



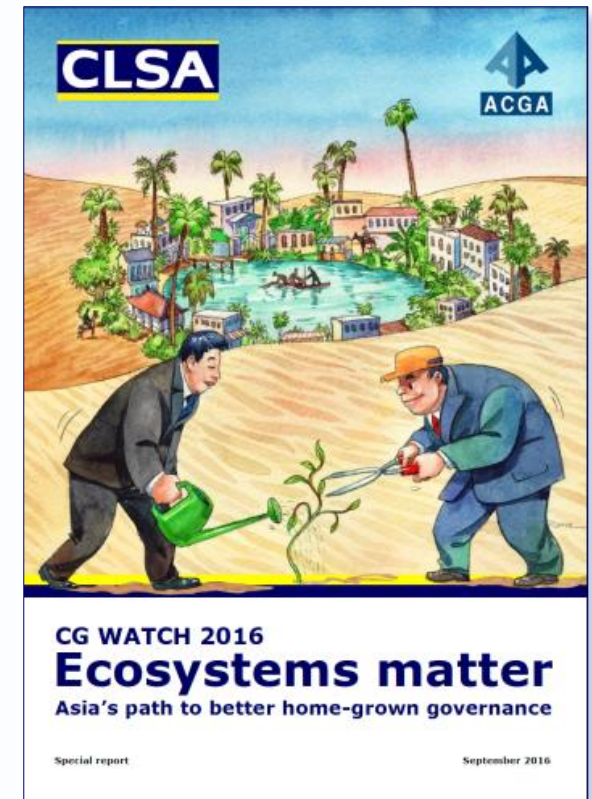
CG Watch 2016

Ecosystems matter

Shaun Cochran, Jamie Allen

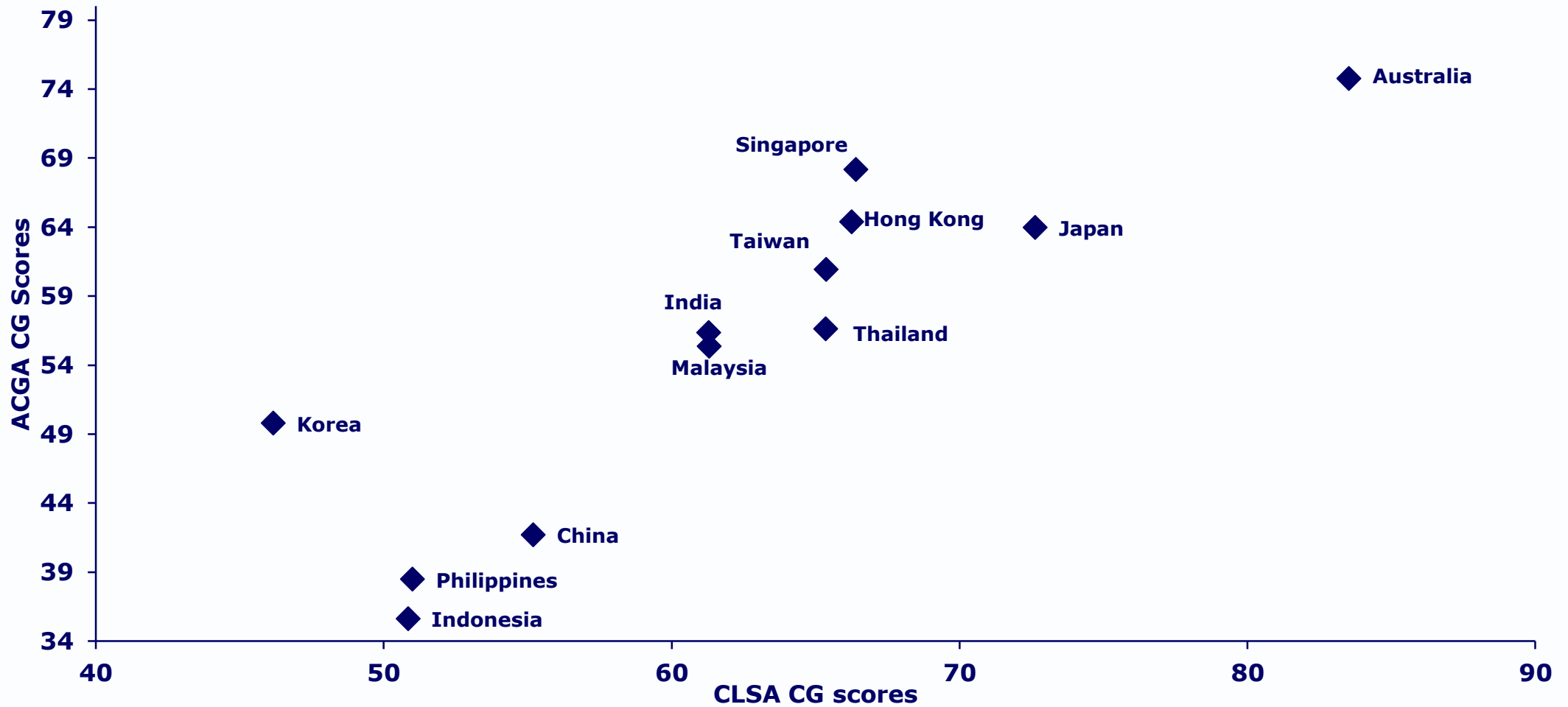
November 2016

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Top-down and bottom-up conclusions are broadly in-line

CLSA versus ACGA scores by market
Bottom-up and top-down scores indicate Australia as a clear leader



Source: CLSA, ACGA

Hong Kong and Singapore continue to score well bottom up while Philippines, Indonesia and Korea are always lagging

CLSA historical market rankings vs 2016

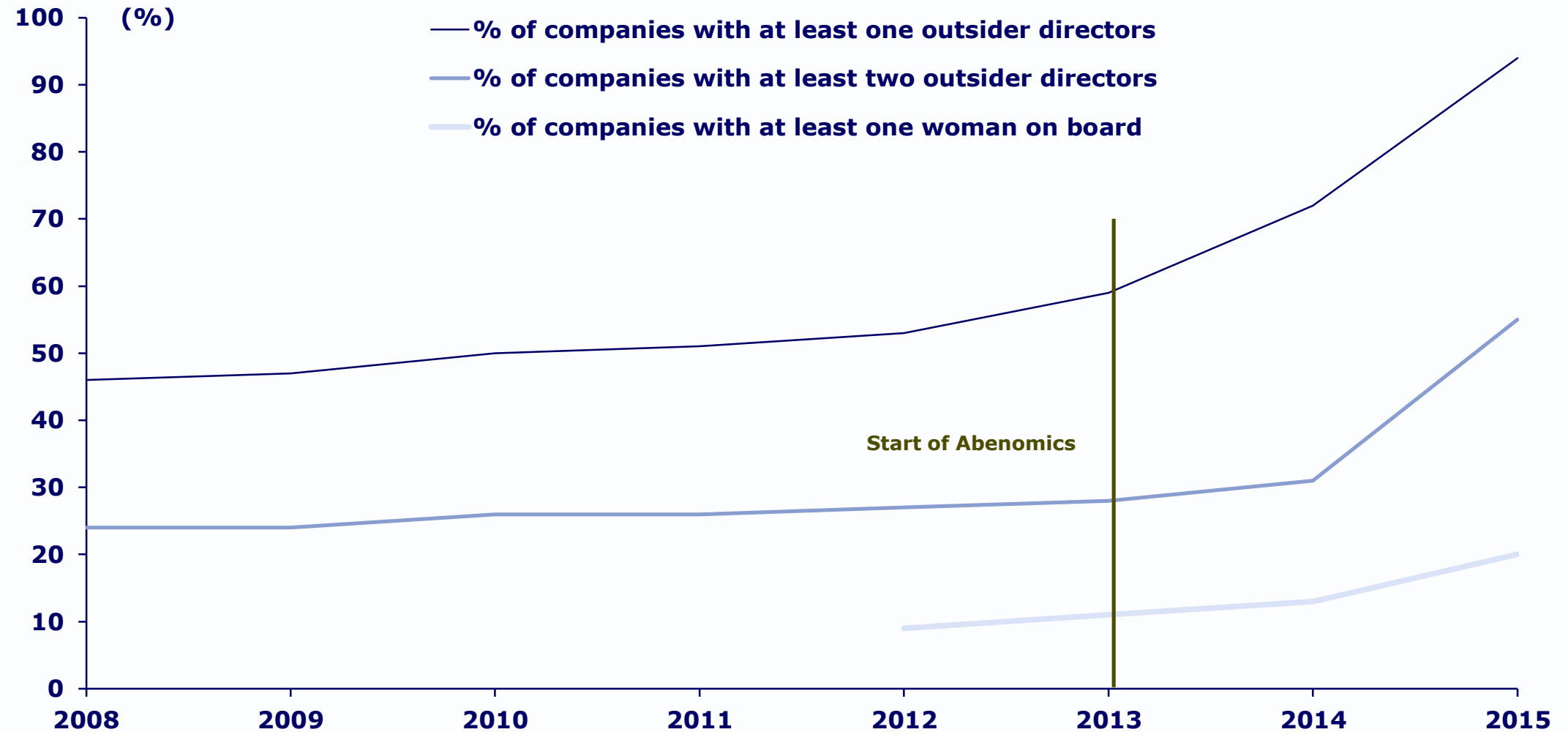
Japan show a big jump this year on regulatory reform and elimination of some technical questions

Country Ranking	2005	2007	2010	2012	2014	2016
1	Thailand	Thailand	Thailand	Australia	Australia	Australia
2	Hong Kong	Hong Kong	Hong Kong	Singapore	Hong Kong	Japan
3	Taiwan	Taiwan	Singapore	Hong Kong	Singapore	Singapore
4	Malaysia	Malaysia	India	Japan	Thailand	Hong Kong
5	Singapore	India	Malaysia	Taiwan	Taiwan	Taiwan
6	India	Singapore	Taiwan	Malaysia	Japan	Thailand
7	Korea	Philippines	Philippines	Thailand	Malaysia	India
8	Philippines	Korea	Korea	India	India	Malaysia
9	China	China	China	China	China	China
10	Indonesia	Indonesia	Indonesia	Korea	Indonesia	Philippines
11				Philippines	Philippines	Indonesia
12				Indonesia	Korea	Korea

Source: CLSA 2001-16 CG Watch Survey

Government reform contributed to better governance in Japan

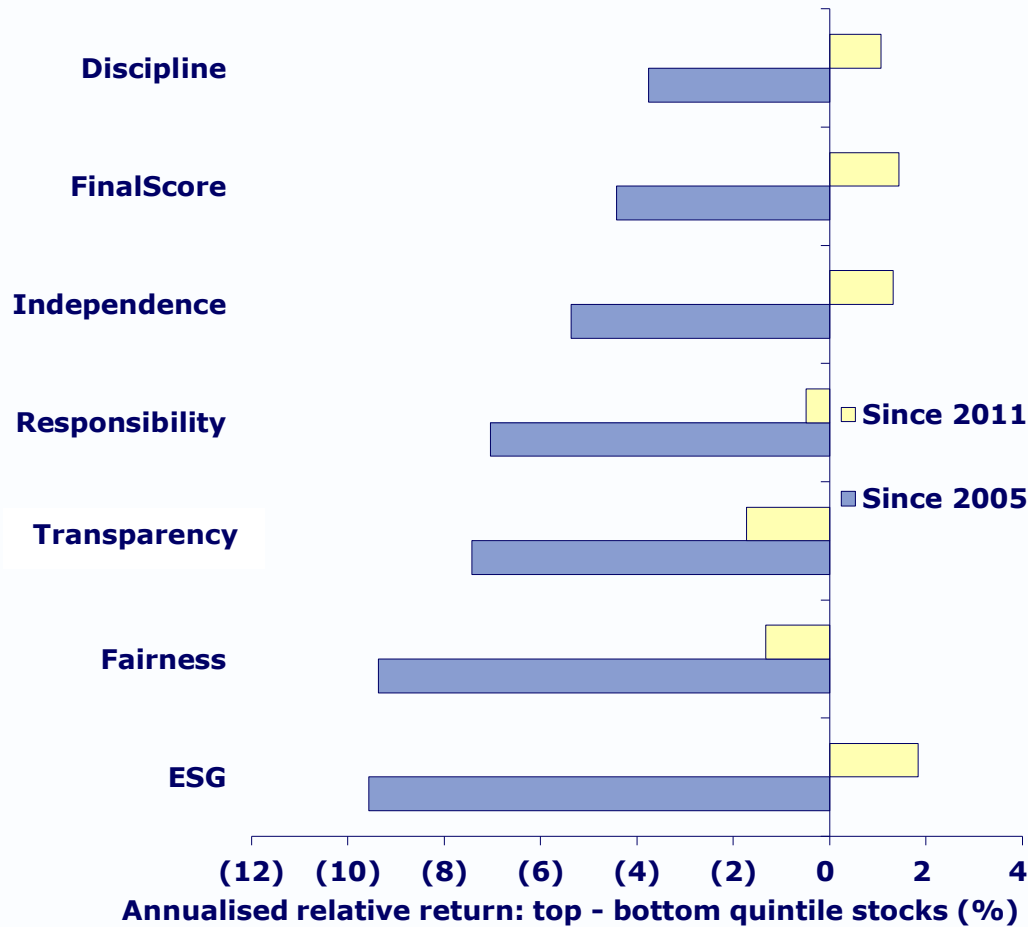
Abenomics contributing to change in board diversity
Starting in 2013 when Abenomics started board diversity is trending upward



Source: CLSA, ISS

Governance is difficult to link to share-price performance but where the index moved sideways, top CG companies outperformed

Asia ex-Japan performance by CG quintiles
Trying to link governance to historical performance gave mixed results



