



# Compliance Report of Investment Governance Code Policy Annual Year 2018

## **Kasikorn Asset Management' s Approach to Investment Governance Code**

Kasikorn Asset Management (“KAsset”), as an Asset Management Company, which is responsible for managing funds on behalf of clients and asset owners, is fully aware on our investment duties and stewardship responsibilities. We truly believe that responsible investment will help sustain and enhance long-term superior and sustainable return to clients while gaining their confidence and trust.

On 23 February 2017, KAsset, together with other Thai institutional investors and their representative industry organizations, have signed the declaration of mutual collaboration to encourage the implementation of the Investment Governance Code for Institutional Investors (“I Code”) and later became a Signatory to the I Code in July 2017. Since responsible investment has always been our core beliefs and investment principles, we have consistently improved and enhanced our internal practices over the time along with the development of capital market to achieve our ultimate goal.

**In 2018, we have fully complied with I Code and our key stewardship activities following 7 principles in are summarized as follows:-**

### **Principle 1: Adopt a Clear Written Investment Governance Code Policy**

In order to ensure effective implementation and practice of I Code, KAsset Board of Directors has approved our [Investment Governance Code Policy](#) in July 2018 as an internal guidance. KAsset also integrates Environment, Social and Governance (ESG) factors into our investment process from research, stock selection and portfolio construction. We have an internal [ESG policy](#) which has been applied since 2013 and consistently reviewed to ensure it reflects the evolvement of investment environment. Our ESG analysis are done through an internal ESG evaluation template which using data collected from 1) open-ended questionnaire to the investee companies 2) on-going dialogues with the investee company managements and site visits at the Company’s premises and 3) other public information sources. These enable us to achieve our goal of sustainable investment. Our latest ESG policy review was approved by the Board of Director in December 2018.

### **Principle 2: Properly Prevent and Manage Conflicts of Interest and Prioritize Advancing the Best Interest of Clients**

KAsset is committed to operate our business with transparency and compliance with laws and corporate governance principles, focusing on clients' best interest. Several policies and statements have been put in place such as [Statements of Corporate Governance Principles](#), [Anti-Corruption Policy](#), other operational policies and procedures as well as management oversight in case of conflicts of interest which include conflicts arising between KAsset and its related parties & employees and its clients or among clients themselves. The

operational procedures include, for example, [proxy voting policy](#) at the shareholders meeting that places emphasis on the clients' benefit and disclosure of voting results. Last year we have revised our proxy voting policy to make it clearer, more specific and comparable between countries since KAsset has, in the past years, expanded our direct equity investment coverage to other countries within Asean.

### Principle 3: Make Informed Investment Decisions and Engage in Active Ongoing Monitoring of Investee Companies

#### Equity

KAsset equity team has regular and ongoing discussions with investee companies as we believe that effective engagement with companies are through interactive dialogues.

In addition to ongoing monitoring purpose, engagement with the investee companies allows us to explain and share our perspectives and thoughts towards their business operation with them. We believe that good corporate governance will enable investee companies to achieve its long term goal and sustainable success. As Thailand is considered a developing market, we hope that the stricted industry adoption of I code will help developing our capital market into the next stage.

**Table1: A summary of equity team meetings with listed companies in 2018**

Country	Equity	
	No. of meetings	No. of companies
Thailand	939	265
Vietnam	105	45
Malaysia	76	38
Singapore	34	28
Indonesia	84	46
Philippines	57	29
<b>Total</b>	<b>1295</b>	<b>451</b>

In 2018, the equity team at KAsset held a total 1,295 meetings with 451 listed companies as detailed in the table above. The meetings were held with all levels of Company's representatives as deem appropriate which we see benefit as a cross reference. However, the need to access to senior managements and board members, particularly for those companies we actively invest in, is considered important in order to have a more effective dialogues and communication, particularly to raise our both positive feedbacks as well as concerns and a better understanding of companies' strategic direction. We also have written summaries of all meetings for our records, investment decisions and following up on the Company's development. In case there is an incident that causes arising concerns or negative impact towards the investee companies, we will contact the investee companies immediately for clarifications.

## **Fixed Income**

As for the fixed income side, we do monitor the companies that we have invested regularly. In addition to Thailand, we have recently expanded our coverage to 18 foreign countries accounting for over 200 companies in total to diversify various risks ranging from country, industry and company specific. To ensure that investees' credit quality are maintained, we regularly review and monitor both qualitative and quantitative prospects. Alternative sources of information might be acquired to help identify investees' credit worthiness if there is any doubt on their credit quality.

