

30% Club Japan Investor Group Progress Report vol.4

July 2024





Contents

1. The second Thought Leadership Group seminar
2. Engagement with female directors from JICPA
3. Best practices of engagements on gender diversity
4. Selection of FY2023 Nadeshiko Brands by METI & JPX

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.

The second Thought Leadership Group seminar (8th December, 2023)



- Following on from last year, the Thought Leadership Group hosted the event "Corporate Governance and the Importance of a Diversified Board". Fidelity International took the lead, providing an opportunity for senior female leaders of the TOPIX President's Committee to learn about what investors hold as most important in managing public companies, and a networking opportunity. This year, a small group case study session was added to the program to stimulate an intimate and lively discussion.
- Ms. Asako Suzuki, Director and Audit Committee Member of Honda Motor gave a keynote speech, sharing her dream of contributing to the development of emerging economies as the starting point of her career. She also spoke on the initiatives she believes are necessary to improve diversity meaningfully.
- In a panel discussion by the Thought Leadership Group, ideas on "The Importance of Human Capital including Diversity, and Future Expectations; an Investor's Perspective" were shared with the audience.
- Mr. Yukio Yokoyama, Director and Chief Sustainability Officer of Nissin Foods Holdings, gave a presentation on "The Analysis of the Relationship between ESG Issues and Corporate Value". He explained the relationship between CSV (Creating Shared Value)-style management, which tackles social issues based on the two axes of "global health" and "human health", and corporate value.
- In the final session, participants studied GPIF's gender pay gap report. Despite only having 30 minutes, a myriad of views and proposals ranging from AI tools to diversification of managerial posts were shared, in a true testament to diversity, before wrapping up with time for networking.

The Thought Leadership Group aims to contribute to the improvement of gender diversity in Japanese companies by communicating on the activities of female leaders and through sharing with the next generation of female leaders on investor expectations of a diversified board.



Thought Leadership Group panel (L to R): Mr. Saito (3D Shareholder Services); Mr. Okamura (Neuberger Berman); Ms. Kobu (Invesco Asset Mgmt.); Mr. Ikawa (Fidelity International)

Details on each session including feedback from participants can be found here (in Japanese only): <https://bit.ly/49jsvPS>



Engagement with female directors from JICPA

On April 3, 2024, the 8th meeting of the Support Committee for Non-CPA Officers with Female Outside Directors was held. This time, members of the Japan Federation of Bar Associations(JFBA) joined the meeting, bringing the total number of participants to just over 50. In addition, Ms. Kana Shirakawa (Daiwa Securities Group Inc.) and Ms. Hiromi Yamagishi (Asahi Group Holdings, Ltd.) from 30% Club TOPIX Presidents' Association joined us to discuss the current situation of companies.



Outline

- Date: April 3, 2024 15:00-17:00 (Reception to be held from 17:00)
- Place: Japan Foundation for Accounting Education & Learning(JFAEL) (Otemachi)
- Number of participants: 56(26 institutional investors, 28 executives, 2 companies)
- Contents: Group discussion (2 themes / 45 minutes x 2 sessions)

Discussion topics

- ① Diversity Promotion
 - Current status (gaps among companies, regions, etc.)
 - Importance of establishing targets and KPI, and information disclosure
- ② Improvement of the effectiveness of the Board.
 - Roles of directors and auditors
 - Number of concurrent holding of positions by the board and effectiveness of them
 - Problems in evaluating effectiveness of the Board, measures for improvement, etc.

Features

- Diversification of participants: 30% Club TOPIX Presidents' Association members participated for the first time. In addition, five members of the JFBA participated in the meeting.
- Changes in Discussion topics: Discussions have shifted from the "necessity" of diversity to "specific measures" such as roadmaps and KPI formulation. The participants expressed different perspectives from each point of view, and exchanged of opinions, which brought awareness to both sides.





Engagement with female directors from JICPA

Participant comments(Expert)

Executives

- Investors are expected to encourage companies to promote importance of diversity from a long-term perspective.
- Investors' questions to companies regarding "KPI setting" and "information disclosure" will have a great effect in motivating management.
- KPI is becoming a general term, and the investors' opinion that it is important to set KPI linked to the company's strengths made us aware of the importance of KPI setting.
- It would be effective to confirm the effectiveness of the board by asking for detailed information on the content of board discussions.

