INVESTMENT STEWARDSHIP REPORT: ASIA-PACIFIC

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Contents

The BlackRock Investment Stewardship (BIS) team publishes quarterly reports to explain BlackRock's approach to corporate governance engagement that supports long-term value creation for our clients. The examples reported give a sense of the wide range of issues our engagements and voting analyses cover. We aim to provide examples that highlight particular environmental, social and governance ("ESG") considerations, emerging practices or issues and notable company-specific developments. We also provide examples of our engagement in the public domain, such as responses to formal policy consultations and presentations or informal discussions at conferences.

Engagement and Voting Highlights

Engagement on corporate strategy in Japan

1 BlackRock engaged with the board and management team of a Japanese consumer electronics manufacturer which has sustained poor financial performance. In response to these challenges, the company has put in place a new leadership team. The company has consistently missed their earnings guidance and again announced a downward earnings revision resulting for its most recent reported fiscal year. The recent poor financial performance has left the company with high levels of debt with upcoming payment deadlines. Our engagement sought to better understand the company's operational challenges and the leadership team's turnaround strategy.

During the engagement, we shared our concerns regarding the recent business performance and the lack of clarity around the company's long-term strategy for its Original Equipment Manufacturing business. This business unit requires a long product development phase and significant upfront development costs in order to deliver on the product specifications demanded specified by the company's key clients.

The engagement provided an opportunity to discuss with the new president candidate his background in business strategy development and to share our concerns about the urgency to review the company's strategy.

The engagement provided us the necessary assurance to support the board at the 2018 annual general meeting (AGM). However, we voted against the re-election of the former president (who had recently transitioned into the role of Chairman) given his leadership capacity during a period of sustained poor financial performance.

Subsequent to the AGM, the company announced its new turnaround strategy which includes tapping into new capital. We plan to continue our engagement with the company to assess the efficacy of the new leadership team's turnaround strategy.

Engagement on anti-takeover measures

2 In response to increasing investor criticism, Japanese companies are slowly, yet steadily reconsidering their anti-takeover measures. BlackRock generally votes against such provisions, unless the purpose of these measures is clearly articulated and there are checks and balances in place to avoid the provisions being used as management entrenchment. For instance, in limited circumstances, BlackRock has supported anti-takeover provisions when the board and its committees are sufficiently independent and the anti-takeover provision is relatively restricted. For this reason, BlackRock tends to engage extensively with companies on the topic of anti-takeover measures.

Earlier this year, BlackRock engaged with one such company to express our concern over their existing anti-takeover measure. Additionally, the board lacked sufficient independence. At the time of our engagement, the company shared that its Board was still deliberating if it would maintain or abolish their existing anti-takeover mechanism. We were pleased to learn that, not long after our engagement, the company announced it would abolish the anti-takeover measure. The company explained that their Board decided to abolish the measure considering feedback from investors, including BlackRock. They appreciated our input, mentioning that abolishing the measure will sharpen management's focus on profitability through optimizing the business portfolio. While pleased with this improved governance practice, we will continue to engage the company around its board independence.

Engagement with palm oil producer facilitates enhanced sustainability practices

3 This quarter, we engaged with a Singapore-listed Indonesian palm oil producer regarding allegations relating to deforestation and human rights violations at its overseas investment joint-investment venture in Western Africa.

The company was aware of the allegations made against its African venture, and had already included the issue under its official Grievance Handling Procedure. The company publicly discloses such grievances raised by various stakeholders with respect to its palm oil operations, and provides monthly updates on its progress.

Shortly after the engagement with BlackRock, on July 20, 2018 the company made a public announcement around its commitment to working with the African venture to develop a time-bound action plan in order to improve the shortcomings in the venture's sustainability practices, aligning it with the company's own Social and Environmental Policy. On the same day, the African venture's CEO also announced a sustainability action plan that includes:

- Strengthening community engagement to implement Free and Prior Informed Consent (FPIC) processes
- Reassessing High Carbon Stock (HCS) forest areas and submitting these areas to a formal review process
- Developing a gap analysis of its current sustainability practices with that of the company's Social and Environmental Policy, Roundtable on Sustainable Palm Oil (RSOP) Principles and conditions, as well as HCS requirements

The company further disclosed that the African venture aims to fully implement the new action plan in 12-18 months. The company's Sustainability Team will work together with the venture to provide support, monitoring the performance of sustainability health checks, and strengthening the governance and structure of the sustainability program, including the FPIC process and HCS implementations.

