NIPPON VALUE INVESTORS

Responsible Investment Policy

Responsible Investment Philosophy & Objectives of the Responsible Investment Policy

The Japanese Equity Program of Nippon Value Investors KK (NVI) aims to achieve long-term capital appreciation of the value of its clients' assets and to increase their investment returns by increasing the intrinsic value of the portfolio through investments in the Japanese equity universe in attractive value opportunities which are considered to be undervalued relative to the quality of underlying businesses. As the investment manager of the Japanese Equity Program, NVI is obligated to make investment decisions on behalf of NVI's clients to achieve their objectives.

The United Nation Principles for Responsible Investment (UNPRI) defines responsible investing as a strategy and practice to incorporate environmental (E), social (S) and governance (G) factors (ESG factors) in investment decisions and active ownership. NVI recognizes that ESG factors can have a material impact on long-term financial performance and the sustainable shareholder value of investee companies. Furthermore, NVI believes that in order to increase its clients' long-term investment returns, consideration of those factors should be integrated into its investment analysis and investment decision making process. As a responsible investor, NVI also believes that through integrating ESG factors in its investment decision making and practicing active ownership, NVI's program will contribute to the long-term sustainable growth of society and the economy.

Based on this philosophy, NVI has accepted Japan's Stewardship Code and became a supporter of Taskforce on Climate-related Financial Disclosures (TCFD) and a signatory to the UNPRI.

NVI's Responsible Investment Policy outlines the philosophy and approach NVI takes to effectively integrate ESG considerations in its investment decisions and active ownership for its Japanese Equity Program.

Our Approach to ESG

NVI's investment decisions are based primarily on business and financial considerations in order to identify companies which are undervalued relative to their quality. Based on fundamental company research and analysis, NVI identifies and invests in attractively valued companies which are sound in terms of their business operations, financial condition and management. As a part of its research process, NVI takes a bottom-up approach and conducts comprehensive quality assessments of companies using eight quality criteria. Results of the assessments of overall quality of companies are used to determine the relative attractiveness of each company for making investment decisions.

Governance (G) is essential as one of its eight quality criteria because NVI believes that a sound governance structure will enhance a company's long-term shareholders value.

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Environmental (E) and social (S) issues can also have a material impact on a company's present or future financial position and cash flows, which will affect the company’s long-term sustainable shareholder value. Therefore, NVI believes that ESG factors including environmental and social issues must be an integral element of its investment decision making process as a part of the overall assessment of a company’s quality.

Environmental (E)

NVI believes that a company’s business practices that negatively affect the global environment will be very likely to damage the long-term sustainable value of the company. Therefore, when assessing the quality of an investment candidate company, NVI identifies risks and opportunities related to the company’s environmental characteristics. The main consideration is climate change items such as GHG emissions, which may affect the company’s long-term financial condition and/or corporate value. NVI then reflects its assessment of those risks and opportunities in the overall quality assessment of the company.

Social (S)

NVI believes that a company that disregards human rights and ethics or violates laws due to a lack of awareness of its social responsibilities, or a company that engages in business practices which would have a negative social impact, would be unable to sustainably operate and could damage its shareholder value in the long run. Therefore, when assessing the quality of an investment candidate company, NVI identifies and evaluates major social risks. These risks, which may damage corporate value over time, include the company’s ethical standards, compliance culture, and commitment to human rights issues such as employees’ working conditions, and other risk factors. NVI integrates its assessment of those issues in the overall assessment on a company.

Governance (G)

NVI believes that a sound governance structure is essential to enhance a company’s long-term sustainable shareholders value. Therefore, during the assessment of a company’s quality, the company’s governance structure and capital allocation policy are evaluated as a part of NVI’s eight quality criteria.

Investment Process and Integration of ESG Factor Considerations

NVI’s Japanese Equity Program aims to increase the portfolio’s intrinsic value by constructing a portfolio with stocks of listed companies in Japan which are attractively valued compared with other stocks and considered to be undervalued relative to the quality of the underlying businesses.