When the concerned issues of the investee are escalated, a due-diligence process is necessary to seek more information to measure the solvency of investee in a timely manner. For example, in 2018, one of our investees was acquired by a listed company which had lower credit quality, we have gathered information and requested meetings with both acquired and acquirer companies to analyze the possibility of credit downgrading, covenant breaking and probability to miss payment. In case credit quality is worsened, KAsset will explore all possible alternatives to solve the credit issue. In many cases, we work closely with investees to get the alternatives that will help protect the default or mitigate any issue that may seriously affect the issuer's credit quality.

Finally, if the credit event is unavoidable, KAsset will put all of the effort to generate best possible solution to get the best possible results under the given constraints.

## **Foreign Feeder Fund**

We have embedded in our partners' due diligence criteria that our partners (i.e. outsourced fund manager, master fund manager) are required to have firm's Stewardship Code policy and ESG principles. For existing partners, we have reviewed all outsourced fund managers (Lombard Odier, Amundi, Alliance Bernstein, Natixis etc.) and found the existence of such policies and principles, e.g. Lombard Odier has complied with the regulators in the countries that they operate (Europe, Switzerland, Japan, UK) and also put in place the relevant policies. To ensure the implementation and practice, in addition to direct dialogues with our partners, we also verified their responses with the public source e.g. their corporate website.

## **Trustee**

In 2018, trustee team have monitored operations of REIT Manager whether they followed rules and regulations stipulated by law and related regulators such as the Securities and Exchange Commission (SEC) and the Stock Exchange of Thailand (SET) or not. Trustee team worked closely with REIT Manager team regularly. Moreover, we also have conducted an annual REIT Manager performance review. The review topics include their operational system, workflows, the readiness of personnel per regulation, disclosure process, complaint

management, insurance preparation, property management monitoring, conflict of interest prevention, net asset value and distribution correctness, annual general meeting arranged per guidelines, qualified outsourcing work, document properly secured, and business continuity plan.

**Example of Key Engagements with Investee Companies are as Follows:**



#### **Kasikornbank Plc. (KBANK)**



At the 2018 Annual General Meeting of Shareholders (AGM), KBank requested an approval from shareholders for the framework of investment for its business expansion via business acquisitions or in form of the joint venture. The Bank's objective is to expand its digital banking business focusing on payment service and regional trade in the AEC + 3 region, especially for CLMV countries. As the request provided no specific details related to transaction(s) and likely opened for general mandate, KAsset contacted the Bank's IR team to ask for more information before the date of AGM to assess potential risks and commitments that may occur to the bank in the future due to the transaction(s). KBank clarified that it is necessary for this agenda to be opened for management's discretion given a quick market entry is one of important factors to achieve this business plan, there may be opportunities arising and needed timely acquisition or investment which the EGM process might take too long. In addition, the Board of the Bank shall be authorized to consider and approve investment terms and details in conformity with rules and conditions of the Bank of Thailand or other relevant authorities. KAsset had considered the request and decided to vote "For" based on following reasons 1) the business expansion, as the Bank stated, remains focused on strengthening its core business, enhancing technology for digital lending which will support the bank's operation in the future and improve efficiency. 2) the proposed total amount set for all transactions is insignificant, relative to overall financial status of the bank 3) there is a limit per transaction therefore, risk level is acceptable 4) this general mandate of business acquisition and JV is for the benefit of flexibility of execution in a timely manner.

### Global Green Chemical Plc. (GGC)



In June 2018, GGC informed The Stock Exchange of Thailand (SET) an issue concerning their raw material. The raw material was stated to be significantly different between the actual quantity at the storage facilities of the suppliers and the record in the information system. As KASSET considered the incident serious, we submitted official letters to both the Chairman of GGC and the CEO of PTT Global Chemical (PTTGC), its parent company to express our high level of concern, asked for clarification and additional information regarding GGC's procedure of raw materials procurement, inventory management, and internal operation control for relevant persons in order to prevent any re-occurrence of such event, as well as to follow up offenders and penalties for committing an offense and claiming damages. GGC informed us that the causes of the issue were mainly due to the misconduct among certain suppliers and some employees in the relevant functions who intentionally violated the operating procedure (overriding control). Furthermore, GGC engaged the third party expert to review, verify, give opinions on the sufficiency of the existing internal control system with regard to end to end process of the raw material procurement and also the improvement to enhance such system. Concerning the employee's misconduct, the investigation committee submitted the evidence to the Disciplinary Action Inquiry Committee and discovered that certain executives and employees had committed breach of discipline. Therefore, GGC undertook disciplinary action against each of the relevant executives and employees in accordance with GGC's Discipline Regulation. GGC also disclosed and published the summary of the Inventory Shortfall Incident in their latest Annual Report. KASSET acknowledged and was satisfied with the effort and timely action and we will continue monitoring further development.

