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CG REFORM IN ASIA

THE NEXT 10 YEARS

Seungjoo Ro
Head of ESG

Nov 2022

For important disclosure information please refer to the last page of this presentation.

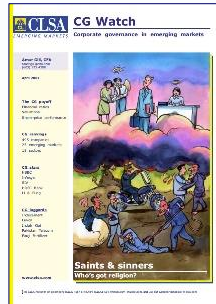
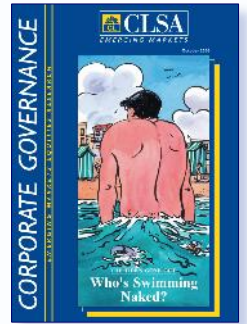


The next 10 years of CG in Asia



- Asia is entering the next wave of governance evolution. Within thematic changes, a structural demographic shift will lead to increased oversight over gender diversity, equality and fair compensation; others include:
 - Generational change in management and workforce
 - Climate change governance / Data governance
- Within stakeholders, retail investors' broader participation in equities provide additional support for stricter corporate governance oversight.
- Meanwhile our bottom-up CLSA ESG scores have increased from 62.7 in 2018 to 68.5 in 2020. The latest average score is 70.5, showing marginal increase of 3%.
- Within five principles, Discipline and Independence have been driving the improvement, albeit from a low base.
- In terms of linking CG/ESG scores to performance, we continue to see evidence of good governance being an indicator of long-term value accretion.
- Companies that have increased scores over the past two years have outperformed those which saw scores decline.

Asian CG reform started 25 years ago



Saints & sinners

April 2001

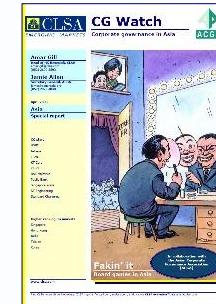
In our first edition we surveyed and ranked 495 stocks in 25 global emerging markets. High CG scorers generally outperform. South Africa, HK and Singapore score well, as do transport manufacturing, metals/mining and consumer.



Make me holy . . .

February 2002

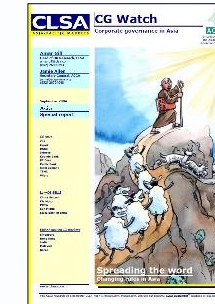
Almost invariably, companies with high CG scores remained market outperformers, this year. The top-CG quartile outperformed the country index in nine out of 10 of the Asian markets under CLSA coverage.



Fakin' it

April 2003

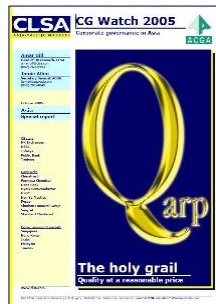
Companies are smartening up their act, as stocks with high CG scores outperform. But much of the improvement is in form - commitment is not yet clear. Market regulations are moving up and it is time for shareholders in the region to organise.



Spreading the word

September 2004

Our more rigorous CG survey of 10 markets in Asia ex-Japan finds improvements in many of the 450 stocks we cover, following new rules introduced in recent years. CG also emerges as an explanation for beta.



The holy grail

October 2005

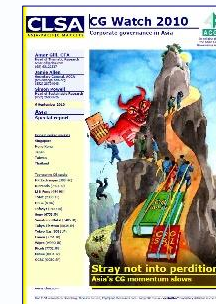
QARP (Quality at a reasonable price) is a guide for stock selection in the quest for high-CG stock performance. The QARP basket of the largest 100 stocks in Asia ex-Japan beat the large-cap sample in the three years to 2004.



On a wing and a prayer

September 2007

We include "clean and green" criteria in our corporate-governance scoring. Climate change is now a matter of corporate responsibility, with attendant economic risks. Yet, Asian firms are largely ignoring the issue.



Stray not into perdition

September 2010

Corporate-governance standards have improved, but even the best Asian markets remain far from international best practice. Our CG Watch rankings may surprise investors this year even more than the 2007 reordering.



Tremors and cracks

September 2012

Cracks in Asian corporate governance have become more apparent since our last CG Watch. We provide CG and ESG ratings on 865 stocks. We rank the markets and indicate issues investors should watch for in the tremors of Asian investing.



Dark shades of grey

September 2014

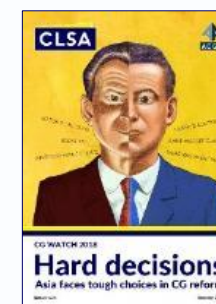
This year we rate 944 companies in our Asia-Pacific coverage. Japan has moved higher while Hong Kong and Singapore have slipped. Corporate scores have fallen, particularly in Korea. We have revamped our environmental & social scoring.



Ecosystems matter

September 2016

Governance matters and ecosystems are key. No one stakeholder drives the process, it's the collective interaction that delivers outcomes. Australia heads our bottom-up survey and joins ACGA's top-down survey at No.1. Asia is improving.



Hard decisions

December 2018

Regional markets face hard decisions in CG reform as mounting competition for IPOs raises pressure to lower standards. But there is still plenty of evidence of the push toward better CG. Australia maintains its lead, while Malaysia is the top-mover.



High hopes

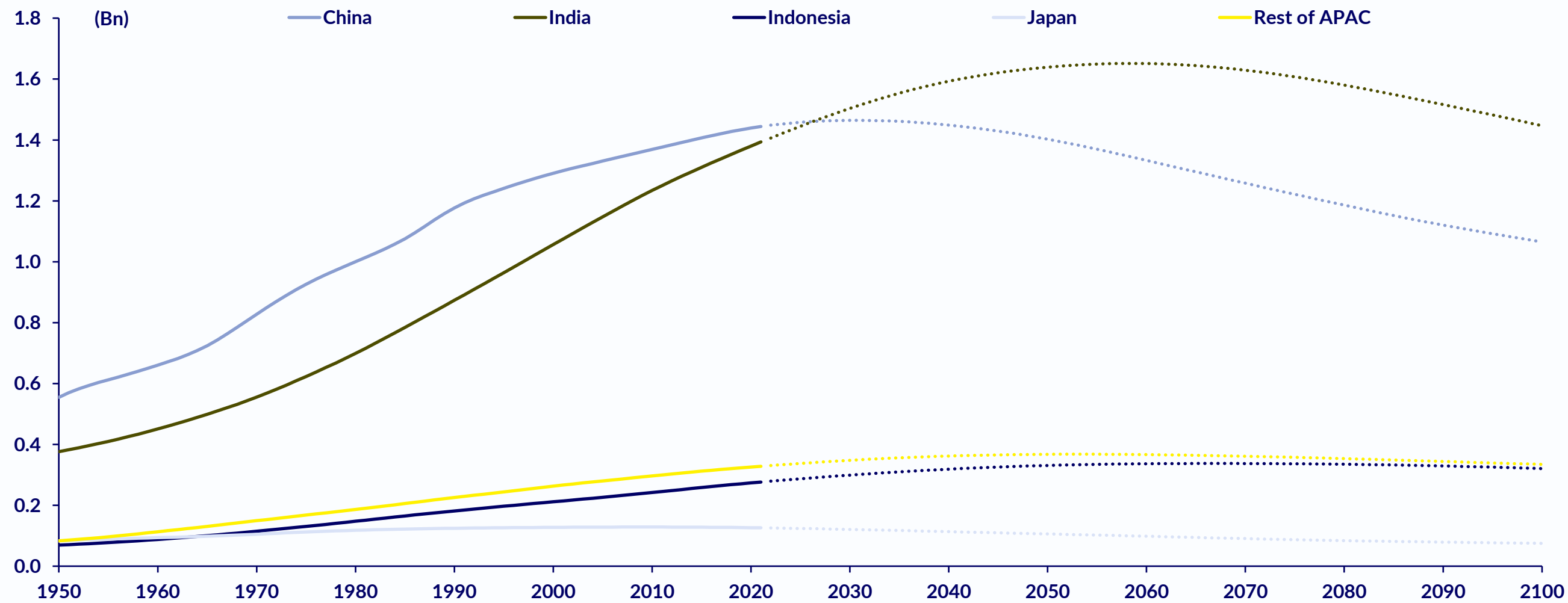
May 2021

Our latest edition of CG Watch is bigger and better than ever – two powerful reports providing unique perspectives on how markets and sectors in Asia are rising to the challenge of building sustainable growth.

