2023

Corporate Governance in Asia

insightia
a Diligent brand

KEKST CNC

Contents

Corporate Governance in Asia 2023

Published by
Insightia, *a Diligent brand*

www.insightia.com
info@insightia.com
Twitter: @InsightiaLtd

4 Old Park Lane
Mayfair, London, W1U 6PZ
+44 (0) 20 7129 1314

Diligent Corp.,
111 W 33rd Street,
New York, NY, 10001

Image credits (all Shutterstock.com)
Cover: Anson_shutterstock; Page 11: charnsitr; Page 17: Yeongsu Kim; Page 21: Chris Mole; Page 25: Naman Studio.

INTELLIGENT
INTELLIGENT
INTELLIGENT
INTELLIGENT
INTELLIGENT
INTELLIGENT
INTELLIGENT
INTELLIGENT
INTELLIGENT
INTELLIGENT
INTELLIGENT
INTELLIGENT
INTELLIGENT
INTELLIGENT
INTELLIGENT ANALYTICS
ANALYTICS
ANALYTICS
ANALYTICS
ANALYTICS
ANALYTICS
ANALYTICS
ANALYTICS
ANALYTICS
ANALYTICS
ANALYTICS
ANALYTICS
ANALYTICS
ANALYTICS
ANALYTICS

insightia

a Diligent brand

WHERE **INTELLIGENCE** MEETS **ANALYSIS**

GOVERNANCE • ENGAGEMENT • STEWARDSHIP

Editor's foreword

Asian companies are experiencing the same pressures as their western peers, forcing them to address perceived financial and ESG weaknesses, writes Josh Black.

"Activist and institutional investors had their busiest year on record in Asia in 2022 with surging financial and ESG-related demands."

Josh Black
jblack@diligent.com

Pressure from all sides is raising the profile of ESG across Asia and emboldening investors to push for more changes at increasing numbers of companies.

As our latest special report, *Corporate Governance in Asia 2023*, describes, activist and institutional investors had their busiest year on record in 2022 with surging financial and ESG-related demands detailed by data from Insightia, a Diligent brand. Those included more than four-times as many companies subject to environmental demands as last year, twice as many issuers facing remuneration-related demands compared to the previous peak, and a 17% increase in companies facing demands for personnel appointments.

Proxy voting advisers are feeding the charge, with tough standards eating into institutional investor support for directors and executive compensation. But if many companies are insulated from activist pressure due to cross-shareholdings, irregular engagement approaches, or friendly national pension funds, government-affiliated actors are introducing another source of pressure.

Consider the number of recent changes across the regulatory landscape in Asia:

- Japan adopted the first mandatory disclosure requirements in line with the recommendations of the Task Force on Climate-related Financial Disclosures in 2022, with the rules being extended to smaller companies after the current fiscal year.
- All Korea-listed companies with assets of 2 trillion won ($1.7 billion) must have at least two female board directors, as of 2023.
- Auditors of China and Hong Kong-based companies listed on U.S. exchanges will be required to provide access to investigators from the U.S. Public Company Accounting Oversight Board (PCAOB), while the China Enterprise Reform and Development Society (CERDS) published the first voluntary ESG disclosure standard.
- Singapore is tightening disclosure requirements on executive compensation and introducing term limits for independent directors.

Away from ESG-focused campaigns, many of the leading activists in Asia are now domestic shareholders, rather than international funds. That, together with a growing presence for index funds and changing social norms, is leading to a more accommodative approach to activism in some markets, most notably in Japan. It also allows activism to be more confrontational, with more proxy fights every year since 2020, and direct, with a surge in demands for companies to divest assets, amend capital structures, and return cash to shareholders.

The ever-evolving number of ESG engagements and reporting requirements for Asian issuers underscores the need for leaders to have a 360-view of data across their organization, strengthening their ability to identify which red flags to escalate to the board, monitor and mitigate evolving risks, and document compliance and risk management efforts in defensible, auditable detail.

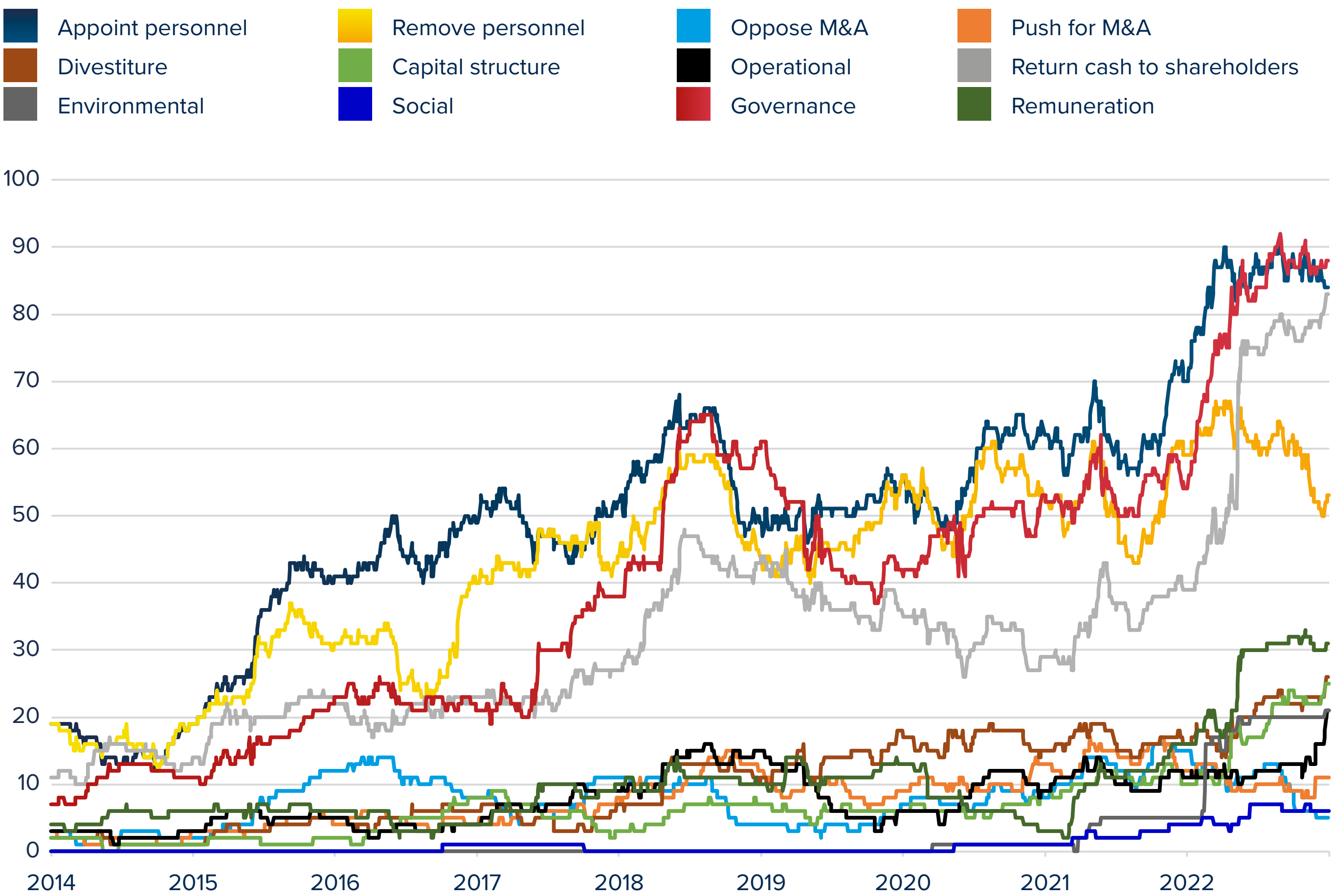
Diligent, which acquired Insightia in 2022, is the global leader in modern governance, providing SaaS solutions across governance, risk, compliance, audit, and ESG.

If you enjoyed this report, you will be delighted to hear that we plan for it to become an annual occurrence. You may also enjoy our other special reports, which cover a range of geographies and topics, and can be found at Insightia.com/reports. Look out for forthcoming reports on Europe and Australia, as well as our recent *Shareholder Activism Annual Review 2023* – the landmark 10th addition.

Finally, if you are interested in sponsoring a report or learning more about our databases, please contact info@insightia.com. We look forward to hearing from you soon.

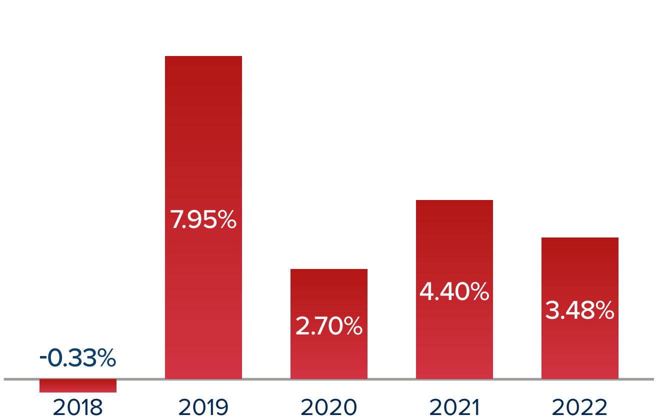
Asia infographics

365 day rolling campaign total by demand group



Source: Insightia / Activism

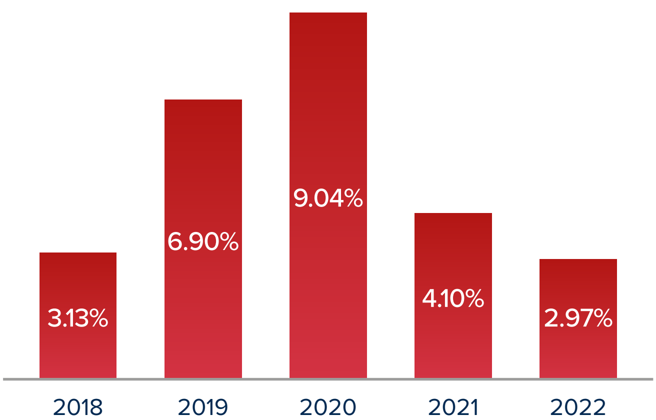
Average one-week campaign returns for short campaigns at Asia-based companies by year, from 2018 onwards



Note: Positive returns are good for the short seller.

