Investment Stewardship, Asia ex Japan – 2021 Q4

February 2022

J.P.Morgan
ASSET MANAGEMENT

At J.P. Morgan Asset Management, we are committed to delivering the highest possible risk-adjusted returns to our clients. We believe 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 routinely meet with the senior executives of our investee companies to exercise our ownership responsibilities. And where a governance issue is material, we will engage with the company 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 process.

J.P.Morgan Asset Management's commitment to Net Zero

In 2021, J.P.Morgan Asset Management became a signatory to the Net Zero Asset Managers initiative (NZAMI), through which we have committed to support investing aligned with the goal of net zero greenhouse gas emissions by 2050 or sooner. We will partner with our clients on their transition to net zero, set targets for assets that we determine can be managed within net zero pathways, and accelerate our corporate engagement, stewardship and policy advocacy on climate change.

Thoughtful government policy, investments in low-carbon technologies and collaboration between public and private sectors are all pre requisites to a transition to a low carbon world. Asset managers, together with our clients, also have an important role to play and we are pleased to have joined NZAMI as we seek to work with clients to deliver products and solutions that support their net zero ambitions.

Contents

Market developments and trends

In 4Q 2021 governments and financial regulators around the world were busy with their announcements related to sustainable investing and financing. These announcements cover a wide range of topics, including climate action plans (e.g. UK green finance roadmap), reporting requirements for companies and financial institutions (e.g. mandatory climate disclosure in UK, New Zealand and Singapore) and incentives to drive sustainable financing (e.g. low-interest loans to carbon-reduction sectors from the Peoples Bank of China).

From an investment stewardship perspective, the enhancements of governance-related regulations and practices in various Asian jurisdictions and the formation of International Sustainability Standards Board are worth the attention for investors and companies. We consistently encourage companies to work towards better governance practices and improve their disclosure and transparency of material sustainability issues. We hope this positive momentum from regulators and standard setters will continue in 2022.

Increased regulators' focus on board diversity and refreshments in Malaysia, Hong Kong and Taiwan

In November, the Securities Commission Malaysia published its Corporate Governance Strategic Priorities 2021-23. There are increased focuses on board composition and effectiveness. On director independence and refreshments, the regulator plans to cap the tenure limit for independent directors to 12 years in the legally binding Listing Requirements in 2022. Specifically on gender diversity, the regulator plans to introduce a mandatory quota of at least one woman on every board, similar to the practice in India and South Korea.

In December, the Hong Kong Stock Exchange also announced its consultation conclusions on the revision of the corporate governance code. The regulator no longer accepts any single-gender boards effective from 1 January 2022. Listed companies must appoint a director of a different gender no later than 31 December 2024. On board independence and refreshments, listed companies have to appoint a new independent director if all independent directors have served the board for more than nine years effective financial year commencing on or after 1 January 2023.

Also in December, the Taiwan Stock Exchange amended several corporate governance best practice principles for listed companies. They include at least one-third board independence, no more than three consecutive terms of office for independent directors, and at least one-third female board of directors to promote diversity.

J.P.Morgan Asset Management's corporate governance expectations share a similar direction of travel. On gender diversity on the board, we discourage any single-gender boards and expect boards to have a strategy to improve female representation. As a member of the 30% Club Investor Group in Hong Kong, we also support the voluntary gender diversity targets of 25% by 2025, and 30% by 2028 for all Hong Kong listed companies. We will utilize our voting power to bring about change where companies are lagging in this respect. As a matter of principle, we expect our investee companies to be committed to diversity and inclusiveness in all aspects of their businesses.

On board independence and refreshments, we encourage boards to regularly conduct board evaluations with assessment conducted internally, and by independent third-party.

Regulatory updates on related party transactions in Taiwan and India

We welcome the new proposals introduced by regulators in Taiwan and India, respectively. In November, the Financial Supervisory Commission in Taiwan released draft amendments to the Regulations Governing the Acquisition and Disposal of Assets by Public Companies. For the very first time, shareholder approval is required for related party transactions that represent greater than 10% of total assets. The regulator also expects companies to reference professional association standards in assessing the value of assets in question.