Source: CLSA, evalu@tor, Microstrategy

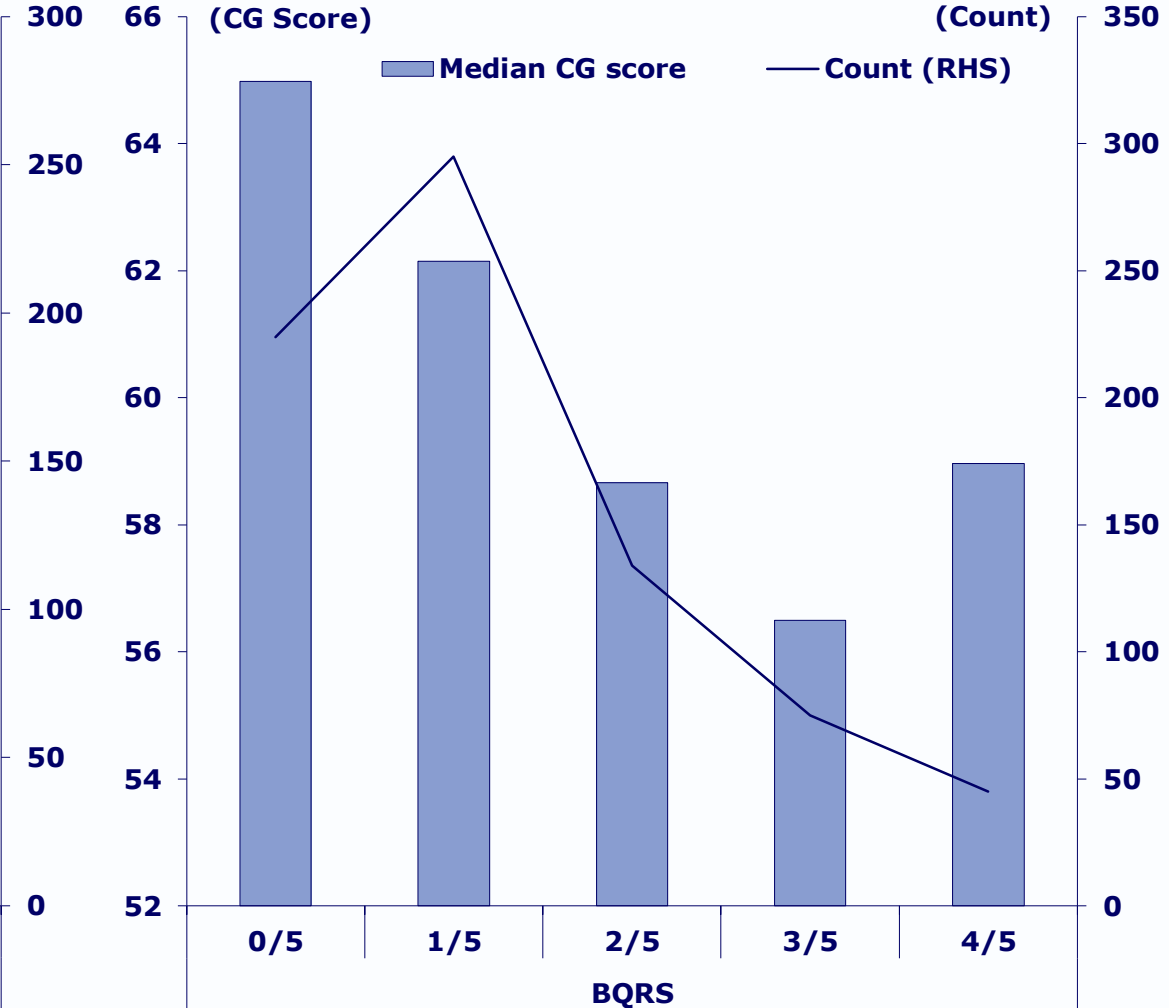
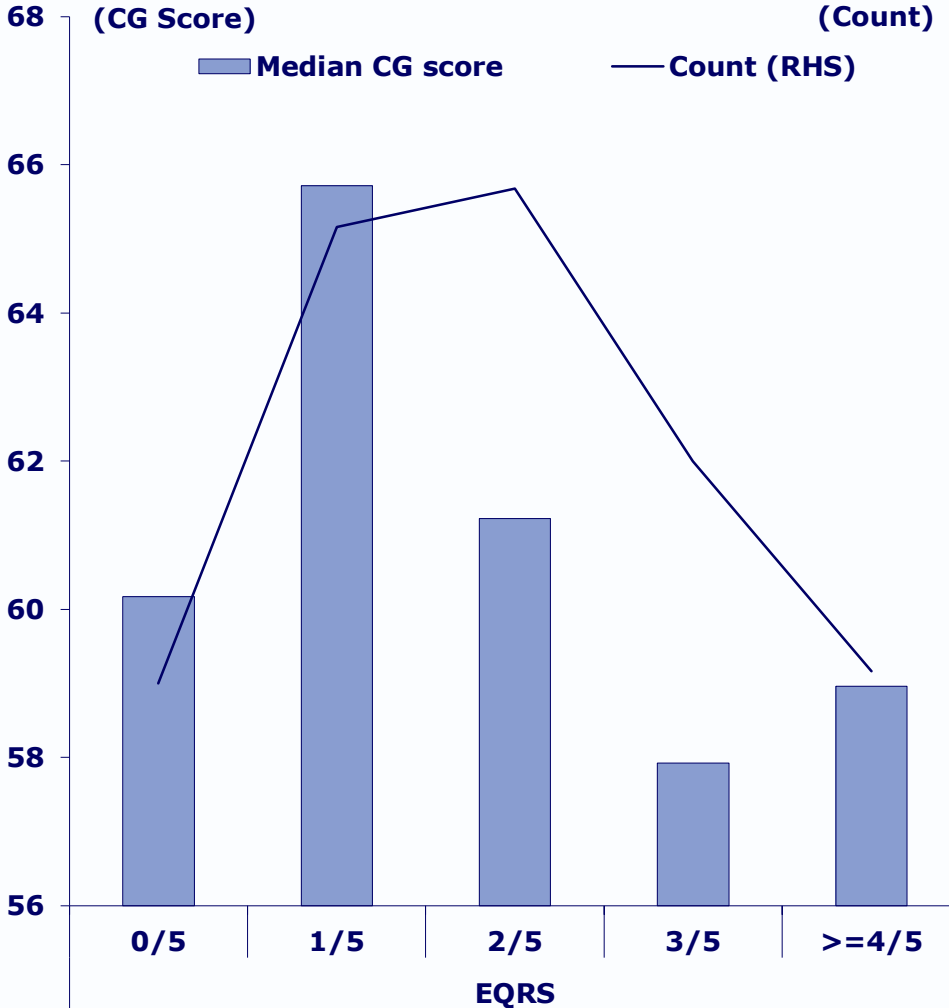
Asia ex-Japan index performance
Governance outperforms after 2011



Source: CLSA

EQRS & BQRS data also show clear links with governance rankings

Median CG Score by EQRS & BQRS basket
 Companies in the top 2 quintiles of EQRS & BQRS tend to have higher median CG scores

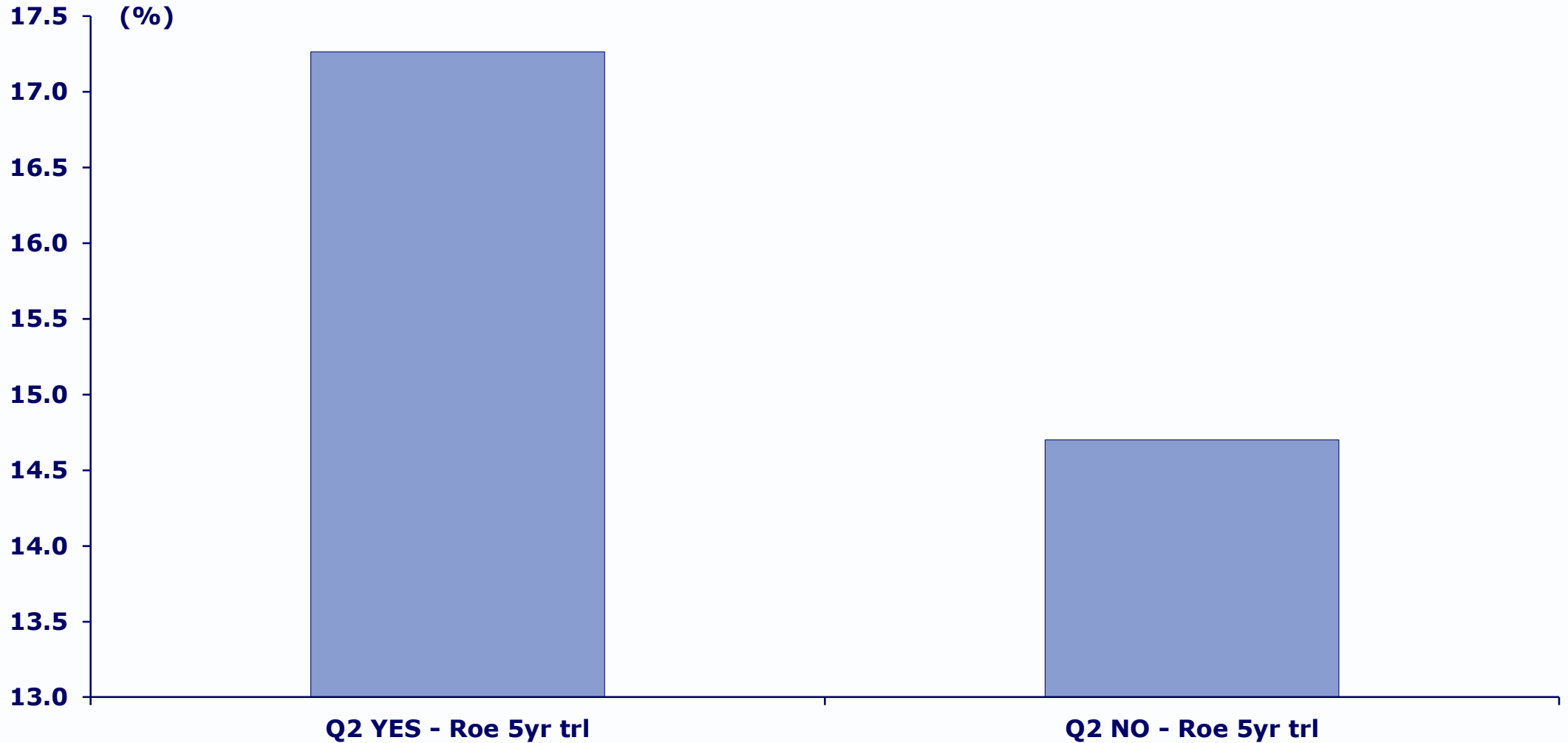


Source: CLSA, evalu@tor, Microstrategy



Companies who understand cost of capital outperform those that don't on ROEs delivered, governance matters

ROE comparison of companies who do and don't prioritise cost of capital
Companies who answered Yes to Q2 had 2.5ppt higher ROEs than the ones answered No



Source: CLSA

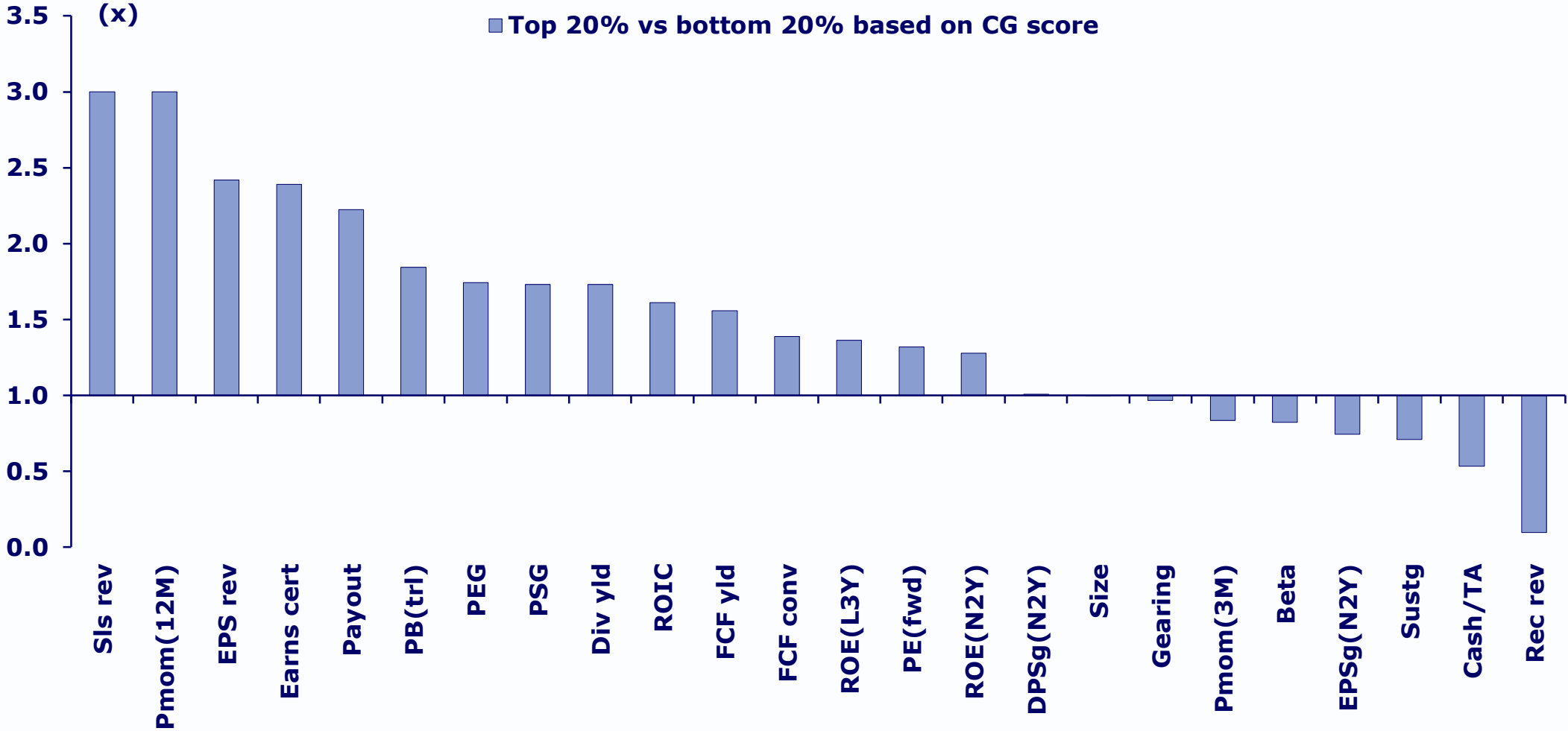


Appendix

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However, proprietary CLSA data does suggest a much clearer relationship between fundamental and CG factors

Difference on fundamental factor performance by governance quintiles
 Most of the fundamental factors are higher for top governed companies

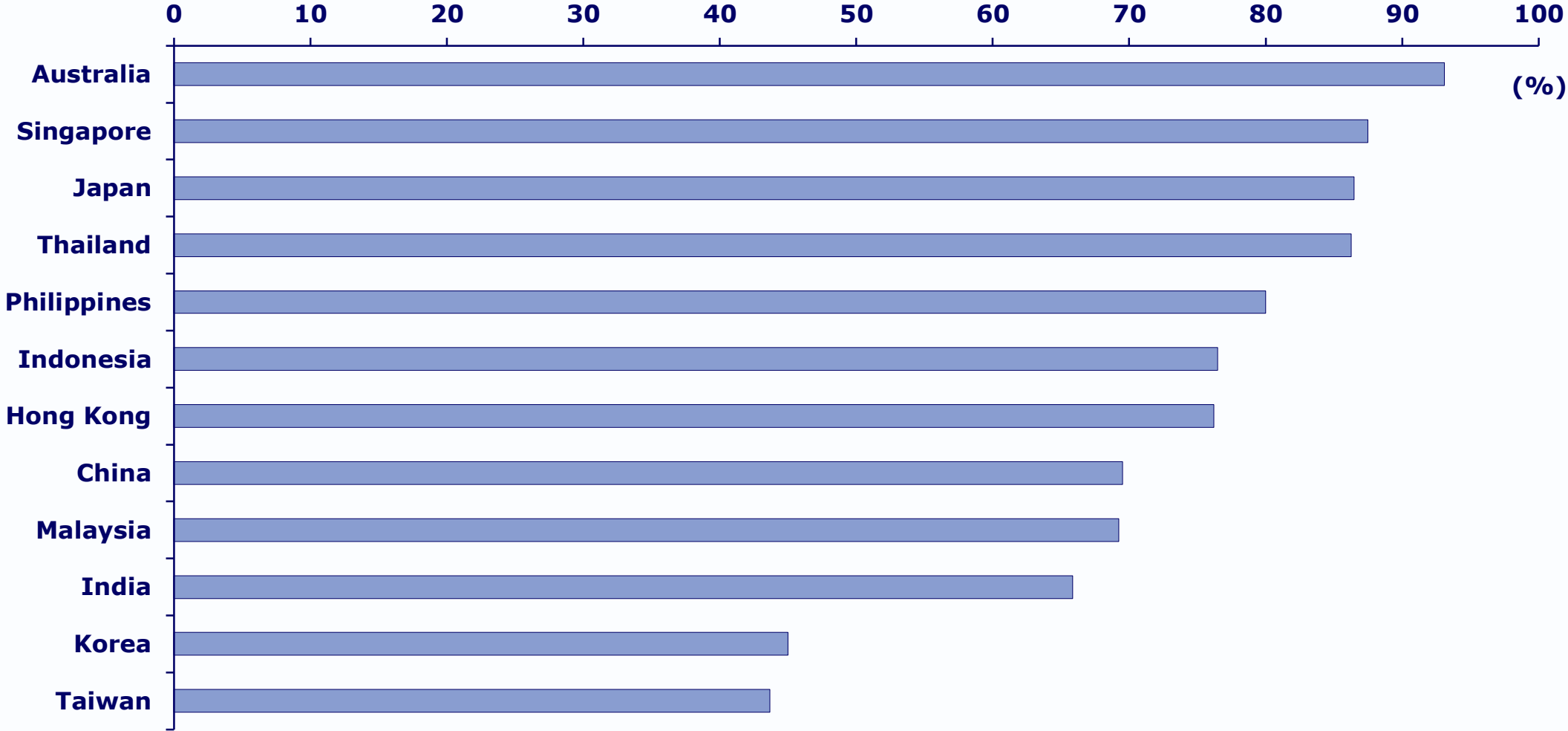


Source: CLSA, evalu@tor, Microstrategy



It is perhaps no surprise where analysts have the strongest and weakest access channels; this is a critical cultural indicator

