

Proxy Voting Guideline

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Misaki Capital Inc.

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1. Principles for our proxy voting

(1) Reasons for our proxy voting

- We seek to create value exclusively through active engagement with investee companies. We invest in select Japanese listed companies and proactively work with management to realize sustainable growth and enhanced corporate value over the medium- to long-term of those companies, thereby increasing medium- to long-term returns for asset owners, which is our ultimate goal.
- As a “Constructivist” who works together with management, we communicate our corporate value enhancement story to the management of our portfolio companies on an ongoing basis through daily engagement activities. Making our opinions clear as a shareholder through proxy voting is also core to the stewardship activities of Misaki Capital. We believe that enhancing corporate value of our portfolio companies through proxy voting will not only benefit us and our clients, but also lead to the “common interests of shareholders” and, for that matter, for all stakeholders.

(2) Companies covered by the Guideline

- We are a “long-term and select engagement investor” who invests in select Japanese listed companies and supports sustainable growth and enhanced corporate value over the medium- to long-term of those companies by playing the role of “Constructivist” who works with management.
- In order to enhance corporate value in the face of significant changes in the business environment, we believe that it is insufficient to operate a company simply based on the status quo. We believe that management is required to identify rapid changes in the environment and update its business portfolio and business model in a bold manner, thereby creating an “inflection point” in order to realize an ideal future that differs from the future which is a mere extension of the status quo. We identify and invest in management with strong intrinsic motivation to create such “inflection points.”

- Accordingly, our ideas regarding corporate management expressed in the Guideline does not apply uniformly to all listed companies in Japan. The Guideline has characteristics as above, covers portfolio companies carefully selected by us, and describes management practices that we seek in order for such companies to become even better and increase their value on a compounding basis.

(3) Attitude toward dialogue and proxy voting: “A small good is like an evil. Conversely, a great good may appear merciless”

- We believe that a “Constructivist” shareholder who works together with portfolio companies should not be merely cheerleading or trying to get along. As in Mr. Inamori’s favorite old saying: “A small good is like an evil. Conversely, a great good may appear merciless,” we should seriously consider “what is truly good for sustainable growth and enhanced corporate value over the mid-to-long term of a company” and present our opinions openly and squarely, even if they contain the bitter truth for the portfolio company, and engage in persistent dialogue, which we believe will ultimately lead to a positive outcome for the “common interests of shareholders” and, for that matter, for all stakeholders. Therefore, our proxy voting may not always meet the wishes of the management of a portfolio company.
- Because we ask the question of “what is truly good to enhance corporate value” head-on, we do not exercise voting rights from a formalistic or short-term perspective. We aim to understand and respect company-specific aspects through dialogue and, based on a mid-to-long term time horizon, consider whether we should approve or disapprove individual proposals in exercising our voting rights.

(Focusing on company-specific aspects)

- We believe that each business is positioned in a unique environment that has been formed over a long period of time, driven by specific characteristics of the organization and individual circumstances that arose, and thus need to focus on these particularities when making voting judgments. Therefore, we believe proxy voting should entail the pursuit of a “unique answer” that takes into account each unique circumstance surrounding the company and its organizational characteristics, and further considers what is necessary to transform the business from where it currently stands to where it should ultimately be.

(Fostering the evolution of management with a mid-to-long term horizon)

- We believe that a company inevitably requires a certain time horizon to allow its management to evolve. We do not make our decision on a relevant proposal simply for the sake of doing so, but rather consider whether such decision will help evolve management in the **mid-to-long** term to decide whether we vote in favor of (or against) the proposal.

(Understanding through dialogue/supporting management transformation)

- In order for us to vote in the manner described above, we understand that we must have deeper dialogue with management. Because we solely pursue an engagement strategy, we exchange views with management on a frequent and regular basis in order to share and confront management issues together. As such, we also have intensive dialogue with each of our portfolio companies in advance regarding proposals to the general shareholders' meeting so that we can fully understand the background and intent behind the proposals submitted, rather than simply taking them at face value.