Concurrently in November, the Securities and Exchange Board of India (SEBI) announced related party transactions amendments. The regulator expects companies to provide more details to the audit committee which is required to approve RPT where subsidiary companies are involved. .

A milestone reached for global standardization of sustainability disclosure

On 3 November 2021, IFRS Foundation announced three key developments[1] :

- The formation of the International Sustainability Standards Board (ISSB)
- The consolidation of two important investor-focused sustainability related bodies by ISSB. These two bodies are the Climate Disclosure Standard Boards and the Value Reporting Foundation, which houses the Integrated Reporting Framework and the Sustainability Accounting Standards Board (SASB) Standards
- The publication of the climate and general disclosure requirements.

In our view, these developments help contribute to the global standardization of sustainably disclosure. Having more standardized quality disclosure by companies can improve information flow for environmental, social and governance (ESG) research and analysis. Investors can better assess companies' sustainability performance given the consistency, objectivity and comparability that the standardized data can provide. Companies can also benchmark themselves against peers in the development of sustainability issues. As a member of the SASB Investor Advisory Group, we look forward to providing the feedback from the investors' perspective to the ISSB.

[1] Source: IFRS Foundation announces International Sustainablity Standards Board, conslidatoin with CDSB and VRF, and publication of prototype disclosure requirements.

Corporate engagement

HKBN Ltd. (Hong Kong).

Market: Hong Kong

Engagement focus: Human capital management, executive remuneration, governance

Progress: We asked the company to facilitate a dialogue between the board remuneration committee and investors to discuss employee incentive plans and executive remuneration in the future.

We had a meeting with the broadband provider's chief executive officer (CEO) to discuss its employee co-ownership plan (Plan IV). While we always encourage companies to provide employee equity incentives to align their interests with companies' long term strategy, we are mindful that sometimes the details of incentive programs could create a windfall gain to senior executives more than to the general employees.

HKBN has been proud of this plan and it encourages employees to subscribe to the company's shares using their salary. The company missed the performance targets in its previous plan (Plan III) partly due to social unrest in Hong Kong and the COVID-19 pandemic. We understand from the management that the new performance targets under Plan IV are still ambitious. The plan will also benefit a wide group of 2,100 employees beyond the usual C-suite executives representing c.40% of total workforce. The maximum dilution level is also manageable.

Scrutiny of the potential conflicts of interests of the company's employee co-ownership plan is important

One area of potential concern is that there are 12 connected persons involved in the plan, including the CEO. We took comfort in the company's independent financial advisor's opinion and supported management at the extraordinary general meeting. We recommended the company to have an independent administrator for future plans. We also asked the company to facilitate a dialogue between the board remuneration committee chair and investors to discuss employee incentive plans and executive remuneration in the future, as the CEO himself is a connected person of this plan.

Haier Smart Home (China)

Market: China

Engagement focus: Stakeholder engagement – supply chain management

Progress: We asked the company to map out the value chain of its key raw materials sourced as a first step to understand the inherent environmental and/or social risks beyond its direct operations.

As a leading home appliances manufacturer based in China, the company's sustainability disclosure especially around supply chain management is limited. As a result, we reached out to the company for insights about its supply chain management practices.

From our engagement we understand the company has put in place supply chain management policies and supplier data management system to track suppliers' environmental and social (E&S) performance and to evaluate their sustainability. The company adopts a four-staged annual supplier assessment: self-commitment, on-site review, financial indicator review and E&S risk management review. To enhance the robustness of the assessment process we encouraged the company to appoint independent third-party professionals to validate the data submitted by suppliers and evaluate their E&S risks.

