BlackRock

Investment Stewardship

Vote Bulletin: Jardine Strategic Holdings Limited

Company	**Jardine Strategic Holdings Limited**
Market and Sector	Bermuda/Conglomerates
Meeting Date	12 April 2021
Key Resolutions[1]	**Item 1:** Approval of the cash acquisition of Jardine Strategic Holdings Limited by Jardine Matheson Holdings Limited (Amalgamation Agreement)
Key Topics	Related party transaction, de-listing proposal, minority shareholder rights and board independence
Board Recommendation	The board recommended voting FOR the acquisition of Jardine Strategic
BlackRock Vote	BlackRock voted AGAINST the acquisition of Jardine Strategic

Overview

Jardine Strategic Holdings Limited (JSHL) is a conglomerate company incorporated and registered in Bermuda. The company makes long-term strategic investments in multinational businesses – operating mainly in Greater China and Southeast Asia – and across sectors such as property, retail, luxury hotels, the automotive industry, among others. [2,3] The company is listed on the Bermuda Stock Exchange (BSX), the London Stock Exchange (LSE), and the Singapore Exchange (SGX).

Jardine Matheson Holdings Limited (JMHL) – the Jardines Group parent company – holds an 84.89% interest In Jardine Strategic. On 8 March 2021, Jardine Matheson announced its plans to "simplify the parent company structure of the Group"[4] through the cash acquisition of Jardine Strategic (Jardine Strategic holds a 59.3% interest in Jardine Matheson[5]). According to the Jardine Strategic Transaction Committee, "the Acquisition will be implemented by means of an amalgamation between Jardine Strategic and JMH Bermuda, an indirectly wholly-owned subsidiary of Jardine Matheson, under the Bermuda Companies Act."[6] The acquisition "will result in a single holding company with a conventional ownership structure and a further increase in the Group's operational efficiency and financial flexibility."[7] A Special General Meeting of shareholders was held on 12 April 2021 to approve the "Amalgamation Agreement."

[1] Jardine Strategic. "Recommended cash acquisition of Jardine Strategic Holdings Limited by Jardine Matheson Holdings Limited and Notice of Special General Meeting of Shareholders of Jardine Strategic Holdings Limited to be held on 12 April 2021." 17 March 2021. Page 50.
[2] Sustainalytics. Jardine Strategic Holdings Ltd.
[3] Jardines. "Our Companies." 2021.
[4] Jardine Strategic. "Letter from the Jardine Strategic Transaction Committee of the Board of Directors of Jardine Strategic." 17 March 2021. Page 10.
[5] Jardines. "Our Companies." 2021.
[6] Jardine Strategic. "Letter from the Jardine Strategic Transaction Committee of the Board of Directors of Jardine Strategic." 17 March 2021. Pages 10,11.
[7] See footnote #6.

Rationale for BlackRock's Vote

Item 1: Approval of the cash acquisition of Jardine Strategic Holdings Limited by Jardine Matheson Holdings Limited (Amalgamation Agreement)

BIS voted AGAINST the acquisition of Jardine Strategic by Jardine Matheson, due to BIS' serious concerns about conflicts of interests inherent in this related party transaction, as well as the opportunistic pricing of Jardine Strategic considered under the Acquisition terms[8]. The global pandemic and prior social unrest in Hong Kong had depressed valuations to ten-year lows just six months before this privatization offer was announced. Approval of this transaction however was guaranteed given that Jardine Matheson controls 85% of the issued share capital and the agreement requires approval by a majority of at least 75%. In BIS' view, the Transaction Committee and the Board of Directors of Jardine Strategic did not effectively protect the interests of minority shareholders – which hold approximately 15% of Jardine Strategic' s issued share capital – resulting in a privatization price significantly below the fundamental net asset value (NAV) of the company.

