

Georgeson

In partnership with

JSS

2023 JAPANESE

AGM

SEASON REVIEW



Contents

Introduction > 3

Investor insights > 4

AGM trends in Japan > 10

Japan highlights > 10

1. Voting in Japan > 12

2. Proxy advisors > 16

3. Shareholder proposals > 18

4. Corporate governance developments > 26

Appendix > 28

European season review excerpt > 28

U.S. season review excerpt > 30

About us > 32

INTRODUCTION

We are proud to present the second edition of Georgeson's Japanese AGM Season Review, a thorough analysis of the trends we are seeing at AGMs held by Nikkei 225 companies in 2023. This report is a joint publication with our partners, Japanese Shareholder Services: their contribution to this report has been invaluable.

Founded in 1935, Georgeson is the world's oldest proxy solicitor and is now a global market leader in strategic shareholder communications as well as corporate governance and ESG advisory. Our unrivalled market expertise, coupled with our strong relationships with investors around the world, allows us to deliver the highest quality support to all our clients. It also gives us a holistic view of how shareholder priorities are changing and how this affects AGM voting behaviours. This report highlights the trends across Japan, a market that we have operated in for over 25 years.

The 2023 AGM season in Japan saw shareholder activism take centre stage with an unprecedented level of contested shareholder resolutions. Although the number of shareholder resolutions has not quite matched the number seen in 2020, the level of support for these resolutions has risen as foreign institutional investors have become more comfortable with the format and structure of shareholder proposals in Japan. Similarly, we are beginning to see a trend of proposals being put forward at a wider variety of companies, with some activists focused on a specific topic across multiple issuers.

The attention to Environmental & Social issues across the Nikkei 225 shifted in 2023 from nuclear power to climate change. In previous years, environmentally driven shareholder resolutions across the Nikkei 225 were dominated by requests to utility companies to phase out nuclear power. However, there is now an increasing focus on requesting companies to include specific climate disclosures within their annual reports. Historically, shareholder resolutions requesting companies to report on climate change have received higher levels of support from investors and proxy advisors than other shareholder proposal types.

One of the biggest indicators as to whether a resolution will receive a high level of opposition continues to be a negative voting recommendation from one of the proxy advisors, as many of the largest investors use their analysis and recommendations to guide their voting decisions. Across the Nikkei 225, more than half of resolutions that received over 10% opposition had a negative voting recommendation from either ISS or Glass Lewis. This underscores the importance of issuers taking proactive measures to engage with both proxy advisors and investors in a considered approach respecting the different models each proxy advisor sets out in terms of engagement.

The election of directors is an increasing area of focus among investors in 2023. While companies in Europe are seeing the share of contested director elections decrease in most markets, the trend is moving in the opposite direction in Japan: 13.6% of director elections received 10% or more opposition in 2023, an increase from the 12.5% observed in 2022. The drivers of this trend are specific to the Japanese market as investors are taking a stricter view on the gender diversity of boards and are holding directors accountable at companies that have significant cross-shareholdings. The later point of cross holdings is getting greater attention amongst investors and they are responding to companies who are not doing enough about their cross holdings by voting against directors.

Over the last few years, we have seen a reshaping of the Corporate Governance landscape in Japan as well as shifts in the expectations of investors within the market. Shareholder activism has taken a prominent place in Japan initiated both by traditional activists as well as foreign institutional investors. We hope that this report has been insightful and that it has provided a good view of these developments.

Throughout this report, we highlight instances where companies received higher levels of opposition than their peers. We work tirelessly to ensure that our clients are up to date with corporate governance and ESG trends as well as the evolving expectations of investors. As you prepare for your next general meeting, please do not hesitate to reach out and let Georgeson support you in achieving the best vote outcomes for your company by applying our market intelligence.

Finally, I would like to thank our partners at Japanese Shareholder Services. Their market expertise and hard work has been integral in putting together this report. I would also like to thank Kate Jalbert at Vanguard, Matteo Passero at UBS Asset Management, Aina Fukuda at Legal & General Investment Management, and Takahiro Hagawa at Amundi Asset Management who agreed to provide their invaluable insights for this year's report. Lastly, I would like to give a special thank you to Paul Murphy, our Head of ESG in the APAC region, as well as Kevin O'Neill and Hal Dewdney who both dedicated a lot of time to this report.



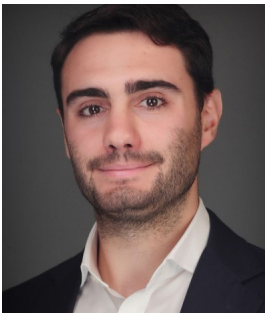
Cas Sydorowitz
Global CEO
Georgeson

INVESTOR INSIGHTS



VANGUARD

Kate Jalbert
Investment Stewardship
Director - EMEA/APAC



**UBS
ASSET
MANAGEMENT**

Matteo Passero
Stewardship Analyst



**LEGAL & GENERAL
INVESTMENT
MANAGEMENT**

Aina Fukuda
Head of Japan
Investment Stewardship



**AMUNDI
ASSET
MANAGEMENT**

Takahiro Hagawa
ESG Analyst



GEORGESON
Kiran Vasantham
 Head of Investor
 Engagement
 UK/Europe

The introduction of the Japan Stewardship Code in 2014 has been a significant milestone in the development of investment stewardship in Japan and it has encouraged institutional investors to be more active in voting and engaging with investee companies, they ultimately drive the trends that we cover in this report. As such, understanding how they formulate their views and approach their voting responsibilities is essential to appreciating the key trends and issues that shape the AGM season.

Though the AGM season in Japan is concentrated into just a few weeks, stewardship teams are increasingly engaging with companies around the year. Their voting decisions are only one facet of their stewardship responsibilities as they engage with companies to promote long-term shareholder value. In recent years, we have seen a growing focus from investors on engaging with companies on board diversity, cross-shareholdings and improving governance standards for premium and standard listings. Investors are increasingly demanding that companies disclose more information about these practices and take steps to improve more responsible corporate behaviour.

Our strong relationships with institutional investors are essential to our ability to provide high-quality research and analysis to our clients. It is on this basis that we continue to interview leading investors to get their perspectives on key issues around the Japan AGM Season. This year, they considered the following themes in no particular order:

- > Board composition, board diversity and independence.
- > Systemic governance frameworks to enhance responsible corporate behaviour.
- > Sustainability related risks and their impact on shareholder proposals.
- > Stand out insights of the Japanese 2023 AGM Season.

These interviews provide valuable insights into the progress that has been made in recent years and what the future of investment stewardship in Japan might look like in years to come.

I would like to thank Kate Jalbert from Vanguard, Matteo Passero from UBS GAM, Aina Fukuda from Legal & General IM, and Takahiro Hagawa from Amundi Asset Management for sharing their insightful views with us.

We hope that you find them informative and helpful.



VANGUARD

Kate Jalbert
Investment
Stewardship Director
- EMEA/APAC

The focus on board composition in Japanese companies has increased in recent years; how does Vanguard approach questions around board diversity and board independence, and where do you see this moving forward?

Board composition and effectiveness is one of Vanguard Investment Stewardship's four pillars of corporate governance. To that end, we have been closely following the mounting scrutiny in Japan around board independence and board diversity and have been thoughtfully refining our voting policy and expectations of portfolio companies broadly in line with the Japanese Corporate Governance Code. Allowing for the distinctions between company board structures and market segments, where a company fails to meet the Japanese Corporate Governance Code's board independence thresholds, a Vanguard-advised fund¹ will generally vote against senior management, as they are often responsible for appointing board directors.

One of our primary focuses that we frequently discuss in engagements is whether specific relationships, transactions, or situations could call into question an outside director's independence. We cite the factors that we consider in evaluating director independence in our [Japanese voting policy](#). For this reason, it is crucial that companies disclose comprehensive information on directors' backgrounds, including former employment, business connections, and cross-shareholdings, to ensure that shareholders can make an informed decision on director independence when voting. In addition, we look for companies to explain how the board evaluated outside directors' independence and why they consider outside directors to be independent.

We are encouraged to see more Japanese companies disclosing board skills matrices, which is helpful information for shareholders to evaluate overall board composition and diversity of skills, expertise, and characteristics.

What has surprised you most about the 2023 AGM season in Japan?

The 2023 AGM season saw a rise in activism, proxy contests in particular. Although somewhat anticipated, we observed an increase in the number of shareholder proposals on ballots, approximately twice as many as the previous year. In 2023, we have continued to assess each shareholder proposal on a case-by-case basis, and, where possible, we were pleased to have the opportunity to engage with leaders and individual companies that had shareholder proposals on the ballot to better understand the situation and management's response. In these cases, engaging with independent outside directors, who represent shareholders' interests, is of the utmost importance so that we can better understand the board's oversight processes and structures. We continue to find that some Japanese companies are reluctant to provide shareholders with the opportunity to meet independent outside directors. We view the ability to have direct dialogues with independent outside directors as important to further progress corporate governance and shareholder rights in the Japanese market.

How have you formed your voting policies with regards to companies that engage in cross-shareholdings?

The topic of cross-shareholdings has garnered attention over recent years and we expect it will continue to be a focus. While the Vanguard-advised funds do not have an explicit voting policy on cross-shareholdings, we have been engaging with companies on the topic and seeking to understand how they aim to meet the recommendations of the Japanese Corporate Governance Code. However, the Vanguard-advised funds' voting policy references cross-shareholdings as a factor for evaluation in relation to director independence - generally directors will not be considered independent if they work at companies that hold cross-shareholdings with the company in question.

¹ Vanguard's Investment Stewardship program is responsible for proxy voting and engagement on behalf of the quantitative and index equity portfolios advised by Vanguard (together, "Vanguard-advised funds"). Vanguard's externally managed portfolios are managed by unaffiliated third-party investment advisors, and proxy voting and engagement for those portfolios are conducted by their respective advisors. In this piece, "we" and "the funds" are used to refer to Vanguard's Investment Stewardship program and Vanguard-advised funds, respectively.



UBS
ASSET
MANAGEMENT
Matteo Passero
Stewardship Analyst

How do you currently approach the question of board diversity and independence in Japan and where do you see this moving forward?

I believe that, over the last couple of voting seasons, we have seen clear signals that Japan is finally accelerating a transition towards the high governance standards that are expected in any developed market. Pressure from the TSE, proxy advisors and activist investors has been driving a shift from a Japanese “exceptionalism” in governance to a clear effort to move towards international standards.

Board gender diversity is one of the obvious starting points in this journey: even though only a few years ago male-only boards were commonplace in Japan, most Boards now include at least one woman. This year, we even started to see a noticeable number of corporates moving towards the 30% gender diversity level that we now expect for larger companies in all developed markets, including Japan. Starting from 2022, UBS Asset Management decided to be a first mover in this respect, rejecting the “exceptional” status of Japan and requiring large Japanese companies to achieve the 30% Board gender diversity objective that we require in all other developed markets, and voting against the Chair of the Nomination Committee, or even the Chair of the Board, when this expectation is not met. While this means voting against at least one director at a large majority of constituents of the Nikkei 225 (with market cap above USD 10bn), we believe that investor pressure will push Japan to move in the right direction on this key governance issue. Moreover, the debate around gender diversity has paved the way for a more open discussion around the key aspect of international diversity, which we also expect to increase over the next few years.

What has surprised you most about the 2023 AGM Season in Japan?

While diversity remains a long-term issue for Japan, looking at the shorter term, I believe that shareholder activism was a surprisingly defining feature of the 2023 voting season. The number of activist campaigns and shareholder proposals has been growing dramatically in the past two years, and is a clear indication that Japanese companies cannot remain complacent on issues such as governance, profitability and wider E&S topics.

Recently introduced regulations encourages the boards of Prime and Standard listed companies to formulate policies on improving ROE, how are you monitoring companies you are invested in?

The TSE’s effort to encourage profitability and conscious cost of capital management is another clear signal to executive teams that a cozy approach to management, maybe supported by cross-shareholding relationships, is no longer acceptable, and activists have clearly got the brief. At UBS AM, management quality is a fundamental factor in investment decisions in every market, and Japan is no exception: any company with a management team comfortable with an ROE below 8%, or a P/B ratio below 1, would most likely not make the cut into our active portfolios, and this is proven by the track record of our key Japanese holdings. Therefore, we do not feel the need to design a dedicated approach to monitor improvements against the TSE’s recommendations. However, we do believe that the TSE’s push to focus on profitability and shareholder dialogue, and the renewed pressure from investors and proxy advisers to unwind cross-shareholding structures, will help to refocus management attention onto the fundamental performance of their businesses, and to ensure that their interests are fully aligned with those of shareholders: in short, the attractiveness of the Japanese market can only increase.



LEGAL & GENERAL
INVESTMENT
MANAGEMENT

Aina Fukuda
Head of Japan
Investment Stewardship

How do you currently approach the question of board diversity and independence in Japan and where do you see this moving forward?