25 years later, demographics start to peak




The UN population projection by country until 2100



Source: CLSA, UN

Another generational change in management

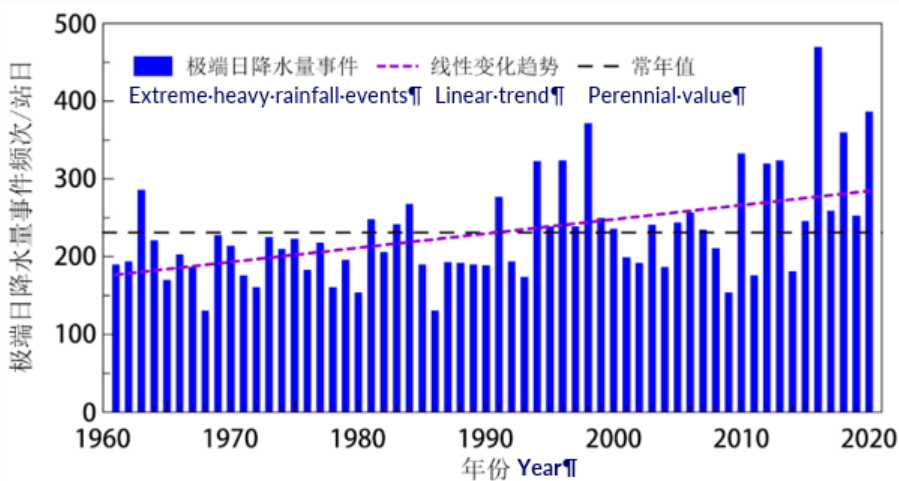


	Key events	Generation	2 nd Generation	3 rd Generation	Characteristics
1900	WWI	<div>  <div> Lee Byung-chul Samsung Group </div> </div>			<div> <div> <div>Growth</div> <div>Survival</div> </div> <div> <div>Trust</div> <div>Loyalty</div> </div> <div> <div>Local</div> <div>Family</div> </div> </div> <div>↓</div> <div> <div>Sustainability</div> <div>Fairness</div> </div> <div> <div>Transparency</div> <div>Global</div> </div> <div> <div>Quality</div> <div>Responsibility</div> </div>

Climate change hits Asia hard

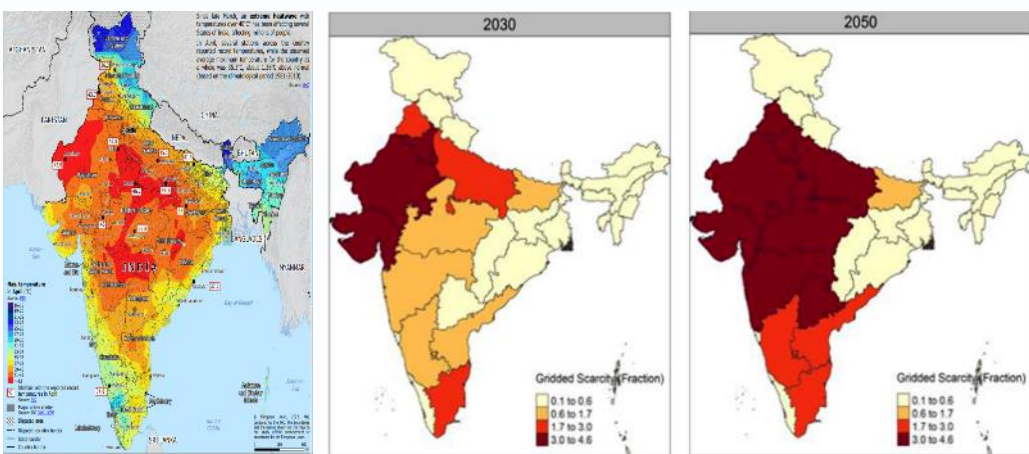


Extreme heavy rainfall events in China



Source: Bluebook on Climate Change in China. CMA

Indian Heat wave in May, Water scarcity projection by 2050

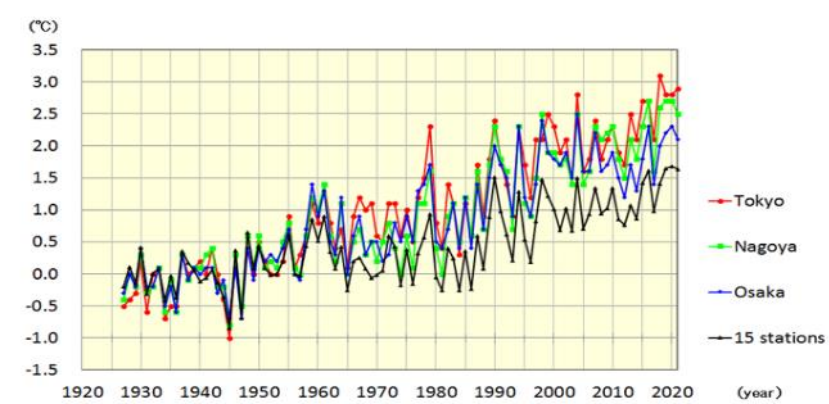


Source: CLSA. Energy and Climate Change Journal

Xinjiang Tianshan No. 1 glacier



Annual temperature anomalies and values averaged over 15 rural stations in Japan from 1927 to 2021



Source: JMA

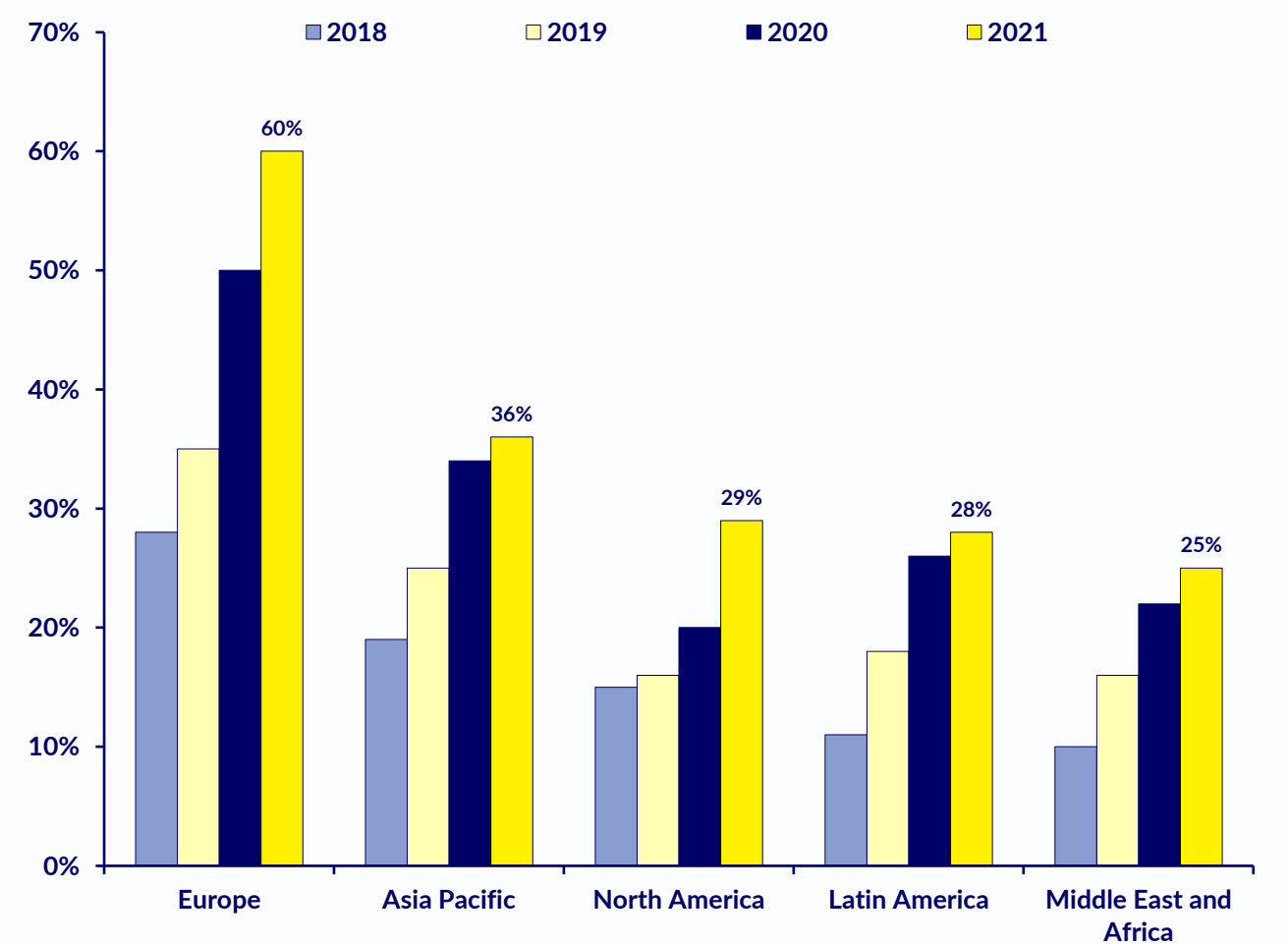
Asian corporates show commitments . . .



