



2020 Japan Proxy Season Review

November 2020

■ Executive Summary	Overview -----	P3
■ Key Findings	Trend-1. Boards ----	P8
	Trend-2. Covid-19 ---	P11
	Trend-3. Activism ---	P16
	Other Trends -----	P20

Note

The following data analysis has been prepared based on voting results published as of 14 July 2020.
Following the discovery of certain misprocessing in vote tabulation at Sumitomo Mitsui Trust and Banking and Mizuho Trust and Banking in September, applicable companies have revised their data.
Footnotes have been added for differences of 1% or more.

Executive Summary (Overview)

Average approval rates (simple average) at June 2020 AGM higher than last year

Chart 1: June 2020 AGM resolutions of TOPIX Companies*

Resolutions	TOPIX Companies who held AGM in June 2020							
	Number of Companies	% YoY	Number of Resolutions	% YoY	Number of Candidates	% YoY	Average Approval Rate	% YoY
Appropriation of Earnings	962	▲ 60	962	▲ 60			98.81	1.52
Amendments to Articles of Incorporation	256	▲ 56	262	▲ 53			98.19	0.64
Election of Directors	1,366	▲ 65			11,549	▲ 870	95.48	0.77
Internal Directors	1,345	▲ 72			7,646	▲ 1,055	95.60	0.71
External Directors	1,265	▲ 61			3,903	185	95.26	0.97
Election of Auditors (including substitutes)	752	▲ 98			1,670	▲ 244	94.94	1.48
Internal Auditors	441	▲ 65			546	▲ 72	97.35	0.98
External Auditors	662	▲ 84			1,124	▲ 172	93.78	1.70
Remuneration Policy	128	▲ 5	182	0			98.38	1.02
Performance Linked Remuneration	175	▲ 14	179	▲ 16			95.59	1.11
Stock Options	42	▲ 11	45	▲ 16			93.66	2.40
Payment of Bonus	102	▲ 14	103	▲ 14			95.70	1.18
Retirement Bonus	87	▲ 14	93	▲ 24			84.85	0.92
Poison Pill	66	2	66	2			73.08	1.14
Shareholder Resolutions	37	1	181	34			12.31	▲ 1.20

* 1,448 AGMs were held by TOPIX-listed companies. (approximately 2/3 of 2,169 TOPIX companies as of end June)

*Companies whose fiscal year ends in March must by law prepare their financial statements by end June. This is the reason why AGMs are held in June. This year, because of COVID-19, the Japanese Financial Services extended the deadline for the preparation of financial statements to September. A total of 56 companies delayed their AGMs.

Key takeaways at 2020 June AGM

1. Board of Directors independence increased:

- Last year, 1/3 Board of Directors independence requirement was introduced by several major investors.
- As of 14 August, over half of TOPIX listed companies have 1/3 or more independent outsiders in BOD and 6% of TOPIX listed companies are majority independent.
- 1/3 Board of Directors independence is no longer the most critical threshold.
- Focus seems to be shifting to the effectiveness and the quality of governance – the quality of Board discussions and the advice and monitoring of independent directors including the effectiveness of committees.

2. More focus on corporate sustainability and contingency measures against the impact of COVID-19 pandemic.

- 1) Financial resilience and human resource factors
Proxy voting advisors and institutional investors were explicit and more flexible about this issue in voting decision. This trend is likely to continue on the part of Japanese institutional investors..
- 2) Financial audit delays were limited:
Despite concerns, only 56 companies were forced to delay their AGM due to delays in financial audits.
- 3) Virtual AGM attracted much interest but was not ready for full implementation both from legal and technological perspectives:
A limited number of companies provided virtual access to AGMs with webcasting and online Q&A.
Most companies tried to limit the number of physical attendees and promoted electronic voting.

3. Activism in shareholder proposals: thriving but not much success:

- While fund activism was even more thriving, shareholders were not so much encouraged to support them this year, despite receiving positive recommendations from proxy voting advisors for many proposals. The average approval rate fell for the first time since 2015.
- A noteworthy event was Japan's first ever climate related shareholder proposal at Mizuho Financial Group. Support was relatively high at 34.0%.

Key trends in corporate governance and looking toward 2021 AGM

4. 2021 Revision of Japan Corporate Governance Code (“CG Code”):

- The CG Code is due to be revised in 2021 prior to the planned restructuring of Tokyo Stock Exchange's listing structure. The Japan Financial Service Agency's Follow-Up Committee resumed and started discussion in October, 2020.
- Key topics in the discussion will likely be reflected in proxy voting guidelines of institutional investors.
- After the restructuring of the Tokyo Stock Exchange's listing market late next year, companies listed on the newly restructured Prime market will be subject to higher standards of corporate governance.
- In light of this movement, there are a number of domestic institutional investors moving to increase the minimum requirement for board independence and strengthening their stewardship activities.

5. Outlook for AGM 2021-2022:

- In addition to the above, a key topic to watch out for at next couple of year's AGM is so-called “Cross-Shareholdings”.

While the term “Cross-Shareholdings”(Translated into English from undefined Japanese word “SEISAKU – HOYU KABU” = “shareholding based on strategic corporate policy”) is not clearly defined, many institutional investors and policymakers believes that Japanese Corporates should significantly reduce the size and the number of such shareholdings. Original meaning of “Cross-Shareholdings” came from “KABUSHIKI – MOCHIAI” where company X and company Y holds each others' shares with voting rights to mutually establish stable base of business relationship and supportive votes at shareholder meetings. There have been mixed views about this issue on how to measure the excessiveness or how to treat literally strategic holding of stocks of other companies in general.

- ISS has drafted a new policy on “**Cross-Shareholdings**” to be incorporated into its standard policy on Japan to be applied from February of 2022 aiming at more reduction of such so-called “Cross-Shareholdings”.
- Disclosure and engagement on Cross-Shareholdings becomes very important for both corporates and investors.

Key Findings

In

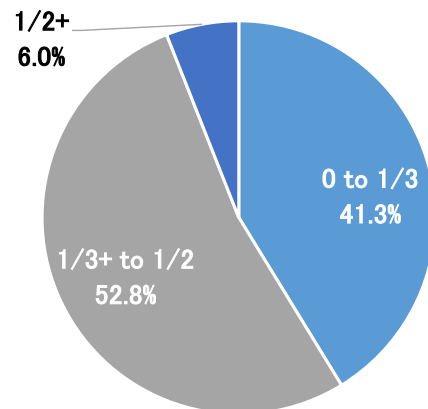
Corporate Governance, Covid-19, Shareholder Activism, Engagements, ESG

The following section highlights key takeaways from June 2020, the peak of proxy season in Japan, where 1,448 AGMs were held by TOPIX companies.
(approximately 2/3 of 2,169 TOPIX companies as of end June)

Trend 1: Over half of TOPIX company Boards are now 1/3 or more independent

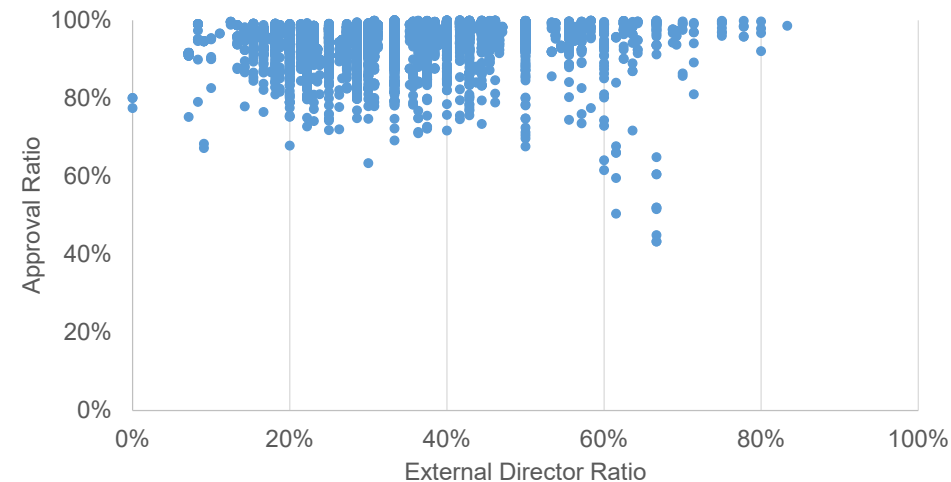
- The independence of Japanese Boards continues to increase. **As of 14 August, over half of Tokyo Stock Exchange Section 1 listed companies have 1/3 or more independent directors.** 6% are majority independent.
- Reasons for this include:
 - Revised Company Act: Require at least one external director**
 - Stricter Proxy Voting Guidelines of **Japanese institutional investors**:
A number of major investors **revised their guidelines in 2019 to require 1/3 independent directors**
 - Revised Guidelines (ISS (2020), Japanese institutional investors (2020)) for companies with a controlling shareholder:
Require 1/3 independent directors
- Glass Lewis also revised their Japan Guidelines in 2020 to recommend voting against independent directors affiliated with strategic investors.

