2. Stewardship Activities

Minoru Hamauchi
Head of Research & Engagement
Investments Division

Effective Engagement Contributing to Enhance Corporate Value of Investee Companies

Strengthening the Engagement Framework

Following the integration of four asset management companies in October 2016, we established a dedicated division specializing in responsible investment and stewardship activities, and have since focused on engagement with investee companies. In April 2024, we further enhanced this framework by integrating the Equity Research Team—comprising sector analysts with expertise in financial analysis—and the Stewardship Group—comprising ESG analysts specializing in non-financial domains—to form the new Research & Engagement Department*. By combining financial and non-financial expertise, we are strengthening our engagement capabilities and actively promoting effective dialogues that contribute to corporate value enhancement.

For example, in engagement with a power utility company, sector analysts shared their insights on challenges within the company's business strategy with senior management, while ESG analysts engaged with HR executives on human capital strategy. Leveraging expert perspectives from both financial and non-financial angles, we have been conducting engagements aimed at enhancing corporate value. Our approach extends beyond analyzing competitive dynamics within Japan's electric power sector to include benchmarking against leading global peers, offering multifaceted perspectives on management challenges.

In engagement with a machinery and plant engineering company, rather than focusing solely on the expansion of machinery and plant sales within the existing business model, we have engaged in dialogue aimed at strengthening the company's Operation & Maintenance (O&M) business, with the objective of establishing a high-margin, long-term revenue base. Sector analysts and ESG analysts work closely together, providing joint insights into long-term profitability, governance challenges, and risk management enhancement as part of our ongoing engagement with the investee company.

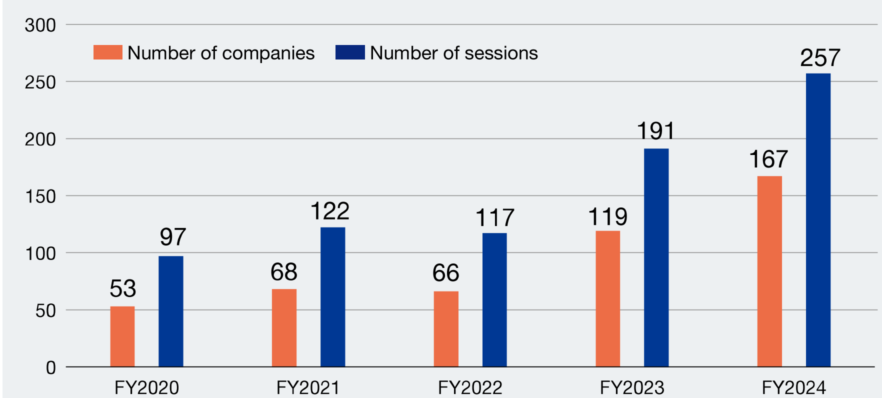
Engagement to Improve Capital Efficiency

Since the Tokyo Stock Exchange's March 2023 announcement titled "Action to Implement Management that is Conscious of Cost of Capital and Stock Price", efforts to improve capital efficiency among Japanese listed companies have been accelerating. Even prior to this development, we had proactively engaged with investee companies on capital efficiency matters (see Chart 1).

In FY2024, we conducted 257 engagement sessions with 167 companies on the topic of capital efficiency. Engagement has been particularly active in sectors such as banks, chemicals, construction, and food products, while also extending to a broad range of other industries. Notably, in our engagement with regional banks, we conducted dialogues with approximately 70% of TOPIX constituents, engaging in active discussions aimed at improving capital efficiency.

* The newly formed division also integrates the Research Group, which includes economists and strategists, as well as the proxy voting team.

Chart 1: Trends in Capital Efficiency Engagement (Number of Companies and Engagement Sessions)



Advancing Active Ownership

Beyond areas such as corporate strategy and capital efficiency, we engage with investee companies across a broad range of themes, including Environmental, Social and Governance (ESG) issues and challenges unique to Japan (see Chart 2). Progress in these dialogues is monitored through an eight-stage milestone framework. While the pace of advancement varies by topic, we have been steadily achieving meaningful outcomes.

Among these themes, engagement related to “Board Governance” is the most frequently addressed. The board of directors serves as the core body responsible for corporate management and governance and is expected to play a central role in enhancing corporate value. We proactively engage in dialogue with investee companies and exercise our voting rights based on these engagements and the actions taken by the companies. Through the appropriate exercise of active ownership, we remain committed to contributing to the enhancement of corporate value.

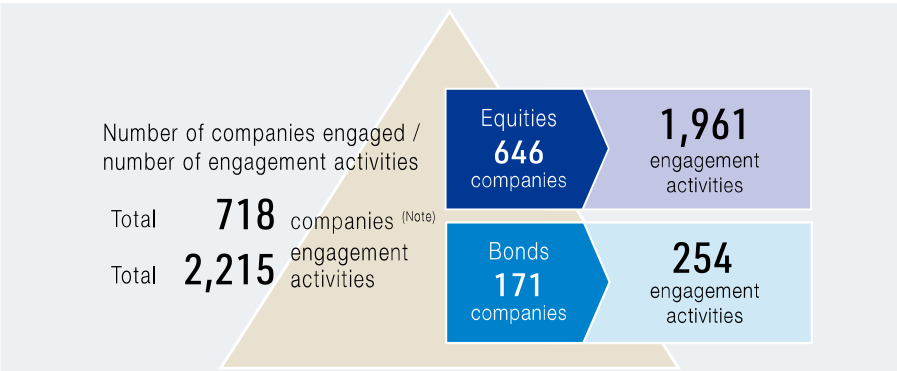
Chart 2: FY2024 Engagement Activities (Number of Companies by Type)

