



Focus Area: Climate Change

With the enactment of the amended GX Promotion Act, the economic value of carbon is now formally recognized in Japan, paving the way for the expansion of investments aimed at simultaneously achieving decarbonization and economic growth. To ensure that technological breakthroughs and innovations addressing climate challenges become a source of competitive advantage for companies operating on the global stage, we will continue to provide support through net-zero engagement and related initiatives.



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Notable Events Related to Climate Change

2025	Japan: Enactment of the amended GX Promotion Act Global: COP30 (Brazil) Global: Commencement of drafting for the IPCC Seventh Assessment Report Global: Release of the draft SBTi New Standard (Version 2.0)
2026	Europe: Gradual implementation of the EU Carbon Border Adjustment Mechanism (CBAM) Europe: Discretionary disclosure of climate-related financial risks under the Basel III Framework Japan: Launch of the GX Emissions Trading Scheme (GX-ETS) Global: Finalization of the SBTi New Standard (Version 2.0)
2027	United Kingdom: Scheduled start of UK CBAM operations Japan: Launch of SSBJ Sustainability Standards Global: Revision of the GHG Protocol
2028	Global: Implementation of Global Stocktake (GST) follow-up evaluation measures Japan: Introduction of GX-ETS full-scale emissions trading Global: Enforcement of the SBTi New Standard (Version 2.0)
2029	Global: Completion of the IPCC Seventh Assessment Report
2030 and Beyond	Global: Review of the 2040 Nationally Determined Contribution (NDC) Japan: Full-scale introduction of carbon-charge mechanisms under GX-ETS Europe: Transition of free ETS allocations to complete CBAM coverage



Engagement Focus points and KPIs

- Technological capabilities and innovation that drive GHG emissions reduction
- Implementation plans for decarbonization investments and visibility into capital expenditure and investment recovery
- Initiatives to prepare for the application of sustainability disclosure standards
- Impact of carbon-pricing mechanisms and corporate responses
- Volume of GHG emissions reductions



Rationale for Setting Focus Areas and KPIs

- The development of innovative technologies and the creation of green products involve not only risk mitigation but also significant opportunities
- Decarbonization investments—implemented under the principle of capital expenditure recovery—should ultimately contribute to corporate value enhancement. Beginning in 2026, carbon-pricing schemes will increasingly support corporate transition strategies
- From the perspective of global emissions reduction, corporate GHG reduction contributions represent a critical source of impact



Actions Expected from Investee Companies

- Strengthening initiatives for proactive decarbonization
- Formulating a roadmap that covers product development and capital investment toward decarbonization and green innovation. Executing decarbonization strategies
- Disclosure and responding to the impact of sustainability standards disclosure and carbon-pricing mechanisms
- Measuring and disclosing reduction contributions related to low-carbon and decarbonization solutions

