

FY 2015 The Life Insurance Association of Japan Survey

Approaches toward Enhancing Equity Values (Overview)

The Life Insurance Association of Japan has been conducting surveys continuously over a 42-year period starting in FY1974 regarding approaches toward enhancing equity values from the perspective of shareholders and investors.

In FY2015, a questionnaire survey was conducted targeting 1,056 listed companies and 152 institutional investors, and requests from the Association were summarized upon analyzing the current situation. In this survey, analyses were conducted mainly on the standpoints of how the awareness of companies and investors differ, by comparing the responses of both parties in relation to the same questionnaire items, and what kinds of changes are observed for items that have continued to be surveyed since the past.

The Association believes that companies and shareholders holding constructive dialogues and sharing the issue awareness of both parties prompt corporate approaches oriented toward enhancing medium- to long-term equity values. Based on the results of this survey, in this fiscal year, the following 10 items are requested of companies, from the 3 perspectives of corporate governance, management goals, and dialogues. In addition, mentions are also made to requests for investors this fiscal year, and the 2 items below are also requested. There are expectations for this report to promote medium- to long-term enhancement of equity values, and as a result, to link to revitalization of the stock market as a whole.

As an overview, this booklet lists survey results and requests in a simplified manner. For details regarding survey results, including the basis and background of requests, please refer to the main report (Only in Japanese).

○ Requests for companies

Corporate governance	<ul style="list-style-type: none"> ① Enhancement of discussions relating to management strategies at board meetings ② Expansion of external board members
Voting	<ul style="list-style-type: none"> ③ Enhancement of explanations on proposal contents from the perspective of investors ④ Improvement of processes for securing examination period
Management goals	<ul style="list-style-type: none"> ⑤ Disclosure of management plan that includes quantitative goals and business strategies ⑥ Goal-setting and improvement of standards for ROE based on capital costs ⑦ Use of cash reserves toward growth investment ⑧ Dividend payouts of 30% or more, as a level standard for the medium- to long-term
Dialogues	<ul style="list-style-type: none"> ⑨ Feedback on contents of dialogues to board of directors ⑩ Expansion of personnel necessary for dialogues and enhancement of disclosure

○ Requests for investors

Voting	① Approval/disapproval judgment based on conditions of company, and explanation of reasons behind such judgment
Dialogues	② Promotion of dialogues from a medium- to long-term perspective

○ Outline of questionnaire implementation

Implementation period: October 6 to November 6, 2015

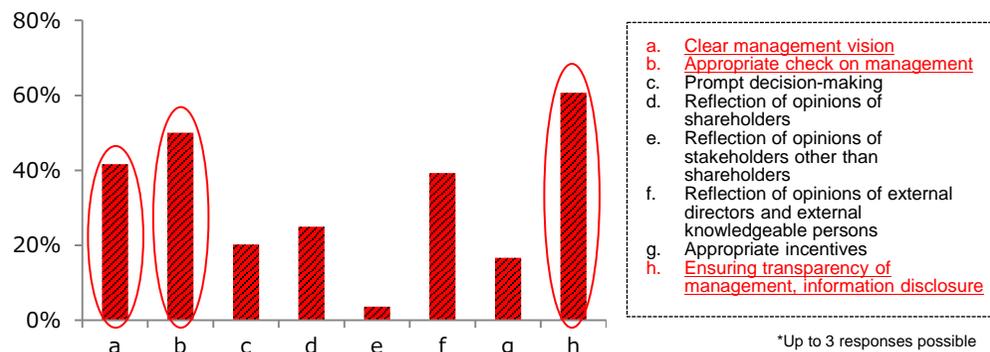
For companies: <Sent> 1,056 listed companies <Responded> 568 companies (Response rate: 53.8%)

For investors: <Sent> 152 institutional investors <Responded> 84 investors (Response rate: 55.3%)

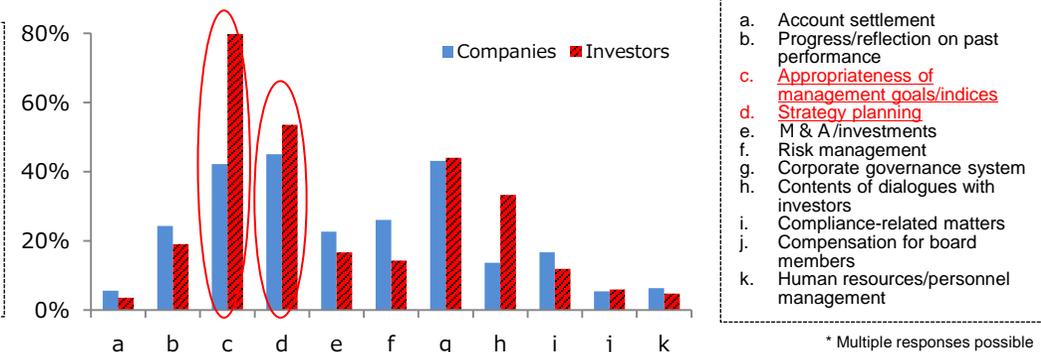
Chapter 2 (1) Approaches for Improving Corporate Governance (Pages 6 to 8 in the Main Report)

- Investors see issues in corporate governance of Japanese companies as the medium- to long-term management vision and stance being clear and transparency of management being ensured, as well as external perspectives such as of shareholders and external board members being reflected in management and there being an appropriate check on management [Graph 1].
- After formulation of Japan's Corporate Governance Code, companies will try to make approaches to "Evaluation of effectiveness of board of directors" in the future, but at the same time, investors have expectations for reexamination of "Management plans/management strategies" [Graph 2]. Although both companies and investors recognize the formulation of management strategies as being an important role of the board of directors [Graph 3], investors have more expectations for discussions related to management strategies as compared to companies [Graph 4]. In order to clarify the management vision and increase transparency of management, there should be expectations for enhancement of discussions on management strategies within the board of directors that contribute to medium- to long-term increases in corporate values.

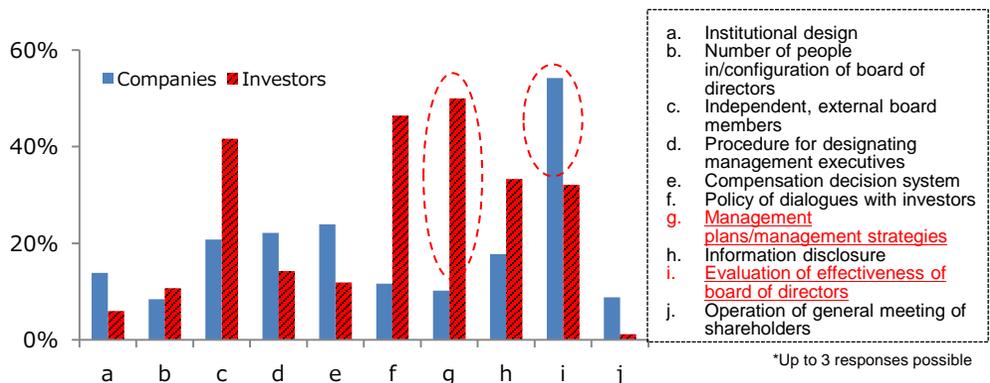
[Graph 1: Issue in improving corporate governance in Japanese companies (investors)]



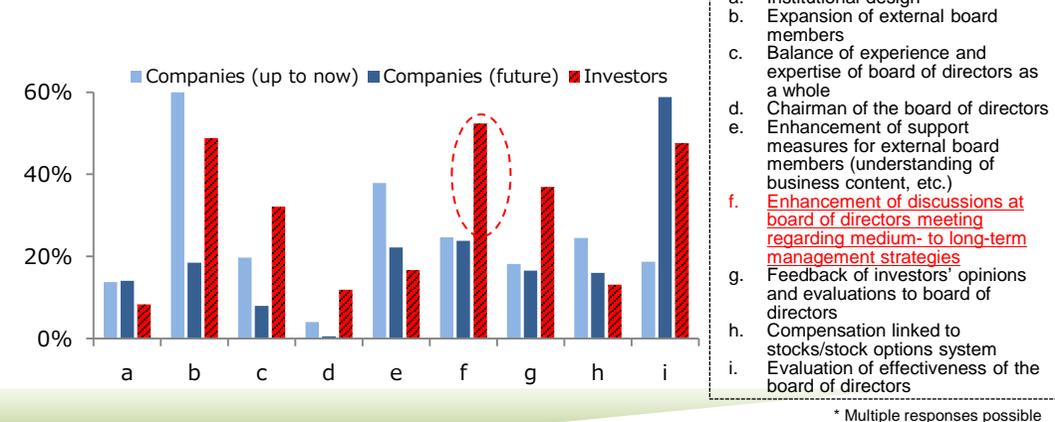
[Graph 3: Themes to incorporate (companies) / themes that should be approached (investors) in a prioritized manner as a topic in board of directors]



