

## **Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities)**

(Established on April 1, 2016)

(Updated on March 31, 2019)

### **I General Provisions**

#### **1. Objective**

The guidelines for exercising voting rights for foreign equities (the "Guidelines") are set forth in accordance with the Investment Guidelines on Adjustment Funds, which are presented to institutions to which the Pension Fund Association for Local Government Officials (the "Association") entrusts the management and administration of its assets ("Entrusted Institutions") so that the Association's opinions as a shareholder will be fully reflected in line with the intent of the corporate governance principles separately established by the Association.

#### **2. Operation**

Given that stocks currently held by the Association are all managed by Entrusted Institutions, which are considered to have more opportunities to contact individual companies and thus are more capable of making suitable decisions than the Association based on the standing of the companies, each Entrusted Institution shall, in principle, make specific decisions on exercising voting rights in accordance with the intent of these Guidelines for the foreseeable future. Entrusted Institutions shall exercise voting rights with respect to investee companies suited to the circumstances of the companies after understanding the purpose of the Guidelines and considering the details of engagement, instead of exercising voting rights in a one-size-fits-all manner.

However, if an Entrusted Institution has a concern about possible conflicts of interest in exercising voting rights, the Entrusted Institution shall establish a policy to avoid such conflicts of interest. In addition, in cases in which the Association entrusts stock lending transactions to an Entrusted Institution, the Entrusted Institution shall manage the number of shares that can be lent so that the voting rights will be secured to a certain extent.

If the Association determines that voting in a unified manner is required, it will provide Entrusted Institutions with specific instructions on exercising voting rights to individual companies.

The Association shall request Entrusted Institutions to report on their corporate governance-related actions, such as the status of exercising voting rights, which the Association will leverage when providing instructions in the subsequent fiscal years and consider when evaluating the Entrusted Institutions.

The Association believes that it is necessary to enhance the transparency of business execution by companies. Therefore, the Association requests that each company actively disclose information and engage in dialogues with shareholders and investors and expects Entrusted Institutions to take advantage of such opportunities to make decisions appropriate for each company. In addition, when exercising voting rights on proposals for electing directors that serve important roles in the oversight and execution of business management, the structure of the board of directors and their attitude toward corporate earnings, capital efficiency, social responsibility, operation of the general meeting of shareholders, information disclosure, and the like shall be considered in a comprehensive manner.

The Association expects investee companies to be managed in a way that contributes to long-term shareholder value and Entrusted Institutions should call for management needed for enhancing shareholder value. In doing so, instead of unilaterally exercising voting rights, Entrusted Institutions should share the recognition of problems and other issues with the companies through various means, including explaining the views underlying their judgement on the exercise of voting rights before or after the exercise of voting rights and conduct the exercise of voting rights and engagement in an integrated manner (engagement with companies before general meetings of shareholders and companies' feedback concerning the results of the exercise of voting rights).

As the exercise of voting rights is an important means to sufficiently reflect the opinions of the Association as a shareholder in investee companies'

management, Entrusted Institutions shall continue efforts to enhance the effectiveness of this activity. To this end, Entrusted Institutions should enhance the effectiveness of this activity in relation to the exercise of voting rights by developing and using a PDCA cycle in consideration of the viewpoints of other divisions and third-party entities.

While the Association respects the corporate governance systems of investee countries and markets, these Guidelines set forth approaches to the exercising of voting rights with respect to general matters asked for by the Association as an investor.

The non-exercise of voting rights shall not be taken as a general rule; however, this shall not necessarily preclude any Entrusted Institution from deciding non-exercise if the Entrusted Institution determines that exercising of voting rights will bring restrictions on its investments or is difficult in practice.

## **II Voting Standards**

### **1. Structure of the board of directors and election of directors**

We make negative decisions about electing directors of a board of directors that does not have two or more independent directors for the effective performance of the board's oversight function, unless a sufficient explanation is provided to the effect that it is not appropriate to have two or more independent directors. We make positive decisions for the division of duties between the chairperson of the board of directors and the CEO.

It is desirable that directors be elected through the objective and transparent processes of a nomination committee or other such organs. In addition, in order to decide that candidates are appropriate and proper, we request sufficient disclosure of information, including that stipulated under laws and regulations for the evaluation. With respect to independent director candidates, we examine whether they are able to make decisions from a position independent from the company and, if the candidate is considered to be inappropriate, vote against such election.

### **2. Directors' compensation**

With respect to directors' compensation, we make positive decisions for a compensation scheme linked to medium- to long-term corporate performance

in view of whether it effectively incentivizes the directors to maximize corporate profits and increase shareholder value over the long term. Compensation levels are judged based on, among other factors, whether they are adequately balanced with corporate profits and reasonable when compared with competitors.

### **3. Capital policy**

With respect to capital policy that involves dividends, financial strategies, reorganization and the like, we examine proposals in view of increasing and preventing damage to shareholder value over the long term and make decisions on a case-by-case basis.

### **4. Changes to the articles of incorporation**

Decisions on changes to the articles of incorporation shall be made on a case-by-case basis from the perspective of whether the change restricts shareholders' rights more than necessary and on the basis of increasing or preventing damage to shareholder value over the long term.

### **5. Shareholder proposals**

Decisions on shareholder proposals shall be made on a case-by-case basis from the perspective of increasing shareholder value over the long term.

### **6. Antisocial behavior**

With respect to antisocial behavior, if social credibility is damaged due to an act that violates laws and regulations or is offensive to public order and morals, we vote against proposals, such as electing a director.

### **7. Defensive measures against hostile takeovers**

Unless there is a sufficient explanation, negative decisions on defensive measures against hostile takeovers shall be made from the perspective of increasing shareholder's value over the long term based on the following basic principles.

- The management decision respects the enhancement of shareholder's value over the long term to the maximum extent.
- The measure contributes to stable corporate earnings over the long term.

## **8. Other**

The Association may separately set forth specific criteria for making decisions.

### **Supplementary Provisions**

These Guidelines apply to the exercising of voting rights relating to shares of foreign companies that hold their general meetings of shareholders on and after July 1, 2016.

### **[DISCLAIMER]**

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