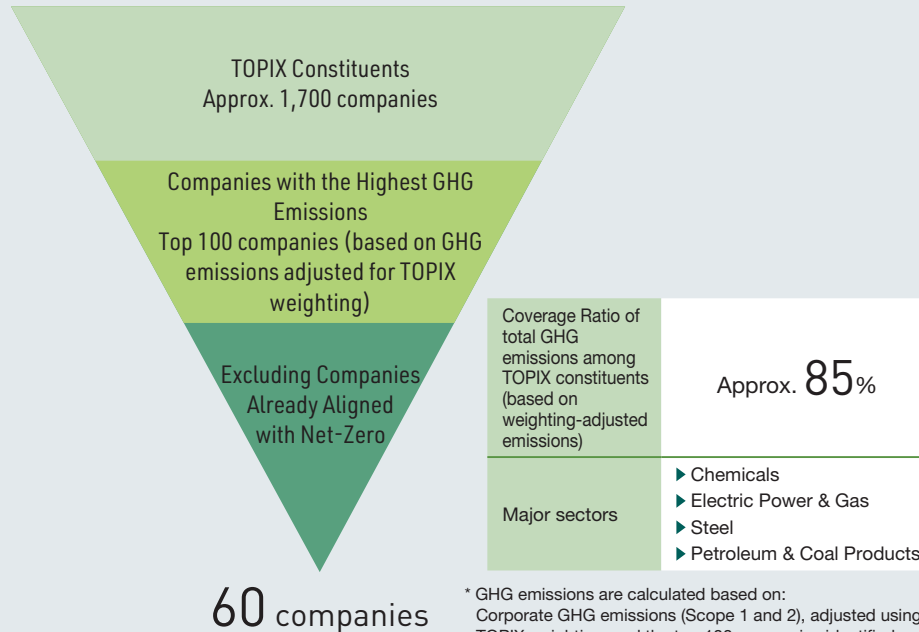


Net Zero Assessment and Engagement

Since 2022, our firm have conducted annual assessments of the net-zero alignment of investee companies and investment funds based on the Net Zero Investment Framework (NZIF) of the Paris Aligned Investment Initiative (PAII), one of the net-zero assessment methodologies recommended by the Net Zero Asset Managers initiative (NZAM). Drawing on these assessment results, we launched net-zero engagement in fiscal year 2023, focusing particularly on areas identified as having room for improvement within the assessment criteria. The current status of these efforts is outlined below.

Selection of Engagement Targets

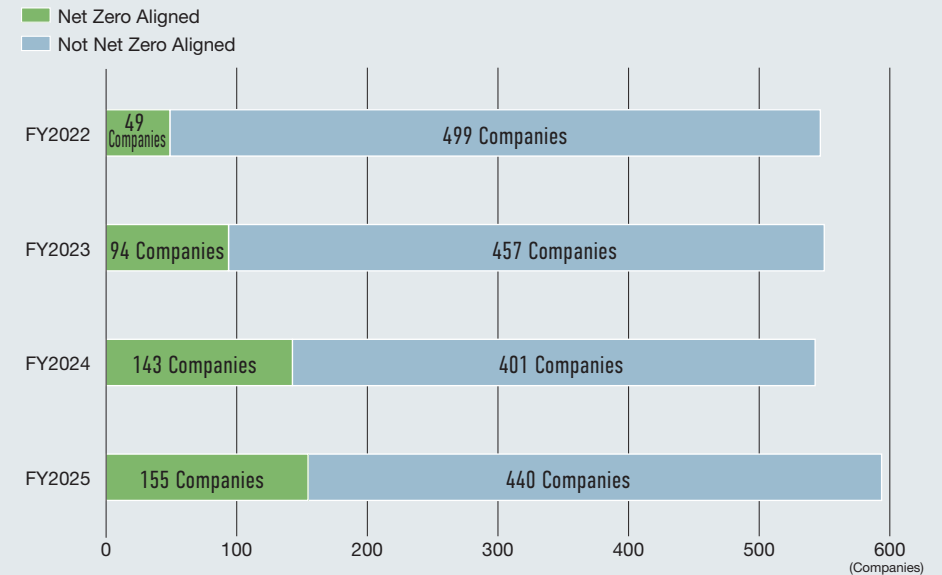
Among approximately 1,700 companies in the TOPIX Index, we identify the 100 companies whose GHG emissions have the greatest potential impact on society. From this group, we further refine the selection to determine our engagement targets. By directing our efforts toward companies with significant influence, we believe we can more effectively support market-wide decarbonization.



* GHG emissions are calculated based on: Corporate GHG emissions (Scope 1 and 2), adjusted using TOPIX weighting; and the top 100 companies identified through this methodology, from which final engagement targets are selected.

A Steady Increase in the Number of Companies Assessed as Net-Zero Aligned

In the fourth annual round of our net-zero assessments, 155 companies (approximately 26%) out of the 595 companies evaluated were determined to be net-zero aligned. Reviewing the trend since assessments began in 2022 shows that Japanese companies are making steady progress toward net-zero alignment.



Prepared by our firm

* For the FY2025 assessment, certain parts of the assessment process have been enhanced, including the expansion of the number of companies evaluated.



A New Perspective on Decarbonization — Avoided Emissions

As a complementary metric to “GHG emissions (Scope 1, 2, and 3),” which reflects companies’ actual emission performance, Avoided Emissions is getting focused as a new evaluation indicator. Avoided emissions can be used to assess climate-related opportunities and positive impact created by companies, and guidance frameworks to encourage corporate calculation and disclosure are increasingly being developed.