[Graph 2: Items that are planned to change (companies) / items that are anticipated (investors) after formulation of the Corporate Governance Code]



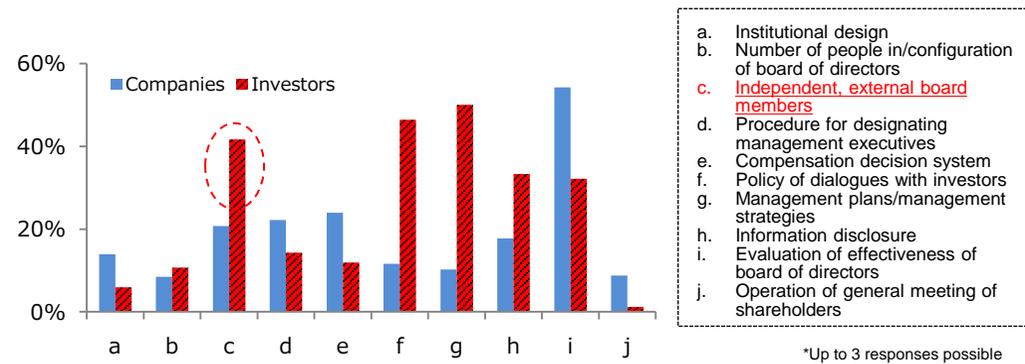
[Graph 4: Approaches toward improving efficiency of board of directors (companies) / anticipated approaches (investors)]



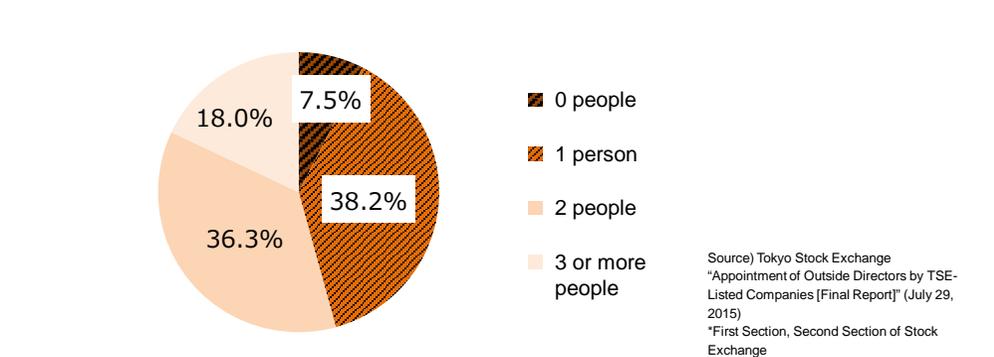
Chapter 2 (1) Approaches for Improving Corporate Governance (Pages 8 to 10 in the Main Report)

- As future approaches influenced by formulation of the Corporate Governance Code, the expectations of investors are greater than recognition by companies with regard to “Independent, external board members” [Graph 2]. Although companies had made the most approaches toward “expansion of external board members” up to now [Graph 4], multiple external board members were not appointed at almost half of the companies [Graph 5], and it is perceived that investors do not regard companies’ efforts toward expanding external board members as being completely sufficient.
- Both companies and investors recognize the importance of appropriate external board members being appointed, and substantially exhibiting functions through discussions in the board of directors [Graph 6]. As the first step to constructing an environment where external board members can make statements without being isolated, it is anticipated that expansion of external board members, for which investors have great expectations, will further progress.

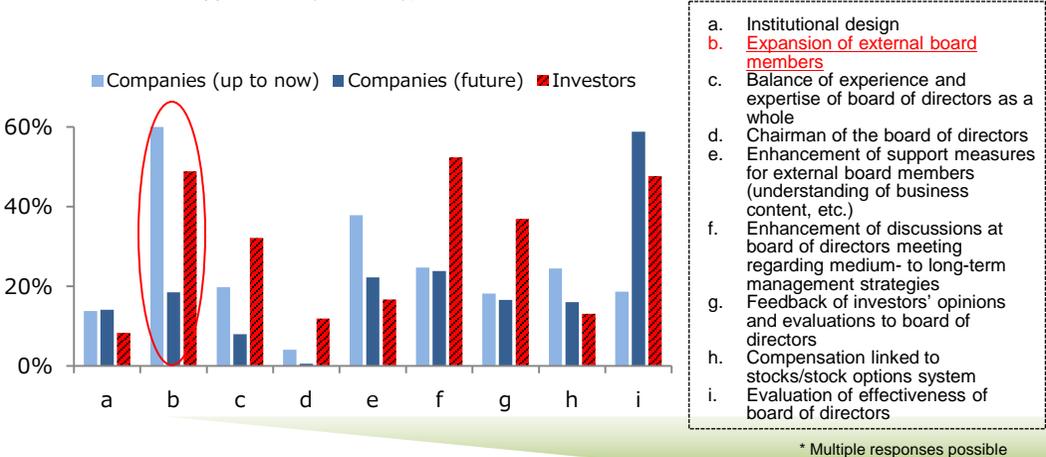
[Graph 2 (reused): Items that are planned to change (companies) / items that are anticipated (investors) after formulation of the Corporate Governance Code]



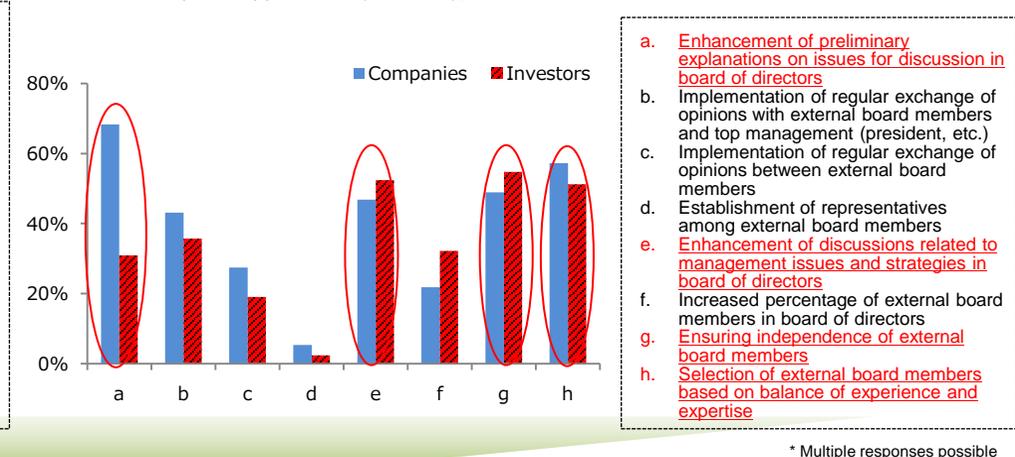
[Graph 5: Appointment of external board members]



[Graph 4 (reused): Approaches toward improving efficiency of board of directors (companies) / anticipated approaches (investors)]



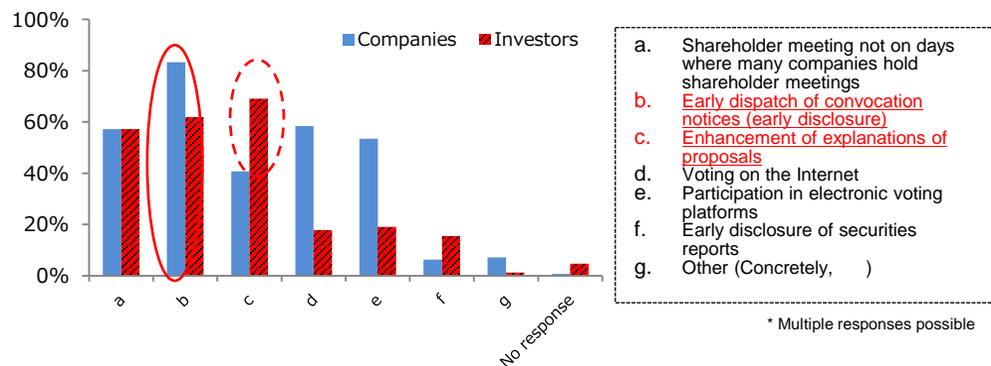
[Graph 6: Approaches toward improving efficiency of external board members (companies) / anticipated approaches (investors)]



