

## Japan Proxy Voting Guidelines

### 1. Our purpose of formulating proxy voting guidelines

In order to ensure stable and continuous returns for beneficiaries on equity investments, it is important that investee companies operate business that respects the generation of shareholders returns and the maximization of consistent profits over a long term. To achieve this goal, it is essential that the companies have functional corporate governance structure.

We hereby set forth proxy voting guidelines. We believe that exercising proxy voting in compliance with the guidelines would ensure improvement of the companies' corporate governance structure, and thereby maximize long-term shareholders returns.

### 2. Relation between our voting activities and dialogue/ engagement

In proxy voting, we, as a long-term investor, determine whether to support or to vote against a proposal. This is an indication of our evaluation and intention on the governance framework of the investee companies based on the status and result of company dialogues and engagements.

For any proposal on which a decision is not in accordance or could not be determined in accordance with the proxy voting guidelines, we deliberate over the proposal at the Responsible Investment Committee and determine whether to support or to vote against the proposal.

### 3. Proxy voting guidelines

#### (1) Composition of the board

We determine whether to support or to vote against a proposal based on deliberations over the propriety and appropriateness regarding the composition of the board.

- We in principle support a transition from a Company with *Kansayaku* Board to a Company with Supervisory Committee (or a Company with Three Committees (Nomination, Audit, and Remuneration)), or from a Company with Supervisory Committee to a Company with Three Committees.

On the other hand, we in principle vote against a transition from a Company with Three Committees to a Company with Supervisory Committee (or a Company with *Kansayaku* Board), or from a Company with Supervisory Committee to a Company with *Kansayaku* Board.

- Where the size of the board of directors exceeds the level to allow thorough discussions and prompt decision-making (20 members or less), we vote against appointment of representative directors (\*1).
- Where the board of directors does not have at least two independent outside directors appointed to it, we vote against appointment of representative directors (\*1), unless reasonable and compelling explanation is provided. Provided, however, that we support appointment of the

representative directors if there is one independent outside director out of a total three directors on the board.

- We vote against appointment of representative directors (\*1) of a company that has a parent company or controlling shareholder, unless at least one-third of the company's appointments to its board are independent outside directors.
- Where a company reduces the number of outside directors with no reasonable and compelling explanation provided and as a result the ratio of independent outside directors in the board becomes lower than 20%, we vote against appointment of representative directors (\*1).
- Where a company increases the number of inside directors with no reasonable and compelling explanation provided and as a result the number of reelected inside directors exceeds ten, and the ratio of independent outside directors becomes lower than 20%, we vote against appointment of representative directors (\*1).

(\*1) In the case of a Company with Three Committees, we also vote against reappointment of directors who serve as nominating committee members. In addition, where it is not the time of reelecting the representative directors, we vote against appointment of inside directors.

## (2) Board of directors – voting on director nominees

We determine whether to support or to vote against director nominees after deliberations over propriety on the company's business performance, capital efficiency, an eligible nominee's career, qualifications, past business performance, and independence of outside directors.

- Where a company falls under any one of the following situations; having recorded ordinary losses for three consecutive fiscal years; having recorded net losses for three consecutive fiscal years; no dividend distribution for three consecutive fiscal years (excluding a case where ROE is 5% or higher for the three consecutive fiscal years); or in a case of negative shareholders' equity, we vote against appointment of inside directors (\*2) who have been in office for three years or more, unless there is a reliable recovery plan of its business performance or reasonable grounds.
- Where any company that has not efficiently conducted business operations (ROE is less than 5% for three consecutive fiscal years) has high shareholders' equity ratio (70% or more) or excessive cash (Net cash is 25% or more of total assets) or its ROE is ranked in the bottom 25% of the industry for three consecutive fiscal years, we vote against appointment of the representative directors (\*2) who have been in office for three years or more, unless reasonable and compelling explanation is provided.
- We vote against reappointment of any outside director who has insufficiently engaged as director (the rate of attendance at meetings of the board of directors and each statutory committee is below 75%), unless reasonable and compelling explanation is provided. Provided, however, that we vote against reappointment of any outside director who concurrently serves as more than five posts at other companies or the like and made attendances at the rate of lower than 75%, regardless of any reasons.