Percentage of companies assessed as providing access by country
Korea and Taiwan stands out with weaker company access



Source: CLSA

Fairness and transparency scores outperform. Discipline produces middling scores while responsibility and independence underperform

CLSA overall CG scores and by market by category for companies (2016)
Japan is strongest in all categories but independence ex-Australia

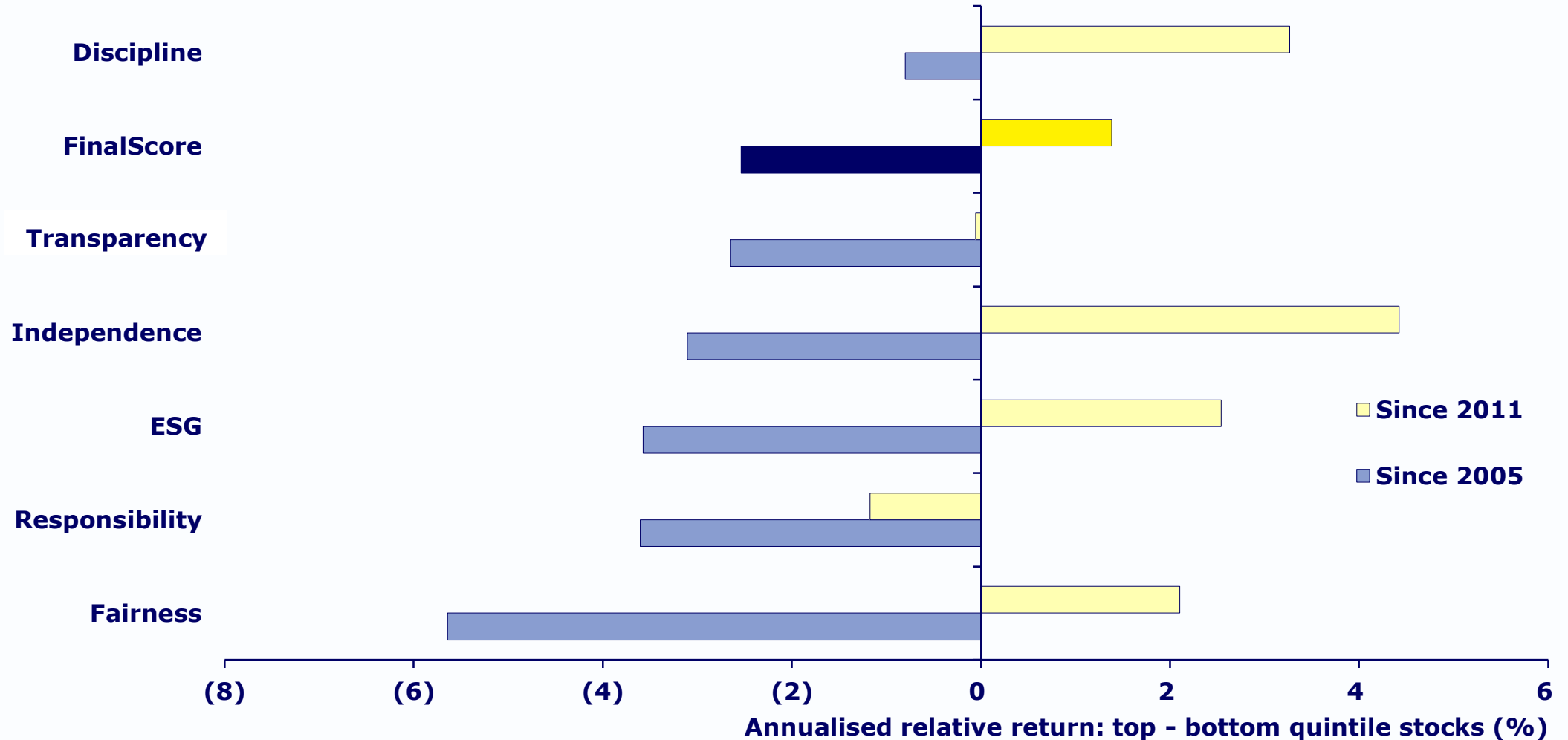
(%)	Discipline	Transparency	Independence	Responsibility	Fairness	E&S	Overall CG
Australia	76.1	93.3	77.2	86.2	93.9	67.2	83.5
China	46.2	58.7	47.1	49.2	70.4	63.3	55.2
Hong Kong	66.4	71.6	49.2	61.0	84.3	64.4	66.3
India	55.7	73.0	35.7	55.2	84.7	65.4	61.3
Indonesia	53.6	68.8	19.3	30.9	77.9	57.8	50.9
Japan	71.2	86.9	35.5	84.8	87.3	68.0	72.6
Korea	39.5	59.8	19.4	45.8	57.3	62.5	46.2
Malaysia	57.7	67.1	38.3	57.1	85.4	63.1	61.3
Philippines	59.1	58.1	27.9	35.5	66.1	65.9	51.0
Singapore	58.6	86.1	51.3	52.8	85.7	62.0	66.4
Taiwan	66.0	60.5	49.8	73.1	76.4	67.3	65.4
Thailand	56.6	85.0	63.7	38.0	83.7	64.7	65.4
Average	58.9	72.4	42.9	55.8	79.4	64.3	62.1
Average ex-Aus	57.3	70.5	39.7	53.0	78.1	64.0	60.2
Max-Min range (ex-Aus)	31.6	28.8	44.4	53.9	30.0	10.2	26.5

Note: Boxes highlighted leader (brown) and laggard (gold) ex-Australia

Source: CLSA

Country neutralisation fails to confirm CG's performance contribution

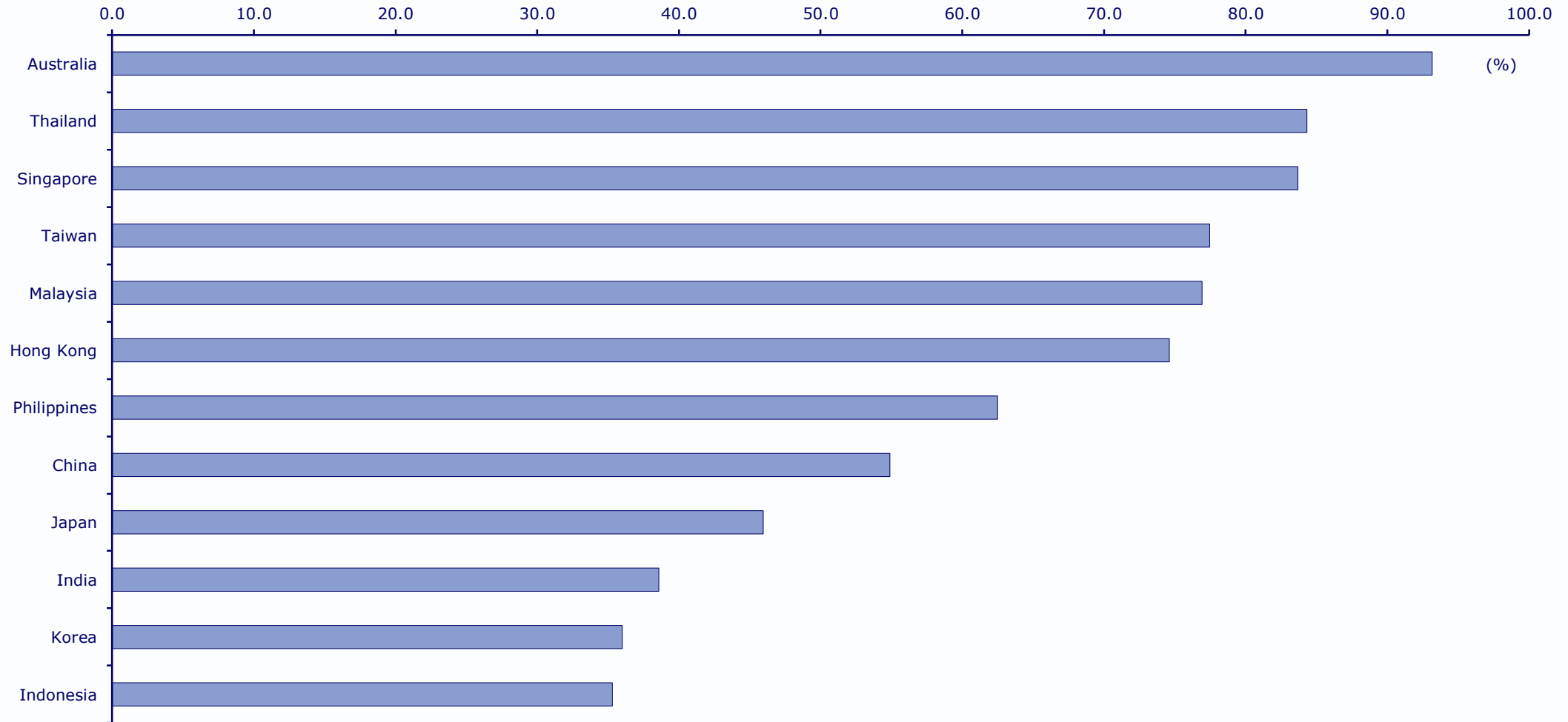
Asia ex-Japan performance by CG quintiles (country neutral)
Top quintile slightly outperforms bottom quintile since 2011 but not since 2005



Source: CLSA, evalu@tor, Microstrategy

Analysts are focused on company's ability to manage their cost of capital and show a wide range of answers by country

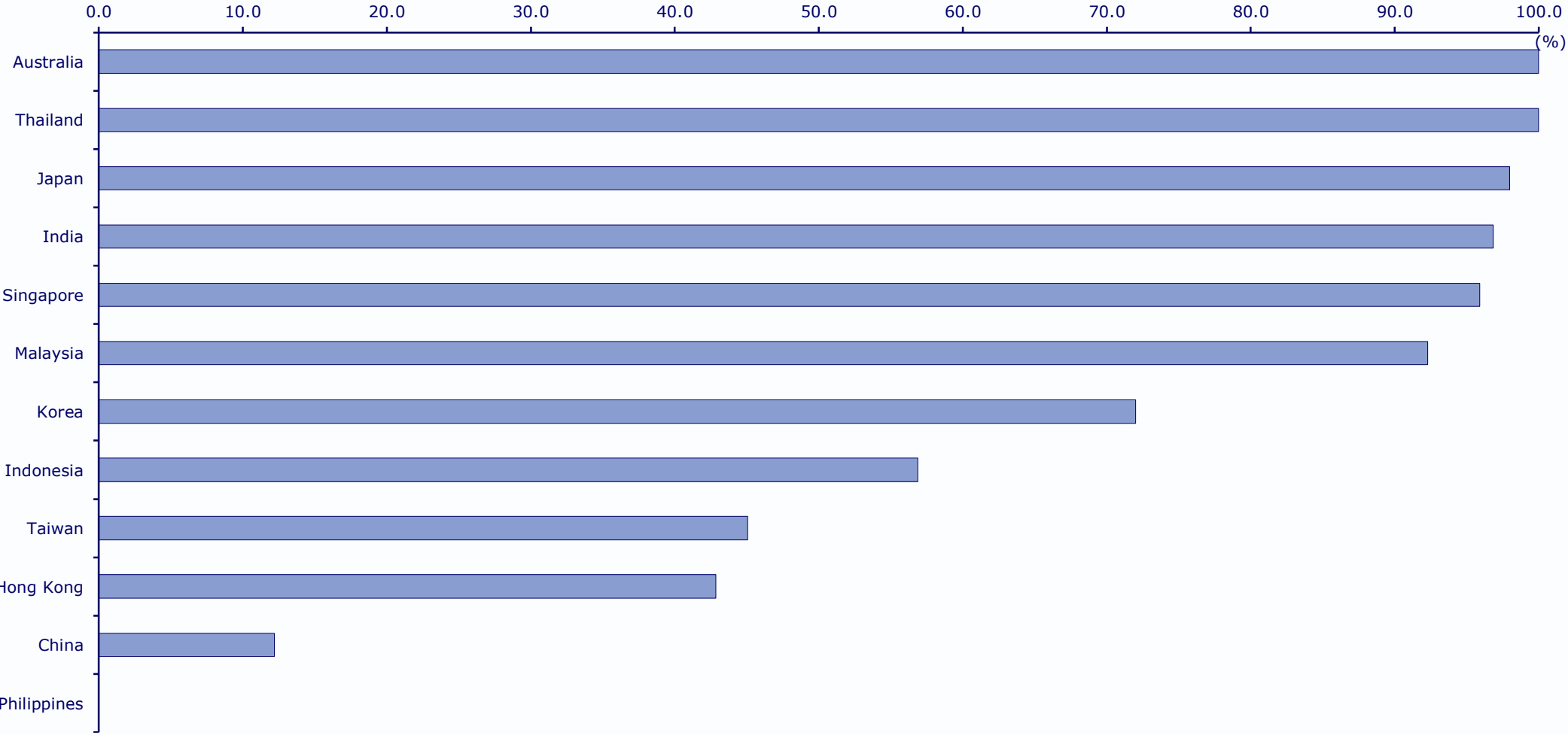
Are you confident cost of capital is a key input to management thinking?
We suspect Japan's score will improve in the 2018 survey given their recent governance reforms



