



Protect, Unlock, Create Value

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Taiyo Pacific Partners Accepts the Japan Stewardship Code

August 28, 2014

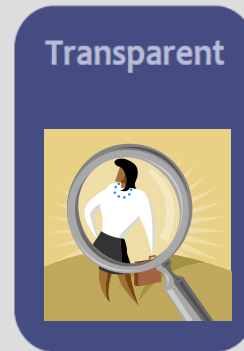
Taiyo's key principles and the Japan Stewardship Code

- ❖ Taiyo supports the introduction of Japan's Stewardship Code (the "Code") and hereby publicly discloses our acceptance of the Code.
- ❖ Since Taiyo's founding in 2001, we have been practicing the basic principles discussed in the Code.
- ❖ We will continue to incorporate our 3 key principles of corporate governance in applying the Code and engage with our portfolio companies in order to enhance firm and shareholder value.

Taiyo's 3 Key Principles



Companies should treat all shareholders equally



Companies should reasonably disclose how and why they use shareholder funds



Companies should always strive to increase corporate value through their actions

Taiyo's Views and Principles for Key Recurring Proxy Topics

Key Recurring Proxy Topics	Taiyo's View and Principles	
Outside Board Members <ul style="list-style-type: none"> Shareholder interests are underrepresented on insider dominated boards Focus is intensifying on the level of independence of outside directors 	Outside members provide value with different perspectives and a check on management <ul style="list-style-type: none"> We view a small, professional board with outside members as most effective The Taiyo Club can help companies find a good outside director 	<p>Transparent</p> <p>Creates Value</p>
Director Compensation <ul style="list-style-type: none"> Level of disclosure insufficient (currently required to disclose directors compensation only if greater than 10B yen) Often not linked to performance 	Board compensation should be disclosed and linked to performance <ul style="list-style-type: none"> Compensation should be transparent to shareholders The structure should align directors' interests with those of shareholders 	<p>Transparent</p> <p>Creates Value</p>
Retirement Bonus for Outside Directors/Auditors <ul style="list-style-type: none"> Creates a real or apparent conflict of interest for directors & auditors serving in the role of representing stakeholders 	Retirement bonuses should not be given to outside directors or auditors. This prevents real and apparent conflicts of interest <ul style="list-style-type: none"> Outside auditors and directors should be fairly and reasonably compensated for their duties 	<p>Transparent</p> <p>Fair</p>
Anti-Takeover Measure (Poison Pill) <ul style="list-style-type: none"> Can be abused to protect ineffective management Dilutes current shareholders 	A high stock price is the best defense <ul style="list-style-type: none"> Taiyo will consider a plan which meets ISS* hurdles AND meets the following criteria: <ol style="list-style-type: none"> Strong management credibility Disclosure and transparency - An independent committee evaluates all bids & submits a binding recommendation to the board Reflects shareholders' voice - Shareholders must approve introduction of the ATM. Execution requires 2/3 shareholder approval at an extraordinary shareholder meeting 	<p>Fair</p> <p>Transparent</p> <p>Creates Value</p>
Authority to Issue New Shares Shareholders are concerned about : <ul style="list-style-type: none"> Excessive share issuances which potentially dilute and destroy value Board authority to issue excessive shares without shareholder review 	Each proposal is individually evaluated, but ideally any equity issuance should be brought to the shareholders <ul style="list-style-type: none"> Management should justify issuance with a solid equity story Return on new equity must balance issuance dilution 	<p>Creates Value</p> <p>Fair</p>
Shareholder Return Policy (Dividends, Share Buyback) <ul style="list-style-type: none"> Many companies lack clear capital management policies or hoard cash 	Management should use dividends and share buybacks as a tool to manage expectations and create value <ul style="list-style-type: none"> Prefer a fixed dividend payout ratio rather than a fixed dividend Share buybacks should be judiciously used 	<p>Transparent</p> <p>Creates Value</p>

*ISS: Institutional Shareholder Services Inc.

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General

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2014-049