The ESG Working Group is an additional educational forum providing guidance and insights on regulation and specialist topics in order to support the investment teams.

During 2022, examples of education and training included internal sessions on regulation, biodiversity, climate, and net zero, as well as sessions at a team level to focus in more detail on specific topics.

For the new Japanese and UK equity teams we established dedicated training programs focused in particular on integration of Governance and Sustainability and engagement.

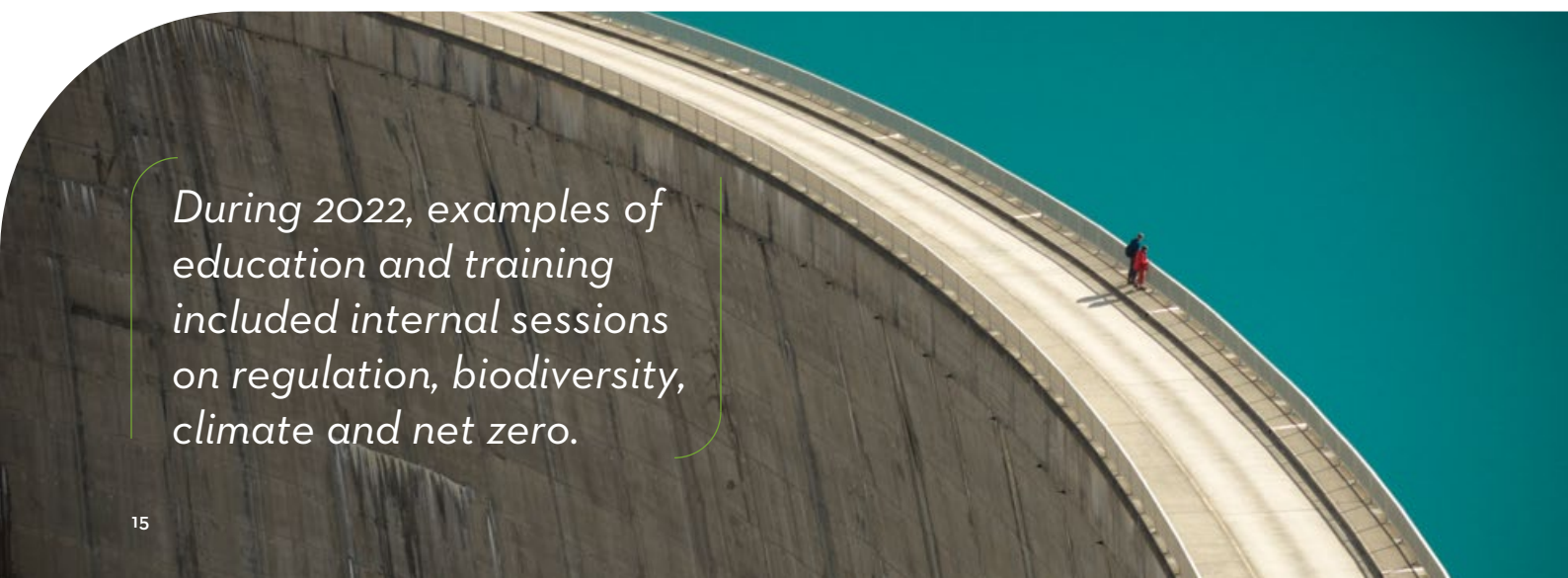
We also hosted external training and education on regulatory developments and requirements and set up regular training sessions with a number of our service providers.

Employees are supported to pursue sustainability-related professional qualifications, such as the CFA Institute's Certificate in ESG Investing, or the new Certificate in Climate and Investing from the CFA Society of the United Kingdom. Other qualifications pursued have included the Fundamentals of Sustainability Accounting (FSA).

### Remuneration

The management of governance and sustainability risks and the integration of stewardship is incorporated into the firm's investment process and is, as such, also considered in the performance measurement of each member of our investment teams. Compliance with the firm's stewardship and sustainability-related policies, which govern the monitoring and management of sustainability risks, is among the nonfinancial metrics which determine compensation outcomes.

<sup>10</sup>The ESG Product Advisory Group (EPAG) helps assess product suitability to provide Article 8/9 disclosures. Voting members are drawn from our Global Sustainability Strategy Team, Compliance, Investment Compliance, Investment Management Oversight, Investment Risk, Legal and Product. The combined oversight and expertise of these teams, which have the ability to look through all investment strategies and holdings, ensure a high level of rigour when making these assessments.



*During 2022, examples of education and training included internal sessions on regulation, biodiversity, climate and net zero.*

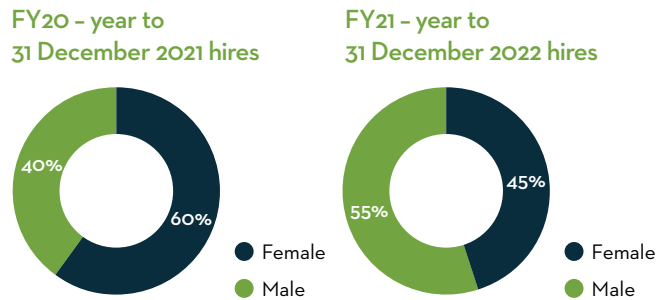
### Diversity

A healthy and vibrant workplace for all creates the best possible conditions for optimal decision making, and thus the best outcomes for all stakeholders. As part of our corporate purpose of Investing to Improve Lives, we are on a continuous journey to improve Martin Currie's diversity. We are also working to create a more inclusive environment for our employees that recognises how our different perspectives, knowledge and attitudes can best inform our approach to providing solutions for our clients.

We know that like many companies in the financial services industry, we have much to improve upon in this area. During 2021 we set ambitious diversity targets across the business reflecting our aspirations to address diversity challenges in a systematic manner. Specific improvements have been made over the past couple of years, particularly in gender balance across the business which has been reflected in our recruitment approach. Since establishing targets in April 2021, we have seen continued progress in increasing representation across many areas of the business such as the investment team with gender diversity rising from 16% to 26% and with increased female representation on the Executive Committee and Distribution Executive.

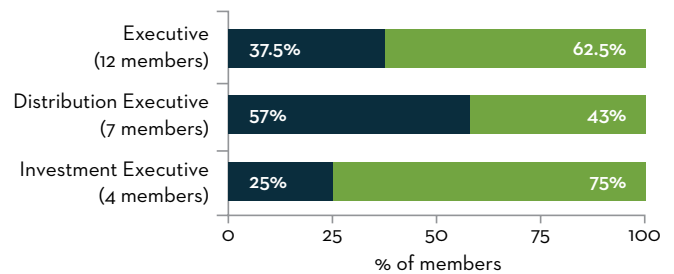
*Since establishing targets in April 2021, we have seen continued progress in increasing representation across many areas of the business such as the investment team with gender diversity rising from 16% to 26%.*

### Split of recruitment by gender

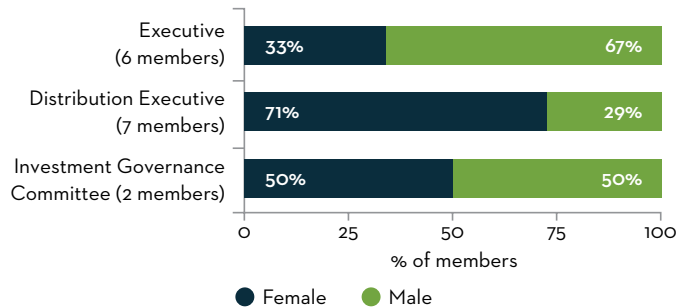


### Split by gender of representation on key forums within the organisation

#### FY21 - year to 31 December 2021

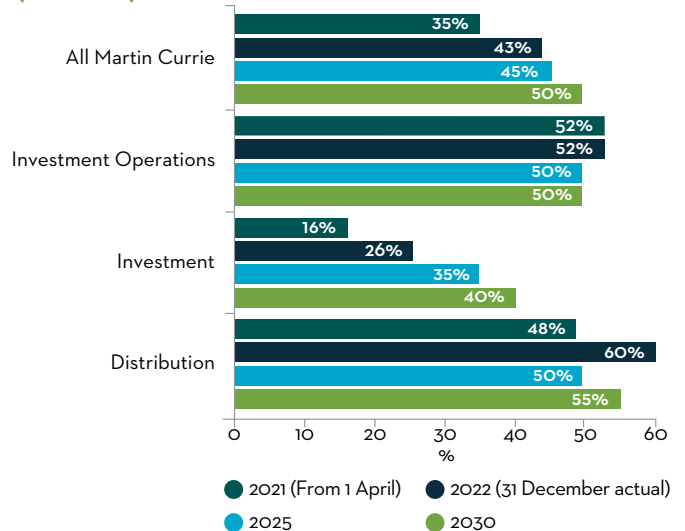


#### FY22 - year to 31 December 2022



### Gender parity targets

#### (% female)



Source: Martin Currie, as of 31 December 2022.



## Evolution & Improvements



**David Sheasby**  
Head of Stewardship,  
Sustainability & Impact



**John Gilmore**  
Stewardship, Sustainability  
& Impact Specialist  
Portfolio Manager, Impact  
Equity

The stewardship environment has continued to evolve at pace over the course of the last year in terms of the expectations from our clients, market practices, regulation and our own activities.

Recognising the increased demands on asset managers but also the desire to maintain excellence in how we approach these requirements, we have been delighted to establish and expand our SSI team during 2022 to address a future 'beyond ESG'. We added a highly experienced Portfolio Manager, Luran Halpin, to the team in November 2022. This not only expands our expertise with a specific focus on impact analysis and measurement but gives us a platform to expand our product range in response to client demand for products with a focus on intentional impact. Other key areas of evolution for us this year have been in areas where we have remodeled and upgraded our capabilities. We have further strengthened our governance framework with the creation of the ESG Oversight and Investment Risk Group and have continued to expand our client reporting of stewardship activities to include elements such as portfolio specific engagement reporting which we are rolling out across teams.

This continues the evolving client reporting journey we began in 2021 with the aim to make this more relevant and insightful in terms of our stewardship approach, with an increased focus on quantitative metrics alongside qualitative disclosures at an individual portfolio level. These enhancements reflect the work that we have done to understand what is important to our clients and their end beneficiaries. This signifies our desire to give clients greater transparency on the stewardship work that we undertake and takes into account areas of feedback where they want greater detail in relation to portfolio stewardship activities, as well as sustainability and impact analysis.

We are proud of this evolutionary change which will increase transparency and insight across our entire client base and is part of our commitment to remain at the forefront of the industry in having an open dialogue with investors.

Our reporting evolution has been enabled by the work that we continue to do to evolve our investment approach with ownership of this sitting squarely with our investment professionals. Our internal ESG Working Group, which consists of representatives from each of our investment teams, is a forum for identifying potential areas for improvement, sharing best practice, and implementing enhancements to our process. These include the work on climate, human rights and the SDGs, sustainable investments and the implementation of our new Climate Engagement and Escalation policy.

This was made possible during 2021 when we substantially broadened the range of ESG data that we have access to and have built a platform to capture both internal and external data that has facilitated enhanced insights and consequential reporting.

We have also increased our capacity to conduct more detailed assessments and to create even more robust record keeping following the widespread deployment of a new research management system 'Calibre'.

*Our reporting evolution has been enabled by the work that we continue to do to evolve our investment approach with ownership of this sitting squarely with our investment professionals.*



*We have also increased the breadth of our collaborative engagement activity in 2022: joining two new collaborative engagement platforms as a lead investor*

This has allowed us to provide standardised and verifiable audit in respect of key commitments we have made under SFDR in relation to 'sustainable investments' including Principal Adverse Impact (PAI) analysis and an assessment of both positive contribution to the UN Sustainable Development Goals (SDG's) and any potential significant harm. This system is also helping us increase the quality and linkage in our engagement tracking. We have made a conscious decision to be more purposeful in our engagement - advocating for specific change and tracking outcomes more systematically rather than engaging for information. We expect to see this manifest itself in more detailed, effective engagements for change over time.

Our focus from a systemic issue perspective has been on two areas. Firstly on climate change, setting our initial commitments under the Net Zero Asset Managers Initiative (NZAMI) including both asset level - we have initially committed 18.9% of our firm assets and specific portfolio level targets aligned to net zero by 2050. As signatories to NZAMI we will continue to work with clients to identify the extent to which they want their assets to be part of those committed to the ambitions of the initiative. Secondly we have continued our focus on human rights, building on our own work on modern slavery analysis and private engagement on this topic by joining and becoming a lead investor in the PRI led collaborative engagement, 'Advance', that is focused on human rights with a particular emphasis on the mining industry.

We have made a deliberate choice to increase the breadth of our collaborative engagement activity in 2022: joining two new collaborative engagement platforms as a lead investor - i) the CDP non-disclosure campaign encouraging companies to increase their environmental disclosure and ii) PRI 'Advance', focused on improving human rights practices in the mining industry. This is in addition to our ongoing work in CA100+. More detail on these can be found in [Collaborative Engagement](#).

To support our clients, we introduced a quarterly stewardship report, Stewardship Matters, in 2020. Each issue features a topic of particular interest, for example net-zero or diversity, and provides insights into our stewardship activities including progress that we are (or are not) making on engagements relevant to these topics. Links to these documents can be found in our [Stewardship & Sustainability insights](#) section.

## Stewardship: *the year in review*



**David Sheasby**  
Head of Stewardship,  
Sustainability & Impact



**Eoghan McGrath**  
Stewardship, Sustainability  
& Impact Analyst

2022 was dominated by steep rises in prices across the board due to a confluence of factors. Demand for goods and services accelerated as governments unwound COVID-19 pandemic restrictions, whilst shortages and production bottlenecks kept the supply-side constrained. Global food and fuel prices were significantly affected due to the ongoing Russian invasion of Ukraine, which began in February. Central banks responded to inflationary pressures and raised interest rates sharply which contributed to a cost of living crisis, creating considerable challenges for companies, their employees, customers and suppliers.

This had important implications for how we conducted our stewardship duties. An immediate response was to understand the exposure our investee companies had to Russia and Ukraine, how they were managing their exposure and, where relevant, the impacts on their employee base. More broadly we were looking to understand not just how companies were managing inflationary cost pressures, but also the extent to which they were supporting their employees through this crisis – much as we had focused on during the pandemic.

