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# 1. Basic policies and approaches to exercise of voting rights

Asset Management One (hereafter as “AM-One”) has implemented the corporate message "creating a sustainable future through the power of investment" and made a clear commitment to being an asset management company that creates value to our clients and contribute to society through incorporating sustainability into our investment process and operations. We established a materiality map to capture key environmental and social issues facing global investors and the society, using two axes of "sustainable materiality" (which indicates the level civil society's and investors' interest) and "financial materiality" (which represents economic impact). We have identified nine core materiality themes (climate change, biodiversity, business and human rights, water resource, circular economy, diversity and inclusion, sustainable food system, air, water and soil pollution, health and well-being). Furthermore, considering the interdependencies between these core material issues, we also established three focus areas: climate change, biodiversity and environmental destruction, human rights and health & well-being. We therefore aim to incorporate the identified material issues, centred around the three focus areas, in our engagement activities and in exercising voting rights.

Through our stewardship activities, we actively engage with investee companies to encourage optimal allocation of capital and resources, with an aim to achieve sustainable value creation while providing solutions to societal issues. We regard exercise of voting rights on behalf of our clients as an essential part of our stewardship activities. In exercising our voting rights, we strive to ensure that management and boards are held accountable for achieving the long-term value creation of the company and for acting responsibly towards a sustainable development of society as well.

## **A. Environmental issues**

Climate change poses significant risks to today's society. Urgent actions are required in order to avoid catastrophic damages including more frequent natural disasters occurring globally. The profound effect of global warming on business activities is increasingly evident. A delay in efforts to tackle climate issues and to accelerate low-carbon transition would likely have a direct impact on businesses, resulting in corporate value destruction. On the other hand, we believe that companies with well-defined strategies and proactive initiatives to combat climate change are most likely to benefit and excel, from the perspectives of both risk management and enhanced business competitiveness. Given the interdependence between businesses and society, companies have the responsibility and should play a significant role towards achieving the 2050 Net Zero Emissions goal that requires collaborative efforts across the entire society.

## **B. Social issues**

In the transition to a sustainable society, it is essential to ensure that human rights are respected and well-beings are embraced. We believe that creating a productive work environment where all employees enjoy a real sense of wellbeing, including both physical health & psychological safety, as well as acquisition of new skills, will provide the source for sustainable value creation and innovation. Therefore, we are

seeking investee companies to pay further attention to and address related issues such as diversity & inclusion and decent work (meaningful and fulfilling work), human capital management including human rights issues in their supply chains.

### **C. Corporate governance issues**

Companies are required to put in place an effective corporate governance mechanism and process that would enable transparent, fair and timely decision-making, for the interests of shareholders and other stakeholders. By establishing robust governance practices, companies are expected to achieve a sustainable growth and value creation over the medium and long term. Therefore, while seeking investee companies to demonstrate and deliver strategic and operational performance for sustainable growth and value creation, we are expecting the boards of companies to play an effective role in overseeing the execution and holding management to account for performance.

## **2. Process and operations of exercising voting rights**

In exercising our voting rights, we have established detailed voting guidelines and criteria in accordance with the basic policies outlined above. We also review this voting guidelines and criteria as needed, to ensure effective and intelligent voting activities that is aligning with the long-term interests of shareholders and also reflecting changes of the economic and social environment.

### **A. System of exercising voting rights**

AM-One is committed to conduct voting activities in a fair and intelligent manner, following the basic policies and detailed guidelines & criteria set for each voting items. We pay a particular attention to the occurrence of legal & regulatory violations, scandals and other contentious or high-profile cases where a company has caused substantial value destruction, as well as taking into account our engagement progress when exercising voting rights. In such occasions, a thorough discussion will be carried out at the “Exercise of Voting Rights Sub-committee” before we make final voting decisions. Additionally, in managing conflicts of interest that relate to AM-One’s parent or group companies etc., all voting decisions are further examined and made at the Stewardship Committee, following an advice from the Proxy Voting Advisory Council of which the majority of members are independent outside directors. AM-One’s Stewardship Committee, chaired by the CIO of Asset Management One Co., Ltd in Tokyo and of which the Head of Risk Management Division is also a member, was established to oversee the implementation of stewardship activities (including voting and engagement activities) and the management of conflicts of interest.

In exercising our voting activities, particularly in managing the potential conflicts of interest that relate to our parent or group companies etc., AM-One have adopted robust policies and internal control measures for proxy voting matters in order to make fair judgements and protect client interests. Specifically, the Stewardship Committee mentioned above oversees the overall stewardship activities including

exercise of voting rights and management of conflicts of interest. Thorough discussions are conducted within the investment division, independently from the business planning and sales & marketing divisions. Meanwhile, the Audit and Supervisory Committee (which consists of a majority of independent outside directors) members also attend the Stewardship Committee meetings when required, to ensure that robust checks and balances are in place.

