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# SHAREHOLDER ACTIVISM IN ASIA 2022



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# FOREWORD



*Activist investors have launched an escalating series of attacks on Asia-based companies in recent years. It's time they had something to show for it, writes Josh Black.*

It is testament to the recent history of shareholder activism in Asia that the strategy is no longer thought of mostly in “firsts.”

Recent years have provided plenty of surprises, from growing engagement with hostile activists like Dan Loeb after 2015 to Olympus granting a board seat to constructivist ValueAct Capital Partners in a 2019 settlement. But they have also witnessed some bareknuckle fights including those between Samsung and Elliott Management and Toshiba and Effissimo Capital where the activist was frustrated, no matter the cost to the company or other stakeholders.

It seemed that progress was destined to be slow, incremental, and carefully shepherded to avoid too great a shock to the system.

From the vantage point of 2022, however, activism is becoming increasingly commonplace across Asia. The continent has gone from representing 7.3% of global activist targets in 2015 through consecutive increases to 14.5% in 2021. Large-cap and mid-cap companies have been particularly vulnerable this year.

As a result, change is fast becoming unmanageable. A record 12 demands for board representation were at least partially successful as of May 3, 2022, suggesting that last year's 24 demands might be bested (the record for board seats won is actually from 2019, at 75).

Activism has returned with vigor to South Korea, seven years after Elliott's involvement triggered a national scandal involving the country's president and National Pension Service collaborating to keep the activist at bay. And after the imbroglio at Toshiba, where government officials leant on shareholders not to vote for Effissimo's slate and were subsequently uncovered, the company has had to accept more foreign directors.

Although much activism in Asia is homegrown, the involvement of North American, Australasian, and European investors has ensured that climate change has quickly risen up the order of priorities. Environmental demands have

already trebled between 2021 and 2022, while social-themed complaints have barely budged.

Nonetheless, ESG activism is not yet a strategy in its own right in Asia in the same way as in the U.S. and Europe, with specialist activist funds focusing on the value-maximizing power of more sustainable business practices. As it was in the West until very recently, ESG goals are being pushed by institutional investors and nonprofits on a systemic level. It would not be surprising if hedge funds followed soon.

That is not to say that corporate or official resistance to investor activism across Asia is finished. Shareholder activism by its nature tends to demand what is not yet widely accepted. Yet if the region follows the example of other markets that have dealt with similar levels of activism, greater engagement, more settlements, and a shared sense of purpose could become more common.

The data in this report draws from several of Insightia's subscription modules, especially *Activism* and *Voting*, which track investor demands and proxy voting, respectively. We have also released a special episode of our podcast, *Beyond the Boardroom*, featuring experts Cas Sydorowitz and Alicia Ogawa continuing the discussion. Our thanks to them for their participation, and to Georgeson for sponsoring this report.

Two years after our last special report on Japan and five years after our special report on activism in Asia, this is as good a time as any to get reacquainted with our news and data offerings. If you are interested to keep reading, please do email us to request a trial. Similarly, if you would like to know more about sponsoring a report, get in touch.

Finally, readers who haven't been acquainted with our work this year may not have heard about our acquisition by Diligent Corp. earlier this year. Diligent is the leading provider of governance software and solutions. For more information, visit **Diligent.com**.

**JOSH BLACK**  
**JBLACK@INSIGHTIA.COM**



# ASIA DATA

## PROPORTION OF COMPANIES WHERE DIRECTOR RE/ELECTIONS FACED >20% OPPOSITION BY YEAR AND COUNTRY

	2018		2019		2020		2021	
	NO.	%	NO.	%	NO.	%	NO.	%
ALL OF ASIA	411	1.6	621	1.9	454	1.4	568	1.7
CHINA	22	0.6	26	0.5	37	0.4	50	0.6
HONG KONG	72	3	96	3.5	73	3.1	87	3.9
JAPAN	1	0.7	73	1.9	47	2.1	61	2.6
INDIA	0	0	0	0	0	0	0	0
SINGAPORE	315	1.7	424	2.2	297	1.5	369	1.7
KOREA, REPUBLIC OF	1	7.1	1	11.1	0	0	1	14.3
MALAYSIA	0	0	0	0	0	0	0	0
TAIWAN	0	0	1	2	0	0	0	0
INDONESIA	0	0	0	0	0	0	0	0

SOURCE: INSIGHTIA / VOTING

DATA AS OF MAY 3, 2022.

\*VOTING DISCLOSURES IN SOME ASIAN MARKETS IS LIMITED.

## RESOLVED GAIN BOARD REPRESENTATION DEMANDS AT ASIA-HEADQUARTERED COMPANIES BY ACTIVIST LOCATION

ACTIVIST HQ	2014	2015	2016	2017	2018	2019	2020	2021	2022 YTD
ASIA BASED	10	27	30	40	41	39	53	52	25
NON-ASIA BASED	2	6	8	3	4	9	7	8	3
GROUP OF ASIA AND NON-ASIA BASED	0	4	2	0	0	1	0	3	0
TOTAL	12	37	40	43	45	49	60	63	28

SOURCE: INSIGHTIA / ACTIVISM

DATA AS OF MAY 3, 2022.

## TOP ACTIVISTS BY NUMBER OF CAMPAIGNS STARTED IN THE LAST 12 MONTHS, AT ASIA-HEADQUARTERED COMPANIES

APG (DUTCH PENSION FUND)	11
STRATEGIC CAPITAL	8
OASIS CAPITAL	6
CYBRIDGE	5
350.ORG, FRIENDS OF THE EARTH, KIKO NETWORK, MARKET FORCES, RAINFOREST ACTION NETWORK	4
RMB CAPITAL MANAGEMENT	4
ASSET VALUE INVESTORS (AVI JAPAN OPPORTUNITY TRUST)	4

SOURCE: INSIGHTIA / ACTIVISM

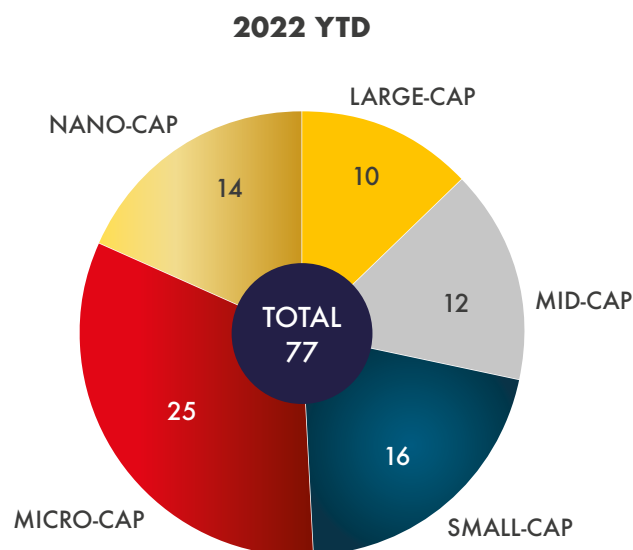
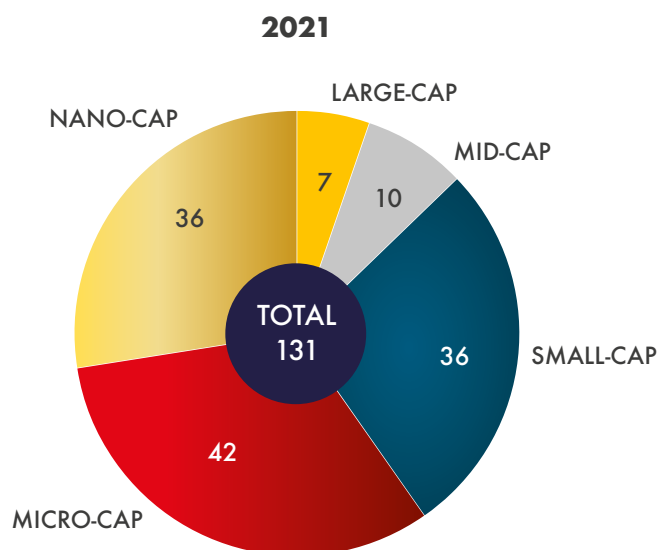
DATA AS OF MAY 3, 2022.