2. Proxy voting guideline: Board composition and appointment and dismissal of directors

(1) Reasons for considering board composition and the appointment and dismissal of directors the most important

- Our investee selection and engagement criteria are expressed by Misaki's Axiom.

$$\text{Misaki's Axiom: } V = (b \times p)^m$$

- We believe that strong Business (b), People who are motivated to reform (p), and Management that dramatically expands these bases (m) are necessary for sustainable enhancement of corporate value. We place a focus on "Management," in particular. This is because we believe that it is essential to open up the full potential of the business and people through excellence in Management (m) in order to respond to changes in the environment and dramatically enhance corporate value under appropriate risk-taking. We carefully select and invest in companies to which Misaki's Axiom applies, that is, those whose "management practices" and "management strategies" have potential opportunities to grow their corporate value exponentially.
- It is the board and CEO that play a central role in the formulation, execution and supervision of this "Management (m)." From this perspective, we consider board composition and the appointment and dismissal of directors (including the CEO) the most important in proxy voting. Following are specific principles that we take into consideration.

(2) Board governance structure/Board composition

- It goes without saying that the oversight (monitoring) function is an important role of the board. We judge board effectiveness by its substance, not simply based on externalistic independence. Specifically, we believe that it is important that (1) the board sets a major direction for management based on diverse opinions, (2) the board delegates appropriate authority to the CEO and creates an environment for risk-taking, such as the formation of key executive members by the CEO, and (3) supervision to prevent

runaway execution and excessive risk aversion (including the appointment and dismissal of the CEO) is functioning.¹

- As stated above, we believe that the “substance” of governance is the most important. From the perspective of securing such substance most effectively, and from the perspective of ensuring that investors, including overseas investors, understand that an international-level governance framework is in place, we believe that it is desirable to take the form of a Company with Three Committee structure (having a nominating committee, an audit committee, and a compensation committee) that is highly independent in nomination, remuneration, and audit. In addition, since the appointment of the CEO and the creation of incentives are extremely important devices in monitoring, we encourage voluntary nomination and remuneration committees to be established even when institutional designs other than a Three Committee structure are adopted.
- In addition to the institutional designs mentioned above, we believe that a “corporate strategy” serves as a yardstick for monitoring. This is because the kind of monitoring required by the board entails checking “whether management execution that complies with a corporate strategy is being carried out decisively.” Therefore, it is necessary for the board to (1) obtain sufficient information about its own company and the competitive environment, (2) determine whether the company’s strategy is appropriate, and (3) take the initiative in formulating a strategy in cooperation with the executive team at times.
- In particular, “business portfolio strategies” is an urgent issue for many Japanese companies, as explicitly stated in the Japan’s Corporate Governance Code (June 11, 2021). There is a strong need for discussions at the board to pursue overall optimization, including what business portfolio the company seeks to build and whether it is the “best owner” for each of its current businesses. To that end, it is required to develop a mechanism through which the board proactively and quantitatively monitor important KPIs that take into account capital productivity, the competitive environment, and business characteristics of each business.
- In order to promote broad and dynamic discussions as described above, we believe that the Board 3.0 concept, which incorporates the perspective of investors into the board, is beneficial. We believe that it is effective to establish a voluntary strategy review committee as a subordinate organization of the board to conduct intensive discussions on management strategies. We encourage such initiatives through dialogue with our portfolio companies.
- Further, it is not enough for a majority of directors to be simply independent or simply diverse in order to make such discussions on corporate strategies effective. We believe that it is the most important to have independence and diversity in substance, that is, people with deep insight, expertise, and experience in the

¹ Detailed in “Report on Conduct Guidelines for CEO and Independent Outside Directors (2020)” by the Independent Directors Committee of the Japan Association of Corporate Directors

long-term issues of a relevant company, and are capable of discussing them without any constraints serving in their role as outside director. In particular, the chairperson of the board is required to have experience in corporate management at other companies and the agenda-setting capability to appropriately set strategic themes for the directors to discuss.