With regards to the most important items on proxy agendas that may involve potential or perceived conflicts within the parent or group companies, AM-One also utilises independent advice from a third-party proxy provider, based on our general voting policies and guidelines. Further to this, after seeking independent opinions of the Proxy Voting Advisory Council (which is comprised of a majority of independent outside directors), the Stewardship Committee will further discuss thoroughly before any voting decisions are made on such occasions. As part of the monitoring process, the results of voting decisions and actions are also being reported to the Board of the Asset Management One Co., and to the Board's Audit and Supervisory Committee.

## **B. Relationship with engagement and sustainable investment policies**

In exercising voting rights, we put an emphasis on the importance of taking voting actions based on constructive engagement dialogues with investee companies, than merely ticking the boxes on general guidelines. When we assess the related engagement progress to make voting decisions on critical resolutions, we will undertake thorough discussions at the Stewardship Committee or at the Exercise of Voting Rights Sub-committee before the final conclusion is made.

For issues that require careful considerations for individual company circumstances and cannot be applied with a universal criteria for all companies under the general voting guidelines, but meanwhile it may have a significant effect on the interests of shareholders over the medium to long term, we will seek dialogues with the relevant companies to voice concerns and encourage timely improvements.

In occasions where a company has failed to respond or take sufficient actions despite our engagement dialogues for a considerable period of time, resulting in a significant destruction (or potential destruction) of shareholder value, or in light of AM-One's Sustainable Investment Policy, a company has caused highly adverse effects on society with an increasing risk of corporate value destruction over the medium to long term, we will oppose election of directors of the board. This forms part of AM-One's escalated engagement steps in our stewardship activities aiming to send a stronger message and further seek accelerated efforts by the company.

Meanwhile, we also examine and take into consideration the degree of impact and effectiveness on the entire capital market, when we engage with investee companies.

## **C. Process of exercising voting rights**

We aim to make fair judgments on proposals, based on our voting guidelines and criteria set for each type of voting items. However, in regard to companies where there are substantial concerns over corporate governance or misconduct, including legal or regulatory violations, we will exercise extra caution in making voting decisions carefully, for the purpose of optimising shareholders' interest in the medium to long term. On such occasions, we usually conduct prior screening for a list of relevant companies and have also established a robust process to further examine

and thoroughly discuss those important voting items at the Stewardship Committee or at the Exercise of Voting Rights Sub-committee.

### 3. Guidelines for Exercising Voting Rights

In principle, we follow the general voting criteria outlined below when making our voting decisions in ex-Japan global markets, while taking into consideration the legal, regulatory factors and local customs in the respective market.

#### I. Routine resolutions of shareholder meetings

**A. Formulaic items:** we generally support the proposals at a shareholder meeting, which are subject to a routine approval such as:

- The convening of shareholder meeting
- Confirming proper operations of shareholder meeting
- Complying with the local laws in meeting operations
- Meeting the quorum requirement
- The meeting agenda
- Election of chair of the meeting
- Appointment of shareholders to co-sign the meeting minutes
- Submission of legal documents
- Nomination of inspectors or shareholder representatives to inspect the minutes of the meeting
- Nomination of two shareholder representatives to approve and sign the minutes of the meeting
- Permission to ask questions
- Publication of the minutes of the meeting
- Adjournment of the shareholders meeting
- Authorising the board of directors to approve and execute resolutions
- Preparing and approving the shareholder registry.

**B. Approval of financial statements, board reports and audit reports:** we generally support related proposals unless there are concerns about past behaviours of auditors or directors of the board.

**C. Income allocation and dividends:** we generally support related proposals unless the proposed amount is unusually low or high in a constant manner.

**D. Stock dividends instead of cash:** we generally support related proposals. However, we oppose such a proposal if it does not allow a cash option, unless the management has demonstrated that the cash option would be detrimental to shareholder value.

**E. Discharge of board directors and management:** in certain relevant markets where such a routine resolution is submitted for a shareholder vote, we generally vote for the discharge (ratification of the action) of board directors and management. However, we will oppose such a resolution if: (i) there are significant concerns over the actions taken by the board directors and management in question during the past

financial year, or (ii) a shareholder lawsuit has been filed.

In addition, we will vote against a proposal that seeks not to put for a shareholder vote at the AGM in these markets with regards to the discharge (ratification of the action) of board directors and managements.

## II. Board of directors

**A. Appointment of board of directors with no contesting candidates:** we generally support related proposals, by taking into consideration the following factors where the information is made available: (i) long-term performance of the company concerned compared with market index, (ii) composition of the board and key committees, (iii) corporate governance provisions and takeover activities, (iv) board decisions on executive remuneration, (v) remuneration of board directors, (vi) number of other board positions which the candidate holds, (vii) overlapping directorships between companies, (viii) attendance of directors in board and committee meetings, and (ix) responses to social and environmental issues.

