

# Asian Corporate Governance Association (ACGA)

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## “Emerging Institutional Shareholder Activism in Asia”

Presentation by  
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# Agenda

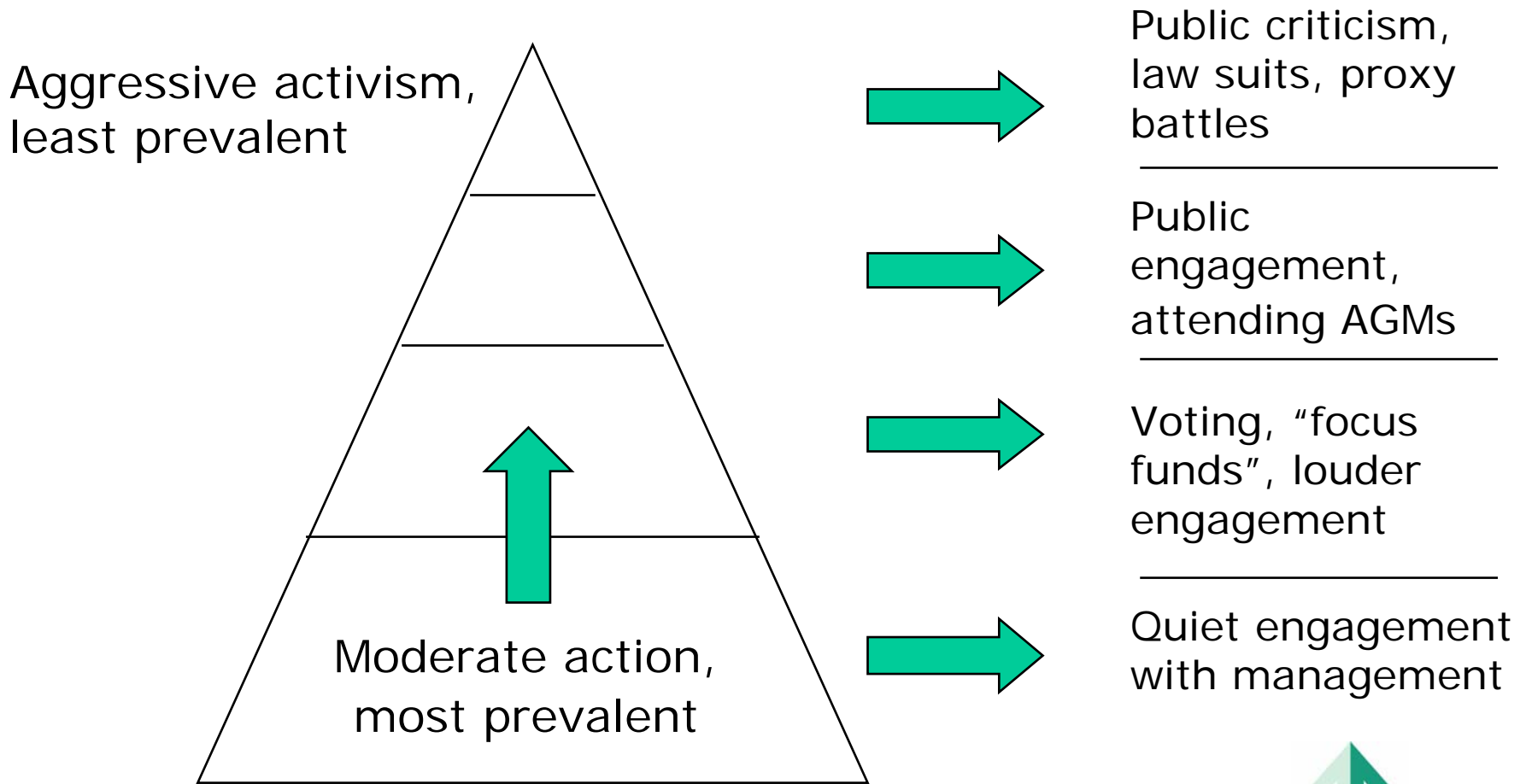
1. "Shareholder activism". Define terms.
2. Emerging activism in Asia. Who is involved? What is driving this?
3. China
4. Role of regulators

