OVERVIEW

CG WATCH 2023

A new order

Biggest ranking reshuffle in 20 years

Special report - December 2023

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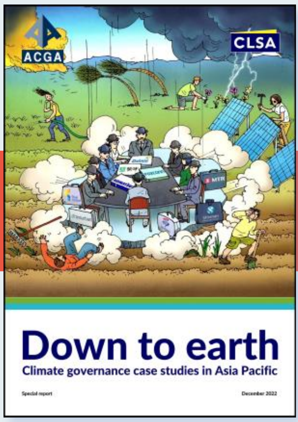
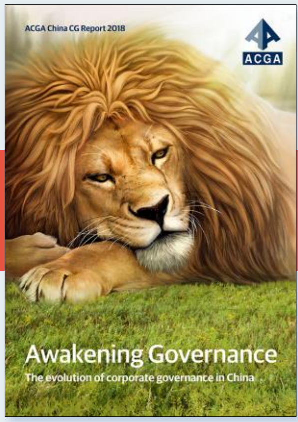
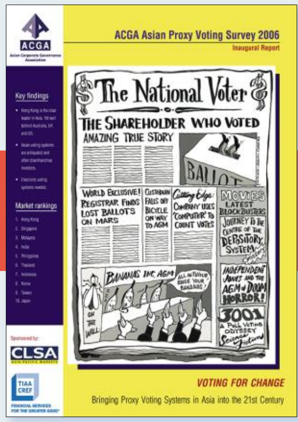
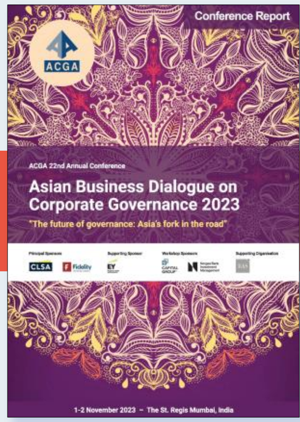
All prices quoted herein are as at close of business 8 December 2023, unless otherwise stated

Thematic research by ACGA









For important disclosures please refer to page 49.

A new order

Biggest ranking change in 20 years

As markets around the region have begun to engage more earnestly with ESG issues, ACGA's latest market snapshot captures the biggest ranking shift in 20 years of its regional surveys. Japan surprised with a surge in performance, while Hong Kong posted an even more precipitous slide. Incorporating ACGA's top-down view, CLSA's bottom-up approach finds transport and infrastructure at the top of the sectoral ranking, while thematic analysis reveals why gender diversity and management skills are important. Our tests confirm that strong governance pays, and companies with high CG scores tend to have higher social scores.

Japan, Taiwan and India move up

As expected, Australia remains top market overall as well as in four individual categories, but its score barely budged. Japan jumped from fifth to second place, while Hong Kong dropped from equal second to equal sixth. Traditionally languishing in ninth place, Korea has edged up to eighth. Both Taiwan, which has initiated a "Sustainable Development Guidemap" and set up a new Commercial Court, and India, have moved up a notch.

Japan's surge and Hong Kong's fall

Markets with a reform agenda and more agents of change gained the most ground in our rankings. Japan is an example. Policymakers have ramped up CG reforms; the Tokyo Stock Exchange is actively attempting to boost shareholder value, companies are being urged to unwind cross shareholdings while investor activism is evolving in novel ways. Meanwhile, Hong Kong took a hit in Government & Public Governance and Civil Society & Media, despite still holding up in terms of Enforcement, Auditors and CG Rules.

Transport and diversity top the CLSA's league

Based on CLSA's updated bottom-up CG scoring system covering over 1,200 companies across 12 markets, transport & infrastructure tops the overall ranking, followed by financial services & insurance. Comparing this year's CG score to that in 2020, corporate governance in Asia has improved by 3.1ppts. Our analysis of CG scores by thematic characteristics revealed that gender-diverse firms have the highest CG scores, followed by privately-owned enterprises, large caps and manager-run companies; while state-owned firms score the lowest.

Linking CG scores with shareholder value

CLSA continued to find that the top quintile CG groups offer better shareholder returns. Companies with good CG scores have better Social scores in our revamped ESG scoring system. Therefore, we can use our ESG scores to identify stocks that are best in class with value creation (ROE above COE) and a fundamentally positive view, as well as stocks that are improving their governance with improving ROEs.

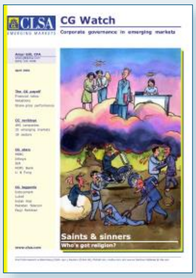
Australia stays on top while Japan jumps to 2nd place and Hong Kong falls to 6th

CG Watch 2023 market rankings and scores (%)

Market	Previous ranking	2023	2020	Change vs 2020 (ppt)
1. Australia	1	75.2	74.7	+0.5
2. Japan	=5	64.6	59.3	+5.3
=3. Singapore	=2	62.9	63.2	-0.3
=3. Taiwan	4	62.8	62.2	+0.6
5. Malaysia	=5	61.5	59.5	+2.0
=6. Hong Kong	=2	59.3	63.5	-4.2
=6. India	7	59.4	58.2	+1.2
8. Korea	9	57.1	52.9	+4.2
9. Thailand	8	53.9	56.6	-2.7
10. China	10	43.7	43.0	+0.7
11. Philippines	11	37.6	39.0	-1.4
12. Indonesia	12	35.7	33.6	+2.1

Note: Total market scores are not an average of the seven category percentage scores. They are an aggregate of the exact scores for each of the 108 questions in the survey, converted to a percentage. Total points for each market out of 540 were: Australia (402.5); Japan (349); Singapore (339.5); Taiwan (339); Malaysia (332); Hong Kong (320); India (321); Korea (308.5); Thailand (291); China (236); Philippines (203); and Indonesia (193). The denominator for Australia was 535, not 540, as one question on SOEs does not apply. Source: ACGA

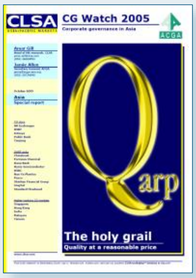
CG Watch through the years



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.



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.

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.

Make me holy . . .

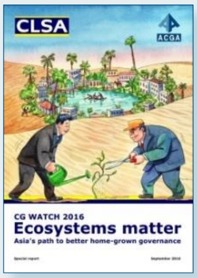
February 2002

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.

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.



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.

Fakin' it

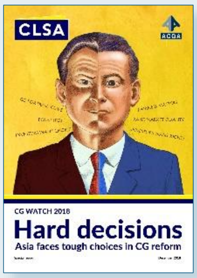
April 2003

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.

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.



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.

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.

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.

Future promise

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.

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Markets overview: A new order

Our market rankings have undergone their biggest change in 20 years

We typically say in our summary of CG Watch market-ranking changes that the excitement is rarely at the top or bottom of the survey, it is in the middle. This year is different: we have a new market in second place, ie, Japan, a significant fall in the ranking of Hong Kong to equal sixth, and an improved placing for Korea. Traditionally languishing in the ninth place, Korea has edged up to the eighth. Both Taiwan and India have moved up one place as well. Markets that have slipped, albeit only marginally, include Singapore and Thailand. Other markets have crossed the line in their usual positions.

A note of caution: it is important to look at these rankings as a position in a point in time, namely November 2023. Our survey of 108 questions across seven categories seeks to assess both the objective quality of corporate governance systems and the degree of reform effort being made by key stakeholders in the capital market: government, financial regulators, listed companies, investors, auditors, and civil society and media. Japan has risen to the second place in large part because of the greater effort being made this year not only by government and regulators, but also listed companies, investors and various non-profit and professional associations. If we did the survey again in six or 12 months, its ranking may be different.

Another point we consistently make - often to deaf ears - is that the real informational value in CG Watch is not the market rankings, as thrilling or depressing as they may be. It is the absolute market scores, the components of these scores across the different categories, and the direction of travel. As the table below shows, Australia's score has risen slightly from our last survey yet remains at around the 75% mark. For a developed market such as Australia this is on the low side of good. The same point could be made even more strongly for Japan, whose almost 65% is hardly befitting such an advanced economy.

Australia stays on top while Japan jumps to 2nd place and Hong Kong falls to 6th

Figure 1

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Category scores and changes

A broader picture is seen in category score nuances

Category scores point to a deeper and more interesting story than total market scores, as the table below shows.

Australia's public governance score up slightly, auditing is down

Relative to most other markets, Australia performs best in Government & Public Governance, CG Rules, Listed Companies and Civil Society & Media. None of which is too surprising. What does seem a little odd is that its Government & Public Governance score, though higher than in 2020, is still only 71%. The fact that it does not score higher for Regulators overall, despite its Enforcement score being equal first with Hong Kong, also stands out. As does the fall in its Auditors & Audit Regulators score. Australia used to rank equal first for Auditors; it is now equal fifth.

Japan gains ground on CG reform and investors

Japan's category scores, in contrast, are mostly showing improvement over our last survey in 2020. Government & Public Governance has barely moved. Regulatory Funding, Capacity Building and CG Reform has leapt ahead, while Enforcement has lost a little ground. CG Rules has materially improved, while Investors, Auditors, and Civil Society have all risen by several points. Listed Companies is also higher, albeit from a low base, and still strikingly mediocre for an economy as advanced as Japan's. Relative to most other markets, the category where Japan outperforms is Investors - a direct consequence of the country being the earliest in the region to have a stewardship code and strong follow-up action by the securities regulator, the Government Pension Investment Fund, and both domestic and foreign asset managers.

Market scores by category

Figure 2

Market scores by category: 2023 vs 2020

(%)		AU	CH	HK	IN	ID	JP	KR	MY	PH	SG	TW	TH
1. Government & Public Governance	**2023**	**71**	**32**	**55**	**45**	**32**	**61**	**52**	**37**	**29**	**56**	**67**	**35**
	2020	68	29	65	45	31	60	60	32	28	60	68	35
2. Regulators	**2023**	**66**	**56**	**62**	**53**	**29**	**65**	**57**	**58**	**25**	**63**	**65**	**50**
	2020	65	52	69	53	24	62	53	53	27	63	66	51
- Funding, capacity, CG reform	***2023***	*61*	*44*	*54*	*52*	*35*	*67*	*51*	*56*	*25*	*56*	*61*	*45*
	2020	*62*	*42*	*62*	*51*	*31*	*58*	*45*	*53*	*27*	*56*	*62*	*47*
- Enforcement	***2023***	*72*	*69*	*72*	*54*	*22*	*63*	*64*	*60*	*24*	*71*	*70*	*54*
	2020	*68*	*64*	*76*	*56*	*16*	*66*	*62*	*54*	*26*	*70*	*70*	*56*
3. CG Rules	**2023**	**83**	**63**	**75**	**73**	**40**	**67**	**65**	**79**	**48**	**77**	**71**	**75**
	2020	82	63	75	69	35	58	56	77	45	75	66	76
4. Listed Companies	**2023**	**76**	**39**	**53**	**60**	**36**	**49**	**49**	**66**	**48**	**58**	**55**	**51**
	2020	79	51	59	65	38	44	48	66	55	60	63	60
5. Investors	**2023**	**69**	**22**	**33**	**46**	**20**	**65**	**56**	**42**	**25**	**39**	**40**	**35**
	2020	66	18	34	44	19	60	44	43	21	39	38	38
6. Auditors & Audit Regulators	**2023**	**82**	**49**	**82**	**69**	**65**	**83**	**73**	**92**	**62**	**83**	**83**	**79**
	2020	86	43	81	54	59	77	70	86	60	81	76	76
7. Civil Society & Media	**2023**	**82**	**26**	**50**	**74**	**44**	**66**	**43**	**53**	**33**	**64**	**62**	**46**
	2020	80	22	60	78	38	62	36	44	36	64	62	49

Source: ACGA

Reform agenda helps to boost the market's ranking

Why Japan jumped

Japan has turned out to be a surprise blockbuster hit since the last CG Watch. Policymakers have decided to fire up CG reform, the stock exchange is on a campaign to boost shareholder value, Japan Inc is under pressure to unwind cross shareholdings and investors are being handed back more cash. It is a real grab-your-popcorn moment.

There is optimism that long-standing issues will be addressed

While we are still in the first act - and we may not get the romantic ending we hope for - there are compelling reasons to be optimistic. The Financial Services Authority (FSA) set out an ambitious action plan on CG reform in April 2023 which signalled a willingness to address issues such as cost of capital, board and director effectiveness, and impediments to collective engagement. The proposals are still being consulted on, but Japan's CG Watch score on Government & Public Governance has been bumped up by a percentage point to 61, putting it in third place in this category behind Australia and Taiwan. These efforts were also reflected in higher scores for CG reform in the Regulatory category.

The stock exchange is on a mission to improve shareholder value and diversity

Japan's improved score also comes against the backdrop of a campaign by the Tokyo Stock Exchange (TSE) to address low valuations of issuers, reduce mountainous cash piles and enhance shareholder value. Gender diversity has meanwhile moved up both the government and TSE agenda, with new listing rules setting targets for female directors in the "yakuin", a broad group that includes directors as well as senior management. Another area of focus for policymakers has been fairness in the M&A space: the Ministry of Economy, Trade and Industry (METI) published new guidelines on corporate takeovers in mid-2023.

Listed companies are improving and activism continues to evolve

In the background, disclosure by listed companies is showing signs of improvement, investors are strengthening individual and collective engagement and are more cogent in the way they use their votes. Activism is evolving in new and interesting ways and, although outcomes are mixed, there is no question that the increased use of shareholder proposals has caught the attention of like-minded investors if not the target corporates.

Hong Kong falls in several categories

As for Hong Kong, its drop to equal sixth masks the fact that it still tops the Enforcement category and scores well in Auditors and fairly well in CG Rules. Some institutions are still functioning effectively in the city. In contrast, the big falls in score come where you would most expect them: Government & Public Governance, Regulatory Capacity/CG Reform, and Civil Society & Media. A closer look at CG Rules also hints at a problem: Hong Kong's score has stayed the same whereas those for eight other markets have improved by two points or more. Hong Kong is no longer moving ahead.

A lack of CG roadmap has historically been mitigated by a solid institutional framework

Why Hong Kong fell

Those who have read CG Watch over the years would know that Hong Kong has never been credited with having a well-structured and coherent policy on CG which sets the tone and drives the agenda. The history of CG in Hong Kong has been a sporadic and scrappy one of battles fought and lost, a government trying to keep reformers and listed companies happy but ultimately watering down the most decent policy aspirations to a compromise. But as the reform pendulum swung back and forth over the years, the market was buttressed by solid institutions: a clean civil service, independent judiciary, dependable securities regulator, and fiercely free press. Through the handover, Asian and global financial crises, and SARS, these were not shaken.

WVR, secondary listings have altered the landscape, and investor protection has weakened

Much has changed since the last CG Watch. The DNA of the stock market looks very different today from what it did in 2020. Dual class listings, “homecoming” secondary issuers and pre-revenue biotech firms now account for 20% of market cap, and they play by a set of very different - and much weaker - rules. Five out of the top ten companies by market cap are either secondary, or weighted voting right, listings. Nearly 10% of Hang Seng Index constituents now fall into this category. Capital market development has focussed on attracting more of the same, and with the continuing lowering of entry requirements and rules applicable to these issuers, the rights, and safeguards available to investors have diminished. Meanwhile holders of H shares have seen the loss of separate class rights and the market has opened the door to SPACs and specialist tech firms, assuming a greater appetite for risk on the part of shareholders.

Shareholders still have few practical avenues for recourse

There has been no significant offset to these dwindling guardrails. A few tweaks have been made to the CG Code and listing rules which may help with behaviour (no single gender boards by 2025) but by and large market reform in the past few years has catered to the needs and aspirations of issuers rather than address the concerns of investors. The latter still face a hostile landscape in enforcing rights. Reform on class actions has fizzled out after 23 years. Shareholder activism is rare. Short sellers are choosing to fight their battles elsewhere.

Concerns over judicial, SFC autonomy were a drag on the score

Against this backdrop, Hong Kong took a significant hit to its CG Watch score in Government & Public Governance. What exacerbated the decline is our concern over the strength and autonomy of institutions and systems shoring up Hong Kong’s CG ecosystem in the new political landscape: from the securities regulator which appears less outspoken on market reform issues, to a Judiciary losing foreign judges at its top court amid concerns over interference. The long-stated separation of powers at the heart of Hong Kong’s governance have been declared void and judges are palpably under pressure to respect the boundaries of an executive-led system. A reconfigured legislative council which prioritises patriotism may be more prone to give the government an easier time with its law-making programme. Indeed, ACGA was disappointed that changes to company law allowing virtual AGMs (*after* the pandemic) passed with no detailed debate, and at breakneck speed.

A stifled media is less likely to shine light on corporate malfeasance

Along similar lines, Hong Kong’s score in Civil Society & Media also fell significantly. The shuttering of media outlets and wariness of reporters to cross red lines has stifled a once-vibrant fourth estate. Notably absent from the media landscape today are the cohort of scandal-chasing tabloids who helped to keep the tycoons and company directors on their toes, as well as the deep-dive data investigators among the foreign press who delved into the uncomfortable business interests of the elite. Not helping matters has been the curtailed access to director and company information: the ability to shine a light on corporate digressions is much compromised. Nor do academics in Hong Kong seem to pontificate on the governance issues of the day: a reported exodus of university scholars is evident when searching for research on Hong Kong CG issues. Today it is more likely that a research piece on stock market reform or weighted voting rights will be penned by an academic in Singapore or the PRC, than in Hong Kong.

Category themes

The broad themes emerging from each category are as follows:

1. Government & public governance

Australia, Taiwan and Japan take the lead

As figure 2 above and the chart below shows, Australia ranks first in this category followed quite closely by Taiwan and then Japan. The next three markets - Singapore, Hong Kong and Korea - all scored between 50% and 60% - with noticeable drops in score for each. The rest of the region all came in below or well below 50%. Only Malaysia saw a marked increase in score, albeit from a low base, while China also gained a few percentage points. Our view is that public governance sets the tone for corporate governance in many ways, hence the absolute level and direction of many of these scores is a concern.

The lack of a CG strategy is a sapper in the region

An important factor holding down scores in this category is the lack of any clear and consistent strategy on corporate governance in most markets. Only Japan and Taiwan rank highly here. Japan scores well for a range of reasons, including the new "Action Program for Accelerating Corporate Governance Reform: From Form to Substance" from the Financial Services Agency, the strong drive on capital efficiency and corporate valuations by the Tokyo Stock Exchange, the government's push on women's empowerment in the workforce and gender diversity on boards and in management, and the new guidelines on fairer corporate takeovers from the Ministry of Economy, Trade and Industry. For its part, Taiwan has had a series of "CG roadmaps" over the past decade and in 2022 produced a Sustainable Development Guidemap that has some strong governance elements. Both markets perform better than others, meanwhile, on the level of political support from government for the policy and enforcement work of regulators. We typically find such support to be highly inconsistent over time in most markets.

Autonomy of securities regulators, access to legal redress are still concerns

Other generally low scoring questions in this category include whether securities commissions can operate independently of government, fair access to the legal system for minority shareholders, and the existence of genuinely independent commissions against corruption. Sadly, we are not seeing much improvement in anti-corruption work in most markets - Australia being a slight exception now that it finally has a national anti-corruption commission. Extra-jurisdictional reach still yields few results in most of the region, with blockbuster graft trials few and far between - Malaysia being a notable, though at times disappointing, exception. And there is still a high degree of opacity in the enforcement data provided by governments. For example, cases rolled over year after year but still counted.

Political interference in the courts is worsening in several markets

Judicial independence is under attack and/or suffers from a perception of bias in several markets, including Malaysia, Thailand and Hong Kong, while remains questionable at times in others. Japan saw some unusual judgements in 2021 when courts upheld a company's right to hold an EGM to vote on a new anti-takeover poison pill while at same time selectively excluding certain shareholders from the vote. There appeared to be no firm legal grounds for such a decision. One bright spot in the region is Taiwan's new Commercial Court, set up in 2021 to hear company and securities law disputes.

Governance standards of SOEs remains patchy

Not surprisingly, SOE governance continues to lag in most markets, despite some reforms; although China is pushing its state enterprises to improve investor relations. The two markets that lead the way in this area are Singapore and Taiwan, both of which expect higher standards of governance from listed SOEs than is apparent in other markets.

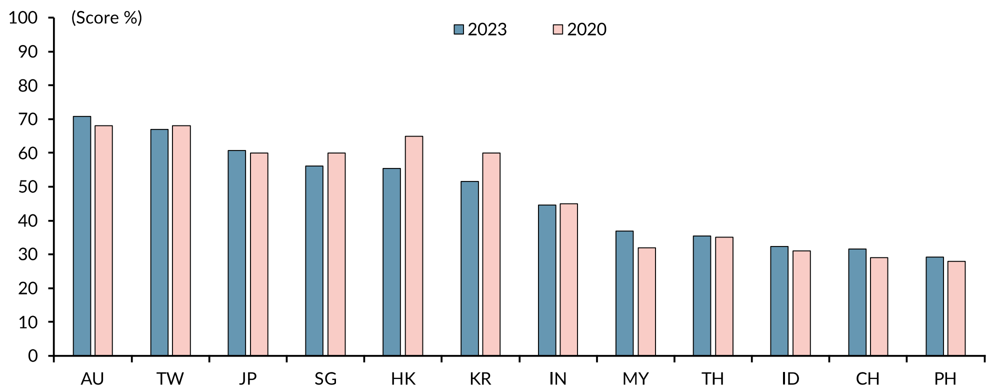
Bank governance and stock market conflicts are being better managed

Two areas where scores in this category are mostly good include the quality of bank governance and the coherence of the regulatory system governing the securities market. Bank governance has been a critical feature of CG reform in Asia since the collapse of markets and economies during the Asian Financial Crisis in the late 1990s. In most markets, banks typically have more sophisticated governance systems than other listed companies - although this distinction is sometimes a bit blurry in Australia. As for regulatory structure, almost all markets have a clear securities commission taking the lead on policy and enforcement, with a defined rule-making/enforcement role for the stock exchange. Australia, Japan and Singapore stand out for trying to address the inherent conflicts of interest in their stock exchanges, namely by establishing legally separate enforcement arms, while India, Taiwan and Thailand manage conflicts by limiting the enforcement function of their exchanges.

