Corporate Governance Report

Asia Pacific 3Q 2020

Introduction

J.P. Morgan Asset Management is committed to delivering the highest possible risk-adjusted returns to our clients. We believe that one of the key contributors to strong investment returns is a full understanding of the corporate governance principles and practices of the companies in which we invest. We expect all our companies to demonstrate the highest standards of governance in the management of their businesses, as far as is reasonably practicable.

Central to our investment approach is regular engagement with our investee companies in order to better understand their operating, strategic and governance issues. As a fiduciary, we recognize the importance of active ownership on behalf of our clients, and we have an obligation to maintain a dialogue with the companies in which we invest, to ensure that our clients’ interests are represented and protected. We therefore meet routinely with the senior executives of our investee companies, in order to exercise our ownership responsibilities. Where a governance issue is material, we will engage with the company in order to better understand the issue and seek to promote best practice. Our analysts and portfolio managers take these issues into account as part of their investment processes.

Proxy Voting

It is our policy to vote all shares held in portfolios in a prudent and diligent manner, based on our judgment of what is in the best interests of our clients. We have documented the principles, which underpin our voting policies, in our “Corporate Governance Principles and Proxy Voting Guidelines”. Copies of this policy document can be downloaded from our web-site. Our voting activity in all markets during the most recent quarter is summarized below.

<table>
<thead>
<tr>
<th></th>
<th>Jul-Sep 2020</th>
<th>%</th>
<th>Jul-Sep 2019</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total votes cast</td>
<td>8,387</td>
<td>100.0</td>
<td>6,984</td>
<td>100.0</td>
</tr>
<tr>
<td>For</td>
<td>7,429</td>
<td>88.6</td>
<td>6,312</td>
<td>90.3</td>
</tr>
<tr>
<td>Against</td>
<td>701</td>
<td>8.3</td>
<td>424</td>
<td>6.1</td>
</tr>
<tr>
<td>Abstain</td>
<td>225</td>
<td>2.7</td>
<td>248</td>
<td>3.6</td>
</tr>
<tr>
<td>Did not vote</td>
<td>32</td>
<td>0.4</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Number of meetings</td>
<td>283</td>
<td></td>
<td>238</td>
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</table>

The corporate calendar moves to a different rhythm in each market according to the season. The July - September quarter for example, coincides with the peak of the AGM period in India, and the number of resolutions voted on at Indian shareholder meetings accounted for a significant proportion of the total. The other main area of activity related to companies domiciled in China. Here activity was
dominated by companies holding special shareholder meetings to solicit shareholder approvals for intra-group financing proposals, employee remuneration or other governance measures.

We review all resolutions to ensure that the votes we cast are in the best interests of our clients. Meeting resolutions tend to cover, inter alia: the acceptance of financial statements and statutory reports; the approval of dividends; the election and re-election of directors and auditors; the fixing of director and auditor remuneration; the approval of issuance of new equity and the approval of share repurchases. Most resolutions tabled are relatively uncontentious and will receive our support to allow basic governance functions to continue.

We have retained the services of Institutional Shareholder Services Inc. (ISS) to assist us in the processing of proxies and to provide us with recommendations based on our voting policy guidelines. At the same time, we are under no obligation to accept the recommendations of our provider, if we believe our clients’ interests are best served by voting differently. Our sole objective is that we should act in the best interests of our clients.

The commentary below provides some examples of our voting decisions during the quarter.

**India**

As noted above, the July - September quarter coincided with the peak of the AGM season in India. Of the 283 shareholder meetings at which we voted in Q3, 70 were Indian listed companies. As elsewhere, most resolutions were routine and we supported the majority of proposals tabled. However, during this particular voting season, we chose to, either abstain in a number of instances where ISS advised a vote against, or we overrode the recommendation to cast a vote in favor of management’s proposals and against ISS’s preferred voting stance.

While we recognize the value of the research on proxy issues provided by ISS, we also note that ISS tends to apply a “one-size-fits-all” approach in its recommendations, which can lead to unintended outcomes. One example is the recommendation to vote against director re-elections, irrespective of the circumstances, if the nominee concerned exceeds certain quantitative thresholds in the criteria used to determine acceptability. This might range from the number of board memberships held (less is good, more is bad), to the length of board tenure (too long is bad), to the number of board meetings attended in the past year (75% attendance is ISS’s minimum acceptable threshold).