While we are pleased to see these positive steps taken by the company, the remediation process will take time and pose challenges, given the complexity and opacity of the palm oil supply chain. BlackRock will continue to monitor the progress at the company, as well as the sustainability efforts of other palm oil producers.

Addressing tax implications of proposed bonus share issuance in India

4 BlackRock engaged with one of India's largest information technology services companies on its proposed bonus share issuance in advance of its extraordinary general meeting (EGM). A bonus share issuance involves the capitalization of reserves and/or retained earnings to issue new shares in proportion to existing shares. The issuance is similar to a stock split, as the creation of the bonus shares increases the number of issued shares, resulting in a proportionate reduction in the traded share price without having a dilutive impact on existing shareholders.

Bonus share issuance is a fairly common practice in India. Retail shareholders often request these issuances as the resulting lowered share price makes the shares more accessible. This is particularly attractive where company shares ordinarily trade at higher prices. Companies, for their part, cite increased trading volumes as a potential benefit of implementing bonus issuances.

This mutually beneficial and theoretically harmless practice took a different turn when India introduced changes to long-term capital gains tax for Indian equities in April 2018. Under the revised tax regime, the transfer of bonus shares would be subject to a significantly higher effective capital gains tax, resulting in additional cost to existing shareholders.

During our engagement, we addressed the tax implications of the proposed issuance with the company. The company responded that the board was not fully aware of the negative tax implication of the proposed bonus share issuance, and confirmed that the resolution would be on the ballot at their upcoming EGM due to significant demand from retail investors who were present at the company's June 2018 AGM.

The resolution passed with overwhelming support at the EGM, likely due to the fact that the tax implication was not well known among institutional investors during the period leading up to the meeting date. Due to the resolution passing at the EGM, the board will have to implement the bonus issuance. Despite that, the board acknowledged it will consider the tax implications on future deliberations over bonus share issuances.

BlackRock plans to engage all companies that have issued bonus shares in 2018 to raise awareness of the negative tax impact of bonus share issuances on shareholders.

An unresponsive boards leads to voting against remuneration report and election of directors

5 After reviewing the remuneration report of an Australian agricultural company, we had concerns about the single performance metric used – a market capitalization target – for the company's long term incentive plan (LTIP). This type of metric can be manipulated near the time measurement takes place. It also ignores a number of external factors that impact (both positively and negatively) company performance, such as weather conditions and global markets. In addition, the 2017 remuneration report had received a nearly 25% vote against management and there has been no evidence that the remuneration committee has responded to such a high level of shareholder concern.

We sought a meeting with the chair of the remuneration committee to discuss our concerns and request greater clarification on these issues. Instead, the company only made available its company secretary and investor relations manager. We were disappointed with not having the access to the remuneration chair for a discussion, given the significance of our concerns and the high level of shareholder concern expressed with respect to the 2017 remuneration report.

The company representatives were also unable to provide satisfactory responses to our questions which required a responses from a member of the remuneration committee. We advised that we would be voting against the remuneration report and against the members of the remuneration committee who we consider to be accountable for putting a poorly-explained structure to shareholders.

During the conversation, the company agreed that at a future date the Chairman of the Board should meet with BlackRock to discuss our concerns regarding the remuneration plan and report, as well as board succession planning. We hope to have a constructive discussion with the company Chairman before the end of 2018.

Engaging for enhanced remuneration disclosure in Australia

6 We engaged the chairman of the remuneration committee of an Australian biotechnology company to get insight into the company's remuneration approach. In 2017, the company received a nearly 20% vote against a proposal to grant performance-based equity to the CEO. Meanwhile, BlackRock had supported the 2017 CEO equity grant.