Theme		Engagement Objective	Primary Target Sectors	Number of Engagements
Corporate Strategy		Formulation of medium term management plan, revenue growth, capital efficiency, profit margins, progress of mid term KPIs	All sectors	111
Planet (Environmental)	Climate Change	Promotion of GHG emissions reduction targets, establishment of the plan, promotion of decarbonization	Steel, electric power and gas	88
	Biodiversity	Identification of operational risks and opportunities in regions important from a biodiversity perspective and promotion of appropriate initiatives	Food, construction	28
	Water Resources	Conservation of water resources and water-use management across the supply chain, strengthening initiatives related to water use	Food, chemicals, and pulp and paper	4
	Circular Economy	Initiatives that promote the transition to a circular economy, including waste reduction, resource recycling, and extending product life spans	Food, apparel, electrical equipment	14
	Air, Water, Soil Pollution	Reduction of pollutant emissions, development of alternatives, and implementation of pollution-prevention measures	Steel, chemicals, pharmaceuticals	2
	Sustainable Food System	Establishment of systems that provide safe and nutritious food in a sustainable manner	Food, retail, food service	3
People (Social)	Diversity, Equity & Inclusion	Initiatives to correct gender disparities, promote the utilization of diverse talent, and advance effective human capital management	All sectors	116
	Business and Human Rights	Implementation of human rights due diligence across the value chain, strict compliance with labor standards, and thorough enforcement of health and safety	All sectors	22
	Health and Wellbeing	Initiatives aimed at realizing a society that enhances well-being, including contributing to the extension of healthy life expectancy and improving employee engagement scores	All sectors	28
Governance & Disclosure	Board and Corporate Governance	Establishment of a framework that enables transparent, fair, prompt, and decisive decision-making through appropriate board composition and executive compensation	All sectors	398
	Capital Efficiency	Initiatives to improve capital efficiency, including enhancing ROE, reducing cross-shareholdings, and reforming business portfolios	All sectors	167
	Takeover Defense Measures	Abolishing takeover defense measures	All sectors	13
	Risk Management	Strengthening risk-management processes and business continuity planning (BCP) to prevent incidents, along with initiatives related to information management	All sectors	21
	Sustainability Management	CSV (Creating Shared Value) management frameworks that link the resolution of environmental and social issues to the enhancement of corporate value	All sectors	129
	Supply Chain Management	Sustainable procurement of raw materials and establishment of supply chains capable of delivering resilient products and services	Wholesale, retail, food	35
	Business Ethics	Development of whistleblower systems, legal-compliance frameworks, and recurrence-prevention measures to eliminate misconduct	All sectors	32
Our Community (Japan Specific Issues)	Regional Revitalization	Provision of regional infrastructure, revitalization of regional economies, and generation of impact through business expansion in local areas	Regional banks, retail, land transportation	24
	Digital Transformation	Promotion of offensive DX that goes beyond defensive DX (efficiency and productivity improvements), driving business-model transformation and innovation	All sectors	53

Engagement Activities with Japanese Companies

Status of engagement initiatives

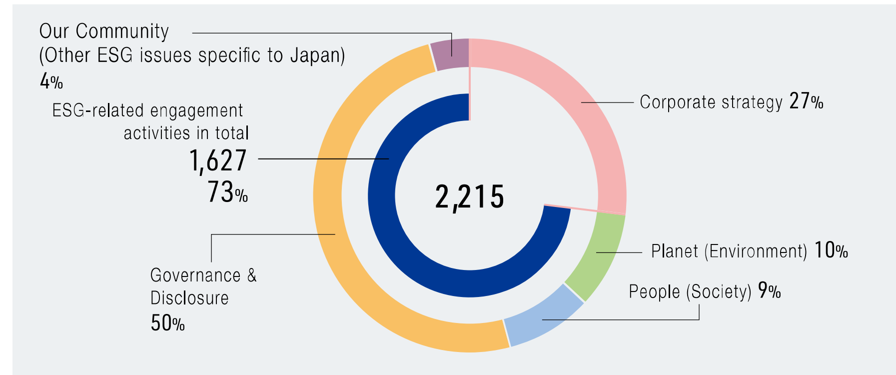
From the perspective of enhancing the corporate value of our investee companies, we conducted substantial engagement, both in terms of quality and quantity, with more than 80% of the companies based on TOPIX market capitalisation.



Note: total number of companies engaged excluding duplicates

Engagement by theme

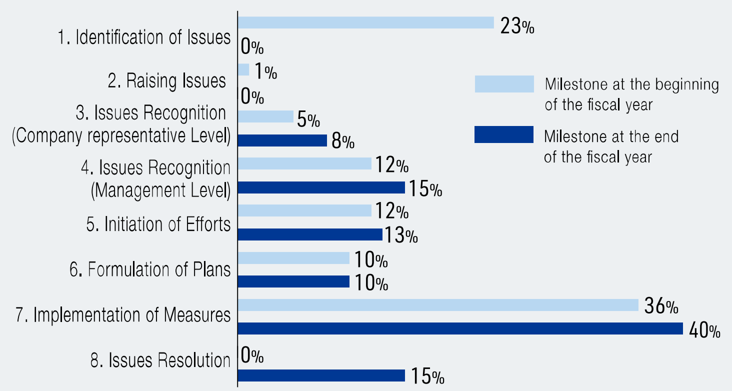
We have identified 21 engagement issues, including 18 relating to ESG issues, on which to engage with companies ESG-related topics account for 73% of all engagement activities.



