Investment Stewardship, Asia ex Japan – 2022 Q4

February 2023

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

Disclosure of scenario analysis and Scope 3 emission confirmed by ISSB

Climate-related discussions and announcements were particularly active in 4Q 2022 against the backdrop of the United Nations Climate Change Conference (COP27). While the International Sustainability Standard Board (ISSB) has not released the final version of its sustainability disclosure standards, it unanimously confirmed that companies are required to use climate-related scenario analysis to report on their climate resilience.[1] The Scope 3 emissions, which some Asia ex Japan companies started to disclose, are also confirmed by ISSB to be included in the disclosure standards.[2] There will be a minimum of one year exemption, following the effective date of the standards, to give companies more time to prepare and report their Scope 3 emissions.

Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of a company, including upstream and downstream emissions.

In our engagement we consistently encourage invested companies to conduct climate scenario analysis and the emissions along their value chain and we welcome the commitments by ISSB.

Tackling greenwashing emerging as a priority for authorities

The concerns of greenwashing have grown along with the rising demand from investors in sustainable investing. At COP 27, the International Organization for Securities Commissions (IOSCO) outlined the regulatory priorities for sustainability disclosures, mitigating greenwashing and promoting integrity in carbon markets. Noticeably, IOSCO has issued the Call for Action on 7 November to call all voluntary standard setting bodies and industry associations operating in financial markets to promote good practices among their members to counter the risk of greenwashing related to asset managers and environmental, social and governance (ESG) rating and data providers.

Three European financial industry authorities – European Banking Authority, European Insurance and Occupational Pensions Authority and European Securities and Market Authorities – have also published the Call for Evidence on greenwashing) to gather input from different stakeholders regarding such issues.

In Asia Pacific, the Australia Securities & Investments Commission has filed prosecutions against some public companies on misleading ESG claims since October 2022. The scale of the fines are generally small but the actions are symbolic. We expect regulators of all key markets to turn up the heat on greenwashing with more regulations and prosecutions coming in 2023.

[1]Source: ISSB confirms requirement to use climate-related scenario analysis, IFRS, 2 Nov. 2022

[2]Source: ISSB announces guidance and reliefs to support Scope 3 GHG emission disclosures, IFRS, 15 Dec. 2022

Strict tenure limit for independent directors and clearer disclosure of remunerations proposed by SGX

The Singapore Exchange (SGX) is seeking a public consultation regarding limiting the tenure of independent directors to nine years and requiring disclosure of remuneration of individual executives.

Under the 2018 Code of Corporate Governance, SGX-listed companies can retain independent directors who have been serving the board for more than nine years through the two-tier voting system. The purpose of the system is to give companies time to find new independent directors and to ensure stability in board refreshment. Since the roll out of the code, many companies have used this voting system to retain long-serving independent directors. The progress of board renewal has been slow. In the new proposal, all independent directors with tenure over nine nears will be re-designated as non-independent.

We support this change as we consider a non-executive director who has served more than nine-years, is normally no longer deemed to be independent. Directors staying on beyond this term would require the fullest explanation to shareholders. For Asia ex Japan companies, we will consider voting against appointment of independent directors who are deemed to be non-independent.

Issuers should also provide clear and concise reports that can effectively communicate how executive pay is linked to the delivery of business strategies and how the linkage is aligned to shareholder interests

With respect to remunerations of executives, the disclosure by companies remain mostly high level with limited information about the design of the compensations and the rewards for named individuals. Under the new proposal, it is mandatory to disclose the amount and the breakdown of remuneration of board directors and the chief executive officer (CEO) on a named basis in the annual report. We welcome this change which will help align the disclosure of executive pay to global standards.

On 11 January 2023, SGX responded to the comments to the consultation paper.[3] Given the majority support, SGX will proceed to impose a hard tenure limit of nine years for independent directors and the rule will be implemented at issuers Annual General Meetings held for the financial year ending on or after 31 December 2023. SGX will also require issuers to disclose the exact amount and the breakdown of remuneration paid to directors and the CEO in their annual reports with financial years ending on or after 31 December 2024. The breakdown must include fixed salary, variable or performance-related income or bonuses, benefits in kind, stock options granted, share-based incentives and awards and other long-term incentives.

