

CASE STUDY

November 2019

TENCENT



Engagement objective: **Governance/Social**

Board diversity – gender

In August 2019, Tencent appointed its first female director following Hermes EOS engaging with the company on gender equality. We believe that by encouraging change at Tencent, there will be a multiplier effect on other technology companies, both in China and globally.

Background

The technology sector has been dominated by men, especially in leadership positions. Since the company was listed in 2004, Tencent Holdings Limited (Tencent) has had a 100% male-dominated board until this August, despite having female senior management in vice president roles. Ensuring diversity of board oversight is vital to good decision-making which helps build a long-term sustainable business that operates in the interests of all stakeholders.

Company overview

Tencent, founded in 1998, is one of the world's largest technology companies. Its businesses include value-added services across communications and social platforms, games and digital content, online advertising as well as mobile payment, FinTech and cloud services. Tencent promotes technological innovation and the internet industry with partners in various areas, such as artificial intelligence (AI) and smart industries in a wide range of sectors including: education, finance, healthcare, municipal services, retail and transportation.

Sustainable Development Goal



Our engagement

We initiated engagement on board diversity after we strengthened our corporate governance principles for the mainland China and Hong Kong market¹ at the start of 2019. In our principles we state that we perform our assessment of diversity at both board and management levels to ensure that the leadership team has a suitable combination of talents. We expect boards to have at least one female director by 2019 and be comprised of at least 20% women by 2020. We apply these principles to our engagement and voting guidelines and identified Tencent as one of the top targets to engage on board-level gender diversity.

We met the senior legal counsel and wrote to the company's chair to call attention to the... higher expectations on the board nomination and process on diversity

In the first quarter of 2019, we met the senior legal counsel and wrote to the company's chair to call attention to the amended Hong Kong Corporate Governance Code of July 2018 which set higher expectations on the board nomination process and on diversity. We also highlighted that in October 2018 the chief executive of Hong Kong called for all listed companies to appoint more women as board members².

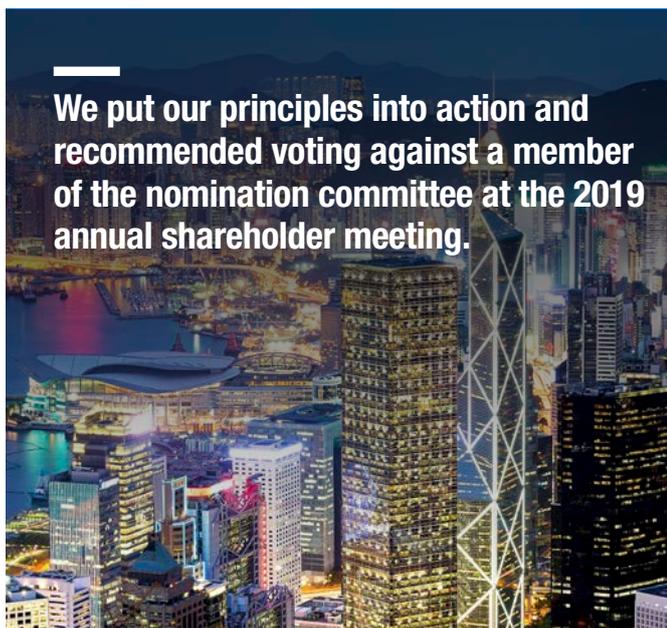
¹ <https://www.hermes-investment.com/ukw/wp-content/uploads/2019/02/hermes-eos-corporate-governance-principles-china-and-hong-kong-jan-2019.pdf>

² <https://www.bloomberg.com/news/articles/2018-10-10/pressure-builds-to-open-asia-s-all-male-boardrooms-to-women>

We made recommendations on how to specify talent search criteria to encourage fairer and non-discriminatory practices. We also asked the company to consider reflecting the customer base and business needs when selecting board directors, as a good portion of the company's gamers are women. Female entrepreneurs and customers are also active on its communications platform, WeChat³. China's state media has reported that while women account for only 25% of all entrepreneurs in China, they have founded 55% of new online businesses⁴. This strengthened our argument that improving gender diversity on the board is an imminent and important issue.

