

2021
2022
2023
2024
2025

Creating a sustainable
future through the power
of investment

SUSTAINABILITY REPORT 2023





We believe that investment has the power to support people and bring prosperity to society.

This is because investing lies at the source of economic activities that take the forms of providing products and services of use in daily livings, developing infrastructure for daily lives, and creating new values through innovation.

So what exactly is investment?

We consider investing to mean generating the potential inherent in money.

Not only does money support corporate growth and produce economic returns, it has the ability to solve environmental and social issues through the activities of the recipients of investment, and bring prosperity to the world.

As professionals, we at Asset Management One face the investment experience of each individual, and give thorough consideration to the investments that we rigorously select on the basis of a medium- to long-term perspective in order to maximize the potential of the money that we are entrusted with, and maintain an unflinching focus on achieving results.

It is our commitment that we will faithfully fulfill our duties as an entrusted party, and will create a sustainable future through the power of investing together with you.

“Creating a sustainable future through the power of investment”

Asset Management One





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Asset Management One by the Numbers

*As of June 30, 2023

Total Assets Under Management(AUM) and breakdown

Total AUM

USD **450** billion

Scale of sustainable investment initiatives

ESG investment AUM

*The balance of products that comply with our designated ESG-related naming rules.

USD **16.8** billion

AUM breakdown

*Excludes investment advisory AUM

By asset class



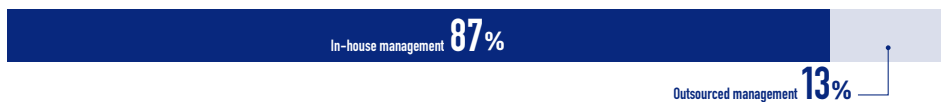
By client type



By investment style



By managing entity



Responsible investment initiatives

Number of engagement activities with Japanese companies

2,138

Number of proxy voting rights exercised for Japanese equities

24,021



Our Sustainable Investment Execution Framework

Global network

Asset Management One International Ltd.
Location: London

Asset Management One Co., Ltd.
Asset Management One Alternative Investments Ltd.
Asset Management One TERRACE Co., Ltd.
Location: Tokyo

Asset Management One USA Inc.
Location: New York

Asset Management One Hong Kong Limited
Location: Hong Kong

Asset Management One Singapore Pte. Ltd.
Location: Singapore

Employees

*AM-One domestic staff/overseas assigns, AMOAI

671 men, **316** women

Number of investment professionals

*Fund manager, analysts, economists & strategists

260 [※]

ESG experts

*Including individuals who concurrently work on non-ESG related tasks in part.

34

Number of origin countries and regions

10 or more countries and regions

Average years of experience of fund managers

14.0 [※] years

Average years of experience of analysts

21.7 [※] years

※ Staff counts at Asset Management One Co., Ltd.



Message from the President & CEO



President & CEO,
Asset Management One Co., Ltd.

Noriyuki Sugihara

Creating a sustainable future through the power of investment. Our goal is to accelerate “implementation.”

In publishing our 2023 Sustainability Report, we express our appreciation for all our stakeholders for their constant understanding of our endeavors.

Since our establishment in 2016, our firm has been striving to fulfill all our social responsibilities as an asset manager. In 2021, we coined our corporate message “creating a sustainable future through the power of investment” to express our vision of contributing to solving social problems through asset management.

As an asset management company, our responsibilities to society are simple: to extract maximum potential from the assets that our clients entrust to us. While we work hard to gain economic returns from the growth of the investee companies, that is not our only goal, we will also bring affluence to society through supporting the corporate activities of such investee companies, helping them solve social problems. While achieving both financial returns and social returns at the same time is difficult in the short term, medium- to long-term strategies to achieve both should deliver synergistic benefits. We believe in the intrinsic power that these investments potentially hold through the prospects of realizing both financial and social returns.

Our firm’s strength lies in our underlying framework and financial foundation enabling us to maximize the power of investment. In terms of our engagement activities, our firm covers over 70% of the Tokyo Stock Exchange’s Prime market on a market capitalization basis, with the aggregate investment being approximately US\$450 billion (as of June 30, 2023). Since we are able to coordinate with both asset owners and investee companies, both our stakeholders, we can serve the role of a catalyst for evolving the whole investment chain by supporting growth of investee companies and facilitating the asset formation of investors. Through such activities, we strive to satisfy our responsibilities to fully meet the expectations placed on us as an asset management company. This is our purpose of efforts towards sustainability.

Being impactful through scale is not our only advantage. We can also boast a solid record in our firm’s sustainability-related initiatives.



Following the merger in October 2016, from day one we have been focused on putting in place an enhanced ESG analyst system, establishing a department that dedicatedly handles stewardship activities. We are proud of the engagement activities we have carried out to date, with investee companies which conduct business activities in a wide range of fields, based on the outcomes of dialogue and our competencies in independent analysis. Using a “materiality map,” we visualize the important issues that provide guidelines for our selection of investees. We then engage in dialogue with investee companies, which involves the management of eight milestones.

On the other hand, the business environment is transforming at an ever-increasing speed making it imperative that we constantly stay up to date with the changing information, and we continually need to make our compass more accurate to chart the course of the envisioned future. Believing in the importance of maintaining accurate knowledge of the issues faced by our customers, we have begun implementing questionnaires to asset owners since the last fiscal year. As a result, we have discovered that many of our customers have a strong interest in ESG investments, but presently, this is not fully reflected in their actual investment activity.

This poses the question: what actions do we need to take as pacesetters to nudge those interested asset owners into taking action? Through interactive discussions, we are examining a product that could be one model for creating investment flow toward a decarbonized society, and we are working on the formation of a fund that supports companies engaged in forward-thinking structural reform. Through our dialogue with customers and product development which are privileges of an asset manager, we are committed to further broadening such activities aimed at expanding the ESG investment.

We declared our sustainability initiatives in 2021 and began implementing them in 2022. In 2023, we have taken further steps toward continuing and accelerating the implementation. It is a difficult challenge with no single pass it, but we will strive to lead concrete action with strong intension.

Fundamentally, asset management is about enriching returns through long-term, sustainable efforts. In that sense, appreciation of the values of sustainability is a crucial part of asset

management, our livelihood, and should be embedded in business by default. Therefore, I think our mission, so to speak, is preserving “what is taken for granted.”

Moreover, our firm’s sustainability activities are truly put into practice only when they are entrenched in the activities of each employee responsible for putting together our products and services. To promote the sharing and inculcation of our corporate message so that employees consider it as part of their own values, we encourage it to be repeatedly mentioned and discussed internally. We have also formulated our Manifesto (our firm’s commitment to society, see the first page after the cover) and our Values (principles of conduct for each employee to uphold).

Investment is the starting point for creating landscapes of the future. Our role in that is to be a good pacesetter for asset owners. It is an important role that involves moving forward together while pointing out the direction we should head in. We will continue to act candidly, humbly and sincerely as we work to be chosen as a long-term partner.



Message from the Head of the Investment Division

While steadily fulfilling our role as an asset management company, we are also contributing to sustainability

In March 2023, the Tokyo Stock Exchange (TSE) sent to listed companies a request to take action to implement management that is conscious of cost of capital and stock price. TSE requested such action to improve corporate value over the medium and long term. It had done so because of a sense of crisis it was holding as many listed companies were experiencing a weakening PBR (Price Book-value Ratio), and this initiative was positively received by many investors. I interpreted this unprecedented



Takashi Maruyama

Managing Executive Officer, Head of the Investment Division

request as a message that it should be the market that determines corporate value.

Going forward, we can expect far greater scrutiny into listed companies regarding how they fulfill their responsibility to raise their corporate value. In this climate, we as an asset management company will perform our stewardship activities such as making investment judgments in fund operation and carrying out engagement and exercise of voting rights in companies to serve the important role of pacesetter and supporter for reforms relating to improving corporate value. We recognise that there is a growing sense of expectation how asset management companies fulfill these roles. As for our firm, we are preparing to face tough scrutiny on whether we are playing a genuinely meaningful role.

On that note, you may be wondering where our attention should be with a financial market that sets corporate value. We believe such focus should be on whether a company is necessary for society. In this new landscape, companies can expect to improve their corporate value in the medium to long term through solving social issues and contributing to sustainability. We can expect those companies that have not incorporated sustainability management strategies to be rejected by the market. Companies will be scrutinized with a greater level of detail on the aspect of sustainability.

Accordingly, while correctly conveying the importance of essential sustainability management to ensure the continual survival of a company and carrying out discussions on the necessary direction that such management needs to take, our firm will further enhance our support of initiatives for improving the corporate value of companies. We adopt this as our mission in the belief that this is the important role that our firm should fulfill.

Let me provide some reasons as to why we should be capable of fulfilling such a role.

The first thing I wish to convey is our firm's "accumulation of experience in engagement." We are able to maintain effective visualization of the

progress of our engagement using eight milestones. Moreover, through collaboration with researchers from Japan and overseas, we are able to provide objective verification of the effectiveness of the engagement activities carried out by our firm up until now.

When conducting evaluation of companies, we employ a "materiality map" to visualize the important issues present when the company implements sustainability management, while taking a future-oriented perspective. When selecting the issues of materiality, we carefully examine the latest information that we compile from wide-ranging sources, including initiatives in Japan and overseas and from academic writing. While keeping a half-step ahead on issues that the market has not yet started to take into account, we are constantly broadening discussions and updating our knowledge.

Such research conducted by professional asset managers is essential for returning results. Employing an approach of identifying issues through structural analysis of business models, we strive to gain a deep understanding of the investee company.

We pride ourselves on our advanced "dialogue capabilities," which are essential for us to fulfill our role. Through building relationships of trust with investee companies, we create an environment where aspirational goals are shared without compromise and any issues that may arise can be conveyed candidly, thereby effectively providing support for necessary reforms. We wish to serve as a partner in building constructive future-minded dialogue together with companies.

Through sustainability management, companies aim to enhance corporate value over the medium and long term. Our firm appropriately evaluates such initiatives of investee companies and contributes to improving sustainability in society by steadily fulfilling our role as an asset management company, actively supporting such investee companies through investment decisions, dialogue and exercise of voting rights.



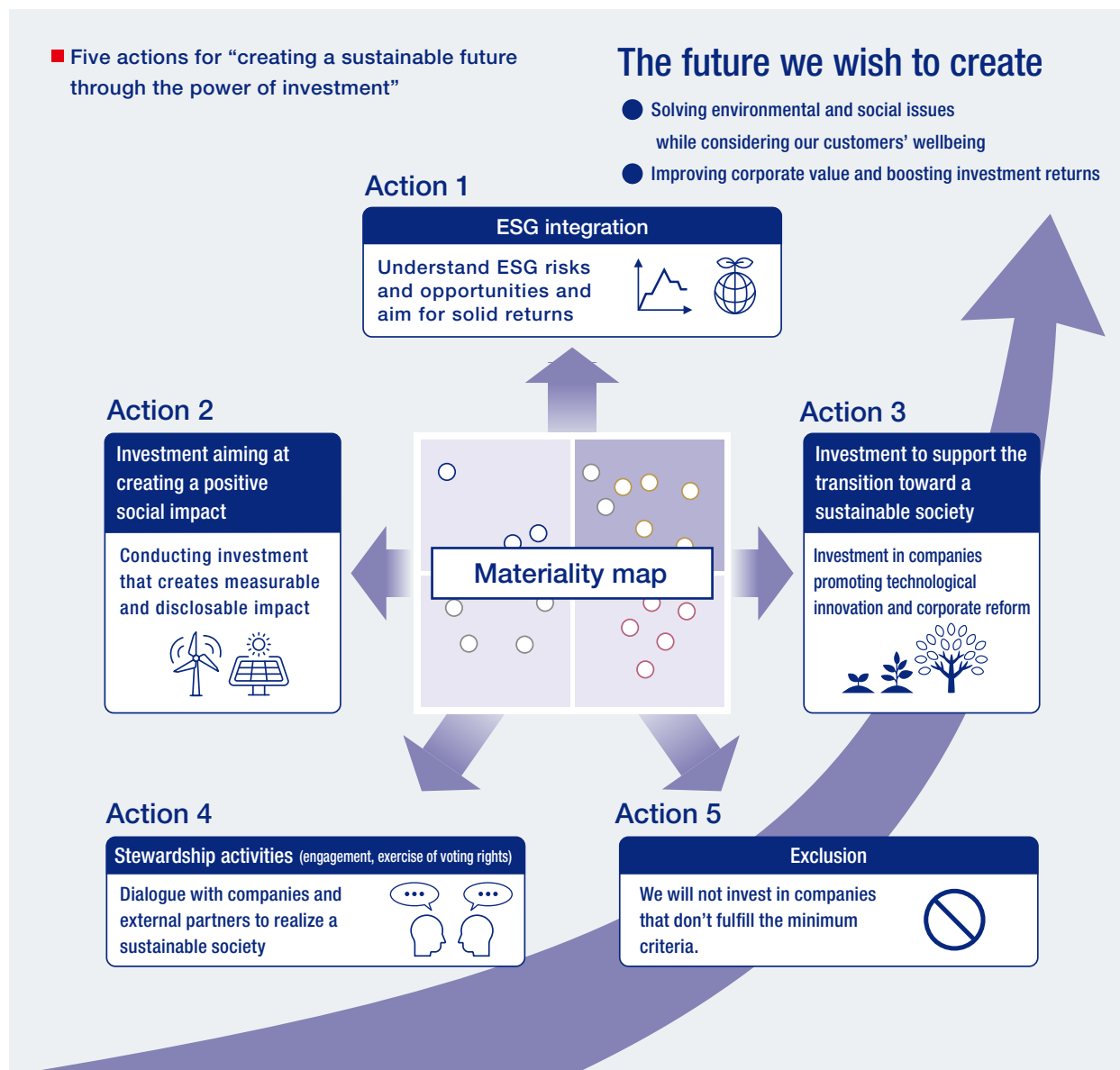
Asset Management One's Sustainable Investment Policy

Basic Approach to Sustainable Investment

As one of the leading asset management companies in Asia, Asset Management One recognizes that its investment activities may have non-negligible impacts on the global environment and society. We also believe that the realization of a sustainable global environment and society is essential for improving investment returns for our customers over the medium to long term.

In light of our fiduciary responsibilities as an asset management company dedicated to “creating a sustainable future through the power of investment,” we will operate in accordance with the aforementioned approach to actively promote sustainable investment through five actions, using our unique materiality map, which has analyzed global environmental and social issues.

This policy applies to products managed by our firm (including those for which the authority of investment management is entrusted to external managers), whilst taking into account the will of our customers, and we will implement sustainable investment in accordance with the characteristics of the investment target assets, regions and investment strategies.



Message from the Head of the Strategic Fund Investment Division, and CEO of Asset Management One Alternative Investments

Linking diversity to new value

Over the past year, not only have we seen geopolitical risks continue to rise, with the prolonged Russian invasion of Ukraine, and deterioration in tense situation surrounding Taiwan, but we have also seen intensified natural disasters occurring across the globe. Meanwhile we have experienced a strong backlash against ESG investment due to unstable economic conditions. Amid this environment, for me it has been a time to reconsider the role that financial institutions should truly fulfill for a sustainable society.



Yusuke Sasaki

Managing Executive Officer, Head of the Strategic Fund Investment Division
CEO, Asset Management One Alternative Investments, Ltd.

Ultimately, the role of an asset management company is to provide a wide range of asset classes and various investment methodologies for customers. In addition to operating such asset management on an in-house basis, in the asset management industry, another approach toward value creation is steadily increasing presence: external asset management to offer access to attractive investment opportunities, by coming up with, providing dialogue engagement, and evaluating (based on due diligence) individual strategies for many asset management companies operating across the globe. Our firm's forte is our research directed at individual stocks, and we can attest to the long-standing experience and impressive track record evaluating the individuals (fund manager) who make excellent investment decisions. Our firm selectively chooses from the many asset management companies operating around the world, targeting equities, fixed-income bonds and alternatives. We believe that being able to offer such a selection to our customers helps us realize our firm's vision of "creating a sustainable future through the power of investment."

Currently, our firm and our group company Asset Management One Alternative Investments offer traditional-asset active-investment funds of 96 strategies and an aggregate worth of US\$40.09 billion, as well as alternative fund managers of 58 strategies and an aggregate worth of US\$13.36 billion, both of which have been selected from countless asset management strategies in the industry on behalf of our customers. In our offering to clients, we report all our judgements including evaluation of unsuitable fund managers. One of the important evaluation processes of our firm is judging whether a fund manager has appropriately integrated ESG into the asset management process. For a while now, we have been incorporating ESG-related evaluation items as part of our evaluation. Commencing this fiscal year, we have established minimum-requirement in the ESG investment criteria for asset management companies that we select. Moreover, for high growing alternatives management area, fund managers are shifting away from simple short-term financial returns to pursue sustainability from a long-term viewpoint are increasing their presence in the market, particularly for unlisted low-liquidity assets (infrastructure, private debt funds, etc.). Our firm is also actively trying to measure the sustainability impact gained from investments.

Because our strategy is to seek out fund managers worldwide with exceptional asset management capabilities and offer their services to our customers, one way of describing the model of our external asset management is as an asset management version of a general trading company. The model of a Japanese general trading company is to grow toward a sustainable business model that adapts to changes in the business environment through timely rebalancing investment assets by selecting investment opportunities rich in diversity. Our firm's external asset management is the same. Our select group of asset management companies have unique philosophies and approaches to asset management and ESG, which brings a rich diversity. We believe that this diversity is what brings out the unique strengths of each asset management company that generate the alpha (added value). From the perspective of our firm's role of providing investment-related financial products to customers, we require minimum ESG requirements to our asset management companies that we select. However, aside from that, we do not take any further initiatives to force our firm's approach on to asset management companies. Rather, we adopt an integrated form of evaluation that encourages the respective asset management companies to leverage their diversity to make development and growth possible. We believe that the diverse and cutting-edge initiatives of those asset management companies can in turn inspire us to work hard at realizing a sustainable society.

It is often said that diversity is the source of innovation. Moreover, in asset management, one of the key concepts is to diversify. We believe that our external asset management business, in which we select various possibilities from countless investment opportunities, will continue to expand through embodying both those concepts of seeking innovation through diversity and diversifying investments. In society, people gather to where diverse values are recognized and accepted, and that is how true added value is created. We also aim to become a core player in the asset management industry that serves as a magnet for added value, and we will continue with our efforts to leverage such diversity to link to value that we provide to our customers.

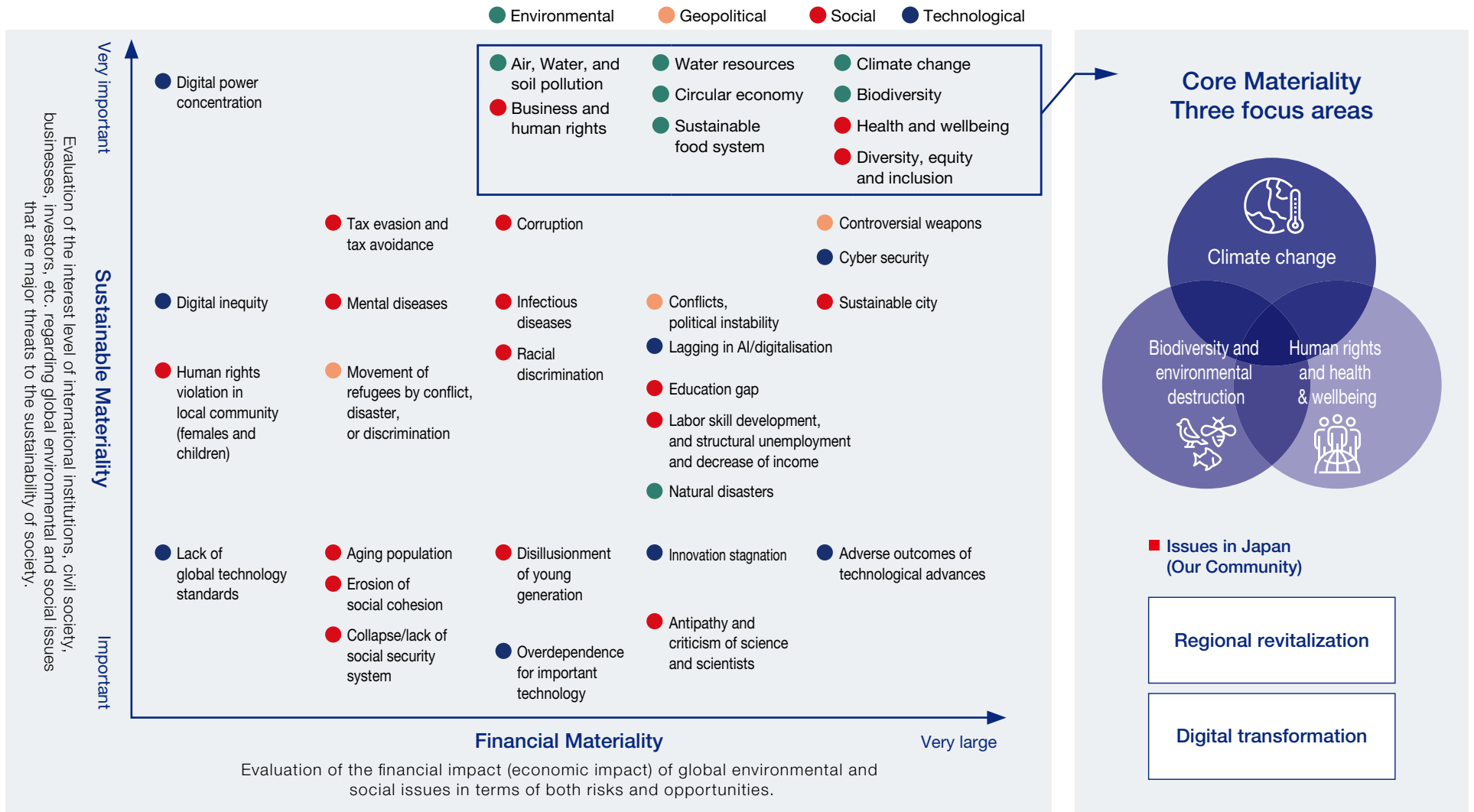


Chapter 1

Representing the Future with Materiality Map



Asset Management One's Materiality Map



Corporate strategy | Base for sustainable corporate value enhancement | Governance and disclosure

"Corporate strategy" and "Governance and disclosure" are the basis for sustainable corporate value enhancement, not only through short-term profit growth, but also through medium- and long-term initiatives to solve environmental and social issues.



We are presenting our key global environmental and social issues (materiality) by the Materiality Map with two axes (sustainable materiality and financial materiality) using double materiality approach, which we should address as an asset management company under our corporate message of “creating a sustainable future through the power of investment.” We identify four categories (Environmental, Geopolitical, Social and Technological) and 35 items with easy-to-capture social issues on the “People & Planet” related axis.

Sustainable materiality (the Y-axis of the map) is the perspective from which we engage with society for “creating a sustainable future through the power of investment.” We utilize the “social issue assessment process” advocated by our advisor Kazuo Tase and the framework allows us to dynamically capture the level of interest from civil society and investors.

Financial materiality (the X-axis of the map) is the perspective we focus on in our investments. We expect “change of capital flows” by our investment to drive innovation for a sustainable society, which ultimately

leads to economic returns. We estimate the economic impact of each issue by referring to reports on the economic impact of social issues, etc., which enables us to perform evaluation according to changes such as heightened legislative and regulatory risks and changes in the creation of innovation.

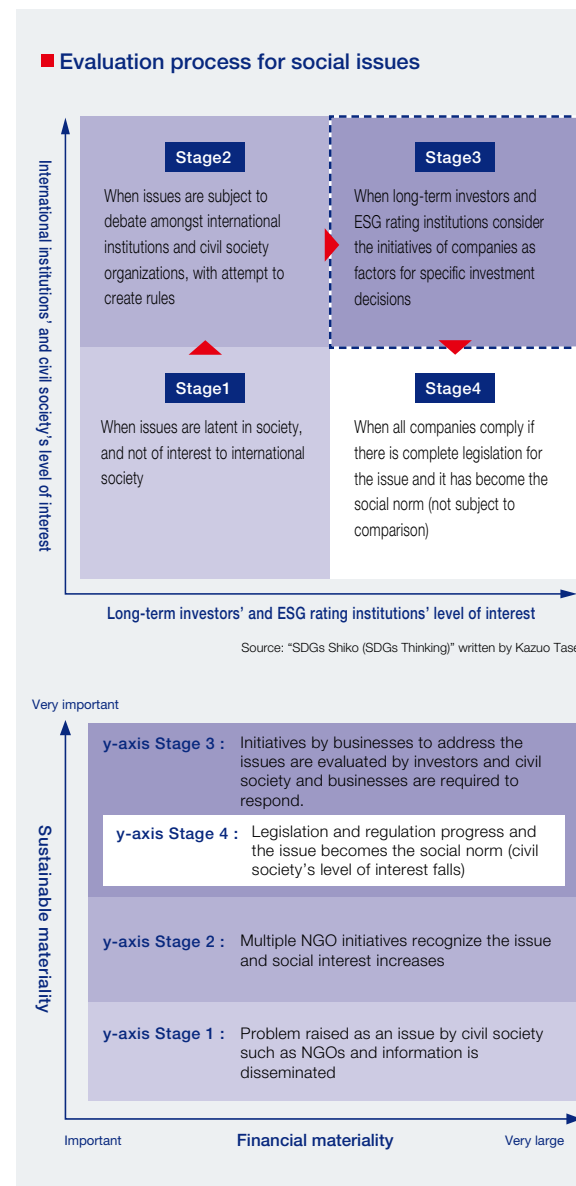
We have established nine core global environmental and social material issues: climate change, biodiversity, health and wellbeing, diversity, equity and inclusion, water resources, circular economy, sustainable food system, air, water and soil pollution, and business and human rights. In addition, based on the linkage of these issues, we have established three focus areas: climate change, biodiversity and environmental destruction, and human rights and health & wellbeing. In addition to this global-oriented materiality analysis, we have also analyzed Japanese-specific issues, which has identified regional revitalization and digital transformation.

We recognize that such issues related to corporate strategies, corporate governance and information disclosure not appeared in this Materiality Map are the fundamental issues for investee companies to address global environmental and social issues and are of the highest priority for the continuous corporate value enhancement.



Yuki Ikehata

ESG Analyst, Stewardship Group, Investment Division



Review Process of Materiality Map and Reviews in FY2022

The Materiality Map is analyzed and reviewed by the Materiality Map Update Task Force, which is comprised of members in various division of the company. The details of this map are discussed by the Sustainability Advisory Board and the Executive Management Committee after engagement with internal and external stakeholders. And finally, it is reflected in Asset Management One's business activities, investments and stewardship activities.

We believe that environmentally and socially important issues are changing continuously due to many factors including the changes in environmental and social circumstances and the creation of innovation to solve such issues. On the other hand, there are also issues that will gradually increase in visibility over the long term as complaints of a small number of people lead to NGO activities, and together, these activities create a huge wave that moves international society. Corporate value should be affected through consumer choice and regulation when issues become largely recognized by international society. It is important to have forward-thinking dialogue and to foster action with investee companies and to also think about our own investment strategies upon

capturing these types of movements in civil society and by taking a bird's-eye view with a long-term perspective in order to improve the corporate value of investees and to improve the investment returns on our investments. Based on this idea, we conduct research and analysis on materiality on an annual basis, and when a social event occurs, we conduct an impact analysis, and reflect the results in our Materiality Map.

As noted hereinafter, in addition to scheduled reviews we conducted an ad hoc review in FY2022 that took account of Russia's invasion of Ukraine and updated issues in six locations including a name change for diversity, equity and inclusion and a change of position for natural disasters. We also conducted research and revisions in FY2023 in areas such as the risks and opportunities for the rapidly expanding use of AI.

In this way, we accurately understand the environmental and social issues pertinent to these changing times while dynamically capturing sustainable materiality and financial materiality, and we work to contribute to initiatives that improve the corporate values of investees and effectively resolve environmental and social issues.

Update on Six Materialities

① Diversity, equity and inclusion

Name changed in consideration of the importance of equity in an environment with a societal structure where inequality exists.

③ Natural disasters

Change made in reflection of the frequent occurrence of natural disasters around the world and the emergence of a vicious cycle of natural disasters and poverty mainly in developing countries.

⑤ Labor skill development, and structural unemployment and decrease of income

Importance changed in consideration of the fact that an increase in the currently insufficient number of re-skilling opportunities would lead to economic growth.

② Sustainable city

Name changed and the scope of this item expanded in reflection of the fact that issues pertaining to cities are not limited to urbanization.

④ Education gap

Importance changed in reflection of calculations showing that elimination of the education gap would contribute to economic growth in regions including Africa and South Asia.

⑥ Racial discrimination

Importance changed in reflection of the result of calculations suggesting economic losses due to the racial discrimination reached approximately \$3 trillion in 2019 alone.

■ Five processes for upgrading materiality

In addition to regular reviews, we conduct impact analysis and review of the Materiality Map, considering the impact when events occur

1 Hypothesis building

We analyze the interest level of each stakeholder and the economic impact by theme concerning environmental and social issues raised in reports from entities such as global NGOs, international institutions, investor initiatives, and economic organizations.

2 Dialogue with stakeholders

We undertake dialogue with entities such as NGOs, government agencies, and environmental and social initiatives concerning areas such as issue awareness, pathways to solving issues, and Japanese and global initiatives and recognition gap.

3 Internal discussions

Discussion at the Materiality Map Update Task Force, which comprises members in various divisions, such as the investment division.

4 Discussion at the Sustainability Advisory Board

Discussion at the Sustainability Advisory Board, which includes Japanese and overseas environmental and social specialists and external advisors.

5 Discussion at the Executive Management Committee and reflection in the business plan

Following consultation with the Sustainability Advisory Board, the Board of Directors resolves the medium- to long-term policies related to sustainability. Reflection in the business plan.

*Please refer to the following News Release for details. "AM-One to Update its Materiality Map" released on April 3, 2023 (https://www.am-one.co.jp/pdf/english/111/230403_AMOne_newsrelease_E.pdf)



Concerning the Review of the FY2023 Materiality Map

The spread of AI such as generative AI is causing the benefits of AI to become something familiar in people's lives. AI embedded deep learning is able to perform tasks that previously appeared difficult for machines.

On the other hand, the rapid development and spread of AI technology has made it clear that AI could present various risks. For example, if the discrimination that exists in society is reflected in the AI training data, the AI trained from such data could reproduce discrimination. In addition, if the biometric identification technologies incorporating AI are used for people surveillance, it would undermine people's privacy rights and could become a threat to civil liberties such as the freedom of speech and the freedom of assembly, which are the foundations of democracy.

Such AI risks are also closely related to our materiality. In addition to the large overlap of "Technological" materiality like "adverse outcomes of technology," there could be a huge negative impact on social materiality such as "diversity, equity and inclusion" and "racial discrimination." However, in contrast to the pace at which AI is spreading throughout the economy and society, people's awareness of AI-related risks among individuals and businesses has not become widespread enough, and regulatory developments have not kept pace

Under these circumstances, we conducted a survey of Japanese companies' current disclosure on AI risk as a first step toward addressing this risk. Going forward, we recognize the necessity to further deepen our

understanding of AI risks, and, while taking the standpoint of the investor, actively urge companies to adopt initiatives to reduce such risks.



Yoshihito Edamura
Economist, Research Group, Investment Division

■ Key points in addressing AI risk

1 Develop policies and commitments on the use of AI

Matters that should be noted in the utilization of AI such as fairness and transparency are prescribed as a company-wide policy and commitment.

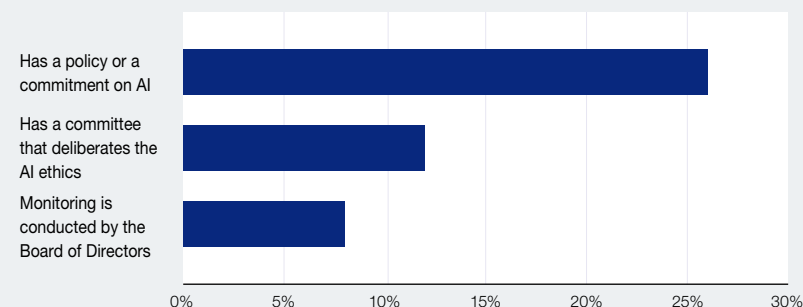
2 Establish AI ethics committee, etc.

Consider AI risks at the ethics committee, etc. It is preferable to establish an independent AI ethics committee, with members that include external experts.

3 Board level governance on AI risk

Discussions and other issues arising from the AI ethics committee are reported to the Board of Directors, which is involved in governance on AI risk.

■ Status of initiatives at Japanese companies



A survey of 66 major companies that provide AI-related products and services in high impact sectors such as IT services and hardware, and media entertainment about their disclosures on AI risk, found that many companies have not made sufficient progress in addressing the AI risks they may face.

Created by Asset Management One



Focus Areas – Climate & Nature Report–

There are major interconnections between climate change and biodiversity issues, and in the belief that an integrated approach is efficient and effective, we added items for initiatives related to biodiversity and environmental destruction to the previous TCFD disclosures.

In future, we will enhance the initiatives for both issues as well as the content.



Climate change



Biodiversity and environmental destruction

Governance

- Asset Management One recognizes, based on materiality research, that climate change, biodiversity and environmental destruction, and human rights and health & wellbeing are important global environmental and social issues for people's lives and corporate activities, and we support the objectives of the Paris Agreement and the Convention on Biological Diversity.
- We are progressing initiatives in our own business and investment activities that respond to climate change and reduce our own environmental negative impact, establishing our Basic Policy on Sustainability Initiatives, our Environment Policies and our Sustainable Investment Policy.
- We established opportunities for dialogues with stakeholders including civil society, and following such dialogues, we produced the Materiality Map with our firm's own axis as a guideline and will reflect this in all our business activities with the aim of solving identified issues.
- The Board of Directors approves key matters concerning our firm and the Group's sustainability, and the President & CEO oversees such initiatives.
- In addition, the Sustainability Advisory Board, which was established as an advisory body to the Board of Directors and includes outside experts, provides its opinions to the board concerning medium- to long-term ideas and policies on sustainability matters.

Strategy

We contribute to the aim of net zero greenhouse gas ("GHG") emissions through our participation in the Net Zero Asset Managers initiative (NZAM) and its initiatives (See page 17).

- Given the increasing frequency of natural disasters believed to be caused by climate change, as well as the depletion of natural capital that society heavily relies on for socio-economic activities, the physical risks have become more apparent. With this situation, the growing concern and strengthened regulations within civil society have also amplified transition risks.
- On the other hand, we recognize that companies that take proactive initiatives to respond to climate change and to preserve and restore natural capital have opportunities to improve corporate value through business expansion and improved reputation.
- We contribute to the realization of a decarbonized society and nature positive through stewardship activities and ESG integration in our Investment Division and the development of financial products and services while also progressing the response to climate change and reduction of environmental impact in our own business activities.

Using TNFD LEAP approach, we deepen our knowledge on the dependence and impact of our investment on natural capital and biodiversity as well as the opportunities and promote initiatives to achieve nature positive (see page 19).



Why a Climate & Nature Report?

- Climate change is not only a serious issue in its own right, but also has an impact on natural capital and biodiversity. In addition, in the process of the renewable energy expansion as a climate change mitigation measure, we need to give consideration to ensuring that such measures do not contribute to deterioration in natural capital and biodiversity.
- On the other hand, the preservation and restoration of natural capital and biodiversity can have a positive impact on climate change, for example, such as through the absorption of carbon dioxide and carbon storage in forests. In addition, the preservation of forests and wetlands also become measures to adapt to climate change that mitigate natural disasters including floods.
- Past initiatives to climate change and the preservation of natural capital and biodiversity were often treated individually, but there is a large interconnection between both and we believe it is possible to maximize the impact through measures devised for both rather than thinking about one issue by itself.

Risk Management



Climate change



Biodiversity and environmental destruction

- We assess risks and opportunities at investee companies, utilizing information obtained from external providers, our own proprietary research and engagement activity, together with company disclosures, and conduct continuous engagement dialogues with focus companies as necessary.
- In our engagement activities, we join with various stakeholders such as “Climate Action 100+” and “Nature Action 100” while demonstrating leadership as a major institutional investor looking to solve the issues.
- Research and engagement information, together with quantitative information such as GHG emissions and ESG scores, is shared with fund managers and analysts in the Investment Division and used in investment decisions and voting considerations. Reporting ESG-related stewardship activities to the Stewardship Committee.
- We have established a sustainable investment framework and clarified the minimum expectations for actions that we seek investee companies to implement. We engage with companies that do not meet these standards, and if progress is inadequate, we could consider voting against management proposals for the election of directors and not holding such investments in our ESG fund.

Metrics and Targets

- We commit to support the goal of net zero GHG emissions by 2050, in line with NZAM’s global initiatives to limit rise in temperature to 1.5°C.
- In addition, in line with our net zero commitment, we have aligned ourselves with the net zero scenario and set an interim target for 2030 of 53% (approximately ¥30 trillion) of our firm’s AUM (approximately ¥57 trillion as of March 31, 2021).
- For the early realization of the mission of the Kunming-Montreal Global Biodiversity Framework “to halt and reverse biodiversity loss by 2030” and its 2050 vision of “a world living in harmony with nature,” we seek effective initiatives from investee companies to preserve and restore biodiversity for the entire value chain, thereby maintaining and enhancing corporate value.
- We are working on deepening knowledge concerning quantitative evaluation including natural capital related risks and opportunities as well as the impact and to improve TNFD disclosures, including specific metrics and targets.

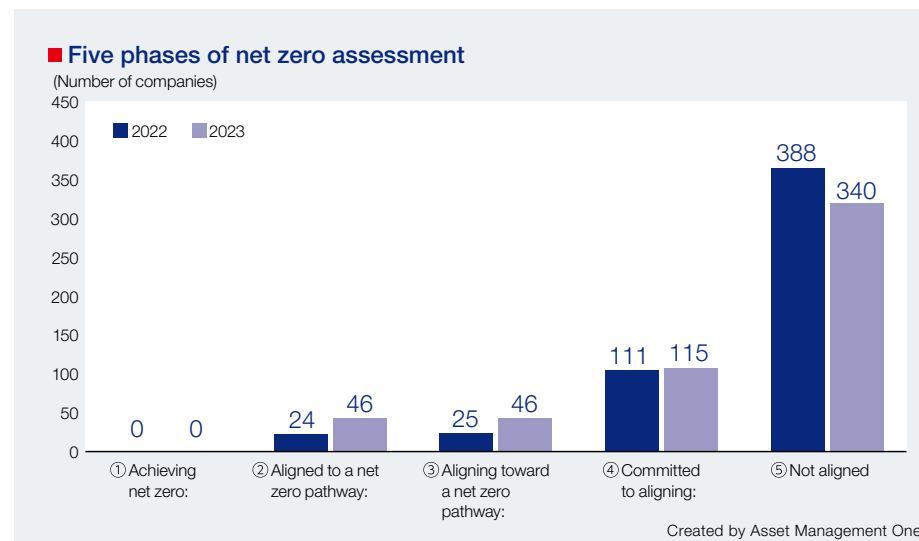
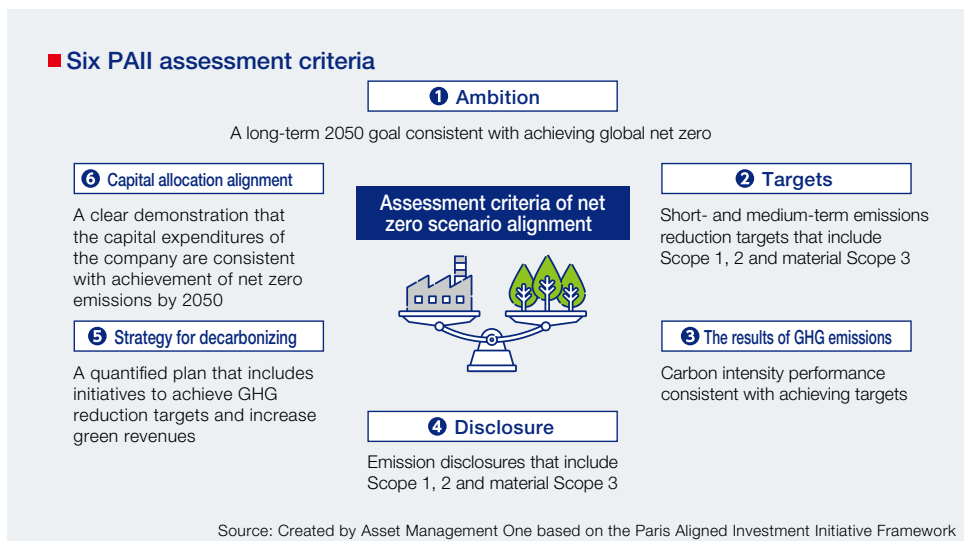
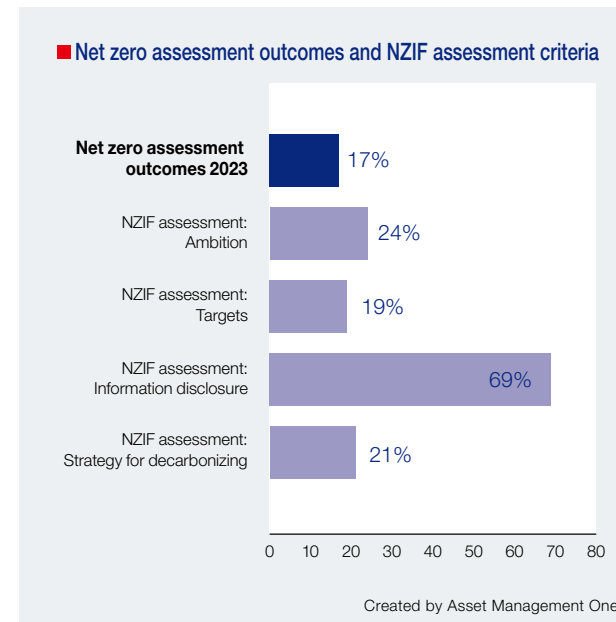
Focus Area 1 Climate Change | Assessment of Net Zero Scenario Alignment

As a signatory to the Net Zero Asset Managers initiative (NZAM), Asset Management One is committed to the net zero scenario alignment with a net zero interim target for 2030 of 53% (¥30 trillion) of our firm's AUM (¥57 trillion as of March 31, 2021).

We have developed a method of assessing net zero based on Net Zero Investment Framework of Paris Aligned Investment Initiative (hereinafter "NZIF"), a recommended methodology by the NZAM, and is applying it to net zero assessments of investee companies and funds. Under the NZIF, sectors with high GHG emissions are defined as high impact sectors and the other sectors are defined as low impact sectors. We conduct assessment using six criteria. The results of the assessments are categorized into five phases of assessment of net zero scenario alignment, with companies categorized as (i) Achieving net zero, (ii) Aligned to a net zero pathway, and (iii) Aligning toward a net zero pathway, considered to be net zero companies.

Our assessment of net zero scenario alignment started from 2022, with this year's being the second assessment. The results of the 2023 assessment indicate that 17% of the (547) Japanese companies subject to assessment were assessed as being net zero. In the results of the assessment by major assessment criteria for the targets (establishment of short- and medium-term targets aligned with achieving net zero in 2050) 19% of companies were recognized to have set targets this year, compared with the 9% recognized to have set targets the last year, which means almost two-fold increase. This demonstrates the increase in the number of companies setting interim targets with progress made for setting targets aligned with achieving net zero by 2050.

We are making efforts with net zero engagement as a priority area based on the analysis of the assessment of net zero scenario alignment for individual companies and for the transition path (the transition path to net zero) in each industry.



Focus Area 1 Climate Change | Portfolio Analysis Based on TCFD

1. Analysis of major indicators such as total GHG emissions

Asset Management One has conducted analysis of total GHG emissions of our internally managed investment portfolios.^{1,2} Although the weighted average carbon intensity of foreign fixed income is slightly above the benchmark, this shows that all other assets are below the benchmark.

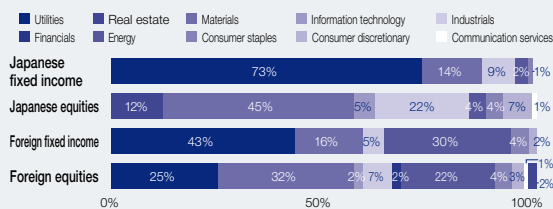
Meanwhile, a breakdown of total GHG emissions by sector reveals that the utilities and materials sectors account for a significant amount across all asset categories. Therefore, we hold more intensive engagement dialogues with relevant companies in these sectors, seeking enhanced efforts to reduce GHG emissions.