While we are seeing incremental improvements in Japan, board independence and diversity continue to be among our main priorities; we have had voting policies in place on these topics since 2010 and 2020, respectively. In addition to voting against certain director candidates based on independence criteria, we vote against the re-appointment of the most senior member of the board (usually the company chairperson) or the nomination committee chair unless:

- > The board includes at least 1/3 independent outside directors. For listed subsidiaries with controlling parents, an against vote will be applied unless the majority of the board are independent outsiders.
- > For TOPIX 100 companies, at least 15% of the board are women. For companies listed on the Prime Market and not included in the TOPIX100, an against vote will be applied unless the board includes at least one female director.

Between April and June, we voted against 707 directors due to lack of board independence and 83 due to board diversity concerns in Japan. We will continue to tighten our board independence and diversity policies, paying attention to features specific to the market (e.g., different board structures and listed subsidiaries) and being mindful to ensure a company's nomination and selection process is well-thought-out and not rushed.

What has surprised you most about the 2023 AGM Season in Japan?

We saw an increasing number of investors, both domestic and foreign, use their votes against management to signal disapproval over issues such as board effectiveness and capital management. One such example of a company that received an alarming support rate is Canon*, where the chairman/CEO received only 50.6% approval, dropping by almost 40% from two years ago. LGIM has for many years voted against his re-appointment due mainly to board

independence and diversity concerns. Other instances included Fuji Media* where the chairman/CEO received a support rate of 56.6% and Kyocera* where support for the chairman slumped to 66.0%. We voted against these re-appointments on account of a number of reasons, including board composition issues and excessive cross-shareholdings.

We also continue to see an increase in the number of shareholder proposals. Among the largest 500 companies, we counted 21 climate-related shareholder proposals, a growing feature at AGMs, at 11 companies. As in previous years, none passed, but are keeping management alert, with two thirds receiving more than 10% support and four surpassing the 20% mark.

Historically we have tended to see investors target the Utility, Energy and Financial sectors with a climate-related shareholder proposal, whereas this year we saw a proposal at Toyota that questioned the company's climate lobbying. Do you think that investors will continue to target companies outside of these sectors with regards to climate change (e.g. chemical companies)?

Yes, while coal exposure has been a primary focus of past shareholder resolutions, driving permanent and positive change to the real economy requires action from various sectors across the wider value chain. Targets could therefore potentially expand to more sectors with large indirect emissions (e.g., real estate) and/or those that are key supply and demand drivers of carbon-intensive products (e.g., chemicals).

The right policy environment is also crucial for an orderly transition which is why we have put in place voting policies on climate lobbying. With a company's intensity and position of climate lobbying coming under further scrutiny, similar shareholder proposals may indeed follow in other sectors (e.g., industrials) as for example we are seeing in the US.

* For illustrative purposes only. Reference to a particular security is on a historic basis and does not mean that the security is currently held or will be held within an LGIM portfolio. The above information does not constitute a recommendation to buy or sell any security.



AMUNDI ASSET
MANAGEMENT
Takahiro Hagawa
ESG Analyst

How do you currently approach the question of board diversity and independence in Japan and where do you see this moving forward?

The Japanese board traditionally presents fewer checks and balances than in most developed markets. One reason is that the Japanese Corporate Governance Code requires only one-third of the board of directors of companies listed on the Prime Market to be independent. Moreover, it is still frequent for current and former executives to control the board, with the nomination and compensation committees often playing an advisory role rather than a decision-making one.

In addition, Japanese boards of directors have customarily been male-dominated. In that regard, we welcome the recent proposal from the Japanese government that companies listed on the Prime Market should have to appoint one female director by 2025 and reach at least 30% of women directors by 2030. However, we believe the policy could be more ambitious as we expect companies to reach that threshold sooner. There is an urgent need for Japanese companies to increase the number of female managers who can serve as potential board candidates - in other words, to expand the pipeline.

Increasing the independence and diversity of Japanese boards is therefore a central element of Amundi's voting approach in Japan. With regard to diversity, Amundi generally votes against representative directors if the board does not include at least one woman. Our voting policy will be strengthened in the future and we keep engaging with companies, in Japan and elsewhere, for boards to reach at least a third of women.

What do you consider to be the largest sustainability-related risk in Japan and has this been mirrored by the shareholder proposals put forward at Japanese companies during the 2023 AGM?

Japan is facing two major issues: a rapidly aging society, which is leading to labor shortage and the need to preserve its energy security while addressing the climate change challenge. In consequence, the Japanese authorities have required companies since 2023 to improve their reporting by including a new section for sustainability information, with a particular focus on climate change and human capital topics.

While shareholder proposals on human capital are still rare in Japan for the moment, environmentally-focused resolutions have become more frequent. Japan argues that the premature abandonment of coal-fired power generation threatens Japan's energy security as they believe there is limited potential for renewable energy development. This leads to a discrepancy in perceptions, and expectations, between investors and companies regarding the urgency to withdraw from coal-fired power generation. The proposals that Amundi co-filed with other investors at the general meetings of Electric Power Development Co., Ltd (J-Power) in 2022 and 2023 clearly illustrate that situation. Amundi had engaged with the company as we were concerned by J-Power's decarbonization strategy. The company's plan, in addition to lacking targets, was not ambitious enough in its use of renewables, while relying on technologies that were neither proven nor scalable. This led to the first shareholder proposals on climate change in Japan filed by European institutional investors.

Climate-related shareholder proposals have recently target carbon intensive sectors, this year the automobile sector was targeted for climate lobbying. Do you think that investors will continue to target companies outside the high emitting sectors with regards to climate change (e.g. chemical companies)?

Traditionally in Japan, climate change-related shareholder proposals have been submitted to the energy conversion sector, which is responsible for the largest amount of energy-related CO2 emissions in the country. Following this logic, the "Industry" and "Transportation" sectors, which also have high energy-related CO2 emissions in Japan, may become targets for escalation by institutional investors in the future. In fact, CA100+, an institutional investor climate initiative, has already undertaken engagements with Japanese industrials (steel and chemical) and automobiles companies. Amundi is a signatory of this initiative and is part of some of these collaborative engagements.

Companies that do not want to face this type of proposals should have an effective plan to reduce emissions to net zero by 2050, including mid- and long-term targets and investment goals. More dialogue is needed so that corporations get a better understanding of their shareholder's expectations.

AGM TRENDS IN JAPAN

JAPAN HIGHLIGHTS

The share of Nikkei 225 companies that had at least one contested proposal (10%+ opposition) was 51.6%. The overall number of contested resolutions **increased to 332 in 2023, up from 246 in 2021 and 321 in 2022**. In total, 12% of board-sponsored resolutions received 10% or more opposition, compared to 11.1% in 2022.

Across the Nikkei 225, all management-sponsored resolutions **were approved by shareholders during the 2023 AGM Season**. The same was true in 2022 and in 2021.

13.6% of director elections were contested during the 2023 AGM season, a 1.1% point increase from 2022.

The share of remuneration resolutions that were contested fell from **7.2% in 2022 to 1.4% in 2023**.

The number of shareholder resolutions that **received 10% or more votes in support** has increased from 32 in 2022 to 41 in 2023.

Proxy advisors continue to have a **big impact on the outcome of proposals**, and there is a clear correlation between negative proxy advisor recommendations and lower vote results.

ISS (Institutional Shareholder Services) **recommended against 116 resolutions in 2023**, compared to 131 resolutions in 2022.

Glass Lewis recommended against or abstain on 171 resolutions in 2023, compared to 118 resolutions in 2022

I would like to join Georgeson's Global CEO Cas Sydorowitz in welcoming you to our second annual Japanese AGM Season Review. With 86 years of experience in proxy solicitation services, Georgeson holds the distinction of being the world's oldest proxy solicitor and a global market leader. Once again, Bloomberg has recognized Georgeson as the top-ranked proxy solicitation firm worldwide. In addition to this prestigious recognition, Georgeson has secured the No. 1 position in Asia and Europe for Proxy solicitation and is also leading in the Activism Advisory League Tables. We at Georgeson are delighted to continue delivering unparalleled quality services to our valued Japanese clients.

Shareholder activism continues to be the biggest headline in the Japanese market, this year we saw record numbers of activist cases throughout the AGM season. More activist investors have entered the Japanese market, and we believe shareholder activism will grow even bigger in the coming years.

The recent revisions to the Corporate Governance Code and the restructuring of Japanese capital markets have clearly demonstrated Japan's commitment to attracting global investors. As corporations throughout Japan adapt to meet the changing demands of international shareholders, they are recognizing the need to align with global expectations.

From our analysis, we see that the percentage of director elections facing opposition of 10% or more has increased to 13.6%, which is a 1.1% point increase from 2022. Japan's capital markets are undergoing a significant transformation, with activism no longer limited to foreign funds. Shareholder proposals are now being put forth by domestic funds, such as the Yamauchi No. 10 family office. This shift has put Japanese companies in a challenging position, as their management teams are increasingly finding themselves at odds with their investors. One contributing factor to this situation is the growing number of "against" recommendations issued by proxy advisors ISS and Glass Lewis. These advisors have adopted stricter stances regarding director elections for companies that lack gender diversity on their boards or have substantial cross-shareholdings.

Meanwhile, remuneration resolutions were far less contentious across the Nikkei 225 in 2023. The number of remuneration-related resolutions that received over 10% opposition dropped from eight in 2022 to only one during the 2023 AGM season. There were also no poison pill resolutions put forward by companies within the index throughout the year, despite there being three put forward every year as far back as 2020.

The corporate governance landscape of Japan has undergone a substantial transformation in recent years and this is set to continue in the coming years. These corporate governance reforms, coupled with the rise of shareholder activism in Japan, pose unique challenges for companies. It has been Georgeson's pleasure to support our Japanese clients in preparing for their AGMs throughout 2023, and we look forward to working with them again in the next AGM season.



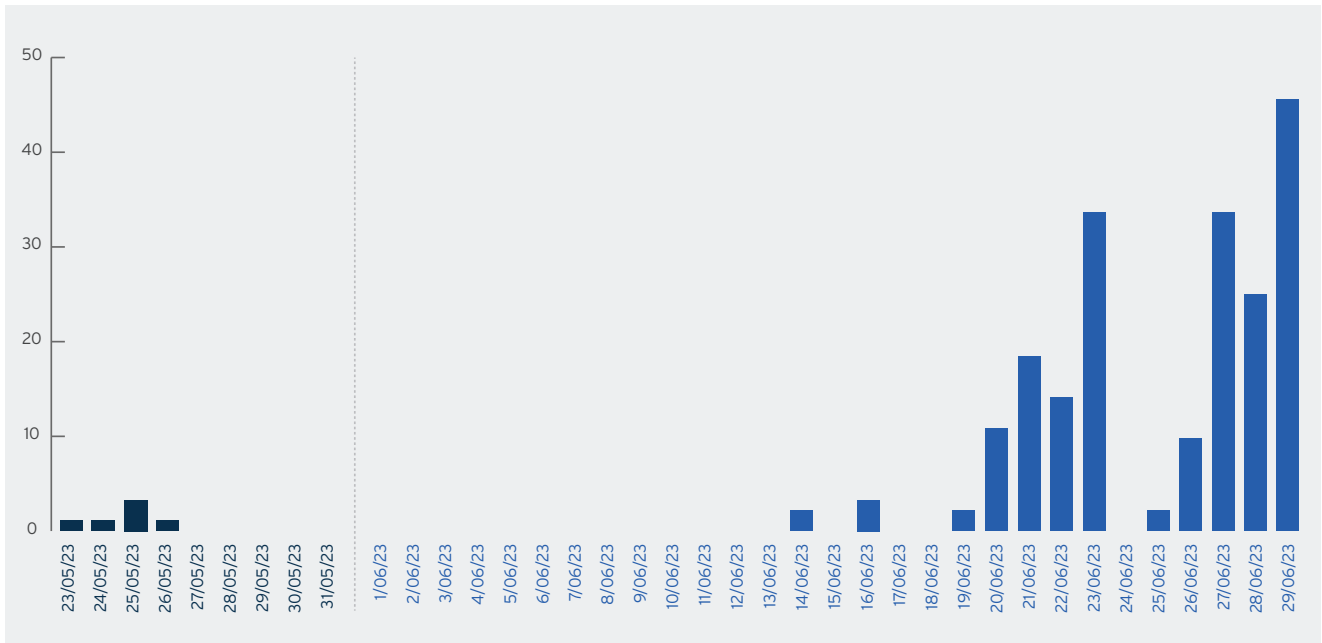
Bryan Ko
Head of Market, Asia

1. VOTING IN JAPAN

1.1 Overview

Our analysis considers the resolutions put forward by Nikkei 225 companies at AGMs held between 1 July 2022 and 30 June 2023. An interesting feature of the Japanese market is that most companies hold their AGMs over a short number of days in June. In our 2023 sample, 82.2% of Nikkei 225 companies held their AGMs in June.

Graph 1: Number of Nikkei 225 companies which held their AGMs during the months of May and June in 2022.