Source: Insightia / Shorts

Average one-month campaign returns for short campaigns at Asia-based companies by year, from 2018 onwards



Source: Insightia / Shorts

Asia infographics

No. and proportion of Asia-listed companies where director re/elections faced >20% opposition by country

	2021			2022		
	No. with results	No. revolts	% revolts	No. with results	No. revolts	% revolts
China	2,633	13	0.5	3,027	7	0.2
Hong Kong	326	6	1.8	337	5	1.5
India	1,283	54	4.2	1,341	37	2.8
Japan	2,135	20	0.9	2,164	20	0.9
Singapore	77	1	1.3	0	0	0
Grand total	6,564	96	1.5	6,926	69	1.0

Source: Insightia / Voting

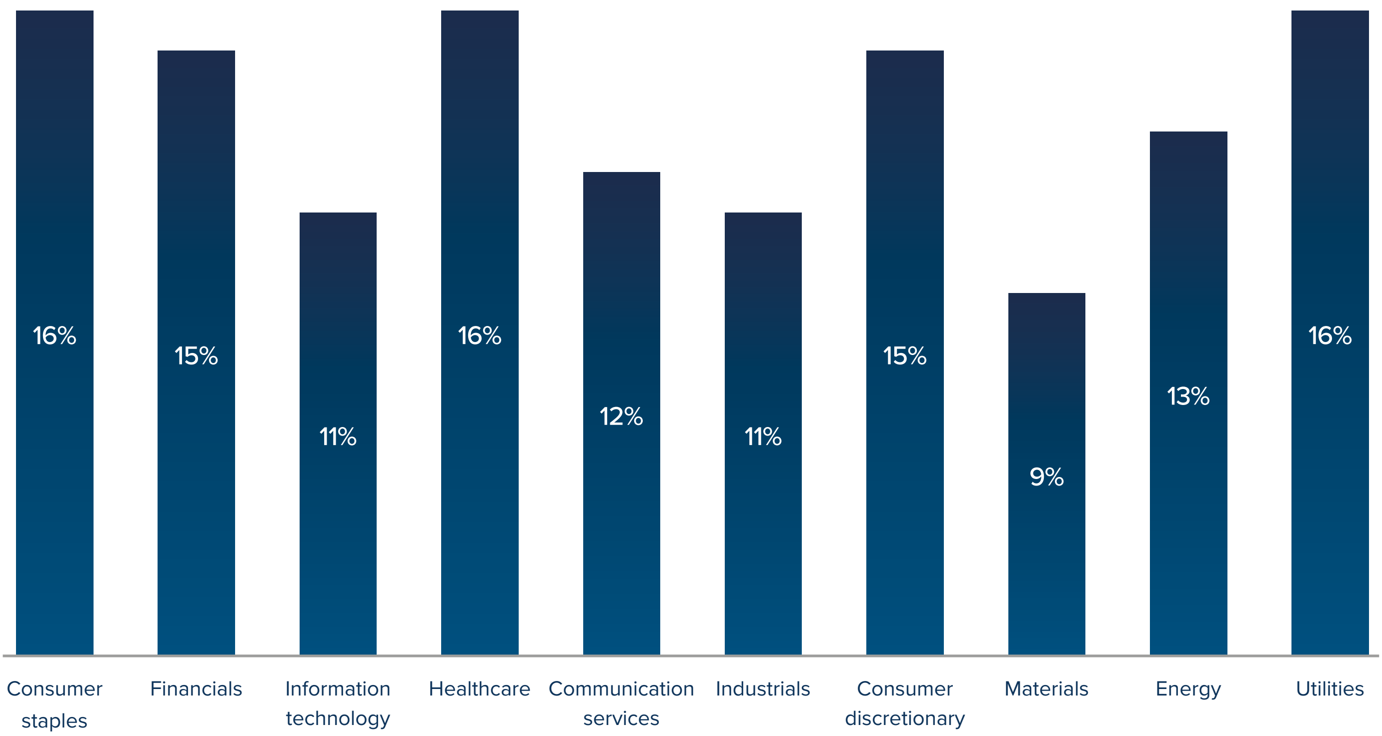
*Voting disclosures in some Asian markets is limited.

No. of Asia-based companies subjected to activist demands by sector and demand year

Demand group	2021	2022	YOY % Change
Basic materials	10	21	⬆ 110.0
Communication services	2	4	⬆ 100.0
Consumer cyclical	25	35	⬆ 40.0
Consumer defensive	11	15	⬆ 36.4
Energy	3	4	⬆ 33.3
Financial services	9	16	⬆ 77.8
Funds	1	0	⬇ 100.0
Healthcare	6	12	⬆ 100.0
Industrials	39	45	⬆ 15.4
Real estate	6	4	⬇ 33.3
Technology	21	26	⬆ 23.8
Utilities	1	4	⬆ 300.0
Total	134	186	⬆ 38.81

Source: Insightia / Activism

Nikkei 225 board gender diversity by industry (%)



*As of February 16, 2023.

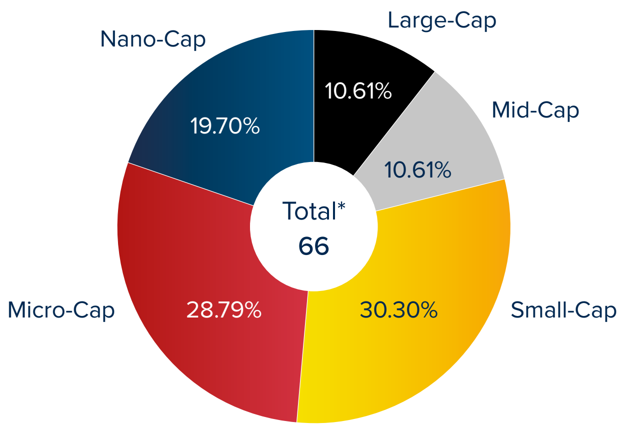
Source: Diligent / Compenation and Governance Intel

Asia infographics

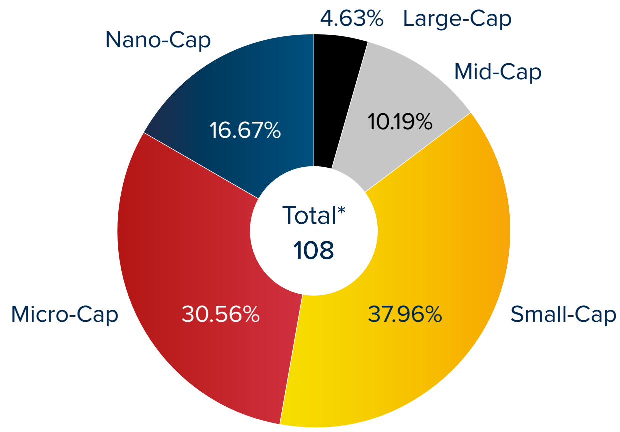
Proportion of Asia-based companies subjected to activist demands
by market-cap, country and demand year

Japan

2021

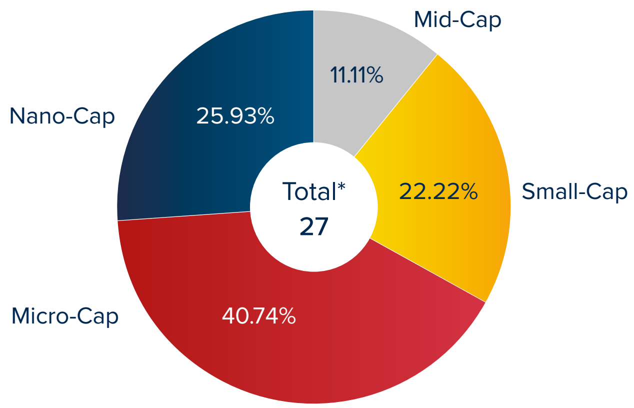


2022

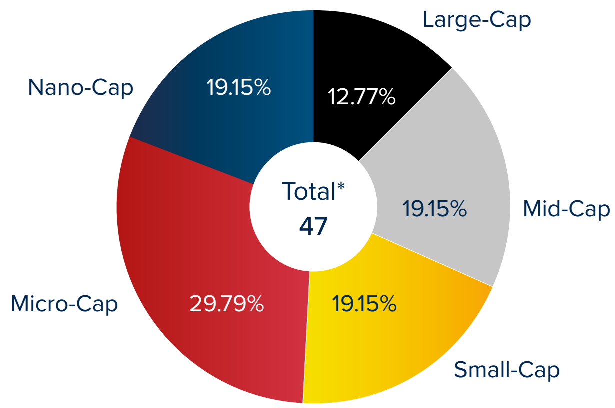


Republic of Korea

2021

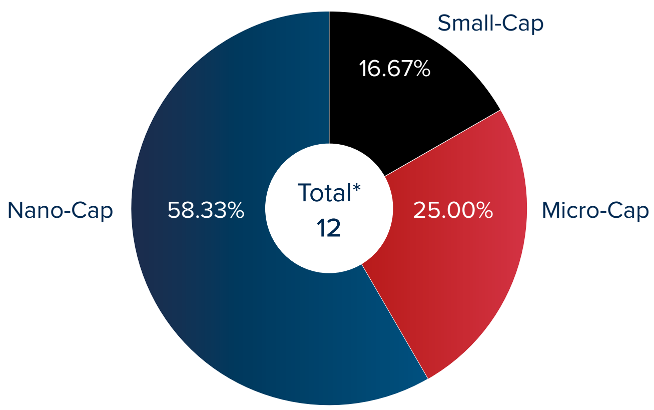


2022

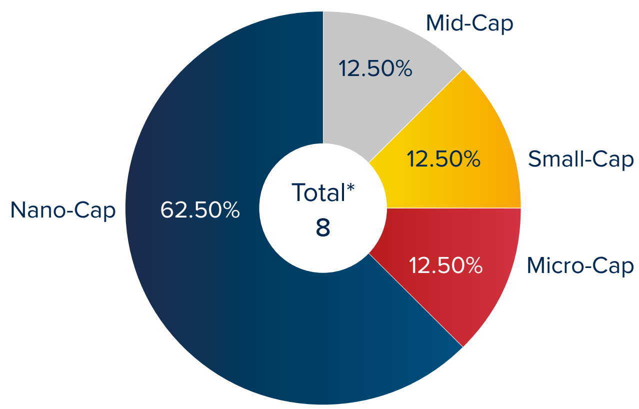


Singapore

2021



2022



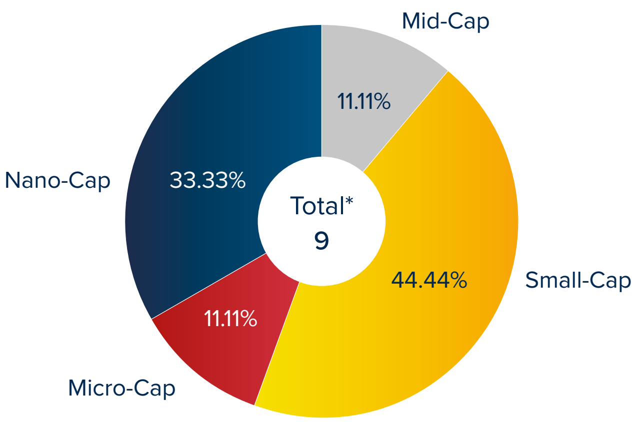
*Number of companies Source: Insightia / Activism