**B. Separation of the chair and CEO role:** we generally support related shareholder proposals, unless an adequate level of the board oversight of management has been sufficiently demonstrated with a combined position.

**C. Independence of the board of directors:** we assess shareholder proposals that require a majority or two-thirds of board directors to be independent, from the perspectives of value creation and protection for shareholders. We generally support shareholder proposals requiring that the audit, remuneration and/or nomination committees consist solely of independent directors. In addition, with regards to the independence criteria, we expect the candidates to present no conflict of interest and are not from a subsidiary or affiliated company.

**D. Requirement for shareholdings:** we generally vote against shareholder proposals that require a minimum number of shareholdings in the company as a prerequisite for appointing or retaining a director of the board.

**E. Term/Tenure limits:** we intend to vote against proposals that request limiting the tenure of non-executive directors.

**F. Age limits:** we generally oppose the proposal of imposing an age limit for non-executive directors.

**G. Indemnification, liability protection and exculpation of directors and executives:** in principle, we assess the related proposals from the viewpoint of value creation and protection for shareholders. We oppose the following proposals: (i) to limit or exempt the liability of directors and executive officers for monetary damages as a result of violating the duty of care, (ii) to expand coverage beyond just legal expenses to liability for acts that are more serious violations of fiduciary obligation than mere carelessness.

We may support those proposals providing such expanded coverage in cases when a director's or executive officer's legal defence was unsuccessful, if both of the following cases apply: (i) if the individual was found to have acted in good faith and in a manner that the individual reasonably believed was in the best interests of the company; and (ii) if only the individual's legal expenses would be covered.

**H. The size of board:** with regards to proposals that seek to change the number of board directors or the maximum size of the board, we will make our voting decisions in principle from the perspective of value creation for shareholders. However, we intend to oppose a request for increasing or decreasing the board size by more than 50%.

**I. Majority voting:** we generally support shareholder resolutions to adopt a majority of votes cast standard for directors and/or cease to be elected by a US-styled voting system (including the binding shareholder resolutions that seek the board to change the company's bylaws), if their proposal is suitable. For example, it requests that directors need to be elected with a carve-out for plurality voting standard in contested elections, if the resolution nominated a number of director candidates exceeding the maximum size of the board. In addition, we also give sufficient consideration to whether the company has introduced a post-election policy (so-called a director resignation policy) that set out criteria or guidelines for the company to further address the situation of a director who had not received majority votes.

### III. Proxy contests

**A. Election of directors with contesting candidates:** we make our voting decisions case by case from the standpoint of value creation and protection for shareholders, considering the following factors: (i) long-term financial performance relative to its sector peers, (ii) track record of management, (iii) background to the proxy context, (iv) experience and skills of director candidates from both sides, (v) assessment of the proposed strategy of the incumbents versus the dissidents and the feasibility of their achievement, and (vi) stock ownership positions.

**B. Reimbursement of costs incurred by proxy contests:** we would vote case-by case on the related provisions requiring a full reimbursement of costs from the dissidents, based on a viewpoint of whether it is in the best interest of shareholders.

### IV. Auditor

**A. Approval of auditor appointment:** we generally support related proposals, except for the following circumstances: (i) an auditor has a financial interest in or is associated with the company and is therefore not independent, (ii) there is reason to believe that the independent auditor has rendered an inaccurate opinion on the company's financial position.

**B. Fees for audit services:** we generally support the related resolution of granting authority to the board to decide fees for auditors, unless there are evidence of excessive fees relative to the size and nature of the company's businesses.

**C. Limitation of auditor liability:** we generally oppose the related proposals.

### V. Defence schemes for proxy contests

**A. Board structure - a staggered board\* and annual election:** we oppose proposals to classify the board of directors by their term of office (i.e. to introduce staggered terms). We support the resolutions of abolishing the classified board

system and an annual election of all directors.

\* In case if the term of office of directors is for three years, one-third of the directors are to be elected each year (i.e. three classifications) by staggering the timing of elections, etc.

**B. Shareholders' rights to remove a director:** we intend to vote against the proposals that directors may be removed only for cause, but in favour of proposals to allow shareholders' rights to remove directors with or without cause.

We also oppose proposals that only continuing directors may elect replacements to fill vacancies at the board, but will vote for proposals to permit shareholders to elect directors to fill board vacancies.

**C. Cumulative voting system (concentration of voting rights to elect directors):** we generally vote against proposals to eliminate cumulative voting, and support proposals to allow for cumulative voting.

**D. Shareholders' rights to call extraordinary general meetings:** we vote against proposals to restrict or prohibit shareholder rights to call a general meeting, but support proposals to remove such restrictions on exercising shareholder rights independent of management.

**E. Shareholders' rights to act by written consent:** we generally oppose proposals that restrict or prohibit shareholders' ability to act by written consent, but support proposals that provide shareholders with the ability or make it easier to exercise that rights, taking into consideration the company's corporate governance structure and practice.

