

# Stewardship Activities

As a responsible institutional investor, SMDAM engages in constructive dialogue with investee companies and appropriately executes voting rights, thereby contributing to the sustainable asset formation of customers.

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## Results of the exercise of voting rights at general meetings of shareholders from July 2022 to June 2023 (Japanese equities)

Proposals	Total	Supported (percentage of support)	Opposed (percentage of opposition)	Abstention	Blank votes
Total company proposals	24,252	18,499 (76%)	5,753 (24%)	0	0
Proposals on company organization					
Appointment and dismissal of directors*1	18,683	13,853 (74%)	4,830 (26%)	0	0
Appointment and dismissal of audit & supervisory board members*1	2,157	1,799 (83%)	358 (17%)	0	0
Appointment and dismissal of accounting auditors	93	91 (98%)	2 (2%)	0	0
Proposals on executive compensation					
Executive compensation*2	723	648 (90%)	75 (10%)	0	0
Payment of retirement benefits	98	9 (9%)	89 (91%)	0	0
Capital policy proposals					
Appropriation of retained earnings	1,535	1,263 (82%)	272 (18%)	0	0
Matters related to restructuring*3	33	33 (100%)	0 (0%)	0	0
Introduction, renewal, or abolition of takeover defense measures	89	0 (0%)	89 (100%)	0	0
Other capital policy proposals*4	86	83 (97%)	3 (3%)	0	0
Partial amendment of the articles of incorporation	751	719 (96%)	32 (4%)	0	0
Other proposals	4	1 (25%)	3 (75%)	0	0

Proposals	Total	Supported (percentage of support)	Opposed (percentage of opposition)	Abstention	Blank votes
Total shareholder proposals	410	77 (19%)	333 (81%)	0	0
Proposals on company organization					
Appointment and dismissal of directors*1&5	79	16 (20%)	63 (80%)	0	0
Appointment and dismissal of audit & supervisory board members*1	2	0 (0%)	2 (100%)	0	0
Appointment and dismissal of accounting auditors	0	0	0	0	0
Proposals on executive compensation					
Executive compensation*2&6	44	24 (55%)	20 (45%)	0	0
Payment of retirement benefits	0	0	0	0	0
Capital policy proposals					
Appropriation of retained earnings	34	10 (29%)	24 (71%)	0	0
Matters related to restructuring*3	0	0	0	0	0
Introduction, renewal, or abolition of takeover defense measures	2	2 (100%)	0 (0%)	0	0
Other capital policy proposals*4	32	4 (13%)	28 (88%)	0	0
Partial amendment of the articles of incorporation	213	18 (8%)	195 (92%)	0	0
Other proposals	4	3 (75%)	1 (25%)	0	0

\*1 Aggregate support/oppose votes for each candidate

\*2 Revision of executive compensation, issuance of stock options, introduction/revision of performance-linked compensation, executive bonuses, etc.

\*3 Mergers, business transfer and acquisition, stock swaps, stock transfers, corporate splits, etc.

\*4 Acquisition of treasury stock, reduction of legal reserve, capital increase through third-party allotment, capital reduction, reverse stock split, issuance of class shares, etc.

\*5 Including the audit committee

\*6 Including disclosure of executive compensation

## Message from the Responsible Investment Officer ~ The increasing importance of stewardship activities ~

The influence of stewardship activities by asset managers (mainly engagement activities and the exercise of voting rights) is steadily growing year by year. During general meetings of shareholders in June 2023, shareholders submitted proposals at 90 companies, some of which were approved. Notably, there were some examples of a significant decline in approval rates for director candidates in proposals submitted by companies. Our company has long encouraged change in the actions of investee companies through our exercise of voting rights, but overall, it was not realistic to expect that shareholder proposals would be approved or that proposals submitted by companies would be rejected. The situation, however, is changing, with stricter criteria for the exercise of voting rights by asset managers aligned with the Corporate Governance Code, etc., the decline in the proportion of stable shareholders as companies reduce cross-shareholdings, and a growing trend for shareholder proposals by activists to be judged fairly from the perspective of future enhancements in corporate value. Investee companies are feeling increasing pressure concerning their relationships with investors, as senior managers may lose their positions if they do not earnestly consider the views of investors.

