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INTRODUCTION

In preparing the report *Unlocking the potential of investor stewardship in China: towards a more sustainable economy*, the PRI invited nine signatories to provide case studies of their stewardship activities, hoping to identify the perceived value of effective stewardship as well as challenges to exercising stewardship in China. Case study participants were asked to respond to a set of questions regarding their stewardship practices, including:

- Why investors practice stewardship in China;
- How have they practiced stewardship, taking account of local nuances; and
- What challenges have they encountered and what solutions have they identified to address those challenges.

Their responses demonstrate great diversity in their stewardship approaches commensurate with the nature, size, complexity and risk profiles of the firms involved and the investment strategies adopted for different financial products. The case study participants were:

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BLACKROCK: ADDRESSING ESG RISKS IN CHINA’S ENERGY SECTOR

WHY WE DO STEWARDSHIP

As a fiduciary to our clients, BlackRock Investment Stewardship (BIS) undertakes engagement and voting activities with the goal of advancing our clients’ financial well-being. The money we manage is not our own; our clients are ultimately the owners of the assets in which we invest – and they are predominantly long-term investors. We believe that, as stewards of our clients’ investments, we have a responsibility to maintain constructive relationships with the companies in which we invest on our clients’ behalf. To that end, we aim to represent the voice of the long-term investor and are interested to hear from companies about how they focus on the governance and sustainability risks and opportunities that can impact their ability to generate durable, long-term financial returns.

HOW WE DO IT

BIS is positioned as an investment function at BlackRock and partners with internal investment teams, including BlackRock Sustainable Investing, Fixed Income and Active Equities. BIS’ insights are available to these teams and, when appropriate, we may partner on joint engagements. Our efforts are coordinated globally but locally focused. The BIS team members covering China are based in Hong Kong and closely follow in-market corporate and stewardship developments.

BIS engages with companies to better understand their governance and business models as well as their approach to material sustainability risks and opportunities. Engagement is particularly important for our clients invested in index strategies, which represent a significant portion of BlackRock’s equity investments. Because index funds are designed to track the investment results of indices that are created by third-party index providers, BlackRock does not have the discretion to divest from companies in our index strategies.

### Organisation details

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<td>AUM</td>
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### Covered in this case study

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<th>Asset class (strategy)</th>
<th>Listed equity (index investing)</th>
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<td>Geography</td>
<td>China</td>
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<td>ESG issues</td>
<td>Environmental issues: natural capital. Social issues: indigenous groups</td>
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Each year, we set engagement priorities to explain our approach to the issues we consider particularly relevant to companies and our clients as shareholders. This transparency helps companies understand our key areas of focus and have a clear understanding of how BIS approaches engagement. We also vote at shareholder meetings, where authorised to do so on our clients’ behalf, reviewing matters on a case-by-case basis, with local norms and regulatory nuances in mind. As explained in our Global Principles and market-level voting guidelines, our activities are intended to advance clients’ long-term economic interests. We also have voting policies on meeting resolutions, such as related-party transactions, that have unique dynamics in the context of Chinese capital markets. Voting on our clients’ behalf is how we signal support for or raise concerns with a company’s corporate governance or the sustainability of its business model.

BIS may work with other investors, particularly on policy matters, when we believe it will help advance our clients’ interests. For example, we are a member of the Climate Action 100+ Asia Advisory Group and provide insight into the characteristics of local Asian markets to help inform engagement priorities.

**CASE STUDY**

Engaging with a Chinese coal company on governance and sustainability risks and opportunities

**Background:** The company is one of the largest listed coal mining companies in the world. It had obtained an exploration license for an overseas project in Australia, allowing it to explore approximately 90 km² of agricultural land in a designated exploration area. The project came under scrutiny in 2020 when a competitor’s project resulted in the destruction of a cultural heritage site sacred to members of Australia’s Aboriginal and Torres Strait Islander communities as well as broader society, leading to public concern and outcry.

**BIS response:** In light of heightened concerns about the potential impacts of mining activities on local communities and the environment, BIS held multiple engagements with the company throughout 2020 and 2021 to discuss governance and sustainability risks and opportunities. Leveraging our team’s expertise in Australia, our China analysts identified that the proposed coal mine assets potentially raised material governance and sustainability risks for the company. While BIS is clear that management and the board have sole discretion to set corporate strategy, BIS aims to represent the voice and interests of long-term investors like our clients. To that end, we asked the company how it assessed non-financial factors that could have an impact on the project and its approach to manage and mitigate potential risks. Specific risk areas from a long-term shareholder perspective include: ongoing regulatory changes in Australia regarding the protection of the rights of Aboriginal and Torres Strait Islanders; potential change of climate policies in both Australia and China; and potential negative employee morale and operational disruption as the result of ongoing controversy surrounding the project.

Given the company’s focus on coal, and China’s stated plans to be net zero by 2060, BIS also sought to understand how the company plans to disclose its efforts to decarbonise its value chain over time, including short-, medium- and long-term emissions reduction targets and a good-faith effort to disclose Scope 3 emissions.
The company demonstrated a responsiveness to long-term investor interests and consideration to these matters and has since integrated potential risks into its planning. BIS also published a Vote Bulletin on our website to offer further insight into the engagement process and the related decision to support management at the June 2021 annual general meeting.

**Outcome:** In April 2021, the company announced it had “reached a A$100 million agreement with local authorities to withdraw its mining lease application and surrender its development consent for the project.” From the long-term investor perspective of natural capital risks, in particular the risks associated with operating in the relevant exploration area coupled with potential impacts on Aboriginal and Torres Straits Islanders, as well as Australia’s cultural heritage more broadly, the company’s actions demonstrate growing awareness of sustainability risk.

**CHALLENGES AND SOLUTIONS**

We have observed progress on governance and stewardship in China over the past few years, but there is room for strengthening current practice, including:

**Enhanced reporting:** The need for comparable and consistent environmental, social, and governance data that is relevant to investment decision-making is crucial for investors to evaluate corporate sustainability performance in China. The recent launch of the International Sustainability Standards Board (ISSB) and plans to develop a global baseline set of corporate sustainability reporting standards, and the expansion of the Partnership for Carbon Accounting Financials to Asia, can be of great benefit to Chinese companies. It would help investors in their stewardship efforts if Chinese companies and policy makers monitor these international developments to support the establishment in the near future of standards for sustainability-related reporting for Chinese capital markets that are aligned with global standards.

