CG Watch 2016

Ecosystems matter

Shaun Cochran, Jamie Allen

November 2016

For important disclosure information please refer to the last page of this presentation.
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

ACGA CG Scores

CLSA CG scores

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Thailand</td>
<td>Thailand</td>
<td>Thailand</td>
<td>Australia</td>
<td>Australia</td>
<td>Australia</td>
</tr>
<tr>
<td>2</td>
<td>Hong Kong</td>
<td>Hong Kong</td>
<td>Hong Kong</td>
<td>Singapore</td>
<td>Hong Kong</td>
<td>Japan</td>
</tr>
<tr>
<td>3</td>
<td>Taiwan</td>
<td>Taiwan</td>
<td>Singapore</td>
<td>Hong Kong</td>
<td>Singapore</td>
<td>Singapore</td>
</tr>
<tr>
<td>4</td>
<td>Malaysia</td>
<td>Malaysia</td>
<td>India</td>
<td>Japan</td>
<td>Thailand</td>
<td>Hong Kong</td>
</tr>
<tr>
<td>5</td>
<td>Singapore</td>
<td>India</td>
<td>Malaysia</td>
<td>Taiwan</td>
<td>Taiwan</td>
<td>Taiwan</td>
</tr>
<tr>
<td>6</td>
<td>India</td>
<td>Singapore</td>
<td>Taiwan</td>
<td>Malaysia</td>
<td>Japan</td>
<td>Thailand</td>
</tr>
<tr>
<td>7</td>
<td>Korea</td>
<td>Philippines</td>
<td>Philippines</td>
<td>Thailand</td>
<td>Malaysia</td>
<td>India</td>
</tr>
<tr>
<td>8</td>
<td>Philippines</td>
<td>Korea</td>
<td>Korea</td>
<td>India</td>
<td>India</td>
<td>Malaysia</td>
</tr>
<tr>
<td>9</td>
<td>China</td>
<td>China</td>
<td>China</td>
<td>China</td>
<td>China</td>
<td>China</td>
</tr>
<tr>
<td>10</td>
<td>Indonesia</td>
<td>Indonesia</td>
<td>Indonesia</td>
<td>Korea</td>
<td>Indonesia</td>
<td>Philippines</td>
</tr>
<tr>
<td>11</td>
<td>Philippines</td>
<td>Philippines</td>
<td>Philippines</td>
<td>Indonesia</td>
<td>Philippines</td>
<td>Indonesia</td>
</tr>
<tr>
<td>12</td>
<td>Indonesia</td>
<td>Korea</td>
<td>Korea</td>
<td>Korea</td>
<td>Korea</td>
<td>Korea</td>
</tr>
</tbody>
</table>

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

- % of companies with at least one outsider directors
- % of companies with at least two outsider directors
- % of companies with at least one woman on board

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

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
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.

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

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

Annualised relative return: top - bottom quintile stocks (%)
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?

- Large shareholder (regardless of type): 80%
- Institution: 75%
- Any shareholder: 30%
- Domestic shareholders only: 5%
- Depends on the issue: 10%

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.

**Board**
Governance issue
- Oversight process
- Executive remuneration
- Identifying red flags
- Corporate culture
- Succession planning

**Management**
Business issue
- Strategic update
- Capital management
- Competitive position
- Product portfolio
- Balance sheet strength

Cross validating strategy & execution

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

September 2016

For important disclosure information please refer to the last page of this presentation.
Billions and trillions

Top ESG fund assets up 70% since 2013

UN-PRI has over 1,500 signatories

Source: CLSA, Bloomberg

Source: UN-PRI, CLSA
It’s so hot right now

Temperatures off the charts

Source: NASA

You really don’t want one globe

Pollution fines are growing in China

Source: Xinhua, CLSA

Morningstar Sustainability

Source: Morningstar
Because it works

ESG and performance links across regions

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

E,S and G categories in relation to performance

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

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

Material issues - ESG momentum and performance

Evolution of $1 Invested in March 1993

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

SSE180 returns

Source: Wind, Trucost

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

E/S scores at 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
## Sustainability and stock exchange

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

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]

Thai fishing boat

Source: Flickr

Chinese textile factories

Source: Impactt

CP’s share price relative to Thai indices

Source: Bloomberg, CLSA

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

Source: Flickr

USA and UK companies’ crackdown

EJF produces report exposing Thai fishing industry

MSCI Thailand

SET Index

Dec 12
Feb 13
Apr 13
Jun 13
Aug 13
Oct 13
Dec 13
Feb 14
Apr 14
Jun 14
Aug 14
Oct 14
Dec 14
Feb 15
Apr 15
Jun 15
Aug 15
Oct 15
Dec 15
Feb 16
Apr 16
Jun 16

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

<table>
<thead>
<tr>
<th>Company</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sime Darby</td>
<td></td>
</tr>
<tr>
<td>Kuala Lumpur Kepong</td>
<td></td>
</tr>
<tr>
<td>IOI Corporation</td>
<td></td>
</tr>
<tr>
<td>Wilmar</td>
<td></td>
</tr>
<tr>
<td>United Plantations</td>
<td></td>
</tr>
<tr>
<td>Golden Agri-Resources</td>
<td></td>
</tr>
<tr>
<td>Bumitama</td>
<td></td>
</tr>
<tr>
<td>First Resources</td>
<td></td>
</tr>
<tr>
<td>London Sumatra</td>
<td></td>
</tr>
<tr>
<td>Astra Agro Lestari</td>
<td></td>
</tr>
<tr>
<td>Genting Plantations</td>
<td></td>
</tr>
<tr>
<td>Felda Global Ventures</td>
<td></td>
</tr>
<tr>
<td>IndoAgri</td>
<td></td>
</tr>
</tbody>
</table>

(index, 100 = good)

Source: CLSA, Asia Research and Engagement

Palm conundrums

Ranking investment companies on sustainable palm-oil performance

Source: CLSA, Asia Research and Engagement

Speaker Series

Experts' views for export investors
Quantifying water risk

Coal, mining, water mismatch

Water crisis in India

Source: China Water Risk

Source: Greenpeace