

# **2023 Responsible Investment Report**

**- As a responsible asset owner -**



November 2023

Empowering your future



**SUMITOMO LIFE**

# Achieving “Well-being” Through Responsible Investment

## Reconsidered meaning of responsible investment

- In March this year, the Company formulated and published “Sumitomo Life Group Vision 2030” and “Sumitomo Life Medium-Term Business Plan 2025.” Under our purpose of “contributing to the advancement of social and public welfare,” in accordance with “Sustainability Management Policy,” we will contribute to realizing a sustainable society through our business.\*1
- From the perspective of an institutional investor, we are promoting “asset management (responsible investment) that considers sustainability,” and the report is prepared to report the key initiatives.
- Recently, although there are various views on consideration for ESG in asset management, the Company, which develops medium- to long-term business of life insurance, recognizes responsible investment as contribution to earning investment returns over the medium to long term as well as social significance.
- Therefore, we will continue to promote responsible investment consistently.

## Future key initiatives

- From this fiscal year, the new Medium-Term Business Plan (for three years) started. As an institutional investor, we will focus on increasing the effectiveness of solutions for environmental and social issues.
- The key initiatives include dialogue and financing. Especially in financing, we set a three-year cumulative total target of 700 billion yen in ESG thematic investments (including 400 billion yen in climate solution investment) and aim at accumulating investments for infrastructure including renewable energy.

- Measurement of the investment effect is also important. Accordingly, we will increasingly visualize and disclose the social impact created through our investments.
- We consider climate change response, as represented by the heat wave this year, an urgent issue. For that reason, in March this year, we raised the reduction targets for 2030 in GHG\*2 emissions from the asset portfolio. We will support transitions toward decarbonization for investee companies mainly through dialogue and financing.

## Responsible investment promoted through united effort

- Responsible investment is asset management that considers the impact in addition to orthodox risk/returns, and we think, as an institutional investor, we are expected to have a paradigm shift.
- Therefore, employees’ understanding is important in promoting responsible investment. According to an employee questionnaire targeting the asset management department conducted in November last year, some 90 percent answered they sympathized with responsible investment initiatives, but only some 70 percent realized responsible investment. We will continue to promote responsible investment through united effort, while aiming at mutual understanding with employees.
- Raising the level of human resources for responsible investment is also important. Accordingly, we will work on human capital development through study sessions by outside experts, and recommendation of acquiring certification of qualifying examinations.

\*1 Please refer to “[Annual Report 2023](#)” for our corporate policy.

\*2 Abbreviation for greenhouse gas.



Iwao Matsumoto,  
Senior Managing  
Executive Officer

# Overview (1): Main Status of Initiatives for Responsible Investment

## Financing

(Targets and results of ESG thematic investments)

Fiscal 2020-2022 (Cumulative total of three fiscal years)	Target: ¥500.0 billion (Results: ¥682.3 billion)
Fiscal 2023-2025 (Cumulative total of three fiscal years)	Target: ¥700.0 billion
Of which, Climate solution investment	Target: ¥400.0 billion

(Results/amount of impact investment)

Fiscal 2022	¥22.2 billion
Fiscal 2023 (to the end of September)	¥7.3 billion

## Status of GHG<sup>\*1</sup> Reduction in the Asset Portfolio

2030 reduction target	Results for fiscal 2021
50% reduction <sup>*2</sup> (Compared with fiscal 2019)	32.7% reduction (Compared with fiscal 2019)

\*1 Abbreviation for greenhouse gas.

\*2 In March 2023, the reduction target was raised to -50% from -42%.

Indicator: GHG total emissions from the asset portfolio divided by the amount of balance held

## Constructive Dialogue with Investee Companies (Domestic Listed Stocks)

Number of dialogues in fiscal 2022	143 dialogues
Cumulative number (since 2016)	422 companies
Market value we hold <sup>*3</sup>	85%

\*3 A proportion of the entire portfolio of domestic listed stocks.

## Impact Measurement<sup>\*4</sup>

Environment	Contribution to GHG reduction: 787,000 t-CO <sub>2</sub> e/year, etc.
Society	Beneficiaries of microfinance: 779,000/year, etc.

\*4 Calculated based on available data including issuers' disclosed information.

## Governance/Human Capital Development

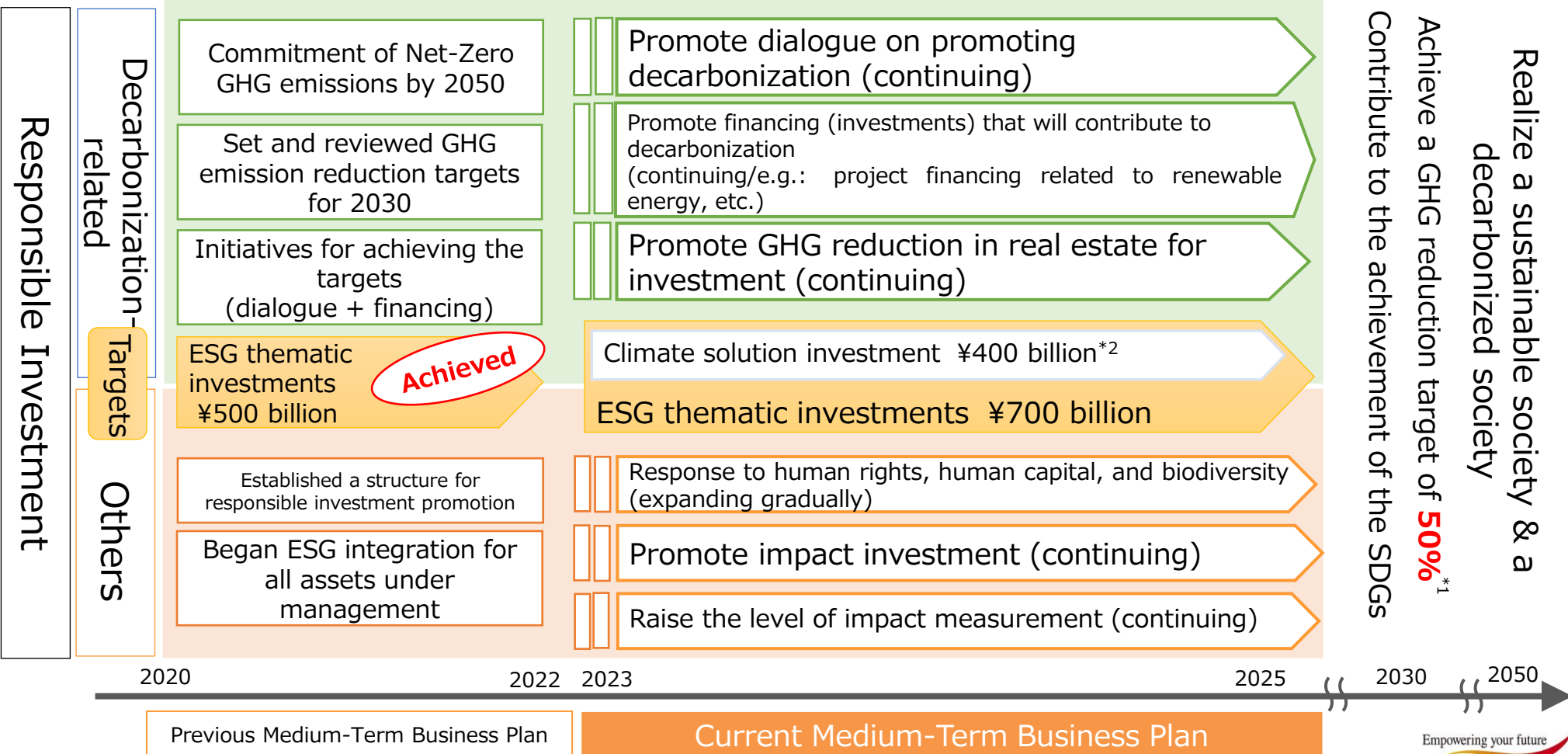
- ✓ Add one more external member to the Responsible Investment Committee
- ✓ Conduct awareness raising activities through speaking in events and lectures at universities, etc.
- ✓ Administer questionnaires about responsible investment targeting employees in the asset management department
- ✓ Recommend acquiring certification of Eco Test for employees in the asset management department