[3] Source: "Board Renewal and Remuneration Disclosures: Responses to Comments on Consultation Paper", SGX Group, 11 Jan. 2023

Corporate engagement

Kotak Mahindra Bank Limited

Asset class: Equity
Market: India
Stewardship priority: Human capital management
Focus: Diversity, equity and inclusion (DE&I)

The company's female representation of its overall workforce increased from 24% in FY2020 to 27% in FY2022.

Issue

Gender equality and women's empowerment are among the key priorities in India. Female labor force participation rate remains low at roughly 20%, according to the National Statistics Office's Periodic Labour Force Survey[4] . For Kotak Mahindra Bank, its female employees accounted for nearly a quarter of its bank workforce in 2020. While the bank is proud that its workforce gender diversity was higher than the average female labor force participation rate, we believe there is still room for improvement.

Action

We met with the bank in August 2021 to discuss its approach to human capital management. We asked about the purpose and strategy of its newly established diversity and inclusion council led by the group president of consumer banking. Explaining the importance of DE&I as one of our stewardship priorities, we encouraged it to consider disclosing workforce female representation targets in its next reporting cycle to facilitate our analysis.

After the meeting, we also encouraged the company to provide additional disclosures concerning its DE&I efforts to provide greater transparency to investors and other external stakeholders, and we shared a global peer's diversity and inclusion website as an example.

Outcome / Next steps

After our suggestions, the bank included an expanded section on diversity and inclusion in its latest annual report 2021-2022. It detailed existing gender diversity programs, as well as new policies which include the "New Mother Benefit Policy" that provides financial benefits to mothers returning to work. The expand disclosures also included both age and diversity data by seniority for the overall workforce and for new employees, as well as gender pay ratio by seniority. Females represented 12% of senior managers.

[4]Source: "Periodic Labour Force Survey (PLFS) – Quarterly Bulletin [April – June 2022, Ministry of Statistics & Programme Implementation", India, 31 Aug. 2022

In addition, the company announced its ambition to increase female gender representation in the overall workforce to at least one third. It reassures us that DE&I remain the among bank's key objectives, and that gender diversity is an important element for a productive working environment.

Advantech Co., Ltd.

Asset class: Equity

Market: Taiwan

Stewardship priority: Social stakeholder engagement

Focus: Cybersecurity

Issue

In November 2020, the Taiwanese industrial computer manufacturer was subject to a ransomware attack affecting 267 servers and causing approximately US$6 million worth of shipping delay for a month. We see this as a financially material issue because of not only the operational impact of the ransomware attack, but also the company's business proposition in the Internet of Things solutions, where product safety and security play key roles.

Cybersecurity is a global problem. According to a research by Ponemon Institute and published by IBM Security [5], 83% of organizations studied have had more than one data breach.

Action

In 2021, we reached out to the company to discuss lessons learned from the ransomware incident. The company disclosed the incident's impact on operations in its 2020 corporate social responsibility (CSR) report as well as the appointment of Deloitte to conduct an external assessment of its information security maturity. What we wanted to better understand was the root cause for the issue and the additional action the company would take in order to address the concerns. We encouraged it to disclose its medium action plan in its upcoming report.

We explained the importance of having key personnel accountability for cybersecurity. One issue we identified at the meeting related to the "dual-hatting" of cybersecurity oversight. The president of general management, who is also the chief financial officer (CFO), is responsible for overseeing information and cybersecurity. We recommended the company consider strengthening cybersecurity governance by separating financial management from information and cybersecurity. We reiterated our requests in a follow-up meeting in November 2022.

[5]Source: "Cost of a Data Breach Report 2022", IBM Security, July 2022

Corporate engagement continued

Outcome and next steps

After our company engagement, Advantech has furthered its disclosure on information security oversight. In March 2022, it released its information security policy as the highest guiding principle to cover the operation content and procedure regarding information security. In its latest CSR report published in June 2022, the company disclosed a detailed action plan on improving information security.

Measures range from a comprehensive assessment of information security risks, improving information security management capabilities, raising employee security awareness, strengthening data security with research and development backup data, enhancing network and endpoint protection, improving the resilience of information services, and introducing information security management and product safety systems.