\*ACTIVISM DATA EXCLUDES THE MIDDLE EAST.



# ASIA DATA

NUMBER OF COMPANIES PUBLICLY SUBJECTED TO ACTIVIST DEMANDS  
BY MARKET-CAP & TIME PERIOD



SOURCE: INSIGHTIA / ACTIVISM  
DATA AS OF MAY 3, 2022.

NUMBER OF COMPANIES PUBLICLY SUBJECTED TO  
ACTIVIST DEMANDS BY SECTOR & YTD TIME PERIOD

SECTOR	2020	2021	2022 YTD
BASIC MATERIALS	7	9	9
COMMUNICATION SERVICES	2	2	2
CONSUMER CYCLICAL	22	26	12
CONSUMER DEFENSIVE	7	11	6
ENERGY	3	3	0
FINANCIAL SERVICES	10	9	5
FUNDS	1	1	0
HEALTHCARE	5	6	4
INDUSTRIALS	36	39	20
REAL ESTATE	8	6	1
TECHNOLOGY	18	18	15
UTILITIES	4	1	3
<b>TOTAL</b>	<b>123</b>	<b>131</b>	<b>77</b>

SOURCE: INSIGHTIA / ACTIVISM  
DATA AS OF MAY 3, 2022.

DEMAND TYPE BREAKDOWN OF COMPANIES  
PUBLICLY SUBJECTED TO ACTIVIST DEMANDS  
BY TIME PERIOD

DEMAND GROUP	2020	2021	2022 YTD
APPOINT PERSONNEL	53	57	33
REMOVE PERSONNEL	48	46	15
OPPOSE M&A	9	12	1
PUSH FOR M&A	13	8	3
DIVESTITURE	19	14	13
CAPITAL STRUCTURE	8	9	7
OPERATIONAL	10	8	6
RETURN CASH TO SHAREHOLDERS	29	34	21
ENVIRONMENTAL	1	5	17
SOCIAL	1	3	2
GOVERNANCE	45	48	32
REMUNERATION	5	14	10

SOURCE: INSIGHTIA / ACTIVISM  
DATA AS OF MAY 3, 2022.





JAPAN

# JAPANESE ACTIVISM FLOURISHES

**A RECORD-BREAKING YEAR FOR M&A ACTIVISM HIGHLIGHTS THE DEMAND FOR BOLSTERED SHAREHOLDERS RETURNS, WHILE DECARBONIZATION IS ALSO RANKING HIGH ON ACTIVISTS' AGENDAS, WRITES REBECCA SHERRATT.**







## JAPAN

Japan experienced an M&A boom in 2021, driven partly by a desire to strengthen financial returns to weather the difficulties of the pandemic and companies embracing former Prime Minister Shinzo Abe's shareholder-friendly policymaking. With Japan having reopened its borders in March, foreign activists are now eyeing new opportunities.

A record-breaking eight Japan-headquartered companies were publicly subjected to push for M&A demands in 2021, compared to four and seven in the whole of 2019 and 2020, respectively. Targets of oppose M&A demands also increased to eight in 2021, compared to two and five the two years prior, according to Insightia's *Activism* module.

"There is certainly the opportunity now for more M&A campaigns from foreign investors," Steve Wolosky, shareholder activism practice co-chair at Olshan Frome Wolosky, told Insightia in an interview. "Higher interest rates may impact M&A campaigns as well as shine a light on companies that activists perhaps had on their radar and are now keen to engage with."

### REGULATORY HURDLES

One lasting impact of COVID-19, which has played a driving role in many Japanese M&A campaigns thus far, is the need for companies to maximize shareholder value and improve profitability via restructuring and streamlining operations.

ValueAct Capital pushed Seven & i Holdings to refocus its attention on its 7-Eleven convenience store business and drop its real estate operations, amid concerns that the company's "scattered" attentions risked it "drifting into mediocrity."

Despite the rise in the number of M&A campaigns being likely to rise as the country reopens its borders, a domestic financial services provider who wished to remain anonymous told Insightia that evolving regulatory action and market practices mean "there may be fewer chances for an activist to emerge victorious in a campaign."

The Ministry of Economy, Trade, and Industry's (METI) 2019 revisions to the M&A process recommended companies provide enhanced disclosure of proposed M&A activity to minority shareholders, to determine the fairness of market transactions while ensuring an opportunity for potential buyers to offer a counterbid. However, counterbidders cannot provide a competing offer without the consent of the parent company or majority shareholder, something the adviser said might be "difficult to obtain."

Activists indeed seem to be fighting an uphill battle, with 11 of the 22 public M&A demands resolved in 2021 unsuccessful. Eight

of the 12 M&A demands resolved in 2020 similarly fell short, according to Insightia's *Activism* module.

### CLIMATE CONSIDERATIONS

Environmental activism has also gained prominence in Japan, largely driven by amendments to Japan's Corporate Governance Code in July 2021 mandating that all Tokyo Stock Exchange (TSE) Prime Market-listed companies report in line with the recommendations of the Task Force for Climate-related Financial Disclosure (TCFD).



**WITH JAPAN HAVING  
RE-OPENED ITS BORDERS IN  
MARCH, FOREIGN ACTIVISTS  
ARE NOW EYEING NEW  
OPPORTUNITIES.**



Five Japanese headquartered companies were targets of environmental campaigns in the first four months of 2022, the same as in the first four months of 2020 and 2021 combined, according to Insightia data.

Financial institutions and utilities are bearing the brunt of activist calls to strengthen their climate commitments. An investor coalition, led by Market Forces and Kiko Network, made headlines when its climate reporting proposals won 34.5% and 22.8% support, respectively, at Mizuho Financial's and Mitsubishi UFJ's 2020 and 2021 annual meetings. The coalition has filed four more proposals ahead of the 2022 proxy season.

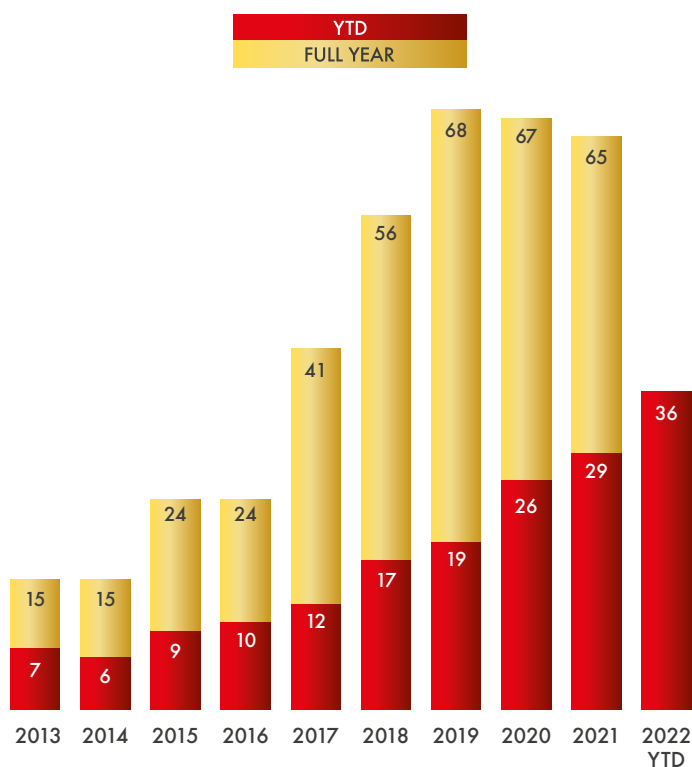
More foreign investors are joining the cause, with HSBC, Man Group, and Amundi filing three proposals asking J-Power to strengthen its climate commitments ahead of the company's June 28 annual meeting.