**Voting infrastructure:** In some instances, votes instructed via custodian banks can be rejected by listed companies in China due to technical reasons, thus preventing shareholders from participating in a company’s corporate governance process. Using the local e-voting platform may mitigate the vote rejection issue but it can also exclude certain functions necessary for investors to fulfil reporting obligations required by regulators in different jurisdictions, or by global organisations such as the PRI. Stronger voting infrastructure linkages between China and the global financial system would support investors’ stewardship efforts.

**Access to the board:** The ownership structure of listed Chinese companies is often highly concentrated, with the presence of a controlling shareholder resulting in some board directors being less responsive to minority investor concerns and requests for meetings. This issue impedes the ability of investors to evaluate board effectiveness. While such board access is not mandatory under the existing regulatory regime, it would help stewardship efforts if policy makers cultivated a regulatory culture that encourages listed companies to go beyond compliance requirements to address minority investors’ concerns.

**DISCLAIMER**

This case study is provided for information and educational purposes only and does not constitute legal advice, a recommendation or an offer or solicitation to buy or sell the securities of any company. The information here is as of March 1, 2022. BlackRock has no obligation to provide any updates. Investing is subject to risk, including risk of loss.
BPEA: DRIVING SOLUTIONS TO PLASTIC ISSUES IN THE CHINESE MARKET

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WHY WE DO IT?

BPEA believes a key to creating value in all our investments is through active ownership. We have integrated ESG into our active ownership approach, and we engage with investee companies at multiple levels, including the board and senior management, to ensure full alignment on our ESG plans.

HOW WE DO IT?

With a strategy focusing primarily on mid- and large-cap buyouts, we use our controlling stake and position on the board to ensure ESG stays on the board agenda and permeates the entire organisation. The Baring Mobilization System (BMS) and Portfolio Management Committee (PMC) are two enablers of our active ownership strategy. The BMS guides and institutionalises BPEA’s active ownership approach, which involves putting in place controls and establishing the right teams at portfolio companies to help us drive transformational value creation.

In addition, key strategic ESG topics are monitored every six to 12 weeks as part of a structured review process led by BPEA’s Portfolio Management Committee (PMC) and attended by the portfolio company CEO, other senior leaders and the BPEA team. The PMC reviews progress against pre-aligned performance targets and agrees on a defined set of next steps ahead of the next structured review. The BMS and PMC are also reservoirs of best practices, where experiences on key topics are shared amongst portfolio companies. This approach, which combines active ownership with an institutionalised governance structure, enables us to keep ESG at the top of the agenda at our portfolio companies and ensure they execute on key strategies.
CASE STUDY

Driving value creation by developing solutions and capacity to address plastic issues

One of our portfolio companies is a world leader in cosmetics packaging solutions. BPEA helped the company define one of its key ESG value propositions: being a leader in packaging not only means playing a part in protecting the environment, but also in supporting customers through their sustainability journey.

BPEA put in a robust governance structure at the company to drive this proposition. Soon after our investment in 2016, the company set up a CSR Committee which was transformed into the ESG Committee in 2021 to capture and oversee key sustainability-related initiatives. One of the ESG Committee’s main functions is to surface important ESG topics and elevate the strategic ones to the board agenda, where they are regularly discussed with BPEA board representatives. Every six weeks, when the company presents to the PMC, the company’s senior management updates BPEA on the firm’s progress in these key areas.

As a supplier to international cosmetics brands, the company has been addressing its sustainability demands on a customer-by-customer basis. BPEA understood this industry trend early on and we suggested that the company map out and summarise the sustainability pledges of key customers, as well as of other customers seeking to move in a similar direction.

The company identified the use of plastics as a central ESG topic within the industry, and BPEA aligned with the company to treat this as a critical part of the company’s business strategy.

Our board representatives, working with the other directors, elevated this topic at board meetings, and pushed the company to set defined plastics-related KPIs and targets. For example, one key customer has pledged that, by 2025, 50% of its packaging materials will be made with recycled or bioplastics. BPEA ensured the company’s targets supported this customer in achieving its pledge. In addition, BPEA introduced systematic tracking of the company’s progress on this topic, and it ultimately increased by four times the use of recycled plastics for this customer between 2017 and 2021, successfully retaining and expanding this key relationship.

We also work with external consultants and industry advisors to help better understand regulatory and industry trends, as well as market demand, and recommend corresponding strategies for investee companies. Some of these strategies, for example, include further strengthening the company’s efforts to source alternative materials and explore new sustainable designs. At meetings of the company’s board and PMCs, we recommended these focus areas as part of its overall plastics strategy. BPEA’s ESG professional also worked with the company to systematically track new suppliers of alternative materials and sustainable designs. The company worked to ensure that 26 suppliers of sustainable materials met its customers’ quality and appearance criteria, among other requirements. In 2019 and 2020, the company tested 58 sustainable materials, of which 35 types have become part of the company’s regular procurement. Over the same period, the company developed 59 new sustainable designs, 41 of which are refillable designs and 18 of which are mono-material designs.

Our focus on ESG, enabled by our active ownership, helped strengthen our investee company’s position as a critical solutions provider in the cosmetics packaging value chain, ensuring its customer acquisition and retention remain successful.
CHALLENGES AND SOLUTIONS

As our approach has demonstrated, a rigorous governance structure to drive change and monitor progress can help yield meaningful results. A foundation of a rigorous active ownership approach is comprehensive and high-quality data, where many private companies are admittedly still facing difficulties in terms of reporting and disclosure. One of the priorities BPEA works on post-investment, therefore, is ensuring that companies track and report relevant information. In terms of ESG data, we devote resources to help companies with capacity building, especially with complicated metrics such as greenhouse gas emissions. At the same time, as more companies improve their data capabilities, companies can look to industry average and top-quartile performance, making it less challenging for investors to have practical, action-driven engagement with portfolio companies.

Although companies in Asia are becoming increasingly sophisticated, especially if they have international investors or customers, there is still a long way to go for active ownership and sustainability to take root. In our experience, many firms still view sustainability issues as “tick-box” exercises and are reluctant to engage after they have complied with the regulatory requirements. Our engagement with the portfolio companies has turned out to be most effective whenever we have been able to provide successful examples of active ownership leading to tangible value creation, especially in similar industries.
WHY WE DO STEWARDSHIP?

