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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.

Contents

Market developments and trends

Reducing carbon emissions is important for mitigating the risks of climate change. Carbon pricing is generally considered a key instrument to mobilize emission cuts. Carbon pricing takes many forms. Finding an approach of carbon pricing that can balance the demand of different stakeholders is a combination of science and art. Letting the market discover the prices through trading could be the approach that China is taking after the launch of its national emission trading system (ETS) in July 2021.

Companies can reference carbon prices from transactions in the open markets or from emission taxes determined by individual governments. As investors we want to understand if companies consider carbon prices internally and the prices they have assumed. These could be useful information for accessing a company's climate risks. As a result, shadow carbon prices are included in the seven cross-industry, climate-related metrics in the Task Force on Climate-related Financial Disclosures' (TCFD) Proposed Guidance on Climate-related Metrics, Targets and Transition Plans announced in June 2021.[1]

While climate change is always the center of discussion around sustainability and environmental, social and governance (ESG) issues, nature and biodiversity are now under the spotlight. Noticeably, climate action failure, biodiversity loss, natural resources crises and human environmental damage are among the top seven global risks in terms of impact, according to the Global Risks Report 2021 by World Economic Forum.[2] The Taskforce on Nature-related Financial Disclosure (TNFD) with the support from United Nations and a group of financial industry participants was launched on 4 June 2021. Soon after that the World Bank put forward suggestions about Nature Action 100+ (NA100+). Leveraging the experience of TCFD and Climate Action 100+ (CA100+), TNFD and NA100+ could shape the nature-risk disclosure of companies and financial institutions and influence their actions to address those risks.

On the regulatory front, major developments since we published our 2021 first quarter stewardship report include the introduction of new rules to govern ESG funds in Hong Kong and Taiwan, and revised disclosure requirements for China's public-listed companies in the aspects of ESG.

Pricing carbon emissions in China

After more than 10 years of state planning and having carbon trading at a selection of cities, China rolled out its nationwide ETS in July 2021. Currently, the ETS covers 2,225 power and heat generating entities with over 4 billion tons of carbon dioxide (CO2) emissions per annum. This implies a total market size of about US$31 trillion at current price of about RMB50/CO2t (US$7.7/CO2t). The price of carbon traded in China is considered low, whether in absolute terms and relative to carbon prices in other ETS, or to carbon taxes in developed markets. But China's carbon price is expected to increase according to the survey results published by China Carbon Forum.[3] The development of China's carbon market will be closely monitored by investors and by other governments, particularly those in the emerging markets which are considering pricing carbon.

Carbon trading is gaining attention as more governments are facing the pressure to reduce emissions and looking for solutions to mitigate the risks of climate change. That said, carbon trading or a single tool are insufficient to address the issues of emissions and climate change. The complexity of the issues require solutions that involve a combination of tools and a close cooperation among nations. Importantly, all businesses, not only the heavy emitters, have shared the responsibilities in emission cuts and other climate actions. We encourage companies to proactively assess their emission exposure and the overall climate-related risks, which is among our top five investment stewardship priorities.

[1] Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans, TCFD, June 2021
[2] The Global Risks Report 2021, World Economic Forum, January 2021
[3] 2020 China Carbon Pricing Survey, China Carbon Forum, December 2020