During our engagement, we sought to better understand the high votes against management, as we had determined from our analysis that the grant's structure was well articulated and appropriately linked to the company's long-term research and development strategy. Interestingly, a significant portion of the company's workforce is based in the United States; therefore, the company must balance US remuneration structures with the expectations of its Australian shareholders. It is not uncommon for local proxy advisors to recommend their clients vote against US-style remuneration structures for Australian-listed companies.

The chair of the remuneration committee explained that one of the proxy advisors disapproved of the performance metric used in the long term incentive plan (LTIP) and had accordingly recommended to their clients a vote against the proposed grant. While the remuneration committee considered the proxy advisor's concerns, they concluded that their existing structure was effective given the very long-term focus of the business. The company decided that their best approach moving forward was to address the issue directly with their shareholders.

In response to this adverse proxy advisory firm's 2017 recommendation, the company's 2018 remuneration report provided a thorough articulation of their rationale for the key performance metric used and how it relates to the company's long-term strategy.

In summary, we supported the company for not changing a plan to simply "comply" with the view of a proxy advisor. The enhanced disclosures of the 2018 LTIP better justifies the selection of the performance metric for its CEO grant in relation to the company's long-term strategy. This year, we again supported management's remuneration approach.

Seeking improved governance practices in Greater China

7 Along with a portfolio manager from our Fundamental Active Equity team, Investment Stewardship engaged a Chinese electronics manufacturer to better understand the company's long-term strategy, board composition and remuneration policies. Given the company's positive approach to corporate governance practices, we viewed the engagement as an opportunity to provide recommendations on how the company could become a leader in board governance and remuneration practices in the region.

In our initial engagement, we raised questions about the company's long-term incentives, discretionary bonus structure, and employee share participation plan. We subsequently had a more in-depth discussions with the company's lead independent director around the long-term strategy. We appreciated the director's perspective on the board's proactive approach to deliberating a multitude of risks, ranging from topics like trade policy to board composition and effectiveness.

We believe that the company can further improve the disclosure of its remuneration practices. One area of our concern pertains to the lack of disclosure of performance conditions in the company's equity-based reward scheme. We plan to engage with the chair of the company's remuneration committee to continue the discussion, with the goal of getting a better understanding of the performance-based remuneration and metrics used and seeking improved disclosures.

Greater China: review of Taiwan proxy season

8 Similar to previous years, Taiwanese annual general meetings (AGMs) began in early May and ended in late June. In total we voted at approximately 400 AGMs. This year, all companies offered e-voting as an option to shareholders following the requirement of the Taiwan Stock Exchange (TWSE) and the Taiwan Depositary and Clearing Corporation (TDCC). This has made it easier for shareholders, especially institutional investors holding a large number of companies on behalf of clients, to vote without having to be physically present at the AGMs.

Nevertheless, a significant challenge remains for international investors. Due to the way custodian banks structure the accounts of foreign investors in Taiwan, it is not uncommon to see a mismatch between the number of votes on the record of local and global custodian banks. When votes are not matched, the local custodian banks would change voting instructions to "Abstain" due to the rules around partial voting. In one instance, had BlackRock not followed up to correct a voting position one company's resolution may have been voted down.

The types of resolutions remain similar to those seen in previous years. The most problematic ones include approval of restricted stock award plans, approval of capital raising mandates and approval of amendment to Articles of Association and other company bylaws. Disclosures are still quite scant and often fail to present a compelling rationale. This renders certain resolutions less supportable where risks are present. While more companies have adopted the nomination system for director election, it is still rather common to see companies opting for legal entity directors as opposed to natural person directors. We remain strongly opposed to the practice of using legal entity directors as it effectively removes the rights of shareholders in electing directors and raises serious questions about the effective functioning of the board.

We also continue to observe an increase in activism by local investors. Many family-controlled companies are facing increased pressure from activists who have become more experienced in contending for board representation through proxy contests. For example, one of the largest family-controlled financial holdings companies underwent its first proxy contest this year. While it won all the board seats, the vote was very close.

We are also seeing an increasing level of shareholder-company engagement. More companies are becoming aware of the role and influence of proxy advisors and are starting to proactively reach out to their large investors in advance of their AGMs in order to preempt perceived misrepresentation by the proxy advisors and garner shareholder support.