Through stewardship, ChinaAMC seeks to support the long-term sustainable development of our investee companies and increase their enterprise value. We believe that stewardship is a part of our fiduciary duty to our clients. On the one hand, we can help investee companies enhance their ESG performance and disclosure, allow them to demonstrate their intrinsic value more clearly. On the other hand, our engagement work helps us to better understand the companies in which we invest, and the sustainability risks and opportunities they are facing.

HOW WE DO IT?

We aim to encourage and help Chinese companies reduce sustainability risks and seize relevant opportunities. Due to the limited awareness of ESG issues in China, ChinaAMC’s investment professionals involved in our engagement work are required to play a supportive role to assist investee companies address sustainable development and ESG information disclosure. For example, in light of climate change risks and China’s recent commitment to carbon neutrality, we have made carbon neutrality strategies one of our top topics when we engage with Chinese companies over the last year. However, a lack of knowledge about the issue at many of these companies has made it difficult for investors to target specific carbon reduction goals at early meetings. Therefore, ChinaAMC has started with more general discussions around climate change, followed with policy analysis and case studies of industry global best practice, to gradually educate companies and help them discover their own climate-related risks and opportunities.

For those ESG engagements initiated by ChinaAMC independently, our ESG analysts are the main initiators. They initiated dialogue with investee company either when controversial events are
identified by the risk management or ESG teams, or when sustainable risks and opportunities are discovered by the ESG team through industry and stock analysis.

ChinaAMC also participates in collaborative engagements with other institutions (for example through initiatives like the Climate Action 100+), both as collaborator and lead investor. Engaging with companies as a group can significantly strengthen the individual investor’s influence during conversations with companies, given the larger percentage of shares they represent. It can also draw the attention of companies to topics that they may have failed to notice previously. This amplification effect can be even stronger with state-owned enterprises (SOEs) in China.

To alleviate investee companies’ potential anxiety or discontent regarding certain issues, we customise engagement strategies for each company based on its ownership structure, development trajectory and industry environment. For example, for private-owned companies with sufficiently ambitious management teams, a straightforward discussion regarding the challenges the company faces can spur management to take decisive action. When engaging with SOEs, establishing a relationship of trust with the management team before pointing out weaknesses can be a better way to address the issues involved.

The outcome of engagement reviews is provided through internal reports, which enable investment professionals to take note. If engagement activities are deemed unsuccessful, escalation strategies are applied, depending on the characteristics of each case. Escalation approaches include: collaboratively engaging with other investors; submitting a shareholder resolution or proposal; leveraging media tools; voting against related board directors; and divesting.

**CASE STUDY**

**An engagement with a baijiu company to enhance environmental and social performance**

Companies producing baijiu (Chinese liquor) can generate enormous value for their shareholders. However, low ESG awareness means that these companies often face significant ESG exposures. For instance, as beverage manufacturers and downstream users of agricultural products, baijiu companies are exposed to climate risks, water risks and risks relating to packaging material waste. However, few disclosed such risks and their responses to them before 2020. In addition, responsible marketing practices that are common in the global liquor industry are rarely found among Chinese baijiu companies.

In January 2020, we approached Company A, one of the largest high-end baijiu producers in China, with ESG issues. The company’s 2018 corporate social responsibility (CSR) report did not mention any activities to deal with packaging waste or climate change, nor did it provide evidence of any awareness of responsible marketing. During our first conversation with Company A’s board secretary, our ESG team presented a holistic framework of ESG issues that global investors are concerned with, and the specific sustainable weakness observed in the company itself. We quoted some third-party ESG rating results and presented ChinaAMC’s proprietary view, according to our internal assessments, followed up with reference materials.

The outcome of this first engagement activity was fruitful. In its 2019 CSR report, published in April 2020, Company A disclosed significantly improved environment management, covering green
packaging, a low-carbon initiative, raw material sourcing, and R&D expenditure on green agriculture, etc. Led by its internal energy and environmental protection department, the company also became the first among its domestic peers to calculate its carbon footprint at every point of the production line. We were also pleased to see that Company A became one of only three Chinese liquor companies to warn in its marketing of excessive drinking, and to explicitly ban marketing to the pregnant and adolescents. The company’s ESG score from a third-party agency was also upgraded after the CSR report was released.

Encouraged by the positive feedback, ChinaAMC’s ESG team followed up with Company A regarding its sustainability practices, including guiding the company on disclosing through the CDP, becoming the first Chinese alcohol beverage company to do so. Subsequently, we discussed ESG issues with the board chairman. In 2021, the company included ESG targets in its five-year plan for the first time and committed to reach carbon neutrality in the next five to 10 years.

Based on in-depth engagement with Company A’s management team, we expect the company will continue to improve its ESG performance. ChinaAMC invested in Company A in 2017. By the end of May 2020, the company’s valuation had doubled. We not only realised attractive investment returns for our clients, but we also supported the company’s growth as an active shareholder.

**CHALLENGES AND SOLUTIONS**

Challenges to stewardship in China include the immature voting environment in Chinese capital markets. This poses an obstacle to investors influencing listed companies collaboratively. To enable greater influence on investee company management, ChinaAMC has been leading and collaborating with international and domestic institutional investors to co-engage with companies. Meanwhile, we are also developing a more efficient voting process to replace the previous time-consuming approach.

Last but not least, the language barrier and cultural gap make it difficult for overseas investors to initiate and continue conversations with some Chinese companies. To help Chinese companies open to global markets, and to help international investors understand these companies better, ChinaAMC will collaborate with foreign investors and initiate co-engagement programmes.
E FUND MANAGEMENT:
IMPROVING CORPORATE GOVERNANCE
IN CHINA THROUGH ENGAGEMENT

WHY WE DO STEWARDSHIP?

At E Fund Management Co., Ltd. (E Fund), we are committed to achieving long-term and sustainable investment returns for our clients. As a responsible investment practitioner, E Fund is determined to promote the high-quality growth of investee companies and help facilitate the sustainable development of our society. To do so, we act as an active owner working collaboratively with companies to improve the sustainability of their business practices and encourage positive change over time. We believe that companies with informed and involved shareholders are more likely to achieve superior long-term performance.

HOW WE DO IT?

ESG assessment is an integral part of our research and investment processes. The relevant ESG factors are identified and assessed using our proprietary ESG scoring system. Where we identify gaps between the company’s approach and our expectations regarding environmental, social or corporate governance (ESG) issues, we may engage with the company to support its long-term development and value creation. This can occur either with investees who violate the principles and expectations described in our Responsible Investment Statement, investees for whom we identify opportunities for enhanced value creation through improved practices, or companies we would potentially invest in once relevant ESG issues are addressed.

