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# Corporate Governance Report of 2019

## **Introduction**

J.P. Morgan Asset Management is committed to delivering the highest possible risk-adjusted returns to its clients. We believe that one of the key contributors to strong investment returns is a thorough understanding of the corporate governance principles and practices of the companies in which we invest. We expect all the companies that we invest in to demonstrate the highest standards of governance in the management of their businesses, as far as is reasonably practicable.

Central to our investment approach is regular engagement with our investee companies in order to better understand their operating, strategic and governance issues. As a fiduciary, we recognize the importance of active ownership on behalf of our clients and are obligated to maintain a dialogue with the companies in which we invest, to ensure that our clients' interests are represented and protected. We therefore routinely meet with the senior executives of our investee companies, in order to exercise our ownership responsibilities. Where a governance issue is material, we will engage with the company in order to better understand the issue and seek to promote best practice. Our analysts and portfolio managers take these issues into account as part of their investment process.

## **Proxy Voting**

It is our policy to vote all shares held in portfolios in a prudent and diligent manner, based on our judgment of what is in the best interests of our clients. Our voting activities in Taiwan for the last three years are summarized at below website link:

<https://www.jp-rich.com.tw/B2C/products/pdf/tablevote.pdf>

All listed companies are obligated to hold an annual general meeting (AGM) once a year. In Taiwan, all listed company needs to hold the AGM meeting before the end of June. By far, June is the busiest time of the year in terms of the number of resolutions voted and proxies cast. As the above table shows, we exercised proxies at a total of 62 shareholder meetings during the year in 2019.

We review all resolutions tabled at shareholder meetings to ensure that the votes we cast are in the best interests of our clients. Most resolutions are relatively uncontroversial, and will receive our support. Routine resolutions cover, inter alia: the acceptance of financial statements and statutory reports; the approval of dividends; the election and re-election of directors and auditors; the remuneration packages for directors and auditors; the approval of issuance of new equity that generally does not have pre-emption rights (or "general mandate"); and the approval of share repurchases. All these resolutions require shareholder votes to allow basic governance functions to continue.

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We will vote against specific resolutions, where we believe this is to be in the best interests of our clients. We have retained the services of Institutional Shareholder Services Inc. (ISS) to assist us in the processing of proxies and to provide us with recommendations based on our voting policy guidelines. At the same time, we are under no obligation to accept the recommendations of our provider, if we believe our clients' interests are best served by voting differently. Our sole objective is that we should act in the best interests of our clients.

The commentary below provides some examples where we voted against the recommendations of incumbent management in 2019.

An increasing proportion of the meetings at which we vote against are related to companies listed in the Taiwan market. Under Taiwan's Corporate Governance code, the proposals tabled for shareholder approvals should be detailed and specific, but the information provided to shareholders is generally vague.

Related-party transactions are a common example of such resolutions as shareholder approvals are required when intra-group transactions take place. Companies are also required to provide justification for the nomination of an independent director candidate who has served on the board for three consecutive terms, as this may create a rebuttable presumption that independence of a director will be affected by long tenure. Another type of resolutions covers the provision of financing to group subsidiaries and affiliates. Shareholder approval is required when a company makes deposits to, obtains loans from, or provides guarantees to entities within the same business group.

Endorsement and guarantees significantly increase the degree of concentration risk assumed by financing entities since the risk exposures are, by definition, not diversified. Moreover, long tenure of independent directors, low attendance rate at board and committee meetings without a satisfactory explanation, as well as the release of the newly elected directors from non-competition restrictions could give rise to conflicts of interest. Finally, the lack of transparency associated with the amendments in procedures governing the acquisition or disposal of assets, could expose the company's funds to unnecessary risks. In many cases, there is insufficient disclosure about these proposals, impeding shareholders from adequately assessing the full extent of the risks assumed.

Given the limited disclosures provided, or concerns that the risks assumed were not proportionate to the underlying exposure to an entity, we voted against the amendments of procedures governing the acquisition or disposal assets resolutions at the following companies: Win Semiconductors Corp. (3105), BizLink Holding, Inc. (3665), Kingpak Technology, Inc. (6238), and Giant Manufacturing Co., Ltd. (9921). In addition, a number of resolutions were tabled to seek authorization in amendments procedures for endorsement and guarantees. Again, the lack of disclosure on the potential risks of such an increase of caps in endorsement and guarantee provision may expose the company to unnecessary risks led us to vote against these resolutions at: Win Semiconductors Corp.. Finally, there were resolutions that covered elections of non-independent and independent directors who sought authorization to release the newly elected directors from non-competition restrictions and nomination of independent directors. As some companies are currently using a non-nomination

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system for the election of non-independent directors, shareholders face significant or nearly impossible challenges obtaining sufficient information with regard to nominees' background in advance of the meeting. Alongside long tenures as well as low attendance rates at board and committee meetings in 2019 led us to vote against such resolutions at: Yeong Guan Energy Technology Group Co., Ltd. (1589), Parade Technologies Ltd. (4966), and Kingpak Technology, Inc..

### **Corporate Engagement**

We hold a number of meetings with our investee companies to review business activities and discuss the future outlook. Such meetings are integral to our investment process. At these meetings, we seek to:

- Be updated with the main drivers of operating performance
- Question senior management on their strategic priorities
- Remain fully briefed on the risks which may affect a company's outlook
- Ensure that any issues we may have with the company's Environmental, Social and Governance (ESG) practices are discussed, and if necessary, escalated to a higher level.