

Japan



GLASS LEWIS

Proxy Season Review

2023

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About Glass Lewis

Glass Lewis is the world's choice for governance solutions. We enable institutional investors and publicly listed companies to make informed decisions based on research and data. We cover 30,000+ meetings each year, across approximately 100 global markets. Our team has been providing in-depth analysis of companies since 2003, relying solely on publicly available information to inform its policies, research, and voting recommendations.

Our customers include the majority of the world's largest pension plans, mutual funds, and asset managers, collectively managing over \$40 trillion in assets. We have teams located across the United States, Europe, and Asia-Pacific giving us global reach with a local perspective on the important governance issues.

Investors around the world depend on Glass Lewis' [Viewpoint](#) platform to manage their proxy voting, policy implementation, recordkeeping, and reporting. Our industry leading [Proxy Paper](#) product provides comprehensive environmental, social, and governance research and voting recommendations weeks ahead of voting deadlines. Public companies can also use our innovative [Report Feedback Statement](#) to deliver their opinion on our proxy research directly to the voting decision makers at every investor client in time for voting decisions to be made or changed.

The research team engages extensively with public companies, investors, regulators, and other industry stakeholders to gain relevant context into the realities surrounding companies, sectors, and the market in general. This enables us to provide the most comprehensive and pragmatic insights to our customers.

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Executive Summary

The post-pandemic world may finally be moving toward the "new normal," but Japan's 2023 proxy season took place in the context of new challenges, including a fractured global supply chain following Russia's invasion of Ukraine, tight energy supply and demand, and inflation across global markets. In a market that is adjusting to the growing influence of international investors and the expanding scope of domestic investors' stewardship efforts, the unstable conditions further raised expectations for companies to address issues such as climate change, human capital management, equality, and diversity. Increasingly, these expectations are influencing the outcome of director elections, pay decisions, and shareholder proposals.

The Japanese AGM season saw certain trends from 2022 continue, showing the growth of shareholder activism and the progress of governance reform. During the season, the number of companies that received shareholder proposals increased by 28%, and over half of those proposals related to environmental, social or governance (ESG) issues. That included a number of proposals focused on climate change, reflecting both global trends and Japan's relatively high dependency on coal and fossil fuels, as well as the shifting attention and influence of locally-based and overseas institutions. While none of these proposals were approved, they consistently received a level of support that typically prompts the board of directors to provide further explanation and responsive measures to shareholders.

There were also positive regulatory developments in the Japanese market. In response to the 2021 revised Corporate Governance Code requirement for Prime Market-listed companies to have a better corporate governance structure, including with reference to diversity and director independence, more companies appointed women directors and board independence ratios have improved. In particular, during the 2023 shareholder meeting season, there was progress on board gender diversity at many companies. Moreover, companies that have yet to appoint women directors are facing investor opposition, often directed at board leadership: there were instances where board diversity concerns led to certain chairs and/or CEOs re-appointments were narrowly approved.

Governance improvements aligning the Japanese market with international best practices have attracted investors from other parts of the globe. However, the influx of overseas capital also stems in part from bargain hunters, as a significant proportion of Japanese corporate issuers continue to underperform on capital efficiency and profitability. Continuing a trend from 2022, investor concerns were manifested in a 42% rise in the number of shareholder proposals calling for share buybacks; and this year regulators got involved as well, with the Tokyo Stock Exchange issuing guidance on "Measures to Achieve Management Conscious of Cost of Capital and Stock Price."

We now turn our attention to off-season engagement and enhancements to our benchmark policies and Proxy Papers. Based on these substantial shifts in the corporate governance landscape played out during this past proxy season, we are enhancing our issuer engagements on a range of ESG topics, including board independence, board diversity, cross-shareholdings, climate risk, and human capital management. We look forward to these constructive dialogues in an effort to understand how companies are approaching these issues in the context of managing these risks and opportunities as a means of enhancing shareholder value..

Additionally, this year, over 2,500 companies in 37 global markets used Glass Lewis' Issuer Data Report to verify the accuracy of our data prior to publication of our Proxy Paper, over 1,000 companies provided their updated list of self-disclosed peers for inclusion in our Glass Lewis peer group methodology, and over 200 companies,

including 20 in Japan, have taken advantage of our innovative Report Feedback Statement service to include their unedited perspectives alongside Glass Lewis' research.

If you have any comments or feedback regarding this review, or would like to access the underlying data that we have collected, please get in touch with your client service representative.

Kind regards,



Naoko Ueno

Vice President, Asian Research & Engagement

Key Trends

Board & Governance Oversight

Director Elections

- Glass Lewis continues to overwhelmingly support director elections, recommending in favor of 91.2% and 90.3% of directors in 2022 and 2023, respectively.
- As in previous years, the vast majority of companies received strong support for their director election proposals. However, at companies facing governance issues, such as a lack of gender diversity or major scandals, certain director nominees did not receive the same level of support. For example, the CEO of CANON INC. received only 50.7% support for his reappointment.

Gender Diversity

- More than three-quarters (75.3%) of Prime Market-listed companies met Glass Lewis' new 10% board gender diversity criterion for Prime Market-listed companies, up from last year's figure of 66.6%.
- At Prime Market-listed companies, the appointment of new women directors surpassed that of any other market, and the percentage of companies without any board gender diversity decreased from 20.8% last year to 12.2% this year.
- At companies with no women directors, the chair of the board or CEO was more likely to receive lower favorable shareholder votes, especially at Prime Market-listed companies. This is because institutional investors are increasingly opposing the election of top management at companies that do not have women directors as part of their voting criteria.
- At Non-Prime Markets, on the other hand, the percentage of companies without a single woman director is 50.7%, a slight improvement from last year's figure of 56.2%, but still more than half of the companies have no board gender diversity.
- Approximately 50% of women directors were found to hold positions on multiple boards, whereas the corresponding figure for men was 16%. Given this, it can be inferred that the currently-identified talent pool of Japanese women director candidates is relatively small, suggesting that Japanese companies may need to find a different way to find qualified women director candidates.

Disclosure

- We observed a disparity in the timing of shareholder meeting notices among companies listed on the Prime Market and those listed on other markets. Specifically, 30.3% of Prime Market-listed companies chose to disclose their notice of meetings a minimum of 28 days prior to their annual shareholder meetings. In contrast, only 9.4% of companies listed on other markets opted for early disclosure.

Environmental, Social and Governance

- Continuing a trend from last year, 2023 has been a strong year for shareholder initiatives and activism in Japan. We reviewed shareholder proposals on a variety of topics such as the environment, diversity, capital allocation, and directors' compensation.
 - The total number of shareholder proposals increased by 28%.
 - The number of companies that received shareholder proposals increased by 23%.
 - Over half (56%) of shareholder proposals were related to ESG issues, with 13% specifically focusing on environmental issues.
 - While Glass Lewis' support for environmental issues decreased from 9% last year to 3% this year, many of these proposals continued to receive enough shareholder support to warrant a response from the board. Environmental proposals averaged 11.6% support overall, with a high of 36.5% at The Kansai Electric Power Company.
 - While the number of capital-related shareholder proposals remained consistent with the previous year, proposals demanding share buyback increased significantly by 42% this year.

Strategic/Cross-Shareholdings

- Similar to the past two years, 28% of companies in our coverage held strategic shareholding shares comprising 10% or more of their consolidated net assets.
- Prime Market-listed companies are more likely to have excessive strategic shareholdings than companies listed on other markets. We believe that this phenomenon occurs because companies listed on the Prime Market include traditional prestige companies historically associated with excessive strategic shareholdings.
- Companies having excessive strategic shareholdings are more likely to exhibit lower ROE. For more details, please see the chart illustrating "Strategic Shareholdings & Five Year ROE" in the Proxy Statistics section of this review.

Meeting Spotlight

CANON INC. (TYO: 7751)

March 30, 2023 Annual Meeting

- *Election of Fujio Mitarai* 50.7% in favor (75.8% in 2022, 90.3% in 2021)
- *Election of Toshizo Tanaka* 77.5% in favor (86.3% in 2022, 94.6% in 2021)
- *Election of Toshio Homma* 77.6% in favor (88.4% in 2022, 96.6% in 2021)

Canon's annual shareholder meeting sent shockwaves through the Japanese corporate world, after longtime president Fujio Mitarai was re-elected by the narrowest of margins. His re-appointment only attracted 50.7% of shareholder support, a marked decline of 25.1 percentage points compared to the previous year.

Significant shareholder opposition to top management is relatively new in Japan, but not unheard of. In recent years, when company performance has not been at a level acceptable to shareholders, for example low ROE, top management tends to receive a high level of against votes. However, Canon's financial performance has been solid. For the fiscal year ended December 31, 2022, sales were 4.03 trillion yen and operating profit was 353.3 billion yen, the second consecutive year of growth. The annual dividend for the fiscal year ended December 31, 2022, was increased by 20 yen from the previous year to 120 yen per share, the second consecutive year of dividend increases. The dividend payout ratio exceeded 50%. On July 27, the company upwardly revised its forecast for the fiscal year ending December 31, 2023, increasing net sales by 8.2% y-o-y to 4,363 billion yen, operating income by 13.2% y-o-y to 400 billion yen, and raising its planned annual dividend to 140 yen (up another 20 yen y-o-y). Therefore, the reason for the decline in investor support was not earnings performance. So what happened?

The main reason for Mr. Mitarai's low approval rate appears to be the lack of diversity on the board of directors or the absence of women directors in the management structure. An increasing number of both domestic and international shareholders have begun to view board gender diversity as a major management issue, integrating it into their voting policies. Perhaps not coincidentally, the approval rate for the election and reappointment of directors at companies with no women directors has been declining since 2022.

As for Canon, the approval rates for all three inside directors (Mr. Mitarai, chair and CEO, Mr. Tanaka, vice president, and Mr. Homma, vice president) began to decline last year, and this year they dropped even further, as shown at the beginning of this Meeting Spotlight.

While the growing focus on board gender diversity is often attributed to the influence of international investors, it's worth noting that as of December 31, 2022, Canon's shareholders consisted of only 17.7% foreigners, with 46.6% held by individuals and others (i.e. non-institutional). The decline in support for Mr. Mitarai's reappointment is believed to have been largely due to negative votes by domestic institutional investors and individual shareholders.

The ripple effect of this "Canon shock" was particularly widespread among companies listed on the Prime Market. The fact that the reappointment of a major top executive was actually in jeopardy heightened the sense of crisis and led to a widespread movement to appoint more women as directors. As a result, the percentage of Prime Market-listed companies in Glass Lewis coverage without a single woman director dropped from 20.8%

last year to 12.2% this year. At a press conference on July 27, Canon's vice president Tanaka said he "greatly regrets" the low approval rate and expressed his intention to select women director candidates for next year. This year's Canon annual shareholder meeting symbolized a season of shareholder scrutiny regarding gender balance. See "Gender Diversity" in the Proxy Statistics section of this report for further discussion.

OBAYASHI CORPORATION (TYO: 1802)

June 28, 2023 Annual Meeting

- *Election of Takao Obayashi* 77.2% in favor (82.1% in 2022, 94.8% in 2021)
- *Election of Kenji Hasuwa* 78.8% in favor (84.3% in 2022, 97.1% in 2021)
- *Shareholder Proposal Re: Special Dividend* 26.8% in favor

Another notable change in investor sentiment – and voting behaviour -- during the 2023 proxy season related to capital efficiency and profitability, with proposals on these topics receiving unprecedented scrutiny.

The trigger was the Tokyo Stock Exchange (TSE)'s March 2023 notice requiring companies listed on the Prime and Standard Markets to take action to achieve cost-of-capital and stock price-conscious management. The TSE recognized that about half of the companies listed on the Prime Market and 60% of the companies listed on the Standard Market had return on equity (ROE) below 8% and price to book (P/B) ratios less than 1, indicating that there were issues in terms of return on capital and growth potential. The TSE strongly urged companies, especially those whose P/B ratios remain below 1 for a long period of time, to disclose and implement specific measures to raise their market valuation for the mid- to long-term.

Over the past several years, the number of listed companies receiving shareholder proposals has increased rapidly. There has been an increase in the number of activists pushing for higher shareholder returns, through measures such as share buybacks and dividend increases. This year, the TSE's announcement to encourage efforts to improve P/B ratios provided the tailwind. In fact, 95 companies received shareholder proposals between January to June of this year, and the number of proposals reached 387, both record highs. In addition, more than 70% of the companies that received shareholder proposals at their June meetings had P/B ratios less than 1. In particular, at shareholder meetings in the construction industry, where companies with P/B ratios of less than 1 are prominent, activists made a series of proposals for share buybacks and dividend increases. The approval rate for top management also declined significantly. Many companies in the construction industry have P/B ratios less than 1 due mainly to poor capital efficiency, indicated by significant amount of strategic shareholding and low ROE.

