

# MARTIN CURRIE INVESTMENT MANAGEMENT LIMITED

ADV Part 2



28 March 2012



Martin Currie Investment Management Limited  
Saltire Court  
20 Castle Terrace  
Edinburgh  
EH1 2ES

Tel: 0011 44 131 229 5252  
[www.martincurrie.com](http://www.martincurrie.com)

This brochure provides information about the qualifications and business practices of Martin Currie Investment Management Limited. If you have any questions about the contents of this brochure, please contact us at 0011 44 131 229 5252 or at [clientservices@martincurrie.com](mailto:clientservices@martincurrie.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Martin Currie Investment Management Limited also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

Martin Currie Investment Management Limited is referred to throughout as 'MCIM'. MCIM is part of a wider group of companies, collectively referred to as 'Martin Currie' or the 'Group'. An affiliate of MCIM, Martin Currie Inc, is also a registered investment adviser and is referred to as MCI.

## **Item 2 – Annual Update**

In 2006, Martin Currie Ltd and Heartland Capital Management Ltd ('HCML') established MC China Ltd as a joint venture company to provide investment advisory services to the range of China investment products managed by MCI and its affiliates. This included the services of a Shanghai-based research team and the secondment of two portfolio managers from HCML to MCIM and its affiliates on a full time basis.

In November 2011, HCML exercised its option to acquire Martin Currie's interest in MC China Ltd and with it the services of the Shanghai-based research team. The acquisition took effect on November 08, 2011.

In order to maintain investment expertise in China, Martin Currie entered into a strategic alliance agreement with APS Asset Management on October 25, 2011. Further details on the agreement can be found under item 4A.

The brochure has also been updated to reflect changes to the funds managed by MCIM and its affiliates.

### **Summary of Material Changes**

The material changes to the information contained herein are as follows:

- Martin Currie Group assets under management have decreased to \$8.4billion as at 31 January 2012 (from \$10.4billion as at 31 October 2011)

- MCIM non-discretionary assets have decreased to \$41,190,000 (from \$50,290,000 as at 31 October 2011) and discretionary assets have decreased to \$4,773,800,000 (from \$5,132,860,000 as at 31 October 2011)

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## Item 4 – Advisory Business

### Item 4A. The Firm

Martin Currie is a specialist investment management business founded in 1881. From our headquarters in Edinburgh, we manage \$8.4 billion (as at 31 January 2012) in active equity portfolios for a global client base of financial institutions, charities, foundations, endowments, pension funds, family offices, government agencies and investment funds. Our pooled funds include an open end investment company (“Oeic”), a société d’investissement à capital variable (“Sicav”), offshore mutual funds and a range of hedge funds.

We manage money for clients in 25 countries and we are organised to serve clients on a global basis. We believe in being close to our clients and their needs, therefore, we also have offices in London, Melbourne, New York, Singapore and Zurich providing client services and sales functions.

We are a private company, owned and managed by our permanent employees. We believe that employee-ownership confers stability, minimises corporate distractions and helps us to attract and retain talent. We are committed to remaining independent, and see this as critical to the future success of Martin Currie.

We employ approximately 250 staff across the firm, including 44 investment professionals. Our team of portfolio managers construct and monitor committed, distinctive equity portfolios according to our clients’ needs. Their resources include regional and sector research, proprietary stock screening and integrated risk management.

We describe Martin Currie as ‘The Big Boutique’. In its broadest sense, this means having the solidity, professionalism and robustness of process of a large company, combined with the distinctiveness, client focus and personal ownership of a small company.

In 1985 the company incorporated to form Martin Currie Ltd, the holding company of five wholly owned, fully operational subsidiaries. Martin Currie (Holdings) Ltd was created in October 2007, and is the parent company and sole owner of Martin Currie Ltd. As indicated in the chart below, Martin Currie Ltd is the sole owner of Martin Currie Investment Management. Martin Currie (Holdings) Ltd is majority owned by its permanent employees with a 34.9% holding by a Consortium. The Consortium only owns 24.9% of voting shares and no one person or entity (including within the Consortium) owns 25% or more of Martin Currie (Holdings) Ltd.

In October 2011, Martin Currie entered into a strategic alliance agreement with the Singapore-headquartered APS Asset Management (‘APS’) in relation to its Chinese equity management business. The alliance with APS will allow Martin Currie client portfolios to draw on the proven and experienced capabilities of the APS China investment team. APS is the only foreign investment management firm which has research teams across three different cities in China supporting their China ‘A’ share strategy. APS began providing portfolio management services to Martin Currie’s China equity clients on November 14, 2011.

#### Item 4B. Our Advisory Services

Managing specialist active equity portfolios is our only business. We make these available on a segregated and pooled basis, and in a variety of product structures, to meet the needs of investors around the world. We manage three principal strategy types, each defined by its particular risk framework:

1. **Core** - index-relative, targeting incremental outperformance of a defined benchmark within a predetermined risk framework.
2. **Alpha** - unconstrained, targeting significant outperformance over a cycle. Risk-aware, but not risk-constrained.
3. **Absolute return** - targets a real return above cash, with low absolute drawdowns.

Below, we summarize the strategies managed by our investment team. This summary shows the broad spread of assets across our product teams as at 31 December 2011.

Team	Proportion of group assets	Principal equity strategies
China	23%	Greater China small / mid-cap, China A, Absolute Return, Taiwan
Asia	21%	Asia ex Japan, Asia Long-term Unconstrained, Pan Asia
Global Equities	17%	Core, Alpha, Global income, EAFE, EAFE ADR, ACWI ex US
UK	10%	UK income, Charity accounts
North America	9%	Core, Alpha
Japan	8%	Core, Alpha, Mid-cap, Absolute Return, Absolute Alpha
Global sector products	4%	Alpha, Absolute Return, Absolute Alpha
Global emerging markets	4%	Core, Latin America, Greater China multi-cap
Europe	3%	Core, Alpha, Absolute Return, Absolute Alpha

Please refer to Item 8, “*Methods of Analysis, Investment Strategies and Risk of Loss*” for more information regarding these strategies.

#### Securities lending

Certain of the funds for which MCIM acts as investment adviser, participate in securities lending programs. MCIM is not involved in the administration of these programs.

#### Item 4C. Tailoring Services to Client Needs

As the table overleaf shows, we offer clients a wide range of equity strategies in which to invest. However, we also recognise that every client is unique, so our portfolio managers have the freedom to shape investment strategies to meet the needs of our clients. A separate investment management agreement (‘IMA’) is agreed for each segregated client portfolio. Within the IMA, clients will define the investment parameters within which the mandate must be managed. These can include minimum or maximum cash levels, restrictions on the amount of the portfolio that can be invested in a particular country or region, or the amount of the portfolio that can be invested in a particular type of security. These parameters are then recorded on Sentinel, our investment

restriction monitoring system. The system allows us to prevent any action that will breach investment limits at a pre-trade level. In addition, we check for inadvertent limit breaches caused by market movements on a daily basis and ensure that appropriate remedial action is taken. Although the portfolio managers will generally apply the same investment philosophy to all portfolios they manage, the composition of each portfolio may differ due to individual client restrictions. As a result, the performance of each portfolio will be different, with some portfolios performing better than others.

#### Item 4D. Wrap Fee Program Services

MCIM does not provide portfolio management services to any wrap fee programs.

#### Item 4E. Discretionary and Non-Discretionary Assets Under Management

As at 29 February 2012, MCIM managed \$41,190,000 in non-discretionary assets and \$4,773,800,000 in discretionary assets.

### Item 5 – Fees and Compensation

#### Item 5A. Standard Fees

Our standard fee structure for managing segregated investment portfolios is categorized by investment strategy. The table below sets out the standard management fees payable by strategy:

Core investment strategies	Management fee
<b>ACWI ex US and EAFE</b>	
First US\$50 million	0.70%
Next US\$50 million	0.60%
Next US\$150 million	0.50%
Next US\$250 million	0.40%
Next US\$500 million	0.40%
<b>Global Income</b>	
First US\$50 million	0.70%
Next US\$50 million	0.60%
Next US\$150 million	0.50%
Next US\$250 million	0.45%
Next US\$5000 million	0.40%
<b>Global Emerging Markets and Latin America</b>	
First US\$50 million	1.00%
Next US\$50 million	0.90%
Next US\$150 million	0.85%
Next US\$250 million	0.70%
Next US\$5000 million	0.60%

<b>Greater China Multi-Cap</b> First US\$50 million Next US\$50 million Next US\$150 million Next US\$250 million Next US\$500 million	1.00% 0.90% 0.80% 0.70% 0.60%
<b>Global-Alpha</b> First US\$50 million Next US\$50 million Next US\$150 million Next US\$250 million Next US\$500 million	0.75% 0.70% 0.60% 0.50% 0.50%
<b>Asia Long Term Unconstrained</b> First US\$50 million Next US\$50 million Next US\$150 million Next US\$250 million Next US\$500 million	0.75% 0.70% 0.70% 0.55% 0.50%
<b>Asia ex-Japan</b> First US\$50 million Next US\$50 million Next US\$150 million Next US\$250 million Next US\$500 million	0.75% 0.75% 0.70% 0.55% 0.50%
<b>Asia inc-Japan</b> First US\$50 million Next US\$50 million Next US\$150 million Next US\$250 million Next US\$500 million	0.70% 0.70% 0.65% 0.55% 0.50%
<b>Japan Core</b> First US\$50 million Next US\$50 million Next US\$150 million Next US\$250 million Next US\$500 million	0.70% 0.60% 0.50% 0.40% 0.35%



<b>Japan Alpha</b> First US\$50 million Next US\$50 million Next US\$150 million Next US\$250 million Next US\$500 million	0.75% 0.75% 0.75% 0.75% 0.75%
<b>European Income</b> First US\$50 million Next US\$50 million Next US\$150 million Next US\$250 million Next US\$500 million	0.70% 0.60% 0.50% 0.45% 0.40%
<b>North America</b> First US\$50 million Next US\$50 million Next US\$150 million Next US\$250 million Next US\$500 million	0.75% 0.70% 0.60% 0.55% 0.50%

Fee rates are negotiable and certain clients may have more favourable fees to those stated above. For example, rates may be negotiated based on the size or complexity of a client's portfolio.

In addition to providing investment management services for segregated investment portfolios, MCIM acts as the investment adviser to a number of funds. Details of the fees received from these funds are set out below. Additional information is available in each fund's offering documents.