Our research and investment team and ESG team carry out engagement together. We undertake constructive dialogue with the companies' management team to address material ESG issues and integrate the conclusions into our financial analysis, valuation, investment recommendation and investment decision regarding the company.
Since some Chinese companies are at an early stage of development, they will have issues such as imperfect corporate governance, ignoring minority shareholders and unclear and insufficient disclosure. At E fund, we hold discussions of varying scope and depth with companies at different development stages and help them improve governance step by step. We keep engagement records, update engagement goals, and track companies’ progress to inform our investment decision-making and stewardship. Although the vast majority of A-share listed companies are receptive to investor suggestions, for those unwilling to act on investors’ advice or who pay insufficient regard to the rights and interests of minority shareholders, E Fund may escalate engagement and vote proxies in the best interest of our clients during company meetings.

CASE STUDY

An engagement with a listed company to improve governance

One of our investees, an A-share listed agricultural chemical company (Company Y), proposed a related-party acquisition plan to acquire two agricultural firms owned by Company S. Both Company Y and Company S belong to the same holding group, Group C (see Chart).

*Chart: Illustration of the M&A transaction*

We believed the M&A initiative would create synergies between Company Y and the acquired firms and would help company Y develop into a comprehensive agricultural chemical business platform, which would be beneficial to us as shareholders in the long run.

After we scrutinised the details of the M&A proposal, we took the view that the profit guarantee agreement could be further improved. We believed that, instead of returning all the excess profit to Company S, it would be better to share that excess between both Company Y and Company S. This would further incentivise Company Y to drive the growth of the acquired firms, and ultimately benefit both Company Y and Company S.

We arranged a meeting with the senior management of Company Y to share our thoughts, and suggested Company Y to consider revising the profit guarantee agreement. During the meeting, the company’s management shared their considerations candidly and thoroughly and welcomed our suggestions. Within two weeks, Company Y responded to our suggestions and announced an enhanced plan, which we then voted to support.
In the next few months, we followed up with Company Y on additional measures to enhance its corporate governance, and we were happy to discover that Company Y created additional board roles and clarified board members’ roles and mandates to facilitate the fulfilment of the board’s oversight responsibility. We supported the relevant subsequent resolutions.

From our experience, most companies in China are increasingly open to investors’ suggestions. The key to conducting successful engagement is candid and constructive dialogue between investors and investees.

CHALLENGES AND SOLUTIONS

The vast majority of A-Share listed companies are willing to communicate with their investors. However, some of them are not used to such practices, and may misunderstand investors’ intentions in doing so. Investors should take the initiative and communicate proactively with the investee company’s investor relations team or management, and state clearly the purposes of the engagement before offering suggestions. This helps align the interests of all parties and make investors’ suggestions more acceptable to investees.

With companies that are unwilling to act on investors’ advice or which advance proposals that hurt minority shareholders’ interests, investors might consider escalating their engagement actions and contemplate collaborative engagement, casting votes against management, reducing their holdings or ultimately divesting.
FIDELITY INTERNATIONAL: EARLY-STAGE STEWARDSHIP IN THE CHINESE MARKET

WHY WE DO IT?

Sustainability is a core component of Fidelity International’s investment process. To us, sustainable investing is about mobilising the power of capital to galvanise corporates to conduct their business in a more sustainable manner. To achieve that goal, capital needs to be directed in a way that favours companies that are already performing well or which are making genuine efforts to improve. Investors also need to act as responsible stewards of their investee companies through regular engagement and diligent voting to ensure companies continue to advance on their sustainability journey.

This applies to all markets, including China. But in markets where most companies are just starting out on this journey, such as China, stewardship plays an even more significant role. This is because most companies well understand the importance and ever-increasing business relevance of their sustainability practices but need guidance or even handholding as they get started. Through engagement, companies can obtain better clarity on investor expectations, learn about the practice and progress of their peers, and become informed about the resources available that can assist their efforts. Investors, in turn, gain better insights into companies’ thinking and plans. Given the general lack of quality disclosure, this is indispensable for investors seeking to assess the sustainability practice of companies in emerging markets.

The importance of voting is also true for China. We see voting as a right but also a responsibility. Diligent voting, where not only every vote is cast, but where each is cast with proper deliberation, serves as a constant reminder for companies that investors are actively engaged and, when needed, will not hesitate to use their votes to drive corporate change.

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HOW WE DO IT?

As with ESG analysis, at Fidelity stewardship is embedded in our core investment capabilities, where our sector analysts and portfolio managers conduct ESG engagements with companies and make voting decisions according to our voting policy. Our in-house sustainable investing team (the SI team) acts as an enabler by providing the domain knowledge and expertise. This, combined with our analysts’ deep company and sector understanding, allows us to identify the ESG issues that are relevant for each company and have conversations that are much more in-depth. Our analysts also meet companies frequently, at least once a quarter. This ensures continuity in our engagement, because, in addition to the dedicated ESG meeting which generally happens once or twice a year, quick discussions to follow-up on previously discussed ESG topics take place during regular management meetings to discuss operations and financials.

Our engagement approach in China is generally the same as in other jurisdictions, but our engagement activities here differ in breadth, frequency and tactics. Given many companies are at the early stages of their sustainability journey and disclosure is still often lacking, we find it necessary to engage with a larger base of companies. These engagements often need to cover a wide range of issues, which makes more frequent engagement helpful. Carefully crafting suggestions into constructive feedback instead of direct criticism is also important, particularly for the first few meetings. Lastly, it’s not yet common for independent directors or even executive directors to meet investors, which makes letter writing and attending shareholder meetings an important tool to deliver messages to the board when needed.

Voting is centrally managed by the SI team, which votes on all routine resolutions according to our voting policy, which has been discussed and agreed to by our investment team. Non-standard resolutions are reviewed and discussed with the relevant analysts and portfolio managers. This structure works particularly well in China, where shareholder approval is required for many investment proposals that are typically within the board’s decision authority in other markets. The fundamental insights from the investment team in evaluating such proposals are extremely important and are generally lacking in proxy research.

