30% Club Japan Investor Group Progress Report vol.3

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Disclaimer: The English version is a translation of the original in Japanese and is for information purposes only. In case of a discrepancy, the Japanese original will prevail.

Met with female directors from JICPA

On October 10, 2023, the 7th meeting of the Support Committee for Non-Certified Public Accountants was held. This time, the D & I Promotion Committee of the Japanese Institute of Certified Public Accountants (JICPA) joined us for the meeting, bringing the total number of participants to over 40. The participants discussed the importance of increasing the number of female directors. Discussion agenda also included the dialogue between investors and directors, the skill matrix, and the training for directors, as well as the gap between 30% female on the board and the current reality. The nomination process of female directors was also raised as an issue for the future. One of the interesting topics was the director's experience of the management, which should have the different definition between each listed companies.

Met with female directors from JICPA

We have received the following messages from the representatives of both groups.

Ms. Yoshiko Hayama Independent director of Sugi Holdings, a professional researcher at the Japanese Institute of Certified Public Accountants (JICPA), said, "I always receive a lot of insights from this opportunity, and I try to bring the voices of investors to the board. I really appreciate the insightful message from the members of the 30% Club Investors Group."

Minoru Matsubara, Managing Executive Officer and Leader of Best Practices Subgroup, Resona Asset Management said "During this meeting, we received many suggestions from independent directors/auditors from JICPA. This time, we were divided into small groups and had a frank dialogue. In particular, we received many useful suggestions for our future engagement activities, such as challenges of the board of Japanese companies, the board's expectations for investors, and the tips to check the effectiveness of the board. I would like to express my sincere appreciation to all participants."

Best practices of engagements on gender diversity

Company A in chemical industry – A global chemical company included in the TOPIX 100.

Issues identified: In the past, through proxy voting and engagement opportunities, the investor has discussed about the company's corporate governance issues, including the composition of the board and the separation of management and monitoring. In particular, the lack of female directors and the insufficient refreshment of long-term tenure outside directors are serious issues. Having strengthened our engagement with the company after the 2022 Annual General Meeting.

The dialogue with the company: The company explained that they put more emphasis on effectiveness than formality of corporate governance. Since the company recognized the significant contribution of the existing outside directors to the board, they have not replaced long-tenured independent directors. However, the investor reiterated that they recognized the importance of well-prepared succession planning of independent directors. Also, the company understand urgent requirement for gender diversity of the board and would like to improve the situation.

Outcomes: A female director was nominated for the 2023 Annual General Meeting of Shareholders. At the same time, one independent director, whose tenure had exceeded 10years retired from the board. Also, an internal directors, whose title was an advisor, was announced.

Future steps: The board still has two long-tenured outside directors and we need to watch the situation carefully. However, the company has improved transparency of their governance, for example, they disclose an interview with independent directors' contributions to the boards in a timely manner. With regard to the newly appointed female independent director, the investor will need to confirm her contributions to the board, while continuing dialogue with the company to further improve the board diversify.

Best practices of engagements on gender diversity

Company B in auto parts industry – A global auto parts company included in the TOPIX 100.

Issues identified: : The human capital management and diversity promotion policies are less visible to investors. We have discussed the following points below with the Chairperson of the Board of Directors, senior management and others.

1. Policy on Board composition from a diversity perspective, reasons for not joining the 30% Club and approach to setting the proportion of female directors.
2. Policy on appointment of internal candidates, measures to strengthen the pipeline and succession plans. The number of female directors increased by one in 2023 and the ratio of female directors improved to 25% by outside appointments.
3. Measures to improve female leadership as diversity is important even though the proportion of female managers in Japan is sill low, and the Company aims to improve female leadership in the future.

The dialogue with the company: The increase from two to three female directors in 2023 is a significant achievement. They want to promote internally in the future. They will increase diversity not only in terms of gender but also age, experience and nationality based on skill sets.

Securing and utilizing diverse human capital is essential to accelerate portfolio management, and the next medium-term management plan also focuses on human creativity and is moving forward.