MCIM is investment adviser to Martin Currie Absolute Return Funds Limited - umbrella funds incorporated as open-ended investment companies under the laws of Bermuda and sold under private placement. MCIM receives a management fee at the annual rate of 1.5% of the net asset value of the funds, accruing quarterly on each valuation day and payable quarterly in arrears. The Manager of Martin Currie Absolute Return Funds Limited, Martin Currie (Bermuda) Limited, a company incorporated in Bermuda and also an affiliate of MCIM, is paid a performance fee of 20% of the increase in the net asset value applicable to each class of share in issue in respect of each fiscal year. The Manager is reimbursed all reasonably incurred out of pocket expenses.

MCIM is investment adviser to Martin Currie Asia Long-term Unconstrained Fund, an exempted company incorporated with a limited liability under the laws of Bermuda and sold under private placement. MCIM is entitled to receive a fee accruing and calculated monthly at the annual rate of 0.75% of the net asset value of the fund.

MCIM is investment adviser to Martin Currie European Hedge Fund a unit trust under the laws of the Cayman Islands and sold under private placement. MCIM receives a management fee at the annual rate of 1.5% of the net asset value of the funds, accruing daily and payable monthly in arrears. MCIM also receives an annual performance fee of 20% of the appreciation in the net asset value per unit over the high water mark for that series of unit or the subscription price, whichever is the higher. MCIM may itself, exercising its discretion, receive a redemption fee of 1% of the redemption proceeds if the units redeemed were issued less than a year previous to the redemption date.

**Item 5B. Client Billing**

All clients are billed for the management fees incurred. We do not deduct fees from client's assets. Clients can be billed on either a monthly or quarterly basis, depending on their preference. Certain clients also have performance fee arrangements in place. These clients are also billed for any performance fees earned. Performance fees can be billed on a monthly, quarterly or annual basis. Further information regarding performance fees can be found under Item 6, "*Performance-based Fees and Side-by-Side Management*".

**Item 5C. Other Fees and Expenses**

MCIM does not offer custody of client's assets. Each client must make its own custody arrangements. Custodians will charge clients a custody fee, which the client and custodian must negotiate separately.

As part of their portfolio, the portfolio manager may recommend to a client that it invests in a fund for which MCI, or an affiliate, acts as investment adviser. For such investments, MCI has procedures in place to ensure that clients are not double charged. This is achieved by excluding any client assets invested in funds from the management fee calculation. The management fee is calculated on the balance of assets not invested in funds. Assets invested in funds will only be subject to the expenses of those funds, which may be higher than the management fee.

In addition to management fees, MCIM receives compensation for secretarial services provided to one of the funds it acts as investment advisor to.

Clients will also incur brokerage and other transaction costs as part of the portfolio management process. Further information relating to these charges can be found under Item 12, "*Brokerage Practices*".

**Item 5D. Advance Payment of Fees**

All of our client invoices are calculated in arrears; no clients pay fees in advance. Clients are not permitted to pay in advance under any circumstance.

**Item 5E. Compensation for the Sale of Securities or Other Investment Products**

MCIM does not receive commission or compensation for the sale of investment products, including asset-based sales charges or service fees from the sale of mutual funds.

Each member of the MCIM sales team is eligible to receive a bonus for every new client they introduce. The bonus structure rewards the team for growing revenues, as it is based on both the volume and margin of the business they sell. Part of the bonus is calculated as a percentage of the first year's revenue from the sale less any relevant costs, such as travel and accommodation. A smaller percentage of the second year's revenue is also paid. Each member of the team is also eligible to receive an additional award from a separate sales bonus pool; this allows inputs and behaviours, other than those directly linked to revenue growth, to be rewarded. All bonus schemes at Martin Currie are discretionary.

Martin Currie Investor Services Inc ('MCIS') is an affiliate of MCIM and a registered broker-dealer authorised to sell interests in a registered company and certain other private offshore funds managed by MCIM or its affiliates. The registered representatives of MCIS also receive a bonus for each new client they introduce. The bonus is calculated in the same way as that received by the MCIM sales team.

The bonus payments could create a conflict of interest between MCIM or MCIS and its clients, as sales employees could recommend funds or investments which will earn them a larger bonus payment. However, neither MCIM nor MCIS employees provide investment advice or make recommendations to clients. MCIM and MCIS employees only provide information relating to the funds it, or its affiliate, manages. Sales activities are agreed as

per the Martin Currie Business Plan and the remuneration structure is designed to avoid such conflicts. For more information on how potential conflicts are avoided, please refer to the 'reward and remuneration' heading under Items 11B-D, *"Potential Conflicts Relating to Advisory Activities."*

All of the funds MCIM act as an adviser to can be purchased through non-affiliated brokers or agents.

#### **Item 6 – Performance-Based Fees and Side-by-Side Management**

Fees for all client portfolios are calculated on the value of assets held. In addition, a number of client portfolios may also earn a performance fee. As of December 31, 2011, approximately 15% of funds under management generated performance fees. Each performance fee is calculated differently, in line with client specifications.

Managing client portfolios with different fee structures may create a conflict of interest as portfolio managers may have an incentive to favour client portfolios with more beneficial fees. For example, prioritising trades for portfolios with performance fees over those for other portfolios or investing in higher risk investments for portfolios with performance fees. Our remuneration structure rewards portfolio managers for the successful growth of the products they manage. Any bonus is paid as a percentage of the relevant management and performance fees of portfolios within that strategy.

These conflicts of interest are addressed by managing our client's portfolios in accordance with their investment strategy, not their fee structure. Clients with similar strategies are managed collectively, with the portfolio manager generally instructing trades across the client group and not on a client-by-client basis. By following our investment process, this prevents portfolio managers favouring one client over another. Of course, there may be reasons why this is not always the case such as liquidity or specific client restrictions for example.

In addition, we have a range of conflicts policies in place designed to ensure that investment decisions are made on the best interests of clients. Further information on these policies can be found under Items 11B-D, *"Potential Conflicts Relating to Advisory Activities"*.

#### **Item 7 – Types of Clients**

Martin Currie provides investment advisory services to a range of clients, including financial institutions, foundations, pension funds, family offices, government agencies and investment funds.

Today we manage money for investors in 25 countries, and we are organized to serve clients on a global basis. Around three-quarters of our clients by value are located in the UK and North America, markets where we have long-established businesses. Over the past 10 years we have expanded our client base to Europe, the Middle East, Asia and Australia.

The graph below gives a breakdown of Martin Currie's clients by type as at 31 December 2011. Please note that the graph data covers both MCIM and its affiliate, MCI. MCI is also a registered investment adviser. MCIM's main clients are wealth managers, corporate funds and public funds.

Clients by type	Proportion of group assets
Wealth managers	47%
Corporate funds	14%
Family Offices	10%
Sub-advisory funds	9%
Public funds	7%
Charities, endowments & foundations	7%
Sovereign funds	4%
Multi-managers	2%



The minimum value of assets for opening a segregated long-only or long/short account is \$50 million. This limit is at our discretion and we may choose to waive it. This may depend on the nature of the relationship and its potential for growth either in the relationship itself or its potential for growing an investment strategy.

## Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

### Item 8A. Methods of Analysis and Investment Strategies

Investment management is our only business. We focus exclusively on managing active equity portfolios and devote all of our resources to getting this right. We believe that:

1. Equity markets are inefficient, offering skilled investment managers the opportunity to outperform.
2. Most investors place too much emphasis on stories, and not enough on facts.
3. Most market participants systematically underestimate the extent and duration of change

We believe that change is the central dynamic behind stock price movement. We recognise that change occurs at both the company level (management changes, product strategies, acquisitions etc) and at a macro level (legislative changes, economic prospects, sector dynamics, etc.). By determining the impact of these changes, we believe that superior investment performance can be delivered.

We organize and resource our investment team to enable us to identify, evaluate and exploit change for the benefit of our clients. The table below sets out how we achieve each of these steps.

<b>1. Identifying change</b>	<b>Idea generation</b> <ul style="list-style-type: none"> <li>• In-house regional and sector research team</li> <li>• Portfolio managers</li> <li>• Screening tools</li> <li>• Company meetings</li> <li>• Best external research</li> </ul>	From a large universe of potential stocks, we need to be able to focus our research on those companies in the early stages of meaningful change. Our portfolio managers and research teams generate ideas through a variety of sources, including company meetings, propriety research, and the best external research available.
<b>2. Evaluating change</b>	<b>Building the investment case</b> <ul style="list-style-type: none"> <li>• Challenging market consensus</li> <li>• Detailed fundamental analysis based on four 'pillars' of quality, value, growth and change</li> <li>• Regional and sector dynamics</li> </ul> <b>Effective communication</b> <ul style="list-style-type: none"> <li>• Extensive dialogue based on common language of quality, value, growth and change</li> <li>• Swift communication of recommendations</li> </ul>	<p>This is the 'engine room' of our process. Our aim is to identify factors that change corporate profitability against consensus and to evaluate the timing, significance and sustainability of these changes.</p> <p>Our company research involves intensive due diligence, and includes dialogue with companies, competitors, suppliers and regulatory agencies.</p> <p>Stock recommendations are efficiently communicated to the portfolio managers to ensure we exploit change early.</p>
<b>3. Exploiting change</b>	<b>Portfolio construction</b> <ul style="list-style-type: none"> <li>• Highest-conviction stock ideas</li> <li>• Low sensitivity to potentially damaging macro factors</li> <li>• Appropriate style characteristics</li> <li>• Disciplined risk management</li> </ul>	<p>We build committed, distinctive portfolios for our clients.</p> <p>Our independent risk team constantly monitors the volatility and correlations in our portfolios. The team works closely with portfolio managers on a day-to-day basis, offering support before trading decisions and advice on portfolio construction. Selling is as important as buying, and we continuously reassess the investment case for every stock in the portfolios we manage.</p>

Our process ends with a committed and distinctive portfolio, meeting the client's performance targets with an appropriate level of risk and within any specified restrictions.

When investing in securities, clients must always be aware that market and currency movements may cause the capital value of shares, and the income from them, to fall as well as rise. Therefore, clients may get back less than they invested when they decide to sell their shares.

MCIM offers a wide range of investment strategies, covering both geographic and sector focuses. The investment objective of each of the strategies available is described below.

