

Criteria for Determining the Exercise of Voting Rights

Japanese Equities

Basic Policy on “The Criteria”

Sumitomo Mitsui DS Asset Management Company, Limited (“SMDAM”) will vote for the purpose of enhancing corporate value or avoiding damage to corporate value in the interest of customers and final beneficiaries while fulfilling its stewardship responsibility under discretionary investment agreements and investment trust agreements. Contributing to the interests of customers and final beneficiaries, and enhancing corporate value or avoiding damage to corporate value are the basic principles for decision-making, and SMDAM endeavors to make decisions in accordance with the actual conditions of its portfolio companies based on dialogue, etc. In particular, “The Criteria” are applied more flexibly based on the content of dialogue performed for voting on portfolio companies with which “deep dialogue^(*1)” is performed to make decisions in accordance with the actual state of the portfolio companies from a medium- to long-term perspective.

(*1) “Deep dialogue” refers to in-depth dialogue based on long-term perspectives such as sustained growth, enhancement of corporate value or avoidance of damage to corporate value, and voting to support these in a way that is not limited to short-term performance and current management strategy.

1. Proposals on the appropriation of surplus

SMDAM will make comprehensive decisions based on the results of shareholder returns, return on equity (ROE), future investment plans and financial strategy, and the level of disclosure concerning management strategy such as growth. If appropriation of surplus is not presented to the general shareholders meeting, SMDAM will make decisions on proposals to elect directors. In principle, SMDAM will vote against proposals in the following cases.

- (1) If shareholder returns (dividend payout ratio or total payout ratio) are lower than the market average
- (2) If shareholders are not high enough under cash-rich conditions such as excessive retained earnings

However, SMDAM may vote for proposals that fall under (1) or (2) in the following cases:

- (i) If there is a rational management strategy such as making appropriate investments for the enhancement of corporate value or avoidance of damage to corporate value, and disclosure is adequate
- (ii) If ROE is sufficiently high
- (iii) If shareholder returns are continually increasing

2. Proposals concerning the election and dismissal of directors

SMDAM will make comprehensive decisions on whether directors and the composition of the board of directors can execute enhancement of corporate value or avoidance of damage to corporate value in the future based on results such as performance and ROE, and qualifications including the independence of new candidates and outside director

candidates. In principle, SMDAM will vote against proposals to elect individual candidates if they fail to meet the following criteria, but may vote for such proposals based on a comprehensive decision based on the actual conditions within the company.

(1) Criteria concerning the qualifications of directors

(i) ROE criterion

If ROE never exceeds the average for listed companies in the past three years, this shall be deemed to be a failure to meet this criterion. However, all or some candidates may be approved if there are reasonable grounds such as those mentioned below.

- (a) If in office for less than three years
- (b) If a reasonable management strategy, etc. on the improvement of ROE has been disclosed
- (c) If ROE is continuously improving significantly
- (d) If it is difficult to avoid through the company's independent efforts due to factors such as circumstances unique to the business type or the occurrence of a natural disaster
- (e) If the renewal of the management system can be confirmed such as top management taking responsibility by stepping down

(ii) Criterion concerning performance and damage to corporate value

The following cases shall be deemed to be a failure to meet this criterion.

- (a) If insolvent or there is a severe decline in performance
- (b) If appropriation of surplus is delegated to the board of directors and shareholder returns are lower than the market average
- (c) If cross-shareholdings are held in excess, and low levels of ROE are aimlessly neglected
- (d) If capital policy that significantly harms the joint interests of shareholders is adopted
- (e) If there are serious problems with the stance on disclosure

(iii) Criterion concerning conduct that undermines public confidence and antisocial conduct

If conduct that undermines public confidence or antisocial conduct ("conduct that undermines confidence") occurs, SMDAM will make a comprehensive decision on the infringement of this criterion based on the severity, the degree of involvement of officers, maliciousness, and the adequacy of action taken afterwards (identification of cause, clarification of accountability, and establishment of measures to prevent recurrence). However, all or some candidates may be approved in the following cases.

- (a) If not involved in the conduct that undermines confidence due to reasons such as being newly appointed
- (b) If the management system has been renewed such as top management stepping down to take responsibility
- (c) If there is sufficient strength in supervision functions such as increasing independent outside officers

(iv) Criterion concerning the qualifications of outside directors

If an outside director attends less than 80% of meetings of the board of directors or has a very large number of other positions, this shall be deemed to be a failure to meet this criterion unless there are reasonable grounds.

