

Criteria for Determining the Exercise of Voting Rights

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Sumitomo Mitsui DS Asset Management Co., Ltd.

<Chapter 1> Basic policy on criteria for exercising voting rights

In fulfilling its stewardship responsibilities under discretionary investment contracts and investment trust agreements, Sumitomo Mitsui DS Asset Management Company, Limited (“SMDAM”) exercises its voting rights to enhance the value of investee companies and REIT investment corporations (“investee companies”), or to prevent damage thereof, for the benefit of customers and ultimate beneficiaries. However, SMDAM may exercise them differently from the standards if appropriate, taking into consideration the dialogue with the investee companies and their individual circumstances.

<Chapter 2> Major Viewpoints of Voting Rights Exercise Decision for resolutions (Japanese stocks and J-REITs)

1. Viewpoints of consequence responsibility

- (1) Business performance, capital efficiency (ROE, etc.), return to shareholders (total shareholder return (TSR), etc.)
- (2) Eligibility of directors and auditors (percentage of attendance, etc.)
- (3) Responsibility for conduct that undermines public confidence or antisocial conduct (“conduct that undermines confidence”)

2. Viewpoints of enhancing corporate value or preventing damage to corporate value

- (1) Organization design, structure of the board (ratio of independent outside directors, diversity, etc.), and accounting auditors
- (2) Eligibility of directors and auditors (independency, etc.)
- (3) Remuneration of directors and auditors (incentives to enhance/prevent damage to future corporate value, etc.)
- (4) Business strategy, financial and capital strategy, and medium- to long-term strategy including non-financial elements such as ESG

<Chapter 3> Criteria for Exercising Voting Rights (Japanese stocks)

1. Proposals concerning the appropriation of surplus

SMDAM comprehensively assesses the appropriateness of capital policy decisions based on the results of shareholder returns, return on equity (ROE), and disclosure of information on future investment plans, financial strategies, growth potential and other management strategies. If a proposal on the appropriation of surplus is not presented to the general shareholders meeting, a decision will be made at the proposal on the election of directors. In the event of any violation of (1) or (2) below, SMDAM will, in principle, vote against the proposal if it has not been reasonably explained that it contributes to enhancing corporate value.

- (1) Lower than 30% total payout ratio.

- (2) Lower than 50% total payout ratio for cash-rich companies having excessive retained earnings

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

- (i) Sufficiently high ROE or TSR
- (ii) Continually increasing total payout ratio
- (iii) Special circumstances far beyond company's effort such as natural disasters, etc.

2. Proposals concerning the election and dismissal of directors

SMDAM comprehensively judges whether or not directors and the composition of the board of directors can enhance future corporate value based on business performance, ROE, and TSR, as well as qualifications of each candidate including the independence of outside directors. SMDAM will, in principle, vote against individual candidates who do not meet the following criteria, but may vote for such proposals after a comprehensive assessment, taking actual conditions of the investee companies into account.

- (1) Criteria concerning the qualifications of directors

- (i) TSR/ROE criterion

SMDAM will, in principle, vote against the election of directors if the TSR over the last three years is significantly lower than that of the TOPIX and the relevant sector averages, or if the ROE has been below the median of all listed companies in each of the last three years. However, all or some candidates may be approved if there are reasonable grounds as follows.

- (a) Less than three years in office.
- (b) Sufficient disclosure of information on reasonable management strategy to improve corporate value or ROE.
- (c) Continual and significant ROE improvement.
- (d) Special circumstances far beyond company's effort such as natural disasters, etc.
- (e) Clarification of responsibilities such as completion of management structure reforms or retirement of responsible directors.

- (ii) Criterion concerning business performance and corporate value

SMDAM will, in principle, vote against the election of directors in the following cases.

- (a) Insolvency or severe decline in business performance attributable to the candidates
- (b) A company that delegated the authority of appropriation surplus to the board of directors and whose total payout ratio does not meet the requirements.
- (c) Cross-shareholdings held in excess of approximately 20% of shareholders' equity.
- (d) Implementation of capital policy that seriously harms the common interests of shareholders.
- (e) Serious problems with information disclosure attitudes.
- (f) Insufficient disclosure of information on sustainability management strategy (no concrete contents on E and S, such as climate change, human capital, and intellectual property), and no intention to improve confirmed through dialogue.

(g) Insufficient diversity in the composition of the board of directors or executive officers, etc. (SMDAM scrutinizes the composition of the board of directors of large market capitalization companies and will, in principle, oppose the election of directors unless the candidates are diverse in gender and foreign nationals.)

