JK Capital Management Ltd.

3 May 2021

JK Capital and board gender diversity

As ESG integration dominates the spotlight of the fund management industry, a growing body of global evidence points to the business benefits of greater female representation on boards. The presence of women on boards of directors tends to have benefits including stronger financial performance, better corporate governance, improved disclosure and transparency, and enhanced employee and community relationships, among others.

Despite the strong business case, a recent study published by IFC (International Finance Corporation, a subsidiary of the World Bank) on gender diversity in Asia indicates that the percentage of women on boards in the region remains low (Board Gender Diversity in ASEAN). Another research conducted by CWDI (Corporate Women Directors International), a non-profit organisation, also reveals similar findings that across corporate boardrooms in 20 different economies in the Asia-Pacific region, women directors are only holding 15.1% of board seats in 1,573 top companies (2020 CWDI Report: Women Board Directors of Asia-Pacific), trailing most other regions globally. Only Latin America and the Middle East show poorer female presence.

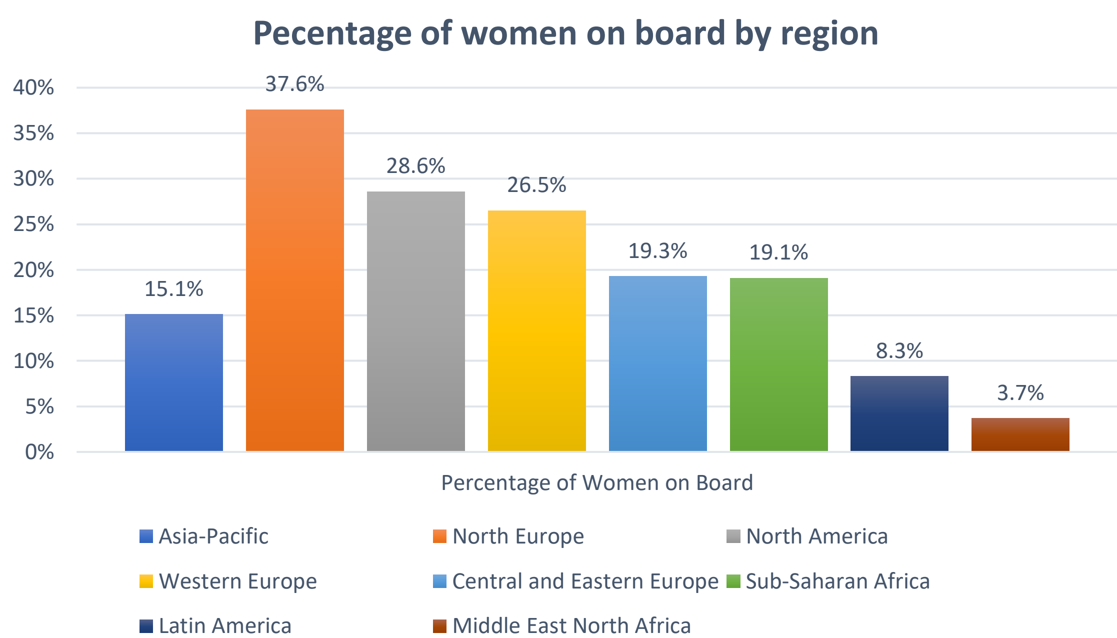


Figure 1 Source: 2020 CWDI Report

Within the Asia-Pacific region, the best performing countries are led by New Zealand, Australia and Malaysia with female representation of 38.2%, 31.2% and 25.3%, respectively. Notably, these leading countries happen to be where quotas, targets or corporate governance code requirement on female representation have been imposed by regulators, whereas markets without relevant regulations such as Indonesia (10.1%) and Japan (8.4%) are clearly lagging the regional average. South Korea's gender quota went into effect in July 2020, and we expect to see positive increase in female representation in the country soon.