Chart 1: Distribution of Board Composition of TOPIX Companies
(Proportion of Independent Directors)



Source: Tokyo Stock Exchange

Chart 2: Proportion of External Directors and Top Management
(Inside Director Sub Resolutions 1 and 2) Approval Ratio*



*Data: TOPIX companies who held their AGM in June 2020

Source: JSS based on Quick, Bloomberg, Other Publicly Available Information

Trend 1: Focus now on quality of independent director oversight

- Over half of Tokyo Stock Exchange Section 1 listed companies now have 1/3 or more independent directors.
The **priority for Japanese corporate governance is no longer seen as simply increasing the number of independent directors.**
- Focus is shifting to the **quality of governance – the quality of Board discussions and the advice and monitoring of independent directors**, and corporate focus on capital efficiency and shareholder and other stakeholder interests.
- On July 31 of this year, the Ministry of Economy, Trade and Industry issued two new Guidelines: 1) **Practical Guidelines for Independent Directors** and 2) **Practical Guidelines for Business Transformations - Toward Changes to Business Portfolios and Organizations**.
- These two documents are practical guidelines to help formulate the **role of independent directors in guiding and monitoring Boards of Directors**, and to **focus discussion on long term strategy including restructuring of the business portfolio, returns on capital (ROE, ROIC) and cost of equity**. The guidelines also touch on **incentivization**.

Practical Guidelines for Independent Directors: Summary of Contents (Partial)

1. Considerations on appointment

1.1 Role and commitment

2. Effectiveness of Board of Directors

2.1 Number and duration of meetings, agenda setting

2.1.2 Increased agenda focus on mid to long term strategy, including review of business portfolio

2.1.3 Discussion of key mid to long term strategy from an earlier stage in strategy formulation process

2.2 Revitalization of Board of Directors

2.2.1 Increased opportunities to speak

2.2.2 Discussions that do not require immediate decision to be made

2.2.3 Considerations in Board discussions and voting

2.2.4 Monitoring of management actions

2.3 Information sharing and preparation for more constructive Board discussions

2.3.1 Explanations and distribution of materials before Board Meeting

2.3.2 Information on internal discussions

2.3.3 Focus of Board Meetings on discussion rather than factual content

Practical Guidelines for Business Transformations: Summary of Contents

1. Introduction

2. Management

2.1 Role of management

2.2 Business portfolio management

2.3 Management goals and KPIs

3. Board of Directors and Independent Directors

3.1 Role of Board of Directors

3.2 Role of Independent Directors

3.3 Composition of Board of Directors

3.4 Selection of CEO and Remuneration

3.5 Evaluation of Effectiveness of Board

4. Investor Engagement and Disclosure

4.1 Investor engagement and disclosure

4.2 Information disclosure

4.3 Shareholder proposals and opinions regarding business portfolio management

5. Implementation

Trend 1 – And diversity and the right mix of skills on the Board of Directors

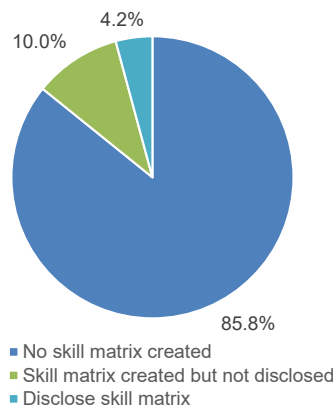
- Companies are increasingly aware of the need for diversity and the right mix of skills on the Board of Directors.
- 87% of TOPIX100 companies have one or more women on the Board of Directors. 20% of JPX Nikkei 400 companies have directors with a foreign nationality.
- Approval rates for Top Management (Resolution 1 of Director Election Resolutions) tend to be lower for companies with fewer women on the Board. This is because of the increasing number of global investors who vote against the Chair at companies with no women directors. There are no Japanese institutional investors who do so.
- An increasing number of companies are discussing the skill mix and succession planning of the Board, and are creating and disclosing skill matrixes to help them do so.

Chart 1: Women on Board of Directors at TOPIX 100 Companies
(as of 9 October 2020)

% Women Directors	Number of Companies	% Breakdown
0%	13	13%
1-10%	30	30%
11-25%	54	54%
26-50%	3	3%
51-100%	0	0%
	100	100%

Chart 3: Skill Matrix*

Percentage of Companies with Skill Matrix



*Data:

METI Practical Guidelines for Independent Directors Nov 2019 to Jan 2020 Survey

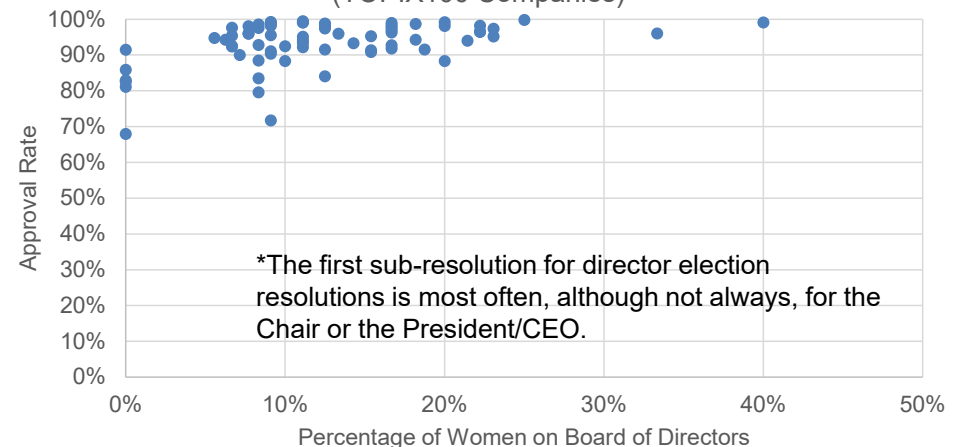
TSE Section 1 and 2 Companies

868 Responses

Source: METI

Chart 2: Approval Rate of Top Management
(Inside Director Sub Resolution 1) by Percentage of Women on Board of Directors*

Approval Rate of Internal Director Election Resolution 1
(≡Chair) by Percentage of Women on Board of Directors
(TOPIX100 Companies)



*Data: TOPIX100 companies who held their AGM in June 2020

Source: JSS based on Quick, Bloomberg, TOPIX, Other Publicly Available Information

- With the impact of COVID-19, major Japanese institutional investors placed emphasis on **medium to long term sustainability** and **caution in cash management** rather than short term profitability or shareholder returns.

