2024 Japanese AGM Season Review

CERTAINTY | INGENUITY | ADVANTAGE

Georgeson

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Introduction

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We are proud to present the third edition of Georgeson's Japanese AGM Season Review, in which we analyse the trends we are seeing at AGMs held by Nikkei 225 companies in 2024. This report is a joint publication with Japanese Shareholder Services, whose contribution 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 AGM trends across Japan, a market in which we have operated for over 25 years.

The concentration of Japanese AGMs continued in 2024, with 81.8% of AGMs taking place during June, similar to the 82.2% in 2023.

Shareholder resistance to company resolutions is now routinely a major feature of the Japanese AGM season. The number of contested resolutions – those drawing opposition of 10% or more – is gradually increasing in number year on year, with more than half of companies having resolutions contested in 2024 and the number of contested resolutions increasing from 2023. More than 11% of director elections were contested, partially due to an ongoing market focus on cross-shareholdings and other governance issues. Compensation resolutions also became more of an issue with a sharp increase in contested resolutions compared with 2023.

Proxy advisors continue to demonstrate their influence, mainly on overseas shareholders but also now on some Japanese investors faced with special cases and conflicts of interest. There were significant increases in advisors' Against recommendations, with ISS's up by 66% and Glass Lewis's up by 17% from 2023, as they increasingly tightened their voting advisory policy, customised for the Japanese market.

In the last few years there has been such an increase in shareholder activism that Japan is now one of the most significant markets in the world for activism. Votes For shareholder resolutions ranged from less than 1% to 35% of votes cast, with resolutions supported by positive proxy advisor recommendations generally gaining noticeably more support. The case studies we include on pages [12-14] illustrate how many shareholder resolutions are aimed at increasing investor returns by utilising excessive cash, reforming lazy balance sheets or addressing gaps between the share price and net asset value.

As a result of this heightened focus on financials, fewer shareholder resolutions during 2024 were focused on governance or ESG issues compared with previous years. Nonetheless, while no Nikkei225 companies put forward any company climate proposals, eight companies faced 25 shareholder proposals related to environmental and climate issues.

There were a number of developments in governance regulation and companies' responses to them during 2024.

Firstly, as part of its process of implementing the Council of Experts' Management that is Conscious of Cost of Capital and Stock Price, the TSE started publishing a monthly list of companies that have disclosed initiatives to address this. Further steps to boost initiatives are expected in future years.

The Council of Experts, in 2023, had also noted the reluctance of some companies to engage with shareholders, and proposed that the TSE require Prime Market-listed companies to disclose how much dialogue had taken place between management and investors and its content. An analysis by a fund manager and academic team of thousands of engagements with investee companies found that engagement had led to enhanced corporate value across a range of metrics, from market capitalisation and total shareholder return to the number of independent directors.

In recent years, the growth in international institutions investing in Japanese companies has increased the need for companies to release simultaneous English language versions of their disclosures. In 2024 the TSE revised its Listing Rules to require all Prime market listed companies to disclose key information in English, starting in March 2025. Listed companies must initially simultaneously disclose, in Japanese and English, financial results as well as information that could have a material effect on investment decisions. Expanding the scope of English disclosures in future will be considered based on companies' progress.

As part of their push to improve the quality and skills of directors, Japanese regulators during 2024 provided guidance for directors and questioned whether companies yet understand the roles of independent directors and board committee chairs. They reported that boards are not yet functioning fully effectively and advised that the quality of such independent directors has not been substantially evaluated. However, few further increases in the number of independent directors were observed this year since most Japanese companies are now broadly in compliance with Corporate Governance Code requirements.

Please note that we have mostly used the Nikkei 225 index companies throughout our analysis – where we quote other company groupings we identify them at the time. To ensure the number was actually 225:

- We excluded three companies removed from the index on 1 October 2023 as a result of the TSE rebalancing and added the three companies that replaced them; and, similarly,
- We excluded three companies removed on 1 April 2024 through TSE rebalancing and added the three companies that replaced them.

JAPAN - NIKKEI 225

120 companies (**53.3%**) had one or more resolutions contested (voted against by 10% or more) during the 2024 AGM season.

377 resolutions were contested out of **2,867** submitted (**13.1%**).

In total, **305** board-sponsored resolutions were contested (**10.9%**) slightly fewer than in 2023 (12%).

Of **72** shareholder proposal submissions, none passed, **2** received more than 30% support, **14** received from 20%-29.99%, **8** received 10%-19.99% and **48** 0-9.99%.

Proxy advisors ISS and Glass Lewis recommended ‘against’ significantly more board resolutions in 2024. ISS’s ‘against’ recommendations were up by **66.0%** and Glass Lewis’s by **17.0%** over 2023, reflecting a tighter application of their AGM voting policies to Japanese companies.

Across the Nikkei 225, all board-sponsored resolutions passed in 2024, with only **38** receiving less than 70% support and **1** less than 60%.

Compensation came back strongly as an issue, with the proportion of compensation resolutions that were contested rising significantly from 1.4% in 2023 to **10.9%** in 2024.

262 director elections were contested (**11.5%**), a **2.1%** percentage point decrease from 2023.

The number of shareholder proposals receiving over 10% support was **24**, significantly less than the 41 in 2023.

As in previous years, **proxy advisors continue to have a significant effect on voting outcomes**, with a strong correlation between negative proxy advisor recommendations and lower vote results.

Of the **305** board-sponsored resolutions that were contested, **150** (**49.2%**) had received at least one negative proxy advisor recommendation. This is significantly higher than the **8.4%** of negative proxy advisor recommendations seen across all Board-sponsored resolutions.

Of the **24** shareholder proposals achieving a vote of **10%** or more, **14** (**58.3%**) received at least one positive proxy advisor recommendation.

ISS recommended against **193** resolutions in 2024, an increase of **66.4%**, compared with 116 in 2023.

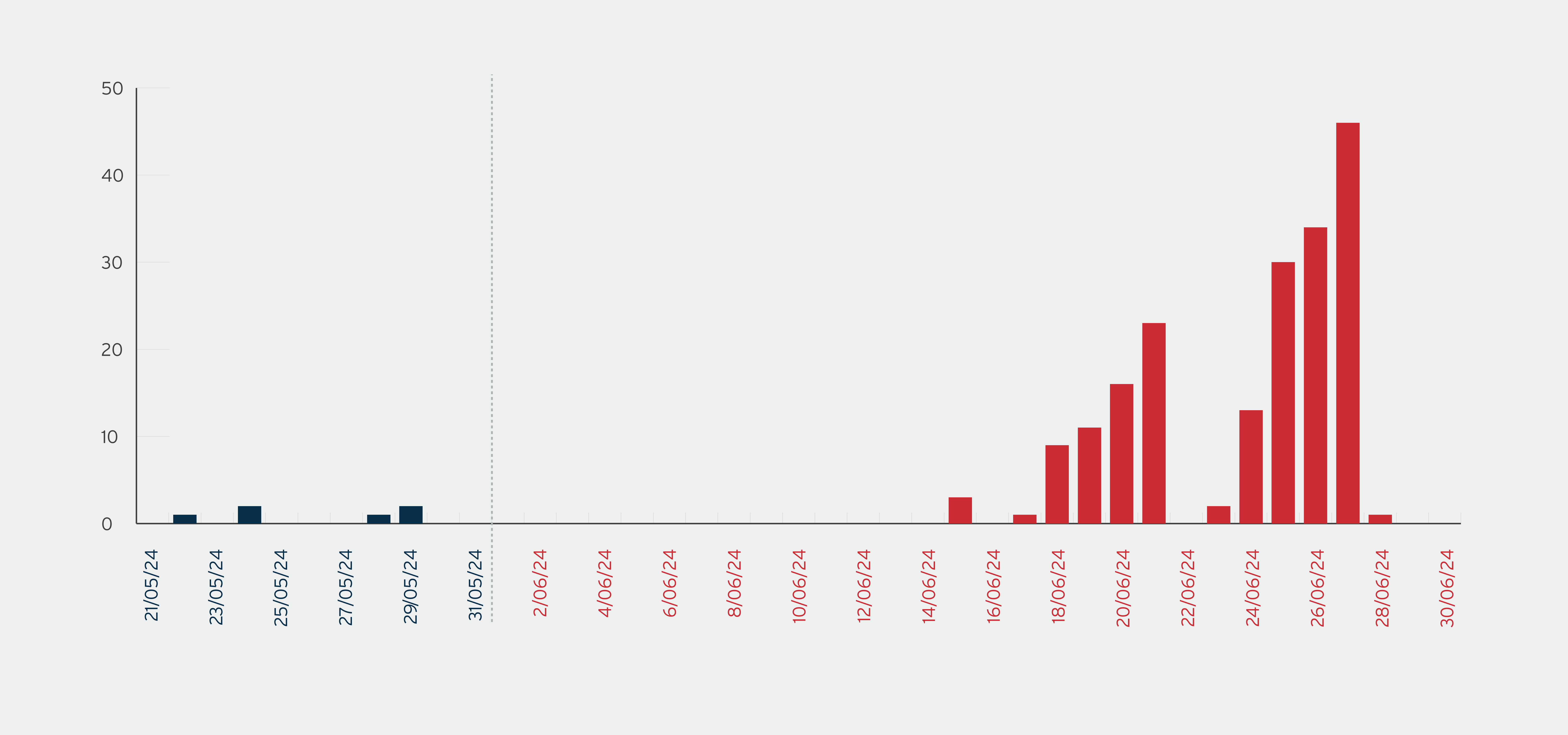
Glass Lewis recommended against **200** resolutions in 2024, an increase of **17.0%**, compared with 171 in 2023.

1. Voting in Japan in 2024

1.1 Overview

Our analysis covers the resolutions submitted for shareholder approval by Nikkei 225[1] companies at AGMs held between 1 July 2023 and 30 June 2024.

A notable feature in Japan is that most companies hold their AGMs over a short number of days at the end of June. In 2024, 81.8% of Nikkei 225 companies held their AGMs in June.



Graph 1: Nikkei 225 companies that held their meetings in May-June 2024

1 We have excluded the 36 companies with AGMs on various dates prior to 21 May for clarity.

1.2 Contested resolutions

(A contested vote is one which receives 10% or more votes in opposition from shareholders). As the chart demonstrates, the proportion of companies experiencing contested resolutions at the annual meeting is trending upwards over time.

- Of the 225 companies in the Nikkei 225, **120 (53.3%)** experienced a contested vote on one or more resolutions.
- Of all **2,867** resolutions submitted for voting, **377 (13.1%)** were contested.
- **305** Board-sponsored resolutions were contested **(10.9%)**, slightly fewer than the 322 (12%) in 2023.

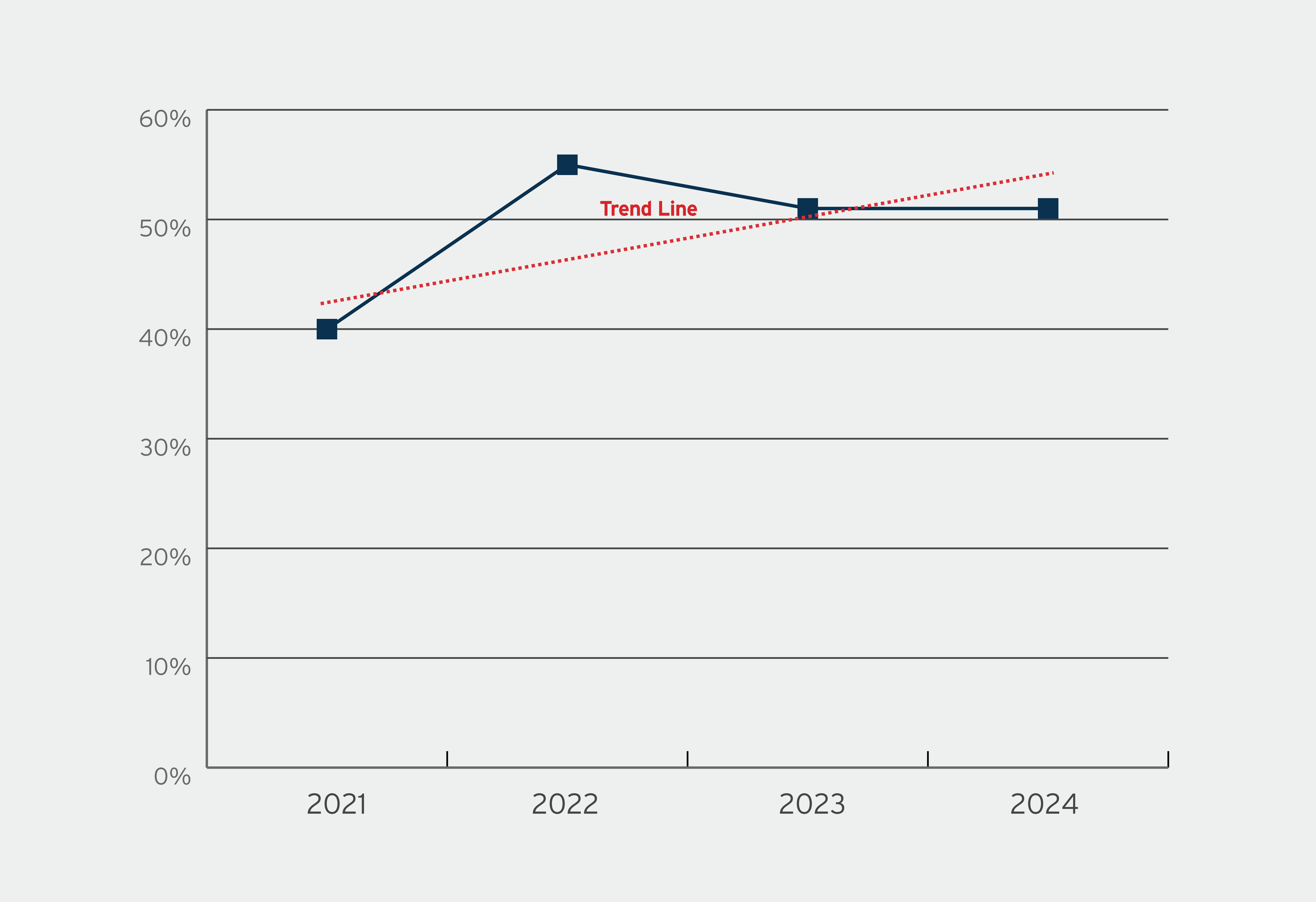
Of the 72 shareholder-sponsored resolutions:

- zero passed,
- 2 received more than 30% support,
- 14 received 20%-29.99% support,
- 8 got 10%-19.99% support and
- 48 received 0-9.99% support.

Of the 225 companies in the Nikkei 225, the most commonly seen resolutions were:

- director elections (**225** companies),
- allocation of income resolutions (**153** companies),
- the election of statutory auditors (**87** companies),
- compensation (**64** companies), and
- article amendments (**39** companies).

The category with the most contested resolutions was the election of directors (262). The category with the second most contested resolutions was the election of statutory auditors, which saw 24 contested resolutions.



