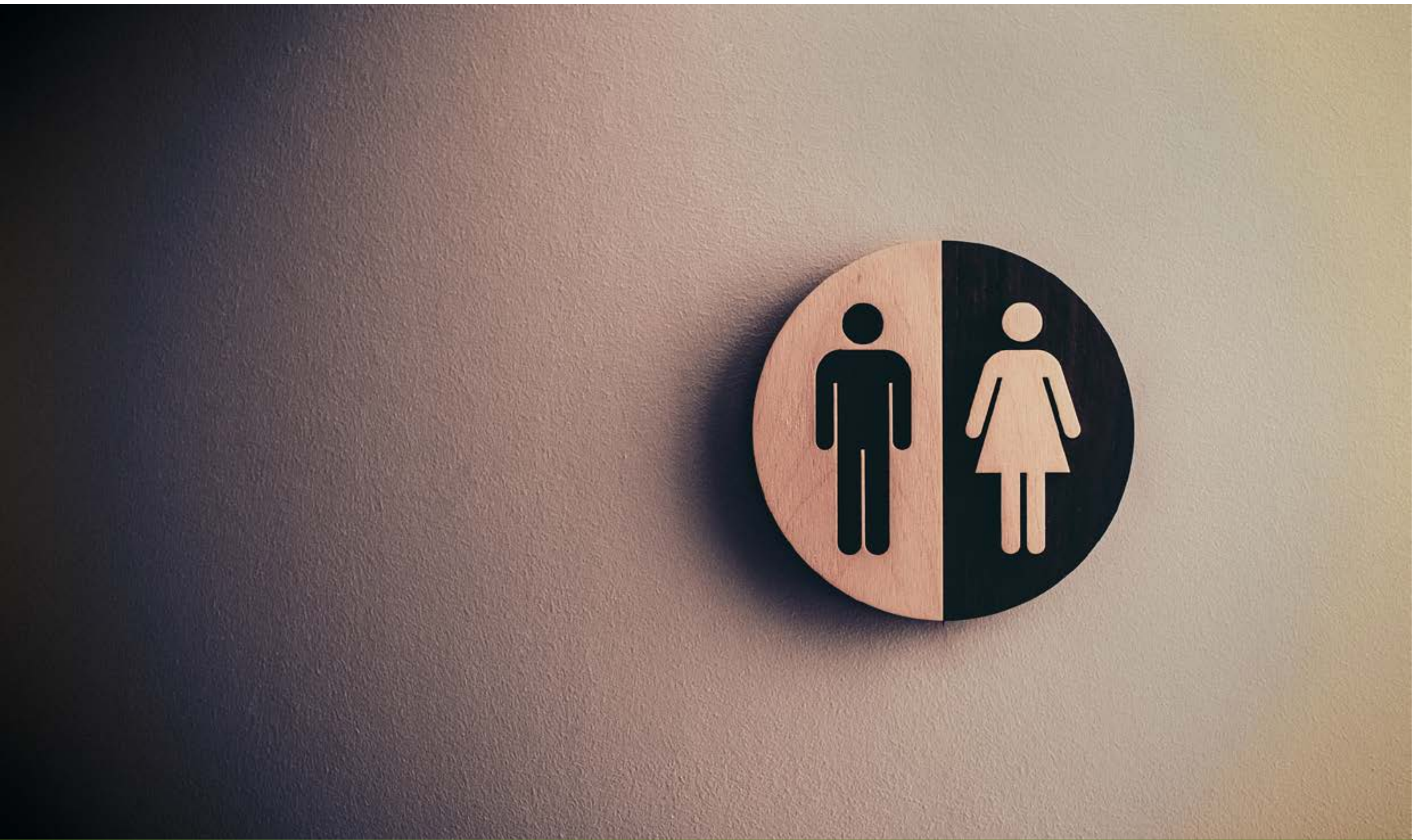

INVESTORS' ESG EXPECTATIONS

GENDER DIVERSITY: An Asian Perspective

December 2022

ASIFMA is an independent, regional trade association with over 165 member firms comprising a diverse range of leading financial institutions from both the buy and sell side including banks, asset managers, accounting and law firms, and market infrastructure service providers.

Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative and competitive Asian capital markets that are necessary to support the region's economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the GFMA alliance with SIFMA in the U.S. and AFME in Europe, ASIFMA also provides insights on global best practices and standards to benefit the region.

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If you have any comments or questions, please reach out to Yvette Kwan, Executive Advisor, Asset Management Group (ykwan@asifma.org).