Climate-related risk indicators: our firm's portfolio vs Benchmarks

	Total GHG emissions		Weighted average carbon intensity	
	Scope 1-3 million t CO ₂ e		t CO ₂ e/million US\$	
	Our firm	Relative to benchmark	Our firm	Relative to benchmark
Japanese fixed income	7.3	54.9%	338.4	66.3%
Japanese equities	133.5	95.0%	85.3	95.7%
Foreign fixed income	2.8	93.3%	214.7	107.8%
Foreign equities	14.0	62.5%	98.2	65.8%

Source: Created by Asset Management One based on ISS-Climate data

Breakdown of GHG emissions by sector



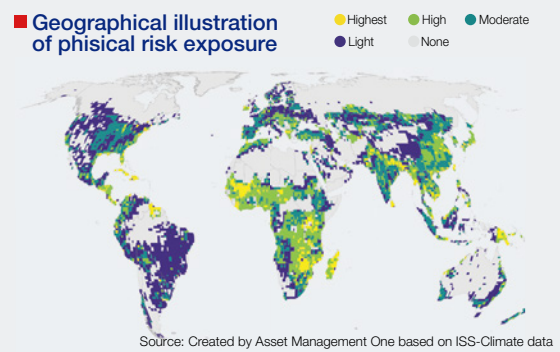
Source: Created by Asset Management One based on ISS-Climate data

Benchmark (BM) Japanese fixed income: corporate bond composites only within NOMURA-BPI (all composites) Japanese equities: TOPIX (total return) Foreign fixed income: corporate bond composites only within Bloomberg Barclays Global (all composites) Foreign equities: MSCI ACWI ex Japan ¹ Total GHG emissions: portfolio-related greenhouse gas emissions (CO₂ converted ton). Using our firm's holdings relative to the adjusted enterprise value (market capitalization + interest-bearing debts) when calculating ² Weighted average carbon intensity: the weighted average of GHG emissions (Scope 1 and 2) per sales for each company weighted by each company's weight in the portfolio

2. Climate change related risks

1 Physical risks

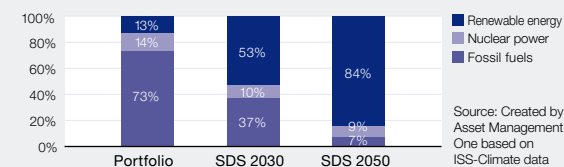
The results of the ISS-Climate analysis of the physical risks caused by extreme weather events, etc. on the portfolios up until 2050 are as follows. This map emphasizes the areas where the impact of physical risks such as tropical cyclones, river floods, bushfires, droughts, and heat stress are growing. It indicates the comparatively high risks for Asia and Africa.



2 Transition risks

With regards to transition risks, we compared the energy mix between a hypothetical investment portfolio of four assets at the firm and the targets under the IEA's Sustainable Development Scenario (SDS)³ for 2030 and 2050 respectively. As a result, due to the high weighting of fossil fuels, we recognized the importance of taking further actions to promote the use of efficient energy sources and the proliferation of renewable energy.

Energy mix comparison

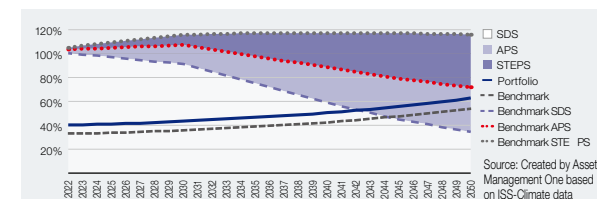


³ Sustainable Development Scenario (SDS): a sustainable development scenario aligned with the Paris Agreement objective of holding the increase in the global average temperature to well below 2°C and pursuing efforts to limit the temperature increase to 1.5°C.

3. Scenario analysis

Using the ISS-Climate methodologies, we generated a forecast for the investment portfolio's total GHG emissions through 2050. We then compared it with the respective carbon budgets (GHG emission allowances) under the three scenarios (IEA's Sustainable Development Scenario (SDS), Announced Pledges Scenario (APS)⁴ and Stated Policies Scenario (STEPS)⁵).

The results indicated that the current GHG emissions of our hypothetical portfolio of four assets have appeared to be lower than the carbon budget for any of the scenarios. However, as emission allowances are set to decrease with rising temperatures, it's likely that the portfolio's carbon emissions will surpass the carbon budget limit defined by the Sustainable Development Scenario (SDS) by 2043. In light of this, we are committed to continuously promoting decarbonization in our portfolios through active engagement with investee companies to achieve net zero GHG by 2050.

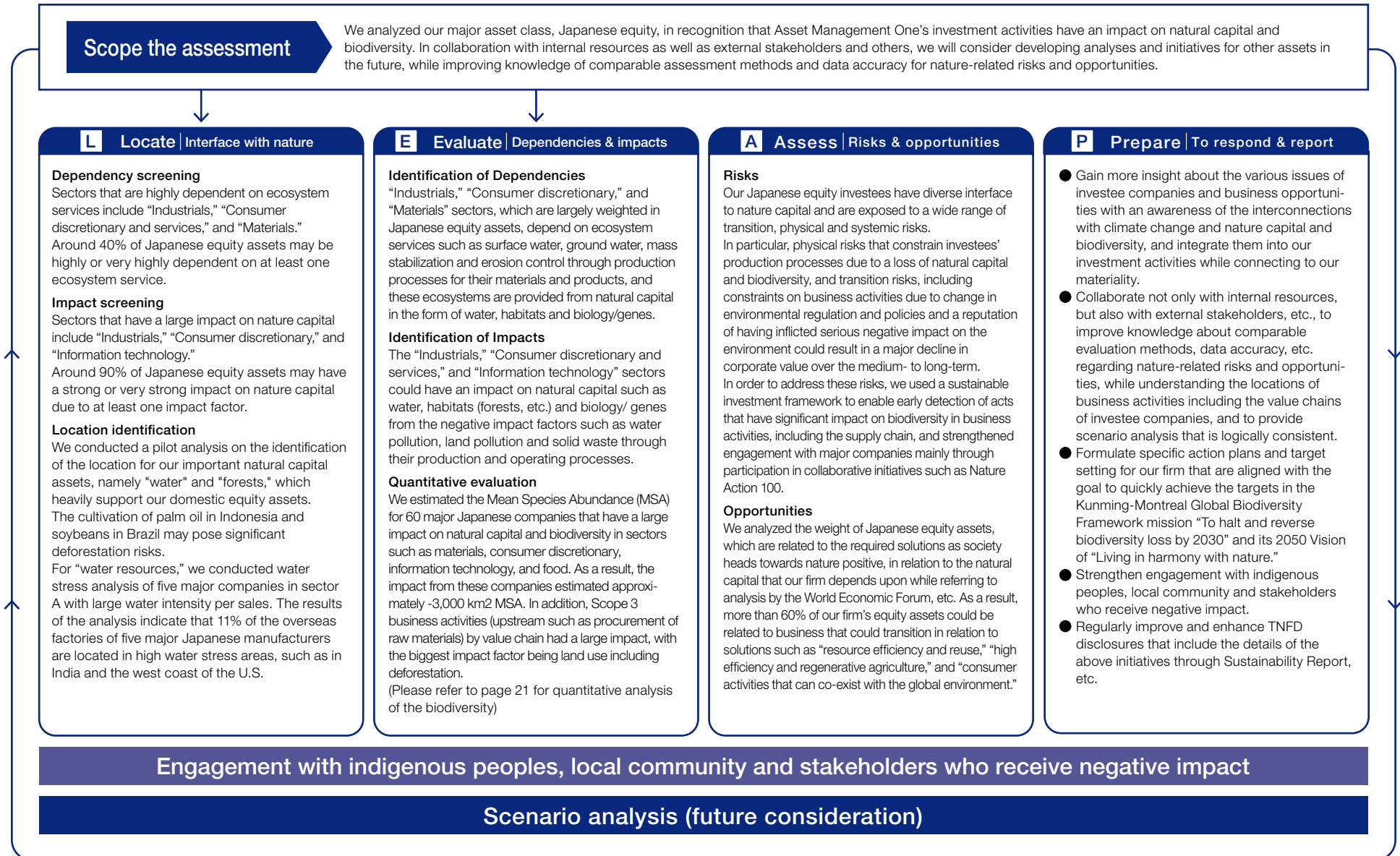


⁴ Announced Pledges Scenario (APS): a scenario that reflects the ambitions declared by like-minded countries ⁵ Stated Policies Scenario (STEPS): a scenario that reflects the specific policies already announced by each country



Focus Area 2 Biodiversity and Environmental Destruction | Analysis Using TNFD-LEAP (2023 Version)

In light of the release of TNFD Framework v1.0 in September 2023, we updated the TNFD-LEAP analysis announced in December 2022.



Focus Area 2 Biodiversity and Environmental Destruction | Deforestation: Common Issue for Climate Change and Biodiversity

Halting deforestation is an extremely important issue from the perspective of both climate change and biodiversity. Forests contribute greatly to the mitigation of climate change through carbon absorption and storage. Forests also serve as a source of biodiversity as habitats for many terrestrial species and provide people with a range of ecosystem services such as water flow regulation and soil conservation.

Forests play such an important role in the natural environment, but they are still being lost at a rapid rate, particularly in tropical forests in South America, Africa and South-East Asia. Such deforestation is reported to be caused by climate change impacts, such as droughts and forest fires, and by agriculture, with the expansion of cropland and livestock grazing areas. Deforestation, particularly in the production process of some agricultural products such as cattle and palm oil, is considered to be a major factor. Therefore, companies dealing with these products can contribute to solving the issues of both climate change and biodiversity through



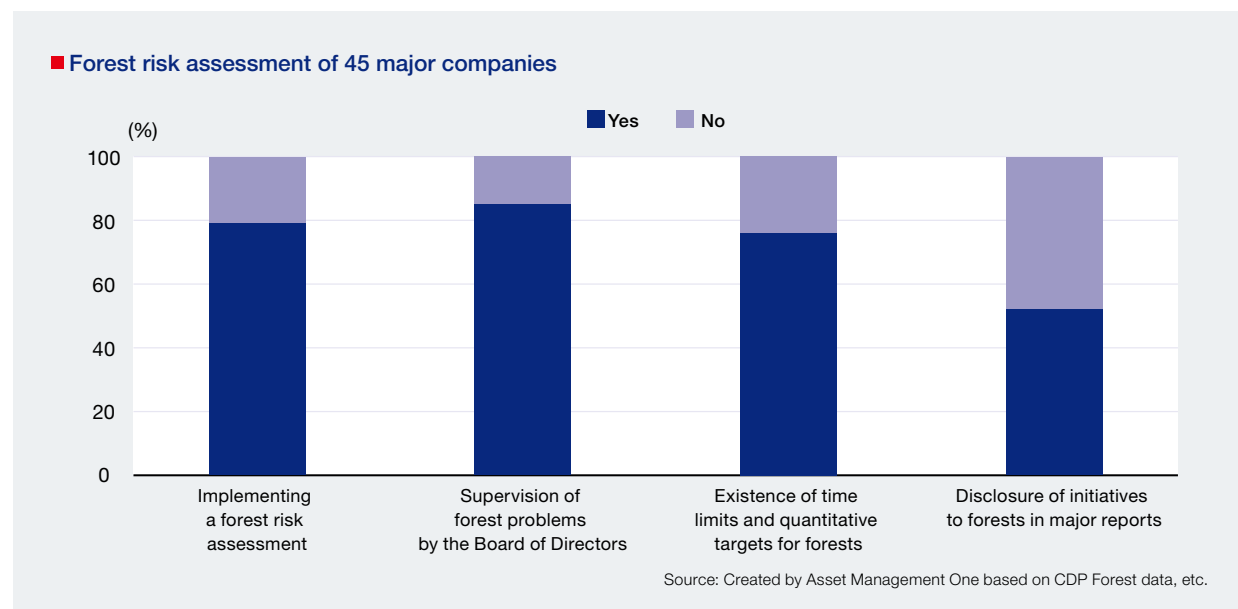
measures such as ensuring their own supply chains are “deforestation free.”

Given such circumstances, we tried a current evaluation with reference to data such as CDP Forest to understand the status of investee companies’ initiatives to address deforestation. To be specific, we assessed 45 major Japanese companies in a high impact sectors such as materials and foods concerning (i) assessment of forest risk, (ii) supervision at the Board of Directors level, (iii) time limits and quantitative targets on forest issues, and (iv) descriptions of the response to forest risks in major reports. As a result, although many of the surveyed companies that respond to CDP are addressing forest risk, we found an inadequacy in the external disclosure of information.

Asset Management One has engaged with investee companies

concerning issues related to forest risks including increasing the proportion of certified products and traceability in the procurement of raw materials. We have also engaged in proactive dialogue about smart forestry, which efficiently preserves forests, and the development and sale of alternative protein products as replacements for livestock to increase corporate value.

In the future, with an appropriate understanding of the forest risks of investee companies through engagement and data analysis, we will conduct proactive dialogue with companies with high deforestation risk that have been inadequate in their response and disclosures and also encourage companies that are already making progress in relation to deforestation to enhance their information disclosure, including their TNFD response.



Quantitative Analysis of Biodiversity

TNFD Framework v1.0, released in autumn last year, calls for quantitative evaluation and disclosures related to the use of natural capital including “Land/freshwater/ocean-use change” as a core global metric across industries. We also recognize the need to quantitatively understand the important nature-related dependencies, impacts and opportunities and to set accurate metrics and targets to quickly reverse the natural loss from 2030 and to achieve living in harmony with nature in 2050. On the other hand, we recognize that there is no globally uniform method of measurement for these metrics, and the data provided by data providers also varies, leading to the possibility that risks could be over or underestimated depending on the method.

Based on these considerations, we have made an attempt to quantitatively assess the impact of our business activities on natural capital and biodiversity by utilizing the Corporate Biodiversity Footprint (CBF) provided by Iceberg Data Lab. We focused on 60 major companies in industries such as materials and consumer goods, information technology, and food, which have the potential to significantly impact natural capital and biodiversity. Through this assessment, we aimed to deepen our understanding of the quantitative evaluation of the impact caused by our business activities on natural capital and biodiversity.

CBF is the quantification of the impact of corporate activities in a year using models, which is converted and presented in units of - km² MSA (Mean Species Abundance) for four areas (change in land use, air pollution, water pollution and climate change). This measurement is derived from the Life Cycle Assessment (LCA) approach, which takes into account

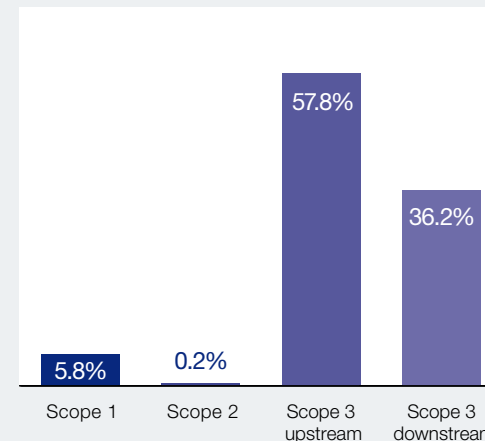
data related to corporate activities such as sales, business activities, procurement of raw materials, and products. MSA is a biodiversity related metric that expresses the extent to which natural species have been preserved when compared to the untouched ecosystem unaffected by the impact of human activity. “MSA 0%” indicates a complete loss of biodiversity and “MSA 100%” reflects a situation where the biodiversity is the same as an untouched ecosystem that has not been touched by humans. The case of -1 km² MSA signifies the possibility of a loss of biodiversity to the level of MSA 0% for an area of 1 km² in a year.

As a result of performing this estimation, the impact of the 60 companies in our firm’s Japanese equities portfolio was estimated at approximately -3,000 km² MSA. In addition, Scope 3 business activities (upstream such as procurement of raw materials) by value chain had a large impact, with the biggest impact factor being land use including deforestation.

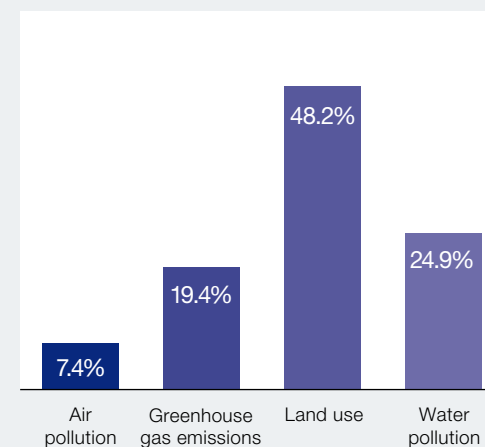
CBF calculates the impact for all major areas of biodiversity and is supported by a robust scientific framework with the model undergoing continuous improvement, but we expect there is room for further development and improvement. We will continue to seek the best method for analysis of portfolios and individual companies, while deepening our knowledge concerning various methods of quantitative evaluation for biodiversity and natural capital.

* Estimate: total value of CBF of 60 companies (km² MSA) = Aggregate of CBF of each company × our firm’s investment amount of shares and bonds / adjusted corporate value (market capitalization + total liabilities)

■ Proportion of impact by value chain



■ Breakdown of biodiversity impact



Source: Created by Asset Management One based on Iceberg Data Lab data



Focus Area 3 Human Rights and Health & Wellbeing | Response to Human Rights in the Value Chain

There has recently been a growing recognition of human rights issues among companies. In addition to the conflict in Ukraine, other issues have arisen across the world in recent years including forced labor in the Xinjiang Uyghur Autonomous Region, repression of civilians by the military in Myanmar, and the Black Lives Matter movement in America. In Japan, in addition to the labor problems of foreign technical intern trainees, there have been growing concerns about sexual assault by the founder of an entertainment agency. However, Japan lacks an enforceable policy in relation to human rights initiatives such as seen in the European countries, and there is no clear framework for information disclosure as there is for climate change. As a result, debate about human rights issues with an extensive view of the entire value chain has been behind the curve.

With the globalization of business activities and the expansion of supply chains, if human rights violations are discovered by the company or its stakeholders, including suppliers, this can lead to a significant loss of reputation and even a boycott by consumers. In addition, amid the growing tightening of human rights-related regulation and requirements in Europe and the U.S., neglect in taking action could exacerbate the risk of losing business opportunities for companies operating globally.

From this perspective, we conducted a survey of Japanese companies involved in the procurement of high risk commodities, where serious infringement of human rights is considered likely to occur, based on disclosure information, including how initiatives for human rights due diligence are implemented throughout the value chain. The results indicate that while there has been comparative progress in disclosures

related to human rights policies and the response to supplier companies, there are few disclosures concerning the human rights response for stakeholders other than supplier companies such as indigenous peoples, consumers and end users.

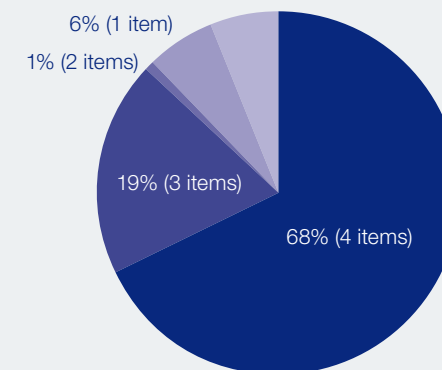
Visualization of and the response to human rights issues for the entire value chain, including supplier due diligence can be considered issues for Japanese companies. Asset Management One plans to further engage with investee companies through engagement activities, etc. to ensure that their response to human rights issues becomes effective for the entire value chain.

(Please refer to "One Sustainability Insight" below for details.)
 "Survey of Japanese companies' initiatives to respond to human rights – response to human rights for the entire value chain is an issue -" on September 29, 2023
https://www.am-one.co.jp/img/company/42/230929_ESGcolumn.pdf

■ Sixteen human rights assessment criteria

Theme	Assessment criteria	Theme	Assessment criteria
Human rights policy	① There are disclosures of human rights policy compliant with international standards (Guiding Principles on Business and Human Rights, International Bill of Human Rights, OECD Guidelines for Multinational Enterprises, ILO's Core Labour Standards)	Supplier Code of Conduct	A supplier Code of Conduct has been formulated and there are disclosures about the abolition of discrimination, the prohibition of child labor and forced labor, and the freedom of assembly and collective bargaining
	② There are disclosures concerning the prohibition of child labor, forced labor, and human trafficking	Supplier evaluation and procurement	① There are disclosures of supplier evaluations for criteria including human rights and labor
	③ There are disclosures concerning the abolition of discrimination including harassment, the pursuit of equal opportunities, and D&I promotion		② There are disclosures of supplier audit (internal audit or external audit) for criteria including human rights and labor
	④ There are disclosures concerning freedom of association and collective bargaining rights		③ There are disclosures of a responsible procurement policy or guidelines (palm oil, cotton, leather, seafood, wood, conflict materials, etc.)
Whistleblowing system	There are disclosures concerning internal whistleblowing systems		④ There are disclosures of obtaining a sustainable certification system (palm oil, cotton, leather, seafood, wood, conflict minerals, etc.)
Human rights due diligence	① There are disclosures concerning the human rights DD process	Grievance process mechanisms	There are disclosures concerning external grievance process mechanisms
	② There are disclosures concerning the results of human rights DD	Rights of indigenous peoples	Disclosures concerning respect for the human rights of indigenous peoples
	③ There are disclosures of the number and details of responses concerning corrective/remedial measures and risk mitigation plans as necessary	Rights of consumers and end users	There are disclosures concerning respect for the human rights of consumers and end users

■ Results of the survey concerning human rights policy (4 criteria)



Created by Asset Management One

Source. Based on the draft standards of European Financial Reporting Advisory Group (EFRAG), namely "ESRS S1 Own workforce," "ESRS S2 Workers in the value chain," "ESRS S3 Affected communities," and "ESRS S4 Consumers and end-users."



Focus Area 3 Human Rights and Health & Wellbeing | Dialogue to Achieve Effective Human Capital Management

Asset Management One is strengthening engagement based on the recognition that effective human capital management is a core issue directly linked to corporate value. The background lies in the long economic downturn that began with the burst of the bubble, which resulted in a significant gap in investment in human resources between Europe, the U.S., and Japan. As a consequence, Japan's competitiveness has declined in various sectors, including digital.

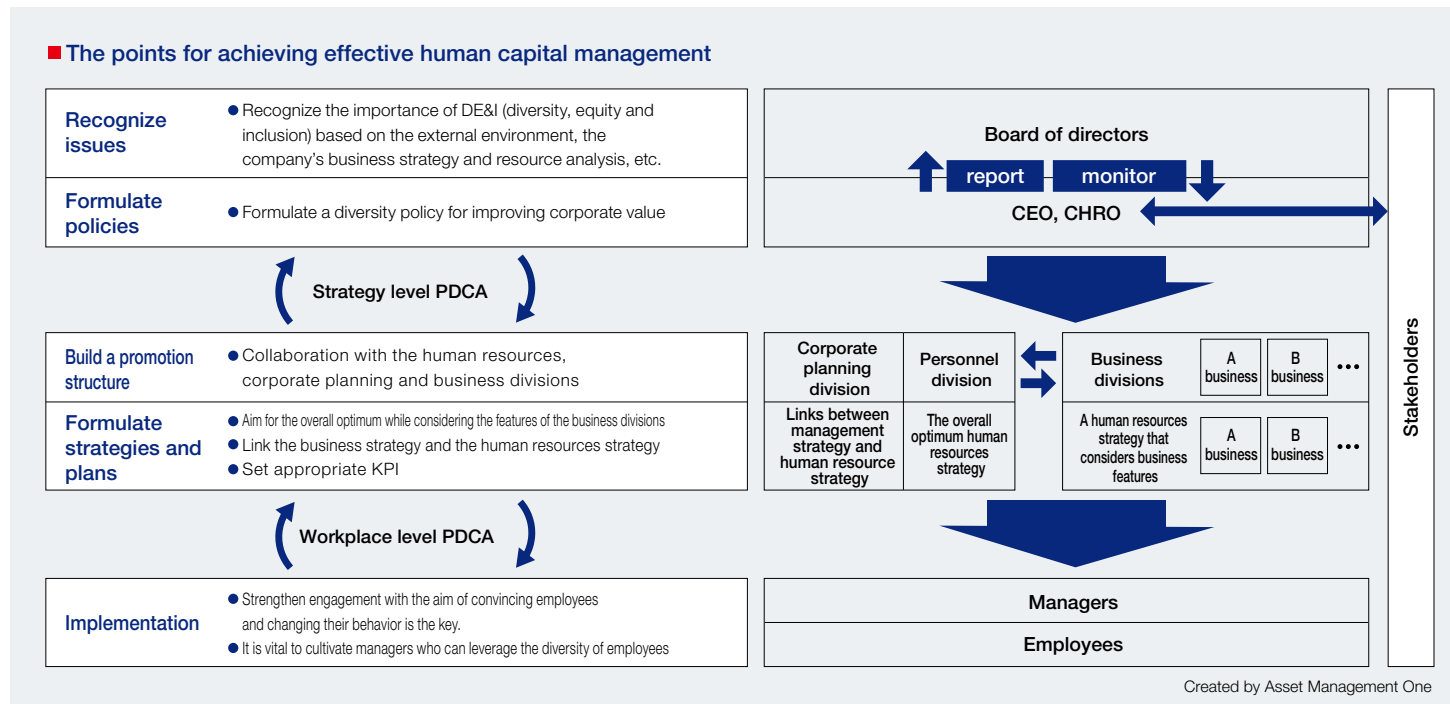
Accordingly, we believe the "Strategy level PDCA" is important, including the commitment of top management, governance, promotion framework, and information disclosure, as well as having a consistent direction for the business strategy and human resource strategy for the improvement in corporate value by capturing "human capital" and not "human resource management."

In addition, the biggest challenge for human capital management initiatives is the human resource portfolio strategy. When reviewing DX and other businesses, there needs to be training (reskilling) in assumption of the necessary structure and the development and securement of human resources that differ from the past such as the recruitment of leaders from outside.

On top of this, we believe that building up initiatives such as adequate engagement concerning the company's direction and fair performance evaluation are linked to the active participation and wellbeing of employees and forms an ideal situation that cultivates and spreads a positive corporate culture. A "Workplace level PDCA" is required for this type of scenario to be realized. In this way, the realization of effective human capital management is a long-term and very difficult initiative. Therefore, it is vital to set key performance indicators

(KPIs) and maintain a continuous PDCA (Plan-Do-Check-Act) cycle at both the strategic and workplace levels.

With regard to information disclosure, our firm requires top management to disclose and promote human capital management in their own words and in a manner synchronized with the corporate strategy in an integrated report and a website as well as Annual Securities Report which is now mandatory for disclosure. Even those that have just started to address issues such as the gender pay gap need to disclose the current situation without hesitation and present a commitment for future initiatives. There has been a recent increase in spirited discussion with the top management and Chief Human Resource Officers (CHRO) of investee companies. We will further advance such dialogue towards improving corporate value.



Our President Sugihara attended and gave a speech at the second general meeting of the Human Capital Management Consortium as one of the founders.



Chapter 2

Fulfilling Our Stewardship Responsibilities



Asset Management One's Stewardship Activities

In October 2016, at the same time as its foundation, Asset Management One established a dedicated department for stewardship activities called the Responsible Investment Group (the current Stewardship Group). The Group focuses on stewardship activities that are mainly centered on engagement (constructive and purposeful dialogue) and the exercise of voting rights.

The aim and essential value that we always keep in mind is the effectiveness of our activities. We make a great effort to understand the perspectives and individual circumstances of our investee companies, working together for positive changes and business transformation towards providing solutions to societal challenges and achieving sustainable value creation. It is essential for us to have a deep understanding of each company and the sector where it operates in, including the latest development of external environment in Japan and globally. Furthermore, with regards to the systemic and complex issues, such as climate change, we focus not only on actively engaging with investee companies, but also on engaging with other stakeholders. Through

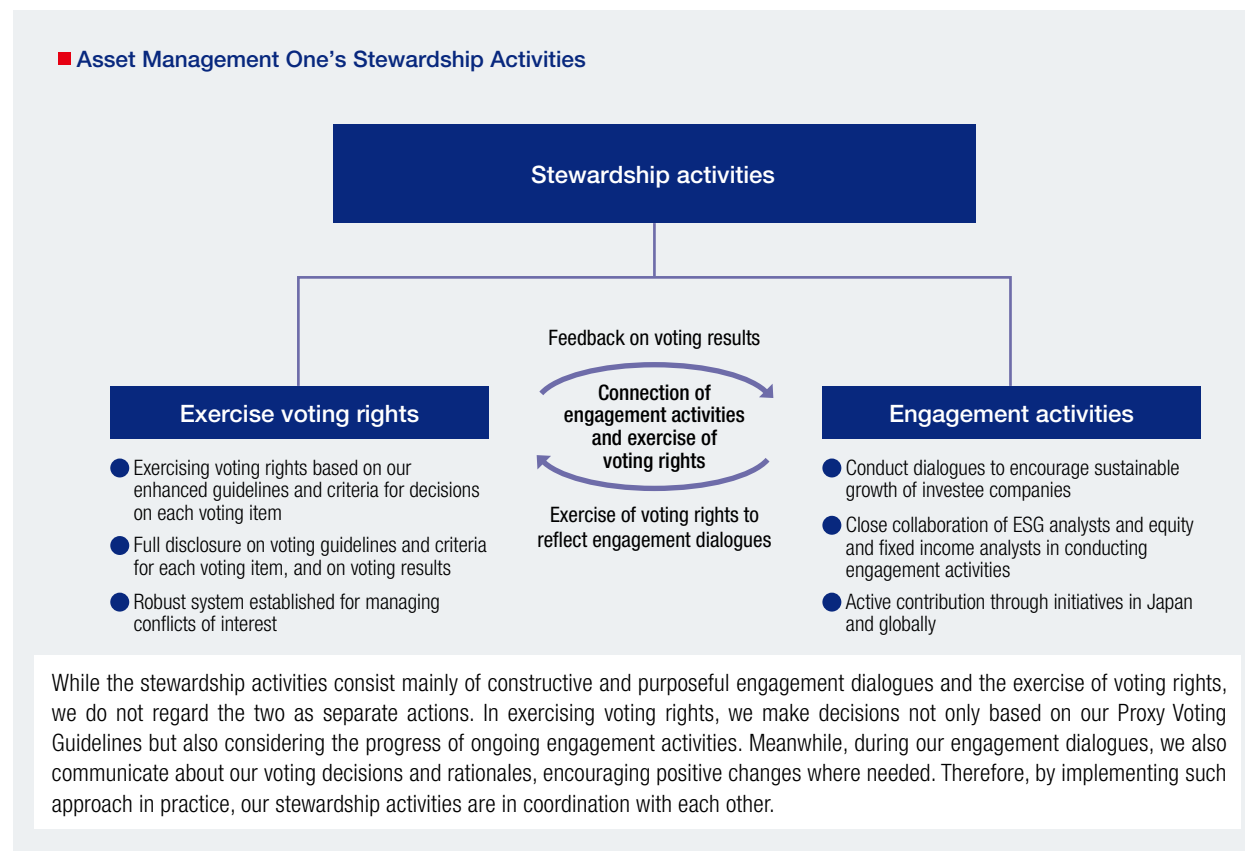


Takeo Omori

Head of Stewardship Group,
Investment Division

these activities, we endeavor to ensure that our stewardship commitment and efforts are actually helping to drive the economy and society towards sustainability.

We set engagement objectives and use milestones to manage the progress of engagement, so that we are able to monitor and measure the effectiveness of our engagement activities (please refer to page 30 for more details). In addition, we collaborated with academic



researchers to examine and verify the effectiveness of our engagement approaches, who published a paper summarizing their research results. This paper was also selected for the PRI Award for Outstanding Research at this year's PRI in Person conference (2023 PRI annual meeting) (please refer to page 51 for additional information).

Furthermore, we are committed to meeting the high standards set by the UK Stewardship Code in reporting on our stewardship activities and outcomes. In 2023, we

are one of the few Japanese asset managers who has successfully become a signatory to the UK Stewardship Code (please refer to page 49).

Following such external evaluations, we will continuously enhance the quality and effectiveness of our stewardship activities, contributing to investee companies' value creation over the medium- to long-term as well as the sustainability transformation of society as a whole.



Management of Our Stewardship Activities

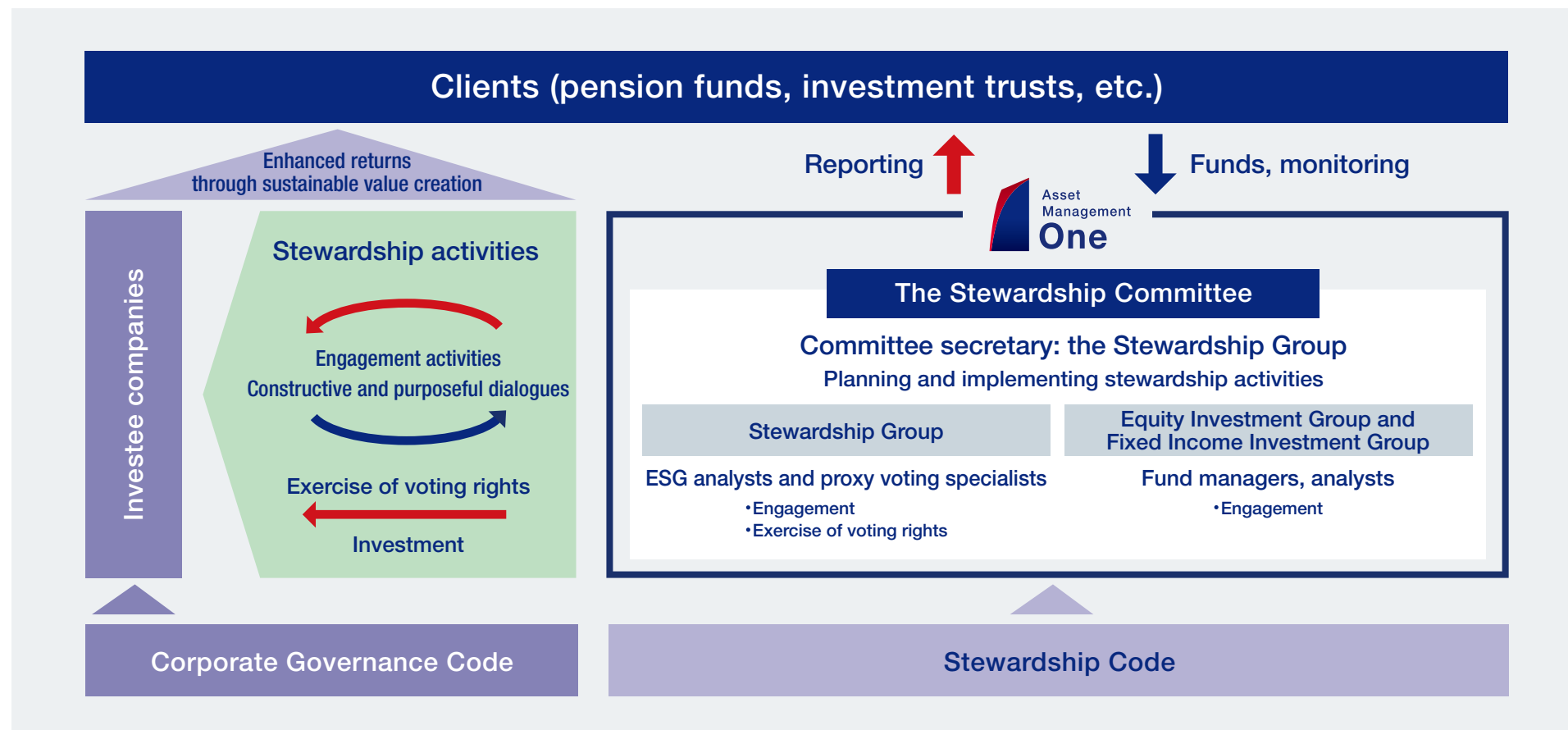
The Stewardship Group plans and implements stewardship activities, including developing the engagement plans, conducting engagement dialogues and producing the Proxy Voting Guidelines. In practice, ESG analysts and proxy voting specialists of the Stewardship Group are working closely with the analysts and fund managers of the Equity Investment Group and Fixed Income Investment Group in conducting stewardship activities, in the process of both

engagement activities and the exercise of voting rights.

Most of the ESG specialists at the Stewardship Group have extended investment experience and financial expertise as a former equity analyst or fund manager. As such, at Asset Management One we are able to use a holistic approach in engaging with investee companies, with the aim of achieving value creation in the medium- to long-term, through more effective communication and collaboration between the

specialists of the Stewardship Group who have in-depth knowledge and insights of material ESG issues and the analysts and fund managers of the Equity Investment Group and Fixed Income Investment Group.

Details of our stewardship activities are regularly reported to the Stewardship Committee, chaired by the Head of the Investment Division, which serves as an internal management committee.



Asset Management One's Engagement Approach

Asset Management One considers engagement with investee companies as an important mechanism for achieving value creation in the medium- to long-term and realizing a sustainable society and economy, and also increased individual wellbeing. Our engagement with investee companies focuses on corporate value creation through solving key societal challenges. We identified three focus areas, with an emphasis on unlocking business opportunities and enhancing returns, not just for managing downside risks. This basic perspective is applied universally across assets managed in-house.

Also, we focus on the effectiveness of engagement that brings real changes to investee companies. Further to having active dialogues with investee companies, we have also been working collaboratively with other global investors

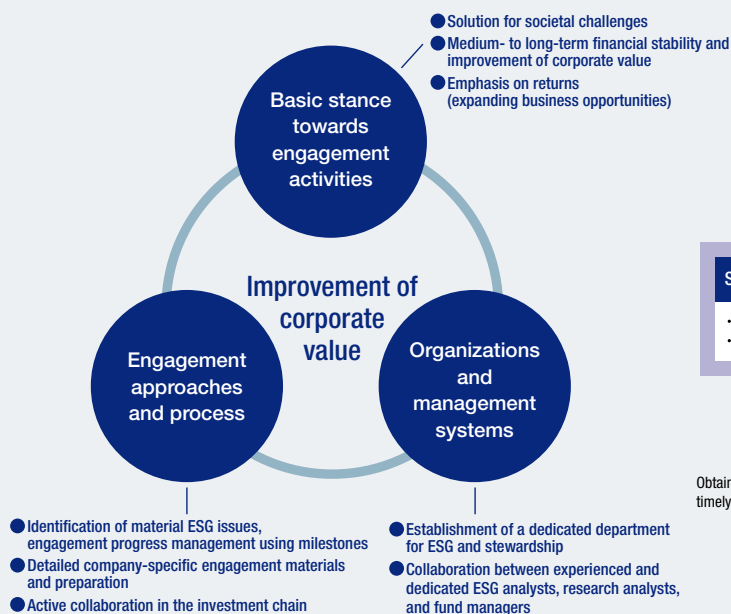
as needed and engaging with a wide range of stakeholders such as industry associations and government agencies, etc. We aim to drive positive changes effectively, based on the individual circumstances of each company, by reflecting our qualitative insights and the progress of engagement on ESG-related issues in the exercise of voting rights.

There are different aspects in terms of actual engagement activities by asset class (equities and bonds, etc.), the strategy (passive or active), or the region (Japan or overseas). Please refer to our engagement examples for details (a list of examples can be found bottom right).

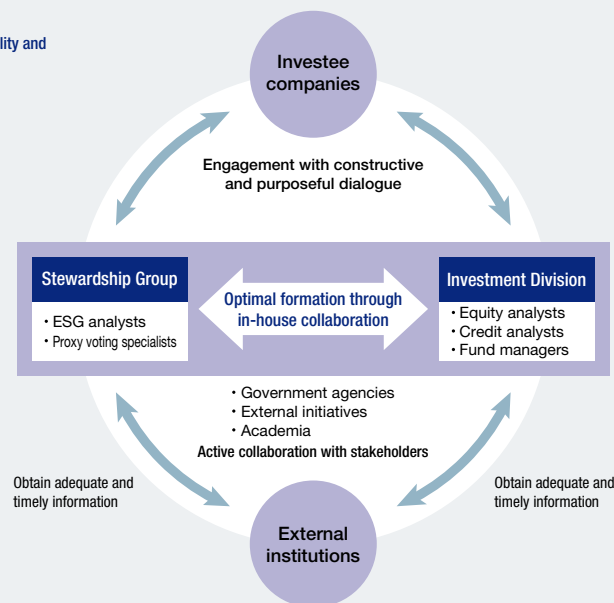
At our firm, engagement for passive equity strategies is carried out primarily by ESG analysts of the Stewardship Group, while the sector analysts and fund managers of the Equity Investment Group mainly conduct engagement

activities for active equity strategies and credit analysts and fund managers are primarily responsible for engagement relating to fixed income investment. Meanwhile, depending on the key issues of each investee company, our teams also work together across different asset classes and strategies where relevant, in order to optimize the effectiveness of our engagement. In implementing our engagement approach in the ex-Japan markets, we have a dedicated ESG and stewardship specialist based in London, working collaboratively with investment teams in Japan and other global offices. Furthermore, we also appointed a leading engagement service provider (EOS at Federated Hermes, please see page 37 for more details) for extensive engagement activities on behalf of us outside our home market in Japan.

■ Implementing engagement activities for value creation



■ Optimizing the effectiveness of engagement dialogues



■ List of examples introduced in this report

Engagement with Japanese companies (equities)

- Wholesale company A P.32
- Food company B P.33
- Real estate company C P.34
- Manufacturing company D P.35

Engagement with Japanese companies (fixed income)

- Electric power company E P.36

Engagement with overseas companies

- Mining company F P.38



Asset Management One's Exercise of Voting Rights (Towards Improvement of Capital Efficiency)

Along with its engagement activities, Asset Management One also places importance on the exercise of voting rights as part of its stewardship activities. We consider voting as a vital right for shareholders, as well as an important tool to advance dialogue with investee companies.

Here, we explain Asset Management One's approach and efforts towards improving capital efficiency of investee companies in Japan, published in September 2023.

In our stewardship activities, including constructive engagement dialogue with Japanese companies and the exercise of voting rights, we regard business portfolio management and capital allocation practice as one of the most important issues. We have been actively engaging with investee companies in this regard. We believe that, in order to achieve sustainability of society and corporate value creation, companies have a key role to play through providing beneficial products and services and efficiently utilizing their assets and capital. It is essential for companies to optimize capital allocation for improvement in balance sheet management and returns to shareholders, and as a result, to contribute to the wider economy and society.

Specifically, we have set a number of KPIs, including the expected level of ROE, etc., in our Proxy Voting Guidelines and Criteria for Decisions on each voting item for Japanese equities. In terms of appropriation of retained earnings and cross-shareholdings, we have also set specified criteria from the perspectives of returning to shareholders and wider society, capital efficiency, and corporate governance.

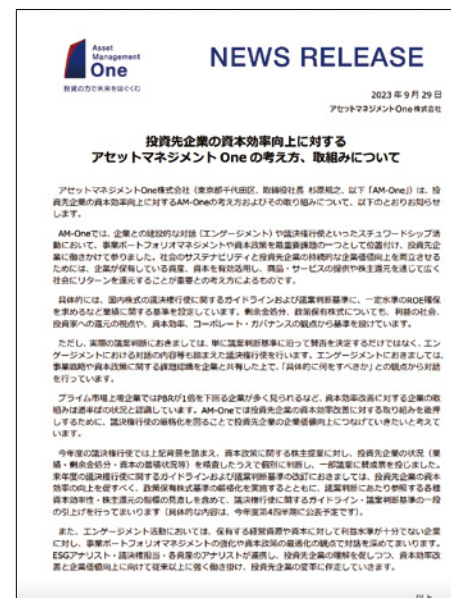
However, in making actual voting decisions on proposals, we are not simply following the general guidelines and criteria, but also take into consideration the individual circumstances and progress of companies based on the development of our engagement dialogues.

We think there is still a significant room for Japanese companies to improve capital efficiency, given that many companies listed on the Prime Market have a PBR below 1. To encourage a greater effort to improve capital efficiency more effectively, we plan to continue

refining the related voting criteria and enhancing our voting actions with the aim of achieving sustainable value creation together with our investee companies.

In our most recent exercise of voting rights on shareholder proposals relating to capital policies, we have carefully examined the requests and assessed the individual situations of each company (including the business performance, appropriation of retained earnings, capital accumulation, etc.) and as a result, we decided to vote in favor of some of the shareholder proposals. For future reviews and updates, we will continue to enhance the guidelines and criteria for decisions on each voting item, including strengthening various performance indicators for capital efficiency and shareholder returns, and also raising the voting standard relating to cross-shareholdings, to seek further improvement of capital efficiency at investee companies.

At our firm, the proxy voting specialists, ESG analysts, and financial analysts for each asset class will continue to collaborate in helping Japanese companies to have a deeper understanding of investors' expectations. We are strongly committed to working with investee companies in the journey of their transformation where needed, towards improving capital efficiency and creating sustainable value.



List of examples of our voting activities

Exercise of voting rights for Japanese companies

- Precision equipment company A P.42
- Financial company B P.42
- Financial company C P.43
- Service company D P.44

Exercise of voting rights for overseas companies

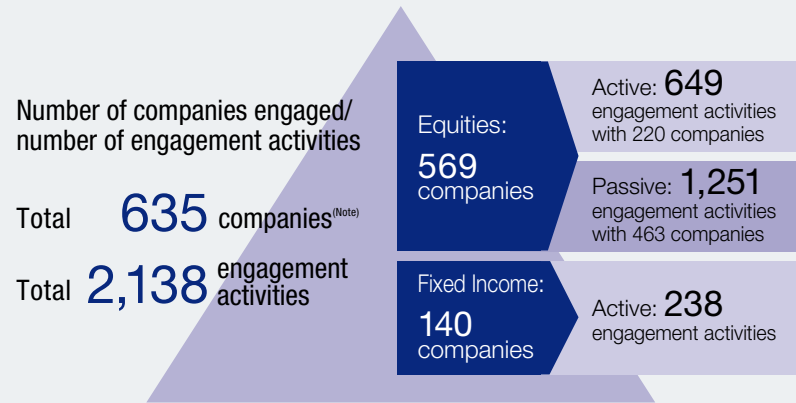
- Major energy company E P.46

Engagement Activities with Japanese Companies

Engagement data

■ Status of engagement initiatives (2022/7–2023/6)

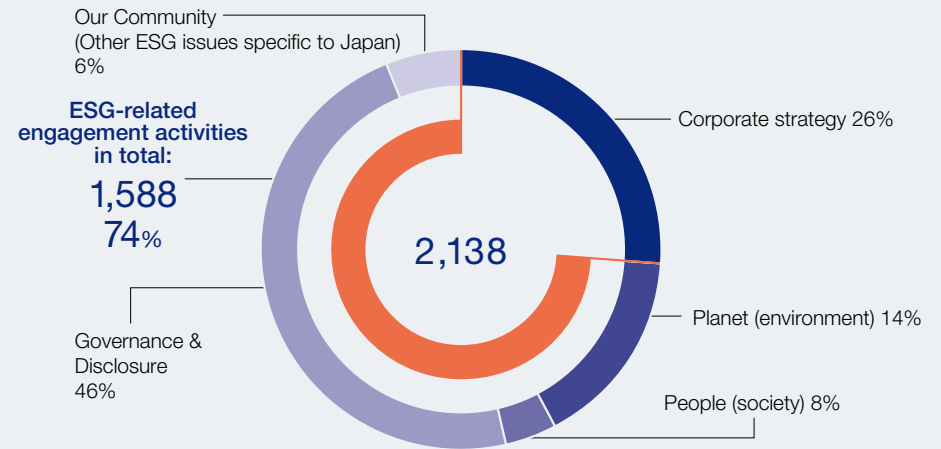
Asset Management One has extensively engaged with Japanese companies which represent more than 80% of the TOPIX market cap, for both passive and active investment strategies.



