FY2017 The Life Insurance Association of Japan Survey

Approaches toward Enhancing Equity Value (Overview)

The Life Insurance Association of Japan has been conducting surveys continuously over a 44-year period starting in FY1974 regarding approaches toward enhancing equity values from the perspective of shareholders and investors.

In FY2017, a questionnaire survey was conducted targeting 1,136 listed companies and 213 institutional investors, and requests from the Association were summarized upon analyzing the current situation. In this survey, analyses were conducted mainly from the standpoints of how the awareness of companies and investors differ with respect to various elements, by comparing the responses of both parties in relation to the same questionnaire items, as well as the changes in items that have continued to be surveyed since the point in time when the respective items were introduced to the survey.

The Association believes that constructive dialogues and sharing of problem awareness by both companies and shareholders prompt corporate approaches oriented toward medium- to long-term enhancement of corporate values. Based on the results of this survey and the 4 perspectives of corporate governance, management strategies, financial strategies, and dialogues, in this fiscal year, the Association requests the following 12 items and 3 items of companies and investors, respectively. Requests consist of continued requests from previous years, as well as one that was newly added this year, for companies to “enhance disclosure of ESG information.”

In addition, research activities for life insurance companies to conduct stewardship activities more effectively are being carried out, and an overview of these activities is given in the Special Feature section.

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

The Association has expectations for this report to encourage medium- and long-term enhancement of corporate value, and consequently, a revitalization of the stock market as a whole.

○ Requests for companies

Corporate governance	① (Changed) Establishment of PDCA cycle in managing Board of Directors (Last FY: Enhancement of board evaluations and disclosure of their results) ② (Changed) Enhancement of approaches where external board members can exhibit their expected roles and function fully (Last FY: Expansion of external board members)
Management strategies	③ (Continued) Disclosure of management plan that incorporates quantitative goals and business strategies ④ (New) Enhanced disclosure of ESG information
Financial strategies	⑤ (Continued) Goal-setting and improvement of standards for ROE based on capital costs ⑥ (Continued) Active realignment of business portfolio that matches management vision ⑦ (Continued) Use of cash reserves toward growth investment ⑧ (Continued) Dividend payout ratio of 30% or higher as a constant standard for the medium- to long-term
Dialogues	⑨ (Continued) Sharing of contents of dialogues and active participation in dialogues by management ⑩ (Continued) Expansion of personnel necessary for dialogues
Voting	⑪ (Continued) Enhancement of explanations on proposal contents based also on analyses, such as of objections from investors in relation to proposals from past FYs ⑫ (Continued) Improvement of processes for securing a period for examination of proposal contents for investors

○ Requests for investors

Dialogues	① (Continued) Promotion of dialogues from a medium- to long-term perspective ② (Continued) Expansion of personnel necessary for dialogues
Voting	③ (Changed) Judgment on pros and cons of proposals based on the conditions of a company, and increased transparency of the voting process (Last FY: Voting based on the conditions of a company, and explanation of reasons behind judgment on pros and cons)

○Outline of questionnaire implementation

Implementation period: October 4 to November 6, 2017

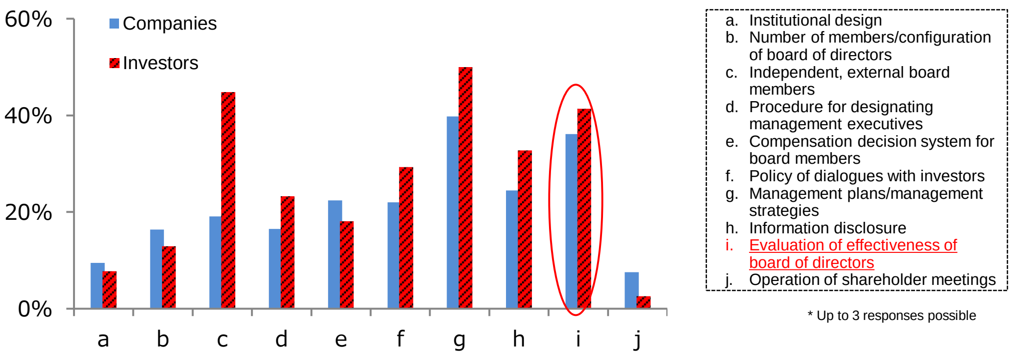
For companies: <Sent> 1,136 listed companies <Responded> 581 companies (Response rate: 51.1%)

For investors: <Sent> 213 institutional investors <Responded> 116 investors (Response rate: 54.5%)

Part 1: Chapter 1 (1) Effectiveness of Board of Directors (Main Text P4 to 8)

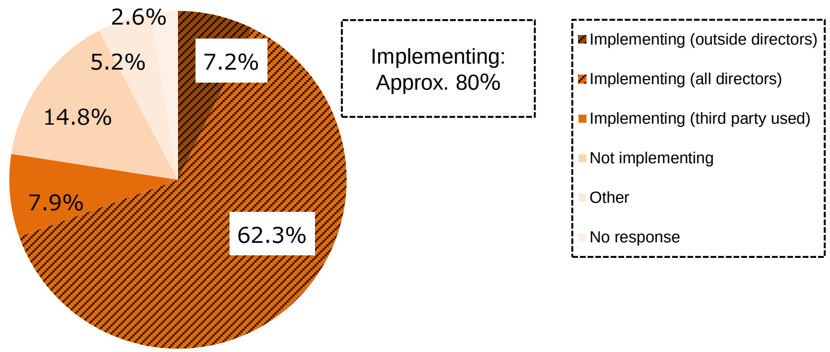
- Both companies and investors give "Evaluation of effectiveness of board of directors" as an approach that should be strengthened in the future [Graph 1]. Although there is a high level of interest in this approach, since there was a large increase from the previous FY (approximately 50%) in the number of companies implementing evaluation of board of directors to approximately 80% [Graph 2], rather than simply conducting evaluations, the implementation of concrete improvement measures based on the evaluations will be an important stage in the future.
- Investors perceive "Expansion of external board members" and "Balance of experience and expertise of board of directors as a whole," etc. as issues in improving effectiveness of the board of directors, and a deviation from companies' awareness can be seen [Graph 3]. In addition, many investors have expectations for enhancement of disclosed contents related to "Evaluation of effectiveness of board of directors" [Graph 4]. As it is important to broadly validate measures related to managing the board of directors, including the perspectives of the structure of board of directors, explain to investors how issues that have become distinct are going to be handled, and conduct approaches towards further improvements based on feedback from investors, companies are requested to establish a PDCA cycle in managing the board of directors.

Graph 1: Items for which approaches will be strengthened (companies) / items that are anticipated to be strengthened (investors) with regard to corporate governance]

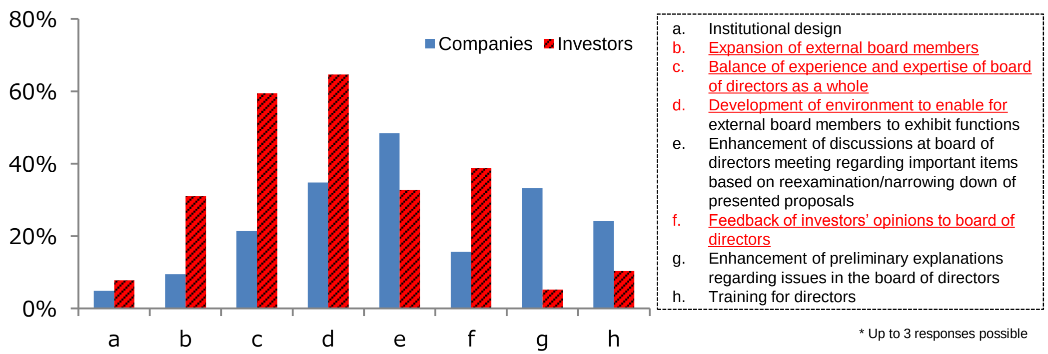


* Up to 3 responses possible

[Graph 2: State of implementation of evaluation of board of directors (companies)]

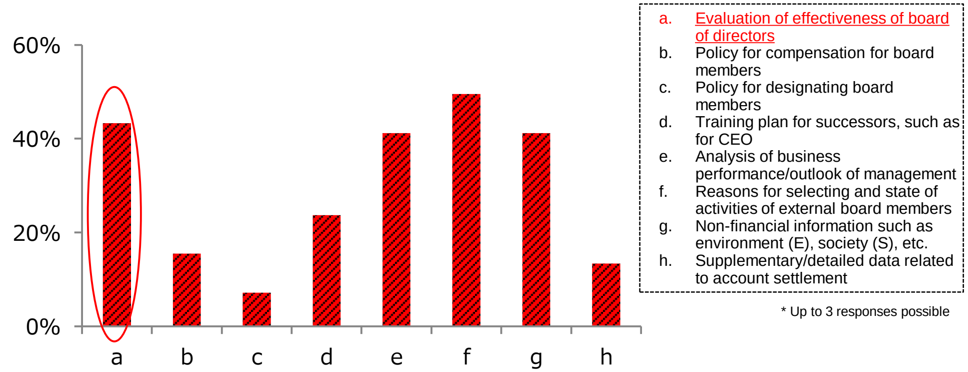


Graph 3: Issues in improving efficiency of board of directors (companies / investors)]



* Up to 3 responses possible

[Graph 4: Items for which disclosure contents are anticipated to be enhanced (investors)]