1.2 Contested resolutions

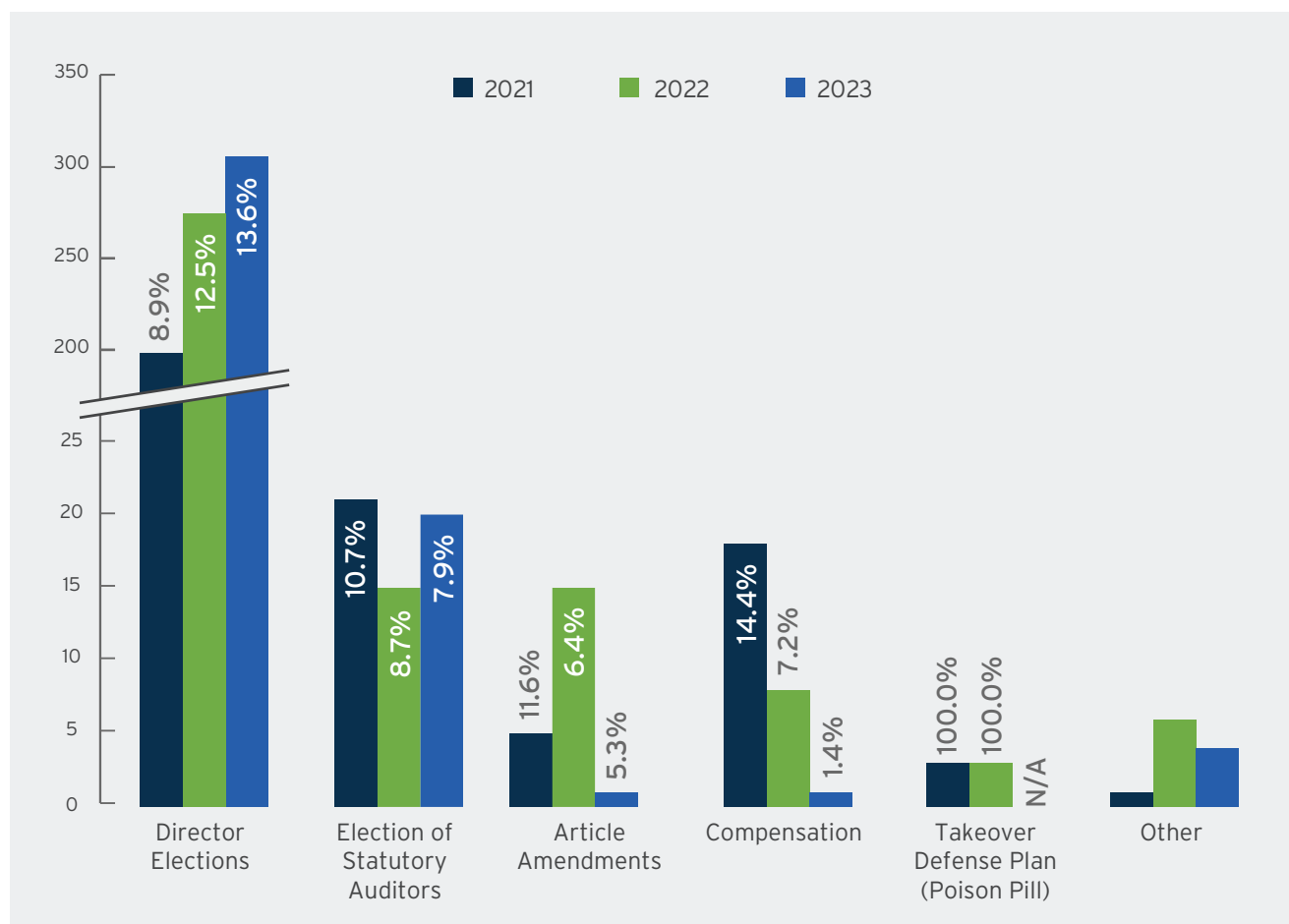
Among the Nikkei 225 companies, 51.6% saw at least one management-proposed resolution receive more than 10% shareholder opposition (compared to 53.8% in 2022 and 40.2% in 2021). This report defines a resolution as being contested when it receives less than 90% support¹ from its shareholders. The total number of resolutions that received over 10% opposition² amounted to 332, a 3.4% increase from the 2022 AGM season when 321 resolutions were contested.

In Japan, resolutions can be either ordinary or special³. Ordinary resolutions require a simple majority of votes cast, whereas special resolutions require a majority of two-thirds or more. Whether a resolution must be proposed as a special resolution is defined in the Companies Act.

Of the 225 companies in our sample, 224 had director elections, and 153 companies put forward allocation of income resolutions. Other common resolution types included ones related to the election of statutory auditors (118 companies), compensation (52 companies), and article amendments (38 companies).

Among Nikkei 225 companies, the resolution category that had the most contested resolutions was the election of directors (305). The category with the second most contested resolutions was the elections of statutory auditors, which saw 20 contested resolutions.

Graph 2: Number of resolutions which received more than 10% against votes in the Nikkei 225 (by resolution type). The percentages represent the proportion of proposals that received more than 10% against votes in each category.



1 In Japan, company vote result disclosures do not always count all on-site votes if there are sufficient affirmative votes to pass a resolution. Further, abstain votes are generally counted together with actual against votes in calculating the total proportion of votes that were not cast in support of management.

2 Company vote result disclosures count abstain votes as against votes in their calculations.

3 <https://uk.practicallaw.thomsonreuters.com/w-029-9180>

1.2.1 Director elections

13.6% of director elections (305) received 10% or more opposition during the 2023 AGM season. This is an increase from 2022 when 12.5% of director elections were contested and in 2021 when 8.9% were. In total, director elections account for 91.9% of the contested resolutions seen in the Nikkei 225 in 2023, up from 80.5% in 2021 and 85.4% in 2022.

The increase in the number of contested director election votes in 2022 and 2023 can be partially attributed to an increased level of scrutiny around cross-shareholdings. In 2022, ISS updated its guidelines⁴ and included a new recommendation for the Japanese market to withhold support for the elections of “top executive(s) at a company that allocates a significant portion (20% or more) of its net assets to cross-shareholdings”. In Japan, cross-shareholding networks have historically been seen as a way for companies to maintain close business relationships. However, in recent years, there has been mounting pressure against the practice as it is considered to be a form of poor corporate governance by many investors.

Glass Lewis has also expressed concern over cross-shareholding and state in their 2023 guidelines⁵ that they “will generally recommend voting against the chair of the company (or the most senior executive in the absence of a company chair) when the size of strategic shares held by the company exceeds 10% or more of company’s net assets in the securities report disclosed in the previous fiscal year.” A new addition to this year’s guidelines is that for companies holding their AGMs after 1 February 2023, they will refrain from recommending shareholders vote against directors for the issue of cross-shareholdings alone “when the company has disclosed a clear plan for reducing the size of its strategic shareholdings including the specific amount of reduction and the timeframe for the reduction”. It will also refrain from recommending against the election of directors of companies that have strategic shareholdings between 10% and 20% if their ROE is above 5% over the past five fiscal years.

Apart from the cross-shareholding issue, other reasons for significant against votes on director elections included gender diversity and long-time tenure of incumbents.

In recent years, there has been a greater focus from international investors on the gender diversity of Japanese company boards. ISS’ Japan benchmark policy now includes the recommendation to vote against a company’s top executives if the board will not include at least one female director. Meanwhile, Glass Lewis’ new guidelines recommend voting against the board chair if women represent less than 10% of the board.

The five companies with the lowest level of support on director elections among our sample were:

- › Canon, Inc (Fujio Mitarai - 50.6% in favour)
- › NGK Insulators, Ltd (Hiroyuki Kamano - 56.3% in favour)
- › Sumitomo Mitsui Financial Group, Inc (Yasuyuki Kawasaki - 57.1% in favour)
- › Sumitomo Osaka Cement Co (Hirotsune Morohashi - 60.3% in favour)
- › The Kansai Electric Power Co (Takamune Okihara - 60.8% in favour)

We note that ISS recommended voting against each of these directors apart from Mr Kamano. Glass Lewis recommended voting against Mr Kawasaki and Mr Okihara.

Three of the five director elections with the lowest levels of support were related to board composition (either independent representation or gender diversity). One of the elections received opposition because of the company’s cross-shareholdings and one received opposition due to a previous controversy.

4 <https://www.issgovernance.com/file/policy/active/asiapacific/Japan-Voting-Guidelines.pdf>

5 <https://www.glasslewis.com/voting-policies-current/>

1.2.2 Director remuneration

Japanese companies must put forward a binding resolution detailing the maximum allowed remuneration for directors at the company. Once approved by shareholders, the remuneration for individual directors, both executive and external, is determined by the board.

Of the 70 compensation resolutions put forward by Nikkei 225 companies during the 2022 AGM season, only one was contested (1.4%). This is a significant drop in the share of contested votes from 2023 when 7.2% of compensation resolutions received 10% or more opposition.

The five Nikkei 225 companies with the lowest levels of support on remuneration resolutions in 2022 were:

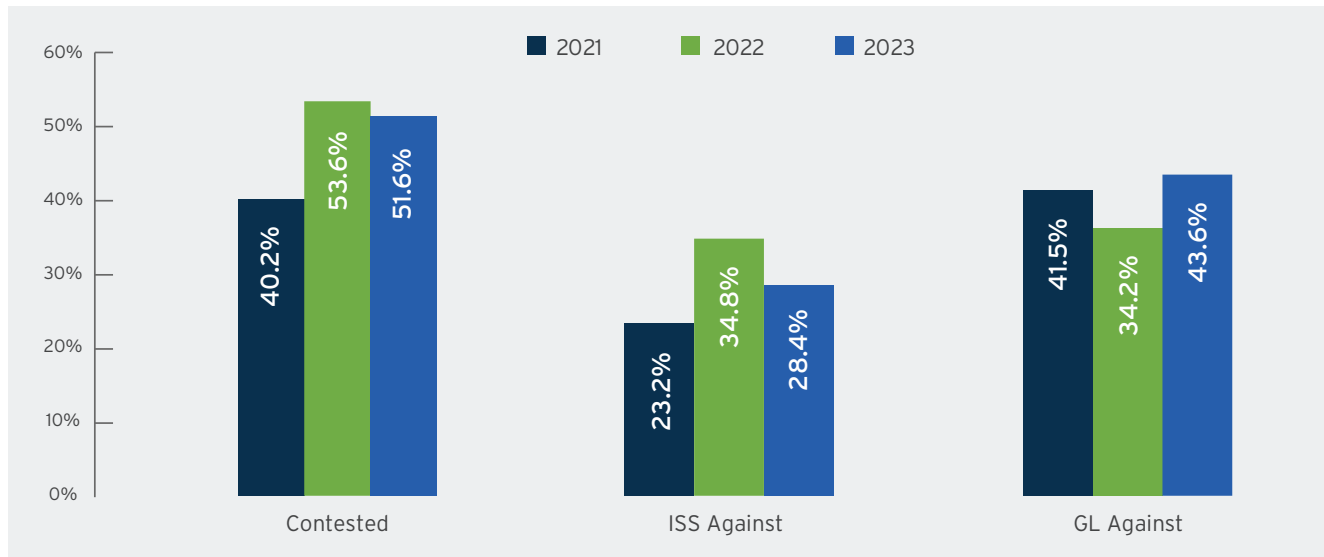
- > Nexon Co (76.2% in favour)
- > Rakuten Group (90.3% in favour)
- > Shizuoka (92.5% in favour)
- > Sony Group (93.0% in favour)
- > Marubeni Corp (93.1% in favour)

We note that all of these resolutions received favourable recommendations from both ISS and Glass Lewis, apart from the Nexon proposal which received an against recommendation from ISS.

2. PROXY ADVISORS

Many institutional investors outside of Japan rely on proxy advisory firms, such as ISS and Glass Lewis for meeting agenda analysis and vote recommendations to inform their voting decisions. A negative recommendation from a proxy advisor often has an adverse impact on the voting outcome of a given resolution.

Graph 3: The share of Nikkei 225 companies that had contested resolutions over the past three AGM seasons; negative ISS recommendations; negative Glass Lewis recommendations.