## GLOBAL EQUITIES

Strategy	Investment objective
Core	To produce capital growth by investment across all world markets.
Alpha	To provide superior long-term returns by investing in a concentrated portfolio of primarily large and medium-sized companies.
Global Income	To provide an income in excess of the MSCI World index dividend yield as well as the potential for capital appreciation.
EAFE	To produce capital growth by investment across Europe, Asia and the Far East.
ACWI ex US	To produce capital growth by investment across the companies comprising the MSCI All Countries World ex US Index.

## ASIA

Strategy	Investment objective
Asia ex Japan	To produce long-term capital growth by investment in any economic sector in all or any of the Middle East, the Indian sub-continent, Australia, New Zealand and the Far East, excluding Japan.
Asia Long Term Unconstrained	To provide long term capital appreciation by investing primarily in listed equity securities of companies or other business forms operating in Asia. The strategy is a high conviction strategy combining 25-30 of the region's best and most sustainable businesses. It is unconstrained by any market capitalisation, sector or country allocation.
Asia Inc-Japan	To produce long-term capital growth by investment in the mature and developing markets of Asia and the Pacific Basin.

## NORTH AMERICA

Strategy	Investment objective
Core	To produce capital growth by investment in the United States of America and Canada.

## JAPAN

Strategy	Investment objective
Core	To produce capital growth by investment in Japan in any economic sector.
Alpha	To provide capital growth by investing in a concentrated portfolio of primarily

	large and medium-sized Japanese companies.
Absolute Return	To provide long-term capital appreciation principally through an actively managed portfolio of long and short positions in Japanese equity and derivative instruments.
Absolute Alpha	The Absolute Alpha strategy is a UCITS-compliant version of the absolute return strategy above.

#### GLOBAL SECTOR PRODUCTS

Strategy	Investment objective
Alpha – Global Energy	To deliver capital growth by investing in equities whose predominant economic activity is in the exploration, development, production, distribution and transportation of energy.
Alpha – Global Resources	To deliver long-term capital growth by investing in equities of companies globally which are predominantly engaged in the energy, basic materials and utilities sectors.
Absolute Return – Global Financials	To provide long-term capital appreciation principally through an actively managed portfolio of long and short positions in companies operating within the global financial sector.
Absolute Return – Global Resources	To provide long-term capital appreciation principally through an actively managed portfolio of long and short positions in companies operating within or servicing the energy, basic materials or utilities sectors.
Absolute Alpha – Global Resources	The Absolute Alpha strategy is a UCITS-compliant version of the Global Resources absolute return strategy above.

#### EUROPE

Strategy	Investment objective
Core	To produce capital growth by investment in Europe, excluding the United Kingdom.
Alpha	To provide capital growth by investing through a concentrated portfolio in Europe, excluding the United Kingdom.
Absolute Return	To provide long-term capital appreciation principally through an actively managed portfolio of long and short positions in European equity and derivative instruments.
Absolute Alpha	The Absolute Alpha strategy is a UCITS-compliant version of the absolute return strategy above.

**GLOBAL EMERGING MARKETS**

Strategy	Investment objective
Core	To produce long-term capital growth by investment in a portfolio of securities worldwide in any economic sector, but it is anticipated that investment will generally be concentrated in what the investment manager considers to be the smaller and developing markets around the world.
Latin America	To deliver capital growth by investing directly or indirectly, primarily in equities of companies based in Latin America or carrying out significant business activities in the region.
Greater China Multi-Cap	To produce long-term capital growth by investing in companies listed in China and companies or other entities with significant assets, investments, production activities, trading or other business interests in China, or which derive a significant part of their revenue from China.

**Item 8B. Material Risks of Significant Strategies and Significant Methods of Analysis**

**Investment analysis – general risks**

High quality proprietary research is the bedrock of our investment process. The purpose of our research platform is to generate high quality stock ideas and communicate these to portfolio managers so they make a real difference to the performance of client portfolios.

Our investment process focuses us on companies with attractive valuations in the early stages of a process of positive change. This change can be driven by many factors, for example from a change in pricing power due to industry demand or supply consolidation. We use a wide variety of sources to identify companies with attractive valuations showing positive change, from proprietary research to company meetings to industry conferences to selective third party research. Research analysts are expected to build financial models for every stock that is proposed as a holding for live portfolios. Professional judgment is required by the research analyst in building every investment case.

Although we do not believe that there is any material risk associated with our investment analysis methodology, the success of the methodology may be impacted by the wider market risk along with the risk of human error. In an environment where capital markets look to reward companies with characteristics diametrically opposed to our process, our portfolios are likely to relatively underperform. For example, when companies with higher than average valuations relatively outperform, or firms displaying negative operational change (missing consensus expectations) counter-intuitively increase in value (often prompted by widespread merger and acquisition activity).

There are also occasions when an analyst's professional judgment proves poor with the benefit of hindsight (by definition, the future is unknown). There is also a risk to the investment process if publicly available information proves to be inaccurate or misleading.



## **Investment strategies - general risks**

### **High risk investing**

Substantial risks are involved in investing in securities. The prices of many of the securities in which portfolios trade are highly volatile and market movements are difficult to predict.

Moreover, the value of investment portfolios may be subject to decreases as a result of general economic conditions and/or adverse effects upon the companies in which the portfolios own securities.

### **Performance risk**

There will be a variation in performance between portfolios with similar investment objectives due to the different assets selected. Portfolios aiming for relatively high performance can incur greater risk than those adopting a more standard investment approach. There is no guarantee for the performance of any investment and clients may get back less than they originally invested.

### **Interest rate risk**

Investment portfolios may have exposure to interest rate risks. To the extent prevailing interest rates change, such changes could negatively affect the value of each investment portfolio.

### **Diversification risk**

Investment portfolios with a specific geographic or sector focus will, by their nature, invest the majority of their assets in either a small number of countries and/or a few issuers. This concentration of the portfolio increases the impact which changes in the economic or political environment and/or movements in stock markets may have on the performance of the portfolios, both positive and negative.

### **Currency risk**

Portfolios may invest in securities denominated in currencies other than their base currency. Portfolios may seek to hedge foreign currency risk where permitted, however it is not always practicable to hedge certain currencies. Portfolios will also incur costs in connection with hedging transactions. Accordingly, investors bear the risk of adverse movements in exchange rates with the currencies in which investments are denominated. Such movements can result in both a positive and negative return.

### **Custody risk**

In the event of failure of the custodian, investments may not be as well protected from other claims made on behalf of the general creditors of the custodian. However, the custodian is liable for any losses resulting from negligence, fraud or wilful misconduct.

### **Management risk**

Portfolios are subject to management risk because each portfolio is actively managed. The portfolio manager will apply their investment techniques and risk analyses in making investment decisions for portfolios, but there is no guarantee that its decisions will produce the intended result. Any performance fee may motivate the portfolio manager to make riskier or more speculative investments than it might otherwise make in the absence of such allocation. The performance fee will include amounts in respect of any unrealised appreciation in a portfolio's investment.

### **Credit risk**

This is the risk that an issuer or a counterparty to a transaction will fail to make payments when due or default completely on securities, repurchase agreements or other investments held by a portfolio. Such defaults could result in losses to the portfolio. In addition, the credit quality of securities held by a portfolio may be lowered if

an issuer's financial condition changes. Lower credit quality may lead to greater volatility in the price of a security. Lower credit quality also may affect liquidity and make it difficult to sell the security.

### **Redemption risk**

This is the risk that a pooled investment company ("fund") may need to sell its holdings in order to meet shareholder redemption requests. A fund could experience a loss when selling securities to meet redemption requests if the redemption requests are unusually large or frequent, occur in times of overall market turmoil or declining prices for the securities sold, or when the securities a fund wishes to or is required to sell are illiquid.

### **Investment in smaller and unlisted companies**

Portfolios may include investments in unlisted companies and small listed companies with lower market capitalisations than many companies listed in OECD countries. Investment in the securities of unlisted and small companies can involve greater risks than is customarily associated in larger, more established companies. In particular, smaller companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals. In addition, the market for stock in smaller companies is often less liquid than that for stock in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such stock.

### **Liquidity and valuation**

Portfolios may invest in securities which are subject to legal or other restrictions on transfer or for which no liquid market exists. The market prices, if any, for such securities tend to be more volatile and a portfolio may not be able to sell them when it desires to do so or to realise what it perceives to be their fair value in the event of a sale. For example, high-yield securities markets have suffered periods of extreme illiquidity for certain types of instruments in the past. As a result, calculating the fair market value of a portfolio's holdings may be difficult. The portfolio manager may utilise the assistance of pricing services or valuation sources in calculating such fair market values when and if available and for underlying models as described above. The values initially obtained could be incorrect.

### **Derivatives**

Certain portfolios may invest in complex derivative instruments (for example, swaps, futures, convertible securities, options and forwards) that seek to modify or emulate the investment performance of particular securities, commodities, currencies, interest rates, indices or markets or specific risks thereof on a leveraged or unleveraged basis which can be equivalent to a long or short position in the underlying asset or risk.

These instruments generally have counterparty risk and may not perform in the manner expected, thereby resulting in greater loss or gain than might otherwise be anticipated. These investments are all subject to additional risks that may result in a loss of all or part of an investment, such as interest rate and credit risk volatility, world and local market price and demand, and general economic factors and activity.

Derivatives may have very high leverage embedded in them which may substantially magnify market movements and result in losses substantially greater than the amount of the investment and which in some cases could represent a significant portion of a portfolio's assets. Some of the markets in which derivative transactions are effected are over-the-counter or interdealer markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of exchange based markets.

This exposes each portfolio to the risks that a counterparty will not settle a transaction because of a credit or liquidity problem or because of disputes over the terms of the contract. Portfolios are not restricted from dealing with any particular counterparty or from concentrating all of its transactions with one counterparty.

### **Short selling**

Certain portfolios may utilise short selling. Short selling involves directly or indirectly selling (or having the equivalent exposure to) securities or other instruments which may or may not be owned and, at times, borrowing the same securities for delivery to the purchaser, with an obligation to replace any such borrowed securities at a later date. Short selling allows portfolios to profit from declines in market prices to the extent such declines exceed the transaction costs and any costs of borrowing. However, if the borrowed assets must be replaced by purchases at market prices in order to close out the short position, any appreciation in the price of the borrowed assets would result in a loss, which is theoretically unlimited in amount. Purchasing assets to close out the short position can itself cause the price to rise further, thereby exacerbating the loss. In addition, there are rules prohibiting short sales of equity securities at prices below the last sale price, which may prevent portfolios from executing short sales at the most desirable time.