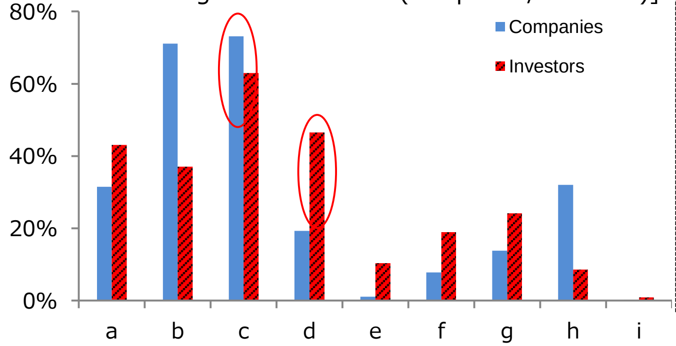
* Up to 3 responses possible

Association's request: (For companies ①) Establishment of PDCA cycle in managing board of directors

Part 1: Chapter 1 (2) Roles of External Board of Directors (Main Text P8 to 13)

- Awareness regarding the roles expected of external board members are the same for both companies and investors, as the response of "Overseeing through decision-making on management strategies/important proposals, etc." was the highest for both [Graph 5]. Although this was followed by "Overseeing the system by preventing scandals" among investors, responses by companies regarding this same item were relatively low. Investors can be seen as emphasizing this as a role desired of external board members due to the string of scandals plaguing Japanese companies recently, and wanting external board members to actively contribute to internal control of companies now more than ever.
- With regard to whether external board members are fulfilling the roles expected of them, half of investors think that it is "Insufficient, with room for improvement" [Graph 6]. Both companies and investors orient "Development of an environment in which external directors can exhibit their functions" as being an issue in improving the effectiveness of the board of directors, and emphasize "Ensuring the independence of external board members" and "Regular exchanges of opinions with external board members and top management (president, etc.)" as concrete measures. There are expectations for companies to <u>implement effective measures to allow external board members to demonstrate the roles expected of them</u>, such as by constructing an environment in which external board members, who are in an independent position, can freely and candidly state and discuss their opinions with management, including top management, upon taking into consideration the scale, etc. of the board of directors.

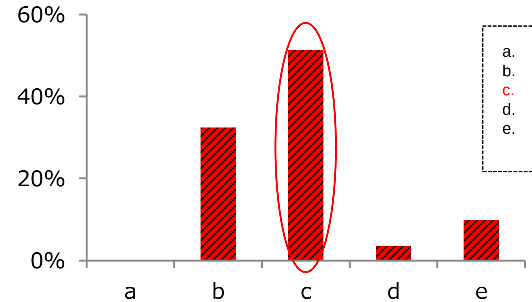
[Graph 5: Particularly important roles that are expected of external board members, among all of their roles (companies/investors)]



a. Contributions/advice regarding evaluation of management (appointment and dismissal, compensation)
b. Advice regarding execution of management
c. <u>Overseeing through decision-making on management strategies/important proposals, etc.</u>
d. <u>Overseeing the system by preventing scandals</u>
e. Dialogues with investors
f. Suppression of conflicts of interest
g. Reflection of the opinions of stakeholders, including minority shareholders, in management
h. Advice as experts such as in accounting, law, etc.
i. No expectations in particular

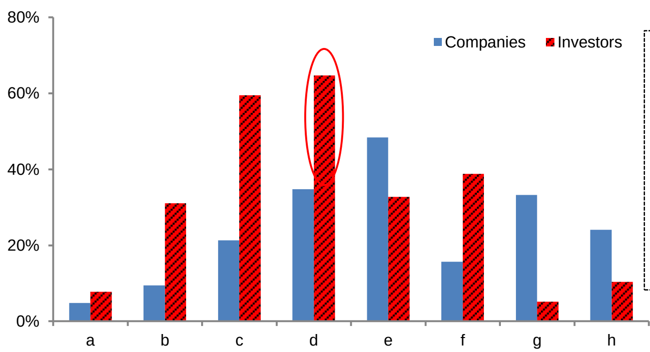
* Up to 3 responses possible

[Graph 6: Evaluation as to whether external board members are currently fulfilling the roles expected of them (investors)]



a. Fulfilled according to expectations
b. Fulfilled to a certain extent
c. <u>Insufficient, with room for improvement</u>
d. Not fulfilled at all
e. Cannot evaluate from the standpoint of an investor

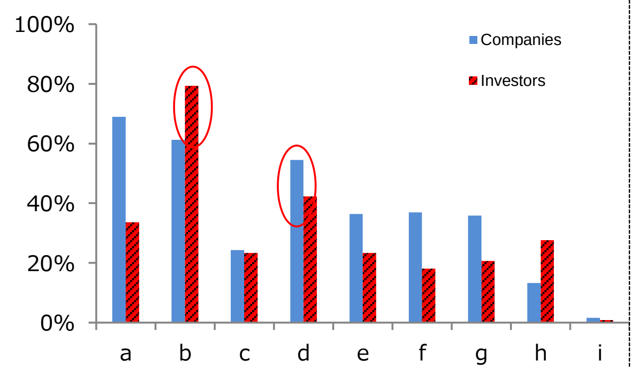
Graph 3 (reused): Issues in improving efficiency of board of directors (companies / investors)]



a. Institutional design
b. <u>Expansion of external board members</u>
c. Balance of experience and expertise of board of directors as a whole
d. <u>Development of environment to enable for external board members to exhibit functions</u>
e. Enhancement of discussions at board of directors meeting regarding important items based on reexamination/narrowing down of presented proposals
f. Feedback of investors' opinions to board of directors
g. Enhancement of preliminary explanations regarding issues in the board of directors
h. Training for directors

* Up to 3 responses possible

[Graph 7: Approaches implemented (companies) / approaches that are expected (investors) to allow for external board members to demonstrate their functions]



a. Enhancement of preliminary explanations on topics discussed within the board of directors to external board members
b. <u>Ensuring the independence of external board members</u>
c. Attendance at management meetings, executive meetings, etc. of external board members
d. <u>Regular exchanges of opinions with external board members and top management (president, etc.)</u>
e. Regular exchange of opinions among external board members
f. Implementation of approaches to promote understanding of management
g. Use of advisory committee to review nominations, compensation, etc.
h. Increased ratio of external board members in board of directors
i. None in particular

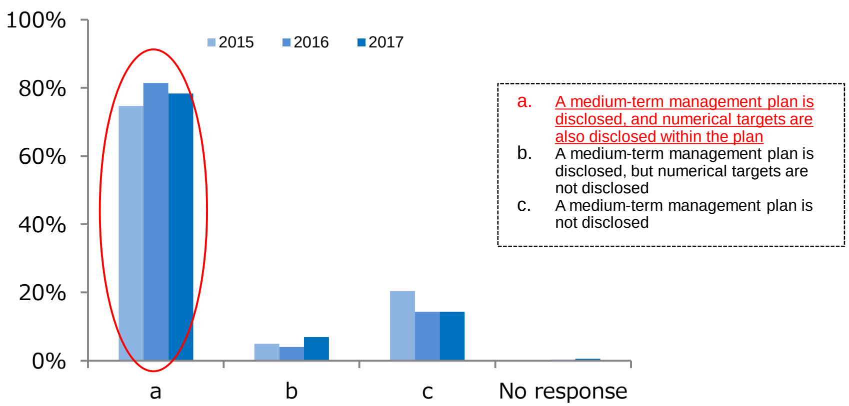
* Multiple responses possible

Association's request: (For companies ②) Enhancement of approaches where external board members can demonstrate their expected roles and function fully

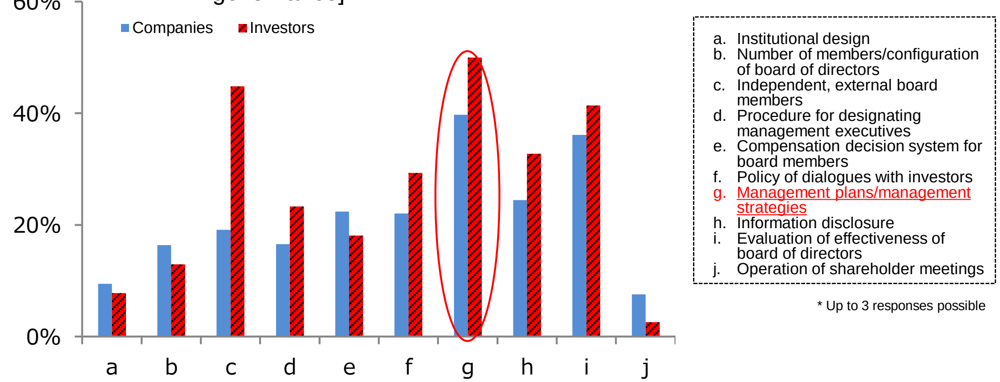
Part 1: Chapter 2 (1) Establishment/Disclosure of Management Plans (Main Text P15 to 17)

- The percentage of companies that disclose a medium-term management plan, including numerical targets, has increased to nearly 80%, indicating an increasing trend, and the disclosure of management plans has permeated to some extent [Graph 8]. However, with regard to corporate governance, the response of “Management plans/management strategies” still remains the highest from investors regarding items that are anticipated to be strengthened, thus indicating that investors have expectations for further approaches by companies [Graph 1].
- Many investors consider “Appropriateness of management goals/indices” as a theme that should be approached in a prioritized manner in the board of directors in the future [Graph 9]. In medium-term management plans, improvements should be made on “Explanation of long-term management vision/stance” and “Formulation of strategies based on analyses of the business environment and forecasts” [Graph 10]. Investors are able to clearly perceive the intention of companies toward value creation as the numerical targets that should be achieved and concrete management strategies to realize these targets are indicated based on a long-term management vision, and thus, <u>there are expectations for management plans that incorporate both numerical targets and business strategies to be disclosed</u>.