Investor	Policy
Asset Management One	<ul style="list-style-type: none"> Request disclosure of how companies intend to ensure the safety of employees, business partners and regional community Will place emphasis on medium to long term sustainability in addition to short term earnings
Sumitomo Mitsui Trust Asset Management	<ul style="list-style-type: none"> Will be flexible in regard to delayed AGMs Will not vote Against solely because of delay of financial statements and other disclosures Will take into consideration cash positions and not rigidly apply quantitative guidelines in regard to dividends
Nomura Asset Management	<ul style="list-style-type: none"> Will suspend ROE and shareholder payout guidelines during COVID-19 Will vote Against if lack of non-financial disclosure necessary to make voting decisions

- The two major proxy voting advisors also adopted temporary policies during COVID-19 as follows:

Advisor	Policy
ISS	<ul style="list-style-type: none"> Temporary suspension of ROE criteria Recommend Abstention in case of “adjournment” of AGM due to COVID-19 (audited financial statements not available until after shareholders have voted) Recommend Abstention for election of Accounting Auditor resolutions where audited financial statements are unavailable
Glass Lewis	<ul style="list-style-type: none"> Not recommend voting Against based solely on delay of disclosure of financial statements due to COVID-19 Support a cautious approach by Boards to dividend distributions - deferral of dividend payments, reduction of payout ratios, or suspension of dividend Consider companies that are impacted by coronavirus and the related economic crisis as reasonable context for adopting a takeover defense plan under the following conditions: 1) duration of the plan is limited to one year or less; and 2) company discloses a sound rationale for adoption of the plan as a result of coronavirus

Trend 2 – COVID-19: Increased investor focus on corporate sustainability and resilience (contd.) JSS [Confidential]

- The new emphasis on the part of Japanese institutional investors on medium to long term sustainability and caution in cash management was reflected in voting results, where major Japanese institutional investors voted for resolutions even where these technically breached voting guidelines.
- **More flexibility around guidelines and an increased focus on substance** is likely to continue to be a trend going forward.

Investor	Policy	Comments	No of Resolutions	Issuer Examples
Asset Management One	Profitability	Confidence gained through engagement for improved profitability over the medium to long term	61	Rohm, Ibiden, JGC Holdings
		ESG strategy including regional revitalization initiatives confirmed through engagement	62	Shizuoka Bank, Kyoto Bank (13 Regional Banks in total)
	Controversies	Appropriate governance and risk management structures in place to prevent recurrence	17	Daiwa House, Recruit
Sumitomo Mitsui Trust Asset	COVID-19	Impact of COVID-19 taken into consideration	36	Director Elections: ANA, Kyushu Financial Group Appropriation of Earnings: Kyoto Bank, Shinkibus
Mitsubishi UFJ Trust and Banking	Profitability	Profitability breaches voting guidelines (low ROE), however improvement expected	176	Mitsukoshi Isetan, Hitachi Zosen, Nippon Chemi-Con
	Board Composition	Board composition breaches voting guidelines, however concrete initiatives toward resolution	157	Tokyo Electron, Sumitomo Heavy Industries, Keikyu Corporation
	Dividends	While dividends breach guidelines, caution regarding retained earnings is economically justified	8	Yasuda Warehouse Co, Itochu Shokuhin
Resona Asset Management	External Auditors	Made final voting decision regarding decrease in number of external auditors based on engagement with company	8	Fujitsu, Daifuku
	Controversies	Made final voting decision based on engagement regarding controversy with company	2	Kansai Electric Power

Trend 2 – COVID-19: Increased investor focus on corporate sustainability and substance (contd.)

- The suspension by ISS of its ROE criteria during COVID-19 resulted in higher approval ratios than last year for top management at companies with low ROEs.
- This was particularly true for companies with a high proportion of foreign shareholders.

Chart 1: ROE Distribution of TOPIX Companies

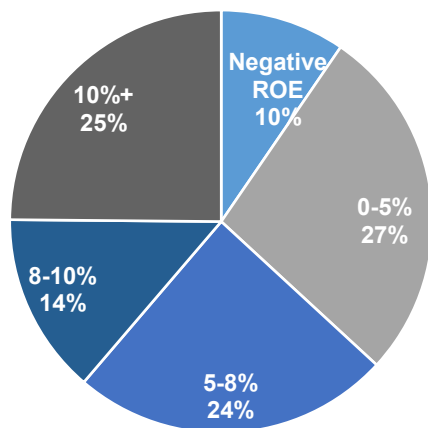
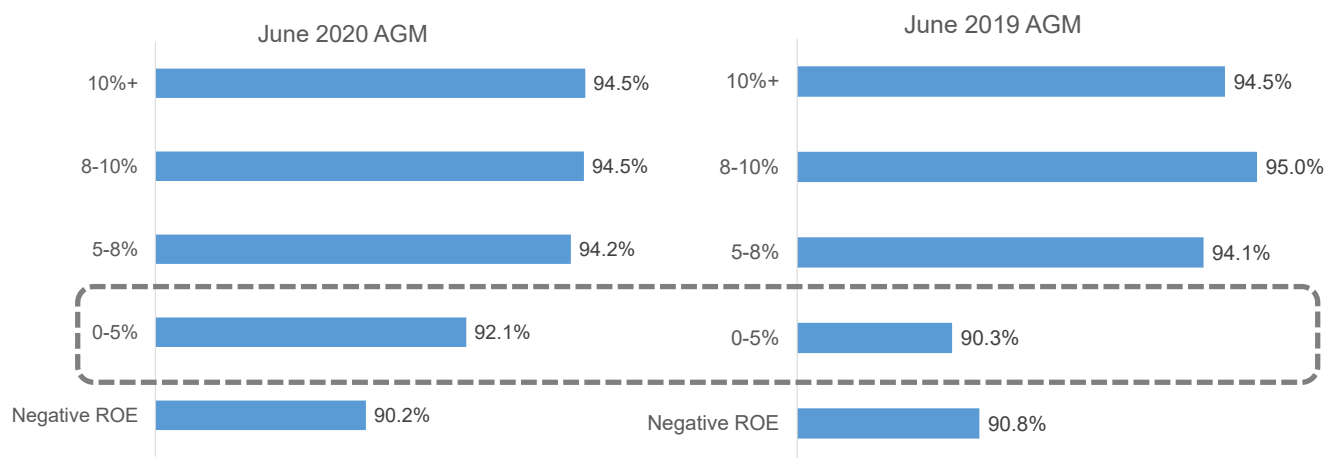


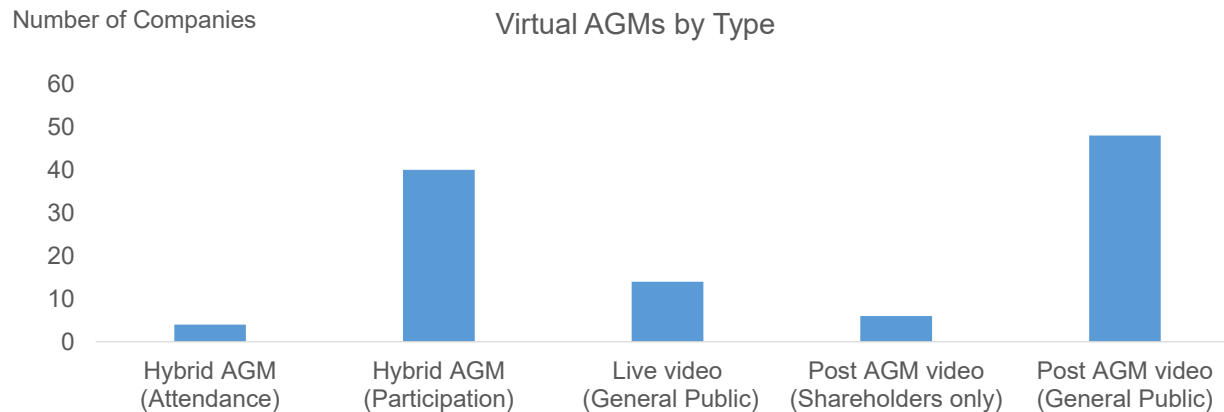
Chart 2: Average Approval Rate by ROE 2020 vs 2019*



*Data: TOPIX companies who held their AGM in June 2020

Trend 2: COVID-19 – Impact of virtual AGMs limited

- The Company Act is currently interpreted as **disallowing virtual only AGMs**, meaning virtual AGMs must be **hybrid (both virtual and physical)**.
- Of 997 companies surveyed by Mitsubishi UFJ Trust and Banking, **only 44 held virtual AGMs, including hybrid AGMs**. Of these, 4 were “attendance” hybrid AGMs, which allow investors to vote and ask questions; the others were “participation” hybrid AGMs, where investors must vote prior to the Meeting and may make comments but cannot ask questions.
- Companies instead asked investors to refrain from coming to the physical venue and to vote electronically.



