INVESTMENT STEWARDSHIP REPORT: ASIA-PACIFIC

Q2 2019

JUNE 30, 2019

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.

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Engagement and Voting Highlights

The second quarter is in general a very busy quarter given that it is the proxy season for most markets, including markets in the APAC region. We summarise below some of the key voting issues from this season. Companies in Japan, Taiwan and Korea faced particularly notable governance issues this quarter. In India, a proposed remuneration scheme detailing vesting terms for options to senior executives provides a level of transparency that is a model for other companies in the market to follow. Remuneration continues to reverberate as a theme in Australia in our discussions with banks and asset managers.

The BIS team remained active in public policy engagements over the quarter in Japan, Korea, Australia, Taiwan and Thailand, as well as in Hong Kong where the Exchange is reviewing ESG disclosure requirements. The theme of bringing technology companies with dual class shares to the market continues into the quarter. Alibaba announced it will raise US$20bn through a dual-listing in Hong Kong, following loosening of regulations last year to allow listing of such companies. In Korea, the topic of dual class shares is being discussed by politicians, while in India, BlackRock submitted our response to the Security and Exchange Board of India's consultation on differential voting rights. We elaborate below on these and related BIS activity in this hectic quarter.

Taiwan: Succession planning and board transformation

1 Succession planning is integral to the long-term economic sustainability of a company, and its significance was underscored recently when the founding Chairman and CEO of a large Taiwanese company—also its largest shareholder—announced he would step away from running the company to pursue a political career. The decision came as a surprise to investors as the founder was known for his hands-on management approach. Absent a clear succession plan, there was uncertainty about the future trajectory of the company.

Because of the lack of access to independent directors, we engaged with the company's CFO to understand how CEO succession was managed and discuss other governance issues. The CFO explained that while the founder's decision was not discussed with the board, a succession plan has been developed a few years back and the management team is well prepared for a situation like this. The company has transitioned into a collective leadership style starting since its annual shareholder meeting. The founder will remain on the board but relinquish his chairmanship. The CFO noted that should the founder's political involvement continue to deepen to the point where conflicts of interest arise, he will be required to step down from the board and put all his shares in a blind trust. She believed that it is unlikely the founder's political activities would come to compromise the company, however. The CFO also emphasized that as the founder, who had historically made most of the major business decisions, gradually steps away from running the company, the governance structure will move progressively towards a more generally accepted approach. The CFO is confident that the company is moving forward to place more emphasis on shareholder outreach and improve overall transparency. We welcome such transformation and recommended that the company considers establishing a nomination committee to 1) formalize the director selection process, and 2) ensure that the board would consist of members with the right mix of skills and experience.

Based on our engagement, we felt that the founder's decision to step away from the company had not been adequately discussed at the board level. Nevertheless, the new structure may well bring about positive governance changes such as increased transparency over the long term. Our engagement was constructive and opened the door for continued discussion. We plan to monitor the company as it transitions with a new board and aim to meet with the independent directors as the new board is formed.

Taiwan: Local shareholder activism on the rise

2 Family-controlled enterprises are common in Asian markets. In Taiwan, 65% of companies are family-controlled, although the average share ownership by the controlling families is relatively low in comparison to other parts of Asia. Ownership by controlling families naturally decreases as one generation passes the business on to the next. As a result, the market has seen an increasing level of shareholder activism in the past few years. Unlike other markets in the region such as Japan where activism is usually associated with international investors, Taiwan is mostly experiencing activism by local investors.

In the second quarter, we engaged with two financial holdings companies that each faced a proxy contest from the same activist investor. Both companies received shareholder proposals asking them to increase their respective number of board seats. Such proposals lay the groundwork for future proxy contests, as larger boards make it more likely for an activist to gain a board seat, particularly given cumulative voting rules in Taiwan. The official rationale provided by the activist, however, was that a larger board with diversified expertise would lead to better corporate governance. To assess the validity of the activist's claim, BIS engaged with the independent directors of both companies on key topics related to board effectiveness including 1) board deliberation on strategy, 2) approach for identifying new directors, 3) board performance metrics, and 4) ensuring appropriate skill sets and experience among board members to provide guidance for management.

Based on our engagements, we concluded that the boards of both companies have each made meaningful governance improvements, while we did not find any evidence that larger boards would necessarily improve long-term value. For these reasons, we supported the management teams at both annual shareholder meetings and plan to continue monitoring corporate governance developments at these companies.

Hong Kong: The reality of related party transactions

3 A logistics company in Hong Kong sought approval from shareholders for the sale of two warehouses to its controlling shareholder, which operates in the real estate sector and is also listed in Hong Kong. As a shareholder of both companies, we engaged with each entity individually to gain insight about their respective intentions, their decision-making processes regarding the assets for sale, and the overall sale process.