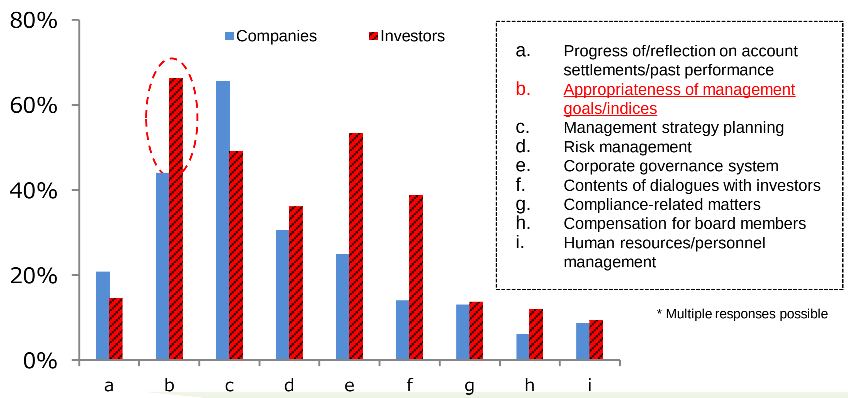
[Graph 8: State of disclosure of medium-term management plan (companies)]



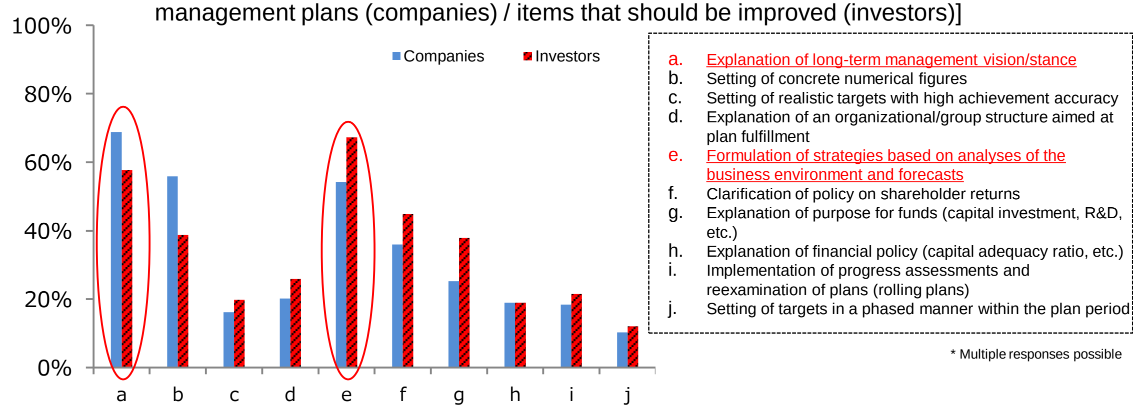
[Graph 1 (reused): Items for which approaches will be strengthened (companies) / items that are anticipated to be strengthened (investors) with regard to corporate governance]



[Graph 9: Themes to incorporate (companies) / themes that should be approached (investors) in a prioritized manner as a topic in board of directors]



[Graph 10: Items that should be emphasized in enhancing contents of medium-term management plans (companies) / items that should be improved (investors)]

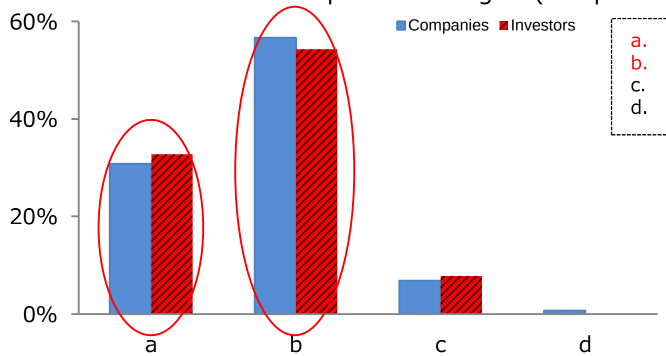


Association’s request: (For companies ③) Disclosure of management plans that incorporate numerical targets and business strategies

Part 1: Chapter 2 (2) Approaches Toward Social Issues (ESG, etc.) (Main text P17 to 20)

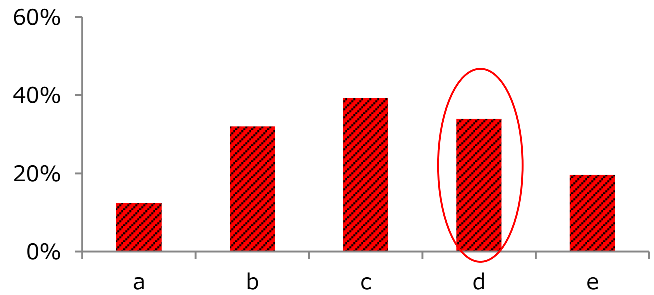
- Both companies and investors consider identification of environment (E), society (S) and governance (G) elements, and incorporation and disclosure of these elements in corporate strategies to be important from the perspective of medium- and long-term enhancement of corporate value [Graph 11]. At the same time, many investors think that companies' "Information disclosure is insufficient" [Graph 12], and want strengthened disclosure of "Non-financial information such as environment (E), society (S), etc." in particular [Graph 4]. In aiming towards sustained growth, there are expectations for companies to enhance disclosure of ESG information, such as by identifying important ESG information and explaining its relationship to management strategies in an easily understandable manner.
- When looking at ESG elements by category, both companies and investors place more emphasis on governance (G) and society (S) as compared to environment (E), and by item, they emphasize "Management philosophy/vision" the most [Graph 13].

[Graph 11: Importance of identifying ESG elements and their incorporation and disclosure in corporate strategies (companies/investors)]



a. Extremely important
b. Important
c. Not very important
d. Not important

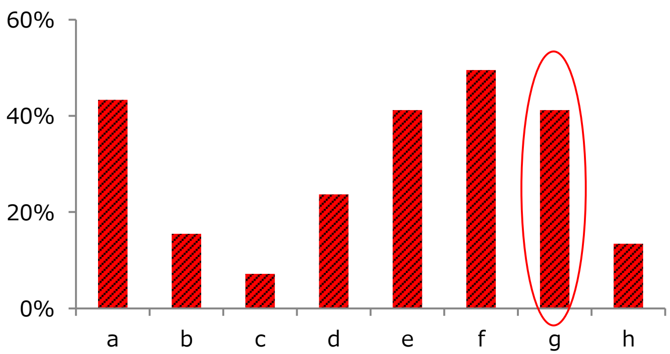
[Graph 12: Issues important to companies during dialogues (investors)]



a. Remarks to investors and true intention of company differ (double-standard management)
b. Top management does not contribute to dialogues
c. Contents of dialogue do not reach management level
d. Information disclosure is insufficient
e. There is no appropriate person in charge of dialogues established

* Multiple responses possible

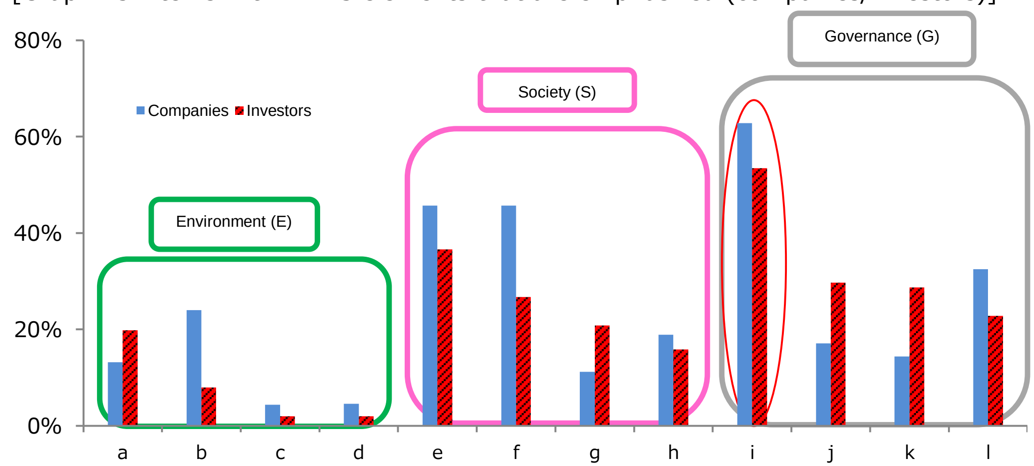
[Graph 4 (reused): Items for which disclosure contents are anticipated to be enhanced (investors)]



a. Evaluation of effectiveness of board of directors
b. Policy for compensation for board members
c. Policy for designating board members
d. Training plan for successors, such as for CEO
e. Analysis of business performance/outlook of management
f. Reasons for selecting and state of activities of external board members
g. Non-financial information such as environment (E), society (S), etc.
h. Supplementary/detailed data related to account settlement

* Up to 3 responses possible

[Graph 13: Items within EMS elements that are emphasized (companies/investors)]



a. Climate change (E)
b. Energy (EI)
c. Water/forest resources (E)
d. Biodiversity/ecosystem (E)
e. Effective use/fostering of human resources (S)
f. Relationships with business connections/local society/customers (S)
g. Labor environment (S)
h. Diversity (S)
i. Management philosophy/vision (G)
j. Roles/responsibilities of board of directors (G)
k. Internal control (G)
l. Corporate ethics/compliance (G)