While energy security was of vital importance to governments, climate change remained a key focus during the year. Ahead of COP27 which took place in Egypt, UNEP (the UN Environmental Programme), produced its seventeenth edition of the Emissions Gap Report (The Closing Window). This set out the persistent gap between current commitments from governments (nationally determined contributions or NDCs), implying a temperature rise of 2.6°C, and the goals of the Paris Agreement to limit the rise to well below 2°C. Record high summer temperatures in Europe and devastating floods in Pakistan served as a reminder of the urgency to continue to address climate change not just through mitigation but also adaptation, as discussed in the Intergovernmental Panel on Climate Change's (IPCCs) sixth assessment report looking at Impacts, Adaptation and Vulnerability.

Against this backdrop our stewardship activities continued to include a focus on understanding how companies are managing and mitigating potential risks from climate change as well as embracing some of the opportunities presented by the transition to a lower carbon economy.

One encouraging development was the adoption of the Kunming-Montreal Global Biodiversity Framework by almost 200 countries at COP15 for Biodiversity in December. This landmark Framework has a target to protect at least 30% of land and seas by 2030, and addresses key issues related to biodiversity loss such as subsidies and the financing gap. We have written previously about the importance of addressing biodiversity alongside climate change, and in October last year we also held our inaugural Pathway to 2030 Forum. We welcomed investors, listed companies, and sustainability experts to Melbourne to explore the real investment implications from action, and inaction, on critical sustainability issues such as biodiversity and climate change.

*Our stewardship activities continued to include a focus on understanding how companies are managing and mitigating potential risks from climate change.*



Australia is one region that is truly at the forefront of the biodiversity crisis, having experienced a larger loss of biodiversity than any other continent over the past two centuries. Until recently, our perception was that the issue has been vastly overshadowed in the minds of corporates and investors by climate change, despite the two issues being inextricably linked, particularly through land use change and the overexploitation of natural resources. Recognising the potential materiality of biodiversity loss, our team in Melbourne commenced a structured engagement with the largest 200 companies in Australia to benchmark their approach to understanding and managing biodiversity risk. We expand more on this in our section on [Thematic engagement](#).

One other area that we have focused on has been expanding our stewardship work on modern slavery and human rights. We have long recognised this as a material issue, and in last year's report we outlined some of our continued work in this area. We have also been closely following the work that the PRI has been doing on Human Rights and in 2022 we successfully applied to join the Advance collaborative engagement as a lead investor for Antofagasta, a Chilean mining company. This engagement focuses on Human Rights and Social Issues and will provide an opportunity for us to build on the engagement that we have already been having with Antofagasta. This collaborative engagement commenced at the start of 2023.

## Progress but fragmentation in regulatory developments

2022 has been an especially busy year for regulation with the environment best characterised as 'fragmented'. An overarching theme has been the increased focus on transparency and authenticity in an attempt to shine a light on 'green-washing' but the approaches taken have been different depending on the region or country involved.

Our work on the evolving regulatory regimes has been informed by our membership of key industry committees such as the Investment Association's (IA) Stewardship Committee, the IA Sustainability & Responsible Investment Committee and the PRI Stewardship Advisory Committee. These have also allowed us to provide input and feedback into the evolution of policy through the consultation processes associated with the changes - most notably the proposed UK Sustainability Disclosure Requirements (SDR), which we expand upon later.

Internally our preparatory work has been coordinated through our Regulatory Working Group comprising key stakeholders across our business. Our investment focused ESG Working Group has also played a key role in establishing the tools and insights that we believe will be needed to authentically meet current and future regime requirements.



*Australia is one region that is truly at the forefront of the biodiversity crisis, having experienced a larger loss of biodiversity than any other continent over the past two centuries.*



Our Stewardship & ESG Council provides the governance and oversight to ensure that these inform our strategic decisions as a business and that we are adequately resourced to support this work. Our co-chairmanship of the Franklin Templeton Stewardship & Sustainability Council has allowed us to leverage the extensive capabilities across the broader FT group.

In Europe the focus has been on the Sustainable Finance Disclosure Regulation (SFDR) which has continued to evolve and has seen elements of the regime clarified, with further extensive work being required to support the expanded sustainability disclosures. Components of the corporate reporting framework in Europe have also been finalised – for example the Corporate Sustainability Reporting Directive (CSRD) which will require in-scope companies to disclose information on ‘sustainability matters’ that affect the company, as well as the impacts of the company on sustainability matters (the so-called ‘double materiality’ principle). Once in place these disclosures should be helpful to investors, although in the spirit of ‘fragmentation’ these won’t currently be fully aligned with the International Sustainability Standards Board (ISSB) standards.

While the EU approach has focused on disclosures but has ended up as a de-facto labelling regime (Article 8 and Article 9), the UK and US have set out to establish a labelling system, albeit again with differences. Both systems consist of three categories (they are currently draft rules), but in proposing the regime for the UK the Financial Conduct Authority (FCA) was very clear that it was setting a higher bar than SFDR or the Securities and Exchange Commission (SEC) proposed regime. More fragmentation.

The other main development over the course of the last year has been the fragmentation or even polarisation of views on ‘ESG’ – with the US market a particular focal point for this. One key challenge is that there is no clear definition of ‘ESG’ leaving it wide-open to misinterpretation and misconception. As a result we have seen strong push-back against ESG in certain parts of the US as it has become associated with political or anti-fossil fuel rhetoric. We are strong believers that the language should be more closely associated with sustainability and in particular on sustainable finance, and we expand on this later in [Beyond ‘ESG’](#).

This strength of opinion (on both sides) was demonstrated by the much higher than usual number of comments that the SEC received in response to its proposed climate disclosures. The proposal received more than 15,000 comments – far more than any other SEC proposal has ever received – but is an important step forward in climate reporting in the US. The proposal promoted disclosures around climate risk (physical and transition) and climate related expenditures with a materiality overlay in both cases. As we look into the coming year the main regulatory focus will be on: the UK where we anticipate publication of the final version of the SDR and the first TCFD reports being produced by large asset managers; the continued refinement and potential review of SFDR in the EU; and in the US, the final form of the ‘Names’ rule and the corporate climate disclosures.

*We are strong believers that the language should be more closely associated with sustainability and in particular on sustainable finance, and we expand on this later in ‘moving on from ‘ESG’.*

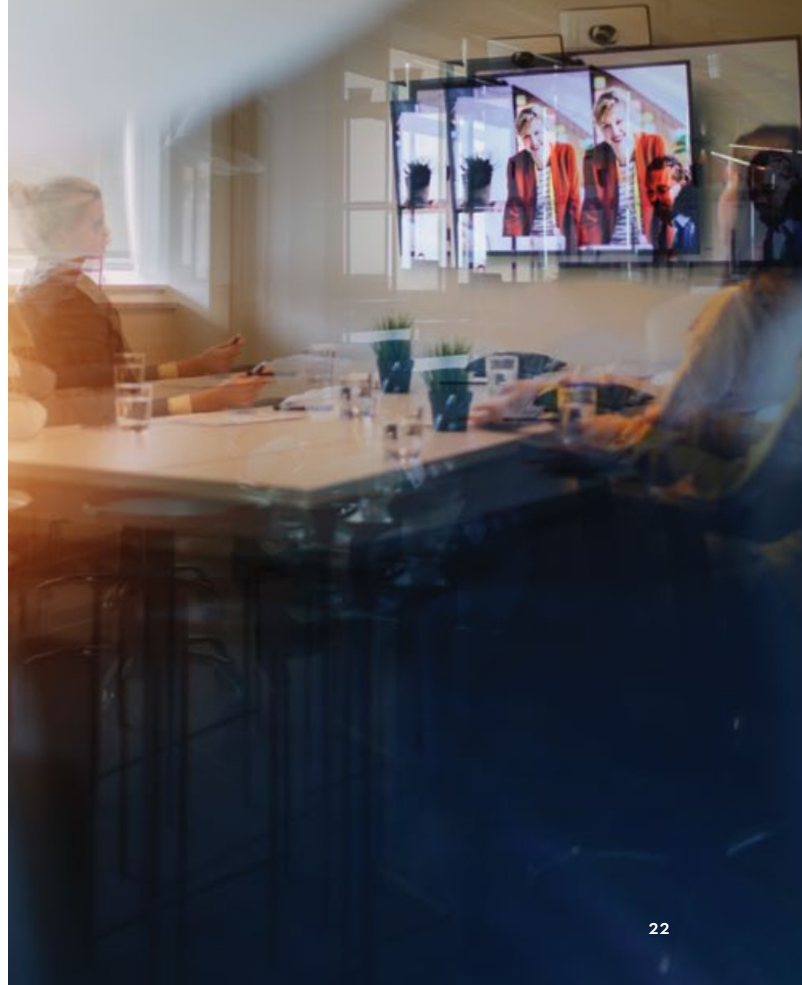
## Contributing to well-functioning markets

One aspect we consider is how we can work with other stakeholders to promote continued improvement to the functioning of financial markets. There were a number of regulatory consultations in 2022 but the key development was the FCA consultation on SDR which was published in the Autumn. This will be pivotal in shaping the evolution of sustainable investment and stewardship in the UK market.

The consultation process involved meetings with the FCA, bilateral meetings with the IA and membership of a small focus group established to review and provide feedback on the consultation. The result was a substantial and detailed feedback document produced by the IA and submitted to the regulator for consideration. We also submitted our own written response where we outlined the key strengths but also a number of challenges we identified in the proposed regime.

Through our membership of the PRI Stewardship Committee we also contributed to the development of a guidance document to filing shareholder proposals. The paper guides investors as to how they can use shareholder proposals to drive improvements at investee companies on matters related to ESG issues. Practically, it offers suggestions to ensure that proposals are effective and impactful, the importance of which is highlighted in our [proxy voting](#) section (page 46). Alongside this, eight country-specific factsheets were developed to provide an overview of the key legal and technical processes related to filing a shareholder proposal in key markets: Australia, Canada, France, Germany, Japan, South Africa, the UK and the US.

*One aspect we consider is how we can work with other stakeholders to promote continued improvement to the functioning of financial markets.*



# Identification & Engagement: *identification*

## What we look at

Our aim when conducting our proprietary governance and sustainability analysis is to provide fundamental insight into material issues that can influence long-term returns for companies and to highlight potential areas for engagement. In addition, it allows us to assess where the companies in which we invest may have a material impact on key common issues such as climate change, human rights, cyber security and workers' rights. This is relevant because as an equity-only manager, the level of analysis and engagement prior to investment varies depending on region, sector and, critically, the materiality of the issues in question. The overarching aim is to assess the extent to which the identified factors will contribute to, or detract from, insights into the potential long-term value creation of a firm. We use a variety of resources to identify potentially material governance and sustainability issues including third-party data along with other publicly available information from a company's sustainability or integrated reporting which we use to inform our proprietary governance and sustainability risk ratings. We use third-party data as an input rather than an output of our process. We believe it is important to have our own view on material governance and sustainability issues as this allows us to have a better-informed approach in relation to escalation and engagement as well as providing a source of insight for producing better risk adjusted returns.

Our governance and sustainability analysis is investor-led and fully integrated into our investment process. We explicitly model some of these impacts. For factors that are not as explicit, such as regulatory change, this can be stressed via a cost of capital sensitivity and can influence valuation and portfolio management decisions during acquisition and when holding investments. Since we started more than a decade ago, our approach has always been that in order to fully integrate this analysis, responsibility resides with the individual research specialists and portfolio managers rather than a siloed and separate team in order to increase its relevance and connection to investment decision making. Our Stewardship & ESG Council has specific oversight controls alongside a focus on continuous improvement and sharing best practice driven by the ESG Working Group. At Martin Currie we focus on those factors that are relevant and material to the investment case. This applies equally to fundamental factors as to governance and sustainability factors.

The rationale for our stewardship and sustainability approach is best summarised in the diagram below:



*The overarching aim is to assess the extent to which the identified factors will contribute to, or detract from, the long-term value creation of a firm.*

## Proprietary Ratings

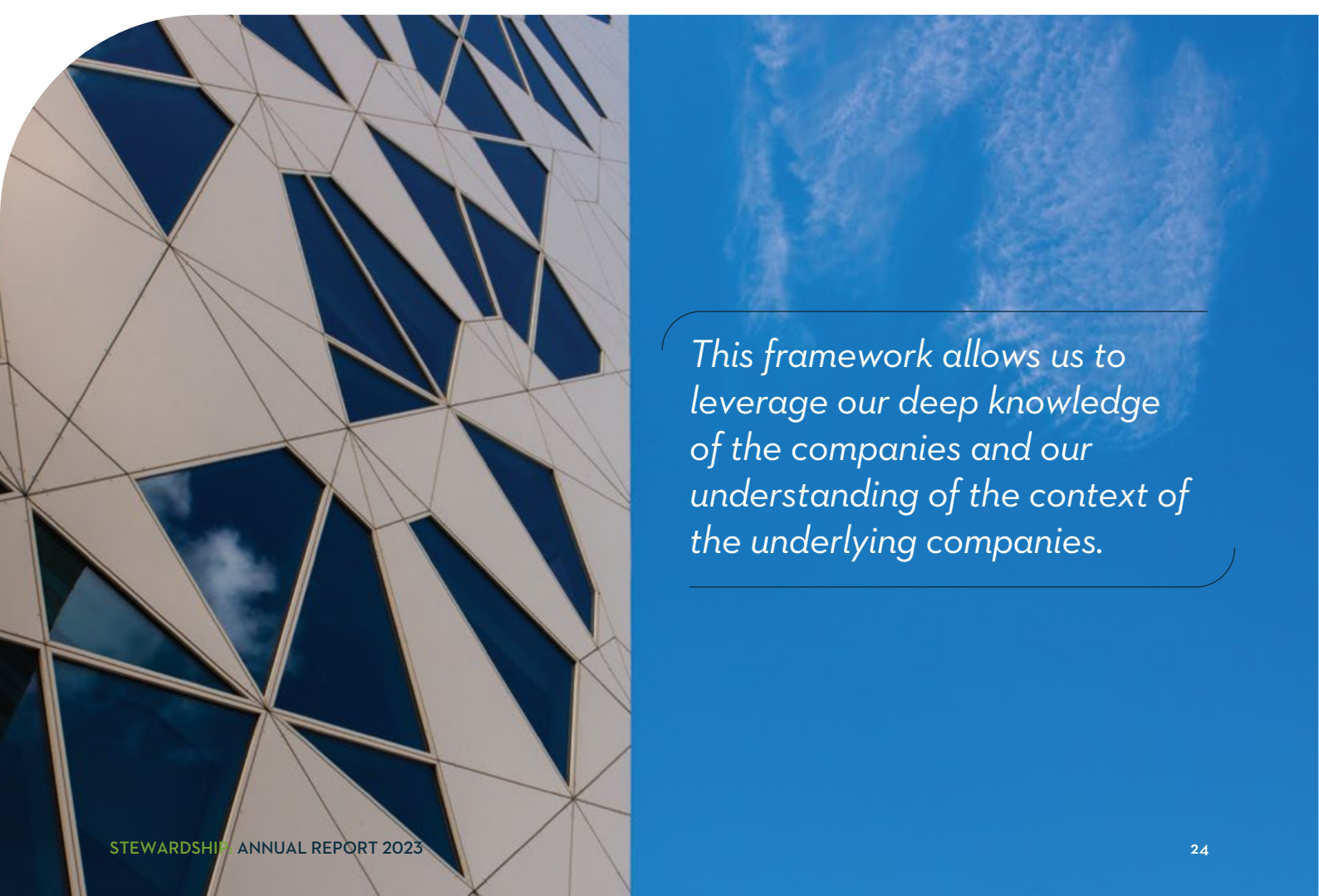
Our work on sustainability is ultimately focused on the long term economic success of the underlying business – essentially understanding how these factors may influence the ability of the company to generate sustainable returns (over the long term). We express these views in our Governance and Sustainability risk ratings which range from 1 (low risk) to 5 (high risk).