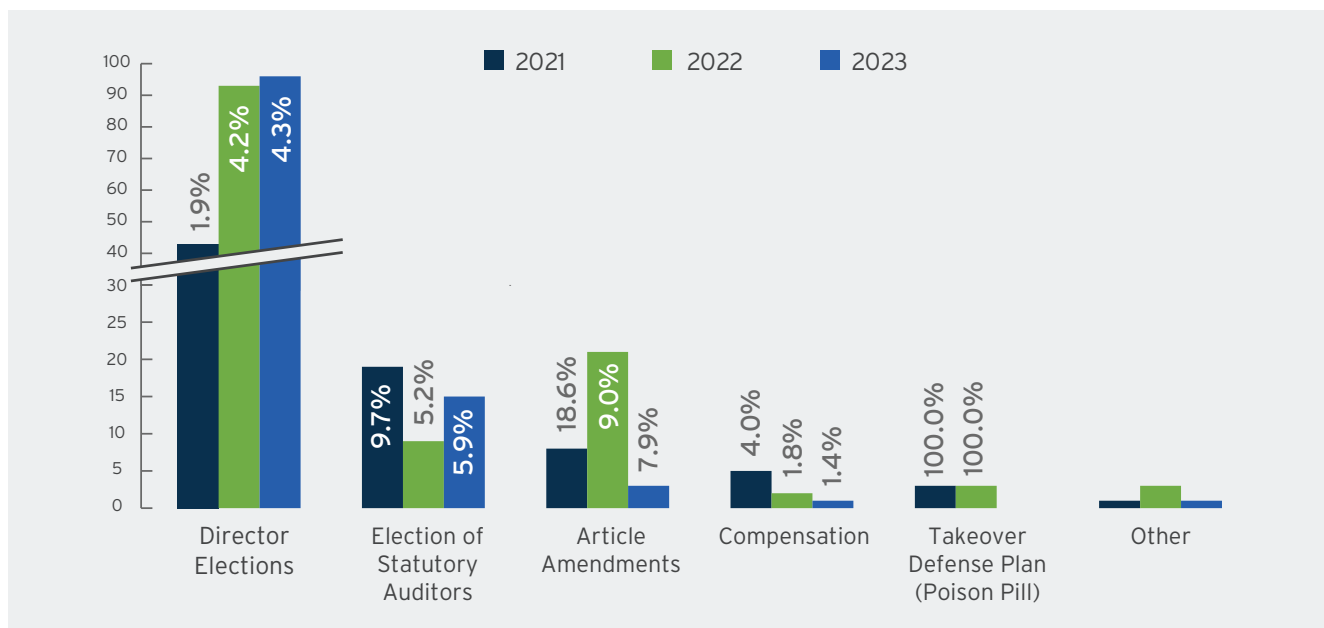


2.1 ISS

ISS⁶ is a leading provider of corporate governance solutions for asset owners, hedge funds, and asset service providers.

Between 1 July 2022 and 30 June 2023, 64 companies out of the Nikkei 225 received at least one against or abstain recommendation from ISS (a decrease from 78 companies in 2022), for a total of 116 resolutions (compared to 131 resolutions last year).

Graph 4: Overview of the number of against/abstain recommendations by ISS at Nikkei 225 AGMs over the past three years. The percentages represent the proportion of proposals that received a negative ISS recommendation in each category.



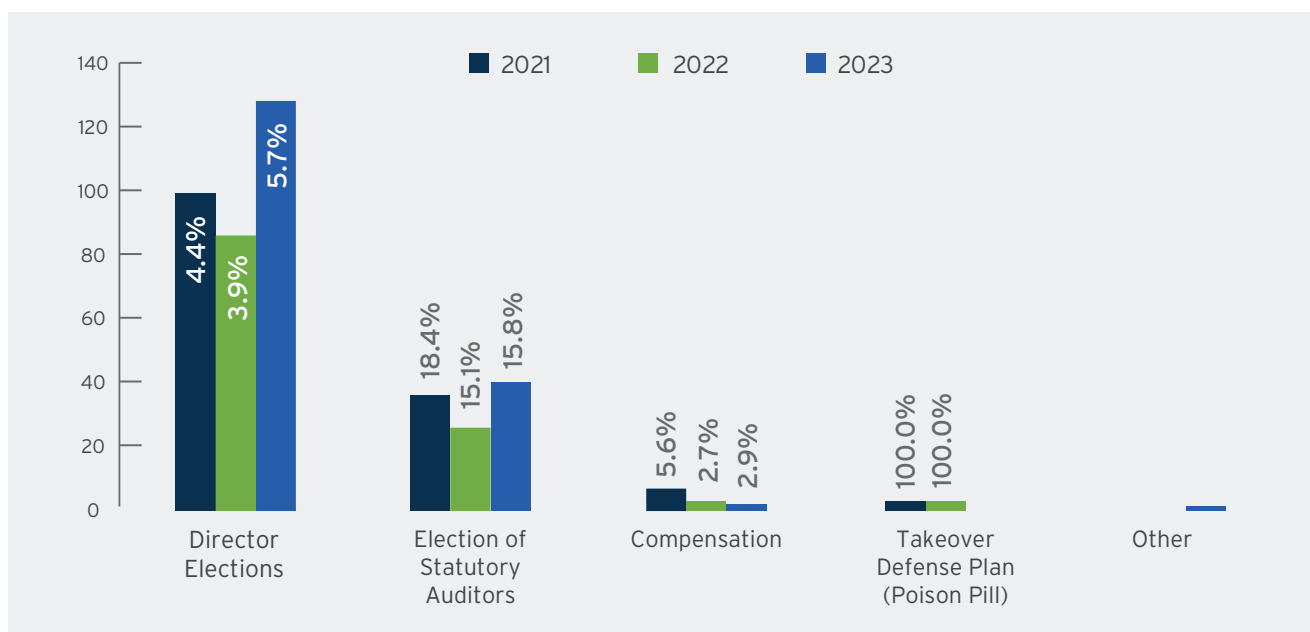
⁶ <http://www.issgovernance.com/about/about-iss/>

2.1.1 Glass Lewis

Glass Lewis⁷ is a leading provider of governance services that support engagement among institutional investors and corporations through its research, proxy vote management and technology platforms.

Between 1 July 2022 and 30 June 2023, 98 companies out of the Nikkei 225 received at least one against or abstain recommendation from Glass Lewis (compared to 81 in 2022), for a total of 171 resolutions (compared to 118 resolutions in 2022).

Graph 5: Overview of the number of negative/abstain recommendations by Glass Lewis at Nikkei 225 AGMs over the past three years. The percentages represent the proportion of proposals that received a negative Glass Lewis recommendation in each category.



⁷ <http://www.glasslewis.com/about-glass-lewis/>

3. SHAREHOLDER PROPOSALS

3.1 Hedge Fund Activism

In addition to the increase in shareholder proposals from E&S-focused organisations discussed later in this section, there was a marked increase in hedge fund activism targeting particular companies perceived as having unduly conflicted or complacent Boards and management. The strategies employed in these campaigns included the requisitioning of special shareholder meetings to remove incumbent directors, active solicitation of institutional investor support, and highly public media and marketing campaigns targeting retail investors.

This form of financially-motivated activism (as opposed to E&S-motivated activism focusing on issues like climate and diversity) has attracted significant media attention, with some reports suggesting that the rise of activism in Japan has caused Asia to displace Europe as the second-most exposed market in the world to this type of disruption after the US.

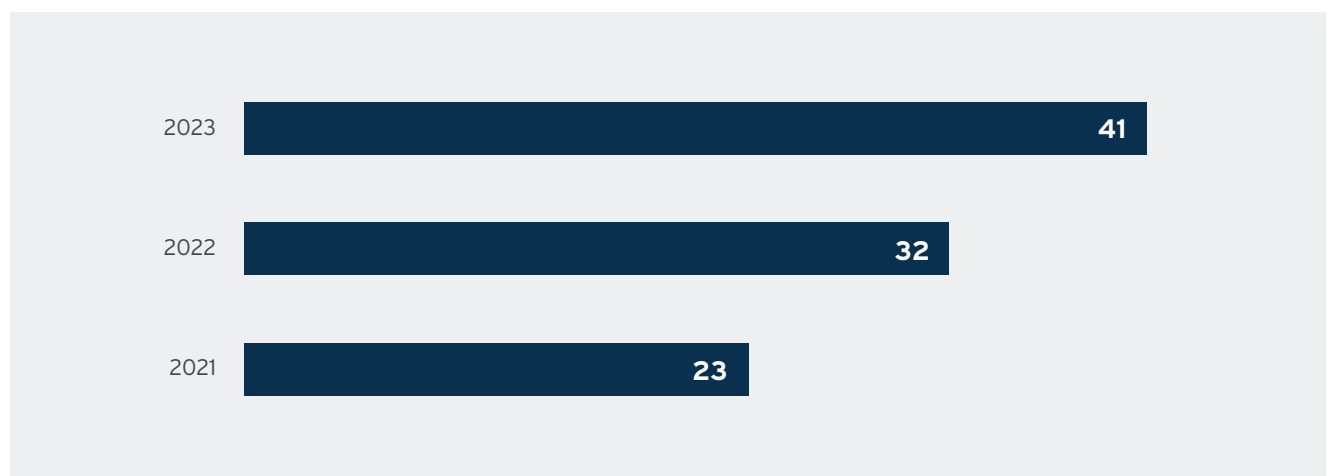
3.2 Contested Shareholder Proposals

Japanese companies see a significant number of shareholder resolutions. During the 2023 AGM season, 81 shareholder proposals were voted on at Nikkei 225 issuers. This is an increase from the 63 shareholder resolutions in 2022 and the 51 shareholder resolutions in 2021, but a decrease from the 82 seen in 2020. Just as we pay closer attention to the board-sponsored resolutions that receive 10% or more opposition, it is more interesting to consider the number of shareholder proposals that receive at least 10% support. In 2023, 41 shareholder resolutions at 14 different Nikkei 225 companies received 10% or more support from shareholders. In 2022, there were 32 of these resolutions at eight companies and in 2021 there were 23 shareholder resolutions that received at least 10% support at five companies. The five shareholder resolutions that received the most support from shareholders in 2023 were the following:

- › The Kansai Electric Power Co. (amend articles to disclose climate transition plan in line with goals of Paris Agreement - 36.5%)
- › Seven & i Holdings Co. (Elect Shareholder Director Nominee Natori, Katsuya - 34.1%)
- › Citizen Watch Co (Amend Articles to Require Individual Compensation Disclosure for Directors - 33.7%)
- › Seven & i Holdings Co. (Elect Shareholder Director Nominee Dene Rogers - 33.5%)
- › Seven & i Holdings Co. (Elect Shareholder Director Nominee Ronald Gill - 33.1%)

Each aforementioned proposal received positive recommendations from both ISS and Glass Lewis, apart from the Kansai Electric Power Co. proposal, which received an against recommendation from Glass Lewis.

Graph 1: The number of shareholder resolutions that received over 10% support from shareholders at Nikkei 225 AGMs in 2021, 2022 and 2023



3.3 Environmental & Social Proposals

During the 2023 AGM season, the focus on E&S shareholder proposals continued to gain momentum. In the Nikkei 225, Market Forces continued to mark its presence within the Japanese market by co-filing six shareholder proposals at five companies. We have also seen several interesting developments with non-climate E&S-related shareholder proposals within the past year.

3.3.1 Number of proposals

The 2023 AGM season (1 July 2022 - 30 June 2023) saw a total of 30 shareholder proposals put forward at Nikkei 225 companies. Although this was the same number of proposals that were put forward during the 2022 AGM season, shareholder proposals during the 2021 and 2022 AGM seasons had been limited to five companies, whereas the proposals put forward during the 2023 AGM season were spread across nine companies.

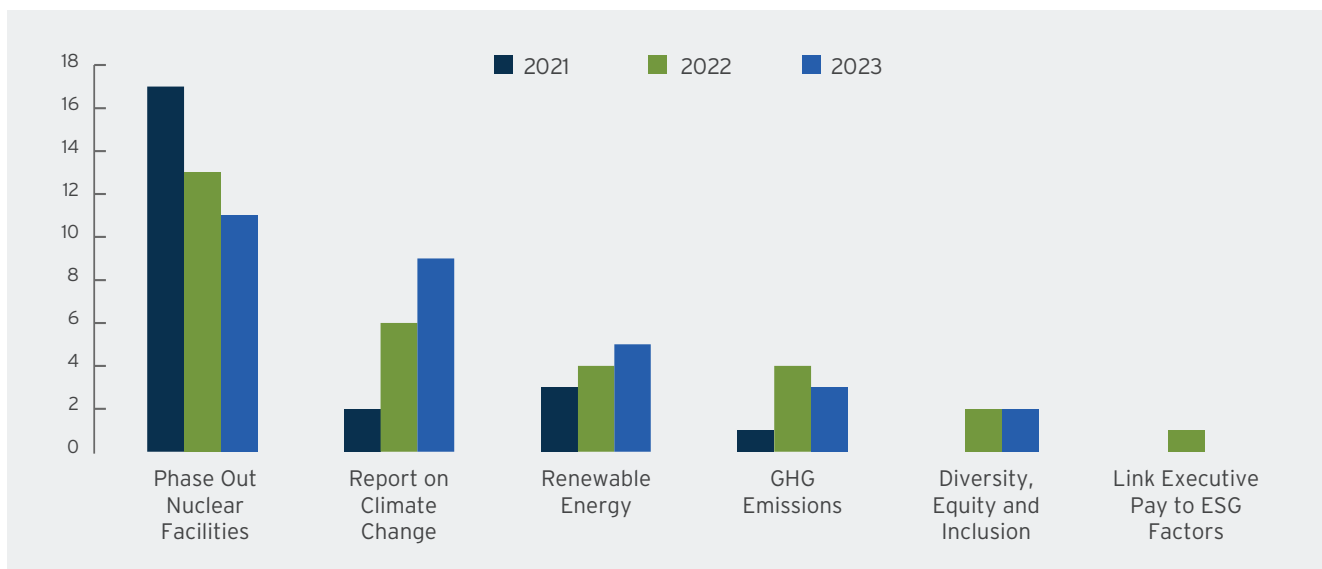
Just as in 2021 and 2022, environmental NGOs (non-governmental organization) submitted climate proposals in 2023. This year, the companies targeted within the Nikkei 225 were Chubu Electric Power Company, Mitsubishi Corporation, Mitsubishi UFJ Financial Group (MUFG), Mitsui Mining & Smelting, Mizuho Financial Group, The Kansai Electric Power Company (KEPCO), Sumitomo Mitsui Financial Group (SMFG), Tokyo Electric Power Company Holdings (TEPCO), and Toyota Motor Corporation (TMC).