During our engagement with the logistics company, the management team noted that the proposed asset sale is part of the company's long-term strategy to become asset-light, a model favored by investors. Based on management's prior interactions with the investment community, they believed this strategy will likely lead to higher valuations for the stock. The management team also emphasized that the company's independent directors had followed the proper procedure to seek advice from third-party valuation experts who had determined that the terms were fair. The board, however, did not explore the possibility of a better offer as it assumed the controlling shareholder would be the most obvious buyer. We explained that we expected more from directors than simply ensuring a related party transaction is fair; directors should make every effort to obtain the best terms for the company, which in this instance would have involved opening the sale process to third parties.

In this case, the property company that sought to buy the warehouses for their future development is the controlling shareholder. In our view, it is very unlikely that the controlling shareholder would allow a sale for the assets to be developed by a competitor. A stalemate could well ensue if investors blocked the sale unless there was an open tender, while the controlling shareholder may not allow any third-party to be involved. On balance, we decided to support the proposal given the transaction terms were fair and the disposals would move the company in the asset-light direction which would improve its return ratios. The proposal was passed with over 99% shareholders voting in favour, with the controlling shareholder not voting in this related party transaction.

Hong Kong: Compliance driven culture

4 BIS engaged with a company that has grown rapidly since expanding into the gaming and resort sector. However, our analysis identified a number of current and potential governance issues. Chief among the concerns were the 10-year tenures for all three independent directors, while two directors each were on the boards of seven public listed companies. As such, we engaged with the company to better understand how the board functions, especially the involvement of and contribution by independent directors in fulfilling the board's responsibility.

Although we requested a meeting with an independent director given the focus of our interest was around board effectiveness, the company was only able to have its CFO to attend the meeting. The company's CFO articulated the company's vision of supporting Macau to become a global tourism destination and explained the development plans in place to achieve this strategy. When BIS asked about the inner functioning of the board and their agenda-setting process, the CFO was unable to provide much insight other than sharing that board meetings usually last for two to three hours and that capital allocation is a topic they actively discuss. BIS asked how succession planning is managed at the board, and the CFO indicated that meritocracy is the key consideration in talent selection and succession planning of middle to senior management. Yet the family clearly remains firmly in control of the business, with the son currently being the front-line CEO and the founder himself actively participating in strategic discussions as the executive chairman.

The engagement left us with the clear impression of a compliance-driven approach to corporate governance, common in the market, where most companies only aim to meet minimum regulatory governance requirements. The company also appears to attach a low level of importance to minority shareholders' views. We plan to continue to monitor the company and directly engage with independent directors to improve the odds of governance improvement.

China: Health and safety concerns at a mainland developer

5 BIS engaged with a Hong Kong-listed family-controlled property developer in China that has had several fatal accidents at its construction sites in recent years. The purpose was to understand the board's oversight on health and safety (H&S) matters, as well as overall governance of the company.

Despite our request, we did not get a meeting with an independent director. It was quite clear through our conversation with the company secretary and investor relations officers though that the controlling family dominated most aspects of the business, and that few checks-and-balances were built into the governance framework. While workplace safety metrics are incorporated in the company's executive remuneration plan, its impact is rather limited. Executive remuneration appears to be largely determined by the controlling family, rather than tied to performance metrics established by the independent remuneration committee.

BIS also engaged with the company about H&S enhancements. The company provided details about their new oversight process, which includes the formation of a safety committee consisting of the CEO and COO, led by Chairman of the Board. However, we remain concerned that the company's oversight process appears inadequate for countering these H&S issues, which are a significant business operational risk in the construction sector, given the lack of concrete programs and specific targets to measure the progress of the new safety management framework.

Typical of Chinese privately-controlled companies, board oversight of management appears to be lacking, a potential risk for investors. We will continue to monitor and engage with other property developers, as well as other larger family-controlled companies from the mainland, to compare best practices and encourage stronger governance systems.

India: Parentally skewed options

6 Compensation is set to be a growing issue in the Indian market. The pressure to be more transparent will lead to more issues surfacing. In a recent engagement with an insurance subsidiary of an Indian-listed bank, BIS discussed the issue of options awarded to the CEO and other senior executives in this recently listed company.

The company was spun out as a public company subsidiary in late 2017. Before it was listed, company executives received options mainly in the parent bank. Curiously, even some six months after its listing, the company continued to grant options for shares in the parent bank. Although the insurance subsidiary had introduced an option scheme earlier for then unlisted shares in 2005, by the time it was listed in 2017, most of these had been converted into equity and no new options were granted for the insurance subsidiary in FY March 2018. Furthermore, the company's contracts with the CEO and other senior executives in 2019 included a proportionately larger number of shares in the parent bank than the insurance subsidiary that they are responsible for managing.