The first component is Governance. Recognising the different governance frameworks across the globe and our clients' international portfolios we take a 'principles' as opposed to a 'rules' based approach. This provides the opportunity to assess governance in the context of individual company circumstances and identify any particular areas of weakness. Our focus is on board quality, management quality, remuneration, capital allocation and culture.

The second part is Sustainability. An assessment of the extent to which the company has integrated sustainability into its business model and strategy. In referring to sustainability we think about it in economic terms – what might impact the ability of a company to generate long-term sustainable returns?

Our focus is therefore on what is potentially material to the business – relevant environmental risks and social risks – and common factors including climate change, human capital, cyber-security and tax. The framework for our analysis and ratings is set out in a series of consistent areas that we focus on and questions that we ask. For a broad range of funds that we manage, there are binding criteria that reference the proprietary ratings to exclude those companies with the highest risk ratings.

This framework allows us to leverage our deep knowledge of the companies and our understanding of the context of the underlying companies. The analytical framework helps to identify risks, opportunities and areas for engagement. The resulting ratings from each team are based on consistent informed judgement of the extent to which the companies demonstrate strong practice or face potential risks in the various aspects of governance and sustainability.



*This framework allows us to leverage our deep knowledge of the companies and our understanding of the context of the underlying companies.*



A summary of the key factors used in our analysis is shown below.



### 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



### Sustainability



#### 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



Data protection and privacy



Equality and diversity



Community relations



Human capital management



Product safety and liability



Supply-chain management



Human rights



#### 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.

## Material matters

Materiality is a concept used frequently in this report. In simple terms, this refers to the strength of the relationship between a governance or sustainability factor and corporate performance. Materiality also covers the scale of impact that companies have on wider environmental and societal issues. Some of this is common sense. For example, carbon risk is clearly more material to an oil and 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<sup>11</sup> 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 identified 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.

<sup>11</sup>Corporate Sustainability: First Evidence on Materiality, The Accounting Review, Vol. 91, No. 6, pp. 1697-1724. Khan, Serafeim & Yoon (2016). [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2575912](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2575912)

# Engagement: our approach

Engagement is a key element of our stewardship approach, how we manage our client’s assets and how we deliver long-term value for them. What we engage on is informed by our analysis of the material governance and sustainability risks that each company faces, how they are managing and mitigating these and the disclosures that they make in this regard. Examples of the linkages between our research integration and engagement activities is shown in the diagram below and in the case studies which follow. These examples highlight the multi-period nature of engagement for change – many of these examples (both private and collaborative) were included in last years annual report and we have tried to highlight the long term and ongoing nature of these engagements.

Our engagement is also informed by the broader systemic issues that have the potential to impact many companies and different parts of the financial ecosystem – the most pertinent example being climate change. Our engagement is not just with companies but also with regulators and policy makers to support the evolution of a sustainable financial system.

We have extensive interactions with the companies that we invest in and in many cases will be seeking information on, or monitoring the evolution of, their business, strategy and long-term value creation.

Engagement for change focuses on addressing particular issues and we place a particular emphasis on governance, strategy and capital allocation, as well as material sustainability (environmental and social) issues where these may impact the company concerned or where the company’s impact is material.

Where we are engaging on a particular issue we set out a clear objective (what we are trying to achieve) and then work with the company to aim for that outcome.

We also monitor the progress of the engagement against this objective, recognising that engagement takes time and often requires patience and persistence.

Engagement may include a combination of writing emails or letters to set out concerns, face-to-face meetings with management or other key personnel or meetings with board members.

Our engagements are led by the investment teams- they have the strongest long-term relationships with the companies that we invest in – and are supported as necessary by the Stewardship, Sustainability & Impact team.

Where there is limited progress on an engagement or where it relates to an issue which may impact the investability of a company we may escalate the issue through other stewardship activities such as voting, collaboration or ultimately divestment.

Much as our analysis informs our approach to engagement, the progress and outcomes of engagement also inform our ongoing analysis and understanding of the companies concerned:



## Integration & Engagement activity examples

Below we highlight recent focused engagements undertaken by our investment teams and the associated outcomes including the nature and extent of escalation where this was required. We have indicated whether each example is related to governance (G) or sustainability (S).

[G] S

### Asian Paints



India's leading manufacturer and distributor of paints, coatings and related services

#### Reason for Engagement: Governance

As part of our governance analysis we identified the suboptimal board independence as an area of potential risk. Our governance risk rating of 2 indicates that we reflect positively on the business leadership, capital allocation and disclosure practices as part of our investment thesis. In contrast, we have highlighted the suboptimal approach to board independence as an area of potential risk. While the company definition does conform to SEBI rules, the classification of directors with more than 20 years tenure on the board is below global best practice so we have chosen to engage on this topic.

**Objective:** Achieve a majority independent board, as defined by global best practice standards.

**Scope & Process of Engagement:** Building upon our previous dialogue, we met with management and relayed our view that although we don't see any specific issues with either individual, we seek a majority independent board. In line with previous communications, we outlined that although Asian Paints exceeds the Indian regulatory requirement for independent directors, we view Asian Paints as one of the leading companies in our investment universe and therefore we also seek the governance standards to be best in global class.

**Engagement Outcome & Next Steps:** Having escalated our engagement into our voting decisions due to the continued lack of a majority independent board, we had a further engagement with the company to discuss progress. During this, the company acknowledged it falls short of best practice but emphasised the ongoing journey of improvement it is on, with the audit committee now completely independent.

The company also outlined next steps towards improvement. The chairman (who we do not currently deem as independent due to his long tenure status) is retiring next year, and they will seek an independent replacement. The company is also seeking an additional independent director to appoint next year. The company is aware of their investor expectations around board structure, and we continue to communicate with them regarding their progress towards an independent board.

#### Engagement Stage of Completion:



The company sets out a plan to address issue.

*The company is also seeking an additional independent director to appoint next year.*

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## [G S]

### Antofagasta



A London-listed Chilean copper producer

#### Reason for Engagement: Governance and Sustainability

While acknowledging company efforts on the multiple environmental and social impacts of their mining operations, we identified remuneration structures as being the most appropriate conduit for continued positive change. By incentivising management in the right way, we acknowledge the knock-on effect for our assessment of future economic performance as well as their impact on the management of water risk and local communities. This combination of factors is central to our investment thesis.

**Objective:** As we have continued to monitor and engage with the company, we sought to gain a better understanding of its remuneration policy, with the goal to ensure that it competitively and fairly incentivises management to consider all stakeholders.

**Scope & Process of Engagement:** We discussed the company's remuneration proposals that will be put to vote at its AGM in 2023. The company highlighted recent success in completing annual pay negotiations across its operations. One area to consider was the need to balance both Chilean and UK requirements on CEO pay, and to ensure the structure was permissible in both jurisdictions, while remaining competitive. It was also discussed that the remuneration plan will have a component linked to Environmental, Social and Governance (ESG) targets, including diversity and inclusion, and safety components.

**Engagement Outcome & Next Steps:** We asked that Antofagasta share its remuneration proposal with proxy voting providers to facilitate voting recommendations before the AGM, which it is in the process of doing. We will continue to engage with the company on this matter and monitor progress. Additionally, as part of our ongoing engagement with the firm, it was recently announced that we had been selected as the lead investor for an engagement with Antofagasta as part of the broader Advance Stewardship initiative. This is a collaborative, investor-led initiative, coordinated by the UN-supported Principles for Responsible Investment (PRI), focusing on 40 companies within the renewable energy, and metals and mining space. The objective of this initiative is to advance human rights and positive social outcomes for people, delivered principally through engagement. Institutional investors such as ourselves will be working collaboratively with the targeted companies (in our case Antofagasta) with the goal of getting the company to commit to the following 3 areas:

1. Full implementation of the United Nations Guiding Principles (UNGPs) - the guardrail of corporate conduct on human rights
2. Alignment of their political engagement with their responsibility to respect human rights
3. Deepening of progress on the most severe human rights issues in their operations and across their value chains enhance business practices around human rights.

We are excited by the opportunity this presents for us to enact further change.

#### Engagement Stage of Completion:



Discussion on issues take place.

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## [G] S

## Reliance Industries

**Reason for Engagement: Governance**

Reliance has epitomised the transition of emerging markets through its evolution from a traditional energy and materials focused business to one led by consumer and environmental solutions. While these changes are addressing some of the business risks we had previously identified in our sustainability analysis, good corporate governance will be pivotal in determining their success over the next decade and beyond. The most pertinent challenge we identified on the governance side was the lack of truly independent directors in place to challenge decisions made by the joint CEO/Chair. We therefore looked for the company to address not only the number of independent directors but also the extremely long tenures amongst the incumbents. Such a change would be seen as extremely complementary to our investment thesis.

**Objectives:** Reduce board entrenchment risk related to long tenured board members and increase board independence.

**Scope & Process of Engagement:** In early 2020 when we began our engagement with the company, we raised areas of discussion around the risk of entrenchment and lack of independence at the board level.

During our conversations over the last two years, we have been able to outline our views on best practice on board composition and initiate a dialogue around enacting changes. The company provided a clear roadmap for restructuring the board, as well as outlining improvements that had already been enacted around improving gender diversity and adding members with financial and technology expertise.

**Engagement Outcome & Next Steps:** Over the period from our initial engagement with the company in mid-2020, through to November 2022 we have seen several positive changes. This includes a structured transition as the board of directors underwent a renewal and all of its long tenured directors were replaced. Now, with the appointment of KV Kamath in November 2022 as a new director, Reliance Industries has secured a (numerical) majority of independent directors. Additionally, the company has shown further dedication to improving their corporate governance through its commitment to complying with the Companies Act going forward, which would limit independent directors to a ten-year tenure. We continue to engage with the company around corporate governance, with ongoing discussions to see how it is progressing as we look for continued positive developments.

**Engagement Stage of Completion:**

Company addresses issue.

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# [G] S

## Venture Corporation

 Singapore-based technology company.

### Reason for Engagement: Sustainability

Although the company does have a strategic plan around sustainability factors, we felt that disclosure on progress towards achieving these targets was lacking. Overall, we rate the company highly on governance and sustainability, but our assessment of its management of environmental risks has been held back by disclosure issues. We see it as the responsibility of all companies to address the environmental issues our society is facing, and to disclose not only how they are managing carbon emissions and water-related risk in general, but also to describe the targets and strategies in place to reduce carbon emissions and water intensity. Enhanced environmental disclosures, particularly TCFD-aligned disclosures such as through the annual CDP Questionnaire, would allow us to better assess the possibility and materiality of any environmental or social risks that the company may face. It is also a useful exercise for companies to better identify gaps and current practices, which can be imperative to informing strategy.

**Objective:** Have Venture complete and submit the CDP questionnaires on climate change and water security.

**Scope & Process of Engagement:** Martin Currie participates in the CDP's Non-Disclosure Campaign and we took the lead on behalf of a group of investment institutions to engage with Venture Corporation regarding environmental disclosures. To this end, we encouraged the company to complete CDP questionnaires on climate change and water security. While engaging on this matter we noted the progress already made by the company in improving its governance profile, the encouragement of which had been the subject of engagements in previous years (2020 – separation of Chairman/CEO roles, encourage meetings between Board audit committee and Venture internal audit without company senior executives present;

2021 – greater independence of Board audit & nominations committees, long tenure of external audit firm). We recognise that a strong governance structure can act as a foundation for strong sustainability performance, and hence why we believed the updated corporate governance could be conducive to productive engagement. In our view, sharing data on the management of environmental issues via the Carbon Disclosure Project (CDP) disclosure platform would be an important next step in enhancing the ESG profile of Venture for the long-term benefit of the company and its shareholders.

**Engagement Outcome & Next Steps:** On 25 July 2022 the company submitted both the climate change and water security questionnaires to CDP. This was an important step by Venture, and we very much welcomed it. Environmental factors pose unique risks to businesses (regulatory, stranded assets, environment-related liabilities, reputational) and companies unprepared to manage these put their own corporate value at risk.

### Engagement Stage of Completion:



Company addresses issue.

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## G[S]

## Guangdong Investment



Chinese water supply and sewerage treatment firm, with interests in property, infrastructure and power generation.

**Reason for Engagement: Sustainability**

We see Guangdong Investment (GDI) as a leading owner and operator of water projects supplying households and businesses with clean, reliable water in Hong Kong and mainland China. As management of environmental risks becomes more important in China, we desire greater detail from the company's sustainability disclosures to better inform our analysis and assessment of risks. While reporting has improved, we see scope for increased transparency on an ongoing basis. We have positively assessed GDI's management of environmental risks and greater disclosure would deepen our conviction around this.