To identify truly undervalued stocks using medium to long-term horizons, NVI performs a multilateral analysis of every investment candidate company’s quality using its eight quality criteria as well as normalized earnings analysis.

When NVI assesses the quality of an investment candidate company, a prime concern is whether the company is able to generate sustainable free cash flows. Sustainable free cash flows are vital for a company to create long-term sustainable shareholder value. Companies that depend on unsustainable businesses practices are likely to find it difficult to generate sustainable free cash flows and therefore to fall outside of NVI's quality criteria.

Therefore, in NVI's investment process, the assessment of ESG factors (ESG risks and opportunities) is not performed independently from the fundamental analysis of a company's quality. This assessment should instead be integrated into the company's overall quality assessment (the integration of ESG factor consideration).

In NVI's Japanese Equity Program, the analysis and evaluation of ESG-related factors of a company's business are performed as part of the overall assessment of the company's quality to determine the relative attractiveness of the company's valuation as an investment candidate. Results of the ESG factor analysis alone do not directly affect NVI's investment decisions. Therefore, NVI may invest in a company even after identifying major ESG risks in its business operations if NVI concludes that the company's valuation relative to its overall quality is sufficiently attractive. In such cases, NVI would interact with the company through engagement and other activities and encourage management to take steps to improve its disclosure activities and mitigate the ESG-related risks.

NVI's Investment Process

1. Screening

The investment universe of NVI's Japanese Equity Program consists of stocks of listed Japanese companies with a market capitalization of at least JPY20 billion. To select research candidates, NVI screens a pool of stocks with cheap valuations from the universe by using NVI's value screening criteria. After eliminating companies which are considered to have high financial, operational and/or ESG risks from the screened universe as research candidates, NVI identifies companies with the most attractive valuations relative to the quality of their underlying businesses.

2. Research

Once research candidate companies are selected, members of NVI's Investment Management Group conduct fundamental research and analysis including normalized earnings analysis and quality assessment. Major ESG factors of the candidate companies are also analyzed and the result of the analysis will be reflected in the assessment of each company's overall quality.

Governance considerations, in particular, are one of the core criteria for NVI's quality assessment of a company. NVI evaluates a company's alignment with shareholders, corporate governance and capital allocation policy. This process includes checking items such as stock ownership by senior management, terms of stock options, the degree of independence of the board from large shareholders, the number and ratio of independent external directors, their attitude toward disclosure, share issuance, capital structure, dividend payments, share buybacks and their investment activities (including M&A).

For the consideration of environmental and social factors, NVI first identifies major environmental and/or social factors related to the operations of research candidate companies. Then, if those factors are expected to materially affect the companies' long-term sustainable shareholder value and/or their cash flow generation, NVI analyzes the degree of the impact of those factors on the companies' fundamentals. This is done by analyzing the quality of these companies, such as financial strength, operational competitiveness and growth prospects, and reflecting this analysis in the assessment of the company's overall quality.

All ESG-related assessments are performed as a part of company research by NVI's Investment Management Group (IMG) members, who act as both research analysts and portfolio managers, and these assessments are included in the final research report on individual companies. The research report is reviewed and discussed by all members of the IMG at the Investment Group Meeting to determine the overall quality of the company.

3. Portfolio Management

NVI's portfolio construction is based on stock selection. NVI's portfolio managers make investment decisions based on the attractiveness of a company's valuation in relation to other opportunities by considering the company's overall quality, including ESG factors. At the same time, NVI also monitors its portfolio exposures to selected risk factors including material ESG factors for the purpose of risk management.