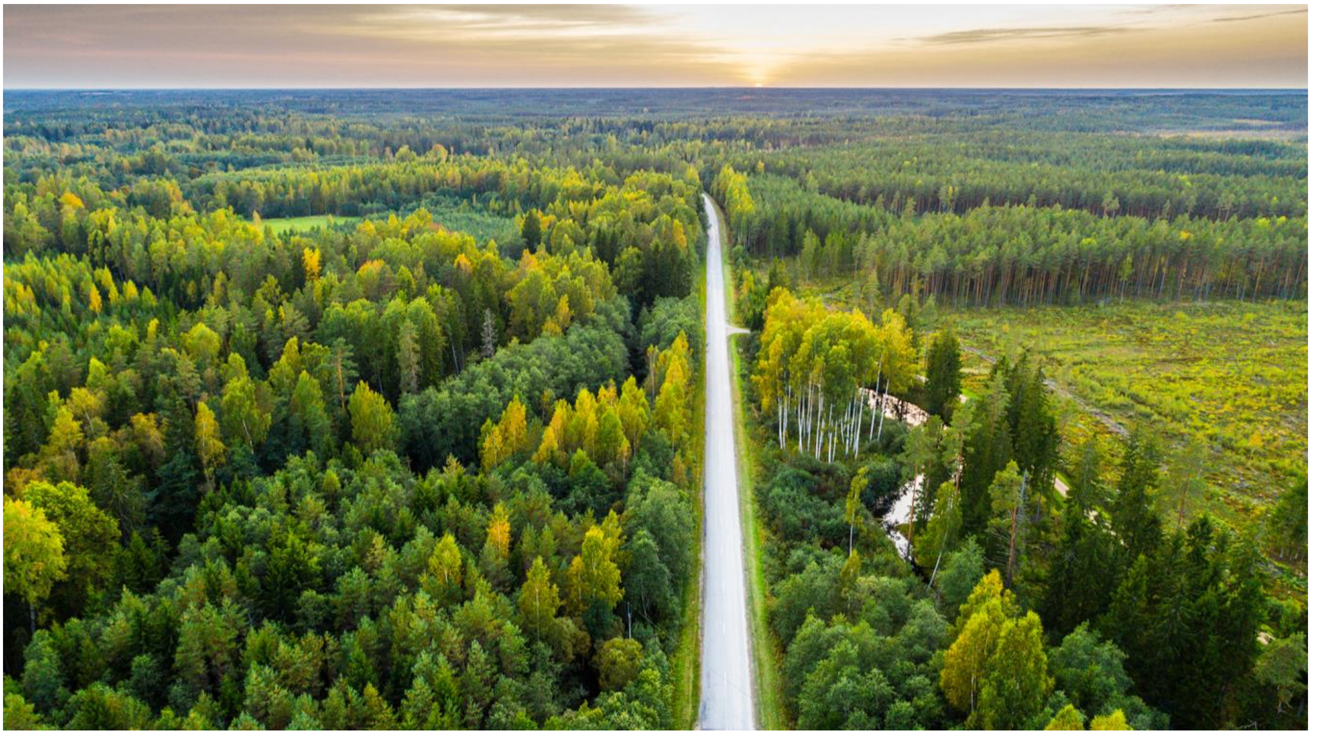
Table 1: Some major differences between China ETS and EU ETS

Items	China ETS	EU ETS
Sectors and gases covered	Carbon dioxide (CO2) from power and heat generation (pending: cement and aluminium production by 2022)	• Carbon dioxide (CO2) from 1) power and heat generation, 2) energy-intensive industries (oil refiners, steel works, production of iron, aluminium, metals, cement, lime, glass, ceramics, pulp, paper, cardboard, acids and bulk organic chemcials) and 3) commercial aviation within European Economic Area • Nitrous oxide (N2O) from production of nitric, adipic and glyoxylic acids and glyoxal • Perfluorocarbons (PFCs) from aluminium production
Cap	No absolute cap for emission targets	With absolute cap for emission targets and annual reduction
Emission allowance	Free allocation by pre-determined emission intensity	Buy absolute allowance through auctions

Source: Ministry of Ecology and Envionrment of the PRC, European Commission, JPMAM

Proposing cross-industry disclosure under TCFD

In June 2021, the Financial Stability Board's (FSB)TCFD published the Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans for market consultation. In response to the developments in companies' disclosure practice since its issuance of 2017 final report[4], the TCFD developed this proposal to provide more specific guidance for organizations seeking to establish relevant metrics, targets and transition plans around their climate-related risks. Included in this proposal are the disclosure of seven cross-Industry, climate-related metrics and two climate-related financial impact by all companies. The final guidance is expected to be released in the autumn of 2021. Following the support by Group of Twenty (G20) on climate reporting building on the TCFD framework[5], this upcoming guidance could impact the landscape of corporate engagement and proxy voting activities.



[4] Recommendations of the Task Force on Climate-related Disclosures, TCFD, June 2017
[5] Energy Transition and Climate Sustainability Working Groups, Joint G20 Energy-Climate Ministerial Communiqué, July 2021

Table 2: TCFD's proposed cross-industry, climate-related risks and financial impacts to be disclosure