We made recommendations on how to specify talent search criteria to encourage fairer and non-discriminatory practices

Director election at Tencent has a three-year cycle and the chair of the nomination committee was not up for election in 2019. Having considered the materiality of the issue and the long-standing relationship with the company, we put our principles into action and recommended voting against a member of the nomination committee at the 2019 annual shareholder meeting. This demonstrated our commitment to pushing for more diversity on the board. We communicated our voting recommendations and rationale to the company, ahead of the vote at our meeting in early May 2019. At the same meeting, we further recommended steps that can be taken to speed up the transformation process.



As a member of the Hong Kong Board Diversity Initiative, we volunteered to share our engagement experience with other investors at a webinar in late May 2019, following the vote. We also reiterated our expectations on gender diversity at our follow-up call with investor relations in May.



Changes at the company

In our meeting with the company in early May 2019, we received confirmation that the board acknowledged that gender diversity throughout the organisation should be improved. The company confirmed its commitment to taking initial steps to grow the talent pool for independent directors, including expanding the search to candidates beyond traditional technology and business backgrounds.

In August 2019, the company successfully appointed a female director with a health science background, one of the key areas where the company is offering smart industry solutions through cloud and innovative technologies.

Tencent continues to implement its board diversity policy to ensure that the board has the appropriate balance of skills, experience and diversity of perspective, to support and take the company forward. Tencent also strives to ensure that a certain percentage of promotions each year go to younger talent to maintain dynamism.

Next steps

For its engagement companies in mainland China and Hong Kong, Hermes EOS has set a board gender diversity target for 2020 as 20% women. With the new female director, Tencent's board is currently standing at 11%. Three of the independent directors have served on the board for more than 15 years, creating future opportunities to improve diversity on the board. We will engage with the company to strengthen board level independence oversight, with the expectation of a more transparent nomination process. This is important especially when there has not been any major change in the board composition since Tencent went public in 2004. We believe that a comprehensive board refreshment plan should be considered.

Gender can be a proxy for diversity in terms of thoughts and culture, but diversity is more than gender. Therefore, we continue to engage on its broader diversity agenda under human capital management, which is material issue in the technology industry, and look for opportunities to set more specific targets at the executive management level.



Christine Chow
Engagement, Hermes EOS



Janet Wong
Engagement, Hermes EOS

³ <https://supchina.com/2017/03/22/chinese-women-wechat-commerce/>

⁴ http://www.chinadaily.com.cn/china/2015-09/22/content_21947630.htm

HERMES INVESTMENT MANAGEMENT

We are an asset manager with a difference. We believe that, while our primary purpose is to help savers and beneficiaries by providing world class active investment management and stewardship services, our role goes further. We believe we have a duty to deliver holistic returns – outcomes for our clients that go far beyond the financial – and consider the impact our decisions have on society, the environment and the wider world.

Our goal is to help people invest better, retire better and create a better society for all.

Our investment solutions include:

Private markets

Infrastructure, private debt, private equity, commercial and residential real estate

High active share equities

Asia, global emerging markets, Europe, US, global, small and mid-cap and impact

Credit

Absolute return, global high yield, multi strategy, unconstrained, real estate debt and direct lending

Stewardship

Active engagement, advocacy, intelligent voting and sustainable development

Offices

London | Denmark | Dublin | Frankfurt | New York | Singapore

Why Hermes EOS?

Hermes EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of public companies. Hermes EOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

For more information, visit www.hermes-investment.com or connect with us on social media:



For professional investors only. The activities referred to in this document are not regulated activities. This document is for information purposes only. It pays no regard to any specific investment objectives, financial situation or particular needs of any specific recipient. Hermes Equity Ownership Services Limited ("HEOS") and Hermes Stewardship North America Inc. ("HSNA") do not provide investment advice and no action should be taken or omitted to be taken in reliance upon information in this document. Any opinions expressed may change. This document may include a list of clients. Please note that inclusion on this list should not be construed as an endorsement of HEOS' or HSNA's services. HEOS has its registered office at Sixth Floor, 150 Cheapside, London EC2V 6ET. HSNA's principal office is at 1001 Liberty Avenue, Pittsburgh, PA 15222-3779. EOS000503. 0007625 11/19.