Taiyo
Pacific
Partners LP

JAPAN STEWARDSHIP CODE

- Financial Services Agency

The Financial Services Agency (FSA) of Japan published the "Principles for Responsible Institutional Investors" in the form of the Japan Stewardship Code (Code) on **February 26, 2014**. In this Code, "stewardship responsibilities" refers to the responsibilities of institutional investors to enhance the medium- to long-term investment return for their clients and beneficiaries (including ultimate beneficiaries) by improving and fostering the investee companies' corporate value and sustainable growth through constructive engagement, or purposeful dialogue, based on in-depth knowledge of the companies and their business environment.

Since the founding of Taiyo Pacific Partners (TPP) in 2001, we have been practicing the basic principles discussed in the Japan Stewardship Code as part of our friendly engagement investment strategy to maximize the long-term corporate value of our investee companies. Therefore, we embrace the principles in the Code and publicly disclosed our acceptance to the FSA of Japan on **August 30, 2014**.

The Principles of the Code

So as to promote sustainable growth of the investee company and enhance the medium- and long-term investment return of clients and beneficiaries:

1. ***Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.***

   1-1. Institutional investors should aim to enhance the medium-to long-term return on investments for their clients and beneficiaries by improving and fostering investee companies' corporate value and sustainable growth through constructive engagement, or purposeful dialogue, based on in-depth knowledge of the companies and their business environment.

   1-2. Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities (hereafter, "stewardship policy") and publicly disclose it. The stewardship policy should cover how they define the responsibility and how they fulfill it, in view of their role in the investment chain running from their clients and beneficiaries to the investee companies.

   1-3. Asset owners should engage in stewardship activities themselves as much as possible in order to secure the interests of ultimate beneficiaries. When asset owners do not directly engage in stewardship activities, including the exercise of voting rights, they should instruct that their asset managers be engaged in effective stewardship activities on their behalf.

   1-4. When selecting or issuing mandates to asset managers, asset owners should clearly specify issues and principles to be required in conducting stewardship activities, including the exercise of voting rights, in order to ensure effective stewardship activities. In particular, large asset owners should proactively consider and clearly specify issues and principles to be required in conducting stewardship activities, including the exercise of voting rights, keeping in mind their positions and roles in the investment chain, instead of mechanically accepting asset managers' policies without any verification.

   1-5. Asset owners should monitor whether their asset managers conduct stewardship activities in line with asset owners' policies, for example, making use of asset managers' self-evaluations. In conducting such monitoring, asset owners should put emphasis on the "quality" of dialogue between asset managers and investee companies, instead of mechanically checking the number of meetings held between them and the duration of such meetings.

2. ***Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.***

2-1. While institutional investors should put the interest of their client and beneficiary first in conducting stewardship activities, they inevitably face the issue of conflicts of interest from time to time, for example when voting on matters affecting both the business group the institutional investor belongs to and a client or beneficiary. It is important for institutional investors to appropriately manage such conflicts.

2-2. Institutional investors should put in place and publicly disclose a clear policy on how they effectively manage key categories of possible conflicts of interest. In particular, asset managers should identify specific circumstances that may give rise to conflicts of interest which may significantly influence the exercise of voting rights and/or dialogue with companies, and set out and disclose specific policies on measures for effectively eliminating the influence of such conflicts including avoiding such conflicts, thus securing the interests of clients and beneficiaries.

2-3. Asset managers should establish governance structures, such as an independent board of directors or third party committees for decision-making or oversight of voting, in order to secure the interests of clients and beneficiaries and prevent conflicts of interest.

2-4. The management of asset managers should recognize that they themselves have important roles and responsibilities in strengthening the governance of asset managers and managing conflicts of interest, and should take action on such issues.

3. Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies.

3-1. Institutional investors should appropriately monitor investee companies so that institutional investors can fulfill their stewardship responsibility with the aim of enhancing the medium-to long-term corporate value and capital efficiency and supporting the sustainable growth of the companies.

3-2. Institutional investors should monitor investee companies continuously and review as appropriate the effectiveness of the monitoring.

3-3. When investors monitor investee companies, a variety of factors, including non-financial ones, may be considered as relevant. Factors may include, for example, the investee companies' governance, strategy, performance, capital structure, business risks and opportunities (including risks and opportunities arising from social and environmental matters), and how the companies address them. Relevance of a factor may depend on each investor's investment policy and may differ according to specific investee companies. Institutional investors need to use their own judgment in choosing which factors to focus on in light of their stewardship responsibilities. They should endeavor to identify at an early stage issues that may result in a material loss in the value of investee companies.

4. Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.

4-1. Institutional investors should endeavor to arrive at an understanding in common with investee companies through constructive dialogue with the aim of enhancing the companies' medium-to long-term value and capital efficiency, and promoting their sustainable growth. In case a risk of possible loss incorporate value is identified through the monitoring of and dialogue with companies, institutional investors should endeavor to arrive at a more in-depth common understanding by requesting further explanation from the companies and to solve the problem.

4-2. Because passive management provides limited options to sell investee companies' shares and needs to promote their medium-to long-term increase of corporate value, institutional investors should actively take charge of engagement and voting from a medium-to long-term perspective.

4-3. Institutional investors should have a clear policy in advance on how they design dialogue with investee companies in various possible situations.

4-4. In addition to institutional investors engaging with investee companies independently, it would be beneficial for them to engage with investee companies in collaboration with other institutional investors (collective engagement) as necessary.

4-5. In principle, institutional investors can well have constructive dialogue with investee companies based on public information, without receiving information on undisclosed material facts. The "G20/OECD Principles of Corporate Governance" and the Tokyo Stock Exchange's "Japan's Corporate Governance Code" set the principle of the equitable treatment of shareholders, which applies to the handling of undisclosed material facts. Institutional investors that have dialogue with investee companies should be aware that the companies are expected to abide by the principle and should in essence be discreet in receiving information on undisclosed material facts.

5. Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies.

5-1. Institutional investors should seek to vote on all shares held. They should decide on the vote in light of the results of the monitoring of investee companies and dialogue with them.

5-2. Institutional investors should have a clear policy on voting and publicly disclose it. Institutional investors should try to articulate the policy as much as possible. The policy should not be comprised only of a mechanical checklist: it should be designed to contribute to sustainable growth of the investee company.

5-3. Institutional investors should at a minimum aggregate the voting records into each major kind of proposal, and publicly disclose them. Furthermore, to enhance visibility of the consistency of their voting activities with their stewardship policy, institutional investors should disclose voting records for each investee company on an individual agenda item basis. If there is a reason to believe it inappropriate to disclose such company-specific voting records on an individual agenda item basis due to the specific circumstances of an investor, the investor should proactively explain the reason. At the time of their voting records disclosures, it is also considered beneficial in enhancing visibility for institutional investors, to explicitly explain the reasons why they voted for or against an agenda item.

5-4. When institutional investors use the service of proxy advisors, they should not mechanically depend on the advisors' recommendations but should exercise their voting rights at their own responsibility and judgment and based on the results of the monitoring of the investee companies and dialogue with them. When disclosing their voting activities, institutional investors using the service of proxy advisors should publicly disclose the fact and how they utilize the service in making voting judgments.

5-5. Proxy advisors should dedicate sufficient management resources to ensure sound judgement in the evaluation of companies and furnish their services appropriately, keeping in mind that the principles of the Code, including guidance, apply to them. Proxy advisors should disclose their approach to providing the services including the operational structure, the management of conflicts of interest and procedures of developing voting recommendations.

6. Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.

6-1. Asset managers should in principle report periodically to their direct clients on how they fulfill their stewardship responsibilities through their stewardship activities.

6-2. Asset owners should in principle report at least once a year to their beneficiaries on their stewardship policy and on how the policy is implemented.

6-3. When reporting to their clients and beneficiaries, institutional investors should choose the format and the content of the reports in light of any relevant agreement with the recipients and the recipients' convenience, and the costs associated with the reporting, and should aim to deliver effective and efficient reports.

6-4. Institutional investors should maintain a clear record of their stewardship activities, including voting activities, to the extent necessary to fulfill their stewardship responsibilities.

7. To contribute positively to the sustainable growth of investee companies, institutional investors should have in-depth knowledge of the investee companies and their business environment and skills and resources needed to appropriately engage with the companies and make proper judgments in fulfilling their stewardship activities.

7-1. To make dialogue with investee companies constructive and beneficial, and to contribute to the sustainable growth of the companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments based on in-depth knowledge of the companies and their business environment. Institutional investors should have the necessary internal structure to have appropriate engagements and make proper judgments.