**F. Shareholders' rights to change board size:** we generally vote for proposals to fix the board size, but against proposals that give the company the authority to alter the board size without a shareholder approval.

## VI. Defence plans against takeover bids

**A. Poison pills:** we support shareholder proposals that require a shareholder vote for adopting poison pill. We make our voting decisions case-by-case on the following proposals based on whether they are in the interest of all shareholders: (i) the shareholder proposals requesting the company to remove poison pills, and (ii) the management proposals seeking an approval for introducing a poison pill.

**B. Fair price provisions:** we intend to support proposals to adopt fair price provisions, that include a requirement of putting the proposed acquisition for a shareholder vote and of the approval by a majority of disinterested shareholders. We also support shareholder proposals seeking to lower the required number of shareholder votes in favour by existing fair price provisions.

**C. Greenmail:** we generally support proposals to adopt anti-greenmail charter or bylaw amendments or restrict a company's ability to make greenmail payments. We make voting decisions case-by-case on anti-greenmail proposals when they are bundled with other charter or by-law amendments, based on whether they are in the best interest of shareholders.

**D. Unequal voting rights:** we vote against related proposals to exchange for multiple voting shares, or any recapitalisation proposals to adopt multiple share classes.

**E. Dual class shares:** we generally oppose proposals to create a new class of common shares with superior voting rights. We may support the proposals to create a new class of common shares with no or restricted voting rights if (i) the new class is intended for financing purposes with minimal or no dilution to existing shareholders, or (ii) the new class is not designed to preserve or increase the voting power of an insider or significant shareholder.

**F. Supermajority vote requirements to amend the bylaws or charter:** we generally vote against management proposals that require a supermajority vote for bylaws/charter amendments. Meanwhile, we support shareholder proposals to reduce the required level of shareholder approval for amendments to the bylaws or charter.

**G. Supermajority vote requirements to approve mergers:** we oppose the management proposals that seek a supermajority approval for mergers or other significant business combinations. Meanwhile, we intend to support related shareholder proposals to lower the level of shareholder votes from the supermajority requirement.

**H. Issue of shares to White Squire:** we support shareholder proposals requesting a shareholder approval when the company seeks to issue preference shares with unspecified terms and conditions for the purpose other than general business matters.

## VII. Corporate governance

**A. Article (bylaw/charter) amendments:** we make our voting decisions by considering whether the resolutions would be in the interests of shareholders. We support related proposals if (i) the shareholders' rights are protected, (ii) the impact on shareholder value is negligible or is favourable to shareholders, (iii) a compelling rationale is disclosed and presented by management for requesting amendments, or (iv) the company is legally required to amend the articles to apply the relevant laws.

**B. Additional business activities:** we make our voting decisions case-by case, taking into consideration whether the proposals would be in the shareholders' interest.

**C. Amend quorum requirements:** we vote case-by-case on proposals to reduce quorum requirements for shareholder meetings, by considering whether it is in the best interest of shareholders. We vote against proposals to reduce quorum requirements below a majority of the shares outstanding.

**D. Lower shareholding disclosure requirements:** we generally oppose proposals to reduce the disclosure requirement for shareholdings below 5%, unless the company provides a specified rationale.

## VIII. Other governance provisions

**A. Confidential voting:** we support management proposals for adopting confidential voting. In addition, we support shareholder proposals seeking for confidential voting by utilizing independent tallies or an independent election administrator, if the proposal includes the following provisions relating to proxy contests: this system is valid in a proxy contest where the opponent consented to the management request for following the confidential voting arrangement. In case if the opponent does not consent, confidential voting should be waived.

**B. Equal access rights:** we vote case-by-case on shareholder proposals to grant shareholders equal rights of access to the company materials in relation to shareholder meetings for the purpose of evaluating and recommending how to exercise votes. We would make voting decisions based on an assessment of whether the proposal is aligned with the best interests of shareholders, taking into account the following factors: (i) share ownership requirement, (ii) required holding period, (iii) whether a joint proposal is made possible, and (vi) the number of candidates that can be proposed.

**C. Bundled proposals:** we vote case-by-case on bundled proposals (a bundle of multiple proposals) or “conditional” proposals, considering whether it would be in the best interest of shareholders. If items are conditioned on each other, we will examine the benefits and costs of the overall packaged items. In cases where the joint effect of the package is not in the best interests of shareholders, we vote against the proposals. We only support such proposals if the combined effect is positive.

**D. Shareholder advisory committee:** we make our voting decisions on an individual basis with regards to proposals seeking to establish a shareholder advisory committee, based on an assessment of whether it is in the shareholders’ interest.

**E. Other matters:** we generally oppose proposals seeking a shareholder approval, where the detailed content of request is not made available in proxy forms.