Asia infographics

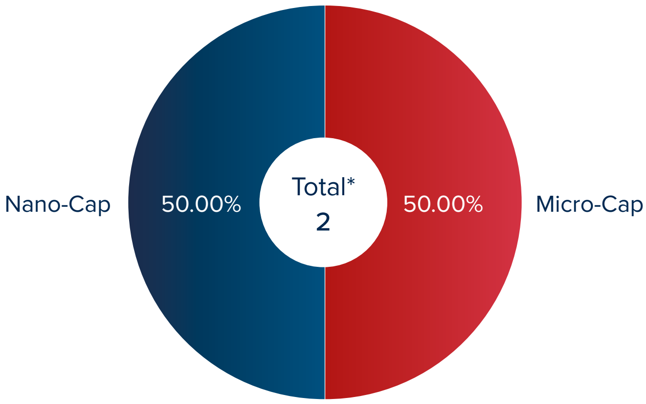
Proportion of Asia-based companies subjected to activist demands by market-cap, country and demand year

China

2021

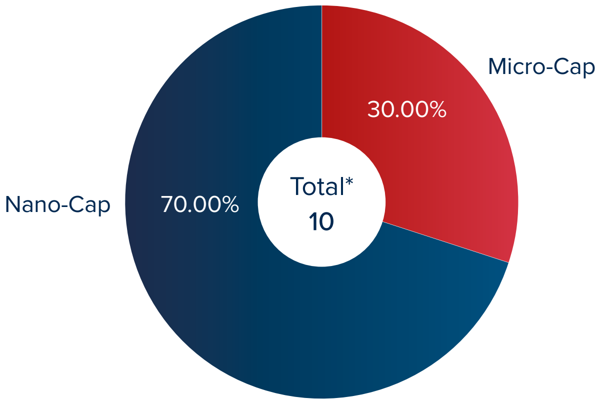


2022

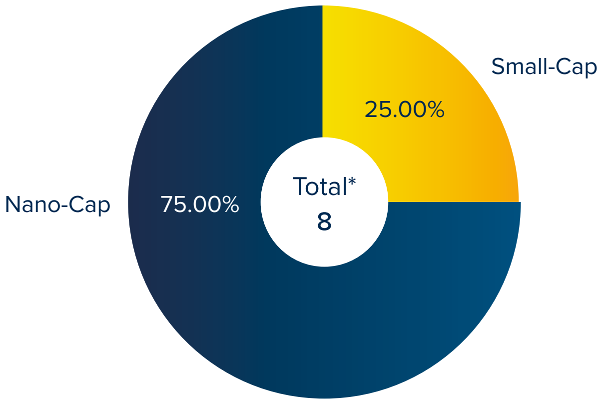


Hong Kong

2021

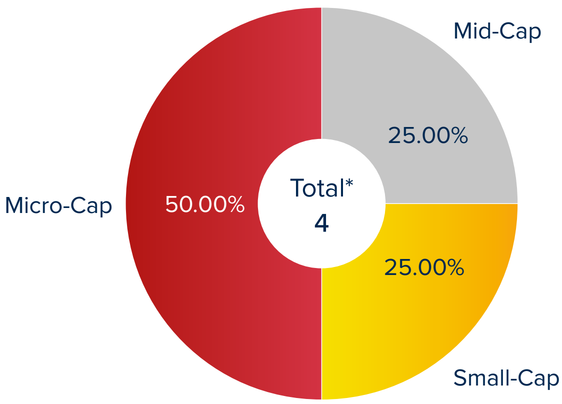


2022

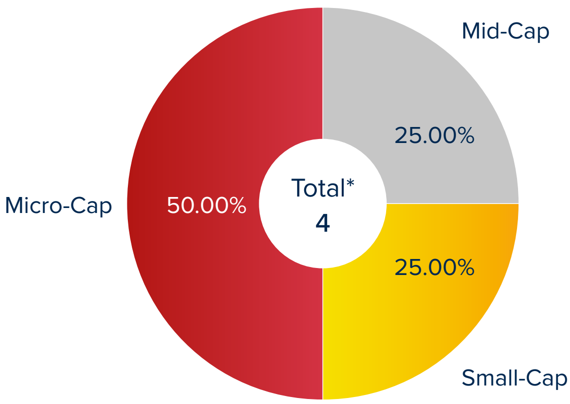


India

2021



2022



*Number of companies

Source: Insightia / Activism

Governance across Asia

From activism to ESG, corporate governance and shareholder engagement in Asia have evolved drastically in recent years, writes Amanda Carty, general manager, ESG and data intelligence, Diligent.

"Activism has been particularly prevalent in nations with sizable capital markets, like South Korea and Japan."

Amanda Carty
acarty@diligent.com

Historically, corporate governance in Asia has differed in many ways from corporate governance in Western nations. Yet, recent decades have seen increased convergence between these two worlds.

Since the Asian financial crisis of 1998 and the global crisis of 2008, structural reforms have evolved to include new regulations for corporate governance. For example, "fit and proper clearance" and minimum education and training requirements are now norms for director and executive leadership positions.

Activists worldwide have been escalating challenges related to board representation, executive compensation, divestitures, strategy, C-suite leadership, and more. Even asset management giant BlackRock has faced scrutiny over its stance on ESG investing. Will continued economic volatility bring even more developments in 2023?

What should directors prepare for?

In light of recent trends, here are a few things Asian boards should put on their radar in the year ahead.

Escalating activism: KT&G Corp. was among the first Asian companies to face activist demands in the mid-2000s. It returned to the spotlight last October when Korea's Flashlight Capital Partners called on it to divest its ginseng business, improve corporate governance, and return cash to shareholders.

Overall, the Asia-Pacific (APAC) region saw 76 activist demands publicly made in the first quarter of 2022, up from 50 in the same period of 2021, according to Insightia's *Shareholder Activism in Q1 2022* report. Global communications firm Fleishman-Hillard noted growing involvement by retail and institutional investors in the region, as well as a particular focus on board representation, governance, and environmental issues.

Activism has been particularly prevalent in nations with sizable capital markets, like South Korea and Japan. In Japan, environmental campaigns targeted five Japan-headquartered companies in the first four months of 2022, the same number as in the first four months of 2020 and 2021 combined. ValueAct Capital Partners, Elliott Management, Oasis Capital, and Third Point Partners have all waged successful campaigns at Japan-listed companies in 2022.

Expanding regulations: Japan's regulatory environment, in regard to corporate governance, has significantly developed in recent years. Prime Minister Shinzo Abe's administration in the 2010s brought audit and supervisory committees and mandates for greater disclosure around cross-shareholdings and conflicts, and 2021 updates to Japan's Corporate Governance Code expanded requirements for director independence and disclosures around diversity and sustainability.

More recently, China's first ESG disclosure standards went into effect in June 2022, with the China Securities Regulatory Commission prompting companies to voluntarily disclose their oversight of ESG-related risks and opportunities. As the nation's economy continues to diversify from industrial to digital, social and governance considerations have been rising in importance.

Evolving financial markets: Higher interest rates, sagging stock markets, and global uncertainty bring the temptation to sell stocks short to profit from falling asset values. Companies worldwide enlisted bans on the practice in 2008 during the global financial crisis and again in 2020 during the COVID-19 pandemic.

Could similar restrictions shape governance in 2023? South Korea is strengthening its monitoring and punishment for illegal short-selling and Taiwan's Financial Supervisory Commission rolled out a series of restrictions in October 2022. But not everyone is on board.

"[A short-selling ban] is unlikely to stem declines in their stock markets," Adam Harper, adviser to the Pan Asia Securities Lending Association, noted. "Instead, now is the time to promote liquid markets."

What will happen next? Keeping up requires a 360-degree view of the risk landscape and a three-dimensional approach to governance. Learn how you can help your organization get started.

Japan: Activism and ESG surge

Japan is fast becoming a hub for shareholder activism, thanks to a surge of domestic activity and investors' blossoming focus on ESG, writes Rebecca Sherratt.

Corporate Governance in Asia

insightia
a Diligent brand

Japan took the second-place spot for the number of companies subject to activist demands in 2022, up from third place in 2021 and second only to the U.S. Equally as impressive, the number of Japan-listed companies subject to demands in 2022 almost doubled to 108, compared to 67 and 66 throughout 2020 and 2021, respectively.

The recent surge in activity can be attributed to an increasing number of domestic activists joining the fray, eager to capitalize on undervalued companies and maximize value creation, as well as newly motivated ESG-driven actors.

In November, Tokyo-listed venture capital firm Jafco Group unveiled a 42-billion-yen ($321 million) buyback plan, yielding to demands from activist Yoshiaki Murakami and C&I. A group of domestic shareholders similarly appointed five of their own directors to OKWave's board at the technology company's August special meeting.

"The number of Japan-listed companies subject to demands in 2022 almost doubled to 108, compared to 67 and 66 throughout 2020 and 2021, respectively."

"The typically bolder approach of foreign investors tends to be less palatable to boards than those of their domestic counterparts, which are often perceived to have a better understanding of the market," Cas Sydorowitz, global CEO of Georgeson, told Insightia in an interview. "As a result, campaigns led by domestic investors are more likely to win the support of local investors."