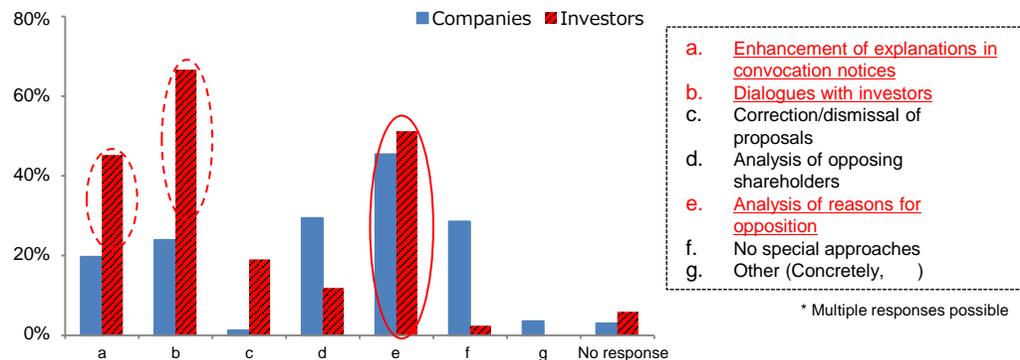
Chapter 2 (2) Voting at Shareholder Meeting (Pages 10 to 14 in the Main Report)

- In order to enhance voting by shareholders, investors seek “Enhancement of explanations of proposals” the most, and the recognition gap between investors and companies is large [Graph 7]. In aiming towards enhancement of explanations of proposals, investors have the highest expectations for enhancement of explanations through convocation notices, as well as high expectations for continuous utilization of dialogues and homepages, etc. [Graph 10]. With regard to proposals that had faced many reversals over the past years, investors have expectations for companies to thoroughly analyze the reasons behind reversal, and indicate their way of thinking in dialogues and convocation notices [Graph 12]. Voting is a valuable opportunity for investors to indicate their intention, and thus, it is requested for companies to enhance explanations on the contents of proposals from the perspective of investors so that shareholders can make appropriate decisions.
- In addition, after investors sufficiently comprehend the state of a company and make decisions on pros and cons, it is highly important for sufficient examination time to be ensured. Investors have the highest expectations towards early dispatch and early disclosure of convocation notices, and avoiding days on which many companies hold shareholder meetings [Graph 7] [Graph 14]. There are requests for various efforts to be devoted toward improvement of processes to ensure examination time.

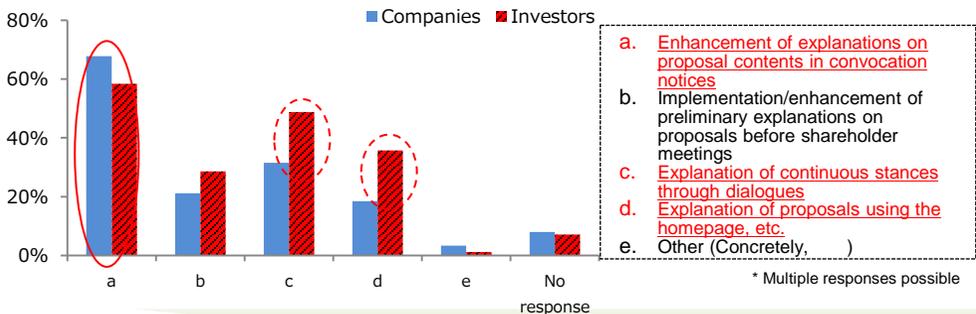
[Graph 7: Approaches to enhance shareholder voting (companies) / anticipated approaches (investors)]



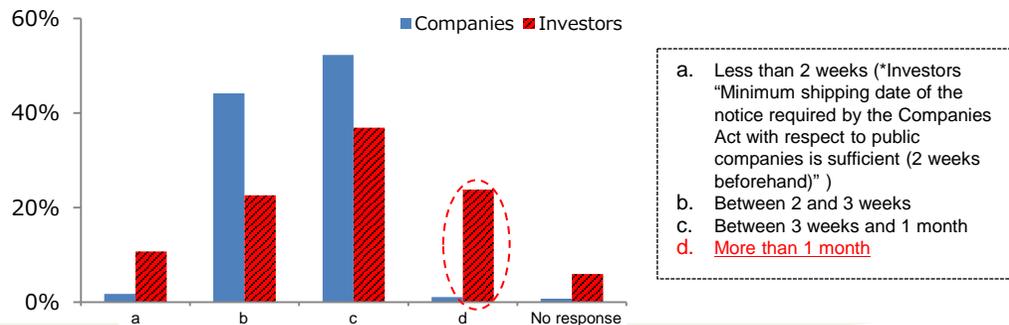
[Graph 12: Approaches for proposals that received much opposition in past years (companies) / anticipated approaches (investors)]



[Graph 10: Approaches for enhancing explanation of proposals (companies) / anticipated approaches (investors)]



[Graph 14: Date of dispatch (companies) / desired date of arrival (investors) of notice of meetings]

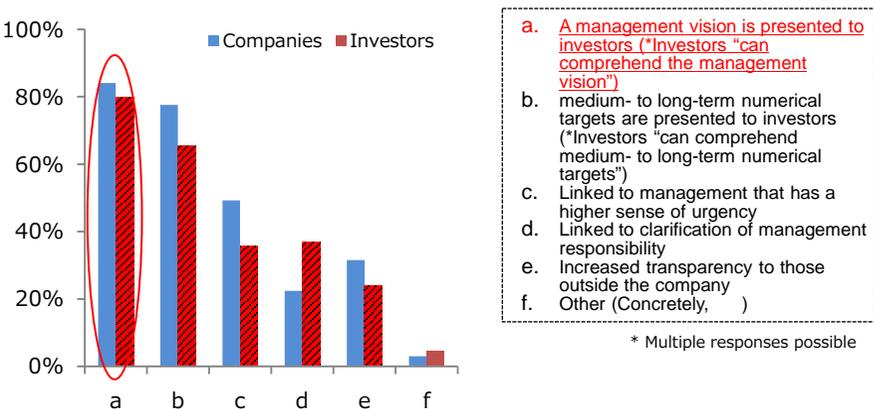


Association's requests: (For companies ③) Enhancement of explanations on proposal contents from the perspective of investors
 (For companies ④) Improvement of processes to ensure examination time

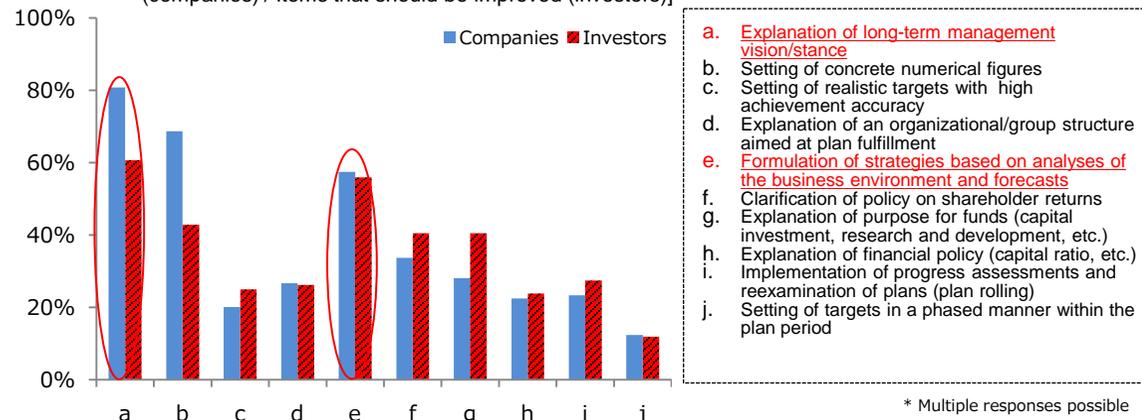
Chapter 3 (1) Establishment/Disclosure of Management Plans (Pages 15 to 17 in the Main Report)

- Both companies and investors are aware of the importance of clarifying their management vision through a medium-term management plan [Graph 15]. At the same time, in aiming to enhance the contents of medium-term management plans, investors perceive explanations on long-term management vision/stance as the point that should be most improved upon [Graph 17].
- Although disclosure of medium-term management plans associated with numerical targets has become widespread to a certain extent [Graph 16], investors have an issue awareness regarding ideals for indices to measure concrete management goals and their level of achievement [Graph 3]. In addition, investors also have expectations for concrete realization processes for achieving numerical targets to be expressed as business strategies based on analyses of the business environment and forecasts [Graph 17]. In clarifying the management vision, it is desirable for management plans that combine both numerical targets and business strategies to be published.