Notably, outside of the Nikkei 225, for the second year running, three institutional shareholders (APPC, Amundi, and HSBC Asset Management) supported by Man Group jointly submitted a climate proposal at Electric Power Development (known as J-Power).

The graph below shows the number of E&S-related shareholder proposals per category across the 2021, 2022, and 2023 proxy seasons. While the phasing out of nuclear facilities continues to be the most common type of E&S shareholder proposal being put forward, the number of these types of proposals has been falling year-on-year since 2021. Meanwhile, the number of proposals requesting a company to report on climate change (i.e., to produce a climate transition plan which entails a 2050 reduction target in line with the goals of the Paris Agreement) continues to increase year-on-year since 2021. There has also been an increase in the number of proposals requesting companies to centre their business models on renewable energy.

2023 saw the introduction of a new type of shareholder proposal among Nikkei 225 companies. With regards to diversity, equity, and inclusion, MUFG had a shareholder proposal put forward that requested the company exercise caution in transactions with male-dominated companies, which was defined as a company having 10 or more directors all of whom were male.

Graph 2: Number of E&S-related shareholder proposals put forward at Nikkei 225 AGMS from the 2021 proxy season to the 2023 proxy season



3.3.2 Levels of support

There were no shareholder proposals put forward in the 2023 AGM season at Nikkei 225 companies that succeeded. The companies that had shareholder proposals put forward at their AGMs could broadly be categorized into the banking, industrial, and utility sectors. The average level of support across all E&S-related shareholder proposals in the 2023 AGM season was 11.3%, which is a 0.7% point decline compared to the average level of support during the 2022 AGM season (12.0%).

Banks

At the beginning of April, Market Forces, Friends of the Earth (FoE) Japan and RAN put forward shareholder proposals at three of the largest banks in Japan: MUFG (Proposal 1), Mizuho and SMFG. The proposals put forward were identical to each other and requested the banks include a clause into their Articles of Incorporation, committing the company to:

“Issuing and disclosing a transition plan to align lending and investment portfolios with the Paris Agreement’s 1.5-degree goal requiring net zero emissions by 2050”.

Further, the proposals detailed that:

1. In order to fulfil the company’s commitment to net zero emissions by 2050 in its lending and investment portfolios, the company shall set and disclose a

transition plan to align its portfolios, in the short-, medium- and long-term, with credible pathways to net zero emissions by 2050 or sooner, including strategic policy commitments and targets for significant GHG-intensive sectors within its portfolios, considering the full range of Scope 3 value chain emissions.

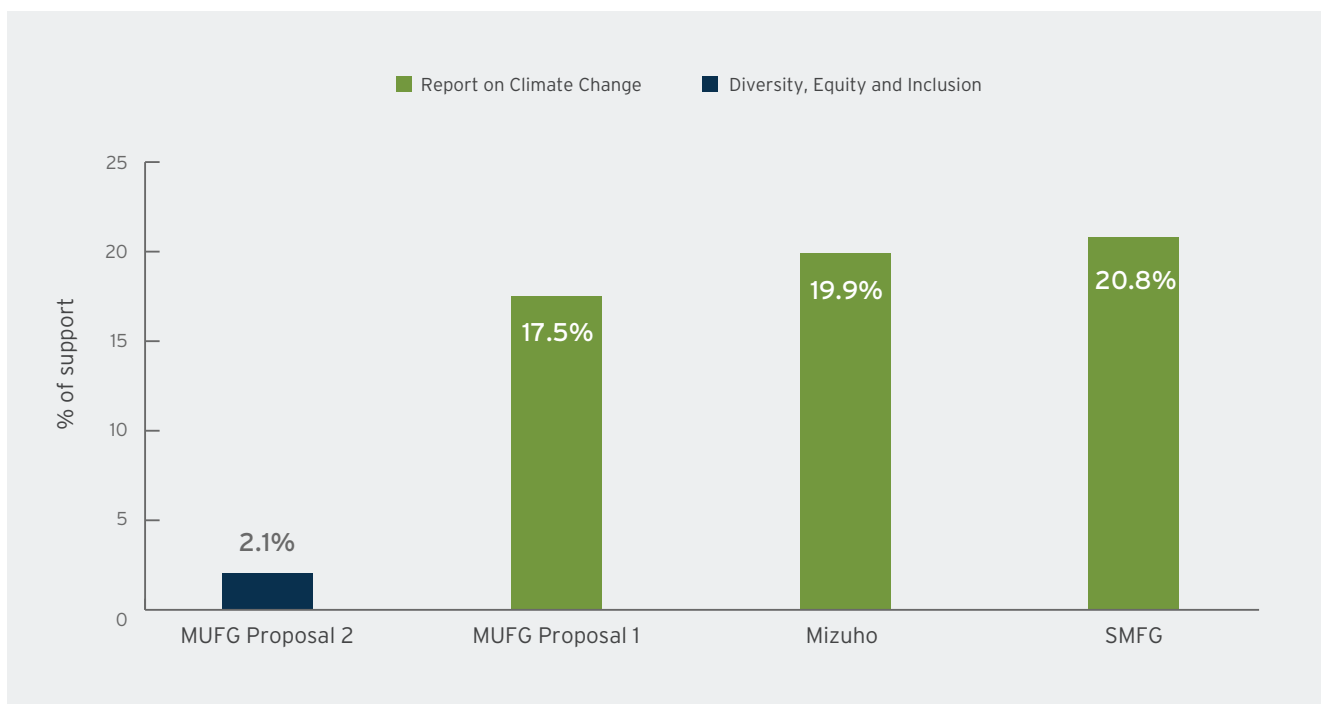
2. The company shall report on its progress against such a transition plan and targets in its annual reporting.

As part of the activists’ campaign, a joint investor briefing was sent to shareholders on 10 April, a webinar was held on 16 May, and finally a second investor briefing was sent out on 31 May. As can be seen below, the level of shareholder support for these proposals at MUFG, Mizuho and SMFG was 17.5%, 19.9% and 20.8%, respectively.

It should be noted that in 2022 SMFG received a similar proposal from Market Forces, 350.org Japan, and Kiko Network that received 27.1%. In 2021, MUFG received a similar proposal from the same activists, which was supported by 22.7% of shareholders.

As previously mentioned, MUFG (Proposal 2) also received a proposal that requested the company exercise caution in transactions with male-dominated companies, which was defined as a company having 10 or more directors all of whom are male. However, this proposal only received 2.1% support from shareholders.

Graph 3: Level of support for the E&S-related shareholder proposals at MUFG, Mizuho and SMFG



Industrials

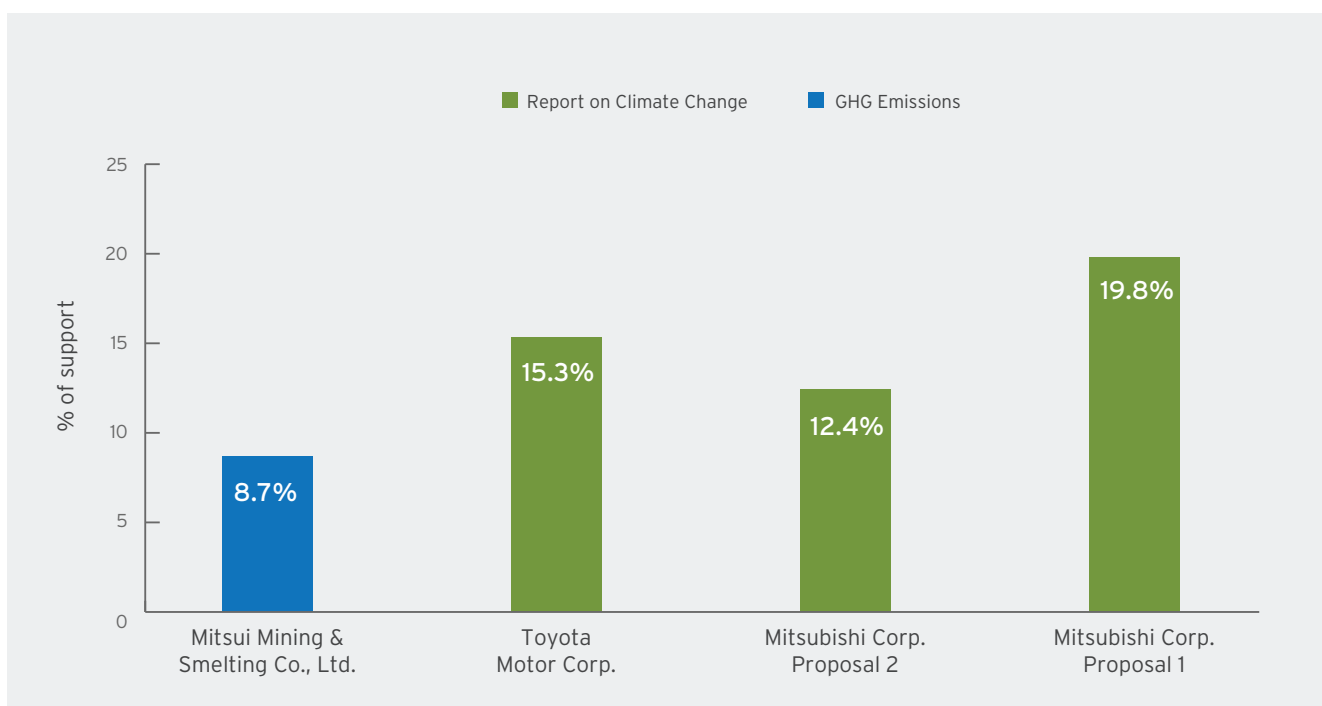
Mitsubishi Corporation for the second year running had the same two shareholder proposals put forward by Market Forces and FoE Japan, both of which were related to the reporting of climate-related information. Proposal 1 requested a partial amendment to the Articles of Incorporation for the adoption and disclosure of short-term and mid-term greenhouse gas emission reduction targets aligned with the goals of the Paris Agreement. Whereas Proposal 2 requested a partial amendment to the Articles of Incorporation for the disclosure of how the company evaluates the consistency of each new material capital expenditure with its net zero greenhouse gas emissions by 2050 commitment. In terms of support, Proposal 1 received 19.8% support (which was a decrease of 0.4% point relative to the same proposal in 2022) whereas Proposal 2 received 12.4% support from shareholders (which was a decrease of 3.8% points relative to 2022).

Mitsui Mining has had a flurry of shareholder proposals from the same investor two years running. The activist shareholder Hideshou Company Ltd put forward five proposals at Mitsui Mining’s AGM this year which was fewer than the seven it put forward to the company in 2022. However, for the first time this year it put forward a resolution that was focused on an environmental theme.

The proposal requested the company include a clause in its Articles of Incorporation so that “For long-term success, the company shall announce initiatives in line with the Paris Agreement, considering risks and business opportunities associated with climate change, and implement them seriously.” The proposal received 8.7% support from shareholders.

Notably, Toyota Motor Corporation had a shareholder resolution which was co-filed by APG Asset Management, Akademiker Pension and Storebrand Asset Management which asked the auto manufacturer to partially amend its Articles of Incorporation. This amendment would force the company to conduct an annual review and report on how the company’s climate-related lobbying activities (direct and through industry associations) serve to reduce the company’s risk from climate change as well as how its lobbying activities align with the Paris Agreement and the company’s 2050 carbon neutral goal. This was the first ever shareholder resolution focused on climate lobbying put forward at a Japanese company, and the first shareholder resolution brought to a vote at TMC in 18 years. ISS recommended investors support the shareholder proposal and TMC published an updated EV strategy one day prior to the AGM. The proposal resulted in 15.3% of shareholder support.