From the perspective of enhancing corporate value, the Tokyo Stock Exchange (TSE) is demanding that companies listed on the Prime and Standard Markets focus on more active engagement with investors, in order to improve P/B ratios. For asset managers, stewardship activities aimed at enhancing corporate value over the medium to long term are also becoming increasingly important in order to secure investment returns, which is our core work, and we are keenly aware of the weight of our responsibility in this regard. Looking at the results of our exercise of voting rights at general meetings of shareholders held between April and June 2023, we voted against 24.8% of proposals submitted by companies, somewhat up from 22.4% in the same period of the previous year. This is mainly because as the economic and management environments have normalized, we have applied strict standards for ROE, where we previously gave some companies leeway because of the COVID-19 pandemic, as well as the fact that we have made strict judgments concerning the number of members and composition of boards of directors and audit & supervisory boards from the perspective of effectiveness, in accordance with the guidelines in the Corporate Governance Code. Our approval rate

for proposals submitted by shareholders was 14.4%, somewhat down from 17.9% in the same period of the previous year. This decline was due to the fact that while the total number of proposals submitted by shareholders increased significantly, the number of proposals that we approved did not increase proportionally.

In January 2023, we revised our criteria for the exercise of voting rights to reemphasize our prioritization of the substance of proposals over their form. This revision reflects our intention to make voting decisions that contribute to enhancing the value of investee companies, based on a thorough understanding of their current circumstances. The key to achieving this goal will be careful engagement with investee companies. Starting in 2023, we began identifying important investee companies in our active management where there was a high likelihood that we would submit opposing votes due to their violation of our voting rights criteria in relation to sustainability, misconduct and scandals, cross-shareholdings, and other factors, and we initiated “advance warning engagement” with these companies prior to the exercise of voting rights. We will not simply oppose proposals based on formal criteria. Instead, we will prioritize actual substance and consider approving proposals in cases such as those when we have been able to confirm through engagement that a clear policy has been set in relation to the matter that violates our criteria. Additionally, even when we oppose proposals, we effectively use them as a method for directly communicating investor views to investee companies.

We are strengthening our efforts to encourage investee companies to tackle the six factors that constitute “Materiality for Investment Management” (see P01). Please refer to some actual examples of engagement and our successes described in later sections of this report. In our engagement activities, we carefully communicate the views of investors to investee companies and urge them to set and steadily achieve medium- to long-term targets related to sustainability and other aspects. When we determine that a company’s response is insufficient, we advocate for change in actions by submitting opposing votes to proposals for the election of directors, etc. We will further strengthen the relationship between engagement and the exercise of voting rights as part of our commitment to stewardship activities aimed at securing investment returns, and achieving a sustainable society.



**Junichi Sakaguchi**  
Responsible Investment Officer

## Engagement Activities

Fund managers and analysts engage in constructive dialogue with investee companies with the following objectives.

- ☑ Promote the sustainability of investee companies and their ecosystems
- ☑ Enhance the corporate value of investee companies or avoid loss, and thereby provide high-quality investment returns to our customers and final beneficiaries
- ☑ Address environmental problems, solve social issues, strengthen governance, etc., based on our “Materiality for Investment Management,” which constitutes the issues that we consider crucial for the achievement of a sustainable society

We shall mainly engage in dialogue with key sectors and target companies established for each type of materiality.

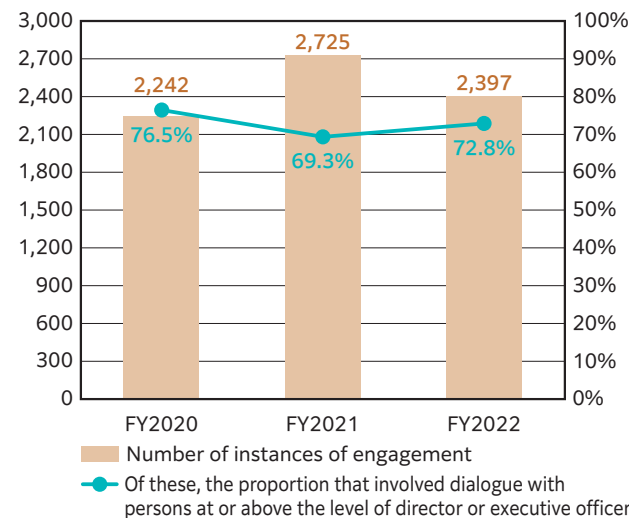
In addition to formal criteria, we will also perform engagement that has true value for stakeholders through prioritizing substantive interactions.