This doesn't mean to suggest that campaigns launched by foreign activists aren't also bearing fruit. In May, U.S. activism behemoth Elliott Management secured a board seat at Toshiba. Elliott's Global Head of Engagement, Steven Barg, told Insightia in January this was indicative of the growing acceptance of activism on the part of Japanese companies.

Returning cash to shareholders proved an especially popular demand, nearly tripling to 63 in 2022, compared to 24 in both 2020 and 2021, and reaching a high watermark, with Kyokuto Kaihatsu Kogyo, Bunka Shutter, and Seikitokyu Kogyo Co. among the companies to face demands of this kind.

The tendency on the part of Japanese companies to retain a significant portion of cash on their balance sheets likely generates these demands. Some 40% of non-financial companies in the Tokyo Stock Exchange's (TSE) TOPIX index ended 2022 with net cash of more than 20% of their equity, according to the CLSA.

"In part due to rising interest rates, Asian companies may face increased calls to look at their assets and holdings in 2023," Sydorowitz added. "We could see more divestiture demands, as well as pressure for companies to unwind crossholdings and return cash to shareholders."

"For 2023, the direction of travel is in favor of increased levels of activism at all levels of the market," Paul ffolkes Davis, chair of Rising Sun Management, told Insightia in an interview.

ESG takes precedence

After years of ESG making subtle appearances in shareholder engagements in Japan, sustainability also became a priority in 2022. This was thanks, in part, to Japan's Financial Services Agency (FSA) mandating in 2021 that all Tokyo Stock Exchange (TSE) Prime market-listed companies must report in line with Task Force for Climate-related Financial Disclosure (TCFD) requirements.

Demand type breakdown of Japan-based companies publicly subjected to activist demands by year with YOY % change

Demand group	2021	2022	YOY % Change
Appoint personnel	12	27	⬆ 125.0
Capital structure	3	13	⬆ 333.3
Divestiture	10	21	⬆ 110.0
Environmental	5	9	⬆ 80.0
Governance	28	46	⬆ 64.3
Operational	5	17	⬆ 240.0
Oppose M&A	8	1	⬇ 87.5
Push for M&A	8	9	⬆ 12.5
Remove personnel	11	16	⬆ 45.5
Remuneration	5	22	⬆ 340.0
Return cash to shareholders	24	63	⬆ 162.5
Social	1	3	⬆ 200.0

Source: Insightia / Activism

"While companies are making certain efforts, such as preparing TCFD reports and publishing their own climate action plans, none of the companies targeted by shareholder proposals have been able to provide concrete plans for achieving their targets for 2050, so their measures continue to fall short," Yasuko Suzuki, program coordinator at Kiko Network told Insightia.

"12 climate change proposals were subject to a vote at Japan-listed companies in 2022, quadruple the three one year prior."

Twelve climate change proposals were subject to a vote at Japan-listed companies in 2022, quadruple the three one year prior, according to Insightia's *Voting* module.

Proposals asking J-Power and Sumitomo Mitsui Financial Group to align their operations with Paris Agreement goals won upwards of 25% support, an impressive feat given that average support for environmental and social proposals in Japan was just 6.1%, two years prior.

Domestic and foreign activists alike are calling on portfolio companies to step up their sustainability commitments, with

Outcome of gain board representation demands at Japan-based companies that went to vote, by outcome year

Outcome	2018	2019	2020	2021	2022
Activist won at least one seat	4	3	4	5	7
Activist won no seats	6	10	16	6	12
Total	10	13	20	11	19

Source: Insightia / Activism

Outcome of gain board representation demands at Japan-based companies that settled, by outcome year

Outcome	2018	2019	2021	2022
Activist won at least one seat	1	5	3	4
Activist won no seats	0	0	0	1
Total	1	5	3	5

Source: Insightia / Activism

Amundi, Kiko Network, and HSBC Asset Management filing proposals of this kind. Notably, Japan hasn't seen the drop off in support for ESG proposals that the U.S. experienced in 2022.

"On top of renewed activist activity and demand for ESG-related disclosure, Japanese issuers are having to more regularly contend with shareholder revolts."

"In Japan, investors are actively targeting financial institutions, amid concerns that these firms continue to finance all manner of oil, coal, and gas projects," Sydorowitz said. "There seems to be continued pressure applied to Japanese banks to tackle these issues, more so than when compared with their Western counterparts."

No. activist short campaigns at Japan-based companies by allegation with YOY % change

	2021	2022	YOY%
Number of campaigns	0	1	N/A

Source: Insightia / Shorts

Rising dissent

On top of renewed activist activity and demand for ESG-related disclosure, Japanese issuers are having to more regularly contend with shareholder revolts. In 2022, 17 director re/election proposals failed to muster majority support at Japan-listed companies, compared to seven throughout 2021, according to Insightia's *Voting* module.

Emissions-heavy sectors are facing the brunt of investor opposition. Average support for director re/elections in the financial services and energy sectors were 95.6% and 95.8%, respectively, compared to 96.5% for all directors, regardless of industry.

A similar situation presents itself when it comes to executive compensation. Director remuneration proposals in the basic materials and financial services sectors received 89.8% and 90.9% support, respectively, compared to an average of 92%% across all sectors.

Highest-supported environmental shareholder proposals in Japan

Company	Meeting date	Proposal	For (%)
Sumitomo Mitsui Financial Group	June 29, 2022	Align business strategy with Paris Agreement goals.	27.7
Electric Power Development Co. (J-Power)	June 28, 2022	Align business strategy with Paris Agreement goals.	25.9
Kansai Electric Power Co.	June 28, 2022	Report on carbon neutral business activities.	20.8
Mitsubishi Corp.	June 24, 2022	Align business strategy with Paris Agreement goals.	20.6
Kansai Electric	June 28, 2022	Report on alternative energy sources.	20.5

Source: Insightia / Voting

From defense and engagement – Activism in Asia

An interview with Dr. Jochen Legewie and Ruth Pachman, co-heads global shareholder activism practice, and Minako Otani, Japan shareholder activism lead, at Kekst CNC.

Jochen Legewie
Partner & Chairperson Asia (Tokyo)
jochen.legewie@kekstcnc.com

Ruth Pachman
Partner (New York)
ruth.pachman@kekstcnc.com

Minako Otani
Director (Tokyo)
minako.otani@kekstcnc.com

Where are the hotbeds of shareholder activism in Asia?

Jochen Legewie (JL): Japan is clearly the main hotbed, as data from Insightia's *Activism* module demonstrate. South Korea is quickly catching up, with a rapid increase in private and public campaigns. We can also see that activists are taking a closer look at other countries, in particular Singapore, while China will likely remain in decline.

What are the typical characteristics of shareholder activism in Japan?

Minako Otani (MO): Activism in Japan is very different from Western countries and is thriving mainly because of top-down policies introduced by the government that strengthen the country's Corporate Governance and Stewardship Codes. Companies have to follow suit and move away from the institutionally entrenched boards and management structures of the past to new, outward-looking shareholder engagement. Recognizing the challenging nature of this shift, international activists have adjusted their campaigns from the "hammer method" used in the past to a more constructivist, engaging approach.

Which role does the U.S. play with regard to activism in Asia?

Ruth Pachman (RP): In short, a very important one. In each of our Asian mandates, our local office is working very closely with our colleagues in New York. The reasons are obvious, as regardless of the origin of the activist, it is essential to apply a combined understanding of how American institutional shareholders and activists think and behave with a sophisticated sensitivity to the unique sensibilities and characteristics of Asian cultures and markets.

How do you see ESG activism developing in Asia?

MO: Classic ESG activism has not yet peaked in Asia. In particular, we see more and more references to environmental themes and issues. However, out of the three letters that make up ESG, the most important in Asia so far is governance. Activist shareholders do not shy away from bold business recommendations, but they know the chances for their realization remain slim without corporate governance changes. Hence, activist demands often focus on changes in governance structures and on the actual people in place on the board and in top management.

How has activism changed the communication needs of Asian companies?

JL: We are seeing companies begin to wake up to the need for activism preparedness, making sure a company's strategic business objectives, capital allocation strategy, metrics, and expectations are properly understood for accurate evaluation. Until recently, investor relations (IR) was often a fairly passive function that followed an annual calendar of legally mandated disclosures and explanations. With a stable shareholder base, there was little need for proactively communicating a compelling equity story.

> *"We are seeing companies begin to wake up to the need for activism preparedness."*

This has radically changed, with foreign institutional investors owning more than 30% of listed Japanese companies on average, often even more than 50%. Asian companies are rapidly professionalizing not only their IR work but also their engagement with business and financial media, at home as well as internationally. The rising need for a more consistent and strategic positioning with investors and business and financial media is our company's sweet spot as a strategic communications adviser, providing our clients with PR and IR advice from our offices in and outside of Asia.

What is your most important piece of advice for Asian companies facing activism?

RP: It is very simple, but it comes often as a surprise: do not focus on defending against or criticizing the activist, but on engaging with and winning over your other shareholders. Develop your corporate strategy and equity story, and proactively and consistently communicate it to them before the activist appears at your door. Last year's annual meeting season in Japan, for example, saw a record number of shareholder proposals and buy-ins from institutional shareholders. It is the shareholders at large that own the company and decide its future course, not one single activist.

KEKST CNC

Leading Business-Critical Communications

Kekst CNC is a global leader in activism preparedness and defense, with decades of experience gained from a host of contentious situations across industries and around the world including Asia. Drawing on our track record, intimate knowledge of different activist approaches, and ability to pivot quickly in response to volatile dynamics, we ensure clients stay one step ahead.

We believe in prevention: by leveraging our deep boardroom experience and collaborative relationships with internal teams, we strengthen companies against the threat of activism. To prepare for any eventuality, we run broad-based scenario planning and, if necessary, we establish defense campaigns encompassing communication with all key stakeholders.

We have been advising on a large number of high-profile activism situations in Asia, with a particular focus on Japan.

We have also been ranked by mergermarket as the:

No.1 M&A PR Advisor for Japan

20 Consulted deals in Japan in 2022

No.2 Global M&A PR Advisor

274 Consulted deals globally in 2022

Kekst CNC is a global strategic communications firm that specializes in protecting and enhancing reputations when it matters most.