Obayashi Corporation, which we will discuss here, is one of the companies facing these issues. While the company's ROE has averaged in the 10% range over the last five fiscal years, it fell below 5% in the fiscal year ended March 31, 2022. Moreover, despite solid historical ROE, the company was likely already on investor watchlists: the ratio of its strategic shareholdings to net assets has remained above 30%, and its P/B ratio has remained below 1, for the last three fiscal years.

This year, the company received a shareholder proposal from Silchester International LLP, which argued that the company should distribute to its shareholders an amount equal to 50% of the net income from

its core business, together with an amount equal to 100% of net income that is not directly related to its core business. In this case, despite our recommendation to shareholders to vote against the proposal due to our analysis of the company's current ratio (approximately 1.23x) and ROE (approximately 7.9%) for the fiscal year ending March 2023, which we considered reasonable both in absolute terms and relative to the broader market, the proposal received 26.8% shareholders' support. According to our analysis, this level of support exceeded the average approval rate of 19.9% for similar shareholder proposals made to our coverage companies this year.

In light of Glass Lewis' Japan policy guidelines, we did not find particular concerns over the independence and diversity of the company's board of directors, however, the significant downward trend in the approval rate of its top management over the last three years may be an indication that investors are increasingly requesting greater capital efficiency by voting against the management. This year, given that the company's target to reduce for its strategic shareholdings to less than 20% of its net asset by March 2027, Glass Lewis refrained from recommending against the chair of the board of directors of the company. Nevertheless, should there be insufficient progress in the reduction of strategic shareholdings in the future, we might need to enhance our policy guidelines to further promote such reductions.

Seven & i Holdings Co., Ltd. (TYO: 3382)

May 25, 2023 Annual Meeting

Management Candidates

- *Election of Ryuichi Isaka* 76.4% in favor (94.7% in 2022)
- *Election of Katsuhiro Goto* 74.9% in favor (96.1% in 2022)
- *Election of Toshiro Yonemura* 64.9% in favor (97.6% in 2022)
- *Election of Shinji Wada* 67.9% in favor (New)
- *Election of Fuminao Hachiuma* 68.4% in favor (New)

ValueAct Candidates

- *Election of Katsuya Natori* 34.1% in favor
- *Election of Dene Rogers* 33.5% in favor
- *Election of Ronald Gill* 33.1% in favor
- *Election of Brittni Levinson* 25.5% in favor

A contested election of directors served as the focal point of this year's annual shareholder meeting for Seven & i Holdings Co., Ltd. The incumbent board had nominated a total of 15 directors, including six insiders and nine outside directors. Based on concerns that Seven & i lacks an effective strategy for optimizing shareholder value, and in particular for unlocking the complete potential of the 7-Eleven business, ValueAct Capital Master Fund (ValueAct) sought to wield its 4.4% ownership influence by replacing four of the board's nominees, including president Isaka and vice president Goto, with four of their own candidates.

This isn't the first time that ValueAct has gotten involved in Seven & i's strategy and governance. Having held a stake in the company since 2020, ValueAct has consistently advocated for changes to the board's structure, including the removal of Mr. Isaka, along with spinning-off the convenience store business and divestment of

unprofitable supermarket operations. According to ValueAct, a new approach is essential to enable a comprehensive exploration of potential strategic alternatives and transformative approaches aimed at maximizing shareholder value. In response, Seven & i has pushed back against the idea of splitting the businesses, emphasizing the pivotal role of the supermarket operations' expertise in the development of food products for the convenience store segment.

Under mounting pressure, late last year Seven & i initiated indications of change. In November 2022, it unveiled plans to divest its long-struggling department store business to Fortress Investment Group LLC. Subsequently, in March 2023, the company outlined a strategy to streamline the supermarket business by reducing the number of stores, with a heightened focus on the convenience store segment. Nonetheless, ValueAct's perspective was that Seven & i's new strategic plans still fell short of achieving optimal shareholder value.

Glass Lewis recommended voting against all five inside director nominees proposed by the board, citing considerations of financial performance, strategic direction, and corporate governance concerns, and recommended supporting the candidates proposed by ValueAct. We found that ValueAct had raised valid concerns regarding the company's financial performance and strategic direction under the tenure of the current president and representative director, making a compelling case for change. Moreover, we noted that while ValueAct is perhaps the most vocal critic, many investors have raised concerns regarding the company's conglomerate structure and broad strategy, with repeated calls to exit underperforming businesses.

While the incumbent board's candidates were all elected and ValueAct's candidates were not, the four incumbent directors targeted by the activist received the lowest approval ratings in a decade, underscoring shareholders' growing dissatisfaction.

2020 Tokyo Olympics Scandal

- [DENTSU GROUP INC. \(TYO: 4324\) - Bid-rigging](#)
- [AOKI Holdings Inc. \(TYO: 8214\) - Bribery](#)
- [KADOKAWA CORPORATION \(TYO: 9468\) - Bribery](#)
- [HAKUHODO DY HOLDINGS INCORPORATED \(TYO: 2433\) - Bid-rigging / Bribery](#)

A scandal involving multiple publicly-listed companies' sponsorship of the Tokyo 2020 Olympics and Paralympic Games has caused a sensation that impacted several shareholder meetings this year.

In August 2022, allegations of corruption in connection with the Tokyo 2020 Olympics surfaced when Mr. Haruyuki Takahashi, a former Dentsu employee and ex-executive of the Olympic Organising Committee, and three officials of AOKI Holdings Inc. were arrested on charges of bribery. Subsequently, further investigations were carried out, and concerns about bribery and bid-rigging involving additional companies came to light. High-ranking executives and company officials have been arrested, and some listed companies have even been indicted as legal entities.

The alleged corruption took different routes across different companies. AOKI, Hakuholdo and Kadokawa are suspected of providing 198 million yen in bribes to secure sponsorship contracts. Hakuholdo also faces allegations of bid-rigging, along with Dentsu and other entities. The 40-billion-yen scheme, which saw the

companies that won bids to plan the test events go on to sign contracts to run pre-Games events and competitions, led to the indictment of seven individuals.

The scandal revealed governance gaps within the companies involved. At their 2023 annual general meetings, shareholder support for certain director nominees declined, with particularly notable declines observed for specific nominees as detailed below.

DENTSU GROUP INC. (TYO: 4324)

March 30, 2023 Annual Meeting

- *Election of Hiroshi Igarashi* 66.6% in favor (92.6% in 2022)
- *Election of Arinobu Soga* 75.6% in favor (98.8% in 2022)
- *Election of Gan Matsui* 87.9% in favor (96.2% in 2022)

Dentsu Group was at the center of the scandal, and tried to draw a line under its involvement and move on. After the company was indicted (as an entity) for alleged bid-rigging, it reportedly accepted responsibility. In addition, the board appointed a special committee to investigate the incident.

However, despite this contrite response and the company's strong performance in fiscal year 2022, during which it achieved record-breaking levels of gross profit and adjusted operating income along with its highest annual dividend per share since its listing, questions remained about the effectiveness of Dentsu's internal controls, risk management, compliance awareness, financial reporting procedures, and auditing systems.

Based on concerns regarding their oversight failures, Glass Lewis recommended voting against the reappointment of president Igarashi and vice president Soga. These directors, along with audit committee chair Matsui, saw a notable decrease in shareholder support compared to 2022.

AOKI Holdings Inc. (TYO: 8214)

June 29, 2023 Annual Meeting

- *Election of Akihiro Aoki* 85.3% in favor (87.5% in 2022)
- *Election of Haruo Tamura* 89.9% in favor (95.3% in 2022)

Aoki Holdings faced significant governance challenges after an internal investigation revealed its alleged involvement in serious governance misconduct.

Founder and former chair Hironori Aoki, along with vice chair Takahisa Aoki and executive officer Katsuhisa Ueda, reportedly engaged in seeking favors from Haruyuki Takahashi in exchange for bribes amounting to 51 million yen. They were found guilty following a trial. These incidents were related to sponsorship contracts signed in 2017 and 2018.

The company's Governance Inspection and Reform Committee determined that the incident arose due to executives prioritizing the founder's intentions over compliance and ethics. Moreover, it was not an isolated incident -- multiple similar contracts were entered despite suspicions and concerns. Factors contributing to the situation included dysfunctional governance, excessive influence from the company's owners, and a corporate culture that favored intentions over compliance.

The Committee's findings indicated ineffective functioning of internal controls, reporting, and monitoring systems. One example of this was Hironori Aoki instructing Ueda to dispose of relevant documents requested by the Tokyo Prosecutors Office. The board's failure to ensure adequate internal controls and transparent disclosure was emphasized, along with management's accountability for the incident's impact on corporate value and reputation.

In light of these findings, Glass Lewis recommended voting against the renomination of Akihiro Aoki, Haruo Tamura, Masamitsu Aoki, and Yoko Ohara as directors.

Kadokawa Corporation (TYO: 9468)

June 22, 2023 Annual Meeting

- | | |
|---------------------------------|--------------------------------|
| • Election of Takeshi Natsuno | 84.7% in favor (96.7% in 2022) |
| • Election of Naohisa Yamashita | 88.7% in favor (97.4% in 2022) |
| • Election of Nobuo Kawakami | 89.3% in favor (97.7% in 2022) |
| • Election of Hiroo Unoura | 83.8% in favor (97.4% in 2022) |

Following the September 2022 arrest of former chair Tsuguhiko Kadokawa and two others from Kadokawa Corporation on bribery charges amounting to 76 million yen, investigations revealed concerning governance practices and a weak risk management system. Two separate investigations were carried out, revealing significant lapses in internal controls and a lack of oversight within the organization.

The report from the Governance Inspection Committee shed light on internal control lapses that allowed a contract to proceed despite alerts from the Legal Department about potential bribery. The committee identified multiple instances where employees felt obliged to defer to top management even when they had suspicions of bribery.

That said, the Governance Inspection Committee's [report](#) found that none of the current board were aware of or involved in the incident, with some directors not yet appointed at the time the incident occurred. Moreover, we noted that the company had proposed material improvements to its governance structure to prevent these issues from recurring. Improvements included [transitioning](#) to a one-tier with three-committee company structure, installing a board-level Management Reform Promotion Committee, and appointing a number of new outside directors so that a majority of the board is independent. In light of this response, Glass Lewis refrained from recommending votes against any nominees on this basis at the 2023 AGM.

Some shareholders disagreed. While the election of all director nominees was approved at the 2023 AGM, president Takeshi Natsuno and directors Naohisa Yamashita, Nobuo Kawakami, and Hiroo Unoura secured less than 90% shareholder support, a significant decline from the prior year.

Hakuhodo DY Holdings Incorporated (TYO: 2433)

June 29, 2023 Annual Meeting

- *Election of Hirokazu Toda* 79.2% in favor (90.1% in 2022)
- *Election of Masayuki Mizushima* 77.9% in favor (92.1% in 2022)
- *Election of Noboru Matsuda* 93.5% in favor (99.8% in 2022)

The involvement of Hakuhodo DY Holdings reportedly extended to other Group companies and subsidiaries, including Daiko Advertising Inc. and Hakuhodo Inc. The involvement of multiple Group companies in the Olympic scandal raises significant concerns about the effectiveness of internal controls, governance framework, compliance awareness, and risk management.

The Group had already established compliance and information security committees by 2018, when the incidents occurred, with a 100% attendance rate for the compliance training. In light of this, we found that the Group's internal control system, compliance framework, and risk management proved to be ineffective, and determined that certain board members should be held accountable.

As a result, we recommended voting against the following three nominees: i) Hirokazu Toda, president between 2010 and 2019, who was responsible for internal control systems and chaired the Compliance Committee; ii) Masayuki Mizushima, president of Hakuhodo Inc. since 2017, was indicted by the Tokyo District Public Prosecutors Office; and iii) Noboru Matsuda, an outside director since 2015, who was appointed for governance and compliance advice.

At 2023 AGM of Hakuhodo DY Holdings, shareholder support for Hirokazu Toda and Masayuki Mizushima significantly declined compared to 2022. Both nominees received more than 90% shareholder support in 2022, but it declined to less than 80% in 2023.

