CANDRIAM
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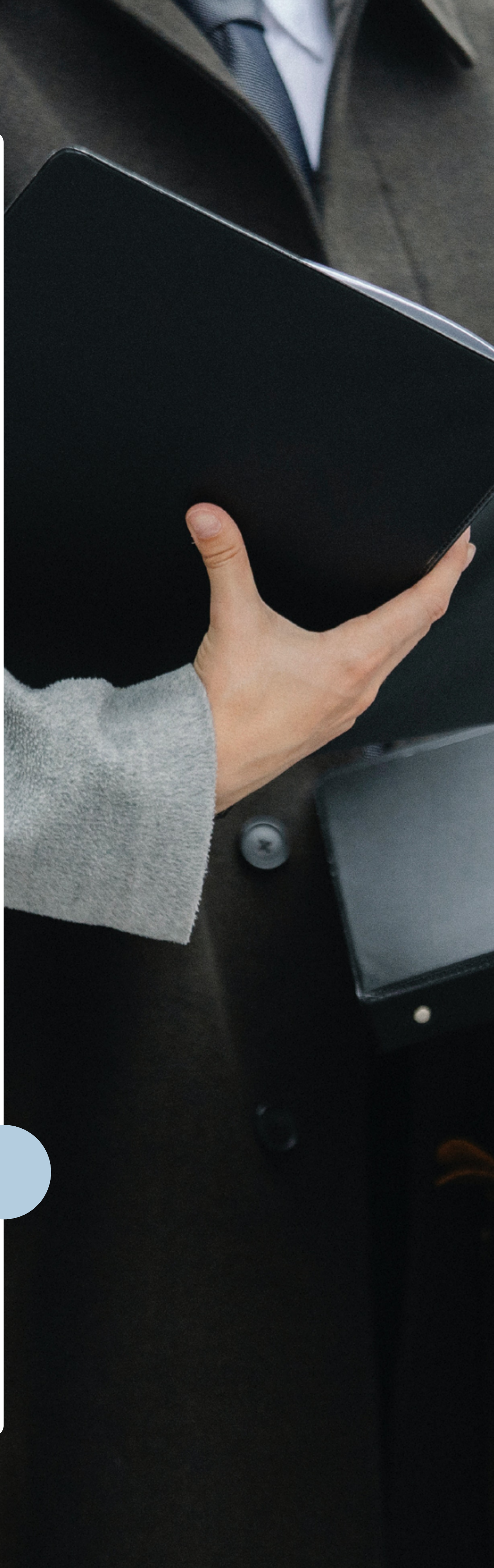
Corporate Governance in Emerging Markets

What's really behind the curtain?



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About the authors.

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ESG Analyst

Joining Candriam in 2021 as an ESG Analyst for Emerging Markets, Hien has developed her ESG experience from both the asset owner side as well as the asset manager side. Her previous experience includes roles as an SRI analyst at both AXA Group and AXA IM, including equity and debt issuer analysis, green bond assessment, engagement, regulatory trends, and reporting issues. As a consultant with Ernst & Young, she helped insurance companies, asset managers, and other financial institutions to develop and evaluate ESG and Impact strategies.

Hien holds a Master's degree in International Economic Policy from Sciences Po Paris, with a specialization in emerging economies, and a Bachelors of Economics Degree from Sciences Po with a specialization in International Studies.

Vincent Compiègne

Deputy Global Head of ESG Investments and Research

Vincent joined the firm in 2017 as one of the ESG Investments & Research team's Senior ESG Analysts. In 2019, he was appointed Deputy Head of ESG Investments & Research. Previously, he worked at AXA IM as an SRI Analyst of the Transport and Industrial Goods sectors where he monitored the development and follow-up of green investments, including AXA Group and AXA IM's Green Bonds. He also worked at ERAFP, France's first 100% SRI pension fund, and Bloomberg. He has worked in the financial services industry since 2007.

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Lead ESG analyst, ESG Investments & Research

Lucia Meloni has been a ESG Analyst at Candriam since 2011. Besides her role as a senior ESG analyst covering the Financials sector (banks and insurance), Lucia also played a key role to the development and follow-up of sustainable bonds investments within Candriam.

She began her career as a trainee corporate governance research analyst at RiskMetrics in 2010.

Lucia has a bachelor's degree in political economics and a master's in economics & finance, both from the LUISS Guido Carli Business School in Rome.

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Executive Summary.

We still see discrepancies in current corporate governance practices across developed and emerging markets. Some countries have strengthened Board duties and functions and transparency and communication with shareholders, demonstrating their willingness to improve their sustainability standards. However, further progress could be made.

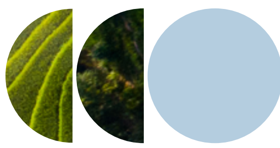
Local regulations and corporate governance codes serve as minimum standards and protection for shareholders and investors, but emerging market companies should gradually progress towards global best practices.

Corporate governance analysis of emerging market companies requires nuances: a tick-the-box analysis is not always accurate as it does not account for regional specificities. We provide examples of countries with specific organisations or shareholding structures that require adopting in-context analysis.

Comprehensive stakeholder management, including all three E, S and G factors, is essential to good governance. Inadequate stakeholder management may reflect weak corporate governance.

We have identified three key themes that should be addressed in the evaluation of emerging market companies' corporate governance practices: accountability, integrity, transparency. We believe they are relevant markers to assess companies' sustainable behaviour in their local context.

Going beyond selecting companies that meet our sustainability / ESG standards, we also strive to encourage companies to converge towards good sustainability practices and transparency. Active stewardship helps investors gain insights into emerging market companies and encourage alignment with best practices.



Small steps toward more transparency.

In 2020, Taiwan's top financial supervisory body, the Financial Supervisory Commission, published its Corporate Governance 3.0 – Sustainable Development Roadmap for 2021-2023. This report presented specific action plans towards strengthening Board duties and functions, enhancing information transparency and communication with stakeholders, and encouraging stewardship[1].

The publication of this report is one of the signs that local corporate governance standards have strengthened markedly. This roadmap brought additional focus to the importance of sustainability management and disclosure in overall corporate governance, referring specifically to the Taskforce on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB) for reporting alignment.