BIS discussed with the company's senior executives in investor relations and human resources to understand the rationale for this compensation plan. They explained that prior to the subsidiary company being independently listed, the executives received all their equity compensation in the form of parent bank equity. Now that the insurance subsidiary is independently listed, the company will shift to granting more at the subsidiary level, where the executives are employed. For instance, in 2018, the executives received

70% by value of options for the insurance subsidiary and 30% by value in options for the parent bank. The value of the options in the subsidiary are higher because of their volatility, given that it was only recently listed on the market.

BIS shared its concerns with the company that options accumulated in the parent company by an executive may skew his focus away from the best interests of the shareholders of the subsidiary to which he is responsible. Moreover, the arrangement between these two entities creates potential conflict of interests because a significant share of revenues for the insurance subsidiary come from sales via the parent bank; discussions of revenue and cost sharing should ideally be at arm's length.

The company confirmed that it is phasing-out payment of shares in parent company stock over time. The BIS team will continue to closely monitor their compensation practices in the coming year and beyond; we may vote against management if necessary.

Korea: Petrochemical company planning longer term

7 In June, BIS met with the management team of a Korean petrochemical company as part of an ongoing multi-year engagement. The management team provided updates on actions the board has taken following suggestions made by BIS in previous meetings to improve corporate governance.

The company went through a highly publicized and controversial separation from its parent chaebol group in 2010 when the current chairman, who is also the younger brother of the head of the chaebol group, refused to provide financial assistance to the other group affiliates that were facing difficulties. Moreover, the chairman soon began to sell his shares in the other affiliates, used the proceeds to increase his stake in the company, and successfully wrested control away from his older brother and the group. During the first engagement with BIS two years ago, the chairman stated that it was the only way to protect the company from the fate suffered by other group affiliates that had seen capital diverted to fund an aggressive expansion into new industries, many of which eventually collapsed in the aftermath of the 2009 financial crisis. However, the disposal of affiliate company shares during a sharp decline in stock price triggered investigations of the chairman for insider trading. While all charges were cleared by the Korean Supreme Court last year, the prolonged legal process and negative publicity has hurt the company's reputation and been a major distraction for management.

During engagements over the past two years, BIS recommended that internal controls, including trading policies should be strengthened, with more robust oversight by the audit committee to prevent similar incidents in the future. In addition, to ensure that capital is deployed to create long-term value, and for the board to have sufficient oversight based on a longer-term view, BIS stressed the importance of formulating a long-term strategy that is ratified by the board and clearly communicated to shareholders. Management explained that the company did introduce a 10-year vision back in 2010 shortly after its independence from the group, but it was too generic and lacked details, simply proclaiming the aim to become a "Global Leading Chemical Group" by 2020. Without a meaningful long-term strategy and faced with an extremely precarious financial situation at the time of separation when the company's debt-to-equity ratio hovered around 400%, the management had been focused on stabilizing the company's financial position over the past decade. This had the effect of introducing a conservative decision-making framework, preventing the company from making strategic investments that in hindsight would have allowed the company to strengthen its competitive position in the global market today. As such, the company is in full agreement with BIS on the importance of establishing a long-term strategy.

In 2018, the company introduced various measures to overhaul internal controls. Some of the changes include increasing the headcount of its Legal and Compliance teams, redesigning internal processes, increasing the number of internal audits (planned as well as un-announced) at the company and subsidiaries, as well as strengthening the independence of both the board and audit committee, with the latter now fully independent. During the most recent meeting, the management informed BIS that it started a consulting project to formulate a new mid-to-long-term strategy aiming to be rolled out in 2020. The scope of the project includes a full review of the current business lines, and identifying business lines to focus on as well as those to divest from. The project is expected to be completed over the next four months and will be disclosed to the public by the end of October. The management also added that upon completing the mid-to-long-term roadmap, the company would be able to provide more clarity on its capital strategy, including the usage of its treasury shares as well as its available-for-sale securities which still include shares of the other group affiliates.

We are encouraged that the company continues to take actions to address the concerns we have raised, and we will continue to monitor the progress by engaging again with the company after the new strategic roadmap is announced.

Singapore: Banks offering ESG-linked loans

8 In 2018, the Association of Banks in Singapore (ABS) released its Guidelines on Responsible Financing (the "Guidelines"), calling banks in Singapore to promote a low-carbon future as outlined in the Nationally Determined Contribution (NDC) to the Paris Agreement on climate change. The Guidelines provides the scope of responsible financing considerations to include environmental, social, and governance (ESG) factors while identifying industries with elevated risk that banks need to prioritize in developing their responsible financing policies, such as agriculture, chemicals, forestry, fossil fuels and mining.