(3) Appointment and dismissal of executive directors, including the CEO

- As stated in 1. (2) above, our focus is on a potential trigger to achieve a dramatic increase in corporate value, that is, an “inflection point.” We believe it is important that executive directors, including the CEO, possess strong leadership and “intrinsic motivation” from which such leadership is derived to continue to lead the organization while facing various pains, frictions, and struggles associated with the creation of the inflection point. Needless to say, we clearly identify the intrinsic motivation of the CEO and other executive directors when making investment decisions. We also engage in/provide various forms of dialogue and support to underpin the aspirations of the CEO and other executive directors following our investment. Therefore, when selecting candidates for executive director among director candidates, we assess the qualifications from the above perspective, in principle, and determine whether or not relevant candidates should be elected or reappointed.
- In other words, we believe that the CEO and other executive directors have an important role in drawing out the full potential inherently possessed by tangible and intangible assets of the company. From that perspective, we will vote against reappointment if we believe their actions toward the realization of full potential are not/have ceased to be sincere, or if it shows clearly in business performance and actions (including failures to act). Examples of where we clearly oppose the reappointment of the CEO or other executive directors are shown the below.
 - Where, in terms of corporate value and business performance, PBR has been below 1x for a long period of time (for example, three years) following our investment or ROE has been below its cost of equity, nonetheless we find that no concrete efforts for improvement have been made
 - Where we find that there have been acts or failure to act that are destructive to corporate value, such as cases where a business with low capital productivity or one for which a relevant portfolio company cannot be considered the “best owner” continues to be held without a clear reason, cases where an amount of cash that exceeds the required limit continues to be held without reason, cases where large-scale investments that clearly lack rationality and whose review process is been highly questionable are made, and that no concrete efforts for improvement have been made

(4) Appointment and dismissal of outside directors

- If composition of the board contradicts our view as stated in 2. (2) above, for example, if it is proposed to appoint or reappoint outside directors who are irrelevant to the strategy and/or lack qualifications solely to satisfy the minimum number of outside directors required, we will vote against the proposal.

- In addition, if an outside director has overlooked an act or a failure to act that is destructive to corporate value by the CEO or other executive director as described in 2. (3) above, it cannot be concluded that the outside director has fulfilled their supervisory function as a director, and we will vote against the reappointment of such candidate for outside director. In particular, because outside directors who have served as members of the nomination and remuneration committees bear a heavy responsibility for the process of appointing and dismissing the CEO and other executive directors, we will especially scrutinize whether the reappointment be approved or not.

3. Voting guideline: Shareholder proposals, etc.

(1) Attitude we seek from our portfolio companies in relation to shareholder proposals or takeover offers

- Recently, there have been an increased number of unofficial proposals from so-called activist investors and shareholder proposals. Some of them lack a mid-to-long term perspective and aim only at individual optimization for specific investors. On the other hand, there are sometimes proposals that lead to sustainable growth of a relevant company and the enhancement of its corporate value over the mid-to-long term, thereby meeting the “common interests of shareholders” and often giving rise to a trigger to create an “inflection point” for the company.
- From this perspective, we expect the board, CEO and other members of management to take seriously proposals from other investors and objectively judge their appropriateness. If an investor’s proposal is deemed appropriate, the proposal needs to be incorporated into its corporate strategy. On the other hand, even if the investor’s proposal is deemed not appropriate, we believe that it is desirable not to simply ignore or dismiss the proposal, rather to demonstrate qualitatively and quantitatively that the corporate strategy that it considers appropriate will contribute more strongly to the enhancement of corporate value, and to ask other shareholders’ views on that so that “all matters be decided by public discussion.” Similarly, we expect the board to seriously consider a takeover offer if there is no reasonable doubt as to the specifics, the legitimacy of the purpose, and feasibility.
- From the above perspective, we will in principle vote against anti-takeover measures, whether they are of advance warning or contingency plan type. When the board opposes a takeover offer, we will encourage the company to clearly present to shareholders a corporate value enhancement story that it considers appropriate, without relying on anti-takeover measures.

(2) Approach to proxy voting on shareholder proposals from other investors

- Furthermore, we ourselves engage in dialogue with management with what we consider to be the best corporate value enhancement story. We put the three of proposals from other investors, company proposals based on the corporate strategy formulated by management, and the corporate value enhancement story of Misaki Capital on the same table, and consider the best options for enhancing corporate value over the mid-to-long term in exercising voting rights. As a result, we may vote against both proposals from other investors and company proposals.