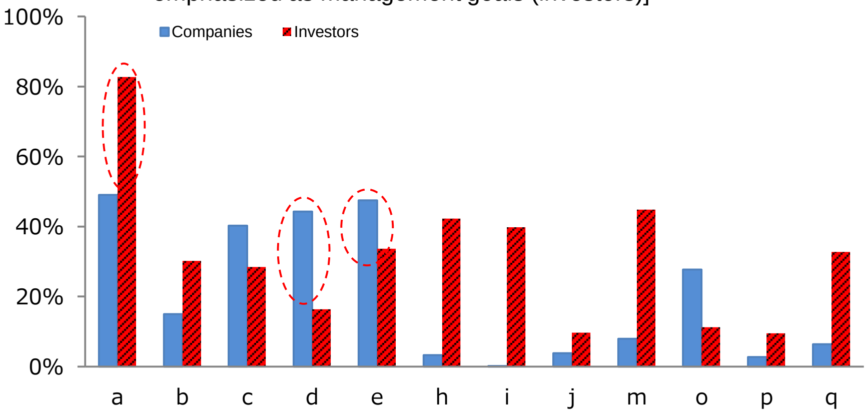
* Up to 3 responses possible

Association's request: (For companies ④) Enhanced disclosure of ESG information

Part 1: Chapter 3 (1) About Capital Efficiency (Main Text P21 to 25)

- Although investors emphasize ROE as a performance indicator, there are many companies that emphasize the absolute amount and the growth rate of sales and profits, and the discrepancy between the stances of investors and companies is large [Graph 14]. Although the percentage of companies that set and disclose target values for ROE has increased since the previous FY, it still remains at approximately half of the overall number of companies [Graph 15].
- In addition to there being a large recognition gap in how ROE standards are seen in relation to capital costs [Graph 16], there is a discrepancy between the ROE standards that investors seek in the medium- to long-term and the actual state of companies [Graph 17] [Graph 18]. Setting and disclosing 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.

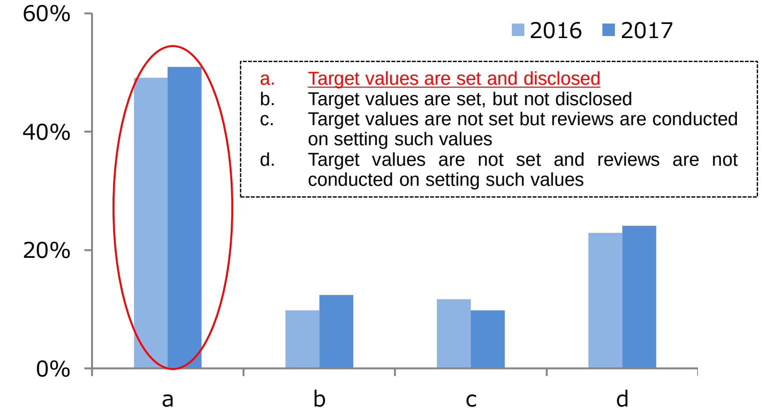
[Graph 14: Indices that are disclosed in medium-term management plans (companies) / should be emphasized as management goals (investors)]



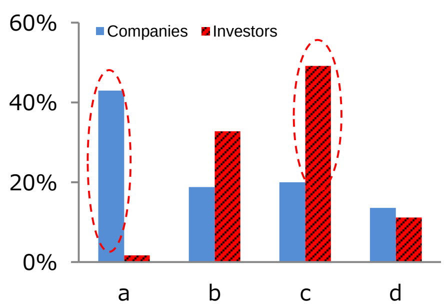
a. ROE (return on equity)
b. ROA (return on assets)
c. Profit margin on sales
d. Sales/sales growth rate
e. Profits/profit growth rate
h. ROIC (return on invested capital)
i. FCF (free cash flow))
j. Dividend payout ratio (Dividend/Net income)
m. Total shareholder return ((Dividend + acquisition of own shares)/Net income)
o. Capital ratio (Owned capital/total capital)
p. DE ratio (Interest-bearing debt/owned capital)
q. Capital cost (WACC, etc.)

* Multiple responses possible

[Graph 15: State of setting/disclosure of ROE target values (companies)]

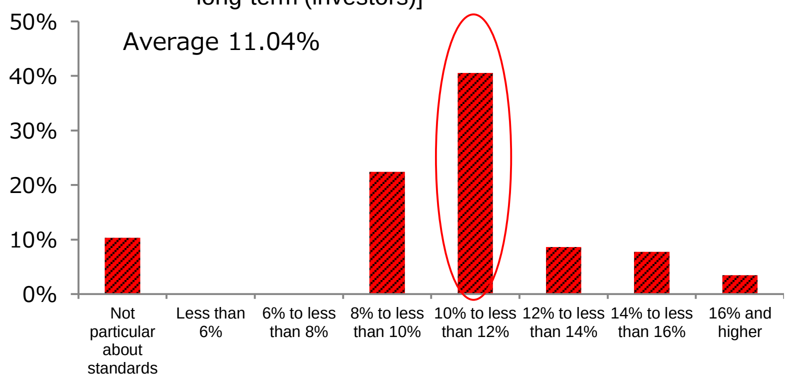


[Graph 16: Perspective on ROE standards in relation to capital cost (companies/investors)]

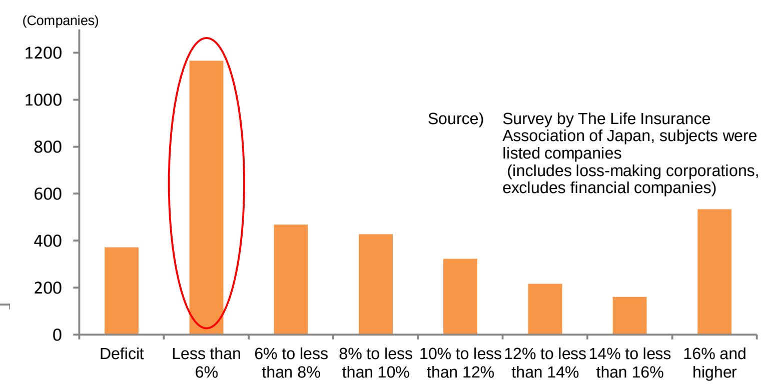


a. Above
b. Same level
c. Below
d. Capital costs not comprehended (Investors "Do not know")

[Graph 17: Desirable ROE standards for the medium- to long-term (investors)]



[Graph 18: ROE distribution of Japanese companies]

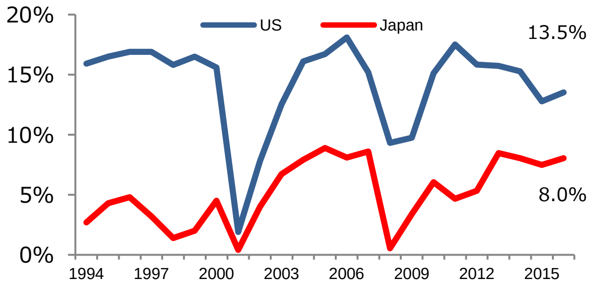


Association's request: (For companies ⑤) Set goals and increase standards for ROE based on capital costs

Part 1: Chapter 3 (1) About Capital Efficiency (Main Text P21 to 25)

- The ROE of Japanese companies is well below that of US companies, due to a low profit margin [Graph 19] [Graph 20]. In addition, the ROE of Japanese companies is below the ROE levels anticipated by investors, and approaches oriented toward increasing the capital efficiency of Japanese companies are desired [Graph 21].
- As approaches for increasing capital efficiency, investors have expectations for "Concentration in core competence (reexamination/rearrangement of business portfolios in conformity with management vision)," however, there are not many companies that focus on this item, and thus there is a gap in awareness between investors and companies [Graph 22]. Through profit management by business and use of objective criteria for companies, investors expect for companies to ascertain the core businesses that utilize the company's strength, input managerial resources, increase competitive strength of products and services, and seek to link these to an increase in capital efficiency [Graph 23]. Thus, <u>there are expectations to move forward with active realignment of business portfolios that conform to the management vision</u>.