Cross-industry, climate-related metrics	Quantified, Climate-Related Targets (Illustrative)
GHG emissions (Absolute Scope 1, Scope 2, and relevant, material categories of Scope 3 emissions, as well as carbon intensity)	• Reduce net Scope 1, 2, and 3 emissions to zero by 2050, with an interim target to cut emissions by 70% relative to a 2015 baseline by 2035
Carbon price(s) (external and shadow/internal)	• Increase shadow carbon price to $150 by 2030 to reflect potential changes in policy • Not applicable for external carbon price
Proportion of assets and/or operating, investing, or financing activities materially exposed to physical risks, based on key categories of commonly accepted risks	• Reduce percentage of asset value exposed to acute and chronic physical climate-related risks to 50% by 2050 • Ensure at least 60% of flood-exposed assets have risk mitigation in place in line with the 2060 projected 100-year floodplain
Proportion of assets and/or operating, investing, or financing activities materially exposed to transition risks, based on key categories of commonly accepted risks	• Reduce percentage of asset value exposed to transition risks by 30% by 2030, relative to a 2019 baseline
Proportion of assets and/or operating, investing, or financing activities aligned toward climate-related opportunities, based on key categories of commonly accepted opportunities	• Increase net installed renewable capacity so that it comprises 85% of total capacity by 2035
Amount of senior management remuneration impacted by climate considerations	• Increase amount of senior management remuneration impacted by climate considerations to 50% by 2025
Amount of expenditure or capital investment deployed toward climate risks and opportunities	• Invest at least 25% of annual capital expenditure into renewable energy • Lend at least 10% of portfolio to projects focused primarily on physical climate-related risk mitigation
Cross-industry, climate-related financial impacts	**Examples**
Impact of any material climate-related risks or opportunities on financial performance	• Change in profitablity/cash flow due to climate opportunities • Impairment charges due to assets exposed to physical and transition risks
Impact of any material climate-related risks or opportunities on financial position	• Carrying amount of assets due to exposure to physical and transition risks • Expected portfolio value given climate risks and opportunities

Source: TCFD, JPMAM

Measuring financial impact of nature and biodiversity

Other than climate change, biodiversity is now under the spotlight

Biodiversity loss is not only a risk to nature but also a risk to our economy as many of economic activities are directly or indirectly supported by biodiversity. A balanced ecological system, which depends upon the conservation of biological diversity, is critical to the sustainability of our financial system. According to a report from the World Economic Forum, about US$44 trillion of our economic value generation, or more than half the global gross domestic product (GDP), relies on nature[6]. It is found that global government subsidies for energy, agriculture, water and fisher sectors are in excess of US$4-6 trillion annually.[7]

Disclosing nature-related financial impact is an important step for investors to assess companies' nature risks. The nature-related disclosure could enable us to have more informative dialogue with investee companies, making them aware of the impact of nature risks and to consider positive changes. This underpinned the launch of TNFD, which is built upon the foundation and structure of TCFD. The TNFD initiative was announced in July 2020 and launched in June 2021. The TNFD framework development is work in progress and is planned to be delivered by 2023.

In addition, the World Bank has proposed NA100+ for nature-related engagement. This program could replicate the model of CA100+ as an investor-led engagement initiative for nature. Through engagement, investors aim to influence large environmentally-sensitive companies to act responsibly, leading to net-zero biodiversity loss in the medium term and net positive impact on biodiversity in the long term.[8]

[6] Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy, World Economic Forum, January 2020
[7] Energy Transition and Climate Sustainability Working Groups, Joint G20 Energy-Climate Ministerial Communiqué, July 2021
[8] Nature Action 100+: A proposal for targeted investor engagement on biodiversity, World Bank Group, June 2021

Regulating ESG funds

Following its consultation about the definition of ESG funds, the Securities and Futures Commission (SFC) of Hong Kong revised the disclosure requirements for ESG funds in June 2021.[9] The new regulations will be effective in January 2022. In July 2021, Taiwan's Financial Supervisory Commission (FSC) also announced measures to regulate the ESG funds.[10] We expect similar regulations in other Asian markets to avoid greenwashing, and to ensure that asset managers walk their talk by integrating ESG factors in their investment decisions.

Requiring more environment and social disclosure

On 28 June 2021, the China Securities Regulatory Commission (CSRC) released the Guidelines for the Content and Format of Information Disclosure by Companies Offering Securities to the Public[11], three weeks after the closing of the consultation period. To improve transparency, certain mandatory and voluntary ESG disclosure and enhanced corporate governance disclosure are required in annual and semi-annual reports, among other measures. The new guidelines are now effective. The followings are some highlights of the new ESG disclosure requirements:

<u>Introduction of a new section on environment and social responsibilities</u>

- Require disclosure on any punishment due to environmental issues during the reporting period.
- Encourage voluntary disclosure of information related to biodiversity protection, pollution management and environmental protection, appraisal or evaluation by third-party institutions and index providers.
- Encourage voluntary disclosure on the company's measure to reduce carbon emission and the impact thereof.
- Encourage disclosure on how the company actively carried out social responsibility activities, including but are not limited to the protection of shareholders and bondholders' rights, labor rights, rights of suppliers, customers and consumer, environmental protection and sustainable development, public relations and social welfare.
- Encourage voluntary disclosure on any related to poverty alleviation in China.