The company also acknowledged the personnel accountability issue and indicated it is internally building capacity. It has hired a dedicated cybersecurity manager, and the latest cross-departmental information security governance team structure is reflected on the risk management section of its website. We welcome the progress and would continue the engagement to understand the robustness of its cyber oversight.

ENN Energy Holdings Limited

Asset Class: Equity, Bond

Market: China

Stewardship priority: Climate change

Focus: ESG, sustainability, environmental impact

Issue

We have been engaging with ENN on its climate reporting, specifically about its Scope 3 emissions and scenario analysis, which we discussed in 2021. Additional disclosure on the ESG-related key performance indicators (KPIs) for executive pay, more board diversity and greater board independence are other areas we recommended the company to improve in our previous dialogue.

Action

We reached out to the company for a follow-up ESG meeting in November 2022.

In its latest ESG report published in 2022, ENN delivered its promise and reported Business Travel emission, one of the 15 Scope 3 categories. The number is small (0.3% of Scope 1+2) but is a good start. ENN has been working on the rest of Scope 3 emission numbers and plan to report them in the next report. We also expect disclosure of its internal carbon price and methane emissions in 2023. We also welcome its target of a 48% cut for the energy generating facilities of integrated energy business (IEB) by 2030 when compared with the intensity in 2019

With respect to scenario analysis, ENN has been taking more time to conduct. An important source of reference the company is considering is the methodology guidance for the oil and gas sector from the Science-Based Targets Initiative. The sector methodology guidance is in the development stage.

Reporting and transparency are important as this can help us better understand ENN's climate risks. What is more important is the actions the company plans to take to manage energy transition. Overall, the company sees another 10-15 years of growth for the use of natural gas in China before its consumption flattens. To leverage on the opportunities from evolving energy demand, ENN is expanding into renewables through the IEB unit and is exploring the use of hydrogen blending in gas, the application of carbon capture, utilization and storage (CCUS) and battery storage.

ENN has 11 directors but only four of them are independent directors

While progress was made in the area of board diversity as one more female director was appointed, the addition of a non-executive director has diluted the independence of the board. Limited progress has been made on disclosure of ESG KPIs for executive pay and board evaluation.

Outcome/Next steps

The company has achieved good progress on climate reporting and we will focus our climate-related engagement on its investment in CCUS and hydrogen projects and the associated capital expenditure plan. More needs to be done regarding the company's board governance and structure. We will share with ENN some samples of board evaluation and disclosure of KPIs for executive compensation.

Corporate engagement continued

Vitasoy International Holdings Ltd.

Asset Class: Equity
Market: Hong Kong
Stewardship priority: Natural capital and ecosystems, governance
Focus: Water, board evaluation

Issue

As a beverage company with soy as a key raw material, Vitasoy has material risk exposure to water and natural capital, including the risks exposed by its suppliers.

The aging of the board and long tenure of some independent directors are our key concerns. We see the needs for board refreshment and succession.

Action

We met with the company in December 2022. Similar to the practice of many of its peers, Vitasoy has adopted the World Resources Institute (WRI) Aqueduct tool to map out its water risks, and its Shanghai site is the only one exposed to high water stress. A 25% reduction target by 2025/26 is set for its water usage intensity per product, with 2013/14 as the baseline. To help mitigate the long-term water risks, we see the needs for Vitasoy to have water replenishment program. Despite no disclosure of its water replenishment strategy and targets, the company has worked with a non-governmental organization (NGO) on a water replenishment program that covers a catchment area of 20,000 hectares across 20 land holders. Education sessions had also been conducted with farmers and land owners to increase their water vegetation and to improve the conditions of biodiversity.

Regarding climate change, the company has conducted climate scenario analysis to understand the climate-related risks and opportunities for its business, and integrated key climate risks in its enterprise risk management system. A 25% reduction target by 2025/26 versus 2013/14 has been set for energy intensity per product.

Resilience of suppliers to is particularly important to the sustainability of Vitasoy's businesses

Vitasoy has been working with its farmers and suppliers to educate them on sustainability. To help understand the sustainability risks of its supply chains, Vitasoy conducted an assessment of its farmers in 2020. Sugar from Thailand and mangoes from the Philippines are among the products which have been identified as having high risks. The response is to diversify the supply of these high-risk ingredients. The company is considering conducting regular assessment of its sustainability risks.