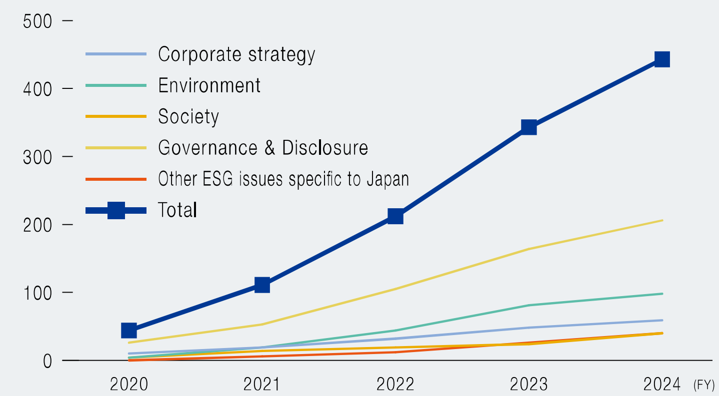
Progress of our engagement

We manage the progress of our engagement activities using an eight-stage milestone framework. In our engagement activities during the past fiscal year, we observed steady progress, and over the cumulative five-year period, we achieved the resolution of nearly 500 issues. The breakdown shows that the majority of these outcomes relate to sustainability-management topics such as “Governance and Disclosure,” as well as “Environmental” issues including climate change.

Milestones of FY2024 (including additions during the period)



Number of issues solved (cumulative five-year period)



Engagement Activities [Japanese Equities]

In our engagement with Japanese equities, we strive to contribute to the improvement of corporate value at the investee companies and to the overall improvement of the stock market through dialogue from a medium- to long-term perspective. In addition to our nine core materiality issues and three focus areas, we also actively engage in governance-related issues and issues unique to Japan. Here, we will introduce examples of dialogue on issues that Japanese companies urgently need to address, such as climate change, circular economy, capital efficiency/reduction of cross-shareholdings, regional revitalization, and corporate strategy.

Circular Economy

Case 1

Engagement Case Study (Retail Company A)

A case in which dialogue encouraging environmental initiatives led to progress in home appliance reuse and recycling efforts, resulting in the emergence and expansion of synergies with the core business

Recognition of Issues

- A linear economic model of mass production and mass consumption with a high environmental burden entails risks that may constrain corporate activities.
- Accelerating initiatives in the 3Rs (Reduce, Reuse, Recycle) and transitioning to a circular economy are highly likely to strengthen the competitiveness of the core business.

Objective

- To leverage the company's nationwide store network and its strength in large-volume purchasing and sales to build a recycling and reuse system, thereby promoting initiatives for a circular economy and expanding synergies with its retail business.

Milestones 1 2 3 4 5 6 7 8

Dialogue 1

From FY2018 – Engagement Initiated (Identification of issues)

- The company had only just begun publishing integrated reports, indicating the need to further strengthen linkages between ESG initiatives and business activities.
- In particular, greater emphasis on the certified small home appliance recycling business—recognized nationwide—was desired, as it could be appealing even from the perspective of reducing dependence on home appliance sales.

Dialogue 2

FY2022 – Dialogue with Executive Officer (Formulation of plans → Implementation of measures)

- Confirmed steady progress toward the medium- to long-term targets for reuse and recycling of major products.
- High market share contributes to an advantage in procurement. Even when the factory conducting disassembly, cleaning, and repair of reused products was operating at full capacity, expansion plans in other regions were confirmed, demonstrating progress in initiatives. This was assessed as the stage of implementing measures.

Dialogue 3

FY2023 – Dialogue with General Manager of Corporate Planning (Implementation of measures)

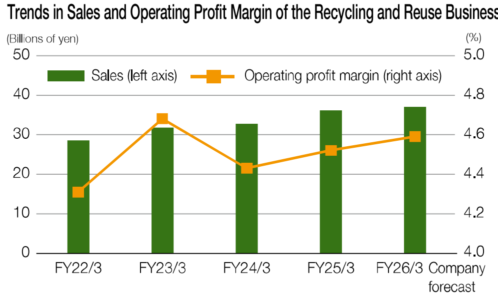
- Progress observed in initiatives related to business expansion, such as construction of additional recycling facilities and promotional activities for reused products.
- With respect to the bottleneck of procuring used products, diversification of sourcing channels had begun. Synergy effects were confirmed, such as sales of reused products at the company's own stores contributing to increased same-store sales.

Dialogue 4

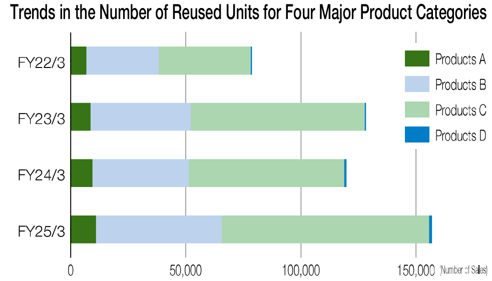
FY2025 – Dialogue with Director (Implementation of measures → Issues resolution)

- As reuse and recycling had grown to a scale sufficient to constitute a standalone business, recommendations for enhanced disclosure continued.
- The company advanced to the point of publishing a simplified income statement for the business. Capital expenditures were increasingly allocated to environmental businesses, confirming the company's strong commitment to recycling, including its capital strategy.