### Summary of Actual Results of Engagement Activities in FY2022

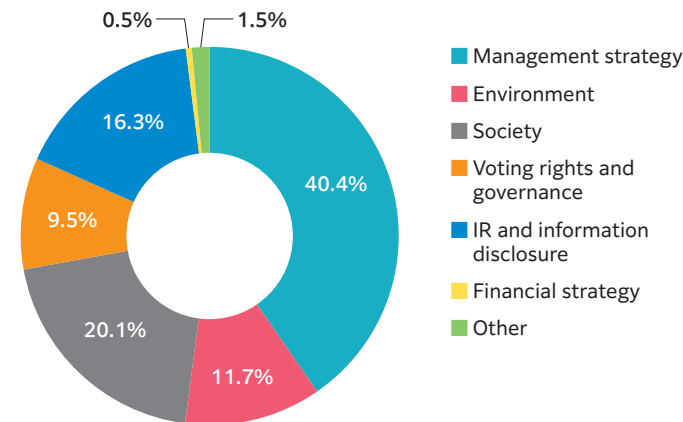
- The number of instances of engagement in FY2022 was 2,397. Of these, the proportion of instances of engagement that involved dialogue with persons at or above the level of director or executive officer was approximately 73%.
- The number of instances of engagement centered on the theme of “society,” particularly human capital and diversity, increased.
- Of our eight levels of engagement progress management milestones, many instances of engagement were at levels two to four, and we have a policy of maintaining ongoing dialogue.

### Results of activities (exclusive engagement)

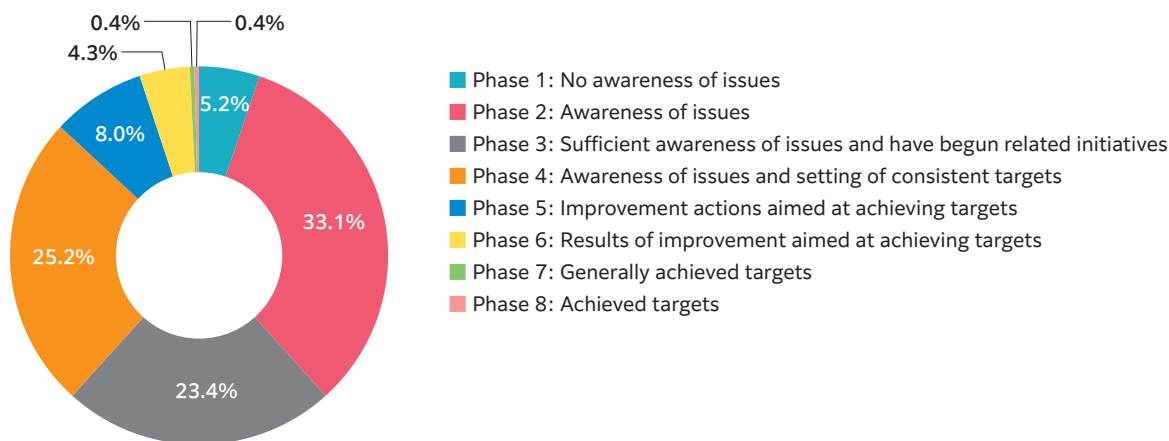
< Number of instances of engagement executed >



< Breakdown by theme > FY2022



< Milestone management > FY2022



### < Engagement target list >

In FY2022, we conducted dialogue with 92 companies from our prioritized target list. At 35 of these 92 companies, there was a noticeable trend toward the improvement of issues.