Task Force on Climate-Related Financial Disclosures (TCFD) supporting companies by region (new supporters)



TCFD average percentage of disclosures by region (based on reporting)



Source: CLSA, TCFD Website / TCFD annual report

... But still lacking Governance and Science

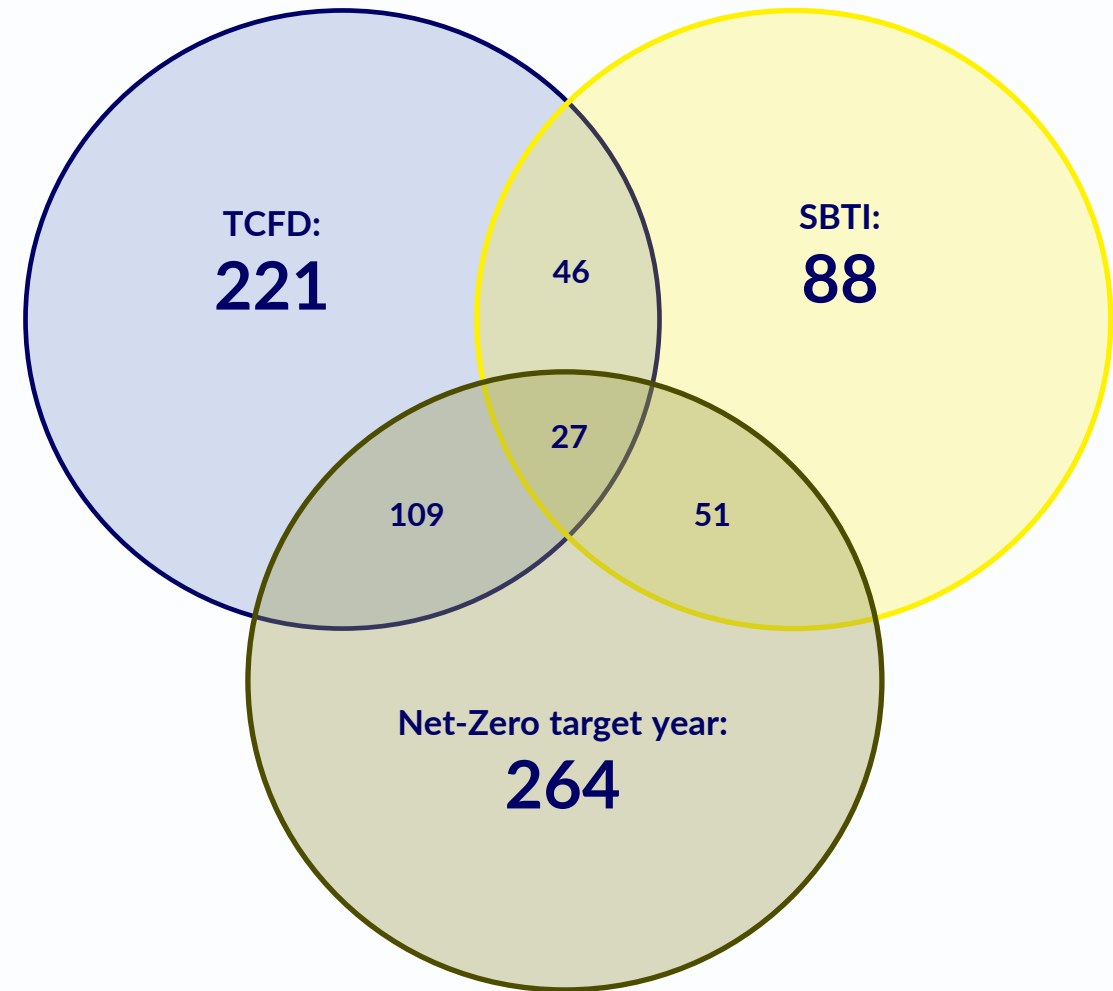


TCFD disclosure by Governance category

	2020	2021	<i>PPT changes</i>
Asia			
Board oversight (%)	26	30	4
Management's role (%)	23	23	0
Europe			
Board oversight (%)	36	42	6
Management's role (%)	31	40	9
North America			
Board oversight (%)	20	24	4
Management's role (%)	11	11	0
LATAM			
Board oversight (%)	21	29	8
Management's role (%)	13	14	1
Middle East and Africa			
Board oversight (%)	14	15	1
Management's role (%)	8	18	10

Source: CLSA, TCFD Annual report 2022

Companies with TCFD/SBTI/Net-Zero targets (CLSA)



Source: CLSA, Bloomberg, Wind

Data governance a key theme for Tech/Healthcare



Summary of data, internet algorithm-related legislation status by markets

	Australia	China	Korea	India	Japan	Singapore
Anti-Trust	2	3	2	3	3	1
Personal Data Privacy	3	3	3	3	3	
AI/Advanced Algorithm Ethics	2	2	2	2	2	
<i>Specific recommendation about ethical AI development/usage</i>	Y	Y	Y	N	N	Y
Platform Worker/Labour Relations	2	2	1	2	2	1
<i>Definition of platform workers' employment status</i>	N	N	N	N	N	N