CASE STUDY

Engaging with an express delivery company to improve packaging and safety management

Our engagement with China’s top express-delivery company is a good example of how effective engagement can lead to positive change. Our sector analyst started a dialogue with its management about three years ago to understand its ESG practices. He was positively impressed by the company’s approach to managing its environmental footprint and relations with key stakeholders. He suggested the company could be more transparent and consider setting up a proper governance structure to ensure continuing progress. He explained to the company, issue by issue, what disclosure is relevant for investors. He also suggested that a more explicit linkage between executive remuneration and ESG performance would offer stronger assurance to the market regarding the company’s sustainability commitment. We were pleased to see the company becoming China’s first express delivery firm to publish regular sustainability reports in both Chinese and English. Furthermore, the company made the pioneering move in China of linking executive compensation to
sustainability performance. Amplifying the impact of this engagement, others in the industry took notice of the company’s sustainability push and started to follow suit. With more than 200 million parcels on average moving around China daily, sustainable practices in this sector can have huge environmental implications.

As we continued to engage with the company, the discussion moved on from disclosure and sustainability governance to specific environmental and social practices. Environmentally, a key advance made by the company in the last three years was the reduction of paper waybills. With the use of e-waybills and smaller sheets of paper, the company has reduced paper consumption per package by 70 per cent, saving some 50,000 tons of paper each year. In addition, the company has joined the Science Based Targets initiative, as it seeks to cut carbon emissions further. Electric fleets have been deployed for the entire collection and delivery processes, while recyclable transfer bags are also widely used. On the social front, the company has set up a special fund for protecting the health and safety of frontline workers. Through more effective safety management, the company reduced its lost-time injury rate to 0.68 hours per 200,000 working hours in 2020 from 1.28 hours in 2018.

During our engagement this year, we made new suggestions to the company, including that it widen its carbon reporting scope to cover franchised operations. The company has been receptive to investor feedback, and we are confident in seeing continuing improvement.

**CHALLENGES AND SOLUTIONS**

Effective engagement needs to be built on a good understanding of company practice. With ESG reporting not yet mandatory, we often need to spend the first few engagements on fact-finding before moving to discussing specific issues in more depth and making suggestions. We believe making ESG disclosure mandatory will greatly improve the effectiveness of engagement.

While we have noted a positive trend in the voting participation among local investors, as highlighted in our 2020 China Stewardship Report, local institutional investors are still not voting in a systematic manner nor are they disclosing their voting records. We therefore often find ourselves still a lone voice in voting, which makes the collective voice of public investors weaker than it should be. We believe that making voting mandatory for local institutional investors or adopting a stewardship code that encourages more active and transparent voting activities could address this issue effectively.
HARVEST FUND MANAGEMENT: EXERCISING STEWARDSHIP TO DRIVE TRANSITIONS TOWARDS CARBON NEUTRALITY

WHY WE DO IT

We consider stewardship to be an integral part of our fiduciary duty in managing clients' capital. By proactively engaging with investee companies, we serve as partners, support sustainable value creation, and ensure our alignment with critical decision-making by company management.

HOW WE DO IT

Engagement. We prioritise our engagement activities based on the materiality of the ESG issues and our exposure to the individual company, measured by the absolute amount invested or the percentage of our shareholding in the company. Our engagement is triggered under two scenarios: 1) to manage tail risks in ESG laggards to protect clients' capital; and 2) where we see an opportunity to create long-term positive impact.

We set engagement targets by identifying relevant industry- and business-specific issues critical to the company's long-term growth in terms of key opportunities to capture or risks to mitigate. In conducting engagement sessions, we set priorities based on a materiality assessment and formulate an engagement programme to address these issues over the short, medium and long term by crafting customised roadmaps.

In periodic meetings with management, we share local and global best practices classified by industry and stage of growth. We also discuss, among other things, human capital strategy, technology innovation to enable efficient, clean manufacturing and pathways to carbon neutrality, and formulate actionable transition plans and measurable targets to track progress. We define our engagement success through quantifiable environmental and social impact and value created by investee companies, and long-term sustainable returns for our clients.

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<td>ESG issues</td>
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Furthermore, we find collaborative engagement, such as that pursued by the Climate Action 100+, to be beneficial in allying minority shareholders to effectively communicate with management about concerns and measures to take to improve companies' prospects. Such collaboration can help provide company management with a comprehensive view of investors' perspectives and help prioritize critical management decision-making.

**Integration of investment and stewardship.** As a research-driven asset manager, we have developed an in-house ESG scoring system and integrated it with investment decision-making through stock selection, portfolio construction and risk management. The ESG framework and scores guide our stewardship efforts in prioritising investment targets and identifying key issues to discuss.

**Governance.** Our dedicated ESG team leads our stewardship programme and reports to the Investment Committee’s ESG sub-committee, supervised by our CIOs and CEO. This governance structure ensures that ESG is fully integrated into our investment process. The Investment Committee discusses investee companies, prioritising our engagement efforts, key ESG issues to highlight to management and progress made. This assessment is translated into investment decisions so that our stewardship efforts are aligned with clients’ long-term interests.

**CASE STUDY**

Engaging with portfolio companies to manage climate-related risks and opportunities

One of our priorities in climate change-related engagement is identifying and growing with companies at the forefront of innovation and transformation to address climate change.

We started to invest in and engage with a Chinese solar photovoltaic company in 2013 when the company was still a small player in the market. Our relationship with the company lasted and deepened through the ups and downs of the solar industry. We recognised the management’s vision to lower the levelised cost of energy it could deliver through continuous technological innovation, efficient production and vertical integration, and we supported its practical approach to reducing operating costs to fuel innovation, continuously providing financing to the company to help it through difficult times.

Our stewardship efforts touched on long-term management strategies, operational efficiency, capital allocation, governance and other sustainability issues. We discussed measures such as growing the top line by expanding markets to appeal to sustainability-minded customers, building its brand by leveraging its competitive advantage, improving margins through investment in automation, and managing human capital through incentive schemes. Through our continuous engagement with the management, we have provided insights and support for the company to grow the renewable energy market by continuously innovating, improving access, and lowering cost barriers through disciplined capital expenditure.

This engagement has paid off. Since 2015, the company has been using renewable energy to power its operations. In 2020, it joined the RE100, EV100 and EP100 initiatives and the Science Based Targets initiative, responded to the CDP questionnaire, and committed to a net-zero strategy. The company has reached 41.83% of renewable energy usage, equivalent to a 1,356,216 ton reduction in carbon emissions. In 2020 alone, its energy intensity has fallen 3.39% year on year, saving 120
million kWh of power. It reduced its water intensity by 2.45%, saving 729,000 tons of water and RMB101m in costs. Moreover, it has achieved 100% recycling in its packaging.

