

# Asian Corporate Governance Association (ACGA) – Conference Report



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Responsible Investment

Public pressure and the ability to attract foreign capital are driving progress in environmental, social and governance (ESG) practices across Asia. This became evident as governance experts gathered in Beijing for ACGA's 2018 annual conference. Expert navigation of these changes will contribute to our ability to conduct ESG research and engagement activities effectively.

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## Background

We attended the ACGA's 18th annual conference in Beijing, the largest one to date with more than 300 delegates present. A significant majority of delegates came from Asia, particularly Greater China, which speaks volumes about the rising attention investors and companies in the region are paying to environmental, social and governance (ESG) issues. This is hardly surprising – both the public and private sectors are under increasing pressure to respond to the consequences of extreme weather events, pollution problems and demographic change. Despite some setbacks, like the introduction of dual class share structures in Hong Kong and Singapore, the recognition that better governance standards will help attract foreign investment flows and open capital markets has started to take hold.

## China catches up

The conference had a clear focus on China, with sessions structured around topics such as accounting and auditing developments, the state of tech innovation, state sector reform and governance reforms.

Compared to other markets in Asia, China had been moving rather slowly in implementing ESG-related reforms. The revision of its Code of Corporate Governance for Listed Companies earlier in 2018 is an indication that the pace of change is picking up. The revamped code includes greater emphasis on ESG disclosure, investor stewardship and director accountability. Furthermore, the China Securities Regulatory Commission introduced new requirements that, by 2020, will mandate all listed companies and bond issuers to disclose ESG risks associated with their operations.

Investors will need to develop a robust understanding of how to navigate these changes, considering that governance in China is a unique hybrid of local and global standards. The incorporation of Party Committees, required for all companies under the new Code, provides a striking example. The presence of Communist Party units has long been a fact of doing business in China, where they exist in nearly 70 percent of privately-owned companies. Executives had regarded these units as more symbolic

than anything to worry about. Formalising their existence as committees has raised concerns that the Party might play a role in companies' operational decision-making – potentially leading to decisions made for political rather than business reasons. Investors should, therefore, seek greater clarity around the composition, mandate and role of Party Committees.

### State-Owned-Enterprises

Trade frictions with the United States are likely to have led the Chinese government to step on the gas in its long-gestating attempts to improve the competitiveness of the country's sluggish state sector. State owned enterprise (SOE) reform has unequivocally moved up the policy agenda, with the government trying to capitalise on the progress achieved so far. SOEs across a range of industries have improved their performance by shedding excess capacity, optimising balance sheets through debt reduction, and introducing executive share incentive schemes. We believe the ultimate success of the reform process will be in part determined by the adoption of robust governance practices, particularly in the areas of board effectiveness, transparency and shareholder protection.

### ESG – finally sweeping into Asia?

It will take time for policymakers to take decisive action to uncouple economic growth from resource consumption across Asian economies, or implement measures to enhance protection of minority shareholders. In the meantime, financial industry participants can and should play a part in accelerating this transition by helping move capital markets onto a more sustainable basis.

We left the conference encouraged that our ability to play this part, through our ESG research and engagement activities with Asian companies, will improve going forward. Two reasons support this view.

Firstly, regulators and stock exchanges across the region continue to develop and implement stronger ESG reporting standards and ESG practice guidelines. Secondly, there is growing appetite

from local investors, including through minority investors associations, to lend their voices to foreign investors' calls for better ESG practices.

The two forces above, together with the drive to remain relevant as millennials and younger generations rise, are helping mark a turning point in the way Asian companies look at ESG. However, some challenges remain for this turning point to happen more quickly.

**Board effectiveness:** There is insufficient recognition that a board with a strong set of skills is critical for the long-term success of companies. Most non-executive directors are lawyers, accountants or academics that lack relevant expertise, fail to constructively challenge management, or are not tuned into governance or sustainability issues. Moreover, investors often lack access to directors.

**Compliance-focused approach:** Companies continue to see governance and sustainability management as a compliance requirement rather than a strategic imperative. This effectively means that board effectiveness is rarely a concern, materiality does not really inform their sustainability practices, and they have difficulty addressing questions about how their businesses are going to evolve in the face of long-term, ESG trends.

