CG WATCH 2020

PREVIEW

Future promise

Aligning governance and ESG in Asia

Special report - November 2020

Founding Sponsor of ACGA CLSA

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This report is a preview of *CG Watch 2020*, which we will publish in January 2021.

Contents

All prices quoted herein are as at close of business 17 November 2020, unless otherwise stated

Acknowledgements and disclaimer

ACGA would like to thank Asia Research & Engagement (ARE), our partner organisation in Singapore, for jointly designing and undertaking the detailed survey underlying the Listed Companies section in CG Watch 2020. The survey assesses 180 large-caps and 120 mid-caps across the 12 markets we cover in Asia-Pacific. The methodology and content of the company survey is jointly owned by ACGA and ARE.

ARE is a specialist firm that brings the voice of investors to address Asia's sustainable development challenges. It does this through structuring collaborative engagements and providing relevant research. ARE's collaborative engagements include Energy Transition and Sustainable Protein.

For important disclosures please refer to page 49.

Future promise

ESG: Brightening our future

Environmental, social, and governance (ESG) strategies continue to offer visions of a better future, but how well businesses operate and govern themselves is central to supporting meaningful ESG progress. In a preview of the upcoming ACGA and CLSA CG Watch 2020 report, we examine what has changed over the past two years on both market and sector views. Among our findings, we see Australian companies far ahead of the curve across most sectors, but note huge improvements from Indian and Japanese firms.

A firmer CG foundation is needed for ESG progress

Currently corporate governance (CG) mechanisms in Asian markets remain fragmented and connections between CG and ESG policy are unclear, limiting meaningful ESG and sustainability efforts by companies, investors and policymakers. We believe these issues need to be addressed in order to provide an effective governance foundation for ESG and sustainability in Asia. We make eight recommendations for how CG and ESG policy and practice can be better aligned.

Our 2020 market ranking once again sees a mid-pack shuffle

Once again, the excitement in this year's CG Watch 2020 market ranking is not at the front or back of the pack, but in the middle. Taiwan has made a concerted effort over the past two years to enhance its CG ecosystem and moves from fifth to fourth, edging ever closer to Hong Kong and Singapore. Japan has rebounded with a sustained effort across several of the stakeholder categories in our survey and rises from equal seventh to equal fifth. At the top of the ranking, Singapore's score is now so close to Hong Kong that both rank equal second.

A sector-based review finds broad CG improvement across all sectors

Amid a year of upheaval for markets around the world, CLSA too is taking a fresh approach, examining CG performance through the prism of sector, rather than market analysis. This change aims to complement the increasing demand for sector based portfolio management at the investor level. Findings across the 13 broad sector groupings support our conclusions that, Asia-wide, corporate governance practices are indeed improving, with the like-for-like aggregate score up 7.2% from scores recorded during our previous 2018 edition.

Look out for a more comprehensive analysis, coming in January 2021

Similar to ACGA's market findings, sector rankings also reveal turbulence in the middle of the table, with autos and financial services both jumping four places to fourth and sixth respectively. Conversely, property and energy rankings have slipped. Comprehensive details of the ACGA CG Watch Report 2020 will be presented in the full report, to be published early 2021.

Clear improvement across the region over the past two years

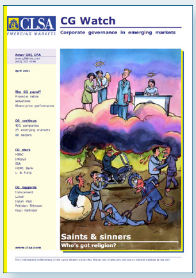
Market category heat map: 2020 vs 2018

Increased vs 2018 — Decreased vs 2018 — No change vs 2018

(%)	AU	CH	HK	IN	ID	JP	KR	MY	PH	SG	TW	TH	2020 vs 2018 increase
1. Government & public governance													2.1
2. Regulators													1.7
3. CG rules													4.9
4. Listed companies													4.3
5. Investors													5.2
6. Auditors & audit regulators													2.7
7. Civil society & media													1.1

Source: ACGA

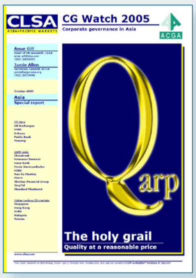
CG Watch through the years



Saints & sinners

April 2001

In our first edition we surveyed and ranked 495 stocks in 25 global emerging markets. High CG scorers generally outperform. South Africa, HK and Singapore score well, as do transport manufacturing, metals/mining and consumer.



The holy grail

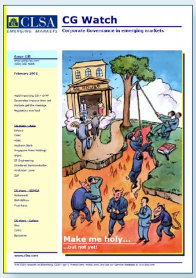
October 2005

QARP (Quality at a reasonable price) is a guide for stock selection in the quest for high-CG stock performance. The QARP basket of the largest 100 stocks in Asia ex-Japan beat the large-cap sample in the three years to 2004.

Dark shades of grey

September 2014

This year we rate 944 companies in our Asia-Pacific coverage. Japan has moved higher while Hong Kong and Singapore have slipped. Corporate scores have fallen, particularly in Korea. We have revamped our environmental & social scoring.



Make me holy . . .

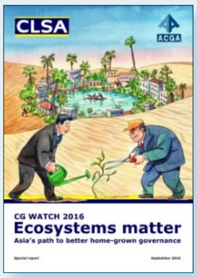
February 2002

Almost invariably, companies with high CG scores remained market outperformers, this year. The top-CG quartile outperformed the country index in nine out of 10 of the Asian markets under CLSA coverage.

On a wing and a prayer

September 2007

We include "clean and green" criteria in our corporate-governance scoring. Climate change is now a matter of corporate responsibility, with attendant economic risks. Yet, Asian firms are largely ignoring the issue.



Ecosystems matter

September 2016

Governance matters and ecosystems are key. No one stakeholder drives the process, it's the collective interaction that delivers outcomes. Australia heads our bottom-up survey and joins ACGA's top-down survey at No.1. Asia is improving.

Fakin' it

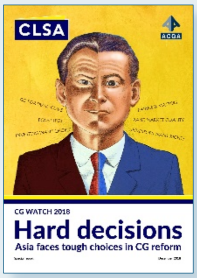
April 2003

Companies are smartening up their act, as stocks with high CG scores outperform. But much of the improvement is in form - commitment is not yet clear. Market regulations are moving up and it is time for shareholders in the region to organise.

Stray not into perdition

September 2010

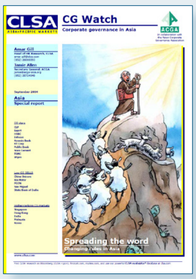
Corporate-governance standards have improved, but even the best Asian markets remain far from international best practice. Our CG Watch rankings may surprise investors this year even more than the 2007 reordering.



Hard decisions

December 2018

Regional markets face hard decisions in CG reform as mounting competition for IPOs raises pressure to lower standards. But there is still plenty of evidence of the push toward better CG. Australia maintains its lead, while Malaysia is the top-mover.



Spreading the word

September 2004

Our more rigorous CG survey of 10 markets in Asia ex-Japan finds improvements in many of the 450 stocks we cover, following new rules introduced in recent years. CG also emerges as an explanation for beta.

Tremors and cracks

September 2012

Cracks in Asian corporate governance have become more apparent since our last CG Watch. We provide CG and ESG ratings on 865 stocks. We rank the markets and indicate issues investors should watch for in the tremors of Asian investing.

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A firmer foundation

Effective governance is critical for the success of ESG and sustainability in Asia

For reasons well known to readers of CG Watch, environmental, social and governance (ESG) strategies and priorities have rapidly ascended to prominence in the thinking and business direction of the investment industry worldwide. This has significantly influenced the way in which investment firms now set priorities, market fund products, and allocate resources to governance activities such as voting and engagement. Sustainability concerns are high on the agenda of governments too as they grapple with the long-term risks of climate change, environmental degradation caused by urban expansion and resource usage, and the adverse social consequences that often follow. Banking and financial regulators meanwhile are acutely aware of the commercial potential of these seismic shifts and are competing to win the crown as the greenest capital market.

The rise of ESG is having a profound impact on company governance and operations

All of this is having a profound effect on how companies operate and are expected to govern themselves. It shapes what they measure and disclose, and how they interact with the outside world. After years of seeming disinterest, the Asia region now has a select group of companies that could rightly be considered ESG leaders, and there is a growing belief that taking sustainability seriously is the smart option from a business as well as national point of view.

Yet the connections between corporate governance and ESG are often unclear

While such high-level thoughts and ideas dominate much of the investment discourse on ESG, it is worth looking at whether the policy and organisational foundations required to underpin these developments are in place. Are current governance and management mechanisms in Asian markets sufficient to support meaningful approaches to ESG and sustainability by companies, investors and policymakers? Is there adequate discussion on how firms should evolve to become fit for purpose in this new world? Our view is that much of the focus remains fragmented and the connections between corporate governance and ESG policy are unclear. We believe these issues need to be addressed in order to provide an effective governance foundation for ESG and sustainability in Asia.

Here are eight suggestions for creating a firmer governance foundation:

1. Acclimatising CG codes

Asian CG codes were first developed 20 years ago and introduced the concept of the independent board

Codes of best practice for good corporate governance emerged in Asia around 20 years ago and have been in a state of development and improvement ever since. They were initially a response to the corporate dysfunction brought to light so dramatically by the Asian Financial Crisis of the late 1990s, including widespread and unsustainable foreign debt, egregious conflicts of interest with family company groups, and limited or non-existent checks and balances on controlling shareholders. The first codes had the task of building an entirely new corporate governance edifice overnight that had credibility in international financial markets. Not surprisingly, Asian governments took inspiration from existing norms and standards in Western countries, which were seen at the time as setting the gold standard for good governance. This led to the wholesale adoption of independent directors, new board committees for audit (and later nomination and remuneration), a particular focus on risk management, faster and more expansive corporate financial, governance and business reporting.

Over the past decade CG codes have taken on more modern concerns

Over the past decade these codes have continued to evolve. With governance basics already in place, the focus has been on incorporating a range of more modern concerns that followed the Global Financial Crisis of 2007/8. These include such things as greater board diversity (including gender diversity), lead independent directors, an emphasis on managing "stakeholder" concerns more effectively and, to varying degrees, high-level references to the importance of ESG and sustainability.

But codes are mostly silent on sustainability governance

Yet few CG codes of best practice in Asia address in any depth how board composition and governance might need to change to manage material ESG challenges, in particular the overarching issue of climate change. Will new committees be required? How will board composition and director skills need to change to cope with increased requirements for effective reporting and strategic decision-making around ESG/sustainability? What impact will all this have on director training needs? Is the traditional director nomination process, dominated by controlling owners and senior management, still fit for purpose?

A small group of Asian companies are leading the way on sustainability governance

Promisingly, some leading companies are already trying to answer these questions. A few have formed new sustainability committees at board and/or senior management level, such as CLP and CK Hutchison in Hong Kong and China Steel in Taiwan. A larger number are listening to the concerns of their major institutional shareholders as well as expert consultants and non-profits on the adverse impacts of climate risk to their businesses. Some Asian banks have voluntarily decided to stop financing new coal power plants. And reporting in line with the framework outlined in 2017 by the Task Force on Climate-Related Financial Disclosures (TCFD) is starting to take hold in sectors such as energy, banking, insurance, transportation, and consumer goods. Regulators do not need to start with a blank sheet if they decide to make their CG codes more climate-relevant.

2. Linking ESG reporting guidance and CG Codes

Voluntary CSR guidelines first appeared in Asia in the 2000s

The forerunners to today's regional ESG reporting guidelines, which are typically implemented through the "comply or explain" mechanism, were some voluntary corporate social responsibility (CSR) guidelines released in the mid to late 2000s in China, Indonesia and Malaysia. Taiwan then published its CSR Best Practice Principles in 2010.

CSR later morphed into "ESG" and more substantive reporting guidance appeared

As CSR morphed into ESG in the early to mid-2010s, the region saw more focussed but still mostly voluntary guidance on sustainability reporting appearing in Singapore, Thailand, India and Hong Kong. Taiwan enhanced its commitment considerably in 2014 following a national tainted food scandal when it mandated listed companies in the food, finance and chemicals sectors, as well as those with the largest share capitalisations, to produce reports in line with the Global Reporting Initiative (GRI) standard. In the same year Japan published its landmark Ito Review on "Competitiveness and Incentives for Sustainable Growth", which emphasised the need for higher quality "corporate disclosure towards sustainable growth" and, as part of this, better ESG disclosure. Notably, the Ito Review warned that Japanese companies tended to focus on environmental and social disclosure to the detriment of good reporting on corporate governance.

2015 was a turning point for reporting standards

Reporting standards began to evolve even more rapidly from 2015. In that year Hong Kong upgraded its voluntary ESG reporting guidelines to "comply or explain" and Bursa Malaysia said listed companies would need to disclose their management of material "economic, environmental and social" (EES) risks and opportunities in their annual reports. The following year Singapore enhanced its sustainability reporting guide by putting it on a "comply or explain" basis, while India expanded its mandatory requirement for "business responsibility reporting" (BRR) from the top-100 listed firms by market cap to the top 500. India is in the process of extending this to the top 1,000 firms by 2021 and is producing a new and extremely detailed template for companies to follow.

ESG reporting standards are broadening and deepening . . .

Taiwan meanwhile has broadened its rule on GRI-aligned reporting to around 225 of the largest listed companies and accounting for around 80% of Taiwan Stock Exchange (TWSE) market cap. But many companies do it voluntarily: the total tally is now 486, of which 368 are listed on the TWSE and another 118 on the smaller company Taipei Exchange. In 2019 the Philippines joined the club and issued mandatory sustainability reporting guidelines for listed companies on the "economic, environmental and social" aspects of their organisations, while Hong Kong upgraded its 2015 guidelines in the same year and added a new environmental KPI on climate change and a requirement to report according to a set of social KPIs. In 2020 Japan released a non-mandatory but detailed handbook on ESG disclosure for listed companies, while there are expectations that China and Korea will release their own guidelines in the relatively near future.

. . . and now include a high-level focus on governance

In addition to these policy developments, a positive change in recent years has been the recognition of the importance of governance in the ESG reporting process. Many guidelines now start with a requirement that companies should make statements about board oversight of material ESG risks and opportunities, and how decisions are made on these issues. While this development is to be welcomed, most guidance documents tend not to go into a lot of detail about how board oversight and decision-making should be implemented in practice. This is understandable since these guidelines are primarily focussed on reporting not governance. A simple solution, such as that adopted a few years ago in Singapore, is to refer the reader back to the CG code. The Singapore sustainability reporting guide accordingly starts with a statement on "Board Responsibility":

> "Under the Code of Corporate Governance issued on 2 May 2012, the Board is collectively responsible for the long term success of the issuer. It provides strategic direction and specifically considers sustainability issues as part of its strategic formulation. Consistent with its role, the Board should determine the ESG factors identified as material to the business and see to it that they are monitored and managed. The Board's close interaction with management will enable the Board to satisfy itself on the way sustainability governance is structured and functioning through the various levels of management. The Board has ultimate responsibility for the issuer's sustainability reporting. If any question is raised regarding the issuer's sustainability reporting, the Board should make sure it is addressed."

The new Singapore CG code has dropped explicit references to ESG and sustainability

Unfortunately, if one turns to the current Singapore CG Code, revised in 2018, the above language has been removed and replaced with general references to sustainability and "sustainable business performance", a malleable phrase that can have whatever meaning a speaker chooses to give it. The more detailed section outlining the board's role has been relegated to an accompanying document called the Practice Guidance, which is voluntary. In the process the specific language in the 2012 code stating that a board should "consider sustainability issues, e.g. environmental and social factors, as part of its strategic formulation" has become "ensure transparency and accountability to key stakeholder groups". The only reference to sustainability in this part of the Practice Guidance is a stipulation that one of the board's primary roles is to "provide entrepreneurial leadership, and set strategic objectives, which should include appropriate focus on value creation, innovation and sustainability".

CG codes should emphasise clearly the board's oversight role in ESG reporting

Our recommendation is that ESG and sustainability reporting guidelines should link directly to CG codes as a basic reference document and the latter should clearly emphasise the principle of board involvement in ESG reporting as well as sustainability strategy and governance. As the primary corporate governance guidance document in most markets, the CG code should take the lead here and be fully aligned with any ESG policy documents. This does not mean that CG codes themselves must provide extensive practical guidance on how boards should oversee ESG reporting. Such detailed recommendations could be put in a supplementary document, as Hong Kong Exchanges and Clearing (HKEX) did in March 2020 when it released a document called "Leadership Role and Accountability in ESG: Guide for Board and Directors". The CG code should however lay down the basic principles of board oversight of ESG reporting and the minimum standards expected of companies. This would be a step up from the rather brief references to governance in current ESG reporting guidelines. A legitimate question that companies may ask is, 'If board oversight of ESG reporting is so fundamental, why is it not mentioned in the CG code?'

The Malaysian CG code is more aligned than most on sustainability

One CG code in Asia that has been more aligned than most in recent years is the Malaysian Code on Corporate Governance (2017). It states quite unequivocally that a key role of the board is to "ensure that the strategic plan of the company supports long-term value creation and includes strategies on economic, environmental and social considerations underpinning sustainability".

Taiwan is starting to draw closer links between CG and ESG reporting

Another market that is starting to think about these issues is Taiwan. In late August 2020 the Financial Supervisory Commission (FSC), its peak financial regulator, announced a new plan for corporate governance titled, "Corporate Governance 3.0 – Sustainable Development Roadmap". This was described as a "bid to enhance the sustainable development of companies" and to "establish a comprehensive Environmental, Social and Corporate Governance (ESG) ecosystem, strengthening the international competitiveness of Taiwan's capital markets". This will be the third CG roadmap that Taiwan has developed since 2013 and it puts a strong focus on sustainability reporting.

The Thai CG code is by far the best in this regard

But by far the best is the Thai Code, which has its own principle on the subject containing a range of sub-principles and guidance. The responsibilities are also nested throughout the code. Principle 5 on "Nurture Innovation and Responsible Business" states: "The board should prioritise and promote innovation that creates value for the company and its shareholders together with benefits for its customers, other stakeholders, society, and the environment, in support of sustainable growth of the company."

3. Supporting ESG reporting

The quality of ESG reporting in Asia is improving, but numerous challenges remain

That listed companies need support on ESG reporting seems incontestable. This is a new and complex area and getting it right is not easy. ACGA has been studying ESG reporting in Asia through CG Watch since 2016. We later put our research on a more structured basis with a new survey developed jointly with Asia Research & Engagement (ARE), our partner organisation in Singapore. In both 2018 and 2020 our survey assessed 180 large-cap listed companies and 120 mid-caps in total across 12 markets. Some recurring patterns have been evident:

- Increasing numbers of ESG, sustainability and "integrated reports" are being produced around the region, with voluminous amounts of data on environmental and social factors, yet the role of the board in this process is often murky. How much actual oversight is there? Given that the existence of sustainability or even CSR/ESG committees within Asian boards is still quite new, the reasonable conclusion to draw is that most boards are not yet actively engaged.
- To what extent do companies utilise new information on material ESG risks and think deeply about the potential impact on their operations and business models? How will they address emerging competitive or regulatory threats? While large-cap companies are broadly getting better at this, our reviews have found many that continue to score poorly. Some ignore obvious material risks.
- There is still much to be done on the issue of climate risk disclosure. Our 2020 survey found that less than half of the 180 large caps assessed around the region disclosed concrete steps to address the physical risks of climate change. A further 20% acknowledge the risk but do not explain how they are responding to it. And a third of companies ignore it entirely.
- A common complaint about ESG reporting in Asia is that the prevalent and often standalone GRI-style report is designed more for a multi-stakeholder than investor audience. This is where the standards developed by the Sustainability Accounting Standards Board (SASB) come in: the goal is to encourage companies to focus their reporting on ESG issues that are of most financial relevance to investors. The aim is that this should complement, not replace, GRI reporting.
- And then there is the issue of targets. If gathering and publishing data is a challenge, writing a sensible target is even harder. This explains the uniformly low scores for targets across our 12 markets in the ACGA/ARE company survey—less than 15% of the 180 large companies scored top marks for having targets linked to most of their material issue areas.

One solution for assisting companies is to create an informal forum on ESG reporting, as in Japan

Given the wide range of reporting standards available, many companies feel confused as to the right way forward and seem resistant to change, often pressuring regulators to keep standards to a minimum. A practical solution could be to take a leaf out of Japan's book and set up an informal forum on sustainability reporting comprising representatives from companies, investors and policymakers. The Ministry of Economy, Trade and Industry (METI) in Japan initially formed a study group on TCFD in August 2018 and published guidance later that same year. In May 2019 a group of leaders from business and academia created the TCFD Consortium and held an inaugural summit meeting. Further meetings have been held since and, as of late October 2020, the Consortium boasted support from 294 organisations, including major listed companies in Japan, banks, life insurers, investment managers, universities and professional service firms. A number of foreign institutional investors are members, as is the Keidanren, the country's largest business federation.