Note: total number of companies engaged excluding duplicates

■ Engagement by theme

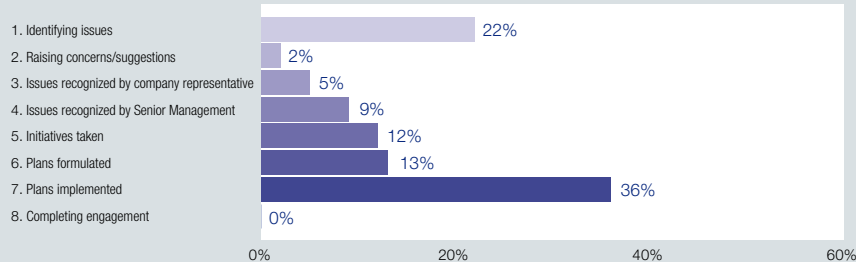
We have identified 21 issues, including 18 relating to ESG topics, on which to engage with companies (please see page 30 for the breakdown of engagement issues). ESG-related topics account for 74% of all engagement activities.



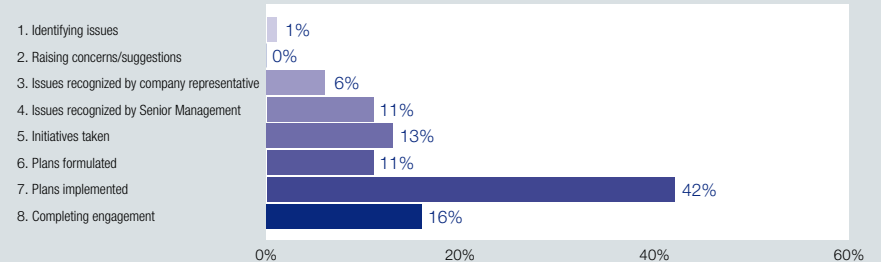
■ Progress of our engagement

We use eight milestones to monitor and manage the progress of engagement activities (please see page 30 for details). Steady progress was achieved in the last fiscal year across all engagement activities. In particular, we have advanced significantly the engagement around sustainability management and climate change.

Milestones at the beginning of April 2022 (including additions during the period)



Milestones at the end of March 2023



Engagement process for Japanese equities

Enhanced effectiveness of engagement activities

Asset Management One selects priority engagement target companies from a perspective of active and passive strategies respectively. We conduct engagement activities on material issues identified for each investee company. Based on our engagement plan made at the beginning of the fiscal year, we are applying a PDCA (plan-do-check-act) cycle in a disciplined manner to continuously enhance the effectiveness of our engagement activities, with the aim of leading to value creation by investee companies and as a result, better performance of our investment for clients.

Plan

Selection of priority engagement companies and identification of material issues

<div style="background-color: #003366; color: white; padding: 5px; border-radius: 5px 5px 0 0; margin-bottom: 5px;">Passive strategy</div> <p>Priority engagement companies: 201</p> <ul style="list-style-type: none"> ● Selection criteria 1 (Promote and strengthen ESG initiatives) <ul style="list-style-type: none"> A. Promoting ESG: ripple effects expected from companies with advanced ESG initiatives and major companies in the sector B. Strengthening ESG: companies with significant issues in ESG practice ● Selection criteria 2 (ESG themes) <ul style="list-style-type: none"> Identify issues with particularly high priority currently among ESG issues and select companies with high impact (influence) on those issues 	<div style="background-color: #003366; color: white; padding: 5px; border-radius: 5px 5px 0 0; margin-bottom: 5px;">Active strategy</div> <p>Priority engagement companies: 138</p> <ul style="list-style-type: none"> ● Selection criteria <ul style="list-style-type: none"> Select targets based on company-specific issues and the expected impact on corporate value when the issues are improved or resolved
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To enhance value creation of investee companies

<ul style="list-style-type: none"> ● Aimed outcome: to improve the overall market performance (with 68.4% of TOPIX market cap covered by our priority engagement companies) 	<ul style="list-style-type: none"> ● Aimed outcome: to achieve alpha generation, using the active engagement approach to unlock value
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<h3>Action</h3> <ul style="list-style-type: none"> ● Continuous improvement for ESG initiatives based on critical feedback from internal and external stakeholders ● Exercise of voting rights to reflect engagement progress ● Conduct self-evaluation and incorporate it into engagement planning for the subsequent years 	<h3>Check</h3> <ul style="list-style-type: none"> ● Management of engagement progress with milestones ● Regular sharing (weekly, monthly, etc.) of information on engagement activities ● Regular reporting to the Stewardship Committee 	<h3>Do</h3> <ul style="list-style-type: none"> ● Engagement activity with investee companies ● Prepare proprietary dialogue materials and hold study sessions for senior executives on request of investee companies ● Active collaboration in the investment chain and with industry associations, government policy makers and academia
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Management of engagement progress with eight milestones

In practice, our engagement activity begins by identifying and presenting the most relevant and material issues for each company (from a total of 21 issues, including 18 ESG-related issues, in our engagement program).

All our interactions and dialogues with investee companies are kept on record so that we can make detailed assessment and reflect on our actions in the process. By using the eight milestones to monitor and manage the progress of each engagement, we aim to make our engagement activities and outcomes more visible as well as to further enhance the effectiveness of engagement.

Plan

Identify material engagement issues of each investee company

Nine core materiality issues

Corporate strategy	<ul style="list-style-type: none"> <li style="width: 33%;">● Corporate strategy <li style="width: 33%;">● Business performance <li style="width: 33%;">● Capital structure / financing strategy
Planet	<ul style="list-style-type: none"> <li style="width: 33%;">● Climate change <li style="width: 33%;">● Biodiversity <li style="width: 33%;">● Water resources <li style="width: 33%;">● Circular economy <li style="width: 33%;">● Air, water and land pollution <li style="width: 33%;">● Sustainable food system
People	<ul style="list-style-type: none"> <li style="width: 33%;">● Diversity, equity and inclusion <li style="width: 33%;">● Business and human rights <li style="width: 33%;">● Health and wellbeing
Governance & Disclosure	<ul style="list-style-type: none"> <li style="width: 33%;">● Board of Directors, corporate governance <li style="width: 33%;">● Capital efficiency <li style="width: 33%;">● Takeover defense measures <li style="width: 33%;">● Risk management <li style="width: 33%;">● Sustainability management <li style="width: 33%;">● Business ethics <li style="width: 33%;">● Supply chain management
Our Community	<ul style="list-style-type: none"> <li style="width: 33%;">● Revitalization of rural area and community <li style="width: 33%;">● Digital transformation

Check

Meticulous management with eight milestones

Towards concrete outcomes

8	Completing engagement	We confirm the company's effective actions and positive outcome
7	Plans implemented	The company implements the plan set out for solutions
6	Plans formulated	The company establishes a concrete plan for solving the issues
5	Initiatives taken	The company takes initial steps to improve/tackle the issues
4	Issues recognized by Senior Management	The issues are recognized by senior management of the company
3	Issues recognized by company representative	The company recognizes the issues raised by us
2	Raising concerns/suggestions	We raise concerns or make suggestions to the company
1	Identifying issues	We identify and set out key issues relevant to the company



Engagement overview for Japanese equities

In Asset Management One's engagement activities with investee companies, we place emphasis on making a more convincing narrative of value creation for each company on how to link solutions for environmental and social issues to the improvement in corporate value. Amid great change in the business environment, we consider our initiatives for "aimed outcomes" and for the "materiality" for achieving them to be the key when working to raise the level of confidence regarding the future improvement of corporate value for investee companies. In engagement activities with senior management, we ask what we consider to be the ultimate question as a long-term investor, namely, "Will your company be shining in 10 years, 30 years and 50 years from now?" Generally, the response is something like, "We will still exist, but we can't get there without making changes." Such replies raise questions, "What exactly cannot continue as it currently is?" or "What needs to be done in their thoughts?" These discussions are exactly important points for engagement. We are deepening discussions about true materiality and what is needed right now for the improvement of corporate value, by encouraging companies to clarify their long-term ideals/vision, and backcasting from aimed outcomes in the future.

Our unique approach to engagement activity

Focus on convincing narrative of value creation

Keys to making a narrative of value creation more convincing

- Ability to identify key issues and strategic foresight of management as preconditions for creating value
- Sustainability of value creation process and priorities related to materiality
- Consistency and coherence of financial and non-financial operations in support of actual value creation

Essential to communicate these in the integrated report, etc., as a basis for dialogue between companies and investors

Identify true materiality

Risk return perspective and crucial considerations

Return perspective

Whether solutions to societal issues are utilized as income-generating opportunities for the company, and whether they are linked to creating corporate value and creating markets.

Two sides of the same coin

Risk perspective

What factors are recognized from an ESG perspective that could hinder the company's sustained growth, and what countermeasures are being taken to address them.

Crucial considerations

- Are ESG activities positioned at the heart of business strategy and management?
- Are ESG activities regarded as investments for sustainable growth?
- Are ESG activities being implemented proactively to tackle new challenges?

To improve effectiveness of engagement

Share our issue recognition using detailed proprietary materials

It is important to share understanding and awareness of ESG issues for actual engagement. We prepare detailed proprietary materials analyzing non-financial information of investee companies and conduct advanced, constructive dialogues.

Contribution to improved corporate value

We can provide a new perspective for investee companies by deepening discussions about materiality, raise awareness of latent issues hidden in the company, and support forward-looking initiatives to improve corporate value.

New perspective

Awareness of issues becoming tangible

Latent

Awareness of issues or problems latent in the company

Dialogues with Asset Management One

Actual

Recognition as an issue for value creation

Makes sense!



Our engagement activity – examples for Japanese equity passive strategies

In engagement activities for Japanese equity passive investment, Asset Management One strives to contribute to the improved corporate value of investee companies and raising the entire equity market value through dialogues from a medium- to long-term perspective.

In addition to the three focus areas and nine core materiality items, the firm proactively conducts engagement activities related to governance and Japan specific issues. (See page 11)

The following are examples of dialogues about climate change, diversity, equity and inclusion (DE&I), and capital efficiency, areas where more actions are needed from Japanese companies.

Case1

Engagement Case Study (Wholesale Company A)

Dialogue including feedback on voting results to achieve further enhanced disclosures and strengthened initiatives

Issue

Climate change

Aimed outcomes

To have effective initiatives towards maintaining and improving medium- to long-term corporate value, appropriately covering such points as its commitment to achieving net zero GHG emissions by 2050, target setting, disclosures, and strategies to achieve the targets.

Counterparty and dialogue format

Wholesale company A, video conference

Milestones

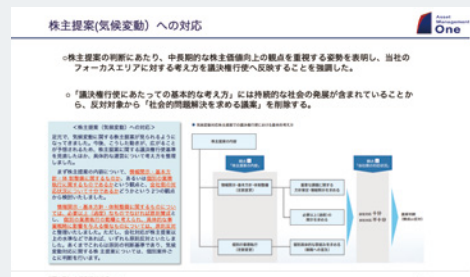
- 8 **Completing engagement**
- 7 **Plans implemented**
- 6 Plans formulated
- 5 Initiatives taken
- 4 Issues recognized by Senior Management
- 3 Issues recognized by company representative
- 2 Raising concerns/suggestions
- 1 Identifying issues

Issue

[Issues of target company]

In addition to the disclosure of GHG emissions throughout the supply chain that has also been pointed out in shareholder proposals, to improve its corporate value, we believe the company needs to further strengthen its appeals through the reduction of climate change risks and energy transformation strategies, such as the sophistication of the 1.5°C scenario analysis and disclosure of financial impacts in line with addressing the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD).

Example of materials used in dialogue



Presented our firm's response policy as an investor to climate change-related shareholder proposals and materials to encourage stronger efforts, including information disclosure

Action

[Dialogue counterparty]

Head of IR, head of sustainability and CSR

[Dialogue content]

Since 2020, we have continuously conducted engagement activities not only in climate change, but also in supply chain management and capital efficiency, etc.

Since the previous dialogue, we have confirmed steady progress in climate change response, such as disclosure of GHG emissions during the use of sold products (Scope 3, Category 11) under the GHG Protocol, advancement of the 1.5°C scenario analysis, and the establishment of internal mechanisms to promote decarbonization and resilience of the business portfolio.

Meanwhile, concerning the 1.5°C scenario analysis, while reconfirming the differences between the general awareness and the company's awareness / initiative guidelines in terms of the business environment relating to natural gas, we conducted broad-ranging dialogue on financial impact disclosure in conformity with TCFD and the steps to be taken going forward.

Next steps

Going forward, our policy is to encourage the company to further strengthen appeals for improvement of corporate value through an energy transformation strategy and risk reduction.

Outcome

[Status of dialogue achievement]

We confirmed the company's industry-first disclosure of Scope 3, Category 11, and its alignment with the company's business strategy, in addition to the setting of 2050 carbon neutrality target, an interim milestone for 2030, and the advancement of the 1.5°C scenario. Furthermore, we received the following response from the company: "Going forward, we will actively communicate information regarding the reduction of Scope 3, Category 11 emissions and our EX strategy."

[Features and strengths of our engagement activity]

We have been establishing a relationship of trust with the company through continued dialogue on matters such as climate change response, and we have also intensified dialogue involving proxy voting specialists by taking shareholder proposals as an opportunity. We have achieved further enhanced disclosure and intensified efforts of the company through communication regarding climate change response for sustainable improvement of corporate value based on a global perspective.



Case2

Engagement Case Study (Food Company B)

Dialogue with top management has accelerated efforts to promote female advancement

Issue

Diversity, equity and inclusion

Aimed outcomes

Initiatives for human capital management centered on diversity, equity and inclusion are effectively linked to maintenance and improvement of corporate value through acquisition of skilled human resources, utilization of diverse human resources, and innovation.

Counterparty and dialogue format

Food company B, video conference

Milestones

- 8 **Completing engagement**
- 7 **Plans implemented**
- 6 Plans formulated
- 5 Initiatives taken
- 4 Issues recognized by Senior Management
- 3 Issues recognized by company representative
- 2 Raising concerns/suggestions
- 1 Identifying issues

Issue

[Issues of target company]

Japan faces intensifying global competition, an acceleration of industrial structural changes, diversification of values, and the rapidly progressing low birth rate/aging population issue. In Japan, many companies have issues with utilizing female and foreign workers, and the delays in initiatives will directly cause damage to corporate value.

Progressive initiatives for diversity, equity and inclusion can increase the likelihood of the company maintaining and improving sustainable corporate value and improving productivity of the company and employees through innovation and acquisition of skilled human resources.

In particular, although company B has aspired to be a global leading company in the beverage industry, its percentage of female managers was at the lowest level in the industry until a few years ago, and it was facing issues of substantially low awareness and efforts to promote female advancement.

Action

[Dialogue counterparty]

President & CEO, vice president, and director and head of administration division

[Dialogue content]

We have continuously conducted engagement activities related to issues such as water resources and sustainability management since 2018. Regarding diversity, equity and inclusion, we have been conducting dialogue since 2020.

In a dialogue with the director and head of administration division, we sensed a lack of awareness regarding the company's diversity, equity and inclusion issues. As such, we subsequently pointed out the delay in the company's efforts in the dialogue with top management (president and vice president), using materials such as trends in the whole economy and comparative tables of the percentage of female managers with other companies in the same industry. We engaged in dialogue on the necessity to accelerate efforts in their aspiration to be a global leading company.

Furthermore, we have been discussing not only formal goal setting but also concrete measures that link diversity to improvement of corporate value in the course of improved efforts by company B.

Outcome

[Status of dialogue achievement]

The company responded "Regarding the promotion of female advancement, traditional measures such as awareness raising and training are not sufficient. As such, we will develop leaders by increasing types of jobs where women can excel, centered on planning and research departments. We are utilizing an internal proposal system to incorporate the perspectives of women and connect them to marketing activities."

At the same time as reviewing materiality, the company has clarified its targets for the percentage of female managers in promoting female advancement, and also newly set targets regarding the gender pay gap.

[Features and strengths of our engagement activity]

In this case, under a relationship of trust with top management cultivated through years of dialogue, we were successful in sharing an awareness of issues based on the relevance of the company's long-term vision, in addition to conveying social trends and the trends of other companies in the industry through the materials we prepared.

Example of materials used in dialogue

ダイバーシティ (女性活躍推進) の取組み

経理速報表「新成長戦略」(2020年11月17日)

(3) 多岐な人々の活躍促進

1層で述べたように、サステイナブルな資本主義実現のめざすは多様性の包摂と協働であり、企業には多様な人材の価値競争力を最大限引き出す環境の整備が求められる。

政府は2020年までに国際的地位に匹敵する女性の比率を少なくとも30%程度とする目標を掲げたが、事業に即した、企業内環境、社会全体において男性と同等の機会に恵まれない状況が依然として、女性の人口比率の低からして、国際的地位に匹敵する女性の比率を30%程度となるのが自然の帰結である。そのような社会の実現という理想を掲げることが重要であり、その達成に向けた意識向上が急務である。本報を機に意識するべきである。

企業は国際的な多様性、平等の性別平等意識、言語、国籍、障がいや年齢の多様性を積極的に推進する。そのメルクマールとして、取締役会における女性や外国人材、中途採用者の比率の拡大を図る。具体的な目標として、2030年までに役員（会社法における取締役）に準ずる執行役員またはそれに準ずる取締役数を合わせ、50%の女性比率を30%以上に引き上げることも目指す。

食品・飲料会社の女性管理職比率

業種別	% (前年比)
食品	2.0%
飲料	3.0%
製菓	4.0%
製乳	5.0%
製粉	11.0%
製糖	3.0%
製油	15.0%
製塩	10.0%

※前年、前年同様に記載

多岐の職域の内訳

業種別	業種別	業種別
人事・福利厚生	働き方改革推進センターの設置	
経営者の権限・責任	取締役会、常務取締役会、取締役会の多様性	
人材育成	多岐な職域への参画、女性活躍推進部、女性活躍推進部	
	人材の確保と活躍促進、人材育成	
	障がい者雇用の推進	
	多岐な職域への参画、女性の活躍推進	
	障がい者雇用の推進	

重点課題されているものの、具体的な目標の提示及び進捗の開示等、業界リーダーとして取組みを加速させる必要あり。

We shared awareness of issues based on the relevance to company B's long-term vision while presenting social trends and trends of competitors

Next steps

We plan to continue dialogue not only regarding the effectiveness of measures for promoting female advancement, but also about the challenges of attracting overseas human resources and developing and securing global human resources, which are essential in aiming to be a global leading company.



Case3

Engagement Case Study (Real Estate Company C)

Achieved setting of numerical targets for cross-shareholdings through dialogue with top management

Issue

Capital efficiency

Aimed outcomes

In order to achieve ROE that exceeds the cost of capital, there are effective initiatives conducted for capital efficiency improvements such as the reduction of cross-shareholdings, optimization of the level of capital, and business portfolio restructuring.

Counterparty and dialogue format

Real estate company C, site visit

Milestones

- 8 Completing engagement
- 7 Plans implemented
- 6 Plans formulated
- 5 Initiatives taken
- 4 Issues recognized by Senior Management
- 3 Issues recognized by company representative
- 2 Raising concerns/suggestions
- 1 Identifying issues

Issue

[Issues of target company]

Company C's business strategy using cross-shareholdings has produced a certain level of financial results, and it appears to benefit company C, its business partners, and shareholders. However, we believe the strategy not only hinders the improvement of capital efficiency of company C and the companies it holds shares in, but also poses a high risk of dysfunctional governance by making the exercise of voting rights function as a mere formality. Therefore, we consider it necessary to encourage an early reduction of cross-shareholdings.

Action

[Dialogue counterparty]

Representative director and vice president

[Dialogue content]

Since 2020, we have continuously conducted engagement activities not only on capital efficiency, but also on anti-takeover measures and the Board of Directors and corporate governance, etc.

Although a reduction target was announced, we communicated our view that achieving the target with the current reduction pace seems difficult, and urged further strengthening of reduction efforts.

The company responded, "Including the sale of cross-shareholdings that are no longer needed for business development, we are addressing the curbing of the ratio of cross-shareholdings to shareholders' equity to no more than 10% by FY2030 as a must-achieve target. Although progress may not go exactly as planned, we intend to aim for the achievement of this target while carefully checking on the progress. However, at this time, we have not made any changes to our existing method of building favorable relationships with companies that are important in conducting our business through the use of cross-shareholdings."

Outcome

[Status of dialogue achievement]

As a result of continuous engagement activities with top management, we were able to draw out the setting and announcement of a numerical target in the company's ninth medium-term management plan, to reduce the ratio of book value of cross-shareholdings to shareholders' equity to no more than 10% by FY2030. We were also able to confirm the company's commitment towards achieving this target.

[Features and strengths of our engagement activity]

In this case, we have built a relationship of trust with management through engagement activities based on detailed materials on various issues over the years.

We believe our success in this issue was due to persistent dialogue while presenting the direction for revising the criteria for exercising voting rights, conducted in collaboration between proxy voting specialists and ESG analysts.

Example of materials used in dialogue

ライド1 ～ 建設会社による不動産株の買い増し推移と主な受注 ～

資料: 株式会社建設会社「2020年中期経営報告書」P.100～102

Presented a comparative table showing the trend of additional purchases of real estate stocks by a construction company and the main orders received, for the purpose of assessing the impact of business development using cross-shareholdings on market discipline and capital efficiency

Next steps

We plan to continue persistent dialogue since there has been no improvement in the method of relationship building itself using cross-shareholdings.



Case 4

Engagement Case Study (Manufacturing Company D)

Constructive dialogue encourages company in business structure reforms

Dialogue issue
Corporate strategy (general management)

Dialogue format
Interviews (1-on-1)

Milestones

- 8 Completing engagement
- 7 Plans implemented
- 6 Plans formulated
- 5 Initiatives taken
- 4 Issues recognized by Senior Management
- 3 Issues recognized by company representative
- 2 Raising concerns/suggestions
- 1 Identifying issues

Issue

[Issues of target company]

Although the company's recent performance has been strong, concerns have been raised about the decline in capital efficiency over the medium term due to the dispersion of management resources across various business domains, as well as holding unprofitable products and mature businesses. As a result, the market's valuation of the company's performance has remained sluggish.

We believe it is necessary to concentrate on selected businesses to improve profitability and focus management resources on growth areas for eliminating the discount in valuation.

Action

[Dialogue counterparty]

President & CEO, representative director and senior managing executive officer, and head of corporate planning department

[Dialogue content]

We strived to share awareness of issues with the president, explaining the concerns investors have about company D's business prospects and reasons for a weak stock price, including examples from other companies in the same industry.

In addition, from the perspective of information disclosure, we emphasized the importance of presenting a medium- to long-term vision and setting appropriate KPIs to clearly communicate growth potential and capital efficiency improvement measures to investors. The company responded favorably, stating "We received valuable insights, and we intend to consider them."

Outcome

[Status of dialogue achievement]

The company initiated selection and concentration of its business, and decided to withdraw from some unprofitable products. In addition, the roadmap for the business structure reform of mature businesses was announced at the financial results briefing.

With company D's direction becoming more concrete, expectations for structural reform progress have increased, and the market valuation is gradually improving.

[Features and strengths of our engagement activity]

In this case, we started engagement activities in 2017 and have exchanged opinions on various issues. We have also conducted 1-on-1 engagements with top management two times over the past year.

Based on a long-term market analysis, we identified environmental changes and challenges surrounding the company and presented ideas for solutions from the perspective of investors. We believe that continuous constructive dialogue has led to the building of trust and positive outcomes.

■ Stock research perspectives, approaches, convictions

- Understanding essential issues based on bottom-up research**

Fully exploiting long- and short-term financial and non-financial analysis, competitive situation analysis, etc. to accurately pinpoint corporate issues.
- Medium- to long-term approach using cross-industry and ESG-based themes research**

Providing companies with new perspectives by combining cross-industry themed analysis and ESG perspectives.
- Convinced of the effectiveness of dialogue through trust-building with companies**

Increase effectiveness in a wide range of areas by gaining trust as "an investor who knows the company well."



Toshihiro Shimizu
Machinery Sector Analyst
Equity Investment Group
Investment Division

Next steps

With a framework for business structure reform being presented, the transition to the execution phase of measures is expected, going forward. We will continue dialogue to promote positive changes for further improvement in market valuation.

Our engagement activity – examples for Japanese fixed income active strategies

In fixed income active management, we conduct dialogue and engagement activities with companies about their efforts towards ESG issues identified through our unique ESG credit score, which could potentially lead to future risks, as well as financial strategies, bond-issuing policies, downside risks, etc. from fixed income-specific perspectives.

Unlike equity investment, fixed-income investments do not offer any direct voting rights. However, recently, as new fixed income markets such as ESG bonds and hybrid bonds expand, opportunities for dialogue with issuing companies are increasing. As a leading active credit investor in Japan, we strive to utilize our presence to accurately convey investor feedback to issuers.

Case5

Engagement Case Study (Electric Power Company E)

Confirmed specific efforts for carbon neutrality by an electric power company and the effect on its financial performance

Dialogue issue
Efforts toward carbon neutrality

Dialogue format
Interview and facility visit



Issue

[Issues of target company]

While power companies play a very important social role in supplying electricity, they face the challenge of shifting from fossil fuels that emit CO₂ to clean energy that does not emit CO₂ in power generation, as part of achieving a carbon-neutral society by 2050. However, the current situation still heavily relies on fossil fuels, which poses a significant transition risk.

In addition, because power companies heavily rely on corporate bonds in their interest-bearing debts, we conduct engagement activities with them to understand their initiatives and roadmaps for CO₂ reduction and encourage gradual CO₂ emission reductions while maintaining financial soundness to avoid worsening current creditworthiness towards carbon neutrality by 2050.

Action

[Dialogue counterparty]

Head of finance department, IR representatives and head of thermal power plants, etc.

[Dialogue content]

In addition to conducting two engagement activities over the past year, we recently conducted a facility visit and held a dialogue regarding the progress of a demonstration experiment on ammonia co-firing in a coal-fired thermal power plant, which is one of the uses of funds for transition bonds we invested in.

Regarding the co-firing of ammonia in coal-fired thermal power generation, we communicated concerns about the need for excessive investment and worsening finances due to the shift to clean energy during the transition period to carbon neutrality. However, it has been confirmed that co-firing can be achieved by replacing burners in existing coal-fired thermal power plants, and with the availability of subsidies from NEDO, the capital investment required remains limited, allowing for the reduction of CO₂ emissions without imposing a large financial burden.

Going forward, the company is committed to a plan of gradually increasing the ratio of ammonia co-firing and eventually transitioning to exclusive ammonia firing, and working on creating a market for fuel ammonia, which does not currently exist.

Outcome

[Status of dialogue achievement]

Through dialogue and facility visits, we confirmed that the roadmap for CO₂ emission reduction toward carbon neutrality by 2050 is progressing as planned.

Next steps

[Direction of future response]

Although various initiatives are underway toward carbon neutrality, most are still in the research and development or demonstration experiment stage and are expected to take time before they are commercially viable.

Going forward, in addition to monitoring the progress of CO₂ emission reduction, we plan to continuously monitor and engage in dialogue regarding the progress of commercialization of these initiatives and the status of financial balance.



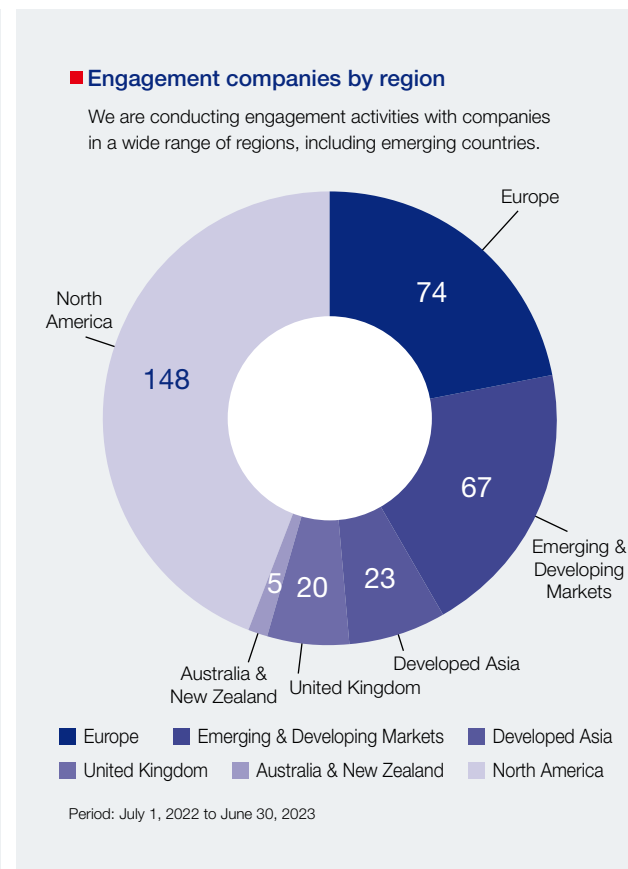
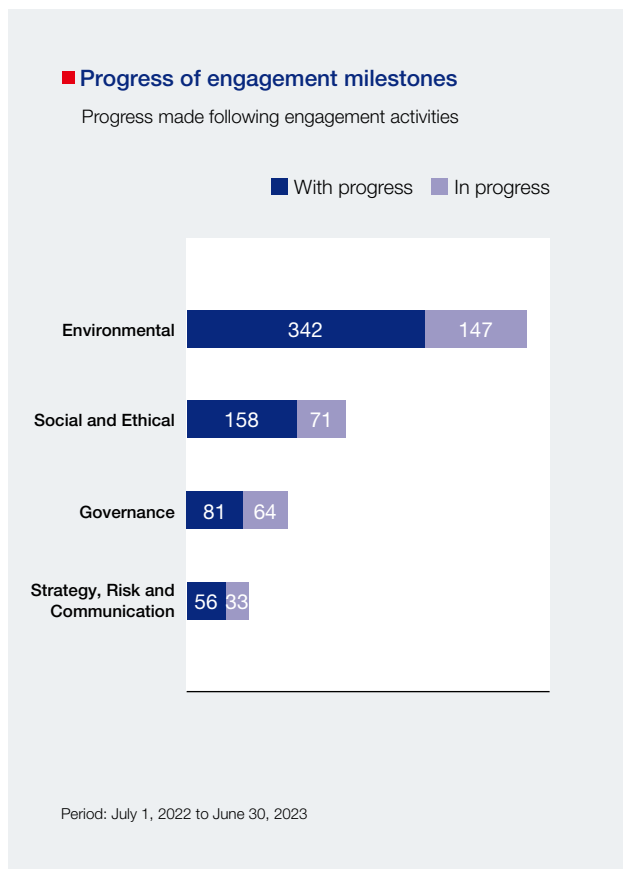
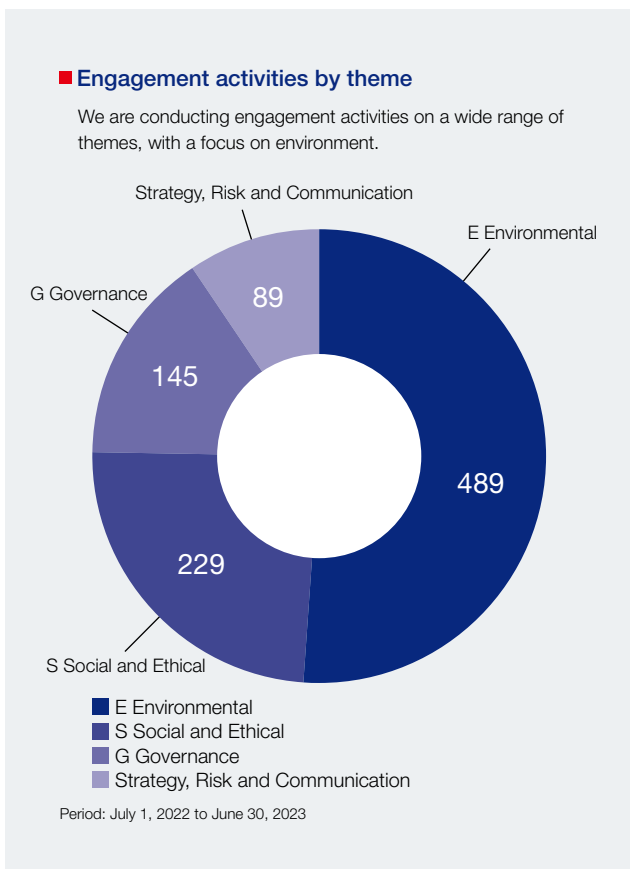
Engagement Activities with Overseas Companies

Asset Management One has a dedicated responsible investment and stewardship specialist based in our London office (Asset Management One International), who specializes in conducting ESG-related research globally and engagement activities with companies outside Japan. Having a UK based specialist with extensive experience in the ESG and stewardship area, who is working closely with our ESG analysts and the investment teams in both Tokyo and New York, is one of our intentional efforts to be a major

Japanese asset manager at the forefront of the region where is a pioneer of stewardship activities and ESG investment. We believe this has also enabled us to work more closely and collaboratively with other global investors, with an aim of solving societal challenges and achieving sustainable value creation from a global perspective.

In addition, we have partnered with a global leading stewardship service provider EOS at Federated Hermes (“EOS”). On behalf of our firm, EOS engages with our

investee companies in ex-Japan global markets. We are closely monitoring and proactively participating in EOS’ s engagement activities through providing detailed feedback to its annual client survey on engagement plans and focus areas, and joining its engagement meetings with some of the investee companies as well. More details regarding how we monitor and hold the service providers accountable are also explained on pages 46 and 61 in this report.



Case 6

Engagement Case Study with an Overseas Company (Mining Company F)

Combining collaborative and individual engagement activities leading to better disclosures and more proactive dialogue

Issue

Sustainability management
Risk management
Health and wellbeing
Air, water and land pollution

Identification of material issues

The company is facing substantial challenges in managing various environmental and social externalities.

We believe it is essential for the company to implement a holistic approach and effective practices of sustainable and responsible mining activities, leading to the long-term success and sustainable value creation for shareholders. We think there is also a significant need for the company to improve its disclosures and investor communication around its sustainability strategy and ESG-related initiatives.



Issue

[Issues of target company]

Mining company F (below, “company F”), headquartered in China, has transitioned from a pure gold producer to a globally diversified miner engaging in the exploration and development of a portfolio that includes copper, zinc, and lithium. The company has more than 48,000 employees and nearly half of them are employed overseas. It operates across multiple continents, focusing on green metal and mining investment projects in 16 countries. In particular, it is positioned among the top ten copper producers globally, which currently accounts for about 20% of the company’s gross revenue. As a critical and enabling material required for electrification infrastructure and green energy transition, the copper production of the company is expected to largely increase in the coming years.

Meanwhile, mining companies are facing major challenges in managing various environmental and social externalities. The key concerns were centered around labor conditions, local community relationship management, climate change and other adverse environmental and social impacts such as pollution, water stress and waste management. A holistic approach towards sustainable and responsible mining activities and the effective practices are essential for the company’s long-term success and sustainable value creation for shareholders. Furthermore, there is also a significant need for the company to improve disclosures and communication with investors around its sustainability strategy and ESG-related initiatives.

Action

[Dialogue content]

During this reporting period, Asset Management One had three direct engagement interactions with company F. Firstly, we joined collaborative engagement activities together with other investors since 2022, led by the ACGA (Asian Corporate Governance Association). Under this initiative, the investor group held two collective engagement dialogues with company F. The first meeting was with the investor relations and ESG specialists in the company, focusing on the following three issues.

- (1) Seeking improvement of environment-related disclosures
- (2) Encouraging the company to set KPIs for pollution and social indicators
- (3) Gaining reassurance about its labor management practices especially regarding health and safety of workers

Furthermore, this engagement evolved into another dialogue with senior management, to raise concerns and gain additional insights on its ESG activities in a broader context of the company’s growth strategy, progress and performance. We have actively participated in this investor group engagement, particularly seeking a further clarity about the company’s climate strategy, as well as its governance practices around sustainability matters including the role of the ESG Committee and its interaction with other key committees at the board level.

In June 2023, we also held a 1-on-1 engagement meeting with company F, at which we were able to have a more in-depth discussion about the company’s strategic thinking and execution planning for its climate goals of achieving carbon peak emissions by 2029 and carbon neutral by 2050. Company F plans to significantly improve its renewable energy mix to more than 30% of total by 2030, from the current 16.2%. We discussed in detail its action plans set out for each project, and questioned whether and how the company’s capital allocation decisions are reflecting the related projects respectively. In the 2022 ESG Report, it highlights that ESG and sustainability factors account for 20% of senior executives’ performance assessment for remuneration. We further encouraged the company to increase transparency of the KPIs and to explain how the selected metrics are well aligned with its strategic aims and performance over a relevant time horizon.

Outcome

[Status of dialogue achievement]

We are pleased to see a remarkable turnaround in company F’s communication with investors about ESG issues and the progress made in related disclosures over the past year. The company has newly appointed a dedicated ESG specialist, aiming to further enhance transparency and investor communication. Senior management also made a commitment to having direct engagement dialogue with investors in a more strategic and proactive manner. In late-January 2023, the company announced its 2023-2025 business plan and 2030 development target, along with an action program on climate change. The company announced its carbon targets for the first time and published the first TCFD report in China’s non-ferrous metal industry. In the latest 2022 ESG Report, the total number of indicators and data points being disclosed has increased by 16% compared to the previous year, demonstrating the company’s strategic planning and progress in implementing various ESG initiatives.

We believe the combined approach of collaboration with other investors and our individual engagement activities has proved to be most effective in this case. While sending influential joint messages together with other global investors in the collaborative engagement activities, we were also able to gain a deeper understanding and form qualitative and forward-looking views of the company’s approach through our individual dialogue.

To date, company F has received some lower ratings and scores from external ESG rating providers and has frequently been exposed to controversies associated with its mining operations. However, the engagement activities above have enabled us to gain additional valuable insights into the company’s growth strategy and ESG performance beneath the surface and beyond ESG ratings. Given the vital importance and long investment lead time of some critical minerals, such as copper, amidst the heightened demand from low-carbon and energy transitions, this engagement case is aligned with our firm’s aims of stewardship and proactive engagement on material ESG factors not only from the perspective of downside risk management, but also for optimizing the investment upside potentials and value creation opportunities.

We will continue monitoring the progress towards the goals and targets set by company F, and engaging on its performance around sustainability and material ESG matters. We would also like to see more progress and accountability in the area of enhanced due diligence on its supply chain and in sensitive regions, and in managing ESG externalities and improving disclosures for joint venture projects.

Policies and Approach to Exercise of Voting Rights

How do we exercise our rights and responsibilities as an investor?

To act on our corporate message of “creating a sustainable future through the power of investment,” Asset Management One carries out stewardship activities with the aim of delivering sustainable value and contributing to the needs of our clients and society. By promoting and directing an optimal capital allocation towards sustainable activities, we aim to help drive a sound and healthy development of the economy and society.

We regard the exercise of voting rights for equities and REITs as one of the most important aspects of our stewardship responsibilities. In practice, we use voting activities as part of our engagement process. Through exercising voting rights, we aim to encourage investee companies to take necessary actions to create value for shareholders over the medium to long term, implement effective governance practices and also give adequate consideration to the environment and society in managing their businesses.

Markets and funds where we exercise voting rights

In principle, our firm exercises voting rights for all funds we manage and in all markets where we invest, except for the unusual occasions when we are not able to vote due to some circumstances beyond our control such as time constraint, etc. In case of the segregated mandate funds, we confirm the clients’ voting intentions and exercise voting rights accordingly.

Policy and operation of exercising voting rights

In general, we make voting decisions on each proposal in accordance with our Proxy Voting Guidelines which defines our basic policies and outlines the detailed criteria for exercising voting rights. The Proxy Voting Guidelines are in principle reviewed and revised every year, following a process of deliberation by the Stewardship Committee and approval of the CEO.

In determining how to vote on the proposals that may have a significant impact on corporate value, we conduct thorough discussions at the exercise of voting rights sub-committee under the Stewardship Committee, which is chaired by the Head of the Stewardship Group. In particular, we give due consideration to the occurrence of legal violations or scandals, the level of social interest and the progress made in our engagement interactions as well.

For those proposals of the utmost importance, such as the proposals that may have the most significant effect on corporate value, or the proposals that present conflicts of interest involving the parent or affiliated group companies, our voting decisions are made through deliberation by the Stewardship Committee, which is chaired by the Head of the Investment Division and includes the Head of the Risk Management Division as a member. Please refer to page 89 for more details regarding how we manage conflicts of interest. Furthermore, ahead of deliberations of the Stewardship Committee, it also seeks an independent opinion and advice from the Proxy Voting Advisory Council, consisting of a majority of independent outside directors, on such important voting matters.

Sub-committee on the exercise of voting rights

Chair: Head of the Stewardship Group

- Deliberations of the proposals that may have significant impact on corporate value by taking into consideration the progress of engagement, social interest, or occurrence of legal violations or scandals, etc.

Stewardship Committee

Chair: Head of the Investment Division

- The establishment, revisions and abolishment of the Proxy Voting Guidelines
- Deliberations of the proposals that may have the most significant effect on corporate value, and the proposals of the utmost importance relating to conflicts of interest where the parent or affiliated group companies are involved. The Stewardship Committee also seeks an independent opinion from the Proxy Voting Advisory Council, which is comprised of a majority of independent outside directors, on such important voting matters.

Proxy Voting Guidelines

Japanese equities

https://www.am-one.co.jp/img/english/14/japanese_guideline_20230401.pdf

Non-Japanese equities

https://www.am-one.co.jp/img/english/14/overseas_guideline_20230401.pdf



How we use proxy advisers

We make decisions and exercise voting rights in line with our voting policies and guidelines. In the markets outside Japan, we utilize the platform operated by ISS, a proxy adviser, to execute our voting activities.

When we vote on shareholder meeting resolutions that require extra caution from the conflicts of interest perspective, we also receive advice from the ISS based on our voting guidelines.

This advice is further examined and discussed at the Proxy Voting Advisory Council, of which a majority of members are independent outside directors, and at the Stewardship Committee as well.

Furthermore, we annually conduct an assessment and gain reassurance about the financial and qualitative eligibility of such proxy advisers, as part of our process of monitoring and holding the service providers to account. We performed the assessment and checks in August 2022 and August 2023 most recently and found no particular issues. If any concerns arise or problems are discovered, we will take further steps seeking remedial actions, including additional dialogues and visits.

In addition, when the proxy advisers review their voting recommendation guidelines every year, we also provide our opinions and feedback on some of the individual voting issues as well as the direction of revisions related to key voting matters.

Proxy Voting Policies and Guidelines for clients' voting rights and on stock lending

We review and update our voting guidelines as needed by taking into account clients' intentions and the general development and discussions around governance matters. For the segregated mandate funds, we also proactively communicate with our clients so that we understand the policies of each client and exercise their rights in accordance with their policies as well. For investment trust funds and segregated mandate funds, in principle we exercise voting rights based on our voting guidelines. However, for the funds that are managed by external managers, in general we expect the managers to carry out voting activities following their policies and judgement. It is possible for clients to directly exercise voting rights for funds invested by them, as long as it is permitted under the contract.

Also, for some of the funds managed by Asset Management One, there may be occasions that stock lending transactions may cross the record date of voting rights. Even in such cases, we establish an upper limit on the lending rate to secure adequate voting rights.

How we monitor and manage the exercise of voting rights

We confirm the balance of holding shares each day with custodians. We exercise voting rights based on this confirmed data. In order to avoid missing exercise of voting rights, we manage the voting schedule carefully by confirming the exercise period for each stock, and the receipt and submission of proxy forms in cooperation with the custodians.



Revisions to the Proxy Voting Policies and Guidelines

The major revisions in FY2023 (starting from April 1, 2023) and the future direction of revisions to the Proxy Voting Policies and Guidelines for Japanese equities are as follows.

1. Basic policies and voting operation

A materiality map was established to identify global environmental and social issues, with three focus areas designated: climate change, biodiversity and environmental destruction, and human rights and health & wellbeing. Of these, regarding climate change, we have outlined the expectation for investee companies to formulate and disclose a concrete plan.

2. Relationship with engagement activities and the Sustainable Investment Policy

In alignment with our Sustainable Investment Policy, for companies where the negative social impact caused is regarded as significant, leading to a high risk of corporate value destruction over the medium to long term, we will oppose the proposed election of board directors as part of escalated steps in our stewardship activities to further voice concerns and urge speedy actions.

3. Composition of the Board of Directors

We require Japanese companies to appoint at least one female director to the board, with an aim of encouraging diversity at the board level. The

application of this requirement has also been expanded this year from the TOPIX 100 constituents to all companies listed on the Tokyo Stock Exchange Prime Market.