### PTT Exploration and Production Plc. (PTTEP)



In July 2017, PTTEP informed the SET that they have received the Statement of Claim filed by the Ministry of Environment and Forestry of the Republic of Indonesia seeking approximately USD 2.1 bn for damages relating to the Montara incident in 2009. We contacted the Company to clarify this issue and was informed that based on the independent scientific research overseen by the Australian Government, there was no oil from Montara reached the shores of Indonesia nor Australia and no long-term damage was done to the environment in the Timor Sea. The Australian Government set up a Commission of Inquiry and found that the main cause of Montara Incident were failure to maintain verified well barriers, lack of personnel competence, failure to follow procedures and limited corporate oversight. PTTEP took these events as lesson learnt and improved its internal preventive measures by developing a system to bring new technologies to help enabling future

operations to be safe. For the environmental issue, PTTEP has a cooperation with Australian Maritime Safety Authority (AMSA) to show responsibility and inspect the oil spill from Montara to the coastline of Australia or Indonesia. Moreover, natural dispersion was aided by the aerial application of limited oil dispersants, and skimming/recovery was used. For a long term plan, PTTEP did research and monitor the impact on the marine ecosystem and also published on the website of the Australian Ministry of Environment and Energy. In March 2018, PTTEP informed the SET that the Central Jakarta District Court has dismissed the case as per the Government of Indonesia's request to revoke the lawsuit with the reason to amend the Claim. Though the case is not yet concluded, PTTEP informed KASSET that they are confident on their independent scientific research that no oil from Montara reached the shores of Indonesia or Australia and have an impact on environmental issues. PTTEP will provide more update in the due course if there is any further development.

### **Chememan Plc. (CMAN)**



CMAN is the operator of quicklime, hydrated Lime and chemical products and was listed in the SET in 2018. CMAN has lime mortar production plant located at limestone quarry under mining concession in Saraburi province, Thailand. Since CMAN's business operation may incur dust causing air pollution and other environmental and social concerns. Before subscribing the IPO, we have discussed with CMAN's management about their policy on their responsibility for any potential impacts on the environment and communities around their plant. We also had a site visit at CMAN plant and found that the company has a well-established pollution management system and can operate within the communities nearby without any complaint from the villagers. CMAN has continuously developed the sustainability environmental management system and obtained ISO 14001: 2015, Green Industry, Green Mining, CSR-DPIM and environmental corporate governance. CMAN also has measures to manage waste caused by production or non-quality products. After having conducted detailed analysis and site visit, we satisfied with the CMAN's overall environmental and social responsibilities.

### **Principle 4: Apply Enhanced Monitoring of and Engagement with the Investee Companies if Motoring pursuant to Principle 3 is Considered Insufficient**

In case the concerned issue is considered serious and might incur negative consequences, we might escalate the issue to the Board level of the investee companies. For GGC incident as mentioned in Principle 3, we considered very severe case for corporate governance and also operational risk. In addition to a conversation with the Company to raise our concerns, we also wrote a formal letter addressed to the Chairman of the Board of GGC and the CEO of PTTGC, its parent, to emphasize the seriousness of the incident and seek to obtain the preventive measures and problem rectification.

## Principles 5: Have a Clear Policy on Exercising Voting Rights and Disclosure of Voting Results

KAsset has an internal policy related to the exercise of voting rights in the shareholders meetings of investee companies which clearly specify the guidelines for voting direction for each type of resolutions.

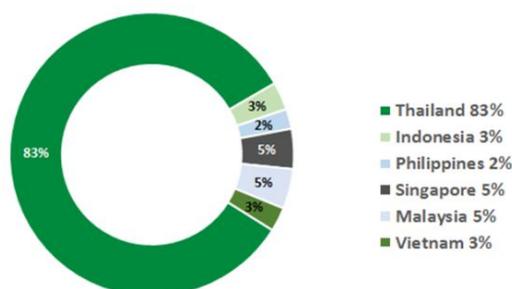
Since 2017, we also have subscribed third party proxy research service from Institutional Shareholder Services Inc. (ISS) for comparison and reference of global practice. However we retain full discretion when determining how to vote on behalf of our clients.

Last year KAsset voted for 206 listed companies in total of which 165 are Thai listed companies (138 companies for active strategy and 27 for passive strategy only) and 41 are listed companies in other Asean countries (all are for active strategy). Of the total 2,155 resolutions, we voted "For" 1,994 resolutions, "Against" 52 resolutions and "Abstain" 109 resolutions. Details are as follows:-

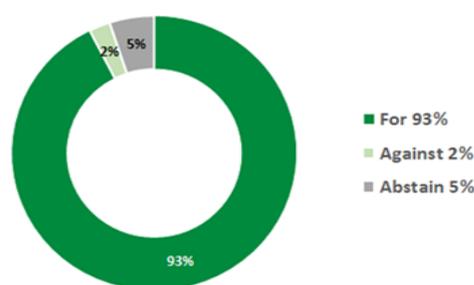
**Table 2: Breakdown of votes by Thai and other AEC countries and vote casts for each resolution**

