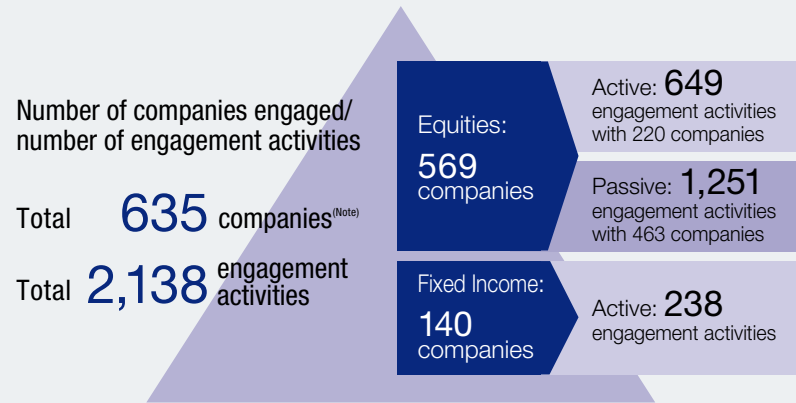


Engagement Activities with Japanese Companies

Engagement data

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

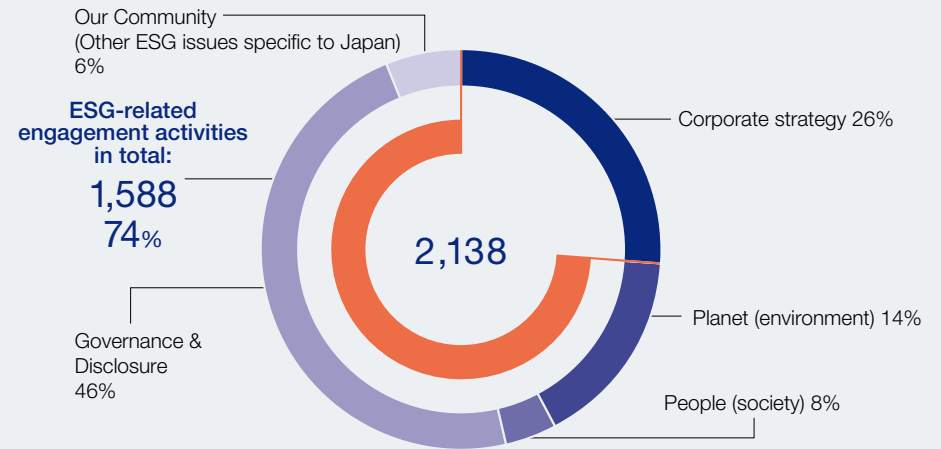
Asset Management One has extensively engaged with Japanese companies which represent more than 80% of the TOPIX market cap, for both passive and active investment strategies.



Note: total number of companies engaged excluding duplicates

■ Engagement by theme

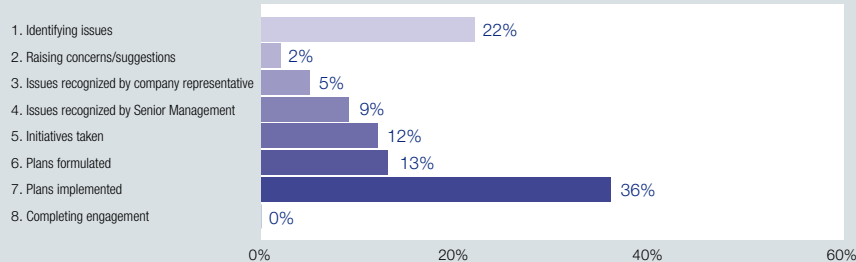
We have identified 21 issues, including 18 relating to ESG topics, on which to engage with companies (please see page 30 for the breakdown of engagement issues). ESG-related topics account for 74% of all engagement activities.



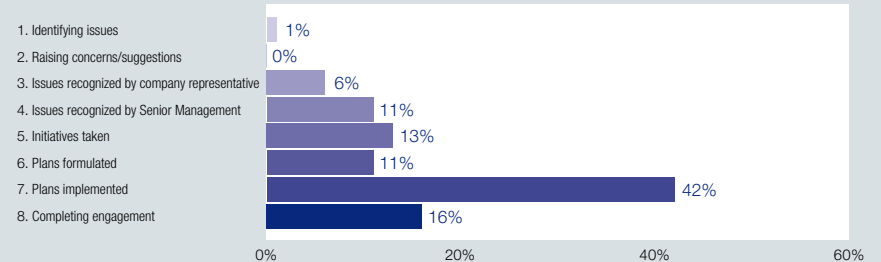
■ Progress of our engagement

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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<div style="background-color: #003366; color: white; padding: 5px; border-radius: 15px 15px 0 0; text-align: center; font-weight: bold; font-size: 1.2em;">Action</div> <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 	<div style="background-color: #003366; color: white; padding: 5px; border-radius: 15px 15px 0 0; text-align: center; font-weight: bold; font-size: 1.2em;">Check</div> <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 	<div style="background-color: #003366; color: white; padding: 5px; border-radius: 15px 15px 0 0; text-align: center; font-weight: bold; font-size: 1.2em;">Do</div> <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

- 1 Ability to identify key issues and strategic foresight of management as preconditions for creating value
- 2 Sustainability of value creation process and priorities related to materiality
- 3 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

- 1 Are ESG activities positioned at the heart of business strategy and management?
- 2 Are ESG activities regarded as investments for sustainable growth?
- 3 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!