Corporate engagement continued

The governance topic, in particular the issues related to the board, proves the most challenging to engage. The Group Sustainability Officer and CFO provided limited answers to our questions. Despite these issues, the board has conducted regular internal and external evaluation, and we encouraged the company to disclose their findings/summary.

Outcome and next steps

We will provide our feedback and suggestions on water replenishment and labour issues and will request for a meeting with the board members to discuss board related issues.

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 2022, we voted 2,611 proposals at 454 Asia ex Japan company meetings, of which China and Hong Kong accounted for close to 59.3% of total number of meetings, followed by Australia and New Zealand (24.2%), India (9%), Association of Southeast Asian Nations (ASEAN) (5.7%) and South Korea (1.8%) . Our voting statistics for the quarter are summarized below:

J.P. Morgan Asset Management voting for Asia ex Japan companies in 2022 Q4

*All Asia ex Japan companie	2022 Q4		2021 Q4	
Number of meetings	**454**		308	
Number of votable proposals	**2,611**		1,597	
Votes with management	**2,294**	**87.9%**	1,421	89.0%
Votes against management	**313**	**12.0%**	176	11.0%
Abstain and withhold	**4**	**0.2%**	-	0.0%
Total number of proposals voted	**2,611**	**100.0%**	1,597	100.0%
Number of shareholder proposals voted for	**150**		36	

Key Markets	China, HK		Australasia		Inda		ASEAN	
Period*	**2022 Q4**	2021 Q4	**2022 Q4**	2021 Q4	**2022 Q4**	2021 Q4	**2022 Q4**	2021 Q4
Number of meetings voted	**269**	122	**110**	116	**41**	17	**26**	43
Number of proposals voted	**1718**	658	**656**	669	**71**	32	**146**	211
For	**1489**	597	**601**	591	**65**	32	**119**	187
Against	**225**	61	**55**	78	**6**	0	**27**	34
Abstain/Withhold	**4**	0	**0**	0	**0**	0	**0**	0
As % of total								
For	**86.7%**	90.7%	**91.6%**	88.3%	**91.5%**	100.0%	**81.5%**	88.6%
Against	**13.1%**	9.3%	**8.4%**	11.7%	**8.5%**	0.0%	**18.5%**	16.1%
Abstain/ withhold	**0.2%**	0.0%	**0.0%**	0.0%	**0.0%**	0.0%	**0.0%**	0.0%

**Based on ISS Country of Coverage*

Propsoal category	2022 Q4			2021 Q4		
	Number of Proposals	**As a % of total**	**% voted Against / Abstain / Withold**	**Number of Proposals**	**As a % of total**	**% voted Against / Abstain / Withold**
Capitalization	545	23%	3%	235	17%	5%
Compensation	437	16%	16%	289	20%	17%
Director related	844	36%	11%	587	41%	6%
Strategic Transactions	227	7%	30%	145	10%	12%
Routine business	104	4%	15%	57	4%	17%
Others	137	14%	10%	108	8%	25%

Proxy voting continued

Similar to our observation in the past years, the October– December quarter coincided with extraordinary general meetings (EGMs) in China and Hong Kong and the peak of the annual general meeting (AGM) period in Australia. In China and Hong Kong, we voted against 225 proposals, of which 29.8% were related to strategic transactions and 23.6% were related to board's directors. In Australia, we voted against 55 proposals, of which 29.1% were also related to compensation.

Directors' election

During the quarter, we voted against 37 proposals (5% of this category) related to director election due to concerns about overall board independence and long-tenure of independent directors and the lack of female director on the board. About 59.5% these proposals came from China and Hong Kong companies. Please refer to the following voting highlights:

Postal Savings Bank of China (Hong Kong)

The company proposed to appoint directors in this EGM. We voted against two proposals related to election of directors due to concerns about overall board independence as the board is not majority independent. We believe that a strong independent element to a board is essential to the effective running of a company and we expect that majority of the board should be comprised of independent directors with clear steps being taken to improve board independence over time.

Sun Hung Kai Properties Limited (Hong Kong)

The company proposed to appoint 11 directors to the board in this EGM. We voted against the election of six directors due to concerns about overall board independence and the long-tenure of independent directors and the combination of CEO and Chairperson. We believe that boards should be headed by an effective chairman, who is independent on appointment. There should be a clear division of responsibilities at the head of a company, such that no one individual has unfettered powers of decision. We believe that the roles of Chairperson and CEO should normally be separate and a lead independent director be appointed.