How the markets fared on government & public governance

Figure 3

Government & public governance: scores by market



Source: ACGA

2.1 Regulators: Funding, capacity-building and regulatory reform

We look at how regulators are funded and the quality of their disclosure

This category asks 11 questions across a range of issues, from the sufficiency of regulatory funding to the extent of investment in new regulatory technology and capacity. There is a focus on the effort being made by securities commissions and stock exchanges on CG reform over the previous two years, as well as the transparency and integrity of public regulatory consultations. Two further questions assess the performance of regulators on activities that should be good to very good in all markets, but sadly are not: whether governments offer easily accessible websites with English translations of all key laws and regulations; and whether stock exchanges provide an online archive of all company reports, notices and announcements going back at least 15 years. Lastly, we score markets on electronic voting infrastructure and the extent to which their IPO rules require listing applicants to come to market with well-established corporate governance systems.

Japan ranks 1st, followed by Australia and Taiwan

Japan came first in this category in this survey, a significant jump from 4th in 2020 and a material rise in score from 58% to 67%. Equal second were Australia and Taiwan, some way back at 61% and both dropping slightly in ranking from equal 1st in 2020. With a change of government and somewhat more CG-friendly policies, Malaysia improved from 6th to equal 4th on a three-point improvement in score to 56%. Singapore held its same score and occupied the other 4th place. And then there is Hong Kong, which came 6th on a score of 54%, a marked fall from 62% and equal first in 2020. Other markets largely held their positions, except for Korea and Thailand which swapped places - the former rising an impressive six percentage points and coming 8th, while the latter dropped to 9th.

The opacity of the regulator is a drag on Singapore's score

An important factor in overall scores in this section is regulatory transparency. Singapore continues to lose points because, unlike almost every other market, it steadfastly refuses to divulge any budgetary or staff information for the securities work of the Monetary Authority of Singapore (MAS). In contrast, ASIC in Australia, the SFC in Hong Kong, the Securities Commission Malaysia and the SEC in Thailand all produce dedicated annual reports with details on sources of revenue and expenditure, staff numbers, and so on. Nevertheless, Singapore is not the only market that underperforms here. Budgetary information is quite opaque in China and Taiwan, and could be better in Korea.

Stock exchanges fare worse than securities regulators in disclosing their budgets

There is also a clear line between the quality of the budgetary information produced by securities commissions compared to stock exchanges, with the latter performing relatively poorly in Australia, Hong Kong, India, and Korea. Exchanges that are more forthcoming include those in Japan, Malaysia, Singapore.

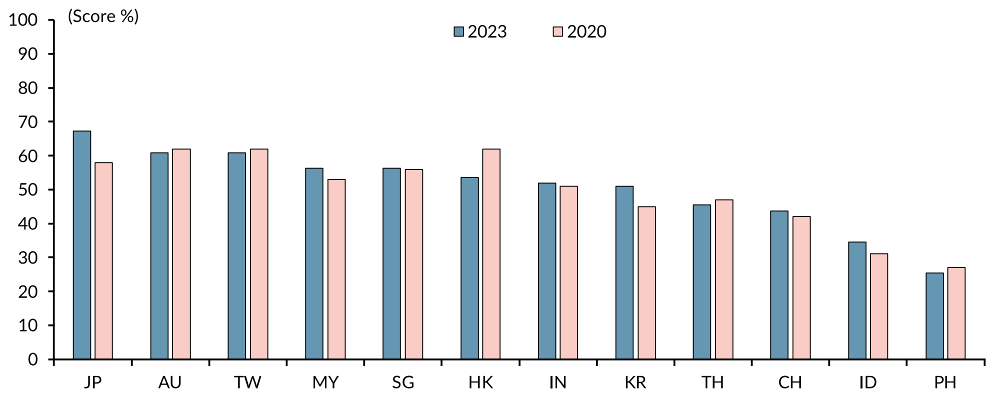
Getting information on money spent on tech and enforcement capacity is an issue

Information on investment in new regulatory technology as well as surveillance and enforcement capacity is also quite hard to come by in most places. Much has to be inferred from regulatory statements and limited data provided in interviews.

This is how markets score on funding, capacity and regulatory reform

Figure 4

Regulators - funding, capacity-building and regulatory reform: scores by market



Source: ACGA

We look at the effort being put into improving CG by regulators

Another major differentiator is this category is the question of regulatory effort: how much effort have the two key regulators been making to improve standards of corporate governance in the market over the previous two years? Again, we look at securities commissions and stock exchanges separately. Hong Kong lost ground on both questions, while Japan did better and Korea also improved. Taiwan slipped a little, but still scored well.

Consultations still leave much to be desired

Public consultations meanwhile are an ever-present source of frustration. Consultation papers often lack detail and/or the time permitted to respond is too short (only a few weeks) and/or the regulators have clearly decided what they think and are merely looking for public endorsement. It is a rare regulator who genuinely changes its mind and raises the bar following a consultation; if they make any changes, it is mostly to lower proposed standards in the face of resistance from the corporate sector and their attack dogs, the investment banks.

Regulatory websites remain a source of disappointment

It is also deeply disappointing that after such a long period of time, regulatory websites in several markets are still so poor at providing comprehensive and easy access to laws, regulations, and company reports and notices. Often the information is available, but hard to find. Or there is comprehensive company material, but it is only archived for three to five years. The markets that score highly here are mostly those which follow a common law system, namely Australia, Hong Kong, India, Malaysia and Singapore. But China and Thailand also perform well. Meanwhile, the good news is that some improvement can be seen in Japan, Korea and Taiwan.

Some markets are making headway on national electronic voting

The picture is almost the exact opposite when it comes to the development of national electronic-voting infrastructure ("straight through processing" that removes or reduces traditional custodian banking bottlenecks in the institutional voting chain). Japan led the way in this development, followed by Taiwan, Korea and India. Both Indonesia and China have also made strides.

Pre-IPO governance is still a missed opportunity

A final question, and one where most markets score extremely poorly, is the extent to which regulators and exchanges insist on listing applicants having well-established, effective, and independent systems of governance prior to listing. Most take a light touch here for commercial reasons. We continue to believe that this is a missed opportunity to have a discussion with listing applicants about the practical advantages of good governance.

2.2 Regulators: Enforcement

We take stock of whether regulation is robust and data gives a clear picture

In earlier versions of CG Watch, we combined both public (regulatory) and private enforcement (shareholder lawsuits and the exercise of other rights) into one category. We separated them in 2018 when we created our new seven-category, stakeholder survey. Given its importance, we felt regulatory enforcement deserved its own sub-category. There are 10 questions in this section and they range from the reputation of regulators for vigorous and consistent enforcement and whether or not their efforts are improving, to the powers of securities commissions and stock exchanges, enforcement track record over the previous two years, and the disclosure of detailed enforcement data. We also assess the extent to which conflicts of interest around the commercial and regulatory functions of stock exchanges are being minimised and whether financial regulators receive strong support from other law enforcement entities such as anti-corruption commissions, prosecutors, and the judiciary.

Australia and Hong Kong are the top scorers

Australia and Hong Kong shared equal first place here at 72%. This is a better outcome for Australia, which gained four percentage points and moved up from 4th in 2020. It is a respectable showing for Hong Kong, although its four-point fall in score may be a cause for concern going forward. Singapore came 3rd at 71%, followed by Taiwan at 70%. China came 5th at 69%, a five-point improvement in score (this has always been China's best category). Of the 12 markets, half improved in score, including also Indonesia, Korea and Malaysia. Taiwan held steady, while the remaining five fell slightly.

There has been a reasonable improvement on enforcement efforts

One of the positives on regulatory enforcement is that scores are materially and consistently higher than for regulatory funding, capacity building and CG reform. As we have said in previous editions of CG Watch, we believe that most regulators are trying to do their best with the powers they have, and have somewhat more autonomy over enforcement than reform and policymaking. This is reflected in the reasonably good scores on the extent to which enforcement efforts have improved and evolved. In contrast, we give lower scores for whether regulators - especially securities commissions - have a reputation for vigorous enforcement. This is partly the reality of regulation: cases can take years and people tend to dwell more on failures than success. But it is also because enforcement can often feel unbalanced, with the hammer falling harder on the small fry.

Regulators have extensive powers at their disposal

As for regulatory powers, most securities commissions have quite an extensive arsenal they can deploy if they choose to do so. We score nine of the 12 markets highly on this question. Those that rated poorly included Indonesia and the Philippines, while Japan scored moderately. Stock exchanges in general have reasonable powers to enforce their listing rules, with half rating high and the rest moderate.

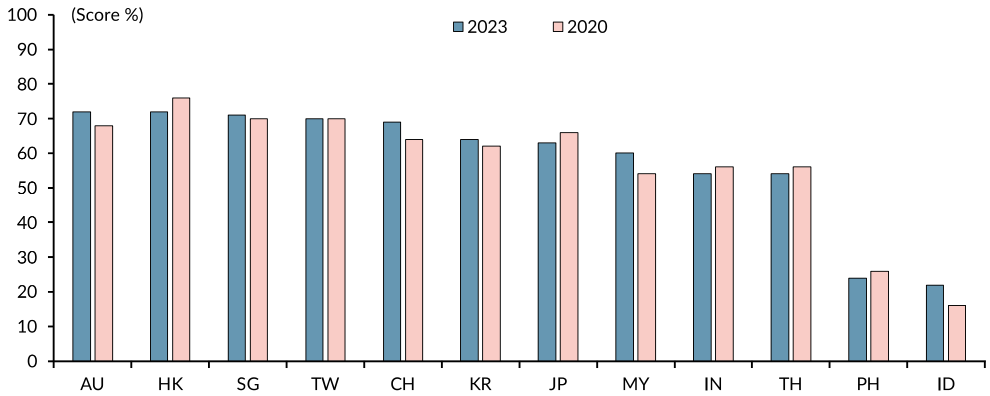
For-profit exchanges do not make the best regulators

Not surprisingly, markets are more differentiated on their enforcement track records. None of the securities commissions achieved full marks (each question is scored out of five), but Australia, China, Hong Kong and Singapore each scored 4 out of 5. Four more scored 3, including: Japan, Korea, Taiwan and Thailand. As for stock exchanges, they generally performed less well. We continue to believe that most exchanges are conflicted as regulators and their enforcement functions should be limited. Giving private, for-profit companies the power to regulate their customers is never going to produce the best possible enforcement outcomes.

These are the scores for enforcement

Figure 5

Regulators - enforcement: scores by market



Source: ACGA

The narrative on enforcement is mixed

The effectiveness of enforcement communication also varies considerably around the region, from the excellent (securities commissions in Australia, Hong Kong, Malaysia) to the good (China, India) to the average (Japan, Singapore, Taiwan, Thailand) and the poor (Indonesia, Korea and the Philippines). By and large, stock exchanges rate less well on this question, with the biggest gap seen in Australia. We continue to rate the ASX a poor 2 out of 5 for the paucity of the enforcement data it releases.

Stock market conflicts of interest remains an issue

Markets struggle too on mitigating conflicts of interest around their stock exchanges, with seven scoring poorly on this question. Notable here was a one-point drop for Hong Kong to 1 out of 5. More positively, most markets scored better on the extent of support financial regulators received from other enforcement arms of government.

3. CG rules

We look at the rules on paper

This is the sole thematic category in our survey—the others we refer to as "stakeholder" categories. In earlier versions of CG Watch, we assessed both rules and practices, marking scores down if a rule was on the books but poorly implemented by listed companies. When we created our new survey in 2018, we made this category purely about rules. Given the huge volume of new CG regulation in Asia since the Asian Financial Crisis, it is not surprising that scores here tend to be high.

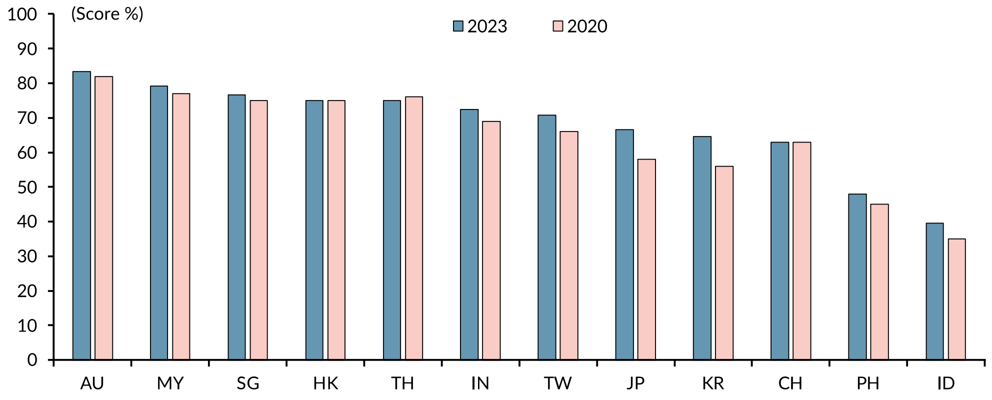
There are 24 questions in this category

This is also the largest category in our survey, with 24 questions ranging across various forms of disclosure (11 questions) to controls on director trading, related-party transactions and insider trading, and the existence of up-to-date CG codes of best practice for listed companies and stewardship codes for investors. We also assess the independence of audit and nomination committees, whether shareholders can easily nominate independent directors, and the fairness and transparency of shareholder meetings. Pre-emption rights for shareholders has also been a long-standing focus of our survey, while the ability of institutional investors to engage collectively with companies without the undue burden of concert-party rules is a more recent feature.

This is how the markets perform on CG rules

Figure 6

CG rules: scores by market



Source: ACGA

Typically markets score well in certain areas

While there are exceptions, markets generally score well in our survey in the following areas:

- Financial, CG, and sustainability reporting rules.
- Quarterly reporting: the exceptions being Hong Kong and Singapore.
- Substantial ownership (5% threshold): the historic exception being Taiwan, however it has now brought its regulations into line.
- Director trading disclosure.
- Regulation of insider trading.
- AGM notices: most markets now require or encourage final agendas to be released 28 days before meetings.
- Requirements for voting by poll at AGMs.
- Disclosure of material, non-public information (also called "continuous disclosure" or "price-sensitive information" in some markets).
- The ability of investors to undertake collective engagement without excessively restrictive concert-party rules: Japan continues to be the main exception here, although it is finally undertaking a review of this legislation.

There are still many areas where markets underperform

Areas where we continue to see significant differentiation include:

- Disclosure of share pledges.
- Blackout rules for director trading: Taiwan was a notable improver here.
- Controls on related-party transactions
- The quality and relevance of CG codes of best practice.
- The quality and relevance of stewardship codes for investors: the most surprising case here being that of Hong Kong, which brought out a code in 2016 but has not revised it since - unlike eight other markets that have ensured this is a live document.
- Director and key management remuneration disclosure.
- The ability of minority shareholders to nominate independent directors without having to meet high ownership thresholds.
- The protection offered minority shareholders during takeovers and voluntary delistings.

How independent directors are defined remains an ACGA bugbear

A lingering bone of contention since our first CG Watch in 2003 has been the definition of "independent director" in most listing rules. Asia imported this standard from the US and UK after the Asian Financial Crisis and crafted rules blending both principles and prescription. Predictably, it is the black letter of the law that issuers have tended to follow, allowing them to appoint people closely connected to the company as independent directors such as former executives and business partners or associates. The loophole they have used is the short cooling-off periods permitted for such groups. It is no wonder that more than 20 years later investors are still complaining about the independence of many independent directors.

The structure of board committees is still a major issue

Another challenging structural governance issue is the composition of board committees. Considerable progress has been made over the years in strengthening the independence of audit committees (ACs) and requiring their chairs to be independent directors. Ensuring all members of the AC are financially literate, however, is another matter.

The autonomy of nomination committees is questionable

Standards for the independence of nomination committees (NCs) are generally lower, although several markets do require chairs to be independent: Australia, India, Malaysia, Singapore and Thailand. Markets where we see a much less effective nomination process include: China, Hong Kong, Indonesia, Japan, Korea, the Philippines, and Taiwan. NCs are not widely used in Taiwan, while they are an optional extra in Japan for most issuers (which makes it even harder to assess their performance). Korea is unusual in that its nomination committees focus solely on outside/independent directors. And in Hong Kong, the rules allow the chairman of the company, usually the controlling shareholder, to chair the NC. This clearly undermines the purpose of creating an NC in the first place. Indeed, as we highlight in the next section on Listed Companies, there are questions as to whether NCs are making difference yet in Asian corporate governance.

4. Listed companies

We streamlined our survey on listed companies

We have created a new and more focussed survey of 14 questions for the Listed Companies section of CG Watch 2023, taking the 20 high-level questions from our 2020 survey, removing eight, and adding two (on nomination committees). We have also rewritten and updated the underlying scoring criteria. These changes have led to scores for most markets falling.

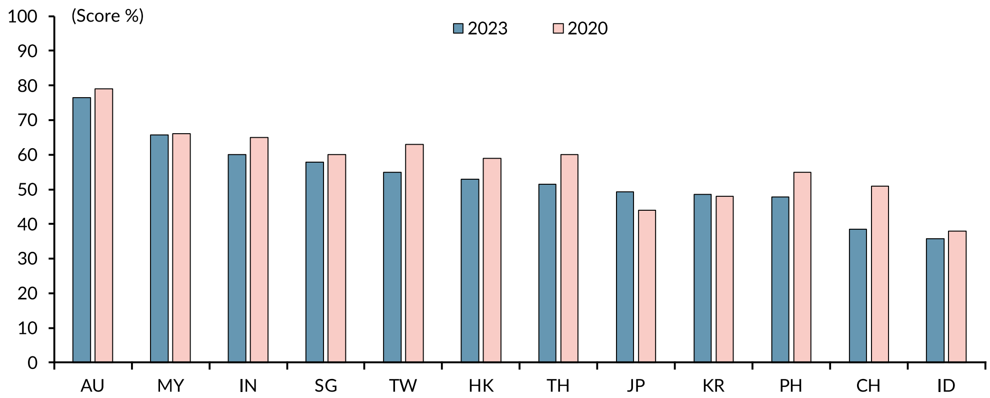
The survey looks at issuer disclosure on a range of CG topics

The survey is designed to assess both disclosure and governance practices among 180 large listed companies across the region. We start by looking at "CG disclosure", meaning reporting on what the board and its committees have done during the year, at the quality and breadth of sustainability reporting, and the openness of investor relations. There are a series of questions around board composition and effectiveness, including evaluation, director training, diversity policies and practices, and the existence or otherwise of independent chairs and/or lead independent directors. We are interested also in how independent directors are paid, and whether this compromises their positions, and the level of detail provided on director and executive remuneration. Remaining questions look at the financial expertise and independence of the audit committee and its relationship to internal audit. Finally, there are two questions on nomination committees: do they exist and are they independently led; and are there any women directors in the NC.

This is how the listed companies compare by market

Figure 7

Listed companies: scores by market



Source: ACGA

Australia ranks first, Singapore, Korea and Japan improve

Australia once again comes first in this category, though on a slightly reduced score, followed as before by Malaysia and India. Singapore improved from equal 5th to 4th, swapping places with Taiwan. Hong Kong and Thailand follow, both on lower scores as well. Then comes Japan, one of only two markets whose score increased (by five points), albeit from a low level. The other was Korea, which improved a point. The final three are the Philippines, China and Indonesia.

Issuers are releasing better information on ESG than CG

One of the starker trends in corporate disclosure over the past five to 10 years is the sharpening distinction between the quality of sustainability and CG reporting. Whereas the former is becoming increasingly sophisticated and fluid by going beyond broad ESG reporting and incorporating climate disclosure and a degree of financial analysis, CG reporting has stultified into a hard custard of boilerplate legalese, policy statements, and PR jargon. If you want to know what a board or board committee discussed during the year, or what contribution it made to the company, you will not find this in the average annual report. It seems clear that most issuers feel under no great pressure to give much narrative or colour as to what their boards actually do. In contrast they are under huge pressure - for good reason - to disclose their efforts on sustainability and climate. While we welcome the latter trend, the imbalance between these two types of reporting is surely unhealthy. How can investors assess the contribution of a board to a company's sustainability strategy and performance if they don't know what boards really do or why directors were appointed in the first place?

Listed companies are not good at going beyond what regulators require of them

The shallow nature of traditional board reporting extends to newer areas such as a requirement for skills matrices and board evaluation reports. The basics are reported, but not much more. Even in areas where disclosure rules have genuinely become more substantive, such as director pay, companies tend to divulge only what they must. For example, Taiwan's score for director remuneration disclosure has improved because rules have strengthened, but individual company scores remain low because the rules are not aligned with even regional best practice, let alone international. Only two companies out of 15 in Taiwan go beyond the minimum disclosure required. In contrast, scores for the same question in Australia, Hong Kong, Malaysia and some other markets are high - but only because the rules require a higher level of transparency. These same markets all scored poorly on questions where issuers had choice, such as board reporting, diversity policy and strategy, and director training.

Disclosure on internal audit is a bright spot

If all this is starting to sound excessively depressing, we did find some brighter spots. We were pleasantly surprised to see more reporting on internal audit, and its relationship to the audit committee and/or board, than expected. While not all markets demand that the chair of the nomination committee be independent, most of the 180 companies assessed follow this practice. It is promising to see the arrival of women directors in the NC, as we have found in other research that this is correlated to more women on the board in general. And we found that the pay of independent directors is freer of complicating factors that can compromise independence, such as stock options and the payment of bonuses or a percentage of earnings, than expected.