Monex Group CEO and Chair Oki Matsumoto suspects more environmental activists will launch campaigns of this kind in Japan. "This kind of activism will gain traction in coming years, especially given that the use of shareholder proposals is much cheaper and more readily accessible to most than launching a high-profile proxy contest that can incur costs in the millions," he told Insightia. ■



# JAPAN DATA

## NUMBER OF JAPAN-HEADQUARTERED COMPANIES PUBLICLY SUBJECTED TO ACTIVIST DEMANDS BY TIME PERIOD



SOURCE: INSIGHTIA / ACTIVISM  
DATA AS OF MAY 3, 2022.

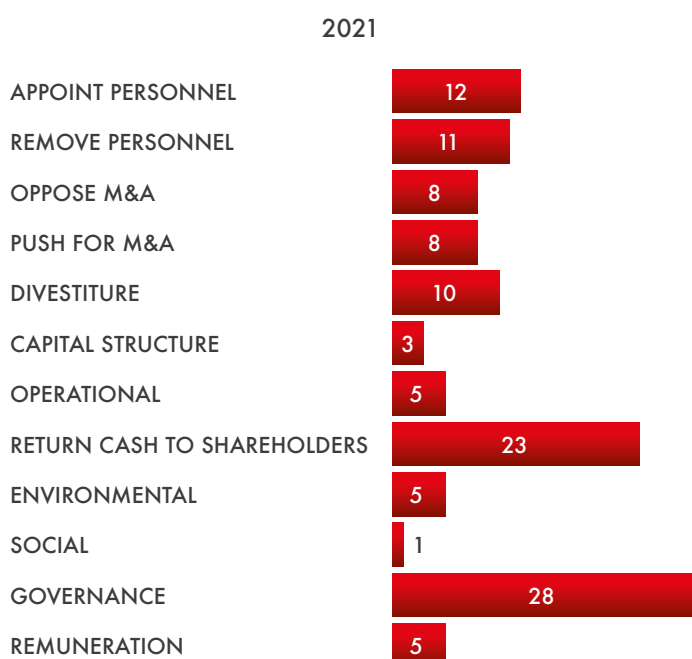
## OUTCOME OF RESOLVED GAIN BOARD REPRESENTATION DEMANDS BY TIME PERIOD AND METHOD, AT JAPAN-HEADQUARTERED COMPANIES

SETTLEMENT/ WENT TO VOTE	2017 YTD	2018 YTD	2019 YTD	2020 YTD	2021 YTD	2022 YTD
SETTLEMENT, ACTIVIST WINS AT LEAST ONE SEAT	0	1	2	0	1	0
WENT TO VOTE, ACTIVIST WINS AT LEAST ONE SEAT	0	0	0	1	3	2
WENT TO VOTE, ACTIVIST WINS NO SEATS	0	1	2	4	0	3
TOTAL	0	2	4	5	4	5

SETTLEMENT/ WENT TO VOTE	2016	2017	2018	2019	2020	2021
SETTLEMENT, ACTIVIST WINS AT LEAST ONE SEAT	1	0	1	5	0	3
WENT TO VOTE, ACTIVIST WINS AT LEAST ONE SEAT	0	2	4	3	4	5
WENT TO VOTE, ACTIVIST WINS NO SEATS	3	6	6	10	16	6
TOTAL	4	8	11	18	20	14

SOURCE: INSIGHTIA / ACTIVISM  
DATA AS OF MAY 3, 2022.

## DEMAND TYPE BREAKDOWN OF JAPAN-HEADQUARTERED COMPANIES PUBLICLY SUBJECTED TO ACTIVIST DEMANDS BY YEAR



SOURCE: INSIGHTIA / ACTIVISM  
DATA AS OF MAY 3, 2022.



# MANAGING AGAINST ACTIVISTS

*Companies would be wise to strengthen their communication with shareholders as the threat of activism draws ever closer, writes Cas Sydorowitz, Global CEO of Georgeson.*

**T**raditionally, Asian companies have not faced the near-constant threat of activism that Western companies have become accustomed to. As such, Asia has long considered activism to be an U.S. issue. Japan and Korea, however, have rapidly become a hotbed for activism in Asia, with Singapore coming up as a very distant third.

Ultimately, activist investors want to create greater shareholder value in their target companies, but how investors bring about change is different in each market. In the U.S., U.K., and Europe, ESG issues act as levers for activism. However, activism manifests itself differently in each region. In many parts of Asia, family feuds are common because of the strong family origin of many companies and their current holdings. Activism in Asia frequently focuses on maintaining company control from dissident family members or groups supporting or opposing the company's founders.

## ACTIVISM IN JAPAN AND KOREA: THE GOVERNANCE REVOLUTION

Companies in Japan and Korea are often family-controlled, acting as natural insulation against activism. In Korea, Chaebol structures - a family group that owns and retains controlling interest in a company through complex subsidiaries and other cross-shareholdings - are common at companies. While the number of large family-held companies in Japan is dwindling, the country has a web of interlocking shareholdings with other companies, ranging from competitors and financial institutions.

Despite the practice of family-controlled companies, an ageing population of leadership and corporate succession are challenges faced by many conglomerates in Asia. There may not be a clear succession plan, which can cause leadership to stay on longer than they should or infighting amongst the former family or extended family members. As a result, activists are emboldened to seek out "good" companies to unlock their shareholder value.

Activists are increasingly focused on Japan, which accounted for 14% of non-U.S. activist campaigns in 2021, according to Insightia's Activism module. In the last couple of years, some of the biggest Asian issuers were targeted by activists, including Toshiba and Seven & i Holdings. In some cases, these companies even conceded to activist demands, including takeovers, unsolicited bids, and M&A requests.

## Companies targeted by activist investors tend to share some common traits:

- **Stock price underperformance:** The company suffers from a "value trap", where the stock hasn't traded at its potential value over the last several decades. Stock price underperformance can be measured against domestic and international peers.
- **Undervalued company:** The company has more assets on its balance sheet than its entire market cap.
- **Sum of the parts:** Activists focus on specific levers to unlock greater shareholder value at target companies. However, concrete action, such as divestment, is required to create greater shareholder value.
- **Misalignment:** The company's strategies and investor perception of the company's progress are out of sync.

## MANAGING AGAINST ACTIVISTS

Engagement with shareholders is a critical preventative measure. Companies do not engage frequently enough with their largest shareholders' governance and ESG communities. Communicating with investor relations officers can also prove challenging, given that their identities and contact information are often not made public. Investor relations is a two-way street and companies need to facilitate inbound engagement from their shareholders.

When a proxy fight begins and support from leading shareholders is paramount, having well-established, ongoing relationships with the largest shareholders will likely mean the difference between success or failure in a campaign. Keeping leading investors abreast of changes, decisions, and the rationales behind any major or even minor action will foster a perpetual communication cycle.

It is important to remember that activists have research teams focused on only a few stocks in their portfolio, unlike many index funds that virtually own every company globally. Not all of the ideas an activist comes up with will be unique, but they will be the result of deep analysis, about which the company should keep an open mind. ■