# Overview (2): Future Responsible Investment Initiatives

- ✓ The Company signed the PRI (Principles for Responsible Investment) in April 2019. We established a structure in 2021 and began to promote responsible investment.
- ✓ During the current Medium-Term Business Plan, we will work further on a wide range of ESG issues including decarbonization, and visualization and creation of impact.

\*1 In March 2023, the reduction target was raised to -50% from -42%. \*2 An amount included in the ESG thematic investment target.

Realize a sustainable society & a decarbonized society  
Achieve a GHG reduction target of **50%**<sup>\*1</sup>  
Contribute to the achievement of the SDGs



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Biodiversity • Natural Capital

Human Rights • Human Capital

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# 1 . Responsible Investment Activity

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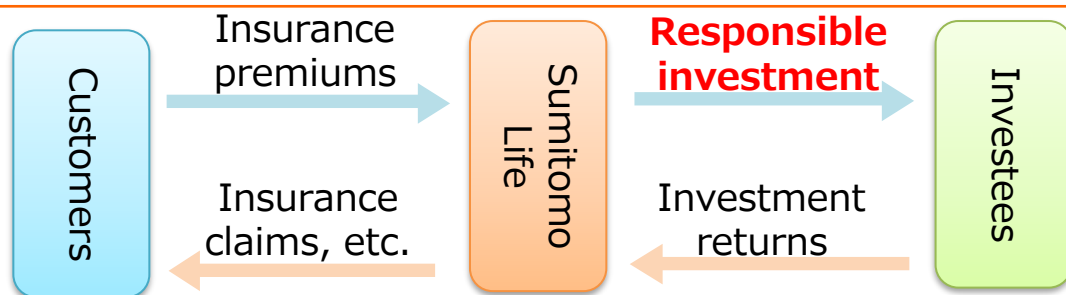
# Policy and Basic Approach

- ✓ Sumitomo Life is implementing initiatives needed to contribute to the realization of “well-being for all,” in order to realize a society of affluence, vitality and longevity from both the perspective as a life insurance provider and as an institutional investor under the “Sustainability Management Policy”<sup>\*1</sup>.
- ✓ From the perspective of an institutional investor, we consider ESG<sup>\*2</sup> factors when managing all our assets. We are promoting responsible investment with the aim of both contributing to the realization of a sustainable society and securing stable investment returns over the medium to long term.
- ✓ In addition, from fiscal 2022 we are working to visualize and further create impacts<sup>\*3</sup> in order to improve the effectiveness of responsible investment.

\*1 Please refer to “[Annual Report 2023](#)” for our corporate policy. \*2 Refers to Environment, Society, Governance.

\*3 Impact on society and the environment, such as the volume of reduction in greenhouse gas emissions.

## Conceptual Diagram (Responsible Investment)

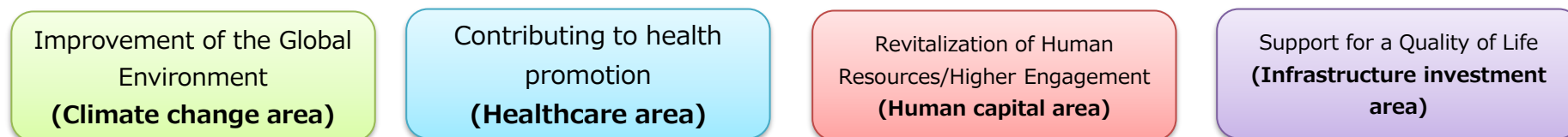


## Toward Realization of a Sustainable Society



## Investments in Well-being Contribution Areas

We actively work on investments in the well-being contribution areas set in Sumitomo Life Group Vision 2030<sup>\*4</sup>.



\*4 Please refer to [News Release](#) for details.

# Governance Structure

- ✓ We are unitedly promoting responsible investment as an institutional investor under the framework shown in the chart below, by formulating and disclosing our Basic Principles on Responsible Investment.

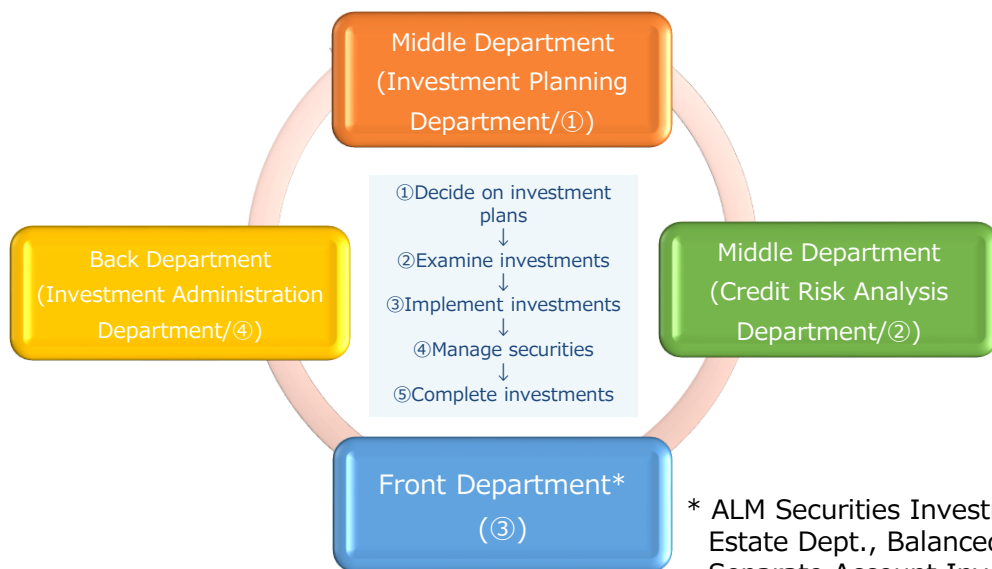
## Basic Principles on Responsible Investment

1. Basic Approach to Responsible Investment
2. Basic Initiatives for Responsible Investment
3. Response to ESG Issues

(Attachment) Adherence to Principles of Japan's Stewardship Code

※The Basic Principles on Responsible Investment are disclosed [on the Company's website](#).

## Value Chain in the Asset Management Department



\* ALM Securities Investment Dept., Loan Dept., Real Estate Dept., Balanced Portfolio Investment Dept., Separate Account Investment Dept.