Another model comes from Australia, where investor bodies have drafted guidance for companies

Another model is found in Australia where the country's two leading investor associations, the Australian Council of Superannuation Investors (ACSI), which represents pension funds, and the Financial Services Council (FSC), which represents investment managers, jointly published a set of ESG reporting guidelines for companies in 2011 and revised them in 2015. As the introduction to the 2015 edition states:

> "Investors need accurate, timely and comparable information to identify and manage exposure to ESG investment risks. Such information assists investment managers to decide the selection and holding of stocks in their portfolios, and in their investable universe. This information also prompts investment managers, broker analysts and asset owners (principally superannuation funds) to constructively engage with companies on these matters.
>
> "Companies need consistency in the information required by institutional investors, and for reporting obligations not to impose undue costs, competitive disadvantages or other commercial burdens.
>
> "Recognising both perspectives, ACSI and the FSC have jointly updated this Guide to highlight the types of information needed by our member organisations to understand, price, analyse and manage ESG investment risks."

Australia grounds its reporting obligation in company law

This guide and subsequent surveys of ESG reporting among the ASX200 carried out annually by ASCI is one reason Australia has a high level of sustainability reporting without a detailed set of guidelines from the stock exchange or financial regulator. Other factors include a stipulation in the Corporations Act requiring disclosure of material business risks that could affect a company's future prospects in the "operating and financial review" (OFR), which is Australia's version of a management discussion and analysis (MD&A) section in the annual report. This is interpreted to include climate change and other broad ESG risks. The Australian Securities & Investments Commission (ASIC) produced a statement on climate risk disclosure in September 2018 and later updated its guidance on recommended ESG reporting in the OFR and prospectuses. Completing the circle is the ASX CG Principles, which state that: "A listed entity should disclose whether it has any material exposure to environmental or social risks and, if it does, how it manages or intends to manage those risks."

Australia takes a more systemic approach to encouraging ESG reporting

One potential lesson from the Australian system is that a combination of company law, securities commission guidance, stock exchange CG policy, and practical recommendations from institutional investors all help to produce a compelling framework for listed company reporting. This "ecosystem" approach may prove more effective and durable than the fragmented approach found in much of Asia.

4. Nudging ESG assurance

Most ESG reports in Asia are not independently assured. Does this matter?

In contrast to financial statements, most ESG reports in the region are not audited or even reviewed by independent third parties. Regulators have taken a hands-off approach to date, encouraging listed companies to consider assurance but not making it mandatory. The Singapore Exchange's sustainability reporting guide offers a succinct rationale for assurance and recommends phasing it in:

> "Independent assurance increases stakeholder confidence in the accuracy and completeness of the sustainability information disclosed. An issuer whose sustainability reporting has already matured after several annual exercises would want to undertake external assurance by independent professional bodies to add credibility to the information disclosed and analysis undertaken. An issuer new to sustainability reporting may wish to start with internal assurance before progressing to external assurance for its benefits. The issuer should also consider whether it would be worthwhile to undertake independent external assurance on selected important aspects of its report even in its initial years, expanding coverage in succeeding years."

Institutional investors are often sceptical of ESG assurance

Yet many institutional investors and investment analysts remain ambivalent about assurance. One issue is the difficulty of putting the outcomes in context: since only a minority of ESG reports are assured, there is little room for a comparative analysis of results. Another is that the scope of assurance is often extremely limited: companies choose which parts of their reports are assured and typically select metrics in which they have a high degree of confidence or processes where they know they perform well. Like giving oneself a gold star after looking up all the answers! Since assurance is voluntary, companies do not need to release poor assurance reports and, indeed, it is hard to find one that is qualified. And there is the issue of materiality: can assurers attest that companies have truly focussed on the most material ESG risks facing their businesses?

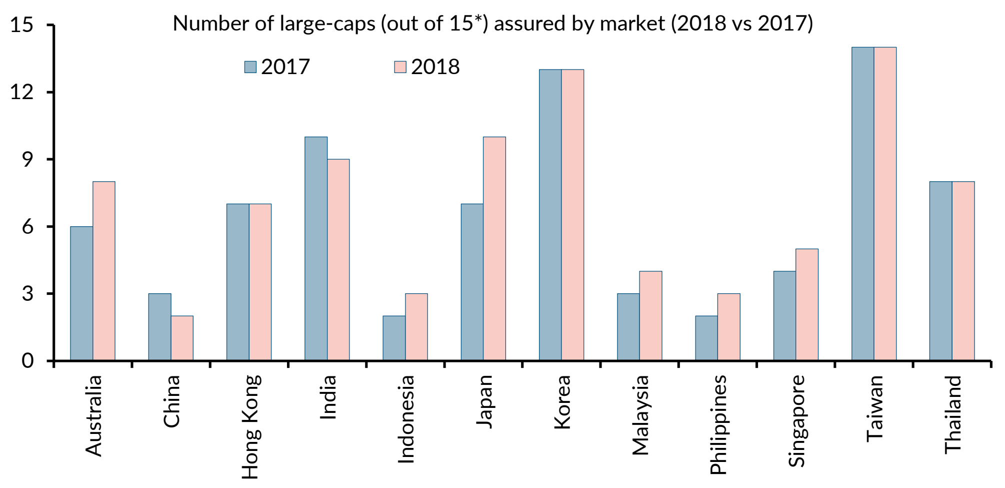
Original ACGA research has found the extent and scope of assurance to be limited

Research carried out by ACGA over the past year confirms many of the above concerns. Having reviewed 180 large-cap sustainability reports across 12 Asia-Pacific markets for financial years starting in 2017 and 2018 (ie, the same companies we assessed for CG Watch 2018), we found only two jurisdictions where the vast majority of reports were assured: Korea and Taiwan. In five markets—Australia, Hong Kong, India, Japan and Thailand—around a half to two-thirds of reports were assured. In the remainder, a third or less were assured (see chart below).

Korea and Taiwan are leading the way in the number of ESG reports assured

Figure 1

Large-cap ESG assurance in Asia-Pacific, 2017-2018



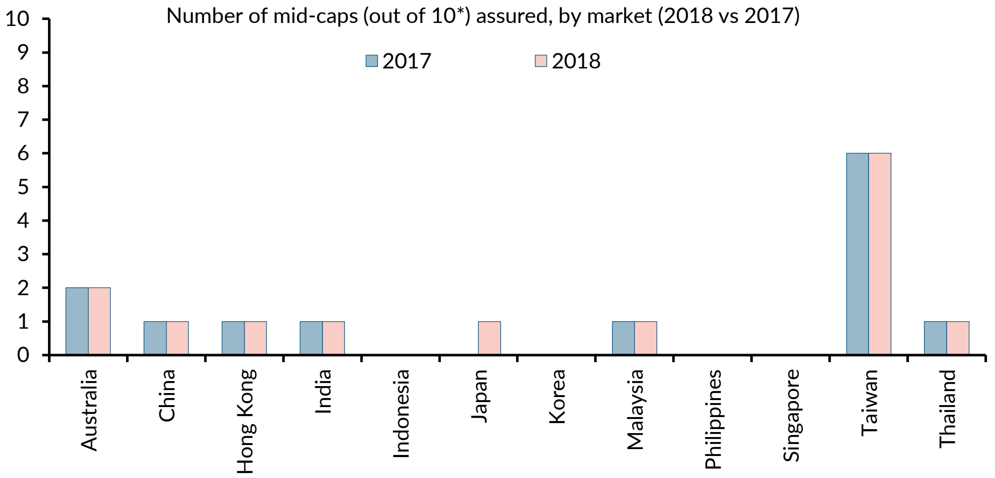
Source: ACGA

The extent of assurance among mid-cap ESG reports is minimal

We have also reviewed assurance in the ESG reports for the same 120 mid-cap companies that we looked at for CG Watch 2018. With the exception of Taiwan again, very few mid-cap companies have their reports assured (see chart below).

Figure 2

Mid-cap ESG assurance in Asia-Pacific, 2017-2018



Source: ACGA

Assurance often covers only a limited set of data points

As for the scope of coverage, assurance engagements vary considerably. A typical worst-case example is a report that addresses only a few data points, such as verification of CO2 emissions and other pollutants. Better examples are where assurance is broadened to cover a wider set of key metrics and look at how companies are managing corruption and governance. But overall, most assurance is limited in scope.

Auditing standards need to evolve further to enhance the assurance process

Assuring the way in which companies assess the ESG risks that are most material to their businesses is more challenging; and part of the problem is the auditing standards themselves. Auditors typically say that the international standard for assuring non-financial information (ISAE 3000) is not really fit for purpose for assuring ESG reports. This standard was last revised in 2013, although the international audit standard-setting body, the IAASB, has recently produced new guidance on interpreting and applying ISAE 3000. Whether this solves all the problems remains to be seen. Meanwhile, the main competing standard, AA1000, does have an explicit focus on materiality and is the standard used by consulting firms and, more recently, some audit firms.

There is little discussion in Asia on how to move forward on ESG assurance

Our observation in Asia is that there is little or no discussion among policymakers, companies, shareholders and assurers as to the right way forward on this issue. The current self-selection system does have the advantage of allowing progressive companies to differentiate themselves. However, with ESG information becoming ever more important to companies and investors, the idea that assurance will remain voluntary indefinitely does not seem credible or likely.

Encouraging more independent reviews could be beneficial for investors

We would propose two ideas for nudging this process forward. First, encourage the content of ESG reports to be independently reviewed for their breadth and depth of coverage, with recommendations made as to how they could improve and be made more useful for investors in particular. This does not envisage assuring all the data points, rather taking a more selective approach to addressing issues that are most material to a company's business.

Some investors are starting to call for auditors to include TCFD reporting in their financial audits

Secondly, if an ESG risk is material enough to have a major financial or business impact, it should be discussed in the annual report and assessed alongside the financial statements. The obvious candidate is climate change. Indeed, some global institutional investors are starting to call for auditors to look at climate risk disclosure, in particular TCFD reporting, when auditing the financial statements.

Governments could move this process forward through public fora or hearings

Since no one wants to see another new exercise in box-ticking and the production of documentation for its own sake, one way to start would be for governments to invite interested parties to a public discussion or series of hearings on different aspects of ESG reporting and assurance. Written consultations have their place, but not enough use is made of public fora in our view.

5. Aligning stewardship and CG codes

"Stewardship codes" for investors have swept the region in the past decade

Since the UK adopted in 2010 its first formal "stewardship code" for institutional investors, a reaction to perceived failings to hold banks properly to account in the run up to the Global Financial Crisis, most jurisdictions in Asia have followed suit. The content and structure of most Asian stewardship codes are similar to the UK Code, namely that investors should develop and publicise stewardship policies, manage conflicts of interest, monitor investee companies, engage constructively with them on governance and ESG issues, have a policy on voting and disclosure of voting, and report periodically on these activities. The two elements of the UK code that have proved somewhat troublesome in Asia are notions of collective engagement and the escalation of stewardship, which outlines steps for more active intervention in companies. (Hong Kong and Thailand are exceptions here, as are Japan and Malaysia to a lesser extent.)

Yet CG codes have surprisingly little to say on the new world of stewardship

Despite a broad consensus that investor stewardship has a critical role to play in encouraging better governance among listed companies and probing whether or not they are considering ESG risks and opportunities, the typical CG code in the region has little to say on the subject. Many codes touch upon relations with shareholders and offer a few best practice ideas for running shareholder meetings. But these are established policies that have been in place for 10-15 years.

CG codes should provide explicit support

In line with our arguments on sustainability governance and ESG reporting, it would make sense for CG codes to provide explicit support for the concept of investor stewardship and some guidance as to how companies and their institutional shareholders should engage with each other. While the average stewardship code empowers domestic and foreign investors to act as stewards of listed companies—and implicitly condemns apathy and non-action—it often seems as if directors have yet to get the memo. The volume of engagement between institutions and companies has significantly increased across the region over the past five years, yet ACGA members still report on how frustrating and time-consuming it often is to secure meetings to discuss ESG and governance issues. If investors are mandated by regulators to act, how can companies refuse to meet? If institutional shareholders are truly stewards of companies, how can directors not talk to them?

Japan is one of the few markets to make a clear connection between governance and stewardship

Japan has been one of the few markets to draw a direct link between its CG code and stewardship. In March 2018 it published its "Guidelines for Investor and Company Engagement" in tandem with a revised CG code. According to the Financial Services Agency (FSA), the peak financial regulator, the Guidelines are "intended to be a supplemental document to the Stewardship Code and the Corporate Governance Code". They are brief at only four pages long, but provide a number of agenda items that investors and companies can focus on in their engagement meetings. What is refreshing is that these items all speak to current challenges in corporate governance in Japan, such as cross-shareholdings, CEO succession planning, the cost of capital and capital efficiency, management remuneration, and the appointment of independent directors and "statutory auditors" (Kansayaku) with knowledge of finance and accounting among other necessary skills to do their jobs properly. It is in fact quite rare to learn something about corporate governance in a country from reading its CG policy documents.

6. A focus on investor governance

The internal governance of investment institutions is creeping onto the agenda

An issue likely to attract more attention in the future is the internal governance of institutional investors. Most stewardship codes do not address this directly, but as noted earlier, touch briefly upon management of commercial conflicts of interest. The UK 2012 stewardship code offers just two sentences and a short paragraph that states the problem and urges investors to adopt a policy to manage conflicts. In contrast, its new and heavily rewritten stewardship code of 2020 puts fund governance front and centre (Principle 2 of 12), although the language remains terse.

Asian stewardship codes make brief references to managing conflicts of interest

The comparable language on conflicts of interest in most Asian stewardship codes is a little more descriptive, but still rather generic and abstract. Only the new SEBI code from India in early 2020 and the Thai SEC code from 2017 make an attempt to provide some broad practical suggestions, albeit brief ones. The Japanese code meanwhile states that, "Asset managers should establish and disclose governance structures, such as an independent board of directors or third party committees for decision-making or oversight of voting, in order to secure the interests of clients and beneficiaries and prevent conflicts of interest."

Australia has had a governance code for pension funds since 2017

Australia is the market with the clearest guidance for investors on the importance of fund governance. The first document came from the Australian Institute of Superannuation Trustees (AIST), a representative body for industry pension funds and their directors, in April 2017. Called the "AIST Governance Code", it was voluntary for the first financial year (July 2017 to June 2018), then became mandatory for registered funds from July 2018 onwards. The first two principles speak about 'laying solid foundations for management and oversight' and 'structuring the board to add value'. In other words, a direct focus on the mechanics of fund governance, board leadership and culture.

Australia's stewardship code for investment managers emphasises the importance of internal governance

The second document was a stewardship code for investment managers published in July 2017 by the Financial Services Council (FSC), an industry body. This was called the "Principles of Internal Governance and Asset Stewardship" and took effect from January 2018. The rationale for the focus on internal governance was that, "While stewardship is often focused on the corporate governance of entities that the Asset Manager is invested in, effective internal governance and stewardship requires the Asset Manager to also have robust internal governance practices to ensure they always act responsibly, act in clients' interests and treat clients fairly." The Principles do not specify how an investment manager should establish its governance structure, but asks for disclosure on 12 topics ranging from ethical conduct and personal trading to managing conflicts of interest, risk management and compliance, brokerage and commissions, whistleblowing and so on. Unlike the AIST Governance Code, it does not delve into board and management organisation or leadership.

The two Australian codes are a useful reference

While the structure of the Australian pension industry is quite different from most Asian markets, there is much of relevance in the AIST code for major asset owners in this region. Investment managers in Asia could also find the FSC principles a useful starting point.

7. Improving investor reporting

The quality of stewardship reporting by investors varies widely, even among leading markets

An important part of the stewardship process for domestic institutional investors is reporting publicly on their policies and practices. Not surprisingly, the level and quality of such reporting varies widely around the region. As this year's CG Watch market survey shows, the best performing markets in this regard are Australia, India and Japan. Not too far behind are Korea, Taiwan and Thailand. Further back are Hong Kong and Malaysia. While China, Indonesia, the Philippines and Singapore are barely off the starting grid.

More may be going on than meets the eye, but there is value in reporting publicly

The good news is that more is going on than appears from publicly available documents. However, there is a fundamental value in investors disclosing to the market what they intend to do and what they have done. This is not just about virtue signalling and good PR. Investors can shape the debate about corporate governance and sustainability through their words and actions, including attending AGMs and asking pertinent questions of directors and auditors. Such efforts could help to inform current and future investee companies of what they expect. Public reports also boost the credibility and accountability of the organisation publishing them—as long as they are genuine efforts to report on tangible work done, not marketing spin.

Is it time to collate best practice examples?

One way that official entities responsible for stewardship codes could encourage better reporting is to review the reports that have been published and collate a series of best practice examples. Taiwan is already doing this. Such an approach has been used to good effect by some regulators on listed company CG reporting.

8. Aligning policy aspirations

Regulatory agencies in some markets send conflicting signals on ESG

The thematic disconnect one finds between CG codes, ESG reporting guidelines and stewardship codes is mirrored at the policy level in some markets, where the priorities of different regulatory agencies around ESG and sustainability can vary considerably. Although central banks, financial regulators and stock exchanges in some markets are broadly aligned in their high-level messaging—think Malaysia, Taiwan and Thailand—there is an imbalance of emphasis in others. Hong Kong offers a good example. Since late 2018 government agencies have released a series of major policy papers: a position paper from the Securities and Futures Commission (SFC) in September 2018 titled a "Strategic Framework for Green Finance"; a landmark paper on an ESG strategy for Hong Kong in November 2018 from the Financial Services Development Council (FSDC), a government-appointed think tank; and another paper from the FSDC in July 2020 on how the city could become "the global ESG investment hub for Asia". During this same period, the Hong Kong Monetary Authority (HKMA) steadily increased its commitment to green finance. It announced a three-phase approach to promoting green and sustainable banking at a forum in May 2019, then followed this with circulars outlining its plans in greater detail. In May 2020, for example, it released a self-assessment framework for banks called the "Common Assessment Framework on Green and Sustainable Banking", which was intended to set a "greenness baseline" for regulated institutions. Then in June 2020 it published a "White Paper on Green and Sustainable Banking".

In 2018 the SFC in Hong Kong placed a big bet on TCFD

The intended audience for most of these policy papers included banks, other financial institutions, and the broader listed company sector. Indeed, in its 2018 Strategic Framework, the SFC repeatedly emphasised the value and importance of TCFD disclosure among other things. "The SFC has signed up as a supporter of the TCFD recommendations. The SFC is working with HKEX to consider enhancing listed companies' disclosure of environmental (including climate change-related) information, aiming to align with the TCFD recommendations." The HKMA also became a supporter of TCFD.

This was not reciprocated by HKEX in its revised ESG reporting guide in 2019

Yet HKEX, which sets reporting standards on ESG for listed companies, is clearly more ambivalent about raising the bar too high. In a mid-2019 consultation paper on a revision to its ESG Reporting Guide, the issue of international standards was given limited bandwidth: TCFD and other standards such as CDP, SASB and GRI were briefly explained in the paper but never made it by name into the text of the revised Guide, published in December 2019. Although a new environmental KPI on climate risk disclosure was included, it merely stated that companies should provide a "Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them."

HKEX now includes TCFD in supplementary educational documents only

A couple of months later, the Exchange amended a "Frequently Asked Questions" document on its website to include positive references to TCFD and other international standards. Then in March 2020 it produced its supplementary guidance on the "Leadership Role and Accountability in ESG: Guide for Board and Directors", which includes multiple references to TCFD. These documents are located in a part of the website that contains a series of practical guidance documents on ESG for directors and report preparers, including one on how to report according to the new environmental KPIs. While the Exchange is to be applauded for developing such guidance, these are supplementary educational materials and pack a much smaller policy punch than the Guide itself. One cannot help but conclude that the Exchange, as a commercial entity, is reticent to push its clients too hard. Yet Hong Kong is supposed to be an international financial centre and should surely be aiming higher.

Making connections

The investor consensus is that sound governance forms the basis for effective company management of ESG

Asian capital markets are moving quickly to adopt new policies on green finance and sustainability. ESG reporting is front of mind for many stock exchanges and large listed companies, while institutional investors are increasingly integrating ESG factors into their investment process. At the same time, there is a strong consensus among investors that sound governance must form the basis for effective company strategies and action on issues like climate change and other sustainable development challenges and opportunities. How can companies make decisions, implement those decisions, and sustain any strategic focus without an effective governance and management structure in place? Form often precedes function—or at least offers companies new and better ways of doing things. For example, in place of instinctive and conservative decision-making on climate change strategy by an individual controlling shareholder it could make sense to form a sustainability committee that has a greater capacity to think independently about the options and make more forward-looking and informed decisions. To move this process forward, we believe that policymakers should clarify and strengthen the connections between the new world of ESG and sustainability policy and the established systems of corporate governance. Today's fragmented approach sends mixed signals to the market, arguably impedes improvement in sustainability governance within companies, and leaves a lot to luck and chance.

Markets overview

Small differences in overall market scores hide some big variations in stakeholder category performance. Politics undermines corporate governance in Southeast Asia. Overall we see an improving trend in market scores.

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Once again, the excitement in this year's CG Watch 2020 race is not at the front or back of the pack, but in the middle. Taiwan has made a concerted effort over the past two years to enhance its CG ecosystem and moves from 5th to 4th, edging ever closer to Hong Kong and Singapore. Japan has rebounded with a sustained effort across several of the stakeholder categories in our survey and rises from equal 7th to equal 5th. At the top of the ranking, Singapore's score is now so close to Hong Kong that both rank equal 2nd.

