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Japan Science and Technology Agency

Principles for Stewardship Activities (Tentative)

Japan Science and Technology Agency, National Research and Development Agency (hereinafter "JST") requires its investment managers to comply with the matters set forth below. However, if there are matters that are deemed inappropriate to implement considering the individual circumstances such as characteristics of investment assets or investment style, JST will request an explanation of the reasons for non-implementation.
In addition, to fulfill its own stewardship responsibilities, JST will appropriately monitor and assess the implementation status of stewardship activities and initiatives that consider sustainability (mid- to long-term sustainability including ESG factors; hereinafter "sustainability") undertaken by investment managers, engage in active dialogue with them, and encourage them to appropriately fulfill their stewardship responsibilities.

(1) Corporate Governance Framework at Investment Managers

- Investment managers shall accept the Japan's Stewardship Code and publicly disclose their policy for compliance.
- Investment managers shall establish their own corporate governance framework. In particular, to enhance independence and transparency as an investment institution, they shall implement supervisory mechanisms such as appointing highly independent outside directors.
- Investment managers shall develop organizational structures and systems, as well as foster human resources, to effectively fulfill their stewardship responsibilities.

(2) Conflict of Interest Management at Investment Managers

- Investment managers shall appropriately manage conflicts of interest (including those within the corporate group if the manager belongs to one) to act in the best interests of beneficiaries. In doing so, they shall formulate and publicly disclose a clear policy for managing the main types of foreseeable conflicts of interest in advance.
- Investment managers shall establish and publicly disclose frameworks and mechanisms to prevent conflicts of interest, such as setting up highly independent third-party committees. The composition of such committees shall be carefully considered, taking into account independence and experiences.
- When exercising voting rights for interested parties, such as own company, parent company, or

group companies, investment managers shall establish and publicly disclose mechanisms to eliminate arbitrariness and pursue governance best practices, such as review of voting decision and validity by third-party committees or use of recommendations from proxy advisory firms.

(3) Policy on Stewardship Activities Including Engagement

- Investment managers shall formulate and publicly disclose stewardship activity policies regarding implementation of stewardship activities including engagement.
- Investment managers shall focus on content and quality that contribute to improving risk-adjusted returns from a long-term perspective by enhancing the corporate value and capital efficiency of investee companies and promoting their sustainable growth. Investment managers shall also consider developing action plans to ensure effective activities.
- Investment managers shall promote coordination between investment and stewardship activities including engagement.
- From the perspective of sustainable growth of the overall market, investment managers shall conduct engagement not only with investee companies but also with other stakeholders (including index providers) broadly. They shall also consider methods for dialogue to ensure constructive dialogue.
- Investment managers shall conduct engagement with companies by fully utilizing non-financial information described in corporate governance reports, integrated reports, etc.
- Investment managers shall formulate and publicly disclose policies on response when an investee company requests information on the extent of shareholdings in the investee company.
- Regarding the items where companies explain “reasons for non-implementation” for principles of corporate governance code of each country or equivalent frameworks, investment managers shall thoroughly check the companies’ views.
- In particular, investment managers conducting passive equity investment shall develop engagement strategies and implement effective initiatives aimed at improvement of long-term corporate value and promotion of sustainable growth of the overall market.
- When using engagement service providers, investment managers shall conduct due diligence on organizational structure and personnel before hiring, and after hiring, continuously monitor and evaluate service content, and engage as necessary.

(4) Consideration of Sustainability in Investment

- Investment managers shall address sustainability issues, taking into account sector-specific materiality and the circumstances of investee companies, as appropriate consideration of sustainability in investment is believed to contribute to improving corporate value and promoting sustainable growth of investee companies and the overall market, and thereby enhancing long-term investment returns.

- Investment managers shall actively conduct engagement on sustainability issues. They shall be mindful that such engagement aligns with their investment strategy and contributes to improving long-term corporate value and sustainable growth.
- Investment managers shall sign the Principles for Responsible Investment (PRI) and actively participate in various ESG-related initiatives.

(5) Exercise of Voting Rights

- Investment managers shall fully recognize that the exercise of voting rights is entrusted by JST and exercise such rights solely for the benefit of beneficiaries from the perspective of fiduciary duty.
- As a part of engagement aimed at promoting corporate value, investment managers shall exercise voting rights in accordance with the separately established "Principles for Exercising Voting Rights."
- When using proxy advisory firms for voting, investment managers shall conduct due diligence on organizational structure and personnel before hiring, and after hiring, continuously monitor and evaluate the advice provided, and engage as necessary (except when used for conflict-of-interest management purposes).