Trends in Sales and Operating Profit Margin of the Recycling and Reuse Business



Trends in the Number of Reused Units for Four Major Product Categories



Status of Dialogue Achievements / Future Response Policy

- The recycling and reuse business was separated as an independent segment within the environmental business. Given that the profit margin of the environmental business is sufficiently high compared with other segments, and that synergies with the retail business were confirmed, this was assessed as "issue resolved."
- To transition to a circular economy, it is important not to confine recycling initiatives solely within the company, but to promote collaboration across the industry. Accordingly, we expect future initiatives to be undertaken as an industry-wide social issue and plan to encourage collaboration with other companies.

Human Capital Management

Case2

Engagement Case Study (Textile Products Company B)

A case in which dialogue with top management aimed at fostering innovation led to the confirmation of initiatives for organizational culture reform

Recognition of Issues

- To promote innovation and successfully advance the transformation of the business portfolio, it is essential to break down the siloed structure characteristic of large corporations and undertake organizational culture reform centered on human capital.

Objective

- Through organizational reform that dismantles siloed structures, eliminate sectionalism and restore a corporate culture that does not fear taking on challenges. Foster cross-organizational collaboration involving core technologies—the source of innovation—and promote the creation of new businesses through the development of an organization conducive to such collaboration.

Milestones 1 2 3 4 5 6 7 8

Dialogue 1

From FY2022 – Dialogue Initiated (Identification of issues → Issues recognition)

- Concerns were shared regarding the weakening of innovation capabilities, along with an awareness of issues related to human resource strategy, human capital, and organizational culture. The company responded that human resource strategy and human capital investment aligned with the management strategy would be considered and examined in the next medium-term management plan. Given this exchange, the engagement was assessed as having reached the "issue recognition" stage.

Dialogue 2

FY2023 – Meeting with General Manager of IR Department (Issues recognition → Formulation of plans)

- Although the company originally had an organizational culture that encouraged taking on challenges, the culture had recently lost its edge, leading to reduced willingness to take risks and consequently a decline in innovation. Based on this awareness, it was confirmed that the medium-term management plan would adopt "deepening people-centered management" as a core strategy. Accordingly, the engagement advanced to the "Formulation of plans" stage.

Dialogue 3

FY2024 – Meeting with Senior Executive Officer (Remains at Formulation of plans)

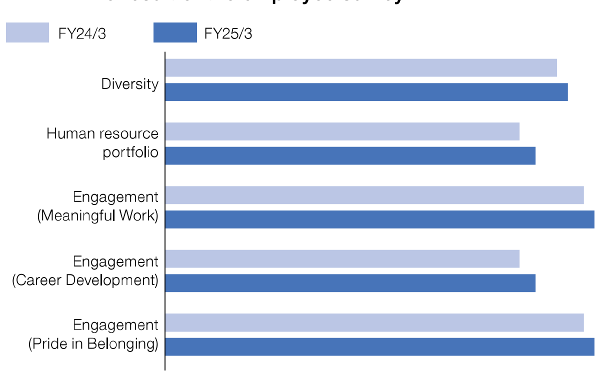
- The company's organizational culture had become rigid due to reduced compensation and workforce cuts during the global financial crisis, as well as strengthened compliance following repeated scandals, which further dampened employee motivation. Although awareness of human capital had increased and more proactive information disclosure was underway, organizational transformation had not yet been realized. Therefore, the engagement remained at the "Formulation of plans" stage.

Dialogue 4

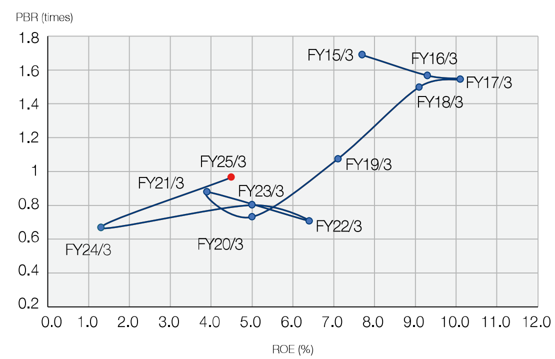
FY2024 – Dialogue with President (Formulation of plans → Implementation of measures)

- The company conducted a reassessment of personnel across business domains to enhance the mobility of its human resource portfolio. It was recognized that creating an environment where employees can take on challenges without fear of failure is essential for organizational culture reform. As top management demonstrated a strong awareness of issues related to human capital in their management approach, the engagement was assessed as having moved to the "implementation of measures" stage.

The result of the employee survey



Trends in ROE and PBR (FY2015/3 – FY2025/3)



Status of Dialogue Achievements / Future Response Policy

- FY2025 – Dialogue with Senior Executive Officer (Implementation of measures → Issue resolution) The company carried out an organizational restructuring that shifted the corporate division from a traditional vertically segmented structure to a function-based structure. Since measures to break down siloed structures were implemented and a clear commitment to driving cultural transformation was confirmed, the engagement was assessed as "issue resolved."
- Going forward, we will continue to encourage the company to ensure that appropriate human capital strategies and organizational culture reforms are executed across the entire organization. We also intend to promote the linkage between organizational reform and innovation, encouraging cross-organizational initiatives to contribute to business expansion.

Governance

Case3

Engagement Case Study (Electrical Equipment Company C)

A case in which persistent dialogue, beginning with efforts to enhance the effectiveness of the Board of Directors, led to the partial sale of cross-shareholdings.

Recognition of Issues

- For the Board of Directors to respond flexibly to changes in the business environment and to fulfill its function in achieving sustainable corporate value enhancement, independent outside directors must be appointed, and diversity in knowledge, experience, and competencies among board members must be ensured.