Proxy Statistics

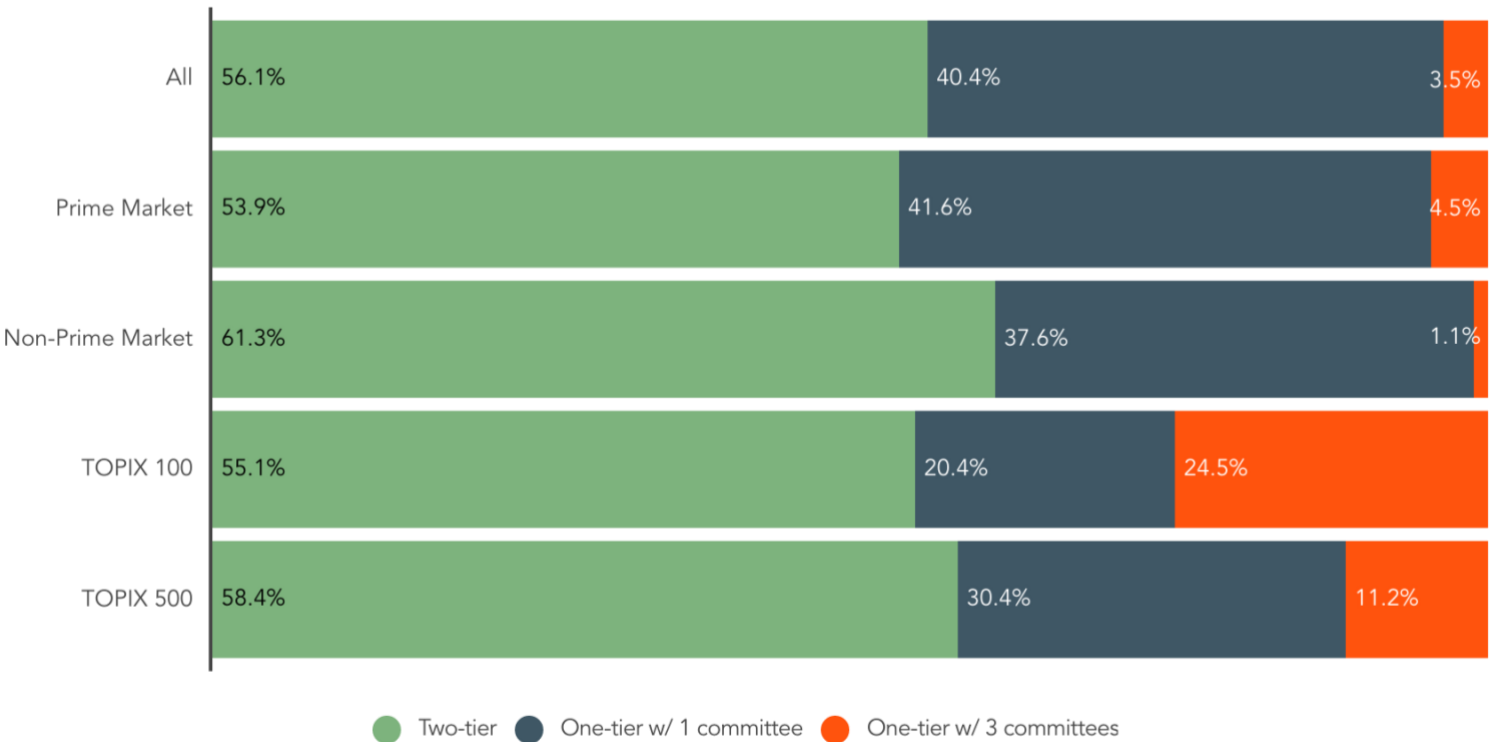
Board Type & Independence

This year, Glass Lewis made significant changes to our Japanese board independence policy. For Prime Market companies holding general shareholder meetings on or after February 1, 2023, if less than one-third of the board comprises independent outside directors, we generally recommend voting against the chair of the board in a two-tier or one-tier with one committee structure, as well as the nominating committee chair in a one-tier with three committee structure. This recommendation also applies to controlled companies listed on the Prime Market that do not have a majority of independent outside directors.

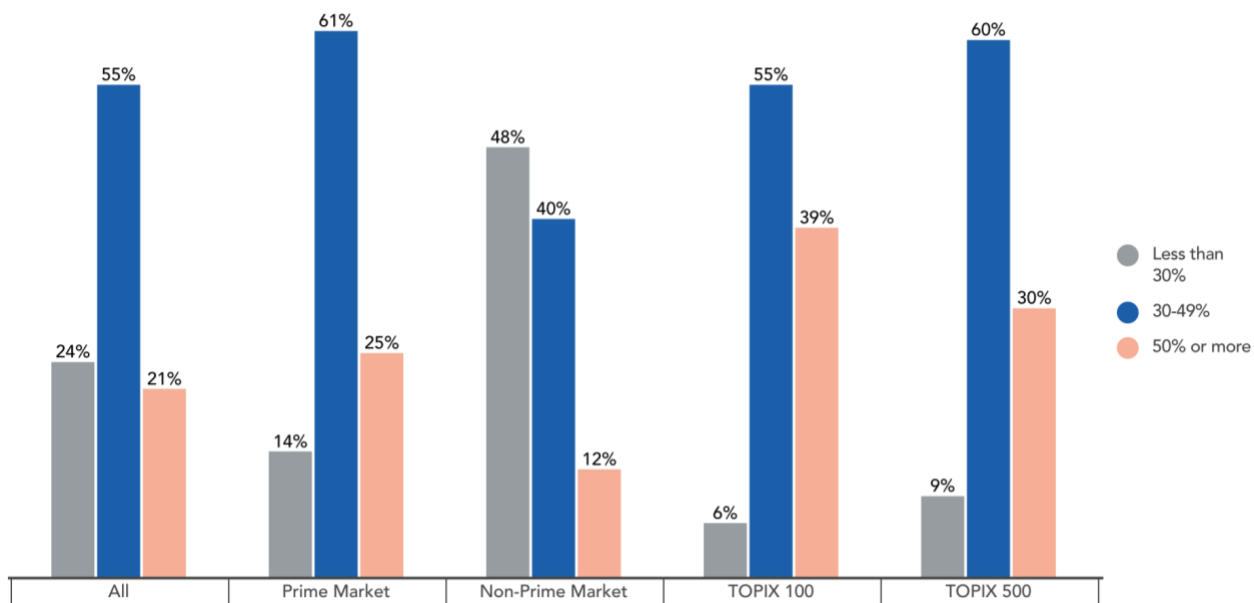
Additionally, in the case of a non-Prime Market company with a two-tier board structure and no controlling entity, we generally recommend that shareholders vote against the board chair if less than one-third of the combined board of directors and board of statutory auditors is independent, and/or if there are fewer than two independent outside directors on each board.

While a majority of companies in Japan maintain a two-tier board structure, the percentage of such boards is gradually decreasing, from 63% in 2021 to 57% in 2022, and to 56% in 2023. While the one-tier with three committee board structure remains rare overall (adopted by 3.5% of all companies), it is far more widely adopted at companies within the TOPIX100 index (24.4%).

Board Structure



Board Independence Breakdown



Gender Diversity

The 2023 proxy season provided a clear indication of growing investor pressure on board gender diversity. At companies that did not have women directors, an increasing number of investors opposed the appointment of top executives, causing a notable decline in the voting support for the election of top management.

While international investors have advocated for board gender diversity for some time, many of them have historically excluded Japan from this policy for voting purposes. Around 2022, many international institutions changed their approach and began applying their standard board gender diversity policies to Japanese companies. As a result, companies with no women directors began receiving a significant number of opposing votes. This wave prompted many Japanese domestic investors, who were aware of the issue but had yet to take action, to incorporate a demand for at least one woman director into their voting policies. Moreover, it appears that many Japanese individual investors have followed suit.

Canon Inc. may have been the most notable example of a company whose CEO and chair faced a drop in support due to the lack of board gender diversity (see Meeting Spotlight, above), but there were several similar situations through peak of the AGM season in June:

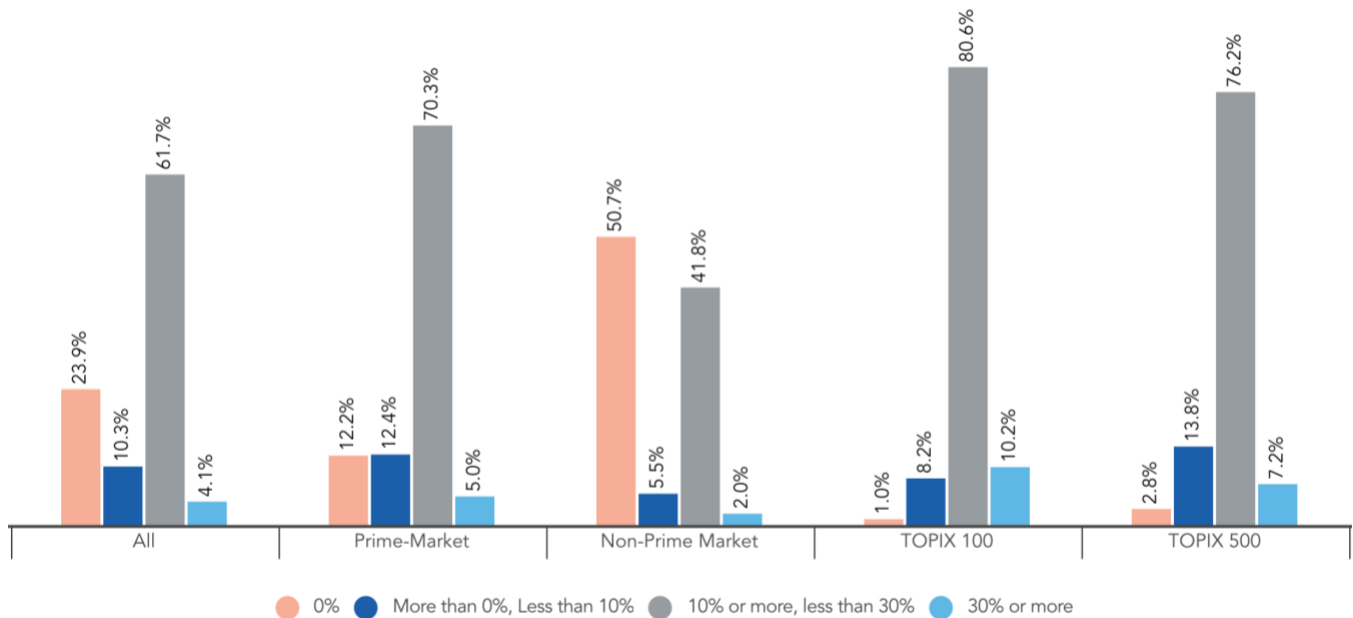
Ticker	Company Name	2022 Support	2023 Support
7003	MITSUI E&S Co., Ltd.	91.9%	70.5%
6473	JTEKT Corporation	87.8%	71.9%
7240	NOK CORPORATION	89.8%	79.2%

None of these companies included women among the candidates for the board of directors.

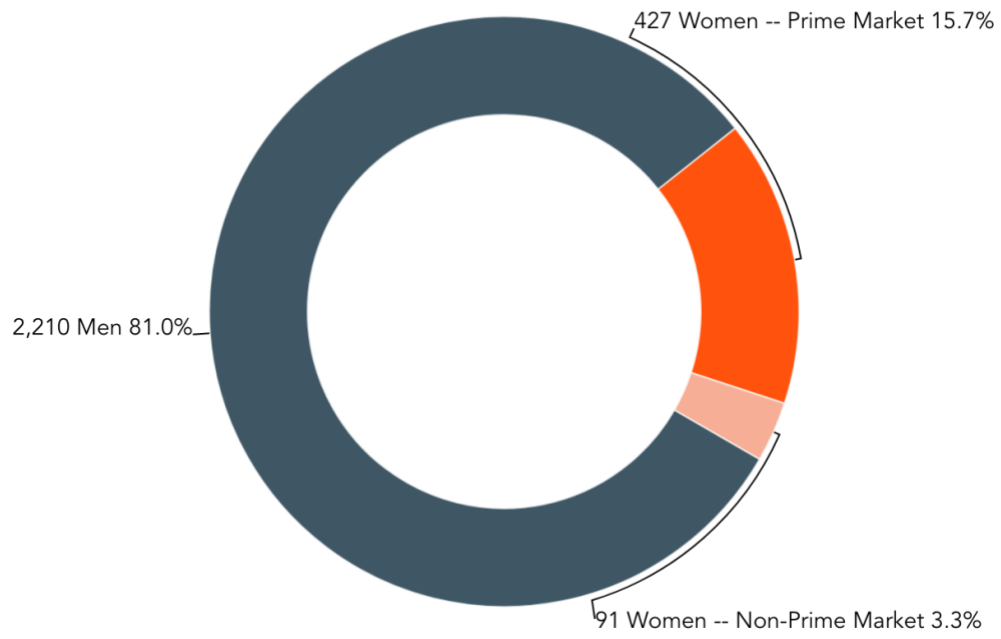
One of the reason these companies received so much attention, and voting opposition, is that more and more of their peers have made progress in appointing women directors. The overall percentage of listed companies with no women directors fell from 31.6% last year to 23.9% this year, and the percentage of Prime Market-listed companies with no women directors fell from 20.8% to 12.2%. For example, at their general shareholder meetings in June, Prime Market-listed companies such as TORAY INDUSTRIES, INC. (3402), Shin-Etsu Chemical Co., Ltd. (4063), KINDEN CORPORATION (1944) and IWATANI CORPORATION (8088) elected women as directors for the first time. Companies listed outside the Prime Market have also made some progress addressing board gender diversity, but half of these companies still maintain men-only boards. Of the new women directors appointed this year, 82.4% were appointed by companies listed on the Prime Market, with appointments outside the Prime Market lagging behind.

Even among Prime Market-listed companies, 24.6% of companies still fell short of Glass Lewis' new 10% board gender diversity criterion for Prime Market-listed companies, and only 5.0% of companies had more than 30% women on their boards. Overall, in comparison to international standards, Japanese companies have made slow progress in promoting gender diversity at the board level.

