



# Asia's choices

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Asian business dialogue on corporate governance 2023



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St. Regis Mumbai, 1 November 2023

For important disclosure information please refer to the last page of this presentation.

ACGA 22nd Annual Conference

**Asian Business Dialogue on  
Corporate Governance 2023**

*"The future of governance: Asia's fork in the road"*



# Regional overview: Asia's choices

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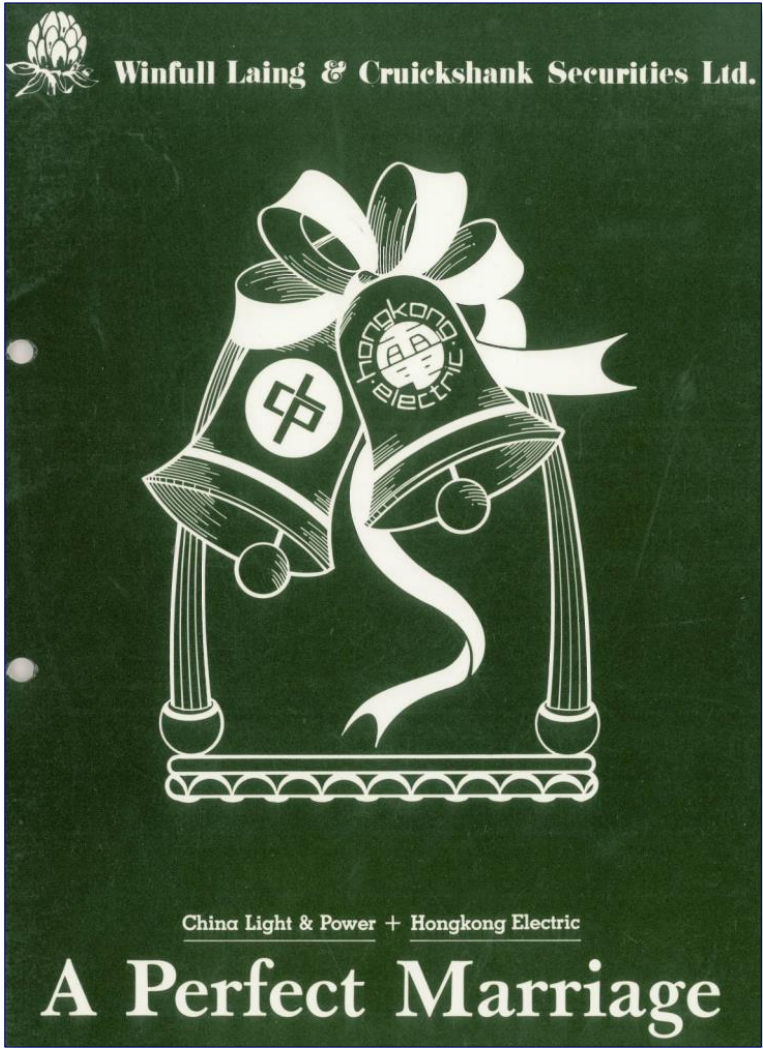


1. Finding valuation link with Governance, increasingly E and S
2. It all starts Governance, which is a keystone, not one of three pillars
3. Governance still provides a powerful value return signal, with increasing retail investor support
4. Governance lens can be used to identify good Social management and applied to assess Environmental risks in valuation
5. Applying these strategies can lead to alpha-generating opportunities
6. Quick preview of our new revamped bottom-up ESG scores shows Australia, Japan, HK topping the rankings, while emission-intensive industries ranking higher in terms of sectors. Governance showed 3ppt improvement
7. We also investigate Governance score comparisons between private and state-owned companies, large- vs small- vs mid-caps and founders/family vs manager-run companies


