

Council of Experts Concerning the Follow-up of Market Restructuring From a Sustainability Perspective

September 9, 2022

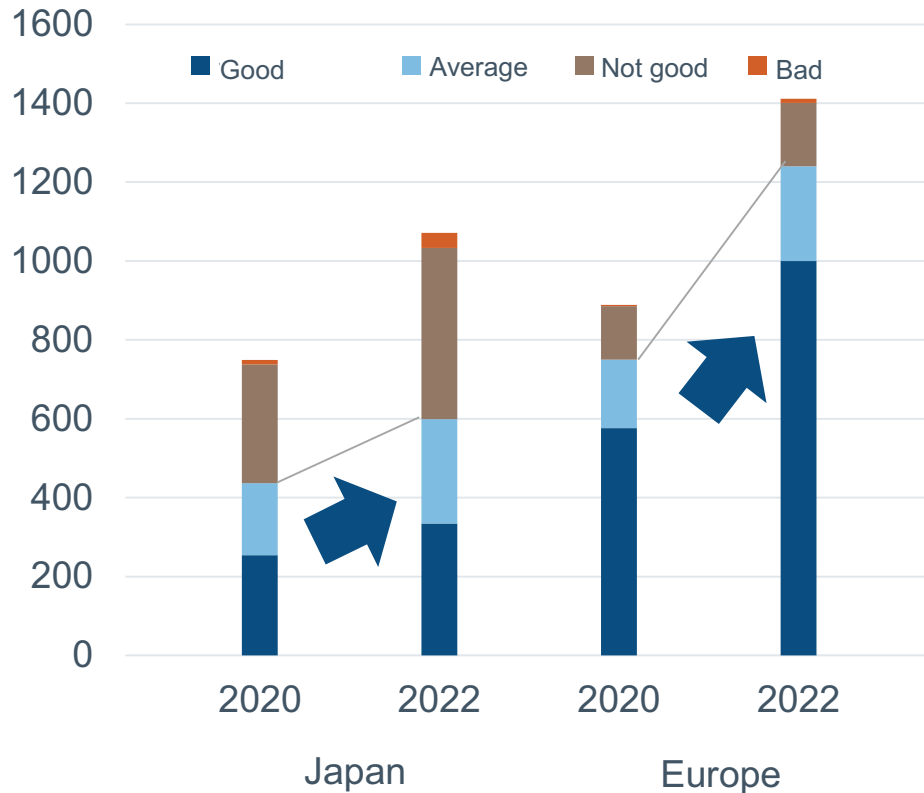
Fidelity International

Globally, sustainability initiatives are accelerating

Japanese companies are also improving, but still lag European counterparts

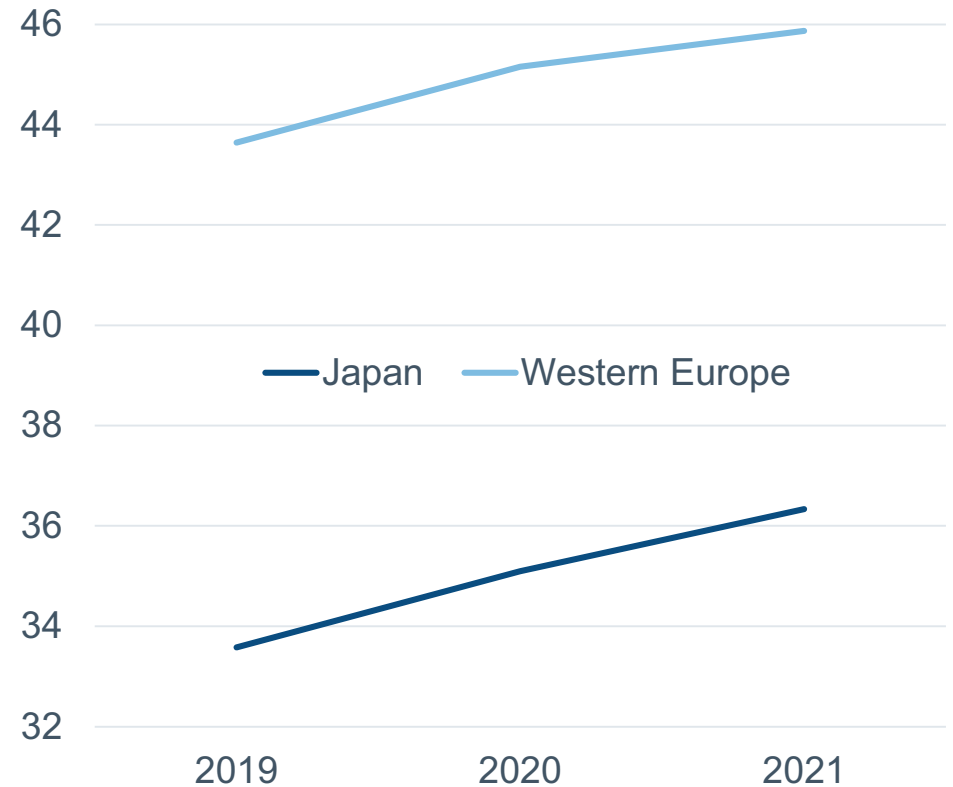
ESG Rating Agency Evaluation (1)