[Graph 19: Shifts in ROE of Japanese and US companies]



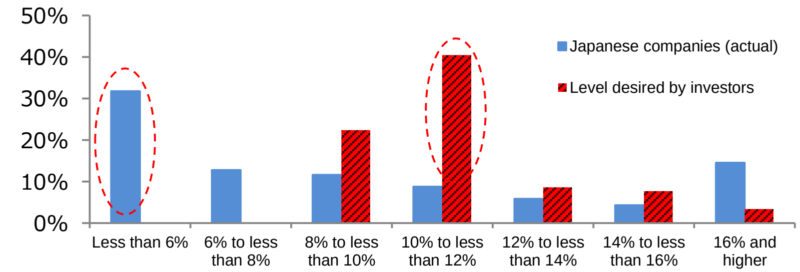
Source) (Japan) Survey by The Life Insurance Association of Japan, subjects were listed companies
(includes loss-making corporations, excludes financial companies)
(US) Department of Commerce "Quarterly Financial Report"
*Japan: April to March, US: January to December

[Graph 20: ROE comparison of Japanese and US companies]

	Japan	US
ROE	8.0%	13.5%
ROA	3.4%	5.5%
Net profit margin	4.4%	8.7%
Total asset turnover	0.8	0.6
Financial leverage	2.4	2.4

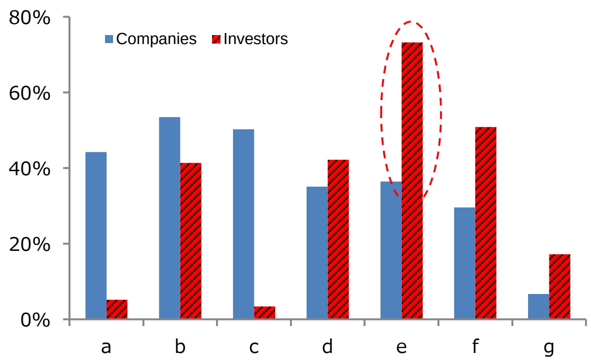
Source) (Japan) Survey by The Life Insurance Association of Japan, subjects were listed companies
(includes loss-making corporations, excludes financial companies)
(US) Department of Commerce "Quarterly Financial Report"
*Japan: April to March, US: January to December

[Graph 21: ROE of Japanese companies and ROE levels desirable in medium- to long-term (investors)]



Source) ROEs of Japanese companies are as surveyed by The Life Insurance Association of Japan, subjects were listed companies (excludes financial corporations, includes loss-making corporations in denominator)

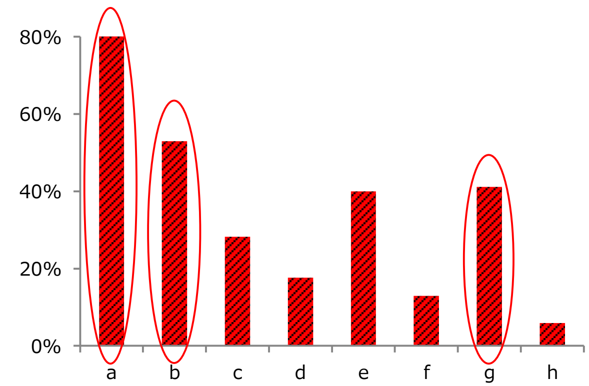
[Graph 22: Approaches that are being implemented (companies) / that are anticipated (investors) to increase capital efficiency]



a. Expansion of business scale/share
b. Reinforcement of competitive strength of products and services
c. Promotion of cost reduction
d. Investments that emphasize profit margins
e. <u>Concentration in core competence (reexamination/rearrangement of business portfolios in conformity with management vision)</u>
f. Expansion using earnings/efficiency index as management indicator (permeated at companywide level)
g. Expansion of leverage through debt and shareholder returns

* Up to 3 responses possible

[Graph 23: Approaches that are anticipated to promote concentration in core competence (investors)]



a. <u>Efficiency/profitability analysis by business</u>
b. <u>Use of objective criteria to judge rearrangement of business portfolio</u>
c. Activation of discussions through using external board members
d. Comprehension of shareholder opinions through dialogues with investors
e. Clarification of managerial responsibilities and impartment of incentives
f. Strengthening of supervisory functions of board of directors
g. <u>Clarification of management vision</u>
h. Information disclosure

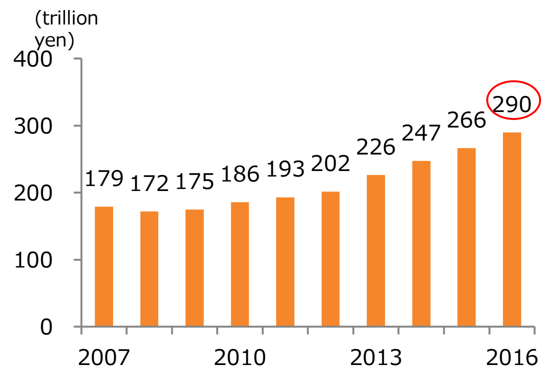
* Up to 3 responses possible

Association's request: (For companies ⑥) Active realignment of business portfolio in conformity with management vision

Part 1: Chapter 3 (2) Investments (Main Text P26 to 30)

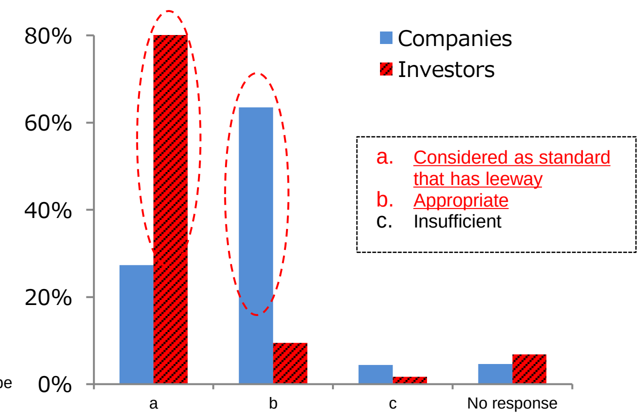
- The internal reserves of Japanese companies are fluctuating at the highest levels ever [Graph 24]. Most investors perceive companies as having a surplus of cash reserves [Graph 25], and seek the most for cash reserves to be used in investments aimed towards growth [Graph 26].
- Approximately half of investors feel that there is insufficiency in explanations by companies when implementing investments [Graph 27]. 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 of investments" and "risks of investments" desired by investors, rather than simply their orientation in management plans [Graph 28]. There are expectations for companies to continue being aware of investment efficiency and utilize cash reserves towards strategic investments in order to build competitive superiority.

[Graph 24: Internal reserves of Japanese companies]

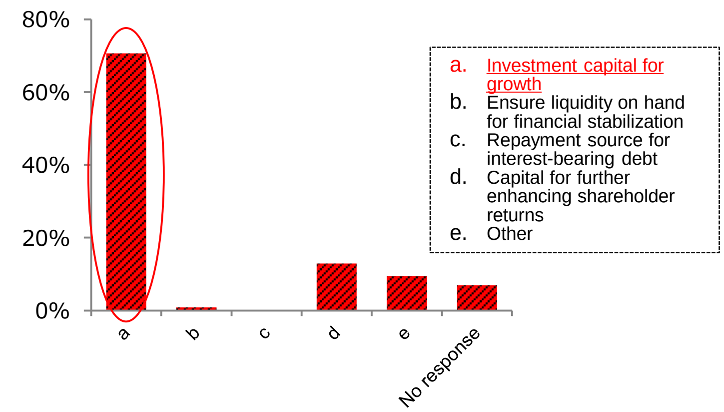


Source) Surveyed by The Life Insurance Association of Japan
TOPIX constituent companies (companies for which data could be acquired continuously over the past 10 years)

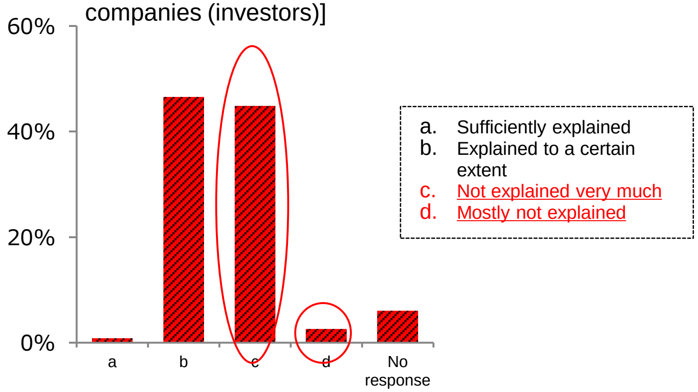
[Graph 25: Recognition as a standard for cash reserves (companies / investors)]



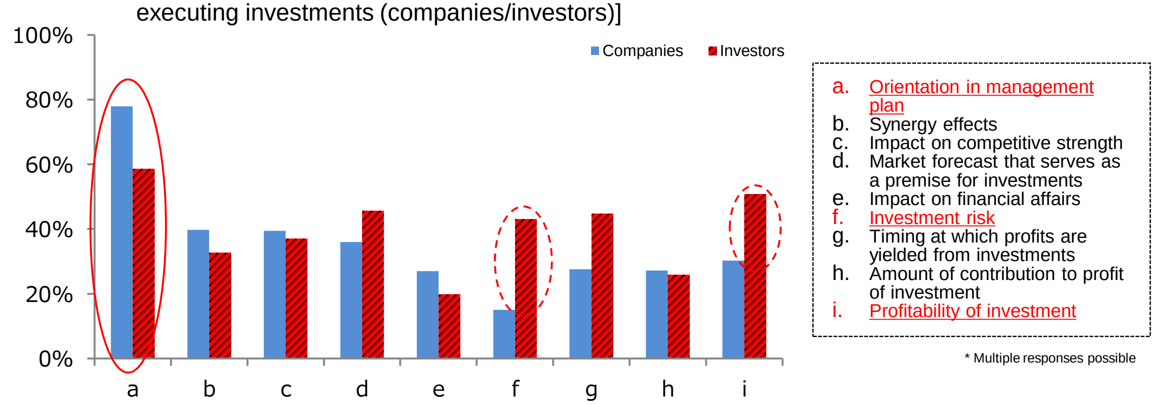
[Graph 26: What is desirable as application of companies' cash reserves (investors)]



[Graph 27: Explanations at time of execution of investments by companies (investors)]



[Graph 28: Contents that are emphasized as explanations for investors when executing investments (companies/investors)]