BIS engaged in May this year with two regional banks headquartered and listed in Singapore to learn more about their sustainability programs, including sustainable financing practices in the light of the new Guidelines. Both banks that BIS met with had already inked a number of responsible financing deals with various companies in the sectors identified under the Guidelines, including those engaged in palm oil, poultry farming and real estate development. The structure of the loans was virtually identical: interest rates for revolving credit lines were pegged to pre-set sustainability targets, with a third-party (Sustainanalytics) providing annual assessment on the performance against those targets. If targets are met, the interest on the facility will be reduced on a tiered basis.

While the cost is borne wholly by the banks, both banks stated that such ESG-linked loans still constitute a small portion of their loan books but will continue to grow going forward. Moreover, according to the management of one of the banks, positive ESG performance is taken as an indicator of management quality. While more analysis is needed to quantify the exact relationship, it is their belief that strong ESG performance would contribute to the overall quality of the banks' loan book, offsetting the cost over the longer term. In addition, such facilities would push companies to improve disclosure on their sustainability practices, promoting better transparency.

We consider these to be positive developments and will continue to monitor the uptake of similar loan agreements, not just in Singapore but across the ASEAN region. BIS will continue to engage with both banks as well as companies in the high-risk sectors such as palm oil producers that can benefit from lower funding costs by improving their sustainability performance.

Australia: Remuneration reverberations

9 The ramifications of the Royal Commission and the tumultuous 2018 AGM season continue to reverberate in the financial service sector.[1] BIS engaged with several large financial services firms that received first strikes against their remuneration reports during the 2018 AGM to gain a better understanding of the lessons learned and subsequent actions taken.

One such institution launched a new incentive scheme which in its view would better align executive incentives with the firm's long-term strategy. However, the company was fully aware that such a view was not shared by all investors. It stuck to its scheme despite the threat of a potential "first strike" – a greater than 25% vote against its remuneration report.[2] Although prepared for some level of dissent, the company was surprised by the magnitude of the actual "first strike", which was well above the 30% vote against management threshold. The level of dissent in our view is reflective of the overall distrust amongst investors in the company more than their shareholder dissatisfaction with the actual remuneration structure. This highlights the importance of companies maintaining their social license to operate particularly in instances where public trust has been jeopardized.

In response, the company is working towards increasing the linkages between its customers and its corporate strategy. The company has implemented a board level Customer Committee to focus on customer-related issues, including products, as well as product quality and complaints management. The company revamped the remuneration structure to address some of the concerns raised in the new incentive scheme, particularly its inability to show accountability in a poor performance year, whilst still maintaining some of the original features designed to better align outcomes and rewards with long-term strategy.

BIS supports this approach but will continue to monitor the effectiveness of the scheme introduced and plan to engage with the company again.

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[1] Our 2019 APAC Q1 Quarterly Report, case study 7, provides a useful summary of the Commissions' report and our prior relevant engagements, available at https://www.blackrock.com/corporate/literature/publication/blk-qtrly-commentary-2019-q1-apac.pdf

[2] In Australia, the Corporations Act requires listed companies to submit a remuneration report to a non-binding shareholder vote at the Company's Annual General Meeting (AGM). A "First Strike" occurs when a remuneration report vote garners an "against" vote of 25% or greater. If this occurs, the company's subsequent remuneration report must explain whether shareholders' concerns have been taken into account, and either how they have been taken into account or why they have not been taken into account. The "Second Strike" occurs if a subsequent remuneration report again receives an "against" vote of 25% or greater. If this occurs, shareholders will vote at the same AGM to determine whether the directors will need to stand for reelection with 90 days. If this resolution passes with 50% or greater, then a "spill meeting" will take place within 90 days and those who were directors when the report was considered will be required to stand for re-election.

Australia: Culture of a miner through the Human Capital Management (HCM) prism

10 One of BIS's engagement priorities for 2019 is human capital management (HCM), including considerations for how a company aligns its systems to create a healthy culture and prevent unwanted behaviours. In discussions with an Australia-based mining company, the issue of culture was front and centre, viewed through several lenses. This company's board regarded accountability for a healthy culture as critical to successful management and established a consequence management framework. The aim was to ensure that any emerging problematic issues are appropriately escalated throughout the organization, properly understood and applied across all levels of employees.

The board used the Australian Prudential Regulation Authority Prudential Inquiry Report on Commonwealth Bank as a tool to benchmark itself against, and to ensure it was appropriately addressing culture issues. This has resulted in an increase in unannounced site visits by directors, thereby increasing the board's exposure to employees below the key management personnel level. Increasingly, specialists are being asked to present at board meetings while directors are hosting open lunches and town halls. These measures have encouraged positive behaviours such as a greater willingness for employees to be forthcoming about potential issues, and a cross-pollination of good practices by relocating strong leaders from one region to other regions.