CAS SYDOROWITZ

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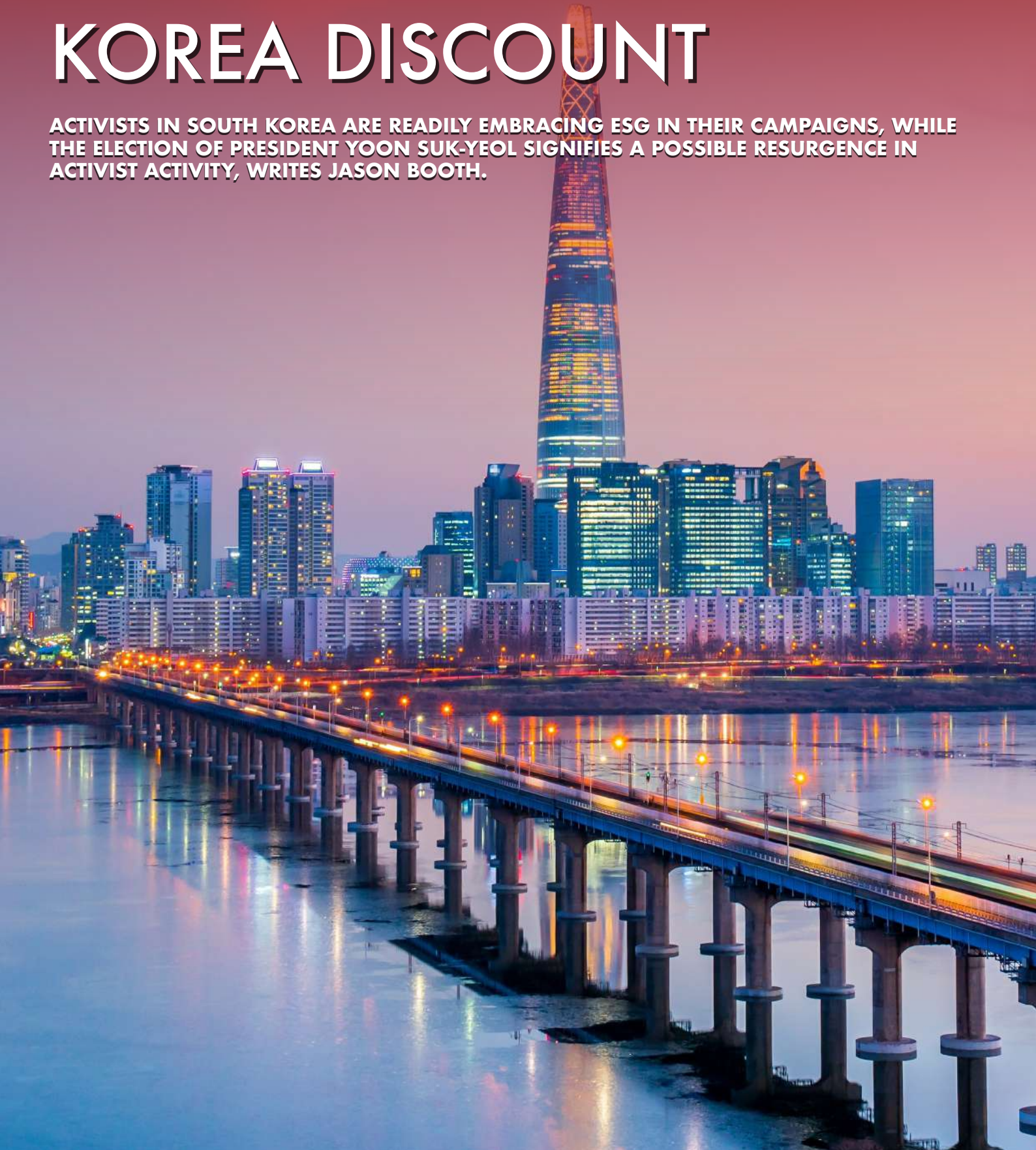




SOUTH KOREA

# CLOSING THE KOREA DISCOUNT

ACTIVISTS IN SOUTH KOREA ARE READILY EMBRACING ESG IN THEIR CAMPAIGNS, WHILE THE ELECTION OF PRESIDENT YOON SUK-YEOL SIGNIFIES A POSSIBLE RESURGENCE IN ACTIVIST ACTIVITY, WRITES JASON BOOTH.







## SOUTH KOREA

Activists in South Korea are having their busiest year ever as shareholder friendly regulations emboldened local investors to demand better management after years of seeing Korean stocks underperform. In the 12 months ending May 3, 2022, 42 South Korean companies faced activist demands this year and won 28 board seats, according to Insightia Activism data. Approximately 60% of companies targeted by activists in the 12 months ending May 3 faced demands to appoint or remove personnel.

"Governance continues to be a central issue and board oversight of ESG matters is increasingly important to investors, including heightened interest in specific themes related to climate risk oversight and board composition," said Bryan Ko, head of Asia, Georgeson, in an interview.

Among the biggest events were shareholders in South Korean underwear company Good People ousting three directors, including the chief executive, and appointing five nominated by a shareholder group headed by Park Si-hyung. The following month, Port Hamilton Union No. 1 won three of the six board seats it sought at automotive parts company Hucentech.

**DESPITE THE OPPORTUNITIES,  
THE RECENT UPTICK IN  
ACTIVIST CAMPAIGNS HAS SO  
FAR YIELDED FEW CLEAR WINS.**

### ESG TIME

Most campaigns launched in the last 12 months had an ESG component. This is partly due to 2020 regulatory changes that require less disclosure and government scrutiny for investors who exercise shareholder rights to respond to a company's illegal activities or to improve its governance structure. Park Si-Hyeong's campaign at Good People, for example, focused on allegations of criminal activity by the chief executive.

While international involvement in activism has yet to recover from pre-pandemic levels, it is a foreign fund, The Netherlands Pension Asset Management (APG), that accounted for many of the ESG-related campaigns in South Korea last year. APG recently proposed that Hyundai Development establish a board committee focused on health and safety following two fatal accidents at worksites overseen by the company. The fund manager subsequently called on ten other Korean companies, including Samsung Electronics and SK Hynix, to introduce

greater sustainability management disclosure and write ESG requirements into their articles of incorporation.

### UNDERVALUED

There are good reasons for shareholders to get more involved. South Korea's economy has weathered the disruption caused by COVID-19 better than Japan, yet its stock market remains deeply discounted against Tokyo. Korean-listed companies have an average price-to-earnings ratio of around 11, versus 25 for Japanese companies. The Tokyo Stock Exchange (TSE) is twice the size of the Seoul bourse by capitalization, despite the latter having more listed companies and comparable per-capita gross domestic product (GDP).

A series of governance reforms have also given activists some distinct advantages, at least on paper. Korea is one of the few markets that requires cumulative voting, where shareholders can pool all their votes for a single candidate or proposal, and the threshold for calling a special meeting is lower than in the U.S.

Despite the opportunities, the recent uptick in activist campaigns has so far yielded few clear wins. Only 19 of the 41 campaigns finalized over the last year have seen activists' demands even partially fulfilled. And activism in Korea by foreign investors remains well below pre-pandemic levels. Teton Capital, the only American activist to launch a campaign during the period, failed to win any seats at furniture maker Hanssem, despite the support of local activist Park Jang-ho.

### NEW PRESIDENT

There is optimism that the March election of President Yoon Suk-yeol might instigate a resurgence in shareholder activism. A former public prosecutor turned free-markets proponent with a populist bent, Yoon has embraced minority investor rights. He has proposed levelling the playing fields in terms of mergers and acquisitions, which typically reward controlling shareholders at the expense of minority investors.

The new president's influence over the \$800 billion National Pension Service of Korea (NPS) will be especially critical as it is the biggest shareholder in most Korean-listed companies. Though legally tasked with representing the interests of investors, the NPS has been criticized for bowing to political pressure to back managements during proxy contests.

Local activist Park Jang-ho was especially critical of the NPS using its 7% stake to support the management slate at Hanssem, leading to Teton's defeat.

"The NPS is responsible for maximizing shareholder value, instead of passively following the company's decision," Park said in a statement to local media. 🇰🇷