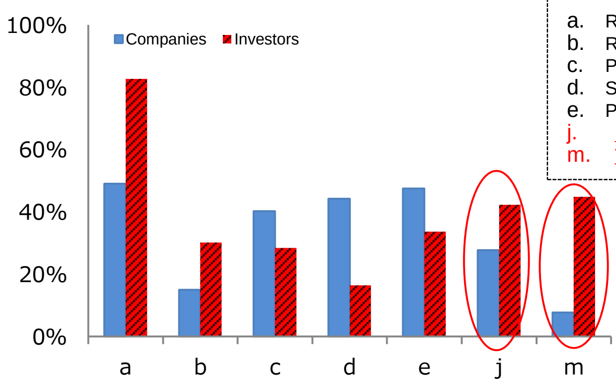


Association's request: (For companies ⑦) Use of cash reserves for growth investments

Part 1: Chapter 3 (3) Shareholder Returns (Main Text P30 to 36)

- Investors emphasize shareholder return indices as performance indicators [Graph 29]. For dividend payout ratios that are desirable in the medium- to long-term, "30% to less than 40%" was most common among investors [Graph 30], but they are also aware that there are many companies that cannot fulfill shareholder returns/dividend levels under the current conditions [Graph 31].
- Both companies and investors emphasize "Level of total shareholder return/dividend payout ratio" when thinking about suitability of shareholder returns [Graph 32]. However, while companies strongly emphasize "Stability of shareholder returns/dividends," investors expect companies to explain policies on shareholder returns considering the state in which a company is placed from various perspectives, such as "Whether there is investment opportunity," and seek explanations of policies on shareholder returns. Among companies that have a dividend payout ratio lower than 30%, many have no particular financing needs and possess abundant internal reserves [Graph 33], approaches toward enhancing dividends by targeting a constant dividend payout ratio of more than 30%, which investors see as a rough target, are desired.

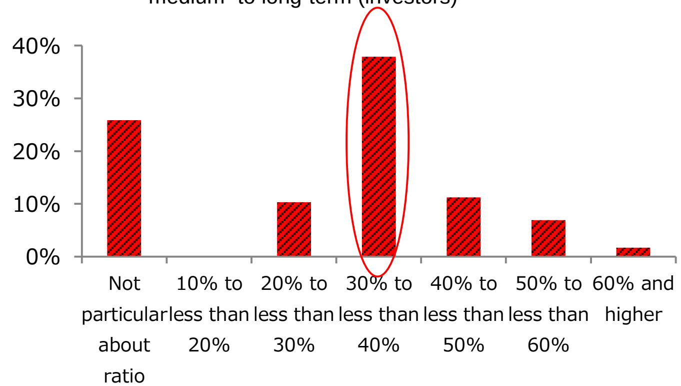
[Graph 29] Indices that are disclosed as medium-term management plans (companies) / should be emphasized as management goals (investors)]



a. ROE (return on equity)
b. ROA (return on assets)
c. Profit margin on sales
d. Sales / sales growth rate
e. Profits / profit growth rate
j. Dividend payout ratio
m. Total shareholder return

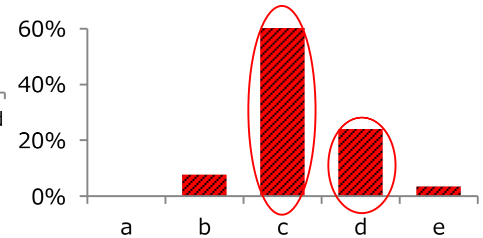
* Multiple responses possible

[Graph 30: Dividend payout ratios desirable in the medium- to long-term (investors)

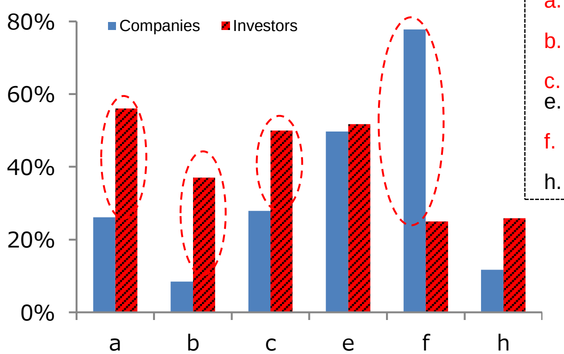


[Graph 31: Level of fulfillment with regard to share-holder returns/dividend levels (investors)]

a. Level that can be fulfilled by nearly all companies (80% or more)
b. Level that can be fulfilled by many companies (60% to 80%)
c. Level that can be fulfilled by approximately half of companies (40% to 60%)
d. Cannot be fulfilled by many companies (20% to 40%)
e. Cannot be fulfilled by most companies (less than 20%)



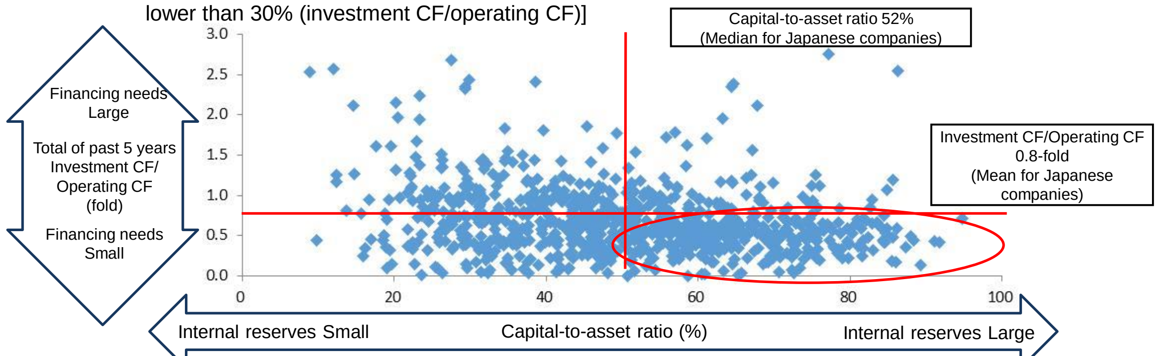
[Graph 32: Perspective of explaining suitability of (companies) / perspective of evaluating (investors) shareholder returns]



a. Whether there is investment opportunity
b. Whether there are surplus funds
c. Business growth stage
e. Level of total shareholder return/dividend payout ratio
f. Stability of shareholder returns/dividends
h. ROE level

* Multiple responses possible

[Graph 33: Capital-to-asset ratio and financing needs of companies with dividend payout ratios lower than 30% (investment CF/operating CF)]



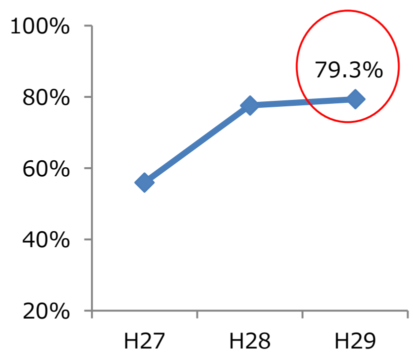
Source) Surveyed by The Life Insurance Association of Japan
TOPIX constituent companies (excludes loss-making corporations, financial companies), median value for capital-to-asset ratio and mean for investment CF/operating CF include companies with dividend payout ratios of 30% or more
Excludes companies with positive investment CF or negative operating CF as a 5-year total; investment CF/operating CF is displayed as an absolute value

Association's request: (For companies ⑧) Dividend payout ratios of 30% of more, as a constant standard for the medium- to long-term

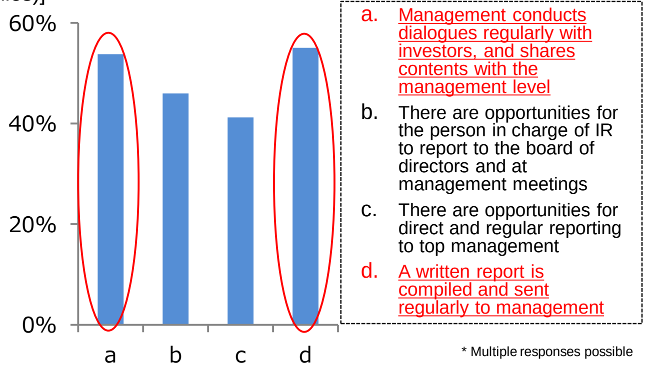
Part 2: Chapter 1 (1) "Constructive Dialogues" (Main Text P37 to 42)

- Incorporating external perspectives into management is linked to disciplined management, and the Life Insurance Association of Japan has requested companies to share the contents of dialogues held with shareholders to the board of directors, and to utilize advice and suggestions from investors in management. Many companies have responded that they are sharing the contents of dialogues with the management level through various methods, such as holding dialogues between investors and management, and sending reports to management [Graph 34] [Graph 35]. However, investors feel that "Contents of dialogues do not reach management level" [Graph 36], and a gap in the awareness between investors and companies is apparent.
- The average number of times that dialogues are held with management every year, including top management, is approximately 60 [Graph 37]. However, there is variation in approaches by various companies, as almost 50% of companies hold dialogues with management in the single-digit range [Graph 38]. Taking investors' problem awareness of "Top management does not contribute to dialogues" into consideration [Graph 36], there are expectations for top management to take the initiative to carry out dialogues and information communication in a form where they themselves participate. <u>It is desired for management, including top management, to participate actively in dialogue activities and to execute and explain approaches oriented toward enhancing corporate value by taking shared dialogue contents into consideration</u>.

