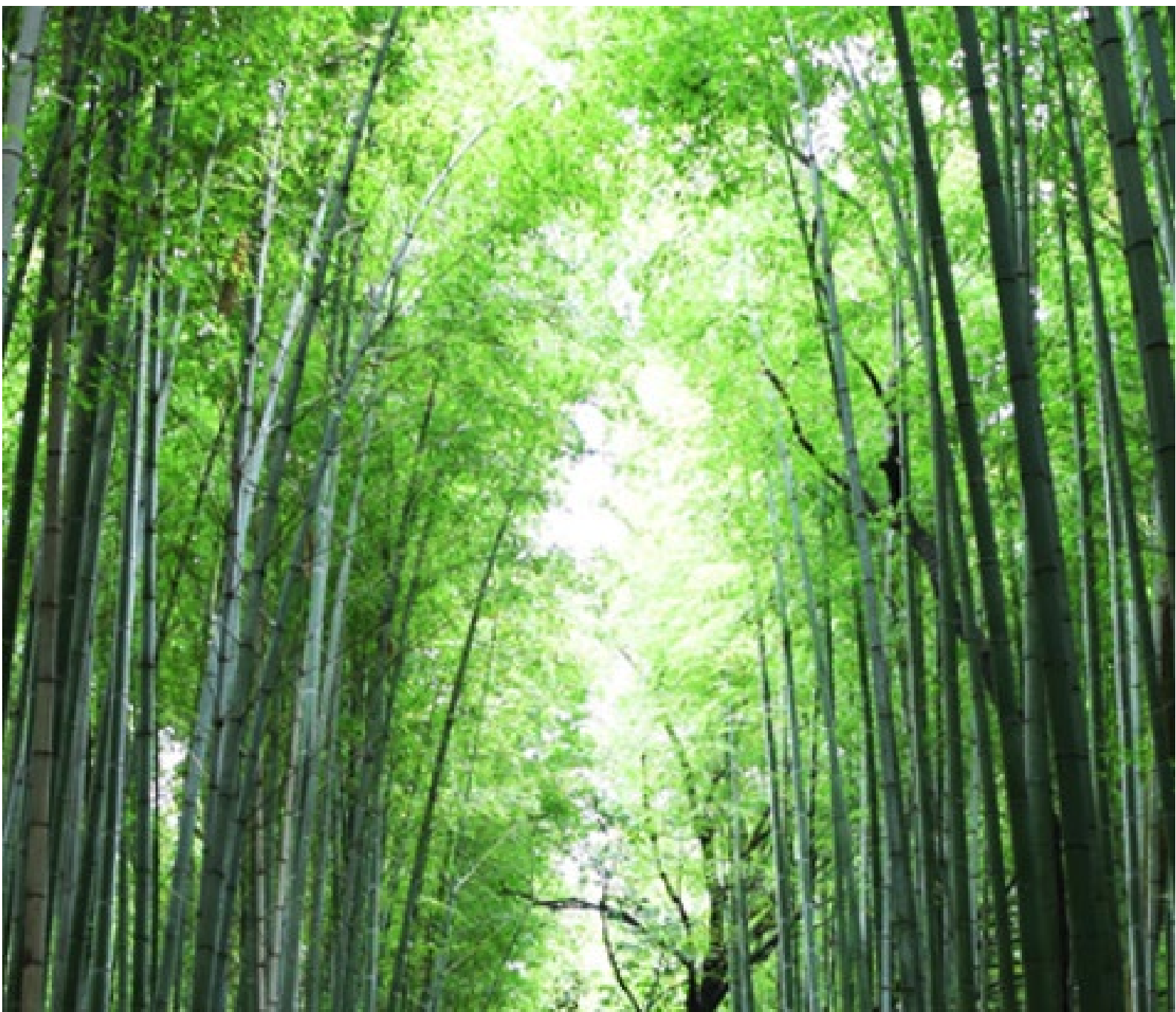


Stewardship Activities Report **2022**



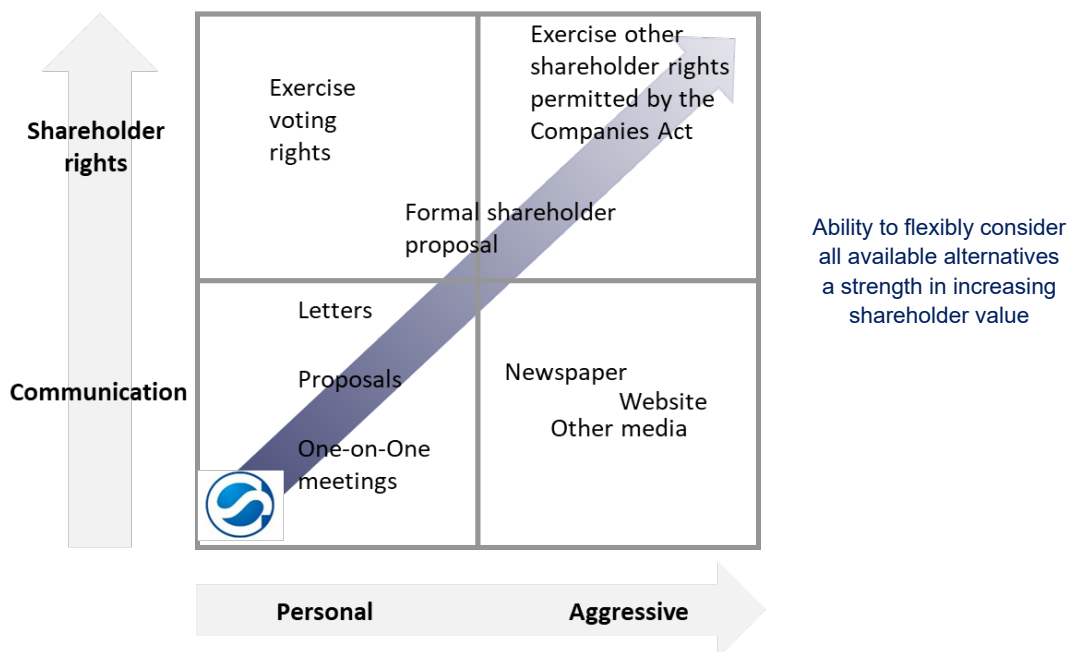
1. How we think about our stewardship activities

We will endeavour to directly persuade the management of the investee companies of the actions required in order to improve shareholder value.

If management fails to respond to, or act upon our reasonable requests, we may exercise our shareholder rights as recognized by the Companies Act starting with but not limited to shareholder proposals.

The dialogues with the company will include meetings with the outside directors as well as the representative directors. Furthermore, in addition to other dialogues through meetings and other forms of communication with major shareholders, parent and affiliated companies, we will attend the annual general meetings and financial results briefings where we may express our opinions or ask questions. Some of these efforts may be announced on our website or through campaign websites on the company.

Image on how we think of our Stewardship Activities



Part of our communications with companies

Written communications

stracap.jp/english/letter_to_management

General meetings

stracap.jp/english/meeting/

Shareholder proposals

stracap.jp/english/proposal/

Current Investments

stracap.jp/english/investment_stocks

Past Investments

stracap.jp/english/investment_stockslog