(v) Criterion concerning the independence of outside directors

SMDAM will make a comprehensive decision on the infringement of this criterion concerning the independence of outside directors based on the following.

- (a) Relationships with major shareholders, parent company, and major trading partners
- (b) Legal counsel agreements, tax consultant/accountant agreements
- (c) Accounting audit agreements
- (d) Term of office as officer
- (e) Reasonable explanation that there is no risk of harming the common interests of shareholders
- (f) Reasonable explanation that contributions can be expected to exceed doubts about independence, etc.

(2) Criterion concerning the composition of the board of directors

(i) SMDAM will make a comprehensive decision on the infringement of the criterion concerning the composition of the board of directors based on the actual conditions within the company. In principle, SMDAM will vote against proposals for the election of all or some candidates or the representative director in the following cases. However, this excludes cases where there are reasonable grounds such as increasing the number of directors during the expansion of business.

- (a) If there is an extremely large number of directors
- (b) If the number of inside directors increases multiple times
- (c) If the number or ratio of independent outside directors is low
- (d) If outside directors have no involvement in the election of directors

(ii) Cases where protection of the interests of general shareholders is necessary

In cases where protection of the interests of general shareholders is necessary such as in the following cases, SMDAM may vote against the election of all or some candidates or the representative director as required by giving especially serious consideration to the number or ratio of independent outside directors.

- (a) If takeover defense measures have been introduced
- (b) If there is a shareholder with a holding ratio that may have a significant impact on management
- (c) If a subsidiary in a parent and subsidiary listed company, etc.

3. Proposals concerning the election and dismissal of auditors

SMDAM will make comprehensive decisions on how auditors and the composition of the board of auditors is linked to the function of performing checks on the board of directors based on perspectives such as the status of activities and qualifications including the independence of new candidates and outside auditor candidates. In principle, SMDAM will vote against proposals to elect individual candidates if they fail to meet the following criteria, but may

vote for such proposals based on a comprehensive decision based on the actual conditions within the company.

(1) Criteria concerning the qualifications of auditors

(i) Criterion concerning conduct that undermines confidence

If conduct that undermines public confidence occurs, SMDAM will make a comprehensive decision from the perspective of whether or not there were any problems with the activities of the board of auditors based on severity, maliciousness, and adequacy of action taken afterwards (identification of cause, clarification of accountability, and establishment of measures to prevent recurrence). However, all or some candidates may be approved in the following cases.

- (a) If not involved in the conduct that undermines confidence due to reasons such as being newly appointed
- (b) If the management system has been renewed such as top management stepping down to take responsibility
- (c) If there is sufficient strength in supervision functions such as increasing independent outside officers

(ii) Criterion concerning representative experience

A person who has served as either a director with representative authority or as a representative executive officer of the company will fail to meet this criterion.

(iii) Criterion concerning the qualifications of outside auditors

If an outside auditor attends less than 80% of meetings of the board of directors and board of auditors or has a very large number of other positions, this shall be deemed to be a failure to meet this criterion unless there are reasonable grounds.

(iv) Criterion concerning the independence of outside auditors

SMDAM will make a comprehensive decision on the infringement of this criterion concerning the independence of outside auditor based on the following.

- (a) Relationships with major shareholders, parent company, and major trading partners
- (b) Legal counsel agreements, tax consultant/accountant agreements
- (c) Accounting audit agreements
- (d) Term of office as officer
- (e) Reasonable explanation that there is no risk of harming the common interests of shareholders, etc.

(2) Composition criterion

If the number of auditors or outside auditors is being decreased when there are not two or more independent outside auditors, this shall be deemed as a failure to meet this criterion and SMDAM will, in principle, vote against the reappointment of auditors except in cases where there are reasonable grounds.

4. Proposals concerning officer bonuses

In principle, SMDAM positively views officer bonuses as incentives for officers, but will make decisions from the perspective of whether the details leading to payment and the amount are inappropriate. In principle, SMDAM will vote against proposals in the following cases.