Investors

- The "formulation of a roadmap or plan for diversity promotion" is effective in promoting diversity initiatives.
- The board should not just engage in lively discussions, but deep discussions that match the actual situation of the company.
- The status of the effectiveness evaluation of the board of directors is not well visualized to the external stakeholders, and it is difficult to judge the effectiveness of the board. We would like companies to make disclosures that show the rotation of the PDCA.

Next Time

The next meeting will be held in October 2024. The event is usually held twice a year, in April and October. We had many participants who attended this event for the first time, and the number of participants this time has doubled compared to last year. We will continue to make further efforts to make this event more conducive to best practices in engagement.





Best practices of engagements

Company A in manufacturing sector

- **Issue identified** : Company A is a major manufacturing company listed in the TOPIX Large 70, and as of the Annual General Meeting of Shareholders (AGM) in 2022, **only one female director had been appointed as an outside director**, so there was a possibility that the company would violate the gender diversity standards of the Asset Manager's Voting Guidelines for their AGM in 2023. Therefore, they decided to confirm the company's views on gender diversity through engagement.
- **The engagement with the company:** The company explained that **its culture to welcome diversity of any kind—including gender, professional status, or nationality was deeply rooted into the company, and that the lack of gender diversity in the current board composition was expected to be resolved in the near future.**
- At the same time, it was shared that the company was making progress in providing training and other programs to develop the next generation of management, and that women were included in the pipeline. The Asset Manager communicated that it desirable to appoint women as an inside director in the future, taking into account the fact that **there were several women in positions at executive level.**
- **Outcomes & Future steps:** The company **appointed a female inside director** at June 2023 AGM. The company still has several women at the executive officer level, and the Asset Manager expects to see further improvement in gender diversity over the medium to long term, and will continue to monitor the impact of a corporate culture in which a diverse workforce plays an active role on the company's long-term corporate value.

Best practices of engagements



Company B in chemical sector – A chemical products manufacture in JPX Nikkei Mid Small

- **Issue identified:** The small number of female science students in the materials sector is estimated to be a factor hindering female advancement in R&D departments at R&D-oriented companies in the materials sector. The company recognizes that whether or not this situation is appropriately addressed, whether progress is being made in promoting female advancement in R&D departments, and whether there is a clear path for improvement will **have a significant impact on its mid- to long-term competitiveness as an R&D-oriented company.**
- **The dialogue with the company :** Company B is a medium-sized company, and due to the nature of its business, in which the role of R&D personnel is to support overseas customers, it was hypothesized that it would not be easy to secure human resources and promote women's activities in the R&D department, and a dialogue was held regarding the current situation and countermeasures.
- However, **contrary to our preliminary hypothesis, we confirmed that the ratio of women in the R&D department reached nearly 40%.** It was found that the key factor is not the existence of outstanding institutional support, but rather the motivation of R&D people.
- Based on the recognition that it is important to clarify the image of human resources needed, develop R&D people who possess these elements regardless of gender, and create a climate in which they can play active roles, the company is increasing motivation by providing them with experience in academic presentations, customer support, etc., from early stage. **The retention rate of highly motivated female R&D people is high, and the return-to-work rate after maternity leave has been 100% for the past several years.**

Best practices of engagements



Company B in chemical sector – A chemical products manufacture in JPX Nikkei Mid Small (continued)

- **Outcomes & Future steps:** [Appointment of a woman as the representative of the overseas local subsidiary] In 2022, the first female executive officer was internally promoted from the R&D department, and she became the representative of the Taiwan subsidiary, which is an important base for electronic pharmaceutical products. In addition, a female manager was appointed as the person in charge of launching a new business in Malaysia, and after its establishment, she became the deputy representative of the local subsidiary. 75% of Company B's overseas sales have been generated in overseas, and management at overseas bases is an important career path for people who have gained experience in R&D.
- [Further improvement on disclosure is needed] In the future, we would like to confirm the continuity of the promotion of women's activities in the R&D division and follow up on the trend of the promotion of women's activities in global management and the development of women's activities in overall corporate management.
- In addition, despite the fact that the promotion of women's activities in the R&D division is a source of competitiveness, information disclosure of women encouragement efforts seems to be modest. We would like to encourage further disclosure in this area.