After eight years, the company has created value for its stakeholders by providing cost-effective solutions to solar energy independent of government subsidies, helping to significantly improve renewable energy penetration. The company’s revenues have increased 24 times, at a 57% cumulative annual growth rate over 2013-2020. It is now the largest producer globally of photovoltaic wafers and modules, with 36% and 14% market share, respectively. By seizing the opportunities induced by climate change and mitigating risks through active stewardship, we have achieved more than a 100-times return in eight years for our clients while contributing to a sustainable future.

In addition to companies engaged in green business such as renewable energy, we invest and engage with companies that are in the process of transitioning to become greener businesses. In engaging with an agricultural product producer, for example, we introduced global and local best practices regarding the low-carbon transition and ESG disclosure. We helped craft a working plan relevant to its industry and local markets. We then set measurable and attainable carbon reduction targets that evolved as it built its data collection capabilities. In addition to improving its ESG disclosure, the company has taken measures to leverage expertise in environmental practice, select dedicated project owners reporting directly to the board of directors, set up measurable targets linked to management remuneration, and coordinate cross-functional efforts via bonus plans. The results were captured by our internal ESG scores and later recognised by MSCI with improved ESG ratings. Meanwhile, the investment has delivered a five-fold return over three years.

CHALLENGES AND SOLUTIONS

Our engagement efforts face a number of challenges:

- First, given the shareholder structure in the Chinese market, mutual funds tend to be minority shareholders for many large-cap companies and thus have a limited impact if undertaking engagement individually. We see a need for more collaboration across the industry.

- Second, clearer guidance from policy makers regarding company disclosure and active ownership would help to normalise engagement channels and targets.

- Third, engagement priorities, topics and techniques vary by market and industry. Given differing local characteristics and cultures, domestic institutional investors and expert groups should take leading roles in engagement processes to have the best chance of driving change.

- Fourth, there is a shortage of stewardship expertise. The development of third-party stewardship services could accelerate market development, with more providers specialised in proxy voting and engagement services entering the market.
EOS AT FEDERATED HERMES: PROMOTING HUMAN CAPITAL MANAGEMENT THROUGH ENGAGEMENT

 Organisation details

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Covered in this case study

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<tr>
<td>ESG issues</td>
<td>Social issues: human capital; corporate governance issues</td>
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WHY WE DO STEWARDSHIP?

EOS at Federated Hermes is a leading stewardship service provider. Our engagement activities enable long-term institutional investors to be more active owners of their assets, through dialogue with companies on environmental, social and governance (ESG) issues. We believe this is essential to build a global financial system that delivers improved long-term returns for investors, as well as better, more sustainable outcomes for society.

HOW WE DO IT?

We have been engaging with Chinese companies for over a decade and the number of Chinese companies we engage with has gradually increased. We engage with Chinese companies in Mandarin and English and, in general, the momentum of our indicators of engagement progress are in line with other markets. Our engagements involve well-researched and informed dialogue with company representatives and investor relations teams as well as subject matter experts, senior executives and board members. We also typically carry out site visits or trips to meet board members, such as a visit we made to meet the CFO, investor relations and sustainability teams of a dairy company based in Beijing and to visit one of its production sites. However, these visits have not been possible during the pandemic.

We engage with companies both unilaterally and collaboratively with other investors and, at times, we may escalate meetings using letters to the chair and board of directors, or through meetings with independent directors.

Proxy voting recommendations are another way to engage with companies in China. Over the many years in which we have been undertaking engagement, we have developed comprehensive corporate governance principles based on our expert knowledge of specific markets and with input
from effective collaboration with groups such as the Asia Corporate Governance Association (ACGA) and Institutional Shareholder Services, a proxy advisory firm. We send these principles for China (in English and Chinese) to all relevant companies in our clients’ holdings (including our own in-house funds, we represent a total of US$1.64trn in assets under advice). We then make recommendations based on these principles, seeking to engage with companies during a vote.

Shareholder resolutions are also a way of escalating engagement with companies, although they are still relatively rare in China. When providing proxy voting recommendations, we consider each resolution individually and seek dialogue with the company before we make a recommendation.

Another key aspect of stewardship is work on public policy priorities. As mentioned, we liaise with key stakeholders such as the ACGA, and seek to build networks such as with the Asset Management Association of China (AMAC). We have provided AMAC with ESG training and hope to continue dialogue in future on encouraging and enhancing local stewardship. We support incorporating ESG into listing requirements and have responded to public consultations, requesting more stringent ESG disclosure requirements to enhance the social aspects of ESG as well as the ‘E’ and the ‘G’.

CASE STUDY

Engaging with companies to improve their performance on managing human capital

We have been engaging with one of China’s largest online retailers. Since the company’s initial public offering, it had not issued a standalone ESG report or held an annual shareholder meeting. We were concerned about a lack of diversity on its board and limited ESG disclosure. In response to public concerns about the risk of a ‘996’ culture – whereby employees work 9am to 9pm six days a week – we recommended the company provide an explanation of how human capital management, diversity and inclusion are linked to its core values and culture. We shared best-practice examples of disclosure focused on governance, culture and employee wellbeing.

The company published its first ESG report in 2021, covering topics discussed in our engagement. We welcomed its disclosure on corporate governance structure, data privacy and cybersecurity management, and its commitment to decarbonisation. The company also confirmed its arrangements for a first annual general meeting in 2021, in line with our request. In addition, we welcomed the appointment of its first female director to the board this year. We will continue to encourage further disclosure on ESG topics including plastic recycling, climate change, human capital management, diversity and inclusion, and its dual share structure.

Another example is our engagement with one of China’s largest companies. Since the abrupt departure of its then COO and other senior executives in 2018, in addition to a wider outflow of talent from its workforce, EOS used various means to voice concerns and provided suggestions on human capital management. We sent a letter to the board to ask for more disclosure of workforce information, and we encouraged a stronger narrative and context around the human capital metrics chosen and made recommendations based on our human capital management reporting framework.

This year, the company issued a special human capital report, taking on board many of our suggestions. The report is a new attempt to deliver the commitments in the human rights policy established in 2020. It incorporated feedback from an employee survey run in July 2020 to shape the
behavioural expressions of its seven principles of corporate culture. The company provided good
disclosure of its human capital management framework and performance indicators. Accompanied
by targets and a pathway, the talent management initiative is to be reviewed each quarter and at
the end of the year. Keeping top talent is one of the CEO’s key performance indicators and his top
priority for 2021. We will encourage the company to disclose these figures annually so that
improvements year on year can be demonstrated.