0 No relevant legislation or guidelines

1 Broad legislation

2 Relevant legislation/targeted recommendations

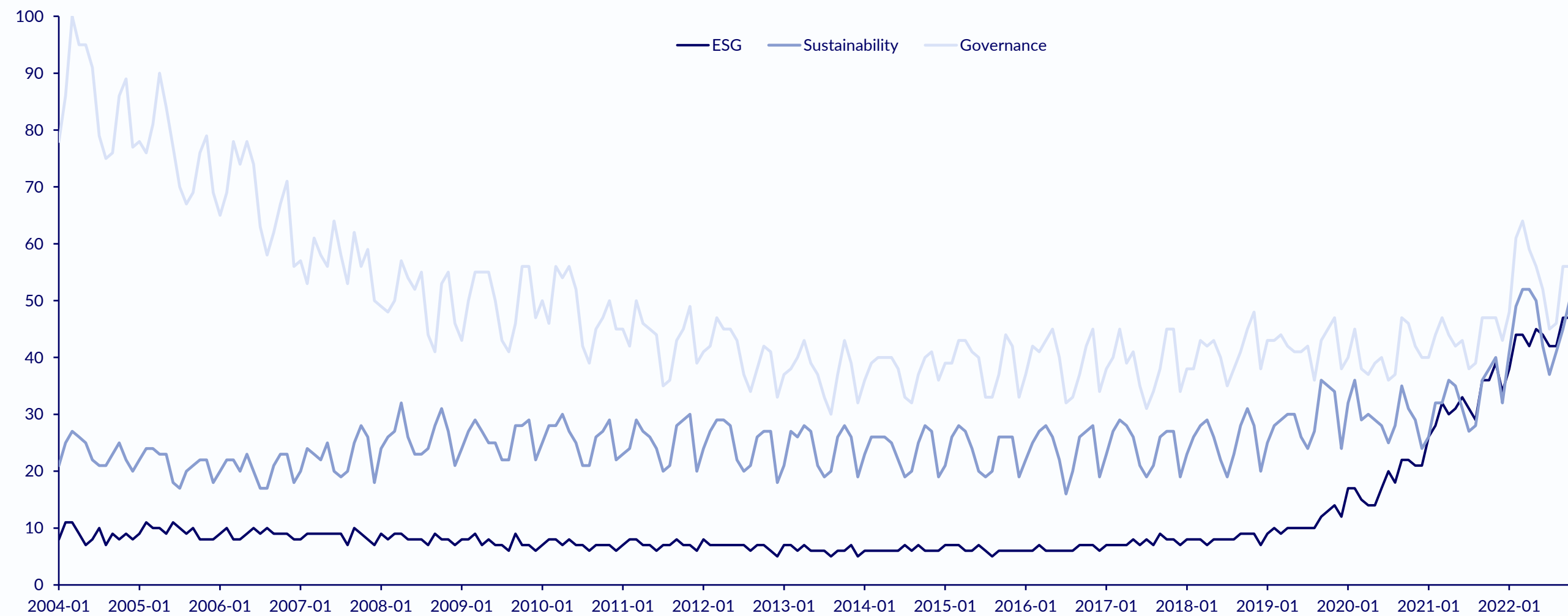
3 Targeted legislation

Source: CLSA, relevant documents

Civil societies' interest in Governance is coming back



Global Google search trends since 2004

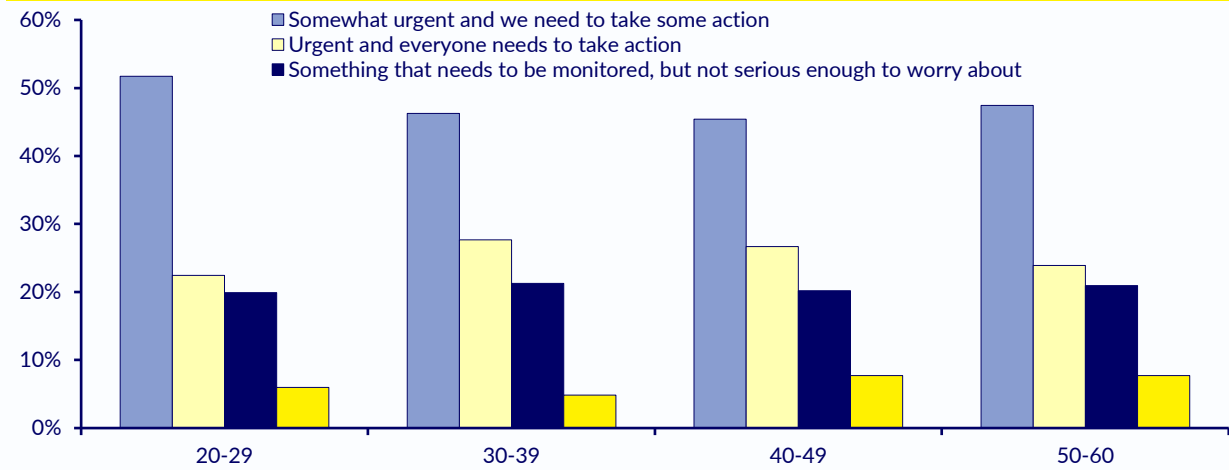


Source: CLSA, Google

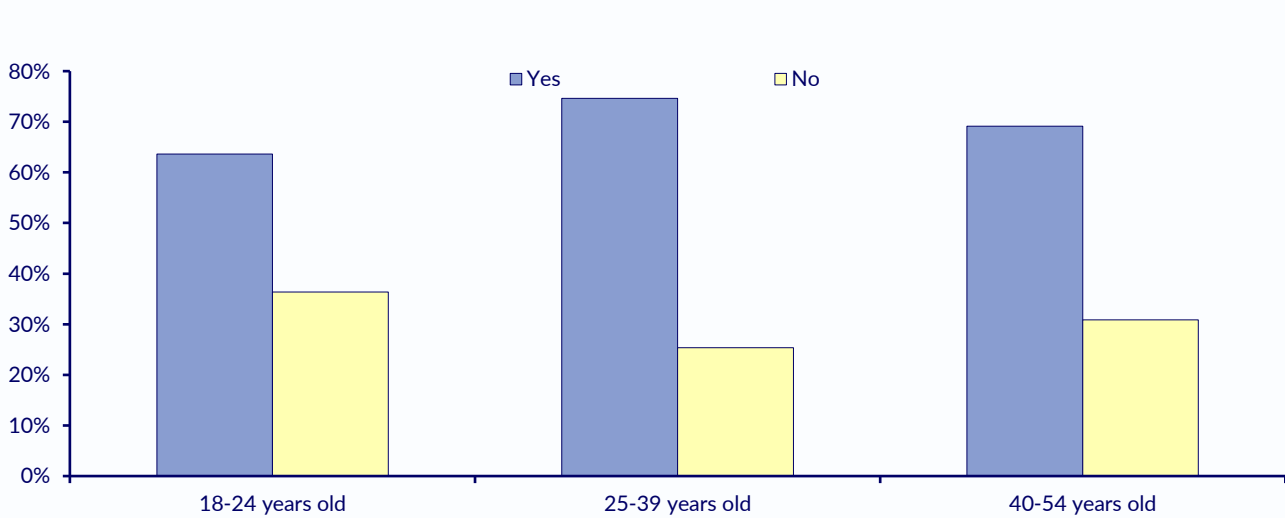
Asians are increasingly sustainability-focused



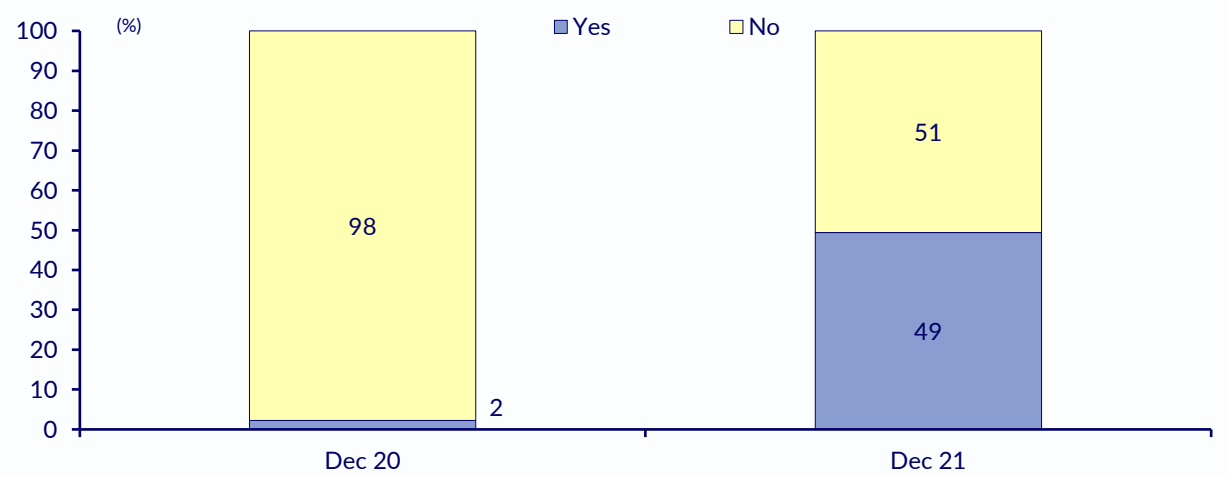
How urgent do you think the climate change issues are? By age, n=1600



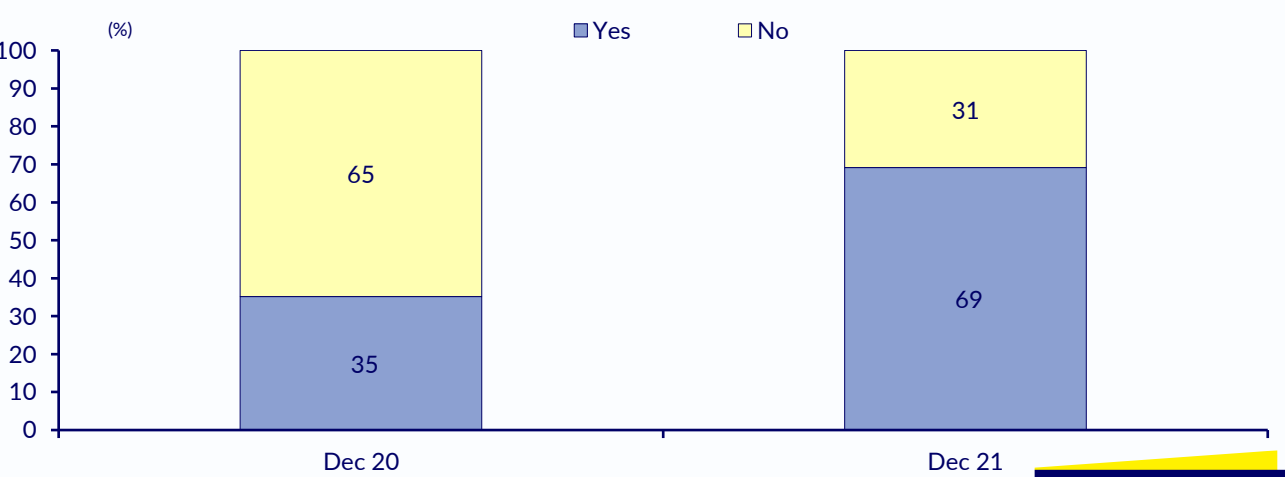
Aware of the concept of corporate governance? By age, n=2400



Have you ever voted in the AGM of a company you've invested in? (n=757) 2021vs2020



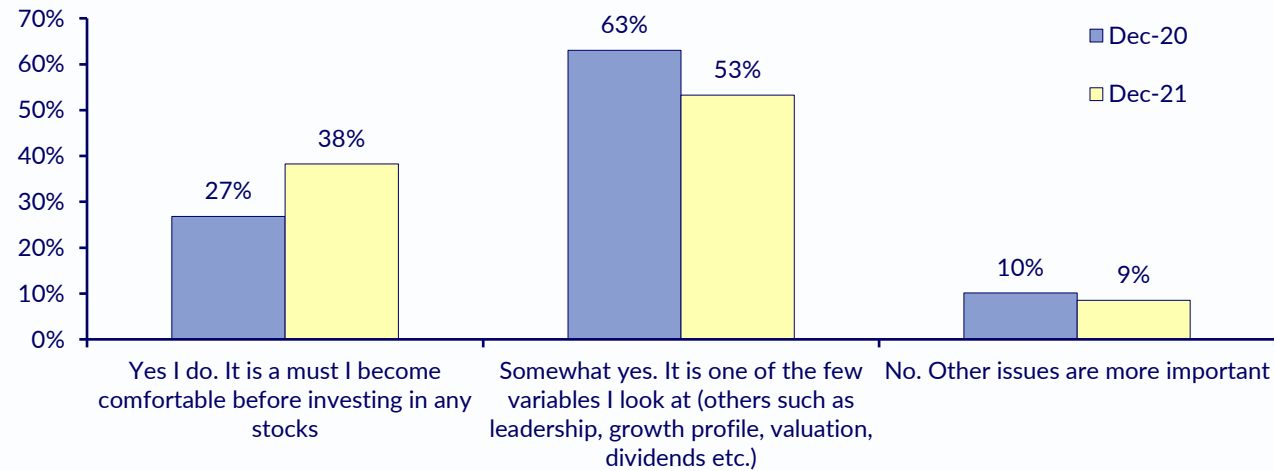
Are you aware of the concept of corporate governance? (n=2,400) 2021vs2020