# Sustainability integration is about going back to our roots



## Initiation research report of CLP in 1987



Source: CLSA

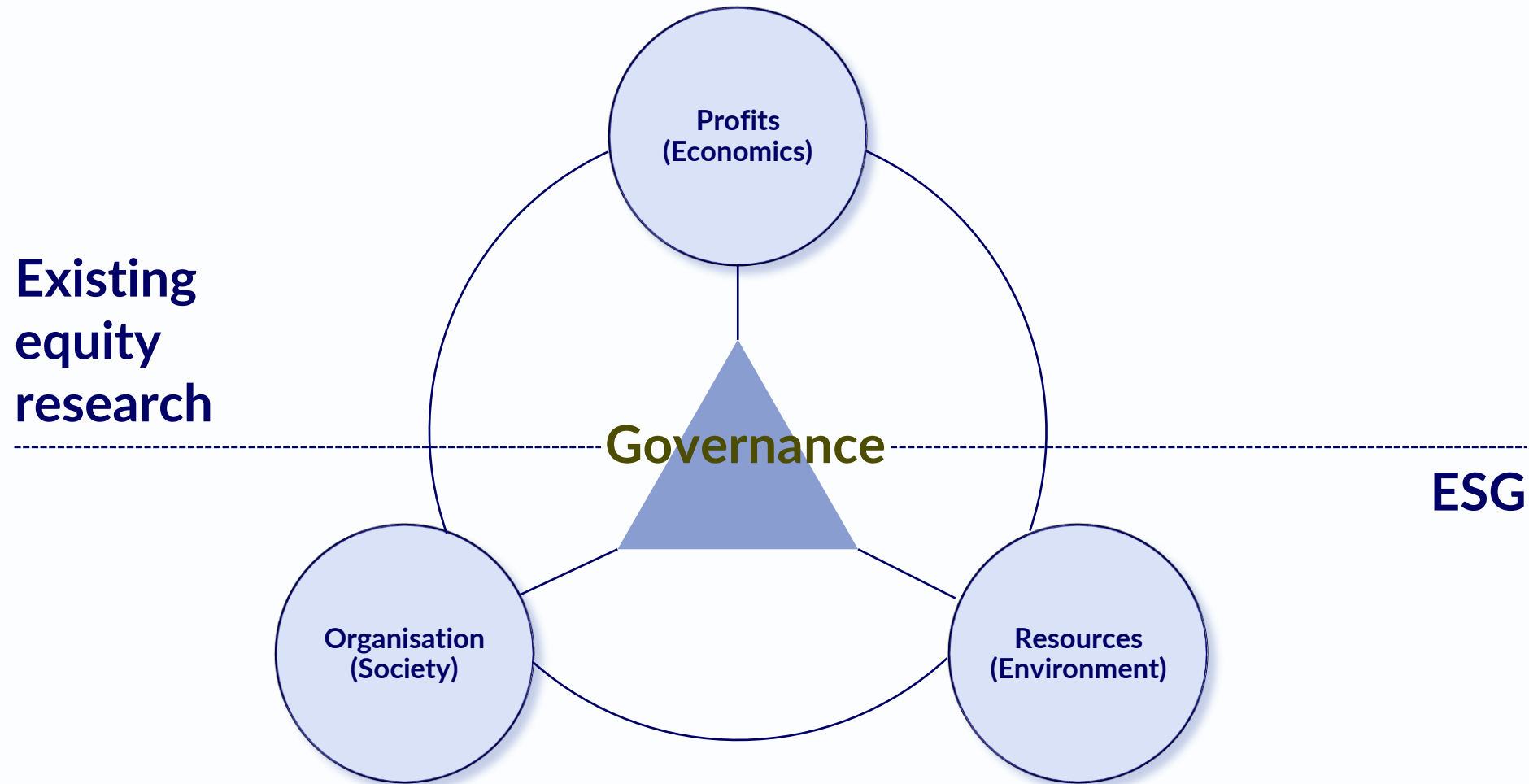


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Source: CLSA

# Sustainability is important but nothing special

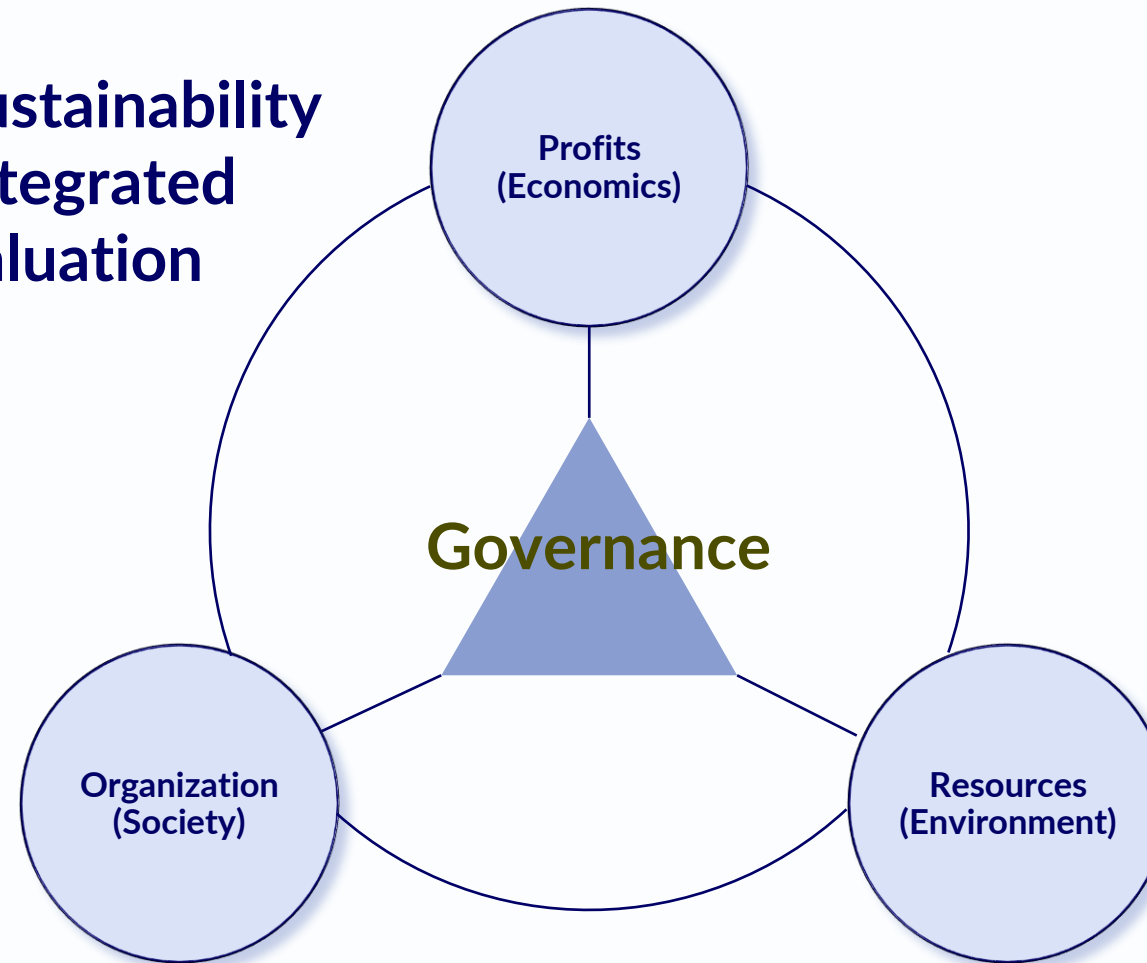


Source: CLSA

# Governance is the keystone, not a pillar



Sustainability  
Integrated  
valuation

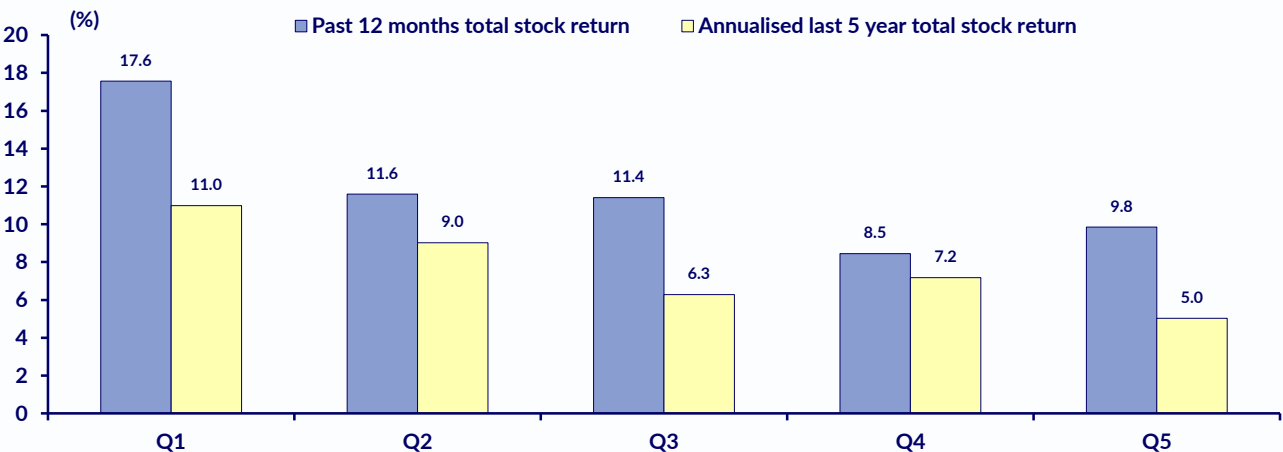


Source: CLSA

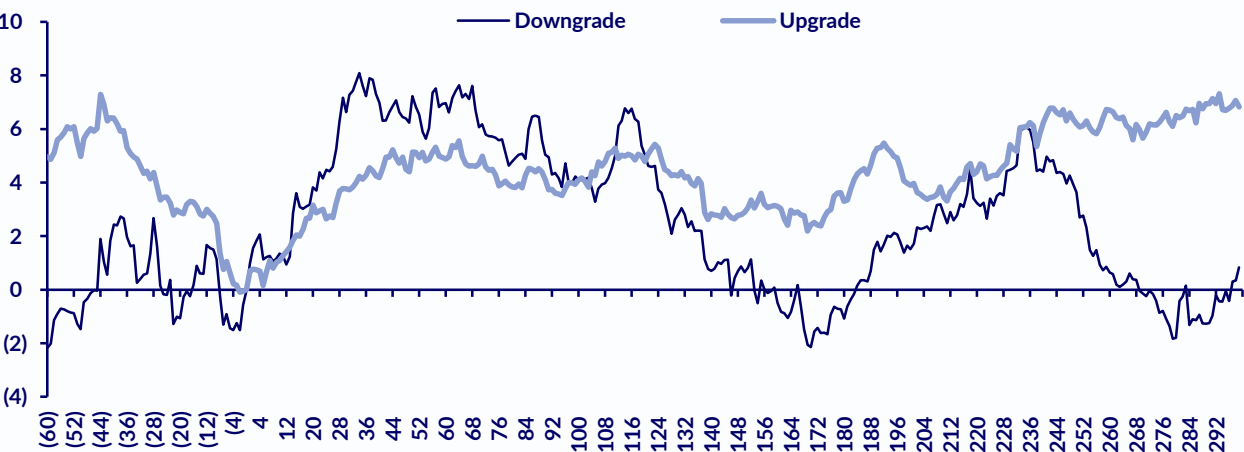
# Governance indicators are powerful return signals



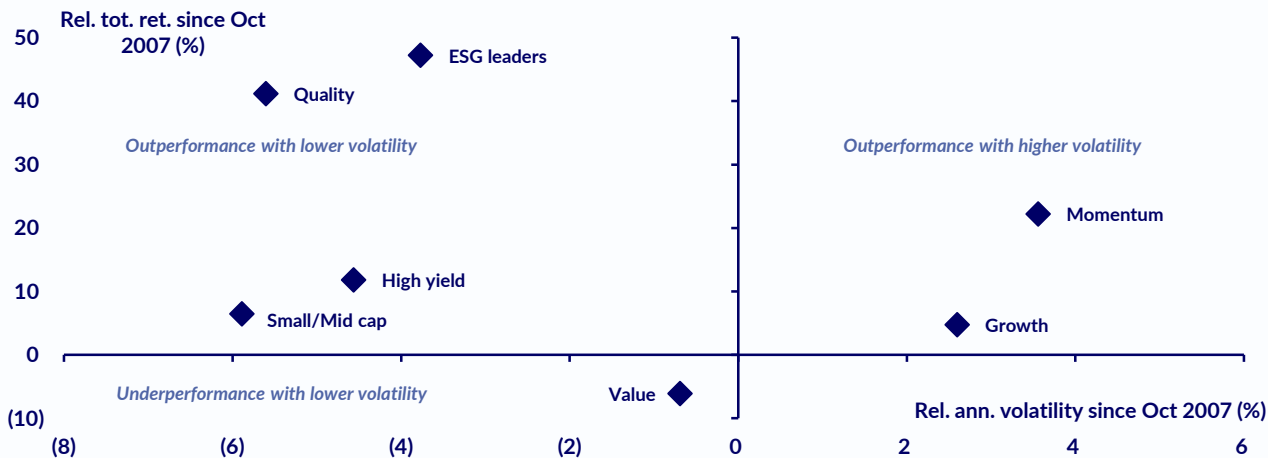
CLSA stock performance by CLSA score rank



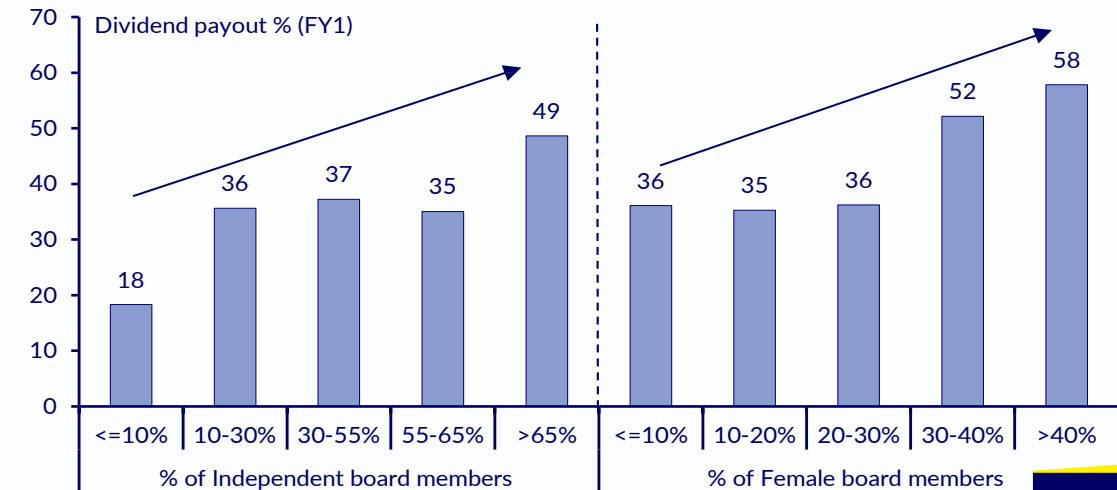
CLSA ESG score upgrades vs downgrades - Share price performance since the score changes



Relative total return (vs MSCI EM) against relative volatility since October 2007 for factor indices



Companies with greater board independence and gender diversity have higher payouts in APxJ