In order for the Amalgamation Agreement to be implemented, "the Amalgamation Resolution must be approved by a majority of at least 75 per cent of the voting rights of Jardine Strategic Shareholders."[9] Jardine Matheson and its subsidiaries are allowed to vote under the Bermuda Companies Act. Given that "Jardine Matheson and its wholly-owned subsidiaries together hold approximately 85 per cent of Jardine Strategic's issued share capital"[10] approval of the Amalgamation Agreement is a given, leaving the minority investors with no say on the outcome. To avoid the potential for conflicts of interest which may sway a decision, we believe an interested related party that is a shareholder should not vote at the shareholder meeting to approve a related party transaction. The premier market listing rules for the LSE, the primary market of Jardine Strategic's listing, and the listing rules for SGX, the market where practically all the trading of the stock is transacted, are both explicit on controlling shareholders not voting in related party transactions.[11,12] In addition, in Singapore, a de-listing proposal would require a super-majority of the minority shareholders.[13]

Although the Amalgamation Agreement is technically aligned with market listing rules, the issuer is availing itself of the reduced standards of the "standard" listing status on the LSE, specifically, alongside the Bermuda regulations, which allow the controlling shareholder to vote. In Jardine Strategic's case, the privatization will go through over the objections of any minority shareholders. We believe that aligning to a "lighter" regulatory regime is not reflective of the size and importance of this US$5.5 billion transaction and the high-profile nature of the companies involved, and thus, does not adequately represent the ultimate interests of minority shareholders.

Regarding the pricing structure considered under the terms of the Acquisition, in BIS' view, the share price offered to minority shareholders is misaligned with the company's net asset value (NAV). Jardine Strategic shareholders will be entitled to receive US$33 in cash per share. The price represents a 20% premium to the pre-announcement price, a 40% premium to the six months volume weighted average price (VWAP) and a 47%

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[8] The agreement between (1) Jardine Matheson, (2) JMH Investments and (3) Jardine Strategic dated 8 March 2021, in relation to the implementation of the Acquisition. See "Letter from the Jardine Strategic Transaction Committee of the Board of Directors of Jardine Strategic." 17 March 2021. Page 16.

[9] The Amalgamation Resolution must be approved by a majority of at least 75 per cent of the voting rights of Jardine Strategic Shareholders who are on the register of members of Jardine Strategic at the Special General Meeting Voting Record Time and who are present and voting (in person or by proxy) at the Special General Meeting (or at any adjournment of the meeting. See "Letter from the Jardine Strategic Transaction Committee of the Board of Directors of Jardine Strategic." 17 March 2021. Page 17.

[10] Jardine Strategic. "Letter from the Jardine Strategic Transaction Committee of the Board of Directors of Jardine Strategic." 17 March 2021. Page 13.

[11] Financial Conduct Authority (FCA). "FCA Handbook." See "Listing Rules, Chapter 11 Related Party Transactions: Premium Listing."

[12] Singapore Exchange rulebook. See "Chapter 9 Interested Person Transactions – Part II Definitions" on the definition of an interested person, and "Chapter 9 Interested Person Transactions – Part VII Shareholder Approval" on the rule for interested persons to abstain from voting.

[13] In the Singapore Exchange 75% of shareholders are required to support a proposal to delist while the Offeror Concert Party Group must abstain from voting on the resolution. See "Chapter 13 Trading Halt, Suspension and Delisting – Part IV Delisting" of the Singapore Exchange rulebook.

premium over the twelve-month VWAP. [14] However, the terms of the Acquisition make no reference to the underlying value of the company, only to the premium of the Acquisition Price over the more recent trading price.[15] To note, on 11 March 2021 – three days after the Acquisition Announcement was made – the Jardines Group announced its 2020 preliminary financial results. In the results announcement, Jardine Strategic's NAV is presented by the Board at US$58.22 per share, as at 31 December 2020.[16] This latest estimate of the NAV by the company, which it calculates and has presented consistently and prominently in its financial results every six months, is 76.4% above the privatization offer price. Neither the latest NAV nor any other estimate of fundamental value was presented in the Circular to shareholders to determine whether the offer price was fair relative to the underlying value of assets of this conglomerate.