Links to 2022 campaign websites

Sekitokyu (1898)

stracap.jp/english/proposal-for-sekitokyu-from-sc-2022.pdf

Bunka Shutter (5930)

stracap.jp/english/proposal-for-bunkashutter-from-sc-2022_eng.pdf

Kyokuto Kaihatsu Kogyo (7226)

stracap.jp/english/proposal-for-kyokutokaihatsu-from-sc-2022_eng.pdf

Kyokuto Boeki Kaisha (8093)

stracap.jp/english/proposal-for-kyokuto-from-sc-2022.pdf

Wakita (8125)

stracap.jp/english/proposal-for-wakita-from-sc-2022_eng.pdf

Japan Securities Finance (8511)

stracap.jp/english/proposal-for-JSF-from-sc-2022_eng.pdf

2. Self-assessment of 2022 stewardship activities

We quantitatively monitor our stewardship activities, not only results such as the number of engagement activities with investee companies and the status regarding conflicts of interests etc. but voluntarily monitor the percentage of investors who have a positive P&L. We use these results for self-evaluation (https://stracap.jp/pdf/kpi_en/kpi.pdf)

Regarding the Company's 2022 stewardship activities, we believe the activities we are conducting sufficiently meet the requirements of the Stewardship Code. We will continue to maintain and strive to improve on those activities.

Our acceptance of the Stewardship Code

Principle 1

Institutional investors should have a clear policy on how to fulfil their stewardship responsibilities and publicly disclose it.