Diversity and Inclusion (D&I) is also seen as critical to their culture and human capital strategies. Some of the company's past efforts have started to bear fruit. Specifically, 40% of new recruits are women, which is particularly remarkable in the mining sector. Some of this success can be attributable to new initiatives like flexible work practices, which have proved instrumental in recruitment and effective in retaining older employees. They view this program as targeted at a broader employee base, mitigating potential "diversity fatigue" from programs targeted solely at female staff. A greater emphasis on D&I at all employee levels, particularly in the recruitment process, and a stronger focus on "attitude and aptitude" have also contributed to the general improvement on cultural issues. The company has reconsidered its traditional recruitment tactics (which tended to result in limited talent pools) by expanding their use of social media to launch targeted campaigns and encouraging employee referrals. Other sectors with similar features to mining shift work, for example nursing, hair dressing and childcare, are now considered when identifying potential candidates in the company's recruitment efforts.

The engagement left us with a positive opinion on the company's HCM strategy and overall culture. BIS will continue to engage with the board to track its progress on effective HCM and culture issues.

Japan: Chain effects from financial distress at an integrated engineering company

11 We engaged with an integrated engineering company, which has faced severe financial stress as a result of losses from a major construction project that has suffered from significant cost overruns. The company subsequently announced a bail-out plan to raise capital from its lead shareholder and lender. The plan also involved non-financial measures, including the dispatch of experts to enhance its business and risk management as this was the second time the company has faced these issues. Although the bailout would result in significant dilution for shareholders, BIS decided to support the plan as it appeared to be the only solution to put the company back on-track.

BIS engaged with other companies to understand the risks in the supply chain, including several natural resources and mining companies. These companies have outsourced various operations and risks associated with their energy plant development projects – such as labour cost, oil prices and foreign exchange – to the integrated engineering company. Given the financial difficulty of the engineering company, it will no longer be able to take on certain operations and risks for new contracts. There are only a handful of engineering companies with the capability to manage large-scale projects and offer operations that absorb cost over-run risks. Thus, BIS also engaged with natural resources and mining companies to gauge how these companies are revisiting their investment strategy and risk management models. This is an area that we will continue to monitor and engage with clients of the engineering company to ensure the potentially higher risks for their operations is carefully monitored and addressed to the extent possible.

Japan: Real estate company with poor governance and culture issues

12 We engaged extensively with a Japanese real estate company which recently revealed company-wide, construction defects that had spanned over a prolonged period of time. We initiated our engagement soon after the company established an outside investigation committee to identify the root cause and determine the responsibility of management. The preliminary investigation left us concerned that there was a pattern of company-wide misconduct given the fact that issues had been identified across various types of the company's products.

As expected, the mid-term report from the company's investigation committee revealed that there was a pattern of company-wide misconduct, including on the part of the founder and former president. The current president, who is also from the founder family, is credited with successfully turning around the company by changing its business model after the global financial crisis. In our engagement however, we also expressed the continued concern that the ongoing concentration of power with the founder family appears to have been a root cause behind the company not paying enough attention to the concerns of stakeholders, including employees.

Subsequently, the company announced a final investigation report which identified key problems, including excessive power resting with the founder family which created a culture where business expansion was the top priority and where employees were not free to raise objections. Reflecting the committee's conclusions, all the inside directors responsible for the specific operational issues are stepping down, including founder family members. We engaged with the company again to confirm that the founder family members no longer have any involvement in management, and thus decided to support the new board members.

Responsible Leadership

BlackRock Investment Stewardship website updates

In the past quarter, we published several new statements on key topics. In June 2019, to help clients understand how we manage conflicts of interest we published, "How BlackRock Investment Stewardship manages conflicts of interest," which explains how we mitigate perceived or potential conflicts of interest.

Broadening our engagement around climate risk and deforestation, in May 2019, we published a commentary on our approach to engagement with the palm oil industry.

Speaking Events:

Members of the APAC BIS 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, policy makers and other shareholders, including clients.

Green Finance Forums – Hong Kong

We have observed a growing interest in innovation in sustainable investing in the market. BIS participated in a panel on Green Finance organised by the Hong Kong Monetary Authority (HKMA). The event audience consisted of senior representatives from the finance industry in Hong Kong, where HKMA's Chief Executive outlined measures in support of its mission to reduce climate risk and achieve sustainable finance. The measures include Green and Sustainable Banking, Responsible Investment and setting up a new Centre for Green Finance to position the territory as a globally leading green finance hub.

BIS was separately invited to speak at a seminar co-hosted by the Hong Kong Investment Funds Association (HKIFA) and the Chamber of Hong Kong Listed Companies (CHKLC). The seminar aimed at helping listed companies better understand green finance and ESG disclosures, with a particular focus on climate change, as these two topics have been high on the agenda of various regulatory bodies recently. BIS presented our approach to sustainability and what investors expect of listed companies in terms of ESG disclosures.