Abu Dhabi • Berlin • Boston • Brussels • Dallas • Dubai • Frankfurt • London
Munich • New York • Paris • Seoul • Stockholm • Tokyo • Washington D.C.

kekstcnc.com

Republic of Korea: Domestic investors lead the charge

A growing band of local activists and evolving ESG requirements are putting South Korea on the map for investors looking to unlock long-term value creation, writes Jason Booth.

Corporate Governance in Asia

insightia
a Diligent brand

South Korea continued to see a rise in shareholder activism in 2022 as a critical mass of domestic activists and the local investment community looked to boost returns in a market that has long underperformed versus Japan and the U.S.

There were 56 campaigns launched against Korea-based companies in 2022, according to Insightia's *Activism* module, up from 38 in 2021 and just nine in 2020, while 26 board seats were gained, more than double the 10 won two years prior.

"The recent increase in activism in South Korea appears to be a result of Korean institutional investors stepping up their responsible investment efforts, a growing market consensus, and frustration with the lack of progress in corporate governance," said Stanley Chung, managing director at Morrow Sodali in Seoul, in an interview.

Local activists get involved

Among the biggest changes in the Korean activism market is the rise of domestically-based activist funds. Approximately 75% of campaigns launched last year were by funds based in Korea or run by Korean fund managers based elsewhere in Asia, such as Singapore.

The role of domestic activists is even more noticeable when screening only for primary and partial focus activists, of which 80% were Korea-based in 2022, versus 60% in 2019 when international activists like Elliott Management were targeting nameplate companies in the Hyundai and Samsung groups.

Chung at Morrow Sodali feels that domestic activists may find more success than foreign investors. "Overseas activist funds still seem to struggle with agenda-setting," he said. "Unlike before, domestic activist funds have been able to bring to the forefront issues that market participants can relate to and demand improvements in corporate governance, while also actively campaigning to the public."

Align Partners Capital Management, founded in 2021 by former KKR executive Changhwan Lee, gained a board seat at SM Entertainment early this year as part of a governance and capital allocation reform plan. The activist had been pressing the media group for governance changes for about a year. Align also recently succeeded in getting five Korean banks to boost shareholder return goals, and launched a proxy fight at JD Financial, after it failed to satisfy the activist's demands.

"I think this is only the second inning for Korean activism," predicted Lee in an interview with Insightia. "Domestic retail shareholders are very supportive, and the government is starting to realize the importance of shareholder returns. It's become a political issue."

He noted that the number of retail investors in the Korean stock market has more than doubled from six million in 2019 to 14 million in 2021, or more than 30% of Korea's voting population.

Flashlight Capital Partners, founded by former Carlyle Group executive Sanghyun Lee, continues to wage a campaign at Korea Tobacco & Ginseng Corporation (KT&G), where it wants a sale of the company's ginseng business and greater payouts to shareholders.

Among the notable campaigns launched in Korea last year by international activists was Los Angeles-based Dalton Investments' call for SK Chemicals to buy back and cancel shares. Other funds formerly active in Korea, like Elliott Management and Whitebox Advisors, remained sidelined, both having lost their most recent efforts in that nation.

The SM Entertainment and KT&G campaigns, however, highlight a key limitation facing activists in the Korean market: the predominance of controlling founding families at many of the nation's biggest and best-known companies, often referred to as Chaebol. KT&G was a former government monopoly and thus had no controlling shareholders, enabling activists to take larger positions. SM Entertainment was a relatively small company, where the founder owned less than 20%.

Demand type breakdown of Korea-based companies publicly subjected to activist demands by year with YOY % change

Demand group	2021	2022	YOY % Change
Appoint personnel	18	22	⬆ 22.2
Capital structure	4	6	⬆ 50.0
Divestiture	4	4	-
Environmental	0	12	N/A
Governance	14	25	⬆ 78.6
Operational	1	3	⬆ 200.0
Oppose M&A	2	0	⬇ 100.0
Push for M&A	0	0	-
Remove personnel	13	11	⬇ 15.4
Remuneration	6	7	⬆ 16.7
Return cash to shareholders	9	14	⬆ 55.6
Social	2	2	-

Source: Insightia / Activism

Indeed, companies targeted in Korea have primarily been those with limited ownership by founding families. "If an overseas activist fund were to campaign against a Korean company, there are factors that would need to be considered, such as total foreign ownership, shareholding restrictions to foreign holders, and the presence of a controlling shareholder, and not many companies meet these criteria," said Chung.

The surge in shareholder activism looks set to continue, with 19 campaigns launched against Korean companies as of February 15, 2023, versus eight at the same time last year.

Outcome of gain board representation demands at Korea-based companies that went to vote, by outcome year

Outcome	2018	2019	2020	2021	2022
Activist won at least one seat	0	0	0	6	10
Activist won no seat	3	3	2	11	14
Total	3	3	2	17	24

Source: Insightia / Activism

The growth of ESG

Much like in Japan, ESG took center stage in Korean engagements. 2022 was the first year environmental demands were made at Korea-based companies, with 12 companies facing demands of this kind. Two and 25 companies, respectively, faced social and governance demands in 2022, compared to two and 14 a year prior.

ESG demands were launched by domestic and foreign investors in equal measure. In February 2022, Netherlands Pension Asset Management (APG) submitted a variety of letters and shareholder proposals to 10 Korean companies, calling for strengthening of corporate emissions reduction targets and employee welfare oversight. One month later, Hyundai Development enhanced its climate-related disclosure requirements and committed to establishing a board health and safety committee.

"Domestic activist funds have been able to bring to the forefront issues that market participants can relate to and demand improvements in corporate governance."

Governance issues, such as a lack of audited financial statements, board independence, and excessive crossholdings between companies, remain a concern for many investors and will likely also remain popular targets for activist complaints, according to Naoko Ueno, vice-president, Asian research and engagement, at Glass Lewis. "I believe board independence and a lack of disclosure will continue to be leading issues," she predicted. "However, gender diversity will also be more of an issue."

Recent amendments to the Financial Investment Services and Capital Markets Act, which were implemented in 2020, require all Korea-listed companies with assets of 2 trillion won ($1.7 billion) or more to feature at least two female directors on their boards. Ueno noted that the grace period ended last August, so the 2023 proxy season will be the first season companies may be held to task over the issue.

Korean directors are already faring worse than their neighbors when it comes to winning the favor of proxy advisers. According to synthetic recommendations, Institutional Shareholder Services (ISS) and Glass Lewis endorsed 88% and 70.7% of director re/election proposals subject to a vote at Korea-based companies in 2022. In contrast, ISS and Glass Lewis supported 96.3% and 86.4% of director re/elections in Japan that same year, according to Insightia's *Voting* module.

Optimism among corporate agitators for both financial and ESG goals is based on the hope that important domestic constituents, such as the National Pension Fund and the Korean investing public, many of whom have seen activism generate returns internationally, will come to believe similar tactics should be used to help the underperforming Korean market. Over the last 12 months, the Korea Composite Stock Price Index (KOSPI) has fallen around 10%, while Japan's Nikkei 225 is up slightly.

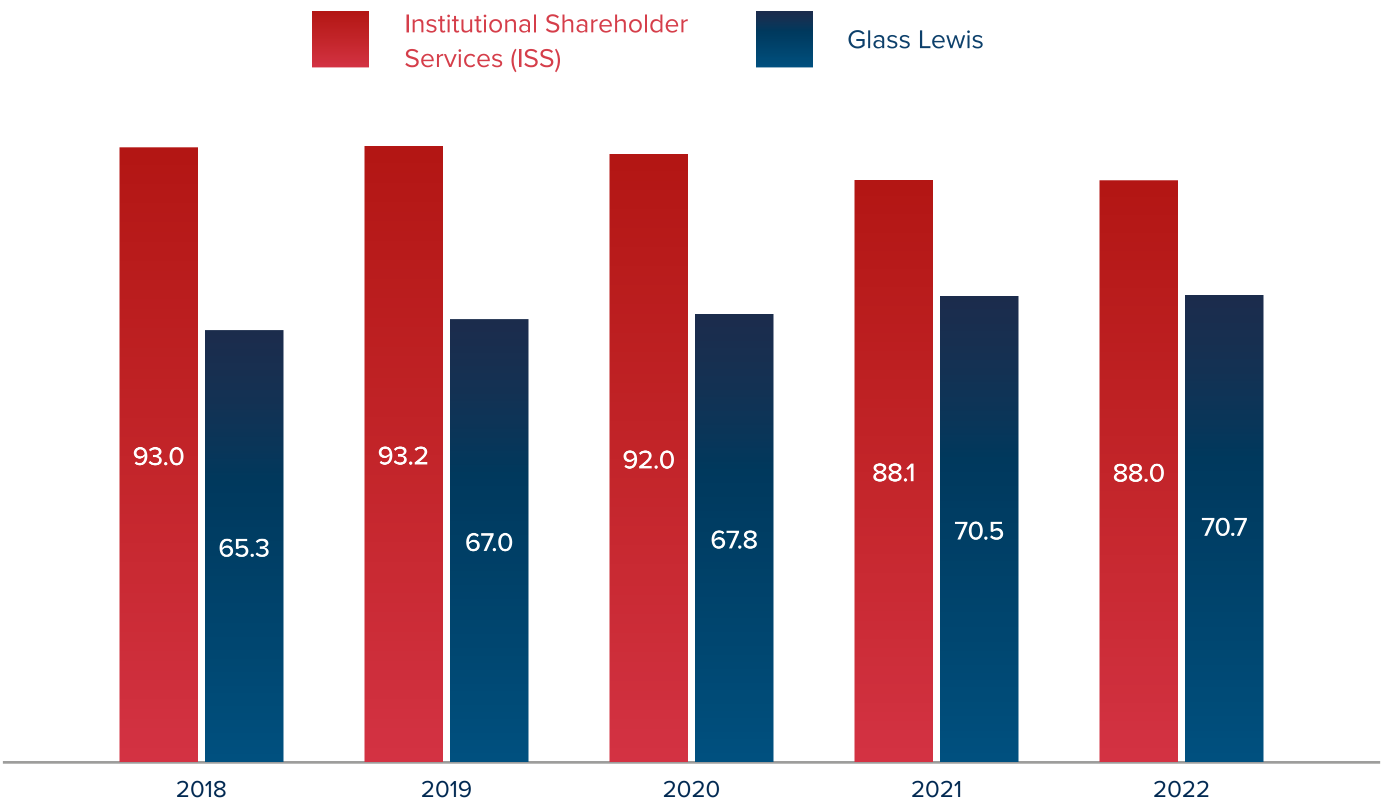
"A lot of Koreans have invested overseas and know that the shareholder economics in places like the U.S. work a lot better than Korea," said James Lim, senior research analyst at Dalton Investments. "Now, the market starts to struggle and you're trying to make a return in a difficult environment. Activism might be a more favorable strategy."