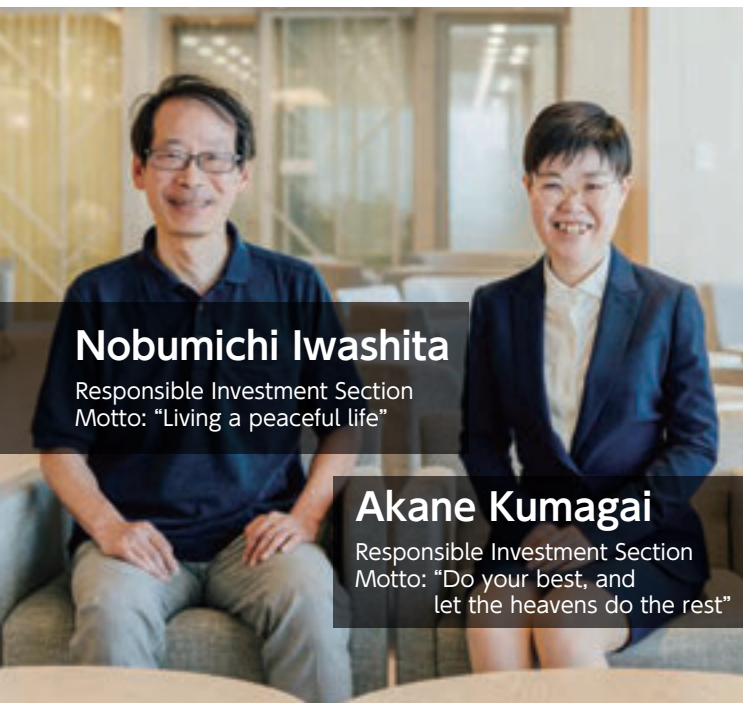
## Climate Change

### Awareness of current conditions and direction we should aim for

Climate change is a global issue that requires a response and solution as soon as possible. The national government, companies, and citizens must work together to achieve the Japanese government's target for a 46% reduction in greenhouse gas (GHG) emissions by 2030 (vs. FY2013) and net zero emissions by 2050. In order to achieve this target, in addition to cutting emissions from corporate activities, including the supply chain, various innovations will be essential, including a shift to renewable energy, the utilization of hydrogen, ammonia, etc., and the creation of practical applications for carbon capture, utilization, and storage (CCUS). As a responsible institutional investor, we believe it is important that we engage in dialogue to share issues and find solutions, not just with investee companies, but also with all types of stakeholders.

### Our initiatives

SMDAM supports the Paris Agreement, which encompasses globally-shared long-term goals, as well as initiatives by the Japanese government and the international community aimed at achieving net zero GHG emissions by 2050. In March 2022, we joined "The Net Zero Asset Managers Initiative," a global initiative by asset management companies aiming to achieve these targets. We strongly encourage investee companies, etc., to disclose information based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and express their support for this initiative, and to respond to CDP questionnaires. We also encourage investee companies to acquire Science Based Targets (SBT) certification, improve their CDP climate change scores, etc. In addition to monitoring progress on plans to cut emissions and companies' approaches to information disclosure, we also work to share issues and support solutions related to short- and long-term technical development for the achievement of targets, internal factors such as funding, and external factors such as the infrastructure environment, etc.



**Nobumichi Iwashita**

Responsible Investment Section  
Motto: "Living a peaceful life"

**Akane Kumagai**

Responsible Investment Section  
Motto: "Do your best, and let the heavens do the rest"



## Natural Capital

### Awareness of current conditions and direction we should aim for

Natural capital refers to all types of capital formed by nature, such as forests, soil, water, air, and bioresources. Companies create a widespread value chain that ranges from primary industries such as agriculture, forestry, fisheries, mining to tertiary industries such as retail and services, and benefit from ecosystem services obtained from natural capital. In order to continue enjoying the benefits of abundant ecosystem services into the future, it is important that we appropriately assess risks and opportunities related to natural capital, mitigate our impact on the environment, and enhance the sustainability of society as a whole.

### Our initiatives

Through engagement with our investee companies, our company aims to contribute to the improvement of the environmental preservation and continuity of biodiversity, water resources, forests, the seas and so forth as well as to promote the circular economy. At the "15th Meeting of the Conference of the Parties to the Convention on Biological Diversity (CBD-COP15)" held in Montreal, Canada in December 2022, the "Kunming-Montreal Global Biodiversity Framework," which sets forth international targets, was adopted, and a policy was presented of being "nature positive," which seeks to halt the loss of biodiversity by 2030 and set the world on a recovery trajectory. There was progress in companies' information disclosure in line with the recommendations of the "Taskforce on Nature-related Financial Disclosures (TNFD)," a framework for corporate risk management and disclosure related to natural capital. We are actively encouraging investee companies to appropriately assess risks and opportunities related to natural capital and enhance their disclosure of related information.



## Human Capital

### Awareness of current conditions and direction we should aim for

Human resources are the greatest capital of companies and the source of their competitiveness. Accordingly, the key to enhancing corporate value lies in linking human resource strategies to corporate strategies, acquiring and developing top-class human resources, and maximizing the capabilities of each and every employee. Improving employee engagement is essential for achieving these goals, meaning this necessitates the development of novel human resource systems based on, for example, “job-focused employment” and “human resources posting system,” to improve the motivation of employees. Under these circumstances, it is surely fair to say that the promotion of “Diversity, Equity, Inclusion, and Belonging” is an important management issue. Companies must create workplaces where each and every employee can respect each other’s diversity, while working together for both the success of the business and their own growth.

### Our initiatives

Based on this belief, we are encouraging investee companies to hire and develop employees in accordance with human resource strategies that are consistent with medium- to long-term corporate strategies, and to develop workplace environments where employees can fully exercise their abilities, thereby augmenting corporate value. In 2023, we focused on dialogue with corporate “Chief Human Resource Officers (CHROs),” and we intend to utilize some of the best practices in our engagement with other companies. It is fair to say that, at present, many Japanese companies have been slow to implement initiatives related to DEIB. Recognizing that promoting DEIB contributes to organizational growth and vitalization, as well as the enhancement of corporate value, we are encouraging companies whose measures have not been sufficient to enhance their information disclosure, establish medium- to long-term targets, etc.