Graph 2: Proportion of companies experiencing contested votes, 2021-2024

1.3.1 Director elections

Out of **2,276** Director elections, **262 (11.5%)** were contested, a **2.1%** reduction from 2023, when 13.6% were contested, and 2022 with 12.5%. In total, director elections account for **69.5%** of the **377** contested resolutions seen in the Nikkei 225 in 2024, significantly down from 91.9% in 2023 and 85.4% in 2022.

The high number of contested director election votes in 2023 and 2024 may be partially attributable to greater scrutiny of cross-shareholdings. In Japan, cross-shareholdings have historically been seen as a way for companies to maintain close business relationships but in recent years there has been mounting pressure on companies utilising them as it is considered by many investors to reflect poor corporate governance.

In 2022, ISS updated its guidelines 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'.

Also concerned about cross-shareholdings, Glass Lewis (GL) stated in its 2023 guidelines that it '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.'

In its 2024 proxy guidelines, GL implemented stricter requirements for companies when providing an exemption to its policy guidelines for this issue. From 2025, it may refrain from recommending shareholders vote against directors:

- In cases where the company has disclosed a clear plan outlining the specific scale and timeframe for reducing the size of its strategic shareholdings to 20% or less of its net assets within the next five years, or
- When the company has posted an average return on equity (ROE) of 8% or more over the past five fiscal years, or 8% or more in the most recent fiscal year, if the size of strategic shares held by the company falls in the range between 10% and 20% of its net assets.

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

- Sharp Corporation (Qing-Duan ZHANG – **60.1%** in favour, Po-Hsuan WU – **61.4%** in favour)
- Sompo Holdings, Inc (Mikio Okumura – **61.5%** in favour)
- DIC Corporation (Kaoru Ino – **63.1%** in favour)
- Fast Retailing Company, Ltd (Masaaki Shintaku – **63.5%** in favour)
- The Kansai Electric Power Company, Ltd (Kiyoshi Sono – **63.9%** in favour)

We note that ISS recommended voting Against all of these directors except Qing-Duan ZHANG and Masaaki Shintaku. Glass Lewis recommended voting Against Po-Hsuan WU and Masaaki Shintaku and For all the others.

1.3.1 Director remuneration

Japanese companies are required to 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 **119** compensation resolutions put forward by Nikkei 225 companies during the 2024 AGM season, **13 (10.9%)** were contested, a significant increase in the share of contested votes from 2023 when 1.4% of remuneration resolutions received 10% or more opposition.

The five Nikkei 225 companies with the lowest levels of support on remuneration resolutions in 2024 were:

- Daikin Industries Ltd (**68.5%** in favour)
- Takeda Pharmaceuticals Company, Ltd (**73.6%** in favour)
- Advantest Corporation (**77.7%** in favour)
- Chubu Electric Power Company, Inc (**80.7%** in favour)
- NEXON Company, Ltd (**81.1%** in favour)

Three of these resolutions received 'For' recommendations from ISS, which recommended Against Nexon Co., Ltd and Takeda Pharmaceutical Co., Ltd, and **four** from Glass Lewis, which recommended Against Daikin Industries Ltd.

2 https://www.frc.org.uk/investors/pre-emption-group

2. Proxy Advisors

Many institutional investors outside Japan rely on proxy advisory firms for meeting agenda analysis and vote recommendations to inform their voting decisions. A negative recommendation from a proxy advisor can have an adverse impact on the voting outcome of a given resolution.

Proxy advisory firms set governance policies covering listed companies and assess how well each resolution at a company shareholder meeting (AGMs and EGMs) satisfies the policy. Based on these assessments they make recommendations to their clients, mainly asset owners, hedge funds and asset service providers, on how they should vote their shares on the resolutions.

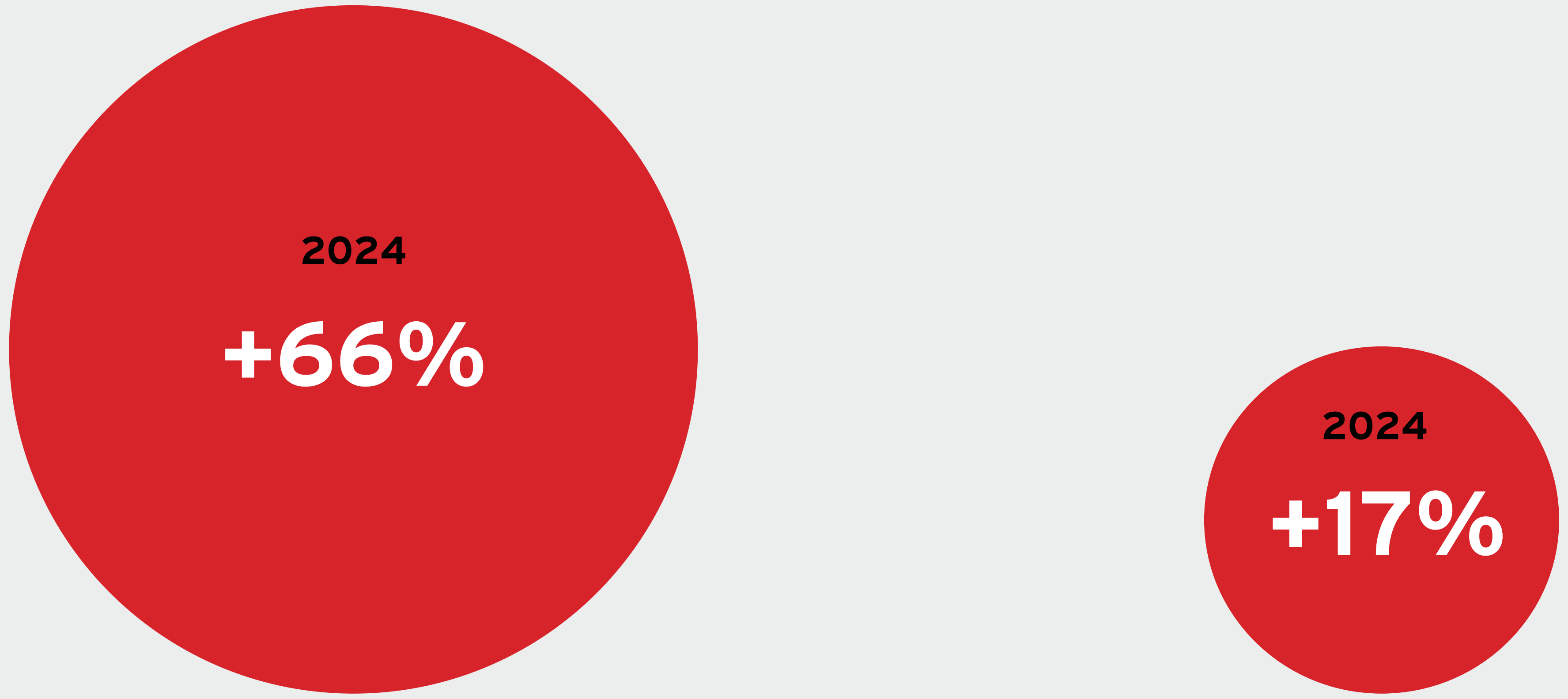
Japanese proxy advisors

Japanese institutional investors mostly use their own proxy guidelines to help them vote at meetings. Under pressure to comply with the Stewardship code and corporate laws, they vote in line with their guidelines, including on shareholder proposals. There are a few exceptions – special cases, conflicts of interest – in which they will follow third party advisors like ISS or Glass Lewis.

In the past there were niche Japanese proxy advisors, but they now have little presence in Japan.

By far the most-used proxy advisors in Japan – by both Japanese and overseas investors – are ISS and Glass Lewis.

Global proxy advisors opposed a much higher number of resolutions in 2024 than in 2023



ISS Against

ISS made 66.0% more Against recommendations than in 2023

Glass Lewis Against

Glass Lewis made 17.0% more Against recommendations than in 2023

These results suggest the two advisors are tightening their standards in Japan to be more in line with other developed markets.

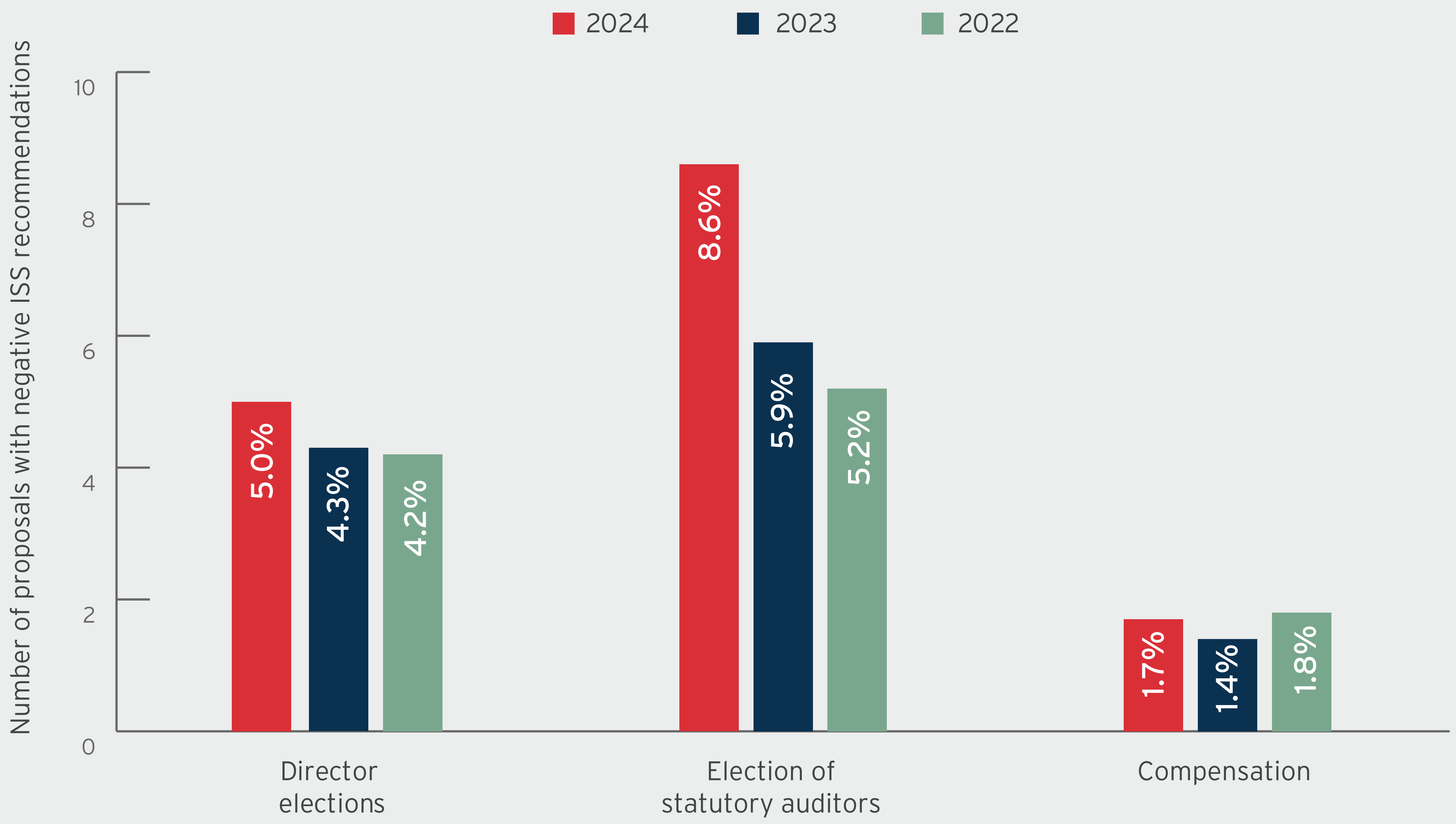
2.1 Institutional Shareholder Services (ISS)

ISS-Corporate provides expertise to help companies meet the growing demands of incorporating governance and sustainability principles by helping design and manage governance, compensation, sustainability, and cyber risk programs.

Between 1 July 2023 and 30 June 2024, ISS gave at least one Against recommendation on Board-sponsored resolutions to **78** companies (**34.7%**) of the Nikkei 225, an increase from 64 (28.4%) in 2023, and on **136** resolutions, excluding shareholder resolutions (up from 116 last year).

Two policy changes were implemented by ISS for meetings after February 2024:

- The return on equity (or ROE) policy for Japanese companies, suspended during the COVID-19 pandemic, was reinstated; and
- The second policy update was to make the poison pill policy more stringent by requiring a majority-independent board for companies seeking to introduce or renew a poison pill.



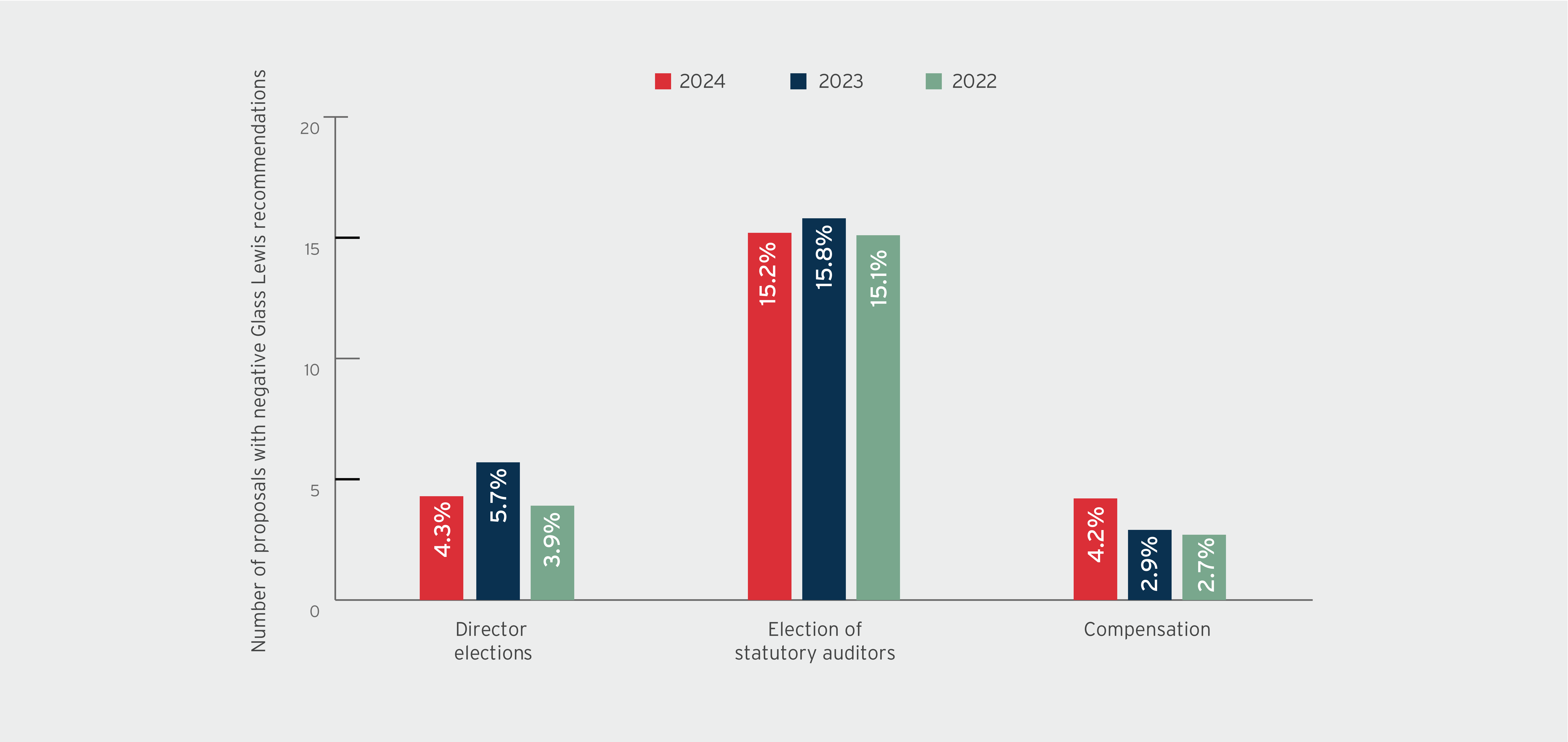
3 http://www.issgovernance.com/about/about-iss/

Graph 3: ISS recommendations Against board resolutions

2.2 Glass Lewis

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

Between 1 July 2023 and 30 June 2024, Glass Lewis gave at least one Against recommendation to **96** companies (**42.7%**) in the Nikkei 225, slightly down from 98 (43.6%) in 2023, and on **136** Board-sponsored resolutions (down from 171 last year).



