

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

(Established on April 1, 2004)  
(Updated on March 31, 2006)  
(Updated on March 14, 2007)  
(Updated on March 31, 2008)  
(Updated on March 31, 2009)  
(Updated on March 31, 2011)  
(Updated on March 27, 2013)  
(Updated on May 30, 2014)  
(Updated on March 31, 2015)  
(Updated on March 31, 2016)  
(Updated on March 31, 2019)  
(Last updated on February 15, 2022)

### **I General provisions**

#### **1. Objective**

The guidelines for exercising voting rights for domestic 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. 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 for Entrusted Institutions 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.

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.

In principle, abstentions or carte blanche shall not be used when exercising voting rights, since it is desirable to clarify decisions in terms of fiduciary responsibility.

The non-exercise of voting rights shall not be taken as a general rule.

## **II Voting standards**

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

#### **(1) Shift to a company with three committees (nomination, audit and remuneration)**

In principle, we vote for such proposals.

#### **(2) Structure of the board of directors**

- We make positive decisions for a proper number of board members compared to other companies based on the industry and size of the company so that the board of directors can have active and sufficient discussions and make speedy decisions for effective operations. On the other hand, in principle, we vote against the proposal if the number of board members is extremely large.
- With respect to directors excluding independent outside directors, we make positive decisions for a reduction in the number of directors, but vote against an increase in the number of directors in principle unless clear and rational explanations are provided for the increase. Meanwhile, we make positive decisions for an increase in the number of board members associated with the increase in the number of independent outside directors.
- We make negative decisions about electing internal directors of a board of directors that does not have two or more independent outside

directors, unless a sufficient explanation is provided to the effect that it is not appropriate to have two or more independent outside directors. However, for a company that is required to secure enhanced independence of its board of directors, taking into consideration the totality of its industry, size, business characteristics, organizational structure, the segment of the market on which the company is listed, whether the company is owned by a controlling shareholder, and other circumstances surrounding the company, we make negative decisions as to the election of an internal director in cases where independent outside directors do not constitute at least one-third of all members of the board of directors.

- We make positive decisions for the division of duties between a CEO and a chairperson of the board of directors, adoption of an executive officer system and other measures to clarify the execution of business management and oversight.

## **2. Election of directors**

### **(1) Election of directors**

As a general rule, we vote for the election of directors, excluding where, after requiring sufficient disclosure of information, including that stipulated under laws and regulations, in order to determine that candidates are appropriate and proper, the candidate is considered not suitable upon considering the following points:

- whether the candidate was or is involved in irregularities or torts;
- whether the candidate has made any improper management decision that has caused significant damage to shareholder value;
- whether the candidate has taken any negative action against appropriate profit distributions or provision of information to shareholders;
- whether the candidate has taken any negative action against appropriate operation of the general meetings of shareholder; and
- whether the candidate has taken any other actions that violate shareholder value.

If the company has posted losses for three consecutive years and improvement is not likely going forward, we vote against the reelection of

directors who have been in office consecutively in the period as a general rule.

We request sufficient explanations on the involvement of the board of directors in response to irregularities and determine the election of directors individually.

As a general rule, we vote for the election of independent outside directors from the perspective of bringing in objective viewpoints on the board and ensuring the effectiveness of supervision, excluding where the candidate is considered not suitable upon also considering the following points:

- whether the candidate is capable of making determination from a standpoint independent from the company;
- whether the candidate attains a sufficient rate of attendance at meetings of the board of directors; and
- whether the status of holding positions with other companies is appropriate.

We especially request sufficient information on the independence aspect of an independent outside director, and in principle, we vote against the proposal if such information has not been disclosed.

### **3. Election of auditors**

As a general rule, we vote for the election of auditors, excluding where, after requiring sufficient disclosure of information including that stipulated under laws and regulations in order to determine that candidates are appropriate and proper, the candidate is determined to be unsuitable for the position or the election would clearly lower shareholder value.

In addition, we vote for an increase in the number of auditors as a general rule; however, we make negative decisions for a decrease in the number unless a clear and rational explanation is provided for the reduction.

Further, for an outside auditor, a rate of attendance at meetings of board of directors and board of auditors should also be taken into account from the standpoint of ensuring effectiveness.

We especially request sufficient information on the independence aspect of an outside auditor, and in principle, we vote against the proposal if such information has not been disclosed.

#### **4. Directors' remuneration**

With respect to remuneration for executive directors, including share-based remuneration, if the remuneration scheme can be regarded to effectively incentivize directors to maximize corporate profits and increase shareholder value over the long term, we vote for the proposal in principle unless it would encourage eligible directors to take excessive business risks or would have an unreasonable adverse impact on the interests of existing shareholders.

As independent outside directors, audit and supervisory committee members and auditors as well as parties outside the company are expected to play a supervisory role over the execution of business management, we generally vote against the adoption of a performance-linked remuneration scheme for these persons. Based on the same reason, we generally vote against the payment of retirement allowances to independent outside directors, audit and supervisory committee members and auditors.

Remuneration levels are judged based on, among other factors, whether they are adequately balanced with corporate profits and reasonable when compared with competitors. We generally vote against an increase in remuneration or a bonus/retirement allowance payment to directors with management responsibility when earnings have declined or profitability is significantly poor compared to industry peers.

However, with respect to the bonus/retirement allowance payment to a director related to irregularities, decisions shall be made on a case-by-case basis, considering the impact on corporate earnings and the level of responsibility of the director.

#### **5. Others**

Any matters not provided above, including the appropriation of surplus, corporate reorganization, capital policy including capital increase and reduction, change of articles of incorporation, measures against hostile

takeover, and shareholder proposals, shall be judged on an individual basis from the standpoint of the improvement of shareholder value in the long-term or prevention of deterioration in shareholder value.

**[DISCLAIMER]**

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