Among the decliners, it is no surprise to see Malaysia falling from 4th to equal 5th, nor Thailand dropping from 6th to 8th. Both countries have suffered badly from political upheaval, cronyism and corruption over the past year or more. Malaysia is the saddest case, since its direction of travel two years ago was widely seen as one of the region's bright spots.

The rankings of the remaining markets are unchanged. Australia is 1st with a commanding 11-percentage point lead. India stays at 7th and Korea at 9th, albeit both with improved scores. Indeed, India is still hot on the heels behind Japan, while Korea wins the prize this time for most-improved market in percentage-point terms. China holds down 10th place and the Philippines at 11th, both on slightly higher scores. And Indonesia is 12th with little difference in score.

Tight total scores mask some big variations in category performance

Figure 3

CG Watch 2020 market rankings and scores

Market	Total (%)	Macro market highlights
1. Australia	74.7	Banking commission spurs enforcement, still no federal ICAC
=2. Hong Kong	63.5	New audit regulator, enforcement remains strong, ICAC disappoints
=2. Singapore	63.2	Enforcement firming, rules improve, company disclosure disappoints
4. Taiwan	62.2	Big CG reform push on multiple fronts, rules still complicated
=5. Malaysia	59.5	Political turmoil erodes government scores, other areas hold steady
=5. Japan	59.3	Ahead on climate change reporting, behind on company CG disclosure
7. India	58.2	New audit regulator, civil society surges, public governance disappoints
8. Thailand	56.6	Political turmoil erodes government scores, rules strong, investors improve
9. Korea	52.9	Public governance strengthens, CG disclosure improves, regulatory opacity
10. China	43.0	Forging its own governance path, still waiting for ESG reporting guidelines
11. Philippines	39.0	Stronger regulatory focus on CG, investors and civil society disappoint
12. Indonesia	33.6	CG reform continues to struggle, some stronger rules, new e-voting system

Note 1: Total market scores are not an average of the seven category percentage scores. They are instead an aggregate of all the points received for the 119 questions in our survey, then converted to a percentage and rounded to one decimal point. Total points for each market out of 595 was as follows: Australia (441); Hong Kong (378); Singapore (376); Taiwan (370); Malaysia (354); Japan (353); India (346); Thailand (337); Korea (315); China (256); Philippines (232); and Indonesia (200).

Note 2: Since the score differences between Hong Kong/Singapore and Malaysia/Japan as less than 0.5 ppt each, we have ranked them equally.

Source: ACGA

As the analysis in this chapter shows, total scores and rankings hide significant differences in market performance across the six "stakeholder" categories in our survey and the one thematic category on CG Rules. There is variation both within and between markets. Australia is still weaker than one might expect in Government & Public Governance, while Taiwan outperformed Hong Kong here following concerted government efforts to align their regulatory regime to their commitment to CG policy, focus more on bank governance, and raise standards of state enterprise governance and disclosure. Despite being international financial centres, Hong Kong and Singapore continued their lukewarm performances in the Investor category, being comfortably beaten by Australia, Japan, India, Korea and Malaysia. Meanwhile Japan rated lower for corporate disclosure in the Listed Companies section than its overall ranking would predict.

The following table shows changes in market rankings and the categories that most hold each market back.

Singapore, Taiwan and Japan have moved up the rankings, while Malaysia and Thailand have declined

Figure 4

Changes in market rankings / Underperforming categories

Blue = Rising market	Red = Falling market	
2018	**2020**	**Underperforming categories 2020**
1. Australia	1. Australia	Government & Public Governance; Regulators
2. Hong Kong	=2. Hong Kong	Investors; Listed Companies
3. Singapore	=2. Singapore	Investors; Listed Companies
4. Malaysia	4. Taiwan	Investors; CG Rules
5. Taiwan	=5. Malaysia	Government & Public Governance; Civil Society
6. Thailand	=5. Japan	Listed Companies
=7. Japan	7. India	Government & Public Governance; Investors
=7. India	8. Thailand	Government & Public Governance; Civil Society
9. Korea	9. Korea	Civil Society; CG Rules
10. China	10. China	Investors; Civil Society
11. Philippines	11. Philippines	Investors; Civil Society
12. Indonesia	12. Indonesia	Investors; Regulators

Source: ACGA

The impact of politics

Politics can have a profound effect on corporate governance, but it is not always easy to see

The impact of politics on corporate governance is challenging to assess. In markets where there is a large state enterprise sector and plenty of opportunity to appoint people to the boards of such companies, as in Malaysia, a change of government and ideology can have a direct and quite sudden impact on corporate governance and organisational leadership. In places with a smaller listed SOE sector, such as Thailand, the impact is likely to be more subtle and will likely play out through changes in government capital market policy, the degree of commitment to anti-corruption efforts, the behaviour of the judiciary, and the extent of press freedom. These issues are explored in more detail in the respective market chapters for Malaysia and Thailand.

CG Watch examines public governance as it relates to corporate governance and capital market regulation

Our focus in CG Watch is on public governance as it relates to corporate governance and capital markets. We examine how government CG and capital market policy may be changing, the level of political support for financial regulators, and the independence of funding for securities commissions. We also look at progress made in the fight against public- and private-sector corruption, how the judiciary handles company and securities law cases, and whether the government to committed to improving state enterprise transparency and accountability. We do not assess the way in which the judiciary manages court cases of a political nature or whether its independence in this respect has been compromised. Nor we do we try to judge how broader political trends or unrest might affect the investment environment in future. The ranking in CG Watch is a review of a two-year period and this year's survey is relevant up to mid-November 2020.

Political unrest in Hong Kong has not stopped CG and ESG reform

This raises the question of where Hong Kong stands in terms of its Government & Public Governance score. Having been rocked by months of protest in the second half of 2019, followed by Beijing's imposition of a national security law in May 2020, one might imagine the score to have plummeted. In fact, it increased slightly and for reasons that had nothing to do with either of these two events. One is technical: scores for a small number of Hong Kong-related questions were adjusted in line with changes made in our scoring methodology this year. A second factor is that political unrest has not greatly affected the ability of the financial regulator to do its job, nor the ongoing reform of CG rules, the enhancement of ESG reporting or a major new emphasis on green finance. Moreover, the most negative CG policy development in Hong Kong in recent years, the introduction of "weighted voting rights" (WVR) or dual-class shares, predated the unrest by a year.

But complacency is not in order

These comments are not intended to suggest complacency. International investment funds continue to flow to Hong Kong but could be affected in future by further political changes in the city, a perception that the rule of law has weakened materially, or continued geopolitical tensions. Moreover, it is worth emphasising that Hong Kong has underperformed in aspects of our Government & Public Governance category for some time, in particular the lack of a clear strategy from government on its vision for corporate governance and how Hong Kong can continue to differentiate its capital market from Shanghai and Shenzhen. Its answer to becoming more competitive was to introduce WVR - a challenge to which Shanghai quickly responded. As we argue in our "Future promise" chapter, there is a lot more that Hong Kong could be doing to boost its competitive position as the international financial centre in China.

Our scoring approach has become more granular

Scoring methodology

While there have been no changes in the structure of this year's survey, the basic list of questions or our six-point scoring system (0-5), we have introduced a more granular method for scoring each question. Each question now has a more detailed list of between four and six sub-components that guide our research and against which we assign positive or negative scores. Our aim is to produce a more consistent and precise approach to scoring across markets.

As a team, we start to carry out the research for our individual markets in 2Q and then come together on a regular basis in 3Q and 4Q to compare scores and iron out issues with the scoring methodology. The end of the process is a series of detailed discussions—this year spanning more than two weeks—where we discuss the scores for each question and market. Our aim is to be accurate in terms of local market rules and conditions, and fair in how we judge markets on a comparative basis.

A perennial challenge in doing CG Watch is that regulators sometimes feel their market is not being properly recognised for efforts made in CG or ESG reform. Our response is that we judge each market by the same criteria and, while we recognise and give points for effort, we are also seeking to score markets in terms of actual progress (not future potential) and the objective or current status of their CG regulatory system and environment.

Category scores

The specific scores that each of the 12 markets in our survey achieved in our seven categories is as follows. Note that some categories are made up of two sub-categories:

Auditors is the highest scoring category, followed by CG Rules. The Investor category remains the lowest

Figure 5

Market scores by category

(%)	AU	CH	HK	IN	ID	JP	KR	MY	PH	SG	TW	TH	Regional average
1. Government & public governance	68	29	65	45	31	60	60	32	28	60	68	35	48
2. Regulators	65	52	69	53	24	62	53	53	27	63	66	51	53
- Funding, capacity, reform	*62*	*42*	*62*	*51*	*31*	*58*	*45*	*53*	*27*	*56*	*62*	*47*	*50*
- Enforcement	*68*	*64*	*76*	*56*	*16*	*66*	*62*	*54*	*26*	*70*	*70*	*56*	*57*
3. CG rules	82	63	75	69	35	58	56	77	45	75	66	76	65
4. Listed companies	79	51	59	65	38	44	48	66	55	60	63	60	57
5. Investors	66	18	34	44	19	60	44	43	21	39	38	38	39
6. Auditors & audit regulators	86	43	81	54	59	77	70	86	60	81	76	76	71
7. Civil society & media	80	22	60	78	38	62	36	44	36	64	62	49	53
Total	74.7	43.0	63.5	58.2	33.6	59.3	52.9	59.5	39.0	63.2	62.2	56.6	55

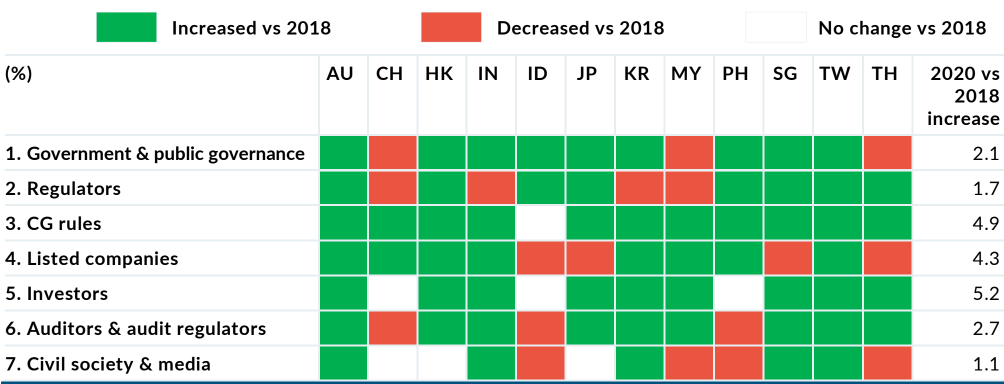
Source: ACGA

Before delving into an analysis of the main changes in each category, which markets have improved or declined, we would like to show a "heat map" of the category scores compared to 2018. A turquoise shade means the score in 2020 has improved over 2018, while an orange shade indicates it has declined.

Clear improvement across the region over the past two years

Figure 6

Market category heat map: 2020 vs 2018



Source: ACGA

There are three possible explanations for these improved scores

As the map shows, most scores have increased compared to two years ago. There are three possible reasons for these changes:

- ❑ The score was incorrect in 2018 and has since been adjusted.
- ❑ Our more granular scoring methodology in 2020 has resulted in a general uplift in scores.
- ❑ There has been a genuine improvement in market performance.

Some scores have been corrected . . .

Our view is that all three reasons play some part in the higher scores in 2020. We have adjusted scores upwards where errors were made in 2018, although the number of questions affected is relatively small. We will highlight these corrections in our market chapters.

. . . other scores have benefited from changes in our system

In terms of methodology, it seems reasonable to conclude that the higher average increase in scores in CG Rules and Investors, a certain uniformity in the large score increases across several markets, and the fact that all markets but one in CG Rules and nine out of 12 in Investors went up suggest that our scoring system was part of the equation. It was also likely part of the equation in Listed Companies, where the average score increase was almost as high, and eight out of 12 markets increased in score in 2020.

Tangible reforms have also led to improved scores

We nevertheless believe there is more to it. A range of improvements have been made in CG rules across the region over the past two years, in particular the standards for ESG and sustainability reporting, updated CG codes of best practice, new or revised stewardship codes, tighter definitions for independent directors, executive remuneration disclosure and so on. Substantive changes are also evident in the voting and engagement practices of institutional investors, as well as the quality of corporate disclosure around climate change and sustainability issues. Civil society groups are becoming more active. Financial regulators continue to get better at enforcement. And audit regulation is becoming more sophisticated and transparent. In short, there is a good story to tell alongside the methodological technicalities.

Category scores and themes

The comparative market scores for 2020 for each category and high-level themes emerging are as follows:

1. Government & public governance

Scores for the top six markets all improved

Australia and Taiwan top the scoring at 68%, with Hong Kong not too far behind at 65%. Japan, Singapore and Korea achieved the same score of 60%. The top six markets all improved in score, with the biggest change seen in Korea. India's score also rose, as did those for Indonesia and the Philippines. Thailand and Malaysia both declined significantly, due to the political upheavals discussed above, while China's score was marginally lower than in 2018.

Yet most governments still do not have a clear strategy on corporate governance

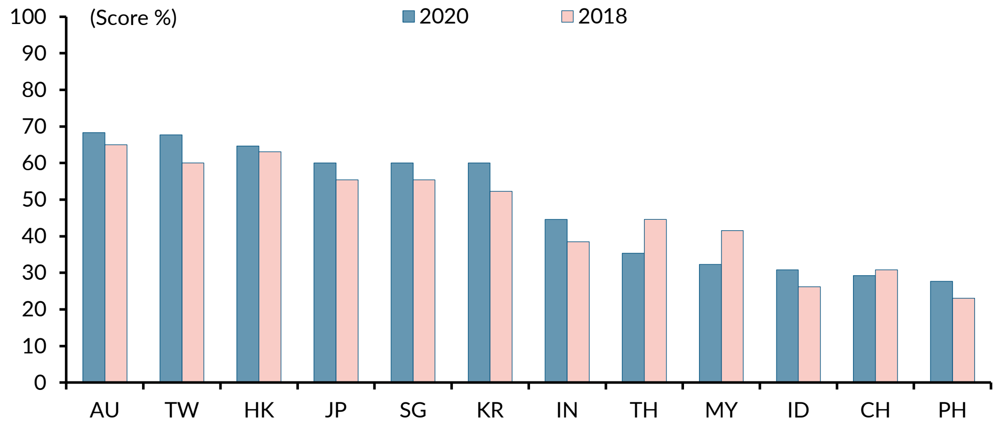
Scores improved for a range of reasons, including more political support for regulatory enforcement, better funding for regulators, or an enhanced focus on bank governance. Yet we continue to believe that most governments do not have a clear strategy for developing corporate governance and building on it as a source of competitive advantage in their capital market. Taiwan, Korea, and to a lesser extent Japan, are exceptions here. While most Asian governments are excited about the possibilities of ESG and green finance, official policy towards CG is often contradictory. This is evident either in policies that directly undermine aspects of CG, such as dual-class shares, or in non-action on thorny issues of shareholder rights.

The fight against corruption is not improving in most markets

Another area of concern is the fight against corruption. Scores in nine out of 12 markets either stayed the same or declined in our question on the existence and powers of an independent commission against corruption.

Figure 7

Government & public governance: scores by market, 2020 vs 2018



Source: ACGA

2.1 Regulators: Funding, capacity-building and regulatory reform

Japan and Singapore saw the biggest increases in score

The picture here is broadly one of two groups: the top five markets and the bottom two all improved in score, while the remainder fell. The biggest increases were seen in Japan and Singapore, while the biggest decreases in Malaysia, India and Korea.

Funding is strong or improving in six markets

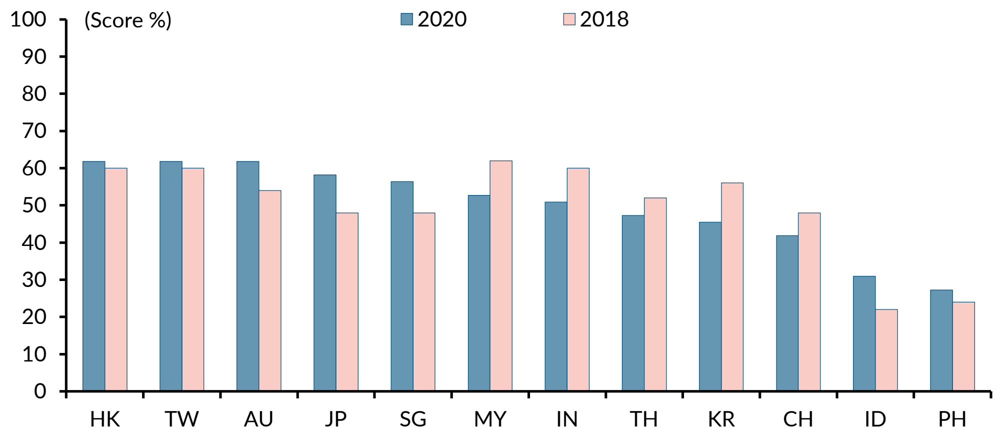
Hong Kong, Korea and Thailand have always done well on our question about the funding of securities commissions, while scores improved in Australia, Japan and Taiwan. One of the reasons these markets do relatively well is that they publish quite detailed figures on their main regulator's operating income and expenses, the size of budgets is increasing over time, and it appears they have sufficient resources to do their jobs. Other markets, such as Singapore, publish minimal budgetary information. It would have scored even higher for this category if more data were available.

Yet assessing the sufficiency of regulatory resources remains difficult

Nevertheless, we continue to have doubts about the sufficiency of regulatory funding in many markets—even some of the better scoring ones. The fact is that there is no agreed formula for calculating what a securities commission's budget should be given the scope of its responsibilities, the size of the domestic securities market, the number of regulated entities, living costs and so on. The picture is even more opaque at the stock exchange level, both because these organisations are for-profit entities for the most part and disclose even less information on budgets and resources than securities commissions.

Figure 8

Regulators - funding, capacity-building and regulatory reform: scores by market, 2020 vs 2018



Source: ACGA

Enforcement is a higher scoring category than regulatory funding, reform

2.2 Regulators: Enforcement

In line with the results of previous CG Watch surveys, scores for enforcement are generally higher than for regulatory funding, capacity building and reform—with the average for the 12 markets being precisely seven percentage points higher (see Figure 3). It is also worth noting that while the regional average score for the former sub-category did not improve in 2020, it increased by four percentage points for enforcement.

Regulators often have more latitude to do their enforcement job

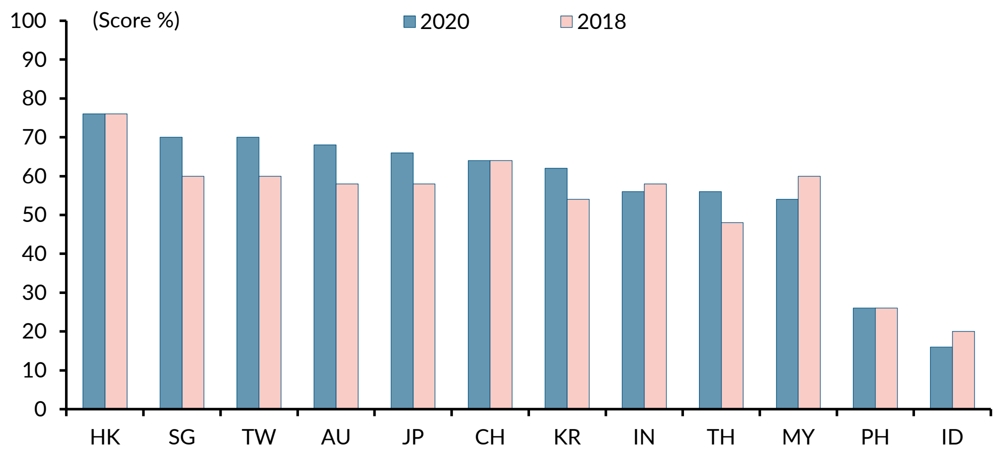
Our interpretation of these results is similar to the point we made in CG Watch 2018: while securities commissions and stock exchanges may struggle to win extra funding and carry out reform in the face of entrenched opposition from vested interests, it is harder to object to regulators playing a disciplinary role—especially if the market has suffered a few corporate scandals and members of the public have lost money.

Six markets are improving in their enforcement scores

Perhaps most pleasing about these results is that in addition to Hong Kong's high score another six markets have shown improvements in score and are catching up to Hong Kong. China meanwhile continues to hold its own.