CHALLENGES AND SOLUTIONS

We find that engagement on environmental and governance concerns is more straightforward than
engagement on social matters, although companies are becoming more willing to discuss issues
around human capital management. We are keen to make progress on the ‘S’ pillar and continue to
raise these issues, with cultural sensitivities in mind. Public policy relationships across all ESG
themes, and especially those linked to social ones such as the Mekong Club (a modern slavery NGO),
will continue to be important. We encourage policy makers to expand disclosure to move beyond
philanthropy and corporate social responsibility towards core business impacts on employee
wellbeing, inclusion and diversity, health and safety, modern slavery and human trafficking, and
digital rights (such as ethical artificial intelligence and data privacy), all of which are vital to the long-
term sustainable value of companies and society.

As a representative of long-term investors, we believe that it’s our mission to help companies deliver
better, more sustainable outcomes. We are optimistic and ambitious about opportunities for
continued engagement success with Chinese companies and regulators, recognising Chinese
companies’ significant influence both domestically and internationally.
WHY WE DO STEWARDSHIP?

Manulife Investment Management believes that active ownership practices are at the centre of good stewardship, helping to drive strong risk-adjusted investment return potential for our clients while we seek to make a positive impact on the environment and society. We believe that ESG factors contribute to the overall profile of an investment and that management of ESG risks and opportunities can lead to long-term sustainable returns. We see ESG analysis and stewardship as natural complements to our strengths as an active investment manager.

HOW WE DO IT?

Responsible stewardship is an integral component of our business and culture, which extends across our public and private market investing activities in all geographies. We seek to engage with Chinese holdings in our capacity as an institutional investor to have a constructive dialogue on a variety of investment matters with the goals of enhancing long-term investment value and mitigating risk. An accurate understanding of engagement and voting techniques that are appropriate for the Chinese market is vitally important.

Our stewardship activities in China closely follow our global ESG Engagement Policy and align with our Global Proxy Voting Policy and Procedures, as we think good governance standards apply universally. However, on the other hand, we also consider the governance characteristics of local markets.

Proxy voting: The right to vote is a basic component of share ownership and is an important control mechanism to ensure that a company is managed in the best interests of its shareholders. Where clients delegate proxy voting authority to Manulife IM, we have a fiduciary duty to exercise voting rights responsibly. The Manulife IM ESG Research and Integration Team is an important resource for
Manulife IM also has an internal proxy voting working group comprising senior managers from across Manulife IM, including the equity investment, legal, compliance and ESG teams. The working group is responsible for reviewing regular reports, potential conflicts of interest, vote changes and non-routine proxy voting items. It also oversees the third-party proxy voting service provider. In particular, our ESG analysts actively review voting resolutions for companies in which:

- Manulife IM’s aggregated holdings across all client accounts represent 2% or greater of issued capital;
- A meeting agenda includes shareholder resolutions related to environmental or social risk management issues, or where the subject of a shareholder resolution is deemed to be material to our investment decision; or
- The issuer has been engaged by Manulife IM within the past two years, seeking a change in behaviour.

**Engagement and ESG integration:** We evaluate a wide range of ESG characteristics in both our equity and fixed income investment framework. We prioritise engaging with companies where our assessment suggests that ESG or other factors are potentially material to an investment’s risk/reward profile, taking into account the significance of an investment within a given portfolio, Manulife IM’s degree of influence, and the expected contribution to long-term value creation from a successful engagement.

Corporate governance risk is often a material consideration in our fixed income team’s credit assessment of an issuer. In general, weak governance is one of the primary reasons for an outright rejection of a credit because it is often difficult to quantify the effect of poor governance on the creditworthiness of a company and apply an appropriate notching to internal risk ratings. Negative influence from major shareholders and accounting deficiencies may lead to a rapid deterioration in an issuer’s financial profile and a significant rise in default probability. On the equity side, our unique GCMV template (Growth, Cashflow, Management, Valuation) focuses on the track record of the management, levels of independence and diversity, the presence of related-party transactions, and the background and stability of major shareholders.

We also participate in collaborative engagements with other firms in our industry. Engaging collaboratively with other investors amplifies our impact on the companies, industries and markets in our collective areas of influence. For the companies we engage with, collaborative efforts reduce the noise of numerous points of view, helping to focus on goal-setting and real outcomes. Collaboration is always in alignment with our fiduciary duty to our clients as an asset manager.
CASE STUDY

Engaging with portfolio companies to enhance gender diversity

As one of the founding members of the Board Diversity Hong Kong Initiative, we believe gender diversity on boards encourages better leadership and better corporate governance. Ultimately, we believe diversity increases corporate performance and global competitiveness for both companies and their shareholders.

We have reviewed and analysed all Hong Kong-listed companies regarding their board gender diversity, and prioritised engagement based on companies’ sector, size and impact. We decided to engage with a Chinese consumer staples company on its gender diversity because of its all-male board structure and the importance of the presence of female directors in the industry. During the engagement, we first listed academic studies justifying the positive correlation between a company’s board gender diversity ratio and its financial return. Meanwhile, we shared our understanding on the lack of female board directors in Chinese corporate boards historically, but we also compared the gender diversity of the company’s board with other Chinese and global consumer peers and asked the company to add at least one female director to its all-male board.

We also leveraged regulatory requirements to conduct our engagement. A recent consultation paper from Hong Kong Exchanges and Clearing proposes to end single gender boards, suggesting a three-year transition period. It also proposes requiring companies to set targets and timelines for gender diversity at board level and across the workforce.

It is rare to see a consumer staple company that has no female directors as gender diversity at consumer goods companies tends to be highest among all primary sectors. We engaged with the company and reiterated the importance for it to increase the representation of female directors on the board and offered to coordinate with Board Diversity HK to help search for qualified candidates. We were pleased to see the company appoint a female director to the board in December 2021.

CHALLENGES AND SOLUTIONS

Current challenges in exercising stewardship in China include: 1) the absence of a national stewardship code; 2) insufficient corporate-level ESG information disclosure; and 3) corporate greenwashing.