5. Investors

We ask 17 questions on the activities of domestic and foreign asset owners and managers

This is a broad category of 17 questions that takes into account the activities of three groups of investors: domestic institutional, foreign institutional, and domestic retail. Most questions focus on institutional investors, with the last four being on retail. What this means is that the efforts of foreign investors are incorporated into the score for each market. While this may seem somewhat counterintuitive, it reflects not just the commercial potential that international funds see in a particular market, but the range of shareholder rights they can utilise. These rights tend not to trump the realities of corporate ownership and control, however. This is no doubt why Hong Kong, despite having relatively strong shareholder rights, scores poorly in this category: changing the mind of a large controlling shareholder, family or state, is not easy. We would also argue that Hong Kong's tight-knit and conservative business community mitigates against any local asset owner or manager from becoming too active, lest such behaviour be branded as "aggressive".

The category considers how investors vote and engage

The specific questions in this category range from the CG and ESG policies that institutional investors adopt to the extent of voting (and voting against) and whether such investors are actively participating in AGMs. We look at the extent of investor activism, stewardship leadership (or the lack of it) by domestic asset owners, and the depth of both individual and collective engagement with companies. The remaining questions on institutional investors examine how well they are managing conflicts of interest, whether or not they are disclosing votes to the company and resolution level, and if any local proxy advisory firms exist.

Retail investors are also a core element of this analysis

The four questions on retail investors cover some of the same ground, namely participation in AGMs and the evidence of any activism. Two other questions assess the work of retail shareholder associations and whether such entities or others are willing to file lawsuits.

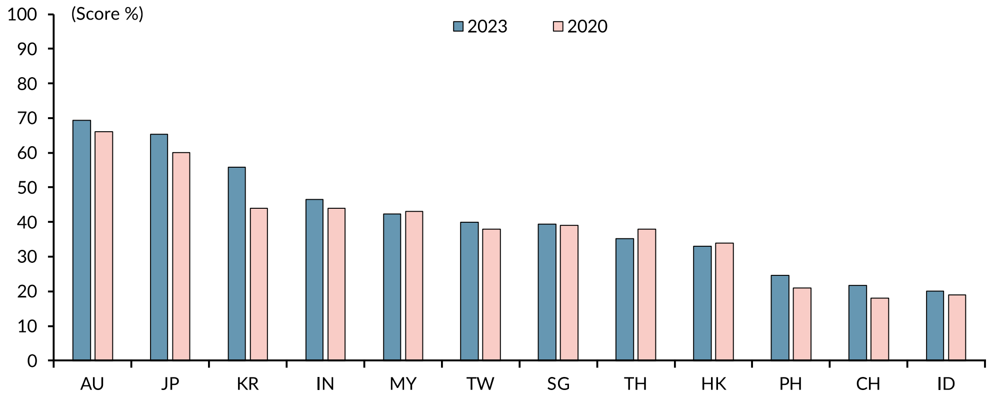
Japan closes the gap on Australia

There are no big surprises in the rankings for this category compared to 2020. Australia is still well out in front, with Japan steadily closing the gap. Korea retains 3rd place on a significantly improved score and is closing the gap with Japan. India moves from equal 3rd last time to 4th on a score that is essentially unchanged. Malaysia remains at 5th, while Taiwan moves up to 6th on a slightly improved score. Singapore slips to 7th and Thailand drops to 8th. Hong Kong comes in again at 9th, followed by the Philippines, China and Indonesia. The bottom two markets swap places.

This is how investors perform by market

Figure 8

Investors: scores by market



Source: ACGA

Domestic investors have a mixed track record on stewardship

Long after the Global Financial Crisis, more than a decade since the UK released its first "stewardship code" for investors, and nine years since Japan and Malaysia published the first stewardship codes in Asia, one would have expected that domestic institutional investors would be hard at work explaining how they are raising standards of governance among companies to protect their beneficiaries/clients and strengthen the integrity of capital markets. This is indeed happening in certain markets, notably Australia, India, Japan, Korea, Malaysia, Taiwan and Thailand. Investors in all these places make public their policies on CG, voting, and ESG - in some cases voluntarily, but primarily because they are required or encouraged to do so. We do not find the same level of transparency in other markets.

Foreign investors are active stewards in the larger markets

The picture for foreign institutional efforts in Asia-Pacific follows a somewhat different pattern. Efforts to raise governance standards are greatest in markets that are both large and open to investor engagement, hence Japan scores highest on this question. The next two highest scoring markets are Hong Kong and Singapore, not so much because companies are more open to engagement, rather because they are international financial centres and home to many regional HQs. Investors in these cities use them as a springboard for work around the region as well as locally. Conversely, we find relatively less involvement of foreign investors in the CG debate in mid-sized markets such as Australia, Korea, Taiwan and Thailand. And even less, at this stage, in India. However, we think this may change.

Foreign investors tend to vote more

Voting has long been a central element of investor involvement in corporate governance and here we assess not only the extent of voting but whether investors are prepared to vote against resolutions with which they disagree. Broadly, scores are higher for foreign investors, although domestic funds rate well in Australia, India, Japan, and Korea; and we are seeing improvements in China, Hong Kong and Taiwan.

It is disappointing to see lower participation in physical AGMs

Physical participation in annual general meetings (AGMs) remains notably low for both categories of investors across all markets. We understand the capacity constraints that institutions face and appreciate that domestic asset owners and managers are often constrained from asking hard questions at such meetings. But we continue to believe this is an opportunity missed. Putting reasonable and thoughtful questions to directors, senior managers and auditors in person and in public would be a catalyst for improved governance in our view. Private meetings with companies during the year are important, but not a substitute for a public discussion. The two are complementary.

Investor activism is still limited in the region

The presence of institutional activist funds is strikingly limited across the region. Only Japan and Korea score highly. Also scarce is clear leadership on responsible investment by domestic asset owners. The highest scoring market here is Australia, followed by Japan, Korea and Malaysia.

Company engagement by domestic investors is strongest in Australia

Markets also vary in terms of the depth and breadth of both individual (single-fund) and collective (multiple-fund) engagement with listed companies. Australia scores highest among domestic investors, in part because it has investor organisations and alliances that help to facilitate collective engagement; these efforts complement the extensive individual engagement that investors do. India and Malaysia both score moderately well (3 out of 5), because we see some collective as well as individual engagement; while Japan, Korea and Taiwan only get a passing mark (2.5) - homegrown collective engagement is scarce. Scores for foreign investors on engagement are higher in most markets, though lower in Australia, India, Malaysia, Taiwan and Thailand.

Firm-level policies on stewardship conflicts of interest are rare

A critical element of any stewardship code is the section on managing conflicts of interest. We looked for evidence that domestic institutions are working actively on this and, sadly, only found clear and relatively compelling answers in Australia and Japan. Quite a few investment organisations focus their conflict policies on individual staff members. Far more important are firm-level policies and internal governance structures.

Investors in India and Korea are best at disclosing how they vote

Another feature of modern stewardship codes is a requirement to disclose voting not just in aggregate during the year (ie, total votes for, against or abstain across all company meetings), but down to the individual company and resolution level. The best performers here are India and Korea, followed by Japan and Thailand, and then Australia. A differentiating factor is whether investors are required to disclose why they voted against resolutions and whether these explanations are meaningful.

Home-grown proxy advisors exist in a few markets

The last question on institutional investors tracks whether proxy voting advisors are based in a market and whether any of them are local. The highest scorers are Australia and India, followed by Japan and Korea. China deserves a mention too for having a new homegrown advisor that is building credibility.

The rise of the retail investor in Australia, Japan and Korea buoys score

As for the retail shareholder space, a key point to make is that this sub-category did make a material difference to the overall score each market received in our survey. Thus Australia and Japan owe their leading positions in part to the presence of active retail shareholder entities and individuals. Korea bolstered its score and held onto 3rd while Malaysia maintained its 5th ranking thanks also to the efforts of such groups. Indeed, Korea is the market that has seen the biggest change in this area over the past three years. Taiwan is also performing respectably and rose in ranking from 7th to 6th thanks to high scores for retail participation.

Retail activists outnumber institutional ones in Singapore and India

Whereas in most markets there is a broad correlation between the level of involvement of institutions and retail shareholders in corporate governance, two places buck the trend. India, where there is little retail activity compared to the burgeoning institutional efforts. And Singapore, which has long had a much more active retail community than institutional.

We narrowed the range of questions in this category

6. Auditors & audit regulators

This category has been simplified to 10 questions since our last survey in 2020. It covers firstly a group of questions relating to accounting and auditing standards, the independence of auditors, disclosure of audit and non-audit fees, and the adoption of the key-audit matter (KAMs) standard. The second group looks at the performance and transparency of independent audit regulatory bodies in each market. We removed four questions relating to the quality of internal account preparation and auditing in both large- and mid-cap companies: finding the right data proved to be an excessively complex exercise and we concluded it would be best for focus on questions where more objective information is available.

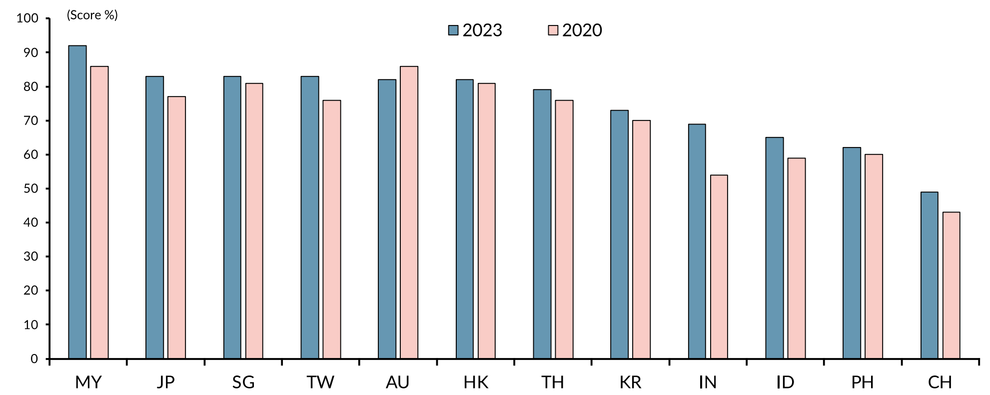
Markets are generally doing better across the board

This has long been one of the highest scoring categories in our survey and, as the chart below shows, almost all markets are gradually rising in score. This reflects the fundamental importance of auditing to capital markets and the increasing powers being given to audit regulators. The one jurisdiction bucking the trend is Australia. It has fallen in rank from equal 1st in 2020 with Malaysia to equal 5th this year with Hong Kong.

These are the scores for auditors & audit regulators

Figure 9

Auditors & audit regulators: scores by market



Source: ACGA

There was no drastic improvement in standards

In the area of standards, there were few changes in scores from our last survey for most markets. Japan did slightly better on accounting standards as more issuers adopt IFRS, certain auditing standards not adopted in 2020 have now been added to the rulebook, and got a small bump for the deeper adoption of KAMs - though the average number of KAMs per audit report is a strikingly low 1.3! Most markets have been two to four. Taiwan meanwhile received a boost for updating its code of ethics and improving the narrative around non-audit fees. And Korea received a higher score for auditor independence, partly the result of the government's intervention in recent years on behalf of the auditing industry under the amended External Audit Act. Anecdotally, auditors report more freedom to set reasonable fees and feel able to do their work more effectively.

Progress is being made in the area of audit regulation

We recorded more changes in the audit regulatory area. Audit oversight boards and related regulatory bodies have been getting more powers in Hong Kong, Japan, and Singapore. We also added a point to Korea to correct a mistake from our 2020 survey regarding auditor registration. Less positively, we lowered the score for Australia to reflect the weaker role that ASIC plays in audit regulation compared to its regional counterparts: it is more limited in what it can do regarding the inspection of audit firms and has weaker disciplinary powers against firms. Unlike several other markets, moreover, Australia's score for effective disciplinary control over the auditing industry is not increasing.

Australia loses points for weaker inspection

We cut further points for Australia on the publication of inspection and industry capacity reports from the audit regulator. ASIC has materially reduced the scope of its inspection of audit files, while a positive trend in 2019 towards the publication of audit industry quality measures has been dropped. In contrast, leading Asian markets are upping the ante across the board on audit regulation: more systematic inspections of firms and audit engagement files; improved disciplinary action and disclosure of such action; and efforts to raise audit quality with the use of audit quality indicators (AQIs) and audit firm transparency reports. One regulator, the Thai SEC, is taking an innovative approach and encouraging the big CPA firms to allow publication of their annual inspection reports (as undertaken by the regulator).

7. Civil society & media

This is a small but crucial category in the CG ecosystem

Although the smallest category in our survey with only nine questions, civil society groups and the media play an essential role in the CG ecosystem. Non-profit entities take the lead on director and company secretarial training in most markets and can have a positive impact on public policy. Professional associations and industry bodies can be a catalyst for improved governance, if they choose to do so, or can be a significant obstacle. Original research on CG tends to come from either professional bodies and academic institutions, or not at all. And the media's impartiality and skill in writing about governance directly influences how most people view any particular market. Few go to original sources, such as regulatory and company reports, to understand underlying governance trends and enforcement effectiveness.

Generally there were no big changes here . . .

For the most part there were few dramatic changes in the rankings of markets this year, although quite a bit of reshuffling. Australia retained 1st place over India at 2nd, although the latter lost a few points (partly due to a more constrained media). Japan and Singapore swapped 3rd and 4th places, respectively. Japan gained mostly on the quality of its media coverage. Taiwan came 5th with the same score as previously, while Malaysia moved up to 6th on a higher score. With a change to a more liberal government, it also saw a slightly improved media score. Most of the lower ranked markets meanwhile held their positions.

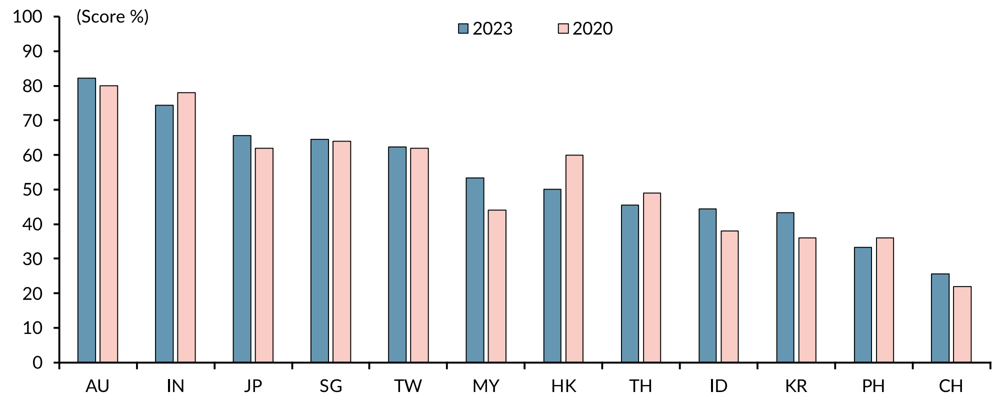
. . . with the exception of Hong Kong

The main exception in this category was Hong Kong, which dropped one rank from 6th to 7th but on a much-reduced score of 50%. It gained points on two questions: the quality of director and company secretarial training. But it lost on six others: the extent to which professional associations and business chambers are promoting CG and ESG; the involvement of non-profit entities in furthering governance; how active all these groups are in regulatory consultations; the depth of academic research; and media coverage of CG issues.

Hong Kong dropped one rank from 6th to 7th on a much-reduced score of 50%

Figure 10

Civil society & media: scores by market



Source: ACGA

Conclusion

Markets with a reform agenda are improving

While we take great effort in scoring each category in isolation, growth or decline in one area will inevitably reflect the overarching depth of CG policymaking, robust supporting institutions, and appetite for reform within a particular market. What became stark this year is that markets with a pacier reform agenda, and with more agents of change - be it institutional investors putting forward myriad shareholder proposals, or retail punters pushing for improvement - are gaining the most ground, shaking up the status quo.

We realise history may prove us wrong in our optimism . . .

As we say from the outset, CG Watch is a snapshot in time. We have no control over the events of the next 24 months and realise how a changed political environment or pivot in priorities could quickly skew our results. Hong Kong has been a good example of how quickly things can change, and upcoming elections in markets such as Japan and Korea may yet steer CG developments in a different direction.

. . . but we live in hope!

Against the backdrop of our CG Watch research, we chose the theme of our recent 22nd annual conference in Mumbai as "The Future of Governance: Asia's fork in the road." It felt appropriate to shape the narrative of the conference in this context. We have a new order of market rankings, and the story we are telling in this CG Watch is that change is in the air. It brings renewed hope that this could be a turning point for the region.

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Transport and diversity top the league

CLSA's updated bottom-up CG scores shows that transport & infrastructure tops the overall ranking. Comparing this year's CG score from that in 2020, our analysis shows corporate governance in Asia has improved by 3.1ppts. We have also added ACGA market scores as one of the categories, which led to an about 1-2ppt reduction compared to 2020 across the industries.

Examining our CG scores by key thematic characteristics of ownership as well as gender diversity, we found that gender-diverse (over 30% female management or board composition, or have a female CEO) firms have the highest CG scores, followed by privately-owned enterprises (POEs), large caps and manager-run companies. Interestingly, state-owned enterprises (SOEs) have the lowest CG scores, larger caps have better disclosure and board diversity, manager-run companies see more timely disclosure and better chairman independence than founder-run firms.

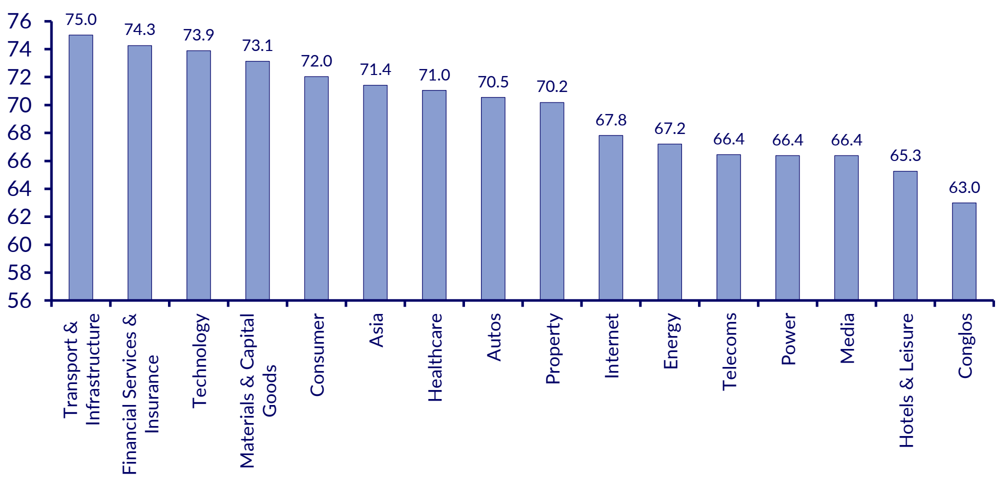
Sectoral analysis shows transport moving to the top spot

Transport & infrastructure top; conglomerates bottom

CLSA's bottom-up CG scores shows that transport & infrastructure tops the ranking overall, followed by financial services & insurance, technology, and materials & capital goods, while the conglomerates sector ranks at the bottom.

Figure 11

Latest CLSA CG score by sector



Source: CLSA

Our coverage has increased 5% in terms of total number of companies, with consumer, financials seeing market cap growth at scale, while Technology sector shrunk

Our scores are aggregate of our coverage universe across 13 sectors and 12 markets. Among these, the financial services & insurance sector holds the highest market capitalisation, while the hotels & leisure has the lowest market capitalisation. Over the period from 2020 to 2023, the number of companies covered by our analysts increased from 1,183 to 1,246(up 5%). Additionally, the market capitalisation of the companies we covered has increased 9%, rising from US$14,703.1bn to US$15,962.7bn. It is interesting to observe the significant increase in market capitalization in material and transport sector, even adjusting the impact from adding more coverage in the sector. On the other hand, technology recorded 8% drop in market cap even with the increase in coverage by 28% over the same period.

Click to rate this research

Great

Solid

Meh

Figure 12

Breakdown of coverage and comparison with 2020

Sectors	Number of companies				Mkt cap (US$bn)				Number of countries
	2023	2020	% change	% of total no. of companies	2023	2020	% change	% of total mkt cap	
Autos	53	43	23	4	1,061.0	810.4	31	7	8
Consumer	244	229	7	20	2,819.6	2,166.1	30	18	12
Healthcare	97	80	21	8	835.9	714.3	17	5	11
Energy	27	43	(37)	2	541.4	924.8	(41)	3	8
Power	31	52	(40)	2	329.5	506.8	(35)	2	8
Property	125	153	(18)	10	638.1	635.0	0	4	10
Technology	171	134	28	14	2,293.9	2,495.2	(8)	14	10
Financial & insurance	150	115	30	12	3,200.7	2,773.8	15	20	11
Hotels & leisure	31	35	(11)	2	204.8	188.6	9	1	10
Materials &capital goods	141	118	19	11	1,167.4	776.7	50	7	11
Transport & Infra	43	40	8	3	257.5	195.1	32	2	10
Internet, media & telcos	102	108	(6)	8	2,213.0	2,197.9	1	14	11
Conglomerates	31	33	(6)	2	399.9	318.4	26	3	9
Total	**1,246**	**1,183**	**5**	**100**	**15,962.7**	**14,703.1**	**9**	**100**	

Source: CLSA

Incorporate ACGA Market Score into CLSA ESG scoring framework

Incorporating sovereign CG risks through ACGA

In 2023, we have made major changes in our broader ESG score by significantly expanding our environmental and social indicators. We discuss the broader relationship between our governance and ES scores in the last section of this report. As part of the upgrade, we have added market governance scores provided by ACGA. We have given 10% weighting to it within CG, on top of the existing five categories of corporate governance. The rationale is simple, that the regulators and policies play a critical role in defining the corporate governance.