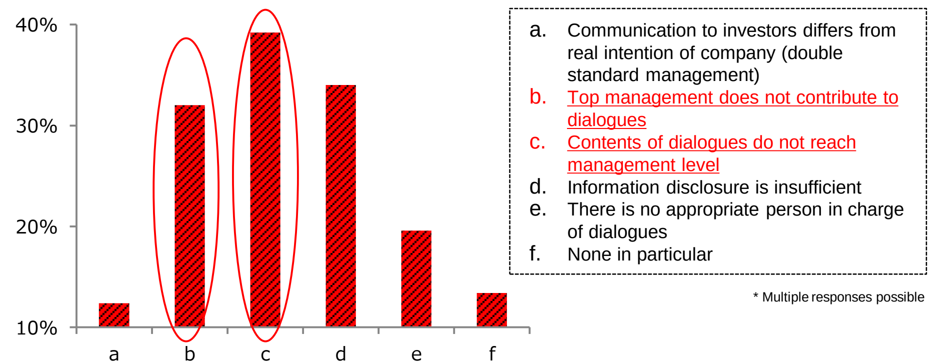
[Graph 34: Percentage of companies that have a mechanism for sharing the contents of dialogues with management (companies)]



[Graph 35: Mechanism for sharing the contents of dialogues (companies)]



[Graph 36: Issues that are sensed of companies when implementing dialogues (investors)]

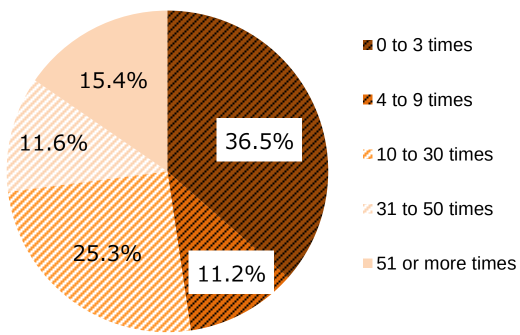


[Graph 37: Average number of times that dialogues are implemented (companies)]

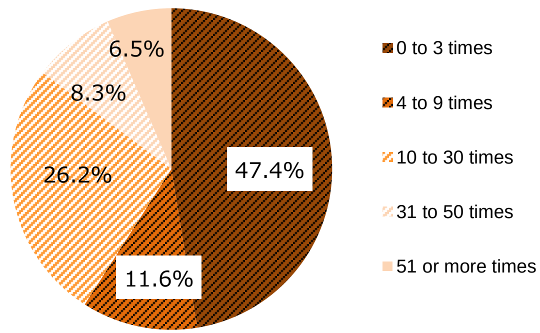
(times)

	Top management (president, chairman)	Board of directors/ executives excluding top management	External board members	IR representatives
① Explanatory meetings	2.6	2.3	0.0	2.5
② Small meetings	2.0	3.9	0.1	5.5
③ Individual dialogues	14.1	35.0	0.6	132.0
Total	18.6	41.2	0.8	140.0

[Graph 38: Number of times dialogues are implemented with management, including top management (companies)]



[Graph 39: Number of times dialogues are implemented with top management (companies)]

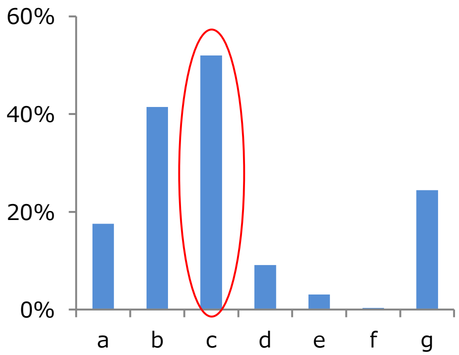


Association's request: (For companies ⑨) Sharing of contents of dialogues and active participation in dialogues by management

Part 2: Chapter 1 (1) "Constructive Dialogues" (Main Text P37 to 42)

- When conducting dialogues, companies perceive investors' "Implementation of dialogues based only on short-term themes" as an issue [Graph 40]. Companies also consider "Enhancement of discussions from the perspective of the medium- to long-term, such as management strategies" as an advantage of dialogues [Graph 41]. For investors, there are expectations for dialogues from a high vantage point such as the kind that rouses companies' will to incorporate investors' perspectives into management, rather than dialogues from the short-term perspective, and thus, <u>promotion of dialogues from the medium- to long-term perspectives is desirable.</u>
- The number of people involved in dialogues consists mainly of "2 to 3 people" at companies and "11 or more people" among investors [Graph 42]. In enhancing dialogues, both companies and investors perceived "Lack of resources devoted to dialogues" as an issue [Graph 43] [Graph 44]. As proper human resources are necessary in further promoting dialogues, <u>expansion of personnel necessary for dialogues is desirable</u> for both companies and investors.

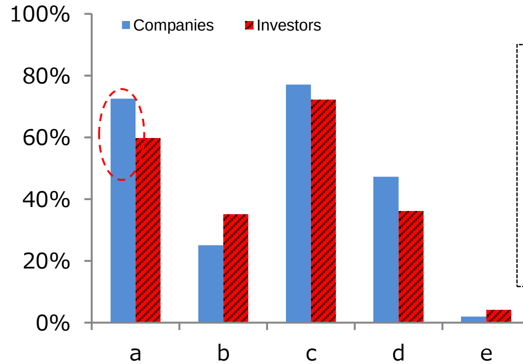
[Graph 40: Investors' issues in conducting dialogues (companies)]



a. One-sided proposals and requests to companies
b. Analysis and understanding of the company is shallow
c. <u>Implementation of dialogues based only on short-term themes</u>
d. Too many superficial dialogues to generate performance results
e. Proposals that seem to neglect other stakeholders
f. Does not respond to dialogues
g. None in particular

* Multiple responses possible

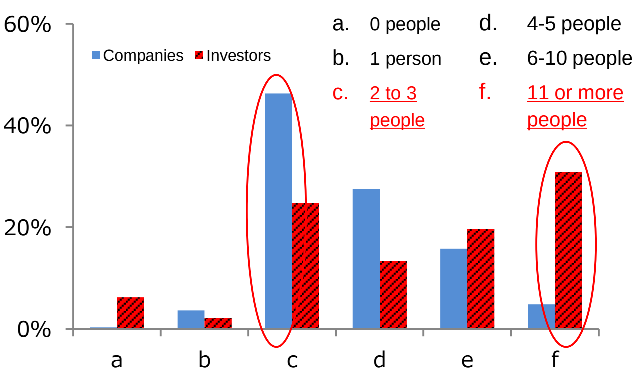
[Graph 41: What is sensed as working well in dialogues (companies / investors)]



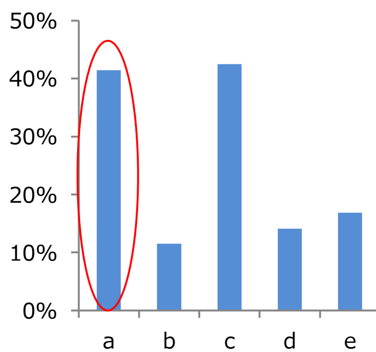
a. <u>Enhancement of discussions from the perspective of the medium- to long-term, such as management strategies</u>
b. Enhancement of discussions related to non-financial information such as ESG
c. Deepened understanding of other party's way of thinking, linked to mutual understanding
d. Able to obtain realizations that can be applied to management (companies only)
e. As a result of dialogues, changes and improvements in the company were seen (investors only)

* Multiple responses possible

[Graph 42: Personnel involved in dialogues (companies/investors)]



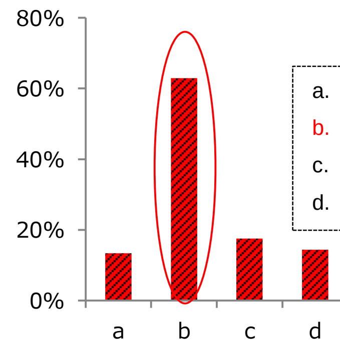
[Graph 43: Own issues in enhancing dialogues (companies)]



a. <u>Lack of resources devoted to dialogues</u>
b. Contact is difficult with investors
c. Information that can be disclosed is limited
d. Lack of skills for conducting dialogues
e. None in particular

* Multiple responses possible

[Graph 44: Own issues in enhancing dialogues (investors)]



a. Contact is difficult with companies
b. <u>Lack of resources devoted to dialogues</u>
c. Lack of skills for conducting dialogues
d. None in particular

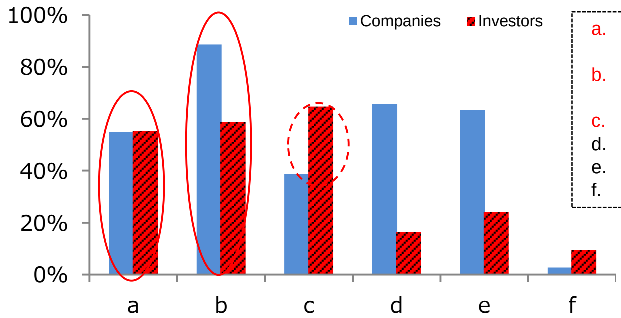
* Multiple responses possible

Association's requests: (For investors ①) Promotion of dialogues from the medium- to long-term perspective
(For companies ⑩, investors ②) Expansion of personnel necessary for dialogues

Part 2: Chapter 1 (2) Voting (Main Text P42 to 47)

- In order to enhance voting, investors seek "Enhancement of explanations of proposals" [Graph 45]. In relation to proposals that had faced many oppositions over the past years, there are expectations for companies to analyze the reasons behind opposition, and to indicate their way of thinking in dialogues and convocation notices [Graph 46]. From the perspective of further deepening mutual understanding between companies' and investors' ways of thinking, <u>it is desirable to enhance explanations of proposal contents by also analyzing the reasons behind oppositions from investors</u>. In addition, in comprehending the states of companies and making decisions on pros and cons, it is important for sufficient examination time to be secured. There are many investors who expect early dispatch/disclosure of convocation notices and avoidance of holding shareholder meetings on days where many companies hold shareholder meetings [Graph 45], and <u>it is desirable for various efforts to be devoted to environmental improvement so that time for reviews can be secured</u>.
- As issues by investors, being influenced by judgments of voting advisors and not knowing the reasons for decision of approval or disapproval have been raised by companies [Graph 47]. Of investors, companies also expect "Voting based on the conditions of individual companies" the most, followed by "Disclosure of voting standards" and "Explanation of reasons behind pros on cons for voting for own company" [Graph 48]. In addition to <u>making judgments on pros and cons from one's own knowledge based on the conditions of a company</u>, there are <u>expectations</u> for investors to <u>make approaches toward increasing the transparency of the voting process</u>, such as by explaining voting standards and the concepts behind them, as well as judgment reasons related to concrete proposals in an easily understandable manner.