Our own Voting Guidelines agree with ISS that, as best practice, directors (a) should not be overcommitted in terms of the number of board positions they hold, (b) should limit their tenure to a maximum of three terms (or nine years) to ensure they remain capable of providing fresh and objective advice, and (c) should attend all board meetings and relevant committee meetings where possible. At the same time, we do not believe that this can be applied blindly or mechanistically; instead we prefer to exercise judgment as to what constitutes acceptable practice on a case by case basis. During the quarter, this brought us into conflict with a number of ISS’s proxy recommendations.

For example, we voted in favor of the nominated individuals (and against ISS’s recommended advice) in the director election proposals at the following meetings: HDFC Bank; UltraTech Cement; Larsen and Toubro Infotech; ABB India. Despite falling foul of one or other of ISS’s quantitative thresholds, our portfolio managers took into account the individual’s contributions to overall corporate strategy during their tenure, and believed that the proxy adviser’s concerns in these instances were unfounded. Elsewhere we chose to abstain in a number of director election
resolutions (including, inter alia: Castrol India; Bajaj Auto; Power Grid of India; Titan Industries) where the recommended advice was to vote against. Here the calculus came down to our assessment of shareholder best interests. While we noted that ISS’s objections had some merit, removing an otherwise competent director from a board because of holding more than a certain number of board positions, or not meeting certain attendance thresholds, would not be in our clients’ best interests. At the same time, we continue to advocate that all board nominees should be able to devote sufficient time and attention to their responsibilities, to allow them to fulfil their fiduciary commitments.

China A Shares

As noted in previous reports, an increasing number of meetings each quarter relate to A share listings in China. This can throw up a number of challenges since under China’s Corporate Governance code the proposals tabled for shareholder approval tend to be granular and specific, while the information provided can be patchy at best. Related-party transactions are a common source of resolutions, since shareholder approvals are required when intra-group transactions take place. Another source of resolutions concerns the provision of financing to group subsidiaries and affiliates.

While we acknowledge that there are benefits to shareholders from this level of oversight, there are also potential risks. Guarantees significantly increase the degree of concentration risk assumed by financing entities since the risk exposures are, by definition, not diversified. Moreover, many transactions are related-party in nature, which give rise to conflicts of interest. Finally the lack of transparency associated with these transactions are a source of concern. In many cases, there is insufficient disclosure for shareholders to be able to adequately assess the full extent of the risks assumed.

During the quarter, we voted against intra-group financing resolutions at the following companies: Yunnan Energy New Materials; Hualon Biological Engineering; Guangzhou Kingmed Diagnostics. We also voted against proposals to approve a number of stock option incentive schemes. While we are strongly in favor of incentive programs with clear and specific performance criteria, we will vote against programs where the awards promised appear excessive, where the performance criteria are undemanding, or where the structure of the program gives rise to potential conflicts of interest. In view of these concerns, we voted against the incentive programs proposed at: Will Semiconductor; Jiangsu Hengrui Medicine; Wuxi AppTech.

Hong Kong

Hong Kong listed companies routinely ask shareholders to authorize the issuance of new equity at Annual Shareholder Meetings. Indeed Listing Rules permit companies to issue up to 20% of outstanding equity capital at a maximum discount of 20%. While we acknowledge that companies should have the ability to tap the market for fresh capital, we believe that any new capital issued should first be offered to existing shareholders on a pre-emptive basis, and that the extent of any dilution proposed should be acceptable and proportionate. The need for financing flexibility should be balanced against the need to protect against excessive dilution. In general, we believe that any issuance arising from these authorizations should be limited to 10% of outstanding equity capital, at a maximum discount of 10%. During the quarter, we voted against the overly permissive equity issuance resolutions at the following: Café de Coral; International Housewares Retail; Topsports International; Phamaron Beijing.
As noted above, a large number of resolutions at each AGM relate to the election or re-election of Directors. We focus on this issue closely, since we believe that this one of the main areas where shareholder votes can have a durable impact on the future strategic direction of the company. In particular, we believe that a strong independent board is essential to the effective running of a company, and we will vote against resolutions to elect or re-elect individuals who cannot be deemed to be truly independent. Elsewhere we tend to vote against director nominees who already hold a large number of board appointments, or who have otherwise failed to maintain good attendance records at board meetings. During the quarter we voted against director election resolutions at the following: Alibaba Group; Café de Coral.

