

***Standard Life Investments were instrumental in organising further collective letters to 34 Japanese companies to follow up on previous letters sent in May 2015 outlining investor views on board composition and director independence. The letters were tailored to reflect changes in board composition since the original letters were sent. Below is an example of the letter that was sent to companies that had made some progress in increasing board independence.***

8th October 2015

Dear Sir/Madam

### **Investor expectations regarding board composition and independence**

As a group of global institutional investors and asset owners with an interest in improving the corporate governance practices of the companies we invest in, we wrote to the President last year on the subject of board composition. At that time, we wished to underline the importance that we attach to the role of independent directors and to communicate our proposed voting policy changes intended to increase director independence over time.

Board composition is important in providing shareholders, and other stakeholders, with confidence in the board's ability to oversee management, develop strategy, manage risk, and ensure high standards of business practice. An effective board comprises a blend of executive and non-executive, or independent, directors. A truly independent director can bring fresh ideas and constructive challenge without the constraint of a vested interest in the business. Appropriate business or commercial experience is required as is ongoing training to ensure independent directors can share in the continual development of best practice.

Since our letter was written, we have been pleased to see the increased focus on governance in Japan on the part of companies, investors and regulators. The new Corporate Governance Code is a very positive development and we look forward to reviewing the reports which companies produce regarding their compliance with the Code. The Code talks about the roles and responsibilities of independent directors and the specific requirement to appoint two independent directors on a 'comply or explain' basis. Whilst we welcome this statement, the achievement of a minimum one third independent directors remains our objective. Indeed we note that, in the background notes, the Code states that 'having multiple independent directors will significantly enhance the possibility that their presence will be fully leveraged'.

Over recent years, there has been a significant increase in the proportion of independent directors on your board and we would like to formally acknowledge this positive development. This remains an important issue for us and we wish to reiterate our request that you and your board commit to moving to one third independent directors by the 2017 AGM. Almost 20% of the companies that we wrote to last year have already achieved, or committed to achieve, this objective.

We are aware that there is an ongoing debate about the definition of 'independence'. As a practical matter, many of us use ISS to provide the information on which we judge independence and we believe this provides a reasonable starting point. However, the key issue is that independent directors should be independent of management and of other conflicts of interest. We believe it would be helpful for the listing authorities to clarify the definition of independence and will engage with them accordingly.

In conclusion, although specific voting policies will vary from investor to investor, as we approach 2017 our individual voting policies will be drafted with our mutual objective of one third board independence in mind. We would be happy to discuss this with you in more detail. Please feel free to contact Meryam Omi at Legal & General Investment Management in London.

Yours sincerely

Andra AP-fonden	Martin Jonasson, General Counsel
AP Asset Management Asia	YK Park, Director, Sustainability & Governance, Asia
Aviva Investors	Nathan Leclercq, Head of Governance
Baillie Gifford	Andrew Cave, Head of Corporate Governance
BMO Global Asset Management (EMEA)	Yo Takatsuki, Associate Director, Governance and Sustainable Investment
British Columbia Investment Management Corporation	Bryan Thomson, Senior Vice President, Equity Investments
California State Teachers' Retirement System	Brian A Rice, Portfolio Manager Corporate Governance
The California Public Employees Retirement System	Anne Simpson, Investment Director, Global Governance Programme
Indus Capital	Ethan Devine, Partner & Portfolio Manager
Investec Asset Management	Therese Niklasson, Global Head of ESG
Legal & General Investment Management	Meryam Omi, Head of Sustainability (Responsible for Corporate Governance in Asia)
Mn Services BV	Willemijn Verdegaal, Advisor, Responsible Investment & Governance
Ontario Teachers' Pension Plan	Michael Wissell, Senior Vice-President, Public Equities
PGGM	Gerard W.R. Fehrenbach, Senior Advisor Responsible Investment
RPMI Railpen Investments	Deborah Gilshan, Head of Sustainable Ownership
Standard Life Investments	Alison Kennedy, Governance & Stewardship

Director

State Board of Administration (SBA) of Florida	Mike McCauley, Senior Officer, Investment Programs & Governance
Threadneedle Investments	Iain Richards, Head of Governance and Responsible Engagement
UBS Global Asset Management	Ian Pitfield, Head of Governance & Stewardship
USS Investment Management LTD	Dr Daniel Summerfield, Co-Head of Responsible Investment