### **Material risks relating to investments in Emerging Markets**

Portfolios invested in emerging markets may experience more rapid and extreme changes. Emerging markets tend to be substantially smaller, less liquid and at times more volatile than securities of domestic issuers. This may impair a portfolio's ability to acquire or dispose of assets at an advantageous price and time. Reporting, accounting and auditing standards of some emerging markets are in many respects less stringent and therefore there may be less publicly available information about issuers and less investor protection.

Emerging market issuers are generally not subject to the same degree of regulation, and economic or financial instability or political, diplomatic or legal developments could adversely affect a portfolio's investments. Risks include adverse change in foreign economic, political, regulatory and other conditions, and changes in currency exchange rates, exchange control regulations (including currency blockage), expropriation of assets or nationalization, imposition of withholding taxes or confiscatory taxation on capital, dividend or interest payments, and possible difficulty in obtaining and enforcing judgments against foreign entities. Foreign brokerage commissions, custodial and other fees are also generally higher. There are also special tax considerations which apply to securities of foreign issuers and securities principally traded overseas.

Many emerging countries are subject to high rates of inflation that serve to reduce the real rate of return for portfolio assets. Investment in debt obligations of emerging countries' governments and corporations can be highly risky and the debtor's willingness or ability to repay principal and interest in a timely manner may be affected by its cash flow situation, the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt's burden to the economy as a whole and the political constraints to which the debtor may be subject.

Investment regulations in emerging countries are relatively new and therefore the application and interpretation of these regulations are untested. Investment regulations may be subject to variation in the future. Although it is hoped that any such variation would not prejudice a portfolio, there can be no assurances that this will be the case.

Certain securities within emerging markets are not of investment grade. These securities carry a higher than average risk that their issuers will default in respect of any or all obligations they may owe to the holders of such securities. Non-Investment grade securities tend to suffer from a greater degree of volatility than investment grade securities. Such volatility could adversely affect the overall performance of a portfolio.

### **Material risks relating to investments in China**

The companies quoted on the People's Republic of China ('PRC') stock exchanges are exposed to the risks of political, social and religious instability, expropriation of assets or nationalization, rapid rates of inflation, high

interest rates, currency depreciation and fluctuations and changes in taxation, which may affect income and the value of investments.

The China Securities Regulatory Commission ('CSRC') is responsible for supervising the national securities markets and producing relevant regulations. The Investment Regulations, under which portfolios invest in the PRC and which regulate repatriation and currency conversion, are new. The Investment Regulations give CSRC and the State Administration for Foreign Exchange ('SAFE') wide discretions and there is no precedent or certainty as to how these discretions might be exercised, either now or in the future.

The Fund will obtain access to the securities markets in the PRC via Access Products. Such products carry additional risk and may be less liquid than the underlying securities which they represent. Furthermore, the issuer of an Access Product may default on its obligation under the terms of the arrangement with the counterparty.

During the past 15 years, the PRC government has been reforming the economic and political systems of the PRC. These reforms are expected to continue. A Fund's operations and financial results could be adversely affected by adjustments in the PRC's state plans, political, economic and social conditions, changes in the policies of the PRC government such as changes in laws and regulations (or the interpretation thereof), measures which may be introduced to control inflation, changes in the rate or method of taxation, imposition of additional restrictions on currency conversion and the imposition of additional import restrictions.

The PRC's disclosure and regulatory standards are in many respects less stringent than standards in certain OECD countries, and there may be less publicly available or less reliable information about PRC companies than is regularly published by or about companies from OECD countries.

The Shanghai Stock Exchange and Shenzhen Stock Exchange have lower trading volumes than most OECD exchanges and the market capitalisations of listed companies are small compared to those on more developed exchanges in developed markets. The listed equity securities of many companies in the PRC are accordingly materially less liquid, subject to greater dealing spreads and experience materially greater volatility than those of OECD countries.

The marketability of quoted shares and Access Products may be limited due to foreign investment restrictions, wide dealing spreads, exchange controls, foreign ownership restrictions, the restricted opening of stock exchanges and a narrow range of investors. The infrastructure for clearing, settlement and registration on the primary and secondary markets may be underdeveloped. Under certain circumstances, there may be delays in settling transactions in some of the markets.

Investment in A shares listed on the PRC stock exchanges may be made and held through the Quotas granted to Qualified Foreign Institutional Investors ('QFIIs'). However, the PRC Investment Regulations do not expressly state that nominee owner accounts must be set up in the joint names of the QFII (as nominee owner) and the underlying investor and they do not recognise that assets in such nominee accounts belong to the underlying investor. Accordingly, such assets may not be as well protected as they would be if it were possible for them to be registered and held directly in a client's name; or by a custodian or nominee appointed by the client. Therefore, any default by the QFII provider could result in the loss of all of the assets held through that Quota.

The value of a portfolio's investment in any Quota will be affected by taxation levied against the relevant QFIIs or in respect of investments held in the relevant Quotas. The PRC taxation regime that will apply to QFIIs and investments made in or through QFII Quotas is not clear. The Investment Regulations are new and do not currently expressly contemplate the treatment of QFIIs and investment made through QFII Quotas.

**Item 8.C. Recommendations of Particular Types of Securities**

MCIM primarily recommends equity securities. Please see Item 8B above for a description of the material risks involved in investing in equity securities.

**Item 9 – Disciplinary Information**

In September 2007, a management person allegedly made a late disclosure of a holding in a South Korean registered company that exceeded percentage thresholds triggering timely disclosure requirements under the South Korean Securities & Exchange Act. As a result the management person was fined KRW 1,000,000 (approximately \$800). No action was taken against Martin Currie.

In June 2008, Nanning Sugar Manufacturing Co., Ltd. (“Nanning Sugar”), a company in which certain clients to whom MCIM and its affiliates acted as investment adviser (the “MC Parties”) were invested, filed a claim with the Guanxi Zhuang Autonomous Region Nanning Intermediate People's Court alleging that, due to the MC Parties' level of holdings and trading in shares of Nanning Sugar, the MC Parties were required to make, and failed to make, certain payments to Nanning Sugar.

In June 2010, the MC Parties and Nanning Sugar signed a settlement order under which the MC Parties, without admitting wrongdoing, agreed to pay Nanning Sugar RMB 40,000,000 (approximately \$5.9 million) in full and final settlement of Nanning Sugar's claims. This payment was made and the matter was closed in September 2010.

**Item 10 – Other Financial Industry Activities**

**Item 10A. Registration as a Broker-Dealer or Registered Representative**

MCIM is not registered, and does not have an application pending to register, as a broker-dealer. None of MCIM's management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

However, one of the directors of MCIM is also a registered representative of MCIS.

**Item 10B. Registration as a Futures Commission Merchant, Commodity Pool Operator, Commodities Trading Advisor or Associated Person**

MCIM is not registered, and does not have an application pending to register, as a futures commission merchant, commodity pool operator, or commodities trading advisor. None of MCIM's management persons are registered, or has an application pending to register, as an associated person of a futures commission merchant, commodity pool operator, or commodities trading advisor.

**Item 10C. Relationships and Arrangements with Affiliates**

We are committed to providing you with client service of the highest quality and we are guided by the principle that we act in the best interests of our clients. Nevertheless, there are circumstances where client interests conflict with MCIM's interests or the interests of other clients. Some of these conflicts of interest are inherent to our business and are encountered by other financial services firms that offer similar services. We have policies and procedures that are designed to ensure that we are always acting in the best interests of our clients. Set forth below is a description of some conflicts of interests that arise due to our relationships and arrangements with certain affiliates. Additional information regarding potential conflicts of interest arising from our relationships and activities with our affiliates is provided under Item 11, “Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.”

### 1. Broker-dealers

MCIS, an affiliate of MCIM, is a registered broker-dealer with seven registered representatives. MCIS is authorised to sell interests in a registered company and certain other private offshore funds managed by MCIM or its affiliates.

Martin Currie has entered into an agreement with MCIS, under which MCIS is responsible for the promotion and distribution of shares in a number of funds managed by MCIM or its affiliates. As investors into these funds are not contracted with MCIS directly, MCIM and its affiliates pay MCIS 40% of the management fees received from the funds in recognition of the services it provides. This creates a potential conflict, which could be deemed material.

To avoid any conflict of interest, MCIS only sells interests in funds managed by its affiliates and does not provide investment advice or make recommendations to clients.

### 2. Pooled investment vehicles

MCIM acts as the investment adviser to a number of registered and unregistered investment companies, including offshore funds, for which it receives investment advisory fees and other compensation. Details of each of these funds can be found under Item 5. This relationship is discussed further under Item 11 B-D, *"Potential Conflicts Relating to Advisory Activities"*.

### 3. Investment advisers

MCI, an affiliate of MCIM, performs investment advisory services for various clients, including registered investment companies, private funds and pension plans. MCI and MCIM operate jointly. Members of the investment floor are "double-hatted" in that they provide investment management services to both MCIM and MCI clients simultaneously. When managing client money, all portfolio managers are subject to the same investment policies and procedures and therefore all clients of MCIM and MCI are treated equally.

MCI and MCIM are part of the wider Martin Currie Group. The Group is governed by the board of the parent company, Martin Currie (Holdings) Limited. This structure mitigates any potential conflicts between the two advisers as it ensures that MCIM clients are not favoured ahead of MCI clients. The board of Martin Currie (Holdings) Limited is comprised of 11 individuals. The Chairman, along with five other members, is a non-executive with no affiliations to Martin Currie.

## Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

### Item 11A. Code of Ethics

MCIM's Code of Ethics (the "Code") is based on the principle that officers, directors and employees (collectively 'staff') owe a fiduciary duty to clients. The Code contains provisions reasonably necessary to prevent its staff from engaging in any act, practice or course of business prohibited by Rule 17j-1(a) pursuant to the Investment Company Act of 1940 and Rule 204A-1 pursuant to the Investment Advisers Act of 1940 (as amended). Staff must avoid activities, interests and relations that might interfere or appear to interfere with making decisions in the best interests of the MCIM's clients or otherwise take unfair advantage of their position.