Source: Refinitive, Factset, CLSA

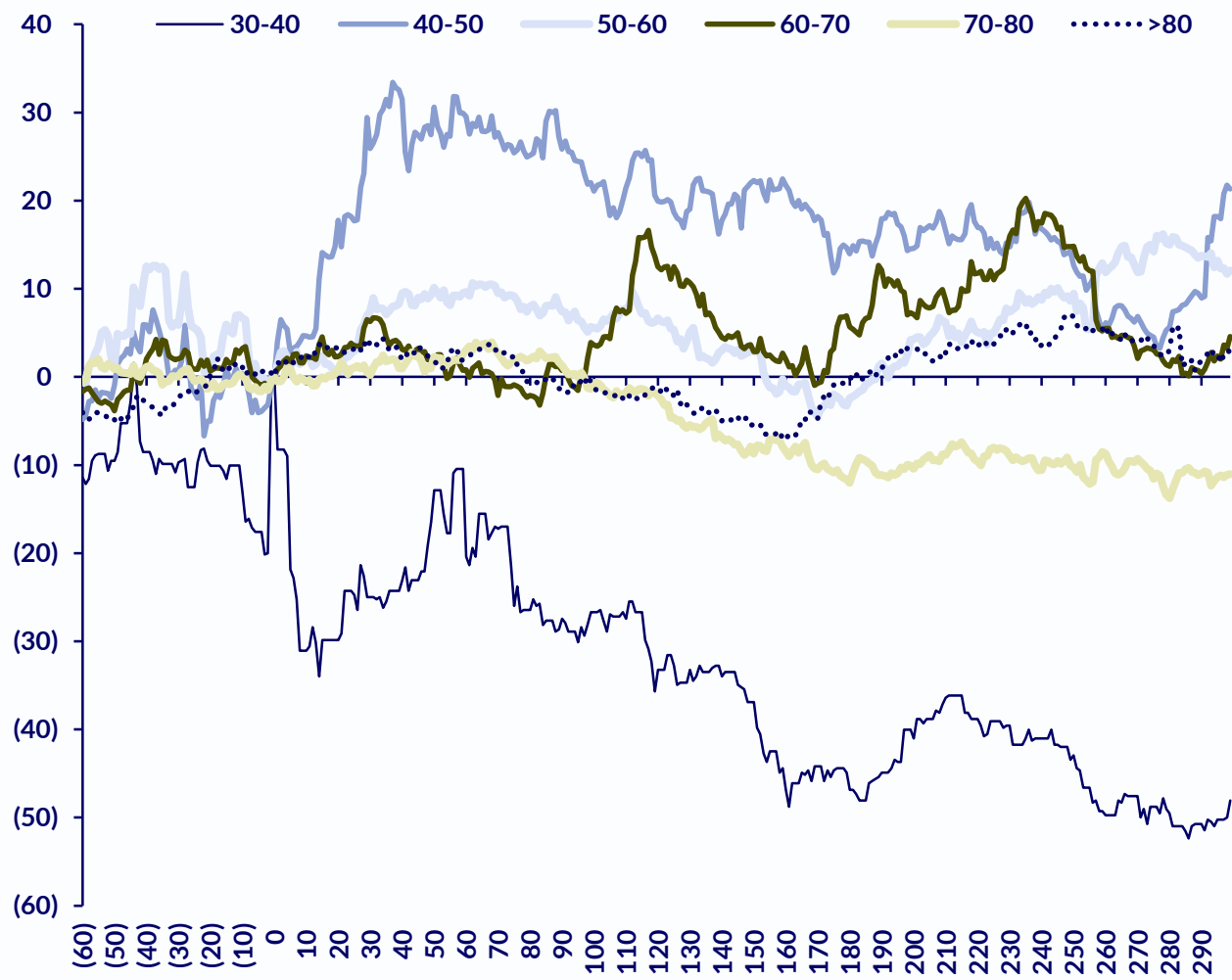




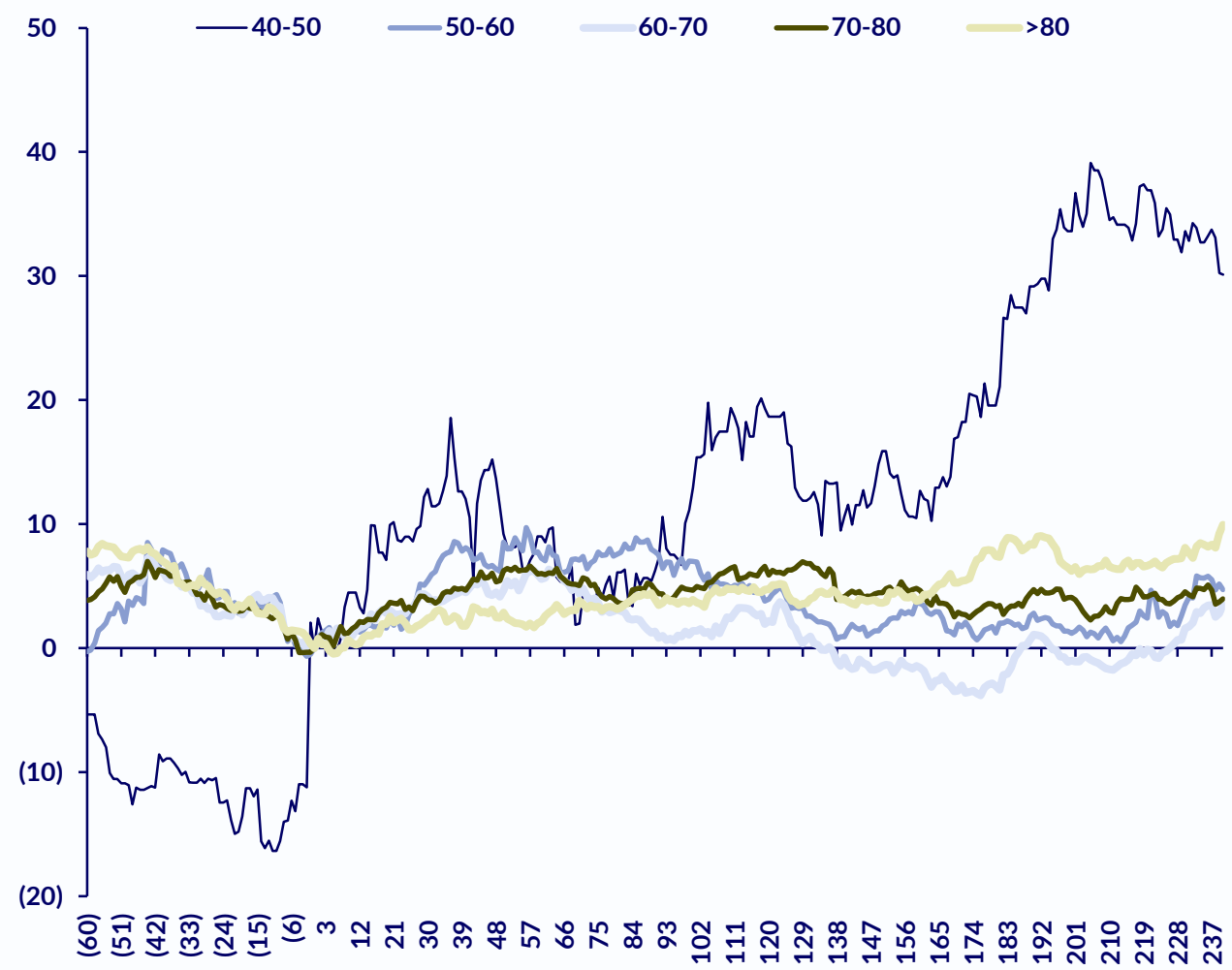
# Market rewards/punishes improvements and deterioration



Stocks that saw ESG score cuts and their share price performance (by score range)



Stocks that saw ESG score increases and their share price performances (by score range)