### Next steps

A solid grasp of the different local contexts has significantly contributed to improving the depth and breadth of our active ownership activities with companies in Asia. Going forward, we will closely follow how ESG management and reporting practices evolve across the region to assess potential implications for our approach to engagement.

Our ability to drive positive change is largely shaped by the trust we can build with the people running the companies in our clients' portfolios. We will have a higher chance of building that trust by engaging in discussions informed by the history, culture and conditions within which companies across the region have evolved.

# Shropshire County Council

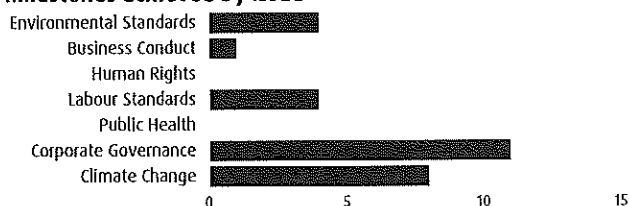
Q4 2018

The purpose of the **reo**<sup>®</sup> (responsible engagement overlay)\* service is to engage with companies held in portfolios with a view to promoting the adoption of better environmental, social and governance (ESG) practices. The **reo**<sup>®</sup> approach focuses on enhancing long-term investment performance by making companies more commercially successful through safer, cleaner, and more accountable operations that are better positioned to deal with ESG risks and opportunities. Through a combination of constructive dialogue and active share voting, **reo**<sup>®</sup> works to drive behavioural change with companies, and records successful outcomes as 'milestones' – changes in corporate policies or behaviour following intervention.

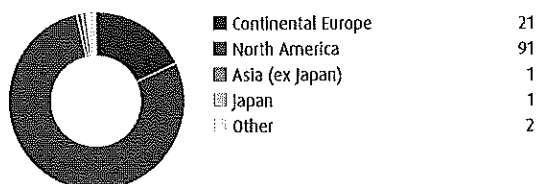
## Companies engaged this quarter

Companies engaged	116
Milestones achieved	28
Countries covered	14

## Milestones achieved by issue



## Companies engaged by country



## Companies engaged by issue\*\*





# Priority Companies and Your Fund

The table below highlights the companies on BMO's annual priority engagement list with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. Priority companies are selected through a detailed analysis of client holdings, proprietary ESG risk scores, engagement history and the BMO Governance and Sustainable Investment team's judgement and expertise. Each priority company has defined engagement objectives set at the beginning of each year. Engagement activity levels for priority companies are more intensive than for companies where we engage more reactively. We provide reporting on our engagement with priority companies in the form of case studies which follows the table below. For full list of priority companies please refer to the Appendix at the end of this report. For full details of our engagements with companies please refer to the online *reo*® client portal.

Name	Sector	ESG Rating	Response to engagement	Themes engaged						
				Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
AES Corp/VA	Utilities	YELLOW	Good						●	
Albemarle Corp	Materials	ORANGE	Good						●	
Amazon.com Inc	Consumer Discretionary	RED	Poor				●		●	
Arconic Inc/PA	Industrials	ORANGE	Adequate					●	●	
AutoZone Inc	Consumer Discretionary	RED	Poor				●		●	
Becton Dickinson and Co	Health Care	YELLOW	Adequate		●			●		
BHP Group Ltd	Materials	YELLOW	Good	●						●
CVS Health Corp	Health Care	YELLOW	Adequate		●				●	
Fortis Inc/Canada	Utilities	GREEN	Good						●	●
GlaxoSmithKline PLC	Health Care	YELLOW	Good		●					
International Consolidated Airlines Group SA	Industrials	RED	Adequate		●		●		●	
Johnson & Johnson	Health Care	YELLOW	Adequate						●	
L Brands Inc	Consumer Discretionary	RED	Good						●	
Mettler-Toledo International Inc	Health Care	GREEN	Adequate		●					
Nestle SA	Consumer Staples	GREEN	Good	●	●			●	●	
Royal Dutch Shell PLC	Energy	YELLOW	Good		●		●		●	●
Sage Group PLC/The	Information Technology	YELLOW	Adequate		●					
UniCredit SpA	Financials	YELLOW	Good		●					
US Bancorp	Financials	ORANGE	Adequate						●	
Wells Fargo & Co	Financials	RED	Adequate		●				●	
Western Union Co/The	Information Technology	GREEN	Good		●				●	

**ESG Risk Rating:** Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED



# Engagements and Your Fund: Red rated

The table below highlights the companies with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. The table is split by ESG risk rating. For full details of our engagements with companies please refer to the online *reo*® client portal.