Number of companies



ESG Rating Agency Evaluation (2)

Disclosure score

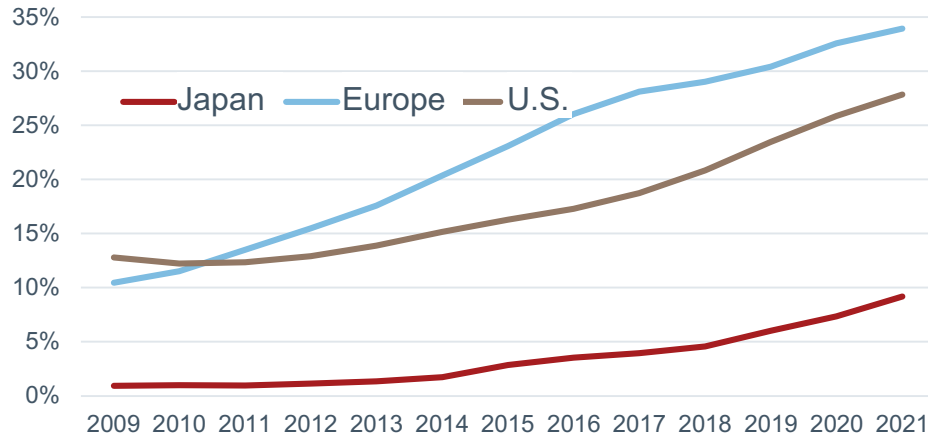


Source: Fidelity International based on third party ESG agency data

Board gender diversity

A sense of urgency needed in Japanese companies' approach

Percentage of female directors: relative position compared to other regions has in fact, deteriorated



Percentage of companies with no female directors for at least 10 consecutive years



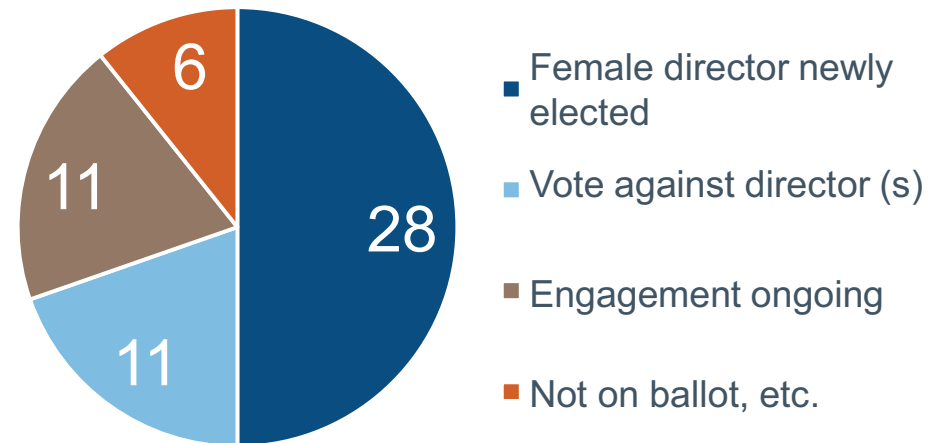
Source: Fidelity International
 Japan: TOPIX, Europe: MSCI Europe IMI, US: S&P1500

Fidelity International (Japan) voting policy

Vote against election of the chair of the nominating committee (or representative director if none) if female directors make up less than 15% of the board (Prime listed companies, effective June 2022 AGM).

Voting results for the June 2022 AGM

While 56 investee companies had no female directors prior to their AGM, 28 companies newly elected female directors. Fidelity voted against director election of 11 companies.