Proxy voting continued

Executive remuneration

During the quarter, we voted against 71 proposals (16% of this category) related to executive remuneration due to concerns about failure to provide clarity on the increase of total remuneration and the grant of incentive schemes including Australia and New Zealand Banking Group Limited, Britannia Industries Limited, Breville Group Limited and China United Network Communications Ltd. Please refer to the following voting highlights:

Australia and New Zealand Banking Group Limited (Australia)

The company proposed two items related to approval of remuneration report and share plan grant in this AGM. We voted against both items because remuneration look excessive on a relative and absolute basis for persistent operational and share price underperformance, and also because of poor disclosure.

Britannia Industries Limited (India)

The company proposed to approve the appointment of Rajneet Singh Kohli as whole-time director as well as his compensation. We voted against this item as the company has not disclosed the metrics to be used in determining the incentive structure for senior management.

Capitalization and capital allocation

During this quarter, we voted against 85 proposals (3% of the category) related to capitalization, capital allocation and strategic transactions. We did not support companies which failed to meet our expectations on the issuance of a new shares without pre-emptive rights (including the issuance of repurchased shares maximum issuance) and failed to provide a compelling justifications including Vietnam Technological & Commercial Joint Stock Bank, EVE Energy Co., Ltd. and Sun Hung Kai Properties Limited.

Shareholder proposals

During the quarter, we observed 172 shareholder proposals in the region but the most of them were proposed by controlling shareholders about director re-election. We supported 70 proposals and voted against one proposal related to election of directors. Seven companies faced environmental shareholder proposals in this quarter. They were all concentrated in the Australian market. We voted against them as we did not believe the proposals were in our clients' best interest based on considerations related to the incremental value of the information or action requested by the proposals.

Spotlight on: Diversity Diversity

Pauline Ng
Exp: 22,18

Anthony Lynch
Exp: 14,14

Janet Wong
Exp: 8,1

Minal Dave
Exp: 18,16

Konomi Fujimori
Exp: 16,1

In this quarter's report, we asked five individuals from our Global Equities and Sustainable Investing teams to discuss diversity. We hope it demonstrates how we engage with companies to drive change regarding diversity. We asked Pauline Ng (PN) and Anthony Lynch (AL) who are Portfolio Managers in the Emerging Markets and Asia Pacific Equities team and in the International Equity Group, respectively. In addition, we spoke to Janet Wong (JW), Minal Dave (MD) and Konomi Fujimori (KF) who are Investment Stewardship Specialists in the Sustainable Investing team.

1 Could you talk about why companies should embrace diversity and how this translates to shareholders?

AL: There are a number of benefits to companies and their shareholders from embracing diversity, both strategically and operationally.

Potentially, the most important strategic benefit is diversity of thought. This ensures that organisations are more attuned to how their operating environments are evolving and helps to avoid groupthink. As investors, we look for boards which display a range of backgrounds and relevant experiences. For example, a retailer run by executives who have all only ever worked in brick-and-mortar retail is less likely to stand the test of time than a competitor who has challenged itself to consider other channels to market.

In addition, in this era of tight labour markets, it also simply makes good operational sense to ensure that your organisation appeals to as many people as possible. Embracing diversity can help employees feel like they belong with that organisation and can therefore help to retain staff. Getting recruitment and retention right can be a huge positive for operational efficiency as it reduces the costs associated with people churn and the inefficiency that comes with re-training new people again and again to do the same roles.

PN: The proverbial "seat at the table" comes to mind immediately. Today, if one chooses to take a peek into corporate board rooms or governments around the world, it would not be difficult to see that there is still work to be done in terms of enhancing diversity. When we have diversity among those seated at the table, we have a better chance that views, solutions, strategies and policies that are debated and adopted represent not just the interests of those in the inner circle but are for the benefit of all. Society can only progress sustainably when all progress together; widening socio-economical gaps weaken the very fabric of our society. Increasing diversity in decision making drives behavioural change, guards against groupthink, and is therefore an important enabler for driving social advancement.