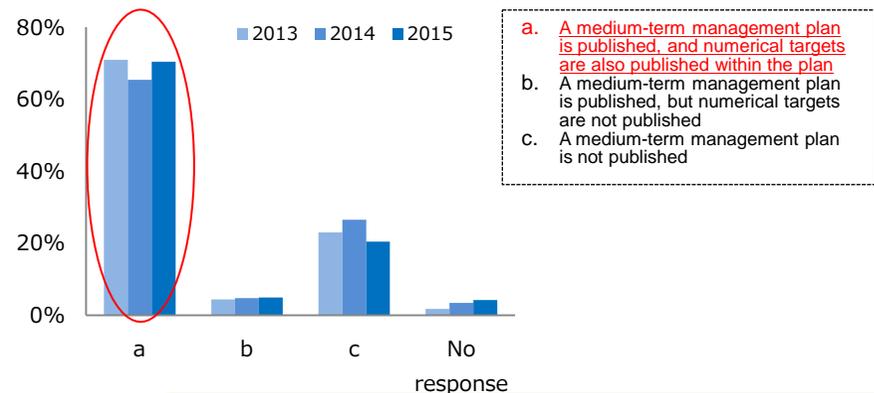
[Graph 15: Merits of publishing a medium-term management plan (companies/investors)]



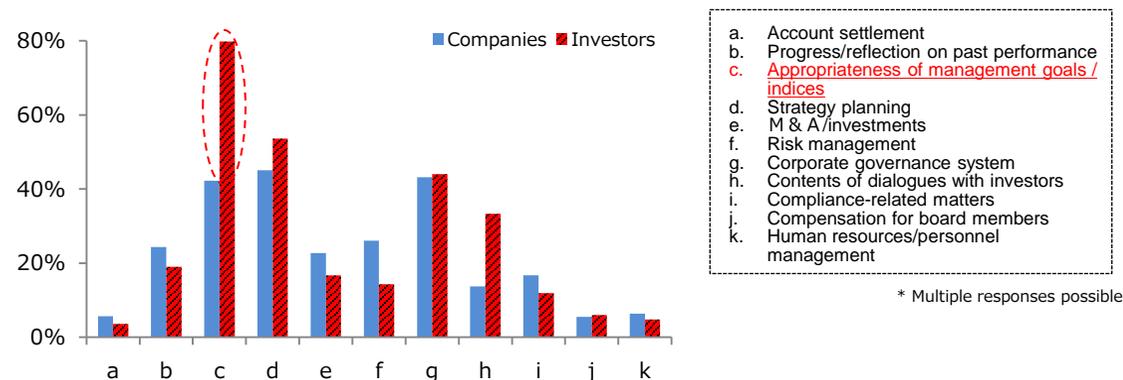
[Graph 17: Items that should be emphasized in enhancing contents of medium-term management plans (companies) / items that should be improved (investors)]



[Graph 16: State of disclosure of medium-term management plan (companies)]

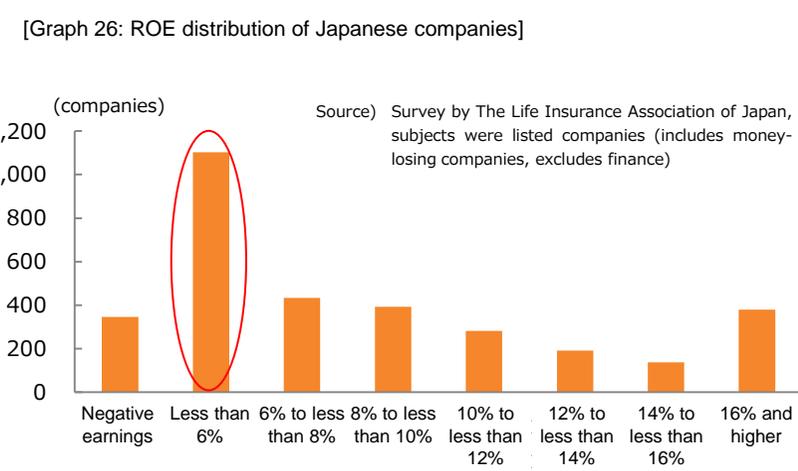
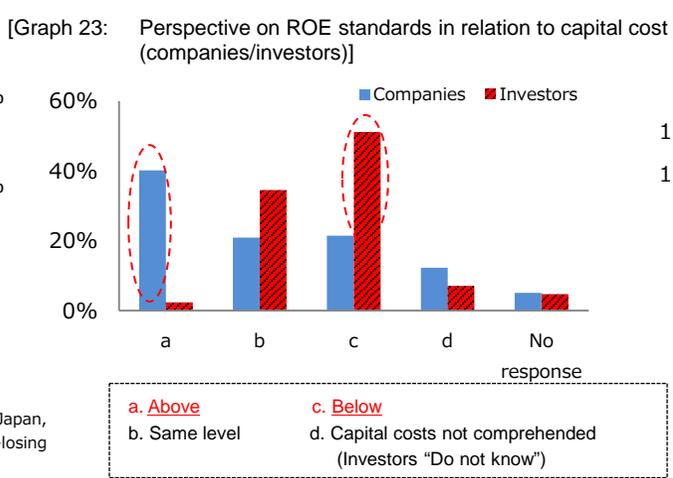
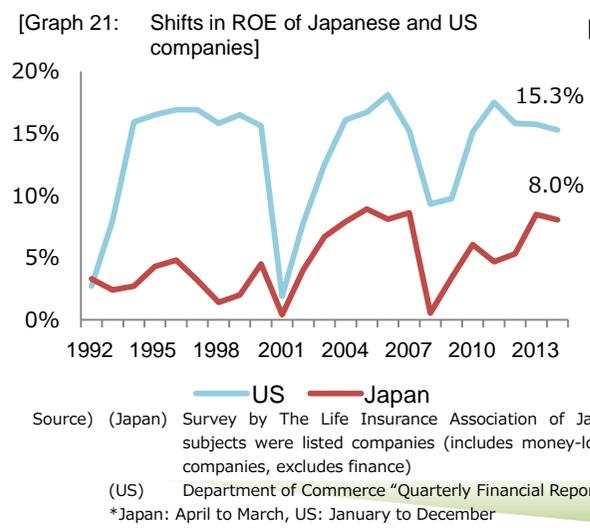
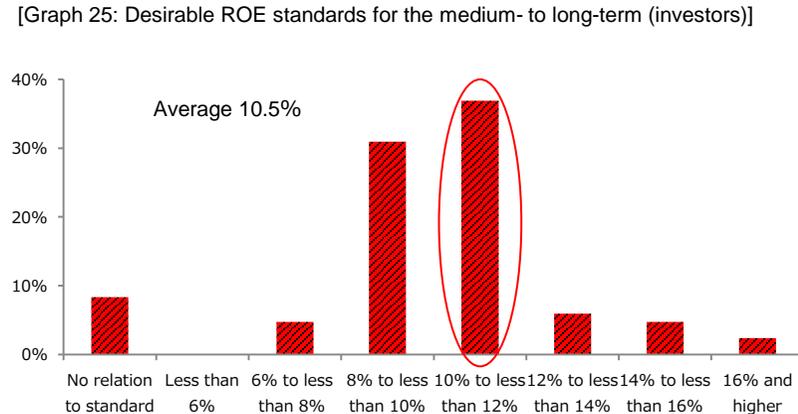
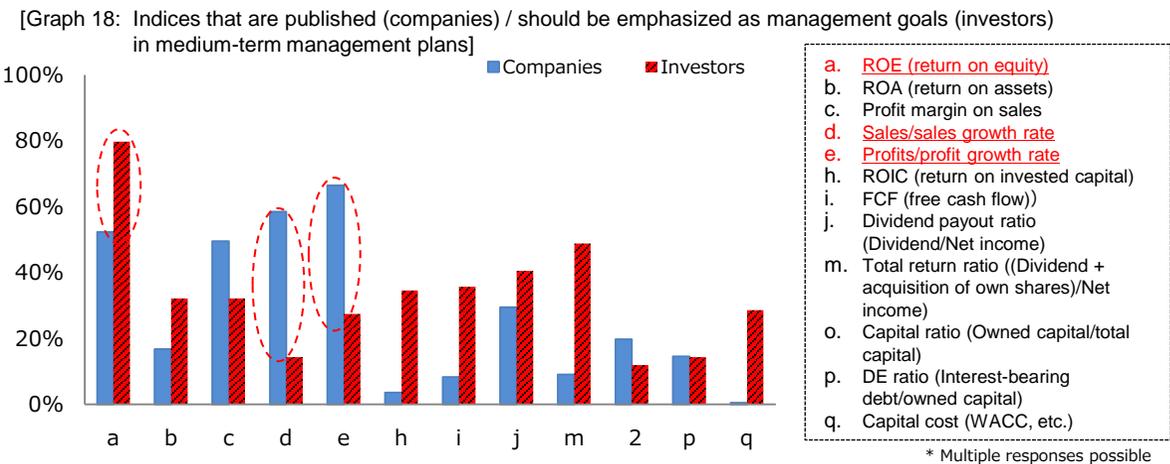


[Graph 3 (reused): Themes to incorporate (companies) / themes that should be approached (investors) in a prioritized manner as a topic in board of directors]



Chapter 3 (2) About Capital Efficiency (Pages 17 to 21 in the Main Report)

- Although investors emphasize ROE as a management index, there are many companies that emphasize the absolute amount of sales and profits, and the discrepancy between the stances of investors and companies is large [Graph 18]. With regard to companies, management where management goals are set and published based on the perspectives of investors, and where profitability is increased by utilizing procured funds efficiently is desired.
- The average ROE of Japanese companies is 8.0%, and with low net profit margin as the main cause, a state where there continues to be a large discrepancy in the ROE standards between the US and Japan is ongoing [Graph 21]. In addition to there being a large recognition gap in how ROE standards are seen in relation to capital costs [Graph 23], there is a discrepancy between the ROE standards that investors seek in the medium- to long-term and the actual state of companies [Graph 25] [Graph 26]. Setting and publishing target ROE values upon analyzing and comprehending capital costs are desired, centering mainly on companies with ROE that remain at low levels, and there are expectations for increasing profitability by aiming to achieve ROE standards that investors desire in the medium- to long-term.