Source: CLSA

Half of markets in Asia have most companies reporting within 60 days

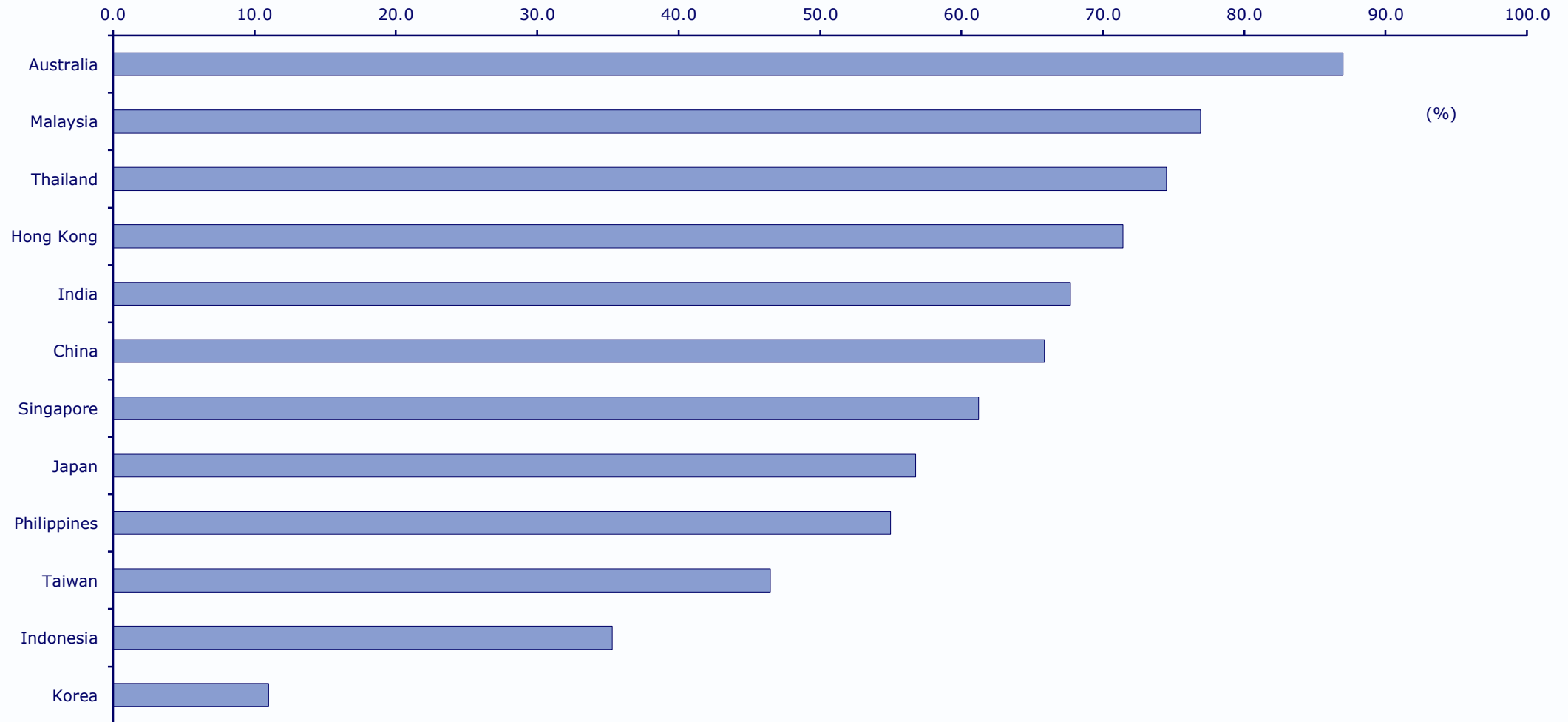
Does the company publish its full-year results within two months?
Two regions had entire coverage reporting within 60 days



Source: CLSA

Traditional governance leader's edge disappears on board diversity

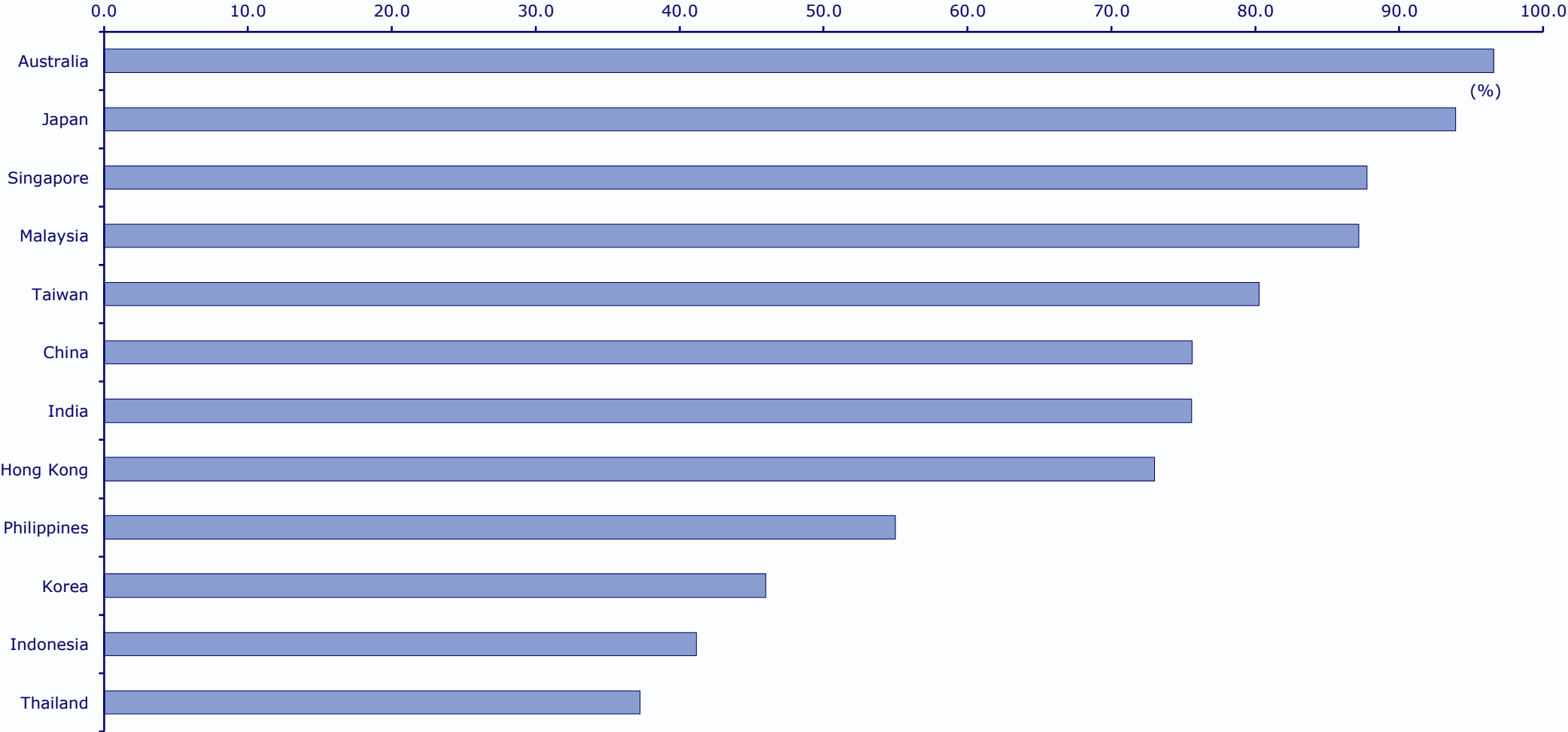
Does the board composition reflect an attempt to bring diversity?
Not surprising to see Australia top this category or Korea to rank last



Source: CLSA

Related-party transactions remain a structural problem in Asia

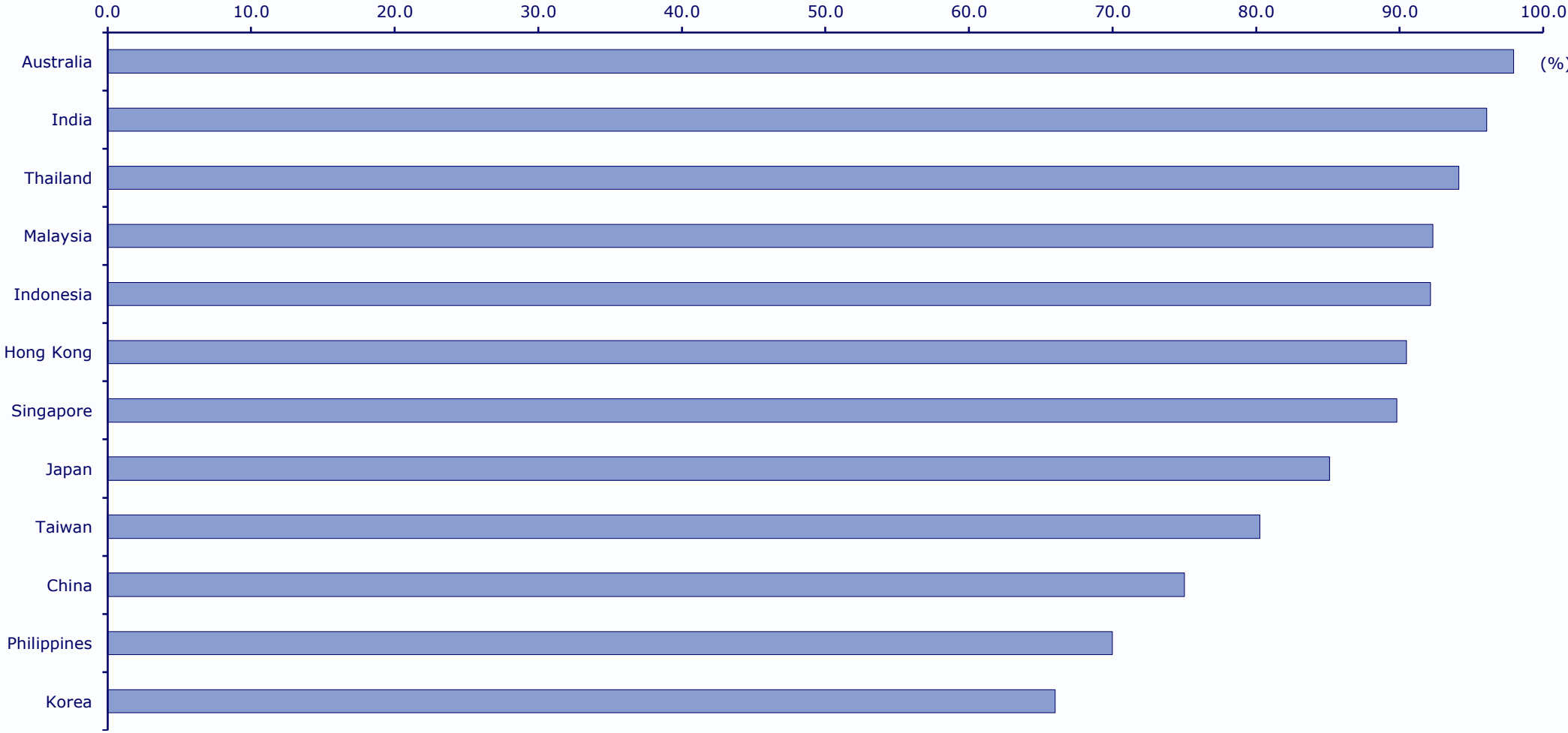
Has the company avoided related-party transactions that harm minorities?
Concentration of ownership plays the key role



Source: CLSA

India is strong on board-related share transactions and placements due to stricter regulation on insider trading and disclosure norms

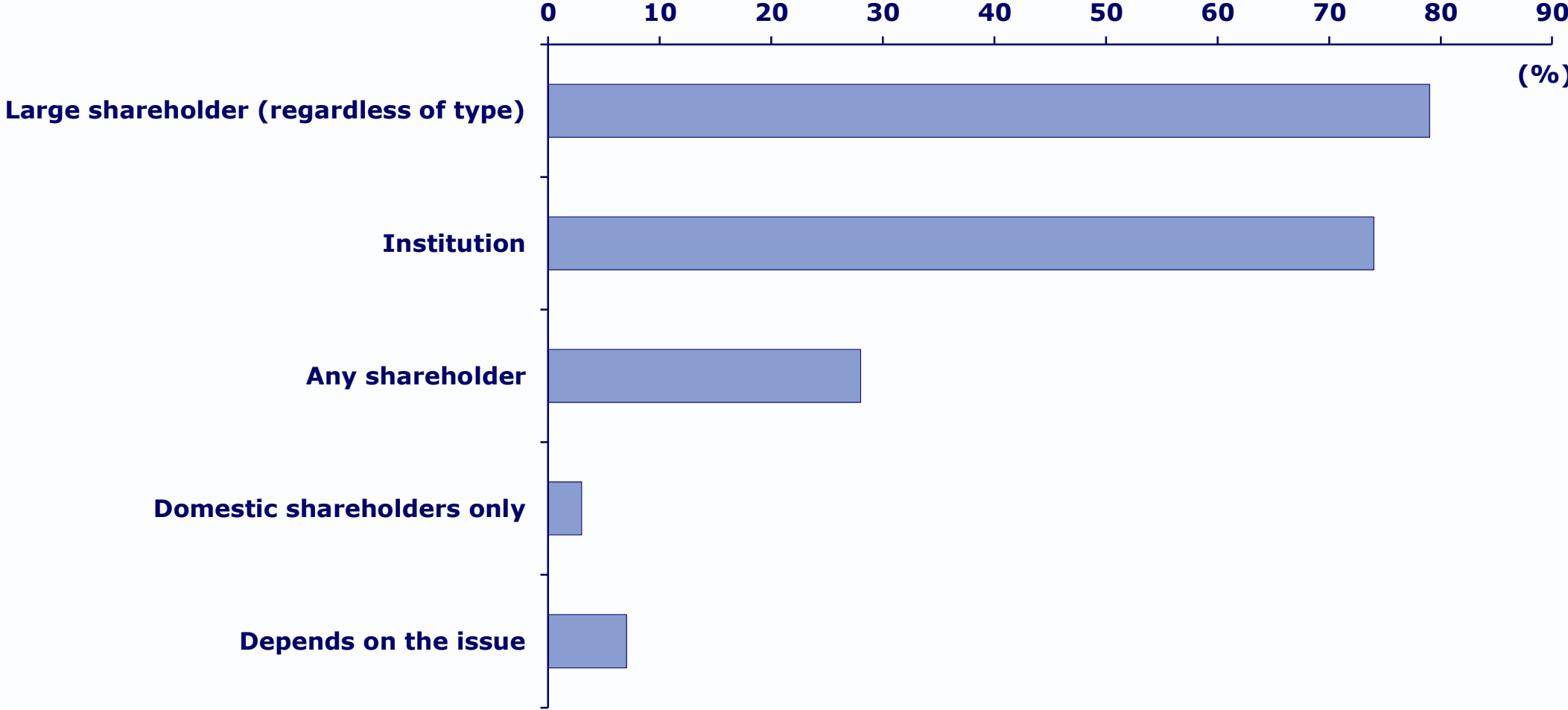
Are board members' share trading and company placements fair and transparent?
Korea has seen a cluster of harmful issues across multiple sectors in past two years