**Objective:** Have GDI review and enhance ESG disclosures and clarify long-term ownership intentions for power generation assets.

**Scope & Process of Engagement:** We engaged with the GDI to encourage better disclosure of ESG-related, especially environmental, data. As a leading water utility, it operates with a strong focus on environmental considerations. However, the manner in which GDI presents ESG data does not match up with the preferred presentation style of a leading rating agency and, as a result, the general perception of the firm's sustainability credentials has suffered. Management have assured us that this is purely a reflection of their disclosure, rather than their internal procedures and practices, and we are cognisant that the company is somewhat hamstrung by China's disclosure requirements.

Another aspect of our ongoing engagement with the company is their ownership of a coal-fired power station. A legacy asset of its conglomerate past, this is a very small portion of GDI's business value today. The presence of this asset is unlikely to enhance the corporate value of GDI and we question its continued presence in the listed business. We have engaged on this issue and encourage a disposal of the asset at an appropriate juncture, with the capital released to be made available for redeployment in the core water business.

**Engagement Outcome & Next Steps:** We have been encouraged that GDI is taking matters increasingly seriously and in Q4 2022 the company reported to us that KPMG had been appointed to review and advise on ESG disclosures.

Separately, we will continue to monitor and engage on the coal-fired power plant, however in the short-term we expect this to remain part of GDI. The company recognises that this is the part of the business that most troubles investors and will review its ownership in due course.

**Engagement Stage of Completion:**

The company sets out a plan to address issue.

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# [G] S

## Hero Motocorp



India's largest motorcycle and scooter manufacturer.

### Reason for Engagement: **Governance**

Our governance analysis raised concerns over the structure of the Chairman/CEO's compensation package, with our primary reservation being that his total compensation has been short-term driven and essentially fixed. We believe it is in the interests of shareholders that a greater proportion of senior leadership compensation should be driven by performance against long-term metrics and have a much higher variable component. We therefore incorporated this into our proprietary risk ratings. We note however that overall corporate governance at the company is strong.

**Objective:** Increase the proportion of Chairman/CEO total compensation that is variable and based on longer-term performance metrics.

**Scope & Process of Engagement:** We have engaged extensively with the company on this before, and previously escalated our feelings through voting on behalf of clients against the Chairman/CEO's compensation package. We have continued our productive relationship with the company, and in Q1 of 2022 we met with Hero Motocorp, using this opportunity to reiterate our points previously expressed. We also recommended that there should be a fully independent Board-level remuneration and nominations committee, in line with our Global Corporate Governance Principles.

**Engagement Outcome & Next Steps:** There was some progress after our engagement. The company reported there will be a cap on the level of fixed compensation paid to the Chairman/CEO with a planned 40% variable component. The latter will be based on a set of key performance indicators. Additionally, there will be greater transparency going forward in relation to executive compensation. We would still encourage a greater component of variable pay, however this was a positive step forward.

### Engagement Stage of Completion:



The company sets out a plan to address issue.

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# [G] S

## Masimo



Medical technology firm

### Reason for Engagement: Governance

Our Governance analysis had indicated that there were a number of elements related to both the board structure, accessibility and makeup from a skills and diversity perspective that we viewed as sub-optimal and requiring engagement. These concerns were amplified firstly by acquisition activity and secondly during the course of a significant activist interest in the company. Our analysis also flagged challenges with remuneration transparency and benchmarking. Overall, Masimo's Governance is a '3' on our ESG risk assessment, however within this we have flagged 'Remuneration' and Diversity as a high risk '4'. Furthermore, areas such as board accessibility, chairperson quality shareholder right alignment are very high risk as '5's. In combination these factors were material to the overall investment case and as such we engaged with the company on these issues.

**Objective:** Our objective was twofold. Firstly, to address concerns about the alignment of long terms incentives and secondly to address board diversity and structure.

**Scope & Process of Engagement:** We have engaged with Masimo management and board members several times post the Sound United (SU) acquisition, which provided context ahead of a conversation with CFO Micah Young and board member Craig Reynolds to inform proxy voting deliberations for the AGM. We continued an ongoing discussion on board composition, including with respect to diversity, and the classified board structure, which we do not view as best practice. In light of the Sound United acquisition, Masimo recognises it needs a different skillset in consumer retail, with improved diversity a key consideration of this appointment. We have made clear our preference to see both of these issues addressed with the next appointments and will re-evaluate our assessment of the board once this process is complete.

On remuneration, our principal concern regarding the non-disclosure of Long Term Incentive (LTI) targets remains, even ex-post payment, as we cannot assess their effectiveness. With regard to remuneration policy, we pushed for the risks of the SU deal to be considered, we have fed back our view on Return on Invested Capital (ROIC)/Return on Incremental Invested Capital (ROIIC) being appropriate as an additional performance metric in addition to the current metrics used (revenue, operating profit, Earning Per Share (EPS) growth). We also covered topics such as perquisites and the addition of a death and disability clause to the CEO's share vesting trigger which we are satisfied have valid rationale behind them. Finally, we again raised our concerns around the remuneration structure for the LTI, specifically the non-disclosure of achievement against targets, even ex-post. We have fed back that we disagree with the concerns around competitive disclosure with incremental ex-post detail and would like to see this adopted.

**Engagement Outcome & Next Steps:** With the Sound United deal complete, Masimo is re-evaluating its compensation targets and we have also indicated our preference for the inclusion of a metric that captures ROIC, to align management and safeguard shareholders against poor allocation of capital towards the consumer business, if execution were to be persistently below expectations. We will consider their delivery against these actions to decide whether to escalate in future on voting decisions related to remuneration and board structure.

### Engagement Stage of Completion:



Discussion on issues take place.

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## [G] S

### Amcor



Australian consumer packaging company

#### Reason for Engagement: Sustainability

Our analysis showed that in terms of net zero pathway, upstream scope 3 emissions are a key challenge for the packaging sector and an ongoing area of focus. Encouragingly, important upstream suppliers have announced sizeable investments in recycled resin capacity in recent times, and we are increasingly optimistic around the mid-term prospects for chemical recycling which will be a key enabler of upstream scope 3 emission reductions for Amcor.

As part of our ongoing discussion with company management on broader sustainability topics, we had engaged regarding their decarbonisation strategy and lack of commitment to Net Zero targets. The company had flagged as one of the few ASX 100 companies with more than 1m tonnes of Scope 1, 2 and 3 emissions but no 'Net Zero' commitment.

**Objective:** Encourage the company to set science-based Net Zero targets.

**Scope & Process of Engagement:** In late 2021, the company's response was that this was on the agenda for consideration, however they were grappling with the reality of setting targets for future management teams in the context of an uncertain pathway. They responded that the feedback was appreciated, especially their standing out on the above-mentioned screen of ASX 100 companies with high emissions. On the back of our engagement, we were pleased to see the company announce in early 2022 that it had further increased in its sustainability efforts by committing to Net Zero science-based targets.

We recently met again with the Head of Sustainability and Investor Relations (IR) to discuss the commitment. Amcor believe that Science Based Targets initiative (SBTi) is becoming industry standard and therefore it makes sense to have consistency in targets and disclosures with customers and others in the industry. Amcor have so far completed internal due diligence around reduction pathways for scope 1 and 2, and what assumptions would be required for scope 3, but have not yet set the actual targets. Given 80% of Amcor's emissions are scope 3, raw materials and the company's supply chain are critical to reaching Net Zero. ([Stewardship Matters Edition 7](#))

**Engagement Outcome & Next Steps:** Subsequent to our most recent engagement, Amcor announced in early 2022 their commitment to setting a science-based target under the SBTi process. Under the SBTi process Amcor has 24 months to submit its targets from date of commitment and we continue to engage with Amcor around its near term emission reduction efforts and longer term strategies. We will continue to engage with the company on this matter as they formulate their in-depth strategies to meet these targets and also on how they communicate these with investors.

#### Engagement Stage of Completion:



Company addresses issue.

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## [G S]

## AGL Energy (AGL)



Australian energy company

The CEO's sudden resignation in April 2021 during a critical time of the de-merger proposal, being a split into two business - carbon neutral, 'AGL Australia', and carbon intensive, 'Accel Energy'. AGL has seen significant change in senior management in recent years, with this departure showing the CEO's lack of long-term commitment, and given the Chairman became CEO, this indicates a lack of succession planning. There was difficulty in finding a new CEO that could commit to five years in the position. To us this was not a great outcome and resulted in the downgrading of our Management rating from 3 to 4. We also downgraded our Governance rating from 2 to 3. The overall Quality rating was subsequently downgraded from 3 to 4.

**Reason for Engagement: Governance and Sustainability**

We had concerns that the de-merger would result in significant costs, dis-synergies and risks from less vertical integration. We also saw merit in the Mike Cannon Brookes' proposition that the AGL Board has not handled this balance well for shareholders and the energy transition.

**Objective:** Following fully assessing the pros and cons of the demerger move our objective was to stop the demerger on its proposed terms and engage with the company to find alternative solutions.

**Scope & Process of Engagement:** We engaged extensively with AGL and other stakeholders such as Cannon Brooks (Grok), environmental groups, energy groups and proxy advisors. We were looking to formulate ways to reduce the cons under each scenario to best position AGL for future shareholder returns,

based on an assumption of the need for an orderly Net Zero transition. We believe in the long-term the economics and transition credentials of AGL will be better kept together rather than the parts left in demerger. The combined entity is best positioned to develop a stronger Paris-aligned transition plan, lower its cost of capital, as well as better manage increasingly volatile energy markets.

**Engagement Outcome & Next Steps:** AGL Energy had been proposing to split into two businesses, AGL Australia (to house their non-coal assets) and Accel Energy (carbon intensive assets), with a shareholder vote on the subject to take place in June 2022. We advised the AGL board that we were not supportive of the proposed split, hoping that the company would not proceed with the demerger. The proposal was subsequently withdrawn. Going forward, we will be engaging with AGL to ensure the board has good governance, and the required expertise and vision, particularly experience with the energy transition. In terms of our engagement next steps a much stronger Paris-aligned strategy is very important in unlocking the true value of AGL and we will be engaging for the company to establish this.

**Engagement Stage of Completion:**

The company sets out a plan to address issue.

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# Collaborative engagement activity

Systematic risks by their nature are caused by factors beyond the control of a specific company and cannot be diversified away by holding a large number of securities. Climate change is an obvious example of this kind of systemic risk. Although most of our engagement is private, where an issue is systemic and therefore likely to impact a broad range of companies and stakeholders, we believe that this requires a more collaborative approach to engagement. We participate in a number of collaborative efforts to address specific issues that impact 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:



## CDP Non-Disclosure

CDP's Non-Disclosure Campaign (NDC) is a collaborative initiative for CDP Capital Markets signatories to directly engage with companies that have failed to respond to either the climate change, forests and/or water security questionnaire. The Non-Disclosure Campaign runs alongside the main CDP disclosure request and targets those companies that have failed to respond to at least one previous request to disclose from CDP. This 'opt-in' campaign allows CDP signatories to directly engage with companies on disclosure with the backing of a group of other financial institutions. The aim of the campaign is to allow financial institutions to use their influence and position to achieve higher rates of companies responding to CDP's disclosure request. We have seen year on year that companies failing to disclose are more likely to complete the questionnaire for the first time after being directly engaged by financial institutions rather than just CDP requesting on their behalf. In 2022 we led this effort on five companies and supported for an additional 19 leveraging our strong existing relationships. We are continuing this in 2023.

**Status:** *ongoing*



## Advance

Advance is a stewardship initiative that was launched at the end of 2022 where institutional investors work together to take action on human rights and social issues. Investors use their collective influence with companies and other decision makers to drive positive outcomes for workers, communities and society.

At a high-level, three key expectations have been set for the focus companies:

- Implement the United Nations Guiding Principles on Business and Human Rights (UNGPs) the guardrail of corporate conduct on human rights.
- Align their political engagement with their responsibility to respect human rights.
- Deepen progress on the most severe human rights issues in their operations and across their value chains.

Martin Currie is leading this collaborative engagement with Antofagasta, one of the target companies.

**Status:** *ongoing*

## Historic collaborative engagements



Climate change



Employee relations



Fracking



Cyber security



Tax reform



Water risks



Human rights





## Climate Action 100+

CA100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. It is the largest collaborative engagement to date with more than 700 asset owners and asset managers signed up, representing more than US\$68 trillion of AUM.<sup>12</sup> In early 2020, as the engagement expanded the number of targeted companies to the current 167, there was an opportunity for us to join this collaborative engagement as the lead investor on an Indian company which we have been long-term holders of, and already have a strong relationship with. Climate change is an important issue for our clients and for us as investors, and is routinely factored into our analysis of companies that we invest in. In signing up to this initiative we further our commitment to engaging with companies on climate change and it has therefore been exciting to join this engagement with the opportunity to drive change in this important area. This represents one of a number of ways in which we are engaging on climate change alongside our obligations under the NZAMI and private engagement with underlying portfolio holding companies.

Status: *ongoing*

*Climate change is an important issue for our clients and for us as investors, and is routinely factored into our analysis of companies that we invest in.*

<sup>12</sup>As of 31 March, 2023. Source: <https://www.climateaction100.org/about/>



## Thematic engagements

Thematic engagements we have participated in, in relation to climate change, biodiversity and modern slavery, form part of our response to what we have identified as market-wide and systemic risks. By taking action in these areas, we aim to improve disclosure and outcomes to create wider societal positive impact and to promote well-functioning financial markets in relation to these risks.