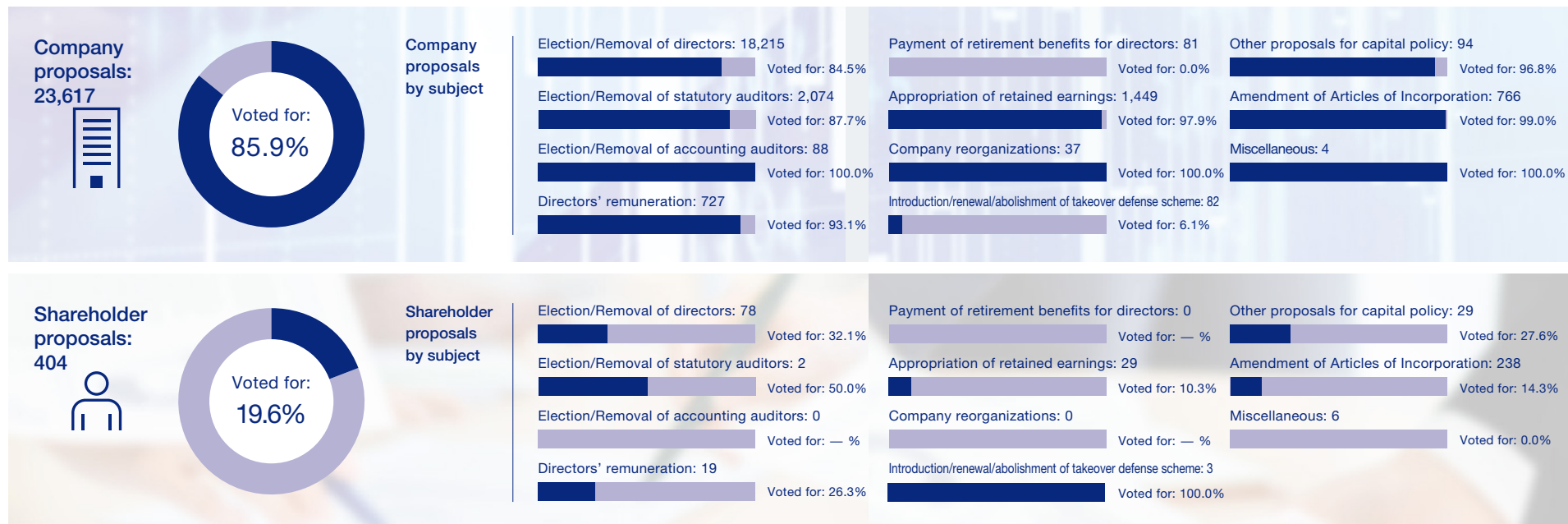
4. Direction of future revisions

In future revisions, we plan to make the voting guidelines and criteria for decisions more stringent, including revising the expected level of key indicators for capital efficiency and shareholder returns, and also raising the voting standard relating to cross-shareholdings, to seek continuous improvement of capital efficiency at the investee companies. (Please refer to page 28.)



Exercise of Voting Rights (Japanese Equities)

■ Voting outcome for Japanese equities (July 1, 2022 – June 30, 2023)



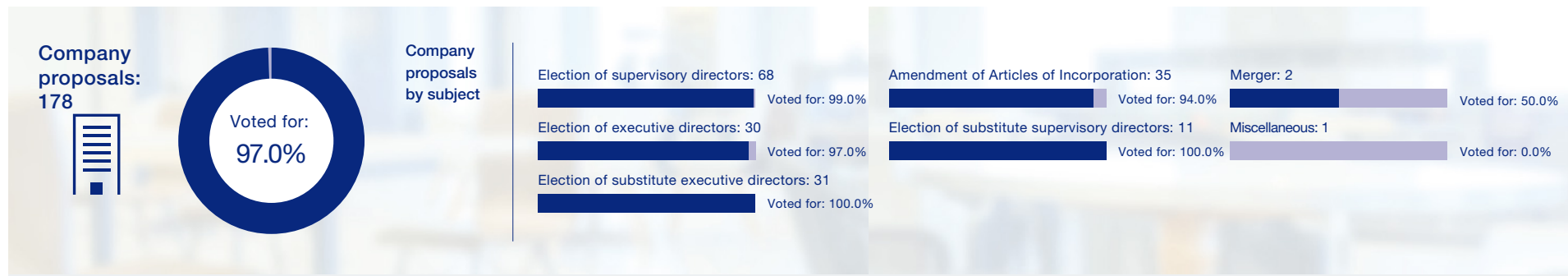
As a result of more stringent standards for exercising voting rights,* opposition to company-proposed director appointments has increased, consequently raising the opposition rate to company proposals. In addition, as the proposals to amend Articles of Incorporation to stipulate the method of providing materials for general shareholders meeting have run their course, the number of company proposals for amending the Articles of Incorporation significantly decreased compared to the previous year. Regarding shareholder proposals, the increase in shareholder proposals related to capital policies, such as those on dividend

increases and the acquisition of treasury stock, was characterized.

* From April 2022, the standard of opposing the election of the representative director if no female directors are present was introduced for TOPIX 100 constituent companies, and this was expanded in April 2023 to include all companies listed on the Tokyo Stock Exchange Prime Market.

Note: Detailed disclosures of our voting results for Japanese equities by individual company meeting and by individual voting item are made available on Asset Management One's website (in Japanese).

■ Voting outcome for REIT (July 1, 2022 – June 30, 2023)



In addition, six unitholder proposals were brought forward, and we voted in favor of one proposal for amendment of Articles of Incorporation.



Case1

Case Study of Exercise of Voting Rights (Precision Equipment Company A)

Promoting initiatives through the exercise of voting rights regarding gender diversity on the Board of Directors

Issue

Initiatives for the composition of the Board of Directors, especially those regarding gender diversity, were lagging behind, and it had conflicted with our standards for exercising voting rights (“oppose the appointment of the representative director if no female directors are appointed to the Board of Directors after the general shareholders meeting;” in effect from the 2022 general shareholders meeting).

Action

We have continuously communicated our view that diversity on the Board of Directors is important for improving corporate value, and continued dialogue regarding the composition of the Board of Directors. We pointed out to both executives and outside directors that the current governance structure conflicted with our newly reviewed standards for exercising voting rights, and strongly encouraged the election of a female director ahead of the FY2022 general shareholders meeting, but the company's efforts made no progress.

Voting/Escalation

No female directors were elected at the FY2022 general shareholders meeting, and because our dialogue with company A up to that point did not confirm proactive efforts towards appointing female directors, we opposed the election of the representative director in accordance with our standards for exercising voting rights.

Outcome

As a result of conflict with the standards for exercising voting rights of many institutional investors including our firm, and the recommended standards of proxy advisers, the approval rate for the representative director and president at the FY2022 general shareholders meeting significantly dropped to barely avoiding rejection. Subsequently, company A established a corporate governance promotion office led by the vice president in July 2023, and announced that its plan to elect a female director at next year's general shareholders meeting in September 2023.

Case2

Case Study of Exercise of Voting Rights (Financial Company B)

Voted in favor of a shareholder proposal for a company with issues in its capital policy on the judgement that it would contribute to improving corporate value

Issue

While the equity ratio of the company was high due mainly to a large amount of cross-shareholdings, it was reluctant to enhance its shareholder returns. As a result, the company's ROE remained at a low level and continued to conflict with our policies, while also violating the cross-shareholding standards introduced in 2022. We have continuously engaged in dialogue regarding the need for balance sheet management, including reducing cross-shareholdings and enhancing shareholder returns, as capital policy issues that need to be addressed in order to improve ROE.

Action

Company B disclosed its policy for enhancing shareholder returns and its plan to reduce cross-shareholdings due in part to the shared recognition of issues through ongoing dialogue. While we highly appreciated the disclosure of a more proactive capital policy towards improving ROE, we also believe there is still room for improvement, such as in the pace of selling cross-shareholdings and the level of shareholder returns, and encouraged further efforts.

Voting/Escalation

At the annual general shareholders meeting held in 2023, shareholder proposals were presented regarding the distribution of retained earnings and the acquisition of treasury stock. We determined that the shareholder proposal contributes to enhancing corporate value and supported it, considering the level, trend, and expected change in ROE, equity ratio, the status of cross-shareholdings, the significant room for improvement in the company's initiatives to date, etc., and in comparison to similar shareholder proposals to other companies.

In addition, due to the violation of ROE criteria and cross-shareholding standards, we opposed the election of directors and the representative director who have been in office for three years or more in company proposals.

Outcome

Although the shareholder proposal was rejected and the company proposal was approved at the resolution of the general shareholders meeting, the approval rate for the election of the representative director remained in the 60% range, reflecting the concerns of investors. In a dialogue after the general shareholders meeting, we provided feedback on the background and reasons for our decision and encouraged further efforts for improving ROE and the approach to capital policy.



Case3

Case Study of Exercise of Voting Rights (Financial Company C)

Further promoting the net-zero initiatives of a major financial institution

Issue

Amid growing attention to the large exposure of Japanese financial institutions to fossil fuels and their efforts toward net-zero emissions, a climate change oriented NGO submitted a shareholder proposal on climate change issues (formulation and disclosure of a transition plan aligned with a net-zero carbon emission scenario).

Action

Our ESG analysts engaged in dialogue with the company regarding its past efforts and future responses to climate change, and confirmed its policies of developing a transition plan aimed at net-zero by 2050 and promoting integrated efforts, and disclosing the status of efforts towards the transition plan and targets in the integrated report and actively continuing disclosures in the future. We also held a dialogue with the NGO that made the shareholder proposal, exchanging opinions and gathering information regarding the background leading to the proposal and the status of dialogue with company C.

Voting/Escalation

At our firm, for the most important company proposals from the standpoint of conflicts of interest, such as those involving the parent company, voting decisions are made after requesting the recommendations from an independent third-party proxy adviser, ISS, in accordance with our guidelines, followed by consulting with the Proxy Voting Advisory Council, of which independent outside directors make up a majority, and conducting deliberations at the Stewardship Committee.

With regard to company C, our Stewardship Committee also discussed the issue after consulting with the Proxy Voting Advisory Council, based on its ongoing engagement dialogue with company C. ISS advised that the proposal should be supported in line with our firm's Proxy Voting Guidelines. We determined that the content of ISS's advice was appropriate and voted in favor of the shareholder proposal, considering that it aligns with the basic concept of our standards for exercising voting rights, it calls for enhanced information disclosure, it is not clearly within the scope of business execution, and there is room for further efforts.

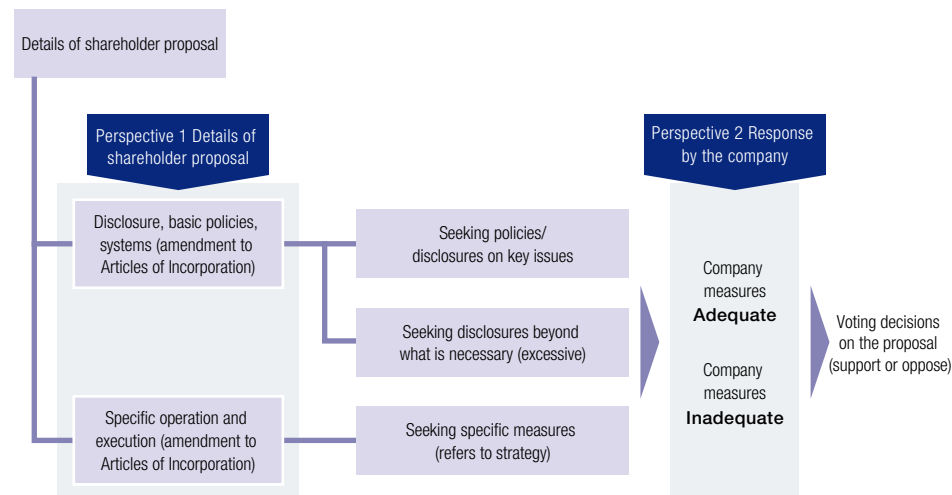
Outcome

The approval rate for the shareholder proposal was about 20%, and it was rejected.

In dialogue after the general shareholders meeting, we provided feedback on the reasons and logics behind our decision (support) for this shareholder proposal.

Approach to shareholder proposals on climate change

Due to the increase in shareholder proposals on climate change, our firm has organized our approach on specific operation of exercising voting rights. First of all, with regard to shareholder proposals, we consider two perspectives: whether a proposal is related to disclosure, basic policies and systems or related to specific operation and execution, and whether the company's steps and measures are adequate. For proposals related to disclosure, basic policies and systems, we will generally support them unless they go beyond what is necessary and become excessive. But if a proposal is about micromanaging specific business operations which may affect a company's business strategy, we will oppose it in principle. Meanwhile, if measures adopted by the company are considered higher level than those requested in shareholder proposals, we will generally oppose them. These are our general guidelines on shareholder proposals. For any shareholder proposals related to climate action, we are committed to assessing individual circumstances and making our decisions on a case-by-case basis.



Case4

Case Study of Exercise of Voting Rights (Service Company D)

Understanding the direction of performance recovery through engagement activities, and exercising voting rights

Issue

The hotel industry to which the company belongs has been exposed to a very harsh external environment due to the lockdowns and voluntary restraint from going out caused by the COVID-19 pandemic, and dissipation of inbound demand. Under such circumstances, company D also faced pressure on profits due to declining spending per guest and lower room occupancy rates, leading to operating and net losses for the fiscal year ended March 2021.

Although the company returned to profitability in the following fiscal year ended March 2022, the ROE level remained at levels less than 1%. While conflicting with our ROE criteria, we are monitoring what measures the company will introduce for performance improvement with a view to a post-COVID society.

Action

In the mainstay hotel business, we have confirmed steady occupancy rates and room price improvement due to a nationwide travel support policy in Japan and the increase in inbound tourists. We also engaged in dialogue to share awareness of corporate value improvement through internal efforts including exchange of opinions regarding membership services and booking websites. We believe that the likelihood of further improvement in ROE will increase as the movement of people increases and inbound demand recovers, leading to appropriate room prices.

Voting/Escalation

For the fiscal year ended March 2023, the performance and ROE in the mainstay hotel business recovered due to the easing of COVID-related restrictions on movement, with increased occupancy rates and room prices. However, performance slightly fell short of our ROE criteria and thus conflicted with our criteria. However, considering the continued increase in the movement of people and recovery of inbound demand, as well as the company's efforts described above, we judged that the ROE level is highly likely to recover to pre-COVID levels from FY2023 onward. As a result, for the proposals submitted at the June 2023 general shareholders meeting, we voted in favor of the election of director candidates (11 people) who have been in office for three years or more despite it conflicting our ROE criteria.

Outcome

The company proposal for election of directors was approved for all candidates.

Our approach of calling for modification to the terms of bond issues

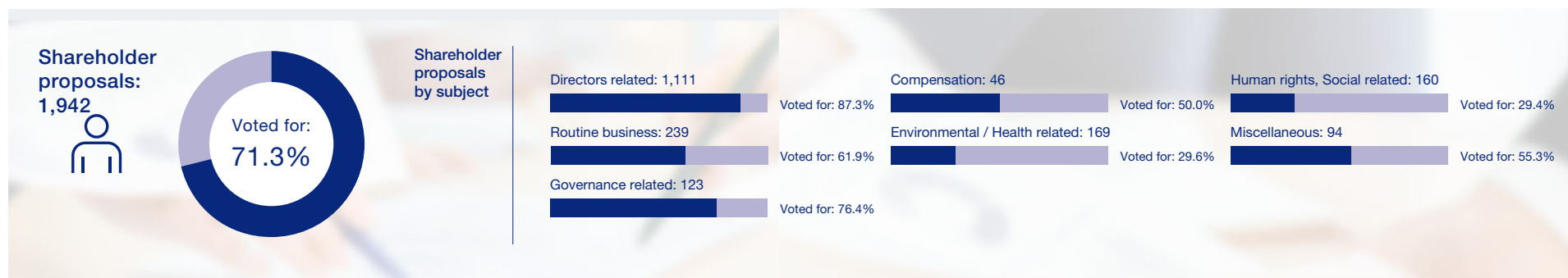
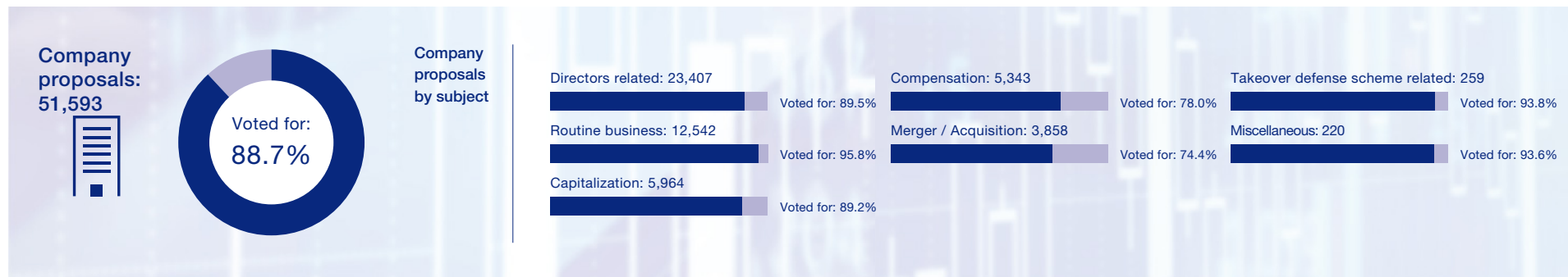
The Fixed Income Investment Group considers terms of bond issues such as type of bond, issuance frequency, volume, maturity and a scheme of capital recognition of subordinate bonds, as an important topical area specific to bond investors for dialogue with fixed income investor relations particularly at the time of issuance. Although bonds, unlike equities, do not have a direct means of exercising rights in the form of voting rights, we strive to accurately convey investor feedback to issuers by leveraging our presence as a leading active credit investor in Japan. Although there have been no instances of covenant breaches, etc. leading to post-issuance changes in conditions within the period, the necessary actions will be taken if required.

Recently, as the market for ESG bond issuance has expanded, there have been some cases of dialogue with issuers regarding the terms and conditions of ESG bond issues. For example, in a dialogue with a construction company, we communicated that Asset Management One prefers the purchase of green power certificates or donations rather than a step-up in interest rates as a penalty in the design of a sustainability-linked bond product, and the company responded that it would like to use this for product design in future. ESG bonds issued subsequently were set up to purchase green power certificates and make donations in response to unfulfilled commitments.



Exercise of Voting Rights (Non-Japanese Equities)

■ Voting outcome for non-Japanese equities (July 1, 2022 – June 30, 2023)



■ Voting outcome by region (July 1, 2022 – June 30, 2023)

Company proposals Total	Americas		Asia-Pacific		Europe and Middle East Africa	
	Total	Approval ratio	Total	Approval ratio	Total	Approval ratio
Directors related	11,618	91.5%	5,385	85.9%	6,404	88.9%
Routine business	2,446	98.0%	6,188	95.1%	3,908	95.6%
Capitalization	538	56.1%	3,649	92.7%	1,777	91.9%
Compensation	2,382	85.0%	1,136	58.7%	1,825	80.9%
Merger / Acquisition	164	89.0%	3,239	70.7%	455	95.8%
Takeover defense scheme related	112	83.3%	13	100.0%	134	94.0%
Miscellaneous	12	83.3%	72	100.0%	136	91.2%
Grand total	17,272	90.4%	19,682	86.1%	14,639	90.4%

Shareholder proposals Total	Americas		Asia-Pacific		Europe and Middle East Africa	
	Total	Approval ratio	Total	Approval ratio	Total	Approval ratio
Directors related	162	66.0%	858	95.5%	91	48.4%
Routine business	83	34.9%	139	84.9%	17	5.9%
Capitalization	53	56.6%	65	96.9%	5	20.0%
Compensation	26	53.8%	12	75.0%	8	0.0%
Environmental / Health related	138	33.3%	12	0.0%	19	21.1%
Human rights, Social related	155	29.7%	0	—	5	20.0%
Miscellaneous	88	59.1%	0	—	6	0.0%
Grand total	705	46.0%	1,086	92.9%	151	33.8%



Case5

Case Study of Exercise of Voting Rights (Non-Japanese Company)

Voting against re-election of directors to express our dissatisfaction about the inadequate response and slow progress being made by the company in tackling climate change issues

Major energy company E

Issue

Asset Management One joined the global investors' collaborative engagement group under the Climate Action 100+ (CA100+) and have engaged with this company since 2018. In the continuous engagement dialogues over the past years, the group has focused on seeking a number of actions such as setting out targets and a credible plan for greenhouse gas emissions reduction, disclosing lobbying activities, and aligning capital allocation with its climate strategy.

On the back of company E's slow response to investors' request for tackling energy transition and other climate change matters, at the previous general shareholders meeting in 2021, a number of director nominees proposed by a shareholder had gained the majority support of shareholders and were elected to the board. At that time, our firm also voted in favor of the candidates nominated in the shareholder proposal. In the following process of continually assessing the expected improvement of board oversight and accountability, we supported the re-election of all directors to the board at the 2022 general shareholders meeting. However, in comparison to its peers especially the European majors under the CA100+ engagement program, we think the company is still largely lagging behind in the level of commitment, accountability and disclosures on key climate related actions.

Action

The CA100+ investors group has held multiple meetings and dialogues with company E over the past couple of years, with regards to the company's progress, future plans as well as the details of its latest climate reports. The company acknowledged that its current planning and assumptions used for energy transition were not aligned with the IEA's Net Zero Emissions by 2050 Scenario. Meanwhile, the company had not disclosed the key assumptions behind its estimates for longer term, such as crude oil and gas prices, which also made it difficult for investors to assess the impact on its financial accounts over time. We therefore think there is still a significant room for improvement in the company's disclosure practice. In addition, the investor group's dialogues with board directors also cast some doubt on whether the key concerns raised by investors to date were properly discussed at the board level.

Voting/Escalation

Given our concerns about the overall board leadership towards fulfilling its accountability to shareholders and the poor performance of directors in key positions, we voted against re-election of two directors at the general shareholders meeting of 2023. As an escalated step in our engagement activities with the company, we decided to oppose the re-election of both the senior independent director of the board and the chair of the Environment, Safety & Public Policy Committee due to concerns over inadequate accountability for climate-related risks. In addition, with a view of enhancing disclosure, we also voted in favor of a shareholder proposal requiring a report on the social impacts of plant closure and energy transition on workers and local communities.

Outcome

At the general shareholders meeting, all director candidates proposed by the company were elected to the board. Meanwhile, although the shareholder proposal that we had voted in favor of failed to receive a majority support from shareholders, it gathered one-sixth of the total votes.

Engagement activities conducted through EOS at Federated Hermes

EOS at Federated Hermes (hereafter referred to as "EOS") is a leading provider of stewardship services and undertakes engagement activities on behalf of its clients worldwide (primarily asset owners). Since 2017, our firm has appointed EOS as our engagement partner for engagement with companies outside Japan. EOS also represents its clients in various global investors' collaborative engagement initiatives. For example, it acts as a lead or co-lead investor in the Climate Action 100+ initiative for many engagement companies, and

actively participates in the PRI working groups (cyber risk, water stress, etc.), the Investor Alliance for Human Rights, the Investor Initiative on Mining and Tailings Safety, etc.

EOS also often escalates engagement activities where the company is not receptive to engagement or progress is lacking or too slow. As tools for escalation, it implements a structural approach to step up the engagement including letters to the boards, collaborating with investors or other stakeholders, questions or statements at

annual general shareholders meetings, shareholder resolutions or open letters, etc. EOS provides with examples of such engagement activities in its regular reports to clients. Please refer to page 61 for additional information on how we are monitoring and holding our service providers to account.



Dialogue and Collaboration with Government Agencies

Aiming to enhance the corporate value of portfolio companies, contribute to a sustainable society, and increase the value of Japanese capital market, we actively engage in policy dialogue with government ministries and public institutions, including the Ministry of Economy, Trade and Industry, the Ministry of the Environment, the Financial Services Agency, the Tokyo Stock Exchange, and the Japan Investment Advisers Association.



TCFD Consortium (the Ministry of Economy, Trade and Industry, Financial Services Agency, and Ministry of the Environment)



The TCFD Consortium is a public-private collaborative initiative in Japan to promote and facilitate the widespread disclosure of climate change-related information. Our firm's Executive ESG Advisor Terasawa has served as a Steering Committee member since the establishment of the consortium, and he is actively engaged in such activities as conveying the circumstances of utilization of the climate change information of investors to operating companies through round-table discussions.



Study Group on Revision of Guidelines for Private Sector Engagement in Biodiversity (Ministry of the Environment)



This is a study group for formulating guidelines on impact assessment and information disclosure related to business activities, aimed at promoting conservation and sustainable use of biodiversity by encouraging businesses to participate in biodiversity-related initiatives. Executive ESG analyst Sakuramoto participated as a committee member, and contributed to the formulation of the "Guidelines for Private Sector Engagement in Biodiversity (3rd Edition) -Toward Nature Positive Management-."

For information on "Guidelines for Private Sector Engagement in Biodiversity (3rd Edition) -Toward Nature Positive Management-" please refer to the following website of the Ministry of the Environment.
https://www.env.go.jp/press/press_01452.html



Human Capital Management Consortium (Ministry of Economy, Trade and Industry)



With the aim of promoting human capital management in Japanese companies through both implementation and disclosure, the consortium shares advanced case studies on human capital management, discusses towards collaborative action between companies, as well as collect, disseminates, and popularizes domestic and overseas information on human capital. As a founding member, Executive ESG Advisor Terasawa has been appointed as a member of the Steering Committee, and promotes the Consortium's activities.

Committees and study groups of government agencies we have participated in as a member, etc. from FY2022 to the present

Ministry of Economy, Trade and Industry

- Study Group on Dialogues that Contribute to Long-term Corporate Management and Investment for Creation of Sustainable Corporate Value
- Working Group on DX Certifications and selection of "DX Stock"
- "SX Stock" Evaluation Committee
- Study Group on Finance for Green Transformation
- Human Capital Management Consortium Steering Committee
- Japan Public and Private Working Group on Financed Emissions to Promote Transition Finance
- TCFD Consortium Steering Committee

Ministry of the Environment

- Study Group on Revision of Guidelines for Private Sector Engagement in Biodiversity
- Training Program for Regional Financial Institutions on TCFD Disclosure
- Selection committee on ESG Finance Awards in the Environmentally Sustainable Company Category

Financial Services Agency

- Impact Investment Study Group

Dialogue and Collaboration with Initiatives

Our firm actively collaborates with initiatives in Japan and overseas to encourage portfolio companies to make a transition to a sustainable society. By acquiring domestic and overseas information from experts in a timely manner, we deepen our knowledge of ESG and apply it to engagement activities, etc. to resolve ESG issues faced by portfolio companies.



Climate Action 100+

Climate Action 100+ is an initiative that encourages global institutional investors to engage with the world's largest corporate greenhouse gas emitters regarding information disclosure and initiatives to reduce GHG emissions. Analysts from our Tokyo and London offices participate in this initiative, we have engaged with Japanese major automaker in collaboration with major US pension funds as a lead investor.



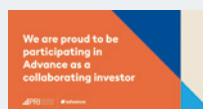
Nature Action 100

Nature Action 100 is a global institutional investor engagement initiative that focuses on further promoting corporate activities to reverse the loss of nature and biodiversity. Participating investors express expectations on six actions such as ambition, assessment, targets, implementation, governance, and engagement to protect and restore nature and ecosystems to the portfolio companies, and our firm has initiated engagement activities with several companies in Japan.



PRI Advance

PRI advance is a stewardship initiative led by PRI, in collaboration with institutional investors to address human rights and social issues. It conducts engagement activities with companies and policymakers aimed at generating positive outcomes for workers, communities, and society. Our firm participates in collaborative engagements with domestic and overseas companies.



International Sustainability Standards Board (ISSB)

As an organization under the IFRS Foundation, the Board was launched in 2021 through the integration of multiple organizations which developed standards for ESG and sustainability information disclosure. We participate in the Investor Advisory Group which is an advisory body consisting of investors and an organization of experts, the Technical Reference Group that supports the formulation of standards, and we actively provide opinions for the formulation of efficient and effective global ESG disclosure standards.



Participating initiatives

Participating year	Name of initiative
2013	PRI (Principles for Responsible Investment)
2014	ICGN (International Corporate Governance Network)
2017	Climate Action 100+
2018	ACGA (Asian Corporate Governance Association)
2018	JSIF (Japan Sustainable Investment Forum)
2019	TCFD (Task Force on Climate-related Financial Disclosures)
2019	TCFD Consortium
2019	RE100 (Renewable Energy 100%)
2019	JSI (Japan Stewardship Initiative)
2019	30% Club Japan Investor Group
2020	ESG Disclosure Study Group
2020	Access To Medicine
2020	FAIRR (Farm Animal Investment Risk & Return)
2020	NZAM (Net Zero Asset Managers initiative)
2021	AIGCC (Asia Investor Group on Climate Change)
2021	ISSB (International Sustainability Standards Board)
2022	CDP
2022	The TNFD (Taskforce on Nature-related Financial Disclosures) Forum
2022	PRI Advance
2022	Human Capital Management Consortium
2023	Nature Action 100



Evaluation of Our Stewardship Activities

External evaluation

Approved as a signatory of the UK Stewardship Code

Our firm has been approved as a signatory of the Financial Reporting Council (FRC)'s UK Stewardship Code 2020 (hereinafter, the "Code"). The Code defines stewardship as "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society," and it sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them.

The Sustainability Report 2022 that our firm submitted to the FRC in April 2023 described the engagement activities that our firm has implemented over the course of the latest fiscal year along with a wealth of case studies, and we believe that this positive approach to disclosure and outcomes have been objectively confirmed as complying with the 12 Principles defined for asset owners and asset managers in the Code.

As a responsible institutional investor, our firm shall

continue to work toward solutions for sustainability and other issues faced by society by engaging in constructive dialogue with investee companies, and shall contribute to growth in investment returns for our clients over the medium to long term.

PRI scorecard summary

PRI is a global initiative to encourage institutional investors to incorporate ESG issues into their investment decisions, based on the six Principles for Responsible Investment released in 2006.

PRI evaluates the commitment and progress of signatory institutions on these six principles based on their reports. Since 2021, the evaluation items and methodology were significantly revised. The latest PRI scorecard summary (2021) is as shown in the table below.

Our firm is proactively involved in PRI activities as an active member of the PRI Japan Advisory Group, and will continue to proactively engage in activities and strive to maintain and improve its evaluation.

Self-evaluation

Our firm undertakes a self-evaluation (reflection) for each principle and guidance in the Japanese Stewardship Code for each year. We confirm the appropriateness of the details of our stewardship activities and our self-evaluation at the Stewardship Committee, which has been established as a management policy committee.

In the latest fiscal year, we established the Sustainable Investment Strategy Team (currently the Sustainable Investment Group) and strived to enhance the foundation of our initiatives, including the Sustainable Investment Policy, toward enhancing the medium- to long-term corporate value of investee companies and achieving a sustainable society. Furthermore, in our stewardship activities, we enhanced dialogues on areas that are gaining increasing attention, such as human capital and biodiversity, and implemented initiatives based on our corporate message of "creating a sustainable future through the power of investment."

The summary of our initiatives for each principle of the Japanese Stewardship Code is as follows.

Principle 1 Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.

We formalized a Sustainable Investment Policy¹, which is newly centered on creating a positive social impact, supporting the transition to a sustainable society, and exclusion. In addition, we have established a Sustainable Investment Framework² that includes the minimum standards of conduct that we expect our investee companies to follow, as implementation standards for our Sustainable Investment Policy. Furthermore, we have formalized a new Sustainable Investment Category³ which takes into account the degree of emphasis on social returns (social benefits), and established an ESG-related Naming Rule⁴ for products labeled with terms such as ESG, with the aim of offering an increasingly diverse range of sustainable investment products to our customers in a more understandable manner.

PRI scorecard summary

Investment and stewardship policy		★★★★★
Listed equity	ESG incorporation: active	★★★★★
	ESG incorporation: passive	★★★★★
	Proxy voting: active	★★★★★
	Proxy voting: passive	★★★★★
Fixed income	SSA (sovereign, supranational, agency)	★★★★★
	Corporate	★★★★★
	Securitized	★★★★★



Principle 2

Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.

We appropriately exercised voting rights in accordance with our Proxy Voting Guidelines and criteria for all proposals. In making decisions on proposals related to parent companies and other important companies where conflicts of interest are a particular concern, we sought third-party opinions from proxy advisers and consulted the Proxy Voting Advisory Council, a majority of which is comprised of independent outside directors. We then made appropriate decisions on exercising voting rights after deliberations at the Responsible Investment Committee (currently the Stewardship Committee). Furthermore, the compliance department pointed out no cases of conflict of interests for the latest fiscal year after conducting strict monitoring of the procedure.

Principle 3

Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies.

We endeavor to accurately understand the conditions of our investee companies by utilizing not only the financial information, but also the non-financial information of investee companies, including ESG information. In the latest fiscal year, we updated the ESG ratings and scores we had been using to Asset Management One ESG ratings and scores, to reflect the nine core materiality items that are particularly emphasized by our firm as an asset manager. We also conducted net zero assessments of investee companies and net zero alignment assessments of investment funds, based on the interim targets for achieving net zero GHG emissions for all AUM by 2050, as stipulated in the Net Zero Asset Managers Initiative (NZAM).

In addition, we regularly review our materiality map established in 2021, and also conducted an extraordinary review during the latest fiscal year in light of Russian aggression for Ukraine. As a result, we revised six items, including diversity, equity and inclusion (name changed from diversity and inclusion).

Principle 4

Institutional investors should strive to share an understanding with investee companies and work to solve problems through constructive and purposeful dialogues with them.

In our engagement activities, we integrated the identified nine

core materiality items into ESG engagement issues, thereby clarifying the corporate vision aimed for and the actions we expect from companies. We strived to share an awareness of issues, and encouraged a strengthening of initiatives in environmental and social issues, such as climate change and biodiversity responses looking toward net zero emissions by 2050, as well as human capital such as human resource strategy, human rights, and diversity, which is receiving increasing interest from society. Regarding governance issues, we engaged in dialogue focusing on the effectiveness of the Board of Directors, the independence and skills of outside directors, parent-subsidiary listing issues, cross-shareholdings, the linkage between executive compensation and ESG, and capital efficiency. We actively conducted engagement activities to improve the overall market, through means such as interviews with outside directors, hosting ESG workshops within investee companies, and interviews with a wide range of investee companies beyond the priority engagement companies.

Principle 5

Institutional investors should have a clear policy on proxy voting and disclosure of proxy voting outcome. The policy on voting should not be comprised only of a mechanical checklist; but it should be also designed to contribute to the sustainable growth of investee companies.

We have actively held shareholder relation meetings (SR meetings) to exchange opinions on proposals and our votes with senior management of investee companies, including outside directors. In the standards for exercising voting rights that are to be applied to shareholder meetings held in or after April 2022, we clarified that the engagement results with investee companies in three focus areas designated by our firm's materiality analysis ("climate change," "biodiversity and environmental destruction," and "human rights and health & wellbeing") will be reflected in the exercise of voting rights. Furthermore, in the revision of the standards for exercising voting rights that are to be applied to shareholder meetings held in or after April 2023, we expanded the companies to which the standards regarding the composition of the Board of Directors (appointment of female directors) are applicable.

Principle 6

Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.

We carried out a questionnaire with regard to ESG investment

(in writing and face to face) as part of engagement activities with institutional investor clients. We shared the feedback received from our clients with related parties at our firm and utilized it to provide products and proposals to our clients as well as to improve quality of ESG initiatives. We also worked on improving and encouraging adoption of the smart format through the Japan Stewardship Initiative (JSI).

Principle 7

To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.

We newly established the Sustainable Investment Strategy Team (currently the Sustainable Investment Group) led by the Sustainable Investment Officer (SIO), in order to accelerate sustainable investment activities across the organization. Furthermore, in the field of climate change, we introduced the position of Sustainability Scientist to support the sustainability transformation promotion at our firm from a scientific perspective. In cooperation with domestic and overseas initiatives, government agencies, academia, etc., we participated in the Human Capital Management Consortium, a joint public-private initiative for human capital, as the only founding member among asset management companies. In international initiatives, we actively provided our opinions, such as feedback on the public drafts of the International Sustainability Standards Board (ISSB) and the TNFD Framework (v0.3), and participated in PRI's collaborative engagement on human rights and social issues, entitled Advance. Furthermore, for the quality improvement of stewardship activities, we engaged in joint research with Waseda University and European researchers.⁵ In external evaluations, we won top place in six out of eight evaluation items in the "Stewardship Activities of Asset Managers - From the results of a company survey" conducted by Mizuho Research & Technologies, Ltd., and received comments from respondent companies such as "willing to work with the firm in anticipation of beneficial stewardship activity."

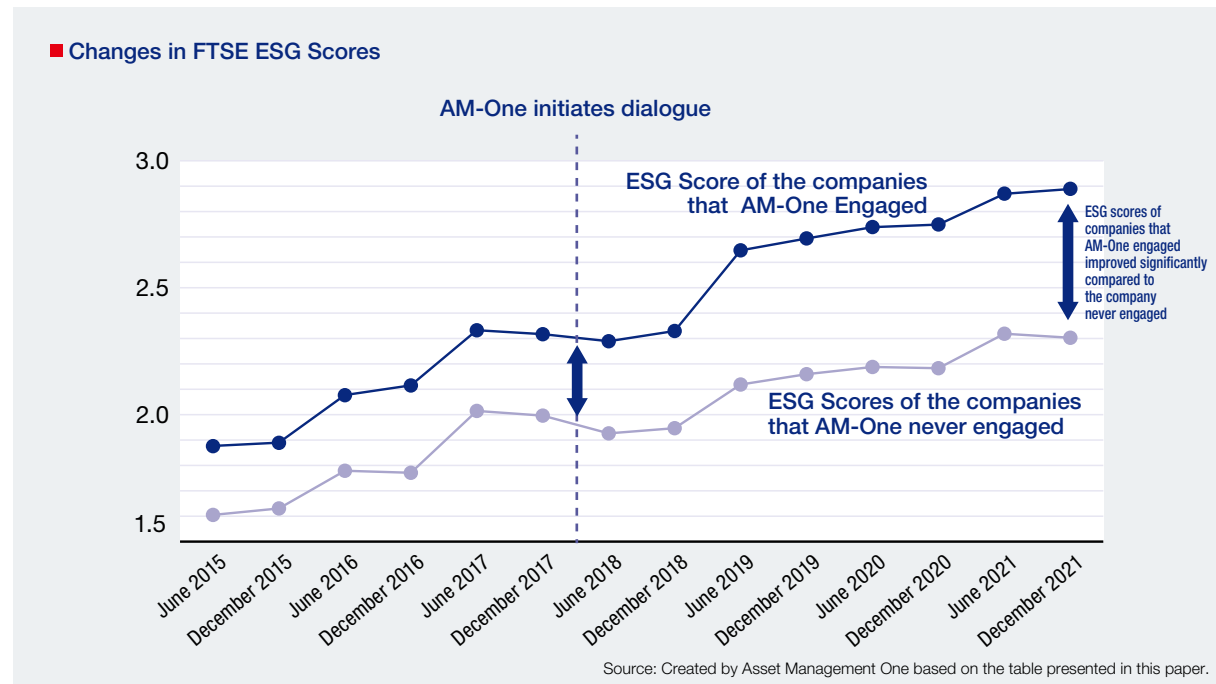
¹: Please see page 53 for details. ²: Please see page 55 for details. ³: Please see page 54 for details. ⁴: Please see page 62 for details. ⁵: Please see page 51 for details.



International Joint Academic Research on Our Passive Engagement “Does Paying Passive Managers to Engage Improve ESG Performance ?”

This paper results from international joint research by Professor Kazunori Suzuki and Professor Hideaki Miyajima of Waseda University, Professor Julian Franks of London Business School, and Professor Marco Becht of Université Libre de Bruxelles. It contains an analysis on the effectiveness of engagement (dialogue with portfolio companies) in our passive funds of Japanese equities, from an academic perspective. Our firm has collaborated with the researchers aiming to gain insights to enhance future engagement activities. The paper was presented by Professor Suzuki and Professor Becht at the PRI in Person annual conference in 2023, and was selected for “PRI Outstanding Paper Award”.

It analyzed the progress and actual actions taken by companies for each engagement theme, based on our dialogue data. One of the analyses indicated that although the ESG scores of Companies that were engaged on any topic (E,S,G or ESG) were generally higher than companies that were never engaged before the start of dialogue, the ESG scores of the companies engaged improved more significantly compared to companies never engaged, once dialogue was initiated. The paper concluded: “The analysis confirmed that when companies understand and actually implement measures for engagement themes, it contributes to improvements in ESG scores by rating agencies.” This supports the effectiveness of our engagement activities.



[Comment from Professor Kazunori Suzuki of Waseda University]

We had the opportunity to analyze Asset Management One’s engagement data with portfolio companies in index (passive) investments. In the international academic research community, there is criticism that asset managers focusing on passive investments lack an incentive to engage with portfolio companies. However, it has been confirmed that Asset Management One has conducted intensive dialogues and this leads to actual improvements in the ESG scores of portfolio companies.



Professor Kazunori Suzuki
Waseda University

Chapter 3

Co-creating Sustainable Investment



Asset Management One's Sustainable Investment

Our firm will take five actions specified in its Sustainable Investment Policy, in its investment strategy, and propose sustainable investment products which are in line with the client's idea of sustainability to create a flow of money to create a sustainable future. We will also analyze ESG risks and opportunities from our unique views in the investment targets and utilize the analysis results to grow assets.

For this purpose, we have established a dedicated department for sustainable investment strategy in April 2022. Under the Sustainable Investment Policy, we will promote sustainable investment across the entire firm, including in-house and external investment management. Additionally, the Sustainable Investment Category established in November 2022

has become the pivot of confirming clients' sustainability preference and designing investment products. The balance of our firm's sustainable investments as of the end of June 2023 was USD 16.8 billion. Among this, our firm manages 12 funds which are named as ESG funds based on the strategy of defining them as the ESG funds under internal ESG-related naming rules established by our firm, as well as one Article 9 fund and two Article 8 funds as the target funds of the European Sustainable Finance Disclosure Regulation (SFDR*). As contribution by our investee companies to a sustainable society, which may involve actions toward climate change, biodiversity, and diversity & inclusion, is desired, we believe that client expectations for our sustainable investments are also growing. Therefore, our firm will

start reporting to our clients on ESG information of funds to improve explanations about not only financial returns but also social returns besides the brush up of our firm's sustainable investment strategy centered on the materiality map, which can be called a compass for our firm's sustainable investment.

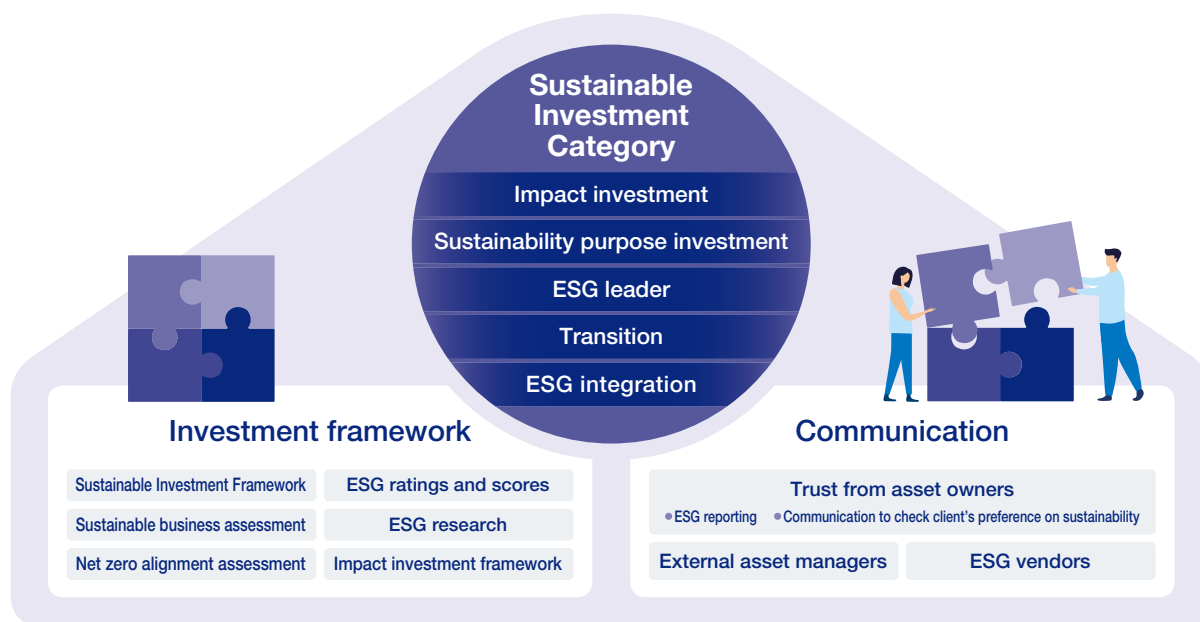
Besides the ESG investment strategies, which manage investments with ESG as a principal factor, our firm focuses on ESG integration, which takes ESG materiality into account. Exclusion and engagement policies, ESG research, ESG ratings and scores, and sustainable investment frameworks, which are all based on our materiality map, are widely used in ESG integration in the investment process of equity and fixed income assets. The mechanism of these ESG evaluations has been developed and maintained in collaboration with analysts who have accumulated expertise in the ESG field and experts of stewardship activities.

We also focus on monitoring the ESG strategies of our external asset managers and investment funds, as well as focusing on monitoring ESG data vendors. Our firm has started seeking the external asset managers to understand its Sustainable Investment Policy, and to cooperate with its net zero strategy. Our firm believes that communicating its ideas with its external asset managers is the important step which leads to the improvement of sustainability across our investment chain.

* Disclosure regulations related to sustainability of financial products that began operation targeting financial advisors and EU market participants in March 2021.

■ Asset Management One's sustainable investment

Creating a sustainable future through the power of investment
pursuing both of social and financial returns in the long term



Minako Takaba

Sustainable Investment Officer
Head of Sustainable Investment Group, Investment Division



Sustainable Investment Category

Asset Management One's Sustainable Investment Category

In the world of investment, pursuing both financial returns and social returns at the same time is a big challenge. Nevertheless, under the current situation where a variety of environmental and social issues globally affect corporate activities and markets, stable financial returns will diminish in the long term if not considering social returns. Even in the short term, considering that many investors and stakeholders promote economic activities that focus on a perspective of sustainability, we believe that caring about both financial and social returns is important in providing attractive investment products.