- (1) If the payment amount is excessive in relation to the level of earnings or the level of dividends
- (2) If the total amount of payment or the amount of payment per person is not reduced proportionately despite conduct that undermines confidence significantly affecting corporate value
- (3) If doubts remain about the amount of payment such as outside officers not being involved in determining officer compensation and no reasonable explanation of the contribution to the common interests of shareholders being provided

5. Proposals concerning the payment of retirement benefits for officers

SMDAM will make decisions on retirement benefits for officers based on whether they do not lower the effectiveness of the board of directors or have an impact on the checks by outside directors and auditors. In principle, SMDAM will vote against proposals in the following cases.

- (1) If an outside director, a director who is an audit committee member, etc., or an auditor is the person being paid
- (2) If cumulative income over three years is negative, and the person being paid is responsible
- (3) If the total amount of retirement benefits paid is not disclosed
- (4) If the amount of payment to an officer responsible for conduct that undermines confidence is inappropriate in light of the degree of responsibility
- (5) If the payment amount is excessive in relation to the level of performance and total shareholder returns such as dividends

6. Proposals concerning officer compensation and officers' stock options, board benefit trusts, and restricted stock, etc.

SMDAM will make decisions on officer compensation and officers' stock options, board benefit trusts, and restricted stock, etc. ("stock options, etc.") based on whether they have an impact on the objective of enhancement of corporate value or avoidance of damage to corporate value by considering the appropriateness of the compensation amount; linkage with performance; the appropriateness of stock options, etc. such as details leading to their provision, the timing of exercise, and the number granted; the involvement of outside directors and the compensation committee, etc.; and the adequacy of disclosure. Furthermore, SMDAM will, in principle, vote against proposals if the recipients of stock options, board benefit trusts, and restricted stock, etc. include outside directors, directors who are audit committee members, etc., auditors, outsiders (consultants, trading partners, etc.) or any other inappropriate recipients.

(1) Stock options

In principle, SMDAM will vote against proposals in the following cases except in cases where there are reasonable grounds.

- (i) If dilution of existing shareholders is significant
- (ii) If it lowers the exercise price for unexercised stock options
- (iii) SMDAM will make comprehensive decisions concerning equity compensation (so-called 1-yen stock options) by considering conditions such as the termination of a lump-sum retirement payment plan, but they will fail to meet this criterion in cases such as not being for the purpose of providing motivation for improving medium- to long-term performance and corporate value, or the period in which they can be exercised commencing prior to retirement or within two years of the date on which they are granted.

(2) Board benefit trusts and restricted stock, etc.

In principle, SMDAM will vote for the grant of board benefit trusts or restricted stock if all of the following conditions are met:

- (i) Withdrawal from the trust account and removal of transfer restrictions are limited to at least two years after retirement from the company or the grant.
- (ii) The cumulative number of shares in the two years after the grant is limited to less than 1%, and the effect on existing shareholders is judged to be limited. Alternatively, voting rights cannot be exercised during the trust period or during the transfer restriction period.

(3) Setting upper limits on officer compensation

In principle, SMDAM will vote against officer compensation, etc. in the following cases.

- (i) If the compensation amount is excessive in relation to performance or the level of dividends
- (ii) If there is no reasonable explanation for the compensation amount
- (iii) If outside directors are completely uninvolved in the determination of the compensation amount

7. Proposals concerning takeover defense measures

In principle, SMDAM will vote against takeover defense measures due to the risk of the stock market losing its function of providing discipline for companies. Furthermore, with respect to companies that do not submit takeover defense measures to the general shareholders' meeting for approval, SMDAM will, in principle, vote against the election of all director candidates who have expressed support for such measures, including newly appointed outside directors. However, SMDAM may vote for such measures if all of the following conditions are satisfied:

- (1) Reasonable grounds are explained
- (2) They are limited to the four types acknowledged by the Tokyo High Court and the acquisition is made in two stages
- (3) A general meeting to confirm the intentions of shareholders must be held when triggered
- (4) Outside directors and an independent committee are adequately involved in triggering the measures
- (5) Information disclosure requests to the acquiror are suitable
- (6) They can be abolished by the board of directors or the general shareholders' meeting at any time
- (7) They are valid for no more than three years

- (8) There is an upper limit on the period of provision of information and the evaluation period
- (9) Changes to the plan by resolution of the board of directors are limited to amendments of laws and regulations, etc.
- (10) A convocation notice is disclosed no later than 29 days before the date the general meeting is to be held

8. Proposals concerning amendments to the articles of incorporation

SMDAM will make comprehensive decisions on amendments to the articles of incorporation based on the perspective of whether they have an impact on the common interests of shareholders or corporate value.

