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Asian Corporate Governance Association (ACGA)

“Do Shareholders Value Good Governance?”

Presentation by:
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Institute of Corporate Directors
Breakfast Roundtable, Manila
February 8, 2013

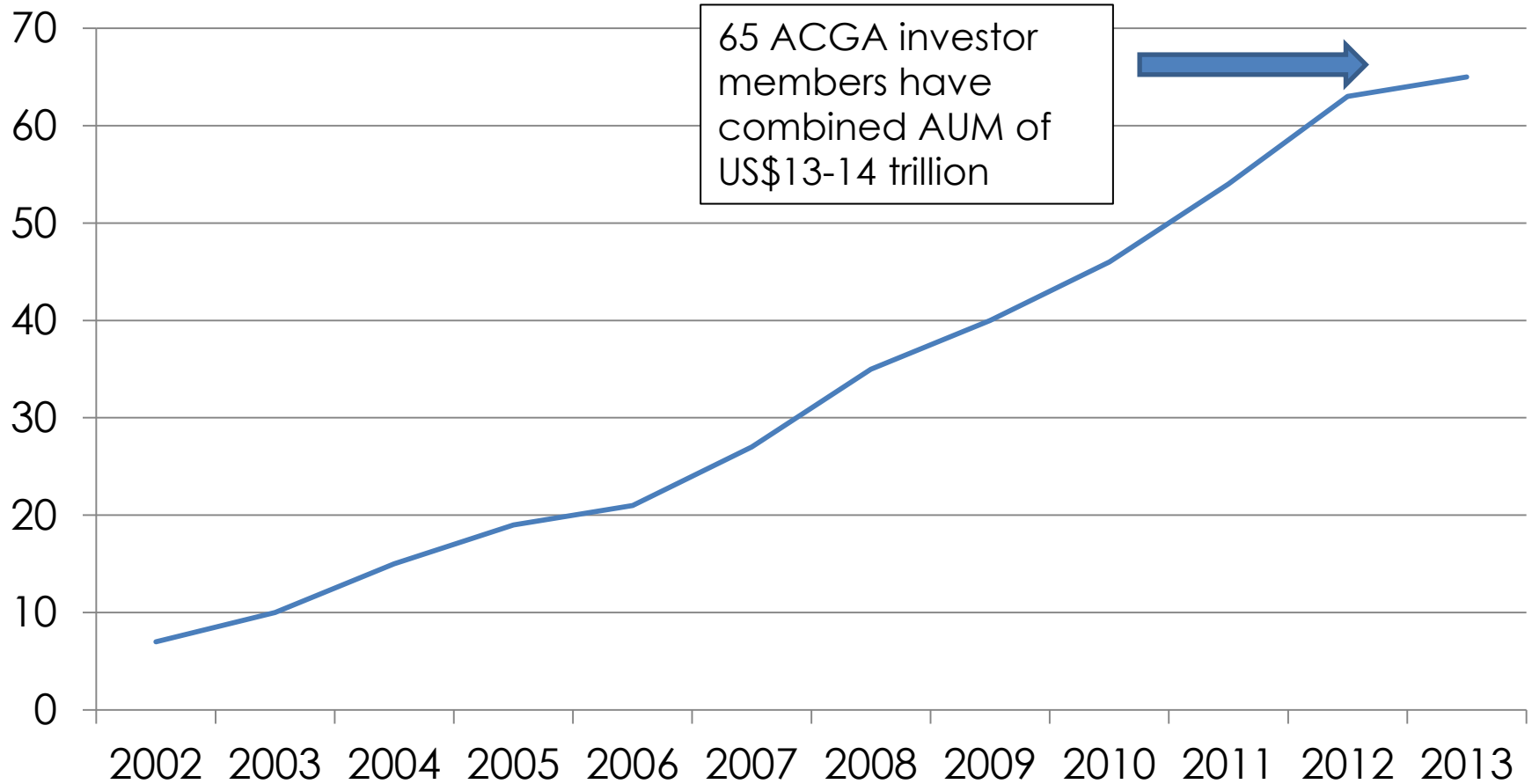
Agenda

1. Purpose of ACGA
2. Growth in ACGA investor membership
3. Rationale for investor interest in governance
4. What do investors want in Asia?
5. Internal challenges investors face in implementing governance policies
6. How much do investors value good governance?

