nikko am
Nikko Asset Management

PRESS RELEASE
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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.

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.

Overview of revisions

We will make the below main revisions to our Standards for Exercising Voting Rights on Japanese Stocks. The following items 1 to 5 will apply to the revised standards from April 2025. However, we will apply items 6 and 7 from April 2026 onwards, taking into account the need for sufficient time to respond.

1. Shareholder returns: raising ROE (Return on Equity) standards for the appropriation of surplus funds
2. Appointment of directors: raising ROE standards for the appropriation of surplus funds
3. Appointment of directors: newly added "Establishment of a climate change governance system" as a sustainability criterion
4. Appointment of directors: specify relief measures regarding the criteria for shares held for policy purposes
5. Takeover defenses: specify the policy for the use of takeover defenses in emergencies

(The above five items will be applied from April 2025 onwards)

6. Appointment of directors: raising the female director requirements for TOPIX 500 companies
7. Appointment of directors: increasing the ROE rate and introducing PBR (Price to Book Ratio) criteria

(The above two items will be applied from April 2026 onwards. If we revise other criteria during the FY2025 fiscal year, these revisions may also be applied from April 2026 onwards).

<u>Applicable from April 2025 onwards</u>

1. **Shareholder returns: raising ROE (Return on Equity) standards for the appropriation of surplus funds**
   I. We vote against director reappointments if the firm's shareholder distribution ratio is less than 30%, excluding cases where the firm's ROE has been 10% or more in any of the past three fiscal years. (Previously, this applied when the shareholder distribution ratio was less than 30% and ROE was less than 8% for the past three fiscal years.)
   II. We would vote against director reappointments if the firm is cash rich and its shareholder distribution ratio is less than 50%, excluding cases where the firm's ROE has been 10% or more in any of the past three fiscal

years. (Previously, this applied when the shareholder distribution ratio was less than 40% with an ROE of less than 8% for the past three fiscal years.) However, if the company has clearly explained the use of its cash, such as in its investment plan, we will consider it positively.

Background to revisions

I. In the past, if a company was achieving an ROE of 8%, it was not subject to our shareholder return criteria. While this basic approach remains unchanged, as the expected ROE level increases, we have judged that achieving a higher ROE level is necessary in order to allow cases where the total shareholder return ratio is below 30%.

II. We have decided to raise the standard total shareholder distribution ratio because we believe that if a company holds excessive cash and deposits, the risk of a decline in corporate value, such as a reduction in the cash value, will increase during an inflationary phase. The reason for raising the ROE level is the same as above.

2. Appointment of directors: raising ROE standards for the appropriation of surplus funds

To vote in favour of reappointing directors, we will raise the criteria regarding the appropriation of surplus funds to the level of 1-I. above.

Background to revisions

Please refer to 1-I. above.

3. Appointment of directors: newly added "Establishment of a climate change governance system" as a sustainability criterion

In the case of companies with relatively high greenhouse gas emissions, if it is judged that the initiatives for addressing climate change shown in the criteria below are insufficient, we shall vote against director reappointments. We will add 'establishment of a climate change governance system' to these criteria.

i) the development of climate change governance capabilities (newly added)
ii) the establishment of medium and long-term emissions reduction targets in line with the Paris Agreement
iii) the formulation and execution of a roadmap for realising the above targets
iv) information disclosure regarding sustainability/climate change action including the above items

Background to revisions

We have been calling for the setting of medium and long-term greenhouse gas emission reduction targets that are consistent with the Paris Agreement, as well as the formulation and implementation of roadmaps for achieving those targets. In light of the growing importance of not only emission reduction plans but also the ability to implement them, we have added a criterion for the development of a system to ensure effectiveness.

4. Appointment of directors: specify relief measures regarding the criteria for shares held for policy purposes

Previously, if the firm has cross-shareholdings totalling 20% or more of its net assets (after taking into account quantitative reduction targets and the status of initiatives, etc.), we shall vote against director appointments; however, consideration shall be given to cases where the firm has disclosed a plan to reduce cross-shareholdings to below 20% as a criterion for relief measures. We plan to consider stricter criteria within the next few years.