(1) Proposals concerning amendments to the quorum requirement for special resolutions

In principle, SMDAM will vote against amendments to quorum requirement for special resolutions except in cases where there are reasonable grounds.

(2) Amendments concerning the corporate governance structure

(i) In principle, SMDAM will vote for proposals to become a company with a nominating committee, etc. or a company with an audit and supervisory committee

(ii) In principle, SMDAM will vote for the limitation of liability of directors and auditors within a reasonable extent

(iii) In principle, SMDAM will vote for the decrease and against the increase of the number of directors. SMDAM will make a comprehensive decision on the number of auditors based on the actual conditions within the company

(3) Proposals on amendment of the total number of authorized shares

In principle, SMDAM will vote against amendments of the total number of authorized shares in the following cases.

(i) If there are no reasonable grounds in light of the company's management strategy, etc.

(ii) If a part of takeover defense measures and SMDAM is unable to support the takeover defense measures themselves

(4) Proposals concerning the delegation of authority to determine appropriation of surplus to the board of directors

(i) In principle, SMDAM will vote against the delegation of appropriation of surplus to the board of directors if it includes exclusion from resolutions of the general shareholders' meeting

(ii) In principle, SMDAM will vote for proposals that permit the board of directors to make decisions concerning company share buybacks

(5) Proposals requiring special resolutions to dismiss directors

In principle, SMDAM will vote against proposals that impose additional or more stringent conditions on the dismissal of directors.

(6) Proposals concerning the reduction or release of liability of accounting auditors

In principle, SMDAM will vote against the limitation of liability of accounting auditors.

(7) Proposals concerning more flexible record dates for resolutions

In principle, SMDAM will vote against making record dates for resolutions more flexible.

(8) Proposals on the issue of class shares

In principle, SMDAM will vote against the issue of class shares. However, it may vote for such proposals if it can be reasonably explained that it will not damage the interests of existing common shareholders.

(9) Proposals concerning other amendments to the articles of incorporation

SMDAM will make comprehensive decisions based on the perspective of whether there is an impact on the common interests of shareholders or corporate value.

9. Proposals concerning corporate mergers and business restructuring

SMDAM will make comprehensive decisions on corporate mergers and business restructuring based on the perspective of whether they have an impact on the common interests of shareholders or corporate value. However, SMDAM will, in principle, vote against proposals in the following cases.

- (1) If there is no clear and reasonable explanation concerning the purpose, transaction details, share exchange ratio, or implementation of appropriate due diligence
- (2) If it is found to damage the common interests of shareholders or corporate value

10. Proposals concerning capital policy such as increasing or decreasing capital

SMDAM will make comprehensive decisions on capital policy based on the perspective of whether there is an impact on the common interests of shareholders or corporate value.

In principle, SMDAM will vote against decreasing capital if there are no reasonable grounds or it damages the common interests of shareholders.

In principle, SMDAM will vote against third-party allocation of shares in cases where the allocation price is significantly more advantageous than the market price, cases where significant dilution of shares occurs, and cases where the recipient of allocation is inappropriate.

11. Proposals concerning the acquisition and retirement of treasury shares

In principle, SMDAM will vote for the acquisition and retirement of treasury shares to contribute to the common interests of shareholders. However, SMDAM will, in principle, vote against such action if inappropriate in view of factors such as the company's financial condition, cash flow, and liquidity.

12. Proposals concerning the election of accounting auditors

In principle, SMDAM will vote for the election of accounting auditors to reduce the risk of improper accounting brought about by collusion between companies and accounting auditors. However, SMDAM will, in principle, vote against proposals in the following cases except in cases where there are reasonable grounds.

- (1) There are serious doubts about the independence of the accounting auditor
- (2) Not reappointed due to conflict with the company over audit policy
- (3) Doubt remaining about whether auditing will be adequate in light of factors such as the size of the accounting auditor

13. Other proposals made by the company

SMDAM will make comprehensive decisions based on the perspective of whether there is an impact on the common interests of shareholders or corporate value.

14. Shareholder proposals

SMDAM will make comprehensive decisions based on the perspective of whether there is an impact on the common interests of shareholders or corporate value.