4. Proxy voting guideline: Other matters

(1) Director compensation

- In our opinion, Japanese listed companies generally have two problems when it comes to director compensation: a lack of linkage with performance and low transparency of the methodology. Director compensation should be designed to tie short-, mid-to-long term business performance and corporate value enhancement, and should specifically disclose the basis for and the method of calculation.
- In principle, we will vote in favor of proposals to increase compensation levels developed with both of these characteristics embedded. However, we need to fully understand the background and intent behind the methodology through dialogue with management.
- In order for companies to achieve enhanced corporate value over the mid-to-long term, we believe it is essential to draw out and make full use of the potential of human capital. From this perspective, we encourage the calculation of compensation to be linked to indicators related to employee engagement and ensuring psychological security.

(2) Stock-based remuneration

- We believe granting of stock-based compensation such as stock options and restricted stock is valuable to align the interests between management and shareholders. Of course, the reasonableness of the parameters must be assessed on a case-by-case basis, taking into account the percentage of and dilution risk of equity interest of existing shareholders. However, we believe that, in general, the benefits to corporate value of aligning the interests between management and shareholders outweigh the disadvantages from granting excessive incentives in light of corporate Japan today. Therefore, we will, in principle, vote in favor of proposals to grant stock-based compensation that links with mid-to-long term business performance.
- We will also, in general, vote in favor of proposals to grant stock-based compensation to outside directors. When the monitoring is the only focus of the role to be performed by outside directors, granting performance-linked incentives is not necessarily appropriate. However, the role of outside directors to encourage management to

take risks to enhance corporate value should be emphasized in light of corporate Japan today. From this perspective, we would prefer that companies grant performance-linked incentives in order to align the interests with shareholders and reward corporate value enhancement.

(3) Director retirement bonuses

- In most Japanese companies, the status of executive directors is viewed as an extension of their status as employees, and retirement bonuses may substantially include an element of deferred remuneration. However, the status of director is a contractual agreement and, as such, compensation for services rendered during the agreement term should have been fully accounted for in the form of director remuneration. The payment of director retirement bonuses is often decided based on an opaque decision process, and in such cases, the purpose of the law which leaves the determination of director remuneration to shareholders may be nullified. Therefore, we will vote against director retirement bonuses unless all of the following requirements are satisfied:
 - The total value of retirement bonuses is determined according to a director retirement policy with a clearly defined formula that may be disclosed to shareholders upon request.
 - The company has consistently recognized allowances in past years to pay retirement bonuses and such payments will not cause the company to recognize additional expenses such as extraordinary losses.
 - The total value of retirement bonuses is in line with that of industry peers.
- We will, in principle, vote against retirement bonuses for retiring outside directors and statutory auditors due to their duty in management supervision rather than management execution.

(4) Dividends

- We believe that a company's fundamental role in society is to take risks and reinvest cash flow back into its business in order to achieve compounded growth. Therefore, if there are investment opportunities with expected returns in excess of its cost of capital and can continue compounded growth, reinvestment is preferred over returning cash to shareholders in order to continue to enhance corporate value.
- However, if a company has difficulties in finding promising investment opportunities or it has excessive reserves and financial assets, we believe a company should return surplus capital to shareholders in an appropriate manner.
- Accordingly, we do not establish uniform criteria for dividends and appropriation of surplus capital. Instead, we judge the proposals on a case-by-case basis taking into account the following points through proactive dialogue with management:

- Growth stage of the business: We will assess whether a company is in a high growth stage that requires its cash flows (or possibly external financing in some cases) for proactive reinvestment or in a stable or low growth stage that does not require such capital.
 - Capital productivity (both past results and future prospects): If a company has achieved high capital productivity and can continue to use its internal reserves with high capital productivity, we will less likely demand that capital be returned to shareholders. Conversely, if a company has not been able to exceed its cost of equity nor are they unlikely to do so, we will take a more critical view on its retained earnings and use of cash flows.
 - Cost of capital: We will analyze whether a company understands and measures its own cost of capital as its hurdle rate when reinvesting surplus capital. If a company maintains high levels of retained earnings without recognizing its cost of capital, we will be more critical of its use of cash flows.
 - Capital structure: We will analyze whether a company understands its optimal capital structure which takes into account its businesses and the commercial risks. While we do not believe that excessive financial leverage through debt financing is appropriate simply to raise ROEs, we do not support a company that maintains debt-free capital structure for the sake of doing so. We will vote in favor of proposals for a shareholder return policy if it is formulated based on a correct understanding of its own optimal capital structure. However, if a company does not nor will do so and maintains a low dividend payout ratio, we will be more critical of its shareholder return policy.
 - Cash level: We will analyze whether a company recognizes its optimal cash level which takes into account its business risks. If a company formulates the shareholder return policy by analyzing appropriate cash levels both in normal cycles and in times of stress, we will vote in favor of such policy. However, if a company does not nor will recognize optimal cash levels and maintains a low dividend payout ratio, we will be more critical of its shareholder return policy.
- We recommend that companies disclose their key performance indicators (KPIs) that they monitor over the mid-to-long term and their cost of capital together with their capital and shareholder return policy in order to properly evaluate the points above.

(5) Share repurchases

- Our basic approach is the same as that for dividends. We encourage use of share repurchases as a means to realize an optimal capital structure and, when the shares are at a price lower than their intrinsic value, see it as an effective investment.
- In doing so, we encourage companies to introduce a “share repurchase program” through which the board resolves the adoption of a certain limit for share repurchases on a regular basis, estimates the fair value of its own shares, and acquires its own shares flexibly when they are below the fair value. In particular, this program will be effective for a company with a large accumulation of cash flow relative to investments

required for its business. In addition to facilitating an effective investment when the shares are undervalued, this is expected to serve as a signal to the market about its future growth potential and to prevent the acquisition of shares when they are overvalued.

- We will vote against proposals to acquire its own shares from limited shareholders under conditions that would be unfavorable to other existing shareholders.

(6) Equity financing

- With respect to share issuances, if the allotment price is below the market value, the equity interest of existing investors will be damaged. Therefore, in general we will vote against share issuances unless the use of the procured capital and a corporate value enhancement story due to such financing are presented in a concrete manner and sufficiently.
- We will vote against the issuance of MS warrants or MSCB except where there is an urgent need for financing and the company is forced to adopt such financing method after thorough consideration of other means, and vote against the reappointment of directors who have voted in favor of the decision unless we are given an opportunity to express our opinion at a general meeting of shareholders.

(7) Sale of a company or business through mergers and acquisitions, business divestiture, spin-offs, management buyouts (MBO), etc.

- The above transactions are very important decisions that would directly affect the shareholder value significantly. Therefore we work to gain a thorough understanding of the assumptions, conditions and processes involved in deciding whether we should approve or disapprove.
- For example, if they are consistent with corporate strategies and plans, and the consideration and other conditions are reasonable and determined in accordance with an appropriate process, we will vote in favor. If they are not part of a corporate strategy or plan, we will make decisions on a case-by-case basis by determining whether or not they are destructive to shareholder value.
- Our focus in the management decision-making process, in particular, is on the existence and extent of conflicts of interest with the acquirer. For example, an MBO may structurally cause significant conflicts of interest as overwhelmingly well-informed management purchase shares from comparatively poorly informed shareholders. We make decisions on a case-by-case basis after thorough dialogue with management to understand the background that caused management to make these decisions and would require transparency of the decision-making process.

(8) Appointment of statutory auditors

- How strongly management can push forward toward the enhancement of corporate value depends on the performance of control functions. Statutory auditors are expected to play a defensive role in underpinning offensive management by the management team. Statutory auditors must be able to actively and proactively exercise their authority, and have the courage to confront management when necessary. We assess whether or not a candidate for statutory auditor has such qualifications and decide whether to approve or disapprove the proposal for election or reappointment.

