



APG Asset Management Asia
荷蘭匯豐投資亞洲有限公司

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APG Asset Management

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The Securities and Futures Commission

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Re: Consultation Paper on the Principles of Responsible Ownership

We are writing on behalf of APG Asset Management (**APG**), an asset manager for pension schemes in the Netherlands, with assets under management totalling EUR403bn as of December 2014. As a longstanding investor of Hong Kong listed companies, we wish to express our views on SFC's Consultation Paper on the Principles of Responsible Ownership dated 2 March 2015.

We first and foremost would like to applaud the SFC's determination and leadership to introduce the Principles of Responsible Ownership to the investment community in Hong Kong. We strongly believe that the Principles will help bring more transparency to the financial market system and more accountability among market participants, i.e. issuers and investors, which should further enhance Hong Kong's overall profile as Asia's global financial hub. We think that the proposed Principles have covered most of the fundamental aspects regarding fiduciary responsibilities of institutional investors without being too prescriptive.

APG is one of the investor members of Asia Corporate Governance Association (**ACGA**) and has actively participated in ACGA's thorough consultation process with regards to ACGA's submission on SFC's proposals where many investor members including APG provided feedback over a number of rounds of reviews, and therefore ACGA's submission fundamentally reflects APG's view as well.

Please see the Appendix of this letter for details of our submission in relation to the questions raised by SFC in the Consultation Paper.

We appreciate having the opportunity to express our views to you on the proposed Principles. We very much look forward to your views and opinion and would welcome any opportunity to engage in further discussions in the future.

Sincerely yours,

APG Asset Management



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Appendix: APG Comments on the Proposed Principles

63. We welcome comments from the public on the proposals made in this consultation paper. Comments should be submitted to us in writing by no later than 2 June 2015.

→ Please refer to ACGA's general comments on the proposals.

64. In committing the Principles to writing we are hoping to open up dialogue with all interested stakeholders and to seek market views on a number of issues. In particular we would like interested parties to share their views on the following discussion points and bring to our attention anything else you view as in the spirit of this public consultation. Views are invited on the following:

- Do you agree with the approach (paragraphs 49 to 50) to aim the Principles at all investors and not just institutional investors? If the scope of the Principles is too broad which investors should be excluded or, alternatively, which investors should be included?

→ We fully appreciate the underlying spirit behind 'the Principles are relevant to all investors'. It is particularly meaningful to recognize the significant role which retail investors play in the market. However, such statement may create confusion and concerns among retail investors. For instance, retail investors may be concerned that they are required to comply with the Principles and become liable if they do not comply with the Principles. Our view is that retail investors should not be required to report their compliance with respect to the Principles. Rather, retail investors should be given an opportunity to access 1) free education regarding how they can invest in a more responsible manner and their rights as a shareholder, 2) a number of platforms/tools to enable them to exercise their rights in a cost-effective way, and 3) government-sponsored resources which could help them to collectively engage with companies.

In our view, the responsibilities of institutional investors should be more explicitly emphasised, in order to send a strong signal on policy direction. In particular, we view that asset owners should be best positioned among all investors to influence the widespread adoption of the Principles in Hong Kong's financial markets, given that their mandate (and investment philosophy) is the single most crucial determinant in reshaping the way how institutional asset managers conduct investment activities.

- Given that the Principles will not achieve their objectives unless listed companies welcome both the Principles and the greater engagement from shareholders that will follow, do listed companies and their representatives have any suggestions for the Principles that are likely to encourage the appropriate level of shareholder engagement?

N/A

- What do institutional shareholders active in investing in Hong Kong companies expect will be the likely costs and benefits arising from their compliance with the proposed Principles?

→ APG as a global investor already has adequate expertise, infrastructure, and responsible investment policies with detailed implementing measures. More importantly, APG has not only been complying with the Dutch Stewardship Code, which in our view is fairly stringent, but also has been at the forefront of promoting market standards related to responsible investing practices. Therefore, we do not anticipate any significant additional cost arising from compliance with the Principles. Even if it would, we would consider the related cost as an investment to fulfill our responsibility as an investor in Hong Kong.



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- Whilst we do not wish to encourage a close-ended list of the type of institutions which will qualify as “institutional investors” and their agents, we would encourage views from the market as to their understanding of the types of institutions which may well fall within or outside of such a broad characterisation.

→ All investors regulated under the Securities and Futures Ordinance (SFO).

We do not agree with the view that agents / service providers such as proxy research providers should be included in the scope of compliance.

- Should institutional investors be encouraged or obliged to apply the Principles on a “comply-or-explain” basis and, if so, which institutional investors and what should they be asked to disclose and to whom?