Mapping out the value chain of its key raw materials sourced is a key first step to responsible sourcing

Responsible sourcing disclosure is another area for improvement. The company said that it purchases mainly parts and processed materials. Some suppliers are members of the Responsible Minerals Initiatives but currently the company has no specific requirements of external certifications or memberships for its suppliers. We asked the company to map out the value chain of its key raw materials sourced as a first step to understand the inherent environmental and/or social risks beyond its direct operations. We shared industry examples with the company and will continue the engagement on this and other material ESG topics.

Hyundai Motor Company (South Korea)

Market: South Korea

Engagement focus: Human capital management – workforce diversity, labor relations, just transition

Progress: We sought an update on the company's labor relations and diversity in the workplace. We will continue to advocate for target setting on human capital management and engage with the company on its just transition strategy.

On behalf of both listed equities and fixed income investors, we engaged with Hyundai Motor Company, the Korean auto company, both through the Asian Corporate Governance Association (ACGA)'s collaborative meeting with the independent director and through private engagement.

Our engagement on human capital covers both workforce diversity and labor management

We have identified human capital management a key ESG aspect to engage. In terms of diversity in the workplace, the company has notoriously low female representation at less than 5-6%. Labor relations is another focus area. The company faced a number of labor relations controversies in the past years in South Korea and India, and it is still flagged by some external ESG raters.

On workforce diversity, the company reiterated that gender diversity is the company's priority and five female directors were appointed. However, it is still unclear whether the company has or plans to have any explicit targets to address the issue. We will continue to engage and encourage target setting.

On labor management, the company reassured us that its relationship with labor unions domestically and overseas has improved. This can be evidenced by the lack of strikes in the past three years in South Korea. Its recent pay negotiation with labor in Brazil in November 2020 was also resolved without any strike. Labor relations have also been helped by the election of a new, more conciliatory and flexible labor union management team. We will continue to monitor the situation to assess whether the company has achieved a sustainable structural improvement.

We are pleased that the company took further action to enhance ESG oversight at the board level. In 2021, it revamped its corporate governance committee which now becomes a sustainability committee. The committee will start to oversee social issues in 2022 in addition to environmental and climate-related issues.

We will continue to engage with the company on these social topics as well as "just transition". The company's strategy shift towards electrification and automation to meet its climate ambition implies a structural change in the workforce. We will seek the company's latest thinking and acknowledgement of "just transition" as a relevant business issue.

Samsung Electronics Co., Ltd. (South Korea) – Progress on board access

Market: South Korea

Engagement focus: Governance – board effectiveness, capital allocation, succession planning

Progress: We had our first meeting with the new Independent Chair of Samsung Electronics Co., Ltd.'s board to discuss board effectiveness, capital allocation and succession planning.

Board evaluation and effectiveness are beyond directors' meeting attendance

We first asked how the board measures its success. According to the Independent Chair, independent directors are evaluated based on their meeting attendance and contribution to the company. However, we see a lack of performance metrics to evaluate the whole board and the Chair welcome our suggestions on board evaluation. After the meeting we shared with the company examples of global best practice on board evaluation. In our view, this type of educational sharing is one of the core benefits we try to bring as shareholders in businesses.

Capital allocation is another area we want the company to improve. With more than US$100billion of cash and limited debts on the balance sheet, we have long held the view Samsung Electronics can increase its dividends. The chairman reiterated the narrative shared by investor relations that most cash sits at the overseas subsidiary level and any share buyback would trigger tax implications. Although we understand this issue, we also think it is not unique to Samsung Electronics and other companies have found a better balance.

Finally we discussed succession planning, which has become a particularly pressing issue given J. Y. Lee, the grandson of the founder and former leader of the company, has had to reduce his involvement in the company due to ongoing legal issues. We were told the company has plans to nurture talents and transition to a company managed by professionals outside of the Lee family. According to the board chair, J.Y. Lee will not pass his managerial rights to his children. We look forward to the company's announcement of further details about succession planning.