(9) Amendments to Articles of Incorporation

- As there are a multitude of possible amendments to the Articles of Incorporation, we list the most important matters below. With regards to other proposals, we examine each amendment on a case-by-case basis to understand whether it will ultimately help a relevant portfolio company grow sustainably and enhance corporate value in the mid-to-long term. Amendments to the Articles of Incorporation entail strict processes such as special resolutions, extraordinary resolutions, special extraordinary resolutions, and consent of all shareholders. In addition, amendments to the Articles of Incorporation have the disadvantage of rigidity in that it is difficult to make ex-poste changes or amendments by specifying certain details. Depending on the details, this may hinder the growth of our portfolio companies and damage corporate value. If there is such a risk, we will vote against amendments of the Articles of Incorporation.
- Provision in the Articles of Incorporation stipulating that the board has the ability to determine dividends and appropriation of surplus capital²
 - In principle, we will vote against such amendments unless there is a rational reason, as it would give rise to a risk of loss of opportunities for dialogue between shareholders and management regarding the strategic allocation of management resources.
- Provision in the Articles of Incorporation stipulating that share repurchases may be executed through board resolutions in certain cases³
 - In principle, we will vote against such amendments for the same reason as above. However, as described in 4. (5), we encourage our portfolio companies to use share repurchases as a means to realize an optimal capital structure and, when the shares are at a price lower than their intrinsic value, as an effective investment. It is considered that, in doing so, enabling the establishment of limits and the acquisition of shares in a flexible manner by a resolution of the board will contribute to the realization of the above purpose. Therefore, we believe there is significant room to recognize reasonable grounds for the authorization to the board.

² See the heading of Article 459 of the Companies Act

³ See Article 165, Paragraph 2 of the Companies Act

- In doing so, we will make a comprehensive judgment based on (1) whether there has been sufficiently thorough dialogue between shareholders and management regarding the strategic allocation of management resources, including share repurchases, and (2) whether the function and process for calculating the fair value of its own shares have been incorporated.
- Provision in the Articles of Incorporation concerning business objectives
 - In principle, we will vote in favor of amendments to the Articles of Incorporation concerning the addition, change, or abolition of business objectives as long as they are consistent with the corporate strategy. We note that Japanese companies often diversify their businesses for a variety of reasons. Therefore, the above is conditional on the disclosure of sufficient information regarding the basic policy for the business portfolio and the status of the review of the business portfolio⁴.

5. Approach to proxy voting on sustainability issues

- With regards to voting on sustainability issues, including ESG elements, we will first assess whether a relevant portfolio company appropriately discloses its initiatives on those issues⁵, and assess whether the disclosed initiatives take into account potential risks and earning opportunities related to sustainability issues in light of the ESG policy we establish separately⁶. If we find the initiatives insufficient and ongoing dialogue with us does not lead to improvement, giving rise to a possibility that corporate value over the mid-to-long term is significantly affected, we will vote against the appointment of directors who are responsible for those themes.

6. Voting procedure

- We will disclose voting results and the reasons for voting against on our website.

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⁴ CG Code 5.2.1, “In formulating and announcing business strategies, etc., companies should clearly present the basic policy regarding the business portfolio decided by the board and the status of the review of such portfolio.”

⁵ CG Code 3.1.1, “Companies should appropriately disclose their initiatives on sustainability when disclosing their management strategies. They should also provide information on investments in human capital and intellectual property in an understandable and specific manner, while being conscious of the consistency with their own management strategies and issues. In particular, companies listed on the Prime Market should collect and analyze necessary data on the impact of climate change-related risks and earning opportunities on their business activities and profits, and enhance the quality and quantity of disclosure based on the TCFD recommendations, which are an internationally well-established disclosure framework, or an equivalent framework.”

⁶ CG Code 2.3.1, “The board should recognize that dealing with sustainability issues, such as addressing climate change and other global environmental issues, respect of human rights, fair and appropriate treatment of the workforce, including caring for their health and working environment, fair and reasonable transactions with suppliers, and crisis management for natural disasters, are important management issues that can lead to earning opportunities as well as risk mitigation, and should further consider addressing these matters positively and proactively in terms of enhancing corporate value over the mid-to long-term.”