→ Our view is that the following institutions should be obliged to be a signatory to the Principles and to periodically disclose how they fulfil their duties on a “comply-or-explain” basis including: 1) the statutory asset owners and public institutions managing funds collected from general public, such as the Hong Kong Monetary Authority, the Hong Kong Jockey Club, and the Hospital Authority, and 2) the Mandatory Provident Fund providers in Hong Kong. The remaining institutional investors could be encouraged to apply the Principles on a “comply-or-explain” basis.

Generally speaking, our view is that a signatory investor to the Principles should think through and disclose:

- 1) It has adapted the Principles within its corporate policies and procedures;
- 2) Plans to comply with each principle while pursuing its own investment philosophy/strategies;
- 3) Assessment on the status of compliance to the Principles;
- 4) Future plans or milestones to improve the compliance status where necessary;
- 5) Descriptions on the governance in terms of how (and where in the organisation) key decisions on responsible investment strategies/policies are made, implemented, monitored, and reported; and
- 6) Descriptions on resources and to what extent it delegates its final decisions/duties.

We submit that the SFC should be the responsible authority for overseeing compliance with the Principles of Responsible Ownership.

- Will individual or retail investors find the Principles useful? We welcome views on whether there are any particular aspects of the Principles that individual or retail investors would like further guidance on.

→ In principle, all shareholders should be treated equally and their voices should be heard according to the size of voting rights (subject to minority protection). Depending on the level of support, the Principles could help enlighten individual/retail investors of their rights as shareholders and expected long-term benefits from responsible investing.

From our experiences in other markets, such as Korea and Taiwan, where retail investors take up a fairly significant portion of stock ownership in a manner similar to Hong Kong, we have seen an increasing number of collective engagement actions organized by those investors through internet. Such actions certainly provide an additional perspective to the company management and hence should be viewed as positive, in our view. In Korea, for instance, a small group of retail investors for the first time in the nation filed a shareholder proposal to remove incompetent and unjust management of a listed company. Our view is that enlightened retail investors can contribute greatly in monitoring and overseeing the management and board of smaller-sized listed companies, which global institutional investors typically either pay less attention to or make no investments.



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The most relevant aspects of the Principles to individual/retail investors would certainly be engagement and voting, i.e. what (and how) to support individual/retail investors to enable them to conveniently exercise voting rights and engage collectively with investee companies. From what we witnessed in other markets, management and boards of companies tend to experience pressure in a different dimension when opposition is organized and voiced collectively by individual/retail investors.

- Should certain types of organisations be required to disclose whether or not they comply with the Principles and, if not, why they do not do so (ie, on a "comply-or-explain" basis)? For example, should the following be required to comply with the Principles on a "comply-or-explain" basis: (i) institutions authorized and regulated by the HKMA, (ii) approved trustees of MPF schemes, trustees of ORSO20 schemes and trustees of pooled investment schemes approved for MPF purposes, (iii) insurers, insurance intermediaries and MPF intermediaries authorized and/or regulated by the OCI and (iv) entities licensed and regulated by the SFC?
 - ➔ It would be most appropriate if the above-mentioned organisations as in i), ii), iii) and iv) are all required to disclose their compliance status based on a "comply-or-explain basis".
- Should entities such as voting services agencies and investment consultants be encouraged to commit to the spirit of the Principles, and if so how this should be facilitated?
 - ➔ The Principles should apply solely to investors. If necessary, separate sets of principles or guidelines should be prepared for voting services agencies and investment consultants.
- As all Hong Kong institutional investors will be encouraged to apply the Principles, are there any hurdles or other reasons that would prevent or discourage them from doing so?
 - ➔ Large global institutional investors are unlikely to experience significant difficulties in complying with the Principles, as most of them have already started complying with similar types of code or principles elsewhere in the globe for some years now. Mounting reporting burden and inconsistencies of the reporting requirements arising from an increasing number of newly introduced regulations, codes and principles in various parts of the world are likely to be a significant hurdle to discourage these institutions from applying the Principles. APG is subject to these issues like other global institutions. APG made a conscious decision to strive to apply globally best principles/codes of our time, but its compliance reporting is based on the Dutch Stewardship Code as the principal code. We submit that SFC should consider recognizing compliance with equivalent principles/codes from other jurisdictions as adequate compliance with the Principles to simplify/relieve compliance burden of these institutions.

However, relatively smaller institutions whose client base is more inclined to be domestic individual/retail investors and/or whose portfolios are mostly passively run may face the following hurdles, including:

- 1) Lack of such demand or pressure from their client base;
- 2) Thin margin business model; and hence;
- 3) Lack of justifications for additional costs. We recommend that the SFC be active in finding solutions to additional resources required and costs incurred as a result of compliance with the Principles for the small sized investors.