1. Purpose of ACGA

- Formed in late 1999 to facilitate long-term systemic improvements in corporate governance in Asia and provide an independent voice on evolving policy, regulatory and best-practice issues.
- ACGA carries out research on corporate governance in Asia, engages with regulators and listed companies, and works with investors and companies to raise standards. A practical, hands-on focus.
- Incorporated in Hong Kong as a non-profit membership association and funded by 100 companies from Asia and around the world (two thirds of which are institutional investors). Other members include Asian listed companies, insurance firms, audit and law firms, and universities.
- ACGA is independent of government: We do not accept government agencies, regulators or stock exchanges as members, nor funding from them or related organisations.

2. Growth in ACGA Investor Membership

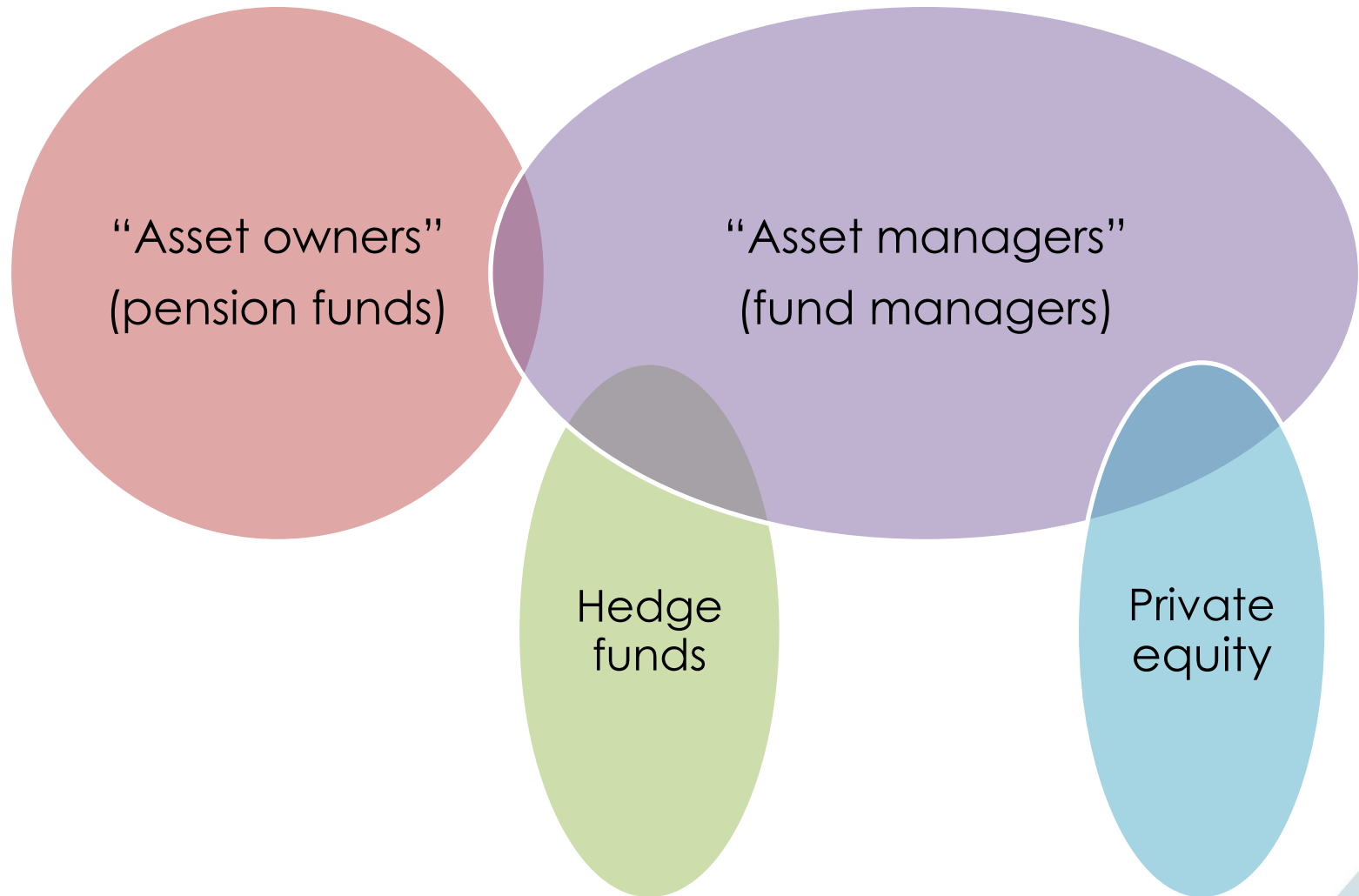


ACGA Investor Members

Aberdeen Asset Management Asia
AMP Capital Investors
Amundi
Andra AP-fonden AP2
APG Asset Management
AXA Investment Managers
Baillie Gifford
BlackRock
bcIMC
CalPERS
CalSTRS
Capital Group Companies
Cbus Superannuation Fund
China Universal Asset Management
Co-operative Asset Management
Corston-Smith Asset Management
Dixon Advisory
Dragon Capital
East Capital
Eastspring Investment
F&C Asset Management
FIL Investment Management
First State Investments
Florida State Board of Administration
Governance for Owners
Harris Associates
Henderson Global Investors
Hermes Fund Managers
HSBC Global Asset Management
Ichigo Asset Management
Indus Capital Partners
Invesco Asset Management (Japan)

Investec Asset Management
Legal & General Investment Management
LGT Capital Partners
LIM Advisors
Lloyd George Management
Lombard Investments
Manulife (International)
Maple-Brown Abbott
Mn Services
Morgan Stanley Investment Management
Newton Investment Management Ltd
Norges Bank Investment Management
Oaktree Capital Management
Ontario Teachers' Pension Plan
Overlook Investments
PGGM Investments
RAILPEN Investments
Robeco
Southeastern Asset Management
Standard Life Investments
State Street Global Advisors (Asia)
SMAM
Taiyo Pacific Partners
Threadneedle Asset Management
TIAA-CREF
UniSuper Management
Universities Superannuation Scheme
Utilico Emerging Markets
Ward Ferry Management Limited
Washington State Investment Board
Wellington Management Company