### CDP non-disclosure engagement



#### Focus: Global listed companies



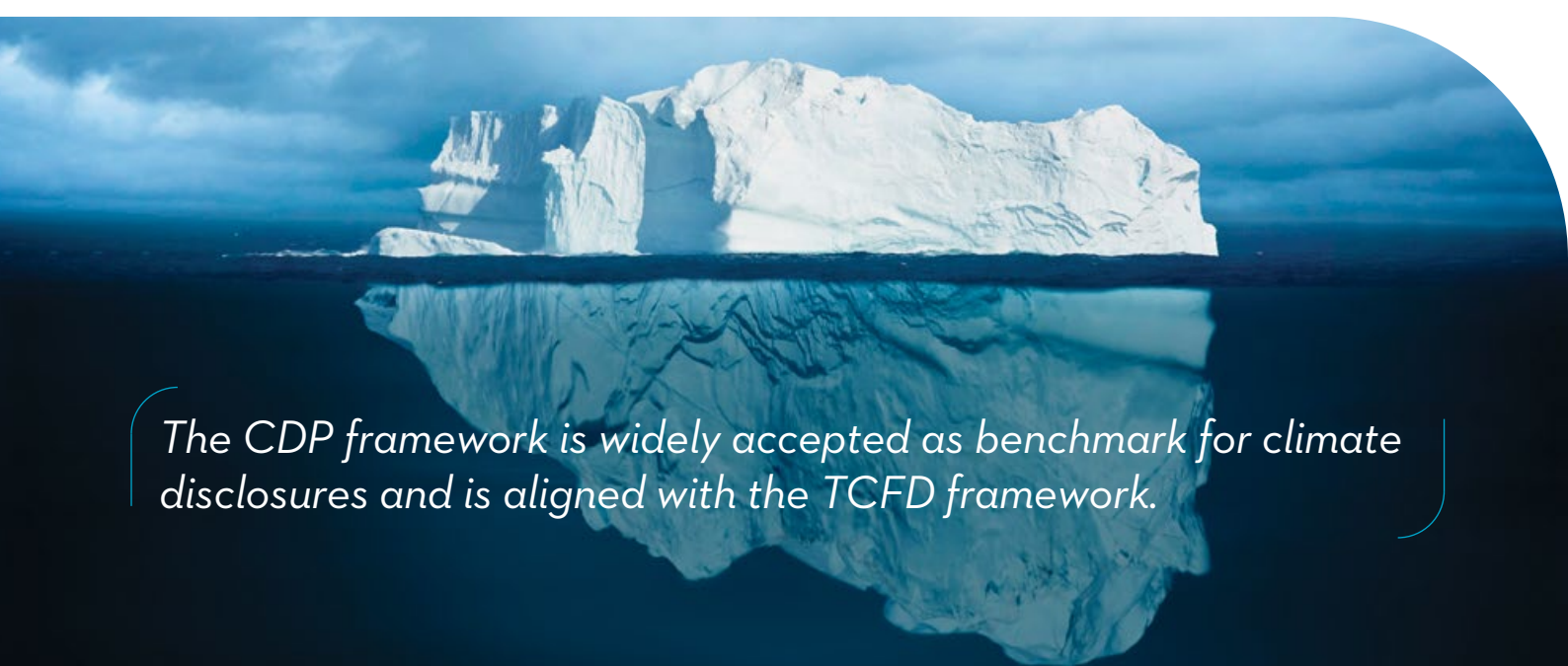
Climate change is a systemic risk and in order to be able to effectively assess the risks and the opportunities that this presents investors need companies to disclose in a consistent and accessible way. The CDP framework is widely accepted as benchmark for climate disclosures and is aligned with the TCFD framework.

**Objectives:** To encourage companies that are currently not disclosing to CDP on climate to start doing so.

**Scope & Process:** The Non-Disclosure Campaign (NDC) runs alongside the main CDP disclosure request and targets those companies that have failed to respond to at least one previous request to disclose from CDP. At the start of the year we were given the opportunity to sign up to the campaign and select which companies held we wanted to engage with. We chose to lead the ongoing climate engagement on five companies and

co-sign on an additional 19. In leading the engagement, we were responsible for directly liaising with companies and encouraging them to disclose. For those where we were a co-signatory our name was added in support of the engagement. The initial contact to the companies is in the form of a disclosure request letter, sent by the lead and with the support of co-signers, clearly outlining their wish for the company to start disclosing.

**Engagement Outcome:** The success of the overall campaign is based on comparing disclosure rates of companies targeted through the NDC to the disclosure rates of a control group of companies. This reflects that there may be several factors influencing whether a company responds to CDP as well as the direct engagement that we and other financial institutions have. On this basis the CDP found that companies engaged through the NDC were 2 - 3 times more likely to disclose following direct engagement. Of the 24 companies that we engaged on the issue 10 submitted the CDP climate change questionnaire.



*The CDP framework is widely accepted as benchmark for climate disclosures and is aligned with the TCFD framework.*

## Case Study: Biodiversity Engagement by Martin Currie Australia (MCA)

### G[S]

#### Focus: Australian listed companies



#### Reason for Engagement: Sustainability

Biodiversity is in crisis and Australia is at the forefront, having experienced a larger loss of biodiversity than any other continent over the past two centuries. Without biodiversity, the global economy would simply not operate as we know it. Nature provides us with services critical to sectors such as food, housing, and medicine among other daily necessities. Until recently this issue has been vastly overshadowed by climate change, but the reality is that the two issues are inextricably linked, and that biodiversity needs to be the next frontier when considering investment risk.

**Objectives:** To gain a comprehensive understanding of how Australian listed companies are managing biodiversity risk.

**Scope & Process:** Martin Currie Australia undertook a focussed project on biodiversity. This included writing to the management of the top 200 ASX companies, asking a set of detailed questions regarding the management of biodiversity risks across their day-to-day operations and strategic planning. The goal was to understand:

- The role that companies can play in protecting and enhancing biodiversity;
- Which sectors, industries and companies have the highest impacts or dependencies where financial returns are most at risk;
- How advanced companies are in treating biodiversity as a risk issue or considering it in strategic and operational decision-making;
- The differing approaches to documenting biodiversity policies, accountability and data collection;
- The existence of opportunities for companies to invest in the natural environment; and
- What best practice for Australian companies might look like.

**Engagement Outcome:** Our most surprising finding was despite 82% of companies saying they believe they have a role to play in protecting biodiversity, 61% of companies do not have biodiversity as a material component of a policy and did not commit to developing one in the next two years. We found the Real Estate, Mining and Energy sectors to be advanced in considering biodiversity in their daily operations. Many of these already have a biodiversity policy or have biodiversity as a material component of another policy, such as an Environmental Policy.

Our project to influence biodiversity practices across all our Australian holdings is ongoing and will remain a key topic for future engagements with materially exposed companies in our investment universe and portfolios. We will be using our extensive company engagement program with boards and management to provide guidance and to push for positive change. Engaging with companies is, however, a perpetual effort, and we will continue to dynamically revisit our risk assessments and monitor disclosure and opportunities around management of biodiversity.

Source: Martin Currie as of 31 December 2022. Survey carried out on top 200 ASX companies.

*Our project to influence biodiversity practices across all our Australian holdings is ongoing and will remain a key topic for future engagements.*

# Summary of our purposeful engagement activity

We believe monitoring and engagement is an essential part of being a shareholder in a company to drive positive change at our investee companies.

Focusing on engagement for specific outcomes allows us to improve our understanding of investee companies and their governance structures, so that our voting decisions may be better informed. In addition, it enables us to understand to what extent companies have identified material governance or sustainability risks and how they are managing these.

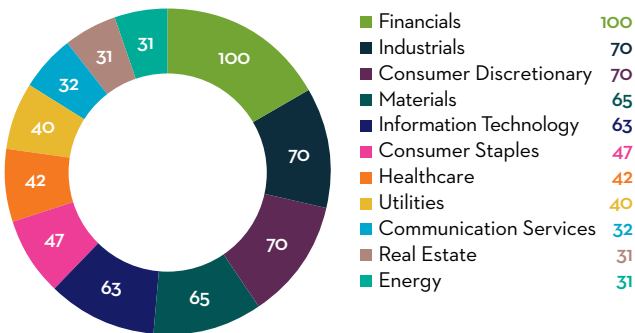
The extent, objectives and type of escalation through engagement will differ depending on the materiality of the issue, mechanism of engagement, local market practice which may lead to differing types of escalation across funds, assets or geographies. This is reflected in the regions in which we have conducted our engagements being more weighted to areas where standards of disclosure or market practice may still lag global standards.

## Overview: Calendar year 2022

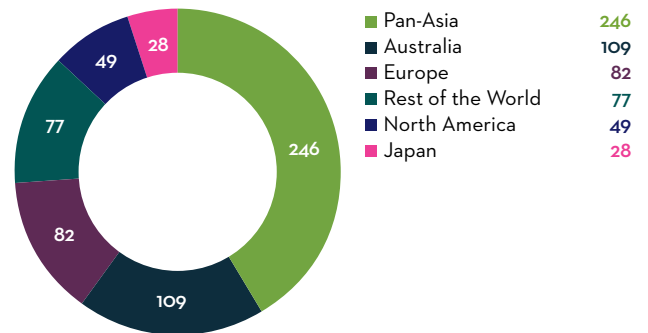
### Firm-wide engagements

31	Markets covered
405	Companies engaged
591	Total engagements
3	Active collaborative initiatives

### Engagements by sector



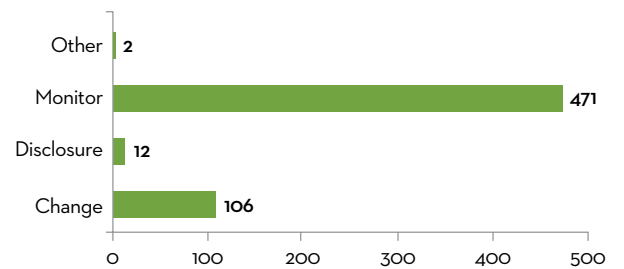
### Engagements by region



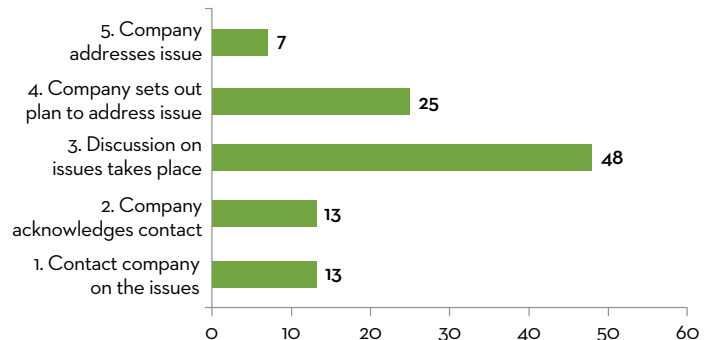
### Engagements by topic



### Purpose of engagement



### Stage of completion for change



Source: Martin Currie. Engagement activity is for the period 1 January 2022 - 31 December 2022.



# How TCFD reporting provides a vital framework for dialogue

## Our commitment to TCFD

We believe the Task Force on 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. Reflecting this we are public supporters of TCFD and CDP and have joined CA100+, where one of the objectives is to encourage disclosure using the TCFD framework. This is 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.'*

Our overall approach is overseen by the Stewardship & ESG Council and co-ordinated through our ESG Working Group. 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 governance and sustainability factors that could impact the ability of the company to generate sustainable returns.

*We have worked extensively over the last few years to develop a model that allows us to assess the sensitivity of companies to carbon costs as well as the sensitivity for overall portfolios.*

### 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 worked extensively over the last few years to develop a model that allows us to assess the sensitivity of companies to carbon costs as well as the sensitivity for overall portfolios. This has been a collaboration between the investment teams to share ideas and best practice as this has evolved. In addition, we produce a carbon footprint for portfolios, looking at both overall emissions as well as carbon intensity, which identifies the overall profile and main contributors to a portfolio's carbon footprint. With an increasing number of companies announcing net zero ambitions, we are also looking at the substance behind these ambitions and the extent to which companies are setting out science-based targets (SBT). Tools such as the Transition Pathway Initiative (TPI) also help identify the degree to which companies are aligned with the transition to a lower-carbon economy. We continue to explore tools to help us with broader scenario testing including the PRI's Inevitable Policy Response, International Energy Agency's (IEA) Net Zero scenario and the Network for Greening the Financial System (NGFS) scenarios.

*Initiatives such as the NZAMI and the Net Zero Asset Owner Alliance are set to drive increased transparency*

### 3. Risk Management

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

As active owners we look for companies to identify, manage and disclose material risks and opportunities. Climate change forms part of an assessment of the material risks and opportunities that companies face in generating sustainable returns over the long term and as such is embedded into the investment process. We use both company disclosed and estimated data to help us identify and manage climate-related risks. This includes carbon footprint and weighted average carbon intensity as well as the work that we have been doing on carbon cost analysis which looks across the company value chain. We also analyse the extent to which company ambitions and targets are aligned with the ambitions of the Paris Agreement and encourage companies to set SBTs. We believe that the TCFD framework is a robust framework for disclosure of climate-related risks and opportunities and, as such, we encourage companies to adopt this approach. We also support CDP and participate in the CDP non-disclosure campaign to encourage disclosures through this framework. We are an investor signatory to Climate Action 100+ and are the lead investor on one of the target companies.

### 4. Metrics & Targets

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

We have worked extensively over the course of the last few years to produce a framework that allows us to make an assessment of the carbon cost sensitivity for each of the companies that we invest in as well as overall portfolios. This has been a collaboration between the investment teams to share ideas and best practice as this has evolved. This provides an opportunity to assess the potential impact of different carbon pricing regimes. In addition, we produce a carbon footprint for portfolios, looking at both overall emissions as well as carbon intensity, which identifies the overall profile and main contributors to a portfolio's carbon footprint. With an increasing number of companies announcing net zero ambitions, we are also looking at the substance behind these ambitions and the extent to which companies are setting out SBTs. Tools such as the TPI also help identify the degree to which companies held are aligned with the transition to a lower-carbon economy. We continue to explore tools to help us with broader scenario testing including the PRI's Inevitable Policy Response.

## Voting examples

### [G] S

#### ChinaTower Corp



The worlds largest telecommunications tower infrastructure provider.

**Reason for Engagement:** Governance

**Objectives:** We aimed to facilitate improvements in the company's diversity and Board composition. There are currently no women on the board.

**Scope & Process:** We engaged with the company's Investor Relations to express our views following the AGM. We reached out to the company to express our concerns who accepted that (gender) diversity is important for board composition and that they are working to find suitable candidates to meet the Hong Kong (HK) stock exchange listing requirement to have at least one female board member by the end of 2024. This continues our engagement on this issue and represents an ongoing pattern of voting against directors on composition related concerns as outlined below.

**Voting Outcome:** We voted against the election of Mr Gao Chunlei for several reasons:

- He is an executive and the company already has 2/13 board members which are executive;
- His addition would decrease the % of independent directors;
- His addition does not add to the Board's gender diversity.