<u>Update for section on corporate governance</u>

- Require company to disclose the establishment and implementation of internal control and management of its subsidiaries.
- Require more disclosure of how board of directors and board committees performed their duties. Information that should be disclosed include the background of members, number of meetings, meeting dates/agendas, any major proposals and disagreements.
- Improve disclosure on controlling shareholder's and actual controller's independence with the company, and avoiding competition with the company.
- Require additional disclosure for companies with dual-class shares, such as any changes in each class over the reporting period and measures to protect minority shareholder rights.

[9] Circular to management companies of SFC-authorized unit trusts and mutual funds – ESG funds, SFC, June 2021
[10] Disclosure rule for ESG funds issued by Securities Investment Trust Enterprise, FSC, July 2021
[11] Guidelines for listed companies' ESG and other formation disclosures in annual reports and interim reports, CSRC, June 2021 (Simplified Chinese only)

Corporate engagement

Budweiser APAC (Hong Kong)

Market: Hong Kong

Engagement focus: climate change, water stewardship

Progress: In June 2021, Budweiser Brewing Company APAC Ltd (Budweiser APAC) announced that its brewery in Wuhan, China would achieve carbon-neutrality by the end of the year. Three breweries in China have already been using all its electricity from renewable energy, thus meeting the goal of RE100, a global corporate renewable energy initiative. In July 2021, the company announced a US$500 million sustainability-linked loan, one of the largest deals of its kind for an Asia Pacific (APAC) food and beverage maker. Interest rates are based in part on pre-determined ESG targets.

We welcome the company's announcement of carbon-neutrality/RE100 achievements of some of its breweries, as well as the linkage between interest rates and ESG targets through its sustainability-linked loan. We will continue to engage with it on water stewardship, supply chain management and its carbon emissions reduction targets.

We have engaged with Budweiser APAC, a leading beer-making company in the region, on material ESG topics since at least 2019. Given the sector exposure, we identify water stewardship as one of the material ESG issues. Following the announcement of the 2025 sustainability goals on water, renewable electricity, packaging and agriculture, we encourage the company to participate in external water-related programs and certifications. In our view, Budweiser APAC can accelerate its journey on water stewardship by gaining more insights of its peers' actions and achievements in water resource management.

In our recent meeting with its head of ESG and investor relations, the company explained its water-risk assessment and results. We urged the company to participate in external water disclosure programs. We are pleased that it is open to our suggestions and promises to study the follow-up water-related materials that we sent.

Supplier management can be material to companies' overall ESG management

In the meeting, we also discussed the board's oversight and accountability of ESG-related risks and opportunities, its supply chain management and climate change. We reiterated that exercising control over suppliers' ESG performance is key to Budweiser Brewing APAC's climate change management, as 90% of its greenhouse gas emissions are from scope 3 along the supply chain. We encouraged the company to provide tangible incentives to suppliers to effect systemic changes. We also recommended it to report against the four key pillars of TCFD recommendations and announced time-bound net zero targets in order to demonstrate its commitment to align with the goals of the Paris Agreement.

Tencent (China)

Market: China

Engagement focus: stakeholder engagement, human capital management, climate-risk mitigation

Progress: Chinese internet giant Tencent Holdings Ltd (Tencent) announced its carbon neutral commitment in February 2021 and set up a taskforce to tackle the climate change issues. The taskforce is driven by senior executives including Pony Ma Huateng, its founder, chairman and chief executive officer. We look forward to more details about Tencent's climate agenda including its plans, strategies and targets.

Over the past years, Tencent has disclosed more high-level information about its workforce. We recommend the management to analyze these information for enhancing the company's social and governance value.

We engaged with Chinese internet giant Tencent to provide formal feedback on the new ESG disclosures in its 2020 annual report.

On climate, we are pleased to see the company commit to achieving carbon neutrality as well as its report being structured against the four key TCFD pillars. We suggested that in future it would be useful if they could share a more granular roadmap and the respective timeline of achieving carbon neutrality, and specifically, that it might be useful to better understand its use of technology such as "T-block" technology for data centers to achieve energy efficiency.