(iii) Criterion concerning conduct that undermines public confidence

In the event of conduct that undermines public confidence, SMDAM comprehensively judges its seriousness, the extent to which the officers were involved, its maliciousness, and the appropriateness of subsequent actions (identification of the cause, clarification of accountability, and establishment of measures to prevent recurrence). However, all or some candidates may be approved in the following cases.

- (a) Candidates who are newly appointed or are not involved in conduct that undermines confidence
- (b) Clarification of responsibilities such as completion of management structure reforms or retirement of responsible directors
- (c) Sufficiently enhanced supervision functions such as an increase in the number of independent outside officers

(iv) Criterion concerning the qualifications of outside directors

Outside directors who attend less than 80% of the board of directors meetings or hold a significant number of other positions are not considered to meet this criterion unless there are reasonable grounds to do so.

(v) Criterion concerning the independence of outside directors

SMDAM comprehensively judges violation of this criterion for determining the independence of outside directors as follows.

- (a) Relationship with major shareholders, parent companies, and major trading partners
- (b) Legal counsel agreements, tax consultant/accountant agreements
- (c) Accounting audit agreements
- (d) Over 12 years in office as director and/or auditor
- (e) Close relatives of current board members
- (f) Other questionable independence

However, when any of the following items is applicable, it shall not be considered to be a violation of the standards.

- (a) Reasonable explanation that there is no risk of damaging the common interests of shareholders
- (b) Reasonable explanation that a contribution is expected to exceed the question of independence, confirmed by disclosure of the skill matrix of the board of directors as a whole and nomination after deliberation by the nomination committee, etc.
- (c) Three years after retirement of the relevant position, etc.

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

SMDAM comprehensively judges the composition of the board of directors based on the actual conditions of the

investee companies. SMDAM will, in principle, vote against 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 an increase in the number of directors due to business expansion.

- (a) Directors with a total number of more than 20
- (b) Increase of two or more internal directors
- (c) Insufficient number or ratio of independent outside directors
- (d) No involvement of outside directors for the election of directors

- (3) Criterion concerning directors of audit committee members in companies with audit and supervisory committee
Directors serving as audit committee members in a company with audit and supervisory committee are expected to perform some of the same functions as auditors in a company with board of company auditors, and certain of the criteria in the “Proposal concerning the election and dismissal of auditors” shall be applied as necessary.

3. Proposals concerning the election and dismissal of auditors

SMDAM comprehensively judges whether or not auditors and the composition of the board of auditors is linked to the function of checks on the board of directors, taking into account the status of activities of the candidates and their eligibility mainly from the perspective of independence. SMDAM will, in principle, vote against the election of individual candidates who do not meet the following criteria, but may vote for such proposals based on a comprehensive judgement based on the actual conditions of the investee companies.

- (1) Criteria concerning the qualifications of auditors

- (i) Criterion concerning conduct that undermines confidence

In the event of conduct that undermines public confidence, SMDAM comprehensively judges from the perspective of whether or not there were any problems with the activities of the board of auditors based on its seriousness, its maliciousness, and the appropriateness of subsequent actions (identification of the cause, clarification of accountability, and establishment of measures to prevent recurrence). However, all or some candidates may be approved in the following cases.

- (a) Candidates who are newly appointed or are not involved in conduct that undermines confidence
- (b) Clarification of responsibilities such as completion of management structure reforms or retirement of responsible directors
- (c) Sufficiently enhanced supervision functions such as an increase in the number of independent outside officers

- (ii) Criterion concerning representative experience

SMDAM will, in principle, vote against the election of candidates who were a director or representative executive officer having representative authority of the company.

- (iii) Criterion concerning the qualifications of outside auditors

Outside auditors who attend less than 80% of the meetings of board of directors and board of auditors or hold a

significant number of other positions are not considered to meet this criterion unless there are reasonable grounds to do so.

(iv) Criterion concerning the independence of outside auditors

SMDAM comprehensively judges violation of this criterion for determining the independence of outside auditors as follows.

- (a) Relationship with major shareholders, parent companies, and major trading partners
- (b) Legal counsel agreements; tax consultant/accountant agreements
- (c) Accounting audit agreements
- (d) Over 12 years in office as director and/or auditor
- (e) Close relatives of current board members
- (f) Other questionable independence

However, when any of the following items is applicable, it shall not be considered to be a violation of the standards.

- (a) Reasonable explanation that there is no risk of damaging the common interests of shareholders
- (b) Reasonable explanation that a contribution is expected to exceed the question of independence, confirmed by disclosure of the skill matrix of the board of directors as a whole and nomination after deliberation by the Nomination Committee, etc.
- (c) Three years after retirement of the relevant position, etc.

