



AB Corporate Governance Advancement Expectations In Japan

As a leading global investment management and research firm, AllianceBernstein (AB) believes that promoting better corporate governance for our portfolio companies can drive shareholder value. Long-term shareholder and broader stakeholder value creation is contingent on effective governance that actively considers the impact of the way a company conducts its business. AB has been integrating this factor into our investment process as reflected in our proxy voting and company engagements. Although Japan has made great strides in improving overall corporate governance practices in recent years, there is always room for improvement. Recognizing the increasing demand from investors for businesses to advance their corporate governance practices, we believe that good corporate governance is a strategic initiative rather than a compliance exercise. Key topics where AB believes Japanese companies can make further enhancements include:

- **Board Independence:** Boards should consist of majority independent directors to ensure proper oversight. In Japan, we have been assessing boards' independence levels by looking at the ratio of outsider representation. Since 2021, we have assessed Japanese companies the same way in which we have been assessing boards of our portfolio companies in other markets regarding independence: all affiliated directors, including affiliated outsiders, are considered non-independent. We vote against the top management if boards fail to meet majority independent outsider representation.
- **Three-Committee Structure:** The three-committee structure closely aligns with AB's expectations of board oversight, and therefore is an exception to the above rule. The rationale behind supporting the three-committee structure is that it is required by law to have a majority of the members of each committee be outside directors. Therefore, the responsibilities of appointing the CEO, evaluating management's performance, recruiting directors and setting management compensation pose no conflict of interest. We encourage companies to adopt a three-committee structure.
- **Cross-Shareholding:** It is common practice in the Japanese market for companies to hold—over the long-term—shares of other issuers for purposes other than simple investment reasons, for example, to reinforce relationships with customers or suppliers. This practice is referred to as cross-shareholding, and it is generally considered an example of capital misallocation. It demonstrates a company's prioritization of business partnerships over sustainable shareholder value because the capital used to buy these shares is not available for acquisitions, capital expenditures, dividends or share buybacks. Cross-shareholding can further undermine minority shareholder rights and market discipline because management-friendly shareholders are universally supportive of management-slanted resolutions. With this context in mind, AB's approach is to vote against the most senior executive if a company allocates 20% or more of its net assets to cross-shareholding. In doing so, AB seeks to hold senior management accountable for material capital misallocation, because it is a practice that generally misaligns with long-term shareholder value.

- **Capital Allocation:** AB generally expects an average of at least 5% Return on Equity (ROE) over the past 3 years, while considering exceptional events such as restructurings, as well as positive momentum. If a company fails to meet this expectation, we may vote against the top member of management on the board. Following the COVID-19 pandemic, a discussion has evolved around dividend payments and share repurchases, with investors questioning whether companies should be expected to reserve some of their capital to navigate the unprecedented pandemic environment. However, not all businesses suffered amid the pandemic. In fact, some sectors benefited, meaning that lowering the bar on ROE requirements would not be reasonable. Capital allocation is also an area that should be considered within company-specific contexts. Fundamental research should be the basis of determining which course of action is most sensible for any issuer. If a company has sufficient capital to pay its employees and shareholders and maintain its normal course of business, dividend payments and/or share repurchases can be supported.
- **Deconcentration of Annual General Meeting (AGM) Dates:** Most Japanese companies' AGMs occur during the latter part of June. Although this is partly due to an established practice stemming from financial reporting and the audit timeline for the companies demanded by regulatory requirements, AB supports deconcentrating AGM dates over a longer time period. This would allow more meaningful engagements between shareholders and companies to occur before and after AGMs, instead of rushing through the voting process just to meet the deadline.

We expect to continue to evolve our [Proxy Voting and Governance Policy](#) for the Japanese market to continue to drive companies to adopt globally accepted strong corporate governance standards.

If you have questions or desire additional information about this statement, we encourage you to contact the AB Proxy Team at ProxyTeam@alliancebernstein.com.