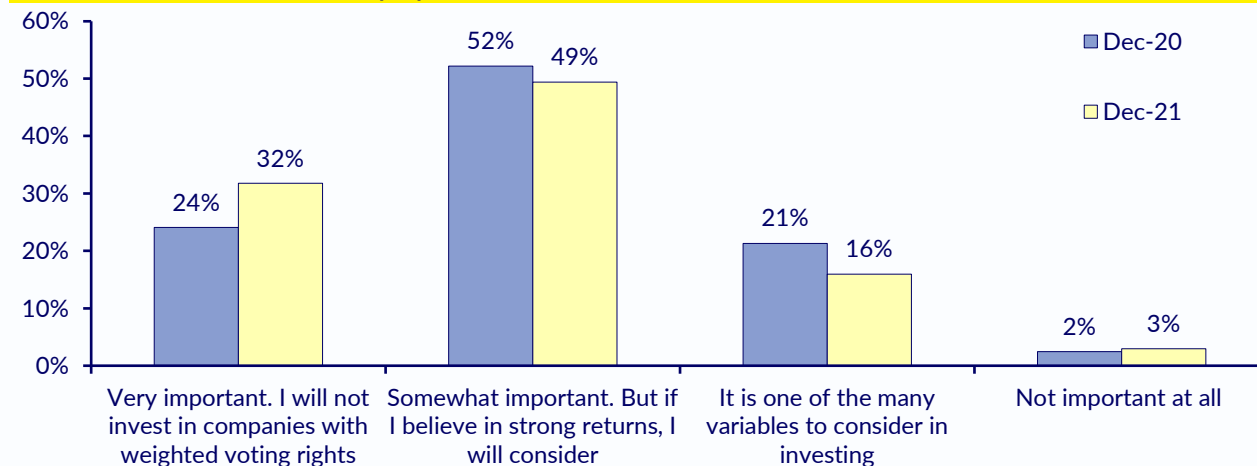
... and young people are conscious shareholders



Do you look at the board composition when it comes to investing in stocks? N=1600 (Gen MZ population)

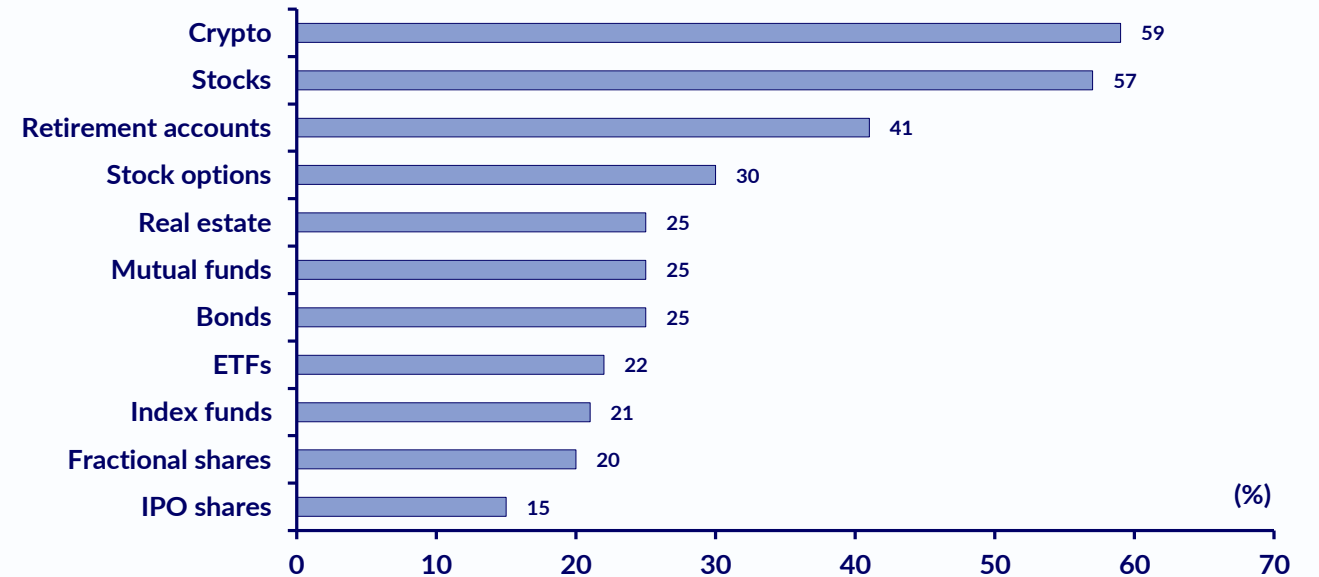


When looking a stock to invest in, how important is it to you that companies provide equal voting rights with all stockholders being given the same number of voters per share? N=1600 (Gen MZ population)



Source: CLSA, CRR

What investments do Gen Z and millennial investors own?

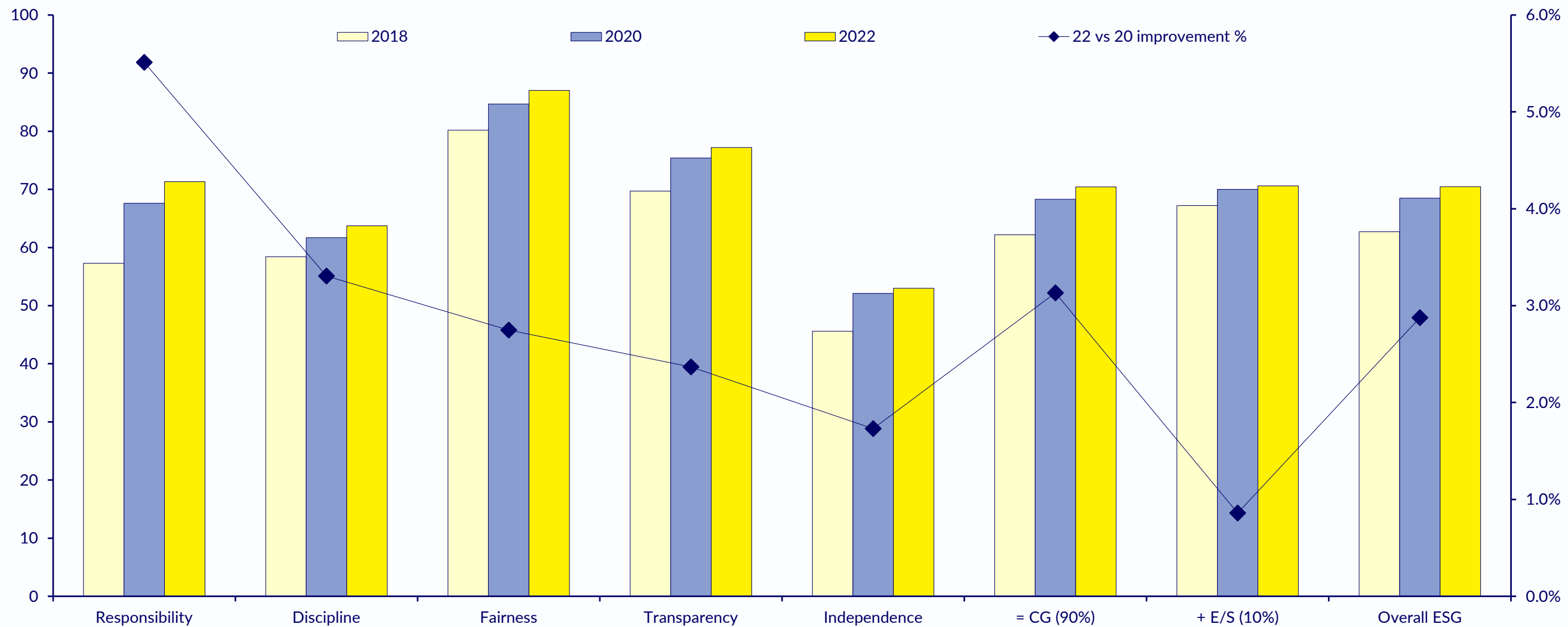


Source: CLSA, The Motley Fool survey(n=1200), distributed October 13, 2022

Meanwhile bottom-up CG scores show marginal improvement



Score improvement vs 2020 by criteria



Source: CLSA

Materials and capital goods rank first...