Source: Fidelity International

Board Effectiveness

Conference participants only

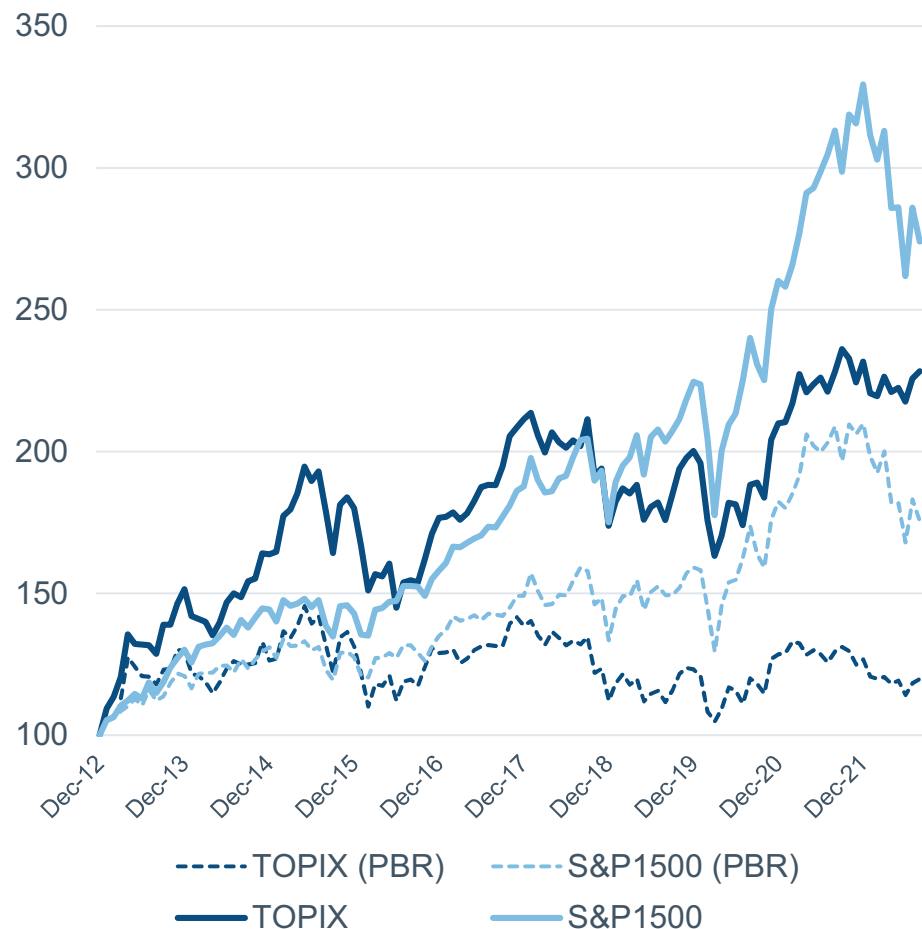
Despite progress in the appearance of the board of directors, there is insufficient understanding of the roles expected of outside directors.

“Comply or Explain” has become a formality for some companies

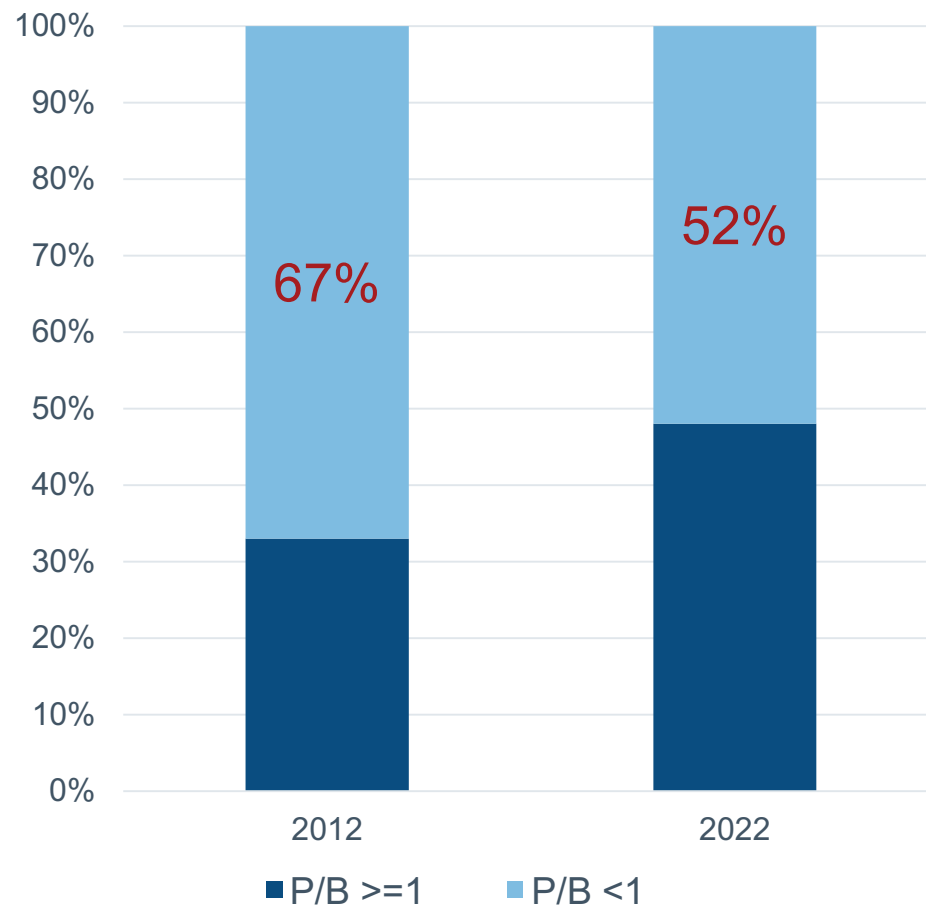
Conference participants only

Performance gap between TOPIX and S&P1500 composite indices

Performance of indices, where end of Dec. 2012 = 100



TOPIX P/B distribution



✓ P/B ratio below 1x means ROE is below the cost of capital

Source: Fidelity International based on Refinitiv data

Do incentives exist to increase corporate value after listing?

