

Analysis of Quality of Dialogue and Changes in Corporate Behavior in Our Stewardship Activities

(Analysis of Dialogue Records for the Past 10 Years Using Generative AI)

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1. Stewardship Activities of Nippon Life Insurance

Our approach to asset management is rooted in our mission to steadily pay dividends over prolonged periods as we uphold the long-term promises in our life insurance policies to our policyholders. Given this characteristic and the public nature of the life insurance business, a long-term perspective is required when investing, taking into consideration safety, profitability, liquidity, and public nature. The same applies to investments in domestic listed equities. Given our social responsibility as an institutional investor, we are focusing on strengthening our stewardship activities. [*]1

We place the highest priority on encouraging companies to achieve sustainable growth and increase corporate value over medium to long term through bilateral and constructive dialogue with investee companies. We express our opinion based on in-depth analysis and strive to accumulate good practices obtained through dialogue as organizational know-how and introduce it to other companies as necessary, based on our approach to support the efforts of companies while maintaining a win-win relationship on mutual trust through dialogue [*]2 By accumulating such know-how, we hope to become an institutional investor chosen by investee companies as a valuable partner for dialogue, and to maintain a virtuous cycle that leads to further enhancement of the quality of dialogue.

2. Purpose of Analysis

Approximately 10 years have passed since the Japan's Stewardship Code (hereinafter referred to as the Code) was established, and now the focus is on reform from form to substance of stewardship activities. As an institutional investor complying with the Code since its establishment, we have been enhancing our activities ever since. We conducted this analysis with the aim of further enhancing our activities by analyzing and considering the following: whether we, as an institutional investor, have been able to enhance the quality of dialogue in line with the above mentioned policy set forth, whether the responses of investee companies are positive, and the relation with change in corporate behavior.

1 Except for investments through funds, all domestic listed equities in the general account are managed by Equity Investment Department, and all dialogues and voting rights in stewardship activities are conducted by us without outsourcing.

2 We hold dialogues with approximately 700 investee companies nationwide annually, which is one of the largest volumes of dialogues in Japan.

Specifically, we analyzed the following 3 points using 8,830 records of dialogue with investee companies listed on Japanese stock exchange over a period of approximately 10 years. [*]3

Analysis A: To what extent have we been able to have effective and high-quality dialogue that we aim for, such as effective proposals, requests, and information provision from us to investee companies?

Analysis B: To what extent suggests that the responses of investee companies lead to concrete actions?

Analysis C: What is the status of investee companies' change in behavior in response to our requests?

In addition to the above, we analyzed whether there was any relation between the quality of our dialogue, the responses of investee companies, and change in corporate behavior.

In the analysis, we used generative AI based on Large Language Model (LLM) [*]4 as a tool to process the huge amount of data (dialogue records). To ensure objectivity, we outsourced the analysis work to Oliver Wyman, a consulting company. [*]5

3. Analysis of Our Company's Ideal Dialogue (Analysis A and Analysis B)

In dialogue, it is important to deepen mutual understanding through constructive exchanges of opinions based on issues from in-depth analysis of investee companies, which the Code stipulates in "Principle 3: Monitoring of investee companies" and "Principle 4: Constructive engagement with investee companies." [*]6 [*]7This cannot be a formal and uniform approach, but needs to be creative and ingenious based on the situation of each company.

We have dialogues with investee companies on a variety of themes, and a single dialogue includes multiple themes. In this analysis, we extracted the following 8 themes from the dialogue records and analyzed each theme, which we considered to have further room for improvement in dialogue in line with the Code. [*]8

- Dialogue themes that can come in conflict with our Guidelines for Exercise of Voting Rights are "(1) Low ROE," "(2) Low dividend," and "(3) Misconducts."
- Dialogue themes that do not come in conflict with our Guidelines for Exercise of Voting Rights, but hold dialogue on financial matters are "(4) Business strategy, business portfolio, financial strategy, capital policy, etc."
- Dialogue cases not only on financial matters but also on specific issues related to "(5) Regional banks" such as regional revitalization

3 The total number of dialogues with domestic investee companies in which we conducted between 2013 and 2024. When we have dialogues with investee companies, we always keep records of the dialogues. About 2~6 sheets of A4 paper are recorded and accumulated for each dialogue in a form that almost reenact the communication with investee companies.

4 We used ChatGPT-4.1 mini provided by OpenAI.

5 Dialogues were loaded and work was performed in the exclusive cloud environment built by Oliver Wyman after we concluded a confidentiality agreement with them.

6 Principle 3: Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of companies.

7 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.

8 For example, we also conduct dialogues on important governance topics, such as the number and independent outside directors, attendance, diversity, and takeover defense measures. However, because the nature of these topics in general does not leave much room for depth or creativity in the dialogues, we excluded these topics from the analysis.

- Dialogue themes on E (environmental responsibility) and S (social responsibility) are "(6) Climate change," "(7) Business and human rights," and "(8) Human capital."

Figure 1 shows the breakdown of dialogue records used in Analysis A and Analysis B by year and theme.

[Figure 1] Breakdown of dialogue records used in Analysis A and Analysis B by year and theme

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total
Dialogue Records	74	201	355	563	939	1,016	1,025	1,016	1,053	985	1,024	579	8,830
Dialogue Records by Theme	191	521	601	1,079	1,859	2,257	2,104	2,437	2,663	2,696	2,702	1,626	20,736
(1) Low ROE	42	139	53	84	101	120	137	120	149	121	156	101	1,323
(2) Low Dividend	49	95	24	63	103	129	118	109	95	80	68	47	980
(3) Misconducts	3	12	13	7	38	64	69	24	15	49	45	15	354
(4) Business Strategy, Business Portfolio, Financial Strategy, Capital Policy, etc.	74	200	353	559	920	1,003	1,008	991	1,039	939	968	575	8,629
(5) Regional Banks	6	4	24	17	56	92	87	79	90	86	83	67	691
(6) Climate Change	3	13	19	57	113	217	184	510	673	605	488	272	3,154
(7) Business and Human Rights	1	3	9	49	62	90	57	113	128	153	271	145	1,081
(8) Human Capital	13	55	106	243	466	542	444	491	474	663	623	404	4,524

(Note) The years shown in the table are from July of the current year to June of the following year. In 2024, only dialogue records available as of March 2025 are included.

With regards to Analysis A, the "effective dialogue" that we aim for is defined in advance in accordance with the Code. After having generative AI learn and provide instructions on the definition, we had it evaluate and judge the content of dialogue records (Figure 2). Therefore, in this analysis, definition of the "effective dialogue" was not defined by generative AI (For example we did not input the status of investee companies' change in behavior etc. beforehand). After instructing the generative AI to read the Stewardship Activities Report (2024) published by us as the basic policy for activities, we provided instructions to the generative AI to appropriately analyze and evaluate dialogue records (hereinafter referred to as prompt), and repeated trial and error [*]⁹ to improve accuracy so that the generative AI could appropriately identify what constitutes "effective and high-quality dialogue". "Effective and high-quality dialogue" is defined in the prompts from the following six perspectives, based on principles 3 and 4 of the Stewardship Code. [*]¹⁰

- (1) In-depth analysis (Deep understanding of corporate issues in advance and clear articulation of them)
- (2) Expressing opinion as an investor (Not just a formal interview based on a checklist, but rather our way of thinking.)