- We vote against appointment of any outside director having no independence ensured. Provided, however, if there are two independent outside directors accounting for 20% or more of the board members (one-third or more for a company having its parent company or controlling shareholders), we do not call for any further independence of outside directors (\*3).

(\*2) In the case of a Company with Three Committees, we also vote against reappointment of directors who serve as nominating committee members.

(\*3) This does not apply to outside directors of a Company with Three Committees, and to outside directors who serve as supervisory committee members of a Company with Supervisory Committee.

If any outside director has any of the following relationships with the company, or the company does not file a notification of the outside director as independent officer to financial instruments exchanges, we deem the independence as questionable, unless reasonable and compelling explanation is provided.

- (i) Has (had) an engagement with a major shareholder (holding more than 10% of the shares) (\*4)
- (ii) Has served (served) for the parent company or an affiliated company (\*4)
- (iii) Used to be in a position to execute business at the company (\*4)
- (iv) Has served for a major business partner (including a financial institution) (\*5)
- (v) Has received a compensation such as advisory service contract fee other than director compensation from the company (\*6)
- (vi) Has served for an auditing firm responsible for the company; and
- (vii) Is a relative (within third degree of kinship) of an inside director of the company

(\*4) If the nominee has not served for the company or has not had an engagement with a major shareholder within the last ten years, we see that the independence is ensured.

(\*5) When the transaction amount exceeds 2% of net sales of the both companies (in the case of a financial institution, the borrowings exceed 2% of the company's total assets), it is deemed to be a major business partner. Provided, however, that in case numbers and figures cannot be checked, all companies having business transactions are deemed to be major business partners.

(\*6) If there is no advisory service contract and the compensation is ¥10 million or less, the relationship is deemed to have no impact on the independence.

### (3) Appointment of *Kansayaku* and composition of the *Kansayaku* board

We determine whether to support or to vote against a proposal after deliberations over propriety regarding an eligible nominee's career, qualifications, past performance of executing duties, and independence of outside kansayaku.

- Where a company reduces the total number of kansayaku or the number of outside kansayaku with no reasonable and compelling explanation, we vote against appointment of the representative directors (\*7).

(\*7) Where it is not the time of reelecting the representative directors, we vote against appointment of inside directors.

- We vote against reappointment of any outside kansayaku who has insufficiently engaged as kansayaku (the rate of attendance at meetings of the board of directors and the board of kansayaku is below 75%), unless reasonable and compelling explanation is provided. Provided, however, that we vote against reappointment of any outside kansayaku who concurrently serves as more than five posts at other companies or the like and made attendances at the rate of lower than 75%, regardless of any reasons.
- We vote against appointment of any outside kansayaku having no independence ensured.

The independence of outside kansayaku is defined in the same manner as that of outside directors.

#### (4) Director compensation, etc.

We determine whether to support or to vote against a proposal based on deliberations over propriety with regard to the level and the mechanism of director compensation, etc.

##### (i) Changes to amount of director compensation

- We vote against a change to amount of director compensation unless there are reasonable grounds.
- In instances of voting against an increase in the number of inside directors, we also vote against a raise of amount of director compensation for the reason of the increase in the number of inside directors.
- Where a company falls under any one of the following situations; having recorded ordinary losses for three consecutive fiscal years; having recorded net losses for three consecutive fiscal years; no dividend distribution for three consecutive fiscal years (excluding a case of ROE is 5% or higher for the three consecutive fiscal years); or in a case of negative shareholders' equity, we vote against a raise of amount of director compensation.

##### (ii) Director bonuses

- Where the company proposes bonus be paid despite a net loss recorded for the period under review, we vote against the payment.
- Where the company proposes bonuses be paid to outside directors, directors who serve as supervisory committee members and kansayaku, we vote against the payment.

##### (iii) Retirement bonuses

- We vote against payment of retirement bonuses to outside directors, directors who serve as supervisory committee members and kansayaku.