Taiwan is not the only emerging market where corporate governance standards and ESG disclosure have evolved in recent years. In fact, we have seen encouraging trends across all major emerging markets (EM).

Should we see it as the sign of increasing awareness among regulators and investors that companies and their top management must be held accountable for their roles in the society?

Emerging and developed markets operate in different contexts. The risks are quite different too. Therefore, it seems relevant to acknowledge emerging market specificities with regards to corporate governance practices. Which specificities are we talking about? Should they accepted on the back of these differences in corporate environment, or are they irrelevant from an international investor's point of view?

How can investors promote stronger corporate governance practices in emerging markets?

Current trends: a wind of change.

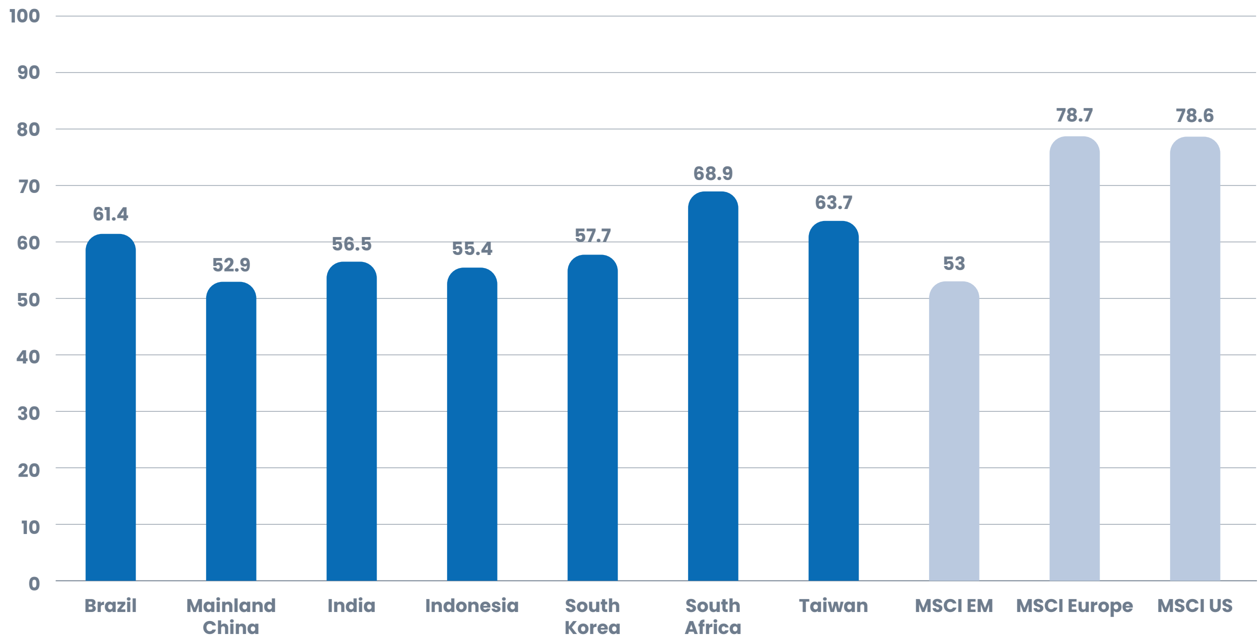
More independent and effective Board of Directors

In corporate governance, independence of the Board of Directors is considered a standard best practice to ensure the protection of shareholder interests and the prevention of conflicts of interest. In Europe and the US, the average level of Board independence of companies composing the MSCI indices is almost 80%[2] (see Figure 1).

The situation is different in emerging markets. As of January 2023, 53% of companies composing the MSCI Emerging Markets index (hereafter MSCI EM) have instituted a Board of Directors that has an independent majority, which means that **more than half of the Board of Directors are independent of management.** This is also true for all major markets of the MSCI EM index.

While emerging markets rank behind European and the US practices, this still demonstrates that listed emerging market companies are increasingly aware of the necessity of having a body capable of providing independent oversight over the company's management.

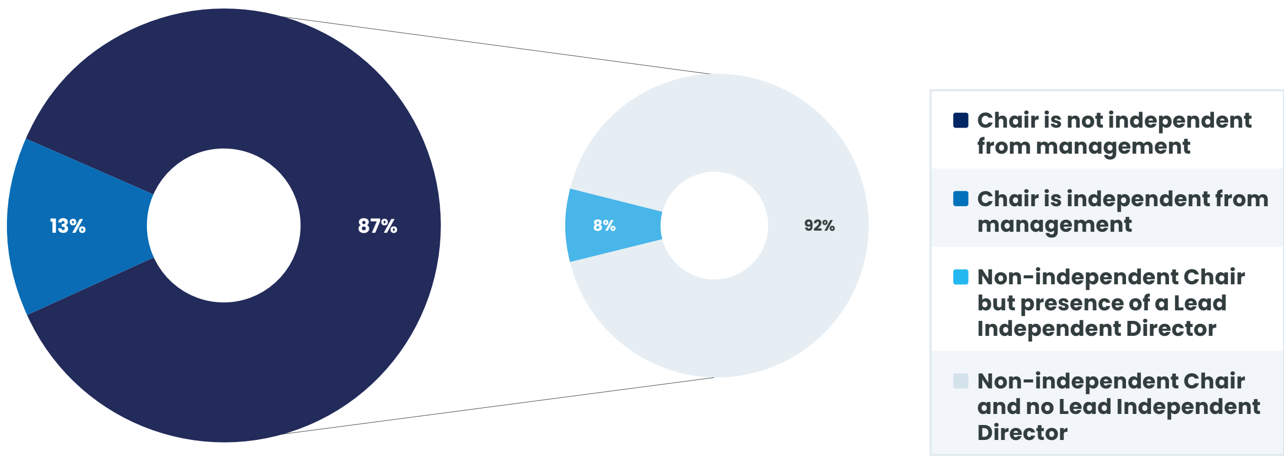
Figure 1:
Average Board independence level at selected emerging markets composing MSCI EM index (January 2023)



Source: Candriam, MSCI ESG

In addition to a Board of Director composed of independent members, the identity of the Chairperson of the Board of Directors is also a key determinant of the Board's independence. **Most emerging market companies have separated the roles of the CEO and Chair of the Board of Directors,** which contributes to reducing the influence of the management of the Board's oversight capacity. However, the Board Chair's independence is still questionable. The majority of emerging market companies composing the MSCI EM index have not appointed a Board Chair that is independent of the company's management nor a lead independent director.