## Organizational Structure

Board of Directors/Executive Management Committee

Responsible Investment Committee

A forum for increasing responsible investment activities and confirming eligibility for exercising voting rights

Deliberation /Report

→Refer to page 8 for details

Deliberation /Report

Asset Management Department

Execution Departments

Cooperation

Investment Planning Department (Responsible Investment Team)

Responsible Investment Meeting  
A forum for discussions aimed at increasing responsible Investment activities



# Responsible Investment Committee

## Committee composition

The Responsible Investment Committee consists of 3 external members\*<sup>1</sup> and one internal member. It conducts wide-ranging discussion of responsible investment activities including the management of conflicts of interest in exercising voting rights\*<sup>2</sup>

Chairman: Ryota Miura	Lawyer, Miura & Partners	External
Katsuhiko Kokubu	Professor, Kobe University	External
Shiho Konno	Lawyer, Shiho Konno Habataki Law Office	External
Iwao Matsumoto* <sup>3</sup>	Senior Managing Executive Officer (in charge of the asset management department)	Internal

※<sup>1</sup> Since August 2023, one more external committee member has been added.

※<sup>2</sup> Conflicts of interest are managed and supervised by the Compliance Control Department

※<sup>3</sup> Not involved in deliberations on conflicts of interest in exercising voting rights

## Comment from a new external committee member

My name is Konno and took up this opportunity to become an external committee member. Although I have a diverse range of lifework, I have especially concentrated my efforts on the promotion of diversity. Therefore, I understand that I am expected to advise mainly on human capital including diversity in the Responsible Investment Committee. Addressing diversity is believed to have an impact on the medium- to long-term corporate value, and some misconduct these days seems to reflect this point. I understand that Sumitomo Life is in a position to encourage investees' promotion of diversity from the aspect of an institutional investor. Using previous experience, I hope to contribute to promoting responsible investment at Sumitomo Life.



Member, Shiho Konno  
Lawyer, Shiho Konno Habataki Law Office

## Deliberation details in fiscal 2022

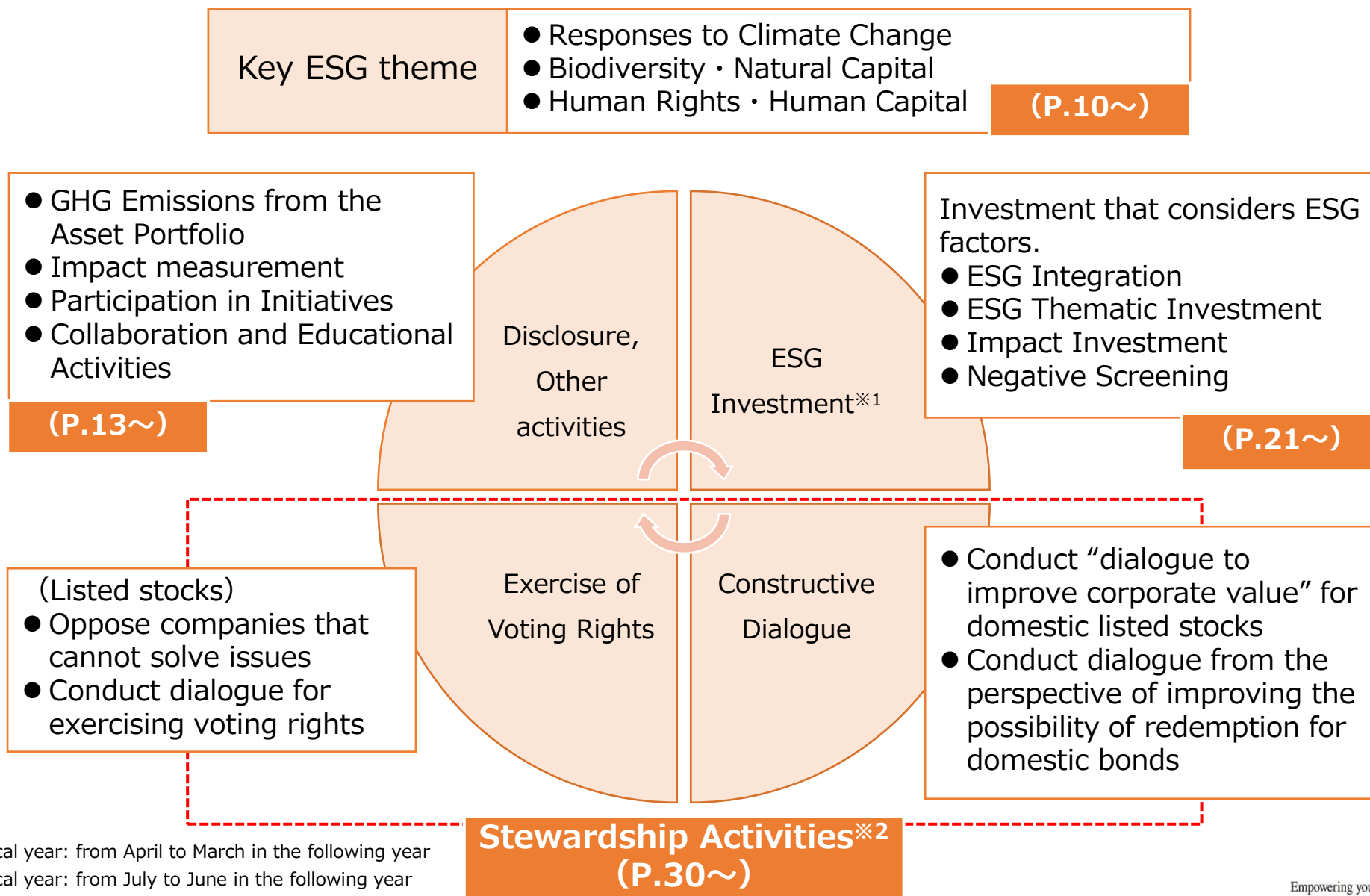
Period held	Main matters for deliberation
August 2022	<ul style="list-style-type: none"><li>Review and plan for stewardship activities</li></ul>
February 2023	<ul style="list-style-type: none"><li>Formulation of fiscal 2023 annual plan for responsible investment</li></ul>
March 2023	<ul style="list-style-type: none"><li>Suitability of exercising voting rights at general meetings of shareholders</li><li>Report on status of stewardship activities</li></ul>
June 2023	<ul style="list-style-type: none"><li>Suitability of exercising voting rights at general meetings of shareholders</li><li>Report on status of stewardship activities</li></ul>

## The Responsible Investment Committee Meeting (August 2023)

At a meeting of the Responsible Investment Committee held on August this year, we discussed expansion of non-financial information disclosure, points of dialogue with investees on promoting the active participation of women, etc.