4 http://www.glasslewis.com/about-glass-lewis/

Graph 4: Glass Lewis recommendations Against board resolutions

3. Shareholder Proposals

3.1 Background

Over the past two to three years, Japan has risen to become one of the most significant markets in the world for shareholder activism. There is a combination of trends at play, including:

- **Regulation:** Regulatory measures from the Tokyo Stock Exchange and government to address historical gaps in Japan's corporate governance framework, such as overly defensive capital management practices, extensive cross-shareholdings between major listed companies and lack of independence and diversity on boards;
- **Foreign capital:** The increasing influence being exerted by foreign investors such as global asset managers and major pension funds as the inflow of foreign capital continues to increase;
- **Proxy advisors:** The tightening of voting guidelines from major international proxy advisers ISS and Glass Lewis, to align Japan more closely with the standards set in other advanced markets;
- **Domestic activism:** The emergence of a lively Japanese domestic activist investor sector, alongside increasing activism from civil society organisations, to progress their causes through joint ESG-focused shareholder campaigns.

We are also seeing a full range of activism campaign types occurring in the Japanese market, including:

- **Hedge fund activism:** This is usually purely financially-motivated activism, focused on unlocking shareholder value through changes in company strategy eg improved dividend policies, divestment of non-core assets, nomination of new directors, or the reduction/elimination of cross-shareholdings or poison pill takeover defences.
- **Shareholder proposals** filed by retail investors: To date these have largely been from retail investors largely environmentally focused, asking utility companies to phase out nuclear power facilities.
- **Shareholder proposals filed jointly by large foreign organisations:** An interesting new phenomenon, these large foreign institutional investors and other organisations, often activist in nature, have rarely, if ever, sponsored shareholder proposals before. Some prominent examples of this have been seen in the Japanese energy and automotive industries over the past two AGM seasons.
- **ESG (Environmental, Social and Governance) campaigns:** Mainly from international NGOs like ACCR (the Australian Centre for Corporate Responsibility), Market Forces, Friends of the Earth, and their local Japanese or global partners. These campaigns typically focus on Paris-aligned climate disclosure and transition planning in line with the TCFD (Taskforce on Climate related Financial Disclosures) framework and Japan's formal adoption of a goal of net zero by 2050. These climate campaigns have in the past been mostly directed at Japan's major banks and energy utilities but in 2024 included steel companies such as Nippon Steel (see below).

We provide some case studies of activist campaigns that we observed during the 2024 AGM season on the next few pages.

3.2 Activist campaigns during 2024

During the 2024 AGM season, 15 Nikkei 225 companies faced a total of 72 shareholder resolutions, down from 81 proposals in 2023 but up from 63 in 2022.

Of the 72 shareholder resolutions:

- **42** resolutions at **ten** companies were in relation to governance, director, compensation or capital issues;
- **25** resolutions at **eight** companies were regarding environmental issues including climate change, nuclear power and governance related to environmental issues;
- **2** resolutions at **one** company were voted on in relation to social capital issues.

Shareholder proposal voting outcomes

Votes For the resolutions ranged from less than 1% to 35% of votes cast, with resolutions supported by positive proxy advisor recommendations generally gaining more support.

None of the **72** shareholder resolutions were passed. **24** resolutions (**33.3%**) at **11** companies received 10% or more of the votes cast. This is down from the 41 resolutions achieving over 10% support at 14 companies in 2023 and 32 at 8 companies in 2022.

The five shareholder proposals that gained the highest voting support in 2024 were as follows:

- Chubu Electric Power Co., Inc (Individual Compensation Disclosure – **35.2%** voted For)
- Credit Saison Co. Ltd (Individual Compensation Disclosure – **33.7%**)
- Keisei Electric Railway Co. Ltd (Management of Investment Securities – **29. 9%**)
- Dai Nippon Printing Co. Ltd (Election of Dissident Nominee Ken Kusunoki – **27.7%**)
- Nippon Steel Corporation (Aligning Climate Policies and Lobbying Activities with Carbon Neutrality Goal – **27.5%**)

CASE STUDIES

Some recent shareholder campaigns we have seen during 2024 focused on governance and financial issues include the following.

1. Keisei Electric Railway Co (9009) vs Palliser Capital

Keisei Electric Railway (KE), an operator of commuter and local express railway, logistics and real estate and leisure services in eastern Tokyo, was a founding investor in Oriental Land (4661) (OLC), which operates Tokyo Disneyland and Tokyo Disneysea and related attractions. KE's OLC earnings have represented an average of nearly 50% of KE's net income for the past decade. In addition, KE's OLC stake is worth considerably more than KE's entire market capitalisation, so many investors believe that Keisei Electric is significantly undervalued.

In mid-October 2023, Palliser released a proposal/demand that Keisei Electric sell down its OLC stake to less than 15% to release funds for investment, growth and shareholder return and to enable the stock price to rise to be more comparable with its peers. Palliser's shareholder proposal, included in the Keisei Electric AGM, required KE to publish and maintain a capital allocation plan from 1 January 2025 and also to reduce its shareholding in OLC to less than 15% of the voting rights. KE objected to the proposal.

Outcome

After publishing its case for change and some lobbying of institutional shareholders, Palliser received **29.9%** of votes cast For, mostly lodged by foreign institutional shareholders. ISS and Glass Lewis both recommended investors vote FOR the resolution.

2. Dai Nippon Printing Co Ltd (7912) vs Japan Catalyst, Inc (JCI)

JCI engages with Dai Nippon Printing (DNP) through the Monex Activist Mother Fund (MAMF, a Japan-registered mutual fund) and the Japan Catalyst Fund (JCF, a Cayman-registered corporate-type investment fund), to which JCI provides investment advice.

DNP holds technological advantages in sectors such as metal masks for organic EL displays, optical films for displays, and pouches for EV batteries, with high market shares and profit margins, but its mature businesses, mainly printing and packaging, face challenges, particularly lower profitability, suggesting the need for structural reforms.

In May 2023, DNP had outlined a plan to transform its business portfolio. JCI suggested this was not enough and sought to enhance DNP's corporate value by further refining the competitive edge of its strong businesses and securing profits through unique competitive advantages in mature markets. JCI proposed to appoint a highly qualified academic management expert, specialising in management and competitive strategy and with director experience, as a candidate for independent director. The company objected, maintaining that JCI's candidate's expertise overlapped with that of one of the three new directors DNP itself was putting up, adding little extra value and making his candidacy largely redundant.

Outcome

The voting outcome was as follows:

- On the resolution to elect a dissident director, **27.7%** of votes were cast in favour. ISS recommended For and Glass Lewis Against.

3. Toyo Suisan Kaisha, Ltd (2875 JP) vs Nihon Global Growth Partners Management Inc. (NHGGP)

Toyo Suisan Kaisha (TSK) – not part of the Nikkei 225 – specialises in the manufacture and marketing of ramen noodles, instant noodles, fresh noodles and frozen foods, both to consumers and as a supplier to the restaurant trade. It is a global leader in the space, specifically in North America which contributed 65% of consolidated earnings before interest and taxes in 2023 and is expected to surpass 70% in the coming years. TSK's Maruchan brand of packaged instant noodles holds 70% of market share by volume and 45% by sales value in the US, and 75%+ in Mexico. The segment has enjoyed roughly 10.9% revenue and 12.8% EBIT compound annual growth rates from 2012 to 2024, as well as consistently healthy EBIT margins in the mid-teens.

NHGGP claimed that TSK appears deeply discounted to its intrinsic value and attributed this to

1. The company's lack of strategic focus on its core assets;
2. Poor capital allocation, dedicating far too much capex on low ROA legacy businesses and being substantially overcapitalized; and
3. Lack of attention to total shareholder return, which had underperformed peers, and a lack of a formal shareholder return policy.

NHGGP stated that legacy businesses generated just 17% of the company's 10-year cumulative earnings before interest, taxes, depreciation and amortization, yet had received 51% of capex, despite generating sub-5% return on assets. The ideal plan for Toyo Suisan would be to divest its legacy and non-core businesses and focus its capital and resources on growing its core noodles business. TSK consistently outperforms its competitor Nissin Foods in North America, one of the most profitable and fastest-growing markets in the world, yet Nissin trades at a higher price-earnings multiple because, says NHGGP, it is a pure play focused on the instant noodle market, has a clear 40% dividend payout ratio and conducts share buybacks. TSK, on the other hand, is the last remaining company among its peers with no shareholder return policy and no stated targets regarding return on equity, dividend on equity, dividend payout ratio and total shareholder return, according to NHGGP. It also hasn't conducted a share buyback in 17 years.

NHGGP put forward four proposals to TSK for inclusion in the Notice of Meeting:

1. Increase the dividend payout ratio to 40%;
2. Repurchase 20 billion yen of the company's shares;
3. Implement a director stock compensation program; and
4. Disclose the company's cost of capital.

Outcome

The voting outcome was as follows:

- On items 1 to 3, **19.7%**, **14.0%** and **21.8%** of votes were cast in favour respectively. ISS and Glass Lewis both recommended Against these resolutions.
- For item 4, **48.7%** of votes were cast in favour. ISS and Glass Lewis both recommended For this resolution.

Climate activism

During the 2024 AGM season no Nikkei 225 companies put forward Board proposals on environmental issues, but a number of shareholder environmental proposals were voted on. **Eight** companies faced **25** resolutions relating to environmental concerns:

- **Three** companies (through **11** resolutions) faced votes related to nuclear power production;
- **Three** companies (**3** resolutions) faced resolutions related to climate transition plans;
- **Two** companies (**5** resolutions) faced resolutions related to emissions, net zero and carbon neutrality; and
- **Three** companies (**6** resolutions) faced resolutions related to lobbying activities, global warming counter-measures and renewable energy.

CASE STUDIES

Recent shareholder campaigns we observed during 2024, focusing on environmental issues, include the following.

1. Nippon Steel Corporation (NSC) (5401) vs Corporate Action Japan

Global asset managers and activist NGOs backed three shareholder proposals urging NSC to lead on steel decarbonization and climate lobbying, one of the first times such proposals have targeted a non-energy company.

The Australasian Centre for Corporate Responsibility (ACCR), alongside Corporate Action Japan (CAJ) and Legal & General Investment Management (LGIM), co-filed three shareholder proposals asking NSC to protect shareholders' long-term interests by improving its decarbonization strategy and disclosures on climate lobbying. The proposals and voting outcomes were as follows:

- Proposal one, filed by CAJ and ACCR, asks NSC to set and disclose short and medium-term greenhouse gas (GHG) emissions reduction targets aligned to the goals of the Paris Agreement for scope 1, 2 and 3 emissions, along with disclosure of planned capex for decarbonization investments. 21.48% of votes were cast in support of the proposal.
- Proposal two, filed by CAJ and ACCR, asks for remuneration to be linked to the company's GHG emissions reduction targets. It was supported by 23.01% of votes cast.
- Proposal three, filed by LGIM and ACCR, asks for improved disclosure of climate-related lobbying activities. It was supported by 27.98% of votes cast.
- The filing followed engagement with the company by a group of institutional investors collectively representing $US4.988 trillion of assets under management, according to the press release from the shareholder proponent. All three proposals were supported by Amundi, Nordea Asset Management and Storebrand Asset Management.

Proposals 1 and 2 reflected concerns by the co-engagement group that NSC's lack of Paris-aligned targets, along with a decarbonization strategy that relies on unproven technologies, presents a range of material risks to shareholders, including the risk of stranded assets. ACCR research shows that while NSC's peers are increasing investments in proven Electric Arc Furnace (EAF) technology, it is relying on unproven, high-cost Carbon Capture, Utilisation and Storage (CCUS) technology to deliver at least 50% of its emissions reductions by 2050. In addition, independent assessments have demonstrated the company lags behind its peers on climate policy engagement disclosures, and in 2022, Influence Map named NSC as one of the most influential companies blocking climate policy action globally.

Outcome

- **27.98%** of votes were cast for the Proposal.

2. Climate shareholder proposals target three top Japanese banks

In April 2024 a coalition of climate groups filed shareholder proposals with Japan's top three banks, (Mitsubishi UFJ Financial Group (8306), Sumitomo Mitsui Financial Group (8316) and Mizuho Financial Group (8411)), calling for stricter board oversight of climate-related risks.

The proposals from Australia's Market Forces, Japan's Kiko Network and a representative of Rainforest Action Network mark the first time climate groups have targeted the boards of the banks as a way to pressure the lenders on climate change. (In 2023 the climate groups sought to mandate the banks to disclose credible transition plans to meet 2050 carbon neutral targets.)

The voting outcomes at the three corporations were as follows:

MITSUBISHI UFJ FINANCIAL GROUP

Two climate-related resolutions were voted on:

- On a resolution to ensure directors had suitable climate-related competencies, **25.8%** of votes were cast in favour. ISS recommended For and Glass Lewis Against
- On a second resolution to require the company to publish a climate transition plan, **18.4%** of votes were cast in favour. ISS and Glass Lewis both recommended Against this resolution.

SUMITOMO MITSUI FINANCIAL GROUP

For equivalent resolutions to Mitsubishi UFJ:

- On the resolution to ensure directors had suitable climate-related competencies, **26.3%** of votes were cast in favour, with ISS recommending For and Glass Lewis Against
- On the resolution to require the company to publish climate a transition plan, **24.2%** of votes were cast in favour. ISS and Glass Lewis both recommended Against.

MIZUHO FINANCIAL GROUP

On the same two resolutions:

- On the resolution to ensure directors had suitable climate-related competencies, **25.0%** of votes were cast in favour. ISS recommended For and Glass Lewis Against
- On the resolution to require the company to publish climate a transition plan, **22.0%** of votes were cast in favour, with ISS and Glass Lewis both recommending Against.

4. Corporate Governance Developments

4.1 Council of Experts Opinion Statement 2024[5]

On June 7 2024, the Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code (Chairman: Hideki Kanda, University of Tokyo) published an opinion statement No.7 'Action Program for Corporate Governance Reform 2024: Principles into Practice'.