7-2. In particular, the management of institutional investors should have appropriate capability and experience to effectively fulfill their stewardship responsibilities, and should be constituted independently and without bias, in particular from their affiliated financial groups. The management of institutional investors should also recognize that they themselves have important roles and responsibilities to carry out stewardship activities such as enhancing dialogue, structure their organizations and develop human resources, and take action on these issues.

7-3. Exchanging views with other investors and having a forum for the purpose may help institutional investors conduct better engagement with investee companies and make better judgments.

7-4. Institutional investors should endeavor to improve their policies based on the Code and the quality of their stewardship activities by reviewing at an appropriate timing the status of their implementation of each principle, including guidance. In particular, asset managers should regularly conduct self-evaluations with respect to the status of their implementation of each principle, including guidance, and disclose the results toward continued improvement of their governance structures, conflicts of interest management, and stewardship activities, etc.

On **May 29, 2017** the FSA announced an update to the Japan Stewardship Code with the aim of deepening reform and moving from "form" to "substance" regarding in-depth constructive dialogue with investee companies, disclosure of policies (stewardship implementation, managing conflicts of interest, proxy voting results, etc), and self-evaluation of asset managers regarding the principles.

On **September 13, 2017**, TPP publicly announced its support for the revisions to the Japan Stewardship Code and hereby accepts the provisions and duty to disclose detailed policies as required under the updated Code guidance.

TAIYO PACIFIC PARTNERS STEWARDSHIP IMPLEMENTATION GUIDE:

1. STEWARDSHIP POLICY

Taiyo Pacific Partners (TPP) supports the objectives of the "Principles for Responsible Institutional Investors (Japan's Stewardship Code)" and declares the acceptance of all seven principles within the Code. Through TPP's various policies, we explain our stance on stewardship, our governance structure and managing potential conflicts, our engagement approach including ESG considerations, and our guidelines for proxy voting. Our policies are publicly available on our website www.taiyofunds.com/blog/media.

In the early 2000's, TPP was created as a corporate governance fund in partnership with one of the world's largest institutional investors which is recognized as a leading proponent of engagement investment globally. In this way, responsible investment is in our DNA and we have been fulfilling our stewardship activities as a natural course of our core strategy since inception.

As a responsible investor, TPP has a financial stewardship to its clients to generate positive, long-term, ethical returns for their beneficiaries based on our process of finding good corporate managers that have a similar stewardship over their corporate practices, personnel, and business resources. At the heart of TPP's investment strategy is finding companies with capable and honest management that run businesses sustainably to create ongoing value for shareholders, employees, and thus society at large. As the pioneer of friendly activism in Japan, we view our role as advising companies holistically on business, financial, and reputation factors (including ESG considerations) to make good companies as great as they can be.

In fulfilment of our stewardship responsibilities, we have developed an innovative approach to building trust and deep relationships with management through constructive engagement using guidelines, tools, presentations, and events. To date, we have had over 9,000 management meetings, made over 1,500 presentations, had over 700 executives attend TPP events/seminars, and hosted over 100 executives/ employees from 40+ portfolio companies in our corporate internship programs. Frequent and deep interaction with our companies means we develop detailed knowledge of their business and industry trends, and have better visibility into their financial practices, treatment of employees, environmental impacts, and disclosure policies, which shapes our activist agenda with each holding.

As responsible investors, we take seriously our duty to vote proxies in a way to maximize the long-term value of the company for the benefit of all stakeholders. We pre-emptively engage with our portfolio companies before and after the voting season to ensure greater alignment of interest between corporate managers and shareholders.

Our sustainable investment approach is evidenced by our low portfolio company turnover and long holding periods (sometimes over 10 years), positive relationships with management, frequent consultation requests from portfolio companies on a wide range of issues, and a growing Executive Club of retirees who seek to be placed as external directors with other TPP network companies.

2. GOVERNANCE SYSTEM

Although we do not face the conflicts of interest that larger financial conglomerates face as we are a small firm with a single business focus, we are adopting a firm-level Advisory Committee consisting of a few representatives among our institutional investors. The purpose of the Advisory Committee is to evaluate conflicts of interest, review valuations when needed and provide advice as sought by TPP in accordance with our governing documents.