# Activity Cycle



\*1 Fiscal year: from April to March in the following year

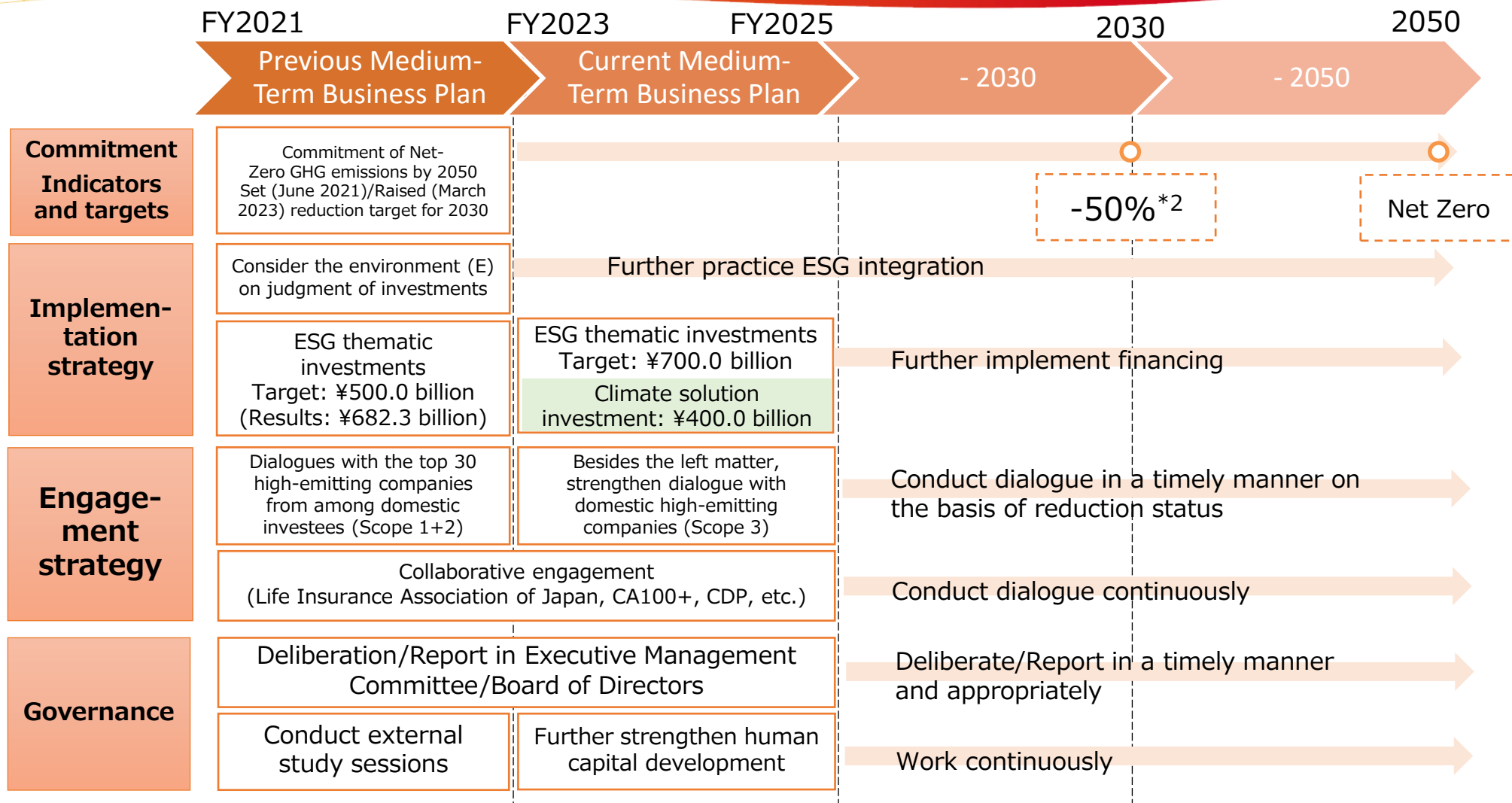
\*2 Fiscal year: from July to June in the following year



## 2. Responding to Key ESG Themes

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✓	Human Rights • Human Capital	...P.20

# Transition Plans for Net-Zero in the Asset Portfolio\*1



\*1: Created based on suggestions in “Final Report of Financial Institution Net-zero Transition Plans” (published in November 2022) by GFANZ (Glasgow Financial Alliance for Net Zero).

\*2: Intensity compared with FY2019 (GHG emissions proportional to amount of balance held in the portfolio = GHG emissions from the asset portfolio divided by the amount of balance held).

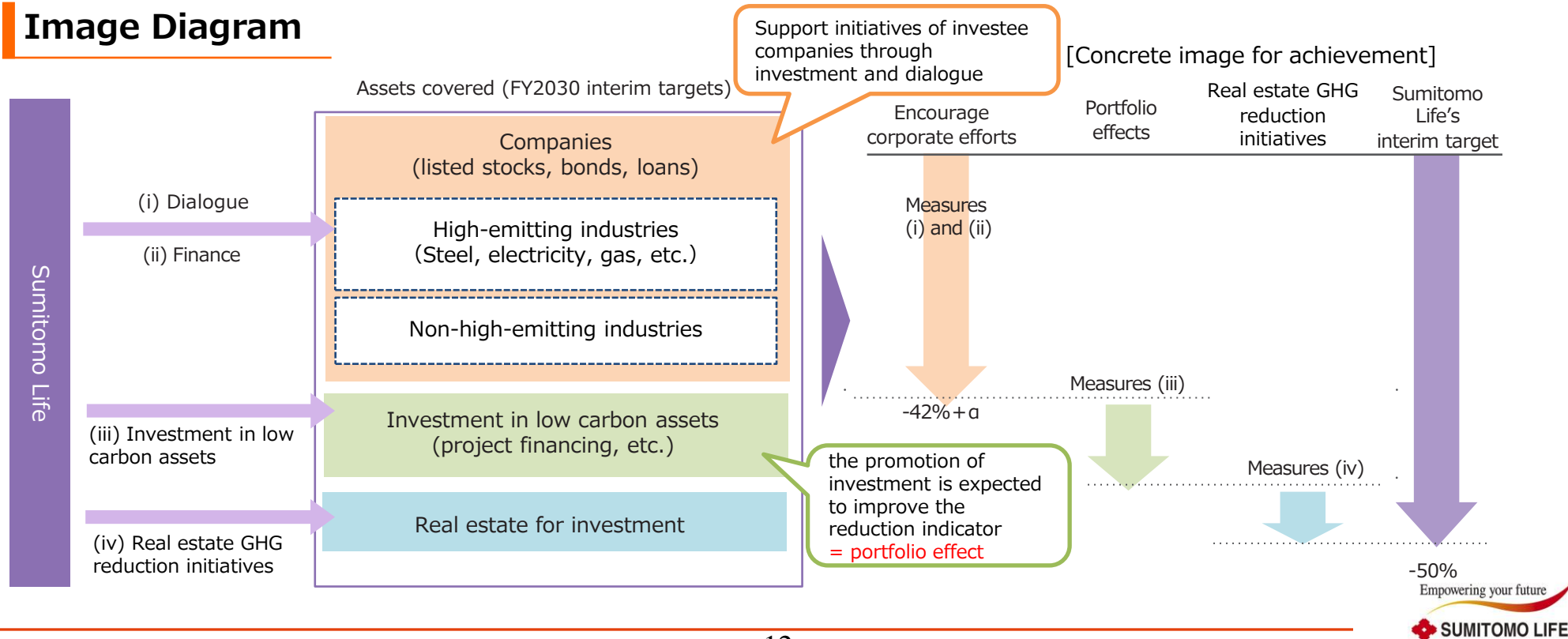
# GHG Emission Reduction Targets for 2030 (Indicators and Targets)

- ✓ Sumitomo Life announced our aim to achieve net-zero GHG\*<sup>1</sup> emissions by 2050 in April 2021 and raised 2030 reduction targets for the asset portfolio in March 2023 in order to further accelerate decarbonization initiatives\*<sup>2</sup>.
- ✓ The main measures to achieve this are dialogue with investee companies (i), climate solution investment\*<sup>3</sup> (ii)(iii), and initiatives for GHG reduction in real estate for investment (iv), and we consider divestment as a last-resort measure.