The older the listing date, the better the performance of S&P companies, while the poorer the performance of TOPIX companies

Percentage change in stock price over the last five years (beginning of July 2017 to end of June 2022)

Timing of inclusion in TOPIX	1996 and before	1997-2006	2007-2016	2017 or after
Median (%)	-2.2	5.0	4.3	-12.4
Percentage of stocks with positive performance	389 (47%)	270 (55%)	294 (53%)	111 (42%)
Timing of inclusion in S&P1500	1996 and before	1997-2006	2007-2016	2017 or after
Median (%)	24.9	22.7	16.3	14.2
Percentage of stocks with positive performance	294 (70%)	228 (68%)	249 (60%)	122 (59%)

Average PBR for the last 3 years

Timing of inclusion in TOPIX	1996 and before	1997-2006	2007-2016	2017 or after
Median (x)	0.76	0.96	1.41	2.27
Percentage of stocks with PBR>=1	269 (33%)	231 (47%)	359 (64%)	213 (81%)
Timing of inclusion in S&P1500	1996 and before	1997-2006	2007-2016	2017 or after
Median (x)	2.44	2.29	2.13	1.92
Percentage of stocks with PBR>=1	360 (91%)	287 (90%)	352 (87%)	194 (82%)

Source: Fidelity International based on Refinitiv data

Longer listed companies are dependent on cross-shareholdings

Percentage of cross-shareholdings as a percentage of shareholders' equity

Timing of inclusion in TOPIX	1996 and before	1997-2006	2007-2016	2017 or after
Average	13.1%	6.8%	6.3%	6.2%
Median	10.0%	3.3%	3.1%	1.9%
Number of companies	803	459	485	210

Percentage of shareholders with cross-shareholding relationships as a percentage of total shareholders

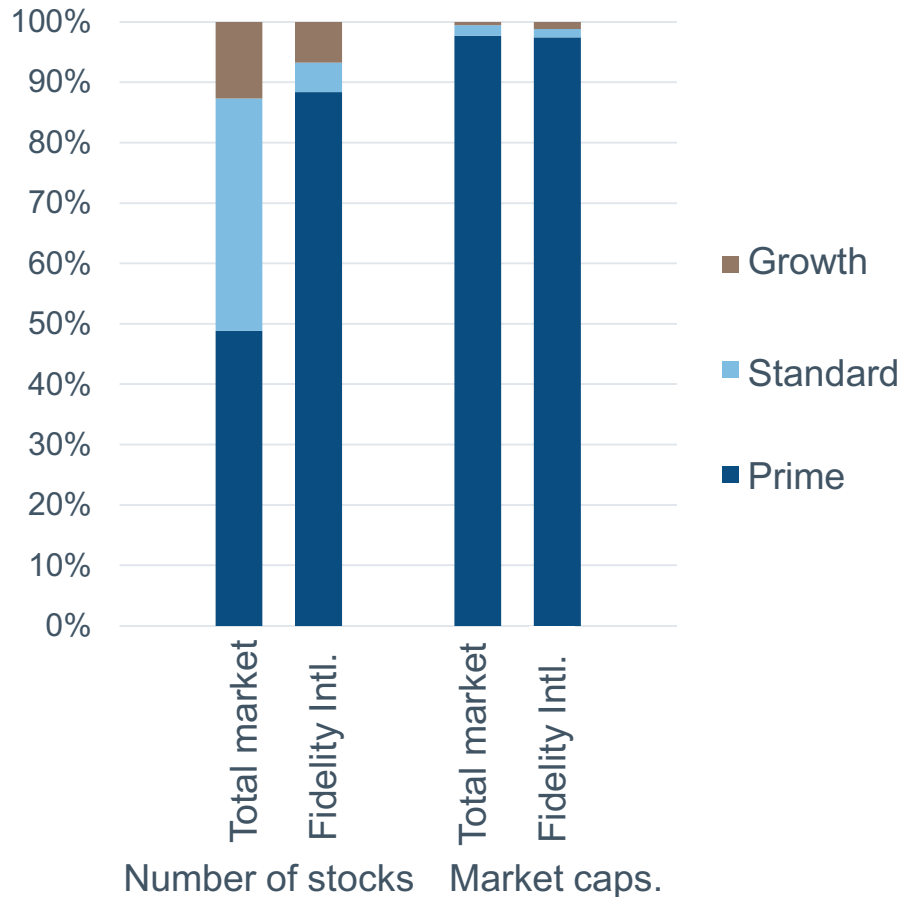
Timing of inclusion in TOPIX	1996 and before	1997-2006	2007-2016	2017 or after
Average	11.7%	6.7%	5.9%	4.1%
Median	9.9%	3.9%	2.7%	0.8%
Number of companies	825	487	559	264

