[English Translation]

October 3, 2016

[REPORT ON THE EIGHTH INVESTORS FORUM]

Forum of Investors Japan

Theme:	Discussion on how investors should understand trends towards selective IR by companies
Time:	September 8, 2016, 6:50 p.m. – 8:30 p.m.
Venue:	Meeting Room, QUICK Corporation
Participants:	21 persons

Purposes:

- In the trends towards prioritizing the sustainable growth of corporate value through constructive company-investor dialogue, a propensity is emerging among companies to try to select the investors whom they would have dialogue with.
- Some companies very clearly show their attitude which is inclined to disclose only mid- to long-term information, because they intend to have dialogue with such investors that place much focus on the mid- to long-term management. Other companies implicitly express in the description in their corporate governance report their preference for such institutional investors that can have discussions from a long-term point of view.
- In this Forum, we discussed how we should understand such propensity among companies and its potential issues.

Below, we have listed without modification to the extent possible the main opinions of the participants of the Eighth Investors' Forum. Note that, in order to clarify the points of discussion and the details of the opinions, competing opinions (if any) are presented together. In the discussion, a concern over companies' unadvised preference for long-term investors was expressed, and it was also pointed out that companies should pay attention to investors in general including potential investors.

1 Companies' propensity to seek "better" investors to communicate with

- ✓ It is reasonable in a sense that the companies' disclosure is becoming more focused on investors who place much weight on mid- to long-term management of the companies because they want to have dialogue with such investors. Such selection is different from that of a third party allotment. Their underlying approach is "This is what we disclose, and it is up to investors whether they are in or out."

- ✓ The question is the standard with which companies envision a "better" investor. The standard must not be made based on managements' self-indulgence. Such standard must be built on the grounds of corporate value enhancement, and the standard and the grounds should be disclosed. Investors are concerned about companies' non-disclosure of such standards.

- ✓ It is true that the types of investors attracted to companies vary depending on how and what the companies disclose. A study of the U.S. market indicates that short-term oriented investors are more attracted when companies make disclosures focusing on short-term indices such as performance prospects. It would be great if the companies become creative in expressing their messages based on their uniqueness and attract investors who found them attractive.

- ✓ We have to be cautious about trends which limit investors' access to the management. The space for dialogue would become more and more closed. It would also be a problem that if investors who have access to company presidents get more reliable information than who have no access, such access and lack of access may create information gap.

- ✓ Among recent trends, the problem is that the companies focus too much on existing shareholders. The companies should have dialogue taking good care of potential and future shareholders as well.

2 Should companies communicate only with long-term shareholders?

(Long-term perspective does not mean long-term shareholding)

- ✓ Most investors sell their shares when the price goes too high, and buy shares whose price is relatively low. Evaluation for companies may be based on long-term perspective, but investors do not invest with previously scheduled holding period. An investor with a long-term perspective may trade in a short-term. Also, an investor may turn out to be a long-term shareholder as a result of the investee company's lasting good performance.

- ✓ For instance, an investor was holding a company's shares because of the company's president's masterful management skills, but the investor sold the share because the president suddenly became ill and incapacitated. Such selling is different from that of short-term trading in that it is selling from a long-term perspective. The sudden illness is a single, isolated event, but such event or catalyst may bear a long-term meaning. In such a case, a judgment from a long-term perspective may result in a short-term trading.

- ✓ Investors expect returns worth risks and may trade shares as a part of portfolio management. Such trades are not conducted for short-term reasons.

(Is short-term trading problematic?)

- ✓ CEOs in the US or UK are much motivated to increase the share price of their companies. They are more likely to be driven by such motivations and act for the sake of earliest fruits possible. It would certainly be a problem if the short-termism which is deemed problematic in the US and UK such as cutting back R&D and depreciation expenses for a short-term profit to hit the target occurs in Japan.

- ✓ Holding shares in a short term does not necessarily mean short-termism. Foreign investors, on average, hold company shares for 3 months and banks and life insurance companies hold shares for 7 - 8 years on average. One empirical analysis shows that the shares held by foreign investors yield higher return and value. We do not believe that holding shares in a short term will decrease the corporate value of the company.

- ✓ There are no good investors or bed investors. A fair share price is formed as a result of everyone's profit seeking behaviors. Justifying the long-term shareholding while denying the otherwise will distort the price formation mechanism of the market. Trends that impede the participation of diverse investors are problematic.