\*1 Abbreviation for greenhouse gas. \*2 raised to -50% from -42%. (Indicator: GHG emissions proportional to amount of balance held in the portfolio = GHG emissions divided by the current portfolio value)

\*3 Investments aimed at reducing and adjusting for climate change. (Green financing to companies, transition financing, and investment in low carbon assets, etc.)

## Image Diagram

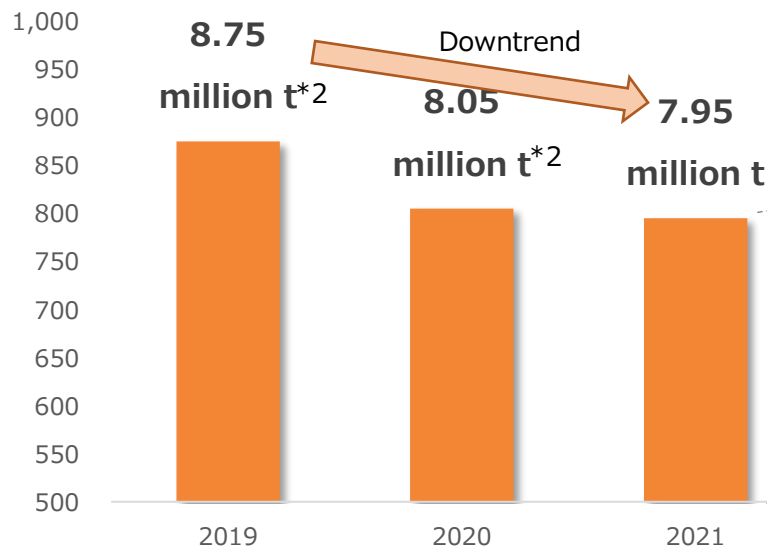


# GHG Emissions from the Asset Portfolio (1)

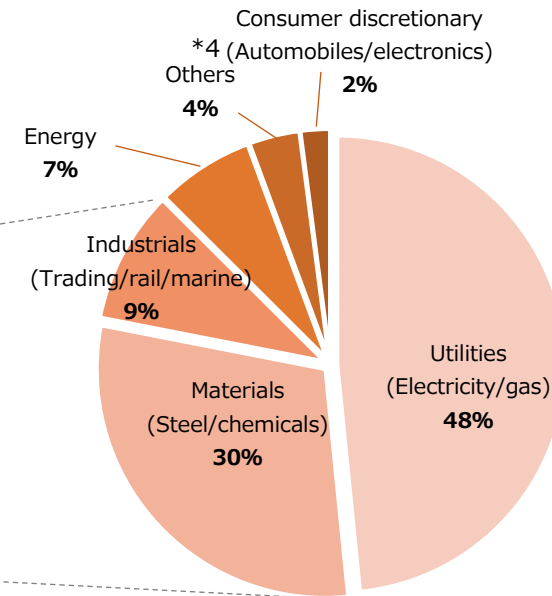
- GHG total emissions from the asset portfolio\*<sup>1</sup> in fiscal 2021 is a downtrend of 7.95 million t (down 9.1% compared with the base year), but this is partially because of a slowdown in business activities caused by the COVID-19 pandemic, and close observation remains necessary.
- Breaking down industries, utilities (electricity/gas, etc.) and materials (steel/chemicals, etc.) account for about 80% of all the industries. We will continue to encourage GHG reduction for such high-emitting companies through dialogue and financing.

[Total GHG from the asset portfolio\*<sup>1</sup>]

(million t-CO<sub>2</sub>e)



[ (Breakdown) Total GHG by industry\*<sup>3</sup>]



\*1. Assets covered are composed of listed stocks, corporate bonds, loans, real estate for investment, and infrastructure assets (including delegated assets that is available to measure). The absolute amount of GHG emissions from the asset portfolio is calculated (formula is below). We use published figures and estimated data for companies provided by MSCI. In the event that no GHG emissions data is distributed, we supplement by using parent company data or average figures by industry.

$$\sum_{i=1}^n \left( \frac{\text{current value } i}{\text{issuer's market capitalization } i} \times \text{issuer's Scope 1} + 2i \right)$$

- 1) numerator: Fair value for listed stocks, Book value for others  
2) denominator: Market capitalization + Book value of debt

\*2. The previous figures were amended retrospectively in accordance with the revision of the assets covered.

\*3. Industries are categorized according to GICS (Global Industry Classification Standard). The assets covered are composed of listed stocks, corporate bonds, and loans (excluding delegated assets).

\*4. Others represent

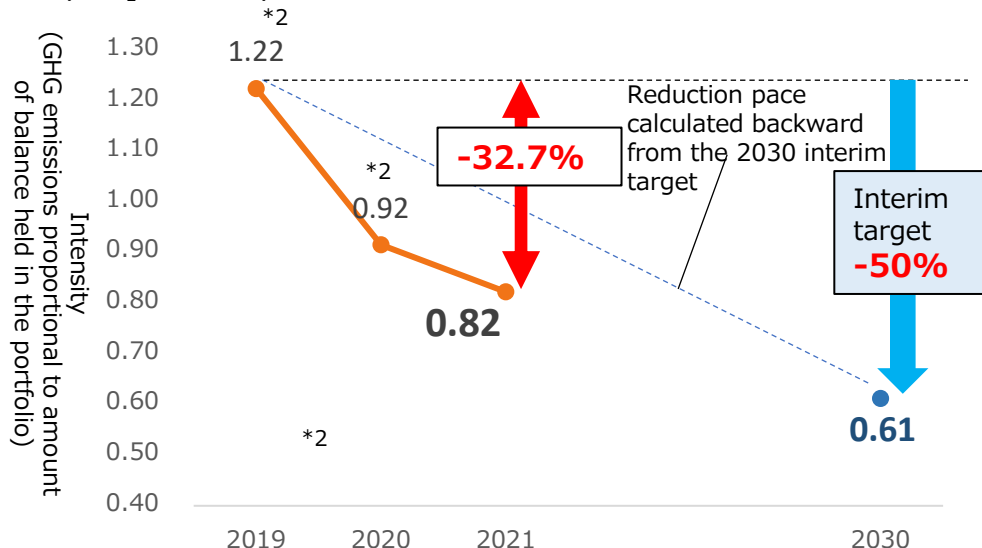
financials/information technology/real estate/consumer staples/health care/communication services.

# GHG Emissions from the Asset Portfolio (2)

- We regard the 2030 reduction indicator as an intensity\*<sup>1</sup> for the purpose of causing dilution of the intensity by excluding effects of change in assets, and increasing investments in assets with low GHG emissions including renewable energy projects.
- Results for fiscal 2021 recorded 0.82 t/million yen (down approximately 32.7% compared with the base year), showing a downtrend. We will continue to promote investments in low carbon assets in addition to dialogue with investee companies and financing.