The Opinion Statement makes recommendations regarding putting corporate governance reform 'into practice' encouraging companies and investors to examine and share specific measures and going back to the spirit of the Codes.

TSE reports progress on measures: timeline

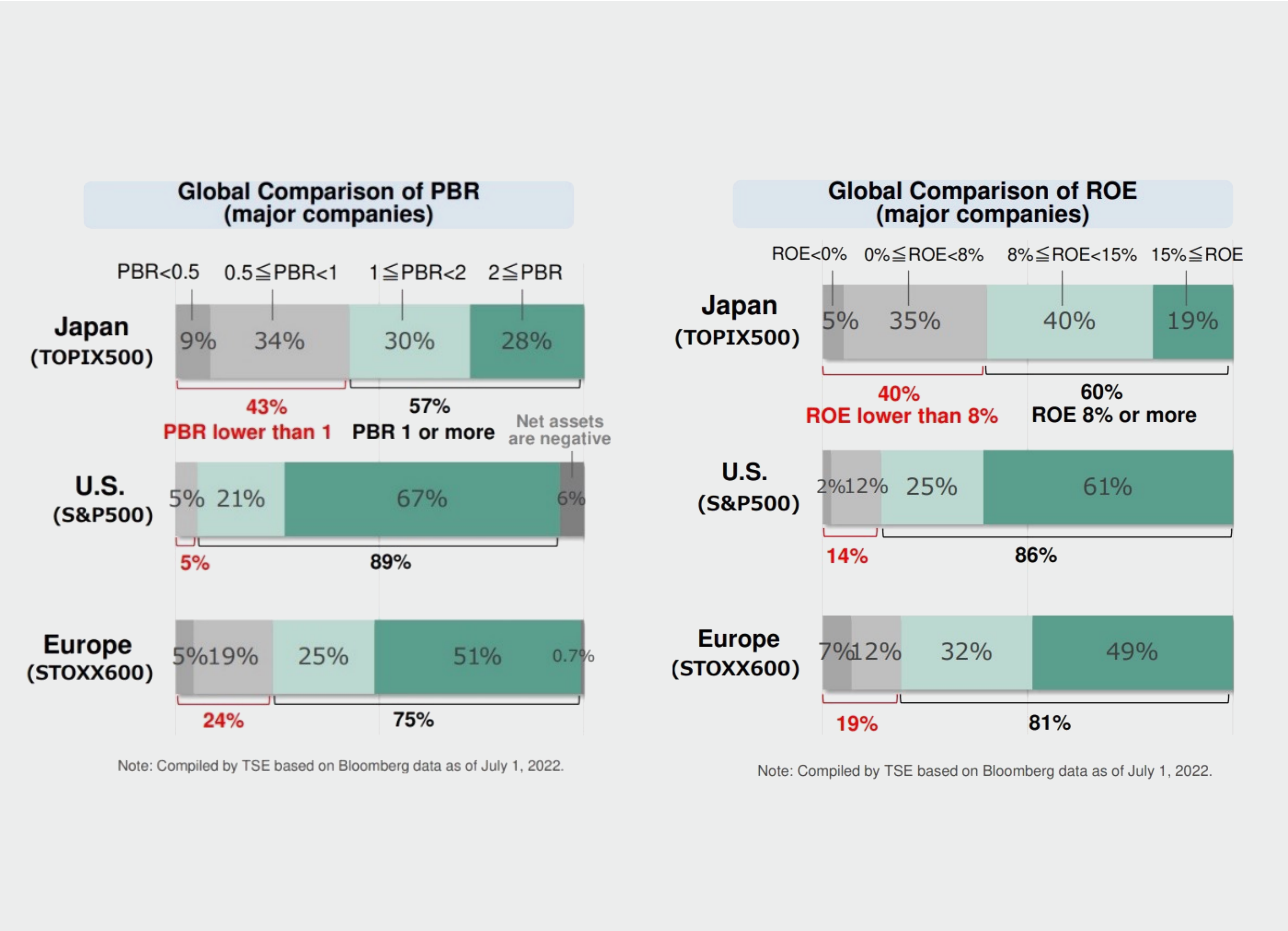
In April 2024, the TSE released a publication 'TSE Recent Initiatives' providing more information on the progress achieved towards:

- Implementing management that is conscious of cost of capital and stock price;
- Better dialogue with shareholders; and
- Further expansion of English-language disclosures.

4.2 Implementing Management That is Conscious of Cost of Capital and Stock Price

In our 2023 AGM Season Review, Georgeson and JSS reported that in March 2023, the Council of Experts had highlighted 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.'

The following two charts show the significant gap between Japanese companies vs US and European companies on PBR and ROE in July 2022.



Graph 5: Gap between Japanese companies vs US and European companies on PBR and ROE in July 2022.

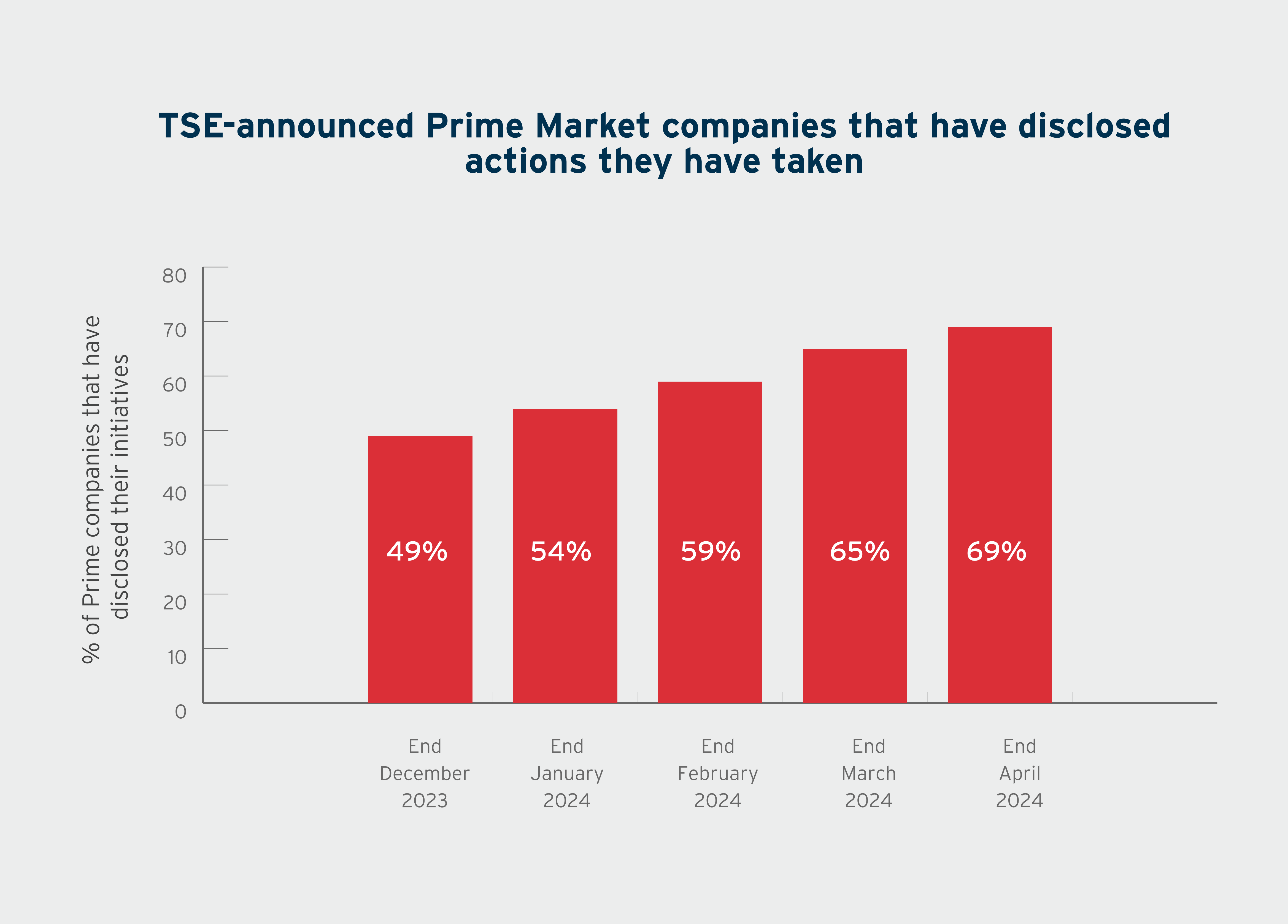
5 https://www.jpx.co.jp/english/equities/follow-up/b5b4pj000004yqcc-att/dh3otn0000006vlf.pdf

The Council put forward, in 2023, a set of actions or initiatives that companies should consider to further prioritise cost of capital and profitability, rather than simply sales and profits. The aim is for these initiatives to then improve corporate value over the mid to long term.

In taking these initiatives forward, TSE expected companies to assist investors to assess their progress by presenting clear information on related policies, targets, and specific details in whatever way they see fit, and to gradually improve their initiatives through proactive dialogue with investors based on this disclosure.

TSE followed up on these actions as follows:

- **March 2023:** TSE asks all companies on the Prime and Standard Markets to take action 'to Implement Management that is Conscious of Cost of Capital and Stock Price'.
- **August 2023:** TSE announces that, at mid-July, 31% of Prime Market listed companies have disclosed their initiatives 'to Implement Management that is Conscious of Cost of Capital and Stock Price'.
- **October 2023:** TSE announces that, as of January 2024, it will publish a list of exactly which companies have disclosed initiatives on a monthly basis.

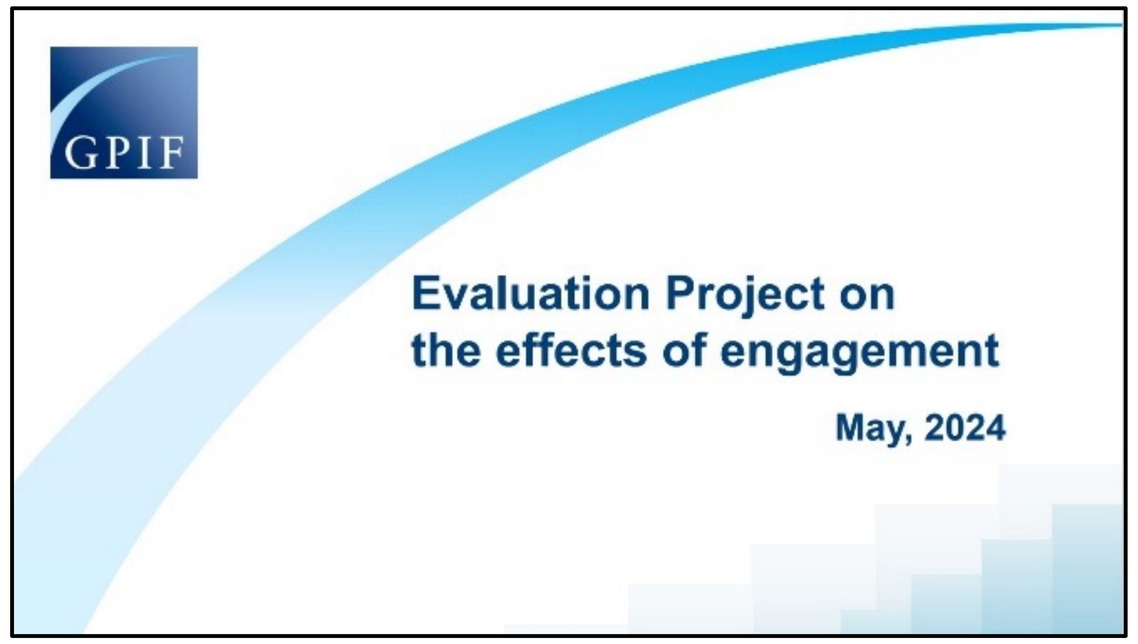


Graph 6: % of Prime companies that have disclosed their initiatives[6]

6 https://www.jpx.co.jp/english/equities/follow-up/b5b4pj000004yqcc-att/dh3otn0000006vlf.pdf

4.3 Better dialogue with shareholders and related disclosure

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



Detailed study shows clear benefits of engagement

Japan's Government Pension Investment Fund (GPIF) commissioned an economic consulting firm and an academic to analyse a large number of engagements with companies by GPIF equity managers over a number of years. The report was released in May 2024.

The analysis used the records of 26,792 engagements and 48,077 themes conducted by 21 domestic equity investment managers between 2017 and 2022. GPIF evaluated the effectiveness of these engagements by applying a method to statistically estimate the effects, including causation. GPIF suggests this may be the first such rigorous engagement analysis in the world.

The key finding of their report was that **engagements in Japan have enhanced corporate value across a range of metrics**, from market capitalisation and total shareholder return to the number of independent directors.

The authors used a control group of non-engaged firms to exclude any effects from the rising Japanese stock market, enabling them to make a direct estimate of the difference that engagement made to company performance, compared with the control group.

Some examples of the clear effects of engagement identified by the analysis are as follows:

- **Climate change:** The dialogues on climate change led to increased setting of decarbonization targets and decreased carbon intensity scope 2 emissions, as well as improvements in corporate value indicators such as PBR and Tobin's Q;
- **Board structure:** The engagements led to an increase in the number of independent outside directors and improvements in investment return indicators such as market capitalisation and total shareholder return.

The researchers were able to conclude through statistical analysis that the market capitalization of the engaged companies in the top 1000 TOPIX companies, following engagement with GPIF on different topics, increased by an average of 6% compared to the non-engaged companies.

The report also shows how, over the five years covered, the topics covered during engagement have been evolving:

- Concerning passive funds, dialogue with outside Directors is increasing;
- By company size, engagement is particularly frequent with large companies;
- Regarding dialogue themes, Board Structure and Management & Business Strategies have been the most common for all fiscal years; and
- Engagement on Climate Change has been increasing rapidly in recent years, particularly in high emission industries.

Finally, broken down by company size, GPIF found that small companies' KPIs often relatively improved through engagement and there were almost no cases where KPIs deteriorated as a result of engagement.

GPIF's findings indicate that dialogue between the GPIF's external asset managers and their investee companies is likely to contribute to the corporate value enhancement of their investees as well as helping improve their sustainability performance on issues such as decarbonization and diversity.

The report, including conclusions and methodology, can be accessed in English by clicking on the note[7].