ACGA Korea Working Group Tour – Seoul

BIS participated in the annual trip to Korea together with other institutional investors in the Korea Working Group of the Asian Corporate Governance Association (ACGA), of which we are a member. The tour included meetings with several key Korean regulators including the Ministry of Justice, the Financial Services Commission, the Fair Trade Commission, as well as the Korea Exchange.

The regulators provided the ACGA delegates updates on key regulatory developments such as the successfully enacted Internal Audit Act and the mandatory CG Report, while seeking feedback and investor views on topics ranging from logistical difficulties in Korean AGMs, stewardship activities with Korean companies, as well as regulatory hurdles that impede advancement of corporate governance in Korea.

Annual APAC forum – DB Depositary Receipts Group – Taipei

BIS participated in a panel on the topic of the Evolving ESG Landscape and What Issuers Need to Know. Audience consisted primarily of investor relations officers and CFOs of companies in Greater China with ADR listing as well as some pre-IPO companies.

Thai Institute of Directors and Thai Listed Companies Association – Bangkok

In Thailand, we have observed a high level of interest in the enhancement of governance practices and the role of board members and executive leadership in making such change a reality. BIS was invited to speak at a fireside chat on stewardship and sustainability hosted by the Thai Institute of Directors (IOD). The audience consisted of CEOs and board directors of Thai-listed companies who were keen to understand how BIS approaches ESG issues from a stewardship perspective, and how the IOD could strengthen training to both newly inducted and experienced directors in order to be better equipped to represent investor views on their boards.

Separately, at another industry event, BIS presented at the Annual Meeting of the Thai Listed Companies Association on our approach to sustainability, focusing on stewardship as one of the key pillars. The audience consisted of a large group of CEOs and corporate secretaries of Thailand's listed companies.

2019 Australasian Investor Relations Association (AIRA) Annual Half Day Seminar – Sydney

This is an annual event hosted by AIRA, attended by representatives from ASX and NZX listed entities, service providers to the industry, government, regulatory bodies and media. BIS participated in a panel discussion on the topic "ESG the new paradigm – what IROs need to know". The discussion focused on the latest developments in ESG issues, including rising expectations for Australasian listed entities to engage on key material ESG factors, emerging trends in engagement on climate change, remuneration policies, and how ESG data is being used by investors.

Shared Value Summit: Investing on Purpose – Sydney

BIS participated in a panel discussion at the annual summit hosted by the Shared Value Project. The topic of the panel was "Investing on Purpose" where panelists together with the audience examined the shift in investor interests to include a company's social impact and explored the theme of Business on Purpose.

Global Trader Summit – Singapore

BIS was represented as a panelist at the Global Trader Summit organised by Enterprise Singapore, a government agency championing enterprise development. The biennial event is a closed-door event which included an address by the Minister for Trade and Industry, C-suite representatives from trading companies globally as well as CEOs and other top-level representatives from the banking, finance and the entrepreneur community in Singapore. Our participation was for the panel discussion on "The Sustainability Imperative".

Center of Japanese Economy and Business Annual Tokyo Conference – Tokyo

BIS presented and joined a panel to discuss the recent developments related to stewardship at the Center on Japanese Economy and Business (CJEB) Annual Tokyo Conference. The event was hosted by the Center, which is affiliated with the Columbia Business School. BIS spoke on a panel to present views on how the recent corporate governance reforms in Japan have changed the environment for investors and companies.

Market Developments and Trends

India – Response to consultation on differential voting rights by the Securities and Exchange Board of India (SEBI)

In March, the SEBI issued a consultation paper on differential voting rights (DVRs), in essence dual class shares. BIS responded to the SEBI consultation in April, underscoring that such rights offered to founders undermine the legitimate voting entitlement of shareholders generally; and if such capital structures are permitted, there should be robust protection for investors. The SEBI proposal is that shareholders should be able to vote on a one-share one-vote basis if the capital structure is to be extended beyond five years and similar periods thereafter. Our response recommended other protective measures as well, including that such companies should have only independent directors on their Corporate Governance Committee as well as Remuneration and Nominating Committee, that a lead independent director should be identified as a point of contact for shareholders to discuss governance issues, among other investor safeguards. Our full response is available here.

Korea – Dual Class Shares a topic of discussion in the political arena

One topic that emerged in this year's discussions with the regulators and exchange during the ACGA Korea Working Group tour was on recent developments in Korea with regard to a possible introduction of dual class shares (DCS). The idea was first introduced by a politician citing DCS as a possible means to attract young entrepreneurs to create start-ups that would ultimately help address the youth unemployment issue in Korea. The politician's argument is that allowing DCS under a framework strictly limited to new venture or start-up companies would alleviate dilution concerns young entrepreneurs face as they seek funding, while preventing adoption by existing listed companies.