Data privacy and security remains a key issue in the Chinese internet space, and forms part of our ESG materiality assessment of these companies. The positives we took from the report were the more explicit reference to domestic and overseas laws and regulations, as well as a self-composed privacy framework "Tencent PBD" which is publicly disclosed for the first time. Our main encouragement for the future is for Tencent to include the number of cases, type of feedback and reflection on feedback with regards to user privacy.

Human capital data provides useful information

Finally, on human capital management we commended the company for disclosing significantly more data than before, including gender (29% female), age (40% under 30) and turnover (12%). Our next ask was that the company should use the information for thoughtful reflection and report back any conclusions; an example of this is Google's Diversity Annual Report 2019, which includes lessons learnt from the past five years.

Lesso (China)

Market: China

Engagement focus: capital allocation, climate-risk mitigation, board composition

Progress: China Lesso Group (Lesso), a leading plastic pipe producer acknowledged our comments on capital allocation and plans to further increase its dividend payout in medium-to-long term. The board is now overseeing the company's sustainable development, including climate change agenda, with narrative written in its 2020 sustainable development report. We urged Lesso to set and disclose climate-related targets and strategies.

Lesso, a founder-controlled company, is China's largest plastic pipe producer with nationwide production facilities and distribution network. We identify capital allocation strategy, climate-risk management and board composition as engagement focus areas.

On capital allocation, the company has increased its dividend payout in the past years from less than 25% to a commitment of at least 30% starting from 2018. However, dividend distribution only forms part of total shareholder return. In our engagement meeting with the company in May 2021, we emphasized the importance of capital allocation which also covers capital deployment in other areas and mergers & acquisitions discipline. The company acknowledged our comments. It reiterated its commitment to return value to shareholders, and reminded us it distributed more than 35% of its earnings as dividends in the past three years (2018-2020), higher than the minimum payout ratio stipulated in its dividend policy.

Climate change is another major topic that we raised in the meeting. In response to the demand from investors and other stakeholders, the board recently established its Commission on Sustainable Development under the Audit Committee to supervise climate change and other important ESG issues. We suggested the company to disclose clear and concise strategies and targets on climate change mitigation, which were missing in the report.

A regular review of the board is necessary to ensure its effectiveness

About board composition, we raised our concerns about the large board size relative to its business. Out of 15 board directors, 10 are executive directors. This poses questions on the company's ability to increase board independence from existing 33% to meet our expectations of at least 50% in the long term without further expanding the board. In addition, female directors account for 20%. We encouraged the company to review the board structure and increase female representation to at least 30% to meet our long-term expectations. It recognized the importance of having a diversified and an independent board and promised to consider our recommendations.

PTT Plc (Thailand)

Market: Thailand

Engagement focus: climate change, board composition

Progress: Our concerns, suggestions and expectations are passed to the Office of President and the Sustainability Strategy Team of PTT Public Company Ltd (PTT Plc). The energy company explained its medium-term plan (2030) on capital allocation among businesses, its strategy on coal assets and its assumptions for Scope 1 and Scope 2 emission targets.

PTT Plc has taken different initiatives to contribute to a greener world. These include reforestation projects, community education programs about clean energy and planning on renewable energy. We are encouraged by these initiatives and want to know more about other plans on climate change, specifically its strategies and plans to accommodate the world's energy transition by adopting more clean energy and reducing the reliance on fossil-fuel based energy. In our engagement meeting in May 2021, PTT Plc walked us through its emissions reduction targets and discussed its diversification into non-energy businesses, including life sciences (pharmaceutical, nutrition and medical devices), logistics, artificial intelligence-driven robotics & digitalization, mobility & lifestyles, and advanced materials.

The Paris Agreement should be taken into consideration when setting emission targets

We questioned whether its scope 1 to 3 emissions intensity targets are ambitious enough. Noticeably, it aims to limit its total scope 1 and 2 emissions to below 40.2 million tons of CO2 equivalent in 2020, which was 25%, 23% and 24% above its actual emissions in 2020, 2019 and 2018, respectively. We are concerned that these not only reflect PTT Plc's conservativeness in target setting, but also suggest potential rapid expansion of oil and gas production in the company's plan.

In terms of PTT's long-term strategy, while we appreciate the company's investment outside of fossil fuels to achieve de-carbonization strategies, we want to better understand their considerations, particularly in terms of risks and financial returns, in investing in healthcare, life sciences, production of electric vehicles (EV) and key components, which seem unrelated with its energy business. As investors and stewards of our clients' assets we want to ensure that investee companies make good use of their capital and provide sound justifications for investing in non-core businesses.