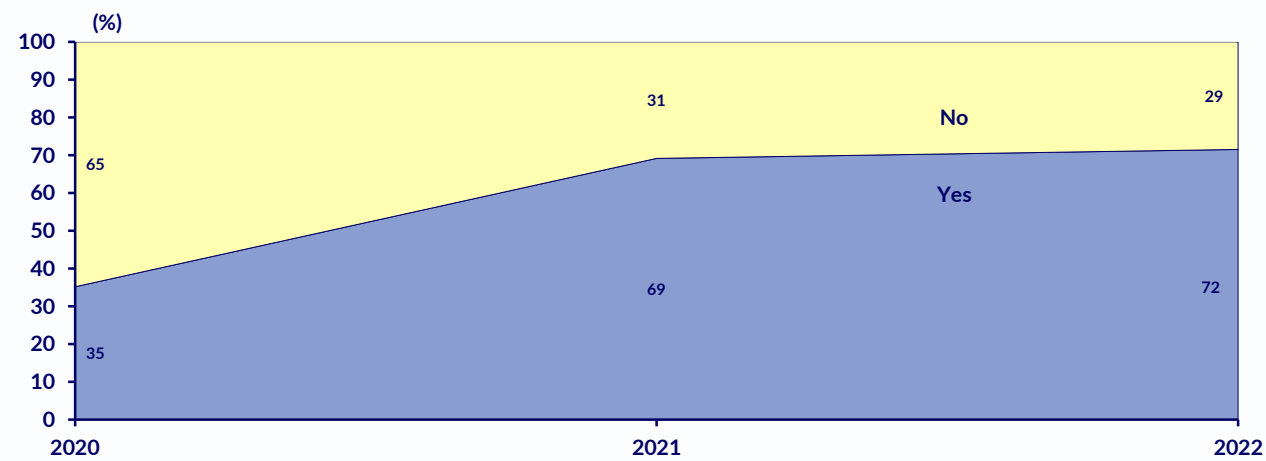
Source: Refinitiv, CLSA



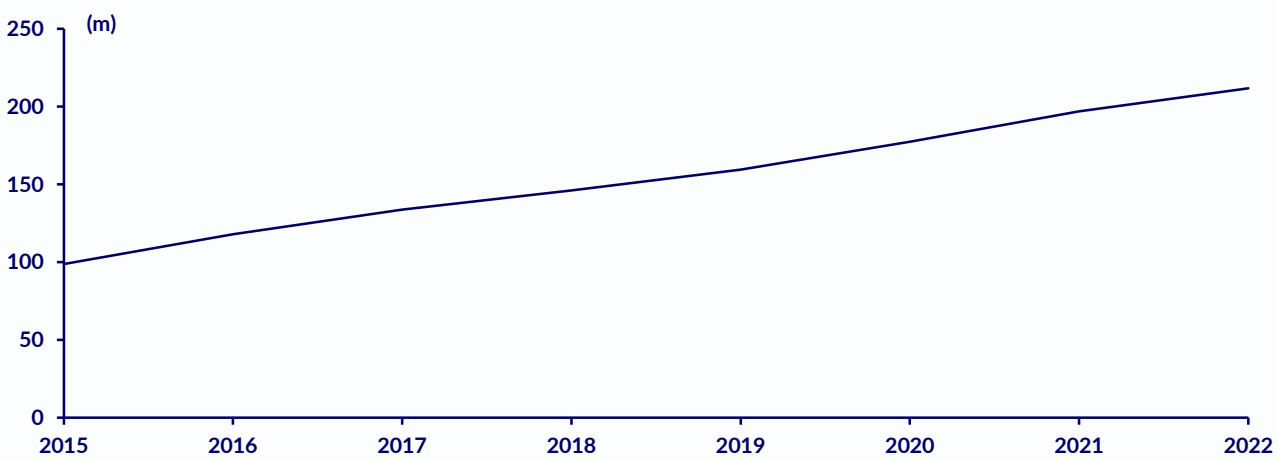
# Governance is a strong consumer trend in Asia



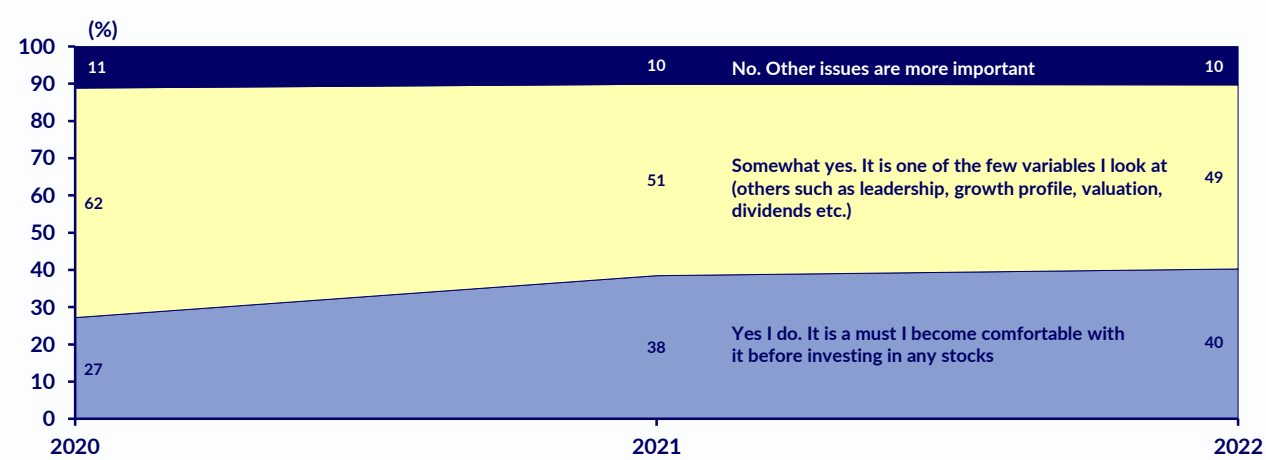
## Are you aware of the concept of corporate governance?