Figure 9

Regulators - enforcement: scores by market, 2020 vs 2018



Source: ACGA

The CG Rules category assesses rules on paper, not in practice

3. CG rules

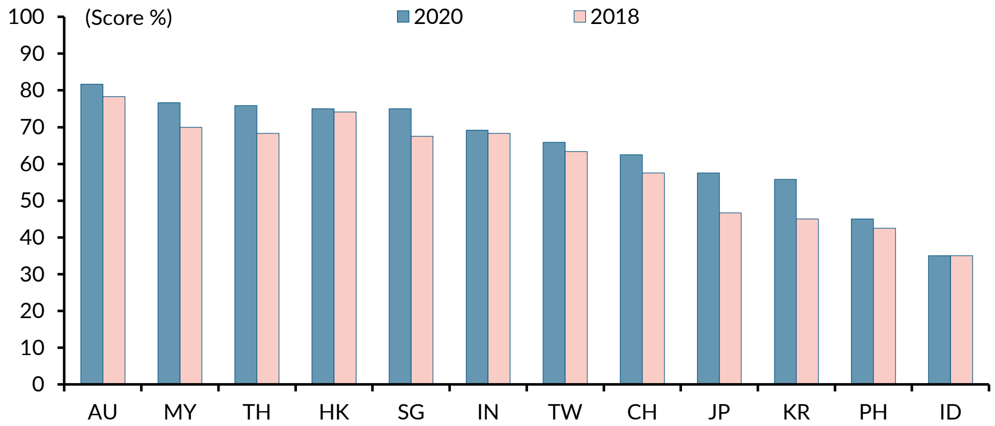
This is one of the higher scoring categories in our survey and, as noted above, has benefited from the more granular scoring methodology we are using. It is important to note that this category assesses rules on paper, not the implementation or enforcement of those rules. Australia continues to lead the way followed this year by Malaysia and Thailand, which despite their political challenges have long had a solid set of laws and regulations. Hong Kong and Singapore are slightly behind.

A score of 70% is considered a "good" performance for rules

We would argue that a score of 70% or more represents a good outcome in this category, meaning that the above five markets are doing well and India, at 69%, is almost there. Taiwan is at 66% and China at 63% still have a little way to go. The remaining markets have more work to do. It is worth highlighting, however, that while Japan and Korea are both below 60%, their scores have increased significantly compared to 2018. This is a combination of our new methodology, some score corrections, and a number of rule improvements.

Figure 10

CG rules: scores by market



Source: ACGA

4. Listed companies

Our company scores are drawn from a joint ACGA/ARE survey

This part of our survey is based on scoring undertaken through a separate underlying survey devised and carried out in conjunction with Asia Research & Engagement (ARE), our partner organisation based in Singapore. The survey assesses 15 large caps per market selected from the top 50 and a further 10 mid-caps per market.

The ranking of markets differs from other categories

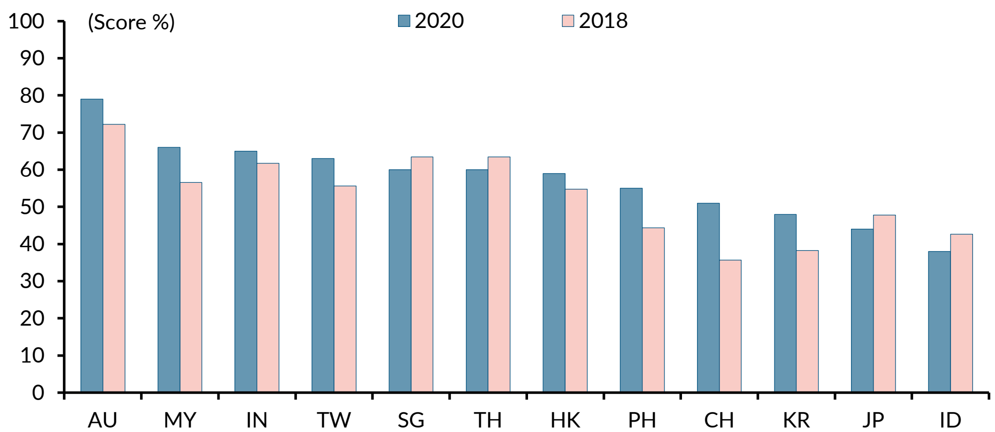
What is striking about the chart below is that, with the exception of Australia, the ranking of markets by total score differs noticeably from the Government, Regulators and CG Rules sections. Hence, Malaysia, India and Taiwan rank above other markets and on increased scores. Singapore and Thailand lost points in 2020. Hong Kong ranks in the bottom half of the pack and Japan comes second last.

We see some genuine improvement in corporate reporting, but still a lot of boilerplate

Our survey assesses a range of governance areas, including corporate reporting on key financial metrics, governance and ESG/sustainability, as well disclosure on board practices such as training, board evaluation, remuneration policy, and so on. While our view is that disclosure is broadly improving in real terms—eight of the 12 markets saw an increased score compared to 2018 and there is evidence of objectively better company reports—the regional average of 57% indicates there is a great deal of room for improvement. The best companies are producing excellent and informative reports. Unfortunately, the volume of boilerplate and generic disclosure remains high.

Figure 11

Listed companies: scores by market, 2020 vs 2018



Source: ACGA, ARE

Only two markets stand out for Investors . . .

. . . but nine markets show improved scores

Stewardship codes and the management of ESG is driving higher scores

5. Investors

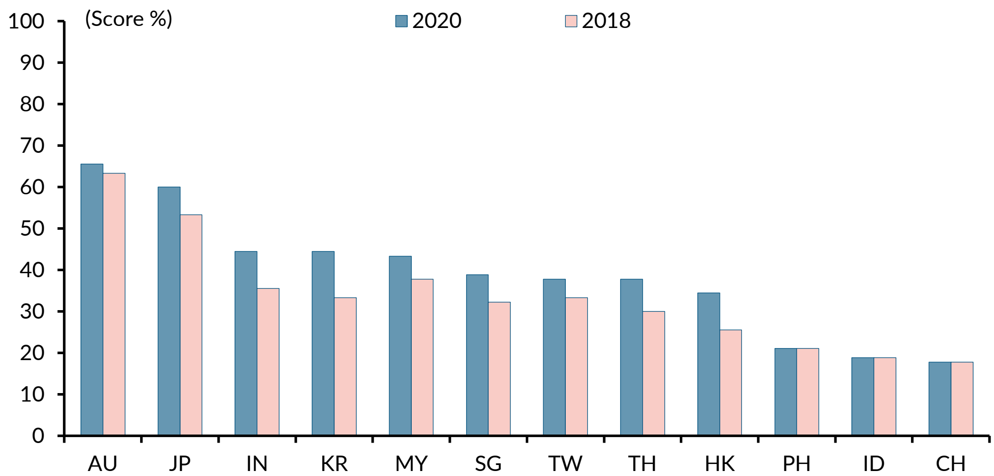
Our lowest scoring category again, as a quick glance at the chart below will indicate. Only two markets stand out—Australia and Japan.

Despite the low overall scores, however, the good news is that the majority of markets have increased their scores relative to 2018—something we believe is largely due to genuine improvements, not scoring methodology. Moreover, three markets retained the same score and none declined.

The primary reason for this consistent result is the pressure both domestic and foreign institutional investors are under to implement "stewardship codes", which in practice means developing new policies on CG/ESG, voting more actively at AGMs and EGMs (including voting against management resolutions and disclosing how they have voted on company resolutions), communicating more often with companies about the latter's CG and ESG performance and organising "engagement" meetings, and producing reports on what they have achieved. In short, institutions need to show they are serious about "responsible investment", that they have plans in place to manage ESG risks in their portfolios, and they have a capacity to engage with companies on environmental, social, and governance issues. (It should be noted that our assessment of Asian markets in this regard includes the behaviour of both domestic and foreign investors.)

Figure 12

Investors: scores by market, 2020 vs 2018



Source: ACGA

All markets have signed up to international standards of accounting and auditing

Hong Kong and India finally have independent audit regulators

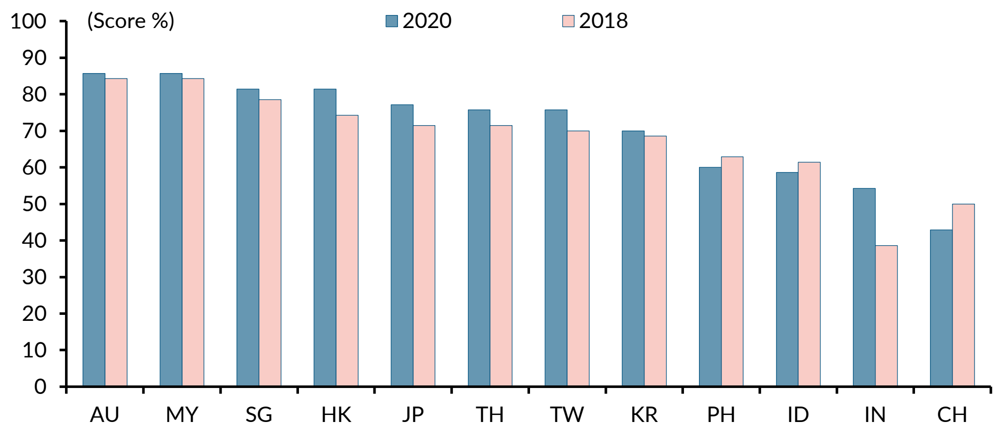
6. Auditors & audit regulators

This is the highest scoring category in our survey because we assess a range of standards and practices that all markets follow or at least sign up to, namely international standards on accounting and auditing, the creation of independent audit regulators (often called "audit oversight boards" or AOBs), the drive for higher quality audits of listed-company financials, and a more transparent and accountable auditing process.

The main news in this category since our last CG Watch report is the arrival, after an interminable wait, of independent AOBs in Hong Kong and India. This accounted for a large part of the increased scores in both markets. But the chart also shows a clear improvement in the scores for Japan, Thailand and Taiwan.

Figure 13

Auditors & audit regulators: scores by market, 2020 vs 2018



Source: ACGA

7. Civil society & media

There is a wide disparity in civil society scores in Asia-Pacific

The main visual feature of this part of our survey is the wide disparity between the highest and lowest ranking markets. It is not a great surprise that Australia and India do well, given the vibrancy of their non-profit sectors, well-established professional institutes and industry bodies, and their open media. Singapore, Japan, Taiwan and Hong Kong also have quite robust civil societies, with non-governmental groups playing an important role in promoting CG and ESG, undertaking training, and contributing to regulatory consultations and government committees.

Taiwan enjoyed the biggest increase in score

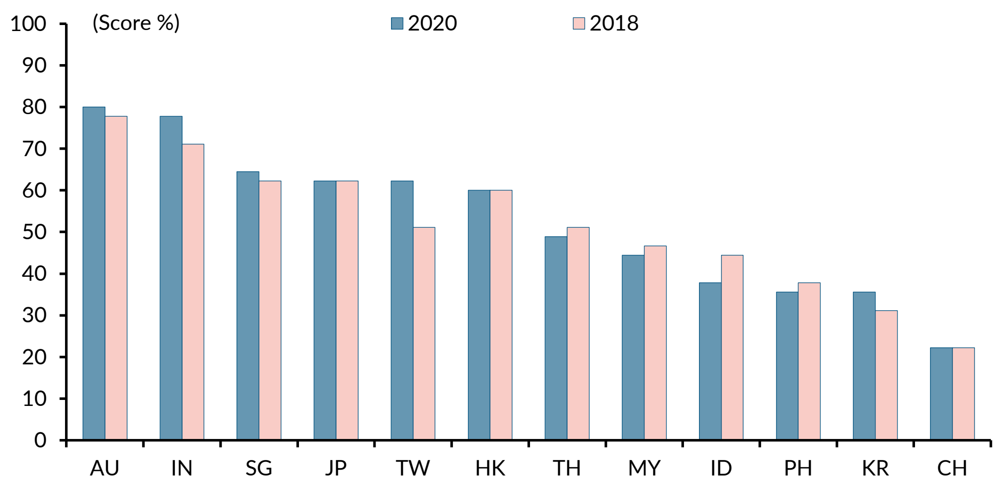
Taiwan is the market with the biggest increase in score here. Unfortunately, we see some deterioration in Malaysia and Thailand for reasons given above, while Indonesia and the Philippines have also slipped. Although ranked low, Korea is improving. China's score remains unchanged.

Media scores largely deteriorated

As for the media, we have serious concerns about its current trajectory around the region. No market saw an increase in score for our question on how active and impartial media is in its coverage of CG events, while five markets saw their scores fall. The picture was even worse in terms of how skilled media coverage is of CG issues, with seven markets seeing a drop in score.

Figure 14

Civil society & media: scores by market, 2020 vs 2018



Source: ACGA

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The sectoral view - CLSA

The proliferation of popular theme-based portfolios and specialised sector-focused funds looking to maximise alpha generation has sparked a renewal of interest in sector-based research over simple market-based categorisation. In a similar light, we believe it makes sense to look at corporate governance performance through the prism of sector classifications. By building on the market-based work provided by ACGA in our ongoing partnership, we hope this fresh and alternative approach can deliver enhanced tools and perspectives for investors.

A fresh look: CG analysis by sectors

Sector groupings

We group sectors into 13 broad categories

We group sectors into 13 broad categories based around business models, services and product offerings. It starts with analysts' designation of sector for their companies they cover.

We also group some adjacent sectors, such as materials with capital goods; internet and media with telecoms. We have also made subjective reallocations to move some companies from their original sector designations to reflect earnings growth drivers and themes. Examples include battery-related stocks originally listed as tech businesses (e.g. SDI, CATL) or autos (BYD) being reclassified in the petro and chemical sector group. Another example is duty-free-related stocks listed under hotel and leisure, such as Hotel Shilla, now moved to reside with other consumer names.

In total, CLSA covers 1,162 stocks across 13 different countries (including China A-shares). Figure 15 breaks down our sectors groupings by number of companies and aggregate market cap.

Figure 15

Sectors and number of companies

	Sectors	Number of companies	% of total companies	Market cap (US$bn)	% of total market cap	Number of markets (out of 13)
1	Autos	43	3.7	598.8	3.7	8
2	Consumer	217	18.6	2,442.4	15.0	13
3	Healthcare and Pharma	77	6.6	937.9	5.8	12
4	Energy	44	3.8	896.1	5.5	9
5	Power and Utilities	51	4.4	382.8	2.3	9
6	Property	144	12.4	889.1	5.5	10
7	Technology	139	12.0	2,290.1	14.0	11
8	Financial Services and Insurance	110	9.5	2,749.0	16.9	11
9	Hotels & Leisure	38	3.4	288.2	1.8	12
10	Materials and Capital Goods	121	10.4	845.8	5.2	12
11	Transport and Infrastructure	39	3.4	190.2	1.2	10
12	Internet, Media and Telecoms	106	9.1	3,516.4	21.6	12
13	Conglomerates	33	2.8	281.3	1.7	9
	Total / Average	1,162	100.0	16,308.1	100.0	

Source: CLSA

Fund flows into EM ESG funds have been "exponential"

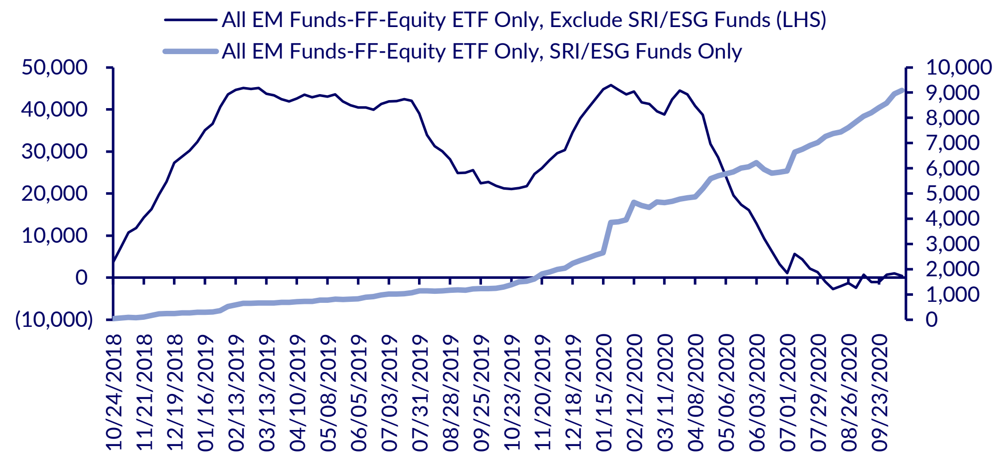
But first - ESG and alpha

Readers of this report will be probably well aware by now that ESG fund inflows have been increasing during the year of pandemic. In fact fund flows into SRI/ESG-themed emerging market (EM) equity funds and exchange-traded funds (ETFs) have increased almost fourfold since January until end of September this year..

ESG/Sri fund inflow has 4x since January

Figure 16

Fund flows into EM. ESG/SRI vs ex SRI/ESG funds



Source: CLSA, EFPR Global

Connecting good corporate governance companies with share price performance is ultimate goal for sustainable investing

There are mixed views over whether ESG performance translates directly to improved share price performance. We decided to track the past five years' worth of share price performance with our own ESG scores in 2020.

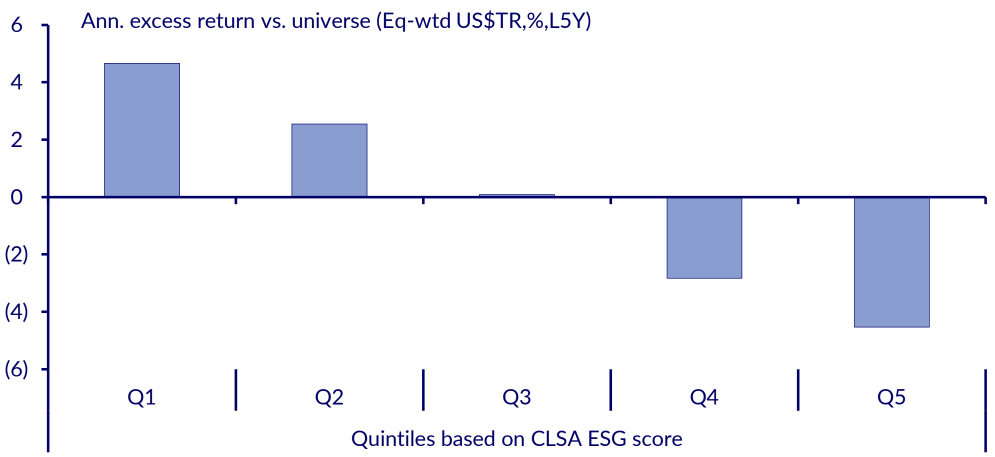
High ESG scorers outperformed the worst by 9%

In order to track performance, we divided our coverage universe into quintiles based on their latest ESG scores, and compared the average share price performance of each quintile over the past five years. We found that the top quintile by ESG score alone outperformed the bottom by 9% over the period, and found this to be consistent even when we separate by market or by sector.

Top quintile outperformed the bottom by 9%

Figure 17

Annual excess return vs universe average return (5y equal weighted) based on CLSA scores



Source: CLSA evalu@tor

CLSA's CG questionnaires consists of 27-28 questions for analysts

CLSA CG Questionnaires

We have not made changes to our questionnaire since 2016. This is mainly to prioritise consistency and trend analysis for sectors as we change our analytical approach from market-based to sector-based. As we establish the status of corporate governance within individual sectors, we will revisit our questionnaires deliver more specific insight in each sector, as we have done with environment and social scores by sectors.

Which is split up into five principles of corporate governance

The survey is split into five sections: discipline, transparency, independence, responsibility and fairness. Each is composed of three to seven questions, and contributes 18% to our blended ESG score to make up to 90% of the total score. The remaining 10% comes from our Environment and Social scores. CG questions are the same across all sectors, but vary by sector for the E&S components.

The full list of questions as well as guidelines are summarised in our previous 2018 CG Watch report. Figure 18 provides an overview of the main topics covered in each section and the number of questions that analysts are required to answer.

Figure 18

CLSA CG Watch questionnaires and design

Sections	Weighting (%)	Number of questions	Core issues addressed
Discipline	18	6	Management sticks to clearly defined core businesses with discipline not harm the interests of shareholders and is free from government interference
Transparency	18	5	Management provides timely disclosures without controversial accounting and provides good access to senior management
Independence	18	6	Board acts in independent way, with proper checks and balance mechanisms through independent audit committees including board diversity measures
Responsibility	18	3	Management's interests is aligned with listed company and there has been no misconducts by management or related party transactions which harmed the interests of minority shareholders
Fairness	18	4	There has been no conflict of interests between board and senior members and the company does not have weighted vote structure with fair compensation.
Environment/Social	10	3-4	Whether the company in question strives to promote environment protection and ethical business practices that are specifically relevant to its sector.
Total	100	27-28	

Source: CLSA

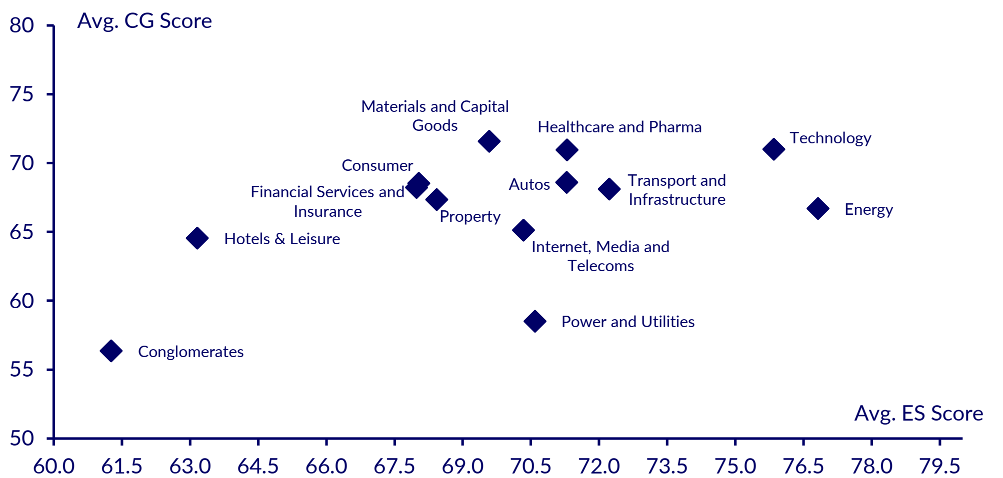
Technology sector showed higher scores on balanced CG and ES scoring, while conglos were at the opposite end of spectrum

CG Watch 2020-Sector survey results

In our first sector survey analysis, overall aggregate scores from the entire universe of 1,162 stocks under CLSA coverage broken down into 13 sector groups averaged a score of 68, which represents a 7.2% improvement from 2018 scores on a like-for-like basis, and a 6.9% uptick in terms of the overall universe (entire coverage including stocks that have been dropped).