Accordingly, we introduced a new Sustainable Investment Framework in 2022 to ensure that clients can choose the degree of emphasis on social returns in addition to financial returns depending on their values and investment objectives.

This framework has several product categories and has been continually updated with reference to the EU SFDR and other international initiatives, as well as trends in Japanese regulations. In 2023, we revised the positioning of impact investment and sustainable investment.

Specifically, the following categories are in place as of 2023: "Impact Investment," which aims for positive and measurable environmental and social impact, "Sustainability Purpose Investment," which aims to contribute to the solution of environmental and social issues, "ESG Leader," which invests in excellent companies that contribute to the achievement of a sustainable society, "Transition," which invests in companies whose initiatives for ESG are expected to improve, and "ESG Integration," which

Sustainable Investment Category

	Fund characteristics	Compatibility with the EU SFDR**
Impact investment	<ul style="list-style-type: none"> Investment which aims for positive and measurable environmental and social impact Requiring three elements, namely, "an intention to create a social impact," "additionality and novelty," and "measurement and reporting" 	Article 9 funds Funds that have sustainable investment as their objective and reference indices that contribute to that objective, or funds that clearly establish how to achieve that objective
Sustainability Purpose Investment*	<ul style="list-style-type: none"> Investment that aims to contribute to the solution of environmental and social issues 	
ESG Leader	<ul style="list-style-type: none"> Investing in excellent companies which contribute to the achievement of a sustainable society 	Article 8 funds Funds that promote a part of or multiple aspects of the environment or society and whose investees are making efforts to ensure excellent governance system There are funds that do not fall under the category of Article 8 funds, depending on investment objectives, ESG elements, etc.
Transition	<ul style="list-style-type: none"> Investing in companies that take a positive approach to incremental reduction of society's and their own environmental and social burden Investing in companies whose ESG initiatives are expected to improve 	
ESG Integration	<ul style="list-style-type: none"> Consider ESG risks and/or opportunities in the investment process 	
		Article 6 funds Funds other than those mentioned above

* We changed the name of this category from "Impact Align" in association with the revision of Sustainable Investment Category in 2023.

** The compatibility is provided for general illustrative purposes only and does not guarantee strict compliance with SFDR requirements.

considers ESG risks and opportunities in the investment process.

Investment Products based on Sustainable Investment Category

Through this category, we aim to provide better investment services by incorporating the opinions of clients with various values.

Specifically, based on our Sustainable Investment Framework, we will propose new products that capture global trends to clients. Please see the table on the right regarding strategies presented in this sustainability report.

Additionally, through dialogue with clients, we would like to continue initiatives such as improvement of the investment process and approach to external asset managers, regarding existing products.

Examples of investment products

All Japan Carbon Neutral Strategy	P.63
One Global Focused ESG Equity Fund <DC Pension>	P.64
Japan ESG Bond Fund (Tentative)	P.65
Global ESG High-Quality Growth Equity Fund Nickname: Future World (ESG)	P.67

* Including products the sale of which is being considered



Sustainable Investment Framework

Our firm has established a Sustainable Investment Framework (SIF) as the basis for our stewardship activities (engagement activity and exercise of voting rights) and exclusions as stipulated in our Sustainable Investment Policy, and our firm has set minimum standards of conduct that we expect our investee companies to follow. In each of the three focus areas defined in the materiality map, we engage with companies that fail to meet these standards, and if no progress is made, we escalate our action by means like voting against management proposals to elect directors. Some of those companies are also prohibited from being held in our firm’s Impact investment, Sustainability purpose investment, ESG leader funds.

In our SIF, our firm assesses companies to which our criteria for investment exclusion, engagement, or exercising voting rights are applied at a predetermined frequency (annually, monthly, etc., according to issues) for respective issues of focus areas. In the case that new information or corporate plans regarding these companies are found through engagement activities or disclosed information, we will revise them eligible for SIF. Additionally, we periodically revise the criteria considering changes in social challenges and level of company-wide efforts.

In 2023, regarding issues of climate change as a focus area, our firm reflected its results of assessment of alignment with net zero scenario in the criteria of identifying companies that “has no commitment to reduce carbon emissions, reduction targets, disclosure of information, etc., and does not show any approach toward improvement in high GHG emission sectors.” Additionally, our firm expanded the scope of the identification of companies which are described as “despite the absence of a female director at our firm’s engagement target company, no specific consideration to appoint a female director has been given” in the human rights, and health and wellbeing section, from TOPIX 100 companies to companies listed on the TSE Prime Market.

■ Sustainable Investment Framework (SIF)

Level		Level 1	Level 2	Level 3-1	Level 3-2	Level 4
		Companies that are making progressive efforts to achieve their goals	Companies with significant potential for improvement in their efforts to achieve their goals	Companies that raise concerns about negative social impacts from the perspective of ESG materiality and are at risk of damaging corporate value in the medium to long term, but are expected to make improvements by addressing the issues	Companies that raise concerns about negative social impacts from the perspective of ESG materiality and are at risk of damaging corporate value in the medium to long term	Companies that have an extremely high degree of negative social impacts from the perspective of ESG materiality and are at high risk of significantly damaging corporate value in the medium to long term
Investment	Impact investment Sustainability purpose investment ESG leader	Investable	Investable	Investable	To be excluded	To be excluded
	Transition ESG integration Other active funds	Investable	Investable	Investable	Investable	To be excluded
Exercise of voting rights (proposal for director's election)		Voted for	Voted for	Voted for	Vote against in principle when there is a lack of progress in addressing issues at companies subject to our engagement	Voted against in principle
Engagement activity		Normal response	Normal response	Engagement based on importance	Engagement based on importance	Engagement based on importance

■ Exclusion criteria

×: No investment

	Exclusion criteria	Impact investment	Sustainability purpose investment	ESG leader	Transition	ESG integration	Other active funds
Climate change	Sales of thermal coal accounts for 20% or more of total sales, and there is no concrete reduction or withdrawal plan toward net zero	×	×	×			
	Sales of coal fired power generation accounts for 20% or more of total sales, and there is no concrete reduction or withdrawal plan toward net zero	×	×	×			
	Sales of unconventional oil and gas* accounts for 20% or more of total sales, and there is no concrete reduction or withdrawal plan toward net zero	×	×	×			
Biodiversity and environmental destruction	Although the company belongs to a high GHG emission sector, it has no commitment to reduce carbon emissions, reduction targets, disclosure of information, etc., and does not show any approach toward improvement	×	×	×			
	Activities that have a serious impact on biodiversity have been found in corporate activities or in the supply chain due to business activities, and efforts for improvement have not been confirmed	×	×	×			
Human rights and health & wellbeing	Environmental destruction and human rights violations have been committed in the extraction of palm oil, and efforts for improvement have not been confirmed	×	×	×			
	Involvement in child labor, forced labor, human trafficking, violations of the ILO Convention, human rights and labor codes in the UNGC Code, activities that significantly violate the OECD Guidelines for Multinational Enterprises have been found in corporate activities or supply chains, and efforts for improvement have not been confirmed	×	×	×			
	Despite the absence of a female director at our firm’s engagement target company, no specific consideration to appoint a female director has been given	×	×	×			
	There have been scandals such as discrimination in diversity, and efforts for improvement have not been confirmed	×	×	×			
	Companies identified to be involved in the manufacture of inhumane or controversial weapons**	×	×	×	×	×	×

* Unconventional oil and gas includes oil sands, oil shale, shale gas, coal bed methane, and coal seam gas

** Cluster munitions, anti-personnel landmines, biological and chemical weapons, depleted uranium munitions, incendiary bombs (white phosphorus), blind lasers, and weapons that utilize undetectable debris



Sustainable Investment Management Structure

To embody our firm’s corporate message “creating a sustainable future through the power of investment,” our firm promotes sustainable investment through the integration and the enrichment of investment products and services on both in-house and external investment. In the Investment Division, which is responsible for in-house investment, we appoint the Sustainable Investment Officer (SIO) and have in place the Sustainable Investment Group as a core organization in implementing the Sustainable Investment Policy for in-house investment. The Sustainable Investment Group, led by the SIO, is a cross-asset class organization of 12 members those are analysts and fund managers from all asset classes (equities, fixed income, etc.). This group is leading the sustainable transformation (SX) promotion for investment management as well as the development of new sustainable investment products and other initiatives. Additionally, we achieve integration of a variety of SX initiatives to both investment process and stewardship activities through collaboration between the Sustainable Investment Group and Stewardship Group, which is responsible for engagement with investee companies.

Just as for in-house investment management, we will also apply the standards of the sustainable investment category in line with the Sustainable Investment Policy to external investment management. Regarding the application of our Sustainable Investment Framework to the external investment managers, we verify their exclusion standards and comprehensively make a judgment on their exclusion practices.

As an asset management company that aims to “create a sustainable future through the power of investment,” our firm will continue to further enhance our investment capabilities, and capabilities for providing product and service, by strengthening our systems and enhancing our initiatives for both in-house investment products and external investment products to achieve sustainability for our clients and all other stakeholders.

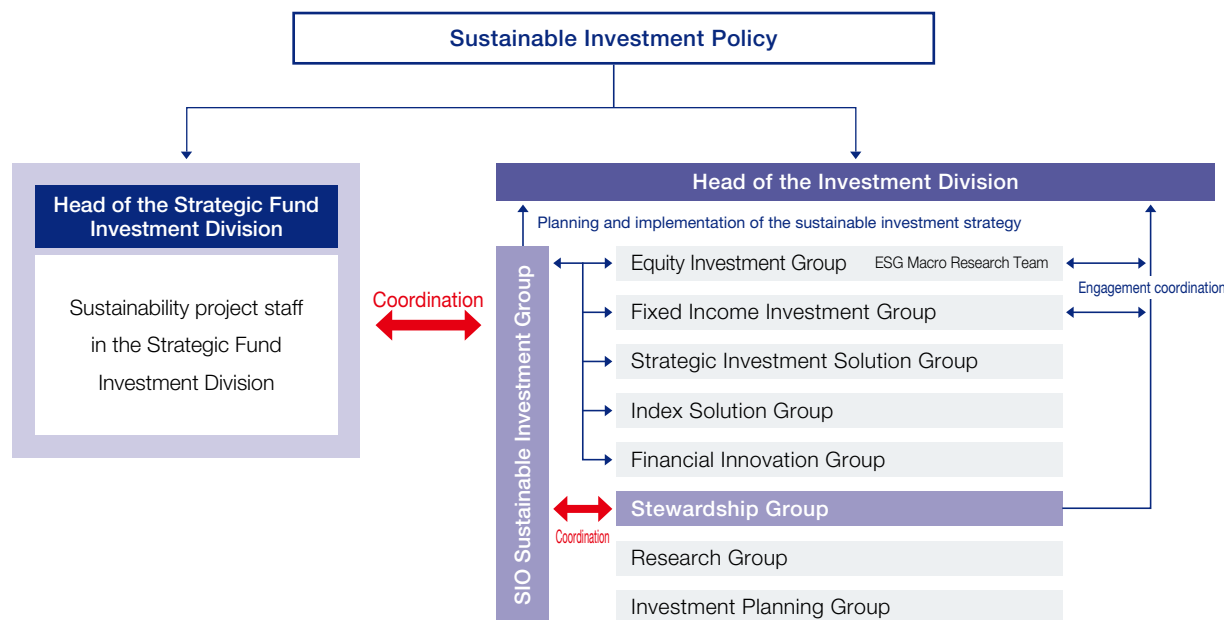
Monitoring of Sustainable Investment Strategy

We believe that regarding investment products with ESG or sustainability related words as part of their names, the ESG characteristics pursued by the fund and the actual portfolio composition need to match. The compliance department of our firm monitors if the ESG criteria are complied with by the ESG funds defined by the ESG naming rules, as part of investment risk management. For example, an ESG fund of our in-house investment management is unable to hold stocks of companies which fall under level 3-2 of the Sustainable Investment Framework. (See the SIF Table

on page 55). Subject ESG funds are monitored on a daily basis whether they have stocks of level 3-2 companies.

Additionally, the investment division monitors the fund level ESG scores along with financial performance for in-house equity investment at the meeting for monitoring and assessing monthly fund performance. We measure and manage weighted average carbon intensity (WACI) of funds on a firm-wide level, which is measured as one of the net zero assessment criteria. The WACI is monitored as a critical indicator for climate change risks at the time of and after the creation of the investment product.

Sustainable investment management structure



ESG Integration and Score

ESG integration

To achieve our firm’s corporate message “creating a sustainable future through the power of investment,” Asset Management One implements ESG integration into sustainable investment products and investment process. Our implementation of sustainable investment is built on the ESG evaluations of the investee companies.

From the viewpoint of double materiality (evaluated on two perspectives: sustainable materiality and financial materiality), our firm carries out the ESG evaluation having critical global environmental and social issues that should be addressed as an asset management company, as major evaluation items. In evaluating critical issues, we also develop our own multiple evaluation systems depending on the evaluation viewpoint and objectives, applying a variety of asset classes and strategies.

ESG ratings and scores

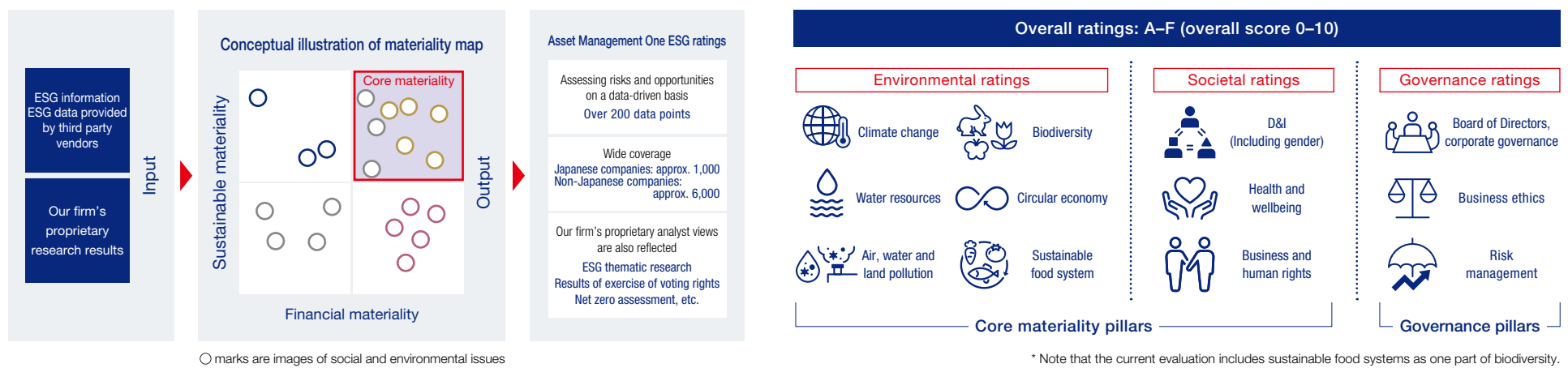
Our firm’s ESG ratings are based on the core materiality of the materiality map and evaluate companies on

environmental, societal, and governance factors in terms of risks and opportunities. The core material issues of the materiality map are issues that are analyzed to be starting to significantly affect the value of the companies. Our firm believes that a pass to increase corporate value can be established by capturing risks arising from these issues and growth opportunities of companies.

To calculate our firm’s ESG ratings and scores, it evaluates nine core materiality pillars and three governance pillars. Our firm makes evaluations by integrating more than 200 pieces of ESG data obtained from vendors and analyst evaluations and analysis. Evaluation of each core materiality is primarily conducted in terms of ESG business risk exposure, management policy, existence of controversies, and revenue from sustainability business. In practice, we obtain data on each company’s ESG initiatives from ESG information vendors and conduct a data-driven evaluation based on these data. Sector analysts and ESG analysts assign weightings to each core materiality pillar using an analytic hierarchy process for each industry. Besides data driven evaluations sourced from third party information

vendors, our firm’s ESG ratings also reflect bottom-up based fundamental research conducted by its sector analysts in terms of evaluations of corporate investor relations and governance, as well as ESG thematic research, a net zero evaluation focused on climate change, the results of exercising voting rights, and the results of the exclusion company list determination as stipulated in the sustainable investment framework.

Currently, ESG ratings are assigned to approximately 1,000 Japanese companies and 6,000 non-Japanese companies, and utilized for in-house active ESG fund management and for the ESG integration process as one of the measures for investment decisions. In utilization for investment decisions of ESG integration process, the ratings are integrated as input information for fundamentals investment ratings for Japanese stock investment or ESG credit ratings. The ratings are also used to measure ESG characteristics of funds and in ESG client reporting.



Impact Investment Framework

In planning and implementing the strategy of Impact Investment, our firm has established the Impact Investment Framework, whose objectives are to set up goals of, evaluate and report “positive and measurable environmental and social impact,” which characterizes the Impact Investment.

Impact investment framework

“Environmental and social impact” refers to environmental and social effects occurred as a result of business activities or provision of products and services. Intending to create positive impact and to suppress negative impact through our firm’s investee companies, our firm takes impact into consideration in respective phases of Investment Strategy, Stock Selection, Engagement, and Reporting as shown in the figure below, in reference to domestic and foreign guidelines, etc.

In the Investment Strategy phase, we identify environmental and social issues (impact) that we as the fund seek to solve, and then establish the goal and strategy. In the Stock Selection phase, we evaluate stocks in three phases: (1) Positive screening (sustainable business assessment), (2) Negative screening, and (3) Impact analysis. In the positive screening mentioned in (1) above, our firm calculate its unique score for stocks based on the business composition ratio that is evaluated based on the Sustainable Business Assessment Criteria, and select stocks above a certain level as candidates for investment. Next, in the negative screening mentioned in (2) above, we exclude unqualified stocks according to the exclusion criteria of the Sustainable Investment Framework. Lastly, in the impact analysis mentioned in (3) above, we analyze impact created by our investee companies, using Impact Frontiers’ “Five dimensions of impact,” which consists of What, Who, How much, Contribution, and Impact Risk, on a multifaceted basis. In the Engagement phase, we will engage in dialogue with the investee companies, prompting them to enhance information disclosure, mitigate negative impact, and create positive impact. In the Reporting phase, we will report in the impact report on the impact generated through such activities of

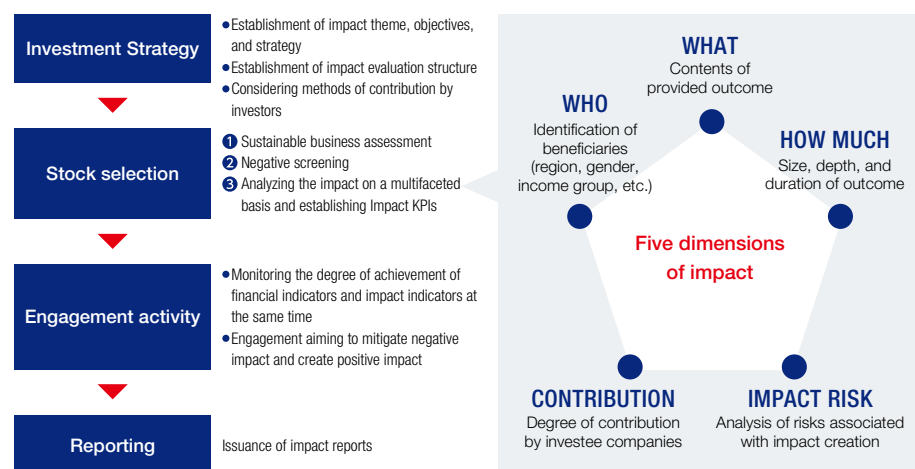
investee companies as well as on our activities as the investor.

Sustainable Business Assessment Criteria

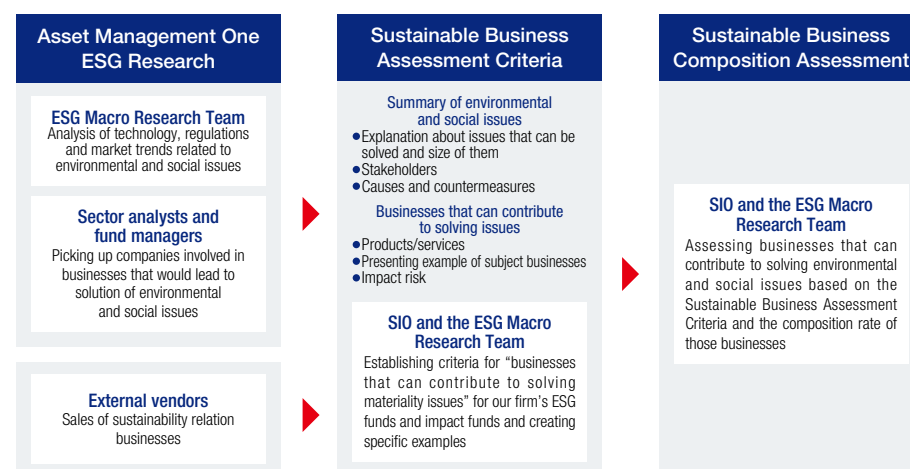
In our society, businesses that aim to solve environmental and social issues entail a variety of practical implementation levels and technical levels; therefore, analysis of a sustainable business often involves the manager’s personal view. Additionally, some technologies and services that solve environmental and social issues create unintended negative impact. Therefore, to add objectivity to managers’ investment decision, our firm established its unique Sustainable Business Assessment Criteria with the aim to work on screening of businesses that are helpful to solve environmental and social issues.

In our firm’s Sustainable Business Assessment Criteria, the ESG Macro Research Team conducts research on “summary of environmental and social issues” (explanation about issues that can be solved and size of them, stakeholders, and causes and countermeasures) and “businesses that can contribute to solving environmental and social issues” (criteria, example cases, and risks) and make a list. When selecting stocks, our analysts dedicated to the relevant sector will evaluate the issue solving capability through the technology and services of the company as part of their ESG thematic research, in reference to the “ESG Macro Research (Materiality Analysis)” (technologies, regulations, market trend, etc. regarding environmental and social issues) researched by the ESG Macro Research Team. In the stock picking process, we also refer to assessments by external vendors of sales from sustainability related businesses. Among them, the stocks whose rate of composition of businesses that are in compliance with the Sustainable Business Assessment Criteria exceed our firm’s designated level will become candidate stocks to be included in the fund that aims to create impact. The quality of evaluations is ensured by supervising the assessment by the SIO.

Asset Management One impact investment framework



Asset Management One sustainable business assessment flow



ESG Research

ESG macro research

The ESG Macro Research Team, which was newly established in October 2021, conducts research analyzing trends of political measures and issues of social structure, which exists inside global environmental and social issues (materiality) defined in our firm's materiality map, as well as changes in the market and solutions of these issues.

While individual companies are analyzed based on the bottom-up approach in the conventional sector research, the materiality is analyzed based on the top-down approach in the ESG macro research. By integrating them, we achieve quality ESG thematic research and investment ideas.

Sector analysts and ESG macro research analysts engage themselves in discussion repeatedly, assess business models and technologies that solve environmental and social issues, leading them to corporate level ESG thematic research.

Strengthening ESG research along with conventional bottom-up research methods (Visualization)

Introduced as of October 2021
Top-down approach



ESG research

ESG Macro Research Team

Top-down research that analyzes technology to solve issues and potential risks from a medium to long-term perspective related to the environment and societal issues (materiality)

ESG quantitative analysis

Collecting and analyzing quantitative data related to non-financial information such as greenhouse gases (GHG) across industries

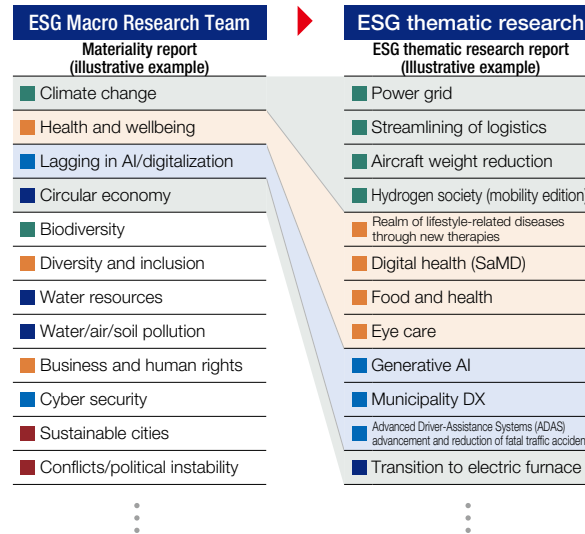
Integrate the two approaches into one team



Conventional bottom-up research

Bottom-up research following quarterly results, companies' strategies, and business environment

Conventional method
Bottom-up approach



Research case

The materiality of "sustainable cities" is connected with environmental and social issues regarding the housing supply shortage and infrastructure development (electricity, transportation, telecommunication, water supply, and sanitation field, etc.) associated with population growth in urban areas mainly in emerging countries. It is also connected with social issues related to regional economic promotion (employment creation and infrastructure maintenance) associated with population decline in regional areas in mature countries such as Japan (natural and social population decline). With respect to the first mentioned housing supply issue, the burden of housing expenses are considered excessive if housing expenses account for 40% or more of the disposable income. Families with a heavy expense burden can be forced to choose whether to pay the rent or allocate money to other important expenditure, such as medical care, food, clothes, and education. Affordable housing will be one of the measures to solve the issue. With respect to the second mentioned regional economic promotion, the social population decline is caused as a large number of people move to metropolitan areas mainly to find employment or attend higher education. Therefore, promoting creation of employment opportunities in regional areas (by means of establishing companies' headquarter functionality and plants, etc.) will help to solve this issue.

ESG thematic research

Sector analysts conduct ESG thematic research related to individual themes based on results of the ESG macro research and discussions within the team.

In the thematic research, we establish the theme from various perspectives with viewpoints of the sector's sustainability characteristics and investment ideas. We conduct research on our investee companies in connection with each theme and list companies related to sustainability theme as well as surveying matters including the ratio of the businesses that solve social and environmental issues to net sales. The company lists and information materials regarding composition rate to net sales, which are created by sector analysts have become underlying information of our firm's ESG rating and Sustainable Business Assessment Criteria for Impact Investment Framework. Additionally, the results of the ESG macro research and ESG thematic research information are subject to sharing as critical information input to fund managers, and constitute ESG flagship research in equity investment. We also apply them to the engagement activities with investee companies.



Minoru Hamaguchi Co-head of Equity Research
Setsuko Yano ESG Macro Research Senior Analyst
Takanobu Kii ESG Macro Research Analyst
 Equity Investment Group, Investment Division



ESG Integration in Fixed-income Investment

Credit analysis with ESG Credit Scores

We need a different approach in the incorporation of ESG elements in the case of bond investment compared with the case of equity investment. At our firm, ESG integration in Japanese fixed income investment is implemented through the use of its proprietary ESG Credit Scores in its investment process. Our firm's proprietary ESG Credit Scores evaluate environmental and societal issues related to the focus areas identified in the materiality map and governance factors that affect credit risks, with a viewpoint of importance to the sector and the time horizon over which the impact on creditworthiness will materialize.

The characteristics of our firm's credit scores are that (1) the idea of double materiality is added (significance from both the financial and sustainability perspectives are considered) and (2) a long-term (10-year) time horizon is added apart from conventional creditworthiness analysis. Due to these characteristics, we can understand potential impact on creditworthiness in advance and utilize this knowledge for the investment process.

Using our unique ESG Credit Scores as a foundation, our experienced and dedicated credit analysts conduct in-depth research, etc. through direct interviews with the issuer and strengthen ESG creditworthiness analysis through proactive engagement with the bond issuer. Additionally, we incorporate a variety of focused ESG issues into assessment. In the latest fiscal year, we further refined the definition of transition risks of climate change, further clarify cyber risks, and take other similar measures to promote score revision. We also expanded assignment of scores to more overseas issuers. These ESG credit scores are utilized for product presentations to our clients and response to queries from clients about due diligence, supporting explanations about the ESG integration.

For actual investment decisions, even in cases where evaluation of the ESG Credit Score has been made in negative direction, we do not necessarily mechanically exclude a company from our portfolios. Instead we reflect

Features of ESG Credit Scores



the score in investment decisions according to product characteristics through analysis of creditworthiness, including financial impact on B/S forecasts.

Our approach to the growing issuance of ESG bonds

To enhance active returns, our firm is actively analyzing and expanding investments into ESG bonds, which have been increasingly issued in recent years, considering the criteria of their schemes, yields, and spreads. ESG bonds include green bonds, social bonds, transition bonds, sustainability bonds, and sustainability-linked bonds. The face value amount that our firm invested in ESG bonds was US\$ 458 million (53 bonds) in FY2022, and US\$ 610 million (65 bonds) in FY2023 (as of the end of June).

In analyzing the ESG bonds, we check the sustainability structure of the issuers and analyze the degree of compliance with the requirements for use of proceeds, process for project evaluation and selection, management of proceeds, and reporting, which are defined in principles such as the Green Bond Principles, as well as the progress of achievement of the sustainability performance targets established. In an environment that calls for further promotion of initiatives toward achievement of net zero emissions by 2050, our firm will actively engage in

ESG bond investment performance (Japanese bonds)

	FY2021		FY2022		FY2023*	
	Face value (million USD)	Number of bonds	Face value (million USD)	Number of bonds	Face value (million USD)	Number of bonds
Green bonds	462	32	95	17	236	21
Social bonds	290	24	128	11	159	14
Sustainability bonds	123	16	174	13	92	15
Sustainability-linked bonds	100	4	22	6	24	5
Transition bonds (including linked bonds)	27	3	38	6	99	10
Total	1,001	79	458	53	610	65

* As of June 30, FY2023

sustainable bond investment, including GX Economy Transition Bonds.

ESG bonds are expected to become a source of funds for countermeasures for ESG issues including climate change within the country. We will increase the effectiveness of improving investment sustainability by checking the use of the funds.



Collaboration with External Partners

Due diligence of ESG information vendors

Our firm adopts ESG data and assessments of multiple external information vendors as input information regarding various ESG assessments. Those are mainly purchased from MSCI, ISS ESG, RepRisk, Sustainalytics and utilized as information sources for portfolio creation and ESG ratings and scores created in the firm, and as basic information to identify stocks in which investment will be restricted in the Sustainable Investment Framework (controversy research, involvement in the manufacture of controversial weapons, etc.).

The ESG information provided by those external vendors is essential to our firm's ESG integration and sustainable investment product management. Meanwhile, our firm is responsible for investment decision as the party which utilizes the ESG information provided by the external vendors. As part of quality management for the ESG information our firm uses, it regularly conducts due diligence on domestic and overseas ESG information vendors with whom our firm has contracts. We conducted due diligence on nine vendors during a year up to the end of June 2023. In the due diligence process, we check the vendors' corporate profile, management situation, policy and structure for ESG research, research process, quality management, compliance and risk management, marketing situation, and participation in national and international initiatives. As a result of the due diligence, we concluded that no critical issue was discovered that would cast serious doubt on the reliability of ESG data.

In 2017, our firm started utilizing an engagement service by EOS at Federated Hermes ("EOS") in carrying out engagement with investee companies in global market except Japan. As part of monitoring the external engagement service, our firm participates in EOS annual client feedbacks throughout the year and also participates in EOS biannual client advisory council events, and provides detailed feedback on EOS services there and ideas on the priorities in the annual engagement plan.

During the reporting period from July 2022 to June 2023, our firm's representative attended five engagement meetings with investee companies organized by EOS and confirmed the engagement approach taken by EOS and the quality of their engagement activities. As a result, our firm found that EOS took

actions in response to a variety of input from our firm.

ESG due diligence in the external investment

From the viewpoint of delivering better investment products, our firm also widely utilizes investment capability of external partners. Our firm applies its Sustainable Investment Policy to such external investment products with the aim to implement ESG integration and exclusion.

To ensure that initiatives for external investment take root, we established "Management Essentials to Implement Sustainable Investments for External Investments" in March 2023, introducing the adoption of avoidance criteria for external investment from a ESG viewpoint. As external investment managers have a variety of different ideas and philosophies regarding sustainability, our firm intends to comprehensively determine the exclusion (investment exclusion) criteria under our firm's Sustainable Investment Policy by assessing and respecting their unique initiatives instead of directly applying internal thresholds for in-house managed funds. Accordingly, in this fiscal year, we started assessing ESG initiatives of respective external investment managers by conducting ESG due diligence, which is independent from regular due diligence, on

them and their respective investment products in accordance with the abovementioned Management Essentials.

Our firm does not intend to exclude investment strategies through the use of these ESG assessments. Our firm will aim to promote sustainable investment to build a sustainable society in collaboration with external investment managers through constructive dialogues. Since the introduction of the Management Essentials, we have conducted ESG assessment of 54 external investment managers and held ESG meetings with many external investment managers. Through these efforts, our firm has prompted its external investment managers to implement exclusion criteria equivalent to those specified in its Sustainable Investment Framework and strengthen their ESG characteristics reporting.

Going forward, we will continue to carry out engagement with our external investment managers to proactively develop strategies that can secure not only financial returns, but also social returns. Through the ESG assessment conducted to our external investment managers from April to November 2023, we are aware of each external investment manager's initiative toward ESG and we have identified engagement items for some of our external managers for future constructive dialogues.

ESG due diligence at the external investment

A Policy and organizational structure	B Exclusion	C Investment objectives and targets
<p>Evaluation and monitoring of ESG-related policies as an asset management company</p> <ul style="list-style-type: none"> ● Responsible investment policy ● Stewardship policy ● Organizational structure related to ESG ● Training status related to ESG ● Status of engagement initiatives ● Situation of adoption of international standards ● Presence or absence of ESG-related KPIs ● Policy for respective focus areas and status of initiatives ● GHG emission measurement and reporting framework ● Policy on and framework of exercising voting rights 	<p>Assessment and monitoring of the asset management company or its exclusion policy in its investment strategy</p> <ul style="list-style-type: none"> ● Presence or absence of breach of adoption avoidance criteria ● Presence or absence of exclusion policy for each focus area ● Acceptance or rejection of our firm's Sustainable Investment Policy 	<p>Investment strategy</p> <p>ESG-related investment objectives and targets</p> <ul style="list-style-type: none"> ● ESG-related investment target ● Impact-related investment targets ● Intention to solve ESG-related issues ● Establishment and measurement of ESG-related KPIs
	D ESG integration in investment process	E Disclosure
	<ul style="list-style-type: none"> ● Method of using external data ● Presence or absence of ESG ratings ● ESG-related monitoring ● Presence or absence of ESG analysts and method of utilizing them ● Status of ESG integration in each process ● Concrete method of ESG screening ● Presence or absence of ESG-based divestment criteria ● Target ratio of applicable ESG screening 	<ul style="list-style-type: none"> ● Presence or absence of Sustainability Report and contents ● ESG-related disclosure (Acceptance or rejection of our firm's criteria)

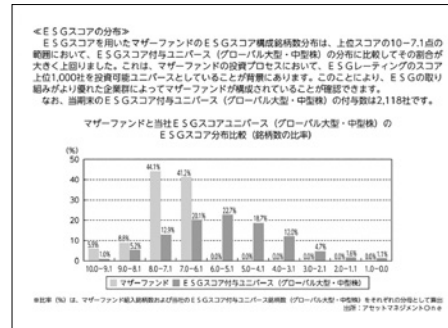


ESG Disclosure

Information disclosure to clients at ESG-related funds

Our firm believes that it is important to report on the characteristics and effectiveness of the ESG-investment products to clients who have high expectations with them. Accordingly, our firm has introduced ESG naming rules, and assesses and reports on ESG characteristics of investment products with the name of ESG or ESG-related. The contents of reporting differ depending on the strategy; however, they principally include results of measurements of principal elements of ESG strategy at the portfolio level, ESG characteristics of the top holding stocks and reasons of holding, information regarding engagement, information about carbon emissions of the portfolio as part of disclosure regarding risks of climate change. In the case of publicly offered investment trust, such information will be annually disclosed as part of information in the investment report at the end of fiscal year, helping clients understand ESG characteristics. We have also started individual investment reporting on ESG strategy to institutional clients. Through the disclosure of information regarding ESG funds in accordance with our firm's ESG naming rules, in addition to the reporting on active funds, we report on ESG index funds in terms of reasons for choosing the ESG index for the strategy and whether the ESG characteristics expected by clients are achieved after measuring the degree of achievement of the ESG characteristics.

Images of ESG reporting in the investment reports



＜マザーファンド保有上位10銘柄のE S Gスコア・ランキング・レーティング＞

No.	銘柄名	国	業種	比率 (%)	E S Gスコア (ESG)	ESGレーティング	ESGスコア (ESG)	ESGレーティング	
1	COMPASS GROUP PLC	イギリス	一般消費・サービス	5.6%	7.7	5.6	5.4	8.3	B
2	KVLEM INC	アメリカ	資本財・サービス	5.2%	8.3	8.8	5.7	6.3	A
3	MACKROPSIDY CORP	アメリカ	機械部品	5.1%	7.4	7.4	6.6	5.6	B
4	ROBERT TOWERS PERRIN & ASSOCIATES INC	アメリカ	不動産	4.2%	6.8	6.3	5.0	7.3	B
5	VINCI SA	フランス	資本財・サービス	4.5%	7.0	8.1	4.4	5.7	B
6	ACTOON HOLDINGS CORPORATION	アメリカ	一般消費・サービス	4.3%	6.9	7.3	6.2	5.1	B
7	ROBERT TOWERS PERRIN & ASSOCIATES INC	アメリカ	不動産	4.1%	7.1	6.6	7.3	5.4	B
8	KROGER CO	アメリカ	食品・消費財	3.9%	6.9	5.7	7.3	6.0	B
9	BOSTON SCIENTIFIC CORP	アメリカ	ヘルスケア	3.8%	6.9	5.8	8.0	5.1	B
10	ELGA CHY	チェコ	IT/ソフトウェア	3.5%	6.2	6.1	5.8	6.4	B

※E S Gスコア付与ユニバース: グローバル大型・中型株 (E S Gスコア付与銘柄: E S Gスコア付与銘柄数/保有銘柄数) (E S Gスコア付与銘柄: E S Gスコア付与銘柄数/保有銘柄数)

Example of contents of ESG reporting on ESG fund

- Explanations regarding ESG assessment that characterizes the ESG strategy
- Information regarding top 10 stocks being held and their ESG characteristics
- Analysis of ESG characteristics at the fund level (ESG rating distribution, comparison with the benchmark, ESG scores at the fund level, etc.)
- Information regarding top five stocks being held and reasons for holding from the viewpoint of ESG
- Carbon emissions and net zero characteristics of the fund

ESG information disclosure at the external investment fund

Our firm also strives to fulfill its investment and reporting responsibilities for our firm's external investment products in the same manner as mentioned above. For example, for the Global ESG High Quality Growth Stock Fund, Future World (ESG), we request the external investment manager to provide ESG information and report ESG characteristics analysis of the stocks held by them, assessment results, and reasons for holding their top holding stocks in the investment report. Additionally, we have established a special website with enhanced ESG information disclosure of the fund, providing a variety of information regarding ESG characteristics of the product and sustainability topics that our firm's fund managers focus on. The monitoring process and example cases of the external investment funds are listed in pages 61 and 67.

Images of ESG reporting of externally managed investment fund "Future World (ESG)"

Product Focus All Japan Carbon Neutral Strategy

The purpose of this strategy is to encourage the Japanese stock market to commit to carbon neutrality, thereby boosting the overall market. As environmental and social sustainability draws attention globally, we intend to promote reform in the stock market through the power of investment, thereby leading the Japanese market to carbon neutrality.

As the Paris Agreement was adopted in 2015 to address climate change, governments worldwide have launched a variety of measures against climate change. Amidst the declaration of carbon neutrality targets by Japanese Government, there is a growing expectation for corporate efforts toward achieving carbon neutrality. While we have been a member of the Net Zero Asset Managers Initiative (NZAM) since its inception, the formation of the Glasgow Financial Alliance for Net Zero (GFANZ), which includes NZAM within its framework, encourages various entities in the financial industry to commit to achieving net zero emissions (meaning reducing net greenhouse gas emissions to zero). Considering the movements in society and the financial industry, we are also contemplating the introduction of the All Japan Carbon Neutral Strategy (this "Strategy"), as a mission of an asset management company. The main goal of this strategy is to support Japanese companies in transitioning to carbon neutrality and boost the stock market.

Feature 1. Investing in a wide variety of Japanese companies while reducing carbon emissions

Under this strategy, we will widely invest in the Japanese stock market and work on carbon neutrality through the reduction of weighted average carbon intensity ("WACI") of the portfolio and other measures, thereby supporting the transition of Japanese companies as a whole to carbon neutrality. We believe that efforts to promote the realization of a carbon-neutral society will boost the stock market, thereby leading to growth of assets entrusted by clients. The fund WACI incentivizes Japanese companies to reduce their emissions by establishing rules consistent with pre-determined reduction rates toward the net zero target.

Feature 2. Reflecting alignment to the net zero scenario into weight allocation

We also back up proactive initiatives for the net zero target through the rule of the portfolio establishment to increase the weight allocated to companies that are highly rated in the assessment of alignment to the

AM-One All Japan Carbon Neutral Strategy

Achieving transition to a low carbon society and boosting the Japanese stock market as a whole

AM-One's research capability

Assessing corporate initiatives toward carbon neutrality

- Best analyst team in Japan
- Comprehensively assessing and analyzing sustainability initiatives as well as corporate finances



AM-One's engagement capability

Assisting corporate initiatives toward carbon neutrality

- Ranked No.1 by external evaluation* for four consecutive terms
- Appointed to manage "engagement-enhanced passive investment" by major public pension investment fund

* Based on the survey results of Mizuho Research & Technologies, Ltd.

net zero scenario. By keeping a high weight allocated to companies considered to be adapting to net zero, we encourage more and more companies to introduce targets and strategies to achieve a decarbonized society. (See page 17 for details of the Assessment of Alignment With Net Zero Scenario)

Feature 3. Reflecting the progress of climate change engagement into weight allocation

We assist companies in increasing their net zero alignment through engagement activities with them led by our firm's experienced analysts with proven track records. Our net zero engagement considers the technology road map toward net zero of each sector and shows a path each company should take provided by analysts with sector expertise and our ESG analysts. We monitor the progress of our engagement and will raise the holding weight of stocks of engagement target companies whose progress of initiatives toward net zero is confirmed.

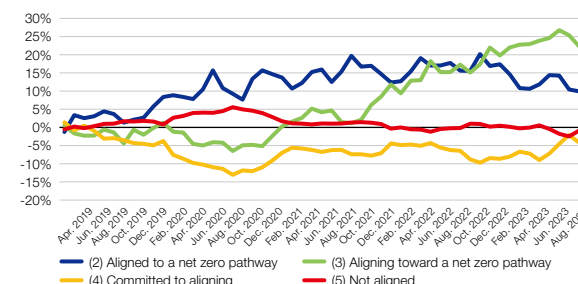
With the combination of the assessment of alignment of companies to the net zero pathway and our strength in engagement, the power of investment will be concentrated in companies whose initiatives are progressing. Meanwhile, we expect this combination will encourage initiatives by companies with lower assessments, creating a virtuous cycle where transition toward carbon neutrality will further accelerate.

The impact of corporate activities on climate change now cannot be ignored, and it is believed that it will affect mid- to long-term returns on the stock market. Our goal is to support Japanese companies in their efforts toward carbon neutrality, thereby boosting the overall stock market. To such ends, we intend to invest in the Japanese stock market widely together with investors who pursue sustainable growth.



Toru Hanayama Fund Manager in charge of quantitative investment
Shoichiro Aoyama Fund Manager in charge of quantitative investment
Hiroshi Kawada Fund Manager in charge of quantitative investment
 Index Solution Group, Investment Division

Analysis of excess return for each net zero alignment assessment result



Analysis conditions: Companies subject to analysis are 427 companies, equivalent to 95% of Financed Emission of TOPIX. The excess return was calculated as the excess return of the simple average portfolio for each assessment result (to the simple average return of all the companies subject to analysis). The return analysis period was from April 2019 to August 2023. This analysis is the assessment of past performance over a certain period and does not guarantee future investment results.

Source: Created by Asset Management One based on the BARRA Model



Product Focus One Global Focused ESG Equity Fund (DC Pension)

Our firm believes that companies responsible for economic activities must proactively work on ESG issues with mid- to long-term perspectives to ensure sustainable growth of the society. Accordingly, in this strategy, we select companies that possess the characteristics of “companies necessary for achieving a sustainable society,” and can address ESG issues in the medium to long term, while generating high cash flows. Companies are required to continuously address ESG issues as far as they exist. By addressing ESG issues, operating high-value added businesses, and generating cash flow efficiently, they can allocate those financial resources to human capital investment, further research and development activities, improvement of the production process, establishment of a sound supply chain, etc. By selecting companies that can promote such initiatives, we can increase growth opportunities of the companies included in the portfolio and control business risks, thereby pursuing both financial returns and robust ESG characteristics. This Strategy is classified in the ESG Leader of the Asset Management One Sustainable Investment Framework.



Shota Kai
Fund Manager
Global Equity Investment Team
Equity Investment Group,
Investment Division

Feature 1. Creating an effective investment universe using ESG ratings and scores

Among global stocks, approximately the top 1,000 stocks in terms of our firm’s proprietary ESG ratings and scores are classified in the investment universe. Through this classification, we can create an investment universe consisting only of companies that are proactively engaged in addressing ESG issues.

Feature 2. Focusing on cash flow generating capability

In order to ensure that companies can promote ESG initiatives in the medium to long term, we can select companies which can generate cash flow more stably and engage themselves in virtuous activities to achieve a sustainable society.

Feature 3. ESG integration in the portfolio construction

In the portfolio construction process, we consider perspectives of (1) “expansion of opportunities” where profit growth is expected through the proactive ESG initiatives and (2) “business risk control,” which indicates the progress of response to ESG factors hindering sustainable growth of companies, while carrying out fundamentals analyses.

