

February 12, 2020

2019 Activity Report Summary (October 2018 - September 2019)

1. Management Philosophy

“We help institutional investors conduct sound and appropriate stewardship activities, especially in collective shareholder engagements in which multiple institutional investors work together in an aim to hold constructive dialogues with listed companies in Japan.”

2. Organization, Operation and Major Activities

The Institutional Investors Collective Engagement Forum (hereinafter referred to as “IICEF”) will promote/organize the Institutional Investors Collective Engagement Program (hereinafter referred to as the “Program”). In this Program, IICEF serves as the coordinator/secretariat (hereinafter referred to as “Secretariat”). The participating institutional investors (hereinafter referred to as the “Participating Investors”) will discuss key issues of target companies and come up with common engagement agendas which reinforce ongoing constructive dialogues. For each agenda, the Secretariat sets up collective engagement meetings with target companies and facilitate the meetings (i.e. act as moderator and summarize the arguments), so that the dialogue between the companies and the Participating Investors is constructive. The Program is based on an individual agreement between IICEF and each Participating Investor, and Participating Investors are not in a mutual contractual relationship. Accordingly, there is no “agreement of joint holding and the like.” In addition, a conduct guideline is covenanted based on which no “act of making important suggestion” is allowed in collective engagement meetings. The Program aims to contribute to an increase in long-term corporate value and sustainable growth of companies, not to pursue short-term shareholder returns.

3. History and Achievements of Activities

(1) Operation of the Institutional Investors Collective Engagement Program

(i) Operation of IICEF, and Participating Investors

Since its establishment on October 2, 2017, based on the revision of Japan’s Stewardship Code (Guidance 4-4) *, IICEF initiated for the first time in Japan and has held collective engagement meetings between multiple investors and companies.

As of September 30, 2019, the five institutional investors which conduct mainly passive investment are participating, namely Pension Fund Association, Sumitomo Mitsui DS Asset Management Company, Limited (formed on April 1, 2019 through merger between Sumitomo Mitsui Asset Management Company, Limited and Daiwa SB Investments Ltd.), Sumitomo Mitsui Trust Asset Management Co., Ltd. (part of Sumitomo Mitsui Trust Bank, Limited was split up and integrated into this company on October 1, 2018), Mitsubishi UFJ Trust and Banking Corporation, and the Resona Bank, Limited (the asset management operation was consolidated to Resona Asset Management on January 1, 2020).

(ii) Program Operation Meetings

We held 12 operation meetings in total as a place for discussion by the Participating Investors, where we discussed methods of operating the Program, examined themes, set agendas, selected target companies and discussed methods of collective engagement meetings. We also reported the status of matters such as presentation in seminars for external parties and individual meetings with various relevant organizations and held study sessions with experts.

(iii) Setting Agendas and Sending Letters

We examined, from the perspective of superlong-term buy-and-hold investors, requests which test fundamental awareness and concerns of the management team, are highly agreeable for companies and in addition, are easier to gain the sympathy and support of policymaking authorities and market participants, rather than requests simply asking companies for superficial improvements, among themes such as governance, ESG and capital efficiency which are issues commonly faced by Japanese companies as a whole, and set them as agendas. When examining agendas, we organized logical views based on lectures by professionals knowledgeable about the themes, provided information and data, exchanged opinions, etc.

And then, we sent letters explaining the underlying views of investors and stating concrete requests to each target company, specifying president, outside director or others as addressee.

When sending letters to president, etc., we sent an e-mail attaching the letter in the PDF format or mailed the letter to a person in charge or other contact point of IR in advance to ensure that the information was shared within the target company.

In addition, there were some themes which were in the preparation phase for summarizing common views at the moment because of various arguments having been presented due partly to changes in commercial custom and legal systems. On these themes, as part of our

collective hearing activities, we presented explanatory material summarizing the current views of investors and sent letters to conduct hearing of the way of thinking and the current state of companies.

As a result of these activities, achievements have been gradually built upon for each agenda.

(Figure) Overview of and achievements for each agenda

A) Materiality Identification and Disclosure Relating to Sustainability of Business Model

Purpose	To promote awareness and enhance activities and disclosure of “ESG materiality” expected from investors
Letter timing	October 2019 onward
Target company	Companies actively working on ESG-related activities but not articulate with information disclosure required by investors.
Achievement	Since the start of activities in 2018, approximately 18% of Japanese companies have identified and disclosed the materiality from the perspective of investors as required by this agenda. It was indicated by data that these companies tended to be relatively highly evaluated by the stock market.