Figure 19

Sector score distribution – Corporate governance vs Environment & Social

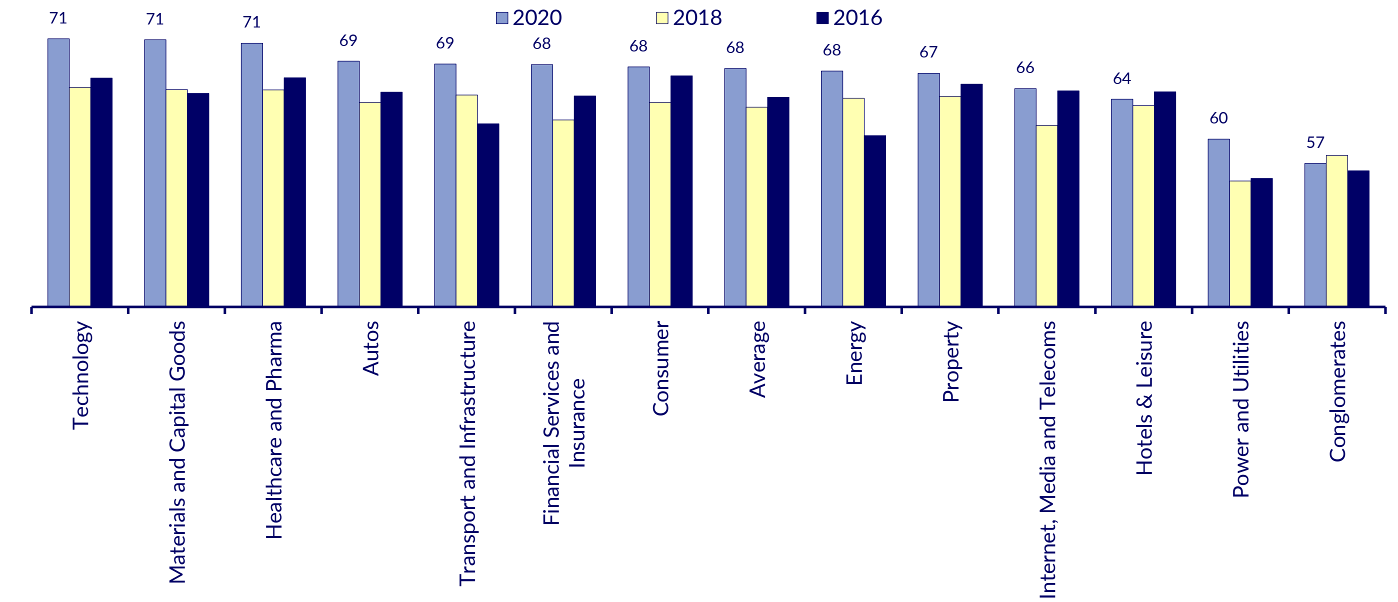


Source: CLSA

This is a meaningful rebound from 2018 compared with 2016, when the average score declined by 1.6% due to stricter interpretation of "independence" as well as "comply or explain" mechanisms introduced to enforce more rigorous quality assurance.

Figure 20

CG Watch score trends by sectors



Source: CLSA

Financial services and insurance sectors have improved the most

The financial and insurance sector group showed the biggest score gains compared to 2018, materially improving scores on independence and fairness. Power & utilities came second, although margins were slim with materials, technology and healthcare. Out of five CG criteria, one specific criteria that showed the noticeable improvements across the board was independence, although this continues to be the lowest scoring element.

Unsurprisingly, sectors that have improved less-than-average are the ones which scored below-average in the overall ranking tables as well. The worst performers are energy, hotels & leisure, property and conglomerates.

Figure 21

Score change (%) vs 2018 by sectors

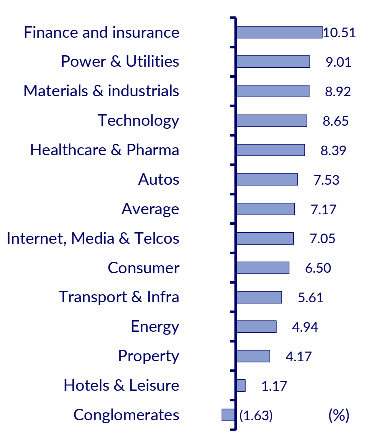


Figure 22

. . . and by individual sections

Change vs 2018 (%)	Responsibility	Transparency	Discipline	Fairness	Independence	CG (90%)	ES +(10%)	2020 =ESG
Finance & Insurance	1.0	9.7	8.9	12.4	25.4	10.9	6.8	10.5
Power & Util.	27.9	7.7	(3.2)	4.4	12.6	8.0	(0.9)	9.0
Materials & Indsutrials	16.1	5.5	7.3	13.1	18.5	11.5	0.2	8.9
Technology	1.0	15.5	0.3	5.9	25.5	7.6	2.4	8.7
Healthcare & Pharma	(3.2)	5.2	4.8	2.4	8.5	2.9	4.6	8.4
Autos	27.6	11.2	3.6	2.8	(0.8)	9.0	0.7	7.5
Average	9.7	6.9	4.0	5.5	13.0	7.4	3.0	7.2
Internet/Media/Telcos	8.3	8.9	13.8	5.1	4.7	8.0	3.0	7.0
Consumer	10.3	6.0	1.1	6.6	20.0	7.9	(0.2)	6.5
Transport & Infra.	16.2	8.6	5.1	4.8	9.9	8.7	8.2	5.6
Energy	9.9	0.2	17.2	1.9	3.6	5.5	(1.7)	4.9
Property	30.6	(2.2)	(0.8)	(2.9)	(3.5)	2.2	13.8	4.2
Hotels & Leisure	19.3	4.6	2.4	(4.7)	4.0	4.0	3.8	1.2
Conglomerates	(3.5)	7.4	5.8	(7.9)	(6.2)	(1.2)	(1.6)	(1.6)

Source: CLSA

Asia businesses continue to do well in fairness and transparency . . .

. . . less so on independence and discipline

Breaking down the results further, Asian companies scored highly in terms of fairness and transparency, while scoring lower on independence and discipline. This is consistent with our findings in 2018. Analysts' collective scoring suggest that companies in general score well when it comes to minimising conflicts of interests and fair compensation (fairness), as well as timely reporting and access to management (transparency). However fewer conflicts of interests can also lead to a culture of boardroom inactivity lowering scores for independence. The importance attached to "saving face" in markets such as Korea, Japan and China is also likely to have played a role, while board member positions are often filled by retired management staff and former long-term employees.

Figure 23

2020 CG watch score breakdown by sectors

2020	Responsibility	Transparency	Discipline	Fairness	Independence	CG (90%)	ES + (10%)	2020 = ESG
Technology	77.6	70.0	70.2	89.1	48.1	71.0	75.8	71.5
Materials & Industrials	67.9	77.6	68.3	89.2	54.9	71.6	69.6	71.4
Healthcare & Pharma	79.7	75.3	60.4	85.6	53.7	70.9	71.3	71.0
Autos	74.1	77.7	69.4	84.0	37.8	68.6	71.3	68.9
Transport & Infra.	70.8	80.0	56.8	80.6	52.3	68.1	72.2	68.5
Finance & Insurance	59.4	79.6	56.9	88.7	58.0	68.5	68.0	68.5
Consumer	72.1	69.7	64.5	84.2	50.5	68.2	68.0	68.2
Energy	59.7	74.2	57.7	91.5	50.3	66.7	76.8	67.7
Property	59.8	78.7	57.1	85.8	55.4	67.3	68.4	67.5
Internet/Media/Telcos	67.9	77.0	55.9	78.6	46.1	65.1	70.3	65.6
Hotels & Leisure	60.5	74.7	54.5	79.5	53.5	64.5	63.2	64.4
Power & Util.	43.8	73.0	51.1	76.1	48.5	58.5	70.6	59.7
Conglomerates	52.5	70.2	44.9	69.7	44.4	56.4	61.3	56.8
Average	**67.1**	**74.8**	**61.1**	**84.7**	**51.2**	**67.8**	**69.9**	**68.0**

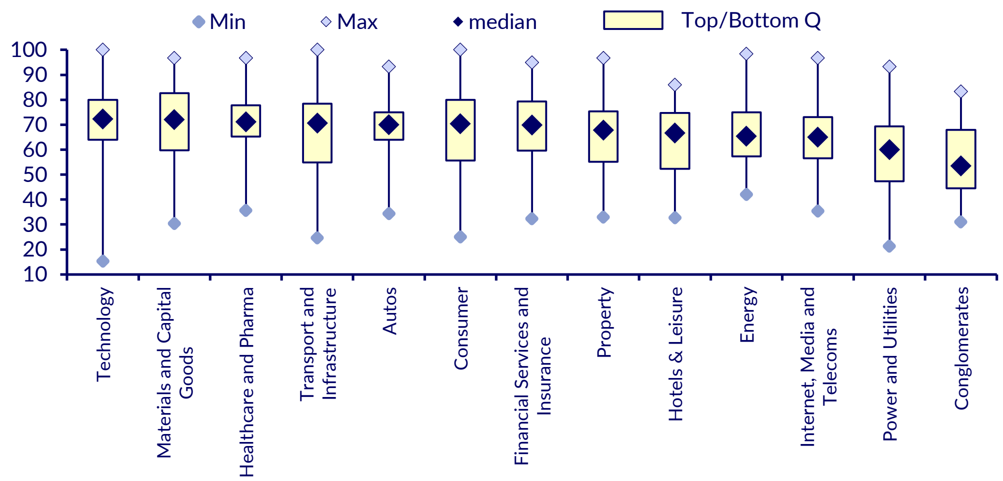
Source: CLSA

Given the vast amount of coverage across all sectors, it is no surprise that dispersion of scores is wide, with Autos showing the narrowest divergence between top and bottom quintiles, while transport and infrastructure showed the widest gaps.

Autos showed the least differences in scores between quintiles, while Technology sector showed the widest dispersion

Figure 24

Dispersion of sector CG scores



Source: CLSA

E/S scores account for just 10% weighting to our overall ESG score

Energy and technology is leading environment and social score

Our CG Watch/ESG scores place a heavy weighting on corporate governance, of up to 90%, while environmental and social scores contribute just 10%. As social and environmental issues become increasingly pertinent to sustainable investing, this weighting has room to change if reporting of relevant metrics is developed and incorporated at the corporate level.

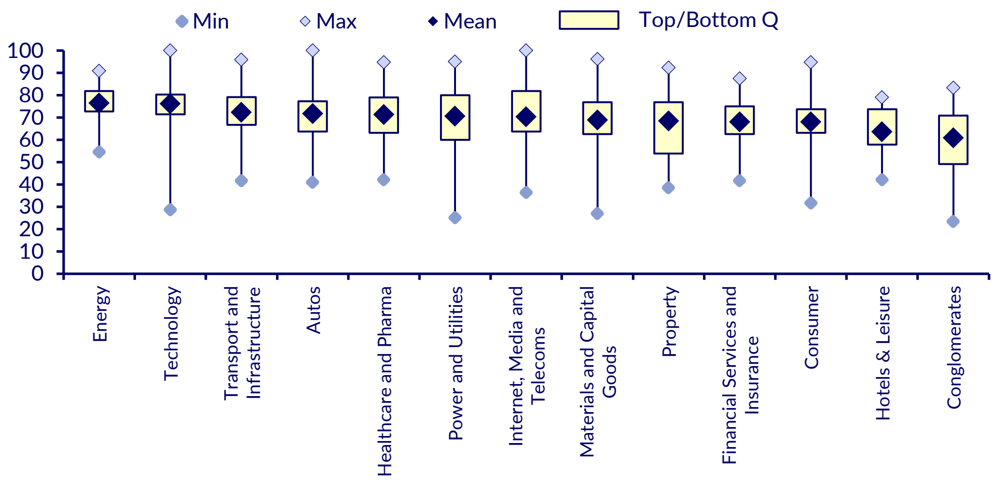
Our environmental/social questionnaires for each sector are based on the Sustainable Accounting Standards Board (SASB) and conversations with research sector heads at CLSA and are designed to focus analysts on the most relevant questions. We have a narrower set of three questions per sector that we would expect both analysts and informed investor relations representatives to be able to answer.

Energy's leadership in environment and social is based on bottom up scoring designs, rather than looking at its business exposure to carbon emissions itself

Analysing our separate environment and social scores, the energy sector showed the highest ranking as the sector applies rigorous efforts on its own to make up for some of its structural issues related to fossil fuel and greenhouse gas emissions.

Figure 25

Dispersion of sector E/S scores



Source: CLSA

We have looked at the top 10 scorers and improvers for all sectors

Sector highlights

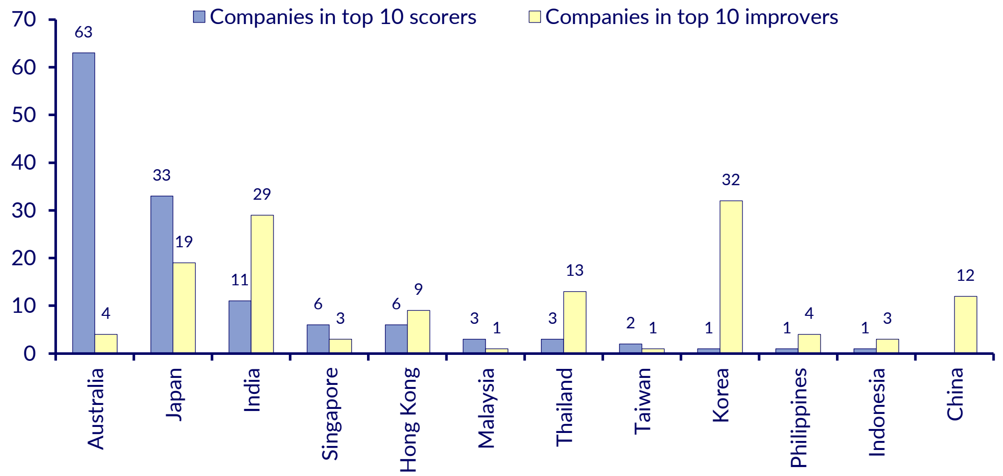
Observing the top-10 scorers in each sector, one trend becomes immediately apparent: Australia dominates. Of the 130 names comprising the 10 best-scoring stocks across 13 different sectors, Australian companies account for almost half of list. Simply put, the more Australian companies in the sector, the higher the score is likely to be. Beyond Australia, the list is also heavy on Japanese and Indian businesses.

However, when we looked at the top-10 improvers in each sector, we see a much more diverse cross-section of Apac businesses; we note 31 Korean companies, 29 Indian companies with Japan and Thailand coming behind. No Chinese (A-share) companies made it to top-10 outright, but 11 ranked among the top-10 improvers.

Australia still remains the gold standard when it comes to CG awards, but Korea and India showed the most improvement

Figure 26

Top 10 league. Scorers vs improvers by # of companies



Source: CLSA

Top 10 champions outperformed improvers on 5y horizon . . .

. . . while improvers outperformed champions in the short term

Furthermore, the absolute equalweighted average share price performance of the top-10 scorers in a given sector outperformed the top-10 improvers in the same sector by 56% over a five-year horizon, with 7 out of 13 sectors showing that top 10 scorers have beaten top 10 improvers.

While this may sound like an obvious outcome, when we look at the past one year performance, improvers have outperformed the champions by 6%, and 8 out of 13 sectors have showed that improvers have beaten the champions.

Over the long term investors reward sound governance, but it can be said that short term investors do tend to reward companies that have improved the corporate governance scores. Let's also note that over the past 5y, top 10 scorers have on average doubled its share price, implying 15% annualized return over the period. As a reference, the MSCI AP (including Australia) generated a 63% return over the past five years, and 17% in the past one year in US dollar terms, meaning that at least the top-10 scorers have outperformed the benchmark as well.

Figure 27

5Y absolute share price performance of top 10 scorers

5Y	Champions	Improvers	Champions outperformance
Technology	260.5	80.9	179.6
Autos	10.9	19.4	(8.5)
Consumer	53.2	26.2	27.0
Financial Services	26.4	66.0	(39.7)
Health Care and Pharma	422.2	97.7	324.5
Internet, media and telecoms	113.8	21.5	92.3
Materials and Capital Goods	304.0	75.3	228.7
Petro Chems and Batteries	18.1	32.8	(14.7)
Power and Utilities	6.3	120.2	(113.9)
Property	54.5	57.3	(2.8)
Transports and Infrastructure	30.2	(17.5)	47.8
Conglomerates	(17.2)	(25.7)	8.6
Hotels & Leisure	14.1	19.2	(5.1)
Average	**99.8**	**44.1**	**55.7**

Source: CLSA

Figure 28

1Y absolute share price performance of top 10 scorers

1Y	Champions	Improvers	Champions' outperformance
Technology	21.0	6.6	13.9
Autos	(4.1)	8.6	(12.8)
Consumer	6.7	5.2	1.5
Financial Services	(8.1)	(1.6)	(6.4)
Health Care and Pharma	28.0	54.6	(26.7)
Internet, media and telecoms	16.2	2.7	13.5
Materials and Capital Goods	15.3	28.8	(13.5)
Petro Chems and Batteries	(20.5)	17.2	(37.7)
Power and Utilities	(12.1)	(5.2)	(7.0)
Property	(7.2)	(5.4)	(1.8)
Transports and Infrastructure	(5.4)	(11.7)	6.3
Conglomerates	(13.1)	(19.3)	6.2
Hotels & Leisure	(25.0)	(14.8)	(10.2)
Average	**(0.4)**	**5.1**	**(5.5)**

Source: CLSA

Technology sector ranked no.1 for the two consecutive editions

Technology - Top of the rank

Figure 29

Key snapshot - Technology

Sector name	Number of companies	Total market cap	% of number of companies	% of market cap	# of countries spread (total 13)
Technology	139	2,290.1	12.0	14.0	11
Scores	**2020**	**2018**	**% Improvement vs 2018**	**# of companies improved**	**# of companies declined**
Responsibility	77.6	76.8	1.0	10	6
Transparency	70.0	60.6	15.5	34	17
Discipline	70.2	69.9	0.3	14	16
Fairness	89.1	84.2	5.9	17	4
Independence	48.1	38.4	25.5	30	14
Corporate governance	71.0	66.0	7.6	59	26
Environment social	75.8	74.1	2.4	24	25
CG Watch ESG score	71.5	65.8	8.7	55	24
Overall rank	**1**	**1**	***0***		
CG rank	**2**	**2**	***0***		
ES Rank	**2**	**2**	***0***		

Source: CLSA

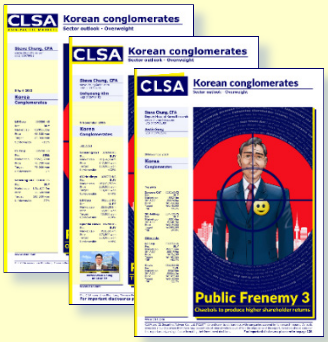
Sector represented 14% of market cap

Technology (hardware and components, IT consulting) ranks no.1 in overall CG Watch 2020 scores, representing the second consecutive edition of CG Watch in pole position. While sector contributes 12% of the 1,162 companies in our coverage universe, it accounts for 14% of the universe's aggregate market cap, in fourth place after Internet/media/telecoms, consumer and financials sector groupings.

True independence is still a major weakness

Infomedia and Technopro scored the highest in the sector, with TSMC, Infosys and TCL being the bell weathers amongst the heavyweights. Amongst the top 10 most improved we are delighted to see Samsung Electronics.

Family-owned businesses are being broken up; Korea's experience is detailed in our *Public Frenemy* series



Key improvements: Independence and Transparency. More companies have improved their board composition but true independence is still in doubt.

Key bottleneck: Independence: Signs of independence improved significantly with one-third of board members being external board members. Nevertheless, analysts continue to remain unconvinced of true board independence.