Source: Fidelity International

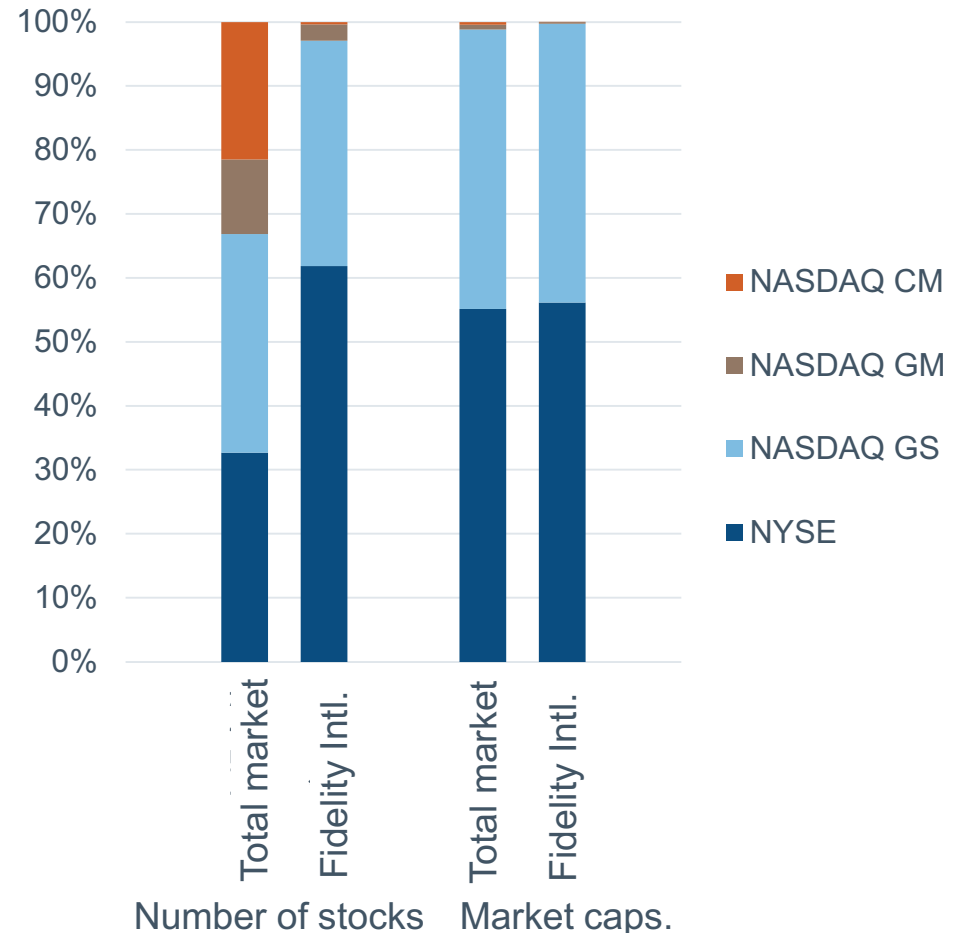
Standard market segment

Even in the U.S., there is not much investment in segments other than NASDAQ GS

Japan: Overall market composition and Fidelity's portfolio composition



US: Overall market composition and Fidelity's portfolio composition

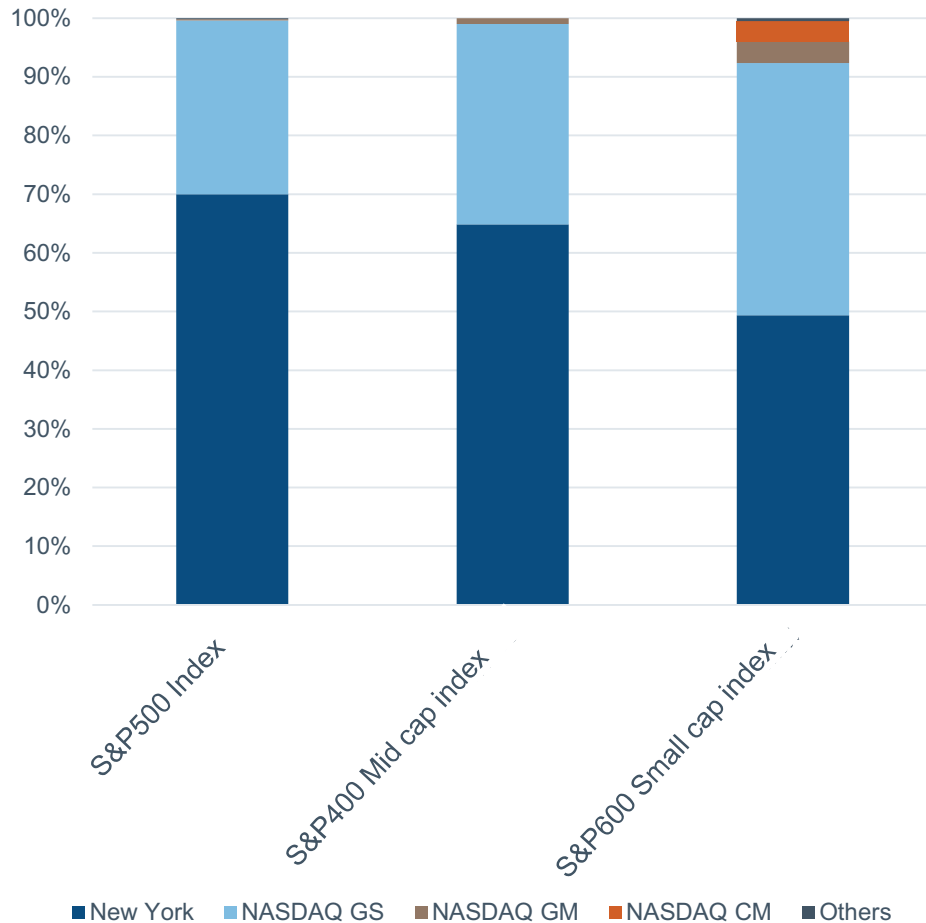