# 1. “Shareholder activism”

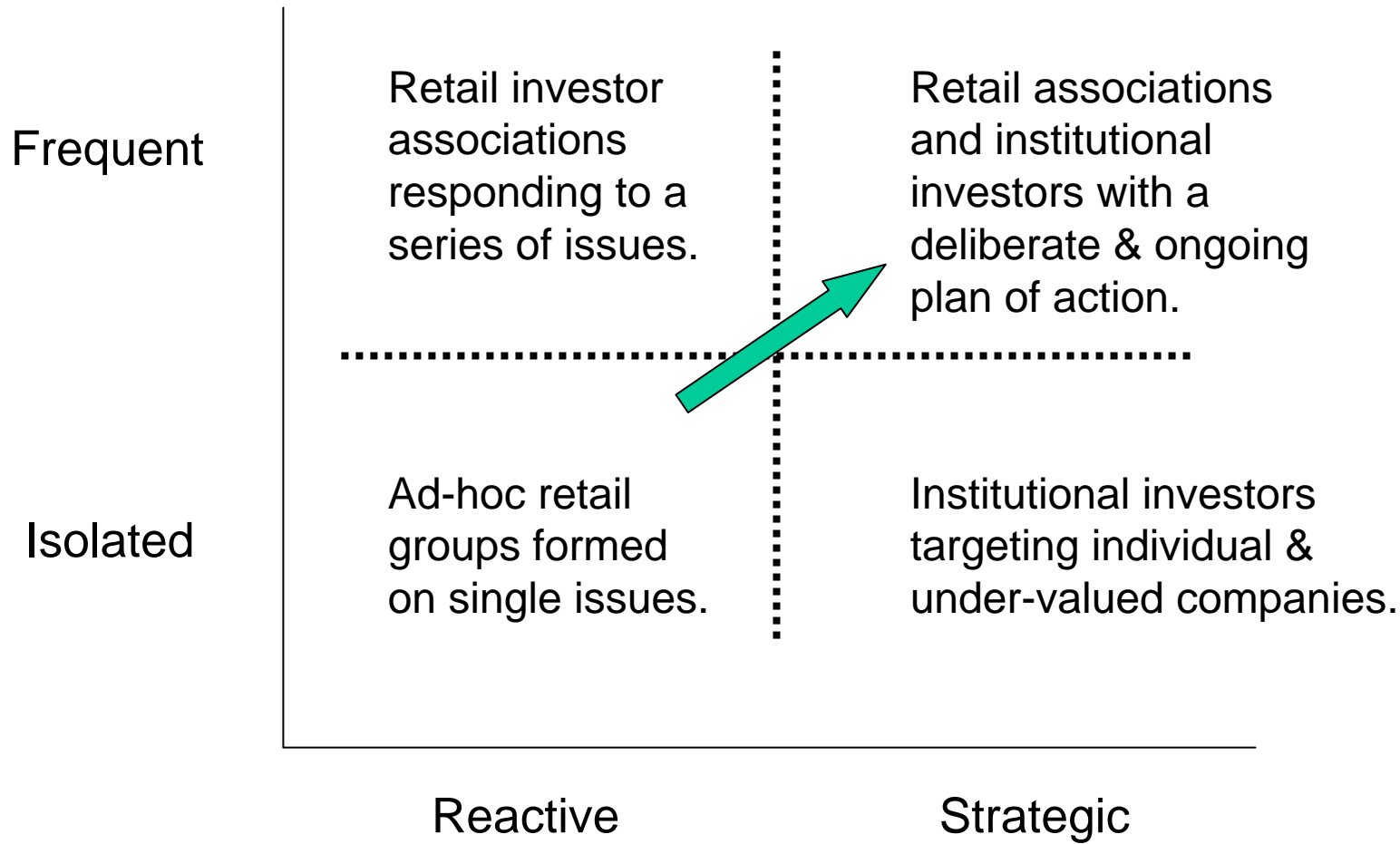
A productive definition:

- “Shareholder activism involves any action taken by minority investors to improve the governance of companies, ensure fair treatment of all shareholders and raise company value over time.”

# Degrees and types of activism



# Reactive or strategic?



## 2. Emergence of engaged investors in Asia: Institutional investors (public equity)

### 2000

- CalPERS
- Templeton
- Tiger Fund

Most of these institutions operate at the private-engagement and share-voting levels.