Source: CLSA

US companies typically engage with large shareholders or institutions

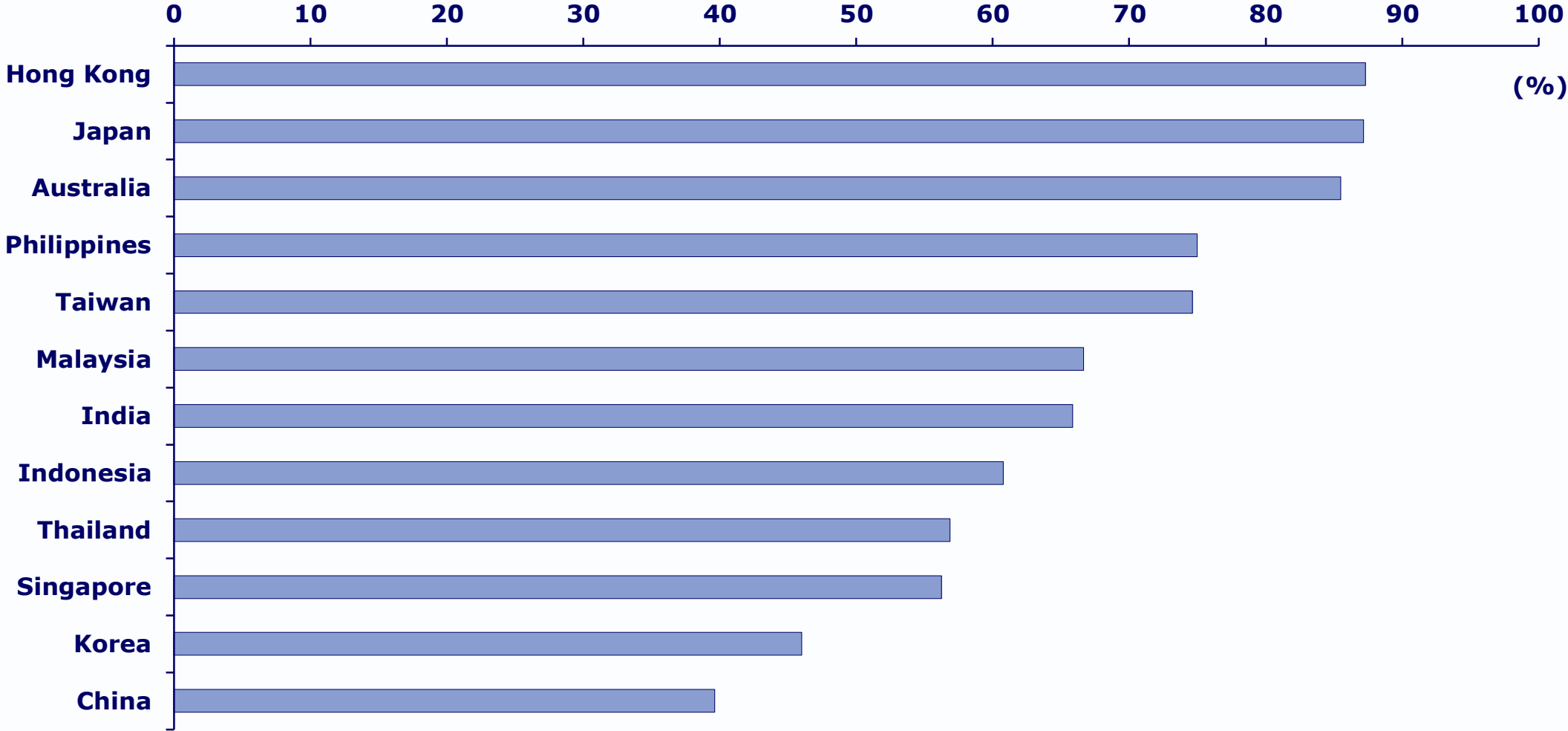
US company engagement experience as a benchmark
Which type of investors are you most likely to engage with?



Note: multiple answers allowed
Source: CLSA, ISS

Market maturity and ownership structures heavily impact governance

Percentage of companies free from government interference by country
Government interference is still prevalent in some markets

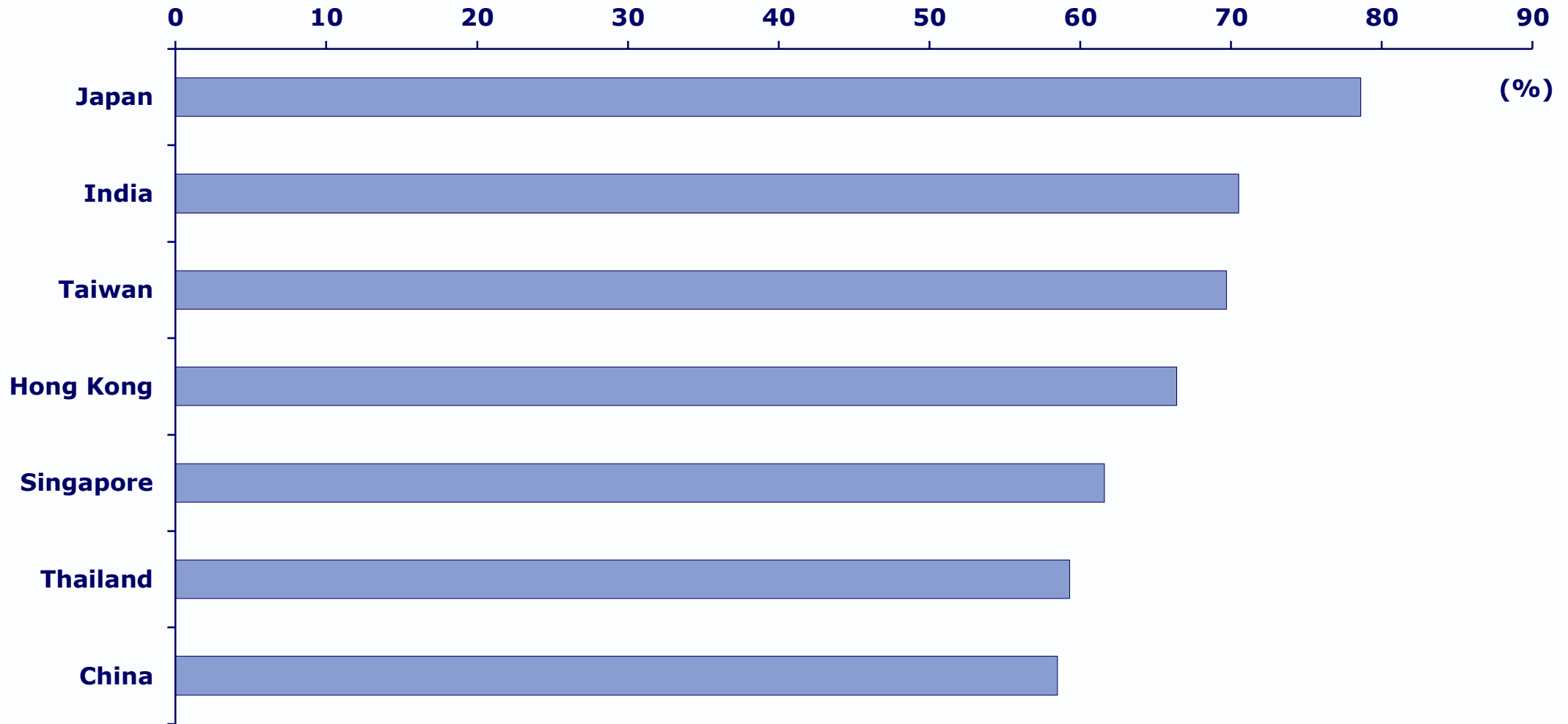


Source: CLSA

Voter data is spotty with a wide range but voter turnout improving

AGM voter turnout by market

China data is less encouraging with only slightly over half showing up to the AGM to vote

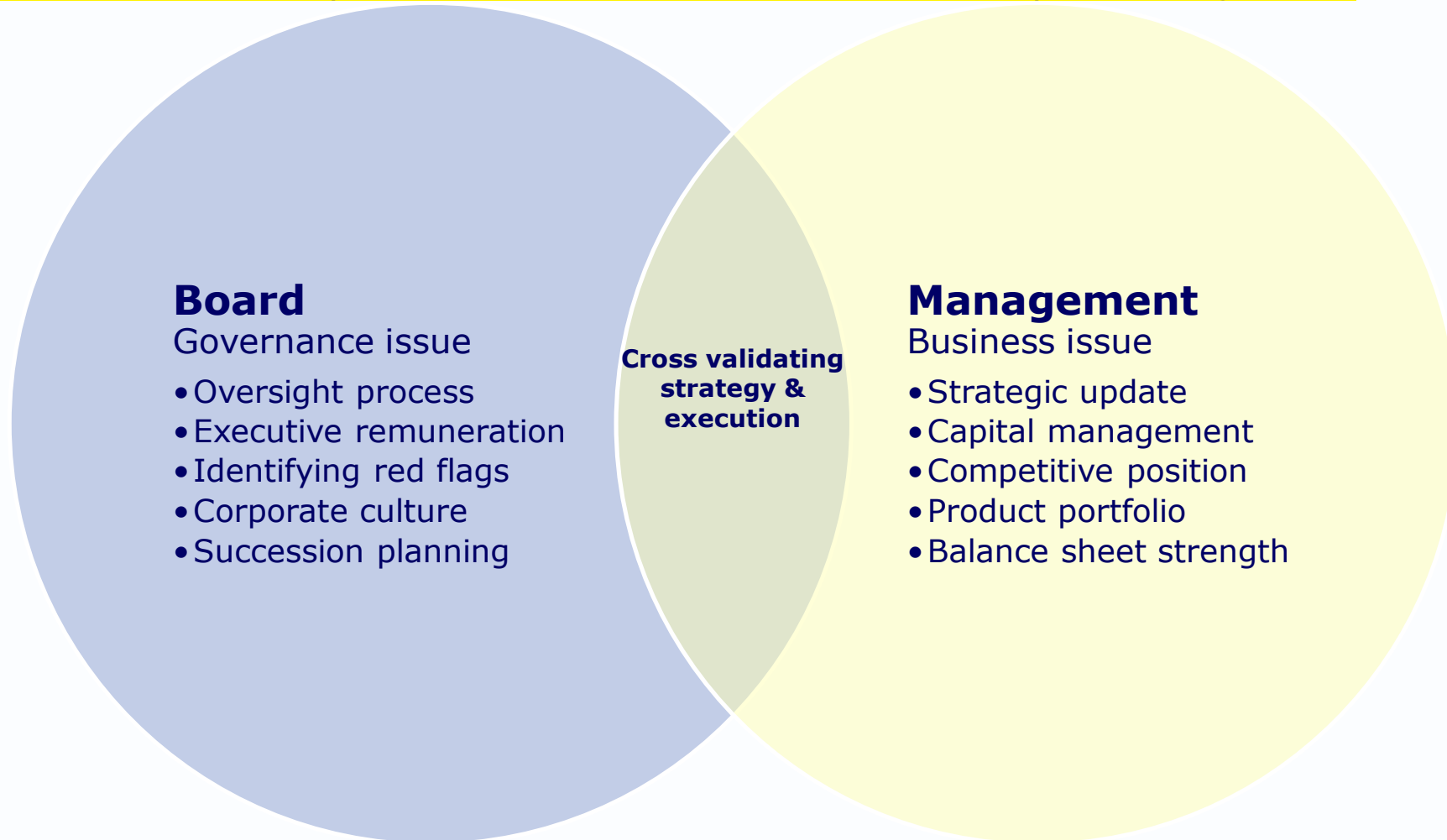


Source: CLSA, ISS

Interviewees agree on speaking to both management and the board of directors to cross validate company strategy and its execution

Typical engagement model in Asia

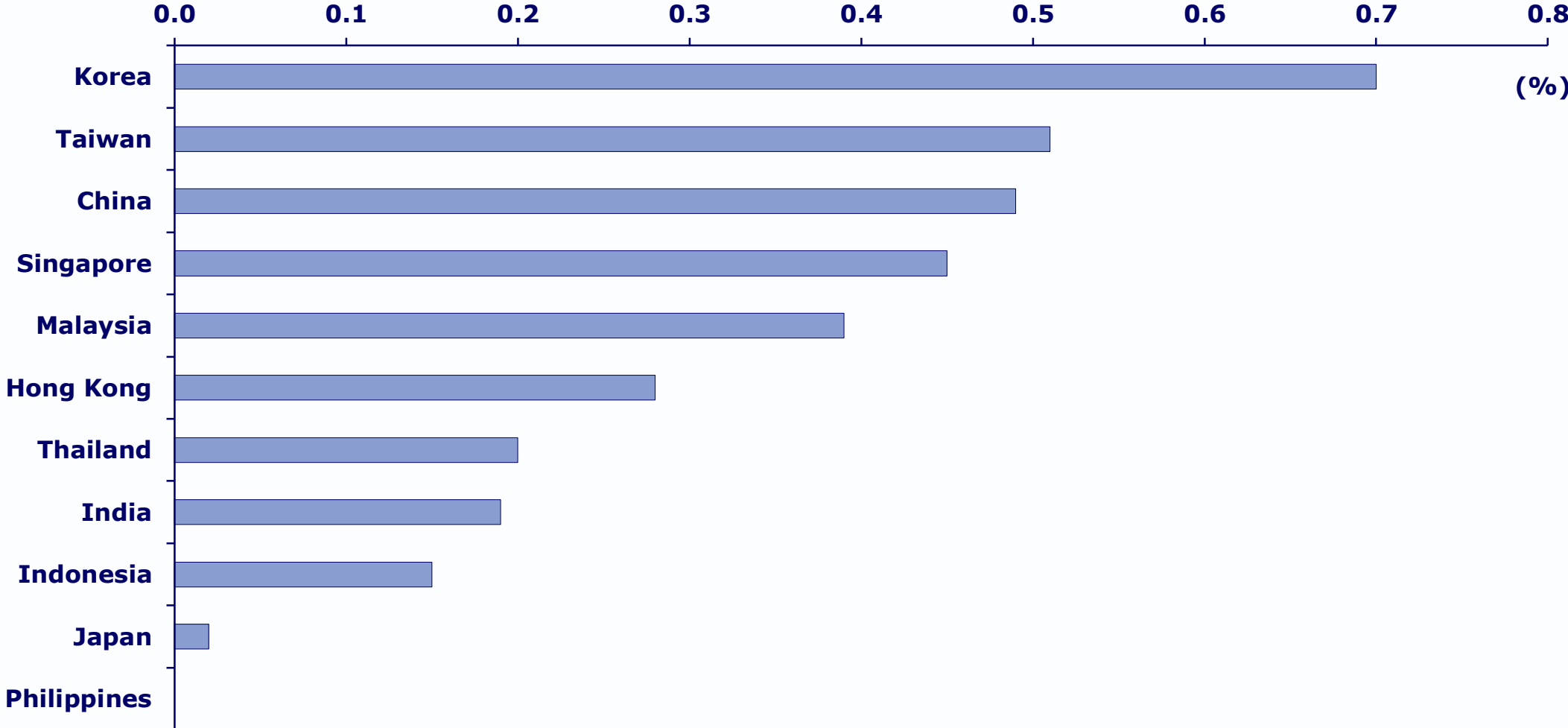
Governance issues are mainly for board and business issues are mainly for management



Source: CLSA

It is important to remember the percentage of resolutions that get voted down is extremely low, we need more, but when done it's heard