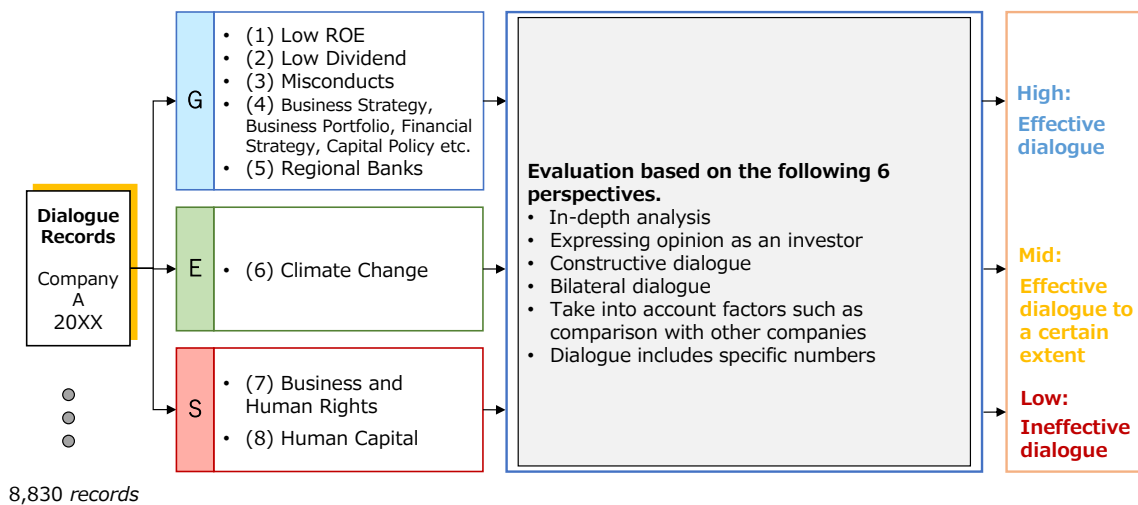
⁹ We initially examined a sample of approximately 300 dialogues to confirm whether there were any discrepancies between the evaluations made by the generative AI and those made by our team members. By repeating this process while adjusting the prompts, we made the generative AI learn so that the AI could analyze "what is an effective and high-quality dialogue" in the same way as human senses.

¹⁰ At the beginning of this analysis, we considered giving a score to each of these 6 aspects and adding them together as a total score. However, we found that in this method, dialogues that expand to several topics are highly evaluated, and even slightly superficial dialogues are highly evaluated. Therefore, to have generative AI understand what is an "effective and high-quality dialogues", we first made the generative AI learn specific good examples and grasp the depth and flow of each dialogue in high-quality dialogues. Then, we judged whether the dialogue is an "effective and high-quality dialogues" from the following perspective; not only point out issues but also show specific examples to investee companies, eliciting a sense of understanding from companies, and whether dialogues lead to the next step can be developed from a long-term perspective. On the other hand, we also found that if the prompts were too segmented, the generative AI's evaluation tended to become a check box, systematically judging whether or not the dialogue includes the above mentioned 6 aspects. We adjusted the prompts to avoid such evaluation. The actual prompts are about 10 sheets of A4 paper.

- (3) Constructive dialogue (Rather than merely seeking short-term stock price increases, it refers to clarifying the purpose of dialogue and investors and investee companies to discuss from the same long-term perspective toward sustainable improvement in the performance of investee companies.)
- (4) Bilateral dialogue (Listening to the opinions of investee companies rather than imposing one-sided opinions from investors)
- (5) Take into account factors such as comparison with other companies (From the standpoint of investors, introduce good examples of initiatives taken by other companies to improve corporate value, and provide insights to investee companies.)
- (6) Dialogue includes specific numbers (Analytical results and opinions expressed by investors are objective based on quantitative analysis, such as comparison with other companies in the same industry.)

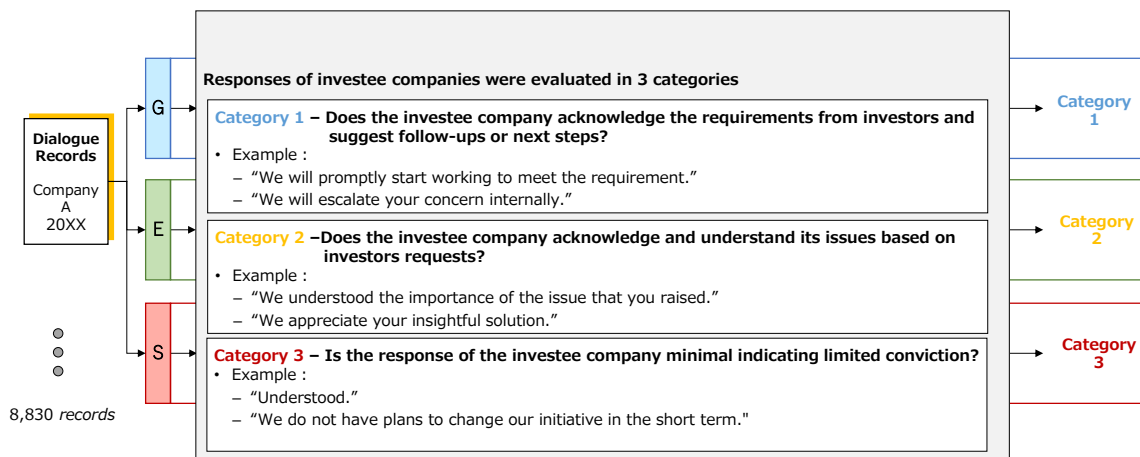
Then, we had the generative AI to evaluate the contents of the dialogue records in three categories: "High: Effective dialogue," "Mid: Effective dialogue to a certain extent," and "Low: Ineffective dialogue". "High: Effective dialogue" refers to ideal dialogues that we aim for based on the purpose of the Code. While it is not easy to achieve this level in all dialogues given that 1 person oversees approximately 80 to 100 companies nationwide per year, we set this level as a level that we aim to achieve by accumulating efforts. Therefore, this classification was made by the generative AI without considering the relativity of the quality of each dialogue in the whole dialogue record.

[Figure 2] Analysis A: Outline of the analysis for evaluating effective dialogue



Next, in Analysis B, the responses of investee companies were evaluated in three categories as shown in Figure 3: "Category 1: Does the investee company acknowledge the requirements from investors and suggest follow-ups or next steps?" "Category 2: Does the investee company acknowledge and understand its issues based on investors requests?" and "Category 3: Is the response of the investee company minimal indicating limited conviction?" This evaluation was also done by the generative AI based on the prompts.

[Figure 3] Analysis B: Outline of the analysis for responses from investee companies in a dialogue



The results of Analysis A, which evaluates the quality of our dialogues in 2024, are shown in Figure 4. Overall, 16% of our dialogues were judged to be “High”. Looking at the results by theme, “(1) Low ROE” theme, which we have been focusing on for some time, has reached a fairly high level of “High” with 63%. On the other hand, with regards to relatively new themes of (6) to (8) related to “E (environmental responsibility)” and “S (social responsibility)”, “High” remained low with 2% to 7%. We are still in the process of trial and error regarding these new dialogue themes, and we were able to confirm there is room for further improvements in the future.