- SC fully adheres to its responsibility to maximize the return on investment in the medium to long term for our investors.
- To achieve this goal, SC shall actively engage in dialogue with the investee companies and make reasonable and constructive proposals that will contribute to improving shareholder value. SC will strive to assert pressure on company management until the proposals are implemented.
- SC believes such active engagement will not only increase shareholder value and help maximize investment returns for our investors, it will also contribute to the revitalization of the investee companies and contribute to the overall economic growth and expansion of the Japanese economy.
- SC regards the improvement of “Governance” of investee companies as the key factor that will improve shareholder value, however we will also actively propose improvements to “Environment” and “Social” factors where we believe it will contribute to shareholders value. Given our emphasis on ESG, we have uploaded our ESG policies to this website, signed the UN-PRI and agree with the TCFD recommendations.

Principle 2

Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.

- Since SC is an independent organization and there are no subsidiaries or affiliated companies of the investment firm, as such there are no conflicts of interest between SC and investee companies.
- SC does not allow proprietary trading of any securities in principle under our internal policy and guidelines. Thus there are no conflicts of interest in the principal accounts and the accounts of managed assets. In addition, SC has established rules to avoid conflicts of interest between funds in accordance with laws and regulations.
- In principle, internal rules are stipulated to prohibit; transactions between funds, transactions between the investment management company and funds, and investments of SC affiliated persons in the shares of investee companies.
- For the above reasons, SC has no third-party committee for decision making or oversight of exercising voting rights.

Principle 3

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

- SC continues its unwavering efforts to foster the sustainable growth of the corporate value of investee companies.
- We shall endeavor to accurately understand the financial condition of the investee companies through the prompt and thorough analysis of all their timely public disclosures as well as through external sources where appropriate.
- We shall endeavor to accurately grasp the state of ESG of the investee companies through ongoing dialogues and by encouraging appropriate disclosure such as the Environmental disclosures in support of TCFD.
- We shall endeavor to understand management strategy by meeting with top management (Representative director etc.), independent outside Directors, and IR heads etc. In particular, we consider the direct interactions with top management as a key aspect of our engagement.

Principle 4

Institutional investors should seek to arrive at a common understanding with investee companies and work to solve problems through engagement with purpose.

- As previously mentioned, SC believes dialogue with the top management of investee companies is the most important aspect in our investments. SC continues to make the best effort to mutually understand and maintain a productive relationship with investee companies. In addition, SC has dialogues with Independent Directors and possibly with Company Auditors if needed.
- The agendas of above dialogues include not only business aspects and issues with corporate governance but also issues involving “Sustainability” as long it can contribute to improving shareholders value.
- SC shall consider exercising some of the privileges of shareholders under the Japanese Company Act and regulations in order to satisfy SC’s stewardship responsibilities. The following are such cases:
 - The top management of investee companies refuse to meet with SC.
 - The investee company does not accept proposals which benefit the company and increase corporate value.
 - The management policy of investee companies might damage their corporate value and/or future corporate value.
- SC can proactively engage in collective engagement if there are other institutional investors who can cooperate with us to create corporate value.
- With respect to the dialogue, we establish with the investee companies, SC does not attempt to acquire information not yet publicly available. Despite the above-mentioned purpose, it is possible SC could, unintentionally, obtain non-public information. If this is to occur, SC will not participate in any stock trading of the company in accordance with the law until such information will become public. If necessary, SC will request the company to disclose such information publicly

Principle 5

Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised of only a mechanical checklist, but should be designed to contribute to the sustainable growth of an investee company.

- SC understands proxy voting rights are basic rights of shareholders at the General Meeting of Shareholders. SC shall exercise proxy voting rights to contribute to maximizing the shareholders' value of investee companies.
- In compliance with SC's proxy voting policy as disclosed on our website, SC will examine all the agenda contents individually and exercise voting rights.
- The results of the exercise of voting rights will be announced on SC's website including the reasons for voting.
- However, to protect the interests of clients, SC may choose not to disclose voting activity where the funds shareholding of an investee company is not already publicly disclosed to the market.
- Although SC does not plan to appoint advisors for exercising proxy voting rights, we may use their services solely for the purpose of research. SC may also provide pertinent information to such an advisory firm if requested.

Principle 6

Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including voting responsibilities, to their clients and beneficiaries.