Investment case US water resources business company A

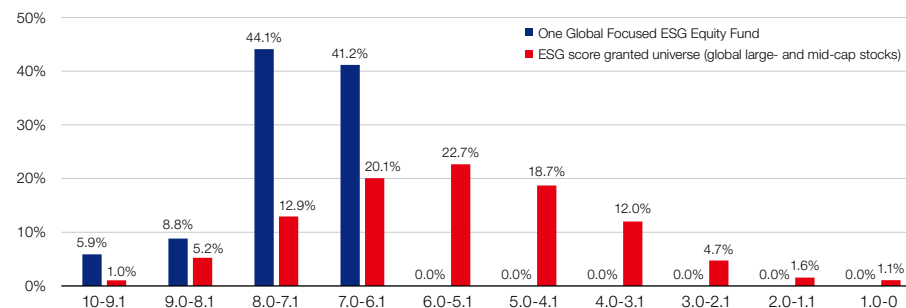
Company A is a leading company of water-related equipment and measurement equipment in the United States. It carries on business globally and has a customer base in a wide range of industries including the utility sector. With its water source related business accounting for 100% of its net sales, it provides access to a variety of clean technology products and services through its industrial machinery products. According to a UNESCO report, it is predicted that approximately half of the world’s population will experience absolute water scarcity by 2050. Under this situation, Company A works to reduce water disaster risks and provides access to water in emerging countries in collaboration with NPOs by utilizing its water-related know-how.

Perspective of ESG integration in the portfolio construction

Expansion of opportunities	
<p>Companies providing products and services in connection with ESG issues of the society</p> <p>Example (1): A water-related company which provides solutions for global water shortages</p> <p>Example (2): An IT consulting company which provides digital transformation (DX) that effectively cuts carbon footprint of clients</p>	<p>Companies benefiting from society’s growing interest in sustainability</p> <p>Example (1): A food service company which successfully acquires clients by meeting needs for vegetable-based menus and carbon label disclosure</p> <p>Example (2): A grocery store which successfully acquires clients by proactively working to expand health-conscious food lineup</p>
Business risk control	
<p>Companies with excellent ESG initiatives</p> <p>Example: Companies with particularly excellent ESG initiatives compared to other companies in the same industry</p>	

ESG score of One Global Focused ESG Equity Fund

The distribution of the number of constituent stocks based on ESG scores in this fund is significantly higher in the proportion of stocks in the score range of 10-7.1 than the distribution in the ESG score universe (global large and mid-cap stocks). The background to this is that in this fund’s investment process, we consider the top approximately 1,000 companies based on their rating and scores as an investable universe. This indicates that the portfolio is composed of companies that take better ESG initiatives. As of the end of the fiscal year under review, the number of companies included in the ESG score granted universe (global large and mid-cap stocks) is 2,118.



(Percentages (%) were calculated having the number of stocks included in this fund and the number of the stocks included in the Asset Management One’s ESG scores granted universe (global large- and mid-cap stocks) as denominators. The ESG scores were calculated within 0-10 points range.) As of June 5, 2023
Created by Asset Management One



[Product Focus] Japan ESG Bond Fund (Tentative)

Through investment in ESG bonds, we are preparing to launch products that aim to contribute to making improvements in environmental and social issues. This strategy aims to address the environmental and social issues identified through our three focus areas in the materiality map: “climate change,” “biodiversity and environmental destruction,” and “human rights and health & wellbeing.” We select investment targets that align with these areas and specifically invest in ESG bonds with the purpose of making a positive impact on these issues. With this strategy, our aim is to achieve both financial and social returns. Additionally, we will publicly announce the investment effects from a social return perspective in the impact reports of the fund. This will be done after

organizing the contents of the impact reports by gathering impact information released by the ESG bond issuer companies.

Feature 1. Detailed analysis of ESG factors

We are conducting a comprehensive risk analysis considering various factors regarding ESG bonds that could be potential investment candidates. These factors include the use and management of funds, evaluation by third-party certification agencies, and the potential effects of candidate ESG bonds in addressing social issues. We analyze these risks in detail to determine whether the bonds have the desired impact and align with our investment objectives. In particular, with the recent

increase in issuance of sustainability-linked bonds and transition bonds, these bond types have also become investment targets. Therefore, we also focus on evaluating and analyzing the sustainability initiatives of these issuer companies. In the evaluation of initiatives of issuer companies, we will make analyses referring to the details of engagement with the aim of our net zero alignment assessment and promoting transition, while referring to the provided data from ESG information vendors.

Feature 2. Bond integration considering ESG factors

This Strategy is based on thorough analysis of the creditworthiness and fundamentals of bonds we include in the portfolio. Additionally, we will pursue stable returns by incorporating our proprietary ESG credit score analysis, which helps mitigate downside risks.

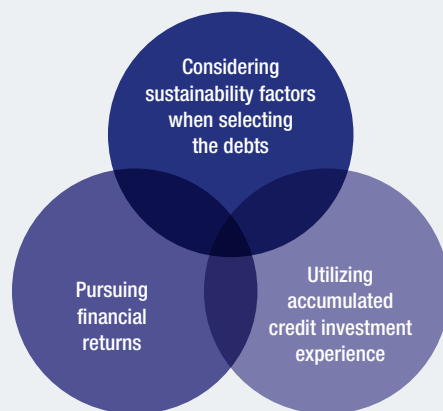
Feature 3. Making use of our presence in the bond market

Our investment performance in the Japan bond market is top-tier among asset management firms. We aim to achieve the earnings target by leveraging our information gathering ability and positioning ability as well as our strong presence in the market.

We expect that ESG bond market will continue to expand due to expectations as a source of funds for addressing ESG issues including climate change, demand from investors who want to strengthen initiatives for sustainability, and the framework development and fiscal support from the governments. Through initiatives of this strategy, we intend to increase the sustainability effects of investment, thereby contributing to solving social issues.

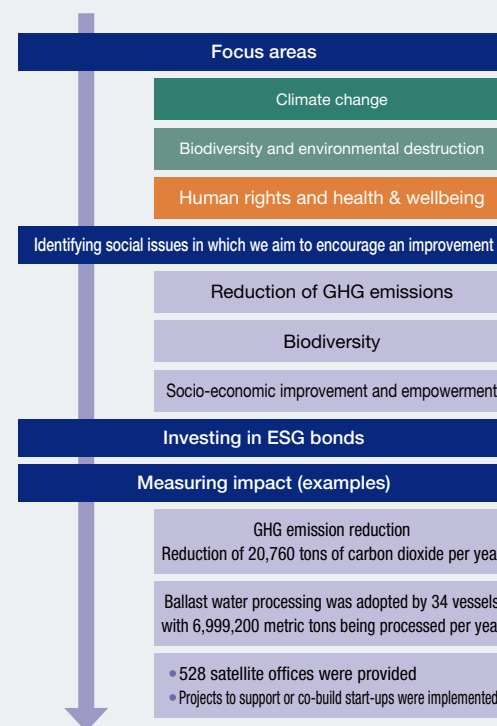
Objectives of the strategy

- Detailed analysis of risks peculiar to ESG bonds
- Reporting of impact generated by investee ESG bonds
- Expectation for mid- and long-term downside control by excellence of ESG bond issuer companies



- Earning stable returns through the selection of debts with emphasis on creditworthiness
- Flexibly controlling risks of interest rate rise through the use of bond futures, etc.
- Top class scale of investment in the Japan bond market among asset management firms
- Proven information gathering ability and positioning ability utilizing strong presence in the credit market
- ⇒ Also demonstrating our capabilities in ESG bond positioning and market supply and demand analysis

Impact reporting (conceptual explanation)



Seiji Ogiwara Chief Credit Analyst
Haruyasu Kato Fund Manager
Ryo Kakimoto Fund Manager
 Fixed Income Investment Group, Investment Division



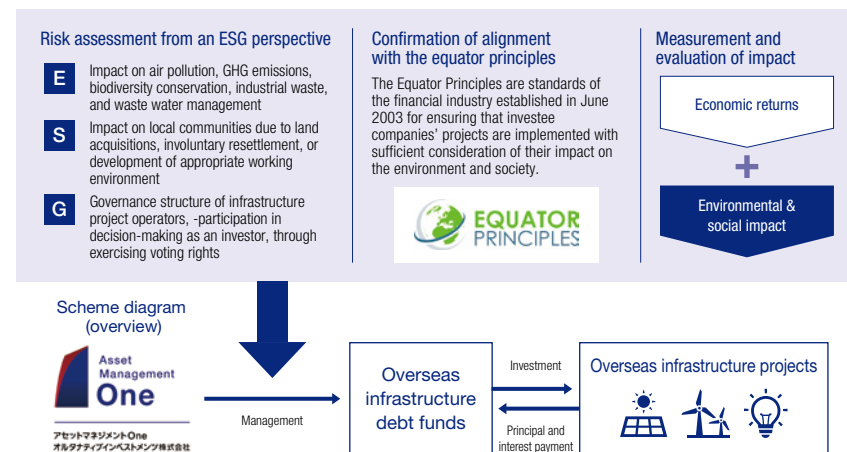
Product Focus AMO AI Infrastructure Debt Investment Strategy

Asset Management One Alternative Investments (AMOAI) is an asset management company specializing in alternative investment and is under the umbrella of (wholly owned by) Asset Management One. AMOAI engages itself in the in-house management of global infrastructure debt funds as part of sustainable investment.

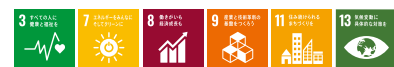
ESG integration into infrastructure debt funds

AMOAI manages funds as an investment manager (IM) of global infrastructure debt funds. These infrastructure debt funds have an investment philosophy of “Essentiality” and incorporate ESG perspectives in the investment and monitoring process. Additionally, those funds make selective investments in essential projects aimed at developing social infrastructures that are fundamental to everyone’s life. These investments align with our goal to achieve a sustainable world through infrastructure investment, in turn contributing to achieving the United Nations’ Sustainable Development Goals (SDGs). AMOAI adopted the Equator Principles in November 2021 and funds managed by it only invest in projects that comply with these principles. In their unique impact assessment guidelines, these funds also quantitatively and qualitatively assess positive impacts on the environment and society created by the investment target infrastructures. The results of these evaluations are continuously disclosed to investors. In the impact assessment, these funds overlook the entire value chain of the infrastructures to which investments are made, and quantify positive impacts on the environment and society as much as possible. The funds managed by AMOAI are classified as Article 8 funds under the European Sustainable Finance Disclosure Regulation (SFDR).

ESG integration into infrastructure debt funds



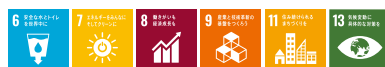
Spain Expressway project



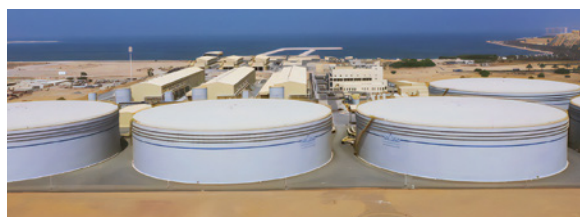
This project manages an expressway with a combined length of 53 km, contributing to improving people’s access to transportation infrastructures and contributing to achieving SDGs Goals of 3, 7, 8, 9, 11, and 13. This express way is a major mean of transport to the city center for the people living along it and has an average traffic volume of approximately 40,000 vehicles per day. Along the expressway, there are a shopping center, an industrial cluster, and two general hospitals, contributing to local economic development and employment. Additionally, bicycle lanes are installed on the expressway from the city center to the end of the road, allowing people to enjoy cycling. LED lighting was introduced in 2022, reducing power consumption by approximately 60%.



UAE Seawater desalination project



This project operates one of the largest seawater desalination plants in the world with the desalination capability of 150 MIGD (Million Imperial Gallons per Day), stably supplying water in water-poor UAE and contributing to achieving SDGs goals of 6, 7, 8, 9, 11, and 13. The capacity of water production under this project can meet daily water consumption needs of approximately 1.36 million people (the average daily water consumption per person is 500 L). The water produced is used for residential, commercial, and industrial purposes. Japanese reverse osmosis membrane technologies, which are incorporated in seawater desalination processes, have been utilized for many years. This project improved its energy use efficiency by utilizing the reserve osmosis membrane method with high energy usage efficiency.



Spain Prison project



This project maintains and manages facilities of a prison capable of accommodating 1,000 inmates, an operation of building an infrastructure essential to society and contributing to achieving SDGs goals of 3, 4, 8, 10, and 16. Among nine housing blocks, two of them accommodate female and minor inmates. In these facilities, vocational training and cultural activities are provided or performed with the aim to encourage the inmates to return to the community through reeducation. As of September 2023, 400 inmates undergo training. Textile products such as cushion covers manufactured as part of the training are sold at major home furnishing retailers and purchased by companies as part of their social contribution efforts.



Product Focus] Global ESG High-Quality Growth Equity Fund (Nickname: Global ESG)

Global ESG is a fund newly established in July 2020 as the 5th fund of the Future World Series. In the Global Series, ESG assessments have been incorporated in the investment process since the first launch. Global ESG further strengthens the ESG assessments, utilizes ESG as a key factor in establishing its portfolio, and is categorized as a “ESG Leader” in our firm’s Sustainable Investment Framework. We have invited and interviewed Mr. Marc Fox from Morgan Stanley Investment Management, who is responsible for ESG for this strategy. The interviewer was Cun Yu (Jack) Wang, who is in charge of ESG in our firm’s external investment.

Wang: Tell me about the strategy, philosophy, and principles of Global ESG.

Fox: The core of this strategy is to invest in high-quality companies at attractive prices and earn excess returns. To discover investment ideas and determine long-term risks and investment opportunities that companies have, we utilize our evaluation of companies’ ESG alignment. We hope to have a positive impact on society through this strategy.

Wang: How do you incorporate ESG in the investment process?

Fox: First, strong ESG constraints. We will not invest in companies engaged in the production of alcohol, tobacco, fossil fuels, weapons, etc., or providing gambling services as these might have a negative impact on society. In addition, from the perspective of governance, we will not invest in companies in which the central government holds more than 20% of the shares.

Next, the research process. From an ESG perspective, we utilize our proprietary HELP & ACT Framework for each security to analyze

negative and positive impacts. We give top priority to shareholder interests. At the same time, we look for companies that contribute to the world in terms of health, environment, liberty, and productivity.

Wang: Tell me the reasons why you choose the seven fields of the HELP & ACT Framework.

Fox: These indicate our core value. For example, we have emphasized AGENCY (management responsibility) for 20 years while HEALTH & ENVIRONMENT directly lead to SDGs. Additionally, ESG data, etc. is too extensive, and we believe we can better focus our assessments by specifying the seven fields.

Wang: In determining the weight, you use the medal weightings of “Gold,” “Silver,” and “Bronze.” What kind of securities are granted Gold?

Fox: Although companies with strong ESG alignment have already been identified at the research phase, securities which ESG factors are more strongly connected to the increase in corporate value in the long term will be granted Gold.

Wang: Are there any criteria for identifying stocks or bonds that are not a good fit for this strategy? Or, are there securities in which you did not invest despite their excellent ESG characteristics?

Fox: The first type is those in violation of ESG constraints, and the second type is those do not fulfill ESG minimum standards. We have excluded an investment of a logistics company or cement production company before because of GHG emissions or use of single-use plastics. And the third type is the companies whose competitive advantage was not identified through the fundamentals analysis. Although environmental technologies such as solar or wind power generation have a positive impact from an ESG perspective, they lack competitiveness. So, we do not invest in them on the ground that they

are not suitable for long-term value creation.

We only invest in companies that we believe can achieve long-term excess returns. Therefore, we prefer companies with strong alignment between value creation and ESG.

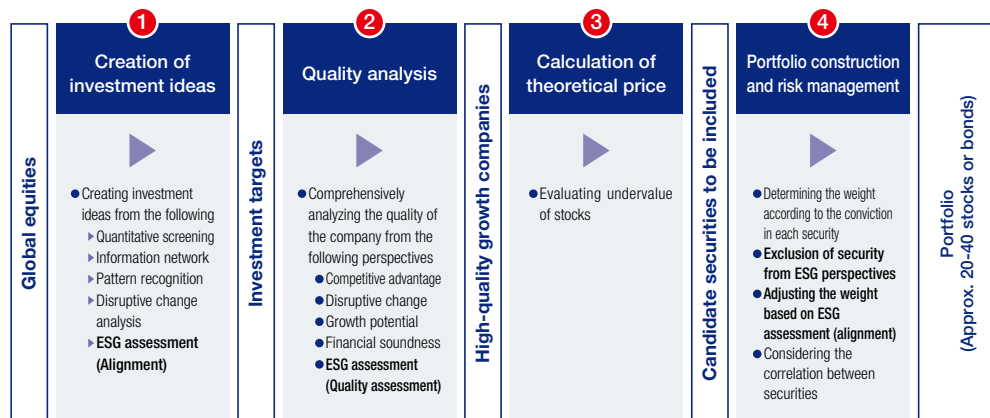
Wang: How do you differentiate this Strategy? What do you think is the uniqueness of this strategy?

Fox: I think too many ESG funds are taking a narrow approach such as simply excluding problematic companies or relying upon assessments by third parties. If the manager does not integrate ESG into the investment strategy and take ownership of the relationship between the quality of investee companies and ESG, the ESG alignment is meaningless. I think such analyses will become separated from financial analyses and wither.

Our core DNA is to select individual stocks on a bottom-up basis. This means we must understand individual companies and consider how the ESG alignment will affect the company’s earnings, costs, and cashflow based on relationship with the community, clients, employees, and suppliers, thereby understanding long-term risks and opportunities of businesses in the end.

Wang: Lastly, is there anything you want to achieve through the investments under this Strategy?

Fox: We want investors to experience that they are making positive changes in society without sacrificing financial returns. Morgan Stanley Investment Management will allocate funds to sustainability efforts, focus on investing companies with big ideas, and implement what I have explained today through this Strategy.



HEALTH	Aiming to improve quality of life and health of every person
ENVIRONMENT	Protecting the earth and people by mitigating climate change and its impact
LIBERTY	Emphasize liberty, equality, privacy, and safety
PRODUCTIVITY	Securing and improving sustainable production and consumption patterns
AGENCY (management responsibility)	Being a management team which can align the direction of profits with shareholders and expand the profits
CULTURE	Respecting innovative corporate culture, adaptivity, and creation of shared value*
TRUST	Thoroughly ensuring that information is appropriately and accurately disclosed under strict corporate governance

* Creating Shared Value (CSV) refers to the management framework which intends to simultaneously achieve “social value” and “corporate value,” which will be created by solving social issues through companies’ business.



Cun Yu (Jack) Wang
Strategic Fund Investment Division
Multi-Manager
Business Development Group
Executive Manager

Marc Fox
Managing Director
Morgan Stanley
Investment
Management

Source: Created by Asset Management One based on information offered by Morgan Stanley Investment Management



Chapter 4
Moving Forward Together with Stakeholders



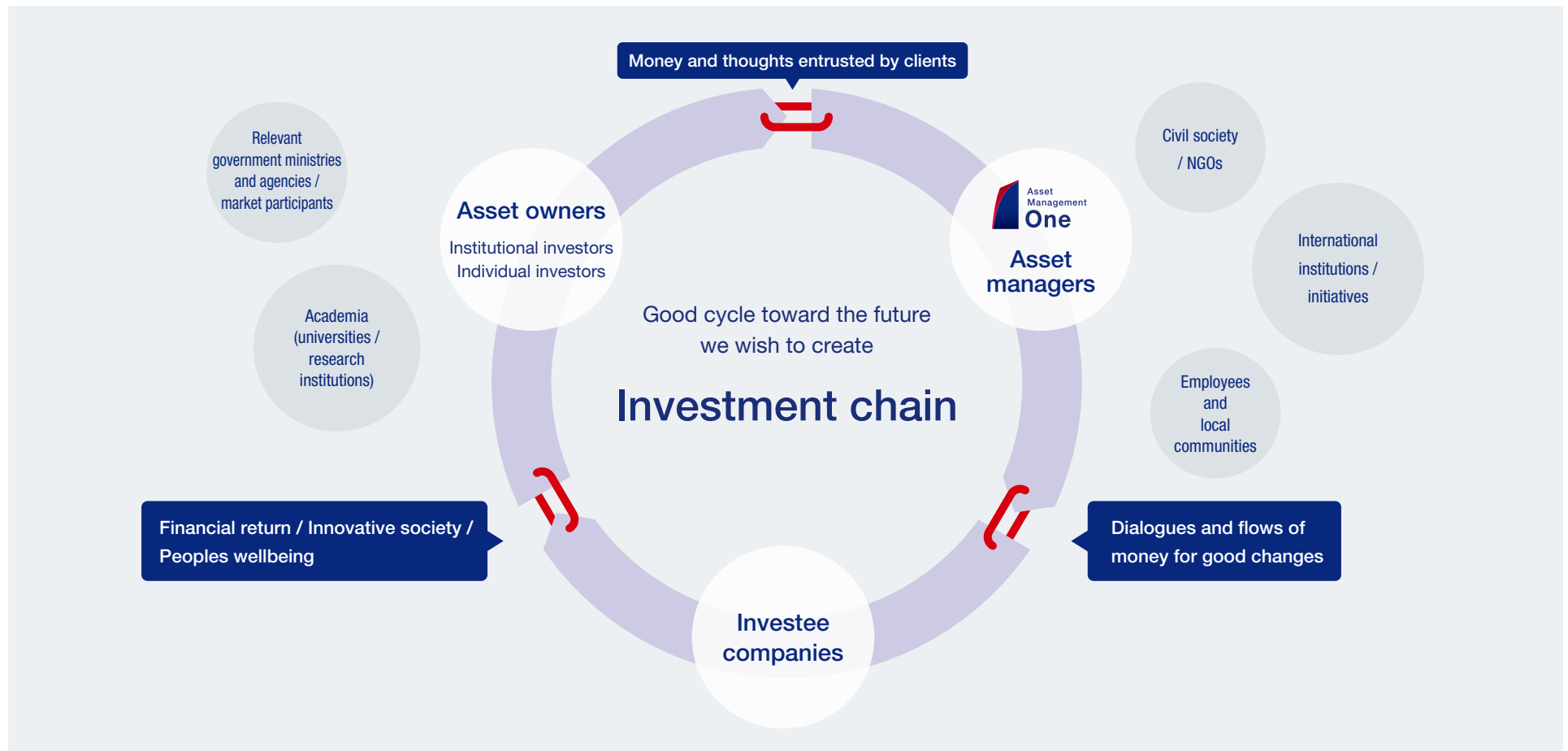
Creating a Sustainable Future through Dialogues with Stakeholders

To create the future we wish to, it is essential to co-create together with clients and other stakeholders. The investment chain where we play a part depends not only on direct participants but also on the support of many stakeholders. As we play a significant role, our responsibility is to bridge the aspirations entrusted to us by our clients, strengthen the flow of investments, and drive positive changes in the corporate value of investee companies toward a better society.

We believe that dialogue with stakeholders is crucial for this purpose.

Listening to clients to deepen our understanding of their real challenges, thinking together, and proposing a solution they have not found yet. Having dialogues with civil society and NGOs regularly and recognizing each party's sincere efforts. Implementing business operations putting a great deal of emphasis on communities involving employees and their families.

We value each of these “dialogues.”



From Clients' Points of View

Engagement with Our Institutional Investors –Implement measures from clients' points of view by taking into consideration their situations–

We are working together with a total of 411 clients/institutional investors (as of June 30, 2023), including public pension funds (8), employees' corporate pension funds (255), financial institutions (113), and business corporations/incorporated educational institutions (35), and manage assets worth about 36.4 trillion yen. We offer a wide variety of investment methods and products in all asset classes to address clients' various asset management needs and issues.

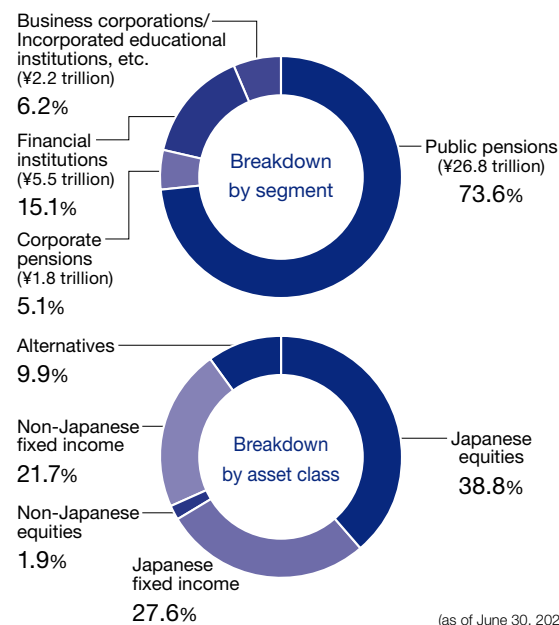
Since the last fiscal year, our firm has carried out the questionnaire with regard to sustainable/ESG investment in order to gather further feedback from our clients. The questionnaire asked about clients' implementation of sustainable/ESG investment, criteria for investment decisions, expectations and concerns of investment, and others. The data has provided us with valuable insight into clients' current status. We share the feedback received from our clients with related parties at our firm and utilize it to improve qualities of the products and proposals we provide to our clients as well as our support for sustainable/ESG investment initiatives and others.

We believe that we can concurrently achieve both financial returns (economic profits) and social returns (social profits) from a long-term perspective. Even in the short term, as many investors and stakeholders promote economic activities that focus on a perspective of sustainability, it is essential to consider social returns in order to ultimately achieve financial returns. On the other hand, the results of the above-mentioned questionnaire revealed that clients' implementation of sustainable/ESG investment differs depending on the environments surrounding them, and we believe that it is difficult to take single action for all. In addition, the International Sustainability Standards Board (ISSB) released the finalized global sustainability disclosure standards, and the Sustainability Standards Board of Japan (SSBJ) is expected to publish the finalized Japanese standards based on the ISSB's standards by the end of March 2025, which may have significant impact on disclosure trends of Japanese companies. Furthermore,

regulatory developments around sustainable/ESG investment have made huge progress both within and outside Japan. For example, the Financial Services Agency released the Report by the Working Group on Impact Investment.

With our conviction, we will try to deepen our understanding of regulatory developments in Japan and abroad, help clients to fulfill their fiduciary responsibilities from their point of view and provide various support such as quantitative analysis utilizing various tools in consideration of not only products we offer but also the overall status of their entire portfolio. We are committed to incorporating the opinions of our clients with a diverse set of values and to co-creating investment services together with clients, which consider well balanced financial and social returns.

■ Institutional investors in Japan



Takeshi Miki
Executive Officer
Head of Institutional Marketing Division



Client Survey 2023

Summary of survey results

[Overview of survey]

Questionnaire about the view on sustainable/ESG investment of clients of Asset Management One Co., Ltd. and Mizuho Trust & Banking Co., Ltd.

[Purpose]

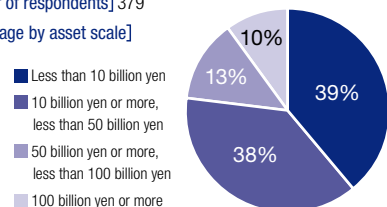
To understand trends of sustainable/ESG investment including clients' attitudes towards sustainable/ESG investment and criteria for investment decisions

[Survey period] From August 14, 2023 to September 30, 2023

[Survey method] Interview (online, in-person, or via telephone)

[Number of respondents] 379

[Percentage by asset scale]



In FY2022, our firm carried out the first questionnaire with regard to sustainable/ESG investment in order to hear feedback on a deeper level. For the second questionnaire in FY2023, thanks to the cooperation of 379 clients, we could conduct a survey about their attitudes towards sustainable/ESG investment, criteria for investment decisions, expectations of investment, and other relevant aspects, which was more in-depth than in the latest fiscal year. The survey, which was conducted together with Mizuho Trust & Banking Co., Ltd., provided us with a clear understanding of the actual situation of sustainable/ESG investment of a wide range of clients that gives us a certain level of overview of the current status of the industry. We would like to express our sincere appreciation again for those who cooperated in the questionnaire this year despite their busy schedule. We will present a brief explanation of the results of the survey.

Current status of initiatives for sustainability and ESG, and developments from the previous fiscal year

76% of the respondents said that their parent entities/corporations have implemented sustainability/ESG-related initiatives. Only 26% of them have reflected the initiatives in asset management. Compared with 19% for the latest fiscal year, although the survey universe for this fiscal year was slightly different from that for the

last fiscal year, the result suggests that more entities/corporations have become more conscious about reflecting sustainability/ESG in not only their main business but also asset management.

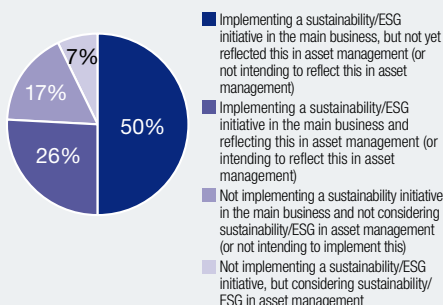
Regarding a question about changes in initiatives for sustainable/ESG investment from the last fiscal year, 60% of the respondents chose "no particular change," which accounted for the largest proportion. Conversely, 34% of the respondents said that they had more positive discussions with their parent entity/corporation or within their organization, or more sustainable/ESG products have been adopted or cited as new investment product candidates, which can confirm that more and more clients aim to implement initiatives actively.



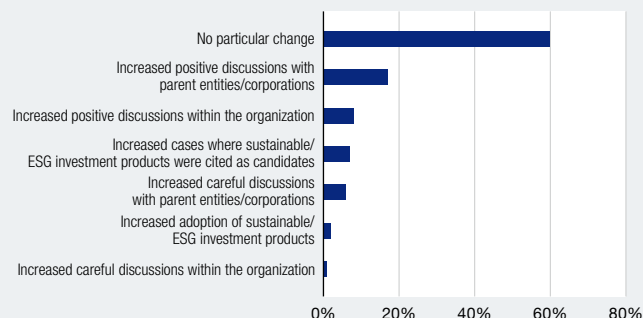
Kana Tomimatsu

Institutional Marketing Planning Group

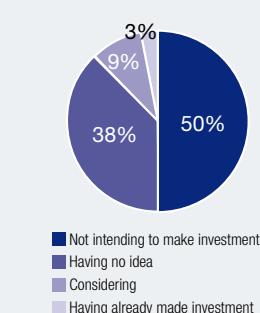
Q Which of the following best describes the parent entity/corporation's initiative for sustainable/ESG investment and how it reflects the initiative in asset management?



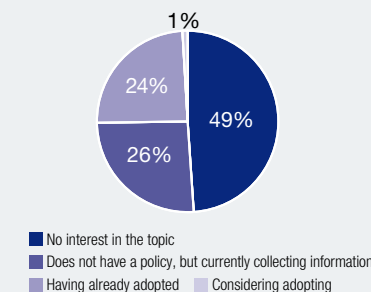
Q Did initiatives for sustainable/ESG investment change from the latest fiscal year?



Q Does the entity have an interest in impact investment?



Q Which of the following describes the entity's status of investing in sustainable/ESG investment products?



Interests in impact investment

In terms of impact investment (investment that has a clarified investment purpose of having positive social impact from reducing carbon emissions and discloses the quantitative effect, along with a purpose of growing entrusted assets), which has gained stronger attention as shown by the Financial Services Agency's release of the Report by the Working Group on Impact Investment and other documents, only 3% of the respondents said that they have already made impact investment. When combined with those who said they were considering, the ratio increased to 12%.

Adoption of sustainability/ESG products

In response to the question about the adoption of sustainable/ESG investment products, 49% of the respondents said that they had no interest, which made up the largest proportion. 25% said that they had already adopted or were considering adopting them. 26% of the respondents said that they did not have a policy with regard to sustainable/ESG investment products, but were currently collecting information with regard to the topic. In the survey conducted in the last fiscal year, we asked a similar question, and 28% of the respondents answered that they had already adopted or were considering adopting such products, which shows no significant change from the last fiscal year.

Regarding the background/reason for adopting or considering adopting sustainable/ESG investment products, 30% of the respondents, which constituted the greatest share, said that it would contribute to revenue growth or risk mitigation from a

medium- to long-term perspective. The result shows that many clients believe that they could concurrently achieve both financial returns from a medium- to long-term standpoint, in our view. 21% of the respondents, which made up the second largest proportion, said that it would contribute to the diversification of investment styles. In the various investment environments, the diversification of investment styles plays a key role in achieving stable returns. Under such circumstances, clients identify sustainable/ESG investment products as revenue sources along with value and growth products and believe that they would lead to sophisticated investment style diversification, which represents an interesting outcome. 19% of the respondents said that they preferred products that would contribute to society more among products at the same return level. This can confirm that clients pay attention to social contribution while placing utmost importance on financial return.

Looking, in contrast, at the background and reasons for not adopting sustainable/ESG investment products, 36% of the respondents, which accounted for the largest proportion, said that the benefits of adding them to portfolios could not be explained. This was followed by 30% of the respondents who said prerequisites for sustainable/ESG investment had not been developed. As the monitoring of ESG greenwashing (claiming to consider ESG factors but not actually doing so) by financial authorities in each country has been getting more stringent in recent years, disclosure standards for sustainable/ESG investment is developing. The survey result shows that there are many clients who closely watch the development. In September 2023, the US Securities and Exchange Commission (SEC)

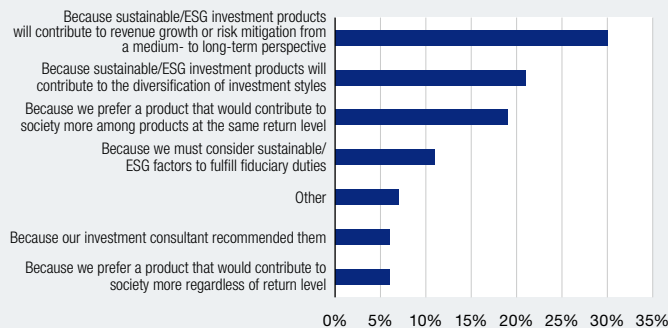
adopted a new rule for sustainable/ESG investment and, particularly, tightened a rule for fund names. Including this action, standards for sustainable/ESG investment have been developing in Japan, the U.S., and European countries. We expect that the number of the respondents who say prerequisites for sustainable/ESG investment have not been developed will decrease in the future.

The results of the survey on sustainable/ESG investment have shown us that clients' awareness of and attitudes toward sustainable/ESG investment that differ depending on the environments surrounding them. Therefore, we will continue to provide information on regulatory developments in Japan and abroad appropriately and support our clients with careful consideration of their concerns and issues.

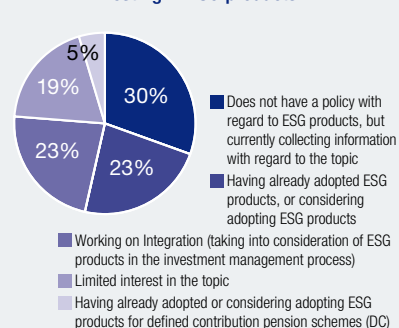


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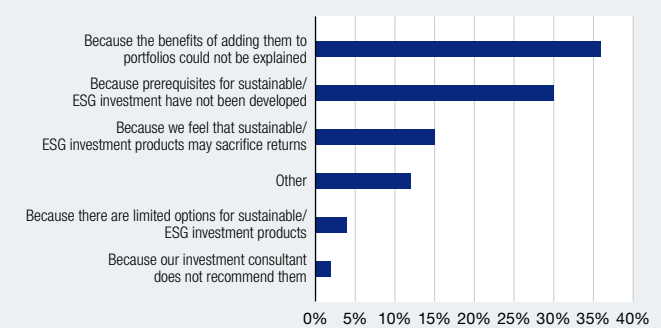
Which of the following best describes the background/reason of having adopted sustainable/ESG investment products?



[Reference: Result of FY2022 survey] Which of the following best describes the entity's position with regard to investing in ESG products?



Which of the following best describes the reason why the entity has not adopted sustainable/ESG investment products?



Solutions from Clients' Points of View

Institutional Marketing Division has Business Development & Investment Solutions Group, which evaluates clients' portfolios and provides solutions for the outcome of review. When providing solutions, the group utilizes dedicated tools, conducts multifaceted sets of analysis, including evaluation at an asset allocation level, analysis of the manager structure, presenting proposals of portfolio redevelopment, back testing, stress testing, peer comparison, and analysis of different interest rate phases, by using objective data and makes proposals that are deemed most appropriate to clients.



Kenji Uematsu
Business Development & Investment Solutions Group,
Institutional Marketing Division

Practical pursuit of sustainability from clients' points of view

I used to be a fund manager of Japanese equities and, since summer 2022, have been taking charge of sustainable investment products at Business Development & Investment Solutions Group. I have a great interest in the ESG as one of non-financial information because I, as a fund manager, placed importance on non-financial information such as the brand power of companies. Meanwhile, at the beginning, I questioned whether investors may sacrifice financial returns for social returns when considering about sustainability from a perspective of investment. In the investment chain, our clients as an asset owner have final beneficiaries, therefore it is understandable if they prioritize financial returns.

Currently, I have discussions with clients, most of whom are private pension funds and financial institutions, and understand that attitudes toward sustainability vary greatly from client to client. There are a wide variety of clients including those who need impact investment products that can measure social returns, those who need products that pursue financial returns by utilizing ESG factors, and those who need products focusing on sustainability with the equivalent risk characteristics as index products. However, what is common to all clients is pursuing financial returns while having a willingness to contribute to society through investment as much as they can. There is the ideal of sustainability that solves environmental and social issues. We face a question how we can integrate this ideal into the investment to support our clients.

Solutions that incorporate sustainable investment products

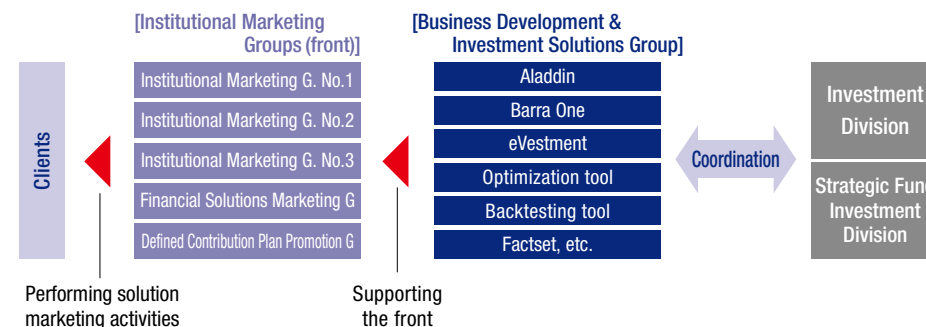
Companies' attitudes toward sustainability are reflected in their respective corporate brands and represent significant indicators based on which partners, consumers, and investors select the

companies. Therefore, it has become common practice for companies to implement sustainability initiatives to increase corporate value. As implementing sustainability initiatives is becoming a megatrend, investment companies as asset managers believe that it would provide quality investment opportunities in terms of asset management and generate new value in terms of products.

Business Development & Investment Solutions Group analyzes clients' portfolios and proposes portfolios that are most appropriate for clients. Regarding equities, we analyze investment styles by using various tools and sometimes propose rebalancing styles. As one of such solutions, we introduce products including sustainable investment products. We think that sustainable investment products are not necessarily something special for clients and believe firmly that these products will be a part of their portfolio once clients are convinced of the products' concepts or performance as similar to other products.

We would be grateful if our solutions are utilized to solve clients' issues or meet their demands.

Positioning of Business Development & Investment Solutions Group



Examples of Dialogues with Clients

According to the results of the Client Survey, it is proved that many clients seek ESG products that would lead financial returns. With this point in mind, we will create a lineup of products in diverse investment styles to meet the various clients' needs and make efforts to develop a better portfolio together in consideration of their concerns and issues.

Company A Corporate pensions

Assuming ESG would lead active return in the future, confirmed that Company A has been selecting products and aiming to also select DC products by disseminating this effort among employees.

- ▶ Proposed preparing handouts, creating web pages and contents to be utilized via the intranet to educate employees.

Confirmed that Company A preferred measurable products that would show specific numbers, for example, "reduction of CO₂ by X% through investment"; in other words, that would make them understand the effectiveness of the investment.

- ▶ Proposed investment ideas that promote GHG reduction in Japanese equities and received feedback that Company A would consider those ideas.

Company C Financial institution

Introduced an investment idea that promotes GHG reduction in Japanese equities.

- ▶ Confirmed that (i) there was no strong need to increase the balance of Japanese equities held and (ii) although they have not set up the target to reduce GHG emissions for external investment products at this point, Company C showed a certain interest in the topic given the preparation for the future. Therefore, we proposed a GHG reduction fund investing in non-Japanese equities.
- ▶ Company C said that they would have an internal discussion because they confirmed that the proposed product would curtail GHG emissions while achieving performance to some extent. However, it also expressed a concern about a high TE* relative to the parent index.

* Tracking error

Company B Corporate pensions

Confirmed that there were needs for further diversification for both Japanese and non-Japanese equities including consideration of unconventional ideas such as ESG.

- ▶ After explaining our firm's sustainable investment categories, we conducted factor analysis of multiple ESG products in Japanese and non-Japanese equities, proposed products mapped by style, and presented "performance analysis by style for each interest rate phase."
- ▶ For the sustainable investment category, Received feedback that they preferred ESG leaders as it selected stocks having a better ESG profile and clear exclusion criteria. Also, received another feedback saying, "The performance analysis by style for each interest rate phase" was very useful and made them understand the characteristics of each product, and that they were interested in "Japanese equities a in value type" and "non-Japanese equities b in core type."

Company D Financial institution

Confirmed that GHG reduction was set as one of Company D's internal goals in its investment management from this fiscal year.

- ▶ Proposed an investment idea that promotes GHG reduction in Japanese equities. Received feedback saying that they would like to consider the proposal as one of the solutions.

Confirmed that Company D has another interest in impact investment.

- ▶ Introduced an idea of in-house investment that can be categorized into impact investment according to the internal criteria. Company D expressed some satisfaction with the impact management method but pointed out many issues of identifying social issues to be targeted and the investment targets.



Koya Iwabuchi
Executive Officer
Deputy Head of Institutional Marketing Division



Dialogues with International Initiatives and Civil Sector

■ Dialogue with CDP



CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Since its establishment in 2000, CDP has promoted the improvement of engagement concerning global environmental issues and started its operation in Japan in 2005.



In June 2023, we held a in-house seminar on water security with Ms. Miyako Enokibori, Associate Director of CDP Worldwide-Japan, as guest speaker in order to enhance our knowledge of nature and biodiversity. Also, we have been receiving support from CDP through the Forests Champions Program, which includes portfolio analysis concerning forest risks.

■ Dialogue with Health and Global Policy Institute (HGPI)



HGPI is an independent non-profit, non-partisan think tank established in 2004. In March 2023, we invited Mr Noritake, Director and CEO of HGPI, as a guest speaker for our in-house seminar on "Cutting-edge trends and future prospects in



health, medicine and wellbeing". The topics in this seminar covered the issues and outlook of the super-aging society and the era of chronic diseases including sustainability of the healthcare system and issues of Antimicrobial Resistance (AMR).

Dialogues with Academia (Universities, Research Institutions, etc.)

We identify universities, research institutions, etc. as key stakeholders even though they are not direct participants in the investment chain. We actively engage with universities as educational institutions besides the collaboration for international joint research on passive engagement (See page 51). Taking the opportunity of dialogues with students, we talk about the role of long-term investors in sustainability initiatives and have meaningful discussion with them.

▶ Japan Finance Association Annual Meeting [September 2023]

Toru Terasawa Executive ESG Advisor, Stewardship Group, Investment Division

At the 47th Japan Finance Association Annual Meeting held at the Yoshida Campus of Kyoto University, I took the stage for a panel discussion concerning the common subject of "ESG sustainability and corporate finance: companies and investors." Together with two officers from the other business companies, I participated in the discussion, which was moderated by Mr. Yasunobu Katsuki from Mizuho Securities Co., Ltd., and talked about initiatives focused on sustainable investment and ESG engagement. I stated that we placed importance on corporate management from a long-term perspective and corporate culture as its basis, and also stated that the corporate management aimed to achieve, by 2030, 53% (approximately ¥30 trillion) of our AUM of net-zero-aligned assets, which specifically seemed to sound very new to many academic participants. We had an active discussion on various topics including determining the contents and timeline of dialogues between companies and investors, linking financial information to non-financial information, strategies to promote internal adoption of ESG sustainability management, and systems to utilize investors who received a company's ESG-related disclosures and to evaluate such disclosures.



▶ Welcomed a company visit by Ritsumeikan University's Financial Economics Seminar students. [June 2023]

Third-year students who would start a specialized study in financial economics visited our firm. We provided an interactive lecture on business models, workstyles, and workplace environments in the asset management industry, including an office tour. At the round-table talk, our five employees including ESG analysts and fund managers explained our firm's ESG initiatives, showed enthusiasm for investment, and had a discussion based on questions and opinions of students. We also held a round-table discussion attended by our firm's three new employees, helped them further understand our industry from the standpoint of students, and gave advice on studies and job hunting.

After this program, we received feedback from students saying, "I gained understanding of the system and characteristics of the asset management industry by seeing you ractual business operations." and "I got more interested in investment."



▶ Endowed course at Hitotsubashi University Business School [2018 to 2023]

Mizuho Securities Co., Ltd. and our firm continue to co-sponsor an endowed course, Portfolio Management - Theories and practices - at the Management Analysis Program of Hitotsubashi University Business School (jointly offered by the Faculty of Commerce and Management). In the endowed course, participant students can learn not only basic theories of investment but also practical knowledge of investment from technical lecturers. We think that this course has fostered future stakeholders and facilitated communication with financial and capital markets.

Participant students can manage investment by themselves and enhance risk management skills for fields other than investment by learning portfolio theories before getting into the real world. Also, those who have an interest in our business will lead to establishment of a partnership in the future.

We will contribute to society while developing a long-term relationship with the students as they grow.