[Figure 4] Analysis A: 2024 only, overall evaluation and by theme

		■ High: Effective dialogue	■ Mid: Effective dialogue to a certain extent	■ Low: Ineffective dialogue	
Total	Total	16%	77%	7%	1,626 records
G (Governance)	(1) Low ROE	63%	35%	2%	101 records
	(2) Low Dividend	30%	68%	2%	47 records
	(3) Misconducts	27%	73%	0%	15 records
	(4) Business Strategy, Business Portfolio, Financial Strategy, Capital Policy etc.	19%	77%	4%	575 records
	(5) Regional Banks	31%	66%	3%	67 records
E (Environmental Responsibility)	(6) Climate Change	7%	83%	10%	272 records
S (Social Responsibility)	(7) Business and Human Rights	2%	81%	17%	145 records
	(8) Human Capital	5%	86%	7%	404 records

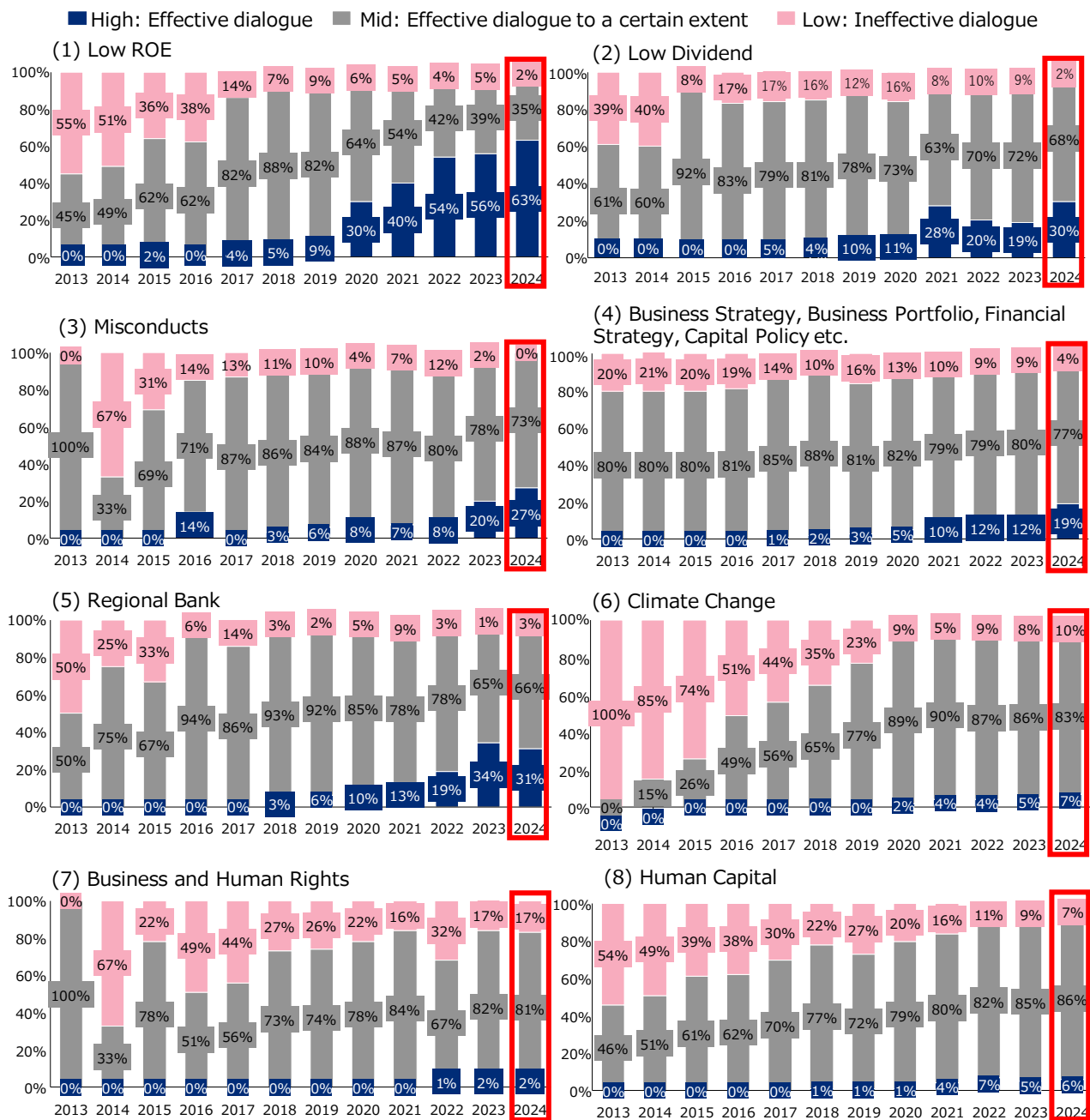
(Note) The total of each item equals 100%. The same applies to Figures 5-7, Figures 10 and 11. Due to rounding, some items may not sum to 100%.

Next, as shown in Figure 5, the historical changes of “High: Effective Dialogue” has gradually increased for all themes. In particular, the change of “High: Effective Dialogue” is relatively high for the themes of “(1) Low ROE” and “(2) Low dividends”, because the requests to investee companies are relatively clear since the dialogue is conducted in line with the policy set forth in our Guidelines for Exercise of Voting Rights, and we have know-how for financial themes accumulated from the past. In addition, the themes of “(4) Business strategy, business portfolio, financial strategy, capital policy, etc.,” we consider this theme to be one of the most complicated themes, because it is necessary to identify issues of the investee company in advance based on in-depth analysis and to develop

constructive dialogue from a long-term perspective taking into account responses from the company. The rate of “High: Effective Dialogue” for this theme had remained low in the past but increased to 19% in 2024. We regard this theme as an area for improvement and will continue to focus on it.

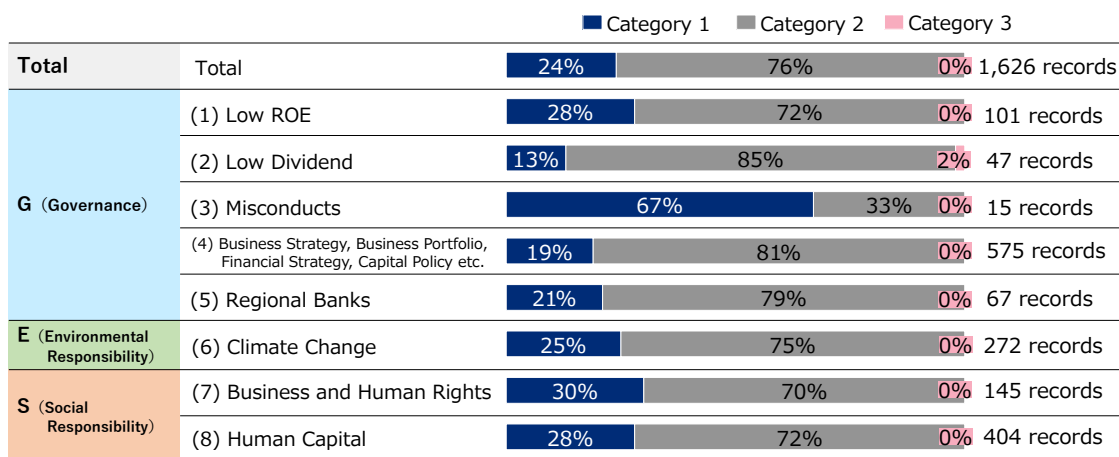
We have taken the lead in addressing G (governance) and finance-related dialogue themes. On the other hand, with regards to the themes of “(6) climate change”, “(7) business and human rights”, and “(8) human capital”, while the rate of “High: Effective Dialogue” remains relatively low, the rate of “Low: Ineffective dialogue” is steadily decreasing.