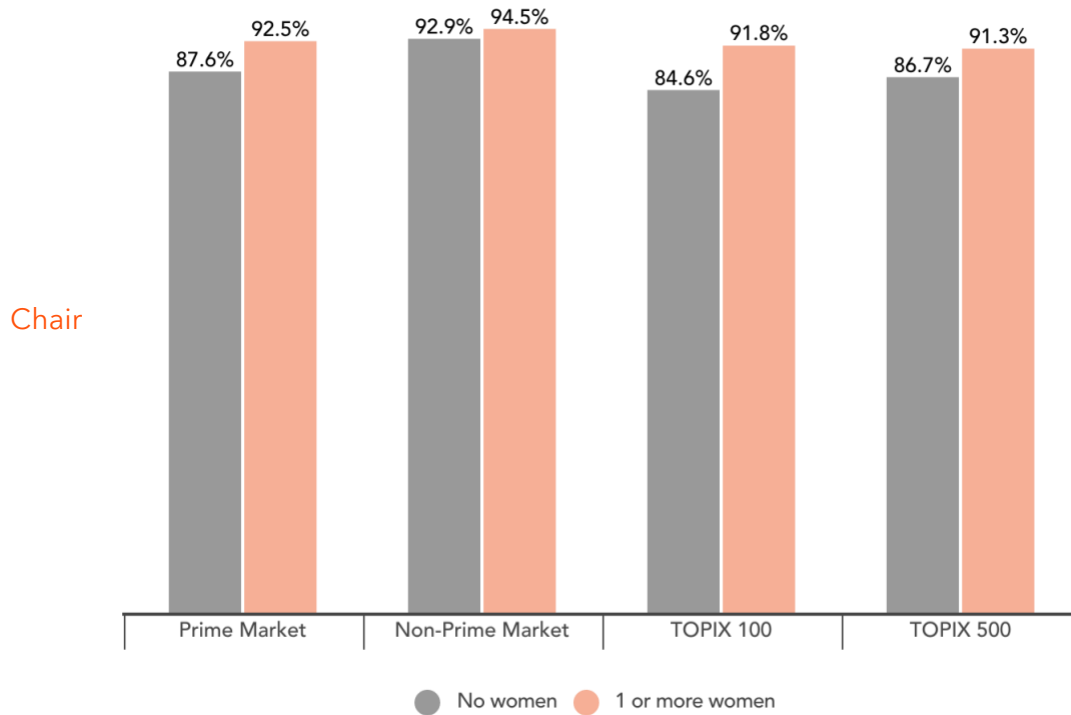
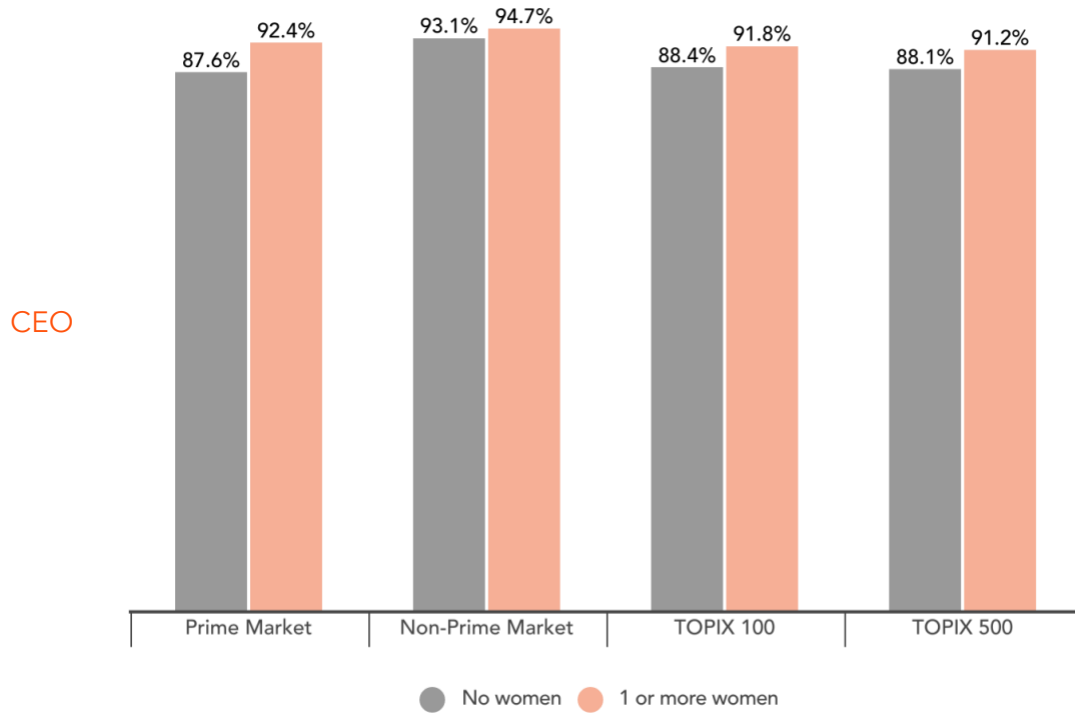
Percentage of Women on Board of Directors



Percentage of Women Among New Director Nominees



CEO & Chair Vote Results for Companies with Gender Diversity Concerns



Strategic Shareholdings

Glass Lewis views strategic shareholdings as excessive if they make up more than 10% of consolidated net assets.

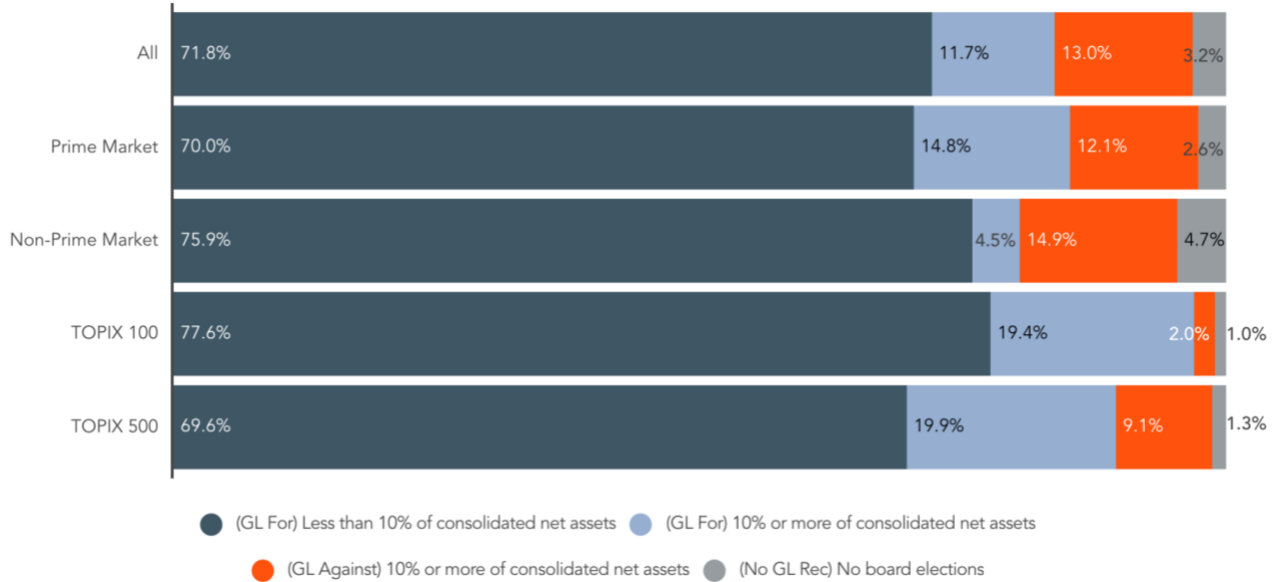
In 2021, Glass Lewis introduced a policy on excessive strategic shareholdings, recommending voting against the company chair in such cases. However, if a company has disclosed a clear plan to reduce cross-shareholdings or has a track record of reducing such shares, we refrained from recommending a vote against.

In 2023, we introduced a revised policy on excessive strategic shareholdings, eliminating the consideration of a company's track record in reducing such shares. Instead, our recommendation regarding voting against the board chair is now contingent upon the presence of a clear plan for reducing the size of strategic shareholdings, complete with specific figures and a designated timeframe. Moreover, if the company has maintained an average return on equity (ROE) of at least five percent over the last five fiscal years, we may also refrain from recommending vote against the board chair even if the size of strategic shares falls within the range of 10% to 20% of net assets.

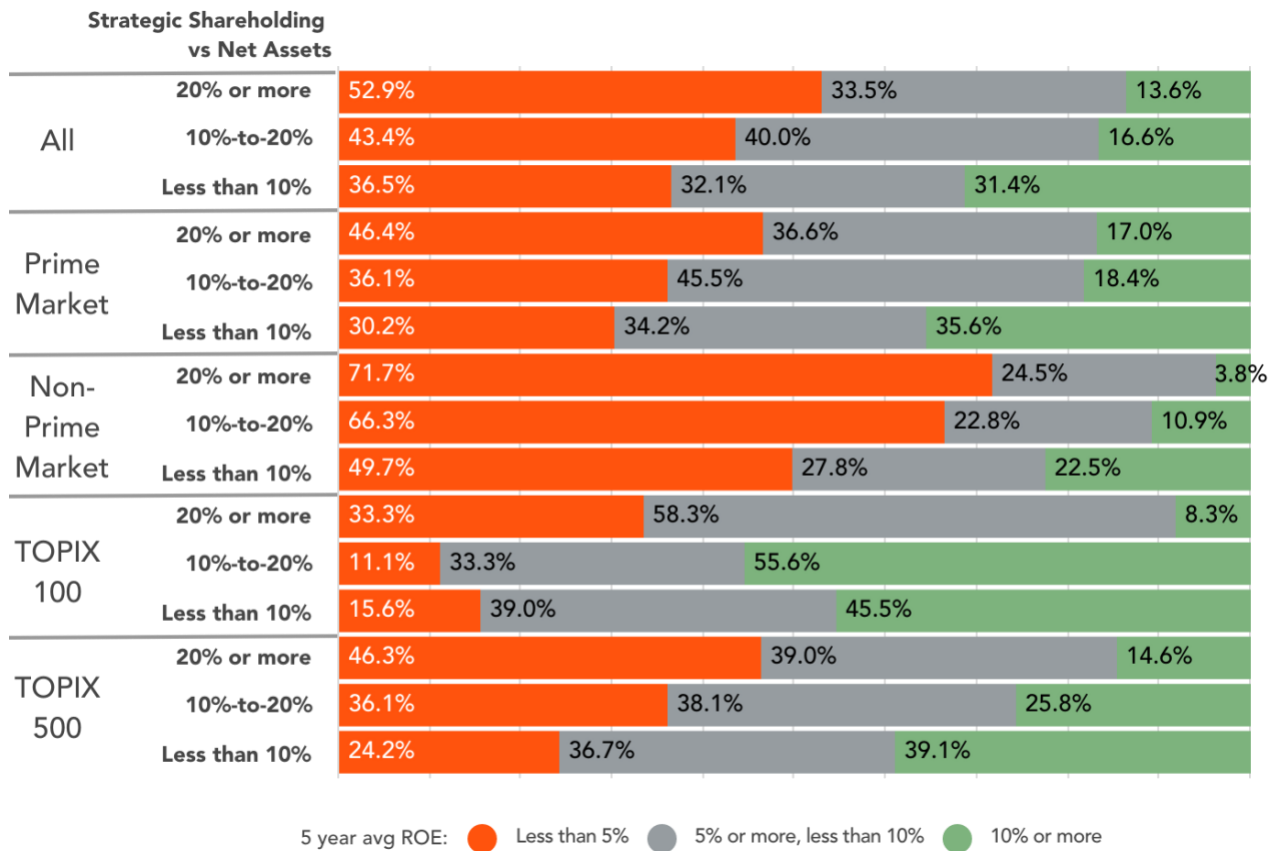
Overall, the percentage of companies for which Glass Lewis recommended voting against increased from 9.6% to 13%. We believe this outcome results from our policy change, whereby we no longer take into account the track record of decreasing strategic shareholdings.

Also this year, we examined the relationship between companies' level of strategic shareholdings and their average ROE over the past five years. On the whole, companies with a lower percentage of strategic shareholdings tended to have higher average ROE over the past five years compared to companies with a higher percentage of strategic shareholdings. We did not consider this outcome surprising; companies holding a significant amount of strategic shareholdings tend to be experiencing poor capital efficiency. Going forward, demonstrating the validity of holding such strategic shares in these companies will be challenging. We expect that investor pressure to divest strategic shareholdings will continue to increase.