Figure 13

CLSA CG score equation

$$(\boldsymbol{ACGA\ Market\ Score}\ \times 10\% + \boldsymbol{Discipline}\ \times 18\% + \boldsymbol{Tranparency}\ \times 18\% + \boldsymbol{Independence}\ \times 18\% + \boldsymbol{Responsibility}\ \times 18\% + \boldsymbol{Fairness}\ \times 18\%)$$

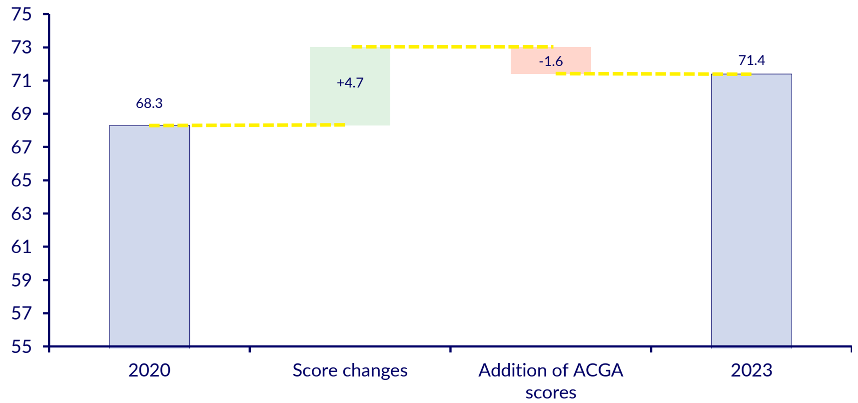
Source: CLSA

Asia CG score up from 68.3 in 2020 to 71.4 in 2023

As a result, there is 1.6ppt reduction effect on overall corporate governance scores when compared to 2020. This is partly because all ACGA market scores are relatively low, at below 65, except for Australia.

Figure 14

Breakdown of CLSA CG score changes, compared to 2020

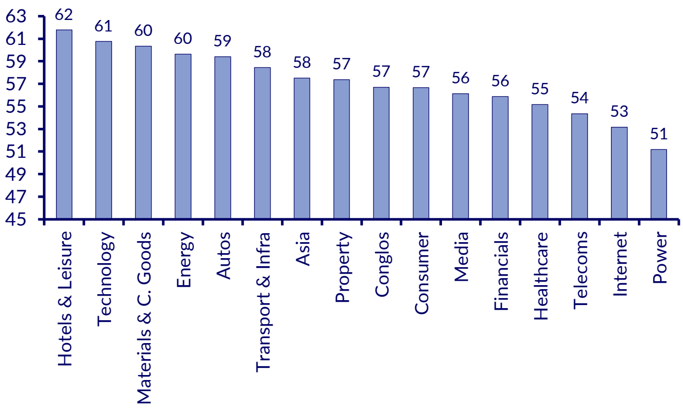


Source: CLSA

How would ACGA's market scores square when it comes to sectors? By assigning ACGA's market scores to individual companies and regrouping them by sectors, we were able to generate sector ACGA scores, which shows that hotels & leisure ranks the top, while the power sector at the bottom. Of course this could simply reflect the industry concentration in markets which ranks higher in ACGA's market scores, such as Australia whose major listed companies (that CLSA covers) hail from sectors such as energy, material and capital goods. Hence there is no correlation between ACGA's sector scores and CLSA's bottom up CG scores as shown in Figure 16 below. Nonetheless, this is interesting to observe and compare its relationship with CLSA's bottom-up CG scores, which puts transport & infrastructure at the top and conglomerates at the bottom.

Figure 15

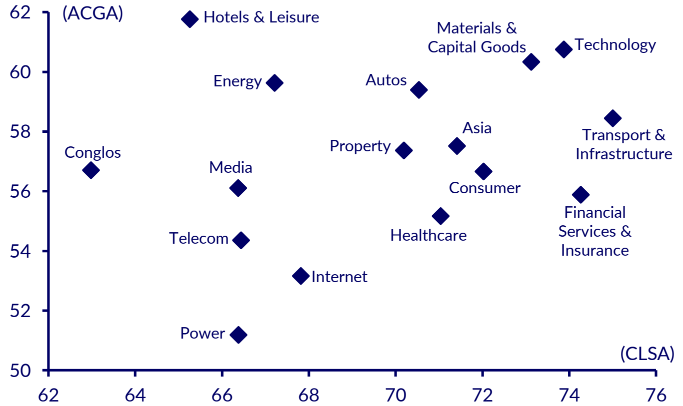
ACGA score by sectors



Source: CLSA, ACGA

Figure 16

ACGA market score vs CLSA CG score by sectors



Source: CLSA, ACGA

Besides ACGA score addition by markets, we made no changes to the questions. We have 24 questions on the five principles of corporate governance: transparency, fairness, responsibility, independence and discipline, which comprise 90% (18% for each pillar) of the total CG score.

We retain our existing CG pillars

Figure 17

CLSA CG watch questionnaires and design

Sections	Number of questions	Core issues addressed
Discipline	6	Management sticks to clearly defined core businesses with discipline, does not harm the interests of shareholders and is free from government interference.
Transparency	5	Management provides timely disclosures without controversial accounting and provides good access to senior management.
Independence	6	Board acts in an independent way, with proper checks and balance mechanisms through independent audit committees including board diversity measures.
Responsibility	3	Management's interests are aligned with the listed company and there has been no misconduct by management or related party transactions which harmed the interests of minority shareholders.
Fairness	4	There has been no conflict of interests between board and senior members and the company does not have a weighted vote structure, with fair compensation.
Total	**24**	

Source: CLSA

Sustain Asia

Transport & infrastructure ranks top; conglomerates at the bottom

Dissecting the result further

Among all sectors across Asia, we see transport & infrastructure, financial services & insurance and technology sectors scoring rank top in total CG scores. On the opposite end, conglomerates had the lowest average as it ranked bottom in discipline and transparency.

Figure 18

Sector CG scores by pillar

Sector	Total Governance	ACGA Market Score	Discipline	Transparency	Independence	Responsibility	Fairness
Transport & Infrastructure	75.0	58.5	69.1	84.2	65.4	76.9	88.6
Financial Services & Insurance	74.3	55.9	66.8	83.6	65.1	73.5	92.5
Technology	73.9	60.8	72.8	72.7	56.0	84.8	90.4
Materials & Capital Goods	73.1	60.3	72.1	79.8	60.5	71.2	89.1
Consumer	72.0	56.7	67.7	74.8	58.3	79.6	88.3
Asia	71.4	57.5	65.7	78.3	57.5	74.5	88.7
Healthcare	71.0	55.2	59.4	76.6	54.3	83.8	89.8
Autos	70.5	59.4	74.3	80.7	46.4	70.4	87.1
Property	70.2	57.4	63.3	82.6	55.6	66.2	90.4
Internet	67.8	53.2	58.2	78.6	50.8	86.7	72.9
Energy	67.2	59.6	55.1	76.1	58.1	58.8	92.2
Telecoms	66.4	54.4	57.2	86.2	53.4	52.9	89.2
Power	66.4	51.2	53.7	81.9	59.5	55.7	89.5
Media	66.4	56.1	57.0	78.9	45.4	75.4	80.8
Hotels & Leisure	65.3	61.8	54.2	74.4	58.9	54.2	86.6
Conglos	63.0	56.7	46.5	72.4	54.8	59.4	85.3

Source: CLSA

Transport & infrastructure sector outperformed the Asia average in most pillars

When examining the pillars of CLSA CG scores, the transport & infrastructure sector, which has the highest CG score, outperformed the Asia average in every pillar except for fairness. Notably, transport & infrastructure excels in independence, surpassing the Asia average by 7.9ppts. Our analysts are generally less concerned regarding the independence of the chairman (CG12) and believe a relatively high proportion of companies in this sector have an effective and independent audit committees (CG13). Our analysts also think these companies show more effort in bringing more diversity to their board as compared to the Asia average (CG17), provide investors with good access to senior management (CG11) and with a relatively higher proportion of companies disclosing a reasonable return on capital targets for investors (CG06).

Figure 19

CLSA CG scores by market and sector

2023	Australia (165)	China (249)	Hong Kong (36)	India (158)	Indonesia (45)	Japan (238)	Korea (102)	Malaysia (69)	Philippines (50)	Singapore (39)	Taiwan (56)	Thailand (35)	Average
Autos (53)	91.5 (1)	69.7 (7)	67.7 (1)	75.3 (12)	-	71.0 (21)	60.9 (8)	71.7 (2)	-	-	67.2 (1)	-	70.5
Conglomerates (31)	94.5 (1)	-	60.7 (5)	89.9 (1)	64.8 (1)	82.3 (6)	52.9 (7)	-	42.4 (5)	64.7 (5)	-	-	63.0
Consumer (240)	83.9 (34)	64.4 (59)	79.9 (7)	80.5 (24)	61.6 (10)	80.3 (50)	60.3 (14)	76.5 (9)	46.4 (10)	62.5 (3)	70.5 (9)	60.3 (11)	72.0
Energy (27)	72.4 (3)	-	-	63.2 (8)	55.2 (1)	73.9 (3)	57.4 (3)	73.0 (3)	-	-	-	70.6 (6)	67.2
Financial Services & Insurance (150)	89.0 (23)	67.5 (34)	84.8 (3)	78.9 (36)	69.6 (7)	82.6 (3)	56.4 (13)	81.1 (10)	54.8 (6)	80.3 (3)	82.2 (1)	70.1 (11)	74.3
Healthcare (97)	86.5 (13)	67.3 (38)	-	69.6 (14)	62.7 (2)	76.0 (14)	60.8 (9)	72.2 (4)	-	72.0 (1)	-	69.1 (2)	71.0
Hotels & Leisure (31)	82.4 (7)	54.4 (1)	69.2 (7)	69.5 (1)	-	62.5 (5)	57.0 (5)	40.4 (2)	49.2 (2)	61.5 (1)	-	-	65.3
Internet (53)	85.2 (4)	64.3 (25)	73.4 (1)	-	64.3 (2)	74.2 (14)	57.4 (6)	-	-	59.7 (1)	-	-	67.8
Materials & Capital Goods (141)	87.4 (35)	70.5 (20)	-	71.4 (20)	55.2 (6)	74.5 (30)	50.8 (11)	74.5 (6)	49.3 (5)	72.5 (4)	78.1 (2)	75.6 (2)	73.1
Media (19)	-	-	-	68.3 (7)	58.2 (1)	62.6 (1)	72.5 (6)	70.7 (1)	24.8 (1)	-	-	65.8 (2)	66.4
Power (31)	-	68.2 (7)	-	71.4 (12)	50.1 (2)	78.3 (2)	-	70.9 (3)	50.9 (5)	-	-	-	66.4
Property (125)	87.0 (18)	56.7 (20)	69.8 (11)	69.8 (11)	69.5 (6)	78.0 (24)	-	72.1 (10)	51.9 (12)	69.6 (13)	-	-	70.2
Technology (171)	90.9 (16)	73.1 (26)	-	86.3 (3)	-	72.8 (53)	64.9 (18)	67.8 (8)	-	76.8 (3)	73.0 (43)	82.5 (1)	73.9
Telecoms (30)	85.9 (3)	48.7 (3)	-	76.4 (5)	57.4 (5)	76.9 (4)	70.5 (1)	57.2 (4)	51.0 (3)	80.3 (2)	-	-	66.4
Transport & Infrastructure (43)	89.0 (7)	70.2 (9)	63.2 (1)	80.6 (4)	66.1 (2)	75.6 (8)	54.6 (1)	73.4 (7)	62.0 (1)	72.8 (3)	-	-	75.0
Average	86.7	66.3	71.5	74.8	62.3	75.5	59.5	72.0	49.3	70.5	72.8	67.4	71.4

Note: Numbers in (*) denotes sample size. Source: CLSA

Conglomerates sector ranks at the bottom in both discipline and transparency

The conglomerate sector ranks at the bottom in both discipline and transparency pillars. In the discipline pillar, the sector demonstrates a significant weakness, scoring 19.2ppts lower than the Asia average. This is structural as conglomerates by definition have diverse sets of business. The point whether there are criteria and capital returns target that drive the decision is logical and adequately disclosed. This is the area that our analysts struggle. Our analysts have raised various concerns including management's adherence to the company's core business (CG01), their understanding of the company's true cost of capital (CG02) government interference that may hurt shareholder interests (CG05), as well as related party transactions that could harm interests of non-controlling shareholders (CG19). In terms of transparency, our analysts have noted a lack of disclosure regarding major or price-sensitive information from conglomerates (CG10).

Transport & infrastructure, and power improved the most

In terms of improvement compared to 2020, it showed 3.1ppts improvement, following the 5.2ppts improvement between 2018 and 2020. These changes include ACGA score addition which had about 1-2ppt reduction effect compared to 2020 across the industries.

Responsibility and independence pillars are the major driver behind Asia's improvement

Pillars that improved the most across Asia are responsibility (+6.9ppts), independence (+5.4ppts). Our analysts see improvement in the effectiveness and independence of the audit committee (CG13), diversity of board members (CG17), as well as independence of chairman (CG12). They are also more confident in management's understanding of company's cost of capital/capital allocation (CG02) and are less concerned about controlling shareholders' interest alignment with non-controlling shareholders (CG20).

All sectors has improved CG except for the healthcare

Figure 20

CG category changes vs 2020 by sector

Sector	Discipline	Transparency	Independence	Responsibility	Fairness	vs 2020
Transport & Infrastructure	13.0	4.2	14.0	6.7	7.5	7.2
Power	2.2	8.1	9.8	8.9	13.0	6.7
Conglo	1.5	2.3	10.4	6.8	15.6	6.6
Financial Services & Insurance	9.3	3.7	7.0	9.7	3.9	4.7
Consumer	3.0	4.6	6.2	6.3	4.0	3.1
Asia	4.0	2.9	5.4	6.9	4.0	3.1
Technology	2.5	2.1	6.3	8.5	1.6	2.7
Property	5.7	3.6	(0.4)	6.2	5.4	2.7
Autos	5.0	3.0	8.5	(3.7)	3.1	1.9
Internet, Media & Telecoms	0.6	3.3	2.3	7.1	0.2	1.3
Materials & Capital Goods	1.7	0.7	5.9	2.7	0.8	0.9
Hotels & Leisure	(2.5)	(1.2)	5.8	(4.5)	4.3	0.0
Energy	(4.2)	1.3	7.3	(1.2)	0.9	0.0
Healthcare	(2.3)	0.8	(0.1)	4.8	2.8	(0.6)

Source: CLSA

Transport & infrastructure sector is the largest improver

All sectors saw improvement compared to 2020 except for the healthcare sector, with transport & infrastructure being the largest improver (+7.2ppts), followed by power (+6.7ppts), conglomerates (+6.6ppts), and financial services & insurance (+4.7ppts).

Transport & infrastructure's improvement is mainly driven by independence and discipline. Compared to 2020, our analysts are more confident in the management's understanding of company's cost of capital/capital allocation (CG02), effectiveness and independence of audit committees (CG13), diversity of board members (CG17) and timeliness of disclosure of price-sensitive information (CG10). They also see less evidence of conflict of interest on the board or among senior management (CG21).

Power sector is the second most CG improvement

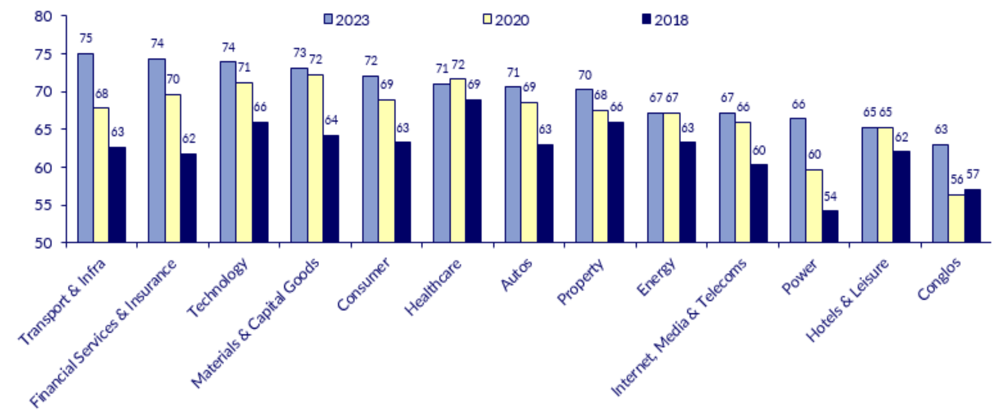
Power sector is the second most CG improvement versus 2020, driven by fairness and independence pillars. In particular, our analysts see improvements in timeliness of publishing audited full year results (CG07), board diversity (CG17). They are also more confident in management's understanding of cost of capital/ capital allocation (CG02) and the fairness of board/executive compensation (CG24), while also see less evidence in conflicts of interest on the board or among senior management (CG21).

Transport & infrastructure sector has made significant leap from the 7th to the top

Figure 21

Ranking and score changes by sectors over the years

Rank	2023	2020	2018
Transport & Infrastructure ↑	1	7	3
Financial Services & Insurance ↑	2	4	10
Technology ↓	3	2	4
Materials & Capital Goods ↓	4	1	1
Consumer ↑	5	6	7
Healthcare ↓	6	3	2
Autos ↓	7	5	8
Property ↑	8	9	5
Energy ↓	9	8	6
Internet, Media & Telecoms	10	10	11
Power ↑	11	12	13
Hotels & Leisure ↓	12	11	9
Conglos	13	13	12



Source: CLSA

Figure 22

2023 vs 2020 CLSA CG scores by market and sector

2023 vs 2020	Australia	China	Hong Kong	India	Indonesia	Japan	Korea	Malaysia	Philippines	Singapore	Taiwan	Thailand	Average
Autos	-	(2.3)	(0.9)	4.3	-	2.4	(2.6)	9.5	-	-	(2.4)	-	1.9
Conglomerates	-	-	10.6	6.6	(3.2)	4.5	5.3	-	(3.9)	1.6	-	-	6.6
Consumer	(4.0)	0.1	4.2	7.6	10.9	4.5	2.2	0.5	(5.1)	(2.2)	6.4	5.2	3.1
Energy	(8.7)	-	-	6.2	4.6	(6.9)	(1.5)	1.1	-	-	-	(2.4)	0.0
Financial Services & Insurance	5.4	1.9	(5.8)	6.0	5.5	0.4	3.5	4.0	3.8	(3.5)	-	(1.0)	4.7
Healthcare	(2.1)	(2.2)	-	(0.5)	1.8	(0.7)	3.5	2.9	-	2.3	-	(7.1)	(0.6)
Hotels & Leisure	4.4	-	0.5	(1.1)	-	2.4	2.3	2.3	4.2	0.2	-	-	0.0
Internet, Media & Telecoms	(1.9)	6.5	-	1.7	(0.7)	6.8	(3.2)	(5.6)	(6.3)	(0.4)	-	(1.2)	1.3
Materials & Capital Goods	0.8	(1.9)	-	5.0	6.5	(3.2)	0.8	1.4	2.8	5.3	5.5	2.7	0.9
Power	-	17.6	-	6.9	22.1	(1.5)	-	2.5	(1.9)	-	-	-	6.7
Property	2.6	(1.5)	6.6	3.7	17.6	1.2	-	0.6	0.6	(2.2)	-	-	2.7
Technology	0.9	13.0	-	1.8	-	1.4	3.2	1.9	-	7.8	1.1	-	2.7
Transport & Infrastructure	(4.4)	-	10.9	11.3	15.2	4.7	(3.0)	4.4	10.1	5.0	-	-	7.2
Average	0.6	4.1	5.8	4.9	8.9	2.1	1.4	1.9	(1.2)	(0.1)	3.0	1.0	3.1

Source: CLSA

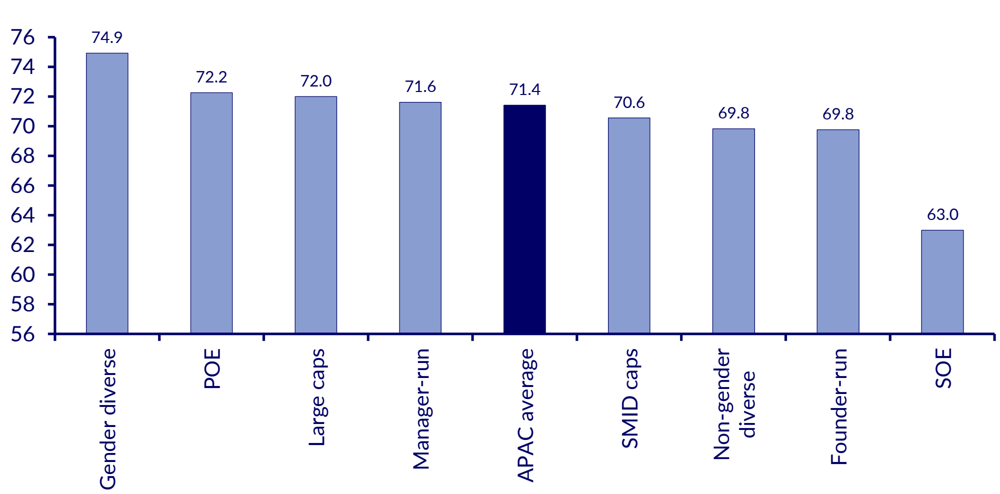
CG scores by different thematic characteristics

What specific corporate characteristics contribute to better corporate governance in Asia? In this edition of CG Watch we have cross examined CG scores by key thematic characteristics of ownership. We specifically break the characteristics by four different angles. 1) Government owned (SOE) versus private owned(POE), 2) founder versus manager-run, 3) gender diversity, 4) large- versus small-mid market capitalisation. Overall we analyse that gender diverse (over 30% female management or board composition, or have a female CEO) firms has the highest CG scores, followed by POE and large caps and manager run. Interestingly SOE had the lowest CG scores, with China and India seeing the largest gap between the two. Larger caps have better disclosure and board diversity, manager-run companies see more timely disclosure and better chairman independence than founder-run companies, and gender diverse companies outperform in independence pillar.