What Are Avoided Emissions?

Avoided emissions refer to the volume of GHG emissions avoided through the adoption of low-carbon solutions—such as products and services—that contribute to climate change mitigation. The metric compares two scenarios: Solution Scenario: the scenario in which the low-carbon solution is adopted. Reference Scenario: the scenario in which the solution is not adopted. The difference between these two scenarios represents the GHG emissions avoided through the sale or deployment of the solution. This indicator enables a quantitative assessment of how much a company’s products and services contribute to reducing society’s overall GHG emissions.



Avoided Emissions from an Asset Manager’s Perspective

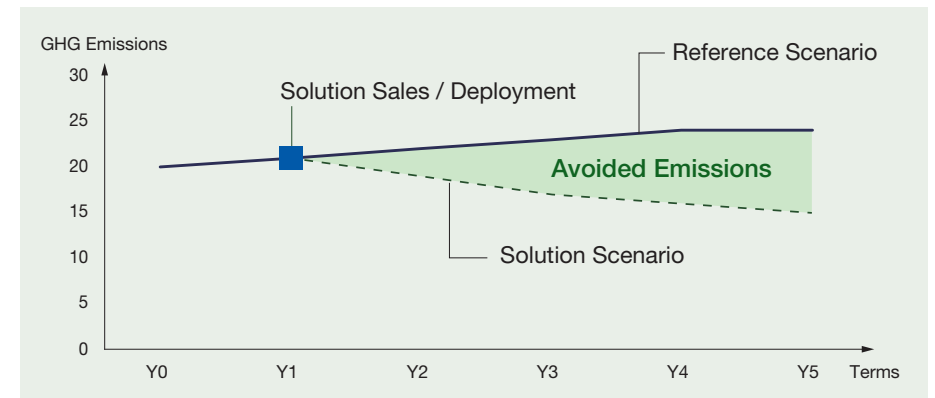
As investee companies advance their climate-related initiatives and disclosures, it has become increasingly important to evaluate not only risks but also opportunities.

For example, an increase in sales of low-carbon solutions should, in principle, represent a value-enhancing opportunity for a company. However, as production volumes rise, a company’s GHG emissions may also increase, leading to a lower assessment from a risk-based perspective.

In such cases, incorporating avoided emissions into investment decision-making as an indicator of “opportunity” allows for a more nuanced and accurate evaluation of corporate value.

We expect demand for low-carbon solutions to grow as companies seek to reduce carbon-related costs, and we anticipate broader adoption of avoided-emissions calculation and disclosure. While challenges remain—such as variability in data quality and boundary-setting for calculations—an essential first step is for companies to recognize the importance of identifying such opportunities and to begin disclosing relevant information. Going forward, in addition to our ongoing net-zero engagement, we will actively incorporate avoided-emissions discussions into our engagement activities.

Avoided Emissions: Evaluating GHG Reductions Achieved Through the Deployment of Low-Carbon Solutions



Complementary Relationship Between GHG Emissions and Avoided Emissions

	GHG Emissions	Avoided Emissions
Scope	Direct and indirect emissions from a company’s own operations (Scope 1, 2, and 3)	GHG emissions avoided by products and services provided to others
Assessment Use	Net zero assessments	Opportunity / impact assessments
Evaluation Perspective	Risk (regulations, carbon costs, reputational impacts, etc.)	Opportunities (expansion of products and service adoption, market growth, technological development, investment return potential, etc.)
Calculation Method	GHG inventory accounting (comparison of baseline and current performance)	Intervention accounting (comparison of reference and solution scenarios)
Timeframe	Actual performance — past to present	Scenario based — present to future



Kanako Tanaka, Senior Sustainability Scientist at Our Firm, Selected as a Lead Author

Toward the IPCC Seventh Assessment Report

Our Senior Sustainability Scientist, Kanako Tanaka, has been selected as a Lead Author for the Intergovernmental Panel on Climate Change (IPCC) Seventh Assessment Report (AR7)—a publication that significantly influences climate-related initiatives undertaken by governments and corporations worldwide. Below, Tanaka shares insights on the role of IPCC reports and her perspective on the possible direction of the upcoming AR7.

