

Corporate Governance Principles of Pension Fund Association for Local Government Officials

(Established on April 1, 2004)

(Revised on March 31, 2011)

(Revised on March 31, 2015)

(Revised on October 1, 2015)

(Last Revised on March 31, 2019)

1. Objectives

The Pension Fund Association for Local Government Officials (the “Association”) hereby sets forth its approaches to corporate governance, which is required for a substantive shareholder to increase the long-term value of equity it holds as assets, for the purpose of benefiting the Association members.

2. Concept of corporate governance

(1) Basic perspectives of the Association

The Association has a role of managing the Employees’ Pension Insurance Benefit Adjustment Fund, Annuity Retirement Benefit Adjustment Fund and Transitional Long-Term Benefit Adjustment Fund under the pension fund scheme for local government officials and, like any other public pension fund, is considered to have the fiduciary responsibility that consists of the duty of loyalty and the duty of care.

The Association holds equity for no other purpose than to increase the value of its assets over the long term to contribute to the interests of the Association members. Therefore, the Association, like many other shareholders, invests in shares of companies whose values are expected to increase over the long term, expecting those companies to be managed in a way that contributes to long-term shareholder’s value. If shareholder’s value is not likely to increase, the Association will call for management needed for enhancing shareholder’s value, in order to fulfill its fiduciary responsibility.

To this end, if shareholder’s value of an investee company is not expected to increase sufficiently over the long term, the Association will take actions so

that its opinions as a shareholder will be fully reflected in management of the company.

Furthermore, it is considered necessary for the Association to fulfill its social responsibility as a public pension fund, and it needs to actively work on the enhancement of corporate governance also in this context.

(2) The Association's approach to corporate governance

Although the Association aims to enhance corporate governance, it is extremely difficult for the Association to judge individual companies' management decisions in detail. Therefore, the Association focuses on corporate structures, which is the apparatus for making management decisions, in order to ensure the appropriateness of the decisions.

In order to ensure that shareholders' opinions are reflected in decision-making, in addition to making shareholder proposals and exercising voting rights, various situations and methods are expected for shareholders to transmit information, such as holding meetings with companies. The Association will select fair and efficient methods to realize its objectives.

(3) Corporate governance code

The Association requires companies to practice the contents of the corporate governance code in an appropriate way.

3. Corporate governance standards of the Association (desirable corporate image)

Whatever the process to achieve objectives may be, it would be beneficial for both the Association and companies to have a corporate image that is considered desirable for reflecting the Association's opinions as a shareholder. Therefore, we show the corporate image as below. Again, our basic viewpoint is to have the Association's opinions as a shareholder sufficiently reflected in the corporate management. As long as a clear division of functional roles is established in each company so that proper checks and balances are in place and those functions works efficiently, the Association will not stick to names and other finer points.

(1) Roles and structure of the board of directors

It is often the case for listed companies that executives and owners are separate. In such cases, the shareholders of the companies actually delegate the management as its owners. This means that, under the current system and in practice, shareholders are not directly involved in the management and have only indirect involvement through the board of directors. Therefore, shareholders have great interest in the board of directors.

(i) Roles and functions of the board of directors

- The board of directors is positioned as the main oversight function over management.
- The board of directors must supervise the execution of business operations.
- The board of directors should appoint and dismiss a CEO in accordance with objective, timely and transparent procedures. In addition, the board of directors should proactively engage in the establishment and implementation of a succession plan for a CEO and other top executives, while seeking report from the CEO from time to time.
- The board of directors should design management remuneration systems such that they operate as a healthy incentive to generate sustainable growth, and determine actual remuneration amounts through objective and transparent procedures.

(ii) Board of directors' membership

- It is desirable that the board of directors is composed balancing between diversity, including gender and international experience, and appropriate size, with well-balanced knowledge, experience and competence necessary for the performance of its roles and responsibilities in a practical way as a whole and with an adequate number of members to have discussion sufficiently and to make prompt and appropriate management decisions.
- In principle, in order to supervise the management in a necessary and sufficient way, it is required for the board of directors to have more than one independent outside director. Irrespective of the above, if it is necessary to appoint at least one-third of directors as independent

outside directors based on a broad consideration of factors such as the industry, company size, business characteristics, organizational structure and circumstances surrounding the company, it should appoint a sufficient number of independent outside directors. In the case that there is not more than one director, it is required to provide a sufficient reason for the inappropriateness of having more than one director.