Objective

- To enhance the effectiveness of the Board of Directors so that decisions are made with a high degree of transparency and rationality. Specifically, the goal is to expand both the number and quality of outside directors and to ensure appropriate decision-making regarding matters such as the reduction of cross-shareholdings.

Milestones 1 2 3 4 5 6 7 8

Dialogue 1

FY2020 – Engagement Initiated (Identification of issues → Raising issues)

- Although we supported all proposals, we communicated our policy to raise the requirement for the ratio of outside directors to 25% in the following fiscal year.
- We requested an increase from the then-20% outside director ratio and called for continued ESG dialogue, with a focus on governance.

Dialogue 2

FY2020 – Dialogue with Chairman (Raising Issues → Formulation of plans)

- Dialogue was held regarding the governance framework and cross-shareholdings.
- Positive responses were received concerning reducing the number of inside directors and increasing outside directors, appointing individuals with corporate management experience, shortening director terms, and reducing cross-shareholdings except for companies where sales were difficult due to past circumstances. Based on this, we assessed that planned measures to improve governance could be expected.

Dialogue 3

FY2021 – Dialogue with President (Formulation of plans → Implementation of measures)

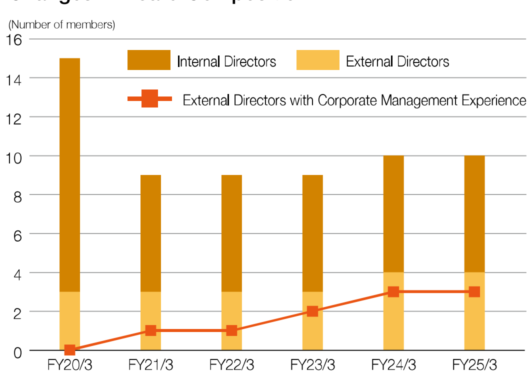
- The company reported that reducing the number of directors and appointing a new outside director with corporate management experience had revitalized board discussions. We viewed this as positive action toward improving board composition.
- However, with respect to cross-shareholdings, no change was observed in the policy to retain shares in companies considered difficult to sell due to historical reasons.

Dialogue 4

FY2022–FY2024 – Dialogue with President and Others (Implementation of measures → Issue Resolution)

- We repeatedly conveyed that cross-shareholdings not only deteriorate capital efficiency but also raise concerns from the perspective of governance discipline for the companies being held.
- As the president's stance began to shift, the company subsequently announced the partial sale of cross-shareholdings in companies previously considered problematic.

Changes in Board Composition



Capital Efficiency and Voting Decisions

Fiscal Year	ROE	Ratio of ross-Shareholdings to Net Assets	Voting Decision	Key Points for Voting Decisions
FY21/3	3.6%	46%	Against	Voted against based on ROE criteria
FY22/3	5.4%	49%	-	Non-election year; no agenda item related to director election
FY23/3	4.3%	48%	Against	Voted against based on ROE criteria and cross-shareholding criteria
FY24/3	3.2%	65%	-	Non-election year; no agenda item related to director election
FY25/3	0.7%	67%	For	Voted for in recognition of efforts to improve capital efficiency, such as the reduction of cross-shareholdings

Status of Dialogue Achievements / Future Response Policy

- Persistent dialogue led to improvements in board composition (quantitative and qualitative enhancement of external directors), the shortening of director terms, and the reduction of cross-shareholdings.
- These efforts succeeded in eliciting proactive initiatives toward strengthening governance.
- In FY2025, "capital efficiency" was newly set as a key engagement issue. We plan to encourage further improvement in capital efficiency through steady execution of cross-shareholding reduction and enhanced business portfolio management.

Capital efficiency

Case4

Engagement Case Study (Machinery Company D)

A case in which sector analysts, ESG analysts, and fund managers engaged in integrated, three-pronged dialogue with top management to promote the Tokyo Stock Exchange's initiative "to Implement Management that is Conscious of Cost of Capital and Stock Price"

Recognition of Issues

- Achieving capital efficiency above the cost of capital is essential for linking the resolution of environmental and social issues to medium- to long-term enhancement of corporate value.
- Further business portfolio reform to strengthen the environmental-related business as a core segment, along with improving the profitability of core businesses, is necessary.

Objective

- To enhance market evaluation through the implementation of "management conscious of capital costs and stock prices" and the promotion of CSV management. This is to be achieved by clarifying the value-creation story through business portfolio reform and strengthening profitability through business model transformation.

Milestones 1 2 3 4 5 6 7 8

Dialogue 1

FY2018–FY2019 – Dialogue with CEO and Others (Identification of issues → Raising issues / Management Level)

- We highly evaluated the company's efforts toward addressing environmental issues. However, we pointed out that persistently weak capital efficiency had eroded market trust in management.
- The CEO responded, "We aim to advance business portfolio reform and enhance the persuasiveness of our value-creation story to improve ROE."

Dialogue 2

FY2020–FY2021 – Dialogue with President, Outside Directors, etc. (Raising issues / Management level → Formulation of plans)

- We evaluated the company's decision to formulate a long-term vision through 2030 and to prioritize structural reforms aimed at strengthening profitability.
- We encouraged the implementation of genuine CSV management to gain market trust by linking solutions to environmental and social challenges with corporate value enhancement.