Glass Lewis Recommendations & Strategic Shareholdings



Strategic Shareholdings & 5 Year ROE



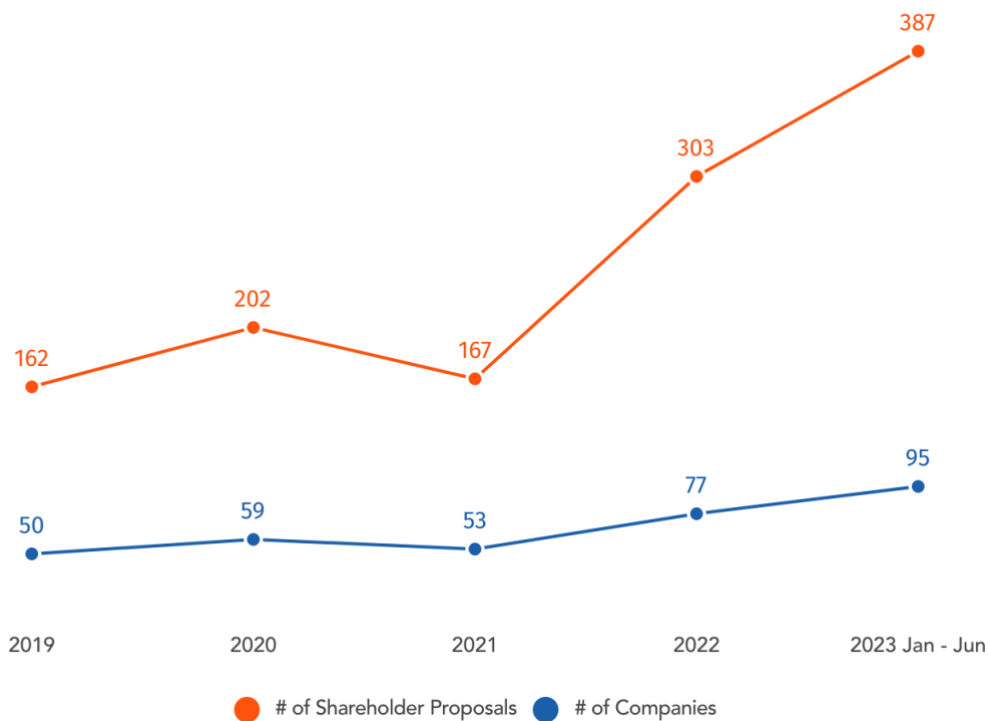
Shareholder Proposals

In 2023 proxy season, Glass Lewis reviewed 387 shareholder proposals for 95 Japanese companies. Compared with last year, the number of shareholder proposals increased by 28% and the number of the companies that received shareholder proposals increased by 23%. Over half (56%) of the shareholder proposals we reviewed were on ESG issues.

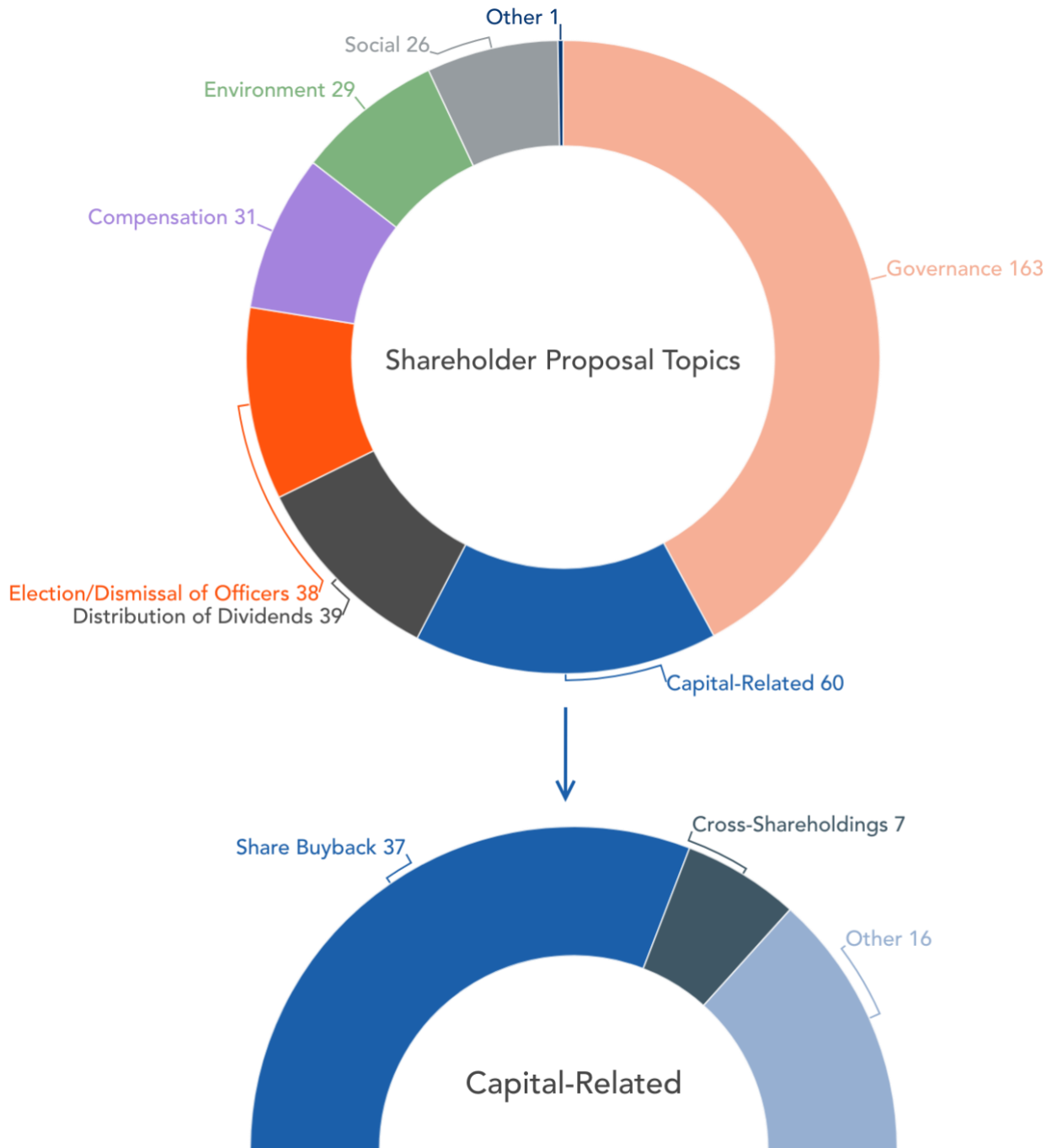
We observed a notable increase in the number of compensation, governance and dividend-related shareholder proposals. There was not a significant increase in the number of environmental/social, or capital-related proposals; however, amongst capital-related proposals, the proportion of those proposals dealing with share buyback proposals surged 42% over the previous year. This trend highlights activist shareholders’ focus on sluggish share prices, symbolized by low price-to-book ratio in the Japanese market.

Shareholder proposals generated a lot of buzz this season — but buzz doesn’t always result in voting support. Although there was much talk about a series of climate-related shareholder proposals, with environmental NGOs simultaneously submitting proposals to three megabanks and a European fund submitting a proposal to Toyota Motor Corporation, none of these proposals received shareholder support above 20%. The highest-supported climate-related shareholder proposal was submitted to The Kansai Electric Power Company, Incorporated, gaining 36% support.

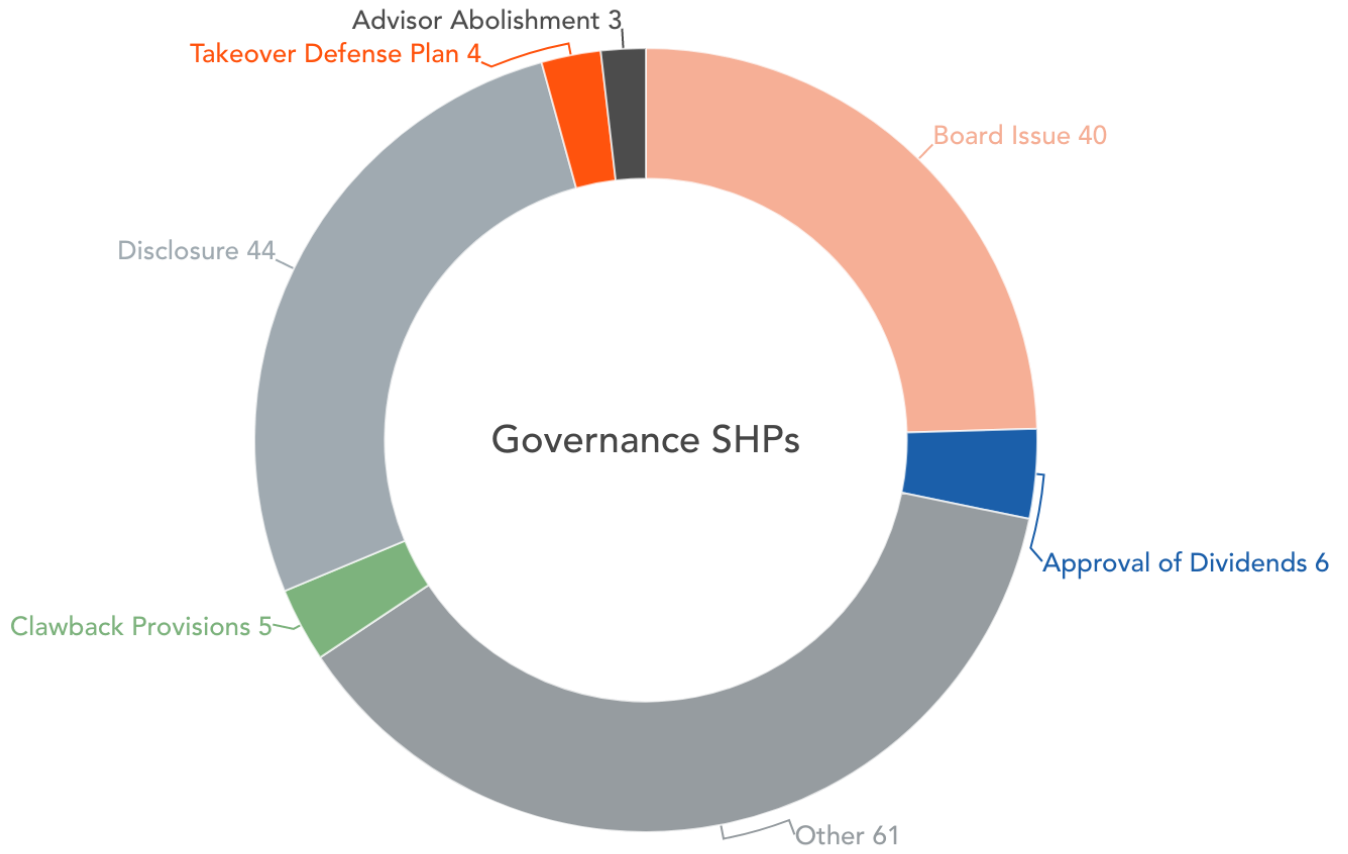
Number of Shareholder Proposals & Number of Companies Receiving Shareholder Proposals