Source: Fidelity International

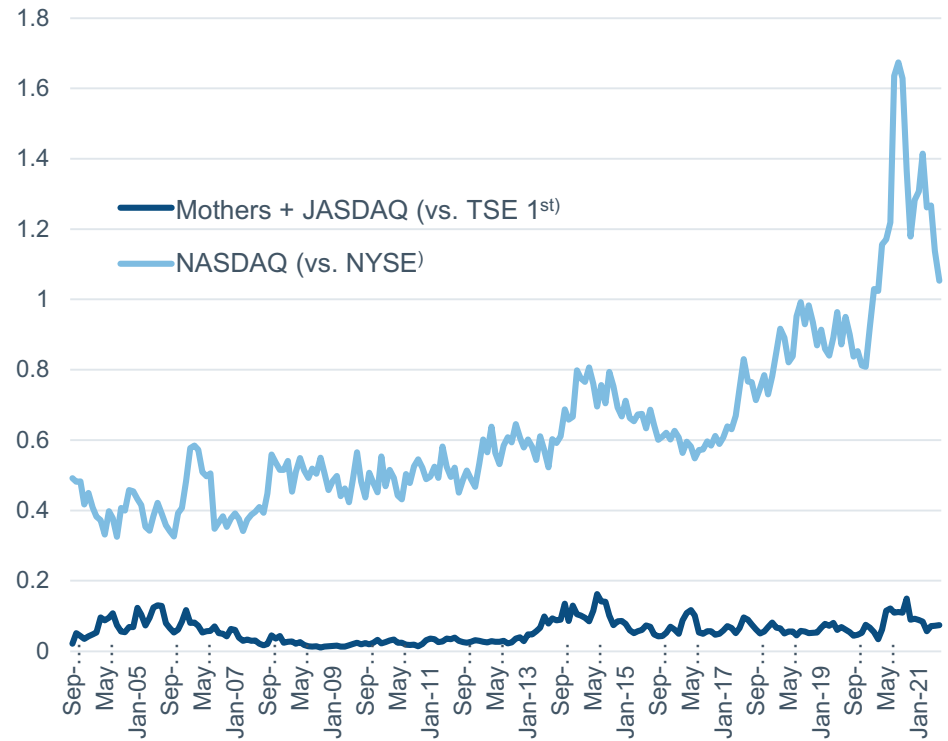
Growth market segment

Stock indices representing the country should also include representative growth names

Listed market breakdown of S&P index constituents



Trading value of growth markets with main market = 1



Japan's growth markets are not up for consideration by institutional investors today.