Proxy voting

We review all resolutions to ensure that votes cast are in the best interests of our clients. Most resolutions raised are uncontentious, and we typically vote in support of incumbent management. However, in a number of instances, we either abstain from voting or vote against specific resolutions. In Asia Pacific, we have appointed Institutional Shareholder Services Inc. (ISS) to assist us in the processing of proxies and to provide us with recommendations based on our Proxy Voting Guidelines. At the same time, we are under no obligation to accept these recommendations if we believe that client interests are best served by voting differently.

Between October and December 2021, we voted 1,597 proposals at 308 Asia ex Japan company meetings, of which China and Hong Kong accounted for close to 39.6% of total number of meetings, followed by Australasia (37.7%) and the Association of Southeast Asian Nations (ASEAN) (14.0%). Our voting statistics for the quarter are summarized below:

Q4 2021 Voting Activity on Behalf of Clients in the Asia Pacific Region

All Asia ex JP companies (ISS Country of Coverage)	Oct-Dec 2021	%	Oct-Dec 2020	%
Number of meeting	308		223	
Number of votable proposals	1,597		1,845	
Number of proposals voted	1,597	100%	1,845	100%
Number of shareholder proposals voted for	36		29	
Votes with management	1,421	89.0%	1,544	83.7%
Votes against management	176	11.0%	293	15.9%
Abstain and withhold	0	0.4%	8	0.4%

Key Martkets	China, HK		India		ASEAN		Australasia	
Period*	**4Q2021**	4Q2020	**4Q2021**	4Q2020	**4Q2021**	4Q2020	**4Q2021**	4Q2020
Number of meetings voted	**122**	102	**17**	12	**43**	12	**116**	89
# proposals voted	**658**	941	**32**	43	**211**	73	**669**	747
For	**597**	800	**32**	30	**187**	61	**591**	617
Against	**61**	141	**0**	13	**34**	12	**78**	122
Abstain/withhold	**0**	0	**0**	0	**0**	0	**0**	8
As % of total								
For	**90.7%**	85.0%	**100%**	69.8%	**84.6%**	83.6%	**88.3%**	82.6%
Against	**9.3%**	15.0%	**0.0%**	30.2%	**15.4%**	16.4%	**11.7%**	16.3%
Abstain/withhold	**0.0%**	0.0%	**0.0%**	0.0%	**0.0%**	0.0%	**0.0%**	1.1%

**4Q2021 refers to 1 October to 31 December for 2021 and 4Q2020 refers to 1 October to 31 December for 2020*

Similar to our observation in the past years, the October – December 2021 quarter coincided with the peak of the annual general meeting (AGM) period in Australia. In Australasia, we voted against 78 proposals, of which 38.9% were related to executive's compensation. In China and Hong Kong, we voted against 61 proposals, of which 39.3% were also related to restricted stock plan and new employee stock options (Refer to executive remuneration section below for further details.)

Directors’ election

During the quarter, we voted against 33 proposals related to director election due to concerns about overall board independence, long-tenure of independent directors, a lack of board refreshments, low attendance of board meetings and a lack of information of board members. Among these proposals we did not support, 55% took place in Australia, including ARB Corporation Limited and Altium Limited.

Executive remuneration

During the quarter, we voted against 60 proposals related to share option and/or restricted shares due to concerns about failure to provide clarity on the leveraged pay structure and excessive potential maximum dilution level. Examples include Insurance Australia Group Ltd. (Australia)’s executive officers' compensation plan and Malaysian Pacific Industries Berhad (Malaysia)’s new share option scheme.

However, we also took into consideration local market practice and management’s track record when we cast our vote, as illustrated in the case study below:

Case study: Wuxi Biologics (China)

We discussed with the CFO and the Company Secretary of Wuxi Biologics ahead of voting on employee incentive programs for two of its subsidiaries which ISS had recommended voting against.

We agree with the company that the two subsidiaries are at their relative early stage of development, not mature companies as suggested by ISS. A proper employee incentive scheme can help retain and attract talents. We are comfortable with the potential dilution and structure of the schemes proposed by the company. In our view, it is of shareholder interests to support the options schemes and thus we voted with management. However, the disclosure in the circulars is insufficient. We recommended Wuxi Bio to improve the disclosure with more details about the structure of the schemes and the criteria for granting the options.