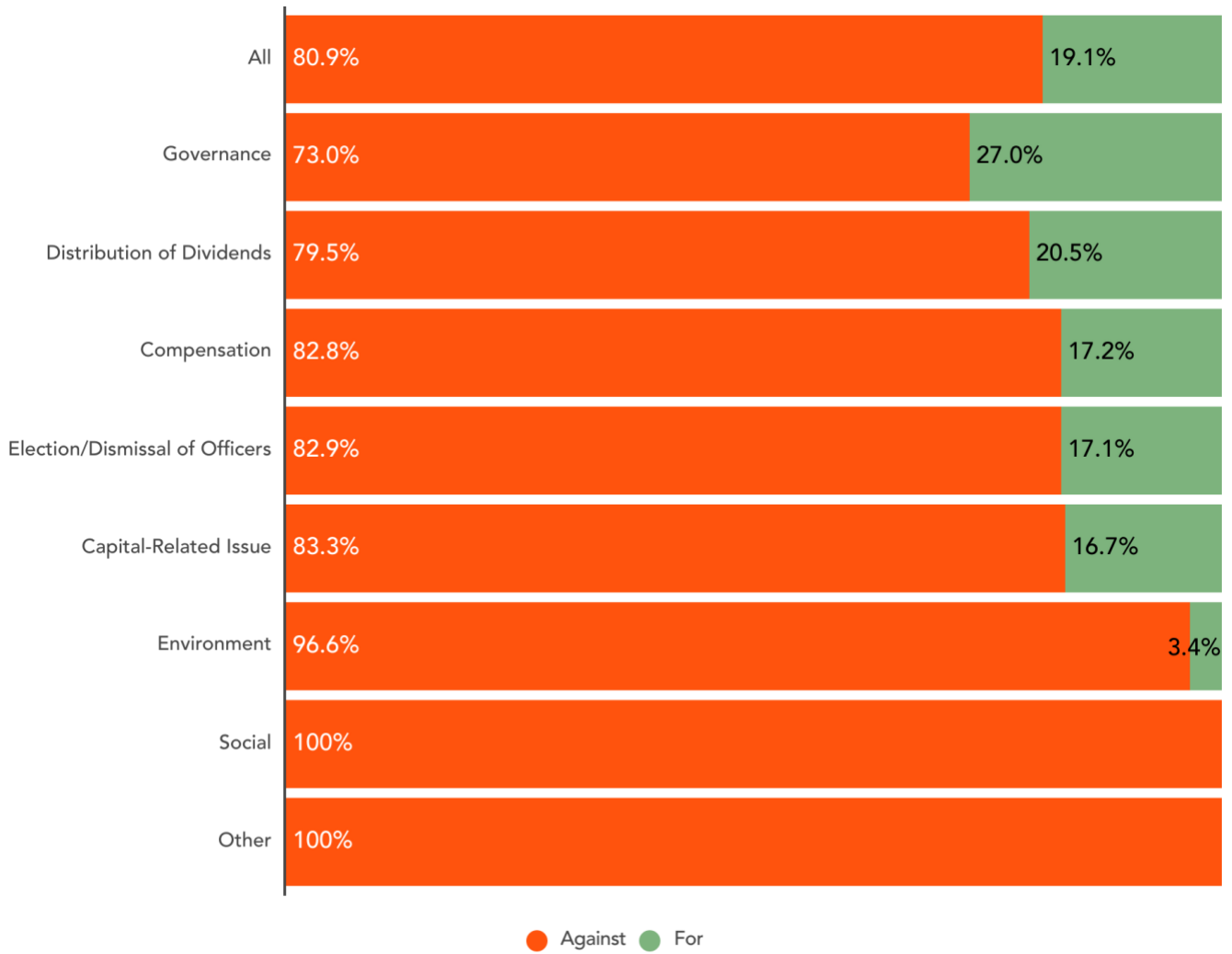
Shareholder Proposals by Category



Governance-Related Shareholder Proposals

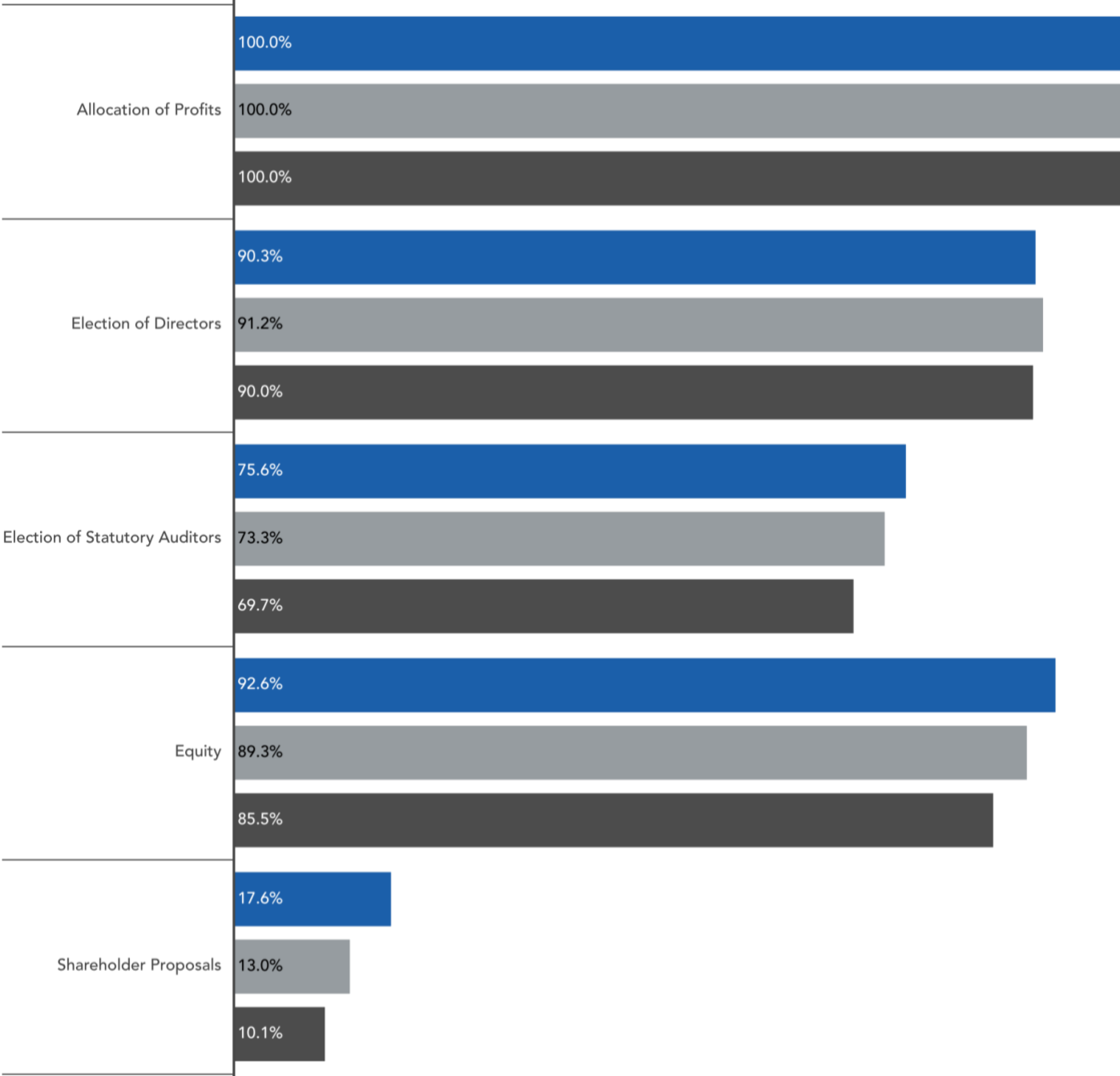


Glass Lewis Shareholder Proposal Voting Recommendations



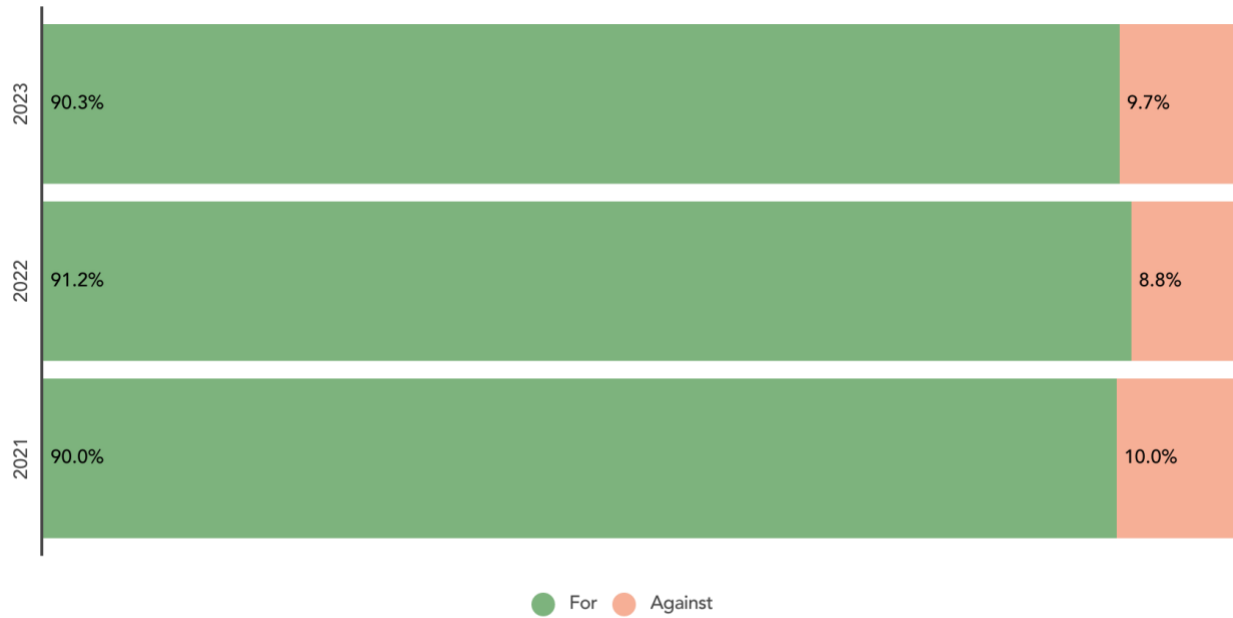
Appendix

Glass Lewis FOR Recommendations

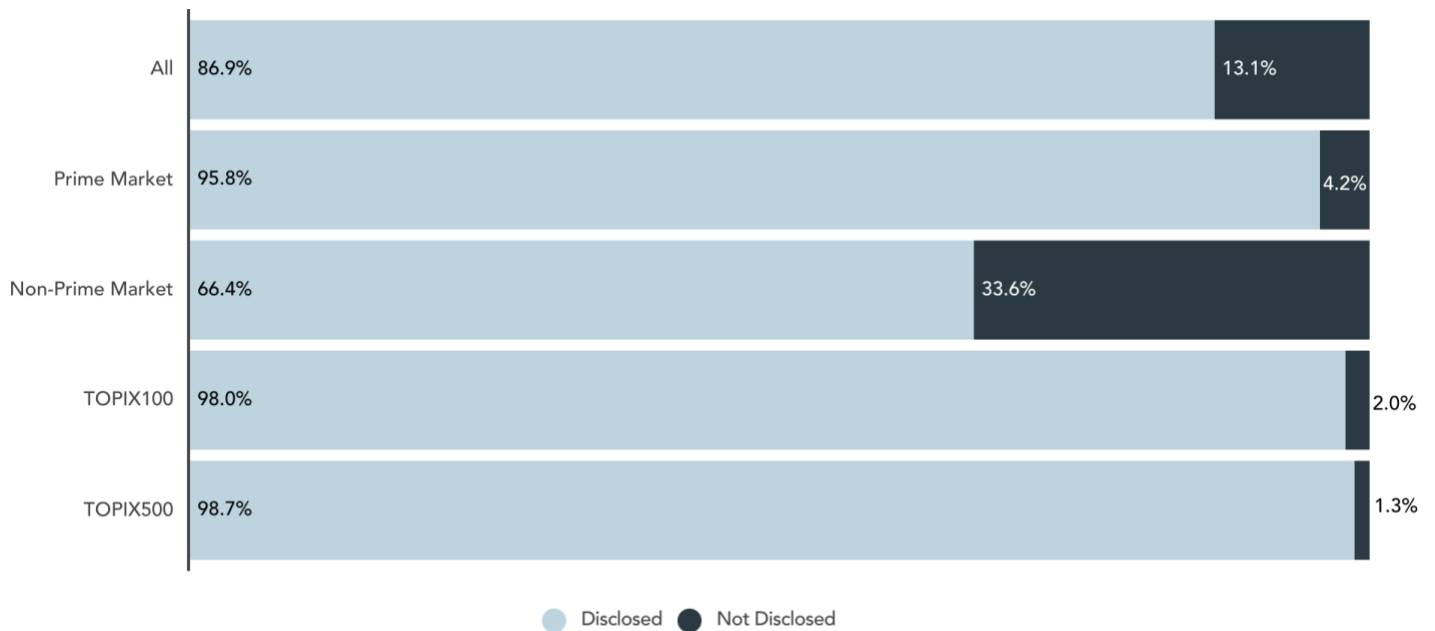


● 2023 ● 2022 ● 2021

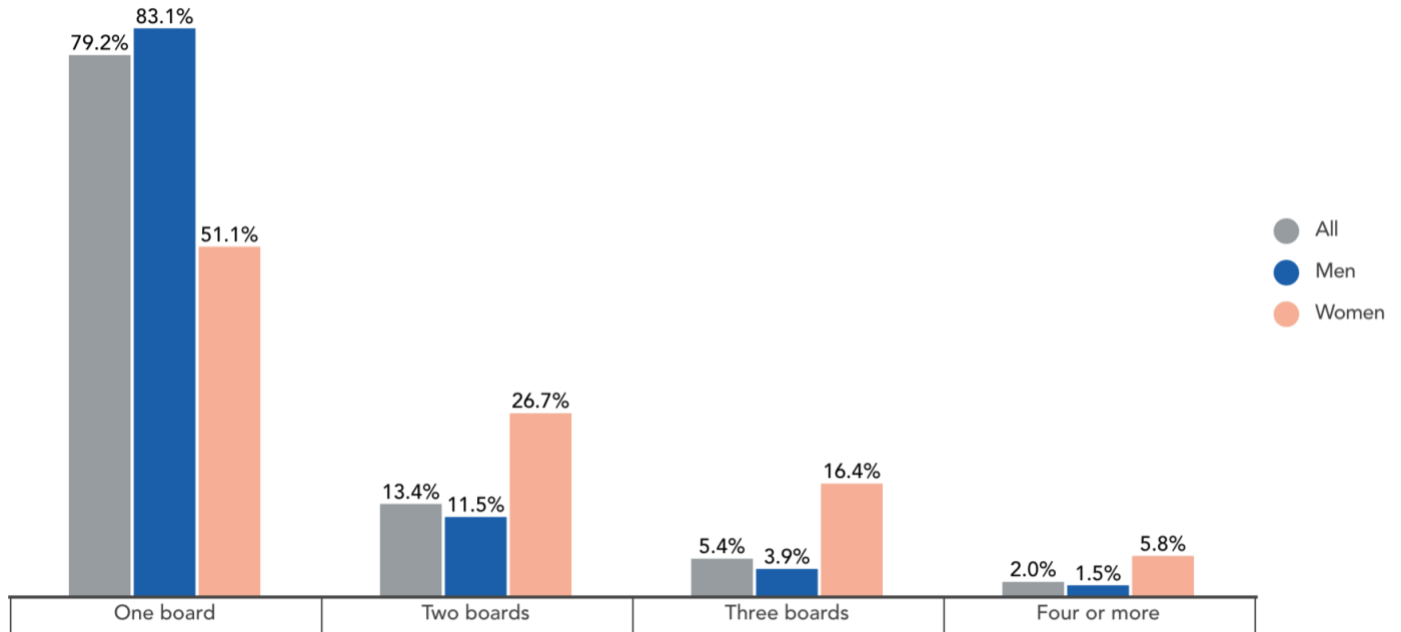