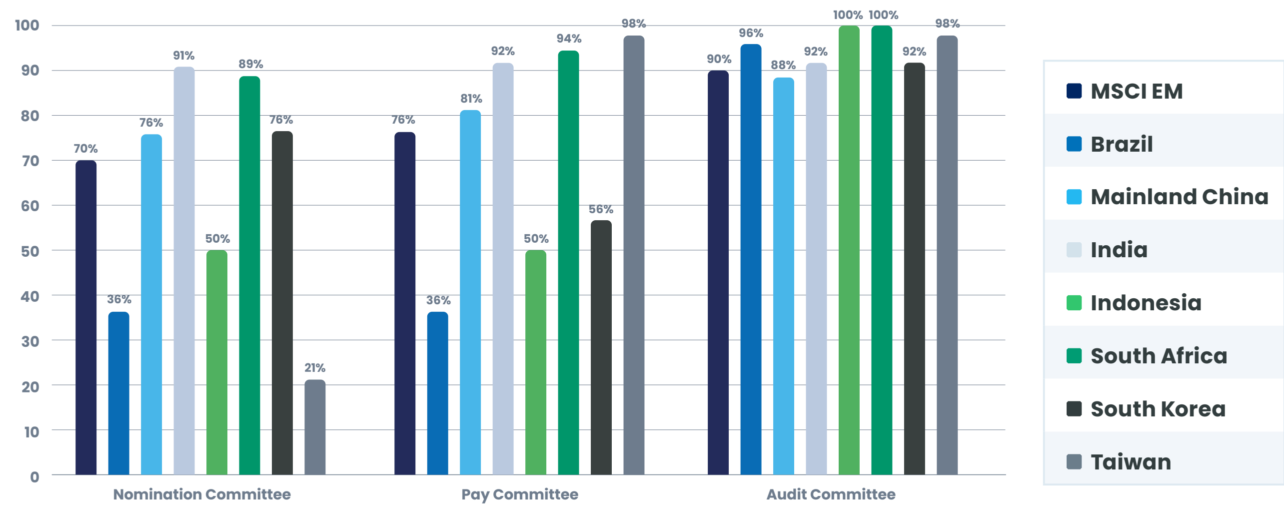
Figure 2:
Independence of Board Chair at MSCI EM companies (January 2023)



Source: Candriam, MSCI ESG

With regards to the functions of the Board of Directors, we observe that having an Audit Committee, a Nomination Committee and a Remuneration Committee under the Board of Directors has become more prevalent among emerging market companies. These committees provide specific oversight of the company's internal compliance and management's performance evaluation, and ensure appropriate remuneration policy. Many companies in the MSCI EM index also have at least two thirds of these committee members being independent from management.

Figure 3:
% of companies composing the MSCI EM index and selected emerging markets, with at least 2/3 independence on Board-level Committees (January 2023)



Source: Candriam, MSCI ESG

Transparency and diversity: areas for improvement

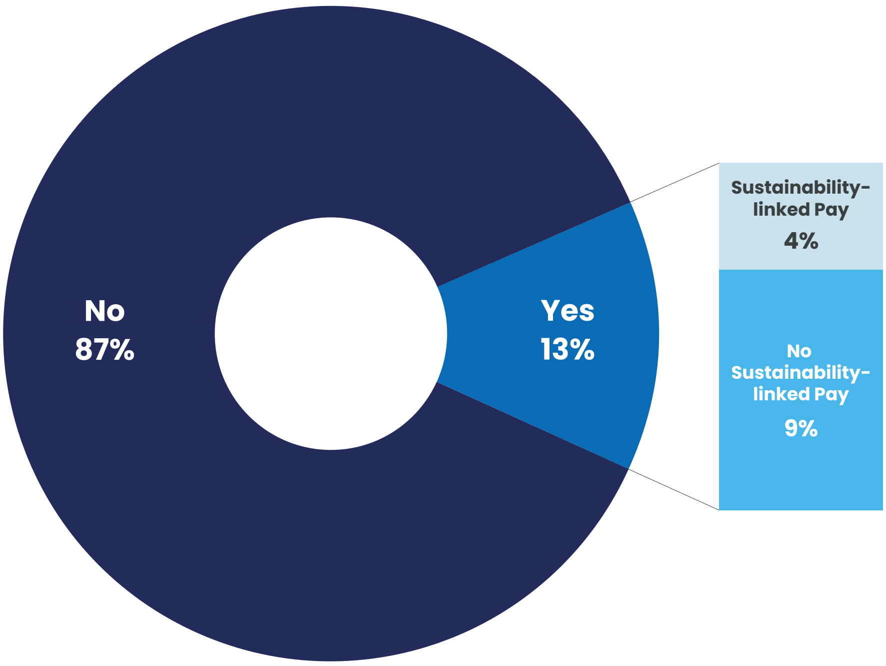
Gender diversity in leadership positions has not been a focus for emerging markets companies overall, and many of them still trail Europe and the US in this area. While MSCI EM companies are close to MSCI Europe and MSCI US levels with respect to women representation in top management, they are clearly lagging with respect to the presence of female directors on the Board.

Figure 4:
Average % of women in leadership positions, January 2023

Source: Candriam, MSCI ESG

We also observe that most companies in the MSCI EM index fail to provide sufficient transparency with respect to executive's performance criteria and remuneration policy. **Only about 13% of companies in the MSCI EM index implement regular Say-on-Pay votes at the shareholders meetings,** as compared to about 97% in the MSCI Europe and 92% in the MSCI US[3]. Of these 13%, only 4% have demonstrated that long-term sustainability indicators are part of management's performance evaluation. This limits the channels through which shareholders can raise concerns about management performance and whether the management is acting in line with the shareholders' and the company's long-term objectives.