BlackRock is among those investors enhancing engagement efforts in Taiwan. Our Investment Stewardship team has a team member working from the Taipei office during the AGM season, underscoring the importance of having local contacts. This has greatly improved companies' access to us and enabled in-depth discussions between BlackRock and senior management. While the engagements during the AGM season focused on voting matters, the discussion covered broader governance issues including long-term strategy development and implementation, board effectiveness, and executive remuneration.

Engagement and Voting Statistics

Japan Engagement Statistics[1]

	Level of Engagement[2]			Topics Discussed*		
Number of engagements	Basic	Moderate	Extensive	Environmental	Social	Governance
45	22	23	0	10	17	45

Asia-Pacific ex Japan Engagement Statistics[1]

	Level of Engagement[2]			Topics Discussed*		
Number of engagements	Basic	Moderate	Extensive	Environmental	Social	Governance
45	2	33	10	11	19	45

*Most engagement conversations cover multiple topics. Our engagement statistics reflect the primary engagement topic for which the meeting was called.

Asia-Pacific Region Voting Statistics[1]

Country	Number of meetings voted	Number of proposals	% of meetings voted against one or more management recommendations	% of proposals voted against management recommendation
Australia and New Zealand	24	96	8%	4%
APAC ex Japan, Australia, and New Zealand	1,124	7,553	31%	9%
Japan	102	820	36%	7%
Asia-Pacific Region Total	1,250	8,469	31%	9%

[1]The Asia-Pacific engagement statistics are sourced from BlackRock and the voting statistics are sourced from ISS Proxy Exchange on October 2, 2018 and both are a reflection of 3rd Quarter 2018.

[2] Basic engagement is generally a single conversation on a routine matter; Moderate engagement is technically more complex and generally involves more than one meeting; Extensive engagement is technically complex, high profile and involves numerous meetings over a longer time frame. Source: BlackRock as of 3rd Quarter 2018.

Active Ownership and Responsible Leadership

Speaking events

Members of the Investment Stewardship Asia-Pacific team spoke at or participated in a number of events over the past quarter, with the goal of furthering discussion on matters deemed important to investors and/or promoting an increased understanding of BlackRock's approach to investment stewardship. We prioritize events that enable us to connect with key constituents and thought leaders, including corporate directors, senior members of management teams, and other shareholders, including clients.

- **Inaugural Corporate Governance Conference Thailand – Thailand**

  BlackRock participated in an inaugural corporate governance conference in Bangkok, jointly hosted by the Thai Securities Exchange Commission, the Stock Exchange of Thailand, and the Securities Investors Association of Singapore. BlackRock gave a presentation on the impact of engagement on driving value and sustainability, and participated in a panel discussion on the meaning and impact of corporate culture on long-term success.

- **Thomson Reuters Stop Slavery Summit – Hong Kong**

  BlackRock participated in a panel discussion on "Putting the S back into ESG". The discussion focused on the value of considering social impact in the overall market value of companies and poor management of these, particularly in supply chains which can have implications for a company's social license to operate and long-term value.

- **The Australian Chamber of Commerce - Modern Slavery Seminar – Hong Kong**

  BlackRock participated in a panel discussion on the topic of modern slavery and shared our views on why the issues is important for an institutional investor like BlackRock. The seminar participants included small business owners and other investors.

- **Hong Kong University Women's Director Course – Hong Kong**

  BlackRock presented on stewardship issues at a women directors' course conducted by Hong Kong University.

- **Hong Kong Institute of Corporate Secretaries Annual Conference – Hong Kong**

  BlackRock participated in a panel discussion on a topic titled "The New Horizon – New Relationships with Shareholders." The discussion focused on the need for greater transparency by issuers particularly around ESG issues. We also discussed the importance of viewing material ESG topics as strategic issues related to long-term value creation rather than a "tick-the-box" exercise.

- **Cybersecurity seminar hosted by IR Japan – Tokyo**

  Investment Stewardship spoke on a panel hosted by IR Japan, Japan's largest specialized investor relations (IR) services company, to present our views on the materiality of cybersecurity. We believe the topic is often overlooked by directors and suggested that the issue should be discussed at the board level. The panel attracted around 100 representatives from listed companies.