- Where a company falls under any one of the following situations; having recorded ordinary losses for three consecutive fiscal years; having recorded net losses for three consecutive fiscal years; no dividend distribution for three consecutive fiscal years (excluding a case of ROE is 5% or higher for the three consecutive fiscal years); or in a case of negative shareholders' equity, we vote against payment of retirement bonuses.

(iv) Stock options

- We support a proposal that we consider to be effective as an incentive program.
- We vote against a proposal of granting stock options to outside directors, directors who serve as supervisory committee members, kansayaku and persons outside the company.
- We vote against a proposal of granting stock options in instances where the potential rate of dilution (including unexercised stock options) exceeds 5% of the issued shares.
- We vote against a proposal of lowering an exercise price, unless reasonable and compelling explanation is provided.
- We vote against a proposal of setting the exercise price to be lower than the market price. Provided, however, that this may not apply to a stock options as stock-based compensation with share price conditions (stock acquisition rights with the strike price of JPY1).
- We vote against a proposal in instances where a period before the start date of exercise is less than two years. Provided, however, that this does not apply to instances where it is exercisable only after retirement.

(v) Stock compensation, etc.

- Standards on stock options apply mutatis mutandis.
- Provided, however, that we support a proposal of providing stock compensations to outside directors, directors who serve as supervisory committee members as fixed compensation, not performance-linked compensations, unless it is excessive. (as a general rule, in the case of the ratio of cash to shares is less than 1 to 0.3, or ¥5 million or less, it is not expensive)

(5) Appropriation of surplus

We determine whether to support or to vote against a proposal concerning appropriation of surplus based on deliberations over propriety with regard to shareholder return policies and the level of retained earnings.

- We vote against a proposal of appropriating surplus in instances where a company attempts to further accumulate retained earnings despite low market evaluation (the P/B ratio is lower than 1.0) and high shareholders' equity ratio (70% or more) or excessive cash (Net cash is 25% or more of total assets), unless reasonable and compelling explanation is provided. Provided, however, that this may not apply to instances where a total return ratio exceeds 50%.
- Where the market evaluation is low (the P/B ratio is lower than 1.0) and high shareholders' equity ratio (70% or more) or excessive cash (Net cash is 25% or more of total assets), we vote against a proposal of appropriating surplus, unless reasonable and compelling explanation is

provided. Provided, however, that this may not apply to instances where a total return ratio exceeds 50%.

- We vote against a proposal for reappointing directors in instances where decision on paying dividends is made by the board of directors rather than at the shareholders meeting, unless reasonable and compelling explanation is provided.
- We vote against a proposal of appropriating surplus of a company that pays dividends despite net losses recorded for three consecutive fiscal years, if we conclude the financial stability should be prioritized.

#### (6) Capital policy

We determine whether to support or to vote against a proposal concerning capital policy upon deliberations over a matter proposed with respect to its propriety including impacts on shareholder value.

- We support company proposals in principle concerning the following capital policies:
  - Mergers, transfer of business and corporate splits
  - Share buybacks
  - Issuance of new shares including class stock
- Provided, however, that we vote against a proposal that is deemed to be clearly prejudicial to shareholder value.
- We vote against a proposal of merger, demerger or the like if the company do not obtain a valuation report from an independent outside financial adviser, which ensures fairness and transparency.
- We support a proposal of disposal of treasury stock through allocations to foundation for the purpose of raising funds for establishing and supporting a foundation, in instances where such establishing and supporting the foundation would contribute to enhancing shareholder value over the medium to long term, the dilution rate would be within a certain level (3% or less), and voting rights would not be exercised or would be exercised by a third party based on appropriate standards (\*8).

(\*8) The case of a trust form where a trustee exercises voting rights in accordance with standards developed based on stewardship responsibilities

#### (7) Anti-takeover measures

We determine whether to support or to vote against a proposal of introducing or maintaining anti-takeover measures based on thorough considerations on the notion of whether or not the purpose or specifics would contribute to enhancing shareholder value.

- We vote against a proposal of anti-takeover measures that does not meet any one of the following standards:
  - At the time of introducing the measures, it is presented as a proposal at a shareholders meeting.