Name	Country	Sector	Priority company	ESG Rating	Themes engaged						
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
Amazon.com Inc	United States	Consumer Discretionary	✓	RED				●		●	
Anadarko Petroleum Corp	United States	Energy		RED						●	
AutoZone Inc	United States	Consumer Discretionary	✓	RED				●		●	
Canadian Natural Resources Ltd	Canada	Energy		RED						●	
FleetCor Technologies Inc	United States	Information Technology		RED						●	
General Dynamics Corp	United States	Industrials		RED			●			●	
International Consolidated Airlines Group SA	United Kingdom	Industrials	✓	RED		●		●		●	
JPMorgan Chase & Co	United States	Financials		RED						●	
L Brands Inc	United States	Consumer Discretionary	✓	RED						●	
Lear Corp	United States	Consumer Discretionary		RED						●	
Netflix Inc	United States	Consumer Discretionary		RED						●	
Pfizer Inc	United States	Health Care		RED						●	
RioCan Real Estate Investment Trust	Canada	Real Estate		RED						●	
SmartCentres Real Estate Investment Trust	Canada	Real Estate		RED						●	
UnitedHealth Group Inc	United States	Health Care		RED		●				●	
Wells Fargo & Co	United States	Financials	✓	RED		●				●	

**ESG Risk Rating:** Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: **GREEN** Second quartile: **YELLOW** Third quartile: **ORANGE** Bottom quartile: **RED**

# Engagements and Your Fund: Orange rated

The table below highlights the companies with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. The table is split by ESG risk rating. For full details of our engagements with companies please refer to the online *reo*® client portal.

Name	Country	Sector	Priority company	ESG Rating	Themes engaged						
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
Albermarle Corp	United States	Materials	✓	ORANGE						●	
Ameren Corp	United States	Utilities		ORANGE						●	
Arconic Inc/PA	United States	Industrials	✓	ORANGE					●	●	
Bank of America Corp	United States	Financials		ORANGE						●	
Barrick Gold Corp	Canada	Materials		ORANGE						●	
BCE Inc	Canada	Telecommunication Services		ORANGE						●	
Costco Wholesale Corp	United States	Consumer Staples		ORANGE						●	
FS Networks Inc	United States	Information Technology		ORANGE						●	
Illumina Inc	United States	Health Care		ORANGE						●	
Kinder Morgan Inc/DE	United States	Energy		ORANGE						●	
Marriott International Inc/MD	United States	Consumer Discretionary		ORANGE						●	
Methanex Corp	Canada	Materials		ORANGE						●	
Restaurant Brands International Inc	Canada	Consumer Discretionary		ORANGE						●	
S&P Global Inc	United States	Financials		ORANGE						●	
Sealed Air Corp	United States	Materials		ORANGE	●						●
Spirit AeroSystems Holdings Inc	United States	Industrials		ORANGE						●	
US Bancorp	United States	Financials	✓	ORANGE						●	
Walgreens Boots Alliance Inc	United States	Consumer Staples		ORANGE						●	

**ESG Risk Rating:** Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED



# Engagements and Your Fund: Yellow rated

The table below highlights the companies with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. The table is split by ESG risk rating. For full details of our engagements with companies please refer to the online *reo*® client portal.