- SC discloses dialogue as well and the approach to engagement with major investee companies to clients periodically in investment reports.

Principle 7

To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills, and resources needed to appropriately engage with the companies to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.

- Before conducting meetings with an investee company, SC shall endeavor to acquire and analyze all publicly available information on the company and ongoing trends in their industry to consider issues on “Sustainability” that will improve shareholder value.
- SC will exchange opinions with other shareholders of the investee company if it is necessary to improve the corporate value of the company.
- When SC executes a right to submit shareholder proposals to the investee company at the shareholders meeting, SC may share our thoughts and explain the actions we feel it is necessary to take.
- As one of the parts of improving circumstances beyond our stewardship activities, we submit our opinions as public comments on corporate governance related issues to concerned parties.

We evaluate the implementation status of each principle of this code and publish the results on our homepage at least annually.

June 2014, Enactment
July 2017, Revision
October 2017, Revision
December 2018, Revision
January 2020, Revision
May 2020, Revision
July 2020, Revision
October 2021, Revision
June 2022, Revision

3. Exercise of voting rights – disclosure of voting policy and results

We constantly review the standards for the exercise of voting rights to enhance our stewardship activities. In 2022, the voting standards were revised in June.

Regarding the disclosure of the results, we publish not only data such as the approval ratio but also the reasons for our decision on each individual proposal.

Voting policy and results

Voting policy
stracap.jp/english/criteria/

Voting results and reasons for decisions
stracap.jp/english/result/

4. ESG policy

In April 2021, we announced our ESG policy. The policy was revised in October 2021. Strategic Capital believes that investment management from an ESG perspective is essential not only for delivering long-term returns but also fulfilling our stewardship responsibilities. With that in mind, we have announced our acceptance of the Japan Stewardship Code, signed the UN Principles for Responsible Investment (PRI) and expressed our support for the Taskforce on Climate-related Financial Information Disclosure (TCFD)

Reason for the primary focus on G

Although it has been several years since Japan has implemented Corporate Governance (CG) reform, many Japanese companies are still only pretending to comply with the CG Code and do not understand the true principles.

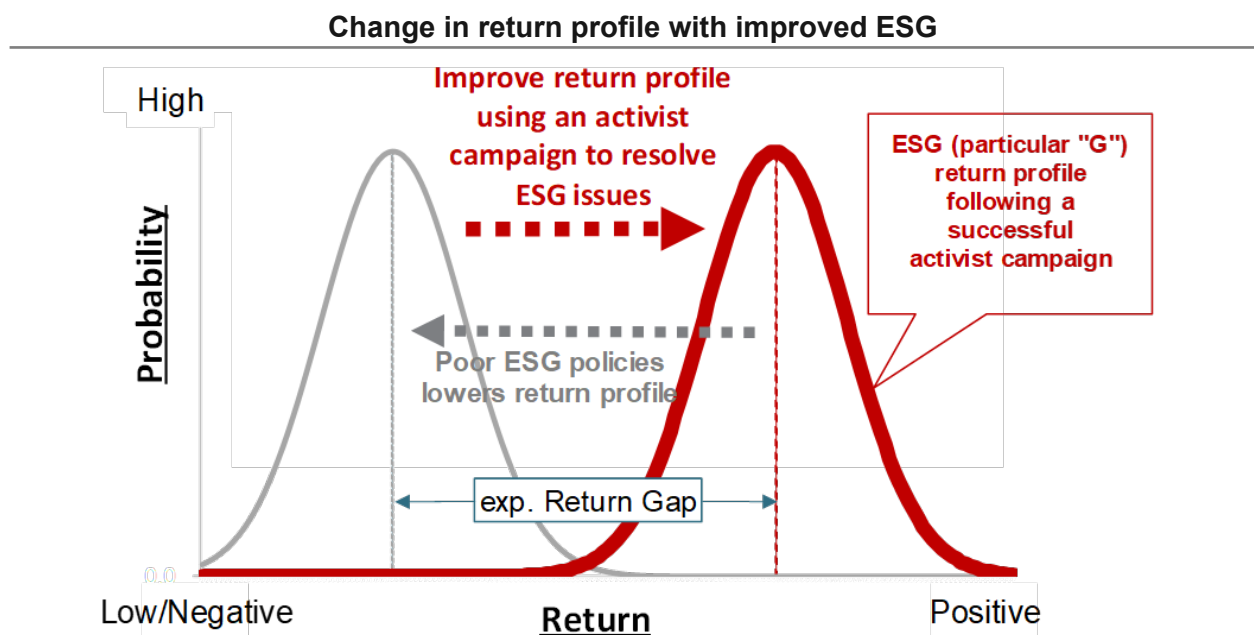
A term used to describe this type of action is “G washing”. As such, shareholder value for many Japanese companies remains below intrinsic value, and SC continues to see numerous opportunities for an activist to improve CG and unlock that value.

