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Press Release

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Stewardship in China advancing rapidly, says RisCura research

RisCura, a global investment firm, today announced the findings of its Moving the Needle - Stewardship in China* research. The research, one of the first of its kind, looked at a cross-section of asset managers in China, serving both domestic and global clients, and aims to assess and broaden the understanding of stewardship practices in China.

Malcolm Fair, Managing Director of RisCura, commented: “China is the world’s second largest equity market, yet the perception of risk and the nuances of investing there have meant it has often been shunned by global institutional investors. We have been following and researching the Chinese market for many years, both as an investor and an allocator, and realised that the understanding of local corporate engagement practices was poorly understood by most global investors. RisCura’s research is a benchmark analysis of the current state of stewardship practices in China. It is both a reference point for local Chinese managers of where they stand versus their peers as well as a realistic take on how ESG risks are being managed or indeed being transformed into opportunities through engagement by Chinese investment managers.”

Lars Hagenbuch, Investment Consultant at RisCura, added: “Although the basic corporate governance framework in China is very similar to the West, capital market regulation and best practices are still developing, especially when it comes to stewardship and ESG. Our research revealed that over the past five years there has been a paradigm shift in the right direction. We found that local managers are realistic about their current stewardship activities and were eager to learn from RisCura’s research process about global best practice and what global institutional investors would want to see. It’s also very evident from the research that stewardship and ESG can have a rapid and profound impact on portfolio performance in China, and that this often translates into significant performance differentials for asset managers.”

Fair concluded: “During our follow-up interviews we found local managers very engaging on what they have found to work or where the roadblocks are with regards engagement on ESG issues with local corporates. Stewardship practices are alive and burgeoning in China, the needle is moving and there are encouraging findings for a market that has become too significant to ignore.”

Key headlines are as follows:

Global investors and asset managers are bringing best practices to China

- *Global managers who manage Chinese portfolios are leading the way with stewardship capability and practice. This is unsurprising given the rapid integration of responsible investing practises into global markets over the past few years.*
- *Most local managers are playing catch-up, although some already stand out from the crowd as having fully embraced stewardship and the integration of ESG factors into their investment processes. These managers are on par with global best practice around engagement and proxy voting reporting.*
- *Having a foreign institutional client base is an important driver of improved stewardship capabilities. As local managers continue to take on more institutional clients, we can see a clear trajectory of progress that will accelerate materially over the coming years.*

Cultural nuances impact engagement practices in China

- *Domestic fund managers in China often resist going public or voting against resolutions or management. Conflict avoidance is very much part of Asian culture and besides naturally shying away from it, managers fear future company access could be compromised if they act aggressively. "Friendly" engagement out of the public eye is greatly preferred.*
- *By contrast, global managers investing in the Chinese markets are not afraid of voting against proposals they do not agree with. Local managers were quick to highlight that this approach is often much less effective than in Western economies because they don't align with Chinese culture.*
- *There is a growing realisation among managers in China that finding a 'middle ground' by collaborating with other investors, particularly from overseas, can drive positive corporate change for the benefit of all stakeholders, and many managers are exploring this.*

What was G is now EsG

- *Addressing governance issues has been a reality for companies and asset managers in China for many years. Chinese equity markets have a short history with many recently-formed companies, which means the founders and leadership of those companies have a disproportionate impact on shareholder outcomes.*
- *'E' and 'S' are now being added to the mix; 'E' in particular driven by state initiatives towards net zero in 2060.*
- *Misjudging the 'E' risk of a company can have a swift and direct negative bearing on performance, and conversely spotting 'E' trends early can lead to significant positive performance.*
- *Local managers recognise that the 'S' in China is complex, but it is not unmanageable with many 'S' issues being very specific and localised. A few local managers found it humorous that some foreign investors choose not to invest in China at all based on 'S'*

issues. Local managers felt that this is down to a lack of understanding of the full range of investment opportunities that exist in China.

Disclosure reporting

- *Chinese regulators are speeding up their work on ESG disclosures, and we have seen a sharp increase in TCFD-style reporting by companies in China. However, local managers say that the lack of mandatory reporting requirements alongside inferior quality data is hindering progress.*

Proxy voting works, but it could be more useful

- *Most respondents said they exercise proxy voting rights on behalf of their clients, some using voting agencies to execute their votes, with other larger managers usually having their own internal systems.*
- *A relatively high proportion (around 25%) of managers who do proxy vote make use of advice and recommendations from an external proxy service provider, but none reported fully outsourcing this discretion, in part because the proxy advisory business is relatively nascent in China.*

-ENDS-

Notes to Editors

* 41 asset managers in China across a spread of manager types and client types were surveyed to achieve a representative sample across domestic and global managers, and managers who serve foreign clients as well as those with domestic clients only. The initial survey of 39 questions aimed to broaden our understanding of the current state of stewardship in China. This was followed by 13 one-on-one interviews to explore several themes in more detail, providing managers with the opportunity to discuss the importance of stewardship in their own investment process and uncover some of the unique challenges they face. They were asked to identify their strengths and development areas, and to give examples of how stewardship mattered to their investment performance.

About RisCura

With over 20 years' investment industry experience, global investment firm RisCura are emerging market specialists. Our team of investment experts based locally in the main regions have followed and researched the progress of emerging markets for many years. China has been important for emerging market economies for a long time due to its demand for their natural resources. As its capital markets have opened up, RisCura's specialist team has built up detailed knowledge of the Chinese fund manager landscape and has helped clients allocate over $1bn to the region.

Through our on-the-ground team in Hong Kong and Shanghai together with experts across our global offices we offer both advisory services and pooled multi-manager portfolio solutions.

For more information about its investment services and approach, visit www.riscura.com

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