7 https://www.gpif.go.jp/en/investment/esg_stw_project/project_report-1.html

4.4 English language disclosures

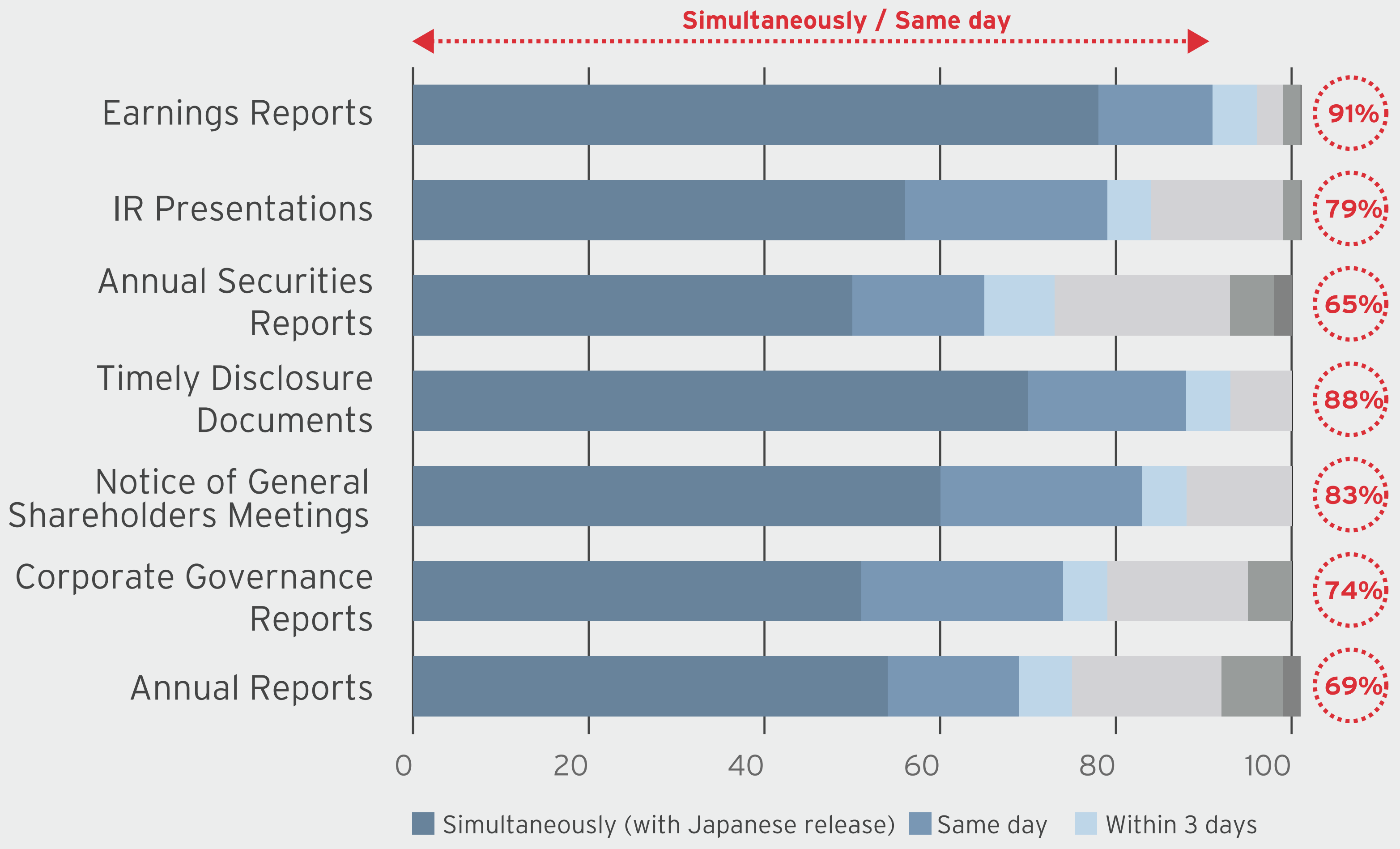
Importance to Japanese companies and investors

- For many institutional investors, Japan is the largest economy outside the US in terms of $ invested.
- There has been a huge increase in recent years in the proportion of foreign investors on Japanese issuer registers, particularly global pension funds and managed trusts, which has increased dependence on foreign capital, the growth of pension funds and the diversification of global portfolios.
- Requiring English language disclosures is a natural extension of recent market structure and governance reforms.
- It will enable the TSE to compete with other Asia-Pacific regional exchanges – for example, Korea already mandates English disclosures to be available by end 2025.

Gap between English-language disclosure expectations and disclosure practice

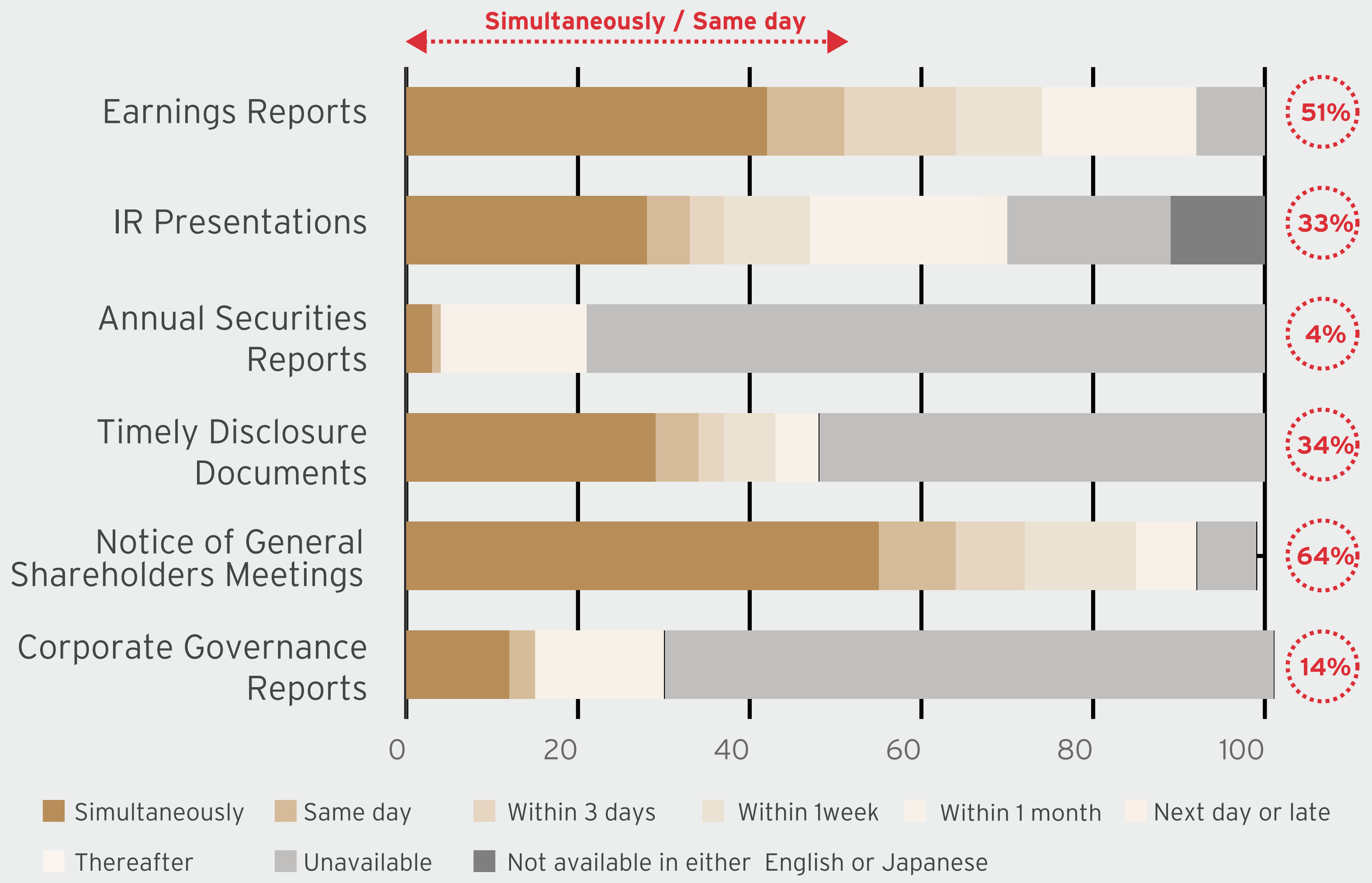
Although as of August 97% of companies listed on the Prime market already publish some documents in English, this information is mostly limited to financial statements, according to the TSE. Only about 40% of companies release their financial results in English and Japanese simultaneously.

When overseas investors require English disclosure



Source: Results for overseas investor survey on English disclosure
Note: The figures are based on the responses for institutional investors who answered that English disclosure was „essential“ or „necessary“ for each document.

Timing of English disclosure by Prime Market listed companies



Sources: earnings reports, IR briefing materials, general shareholders meeting announcements, and timely disclosure materials are based on the results of the "Prime Market Survey on English Disclosure Requirements"; Annual Securities Report and CG reports are based on the results of the "Availability of English Disclosure Information by Listed Companies' Survey".
Note: Responses to (earnings report / earnings release) and of (other timely disclosure materials) are totaled.
Note: Annual Securities Report and Report on CG are heard as within 3days/ 1week/ 1month/ the next day or later collectively.

Graph 7: Gap between investor expectations re English translations and issuer practices

Current English-language disclosures for different documents

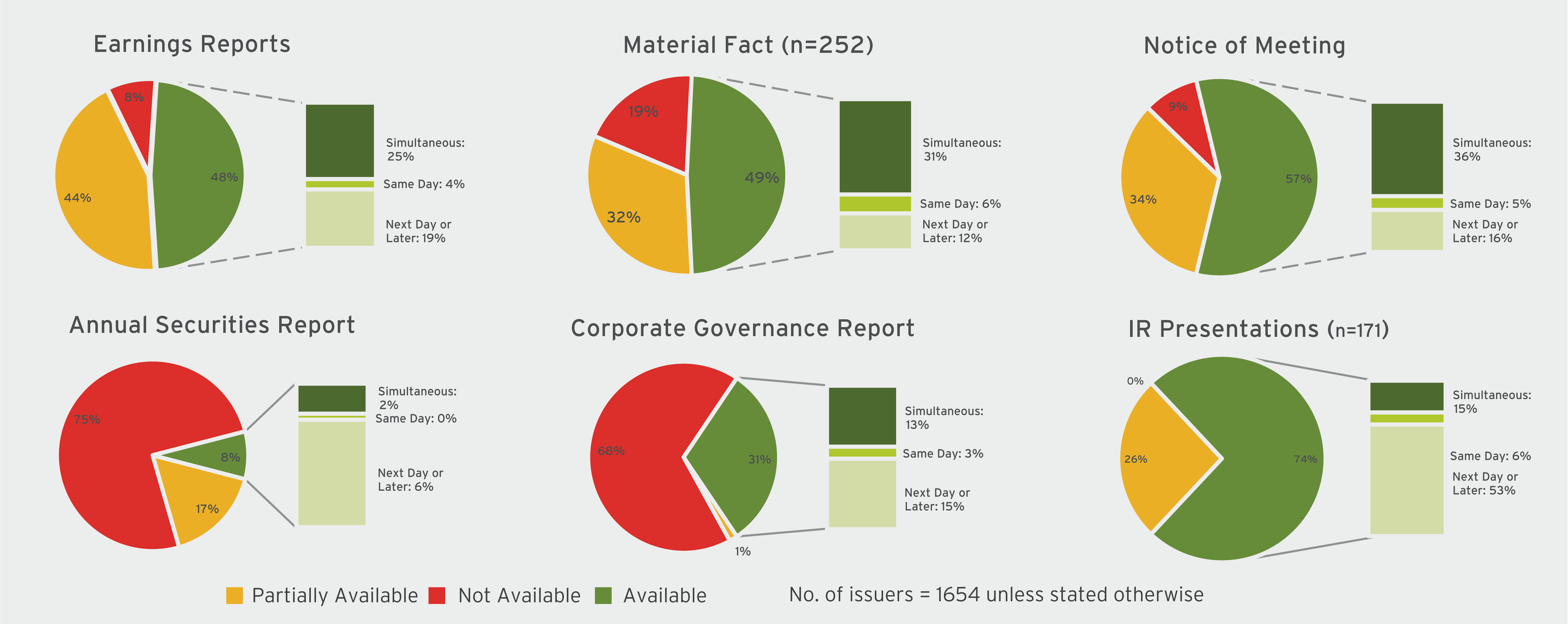
Currently (at Feb 2024) the proportion of Prime companies releasing full English language versions of documents ranges from 74% for IR presentations down to only 8% for annual securities reports. Conversely the proportion with no English language version of documents available ranges from 0% for IR presentations to 75% for annual securities reports.

Mandatory Prime Market English disclosures[8]

After considering mandatory English disclosures by companies listed on the Prime market[9], in May 2024, the TSE acted to revise its Listing Rules. These now require all 1,600 or so companies listed on the top-tier Prime market to disclose key information in English, starting in March 2025, in its latest move to attract more foreign investors to the country's top bourse.

Listed companies will first be required to simultaneously disclose financial results in Japanese and English. They will also be required to disclose information that may have a material effect on investment decisions, such as revisions to earnings forecasts, mergers and acquisitions, and changes to representative directors. Companies unable to meet these requirements by the deadline must give a specific date by which they will be able to begin such disclosures.

The TSE will officially revise listing rules after discussions by an expert committee tasked with reviewing market segmentation. Details, such as the scope of English translations for each document, will be worked out in the future. The committee will consider whether to expand the scope of disclosures based on companies' progress.



Graph 8: Current English language disclosures – availability and timeliness

Source: https://www.jpx.co.jp/english/equities/listed-co/disclosure-gate/availability/

8 https://www.fsa.go.jp/en/refer/councils/follow-up/statements_7.pdf
9 https://asia.nikkei.com/Business/Markets/Tokyo-exchange-to-require-English-disclosures-by-Prime-market-firms#

4.5 Independent directors

In January 2024, the Ministry of Economy, Trade and Industry (METI) jointly with the FSA and the TSE published 'For Starters as Outside Directors' to help improve the quality of independent directors. The private sector, including international organizations, also conducts training, disseminates proposals, gives awards and conducts other educational activities for directors, including independent directors.

In June 2024, the Council of Experts reported a lack of shared recognition of the roles that independent directors and the chairs of each board committee should play, that boards are not yet functioning fully effective and that the quality of such independent directors has not been substantially evaluated. The Council suggested that companies:

- Ensure a highly transparent process to nominate independent directors;
- Foster awareness of the roles and functions of independent directors through dialogues between independent directors and investors;
- Evaluate the effectiveness of boards, including of individual directors after their appointment;
- Require secretariats of boards and other committees to implement efforts to encourage substantive discussions at board and committee meetings.

The number of outside directors at Japanese companies has increased in recent years, but few further increases have been observed this year since most companies are now broadly in compliance with the Corporate Governance Code requirements. As of March 2024, 84 percent of companies covered by ISS had a board composed of at least one third outsiders. In addition, at 24 percent of companies covered, at least half of the board members were independent outsiders (based on the TSE classification).

Investor insights

Investor: Legal & General Investment Management

Ms. Aina Fukuda

(Head of Japan Investment Stewardship)

The focus on board composition in Japanese companies has increased in recent years. How do you currently approach the questions of board diversity and board independence and where do you see this going forward?

Our voting policy for Japanese companies has included board independence since 2010 and board diversity since 2020.

This year, we updated our independence criteria to exclude individuals who have served on the board for more than 12 years from being considered independent. In 2023, we last revised our voting policies on board diversity. From 2025, we will broaden our scope to vote against TOPIX 500 companies with boards comprising less than 15% women. We will also require all our investee companies in Japan to have at least one woman on the board.

We have continued to vote against the re-election of hundreds of directors in Japan due to concerns about board independence, as one in four companies still has less than one-third independence on the board. In addition to voting against specific director candidates based on independence considerations, we also hold the most senior board member or the chair of the nomination committee accountable by voting against their re-election if the composition of the board does not meet the following minimum thresholds: a majority of the board must be independent outside directors for listed subsidiaries with a controlling parent company, and at least one-third of the board must be independent outside directors for all other companies.