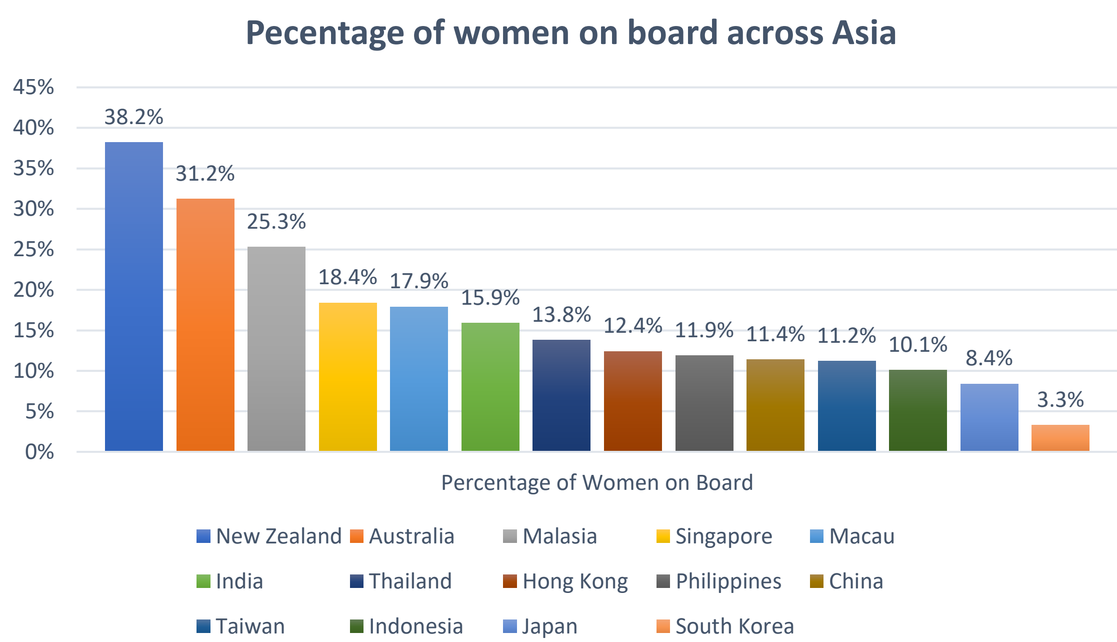
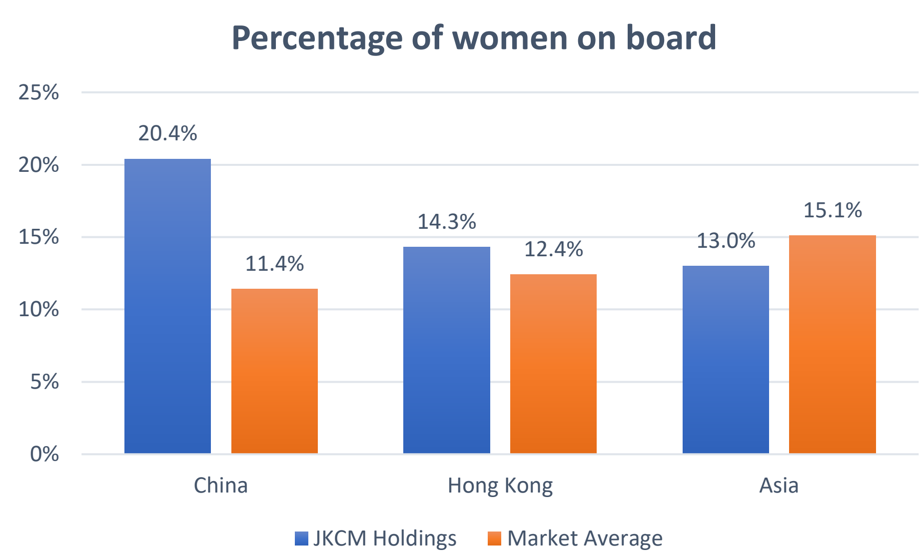


Figure 2 Source: MSCI Women on Boards 2019 Progress Report

We mentioned a few weeks ago in another newsletter a recent study led by Community Business, a Hong Kong based non-profit organisation, regarding Women on Boards in Hong Kong (The International Women's Day and the Hong Kong Board Gender Diversity Perspective). This study suggests that without regulatory requirements, even the regional financial hub of Hong Kong is performing poorly with only a 12.4% female representation ratio, and despite its market dominant position and international standing.

However, regulatory requirements on board gender diversity are not equally effective across countries. As an article by Harvard Business Review pointed out, India that was one of the first examples of an emerging market adopting gender quotas "represented a step in the right direction but did not go far enough" ([What Happened When India Mandated Gender Diversity on Boards]). Due to the fact that India has the third highest number of publicly listed family-owned companies, the policy failed to address the gender issue effectively as there is a high incidence of tokenism where women family members have been appointed as directors just for the sake of meeting the regulations. A more country-specific and granular regulatory framework is needed to successfully implement gender quotas and reach the "critical mass", at which point women will no longer be role-models but in a real position to impact in-depth the Board of Directors' decisions.

As corporate governance has always been the bedrock of JK Capital's investment approach, these findings prompt us to probe further into the performance of our portfolio companies. The results below show that our China equity strategy is performing better than the market average, especially in the China A-share market. Admittedly, our Asia strategy is currently underperforming the market average due to 8 out of 27 names in the fund having zero female representation. We have been actively engaging with these companies on the issue and we achieved some promising results.



JK Capital has been working closely with the Hong Kong Board Diversity initiative since 2018 to promote greater female representation among our portfolio companies.

The issue of board diversity has been frequently discussed during company meetings and taken into consideration when voting for board election resolutions. To illustrate our engagement efforts, one of our portfolio companies, Techtronic Industries, recently announced its first-ever appointment of a female director in 35 years, marking another milestone in our commitment to promote greater gender diversity and better leadership. We had been advocating such an appointment repeatedly with the management of Techtronic and were happy to see the result.