On board topics, we are pleased that PTT Plc has close to 70% independence in the board and an independent chairman. We encouraged it to appoint more professional representations from the private sector on the board. We also suggested the company to increase the number of female directors.

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 generally vote in support of incumbent management. However, in a number of instances, we either abstain from voting or vote against specific resolutions. In APAC, 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 April and June 2021, we voted 6,750 proposals at 637 Asia ex-Japan company meetings, of which China, Hong Kong and Taiwan accounted for more than 60% of total number of meetings, followed by Association of Southeast Asian Nations (ASEAN) (29%), Australasia (4%) and India (4%). Our voting statistics for the quarter are summarized below:

Q2 2021 Voting Activity

All Asia ex-Japan companies	Apr-Jun 2021	%	Apr-Jun 2020	%
Number of meeting	**637**		592	
Number of votable proposals	**6,758**		5,957	
Number of proposals voted	**6,750**	**99.9%**	5,806	97.5%
Number of shareholder proposals voted for	**124**	**90.5%**	109	89.0%
Votes with management	**5,768**	**85.5%**	4,981	85.8%
Votes against management	**963**	**14.3%**	787	13.6%
Abstain and withhold	**19**	**0.3%**	38	0.7%

Key Markets	Australasia		HK China		Taiwan		ASEAN		India	
Period*	**2Q2021**	2Q2020	**2Q2021**	2Q2020	**2Q2021**	2Q2020	**2Q2021**	2Q2020	**2Q2021**	2Q2020
#meetings voted	**27**	26	**331**	330	**65**	81	**184**	139	**24**	12
#proposals voted	**153**	152	**3,877**	3751	**644**	554	**2,071**	1,485	**124**	50
For	**131**	136	**3,347**	3,130	**558**	499	**1,618**	1,160	**105**	43
Against	**20**	16	**530**	481	**86**	54	**312**	232	**14**	2
Abstain/Withhold	**2**	0	**0**	2	**0**	1	**17**	30	**0**	5
Do not vote	**0**	0	**0**	0	**0**	0	**0**	0	**5**	0
As % of total										
For	**85.6%**	89.5%	**86.3%**	83.4%	**86.6%**	90.1%	**78.1%**	78.1%	**84.7%**	86.0%
Against	**13.1%**	10.5%	**13.7%**	12.8%	**13.4%**	9.7%	**15.1%**	15.6%	**11.3%**	4.0%
Abstain/ withhold	**1.3%**	0.0%	**0.0%**	0.1%	**0.0%**	0.2%	**0.8%**	2.0%	**0.0%**	10.0%

**2Q2021 refers to 1 April to 30 June for 2021 and 2Q2020 refers to 1 April to 30 June for 2020*

The governance framework in Australia generally provides strong protection for minority shareholders. Consistent with our observation in the past years, it is also the market that requires particular scrutiny on executive compensation and shareholder resolutions. (Refer to our voting highlights – Rio Tinto plc under the executive remuneration section and climate-related shareholder proposals under the shareholder proposals section.)

In China and Hong Kong, we voted against 530 proposals, of which 45% were related to issuance of equities with or without pre-emptive rights, reissuance of repurchased shares, private placements and other fundraising activities. (Refer to capitalization and capital allocation section below for further details.)

In Taiwan, our 13.4% against management was mainly driven by our concerns about the long tenure of some independent directors and the board's overall independence. On directors who are entering their fourth three-year consecutive terms, companies do not necessarily confirm their independence and provide strong justifications for their re-election. We would be hesitant in supporting their re-election unless engagement demonstrated positive progress in corporate governance. (Refer to directors' election section below for further details.)

Directors' election

A strong independent board is essential to the effective running of the business

Board composition and effectiveness remains our key consideration. J.P. Morgan Asset Management expects 50% board independence and 30% women on the board. We normally would not consider a board director independent if the person has been in the same capacity for more than nine years or three consecutive terms, unless the company provides strong justification for the person's re-election and confirmation of his/her independence.