Although the US$33 per share represents a premium over the stock's price in the last one, six and twelve months, the period is not representative of the stock's performance, as it has recently traded at 10-year lows. With the backdrop of social unrest in Hong Kong and the COVID-19 pandemic globally, the stock value more than halved to US$19.17 in September 2020. However, by March 2021, just prior to the announcement of the Amalgamation Agreement, it had recovered to US$27.45, a sharp rebound of over US$8 per share from arguably depressed valuations. The de-listing offer price of US$33 per share is only US$5.55 higher (or just two-thirds) of the gains in the stock over the prior six months.[17] The offer price entails minority shareholders permanently exiting their holdings at a level below where the stock was trading in early 2019, just prior to the economic and market downturn in the region. It is below the market value for the shares for most of 2017 to 2019; earlier, between 2012 and 2015, the shares had also traded significantly above the privatization offer price.

Finally, BIS is also concerned with Jardine Strategic Transaction Committee's independence and ability to adequately manage conflicts of interest inherent in the proposed Amalgamation. There are only two directors on the Transaction Committee, who were entrusted with reviewing the financial terms of the acquisition.[18] Although the two Non-Executive Directors are not on Jardine Matheson's Board, they are on other boards of the Jardines Group. With Jardine Matheson and Jardine Strategic being closely linked entities with controlling cross-ownership (Jardine Matheson owns 84.89% of Jardine Strategic, while Jardine Strategic has 59.3% ownership in Jardine Matheson), the Transaction Committee's independent status is questionable. In fact, both directors are presented as Non-Executive Directors, not as *Independent* Directors.[19]

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[14] 20.2% to the Closing Price of US$27.45 per Jardine Strategic share on 5 March 2021; 40.3% to the 6-month VWAP of US$23.52 per Jardine Strategic share; and 47.2% premium to the VWAP of US$22.42 over the 12-month period to 5 March 2021.

[15] See "Summary terms of the Acquisition" in "Letter from the Jardine Strategic Transaction Committee of the Board of Directors of Jardine Strategic." 17 March 2021. Page 11.

[16] Jardine Strategic Holdings Limited. "2020 Preliminary Announcement of Results." 11 March 2021. Page 39.

[17] Singapore Exchange data. See "Prices & Chart" for JSH USD.

[18] The Transaction Committee was advised by Evercore as to the financial terms of the Acquisition. See "Letter from the Jardine Strategic Transaction Committee of the Board of Directors of Jardine Strategic." 17 March 2021. Page 12.

[19] See "Letter from the Jardine Strategic Transaction Committee of the Board of Directors of Jardine Strategic." 17 March 2021. Page 10.

About BlackRock Investment Stewardship (BIS)

BIS plays a fundamental role in the activation of BlackRock's purpose of helping more and more people experience financial well-being. Consistent with the firm's fiduciary duty, BIS advocates for sound corporate governance and business practices that deliver the sustainable, long-term financial returns that enable our clients to meet their investing goals. This objective drives our engagements and votes at company meetings.

We engage company leadership on key environmental, social, and governance (ESG) topics that, if not adequately addressed in policies, managed, and overseen, could expose the company to material economic, operational or reputational risks. Every year, we determine our engagement priorities based on our observation of market developments and emerging governance themes. Engagement also informs our voting decisions.

Our approach to investment stewardship is grounded in an expectation that the board will oversee and advise management, influencing management's approach to key business issues. When effective corporate governance is lacking, we believe that voting against the responsible director(s) and/or supporting a shareholder proposal that addresses a material risk are often the most impactful actions a long-term shareholder can take.

We are committed to transparency in our stewardship practices. Where we believe it will help to understand our decisions on key votes at shareholder meetings, we will publish a Vote Bulletin explaining the rationale for how we have voted and (where relevant) providing information around our engagement with the company.