[Figure 5: Analysis A: Historical changes, by theme]



Next, with regards to Analysis B, which assesses the degree of responses from investee companies, the results of dialogues in the most recent 2024 are shown in Figure 6. Overall, the percentage of Category 1 was 24%, Category 2 was 76%, and Category 3 was 0%, indicating that investee companies have to some extent positively received our requests in dialogues. [*]11

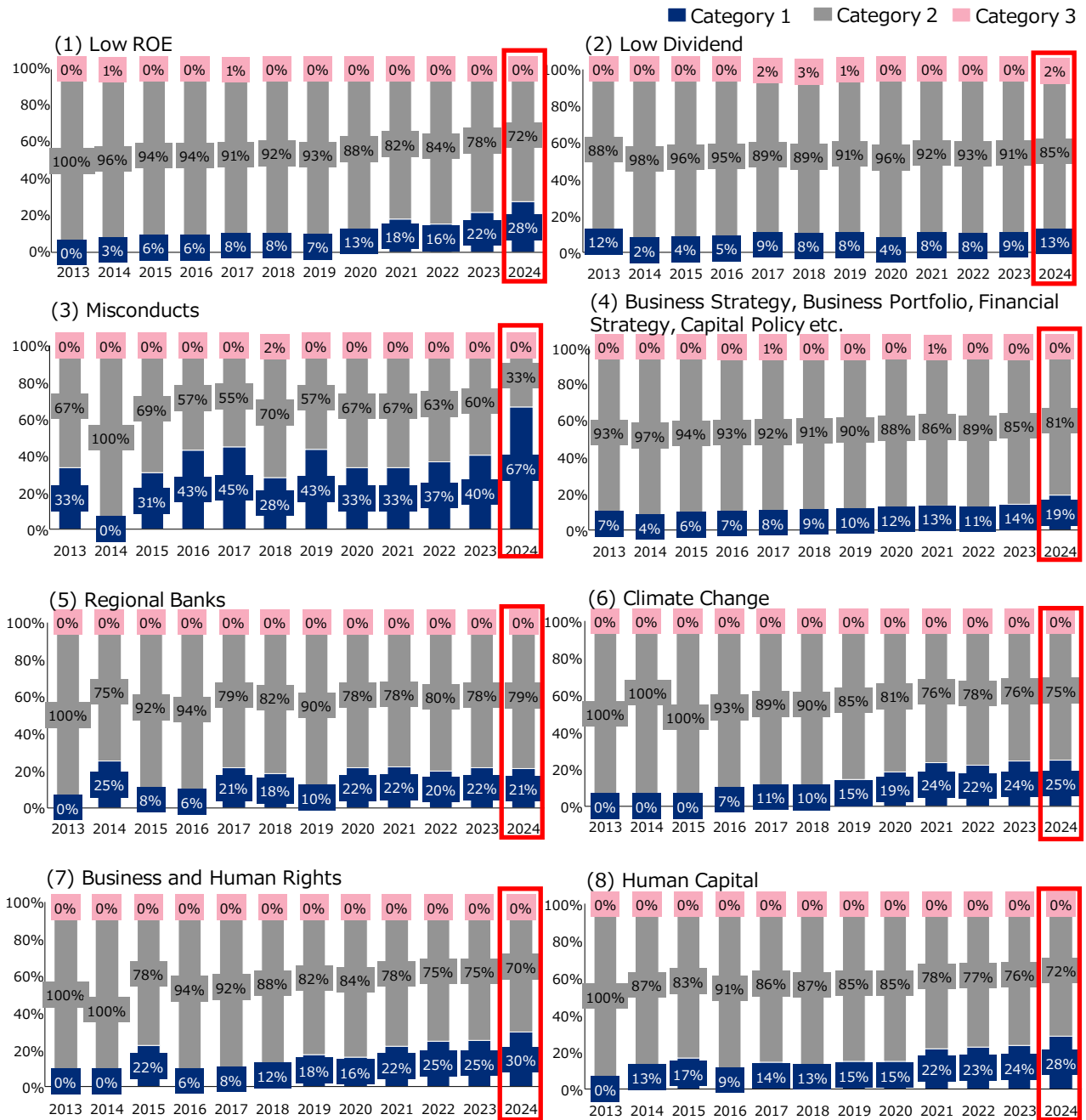
[Figure 6] Analysis B: 2024 only, overall evaluation and by theme



As shown in Figure 7, looking at changes over time, the proportion of “Category 1,” in which responses from investee companies are positive and concrete, has gradually increased in all themes. We have been expanding the themes in a timely manner, taking into account moves on the part of companies and trends in society. This suggests that companies are increasingly becoming aware of each theme year by year.

11 With regards to “(2) Low dividends”, only 13% of respondents indicated “Category 1”. For investee companies that conflict with the issue of low dividends under our Guidelines for Exercise of Voting Rights, in the course of discussions requesting for higher dividend, disclosure of dividend policy, financial strategies, and capital policies, there are cases which increasing retained earnings are reasonable depending on the situation of the company. Therefore, a higher dividend level is not necessarily better, and this is a subject that requires complex dialogues. We believe that companies understand our request, but there are relatively few cases in which they articulated next steps in dialogues.

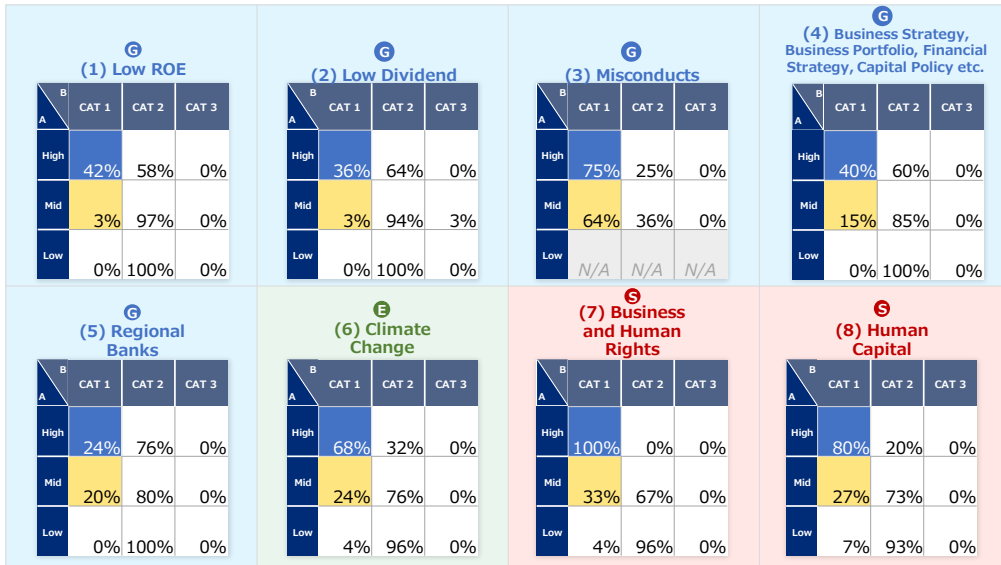
[Figure 7] Analysis B: Historical changes, by theme



The results of the relation between Analysis A and Analysis B are shown in Figure 8.

Figure 8 summarizes the distribution of the results of Analysis B (corporate response) in Analysis A (quality of dialogue). For example, dialogues related to “(1) Low ROE” in 2024, the proportion of those classified as “Category 1” in Analysis B was 42% (blue in Figure 8) among those classified as “High” in Analysis A. On the other hand, among those classified as “Mid” in Analysis A, the proportion classified as “Category 1” in Analysis B was only 3% (yellow in Figure 8). This indicates that investee companies tend to respond positively in relatively more cases where we were able to engage in high-quality dialogue. This is consistent with our view that it is important for institutional investors to engage in high-quality dialogue in order to realize Principle 4 of the Code, which states that investors should share its views with investee companies and strive to resolve issues.