Failure ratio of resolutions by market
Highest failure ratio is 0.7% in Korea

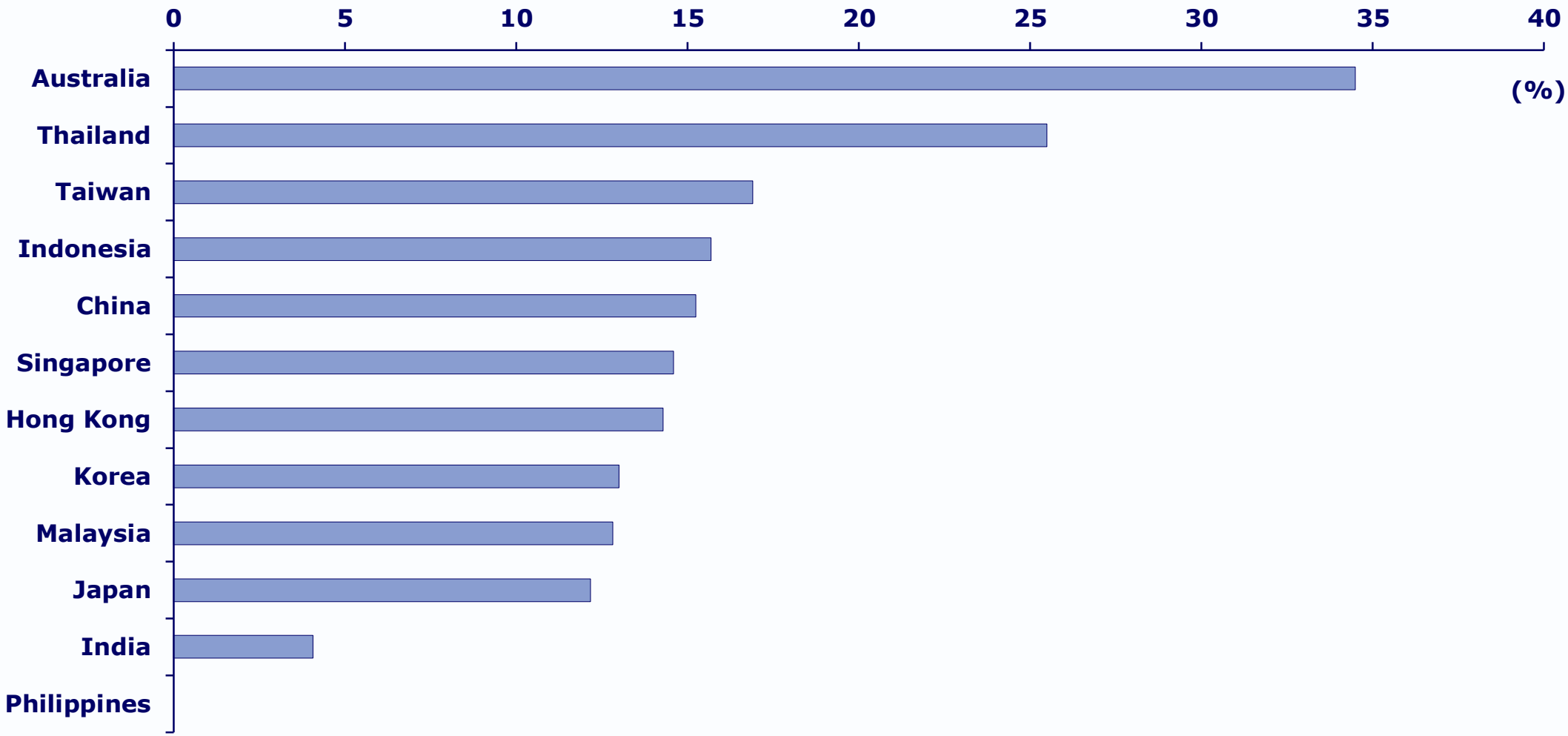


Source: CLSA



We changed the question on director independence and Korea drops from the top to the bottom of the range, Asia still needs improvement

Percentage of companies believe to have genuinely independent directors
Less than 50% of entire Asia coverage is not assessed to have genuinely independence directors



Source: CLSA





Beyond the choir

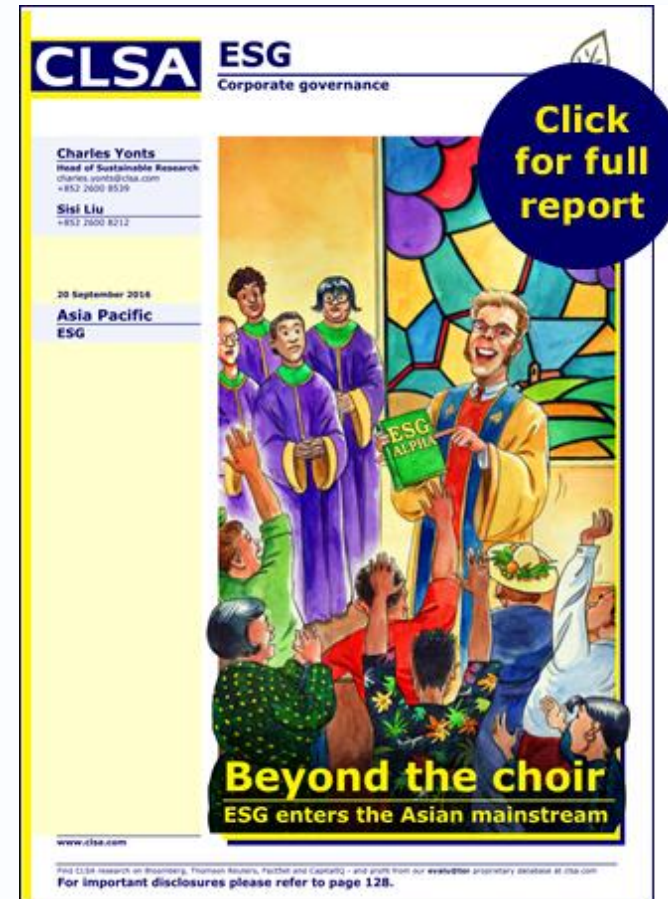
ESG enters the Asian mainstream

Charles Yonts

Head of Sustainable Research

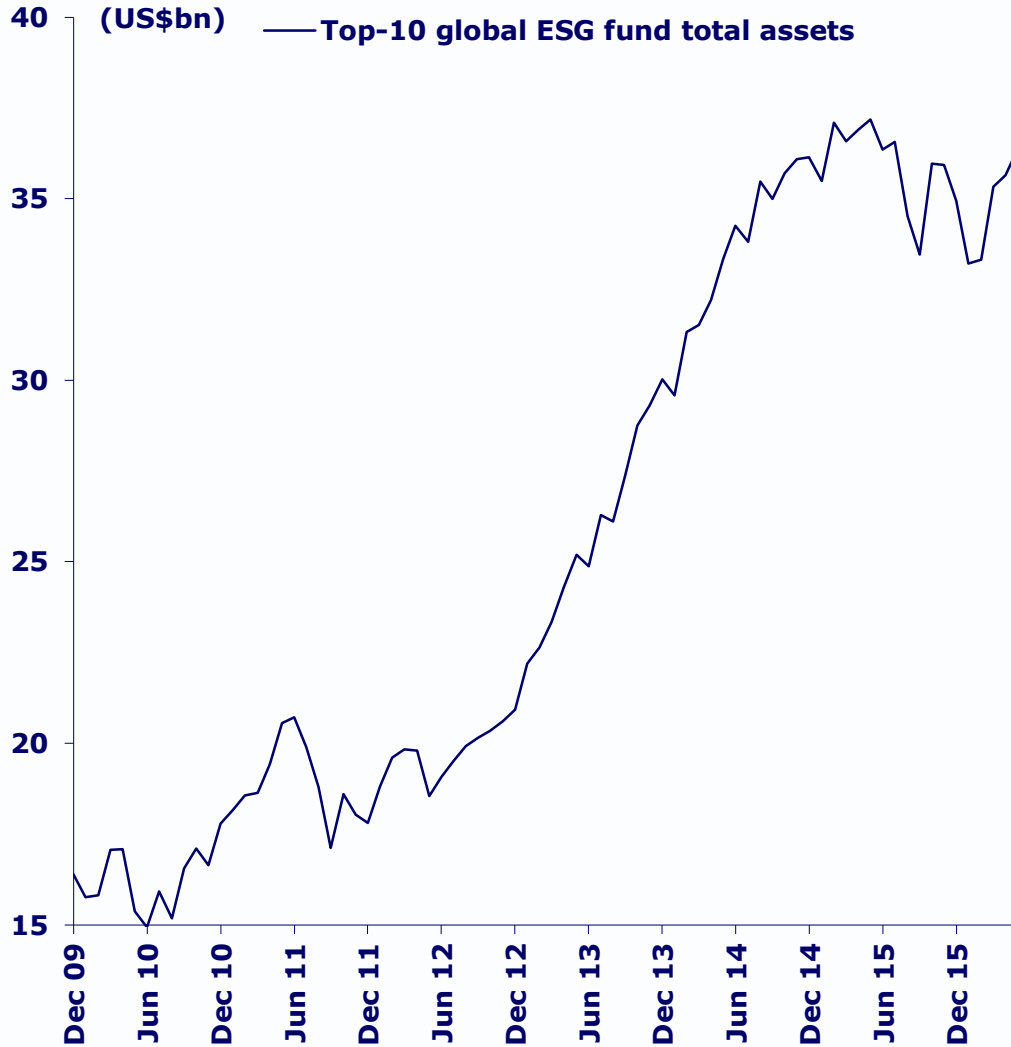
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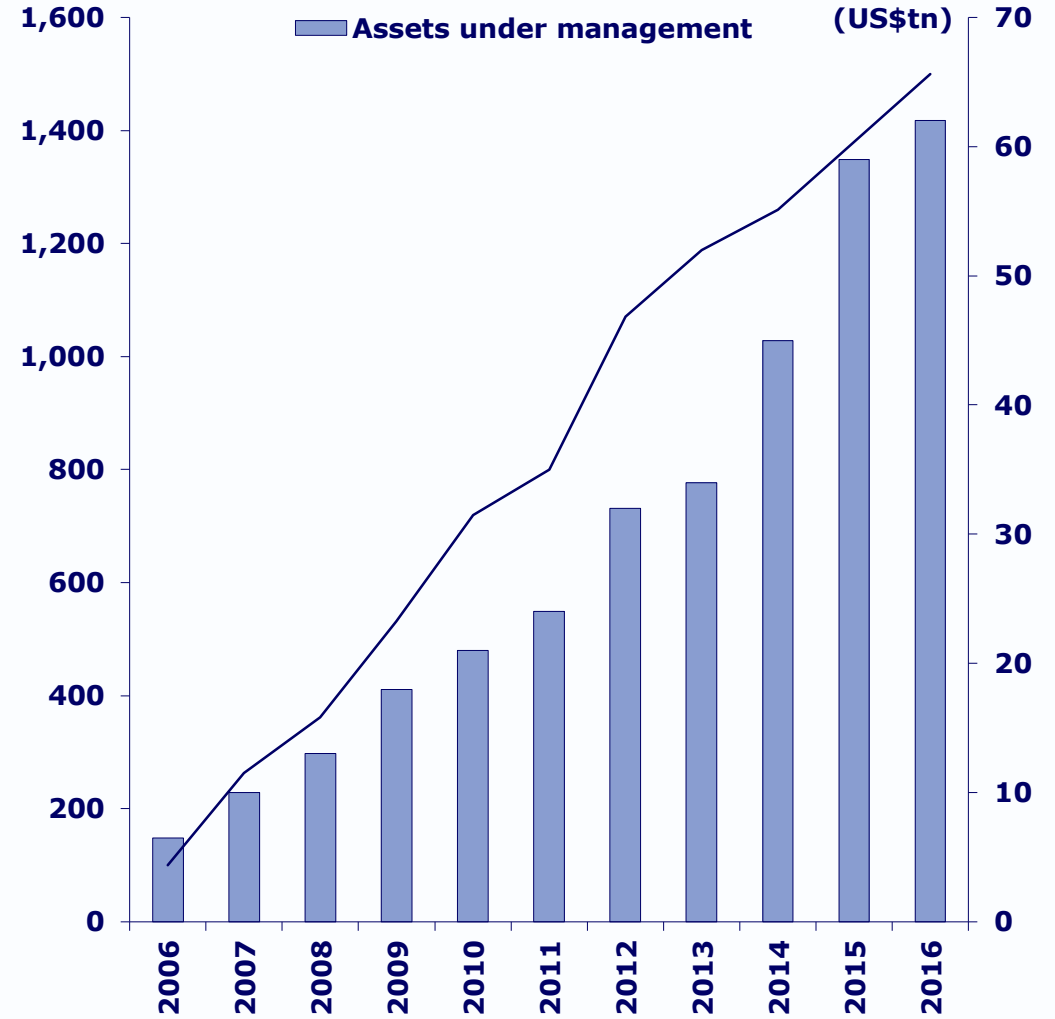
Billions and trillions