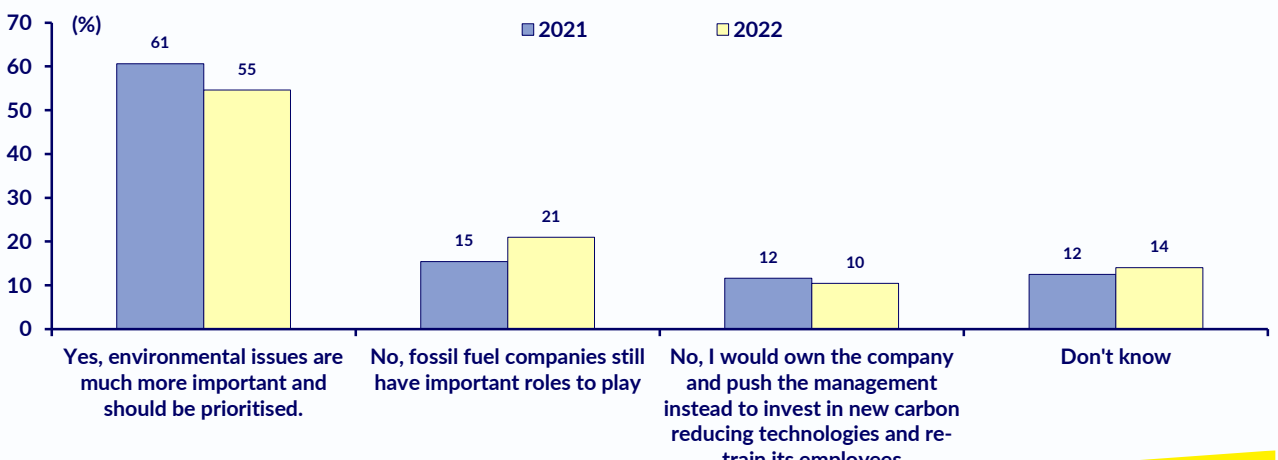
## China retail brokerage accounts



## Do you look at board composition when it comes to investing in a stock?



## Do you believe investors should avoid or divest from fossil fuel companies (coal, oil)?



Source: China Securities Depository and Clearing Corporation Limited, CRR, CLSA

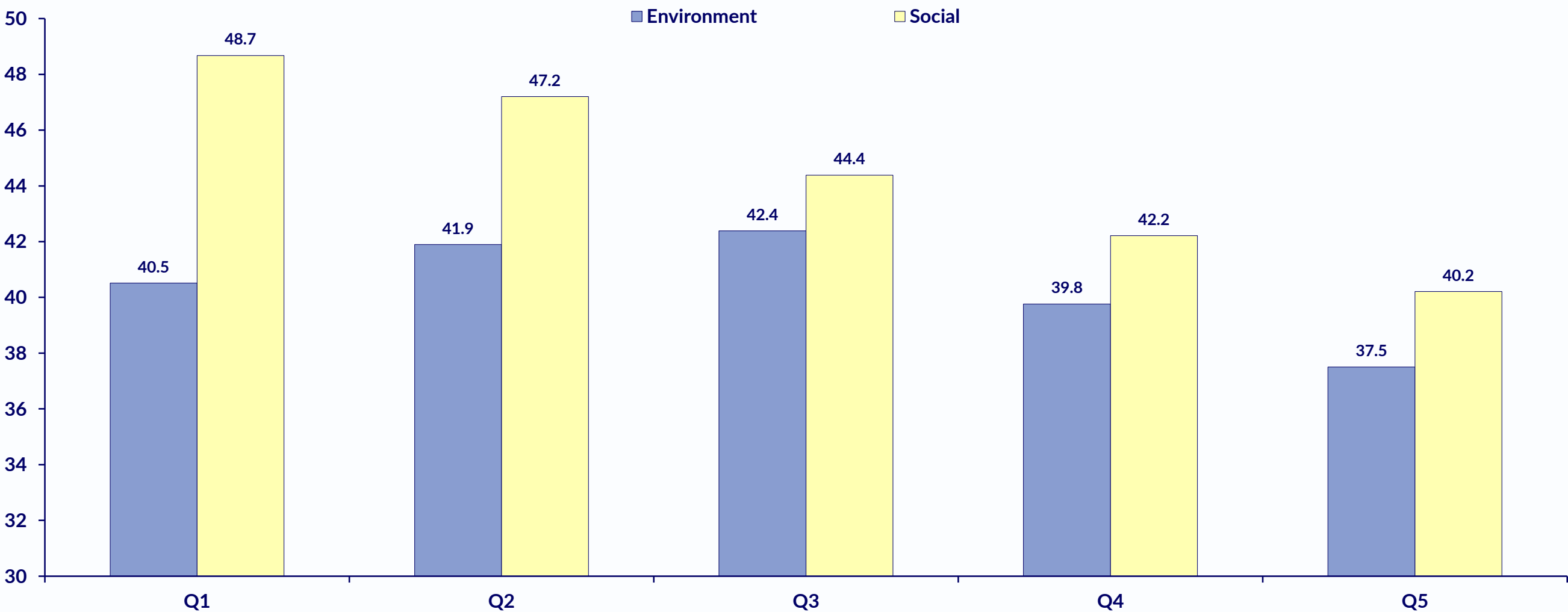




# Good governance suggests lower Social risks



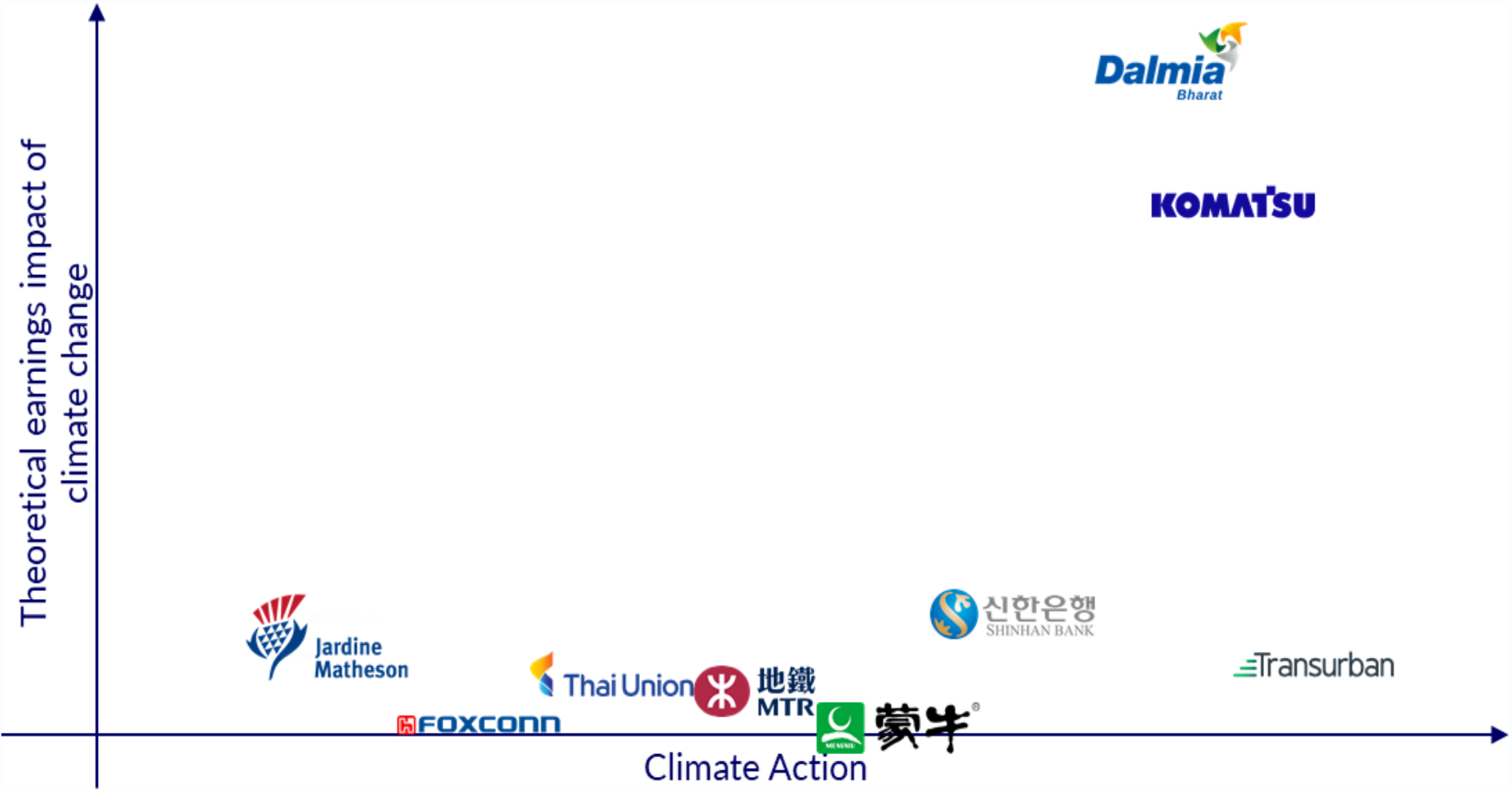
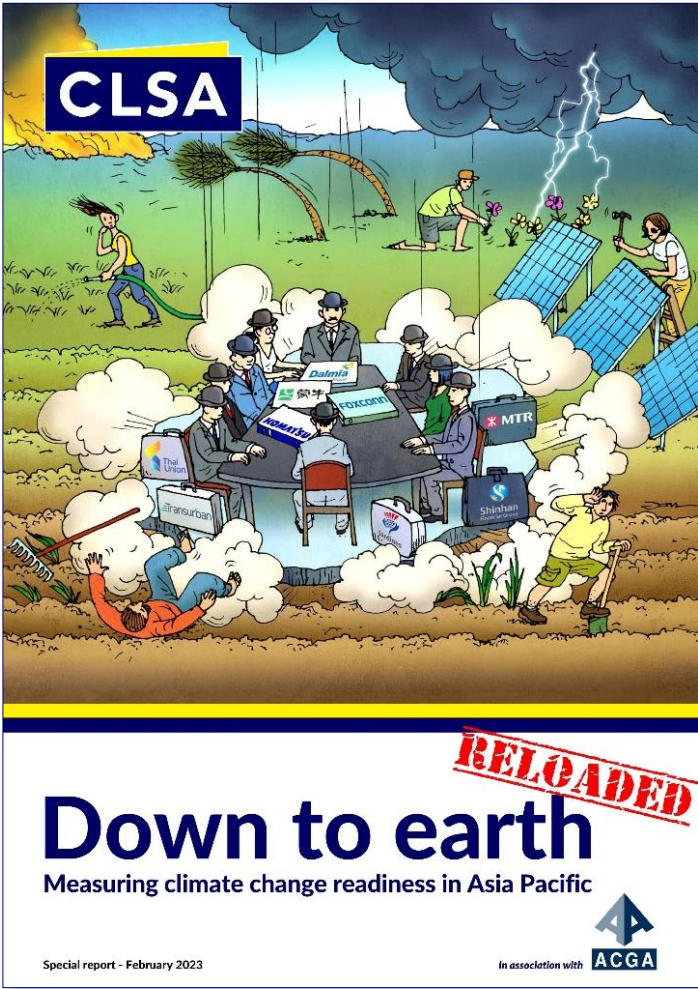
Average E and S scores by governance quintile



Source: China Securities Depository and Clearing Corporation Limited, CRR, CLSA



# Governance lens can also be used to assess E risks



Note: For full assumptions, please see full report. Source: CLSA, IEA, various annual reports, sustainability reports and CDP disclosures



# Material sustainability strategy can generate returns

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- Sustainability as an investment opportunity
- Inclusivity - any company can be part of the solution
- Combining classic fundamental equity research with ESG perspectives
- Focused on **consistency and intensity** of 'material investments'
- Our selection process:
  - Screened for companies actively investing in long-term material sustainability issues
  - Identify ESG reports with robust level of sustainability analysis over last three years
  - Of those, selected companies with
    - Analyst conviction about positive performance over next 1-3 years
    - Strong/improving governance