Source: J.P. Morgan Asset Management. Data as of December 2022.

1 Cont/ ...

MD: An engaged and diverse board and employee base is integral to a company's ability to innovate, to respond to a diverse customer base and to engage with the diverse communities in which it operates, thus delivering shareholder returns. It must start at the top of the leadership team, who are critical in defining and creating the conditions to drive workforce productivity growth that will support long-term performance. We believe the recruitment, development and retention of the right personnel are critical to the successful execution of a company's overall strategy and there is growing evidence a diverse workforce is key to achieving this. Studies have demonstrated that a diverse workforce brings innovation and is in tune with a broader range of customers' changing demands, both of which can lead to better financial performance and also give a strong indication of its corporate culture. We engage with companies to encourage an environment in which employees at all levels feel valued and can bring their own diverse experiences and perspectives to their workplace.

Source: J.P. Morgan Asset Management. Data as of December 2022.

2 What does effective measurement and disclosure of diversity metrics by companies look like?

PN: In the last few years, we have seen increased disclosure from companies in terms of diversity metrics – the most common being gender and ethnicity metrics in a company's labour force. This is definitely a step in the right direction. But for any diversity metric to be effective, it is critical that they are relevant and linked to long-term targets which will in turn allow stakeholders to hold the board and senior management accountable. Diversity metrics should be comprehensive and extend beyond simple gender and ethnicity percentages. Including metrics such as the gender pay gap across ranks, attrition rates by gender or ethnicity and employee opinion surveys can provide important metrics for purpose driven engagement. Setting targets ensure the disclosure exercise is not merely a check-the-box exercise.

According to numerous research studies, increasing levels of diversity are linked to better company returns. This narrative is not a difficult one to understand if we believe that no one person holds all the answers and best ideas; hence a diverse pool of talent should naturally lead to better long-term economics for most companies. Perhaps the most important element is the mindset of the board and senior management and their belief to create an environment where diversity becomes part of the corporate culture and is done with intention, as opposed to only for attention through selective metrics.

KF: Disclosure on diversity data at the board, executive and general workforce level is the foundation to show the company's position towards diversity, equity and inclusion (DE&I). Good examples describe demographic characteristics, not only by gender, but also by age, job type and position, region for service, and any other granular classifications that the company thinks are material and relevant to corporate value. Disclosing promotion and attrition rates by demographics and providing data on internal mobility accompanied by time-bound goals helps to put context around the success of diversity, equity and inclusion practices. Pay equity data and narratives discussing how the company approaches improving diversity throughout the organisation also serve as effective indicators to be evaluated.

AL: Measurement and disclosure vary significantly between companies and regions, not least of all because it is often illegal to ask employees for the data in the first place, or even if you do ask, not all employees always choose to answer. As a result, we must take a common sense approach to monitoring diversity whilst pressing boards to increase the measurement and disclosure of such metrics. Arguably, until an organisation can demonstrate that its leadership diversity is reflective of that of its workforce, which is in turn is reflective of the societies in which it operates and that there are no pay-gaps between the different cross sections, then there will still be progress to be made. Setting targets for progress, linked to executive compensation, is one of the clearest ways to make monitoring and disclosure effective as there is ample evidence to suggest that as soon as things are measured and targeted, they change.

Source: J.P. Morgan Asset Management. Data as of December 2022.

2 Cont/ ...

MD: As Anthony mentions, measurement and disclosure can vary depending on geographical location and requirements of best practice. It is important to set timebound metrics and we have seen companies in the U.K. and across Europe setting ambitious executive management and workforce gender balance and additionally, ethnic diversity aspirations.

For example, Bellway, a U.K.-based home construction company, has set clear KPIs which mean that as investors, we can track the company and hold them accountable where KPIs have not been met, but equally commend them for their achievements. Bellway has set a number of timebound measurable targets:

- to increase ethnic diversity of the workforce to 7% or more by July 2025,
- to achieve a 75/25 male/female split in senior leader roles by July 2025 from 82/18, and
- to achieve a 60/40 male/female split in the directly employed workforce by July 2025 from 69/31.

We also encourage companies to foster its workforce to self-identify. This is a method that can help in the collation of ethnicity data and is a targeted discussion we are having with investee companies in developed markets and in jurisdictions where there are no legal restrictions.