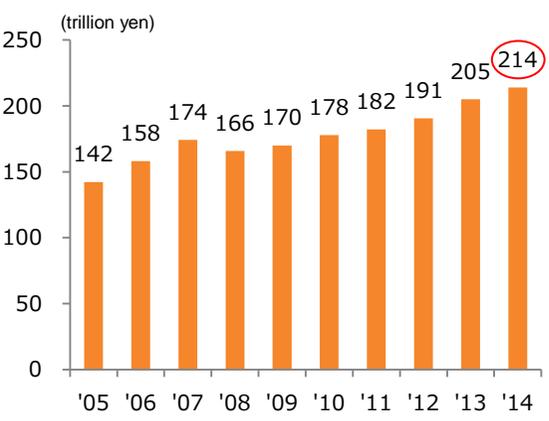


Chapter 3 (3) Investments (Pages 21 to 24 in the Main Report)

➤ As companies' performance has recovered and internal reserves are fluctuating at the highest levels ever [Graph 27], many investors are reinforcing their ideas that companies have a surplus of owned capital and cash reserves [Graph 29]. As investors seek the most for cash reserves to be used in investments aimed towards growth [Graph 30], companies are expected to use cash reserves toward strategic investments in order to build competitive superiority while being aware of investment efficiency.

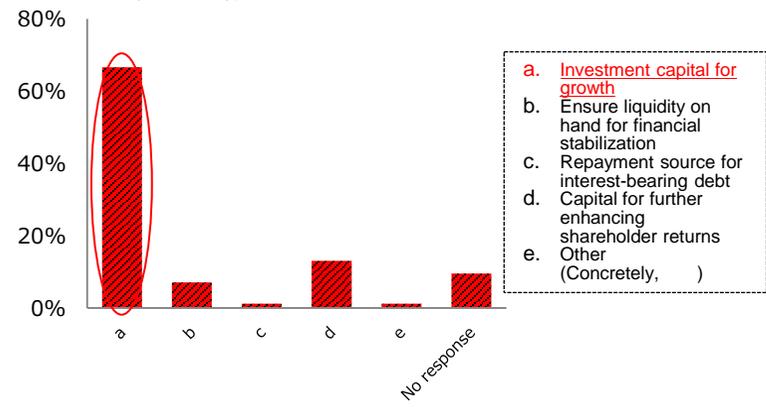
➤ In addition, with regard to explanations when implementing investments, half of investors feel that there is insufficiency in explanations by companies [Graph 33]. When executing investments, it is desired for there to be sufficient explanations for investors as to how investments are linked to increasing corporate value, by further enhancing the contents of explanations, including on profitability and risks of investments desired by investors, rather than simply the positioning of management plans. [Graph 34].

[Graph 27: Internal reserves of Japanese companies]

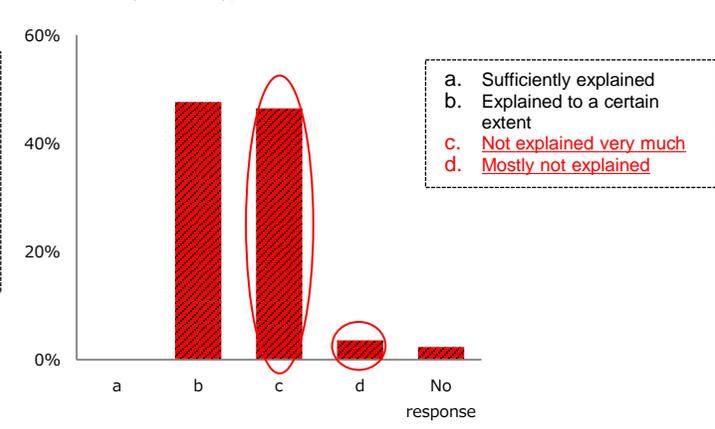


Source) Surveyed by The Life Insurance Association of Japan TOPIX constituent companies (companies for which data could be acquired continuously over the past 10 years)

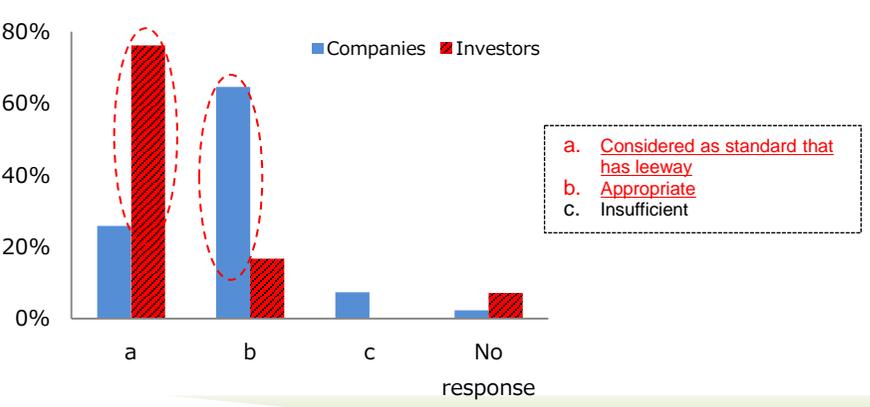
[Graph 30: What is desirable as application of companies' cash reserves (investors)]



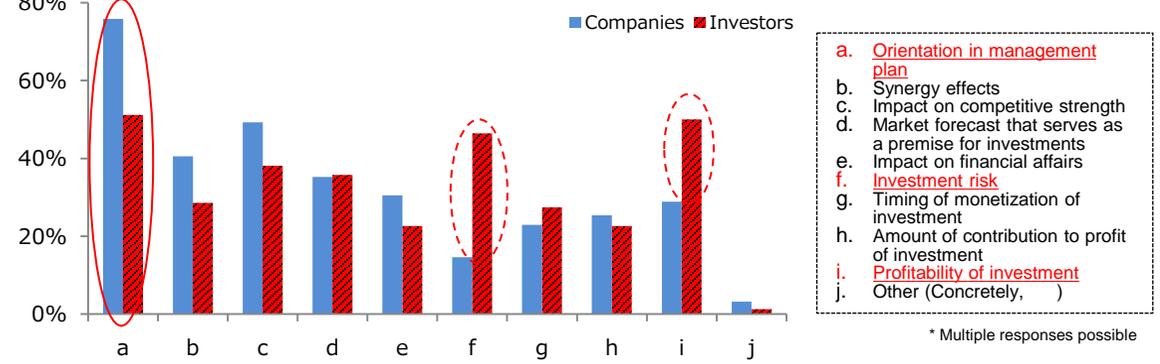
[Graph 33: Explanations at time of execution of investments by companies (investors)]



[Graph 29: Recognition as a standard for cash reserves (companies / investors)]



[Graph 34: Contents that are emphasized as explanations for investors when executing investments (companies/investors)]