Data: Mitsubishi UFJ Trust and Banking Transfer Agency clients (997 companies surveyed)

	Physical Venue	Proxy Voting	Attendance	Official Questions	Notes
Virtual Only AGM	Yes	Yes	Attendance	Yes	Company Act interpreted as disallowing virtual only AGMs
Hybrid AGM (Attendance)	No	Yes	Attendance	Yes	
Hybrid AGM (Participation)	No	No (Prior voting only)	No (Participation only)	No (Comments only)	

Trend 2: COVID-19 – Impact of financial audit delays also limited

- The Japanese Financial Services Agency allowed two options in regard to financial audits and AGMs.

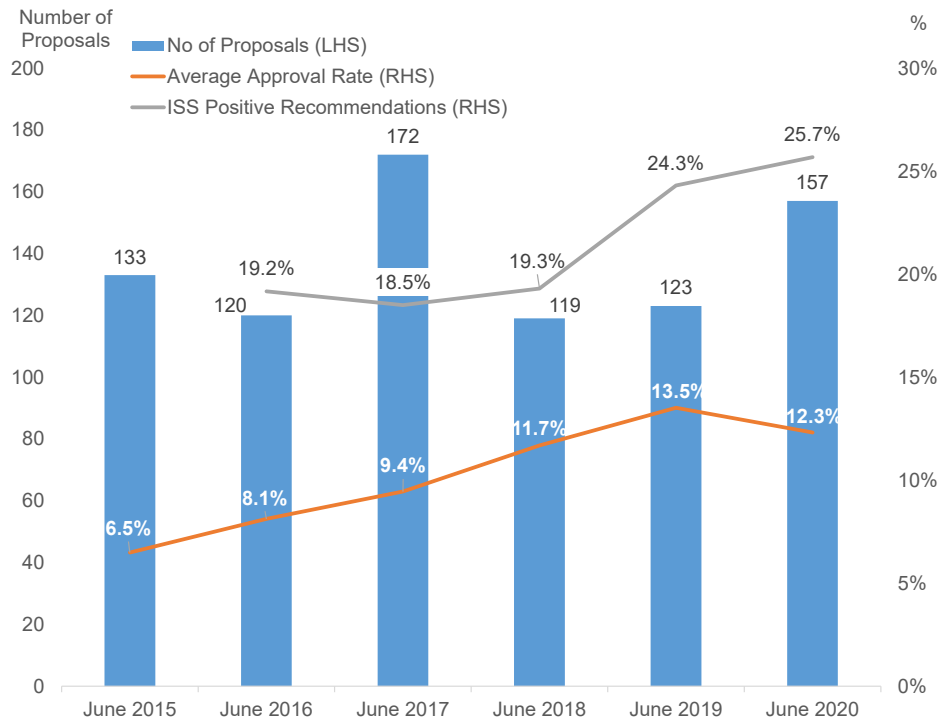
Option	Details
Postponement	<ul style="list-style-type: none"> <u>Delay both disclosure of financial statements and AGM</u> New record date for AGM and dividends Audited financial statements available when shareholders vote
Adjournment	<ul style="list-style-type: none"> AGM held as originally planned in June <u>Meeting adjourned after voting and resumed after audited financial statements available</u> <u>Audited financial statements not available when shareholders vote. Shareholders only able to review audited financial statements at the resumed meeting</u>

- Audited financial statements are not available when voting under the second adjournment option.
- The number of postponements and adjournments was small and impact on voting was relatively limited.**
- According to the Tokyo Stock Exchange, **a total of 56 companies delayed their AGMs.**
According to the Nikkei Shimbun, approximately 30 companies elected to employ the adjournment option.

Trend 3 - Shareholder activism expanded but not much success

- The number of shareholder proposals increased by 34 in June 2020 compared to June 2019.
- Despite positive recommendations for many proposals from proxy voting advisors, including positive recommendations from ISS for over half of proposals from activist investors, there were no successful shareholder proposals this year. The average approval rate was 12.3% (-1.2ppt compared to June 2019). This was the first decrease since 2015.
- Approval rates were relatively high for director election/removal and remuneration disclosure proposals at companies with controversies, for example, Kansai Electric Power.

Chart 1: Number of Shareholder Proposals by Year*



*Data: TOPIX companies who held their AGM in June (2015 to 2020)

Chart 2: Breakdown of Shareholder Resolutions by Resolution*

	2020		2019	
	No of Proposals	Average Approval Rate	No of Proposals	Average Approval Rate
Appropriation of Earnings	*1 5	16.7%	5	23.1%
Election of Directors	19	23.1%	*3 27	30.5%
Dismissal of Directors	31	8.0%	16	4.0%
Poison Pills	1	32.7%	1	32.3%
Performance Based & Equity Remuneration	1	2.6%	*4 1	-
Acquisition/Cancellation of Treasury Stock	*2 4	17.4%	3	20.3%
Other	1	10.1%	-	-
Amendment of Articles of Incorporation				
Individual Disclosure of Director Remuneration	8	24.8%	5	34.7%
Other Director Remuneration	1	38.1%	1	52.2%
Advisors/Senior Advisors	7	18.3%	1	9.5%
Strategic Shareholdings	6	19.6%	3	23.9%
Information Disclosure	9	21.8%	6	18.4%
Move to 3 Committee Structure	1	11.9%	2	34.7%
Separation of Chair/CEO	-	-	1	36.0%
Other				
Companies Other than Electric Power	32	11.6%	22	9.9%
Electric Power Companies	57	5.8%	53	5.2%
Total	183	12.3%	147	13.5%

*1 1 Proposal withdrawn

*2 1 Proposal withdrawn

*3 6 Proposals Withdrawn/Invalid

*4 1 Proposal withdrawn

*Data: TOPIX companies who held their AGM in June 2020

*Election/dismissal of director resolutions have been counted as 1 resolution, not multiplied by the number of director candidates/directors

Source: JSS based on Quick, Bloomberg, Toyo Keizai, Other Publicly Available Information

Trend 3 – Shareholder activism expanded but not much success

- There were 19 more shareholder proposals from activists compared to last year.
- The number of corporate governance related proposals continued to increase – 34 of 39 proposals were governance related.
- **ISS recommended voting in favor of more than half of proposals from activists**, including **all proposals to return capital to shareholders**.

Chart 1: Shareholder Proposals by Funds: Number of Proposals, Recommendation by ISS, Average Approval Rate*

Resolution Category	Number of Shareholder Proposals from Funds			Percentage of For Recommendations by ISS			Average Approval Rate		
	2018	2019	2020	2018	2019	2020	2018	2019	2020
Capital Returns to Shareholders									
Appropriation of Earnings	3	4	2	100.0%	100.0%	100.0%	18.6%	28.7%	25.7%
Acquisition/Cancellation of Treasury Stock	1	1	3	100.0%	100.0%	100.0%	36.5%	34.1%	17.4%
Change in Resolution Body for Appropriation of Earnings	1	-	-	100.0%	-	-	27.4%	-	-
Sub-Total	5	5	5	100.0%	100.0%	100.0%	23.9%	29.8%	20.7%
Other, Corporate Governance Related									
Director Remuneration (Clawback Clause)	-	-	1	-	-	0.0%	-	-	38.1%
Dismissal of Directors	-	-	3	-	-	0.0%	-	-	36.2%
Abolishment of Advisors	-	-	1	-	-	100.0%	-	-	22.5%
Disclosure (Capital Policy)	-	2	5	-	100.0%	80.0%	-	33.1%	21.4%
Election of Directors	3	5	7	66.7%	60.0%	71.4%	24.8%	31.3%	20.5%
Strategic Shareholdings	2	2	6	100.0%	100.0%	16.7%	13.7%	30.6%	19.6%
Move to 3 Committee Structure	-	2	1	-	100.0%	100.0%	-	34.7%	11.9%
Increase in Number of External Directors	-	-	1	-	-	100.0%	-	-	8.2%
Third Party Board of Director Evaluation	-	-	1	-	-	0.0%	-	-	3.8%
Separation of CEO and Chair	-	1	-	-	100.0%	-	-	37.3%	-
Voluntary Committee	1	-	-	100.0%	-	-	15.7%	-	-
Director Remuneration (Equity Remuneration)	1	1	-	100.0%	0.0%	-	25.0%	20.6%	-
Amendment of Articles of Incorporation (Other)	1	2	8	0.0%	50.0%	25.0%	6.5%	22.9%	18.6%
Sub-Total	8	15	34	75.0%	73.3%	44.1%	19.6%	30.5%	20.9%
Total	13	20	39	84.6%	80.0%	51.3%	20.7%	30.3%	20.9%