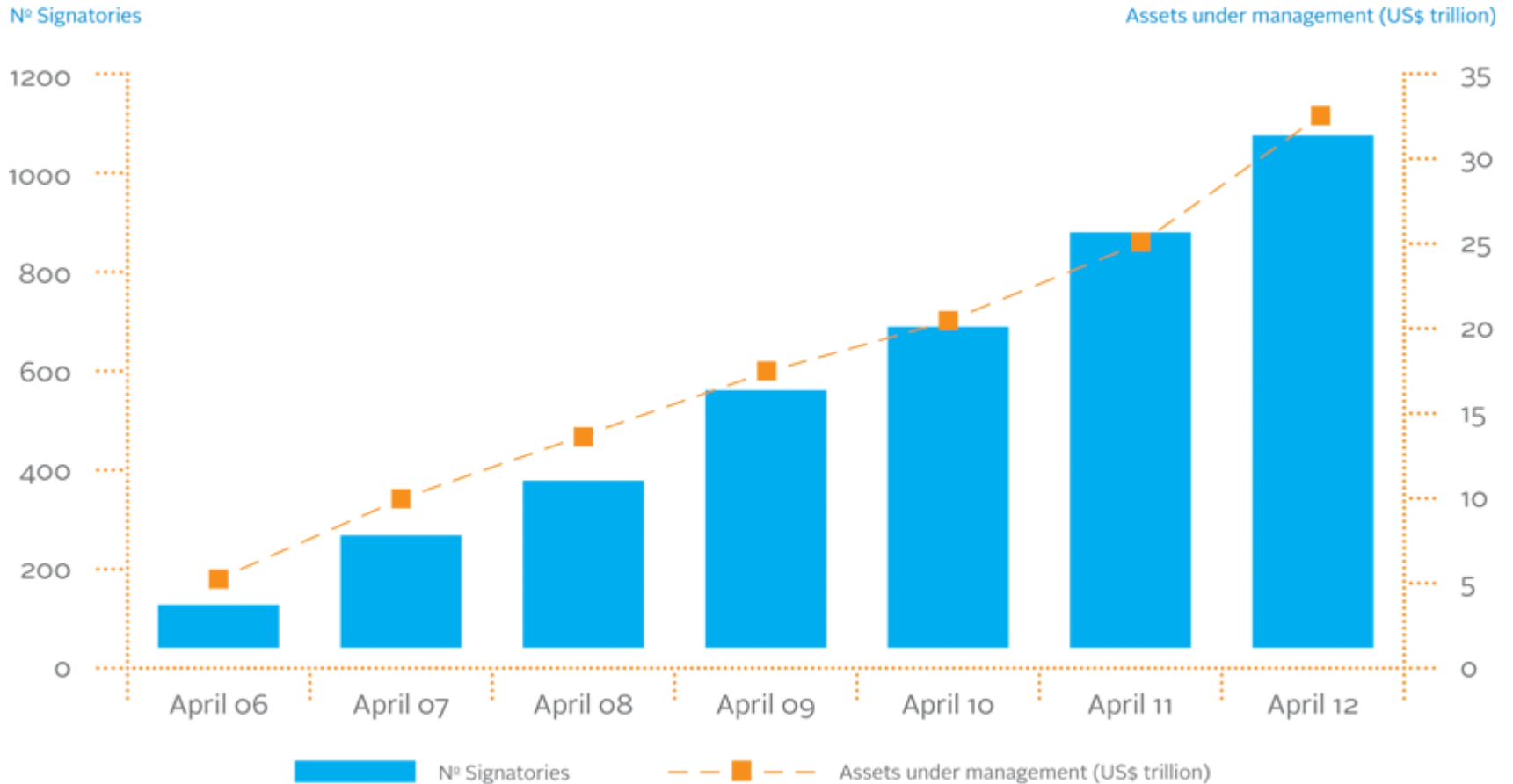
Investor Member Backgrounds



3. Rationale for Investor Interest in CG

- **The fiduciary argument:** Institutional investors hold assets on trust for beneficiaries and have an obligation to act as owners and/or stewards. In practical terms, this means voting shares, engaging with companies, screening investments and so on. The more they invest in Asia, the more they take governance seriously.
- **The risk-management argument:** Repeated crises show that investors who do not take governance into account are likely to be ignoring some major risks. Some, but not all, investors lose money in all CG scandals.
- **The value-creation argument:** A sensitivity to governance and a constructive dialogue with management can help to build investment value. The new breed of “CG focus funds”.
- **The responsible-investor argument:** Investors today have a duty to take “ESG” into account in their investment process. The UNPRI charter that promotes the “Principles of Responsible Investment”.

UNPRI Signatories (www.unpri.org)



4. What do investors want in Asia?

Must haves:

- A consistent regulatory environment.
- Financial reporting that is detailed and has integrity. No surprises.
- Immediate disclosure of material events.
- Clarity and controls on related-party transactions—*the* CG issue.
- Strong shareholder rights (eg, approval of major transactions).
- Fair systems of capital raising (ie, no excessive dilution).
- Transparent shareholder meetings, incl. voting by poll.

Like to have:

- Independent and well-balanced boards.
- Meaningful “non-financial reporting” on company governance.