## Human Rights in Supply Chains

### Awareness of current conditions and direction we should aim for

In addition to child labor, forced labor, and labor in poor environments in emerging markets, the treatment of foreign technical interns in Japan is viewed as problematic. Beyond the ethical implications, companies face potential damage to brand value and poor business performance from boycotts if human rights problems materialize, not just in one’s own company but also in supply chains. For this reason, all companies, regardless of scale, industry, etc., must formulate human rights policies that conform to international standards, and execute “human rights due diligence (human rights DD)” as a mechanism for preventing, reducing, and correcting risks related to human rights. Currently, however, there are many companies that have not sufficiently addressed human rights owing to personnel, budget, or other constraints. It is thought that identifying human rights risks in one’s own company or in the supply chain, researching actual conditions, and quickly taking measures to improve the situation if there are any problems will prevent unexpected losses and contribute to sustainable growth.

### Our initiatives

In October 2021, our company established its Human Rights Policy for the purpose of organizing its commitment to respecting human rights and making more comprehensive efforts in that area. Based on this policy, we encourage our investee companies to adequately manage and address human rights risks at their organizations and in their supply chains, and to disclose related information. In December 2022, we joined “Advance,” a human rights-related initiative created by the “U.N. Principle for Responsible Investment (PRI).” Through collective engagement led by this initiative, we motivate investee companies to implement initiatives to solve human rights problems.

### Yasuhisa Kimoto

Responsible Investment Section  
Motto: “Good for everyone”

### Keiko Akuto

Responsible Investment Section  
Motto: “Positive thinking”



## Effectiveness of Corporate Governance

### Awareness of current conditions and direction we should aim for

Price/book ratios (ratio of share price to net assets), P/E ratios, and other valuation indicators remain at low levels in Japanese equity markets. To elevate these indicators to levels on par with other principal countries, enhancing the awareness of managers with respect to corporate value and the establishment of a governance framework to encourage risk-taking needed for medium- to long-term growth are imperative. The substantial number of shares discounted by the market owing to issues with information disclosure and companies trading at a P/B ratio of less than one can also be considered a distinguishing characteristic of the Japanese equities market. Plus, it is true that there are many companies that satisfy formal criteria, but face questions about their executive capabilities. We feel that we can engage in activities to encourage such companies to analyze the associated causes from an investor's perspective and enhance their corporate value through constructive dialogue.



## Business Ethics and Corporate Culture

### Awareness of current conditions and direction we should aim for

There is still no end to the succession of corporate scandals, including inspection fraud, quality falsification, cartels, inappropriate accounting, and information leaks. Although the intentionality and level of organizational involvement differs depending on the incident, business ethics and corporate culture have a major impact. Closed corporate structures not only cause scandals, but can also prevent a prompt and flexible response, resulting in the expansion of the negative impact on corporate value. For companies to prevent scandals and utilize opportunities created by changes in the management environment, it is extremely important that they focus on soft aspects such as employee ethics and corporate culture, as well as hard aspects such as governance structures and rules.

### Our initiatives

Our company has long focused on engagement based on substantive assessments, going beyond formal criteria. As part of our evaluation of the effectiveness of boards of directors, we began actively engaging in dialogue with outside directors in FY2022. We successfully achieved such dialogue at 22 companies, far exceeding our initial expectations. For almost all of these companies, it was the first time their outside directors had engaged in dialogue with an asset management company. We felt strongly that, through these dialogues, companies not only ascertained investors' views, but also began to understand the importance of analyzing management from the perspective of capital providers and absorbing their views. We expect that such dialogue will awaken a healthy spirit of entrepreneurship and contribute to sustainable growth.

### Our initiatives

In relation to scandals, we check for issues with the corporate culture, particularly in relation to: ① identifying the cause, ② clarification of responsibility, and ③ implementing measures to prevent recurrence. We utilize our findings in our exercise of voting rights and investment decisions, and also engage in dialogue aimed at improvement. For example, in measures to prevent recurrence, we focus on the creation of systems to prevent new scandals, not just the events that occurred, such as reforms of corporate culture led by senior management, the creation of operational processes and preparation of systems that leave no room for arbitrariness, systems for checks by third parties, the disclosure of the status of progress on related measures, and the appropriateness of internal reporting systems. From the perspective of leaving behind closed corporate structures, we also believe dialogue with outside directors is important, and actively engage in such dialogues. We are also continuously endeavoring to enhance the effectiveness of ESG evaluations, including utilizing various forms of technology and data to collect information, and reflecting business ethics and organizational culture in ESG evaluations.