- **Corporate Governance seminar hosted by IR Japan – Tokyo**

Investment Stewardship spoke on a panel hosted by IR Japan to present our views on the recent revision of the Japan Corporate Governance Code. The panel attracted around 100 representatives from listed companies.

- **Japan Conference on the Task Force on Climate-related Financial Disclosures (TCFD) Recommendation – Tokyo**

  We spoke at a Japanese conference on the TCFD recommendations and our engagement on climate-related risks and opportunities. The focus of the event was to clarify and enhance understanding of TCFD practices among market participants. The session included speakers from various backgrounds such as policy makers, companies and investors, each of which shared their views on TCFD. The seminar attracted a diverse audience, which consisted primarily of corporate sustainability officers and shareholder relations representatives.

- **ESG Seminar hosted by Nomura IR – Nagoya**

  We spoke at a seminar hosted by Nomura IR to present views on ESG investment and key expectations for companies. Topics discussed included current developments in corporate governance and stewardship, as well as recent developments in integrated reporting.

- **BofA Merrill Lynch Japan Conference – Tokyo**

  BlackRock participated in a panel session hosted by BofA Merrill Lynch to discuss recent developments in corporate governance in Japan including the increase in shareholder activism. The panel attracted a diverse audience including companies and investors.

Market Development and Trends

South Korea

Korea Exchange (KRX), the sole securities exchange operator in South Korea, plans to establish a market advisory committee (comprised of foreign asset owners and institutional investment managers) to improve communications between the exchange and its foreign investor base. The Committee envisions providing comments and feedback on discussions related to rules and policies to be introduced by the KRX. The Committee is the KRX's response to strong demand from various foreign investors for a dedicated communication channel with the exchange, as gathered during KRX's first overseas roadshow held in 2017. BlackRock has been invited to join the Committee as one of its inaugural members.

Australia

Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

In Australia, the Royal Commission continued to take center stage during the quarter. An Interim report was issued at the end of September covering the Commission's findings to date.

The Interim Report addressed several fundamental issues raised in the first four public hearings and distilled them into four issues: 1) access to banking services, 2) roles and responsibilities of intermediaries, 3) responsible lending, and 4) regulation and the regulators. The report highlighted that the financial services entities investigated in Australia exhibited poor practices in managing key conflicts of interest within their businesses. The entities investigated too often pursued short term profit at the "expense of basic standards of honesty". It further found that employee incentives were measured and rewarded by reference to profit and sales which created conflicts of interest and duty and confusion of roles within organizations.

The report also delivered a stern critique of the regulators' investigations of issues determining that when misconduct was revealed, it went unpunished or the consequences doled out did not meet the seriousness of what had been done. Specifically, the Report stated that the Australian Securities and Investments Commission (ASIC) (the conduct regulator) and the Australian Prudential Regulation Authority (APRA) (the prudential regulator) did not go to court enough to "seek public denunciation and punishment for misconduct" and that the infringement notices imposed penalties on the banks that were "immaterial".

The Commission will now move its focus to recommendations and the report posed approximately 50 questions, critical amongst them:

- Should existing law be administered or enforced differently?
- Should there be annual reviews of regulator's performance?
- Is ASIC's remit too large and is the current regulatory regime too complex?
- Having examined the governance, culture and accountability within the CBA group, what steps (if any) can APRA take in relation to those issues in other financial services entities?
- What is the proper place for industry codes of conduct?

The Commission will work to seek answers to these questions and issues before a final report is released in February 2019.

The Australian Securities and Investments Commission (ASIC) releases report on climate change disclosure

In September, ASIC released a report on Climate Risk Disclosure by Australia's listed companies.[3] The report reviewed climate risk disclosure by 60 listed companies in the ASX 300, including 25 recent IPOs. The report found that only 17% of those companies identified climate risk as material to their business. Among the companies that did disclose, ASIC assessed that their disclosures were "general (as opposed to specific) risk disclosure" and "not useful for assessing climate risk exposures." Accordingly, ASIC issued four key recommendations for listed companies: 1) consider climate risk; 2) develop and maintain strong and effective corporate governance; 3) comply with the law (Section 299A (1)(c)) which would require disclosure of material business risk (which may include climate change); and 4) disclose useful information to investors.

