2018 Activity Report Summary
(October 2017-December 2018)

1. Goal
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 and Operation
Institutional Investors Collective Engagement Forum (IICEF) will promote/organize Institutional Investors Collective Engagement Program. In this program, IICEF serves as the coordinator/secretariat. Participating institutional investors will discuss key issues of target companies and come up with engagement agendas which reinforce ongoing constructive dialogues. For each agenda, IICEF will try to set up collective engagement events, facilitate meetings (i.e. act as moderator), so that the dialogues between the target companies and investors are effective and constructive. The objective of the program is to enhance long-term corporate value creation and its sustainable growth, not to pursue short-term shareholder returns. It does not intend to ask for significant changes in business activities nor will it intervene in the details of the management decision-making. Participating institutional investors are prohibited from any “act of making important suggestion, etc.” and “agreement of joint holding” through the program.

3. History and Process

- **IICEF Establishment**
  Based on the revision of Japan’s Stewardship Code in May 2017 (Guidance 4-4), IICEF was established on October 2, 2017, to support collective engagement activities with listed companies by multiple institutional investors. At the same time IICEF launched Institutional Investors Collective Engagement Program and initiated collective engagement activities in Japan with five institutional investors.

- **Program Operation**
  - **Participating Investors**
    Currently five institutional investors are participating in the program: Pension Fund Association, Sumitomo Mitsui Asset Management (Sumitomo Mitsui DS Asset
Management, from April 2019), Sumitomo Mitsui Trust Asset Management, Mitsubishi UFJ Trust Bank, and Resona Bank. They all conduct passive investment.

- Monthly Meetings among Program Participants
  On a monthly basis, representatives from participating investors held meetings to discuss overall management of the program, engagement agendas (including common views among investors), target company selection, logistics, etc. Update reports from IICEF on various external meetings and events were shared in the monthly meetings.

- Agenda Setting and Letters to Target Companies
  All the program participants discussed engagement agenda setting and common view agreement very carefully, from a long-term buy and hold investor’s point of view. The conclusions were made based on various types of data mining, lectures by experts, etc., as well as view exchanges among the program participants. Then we sent letters to target companies. These letters delivered the common views, investors’ mindset behind those views, related questions to the management, etc. When we sent letters to top management people, we tried to contact IR sections beforehand to let them know what their management would be receiving, to avoid unnecessary surprise and confusion within the target companies.
  During the period, in total we sent 100 letters, covering 4 engagement agendas, as shown below.

**Engagement Agenda**

A) Materiality Identification and Disclosure
  Letter timing: January 2018
  Target company: Large-cap names that are proactive in integrated reporting of non-financial information especially on ESG matters

B) Scandal Handling
  Letter timing: June, July and November 2018
  Target company: Leading companies that caused major scandals

C) Many “Against” Votes
  Letter timing: September 2018
  Target company: Companies with many “against” votes at AGMs for their top management people appointments as board members

D) Takeover Defense Measures
  Letter timing: October 2018
  Target company: Large-cap names whose takeover defense programs should expire in 2019
Response

IICEF and its program members held collective engagement meetings with the target companies which accepted the meeting requests. From the company side, people like board members, divisional heads, etc., attended the meetings. In some cases, more informal sessions took place between IICEF directors and IR managers of the target companies to exchange views. In total, 37 engagement meetings/informal sessions were held during the period. For some engagement agendas where we did not necessarily ask for formal in-person engagement meetings, IICEF directors tried contacting the target companies via informal view-exchange sessions and e-mail communications, and then shared the companies’ responses back to the program members.

Seminars, Information-Sharing Sessions, etc.

In order to deliver our messages on the selected engagement agendas not only to the target companies but to all the listed companies in Japan, IICEF posted articles on our website about the main points of our letters sent to the target companies, and also had in-person meetings and/or e-mail communications with various entities such as regulators, other market participants, public pensions, IR/SR service providers, and so on. In addition, IICEF directors attended as speakers quite a few seminars sponsored by IR/SR service providers and brokers, as well as government related committees, to introduce IICEF and explain IICEF and its program members’ collective engagement activities. For the breakdown by agenda, please see below:

Seminars, etc.
A) Materiality Identification and Disclosure
   Website update (Japanese section): January 15, 2018 and June 12, 2018 (follow-up)
   Seminar: 11 / In-person meeting: 6
B) Scandal Handling
   Website update (Japanese section): July 16, 2018
   Seminar: 2 / In-person meeting: 4
C) Many “Against” Votes
   Website update (Japanese section): October 1, 2018
   Seminar: 4 / In-person meeting: 3
D) Takeover Defense Measures
   Website update (Japanese section): October 10, 2018
   Seminar: 4 / In-person meeting: 3
Public-Relation Activities

IICEF visited various parties including government bodies, pension funds, other market participants, ESG research companies, and NGOs, to introduce IICEF and exchange views on collective engagement activities by IICEF and its program members. In total, we had 41 meetings of that kind.

Challenges

Roughly one year has passed since IICEF started its collective engagement activities in Japan, as the first genuine collective engagement body in Japan. Since the launch we have been stressing that our focus should be put on long-term corporate value creation and sustainable growth, not on near-term shareholder returns. By the end of 2018, we had accomplished the activities described in the section above. Frankly, we are still on a trial-and-error mode. Collective engagement concept is very new to Japan, and we only can approach a limited number of listed companies with limited resources we have. We continue to believe that it is essential for us to try delivering our messages to as many companies as possible, rather than a small group of “target” companies. Also, we should continue making efforts to talk clearly about the benefit of collective engagement trials, and to develop most effective ways of collective engagements for Japanese companies and Japan’s equity market.

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