Gender diverse companies top the rank; SOE ranks at the bottom

Figure 23

CG Score by thematic categories



Source: CLSA

Gender diverse companies outperform

Companies with a fair share of female in management or board would tick the box for diversity, but do they differ in CG performance? We define gender diverse companies as those meet one of these 3 criteria: 1)CEO is female, 2)female accounts for more than 30% of board members or 3) female accounts for more than 30% of management. There are 377 companies or 30% of total covered companies that meet this criteria. In overall it shows that gender diverse companies outperform the rest by commendable 5ppts and outperforms on all pillars of corporate governance.

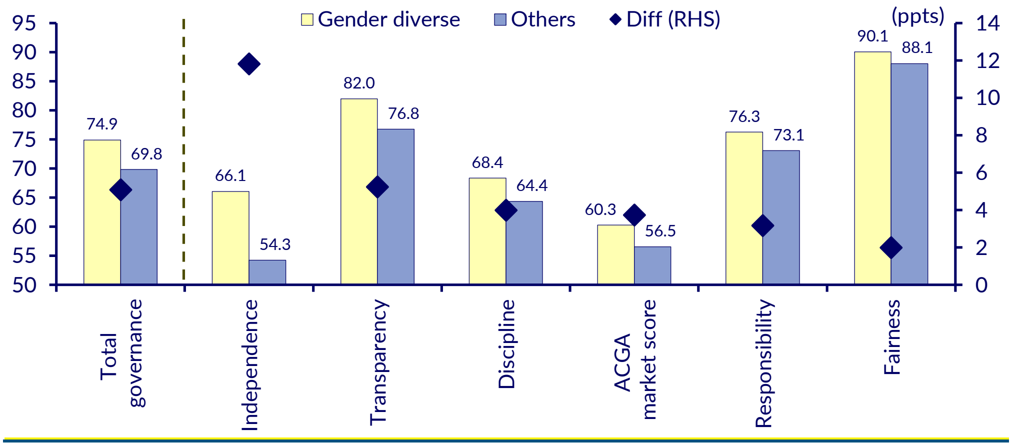
Gender diverse companies outperform especially in Independence and Transparency pillars

These companies outperform especially in Independence and Transparency pillars. Gender diversity seem to suppress cronyism and nepotism. Apart from seeing more effort by gender diverse companies to bring diversity to the board (CG17), our analysts are have scored highly over chairman's independence (CG12) and the effectiveness and independence of audit committee (CG13). They are overall more confident on the management's clear understanding of company's cost of capital and capital allocation (CG02).

Gender diverse companies outperform other companies in all pillars

Figure 24

Gender diverse companies' CG score vs the rest



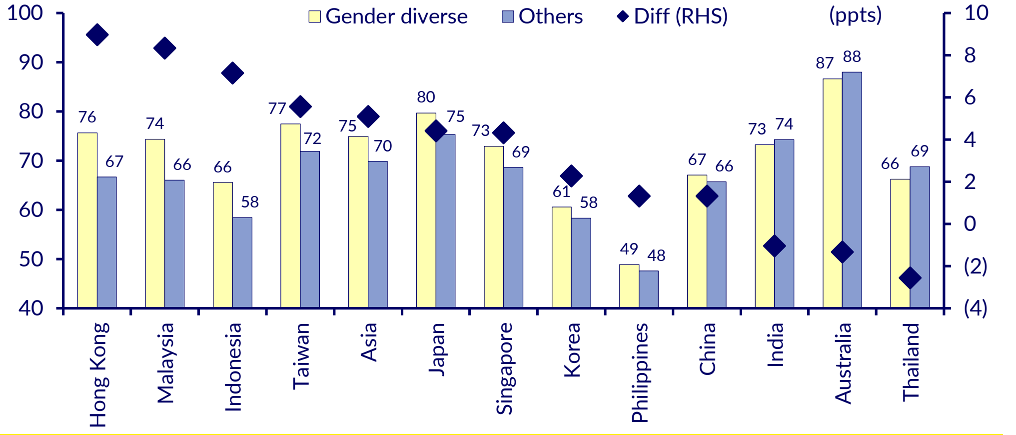
Note: Gender diverse companies n=377. Diff equals Gender diverse minus the rest. Source: CLSA

Hong Kong and Malaysia's gender diverse companies outperforming the rest by the most

By markets, we saw Hong Kong and Malaysia's gender diverse companies outperforming the rest by the most.

Figure 25

Gender diverse companies' CG score vs the rest



Source: CLSA

Gender diverse companies in Hong Kong are higher in independence and fairness

In **Hong Kong**, gender diverse companies outperform most in Independence and Fairness pillars. In particular, our analysts are generally less concerned on gender diverse companies' chairman independence (CG12), fairness of executive remuneration (CG24) and are more confident on their management's understanding of cost of capital/capital allocation (CG02). On average, they also see less evidence of conflicts of interest (CG21).

Gender diverse companies in Malaysia are higher in transparency and fairness

In **Malaysia**, gender diverse companies outperform most in Transparency and Fairness pillars. In particular, our analysts are generally more confident on their management's understanding of cost of capital/capital allocation (CG02) and chairman independence (CG12). On average, more gender diverse companies disclose major or price sensitive information punctually (CG10) and reasonable return on capital targets (CG6).

SOE generally have lower governance scores than private companies

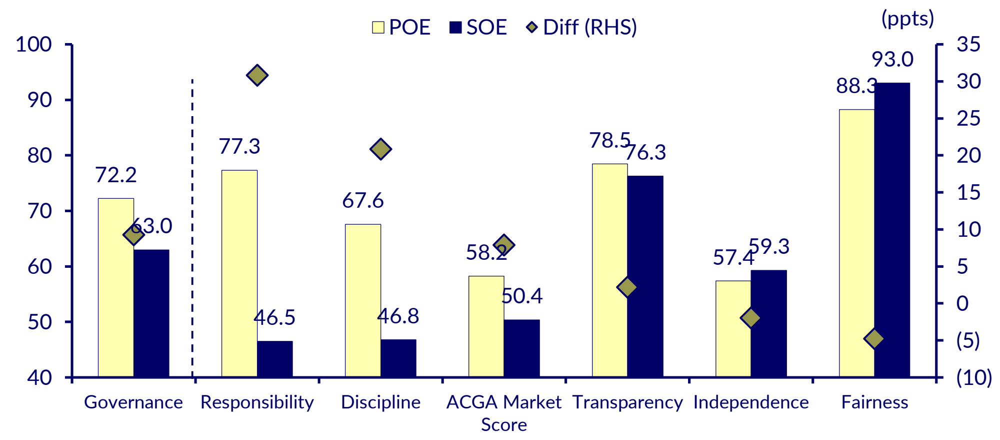
State-owned companies have poorer CG than privately held companies

Ownership and political intervention in corporate decision-making can significantly affect corporate governance. Under the definition of SOE as government having 25% or more of shares outstanding, we observe that SOE generally have lower governance scores than privately held companies (POE), and lag particularly in Responsibility and Discipline pillar. Our analysts have generally scored SOEs lower on alignment of controlling shareholder's primary financial interest with ordinary shareholders (Q20), government interference's in the operations that may hurt shareholder interests (Q05), independence of chairman (Q12) and disclosure timeliness of audited results (Q07). Only two categories that SOE scored higher than POE was in fairness and independence.

SOEs outperform POEs in Responsibility and Discipline pillars

Figure 26

CG score comparison between state-owned companies and private-owned companies



Note: SOE=112, POE=1134. Diff=POE minus SOE. Source: CLSA

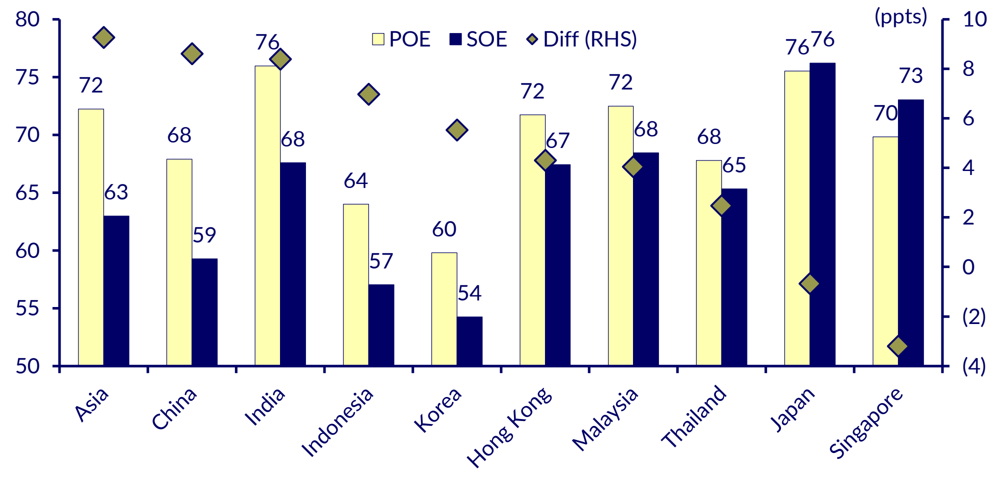
By markets, we saw China, India and Indonesia saw the most significant gap between the 2 groups.

Sustain Asia

China and India SOE underperform POE most

Figure 27

CG score comparison between SOE and POE



Source: CLSA. Diff=POE minus SOE

In China, SOE lag POE most in Responsibility and Discipline pillars

In **China**, SOE lag POE most in Responsibility and Discipline pillars. Our analysts on average expressed more concerns on SOE's controlling shareholder's primary financial interest alignment with ordinary shareholders (CG20), government's interference which may hurt shareholder interests (CG05) as well as the independence of chairman (CG12) and effectiveness of audit committee (CG13).

We have similar observation in India

Similarly in **India**, SOE lag POE in Responsibility and Discipline pillars. Our analysts on average are more concerned on government's interference which may hurt shareholder interests (CG05), SOE's controlling shareholder's primary financial interest alignment with ordinary shareholders (CG20), the independence of chairman (CG12) and management adherence to clearly defined core businesses (CG01).

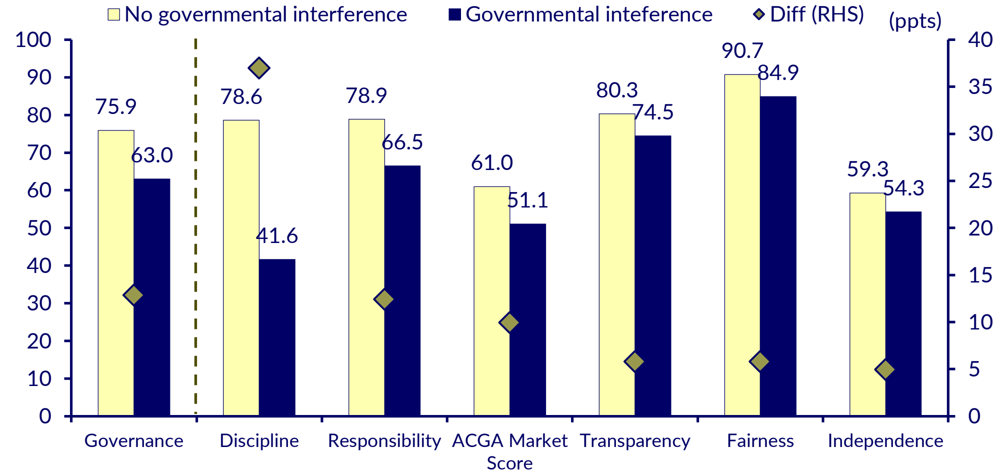
Government interference

However in many of Asian markets, having no direct ownership by government doesn't mean that the company is free from government influences and has adopted better corporate governance. This is particularly true for privatised companies. Hence we have looked at those companies that our analysts have ticked as "free from governmental interference in their operations that could hurt shareholder interests to support government goals" (CG05=1) versus those with interference (CG05=0). 65% of companies were assessed to be free from the interference versus 35% that were under the influence of governments. Unsurprisingly, those that are free from interference tend to have higher governance scores. Free companies had better corporate governance in all the categories, although most difference come from Discipline pillar where CG05 belongs to, those without interference also outperform in Responsibility pillar, by 12ppts.

Companies with no governmental interference outperform in all pillars

Figure 28

CG score comparison between companies with governmental interference vs no governmental interference



Note: CG05 belongs to Discipline pillar. No governmental interference=812, with governmental interference=434.
Source: CLSA

In terms of by markets Thailand, China and India saw the most significant gap between the 2 groups.

Analysts are less concerned on chairman independence and related party-transactions of companies free from government interference in Thailand

In **Thailand**, for those that our analysts think are free from government interference, there is less concern regarding the independence of chairman (CG12), and there were on average fewer restructuring that conflict with shareholder interests (CG04) and related-party transactions that harm the interests of non-controlling shareholders (CG19), as well as less controversies over share trading by board members (CG23).

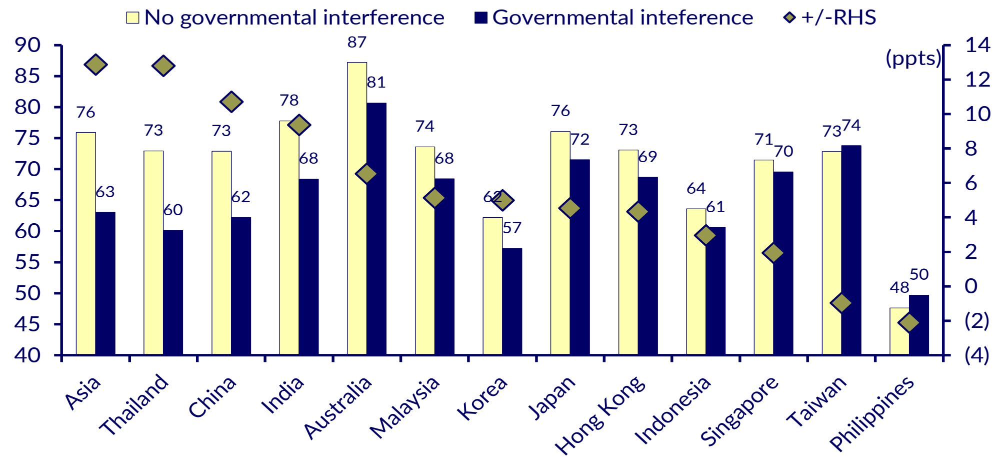
Analysts are more confident in chairman independence and fair compensation for companies free from government interference in India

In **India**, for those that our analysts think are free from government interference, analysts on average expressed less concerns regarding independence of chairman (CG12), while they are generally more confident in management's understanding of company's cost of capital/capital allocation (CG02), fairness of board and executive's compensation (CG24).

Companies with no governmental interference outperform in most Asian countries except for Taiwan and Philippines

Figure 29

CG score comparison between companies with governmental interference vs no governmental interference



Source: CLSA

In China, SOE lag POE most in Responsibility and Discipline pillars

Central SOEs has the highest CG score according to CITICS governance score

Large cap outperforms in Transparency and Independence

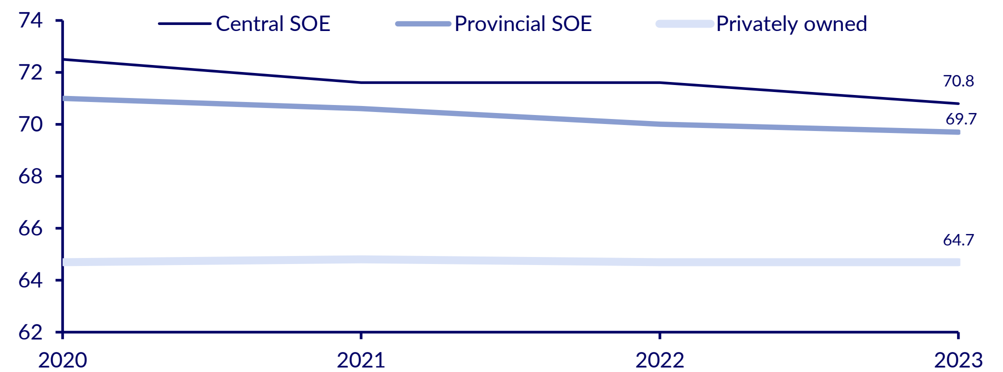
Case of China

In **China**, for those that our analysts have answered to be free from government interference, analysts on average expressed less concerns regarding controlling shareholder's primary financial interest alignment with ordinary shareholders (CG20), as well as independence of chairman (CG12). Those without government interference are also more likely to disclose price-sensitive information punctually (CG10).

The local view - interestingly what forms the view of corporate governance by individual markets could affect the scoring. According to CITICs, our parent company, shows that SOEs to have better CG score than POE due to 1) SOE reforms that have improved corporate governance and 2) coverage difference: CITICS' extensive China A-share coverage include more than 3000 private companies that have a small average market cap of c.US$1.5bn and drags the POEs scores down amid poorer disclosure an board rigour.

Figure 30

A-share SOE vs POE governance using CITICS governance score



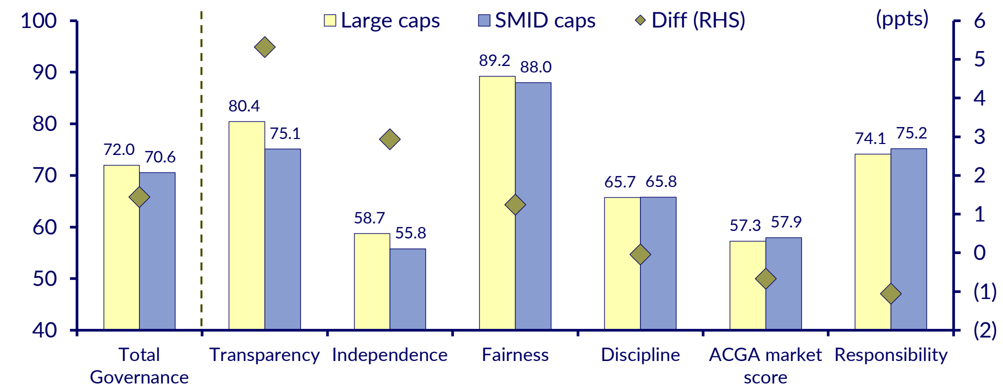
Source: CITICS. 4000+ A share companies

Larger caps have better disclosure and board diversity

We also compare the CG score of large caps versus SMID caps. Overall we observe 1.4ppt difference between the average score for large cap (>=US$3bn) versus SMID cap (<US$3bn). When we look into pillars, we saw large caps outperform in Transparency (+5ppts) and Independence (+3ppts) pillars, though not too much. In particular, our analysts see a larger proportion of large caps have timely disclosure of price-sensitive information (CG10) and an attempt to bring in diversity to board members (CG17).

Figure 31

CG score gaps between large-cap (above US$3bn) and SMID-cap (below US$3bn)



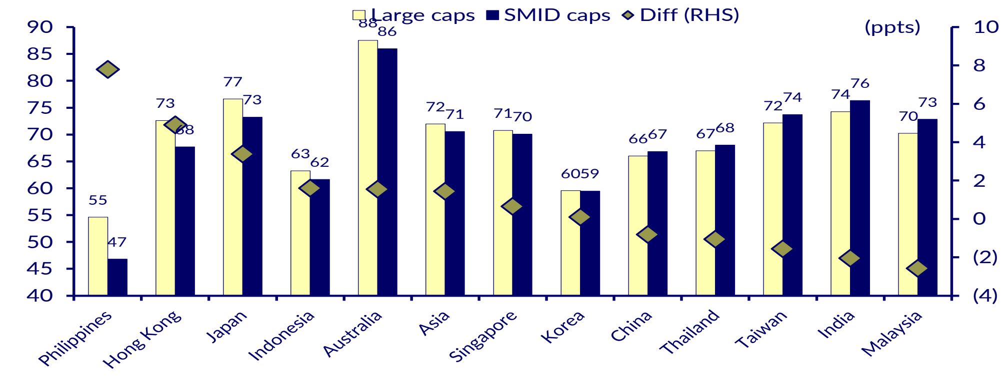
Source: CLSA. Large=743. SMID=503. Diff=Large minus SMID

Outperformance of large cap is significant in Philippines

By markets, we saw the outperformance of large caps being relatively significant in **Philippines**, where large caps outperform most in Responsibility, Transparency and Fairness pillars. In particular, our analysts think generally there are fewer concerns on related party transactions that harm interests of non-controlling shareholders (CG19) and less evidence of conflict of interest on the board/among senior management (CG21). Large caps in Philippines on average show more attempt to bring diversity to board members (CG17) with relatively better access to senior management for investors (CG11).

Figure 32

CG score gaps between large-cap (above US$3bn) and SMID-cap (below US$3bn)



Note: Diff=Large caps minus SMID caps. Source: CLSA

Manager-run companies see more timely disclosure and better chairman independence

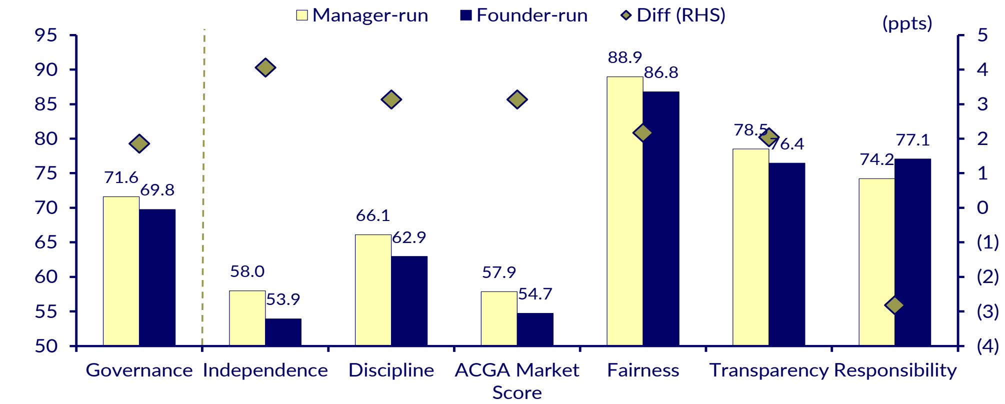
Some argues that founder-run companies could empower management to carry out a longer-term vision and with greater incentive for the company to succeed sustainably, but how would this affect corporate governance?