*Data: TOPIX companies who held their AGM in June 2020

Source: JSS based on Quick, Bloomberg, Toyo Keizai, ISS, Other Publicly Available Information

50% or higher Positive
recommendation by ISS

30% or higher Average
Approval Rate

Trend 3 – Greening Japan with first climate-related proposal

- NGO Kiko Network, a climate-related NGO, filed a shareholder resolution with Mizuho Financial Group, to include in its Articles of Incorporation a provision to disclose a plan to outline the company's strategy, including metrics and targets, to align its investments with the goals of the Paris Agreement.
- Kiko Network serves as the secretariat for Climate Action Network Japan, the local chapter of the global network of climate related NGOs.
- Climate Action Network Japan, whose members include Climate Ambition Support Alliance, WWF Japan, Japan Center for a Sustainable Environment and Society (JACSES), Greenpeace and Rainforest Action Network Japan, coordinates the Renewable Energy100% Platform in Japan.
- Mizuho Financial Group announced that it would not provide financing for new coal-fired power generation facilities. Kiko Network criticizes the policy as covering only a small part of its financing for coal and that the targets are not aligned with the Paris Agreement.
- Sumitomo Mitsui Financial Group shortly afterward stated that it would reduce its credit balance of project finance related to coal-fired power generation to zero by 2040.
- Japan's three largest insurance companies have also since announced that they will no longer underwrite policies for new coal-fired plants.

Mizuho Environmental Policy (excerpt)

Metrics and Targets	<ul style="list-style-type: none"> • Target to reduce the outstanding credit balance for coal-fired power generation facilities: <ul style="list-style-type: none"> • Reduce the FY2019 amount by 50% by FY2030 • Achieve an outstanding credit balance of zero by FY2050
Risk Management	<ul style="list-style-type: none"> • Positioning of climate change risks as “emerging risks (2)” in our management of “top risks • Will not provide financing for the construction of new coal-fired power generation facilities • Scenario analyses for the transition risks and physical risks based on the TCFD Recommendations <ul style="list-style-type: none"> • Static scenario which assumes that no attempt is made by clients to transform the present business structure • Dynamic scenario under which the business structure of clients is transformed
Disclosure	<ul style="list-style-type: none"> • Issue of TCFD report

Trend 3 - Greening Japan with first climate-related proposal (contd.)

- This was Japan's first ever climate related shareholder proposal, outside of electric power companies.
- Six Nordic funds supported it publicly in the media including Nordea, KLP, Storebrand and MP Pension.
- Both ISS and Glass Lewis made positive recommendations and shareholder support was 34.0%.
- A majority of global investors supported the proposal. However, Blackrock and Vanguard voted against, and the overall approval rate for global investors was lower than for Japanese domestic investors, despite the fact that only four Japanese major investors voted in favor.
- A two-thirds majority of votes cast was necessary for this resolution to pass.

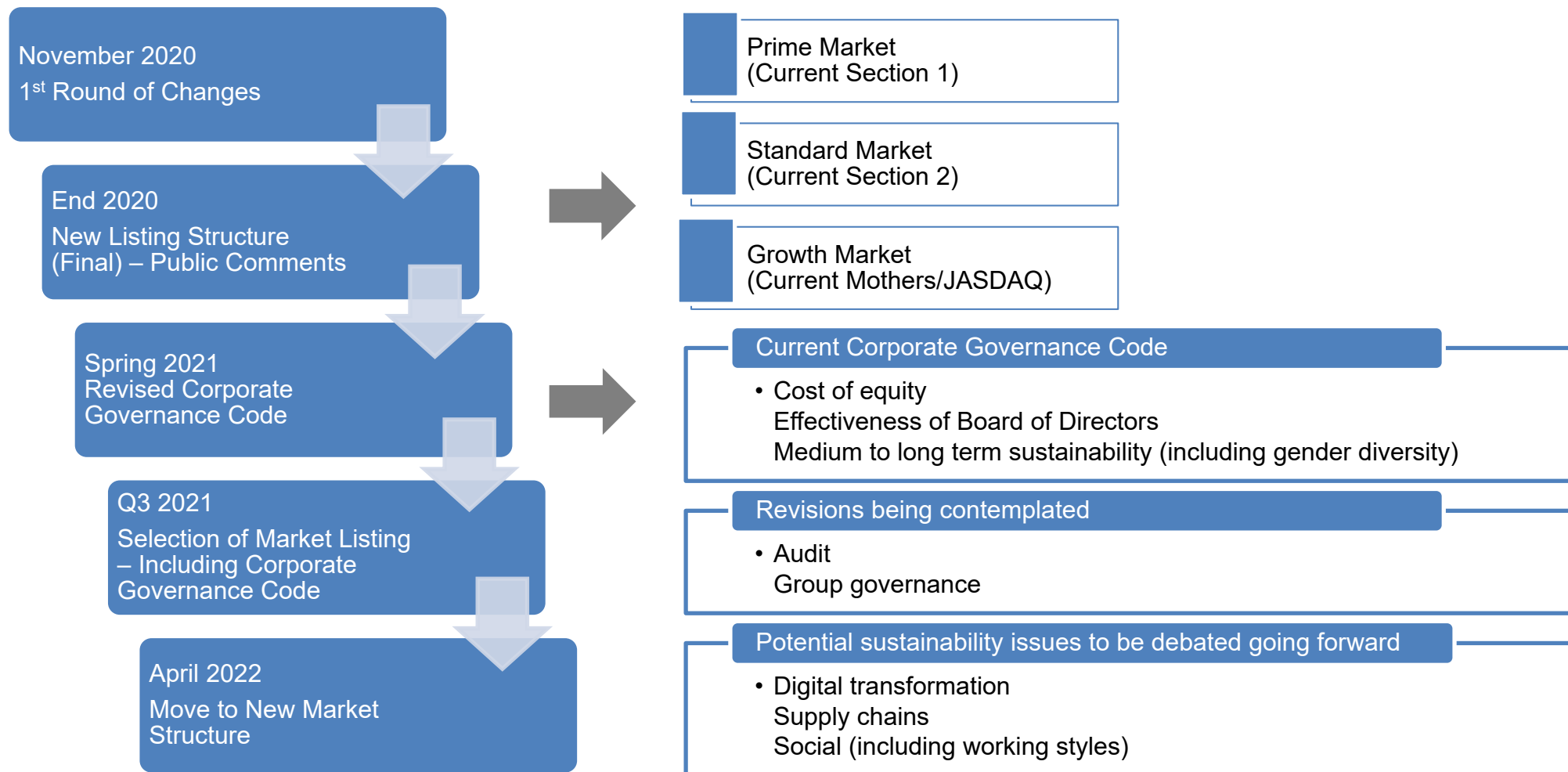
Table 1. Mizuho Financial Group Climate Related Shareholder Proposal: Investor Votes

Japanese Domestic Investors (Approval Rate: 30.0%)			Global Investors (Approval Rate: 21.3%)		
For	Against		For	Against	
Asset Management One Nissay AM Nomura AM Tokio Marine AM	Asahi Life AM Daiwa AM Ichiyoshi AM Meiji Yasuda AM Mitsubishi UFJ Kokusai Mitsubishi UFJ Trust Nikko AM Pension Fund Association Resona AM	Shinkin AM SOMPO AM Sumitomo Mitsui DS AM Sumitomo Mitsui Trust AM	Aberdeen Standard Investments AllianceBernstein APG AQR Charles Schwab Investment CPPIB Fidelity Japan Franklin Templeton Geode Capital	GSAM LGIM LSV Asset Northern Trust Schroder SSGA T Rowe Price TIAA UBS Asset	Blackrock Japan Dimensional JPMorgan Asset NBIM Vanguard