The number of our votes against re-elections based on board diversity fell to 28 from 83 in the same period last year. This decline suggests progress in board diversity, likely influenced by the Tokyo Stock Exchange's listing rules on female 'officers'. We vote against the most senior board member or the chair of the nomination committee if the following diversity thresholds are not met: at least 15% women on the board for TOPIX 100 companies, and at least one woman on the board for Prime Market companies outside the TOPIX 100.

In our engagement with companies, we focus on the governance and nomination processes to ensure the creation of a well-structured and diverse board. We also discuss how companies promote diversity and inclusion at all levels of the organization. This includes approaches such as flexible working arrangements, actively seeking and responding to the views of employees across different demographics, external recruiting at various levels (rather than solely hiring new graduates), and demonstrating commitment from top leadership.

Historically investors have targeted the Utility, Energy and Financial (UE&F) sectors with climate-related shareholder proposals, whereas this year a proposal at Nippon Steel questioned the company's decarbonization and climate lobbying. To what extent do you think investors will continue to target companies outside of the UE&F sectors on climate change (such as cement, chemical and manufacturing companies) and do you see this trend accelerating over time?

While GHG emission reduction and fossil fuel financing have been common themes of shareholder resolutions in Japan, we are now seeing emerging themes and resolutions targeting companies in the energy demand sectors.

This season, we counted 10 climate-related shareholder proposals with over 20% support at the 500 largest companies, compared to four last year. Notably, these included a new type of proposal calling for directors to be competent in managing climate-related business risks and opportunities.

Shareholder proposals have also expanded to include scrutiny of a company's efforts to influence key climate-related public policies. Last year, the market saw its first shareholder resolution calling for enhanced disclosure of climate lobbying at Toyota*. This year, we co-filed a similar resolution at Nippon Steel*, following years of intensive engagement on climate policy engagement. The proposal received 27.98% investor support (Source: LGIM's analysis based on ISS data), the highest for any environmental proposal this season, signalling a strong call for the board to increase accountability and transparency in its climate policy engagement.

We believe that Nippon Steel's expanding global operations, substantial emissions, and significant policy influence will keep the company in the spotlight. Similarly, other companies with these characteristics, particularly in heavy industry, may also face increased scrutiny in the future.

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

We closely examine cross-shareholdings because they can lead to issues such as poor corporate governance, inefficient use of capital, and potential anti-competitive behaviour.

First, we consider a company's cross-shareholdings when assessing the independence of outside directors. Directors who are or have been affiliated with companies that hold shares in the company under consideration are not considered independent.

In addition, we vote against the company's top executive if the company allocates 20% or more of its net assets to cross-shareholdings without a clear justification. Between April and June this year, 69 companies were subject to such votes. We regard this threshold as a temporary benchmark, as we expect companies to eventually reduce these holdings to zero.

What has surprised you most about the 2024 AGM Season in Japan?

It might seem that the AGM season in Japan no longer holds big surprises, given the increasing prominence of shareholder activism in recent years.

This year again saw a record number of shareholder resolutions. Last year, there was a surge in the number of senior board members receiving low levels of support, and this trend has continued. In addition to persistent issues with board composition and capital management, many of this year's dissenting votes were driven by misconduct and governance failures. As noted above, there is also growing support for shareholder resolutions related to climate change.

One observation this year was the resurgence in the concentration of AGMs. On June 27, a record 650 AGMs were held, including 280 of Prime-listed companies (Source: Tokyo Stock Exchange). This represented almost 30% of all companies with a March business year end, marking the highest concentration since 2020 (the average for 2021 to 2023 was 26.5%). Over 1,600 AGMs took place during this week. This shift may reflect companies feeling increased pressure and responding to heightened shareholder activity and voting trends.

*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.

Investor: Mitsubishi UFJ Trust and Banking Corporation

Mr. Kazuyuki Mitsuhashi

(Senior Deputy General Manager and Head of ESG Development Department, Asset Management Division)

Was there anything that surprised (or impressed) you at the 2024 Annual Meeting of Shareholders?

Although there was not a significant increase in shareholder proposals this year, a close examination of individual proposals revealed that many of the proposals were becoming better and better proposed (and troubling to approve or disapprove). We spent more time than in previous years scrutinizing proposals within our company and discussing voting decisions internally.

Scandals and cases of impropriety occurred at reasonably large companies, and various issues became intertwined, further complicating the discussion when making voting decisions. Our impression was that many of the scandals were caused by corporate culture, and some of the opposing parties believed that the directors were responsible for the scandals. This is not a major factor that has an impact on stock price and business performance, but some cases were recognized as misconduct in the sense of holding the company socially responsible. The impression is that the perception and perspective toward misconduct by asset owners is becoming more severe.

Issues specific to Japan include parent-subsidiary listings, cross-shareholdings, and takeover defence measures, all of which are on the decline. The authorities and exchanges are waving the flag for governance reform, and we feel that Japan as a whole is working on this and governance is improving overall. For example, the subject of parent-subsidiary listings has not been the focus of much attention in some quarters, but Japan is firmly addressing the issue.

The TSE has requested disclosure of 'Action to Implement Management That Is Conscious of Cost of Capital and Stock Price'. In your discussions with many Japanese companies, what are their reactions or confusion, and what is your evaluation of this?

Dialogue with companies has definitely increased as a result of the TSE request. We recognize that the companies with which we are in dialogue, including new ones, are highly sensitive to the TSE request.

On the other hand, there is a polarized impression as to whether the discussion on the cost of capital is deepening or not. When engaging in dialogue with companies, we need to discuss the divergence between investors' and issuers' perspectives on the cost of capital, and the causes of this divergence.

If the TSE request were to be a formality, that would be the end of it, but we believe that the original purpose of this request was to engage in dialogue to bridge the perception gap between investors and companies. In general, I feel that, except for very large companies, there is still a lack of solid and substantive dialogue among major and mid-tier companies and below.

Please tell us (to the extent possible) the direction of your engagement policy and voting criteria regarding capital policy (ROE, PBR, stock price, cross-shareholdings, etc.).

This year, we have made a major revision to ROE criteria in our proxy voting guideline. Previously, if ROE was below 5% for three consecutive years, we would oppose the company, taking into account industry conditions and other factors, but from this year we eliminated the consideration of industry conditions. In addition, from April 2027, we have announced that we will oppose the company if ROE is less than 8% for three consecutive years and P/B ratio is less than 1x. We intend to continue to encourage efforts in dialogue with companies.

The revision of the ROE standard would require very in-depth corporate measures, given the current ROE levels, with some time left before the standard is applied. The thinking is that companies will not change unless the voting standards and engagement are a set of standards. Even though there is a possibility that this could be changed over time, it is not a good idea to oppose it immediately when the criteria are revised. Many Japanese companies may feel that it is a hurdle to exceed 8% ROE, but we are taking a time horizon of three years ahead regarding the ROE standard revision because this is the period necessary to take various measures, such as business portfolio reform, to achieve an ROE of 8%.

In addition, a new criterion was established this year regarding cross-shareholdings, which is against holding 20% or more of net assets, but some companies actually exercised their opposition at the most recent annual general meeting. There have been cases where investors have voted in favour of the proposal when the company's intention to reduce their cross-shareholdings could be clearly confirmed. It is possible that there may be cases where a company has indicated its intention to reduce its cross-shareholdings this year, but has not actually done so. Therefore, we would like to continue to monitor the status of reductions and encourage companies that have made exceptions to this rule.

Please share your awareness of issues related to board diversity and independence and the direction of your company's future efforts (ratio of outside directors, gender diversity, etc)

We are aware of the issue of whether outside directors should be in a majority, and this was discussed internally at the time of this year's revision. However, considering the current situation of Japanese companies, as in the cases where scandals have occurred, there are companies that have established formalities in terms of governance but seem to have failed to do so in terms of ensuring effectiveness. We are considering whether we should change the way we approach the board of directors through dialogue in order to ensure its independence and diversity.

With respect to E and S, what is your focus in engagement and voting?

In the area of E and S, I feel that it is very difficult to draw a line as to when to oppose a company. Basically, we oppose when we judge that a director is responsible for damaging corporate value. However, in situations where a company or its top management may be held responsible for social responsibility even in situations that do not cause much damage to corporate value, it is difficult to determine how we should make decisions on the exercise of voting rights. We have strengthened our sustainable investments by establishing an organization dedicated to research and engagement in the E and S areas (Sustainable Investment Department). Information from the Department will also be used to review the voting criteria.

Activism is becoming increasingly active in Japan. Is your view of activism changing? How do you make decisions on activist proposals?

In the past, activists were mainly short-term oriented, a stance that was difficult for us institutional investors to agree with, but recently, I feel that proposals are being made from a medium- to long-term perspective and with Japanese investors in mind. Though this trend remains unchanged, I have the impression that, in recent years, due to changes such as rising interest rates and increased competition among activists, there has been an increase in short-term oriented proposals, such as those that call for higher shareholder returns even when the company is not flush with cash. One wonders whether shareholders who make such proposals are really trying to increase corporate value.

We consider and judge proposals regardless of who the proposer is. The principle revolves around whether the proposal contributes to improving corporate value and governance.

Investor:
Asset Management One

Mr. Toru Terasawa

(Executive ESG Advisor, Investment Division)

Was there anything that surprised (or impressed) you at the 2024 Annual Meetings of Shareholders?

Looking back on the shareholder meeting season in June, it was characterized by scandals at some of Japan's leading major companies, such as Toyota Motor Corporation, MUFG, and mega non-life insurers, which led to a drop in the percentage of top management votes in favour. In some cases, many votes were cast in opposition to the proposals despite the fact that they were announced close to the shareholder meetings, but we believe that each investor stepped in and made a judgment within the limited time available. We, too, had considerable discussions before reaching our decision.

It may be the easiest way to vote mechanically against a company that has been subject to administrative action, but as a major investor with responsibility, I think we must consider voting in favour of a company whose efforts have been confirmed to be solid. The key points to consider for companies that have been involved in scandals are how to come out of them and to hold them accountable for what they have done in the past.

The TSE has requested disclosure of 'Action to Implement Management That Is Conscious of Cost of Capital and Stock Price'. In your discussions with many Japanese companies, what are their reactions or confusion, and what is your evaluation of this?

The TSE request is regarded as a major world changer. Unlike previous governance reforms, this time the TSE took the lead, and we see more positive changes taking place than ever before. In some respects, this request fits well, as Japanese companies tend to be more conscious of their peers and rivals. Some companies are passively responding to the TSE's request because they have no choice but to do so, but overall, we are sensing a positive and spontaneous movement.

Looking at Japanese companies as a whole at present, many of them have a large amount of liquidity on hand, so we view share buybacks as not a bad move in general. Going forward, once shareholder returns have run their course, we expect companies to manage from a medium- to long-term perspective, which is the main focus, to liquidate unprofitable businesses and to review their portfolios.

Please tell us (to the extent possible) the direction of your engagement policy and voting criteria regarding capital policy (ROE, PBR, stock price, cross-shareholdings, etc.).

In support of TSE's request, we have made a major revision to our voting policy. The introduction of the TSR standard for the election of directors (in principle, we oppose the reappointment of directors who have served for more than three years at companies in the bottom 1/3 of the TSE prime quartile) and the tightening of the cross-shareholdings criteria (from 50% to 20% of net assets) are examples. We are focusing on changes in the stance of other institutional investors in the future.

Within our company, we are steering toward more integrated management of voting rights exercise and engagement response. In April of this year, we reorganized our organization, integrating our macro research team and equity analyst group. We are promoting the integration of corporate value assessment and non-financial analysis by ESG analysts more than ever before. For example, a major change is that when judging the exercise of voting rights in the face of scandals, instead of simply making a mechanical judgment based on events and figures, team members are now having more substantive internal discussions, such as 'We need to have that president continue to work to turn the company around, don't we?'

The criteria for the total return ratio in the appropriation of retained earnings proposal was also revised this year. The previous standard was satisfied if the ROE exceeded 8% at least once in three years, but this time, the new standard requires a total return ratio of 50%, especially for companies whose ROE has been below 5% for a long period of time, as that is considered to be synonymous with no return. When shareholder proposals related to shareholder return are submitted, we will make decisions on proposals with this perspective in mind.

Please share your awareness of issues related to board diversity and independence and the direction of your future efforts (ratio of outside directors, gender diversity, etc.)

While the idea that a majority of outside directors is desirable over the medium to long term remains unchanged, we are conscious of the issue of whether outside directors are really doing their jobs and whether appropriate personnel can be appropriately nominated if the number of outside directors is increased to 1/3 or more. Even though there is a view that a majority is desirable, if the right people are not on the board of directors, it is questionable from the perspective of whether this will lead to corporate value. We are discussing the importance of improving the quality of human resources on the board of directors, including outside directors.

Regarding gender, it is now established that the majority of companies include one person. We feel that it is necessary to carefully assess whether to adopt more than one person as a voting criterion, etc. Female directors are also important for companies, but on the other hand, for companies with a large weighting of overseas business or B-to-C companies with a large number of young customers, we recognize that diversity is not only about gender. At this point, I think diversity is a theme that we should focus on by talking to individual companies through engagement.

With respect to E and S, what is your focus in engagement and voting?

The three pillars of engagement are climate change, human capital, and biodiversity, and the content of engagement is gradually changing. With regard to climate change, the focus has traditionally been on disclosure under the TCFD, but we recognize that the stage has shifted from disclosure to implementation, such as how to specifically promote business toward carbon neutrality. However, the main target of engagement regarding climate change is not all companies, but companies that emit a large amount of CO2, and the main objective is to have them work on such businesses to improve their corporate value. In addition, we may consider further escalation, such as opposing companies that have not made much progress in disclosing their CO2 emissions through engagement in sectors that emit a large amount of CO2, in the exercise of voting rights.

With regard to shareholder proposals, our focus is on whether they are linked to corporate value. While we will continue to oppose proposals that would restrict individual business execution, we will consider supporting proposals if they are related to improving information disclosure as a major policy. We will also consider the status of corporate disclosure efforts.

Activism is becoming increasingly active in Japan. Is your view of activism changing? How do you make decisions on activist proposals?

Compared to a few years ago, I feel that more and more proposals from activists have a medium- to long-term perspective. On the other hand, there are a variety of funds among activists, and many of them still seem to be working from a short-term perspective, and we do not endorse such activism. We also look at the organizational structure of the proposer, for example, whether it accepts the stewardship code.

When a shareholder proposal is made, we are ready to engage as much as possible if requested by both the company and the proposer.

Governance expert:
Asian Corporate Governance Association (ACGA)

Jane Moir

(Head of Research)

The focus on board composition in Japanese companies has increased in recent years. How do you currently approach the questions of board diversity and board independence and where do you see this going forward?