We define founder-run companies as those companies with founders undertaking leadership roles including Chairman, CEO, president, representative director (Japan only) roles and some other similar positions. Overall, Manager-run companies outperform Founder-run companies by 1.9ppts in CG. Manager-run companies generally score higher in Independence (+4ppts) and Discipline (+3ppts) pillar. Our analyst see a slightly higher proportion of manager-run companies publishing audited full-year results and price-sensitive information timely (CG07 and CG10). Analyst generally expressed less concern over chairman independence for manager-run companies (CG12).

Manager-run companies outperform in most pillar except for Responsibility

Figure 33

Manager-run company CG score vs founder-run



Note: Founder-run=138, Manager run=1108. Diff = Manager-run minus Founder-run, Source: CLSA

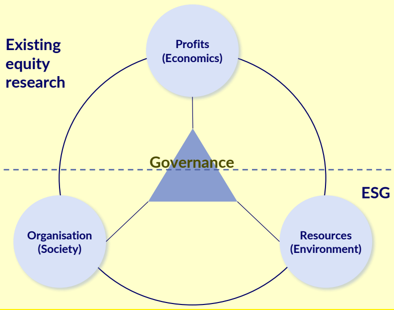
Governance drives sustainability

In CLSA we believe that governance is the keystone rather than one of the three pillars of ESG. Governance has long been an integral part of fundamental analysis and the framework that matters the most in terms of the sustainability of any organisation. Hence any analysis on securities, whether it be fundamental, ESG or climate-change driven, should always start with governance.

We believe companies that invest in improving the sustainability of their business should, almost by definition, generate longer-term sustainable returns for shareholders. Such should apply to the issue of governance as well. In Asia, governance is also a tangible lens for investments. Growing middle class, direct stock ownership among consumers is powering the momentum in activism and stewardship investing. In return, this pushes companies towards sustainable behaviour. We see a virtuous cycle being unlocked in parts of Asia.

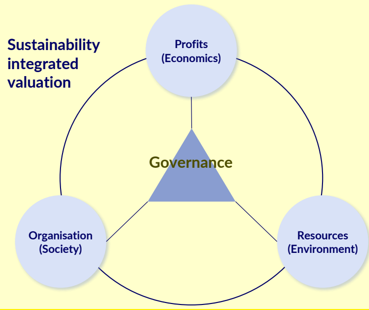
We believe in sustainability as a balancing mechanism and for investment. In our *Sustain Asia Manifesto* (link), we have selected 15 companies in which our analysts have fundamentally bullish views that have also been making material ESG investments for the long-term sustainability of the firm.

From a separate process



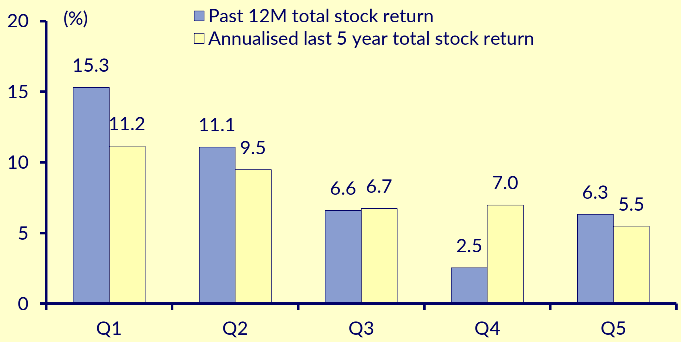
Source: CLSA, Bloomberg

To integrated process



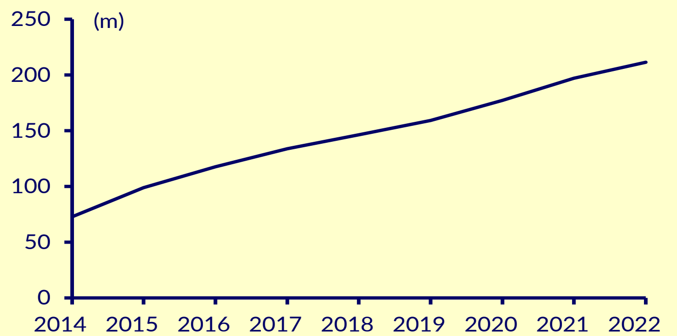
Source: CLSA

CLSA ESG scores and share price performances



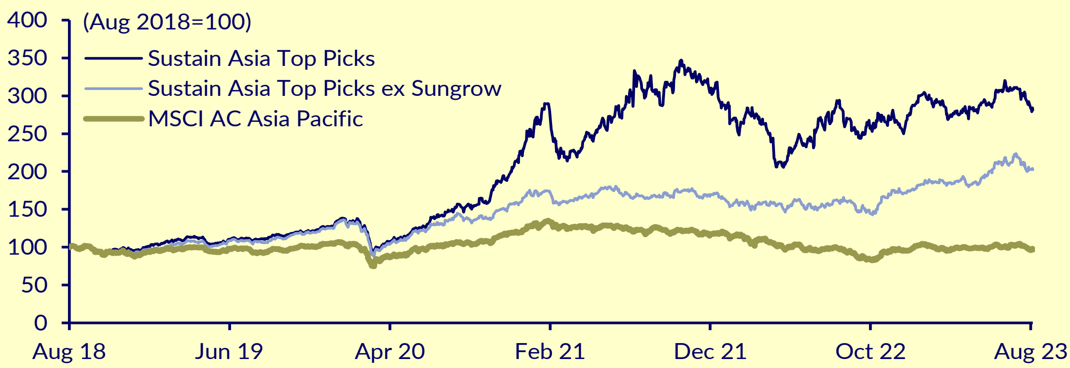
Source: CLSA, Bloomberg

China's retail brokerage accounts growth



Source: China Securities Depository & Clearing Corp

Sustain Asia Champions (equal weight basket) vs MSCI Asia Pacific



Source: CLSA, Refinitiv

Click to rate this research
Great
Solid
Meh

Linking CG scores with shareholder value

CLSA market score is broadly in line with ACGA market score

CLSA's implied market score are broadly in line with ACGA's Market Score, with Australia and Japan at the top in both frameworks whereas some rank difference lies in India, Singapore and Korea. In terms of CLSA CG score rank, India saw the biggest improvement while Singapore dropped most, whereas in ACGA's Market Score rank, Japan improved most and Hong Kong dropped most

CG is material to stock return

What is CG scores' relationship with stock performance? We found that the top quintile corporate governance (CG) group outperformed the bottom quintile CG group in terms of five-year stock performance. Also, firms that have improved governance have performed significantly better than firms that have seen downgrades. We used our renewed governance-centric ESG scores to identify stocks that are best in class with value creation (ROE above COE) with a fundamentally positive view as well as stocks that are improving their governance with improving ROEs.

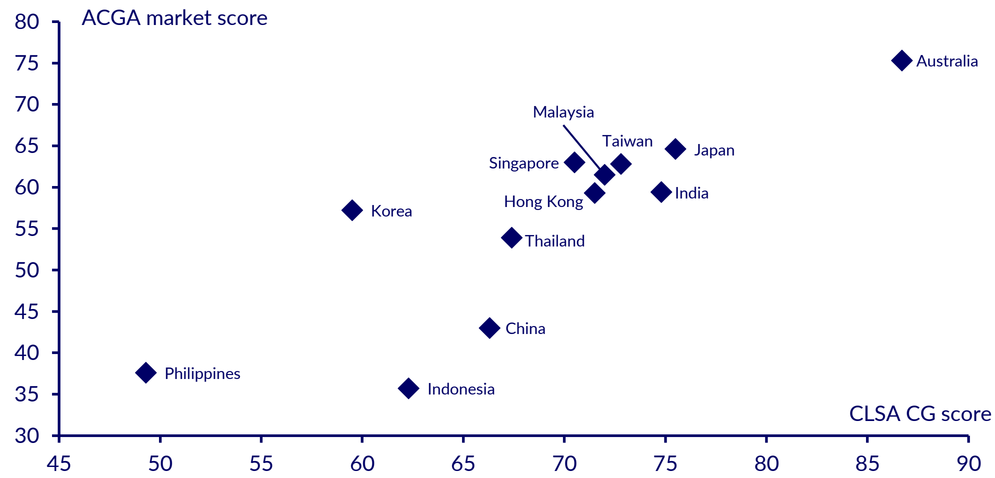
CLSA market CG score versus ACGA

We have so far analysed our scores by sectors but some readers could question the difference between CLSA and ACGA's scores by markets. In summary, ACGA scores are a holistic assessment of the market's CG, while CLSA is focused on company specific CG. Corporate is just one category of assessment out of seven under ACGA. Comparing CLSA Market average score versus ACGA's Market Score, we see that they are broadly in line, with Australia and Japan at the top in both framework. The difference lies in India which has a higher relative rank by CLSA (3rd) versus 6th by ACGA. Singapore on the other hand has a relatively lower rank by CLSA (7th) versus 3rd by ACGA, same for Korea (11th in CLSA vs. 8th in ACGA).

Australia and Japan at the top in both framework

Figure 34

CLSA and ACGA market CG Score



Source: CLSA

CLSA CG scorer rank: India saw the biggest improvement while Singapore dropped most

Under CLSA score, in absolute terms, Indonesia saw the biggest improvement (+8.9ppts) followed by Hong Kong (+5.8ppts), whereas Philippines (-1.2ppts) and Singapore (-0.1ppt)'s scores stalled. In terms of ranking, Singapore dropped the most from 3rd to 7th while India saw the biggest improvement from 6th to 3rd.

ACGA score rank: Japan saw the biggest improvement while Hong Kong dropped most

Under ACGA score, in absolute terms, Japan saw the biggest improvement (+5.3ppts) followed by Korea (+4.2ppts), whereas Hong Kong (-4.2ppts) and Thailand (-2.7ppt)'s scores dropped most. In terms of ranking, Hong Kong dropped the most from =2nd to =6th while Japan saw the biggest improvement from =5th to 2nd.

Australia continue to top the league

Figure 35

CLSA vs ACGA Market score

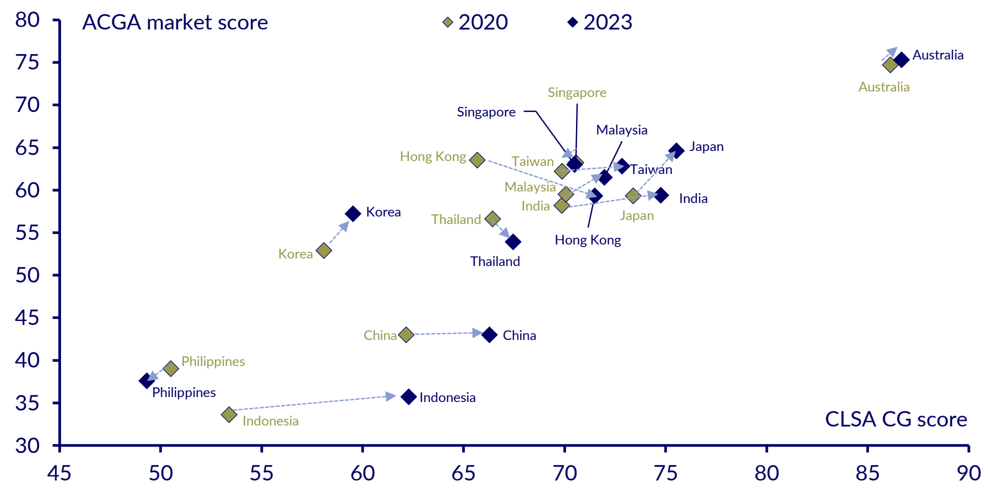
	CLSA CG score				ACGA market score			
	2020 score	2023 score	2020 rank	2023 rank	2020 score	2023 score	2020 rank	2023 rank
Australia	86.1	86.7	1	1	74.7	75.2	1	1
Japan	73.4	75.5	2	2	59.3	64.6	=5	2
India	69.9	74.8	6	3	58.2	59.4	7	=6
Taiwan	69.9	72.8	5	4	62.2	62.8	4	=3
Malaysia	70.1	72.0	4	5	59.5	61.5	=5	5
Hong Kong	65.7	71.5	8	6	63.5	59.3	=2	=6
Singapore	70.6	70.5	3	7	63.2	62.9	=2	=3
Thailand	66.4	67.4	7	8	56.6	53.9	8	9
China	62.2	66.3	9	9	43.0	43.7	10	10
Indonesia	53.4	62.3	11	10	33.6	35.7	12	12
Korea	58.1	59.5	10	11	52.9	57.1	9	8
Philippines	50.5	49.3	12	12	39.0	37.6	11	11

Source: CLSA

Indonesia saw the biggest absolute CG improvement of CLSA CG score, whereas it is Japan for ACGA Market Score

Figure 36

CLSA vs ACGA Market score



Source: CLSA

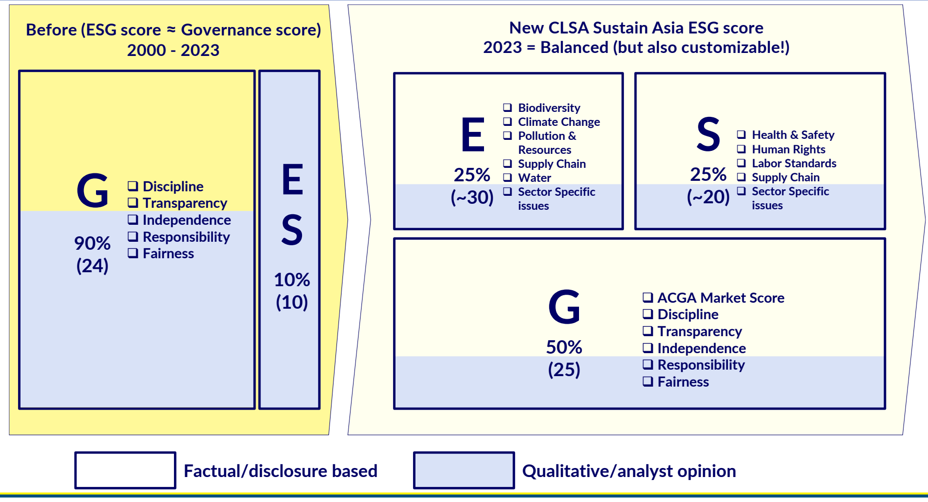
How does our CG score compare with broader ESG scores

We have enhanced our governance-centric ESG scoring framework with increased environment and social indicators. In governance, we have also incorporated ACGA's market scores for the first time, to better capture the sovereign governance risks that plays a pivotal role in defining the corporate governance characteristics of companies in that specific market. As a result we have adjusted our standard pillar weightings from the previous 90% on G and 10% on ES to 50% on G and 25% each on Environmental and Social.

Fundamental analysis combined with ESG can generate alpha

Figure 37

New Sustain Asia governance-centric ESG score

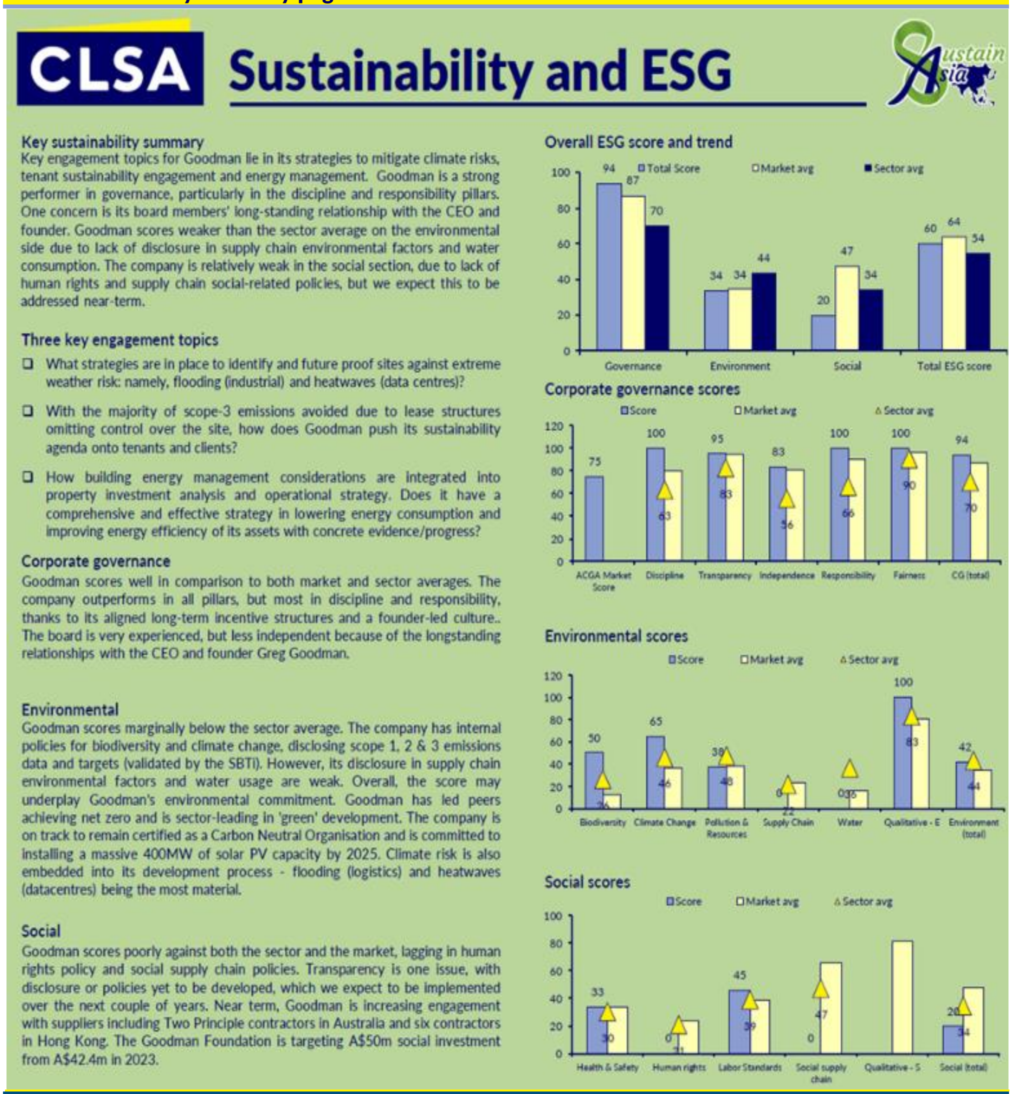


Source: CLSA

New sustainability page with score explanation and three engagement topics

Figure 38

New sustainability summary page for Goodman



CLSA Sustainability and ESG

Key sustainability summary

Key engagement topics for Goodman lie in its strategies to mitigate climate risks, tenant sustainability engagement and energy management. Goodman is a strong performer in governance, particularly in the discipline and responsibility pillars. One concern is its board members' long-standing relationship with the CEO and founder. Goodman scores weaker than the sector average on the environmental side due to lack of disclosure in supply chain environmental factors and water consumption. The company is relatively weak in the social section, due to lack of human rights and supply chain social-related policies, but we expect this to be addressed near-term.

Three key engagement topics

- What strategies are in place to identify and future proof sites against extreme weather risk: namely, flooding (industrial) and heatwaves (data centres)?
- With the majority of scope-3 emissions avoided due to lease structures omitting control over the site, how does Goodman push its sustainability agenda onto tenants and clients?
- How building energy management considerations are integrated into property investment analysis and operational strategy. Does it have a comprehensive and effective strategy in lowering energy consumption and improving energy efficiency of its assets with concrete evidence/progress?

Corporate governance

Goodman scores well in comparison to both market and sector averages. The company outperforms in all pillars, but most in discipline and responsibility, thanks to its aligned long-term incentive structures and a founder-led culture.. The board is very experienced, but less independent because of the longstanding relationships with the CEO and founder Greg Goodman.

Environmental

Goodman scores marginally below the sector average. The company has internal policies for biodiversity and climate change, disclosing scope 1, 2 & 3 emissions data and targets (validated by the SBTi). However, its disclosure in supply chain environmental factors and water usage are weak. Overall, the score may underplay Goodman's environmental commitment. Goodman has led peers achieving net zero and is sector-leading in 'green' development. The company is on track to remain certified as a Carbon Neutral Organisation and is committed to installing a massive 400MW of solar PV capacity by 2025. Climate risk is also embedded into its development process - flooding (logistics) and heatwaves (datacentres) being the most material.

Social

Goodman scores poorly against both the sector and the market, lagging in human rights policy and social supply chain policies. Transparency is one issue, with disclosure or policies yet to be developed, which we expect to be implemented over the next couple of years. Near term, Goodman is increasing engagement with suppliers including Two Principle contractors in Australia and six contractors in Hong Kong. The Goodman Foundation is targeting A$50m social investment from A$42.4m in 2023.

Source: CLSA

Our next step in enhancing the utility of the scores would be providing investors with analysts' explanations of scores to the company's fundamental outlook. We will also provide investors with three engagement topics that our analysts find the most material to the long-term issues of the companies. This single sheet of the summary will be provided through our website and individual CLSA company reports. We have recently released this information sheet with Goodman initiation as shown above (*link*), and we plan to fully roll-out this information page by 1Q24.