[Figure 8] Relation between Analysis A and B, 2024, by theme



(Note) The figure shows the distribution of the results of Analysis B (Category 1~3) by the results of Analysis A (High, Mid, Low).

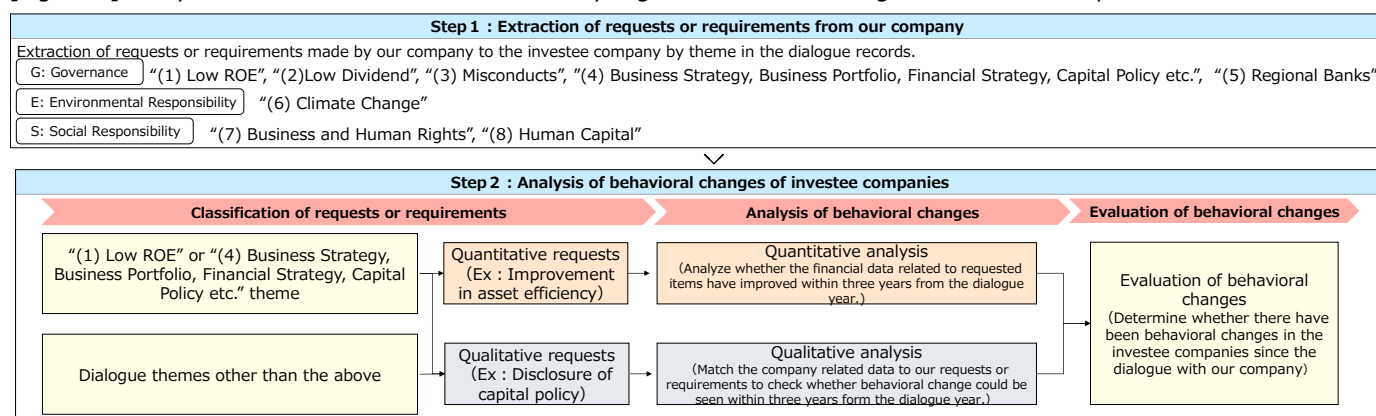
The total of the horizontal columns for each result of Analysis A is 100%. Analysis A High and Analysis B Category 1 are highlighted in blue, while Analysis A Mid and Analysis B Category 1 are highlighted in yellow.

4. Analysis of Relation Between Effectiveness of Dialogue and Change in Corporate Behavior (Analysis C)

With regard to Analysis C, as shown in Figure 9, we checked whether or not change in corporate behavior had actually occurred after three years of the dialogue by having Generative AI extract specific requests and requirements [*]¹² from us regarding the aforementioned eight themes from the dialogue records, and by comparing these with quantitative changes in corporate financial data and qualitative changes such as policy formulation and implementation and enhanced information disclosure. [*]¹³ [*]¹⁴The analysis focused on dialogues conducted since 2017 [*]¹⁵, after we strengthened our stewardship organizational structure. Cases in which some behavioral change in response to the company's requests could be confirmed within three years of the dialogue were labeled 'Yes,' and while those where no such change could be confirmed were labeled 'No'[*]¹⁶.

Note that this analysis does not claim that all corporate behavioral change was the result of our dialogue. Changes resulting from voluntary improvement efforts by companies since the introduction of the Corporate Governance Code and the increasing sophistication of stewardship activities by many investors in Japan are also significant. In this context, this analysis is not intended to quantitatively understand the contribution of our stewardship activities, but rather to confirm the direction of our efforts and the state of change in investee companies coincide, as supporter of sustainable change at investee companies.

[Figure 9] Analysis C: Outline of the method for analyzing the behavioral changes of investee companies



The results of Analysis C are shown in Figure 10 and Figure 11 below.

12 Generative AI recognized a total of 11,894 requests and requirements from us from 2017 to 2022.

13 Company-related data that we used to confirm the behavioral changes were annual securities reports, integrated reports, and IR briefing materials for investors (medium-term management plans, etc.), stored all available data for all companies in a cloud environment dedicated to this analysis, and then gave instructions to the generative AI to match the company-related data to our requests and requirements. Specifically, we checked whether the relevant quantitative financial data of investee companies had improved since the dialogue with our company and whether qualitative efforts (For example, formulating and implementing response policies and enhancement of disclosures) had been reflected in the disclosure materials.

14 Based on our experience with behavioral changes in investee companies, we referred to changes within about 3 years after the dialogue.

15 Dialogues which were held in 2023 and 2024 are not included in this analysis because the period is too short to examine changes in corporate behavior after dialogues.

16 For quantitative financial data, the actual level of improvement (regardless of the extent of improvement) is required, and for qualitative initiatives, the formulation and implementation of policies and/or improvement in disclosure are required to be evaluated as “Yes”. In dialogues on “(1) Low ROE” and dialogues on “(4) Business strategy, business portfolio, financial strategy, capital policy, etc.”, we do not simply request improvements in ROE per se, but instead focus on the value drivers that affect ROE improvement (matters related to profit margin, asset efficiency, capital policy, etc.). We confirmed improvements in these value drivers.

The result showed that the percentage of "Yes" in 2022 was 85% overall, and the percentage of "Yes" has been increasing over the years in many themes, indicating that the percentage of firms that have changed their behavior has been increasing year by year. [*]17

[Figure 10] Analysis C: 2022 only, overall evaluation and by theme

		Behavioral change can be confirmed (Yes)	Behavioral change cannot be confirmed (No)	
Total	Total	85%	15%	2,388 records
G (Governance)	(1) Low ROE	88%	13%	120 records
	(2) Low Dividend	52%	48%	75 records
	(3) Misconducts	80%	20%	40 records
	(4) Business Strategy, Business Portfolio, Financial Strategy, Capital Policy etc.	86%	14%	832 records
	(5) Regional Banks	99%	1%	77 records
E (Environmental Responsibility)	(6) Climate Change	80%	20%	563 records
S (Social Responsibility)	(7) Business and Human Rights	72%	28%	139 records
	(8) Human Capital	93%	7%	542 records

[Figure 11] Analysis C: Historical changes, by theme



17 Regarding dialogues on "(2) Low dividends", only 52% were evaluated as "Yes" even in the dialogues held in 2022. This indicates that, as mentioned in the previous pages, a higher dividend level is not necessarily better, indicating that dialogue tailored to the situation of the company is required.

Next, summarizing the results of the relation between Analysis A, Analysis B, and Analysis C are shown in Figure 12 below. Of all the dialogues, 92% were confirmed to have changed their behavior in cases where both Analysis A and Analysis B gave high marks, that is, where we engaged in an effective and high-quality dialogue and the investee company responded favorably. Among the dialogues judged as "Category 1" in Analysis B, a higher percentage of dialogues judged as "High: effective" in Analysis A gave a "Yes (change in corporate behavior)" in Analysis C than dialogues judged as "Mid: effective to a certain extent" or "Low: ineffective." [*]18 [*]19This is also the case for "Category 2" and "Category 3."