The key areas covered by the Code are:

1. All new members of staff must disclose details of their personal securities holdings within 10 days of joining. Approval must be given for any individual purchases or sales of securities, and staff must complete an annual certification to confirm that their securities holdings records remain correct. The Risk & Compliance team carries



out weekly and monthly monitoring of all personal securities transactions to ensure that the correct procedures were followed. Any breaches of the procedures are recorded on the central breach register.

2. Most personal securities transactions require pre-trade approval from both a portfolio manager and senior member of the Dealing team. Approval will not be granted for any employee deals where

- there is an active trade on the system
- the portfolio manager is intending to make a client trade within the next seven days
- a client trade has been executed within the last seven days;

Unless the portfolio manager and dealer is satisfied that the employee trade would in no way create a conflict of interest with client trades.

Once approval has been granted, an employee has 24 hours in which to instruct the trade. If the trade is not instructed within this time a new approval form must be completed.

3. Staff may not, under any circumstances, trade in a security at a time when they know, or should know, that they are in possession of material non-public information about the issuer or security. Any staff that comes into the possession of material non-public information relating to any security or issuer must notify all staff of this fact by sending an all staff email. On receipt of such an email, our investment restriction monitoring system will be updated to prevent any trading in the security or issuer. A further all staff email must be sent when the information is no longer non-public.

4. In terms of gifts and hospitality, we recognise that corporate hospitality and, to a lesser extent, gifts are an accepted courtesy of a business relationship. However, any member of staff either giving or receiving hospitality or a gift must consider beforehand whether it is designed to enhance the quality of service to a client or clients. All gifts received, with the exception of low-value promotional items, must be passed to the office services team, who retain them centrally prior to distributing them via a raffle each Christmas. A hospitality form must be completed, and manager approval obtained, prior to accepting any offer. The Risk & Compliance team carries out quarterly monitoring of all gifts and hospitality.

A copy of the Code will be made available on request.

#### **Item 11B – D. Potential Conflicts Relating to Advisory Activities**

The main conflict that could arise surrounds the fact that MCIM clients may invest into pooled investment vehicles that are also managed by Martin Currie, and for which it receives fee income.

- (a) As Martin Currie receives fees from these investment vehicles, we must ensure that all clients investing into these vehicles are being treated appropriately due to the material interest we have in these vehicles (i.e. fee income).
- (b) Martin Currie may also invest into these vehicles (for example seed money, or where portfolio managers invest into the funds they manage, as is the custom). Martin Currie needs to ensure that where any employee or affiliate also invests into these vehicles, that clients are never prejudiced.
- (c) In addition, some of these investment vehicles are managed by a General Partner that is an associate of the Group. As such, there is potential that, by being linked to the Group, perhaps the General Partner is not independent and objective when it comes to safeguarding client interests.

All of these conflicts however are managed appropriately and as outlined more fully below.

(a) Background to why clients may invest into these pooled investment vehicles;

Portfolio managers may recommend that a segregated client portfolio includes an investment in a fund for which MCIM, or an affiliate, acts as investment adviser. Such recommendations are made to provide the client with exposure to either a type of security or sector that they cannot access directly. Below are some examples of when investment into a fund may be recommended:

- A client IMA may prohibit investments or local regulations may restrict foreign investments in certain countries or regions. In order to gain exposure to a market where direct investment is more difficult the portfolio manager may recommend investing into a fund which is permitted to invest in such countries either directly or indirectly (e.g. via Access Products, P-Notes etc.)
- Including an investment into a fund may be recommended to clients with smaller portfolios in order to reduce transaction costs as it may not be cost-effective for them to invest directly. This may also apply to the expense of maintaining custody in a number of jurisdictions.
- Some clients require any new monies to be invested immediately. Because our portfolio managers manage all client portfolios with a similar investment strategy side-by-side they may decide that it is not in the best interest of all clients to trade in the market to invest the new money received. In such circumstances, a portfolio manager may invest the money into a fund in order to give the client exposure to the market. The money will be withdrawn from the fund and invested directly the next time the portfolio manager trades.

MCIM ensures the fair treatment of clients that invest into these funds by following the client mandate requirements as set out in the IMA and the Group trade aggregation and allocation policy. This ensures that clients investing into the pooled vehicles are investing appropriately and that trading is fairly allocated to clients.

(b) Employee investment;

As stated above, MCIM and its employees may invest into the funds alongside MCIM clients. By following (and monitoring) the Group's employee dealing policy and by ensuring seed investments are made appropriately this ensures the appropriate management of any potential conflicts. Further information on the employee dealing policy can be found under Item 11A, "*Code of Ethics*". Details on the management of seed investments can be found under the summary of the Proprietary Trading policy below.

(c) The associated relationship of the General Partner;

A brief background to the use of an associate company as General Partner to the funds is noted below. This conflict is primarily addressed by having an independent Board (on each General Partner) that takes responsibility for oversight of the fund (including subscription and redemptions of investors). The independent board ensures the fund is operating independently from Martin Currie and therefore addresses this conflict.

MCIM acts as investment adviser to a number of funds which have a general partnership structure. Each of the general partners is an affiliate.

Martin Currie Absolute Return Funds G.P. Limited is a company incorporated in Bermuda and the General Partner to the Martin Currie Absolute Return Master Funds which are exempted limited partnerships established in Bermuda. There are currently three limited partnerships, each representing a different class of shares. The General Partner is paid 1.5% of each class of shares calculated on the net asset value accrued monthly on each



dealing day and payable quarterly in arrears. The General Partner is reimbursed for all reasonably incurred out of pocket expenses.

The General Partner has appointed Martin Currie (Bermuda) Limited ('MCBL'), a company incorporated in Bermuda and also an affiliate, as Manager. MCBL is paid a performance fee of 20% of the increase in the net asset value applicable to each class of share in issue in respect of each fiscal year. The Manager is reimbursed all reasonably incurred out of pocket expenses. In turn, MCBL has delegated the investment management of the Master Funds to MCIM.

Including investments into funds advised by MCI or an affiliate in a client portfolio can create a conflict of interest as the Group could earn fees from both the segregated portfolio and the fund. MCI has procedures in place to ensure that clients are not double charged. Details of these procedures can be found under item 5C, "*Other Expenses and Fees*".

In addition, each of the funds has an independent board of directors. Each board has strong oversight controls in place to monitor that the funds are being managed effectively. The controls include monitoring of the funds share registers. Regular board meetings are held to discuss the results of the monitoring. Representatives from Martin Currie also attend the meetings to discuss any issues that arise.

A further conflict which could arise relates to the bonuses received by MCI sales employees for each new client they introduce. A conflict could arise if the employee received a bonus for both the new segregated client and for any fund investments included in the portfolio. To mitigate this conflict we have a process in place for identifying any new fund investments which are part of a segregated portfolio. Further information on the bonus structure can be found under Item 5E.

MCIM sales employees may be permitted to invest into the funds. This could create a conflict for sales employees as they could promote investment into the funds if they believed it could increase the value of their personal investment. However, MCIM sales employees do not make specific investment recommendations to clients; they only provide information on the funds and investment strategies MCIM offers.

Portfolio managers may invest in the funds they manage. This could also create a conflict as they could prioritise trades for the funds ahead of other clients. Our investment process addresses this conflict as portfolio managers must trade for all clients or funds with the same investment strategy at the same time, thereby ensuring that no client or fund is favoured over another.

Equitable treatment of client monies is a fundamental ethical principle of any investment management organization. The effective management of potential conflicts of interest is key to the success of our business, regardless of client mix and fund type.

MCIM has adopted specific policies and procedures to demonstrate effective conflict management wherever it may arise. Copies of all policies and procedures are published on the Risk & Compliance section of our internal intranet site to ensure availability to all staff. Furthermore, the Group's corporate structure implicitly provides a layer of self-control. All senior management and most staff hold equity in the Group, ensuring personal, corporate and client interests are closely aligned.

In the remainder of this Item, we summarise the main conflicts that could occur in the day-to-day operations of MCIM, and the policies and procedures we have in place to address them.

### **Agreements with investment advisory clients**

By entering into agreements with different clients there is potential that some clients could receive more favourable terms than other clients. However, Martin Currie always aims to treat all customers fairly and would never allow more favourable terms that would act to the detriment of other clients. It should be noted that Martin Currie view “fee rates” as commercial terms that are negotiated on an arms length basis and which take into account many factors (for example, size and nature of the mandate and any particular client requirements). Fee rates do not therefore prejudice other clients and are not considered a “conflict”. All investment management agreements are negotiated by the Legal team with oversight (and sign off) from Risk & Compliance to ensure that all clients are treated appropriately. If an issue arose that could impact another client, this would be fully explored and necessary disclosures and discussions would happen to ensure any conflict was managed appropriately.

MCIM will enter into a signed, written advisory agreement with each client to whom it provides investment advice. Applicable law requires that certain provisions be included in investment advisory agreements. In addition, it is MCIM’s policy that certain important contractual provisions should be included in each client agreement where possible. Please see Item 16 – “*Investment Discretion*” for further details.

Portfolio managers may recommend to clients, or clients may independently decide to invest directly into funds (see Item 5 for a list of funds) which Martin Currie also manages. The offering document of the investment company (such as the prospectus, offering memorandum or private placement memorandum) will govern the terms of the investment. Where the client instructs Martin Currie to invest their money into the pooled vehicles then the IMA will govern the relationship with the client. Where the client goes direct into the pooled vehicle (and not under the IMA) the client will have a direct relationship with the fund. In both instances, the fund documents will govern the terms of the investment.

### **Broker selection, best execution and soft dollars**

Martin Currie has a robust broker selection, best execution and soft dollars policy (as outlined below), which Martin Currie regularly tests, and is therefore confident that any perceived potential conflicts cannot transpire owing to the robust controls in place. Potential conflicts which our policy addresses could include a portfolio manager choosing to direct trades to certain brokers that offer more advantageous research prejudicing best execution obligations or client commissions not being directed appropriately and some clients receiving more benefits than others.

The use of commission to purchase research and the potential conflicts arising from this are discussed in Item 12, “*Brokerage Practices*”.

A full risk analysis is conducted before we add a new broker to our approved broker list. This includes a review of their financials and any regulatory breaches, terms of business, and credit rating, if available. All permanent additions to the approved broker database are reviewed by our Risk and compliance team. System controls prevent dealers from executing trades through a venue other than an approved broker. On-going counterparty risk monitoring of approved brokers will include, where applicable, vigilance of Credit Default SWAP (CDS) spreads, analysis of available information indicating financial health and awareness of market information to determine whether a broker should be temporarily suspended and/or permanently removed from our execution list.