The Company understands and agrees with the idea of a 30% Club. They are focusing not only on achieving the ratio of female directors, but also on increasing female managers over the medium to long term. In order to increase female managers, they are working to promote the focused training and appointment of candidates and is targeting a 30% recruitment rate of female new graduates.

While the ratio of female managers is high at overseas sites, the company recognizes that there is still a gap in Japan as a challenge. Priority is being given to increasing the ratio of female recruits. They are continuing to develop systems and structures and are considering expanding them as appropriate in the future.

Outcomes include (1) sharing the focus of global investors through collaborative engagement, (2) confirming the commitment of the Company and Board of Directors and (3) improvement in the ratio of female directors to 25%.

Future Steps: Discussion will continue on the (1) timeline for further increasing the female director ratio, (2) progress in the Management Development Program, (3) the consideration of human capital-related items in executive remuneration.

Best practices of engagements on gender diversity

Company C in retail industry – A global specialty retailer in the TOPIX Mid 400

Issues identified: Although Company C had one female director on the board, it had not been able to develop female managers at senior management level to follow her, making it difficult to maintain sustainable diversity on the board. In addition, the chairman, who has been on the board for more than 20 years, still has the right to represent the company, and there are many challenges in overcoming the sense of stagnation on the board and in succession planning.

The dialogue and outcomes: Engagement with investors has increased in recent years, together with the new CEO's management reforms. Encouraged to improve the independence and diversity of the Board and to replace long-serving internal directors, one female director (internal) retired, while three new female external directors were appointed at the AGM in November 2022, dramatically increasing the proportion of female directors from 11.1% to 37.5%.

In terms of disclosure, the first numerical diversity target has been set at 50% female at store manager level or above by 2030. The company also intends to disclose the age, gender and ethnic composition of its workforce by 2030.

Company C has introduced a three-day working week from 2021 to help employees balance work and childcare. The Diversity, Equity & Inclusion Committee, established in 2022, holds roundtable discussions and workshops chaired by the ESG officer and employee volunteers. In addition, the committee conducts employee surveys to create an inclusive work environment, and the company continues to take steps, including increasing mid-career recruitment, to promote and establish a broad level of diversity.

Future steps: The investor will continue to encourage the company to implement specific measures to develop female managers. Company C is discussing linking the achievement of its sustainability goals by 2030 to the long-term incentive compensation of its executives. It is expected that the KPIs in line with its own sustainability goals will be developed at an early stage and that the improvement of the executive remuneration system will further accelerate the company's diversity initiatives.

Best practices of engagements on gender diversity

Company D in beverage industry – A beverage company in the TOPIX Mid 400

Issues identified: Although the company claims to be a top global beverage manufacturer, its awareness and commitment to promoting women was low, and the ratio of female managers was the lowest among food and beverage manufacturers in Japan.

The dialogue with the company: The investor presented the current status of women's advancement, such as comparing the ratio of female executives in the industry to the company's CEO, vice president and relevant director, and discussed the importance of advancing women to achieve management's vision and increase corporate value.

Afterwards, the company reported on the progress of initiatives such as appointing women as overseas product development managers, and made the following positive comment: 'As conventional measures such as awareness raising and training are not enough to promote the advancement of women, we are increasing the number of positions where women can play an active role, particularly in the planning and research departments, so that more female managers can be developed.'

Outcomes and future steps: As a result of the ongoing dialogue, the company's initiatives and disclosure on diversity are rapidly improving, such as setting and announcing targets not only for the ratio of managers, but also for the gender pay gap.
Although the company is moving away from the lowest level, the investor will continue to monitor and engage in dialogue on measures that will enhance corporate value, such as promoting more female employees in the areas of product planning and overseas strategy.

Best practices of engagements on gender diversity

Company E in textile industry – A textile and apparel company in the TOPIX Mid 400

Issues identified: Company E's management philosophy had not been brushed up and gave the impression that it was outdated compared to today's gender perceptions. The investor was also concerned that the company's culture might be an obstacle to promoting women and increasing corporate value.