At an extraordinary meeting earlier in the year we also voted against several director elections:

- Zhang Zhiyong (Chairman) as he is a non-independent as he is closely connected with the shareholders / sponsors, and has sub-par board attendance;
- Mai Yanzhou (Director) while well qualified, seems to be overboarded and is also non-independent and has a poor attendance track record.

All directors were elected despite our votes against.

### [G] S

#### China Merchants Port



Chinese port group

**Reason for Engagement:** Governance

Board composition & Independence.

**Objectives:** We wanted to see the group move towards an independent board, including having an independent Chairman, removing most if not all executive directors from the board, setting limits on term, age and external directorships, and adding more women on the board.

**Scope & Process:** We engaged with the company's Investor Relations to express our views ahead of the AGM.

**Voting Outcome:** We voted against the election of several individuals:

- Weidong Deng as this director is an executive and is overboarded;
- Ying Hay Kut as this director has been on the board for 30 years;
- Lee Yip Wah (Peter) as this director has been on the board for 21 years;
- Ka Fai (David) Li as this director has been on the board for 15 years and is overboarded.

All directors were elected despite our votes against. While the company has taken on our feedback, we note that as a Chinese State-Owned Enterprise (SOE), change can be slow from a governance perspective, and we will be monitoring this through ongoing dialogues and engagements with the company.

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 security transactions 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.

## [G] S

### Jardine Matheson Holdings



JMH is a diversified, Asia focused conglomerate with business interests including property, retailing and automotive industries.

**Reason for Engagement:** Governance

Very long audit firm tenure and directors' fees.

**Objectives:** Greater board independence with particular focus on the audit committee. We believed the audit committee of JMH was insufficiently independent. Additionally, while there has been engagement partner rotation, we discourage overly long audit firm tenures (20+ years in JMH's case), even for complex business structures such as conglomerates.

**Scope & Process:** We have engaged in person and via email with the company on these matters. In our engagements with JMH we strongly encourage improving governance practices (which have been improving over time), including publication of a breakdown of individual director remuneration and full audit committee independence. A vote against auditor reappointment was an effective way of expressing this. JMH's disclosure on director remuneration has been unsatisfactory and Investor Shareholder Services (ISS) recommended a vote against approval of directors fees in response. However, JMH was looking to recruit additional Independent Non Executive Directors (INEDs) and we believed their appointment would address other governance concerns, hence a vote against approving an increase in aggregate director remuneration was inappropriate.

**Voting Outcome:** Voted against management re ratification of the external auditor for another term, but voted in favour of approving director fees, against the recommendation of ISS.

## [G] S

### Masimo



Medical technology firm

**Reason for Engagement:** Governance

CEO remuneration and board oversight

**Objectives:** Change to overall CEO remuneration package.

**Scope & Process:** Our proxy voting advisor recommended voting against the CEO remuneration package on the inclusion of double/modified single trigger cash severance clause, should the CEO leave. The policy itself is unchanged aside from adding a death and disability clause, which is common practice.

We have engaged with management as detailed earlier in this report on remuneration more widely. On this specific resolution we have fed back that our support is conditional on the following expectations in 2023: a board member with consumer expertise is appointed, to see sufficient compensation metrics that capture the Sound United acquisition, and that achievements versus target in the long-term incentives should be disclosed at least ex-post.

**Voting Outcome:** We voted in line with management and against our proxy voting advisor to support the CEO remuneration package. However, shareholders voiced their dissent at the company's 2022 AGM, and the proposal received 53% of votes against, although this was an advisory vote. We will monitor how the company responds to this.

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## AGL Energy



Australian energy company

### Reason for Engagement: Governance and Sustainability

Director elections in relation to skill set and diversity as highlighted in the Engagement section.

**Objectives:** We aimed to facilitate improvements in the company's Governance skills set and diversity through Board composition.

**Scope & Process:** We had a meeting with the Chair and key board members to discuss board composition ahead of the AGM.

**Voting Outcome:** We voted for the election of Dr. Kerry Elizabeth Schott as Director, which was against management's recommendations.

Management were concerned her energy market skill set was too similar to the AGL Chair. We instead see that while she lacks Australian Securities Exchange (ASX) experience, her skills should help balance decarbonization with reliability.

The result was that Dr. Schott was elected to the Board.



## Delivery Hero



German online food delivery service

### Reason for Engagement: Governance and Sustainability

We had identified numerous topics including disclosure on remuneration, rider welfare and waste reduction.

**Objectives:** We were engaging with Delivery Hero to gain assurance that they had strong plans in place to guarantee welfare of its delivery staff. We were also seeking robust commitments to reduce packaging waste and carbon emissions. On management remuneration we were dissatisfied with the level of disclosure around senior management incentives.

**Scope & Process:** We met with the company's sustainability team and received reasonable assurances that our concerns would be addressed over the course of the year.

**Voting Outcome:** The Board submitted its Remuneration Report for approval at the firm's AGM. We voted against this resolution as the company had not met our expectations on disclosure of the structure of its long term incentive plan (LTIP). We also disapproved of the high levels of compensation being paid under the LTIP without supporting justification. We will consider escalating voting in subsequent AGM's pending action on the assurances on labour, waste and emissions commitments.

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 security transactions 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.

## Summary of our voting activity

Proxy voting is a key component of stewardship, plays a crucial role in our overall approach to engagement and can be used to escalate our engagement where this has not been adequately addressed through initial engagement. Our voting escalation is not prescriptive and will differ depending on the materiality of the issue, duration and extent of prior engagement as well as local market practice. This may lead to differing types of escalation across funds, assets or geographies.







This is shown below with differing proportions of meetings where we voted against management. The highest proportion was in Pan-Asia and North America while the lowest was in Japan. The highest proportion of votes against were on director or remuneration related votes.

### Overview: Calendar year 2022

#### Firm-wide proxy voting

36	Markets covered
549	Total shareholder meetings
153	Meetings where we voted against management

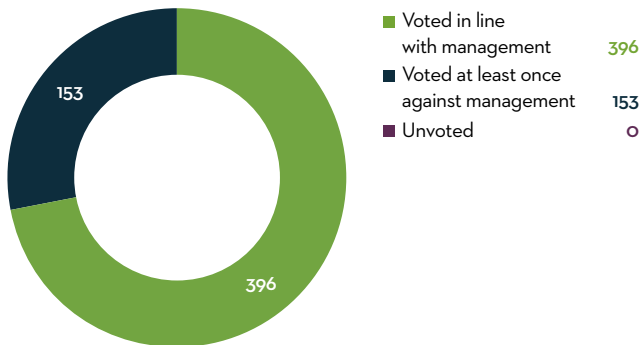
6,108	Total resolutions:
363	Resolutions voted against management
50.5%	Majority of shareholder resolutions supported for first time

	Meetings voted against management	Total meetings	Proportion of total meetings where we voted against management
 Australia	18	101	18%
 Pan-Asia	66	148	45%
 Rest of World	21	47	45%
 North America	20	46	43%
 Europe	27	168	16%
 Japan	1	39	3%

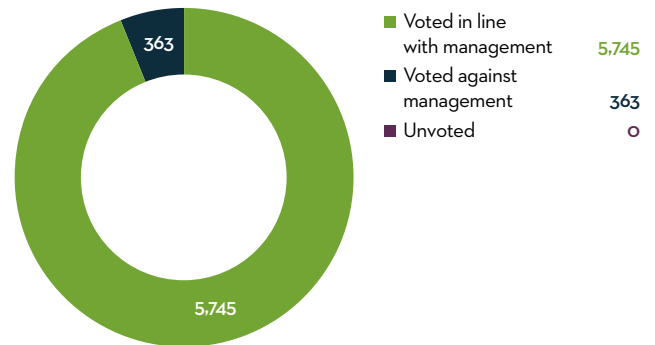
When voting on behalf of our clients, we will always seek to do so in their best interests considering the long-term impact of these voting decisions. We seek to vote all of our proxies and the proportion of resolutions voted in 2022 is shown below. Instances in which we have not voted have been a result of these being non-votable resolutions, where power of attorney was not yet in place or where votes took place during the process of fund transitions.

A full record of our voting activity is publicly available on our website one quarter in arrears.

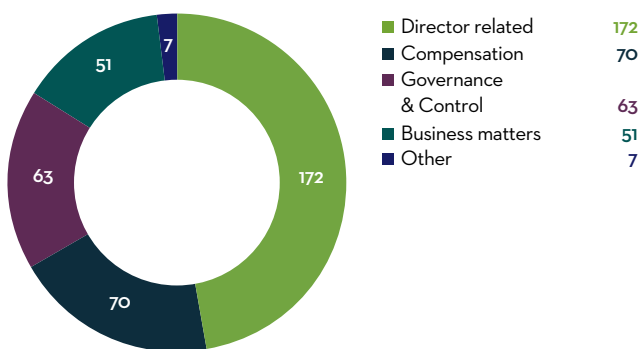
### Total meetings



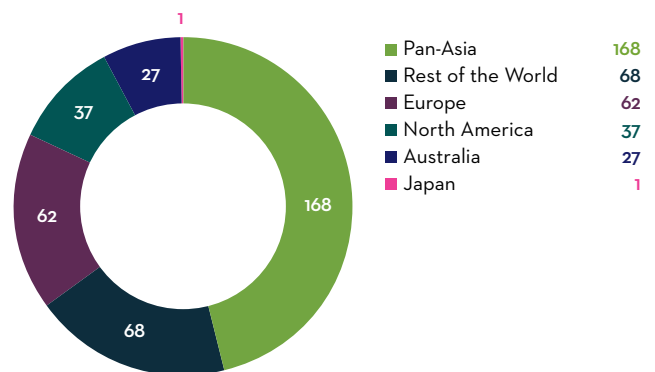
### Total resolutions



### Resolutions voted *against* by proposal type



### Resolutions voted *against* by region



Source: Martin Currie. Proxy voting activity is for the period 1 January 2022 – 31 December 2022.

## Proxy voting to escalate and facilitate change

Proxy voting is most commonly associated with a focus on governance issues given the formal structure around AGMs. It can support an approach to facilitate change that also benefits society on broader issues such as the environment and human rights, but there are challenges to overcome. We are increasingly using proxy voting as an 'escalation' tool as part of our engagement strategy to vote against management recommendations on matters where we are looking to facilitate change.

There are however, challenges in aligning the objectives of an engagement with the ability to vote on a particular sustainability topic, and this can create a barrier to holding a company to account or bringing about a targeted positive change. Where there is no direct route through voting, there are other ways that votes can be used to send a strong signal to a company.

## Through shareholder resolutions

Shareholder resolutions are one way that this can be addressed, with this form of escalation becoming more common at US companies in particular following the SEC's update to the no-action process. This gave companies less power to omit submitted resolutions from AGM agendas.

This is not, however a route that is permitted in all markets, and is most commonly seen in the US, Europe and Australia. The mechanics of these votes and the nature of them, whether they are advisory, as is the case in the US or the UK, or binding as in Australia, can present additional challenges. Advisory shareholder proposals do not necessarily bring about change directly, but when the majority of shareholders support a proposal it sends a very clear signal to the board of directors that change is expected.

It appears though that support for shareholder proposals has waned at US companies. With more shareholder resolutions going to a vote, there were more resolutions that were judged to be overly-prescriptive and were not supported. These would previously have been struck from the ballot before the SEC's updated guidance. Studying meetings and agendas until June 2022, Ernst & Young (EY) found that average support for shareholder proposals dropped from 32% in 2021 to 27% in 2022.<sup>13</sup> This highlights the importance of a well written and thoughtful shareholder proposal, and the need to consider a company's idiosyncrasies when filing.

## Through director election

In many cases, we turn to the election of the directors who are ultimately accountable for the strategy and oversight of the company. Where the change we seek focuses on diversity, this may mean voting against the chair of the nomination committee or voting against candidates where the approach to diversity is being entrenched. On climate change, we may focus on the chair of the board or a relevant committee within the board. In these cases, it is important that we clearly explain to the company why we are approaching the director elections in this way.

In the same report from EY it found that average voting opposition to directors was highest for the chairs of the Remuneration and Nomination Committees. This voting practice also seen the largest increase in 2022, indicating an increased confidence from investors to signal their reservations on compensation structure and board composition.

## Looking forward

We expect there to be several competing forces when it comes to voting trends in 2023. Overall, shareholder proposals will likely decrease but the quality of the proposals will improve, resulting in increased support on average. This is a necessary calibration for the industry, as investors figure out the most effective means of influencing investees.

Trends regarding director elections, in particular the Remuneration chair, are likely to continue, especially as investors desire to see remuneration plans linked to non-financial metrics increases. We advocate care in this, however, and believe that environmental or social factors should only be incorporated where appropriate.

Scrutiny of investor voting practices is also likely to increase, as NGOs unpick the vote records of the world's largest asset managers. While we welcome the transparency that this creates, we believe that best practice is still to develop a strong and meaningful proxy voting policy and align voting behaviours to this.

<sup>13</sup>Four key takeaways from the 2022 proxy season, J Smith, K Pederson [https://www.ey.com/en\\_us/board-matters/four-key-takeaways-from-the-2022-proxy-season](https://www.ey.com/en_us/board-matters/four-key-takeaways-from-the-2022-proxy-season)



# Beyond ESG



**David Sheasby**

Head of Stewardship,  
Sustainability & Impact

*Our view is that the term 'ESG' is not fit for purpose. As such we have organized ourselves now with a focus on what we think should replace it:*



**Stewardship** - Being responsible stewards of capital and acting as fiduciaries for our clients



**Sustainability** - Integrating material risks and opportunities into our analysis to make better investment decisions



**Impact** - Understanding where the companies in which we invest have a positive impact so that we can be intentional about committing capital to solving societal challenges

In an environment where the term 'ESG' has become politicised some are questioning whether we are reaching 'peak ESG'. We think this is the wrong question - we think the right question is "Is 'ESG' really fit for purpose?", and as Anne Simpson (Global Head of Sustainability, Franklin Templeton) alluded to in the foreword we think the answer to that is 'No' for the following reasons.

- ESG is too basic a term to be useful in describing areas that are increasingly varied and detailed, particularly in finance
- It cannot easily distinguish between the way a company acts and what that company does
- It makes no sense to conflate different intentions under one umbrella term

We think we need to bring the focus back to long-term value creation and our duty as fiduciaries to our clients and we must provide clear explanations as to how and why we use core elements of 'ESG', stewardship, sustainability and impact to do better investment analysis, support our clients' interests and contribute to solving real world challenges.