SOUTH KOREA

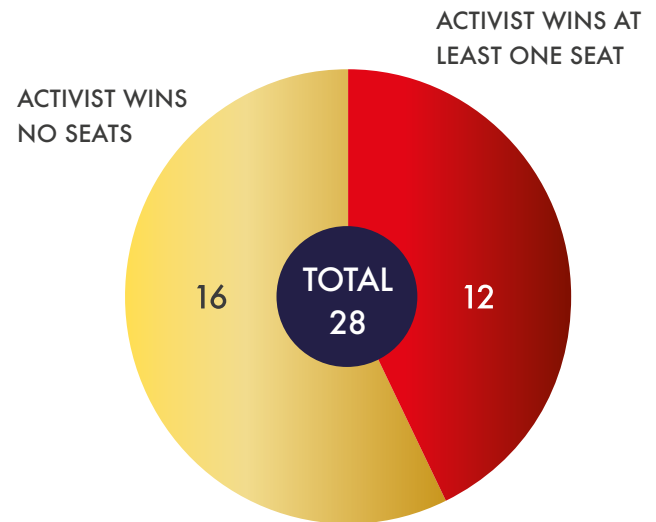
# SOUTH KOREA DATA

NUMBER OF SOUTH KOREA-HEADQUARTERED COMPANIES PUBLICLY SUBJECTED TO ACTIVIST DEMANDS IN THE 12 MONTHS ENDING MAY 3, 2022

42

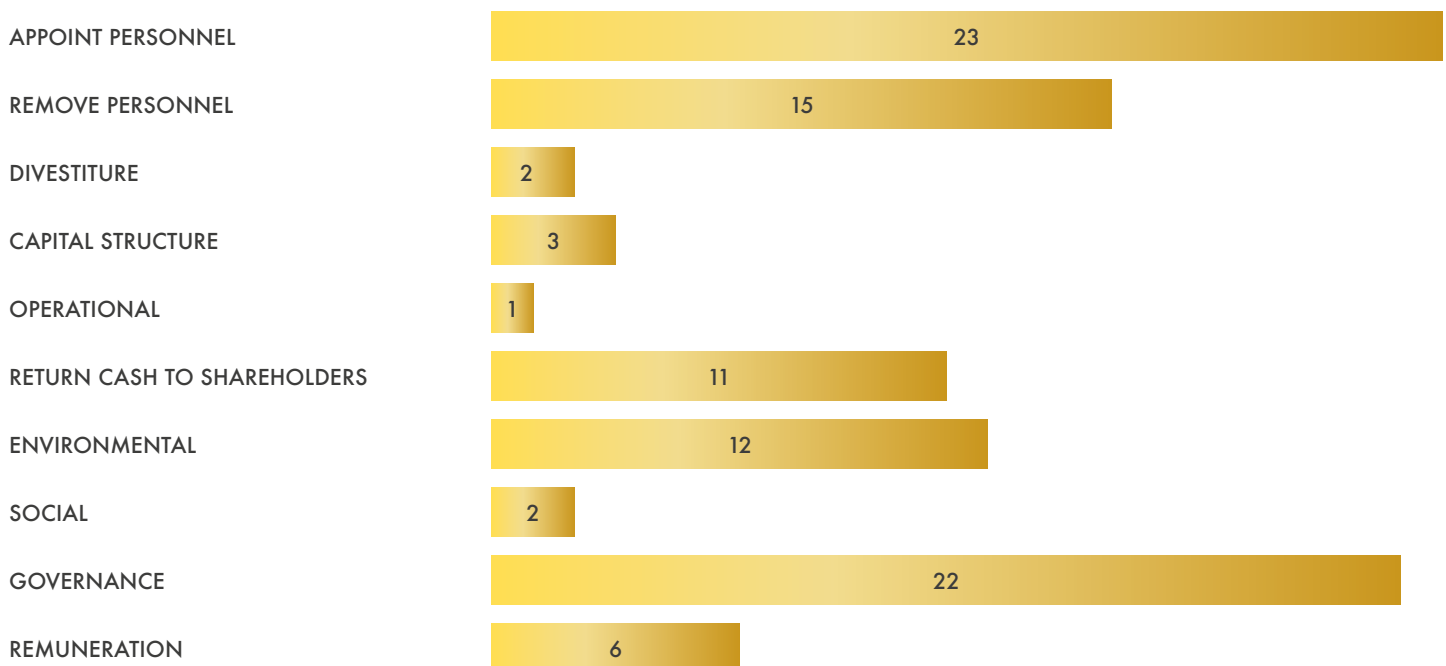
SOURCE: INSIGHTIA / ACTIVISM  
DATA AS OF MAY 3, 2022.

OUTCOME OF RESOLVED GAIN BOARD REPRESENTATION DEMANDS IN THE 12 MONTHS ENDING MAY 3, 2022 , AT SOUTH KOREA-HEADQUARTERED COMPANIES



SOURCE: INSIGHTIA / ACTIVISM  
DATA AS OF MAY 3, 2022.

NUMBER OF SOUTH KOREA-HEADQUARTERED COMPANIES PUBLICLY SUBJECTED TO ACTIVIST DEMANDS IN THE 12 MONTHS ENDING MAY 3, 2022 BY DEMAND GROUP



SOURCE: INSIGHTIA / ACTIVISM  
DATA AS OF MAY 3, 2022.





SINGAPORE

# ACTIVISM IN SINGAPORE

**SINGAPORE MAY BE THE NEXT MARKET ON ACTIVIST INVESTORS' HIT LIST, WITH MANY OF THE CHARACTERISTICS THAT MAKE COMPANIES EASY TARGETS PRESENT ALONGSIDE A GOOD TRACK RECORD FOR INVESTORS, WRITES JOSH BLACK.**







Despite the COVID-19 pandemic, or perhaps because of its impact on markets, the number of Singapore-based activist targets equaled a near-term record for the country in each of 2020 and 2021, after a steady slide from the previous peak, back in 2016.

Yet the country has long appeared less allergic to activism than its neighbors. Sovereign wealth fund Temasek Holdings has pushed multiple companies in its portfolio to make changes over the last decade, most recently at Germany's Bayer.

Admittedly, the fund is yet to target a Singaporean company, according to Insightia data, but the playing field is more level than might be expected. Since the start of 2014, activists have won board seats in 14 campaigns that went to a vote, and in nine settlements, according to Insightia's *Activism* module. That contrasts with just eight votes where the activists have come away with nothing.

“TRADITIONALLY, SINGAPORE IS NOT A VERY ACTIVE MARKET FOR ACTIVISM, BUT THAT SEEMS TO BE CHANGING.”

### RELIABLY CHEAP

“Traditionally, Singapore is not a very active market for activism, but that seems to be changing,” said Bryan Ko, Georgeson's head of Asia, in an interview. “Activism has risen in the last year with hedge funds taking particular interest in the market.”

According to the activist that has waged the most campaigns in Singapore in the last three years, Quarz Capital Management, the country's stability is part of its appeal, with the Straits Times Index resisting the global sell-off.

“Despite the stability, Singapore is one of the most undervalued equity markets among developed countries globally with the small and mid-cap trading at a cheaper valuation versus the index,” wrote Havard Chi, head of research for Singapore-based Quarz, in an email to Insightia.

However, companies can be conservatively managed, stocking their balance sheets with cash or real estate. “As such, the typical activist target in Singapore is vastly different from activist targets in Europe or the U.S. which are often overleveraged, badly managed, and in need of new directions,” said Chi.

Indeed, 15 Singapore-based companies faced demands regarding capital structure or returning cash to shareholders since the start of 2018, compared to nine targets facing M&A and divestiture-related demands, according to Insightia data.

### TAKE PRIVATES

However, it is around dealmaking that Quarz has had some of its more notable successes. Late in 2020, shareholders were persuaded by the activist's vociferous campaign to vote down the merger of Sabana Shari'ah Compliant Industrial Real Estate Investment Trust (REIT) with its larger rival ESR-REIT.

In a show of the limits to which shareholder rights can be taken, the REIT twice refused to hold a special meeting requisitioned by the activist, and Quarz's nominee was unsuccessful in a proxy fight last year.

Yet although Quarz believes Sabana continues to be poorly run, the stock has returned 45% since the start of the campaign, Chi notes.