Table 2. Mizuho Financial Group Climate Related Shareholder Proposal: Investor Comments

Investor	Comment
ISS	A vote FOR this shareholder proposal is warranted because: Notwithstanding the bank's recent improvement in disclosure, the addition of the proposed language would place market discipline over management for continued improvement of climate-related disclosure practices. Shareholders would be better able to evaluate the bank's risk profile because of additional information on the bank's plans regarding aligning its behavior with Paris Agreement climate goals and reducing climate-related risks.
Aberdeen Standard Investments	The company has significant exposure to fossil fuel financing and carbon-intensive sectors and the associated greenhouse gas (GHG) emissions are not disclosed for its entire portfolio. The company has made positive steps in relation to climate change commitments and reporting, including the adoption of TCFD reporting. A vote in favour of this resolution will encourage the company to continue to make progress in this area and enhanced disclosure of Scope 3 GHG emissions, as required by the resolution, will support the company's risk management. It will also improve shareholder understanding of the company's overall climate change impact and exposure to climate related risks.

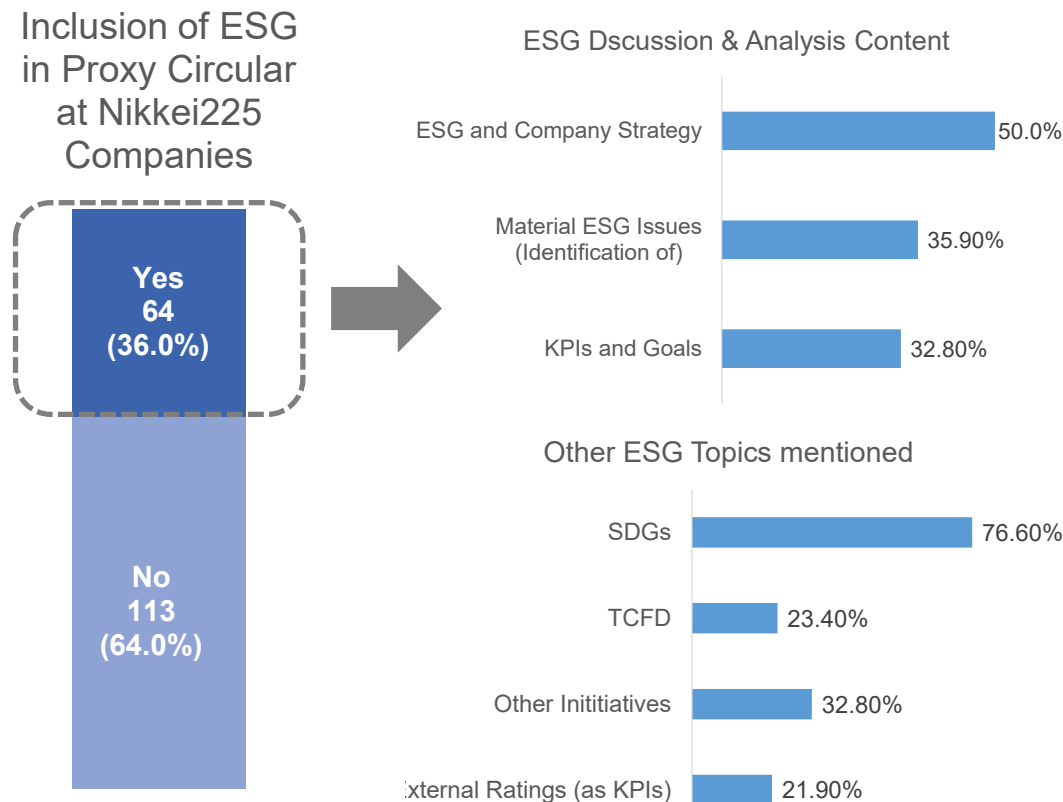
- The **Corporate Governance Code** will be revised early next year prior to the planned restructuring of Tokyo Stock Exchange's listing structure.
- Delisting standards for the current Section 1 of the Tokyo Stock Exchange will become more stringent.
- Companies who wish to remain listed on what is currently the 1st Section of the Tokyo Stock Exchange will be required to comply with the new Corporate Governance Code, being revised for the new Prime Market to be newly created in late 2021.



Other – Over 1/3 of Nikkei 225 companies include ESG in their proxy circulars

- The [Tokyo Stock Exchange Practical Handbook for ESG Disclosure](#) released earlier this year gives proxy circulars as one information source utilized by investors.
- Over 1/3 of Nikkei 225 companies included discussion and analysis of ESG in the Business Report section in proxy circulars this year.
- Other topics mentioned in “Topics” and “Other” sections include: SDGs; TCFD; other initiatives such as the UN Global Compact, the Paris Agreement, SBT Initiative and RE 100; and external ratings.

Chart 1: Inclusion of ESG Issues in Proxy Circular at Nikkei 225 Companies*



10. Consideration for the Environment

The Group strives not only to comply with environmental laws, regulations and ordinances and agreements with local governments, but also to promote environmental activities aligned with even stricter voluntary standards, and to conduct business activities in harmony with the earth's environment, in accordance with the "ENW" Environmental Protection Policy."

As we expand our business activities to each country around the world, we strive to reduce the environmental burden at each stage of business, with the aim of achieving the Sustainable Development Goals (SDGs) advocated by the United Nations General Assembly. In addition, as a member company of the UN Global Compact, we recognize the importance of protecting the global environment, and strive to fulfill our social responsibility regarding the environment as well.

ENW Environmental Protection Policy

Fundamental Environmental Protection Policy

ENW places global environmental protection as an important component of business operations and strive to maintain the environment.

Environmental Protection Guidelines

1. ENW is aware of the "dignity and importance of nature" and adopts measures to maintain the global environment in all business operations.
2. ENW places environmental protection as a top priority at all stages of corporate activities, from research and development, production, distribution, and sales, to product usage and disposal.
3. ENW constructs and operates an environmental management system and promotes environmentally protective operations.
4. ENW complies with all applicable laws, regulations, and agreements concerning environmental protection, and each company implements voluntary standards that exceed the minimum standards set forth in the applicable laws, regulations, and agreements.

*Data: Nikkei225 companies who held their AGM in June 2020

Source: Proxy Circulars of Nikkei225 companies who held their AGM in June 2020

Other – 87% of TOPIX 100 companies now have equity compensation in place

The approval rate for remuneration related resolutions was higher than last year. The average approval rate for performance linked remuneration was 95.6% (+1.1ppt).

Remuneration generally comprises:

1. Basic remuneration
2. Short-term incentive-based remuneration (bonus)
3. Mid-to-long term incentive based remuneration (equity remuneration)

In regard to mid-to-long term incentive-based remuneration, there has been a move away from stock options to equity remuneration, the grant of restricted stock in particular.

Of TOPIX 100 companies, 87% have equity remuneration mid-to-long term incentives in place.

More than half of TOPIX 100 companies utilize earnings based KPIs (net profits, operating profits). Other common KPIs include ROE and sales revenue. 7 companies also employ non-financial KPIs.