[Figure 12] Relation between Analyses A, B and C, from 2017 to 2022, overall evaluation and by theme

		CAT 1 &High	CAT 1 &Mid	CAT 1 &Low	CAT 2 &High	CAT 2 &Mid	CAT 2 &Low	CAT 3 &High	CAT 3 &Mid	CAT 3 &Low
Total	Yes	92%	86%	73%	82%	78%	70%	N/A	65%	39%
	No	8%	14%	27%	18%	22%	30%	N/A	35%	61%
G (1) Low ROE	Yes	92%	70%	N/A	90%	81%	76%	N/A	N/A	N/A
	No	8%	30%	N/A	10%	19%	24%	N/A	N/A	N/A
G (2) Low Dividend	Yes	N/A	43%	N/A	48%	43%	34%	N/A	N/A	N/A
	No	N/A	57%	N/A	52%	57%	66%	N/A	N/A	N/A
G (3) Misconducts	Yes	100%	76%	N/A	N/A	77%	85%	N/A	N/A	N/A
	No	0%	24%	N/A	N/A	23%	15%	N/A	N/A	N/A
G (4) Business Strategy, Business Portfolio, Financial Strategy, Capital Policy etc.	Yes	95%	88%	68%	84%	80%	70%	N/A	82%	38%
	No	5%	12%	32%	16%	20%	30%	N/A	18%	62%
G (5) Regional Banks	Yes	100%	97%	N/A	93%	93%	100%	N/A	N/A	N/A
	No	0%	3%	N/A	7%	7%	0%	N/A	N/A	N/A
E (6) Climate Change	Yes	89%	88%	N/A	88%	77%	84%	N/A	N/A	N/A
	No	11%	12%	N/A	13%	23%	16%	N/A	N/A	N/A
S (7) Business and Human Rights	Yes	N/A	78%	82%	N/A	71%	55%	N/A	N/A	N/A
	No	N/A	22%	18%	N/A	29%	45%	N/A	N/A	N/A
S (8) Human Capital	Yes	95%	88%	80%	91%	79%	73%	N/A	N/A	N/A
	No	5%	12%	20%	9%	21%	27%	N/A	N/A	N/A

G Governance **E** Environmental Responsibility **S** Social Responsibility

(Note): High and Category 1 with (Yes) and with (No) changes sum up to 100%; the same applies hereinafter. Due to rounding, some items may not add up to a total of 100%.

Among the items with behavioral changes, the item with the largest value is filled in blue, and the item with the smallest value is filled in yellow.

Among the items in Analyses A and B, those for which the number of dialogues less than 10 are marked as N/A.

18 Dialogues on "(2) Low dividends", the relation between Analysis A, Analysis B, and Analysis C does not show the same trends as in other themes. This is probably because, as mentioned later in the report, this theme's dialogue depends on the investee company's situation.

19 Please note that quantitative analysis of the causal relationship between our dialogues and the behavioral changes of investee companies and their contribution are outside the scope of this study.

Also, the statistical significance of the relation between Analysis A, Analysis B, and Analysis C was verified using logistic regression analysis. [*]20

$$\log \frac{P(Y=1)}{1-P(Y=1)} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \sum_i \beta_i D_i$$

- $P(Y=1)$: Probability of the dependent variable being 1 (with behavioral change)
- β_0 : Intercept (constant term)
- $\beta_1, \beta_2, \beta_i$: Coefficients of explanatory variables X_1, X_2, D_i
- X_1 : Dummy variable for analysis A that takes the value of 1 when the dialogue is effective (High) and 0 otherwise (*)
- X_2 : Dummy variable for analysis B that takes the value of 1 when the response of investee company is category 1 and 0 otherwise (*)
(*) Case 1: only X_1 , Case 2: only X_2 , Case 3: X_1 and X_2 are included as explanatory variables
- D_i : Dummy variable whose value is 1 in the year of the dialogue and 0 in all other years
(This dummy variable is included for each year from 2018 to 2022 in order to take into account factors such as environmental changes in policies and regulations during the analysis period.)

As shown in Figure 13[*]21, the results were divided by themes into the following 4 points.

(1) Both Analysis A (quality of dialogue) and Analysis B (corporate response) were statistically significant.

Theme of “(4) Business strategy, business portfolio, financial strategy, and capital policy”

- Policy-led corporate governance reforms seem to have increased corporate awareness of change and encouraged corporate behavioral change. However, deep discussions with investors and positive corporate responses are also both important for corporate behavioral change. High-quality dialogue can deepen corporate awareness of issues and have a certain impact on corporate behavior.

(2) Only Analysis A (quality of dialogue) was statistically significant.

Theme of “(1) Low ROE”

- As mentioned above, although the impact of policy seems to be significant, high-quality dialogue can deepen corporate awareness of issues and have a certain impact on corporate behavior. Unlike (4) above, the targets of dialogue under this theme are companies whose ROE has declined to a level below our Guidelines for Exercise of Voting Rights, that is, companies that need to take appropriate measures to improve profitability. Therefore, even in cases where we conduct a high-quality dialogue, it may be difficult for the investee company to respond favorably instantly at the dialogue. However it is possible that the proposal will be discussed internally and leads to initiatives after the dialogue. It should be noted that the theme of “(1) Low ROE” tend to target relatively large number of mid-sized companies compared to the other themes, so that there may be a bias in the size of companies in the analysis.

20 We did not include the themes of “(3) Misconducts” and “(5) Regional Banks” because the sample size was insufficient for statistical analysis.

21 Here, 'odds' refers to the ratio where the numerator is the probability of a company undergoing behavioral change and the denominator is the probability of no behavioral change. The 'odds ratio' refers to the ratio where the numerator is the odds when variable X_1 or X_2 is 1, and the denominator is the odds when it is 0. For statistically significant p-values, the odds ratio varies depending on the theme but generally ranges from 1.2 to 2.5, with a higher odds ratio indicating a greater impact on the dependent variable. The interpretation varies based on the proportion of company behavioral changes, for example, if the odds ratio of variable X_1 is 1.5, it means the proportion of behavioral change is approximately 78% when X_1 is 1 (numerator) and the proportion of behavioral change in companies are 70% when X_1 is 0 (denominator).

(3) Only for Analysis B (corporate response) was statistically significant.

Theme of “(6) Climate change”, “(7) Business and human rights”, and “(8) Human capital”

· It is assumed that corporate behavioral changes in these themes are particularly influenced by policies and regulations. For example, with regard to “(6) climate change”, disclosure frameworks such as the TCFD and major technological directions related to decarbonization have already been announced, so that corporations have an information advantage compared to us; with regard to “(7) business and human rights”, the Japanese government published the National Action Plan on Business and Human Rights (2020-2025) in October 2020, which expressed expectations for Japanese corporations to fulfill their responsibility to respect human rights; and with regard to “(8) human capital”, the Ito Report for Human Capital Management was published in September 2020, and since then various guidelines and measures to enhance disclosure have been issued. [*]²²Therefore, with regards to these themes, the degree of seriousness (reaction) and commitment on the part of investee companies can have a certain effect on corporate behavior, such as investment and enhancement of disclosure.

(4) Both Analysis A (quality of dialogue) and Analysis B (corporate response) were not statistically significant.

Theme of “(2) Low Dividend”

Higher dividend level is not necessarily better, therefore this theme requires dialogue tailored to the situation of the investee company. Moreover, although corporations have shown understanding to our requests, there are relatively few cases in which they articulate measures in the dialogue. Therefore, the relation between the quality of dialogue and corporate reaction and behavioral change was not clear.

[Figure 13] Results of logistic regression analysis (Period covered: 2017 to 2022, by theme)

*Items that are significant at the 10% level are highlighted in green.