During the quarter, we voted against 139 proposals related to director election due to concerns about overall board independence, long tenure of independent directors, the lack of board refreshments and/or inadequate board diversity. They include **Ayala Corporation (Philippines), Endurance Technology Ltd. (India), Formosa Plastics Corporation (Taiwan), Heineken Malaysia Berhad (Malaysia), Hang Seng Bank Limited (Hong Kong), Novatek Microelectronics Corp. (Taiwan), Oversea-Chinese Banking Corporation (Singapore), Wilmar International Limited (Singapore) and Tingyi (Cayman Islands) Holding Corp. (China).**

We also expect companies to establish a nomination committee. As such, we voted against the re-election of an executive director of **Longfor Group Holdings Limited (China)** as it lacks a formal nomination committee. Moreover, independence and diversity levels are insufficient. All independent directors have served the board for more than nine years already, and the board chairperson is the only female representation on the board.

Overboard is another issue we look at closely. We expect board directors to dedicate sufficient time to the company and not to serve more than three public boards, or six in the case of related group companies. We raised our concerns about directors' commitment to the board to **NetEase, Inc. (China)** and **Taiwan Cement Ltd. (Taiwan).**

Case study: Realtek Semiconductor Corp. (Taiwan)

Realtek is a Taiwanese company engaged in the design of semiconductor integrated circuits. We exchanged written communication with the company ahead of its annual general meeting (AGM) as a number of management proposals fell short of our views on best practice, particularly around board composition. We decided to exceptionally support management's proposals in 2021, but only after setting out some key requests that we would like to see adopted which will define how we vote in future years.

Firstly, we asked that the Realtek conduct a regular board evaluation facilitated by an external party and upload the results on the company's website. Next, we stated that it should establish and disclose a credible plan to strengthen board independence prior to 2024 AGM which is when the next director election cycle will take place. Finally, we asked that it increase the number of fit and proper female directors, including female international board directors. These three points compromise a clear engagement plan and we will monitor the company closely on each point.

Executive remuneration

We continue to encourage companies to disclose executive remuneration structures that are clear, transparent, and simple to understand. We generally have reservations supporting equity incentive schemes without meaningful disclosure of key performance indicators or those resulting in potential excessive dilution unless the company provides a strong justification. As a result, we voted against 116 proposals related to share option and/or restricted shares including **Aier Eye Hospital Group Co. Ltd. (China), Galaxy Entertainment Group Limited (Hong Kong), OCBC (Singapore), Tenaga Nasional Berhad (Malaysia) and Tencent (China).**

Case study: Rio Tinto plc (Australia)

We have been engaging with mining company Rio Tinto, who has been under scrutiny to strengthen governance practices on its board, and have a robust cultural heritage program, since the events at Juukan Gorge. We have had extensive engagement with Rio Tinto, and since the events they have reviewed internal processes and consulted with traditional owners and stakeholders, this has led to strengthened internal practices, policies and governance practices, with additional disclosure. The company will establish an Indigenous Advisory Group to ensure Rio Tinto has a better understanding of indigenous culture and issues in Australia, including at board level.

At the 2021 AGM, a resolution to re-elect the sustainability committee chair was up for review. With much deliberation, we elected to vote against the re-election as there had to be some accountability on its board over the Juukan Gorge incident, and thus having served in the role for a significant period, thought that there had been a failure of oversight under its cultural heritage program. Secondly, a resolution to approve the remuneration report was on the agenda. We voted in support of approving the remuneration report as it was palpable that there was no fraud, malfeasance or dishonest misbehavior of its executive board and thus the application of malus for the events at Juukan Gorge. Its board also applied downward discretion to the ex-CEO's long-term incentive plan, which was reduced by a significant amount. All three executives also left as good leavers.

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 advocate a maximum issuance limit of 10% of existing capital in terms of number of shares at a maximum discount of 10% to the share price. We are pleased that more public companies listed in Hong Kong, such as **CK Asset Holdings limited (Hong Kong), CK Hutchison Holdings Limited (Hong Kong), CK Infrastructure Holdings Limited (Hong Kong), Power Assets Holdings Limited (Hong Kong) and Wuxi Biologics (China)** established self-imposed targets on both parameters this year and thus supported their resolutions. We voted against resolutions including **Country Garden Holdings Company Limited (China), Kingdee International Software Group Company Limited (China), Kuaishou Technology (China), Shenzhou International Holdings Limited (China), Tencent's China Literature Limited (China) and Tingyi (China).**

We voted against **Inner Mongolia Yili Industrial Group Co. Ltd.'s (China)** and **Ming Yang Smart Energy Group Co. Ltd.'s (China)** proposed private placement as we disagree that the financing method with the associated dilution is optimal for minority shareholders.