Board diversity has been a key area of focus for ACGA and its members, and we took the decision in October 2022 to write an open letter on the issue amid concerns that companies in the Prime Market lacked a regulatory push to attract more women to boards. It has been encouraging to see the government and regulators pushing companies to both appoint more women directors and empower them in business. A 30% target for female yakuin positions (senior managers, directors and statutory auditors) announced in April 2023 was a positive step, as were the revisions to the listing rules encouraging Prime companies to have at least one female director by 2025. While the ratio of women directors is rising steadily, there is still a long way to go and a steep climb to get more women into the ranks of senior management: the ratio of women in senior executive roles among Topix companies hovers at 15% compared to the OECD figure of 30%.

In March 2023, the Tokyo Stock Exchange published 'Measures to Achieve Management Conscious of Cost of Capital and Stock Price', encouraging boards of Prime and Standard listed companies to formulate policies on improving ROE. How are you engaging on this with companies you are invested in?

Japan moved up from 5th to 2nd place in our biennial CG Watch 2023 rankings (our report on Japan is available here) in part due to the market's focussed CG policy agenda as set out in the FSA's Action Program, which includes a greater focus on cost of capital. This has been a longstanding issue for our members, including those in our Japan Working Group. The Tokyo Stock Exchange (TSE)'s efforts on cost of capital have largely been viewed as a timely and necessary measure to address one of the biggest drags on the market. One question we have asked however is whether companies have sufficient expertise to implement effective action plans: do directors have adequate financial literacy? It also requires independent directors to challenge management, and more robust engagement from institutional investors. Still, the decision to publish a list of companies complying with, or considering TSE's request to improve capital management keeps the issue in the spotlight and we hope it may lead to a greater focus on training for directors.

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

The issue of cross shareholdings has been an issue ACGA has sought to address since its 2008 White Paper on Japan, and it was the subject of renewed focus in an open letter in April 2024, co-signed by 31 member firms. The letter underscores what we see as more urgent action required to reduce strategic investments, ideally to zero. ACGA sees strategic shareholdings as having a detrimental effect on companies' capital efficiency, in some cases resulting in anti-competitive behaviour. We encouraged companies to implement clear targets to reduce their strategic holdings, strengthening the role of the board and audit board members and improving disclosure of the existing cross shareholdings and why they are necessary. We have been encouraged by recent steps by major listed companies in Japan to reduce their cross shareholdings and welcome more granular disclosure on plans and timelines to do so.

European Season Review excerpt

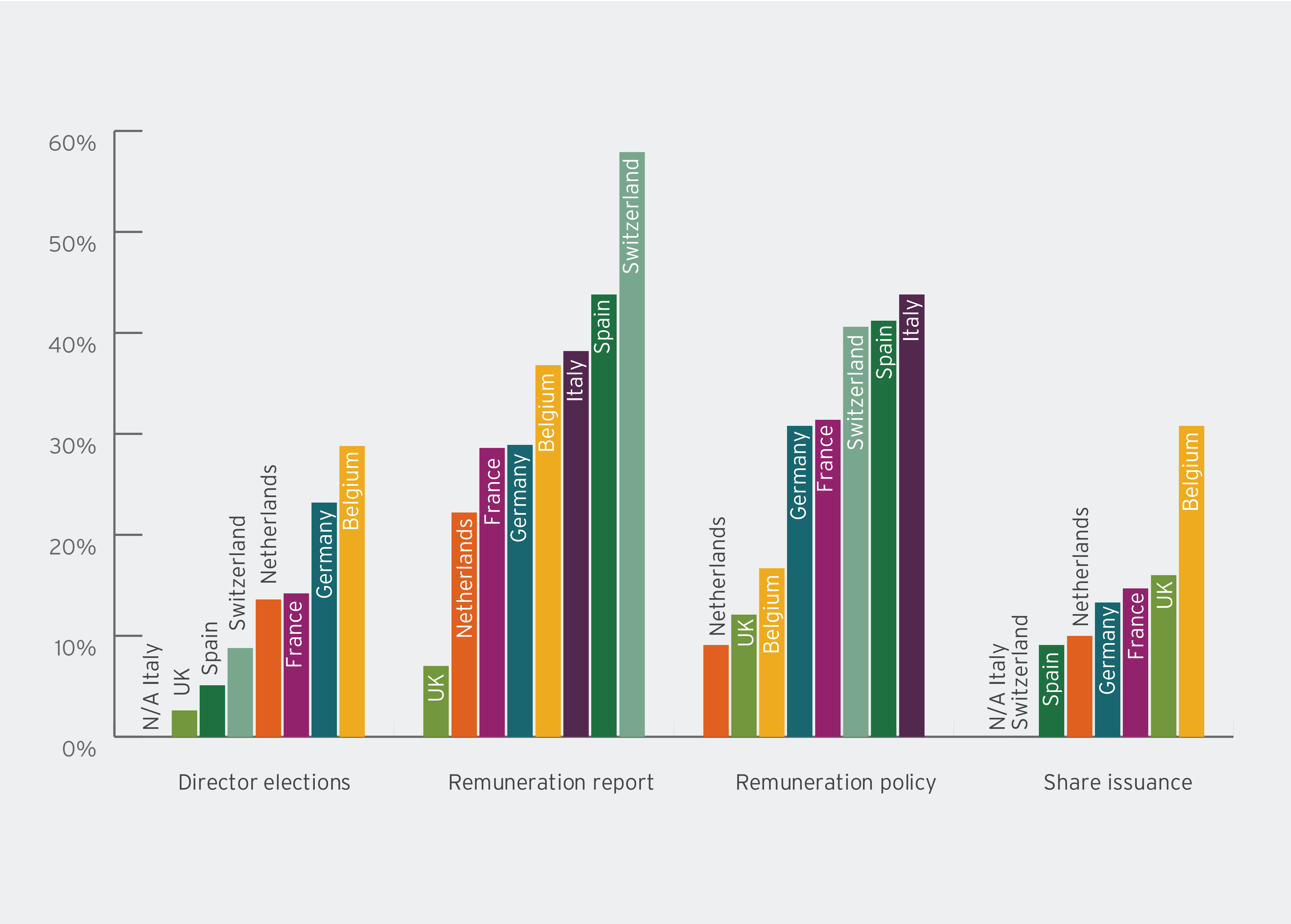
Pan-European Trends in 2024

1.1 Contested resolutions overview

This section looks at the important trends in AGM voting results across the eight markets covered in this report.

- Resolutions relating to the remuneration of executive directors continue to be the most contested resolution type in Europe. The proportion of remuneration-related resolutions that were contested (i.e. received at least 10% opposition) across the eight regions decreased from 31.7% in 2023 to 25.7% in 2024.
- The UK maintained its position as the market with the lowest proportion of contested remuneration reports (7.0%), whilst Switzerland kept its position as the market with highest (57.9%).
- The Netherlands saw the lowest proportion of contested remuneration policy votes (9.1%), whilst Italy had the highest (43.8%).
- The proportion of contested director elections decreased from 15.4% in 2023 to 13.8% in 2024. The UK saw the lowest proportion of contested director elections (2.6%), whilst Belgium had the highest (28.8%).
- Graph 1 shows the level of dissent, which is expressed as a percentage of contested resolutions (10%+ against votes), across four major categories of resolutions common across major European markets. These include director elections, remuneration report, remuneration policy and share issuances.

On average, 13.8% of director elections, 32.9% of remuneration report resolutions, 28.2% of remuneration policy resolutions and 13.4% of share issuances resolutions were contested.



Graph 1: Contested resolutions in 2024 per category (%).

1.1.1 Executive remuneration in 2024

Executive remuneration continues to be a significant focus for investors.

- In the UK (FTSE 100), the proportion of remuneration reports that received over 10% opposition in 2024 fell by 65.3% to 7.0%. The proportion of remuneration policies that were contested fell to 12.1%, a drop of 15.4%.
- In Germany (DAX), the proportion of remuneration reports that were contested fell from by 35.3% to 28.9%. However, 30.8% of DAX remuneration policies were contested, an increase of 177.5% from 2023.
- In France (CAC40), remuneration reports were contested in 28.6% of cases in 2024, an 28.5% decrease. The proportion of remuneration policy votes that were contested dropped from by 31.3% to 31.4% in 2024.
- In Switzerland (SMI), votes on the remuneration reports were contested in 57.9% of cases, a 15.4% decrease from 2023. Despite this, 40.6% of remuneration policies were contested in 2024, a 62.4% annual increase.
- In the Netherlands (AEX and AMX), remuneration report proposals were less contentious in 2024 with only 22.2% of resolutions receiving 10% or more opposition in 2024, a drop of 8.6%. The proportion of remuneration policies that were contested also decreased by 42.4% to 9.1%.
- In Italy (FTSE MIB), the proportion of remuneration reports that were contested fell by 23.6% to 38.2%. Additionally, 43.8% of remuneration policies were contested in 2024, a 3.1% decrease.
- In Spain (IBEX 35), 43.8% of remuneration reports were contested in 2024, a 17.2% drop from 2023. Remuneration policies were contested in 41.2% of cases, a 13.1 decrease from last year.
- In Belgium (BEL 20), remuneration reports votes were contested in 36.8% of cases, a 26.4% decrease from 2023. Remuneration policies were contested in 16.7% of cases in 2024, a drop of 66.6%.

1.1.2 Director elections in 2024

Director elections continue to be an area of focus for investors.

- In the UK (FTSE 100), there has been a 16.1% decrease in the proportion of contested director elections (10%+ opposition) since 2023, from 3.1% to 2.6%.
- In Germany (DAX), 23.2% of director elections votes (i.e. the election of supervisory board members) were contested, a 24.1% increase from 2023 (18.7%).
- In France (CAC40), director elections were contested in 14.2% of cases in 2024, a 3.6% increase from 2023 (13.7%).
- In Switzerland (SMI), the proportion of director elections that were contested fell by 34.8% as only 8.8% of these resolutions received over 10% opposition, compared to 13.5% in 2023.
- In the Netherlands (AEX+AMX), contested director elections rose by 109.2% from 6.5% in 2023 to 13.6% in 2024.
- In Italy (FTSE MIB), 2 director election votes were contested in 2024, compared to 4 in 2023. Most directors are elected using a slate voting system in Italy.
- In Spain (IBEX 35), 5.1% of director elections received more than 10% voting opposition, a 68.1% fall from 2023 (16.0%).
- In Belgium (BEL 20), the proportion of director elections that were contested was 28.8% in 2024, a 20.0% decline from 2023 (28.8%).

"This proxy season has seen concerning moves to reduce shareholder rights across Europe, including share blocking in Switzerland and the proposed Italian Capital Markets Bill, which includes closed-door AGMs and multiple voting rights for legacy shareholders. These issues underscore the importance of constructive dialogue with stakeholders and the power of collaborative engagement."

Pippa O'Riley,
Corporate Governance Analyst, Schroders

E&S Resolutions

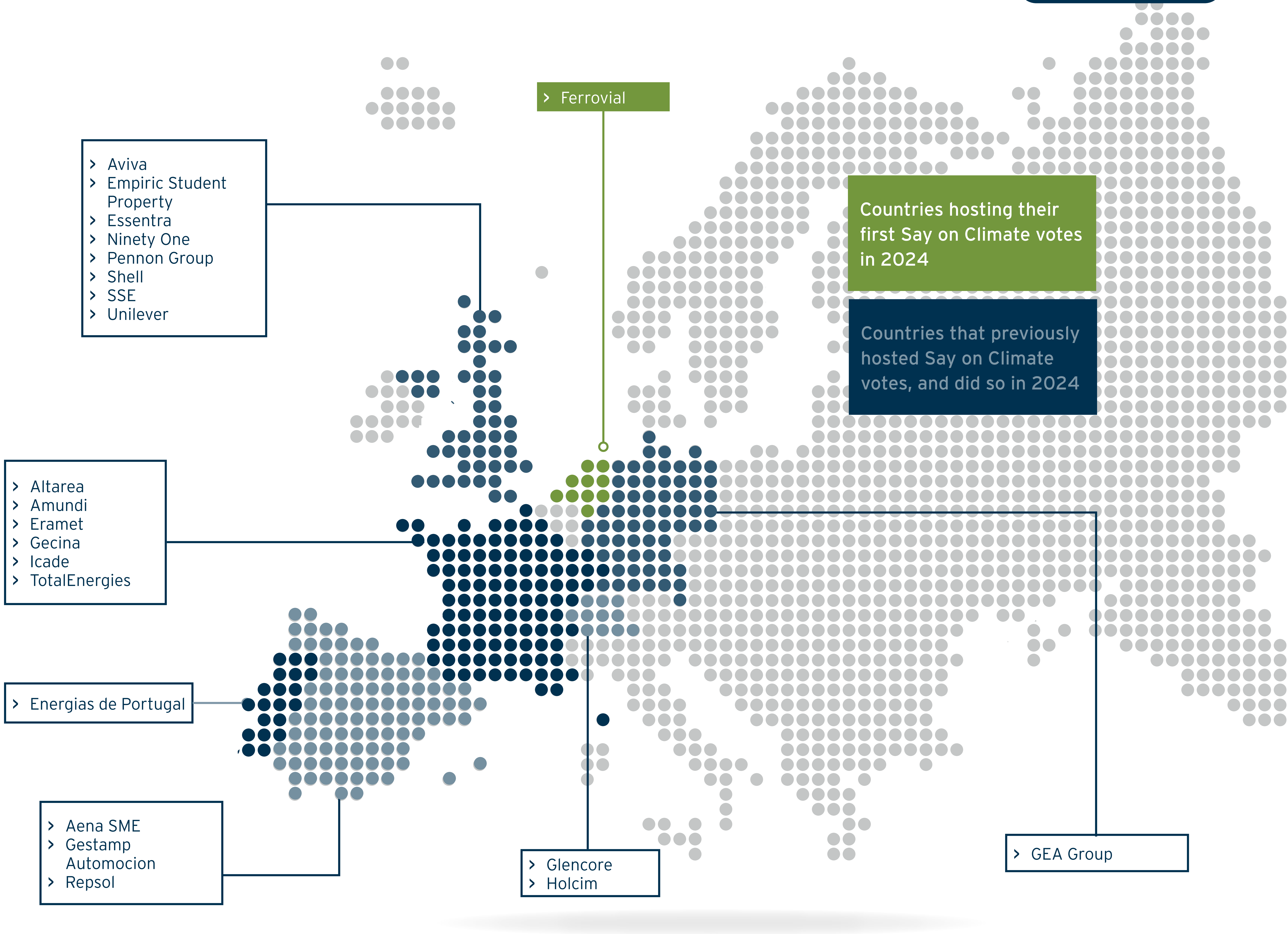
1. Say on Climate Board Proposals

The 2024 AGM season was the fourth year that companies voluntarily proposed "Say on Climate" resolutions. During the year under review (1 July 2023 - 30 June 2024), 22 companies across Europe have submitted board-sponsored advisory resolutions to approve their climate disclosures and action plans at their Annual General Meetings.

This has resulted in a decline in the number of Say on Climate resolutions submitted by European companies for the second year in a row, with 24 resolutions submitted during the 2023 AGM Season (1st July 2022 to 30th June 2023) and 36 resolutions during the 2022 AGM Season (1st July 2021 to 30th June 2022).

The majority of Say on Climate votes are still being proposed by UK and French companies.

However, the 2024 AGM season saw fewer Say on Climate votes announced by French companies (6 companies) relative to the 2023 AGM season (9 companies). Ferrovial become the first Dutch-headquartered company to submit a Say on Climate vote.