2020 CG Watch score breakdown by sectors

2020	Responsibility	Transparency	Discipline	Fairness	Independence	CG (90%)	ES + (10%)	2020 = ESG
Materials and Capital Goods	68.5	79.0	70.5	88.3	54.6	72.2	69.7	71.9
Technology	76.4	70.6	70.3	88.7	49.6	71.1	76.0	71.6
Healthcare and Pharma	79.1	75.9	61.7	87.0	54.4	71.6	71.3	71.6
Financial & Insurance	63.8	80.0	57.5	88.6	58.1	69.6	68.4	69.5
Autos	74.1	77.7	69.4	84.0	37.8	68.6	71.3	68.9
Consumer	73.3	70.2	64.8	84.3	52.1	68.9	68.2	68.8
Transport and Infra	70.2	80.0	56.2	81.1	51.4	67.8	72.2	68.2
Energy	60.0	74.8	59.2	91.3	50.7	67.2	77.0	68.2
Property	60.0	79.0	57.5	85.0	56.0	67.5	67.5	67.5
Internet, Media and Telecoms	67.5	77.5	57.0	79.0	48.3	65.9	71.0	66.4
Hotels & Leisure	58.7	75.6	56.7	82.3	53.0	65.2	63.6	65.1
Power and Utilities	46.8	73.8	51.5	76.5	49.7	59.7	71.0	60.8
Conglomerates	52.5	70.2	44.9	69.7	44.4	56.4	61.3	56.8
Average	67.6	75.4	61.7	84.7	52.1	68.3	70.0	68.5

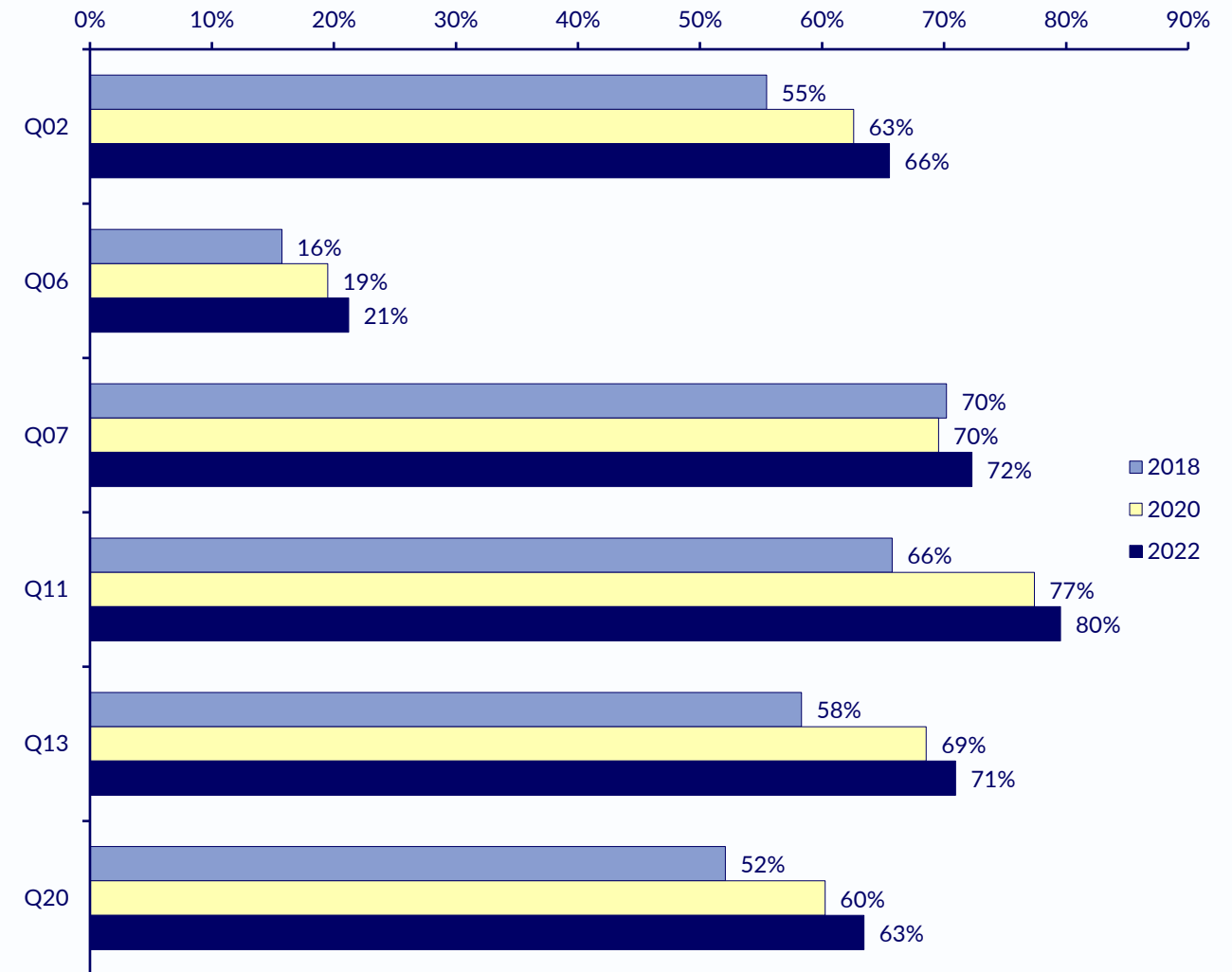
Source: CLSA

What really drove the marginal improvement?



Individual questions that made notable improvements

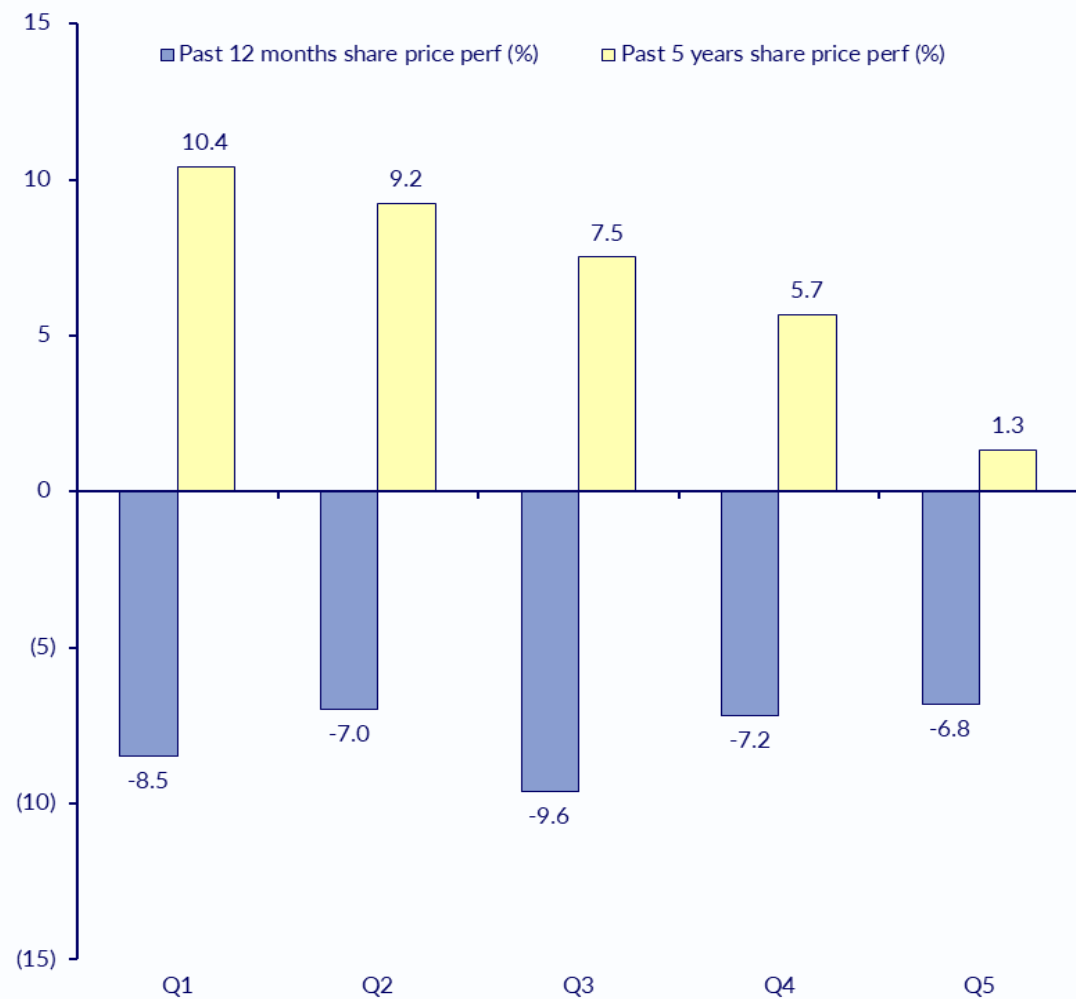
- **Q2 (Discipline):** Are you confident management clearly understand their company's cost of capital and uses it as a key input in capital allocation?
- **Q6 (Discipline):** Has management disclosed reasonable return on capital (eg, ROA or ROE or ROIC) targets?
- **Q7 (Transparency):** Does the company publish its full-year results within two months of the end of the financial year?
- **Q11 (Transparency):** Do analysts and investors have good access to senior management?
- **Q13 (Independence):** Does the company have an effective and independent audit committee?
- **Q20 (Responsibility):** Is the controlling shareholder's primary financial interest in the listed company?