Notable issues: Traditional family-based ownership is breaking up. Samsung chairman JY Lee announced that the company will halt the practice of passing management to family heirs, while TCS' parent Tata is breaking up its multi-decade family relationship with SP Group.

Figure 30

Technology 2020 ESG top 10 scorers vs 2y share price perf

Ticker	Name	Country	2020 ESG score	2-yr share price %
IFM AU	Infomedia	Australia	98.6	54.35
6028 JP	TechnoPro	Japan	95.6	40.75
EML AU	EML	Australia	95.6	139.84
CDA AU	Codan	Australia	91.9	262.90
2330 TT	TSMC	Taiwan	89.1	109.52
2301 TT	Lite-On Tech	Taiwan	88.8	23.00
6134 JP	Fuji Corp	Japan	88.1	62.64
INFO IB	Infosys	India	88.1	73.46
9719 JP	SCSK	Japan	88.0	34.67
TCS IB	Tata Consultancy	India	87.4	44.85
	Average		**91.1**	**84.6**

Source: CLSA

Figure 31

Technology ESG Top 10 improvers vs 2y share price performance

Ticker	Name	Country	Score vs. 2018, %	2-yr share price %
56190 KQ	SFA	Korea	54	(6.34)
005930 KS	Samsung Electronics	Korea	44	49.83
TECHM IB	Tech Mahindra	India	43	22.28
303 HK	VTech	HongKong	43	(26.55)
6134 JP	Fuji Corp	Japan	40	62.64
6502 JP	Toshiba	Japan	37	(31.57)
6594 JP	Nidec	Japan	37	62.31
2395 TT	Advantech	Taiwan	33	46.41
000660 KS	SK Hynix	Korea	32	36.49
034220 KS	LG Display	Korea	32	(16.81)
	Average		**46**	**20.0**

Source: CLSA

Materials, capital goods and industrials actually have the highest Corporate Governance score

Materials and Capital Goods - Led by Australians

Figure 32

Key snapshot – Materials and Capital Goods

Sector name	Number of companies	Total market cap	% of number of companies	% of market cap	# of countries spread (total 13)
Materials and Capital Goods	121	845.8	10.4%	5.2	12
Scores	**2020**	**2018**	**% Improvement vs 2018**	**# of companies improved**	**# of companies declined**
Responsibility	67.9	58.4	16.1	6	3
Transparency	77.6	73.5	5.5	24	16
Discipline	68.3	63.7	7.3	14	10
Fairness	89.2	78.9	13.1	18	4
Independence	54.9	46.4	18.5	31	18
Corporate governance	71.6	64.2	11.5	56	27
Environment social	69.6	69.4	0.2	22	30
CG Watch ESG score	71.4	65.5	8.9	50	25
Overall rank	2	2	0		
CG rank	1	4	3		
ES Rank	8	5	(3)		

Source: CLSA

The sector ranks 2nd although heavily carried by dominating Australian companies

We group materials and capital goods (including industrials) for the sectorial analysis and find the combined sector ranks No.2 in the overall CG Watch, but No.1 if we count only corporate governance. The sector accounts for 10.4% of the companies under coverage, but just 5.2% of total market cap.

Australians dominate the top-10s, which have helped its overall positioning. S1, a security firm in Korea which is part of the broader Samsung group, improved its score by 120%.

Independence could be improved while Japanese and Chinese industrials names should improve its disclosures

Key improvement areas: Independence and Responsibility. The board composition has improved as well as interests of non-controlling shareholders.

Key bottlenecks: Independence. There is still plenty of room for improvement regarding the true independence of board members.

Notable issues: Companies are separating CEO / chairman roles and diversifying board members. We still see much room for improvement in corporate communications. Japanese names such as Keyence and Fanuc, as well as Chinese state-owned enterprises (SOEs) such as CNBM are known for lack of disclosures for investors to steer through.

Figure 33

Materials and Capital Goods 2020 ESG top 10 scorers vs 2y share price performance

Ticker	Name	Country	2020 ESG score	2-yr share price %
OZL AU	OZ Minerals	Australia	95.5	65.49
BSL AU	BlueScope	Australia	94.3	25.13
SGM AU	Sims MM	Australia	94.2	(11.57)
6506 JP	Yaskawa Electric	Japan	94.1	33.92
SAR AU	Saracen	Australia	93.8	132.59
6361 JP	Ebara	Japan	93.2	1.83
JLG AU	Johns Lyng	Australia	92.5	303.75
GWA AU	GWA Group	Australia	91.3	8.78
IMD AU	Imdex	Australia	91.3	5.20
SSM AU	Service Stream	Australia	91.1	25.66
	Average		**93.1**	**59.1**

Source: CLSA, Factset

Figure 34

Materials and Capital Goods ESG Top 10 improvers vs 2y share price performance

Ticker	Name	Country	Score vs. 2018, %	2-yr share price %
012750 KS	S1	Korea	120	(12.03)
ACC IB	ACC	India	56	12.97
3323 HK	CNBM	China	47	72.78
968 HK	Xinyi Solar	China	44	338.67
ACEM IB	Ambuja Cements	India	41	22.69
6471 JP	NSK	Japan	36	(13.99)
6305 JP	HCM	Japan	33	(7.35)
6301 JP	Komatsu	Japan	30	(13.43)
000720 KS	Hyundai E&C	Korea	29	(35.48)
2689 HK	Nine Dragons	China	28	47.77
	Average		**46**	**41.3**

Source: CLSA, Factset

Healthcare and pharma ranks third in overall ESG score

Healthcare and Pharma - suspicion over accounting

Figure 35

Key snapshot - Healthcare and Pharma					
Sector name	Number of companies	Total market cap	% of number of companies	% of market cap	# of countries spread (total 13)
Healthcare and Pharma	77	937.9	6.6	5.8	12
Scores	2020	2018	% Improvement vs 2018	# of companies improved	# of companies declined
Responsibility	79.7	82.3	(3.2)	3	0
Transparency	75.3	71.6	5.2	10	2
Discipline	60.4	57.6	4.8	9	1
Fairness	85.6	83.7	2.4	3	1
Independence	53.7	49.5	8.5	11	4
Corporate governance	70.9	68.9	2.9	29	8
Environment social	71.3	68.1	4.6	11	7
CG Watch ESG score	71.0	65.5	8.4	24	6
Overall rank	3	3	0		
CG rank	3	1	(2)		
ES Rank	4	7	3		

Source: CLSA

The healthcare sector generated significant attention this year amid Covid-19 and ranks No.3 in our aggregate ESG scores. The sector represents 6.6% of the companies under CLSA coverage and accounts for 5.8% of total market cap.

While usual Australian pharma companies top the charts, we see Beigene in top 10 list

Australian companies again top the lists of best-scorers, with Telix leading, followed by another five Aussie names. Amongst the top-10 most improved, we see Hanmi Pharma improving its score by 32% followed by Biocon and Cadila Healthcare. Top scorers have collectively outperformed top improvers by 61% during the past two years.

Key areas of improvement: Independence. Many companies have improved their board composition with more outside directors.

Key bottlenecks: Independence. Analysts remain sceptical about true board independence.

There have been controversies surrounding accounting standards in Korea and China

Notable issues: Frequent deals trigger suspicions around quality of financial information. Samsung BioLogics had violated accounting standards by intentionally omitting information regarding its JV agreement with Biogen Idec. Eight Samsung executives were arrested for destroying evidence related to the alleged fraud. Moreover, the Chinese National Medical Insurance Administration carried out quality inspections on accounting information for 77 pharmaceutical companies in 2019. The inspection focused on not only general accounting items but also issues specific to the industry, such as authenticity and accuracy of selling expenses.

Figure 36

Health Care and Pharma 2020 ESG top 10 scorers vs 2y share price performance

Ticker	Name	Country	2020 ESG score	2-yr share price %
TLX AU	Telix	Australia	95.9	248.99
CSL AU	CSL	Australia	94.9	70.92
PNV AU	PolyNovo	Australia	94.4	419.30
RHC AU	Ramsay Health Care	Australia	94.4	21.97
SPL AU	Starpharma	Australia	93.8	(10.96)
COH AU	Cochlear	Australia	89.5	44.46
6160 HK	BeiGene	Hong Kong	89.0	116.39
4543 JP	Terumo	Japan	86.4	47.87
7780 JP	Menicon	Japan	83.5	175.63
4568 JP	Daiichi Sankyo	Japan	83.4	153.07
	Average		**90.5**	**128.8**

Source: CLSA, Factset

Figure 37

Health Care and Pharma ESG Top 10 improvers vs 2y share price performance

Ticker	Name	Country	Score vs. 2018, %	2-yr share price %
128940 KS	Hanmi Pharma	Korea	32	(32.97)
BIOS IB	Biocon	India	29	38.90
CDH IB	Cadila Healthcare	India	28	16.00
BDMS TB	Bangkok Dusit	Thailand	25	(13.20)
TRP IB	Torrent Pharma	India	23	66.78
207940 KS	Samsung Biologics	Korea	21	126.61
DLPL IN	Dr Lal PathLabs	India	20	157.30
CIPLA IB	Cipla	India	19	43.85
IPCA IB	Ipca	India	17	180.44
DRRD IB	Dr Reddy's	India	17	99.06
	Average		**23**	**68.3**

Source: CLSA, Factset

Autos - lessons learnt from Nissan

Auto sector ranks 4th, which has climbed three levels up from the previous 2018 edition

Figure 38

Key snapshot – Autos

Sector name	Number of companies	Total market cap	% of number of companies	% of market cap	# of countries spread (total 13)
Autos	43	598.8	3.7	3.7	8
Scores	**2020**	**2018**	**% Improvement vs 2018**	**# of companies improved**	**# of companies declined**
Responsibility	74.1	58.1	27.6	7	1
Transparency	77.7	69.9	11.2	6	2
Discipline	69.4	67.0	3.6	7	1
Fairness	84.0	81.7	2.8	4	1
Independence	37.8	38.1	(0.8)	6	4
Corporate governance	68.6	63.0	9.0	25	7
Environment social	71.3	70.8	0.7	8	4
CG Watch ESG score	68.9	64.0	7.5	22	4
Overall rank	4	7	3		
CG rank	4	7	3		
ES Rank	5	4	(1)		

Source: CLSA

The autos sector ranks No.4 in overall CG Watch 2020 scores, yet contributes just 3.7% of companies in CLSA coverage and total market cap.

Japanese companies laden the top 10 chart with Koreans improving the most

Australian company Bapcor scores the highest in the sector, followed by six Japanese companies and three Indian firms. Of the 10 most-improved companies, six are Korean.

Key improvements: Responsibility. With heavy activists actions in the sector, managements seems to have taken responsibility (aligning with minority shareholders' interests)

Key bottleneck: Independence. The Independence score declined slightly, driven by Nissan as well as investors doubtful about true board independence.

Case of Nissan has seemingly raised attention level from management to improve its audit committees and board oversight

Notable issues: The scandal around Nissan highlights CG failings among auto giants such as parent-child listings and the importance of independent and efficient board committees. Given Nissan has no compensation committee, Carlos Ghosn could decide his own package. Moreover, the conflict of interests between parents and JVs in the auto industry usually results in the abuse of minority shareholders.

Figure 39

Autos 2020 ESG top 10 scorers vs 2y share price performance

Ticker	Name	Country	2020 ESG score	2-yr share price %
BAP AU	Bapcor	Australia	91.9	17.81
7203 JP	Toyota Motor	Japan	83.9	12.56
7202 JP	Isuzu Motors	Japan	82.1	(37.22)
7272 JP	Yamaha Motor	Japan	81.8	(12.88)
7270 JP	Subaru	Japan	81.5	(16.97)
MM IB	Mahindra	India	80.9	(18.06)
EIM IS	Eicher Motors	India	80.5	9.32
7267 JP	Honda Motor	Japan	78.1	(4.71)
7269 JP	Suzuki Motor	Japan	75.7	0.97
MSIL IB	Maruti Suzuki	India	74.9	(7.04)
	Average		**81.1**	**(5.6)**

Source: CLSA, Factset

Figure 40

Autos ESG Top 10 improvers vs 2y share price performance

Ticker	Name	Country	Score vs 2018, %	2-yr share price %
000270 KS	Kia Motors	Korea	47	99.33
005380 KS	Hyundai Motor	Korea	44	73.79
425 HK	Minth	China	41	51.16
012330 KS	Hyundai Mobis	Korea	35	27.94
002350 KS	Nexen Tire	Korea	25	(33.68)
MSIL IB	Maruti Suzuki	India	22	(7.04)
204320 KS	Mando	Korea	18	46.62
MSS IS	Motherson Sumi	India	15	(15.12)
BHFC IB	Bharat Forge	India	14	(17.35)
161390 KS	Hankook Tire	Korea	11	(22.72)
	Average		**27**	**20.3**

Source: CLSA, Factset

Transport and Infrastructure - underlying political risk

Transport and infrastructure slipped one rank to 5th position

Figure 41

Key snapshot – Transport and Infrastructure

Sector name	Number of companies	Total market cap	% of number of companies	% of market cap	# of countries spread (total 13)
Transport and Infra	39	190.2	3.4	1.2	10
Scores	**2020**	**2018**	**% Improvement vs 2018**	**# of companies improved**	**# of companies declined**
Responsibility	70.8	60.9	16.2	4	2
Transparency	80.0	73.6	8.6	9	1
Discipline	56.8	54.1	5.1	7	6
Fairness	80.6	76.9	4.8	6	1
Independence	52.3	47.6	9.9	4	9
Corporate governance	68.1	62.6	8.7	16	9
Environment social	72.2	66.7	8.2	11	3
CG Watch ESG score	68.5	64.9	5.6	19	2
Overall rank	5	4	(1)		
CG rank	7	8	1		
ES Rank	3	9	6		

Source: CLSA

Transport and infrastructure as a sector ranks fifth in our overall CG Watch 2020 scores. The sector accounts for 3.4% of the 1162 companies under CLSA coverage, while it takes up only 1.2% of total market cap.

Qantas scores highest, while Brambles improved the most

The top-10 scorers were again dominated by Australian firms, taking up six spots, with Qantas at the top. Brambles features in the top-10 scorers and was the No.1 improver in the sector, with a 32% increase of aggregate ESG scores.

Key improvements: Responsibility. The companies attach importance to the interests of non-controlling shareholders.

Key bottleneck: Independence scores the lowest while discipline is also the least improved aspect of corporate governance.

The sector is highly prone to government regulation and intervention, while being heavily hit by Covid

Notable issues: Government intervention is considered a high risk for the sector as operators are state-owned entities and there was clear evidence of interference regarding tariff adjustments and discounts. As an example, Bangkok Expressway and Metro (BEM) has to ensure seamless relationship with the government regardless of political environment. Concession conflicts can result in lengthy delays while settlements are reached, possibly at the expense of minority interests.

Figure 42

Transports and Infrastructure 2020 ESG top 10 scorers vs 2y share price performance

Ticker	Name	Country	2020 ESG score	2-yr share price %
QAN AU	Qantas	Australia	97.5	(9.88)
AZJ AU	Aurizon	Australia	95.6	(6.87)
TCL AU	Transurban	Australia	94.9	30.22
SLK AU	Sealink Travel Group	Australia	88.1	61.08
SYD AU	Sydney Airport	Australia	87.5	5.35
BXB AU	Brambles	Australia	84.1	6.87
1824 JP	Maeda	Japan	83.4	(22.36)
6013 JP	Takuma	Japan	83.0	24.04
CD SP	ComfortDelGro	Singapore	79.9	(26.17)
9086 JP	Hitachi Transport System	Japan	79.8	11.62
	Average		**87.4**	**7.4**

Source: CLSA, Factset

Figure 43

Transports and Infrastructure ESG Top 10 improvers vs 2y share price performance

Ticker	Name	Country	Score vs. 2018, %	2-yr share price %
BXB AU	Brambles	Australia	32	6.87
JKIL IN	J Kumar Infra	India	21	(27.26)
IRB IB	IRB Infra	India	20	(19.73)
SADE IN	Sadbhav	India	20	(77.77)
AOT TB	Airports of Thailand	Thailand	19	1.54
QAN AU	Qantas	Australia	12	(9.88)
9706 JP	Japan Airport	Japan	12	36.31
086280 KS	Glovis	Korea	11	54.55
WIKA IJ	Wijaya Karya	Indonesia	11	20.00
PTPP IJ	PTPP	Indonesia	7	(27.63)
	Average		**17**	**(4.3)**

Source: CLSA, Factset

Financials and insurance companies have made a leap in corporate governance ranks

Financial Services and Insurance – Systematic risk management

Figure 44

Key snapshot – Financial Services and Insurance

Sector name	Number of companies	Total market cap	% of number of companies	% of market cap	# of countries spread (total 13)
Finance and Insurance	110	2,749.0	9.5	16.9	11
Scores	**2020**	**2018**	**% Improvement vs 2018**	**# of companies improved**	**# of companies declined**
Responsibility	59.4	58.8	1.0	16	7
Transparency	79.6	72.5	9.7	24	3
Discipline	56.9	52.3	8.9	24	11
Fairness	88.7	78.9	12.4	17	2
Independence	58.0	46.3	25.4	35	12
Corporate governance	68.5	61.8	10.9	60	15
Environment social	68.0	63.7	6.8	31	11
CG Watch ESG score	68.5	62.0	10.5	59	15
Overall rank	6	11	5		
CG rank	5	10	5		
ES Rank	10	10	0		

Source: CLSA

More than half of the companies in the sector have improved their corporate governance

Banks and insurance might have been vastly overlooked during the era of endless monetary easing and low interest rates, however it is still the second-largest sector in terms of market cap (17%) and represents 9.5% of the companies in our coverage. The sector is overall ranked sixth by aggregate ESG scores.

Australian companies dominate the top scorer charts with MFG in the top spot, followed by HDFC in India and AIA in Hong Kong. In terms of the improvers, we see CMB improving its score by 58% followed by Krung Thai and HDFC. Improvers have collectively outperformed top scorers by 17% during the past two years.

Key improvements: Independence

Key bottlenecks: Discipline

Systematic risks management is the key risks for banks

Notable issues: Systematic risks management is the major issues for financial sector in terms of corporate governance, hence improving independence of the board to place rigorous audits and oversight will be the key. In fact, even though it has improved independence scores the most, it still is the lowest scored pillar amongst the five pillars of corporate governance. We have seen key systematic risks failures in the region such as Tomorrow Group, the Westpac money-laundering failure as well as PMC and Yes Bank failures in India over the past two years.

Figure 45

Finance and insurance 2020 ESG top 10 scorers vs 2y share price

Ticker	Name	Country	2020 ESG score	2-yr share price %
MFG AU	Magellan	Australia	92.6	133.77
HDFC IB	HDFC	India	91.1	25.75
1299 HK	AIA	Hong Kong	89.5	36.38
UOB SP	UOB	Singapore	88.1	(8.73)
CGF AU	Challenger	Australia	86.2	(46.75)
SGX SP	Singapore Exchange	Singapore	86.2	28.33
PBK MK	Public Bank	Malaysia	86.0	(24.57)
VUK AU	Virgin Money UK	Australia	85.9	(50.00)
PDL AU	Pendal	Australia	85.9	(24.97)
PTM AU	Platinum	Australia	85.5	(32.11)
	Average		**87.7**	**3.7**

Source: CLSA, Factset

Figure 46

Finance and insurance ESG top 10 improvers vs 2y share price

Ticker	Name	Country	Score vs. 2018, %	2-yr share price %
3968 HK	CMB	China	58	52.76
KTB TB	Krung Thai Bank	Thailand	47	(49.50)
HDFC IB	HDFC	India	43	25.75
005830 KS	DB Insurance	Korea	37	(35.80)
KKP TB	Kiatnakin Phatra Bank	Thailand	37	(38.16)
BTPS IJ	BTPS	Indonesia	36	153.76
SCB TB	Siam Commercial Bank	Thailand	29	(40.55)
ICICIBC IB	ICICI Bank	India	28	32.77
2127 JP	Nihon M&A Center	Japan	26	135.68
1988 HK	Minsheng	China	26	(26.28)
	Average		**37**	**21.0**

Source: CLSA, Factset

Consumer sector ranks 7th while we see its slippage in environmental and social score rank

Consumer – In the activist cross-hairs

Figure 47

Key snapshot – Consumer

Sector name	Number of companies	Total market cap	% of number of companies	% of market cap	# of countries spread (total 13)
Consumer	217	2,504.8	18.7	15.4	13
Scores	**2020**	**2018**	**% Improvement vs 2018**	**# of companies improved**	**# of companies declined**
Responsibility	72.1	65.4	10.3	15	3
Transparency	69.7	65.8	6.0	31	17
Discipline	64.5	63.8	1.1	24	28
Fairness	84.2	79.1	6.6	20	12
Independence	50.5	42.1	20.0	43	16
Corporate governance	68.2	63.2	7.9	93	53
Environment social	68.0	68.1	(0.2)	46	33
CG Watch ESG score	68.2	64.0	6.5	86	41
Overall rank	7	8	1		
CG rank	6	5	(1)		
ES Rank	11	8	(3)		

Source: CLSA

The consumer sector ranks No.7 out of 13 sectors, accounts for 18.7% of the companies under coverage and contributes to 15.4% of total market cap, making it the third-largest sector after internet/media/telecoms and financial services.