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Related-party transactions (RPTs)

Companies may need to disclose their RPTs according to the materiality and nature of the transactions. We strongly encourage a public company to detail its oversight of RPTs to establish a board committee comprising solely of independent directors, and to have the transactions assessed by independent third-parties. **We by exception support the RPTs of China Shenhua Energy Company Limited (China) and Haier Smart Home Co. Ltd. (China).** We talked to both companies to understand their rationale and their circulars about the RPTs, including clear assessment of risk and benefits of the transactions to shareholders.

Case study: Wuxi Biologics (China)

At the company's 2021 AGM we supported all management proposals for the very first time, following our engagement with the board secretary. We are pleased with the biopharmaceutical company's recent positive corporate governance developments. They include the appointment of the first female board director who is also a seasoned veteran in the industry to improve gender diversity on the board. The company also upholds minority shareholder rights by establishing self-imposed limits on both maximum share issuance allowed by the general mandate for share issuance without pre-emptive rights and the reissuance of repurchased shares, as well as the price discount to 10%. We continue to encourage the company to introduce equity incentive schemes to employees and urge it to disclose the scheme details including the performance criteria in the future.

Another area of improvement relates to board independence. We recommend it to improve board independence to at least 50% in the future to follow the best practice in corporate governance. We wrote a follow-up letter to the CEO to summarize our recommendations and will continue to engage with the company on board independence and diversity and remuneration topics.

Shareholder proposals

During the quarter we voted 137 shareholder proposals in the region, but over 95% of them were proposed by controlling shareholders about equity incentive schemes, director re-election and other routine resolutions. The number of environmental-related shareholder proposals remained low and was concentrated in Australasia, as evidenced in the climate change shareholder resolutions filed at **Rio Tinto, QBE Insurance Group Ltd., Santos Ltd. and Woodside Petroleum Ltd. Oil Search Limited** from Papua New Guinea also faced a similar climate-related shareholder proposal.

We consider climate-related shareholder proposals seriously

In May 2021, we published Our Approach to Climate Change Votes on our website outlining our considerations behind climate votes: **materiality, prescription, active insights and legal implications.** The following examples showcase how we put our voting framework into practice:

We supported two non-binding advisory climate shareholder resolutions filed at Rio Tinto, which call for disclosure of short-, medium- and long-term targets for its scope 1 and 2 greenhouse gas emissions and performance against those targets, as well as independent verification of all targets. We believe in the materiality of the issue and consider that the non-binding resolutions are in line with the company's climate commitment. In fact, Rio Tinto's board also recommends shareholders to support both proposals.

On the other hand, we did not support the shareholder proposal filed by lobby group Market Forces at QBE Insurance. The proposal called for the company's disclosure in subsequent annual reporting, short-, medium- and long-term targets to reduce investment and underwriting exposure to oil and gas assets, along with plans and progress to achieve the targets set. We recognized that QBE has already been processing its climate agenda by disclosing various actions and targets around coal, oil sands and artic drilling, and oil and gas in its latest environmental and social risk framework. Starting from 2022, QBE will not provide insurance to new construction for oil sands projects and will only provide insurance where the company is on a pathway consistent with achieving the Paris Agreement. It has no direct investments in oil sands and Arctic drilling projects. Starting from 2030, companies with at least 60% revenue from oil and gas extraction will be assessed whether they are on a pathway consistent with achieving the Paris Agreement, and the threshold will be reduced to 30% from 2040. QBE also reports against TCFD framework and is conducting physical and transition risk scenario analysis. We therefore supported management in 2021 in order to ride on our engagement momentum.

J.P. Morgan Asset Management

Asia ex-Japan Proxy Committee

August 2021

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.

BIODIVERSITY The variety of living organisms from all sources including, terrestrial, marine and aquatic ecosystems and the ecosystems they are part of. This includes diversity within species, between species and of ecosystems according to the Convention on Biological Diversity.

THE CONVENTION ON BIOLOGICAL DIVERSITY The international legal instrument for "the conservation of biological diversity, the sustainable use of its components and the fair and equitable sharing of the benefits arising out of the utilization of genetic resources" that has been ratified by 196 nations.

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.

NATURE ACTION 100+ A proposed investor collaborative initiative by the World Bank to encourage companies' better disclosure on their impacts or dependencies on nature.

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.

TASK FORCE ON NATURE-RELATED FINANCIAL DISCLOSURES (TNFD) A work-in-progress framework through which companies can improve and increase the reporting of nature-related financial information.

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.

LET'S SOLVE IT.

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