(Assumption that investors holding shares in a long term are stable shareholders is problematic)

- ✓ Many companies share an understanding that "investors holding shares in a long term" are stable shareholders. Among them, an idea is also rampant that investors who sell shares because the share price went up have no sense in trading. If companies just want investors holding shares in a long term to keep quiet; it goes against the spirit of investor-investee dialogue.

- ✓ Through the discussion on long-term shareholding, we can see managements' self-interest to prevent buyout and "shelve" investors' voting in order to maintain their "stable management"

<u>3. Concern over companies' selection for long-term shareholders / investors</u>

- ✓ The propensity of companies to be selective about who to talk with emerged, in a way, from the process of dissolving cross-shareholding. We suppose that companies' self-interest such as "management on its own discretion," "being headstrong" and "(hopefully) stabilized share price" underlies that propensity. If it is true, it goes against the current of aspiration to improve the capital market in Japan.

- ✓ A research of various countries suggests that the corporate value in the markets with a depth of portfolio investors and that of the companies with higher proportion of portfolio investors tends to go up, and that the share price in the market or the share price of the companies with higher proportion of cross-shareholding does not show much improvement.

- ✓ Companies endeavor to improve their shareholder value and corporate value, and the result of such endeavor fairly appears as the share price through free trading; such a cyclic mechanism is essential. It would be a problem if companies' selection of investors carries any risks that impede that mechanism.

- ✓ Some companies prefer individual shareholders as stable shareholders who replace cross-shareholding shareholders. However, an empirical analysis shows that the companies that increase shareholder benefits to attract more individual shareholders are more likely to experience a decline in economic performance.

- ✓ Listing the shares means making the company shares open for public investors. The company becomes public entity in that sense. The selection of shareholders and the other party to the dialogue based on managements' self-interest is improper for the company as a public entity.

- ✓ Company managements should be fully concentrated on enhancing corporate value, and being fastidious about their investors and shareholders is simply wrong.

4 Correlation between shareholder composition and corporate value

- ✓ A U.S. survey shows that activist investors change their strategies in investing in companies with higher proportion of passive funds in their ownership. It may be true that controlling passive funds is easy for activist investors since such funds are easily influenced by the advice of proxy advisors. We have to look into the impact of the expansion of passive funds over the capital markets or corporate governance in many aspects.

- <Forum of Investors Japan: Mission Statement>

With the aging and decreasing population in Japan, how to maintain and generate national wealth has become a crucial issue for the Japanese. In order to deal with this issue, a more effective use of capital to create value, that is, a more effective combination of human capital, intellectual capital and financial capital will be required. Companies are the stage for this. Reinforcement of the competitiveness and earning power of every company is believed to be the condition necessary for building the strength to create value in Japan as a whole.

On the other hand, the role of investors is to provide capital to companies that take on such task (retained earnings is a form that investors provide capital, in addition to IPOs and POs). Return from invested capital will be reinvested, which will promote the creation of more value to companies. As the main body of the investment chain that creates such virtuous cycle, investors are expected to assume the crucial role of "stewardship responsibilities".

From these perspectives, we want to understand in more depth measures taken by the companies to create values in the long-term, and to hold straight-forward talks with listed companies about the issues that the companies encounter.

With regard to our interests as mentioned above, the implementation of the Corporate Governance Code is expected to create a better environment for "dialogue with shareholders", but at the same time, as the Japan's Stewardship Code and Ito Review point out (Notes 1 and 2), institutional investors are required to enhance their "capability" to share knowledge and experience in order to have better dialogue with companies and make better judgments.

We operate the "Forum of Investors Japan" for the purpose of supporting institutional investors acquire skills to appropriately fulfill their stewardship responsibilities toward their investee companies, and thereby realize constructive dialogue between the institutional investors and investee companies, and contribute to the sustainable growth of such companies.

(Note 1) Japan's Stewardship Code, Principle 7-3
Exchanging views with other investors and having a forum for the purpose may help institutional investors conduct better engagement with investee companies and make better judgments.

(Note 2) Ito Review (pp.116-117)
"In order to enhance their capability for having dialogue with companies, it is important for a platform to be established in which institutional investors can share knowledge and experience, and have frank discussions on this matter. It is expected that this platform will help to provide a shared intellectual basis for dialogue and engagement, including issues such as the depth, appropriate counterparty at the company, and focus of dialogue.

* Please see the website below for more information on the activities of the Forum of Investors Japan
http://investorforum.jp