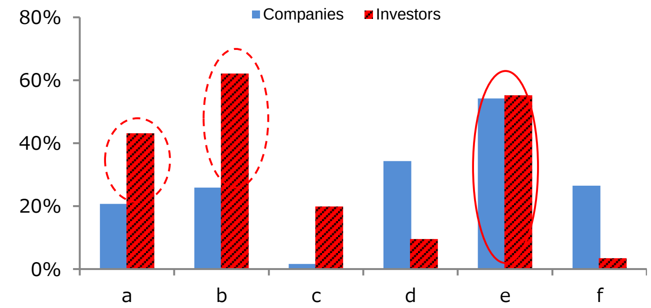
[Graph 45: Approaches to enhance shareholder voting (companies) / anticipated approaches (investors)]



a. Shareholder meetings not on days where many companies hold shareholder meetings
b. Early dispatch of convocation notices (early disclosure)
c. Enhancement of explanations of proposals
d. Voting on the Internet
e. Participation in electronic voting platforms
f. Early disclosure of securities reports

* Multiple responses possible

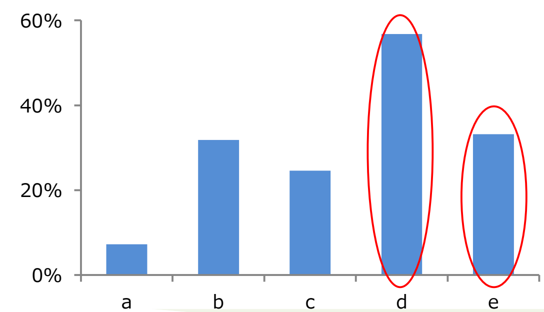
[Graph 46: Approaches for proposals that received much opposition in past years (companies) / anticipated approaches (investors)]



a. Enhancement of explanations in convocation notices
b. Dialogues with investors
c. Correction/dismissal of proposals
d. Analysis of opposing shareholders
e. Analysis of reasons for opposition
f. No special approaches

* Multiple responses possible

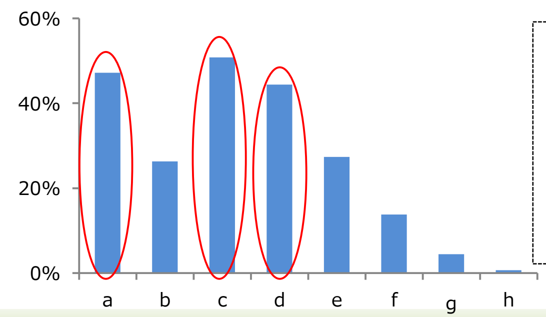
[Graph 47: Issues in voting by investors (companies)]



a. There are many investors who do not exercise their right to vote
b. Do not know who substantial shareholders are
c. Insufficient dialogues with investors regarding proposal contents, etc.
d. Easily influenced by judgments of voting advisors
e. Do not know reasons for decision of approval or disapproval of shareholders regarding proposals

* Up to 3 responses possible

[Graph 48: Future expectations for investors in relation to their exercise of voting rights (companies)]



a. Enhancement of disclosure of voting standards
b. Enhancement of dialogues related to voting
c. Implementation of voting based on the conditions of individual companies through dialogues, etc.
d. Explanation of reasons behind pros and cons of voting for own company
e. Enhancement of disclosure of voting results
f. Appropriate use of proxy advisory firms
g. Electronic voting
h. Strengthening of management of conflicts of interest

* Up to 3 responses possible

Association's requests:

(For companies ⑪)	Enhancement of explanations on proposal contents based also on analyses, such as of objections from investors in relation to proposals from past FYs
(For companies ⑫)	Improvement of processes for securing a period for examination of proposal contents for investors
(For investors ③)	Judgment on pros and cons of proposals based on the conditions of a company, and increased transparency of the voting process

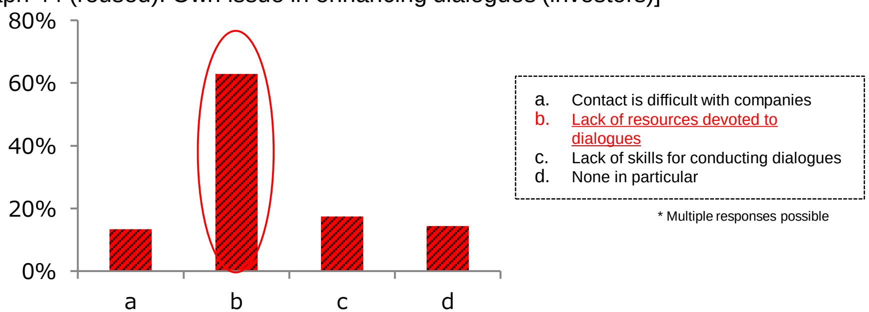
Special Feature: Stewardship Activities of Life Insurance Companies (Main Text P48 to 53)

- Based on the revision of the Japanese version of the Stewardship Code in May 2017, the Association's "Working Group for Enhancing Corporate Value" (hereinafter "WG") has been carrying out research activities related to stewardship activities in order to further increase the effectiveness of stewardship activities. As research activities, reviews were mainly conducted on the sharing of approaches by various companies participating in the WG, along with new approaches (collective engagement), and exchanges of information were also implemented with institutional investors and issuing companies that are not life insurance companies.
  - ✓ [Sharing of approaches] In enhancing dialogues, there are many investors who think that "Lack of resources devoted to dialogues" is an issue [Graph 44]. For companies participating in the WG as institutional investors, it is necessary to conduct more effective stewardship activities with limited personnel, even when sequentially enhancing dialogue personnel in accordance with the scale of equity investments, investment policies, etc. Using confirmed successful examples [Graph 49] as a reference, it is ideal to link these examples to further improving the effectiveness of the stewardship activities of each company in the future.
  - ✓ [Collective engagement] Upon reviewing methods for approaching more companies effectively in order to realize the Association's requests, it was found that it is necessary for participants to share their problem awareness with each other regarding items, standards, etc. desired of portfolio companies, and implement collective engagement for companies by sending letters to companies, rather than conducting dialogues in interviews where it is only possible to approach a limited number of companies [Graph 50]. Themes consist of governance, information disclosure, and shareholder returns, which can be extracted from target companies through public information, and legal issues related to practice are also being organized. Information disclosure is considered as having particularly high affinity in terms of collective engagement by many investors, as it is easy to share problem awareness from the perspective of developing an investment environment. In the future, it is ideal to continue discussing how to make more effective approaches, and to examine approaches toward collective engagement in accordance with the ideas of each company, based on the results of this reviews.

[Graph 49: Examples of effective approaches toward stewardship activities by various companies participating in the WG]

Personnel/structure	✓ Effective use of the knowledge of stock analysis and full-time persons in charge of dialogues through pair activities ✓ Systematic fostering of dialogue personnel through dispatching trainees, etc. to management companies, etc.
Dialogues Voting	✓ Selection of parties to target for dialogues by taking into consideration both importance in terms of portfolios and and importance from the perspective of portfolio companies ✓ Implementation of dialogue activities with narrowed-down themes, such as by establishing "approaches that prioritize dialogues" ✓ Reflection on dialogues by specifying effect verification items and conducting regular confirmations ✓ Improvement of dialogue contents based on the results of questionnaires for companies after dialogues ✓ Improved foreseeability of voting through detailed disclosure of voting standards and disclosure of points/examples regarding judgment of pros and cons

[Graph 44 (reused): Own issue in enhancing dialogues (investors)]



[Graph 50: Overview of collective engagement by companies participating in the WG]

Purpose	➢ As further effective approaches oriented toward realizing the Association's requests, corporate value will be enhanced by having all of the life insurance companies participating in the WG (10 companies) cooperate in conveying problem awareness to companies and encouraging the companies to adopt approaches.
Methods/Target companies	➢ Among the companies listed with the first section of the Tokyo Stock Exchange, letters are sent to companies (companies to which any of the standards for each theme below apply, total of approximately 100 companies) that have not been able to realize the Association's requests as based on the results of questionnaires, etc.

Theme	Overview of standards
Governance	Companies that have not appointed external board members, and where governance is considered as being insufficient
Information disclosure	Companies that are considered as having insufficient disclosure of medium-term management plans and non-financial information related to the environment (E), society (S), etc.
Shareholder returns	Companies that are considered as having insufficient investments, regardless of having a long-term dividend payout ratio of less than 30%, sound composition of finances, and abundant cash flow (conditions differ depending on industry sector, etc.)