# Meet our Sustain Asia champions

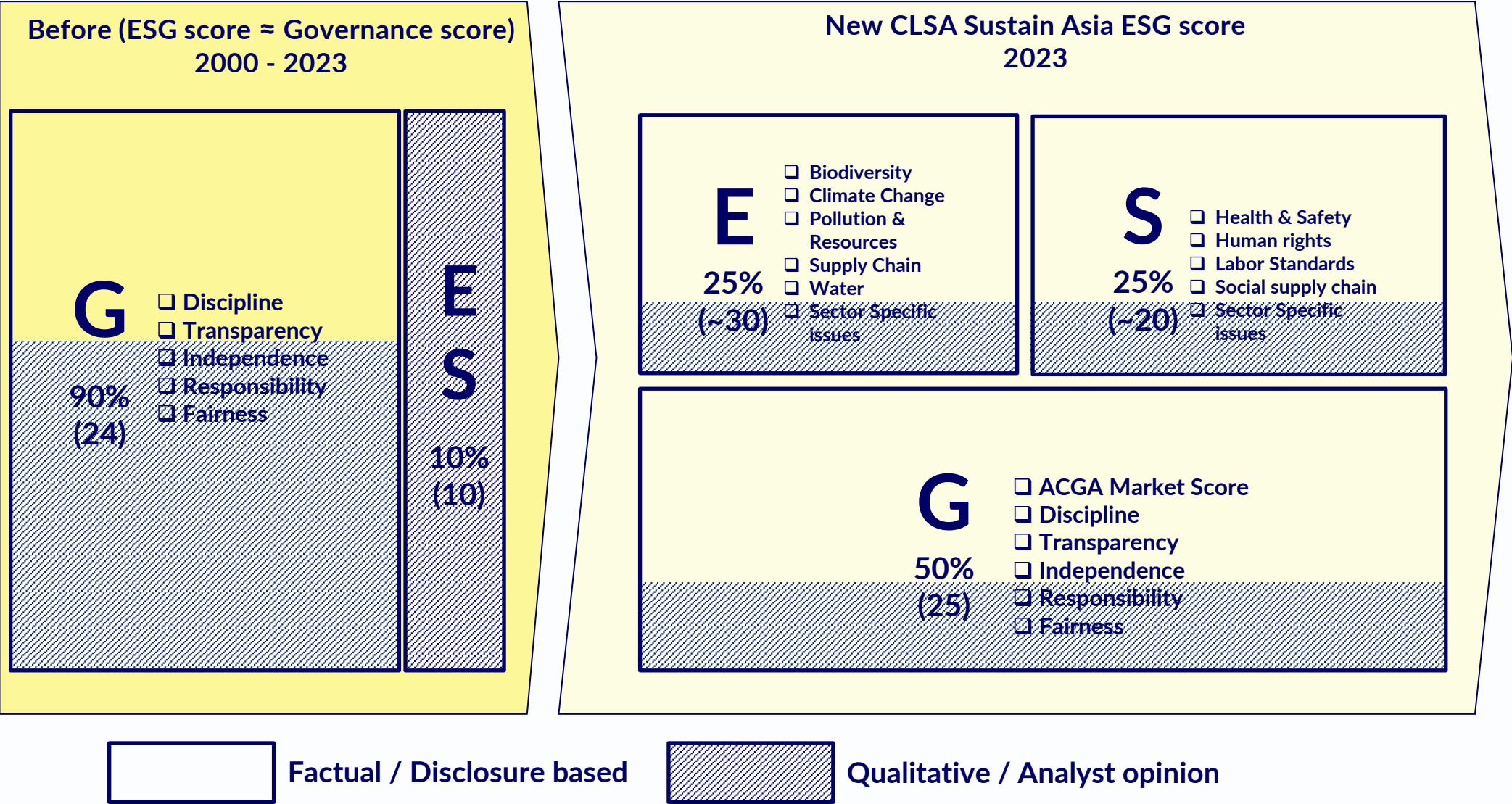


## CLSA Sustain Asia top picks and valuations

Company name	Ticker	CLSA sector	ESG angle	Theme	Mkt cap (US\$bn)	3M ADTO (US\$m)	Div yield (%)		Return (%)	
							23CL	24CL	1yr	5yr
Australia										
Brambles	BXB AU	Transport	Best in Class	Circular Economy	13	33.1	2.6	3.1	28.7	37.7
China										
Mengniu Dairy	2319 HK	Consumer	Improver	Climate action	12.6	35.3	2	2.2	(14.4)	8.7
Sungrow	300274 CH	Power	Thematic	Renewable	17.5	224	0.4	0.6	(39.4)	1,296.9
Centre Testing Intl	300012 CH	Technology	Thematic	Circular Economy	3.8	23.1	0.5	0.6	(24.9)	184.1
India										
CreditAccess Grameen	CREDAG IN	Financial services	Thematic	Financial Inclusion	2.7	5.1	-	-	57.4	435
NHPC	NHPC IN	Power	Thematic	Energy Transition	6.3	19.1	3.7	3.7	21.7	112.2
NTPC	NTPC IS	Power	Thematic	Energy Transition	28.4	46.8	3.1	3.4	43.3	72.9
Indonesia										
Bank Rakyat	BBRI IJ	Financial services	Thematic	Financial Inclusion	51.1	39.3	5.7	5.6	12.9	73.7
Japan										
Asahi Group	2502 JP	Consumer	Best in Class	Climate action	19.4	63.7	2.2	2.2	26.3	11.2
Asics	7936 JP	Consumer	Thematic	Healthy living	6.5	50.8	1	1.2	108.3	191.7
Komatsu	6301 JP	Capital goods	Best in Class	Climate action	26.1	107.5	3.8	5.1	35.7	11.8
Korea										
Samsung Biologics	207940 KS	Healthcare	Improvers	Governance	38.3	33.7	-	-	(17.4)	49.3
Samsung Electronicss	005930 KS	Technology	Improvers	Governance	312.9	764.4	2.1	2.1	22.4	55.5
Taiwan										
Kaori	8996 TT	Technology	Thematic	Heat Pump	0.7	46.5	1.4	2	100.9	494.2
Voltronic	6409 TT	Technology	Thematic	Renewable	4.2	9.8	2.9	2.1	9.9	213.1
MSCI Asia Pacific									11.5	(1.2)