Dialogue 3

FY2022–FY2023 – Dialogue with CEO and Others (Implementation of measures → Temporary Issues resolution)

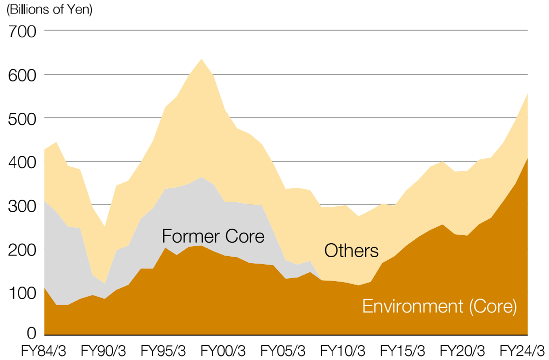
- In the long-term vision, the company set a target of achieving ROE above 10% and began full-scale restructuring, withdrawing from low-profitability businesses and reallocating resources toward growth fields.
- Balance sheet management also improved, including reducing cross-shareholdings to nearly zero.
- As ROE showed signs of improvement, we regarded the issue as temporarily resolved.

Dialogue 4

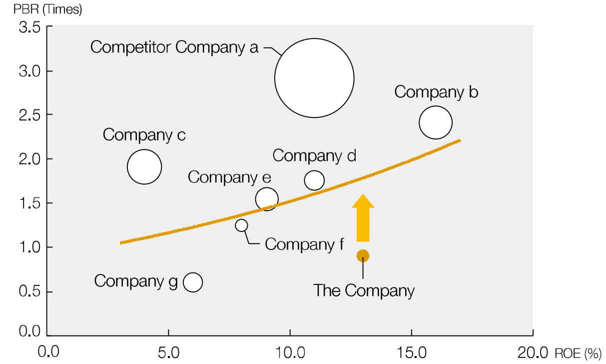
FY2024 – Dialogue with CEO and Others (Re-identification of Issues → Formulation of plans)

- Despite improving capital efficiency, PBR continued to hover around 1x. Recognizing the need to further strengthen capital efficiency and enhance growth expectations, sector analysts, fund managers, and ESG analysts jointly conducted comprehensive trinity engagement covering both financial and non-financial aspects.
- Dialogue with the president also extended to business model transformation.

The Transition in Business Portfolio



ROE and PBR (The diagram of spread within industry)



Status of Dialogue Achievements / Future Response Policy

- We highly evaluated top management's strong commitment to business portfolio reform and business model transformation, including the strengthening of after-sales business.
- Following our meeting, the company announced the sale of certain non-core businesses, confirming consistency between words and actions.
- As the PBR continues to hover around 1x, we consider the current market valuation to be insufficient.
- We intend to continue supporting the company's initiatives to link the resolution of environmental and social issues with the enhancement of corporate value.

Corporate Strategy

Case5

Engagement Case Study (Stone and Clay Products Company E)

A case in which dialogue encouraging enhanced disclosure led to the presentation of an appealing medium- to long-term vision, raising market expectations for growth.

Recognition of Issues

- At the start of our engagement, the company's stock price was at a low level and its PBR was below 1x, indicating a gap between our expected corporate value and market valuation. To increase confidence in its overseas business—its key growth driver—more proactive information disclosure was necessary.

Objective

- By enhancing quantitative disclosure regarding the overseas business driving its growth, we expect to cultivate medium- to long-term growth expectations and increase the persuasiveness of the company's value-creation story aimed at enhancing corporate value.

Milestones

1 2 3 4 5 6 7 8

Dialogue 1

FY2021–FY2022 – Dialogue with President
(Identification of issues → Raising issues)

- As the PBR had remained below 1x for an extended period, we encouraged more proactive information disclosure, including the formulation of a long-term vision for the overseas business, which serves as the company's key growth driver.
- The president responded very positively, stating that the next medium-term management plan would include more detailed strategies and KPIs to strengthen information disclosure.

Dialogue 2

First Half of FY2023 – Dialogue with President
(Raising issues → Initiation of Efforts)

- Discussions were held regarding the basic approach for the next medium-term management plan, starting in FY2024.
- We confirmed that discussions were progressing on enhancing disclosure—particularly regarding more detailed profit targets—and that the company intended to formulate a long-term vision targeting 2030.

Dialogue 3

Second Half of FY2023 – Dialogue with Senior Managing Executive Officer
(Initiation of Efforts → Formulation of plans)

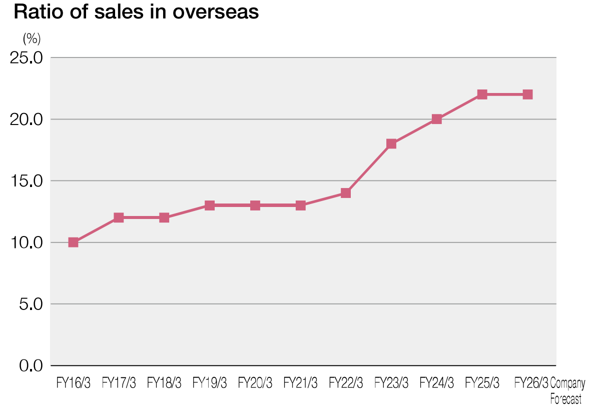
- We gained the impression that the specific content of the new medium-term management plan was becoming more concrete, and therefore assessed the engagement as being at the "Formulation of plans" stage.
- The company shared that it was organizing its understanding of overseas markets and competitive landscapes, confirming steady progress toward enhancing disclosure to a level that meets market expectations.

