

## 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

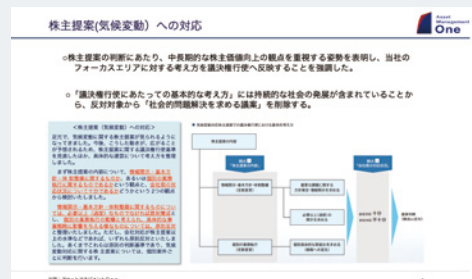
- 8 **Completing engagement**
- 7 **Plans implemented**
- 6 Plans formulated
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- 4 Issues recognized by Senior Management
- 3 Issues recognized by company representative
- 2 Raising concerns/suggestions
- 1 Identifying issues

### 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、社会全体にわたる育休取得や帰職に困難がなくならず、女性の人口比率の増加からして、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重要で、価値を高めることである。

企業は国際的な多様性、平等の性別平等年、国連、SDG、障がい者雇用の多岐性を積極的に推進する。そのメルファールとして、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。長期的な目標として、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を役員に占める女性の比率を30%以上にすることを目標とする。

業種別	% (目標)* 産別案
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%
製肉	10.0%

※目標、期待値等には注意

**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、常務取締役会にダイバーシティ推進の項目	
人材育成	ダイバーシティ推進委員会・女性活躍推進委員会に付いた長年継続的な推進体制の整備	
	人材の働き方支援部、人材育成部	
	障がい者雇用の推進	
	多岐性で活躍推進の推進、女性の活躍推進	
	障がい者雇用上支援体制の強化	

**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～

項目	2019	2020	2021	2022	2023
買増し額	1,217,000	1,217,000	1,217,000	1,217,000	1,217,000
受注額	1,217,000	1,217,000	1,217,000	1,217,000	1,217,000
保有額	1,217,000	1,217,000	1,217,000	1,217,000	1,217,000
比率	100%	100%	100%	100%	100%
買増し回数	1	1	1	1	1
受注回数	1	1	1	1	1
保有回数	1	1	1	1	1
比率	100%	100%	100%	100%	100%
買増し総額	1,217,000	1,217,000	1,217,000	1,217,000	1,217,000
受注総額	1,217,000	1,217,000	1,217,000	1,217,000	1,217,000
保有総額	1,217,000	1,217,000	1,217,000	1,217,000	1,217,000
比率	100%	100%	100%	100%	100%
買増し総回数	1	1	1	1	1
受注総回数	1	1	1	1	1
保有総回数	1	1	1	1	1
比率	100%	100%	100%	100%	100%

資料: 株式会社建設会社「2023年中期経営計画」資料

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
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### 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 CO<sub>2</sub> to clean energy that does not emit CO<sub>2</sub> 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 CO<sub>2</sub> reduction and encourage gradual CO<sub>2</sub> 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 CO<sub>2</sub> 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 CO<sub>2</sub> 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 CO<sub>2</sub> 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.