US Season Review Excerpt

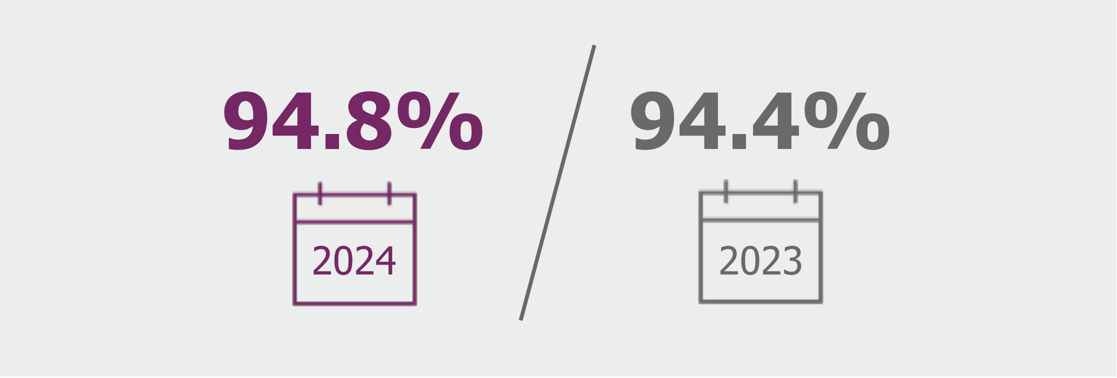
Every year, our US Georgeson colleagues closely monitor voting outcomes during the US proxy season to discern significant trends impacting our clients' meetings. 2024 was yet another significant year in terms of US annual meeting vote outcomes; across shareholder-sponsored proposals, director elections and say-on-pay we are seeing a direct impact of the evolution in institutional investor voting behaviour related to the progress of Environmental, Social and Governance (ESG) topics.

The report excerpt uses available annual meeting results year-to-date (YTD) for meetings occurring July 1, 2023 through June 30, 2024, for companies within the Russell 3000 Index. When comparing 2024 results YTD to previous seasons, we used full year data for 2023 and 2022 unless otherwise stated.

More detailed analysis of overall thematic trends from this season can be found in the US team's June 2024 full year report, 'A Look at the 2024 Proxy Season' available here (https://www.georgeson.com/us/insights/2024-proxy-season-review/). This report provides additional context around evolving shareholder proposal topics, executive compensation themes, and director election concerns from midway through the 2023 season.

Say-on-Pay and Director Election

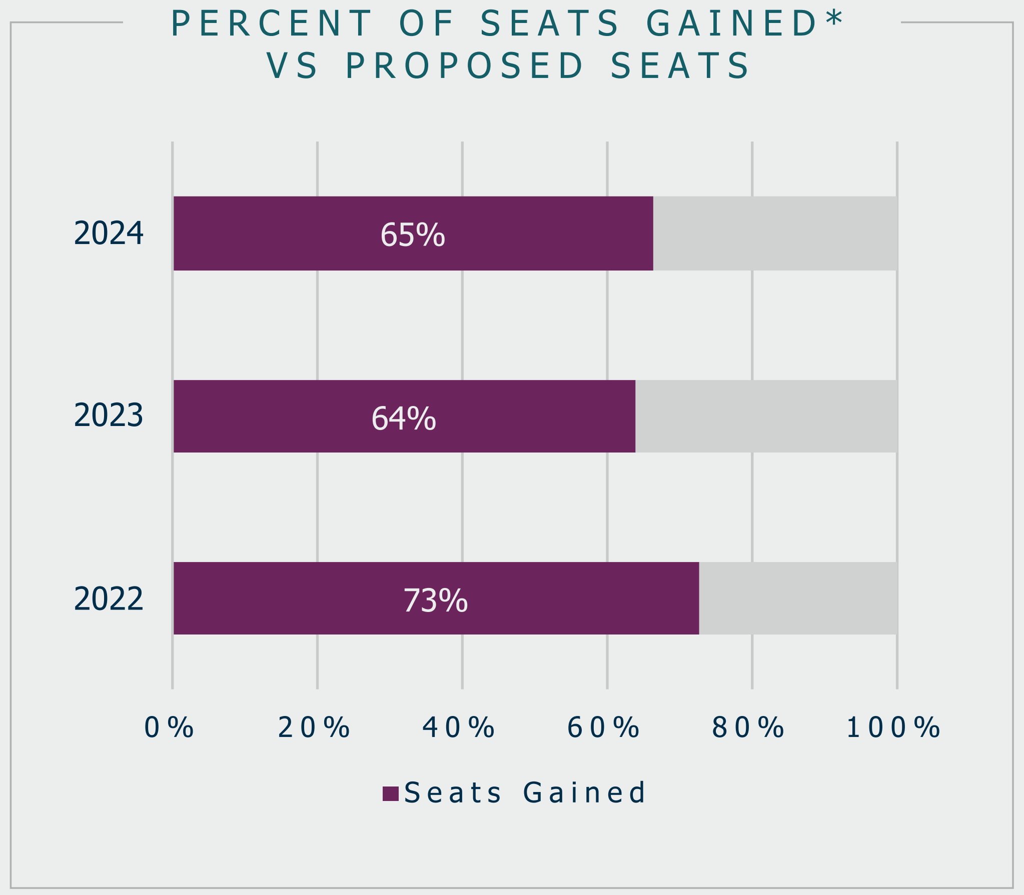
Say-on-pay (SOP) vote results for the 2024 proxy season YTD have increased in average support for Russell 3000 companies, with approximately 91.3% of votes cast in favour (excluding abstentions), compared to 90.3% support in the 2023 proxy season.



Director election support at Russell 3000 companies continues to be strong, averaging 95.2% for the 2024 proxy season YTD, slightly higher than average support of 94.4% for the full 2023 proxy season.

Contested Situations

2024 marked the second full season in which the Universal Proxy Card ('UPC') rule was in effect. One unforeseen consequence of UPC has been how issuers consider engaging or settling with shareholder activists. Analysis comparing meetings from the 2022, 2023 and 2024 proxy seasons shows that activists have been receiving more seats through settlements because of the UPC. However, the proportion of seats received per contest has declined from 2022.



*seats gained through settlements

Shareholder proposal

2024 was another record-breaking season for filed shareholder proposals with 1,000 proposals identified, 64% of which (635 out of 1,000) were voted on in 2024. More received majority support (53 in 2024 vs 33 in 2023), with all but three of the proposals passed being governance related. This season fewer proposals were withdrawn (15%) compared to last year (23%). The SEC has also granted more no-action relief, which contributes to an increase in omitted proposals at 14% (138 out of 1,000) compared to 9% (87 out of 947) omitted for the 2023 season. 19 of the granted no-action reliefs relate to director resignation policy proposals.

VOLUME OF GOVERNANCE AND ANTI-ESG PROPOSALS CONTRIBUTED MOST TO VOLUME INCREASE

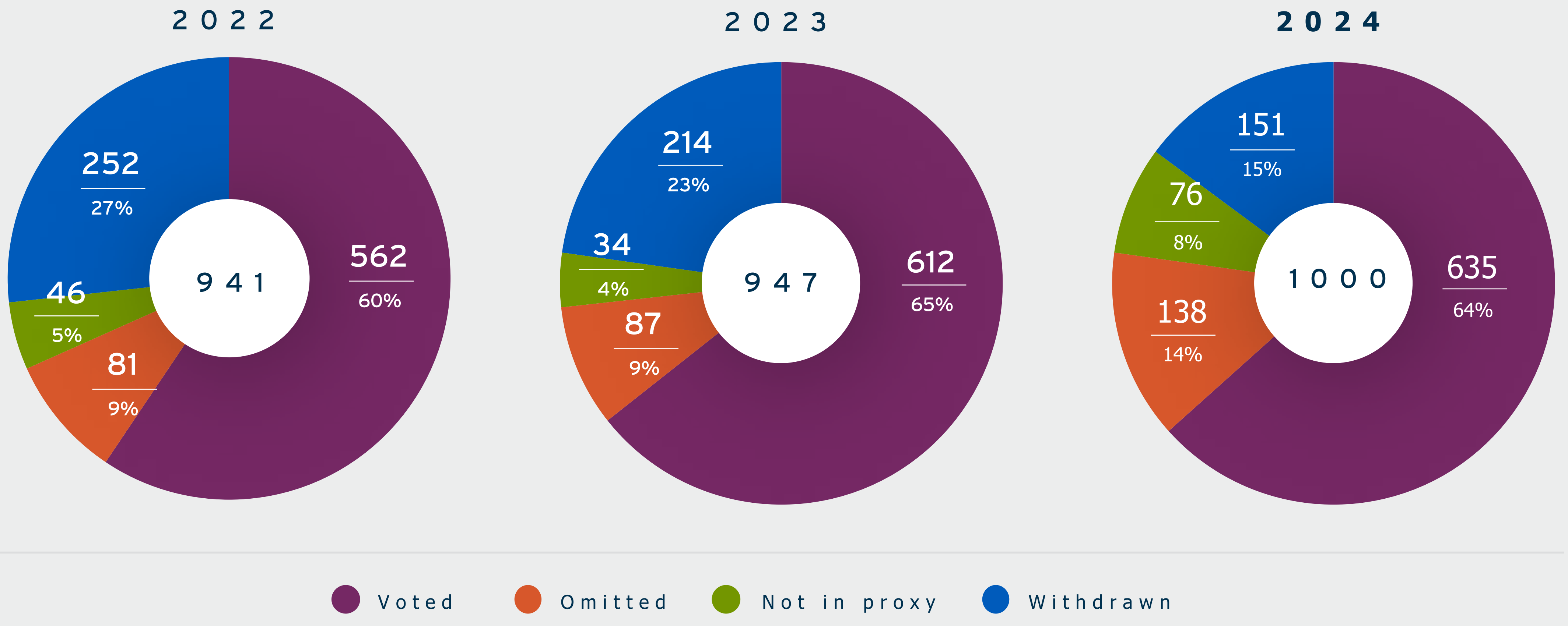
	2022	2023	2024 YTD	Change in volume
Environmental	176	180	173	▼ 4%
Social	363	354	336	▼ 5%
Governance	345	319	377	▲ 18%
Anti-ESG	57	94	114	▲ 21%

2024 was **another record-breaking season for filed shareholder proposals with**

1,000 proposals identified to date

This exceeds the record-breaking number of submissions in the 2023 season (947) and 2022 season (941).

SHP ACTIVITY SURPASSED PREVIOUS YEARS' RECORD

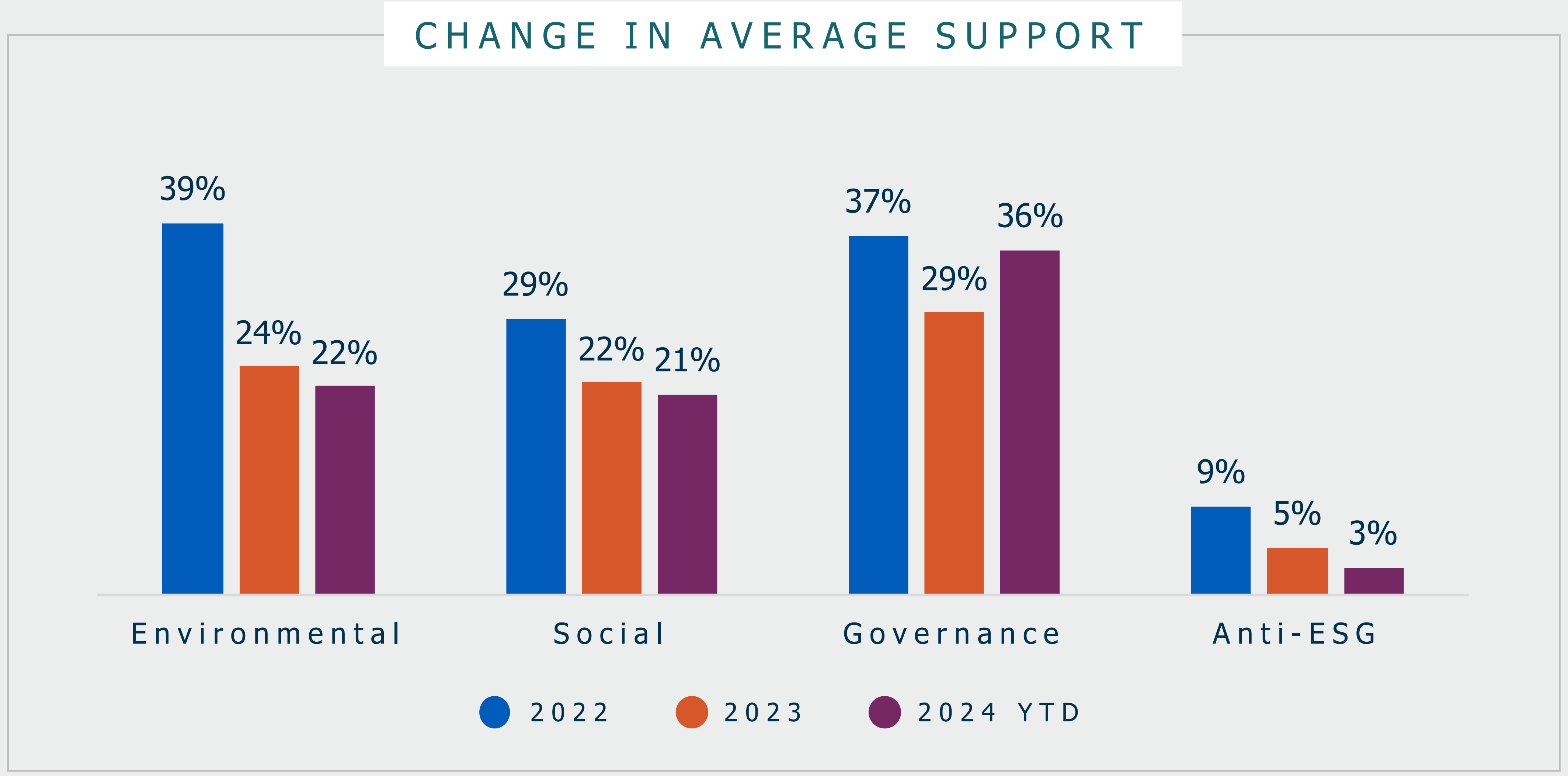


Change in Average Support

Average support for voted environmental & social proposals has remained consistent with the decline seen in 2023. However, support and passage rate for governance proposals has rebounded from uncharacteristically weak support during the 2023 season. Support for anti-ESG proposals has consistently remained in the low single digits and has declined each year.

Passage rate for ESG proposals

Passage rates for environmental and social proposals in the 2024 season have continued to decline with just two environmental proposals passing and one social proposal passing in the 2024 season compared to four environmental and five social passing in 2023. 50 governance proposals have passed in 2024, surpassing the 24 governance proposals that passed in the full 2023 season.



PASSAGE RATE FOR ESG PROPOSALS

	Environmental	Social	Governance
Number voted	74	183	167
Number passed	1	0	36
Passage Rate	1.4%	0.0%	21.6%

*the 2023 early season report had proposals for the proxy season from July 1st 2022 through May 12th 2023.

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

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