Dialogue 4

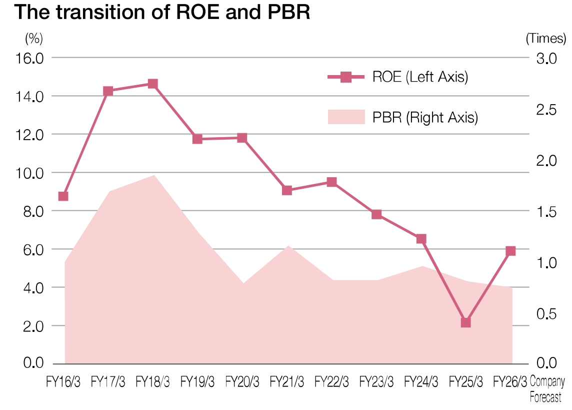
FY2024 – Dialogue with President
(Formulation of plans → Issues Resolution)

- Ambitious profit targets for overseas operations were disclosed in the new medium- to long-term plan.
- Disclosure related to overseas business—especially regarding business conditions and market environment—became more detailed, significantly enhancing the company's communication with the market. We highly evaluated this progress.

Ratio of sales in overseas



The transition of ROE and PBR



Status of Dialogue Achievements / Future Response Policy

- Sustained dialogue with the president and executive management—covering not only the medium-term management plan but also the long-term vision toward 2030—proved effective in strengthening the company's communication with the market regarding its overseas business, the primary driver of growth.
- As the company's capital efficiency remains low, there is a continued need to deepen discussions on improving earning power and strengthening balance sheet management. We intend to maintain active dialogue with management to support the enhancement of corporate value.

Engagement Activities [Japanese Fixed Income]

In our active fixed income investment strategies, we conduct engagement by discussing companies' efforts to address ESG issues—identified through our proprietary ESG credit score as potential future risks—and by engaging on matters unique to bond investments, such as financial strategies, issuance policies, and downside risks.

Unlike equities, fixed incomes do not confer direct rights such as voting rights. However, as new segments of the fixed income market—such as ESG bonds and hybrid bonds—continue to expand, opportunities for dialogue with issuing companies have increased. Leveraging our strong presence as one of Japan's leading active credit investors, we strive to accurately convey investor perspectives to issuers.

CO_2 Carbon Neutral

Case6

Engagement Case Study (Cement Company A)

A case in which we confirmed the company's concrete initiatives toward carbon neutral and their financial impact.

Engagement Themes

Initiatives toward Carbon Neutral

Engagement Format

Interviews and on-site facility visits

Issue

[Challenges Facing the Company]

- Cement production uses limestone as its primary raw material, resulting in significant CO_2 emissions during manufacturing. CO_2 originating from raw materials accounts for approximately 60% of total emissions. Because raw-material-derived CO_2 cannot be reduced through conventional production processes, achieving carbon neutral by 2050 will require technological innovation while maintaining financial soundness.

Risk Items Assessed in the ESG Credit Score

ESG Pillar	Category	Description
Environment	E1	Climate change (Transition to a decarbonized society)
	E2	Climate change (Physical risks)
	E3	Water resources and wastewater management
	E4	Waste and hazardous materials management
	E5	Other environmental risks
Social	S1	Customer relations and customer information management
	S2	Human capital and human rights
	S3	Employee health and safety
	S4	Product quality management and supply chain management
	S5	Other social risks (Demographics, Changing consumer preferences, Geopolitical risks, etc.)
Governance	G1	Management strategy and Key person risk
	G2	Governance structure
	G3	Compliance, politics, and corruption
	G4	Financial disclosure and transparency
	G5	Risk management

Action

[Dialogue Counterpart]

- IR representatives / Sustainability representatives

[Dialogue Content]

- The company explained that it has established an innovative technology that enables zero CO_2 emissions in the cement manufacturing process. We were given the opportunity to visit the pilot testing facilities. In discussions regarding the progress of the experiments, financing conditions, and future developments, we confirmed that the company is advancing its initiatives toward carbon neutral without impairing its creditworthiness.

Outcome

[Status of Dialogue Achievements]

- The pilot project to capture CO_2 generated during the cement manufacturing process and convert the captured CO_2 into methane using hydrogen—thereby reusing it as an energy source—is being conducted using government subsidies. We confirmed that the project is being managed with a strong emphasis on financial discipline.

Next steps

[Future Response Policy]

- While the pilot phase does not impose a financial burden, the commercial rollout required to achieve carbon neutral by 2050 will entail substantial investment. We therefore intend to continue monitoring and engaging with the company regarding the progress of technological development and financial conditions.

Engagement Activities [Overseas Companies]

Our internal structure

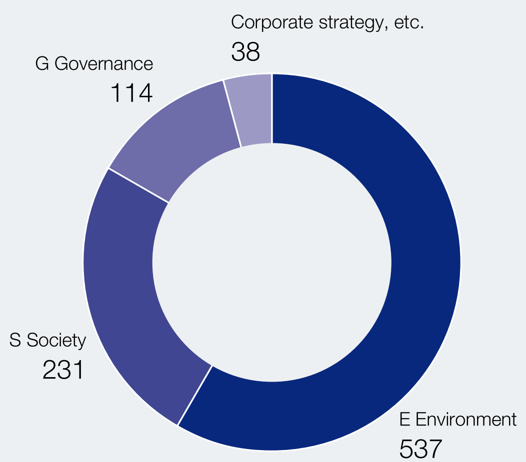
We have an ESG representative based in London (Asset Management One International) who conducts research on European and US ESG trends and engages with overseas companies. We have the representative in Europe, where is leading the way in stewardship activities and ESG investment, who works with ESG analysts in Tokyo and portfolio managers and analysts in New York to resolve social issues and increase corporate value from a global perspective.