B) Scandal Handling

Purpose	To support to improve information disclosure and to reform corporate culture and governance by their outside directors at companies which have caused corporate scandals
Letter timing	November 2018 and February 2019
Target company	Companies of concern for issues in their corporate governance and culture
Achievement	Explanatory sessions by the relevant companies were provided for Participating Investors. Meetings were held in which the progress of activities and approaches to be taken by the outside directors were shared, concerns of investors were conveyed and support for outside directors’ activities was provided.

C) Many “Against” Votes

Purpose	To analyze factors of management’s proposals electing directors for top management for which many “against” votes were cast at general meetings of shareholders and recognize awareness as governance issues
Letter timing	October 2018 and 2020 January onward [subsequent events]

Target company	<p>2018: 30 companies at which “against” votes in a certain number or more were cast against management’s proposals electing directors for top management in their general meetings of shareholders in May and June 2018 (excluding special cases)</p> <p>2020: 16 companies at which “against” votes in a certain number or more were cast against management’s proposals electing directors for top management people in their general meetings of shareholders in May and June 2019 (excluding special cases)</p>
Achievement	<p>2018: 29 companies provided a response with the analysis result and countermeasures. Investors’ comments on the responses were provided as feedback.</p> <p>Although there were some companies which lacked seriousness in their activities toward improving capital efficiency while being aware of the reasons for “against” votes such as low ROE, there were many cases in which companies were working positively on activities to fully address the issues causing “against” votes by, for example, proactively visiting and providing explanations to investors.</p> <p>Approximately 60% of the companies saw a decline in the rate of “against” votes for management’s proposals electing directors for top management in their general meetings in 2019.</p> <p>2019: Started to receive responses concerning the analysis results and countermeasures from some companies [subsequent events]</p>

D) Takeover Defense Measures (Disclosure on necessities)

Purpose	To recognize management issues through examination of the necessity to introduce and/or continue takeover defense measures
Letter timing	October 2018 and February 2020 [subsequent events]
Target company	<p>2018: 59 companies with market capitalization above certain amount, whose takeover defense measures were to expire in 2019</p> <p>2020: 30 companies with market capitalization above certain amount, whose takeover defense measures were to expire in 2020 [subsequent events]</p>
Achievement	2018: 37 companies out of 59 companies terminate their takeover defense measures. Among 22 companies which submitted a proposal for continuing takeover defense measures to their general meetings, there were no companies which provided sufficiently satisfactory reasons for

	investors. However, establishment of the governance framework showed progress, such as increasing the number of outside directors and enhancing the board independence. 2020: Sent letters to 30 companies [subsequent events]
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E) Collective Hearing Concerning Issues Related to Governance of Parent and Subsidiary Listed Companies

Purpose	To promote measures and designs for governance to reflect intention of minority shareholders
Hearing timing	January and October 2019 [subsequent events]
Target company	Parent company (four companies) and subsidiary (five companies) under parent-subsidiary listing
Progress	We ascertained the actual situations and activities of parent and subsidiary listed companies. Examination is underway to form common views.

F) Collective Hearing Concerning Policy for Cross-Shareholding

Purpose	To reform the mindset of companies against Cross-Shareholding and the stable shareholder policy
Hearing timing	February 2019
Target company	Multiple key companies in each industry
Progress	We recognized the actual circumstances of Cross-Shareholding. We understood efforts toward reduction made by companies, but at the same time, confirmed that there were companies declining request for dissolving cross-holding shares held in contradiction to the Corporate Governance Code. We decided to design future dialogue referencing the fact.

(iv) Meetings and Receipt of Responses

We made coordination with IR contact points at the target companies to which we sent letters through such means as e-mail and telephone and held Secretariat pre-meetings. Then, we held meetings under the facilitation by the Secretariat, attended by the Participating Investors to engage in direct dialogue with directors in charge, outside

directors and department heads in charge at those companies.

For some agendas where we did not ask for meetings but instead asked for responses, the Secretariat received explanations through interviews or explanatory documents through e-mail or mail and reported and shared the responses to the Participating Investors.

At collective hearings regarding the parent-subsidary listings, with the cooperation of ICJ, Inc., we invited persons in charge at parent and subsidiary listed companies providing their opinions and had the hearings with attended multiple companies.

(v) Activities for Announcement, Seminars, etc.

The overview of the letters were publicly disclosed on IICEF's website in order to broadly disseminate the issues addressed in the agendas to Japanese companies as a whole, which are common among them. We also provided notices to market participants, relevant organizations, stock transfer agents, IR supporting companies, annual report production companies, etc. via e-mail.