**F. Adjournment of shareholder meetings:** we vote against proposals to adjourn shareholder meetings for the purpose of soliciting additional votes, if there is no a compelling rationale provided for shareholders to support the original\* proposal attached. In addition, we also oppose such proposals where the board failed to disclose sufficient reasons for the request.

\*Original proposals behind the postponement request refer to specific corporate actions, such as M&As, business transfers and etc. In many of the cases, convening an EGM is and a supermajority vote are required.

**G. Permission for shareholder proposals at shareholder meetings:** we are not able to support proposals seeking to allow submission of shareholder proposals at shareholder meetings.

## IX. Capital structure

**A. Authorisation of common stock:** we vote case-by-case on proposals to increase the number of authorized shares of common stock, considering whether it is in the interests of shareholders. We vote against proposals to increase the number of authorised shares to twice the current level, unless there is a specific and convincing rationale provided. However, we also take into account the company's financing needs, prior or ongoing use of authorized shares, the local laws, regulations and customs of respective markets, and the necessity presented by the company for such an increase of authorized shares, etc.

**B. Request for share issuance:** we vote case-by-case on proposals to issue new shares (up to 100% of the current share capital) with pre-emptive rights to existing shareholders, considering whether it is in the shareholders' interest. We take into account the individual company's circumstances as well as local market practices. To sufficiently support a company's financing needs in preparation for unforeseen events, as long as it is not excessive, we generally vote in favour of such requests.

We also vote on a case-by-case basis with regards to proposals seeking general issuance of new shares without pre-emptive rights, based on our assessment of whether it serves the interests of shareholders. We will support related proposals if the request is not excessive, taking into consideration the individual company's circumstances, local market practices and etc.

**C. Share repurchase plans:** we support management proposal to carry out share buybacks in the open market, where all shareholders can participate in the same terms and conditions.

**D. Stock split:** we generally support related proposals, provided that the management has presented convincing rationales for the request.

**E. Reverse stock split:** we make our voting decisions on the related proposals, by considering whether it serves the shareholders' interest. Where the management has provided a convincing rationale, we generally vote in favour of such proposals.

**F. Authorisation of preferred share issuance in blank proxy:** we vote against proposals to create blank check preferred shares (i.e. preferred shares without specified terms regarding voting rights, convertible conditions, dividends or other rights). We generally support proposals to create "declawed" blank check preferred shares that cannot be used for antitakeover purposes.

We also support proposals to authorise issuance of preferred shares, provided that the voting, conversion and other rights are well defined and that the presented terms are regarded as reasonable.

We oppose proposals seeking to increase the number of authorised blank check preferred shares, despite the authorised shares have not been issued or reserved for any specific purposes.

We will vote case-by-case on proposals to issue new blank check preferred shares by considering whether it is in the interests of shareholders, following a

comparison of the company's shareholder returns with industry peers and assessment on the number of allowable preferred shares.

**G. Shareholder proposals for blank preferred shares:** we generally support the shareholder proposals that the issuance of blank preferred shares should be subject to a shareholder approval, except for the purposes of a capital increase or acquisitions in the course of general business matters.

**H. Change in par value of common stock:** we generally support management proposals to lower the par value of common stock.

**I. Debt restructuring plans:** we vote on an individual basis regarding proposals to increase or issue common and/or preferred shares as part of a debt restructuring plan, after evaluating whether it is in the best interest of shareholders. We take into consideration the following factors: (i) dilution - to what extent there will likely be a dilution to existing shareholders' positions and to future income, (ii) change of control - if and how the debt restructuring will likely change key matters of control, (iii) insolvency - whether there is an insolvency risk which could cause significant shareholder value destruction, as a key result of the debt restructuring, (iv) terms of the offer - an assessment of the discount or premium in purchase price to investor, including fairness opinion, termination penalties and exit strategy, (v) financial issues - the company's financial situation, such as the degree of need for capital, use of proceeds, and the effect of the financing on its cost of capital, (vi) alternatives - whether the management has made efforts to consider and pursue other alternatives, (vii) conflict of interest - whether it represents fair deals and is an arm's length transaction and assessment of managerial incentives.

We generally vote for proposals seeking debt restructuring, unless there is a clear indication that the transactions are self-serving or abusive.

**J. Corporate bonds issuance:** when we evaluate a proposed corporate bonds issuance, we examine the details of the company's financial position at the time of its issuance. A main factor to be analysed is the company's gearing level (net debt ratio and debt equity ratio). A higher gearing will likely lead to a higher risk of downgrade in credit ratings and therefore may increase the investment risk. We regard a gearing level up to 100% as acceptable and will generally support the proposals for bond issuance. In cases when the gearing level exceeds 100% as a result of the bonds issuance, we will make voting decisions by considering whether it is in the best interests of shareholders. We also evaluate all proposals in comparison with the average industry and the country levels.