Graph 4: Level of support for the E&S-related shareholder proposals at Mitsubishi Corporation, Mitsui Mining and Toyota Motor Corporation



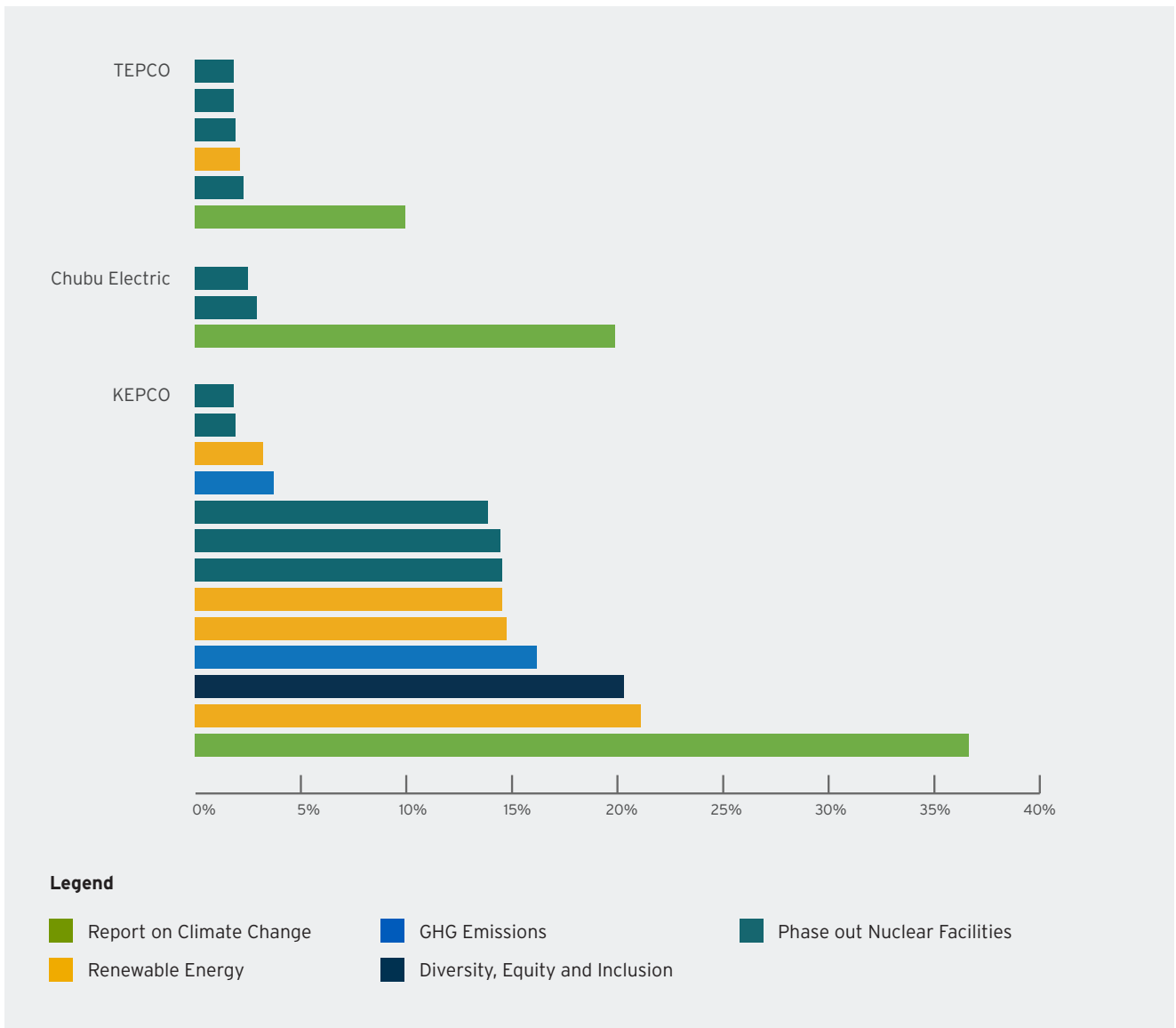
Utilities

Just like in 2022, Chubu Electric power company received three E&S-related shareholder proposals this year, with two related to nuclear power and one related to climate change reporting. The proposal that received the highest level of support from shareholders (19.8%) was put forward by Kiko Network and Market Forces, which requested a partial amendment to the Articles of Incorporation to include the disclosure of capital allocation in line with a Net Zero by 2050 Pathway. The rationale behind this vote was that the company should disclose necessary information in order for shareholders to determine the resilience of the company's assets to a scenario in which carbon neutrality is reached by 2050, given its fossil fuel-related businesses. This was a relative decrease of 0.1% point when compared to last year's level of support for a very similar proposal put forward by Kiko Network and Market Forces (19.9%).

TEPCO received six E&S-related shareholder proposals, with four of them relating to the phasing out of nuclear facilities all of which failed to receive more than 2.3% support from shareholders. Whilst the proposal related to climate change reporting was the same as the one proposed at Chubu Electric Power Company, it received less support (9.9%) at TEPCO's AGM. However, this was a slight increase in the level of support compared to its 2022 AGM which saw this same proposal receive 9.7% support.

KEPCO received the highest number (13) of shareholder proposals out of companies within the Nikkei 225, with five related to the phasing out of nuclear power. This was two fewer E&S-related (15) shareholder proposals than in 2022. The item with the most support, 36.5%, requested the partial amendment to the Articles of Incorporation to include the disclosure of climate-related risks and opportunities through conducting and disclosing the results of a scenario analysis up to 2050. This was a slight increase from the 2022 AGM, which saw the same proposal receive 35.7% support. The shareholder proposal that received the second highest level of support (21.0%) requested a partial amendment to the Articles of Incorporation to be carbon neutral throughout the entirety of its business model including power generation in which renewable energy is set as the main power source.

Graph 5: Level of support for the E&S-related shareholder proposals at TEPCO, Chubu Electric and KEPCO



3.3.3 Proxy advisor recommendations

ISS

ISS' current policy guidelines for shareholder proposals state that their analysis considers "all shareholder proposals on a case-by-case basis. Generally, vote for proposals that would improve the company's corporate governance or business profile at a reasonable cost. Generally, vote against proposals that limit the company's business activities or capabilities or result in significant costs being incurred with little or no benefit."

ISS recommended voting in favour of six E&S-related shareholder proposals, all of which were categorised as climate change reporting. The rationale behind these voting suggestions ranged from the incomplete reporting of scope 3 emissions to the need for these companies to provide sufficient detail to investors on how the company intended to remain viable in the long term. ISS considers a company's viability to be dependent on the success of the company's path to net zero emissions by 2050 which is Japan's national target. Consequently, five out of the eight shareholder proposals related to climate change reporting this year were supported by ISS. The three climate change reporting shareholder proposals that ISS did not support were those put forward by Friends of the Earth (FoE) Japan and RAN at MUFG, Mizuho and SMFG. This was because it was perceived that the proposals were demanding the companies set more ambitious targets for its scope 3 emissions, which was deemed as overly prescriptive.

Glass Lewis

Glass Lewis' current policy guidelines for shareholder proposals state that it "believes that one of the most crucial factors in analysing the risks presented to companies in the form of environmental and social issues is the level and quality of oversight over such issues. When management and the board have displayed disregard for environmental risks, have engaged in egregious or illegal conduct, or have failed to adequately respond to current or imminent environmental risks that threaten shareholder value, we believe shareholders should consider holding directors accountable [...] we will consider recommending voting in favour of relevant shareholder proposals".

Glass Lewis recommended voting against all E&S-related shareholder proposals put forward at Nikkei 225 companies during the 2023 AGM season. This is not a major change in their approach, considering that the proxy advisor only recommended voting with the shareholder activist on two occasions in the 2022 AGM season. This reduction in support is likely because Glass Lewis deemed the shareholder proposals to be overly prescriptive or that all the companies targeted were deemed to have sufficient practices and disclosures. However, as stated by Glass Lewis ahead of the 2023 proxy season "As foreign institutions get more comfortable with the Japanese shareholder proposal structure, the language of these resolutions may get more refined; and as Japanese investors get more comfortable with seeing these proposals on the ballot, support may continue to increase."

3.3.4 Institutional investors

In 2022, Man, Amundi, and HSBC were part of the first investor group-led climate shareholder resolutions filed in Japan, with three proposals to Electric Power Development (J-Power) on emissions targets including one that received 25.8% support. For the second year running, HSBC Asset Management and Amundi co-filed two shareholder proposals at J-Power, with the support of MAN. The proposals, co-filed with Australasian Centre for Corporate Responsibility (ACCR), call on J-Power, the largest coal plant operator in Japan, to set credible emissions reduction targets and disclose plans to achieve them. The two proposals put forward at J-Power's 2023 AGM were to:

1. Set and disclose credible short and medium-term emissions reduction targets, aligned with the goals of the Paris Agreement. This proposal received 21.3% of votes in favour by shareholders, which was less than the 25.8% of support received for this proposal at the 2022 AGM.
2. Disclose how remuneration policies incentivise progress against emissions reduction targets. This proposal received 15.0% of votes in favour by shareholders, which was less than the 18.9% of support received for this proposal at the 2022 AGM.

Caroline le Meaux, Head of Engagement, Voting Policy and ESG Research at Amundi claimed that the asset manager was "concerned by Blue Mission 2050, notably the high emissions from J-Power's coal power business, and the low level of economic and technical feasibility attaching to technologies detailed in the company's plan." Notably Amundi had also decided that because the "company's climate strategy is falling short of our minimum requirements" that Amundi would continue to "vote against the renewal of board members following our voting policy."

Additionally, Sachi Suzuki, Senior Stewardship Specialist at HSBC Asset Management claimed that it "expected the last AGM result would encourage a shift from the current high-cost, coal-based strategy to a more credible decarbonisation strategy, in line with investor expectations." However, the asset manager believed that it had not seen evidence of such a shift and was why it decided to co-file the shareholder proposals again this year.

In line with last year, ISS recommended voting in favour of both proposals, whereas Glass Lewis recommended voting in favour of the proposal based on targets in line with the Paris agreement but did not support the remuneration-based proposal.

4. CORPORATE GOVERNANCE DEVELOPMENTS

4.1 Council of Experts Concerning the Follow-up of Market Restructuring

In April 2022, the Tokyo Stock Exchange (TSE) announced a restructuring of its market divisions. The change meant that the stock market would be comprised of three market segments: the Prime Market, the Standard Market, and the Growth Market. The TSE also established the Council of Experts Concerning the Follow-up of Market Restructuring⁸ (or simply, the Council). Its role is to monitor the progress of the measures in place and to consider the opinions of investors to advise the TSE on additional actions “such as those regarding listed companies’ efforts to increase corporate value, the handling of transitional measures, and the supply of capital to start-up companies”⁹. In March 2023, the Council published three documents which summarise matters that are key to achieving sustainable growth and enhancing corporate value over the medium to long term. These documents do not set out mandatory rules, however the TSE are requesting that listed companies “proactively implement them in consideration of the expectations of investors”.

4.1.1 Action to implement management that is conscious of cost of capital and stock price

Principle 5.2 in Japan’s Corporate Governance Code¹⁰ states that “When establishing and disclosing business strategies and business plans, companies should articulate their earnings plans and capital policies, and present targets for profitability and capital efficiency after accurately identifying the company’s cost of capital.” However, the Council highlights that “approximately half of the listed companies on the Prime Market and 60% in the Standard Market have ROE below 8% and P/B ratios below 1, indicating that there are issues in terms of profitability and growth potential.” They have therefore put forward a set of actions that companies should consider to further prioritise cost of capital and profitability, rather than simply sales and profits. The aim is for these actions to then improve corporate value over the mid to long term.

The actions requested by the Council apply to all companies listed on the Prime and Standard Markets. The recommended actions include:

- › Conducting analysis of the cost of capital, profitability, and market valuation of the company;

- › Having the board of directors develop policies, plans, and targets in to address the company’s cost of capital and profitability;
- › Implementing the aforementioned plans and proactively engaging with shareholders on these issues; and
- › Conducting a progress analysis including updated disclosures at least once a year.

The proposed actions place the expectation on management to take the lead in allocating resources with sufficient consideration of the cost of capital and profitability. This would be through initiatives such as investment in human capital, and research & development, that leads to the creation of intellectual property and intangible assets that contribute to sustainable growth, investment in equipment and facilities, and business portfolio restructuring. The proposal warns against relying on share buybacks and dividend increases to increase profitability.

4.1.2 Better dialogue with shareholders and related disclosure

The Council noted that some companies were reluctant to engage with shareholders, which could hinder their paths to sustainable growth. It proposed that the TSE should require Prime Market-listed companies “to put constructive dialogue at the centre of efforts to improve their corporate value, to disclose on how much dialogue has taken place between management and investors and the content of this dialogue”¹¹. The document outlines the forms and level of disclosure that these should provide publicly.

4.1.3 Using ‘explain’ to contribute to constructive dialogue

A key requirement of the Principles of the Corporate Governance Code is that companies should either ‘comply or explain’; that is to say a company should comply with the Code or explain why the company is not able to comply with it. The Council noted that some companies were not providing thorough ‘explanations’, this document lays out consideration companies should take when explaining why they are unable to comply with specific provisions from the Japanese Corporate Governance Code.