Risks and opportunities associated with the ESG factors of portfolio companies are monitored by NVI's IMG members as a part of periodic research update of portfolio companies. When an investee company's ESG risk is high and NVI believes that the risk can be reduced by the company's own actions, through the exercise of proxy voting rights and engaging with the company, NVI expresses its opinions about these issues in order to make the executives of the company taking the necessary measure for improvements (Active Ownership). The objective is reducing ESG risk and increasing the long-term sustainable shareholder value of the company.

Investment Exclusion

In NVI's investment process, during the screening of research candidate companies, NVI excludes companies with obviously high risks and/or companies where quality is considered to be low (such as no growth prospects in their businesses). These companies are not attractive for investment and are placed on the Avoid List of the research candidate universe. NVI analyzes and assesses individual companies' ESG factors as a part of the fundamental analysis and assessment of those companies. If a company engages in businesses in which ESG risks are obviously high and are likely to damage the company's long-term, sustainable value, NVI places the company on the Avoid List during the screening process and excludes it from the investment universe for the Japanese Equity Program. The companies on the Avoid List are also excluded from the research universe during the quarterly screening. IGM is responsible for reviewing the Avoid List periodically.

Active Ownership

NVI believes that active ownership through voting activities and engagement activities with investee companies is vital for increasing the sustainable shareholder value of investee companies. NVI acts as a long-term shareholder on behalf of its clients in accordance with its fiduciary responsibility.

A. Proxy Voting

Proxy Voting Policy

NVI considers it to be of paramount importance when assessing proxy voting responsibilities on behalf of its clients to recognize the fiduciary responsibility it assumes in acting as the investment manager of the Japanese Equity Program. NVI also recognizes the need to exercise its proxy voting obligations on its clients' behalf to improve investee companies' business operations and governance with a view to achieving the investee companies' sustainable shareholder value and the medium to long-term growth of the value of clients' investments. It is NVI's policy to use its best efforts to submit votes for all shares held on behalf of its clients by using the decisions of portfolio managers, who have a thorough knowledge of the investee companies' business operations, in accordance with NVI's voting guidelines. NVI makes voting decisions based on assessments of whether proposals are likely to improve the investee companies' medium to long-term sustainable shareholder value or to damage shareholder value.

NVI's Voting Approach

- In principle, it is NVI's policy to use its best efforts to vote proxies arising on all shares held on behalf of its clients under the Japanese Equity Program.
- By voting, NVI aims to increase the medium to long-term shareholder value of the investee companies and to contribute to the sustainable growth of these companies.
- To determine their votes, NVI's portfolio managers examine the degree of materiality of each proposal.
- In principle, NVI submits votes for shares that NVI sold after the record date and no longer holds.

Voting Decision Making Process

NVI's portfolio managers are responsible for voting decisions. If voting materials include only standard issues, one of the NVI's portfolio managers responsible for voting will decide how to vote. If material issues are included, more thorough procedures are used. Two or more of the NVI's portfolio managers responsible for voting will discuss the issues, assess the impact that the issues may have on the portfolio company and the value of the underlying investment, and decide on how to vote.

NVI's portfolio managers carefully examine all proposals, taking into consideration the unique circumstances of each portfolio company in line with the Proxy Voting Policy.

NVI approves proposals that it believes present no problems from the standpoint of shareholder value and opposes proposals that it has concluded are inconsistent with enhancing shareholder value. In some cases, NVI may abstain from voting or issue a blank proxy instead of approving or opposing a proposal.

Significant Vote

NVI views significant votes as votes which are more than purely procedural. These votes are material for determining a company's financial position, corporate governance profile or other factors which may materially impact the company's long-term sustainable shareholder value.

B. Engagement

Policies on Engagement Activities

NVI considers engagement activities with investee companies as another important way to effectively exercise its active ownership and has engaged in dialogues with investee companies since the inception of the Japanese Equity Program. Also, as a part of its policy to comply with Japan's Stewardship Code (Principle 4: Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.), NVI maintains relationships with investee companies through dialogues with company management by using one-on-one meetings or group meetings. These activities are intended to make the executives of investee companies more mindful of the importance of sustainable growth of corporate value and of enhancing capital efficiency and taking the necessary measures for accomplishing these goals. NVI hopes that its engagement activities will contribute to making investee companies manage business operations effectively for the creation of sustainable corporate value.