Chart 1: Remuneration Breakdown of TOPIX100 Companies*

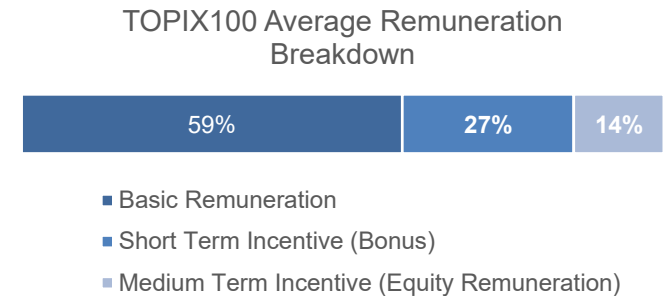


Chart 2: Introduction of Equity Remuneration at TOPIX 100 Companies**

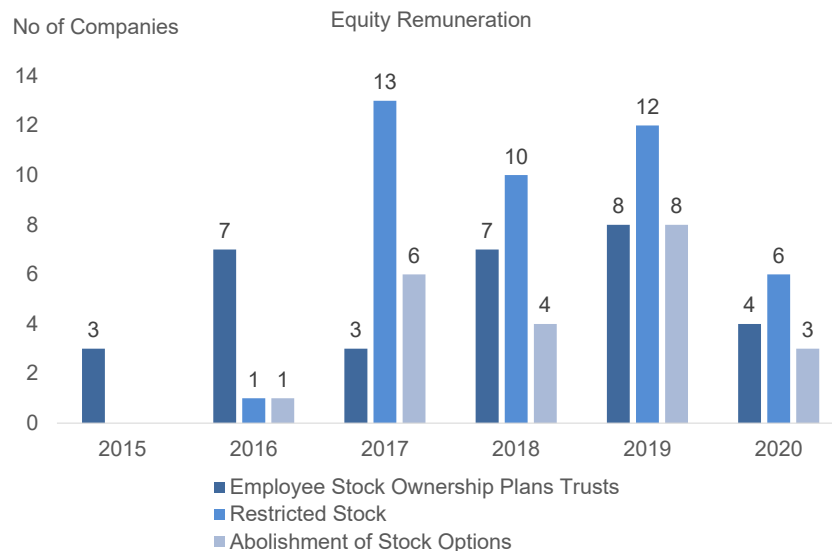
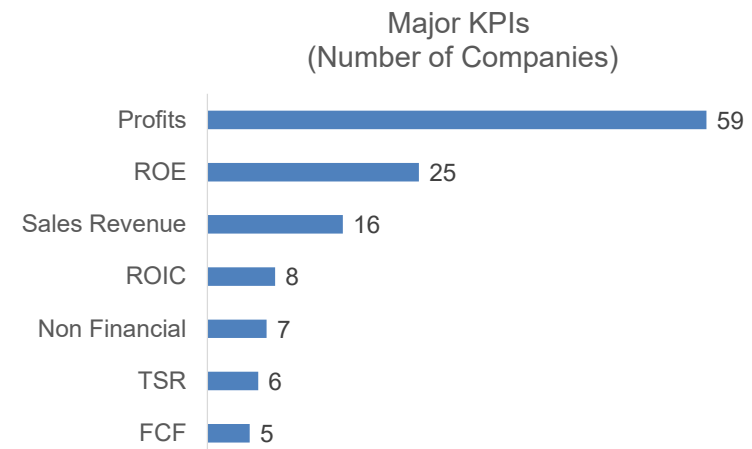


Chart 3: KPIs utilized by TOPIX 100 Companies*



*Data: TOPIX100 companies who held their AGM in June 2022

**Data: TOPIX100 companies who held their AGM in June (2015 to 2020)

Other – 87% of TOPIX 100 companies now have equity compensation in place (contd.)

- Upon gradual relaxations of stock-based remuneration rules, Corporate Japan is moving toward more variable remuneration system with performance-linked incentives.
- While more disclosure requirement has been introduced, corporates are experiencing trials & error in designing the appropriate remuneration system.
- The chart below shows cases of low support and their major reasons include business results, grantees of stock awards, equity dilution and insufficient disclosure.

Chart 1: Top 10 Remuneration Resolutions with Low Approval Rates at June 2020 AGM*

*Data: TOPIX companies who held their AGM in June 2020

No	Code	Company Name	Approval Rate (%)	Resolution	Reason for Low Approval Rate	ROE(%)	Proportion of Shareholders who are Foreign (%)	Market Capitalization (USD million)
1	2764	Hiramatsu Inc.	* 60.47	Restricted Stock Remuneration for Directors	•Dilution •Earnings loss	-22.9	2.3	72
2	1514	Sumiseki Holdings, Inc.	65.93	Restricted Stock Remuneration for Directors and Directors who are Members of the Board of Supervisory Auditors	•Dilution •Awarded to External Directors, Supervisory Auditors	7.0	8.0	64
3	7236	T.RAD Co., Ltd.	70.00	Restricted Stock Remuneration for Directors	•Dilution •Non disclosure of Performance and Vesting Period Terms & Conditions	3.3	15.0	96
4	1448	SPACE VALUE HOLDINGS CO., LTD.	71.58	Performance Linked Stock Remuneration for Directors	•Delay of Financial Statements and Audit	4.0	12.4	123
5	8035	Tokyo Electron Limited	74.33	Non Performance Linked Stock Remuneration for External Directors	•Awarded to External Directors	21.8	39.2	29,784
6	2398	TSUKUI CORPORATION	74.60	Restricted Stock Remuneration for Directors	•Awarded to External Directors	8.2	23.9	279
7	7419	Nojima Co., Ltd.	75.33	Issue of Stock Option Warrants	•Dilution	18.9	15.8	851
8	8860	FUJI CORPORATION LIMITED	75.36	Performance Linked Equity Remuneration for Directors and Auditors	•Awarded to Auditors	8.0	6.7	176
9	8137	SUN-WA TECHNOS CORPORATION	77.65	Restricted Stock Remuneration for Directors	•Dilution •Non disclosure of Performance and Vesting Period Terms & Conditions	4.2	11.4	122
10	7717	V Technology Co., Ltd.	78.78	Performance Linked Equity Remuneration for Directors	•Dilution	11.9	14.3	293

*Hiramatsu

The official revised approval rate is 0.47%→58.26%.

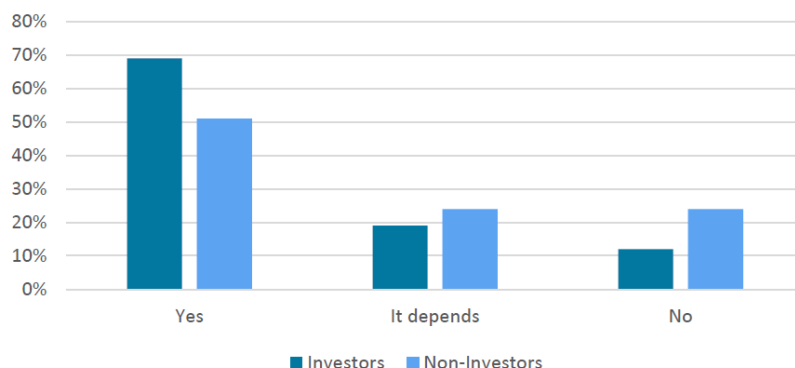
Next Year – Strategic shareholdings likely to be incorporated into ISS guidelines

- ISS asked about Japanese strategic shareholdings again this year in its Global Policy Survey 2020.
- The results are likely to be incorporated into ISS' 2021 Guidelines and apply from 2022.

ISS Global Policy Survey Question Part 1

Does your organization consider shareholders may be justified in considering opposing the reelection of a Japanese company's top executives if the company allocates a significant portion of its net assets to cross-shareholdings (strategic shareholdings) ?

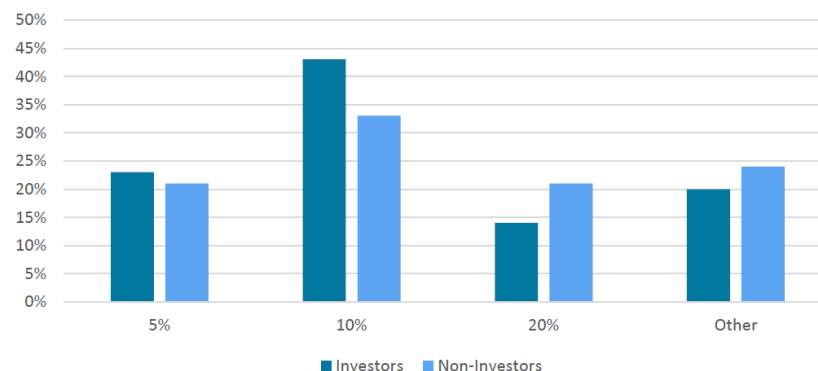
Does Cross Shareholding in Japan Justify Opposing Elections?