CG scores didn't really matter in the short term

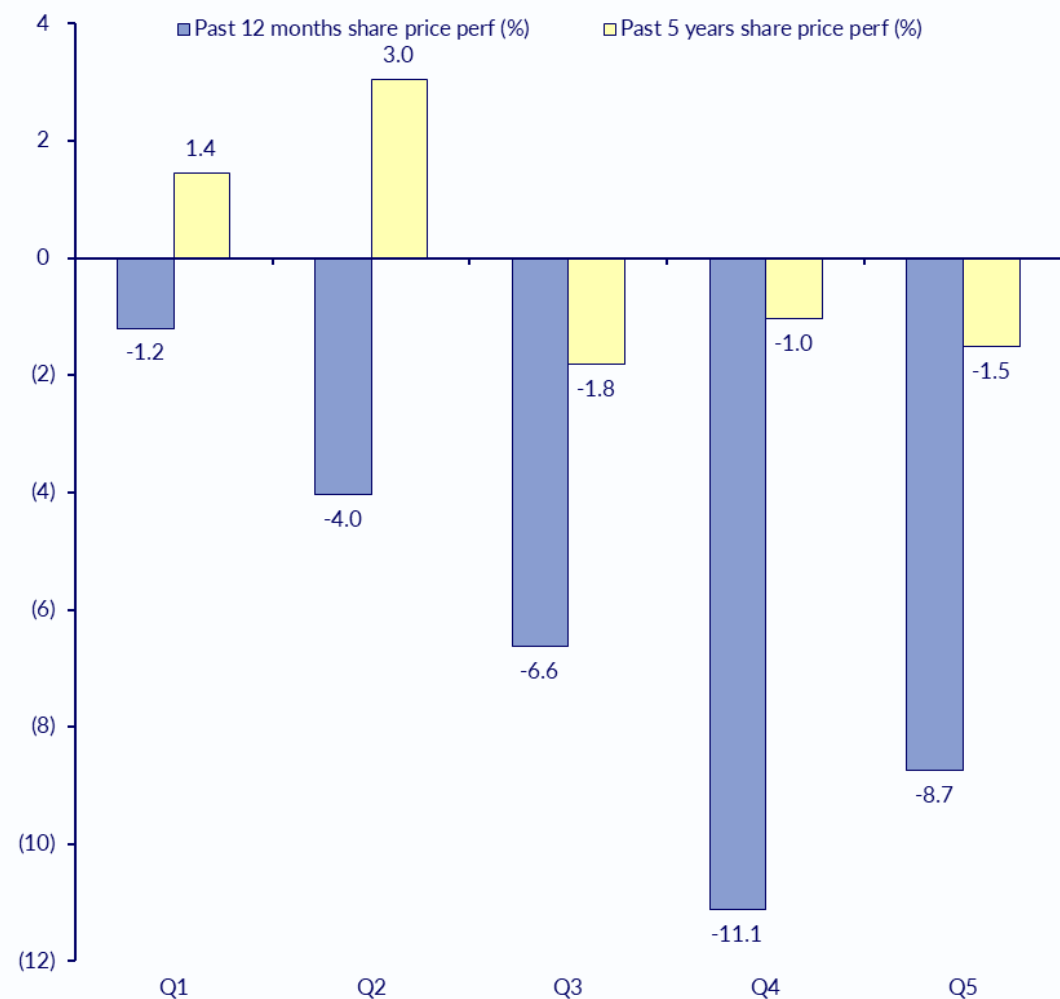


CLSA stocks' performance by CLSA score (CG centric)
(by quintiles and share price returns, n=1180)



Source: CLSA. CLSA ESG score = Corporate governance 90% / Environment and social 10%

CLSA stocks' performance by Arabesque S-Ray scores
(by quintiles and share price returns, n=928)