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

In cases where there are no two or more independent outside auditors, if the number of auditors or outside auditors is reduced, this shall be considered not to meet this criterion. SMDAM will, in principle, vote against the reappointment of auditors except in cases where there are reasonable grounds.

4. Proposals concerning bonuses to officers

SMDAM actively views bonuses to officers as an effective incentive, but judges whether or not they are appropriate in terms of content and amount. SMDAM will, in principle, vote against proposals in the following cases.

- (1) Excessive payments relative to the level of earnings or dividends
- (2) No proportionate reduction in the total amount of payment or the amount of payment per person despite conduct that undermines confidence and seriously impairs corporate value
- (3) No involvement of outside officers in determining bonuses to officers and lack of reasonable explanation that they contribute to the common interests of shareholders

5. Proposals concerning the payment of officers' retirement benefits

SMDAM comprehensively judges the payment of officers' retirement benefits based on factors such as the reduced effectiveness of the board of directors and the impact on the checks and balances of outside directors and auditors. SMDAM will, in principle, vote against proposals in the following cases.

- (1) Payment to an outside director, a director who is an audit committee member, etc., or an auditor
- (2) Payment to an officer responsible for cumulative negative income over the last three years
- (3) Lack of disclosure of the total amount of retirement benefits
- (4) Payment of an unreasonable amount in light of the degree of responsibility to the officer responsible for conduct that undermines confidence
- (5) Excessive payments relative to the level of business performance and shareholder returns

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

In consideration of the appropriateness of compensation of officers and officers' stock options, board benefit trusts, and restricted stock, etc. ("stock options, etc."), SMDAM comprehensively judges whether or not such compensation will have an impact on the purpose of enhancing corporate value or preventing damage to corporate value, i.e. recipients, linkage with performance, the appropriateness of compensation amount, payment, and exercise timing, number of shares granted, the involvement of outside directors and the compensation committee, the adequacy of disclosure of information, etc. 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, auditors, outsiders (consultants, trading partners, etc.) or any other inappropriate recipients. As an exception, however, outside directors other than directors who are audit committee members may be granted restricted stock.

(1) Stock options

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

- (i) Significant dilution of existing shareholders
- (ii) Reduction in the exercise price of unexercised stock options
- (iii) Stock compensation-type stock options (so-called 1-yen stock options) that can be exercised before the date of retirement or within two years from the date of grant, etc. SMDAM comprehensively judges whether the plan design is suitable for the purpose of enhancing/preventing damage to corporate value, taking into consideration the status of the abolishment of the officers' retirement benefit system, etc.

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

SMDAM will, in principle, 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 lifting of restriction on transfer are limited to the period after retirement or at least two years after grant.
- (ii) The cumulative number of shares issued during the first two years after the grant is limited to less than 1%, and the impact on existing shareholders is considered to be limited. Alternatively, voting rights cannot be exercised during the trust period or during the transfer restriction period.

(3) Setting upper limits on compensation of officers

SMDAM will, in principle, vote against compensation of officers in the following cases.

- (i) Excessive compensation amount relative to the level of earnings or dividends
- (ii) Lack of reasonable explanation of the amount of compensation
- (iii) No involvement of outside directors and the compensation committee in determining the compensation amount

7. Proposals concerning takeover defense measures

SMDAM, in principle, opposes the so-called advance warning takeover defense measures because of the risk of the stock market losing its corporate discipline function, but may approve such measures after a comprehensive judgement and confirming the following requirements. In addition, 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.

- (1) Limited to the four types acknowledged by the Tokyo High Court and the acquisition made in two stages
- (2) Appropriate information disclosure requests to the acquirer
- (3) Able to be abolished by the board of directors or the general shareholders' meeting at any time
- (4) Trigger ratio of 20% or more
- (5) Valid for up to three years
- (6) Upper limit of information provision period and evaluation period
- (7) No room for changes by resolution of the board of directors except for revisions of laws and regulations, etc.

In addition, with regard to the so-called contingency takeover defense measures, SMDAM comprehensively judges the common interests of shareholders, the impact on corporate value, the necessity of introduction, and the scheme of the plan, etc.

8. Proposals concerning amendments to the articles of incorporation

SMDAM comprehensively judges whether or not an amendment to the articles of incorporation shall affect the common interests of shareholders or corporate value.