There are a number of influencing factors that we take into consideration when executing transactions on a client's behalf. These factors include, but are not limited to:

- price (including giving due care and attention to any price limits imposed by the portfolio manager);
- market impact (e.g. expected cost of execution);

- information from the market on 'order flow';
- speed, or likely speed, of execution;
- liquidity (including any volume limits recommended by the portfolio manager);
- volatility;
- size of order;
- nature of the transaction;
- type of financial instrument;
- characteristics of dealing venue(s) available;
- cost of clearing and settlement; and
- counterparty risk.

In determining the relative importance of these factors, MCIM will take into account the status of its clients as “Professional Clients” or other institutional investors, together with the nature of the order, the characteristics of the financial instruments to which the order relates, the characteristics of the execution venues to which the order can be directed and the portfolio manager’s objectives. Execution will also be influenced by market conditions at the time.

Evaluated on an overall trade-by-trade basis, MCIM will generally give the highest priority to total consideration, representing the price and the costs relating to execution. However, MCIM may, at its discretion, prioritize other factors, including those listed above. Additional factors may be taken into consideration for financial instruments or for fixed income transactions where there is no live price freely available or where the price available via our data vendor (Bloomberg) is considered indicative rather than firm and executable. Where this is the case MCIM will obtain a quote from a minimum of two venues, one of which may be an indicative on-screen price.

MCIM will also take into consideration any specific client restrictions imposed by the IMA. It is important to note that certain instructions may adversely affect MCIM’s ability to achieve best execution, such as restricting the execution of transactions to a specific broker(s) or other dealing venue, prohibiting the crossing of stock transactions or limiting the ability to invest in IPOs.

MCIM monitors the effectiveness of its execution arrangements and will regularly review its execution factors and venues to ensure they remain adequate to deliver the best possible result for its clients. Where monitoring identifies deficiencies, appropriate steps will be taken to correct these.

In addition, MCIM has contracted with the market leader, Investment Technology Group, to measure both the expected and actual cost of trading (i.e. market impact). An internal quarterly formal review process has been implemented for each product using this service.

Audit trails regarding regulatory compliance are retained by our dealing team. The records are subject to periodic review by management, internal audit and Risk & Compliance.

### **Capacity management**

'Capacity' defines the optimal amount of assets that an active investment strategy can accommodate while still preserving the integrity of the underlying process. It is the asset base beyond which a strategy is no longer able to achieve its stated performance objectives.

There is a potential conflict that Martin Currie does not control capacity appropriately and this prejudices (in particular) existing investors in a fund, (as this could detrimentally impacts the performance of the fund) by

allowing more clients, (and therefore more fees) into the fund. However, Martin Currie has in place controls over capacity to ensure this does not happen as outlined below.

The Martin Currie Executive Committee makes the decision on whether to close or re-open an investment product to new assets taking advice and recommendations from the Head of Product & Channel Development and other representatives from across the business, including the relevant portfolio managers. Key factors considered are liquidity, trading costs, the investible stock universe, growth in related investment strategies and company share capital ownership rules.

The Head of Product & Channel Development is supported by the product review process. This incorporates a comprehensive assessment of every investment product, typically on an annual basis, and includes liquidity and capacity assessments, reviews of the investment process, risk and performance, market positioning and financial profitability. In addition, the Investment Risk team works with the individual Product teams to carry out more frequent assessments of capacity for those products experiencing rapid growth.

It is the responsibility of the Investment Risk team to formally document capacity decisions that confirm the status of a product for example, open, open with restrictions, soft close, closed, and reaffirm the criteria for closure.

#### **Cash payments for client solicitations**

There is a risk that a solicitation agent could mis-sell to clients or otherwise act inappropriately (for example targeting government officials to secure contracts with state funds). These practices are not acceptable to Martin Currie and the terms of the agreement and the ongoing relationship ensures that this is the case.

It should be noted that SEC rules require that, among other things, no solicitation fee be paid except to a person who has entered into a detailed written agreement with MCIM covering the solicitation arrangement. MCIM has not entered into any such agreements

MCIM will not engage in so-called “pay-to-play” practices which prohibit advisers from seeking to influence the award of investment advisory contracts by state or local government entities, public pension plans, collective government funds or any other plan or pool of assets sponsored or established by a state or local government by making political contributions to, or soliciting political contributions for, those officials who are in a position to influence the awards, in violation of applicable laws and regulations.

In addition, MCIM will not direct client portfolio transactions to brokers, dealers or consultants (or their affiliates) in recognition of client referrals or introductions or other marketing assistance or training, unless specifically directed by the client in writing.

#### **Communication of investment ideas**

There is a risk that if investment ideas are not communicated appropriately that some clients may not receive the best service as their portfolio manager is not made privy to certain discussions or sharing of ideas. There is also a risk that a portfolio manager could trade his clients ahead of other clients (managed by another portfolio manager) and for the same stock, when this could otherwise be avoided. This may act to the detriment of certain clients. However, these risks and potential conflicts are managed by our investment process (outlined below).

The investment floor at our headquarters is designed to be an open forum for discussion and debate with all product team members having access to the same information. Stock recommendations and portfolio activity are communicated pre-execution to all product teams.

Investment viewpoints and stock ideas are freely disseminated across the teams. Recommendations and trade activity are advised to all members of the investment teams simultaneously and all client portfolios, subject to mandate restrictions, can benefit from the pool of information without discrimination.

The rationale behind all trading activity from all portfolio managers is sent via email to the product teams and stored within a public mailbox folder that can be freely accessed by all members of the investment floor and the Risk & Compliance team in order to fulfil its oversight responsibilities.

Further, the rationale for all trading must be accurately recorded on the Order Management System using the pre-defined drop down menu options.

There is an open meeting at 5pm every evening where the day's dealing activity and news is summarized and reviewed by the product teams and the dealing team. Additionally, the investment floor holds a regular Monday morning meeting at which portfolio activity, the market environment, the economic and company news calendar and meetings for the week ahead are discussed.

### **Contradictory positions**

A contradictory position occurs when one client portfolio has a long position in a security while another has a short position creating a potential conflict of client's interests as they have opposing holdings in the same securities. Portfolio managers have discretion over their investment decisions subject to regulatory controls, client mandate restrictions and in-house limits and such a position may occur if portfolio managers have contradictory outlooks on the same security.

In order to mitigate any conflict, of interest portfolio managers must apply the contradictory positions policy. Rationale for taking out a contradictory position must be documented by the portfolio manager pre-trade. For contradictory positions within the same product teams, pre-trade authorization is required by the Head of Investment or in his absence the Director, the Head of Risk & Portfolio Analytics. The Head of Dealing and the Risk & Compliance team will be party to this discussion. If the trade is permitted, prior to placing the order the portfolio manager must append the trade information on the centralized log of contradictory positions. The investment rationale for creating the contradictory position must be fully recorded on the log with any related communications. The creation of the contradictory position must also be communicated to the investment floor via email.

The centralized log of contradictory positions is subject to regular review by the team responsible for investment restriction monitoring.

### **Cross trades**

Cross trades can create conflicts of interest as they could be used to benefit one client ahead of another. A cross trade could occur if a portfolio manager makes the decision to buy a security for one client's portfolio whilst selling the same security for a different clients portfolio. A potential conflict of interest is mitigated by only executing the transactions if best execution can be achieved for both sides and the transactions are in the best interests of both parties.

The investment restriction monitoring team maintains a record of which clients are permitted to participate in cross trades, and whether there are any conditions attached (for example that the requirements of Rule 17a-7 of the Investment Company Act of 1940 must be met). Some client investment management agreements will not specify if crosses are permitted, or will request that we seek permission for each cross. In these instances, the Client Service director will liaise with the client to obtain clarification or permission.

The portfolio manager must complete a Cross Trading Authorisation Form, which includes a justification of the investment rationale for one Client selling a stock whilst another is buying. The Form is then sent for pre-trade approval by both the Client Service director and the Risk & Compliance team.

### **Front running**

Front running occurs when trades for one client are executed ahead of trades for another client creating a potential conflict of interests as it favours one client over another. In order to remove this conflict, the centralized dealing desk must place clients' trade in the order that they are received. A new order cannot deliberately benefit from executions completed on an earlier trade. If a group of orders are received at the same time (regardless of client), and assuming the deal instructions are identical on each, they are executed in line with each other. Orders in the same stock, but differing instruments, will be traded alongside each other. No client receives preferential treatment.

Front-running is also prohibited at the investment decision stage. The portfolio manager is obligated to consider the merits of a proposed stock trade simultaneously for all funds under their control. The policy on Contradictory Positions partially mitigates the risk of front-running as it requires that hedge fund short sales and sales on long only funds, intra-product, must be executed at the same time. Purchases (or sales) on smaller funds cannot be deliberately initiated and/or executed ahead of similar orders on larger accounts or vice versa. It is recognized however that there may be practical issues that lead to a difference in the timing of trades.

### **IPO application and allocation**

Subscribing for Initial Public Offerings ('IPOs') of shares can lead to a conflict of interest if the application for shares favours one client ahead of another. In order to remove this conflict, a portfolio manager wishing to subscribe for an IPO must do so for all of the eligible clients within the product group they manage. In many instances, new issues are heavily oversubscribed and it is expected that the amounts that are applied for on behalf of clients will rarely be allocated in full. All IPO block applications must be allocated before indications of interest are placed. In the majority of cases clients will only receive a percentage of the amount applied for. All such allocations will be allocated on a strict pro-rata basis, taking into consideration round lots in accordance with local market practice.

It should be noted that the application and allocation of China 'A' share IPOs is governed by local rules and processes. As a result, strict pro-rata allocation of shares is not always possible.

### **Co Investment**

There may be some occasions where we co invest for certain clients in the same stock or issuer (or issuer group). This however is subject to client mandate requirements, any investment restrictions and, where required, disclosures to clients. We manage potential conflicts in accordance with our conflict management process and policy.

### **Directorships**

Industry standard guidance on code of ethics issues state that investment managers should not take directorships in publicly listed companies. We exceed this requirement by vetoing such directorships (unless in exceptional circumstances) and also requiring pre-approval of all unlisted directorships, first by line manager then by Risk & Compliance.

