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Asian Corporate Governance Association (ACGA)

"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

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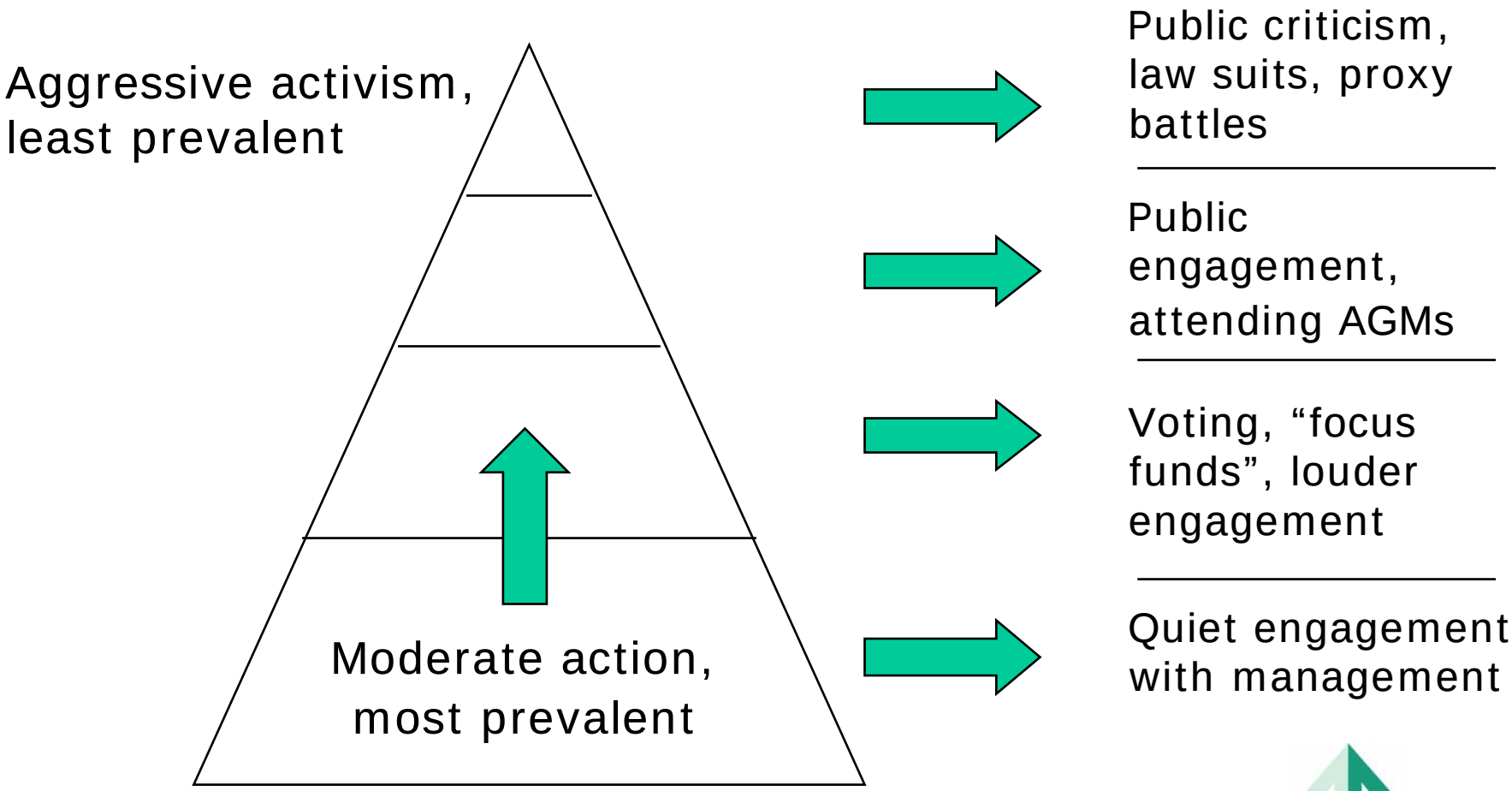
1. “Shareholder activism”

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.”

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Degrees and types of activism



Source: ACGA research

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Reactive or strategic?



Source: ACGA research

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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

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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.

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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

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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.

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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.

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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)

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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.

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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.

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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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