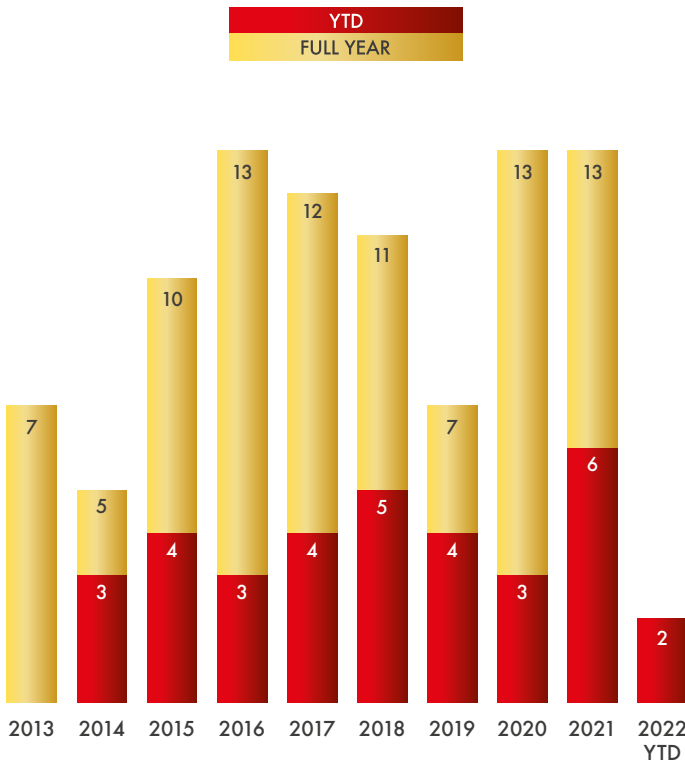
Opposing take-privates has become something of specialty for Quarz, which has also led such campaigns at Mapletree North Asia Commercial Trust and Sunningdale Tech, both of which earned slightly better terms. A third target, Teckwah Industrial Corp., was subject to a take-private bid in the midst of a more operational campaign.

Chi argues that the lack of engagement between management and boards on one hand and the investor and sell-side community on the other often leads to decisions that fail to take shareholder interests into consideration. “Due to the low valuation of listed companies which are often lower than in the private market, it is highly lucrative for major shareholders to privatize the companies and retain the upside and strong cashflow for themselves,” he told Insightia. “Our main job is to make sure that these privatizations are done at a fair price to minority investors.”



# SINGAPORE DATA

## NUMBER OF SINGAPORE-HEADQUARTERED COMPANIES PUBLICLY SUBJECTED TO ACTIVIST DEMANDS BY TIME PERIOD



SOURCE: INSIGHTIA / ACTIVISM  
DATA AS OF MAY 3, 2022.

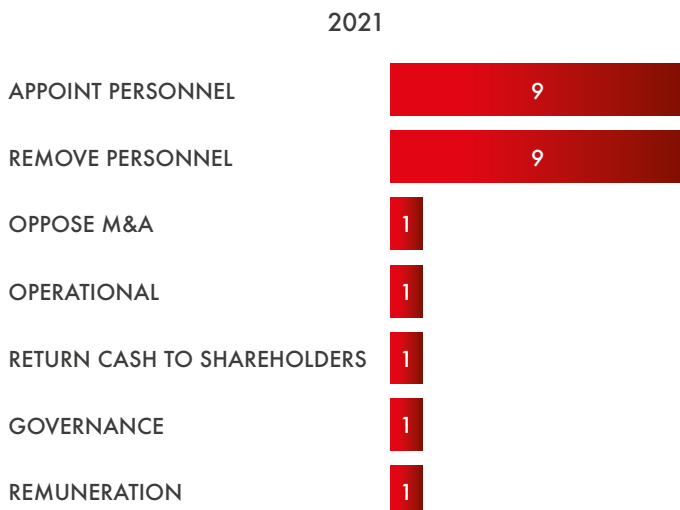
## OUTCOME OF RESOLVED GAIN BOARD REPRESENTATION DEMANDS BY TIME PERIOD AND METHOD, AT SINGAPORE-HEADQUARTERED COMPANIES

SETTLEMENT/ WENT TO VOTE	2017 YTD	2018 YTD	2019 YTD	2020 YTD	2021 YTD	2022 YTD
SETTLEMENT, ACTIVIST WINS AT LEAST ONE SEAT	0	0	1	0	0	0
SETTLEMENT, ACTIVIST WINS NO SEATS	0	2	0	0	0	0
WENT TO VOTE, ACTIVIST WINS AT LEAST ONE SEAT	2	1	0	2	0	2
WENT TO VOTE, ACTIVIST WINS NO SEATS	0	1	0	0	0	0
<b>TOTAL</b>	<b>2</b>	<b>4</b>	<b>1</b>	<b>2</b>	<b>0</b>	<b>2</b>

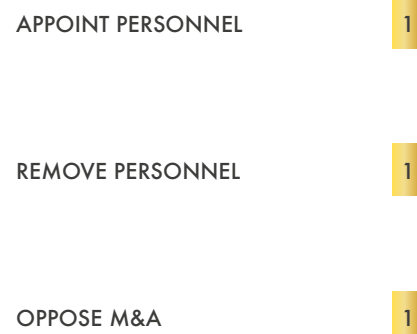
SETTLEMENT/ WENT TO VOTE	2016	2017	2018	2019	2020	2021
SETTLEMENT, ACTIVIST WINS AT LEAST ONE SEAT	3	0	1	1	1	0
SETTLEMENT, ACTIVIST WINS NO SEATS	0	0	2	0	0	0
WENT TO VOTE, ACTIVIST WINS AT LEAST ONE SEAT	2	2	1	0	2	2
WENT TO VOTE, ACTIVIST WINS NO SEATS	3	1	1	0	1	2
<b>TOTAL</b>	<b>8</b>	<b>3</b>	<b>5</b>	<b>1</b>	<b>4</b>	<b>4</b>

SOURCE: INSIGHTIA / ACTIVISM  
DATA AS OF MAY 3, 2022.

## DEMAND TYPE BREAKDOWN OF SINGAPORE-HEADQUARTERED COMPANIES PUBLICLY SUBJECTED TO ACTIVIST DEMANDS BY TIME PERIOD



### 2022 YTD



SOURCE: INSIGHTIA / ACTIVISM  
DATA AS OF MAY 3, 2022.







CHINA AND HK

# CHINA AND HONG KONG ACTIVISM STAGNATES

SHAREHOLDER ACTIVISM IN CHINA AND HONG KONG HAS SLOWED SINCE 2019 AND IS UNLIKELY TO SEE THE SAME BOOM AS WITNESSED IN OTHER PARTS OF ASIA, GIVEN THE NATURE OF COMPANY OWNERSHIP STRUCTURES, WRITES JOE LYONS.







Up until May 3, 2022, only three companies in China and Hong Kong had publicly been subjected to activist demands, the joint lowest start to the year since 2014. All three were headquartered and listed in Hong Kong.

That contrasted with the first four months of 2021, when the six companies targeted, a range of small- or nano-caps, were headquartered in China and listed on a multitude of stock exchanges.

Campaigns have been declining in the two markets since 2016 when there were 27 companies targeted in the full year; only 18 companies were subjected to activist demands in each of 2020 and 2021.

Demands to appoint or remove personnel have dominated since 2013. Pro-M&A demands have declined since 2020, with five in that year and only one since.



**IN CHINA LAWS GOVERNING FOREIGN INVESTMENT CONTRIBUTE TO THE DEARTH OF ACTIVISM.**



### OWNERSHIP AND STRUCTURE

"Ownership of many companies in China and Hong Kong is comprised of family-controlled firms or Chinese state-owned enterprises (SOEs)," Cas Sydorowitz, Global CEO of Georgeson, told Insightia in an email, adding that in China laws governing foreign investment contribute to the dearth of activism and means that most activist campaigns are by foreign investors at companies listed outside of the country.

The structure of Nam Tai Property, which is headquartered in China, but sits on the New York Stock Exchange, made it possible for an activist investor to call for change at the real estate company in one of the most interesting campaigns in the region over the last couple of years.

During a protracted campaign that began in 2020, IsZo Capital Management saw its six-person slate appointed to the Chinese property company's board. The activist was critical of the

influence Hong Kong based investment holding company Kaisa Group held over Nam Tai as its largest investor.

"Kaisa's unrelenting focus on its own interests above all else has destroyed nearly 70% of Nam Tai's market capitalization and left the company without any strategic direction or credible plan for enhancing shareholder value," IsZo said in September 2020.

IsZo had to go to court to get a date for a shareholder vote, where 94% of investors unaffiliated with Kaisa voted for the board overhaul, leading Kaisa to exit its position shortly after losing the contest.

### HONG KONG DIFFICULTIES

In Hong Kong, even though foreign investment is less inhibited than in China, most listed companies are controlled by founders or their families, or at least dominated by significant stockholders, which makes an activist's job difficult.