Best practices of engagements



Company C in pharmaceutical sector manufacture in the JPX Nikkei Mid Small

- A global pharmaceutical

- **Issue identified** : While Company C maintained a high degree of independence as a company with a nominating committee (6 out of 9 directors were independent outside directors), **the diversity of the board was limited to 1 woman and zero non-Japanese directors.**
- **The dialogue with the company:** In July 2021, we told Company C's directors that as long as Company C would like to contribute to global health and healthcare as a comprehensive pharmaceutical manufacturer, they should pursue diversity of the board, including non-Japanese directors. On that occasion, **Company C recognized the importance of appointment of global talents, especially as the company's overseas sales are expected to increase.**
- **Outcomes & Future steps:** In a follow-up meeting in September 2022, we confirmed that Company C had set a 2030 goal for board diversity.
- While many Japanese companies are

hesitant to set numerical targets for board diversity, we commended the company's attempt to instill a healthy sense of urgency in management by setting and publicizing targets.

- The goal was simple and ambitious: **30% female directors/executive officers and 20% foreign directors/executive officers to be appointed by 2030.** Company C's early awareness of corporate governance and top management's deep understanding of the significance of diversity on the board of directors were likely factors in its success.
- Company C's goals are ambitious, and achieving them, especially for the executive officer position, is likely to be challenging. Therefore, in the future, we will encourage clarification of actions to achieve the goals. For example, we expect concrete actions such as appointing at least one woman or foreigner to each position in the executive reserve.

Engagement best practices



Company D in chemical sector – A large chemical company in the TOPIX Large 70

- **Issue identified** : We have been engaging in regular dialogue with the company, discussing issues related to corporate governance and initiatives on ESG. Regarding social (S) aspects, we believe there is a challenge in the discrepancy between the actual and targeted ratio of female managers in Japan despite being a global company with over 60% overseas sales. The initiatives for promoting women's participation in the workforce are lagging behind.
- **The dialogue with the company** : We requested an explanation about the current challenges for increasing the number of female managers at domestic locations. The company explained that they recognize the formation and maintenance of a pool of female talent as the main challenge in creating a group of female managers.
- We also highlighted the importance of initiatives related to the overall human capital of the company. The company indicated that creating an environment where diverse talents can demonstrate their ability and sustain that state leads to strengthening human capital. They also said that they are focusing on individualized development strategies such as considering the timing of promotions and tough assignments for women who are particularly affected by life events, and mentioned that they are promoting initiatives on the system side to make it easier for employees to continue working.
- **Outcomes & Future steps**: At the 2022 AGM, a woman who has been with the company since she was a new graduate was appointed to the board of directors, as a result, the number of female directors increased from two to three ((in 2021, a female executive was appointed to the statutory auditor). The fact that a woman was appointed to the board of directors from executives not only serves as a role model for next generations of female employees, but also has the announcement effect internally and externally as a proof of a workplace where a diverse range of human capital can play active roles.
- In the following dialogue, we confirmed that the company has established a committee to promote DE&I and is making further progress in diversity initiatives throughout the group. We intend to continue our positive dialogue in the future. We will closely monitor the progress of the company's efforts to develop and strengthen a workplace environment in which a diverse workforce can play an active role, as befits a global company, and confirm concrete results.

Best practices of engagements



Company E in machinery sector - A global machinery company in the TOPIX Mid 400

- **Issue identified** : Company E, a machinery manufacturer included in the TOPIX Mid400, had never nominated a female board member until the June 2023 AGM, lacked clear top management commitment to gender diversity and quantitative KPIs such as the ratio of female managers, and had very limited disclosure of relevant data.
- **As a global manufacturer with a top-class global market share for its main products and an overseas sales ratio is over 80%, the company appeared to have chosen a human capital strategy that was economically and socially irrational, so we conducted an engagement dialogue with the company.**
- **The dialogue with the company** comments: In the 2022 dialogue, along with the possibility of nominating a female board member in the near future, **the company also took up gender diversity promotion and complementary personnel evaluation system reforms (not only various benefit improvements and WLB improvements, but also introduction of a job-based employment system and evaluation).**
- The company stated that it was in the process of nomination of female candidates for directors from outside of the company and that it had no intention of making major changes to its employment and personnel evaluation systems for the purpose of promoting gender diversity. However, the company expressed recognition that it is in the process of "spreading the concept (of gender diversity)," and that Japan, where it is headquartered, is "lagging behind" compared to overseas group companies where there are no gender differences in promotion standards and many female managers.
- **In a dialogue held in May 2023 (just prior to the June AGM), we pointed out the issues of promoting the development of senior management as a "candidate of next generation " for female executive directors and setting quantitative targets for the number (ratio) of female managers, and received positive responses on the latter issue.**