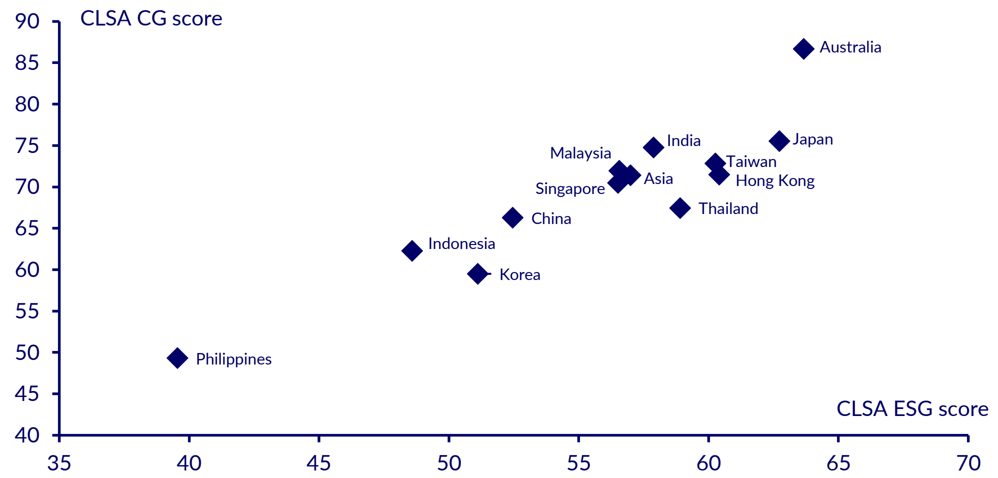
Australia tops overall ESG score, unsurprisingly driven by corporate governance, followed by Japan

When we look at overall ESG score, Australia tops the chart, unsurprisingly driven by corporate governance, followed by Japan. The Philippines and Indonesia are at the bottom, and Korea and China are also underperforming.

The Philippines and Indonesia bottom total ESG Score, while Korea and China are also underperforming

Figure 39

Total ESG and CG score by Market



Source: CLSA

Looking at overall rank in ESG score and CG score, the top and bottom scorers are the same. Markets that saw the most difference in rank is Hong Kong who ranked 6th in CG but 3rd in ESG, while India ranked 3rd in CG but 6th in ESG.

India ranked higher in CG than overall ESG while Hong Kong has the reverse

Figure 40

Total ESG and CG score by market

Market	Total ESG score	Rank	Governance score	Rank
Australia	63.7	1	86.7	1
Japan	62.7	2	75.5	2
Hong Kong	60.4	3	71.5	6
Taiwan	60.3	4	72.8	4
Thailand	58.9	5	67.4	8
India	57.9	6	74.8	3
Malaysia	56.6	7	72.0	5
Singapore	56.5	8	70.5	7
China	52.5	9	66.3	9
Korea	51.1	10	59.5	11
Indonesia	48.6	11	62.3	10
Philippines	39.5	12	49.3	12

Source: CLSA

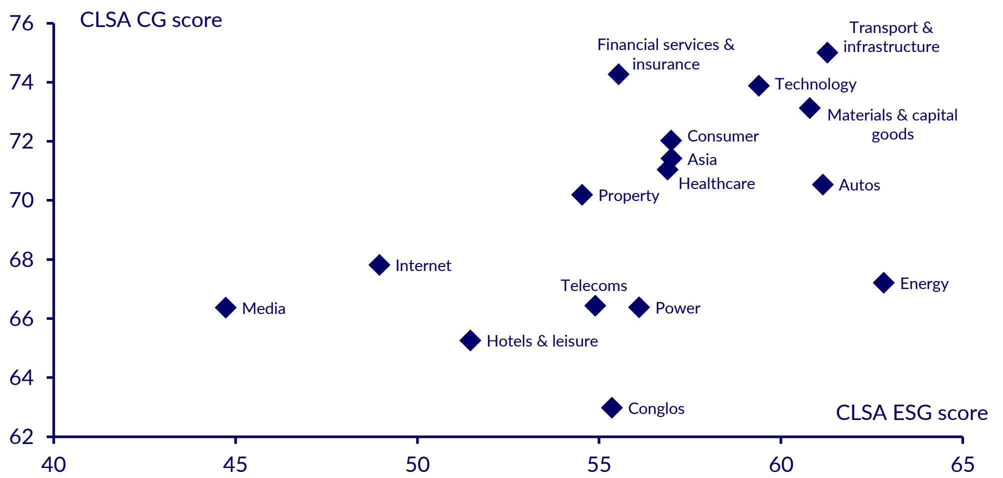
Heavy emitting sector scoring higher in total ESG score

Whilst by sector, we see the heavy emitting sector scoring higher in total ESG score in general. Energy topped, followed by transport & infrastructure, autos and materials & capital goods. The internet and media were the bottom-scoring sectors. Energy intensive industries taking higher score could read as counterintuitive for readers who expect sustainable value such as greenness, good governance and social practices to get a higher score. However, since our scores reflect our philosophy that all companies can contribute to sustainability, we prefer to capture the breadth and depth of actions disclosed by companies. In such lens it is entirely possible that heavy emitters capture better rankings, as many of the companies do feel the threat of climate change on their long term business. Also, they are facing many pressures from stakeholders, which has led to higher intensity in disclosures and actions.

Energy, Transport & Infrastructure, Autos top ESG scores

Figure 41

Total ESG and CG score by Sector



Source: CLSA

Again when we look at the ESG and CG score rank by sector, we saw Financial Services & Insurance which ranked 2nd in CG slipping to 9th in Total ESG. Whereas for Energy which ranked low at 10th in CG, rank top in overall ESG.

Energy and Financials saw the biggest difference in ESG and CG rank

Figure 42

Total ESG and CG score by sector

Sector	Total ESG score	Rank	Governance	Rank
Energy	62.8	1	67.2	10
Transport & Infrastructure	61.3	2	75.0	1
Autos	61.2	3	70.5	7
Materials & Capital Goods	60.8	4	73.1	4
Technology	59.4	5	73.9	3
Consumer	57.0	6	72.0	5
Healthcare	56.9	7	71.0	6
Power	56.1	8	66.4	12
Financial Services & Insurance	55.5	9	74.3	2
Conglos	55.4	10	63.0	15
Telecoms	54.9	11	66.4	11
Property	54.5	12	70.2	8
Hotels & Leisure	51.5	13	65.3	14
Internet	49.0	14	67.8	9
Media	44.7	15	66.4	13

Source: CLSA

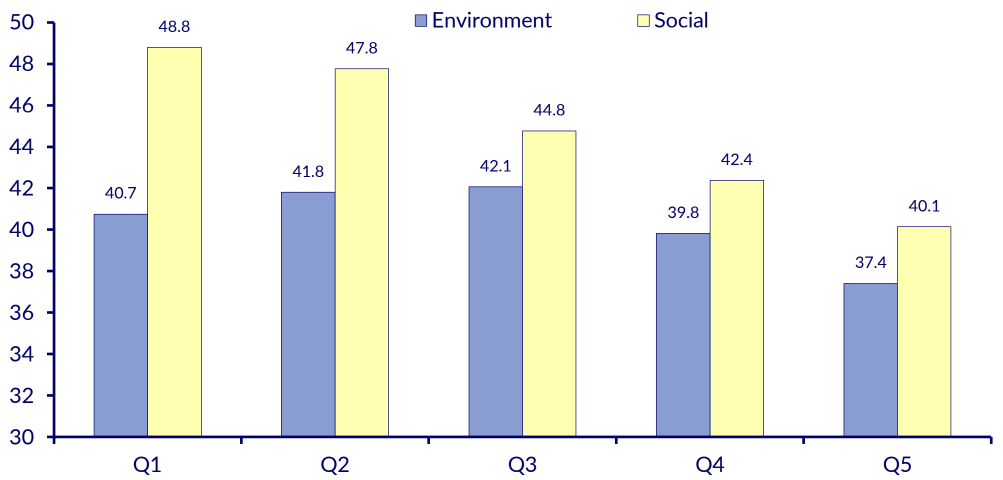
Higher governance group had better social scores

Is good governance an indicator of good environment and social policies and actions? Interestingly, it shows that the higher governance group had better social scores, while the relationship is weaker between governance and environment. We believe this is down to the public equity market's concentrated focus on climate change actions, during which ESG was mainly conveyed as degree of actions by companies to decarbonize its businesses. This in turn created a peer pressure amongst public listed companies to commit to certain level of actions, regardless of its real actions.

. . . while the relationship is weaker between governance and environment

Figure 43

Average E and S scores by governance quintile



Source: CLSA

CG is material to stock return

Top CG scorers and improvers outperform

Higher scores also mean better shareholder value. We notice a material share price performance gap between the top quintile group and the bottom quintile CG group in terms of long-term performance (five years). Also, firms that have improved governance have performed significantly better than firms that have seen downgrades. Investors can utilise our scores for their stock selection process.

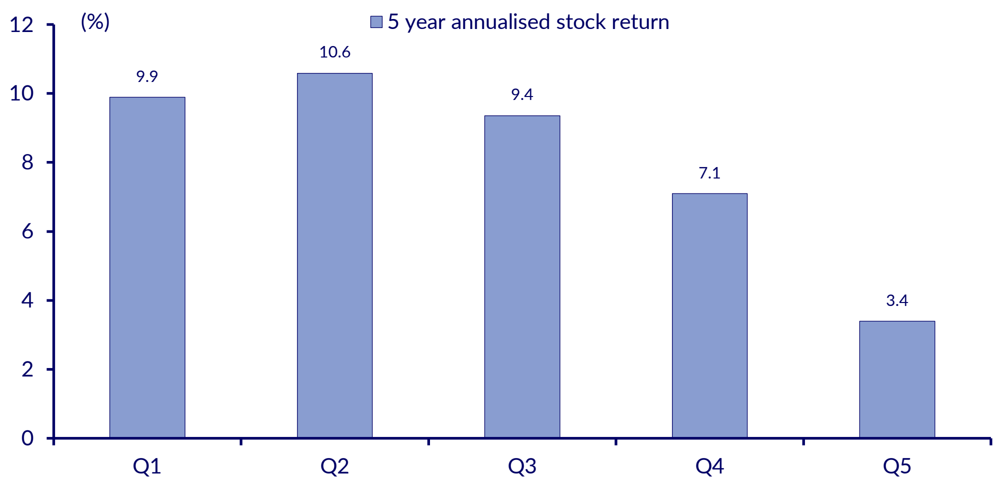
CG is the key return driver

Top quintile stocks outperformed the bottom quintile

Our new score analysis shows that when ranking companies by CG score, our top quintile stocks outperformed the bottom quintile by 6.5ppts on an 5 year annualised basis.

Figure 44

Stock return by CG score quintile



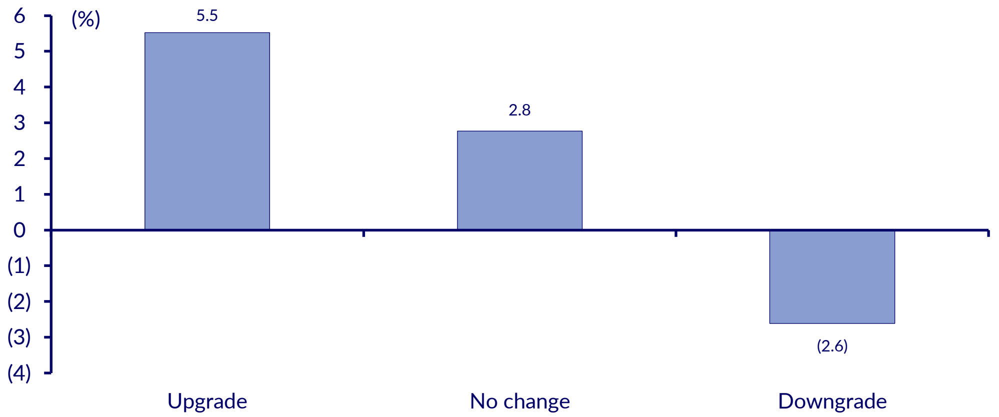
Source: CLSA, Bloomberg

We also note that change in corporate governance is material to stock returns. Stocks that saw a CG score "Upgrade" versus 2020 outperformed those that saw a "Downgrade" and "No change".

Cg improvers outperform

Figure 45

3Y annualised performance between CG score upgrades and downgrades



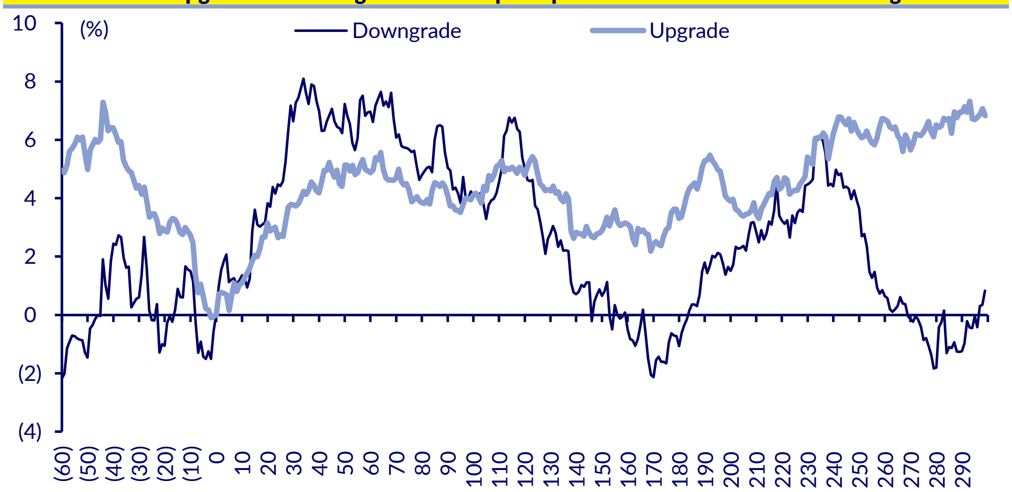
Note: Upgrade=358; Downgrade=224; No change=350. Source: CLSA, Bloomberg

In addition, when we look at 500 cases of score changes (based on our previous scoring framework), companies that saw upgrades materially outperformed the companies with score downgrades by about seven percentage points over the 300 days post score change (day 0). Also, firms with upgrades had lower volatility during the period than companies that saw downgrades. It also shows the time lag for downgrades reflected in the share prices, with a 60 days lag in share price to reflect the downgrades.

Firms that saw CLSA score upgrades outperformed downgrade groups by 6ppt in 300 days post score change

Figure 46

CLSA ESG score upgrades vs downgrades. Share price performance since the score changes



Source: CLSA

Using ESG scores for thematic baskets

Using the renewed governance centric ESG scores, we identify stocks that are best in class with value creation (ROE above COE) with a fundamentally positive view. We also identify stocks that are improving governance (as a substitute for improving ESG) with improving ROEs across the market; we offer two sets of lists for large caps (over US$10bn market cap), as well as SMID caps (less than US$10bn market cap). We also consider whether analysts have published in-depth work on the company's ESG.

Best-in-class stocks

Top 1 quintile ESG scorers with ROE above COE

We define best-in-class as stocks in the top 1 quintile (top 20%) in our overall ESG scores, and the management is delivering value by generating ROE above the assumed COE of 15%. While COE would differ by companies, we have considered 15% as a hurdle under the rising interest rate and dwindling risk appetite. Because of the 50% weighting imposed on the governance category, our best-in-class champions have strong governance above their peers. We have also considered whether the covering analyst has published an ESG report during the past 24 months as an indication of a higher understanding of the underlying ESG issues of the company being assessed. For the large caps category, we have chosen stocks over US$10bn market cap and companies with at least an Outperform rating for the next 12 months; for the SMID caps under US$10bn market cap, we have only chosen stocks with a BUY rating due to the inherent higher volatility and risk premium that investors have to assign for the stocks.

Good representation from both developed and emerging Asian markets

Large cap best-in-class - The screening of the top 20 stocks across 1200 companies covered shows good representation from both developed and emerging Asian markets, mainly hailing from markets such as Australia (5), India (7), China/Hong Kong (3), Japan (2), Taiwan (1). It is also no surprise that two European companies we started covering in the luxury goods industry have found their way into the table. The consumer sector has the largest number of companies contributing. That said, these 20 companies collectively had an average 24% ROE delivered and forecasts between 2020-2025CL.

Higher degree of ESG analysis attached with fundamental analysis

There are nine companies for which our analysts have written an ESG report, which shows a higher degree of ESG analysis attached with fundamental analysis. Interestingly, five out of nine companies come from India. Note that this list does not consider sin exposure related to weapons, tobacco, alcohol, fossil fuel, etc; hence, it includes controversial stocks such as Power Grid, Adani Ports and ITC.

Figure 47

Best in Class ESG companies - Large cap

	Company name	Market	Sector	Mkt cap (US$m)	CLSA ESG score	ESG reports	ROE-COE (%)	ROE avg 20-25CL (%)	24CL PE	24CL PB	Performance (Abs, %) 1yr	Performance (Abs, %) 5yr	Refinitiv ESG	Bloomberg ESG
BXB AU	Brambles	Australia	Transport	11,879.4	84.1	Y	11.7	21.7	17.7	4.0	8.7	25.7	81.4	
9633 HK	Nongfu Spring	China	Consumer	64,743.3	70.9	Y	29.3	39.3	39.2	13.8	3.5		71.9	56.6
PWGR IB	Power Grid	India	Power	25,479.8	70.2	Y	7.7	17.7	14.0	2.4	40.3	122.6	58.4	
HUVR IB	Hindustan Unilever	India	Consumer	71,011.6	70.2	Y	22.5	32.5	55.5	11.5	(7.3)	38.3	83.6	
ADSEZ IB	Adani Ports	India	Infrastructure	26,478.4	70.1	Y	7.5	17.5	25.8	4.1	14.8	173.6	71.1	
002475 CH	Luxshare	China A-Share	Technology	30,816.4	70.1	Y	12.9	22.9	17.0	3.3	(3.3)	244.6	91.8	60.7
ITC IB	ITC	India	Consumer	67,153.0	69.2	Y	17.6	27.6	27.0	8.4	32.5	64.9	85.0	
669 HK	Techtronic	Hong Kong	Consumer	18,218.2	68.1	Y	11.2	21.2	15.6	2.8	(18.0)	73.1	77.6	61.5
BAF IN	Bajaj Finance	India	Financial services	54,135.6	63.5	Y	9.9	19.9	30.2	5.9	12.1	193.9	40.1	51.0
9434 JP	Softbank Corp	Japan	Telecoms	59,812.4	80.2		19.5	29.5	19.3	3.8	22.0		76.9	61.7
KER FP	Kering	France	Consumer	54,958.2	77.1		13.3	23.3	13.1	2.8	(21.0)	4.7	79.4	63.5
CFR SW	Richemont	Switzerland	Consumer	77,816.8	75.0		5.0	15.0	12.4	2.6	(6.1)	80.8	75.9	
CSL AU	CSL	Australia	Healthcare	84,808.6	74.8		13.6	23.6	30.1	5.3	(10.6)	45.1	80.0	
AMC AU	Amcor	Australia	Materials	13,888.3	74.5		14.9	24.9	14.6	3.6	(19.3)	8.3	71.9	
9983 JP	Fast Retailing	Japan	Consumer	77,178.4	74.3		7.9	17.9	34.3	6.2	25.3	78.8	83.5	
2308 TT	Delta Electronics	Taiwan	Technology	25,839.0	73.1		8.4	18.4	22.1	3.8	6.1	145.1	54.3	72.9
WES AU	Wesfarmers	Australia	Consumer	40,078.7	71.5		17.8	27.8	23.4	7.1	12.1	68.1	78.8	
JHX AU	James Hardie	Australia	Materials	14,252.2	71.2		30.4	40.4	21.7	7.3	69.2	213.9	37.5	
TATA IB	Tata Steel	India	Materials	19,045.6	70.2		5.5	15.5	23.2	1.6	17.0	154.4	72.0	
EIM IS	Eicher Motors	India	Autos	13,307.3	69.4		9.4	19.4	27.4	6.3	20.7	81.3	64.6	

Source: CLSA, Bloomberg, Refinitv

19 stocks in this category with average 72 ESG score and 23.6% 5-year ROE

SMID cap best-in-class - Our screening of SMID cap stocks under US$10bn market cap shows increased representation from emerging Asian markets, with companies from Thailand, Malaysia, and Taiwan marking their presence. **Chailease**, a financial services company from Taiwan, tops the table, followed by **SG Holdings** from Japan, **Press Metal** from Malaysia and **HomePro** from Thailand. **Classys** is the only Korean company in the best-in-class category. Nineteen stocks in this category, on average, had 72 ESG scores with a 23.6% 5-year ROE average, similar to the large caps best-in-class. There were six companies for which our analysts published ESG reports.