Examples of curriculums

- Fixed income investment analysis
- Derivatives investment analysis
- Asset management strategies (Plan-Do-See)
- Macroeconomic scenario projection
- Equities investment with bottom-up approach
- Risk management
- Utilization of Big Data/AI for asset management

▶ Lecture at Keio University [July 2023]

Yoshinobu Muraoka Chief ESG Analyst, Stewardship Group, Investment Division

I had a speech titled "ESG and engagement activities in the view of Asset Management One" as part of the course, "Introduction to data-driven finance," with the proposal of Professor Teruo Nakatsuma at the Faculty of Economics. This course is designed to give students a wide understanding of the impact of the recent advancement of technologies on financial practices. I took the podium because the scope of the financial practices study on the course was expanded to cover non-financial information this year.

In the lecture, I explained basic knowledge including the history and importance of ESG and our firm's efforts as an investor to increase corporate value in details, while introducing examples of our firm's engagement activities. After the lecture, I received feedback from students saying, "I understood the current status of ESG investment and engagement activities." I would like to continue to share the knowledge I have gained through my career with students.



▶ Lecture at the Faculty of Engineering of Saitama University [December 2022]

Megumi Sakuramoto Executive ESG Analyst, Stewardship Group, Investment Division

At the Faculty of Engineering of the Saitama University, I teach a class titled "Overview of the modern society" with the aim of having students develop a sense of ownership over SDGs, which tend to be covered by liberal arts studies, and enhance basic knowledge and understandings which can be linked to specific contributions in the future.

In the class, I explain what finance can do for sustainable development of the world and how companies tackle social issues covered by SDGs.

Specifically, I say that, in order to pursue the sustainable development of the world, companies that have a mutually dependent relationship with society need to not only pursue the short-term profit but also conduct business management with awareness of environmental and social issues in line with the goal of achieving sustainable development and that it is important to invest in such companies that run business in order to change the world.

Also, I introduce cases of companies with which I, as an ESG analyst, have dialogues regularly and explain how each company connects solving social issues with revenue growth, highlighting the significance of innovation in this process.

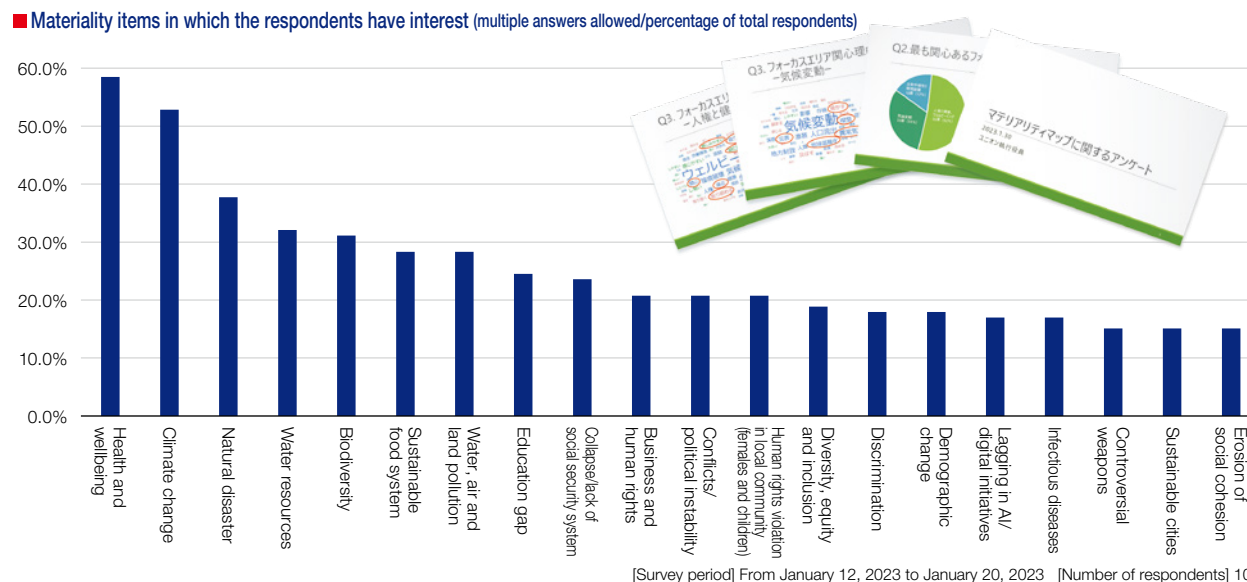
Dialogue with the Employees Union

In the Materiality map, our firm organizes significant issues to address as an asset management company. In the annual review in 2022, we incorporated the process of dialogues with employees who are key players. Specifically, we conducted an employee survey in collaboration with the Asset Management One Union. Then, we conducted dialogue sessions with those who had an interest and members of the Materiality Map Update Task Force.



Reiko Miyazaki
Asset Management One
Union Chair
(at the time of writing)

The Asset Management One Union is a majority labor union composed of more than 500 employees. Since the establishment of the company in 2016, we have been engaging in dialogues with the company from various perspectives including bonuses and working conditions. It was very significant for us as a stakeholder to have an opportunity to exchange dialogues with the company for the update of the Materiality map. What opinions do we have about material issues as our own business in our daily lives? Our firm believes that,



through having employees revisit the question, they help contribute from the bottom up to our firm’s sustainability initiatives and the corporate message of “creating a sustainable future through the power of investment.”

We received many opinions from the respondents in the employee survey on material issues. What the employees had the greatest interest in was “Health and wellbeing.” As seen from feedback saying, “The COVID-19 pandemic gave me more opportunities to think about my health and how I live in the future. I have a strong interest in how I can live a better life without depending on palliatives,” I recognize once again that the society that changed dramatically during the COVID-19 pandemic had enormous impact on individuals’ way of life and that each employee requires a workplace where everyone can pursue his/her ideal

wellbeing. Also, many employees had an interest in materiality items such as “Climate change” and “natural disasters” and said that these were important for the next generation’s happiness. As employees of an asset management company that advocates “creating a sustainable future through the power of investment,” it has become evident that there is a clear commitment to taking a long-term perspective and addressing these issues. We believe that delivering this honest feedback to the company has created an opportunity to deepen mutual understanding and confidence.

Through continued constructive dialogues, we wish to work together with the company to nurture a future in which all employees will be able to feel that they have achieved their own wellbeing.



Chapter 5

Our Own Actions



“Creating a sustainable future through the power of investment” What Role Should We Play?



Minori Komatsu Executive Officer
Head of Corporate Sustainability Office

worked closely with each division throughout the process of fully incorporating the message into their business plans. We have continuously encouraged and provided a variety of opportunities for employees to take ownership of related initiatives, resonating with the corporate message and purpose personally.

Throughout the process, we have been placing a great importance on engaging in deep reflection and careful consideration of our own thoughts and actions. We didn't come up with new initiatives hastily by using buzzwords or popular terminologies. But instead, in creating our Materiality Map and the framework of our sustainable investment, as well as in establishing our dialogues with clients, we have thought through the related implications and meticulously developed these approaches with care and authenticity. We believe each of these activities serves as the foundation of our organization and contributes to the creation of sustainable future value.

Since March 2022, around 60 members, known as evangelists*, from across our firm's entire organisation have come together to promote the initiative of reflecting on its company brand and the value our firm aims to offer. One result of these activities is the manifesto shown on the title page of this report. We explicitly expressed our thoughts, including our understanding of the power of investment, our envisioned future, and how we can contribute to creating it.

The summer of 2023, spanning from June to August, marked the hottest on record in the northern hemisphere, which has directly

exposed many individuals to the harsh realities of global climate change. This was further evidenced by an unprecedented surge in natural disasters worldwide, inflicting harm upon human lives and other living things on the planet. Actions to combat the climate crisis need to be taken more urgently on a large scale around the world. As a result, there are also various tensions and conflicts at different levels.

Nevertheless, we have yet to lose hope. As an asset management company, who is committed to “creating a sustainable future through the power of investment,” we take responsibilities for preserving and enhancing value of the assets entrusted by our clients, with an aim of helping to deploy capital toward a more sustainable and desired future. It is because we believe that investment helps to unlock the potential of capital, support people's life, and bring prosperity to society.

“What role should we play?”

As the role played by an asset management company is becoming increasingly important, we will continue our journey of reflecting and acting toward the aim of creating sustainable value through investment for our clients and beneficiaries.

* The original meaning of an evangelist is a person who tries to convert people to Christianity. The evangelist plays a role of not only teaching new ideas but also taking actions in practice and having influence as an embodiment. The project members have been assigned to work with each business division in this brand project.

In January 2021, we established our corporate message, “creating a sustainable future through the power of investment,” to define our purpose and role in society. Immediately after that, we launched a project to integrate this message into corporate management. We have



People and Organizations as a Source of Value Provision

As the Japanese government has launched a lot of supportive measures to promote the change of Japan into an asset management nation such as the expansion of NISA (Nippon Individual Savings Account), making the NISA scheme permanent, and the establishment of the Organization for the Promotion of Financial and Economic Education, the entire of the asset management industry is getting a huge tailwind. On the other hand, competition has been intensified because many asset management companies within and outside Japan try to get business chances.

Under such circumstances, in order to put into practice our firm's corporate message "creating a sustainable future through the power of investment," our firm constantly strive to differentiate and sophisticate services we provide to meet clients' needs. Sources of competitive power for asset management companies are "human" power such as the capabilities of generating high returns, developing products with differentiated ideas and providing quality services. In other words, "people" are the source of value provided to clients.

Based on this idea, our firm is developing an environment where our firm can release the potential of each employee, and everyone can use his/her ability to the fullest. What is important

is an environment where employees are conscious of being a professional for sustainable value provision, and diverse employees can interact with each other in every situation and create better value through the exchange of opinions. We consider diversity, equity and inclusion as the basis of all initiatives and work to ensure psychological safety that gives consideration to diversity and appreciates diverse values and backgrounds.

Five items shown on the concept diagram of initiatives are elements that we believe are important for employees to work autonomously in good condition. Personnel systems, human resources development and improvement of office environments are connected and work together, which creates corporate culture. We think improvement of employee wellbeing and job satisfaction are achieved through this corporate culture.

We believe that the enhancement of the ability of each employee (specialty) through these initiatives and the demonstration of teamwork based on the mutual trust of professionals combined with support from management will maximize the power of the organization and lead to the creation of the future of all stakeholders including clients.



Kenichi Ono Director, Managing Executive Officer
Head of Planning Division



Examples of Initiatives (Creating an organization with psychological safety)

Place for dialogue

In order to create an environment where every employee can show his/her maximum performance with psychological safety, we arrange an opportunity for dialogue and create an opportunity for leaders and others to consider corporate culture.

Dialogues at workplaces

■ Dialogue between an employee and a supervisor—1-on-1—

We conduct a 1-on-1 between an employee and a supervisor on a monthly basis, in principle. Providing a regular opportunity to discuss or exchange opinions about ways of working, growth, how to deal with jobs, health conditions, and others help employees to demonstrate their abilities.

■ Dialogues among management—Engagement dialogue—

We arrange an opportunity for management to have dialogues once every 3 months and share management initiatives focused on improving engagement.



■ Dialogues between senior management and employees—Town hall meetings—

In the first half of FY2023, we held 10 town hall meetings where senior management directly informed all employees of its policies. Additionally, we regularly provide opportunities for senior management and employees to have direct dialogues such as a meeting held by a division head.

■ Dialogues between President & CEO and employees—Small meeting with President & CEO—

In the first half of FY2023, for all employees, we had 32 small meetings where President & CEO and a small number of the employees had a dialogue. The small meetings represent a place where we receive a wide variety of opinions including on-the-ground awareness of issues, proposals, and impressions on measures.

Place to consider corporate culture

■ Workshops that foster true dialogues

From the second half of FY2022 to the first half of FY2023, we held 16 workshops for executives and management to consider psychological safety and communication through the Dialogue in the Dark program*, and approximately 120 individuals participated. The participants gained various insights, such as how things obvious to them were not necessarily obvious to others and how the environment in which one is present has a significant effect on how easy it is to open up and communicate.



Maiko Yamauchi Human Resources Group & Corporate Sustainability Office Planning Division

We think that psychological safety is a very important element for diverse employees to work, collaborate, and create added value. A relationship of trust is a basis for a person to make a statement and take action without fear. Our firm believes that its unique corporate culture is fostered by all employees who are paying attention to influence on their surroundings through improving quality of dialogues and reviewing their actions including dialogues. Based on this belief, we have continued initiatives focused on the coordination with on-the-ground communications.

* Dialogue in the Dark

A social entertainment event where visitors are attended by visually impaired persons to experience various scenes and enjoy dialogues by using all senses except a sense of sight in absolute darkness at zero illumination level. There is a program designed for company training.

We believe that accepting diversity in the corporate culture and improving ourselves as the group that embraces the combination of diverse personalities are the foundation to maximize revenue continuously. That said, to accept diversity, we need to get rid of stereotypes and old ideas that we've had.

The Dialogue in the Dark is a social system that allows everyone to build an equal and 50–50 relationship with others, reset an existing relationship, recognize differences, and regenerate and amplify the good abilities of human beings. It has the effect of enabling people to amplify their ability to care about other persons' feelings by raising sensitivity, collaborating with others or helping each other. Moreover, it helps people feel good points of others, ensure psychological safety and foster trust.

We have no doubt that Asset Management One, which strives to create a supportive relationship where people respect each other and take advantage of each other's strength, will continue to lead society as a genuine leading company going forward.



Shinsuke Shimura

Dialogue in the Dark Japan Founder



Examples of Initiatives (Supporting activities and autonomous career formation of diverse employees)

■ Providing opportunities for autonomous career formation

We provide opportunities for each of the employees to consider a medium-to long-term career plan and take on challenges.



Starting with the career talk program “Mirai-no-jibun,” we provide the “operations introduction/experience program” to introduce internal operations, the career interview and trainings related skill development. In addition to these programs, we also provide open application programs such as the internal job posting system and the overseas study programs.

■ Changing career to the DX promotion job by using the internal job posting system

I used to be an assistant to a fund manager for ten years after joining the firm as a mid-career employee. Primarily, I was in charge of placing orders for fixed income and foreign exchange transactions under the instruction of the fund manager as well as financing for funds, and when five years passed, I began to think about my future. I knew that it was important to gain experience and improve my expertise, and I enjoyed a sense of achievement to some extent. At the same time, however, I continued to ask myself what I wanted to do. Speaking about my private life, my child was in a lower grade of elementary school at that time, and I hesitated to change my career. My life stage changed as my child grew up. The introduction of the internal job posting system made me decide to apply for a career change, and I was transferred to the current office in 2022. I had no experience in IT business, but I chose DX Promotion Group because I was interested in increasing operational efficiency and liked to engage with others. Currently, I have promoted the establishment of the cloud service introduced recently to achieve the DX reform paying attention to the viewpoints of clients and employees. Although it is difficult to change an environment and learn new skills, I will continue to take on a challenge so that I can feel that it is worth it.



Tomomi Shiihara
DX Promotion Group
IT & System, Operations Division

■ Systems and communities that support diverse employees' activities

There are systems and communities that support each employee's way of working suitable for his/her life stage or in line with his/her life plan.

■ Systems related to ways of working

System	Details
Teleworking system	Teleworking allowance; business operation that enables mobile working
Flex-time work system	More flexible core time (three hours between 8:40 a.m. and 5:10 p.m.)
Workcation	Allows for work at a place other than home or office for up to twice a year/five business days (limited to inside Japan)
Administrative leave for accompanying spouse overseas assignment	Allows an employee who accompanies his/her spouse on an overseas assignment to take leave
Remote site work system	Allows an employee to choose a temporary workplace more flexibly in response to job transfers of his/her spouse or nursing of a family member
Short-term remote site work system	Allows an employee to do remote site work up to five business days per month due to care or nursing of family members
Life support leave system	Allows employees to take up to two years of leave to support their career developments and life plans
Childcare / Nursing care leave system	A leave system to help employees balance work and childcare or nursing care
Short-time work system	Short-time work system helps employees balance work and childcare or nursing care (for a parent of a child in the third grade in elementary school or younger)
Accumulated leave system	Allows an employee to use accrued paid leave carried over from the previous year (half day or one day) for nursing care, medical treatment, fertility treatment, regular hospital visits, or medical examinations.

■ Community for employees who raise children—IKUBATA—

As part of measures to support balancing work and childcare, we plan and hold a round-table session, “IKUBATA” where employees who raise children can communicate with each other. The name “IKUBATA” came from an image that employees who raise children gather around and have a water-cooler talk (or idobata-kaigi in Japanese).

At a regular luncheon, approximately 20 employees share a wide variety of topics such as tips for balancing work and childcare, after-school lessons, and ways to spend summer vacations. Furthermore, we have the IKUBATA chat room on an internal communication tool where employees can regularly exchange information. This year, we restarted to hold the family day event, which had been suspended during the COVID-19 pandemic, and many families participated in it. We will continue to implement measures to support employees who balance work and family.



Jun Kagiwada, Noriko Ogawa
Human Resources Group, Planning Division



Examples of Initiatives (Creating an easy-to-work-in and satisfactory workplace)

Office transformation

The pandemic of COVID-19 prompted us to implement measures to create workplaces that could be the most creative for professionals and increase their productivity, without limiting them to real offices. As such, we have made



all kinds of efforts through identifying an office space as a place that “would generate new value” rather than a mere place of working. A new contact and an accidental encounter happen only when people meet face to face in an office space. We place importance on collaboration and innovation resulting from these occasion. In December 2022, we opened the AM-One Café and the AM-One Library as spaces to foster real communication.

At the AM-One Café, drinks such as coffee and tea are always ready for visitors. The AM-One Library, where a wide range of magazines, books, and newspapers are available, provides opportunities to share knowledge with others.

We have received feedback from employees who used these facilities, saying, “I met other division members whom I used to have online meetings with after a long time. Talking to them in person helped me to proceed works with them smoothly.” and “The facility has become a place where I can talk casually with employees from other

divisions who work on different floors.” These are utilized as places of communication by several employees, regardless of their positions, from young employees to executives, During break times, employees visit these places and engage in conversations with other colleagues they happen to come across, leading to the exchange of tips and new ideas.

Our firm also focuses on reducing environmental impact at office. We strive to reduce GHG emissions and plastic waste by removing drinks in plastic bottles from vending machines installed in the office. Instead, we are introducing water servers and encouraging employees to use their own reusable bottles. Additionally, we have promoted the beautification of the company and have made efforts to reduce waste by collecting umbrellas abandoned in the office and starting the umbrella rental service.

We will continue to generate new value by pursuing an easy-to work-in environment.

Supporting employee working styles through digital transformation (DX)

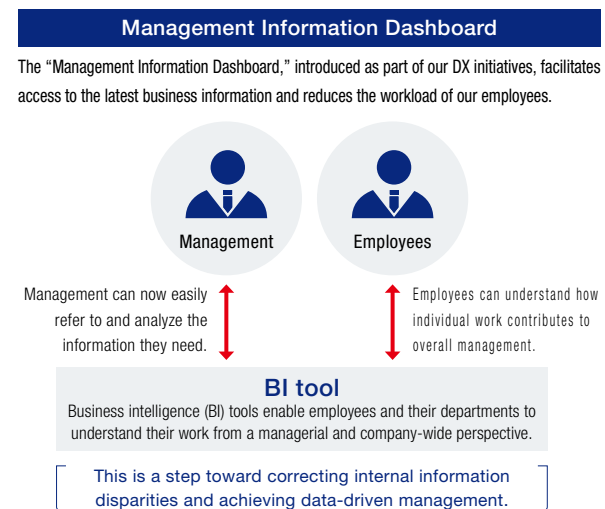
We are underway our own Corporate Digital Transformation (DX) with our clients' needs/values as a starting point. Core of this initiative is the enhancement of both customer experience (CX) and employee experience (EX). With these initiatives, we've pursued sustainability and established a foundation for ESG investment.

In terms of supporting employee work styles, we have sought to create an environment where all employees can perform at their best as professionals and established remote work environments. The spread of COVID-19 has, in a sense, forced to adopt remote work. In response to this change, our firm has further developed digital infrastructure to enable more productive work styles for its employees. We have adopted various tools, including video conferencing,

chat applications and the “Management Information Dashboard” where internal data is centralized. Additionally, we are rapidly advancing information sharing through the use of online data storage and CRM tools. This has reduced employees' burdens of collecting information and preparing materials, allowing them to focus more on productive tasks.

Our firm is sincerely addressing the challenges revealed through the introduction of new tools and will continue to strive for new value creation through DX. By utilizing business platforms and data management platforms to centralize information and introducing cutting-edge technologies such as generative AI and digital services, we believe that we can support diverse work styles of our employees.

We think that these efforts contribute to realizing our corporate message: “creating a sustainable future through the power of investment.”



Ourselves in Community

We have actively participated in activities as a member of local society. Particularly, our firm has built a strong relationship with Tekko Building where our firm is located in efforts to create a secure and safe environment for employees including initiatives to achieve 100% renewable energy for office electricity use. We invited Mr. Hirotaka Masuoka, Director of Tekko Building Co., Ltd., as a discussion partner, and asked him about the direction of the company's sustainability initiatives.

Achieving 100% renewable energy usage

Head of Corporate Sustainability Office, Minori Komatsu (Ms. Komatsu): Our firm was the first Japanese asset management company to sign up for RE100 (Renewable Energy 100%). For achieving this goal, it was essential for us to receive cooperation from the building where our firm was located. Please tell me your company's initiatives as well as the reason why Tekko Building achieved 100% renewable energy usage ahead of other buildings in the Marunouchi district, Tokyo.

Hirotaka Masuoka, Director of Tekko Building Co., Ltd. (Mr. Masuoka): We already adopted a construction method to minimize environmental impact with advanced technologies and introduced cutting-edge high-efficiency equipment even when we built Tekko Building. However, it was 2020 when we became keenly aware of sustainability. First, we established an SDGs project team internally and identified all kinds of environmental impact based on the value chain of our business through activities such as study sessions and workshops. At the same time, we were informed that your company, one of our tenants, signed up for RE100. Since then, we considered electricity procurement as a major issue and took a big step toward 100% renewable



Minori Komatsu

Executive Officer
Head of Corporate Sustainability Office

energy usage.

energy usage.

Ms. Komatsu: We were amazed to know that you made the decision so quickly.

Mr. Masuoka: Thanks to the outcomes of study sessions under the project, each of the members shared the same ideas: "We need sustainability to be a company selected by our clients," which was the main reason for the quick decision-making. We had a common recognition that "we will pursue 100% if we are going to take a step toward using renewable energy" at an earlier stage of the examination.

Having a sense of ownership

Ms. Komatsu: We deeply appreciate your meticulous and speedy support, such as installing streetlights on the roads leading to the building for our visually impaired employees and setting up and operating a vaccination site even for family members of the tenant company employees amid increased public concerns due to the spread of COVID-19. What do you think is the reason why your company accomplished these things?

Mr. Masuoka: Our company launched the "added-value improvement project" under which we have more seriously considered what services and value we should provide to become a building that is appreciated and selected by clients. Moreover, a newspaper reported that our building was the first large-scale complex in Japan to achieve 100% renewable energy usage, which showed how seriously we have tackled with this issue as the company. We think this made each employee start to have a sense of ownership for this issue.

"The Place Where All Can Shine"

Supporting the Classic Live for One Million People

Ms. Komatsu: With the corporate slogan "The Place Where All Can Shine," Tekko Building strives to form a community of tenant companies. One of such initiatives is the Friday Live, co-hosted by the Classic Live for One Million People, in which our firm has participated.

Mr. Masuoka: I think that creating a place where tenant companies can build a relationship as "neighbors" is important for resiliency when we have disasters. The Classic Live for One Million People has embraced a wonderful concept of creating an opportunity for musical performance that connects players to society, revitalizing

local communities and supporting the cafeteria offering free food to children. We have a certain sympathy with them and provide opportunities to have a concert regularly.

Ms. Komatsu: Please tell me the direction of your future initiatives.

Mr. Masuoka: In order to retain our position as a building selected by tenants, I think that we need to contribute to the health and wellbeing of the people who work in our building. In intangible aspects especially, it would be greater if we could create new value through collaboration with tenants companies.

Ms. Komatsu: I also think it would be great if our firm could continue to work with you to create an office building which we can be proud of as workers. Thank you very much today.



Mr. Hirotaka Masuoka

Director of Tekko Building Co., Ltd.

Classic Live for One Million People

A general incorporated foundation that holds classical music concerts at various places with organizers all around Japan in the aim of creating cities that are always filled with music with the concept of "sharing excitement through classical music," "creating an opportunity for musical performance that connects players to society," and "revitalizing local communities."

It aims to share excitement with one million people, from babies to elderly people, in a year. It also gives live performance to cafeterias offering free food to children as a mental healthcare support by using donated funds, which is conducted under the project of "Delivering music to children" for parents and children who need supports.

<https://1m-cl.com/> (in Japanese)



Current Status of Corporate Sustainability Initiatives

The environmental and social challenges identified in our Materiality Map are important issues that not only investee companies, but also Asset Management One itself, have to tackle to resolve. Based on the core materiality in this map, we have set long-term initiative targets for corporate sustainability (pursuit of sustainability in corporate activities at our firm) in the following three areas that are considered to have significant impact and require priority action. Here is the current status of our initiatives toward these targets.



Tackling climate change and environmental issues

Our firm is in the position to urge portfolio companies to transition to a carbon-neutral society, addresses other environmental issues and moves toward to a circular society and economy. Our firm will also work to adopt zero carbon solutions and reduce environmental impact in its own operations, as well as promote initiatives that change the awareness of its employees.



Ensuring diversity, equity and inclusion

Our firm aims to ensure diversity, equity and inclusion for its own growth and the provision of new value as part of its initiative to fulfill the responsibility for respecting human rights.

With the target of increasing the proportion of women in decision-making roles to at least 30% by 2030, our firm is working to implement various measures for the development of female leaders and narrow gender gaps.



Improving employee wellbeing and job satisfaction

Our firm's business relies on human resources as the source of its competitiveness. We have conducted a monthly engagement survey to visualize the condition of organization to ensure that employees can keep working with high engagements. Furthermore, we have conducted office transformation and provided support for ways of working through DX to create an environment where employees are satisfied with their jobs.

Toward achieving a decarbonized society

As a signatory asset management company to the Net Zero Asset Managers initiatives (NZAM), our firm set a long-term goal of achieving net zero of GHG emissions across the supply chain by 2050 and net zero of GHG emissions (Scopes 1 and 2) at our firm's group including overseas offices by 2030. We have also implemented corporate initiatives to create decarbonized society and have encouraged employees to build awareness and take action to change their awareness and behaviors.

For example, we have encouraged employees to use less paper and more environment-conscious products in offices. With Copier paper purchased by our firm being all environmentally friendly products, the green procurement* rate achieved 100% result. Moreover, we switched from plastic file folders to paper file folders, shifted from drinks in plastic bottles to drinks in paper boxes, and eliminated plastic bottles in vending machines in the areas exclusively owned by our firm. As such, our firm has promoted initiatives considering the environment in our daily surroundings and implemented measures to increase awareness of our employees.

* Green procurement: When purchasing products or services, paying attention to the environment, considering the necessity carefully, and selecting products or services that have the smallest impact on the environment.

Long-term goals for tackling climate change and environmental issues

Reducing GHG emissions at our firm
(Scope 1 and 2)
to net zero by 2030

Reducing GHG emissions across the supply chain
(category 1 through 14 in Scope 3)
to net zero by 2050

GHG emissions (Scope 1 and 2)

Unit: t-CO ₂	FY2020	FY2021	FY2022
Japan offices	361.8	0	0
Overseas offices	51.6	48.5	49.2

* Scope 1/2/3: GHG Protocol, the global standard for calculating and reporting GHG emissions, defines Scope 1 as direct emissions from fuel combustion or industrial processes by businesses themselves, Scope 2 as indirect emissions associated with the use of energy supplied by others, and Scope 3 as indirect emissions by others related to the company's activities, other than Scopes 1 and 2.

* FY2020 (April 2020 to March 2021), FY2021 (April 2021 to March 2022), FY2022 (April 2022 to March 2023)

* Overseas offices refer to the four offices of London, New York, Singapore and Hong Kong.

* London Office achieved 100% renewable energy usage.

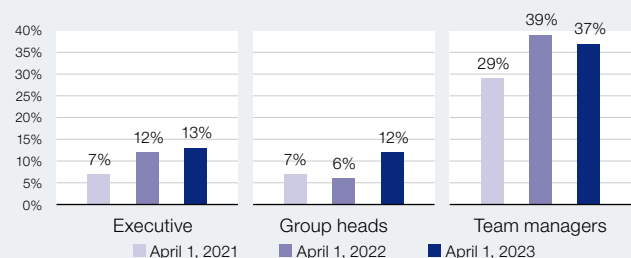
* Category 1 through Category 14: Of the 15 categories of Scope 3 in GHG Protocol, all categories excluding category 15, "Investments"



Data related to human capital

Diversity, equity and inclusion

Female ratio in decision-making roles



To achieve the goal of increasing the female ratio at all levels of the decision-making positions to 30% by 2030, we have implemented a systematic training programs through the identification of potential female leaders, development of their training plans and executive mentoring system based on these training plans.

Personnel data (as of April 1, 2023)

	Male	Female	Total	Female ratio	KPI of female ratio	Gender wage gap (Male = 100)	Ratio of employment for people with disabilities ²
Executives ¹	14	2	16	12.5%	30%	—	—
Total employees	594	310	904	34.3%	—	75.9	2.9%
Group heads	46	6	52	11.5%	30%	91.0	—
Team managers	48	28	76	36.8%	30%	86.2	—
Other employees	446	267	713	37.4%	—	72.9	—
Non-regular employees ³	54	9	63	14.3%	—	67.5	—

* 1: Excludes Audit and Supervisory Committee members * 2: As of June 2023 * 3: Contract employees, fixed-term contract employees, etc.
* Personnel data above does not include employees in subsidiaries or affiliates of Asset Management One

- The gender wage gap has a trend to narrow from 70.0 for the total employees in the latest fiscal year. In our view, the current gap is attributable primarily to the fact that a high proportion of female employees is engaged in relatively small job size roles under the professional personnel system where wages are linked to job size. We will continue to change the awareness and foster corporate culture through programs and systems to increase opportunities for career developments. Moreover, we confirmed gender distribution for potential promotions and a gender gap in the same job and are taking corrective measures as necessary.
- The ratio of employment for people with disabilities is 2.8%, which is at almost the same level as in the latest fiscal year. After hiring, we have an interview with each of them, confirm the environment where they work, and improve the environment as needed. We will continue recruitment activities and create an environment where all employees can exercise their own abilities and feel united.

Autonomy and growth Autonomous career development support program (FY2022)

Program/system	Details	Participant (applicant) number
Operations experience/introduction program	Introduction/experience of operations hosted by internal departments for autonomous career formation (total of 60 programs)	231
Internal job posting system	Recruit 44 roles targeting employees with one year or more of service	21
Skill improvement support system	Supplement costs to acquire skills required of new jobs	15
Certification acquisition application system	Assistance to acquire 51 designated certifications, payment of annual membership fees/registration fees for the Certified Member Analyst of the Securities Analysts Association of Japan (CMA), etc., assistance for expenses and incentive payment for TOEIC	79 cases

Health in mind and body Rate of taking leave and work hours

	FY2021	FY2022
Rate of taking annual leave	62.5%	67.1%
Rate of taking long-term leave	100.0%	100.0%
Average monthly work hours	184.9	184.4

Considering how health in mind and body affects job performance, we recommend an 11-hour work interval system and encourage employees to take longer-term leave twice a year. While monitoring status on a periodical basis and implementing initiatives for improvements, we provide feedback to management and employees.

Relationship of trust between company and society Engagement score

	FY2021	FY2022
Engagement score	67.3	69.3
Response rate	84%	85%

* Average of a fiscal year

We conduct a monthly engagement survey targeting all employees. The purpose of the survey is visualizing the organization's condition and perceiving the trend of change, which is leveraged by executives and management for organizational management. At the same time, we have implemented an initiative to raise the response rate for a better understanding of the actual condition.

Safe, secure and easy-to-work-in workplace Rate of taking childcare leave

	FY2021	FY2022
Male employees	14%	63%
Female employees	100%	100%

We provided training targeting management and male employees to encourage men to take childcare leave. Although the rate of taking childcare leave among male employees is much higher than in the latest fiscal year, it is still lower than the rate for female employees. As such, we continue to implement initiatives to encourage male employees to take childcare leave and aim for an environment where all employees can take childcare leaves regardless of their gender if they would like to take this leave.

* FY2021 (from April 2021 to March 2022) FY2022 (from April 2022 to March 2023)



Sustainability Governance

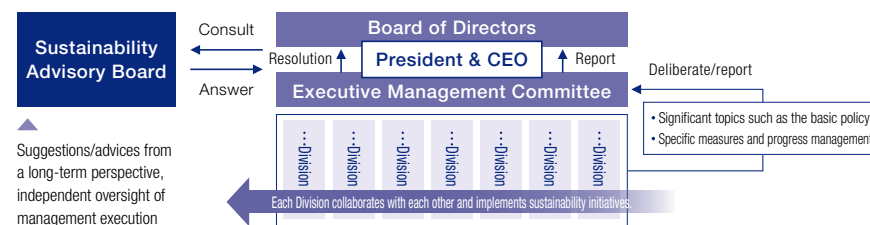
Our firm’s sustainability transformation (SX) aims to implement sustainability in corporate management through the transformation driven by business promotion and the governance framework in an integrated manner. Our firm has defined and established a solid “Sustainability Governance” as the system in which sustainability is incorporated into the process of management decision-making, with the Board of Directors overseeing the effective implementation of this integration.

In the process of considering and building up effective practices of sustainability governance, we have thoroughly discussed the expected role of the Board of Directors, the current challenges we face, and the approaches to identifying solutions. In July 2021, we also established the Sustainability Advisory Board as an advisory body to the Board of Directors, inviting two external advisors who have deep insights and extensive experiences in the sustainability area as members of this Advisory Board.

On a periodical or an as-needed basis, the Board of Directors receives reports and conducts active discussions with regards to the Basic Policy on Sustainability Initiatives and how it has been implemented. For important matters, the Board of Directors also consults with the Sustainability Advisory Board, seeking advice from external advisors from the long-term viewpoint. This helps to identify key material issues and to consider putting appropriate measures in place.

The Basic Policy on Sustainability Initiatives and other related measures are discussed and debated at a predetermined decision-making level respectively. They were established and revised as needed. (The latest revisions and updates of relevant policies and measures are presented in the table below.)

■ Management structure of sustainability initiatives



Policy, measures, etc.	Overview	Most recent date of establishment or revision	Details of the latest revision	Approval level
Basic Policy on Sustainability Initiatives	A policy that contributes to the environment preservation as well as sustainable development and prosperity of the economy, industries, and society within and outside Japan, by promoting sustainability initiatives from a long-term standpoint. It prescribes key matters for the achievement and promotion of increasing corporate value through paying attention to value creation for various stakeholders and achieving sustainable and steady growth of our firm’s group	July 1, 2022	<ul style="list-style-type: none"> Redefined sustainability Clearly stated that the progress of sustainability initiatives needs to be reported to the Board of Directors, the Audit and Supervisory Committee, the Executive Management Committee, and the President & CEO on a periodical or an as-needed basis 	Board of Directors
Human Rights Policy	A policy that specifies what action we should take to fulfill our responsibility for respecting human rights across the value chain of global businesses in accordance with the UN Guiding Principles on Business and Human Rights	July 1, 2022	<ul style="list-style-type: none"> Added new items concerning human rights due diligence initiatives in the value chain and exclusion of modern slavery abuses such as forced labor, child labor, and human trafficking Changed the office in charge of the policy from Human Resources Group to Corporate Sustainability Office 	Board of Directors
Environment Policies	Policies that outline our commitment to acting with careful consideration for the environment, set forth recognition of the issues to be resolved, and demonstrate concrete actions to be taken	Established on October 1, 2021	NA	Board of Directors
Sustainable Investment Policy	A policy that prescribes key matters, as a subset of policy and measures under the Basic Policy on Sustainability Initiatives, for our firm’s approach to sustainable investment	Established on December 1, 2022	NA	President & CEO
Our Approach to Stewardship	A publication that reflects our firm’s commitment and basic approaches to stewardship activities, for external communications particularly with clients	November 2023	NA	President & CEO
Action Policy on Principles for Responsible Institutional Investors <<Japan’s Stewardship Code>>	A policy document that prescribes our firm’s commitment and approaches to fulfilling its stewardship responsibilities as a responsible asset management company	April 1, 2023	Change of the group name due to reorganization	President & CEO
Measures for stewardship activities	A policy document that outlines actions to be taken in our firm’s stewardship activities, including the exercise of voting rights and purposeful dialogues with investee companies, in accordance with our firm’s policy and approaches to the Principles for Responsible Institutional Investors <<Japan’s Stewardship Code>>	April 1, 2023	Change of the group name due to reorganization	President & CEO
Proxy Voting Guidelines and Voting Criteria	The Guidelines that set out our firm’s basic policies and the detailed criteria for each voting items, based on our firm’s aims and views on the exercise of voting rights	April 1, 2023	<ul style="list-style-type: none"> Clearly stated in the basic policies of exercising voting rights that we will vote against the proposed election of directors at companies which are highly likely to cause socially adverse impact, leading to substantial value destruction to shareholders in the medium to long term, from the perspective of ESG materiality. Extended the target companies from the TOPIX 100 constituents to all listed companies of the TSE Prime Market, in terms of applying the proxy voting criteria that requires appointment of at least one female director to the board of directors. 	President & CEO
Procurement Policy	A policy that prescribes our expectations for suppliers in accordance with our firm’s Environmental Policies and Human Rights Policy, regarding procurement activities such as purchases of goods and services, placing an order for systems, etc.	July 1, 2022	<ul style="list-style-type: none"> Added specific procedures concerning human rights due diligence based on the revised Human Rights Policy Added a CSR clause to the contract agreement with external managers with regards to respect for human rights and compliance with the Procurement Policy. 	President & CEO



Operation of the Sustainability Advisory Board

The Sustainability Advisory Board is made up of our firm’s directors, advisors, and two outside advisors. It has a meeting two or three times a year.

The board ensures business operations in accordance with the Basic Policy on Sustainability Initiatives and actively discusses the recent developments around materiality from a medium- to long-term perspective.

Examples of discussions at the Sustainability Advisory Board

Date of meeting	Examples of discussions
September 9, 2021	<ul style="list-style-type: none"> Discussion on the Basic Policy on Sustainability Initiatives and other related important regulations Determination of focused items and long-term targets of key corporate sustainability Setting interim targets for the Net Zero Asset Managers initiative
January 20 and March 11, 2022	<ul style="list-style-type: none"> Report on activities under the Sustainability Transformation Project (SXPT) Discussion on incorporating SX into the business plan
July 19, 2022	<ul style="list-style-type: none"> Discussion on the revision of the Basic Policy on Sustainability Initiatives and Human Rights Policy Report on the establishment of the Procurement Policy
February 8, 2023	<ul style="list-style-type: none"> Report on the 2022 business plan review Report on initiatives in accordance with the Human Rights Policy
July 19, 2023	<ul style="list-style-type: none"> Discussion on recent developments of materiality (climate change and business and human rights) Report on the policy for issuing the Sustainability Report 2023

Expecting the on-the-ground leadership to share the discussion of essence

For two years, I have served as an outside advisor and have been impressed by how sincere Asset Management One has committed to the ESG strategy. I have had opportunities to participate in a lot of companies’ meeting bodies concerning sustainability. Earnest discussions take place at these meetings. In many cases, it is unclear to me to what extent these earnest discussions are shared by on the ground employees. At the meeting of Asset Management One, however, there are sessions of presentations by division heads and in-depth Q&A, which reminds me how decisively the firm has made efforts to incorporate ESG into on-the-ground activities. Also, the discussion of essence, “Why is ESG inevitable?,” or the company’s sustainability philosophy, is shared among division heads, which is highly crucial.

Although financial institutions are expert at handling financial information, they are not good at handling material ESG information and tend to rely on translated information from consultants or research institutions. Under such circumstances, Asset Management One has a structure to collect firsthand ESG information by, for example, continuing dialogues with NGOs and hiring environment specialists, and evaluate such information with its own system. For ESG information evaluation, they are in the phase to incorporate Biodiversity, in addition to existing climate change and human resources fields. While there is no absolute correct answer in any of these fields, asset management companies are required to humbly face material ESG issues by relying on their own philosophy as a guide and utilize the experience for optimal



Ms. Mariko Kawaguchi

Specially Appointed Professor, Graduate School of Social Design Studies, Rikkyo University, Executive Advisor to CEO, Fuji Oil Holdings

investment decision-making. Among them, Asset Management One is expected to lead the industry in Japan.

Maintain the attitude of facing issues sincerely

The clear commitment at the top of Asset Management One regarding sustainable asset management has gone a long way in nudging the whole company forward.

A company-wide engagement campaign has been implemented in order to bring all employees along and in particular to equip relationship managers with the tools to clearly explain Asset Management One’s stance to clients. Continuously surveying asset owners’ preferences is also important to support meaningful decisions about the steps ahead. The annual sustainability report is now outcome-based and describes actual results, including clear sustainable

investment definitions and thorough investee engagement reports.

World events (war in Ukraine, geopolitical tensions) and accelerating climate issues certainly require a continuous adaptation of the materiality map but they show, if need be, the importance of pushing sustainability forward. Progress in this respect is certainly not linear, with reporting rules still perfectible and greenwashing doubts affecting the investors sentiment. I am however convinced, that continuing to generate momentum inside the company and provide stakeholders with a quality sustainability offering will pay off for Asset



Mr. Yves Serra

Chairman of the Board of Directors, Georg Fischer Ltd.

Management One, both operationally and reputation-wide, thus allowing the company to lead the way.



Governance of Our Stewardship Activities

Our firm has had a dedicated department for stewardship activities since the merger in October 2016 and has been committed to maintaining management systems for engagement activities and the exercise of voting rights. The Stewardship Promotion Committee, established as a management policy committee, oversees all stewardship activities, including the exercise of voting rights, as well as the appropriate management of conflicts of interest.

The committee, which is chaired by the Chief Investment Officer and whose members include the Head of the Risk Management Division, conducts deliberations in the asset management division, which is independent of the business planning and sales divisions, and thereby promotes stewardship activities. Members of the Audit and Supervisory Committee attend meetings of the committee as a part of an appropriate system of controls.

The Stewardship Promotion Committee deliberates on the most important proposals from conflicts of interest standpoint and on the establishment, amendment, and abolishment of the Proxy Voting Guidelines, and it also deliberates and reports on matters related to overall stewardship activities, including evaluations and reviews for the execution of stewardship responsibilities and dialogue (engagement) with investee companies.

Our firm undertakes a self-evaluation (reflection) for each principle and guidance in the Stewardship

Code for each fiscal year. The details of stewardship-related activities and the self-evaluation are deliberated by the “Stewardship Promotion Committee,” confirmed as appropriate, and reported to the Board of Directors, which is composed of nine directors including three independent outside directors.

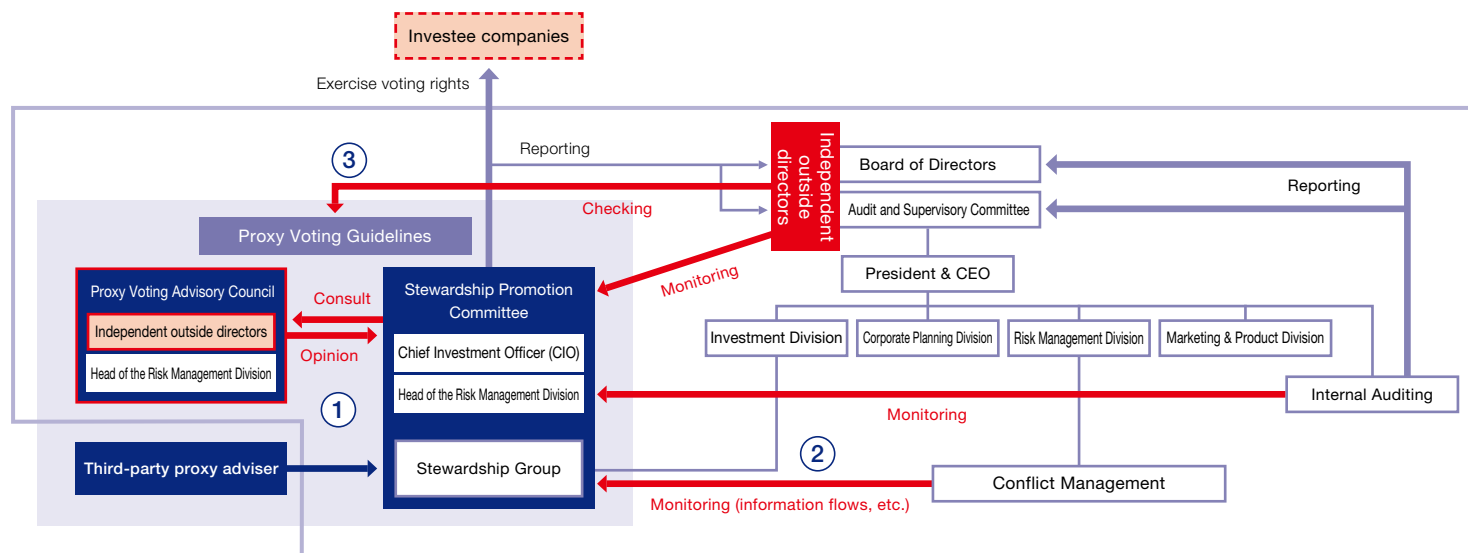
Management system for conflict of interest

When there are potential conflicts of interest at investee companies with the parent company, etc., we have systems for making appropriate voting decisions and conducting corresponding management.