### **Proprietary trading**

MCIM does not generally trade in securities for its own account, unless the securities are managed by the Group. In those circumstances, it is generally accepted practice that portfolio managers and other employees of MCIM, or its affiliates will invest in funds managed by the Group and that the Group itself may provide seed or additional



capital to such funds so that new investment strategies may be effectively tested. All Group seed investments must be made by MCIM's parent company, Martin Currie (Holdings) Limited and not MCIM. There is a potential for conflict that MCIM may invest/trade on its proprietary trading to the detriment of other clients, for example, allowing portfolio managers to invest ahead of other clients. However, this is managed by always following investment process (which is to trade for clients with similar strategies at the same time) and ensuring that for any proprietary trading that no other investors are prejudiced. This is also built into our employee dealing process (refer to Item 11 A, "*Code of Ethics*").

Regarding any Group seed money, the Finance team produce a regular seed capital report to monitor the level of Group seed investments. The report is reviewed by the Product Development manager, who decides whether to retain seed investment or to remove it. Our policy is to remove seed capital as soon as a fund reaches a scale that makes it viable without the seed capital.

Portfolio managers, employees and the Group itself could be viewed as having a potential conflict of interest with clients, particularly where there are different levels of investment in funds with similar investment objectives and strategies.

MCIM's Code of Ethics sets out the procedure all employees must follow when wishing to conduct a personal securities transaction. This includes transactions in funds managed by the Group. The procedure clearly states that employees must not put their personal interests ahead of clients.

#### **Proxy voting**

We recognize that there is a potential conflict of interest when we vote for a proxy solicited by a company with which we have any material business or personal relationship. This however is managed by ensuring that such instances are referred to the Risk & Compliance team for independent consideration and ensuring we always vote for the best outcome that does not prejudice MCIM's clients, as outlined below.

Our proxy voting is carried out by Institutional Shareholder Services ("ISS"), an independent third party who votes on the basis of their research and according to guidelines agreed with Martin Currie. A conflict will not arise when the vote is in accordance with the guidelines. If a portfolio manager wishes to vote contrary to the guidelines in relation to a company with which we have any material business or personal relationship, the matter is referred to the Risk & Compliance team for independent consideration. We would consider a potential material conflict of interest to exist where Martin Currie (or relevant staff) has a material personal or business relationship with the proponent, issuer or other relevant participants (e.g. directors) in the proxy proposal. In the event of a potential material conflict of interest, MCIM will (i) vote such proxy according to the specific recommendation of ISS; (ii) abstain; or (iii) request that the Client votes such proxy.

It is the general policy of the guidelines to support the management of the companies in which MCIM invests. However, MCIM reserves the right to depart from these guidelines to protect our clients' best interests. Where we wish to vote contrary to the guidelines, we instruct ISS to do so and retain evidence to explain why.

The Middle Office team, as part of its annual due diligence, review the processes and controls adopted by ISS to manage potential material conflicts of interest it may face when performing the responsibilities delegated to it by the client.

#### **Reward and remuneration**

The reward and remuneration of employees can give rise to a number of potential conflicts. Portfolio managers could favour clients with performance-based fees over other clients as this could increase the amount of personal bonus they receive. Members of the Executive could influence the remuneration of senior managers to the

detriment of other employees. The Sales team could promote unsuitable investment products to potential clients in order to increase their personal bonus.

Martin Currie has robust remuneration structures in place to address these potential conflicts. Our investment process ensures that trades are created at the same time for all clients within a product group, regardless of their fee structure. Our Reward Committee, which is made up of members of the Group Executive Committee, independently oversees the salary review process. The committee provides a forum for all proposed salary increases to be challenged and ensures that the process is fully transparent. The salaries of Executive members are reviewed and approved by the Remuneration Committee, which is made up of the non-executive directors of the Group parent company. The Remuneration Committee also review and approve the reward and remuneration structure for all staff.

With regards to the sale process, the Group annual business plan sets sales targets for each product range and sales staff therefore target efforts according to the business plan. All sales are reviewed carefully by the Executive and the bonus structure for sales takes into account any sales that are not in line with the business plan for example, reducing bonus in these instances.

#### **Trade allocation and aggregation**

By not following a robust designed trade allocation and aggregation policy, there are risks that some clients could receive better service/treatment than other clients. However, MCIM has a robust process in place and this ensures we seek to treat all clients fairly.

Where the dealing desk receives orders to trade in the same stock, in the same direction and with identical instructions, whether prior to the market open or simultaneously during market hours, then these orders are normally merged, assuming this is permitted under local exchange rules. For some ID markets orders, where omnibus accounts can't be used, the orders are not permitted to be merged. Portfolio managers consider all clients within a product to assess whether they should be included in a particular trade.

The dealing desk cannot place an order in the market without first receiving this notification, with the client specified, via the Order Management System.

The dealing team have strict procedures for merging subsequent orders into an existing trade. These procedures are available on request.

For some markets, clients have to trade within their individual IDs, for these markets it is not permitted to merge, hence pro-rate or average price the allocations. Allocations and prices for these markets will therefore be similar across clients but not identical. Examples of such practices are:

- China A – all trades have to be executed under the clients ID.
- Taiwan – some brokers can offer an omnibus facility which does allow for average pricing, however these trades have to be fully funded otherwise trades revert to using the client IDs.
- Korea – if a security has reached its foreign limit (maximum number of shares permitted to be held by foreigners) then clients cannot use an omnibus facility and have to trade under individual IDs.

When MCIM has aggregated a transaction and part or all of the transaction has been filled, it must promptly allocate the transaction to the underlying clients. It cannot delay allocation by more than one business day.

If a transaction, or a series of transactions, occurs over more than one business day, the requirement for timely allocation will apply separately in relation to each business day in which the transaction was executed. In order to



evidence that this requirement has been met, each individual transaction executed is automatically time stamped within the OMS audit trail.

Our policy is to pro-rate on all trades, where permitted, allocating where applicable to the nearest board lot size, unless the allocation is so small it is not viable and it is not in the client's interest to receive an allocation. Such manual overrides, of an otherwise automated process, are automatically recorded on every trade and evidenced for audit purposes.

Consistency of allocation must be applied through the life of an order and the Dealing team must retain the reasons for any manual allocation. The dealing team will retain records showing we comply with our regulatory obligations. It demonstrates that all clients have been treated fairly and allocations are in line with our policy. The records are subject to periodic review by management, internal audit and Risk and compliance.

Martin Currie does not generally trade in securities for their own account, unless the securities are managed by the Group. In those circumstances, it is generally accepted practice that the Group may provide seed or additional capital to such funds so that new investment strategies may be effectively tested. This type of investment must be pre-approved by the Chief Finance Officer and is overseen by the Investment Risk team and the Chief Compliance Officer.

Please see the summary of the proprietary trading policy above for details on how the potential conflict of interest this creates is addressed.

In addition, employees of the Group may purchase or sell securities that the Group recommends to its clients. Such purchases and sales are subject to the provisions contained in MCIM's code of ethics.

Please see the summary of the front running policy above for details on how the potential conflict of interest this creates is addressed.

MCIM does not buy or sell securities for its own account.

## **Item 12 – Brokerage Practices**

### **Item 12A. Broker-Dealer Selection Process**

Please refer to Item 11 for a discussion of the potential conflicts of interest relating to Broker Selection and how we manage these.

MCIM use clients' commissions to pay for both proprietary broker research and independent third party research. Commission will only be used to pay for "permitted" services, as defined by the FSA and by the SEC safe harbor rules. Any new research service is approved by Risk & Compliance to ensure it complies with relevant rules/laws. It should be noted that MCIM does not use clients commission to pay for services such as Bloomberg (all services and terminals – no mixed use), market data or index feeds, seminars conferences or subscriptions for publications. Although permitted by the SEC, we pay for these services directly.

When clients' commission is used to pay for both proprietary broker research and independent third party research we receive a benefit because we do not have to produce or pay for the research. Benefits received are used to service all of our client's accounts not just the accounts that have paid for the benefits.

Potential conflicts could arise for example, there may be an incentive to select or recommend a broker-dealer based on MCIM's interest in receiving this research, rather than the clients' interest in receiving most favorable execution. However, we purposefully attribute no predefined targets to the execution element of a brokerage

commission, so each trade can be assessed and dealt whilst ensuring “best execution” for our clients. Some brokers providing research services (including third party research providers) have either inferior or zero execution capabilities and therefore do not ‘effect’ or execute brokerage transactions. This means that brokers providing research services (and who have not effected brokerage transactions) will receive few or no fully bundled trades.

Some MCIM clients have directed commission arrangements in place. Where there is such an arrangement, we will not negotiate rates of commission with brokers. When orders are placed on behalf of clients under directed brokerage arrangements, clients forego the benefits of delegating discretion to us for the execution of transactions such as savings on block trades. Therefore, we may not achieve the best execution possible for such transactions. It is agreed with clients who have direct brokerage agreements that their transactions will be delayed until all those transactions for clients whose deals are not subject to directed commission arrangements have been completed.

It should be noted that we do not recommend any broker dealers to our clients.

#### **Item 12B. Aggregation of Orders**

MCIM practice is to aggregate orders when we have the opportunity to do so. Please refer to the summary of trade allocation and aggregation in Item 11 for further details.

#### **Item 13 – Review of Accounts**

MCIM carry out regular client audits. Conducted by a member of our executive board, they enable us to benchmark our service and learn from our clients. By engaging with our clients in this way, we receive honest, constructive feedback that we always act upon. The Executive Committee is made up of the following individuals:

- Willie Watt – Chief Executive Officer
- Ralph Campbell – Finance Director
- Andy Sowerby – Managing Director, sales, marketing and client services
- Jason McCay – Director, Head of Asian Equities
- John Pickard – Director, Head of Investment
- Will Brydon – Human Resources Director
- Jeremy Hill – Director, General Counsel
- Darren Cannon – Director, Chief Operating Officer

We tailor communication to our clients’ specific requirements, both electronically and paper based. Quarterly telephone calls are typical, as well as frequent visits with or without members of the investment team. We deliver performance and portfolio reports monthly and quarterly, and we typically attend two investment committee meetings per annum. We can also produce valuations and performance statistics on a monthly basis, if required.

All segregated clients have a designated client service director to act as their main point of contact with Martin Currie. He or she oversees the take-on of the account, the management of the portfolio and its administration, and ensures the implementation of investment guidelines. He reports formally to clients at investment committee meetings, along with the portfolio manager, and regularly by telephone.

Members of our client services team are available at all times to discuss any aspect of the management and administration of the fund.