8 <https://www.jpx.co.jp/english/equities/improvements/follow-up/index.html>

9 <https://www.jpx.co.jp/english/equities/improvements/follow-up/b5b4pj000004yqcc-att/b5b4pj0000051c57.pdf>

10 <https://www.jpx.co.jp/english/news/1020/20210611-01.html>

11 <https://www.jpx.co.jp/english/equities/improvements/follow-up/b5b4pj000004yqcc-att/dreu25000004sp1.pdf>

4.1.4 Action program for accelerating corporate governance reform

In April 2023, the Council published an opinion statement¹² identifying issues that remain to be solved in the context of the recent corporate governance reforms in Japan. The three main issues raised are:

- > “Management issues, such as encouraging the management with an awareness of profit-making and growth based on the cost of capital and promoting initiatives relating to sustainability, including investment in human capital;
- > Issues related to the effectiveness of independent directors, such as improving the effectiveness of the board, the nomination committee and the remuneration committee, and improving the quality of independent directors; and
- > Issues related to dialogues between companies and investors, such as enhancement of information disclosure as well as dealing with legal issues, and market environment issues.”

The Council then proposes a set of measures to be implemented to address these issues.

4.2 METI publishes revised guidelines for corporate takeovers

On 8 June 2023, The Ministry of Economy, Trade, and Industry (METI) published, in draft form, the first revision in nearly two decades to key corporate governance and public takeover guidelines¹³. The 2023 guidelines address corporate takeovers with a focus on best practices for responding to unsolicited offers.

The draft emphasises that companies should adopt policies and implement countermeasures in response to takeover bids in accordance with the ‘rational intent of shareholders.’ Shareholders should have the opportunity, time, and information necessary to assess takeover proposals. The draft states that in the case of an unsolicited bid, a company may adopt, without shareholder approval, a takeover policy that contemplates specific countermeasures, for example, as a way of encouraging the bidder to negotiate with management and provide additional information to shareholders.

4.3 Glass Lewis 2023 voting policy changes

Glass Lewis has made changes to its voting policy¹⁴ in Japan as it has started applying stricter rules on gender and independence board targets. The major changes to Glass Lewis’ voting policies in Japan relate to:

- > **Governance accountability:** The chairman of the board is now the person who will be held accountable for governance issues such as lack of board independence and lack of progress relating to gender diversity.
- > **Board independence:** When a board of directors of a company listed on the Prime Market does not consist of at least one-third independent outside directors, Glass Lewis will now generally recommend voting against the board chair. (There are variations to this policy for controlled and non-controlled companies, listed, or not listed, on the Prime market.)
- > **Board gender diversity:** Beginning in February 2023, the policy on board gender diversity for companies listed on the Prime Market will be changed from a fixed numerical approach to a percentage-based approach. We will thus generally recommend voting against the chair of the board under a two-tier board or one-tier with one-committee structure; or the nominating committee chair under a one-tier with three-committee structure of a board without at least 10% gender diverse directors.
- > **Board accountability for climate-related issues:** Boards are now expected to provide thorough climate-related disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and have explicit and clearly defined oversight responsibilities for climate-related issues.
- > **Limits on the size of strategic shareholdings:** The size of strategic shares held by a company should not exceed 10% or more of its net assets, subject to Glass Lewis reviewing the company’s disclosure of its strategic shareholding policies and practices.

12 <https://www.fsa.go.jp/en/news/2023/20230426.html>

13 <https://www.jdsupra.com/legalnews/a-new-era-for-japanese-m-a-fresh-3099000/>

14 <https://www.glasslewis.com/wp-content/uploads/2022/12/Japan-Voting-Guidelines-GL-2023.pdf>

EUROPEAN SEASON REVIEW EXCERPT

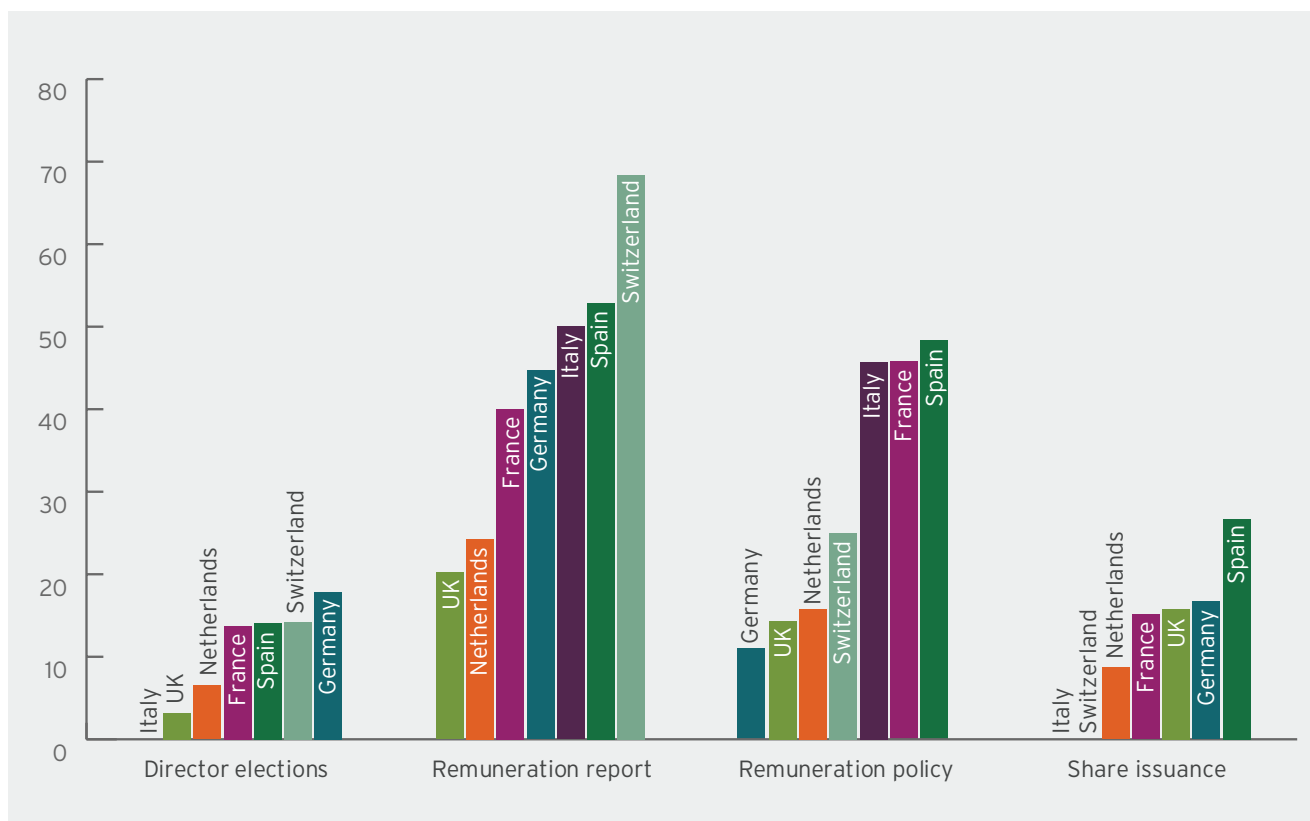
The Japanese market experiences many of the corporate governance and shareholder expectation trends that are first observed in Europe and the US. Understanding these trends across both continents provides valuable insights into shifts that may soon play out in Japan. Each year Georgeson publishes an annual review of the European AGM season which covers the most important takeaways and developments across seven European markets, as well as predictions for how shareholder priorities and expectations will change in 2023. You will also read about instances where companies received higher opposition than their peers and why some investors chose not to support these resolutions.

Key trends

- › **Resolutions relating to the remuneration of executives continue to be the most contested resolution type in Europe. The share of remuneration-related resolutions that were contested (i.e. received at least 10% opposition) across the seven regions that were included in last year's report¹⁵ decreased from 37.1% in 2022 to 36.1%.**
- › **Of these seven markets, the UK saw the lowest proportion of contested remuneration reports (20.2%), the same as last year, and Switzerland had the highest share of contested resolutions of this type (68.4%)**
- › **Germany had only 1 contested remuneration policy in 2023, meanwhile Spain had the highest share of contested remuneration policies across the seven markets (47.4%)**
- › **In Germany, article amendments to allow companies hold virtual-only meetings were introduced in 2023 and received notable opposition from some shareholders, with Switzerland being the second country to hold similar votes on article changes this year.**

The graph below shows the level of dissent – expressed as a percentage of contested resolutions (10+% against votes) – across four major categories of resolutions common across major European markets, namely director elections, remuneration report, remuneration policy and share issuances.

On average 11.7% of director elections, 42.9% of remuneration report resolutions, 29.2% of remuneration policy resolutions and 13.8% of share issuances resolutions were contested.



¹⁵ Includes all markets included in the 2023 European Season Review except Denmark and Belgium

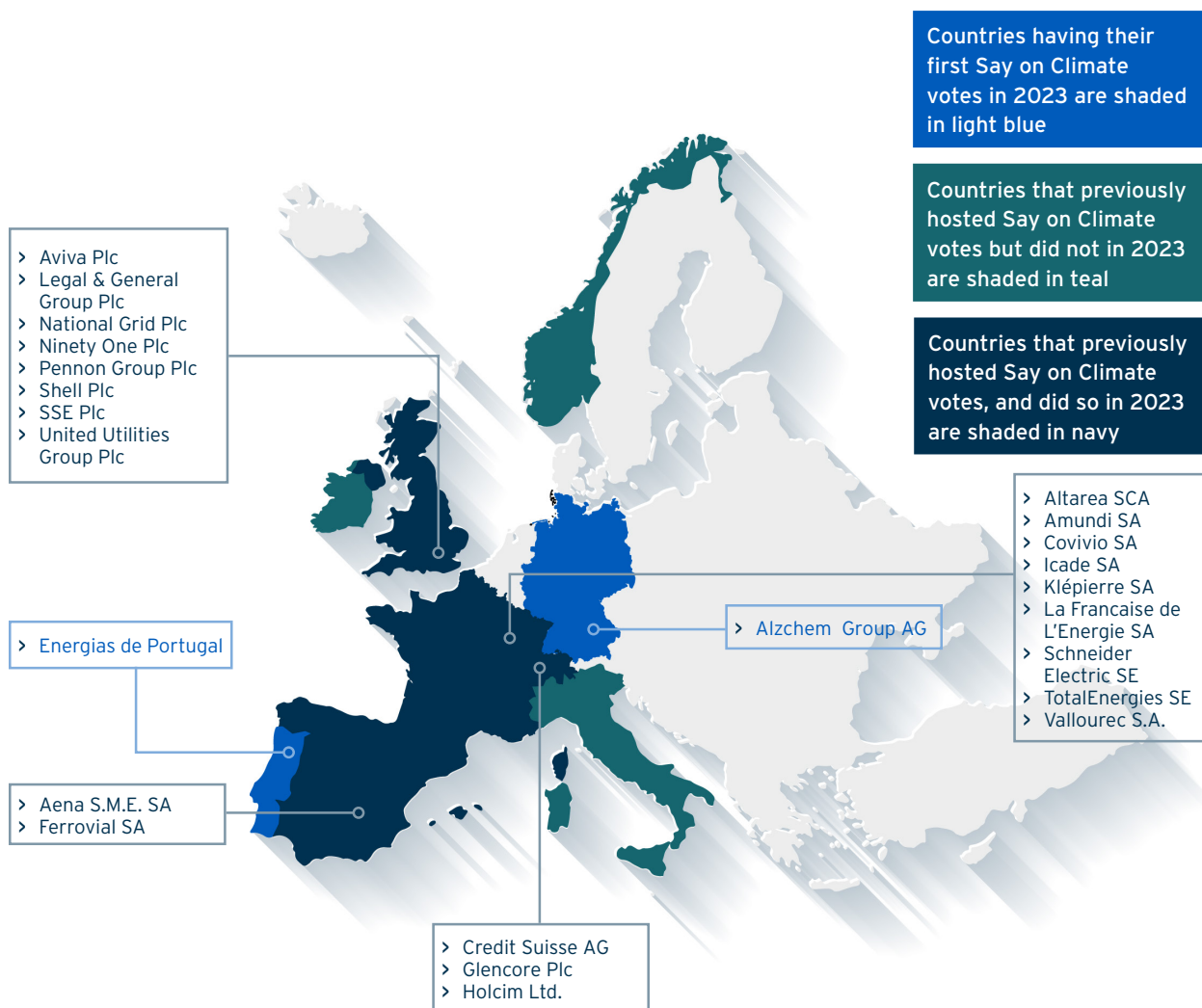
SAY ON CLIMATE BOARD PROPOSALS

The 2023 AGM season was the third year that companies voluntarily proposed so called “Say on Climate” resolutions. During the year under review (1 July 2022 - 30 June 2023), 24 companies across Europe have put forward board-sponsored advisory resolutions on their climate disclosures and action plans at their AGMs.

In the 2022 AGM season (1st July 2021 to 30th June 2022), there were 36 companies which held votes on climate-related proposals, which was three times as many as compared to the 2021 AGM Season (1st July 2020 to 30th June 2021). In the 2023 AGM Season, we have therefore seen a decrease in the amount of Say on Climate proposals announced, with only 24 companies putting forward such a proposal, a 33.3% decline relative to 2022. If we look solely at the first six months of 2023 and 2022, the number of Say on Climate resolutions dropped from 31 in 2022 to 18 in 2023, a 42.1% decrease. Germany, through Alzchem, and Portugal, through Energias de Portugal, hosted their respective country’s first Say on Climate vote.