Note: Priced on 23 October 2023. Source: CLSA, Refinitiv

# Redesign of our ESG scoring



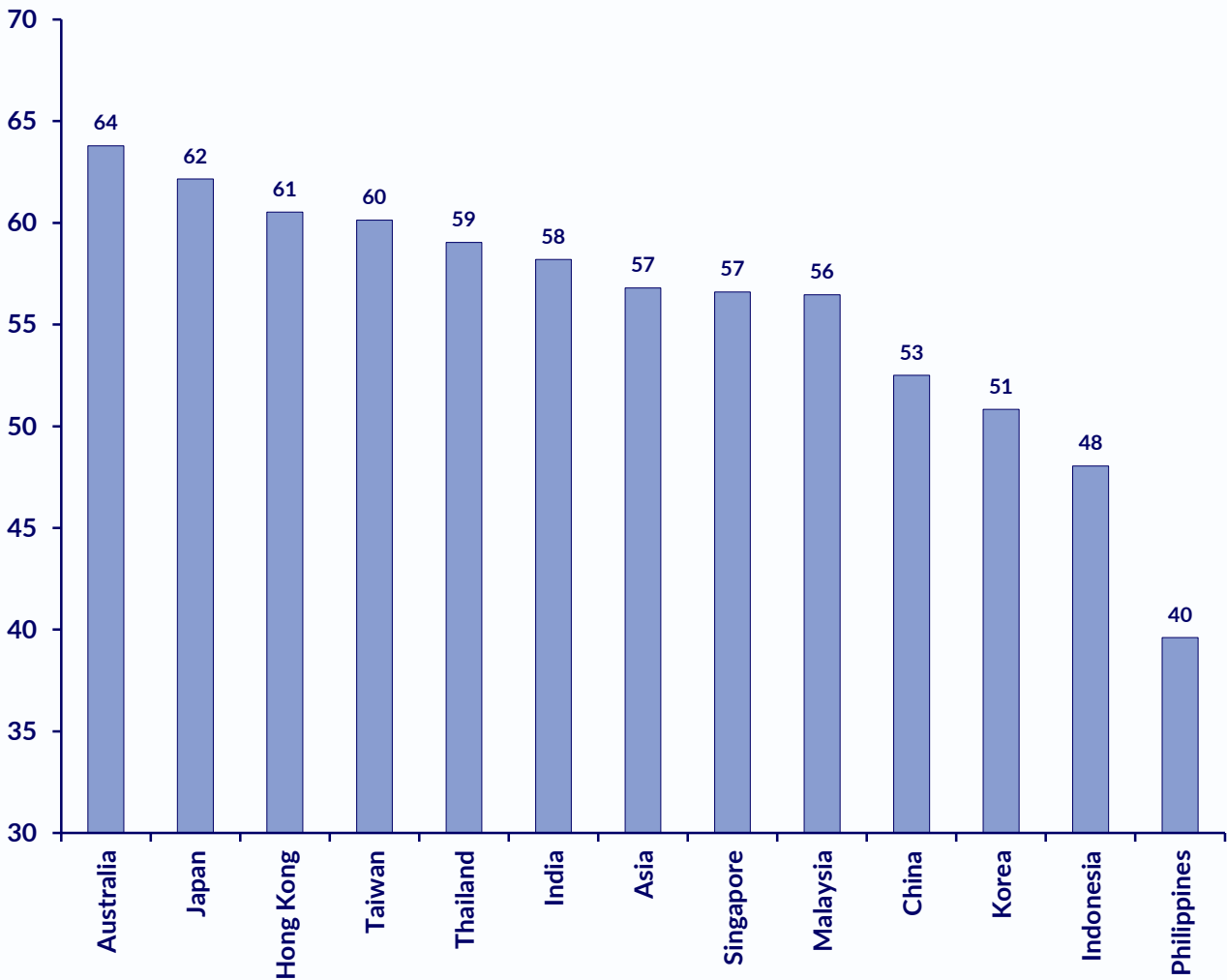
Source: CLSA



# Quick preview on new ESG scores

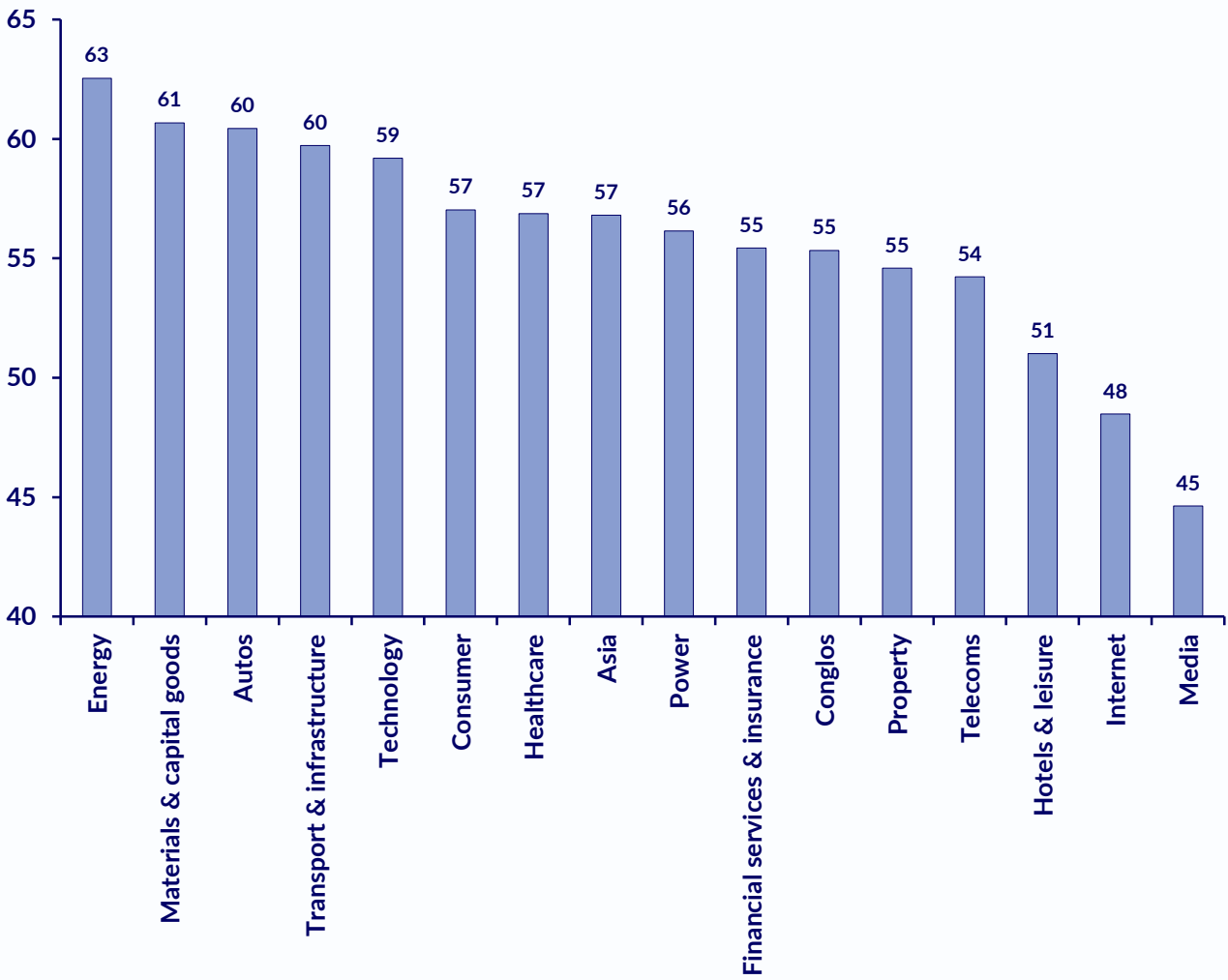


Total score by market



Source: CLSA

Total score by sector

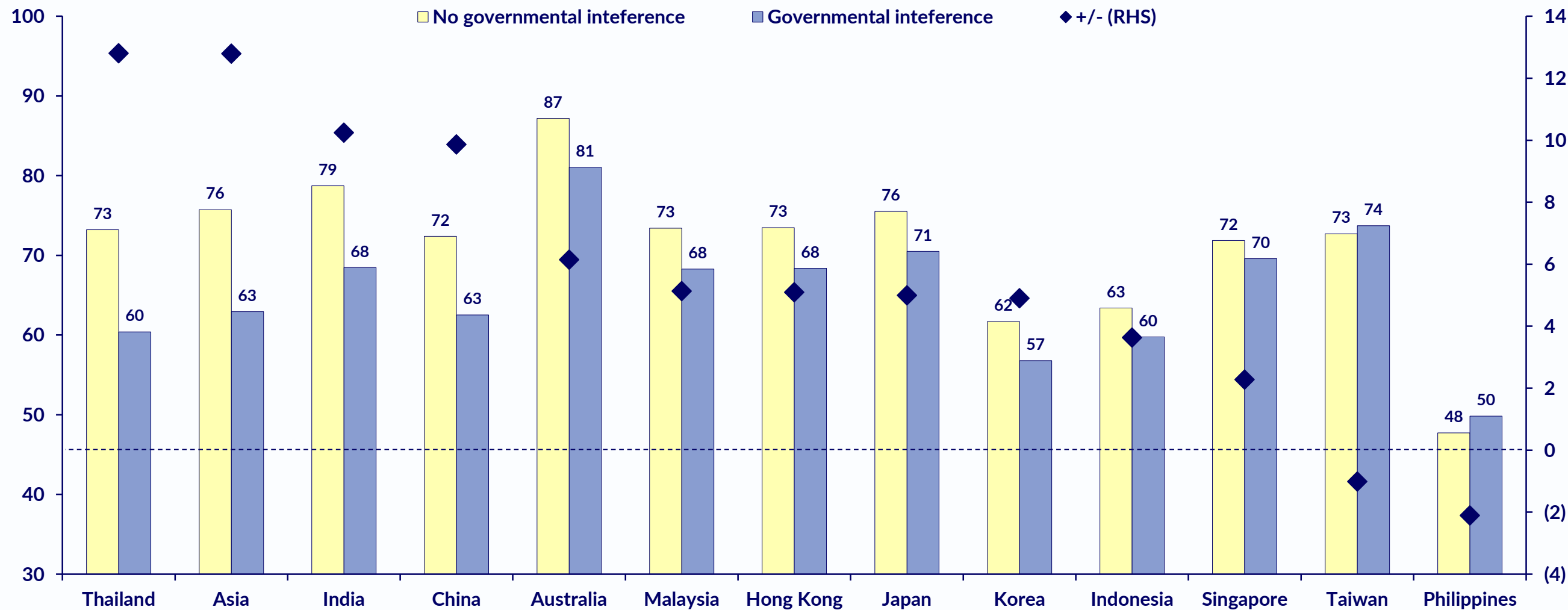




# Topical analysis 1: State-owned vs private-owned



CG score comparison between companies with governmental influence vs no governmental influence



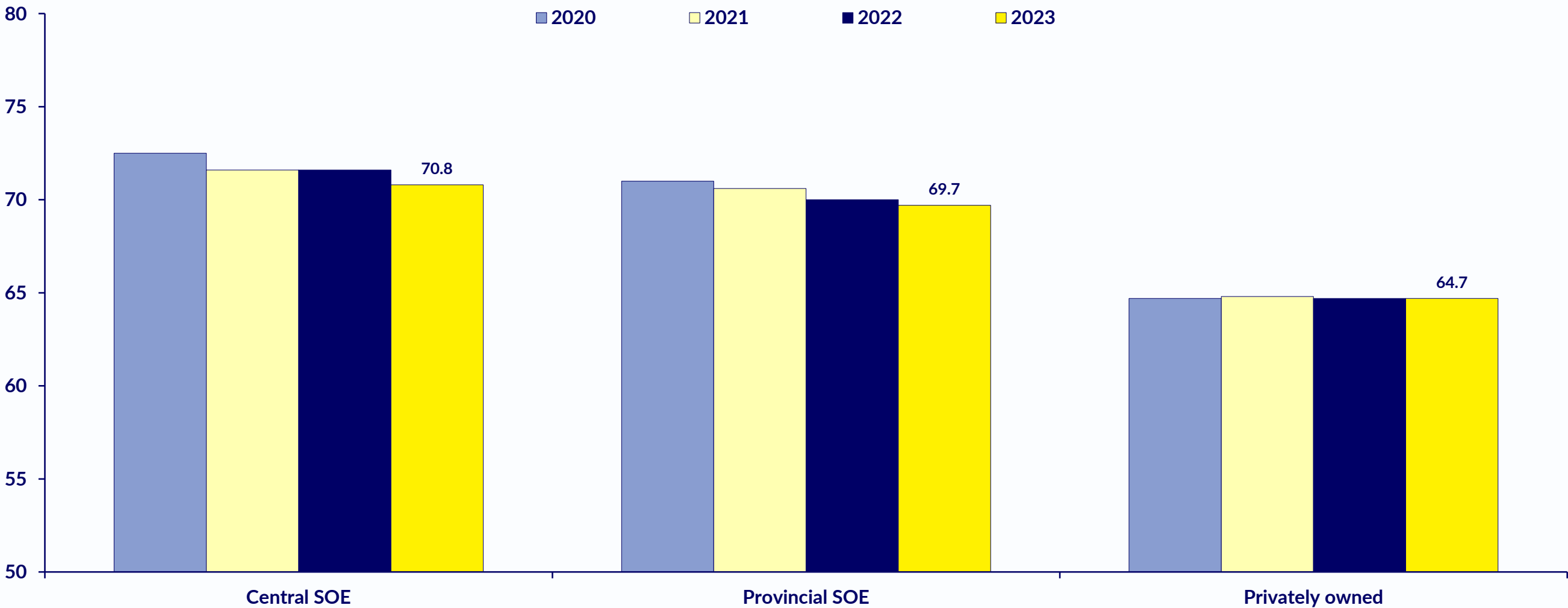
Source: CLSA



# Topical analysis 1: State-owned vs private-owned



Chinese case: Private-owned companies vs state-owned companies, using CITICS governance score



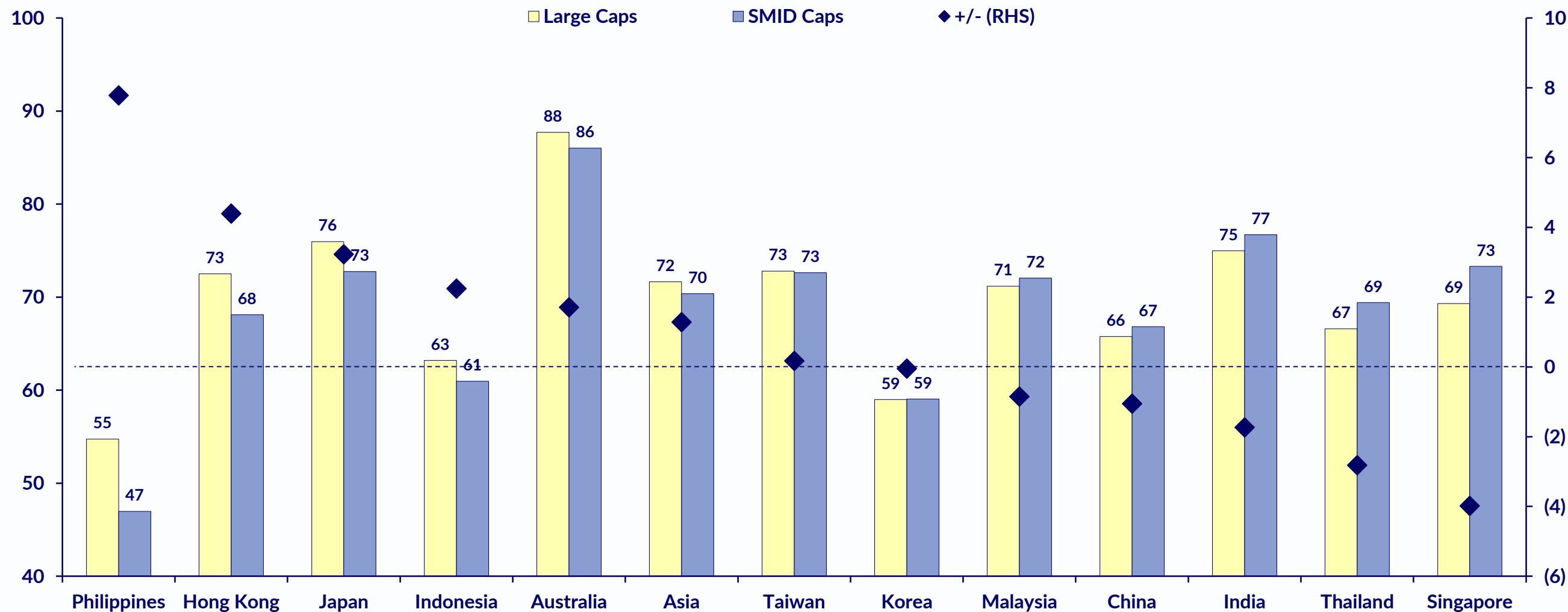
Source: CITICS, CLSA



# Topical analysis 2: Large-cap vs SMID-caps



CG score gaps between large-cap (above US\$3bn) and SMID-cap (below US\$3bn)