Figure 5:
% of companies composing the MSCI EM index that hold regular Say-on-Pay votes at AGMs (January 2023)



Source: Candriam, MSCI ESG

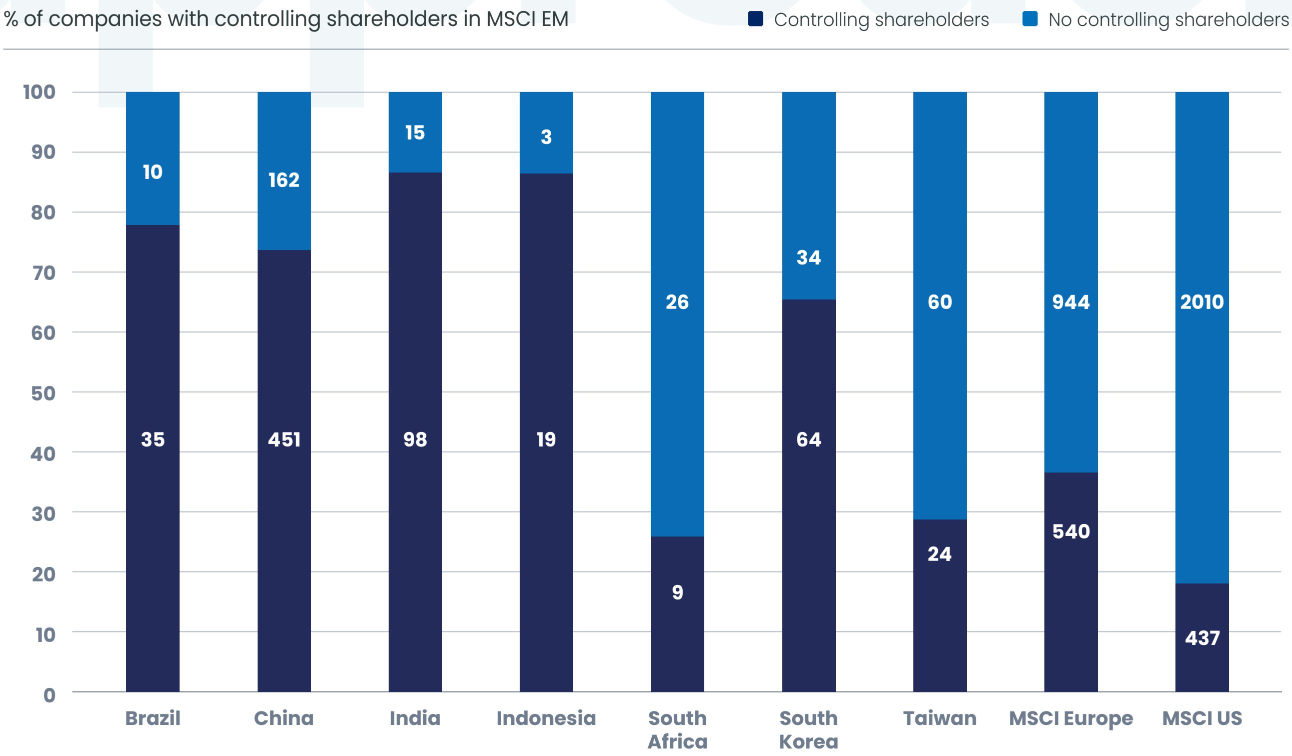
Gender diversity in leadership positions has not been a focus for emerging markets companies overall.

Beyond the cookie-cutter approach.

Is an analysis of standard corporate governance characteristics sufficient to understand and assess the quality of corporate governance in emerging markets? We believe not. From our experience, **further analysis should be led that encompasses companies' corporate culture as well as the specific environment and context in which they operate.**

Indeed, capital structures with controlling shareholders (holding more than 30% of company shares) are not a rare feature for listed companies in emerging markets. In January 2023, **about 70% of companies composing the MSCI EM index have controlling shareholders** – versus 18% of the MSCI US and 36% of the MSCI EU index companies[4]. This structure may raise concerns about the influence of the controlling shareholders on the company's direction and potential conflict against minority shareholders' best interests. It should also be noted that the nature of controlling shareholders and the corporate culture in controlled companies also differ among emerging markets. Addressing concerns regarding controlling shareholders, therefore, requires specific insights into each market and each company.

Figure 6:
% of companies with controlling shareholders in MSCI EM



Source: Candriam, MSCI ESG

Spotlight 1: Promoter firms in India

"Promoter" firms are companies with a concentrated ownership - either by an individual, a group of individuals, or the government -, or whose founders still have significant influence over the company's direction despite no longer being controlling shareholders or executives. The majority of the largest listed companies in India, in terms of market capitalization, are promoter firms – let's mention for example the global IT service giants Tata Consultancy and Infosys, conglomerates Reliance Industries and Adani Enterprise, or telecom group Bharti Airtel. Investing in promoter companies offers a number of opportunities: first, they are established market players with long business traditions in India. In addition, according to several studies, they might have more incentives to be committed to long-term growth of their business over short-term performance, as they have a long-term aim of passing on the business to next generations[5]. On the other hand, for external investors, promoter firms can pose certain corporate governance risks, including potential conflict of interests, lack of transparency and oversight over financial transactions between the company and the promoter or promoter-controlled entities, as well as limited protection of minority shareholders' rights.

In this context, a practice to which we pay particularly close attention is the disclosure of promoters' shareholding and existing "pledged shares". It is common among promoter firms in India to use a promoter's shareholding in a company as collateral for loans. A lack of transparency with respect to pledged shares might allow promoters to continue controlling their companies, while a significant part of their shares have been pledged to lenders. In certain cases, pledging shares might also enable promoters to act against investors' best interests – for example recent reports show how Adani Green's shares are being used as collateral for a credit facility for Adani Enterprises' Carmichael coal mine in Australia[6].

In our opinion, corporate governance risks at promoter firms can be alleviated by a well-functioning Board of Directors, combined with enhanced transparency with respect to the shareholding structure as well as financial flows between promoter-controlled entities – demonstrating a form of accountability to external investors.