J-REITs

1. Election and dismissal of executive officers, supervisory officers, and accounting auditors

As the Act on Investment Trusts and Investment Corporations (“Investment Trust Act”) positions investment corporations as the “vessels” for investment and adopts externally entrusted schemes, with the authority of executive managing officers to execute business being limited to the selection of the external corporation to which to entrust operations and the convocation of investors’ meetings, the principal role of executive officers is to monitor and supervise the operations entrusted to asset management companies, etc., and these are carefully reviewed according to the following policies.

(Election of executive officers and substitute executive officers)

(1) In principle, SMDAM is opposed to cases where an officer or employee of an asset management company serves concurrently as an executive officer.

(2) The following applies in cases where they do not serve concurrently.

(i) In principle, SMDAM will vote for new appointments where it is found that there are no problems after reviewing whether or not the candidate has a career in real estate related business and whether there has been any conduct that undermines public confidence or antisocial conduct (“conduct that undermines confidence”).

(ii) In principle, SMDAM will vote for re-appointments where it is found that there are no problems after reviewing whether there have been any acts that harm the value of the J-REIT concerning the operation of the outsourcer or other outsourced operations due to failure to act with the due care of a prudent manager or act in good faith during the term of office, or conduct that undermines confidence.

(Election of supervisory officers and substitute supervisory officers)

(3) In principle, SMDAM will vote for new appointments where it is found that there are no problems after reviewing whether a nominee has the independence and career sufficient for serving in the role of supervision of executive officers and asset management companies, etc. and whether there has been any conduct that undermines confidence.

(4) In principle, SMDAM will vote against re-appointments where it is determined that there has been a failure to act with the due care of a prudent manager or act in good faith toward the investment corporation during the term of office, or if it has been found that conduct that undermines confidence has taken place. Furthermore, in principle, SMDAM is opposed if independence cannot be reasonably explained due to losing independence as a supervisory officer if the cumulative term of office of a supervisory officer is for a long period in the relevant investment corporation.

(Election of accounting auditors)

(5) In principle, SMDAM will vote for newly appointing accounting auditors if it is found that they have a track

record that can be expected to provide effective and independent auditing of the accounts of the investment corporation.

- (6) In principle, SMDAM will vote against re-election if there were accounting auditing practices that are not appropriate as an accounting auditor during the term of office or it is found that there were practices causing doubts about independence.

2. Amendment of the certificate of incorporation

- (1) In principle, SMDAM will vote for proposals to make amendments to conform with revisions to the Investment Trust Act, revisions to the tax system, and revisions of other legal systems, and amendments that are within the scope allowed by the Investment Trust Act.

- (2) In principle, SMDAM will vote against proposals for amendments of the certificate of incorporation other than those mentioned above that have a high probability of harming the value of J-REITs.

(Changes concerning asset management fees and addition of new management fee structures)

- (3) In principle, SMDAM will vote against proposals to increase the total amount of asset management fees if these are not found to be reasonable after reviewing the impact on the medium- to long-term value of J-REITs.

3. Dissolution

- (1) Decisions are made after reviewing the grounds for dissolution and comprehensively considering the valuation of assets at the time of liquidation, residual assets for investors, and the continuity of being listed.

- (2) In the case of dissolution by merger, a decision is made by comprehensively reviewing the advantages and disadvantages of dissolution based on a medium- to long-term perspective as described in “5. Approval of mergers, etc.” below.

4. Approval of conclusion and cancellation of agreements with real estate management companies to entrust asset management

- (1) When approving an agreement with a new asset management company, decisions are made on a case-by-case basis after considering the management structure and governance structure of the corporation to which operations will be entrusted, including sponsors, and also reviewing the impact on the medium- to long-term value of J-REITs.

- (2) Decisions are made on a case-by-case basis about the cancellation of asset management entrustment agreements by considering the background of the cancellation, and comprehensively reviewing the advantages and disadvantages of canceling the agreement as well as the advantages and disadvantages of concluding an agreement with a new asset management company.

5. Approval of mergers, etc.

- (1) Decisions are made on a case-by-case basis by comprehensively reviewing not only the short-term effect of the merger, but also the impact on the medium- to long-term value of J-REITs. Furthermore, in the review of mergers, decisions are made by taking note of performance and financial indicators such as dividends per unit and the debt ratio, etc. after the merger in addition to the merger ratio.

- (2) Individual decisions are made after comprehensively reviewing the advantages and disadvantages of the merger in light of the background of the merger.