Source: CLSA



# Topical analysis 3 – Founder (family) vs manager-run



## Founder company CG score vs manager-run

CLSA

Thematic baskets

Market outlook

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7 March 2022

Asia Pacific

Thematics

Top picks

BYD

1211 HK

BUY

Market cap

US\$103.1bn

Price

HK\$212.40

Target

HK\$370.00

Up/downside

+74%

Flight Centre

FLT AU

BUY

Market cap

US\$2.6bn

Price

A\$17.79

Target

A\$27.50

Up/downside

+55%

Naver

035420 KS

BUY

Market cap

US\$44.6bn

Price

₩317,500.00

Target

₩526,000.00

Up/downside

+66%

Tencent

700 HK

BUY

Market cap

US\$495.9bn

Price

HK\$402.20

Target

HK\$780.00

Up/downside

+93%

Softbank Group

9984 JP

BUY

Market cap

US\$77.8bn

Price

¥4,963.00

Target

¥7,020.00

Up/downside

+42%

Press Metal

PMAM HK

BUY

Market cap

US\$13.9bn

Price

RM7.22

Target

RM6.30

Up/downside

+15%

Wilmar

WIL SP

BUY

Market cap

US\$21.2bn

Price

\$84.67

Target

\$86.20

Up/downside

+33%

Introducing the Founders Portfolio

Companies led by founders materially outperform

Legendary entrepreneurs establish extraordinary organisations that generate exceptional wealth under their continuous leadership. Compared to professional leaders, founders have a direct and personal, rather than agency, link to their companies. Academic research shows that these types of companies have outperformed in the US. Back testing against our newly constructed Asian cohort demonstrates that this is true of Asia and robust to country and sector splits. Our current top picks within this wide and diverse Thematic portfolio include BYD, Flight Centre and Naver.

Founders' leadership can be critical to companies

CLSA's long-term success is deeply rooted in a founder-led culture. In this context, the thematic team was not surprised to read academic research that suggests founder-led companies have performance advantages. These include more aspirational leaders, higher investments in R&D and evidence of a greater focus on the long term even at the expense of short-term profitability. Building on these academic findings, the CLSA thematic baskets team decided to build an Asia Founders Portfolio. Our core question was if these globally validated advantages translate to share-price outperformance in Asia? In short, they do.

Total investable universe and constraints applied

We identify companies from the Refinitiv Asia Pacific and Refinitiv Emerging Market Asia Pacific Index whose founders still command a leadership role. A liquidity threshold of 3-month average daily turnover above US\$2 million is applied as the only constraint besides the theme criteria to make the candidate stocks investable. We have run sensitivities across progressive liquidity thresholds to demonstrate the performance resilience, which holds across turnover, sector and geographic boundaries to a very large degree.

The Founders Portfolio

The base portfolio outperformed the Asian benchmark by 5.24% per annum since 2016. This is robust to liquidity constraints with every portfolio tested (up to a maximum of US\$50m per day) retaining sufficient returns to outperform. All country portfolios outperformed local benchmarks, except Thailand. All sector portfolios outperformed their local benchmarks. This is a highly robust performance criteria across multiple lens with a strong theoretical basis. The Founders Portfolio is worth tracking and optimising; we will continue to do so. Recent meaningful underperformance suggests now is a good time to revisit this Thematic portfolio.

Founders Portfolio performance relative to MSCI Asia Pacific Index from Sep-2016 to Feb-2022

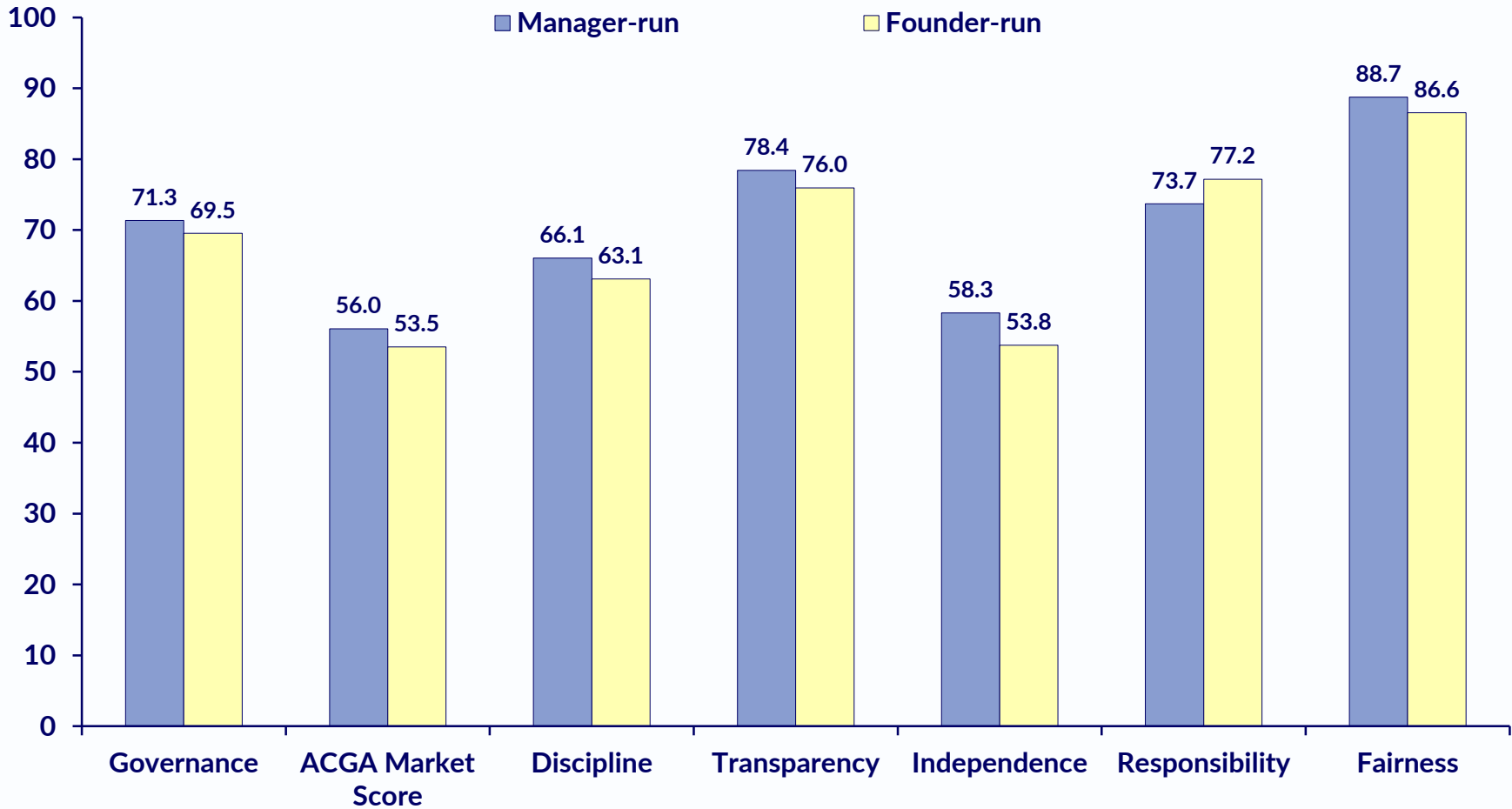
Relative to MSCI Asia Pacific

Portfolio Performance

Source: CLSA, Refinitiv

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# Companies mentioned



Asahi Group (2502 JP - ¥5,370 - BUY)<sup>1</sup>

Asics (7936 JP - ¥4,781 - BUY)<sup>1</sup>

Bank Rakyat (BBRI IJ - RP5,000 - BUY)<sup>1</sup>

Brambles (BXB AU - A\$13.19 - O-PF)<sup>1</sup>

BYD (1211 HK - HK\$245.80 - BUY)<sup>1</sup>

Centre Testing Intl (300012 CH - RMB15.05 - BUY)<sup>1</sup>

CLP (N-R)

CreditAccess Grameen (CREDAG IN - RS1,570.7 - BUY)<sup>1</sup>

Dalmia Bharat (DALBHARA IN - RS2,038.5 - O-PF)<sup>1</sup>

Flight Centre (FLT AU - A\$18.07 - BUY)<sup>1</sup>

Jardine Matheson (JM SP - US\$39.74 - BUY)<sup>1</sup>

Kaori (8996 TT - NT\$221.0 - BUY)<sup>2</sup>

Komatsu (6301 JP - ¥3,690 - BUY)<sup>1</sup>

Mengniu Dairy (2319 HK - HK\$25.80 - BUY)<sup>1</sup>

MTR (66 HK - HK\$29.55 - BUY)<sup>1</sup>

Naver (035420 KS - ₩185,400 - O-PF)<sup>1</sup>

NHPC (NHPC IN - RS50.6 - BUY)<sup>1</sup>

NTPC (NTPC IS - RS236.6 - BUY)<sup>1</sup>

Press Metal (PMAH MK - RM4.88 - BUY)<sup>1</sup>

Samsung Biologics (207940 KS - ₩723,000 - BUY)<sup>1</sup>

Samsung Electronics (005930 KS - ₩67,300 - BUY)<sup>1</sup>

Shinhan (055550 KS - ₩35,000 - BUY)<sup>1</sup>

Softbank Corp (9434 JP - ¥1,693 - O-PF)<sup>1</sup>

Sungrow (300274 CH - RMB82.86 - BUY)<sup>1</sup>

Tencent (700 HK - HK\$292.80 - BUY)<sup>1</sup>

Thai Union (TU TB - BT13.3 - O-PF)<sup>1</sup>

Transurban (TCL AU - A\$11.89 - O-PF)<sup>1</sup>

Voltronic (6409 TT - NT\$1,330.0 - O-PF)<sup>2</sup>

Wilmar (WIL SP - S\$3.52 - BUY)<sup>1</sup>

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