Background to revisions

In order to accelerate the reduction of cross-shareholdings and resolve issues such as improving return on assets and the hollowing out of voting rights, we have decided to call for the disclosure of specific targets.

5. **Takeover defenses: specify the policy for the use of takeover defenses in emergencies**

Our policy of voting against pre-emptive takeover defence measures in principle remains unchanged, but voting decisions regarding takeover defenses for use in emergencies shall be made individually.

Background to revisions

We vote against to advance warning-type takeover defense measures in principle, as they may be used to discourage potential acquirers or to protect management. However, in light of the increasing number of cases of emergency takeover defense measures being introduced, we have decided to make this clear.

Applicable from April 2026 onwards

6. **Appointment of directors: raising the female director ratio requirements for TOPIX 500 companies**

We already have criteria to vote against director appointments of companies, regardless of market, if they did not have any female directors. From April 2026, we will vote against director appointments at TOPIX 500 companies if they have fewer than two female directors and if the ratio of female directors is below 15%.

Background to revisions

At Nikko AM, we believe that ensuring diversity on the board of directors is an important factor in improving the quality of decision-making. In light of government policies that call for increasing the ratio of female executives to at least 30% by 2030, we have been considering raising the requirements for the number of female board members, etc., in stages. Although there are some who believe that there are not enough female director candidates, we decided to make relatively large scale companies the first to be subject to the revised criteria, as we expect them to provide further support for women to play an active role. The reason for applying the criteria to general meetings of shareholders held after April 2026 is that we judged it necessary to ensure sufficient time, considering that it takes time for companies to recruit necessary human resources.

7. **Appointment of directors: increasing the ROE rate and introducing PBR (Price to Book Ratio) criteria**

We vote against the appointment of directors if the firm’s ROE has been less than 5% for the past three consecutive fiscal years and the firm has been in the bottom 50% of its sector (based on the Tokyo Stock Exchange’s 17 sector classifications) for ROE in the past three consecutive fiscal years. From April 2026; however, we will apply this to cases where ROE has been less than 8% for the past three consecutive fiscal years and the firm has been in the bottom 50% of its sector (based on the Tokyo Stock Exchange’s 17 sector classifications) for ROE in the past three consecutive fiscal years, but it shall not apply if the firm’s PBR exceeds 1.)

Background to revisions

Nikko AM expects the companies in which it invests to achieve a level of ROE that exceeds the cost of capital. In the past, we have encouraged companies to achieve ROE levels that exceed their cost of capital in our dialogues with them, but we have decided to raise the ROE standard to 8% in order to provide further support in our decision-making on the exercise of voting rights. If the PBR exceeds 1, we will assume that the ROE exceeds the cost of capital and vote in favour. The reason for applying this standard to general meetings of shareholders held after April 2026 is that we have judged that sufficient time is needed to make companies aware of this through engagement and other means.

Nikko AM actively engages in dialogue with investee companies to understand each company's approach and initiatives and reflect this when exercising voting rights. In line with this policy, we have established a contact address (Stewardship@nikkoam.com) for companies wishing to engage. For more information on the Standards for Exercising Voting Rights on Japanese Stocks, please visit the official Nikko AM website: https://en.nikkoam.com/voting-rights#votingrights.

Nikko AM is committed to fully adhering to its stewardship responsibilities, as part of efforts to maximise medium and long-term investment returns and protect the assets of its clients and beneficiaries, and in accordance with the firm’s fiduciary principles.

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About Nikko Asset Management

With US$246.1 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 12 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.

Effective 1 September 2025, we are changing our name

nikko am Nikko Asset Management » amova Asset Management

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 30 September 2024.

** Including employees of Nikko Asset Management and its subsidiaries as of 30 September 2024.

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