But before we move forward it is worth reflecting for a moment on how we got here.

The term "ESG" was popularized following the 2004 publication of the UN Global Compact's report, *Who Cares Wins* and is an acronym that refers to "environment," "social," and "governance" factors that companies and investors should consider.

Since the establishment of the PRI in 2006, this once-niche responsible investment project, has gone mainstream with over 4,900 signatories and an estimated total AUM of US\$121tn as of 2022.<sup>14</sup>

The initial focus for 'ESG' was principally on exclusions however, as interest has grown and, for example, the PRI signatory base has broadened, the range of interpretations as to what 'ESG' is, has also ballooned. And here we come to the heart of the issue - there is no one definition of 'ESG' - and the fact that 'ESG' (an acronym made up of two adjectives and a noun) has become a noun is in itself an issue.

We should also be clear that this is not just a problem for investors or even companies - this is also a problem for regulators where there are different interpretations across different regions, and has opened the term up to politicisation most notably in the US.

The concept of 'ESG' is ultimately wrapped up in sustainable finance - stewardship of financial, human and natural capital and a focus on delivering the best possible risk-adjusted returns for our clients. Ultimately this comes back to our duty as fiduciaries for our clients and it is this word, 'Fiduciary', that is missing from the ESG acronym.

<sup>14</sup><https://www.unpri.org/annual-report-2022>

'ESG', properly understood, is not one principle or even a fixed collection of particular principles. Rather, 'ESG', at its heart, is about the consideration of long-term Governance and Sustainability factors that drive sustainable value-creation. It makes no sense to categorise stocks as 'ESG' or non-'ESG' - some companies might have more value-creation potential than others, but it's not a binary classification - rather it is a continuum.

There is no such thing as 'ESG investing' there is just investing which considers to a greater or lesser extent, the areas highlighted by ESG. For Martin Currie this means a focus on what factors are material to value creation.

So how can we better describe this?

**Our suggestion is to reframe 'ESG' through three key elements:**

- 1. Stewardship** - the actions of the investment manager (such as engagement and proxy voting) to act as effective and responsible stewards of capital on behalf of clients
- 2. Sustainability** - the analysis of sustainability related risks and opportunities as well as investee company behaviour to drive better informed investment decisions
- 3. Impact** - The focus on real world outcomes driven by impactful investor engagement and an intentional commitment of capital to those companies providing solutions.

Reframing it in this way sets out clear expectations for both clients and the companies that we invest in and also requires that we are transparent in how we incorporate and report on these.



**Stewardship** has always been central to our approach and is an overarching guiding principle framing our interactions with clients, companies and how we approach

running our own business. The UK's Financial Reporting Council (FRC) defines stewardship clearly in the UK Stewardship Code - *Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.*

This definition captures the key elements that frame our approach including how we identify and analyse the companies that we invest in, how we build portfolios to meet client needs and how we act as responsible and engaged owners of the companies that we invest in on their behalf. It also captures the role that we play as active owners in supporting long-term value creation and encouraging change as necessary. Stewardship is the way we can contribute to addressing systemic issues, supporting companies in addressing key material risks, embracing opportunities to help clients and their beneficiaries achieve their long-term goals.

*Stewardship has always been central to our approach and is an overarching guiding principle framing our interactions with clients.*



*Sustainability forms a key element of our analysis with a focus on how companies use the capitals available to them.*



**Sustainability** forms a key element of our analysis with a focus on how companies use the capitals available to them (financial, human and natural) to drive value creation and factors that may have a material influence on the ability of a company to generate sustainable long-term returns. Our analysis includes understanding a company's relationship with its employees, customers, communities, suppliers, and the environment. It is also about how the company is governed, how decisions are made and how capital is allocated. It is therefore about both risks and about opportunities - for example for some companies the transition to a lower carbon economy will present material opportunities to grow their business. Sustainability is also about understanding the impact that companies have in the way that they run their operations and the potential impacts on the different stakeholders that are key to the long-term success of the business.



**Impact** can also be more purposeful and this is how we think about this third pillar. Here we focus on intentionality. This includes the consideration of the products and service that companies provide which specially target or address particular issues or challenges. This also includes the real-world outcomes that we, as investors and responsible owners, can help support through the engagement that we undertake. Both of these are considerations that we take into account in analysis, activity and reporting.

### Conclusion

We think that 'ESG' started off with good intentions and 'E', 'S' and 'G' each have their own merits but what we have ended up with is an ugly acronym and a term that has been hijacked and has become a distraction from necessary focus. Ultimately this is about long-term value creation and perhaps recognising that 'ESG' is no more or less than a set of long-term value drivers may defuse the current tension surrounding the term. We think it is time to leave 'ESG' behind, focus on our fiduciary duty to our clients and recast this as Stewardship, Sustainability and Impact.

# Reaching forward

Over the last decade, stewardship and sustainability have evolved rapidly, driven by a mixture of growing investor demand (asset owners), increased sophistication to manage risk (asset managers), improved reporting (companies) and enhanced regulation (policymakers). In 2023, we expect further evolution in these areas with an increased focus on real-world impact.

**Impact investing has become significantly more prominent as investors focus on the intentionality of their investments and seek to generate positive impact alongside financial returns.**

Impact can be achieved through different means - the activity and actions of companies, or the commitment of capital to these investments alongside the stewardship activities of investors. Historically this has focused on private capital provision to drive impact and has ignored the role that structured investor stewardship can play.

An interesting recent development has been the publication from the Global Impact Investing Network (GIIN) on Guidance for Pursuing Impact Investing in Listed Equities.<sup>15</sup> This builds on the recognition that all businesses (and therefore, by extension, all investments), have effects on people and on the planet - both positive and negative. We believe this report begins to recognise the important role that stewardship can play in achieving impact, and we expect that investors will look at the role of public equities in generating impact as a key focus for 2023.

In this context we are very excited to announce the establishment of our Stewardship, Sustainability and Impact (SSI) team. The SSI team will be led by David Sheasby, who serves in dual roles as Martin Currie's Head of Stewardship, Sustainability & Impact and Franklin Templeton's Stewardship and Sustainability Council Co-Chair.

The team includes new portfolio manager Lauran Halpin, who joins the team from Franklin Templeton. With more than 16 years of investment experience, Lauran Halpin will lead the team's new impact portfolio management capabilities. These will include responsibility for managing a dedicated impact-driven investment strategy, focused on listed equities.

As we look into 2023, climate will remain a key issue with an increased sense of urgency for action as the window for limiting climate change rapidly closes.

We see an enhanced focus from regulators (e.g., emissions reporting and, in some cases, mandatory reporting through the Task Force on Climate-Related Financial Disclosures) and investors through the potential expansion of collaborative engagements (e.g., Climate Action 100+). COP28, due to be held in the United Arab Emirates at the end of the year, will see the first 'global stocktake' - effectively a comprehensive assessment of progress against the goals of the Paris Agreement and as such will mark a significant moment in the journey. Biodiversity is a related, but separate, issue supported by the emergence of new reporting frameworks, and we expect to see progress in this area over the course of 2023.



**David Sheasby**  
Head of Stewardship,  
Sustainability & Impact



**John Gilmore**  
Stewardship, Sustainability  
& Impact Specialist,  
Portfolio Manager, Impact Equity



**Eoghan McGrath**  
Stewardship, Sustainability  
& Impact Analyst



**Lauran Halpin**  
Portfolio Manager,  
Impact Equity

<sup>15</sup>[https://thegiin.org/assets/Guidance%20for%20Pursuing%20Impact%20in%20Listed%20Equities\\_Final%202023.pdf](https://thegiin.org/assets/Guidance%20for%20Pursuing%20Impact%20in%20Listed%20Equities_Final%202023.pdf)

The Taskforce on Nature-related Financial Disclosures (TNFD) has already published the final version of their framework for consultation<sup>16</sup> and we are exploring some of the tools that can help investors identify, quantify and manage the associated risks and impacts.

Human rights, social issues and inequality will have increased prominence as stewardship topics, and we are also seeing the emergence of regulation in this space. In December 2022, the PRI launched a collaborative engagement on human rights and social issues called Advance, which is backed by more than \$30 trillion in AUM. We are leading the engagement for one of the companies in this.

We believe that the formation of the ISSB is a landmark in the evolution of sustainability reporting standards. The ISSB is setting out to establish a comprehensive global baseline for high quality sustainability disclosure standards to address an information void for investors by creating consistent, comparable and verifiable sustainability disclosures standards. What underpins this however is enabling effective capital allocation, improving business and sustainability performance and embedding sustainability disclosures in the capital market infrastructure on a par with financial reporting.

We expect the pace of regulatory change to remain high with developments in the US and in the UK likely to be highly prominent and a continued underlying focus on enhancing transparency and eliminating greenwashing.

In 2023, asset managers will be asked to demonstrate their authenticity in managing sustainability and stewardship risks on behalf of investors. In the United Kingdom, we will see the emergence of the Sustainability Disclosure Regulation (SDR), which aims to tackle greenwashing and will set a very high bar for products to be called sustainable. In Europe, we expect continued tightening of regulation around how funds are categorised. Finally, in the United States, we should see the next stage of the emerging naming and disclosures regime on environmental, social and governance-labeled products. These developments will be critical for asset managers to effectively deliver the products and the outcomes that investors seek.

Against this backdrop we continue to enhance our approach to stewardship, sustainability and impact with a focus on supporting our investors, working with investee companies and ultimately delivering for our clients.

*Against this backdrop we continue to enhance our approach to stewardship, sustainability and impact with a focus on supporting our investors, working with investee companies and ultimately delivering for our clients.*

<sup>16</sup><https://tnfd.global/>

**We are signatories to and lead participants of the following stewardship initiatives**





# Stewardship and sustainability insights

Over the course of the reporting year, we have responded to client requests and have sought their views on the stewardship and sustainability insights that we produce in terms of topics that have most relevance and urgency. During 2022 this focused on emerging issues such as biodiversity and regulation.

Thought leadership is published regularly on our [website](#). The following list of content explores relevant sector-specific, market-wide and systematic risks which we have identified:

- **Stewardship Matters – Edition 9: Achieving Positive Change**

Investors are increasingly seeking positive governance and sustainability impacts alongside financial returns, and engagement can help ensure companies operate with better practices.

22 February 2023



- **UK Smaller Companies: Transformative Trends – Decarbonisation**

In the final installment of a four-part series, Dan Green discusses the structural transformation driven by society’s shift to net-zero carbon solutions.

19 January 2023



- **Sustainability and Stewardship Outlook**

David Sheasby explains why 2023 will see an increased focus on real-world impact.

9 January 2023



- **Stewardship Matters – Edition 8: The power of Diversity and Inclusion in investing**

This edition explores increasing evidence of a positive link between greater corporate understanding of Diversity and Inclusion (D&I) and financial performance.

20 October 2022



- **Cybersecurity – Defragmenting the market**

Cybersecurity breaches have been steadily rising, and there is a risk, given increased geopolitical tensions, that incidences of state-sponsored cyber security breaches could also be on the rise.

26 July 2022



- **Stewardship Matters – Edition 7: The path to Net Zero**

On the anniversary of becoming a NZAMI signatory, our latest edition of STEWARDSHIP MATTERS discusses how we are formalising our commitments, partnering with our clients, educating our teams, and building tools and structure around carbon measurement.

20 July 2022



- **Natural capital's key role in sustainable food systems**

David Sheasby contributes to a wider Franklin Templeton series on investing in the future of the food supply chain across sustainable processes and best practices.

12 July 2022



- **Investing in the UN Sustainable Development Goals: Good health and wellbeing**

Using our knowledge and engagement with corporates, we look at structural trends and companies making material contributions toward SDG 3.

1 July 2022



- **Stewardship Matters - Edition 6: Navigating Change**

The ongoing evolution of the stewardship environment has impacted expectations from clients, market practices, regulation, and our own activities. Our latest edition looks at how to navigate the fast pace of change.

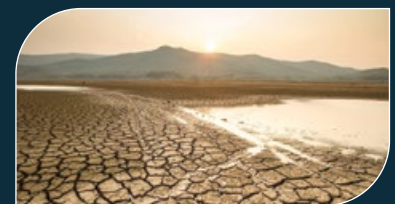
20 April 2022



- **Seven important Stewardship themes for 2022**

All around the globe, 2022 will see significant changes in the stewardship landscape as it moves even more into mainstream investing.

26 January 2022



- **Stewardship Matters - Edition 5: Biodiversity**

Investors have increasingly focused on climate change as a material issue, but the reality is that climate change and biodiversity are inextricably linked and a greater focus on biodiversity itself is warranted. EDITION 5 specifically focusses on the important topic of biodiversity, and why and how investors should be working to protect it.

19 January 2022



- **Our Corporate Purpose: Investing to Improve Lives - Active Ownership**

As investors, we believe financial returns and environmental, social and governance (ESG) factors are fundamentally intertwined. ESG analysis is therefore fully embedded in our investment processes, allowing us to meaningfully improve our understanding of investee companies, their material risks and their opportunities.



## Appendix: Key issue & policy summaries



### Proxy Voting

We recognise that we have a duty to act in the best interests of our clients. To that end, our Proxy Voting Policy is designed to enhance shareholders' long-term economic interests. All our voting decisions are made in-house and are undertaken in accordance with our Global Corporate Governance Principles and in line with our clients' best interests. Proxy voting is integral to stewardship and as such we will, in most cases, routinely inform management of our investee companies when we are voting against them on material matters and provide our rationale.

Our policy which covers all funds where we have the right to vote is updated at least annually, taking into account emerging issues and trends, the evolution of market standards, and regulatory changes. The policy considers market-specific recommended best practices, transparency, and disclosure when addressing issues such as board structure, director accountability, corporate governance standards, executive compensation, shareholder rights, corporate transactions, and social/ environmental issues. The framework for making these decisions is set out in our Global Corporate Governance Principles.

Our proxy voting advisors also provide research and voting recommendations for Martin Currie in accordance with their own policies, which are closely aligned with our internal policy. As appropriate, our proxy voting advisors 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.

Voting assessments are carried out by the member of the investment team with responsibility for the stock, in conjunction with the SSI team.