The most recent example of activism in the country was also at an unusually open company. In April, Chinese insurer Ping An called on global bank HSBC to spin off its Asian operations. The \$125 billion bank has a dual primary listing on the Hong Kong Stock Exchange and the London Stock Exchange and the split would see the two banks sit separately on these exchanges.

HSBC earned 52% of last year's total revenue of \$49.5 billion from Asia, which is one reason Ping An wants the bank to consider the split. However, according to Reuters, some analysts believe the agitation is more politically motivated than financial.



**HISTORICALLY, ASIAN COMPANIES PERCEIVED SHAREHOLDER ACTIVISM AS A U.S. ISSUE.**



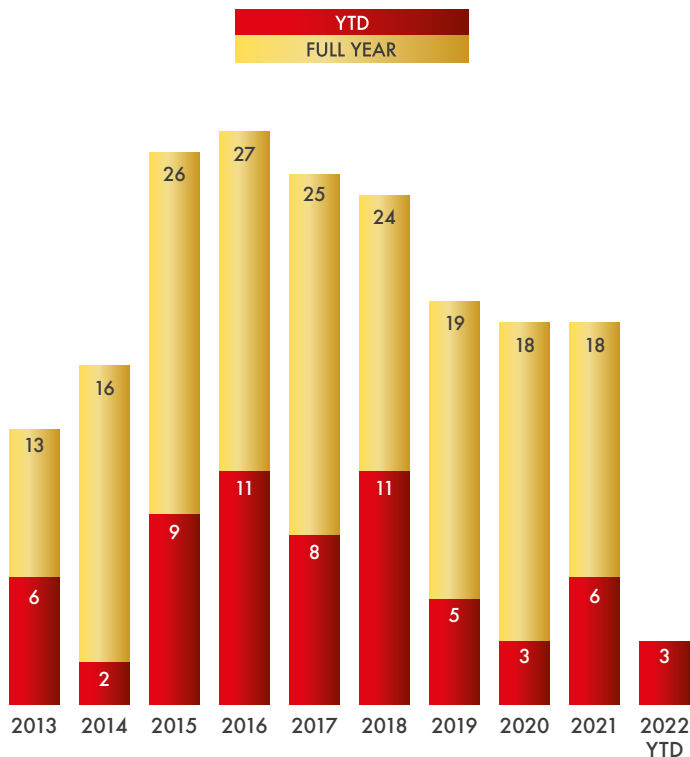
"Historically, Asian companies perceived shareholder activism as a U.S. issue. However, in the past couple of years, activist investors have acquired equity stakes in some of Asia's highest profile companies," said Sydorowitz. ■





# CHINA AND HK DATA

NUMBER OF CHINA- AND HONG KONG-  
HEADQUARTERED COMPANIES PUBLICLY SUBJECTED  
TO ACTIVIST DEMANDS BY TIME PERIOD



SOURCE: INSIGHTIA / ACTIVISM  
DATA AS OF MAY 3, 2022.

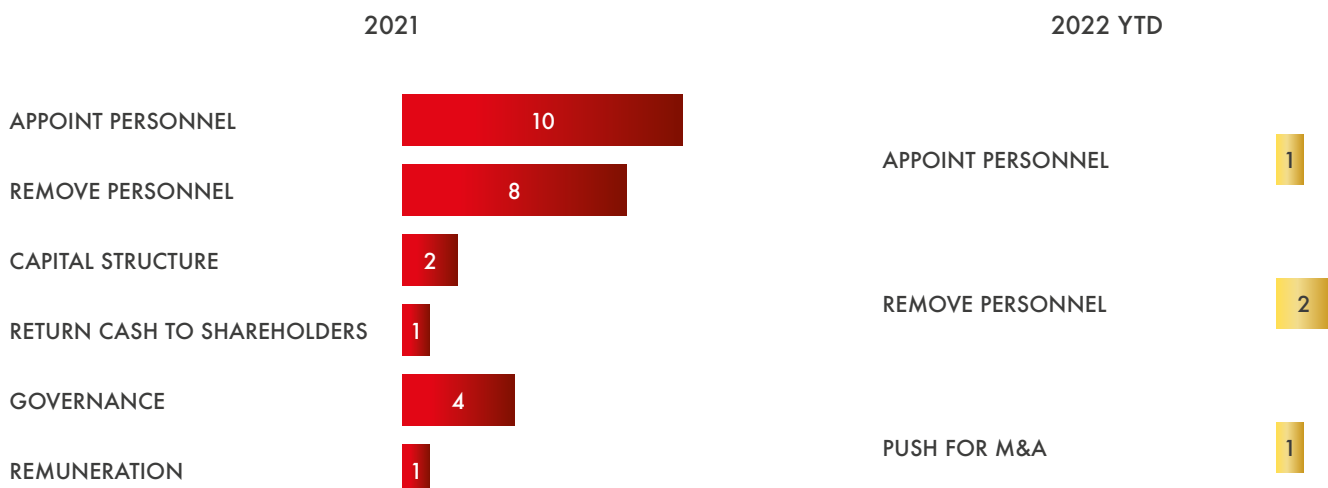
OUTCOME OF RESOLVED GAIN BOARD  
REPRESENTATION DEMANDS BY TIME PERIOD  
AND METHOD, AT CHINA- AND HONG KONG-  
HEADQUARTERED COMPANIES

SETTLEMENT/ WENT TO VOTE	2015 YTD	2016 YTD	2017 YTD	2018 YTD	2019 YTD	2020 YTD
SETTLEMENT, ACTIVIST WINS AT LEAST ONE SEAT	0	0	1	0	0	1
WENT TO VOTE, ACTIVIST WINS AT LEAST ONE SEAT	0	1	1	4	2	1
WENT TO VOTE, ACTIVIST WINS NO SEATS	1	0	1	1	3	1
<b>TOTAL</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>5</b>	<b>5</b>	<b>3</b>

SETTLEMENT/ WENT TO VOTE	2016	2017	2018	2019	2020	2021
SETTLEMENT, ACTIVIST WINS AT LEAST ONE SEAT	0	1	1	4	4	0
WENT TO VOTE, ACTIVIST WINS AT LEAST ONE SEAT	8	5	9	5	3	6
WENT TO VOTE, ACTIVIST WINS NO SEATS	3	6	3	4	2	5
<b>TOTAL</b>	<b>11</b>	<b>12</b>	<b>13</b>	<b>13</b>	<b>9</b>	<b>11</b>

SOURCE: INSIGHTIA / ACTIVISM  
DATA AS OF MAY 3, 2022.

DEMAND TYPE BREAKDOWN OF CHINA- AND HONG KONG-HEADQUARTERED COMPANIES  
PUBLICLY SUBJECTED TO ACTIVIST DEMANDS BY TIME PERIOD



SOURCE: INSIGHTIA / ACTIVISM  
DATA AS OF MAY 3, 2022.

# SHORT SELLING IN ASIA

**SHORT SELLERS HAVE STRUGGLED TO FIND NEW OPPORTUNITIES DURING THE PANDEMIC AND THE BOTTLENECK MAY CONTINUE FOR THE FORESEEABLE FUTURE, WRITES MILES ROGERSON.**





## SHORT SELLING IN ASIA

Short selling campaigns have been subject to a steady decline globally in recent years, and Asia is no exception. Despite historically being the second-most targeted region by short sellers, the number of campaigns in the region plummeted by 86% between January 1 and May 3, compared to the same period in 2021.

Many governments in Asia were swift to implement bans on short selling when COVID-19 hit global equity markets in early 2020 and maintained tight restrictions much longer than their western counterparts. Thailand's restrictions were held until the end of 2020, South Korea's complete ban on the practice was kept in place until March 2021, and Malaysia only lifted its short selling ban in January this year.

“ASIAN MARKETS HAVE  
STRUGGLED WITH  
LOW VALUATIONS AND  
DECLINING LIQUIDITY.

### INTIMIDATING ENVIRONMENT

The COVID-19 pandemic has played its part by creating an “intimidating environment for new activist shorts to try and enter the market,” Muddy Waters founder Carson Block told Insightia in an interview.