There is no formal policy debate yet on this topic, but drawing from what has happened in Hong Kong, Singapore and India, there is always the likelihood that DCS may unexpectedly gain traction. We will continue to monitor the progress on this topic.

Hong Kong: HKEX ESG Consultation

Upon a review of issuers' ESG disclosure in 2017 and subsequent soft consultations with various stakeholders for over a year, the Hong Kong Stock Exchange (the HKEX) launched a two-month consultation in May to seek views and comments on proposed changes to the ESG Reporting Guide and related articles in the Listing Rules.

Major proposals include:

- Mandating disclosure on governance structure for ESG issues and requiring companies to include a statement from the board setting out the board's consideration of ESG issues;
- Mandating disclosure on materiality considerations and requiring companies to explain the process for the selection of material ESG factors (for example, through a stakeholder engagement), and the process used to identify specific entities and operations that are within the reporting scope;

- Mandating disclosure on significant climate-related issues and actions taken to manage related impact;
- Revising environmental and social key performance indicators (KPIs), notably requiring disclosure of Scope 1 and Scope 2 greenhouse gas emissions, and upgrading disclosure obligation of Social KPIs from voluntary to "comply or explain"; and
- Shortening the timeframe for publication of an ESG report to align its publication with the annual report.

BlackRock is broadly supportive of all the proposals. We plan to submit a response detailing our feedback.

Hong Kong: Alibaba considering a secondary listing in HKEX

Chinese e-commerce company Alibaba Group Holding Ltd filed confidentially for a secondary listing in Hong Kong in early June, potentially raising up to US$20 billion as early as the second half of 2019. This comes more than four years after the company raised US$25 billion in the world's largest initial public offering in 2014, choosing New York over Hong Kong for its market debut. Under the new Listing Rules introduced by the HKEX last year, which allow companies with weighted voting rights and other non-conventional governance structures to list, Alibaba will be able to sell its shares to Hong Kong investors without having to change its current governance structure that gives founder Jack Ma and other executives more control than other shareholders.

Japan: Shareholder proposals on the rise

Japan has seen a sharp increase in shareholder proposals. Linked to this, the BIS team has had much more engagement meetings around the proxy voting season. Some 54 companies received shareholder proposals at their annual shareholder meeting in this year's voting season, a record high, as compared with 40 last year. Domestic and foreign funds were equally active in putting forward proposals which have centred on director nominations and dividend payouts. BIS' policy is to review shareholder proposals on a case-by-case basis; for critical meetings, we meet multiple times with both the company management and the shareholder tabling the proposal(s). This has been a factor contributing to the number of engagement meetings for the 12 months to June 2019 rising to 415, 20% higher than the previous 12 months. The number of companies we engaged with rose to 282, 13% higher year-over-year, slightly lower than the increase in number of meetings, reflecting multiple meetings with some companies where there were activist situations or other complex controversies.

Japan: Stepping up effort on TCFD adoption by issuers

The Financial Service Agency, Ministry of Economy Trade Industry and the Ministry of Environment jointly announced the launch of a Task Force on Climate-related Financial Disclosures (TCFD) consortium in May 2019. The consortium aims to establish a platform for financial institutions and business corporations to discuss and formulate best practices on climate-related financial disclosures recommended by the TCFD. The basic concept is to have two working groups (for corporate disclosure and use of information) mainly to share information and potentially discuss ways to promote adoption of TCFD in Japan.

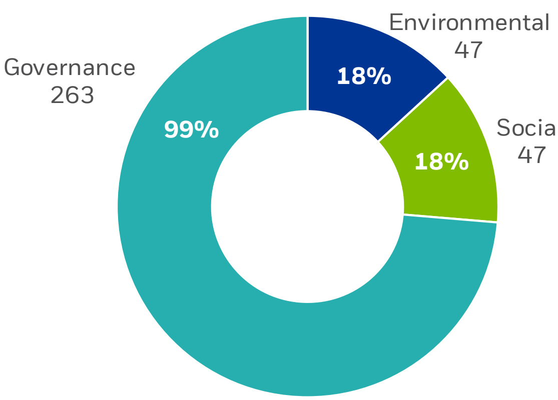
Engagement and Voting Statistics

Asia-Pacific Q2 2019 Engagement and Vote Statistics

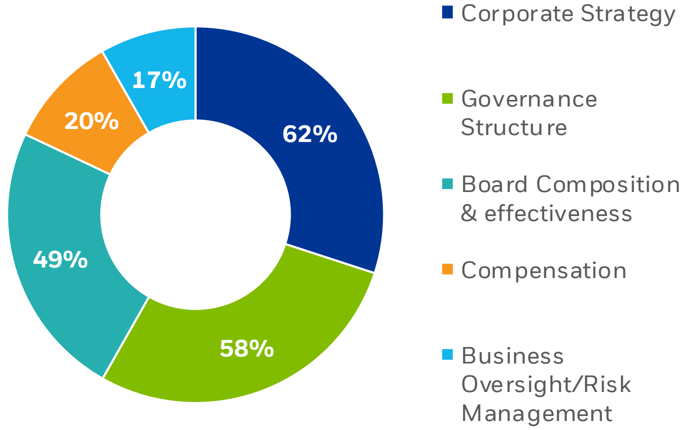
Region	Engagements[1]	Multiple engagements[2]	Meetings voted[3]	Proposals voted[3]
Japan	157	17%	1,634	17,884
Asia-Pacific ex Japan	108	10%	2,303	23,925
Asia-Pacific total	265	15%	3,937	41,809