- Open shareholder communications.
- Clarity on executive compensation.
- A policy/strategy on sustainability.

5. Internal challenges

- Limited and often unstable budgets for CG / ESG work
 - Operating in one country/region is hard. Operating around the world extremely difficult.
- Shortage of expertise and experienced staff
 - CG is still a relatively new area. Not as well paid as investment.
- Difficulty of integrating portfolio management priorities / incentives with CG thinking / concerns. Often operating in different silos.
- Engaging individually with companies or in groups? Latter more effective, but often hampered by regulation.
- Conflicts of interest—clients may be corporate or state pension and investment funds. Parents may be banks.

6. How much do investors value good CG?

Recent academic research indicates that governance can enhance performance and the “market” broadly values it:

1. Association of British Insurers, “Governance and Performance in Corporate Britain” (2008).
 - Found that poorly governed companies underperformed over a five-year period by 3-5 percentage a year on an industry-adjusted ROA.
 - Over five years, shares of well-governed companies produced an extra return of 37 basis points a month industry-adjusted.
2. ECGI, “Hedge Fund Activism in Europe” (2010)
 - High abnormal returns for both public and private activism from 2000 to 2008. More than 300 cases studied.

In Asia, CLSA has found that investors value not only well-governed companies, but more particularly those that are improving.

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