

*As part of a group of global investors with assets under management of US\$4.6 trillion, Standard Life Investments were instrumental in organising collective letters to a number of Japanese companies which outlined investor views on board composition and independent directors. Companies were encouraged to achieve one third board independence by 2017. The below is an example of such a letter. The full list of companies that received a letter is also given below.*

Dear Sir/Madam,

### **Investor expectations regarding board composition and independent directors**

We are a group of global institutional investors and asset owners who have been shareholders in Japanese corporations for many years. As responsible investors, we have a long-held interest in improving the corporate governance practices of the companies in which we invest around the world. This is based on our belief that companies with good corporate governance and a sustainable business model will deliver enhanced shareholder value in the long run.

On behalf of our clients and beneficiaries, we manage assets worth US\$4.6 trillion (as at 31 December 2013). As individual institutions, we have engaged in constructive dialogue with many Japanese corporations regarding corporate strategy, performance and governance. Encouraged by recent changes to board composition at a number of Japanese companies, we are writing to you now 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 in the coming years.

As shareholders, we look to the composition of the board to gain confidence in its ability to oversee management, develop strategy, manage risk, and ensure high standards of business practice. This is for the benefit of not just shareholders but all stakeholders. To be effective, it is crucial that the board comprises a balance of executives and non-executives who are independent from management. This balance ensures that no single individual, or group of individuals, dominates decision-making to the detriment of others, and helps provide the diversity needed to cultivate healthy debate in the board room. A truly independent director can bring fresh ideas as a result of external experience and challenge the management constructively without the constraint of a vested interest in the business. We also look to independent directors to represent our interests as minority shareholders who, like management and company employees, are committed to ensuring the long term success of Japanese companies.

We are encouraged to note that an increasing number of Japanese corporations are now appointing independent directors. Many are going beyond the local regulatory requirements and articulating clearly the strategic advantage in appointing independent directors. At the same time, we note that Japan's regulators and market leaders are expressing the need for additional plans and policies to keep attracting foreign capital.

Against this backdrop, we believe we can be instrumental in promoting higher corporate governance standards. For this reason, we would like to ask you to continue on the road of corporate governance reform and aim to achieve a minimum of one third independent directors on the board over the next three years. This may seem like a difficult hurdle but we note that international standards and investors'

expectations of board independent in most other developed markets are for a majority of the board directors to be independent.

Our assessment of board independence excludes statutory auditors (kansayaku) as we do not consider them to have voting power on the board. While, there may be some differences in the details of how we individually define independence, we do expect such individuals to be independent of executive management and of other conflicts of interest, with the purpose of meaningfully adding value to the strategic discussions.

This group's position is that if a company does not have one-third independence by the 2017 AGM season, we will consider voting against all board members who are not independent, including the Chairman and President. Specific voting policies may vary from investor to investor, with each firm retaining the right to review each case on its own merits, but our individual voting policies will be drafted with this mutual objective in mind. Mindful of the challenges for newer and smaller companies in the market, each investment house would consider exceptions that are in line with their voting universe.

Lastly, we would like to express our aspiration for a robust Corporate Governance Code to be established in Japan. We believe it would benefit companies and global investors in aligning expectations of good corporate governance in Japan. We are liaising with regulators, policy makers and listing authorities in pursuing this goal.

We look forward to continuing this dialogue with you and welcome your feedback as a basis for further discussion. Please feel free to contact Meryam Omi at Legal & General Investment Management in London or Alison Kennedy at Standard Life Investments in Edinburgh.

Yours sincerely,

Andra AP-fonden  
APG Asset Management Asia

Aviva Investors  
Baillie Gifford  
British Columbia Investment Management Corporation

California State Teachers' Retirement System  
The California Public Employees Retirement System

F&C Management Ltd

Indus Capital  
Legal & General Investment Management

Mn Services BV

Ontario Teachers' Pension Plan  
PGGM

Royal London Asset Management (CIS) Ltd  
RPMI Railpen Investments  
Standard Life Investments  
State Board of Administration (SBA) of Florida

Threadneedle Investments

UBS Global Asset Management  
USS Investment Management LTD

Martin Jonasson, General Counsel  
YK Park, Director, Sustainability & Governance, Asia Pacific

Nathan Leclercq, Head of Governance  
Sarah Whitley, Head of Japanese Equities  
Bryan Thomson, Senior Vice President, Equity Investments

Brian A Rice, Portfolio Manager Corporate Governance  
Anne Simpson, Senior Portfolio Manager - Investments, Director of Global Governance

Yo Takatsuki, Senior Analyst, Governance and Sustainable Investment

Ethan Devine, Partner & Portfolio Manager  
Meryam Omi, Head of Sustainability (Responsible for Corporate Governance in Asia)

Anatoli van der Krans, Senior Advisor Responsible Investment & Governance

Michael Wissell, Senior Vice-President, Public Equities  
Gerard W.R. Fehrenbach, Senior Advisor Responsible Investment

Ashley Hamilton, Corporate Governance Manager  
Frank Curtiss, Head of Corporate Governance  
Alison Kennedy, Governance & Stewardship Director  
Mike McCauley, Senior Officer, Investment Programs & Governance

Iain Richards, Head of Governance and Responsible Engagement

Ian Pitfield, Head of Governance & Stewardship  
Dr Daniel Summerfield, Co-Head of Responsible Investment

*The below is a list of all Japanese companies who were written to as part of this initiative.*

TOYOTA MOTOR CORP  
MITSUBISHI UFJ FINANCIAL GROUP  
NTT DOCOMO INC  
JAPAN TOBACCO INC  
HONDA MOTOR CO LTD  
SUMITOMO MITSUI FINANCIAL GR  
KDDI CORP  
CANON INC  
NISSAN MOTOR CO LTD  
FANUC CORP  
DENSO CORP  
TAKEDA PHARMACEUTICAL CO LTD  
SEVEN & I HOLDINGS CO LTD  
MITSUBISHI ESTATE CO LTD  
EAST JAPAN RAILWAY CO  
MITSUI FUDOSAN CO LTD  
NIPPON STEEL & SUMITOMO METAL  
PANASONIC CORP  
MITSUBISHI ELECTRIC CORP  
KEYENCE CORP  
FUJI HEAVY INDUSTRIES LTD  
SUMITOMO REALTY & DEVELOPMENT  
SMC CORP  
KYOCERA CORP  
NINTENDO CO LTD  
OTSUKA HOLDINGS CO LTD  
FUJIFILM HOLDINGS CORP  
JFE HOLDINGS INC  
DENTSU INC  
SUMITOMO ELECTRIC INDUSTRIES  
TORAY INDUSTRIES INC  
ONO PHARMACEUTICAL CO LTD  
SOFTBANK CORP