The level of support from shareholders at the 2021 AGM season for this type of proposal in Europe was on average 97.0% and in all cases above 88.7%. However, during the 2022 AGM season there was increased scrutiny amongst shareholders and proxy advisors which led to the average level of support falling to 91.0%, with the lowest level of support being 76.3%. The level of support during the 2023 AGM season has remained stable with the 24 proposals having an average level of support of 91.0%. The lowest level of support during the 2023 AGM season was 53.1%, which is the lowest level of support since the inception of board-proposed Say on Climate votes. The graph below shows the level of support for all Say on Climate board proposals put forward in the 2023 AGM season across Europe.

Besides Say on Climate, E&S shareholder proposals that have gained traction are somewhat limited to those put forward by key activist groups and institutional investors. The shareholder proposals of note include those put forward by Follow This and coalitions of institutional investors. This year, Follow This targeted “big oil” with the aim of imposing absolute emission reduction targets for 2030, meanwhile institutional investors focused on compelling companies to hold annual Say on Climate votes with better disclosure as well as increased transparency on Human Right issues.

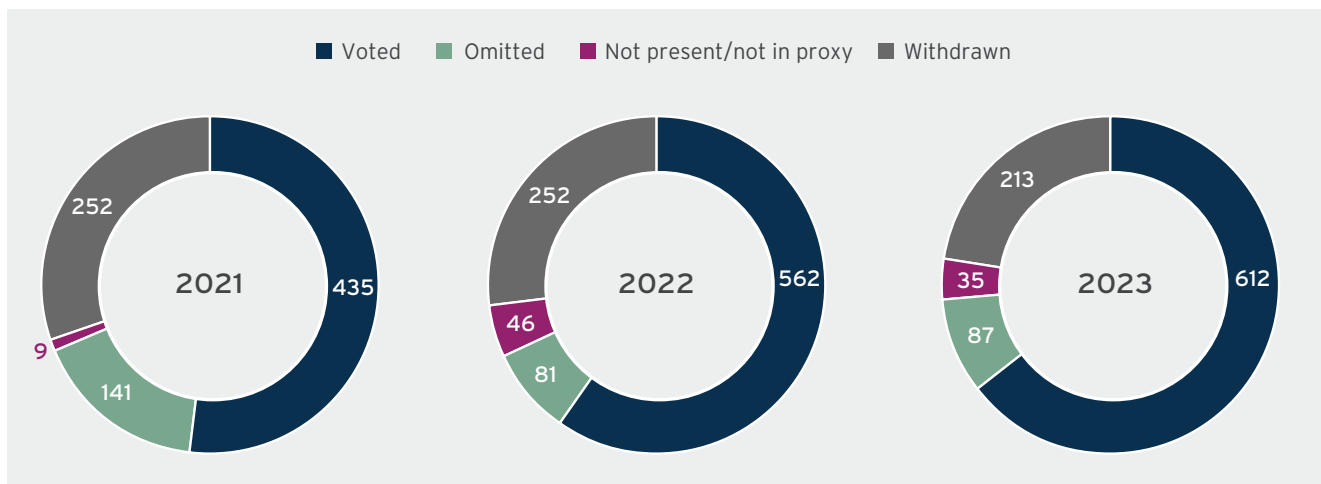


U.S. SEASON REVIEW EXCERPT

Every year, our US Georgeson colleagues closely monitor voting outcomes during the US proxy season to discern significant trends impacting our clients' meetings. 2023 was yet another significant year in terms of US annual meeting vote outcomes; across shareholder-sponsored proposals, director elections and say-on-pay we are seeing a direct impact of the evolution in institutional investor voting behavior related to the progress of Environmental, Social and Governance (ESG) topics.

An examination of US 2023 proxy season voting statistics for companies who are members of the Russell 3000 index and held annual general meetings from July 1 2022 to June 30 2023 yields a number of notable observations. 947 shareholder proposals were submitted in 2023, maintaining the consistent growth in proposal submissions observed in the past few years. 612 shareholder proposals were voted this year, up from 562 voted during the 2022 season.

Graph 1: Shareholder proposal activity, 2021 - 2023.

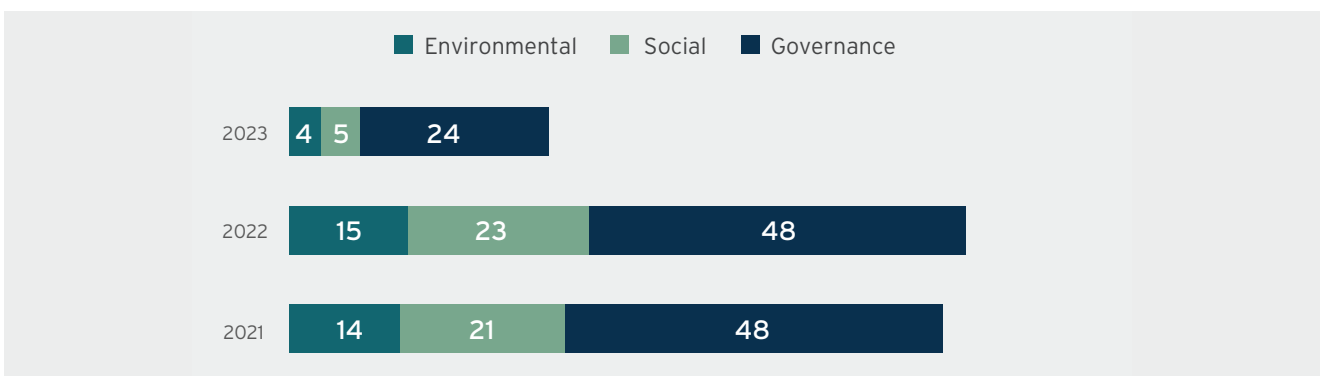


Of the **612 proposals** voted in 2023:

- > 86 related to environmental matters
- > 207 involved social issues
- > 251 related to governance issues, and
- > 68 voted proposals related to anti-ESG issues

Across E, S and G, 4, 5 and 24 proposals have passed in each respective category. This translates into passage rates of approximately 5%, 2%, and 10% respectively (excluding anti-ESG proposals). Overall, the number of proposals receiving majority support has declined significantly year-over-year compared to 2022 from 88 (16% of all proposals voted) in 2022 to 33 (5% of all proposals voted) in 2023.

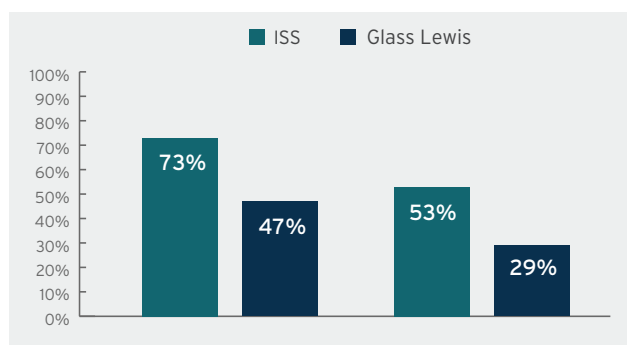
Graph 2: Passing proposal activity, 2021 - 2023.



Thematically, across shareholder-sponsored proposals there were a number notable developments this year.

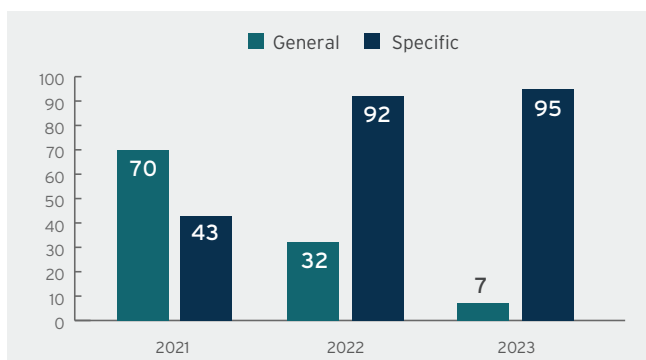
Environmental: Environmental topics remained a key focus of shareholder-sponsored proposals in the 2023 proxy season. The volume of environmental-focused proposals appears to have increased slightly from 2022. Average support for environmental proposals in the 2023 proxy season is down from last year's 38% average (2022) at around 23% (2023). One factor contributing to dampened support may be that the environmental proposals in 2023 season have seen significantly less support from both ISS and Glass Lewis. "FOR" recommendations on environmental proposals of all kinds have decreased by similar amounts, roughly 20 and 18 percentage points for ISS and Glass Lewis respectively.

Graph 3: Impact of ISS and Glass Lewis, 2022.



Social: The volume of shareholder proposals focused on social topics increased this year, with 421 social-focused proposals filed, surpassing the 2022 high of 409. This year, average support for all social proposals, including anti-ESG, dropped by 7 percentage points, from 26% to 19%, and only 5 shareholder proposals received majority support, compared to 23 in 2022. Support across nearly all social proposal themes is down. This year, diversity, equity and inclusion related proposals remained a major focus for proponents. Consistent with previous years, proponents have made more specific and detailed requests of companies.

Graph 4: Trend towards greater specificity in diversity proposal topics



Governance: The volume of governance-focused proposals appears to have decreased in 2023, with 340 proposals filed (including 21 anti-ESG proposals), compared to 2022 wherein 355 proposals were filed. This year, average support for all governance proposals was 28%, and only 24 shareholder proposals received majority support, compared to 48 in 2022. Of the governance-focused proposals voted this year, there was a notable increase in proposals related to two topics: the requirement of an independent chair and executive compensation.

Anti-ESG: The number of anti-ESG proposals significantly increased in the 2023 season from 5% of all proposals submitted in 2022 to over 9% of proposals in 2023, with 94 proposals submitted. The majority of anti-ESG proposals were related to social topics.

Director Elections

- > Director election support at Russell 3000 continued to be strong, averaging 94.4% for the proxy year 2023, similar to average support of 94.7% for the full proxy year 2022.
- > 46 directors received less than majority support, down 15 from 2022.
- > Directors receiving 95+% support declined (with 68.1% directors receiving such support in 2023 compared to 70.5% in 2022).

Say on Pay

- > Say on pay vote results for the 2023 proxy season at Russell 3000 companies saw an average support of approximately 90% of votes cast in favour (excluding abstentions), similar to the support received in the proxy year 2022.
- > S&P 500 companies have garnered higher support this year, with approximately 89% of votes cast in favor, up from 2022 when they received 87% favourable support.
- > 58 Russell 3000 companies failed to receive majority support for their say on pay proposals in the 2023 season.

More detailed analysis of overall thematic trends from this season can be found in the US team's June 2023 report, "An Early Look at the 2023 Proxy Season" available [here](#). This report provides additional context around evolving shareholder proposal topics, executive compensation themes, and director election concerns from midway through the 2023 season (through meetings occurring 12 May, 2023). In addition, Georgeson US will be publishing a full season report soon.

ABOUT GEORGESON

Established in 1935, Georgeson is the world's original and foremost provider of strategic services to corporations and investors working to influence corporate strategy. We offer unsurpassed advice and representation for annual meetings, mergers and acquisitions, proxy contests and other extraordinary transactions. Our core proxy expertise is enhanced with and complemented by our strategic consulting services, including solicitation strategy, investor identification, corporate governance analysis, vote projections and insight into investor ownership and voting profiles. Our local presence and global footprint allow us to analyse and mitigate operational risk associated with various corporate actions worldwide. For more information, visit www.georgeson.com

ABOUT JSS

Japan Shareholder Services Ltd. (JSS) was established in autumn 2005 as a joint venture between Mitsubishi UFJ Trust and Banking Corporation, the largest stock transfer agent in Japan, and Computershare Limited (Australia), the world's largest transfer agent with operations expanding around the globe. JSS supports hundreds of Japanese companies' Shareholder/Investor Relations activities with its expertise and knowledge in Capital Markets and Corporate Governance. Our aim is to help building "Win-Win Relationship" between institutional investors and Japanese companies over the long-term. For more information, visit www.jss-ltd.jp

GEORGESON

Cas Sydorowitz

Global CEO

cas.sydorowitz@georgeson.com

Domenico Brancati

Chief Operating Officer

domenic.brancati@georgeson.com

Paul Murphy

Head of ESG, APAC

paul.murphy@georgeson.com

Bryan Ko

Head of Asia

bryan.ko@georgeson.com

Savoy Lee

Director, Head of Corporate Advisory, Asia

savoy.lee@georgeson.com

JSS

Keisuke Nagahama

Fellow and Executive Officer, General Manager,
Research & Advisory Division

k-nagahama@jss-ltd.jp

Yuichi Takanashi

Senior Analyst,
Research & Advisory Division

y-takanashi@jss-ltd.jp

General contact

info@jss-ltd.jp

Georgeson