

Dear Board of Directors,

Hope this letter finds you well. Again, the global capital markets have been shaken by a great number of political, economic, and geopolitical events this year. One of the most significant of these events was the sharp decline in stock prices in early August. However, as I mentioned in our letter in August, we have been able to maintain our investment activities as usual, thanks to our asset owner clients who understand and support our philosophy of long-term investment, and also thanks to YOU with strong business competitiveness and management capabilities that are resilient to changes in the business environment. Once again, we would like to express our sincere gratitude to all of you for your constant efforts to enhance your corporate value and for the opportunities you have given to engage in generous dialogue with your shareholders.

Lately, we feel that the capital market reforms undertaken jointly by the Tokyo Stock Exchange (TSE), the Ministry of Economy, Trade and Industry (METI), and the Financial Services Agency (FSA) are finally starting to have a real impact. In particular, the TSE's "Management Conscious of Cost of Capital and Stock Prices" (hereinafter referred to as "TSE Request") has greatly improved the value enhancement efforts of many listed companies, both in terms of actual performance and disclosure. The TSE framework also includes dialogue with investors and shareholders as part of the value creation cycle, thus we will continue to engage in constructive dialogue and engagement in order to fulfill our responsibilities.

Given the fact that approximately 80% of companies listed on the prime market have already disclosed their responses to the TSE's request, one might think that this request has already fulfilled its role. However, our greatest concern is the significant difference in the quality of disclosure and efforts by companies. While there are companies that are promoting responses based on excellent disclosures and effectively collaborating with initiatives to enhance corporate value, there are unfortunately many companies that do not understand the purpose of the TSE requirement or seem to have only formalized it without any ambition to make improvements. Some companies even insisted on applying a "disclosed" status without having made any mention of cost of capital or stock price. If this attitude of only enjoying the benefits of listing and not fulfilling their responsibilities is tolerated, it

will discourage listed companies from making sincere efforts, reduce the momentum for change in the Japanese stock market, and lead to nothing more than a formal change.

What we would like to propose this time is to examine the appropriateness of the content of initiatives and disclosures and the room for further improvement based on the "Points and Examples of 'Management Conscious of Cost of Capital and Stock Price' from Investors' Perspective" ("Points and Examples") released by the TSE in February this year. The "Key Points and Examples" list 10 points which are essential to the initiatives:

## Overview of “Point and Examples” of TSE Request

Theme	Item	What is specifically required
Analysis and Evaluation of the Current Situation	1. Considering the cost of capital/equity in regard to the investor's perspective	• Disclose cost of capital
	2. Multifaceted analysis and evaluation based on the investor's perspective	• Evaluate the share price based on the capital efficiency
	3. Inspection of balance sheets to ensure their efficacy	• Disclose the optimal cash/capital level
Consideration and Disclosure of Initiatives	4. Implementing fundamental initiatives with an awareness of the appropriate allocation of management resources	• Capital allocation based on CoE/ROIC • Review business portfolio
	5. Being aware of the need to reduce cost of capital	• Non-financial disclosure, IR, reducing performance volatility, etc.
	6. Designing a management compensation system that provides an incentive to increase corporate value over the medium to long term	• Compensation systems highly linked to the enhancement of corporate value (e.g., stock-based compensation)
	7. Explanation of efforts in relation to medium- to long-term goals	• Factoring in specific initiatives
Dialogue with Shareholder and Investors	8. Proactive involvement of management and board	• Direct management participation, feedback sharing, and outside board participation
	9. Taking a tailored approach to shareholders and investors	• Attribute-specific approach
	10. Disclosure of dialogue and further dialogue and engagement	• Disclosure of dialogue status

<https://www.jpx.co.jp/equities/follow-up/jr4eth0000004vj2-att/240201.pdf>

We expect all of our portfolio companies to go beyond formal and rudimentary disclosures and take effective actions that are directly linked to medium- to long-term improvements in corporate value. While materiality varies depending on the characteristics of the business and the stage of the company, an effective response means that at least a majority of the material points are addressed, especially those that are highly relevant to the company.