Case study:

Infosys, a IT consulting giant with good corporate governance practices

Infosys[7] is one of India's largest IT service and consulting companies, with more than 300 000 employees in over 50 countries. The company was co-founded by Narayana Murthy, who served as CEO for 21 years from its creation up until 2002 and Nandan Nilekani who became Executive Chairman in 2017, after the resignation of the former CEO Vishal Sikka, the company's first non-promoter CEO - allegedly due to differing visions of Infosys' strategy from the company's promoters.

Today, except for the lack of an independent Board Chair, Infosys has a better corporate governance structure than average peers, with a Board of Directors composed entirely of independent directors aside from Nilekani and the current CEO Salil Parekh (who is Infosys' second non-promoter CEO). The Board's functioning is supported by fully independent committees, including standard committees – Audit, Nomination, Remuneration – as well as a Risk Management committee and Stakeholders Relationship committee. The company also provides a good level of transparency on its corporate governance, Board and management activities, as well as related party transactions. Infosys' promoter group holds about 13% of the company's shares, as of March 2023, but does not serve on the Board of Directors (aside from Nilekani as Chairman) or any executive position.

Spotlight 2: Family groups in South Korea

Eight of the top ten listed companies in South Korea[8] are family firms or affiliate entities of family groups. In terms of corporate governance structure, these companies tick most of the boxes: independent majority on the Board of Directors, distinct CEO and Board Chair roles, Board-level committees, and a "one share – one vote" capital structure. On the other hand, the question remains open as to whether corporate governance in family firms is truly independent from the founder family's influence. Several studies have criticized the independence of the outside director election process[9] or the effectiveness of outside directors' oversight[10] at Korean family groups.

In recent years, several Korean family groups have started to enhance their engagement efforts with investors on corporate governance topics, especially during the period running up to the annual shareholders meeting. For our ESG analysts at Candriam, these are opportunities to gain better insights into our portfolio companies' corporate culture as well as to convey our positions on corporate governance best practices.

Besides, we have seen a recent trend among Korean companies to create Board-level Sustainability/ESG Committees to oversee the company's implementation of sustainability-related measures. The top 10 listed Korean companies all feature such a Sustainability Committee with at least two out of three members being external directors. We do assess this trend positively as it shows that companies are increasingly coming to terms with investors' focus on their ESG practices.

At the same time, we are discerning about whether a Sustainability Committee has the relevant expertise and capacity to effect substantial and positive changes in a company's ESG performance. In most of these companies, the Sustainability Committee has members with operational track-records in the sector where the company operates. On the other hand, the presence of directors with long-standing experience in a field related to environment, labor, or human rights is much less common. This deviates from our recommendation that Board-level Sustainability Committees should have demonstrated operational expertise in sustainability-related fields. It remains to be seen whether Korean listed companies will converge towards this practice, but, in the first place, the presence of a formal Sustainability Committee at the Board of Directors can facilitate the inclusion of sustainability topics in the company's strategic decision-making.

Table 1:
Key corporate governance characteristics of the top 10 listed companies in South Korea

Company	Family firm?	Board Chair	Board indepen-dence	Board-level committees	One share – one vote structure?	Board-level Sustainability committee?
Samsung Electronics	Yes	Independent	55%	Fully independent Audit, Pay, Nomination Committees	Yes	Yes
LG Energy Solution	Yes	Combined CEO/Chair	50%	Fully independent Audit Committee, Nomination Committee has 2/3 independence, no Pay Committee	Yes	Yes
Samsung Biologics	Yes	Non-CEO, executive	57%	Fully independent Audit Committee, Pay & Nomination Committee has >2/3 independence	Yes	Yes
SK hynix	Yes	Independent	67%	Fully independent Audit and Nomination Committees, Pay Committee has >2/3 independence	Yes	Yes
LG Chem	Yes	Combined CEO/Chair	57%	Fully independent Audit Committee, Nomination Committee has 2/3 independence, no Pay Committee	Yes	Yes
Samsung SDI	Yes	Non-CEO, executive	57%	Fully independent Audit Committee, Pay and Nomination Committees have ½ independence	Yes	Yes
Hyundai Motor	Yes	Non-CEO, executive	55%	Fully independent Audit Committee, Nomination Committee has ½ independence, Pay Committee has 2/3 independence	Yes	Yes
NAVER Corporation	No	Non-executive, non-independent	57%	Fully independent Audit Committee, Pay and Nomination Committees have >2/3 independence	Yes	Yes
KIA Corporation	Yes	Non-executive, non-independent	56%	Fully independent Audit and Pay committees, Nomination Committee has 60% independence	Yes	Yes
Kakao Corp.	No	Non-CEO, executive	57%	Fully independent Audit and Pay committees, Nomination Committee has 2/3 independence	Yes	Yes

Source: Candriam, company reports

Towards a common set of minimum governance standards: the role of regulators.

Given the diversity in corporate structure and context across emerging markets, **local corporate governance codes**, be they mandatory or optional, **are instrumental** in ensuring minimum governance standards as well as protection for external investors. Furthermore, they are useful for investors to understand the corporate culture of emerging market companies, since local codes aim to respond to each market's specific corporate governance characteristics. As these codes evolve over time, they also raise the bar and push emerging market companies to gradually improve their transparency and governance practices.

In Brazil, a special segment of the São Paulo Stock Exchange (B3), **"Novo Mercado"**, was created in 2000, introducing additional corporate governance criteria to promote companies with no ties to established business groups or family firms. The Novo Mercado addressed an important corporate governance issue among listed Brazilian companies at the time: the concentration of voting power in the hands of a few shareholders, sometimes at the detriment of minority shareholders' interests, by issuing voting shares and non-voting shares. Companies which chose to list on this segment would commit to stronger corporate governance measures such as respecting the "one share – one vote" system as well as enhanced transparency. By ensuring additional rights and strengthening the protection of non-controlling shareholders, the creation of the Novo Mercado has improved investors' perception of Brazilian corporate governance practices and facilitated the development of the country's capital market in the 2000s[11]. As of October 2022, the B3 segment has 475 listed company, of which 202 are on the Novo Mercado segment[12].