To resolve these issues, SFC can consider utilising industry associations such as the Hong Kong Investment Funds Association to promote the Principles and providing financial subsidies/taxation relief to encourage adoption of the Principles by these smaller institutions.



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- The Principles are aimed at investors of Hong Kong listed companies and are not intended to apply extraterritorially. Should investors based in Hong Kong be encouraged to abide by the codes or principles of other jurisdictions relating to their foreign investment?
 - ➔ No, we do not think this is appropriate as it is critical that the scope of the Principles is as clear-cut as possible. Please note our comment above regarding compliance/reporting burden on institutions.
- How can foreign investors in Hong Kong listed companies be encouraged to commit to the spirit of the Principles in respect of their holdings in Hong Kong companies? Do foreign investors foresee any barriers or difficulties in doing so?

- ➔ As mentioned earlier, large global institutional investors would not face big difficulties in applying the Principles, as most of them have already in compliance with similar types of code/principles elsewhere in the globe. However, relatively small foreign institutions i.e. asset management firms with a single fund product or with a specific strategy, i.e. hedge fund or index tracking strategies, may feel less encouraged to apply and comply with the Principles.

The superficial issue may be cost or resource constraints. But more important underlying issue should be a seemingly lack of benefits that those investors could foresee. What would need would be:

- 1) A particular focus on engaging with small-scale foreign investors; and
- 2) Provision of financial aids to create tools.

Industry associations such as the Hong Kong Investment Funds Association could take on such work (with financial subsidies from the government) in our view.

- Do investors who operate on a cross-border basis envisage any potential conflicts which might arise between requirements or codes in place in other countries and the proposed Principles?
 - ➔ Yes, there are differences between the requirements/codes of the countries we invest in, and the proposed Principles would provide additional dimension to such differences. This requires us to continue to closely monitor crucial developments and events in each market which could potentially result in amendments to these requirements/codes.
 - ➔ Nevertheless, we do not think those differences would bring material difficulties or conflicts in complying with the Principles, to the extent that i) underlying philosophy and/or objectives of requirements/codes and the Principles are not profoundly different, and that 2) most of them are neither prescriptive nor too detailed so as to allow flexibility for adaptation. Our policy to deal with compliance with globally different requirements/codes is:
 - 1) To comply with the Dutch Stewardship Code, which we view as one of the most stringent codes in the globe;
 - 2) To strive to adopt additional or new aspects of requirements/principles if they are of higher standards than those we currently comply with;
 - 3) To disclose on specific differences and how we strive to comply in another way, and
 - 4) To provide our feedback to regulators if we think a certain set of requirements/codes/principles is beneficial for market participants.
- What are institutional investors' current practices on disclosing information on their engagement policy, including any national or international standards they follow?
 - ➔ On the issue of engagement, APG typically discloses:
 - 1) Overarching engagement policy;



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- 2) A list of national/international standards, guidelines, and/or best practices, which either we as an investor abide by or we expect our investee companies or investment partners to comply with;
 - 3) Engagement protocols, i.e. how to select engagement targets, nominal process, what to do when engagement efforts fail to drive changes, etc.; and
 - 4) Engagement examples, i.e. country-wide or sector-wide engagement cases, engagement with regulatory bodies / policy makers, collective or individual engagement, etc.
- We would also welcome views on the policy objectives against which the SFC should judge its approach to the Principles. The proposed objectives are to:
 - promote a sense of ownership amongst institutional investors in order to encourage Hong Kong and foreign shareholders to voluntarily apply and report against the Principles;
 - ensure that engagement is closely linked to the investment process;
 - contribute towards improved communication between shareholders and the boards of the companies in which they invest;
 - secure sufficient disclosure to enable institutional shareholders' prospective clients to assess how those managers are acting in relation to the Principles so that this can be taken into account when awarding and monitoring management mandates.
- The proposed objectives are all great points.
- Should compliance with the Principles be monitored? If so, which regulator should be responsible for doing so? For example, should it be the SFC or should it be the primary regulator in each respective industry?
- We are of a strong view that the SFC should be ultimately responsible for monitoring compliance and report compliance results on a periodical basis, i.e. annually. The report does not need to include any adverse comments directed against any particular investors but should rather include highlights of positive and negative findings together with best practice examples. We view that the SFC's involvement in monitoring would greatly influence investors in staying committed to exercise their rights and responsibilities as owners of listed companies in a responsible manner.

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