Thus far, a stewardship code has not been established in China and there is inadequate appreciation of the value that stewardship can contribute to financial value. The China Securities Regulatory Commission (CSRC) released a Code of Corporate Governance for Listed Companies in 2002 and revised the Code in 2018, but it remains voluntary.

Gaps exist in ESG data in most markets, but particularly in the China A-share market. We expect regulators to enhance ESG data disclosure requirements for listed companies in line with international standards. Stock exchanges also have a responsibility to require companies to disclose

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1 HKEX, “Exchange publishes consultation paper on review of corporate governance code and related listing rules,” regulatory announcement, 16 April 2021
financially material ESG factors as part of their listing rules. While data gaps remain, our local presence and experience of investing in Asia enable us to engage with Chinese companies to gain a comprehensive understanding of their business. We also engage collaboratively with other investors to take a leading role in advancing the entire industry.

Companies can make bold ESG claims, but responsible investors should be cautious of green washing, social washing and SDG washing. When companies have especially long-term commitments, engagement can be useful for understanding the near-term strategy and actions contributing to that goal – for example, the interim decarbonisation targets and capital expenditure requirements required to achieve a mid-century net-zero emission commitment. Similarly, when assessing green, social and sustainable bonds, we evaluate not only the ESG characteristics of the projects associated with the bond, but also the structure, the issuers’ sustainability strategy, and how this issuance supports that strategy.
SOUTHERN ASSET MANAGEMENT: FIXED INCOME ENGAGEMENT IN THE CHINESE CONTEXT

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(Source: PBoC, CSAM, USD/CNY6.4854)

WHY WE DO IT?

We believe that stewardship is an effective strategy to improve investees’ long-term competitiveness and to strengthen our portfolio performance, and that it is also part of our fiduciary duty. The most material risk faced by fixed-income investors is default and liquidity risk. We believe that continuous monitoring, on-site investigation and understanding company fundamentals, including issues related to climate change, biodiversity, etc., are effective ways to reduce portfolio risk.

HOW WE DO IT?

SAM closely engages with listed companies, bond issuers and policy makers. We incorporate ESG issues into our engagement with listed companies and bond issuers to improve the ESG awareness of investees, optimise their governance structures, and create a better investment ecosystem. Our stewardship strategy also encourages regulatory engagement to improve the sustainable development of the entire sector where our investees operate. In cases where engagement with issuers is ineffective, we may vote against management.

Among other things, environment and climate change are key issues we are concerned with. After China announced its commitment to carbon neutrality, SAM set up an internal carbon emissions database to track the carbon footprint of our portfolios and continued engaging with portfolio companies with significant carbon emissions to support their journey towards decarbonisation.

Our carbon emissions database covers all our portfolios, using third-party data, financial technology and algorithms. We selected 100 companies with the most significant carbon emissions in the database as our targets for stewardship.
We monitor and assess the progress made by portfolio companies based on our proprietary scorecard where we assess their climate-related risks, their governance of climate risk, strategies to address them, and climate-related disclosure.

Many large state-owned enterprises (SOEs) are quite receptive to investor suggestions, especially when it comes to the topic of carbon neutrality. Even as a minority shareholder, we are able to effectively engage with many SOEs. That’s because we are a long-term shareholder and have established mutual trust and confidence with our portfolio companies. Our analysts follow the companies for years and know their fundamentals and development strategies very well. These companies also value our professional suggestions based on our in-depth industry research and global best practices such as those promoted by the Science Based Targets initiative and the Transition Pathway Initiative. Those suggestions contribute to constructive discussions on the development of credible transition pathways.

CASE STUDY

Engaging with a bond issuer to improve animal health and reduce pollution

Company Y is a listed company and one of the largest pig farmers in China. After the outbreak of African swine fever (ASF) in 2018, its issuance of bonds became difficult, the credit spreads of its existing bonds soared and liquidity dropped greatly, presenting both a risk and an opportunity for fixed income investment.

ESG factors are material to investment in agriculture and the farming industry. The sector’s principle adverse impacts on the environment are inappropriate land use, deforestation and outbreaks of infectious disease. At the time of the pig industry crisis, our analysts visited Company Y, a potential investment target of SAM, to investigate its epidemic prevention and environmental protection practices.

During the investigation, our analysts actively urged Company Y to improve its ASF protection mechanisms and continue to improve its animal welfare standards. Our analysts made suggestions based on the Terrestrial Animal Health Code, including upgrading the design of its pig housing, and reducing the risk of carrying and spreading viruses by reducing the movement of people. Our analysts also inquired into environmental protection related to its pig houses and urged the company to improve green agricultural production and innovate regarding its environmental protection technology. For instance, we suggested that Company Y develop a circular economy approach covering cultivation–biomass fertilizer–green farming in the production process, innovates automatic breeding equipment, and implements digital pig-house management to prevent the spread of ASF and mitigate environmental pollution.

Company Y responded positively to the questions and expectations raised by our analysts, because it recognised that improving its epidemic prevention capabilities and regaining the approval of the capital markets are priorities. Its board secretary and CFO stated that they would take measures such as improving equipment and management, applying cutting-edge environmental technologies, upgrading pig farms and hiring experienced and responsible breeders. To prevent disease, the company established a biosafety working group headed by the company’s senior management, which is responsible for preventing and containing epidemics. Among other things, Company Y also
increased veterinary R&D investment, strengthened its early warning systems, strictly controlled the entire process, and also added ventilation systems and constructed closed and intelligent pig houses.

Our analysts followed up on the implementation by Company Y after their investigation. They communicated with the company on a regular basis to keep track of progress. They also verified that progress by communicating with its supply chain companies. When we learned that some peers blindly adopted unapproved vaccines for prevention and control at the beginning of the ASF outbreak, which resulted in a significant reduction in pig production capacity, our analysts expressed such concerns to Company Y. The company assured them that it would adhere to biosafety prevention and control measures and would not use unapproved vaccines.

After confirming that Company Y has effectively improved its epidemic prevention and was operating steadily, our fixed income investment department increased the investment in its bonds in 2019 to support its expansion plan. Company Y subsequently effectively reversed the decline in its operations and became one of the largest pig producers in China.

**CHALLENGES AND SOLUTIONS**

In China, the main challenges to stewardship are the lack of a consolidated framework for ESG information disclosure, difficulty in gathering information, issues over information credibility and information asymmetry. Although engagement with private enterprises is relatively smooth in China, we still face information credibility challenges. We hope that standards for ESG information disclosure can be released by regulators as soon as possible.