For the most important company proposals from the standpoint of conflicts of interest, involving the parent company, for example, appropriate voting decisions are made after requesting/receiving the recommendations of a third-party proxy adviser (ISS), in accordance with our firm’s guidelines, consulting with the Proxy Voting Advisory Council, of which independent outside directors make up a majority, and conducting deliberations through the Stewardship Promotion Committee. Monitoring is conducted by reporting the results of voting to the Board of Directors and Audit and Supervisory Committee.

Please refer to the following for “Policy for the Management of Conflicts of Interest.” <https://www.am-one.co.jp/english/information/conflictsinterest/>
See P.43 for case studies of exercising voting rights for proposals by the most important company in terms of conflict of interest.

Managing conflicts of interest at Asset Management One



① Regarding proxy agendas that involve potential conflicts within the parent or group companies, our firm utilizes a third-party proxy adviser’s recommendations. After seeking independent opinions of the Proxy Voting Advisory Council (of which the majority are independent outside directors), Stewardship Promotion Committee discusses thoroughly before any voting decisions are made.

② One of the effective measures that Asset Management One has adopted for managing conflicts of interest is to isolate information flows, with regards to proxy voting matters, between the persons in charge of exercising voting rights and other employees. We set up rules and closely monitor the information flows.

③ Asset Management One publishes its Proxy Voting Guidelines including the Voting Criteria and executing proxy voting in accordance with them at shareholder meetings. The Guideline is reviewed annually. The revisions are examined at the Stewardship Promotion Committee and then reported to the Audit and Supervisory Committee (with the majority of independent directors).



Risk Management to Support Value Creation

In recent years, with growing uncertainties, the number and type of risks have also significantly increased. Our firm sees risk management as an important cornerstone in supporting the achievement of sustainable value creation by our firm as a long-term investor. We have been continuously strengthening risk management frameworks accordingly.

Risk management framework

Our firm is committed to strengthening risk management in accordance with its basic policy established by the Board of Directors. This includes continuous efforts to enhance risk management practices through utilizing a variety of methods.

Our firm has established a number of committees to monitor and report on the implementation and status of risk management practices across our firm. Among the risks pertaining to our firm's businesses, our firm has classified relevant risks into a number of categories including: investment risk related to entrusted assets; financial risk such as market risk and credit risk; and operational risk such as information technology risk, operations risk, legal risk, and regulatory risk etc. Mitigating and managing each type of potential risks is also conducted based on the specific characteristics of the risk. For each of these risk categories, a specified department and team has been assigned to take responsibilities for planning, formulating and promoting measures to manage respective

risks, and also reporting to the committees on the status of risk management and related matters.

Along with the risk management approach by category, we have also established a comprehensive risk management framework and approaches that enable us to identify and assess overall risks holistically and keep the risk within a manageable and acceptable level for business operations.

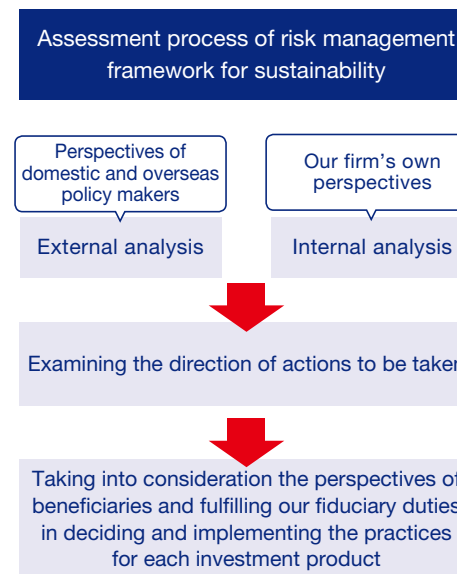
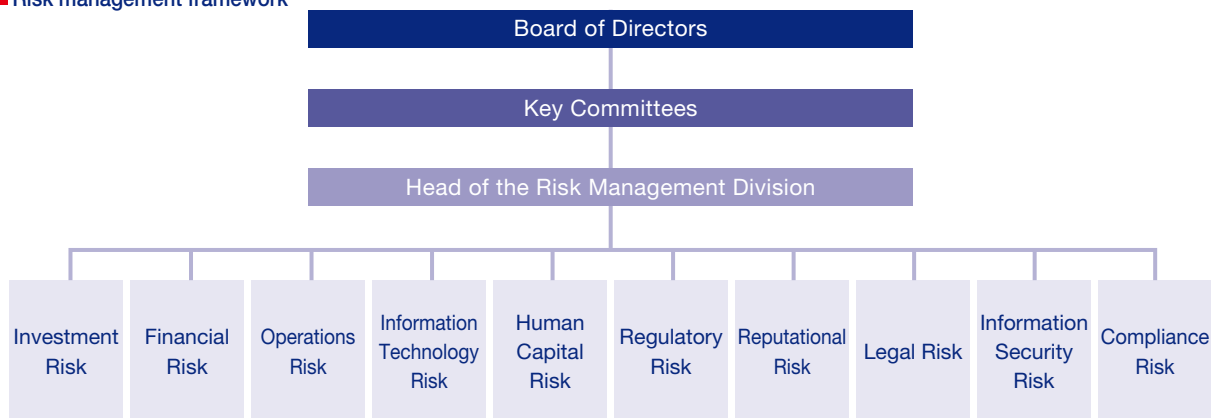
In addition, our firm defined material risk as those with a potential to have significant effects on our firm's business and management strategy. The Risk Management Committee is closely monitoring the status of controls over such material risks. In identifying material risks, active and thorough discussions are held at the Risk Management Committee based on the risk assessment criteria including risk cause analysis as well as risk scores calculated from the likelihood of risk materializing and the degree of impact if it does materialize. The insights and assessment from these discussions are used for common recognition of relevant risks and also for forward-looking risk management.

Risk management approaches for sustainability

When developing the risk management approaches for sustainability, Risk Management Division also analyses and evaluates the actions taken in risk management practices relating to sustainable investment, monitoring the investment process of sustainable investment products.

In addition, it has started initiatives to further enhance the risk management framework and approaches to sustainability, including adding new ESG related criteria in due diligence of external investment managers and conducting secondary examination for due diligence of the providers of ESG information and scores.

■ Risk management framework



Internal Audit of Sustainability Initiatives

At our firm, the mission of internal audits is to contribute to the increase of its corporate value, the achievement of goals, and the realization of the corporate philosophy by providing risk-based and objective assurance. We are committed to conducting audits that contribute to business management, in order to realize the best interests of our various stakeholders.

As a concern that actual investment activities by ESG funds have not been aligned with their ESG claims (greenwashing) is growing around the world, the necessity of enhanced sustainability management has been recognised by the general public in terms of balancing between solving societal issues and increasing corporate value. The surrounding environment has changed significantly.

In 2023, our firm verified the adequacy of the management structure for its sustainability management by conducting an internal audit, in order to provide objective assurance for our firm's sustainability management to its various stakeholders. The audit focused on the prioritized verification areas: 1) ESG washing risks (in order to prevent investors' misunderstanding and ensure compliance with laws), and 2) an effective structure and approach to continue the medium- to long-term measures for sustainability management initiatives that have been communicated to external parties.

Regarding an effective structure to sustain the medium- to long-term measures for sustainability management initiatives that have been communicated to external parties, we conducted internal audits to check the governance of our stewardship activities as well as the implementation of best practices in the processes of monitoring, reporting, and disclosing related activities and outcomes. Moreover, we conducted an audit from the standpoint of "preparation of a fair, balanced Sustainability Report," to ensure that it does not cause misunderstandings among our various stakeholders.

As a result of the audits, there was no significant issue found in terms of the adequacy of the management structure and approach with regards to sustainability management at our firm. Meanwhile, audit recommendations to further enhance the internal control over the management of sustainability initiatives and other matters were also made to relevant business operational divisions.

The business divisions acknowledged and accepted the audit recommendations. They are working on the further enhancement of internal control over the related sustainability initiatives.

The audit results were reported from the Internal Audit Group to the Executive Management Committee, the Audit and Supervisory Committee and the Board of Directors.

Furthermore, for the purpose of providing an objective assurance for a variety of stakeholders about our firm's sustainability management and practices, we will conduct additional internal audits appropriately on stewardship activities and outcomes based on risk-based assessments.

Approach to Assurance and Remunerations

Assurance of our stewardship activities

Asset Management One does not seek external assurance regarding its stewardship activities. This is because external assurances add little meaningful value to clients and other stakeholders at this point. For us, the most important information is the direct feedback in dialogues with various stakeholders such as clients, companies, and the policy bureau, and we utilize it to enhance stewardship activities. Assessments of outside institutions, such as an assessment by the United Nations Principles for Responsible Investment (UNPRI), are used to deliberate improvements, including confirming best practices and identifying areas of initiatives.

Policy of business performance evaluation and remunerations for sustainability initiatives

Employees in charge of promoting stewardship activities and sustainability initiatives conduct a performance evaluation in line with the professional personnel system and reflect the results into remuneration. Stewardship activities and sustainable investment, as well as development/improvement of corporate infrastructure to support these activities, are evaluated by setting a weighting of the items to be addressed by each person in charge. The important points in business performance evaluation of stewardship activities are as follows.

- 1 **Contribution to operations of exercising voting rights**
(e.g., excising voting rights based on our guidelines, revision of such guidelines and shareholder meetings)
- 2 **Contribution to engagement work**
(e.g., engagement activities, progress, planning, and management)
- 3 **Communication with the entire investment chain**
(e.g., client reports, participation in government agency task forces, and transmission of various information)
- 4 **Development/improvement of foundation for stewardship activities**
(e.g., participation in internal/external initiatives and gathering/ utilization of external information)



Chapter 6
Data and References



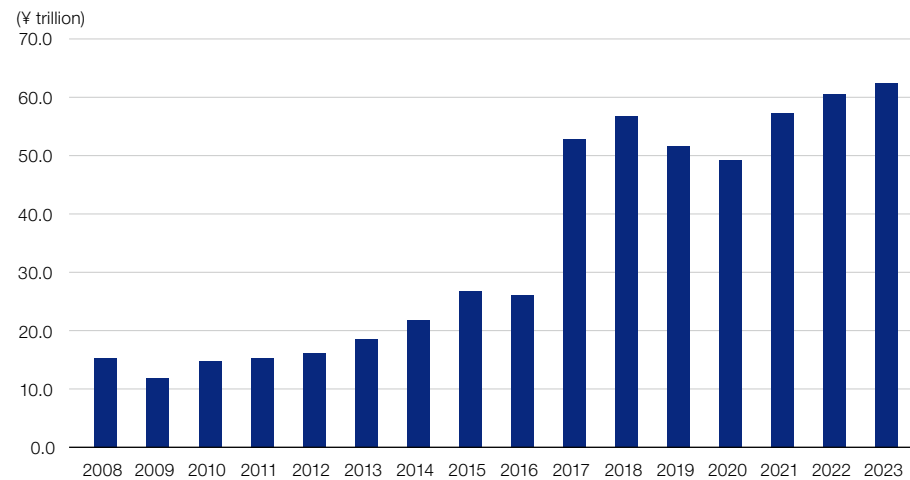
2023

Data Section

Overview

Name:	Asset Management One CO., Ltd.		
President & CEO:	Noriyuki Sugihara		
Address:	Tekko Building, 1-8-2 Marunouchi, Chiyoda-ku, Tokyo 100-0005		
Capital:	JPY 2 billion		
Establishment:	October 2016 established through a merger of DIAM CO., Ltd., the Asset Management Division of Mizuho Trust & Banking Co., Ltd., Mizuho Asset Management Co., Ltd. and Shinko Asset Management Co., Ltd.		
Shareholders:		Economic interests	Voting rights
	Mizuho Financial Group, Inc.	70%	51%
	Dai-ichi Life Holdings, Inc.	30%	49%
Employees:	899(as of June 30, 2023)		

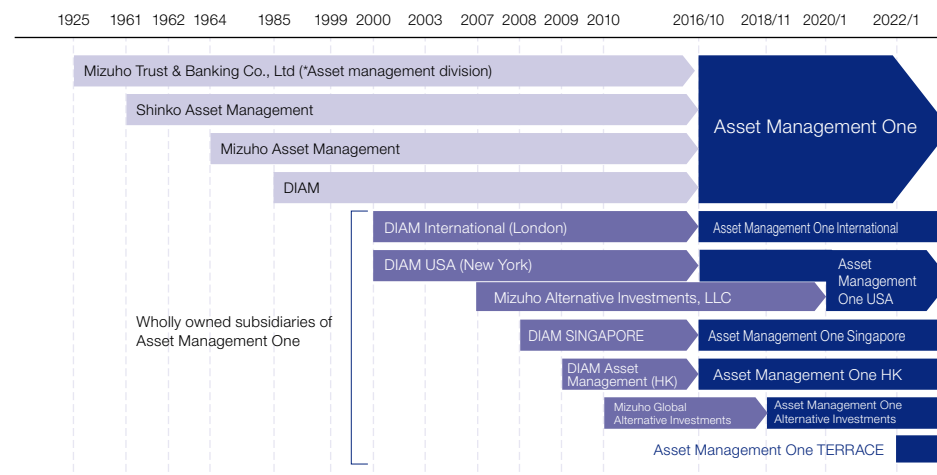
Assets under management



As of the end of March of each year. Given that Mizuho Asset Management Co., Ltd. was established in July 2007, the information from March 2008 is provided.

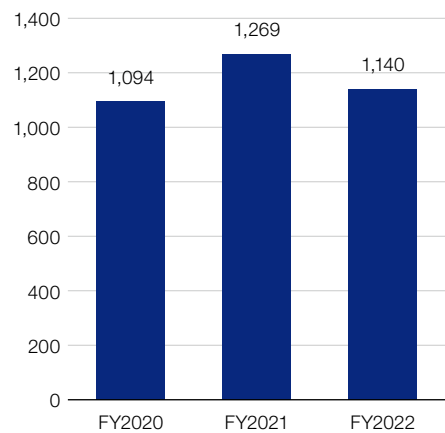
From 2008 to 2016, the assets under management of Mizuho Trust & Banking Co., Ltd. (the assets under management of that company during that period) are not included.

History

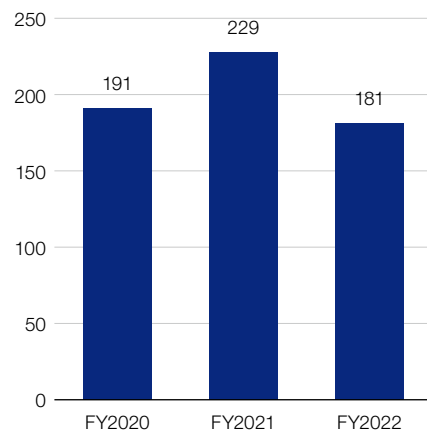


Financial data

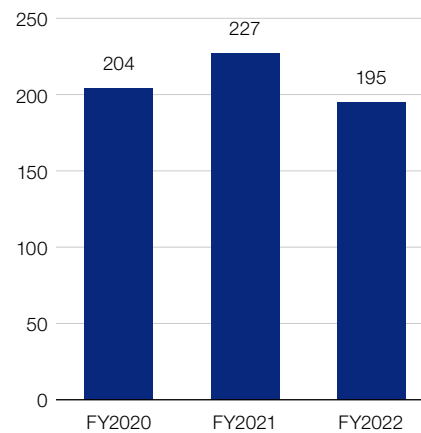
■ Operating revenue(JPY billion)



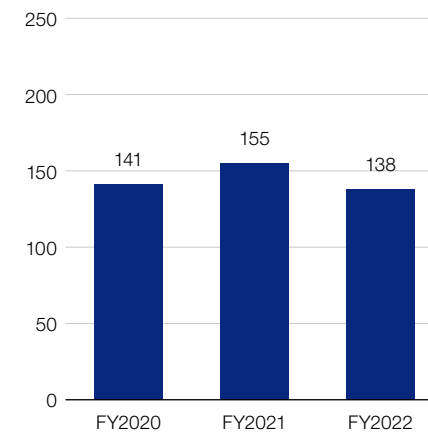
■ Operating profit(JPY billion)



■ Ordinary profit(JPY billion)

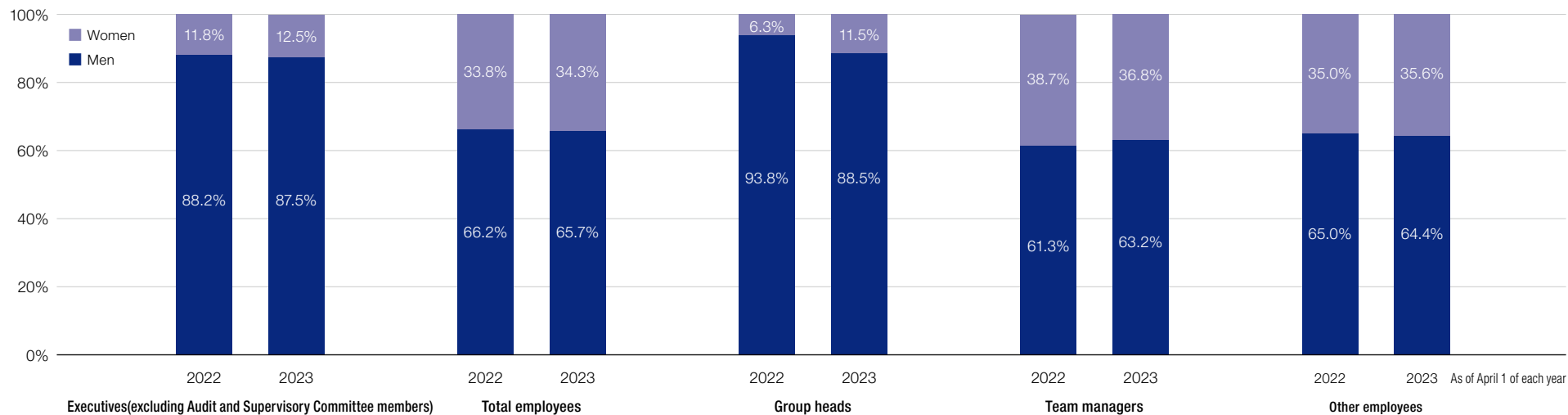


■ Profit(JPY billion)



As of the end of each fiscal year

Gender distribution of executives and employees



2023 Index of Major Disclosures

*Please refer to P.15 and P.16 for information disclosure based on the TCFD and TNFD frameworks.

■ Principles for Responsible Institutional Investors «Japan's Stewardship Code» - To promote sustainable growth of companies through investment and dialogue -

Principles	Related pages in Sustainability Report
<p>Principle1 :</p> <p>Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.</p>	<p>Prologue p.5,7,8 Creating a sustainable future through the power of investment</p> <p>① p.11-12 Asset Management One's Materiality Map</p> <p>① p.13 Review Process of Materiality Map and Reviews in FY2022</p> <p>② p.25-28 Asset Management One's Stewardship Activities</p> <p>② p.29-38 Engagement</p> <p>② p.39-46 Voting Rights</p> <p>② p.49-50 Evaluation of Our Stewardship Activities</p> <p>③ p.53 Asset Management One's Sustainable Investment</p> <p>⑤ p.87 Sustainability Governance</p>
<p>Principle2 :</p> <p>Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.</p>	<p>② p.39-46 Voting Rights</p> <p>② p.49-50 Evaluation of Our Stewardship Activities</p> <p>⑤ p.89 Governance of Our Stewardship Activities</p> <p>⑤ p.90 Risk Management to Support Value Creation</p>
<p>Principle3 :</p> <p>Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies.</p>	<p>Prologue p.7 Creating a sustainable future through the power of investment</p> <p>① p.11-12 Asset Management One's Materiality Map</p> <p>① p.13 Processes of Review of Materiality Map and Reviews in FY2022</p>

Principles	Related pages in Sustainability Report
<p>Principle3 :</p> <p>Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies.</p>	<p>① p.14 Concerning the Review of the FY2023 Materiality Map</p> <p>① p.15-16 Focus Areas — Climate & Nature Report —</p> <p>① p.17-18 Focus Area 1 Climate Change</p> <p>① p.19-21 Focus Area 2 Biodiversity and Environmental Destruction</p> <p>① p.22-23 Focus Area 3 Human Rights and Health & Wellbeing</p> <p>② p.25-28 Asset Management One's Stewardship Activities</p> <p>② p.29-38 Engagement</p> <p>② p.39-46 Voting Rights</p> <p>② p.47-48 Dialogue and Collaboration with Government Agencies and Initiatives</p> <p>② p.49-50 Evaluation of Our Stewardship Activities</p> <p>② p.51 International Joint Academic Research on Our Passive Engagement</p> <p>③ p.53 Asset Management One's Sustainable Investment</p> <p>③ p.55 Sustainable Investment Framework</p> <p>③ p.56 Sustainable Investment Management Structure</p> <p>③ p.57 ESG Integration and Score</p> <p>③ p.58 Impact Investment Framework</p> <p>③ p.59 ESG Research</p> <p>③ p.60 ESG Integration in Fixed-income Investment</p>

*Circled numbers are chapter numbers.



Principles	Related pages in Sustainability Report
<p>Principle4 : Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.</p>	<p>Prologue p.7 Creating a sustainable future through the power of investment</p> <p>① p.11-12 Asset Management One's Materiality Map</p> <p>① p.13 Review Process of Materiality Map and Reviews in FY2022</p> <p>① p.15-16 Focus Areas — Climate & Nature Report —</p> <p>① p.17-18 Focus Area 1 Climate Change</p> <p>① p.19-21 Focus Area 2 Biodiversity and Environmental Destruction</p> <p>① p.22-23 Focus Area 3 Human Rights and Health & Wellbeing</p> <p>② p.25-28 Asset Management One's Stewardship Activities</p> <p>② p.29-38 Engagement</p> <p>② p.39-46 Voting Rights</p> <p>② p.47-48 Dialogue and Collaboration with Government Agencies and Initiatives</p> <p>② p.49-50 Evaluation of Our Stewardship Activities</p> <p>② p.51 International Joint Academic Research on Our Passive Engagement</p> <p>③ p.55 Sustainable Investment Framework</p>

Principles	Related pages in Sustainability Report
<p>Principle5 : Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies.</p>	<p>Prologue p.7 Creating a sustainable future through the power of investment</p> <p>② p.25-28 Asset Management One's Stewardship Activities</p> <p>② p.39-46 Voting Rights</p> <p>② p.49-50 Evaluation of Our Stewardship Activities</p> <p>③ p.55 Sustainable Investment Framework</p>
<p>Principle6 : Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.</p>	<p>Prologue p.3 Asset Management One by the Numbers</p> <p>Prologue p.5 Creating a sustainable future through the power of investment</p> <p>① p.11-12 Asset Management One's Materiality Map</p> <p>① p.13 Review Process of Materiality Map and Reviews in FY2022</p> <p>① p.14 Concerning the Review of the FY2023 Materiality Map</p> <p>① p.15-16 Focus Areas — Climate & Nature Report —</p> <p>① p.17-18 Focus Area 1 Climate Change</p> <p>① p.19-21 Focus Area 2 Biodiversity and Environmental Destruction</p> <p>① p.22-23 Focus Area 3 Human Rights and Health & Wellbeing</p> <p>② p.25-28 Asset Management One's Stewardship Activities</p> <p>② p.29-38 Engagement</p> <p>② p.39-46 Voting Rights</p> <p>② p.47-48 Dialogue and Collaboration with Government Agencies and Initiatives</p> <p>② p.49-50 Evaluation of Our Stewardship Activities</p>

*Circled numbers are chapter numbers.



Principles	Related pages in Sustainability Report	
<p>Principle6 :</p> <p>Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.</p>	<p>③ p.53</p> <p>③ p.62</p> <p>⑤ p.89</p> <p>⑤ p.90</p> <p>End of document</p>	<p>Asset Management One's Sustainable Investment</p> <p>ESG Disclosure</p> <p>Governance of Our Stewardship Activities</p> <p>Risk Management to Support Value Creation</p> <p>For Fair Reporting</p>
<p>Principle7 :</p> <p>To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.</p>	<p>Prologue p.7</p> <p>① p.11-12</p> <p>① p.13</p> <p>① p.14</p> <p>① p.15-16</p> <p>① p.17-18</p> <p>① p.19-21</p> <p>① p.22-23</p> <p>② p.25-28</p> <p>② p.29-38</p> <p>② p.39-46</p> <p>② p.47-48</p> <p>② p.49-50</p> <p>② p.51</p>	<p>Creating a sustainable future through the power of investment</p> <p>Asset Management One's Materiality Map</p> <p>Review Process of Materiality Map and Reviews in FY2022</p> <p>Concerning the review of the FY2023 Materiality Map</p> <p>Focus Areas — Climate & Nature Report —</p> <p>Focus Area 1 Climate Change</p> <p>Focus Area 2 Biodiversity and Environmental Destruction</p> <p>Focus Area 3 Human Rights and Health & Wellbeing</p> <p>Asset Management One's Stewardship Activities</p> <p>Engagement</p> <p>Voting Rights</p> <p>Dialogue and Collaboration with Government Agencies and Initiatives</p> <p>Evaluation of Our Stewardship Activities</p> <p>International Joint Academic Research on Our Passive Engagement</p>

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<p>Principle7 :</p> <p>To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.</p>	<p>③ p.53</p> <p>③ p.55</p> <p>⑤ p.80-83</p> <p>⑤ p.87</p> <p>⑤ p.88</p> <p>⑤ p.89</p> <p>⑤ p.90</p> <p>⑤ p.91</p>	<p>Asset Management One's Sustainable Investment</p> <p>Sustainable Investment Framework</p> <p>People and Organizations as a Source of Value Provision</p> <p>Sustainability Governance</p> <p>Operation of the Sustainability Advisory Board</p> <p>Governance of Our Stewardship Activities</p> <p>Risk Management to Support Value Creation</p> <p>Internal Audit of Sustainability Initiatives</p>

■ THE UK STEWARDSHIP CODE 2020

Principles	Related pages in Sustainability Report	
<p>[PURPOSE AND GOVERNANCE]</p> <p>Principle 1 : Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates longterm value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.</p>	<p>Prologue p.5,7,8,9</p> <p>① p.11-12</p> <p>① p.13</p> <p>① p.14</p> <p>① p.15-16</p> <p>① p.17-18</p> <p>① p.19-21</p> <p>① p.22-23</p>	<p>Creating a sustainable future through the power of investment</p> <p>Asset Management One's Materiality Map</p> <p>Review Process of Materiality Map and Reviews in FY2022</p> <p>Concerning the Review of the FY2023 Materiality Map</p> <p>Focus Areas — Climate & Nature Report —</p> <p>Focus Area 1 Climate Change</p> <p>Focus Area 2 Biodiversity and Environmental Destruction</p> <p>Focus Area 3 Human Rights and Health & Wellbeing</p>

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<p>[PURPOSE AND GOVERNANCE]</p> <p>Principle 1 : Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates longterm value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.</p>	<p>② p.25-28 Asset Management One's Stewardship Activities</p> <p>② p.29-38 Engagement</p> <p>② p.39-46 Voting Rights</p> <p>② p.47-48 Dialogue and Collaboration with Government Agencies and Initiatives</p> <p>② p.49-50 Evaluation of Our Stewardship Activities</p> <p>③ p.53 Asset Management One's Sustainable Investment</p> <p>③ p.54 Sustainable Investment Category</p> <p>③ p.55 Sustainable Investment Framework</p> <p>③ p.56 Sustainable Investment Management Structure</p> <p>④ P.69 Creating a Sustainable Future through Dialogues with Stakeholders</p> <p>④ p.70 From Clients' Points of View</p> <p>⑤ p.79 "Creating a sustainable future through the power of investment" What Role Should We Play?</p> <p>⑤ p.80-83 People and Organizations as a Source of Value Provision</p> <p>⑤ p.85-86 Current Status of Corporate Sustainability Initiatives</p>	
	<p>② p.25-28 Asset Management One's Stewardship Activities</p> <p>② p.49-50 Evaluation of Our Stewardship Activities</p> <p>③ p.53 Asset Management One's Sustainable Investment</p> <p>③ p.54 Sustainable Investment Framework</p> <p>③ p.56 Sustainable Investment Management Structure</p> <p>③ p.57 ESG Integration and Score</p> <p>③ p.58 Impact Investment Framework</p>	
	<p>[PURPOSE AND GOVERNANCE]</p> <p>Principle 2 : Signatories' governance, resources and incentives support stewardship.</p>	

Principles	Related pages in Sustainability Report	
<p>[PURPOSE AND GOVERNANCE]</p> <p>Principle 2 : Signatories' governance, resources and incentives support stewardship.</p>	<p>③ p.59 ESG Research</p> <p>③ p.60 ESG Integration in Fixed-income Investment</p> <p>⑤ p.80-83 People and Organizations as a Source of Value Provision</p> <p>⑤ p.85-86 Current Status of Corporate Sustainability Initiatives</p> <p>⑤ p.87 Sustainability Governance</p> <p>⑤ p.88 Operation of the Sustainability Advisory Board</p> <p>⑤ p.89 Governance of our Stewardship Activities</p> <p>⑤ p.90 Risk Management to Support Value Creation</p>	
	<p>[PURPOSE AND GOVERNANCE]</p> <p>Principle 3 : Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.</p>	<p>② p.39-46 Voting Rights</p> <p>⑤ p.89 Governance of our Stewardship Activities</p>
	<p>[PURPOSE AND GOVERNANCE]</p> <p>Principle 4 : Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.</p>	<p>① p.11-12 Asset Management One's Materiality Map</p> <p>① p.13 Review Process of Materiality Map and Reviews in FY2022</p> <p>① p.14 Concerning the Review of the FY2023 Materiality Map</p> <p>① p.15-16 Focus Areas — Climate & Nature Report —</p> <p>① p.17-18 Focus Area 1 Climate Change</p> <p>① p.19-21 Focus Area 2 Biodiversity and Environmental Destruction</p> <p>① p.22-23 Focus Area 3 Human Rights and Health & Wellbeing</p>

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Principles	Related pages in Sustainability Report
<p>[PURPOSE AND GOVERNANCE]</p> <p>Principle 4 : Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.</p>	<p>② p.25-28 Asset Management One's Stewardship Activities</p> <p>② p.29-38 Engagement</p> <p>② p.39-46 Voting Rights</p> <p>② p.47-48 Dialogue and Collaboration with Government Agencies and Initiatives</p> <p>② p.49-50 Evaluation of Our Stewardship Activities</p> <p>⑤ p.85-86 Current Status of Corporate Sustainability Initiatives</p> <p>⑤ p.90 Risk Management to Support Value Creation</p>
	<p>Prologue p.8 Creating a sustainable future through the power of investment</p> <p>① p.11-12 Asset Management One's Materiality Map</p> <p>① p.13 Review Process of Materiality Map and Reviews in FY2022</p> <p>① p.14 Concerning the Review of the FY2023 Materiality Map</p> <p>② p.49-50 Evaluation of Our Stewardship Activities</p> <p>② p.51 International Joint Academic Research on Our Passive Engagement</p> <p>⑤ p.85-86 Current Status of Corporate Sustainability Initiatives</p> <p>⑤ p.87 Sustainability Governance</p> <p>⑤ p.88 Operation of the Sustainability Advisory Board</p> <p>⑤ p.89 Governance of our Stewardship Activities</p> <p>⑤ p.90 Risk Management to Support Value Creation</p> <p>⑤ p.91 Internal Audit of Sustainability Initiatives</p> <p>End of document For Fair Reporting</p>

Principles	Related pages in Sustainability Report
<p>[INVESTMENT APPROACH]</p> <p>Principle 6 : Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.</p> <p>[INVESTMENT APPROACH]</p> <p>Principle 7 : Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.</p>	<p>Prologue p.3 Asset Management One by the Numbers</p> <p>Prologue p.5 Creating a sustainable future through the power of investment</p> <p>① p.15-16 Focus Areas — Climate & Nature Report —</p> <p>① p.17-18 Focus Area 1 Climate Change</p> <p>① p.19-21 Focus Area 2 Biodiversity and Environmental Destruction</p> <p>① p.22-23 Focus Area 3 Human Rights and Health & Wellbeing</p> <p>③ p.62 ESG Disclosure</p> <p>③ p.63-67 Sustainable Investment Products</p> <p>④ p.69 Creating a Sustainable Future through Dialogues with Stakeholders</p> <p>④ p.70 From Clients' Points of View</p> <p>④ p.71-72 Client Survey 2023</p> <p>④ p.73 Solutions from Clients' Points of View</p> <p>④ p.74 Examples of Dialogues with Clients</p> <p>④ p.75 Dialogues with International Initiatives and Civil Sector</p> <p>④ p.75-76 Dialogues with Academia</p> <p>④ p.77 Dialogue with the Employees Union</p> <p>⑤ p.89 Governance of Our Stewardship Activities</p> <p>⑤ p.90 Risk Management to Support Value Creation</p>
	<p>Prologue p.7 Creating a sustainable future through the power of investment</p> <p>① p.11-12 Asset Management One's Materiality Map</p> <p>① p.13 Review Process of Materiality Map and Reviews in FY2022</p>

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Principles	Related pages in Sustainability Report	
<p>[INVESTMENT APPROACH]</p> <p>Principle 7 : Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.</p>	<p>① p.14 Concerning the Review of the FY2023 Materiality Map</p> <p>① p.15-16 Focus Areas — Climate & Nature Report —</p> <p>① p.17-18 Focus Area 1 Climate Change</p> <p>① p.19-21 Focus Area 2 Biodiversity and Environmental Destruction</p> <p>① p.22-23 Focus Area 3 Human Rights and Health & Wellbeing</p> <p>③ p.53 Asset Management One’s Sustainable Investment</p> <p>③ p.54 Sustainable Investment Category</p> <p>③ p.55 Sustainable Investment Framework</p> <p>③ p.56 Sustainable Investment Management Structure</p> <p>③ p.57 ESG Integration and Score</p> <p>③ p.58 Impact Investment Framework</p> <p>③ p.59 ESG Research</p> <p>③ p.60 ESG Integration in Fixed-income Investment</p>	
	<p>[INVESTMENT APPROACH]</p> <p>Principle 8 : Signatories monitor and hold to account managers and/or service providers.</p>	<p>② p.39-46 Voting Rights</p> <p>③ p.53 Asset Management One’s Sustainable Investment</p> <p>③ p.61 Collaboration with External Partners</p> <p>③ p.67 Sustainable Investment Products</p>

Principles	Related pages in Sustainability Report	
<p>[ENGAGEMENT]</p> <p>Principle 9 : Signatories engage with issuers to maintain or enhance the value of assets.</p>	<p>① p.14 Concerning the Review of the FY2023 Materiality Map</p> <p>① p.15-16 Focus Areas — Climate & Nature Report —</p> <p>① p.17-18 Focus Area 1 Climate Change</p> <p>① p.19-21 Focus Area 2 Biodiversity and Environmental Destruction</p> <p>① p.22-23 Focus Area 3 Human Rights and Health & Wellbeing</p> <p>② p.25-28 Asset Management One’s Stewardship Activities</p> <p>② p.29-38 Engagement</p> <p>② p.39-46 Voting Rights</p> <p>② p.47-48 Dialogue and Collaboration with Government Agencies and Initiatives</p> <p>② p.49-50 Evaluation of Our Stewardship Activities</p> <p>② p.51 International Joint Academic Research on Our Passive Engagement</p>	
	<p>[ENGAGEMENT]</p> <p>Principle 10 : Signatories, where necessary, participate in collaborative engagement to influence issuers.</p>	<p>① p.15-16 Focus Areas — Climate & Nature Report —</p> <p>① p.17-18 Focus Area 1 Climate Change</p> <p>① p.19-21 Focus Area 2 Biodiversity and Environmental Destruction</p> <p>① p.22-23 Focus Area 3 Human Rights and Health & Wellbeing</p> <p>② p.25-28 Asset Management One’s Stewardship Activities</p> <p>② p.29-38 Engagement</p> <p>② p.39-46 Voting Rights</p> <p>② p.47-48 Dialogue and Collaboration with Government Agencies and Initiatives</p> <p>② p.49-50 Evaluation of Our Stewardship Activities</p>

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Principles	Related pages in Sustainability Report
<p>[ENGAGEMENT]</p> <p>Principle 11 : Signatories, where necessary, escalate stewardship activities to influence issuers.</p>	<p>② p.25-28 Asset Management One's Stewardship Activities</p> <p>② p.29-38 Engagement</p> <p>② p.39-46 Voting Rights</p>
<p>[EXERCISING RIGHTS AND RESPONSIBILITIES]</p> <p>Principle 12 : Signatories actively exercise their rights and responsibilities.</p>	<p>② p.25-28 Asset Management One's Stewardship Activities</p> <p>② p.39-46 Voting Rights</p> <p>⑤ p.89 Governance of Our Stewardship Activities</p>

■ Principles for Responsible Investment

Principles	Related pages in Sustainability Report
<p>Principle 1:</p> <p>We will incorporate ESG issues into investment analysis and decision-making processes.</p>	<p>Prologue p.7,8,9 Creating a sustainable future through the power of investment</p> <p>① p.11-12 Asset Management One's Materiality Map</p> <p>① p.13 Review Process of Materiality Map and Reviews in FY2022</p> <p>① p.14 Concerning the Review of the FY2023 Materiality Map</p> <p>① p.15-16 Focus Areas — Climate & Nature Report —</p> <p>① p.17-18 Focus Area 1 Climate Change</p> <p>① p.19-21 Focus Area 2 Biodiversity and Environmental Destruction</p>

Principles	Related pages in Sustainability Report
<p>Principle 1:</p> <p>We will incorporate ESG issues into investment analysis and decision-making processes.</p>	<p>① p.22-23 Focus Area 3 Human Rights and Health & Wellbeing</p> <p>② p.25-28 Asset Management One's Stewardship Activities</p> <p>② p.29-38 Engagement</p> <p>② p.39-46 Voting Rights</p> <p>② p.47-48 Dialogue and Collaboration with Government Agencies and Initiatives</p> <p>② p.49-50 Evaluation of Our Stewardship Activities</p> <p>② p.51 International Joint Academic Research on Our Passive Engagement</p> <p>③ p.53 Asset Management One's Sustainable Investment</p> <p>③ p.54 Sustainable Investment Category</p> <p>③ p.55 Sustainable Investment Framework</p> <p>③ p.56 Sustainable Investment Management Structure</p> <p>③ p.57 ESG Integration and Score</p> <p>③ p.58 Impact Investment Framework</p> <p>③ p.59 ESG Research</p> <p>③ p.60 ESG Integration in Fixed-income Investment</p> <p>④ p.70 From Clients' Points of View</p> <p>④ p.71-72 Client Survey 2023</p> <p>④ p.73 Solutions from Clients' Points of View</p> <p>④ p.74 Examples of Dialogues with Clients</p>
<p>Principle 2:</p> <p>We will be active owners and incorporate ESG issues into our ownership policies and practices.</p>	<p>Prologue p.7,8 Creating a sustainable future through the power of investment</p> <p>① p.15-16 Focus Areas — Climate & Nature Report —</p>

*Circled numbers are chapter numbers.



Principles	Related pages in Sustainability Report
<p>Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.</p>	<ul style="list-style-type: none"> ① p.17-18 Focus Area 1 Climate Change ① p.19-21 Focus Area 2 Biodiversity and Environmental Destruction ① p.22-23 Focus Area 3 Human Rights and Health & Wellbeing ② p.25-28 Asset Management One's Stewardship Activities ② p.29-38 Engagement ② p.39-46 Voting Rights ② p.47-48 Dialogue and Collaboration with Government Agencies and Initiatives ② p.49-50 Evaluation of Our Stewardship Activities ② p.51 International Joint Academic Research on Our Passive Engagement ③ p.53 Asset Management One's Sustainable Investment ③ p.54 Sustainable Investment Category ③ p.55 Sustainable Investment Framework ③ p.56 Sustainable Investment Management Structure ③ p.57 ESG Integration and Score ③ p.58 Impact Investment Framework ③ p.59 ESG Research ③ p.60 ESG Integration in Fixed-income Investment ④ p.70 From Clients' Points of View ④ p.71-72 Client Survey 2023 ④ p.73 Solutions from Clients' Points of View ④ p.74 Examples of Dialogues with Clients

Principles	Related pages in Sustainability Report
<p>Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.</p>	<ul style="list-style-type: none"> ① p.14 Concerning the Review of the FY2023 Materiality Map ① p.15-16 Focus Areas — Climate & Nature Report — ① p.17-18 Focus Area 1 Climate Change ① p.19-21 Focus Area 2 Biodiversity and Environmental Destruction ① p.22-23 Focus Area 3 Human Rights and Health & Wellbeing ② p.25-28 Asset Management One's Stewardship Activities ② p.29-38 Engagement ② p.39-46 Voting Rights ② p.47-48 Dialogue and Collaboration with Government Agencies and Initiatives ② p.49-50 Evaluation of Our Stewardship Activities ② p.51 International Joint Academic Research on Our Passive Engagement
	<p>Prologue p.5 Creating a sustainable future through the power of investment</p> <ul style="list-style-type: none"> ① p.15-16 Focus Areas — Climate & Nature Report — ① p.17-18 Focus Area 1 Climate Change ① p.19-21 Focus Area 2 Biodiversity and Environmental Destruction ① p.22-23 Focus Area 3 Human Rights and Health & Wellbeing ② p.25-28 Asset Management One's Stewardship Activities

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Principles	Related pages in Sustainability Report	
<p>Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.</p>	<ul style="list-style-type: none"> ② p.29-38 Engagement ② p.39-46 Voting Rights ② p.47-48 Dialogue and Collaboration with Government Agencies and Initiatives ② p.49-50 Evaluation of Our Stewardship Activities ② p.51 International Joint Academic Research on Our Passive Engagement 	
	<p>Prologue p.5 Creating a sustainable future through the power of investment</p> <ul style="list-style-type: none"> ① p.15-16 Focus Areas — Climate & Nature Report — ① p.17-18 Focus Area 1 Climate Change ① p.19-21 Focus Area 2 Biodiversity and Environmental Destruction ① p.22-23 Focus Area 3 Human Rights and Health & Wellbeing ② p.25-28 Asset Management One's Stewardship Activities ② p.29-38 Engagement ② p.39-46 Voting Rights ② p.47-48 Dialogue and Collaboration with Government Agencies and Initiatives ② p.49-50 Evaluation of Our Stewardship Activities ② p.51 International Joint Academic Research on Our Passive Engagement ③ p.61 Collaboration with External Partners ③ p.67 Sustainable Investment Products 	
	<p>Principle 5: We will work together to enhance our effectiveness in implementing the Principles.</p>	

Principles	Related pages in Sustainability Report
<p>Principle 6: We will each report on our activities and progress towards implementing the Principles.</p>	<ul style="list-style-type: none"> Prologue p.3 Asset Management One by the Numbers Prologue p.5,7 Creating a sustainable future through the power of investment ① p.16 Focus Areas — Climate & Nature Report — ① p.17-18 Focus Area 1 Climate Change ① p.19-21 Focus Area 2 Biodiversity and Environmental Destruction ② p.25-28 Asset Management One's Stewardship Activities ② p.29-38 Engagement ② p.39-46 Voting Rights ② p.47-48 Dialogue and Collaboration with Government Agencies and Initiatives ② p.49-50 Evaluation of Our Stewardship Activities ② p.51 International Joint Academic Research on Our Passive Engagement ③ p.53 Asset Management One's Sustainable Investment ③ p.54 Sustainable Investment Category ③ p.62 ESG Disclosure ③ p.67 Sustainable Investment Products

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■ Disclosure Required for Asset Management Companies Based on SFDR

Targets	Principles	Article number	Related pages in Sustainability Report
Financial Market Participants and Financial Advisers	Transparency of sustainability risk policies	Article 3	Prologue p.7,8 Creating a sustainable future through the power of investment ① p.11-12 Asset Management One's Materiality Map ① p.13 Review Process of Materiality Map and Reviews in FY2022 ③ p.53 Asset Management One's Sustainable Investment
	Transparency of adverse sustainability impacts at entity level	Article 4	
	Transparency of remuneration policies in relation to the integration of sustainability risks	Article 5	③ p.53 Asset Management One's Sustainable Investment ③ p.56 Sustainable Investment Management Structure
Financial Products	Transparency of the integration of sustainability risks	Article 6	③ p.53 Asset Management One's Sustainable Investment ③ p.57 ESG Integration and Score ③ p.59 ESG Research ③ p.60 ESG Integration in Fixed-income Investment
	Transparency of adverse sustainability impacts at financial product level	Article 7	③ p.55 Sustainable Investment Framework
	Transparency of the promotion of environmental or social characteristics in pre-contractual disclosures	Article 8	
	Transparency of sustainable investments in pre-contractual disclosures	Article 9	
	Transparency of the promotion of environmental or social characteristics and of sustainable investments on websites	Article 10	③ p.57 ESG Integration and Score ③ p.58 Impact Investment Framework ③ p.59 ESG Research ③ p.60 ESG Integration in Fixed-income Investment ③ p.63,66 Sustainable Investment Products
	Transparency of the promotion of environmental or social characteristics and of sustainable investments in periodic reports	Article 11	③ p.57 ESG Integration and Score ③ p.58 Impact Investment Framework ③ p.59 ESG Research ③ p.60 ESG Integration in Fixed-income Investment ③ p.66-67 Sustainable Investment Products

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For Fair Reporting

This report comprehensively discloses all of our firm's activities related to sustainability in an easy-to-understand manner for all stakeholders, including clients, investee companies, employees, local communities, and other market participants.

Related parties from all operating divisions of our firm have contributed for drafting this report, and we sought to present our activities fairly and in a clear and comprehensible format. In particular, we made efforts to comprehensively report a wide range of activities regarding stewardship, spanning various asset classes, from engagement activities to exercising voting rights.

We have endeavored to ensure that this report is fair, balanced and understandable; the report has undergone a review process by those responsible for the operations related to the content presented in each chapter, and has been reported to the President and the Board of Directors among others.



Note

- This material was prepared by Asset Management One Co., Ltd.
- This material is for the purpose of information provision, and it is not intended as investment solicitation to investors.
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