**Osamu Koide**

Responsible Investment Section  
Motto: "No success without challenge"

**Yu Hosaka**

Responsible Investment Section  
Motto: "More haste, less speed"

## Examples of Engagement

### Lacto Japan Co., Ltd.

Engagement theme **E: Environment** **S: Society**

#### Sustainability management initiatives

##### Issues at the target company

Lacto Japan Co., Ltd. is a trading company that specializes in dairy ingredients and dairy products. There were calls for the company to enhance the level of its sustainability management, including addressing climate change risks and managing sustainability risks at suppliers.

##### Engagement plan

We began engagement activities in 2020. We suggested that formulating a sustainable procurement policy and disclosing the status of inspections and transactions based on this policy would be effective for mitigating business risk. We also requested that the company perform scenario analysis in line with the TCFD recommendations, considering the impact of climate change on the production volume of dairy products and its raw ingredients.

##### Results of engagement

Initially, management thought that disclosure was not necessary, based on the belief that “naturally, regular onsite inspections at ingredients suppliers overseas should be performed.” As a result of ongoing dialogue with SMDAM and growing social interest in sustainable procurement, however, the senior management team at the company changed their views on sustainability and launched an ESG project. Positive changes ensured, including the disclosure of six materialities related to sustainable management, information in accordance with the TCFD recommendations and the company’s basic approach to procurement, in 2023.

##### Policies for the future

We will encourage the further advancement of sustainable management, including target-setting for reducing CO2 emissions, formulating transition plans, and conducting human rights DD in the supply chain.

### SHIMAMURA Co., Ltd

Engagement theme **S: Society**

#### Strengthening of supply chain management

##### Issues at the target company

SHIMAMURA Co., Ltd. is a major general apparel retailer. There were calls for the company to enhance the level of its risk management in its supply chain environment and human rights concerns.

##### Engagement plan

When we first began engagement with SHIMAMURA in 2019, the company was merely disclosing information as part of its CSR initiatives on its corporate website, and we urged the disclosure on measures to prevent climate change and enhance supply chain management. Subsequently, as the company made progress with the disclosure of ESG information, our dialogue focused on the themes of: ① the expansion of measures to prevent climate change, including Scope 3 emissions, ② stronger measures related to human rights in the supply chain, and ③ the improvement of information disclosure based on improvements to the company’s ESG evaluation.

##### Results of engagement

Senior management began showing a proactive attitude toward dialogue on the theme of supply chain management, partly because in 2020, the “Australian Strategic Policy Institute (ASPI)” published a report related to forced labor in the Xinjiang Uygur Autonomous Region and Japanese companies’ participation in it. As a result, in FY2021, the company created a new ESG promotion system. Subsequently, a supplier audit process was introduced in order to create a sustainable supply chain, and the company began disclosing some audit results in FY2022.

##### Policies for the future

The company does not currently publish an integrated report, but we have confirmed that it aims to enhance its non-financial information and prepare an integrated report in the future. In terms of supply chain management, we will discuss the strengthening of its management systems on an ongoing basis, including the measurement of GHG emissions among suppliers and the formulation of related targets, as well as the enhancement of systems for audits related to human rights.

\* The information above is provided as examples of engagement activities, and does not constitute any form of recommendation of any individual securities.

## SMDAM Activities Under Initiatives

In addition to our own engagement activities, we also collaborate with investors in Japan and overseas to engage in constructive dialogues with investee companies through initiatives that we are a signatory or supporter of. We have also entered into a collective engagement contract with Sustainalytics, through which we participate in dialogue with non-Japanese companies that have infringed international standards, such as the UN Global Compact and the OECD Guidelines for Multinational Enterprises.

### Collective Engagement through Initiatives

#### CDP



- Participated in the Non-Disclosure Campaign and submitted requests as a lead investor to five companies to respond to CDP questionnaires.
- Participated in the Science-Based Targets Campaign and signed a collective letter calling for the acquisition of SBT certification.

#### Institutional Investors Collective Engagement Forum



- As part of engagement with companies where scandals occurred, led dialogue as a lead investor and discussed measures to prevent recurrence.
- We sent a letter in which investors called for the enhancement of initiatives and disclosure related to “ESG materiality” to approximately 1,800 companies.

#### PRI Advance



- As an initiative to solve issues related to human rights and other social issues, the UN Principles for Responsible Investment (PRI) established PRI Advance in December 2022
- We were a signatory at the time of its establishment, and plan to perform engagement with one Japanese company as a collaborative investor.