The "Key Points and Examples" are not mere summaries of TSE requests. In fact, an analysis of company disclosures in line with the TSE requirements reveals important issues common to many listed companies. Some of the issues we have identified are listed on the next page.

1. Management with an awareness of stock price: Only a few companies practice "management with an awareness of stock price" **beyond** 1x P/B ratios. More in-depth analysis of market valuation and (in the case of discounting) investigation of the cause and response are required. Conglomerate discount should be recognized as an important management issue, especially for companies with a wide range of business areas.
2. Efficient balance sheet: Recent progress has been made in the disclosure of cash allocation plans in many companies. However, the discussion is often limited to cash flow. Improvement of cash flow allocation will contribute to capital efficiency marginally, but many companies need to review the capital efficiency of their balance sheet (optimal capital structure, cash on balance sheet) in order to achieve appropriate capital efficiency.
3. Appropriate allocation of resources/capital: Many companies only provide their ROIC/ROE self-analysis and targets on a consolidated basis. Capital allocation decisions should be made in light of the cost of capital at the business unit or investment project level (especially for conglomerate companies).
4. Cost of capital: The starting point for all of the above issues is to understand and disclose the appropriate cost of capital. There are limitations to the approach of measuring the cost of capital from market data, and unless there are special circumstances, it is desirable to recognize a cost of capital of around 8%.

Based on the above, as a shareholder, we are conducting the following activities for each of our investee companies in order to contribute to their initiatives.

1. Provide independent analysis and evaluation of the current status of portfolio companies based on publicly available information (we summarize such analysis in the form of a "scorecard", an example of which is shown below)
2. Dialogue with portfolio companies to align perceptions
3. Propose areas for improvement and request feedback from the board of directors

Based on the content of our dialogue with our investees, we intend to consider and determine our future engagement policy. If we believe that your response is not sincere, we will consider the following actions.

1. Publication of our analysis
2. Shareholder proposals at the general meeting of shareholders
3. Abstention or opposition to the company's proposals at the general meeting of shareholders

We hope you will understand that, as in the past year, we are communicating our policy just after the shareholder meeting season, in order to provide ample opportunity for discussion and dialogue. We believe that the effectiveness of this policy can make a decisive difference in the creation of corporate value over the medium to long term. We ask for your continued efforts to be highly effective.

## Reference: Example of a scorecard evaluation

Theme	Pt	TSE Request	Grade	Company Response
Analysis and Evaluation of the Current Situation	1	Consider cost of capital from investor's perspective	C	Not disclosed
	2	Analyze and evaluate company's profitability (ROE, ROIC), including segment and market valuation (PBR, PER)	B	8% ROE Target disclosed No disclosure on appropriate stock price
	3	Consider balance sheet efficiency, including check for excessive cash and assets	C	Not disclosed
Consideration and Disclosure of Initiatives	4	Awareness of appropriate allocation of resources, with awareness of cost of capital and profitability, and whether balance sheet is contributing to value creation	B	Target on Cross-Shareholding disclosed No linkage between the capex plan and the return ROIC management at each segment is desirable
	5	Being aware of need to reduce capital costs	C	Not disclosed
	6	Designing management compensation system that provides an incentive to increase corporate value over the medium to long-term	B	Introduction of share-based payment schemes (still small)
	7	Illustrate mid-term stance and relate it to current initiatives	C	Not disclosed
Dialogue with Shareholders and Investors	8	Proactive involvement of management and board	C	Top management and outside directors not available for individual meetings with shareholders
	9	Taking a tailored approach to shareholders and investors	N/A	Not disclosed
	10	Disclosure of dialogue and engagement, providing real examples of how input from dialogue is incorporated into management decision making	N/A	Not disclosed

Sincerely yours,

James B. Rosenwald III



Co-Founder and Chief Investment Officer  
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