

7 June 2023

Asset Value Investors (AVI) share views on NC Holdings' opposition to the AVI shareholder proposal

As announced in a press release dated 18 May, Asset Value Investors Limited ("AVI") has submitted a shareholder proposal to NC Holdings (TSE: 6236, "Company") to contribute to the best interests of shareholders. However, the Board of Directors of NCHD has published its dissenting opinion to our shareholder proposal, the contents of which are seriously misleading to the shareholders of the Company. Therefore, AVI clarifies its position on this as follows.

After the publication of the dissenting opinion by the Company, AVI requested a meeting with the directors to maintain a constructive relationship with the Company and to allow them to understand the importance of the shareholder proposal. However, the Company has refused to meet with us, and as dialogue is currently blocked, we exhausted our options other than to publicly announce AVI's views.

More information on AVI's public campaign on the shareholder proposal can be found here:

www.enhancingNCHD.com

In its dissenting opinion, the Company claims that the shareholder proposal will "damage the Company's corporate value" as AVI is "planning to sell off its conveyor business." However, this assertion is factually incorrect.

AVI is not of the opinion that the conveyor business of the Company should be sold and, of course, has never had any such discussions with the Company. Rather, on the premise that the conveyor business should continue, we have been discussing the business with the Company and have informed them of and discussed possible measures to improve the current low return on invested capital in the last one and a half years. Specifically, we have recommended that the Company acquire projects in civil engineering, biomass power generation and other areas to gain exposure to growing markets and aim to improve capital efficiency through higher profit margins or improved employee productivity.

Thus, while the Company is fully aware of the history of AVI's continued constructive dialogue with the Company based on the natural assumption of the continuation of the conveyor business, the Company has deliberately made the above factually incorrect claims, which we consider extremely dishonest.

In addition, according to the Company's press release dated 1 June, it appears that the Company also gave the above untrue explanations to its employees and fanned their fears to get them to make a statement against the shareholder proposal. We believe that this attitude, in which employees are used for directors' self-protection, is insincere and inimical to the integrity of employees.

Furthermore, the Company's investment has consistently been at an ROIC significantly lower than its cost of capital. As a result, the Company's corporate value continues to be damaged, with a forecast decrease

in revenue and profit for the year-ending 31 March 2024 and a decrease in forecast operating profit by approximately 30% compared to three fiscal years ago. Despite these circumstances, the Company has also failed to fulfil its accountability for restoring corporate value, for example by disclosing its medium- to long-term management strategy, vision, and investment plans to the capital markets. We would like the Board of Directors of the Company to reconsider how it might look to the capital markets when it opposes a shareholder proposal made in good faith with the aim of improving corporate value by distorting the facts and claiming that such a proposal will “damage corporate value,” while turning a blind eye to its own situation.

The Company also claims that AVI is attempting to “control the Company to conform to the wishes of the proposing shareholder” by electing additional independent outside directors and establishing a Strategic Review Committee. However, this is also untrue: AVI has no such intention whatsoever. Moreover, as discussed below, AVI’s shareholder proposal cannot cause such an eventuality.

Firstly, the two candidates proposed by AVI for independent outside directors are completely independent and have no interest in, no contractual relationship with, or no obligation or responsibility to AVI, so they can supervise management purely in the best interests of shareholders, in accordance with their duty of care under the Companies Act. Therefore, their election as outside directors would not result in AVI “controlling the Company to conform to the wishes of the proposing shareholder.” Instead, we believe that having both of them, who have a wealth of knowledge and experience in capital markets, join the Board of Directors, even though only two out of 13 members, will undoubtedly strengthen the management supervision function of the Board of Directors and contribute to the interests of all shareholders.

Concerning the Strategic Review Committee, committee members are to be selected by mutual election of all outside directors, and the number of committee members is proposed to range from three to five. This ensures considerable flexibility so that the total number of committee members, the balance between incumbent and newly appointed directors and the selection of members can be decided appropriately and fairly. Moreover, these decisions are made by all outside directors (eight out of a total of ten outside directors are incumbent). In addition, the Articles of Incorporation will clearly state that all committee duties are to be carried out “with a view to maximising the best interests of the Company’s shareholders.” It is, therefore, impossible for the committee’s duties to be carried out in the interests and wishes of a particular shareholder, as this would be a breach of the Articles of Incorporation. The outside directors who will become committee members are obliged to comply with the Articles of Incorporation under the Companies Act. Therefore, it is legally impossible for the committee’s duties to be performed from any perspective other than “the best interests of shareholders.” The above are undeniable facts, and the Company’s argument, which avoids facing up to these facts, is clearly implausible.

As described above, the Company is opposing the AVI shareholder proposal with factually incorrect and unsubstantiated claims: AVI believes that the Board of Directors makes such claims to prevent the shareholder proposal from being approved because it is averse to increased oversight and discipline and

prioritises the status quo over the best interests of shareholders. This is precisely the proof that challenges exist in the governance of the Company and that management discipline is not functioning properly. As stated in the presentation material on the campaign website, the Company's corporate value continues to be 60% below that of its peers. AVI has put forward a series of shareholder proposals to strengthen supervision, have strategic options considered and ensure management discipline to halt the damage to corporate value and ultimately enhance the best interests of shareholders. We urge all shareholders to review the proposal and presentation material and make a decision based on an objective assessment.

AVI at a glance

AVI is an investment management company established in London, United Kingdom, in 1985, and AVI has invested in Japanese equities for more than 20 years. AVI manages AVI Global Trust (Total Gross Assets: approximately JPY190bn (£1.2bn)), AVI Japan Opportunities Trust (Total Gross Assets: approximately JPY31bn (£0.19bn)), etc., as of 31 March 2023. AGT and AJOT are public companies whose shares are listed and traded on the main market of the London Stock Exchange.

AVI has signified its commitment to the "Principles for Responsible Institutional Investors: Japan's Stewardship Code" and, in accordance with its aim, engages in constructive "purposeful dialogue" (engagement) with management and board members in order to contribute to the enhancement of the corporate value and sustainable growth of the portfolio companies.

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Disclaimer:

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