

PRESS RELEASE

17 MARCH 2023

NIKKO ASSET MANAGEMENT CO., LTD.

Revisions to Nikko AM's Standards for Exercising Voting Rights on Japanese Stocks

Nikko Asset Management Co., Ltd. (Nikko AM) is pleased to announce that we will revise our Standards for Exercising Voting Rights on Japanese Stocks, and apply the revised standards beginning with the general meetings of shareholders held in or after April 2023.

Nikko AM makes voting decisions in accordance with the firm's Guidelines on Exercising Voting Rights and Standards for Exercising Voting Rights on Japanese Stocks. The guidelines and standards are complementary. The Standards for Exercising Voting Rights on Japanese Stocks set specific standards to enable Nikko AM to exercise voting rights in line with its Guidelines on Exercising Voting Rights. An overview of these revisions is as follows.

Overview of revisions

We will make the below main revisions to our Standards for Exercising Voting Rights on Japanese Stocks, and apply the revised standards from April 2023.

1. Shareholder returns criteria
2. Performance standards
3. Independence of outside directors
4. Cross-shareholdings
5. Sustainability criteria

1. Shareholder returns criteria

In principle, we will vote against resolutions for reappointing directors in any of the following cases:

- 1) A total shareholder return ratio below 30% and a return on equity (ROE) under 8% for the past three fiscal years
- 2) If a company is cash-rich and its total shareholder return ratio was below 40% and ROE was under 8% for the past three fiscal years (a cash-rich company has a net cash to total assets ratio of at least 30% and an equity ratio of at least 50%)
- 3) If a company has posted net losses for three straight fiscal years and pays dividends

Background to revisions

We will deploy return on equity as a returns criterion, setting the ROE threshold at 8% and encouraging companies with figures exceeding that level to grow by funding investments with retained earnings rather than returning profits to shareholders. Companies with ROEs below that threshold should pay higher returns than before, depending on their financial positions. We will change from "adverse impacts on financial soundness" to "paying dividends during three consecutive years of losses" to clarify our criteria.

2. Performance standards

If a company's ROE was under 5% for the past three fiscal years and is in the bottom 50% of its sector (one of the Tokyo Stock Exchange's 17 sectors), we will vote against reappointing directors for the relevant terms.

Background to revisions

We set our minimum ROE requirement for companies in our portfolio at 5%. We recognize that ROEs are chronically low in some industries. We will accordingly vote against reappointing directors only if a company's ROE is in the bottom 50% of its sector.

3. Independence of outside directors

We will vote against a resolution to appoint an outside director who has not been or will not be registered with a financial instruments exchange as an independent director. We will continue to apply other requirements that we independently stipulate.

Background to revisions

To represent the common interests of shareholders, we expect outside directors to oversee managements from objective perspectives, independently of those who execute operations. They should also oversee conflicts of interest between managements or controlling and minority shareholders. We simultaneously consider it important to ensure diversity of abilities, experiences, and values among directors and to make boards of directors more effective. We accordingly consider the balance between independence and effectiveness among outside directors, and employ independent director notification forms.

4. Cross-shareholdings

If cross-shareholdings account for 20% or more of net assets (although we would factor in quantitative reduction targets and progress with those efforts), we will, in principle, vote against resolutions for appointing director who is top management.

Background to revisions

Reducing cross-shareholdings is a longstanding issue. Given those corporate efforts have lagged in this respect, we are deploying a new quantitative criterion to encourage managements to lower these shareholdings.

5. Sustainability standards

We will augment criteria we established during a previous revision with specific assessment items. In principle, we will vote against resolutions to appoint a director who is top management if deeming that the actions of companies with quite high greenhouse gas emissions are inadequate in three respects. The first is establishing medium- and long-term emission reduction targets in keeping with the Paris Agreement. The second is formulating and deploying roadmaps. The third is disclosing information in line with Task Force on Climate-Related Financial Disclosures (TCFD) recommendations.

Background to revisions

We will clarify criteria by adding specific assessment items. We are currently conducting evaluations in line with the TCFD framework, basing decisions on these evaluations. In 2021, we joined the Net Zero Asset Managers initiative. That global asset manager endeavour seeks to virtually eliminate greenhouse gas emissions by 2050. We are committed to leveraging suitable methodologies and knowledge to track progress with corporate climate change efforts. We look forward to ongoing corporate action on key issues, including those relating to climate change.

Additional information: Refer to our website for more detail. (<https://en.nikkoam.com/voting-rights#votingrights2>)

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About Nikko Asset Management

With US\$203.9 billion* under management, Nikko Asset Management is one of Asia's largest asset managers, providing high-conviction, active fund management across a range of equity, fixed income, multi-asset and alternative strategies. In addition, its complementary range of passive strategies covers more than 20 indices and includes some of Asia's leading exchange-traded funds (ETFs).

Headquartered in Asia since 1959, Nikko Asset Management and its subsidiaries employ personnel representing around 30 nationalities, including approximately 200 investment professionals**. The firm has a presence through subsidiaries or affiliates in a total of 11 countries and regions. More than 400 banks, brokers, financial advisors and life insurance companies around the world distribute the firm's products.

The investment teams benefit from a unique global perspective complemented by the firm's historic Asian DNA, striving to deliver consistent excellence in performance. The firm also prides itself on its progressive, solution-driven approach, which has led to many innovative funds launched for its clients.

For more information about Nikko Asset Management and to access its investment insights, please visit the firm's [homepage](#).

* Consolidated assets under management and sub-advisory of Nikko Asset Management and its subsidiaries as of 31 December 2022.

** Including employees of Nikko Asset Management and its subsidiaries as of 31 December 2022.

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