Corporate Engagement

We hold a number of meetings with our investee companies each quarter to review the company’s business activities and discuss the future outlook. Such meetings are integral to our investment process. At these meetings, we seek to:

- Keep updated with the main drivers of operating performance
- Question senior management on their strategic priorities
- Remain fully briefed on the risks which may affect a company’s outlook
- Ensure that any issues that we may have with the company’s environmental, social and governance practices are discussed and if necessary escalated to a higher level.

The commentary below provides some examples of meetings held during the quarter, or communications initiated where governance of other ESG issues were discussed:

SEA Limited (Singapore)

We recently met with the senior management of Singapore domiciled technology company, Sea Limited. Since listing its depositary receipts on Nasdaq three years ago, Sea has enjoyed spectacular success and investors who participated in the IPO have seen their initial investment rise ten-fold. With a market capitalization of US$82 billion, Sea is now one of SE Asia’s largest companies – and all this without a local market listing! Given that its activities range from online gaming (of the non-gambling kind), to e-commerce, to digital payments and other financial services, Sea lies at the heart of the growth of the digital economy, particularly in the ASEAN region. JPMAM now ranks among the company’s largest shareholders.

Our most recent engagement with Sea focused on ESG, to mesh with the development of an ESG materiality framework for all companies under coverage. Despite the company’s relative immaturity (it was only listed in 2017), our analysts were pleasantly surprised by the number of ongoing ESG initiatives underway, and the seriousness with which environmental and social issues are being pursued. At the same time we were able to share with Sea our experience of the broader e-commerce sector, particularly with respect to the measures adopted by competitors and peers to counteract counterfeiting and improve cyber security. From JPMAM’s perspective the key message to the company was to provide shareholders with better disclosure, quantify more rigorous ESG indicators and targets, and, as the lowest hanging fruit, produce an annual sustainability report.

In terms of specific measures our analysts noted:
• **Environment – Waste Management** - the company recognizes that, as an e-commerce business, its most obvious environmental impact comes from the carbon emissions of its logistics business and the waste from single-use packaging. To counteract this, the company is seeking to reduce its use of plastics, introduce more biodegradable packaging materials, and ensure that as much packaging waste as possible can be recycled or re-used. A particular problem is the amount of electronic waste generated by both new technology and shorter product life-cycles. From time to time it runs campaigns to encourage consumers to trade in old electronics goods in return for online reward points. It then refurbishes the equipment for use by poorer communities in the SE Asian region.

• **Social – Product Safety and Mis-selling** - given that counterfeiting is a perennial problem for the e-commerce sector, the company has invested heavily in developing programs to ensure that the goods advertised on its platforms are both legitimate and safe. For larger scale merchants, the company has tight onboarding criteria with extensive documentation to ensure that vendors can be trusted. Software has been developed to scan for suspicious items and / or abnormal price points, and humans quickly intervene if risks or anomalies are identified. Training programs are in place to educate employees about IP infringement, and links are in place with enforcement agencies to bring suspicious practices to their attention.

• **Social – Customer Privacy and Data Security** - although the company’s main markets in ASEAN are less heavily regulated than in Europe or the US, data privacy and cyber security remain key concerns. To mitigate risks, data analytics is carried out in-house and access is limited to select employees. Also the company does not sell on customer data to third parties. Given the nature of the business, cyber security is a significant concern, and it will remain a focus in terms of future spending and investment.

In terms of its strategic classification we rate Sea as a Quality franchise, albeit one with 20 red flags (many related to governance related concerns due to variable voting rights). Despite its strong price performance, its core e-commerce, gaming, and fin-tech businesses are all seeing strong growth (helped by the pandemic lock-down measures across the SE Asian region), and the company is rapidly gaining market share. Our sector analyst expects revenue to quadruple over the next five years! Managing the risks of this rapid growth, including ESG risks in a region not noted for proactive compliance, will be a priority for the executive management team.

**Korea Electric Power (Korea)**

Korea Electric Power (KEPCO) is the dominant electric utility in Korea responsible for around 93% of the country’s electricity output. It is involved in all sources of power generation, from hydro-electric and thermal power to coal fired generation and nuclear power, and is the sole operator of the transmission and distribution network. As a state owned entity (51% directly owned by the Korean government), profitability is often subordinate to the policy objectives of government, and this includes dividend payments, which can be disconcertingly variable.