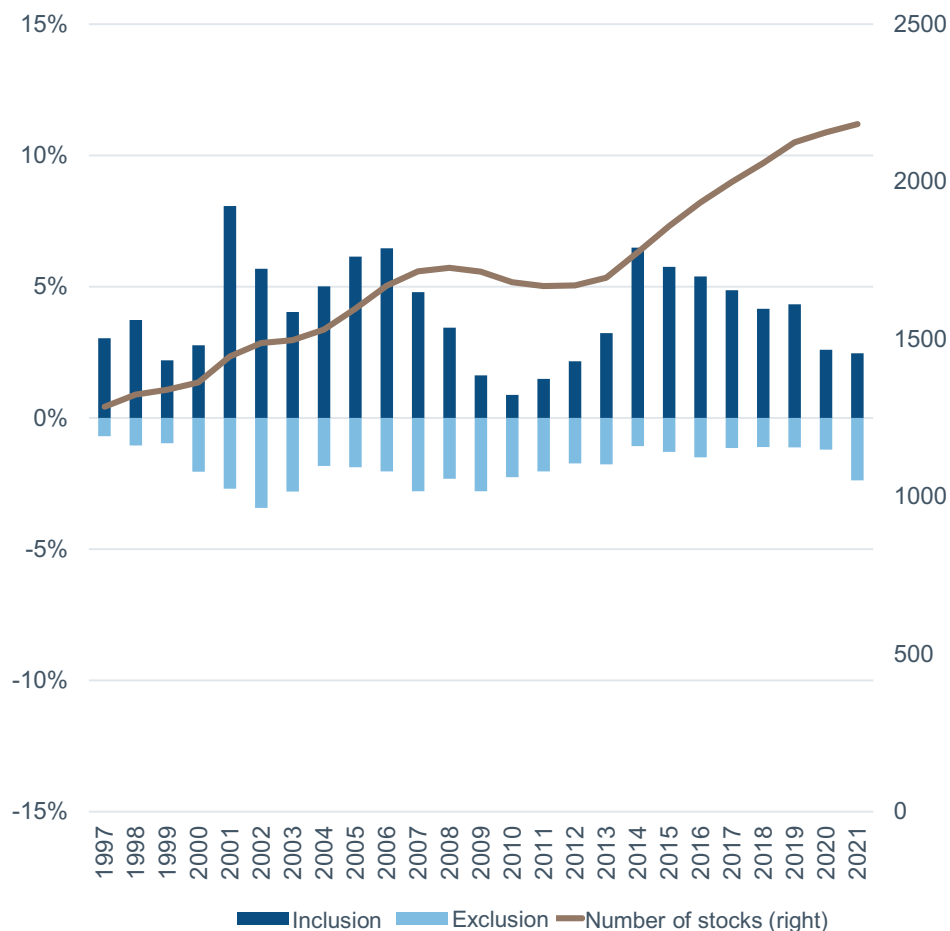
Source: Fidelity International based on Refinitiv data

TOPIX

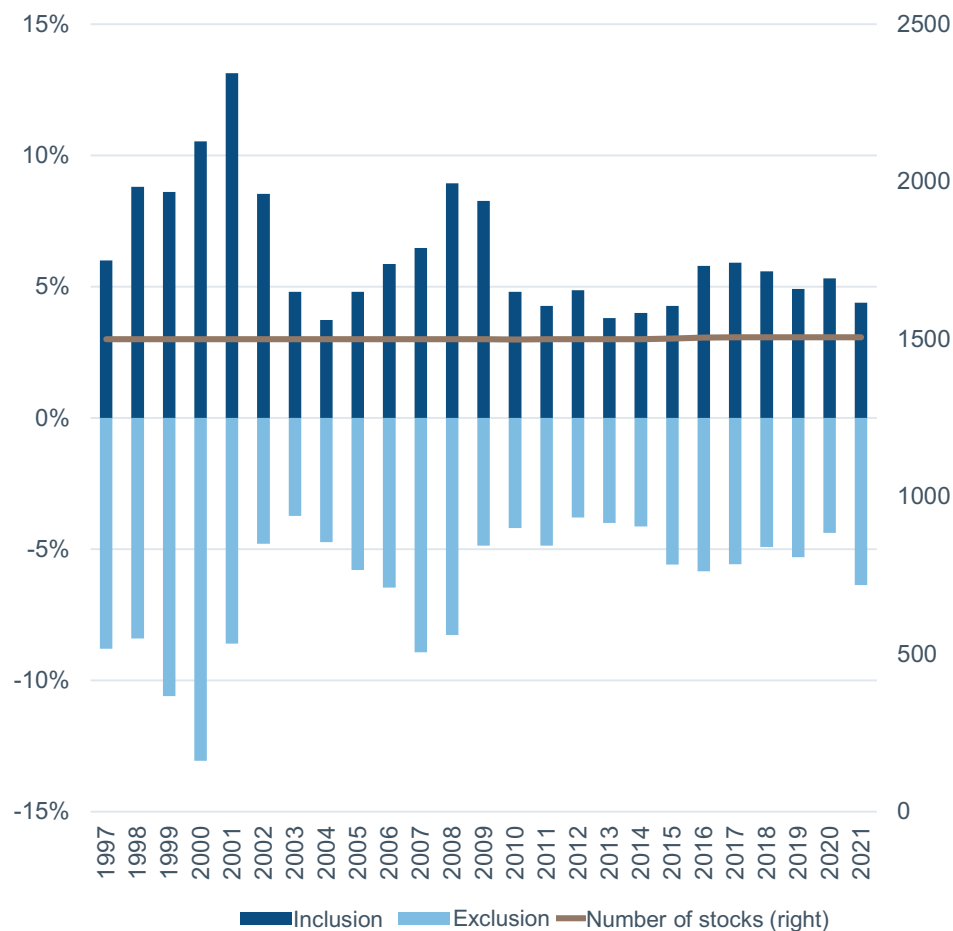
Constituents in TOPIX is ever increasing while a constant for S&P