**K. Financing plans:** we generally support proposals for implementing financing plans, provided that it is in the optimal economic interests of shareholders.

**L. Control or other profit transfer agreements:** we generally vote in favour of proposals seeking for an approval for control or benefit transfer agreements between the parent companies and subsidiaries.

**M. Capitalisation of reserved shares:** we support proposals to capitalise reserved shares for stock options or for an increase in the par value of shares.

**N. Dual-class capital structure:** we vote against proposals to create or extend a new class of common stock.

**O. Use of authorised share issuance for anti-takeover purposes:** we vote against any resolution to issue shares in the events of receiving takeover proposals or a takeover offer of share exchange.

**P. Capital reduction:** we vote for proposals to reduce capital for routine accounting purposes, provided that it would not be detrimental to shareholders. In case if the proposed capital reduction is relating to corporate restructuring, we will make our voting decisions on an individual basis from the perspective whether it is in the interest of shareholders.

**Q. Asset backed collaterals:** we generally vote for proposals to pledge assets as a collateral for debt, provided that it is routine or general proposals.

**R. Reissuance of repurchased shares:** we support proposals that seek to reissue the shares repurchased, as long as there has been no track record of a clear abusive use.

**S. Expansion of borrowing capacity:** we vote case-by-case on proposals to seek a shareholder approval for expanding the company's borrowing capacity, considering whether each individual case would be in the shareholders' best interest.

**T. Ratification for conversion between tracking and common stock:** we vote case-by-case on proposals to convert between securities, evaluating whether it would be in the interest of shareholders.

We generally vote for such proposals if it is expected that the company will be subject to onerous penalties or will be forced to file for bankruptcy if the transaction is not approved.

**U. Reduction of authorised capital:** we generally support proposals seeking for a reduction in authorised capital.

## X. Remuneration of executives and directors

**A. Stock option plans:** we vote on stock option plans for executives and board directors by evaluating whether it is aligned with the interest of shareholders. We take into consideration the following factors: (i) the company's growth stage and potential dilutions, (ii) the degree of link between performance and compensation, (iii) mechanisms to prevent from excessive pay with poor performance, (iv) disclosures of remuneration, and (v) whether there are problematic remuneration schemes in place.

### **B. Remuneration proposals related to OBRA (Omnibus Budget Reconciliation Act):**

**(i) Amendments to annual compensation cap or administrative provisions:** we support amendments to any shareholder-approved plans to include administrative provisions pursuant to the OBRA Section 162(m) or other amendments that seek to cap annual compensation for each individual.

**(ii) Amendments to add targets for performance criteria:** we support proposed amendments to include performance targets to the existing remuneration schemes pursuant to the OBRA Section 162(m).

**(iii) Amendments to increase share grants to obtain tax deduction:** we vote case-by case on proposed amendments to increase share grants as part of the executive remuneration plans, in order to obtain tax deduction benefits pursuant to the OBRA Section 162(m), by considering whether the proposal would be in the interest of shareholders.

**(iv) Approval of cash bonus or cash & share bonus plans:** we support cash bonus plans or cash plus share bonus plans which are treated as tax deductible under the OBRA Section 162(m).

#### **C. Employee stock purchase plans:**

**(i) Qualified employee stock purchase plans:** we support proposals seeking a shareholder approval for adopting qualified employee stock purchase plans or increasing the number of authorised shares to allocate into an existing plan, as long as such plans (in the US) comply with Section 423 of the Internal Revenue Code. However, this excludes the cases where the number of shares allocated to the plan will exceed 10% of the outstanding shares.

**(ii) Non-qualified employee stock purchase plan:** we support proposed nonqualified employee stock purchase plans with the following features: broad-based participation, limits put on employee contribution, and no discount on the stock price on the date of purchase. Meanwhile, we vote against proposals if some of the plan features does not meet the above criteria.

**D. Shareholder proposals to restrict remuneration of executives and directors:** we support shareholder proposals seeking additional disclosures on remuneration of executives and directors, provided that the requested information is relevant to shareholders' needs of shareholders, does not disadvantage the company in comparison with peers and is not unduly burdensome.

We are unable to support shareholder proposals that seek to set out an absolute amount or to decide the amount and structure of remuneration. We also vote against shareholder proposals requesting directors' pay in shares only.

Meanwhile, we support shareholder proposals seeking for a shareholder vote on revision of option prices.

We vote case-by-case on other shareholder proposals relating to remuneration of executives and directors, based on our evaluation of whether the proposal would be in shareholders' best interest, by examining the proposal details and taking into account the performance of the company, the remuneration level in comparison with peers as well as within the industry where it operates, and the long-term prospects of the company.

**E. Golden parachutes\* and tin parachutes\*\*:** we support shareholder proposals requiring that golden parachutes or tin parachutes or other severance arrangements be submitted for a shareholder vote. We vote on all related proposals to ratify or abolish golden parachutes or tin parachutes by considering

and evaluating whether the proposal would be in the interest of shareholders.