Our client mandate is to achieve outperformance versus our benchmark using a concentrated engagement strategy which seeks to maximize the long-term value of our investments by enhancing business, financial and reputation drivers. To implement this hands-on strategy, TPP has hired a large qualified Investment Team of approximately 20 professionals, including equity analysts and financial consultants. We believe we have one of the largest teams devoted to fulfillment of stewardship activities for our strategy in Japan, relative to the size of assets under management.

Investment Team members are evaluated and compensated based on their experience, skill sets, work efficiency, and value created for the portfolios in line with our strategy. In addition to a base salary and personal bonus which is specific to the individual employee, there is a variable pay component linked to the outperformance of TPP's funds which directly aligns with our clients. Further, the Investment Team is internally trained on many topics including best practices for engagement activities, ESG investment factors, and various compliance procedures to ensure we execute our strategy in line with our stewardship responsibilities.

3. CONFLICTS OF INTEREST

As a small independent firm with a single line of business, TPP believes that conflicts of interest are unlikely to arise compared to large diversified financial firms because TPP does not engage in fee-based financial advisory businesses such as investment banking or consulting. That said, should a potential conflict of interest occur, it is TPP's policy to always act in the best interests of its clients. In this regard, we categorize the potential conflicts below including our resolution policies.

Financial / Capital Relationship conflicts:

1. <u>Portfolio Company Pension as Client</u> – TPP prioritizes client needs per our fiduciary responsibilities and governing documents.
2. <u>Board Seat</u> – TPP officers and employees will not become a director of a listed investee company in principle.
3. <u>Cross Trades</u> – This is an infrequent occurrence typically arising with a redeeming investor. Written consent is obtained by each investor (or their representative) for every affected fund/account prior to executing a cross trade.
4. <u>Personal Trading</u> – All TPP employees and their immediate family members are prohibited from trading in individual securities in Japan so there is no potential conflict with client trading and no opportunity to use information gathered while working for personal benefit.

Business Relationship conflicts:

5. <u>Consulting Fee</u> – TPP does not charge portfolio companies any advisory fees for our consulting.
6. <u>Client Voting Mandate</u> – Voting rights are currently delegated to TPP for all funds/separate accounts and thus TPP votes in the interests of maximizing the value of portfolio holdings. In the case where rights may not be delegated, TPP would follow the executed agreement in place with the investor.

In any situation where the potential for conflict exists, transactions for the clients will take precedence over any business or personal transactions. TPP has three levels of structure and safeguards in place to help ensure the proper governance, oversight, and transparency of our operations.

1. <u>Advisory Committee</u> – TPP is adopting a firm-level Advisory Committee consisting of a few representatives among our institutional investors. The purpose of the Advisory Committee is to evaluate conflicts of interest, review valuations when needed and provide advice as sought by TPP in accordance with our governing documents.
2. <u>Third Party Administrator</u> – TPP funds have the option to employ a Third Party Administrator to provide independence across key functionality including maintenance of books and records, fee calculations, trade reconciliation, security pricing and cash movements.
3. <u>Fiduciary Duty</u> – TPP is registered with the Securities and Exchange Commission (SEC) in the US and is compliant with Japan FSA and Bank of Japan (BOJ) regulations in Japan. Under the applicable laws in both countries, TPP is a fiduciary and must seek to avoid conflicts of interest with its customers, and, at a minimum, make full disclosure of all material conflicts of interest. This obligation requires that we provide clients with sufficient information in order for them to understand the conflicts of interest.

Regarding conflicts related to proxy voting impacting a single investor, TPP will follow the procedures outlined in the relevant client mandate, which may include referring the matter to the client's advisory board, board of directors, or board of trustees, as the case may be. Where the conflict of interest involves multiple investors, TPP will consult the Advisory Committee for guidance as needed. TPP intends to use its reasonable best efforts to ensure that this is done in a timely manner when failure to do so might reasonably be expected to have an adverse effect on the value of the investment.

4. ENGAGEMENT POLICY

All members of TPP's investment team, from CEO/CIO to analyst, have responsibility for maximizing the long-term value of our investee companies by focusing on corporate fundamentals, valuation, risk mitigation, and management quality. For each holding in our funds/accounts, we assign two investment members who are responsible for monitoring the portfolio company in regards to ongoing financial and business analysis, valuation assessment, and engagement activities for that holding. The following three areas define our overall approach to engagement with our companies related to the acquisition of company knowledge, intensive interaction with management, and proactive monitoring:

1. Pre-investment Due Diligence – As part of our bottom-up fundamental analysis, we typically meet potential candidates more than 6 times prior to investment at various levels of management, including the CEO. This allows our team to gain deep knowledge of the company and its industry dynamics which aids in our ability to more accurately assess long-term valuation potential as well as identify areas for improvement on a range of business, financial and reputation topics. In addition to assessing financial factors, our due diligence includes consideration of non-financial information from various sources including management meetings, factory tours, and corporate governance and integrated reports.