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

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

(2) Proposals concerning amendments to the corporate governance structure

- (i) SMDAM will, in principle, vote for proposals to become a company with a nominating committee or a company with an audit and supervisory committee.
- (ii) SMDAM will, in principle, vote for proposals to limit the liability of directors and auditors to a reasonable extent.

- (iii) SMDAM will, in principle, vote for the decrease and against the increase of the number of directors. SMDAM will comprehensively judge the number of auditors based on the actual conditions of the investee companies
 - (iv) SMDAM will, in principle, vote for holding a virtual shareholders' meeting. In the event that the operation of the general shareholders' meeting is conducted in a manner that significantly impairs the rights of shareholders, the election of directors at the subsequent general shareholders' meeting may be opposed
- (3) Proposals on amendment of the total number of authorized shares
- SMDAM will, in principle, vote against amendments of the total number of authorized shares in the following cases.
- (i) No reasonable grounds in light of the company's management strategy, etc.
 - (ii) A part of takeover defense measures that SMDAM cannot approve.
- (4) Proposals concerning the delegation of authority to determine appropriation of surplus to the board of directors
- (i) SMDAM will, in principle, vote against the delegation of appropriation of surplus to the board of directors if the proposal includes exclusion from resolutions of the general shareholders' meeting.
 - (ii) SMDAM will, in principle, vote for proposals that permit the board of directors to make decisions concerning company share buybacks.
- (5) Proposals requiring special resolutions to dismiss directors
- SMDAM will, in principle, 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
- SMDAM will, in principle, vote against proposals to limit the liability of accounting auditors.
- (7) Proposals to make record dates for resolutions more flexible
- SMDAM will, in principle, vote against making record dates for resolutions more flexible.
- (8) Proposals concerning the issuance of class shares
- SMDAM will, in principle, vote against the issuance of class shares. However, it may vote for such proposals if it can be reasonably explained that the issuance will not damage the interests of existing common shareholders.
- (9) Proposals concerning sustainability
- SMDAM will, in principle, vote for amendments to the articles of incorporation regarding sustainability, such as climate change and human rights, if the content, scope, and items are considered appropriate.
- (10) Proposals concerning other amendments to the articles of incorporation
- SMDAM will comprehensively judge proposals 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) Lack of clear and reasonable explanation concerning the purpose, transaction details, share exchange ratio, or proper due diligence.
- (2) Risk of damaging the common interests of shareholders or corporate value

10. Proposals concerning capital policy such as increasing/decreasing capital, or allotment to third parties

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.

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

SMDAM will, in principle, vote against third-party allotment if the allotment price is significantly more favorable than the market price, if there is a significant dilution of the shares, or if the allottee is inappropriate.

If a proposal for the establishment of a foundation for academic or welfare purposes or an organization for social contribution purposes is accompanied by a proposal for third-party allotment, etc., in which the allotment price is significantly more favorable than the market price, both proposal shall, in principle, be opposed.

11. Proposals concerning the acquisition and retirement of treasury shares

SMDAM will, in principle, vote for the acquisition and retirement of treasury shares, which contribute to the common interests of shareholders. However, SMDAM will, in principle, vote against such proposals if they are inappropriate in light of the company's financial condition, cash flow, and liquidity.

12. Proposals concerning the election of accounting auditors

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

- (1) Serious doubts about the independence of the accounting auditor
- (2) Not reappointed due to conflict with the company over audit policy
- (3) Doubts about proper auditing in light of factors such as the size of the accounting auditor

13. Other proposals made by the company

SMDAM will comprehensively judges proposals based on the perspective of whether there is an impact on the common interests of shareholders or corporate value.

14. Shareholder proposals

SMDAM will comprehensively judge shareholder proposals based on the perspective of whether there is an impact on the common interests of shareholders or corporate value. With regard to proposals to amend the articles of incorporation, full consideration shall be given to the possibility of constraints on business operations. SMDAM will, in principle, vote for shareholder proposals related to the disclosure of information on sustainability, such as climate change and human rights, if the content, scope, and items required are considered appropriate.

<Chapter 4> Criteria for Exercising Voting Rights (J-REIT)

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. Based on this point of view, 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) SMDAM will, in principle, 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) SMDAM will, in principle, vote for re-appointments where it is found that there are no problems after reviewing whether there have been any acts that impair 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) SMDAM will, in principle, 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) SMDAM will, in principle, 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) SMDAM will, in principle, vote for newly appointed 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) SMDAM will, in principle, 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) SMDAM will, in principle, 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) SMDAM will, in principle, vote against proposals for amendments of the certificate of incorporation other than those mentioned above that have a high probability of impairing the value of J-REITs.

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

- (3) SMDAM will, in principle, 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.