Name	Country	Sector	Priority company	ESG Rating	Themes engaged						
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
AES Corp/VA	United States	Utilities	✓	YELLOW						●	
BB&T Corp	United States	Financials		YELLOW						●	
Becton Dickinson and Co	United States	Health Care	✓	YELLOW		●			●		
BHP Group Ltd	Australia	Materials	✓	YELLOW	●						●
Canadian National Railway Co	Canada	Industrials		YELLOW						●	
Commerzbank AG	Germany	Financials		YELLOW							●
CVS Health Corp	United States	Health Care	✓	YELLOW		●				●	
Discover Financial Services	United States	Financials		YELLOW						●	
DowDuPont Inc	United States	Materials		YELLOW						●	
Duke Energy Corp	United States	Utilities		YELLOW						●	●
First Republic Bank/CA	United States	Financials		YELLOW						●	
GlaxoSmithKline PLC	United Kingdom	Health Care	✓	YELLOW		●					
Goldman Sachs Group Inc/The	United States	Financials		YELLOW						●	
Great-West Lifeco Inc	Canada	Financials		YELLOW						●	
Hydro One Ltd	Canada	Utilities		YELLOW						●	
Invesco Ltd	United States	Financials		YELLOW						●	
Johnson & Johnson	United States	Health Care	✓	YELLOW						●	
Kroger Co/The	United States	Consumer Staples		YELLOW	●						
Lincoln National Corp	United States	Financials		YELLOW						●	
Lloyds Banking Group PLC	United Kingdom	Financials		YELLOW		●				●	
Manpowergroup Inc	United States	Industrials		YELLOW						●	
Middleby Corp/The	United States	Industrials		YELLOW						●	
Newell Brands Inc	United States	Consumer Discretionary		YELLOW						●	
Omnicom Group Inc	United States	Consumer Discretionary		YELLOW						●	
Roper Technologies Inc	United States	Industrials		YELLOW						●	
Royal Dutch Shell PLC	Netherlands	Energy	✓	YELLOW		●		●		●	●
Royal Mail PLC	United Kingdom	Industrials		YELLOW				●		●	
Sage Group PLC/The	United Kingdom	Information Technology	✓	YELLOW		●					
SNC-Lavalin Group Inc	Canada	Industrials		YELLOW						●	
Target Corp	United States	Consumer Discretionary		YELLOW				●		●	
TransCanada Corp	Canada	Energy		YELLOW						●	
UniCredit SpA	Italy	Financials	✓	YELLOW		●					
Unilever PLC	United Kingdom	Consumer Staples		YELLOW						●	

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Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

# Engagements and Your Fund: Green rated

The table below highlights the companies with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. The table is split by ESG risk rating. For full details of our engagements with companies please refer to the online *reo*® client portal.

Name	Country	Sector	Priority company	ESG Rating	Themes engaged						
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
AIA Group Ltd	Hong Kong	Financials		GREEN		●		●		●	
American Express Co	United States	Financials		GREEN		●				●	
ARC Resources Ltd	Canada	Energy		GREEN						●	
Bank of Nova Scotia/The	Canada	Financials		GREEN						●	
BlackRock Inc	United States	Financials		GREEN						●	
Brookfield Asset Management Inc	Canada	Financials		GREEN						●	
Burberry Group PLC	United Kingdom	Consumer Discretionary		GREEN	●						
Canadian Imperial Bank of Commerce	Canada	Financials		GREEN						●	
CBRE Group Inc	United States	Real Estate		GREEN						●	
Charles Schwab Corp/The	United States	Financials		GREEN						●	
Coca-Cola HBC AG	Switzerland	Consumer Staples		GREEN	●						
Cochlear Ltd	Australia	Health Care		GREEN						●	
Cognizant Technology Solutions Corp	United States	Information Technology		GREEN						●	
Cummins Inc	United States	Industrials		GREEN						●	
DNB ASA	Norway	Financials		GREEN		●					
easyJet PLC	United Kingdom	Industrials		GREEN		●					
Enel SpA	Italy	Utilities		GREEN							●
Fortis Inc/Canada	Canada	Utilities	✓	GREEN						●	●
Franco-Nevada Corp	Canada	Materials		GREEN						●	
George Weston Ltd	Canada	Consumer Staples		GREEN						●	
Gilead Sciences Inc	United States	Health Care		GREEN						●	
HP Inc	United States	Information Technology		GREEN						●	
Ingenico Group SA	France	Information Technology		GREEN		●					
Intact Financial Corp	Canada	Financials		GREEN						●	
Kansas City Southern	United States	Industrials		GREEN						●	
Loblaw Cos Ltd	Canada	Consumer Staples		GREEN						●	
Metro Inc	Canada	Consumer Staples		GREEN						●	
Mettler-Toledo International Inc	United States	Health Care	✓	GREEN		●					
Microsoft Corp	United States	Information Technology		GREEN		●					
Moody's Corp	United States	Financials		GREEN						●	
National Bank of Canada	Canada	Financials		GREEN						●	
Nestle SA	Switzerland	Consumer Staples	✓	GREEN	●	●			●	●	
Onex Corp	Canada	Financials		GREEN						●	
Owens Corning	United States	Industrials		GREEN						●	