ESG campaigns in South Korea

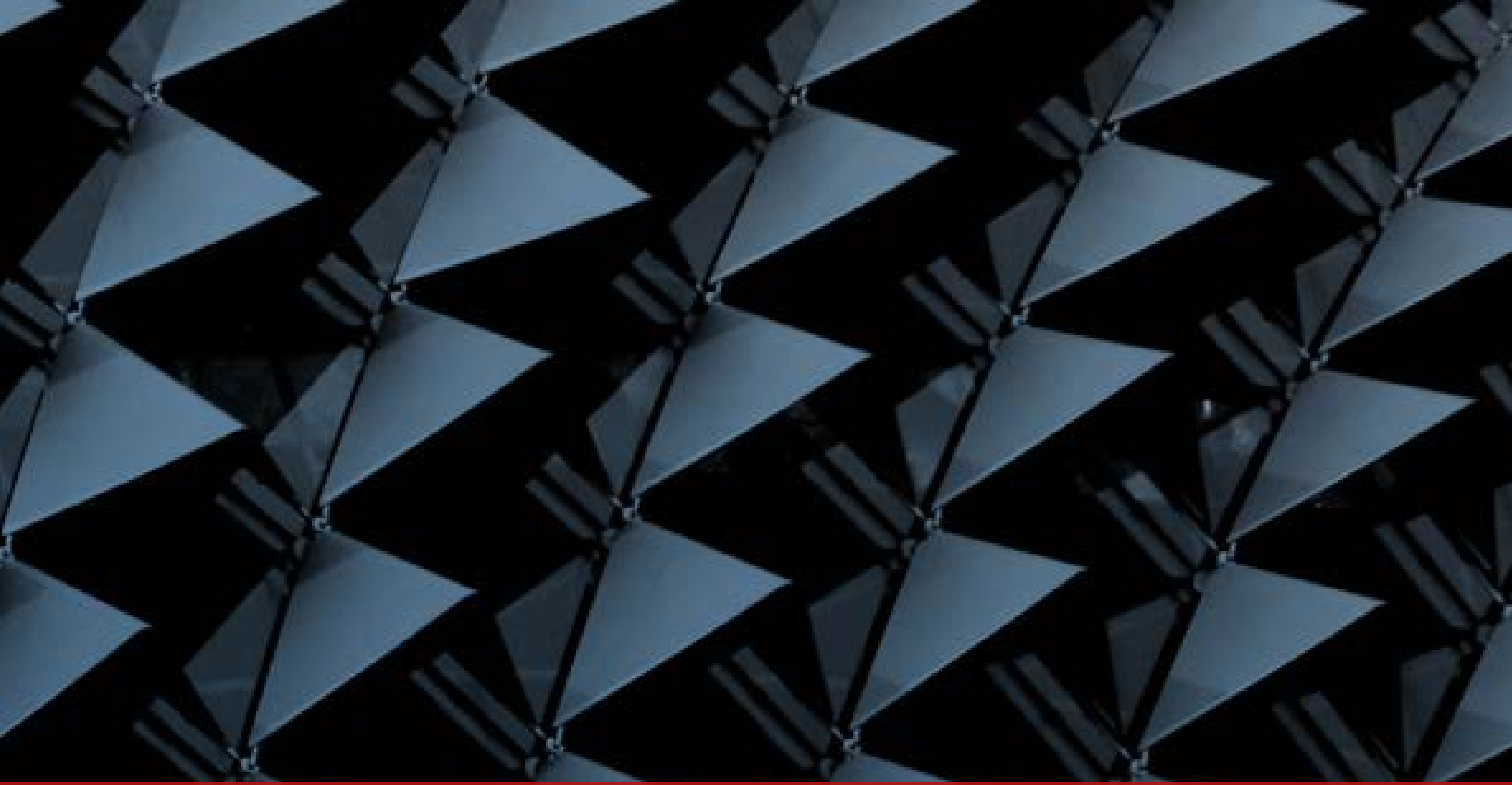
Company	Activist	Date	Demands	Details
KT&G Corp.	Anda Asset Management	Nov, 2022	Social	Anda cited ESG-related risks when pushing KT&G to phase out its tobacco products and spinoff its ginseng business. KT&G continues to resist calls for a spinoff.
Samsung C&T Corp.	Park Young-Ok (Smart Income)	Mar, 2022	Environmental	Concerned about Samsung's stagnating stock price, Park Young-Ok urged the company to implement a share buyback and enhance management's oversight of ESG risks.
10 companies	Netherlands Pension Asset Management (APG)	Feb, 2022	Environmental	APG sent letters to 10 Korea-based companies, including Samsung Electronics and SK Hynix, calling for enhanced emissions reduction targets. In response, Hyundai enhanced its climate-related disclosure requirements.
Hyundai Development	Netherlands Pension Asset Management (APG)	Feb, 2022	Social	APG filed a shareholder proposal asking Hyundai to establish a board committee focussed on health and safety and write ESG requirements into its articles of incorporation. Shortly after, Hyundai revealed it would work towards establishing the requested committee but would not amend its articles of incorporation.
Hanjin Kal	Korea Corporate Governance Improvement (KCGI)	Feb, 2022	Governance	Two years after failing to win a board seat, KCGI urged Hanjin Kal to introduce electronic voting and strengthen the criteria for director qualifications. One month later, KCGI sold its near-14% stake in the logistics company.

Source: Insightia / Activism

Proxy adviser recommendations for (%) director re/elections at Korea-listed companies by year



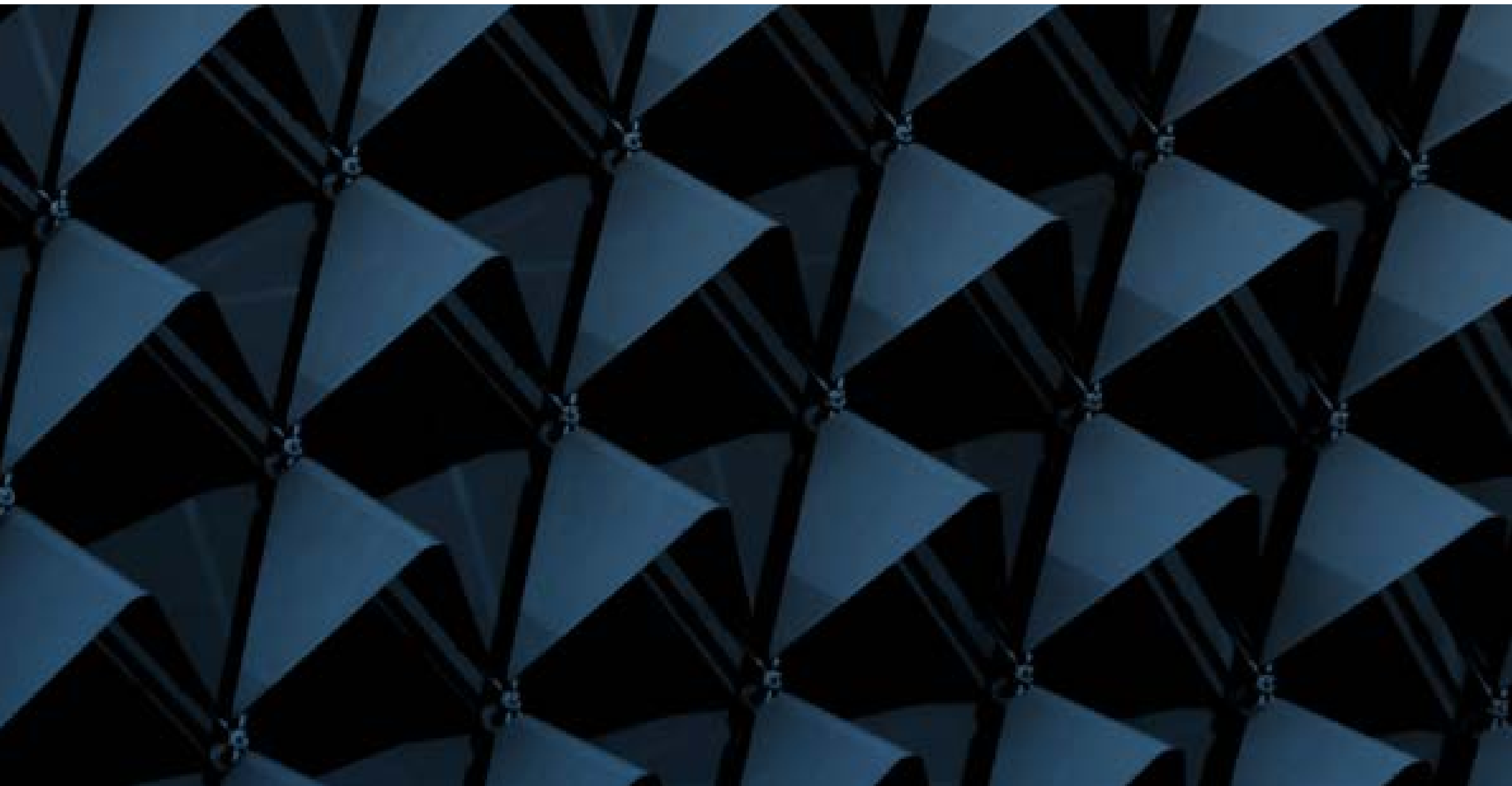
Source: Insightia / Voting



Singapore: Changing mindsets

Domestic activism gains momentum in Singapore, while regulators focus on strengthening board governance, writes Miles Rogerson.

Corporate Governance in Asia



The number of activist campaigns in Singapore has remained relatively steady in recent years, reaching a height of 15 campaigns in 2020 before reverting to the long-term average of 10 last year.

Domestic activists continue to launch the majority of campaigns, with 70% of campaigns launched in 2022 instigated by Singapore-based investors, compared to 64% a year prior.