Figure 48

Best in class ESG companies - SMID caps

	Company name	Market	Sector	Mkt cap (US$m)	CLSA ESG score	ESG reports	ROE-COE (%)	ROE avg 20-25CL (%)	24CL		Performance (Abs, %)		Refinitiv ESG	Bloomberg ESG
									PE	PB	1yr	5yr		
5871 TT	Chailease	Taiwan	Financial services	9,302.5	78.3	Y	12.1	22.1	9.1	1.8	(13.1)	124.1	83.2	59.4
9143 JP	SG Holdings	Japan	Transport	9,243.8	75.1	Y	8.0	18.0	17.2	2.2	3.0	48.6	69.1	61.4
PMAH MK	Press Metal	Malaysia	Materials	8,483.5	75.0	Y	12.4	22.4	20.0	4.7	(0.8)	98.8	76.8	70.7
HMPRO TB	HomePro	Thailand	Consumer	4,443.0	71.0	Y	15.5	25.5	21.2	5.2	(16.7)	(22.1)	65.9	62.6
603605 CH	Proya	China A-Share	Consumer	5,704.9	67.8	Y	15.6	25.6	29.7	7.7	(11.1)	338.9	61.0	55.2
3023 TT	Sinbon	Taiwan	Technology	2,215.8	67.8	Y	14.3	24.3	19.5	4.5	3.6	266.2	84.6	61.9
LYC AU	Lynas	Australia	Materials	3,928.2	77.1		9.2	19.2	10.7	2.2	(25.0)	285.6	69.2	
MIN AU	Mineral Resources	Australia	Materials	8,022.1	75.8		18.3	28.3	82.0	3.6	(31.0)	337.0	66.0	55.7
2301 TT	Lite-On Tech	Taiwan	Technology	8,518.6	73.8		8.3	18.3	13.5	2.7	77.4	178.7	84.4	66.4
6268 JP	Nabtesco	Japan	Capital goods	2,212.8	72.1		13.0	23.0	12.8	1.2	(23.7)	(3.0)	75.6	67.9
6028 JP	TechnoPro	Japan	Technology	2,484.6	72.1		12.9	22.9	20.0	4.2	(10.9)	85.8		
2383 TT	Elite Material	Taiwan	Technology	4,170.1	71.6		17.4	27.4	16.2	4.6	99.2	416.4	57.2	55.9
3680 TT	Gudeng	Taiwan	Technology	1,118.1	70.6		8.9	18.9	21.8	4.6	39.4	1,033.6		
2368 TT	Gold Circuit	Taiwan	Technology	3,726.2	70.3		21.4	31.4	17.5	5.6	149.2	1,478.1		62.5
214150 KS	Classys	Korea	Healthcare	1,842.8	70.3		21.4	31.4	24.8	6.2	97.1	708.9		
ELD AU	Elders Ltd	Australia	Consumer	755.4	69.8		5.3	15.3	11.1	1.2	(26.5)	6.8	48.2	49.4
TISCO TB	Tisco	Thailand	Financial services	2,203.4	69.2		6.8	16.8	10.3	1.7	(0.5)	21.8	69.7	45.4
3998 HK	Bosideng	China	Consumer	4,734.9	69.2		7.5	17.5	13.3	2.6	(13.1)	123.0	64.6	
6669 TT	Wiwynn	Taiwan	Technology	9,739.7	68.3		28.3	38.3	15.5	5.7	93.2	450.9	77.2	72.5

Source: CLSA, Bloomberg, Refinitiv

Corporate governance improvers

Selected stocks with CG improvement of 15%+ vs 2020 with forecasted improvement in ROE

We define improvers as companies which have improved their corporate governance compared to 2020 by at least 15%, and ROE is expected to improve by at least 10% between the 2020-2022 historical average and 2023-25CL average. We use CG as a substitute for ESG improvement as it is our first time introducing our revamped environmental and social scores, which we did not have during the last CG Watch publication back in 2021 (assessed in 2020). We have also considered stocks that were assessed by the same analysts in 2020 to focus on consistency in scoring as well as whether the analysts have published ESG reports during the past two years. Similarly to best-in-class stocks, we have selected stocks over US$10bn in the large-cap category with at least an Outperform rating, while for SMID caps under US$10bn, we have only picked stocks with a BUY rating.

Improvers - Larger cap

Samsung shows up high in large cap CG improvers lists

In the realm above US$10bn, Samsung names show up high at the table, which reflects the CG improvement that Samsung has been focusing on during the past several years. Samsung Biologics is also in our Sustain Asia champions list.

Figure 49

CG improvers list - Large cap

	Company name	Market	Sector	Mkt cap (US$m)	CLSA ESG score	ESG score quintile	ESG score vs mkt avg	CG score	CG score quintile	CG score vs mkt avg	CG improvement	ROE growth 20-25CL	24CL PE	24CL PB	ESG reports	Same analyst in 2020?
207940 KS	Samsung Biologics	Korea	Healthcare	38,333.3	76.8	Q1	25.7	76.2	Q2	16.7	40.3	16.0	48.3	4.6	Y	Y
9432 JP	NTT	Japan	Telecoms	106,526.1	66.7	Q2	3.9	77.3	Q2	1.7	34.8	22.9	11.6	1.6	Y	Y
028260 KS	Samsung C&T	Korea	Conglomerates	17,594.7	56.8	Q3	5.7	67.2	Q4	7.7	34.4	63.8	9.9	0.9	Y	Y
WBC AU	Westpac	Australia	Financial services	50,589.6	73.0	Q1	9.3	91.5	Q1	4.8	27.1	44.2	11.7	1.2	Y	Y
AXSB IB	Axis Bank	India	Financial services	41,801.1	63.5	Q2	5.6	89.9	Q1	15.2	18.3	99.9	14.9	2.4	Y	
4661 JP	Oriental Land	Japan	Hotels & Leisure	65,382.9	65.9	Q2	3.2	79.4	Q2	3.8	16.7	634.7	68.6	8.8	Y	Y
2328 HK	PICC P&C	China	Insurance	25,210.5	46.9	Q5	(5.5)	65.5	Q4	(0.8)	11.6	9.8	5.4	0.7	Y	
2914 JP	Japan Tobacco	Japan	Consumer	51,638.7	68.1	Q1	5.3	75.2	Q3	(0.4)	61.1	54.0	14.0	2.8		Y
728 HK	China Telecom	China	Telecoms	62,321.4	46.8	Q5	(5.6)	63.1	Q4	(3.2)	42.3	19.9	9.1	0.7		Y
PDD US	PDD	China	Internet	184,620.5	31.0	Q5	(21.4)	52.6	Q5	(13.7)	39.6	191.0	29.9	6.4		Y
66 HK	MTR	Hong Kong	Conglomerates	22,215.1	57.4	Q3	(3.0)	67.1	Q4	(4.4)	20.6	234.6	7.5	0.9		Y
ANZ AU	ANZ Bank	Australia	Financial services	48,643.6	69.0	Q1	5.4	91.5	Q1	4.8	15.4	15.7	11.2	1.0		Y
1339 HK	PICC Group	China	Insurance	27,101.7	52.1	Q4	(0.4)	65.5	Q4	(0.8)	11.6	22.2	3.5	0.4	Y	
2308 TT	Delta Electronics	Taiwan	Technology	25,839.0	73.1	Q1	12.9	77.7	Q2	4.8	13.1	2.4	22.1	3.8		Y

Source: CLSA, Bloomberg, Refinitv Improvers - SMID caps

In SMID caps, we have picked three Indonesian companies, **Pakuwon, BTPS, Mayora Indah** amongst the top improvers. **ASICS** also made further improvement in CG which is included in our Sustain Asia Champion list. **Cheil WorldWide** is another Samsung related names that have seen CG improvement and expect its ROE to improve during 2023-2025. **Gamuda** from Malaysia also belongs to list.

Figure 50

CG improvers list - SMID caps

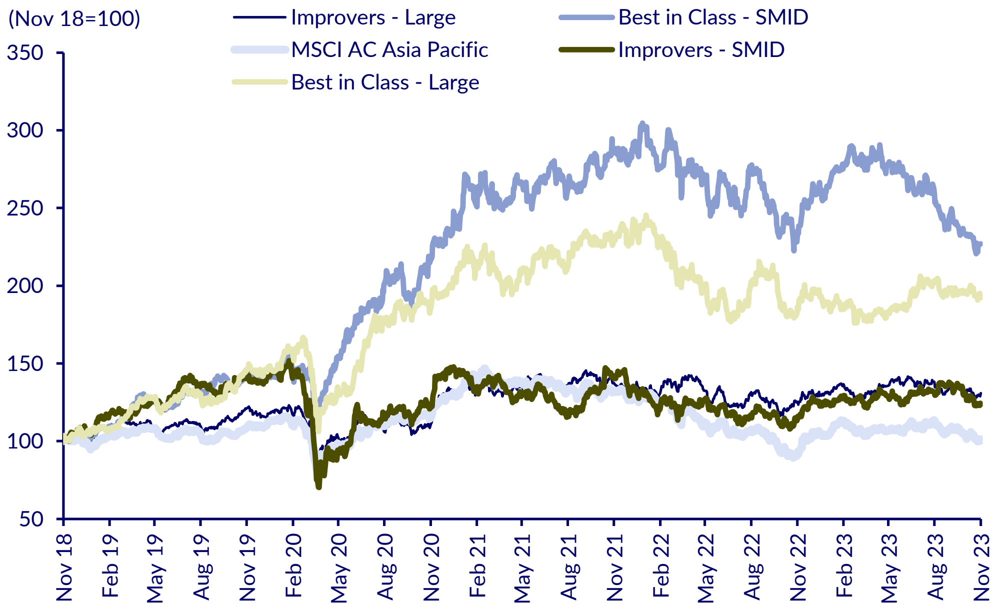
	Company name	Market	Sector	Mkt cap (US$m)	CLSA ESG score	ESG score quintile	ESG score vs mkt avg	CG score	CG score quintile	CG score vs mkt avg	CG improvement	ROE growth 20-25CL	24CL PE	24CL PB	ESG reports	Same analyst in 2020?
MYOR IJ	Mayora Indah	Indonesia	Consumer	3,460.9	51.3	Q4	2.7	67.5	Q4	5.2	38.6	20.9	18.4	3.3	Y	
PWON IJ	Pakuwon	Indonesia	Property	1,261.1	46.9	Q5	(1.7)	62.4	Q4	0.1	15.5	32.4	9.1	0.9	Y	Y
BTPS IJ	BTPS	Indonesia	Financial services	785.0	54.5	Q3	5.9	79.5	Q2	17.2	10.4	14.7	5.0	1.1	Y	Y
030000 KS	Cheil Worldwide	Korea	Media	1,765.3	52.7	Q4	1.6	72.6	Q3	13.1	14.1	3.5	9.1	1.4	Y	
7936 JP	Asics	Japan	Consumer	6,217.7	76.4	Q1	13.6	90.5	Q1	14.9	11.7	490.3	21.3	3.9	Y	Y
GAM MK	Gamuda	Malaysia	Infrastructure	2,602.9	59.6	Q3	3.0	79.7	Q2	7.7	12.2	91.5	11.8	1.6	Y	Y
MBT PM	Metrobank	Philippines	Financial services	4,173.7	38.8	Q5	(0.7)	55.4	Q5	6.0	71.2	56.5	5.5	0.6		Y
780 HK	Tongcheng Travel	China	Internet	3,956.5	70.8	Q1	18.3	87.7	Q1	21.4	49.5	430.5	14.7	1.5		Y
4917 JP	Mandom	Japan	Consumer	425.6	72.5	Q1	9.7	87.5	Q1	11.9	50.8	36.8	30.6	0.9		Y
ABMB MK	Alliance	Malaysia	Financial services	1,158.9	59.0	Q3	2.5	93.2	Q1	21.2	29.4	28.4	7.7	0.8		Y
OINL IS	Oil India	India	Energy	4,158.2	48.9	Q4	(9.0)	64.7	Q4	(10.0)	21.4	63.9	7.6	0.9		Y
9064 JP	Yamato	Japan	Transport	7,023.6	72.2	Q1	9.4	79.4	Q2	3.8	19.6	10.9	18.3	1.6		Y
142 HK	First Pacific	Hong Kong	Conglomerates	1,651.7	42.7	Q5	(17.7)	52.4	Q5	(19.1)	23.9	75.5	2.5	0.4		Y
NJCC IN	Nagarjuna	India	Capital goods	1,314.8	68.8	Q1	10.9	86.9	Q1	12.2	17.5	110.8	15.1	1.6		Y
JKIL IN	J Kumar Infra	India	Infrastructure	400.2	70.9	Q1	13.0	83.3	Q1	8.6	14.2	65.5	10.2	1.3		Y

Source: CLSA, Bloomberg, Refinitv

Back testing all four baskets, all outperformed MSCI Asia

Figure 51

Basket performance vs MSCI Asia Pacific



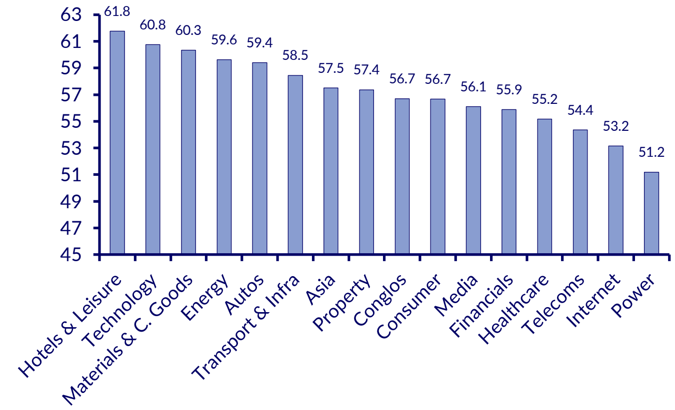
Source: CLSA, Refinitiv

Sustain Asia

Click to rate this research
Great
Solid
Meh

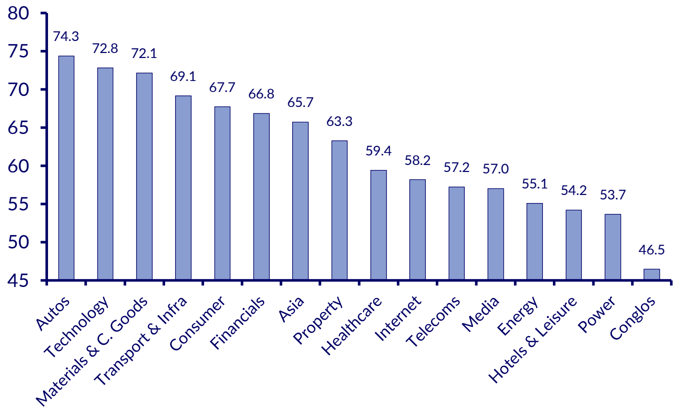
Appendix: CG Pillar Score by sectors

ACGA market score by sector



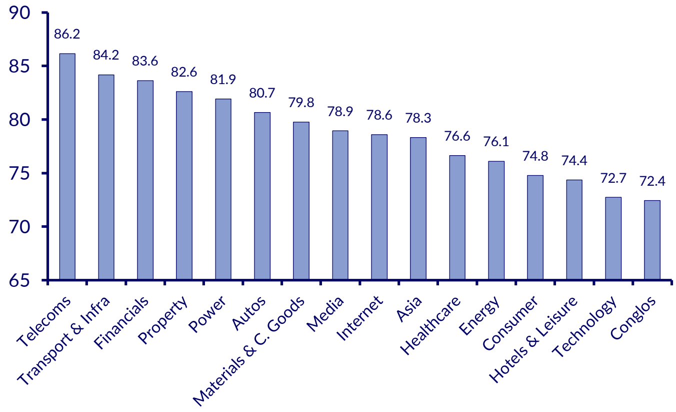
Source: CLSA

Discipline by sector



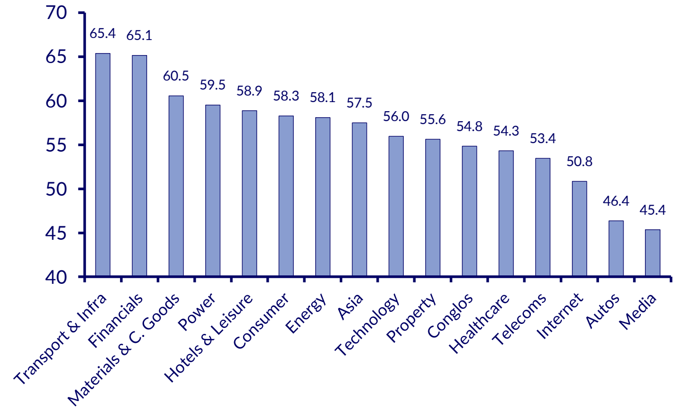
Source: CLSA

Transparency by sector



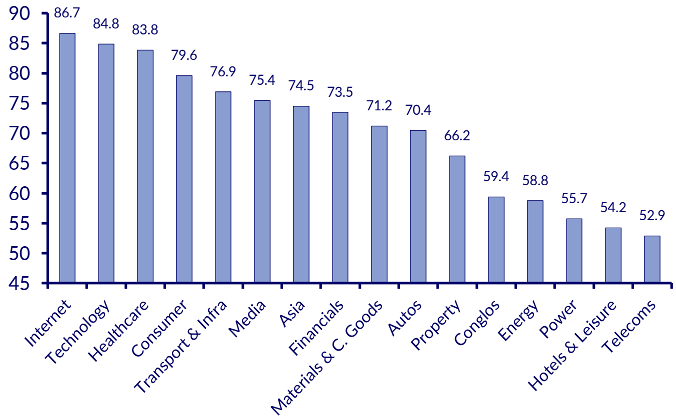
Source: CLSA

Independence by sector



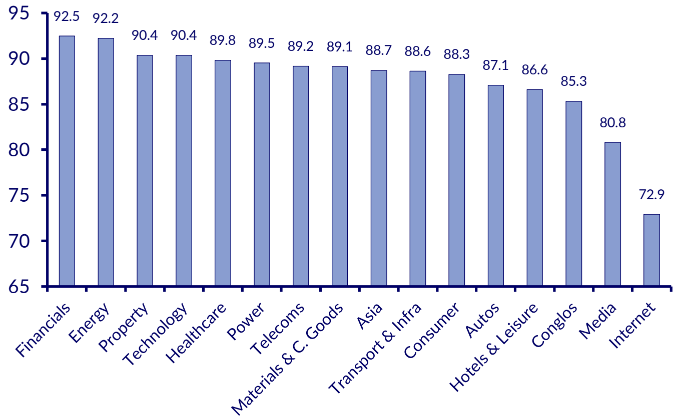
Source: CLSA

Responsibility by sector



Source: CLSA

Fairness by sector



Source: CLSA

Companies mentioned

Adani Ports (ADSEZ IB - RS1,022.6 - BUY)[1]
Alliance (ABMB MK - RM3.49 - BUY)[1]
Amcor (AMC AU - A$14.61 - O-PF)[1]
ANZ Bank (ANZ AU - A$24.61 - O-PF)[1]
Asics (7936 JP - ¥4,746 - O-PF)[1]
Axis Bank (AXSB IB - RS1,131.1 - BUY)[1]
Bajaj Finance (BAF IN - RS7,307.6 - BUY)[1]
Bosideng (3998 HK - HK$3.39 - BUY)[1]
Brambles (BXB AU - A$12.98 - O-PF)[1]
BTPS (BTPS IJ - RP1,580 - BUY)[1]
Chailease (5871 TT - NT$181.0 - BUY)[1]
Cheil Worldwide (030000 KS - ₩20,200 - BUY)[1]
China Telecom (728 HK - HK$3.61 - BUY)[1]
Classys (214150 KS - ₩37,450 - BUY)[1]
CSL (CSL AU - A$266.92 - BUY)[1]
Delta Electronics (2308 TT - NT$312.5 - O-PF)[2]
Eicher Motors (EIM IS - RS4,055.0 - U-PF)[1]
Elders Ltd (ELD AU - A$7.34 - O-PF)[1]
Elite Material (2383 TT - NT$393.5 - BUY)[2]
Fast Retailing (9983 JP - ¥35,150 - BUY)[1]
First Pacific (142 HK - HK$3.04 - BUY)[1]
Gamuda (GAM MK - RM4.46 - BUY)[1]
Gold Circuit (2368 TT - NT$238.0 - BUY)[2]
Gudeng (3680 TT - NT$372.5 - BUY)[2]
Hindustan Unilever (HUVR IB - RS2,521.3 - O-PF)[1]
HomePro (HMPRO TB - BT12.0 - BUY)[1]
ITC (ITC IB - RS449.1 - O-PF)[1]
J Kumar Infra (JKIL IN - RS441.2 - BUY)[1]
James Hardie (JHX AU - A$49.50 - O-PF)[1]
Japan Tobacco (2914 JP - ¥3,742 - O-PF)[1]
Kering (KER FP - €413.80 - O-PF)[1]
Lite-On Tech (2301 TT - NT$113.0 - BUY)[2]
Luxshare (002475 CH - RMB30.89 - O-PF)[1]
Lynas (LYC AU - A$6.39 - BUY)[1]
Mandom (4917 JP - ¥1,278 - U-PF)[1]
Mayora Indah (MYOR IJ - RP2,400 - BUY)[1]
Metrobank (MBT PM - P51.45 - BUY)[1]
Mineral Resources (MIN AU - A$62.49 - O-PF)[1]
MTR (66 HK - HK$27.90 - BUY)[1]
Nabtesco (6268 JP - ¥2,649 - BUY)[1]
Nagarjuna (NJCC IN - RS174.7 - BUY)[1]
Nongfu Spring (9633 HK - HK$44.95 - O-PF)[1]
NTT (9432 JP - ¥170 - U-PF)[1]
Oil India (OINL IS - RS319.9 - BUY)[1]
Oriental Land (4661 JP - ¥5,211 - O-PF)[1]
Pakuwon (PWON IJ - RP406 - O-PF)[1]
PDD (PDD US - US$138.96 - BUY)[1]
PICC Group (1339 HK - HK$2.44 - O-PF)[1]
PICC P&C (2328 HK - HK$8.85 - BUY)[1]
Power Grid (PWGR IB - RS228.6 - O-PF)[1]
Press Metal (PMAH MK - RM4.80 - BUY)[1]
Proya (603605 CH - RMB103.00 - BUY)[1]
Richemont (CFR SW - CHF115.75 - BUY)[1]
Samsung Biologics (207940 KS - ₩709,000 - BUY)[1]
Samsung C&T (028260 KS - ₩124,800 - BUY)[1]
SG Holdings (9143 JP - ¥2,092 - BUY)[1]
Sinbon (3023 TT - NT$290.0 - BUY)[2]
Softbank Corp (9434 JP - ¥1,808 - O-PF)[1]
Tata Steel (TATA IB - RS129.2 - O-PF)[1]
TechnoPro (6028 JP - ¥3,356 - BUY)[1]
Techtronic (669 HK - HK$77.55 - BUY)[1]
Tisco (TISCO TB - BT97.8 - BUY)[1]
Tongcheng Travel (780 HK - HK$13.70 - BUY)[1]
Wesfarmers (WES AU - A$53.70 - O-PF)[1]
Westpac (WBC AU - A$21.92 - O-PF)[1]
Wiwynn (6669 TT - NT$1,750.0 - BUY)[2]
Yamato (9064 JP - ¥2,680 - BUY)[1]

[1] Covered by CLSA; [2] Covered by CLST

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