Earlier this year, KEPCO’s management published a letter to investors, outlining its commitment to reduce carbon emissions and to improving its environmental disclosures. As part of this, the company reiterated that there would be no further investment in new coal fired power plants in Korea, and it implied that new investment in such plants outside Korea would be scaled back, given the introduction of “stringent” new qualifying criteria. It was therefore disappointing to learn of two
announcements over the summer that have approved new coal fired investments in Indonesia and Vietnam.

Our analyst in Korea had an update call with KEPCO’s management to seek clarification behind these announcements. From her conversation she noted that:

- The two projects have been under discussion since at least 2018, and the company felt it could not back out because of the close relationship with the two countries concerned. National policy considerations appear to have superseded domestic corporate concerns.
- There are two more overseas coal-fired projects under discussion, one in South Africa and the other in the Philippines. The steer from management on these was that they are unlikely proceed given the increasingly hostile sentiment in Korea towards investing in new green field coal fired projects.
- In the latest board meeting minutes, it was explicitly noted as part of the board’s discussion that KEPCO should re-consider why the company should continue investing in overseas coal-fired projects, in view of rising environmental objections, and the already announced government’s Green New Deal initiative.

Our analyst acknowledges that KEPCO’s strategy is “probably” on course to meets its environmental commitments but that the pace of this is slow and non-linear. The key will be the actions of its 51% shareholder, and the sense of urgency on climate change issues as reflected in the political debate in Korea. Here she notes the growing support for a bill in the legislature (proposed by the current ruling party) to ban all future coal-fired projects by Korean SOEs. And the ban would apply, not just to KEPCO, but to key financing entities such as Korea Ex-Im Bank, Korea Development Bank and Korea Trade Insurance. Should this bill pass, it would effectively cut off the project financing that KEPCO requires to participate in any future coal-fired projects. Thus, the political environment rather than pressure from shareholders will likely determine KEPCO’s ability to meet its long term GHG emissions targets.

President Chain Store Corporation (Taiwan)

As part of our regular engagement, we recently held a meeting with Taiwan listed President Chain Store Corp. (PCSC) which was entirely devoted to ESG. This was occasioned by the publication of the company’s Sustainability Report for 2019 (covering the period until 30 June 2020). PCSC is a major food and convenience store retailer, operating or franchising over 5,600 stores, principally in Taiwan and the Philippines. As a constituent of both the MSCI Global Sustainability index and the Dow Jones Sustainability World index, PCSC’s sustainability efforts have been well recognized by the compilers of sustainability indices, and we agree that the company is ahead of peers in this area. As such, the company scores well in our ESG related rankings, notably our Strategic Classification (“Quality” rating, 4 red flags), and our ESG materiality assessment (8/25). Despite being well ranked the company is committed to improving further.

At our recent meeting we focused on the following issues:

1. **Governance – Board Diversity** - we noted that there are only two female board members out 13 in total (ie 15% - well below the 30% level that many investors view as “reasonable”). The company acknowledged that this was lower than desirable, but all board candidates chosen have been selected based on their skills and aptitude and the resultant composition of the board is a merit based outcome. At a managerial level 21% of senior executives are
female. Given these data-points, we believe the company has more work to do in promoting
diverse and inclusive recruitment.

2. **Social – Supply Chain Management** - PCSC recognizes that the responsible and sustainable
sourcing of goods is an ongoing challenge, but believes that it has strong procedures in place
to underpin product safety and quality. Company representatives highlighted the progress it
was making to ensure traceability within its supply chain. The company has established its
own Quality Testing lab (certified by Taiwanese government agencies such as TFDA and TAF)
and in 2019, the passing rate for all products tested was in excess of 99%. Likewise, within
its store network - both owned and franchised - a consultant was engaged to conduct quality
assurance tests. Of the more than 5,500 outlets covered by this process, over 96% passed
the audit.

3. **Environmental – Emission Reduction Targets / Providing Consistent Disclosures** - although
the company covers a large number of environmental data-points in its Sustainability Report,
we are less certain about the long term progress towards emissions’ reduction. To boost our
assessment of the company on this pillar in our ESG materiality framework (ie raise the
rating from “2” to “1”), we suggested the company should share its longer term road map
with investors, and improve the level of environmental disclosures. This would provide
context for improvements made in any one year, and would raise the transparency of the
target setting process. It would also allow the company to be compared more favorably
against international peers in this area.

**J.P. Morgan Asset Management**

**Asia ex-Japan Proxy Committee**

**November 2020**