Best practices of engagements



Company E in machinery sector - A global machinery company in the TOPIX Mid 400 (continued)

- **Outcomes & Future steps** : At the June 2023 AGM, the Company's first outside female director (member of the Audit Committee) was nominated. July 2023, the company announced in its integrated report that it had set a female management ratio (number) target for its Parent entity; which is 3% (10 or more) by the fiscal year ending March 31, 2030. The level of disclosure of labor-related historical data (number of female employees, number of female managers, wage difference between men and women, etc.), which is a necessary data for engagement, on the company website and in the integrated report, has also improved. **The company is not categorized the most behind group of gender diversity effort anymore**, and we believe that the following points (1) to (5) will be the key points for future engagement in order to maintain and accelerate the improvement trend.
 - (1) strengthen the commitment of top management,
 - (2) appoint female executive directors within the company, including those promoted from executive officers of overseas group companies,
 - (3) achieve (exceed) the target for the ratio of female managers,
 - (4) train senior female managers as a pipeline of future candidates for board members, and
 - (5) strengthen complementary measures to promote gender diversity (reform the personnel evaluation system, narrow the wage gap between men and women, etc.).



Selection of FY2023 Nadeshiko Brands by METI & JPX

The Ministry of Economy, Trade and Industry (METI), in cooperation with the Tokyo Stock Exchange (TSE), has selected Nadeshiko Brand companies, which are considered to be leading companies in the encouraging gender diversity. Nadeshiko Brands has been continued since 2012. Ms. Tomoko Soma, Director, Economic and Social Policy Office, Economic and Industrial Policy Bureau, METI, commented below.

【Ms. Tomoko Soma: Ministry of Economy, Trade and Industry, Economic and Social Policy Office, Economic and Industrial Policy Bureau】

Many companies have implemented gender diversity efforts, in which diversified human capital can maximize their abilities to enhance corporate value. This movement is expected to grow stronger in the future as more attention is paid to the human capital and sustainability-conscious management initiatives and their information disclosure. In light of this, in FY2022, we renewed the process of Nadeshiko Brands selection; to emphasize the correlation between business strategies and human resource strategies, including the women encouragement, and the promotion of the disclosure of non-financial information. In fiscal 2023, based on the philosophy above, we established new category, called “Next Nadeshiko: Companies Supporting Dual-career and Co-parenting”, which are companies with particularly good work-life balance initiatives which support all employees to enable dual-career and co-parenting. Burden of women's careers due to childbirth or childcare is one of the factors preventing women from taking active roles in the workforce. Background for such situation is a long-hours working customs, an unbalanced burden of house-keeping and childcare duties for women, and a stereotype gender-biased mindset, etc.



Selection of FY2023 Nadeshiko Brands by METI & JPX



[Ms. Tomoko Soma: Ministry of Economy, Trade and Industry, Economic and Social Policy Office, Economic and Industrial Policy Bureau] (continued)

In FY2023, 27 companies were selected as “Nadeshiko Brands” for their efforts to promote diversity, which is key to their corporate value enhancement by promoting both “consistent career development effort” and “support for all employees’ dual-income career and dual parenting”. The 16 companies that are particularly outstanding in their efforts to support dual income and dual parenting are newly selected as “Next Nadeshiko: Companies Supporting Dual-career and Co-parenting”. In terms of the link between women encouragement and corporate value enhancement, the average stock price performance of 27 Nadeshiko Brands companies selected outperformed TOPIX over the past several years.

When companies apply to Nadeshiko Brands, they will have the opportunity to review the current status of their diversity management and women’s empowerment, which will lead to the acceleration of such efforts and the enhancement of corporate values. Investors are encouraged to make use of those companies’ data and case studies of Nadeshiko Brands companies, on their investment decisions process and the engagements with investee companies. We expect that investors’ attentions to those diversity information should encourage listed companies to enhance such diversity related information disclosure. We would appreciate your further intention to the Nadeshiko Brands, and we would be grateful if you could provide us with any suggestions. The report and the data collection containing the details of the selection results are available on the website of METI.

<https://www.meti.go.jp/policy/economy/jinzai/diversity/nadeshiko.html>





30%+
Club

PATH TO PARITY