The dialogue with the company: First, the investor explained that reforming management philosophy and culture is essential to increasing company value, and also provided concrete ways to address this issue through case studies of other companies. Company E commented: Discomfort with the management philosophy has also been expressed by the younger generation within the company. However, there is strong resistance from the older generation to revise the management philosophy that has been in place since the company was founded. Although we have worked on this several times in the past, we have not yet been able to achieve it. This time we want to revise the management philosophy and increase employee involvement in order to strengthen our brand.

Outcomes and future steps: As a consequence, Company E renewed its management philosophy with a focus on the younger generation and overseas employees, with the active advice of the outside directors. While the company still intends to foster a challenging culture, one outside director suggested that unconscious bias and a sense of horizontal alignment within the company were factors hindering growth potential. The investor suggested that there was a need to review the performance appraisal system and increase mid-career recruitment to address unconscious bias. The investor has requested a dialogue with the outside director concerned, during which both sides shared an understanding of the challenges the company faced in reforming its culture and discussed future initiatives, using case studies from other companies.

Company E continued to reform its management structure by replacing top management, increasing the number of outside directors and appointing female directors to its operating company. The investor requested a dialogue with the new top management to discuss the new management structure and their strategies for increasing corporate value, and confirmed the need to change the negative culture that still exists to create an environment where women can actively seek leadership positions. The investor will continue to closely monitor the progress of changes at Company E and engage with it from an investor perspective.

Best practices of engagements on gender diversity

Company F in wholesale industry - in the TOPIX Mid 400

Issues identified The investor shared the concern on the challenging governance structure situation, such as unclear decision-making process of the remuneration; for example, the compensation amount of the elderly chairman and vice chairman exceeds that of the president. In addition, many of the independent directors were from business partners and also no female directors were appointed, which seems to indicate the unclear governance structure and the closed nature of the board.

The dialogue with the company: The investor asked that the governance system should be reviewed first, since the lack of appointment of female directors appears to reflect an attitude of not accepting objections. At the same time, we informed that now our proxy voting guideline requires more than a female director of the board. The company responded, “We are currently discussing this at the Nomination and Compensation Committee“.

Also, the investor discussed about the seniority-based personnel system. In case the company needs to expand their future business field, they would need to revise traditional employment practice and increase the ratio of female employees. The company responded, “We agree to those concerns. We have received good feedback and would like to discuss those issues with our management."

Outcomes and future steps: One female independent director was nominated at June 2023 Annual General Meeting. This is regarded as a step forward in improving governance. Going forward, in addition to clarifying the roles of internal directors and strengthening the independence of outside directors, the investor will continue to encourage the strengthening of its human capital, which should enable the med to long-term growth.

Overseas activity

How the engagement is designed

30%+ Club
PATH TO PARITY

- Active engagement involves direct dialogue with companies that have significant room for improvement. Soft engagement involves communicating the investor group's expectations for diversity reporting to a broader range of companies via email or by providing guidance.
- A compliance clause is included in the investor group's charter to ensure the engagement is not an act in concert. Or they will remind companies at the engagement that it is not a concerted action.

Active engagement	Soft engagement

Active engagement

- **Objective**
  - ✓ Demand for improvement in female representation and diversity reporting etc.
- **Target companies**
  - ✓ Companies with big room for improvement

  (e.g., the following are areas identified by the French group)
    - Financials & Real Estate: High female employment but few women in management
    - STEM: Traditionally male-dominated area
    - Consumer: High female employment but few women in management
- **Engagement format**
  - ✓ Direct dialog between company and investor group (preferred face-to-face)

Soft engagement

- **Objective**
  - ✓ Outline investor group expectations for corporate diversity reporting
- **Target companies**
  - ✓ Wider range of companies (e.g. major index constituents)
- **Engagement format**
  - ✓ Prepare and/or email guidance that outlines investor group expectations

  (e.g., the following are KPIs emailed by the French group)
    - Governance, Talent Attraction, Job Quality, Promotion, Retention, WLB, Equal Pay, Sexual Harassment, SC, Certification/Audit, Women Empowerment Principles

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