	Analysis A: Significance of variable X_1				Analysis B: Significance of variable X_2			
	Case 1		Case 3		Case 2		Case 3	
	p-value	Odds ratio	p-value	Odds ratio	p-value	Odds ratio	p-value	Odds ratio
Total	0.003 ***	1.38	0.027 **	1.27	0.000 ***	1.76	0.000 ***	1.73
(1) Low ROE	0.006 ***	2.26	0.003 ***	2.48	0.643	0.87	0.207	0.67
(2) Low Dividend	0.583	1.15	0.575	1.16	0.900	0.96	0.864	0.95
(4) Business Strategy, Business Portfolio, Financial Strategy, Capital Policy, etc.	0.016 **	1.53	0.053 *	1.41	0.000 ***	1.90	0.000 ***	1.85
(6) Climate Change	0.103	1.94	0.307	1.52	0.000 ***	1.99	0.000 ***	1.94
(7) Business and Human Rights	0.999	---	1.000	---	0.052 *	1.68	0.064 *	1.64
(8) Human Capital	0.318	1.70	0.629	1.30	0.000 ***	1.97	0.000 ***	1.95

Statistical Significance : *** 1 % level, ** 5% level, *10% level

²² As for the year dummy variables D_{it} , the theme of “(6) Climate change” was not significant between 2018 and 2022, the theme of “(7) Business and human rights” was significant only in 2021 and 2022, and the theme of “(8) Human capital” was significant between 2019 and 2022.

5. Key Takeaways from This Analysis

In recent years, with the rise of shareholder activism, we have seen dialogues in which investors negotiate with companies while creating confrontational relationships. While this approach may be a way, we believe that in order to sustainably increase corporate value, by supporting change in behavior, investee companies should recognize the need for change on their own and make changes on their own. Based on this approach, since the establishment of the Code, we have evolved its activities not through standardized interview based on a checklist, but through constructive dialogues, in which our views are clearly communicated through bilateral dialogues, in order to raise awareness among investee companies and support their efforts to sustainably increase corporate value.

A variety of factors are considered to be related to the behavioral change of investee companies, including the company's own voluntary improvement efforts, dialogues with other investors, and trends in policies and regulations. However, this analysis confirmed that in cases where we were able to achieve high-quality dialogues, relatively high proportion of the cases were advanced in investee company's acceptance and understanding, and the proportion of subsequent behavioral changes was relatively high.

We also confirmed differences in trends depending on the theme of dialogues, and identified issues that need to be improved to enhance the quality of dialogues. Although we have continuously strengthened dialogues on governance-related themes centering on the financial side, considering that it takes a certain amount of time to sustainably improve the profitability of investee companies, we will continue to make efforts to conduct dialogues focusing on whether investee companies have clearly set targets such as appropriate capital ratios and shareholder returns and whether they are making progress in areas that are controllable by management, such as reducing cost, improvement of asset turnover, and investments for sustainable growth. We have also described the dialogues in as much detail as possible so that it can be shared as organizational knowledge. As a result, we believe that the proportion of "effective dialogues" that we aim for based on the Code has gradually increased, and we intend to further increase this proportion in the future. On the other hand, regarding the newer themes of E (environmental responsibility) and S (social responsibility), such as climate change, business and human rights, and human capital, our company itself is in the process of conducting dialogues through trial and error, and we found that there is room for improvement. These themes are strongly influenced by policies and regulations, and the quality of dialogue may have little impact on corporate awareness and behavioral change. Therefore, it may be an effective option to approach the policy side through policy engagement using obtained information from company dialogues focusing on understanding the company's situation in these themes.

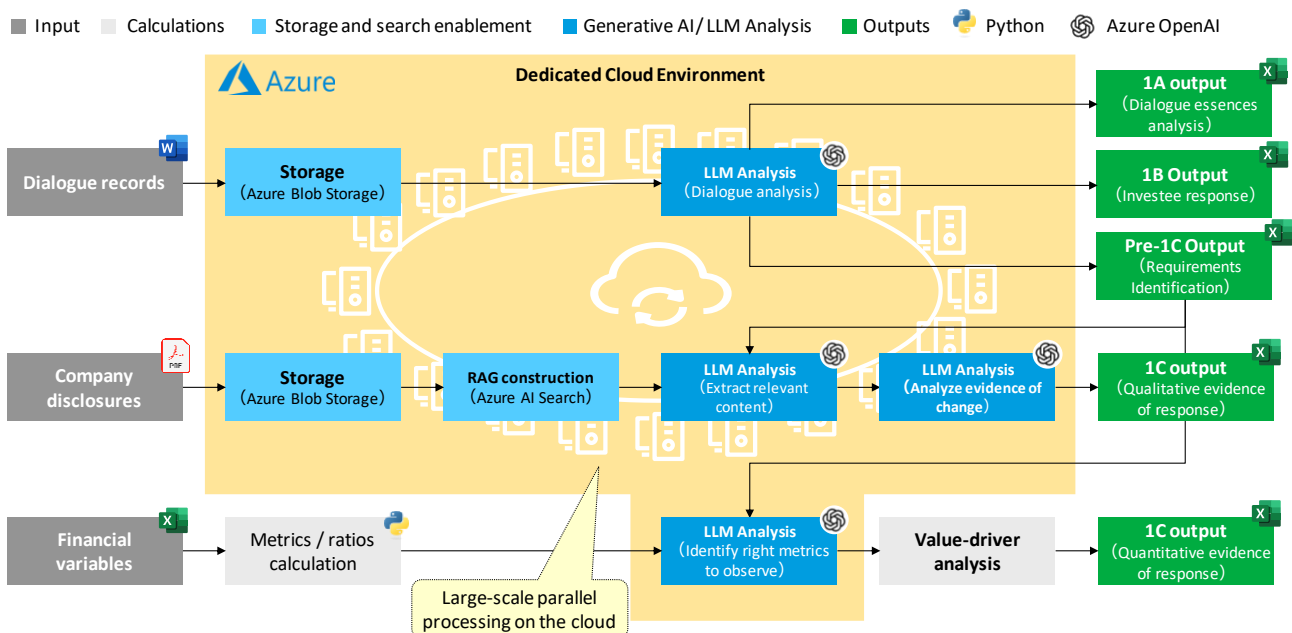
In the current discussion on corporate governance reform, the importance of sustainable improvement of corporate earning power is increasing. Since the initiatives to improve corporate profitability may take more than 3 to 5 years to achieve, as an institutional investor, we will endeavor to further improve the quality of dialogue from a long-term perspective, and will support initiatives of the pace of each company. By doing so, we believe sustainable improvement in corporate value of investee companies can be realized and also contribute to the realization of a better society.

6. Appendix

This time, we planned to analyze a large amount of data using generative AI. As input information, we used 8,830 records of dialogues over about 10 years, about 10 years of disclosures of each company (Approximately 20,000 files total, approximately 70GB), and financial indicators. This analysis requires an enormous amount of computation, and is of a scale that cannot be processed by ordinary PC terminals or general-purpose generative AI services. Therefore, with the support and cooperation of Oliver Wyman, we constructed a dedicated cloud environment for this project, and utilized cloud storage (data storage destination) and a technology that enables external search called Retrieval-Augmented Generation (RAG). Then, we made the generative AI running on the cloud (using GPT-4.1 mini of Azure OpenAI) read a dedicated prompt that describes instructions and evaluation criteria in detail. This made it possible to analyze the entire amount.