Australian and Japanese are the leaders, while Koreans have shown vast improvements

Australian consumer names dominate the top-scorer list again, with Select Harvests scoring the highest. Korean companies have reported the most improvements. Both GS Retail and Shinsegae have doubled their ESG scores over the past two years.

Key improvements: Independence. Most companies have separated CEO and chairman roles.

There have been improvements in general independence of the board, but far from optimal

Key bottleneck: Independence. Aggressive M&A and spin-offs usually trigger suspicion of independence of the board and insider trading.

Notable issues: The consumer sector tends to be favourites of short sellers given the easy access to channel check. Short-sellers are pushing consumer companies to provide accurate, transparent and comprehensive disclosure across the consumer sector, otherwise the company has no choices but to self-disclose accounting fraud like Luckin Coffee. Among consumer names, most companies have limited numbers of female directors, eg, Kweichow Moutai and LG H&H have no female directors; Kao only hired its first female outside director in 2019.

Figure 48

Consumer 2020 ESG top 10 scorers vs 2y share price performance

Ticker	Name	Country	2020 ESG score	2-yr share price %
SHV AU	Select Harvests	Australia	97.4	10.38
ELD AU	Elders Ltd	Australia	92.8	56.61
4452 JP	Kao	Japan	92.8	(0.04)
BKL AU	Blackmores	Australia	91.1	(40.55)
CGC AU	Costa Group	Australia	90.8	(30.49)
2206 JP	Ezaki Glico	Japan	90.8	(14.93)
MCP AU	McPhersons	Australia	90.5	68.54
DMP AU	Domino's	Australia	90.5	61.51
BWX AU	BWX	Australia	90.5	33.76
GNC AU	GrainCorp	Australia	90.2	(43.08)
	Average		**91.7**	**10.2**

Source: CLSA, Factset

Figure 49

Consumer ESG Top 10 improvers vs 2y share price performance

Ticker	Name	Country	Score vs. 2018, %	2-yr share price %
007070 KS	GS Retail	Korea	146	(6.51)
004170 KS	Shinsegae	Korea	107	(15.51)
282330 KS	BGF Retail	Korea	87	(18.31)
021240 KS	Coway	Korea	54	4.48
069960 KS	Hyundai Dept Store	Korea	52	(22.77)
139480 KS	E-mart	Korea	52	(16.80)
322 HK	Tingyi	China	43	11.72
DMP AU	Domino's	Australia	34	61.51
6098 JP	Recruit	Japan	33	55.25
MAKRO TB	Makro	Thailand	32	25.00
	Average		**64**	**7.8**

Source: CLSA, Factset

Petro, chemicals and batteries forms our energy sector

Energy - business reform

Figure 50

Key snapshot – Energy					
Sector name	Number of companies	Total market cap	% of number of companies	% of market cap	# of countries spread (total 13)
Energy	44	896.1	3.8	5.5	9
Scores	**2020**	**2018**	**% Improvement vs 2018**	**# of companies improved**	**# of companies declined**
Responsibility	59.7	54.3	9.9	0	2
Transparency	74.2	74.1	0.2	1	2
Discipline	57.7	49.3	17.2	0	2
Fairness	91.5	89.8	1.9	2	1
Independence	50.3	48.6	3.6	2	7
Corporate governance	66.7	63.2	5.5	8	17
Environment social	76.8	78.2	(1.7)	7	5
CG Watch ESG score	67.7	64.5	4.9	8	10
Overall rank	8	6	(2)		
CG rank	9	6	(3)		
ES Rank	1	1	0		

Source: CLSA

The energy sector (petro, chem and batteries) ranks No.8 in terms of overall CG Watch 2020 score. It contributes 3.8% of the companies in our coverage, or 5.5% by market cap.

There are more companies which saw its overall corporate governance score declining than increasing in

Japex scores the highest in the sector, followed by four Australian companies. Among the top-10 improvers, four are Thai and we note one Chinese EV battery name: CATL.

Key improvements: Discipline. Companies have been focused on developing core business and conduct restructuring or placements helping align interests of shareholders.

Key bottleneck: Independence. Similar to other sectors, although companies are trying to diversify boards and improve independence. We still see room for further enhancement.

Business restructuring and reforms in the face of push towards greener energy is the major corporate governance watchpoint

Notable issues: Companies in the energy sector including traditional and clean energy businesses are undergoing reform. On the traditional front, the establishment of PipeChina manifests China's move toward gas market reform; on the clean energy front, several companies, such as BYD and LG Chem, have proposed spin-offs of EV battery businesses. LG Chem's battery spin-off plan was opposed by some shareholders, given the possible dilution of equity value.

Figure 51

Energy 2020 ESG top 10 scorers vs 2y share price performance

Ticker	Name	Country	2020 ESG score	2-yr share price %
1662 JP	Japex	Japan	96.2	(22.30)
WOR AU	Worley	Australia	92.6	(23.39)
ORG AU	Origin Energy	Australia	91.3	(30.80)
ALD AU	Ampol	Australia	89.8	4.32
OSH AU	Oil Search	Australia	85.6	(49.36)
1605 JP	Inpex	Japan	83.2	(55.41)
TOP TB	Thai Oil	Thailand	82.1	(38.61)
011790 KS	SKC	Korea	81.1	131.05
IRPC TB	IRPC	Thailand	78.2	(54.04)
BPT AU	Beach	Australia	77.0	(7.76)
	Average		**85.7**	**(14.6)**

Source: CLSA, Factset

Figure 52

Energy ESG Top 10 improvers vs 2y share price performance

Ticker	Name	Country	Score vs. 2018, %	2-yr share price %
WOR AU	Worley	Australia	16	(23.39)
BPCL IB	Bharat Petro	India	5	30.37
GUJS IB	Gujarat Petronet	India	5	4.16
PTTGC TB	PTTGC	Thailand	1	(34.53)
011780 KS	Kumho Petrochem	Korea	1	52.15
010950 KS	S-Oil	Korea	1	(39.55)
PTTEP TB	PTT E&P	Thailand	1	(30.68)
IRPC TB	IRPC	Thailand	1	(54.04)
TOP TB	Thai Oil	Thailand	0	(38.61)
300750 CH	CATL	China	0	218.19
	Average		**3**	**8.4**

Source: CLSA, Factset

Property - deleveraging underway

Property has the highest fairness scores amongst the sectors but scores have slipped for all pillars of CG except responsibility

Figure 53

Key snapshot – Property

Sector name	Number of companies	Total market cap	% of number of companies	% of market cap	# of countries spread (total 13)
Property	144	889.1	12.4	5.5	10
Scores	**2020**	**2018**	**% Improvement vs 2018**	**# of companies improved**	**# of companies declined**
Responsibility	59.8	45.8	30.6	18	5
Transparency	78.7	80.5	(2.2)	12	11
Discipline	57.1	57.6	(0.8)	12	19
Fairness	85.8	88.4	(2.9)	4	4
Independence	55.4	57.4	(3.5)	35	6
Corporate governance	67.3	65.9	2.2	44	33
Environment social	68.4	60.1	13.8	60	8
CG Watch ESG score	67.5	64.8	4.2	54	24
Overall rank	9	5	(4)		
CG rank	8	3	(5)		
ES Rank	9	13	4		

Source: CLSA

The property sector ranks ninth out of our 13 sectors. It contributes 12.4% of the companies covered by CLSA but just 5.5% in market cap terms.

Among the top-10 scorers, four are Japanese and the remainder are Australian companies. Kerry Properties reported the largest improvement, with a 44% increase, followed by Land & Houses and SM Prime.

Responsibility scores have vastly improved

Key improvements: Responsibility. Fewer related-party transactions and criminal convictions improves the Responsibility score. A 30.6% uptick in responsibility scores offset declines in the other four CG subsections, driving average the CG score up 2.2%.

Key bottleneck: Independence. Many big names are family businesses, which triggers doubt over the true independence of chairperson roles, outside directors or even auditors.

Deleveraging has been a key trend in the sector driven by tighter regulations in China

Notable issues: We believe the increasingly stringent regulations drive property developers to set up better capital structures and environmental targets. Chinese companies such as Vanke and Country Garden are committed to deleveraging thus we can see a downward trend in net gearing ratios over the past two years. However insider shareholding remains high. Moreover, board structures are improving as founders, previously frequently assuming both CEO and chairman mantles, are starting to take a back seat and giving way to professional managers.

Figure 54

Property 2020 ESG top 10 scorers vs 2y share price performance

Ticker	Name	Country	2020 ESG score	2-yr share price %
2337 JP	Ichigo	Japan	95.5	(14.73)
8975 JP	Ichigo Office	Japan	90.1	(25.27)
GMG AU	Goodman	Australia	89.6	88.77
3283 JP	Nippon Prologis	Japan	89.4	44.91
GPT AU	GPT	Australia	88.9	(9.89)
CHC AU	Charter Hall	Australia	88.9	111.42
MGR AU	Mirvac	Australia	88.9	20.00
DXS AU	Dexus	Australia	88.9	(4.55)
SCG AU	Scentre	Australia	88.7	(32.08)
3003 JP	Hulic	Japan	88.5	(1.60)
	Average		**89.7**	**17.7**

Source: CLSA, Factset

Figure 55

Property ESG Top 10 improvers vs 2y share price performance

Ticker	Name	Country	Score vs. 2018, %	2-yr share price %
683 HK	Kerry Properties	Hong Kong	44	(22.96)
LH TB	Land & Houses	Thailand	29	(26.47)
SMPH PM	SM Prime	Philippines	28	18.31
2007 HK	Country Garden	China	23	16.74
DLFU IB	DLF	India	21	13.26
101 HK	Hang Lung	Hong Kong	21	34.03
KREIT SP	Keppel Reit	Singapore	21	(5.36)
813 HK	Shimao Property	China	19	73.22
1972 HK	Swire Properties	Hong Kong	15	(18.10)
ART SP	Ascott Residence	Singapore	13	(5.61)
	Average		**23**	**7.7**

Source: CLSA, Factset

Internet, media and telcos represent the largest sector in terms of market cap

Internet, Media and Telecoms – Trust me or don't

Figure 56

Key snapshot – Internet, Media and Telecoms

Sector name	Number of companies	Total market cap	% of number of companies	% of market cap	# of countries spread (total 13)
Internet/media/Telcos	106	3,516.4	9.1	21.6	12
Scores	**2020**	**2018**	**% Improvement vs 2018**	**# of companies improved**	**# of companies declined**
Responsibility	67.9	62.7	8.3	9	3
Transparency	77.0	70.7	8.9	24	9
Discipline	55.9	49.2	13.8	16	11
Fairness	78.6	74.8	5.1	11	5
Independence	46.1	44.1	4.7	21	14
Corporate governance	65.1	60.3	8.0	48	28
Environment social	70.3	68.3	3.0	23	15
CG Watch ESG score	65.6	61.3	7.0	45	24
Overall rank	10	11	1		
CG rank	10	11	1		
ES Rank	7	6	(1)		

Source: CLSA

Corporate governance seems sidelined as companies list with dual class shares

The internet, media and telecoms sector ranks 10th out of 13 sectors, mainly dragged by weighted-voting structure, complicated ownership and regulations. While the sector represents only 9% of total companies, it has the heaviest weighting in terms of market cap (22% of total) due to its stellar share price performance on the back of continued digitisation in the region.

Australians companies have pulled the scores up, while Korean and Japanese gaming and media companies have reported the most improvements in corporate governance. There are no Chinese companies listed in either top-10 rankings.

Key improvement: Discipline

Key bottleneck: Independence

Key issues: Corporate governance is internet's Achilles heels with weighted vote structures and lack of board independence. While tremendous earnings growth on the back of digitization and subsequent share price appreciation was enough to send these concerns side lined, increased regulation scrutiny as well as well business models that are now widely understood cast doubts whether for how long investors can justify ignoring such concerns.

Figure 57

Internet/media/telcos 2020 ESG top 10 scorers vs share price performance

Ticker	Name	Country	2020 ESG score	2-yr share price %
TLS AU	Telstra	Australia	95.2	4.28
REA AU	REA	Australia	90.5	84.90
DHG AU	Domain	Australia	90.5	90.13
INFOE IS	Info Edge	India	90.5	181.97
TPG AU	TPG Telecom	Australia	86.2	
9434 JP	Softbank Corp	Japan	85.0	
ADVANC TB	AIS	Thailand	84.1	(1.69)
CAR AU	Carsales.com	Australia	82.6	88.69
ST SP	Singtel	Singapore	82.6	(24.26)
4751 JP	CyberAgent	Japan	81.7	27.31
	Average		**86.9**	**56.4**

Source: CLSA, Factset

Figure 58

Internet/media/telcos ESG Top 10 improvers vs 2y share price performance

Ticker	Name	Country	Score vs. 2018, %	2-yr share price %
036570 KS	NCsoft	Korea	71	68.95
3765 JP	GungHo	Japan	65	2.68
030000 KS	Cheil Worldwide	Korea	54	(5.66)
078340 KS	Com2us	Korea	51	(4.98)
2432 JP	DeNA	Japan	49	(11.69)
214320 KS	Innocean Worldwide	Korea	41	5.95
3632 JP	Gree	Japan	37	18.22
DTAC TB	Total Access Comm	Thailand	36	(26.20)
TRUE TB	True Corp	Thailand	29	(45.98)
9437 JP	NTT Docomo	Japan	28	50.90
	Average		**46**	**5.2**

Source: CLSA, Factset

Hotels & leisure sectors have further slipped in terms of ranks, with very little improvements seen in general

Hotels & Leisure - cleaner and clearer

Figure 59

Key snapshot – Hotels & Leisure

Sector name	Number of companies	Total market cap	% of number of companies	% of market cap	# of countries spread (total 13)
Hotels & Leisure	38	225.8	3.3	1.4	12
Scores	**2020**	**2018**	**% Improvement vs 2018**	**# of companies improved**	**# of companies declined**
Responsibility	60.5	50.7	19.3	8	1
Transparency	74.7	71.4	4.6	8	1
Discipline	54.5	53.2	2.4	4	4
Fairness	79.5	83.4	(4.7)	2	1
Independence	53.5	51.4	4.0	8	7
Corporate governance	64.5	62.0	4.0	16	7
Environment social	63.2	60.9	3.8	7	5
CG Watch ESG score	64.4	63.7	1.2	16	8
Overall rank	11	9	(2)		
CG rank	11	9	(2)		
ES Rank	12	12	0		

Source: CLSA

Hotel & Leisure ranked 11 out of 13 sectors in overall CG Watch 2020 scores. The number of companies represent 3.3% of our coverage, and just 1.4% of market cap.

Australian company Flight Centre scores the highest in the sector, followed by Macau gaming plays Sands China and MGM China. Korean company Hana Tour has reported the most improvement (70%) in corporate governance scores.

Another sector badly hurt by Covid-19, corporate governance remains a side issue as businesses struggle to stay afloat

Key improvements: Responsibility. Gaming companies run the business with a strong sense of responsibility, which prevent companies from crimes such as money laundry or junkets.

Key bottleneck: Independence: Companies should focus more on the independence of outside directors and auditors given the business nature of the sector.

Notable issues: in terms of gaming sector, although it is a highly regulated business, there are some grey areas which need the collaboration of government and companies. Unlawful issues and conflicts of interest between parent and JVs occur in the sector. With regard to hotels, two SOE A-share giants, BTG Hotels and Jinjiang Hotels, usually set low targets for share incentives.

Figure 60

Hotel & Leisure 2020 ESG top 10 scorers vs 2y share price performance

Ticker	Name	Country	2020 ESG score	2-yr share price %
FLT AU	Flight Centre	Australia	87.3	(61.80)
1928 HK	Sands China	Hong Kong	84.8	4.29
2282 HK	MGM China	Hong Kong	81.2	(5.86)
SGR AU	Star Entertainment	Australia	80.7	(14.22)
SKC AU	SkyCity	Australia	79.7	(17.68)
WEB AU	Webjet	Australia	77.7	(57.58)
9603 JP	HIS	Japan	76.8	(59.05)
1128 HK	Wynn Macau	Hong Kong	76.7	(17.05)
ALL AU	Aristocrat	Australia	75.8	22.34
TAH AU	Tabcorp	Australia	74.3	(8.16)
	Average		**79.5**	**(21.5)**

Source: CLSA, Factset

Figure 61

Hotel & Leisure ESG Top 10 improvers vs 2y share price performance

Ticker	Name	Country	Score vs. 2018, %	2-yr share price %
039130 KS	Hana Tour	Korea	70	(37.97)
035250 KS	Kangwon Land	Korea	36	(25.54)
1128 HK	Wynn Macau	Hong Kong	29	(17.05)
9603 JP	HIS	Japan	23	(59.05)
BLOOM PM	Bloomberry	Philippines	23	5.49
1928 HK	Sands China	Hong Kong	17	4.29
114090 KS	GKL	Korea	14	(39.83)
2282 HK	MGM China	Hong Kong	13	(5.86)
27 HK	Galaxy Entertainment	Hong Kong	11	36.85
4661 JP	Oriental Land	Japan	6	59.41
	Average		**24**	**(7.9)**

Source: CLSA, Factset

Power and Utilities sector has the lowest responsibility amongst the entire sector due to the Asian companies being owned by the governments or the families

Power and Utilities – India on the rise

Figure 62

Key snapshot – Power and Utilities

Sector name	Number of companies	Total market cap	% of number of companies	% of market cap	# of countries spread (total 13)
Power and Utilities	51	382.8	4.4	2.3	9
Scores	**2020**	**2018**	**% Improvement vs 2018**	**# of companies improved**	**# of companies declined**
Responsibility	43.8	34.2	27.9	1	4
Transparency	73.0	67.8	7.7	8	4
Discipline	51.1	52.8	(3.2)	5	5
Fairness	76.1	72.8	4.4	0	2
Independence	48.5	43.1	12.6	7	4
Corporate governance	58.5	54.2	8.0	16	13
Environment social	70.6	71.2	(0.9)	6	3
CG Watch ESG score	59.7	54.8	9.0	10	9
Overall rank	12	13	1		
CG rank	12	13	1		
ES Rank	6	3	(3)		

Source: CLSA

The power sector ranks 12th in overall CG Watch 2020 list of sectors. The number of power sector companies represents 4.4% of our coverage and 2.3% in market cap terms.

Australian companies propped up scores for the sector, while Indian and China/Hong Kong firms reported the most improvements in CG scores.

Indian companies dominate the charts in terms of improvers with notable issues continue to be the conflict of interests between government and minority shareholders

Key improvements: Responsibility. Responsibility scores improved 27.9%, reflecting a much higher motivation to align interests with those of non-controlling shareholders.

Key bottleneck: Responsibility. Companies with SOE backgrounds or those controlled by a family have lagged as controlling shareholders' primary interests is not listed companies. Moreover, related-party transactions may occur which may hurt the interests of non-controlling shareholders.

Notable issues: Many companies in the power sector are SOEs, including Yangtze Power, CGN Power, NTPC and Power Grid. SOEs or public sector undertakings (PSUs) may face conflicts of interest between government and other shareholders as they may face pressure to alter tariffs, hire executives or make material entity-level decisions.

Figure 63

Power and Utilities 2020 ESG top 10 scorers vs 2y share price performance

Ticker	Name	Country	2020 ESG score	2-yr share price %
SKI AU	Spark Infra	Australia	91.0	(10.34)
AST AU	AusNet Services	Australia	88.0	16.02
APA AU	APA	Australia	85.4	17.64
AGL AU	AGL Energy	Australia	85.4	(29.01)
1963 JP	JGC	Japan	84.9	(47.81)
2 HK	CLP	Hong Kong	80.9	(16.36)
PTG MK	Petronas Gas	Malaysia	75.9	(9.73)
MAHGL IN	Mahanagar Gas	India	73.9	4.17
CESC IB	CESC	India	72.6	(14.14)
PWGR IB	Power Grid	India	72.3	1.10
	Average		**81.0**	**(8.8)**

Source: CLSA, Factset

Figure 64

Power and Utilities ESG Top 10 improvers vs 2y share price performance

Ticker	Name	Country	Score vs. 2018, %	2-yr share price %
JSW IB	JSW Energy	India	37	(9.68)
ADANIT IN	Adani Transmission	India	23	78.77
TPWR IB	Tata Power	India	19	(28.11)
CESC IB	CESC	India	16	(14.14)
PWGR IB	Power Grid	India	16	1.10
NTPC IS	NTPC	India	10	(29.08)
GAIL IB	Gail	India	6	(46.94)
2688 HK	ENN Energy	China	6	48.73
1193 HK	CR Gas	China	5	25.72
2 HK	CLP	Hong Kong	4	(16.36)
	Average		**14**	**1.0**

Source: CLSA, Factset

Conglos take the last rank in terms of CG Watch score

Conglomerates - Korea chaebols finally improving

Figure 65

Key snapshot – Conglomerates					
Sector name	Number of companies	Total market cap	% of number of companies	% of market cap	# of countries spread (total 13)
Conglomerates	33	281.3	2.8	1.7	9
Scores	**2020**	**2018**	**% Improvement vs 2018**	**# of companies improved**	**# of companies declined**
Responsibility	52.5	54.4	(3.5)	4	2
Transparency	70.2	65.3	7.4	7	9
Discipline	44.9	42.5	5.8	6	7
Fairness	69.7	75.6	(7.9)	4	3
Independence	44.4	47.4	(6.2)	9	10
Corporate governance	56.4	57.0	(1.2)	10	16
Environment social	61.3	62.3	(1.6)	9	5
CG Watch ESG score	56.8	57.8	(1.6)	9	16
Overall rank	13	12	(1)		
CG rank	13	12	(1)		
ES Rank	13	11	(2)		

Source: CLSA

Conglomerates rank bottom of the list in overall CG Watch 2020 scores. The sector accounts for 2.8% of the companies under our coverage, or 1.7% of market cap.