Climate change has profound impacts on the natural environment and weather patterns, creating short- to medium-term risks for corporate activities. Disruptions to supply chains, obligations related to carbon-reduction, and increased costs associated with disclosure requirements have become material management challenges that can no longer be overlooked. At the same time, expanding markets for adaptation technologies and low-carbon solutions, as well as the emergence of new services, present opportunities to enhance corporate competitiveness. Companies must appropriately assess both risks and opportunities, and formulate strategies that not only address challenges but also focus on forward-looking value creation.

The Intergovernmental Panel on Climate Change (IPCC) is the international body responsible for collecting, analyzing, and disseminating scientific knowledge on climate change. Established in 1988, the IPCC publishes its Assessment Reports every five to seven years, and these reports have played a pivotal role in supporting global climate negotiations, including the Kyoto Protocol and the Paris Agreement. Because the reports are scientifically neutral and require approval by governments, they are regarded as highly authoritative and exert considerable influence on national policy formation and corporate strategy development. Whereas the early Assessment Reports stated that "Human activities, principally through emissions of greenhouse gases, have unequivocally caused global warming", the scientific consensus presented in recent reports asserts unequivocally that "human activities are causing climate change."

The ongoing Seventh Assessment Report (AR7), scheduled for release between 2028 and 2029, is expected to place even greater emphasis on pathways toward a sustainable society. In particular, in my personal view, the role of the financial sector, as well as integrated strategies that combine adaptation and mitigation, are likely to be well discussed. As the impacts of extreme weather events, heatwaves, and other climate-related hazards intensify, concrete actions to optimize limited resources and strengthen climate resilience are becoming increasingly urgent. The IPCC reports provide the scientific foundation for such actions and serve as an essential guidepost for both governments and corporations.

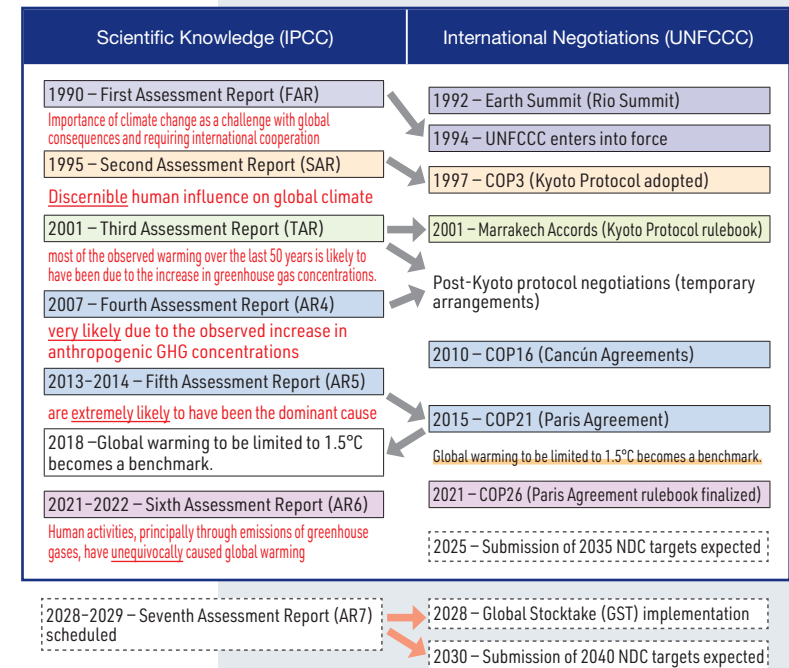
Strategies to address climate change not only enhance corporate value but also contribute

fundamentally to building a sustainable society. Moreover, these efforts are closely linked with other global challenges, including natural capital preservation and water resource management—areas whose importance is expected to grow even further in the years ahead.

Kanako Tanaka
Senior Sustainability
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IPCC Reports Have a Major Influence on Climate Negotiations



Source: Agency for Natural Resources and Energy

<https://www.enecho.meti.go.jp/about/special/johoteikyo/ipcc.html> AMO added more text