Corporate Governance Principles of Pension Fund Association for Local Government Officials

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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 the equity it holds as assets, for the purpose of benefiting the insureds.

2. Concept of corporate governance

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, has 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 insureds. Therefore, the Association, like many other shareholders, invests in shares of companies whose values are expected to increase over the long term, and requires those companies to be managed in a way that contributes to long-term shareholder value.

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

Shareholders, who are investors and substantive owners of a stock company, delegate the business management of a company to managers, and supervise the execution of business by a board of directors through appointing board members.

Thus, in general, as the interests of shareholders and managers do not always coincide, a mechanism is necessary to regulate managers to manage business in an appropriate way while aiming to maximize shareholder value.

The following items describe the matters that the Association considers to be desirable in light of enhancing the effectiveness of corporate governance.

(1) Separation of execution and oversight of business management

A board of directors should be responsible for supervising, on behalf of shareholders, whether managers are executing businesses while aiming to maximize shareholder value.

In order to enable a board of directors to perform its oversight function, it is desirable to ensure a personnel structure so that functions for execution and supervision of business management are separated. In other words, a board of directors that is regarded as a monitoring board (a board of directors responsible for making decisions on important management matters and supervising business execution while entrusting the execution to managers), rather than a management board (a board of directors entirely composed of directors who are also managers and is responsible for both execution and supervision of business management), is desirable.

In addition, there is a growing awareness of responses to sustainability issues (sustainability for the medium to long term including ESG factors) as important business issues. It is important for a company to address issues relating to sustainability of the environment and society as a whole in a way connected to the sustainable growth of the company itself. A board of directors should monitor and assess efforts of managers from this perspective.

(2) Supervision by board of directors primarily composed of independent outside directors

In order to enable a board of directors to perform its oversight function, outside directors who are capable of performing their duties independent from the execution of business management should be entrusted with a leading role so as to secure the independence of the board of directors.

From the standpoint of separating the execution of business and oversight, it is desirable that the majority of board members are independent outside directors and that the duties of the CEO and chairperson of the board of directors are separated.

It is desirable that the board of directors is composed, balancing diversity in terms of various aspects such as 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 sufficient discussion and to make prompt and appropriate management decisions.

Further, as practices for execution of business that are considered to be appropriate differ depending on the sector and business segment, the knowledge, experience and ability as well as diversity required for a board of directors exercising supervision over the execution of business may differ from company to company. Therefore, in order to achieve the optimal composition of a board of directors, it is desirable to develop a matrix listing skills (technical skills, knowledge and ability) and competency (natural aptitude of an individual) required for the oversight of execution of the company's business, and to appoint or dismiss directors in a way that all skills and competencies required for the board of directors as a whole are satisfied. This matrix will also serve as an effective tool for developing and managing a succession plan for the board of directors.

(3) Ensuring deliberation and review functions concerning nomination, remuneration and auditing

In order to enable a board of directors to effectively perform its oversight function, functions for deliberation and review concerning nomination, remuneration and auditing should be established.

For this purpose, regardless of the form of corporate organization, it is desirable for a company to create a nomination committee and remuneration committee primarily composed of independent outside directors, in addition to an audit committee / audit and supervisory committee or board of auditors.

The roles that the Association expects from each committee and board of auditors are as follows:

- Nomination Committee

  A nomination committee deliberates on the appointment and dismissal of directors, executive officers within the meaning of the Companies Act (*shikkoyaku*) and other officers who are delegated by the board of directors with certain discretion regarding the execution of business (*shikkoyakuin*) (hereinafter collectively referred to as "Officers"), and oversees and evaluates the execution of business by Officers. It also participates in the development and management of a succession plan for CEOs.

- Remuneration Committee

  A remuneration committee determines appropriate remuneration systems to regulate and incentivize Officers to conduct business management aiming to maximize shareholder value, including the formula for calculation of amount of remuneration. It also determines the specific amounts of remuneration based on the evaluation of business performance.

- Audit Committee / Audit and Supervisory Committee or Board of Auditors

  This committee or board is responsible for verifying whether auditing conducted by an internal audit section and external auditor is appropriate, and for performing an audit of execution of business management by Officers. Due to the nature of their roles, committee members and auditors should be appointed from persons with adequate experience and skills as well as requisite knowledge concerning finance, accounting and legal affairs.

(4) Incentives for managers

With respect to remuneration for executive directors, executive officers within the meaning of the Companies Act (*shikkoyaku*) and other officers who are delegated by the board of directors with certain discretion regarding the execution of business (*shikkoyakuin*), a remuneration scheme is desirable which would incentivize business managers to execute business in an appropriate way, aiming at maximizing shareholder value by appropriately linking a significant portion of their remuneration to the company's medium- to long-term business performance.

(5) Evaluation of effectiveness of board of directors

From the standpoint of ensuring the effectiveness of a board of directors, it is desirable that a board of directors sets standards for evaluation based on a clear allocation of roles and responsibilities among the board of directors as a whole as well as individual committees and directors, and conducts the effectiveness evaluation in an appropriate way.

In addition, it is also desirable to disclose, in an easy-to-understand way, the results of evaluation with respect to the board of directors as a whole and each committee.

(6) Information disclosure

In addition to fulfilling its accountability to shareholders and other stakeholders, in order to secure appropriate market evaluation, a company should disclose information in a timely and appropriate manner.

In doing so, it is desirable that a company discloses, in a proactive way, not only financial information, such as its financial position and business performance, but also non-financial information, including information concerning long-term visions, business strategies, challenges involved in business, risks, corporate governance, and matters with respect to environmental and social issues (ESG factors).

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