Top ESG fund assets up 70% since 2013



Source: CLSA, Bloomberg

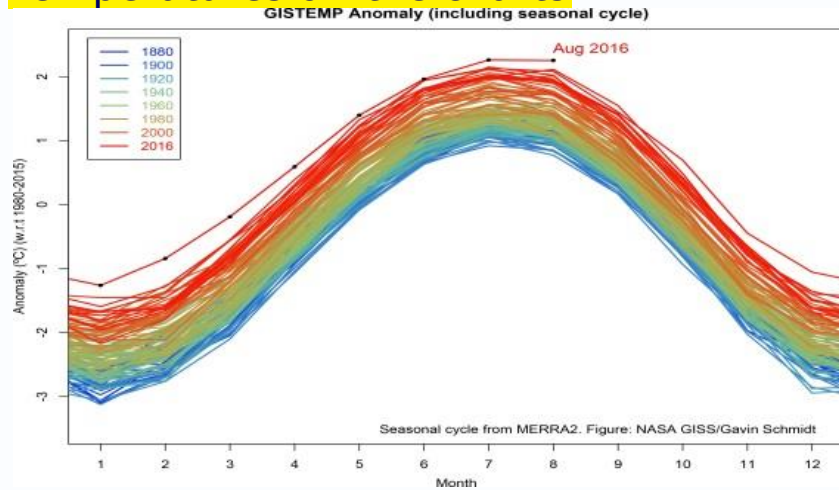
UN-PRI has over 1,500 signatories



Source: UN-PRI, CLSA

It's so hot right now

Temperatures off the charts



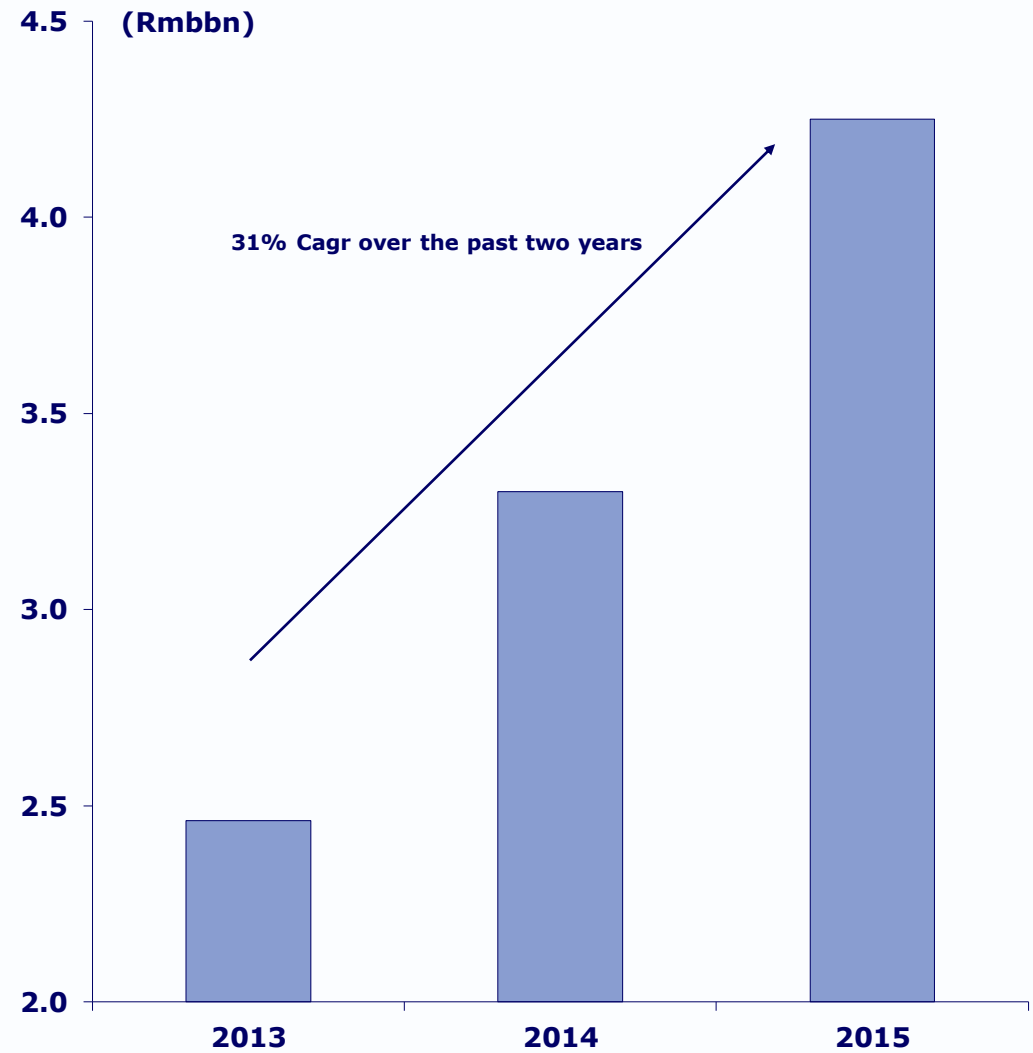
Source: NASA

You really don't want one globe



Source: Morningstar

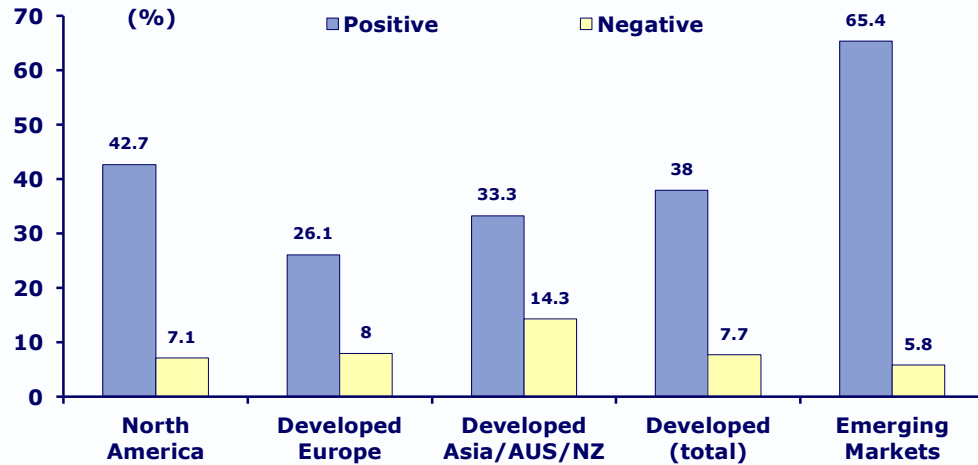
Pollution fines are growing in China



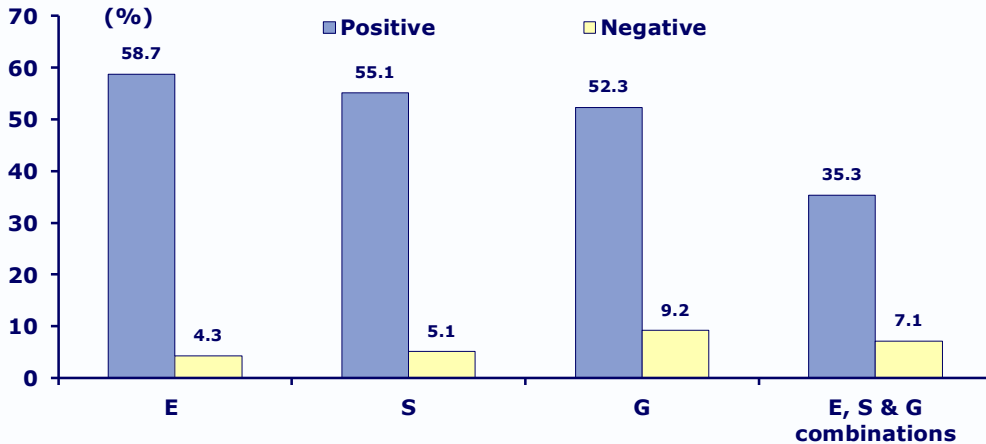
Source: Xinhua, CLSA

Because it works

ESG and performance links across regions

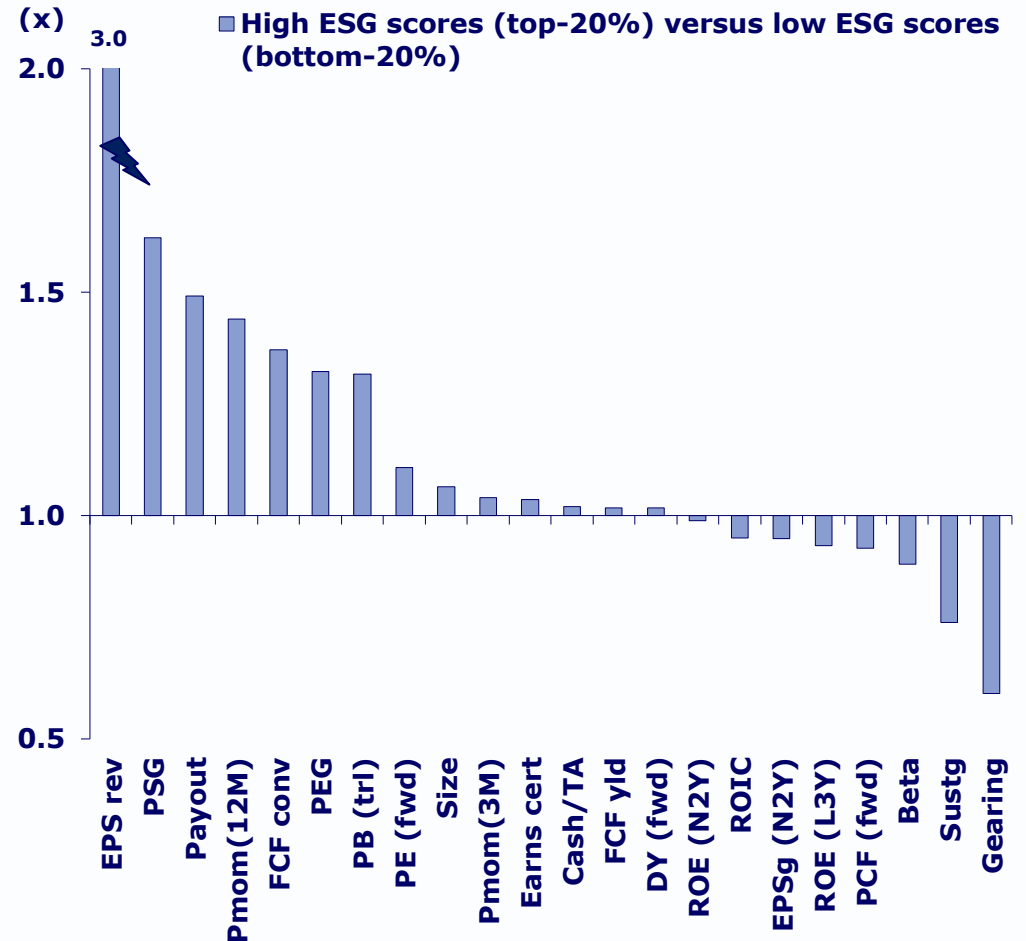


E, S and G categories in relation to performance



Source: Friede, Busch, Bassen via (ESG & Corporate Financial Performance: Mapping the global landscape)

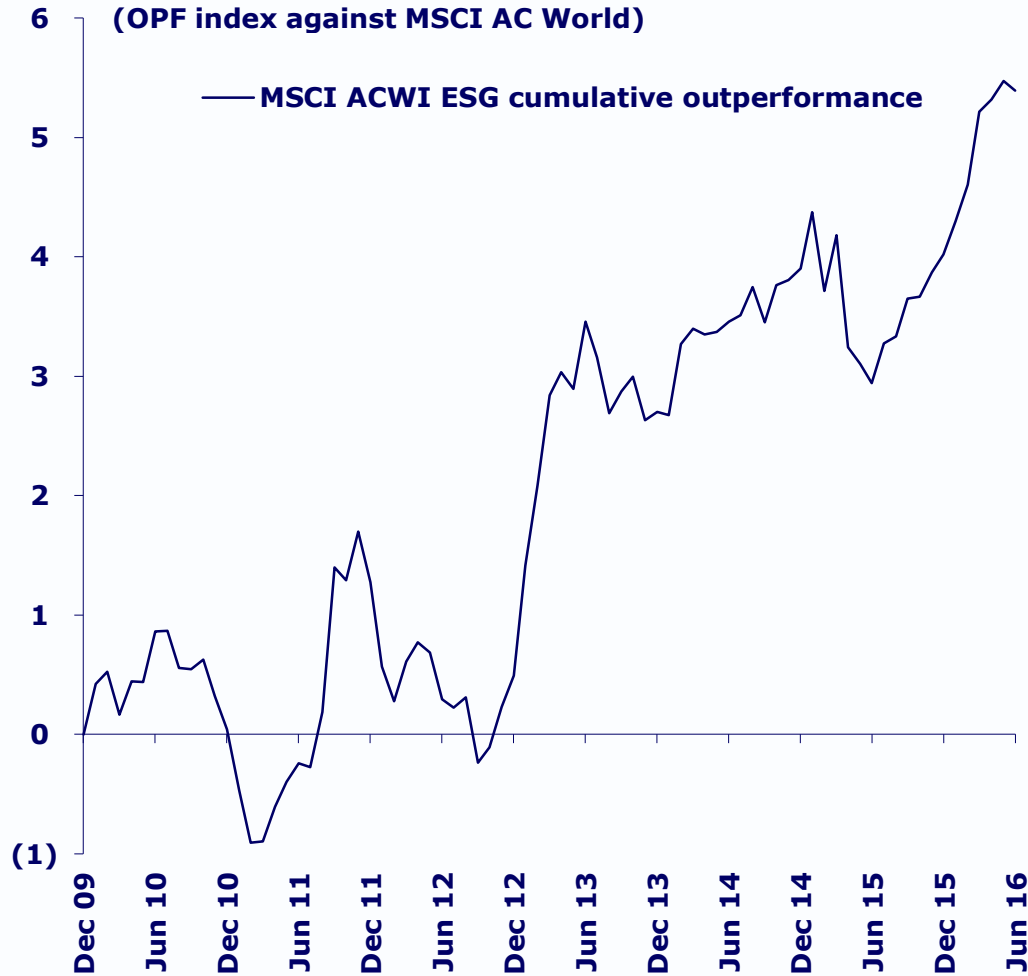
Characteristics analysis: Asian stocks with high ESG scores vs low ESG scores



Note: Universe is broader Asia Pacific ex-Japan universe with market cap greater than US\$500m and more than three analysts coverage. Current CLSA ESG score is used.
Source: CLSA, FactSet

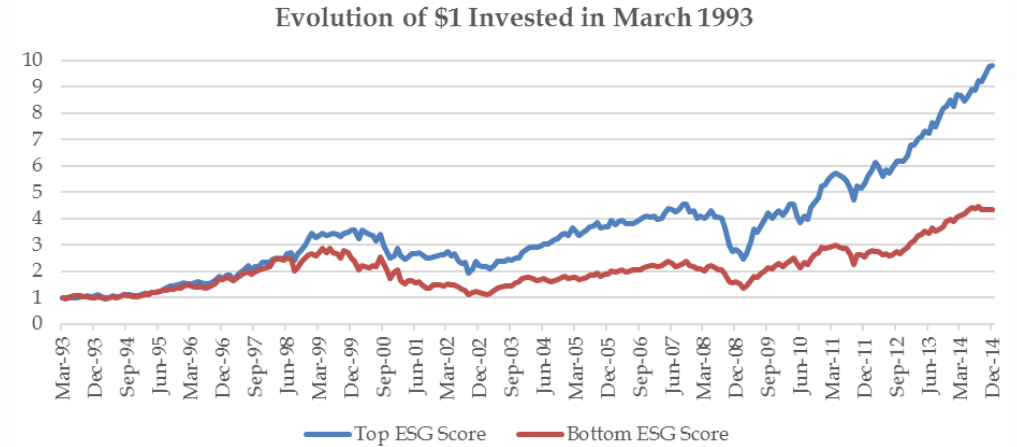
Because it works (2)

Global ESG thematic strategy outperformed since 2013



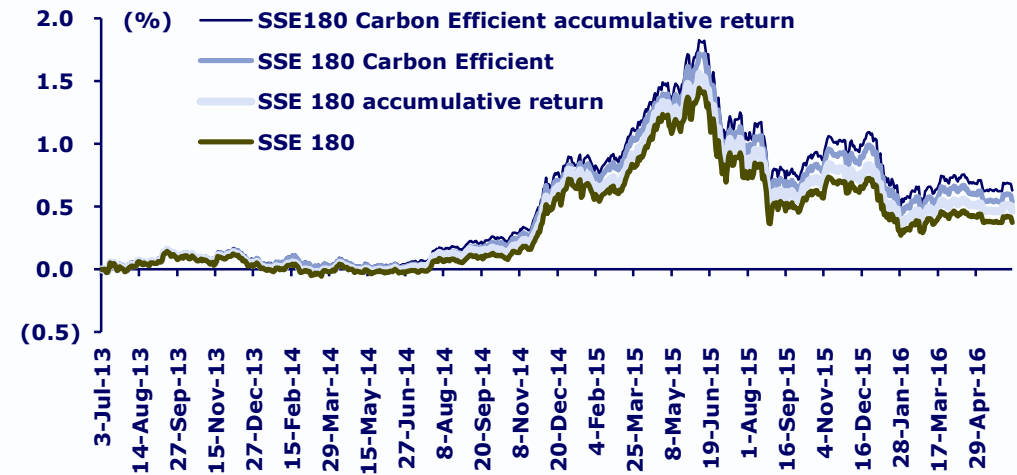
Note: US\$ total return. MSCI Asia Pacific ESG index outperformance is calculated from Aug 2013. Source: CLSA, FactSet

Material issues - ESG momentum and performance



Source: Mozaffra Khan, George Serafeim and Aron Yoon, Corporate Sustainability: First evidence on Materiality, The Accounting Review