Initiatives that our company is a signatory or supporter of  
[https://www.smd-am.co.jp/corporate/responsible\\_investment/esg/initiatives/](https://www.smd-am.co.jp/corporate/responsible_investment/esg/initiatives/)



Signatory of:



### Collective Engagement Based on Screening for International Standards

International standards represent a global consensus of the minimum standards that companies, etc., should observe. As a responsible institutional investor, we can say that it is our responsibility to encourage improvements through dialogue with companies where there are fears that the consensus may be violated.

We participate in collective engagement led by Sustainalytics. Our aim is to make our engagement activities more effective by utilizing Sustainalytics' knowledge in areas such as the environment, human rights, and international law, as well as its influence based on the amount of assets under management of institutional investors around the world.



#### [Case study] Collective engagement with US energy-related company A

US energy-related company A was the subject of accusations that it had violated the human rights of indigenous people when building a pipeline facility in the US. Through collective engagement, we encouraged the company to solve the problem and take measures to prevent the risk of violating human rights in the future. As a result, it was confirmed that there was improvement in Sustainalytics dialogue milestones.

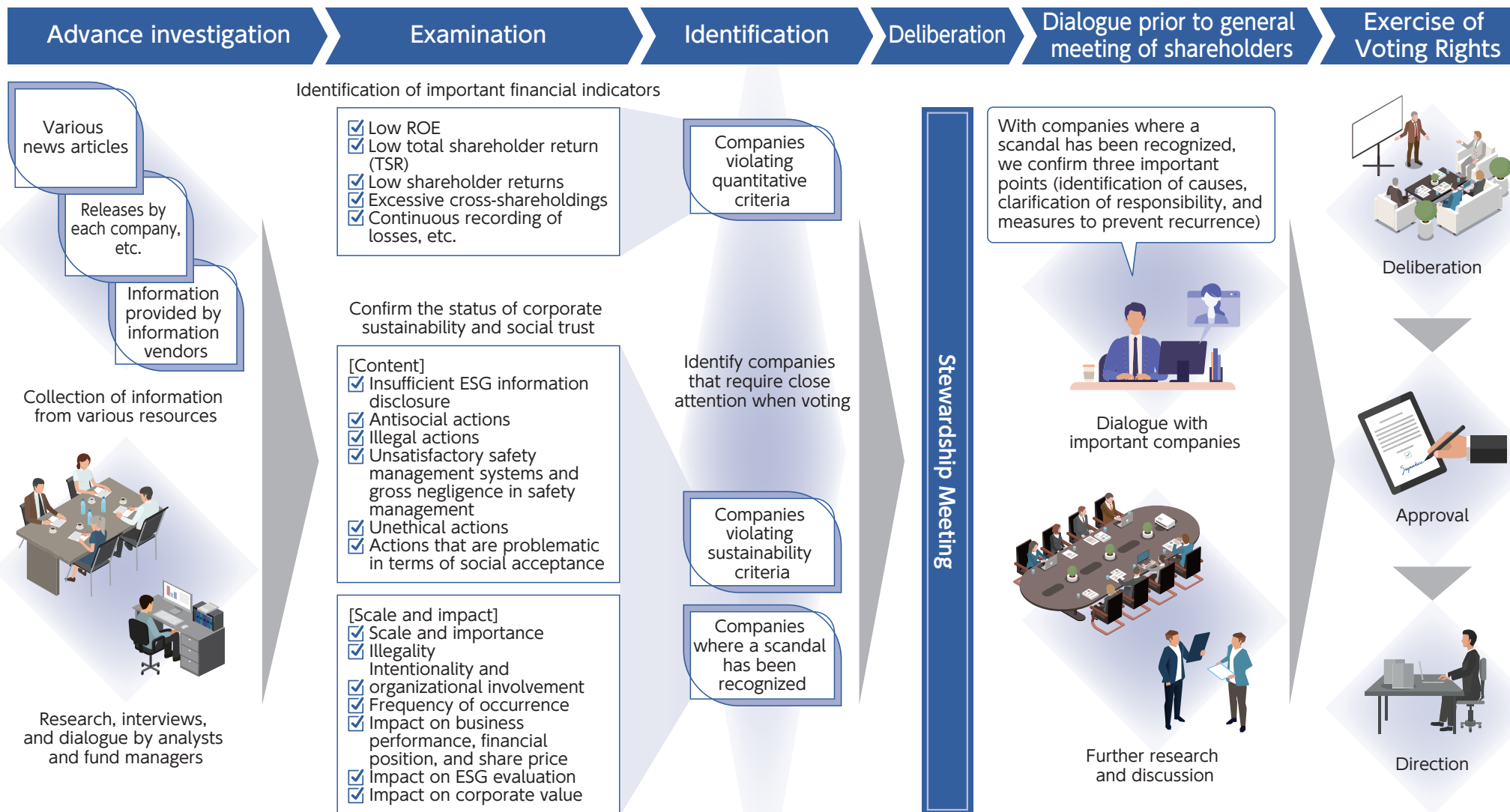
#### Engagement overview and results

Initial status: May 2018: Began engagement with Sustainalytics  
 December 2021: SMDAM participated in collective engagement led by Sustainalytics