One local hedge fund that wished to remain anonymous told Insightia that Singapore is attracting a wide range of activists thanks in part to its undervalued equity markets and the tendency of companies to be conservatively managed, with balance sheets full of cash.

Personnel changes dominated activist engagements, with nine of the 10 campaigns launched at Singapore-listed companies in 2022 centred around unseating directors and/or gaining board representation. 60% of the campaigns of this kind were at least partially successful, compared to 25% of board representation campaigns in 2021.

"Personnel changes dominated activist engagements, with eight of the 10 campaigns launched at Singapore-listed companies in 2022 centred around unseating directors and/or gaining board representation."

Nominating directors to the board of a Singapore-based company is notably easier than it is for many of its neighbours. Anyone is eligible to be a director in Singapore, provided they are a legal adult who is not an undischarged bankrupt or facing fraud convictions.

In Japan, independent directors are subject to enhanced disclosure requirements while, in China, director nominees cannot serve on listed boards if they are a director on a stock exchange, are qualified lawyers, accountants, or work in financial consultancy.

One such campaign that saw success in 2022 saw a group of concerned shareholders unseat EcoWise's deputy CEO Cao Shixuan and add three new directors to the board. The coalition of eight investors, with an 11% stake in the waste management company, were concerned over a "lack of performance and efforts to maximize the growth potential of the company."

Personnel change demands also bore fruit at Allied Technologies Holdings and Pavillon Holdings, while the election of five dissidents to Kitchen Culture's board is pending, following claims from the company that Ooway Group's requisition notice was invalid.

Strengthening governance

Throughout Asia, regulators are taking steps to enhance corporate governance to better align with international standards, and Singapore is no exception.

In January, the Monetary Authority of Singapore (MAS) revealed plans to implement a nine-year tenure limit for independent directors. Publicly listed companies will also be required to disclose total compensation paid to CEOs and executives by the issuer and its subsidiaries in their annual reports. This new rule will take effect for annual reports prepared for the financial years ending on or after December 31, 2024.

"High standards of corporate governance, characterised by strong accountability and transparency, are critical in upholding investor confidence in our capital markets," said Lim Tuang Lee, assistant managing director, capital markets, at MAS. "The latest enhancements, which are in line with global best practices, are important steps to further strengthen

Demand type breakdown of Singapore-listed companies publicly subjected to activist demands by year with YOY % change

Demand group	2021	2022	YOY % Change
Appoint personnel	8	7	↓ 12.5
Capital structure	0	0	-
Divestiture	0	0	-
Governance	1	0	↓ 100.0
Operational	1	0	↓ 100.0
Oppose M&A	1	1	-
Push for M&A	0	1	N/A
Remove personnel	8	6	↓ 25.0
Remuneration	1	0	↓ 100.0
Return cash to shareholders	1	0	↓ 100.0

Source: Insightia / Activism

director independence, encourage board renewal, and improve market transparency."

These rule changes will be welcomed by many. In recent years, proxy advisers have been vocal about governance shortcomings among Singapore-based companies.

"Proxy advisers have been vocal about governance shortcomings among Singapore-based companies."

Glass Lewis recommended investors vote in favor of just 80.3% of remuneration proposals at Singapore-based companies in 2022, compared to 90.4% in Japan that same year, according to Insightia's *Voting* module.

Despite this, shareholders do not seem particularly responsive to this criticism. In 2022, average support for management director re/election proposals stood at 97.6%, the exact same figure as Japan and an increase on support for Singapore directors in 2021.

Outcome of gain board representation demands at Singapore-based companies that went to vote, by outcome year

Outcome	2018	2020	2021	2022
Activist won at least one seat	1	2	2	3
Activist won no seats	1	1	2	1
Total	2	3	4	4

Source: Insightia / Activism

Outcome of gain board representation demands at Singapore-based companies that settled, by outcome year

Outcome	2018	2020	2021	2022
Activist won at least one seat	1	1	1	1
Activist won no seats	2	0	0	0
Total	3	1	1	1

Source: Insightia / Activism

ESG on the horizon

ESG is also on MAS' agenda, with the regulator also introducing reporting requirements for ESG funds, which came into effect at the start of 2023.

Under the new policy, ESG funds are required to provide information on their investment focus, as well as strategies, criteria, and metrics used in selecting investments, asset allocation, and the risks and limitations associated with their strategies.

The new rules also stipulate that ESG funds must allocate at least two-thirds of net assets for sustainability investments and ensure that any ESG-related terminology used is "substantially reflected in their portfolio," in a bid to reduce greenwashing.

"Governance continues to be a priority, but we urge management to take steps to understand why environmental and social concerns are so important and to consider how their businesses contribute to society," Bill Tsang, director, ESG consulting at Morrow Sodali, told Insightia in an interview.

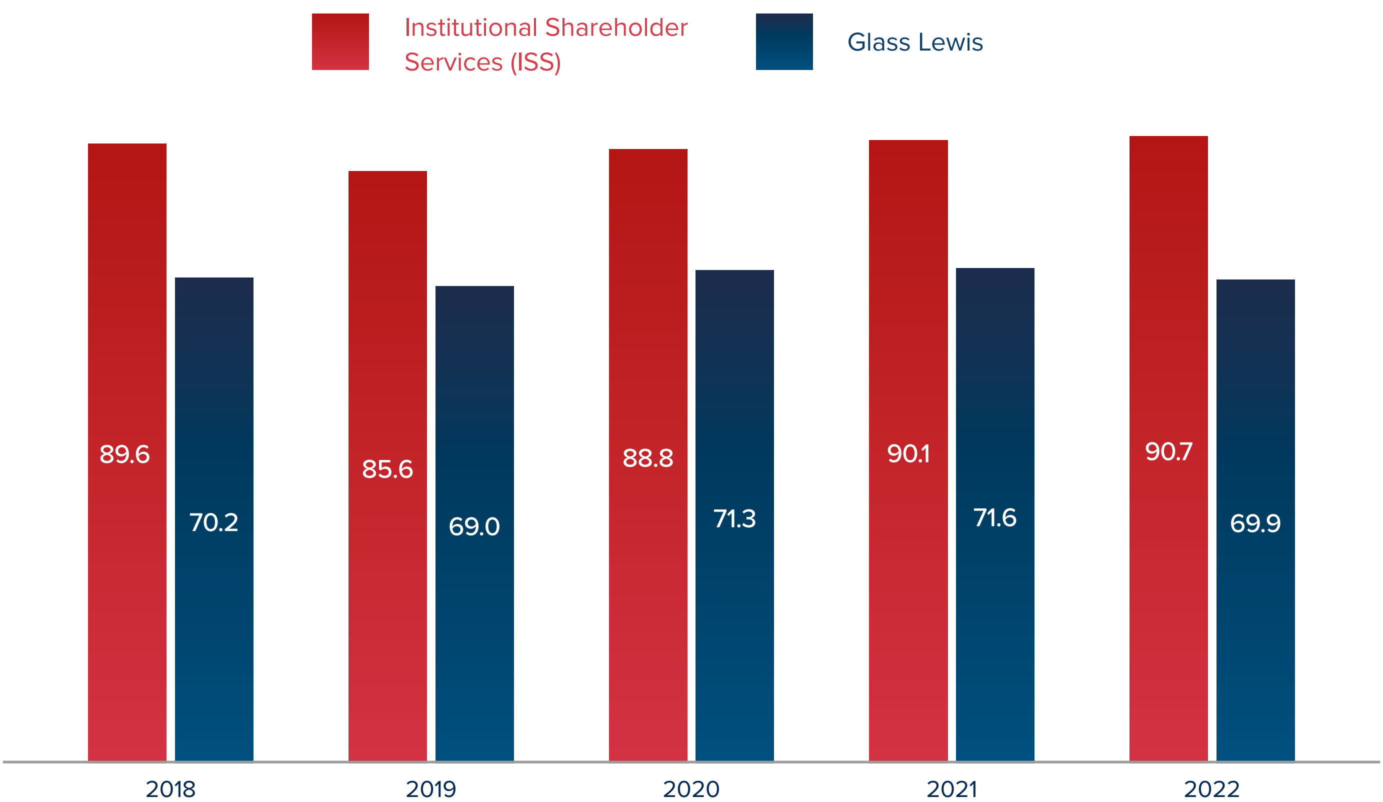
No. activist short campaigns at Singapore-based companies by allegation with YOY % change

	2021	2022	YOY%
Number of campaigns	2	0	↓ 100

Source: Insightia / Shorts

"Governance continues to be a priority, but we urge management to take steps to understand why environmental and social concerns are so important."

Proxy adviser recommendations for (%) director re/elections at Singapore-listed companies by year



Source: Insightia / Voting

China and Hong Kong: Activism dwindles

Restrictive policymaking puts a damper on shareholder activism, but regulators are taking steps to address ESG shortcomings, writes Rebecca Sherratt.

Corporate Governance in Asia

insightia
a Diligent brand

Both China and Hong Kong experienced a decline in activism last year, with investors eager for companies to focus their attentions on addressing the ongoing challenges of COVID-19. The long-criticized prominence of family-controlled firms and state-owned enterprises (SOEs) also further limited engagement by foreign investors.

In Hong Kong, eight companies faced activist demands in 2022, compared to 10 in both 2020 and 2021, according to Insightia's *Activism* module. Financing took centerstage in 2022, with activists eager to recoup pandemic-related losses. Three campaigns last year featured capital structure demands, up from zero just two years prior.

Bliss Chance Global successfully barred Bison Financial from expanding its share capital, shortly after the marketing company reported losses of over HK$259 million ($33 million) in 2021. Activist investors Kon Man Lai and Ping Yuk Chang similarly pushed Beat Holdings to issue Class-A convertible subordinated shares and enter into a share purchase agreement with Lai.

"Thanks to new reporting requirements, ESG is already everywhere."

Activism in China has declined more sharply, with just two companies facing public demands in 2022, compared to eight and nine throughout 2020 and 2021, respectively. Notably, both companies subject to demands last year were listed on the Hong Kong Stock Exchange (HKEX), due to Chinese laws restricting foreign investors from investing in companies listed within China.

Neither campaign launched in 2022 was successful. China Shenghai Group fended off a proxy fight led by Joint-Chairman and CEO Liu Rongru at its October 21 special meeting, while Sanju Environmental Protection, a 26% stakeholder in Jutal Offshore Oil Services, was unsuccessful in its bid for five board seats at the industrial company's August special meeting.