Glass Lewis Director Recommendations



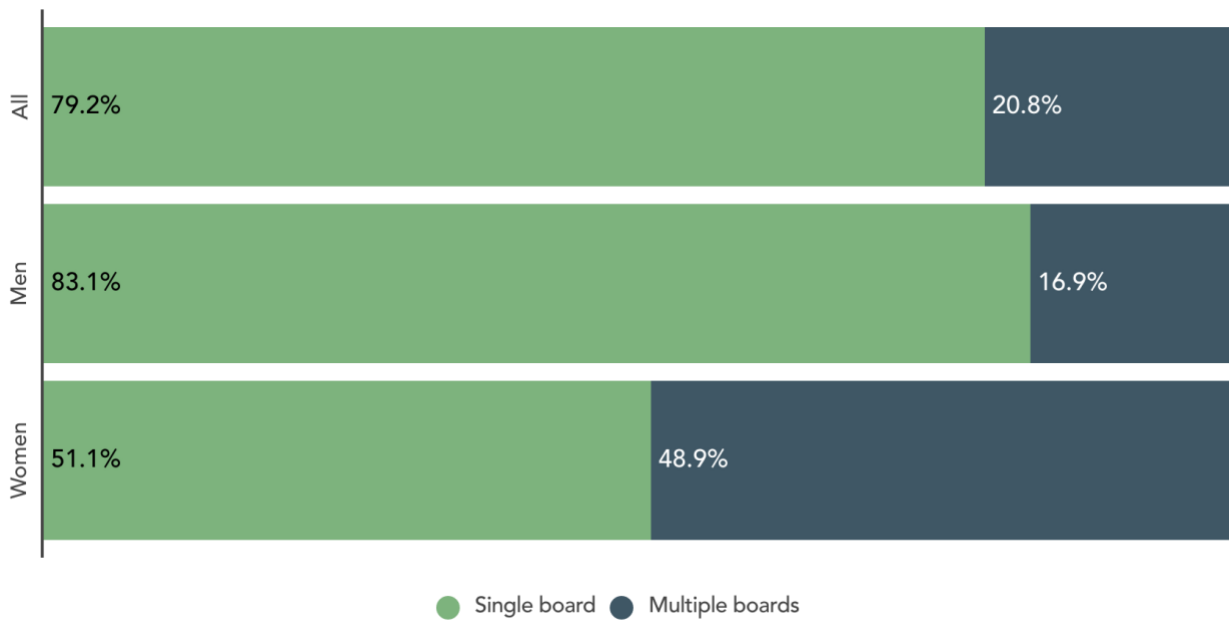
Percentage of Companies Disclosing Board Skills Matrix



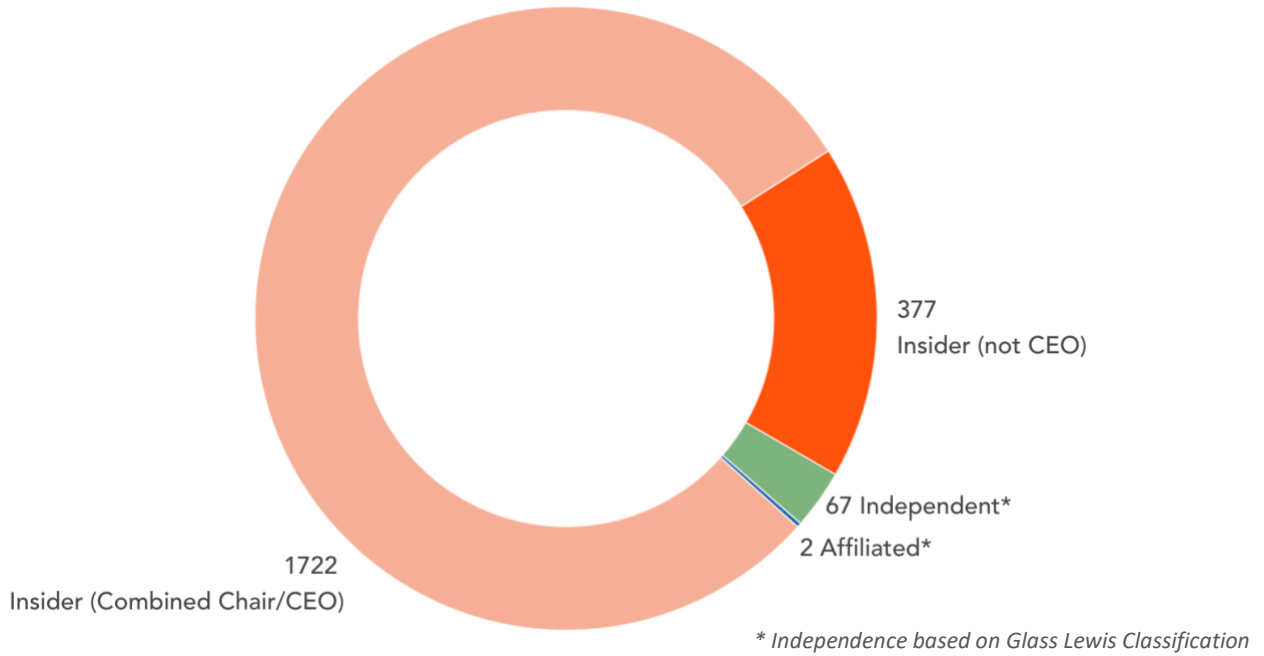
Number of Public Company Directorships



Directors/Statutory Auditors Serving on Single Board vs Multiple Boards



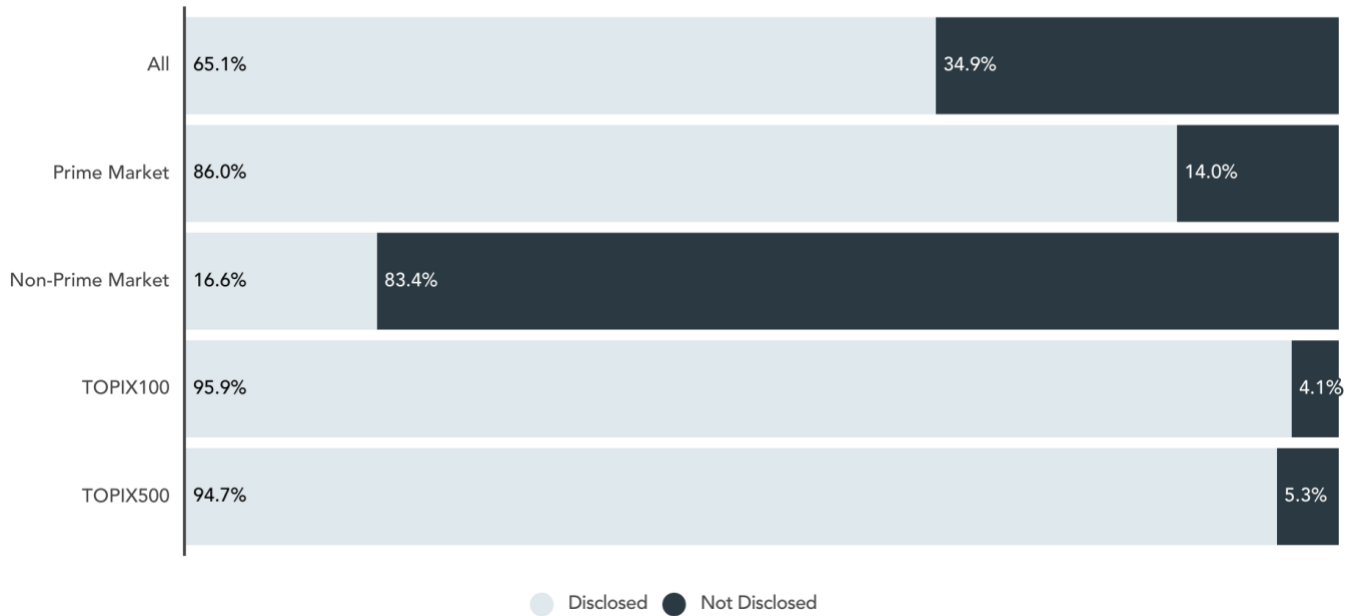
Board Chair Status



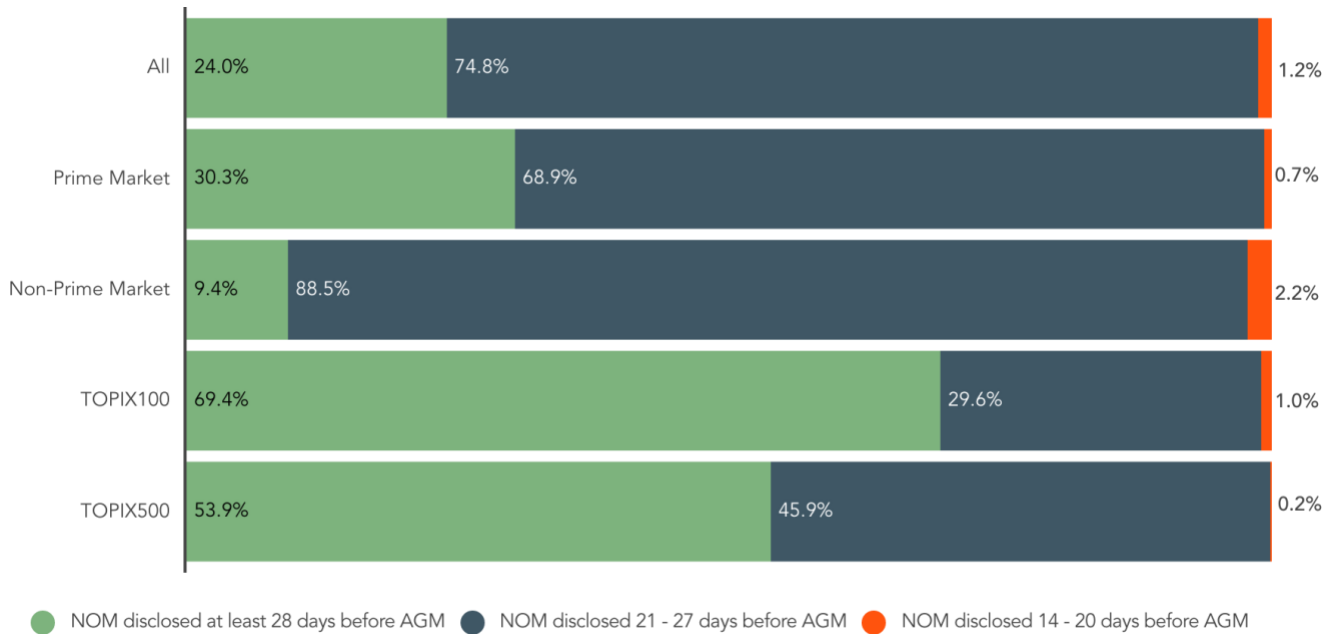
Equity Plans: Use of Performance Conditions