Alongside with the above, we gave lectures at external seminars held by IR supporting companies, securities companies and various other organizations to introduce IICEF and explain the overview of the agendas.

As a result of these activities, we successfully communicated the contents of the agendas to a broad range of listed companies, also including small and medium-sized companies which have less opportunities of dialogue with investors due partly to a lack of coverage by securities analysts.

(Figure) Status of implementation of specific activities for announcement, seminar, etc.

(v)-1 Distribution of e-mail

A) Many "Against" Votes

Website update (Japanese section)	October 1, 2018
E-mail notice sent	20 destinations

B) Takeover Defense Measures

Website update (Japanese section)	October 10, 2018
E-mail notice	18 destinations

sent	
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C) Policy Concerning Cross-Holding Shares (Collective Hearing)

Website update (Japanese section)	March 7, 2019
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D) Issues Related to Governance of Parent and Subsidiary Listing (Collective Hearing)

Website update (Japanese section)	June 27, 2019
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E) Status of Responses Concerning Materiality by Japanese Companies as of 2018 and Their Future Identification and Disclosure [Subsequent Events]

Website update (Japanese section)	October 16, 2019
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(v)-2 Lectures at External Seminars

External seminar	10 times; six times since October 2019 [subsequent events]
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(2) Visits to IR Supporting Companies to Provide Explanations

We visited IR supporting companies to report IICEF's activities, provide detailed explanations on the agendas and exchange opinions with the aim of promoting recognition of the agendas of IICEF broadly among Japanese companies as a whole.

(Figure) Status of visiting IR supporting companies to provide explanations

Visits to provide explanations	8 times
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(3) External Affairs (Lobbying Activities)

We interviewed policymaking authorities, central banks, foreign public institutions, pension funds, institutional investors in and out of Japan, relevant organizations in and out of Japan, ESG research organizations overseas, research institutions, etc. to introduce IICEF, report our activities and exchange opinions concerning collective engagement meetings.

In addition, we corresponded to press interviews.

(Figure) Status of external affairs (lobbying activities)

Visits to provide explanations and exchange opinions	18 times Three times since October 2019 [subsequent events]
Answering interviews	2 times

4. Issues to Be Addressed

Two years have passed since our launch as Japan’s first organization to support collective engagement meetings by institutional investors. During the period, we set up six agendas, conducted collective engagement dialogues with more than 100 companies and worked on activities to broadly make announcements. On the back of attention from companies, institutional investors in Japan and overseas, government offices, various relevant organizations, etc., we have looked for and gradually advanced methods of collective engagement meetings unique to Japan. In other words, we act as an organization to conduct activities aimed at increasing long-term corporate value of Japanese companies as a whole, rather than activities to pursue short-term shareholder returns.

As a result, we made achievements as described in “3. History and Achievements of Activities.” We are seeing what we can considerably refer to as achievements in agendas started last fiscal year, and many Japanese companies have come to understand IICEF’s approaches as well as views and requests of the Participating Investors. We feel confidence about gradual changes in views of companies.

In addition, IICEF has come to receive certain appreciation for its activities from policymaking authorities, securities exchanges, public pension funds, etc., and now, non-participating investors, relevant organizations overseas, etc. are also showing interest in our activities. We are gradually gaining influence over Japanese companies, and a circle of support and cooperation is expanding.

However, naturally there is a limit to the number of companies for which collective engagement meetings can be held, and at the same time, management resources are limited. Amid such circumstances, the issues lie in how we can increase the influence over the stock market as a whole, or Japanese companies as a whole. Among other issues, issues still remain in clarifying the advantages unique to collective engagement meetings which cannot be offered in non-collective dialogue and establishing methods of collective engagement meetings in line with the circumstances of Japanese companies and the stock market. Furthermore, in order to address these issues, we understand we are, as a general incorporated association, required to establish management foundation capable of generating sustainable growth.

Contact information:

Institutional Investors Collective Engagement Forum

Directors in charge: Yuki Kimura, Naomi Yamazaki and Ryusuke Ohori

Address: Tokyo Entre Salon, Sinmaki-chou Building Annex 1, 3-2-14, Nihonbashi, Chuo-ku,

Tokyo 103-0027 JAPAN

E-mail: info@iiccf.jp

*In Japan's Stewardship Code, Guidance 4-4 stipulates "Institutional investors should have a clear policy in advance on how they design dialogue with investee companies in various possible situations."