Active stock replacement occurs in S&P indexes

Number of stocks and replacement ratio in TOPIX



Number of stocks and replacement ratio in S&P1500



Source: Fidelity International based on Refinitiv data

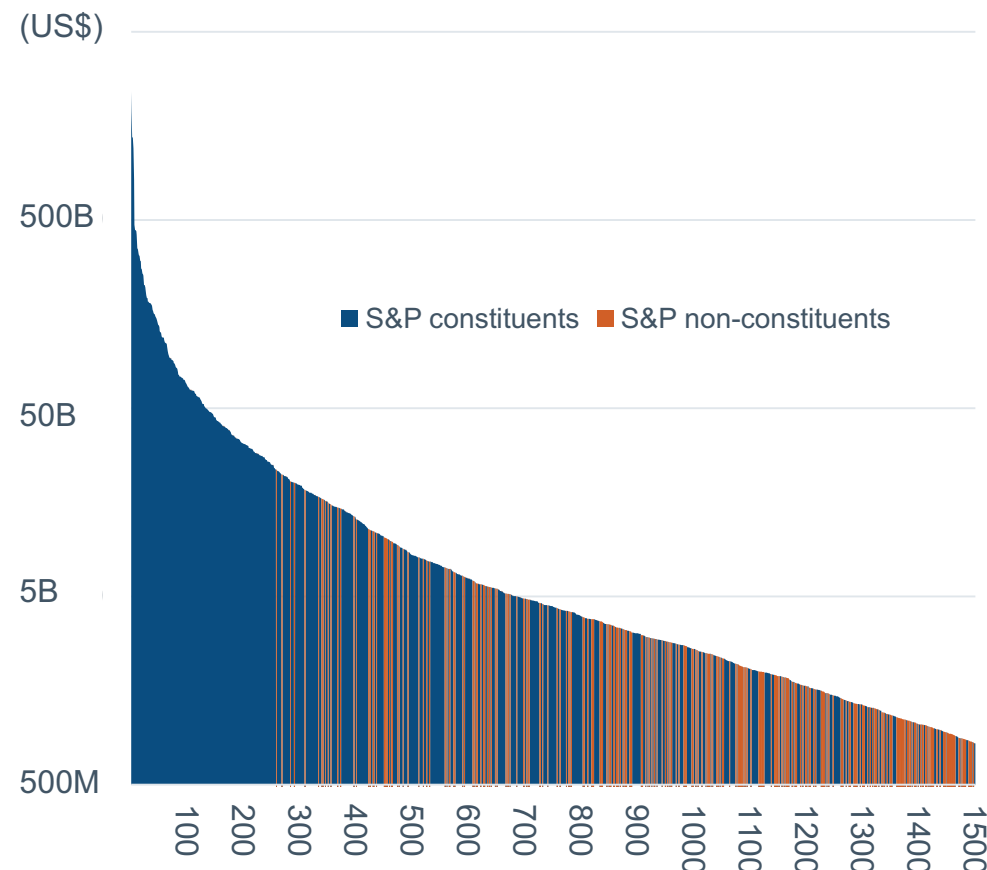
Constituents vs. non-constituents of the S&P1500 index

Competition for inclusion among companies will lead to a natural improvement

Stock price performance gap between S&P index constituents and non-constituents

	Continuously included in S&P index since 1996	Never included in S&P index since 1996
Average	1078%	433%
Median	441%	37%
Number of stocks with positive performance	316	82
Number of stocks with negative performance	23	57

List of constituents and non-constituents of the S&P Index sorted by market capitalization



Source: Fidelity International based on Refinitiv data

Source: Fidelity International

Summary

Summary

① Prime market

- Appointment of female directors is essential from the perspective of global investors
- Need to shift to substance over form for independent outside directors. Opportunities for investors to directly communicate their expectations with outside directors
- “Explain” has become a formality. Not “under consideration”, but why “complying is inappropriate in light of enhancing corporate value”
- Half of the companies have P/B ratios below 1x continuously. P/B ratios also indicate the degree of investment and utilization of intellectual property and intangible assets that those companies fail to utilize
- Rules other than quantitative ones for the transition to the Standard market, and deadlines for transitional measures
- A number, appropriate for the Prime market, of listed companies

② Standard market

- Even in the U.S., investment in markets other than the top market is not active

③ Growth market

- Improve liquidity and increase opportunities for constructive dialogue with global investors through inclusion in TOPIX

④ Review of TOPIX

- A cap on the number of stocks, periodic replacements, and incorporation of stocks from growth markets
- Act as an incentive to improve corporate value after listing

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