In India, the shifts in corporate governance codes and regulations have played no small part in the evolution of the governance structure of promoter firms. The **Security and Exchange Board of India (SEBI)** has, over the years, strengthened its listing requirements in order to increase accountability of the companies' management and Board of Directors; notably, promoters are now required to disclose the amount of their pledged shares. The latest amendments in 2021 and 2022 have further increased the level of disclosure - including mandatory reporting on business responsibility, enhanced functions for Board-level committees, clarified provisions on related party transactions, and distinct roles of CEO and Chair of the Board of Directors at the top 500 listed companies[13].

In addition, the SEBI has also encouraged stewardship activities by non-promoter shareholders. It issued a mandatory stewardship code in 2019, which required institutional investors that are shareholders of Indian listed companies to monitor and engage with investee companies on several matters including the company's strategy and performance, quality of leadership, corporate governance, ESG consideration, and shareholder rights[14].

> "**Regulators and stock exchanges in major emerging markets have increased their focus on corporate sustainability.**

Table 2 provides a summary of the key criteria of corporate governance codes in several large emerging markets. A common standard that we see across these markets is having a minimum independence criterion for the Board of Directors (although the minimum independence requirement is still quite low and few have criteria for Board Chair's independence), and a Board-level Audit Committee responsible for ensuring internal compliance and accurate financial reporting. On the other hand, other Board-level committees, such as the Nomination Committee and the Remuneration Committee, still remain exceptions rather than the norm.

Overall, we observe that **regulators and stock exchanges in major emerging markets have increased their focus on corporate sustainability.**

Most recently, two markets where the average corporate sustainability reporting rate has been lower, China and South Korea, have shown signs of improvement. In 2021, South Korea's Financial Services Commission announced a phased approach for mandatory ESG disclosure by listed companies: starting with large listed companies, and eventually for all listed companies by 2030. Meanwhile, the China Enterprise Reform and Development Society (CERDS), a think-tank overseen by the state-owned Assets Supervision & Administration Commission, published a voluntary guidance on corporate ESG disclosure in 2022[15], which might provide a basis for more consistent and better-quality sustainability disclosure in the near future.

Table 2:

Corporate governance codes and regulations for listed companies in selected emerging markets

Market	Board of Directors' independence	Board Chair's indepen-dence	Board-level committees	Board diversity	ESG disclosure
Brazil	Companies listed in the Novo Mercado segment of the Brazilian Stock Exchange must have: - at least 20% or 3 independent directors (whichever higher); - separate CEO and Board Chair		Mandatory Audit Committee for the Novo Mercado segment	Proposed revision in 2022: Having at least 1 woman and 1 person from ethnic minorities on the Board	Report-or-explain basis
China	At least 1/3 of the Board must be independent directors	No criteria	Mandatory Audit Committee for listed companies	No criteria	The Code of Corporate Governance for Listed Companies of 2018 established basic framework for ESG disclosure. A voluntary ESG disclosure framework was released in 2022.
India	- If Board Chair is non-executive, at least 1/3 of independent directors. - If Board Chair is executive or not independent, at least 1/2 of independent directors.	Top 500 listed entities with >40% public shareholding must ensure that the Board Chair is a non-executive director and not a relative of the managing director or CEO.	- Mandatory Audit Committee, with an independent majority and independent chair, and at least 1 member with accounting expertise - Mandatory Nomination and Remuneration Committee	Listed companies must appoint at least 1 female director.	From FY 2022–23, SEBI top 1000 entities must publish a Business Responsibility Report.
Indonesia	At least 30% of the Board of Commissioners (equivalent to Board of Directors) must be independent (50% for commercial banks, insurance companies, and financing companies)	No criteria	- Mandatory Audit Committee - Other committees are recommended: Remuneration & Nomination Committee, Risk Committee	No criteria	From 2020, listed companies must publish an annual corporate social responsibility report.
South Africa	No specific requirement, but listed companies must have a clear policy enabling a balance of power on the Board of Directors to ensure that no one director has unfettered powers of decision-making.	Companies listed on the Johannesburg Stock Exchange (JSE) must appoint an independent Board Chair or lead independent director.	Under the JSE Listing Requirements, Audit, Remuneration and Social & Ethics Committees are mandatory. Risk and Nomination Committees are encouraged.	The JSE requires listed companies to have policies in place to promote racial and gender diversity at Board level, but no minimum threshold has been set.	The JSE requires on a comply-and-explain basis that listed companies annually report the extent to which they comply with the King Code, which includes sustainability reporting as well as integrated reporting.
South Korea	- Board of listed companies should have at least 25% of external directors. - Large listed companies (asset value >= KRW 2 trillion) should have least 50% of independence.	No criteria	Large listed companies should have a Board-level Audit Committee, composed of at least 2/3 outside directors, and an Outside Director Nomination Committee, composed of at least ½ outside directors.	New regulation in 2020 required that large listed companies should "attempt to" appoint at least 1 female director, starting from 2022.	Voluntary ESG disclosure framework published by the Korea Exchange, which will become mandatory for large listed companies by from 2025 and all listed companies from 2030.
Taiwan	The Board should have relevant industry expertise and at least 1/3 of independent directors.	No criteria	- Listed companies should have either an Audit Committee or a supervisor, and a Remuneration Committee. - The Audit Committee should be fully independent and have at least 1 member with financial expertise.	The Taiwan Stock Exchange (TSE) publishes a ranking of listed companies based on their Board diversity, but does not have any mandatory rules yet.	The TSE mandated annual ESG reporting from 2022.

Source: Candriam, company reports

Towards best practices: the role of investors.

While local regulations in emerging markets serve as a yardstick for minimum corporate governance standards, **we believe that investors have significant leverage** to influence corporate behavior and encourage companies to go above and beyond the minimum required by regulations.