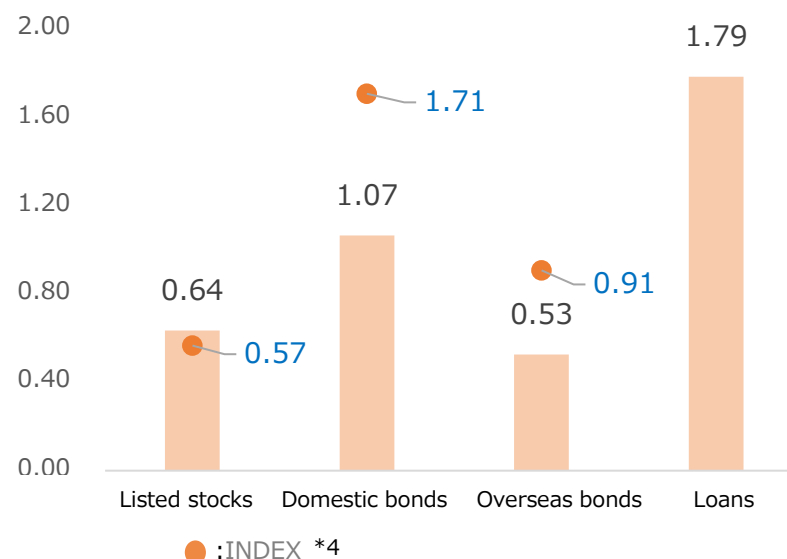
## [Intensity\*<sup>1</sup>]

(t-CO<sub>2</sub>e/¥ million)



## [(Reference) Intensity by asset\*<sup>3</sup>]

(t-CO<sub>2</sub>e/¥ million)



\*<sup>1</sup> GHG emissions proportional to amount of balance held in the portfolio = GHG emissions from the asset portfolio divided by the amount of balance held

\*<sup>2</sup> The previous figures were amended retrospectively in accordance with the revision of the assets covered.

\*<sup>3</sup> Listed stocks and loans have basically domestic targets.

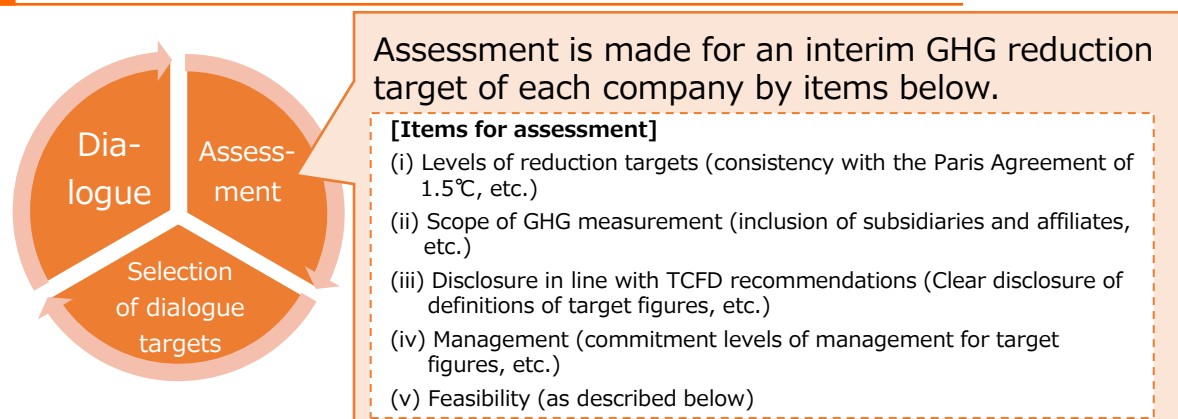
\*<sup>4</sup> INDEX represents TOPIX for listed stocks, ICE BofA Japan Corporate Index for domestic bonds, and ICE BofA US Corporate Index for overseas bonds.



# Dialogue Activities with GHG High-emitting Domestic Companies (Top 30)

- We focus on dialogue with the top 30 high-emitting companies of domestic investees to reduce GHG in our asset portfolio.
- We assess an interim GHG reduction target of each company by multiple items, and for example, feasibility (lower right chart) tends to improve as a whole, but the progress shows a polarized tendency. Therefore, we will continue to encourage each company to make improvements through dialogue based on their situations.

## Process for Dialogue on Climate Change

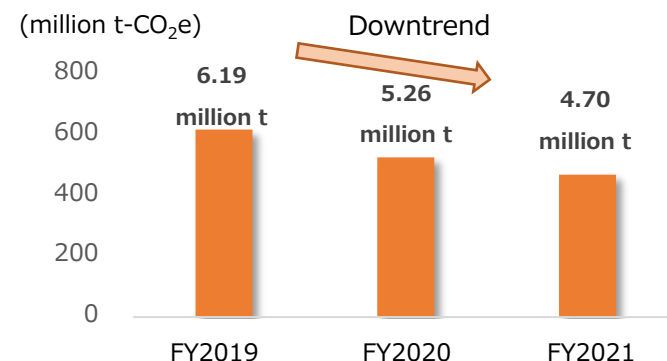


## [Feasibility assessment of interim reduction targets]

○: Yes (Assessment based on disclosed information and dialogue details)

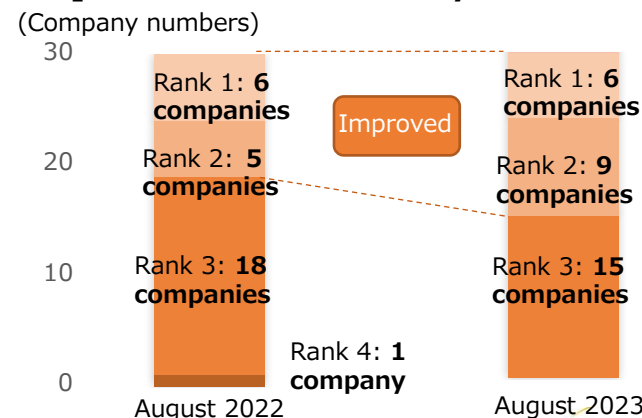
	Assess ment rank	Specific measures to achieve goals	Investment plans to practice measures	(Expected) reduction effect of each of measures
High	Rank 1	○	○	○
	Rank 2	○	○ for any rank	
	Rank 3	○	—	—
Low	Rank 4	—	—	—

## [GHG emissions from the top 30 high-emitting companies (domestic)\*1]



\*1. The top 30 from our domestic investment portfolio (the end of March 2021)

## [Breakdown: Feasibility assessment]





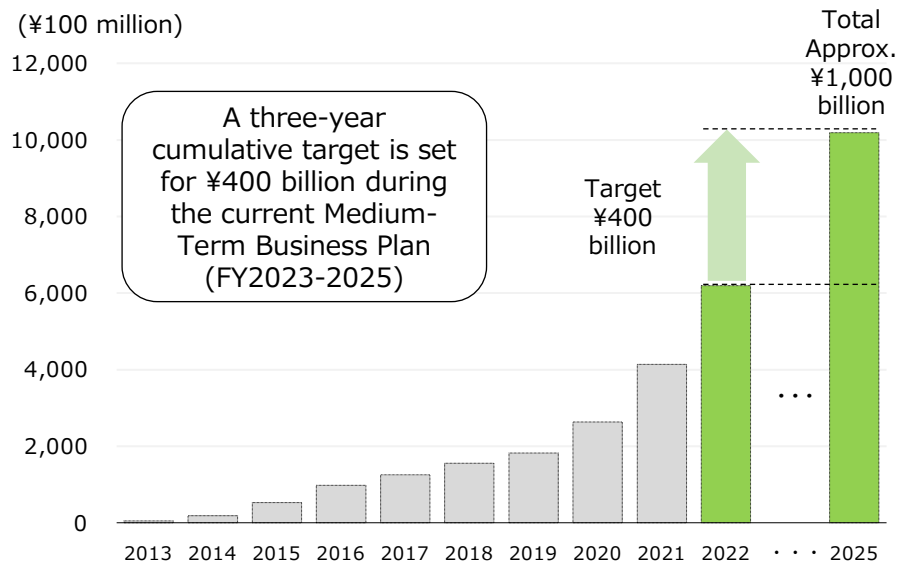
# Climate Solution Investment (1)

- ✓ We promote climate solution investment in order to realize a decarbonized society.