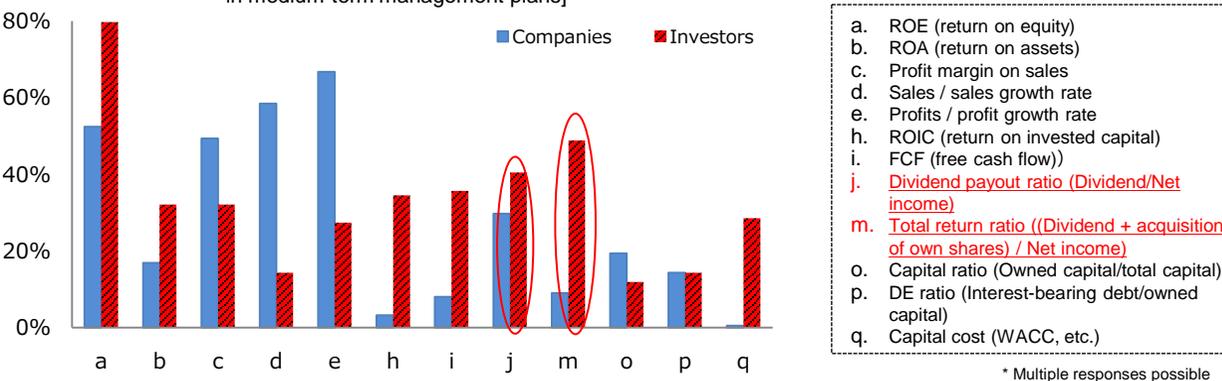


* Multiple responses possible

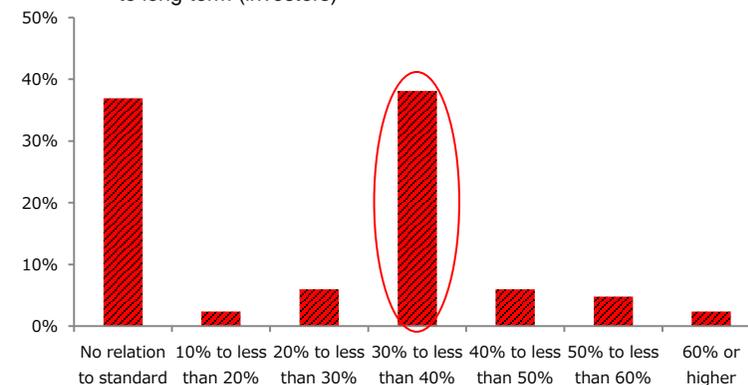
Chapter 3 (4) Shareholder Returns (Pages 24 to 30 in the Main Report)

- After ROE, investors emphasize shareholder returns indices such as “Total return ratio” and “Dividend payout ratio” as management indices [Graph 18]. As there is an increasing trend in the total amount of dividend payouts by Japanese companies in association with improvements in corporate performance, and dividend payouts are fluctuating at roughly 30% [Graph 41]. Many investors are aware that there are many companies that cannot fulfill this dividend scale [Graph 42].
- There is variation in the dividend payouts of individual companies, and there are many companies that fall below the standard that investors see as being desirable in the medium- to long-term (30% to less than 40%) [Graph 43] [Graph 44]. Since the levels of investments and internal reserves differ depending on the environment in which a company is placed, enhancement of dividends is not something that is desired across the board; however, for companies that have a surplus of funds, with no special purpose for funds, approaches toward enhancing dividends while targeting a dividend payout standard of more than 30%, which investors see as a rough target, are desired.

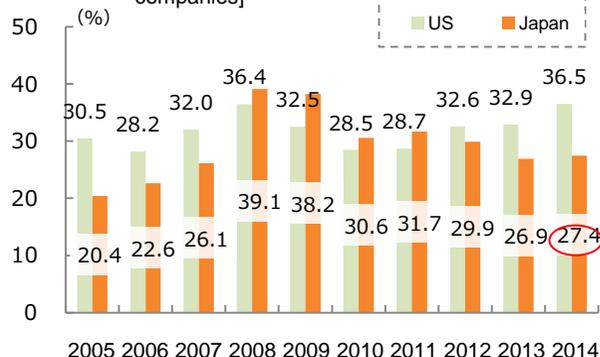
[Graph 18 (reused): Indices that are published (companies) / should be emphasized as management goals (investors) in medium-term management plans]



[Graph 43: Dividend payouts desirable in the medium- to long-term (investors)]

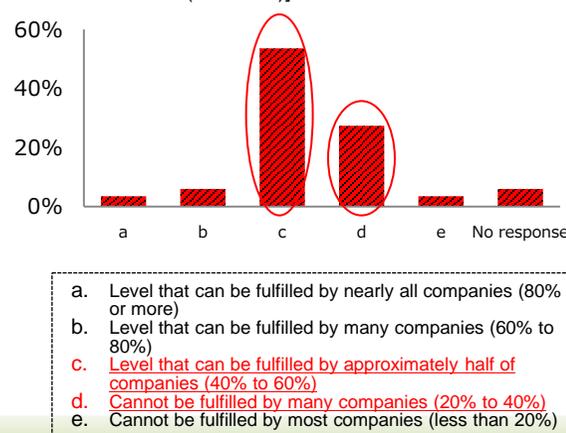


[Graph 41: Dividend payouts of Japanese and US companies]

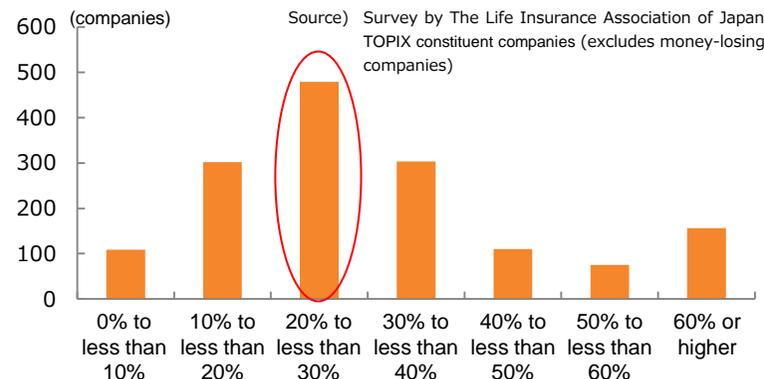


Source) Surveyed by The Life Insurance Association of Japan (Japan) TOPIX constituent companies (US) S&P 500 constituent companies (companies for which data could be acquired continuously over the past 10 years, excludes money-losing companies)

[Graph 42: Level of fulfillment with regard to payout levels (investors)]



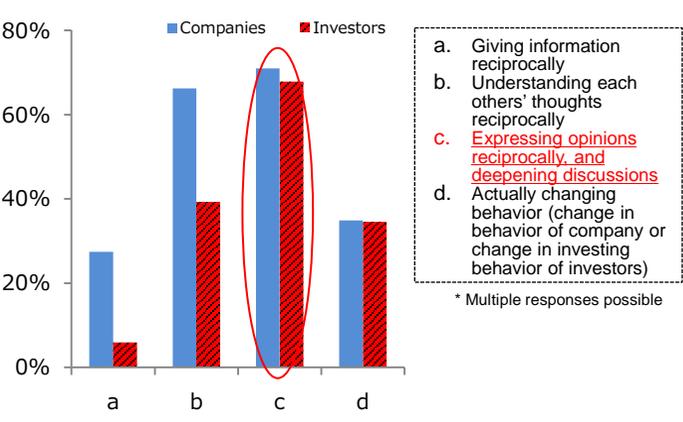
[Graph 44: Distribution of dividend payouts of Japanese companies]



Chapter 4 “Constructive Dialogues” between Companies and Investors (Pages 31 to 35 in the Main Report)

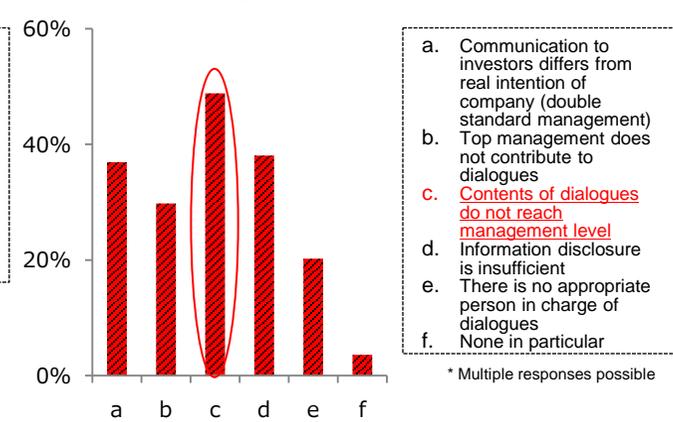
- As an image of constructive dialogues, both companies and investors want to exchange opinions through dialogues and deepen discussions regarding the direction that companies should aim for in the medium- to long- term and its realization process, such as management visions, business strategies, management structures, etc. [Graph 53] [Graph 54].
- As challenges to dialogues, investors recognize that “Contents of dialogues do not reach management level” [Graph 55], and want the perspectives of shareholders to be used in management through feedback of the investors’ opinions and assessments in the board of directors [Graph 4]. Companies recognize that regular dialogues with investors by management, and the development of a structure for sharing the contents of dialogues with the management level are being implemented [Graph 57]. However, as the expectations of investors are higher than as recognized by companies, investors want companies to actively bring up the contents of dialogues with investors as topics in the board of directors.