ASIFMA would like to extend its gratitude to all of the individuals and member firms who contributed to the preparation of this Paper

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Foreword

In June 2021, ASIFMA's Asset Management Group (AAMG), comprising some of the world's largest investment managers, issued a guidance for investee companies in Asia entitled *'Investors' ESG Expectations. Best Practices and Recommendations: An Asian Perspective'*. The publication aimed to help improve companies' understanding of, engagement with, and disclosure of, sustainability issues.

We described the reasons why companies should adopt best practice in ESG[1] issues, from the business and financial rationale, to taking charge of the corporate narrative in building trust with investors, consumers and employees. All against a backdrop of increasing regulation and expectations from these stakeholders.

This follow-on guidance delves into how gender diversity affects companies in Asia.

Why gender diversity should matter to companies

Achieving gender equality has been recognised as one of the United Nations Sustainable Development Goals (SDGs), including a target to "Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life", measured through indicator "5.5.2. Proportion of women in managerial positions".

The sustainability imperative for companies to address gender inequality and promote greater representation of women in leadership positions can also lead to positive financial outcomes. The link between gender diversity (and broader Diversity, Equity and Inclusion (DEI)) and corporate performance has been a focus of academic and industry research for many years.

A 2020 McKinsey report [2] on the topic highlights how the business case for gender diversity is stronger than ever. Based on an analysis of over 1,000 companies across 15 countries, the report finds that companies in the top quartile for gender diversity on executive teams were 25 percent more likely to deliver financial outperformance than companies in the fourth quartile.

Companies have increasingly recognised the importance of this topic. A recent article from the Harvard Law School Forum on Corporate Governance [3], based on an analysis of 200 sustainability reports from S&P 500 companies published in the first half of 2022, highlights how DEI is increasingly covered in corporate ESG reports, sometimes even via separate, dedicated DEI reports. It notes that no less than 85% of such reports included diversity data at the executive/senior level, with 47% of companies publishing diversity targets.

Despite evidence on the benefits of greater gender diversity for organisations, and some improvement in how companies address and disclose on gender diversity, progress in gender equity has remained insufficient, particularly in Asia. Across McKinsey's report data set, women representation on executive teams moved up by just one percentage point, from 14% (2017) to 15% (2019) and more than

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[1] ESG: Environmental, Social, Governance

[2] McKinsey, *Diversity wins: How inclusion matters*, 2020

[3] Harvard Law School Forum on Corporate Governance, *What's ESG Got to Do With It?*, 2022

a third of the surveyed companies still had no women on their executive teams at all.

At the board level, according to relationship mapping data firm BoardEx [4], the mean percentage of women was only 13% in Hong Kong, and 17% in Singapore and India, compared to 29% in US and 36% in Europe (2020). While Asia is lagging, it is worth noting that Malaysia stands out with a mean of 29%, while Japan has more than tripled its women board representation, albeit from only 4% (2014) to 14% (2020).

These shortcomings in gender representation in corporate leadership positions, particularly in Asia, are leading to action from two key stakeholder groups demanding greater women representation.

INVESTORS AND REGULATORS ARE INCREASINGLY DEMANDING GREATER WOMEN REPRESENTATION AT COMPANIES

Over the past few years, we have seen an increasing focus from both investors and regulators on corporate gender diversity, often starting with board gender diversity. Regulators in Asia are increasingly mandating disclosure and even board gender diversity quotas.

REGULATORS

India's 2013 Companies Act made it compulsory for all publicly listed companies to have at least one female director. Based on an analysis from the Harvard Business Review[5], 303 (61%) of the largest 500 firms on India's National Stock Exchange (NSE) had no women on their board in 2013 and needed to appoint at least one female director by 1 April 2015. By 2017, 83% of these non-compliant companies had appointed a single woman to their board, while 14% of them had appointed two or more women to the board.

Initially, some companies installed family members to satisfy this requirement, although analysis indicates that approximately 70% of appointees are now independent.

Malaysian authorities have long focused on increasing women representation in senior leadership positions, across both public and private/listed sectors. The number of women holding senior leadership positions in Malaysia recently reached 37%[6].

Since being updated last year, the Malaysian Code on Corporate Governance now states that "All boards should comprise at least 30% women directors". Companies are required to establish and disclose gender diversity policies to support the participation of women on the board as well as senior management, which go beyond boilerplate and generic statements.

Hong Kong Exchange (HKEX) introduced new rules to end "single-gender boards" in December 2021. 850 (33%) of existing listed issuers now have a three-year transition period to appoint a director of a "different gender" i.e. female director by no later than 31 December 2024.

[4] BoardEx, *Global Gender Balance Report 2021*

[5] Harvard Business Review, What Happened When India Mandated Gender Diversity on Boards, 2021

[6] Grant Thornton, Women in Business 2021: A window of opportunity, 2021

Singapore Exchange (SGX) is currently considering a 9-year cap on independent director tenure, which whilst not a gender-specific initiative, encourages board renewal and can open up board appointment opportunities for female candidates.