As a responsible investor, Candriam expects its investee companies to put in place a sound corporate governance structure that ensures that they remain accountable to their internal and external stakeholders. We have developed a corporate governance framework consisting of standardized indicators and performance benchmark, in order to analyze the companies across markets in a coherent and fair manner. These indicators are grouped into 5 key corporate governance pillars: strategic direction, avoiding conflict of interests, transparency on executive remuneration, share capital, financial conduct and transparency.

Besides, we have observed that the level of corporate governance disclosure varies significantly among emerging market companies, and between emerging and developed markets. Given the nuances in corporate culture across emerging markets, a tick-the-box analysis cannot fully capture the specific nature of corporate governance in each emerging market.

Therefore, while we apply Candriam's standardized corporate governance framework to collect information on emerging market companies, our analysis of the quality of their governance is also guided by 3 overarching themes:

- Accountability
- Integrity
- Transparency.

Is the company management sufficiently accountable to stakeholders?

We expect companies and their top management to be accountable to investors and other stakeholders. To check this, our analysis focuses on the following points :

• **Effective oversight of management** through a Board of Directors that is sufficiently independent and composed of directors with relevant and diverse expertise.

Our analysis would lead us to heavily penalize a structure where a person holds both functions of CEO and Chair of the Board. In addition, we expect the Board of Directors to have at least a number of external directors that sufficiently represents the company's shareholders base, and we push for companies to have more than 50% independent directors. We scrutinize each director's profile and expertise to ensure that the Board embraces a diversity of relevant skillsets. So far, we have seen that most emerging market companies in our portfolio provide investors with the information we need to evaluate these practices.

• **Robust mechanisms to ensure the protection of minority shareholders' rights**

We particularly scrutinize provisions that give undue power to certain groups of shareholders or that restrain the ability of minority shareholders to take actions. Such provisions may notably occur in multiple share class structures. In cases where we see high risks of potential infringement on minority shareholders' rights, we would require companies to have even more robust Board oversight and put in place other provisions allowing minority shareholders' actions.

• **Management compensation aligned with the company's strategy and shareholders' long-term interests**

To assess the company's performance and whether the management is acting in line with the company's and shareholders' long-term interests, investors need some level of transparency on the management's remuneration policy, including any short- and long-term performance criteria. However, very few emerging market companies disclose this information. This is all the more the case for family firms with family executives; external shareholders rarely have the means to assess if the family executives are acting in line with shareholders' interests. In such cases, we typically try to obtain this information through other channels, notably by contacting companies directly.

If a company has a Board of Director that fulfills all criteria but is involved in corporate governance controversies, we would consider this a sign that the independent directors have not fulfilled their oversight functions and have failed in their role to hold management accountable.

Does the company have adequate measures to ensure corporate integrity and responsibility?

Comprehensive stakeholder management is an integral aspect of good corporate governance. Therefore, not only do we expect the company's management to be accountable to shareholders and act in line with shareholders' long-term interests, we also emphasize the importance of protecting other stakeholders - employees, business partners/ suppliers, society, and the environment. This is why we expect the management and Board of Directors to conduct adequate engagement with relevant stakeholders, on top of having oversight over ethics and compliance, as well as other sustainability topics that are material for the company's operations.

Stakeholder Analysis is an integral part of Candriam's proprietary ESG analysis framework. It consists in evaluating companies' integration of stakeholder interests (Customers, Suppliers, Employees, Society, the Environment, Investors) into its long-term strategy. It is our conviction that corporate governance is key to effective stakeholder management, and, vice versa, stakeholder management is an indicator of the quality of corporate governance.

We evaluate this through companies' concrete actions such as providing public disclosure on ESG practices, having Directors with expertise in sustainability-related fields (such as ethics & compliance, human resources, human rights, environmental sciences), including company's ESG strategy in the Board of Directors' agenda, and/or integrating company's ESG performance indicators into the management's remuneration. We do not differentiate ESG standards among emerging market and non-emerging market companies. We believe that sustainability issues, including human rights, climate change, labor rights, are universally applicable, no matter which sector or region a company operates in. Emerging market companies' major position in the global supply chain also means that they should be evaluated against global standards.

In emerging markets, it is becoming a common practice for companies to conduct sustainability materiality analysis to determine the ESG-related issues that are the most relevant and salient for their business. We are increasingly seeing companies put in place a Board-level ESG Committee / Sustainability Committee as the body overseeing ESG performance. On the other hand, sustainability governance does not seem to be fully integrated yet at the highest level of management in emerging market companies: very few companies have introduced meaningful and robust ESG-related criteria in the evaluation of management's performance.

Does the company provide sufficient transparency to external stakeholders?

One of the most effective and impactful ways for companies to be accountable to shareholders and other investors is to provide transparency. We expect companies to provide relevant and sufficient disclosures in several areas:

- **Financial disclosures:** It is absolutely essential that companies should provide information on how they ensure accurate financial reporting to investors. This includes financial audits provided by an independent auditor, as well as a robust auditor selection process by an independent Audit Committee at the level of the Board of Directors. We would avoid companies where the statutory auditor has strong reservations regarding their financial statements. We also assess companies' corporate tax policy and its transparency, and we especially scrutinize tax arbitrage practices at multi-national corporations.

> **Disclosure is only the first step in a sustainable path, what truly matters for us is that companies are not just talking the talk but also walking the walk.**

- **Sustainability practices:** The more companies communicate externally about their stakeholder engagement activities, the more confidence we have in their effective stakeholder management capacity. As ESG disclosure regulations in most emerging markets are less stringent than what we see in the European Union with the Corporate Sustainability Reporting Directive (CSRD)[16], we have not seen the same level of granularity in emerging market companies' sustainability disclosures. We encourage emerging market companies to go above and beyond regulatory disclosure requirements and provide as much substantial information as possible to investors and other stakeholders on their ESG practices. Nevertheless, we are conscious that companies with elaborate sustainability disclosures and communications are not necessarily more "responsible" or "sustainable". **Disclosure is only the first step in a sustainable path**, what truly matters for us is that companies are not just talking the talk but also walking the walk.