Conglos struggle to shake off legacy independence issues

KHI scored the highest in the sector, followed by Larsen & Toubro and IHI. Amongst the top 10 most improved we are delighted to see Samsung C&T, signaling a better corporate structure of Samsung kingdom.

However, major chaebol reforms in Korea show Asian conglos can change and are slowly doing so

Key improvements: Transparency. More companies have improved their disclosure and corporate communications.

Key bottleneck: Independence. Conglomerates struggle with "independence" as a legacy issue. Even though companies are hiring more outside directors, the average long tenure of independent directors is not conducive to true independence.

Notable issues: As a legacy of family-run businesses, conglomerate boards tend to lack diversity or actual independent members. For example, Jardine Matheson has no independent director on its board. However, we do note a clear improvement in shareholder returns policies among Korean chaebols.

Figure 66

Conglomerates 2020 ESG top 10 scorers vs 2y share price performance

Ticker	Name	Country	2020 ESG score	2-yr share price %
7012 JP	KHI	Japan	82.7	(40.62)
LT IB	Larsen & Toubro	India	82.0	(24.21)
7013 JP	IHI	Japan	81.2	(61.34)
5631 JP	Japan Steel Works	Japan	77.6	17.72
IJM MK	IJM	Malaysia	74.4	(12.28)
STE SP	ST Engineering	Singapore	72.1	6.78
SCI SP	Sembcorp	Singapore	71.6	27.83
7011 JP	MHI	Japan	71.3	(42.44)
AC PM	Ayala Corp	Philippines	67.9	(7.13)
ASII IJ	Astra	Indonesia	66.9	(30.70)
	Average		**74.8**	**(16.6)**

Source: CLSA, Factset

Figure 67

Conglomerates ESG Top 10 improvers vs 2y share price performance

Ticker	Name	Country	Score vs. 2018, %	2-yr share price %
028260 KS	Samsung C&T	Korea	87	20.39
7012 JP	KHI	Japan	47	(40.62)
GTCAP PM	GT Capital	Philippines	38	(21.25)
7013 JP	IHI	Japan	37	(61.34)
7011 JP	MHI	Japan	22	(42.44)
5631 JP	Japan Steel Works	Japan	14	17.72
LT IB	Larsen & Toubro	India	9	(24.21)
AC PM	Ayala Corp	Philippines	5	(7.13)
IJM MK	IJM	Malaysia	2	(12.28)
JM SP	Jardine Matheson	Singapore	0	(21.19)
	Average		**26**	**(19.2)**

Source: CLSA, Factset

Companies mentioned

ACC (ACC IB - RS1,687.5 - BUY)[1]
Adani Transmission (ADANIT IN - RS383.9 - SELL)[1]
Advantech (2395 TT - NT$320.0 - O-PF)[2]
AGL Energy (AGL AU - A$13.39 - U-PF)[1]
AIA (1299 HK - HK$87.00 - O-PF)[1]
Airports of Thailand (AOT TB - BT67.8 - U-PF)[1]
AIS (ADVANC TB - BT175.5 - BUY)[1]
Ambuja Cements (ACEM IB - RS257.2 - O-PF)[1]
Ampol (ALD AU - A$29.75 - O-PF)[1]
APA (APA AU - A$10.53 - U-PF)[1]
Aristocrat (ALL AU - A$33.65 - O-PF)[1]
Ascott Residence (ART SP - S$0.99 - U-PF)[1]
Astra (ASII IJ - RP5,725 - SELL)[1]
Aurizon (AZJ AU - A$4.07 - U-PF)[1]
AusNet Services (AST AU - A$1.87 - O-PF)[1]
Ayala Corp (AC PM - P840.00 - BUY)[1]
Bangkok Dusit (BDMS TB - BT23.3 - BUY)[1]
Bapcor (BAP AU - A$7.26 - O-PF)[1]
Beach (BPT AU - A$1.72 - O-PF)[1]
BeiGene (6160 HK - HK$166.80 - O-PF)[1]
BEM (BEM TB - BT9.2 - U-PF)[1]
BGF Retail (282330 KS - ₩131,500 - BUY)[1]
Bharat Forge (BHFC IB - RS498.1 - BUY)[1]
Bharat Petro (BPCL IB - RS383.4 - O-PF)[1]
Biocon (BIOS IB - RS420.1 - SELL)[1]
Biogen Idec (N-R)
Blackmores (BKL AU - A$77.84 - O-PF)[1]
Bloomberry (BLOOM PM - P8.88 - O-PF)[1]
BlueScope (BSL AU - A$16.94 - O-PF)[1]
Brambles (BXB AU - A$10.87 - BUY)[1]
BTG Hotels (600258 CH - RMB23.77 - U-PF)[1]
BTPS (BTPS IJ - RP4,100 - O-PF)[1]
BWX (BWX AU - A$4.09 - O-PF)[1]
BYD (1211 HK - HK$198.20 - BUY)[1]
Cadila Healthcare (CDH IB - RS425.4 - BUY)[1]
Carsales.com (CAR AU - A$20.60 - SELL)[1]
CATL (300750 CH - RMB253.00 - SELL)[1]
CESC (CESC IB - RS572.1 - BUY)[1]
CGN Power (1816 HK - HK$1.67 - BUY)[1]
Challenger (CGF AU - A$5.39 - O-PF)[1]
Charter Hall (CHC AU - A$13.06 - BUY)[1]
Cheil Worldwide (030000 KS - ₩21,550 - BUY)[1]
Cipla (CIPLA IB - RS739.9 - BUY)[1]
CLP (2 HK - HK$72.55 - O-PF)[1]
CMB (3968 HK - HK$50.20 - BUY)[1]
CNBM (3323 HK - HK$11.30 - BUY)[1]
Cochlear (COH AU - A$226.72 - SELL)[1]
Codan (CDA AU - A$10.52 - U-PF)[1]
Com2us (078340 KS - ₩129,700 - BUY)[1]
ComfortDelGro (CD SP - S$1.65 - BUY)[1]
Costa Group (CGC AU - A$3.94 - BUY)[1]
Country Garden (2007 HK - HK$10.36 - BUY)[1]
Coway (021240 KS - ₩72,300 - U-PF)[1]
CR Gas (1193 HK - HK$37.05 - BUY)[1]
CSL (CSL AU - A$316.68 - O-PF)[1]
CyberAgent (4751 JP - ¥6,420 - U-PF)[1]
Daiichi Sankyo (4568 JP - ¥3,536 - BUY)[1]
DB Insurance (005830 KS - ₩46,450 - BUY)[1]
DeNA (2432 JP - ¥1,831 - BUY)[1]
Dexus (DXS AU - A$9.80 - O-PF)[1]
DLF (DLFU IB - RS182.0 - BUY)[1]
Domain (DHG AU - A$4.42 - SELL)[1]
Domino's (DMP AU - A$76.17 - U-PF)[1]
Dr Lal PathLabs (DLPL IN - RS2,196.9 - O-PF)[1]
Dr Reddy's (DRRD IB - RS4,670.7 - BUY)[1]
Ebara (6361 JP - ¥3,225 - O-PF)[1]
Eicher Motors (EIM IS - RS2,590.7 - SELL)[1]
Elders Ltd (ELD AU - A$10.80 - O-PF)[1]
E-mart (139480 KS - ₩154,500 - SELL)[1]
EML (EML AU - A$3.60 - O-PF)[1]
ENN Energy (2688 HK - HK$105.20 - BUY)[1]
Ezaki Glico (2206 JP - ¥4,435 - BUY)[1]
Fanuc (6954 JP - ¥24,520 - O-PF)[1]
Flight Centre (FLT AU - A$16.10 - BUY)[1]
Fuji Corp (6134 JP - ¥2,400 - BUY)[1]
Gail (GAIL IB - RS97.5 - BUY)[1]
Galaxy Entertainment (27 HK - HK$59.60 - BUY)[1]
GKL (114090 KS - ₩15,500 - SELL)[1]
Glovis (086280 KS - ₩189,000 - O-PF)[1]
Goodman (GMG AU - A$18.43 - O-PF)[1]
GPT (GPT AU - A$4.62 - U-PF)[1]
GrainCorp (GNC AU - A$4.50 - BUY)[1]
Gree (3632 JP - ¥581 - U-PF)[1]
GS Retail (007070 KS - ₩34,200 - BUY)[1]
GT Capital (GTCAP PM - P610.00 - BUY)[1]
Gujarat Petronet (GUJS IB - RS198.2 - BUY)[1]
GungHo (3765 JP - ¥2,533 - O-PF)[1]
GWA Group (GWA AU - A$2.88 - BUY)[1]
Hana Tour (039130 KS - ₩46,950 - BUY)[1]
Hang Lung (101 HK - HK$20.90 - SELL)[1]
Hankook Tire (161390 KS - ₩37,050 - O-PF)[1]
Hanmi Pharma (128940 KS - ₩326,500 - O-PF)[1]
HCM (6305 JP - ¥2,896 - SELL)[1]
HDFC (HDFC IB - RS2,333.8 - O-PF)[1]
HIS (9603 JP - ¥1,614 - SELL)[1]
Hitachi Transport System (9086 JP - ¥3,255 - O-PF)[1]
Honda Motor (7267 JP - ¥2,977 - BUY)[1]
Hotel Shilla (008770 KS - ₩81,200 - BUY)[1]
Hulic (3003 JP - ¥1,059 - BUY)[1]
Hyundai Dept Store (069960 KS - ₩71,400 - BUY)[1]
Hyundai E&C (000720 KS - ₩33,950 - U-PF)[1]
Hyundai Mobis (012330 KS - ₩247,500 - BUY)[1]
Hyundai Motor (005380 KS - ₩179,000 - BUY)[1]
Ichigo (2337 JP - ¥330 - BUY)[1]

Ichigo Office (8975 JP - ¥70,400 - BUY)[1]
ICICI Bank (ICICIBC IB - RS480.2 - BUY)[1]
IHI (7013 JP - ¥1,524 - O-PF)[1]
IJM (IJM MK - RM1.58 - BUY)[1]
Imdex (IMD AU - A$1.33 - O-PF)[1]
Info Edge (INFOE IS - RS3,980.4 - O-PF)[1]
Infomedia (IFM AU - A$1.93 - O-PF)[1]
Infosys (INFO IB - RS1,103.0 - BUY)[1]
Innocean Worldwide (214320 KS - ₩60,600 - BUY)[1]
Inpex (1605 JP - ¥576 - BUY)[1]
Ipca (IPCA IB - RS2,142.8 - SELL)[1]
IRB Infra (IRB IB - RS118.6 - BUY)[1]
IRPC (IRPC TB - BT2.9 - BUY)[1]
Isuzu Motors (7202 JP - ¥1,003 - O-PF)[1]
J Kumar Infra (JKIL IN - RS118.6 - BUY)[1]
Japan Airport (9706 JP - ¥5,840 - BUY)[1]
Japan Steel Works (5631 JP - ¥2,538 - BUY)[1]
Japex (1662 JP - ¥1,840 - O-PF)[1]
Jardine Matheson (JM SP - US$53.68 - BUY)[1]
JGC (1963 JP - ¥945 - BUY)[1]
Jinjiang Hotels - A (600754 CH - RMB49.00 - BUY)[1]
Johns Lyng (JLG AU - A$3.13 - BUY)[1]
JSW Energy (JSW IB - RS63.1 - BUY)[1]
Kangwon Land (035250 KS - ₩22,800 - BUY)[1]
Kao (4452 JP - ¥7,830 - BUY)[1]
Keppel Reit (KREIT SP - S$1.06 - O-PF)[1]
Kerry Properties (683 HK - HK$20.90 - O-PF)[1]
Keyence (6861 JP - ¥51,800 - O-PF)[1]
KHI (7012 JP - ¥1,588 - U-PF)[1]
Kia Motors (000270 KS - ₩59,300 - BUY)[1]
Kiatnakin Phatra Bank (KKP TB - BT45.2 - BUY)[1]
Komatsu (6301 JP - ¥2,518 - O-PF)[1]
Krung Thai Bank (KTB TB - BT10.6 - BUY)[1]
Kumho Petrochem (011780 KS - ₩149,000 - U-PF)[1]
Kweichow Moutai (600519 CH - RMB1,790.21 - U-PF)[1]
Land & Houses (LH TB - BT7.8 - BUY)[1]
Larsen & Toubro (LT IB - RS1,132.2 - BUY)[1]
LG Display (034220 KS - ₩15,400 - O-PF)[1]
LG H&H (051900 KS - ₩1,565,000 - O-PF)[1]
Lite-On Tech (2301 TT - NT$48.5 - BUY)[2]
Luckin Coffee (N-R)
Maeda (1824 JP - ¥846 - BUY)[1]
Magellan (MFG AU - A$61.44 - O-PF)[1]
Mahanagar Gas (MAHGL IN - RS931.5 - BUY)[1]
Mahindra (MM IB - RS716.0 - BUY)[1]
Makro (MAKRO TB - BT40.0 - U-PF)[1]
Mando (204320 KS - ₩45,700 - BUY)[1]
Maruti Suzuki (MSIL IB - RS6,967.1 - SELL)[1]
McPhersons (MCP AU - A$2.17 - BUY)[1]
Menicon (7780 JP - ¥6,930 - O-PF)[1]
MGM China (2282 HK - HK$11.00 - O-PF)[1]
MHI (7011 JP - ¥2,603 - O-PF)[1]
Minsheng (1988 HK - HK$4.27 - SELL)[1]
Minth (425 HK - HK$39.45 - BUY)[1]
Mirvac (MGR AU - A$2.64 - U-PF)[1]
Motherson Sumi (MSS IS - RS139.6 - O-PF)[1]
NCsoft (036570 KS - ₩822,000 - U-PF)[1]
Nexen Tire (002350 KS - ₩5,820 - O-PF)[1]
Nidec (6594 JP - ¥11,460 - SELL)[1]
Nihon M&A Center (2127 JP - ¥6,620 - SELL)[1]
Nine Dragons (2689 HK - HK$11.06 - O-PF)[1]
Nippon Prologis (3283 JP - ¥342,500 - O-PF)[1]
Nissan Motor (7201 JP - ¥486 - O-PF)[1]
NSK (6471 JP - ¥887 - BUY)[1]
NTPC (NTPC IS - RS91.8 - BUY)[1]
NTT Docomo (9437 JP - ¥3,876 - U-PF)[1]
Oil Search (OSH AU - A$3.71 - SELL)[1]
Oriental Land (4661 JP - ¥17,290 - BUY)[1]
Origin Energy (ORG AU - A$4.80 - U-PF)[1]
OZ Minerals (OZL AU - A$15.25 - O-PF)[1]
Pendal (PDL AU - A$6.20 - O-PF)[1]
Petronas Gas (PTG MK - RM16.90 - O-PF)[1]
Platinum (PTM AU - A$3.53 - U-PF)[1]
PMC (N-R)
PolyNovo (PNV AU - A$3.07 - BUY)[1]
Power Grid (PWGR IB - RS191.8 - BUY)[1]
PTPP (PTPP IJ - RP1,150 - U-PF)[1]
PTT E&P (PTTEP TB - BT93.8 - U-PF)[1]
PTTGC (PTTGC TB - BT54.5 - BUY)[1]
Public Bank (PBK MK - RM18.22 - BUY)[1]
Qantas (QAN AU - A$5.36 - BUY)[1]
Ramsay Health Care (RHC AU - A$65.31 - SELL)[1]
REA (REA AU - A$140.64 - SELL)[1]
Recruit (6098 JP - ¥4,505 - O-PF)[1]
S1 (012750 KS - ₩83,000 - BUY)[1]
Sadbhav (SADE IN - RS50.8 - BUY)[1]
Samsung Biologics (207940 KS - ₩804,000 - SELL)[1]
Samsung C&T (028260 KS - ₩122,500 - BUY)[1]
Samsung Electronics (005930 KS - ₩67,500 - BUY)[1]
Samsung SDI (006400 KS - ₩526,000 - BUY)[1]
Sands China (1928 HK - HK$32.95 - O-PF)[1]
Saracen (SAR AU - A$5.21 - U-PF)[1]
Scentre (SCG AU - A$2.77 - U-PF)[1]
SCSK (9719 JP - ¥5,680 - U-PF)[1]
Sealink Travel Group (SLK AU - A$6.80 - BUY)[1]
Select Harvests (SHV AU - A$6.36 - BUY)[1]
Sembcorp (SCI SP - S$1.73 - BUY)[1]
Service Stream (SSM AU - A$2.28 - BUY)[1]
SFA (056190 KQ - ₩38,250 - BUY)[1]
Shimao Property (813 HK - HK$29.05 - O-PF)[1]
Shinsegae (004170 KS - ₩233,500 - BUY)[1]
Siam Commercial Bank (SCB TB - BT88.0 - BUY)[1]
Sims MM (SGM AU - A$10.68 - O-PF)[1]
Singapore Exchange (SGX SP - S$9.23 - U-PF)[1]
Singtel (ST SP - S$2.46 - BUY)[1]
SK Hynix (000660 KS - ₩100,000 - BUY)[1]

SKC (011790 KS - ₩83,800 - BUY)[1]
SkyCity (SKC AU - A$2.93 - BUY)[1]
SM Prime (SMPH PM - P38.55 - U-PF)[1]
Softbank Corp (9434 JP - ¥1,279 - BUY)[1]
S-Oil (010950 KS - ₩66,500 - O-PF)[1]
Spark Infra (SKI AU - A$2.07 - BUY)[1]
ST Engineering (STE SP - S$3.97 - SELL)[1]
Star Entertainment (SGR AU - A$3.78 - BUY)[1]
Starpharma (SPL AU - A$1.35 - BUY)[1]
Subaru (7270 JP - ¥2,156 - BUY)[1]
Suzuki Motor (7269 JP - ¥5,445 - BUY)[1]
Swire Properties (1972 HK - HK$23.75 - U-PF)[1]
Sydney Airport (SYD AU - A$6.89 - U-PF)[1]
Tabcorp (TAH AU - A$4.05 - BUY)[1]
Takuma (6013 JP - ¥1,831 - BUY)[1]
Tata Consultancy (TCS IB - RS2,659.6 - O-PF)[1]
Tata Power (TPWR IB - RS58.1 - BUY)[1]
Tech Mahindra (TECHM IB - RS837.9 - BUY)[1]
TechnoPro (6028 JP - ¥7,940 - BUY)[1]
Telix (TLX AU - A$2.84 - BUY)[1]
Telstra (TLS AU - A$3.08 - BUY)[1]
Terumo (4543 JP - ¥4,064 - BUY)[1]
Thai Oil (TOP TB - BT48.8 - SELL)[1]
Tingyi (322 HK - HK$13.92 - BUY)[1]
Tomorrow Group (N-R)
Torrent Pharma (TRP IB - RS2,609.2 - BUY)[1]
Toshiba (6502 JP - ¥2,909 - BUY)[1]
Total Access Comm (DTAC TB - BT35.8 - BUY)[1]
Toyota Motor (7203 JP - ¥7,352 - BUY)[1]
TPG Telecom (TPG AU - A$8.07 - O-PF)[1]
Transurban (TCL AU - A$14.77 - O-PF)[1]
True Corp (TRUE TB - BT3.2 - U-PF)[1]
TSMC (2330 TT - NT$496.5 - BUY)[1]
UOB (UOB SP - S$23.13 - O-PF)[1]
Vanke (2202 HK - HK$28.55 - BUY)[1]
Virgin Money UK (VUK AU - A$2.64 - BUY)[1]
VTech (303 HK - HK$59.90 - BUY)[1]
Webjet (WEB AU - A$5.36 - SELL)[1]
Westpac (WBC AU - A$19.93 - O-PF)[1]
Wijaya Karya (WIKA IJ - RP1,425 - O-PF)[1]
Worley (WOR AU - A$12.60 - O-PF)[1]
Wynn Macau (1128 HK - HK$13.18 - O-PF)[1]
Xinyi Solar (968 HK - HK$14.14 - BUY)[1]
Yamaha Motor (7272 JP - ¥1,965 - BUY)[1]
Yangtze Power (600900 CH - RMB19.90 - BUY)[1]
Yaskawa Electric (6506 JP - ¥4,725 - O-PF)[1]
Yes Bank (N-R)

[1] Covered by CLSA; [2] Covered by CLST

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