\*Agreements that guarantee and specify a significant severance payment to outgoing top executives, following a takeover by another company. It can potentially be a defence mechanism against hostile takeovers given the increase of takeover costs.

\*\*Arrangements to guarantee and pay an employee compensation, in the event of dismissal as a result of a takeover.

**F. Directors' remuneration:** we generally vote in favour of proposals to ratify directors' remuneration, provided that the amount is not excessive and the scheme is not deemed abusive.

**G. 401(k) employee benefit plans:** we support proposals to adopt a 401(k) savings plan for employees.

**H. Performance-linked stock options:** we vote on shareholder proposals requiring use of performance-linked stock options\*, by considering whether it would be in the interest of shareholders. However, we will vote against such proposals with the following features: (i) if it requires all grants to be performance-based, (ii) if the proposal covers not only executives but also lower level employees, (iii) when the company has an existing equity-based remuneration scheme already and the performance-based compensation represents for a significant portion of the remuneration scheme.

\* Indexed options, premium priced options, and options with performance-based vesting conditions.

**I. Holding period:** we vote case-by-case on shareholder proposals requesting that executives must hold shares for a certain period of time or with a specified percentage of total shares, by considering whether the proposal would be in the best interest of shareholders.

We take into account the following factors: (a) whether the company has a holding period or stock ownership requirements in place for executives, such as rigorous criteria for shareholdings, the holding period requirements for both short-term (between 6 months to 1 year) and long-term, and a meaningful shareholding ratio; (b) the current shareholding situation of executives, and the extent to which the proposed holding ratio or the company's existing shareholding requirements have been met.

**J. Future stock option grants:** we vote against shareholder proposals to prohibit granting stock options to executives in the future. However, we may support the proposals in the following cases: (i) if the company has repeatedly repriced the options, (ii) if the company has an excessive amount of supply in shares or a substantial number of potentially dilutive or unissued stock options, and/or (iii) if the company has taken no remedial actions.

**K. Retirement remuneration for executives:** we generally support proposals to require that companies report on executives' retirement remuneration plans (e.g. deferred payment, split-dollar life insurance policy, supplementary executive retirement plans, pensions, etc.).

We vote case-by-case on proposals to seek approval for "extraordinary pension benefits" agreements with senior executives under the Supplemental Executive Retirement Plans (SERP), based on our evaluation of whether it would be in the

interest of shareholders. Extraordinary benefits include, for example, additional years for calculation beyond the actual tenure, preferential calculation formula deviating from the company's existing pension plan, or an accelerated entitlement for benefits, etc.

**L. Linking executive remuneration to social standards:** we vote on an individual basis with regards to shareholder proposals that seek to link executive pay to sustainability related (environmental and social issues) performance, by assessing whether the proposal would be in the best interest of shareholders over the long-term. We take into consideration and examine the following factors: (i) whether the company has violated related laws/regulations or has caused major and persistent concerns, (ii) whether the company has put sound performance management and monitoring systems in place with regards to environmental and social matters, (iii) to what extent that the company has incorporated environmental and social performance criteria in its executive remuneration scheme, compared to its peer group, and (iv) how the company is disclosing and communicating on its environmental and social performance.

**M. Repricing stock options:** we make our voting decisions on management proposals to reprice options, based on an evaluation of whether the proposal would be in the shareholders' interest.

**N. Say on pay:** we make decisions case-by-case for advisory votes on executive pay and remuneration of non-executive directors, considering whether the case is in the best interest of shareholders. However, we generally vote against such proposals, where (i) there is an unmitigated misalignment between the CEO pay and company performance, (ii) there are problematic pay arrangements and practices unaddressed, or (iii) the board exhibits significantly poor communication and responsiveness to shareholders regarding remuneration matters.

In such cases, to further express our dissatisfaction, we also often withhold our support for re-election of the board directors who are members of remuneration committee (or alternatively, vote against re-election of all board directors including the CEO, if the entire board is considered as being responsible for related issues), or vote against resolutions relating to any equity-based remuneration scheme.

Frequency of advisory vote on executive remuneration: in the US market, shareholders are given the opportunities on a regular basis to voice their opinions about executive pay programs ("say on pay"). In principle, we expect and support resolutions of adopting an annual advisory vote at AGMs on executive remuneration.

## XI. States of corporate registry in the United States

**A. Proposals in relation to state takeover laws:** we vote case-by-case on proposals of whether to adopt the state law regarding takeover activities, by considering whether the proposal would be in the interest of shareholders.

**B. Proposals for change of registry state:** we cast our votes on proposals to change the state of corporate registry, by considering whether the proposal would be in the interest of shareholders.