[Graph 53: Image of constructive dialogues (companies/investors)]



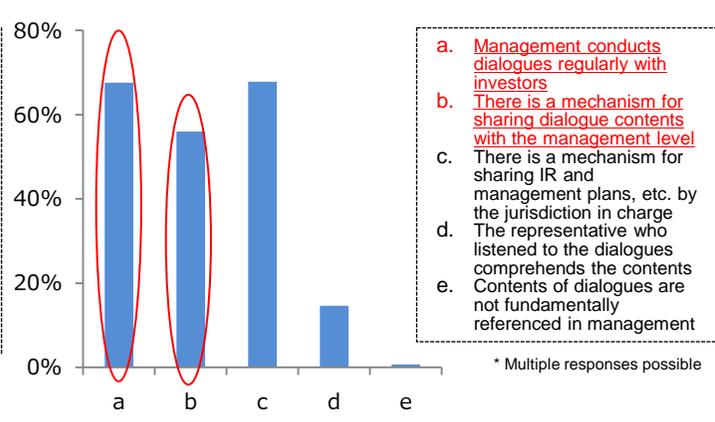
- a. Giving information reciprocally
 - b. Understanding each others' thoughts reciprocally
 - c. **Expressing opinions reciprocally, and deepening discussions**
 - d. Actually changing behavior (change in behavior of company or change in investing behavior of investors)
- * Multiple responses possible

[Graph 55: Points that companies should consider when implementing dialogues (investors)]



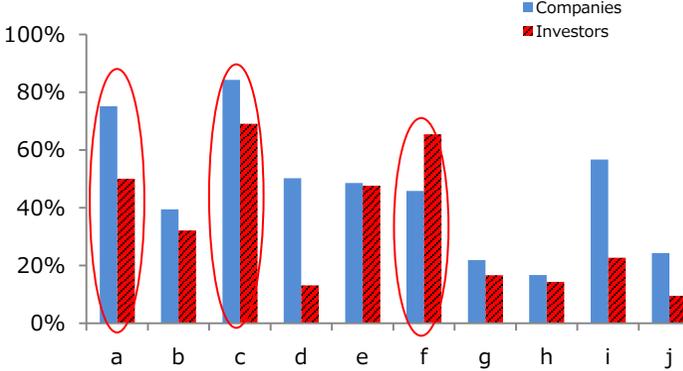
- a. Communication to investors differs from real intention of company (double standard management)
 - b. Top management does not contribute to dialogues
 - c. **Contents of dialogues do not reach management level**
 - d. Information disclosure is insufficient
 - e. There is no appropriate person in charge of dialogues
 - f. None in particular
- * Multiple responses possible

[Graph 57: Structure for using contents of dialogues in management (companies)]



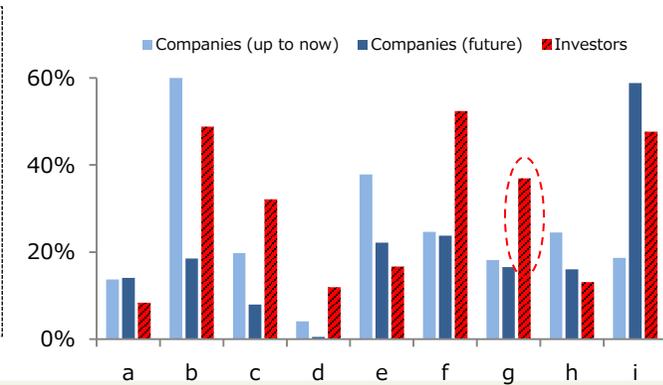
- a. **Management conducts dialogues regularly with investors**
 - b. **There is a mechanism for sharing dialogue contents with the management level**
 - c. There is a mechanism for sharing IR and management plans, etc. by the jurisdiction in charge
 - d. The representative who listened to the dialogues comprehends the contents
 - e. Contents of dialogues are not fundamentally referenced in management
- * Multiple responses possible

[Graph 54: Dialogue contents that are suitable for constructive dialogue (companies/investors)]



- a. **Management vision**
 - b. **Management indices**
 - c. **Business strategies**
 - d. Contents of settlements/business performance
 - e. Policy on shareholder returns
 - f. **Governance/management structure**
 - g. Environmental (E) / social (S) problems
 - h. Proposals at general meetings of shareholders
 - i. Current state/forecast of business/industry environment
 - j. Changes from previous dialogues
- * Multiple responses possible

[Graph 4: Approaches toward improving efficiency of board of directors (companies) / anticipated approaches (investors)]



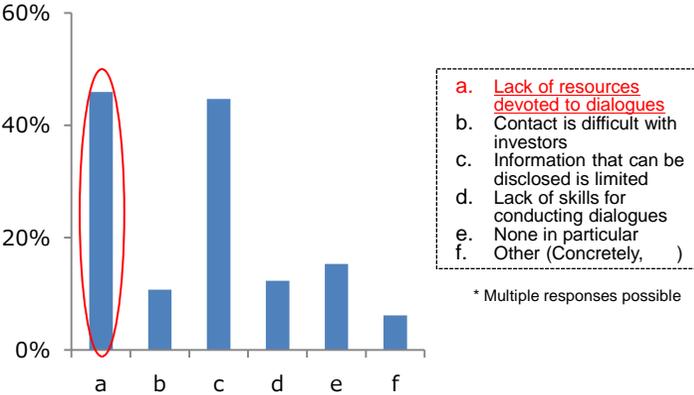
- a. Institutional design
 - b. Expansion of external board members
 - c. Balance of experience and expertise of board of directors as a whole
 - d. Chairman of the board of directors
 - e. Enhancement of support measures for external board members (understanding of business content, etc.)
 - f. Enhancement of discussions at board of directors meeting regarding medium- to long-term management strategies
 - g. **Feedback of investors' opinions and evaluations to board of directors**
 - h. Compensation linked to stocks/stock options system
 - i. Evaluation of effectiveness of the board of directors
- * Multiple responses possible

Chapter 4 “Constructive Dialogues” between Companies and Investors (Pages 35 to 38 in the Main Report)

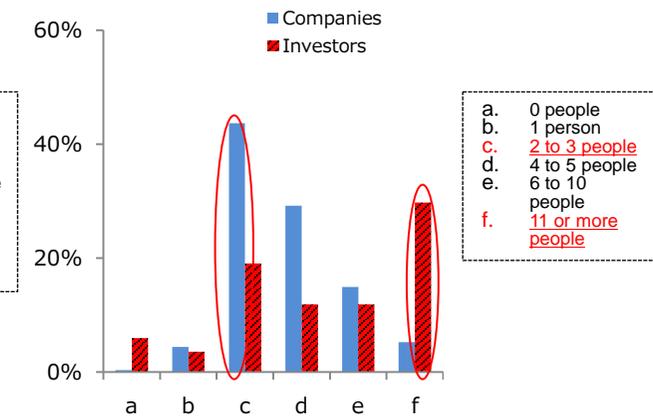
➢ In enhancing dialogues, both companies and investors perceive “Lack of resources devoted to dialogues” as an issue [Graph 58] [Graph 59]. The number of people involved in dialogues consisted mainly of “2 to 3 people” at companies and “11 or more people” among investors [Graph 60]. For the number of people dedicated exclusively to dialogues, the top response was “0 people” for both [Graph 61]. The average number of times of dialogues held was 182 times per year for companies, and 1 to 2 times per year for each investment for investors [Graph 62]. In further promoting dialogues, since expansion of necessary personnel is also becoming an important element, it is desirable to expand the personnel necessary for dialogues, which becomes necessary in accordance with the scale of companies and operation styles, while using the figures below as a reference.

➢ As both companies and investors see lack of resources as an issue, in order to efficiently conduct dialogues within a limited period of time, the significance of enhancing disclosure is large. As there are many investors who give sufficient information disclosure as a point that companies should consider in particular when conducting dialogues [Graph 55], continued approaches toward enhancing disclosure, which is a premise for dialogues, is desirable.