2. Intensive Engagement with Management – As a friendly activist investor, we meet our portfolio companies face-to-face more than 12 times per year on average. As part of implementing our mandate, we are frequently discussing and advising on business and financial topics related to maximizing profitability, optimizing capital structure, and/or enhancing shareholder return practices. At the same time, we also advise on a wide range of non-financial factors (including ESG topics) such as corporate governance, proxy policies, effective HR, improving corporate reputation, risk/crisis management preparedness, etc.

3. Monitoring and Assessment Tools - We have developed several proprietary assessment tools to measure the health of a company's business strategy, financial standing, and investor reputation. Complementing our corporate assessment tool, we have designed score cards for Corporate Governance and Social/Environment impacts which allow us to track company progress on multiple factors over time. These score cards contain detailed quantitative ratings (including versus peer companies) as well as qualitative comments which enable a rich discussion with management teams on areas for improvement. Many of our portfolio companies use our tools to supplement their own internal monitoring and for creating corporate targets.

TPP maintains a large in-house investment team of portfolio analysts and engagement managers experienced in Japan equity markets. As such, we do not collectively engage with other investors as we are able to execute all facets of our engagement strategy on our own. However, we do share our experiences and approaches with the investment community via presentations at industry events and occasional commentary in the Japanese news media. In this capacity, we not only communicate TPP's partnership approach to long-term value creation to other asset managers, but also invite our portfolio companies to speak about their experiences and improvements directly.

TPP's friendly engagement and constructive discussion with company management is based on publicly available information. To protect against receipt of undisclosed material facts, TPP's investment team receives annual training in regards to identifying the definition and nature of material, non-public information. When potential situations arise, they are discussed with TPP's Chief Compliance Office (CCO) and legal counsel, if necessary. In any situation where material, non-public information has been obtained, the company is added to TPP's internal Restricted List so no funds/accounts may trade the security. A blacklist is maintained in the compliance trading system so no transactions can be placed which involve a restricted security.

As part of our friendly engagement strategy, there are times when TPP intentionally becomes an insider on occasion to help management. The same procedure is followed and the related security is placed on our Restricted List until such time that the material non-public information has been released to the market or has become non-material.

5. ESG POLICY & INTEGRATION

Our primary goal is to be a good steward of our client's capital by maximizing their returns while keeping investment risks to an acceptable level and conducting our business in a legal, honest and ethical way. Consistent with this goal, TPP does not invest in companies that reduce long-term value by sacrificing financial, physical and human capital for the sake of short-term results. The following is an overall framework for how we think about ESG related issues:

1. Environment – TPP will not invest in companies solely because they promote themselves as "green" companies, but we will avoid investing in companies that incur significant financial and reputation risk due to a lack of concern for real environmental issues.

2. Social – Companies that hire the best employees and then properly train, prepare, evaluate, and compensate them will enhance the long-term value of the firm. TPP will avoid investing in companies that hurt their long-term value because of their improper utilization of human capital or their increase in risk due to the poor treatment of employees.

3. Governance – TPP has always been very focused on properly aligning the interests of company management and shareholder interests. TPP will promote the proper oversight and governance of companies and the protection of shareholder rights. TPP will avoid investing in companies that do not provide adequate governance and protection of shareholder rights.

ESG research is embedded in our process to find quality businesses run by responsible management who are open to further improvement. We assess current and past business practices to screen out bad corporate citizens at an early stage and thus avoid investment in companies that have unacceptable ESG or other risks. In particular, we exclude companies with significant past compliance/regulatory issues that have not been adequately addressed, poor governance structures (ie, parent-control boards), unreasonably hazardous or poor work environments, high-risk operations for potential adverse environmental impacts, and/or products or services deemed to be against traditional moral values. In instances where we discover unsuitable businesses or practices, we raise the topic with management and encourage reforms or discontinuation.