We recognise that regulatory frameworks vary across markets and that corporate governance practices differ internationally. We have adopted the International Corporate Governance Network (ICGN) Global Governance Principles, which set out a primary standard for well-governed companies that is widely applicable, irrespective of national legislative frameworks or listing rules.

Our voting decisions are informed by both our own internal work and that of our proxy advisor. We assess voting matters on a case-by-case basis, taking into account a company's circumstances. We are guided by our overarching principles on good corporate governance.

Ownership of the votes lies with the investment teams. Clients with segregated accounts have the capacity to set their own voting policies and we may enter into client relationships where voting discretion is retained by clients or where client input into voting decisions are sought. Client directed voting in segregated accounts can be facilitated but is not used for pooled accounts.

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. Where we are aware that securities are on loan and if we judge a vote to be material, we may advise the relevant clients recall that stock in order to cast a proxy vote. In circumstances where it is not possible or practical to assess the materiality or where it is not possible to recall the security (e.g. where the events subject to voting are not communicated by the company in sufficient time) no votes will be cast.

Full details around our voting approach are contained in our [Global Corporate Governance Principles](#) and our [Proxy Voting Policy](#).



### Monitoring Service Providers

In addition to our own in-house research, we access a range of external ESG-specific service providers. Because these providers are used as inputs rather than outputs in our research and voting process i.e. for information not action, our key area of focus in supporting our stewardship activities is related to data quality, accessibility and compiling information. Assessments in relation to material ESG issues are covered by our own proprietary ratings and proxy voting decisions not outsourced to third-party providers. As the data contracts are typically at a firmwide level through our parent company Franklin Templeton oversight and vendor management associated with these contracts is overseen on a centralised basis with a focus on good quality, data governance and sustainability as set out in Franklin's own Stewardship Report. As an example of this, another challenge for 2022 was ensuring data quality.

We recognise that it is vital for investment teams to have complete trust in the quality of the data they use. Even with the large, respected data service providers we use, there is the potential for random data points occurring – sometimes due to human error when being entered into the system. We are reinforcing our governance framework to ensure any data points – for example on carbon emissions – that may be wrong are flagged. A step forward for 2023 will be improved data-quality checks. We feed into this process through feedback around vendor and data quality.

Our third-party suppliers in relation to our stewardship activities include:

**MSCI ESG research** – covers most of the MSCI ACWI constituents and produces industry research, focusing on: key material Environmental, Social and Governance risks and opportunities by industry, with a focus on financial implications; and company reports, based on how individual companies are performing against these risks and opportunities, and ranking them relative to peers. In addition, they provide carbon emissions data, carbon intensity and historic time-series of these for each company. They also produce an assessment of corporate performance against internationally accepted normative standards of behaviour, with the UN Global Compact supporting effective benchmarking.

**Institutional Shareholder Services (ISS)** – produces research reports which focus on voting recommendations for shareholder meetings. These provide useful insight into the corporate governance of the companies covered.

**ISS ESG DataDesk** – Provides ESG data including datapoints on SFDR Principle Adverse Impact (PAI) indicators, EU Taxonomy alignment, and climate solutions. As this is a relatively new provider for us, we are still in the process of assessing how best we can use the data sets.

**S&P TruCost** – Provider of ESG data sets including Trucost Physical Risk, EU Taxonomy Revenue Share and SFDR PAI Data Solution. As this is a relatively new provider for us, we are still in the process of assessing how best we can use the data sets.

**All Street Sevva** – A service that uses AI to instantly read ESG data points from a data lake of sources, and automatically calculates ESG ratings based on the UN SDGs.

**Broker research** – some of the leading brokerage houses produce ESG-themed research as part of their general research offering and incorporate relevant and material ESG factors into their stock research. This research can help frame the risks and opportunities both in broad terms and at a company level.

This external research complements our own ESG research capabilities. Our proprietary ESG research includes extensive engagement with companies which allows us to obtain relevant material data and ascertain the key non-financial factors that will impact a company's performance.

We review the quality of the research and service provided on an ongoing basis and provide feedback on the rare occasions that we come across any issues. We also provide extensive input into the annual investor outreach program and policy roundtables that help frame the evolution of the voting policies and approaches.

Each service provider has a designated contract owner within Martin Currie who is responsible for the ongoing assessment of the effectiveness of the relationship and for monitoring performance of the service provider. For outsource service providers a written outsourcing agreement and a service level agreement (SLA) are a mandatory requirement. The specifics of the ongoing monitoring of service providers will differ depending on the services being provided but in the case of key service providers will include day to day monitoring of reports provided by the service provider, regular calls with relationship contacts, regular servicer review meetings (typically monthly) and an annual due diligence exercise.

Where appropriate, a detailed SLA is agreed with the service provider that ensures each party is clear about responsibilities and requirements. The designated contract owner within Martin Currie will ensure that the services being delivered meet our requirements.

Any issues that occur with the service being provided are typically one off issues rather than being systemic failings by the provider. These are managed by the contract owner. Most issues are resolved quickly through investigation and agreement of any action required to ensure that any service issue is remedied and action implemented to prevent a recurrence. If necessary issues will be escalated to senior management at the service provider and/or Martin Currie to ensure resolution.

As previously stated, third-party data provision in relation to ESG is procured centrally by our parent company Franklin Templeton. In these instances, the above functions are carried out and overseen by the GSST as highlighted in the ESG oversight organisation chart in the business summary.





## 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.

Martin Currie has a Conflicts of Interest Policy that applies to the business as a whole and governs situations where conflicts could arise due to the business activities of different entities within Martin Currie. The policy applies to all clients, irrespective of their regulatory classification, and must be observed by all employees, without exception. This helps to achieve consistent treatment of conflicts of interest throughout all of our operations. Martin Currie aims 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 its clients.

In managing conflicts of interest, Martin Currie:

- Prepares, maintains and implements an effective conflicts of interest management framework.
- Maintains detailed policies and procedures for identified activities to prevent conflicts of interest adversely affecting the interests of one or more clients. These include adequate measures to assess and evaluate potential conflicts identified.
- Prevents or limits any person from exercising inappropriate influence over the way in which services and activities are carried out; and
- Prevents or controls the simultaneous or sequential involvement of a person in separate activities or services where such involvement may impair the proper management of conflicts of interest.
- Has appropriate monitoring and oversight arrangements in place to ensure policies and procedures are being observed in practice.

- Ensures its organisational structure has sufficient and effective segregation of responsibilities.
- Ensures that senior management periodically receive written reports detailing actual and potential conflicts of interest.

For example in relation to our stewardship and sustainability activities we have highlighted examples of actual and potential conflicts of interest during 2022 below.

1. Conflicts of interest in relation to proxy voting activity where investments are commonly held across strategies. Where investments are held in multiple strategies, we encourage a collaborative approach to discussing and resolving key issues related to proxy voting to establish a common position across funds.
2. Potential conflicts of interest around M&A transactions. There is the potential in capital markets transactions to have exposure to both sides of a transaction across different client accounts. In such a situation our approach would be to vote in line with the interests of clients in each strategy separately rather than attempting to establish a net position on the transaction as a whole. Such a situation did not arise during 2022.
3. Potential conflicts of interest when assessing compliance with global norms such as the UN Global Compact which form a restriction on some funds. The initial assessment of compliance is made using a third-party data provider, but there is the capacity for this to be overridden following further research that leads to a different conclusion. This creates a potential conflict of interest in relation to the investment teams proposing that this threshold is not met. This is managed by having independent sign off of any override by the Head of Stewardship, Sustainability & Impact. There were no examples of any conflict in 2022.
4. Potential conflict of interest in proxy voting where a fund that we manage owns funds that we run as in the case of the Martin Currie pension scheme. In such situations voting decisions are made in line with Proxy Advice from our proxy adviser or at the discretion of the pension trustees rather than the fund managers.





## Responsible Investment Policy

Our **Responsible Investment Policy** recognises that we have clear responsibilities as stewards of our clients' capital. Principal among these is to protect and enhance their capital over the long term. We believe that governance and sustainability factors create risks and opportunities for investors. We believe it is in the interests of our clients to consider these factors when making an investment in a company, and for the companies themselves to manage them appropriately.

We believe the sustainability of a company's business model is critical to maintaining its competitive industrial positioning and strong capital returns. Incorporating sustainability analysis alongside traditional financial analysis provides valuable insight into the companies we invest in and the quality of the management in those companies.

We believe that companies exhibiting strong governance and that are well managed are more likely to be successful, long-term investments. We believe our integrated approach helps identify good management teams, understand their motivation and determine whether their interests are aligned with minority investors. As long-term investors, engagement and active ownership are key elements to our overall approach to stewardship. Our focus is on issues that may impact the ability of investee companies to generate long term sustainable returns. Our responsible investment policy applies to all investments made on the behalf of our clients. Sustainability risk is an important consideration and means an environmental, social, or governance event or condition, that, if it occurs, could potentially cause a material negative impact on the value of an investment. Sustainability risks can either represent a threat of their own or have an impact on others and may contribute significantly to market operational, liquidity or counterparty risks.

Sustainability analysis can also identify potential opportunities, for example, those created by the transition to more sustainable economic growth or those companies whose products and services can help meet the ambitions of the UN Sustainable Development Goals (SDGs).

We believe an investment approach that incorporates an assessment of a company's governance and sustainability (by the fundamental research teams and not outsourced to a separate team) enhances fundamental research and can help identify those business models that are most likely to sustain high returns and resist competitive pressures. As sustainability risks and opportunities tend to play out over the longer term it is important, as long-term investors, that we consider these when analysing potential investments for our clients. We consider a variety of sustainability factors to better understand their impact on companies we research. These factors are essentially those that can have a material impact on a company's cash flows, balance sheet, reputation and ultimately, corporate value. They reflect the growing pressures that all companies are under from their key stakeholders. Regulators, customers, suppliers, investors, local communities, and employees, as well as systemic risks such as climate change.

*We believe our integrated approach helps identify good management teams, understand their motivation and determine whether their interests are aligned with minority investors.*



## Stewardship and Engagement Policy

Our [Stewardship and Engagement policy](#) outlines our overall approach to active ownership, setting out how we monitor investee companies, our approach to engagement (both private and collaborative), when we will escalate our activities, how we vote proxies, and how we report on our activities.

Our stewardship activity is led by the portfolio managers and analysts and manifests itself principally in monitoring and engagement – both privately or in collaboration with other investors – and our voting activity. We aim to build strong relationships with investee companies, ensuring that our engagement is not constrained by our clients’ minority-shareholder status and our focus is on the issues likely to be material to long-term value creation.

Our aim is to establish an open dialogue with investee companies. We aim to engage with companies in an informed, constructive and discrete manner. We will join collaborative efforts on material issues, particularly when deemed likely to be more efficacious than acting alone. We recognise that our ‘standard’ engagement approach – seeking constructive dialogue with management – may not always yield the results aimed for and in these circumstances, we will consider escalating our stewardship activities. This will include seeking additional meetings with the company, contacting the non-executive directors or company advisors, or voting against management. Scenarios that would warrant this include when minority shareholders’ rights are being compromised; when we are concerned about board structure; or sustainability issues that could undermine a company’s future earnings’ potential.

As long-term investors we expect the companies in which we invest to focus on delivering durable shareholder value. Transparency is critical to Martin Currie, and this includes communicating stewardship activities. Our quarterly client reports include a section on ESG 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 the annual report on our stewardship and sustainability 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 and publicly disclose a summary of our [voting activities](#) on our website.



## Global Corporate Governance Principles

All our voting decisions are made in-house and 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. Our Global Corporate Governance Principles are closely aligned to the International Corporate Governance Network (ICGN) Global Governance Principles, which set out a primary standard for well-governed companies with the intention of being widely applicable, irrespective of national legislative frameworks or listing rules. Where overseas corporate governance codes are consistent with our overall principles, we will adopt these. We recognise that the circumstances under which companies operate vary considerably and as such we take into account the specific circumstances of each company when assessing how to approach corporate governance. However, we will actively question and challenge companies when we believe that their governance policies fall short of the standards we expect and/or may affect our clients’ interests and long-term returns.

At a minimum, we would expect companies to comply with the accepted corporate governance standards in their domestic market or to explain why doing so is not in the interest of shareholders. The principles focus on a number of areas: board role and responsibilities; leadership and independence; composition and appointment of the board members; corporate culture; risk oversight; remuneration; reporting and audit; and shareholder rights. For each of these, we set out our high-level expectations and what we regard as best practice. The Martin Currie [Global Corporate Governance Principles](#) can be found on our [website](#).



## Climate Engagement and Escalation Policy

Sitting alongside our Stewardship and Engagement Policy, our [Climate Engagement & Escalation Policy](#) sets out our current expectations of companies with regards to climate change and our approach to engagement with our investee companies.

As a systemic issue, climate change, and the transition to a lower carbon economy, will impact most companies in some way. We expect companies to be aware of the potential risks that they are exposed to and the potential impact that they have, and to manage and mitigate these risks and impacts. This ultimately includes setting a 'net zero' commitment and aligning the business to this commitment. We also encourage companies to embrace the potential opportunities that may be presented by the substantial economic changes required.

This policy sets out how we aim to support investee companies moving towards 'net zero', recognizing that the journey to a low carbon economy will not be easy, especially for companies with high emissions or those that operate in difficult to abate sectors.

As investors, in order to be able to make an informed assessment of these potential risks and opportunities we also expect companies to disclose decision-useful information in a timely manner that can help build our understanding of each company that we invest in on behalf of our clients. We believe that the Taskforce for Climate-related Financial Disclosures (TCFD) and the CDP frameworks provide robust channels for these climate disclosures

Our aim is to establish an open dialogue with investee companies. We aim to engage with companies in an informed, constructive and discrete manner. The key considerations that frame our engagement include the overall governance, awareness and management of climate risks and opportunities; emissions disclosures; the ambition and disclosures of emission reduction targets; and overall climate reporting.

The policy sets out our approach to escalation and voting and also highlights that where appropriate we will take part in collaborative engagements with other investors, pooling our efforts to amplify our collective voice and effect greater change.

## Important information

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**Past performance is not a guide to future returns.**

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The analysis of Governance and Sustainability factors forms an important part of the investment process and helps inform investment decisions. The strategy/ies do not necessarily target particular sustainability outcomes.



**MARTIN CURRIE**

A Franklin Templeton Company

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