Greater China

Hong Kong: conclusion of consultation on Code of Corporate Governance and publication of "Guidance for Boards and Directors"

In July 2018, the Stock Exchange of Hong Kong Limited (SEHK) published conclusions from the consultation on its Corporate Governance Code (CG Code), which received 91 submissions during the consultation period between November and December 2017. Given the supportive feedback, SEHK decided to implement new measures to strengthen transparency and accountability of the board and election of directors, enhance criteria for assessing independence of potential INED candidates, promote board diversity, and require greater dividend policy transparency. The new measures will take effect on January 1, 2019 through amendments to the CG Code and related Listing Rules. SEHK also published a "Guidance for Boards and Directors," which provides practical advice to boards and directors on their roles and responsibilities.

Hong Kong: launch of Hong Kong Green Finance Association

The Hong Kong Green Finance Association (HKGFA) was officially launched on September 21, 2018. HKGFA is a platform created to mobilize private sector resources and talents to assist the Hong Kong government in developing green finance policies and promoting the adoption of best practices in green finance.

Chaired by Dr. MA Jun, member of Hong Kong Financial Services Development Council and Co-Chair of G20 Sustainable Finance Study Group, HKGFA currently comprises over 80 Hong Kong financial institutions, environmentally-friendly organizations, service providers and other key stakeholders. BlackRock is one of the first members of this organization.

Hong Kong: consultation on backdoor listing

In light of the increase in market activities related to the trading and creation of "shell companies" in Hong Kong, the Stock Exchange of Hong Kong Limited (SEHK) has published several guidance materials to address evolving backdoor listing structures, corporate actions to strip out operations from listed issuers, and issuers conducting very low levels of operations. In June 2018, SEHK launched a consultation on backdoor listing, continuing listing criteria, and other rule amendments, and it also published a guidance letter on listed issuer's suitability for continued listing.

The consultation paper sought market views on proposed changes to the Listing Rules which would tighten rules around reverse takeovers and continuing listing criteria, and enhance other requirements relating to securities transactions, significant distribution in specie of unlisted assets and notifiable or connected transactions.

BlackRock responded to the consultation and expressed our support for all the amendments that SEHK has proposed. In addition, we shared our concerns with trade suspension and delisting of issuers that are identified as cash shells. To create a better outcome for shareholders while deterring companies from becoming cash shells, we suggested that SEHK adopt two proposals: 1) for cash

[3] https://download.asic.gov.au/media/4871341/rep593-published-20-september-2018.pdf

companies that have been suspended for six months to call a shareholder meeting to vote on a distribution of cash, and 2) for major transactions that may create a cash shell or significantly change the principal business to seek supermajority shareholder approval.

Mainland China: consultation on code of corporate governance

We responded to the China Securities Regulatory Commission (CSRC)'s consultation on a revised version of the Chinese Code of Corporate Governance for Listed Companies (the Code), which concluded in mid-July 2018. We recognized and affirmed CSRC's focus on further enhancing the protection of retail investors, strengthening the role of audit committees, and mandating the disclosure of ESG issues. We also expressed our views and recommendations for enhancing disclosure requirements on critical corporate governance matters, further strengthening the structure and effectiveness of the board, tightening control over controlling shareholders' share pledging activities, and encouraging better alignment between a company's social responsibility activities and its long-term growth strategy.

CSRC published the finalized Code on September 30, 2018, which takes immediate effect.

Japan

The Tokyo Stock Exchange (TSE) revised the Securities Listing Regulations pertaining to the revision of Japan's Corporate Governance Code, effective June 1, 2018. The revision is based on proposals made by the Council of Experts Concerning the Follow-up to Japan's Stewardship Code and Japan's Corporate Governance Code, which is jointly operated by the Financial Services agency and TSE. With the revision of the Corporate Governance Code, listed companies are required to further enhance disclosures related to strategic cross shareholdings, including policies to reduce such cross-shareholdings and clarify the process for appointing and dismissing CEOs. Companies listed on the TSE will need to update their corporate governance reports in accordance with the revisions and file the reports immediately after their preparation, no later than December 31, 2018.

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