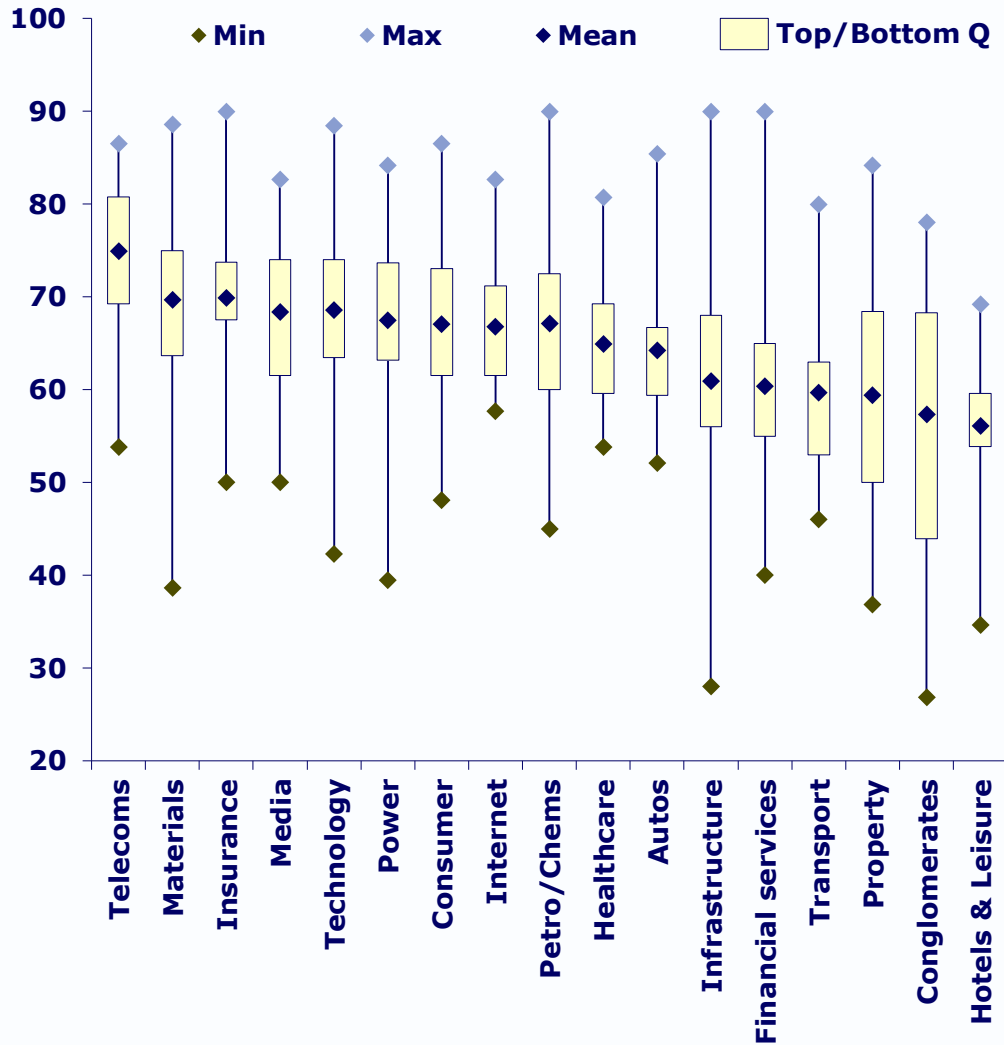
SSE180 returns



Source: Wind, Trucost

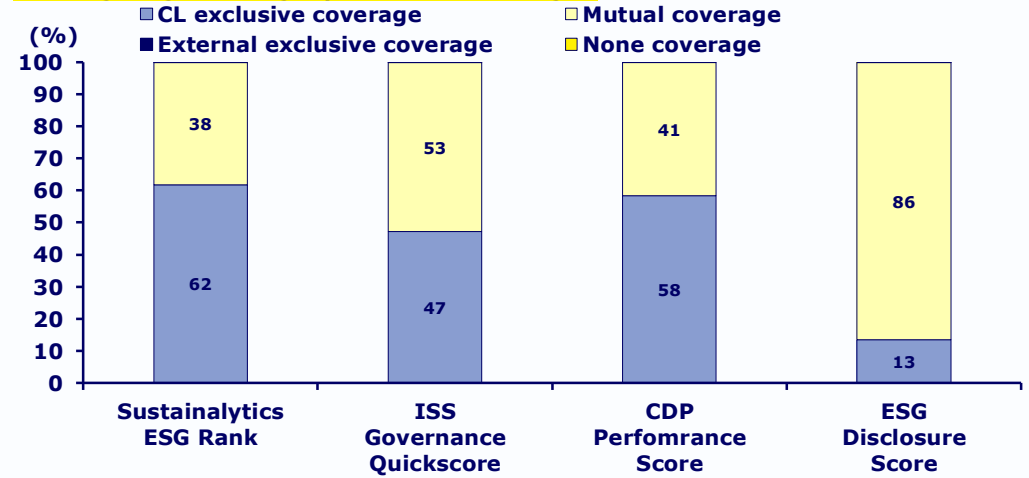
Inside the sausage factory

E/S scores at CLSA



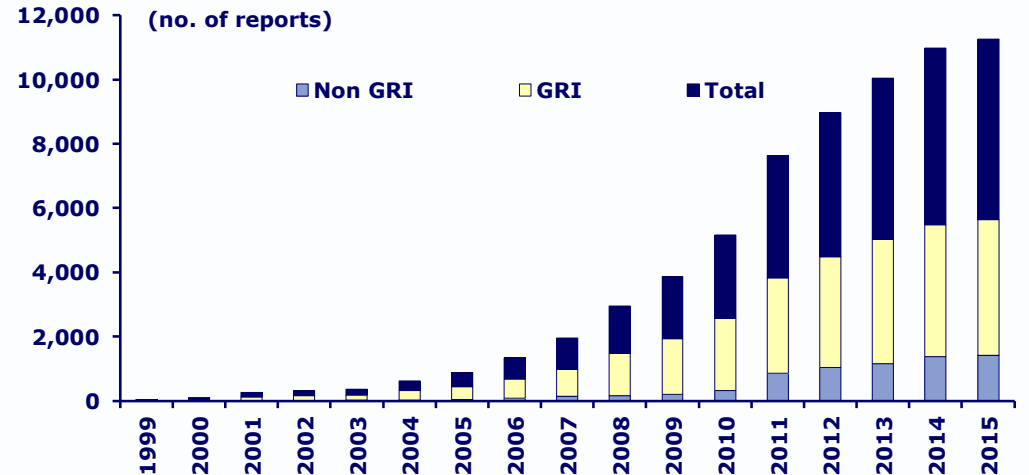
Source: CLSA

Bridging the gap in coverage



Note: Market-cap weighted and as of 19 Aug 2016. Source: CLSA, Bloomberg

No. of ESG reports increased sharply



Source: GRI, CLSA

Inside the sausage factory (2)

Sustainability and stock exchange

	2012	2013	2014	2015	2016	2017	2018
Japan			Japan Stewardship Code (V)	Corporate Governance Code (M)			
Malaysia							Listed companies with market cap >RM2bn to issue sustainability report by FY16 AR (M)
China							2016: Mandatory environmental disclosure for all listed companies (recommended)
Taiwan				CSR Reporting for select companies (M)			TSE: Listed companies with capital >NT\$10bn to issue CSR report by FY17 AR (M)
South Korea							2016: Corporate Governance Guideline by KSE and FSC (planned) Stewardship Code (planned)
Singapore							By 2018, primary-listed companies to report (M) four core requirements, including board responsibility and relevant reporting framework (CE)
Hong Kong		Implementation of ESG Guide (CE)					From 2017, listed companies to report Environmental KPIs (CE)

Note: Mandatory=(M), voluntary=(V), comply or explain=(CE). Source: Bloomberg, exchanges, CLSA

Asian E/S themes - Spoiled for choice

Village destroyed by failing tailing dam



Source: Senado Federal (Bento Rodrigues, Mariana, Minas Gerais) [CC BY 2.0, via Wikimedia Commons]

Chinese textile factories



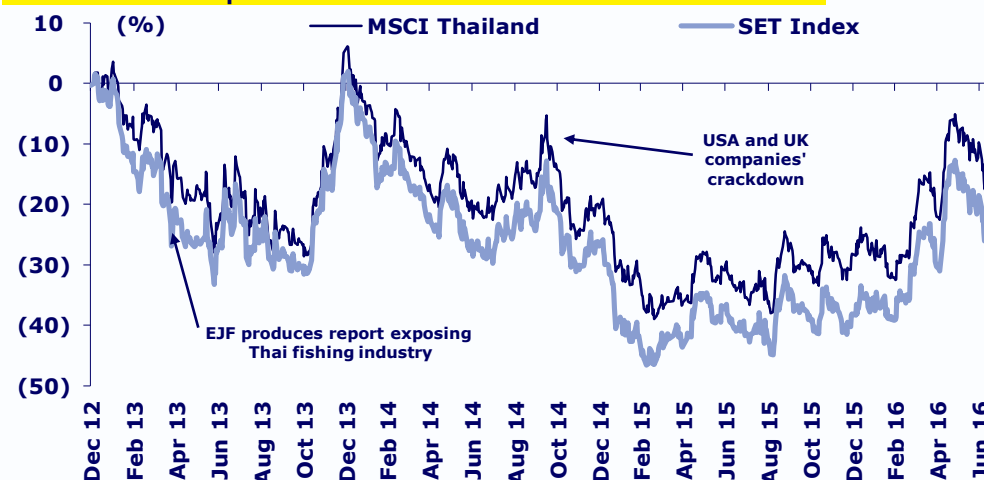
Source: Impactt

Thai fishing boat



Source: Flickr

CP's share price relative to Thai indices



Source: Bloomberg, CLSA

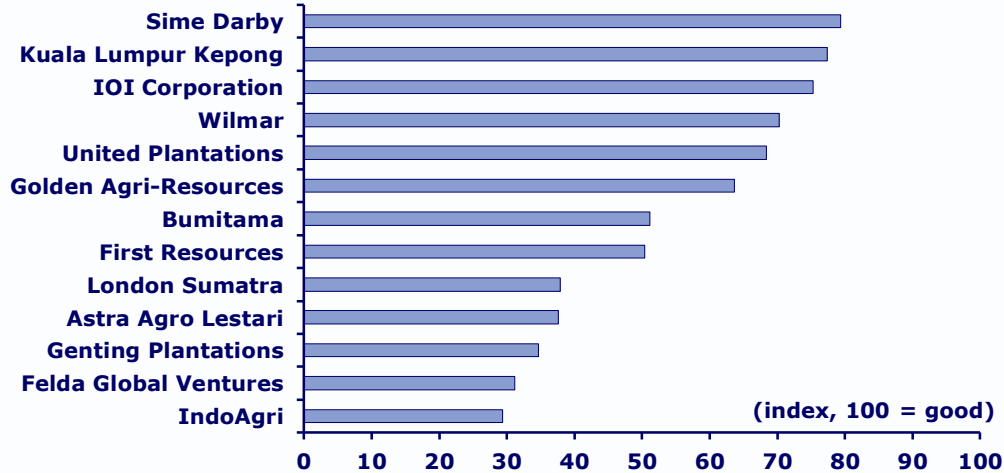
Key themes - Palm oil

Fire in central Kalimantan



Source: Ground Fire by Bjorn Vaughan, reproduced with permission

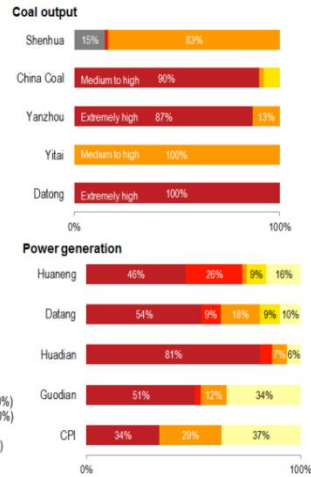
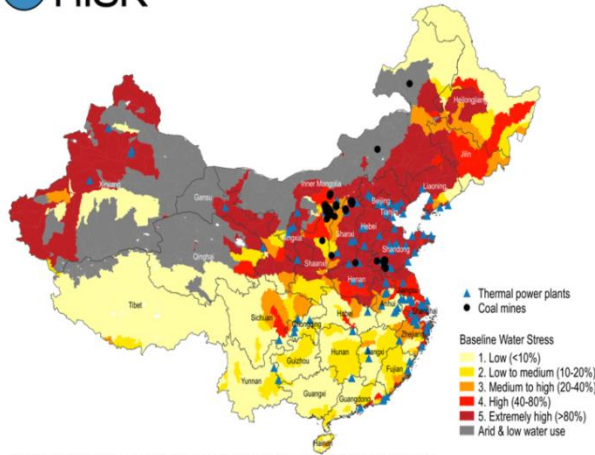
Leaders/laggards in the palm-oil sector



Source: CLSA, Asia Research and Engagement

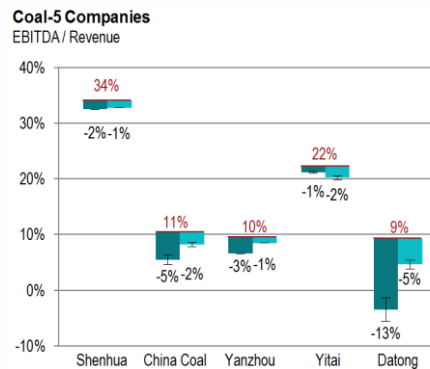
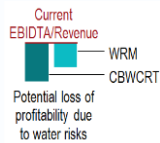
Quantifying water risk

Coal, mining, water mismatch

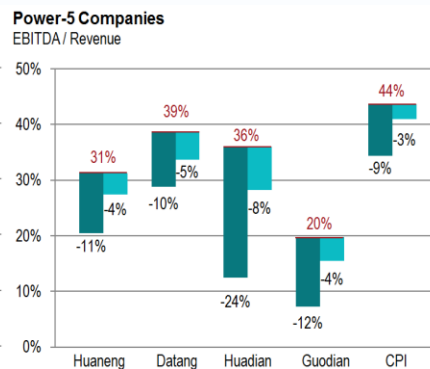


Source: China Water Risk, Investor Survey of the Financial Valuation of Water Risks of 10 Energy ListCo's, 2016

Water risk is material



Source: China Water Risk, Toward Water Risk Valuation, 2016

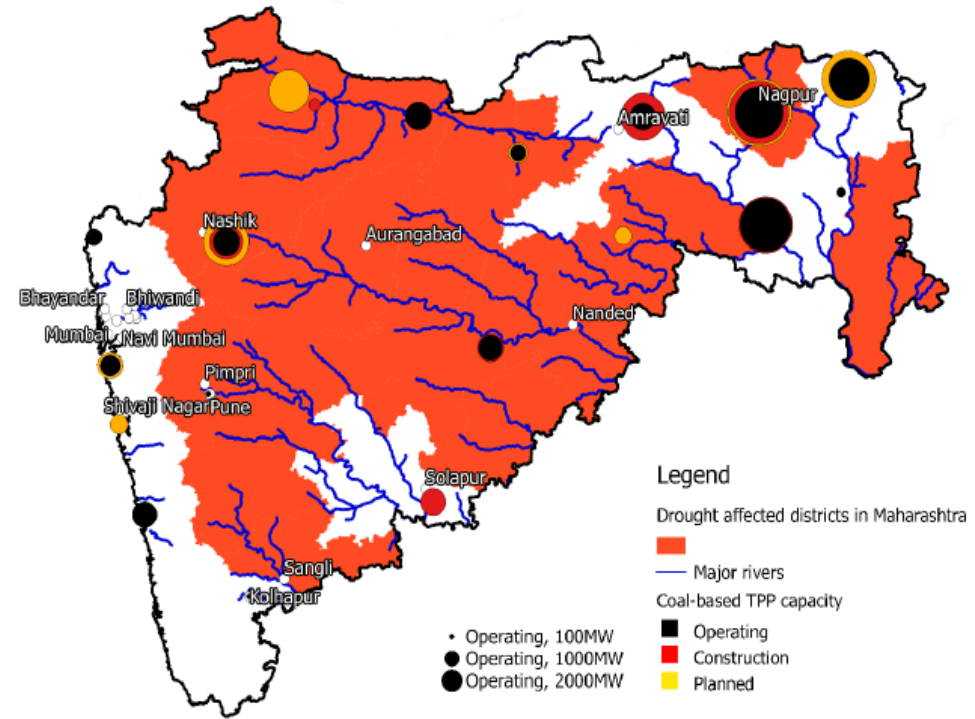


Source: China Water Risk, Toward Water Risk Valuation, 2016

Source: China Water Risk

Water crisis in India

DROUGHT AFFECTED REGIONS(2016) AND THERMAL POWER PLANTS (TPP) IN MAHARASHTRA.



Source: Greenpeace

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