- A reasonable and compelling explanation that would contribute to enhancing shareholder value is provided.
- The board of directors has two independent outside directors accounting for at least one-third of the board.
- In the case where it has an independent committee, independence of all the members is ensured. The independence of members of the committee is defined in the same manner as that of outside directors.
- There is a provision of the effective period (up to three years).
- There is no possibility that the period for an acquiree to consider a proposal from an acquirer will be extended indefinitely.
- With regard to the share acquisition rights allocated to an acquirer, there is no provision included to ensure an acquiree would be able to acquire the rights by delivering economic consideration.
- There is no dead-hand clause.
- It is not an introduction of class stock with veto rights or class stock with multiple voting rights.
- It is not a company that falls under any one of the following situations; having recorded ordinary losses for three consecutive fiscal years; having recorded net losses for three consecutive fiscal years; no dividend distribution for the three consecutive fiscal years (excluding a case of ROE is 5% or higher for the three consecutive fiscal years); or in a case of negative shareholders' equity, and receives a low market evaluation (the P/B ratio is lower than 1.0).
- In addition, we vote against anti-takeover measures that meet none of the following standards:
  - The board of directors is comprised of a majority of independent outside directors.
  - The independent committee takes the lead in negotiations and decision-making.
  - Triggering requirements are clear and the measures would be taken in accordance with a recommendation of the independent committee.
  - Prior to implementing measures, the company would seek a decision at a shareholders meeting.
- We vote against reappointment of directors in instances where the anti-takeover measures are maintained by a decision of the board of directors without obtaining an approval at a shareholders meeting and where the above standards are not met.

(8) Amendments to the articles of incorporation

We determine whether to support or to vote against a proposal of amending the articles of incorporation based on thorough considerations over the reason for the amendment with respect to its propriety and taking impacts on shareholder value into consideration.

- We vote against proposals of following amendments to the articles of incorporation in principle, unless reasonable and compelling explanation is provided.

- Relax the quorum for special resolutions
- Extend or adjust directors' terms of office (staggered appointments)
- Increase the number of authorized shares that exceed twice the number of issued shares
- Add requirements for a resolution to dismiss directors
- Limited liability agreement with accounting auditors
- Move a resolution over dividend of surplus from the shareholders meeting of to the board of directors (except instances where at least two independent outside directors are accounting for 20% or more of the board)

(9) Anti-social behavior

We identify companies having conducted an act which is problematic from the standpoint of social responsibilities, such as act of legal violation, act on which an administrative punishment was imposed, act being offensive to public order and morals, accounting fraud, inappropriate action on environmental issues, as companies that have engaged in “anti-social behavior” and we determine whether to support or to vote against a proposal based on considerations on the notion of strengthening corporate governance.

- We vote against a proposal of reappointing directors and/or kansayaku who are liable in instances where the reappointment is deemed to be clearly prejudicial to shareholder value.
- We also vote against a proposal of paying director bonuses and paying retirement bonuses to directors and/or kansayaku who are liable.

(10) Shareholder proposals

We determine whether to support or to vote against a proposal based on thorough considerations on the notion of whether or not shareholder proposal would contribute to enhancing shareholder value. Meanwhile, our guidelines on proxy voting place consideration particularly on the notion of whether or not the companies meet our standards in terms of their governance frameworks and financial practices.

We determine whether to support or to vote against a proposal based on thorough considerations on the notion of whether or not shareholder proposal would contribute to enhancing shareholder value and whether or not the companies meet our standards in terms of their governance frameworks and financial practices.

As shareholder proposals include matters regarding environmental and social issues and other matters in a variety of realms, we thoroughly consider the notion of whether or not shareholder proposals would contribute to enhancing shareholder value over the medium to long term, and whether or not they would better protect the rights of shareholders.

(11) Appointment of accounting auditors

- We support a proposal for appointing accounting auditors in principle, but we vote against the proposal in instances where there is deemed to be questions with respect to a reason for changing



accounting auditors.

(12) Other proposals

- We determine whether to support or to vote against a proposal upon deliberations over a matter proposed with respect to its propriety and impacts on stock value.
- We will vote against a proposal if disclosure regarding the proposal is insufficient and inadequately explained.