[Graph 58: Own company's issues in enhancing dialogues (companies)]



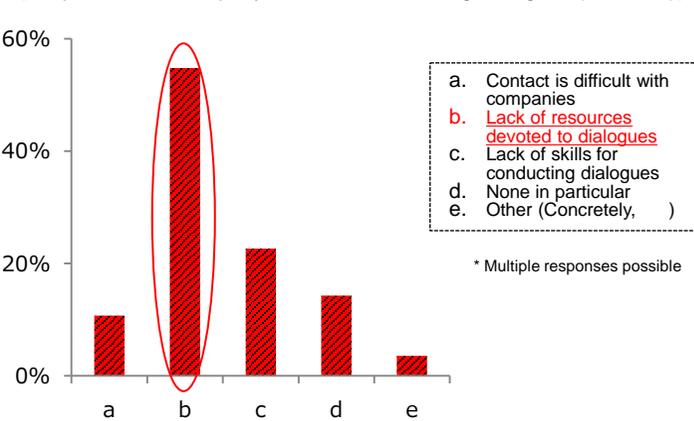
[Graph 60: Personnel involved in dialogues (companies/investors)]



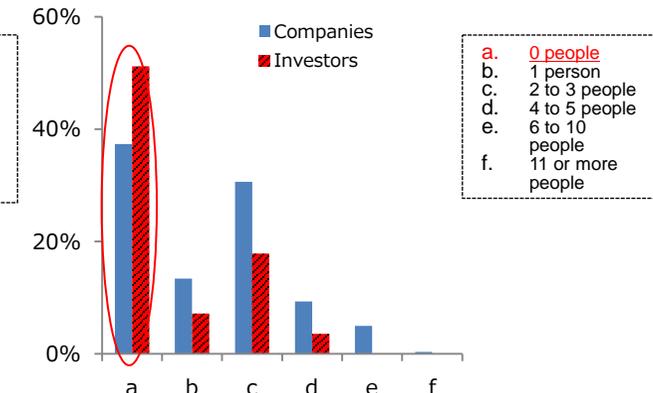
[Graph 62: Average number of times that dialogues are implemented (companies)] (times)

	Managers (president, chairman)	Board of directors/ executives	IR representatives	Representatives of business divisions
① Explanatory meetings	2.3	1.7	1.4	0.3
② Small meetings	1.6	3.3	5.6	0.6
③ Individual dialogues	9.9	26.7	126.3	2.0
Total	13.8	31.7	133.3	2.9

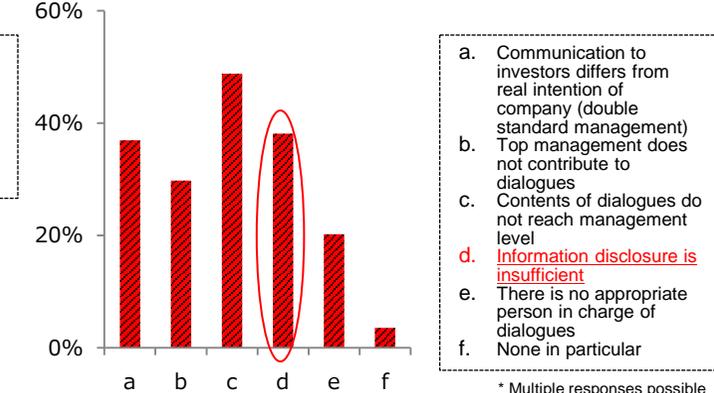
[Graph 59: Own company's issues in enhancing dialogues (investors)]



[Graph 61: Personnel dedicated exclusively to dialogues (companies/investors)]



[Graph 55 (reused): Points that companies should consider when implementing dialogues (investors)]



Association's request: (For companies ⑩) Expansion of personnel necessary for dialogues and enhancement of disclosure

Requests for Investors (Pages 10 to 13 and 31 to 35 in the Main Report)

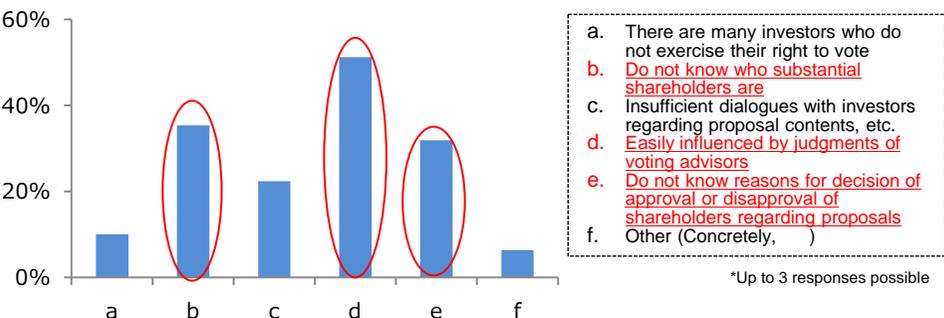
Chapter (2) Voting at general meeting of shareholders (Pages 10 to 13 in the Main Report)

➢ Companies recognize issues in voting by investors as “Easily influenced by judgments of voting advisors,” “Do not know who substantial shareholders are” and “Do not know reasons for decision of approval or disapproval of shareholders regarding proposals” [Graph 13]. In order to promote mutual understanding between companies and investors through voting, it is desired of investors to not depend excessively on the judgments of approval or disapproval of voting advisors, but to make careful decisions on approval or disapproval based on the state of a company, and at the same time, to make efforts to convey the reason for such decisions to companies in an easily understandable manner.

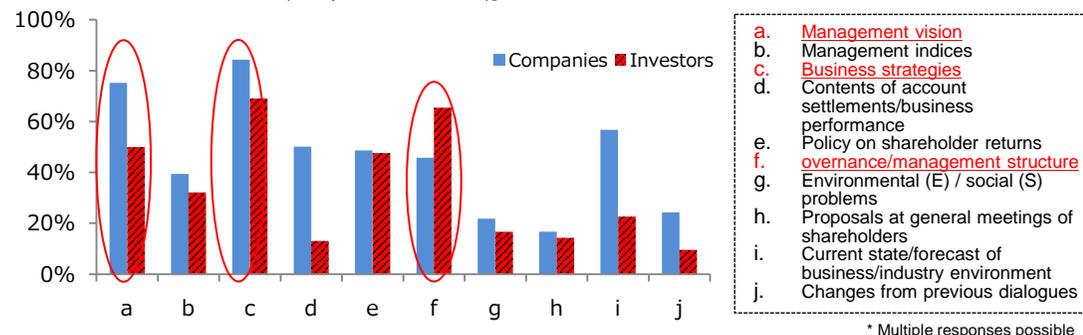
Chapter 4 “Constructive dialogues” between companies and investors (Pages 31 to 35 in the Main Report)

➢ Companies regard the point that investors should consider in particular when conducting dialogues as “Implementation of dialogues based on only short-term themes” [Graph 56]. It is desirable for investors to try placing focus on the medium- to long-term processes for corporate value improvement that are the image of constructive dialogues by both parties [Graph 53] [Graph 54], and make efforts toward the kind of dialogue activities from a medium- to long-term perspective that companies would want to further utilize in management.

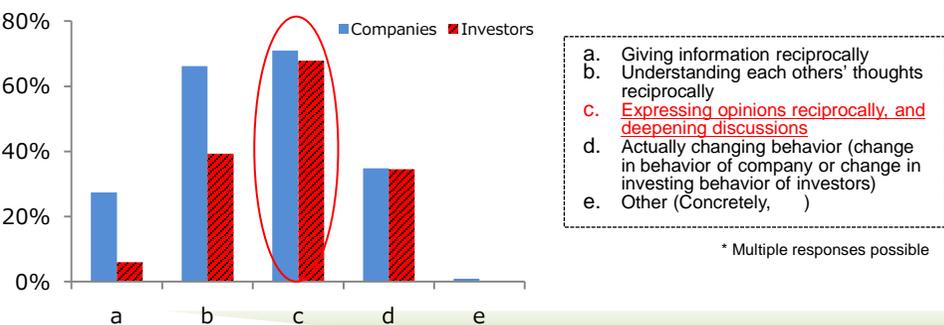
[Graph 13: Issues in voting by investors (companies)]



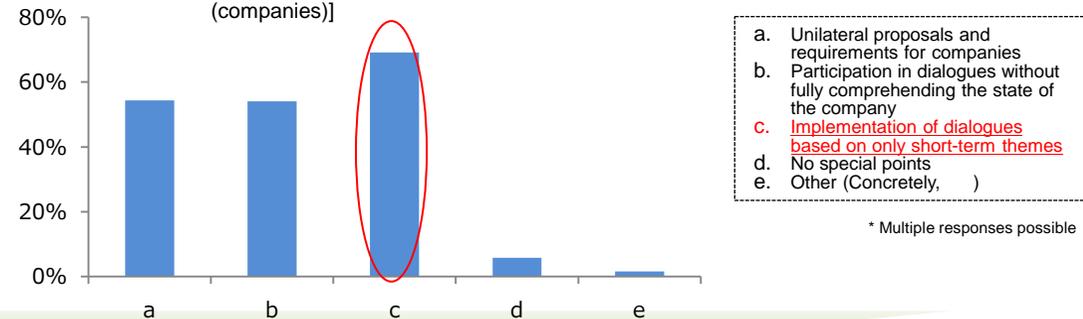
[Graph 54 (reused): Dialogue contents that are suitable for constructive dialogue (companies/investors)]



[Graph 53 (reused): Image of constructive dialogues (companies/investors)]



[Graph 56: Points that investors should consider when conducting dialogues (companies)]



Association's requests: (For investors ①) Approval/disapproval judgment based on conditions of company, and explanation of reasons behind such judgment
 (For investors ②) Promotion of dialogues from a medium- to long-term perspective