February 2022: Company A received human rights training from Sustainalytics and began formulating a human rights policy  
 September 2022: Company A disclosed information about the monitoring of the status of compliance based on a comprehensive environmental management system, etc., and Sustainalytics strongly praised this development



## Exercise of Voting Rights Flowchart



- In addition to our “Criteria for Judgments Concerning the Exercise of Voting Rights,” we endeavor to exercise voting rights with the objective of enhancing corporate value or avoiding loss from a diverse range of factors
- The Investment Department as a whole receives advance notification of the companies that are violating each standard, and they are discussed at the Stewardship Meeting
- We have transitioned to a process that places more emphasis on the results of dialogue when exercising voting rights, and if it is judged necessary ahead of annual general meetings of shareholders, etc., we will actively engage in pre-general meeting dialogue

## Exercise of Voting Rights Case Studies

### Amendments to Criteria for Judgments Concerning the Exercise of Voting Rights for Japanese Equities

Based on changes in the market's mindset toward governance, we have summarized our requests for investee companies as a responsible institutional investor, and reflected them in the Criteria for Judgments Concerning the Exercise of Voting Rights.

#### Background to amendments

As a responsible institutional investor, we will exercise voting rights with the aim of enhancing the value of or mitigating damage to investee companies for the benefit of customers and final beneficiaries.

In 2015, the Corporate Governance Code was applied to Japan's listed companies, and in April 2022, the Tokyo Stock Exchange launched its new market classifications. During this time, we observed a steady improvement in our investee companies' governance systems and mindsets. Going forward, it will be important not just to prioritize the independence of outside officers, but also to discuss the composition (skills and diversity) of boards of directors and the enhancement of their effectiveness. At the same time, we will also actively engage in dialogue related to quantitative criteria for business performance (ROE, etc.), any incidences of fraud or scandal, issues related to sustainability, issues related to capital policy, etc. We believe that appropriately reflecting the results of such discussions when exercising voting rights will contribute to the enhancement of both corporate value and shareholder value.

#### Overview of amendments

The main points of these amendments to Criteria for Judgments Concerning the Exercise of Voting Rights for Japanese Equities are as follows.

- (1) Transition to a process that places greater emphasis on the results of dialogue when exercising voting rights
- (2) In principle, apply the criteria of securities exchanges for independent officers to assessments concerning the independence of outside officers
- (3) In principle, request that companies listed on the Tokyo Stock Exchange Prime Market appoint at least one female director
- (4) Create stricter criteria related to the composition of boards of directors (reduce the maximum total number of members permitted and object to increases in internal directors or reductions in outside directors or audit and supervisory committee members, in principle)
- (5) In principle, object to advance warning-type takeover defense measures (make judgments on a case-by-case basis for target-specific takeover defense measures)

### Case Study of Dialogue Prior to the General Meeting of Shareholders

#### BIPROGY Inc

**Theme** Management strategy, scandals

#### Issues at the target company

BIPROGY Inc. is a major systems integrator. Valuations of this company remained low because: (1) it was slow to create new businesses, and (2) in a scandal involving the loss of a USB memory stick in Amagasaki, a third-party committee indicated that there was a lack of awareness of compliance among officers and employees.

#### Engagement plan

We decided to request dialogue with outside directors and pointed out that there were problems with the awareness of compliance of officers and employees.

#### Results of dialogue

We confirmed that the outside directors with whom we held dialogue actively provide advice on the company's medium- and long-term growth strategy, purpose management, and the improvement of integrated reports, and that outside directors contribute significantly to sustainable management at the company. Furthermore, our impression was that the company has already created the foundations for innovation, including workstyle reforms led by the CEO from an early stage and sustainability management.



Subsequently, when exercising voting rights, we held separate dialogue prior to the general meeting of shareholders to confirm the status of progress on compliance, and voted to approve a proposal for the election of directors, based on the sufficiency of the company's response to the scandal.



#### Policies for the future

For management strategy, we are monitoring the creation of innovation in the company's business activities, and for scandals, we are monitoring the effectiveness of measures to prevent recurrence, etc., on an ongoing basis.

\* The information above is provided as examples of engagement activities, and does not constitute any form of recommendation of any individual securities.