- **Commitment in investors' engagement actions:** Stewardship activities play a crucial role in helping us understand companies beyond what they disclose. Furthermore, as corporate governance and practices do not change overnight, dialogues with companies are a means through which we can encourage them to progressively align with recommended practices. **As a result, companies' responsiveness to investors engagement, for us, is also a measure of whether they are sufficiently transparent and accountable to investors.**

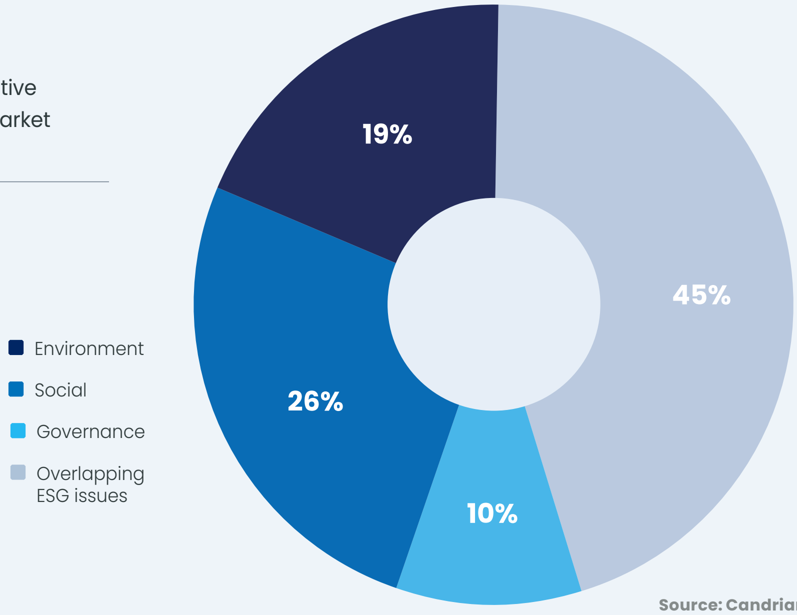
After analyzing these three key topics – companies' accountability, integrity and transparency – we have a bird-eye view of their corporate governance practices, on the basis of which we determine the "No go" cases. We typically exclude from our universe the companies for which we have little confidence in the effectiveness and independence of their management oversight. Even though a company may have established a governance structure that ticks all the boxes, a lack of transparency or lack of engagement with investors may reflect poorly on its level of accountability. Similarly, we consider that companies that have been involved in serious controversies and have not shown satisfactory efforts to address investors' concerns are carrying untenable risks, as inadequate stakeholder management reflects a weak corporate governance overall.

Candriam's stewardship activities with emerging market companies - 2022

In 2022, we engaged with close to 500 issuers in emerging markets through both collaborative initiatives and direct dialogues, not taking into account other companies targeted through investor statements that Candriam signed. We addressed specifically corporate governance concerns to companies through several channels, including direct dialogues, pre-AGM and post-AGM discussions.

Engagement topics in 2022

Direct dialogues and collaborative engagement with emerging market companies



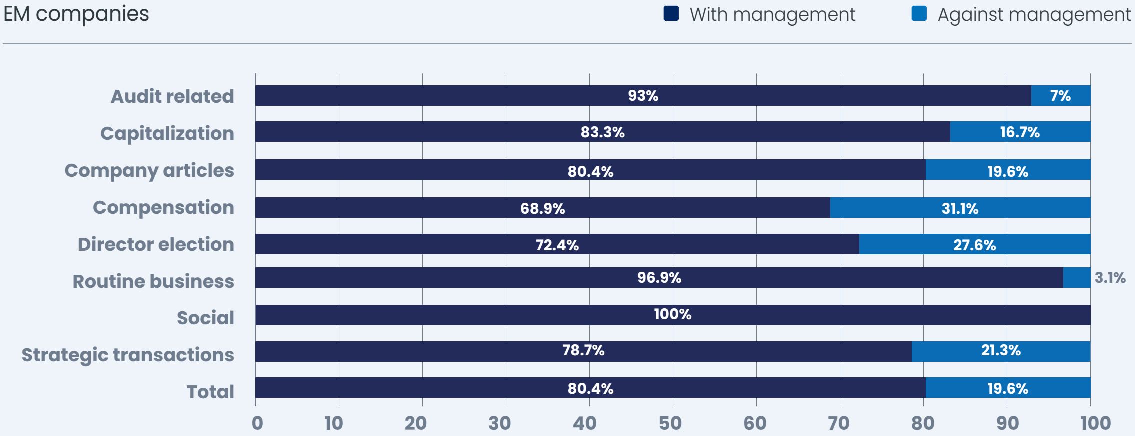
Source: Candriam

In 2022, we voted more than 3000 resolutions at emerging market companies' shareholder meetings.

The proposal categories in which we voted against management the most are related to the Board of Directors and Compensation.

2022 voting statistics

EM companies



Source: Candriam

Conclusion: Looking behind the curtain, an imperative for better investment decisions.

Should, and can, corporate governance practices be looked at with a global perspective, regardless of companies' sector or country ?

Corporate governance principles such as Board independence, alignment of the management's remuneration with the company's performance in sustainability issues, and protection of minority shareholders' interests, should be universally applicable. There is no philosophical reason why investors should accept a lower level of transparency from a company located in an emerging country compared to its peers from a developed country.

At the same time, we believe that a thorough corporate governance analysis should be more than a "tick-the-box" exercise looking at dogmatic criteria. It should look at information behind the curtain, and evaluate corporate practices relatively to local contexts, accounting for differences between countries. In all cases, three key principles should be assessed at investee companies: accountability, integrity and transparency. We believe these axes are relevant markers of companies' sustainable behavior.

Notes & References.

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€144 B

AUM at end
June 2023*

+600

Experienced and
committed professionals

+ 25 years

Leading the way in
sustainable investing

*As of 30/06/2023, Candriam changed the Assets Under Management (AUM) calculation methodology, and AUM now includes certain assets, such as non-discretionary AUM, external fund selection, overlay services, including ESG screening services, [advisory consulting] services, white labeling services, and model portfolio delivery services that do not qualify as Regulatory Assets Under Management, as defined in the SEC's Form ADV. AUM is reported in USD. AUM not denominated in USD is converted at the spot rate as of 30/06/2023.

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