The Engagement Activities Process

1) Identifying companies for engagement

NVI uses its company research activities to identify companies with an issue or practice for potential engagement activities. Specifically, NVI identifies companies for engagement activities during its quality assessments of individual companies when the companies are considered to be in the following situations.

- The company is exposed to risks (including ESG risks) which may damage the company's sustainable shareholder value, or the company has not taken effective measures, especially from the standpoint of ESG, to improve its sustainable shareholder value, and;

- NVI believes that the company has the ability to plan and implement measures needed to mitigate these risks or to improve its sustainable shareholder value.

2) Engagement Meetings

NVI, mainly through one-on-one meetings with companies, checks the level of management's awareness of the problems that NVI identified, shares its opinions concerning the problems and urges management to take necessary actions.

NVI assesses reactions/responses by a company to NVI's opinions and monitors the progress of actions that the company is taking to solve specific problems. If the company's response clearly demonstrates the company's acceptance of NVI's opinion, NVI will ask the company to submit an action plan and will monitor the progress of the plan. If there are delays or any other difficulties with this progress, NVI follows up with the companies by using one-on-one meetings with the executives.

If a company clearly has no reaction or a negative reaction to NVI's opinions, NVI will continue its efforts to discuss the issues with management. NVI will request one-on-one meetings with the CEO or other senior executives and urge them to raise their awareness of the issues and to take necessary actions. In some cases, to further elevate awareness of the issues, NVI may submit shareholder proposals. Additionally, if NVI determines that greater effectiveness can be achieved, it may consider collaborative engagement with other shareholders or stakeholders on a case-by-case basis in the future.

3) Assessment of the outcome of engagement activities

Investment decisions for NVI's Japanese Equity Program are based on the attractiveness of a company's valuation in relation to other opportunities by considering the overall quality of each company and do not directly reflect the results of engagement activities. However, if NVI concludes during its monitoring that its engagement activities do not result in material progress, NVI will reflect the negative attitude of the management toward the issues for engagement in its assessment on the company's quality. As a result, the company's valuation relative to its quality would become less attractive and NVI may decide to sell its holding of the company's stock. The outcome of its engagement activities with a company may also affect NVI's proxy voting decisions.

C. Reporting

NVI believes that it is important to give its clients and beneficiaries a better understanding of its active ownership activities because these activities contribute to increasing medium to long-term investment returns. In NVI's periodic reports to its clients, NVI explains its active ownership activities (proxy voting and engagement activities) annually.

Conflicts of Interest

If a potential conflict of interest is identified between NVI and an investee company which has a business relationship with NVI, NVI places its clients' best interests ahead of its own and manages the conflict properly in accordance with NVI's internal policies. Any business transactions which may have a conflict of interest are reported to the Compliance Group and properly managed internally.

Organization

NVI's IMG members implement the integration of ESG considerations and active ownership activities.

NVI does not have a dedicated team or staff for ESG analysis because ESG considerations are integrated into NVI's core investment decision making process as a part of its assessment of a company's quality and valuation for its investment program. NVI's IMG is responsible for establishing assessment criteria for its ESG factors, including exclusion criteria. NVI's IMG members are directly involved in reviewing and analyzing ESG factors of companies as a part of their research and investment activities.

NVI's IMG is responsible for voting proxies and conducting engagement activities. The Proxy Voting Guidelines are reviewed and updated by the IMG at least once every year.

NVI's Chief Investment Officer has the ultimate responsibility for implementing the investment program in accordance with the NVI Responsible Investment Policy.

NVI's Management Group oversees the implementation of NVI's investment program including the integration of ESG considerations. NVI's Management Group approves the Responsible Investment Policy at least once every year.