(iii) Establishment of advisory committees

If the organizational structure of a listed company is either a company with board of auditors or company with audit and supervisory committee, and independent outside directors do not compose a majority of the board of directors, in order to strengthen the independence, objectivity and accountability of board functions on the matters related to the nomination and remuneration of the senior management and directors, the company should seek appropriate involvement and advice from independent outside directors in the examination of such important matters as nominations and remuneration by establishing independent advisory committees under the board, such as an optional nomination committee and an optional remuneration committee primarily composed of independent outside directors.

(2) Functions of the board of directors and auditors

(i) Functions required of directors

- Directors are expected to function in a way that reflects the shareholders' intention of increasing long-term shareholder's value.
- When appointing directors, the candidates must be qualified for executing the duties and the suitability must be sufficiently explained to the shareholders who elect the directors. The Association will actively request information disclosure to this end.
- In order to achieve highly effective audit function, it is desirable that independent outside directors play a proactive role in electing directors, introducing a payment system linked to corporate performance for the management team remuneration and assuring the independence of internal and external audit. Other than description above, it is expected

to attempt to develop the organization in order to enhance the effectiveness of the audit function.

- In order that the board of directors supervise the management in a necessary and sufficient way, it is desirable to consider a plan to exploit directors who are neither outside directors nor executive directors.

(ii) Functions required of auditors or the audit committee

- Auditors or the audit committee are expected to perform the function of auditing the execution by the board of directors and those who are responsible for executing management on behalf of shareholders.
- When appointing auditors or audit committee members, the candidates must be qualified for executing the duties, for example, by having appropriate experience and skills as well as necessary knowledge on finance, accounting and laws, and the suitability must be sufficiently explained to the shareholders who elect them.

(3) Management team

- Roles of those who are responsible for management execution -

- (i) The authority regarding management execution is aggregated to the person responsible for management execution, and the person with the authority must execute the duties sincerely with the aim of achieving the business targets of the company, while complying with laws and regulations and the articles of incorporation.
- (ii) The management team has accountability to the board of directors and committees, and the team must strive to maximize the enterprise value over the long term under the oversight of the board of directors and committees.

(4) Transparency of management execution

When considering corporate governance activity by shareholders, it should be noted that not only the Association's sole activity but the market assessments would lead to effective governance. Therefore, the Association focuses on the following points so that proper market valuations can be achieved.

(i) Disclosure

- The management team must strive to fairly and promptly disclose information that affects the prices of securities issued by the company to ensure adequate price formation. At that time, it is desirable to disclose not only financial information such as the corporate financial status or management performance but also non-financial information such as a long-term vision, strategy, issues, risks and corporate governance.
- The management team must provide information on a regular and ad-hoc basis with the aim of showing that the company operates the business efficiently and fairly to shareholders, investors, employees, customers, local communities and the like.

(ii) Dialogues with shareholders and investors

The nature and insight of the board of directors and the management team can have significant impacts on current and future corporate valuation. The board of directors and the management team should actively have meetings with shareholders, investors and analysts who mediate information between them, and try to have communication.

(5) General meeting of shareholders

- The general meeting of shareholders is a forum for persons who invested in shares of the company to participate in its corporate decisions with certain limitations, thereby being involved in governance. Therefore, the meeting must be valued as a forum for knowing the actual state of the company through questions to and explanations from the management team, as well as evaluating the competence and the like of the management through Q&As.
- The general meeting of shareholders is a forum for directors and the management team to report the earnings performance of the company, which is the outcome of their execution of duties, to the shareholders. However, the management team's explanation to the shareholders should not be limited to resolution items or reporting items and matters related thereto. It should be noted that the results of performance of duties by the directors and the management team and their attitude toward dialogues with shareholders and investors are evaluated based on all reported matters including those reported based on decisions by

the directors and the management team that they are of high interest for shareholders.

(6) Corporate social responsibility

From the perspective of public responsibility, companies should observe the norms of society in which they operate and should not be engaged in anti-social acts that prevent shareholder value from increasing over the long term since it would be reflected in share values in the end.

[DISCLAIMER]

When there are any discrepancies between the original Japanese version and the English translation version, the original Japanese version shall prevail.