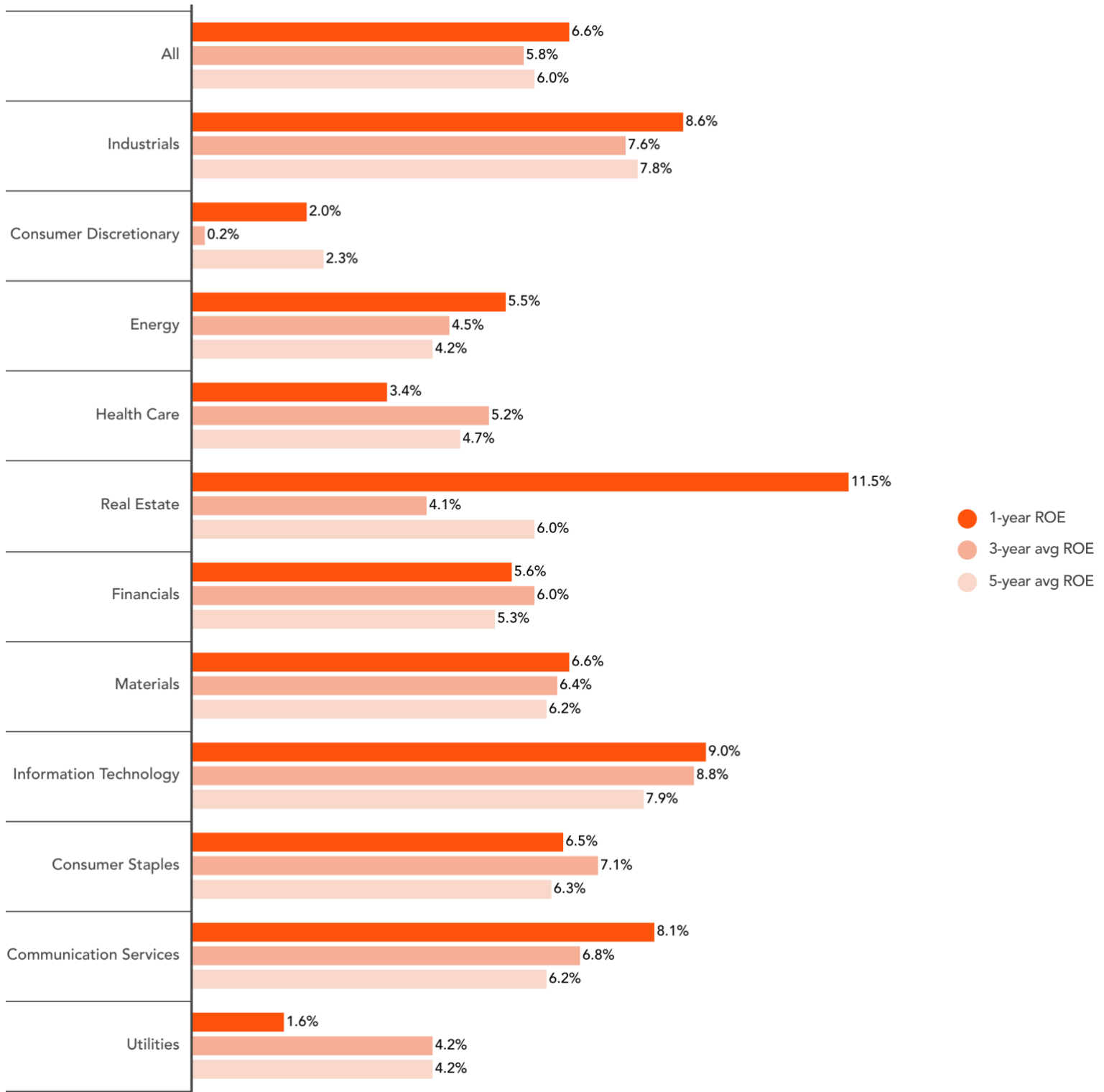
Percentage of Companies Disclosing English-Language Notice of Meeting



Notice of Meeting Disclosure Timing



ROE by Sector



Bottom 20: Lowest Support Levels for Management Proposals

Ticker	Company Name	Date	Proposal Name	GL Rec	For %
6871	Micronics Japan Co., Ltd.	Mar 30	Renewal of Takeover Defense Plan	Against	54.1%
1890	TOYO CONSTRUCTION CO., LTD.	Jun 27	Directors' Fees	For	55.2%
5302	Nippon Carbon Company Limited	Mar 29	Renewal of Takeover Defense Plan	Against	56.0%
6381	ANEST IWATA Corporation	Jun 23	Renewal of Takeover Defense Plan	Against	57.2%
5480	Nippon Yakin Kogyo Co.,Ltd.	Jun 28	Renewal of Takeover Defense Plan	Against	59.2%
5021	COSMO ENERGY HOLDINGS COMPANY, LIMITED	Jun 22	Allotment of Share Options without Contribution	Against	59.5%
5803	Fujikura Ltd.	Jun 29	Allocation of Profits/Dividends	Abstain	59.8%
1860	TODA CORPORATION	Jun 29	Renewal of Takeover Defense Plan	Against	60.1%
6480	NIPPON THOMPSON CO., LTD.	Jun 27	Renewal of Takeover Defense Plan	Against	60.3%
6490	NIPPON PILLAR PACKING CO.,LTD.	Jun 22	Renewal of Takeover Defense Plan	Against	60.8%
9706	Japan Airport Terminal Co., Ltd.	Jun 28	Renewal of Takeover Defense Plan	Against	61.1%
1662	Japan Petroleum Exploration Co., Ltd.	Jun 27	Renewal of Takeover Defense Plan	Against	61.2%
4046	OSAKA SODA CO., LTD.	Jun 29	Renewal of Takeover Defense Plan	Against	61.4%
6508	MEIDENSHA CORPORATION	Jun 28	Renewal of Takeover Defense Plan	Against	63.0%
9956	VALOR HOLDINGS CO.,LTD.	Jun 29	Renewal of Takeover Defense Plan	Against	63.1%
1890	TOYO CONSTRUCTION CO., LTD.	Jun 27	Amendment to the Equity Compensation Plan	For	63.2%
4449	giftee Inc.	Mar 28	Adoption of Restricted Stock Plan	For	63.4%
5451	Yodogawa Steel Works, Ltd.	Jun 21	Renewal of Takeover Defense Plan	Against	63.7%
6459	DAIWA INDUSTRIES LTD.	Mar 30	Retirement Allowances for Directors and Statutory Auditors	Against	64.1%
6820	ICOM INCORPORATED	Jun 27	Renewal of Takeover Defense Plan	Against	64.9%

Bottom 20: Lowest Support Levels for Prime Market Director Elections

Ticker	Company Name	Meeting Date	Proposal Name	GL Rec	For %
8864	AIRPORT FACILITIES Co.,LTD.	Jun 29	Elect Toshiaki Norita	Against	24.1%
1890	TOYO CONSTRUCTION CO., LTD.	Jun 27	Elect Yasuyuki Fujitani	For	47.3%
1890	TOYO CONSTRUCTION CO., LTD.	Jun 27	Elect Akihiko Matsunaga	For	47.6%
1890	TOYO CONSTRUCTION CO., LTD.	Jun 27	Elect Kazuo Otake	For	48.6%
1890	TOYO CONSTRUCTION CO., LTD.	Jun 27	Elect Akiko Shigemoto	For	48.6%
1890	TOYO CONSTRUCTION CO., LTD.	Jun 27	Elect Satoshi Otonari	For	48.7%
1890	TOYO CONSTRUCTION CO., LTD.	Jun 27	Elect Atsushi Miyazaki	For	49.0%
7745	A&D HOLON Holdings Company, Limited	Jun 27	Elect Katsumi Aya as Statutory Auditor	Against	49.6%
5714	DOWA HOLDINGS CO., LTD.	Jun 27	Elect Shingo Komuro	Against	50.2%
7751	CANON INC.	Mar 30	Elect Fujio Mitarai	For	50.7%
8614	TOYO SECURITIES CO., LTD.	Jun 28	Elect Yoshiaki Kuwahara	Against	51.2%
1890	TOYO CONSTRUCTION CO., LTD.	Jun 27	Elect Mamoru Sato	For	52.1%
1890	TOYO CONSTRUCTION CO., LTD.	Jun 27	Elect Taizo Nishikawa	For	52.1%
1890	TOYO CONSTRUCTION CO., LTD.	Jun 27	Elect Takashi Narusawa	For	53.1%
1890	TOYO CONSTRUCTION CO., LTD.	Jun 27	Elect Koichi Kawaguchi	For	53.5%
1890	TOYO CONSTRUCTION CO., LTD.	Jun 27	Elect Tatsuyoshi Nakamura	For	55.7%
6703	Oki Electric Industry Company, Limited	Jun 27	Elect Shinya Kamagami	For	56.4%
5333	NGK INSULATORS, LTD.	Jun 26	Elect Hiroyuki Kamano	For	56.4%
3762	TechMatrix Corporation	Jun 23	Elect Ken Takayama	For	56.5%
4676	FUJI MEDIA HOLDINGS, INC.	Jun 28	Elect Masaki Miyauchi	Against	56.8%

Top 20: Highest Support Levels for Shareholder Proposals

Ticker	Company Name	Meeting Date	Proposal Name	GL Rec	For %
6236	NC Holdings Co., Ltd.	Jun 29	Shareholder Proposal Regarding Shareholder Approval of Dividends	For	69.6%
6236	NC Holdings Co., Ltd.	Jun 29	Shareholder Proposal Regarding Distribution of Dividends	For	61.6%
6236	NC Holdings Co., Ltd.	Jun 29	Shareholder Proposal Regarding Performance Share Unit Compensation and Restricted Stock Remuneration	Against	58.0%
6236	NC Holdings Co., Ltd.	Jun 29	Shareholder Proposal Regarding Board Size	Against	56.7%
6236	NC Holdings Co., Ltd.	Jun 29	Shareholder Proposal Regarding Policy on Large-Scale Purchase of Company Shares	For	56.6%
6236	NC Holdings Co., Ltd.	Jun 29	Shareholder Proposal Regarding Prior Approval to Issue Treasury Stock	For	56.4%
1890	TOYO CONSTRUCTION CO., LTD.	Jun 27	Shareholder Proposal Regarding Election of Kazumichi Matsuki	Against	56.1%
1890	TOYO CONSTRUCTION CO., LTD.	Jun 27	Shareholder Proposal Regarding Election of Shinichi Kato	Against	54.8%
1890	TOYO CONSTRUCTION CO., LTD.	Jun 27	Shareholder Proposal Regarding Election of Katsuya Natori	Against	53.8%
1890	TOYO CONSTRUCTION CO., LTD.	Jun 27	Shareholder Proposal Regarding Election of Masaharu Okada	Against	53.8%
1890	TOYO CONSTRUCTION CO., LTD.	Jun 27	Shareholder Proposal Regarding Election of Statutory Auditor Nominee Tomoko Nonaka	Against	53.5%
1890	TOYO CONSTRUCTION CO., LTD.	Jun 27	Shareholder Proposal Regarding Election of Shinya Yoshida	Against	52.2%
1890	TOYO CONSTRUCTION CO., LTD.	Jun 27	Shareholder Proposal Regarding Election of Akira Tosaka	Against	51.2%
1890	TOYO CONSTRUCTION CO., LTD.	Jun 27	Shareholder Proposal Regarding Election of Masato Uchiyama	Against	50.6%

1890	TOYO CONSTRUCTION CO., LTD.	Jun 27	Shareholder Proposal Regarding Election of Toshiaki Yamaguchi	Against	49.6%
1890	TOYO CONSTRUCTION CO., LTD.	Jun 27	Shareholder Proposal Regarding Election of Tsuneko Murata	Against	49.6%
1890	TOYO CONSTRUCTION CO., LTD.	Jun 27	Shareholder Proposal Regarding Amending the Amount of Directors' Remuneration	Against	44.8%
6678	Techno Medica Co.,Ltd.	Jun 28	Shareholder Proposal Regarding Distribution of Dividends	Against	41.4%
3431	MIYAJI ENGINEERING GROUP,INC.	Jun 29	Shareholder Proposal Regarding Distribution of Dividends	Against	39.3%
3865	Hokuetsu Corporation	Jun 29	Shareholder Proposal Regarding Share Repurchases	Against	37.9%

Average Approval Rate by Proposal Category

Proposal Category	Approval Rate %
Allocation of Profits/Dividends	98.7%
Directors' & Statutory Auditors' Fees	98.7%
Amendments to Articles	98.3%
Capital Issue	96.9%
Election of Alternate Directors/Statutory Auditors	96.9%
Bonus	96.4%
Election of Statutory Auditors	96.0%
Equity Compensation Plan	96.0%
Election of Directors	95.8%
Retirement Allowances	88.2%
Takeover Defense Plan	76.2%
Shareholder Proposals	14.5%

Governance Data

	All	Prime Market	Non-Prime Market	TOPIX100	TOPIX500
Average % of Board independence*	37.3%	40.1%	31.0%	45.8%	42.6%
Average % of Statutory Auditor Board Independence*	57.3%	56.6%	58.7%	57.0%	56.0%
Average % of Audit Committee Independence*	74.2%	74.1%	74.5%	72.2%	71.9%
Average % of Compensation Committee Independence*	75.4%	77.5%	56.7%	84.3%	80.0%
Average % of Nominating Committee Independence*	73.3%	74.9%	59.6%	80.8%	75.9%
Average % of Women on Board of Directors	12.2%	14.1%	7.8%	18.9%	16.7%
% of Companies with Independent Chair	3.7%	5.1%	0.4%	20.3%	10.8%
% of Companies with Combined Chair/CEO	77.4%	72.4%	89.0%	32.7%	50.7%
Average % of Strategic Shareholdings vs Net Assets	7.4%	7.9%	6.3%	8.9%	8.5%

* Based on Glass Lewis Classification

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