Investors

In the broader Asia Pacific region, investors may set policies, commitments and targets for gender diversity for their investee companies, usually with a focus on board gender diversity, and also support industry-led initiatives.

Voting policy and engagement: Many AAMG member firms integrate board gender diversity into their voting policy, requiring women representation ranging from 15% to 30% (acknowledging and differentiating between developed and emerging markets). For companies that do not have enough women representation, some investors have stated intentions to withhold support from boards. These policies are often combined with an engagement approach driving discussions on companies' approaches to gender diversity and more broadly DEI.

Investor groups also work with chapters of the business-led campaign group 30% Club around the world to engage with and require companies to align and set targets to deliver at least 30% women representation on boards and at executive leadership levels.

In Australia, from 28 all-male boards within the ASX 200 companies in 2015 (14%), investor pressure has led to no ASX 200 company without women on board since 2021. ASX 300 boards also surpassed the 30% women representation benchmark for the first time in 2021, supported by the 40:40 Vision initiative led by superannuation fund HESTA and industry partners, to ensure diversity in executive leadership in ASX300 companies. 40:40 Vision in fact stands for 40% women, 40% men, and 20% any gender.

Why focus on the board? Regulators have mostly focused on board gender diversity, and investors similarly see its importance as organisational behaviour is heavily influenced by the "tone from the top". Additionally, board gender diversity is the most broadly available data point.

Broader diversity and representation data e.g. at the senior management level or by seniority / age brackets, is also important to investors, but may be harder to collect in a consistent manner.

Data initiatives: Efforts to provide better gender diversity-related data include the Bloomberg Gender-Equality Index (GEI) methodology and disclosure framework. The best performing 418 companies globally, representing USD 16 trillion of market cap, which have made a commitment to gender equality through their policies and practices are included in the 2022 Bloomberg GEI.

Such data allow investors to better understand the Social aspect of their ESG policies and procedures, and enhance the development of ESG products that contain a gender lens.

Recommendation

Board gender diversity

Commitment to board diversity. Effective implementation of board gender diversity needs to go beyond a compliance mindset of merely meeting mandatory regulatory requirements or targets (as applicable) and be part of a long-term strategy to promote and enhance women representation at the board and in leadership positions. Measures that investors view favourably include:

- Setting quantifiable board diversity goals and measuring performance against targets
- Establishing and disclosing robust board renewal or refreshment processes
- Mapping the skills and experience of current directors versus the optimal board composition to identify gaps

Representative and inclusive leadership. Investors will delve into the quality of representation on boards, for example, holding senior independent director or chair positions, or participating in compensation and nominations committees, to evidence impact on organisational performance. We recommend that boards:

- Integrate the differing perspectives of members to facilitate inclusive leadership
- Create a safe environment to allow diverse board members to share these perspectives
- Onboard new directors with the right tools, training and support to allow effective contributions

Robust and inclusive selection process. During the director nomination and appointment process, we recommend that companies:

- Address unconscious biases, and safeguard the robustness of the selection process to ensure that directors are not just appointed to fill quotas
- If search firms or recruitment consultants are used to identify candidates, consider whether the nomination committee (or equivalent) assessed the consultant's abilities to identify and place diverse directors, especially first-time directors

Gender diversity across the company

Investors are increasingly engaging with companies on broader gender diversity and representation across various levels of the organisation.

Senior management reflects broader workforce. As highlighted above, investors would like to see target of between 30% to 40% of senior management roles held by women. In certain male-dominated industries, for example, energy and construction, we would recommend that women representation in senior management at least reflect the broader workforce.

Women representation supported by processes and data. Companies should:

- Review their recruitment and talent / leadership programmes to ensure gender diversity is incorporated throughout each

step, ranging from a review of job descriptions to the composition of key talent selection committees

- Provide training for recruiters and line managers to overcome unconscious biases in hiring and promotion decisions, whilst also offering broader DEI training to all staff
- Disclose key data on women as a percentage of senior managers and % of total workforce, any gender pay gaps (refer to 'Equity in pay structure' discussion below)

Policies and other initiatives.

- Adopt gender reporting methodology and frameworks such as the Bloomberg GEI
- Disclose gender diversity programmes in place, for example, parental leave policies, flexible working and career break policies, and the provision of on-site day care facilities
- Support the advancement of future female leaders through women networks and male sponsors / allies

Example – Workforce Data: Swire Pacific

Swire Pacific's 2021 Sustainable Development Report – People

Group performance

Employee by gender and employee category: *Some of the industries that we work in are historically more male-dominated. Our goal is for 30% of senior management roles to be filled by women by 2024. At the end of 2021, 24% of senior management roles were filled by women and 14% of our directors were women.*

Gender pay gap: *Gender pay gap is the difference between the mean basic pay for men and women, expressed as a percentage of the former. This is not the same as equal pay, which is when men and women are paid the same for the same work. We review our gender pay gap annually.*

In 2021, women in strategic leadership positions were paid 99% of the average pay of men in such positions. Women in operational management positions were paid 121% of the average pay of men in such positions. The corresponding percentages for team leaders and individuals (non-management) contributors were 81% and 94% respectively.