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# Engagements and Your Fund: Green rated

Name	Country	Sector	Priority company	ESG Rating	Themes engaged						
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
Pinnacle West Capital Corp	United States	Utilities		GREEN						●	
Salesforce.com Inc	United States	Information Technology		GREEN						●	
Segro PLC	United Kingdom	Real Estate		GREEN						●	
Smurfit Kappa Group PLC	Ireland	Materials		GREEN	●						
Suncor Energy Inc	Canada	Energy		GREEN	●		●			●	●
Teck Resources Ltd	Canada	Materials		GREEN						●	
Telefonica SA	Spain	Telecommunication Services		GREEN			●				●
Toronto-Dominion Bank/The	Canada	Financials		GREEN						●	
UBS Group AG	Switzerland	Financials		GREEN		●				●	
Vermillion Energy Inc	Canada	Energy		GREEN						●	
Vertex Pharmaceuticals Inc	United States	Health Care		GREEN						●	
Waters Corp	United States	Health Care		GREEN						●	
Western Union Co/The	United States	Information Technology	✓	GREEN		●				●	
Whitbread PLC	United Kingdom	Consumer Discretionary		GREEN	●						
Yaskawa Electric Corp	Japan	Information Technology		GREEN						●	

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# Milestones and Your Fund

The table below highlights the companies with which we have recorded milestones on your behalf in the past quarter and which you currently hold within your portfolio. Milestones are engagement outcomes which we have identified and is rated on the extent to which it protects investor value. For full details of our engagements which led to these milestones please refer to the online *reo*® client portal.

	Themes engaged										
Name	Country	Sector	Priority company	ESG Rating	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
☆☆☆											
AES Corp/VA	United States	Utilities	✓	YELLOW							
Danske Bank A/S	Denmark	Financials		RED							
Royal Dutch Shell PLC	Netherlands	Energy	✓	YELLOW							
Waste Connections Inc	United States	Industrials	✓	RED							
☆☆											
Akzo Nobel NV	Netherlands	Materials		GREEN							
American Express Co	United States	Financials		GREEN							
Antofagasta PLC	Chile	Materials		GREEN							
Banca Santander SA	Spain	Financials		GREEN							
Burberry Group PLC	United Kingdom	Consumer Discretionary		GREEN							
Chevron Corp	United States	Energy		ORANGE							
Cognizant Technology Solutions Corp	United States	Information Technology		GREEN							
Exxon Mobil Corp	United States	Energy		YELLOW							
General Dynamics Corp	United States	Industrials		RED							
Industria de Diseno Textil SA	Spain	Consumer Discretionary		GREEN							
McKesson Corp	United States	Health Care		RED							
Microsoft Corp	United States	Information Technology		GREEN							
Mondelez International Inc	United States	Consumer Staples		YELLOW							
Mondi PLC	United Kingdom	Materials		GREEN							
Occidental Petroleum Corp	United States	Energy		YELLOW							
Palo Alto Networks Inc	United States	Information Technology		ORANGE							
Rio Tinto Ltd	United Kingdom	Materials		YELLOW							
Unilever NV	United Kingdom	Consumer Staples		YELLOW							
Union Pacific Corp	United States	Industrials		ORANGE							
Whitbread PLC	United Kingdom	Consumer Discretionary		GREEN							
☆											
Ajinomoto Co Inc	Japan	Consumer Staples		YELLOW							
Burberry Group PLC	United Kingdom	Consumer Discretionary		GREEN							
Reckitt Benckiser Group PLC	United Kingdom	Consumer Staples	✓	YELLOW							

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