

February 12, 2020

Engagement Agenda

“Many ‘Against’ Votes”

Responses by Companies Against Which Many “Against” Votes Were Cast at Their General Meeting of Shareholders in 2018, And Sending Letters to Companies Against Which Many “Against” Votes Were Cast at Their General Meeting of Shareholders in 2019

Since October 1, 2018, the Institutional Investors Collective Engagement Forum (hereinafter referred to as “IICEF”), together with the five companies participating in IICEF’s collective engagement program, namely Mitsubishi UFJ Trust and Banking Corporation, the Pension Fund Association, Resona Asset Management Co., Ltd., Sumitomo Mitsui DS Asset Management Company, Limited and Sumitomo Mitsui Trust Asset Management Co., Ltd. (in alphabetical order; hereinafter referred to as the “Participating Investors”), has sent request letters to certain companies. In the letters, we requested explanations on the outcomes of the analysis of the reasons for the considerable number of “against” votes cast against the management’s proposals electing directors for top management at their general meeting of shareholders, even though those proposals were still approved. In the same manner, we requested considerations of the need for shareholder dialogue and other measures.

1. Overview of this agenda

In recent years, with more proactive and stricter stances on exercise of voting rights by investors and shareholders including institutional investors in and outside of Japan, there are an increasing number of cases where quite a few votes are cast against company’s management proposal bills at general meetings of shareholders.

Supplementary Principle 1.1.1 of Japan’s Corporate Governance Code stipulates “When the board recognizes that a considerable number of votes have been cast against a proposal by the company and the proposal was approved at a general meeting of shareholders, it should analyze the reasons behind opposing votes and why many shareholders opposed, and should consider the need for shareholder dialogue and other measures.”

Contents of proposals against which a considerable number of “against” votes are cast at a

general meeting of shareholders are diverse. However, this time, we focused on the cases where a considerable number of votes have been cast against management's proposals electing directors for top management. In these cases, apparently some shareholders are supposed to have found concerns over the overall management quality, business performances, etc., of the company and therefore we decided to request explanations on their analysis of the reasons behind the "against" votes as well as their considerations of the need for shareholder dialogue and other measures.

[Matters we requested explanations]

- (i) How has the board conducted discussion and analysis of the reasons behind a considerable number of shareholders casting "against" votes for management's proposals electing directors for top management? What measures have been taken to understand the reasons for the shareholders' "against" votes? How has the board considered the need for shareholder dialogue and other measures?
- (ii) What views have outside directors in particular expressed on the general meeting's vote results, and discussion and analysis of the results at board meetings?
- (iii) Based on these considerations, what does the company think about its key challenges in its management policy and strategies, corporate governance, efficient use of capital, and so forth? How is the company going to deal with the challenges?

2. Status of holding collective engagement dialogues

The contents of this agenda were summarized as the common views of the Participating Investors, and we sent letters to 30 companies selected based on certain criteria among the companies at which a considerable number of "against" votes were cast for management's proposals electing directors for top management at their general meetings of shareholders in May and June 2018, and received explanations from 29 companies through interviews or documents. In many cases, the management team and directors explained the management views and measures in detail during the interviews with coordinator/secretariat of IICEF, and in some cases, top management people conducted engagement with the Participating Investors.

As a result, it was found that every company has analyzed the results of the general meeting of shareholders and the reasons for the many "against" votes and reported the findings to the board members. Although there seems to still be dispersion among companies in the level of discussion by the board, there were some companies which had undertaken new management measures and reinforcement of IR and SR activities. On the other hand, there also were companies whose

understanding on the management issues which caused the “against” remained superficial, and their activities toward improvement seemed insufficient.

We provided each company with comments by the Participating Investors on the company’s explanations as feedback.

Approximately 60% of the companies to which we sent letters showed decline in the rate of “against” votes for management’s proposal electing directors for top management at their general meetings in 2019. On the other hand, some companies faced an increase in the rate of “against” votes; and we intend to continue paying attention to the measures of, and holding dialogue with, these companies.

3. Starting to send letters for 2019

We started in December 2019 to send letters to 16 companies requesting explanations on the result of the considerations concerning the analysis of the reasons for the considerable number of “against” votes cast against management’s proposals electing directors for top management at their general meetings of shareholders to be held between March and June 2019, even though the proposals were still approved, and the need for shareholder dialogue and other measures, as we did in 2018.

[Reference: Related stipulations in the U.K. Corporate Governance Code]

There are stipulations in Chapter 1, Provision 4 of the U.K. Corporate Governance Code (revised in July 2018; enacted in January 2019) as follows:

“When 20 per cent or more of votes have been cast against the board recommendation for a resolution, the company should explain, when announcing voting results, what actions it intends to take to consult shareholders in order to understand the reasons behind the result. An update on the views received from shareholders and actions taken should be published no later than six months after the shareholder meeting. The board should then provide a final summary in the annual report and, if applicable, in the explanatory notes to resolutions at the next shareholder meeting, on what impact the feedback has had on the decisions the board has taken and any actions or resolutions now proposed.”

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