We pay men and women the same for doing the same jobs, but the gender pay gap indicates that we must do more to support and equip women to progress in their careers. One of the ways we do so is by emphasising diversity and inclusion in the recruitment, management and promotion of our people.

Source: https://www.swirepacific.com/sdreport/2021/swirethrive/people/

Example – Data, Policies and other initiatives: Hindustan Unilever Limited (HUL)

HUL's Disclosure on Diversity and Inclusion – Gender Balance

HUL is proud of its journey on gender balance, with more than 40% of managers being women, a significant achievement from 26% in 2012. In 2018, HUL shifted its cultural conversation through the launch of the Unstereotype Campaign during International Women's Day and the activation of a forum for emerging women leaders.

Career by Choice continues to be HUL's flagship 'back to work' programme for women returning from a career break giving them the platform to transition back to mainstream work by working on live projects while also allowing for flexibility.

Agile working policies, on-site daycare facilities at Mumbai Head Office & near office tie-ups in Bangalore, career break policy and excellent parental support programmes are essential enablers for gender inclusion in the workplace. All of these policies are gender-neutral in their approach and are applicable for all genders.

Source: https://www.hul.co.in/news/2019/diversity-and-inclusion-at-hindustan-unilever/

Gender diversity as part of a broader diversity and DEI strategy

Gender diversity is just one aspect of diversity. The complexity of operating in the current business environment have been brought to the fore by the Covid pandemic, cybersecurity and climate risks. The benefits of broader cognitive diversity which come from different backgrounds including ethnicity, age, skillset, experience and perspective, are necessary for organisational resilience with the objective of getting the best outcomes for companies.

In certain markets in Asia, ethnicity may also be an important consideration for a company to be more reflective of the markets in which it operates and the company's client base.

Organisational culture. Responsibility for DEI is not just the responsibility of the human resources function, but of all leaders across a company. Leaders should be appropriately trained on DEI and be held accountable for setting and achieving measurable targets. A DEI Committee may be useful to formulate policies and monitor progress. We recommend that anti-bullying, anti-discrimination, anti-sexual harassment, as well as whistleblowing policies are adopted.

Equity in pay structure. The ultimate impact of DEI policy and engagement distils down to treating everyone fairly in a diverse and inclusive environment, and desirably such a state in a company should be reflected in its pay structure. Better pay disclosure allows investors to evidence the effectiveness of a company's DEI policy. Our members recommend the disclosure of the specific amounts of board and senior management remuneration, in conjunction with relative data such as gender and/or ethnicity pay gaps and CEO-to-employee pay ratios.

Data to support and measure outcomes. Reliable data is required to show that promotions and remuneration processes are conducted in a fair manner. Companies can also conduct confidential employee surveys to measure the perspectives of employees across time periods.

Key Takeaways

- The need for greater gender diversity is increasingly acknowledged by companies and emphasised by regulators and investors alike
- Board gender diversity has been the traditional focus of regulatory and investor action, but is just one indicator of broader diversity that companies should be looking to achieve
- Adopting and disclosing on policies, programmes, metrics and targets to promote DEI across the company is critical to achieving a more diverse and inclusive corporate culture

Appendix – List of Selected Resources for Directors

Organisations / Initiatives

- 30% Club
  https://30percentclub.org/
- 40:40 Vision
  https://www.hesta.com.au/4040vision
- Council for Board Diversity, Singapore
  https://www.councilforboarddiversity.sg

Other Resources

- Bloomberg Gender-Equality Index
  https://www.bloomberg.com/gei/resources/
- Equileap, Gender Equality in Asia-Pacific, Special Report, 2022 Edition
  https://equileap.com/wp-content/uploads/2022/06/Equileap_Gender-Equality-in-Asia-Pacific_Special-Report_2022.pdf
- Hong Kong Exchange, Board Diversity & Inclusion in Focus
  https://www.hkex.com.hk/eng/BoardDiversity/index.htm
- McKinsey, Diversity Wins: How Inclusion Matters, 2020
  https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters
- State Street Global Advisors, Guidance on Diversity Disclosures and Practices, 2022
  https://www.ssga.com/us/en/institutional/ic/insights/board-gender-diversity-global-insights