Monthly and quarterly investment reports are provided to all clients, with a set selection of components provided as standard. Additional report components can be included as required, and can be selected from the reporting menus provided through the account take on process.

Standard reporting includes:

- Monthly investment reports with performance and valuation within 10 business days of period end.
- Quarterly investment reports with detailed performance attribution, commentary and accounting information within 15 business days of period end.
- Annual reports available as requested at year end.
- All reports are available in a variety of formats, as a download from our secure online reporting centre, PDF documents sent by email, or hard copy reports sent by mail.

Example reports can be provided on request.

Our clients receive a written investment report within three weeks of the end of each quarter. Since 2001 we have provided our clients with access to a dedicated page on our website containing up to 12 months of reports. Our client reporting centre at [www.martincurrie.com/clientreporting](http://www.martincurrie.com/clientreporting) is protected by 128-bit security and can be accessed only with a unique user name and password.

Additional reporting is available and can be selected from the reporting menus provided through the account take on process:

- Semi-annual/annual review and reports available at financial or calendar year end.
- Preliminary and audited valuations in excel format, available on day 2 and day 5 respectively.
- Valuation and performance reconciliations completed with third parties.
- Compliance reporting and statements.

Historic monthly and quarterly reports are available to download securely from our online client reporting centre at [www.martincurrie.com/clientreporting](http://www.martincurrie.com/clientreporting). Also available from the reporting centre are regular client updates and documents, such as:

- Quarterly webcast presentation by the head of client services.
- Corporate documents – business briefing, company overview, annual reports.
- Schedule for monthly conference calls on our pooled fund product range.
- Links to news articles and press releases.

#### **Item 14 – Client Referrals and Other Compensation**

MCIM has not entered into arrangements for client referrals with third parties.

#### **Item 15 - Custody**

MCIM does not act as a custodian for client money or securities. Certain of our pooled vehicle clients have made arrangements with qualified custodians as disclosed in the relevant offering and related documents. We require our separate account clients to select and appoint their own qualified custodians, whose services and fees will be separate from fees charged by MCIM. We provide each of our segregated account clients with account statements on a periodic basis.

#### **Item 16 – Investment Discretion**

MCIM contracts with professional investors to provide investment management services to clients. This involves agreeing an appropriate IMA with the client. The IMA will detail the client's requirements, and any restrictions on MCIM's authority to provide investment management services. Commonly, clients provide full discretionary

authority to MCIM to carry out all activities required in order to provide the investment management services, and this authority is contained within the IMA. Each IMA is negotiated separately with each client.

Martin Currie's standard form IMA (which is used wherever possible) states that "Subject to applicable law, the Manager will manage the Portfolio with a view to achieving the Objectives and within the Restrictions. Subject to such Objectives and Restrictions, the Manager, acting as agent, will have full power, authority and right to exercise the functions, duties, powers and discretion exercisable by the Client in managing the Portfolio including complete discretion (without prior reference to the Client) to buy, sell, retain, exchange or otherwise deal in investments and other assets or securities, make deposits, subscribe to issues and offers for sale and accept placings, underwritings and sub-underwritings of any investments, advise on or execute transactions (including transactions in, or relating to, unregulated collective investment schemes), effect transactions on or off exchange in any markets and on any terms, negotiate and execute counterparty and account opening documentation, take all routine or day to day decisions, and otherwise act as the Manager judges appropriate in relation to the management of the Portfolio (but always subject to the applicable obligations of the Manager under the FSA Rules and SEC Rules regarding suitability and Best Execution)."

Where it is not possible to use Martin Currie's standard form IMA, MCIM will attempt to ensure that the final IMA agreed with the client contains similar authority.

## **Item 17 – Voting Client Securities**

### **Item 17A. Proxy Voting Policies and Procedures**

MCIM has authority (and will accept authority) to vote proxies on some client accounts. MCIM has adopted a Statement of Policies and Procedures for Voting Proxies (the "Policies and Procedures") designed to ensure that it votes proxies in the best interests of its clients in accordance with its fiduciary duties, Rule 206(4)-6 under the Investment Advisers Act of 1940 and other applicable law. The Policies and Procedures do not apply to any client who has retained authority and discretion to vote its own proxies or delegated such authority and discretion to a third party.

We believe that good governance of the companies in which we invest is an essential part of creating shareholder value and delivering investment performance for our clients. The overriding purpose of our corporate governance policy is to protect and enhance the economic interests of our clients. In any situation our actions will always be determined by this principle.

Our proxy voting is carried out by ISS, a third party who votes on recommendations based on their research and recommendations, and according to set guidelines agreed with Martin Currie, which reflect the ISS/NAPF (National Association of Pension Funds) guidelines. However, we reserve the right to depart from the guidelines in order to avoid voting decisions that we believe may be contrary to our clients' best interests. Where we wish to vote contrary to the guidelines, we instruct ISS and retain evidence to record why.

ISS's research and recommendations provide a best practice view on a company's:

- Governance and financial performance;
- Board structure;
- Remuneration;
- Auditing and accounting disclosure; and
- Shareholder relations.

Once it has been agreed with each client, we will send ISS a list of portfolio holdings daily. We will advise our custodians to issue proxy details to ISS, who will reconcile these with the holding lists received from Martin Currie. Using the ISS web tool we can view all meetings announced relating to our clients' holdings. ISS will review all aspects of the resolutions proposed and their impact. These resolutions will be examined in the light both of the corporate governance and voting guidelines approved by the NAPF and those provided separately by the client and Martin Currie. ISS will then recommend a voting action.

Generally this will be the vote issued by ISS to the custodians on behalf of Martin Currie and their clients. However, through the web tool we have the option to vote contrary to ISS recommendations if we believe it to be in the best interests of our client. In this way it is possible for clients to have their own policy, and for ISS to implement voting based on that policy. Should a client wish to direct its vote in a particular solicitation, they should contact their Client Service director who can arrange for their vote to be directed as required.

The web tool gives us online access to the research documentation that supports the proxy recommendation and voting. Downloadable reporting, for example, a summary of all activity and a voting record over a defined period, is also available and can be sent to clients upon request. This report however does not include voting on companies listed on Chinese exchanges owing to practical and jurisdictional reasons for voting on these equities. For example voting can frequently only happen in person, and it is not always practical to travel to the region of residence of the company. Therefore voting on these equities does not follow our standard process and we do not publish the voting on these equities.

Clients may obtain a copy of the Policies and Procedures and information on how Martin Currie voted with respect to their proxies by contacting the Client Services Team at Martin Currie Investment Management Ltd, Saltire Court, 20 Castle Terrace, Edinburgh, Scotland, EH1 2ES, tel. (44) 131-229-5252, fax (44) 131-228-5959 or email [clientservices@martincurrie.com](mailto:clientservices@martincurrie.com).

#### **Item 17B. Alternative Proxy Voting Arrangements**

There are some client accounts for which MCIM is not authorised to vote proxies or to give consents in connection with corporate actions. Such clients should arrange to receive proxy solicitation materials directly from their account custodians or transfer agents. In some circumstances, upon request, MCIM may be able to provide proxy solicitation materials directly to such clients.

#### **Item 18 – Financial Information**

MCIM does not require or solicit prepayment of fees.

There are no current financial conditions that could impair Martin Currie's ability to meet its contractual commitments to clients. We believe that the only financial condition that could impair our ability to meet contractual commitments to clients is a dramatic fall in revenue, which would ultimately lead to MCIM's bankruptcy.

MCIM has a robust risk management framework in place that is designed to avoid a situation where we are unable to meet our commitments.

The Board of Directors of MCIM has delegated responsibility to line management for the day-to-day management of risks in their areas of responsibility and for designing and operating suitable systems and controls to manage risk within the stated risk appetite. The Board sets reporting standards and regularly reviews management information to obtain comfort that the business continues to operate within its defined risk appetite:

*Martin Currie has an appetite for risk that varies from very low to medium depending on the nature of the risk concerned and how central it is to the Martin Currie culture. Generally speaking, it has a low or very low risk*

*appetite in areas that are fundamental to the culture of Martin Currie and its business model - the investment process, client service and regulatory compliance. It is more accepting of risks - for example, risks to product development plans - where the overall effect, though potentially significant, is likely to be short to medium term, given its belief that continuing to focus on the fundamentals will deliver long-term success.*

There is a continuous process within Martin Currie of risk identification, assessment, mitigation, analysis and evaluation, monitoring and reporting. The process is subject to appropriate independent challenge to ensure clear processes for decision-making and mitigating risk are in place, with a governance structure, which clearly defines roles and responsibilities.

As a UK-regulated firm, MCIM is required to meet the standards of the Capital Requirements Directive. The Capital Requirements Directive enacted by the European Union in 2006 established a new framework for the management of regulatory capital. The framework consists of three 'pillars':

- Pillar 1 sets out the minimum capital requirements that firms must meet using standard criteria.
- Pillar 2 involves an assessment of risk and the capital that should be held, specific to each firm.
- Pillar 3 requires firms to publicly disclose their policies for managing risk and their capital requirements

In order to meet the requirements of Pillar 2, Martin Currie assesses its key risks and carries out stress testing on these risks in order to calculate the capital requirement. The risks selected are those judged to have the most potentially significant impact on Martin Currie's capital and ability to meet liabilities, including those that may be crystallised by drivers outside of Martin Currie's control. As a result of Pillar 2 assessment, Martin Currie will maintain sufficient Capital to address the risk of a dramatic fall in revenue impairing the ability to meet contractual commitments to clients.

Martin Currie recognises that risk management is an important tool, not only as a key element of effective governance, but also as an enabler in managing performance, by proactively identifying and managing the risks inherent in its strategy, products and processes.

Risk is an inherent part of Martin Currie's business. The extent to which risks are properly identified, assessed, monitored and managed is critical to its financial soundness, reputation and future profitability. Martin Currie's objective is not to completely eliminate risk but to manage it to an acceptable level while balancing risk with reward.

Effective risk management assists in the delivery of strategic objectives; protecting the value of Martin Currie by managing the potential threats and adding value by enhancing its ability to take advantage of the available opportunities. It also aids capital planning, enabling Martin Currie to retain the ability to meet its liabilities as they fall due.

MCIM has not been the subject of a bankruptcy petition at any time during the past ten years.

#### **Item 19 – Requirements for State Registered Advisers**

MCIM is not registered with any States.