Even established foreign investors such as Bonitas Research, The Street Sweeper, Emerson Analytics, Glaucus Research Group, and GeoInvesting have been inactive in the region for at least the last two years as a halt in international travel has limited opportunities for due diligence on potential targets.

Yet despite the strict regulations across Asia, short campaign profitability increased in 2021, with the average one-week campaign return rising from -0.13% across 28 campaigns in 2020 to 4.26% across 17 campaigns in 2021, Insightia *Shorts* data reveal.

China-based companies have been subject to more short campaigns than those in other Asian countries over the past nine years and while this trend continued in 2021, the number of campaigns in China dropped 44%, from 23 in 2020 to just 13 the following year.

### FEWER ESG OPPORTUNITIES

“The reason that short sellers have not focused on Asia in the last two years is that the best short opportunities have been in the ESG space and predominantly in the U.S. markets,” said Blue Orca Capital's chief investment officer Soren Aandahl, in an interview.

In contrast, “Asian markets have struggled with low valuations and declining liquidity,” which Aandahl said makes short candidates less attractive.

Even so, short activists have tried to raise ESG concerns. In one such campaign this year, Bleecker Street Research accused Chinese manufacturer Daqo New Energy of benefitting from modern slavery in its supply chain. Bleecker argued that Daqo's \$3 billion net worth is expected to drop by 75% within one year.

Another notable development in 2022 was the first accusation of “overleveraging” since 2017. Grizzly Research accused online gaming company Playtika Holding of being “recklessly stripped of its cash and loaded with debt” just prior to its initial public offering (IPO).

“THE DWINDLING SHORTS MARKET  
IN ASIA MAY CONTINUE EVEN  
AS BORDERS AND RESTRICTIONS  
EASE, WITH CONCERN  
MOUNTING IN THE U.S. OVER  
FRAUDULENT PRACTICES AMONG  
CHINESE FIRMS.

The dwindling shorts market in Asia may continue even as borders and restrictions ease, with concern mounting in the U.S. over fraudulent practices among Chinese firms. China's refusal to allow Public Company Accounting Oversight Board (PCAOB) to conduct inspections of audit firms which oversee U.S.-listed Chinese companies has “significantly contracted” the universe of potential Asia shorts, Aandal warned.

Asia may no longer be the veritable source of short campaigns that it was pre-pandemic. ■

# SHORT SELLING DATA

NUMBER OF ACTIVIST SHORT CAMPAIGNS AT ASIA-BASED COMPANIES PER YEAR, BY ALLEGATION

ALLEGATION	2018	2019	2020	2021	2022 YTD
ACCOUNTING FRAUD	6	8	14	4	0
BUBBLE	1	2	0	0	0
COMPETITIVE PRESSURES	1	0	1	0	0
DIVIDEND CUT COMING	0	0	0	0	0
INDUSTRY ISSUES	0	0	1	0	0
INEFFECTIVE ROLL-UP	0	0	0	0	0
MAJOR BUSINESS FRAUD	4	5	6	7	0
MEDICAL EFFECTIVENESS	1	3	0	0	0
MISLEADING ACCOUNTING	0	3	3	2	0
OTHER OVERVALUATION	0	2	1	1	0
OTHER ILLEGAL	1	2	0	1	1
OVER-LEVERED	0	1	2	0	0
PATENT EXPIRATION	0	0	0	0	0
PATENT INVALID	0	0	0	0	0
PRODUCT INEFFECTIVE	0	0	2	1	0
PYRAMID SCHEME	0	1	2	1	0
STOCK PROMOTION	1	2	3	2	0
UPCOMING EARNINGS MISS	1	0	0	0	0

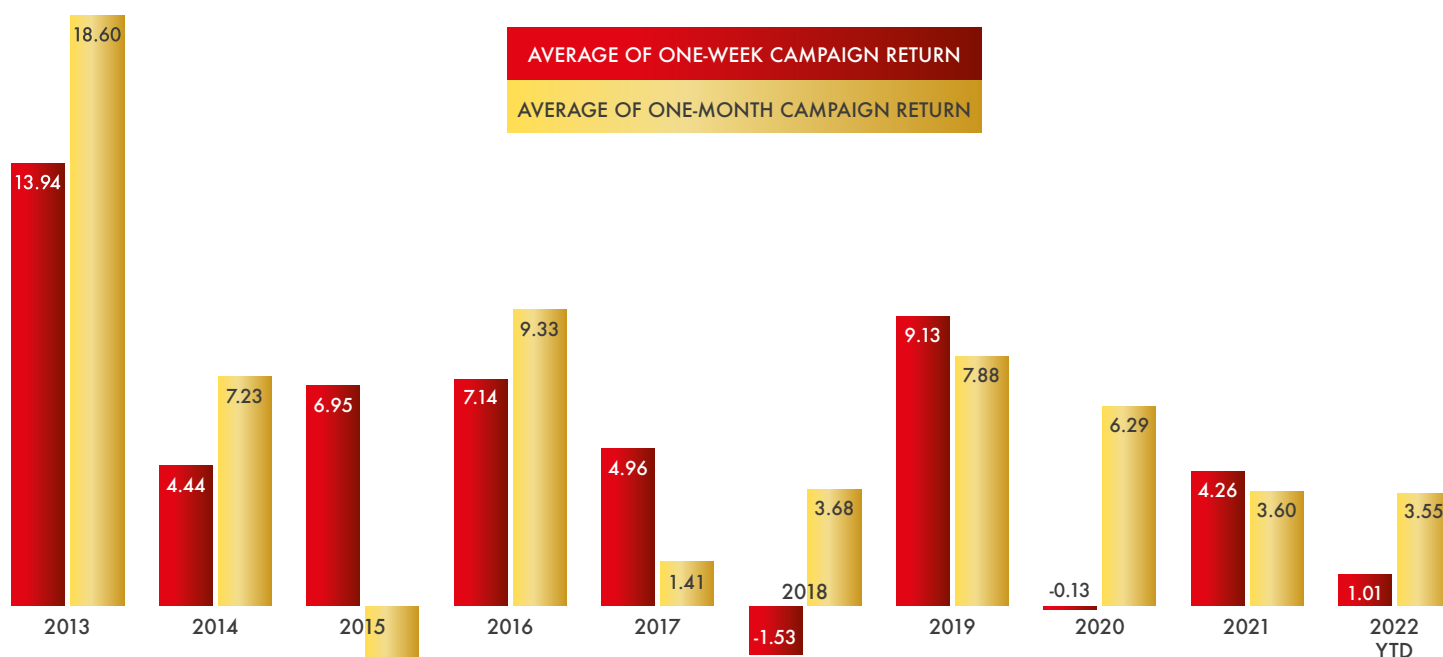
SOURCE: INSIGHTIA / SHORTS  
DATA AS OF MAY 3, 2022.

NUMBER OF ACTIVIST SHORT CAMPAIGNS BY THE TOP 10 ACTIVIST SHORT SELLERS AT ASIA-BASED COMPANIES 2013 - 2022

GEOINVESTING (FG ALPHA MANAGEMENT)	28
MUDDY WATERS RESEARCH	16
GLAUCUS RESEARCH GROUP	14
J CAPITAL RESEARCH	12
EMERSON ANALYTICS	11
BLUE ORCA CAPITAL	9
BONITAS RESEARCH	9
GRIZZLY RESEARCH	7
CITRON RESEARCH	6
WELL INVESTMENTS RESEARCH	6
HINDENBURG RESEARCH	6

SOURCE: INSIGHTIA / SHORTS  
DATA AS OF MAY 3, 2022.

AVERAGE ONE-WEEK AND ONE-MONTH CAMPAIGN RETURNS FOR ACTIVIST SHORT CAMPAIGNS AT ASIA-BASED COMPANIES



\* POSITIVE RETURNS REFLECT A SUCCESSFUL SHORT INVESTMENT.

SOURCE: INSIGHTIA / SHORTS  
DATA AS OF MAY 3, 2022.



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