## Climate Solution Investment (Overview)

- ✓ Investments aimed at reducing and adjusting for climate change.
- ✓ Specifically, we work on investments in green financing, transition financing, and renewable energy projects.

### [Target and results of climate solution investment]



## Case Study

### Infrastructure Equity Funds

- Investment amount: ¥3.2 billion
- Investment period: November 2022
- Funds targeting domestic solar power plants to invest in. We aim at contributing to GHG emission reduction through investments in renewable energy projects.



© Goldman Sachs

### “Disaster Resilience Bonds”

- Investment period: September 2023
- In recent years, natural disasters occur frequently all over the world partially due to the effects of climate change, causing serious damage.
- Funds raised through the bonds are allocated to loan assistance projects which support disaster prevention and natural disaster resilience for developing countries.



© JICA

# Climate Solution Investment (2)

- ✓ GHG high-emitting industries and companies find it difficult to decarbonize overnight, which necessitates a transition with steps. Transition finance (hereinafter, TF) is a method to encourage the transition, and we actively review and implement TF.

## Attitude toward TF

- ✓ TF means that financing is made to GHG high-emitting companies, and it may cause a temporary increase of GHG emissions in our asset portfolio.
- ✓ However, we consider that TF contributes to medium-to long-term GHG reduction by all society as a result of investees' efforts to reduce GHG emissions.
- ✓ Therefore, we work actively on TF, while assuming it will secure a certain level of return.

## Case Study

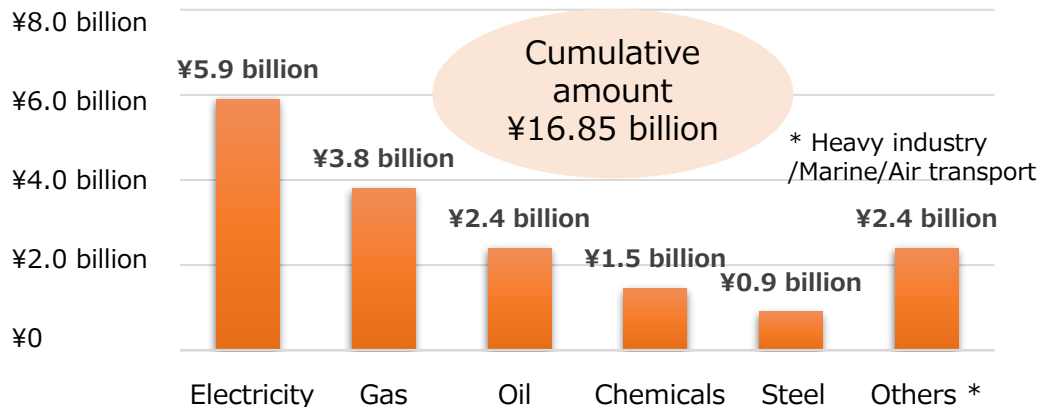
### Transition loans for SUMITOMO JOINT ELECTRIC POWER CO., LTD.

- Investment amount: ¥0.5 billion (joined a ¥8 billion syndicate loan in total)
- The first transition loan project in Japan using a roadmap developed by Ministry of Economy, Trade and Industry.
- Raised funds are allocated to construction cost of LNG power plants, etc.



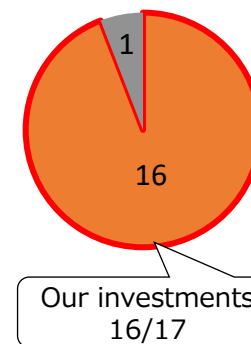
Please refer to [News Release](#) for details.

## Status of TF Implementation (February 2022 to September 2023)



## [Status of investments in transition bonds]

(February 2022 to September 2023)



- ✓ We invest in 16 bond issuers (over 90%) among transition bonds issued in Japan (17 bond issuers), after examining the uses of funds.
- ✓ We will also work to confirm transition status through follow-up dialogue, etc. (p.38)

# Interviews with practitioners (1)

- ✓ The following are interviews with persons in charge of practical work about efforts and challenges on our project financing (hereinafter, PF).

## Q. Please tell us about your efforts in PF.

- Onoe: In the PF Sect. of the Loan Dept., we promote investments especially in renewable energy projects including power generation with solar, wind, and biomass. Stable investment returns are expected, and the investments mean assets of social significance toward achievement of a decarbonized society. For that reason, this work is very rewarding.
- Hashimoto: In the Credit Risk Analysis Sect., we make in-house ratings and examination upon carrying out of PF projects. PF projects are closely related to many ESG factors including global warming, so considering ESG is essential.

In addition, with expansion of renewable energy markets, investment schemes become more and more sophisticated every year. Therefore, I always try to make examinations with a wide vision of any expected risks.

- Yamada: In the Investment Administration Sect., we make fund settlement on PF projects. PF projects have often more complicated contracts compared to loan to companies, and the work burdens us greatly. However, in order to contribute to our responsible investment promotion,



(Left) Yamada,  
Investment Administration Sect.,  
Investment Administration Dept.  
(Middle) Onoe,  
PF Sect., Loan Dept.  
(Right) Hashimoto,  
Credit Risk Analysis Sect.,  
Credit Risk Analysis Dept.

I strive for prompt and accurate execution of work.

## Q. Please tell us about challenges for the future.

- Onoe: Currently, we work on overseas projects besides domestic projects. Although renewable energy projects have great social significance, we need to judge investments from a broad perspective including negative effects on local areas. Therefore, I hope to improve my judgment skills.
- Hashimoto: I think that knowledge and experience are required to work on projects with enough verification. A system is needed to share knowledge among related sectors.

In addition, renewable energy business has a possibility of failure due to additional tightening of regulations. Therefore, I think we need to make response promptly according to change, while continuing to watch social situations over renewable energy carefully.

- Yamada: There are many cases that need individual management including irregular tasks resulting from the complexity of management, and systematization is essential to strengthen systems and improve efficiency.

In addition, we often have procedures on paper, and the work is quite capable of being improved for further efficiency including promotion of digitization of accounting papers.

# Biodiversity · Natural Capital

- ✓ Conservation of biodiversity and natural capital is key initiative issues on sustainability that are closely linked to climate change response.
- ✓ In order to contribute to realization of Nature Positive<sup>\*1</sup>, we will strive to understand the impact of biodiversity on our asset management while continuing to work actively on financing and dialogue with investee companies.