ISS Global Policy Survey Question Part 2

If you answered "Yes" or "It depends" to the question above, what threshold is considered appropriate to define a “significant” portion of net assets (or shareholder equity) tied to cross-shareholdings (strategic shareholdings) ?

Threshold of Cross-Shareholdings Deemed Significant to Trigger Adverse Vote Recommendations



Next Year – Strategic shareholdings likely to be incorporated into ISS guidelines (contd.)

- Companies continue to decrease their strategic shareholdings.
- Of TOPIX100 companies, only 14 have not decreased the number of strategic shareholdings from FY2018 to FY2019.
- Some investors are starting to incorporate provisions on strategic shareholdings into their proxy voting guidelines.

Chart 1: Distribution of Strategic holdings at TOPIX100 Companies
FY2019 (Year to March 2020) vs FY2018 (Year to March 2019)

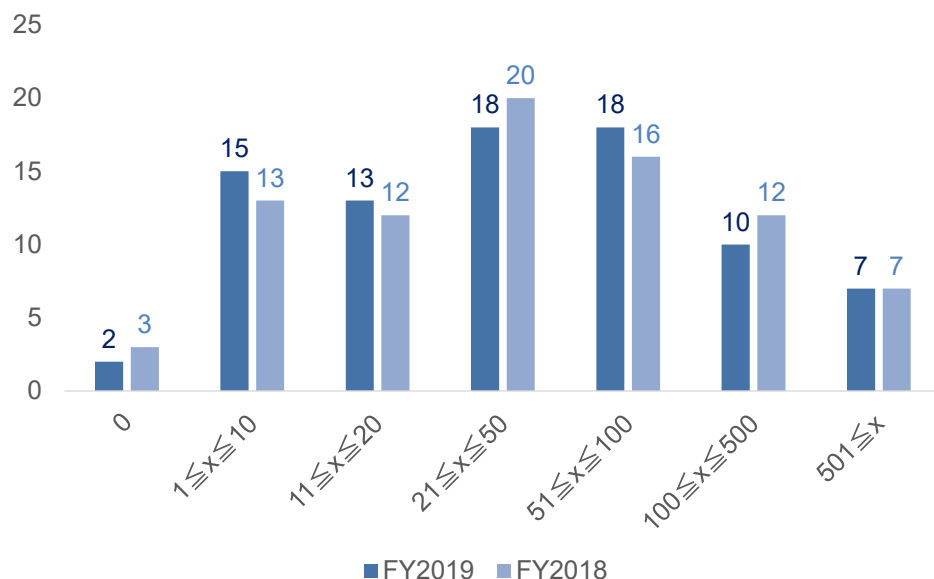


Chart 2: Change in Strategic Holdings at TOPIX 100 Companies

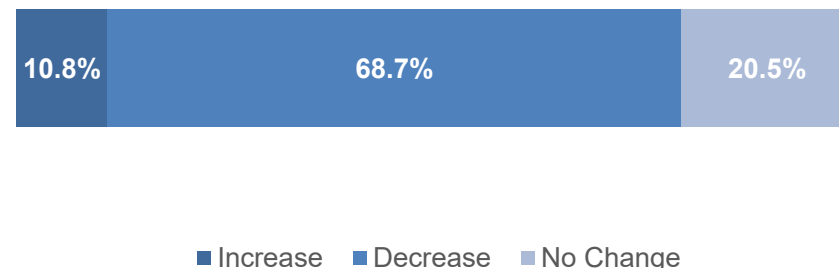


Chart 3: JPMorgan Asset Management Proxy Voting Guidelines

- Vote against the re-election of the representative director(s) or the director in charge at companies which are **expanding** cross-shareholdings, companies with a **low likelihood of liquidating** the existing cross-shareholdings, or companies who **endorse the idea** of cross-shareholdings.
- Ask companies to provide full quantitative and qualitative explanation on past proxy voting activities, potential conflict of interest of owning shares in business partners, and the economic rationale for existing cross-shareholdings.

Notable insights from ISS Annual Global Policy Survey 2020 (Japan)

- ISS asked investors and issuers this year to rank 1) Gender diversity, 2) Director overboarding, and 3) Director tenure in terms of urgency of concern in regard to Japanese Boards of Directors.
- While gender diversity has already been a top issue for the past few years, director overboarding may become an emergent issue.

Chart 1: ISS Global Policy Survey (Japan) - Investors

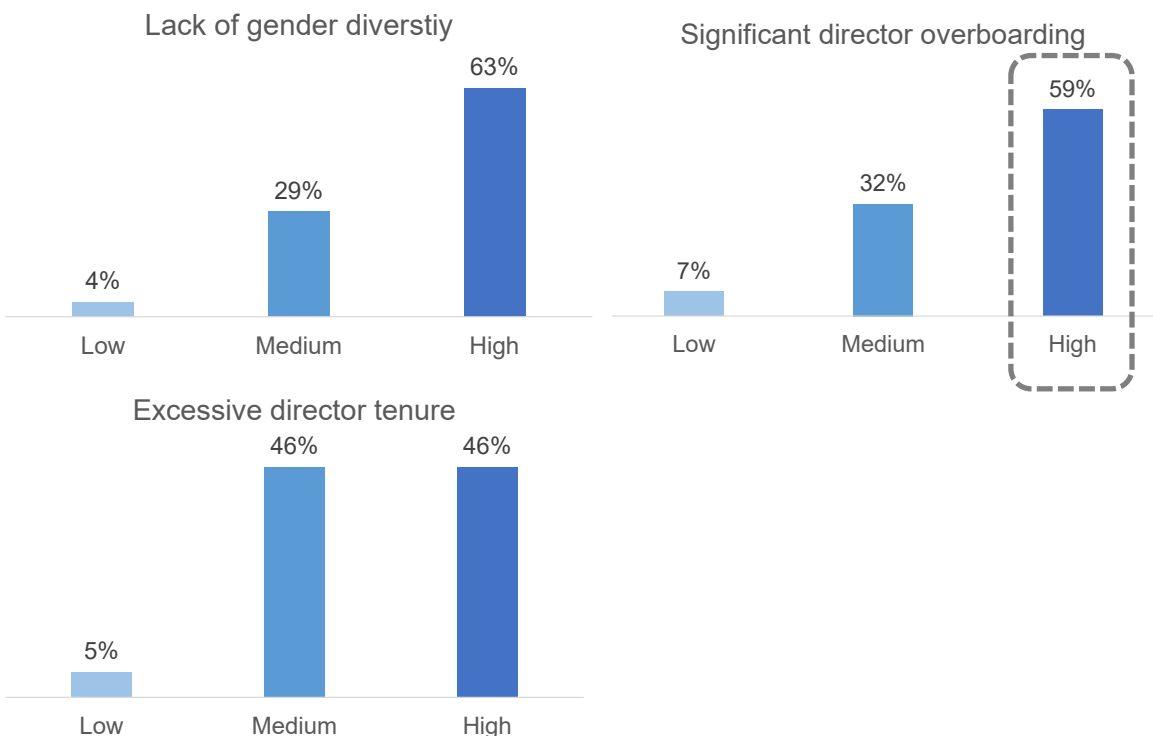


Chart 2: Number of Concurrent Posts Held by External Directors (Nikkei 500 Companies)

No of Concurrent Posts	External Directors	
	Number	%
0	1,054	47.7%
1	639	28.9%
2	378	17.1%
3	119	5.4%
4	15	0.7%
5	3	0.1%
Total	2,208	100.0%
Average	0.8	

(as of 10 June 2020)

Source: Election of External Directors at 2020 AGM and Outlook Going Forward Shunkan Shoji Homu No.2243, 5 October 2020

Data: 175 investors (74% were asset managers) and 344 non-investors (80% were representatives from public corporations) participated in the survey, constituting a 31% increase in overall participation compared to 2019. Participants collectively represented 258 entities, with half the participants from organizations based in the U.S. Fifty-two percent (52%) of investors were from global organizations compared to 19% of non-investors. Twenty-six percent (26%) of investors and 43% of non-investors were from the United States.

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