	No. of companies	Notice of meetings	Notice of attended meetings	Total resolution	For	Against	Abstain
TH common stock	165	182	36	1,779	1,719	43	17
AEC common stock	41	49	0	376	275	9	92
Total	206	231	36	2,155	1,994	52	109

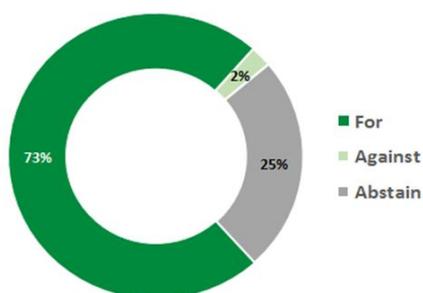
**Chart 1: Breakdown of overall votes by countries**



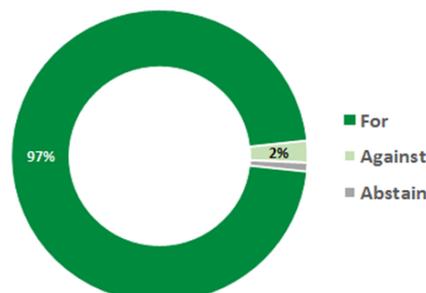
**Chart 2: Breakdown of overall vote casts**



**Chart 3: Breakdown of vote casts of AEC stocks**



**Chart 4: Breakdown of vote casts of Thai stocks**



The "Against" vote casts are mostly from resolutions related to 1) *board matters* due mainly to significantly absent from the meeting 2) *dilution and control* due mainly to capital structure issue. The "Abstain" Vote casts are mostly due to *insufficient information provided*. However, the insufficient information provided issue is more of an issue for other AEC stocks rather than Thai stocks. Details are illustrated as follows:

**Table 3: Breakdown of Vote Casts by Type of Resolutions**

	Against		Abstain	
	TH	AEC	TH	AEC
Board Matters	27	0	5	38
Dilution and Control	12	9	4	8
Remuneration	0	0	1	22
Others	4	0	3	28
<b>Total</b>	<b>43</b>	<b>9</b>	<b>13</b>	<b>96</b>

	Against	
	TH	AEC
Board Matters	27	0
Dilution and Control	12	9
Remuneration	0	0
Others	4	0
<b>Total</b>	<b>43</b>	<b>9</b>

**Board Matters**

Significantly absent board meeting	
TH	AEC
52%	0%

**Dilution & Control Issue**

Dividend Payment		Capital Structure		Business Operation	
TH	AEC	TH	AEC	TH	AEC
8%	0%	67%	89%	25%	11%

**Remuneration Issue**

Board Remuneration		Auditor's Remuneration	
TH	AEC	TH	AEC
0%	0%	0%	0%

	Abstain	
	TH	AEC
Board Matters	5	38
Dilution and Control	4	8
Remuneration	1	22
Others	3	28
<b>Total</b>	<b>13</b>	<b>96</b>

Abstain due to lacking of information	
TH	AEC
20%	100%
25%	75%
100%	100%
0%	100%
23%	98%

**Principles 6: Act Collectively with Other Investors and Stakeholders as Appropriate**

Although in general and most cases of our approach, we prefer to communicate with investee companies privately on our stewardship activities since we believe in positive relation and trust and also avoid public misleading that could cause an unintended outcome. To conduct any action towards an investee company that is involved with KAsset's concerns and is unable to solve the problem even after the degree of monitoring has been raised, KAsset may collaborate with other investors (both domestic and foreign investors) or other stakeholders in a collective engagement as deemed necessary to bring about an improved situation.

KAsset also acts collectively with other domestic institutional investors through industry organization such as Association of Investment Management Companies (AIMC), Thai Listed Companies Association (TLCA), Thai Institute of Directors (IOD) and regulators such as the Stock Exchange of Thailand (SET), the Securities and Exchange Commission (SEC) and Bank of Thailand (BoT). Last year, for example, we have submitted suggestions with regard to proxy voting process to make it more effective together with other Asset Managers to the SET via AIMC. We also voted the IOD award for Board of Directors (BoD) of the year which has been introduced for the first time in 2018 by the IOD to promote the recognition of BoD of listed companies. We actively participate in public hearings, focused groups and give feedbacks for any new or reviews of the existing regulations or notifications by related regulators.

#### **Principle 7: Regularly Disclose the Investment Governance Policy and Compliance with the Policy**

KAsset discloses the I Code Policy and other related policies on our website to enhance transparency, public understanding and confidence towards our operations. Compliance reports together with details are also disseminated through our website and applicable reports.