Specifically, in Analysis A and Analysis B, a large number of dialogue records need to be generated and analyzed one by one by AI, but by performing large-scale parallel processing on the cloud, the analysis could be completed within a realistic time. In addition, in Analysis C, external information such as a large number of disclosures can be retrieved by using RAG, and in the process, the necessary information is extracted by using the most appropriate AI model for each type of content. Furthermore, as a result of optimizing data processing and separation of analysis steps throughout the analysis, high-speed and high-quality analysis was achieved. The outline of the system configuration and analysis flow is shown below.

[Figure 14] Outline of the system configuration and analysis flow



In this kind of analysis using generative AI, it is possible to ensure the reliability of analysis results by describing definitions and interpretations of words, analysis criteria, other considerations, and exception handling in prompts that serve as instructions, and improving the accuracy of analysis while repeating trials. In this analysis, we had generative AI to read our stewardship activities reports and stewardship activity policies, defined what we mean by

“effective dialogue,” devised a classification system to judge the response of investee companies, and defined in detail in prompts examples that we consider as ideal dialogue by themes and examples that require improvement. This was essentially training the generative AI our fundamental stewardship philosophy and practices, and through this process, we strived to elevate the reliability of this analysis to the level of human practitioners. As a result, the results of this analysis by generative AI were not only sufficiently acceptable to practitioners, but also enabled us to identify trends that practitioners had not necessarily noticed before, by analyzing a large amount of data that is too large for humans to process at once. The following is an excerpt of the relevant parts of the prompts.

[Definition of the Six Components Necessary for Effective Dialogue]

1. **Corporate analysis:** We should analyze the core problems that investee companies are currently facing and provide the hypothesis on the cause of such problems, to show our deep understanding of investee companies and provide insights as institutional investor.
2. **Expressing opinion as investor:** We should articulate our view points on problems that investee companies are facing based on our knowledge and experience, while requesting behavioral change from investee companies.
3. **Constructive dialogue:** Not only should we just express our opinions but also we should be mindful of the below 2 elements to conduct constructive dialogue;
 - **Positive engagement:** We should aim to foster a relationship that is beneficial for both parties by providing actionable feedbacks or insights that can help investee companies tangibly improve their performance
 - **Long-term perspective:** We should emphasize the importance of long-term outcomes over short-term gains. Also, we should discuss strategies that align with the investee's long-term vision and goals.

(Note) Both elements must be evidenced to demonstrate constructive dialogue. Partial evidence yields "Mid" score. Avoid checkbox style by requiring evidence of actual long-term or positive engagement, not just simple mentioning.
4. **Bilateral dialogue:** We should not just express our opinions unilaterally. Instead, we should work together with investee companies to find solutions to challenges faced by the investee companies rather than we simply point out their problems, to achieve common goals. In doing so, we should actively listen to what investee companies say, while bringing our knowledge and insights, to solve the problems collectively with investee companies.

(Note) Active listening does not mean just listening to what investee companies say, but it means trying to understand the profound cause of the issue that investee companies are facing

5. **Take into account factors such as comparison with other companies:** We should incorporate relevant and concrete case studies from other companies that illustrate successful practices and outcomes, to provide investee companies with a tangible reference.
6. **Dialogue includes specific numbers:** We should seek to use concrete numbers for our opinions and suggestions to be based on quantitative perspective, to make it easier for investee companies to understand their performance relative to peers' performance (e.g., Peer company A has improved ROE by 5% this year, Peer company B has reduced Scope 3 emissions by 10% to meet the recent mandate...etc.).

[Basic Philosophy of Ideal Dialogue to Consider in Evaluation]

(Excerpt from our company Stewardship Activity Report 2024)

1. “Low ROE”, “Low Dividend”, “Misconducts”, “Business strategy, business portfolio, financial strategy, capital policy, etc.”, “Regional Banks”:

We confirm that our investee companies are working to sustainably enhance corporate value and achieve ROE that exceeds the cost of capital in the mid- to long-term by strengthening business competitiveness through the execution of their management strategies while simultaneously creating value for a wide range of stakeholders and improving profitability. Specifically, after reviewing the investee companies’ target equity ratio (or financial leverage), we assess their mid- to long-term policies on specific efforts aimed at improving profitability relative to their capital. For investee companies that have not resolved important issues related to the exercise of voting rights over several years, we request initiatives to enhance ROE focusing not only on profitability but also on asset efficiency (such as asset turnover and reduction of non-performing assets) and capital policy (including appropriate financial leverage). On the topic of governance system, we confirmed that the corporate governance of our investee companies functions as a solid foundation for enhancing their mid- to long-term corporate value. For example, as needed, we review the following aspects: the appointment of executives and directors, the status of discussions within the nomination and compensation committees, and the board of directors regarding executive remuneration, the effectiveness of independent directors, and the composition of the board from a diversity perspective. Additionally, we examine whether their compliance with the Corporate Governance Code is not merely superficial, and if necessary, we request specific measures to establish a truly effective corporate governance structure. Regarding scandals at our investee companies, we assess their response through dialogue, focusing on both the evaluation of the incident itself and the post-incident actions. The evaluation of the incident considers quantitative aspects, such as the impact on profits, as well as qualitative aspects, including the presence of legal violations, the nature and severity of the incident, and whether it is a repeat occurrence. The evaluation of post-incident actions includes an investigation into the cause, clarification of accountability, and the progress of measures to prevent recurrence, along with transparency in disclosure on their approach to dialogue. Rather than uniformly opposing director appointment proposals, we prioritize whether the management team, including directors, responds sincerely, including their efforts in post-incident actions.

2. “Climate Change”:

We believe that balancing economic growth with the global environment is necessary to maintain the sustainability of society, which serves as the foundation for corporate activities. We confirm investee companies’ awareness of environmental issues, which impacts their mid- and long-term corporate value, as well as their efforts to address risks and seize new business opportunities.

3. “Human Rights” and “Human Capital”: In general, for investee companies to maintain mid- to long-term competitive advantage and sustainable business models, it is essential to build win-win relationships with all stakeholders, not just shareholders, but also employees, business partners, customers, and local communities.

We require our investee companies to aim for coexistence with all stakeholders, with the expectation that their activities will directly or indirectly contribute to solving social issues, thereby creating a positive cycle that provides value to society. From this perspective, we will assess how investee companies address social challenges, incorporate them into their management strategies, and build the relationships with each stakeholder.

[Guidelines for Evaluating and Judging the Quality of Dialogue]

1. Assign a rating of "High," "Mid," or "Low" to each of the six components necessary for effective dialogue.
 - i. **High** → Clear, concrete evidence showing high level of correspondence to the essence. Only if the dialogue for a sub-topic is genuinely insightful, genuinely bilateral and constructive, genuinely hypothesis-driven and solution-oriented, underpinned by such evidence from the dialogue, assign "High".
 - ii. **Mid** → Some evidence but partially developed or less impactful. If the dialogue for a sub-topic is somewhat insightful, somewhat bilateral and constructive, somewhat hypothesis-driven and solution-oriented, underpinned by such evidence from the dialogue, assign "Mid".
 - iii. **Low** → Little or no evidence showing low level of correspondence to the essence. If the dialogue for a sub-topic is mostly superficial, generic, or only acknowledges issues without any meaningful discussion, analysis, or evidence of investor insight, assign "Low". Do not hesitate to use "Low" if the dialogue does not go beyond basic Q&A or lacks any real substance.