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Vanguard Investment Stewardship Insights

Renewing takeover defense plans at Nisshin Seifun Group Inc.

July 2024

Company: Nisshin Seifun Group Inc. (Nisshin Seifun)

Meeting date: June 26, 2024

Proposal(s): Item 4 – Renewal of the Resolution to Approve Gratis Allotment of Subscription Rights to Shares for Securing and Improving Corporate Value of the Company and the Common Interests of the Shareholders

How the funds voted

At the 2024 annual meeting of Nisshin Seifun, a Japanese food company engaged primarily in the manufacture and sale of wheat flour, the Vanguard-advised funds voted against a proposal to approve the renewal of the company's takeover defense plan.[1]

The funds' proxy voting policies

As articulated in the funds' proxy voting policies, the Vanguard-advised funds evaluate the introduction or renewal of a takeover defense plan—also referred to as a poison pill—on a case-by-case basis, taking into consideration the facts and circumstances at the company in question. Typically, poison pills give company shareholders the right to purchase additional shares at a discount if one shareholder purchases a percentage of shares at or above a set threshold. Poison pills are generally used as a defensive tactic to prevent the takeover of a company. The funds are generally unlikely to support a takeover defense plan when:

- The company has not provided adequate disclosure and rationale as to why the plan is required.
- The plan's duration is greater than three years, or a plan has been in place for more than three years in totality without adequate rationale as to why the plan continues to be renewed.
- The plan somehow undermines shareholder rights.

Analysis and voting rationale

Nisshin Seifun first introduced its takeover defense measures in 2006. As is common with poison pills we have observed at Japanese companies, the takeover defense plan at Nisshin Seifun was effectively rolling, with the company seeking shareholder approval every three years to renew the plan. The company's rolling pill was last approved by shareholders at the 2021 annual meeting. At the company's 2024 annual meeting, the company sought shareholder approval to renew the plan for another three years.

1 Vanguard's Investment Stewardship program is responsible for proxy voting and engagement on behalf of the quantitative and index equity portfolios advised by Vanguard (together, "Vanguard-advised funds"). Vanguard's externally managed portfolios are managed by unaffiliated third-party investment advisors, and proxy voting and engagement for those portfolios are conducted by their respective advisors. As such, throughout this document, "we" and "the funds" are used to refer to Vanguard's Investment Stewardship program and Vanguard-advised funds, respectively.

Ahead of the company's 2024 annual meeting, we reviewed Nisshin Seifun's disclosures and found that the company disclosed clear terms for when the poison pill would be triggered and the trigger threshold of 20% of shares outstanding, which was in line with the funds' proxy voting policies. In our review of the company's overall board and key committee independence, we did not identify any concerns, because the board's independence levels were also in line with the funds' policies. In addition, we found that the special committee responsible for evaluating transactions was fully composed of independent directors.

In our engagement with company leaders ahead of the annual meeting, they explained that the purpose of the company's takeover defense measures was not to undermine shareholder rights or to protect management but to enhance transparency for shareholders by requiring potential acquirers to disclose accurate and sufficient information to the market. Japan's Ministry of Economy, Trade and Industry stipulates the principle of transparency for corporate takeovers, and the Nisshin Seifun company plan expands on this in more detail. Nisshin Seifun leaders elaborated on their reasoning for asking shareholders to renew the plan, and we viewed the company's proactive approach to seeking shareholder feedback on their takeover defense plan positively. However, despite the company's explanation, we continued to have questions regarding the rationale for the plan, as we could not identify unique facts or circumstances to sufficiently justify its continuation.

We explained to Nisshin Seifun leaders that the funds look for a clear and compelling rationale to support takeover defense measures that are being renewed, because we believe they can inhibit shareholder rights by substantially limiting opportunities for corporate takeovers and reducing management accountability. Given our continued questions regarding the plan's rationale, the funds did not support the renewal of Nisshin Seifun's takeover defense measures at the 2024 annual meeting.

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