Source: ACGA research  
(selective list only for 2005)

### 2005

- Aberdeen
- BCIMC
- CalPERS
- Capital Group
- F&C
- Franklin Templeton
- Hermes
- Japan Pension Fund Association
- Lloyd George
- Maple-Brown Abbott
- M&A Consulting
- Prudential (UK)
- Overlook
- Sovereign
- SPARX
- Standard Life
- SSGA
- Thai Government Pension Fund
- TIAA-CREF

# Assets under management\*

| Fund                                | (US\$bn) |
|-------------------------------------|----------|
| State Street Global Advisors (SSGA) | 1,400    |
| Capital Group                       | 1,000    |
| Franklin Templeton                  | 360      |
| TIAA-CREF                           | 350      |
| F&C                                 | 229      |
| CalPERS                             | 200      |
| Standard Life                       | 186      |
| Japan Pension Fund Assoc            | 116      |
| Hermes                              | 102      |

\*As of mid-2005 for most funds, except Franklin Templeton (Sept 2004).

Sources: Company websites; ACGA research. Numbers are approximations.

# What is driving activism?

1. Size: The number of minority percentage stakes greater than 5%, 10% or 15% is increasing.
2. Investment philosophy: The belief in a correlation between good governance and returns is strengthening, as is the evidence.
3. External pressure: Rising expectation that pension funds and fund managers should act as “fiduciaries” for their beneficiaries/clients.
4. Economics: low returns over several years (eg, Japan), leading to asset-liability mismatch



# Reality check

- Most mutual funds in Asia are not engaged in governance activism. (Nor are they elsewhere.)
- Most state institutional investors in Asia (ie, pension and investment funds) have no clear policy on corporate governance.
- Most public-equity investment has become very short-term (which inhibits activism).  
“Engagement” means questions about widgets and next quarter’s figures.
- Conflicts of interest within financial institutions often deter even active engagement.

## Asian giants: Are they stepping up to the plate?

| Fund                      | Country   | (US\$bn) |
|---------------------------|-----------|----------|
| Govt Pension Inv. Fund    | Japan     | 1,000    |
| National Pension Corp     | Korea     | 124      |
| Chung Hua Post            | Taiwan    | 113      |
| Govt Investment Corp      | Singapore | 106      |
| Life Insurance Corp       | India     | 75       |
| Samsung Life Insurance    | Korea     | 74       |
| Employees Provident Fund  | Malaysia  | 64       |
| Central Provident Fund    | Singapore | 62       |
| Temasek Holdings          | Singapore | 61       |
| Cathay Financial Holdings | Taiwan    | 57       |

Sources: *Asian Investor* magazine (interview with editor); ACGA research.

# Key retail players

- Maverick retail activists in Asia:
  - Hong Kong: David Webb of webb-site.com
  - Korea: Professor Hasung Jang and his colleagues at PSPD-PEC.
  - Japan: Shareholder Ombudsman
  - Malaysia: Minority Shareholder Watchdog Group (government funded)
  - Singapore: David Gerald and his colleagues at the Securities Investors Association (Singapore).
  - Thailand: Thai Investors Association (government supported)

## 3. China

- Several isolated cases of minority shareholder activism: voting against company proposals; court cases; public commentary. But no independent investor associations, nor any apparent strategy. Mostly reactive.
- *Caijing* magazine a type of proxy for minority investors.
- When will the institutions step up to the plate? QFII investors. Domestic asset managers. Sino-foreign joint venture mutual funds.

## 4. Role of regulators

Regulators need to level the playing field:

- Ensure minorities receive sufficient information on which to vote and early enough: 28 days.
- Ensure voting rights are properly respected. Issuers should count all the shares voted by minorities: “mandatory voting by poll”.
- Minorities should be able to attend shareholder meetings: “multiple proxies”; avoid clustering of meetings; webcasting.

# Conclusion

- Shareholder activism is an integral part of “market discipline”, which is itself a key component in corporate governance reform.
- Regulators cannot enforce on their own (although we should expect more of them; plus they need to level the playing field).
- Enlightened self-discipline by corporates is a positive, but experience shows it is limited.
- Activism has an important economic role: it contributes to stronger, deeper capital markets.

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