The most high-profile campaign to come out of China in 2022 was local asset manager Ping An's ongoing push for U.K. banking giant HSBC to spin-off its Asian operations. Since April, Ping An has claimed HSBC splitting would unlock $26.5 billion in shareholder value, around one-fifth of the group's market capitalization.

"As one of HSBC's major shareholders, we are most concerned about HSBC's performance, dividends, and market capitalization," Huang Yong, chairman of Ping An Asset Management, said in a November statement. "However, in recent years, HSBC's performance on these indicators has been far below that of an equivalent peer group and far below the expectations of most shareholders."

The new year may well signal the resurgence of activism in China, with campaigns at Alibaba and Mobile Internet (China) having already been launched in the first month of 2023.

Evolving ESG agenda

Shareholder activism may be stagnating in China and Hong Kong, but regulators are taking actionable steps to enhance the ESG credibility of publicly listed companies in order to attract and retain investors.

For the first time in 2022, Chinese companies are facing calls from the China Enterprise Reform and Development Society (CERDS) to voluntarily report on their oversight of ESG-related risks and opportunities. In June, CERDS published a set of ESG standards aimed at helping boards enhance transparency of environmental and social risks and opportunities.

"Corporate ESG disclosure standards will help China better integrate into the international economic system and participate in global economic governance," said Liu Xuexin,

Demand type breakdown of China- and Hong Kong-based companies publicly subjected to activist demands by year with YOY % change

Demand group	2021	2022	YOY % Change
Appoint personnel	11	4	↓ 63.64
Capital structure	2	3	↑ 50.00
Governance	4	2	↓ 50.00
Operational	0	0	0.00
Oppose M&A	0	2	N/A
Push for M&A	0	0	0.00
Remove personnel	9	4	↓ 55.56
Remuneration	1	0	↓ 100.00
Return cash to shareholders	1	1	0.00

Source: Insightia / Activism

executive dean of the China ESG Research Institute, at the time of the release.

CERDS' guidelines set the stage for the Ministry for Ecology and Environment's (MEE) mandatory corporate environmental reporting, which is expected to take effect in 2025. Under the pending regulations, issuers will be required to disclose information on carbon emissions and environmental breaches in their annual reporting.

"Financing took centerstage in 2022, with activists eager to recoup pandemic-related losses."

2022 was also a turning point for ESG in Hong Kong, being the first year that HKEX-listed companies were required to publish annual ESG reports disclosing the board's oversight of ESG risks and opportunities, as well as related goals and targets.

"ESG uptake among Hong Kong-listed companies is quite polarizing," Bill Tsang, director, ESG consulting at Morrow Sodali, told Insightia. "While larger corporations and conglomerates have resources readily available to allocate to these reporting requirements, a handful of HKEX-listed companies is of small-to-medium size. As such, following fully the stock exchange's ESG reporting requirements for smaller companies can sometimes be demanding."

Neither China nor Hong Kong have seen this rising investor focus on ESG take the form of shareholder proposals or activist campaigns, but if Japan or South Korea are any indication, then the ESG juggernaut will soon make its way overseas.

Outcome of gain board representation demands at China- and Hong Kong-based companies that went to vote, by outcome year

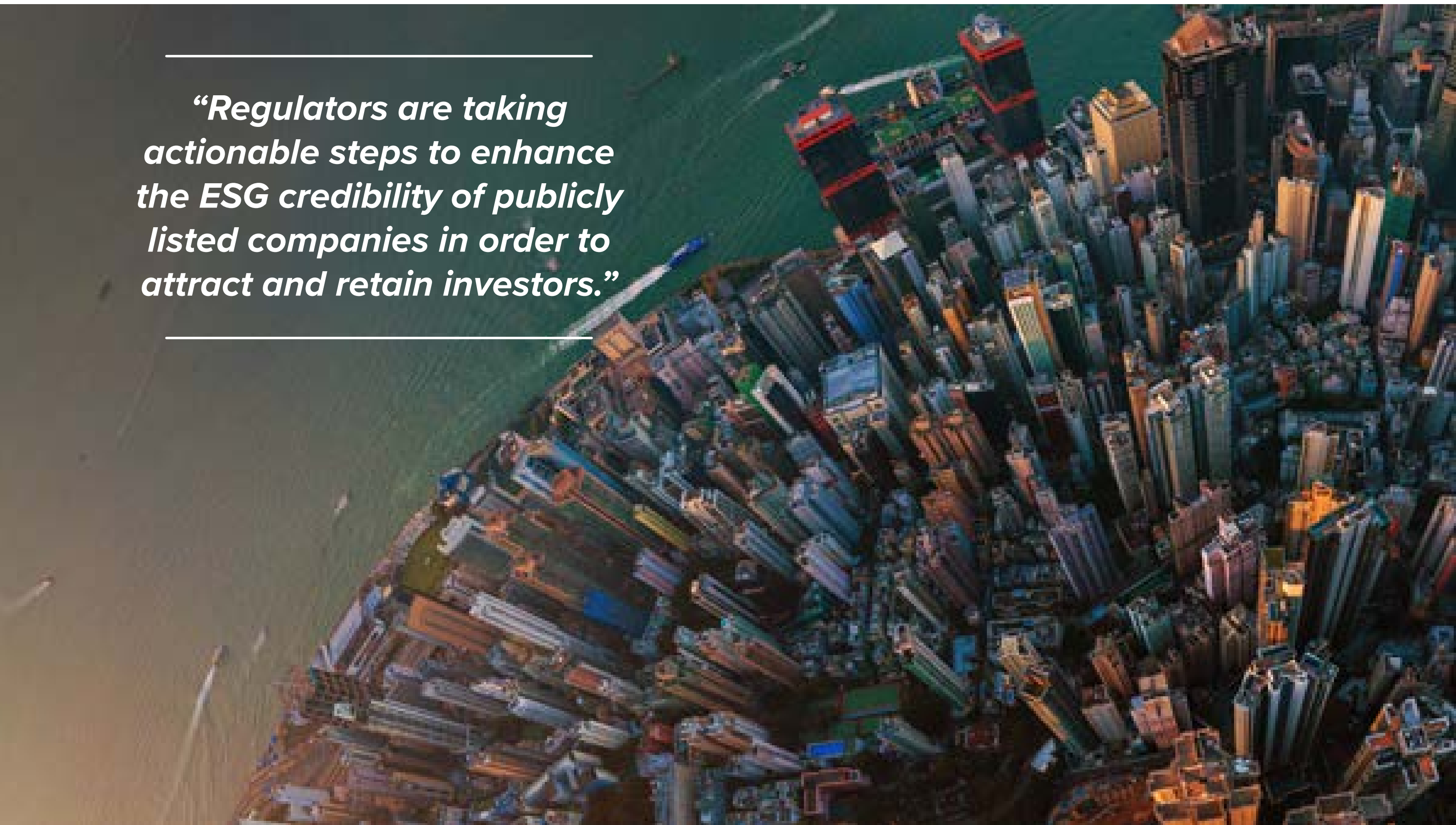
Outcome	2018	2019	2020	2021	2022
Activist won at least one seat	9	5	3	6	1
Activist won no seats	3	4	2	6	3
Total	12	9	5	12	4

Source: Insightia / Activism

Outcome of gain board representation demands at China/HK-based companies that settled, by outcome year

Outcome	2018	2019	2020
Activist won at least one seat	1	4	4
Total	1	4	4

Source: Insightia / Activism



"Regulators are taking actionable steps to enhance the ESG credibility of publicly listed companies in order to attract and retain investors."

"Thanks to the reporting requirements, ESG is already everywhere in both Hong Kong and China," Tsang said.

Short selling

Short seller activity was also on the decline in China in 2022, with three campaigns launched, compared to 23 and 13 in 2020 and 2021, respectively. No short campaigns were launched in Hong Kong in 2022, according to Insightia's *Shorts* module.

"In 2021, the rising tide lifted all boats. As such, there were many more opportunities to expose dreck in the markets." Christian Lamarto, founder of Culper Research, told Insightia in an interview. "2022, by contrast, was a bloodbath. With valuation compression, activists had fewer opportunities to capitalize on the dislocations we saw in 2021."

Allegations of fraud formed the basis of most Chinese short campaigns last year, with Blue Orca accusing Miniso of having "siphoned hundreds of millions through opaque jurisdictions" in a "crooked headquarters deal." The retailer's shares fell 15% within 24 hours of the report's release.

In June, Grizzly Research claimed electric car company Nio "juiced its numbers by pulling forward seven years of revenue."

No. activist short campaigns at China- and Hong Kong-based companies by allegation with YOY % change

	2021	2022	YOY%
Number of campaigns	15	3	↓ 80

Source: Insightia / Shorts

In the first month of 2023, J Capital Research also accused Full Truck Alliance of fraudulent revenue volumes. The software company's shares declined 5% the day the report was issued.

Short selling may experience a surge in 2023, thanks to recent regulatory developments concerning Chinese and Hong Kong companies listed on U.S. stock exchanges. In December, the U.S. Public Company Accounting Oversight Board (PCAOB) secured access to inspect and investigate registered public accounting firms in mainland China and Hong Kong.

"It is a recognition that, for the first time in history, we are able to perform full and thorough inspections and investigations to root out potential problems and hold firms accountable to fix them," PCAOB Chair Erica Williams said in a December statement. "Investors are more protected today because of Congress' leadership."

Recent ESG-related regulatory developments in China and Hong Kong

Date effective	Country	Policy change
2025	China	China's Ministry of Ecology and Environment intends to implement mandatory environmental reporting for public companies.
June, 2022	China	The China Securities Regulatory Commission (CSRC) publishes China's first voluntary corporate ESG disclosure standards.
Jan, 2022	Hong Kong	The Hong Kong Stock Exchange (HKEX) requires listed companies to publish annual ESG reports alongside their annual financial reporting.
Nov, 2021	Hong Kong	HKEX publishes guidance and encourages listed companies report in line with Task Force for Climate-related Financial Disclosure (TCFD) recommendations.
Sep, 2018	China	CSRC revises the Listed Corporate Governance Code, stipulating that companies have a repsonsibility to disclose material ESG-related information.

insightia

a Diligent brand

2023