Use of external services

In addition, we have partnered with a global leading stewardship service provider EOS at Federated Hermes over the engagement activities with overseas companies.

Engagement activities by theme

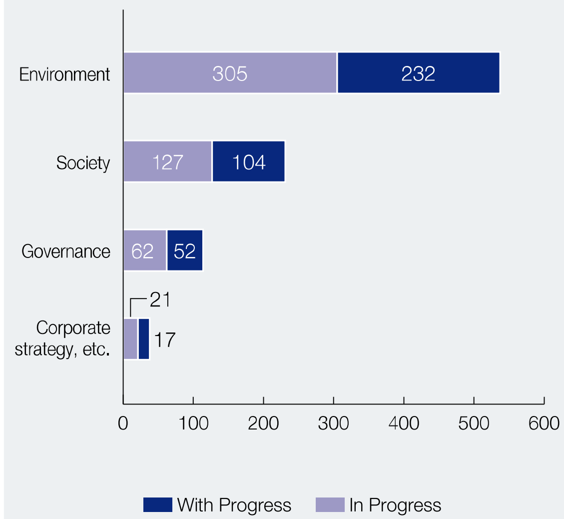
We are conducting engagement activities on a wide range of themes, with a focus on environment.



Period: 1 July 2024 – 30 June 2025 (unit: number of cases)

Progress of engagement milestones

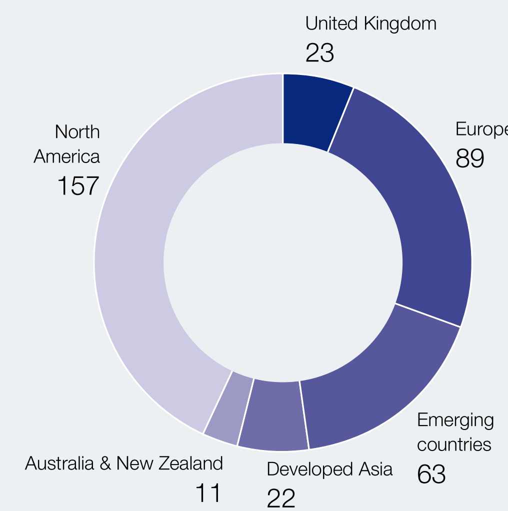
Progress made following engagement activities.



Period: 1 July 2024 – 30 June 2025 (unit: number of cases)

Engagement companies by region

We are conducting engagement activities with companies in a wide range of regions, including emerging countries.



Period: 1 July 2024 – 30 June 2025 (unit: number of cases)

Engagement Case Study [Global Equities]

In our global equity engagement activities, we strive to contribute to the sustainable growth of investee companies and the resolution of social issues through dialogue conducted from a global perspective. In addition to our nine core materialities and three focus areas, we also conduct engagement activities that take into account international initiatives and global standards. Here, we introduce an engagement case related to climate change—specifically decarbonization and methane emissions reduction—and energy transition, both of which require urgent global action.

Climate Change

Case1

Engagement Case Study with an Overseas Company (Oil & Gas Industry, Company A)

A case in which we encouraged disclosures on methane reduction in light of the growing energy demand from AI data centers.

Issues

Climate change
Sustainability management

Challenges Facing Company A

Company A, as a global leader in the oil and gas industry, is expected to take robust action on climate change. In particular, ensuring transparency regarding methane emissions reduction and the growing energy demand associated with AI is critical. The company is exploring the use of natural gas to meet the energy needs of AI data centers, and it is essential that such initiatives remain consistent with its methane-reduction commitments.

Issue

[The issue of the company]

- The primary challenge facing Company A is to disclose its approach and policy regarding AI-related energy demand, and to measure and report performance in alignment with the Oil and Gas Methane Partnership 2.0 led by UNEP. This disclosure requires a commitment to achieving a methane emissions intensity of 0.20% by 2025 and a 75% reduction by 2030 for natural-gas-based AI energy solutions.

Action

[Dialogue Content]

- Q1 2025: We discussed the importance of disclosing the company's approach to AI-related energy demand and reached agreement on proceeding with such disclosure. The company has begun exploring opportunities to supply natural gas to AI data centers and is well-positioned to provide lower-methane natural gas. In addition, the company possesses CCS technologies, enabling it to minimize environmental impact. We encouraged Company A to include details on how this gas would be supplied, and the company responded positively to this suggestion.

- Q2 2025: We confirmed that Company A had initiated the formulation of plans to disclose its approach to AI-related energy demand. The company believes it holds competitive advantages across the entire CCS value chain, strengthened by recent M&A activity. Additionally, its location along the U.S. Gulf Coast provides strategic access to industrial customers seeking to reduce emissions, while also enabling it to supply energy to AI data centers.

- Q3 2025: Our dialogue focused on the need for industry-wide action to address methane emissions. A company representative noted that if the industry does not address its own "villains," regulatory intervention may follow. They emphasized that the entire industry must demonstrate leadership and collaborate with governments to tackle this issue.

Outcome

[Status of Dialogue Achievements]

- Company A has proactively begun formulating a plan to disclose its approach to AI-related energy demand and believes it holds strong competitive advantages across the CCS value chain. Its operations benefit from access to customers seeking to reduce emissions in heavy industries and can also supply energy for AI-driven demand. The company aims to achieve net-zero emissions for Scope 1 and Scope 2 by 2030. Company A has been selected as an engagement target under Climate Action 100+, and we will continue our engagement to support the company's efforts to address climate change.