3 The Investment Stewardship team recently formed the diversity engagement framework. Could you provide insight into how this framework was designed to aid in shaping impactful discussions with companies on diversity

MD: We created a simple but astute engagement framework which could be leveraged by all investors and Investment Stewardship teams globally. When engaging with companies, the purpose for creating the framework was to seek tangible outcomes and transparency in company reporting. It was important to create an ambitious engagement framework, giving companies the stretch to work towards to. We set two key criteria: Diversity Strategy and Governance and Diversity Reporting.

Firstly, on Diversity Strategy and Governance, we believe it is important there is accountability set from management and the board and they should be responsible in setting the broader DE&I strategy. We also ask companies to produce a diversity policy. This is standard best practice where companies can provide transparency on the board diversity nomination process, in addition to how DE&I programs contribute within the wider workforce. For companies to be able to action their ambitions, we ask for time-bound targets to be created, with quantitative and ambitious goals being set at executive, board, middle management and within the broader worker force. We ask for companies to consider DE&I metrics when setting ESG targets linked to executive compensation. As shareholders, we are keen to understand how companies are establishing processes and programs on widening the talent pool, and are asking for companies to opine on the type of resources being leveraged to source female representation at executive and middle management levels.

Companies may do a lot behind the scenes but may not often talk about their achievements within the public domain and so we outlined the importance of Diversity Reporting as the second dimension in our diversity engagement framework. On an annual basis, we ask companies to disclose, in a statement or within a report, how they are aligning with international standards and market best practice with their DE&I strategies. Transparency is vital to reporting and we ask for companies to report on voluntary turnover statistics by race, gender and ethnicity and we ask for a gender pay gap where applicable.

Source: J.P. Morgan Asset Management. Data as of December 2022.

4 How have we at J.P. Morgan Asset Management leveraged external initiatives and commitments to drive change regarding diversity in our engagement with companies?

AL: One issue with engagement can be that different shareholders ask for slightly different things and this can pull company boards in different directions. While there could be genuine debate on whether a company should be buying back stock versus undertaking capital expenditure, when it comes to diversity, most investors are in broad agreement about where a baseline of best practice lies. We can deliver a more powerful message by putting investor efforts behind the same broad principals. As a result, we have embraced industry initiatives such as 'The Parker Review' and 'The 30% Club' which seek to support minimum levels of board diversity, currently focused on gender and ethnic diversity.

JW: In Asia Pacific, we have strengthened our expectations on board diversity. Since 2022, we no longer accept single-gender boards in China, Hong Kong, Japan, South Korea, Singapore and India. And in 2023, we will not accept single-gender boards across all markets. We would also expect all Asia ex Japan companies to have at least 25% of the board as women by 2025, and 30% before 2030. For Hong Kong listed companies, the timeline for the minimum 30% expectation will be 2028, which is in line with our support for the 30% Club Hong Kong Investor Group's statement of intent.

We initiated a new diversity collaborative engagement within the 30% Club Hong Kong Investor Group in 2022. Together with four other group members, we reached out to 23 Hong Kong listed companies with single-gender boards to better understand their board nomination process, their approach to board diversity as well as their wider diversity and inclusion strategy.

KF: Collaborative engagement is an important tool to advance diversity, equity and inclusion practices in Japan. Asian Corporate Governance Association (ACGA) and the 30% Club Japan are major stakeholders we have been working with.

For example, after joining the 30% Club Japan in 2020, we have been participating in its Best Practice Working Group within the Investor Group to share best practices in engagements. In 2022, we were invited as a member of the panel of an educational event organised by its Thought Leadership Working Group to present on the roles and responsibilities of board directors to selected audiences composed of senior management members belonging to the 30% Club corporate networks. Additionally, in October, we co-signed the ACGA's open letter to the CEOs of Japan Exchange Group (JPX) and the Tokyo Stock Exchange (TSE) to urge these exchanges to set targets for achieving faster and higher levels of board gender diversity on Japanese listed companies through Japan's Corporate Governance Code and Listing Rules. The letter suggested that all TSE Prime companies should be required to achieve the 30% women on boards (excluding auditors) by 2030 through amendments to the TSE listing rules.

Source: J.P. Morgan Asset Management. Data as of December 2022.

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