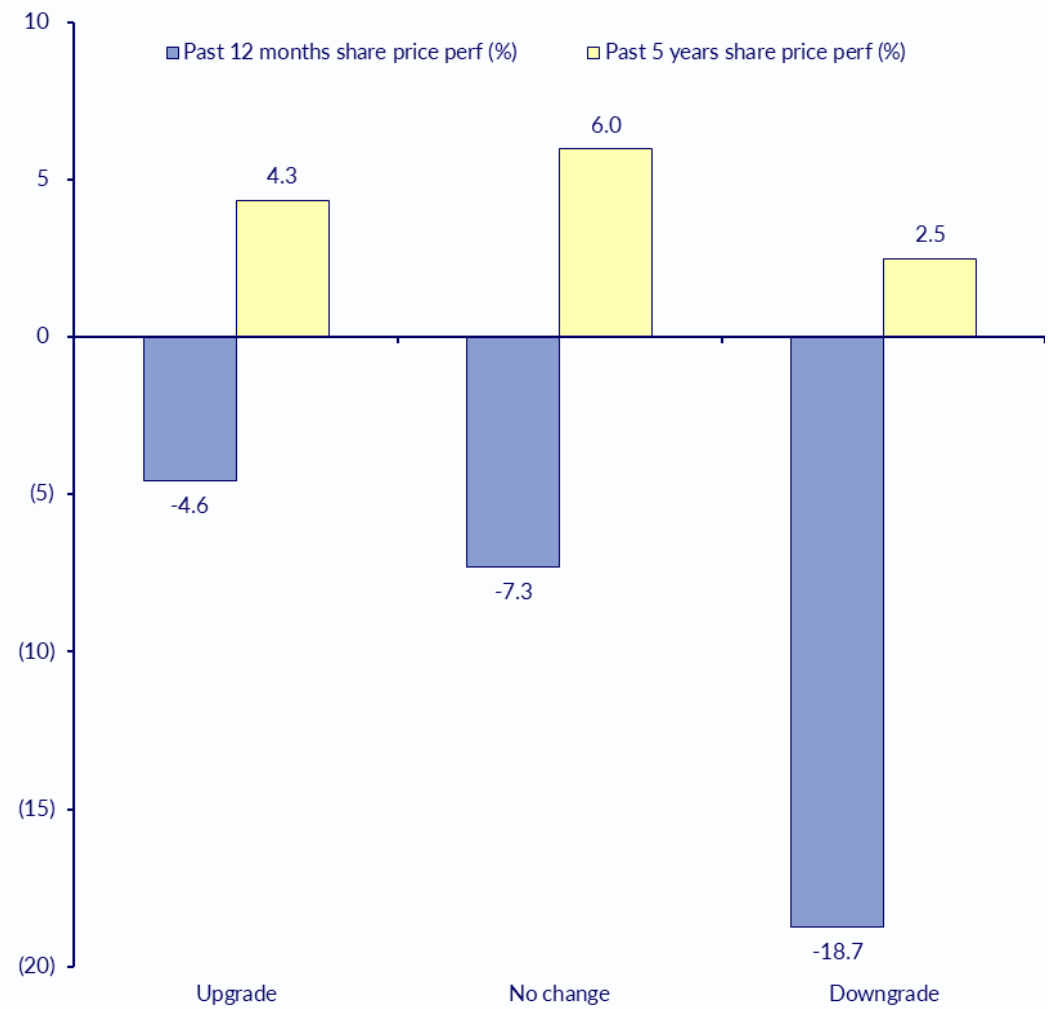


Source: Arabesque S-Ray

However, score improvers outperformed

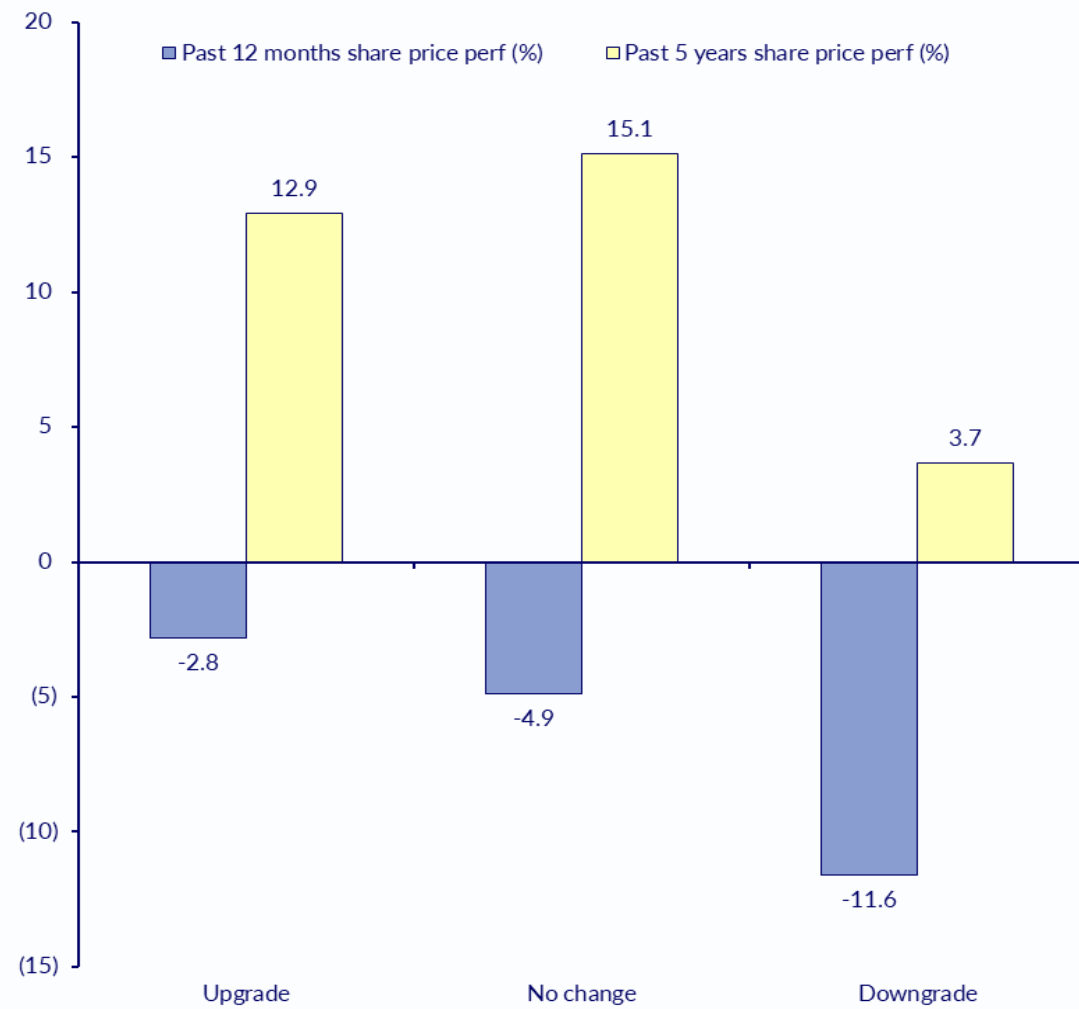


Price performances by CLSA ESG score changes (Since 2021)



Note: Upgrades = 53 / Downgrade = 19 / No change = 933. Source: CLSA

Price performances by MSCI rating changes (Since 2021)

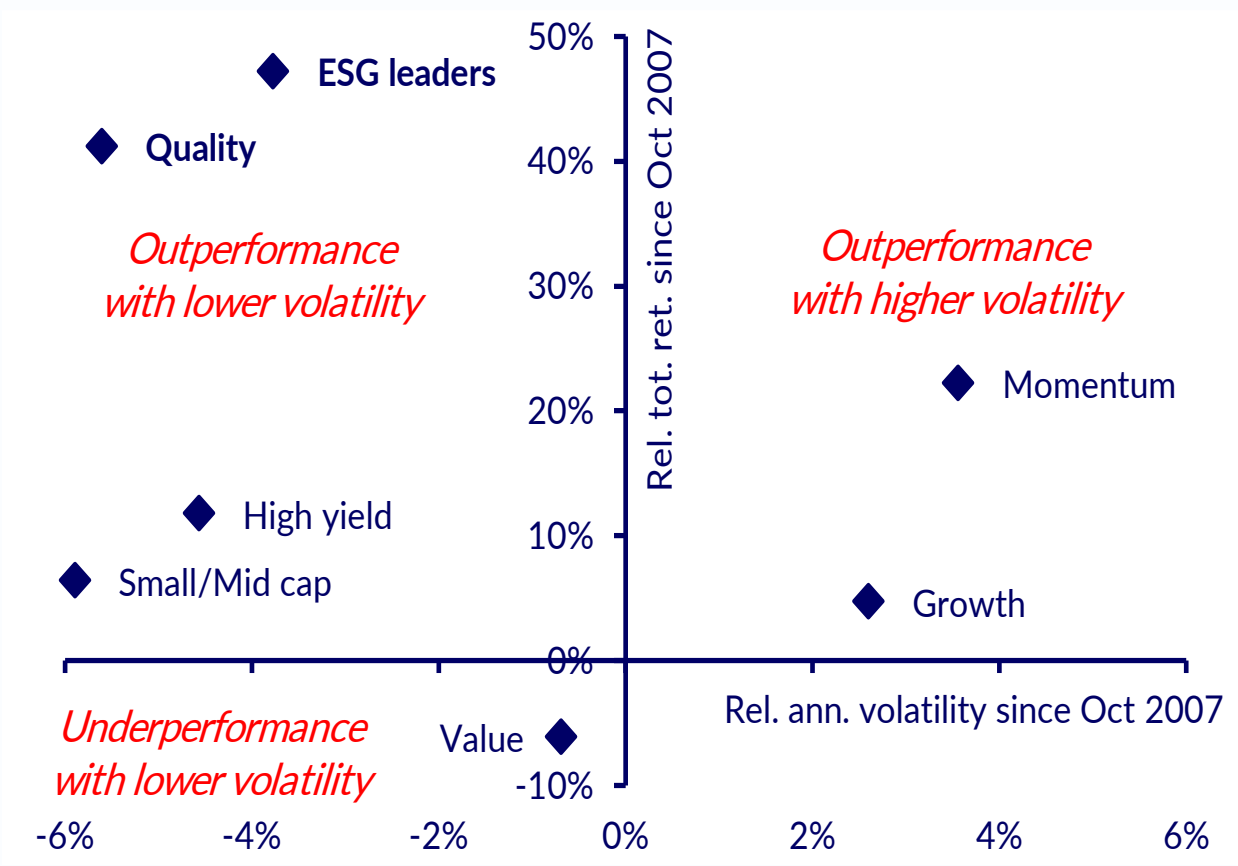


Note: Upgrades = 20 / Downgrade = 3 / No change = 27 Within CLSA coverage (n=1188). Source: MSCI

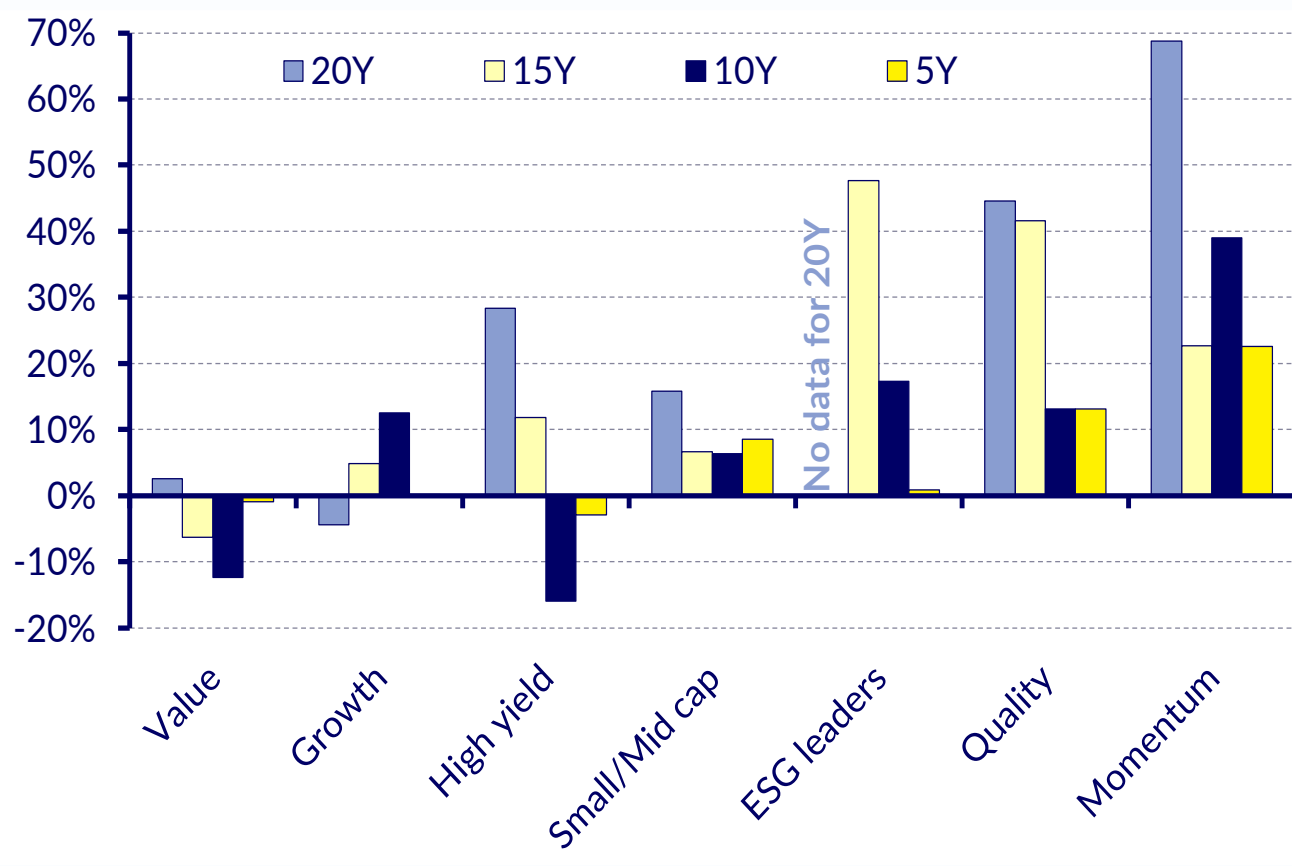
ESG leaders outperform with lower volatility



Relative total return (vs MSCI EM) against relative volatility since Oct 2007¹ for factor indices



Relative total returns over 5, 10, 15 & 20 years vs. MSCI EM for factor indices



¹ Period of available data for MSCI EM ESG leaders. Source: CLSA, MSCI.

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