[1]The Asia-Pacific engagement statistics are sourced from BlackRock on July 5, 2019 and are a reflection of 2nd Quarter 2019.
[2]Multiple engagements represents the number of multiple meetings during the quarter with the same company.

Engagement topics



Top engagement themes



*Most engagement conversations cover multiple topics.

Asia-Pacific statistical overview twelve months from July 1, 2018 to June 30, 2019

Engagements	Multiple engagements*	Meetings voted[3]	Proposals voted[3]
636	27%	7,812	66,819

Global statistical overview twelve months from July 1, 2018 to June 30, 2019

Engagements	Multiple engagements*	Meetings voted	Proposals voted
2051	27%	16,125	155,144

*Multiple engagements represents multiple meetings with the same company over this period.
[3]The Asia-Pacific voting statistics are sourced from ISS Proxy Exchange on July 5, 2019 and both are a reflection of 2nd Quarter 2019.

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Engagement and Voting Statistics

Q2 2019 Asia-Pacific Voting Statistics[3]

Country	Number of meetings voted	Number of proposals	% of meetings voted against one or more management recommendations	% of proposals voted against management recommendation
Japan	1,634	17,884	38%	5%
Asia-Pacific ex Japan	2,303	23,925	48%	10%
Asia-Pacific Total	3,937	41,809	44%	8%

Votes against management by proposal type for the quarter:

Region		Japan	Asia-Pacific ex Japan	Asia-Pacific Total	Global
Management Proposals					
Anti-takeover and related proposals	proposals voted	65	14	79	620
	% voted against management	92%	0%	76%	18%
Capitalization	proposals voted	14	3,790	3,804	7,931
	% voted against management	14%	23%	23%	15%
Election of directors and related proposals	proposals voted	15,394	7,301	22,825	56,872
	% voted against management	5%	9%	10%	8%
Non-salary compensation	proposals voted	734	643	1,377	8,510
	% voted against management	10%	17%	13%	15%
Mergers, acquisitions and reorganizations	proposals voted	370	2,860	3,230	3,614
	% voted against management	2%	13%	11%	11%
Routine business	proposals voted	1,150	8,320	9,470	23,194
	% voted against management	1%	3%	3%	5%
Shareholder Proposals					
Compensation	proposals voted	9	34	43	115
	% voted against management	0%	0%	0%	1%
Corporate Governance	proposals voted	6	101	107	160
	% voted against management	17%	0%	1%	14%
Election of directors and related proposals	proposals voted	49	666	715	1,420
	% voted against management	14%	2%	3%	4%
Miscellaneous business	proposals voted	93	142	235	510
	% voted against management	4%	7%	6%	5%

[3] The Asia-Pacific voting statistics are sourced from ISS Proxy Exchange on July 5, 2019 and both are a reflection of 2nd Quarter 2019.

Engagement and Voting Statistics

Proposal Terminology Explained:

Management Proposals

Anti-takeover Related — proposals concerning shareholder rights, the adoption of "poison pills", and thresholds for approval, among others.

Capitalization — generally involves authorizations for stock issuances, private placements, stock splits, and conversions of securities.

Election of Directors and Related — a broad category which includes the election of directors, supervisory board matters, declassification of boards, implementation of majority voting, among others.

Non-salary Compensation — covers shareholder approvals of compensation related matters like advisory or binding votes on remuneration, omnibus stock plans, vote frequency, and special compensation situations.

Mergers, Acquisitions, and Reorganizations — involves significant transactions requiring shareholder approval like spin-offs and asset sales, as well as changes to company jurisdiction or structure.

Routine Business — covers formal approvals of reports, name changes, and technical bylaws, among many others.

Shareholder Proposals

Compensation — compensation, perquisites, and other executive compensation policies.

Corporate Governance — key corporate governance matters affecting shareholders rights including governance mechanisms and related article/bylaw amendments.

Election of Directors and Related Proposals — elections to the board of directors, and other governance provisions related to the board.

Routine Business / miscellaneous — resolutions regarding social and environmental matters that may have an impact on company operations, including shareholder proposals relating to procedural matters.

Prepared by BlackRock, Inc.