That is why SC, unlike some other investors in Japan, is proud to be described as a shareholder activist investor”.

Impact to the return profile

SC invests in companies that have poor CG to start and actively pressures management for improvements (“activist campaigns”).

While G is the most integral to such investment process, E and S are also pivotal to improve the return profile of its investee companies (see chart below). Based on the assumption that activist campaigns are impactful, the return profile will then shift to the right (red graph). It can also be thought that the return profile had shifted to the left due to the companies’ poor ESG practices in the past.



How we view each factor

E : Environmental

SC believes that Environmental factors can increase / decrease shareholder value by lowering / raising cost of equity. Although SC does not have a particular threshold for Environmental factors such as CO2 emission, waste of water or other issues, companies are encouraged to reduce such risks by divestment of the business which is related to coal and thermal power generation plants, by disclosing quantitative data and establishing the appropriate policy for the companies (e.g. CO2 reduction targets) as part of its ongoing engagement with themselves.

S : Social

Social factors are identified in labor or human rights violations, breach of legal compliance (e.g. antitrust violations), investment in gambling (a.k.a. PACHINKO in Japan), questionable payments to concerned parties. SC believes these issues are risks which could materially reduce shareholder value, while on the other hand can in turn increase shareholder value by resolving such issues.

G : Corporate Governance

SC believes that poor Governance has resulted in an impairment to shareholder value. Examples of the “poor Governance” are use of poison pills, poor board composition, facilitating allegiant shareholders, cross-shareholdings and numerous other poor decisions due to ignorant or selfish actions of the Board of Directors.

As such, SC’s strategy is based on the core belief that (i) an improvement in Governance will lead to an increase in shareholder value, and (ii) considerable resources should be allocated to all steps of the investment process, in order to identify and resolve the issues.

ESG integration

Before adding a new stock name to the portfolio, SC researches and analyzes the company from fundamentals, valuation and ESG perspective.

Identifying the material ESG factors is the primary focus and investment are selected based on the belief that improvements in ESG will lead to unlock shareholder value. After such investment, SC takes actions based on the ownership of the companies (i.e. activist campaign, dialogues etc) on ESG issues so as to educate and press for improvements.

Proxy voting and reporting

As noted in section 3, SC publishes the results of its voting, together with the reasons on its website annually. All the voting and the voting policy which incorporates ESG factors are determined by the Investment Committee and reported to the Board Meeting.

5. Participation in Initiatives

- February 2021 signed the United Nations Principles for Responsible Investments (PRI)
- October 2021 endorsed the Taskforce on Climate-related Financial Information (TCFD). Also joined the TCFD Consortium.
- November 2021 became an Endorser of the ICGN Global Stewardship Principles

Signatory of:



6. Activities related to industry groups

- June 2022 – CEO Maruki, participated at the “4th Annual ACCJ Japan Shareholder Forum” to discuss some of the shareholder proposals we made for 2022.
- June 2022– CEO Maruki participated at the CLSA webinar, “Activist Strategic Capital’s view 2022”
- September 2022 – CEO Maruki gave a lecture on “Activism in Japan” hosted by the Japan Board Diversity Network (JBDN).

7. Our published opinions etc.

As part of our stewardship activities, we submit requests for public comments regarding corporate governance and capital market systems and opinions on companies that issue cross-shareholdings. In 2022 we published our opinions 2 times (6 times in 2021) in Japanese (stracap.jp/our_opinion/), for some samples in English (stracap.jp/english/our_opinion/)

English titles of published opinions

- Responded to request for public comment on the “Follow-up of Market Restructuring”
- Provided opinions on the draft amendments to the “Cabinet Office Ordinance on the Disclosure of Corporate Affairs”

Strategic Capital, Inc.

<https://stracap.jp/english>

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