We also tried to understand more the Global Partnership Program (GPP) announced by the company. The GPP does not require shareholders' approval and involves the issuance of Restricted Stock Units (RSU) and the criteria of issuance are linked to the market cap and EPS CAGR for 2020-2024. We expressed our concerns about the design of GPP which has significant linkage to the market cap of the company, instead of the performance of individuals.

Capitalization and capital allocation

For companies seeking shareholder approval to issue new shares without pre-emptive rights (including the issuance of repurchased shares), we continue to vote against 12 resolutions that might result in potential excessive dilution.

In addition, for approval of listing of shares on a secondary exchange item, we currently take a case-by-case approach as shown below case study on **Top Glove Corporation Berhad**:

Case study: Top Glove Corp. BHD. (Malaysia)

Malaysian rubber glove manufacturer Top Glove Corp. proposed its third listing in Hong Kong by issuing new ordinary shares.

We voted against this proposal because of a lack of compelling reason and potential excessive dilution. The company is already listed in Singapore and Malaysia, and want another listing in Hong Kong in order to raise more capital to fund ongoing organic expansion plans and seize opportunities for accretive mergers and acquisitions (M&As). However, given the company's strong balance sheet and net cash position it is difficult to justify the 9% dilution brought by listing in Hong Kong.

We engaged with Top Glove to discuss about the matter but we view the reasons given by the company insufficient to justify its proposed listing in Hong Kong.

Environmental and social shareholder proposals

During the quarter we encountered 15 environmental and social related shareholder proposals in the region and all were concentrated in Australasia. We supported 4 proposals related to climate-related lobbying resolutions and Paris-aligned targets filed at **Origin Energy Limited**, **South32 Ltd.**, **BHP Group Limited** and **Incitec Pivot Limited**. For example, we supported the advisory climate vote filed at BHP Group, which the company and shareholder proponents were in agreement that supporting the resolution will strengthen the company's review of industry associations to be aligned with the goals of the Paris Agreement.

Glossary

THE ASIA INVESTOR GROUP ON CLIMATE CHANGE (AIGCC) An initiative to create awareness and encourage action among Asia's asset owners and financial institutions about the risks and opportunities associated with climate change and low carbon investing.

CARBON NEUTRALITY/ NET ZERO CO2 EMISSIONS Net zero carbon dioxide emissions are achieved when anthropogenic CO2 emissions are balanced globally by anthropogenic CO2 removals over a specified period.

CLIMATE ACTION 100+ An investor-led initiative to encourage better climate disclosures and emission reduction strategies for a group of large greenhouse gas-emitting companies.

26th UN Climate Change Conference of the Parties (COP26) The 26th iteration of the Conference of the Parties to the UN Framework Convention on Climate Change (UNFCCC) which brings together the 197 members of the convention to take concerted action on climate change.

THE PARIS AGREEMENT An agreement within the United Nations Framework Convention on Climate Change stating a global goal to keep the increase in global temperatures relative to pre-industrial levels to well below 2°Celsius while pursuing efforts to limit the increase to 1.5°Celsius.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) Provides a framework through which companies can improve and increase the reporting of climate-related financial information.

THE INTERNATIONAL SUSTAINABILITY STANDARDS BOARD (ISSB) A new standard-setting board established by the IFRS Foundation Trustees in November 2021 to deliver a comprehensive global baseline of sustainability-related disclosure standards.

RISK SUMMARY

Certain client strategies invest on the basis of sustainability/Environmental Social Government (ESG) criteria involves qualitative and subjective analysis. There is no guarantee that the determinations made by the adviser will be successful and/or align with the beliefs or values of a particular investor. Unless specified by the client agreement or offering documents, specific assets/companies are not excluded from portfolios explicitly on the basis of ESG criteria nor is there and obligation to buy and sell securities based on those factors.

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