## XII. M&As and corporate restructuring

**A. Mergers and acquisitions:** we vote case-by-case on mergers and acquisitions, based on our assessment of whether it would create value for shareholders and also protect shareholders' interest. We take into account at a minimum level the following factors: (i) anticipated financial and operational benefits, (ii) offer price (cost versus takeover premium), (iii) prospects for the combined company, (iv) negotiations and process, (v) potential changes in corporate governance and the effect on shareholder rights.

**B. Corporate restructuring:** we vote case-by-case on proposals for restructuring, evaluating whether the resolution would be in the best interest of shareholders. Corporate restructuring related proposals include forced buyout of minority shareholders, LBOs, spin-offs, liquidations, asset sales and etc.

**C. Spin-offs:** we vote case-by-case on spin-offs, considering whether it would create value for shareholders and protect shareholders' interest. We take into consideration a number of factors, such as tax and regulatory advantages, planned use of the sale proceeds, market positioning strategy, managerial incentives and etc.

**D. Asset sales:** we vote case-by-case on asset sales, considering whether it would create value for shareholders and protect shareholders' interest. We take into consideration a number of factors, such as the impact on the balance sheet and working capital, value received from the asset sale, the potential elimination of diseconomies and etc.

**E. Liquidations:** we vote case-by-case on liquidations, considering whether it would create value for shareholders and protect shareholders' interest. We take into consideration a number of factors, such as the management's efforts to pursue alternatives, the appraisal value of assets, and the compensation plan for executives who manage the liquidation.

**F. Control Share Cash-Out:** we support proposals to grant or restore such cash-out rights to the shareholders who opposed a merger deal.

**G. Change of company name:** we generally support such proposals.

**H. Mandatory TOB waivers:** we vote case-by-case on proposals to waive the mandatory takeover bid obligation, considering whether it would be in the best interest of shareholders.

\*A system under which a mandatory offer must be made when a certain shareholding threshold in the target is exceeded.

**I. Transactions with related parties:** we vote case-by-case on related party transactions, evaluating whether the proposal would be in the interest of shareholders.

### XIII. Mutual fund related proposals

**A. Appointment of asset management trustees:** we make our voting decisions case-by-case on such proposals, taking into consideration whether it is in the interest of shareholders.

**B. Investment advisory agreements:** we make our voting decisions case-by-case on investment advisory agreements, taking into consideration whether it is in the interest of shareholders.

**C. Investment restrictions:** we make our voting decisions case-by-case on amendments to fundamental investment restrictions, taking into consideration whether it is in the interest of shareholders.

**D. Distribution agreements:** we make our voting decisions case-by-case on distribution agreement proposals, taking into consideration whether it is in the interest of shareholders.

### XIV. Social and environmental issues

We vote case-by-case on shareholder proposals relating to social, political and environmental issues, considering and examining primarily whether implementation of the proposal is likely to enhance or protect shareholder value. We take into consideration the following factors: (i) whether the issues raised should be addressed through legislation or government regulation, (ii) whether the company has responded appropriately to the issues raised, (iii) the company's approach compared with industry standard practices in addressing the issues raised, (iv) whether the request is unduly burdensome (in terms of scope, timeframe and associated cost) or overly prescriptive, (v) whether the company has provided sufficient information currently to shareholders (if the proposal is seeking for increased disclosure or greater transparency), (vi) whether implementation of the proposal would reveal any proprietary intellectual property or confidential information that could put the company at a competitive disadvantage, if the proposal is seeking for increased disclosure or greater transparency.

### XV. Inadequate information

We are not able to assess the actual or potential impact of a proposal on shareholder value unless detailed and sufficient information is made available to shareholders. A voting decision without supporting information to justify may be detrimental to the interests of shareholders. Therefore, on management proposals with little or no information provided to shareholders, we also consider general market practices and compare the company with its peers. If the disclosure is not generally required in the local market and the proposal is not detrimental to shareholders' interest, we will support the management proposal. However, we are likely to vote against the proposals if a company fails to disclose related information that is being presented by other companies in the same sector. In addition, with regards to company-specific proposals, if the company fails to provide with adequate information for shareholders to make an informed voting decision, we generally vote against such proposals.

## XVI. Other matters

**A. Election of supervisory board members or corporate assembly:** On proposals to elect members of a supervisory board or corporate assembly, we follow the same voting criteria for election/re-election of the directors of board. If there is a significant concern over independence of the supervisory board or company assembly, compared with general market practices, we are likely to oppose the proposed election of candidates (who are not regarded as independent) using the same independence criteria as for the board of directors.

**B. Pension scheme surplus:** we generally support proposals seeking that the performance criteria for calculating executive remuneration should not include the reported pension surplus.

*\*Note: this AMO Voting Guidelines for overseas equities (ex-Japan markets) was initially established in October 2016, which has been reviewed and revised as of 1 April 2022 and 1 April 2023 respectively. The latest revision took effect as of 1 April 2023.*