Assessment of appropriate investment candidates meeting these criteria is undertaken by our in-house Investment Team, including all levels of personnel from CEO/CIO to portfolio managers to investment analysts. In this sense, ESG integration is a team-wide effort across all our funds/accounts, rather than this role residing in a single "responsible investment" staff member.

In terms of specific activities, ESG is integrated into our pre-investment due diligence via risk assessments which focus on business/HR practices, historical analysis, and relative scores on governance topics vs peers. ESG is further integrated into our post-investment phase by means of frequent engagement with top management and use of in-house evaluation tools which focus on ESG topics (with an emphasis on corporate governance) as well as broader factors impacting business and reputation value.

Taiyo has been implementing responsible investment principles since its inception as a friendly hands-on corporate governance fund. In this role, we have developed in-house processes and engagement tools which have proven very effective over the years. In our specific case, signing the UN PRI and having to adapt to new protocols and reporting requirements would be duplicating effort and expense for our clients without adding additional benefits. We will continue to adopt best practices, wherever we may find them, which encourage our companies to enhance long-term responsible value creation.

6. PROXY VOTING GUIDELINE

In all cases, proxies must be voted in a manner consistent with the best interests of the relevant fund (or, if applicable, the separately managed account) and its investors. The proxy voting principles described below form an important part of TPP's fiduciary duty to maximize the long-term value of each fund/account for the benefit of its investors. TPP also exercises its voting rights in consideration of the principles set out in Japan's Corporate Governance Code which seeks to stimulate healthy corporate entrepreneurship and support sustainable growth in corporate value over the mid- to long-term.

TPP is committed to promoting strong corporate governance practices and encouraging corporate actions that enhance shareholder value through the judicious voting of funds' proxies. Each voting matter is considered on its own merits and TPP, on behalf of a fund/account, will not support the position of a company's management in any situation where TPP determines that the ratification of management's position would adversely affect the long-term value of the company.

If TPP, on behalf of a fund/account, votes against management of a portfolio company on any particular proposal, and the fund/account continues to own the security of such portfolio company, documentation of that vote is required along with a detailed explanation to be kept on file. In the unlikely situation where TPP decides to vote securities held in one fund/account differently from another fund/account that holds the same security, rationale for the differing vote will be documented and kept on file. In instances where there is a potential conflict of interest, TPP will consult the Advisory Committee.

As for security lending / borrowing, TPP does not have provisions as part of our voting policy since we do not engage in these practices.

Proxy Voting Principles

TPP looks at each proxy proposal on its own merit based on our 3 Key Principles:

1. Fair to All Shareholders – Companies should treat all shareholders equally.
2. Transparent – Companies should reasonably disclose how and why they use shareholder funds.
3. Create Value – Companies should strive to increase long-term corporate value through their actions.

To supplement our view on proxy topics, we use the services of a proxy advisor, Institutional Shareholder Services (ISS), to get additional information, but frequently go beyond their recommendations to directly communicate with companies to clearly understand their purpose and intent before making final voting decisions. We also pre-emptively engage companies prior to AGM season to help them better align proxy items with investor interests from the outset. Below are TPP's guidelines on some common proxy topics:

TPP Principles on Common Proxy Topics

Key Recurring Proxy Topics:	TPP's View and Principles:
Outside Board Members ▪ Shareholder interests are underrepresented on insider dominated boards ▪ Focus is intensifying on the level of independence of outside directors	**Outside members provide value with different perspectives and a check on management** ▪ We view a small, professional board with outside members as most effective ▪ The Taiyo Club can help companies find a good outside director
Director Compensation ▪ Level of disclosure insufficient (currently required to disclose directors' compensation only if greater than ¥100mn) ▪ Often not linked to financial performance	**Board compensation should be disclosed and linked to performance** ▪ Compensation should be transparent to shareholders ▪ The structure should align directors' interests with those of shareholders
Retirement Bonus for Outside Directors/Auditors ▪ Creates a real or apparent conflict of interest for directors & auditors serving in the role of representing stakeholders	**Retirement bonuses should not be given to outside directors or auditors. This creates real and apparent conflicts of interest** ▪ Outside auditors and directors should be fairly and reasonably compensated for their duties
Anti-Takeover Measure (Poison Pill) ▪ Can be abused to protect ineffective management ▪ Dilutes current shareholders	**A high stock price is the best defense** ▪ TPP will consider a plan which meets ISS* hurdles AND meets the following criteria: *1) **Strong management credibility*** *2) **Disclosure and transparency** – An independent committee evaluates all bids & submits a binding recommendation to the board* *3) **Reflects shareholders' voice** – Shareholders must approve introduction of the ATM. Execution requires 2/3 shareholder approval at an extraordinary shareholder meeting*
Authority to Issue New Shares Shareholders are concerned about: ▪ Excessive share issuances which potentially dilute and destroy value ▪ Board authority to issue excessive shares without shareholder review	**Each proposal is individually evaluated, but ideally any equity issuance should be brought to the shareholders** ▪ Management should justify issuance with a solid equity story ▪ Return on new equity *must* balance issuance dilution
Shareholder Return Policy (Dividends, Share Repurchases) ▪ Many companies lack clear capital management policies or hoard cash	**Management should use dividends and share buybacks as a tool to reward shareholders and create value** ▪ Prefer a fixed dividend payout ratio rather than a fixed dividend ▪ Share buybacks should be judicially used
Environmental, Social, Governance Factors ▪ Improper business or HR practices can destroy firm value, corporate reputation, and investor trust ▪ Proper oversight and governance is necessary to protect shareholder interests ▪ Corporate operations to avoid adverse impacts on the environment	**Management should adopt ESG practices which enhance sustainable long-term value creation** ▪ TPP does not support business practices that reduce long-term value by sacrificing financial, physical and human capital for the sake of short term results ▪ We support management to implement effective ESG practices which have a tangible impact on long-term value creation

Proxy Voting Disclosure

TPP recognizes that sufficient disclosure of proxy voting results is a part of fulfilling our stewardship responsibilities for institutional investors. With the recent revision of the Stewardship Code, while TPP's policy is to publicly disclose proxy voting results by proxy item type, we do not plan to publicly disclose by individual company for the following reasons:

1. As TPP employs a bottom-up concentrated investment strategy, there is a risk that the disclosure of proxy results at the company level could induce front-running in our positions, etc., which would undermine the interests of our clients.

2. Unlike large financial groups, the possibility that TPP will face conflicts of interests is extremely low since TPP does not engage in any other business that causes such conflicts. Thus, we believe there is little merit in publicly disclosing proxy voting results by individual company in order to avoid such issues.

3. It has been pointed out that not disclosing proxy voting results by individual company would prevent the invested companies from seeing the proxy voting results. This may be true with most managers, but, TPP gives feedback to invested companies both before and after voting on proxy items, and for any item which may have issues, TPP engages directly with the company as a high priority item. Although TPP does not disclose proxy voting results by individual company, TPP believes that it does contribute to the aim of establishing an "investment chain" between asset owner, asset manager, and public companies, through its proactive engagement activities.

4. TPP's strategy of friendly engagement investing relies on a relationship of trust with our portfolio companies. As such, the public disclosure of voting results by company can bring shame to our management teams which is detrimental to our long-term engagement objectives. Over the years, we have found that proactive, but private engagement with management is a key success factor for achieving positive changes with our companies.

5. TPP has a policy to treat all clients impartially, and the reporting of proxy voting results to all our investors is crucial to compliance under the Stewardship Code. Therefore, TPP's policy is to publicly disclose a summary of proxy voting results by voting item for all clients. In private, TPP will continue to disclose full proxy voting results by item and by company to clients as required or requested.

TPP's voting results may be found on our website, www.taiyofunds.com/blog/media.

7. INVESTOR REPORTING

Detailed client reports are provided quarterly and they include a dedicated section with multiple examples of recent engagement activities which cover business, financial, and ESG topics. We publicly disclose our aggregate proxy voting results by item via our website (www.taiyofunds.com/blog/media). We make full voting results (including by company) available directly to clients upon request. For several of our clients who request it, we produce an annual review of Stewardship activities which incorporate ESG topics. We also furnish ad hoc reports and updates to clients upon request.

In addition to client reporting, TPP maintains in-house records of our stewardship and engagement activities and documents as part of our internal management systems.

8. SELF-EVALUATION

Engagement and stewardship activities are part of Taiyo's DNA to help portfolio companies improve their management practices and enhance corporate value. We apply a similar standard internally and frequently review and adapt our processes and tools to be sure they continue to be as effective as possible toward this aim.

As part of our ongoing dialogue with our own clients, we keep them updated regarding these improvements. Therefore, in line with our compliance with the Japan Stewardship Code, we will design a self-evaluation framework and disclose the results.