## Our Initiatives for Biodiversity and Natural Capital

- We are working to address biodiversity and natural capital through dialogue with investee companies and ESG thematic investments.
- The Company joined the TNFD Forum in September 2022. We have gathered information related to TNFD recommendations<sup>\*2</sup>, etc.
- Since TNFD recommendations were announced officially in September 2023, as an institutional investor, we will strive to understand risks and opportunities of biodiversity and natural capital on our asset portfolio.
- Additionally, we will be engaged in dialogue activities using companies' disclosed information to be expanded.



<sup>\*1</sup> Halting the downtrend in biodiversity and moving toward recovery.

<sup>\*2</sup> TNFD (Taskforce on Nature-related Financial Disclosures) was launched in 2021 by the United Nations Environment Programme Finance Initiative (UNEP FI) and others. TNFD formulated a framework for assessing the impact of biodiversity on corporate business activities and disclosing information (TNFD Recommendations).

## Case Study

### Blue bonds

- Investment period: January 2023
- We invested in blue bonds issued by Central American Bank for Economic Integration (CABEI).
- Funds raised through the bonds are allocated to projects contributing to conservation of biodiversity and natural capital including sustainable fisheries.



© CABEI

## Efforts on Human Capital Development

- We had three study sessions (scheduled five total) on biodiversity by WWF (World Wide Fund for Nature) JAPAN in order to learn more about response to biodiversity, etc. that is expected from us as an institutional investor.



(Study session)

# Efforts in Respecting Human Rights and Human Capital

- ✓ We formulated the “Sumitomo Life Group Human Rights Policy,<sup>\*1</sup>” and from the position of an institutional investor, we will encourage investee companies to respect human rights through dialogue.
- ✓ Regarding human capital (including diversity), we will further utilize such factors for investment judgment and dialogue activities, considering that information disclosure of companies will be expanded.

## Dialogue Activities Relating to Respecting Human Rights

- In fiscal 2022, we conducted dialogue by considering respect for human rights as one of the key themes in dialogue activities.
- We utilized external ESG scores, etc. to select target companies after selecting industries at high potential risk with regard to human rights and considering the situation of companies as well.
- In fiscal 2022, we conducted dialogue especially about human rights and labor environment issues in the supply chain (including the so-called year 2024 problem<sup>\*2</sup>). (Case study: P.34)
- We will work to increase the level of dialogue utilizing frameworks of collaborative engagement including Advance<sup>\*3</sup>.



(PRI Advance)

## [Dialogue (Steps)]



## Efforts Relating to Respecting Human Rights (Others)

Effort	Overview
ESG Integration	✓ Consider ESG factors including companies' efforts on human rights upon investment judgment.
Negative Screening	✓ Prohibit investments in the manufacturers of inhumane weapons in terms of respecting human rights.

## Efforts on Human Capital

- Our corporate disclosure on human capital has been expanded from the financial closing of the fiscal year ended March 2023.
- Utilizing human capital (including diversity) is an important theme that leads to an improvement in corporate value over the medium to long term, and we will make further utilization for investment judgment and dialogue activities.

<sup>\*1</sup> “Sumitomo Life Group Human Rights Policy” is disclosed on the Company’s website ([Link](#)). <sup>\*2</sup> Problems caused in distribution and other industries as a result of working hour regulations of drivers by the Work Style Reform Act. <sup>\*3</sup> A collaborative engagement initiative by PRI (Principles for Responsible Investment) for solution to human rights and social issues.

# 3 . ESG Investment

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✓	Responsible Investment in Real Estate	...P.29



# Overview

## ① ESG Integration

→Refer to page23

- ✓ A method that incorporates ESG perspectives in addition to financial information in the investment decision-making process.
- ✓ In fiscal 2021, **we began ESG integration that considers ESG factors for all assets under management** based on asset characteristics.

(Method)

Financial analysis

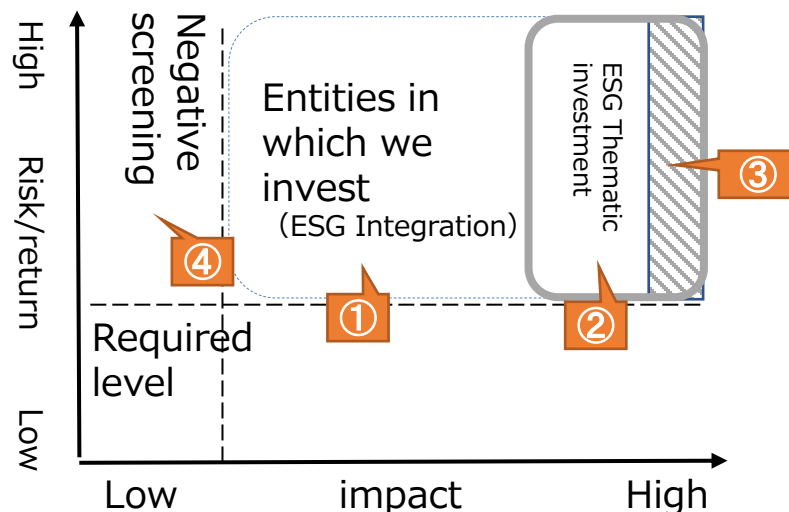


Non-Financial analysis

(e.g.)profitability, etc

(e.g.)analysis of materiality, etc

## 【ESG investment risk/return(image)】



## ② ESG thematic investment

→Refer to page25

- ✓ Investments aimed at solving ESG issues and achieving the SDGs.
- ✓ **we began quantitative social impact measurement. (P.27)**

Target	Cumulative: ¥ 700 billion
	Of which, Climate solution investment: ¥400 billion (Fiscal 2023~2025)

## ③ Impact Investment

→Refer to page28

- ✓ An investment approach that intends to create social and environmental impact alongside monetary return
- ✓ **We continue to promote impact investment.**

## ④ Negative Screening

- ✓ A method to exclude specific industries and uses of funds from the scope of investments.
- ✓ We prohibit investments in the manufacturers of inhumane weapons, as well as investments to finance coal-fired power generation projects.

# ESG Integration

- ✓ The sustainability initiatives of investees are an important aspect as they affect future corporate value.
- ✓ Therefore, in fiscal 2021, we launched ESG integration for all assets under management.
- ✓ When making investment decisions, we use data from external ESG rating agencies as a reference, but the final decision is made by our analysts.

## ESG Integration Method

	Methods of financial analysis, etc.		Consideration of ESG factors
<div>Listed stocks</div> <div>Corporate bonds and Loans</div>	<div>Financial analysis (e.g.)profitability, growth potential</div>	+	<div> <div>Incorporate ESG factors into ratings</div> <div>Consider qualitative ESG factors using in-house ratings</div> </div> <div> <div>Identify material ESG issues by industry</div> <ul style="list-style-type: none"> <li>• Environment: GHG emission reduction targets</li> <li>• Social: Employee safety</li> <li>• Governance: Composition of Directors</li> </ul> </div>
<div>Real estate</div>	<div>Future cash flow analysis, valuation of legal and physical risk of properties, etc.</div>	+	<div>Confirm important ESG factors in stages, particularly including due diligence, monitoring, holding, and sale</div>
<div>Project financing</div>	<div>Future cash flow analysis, validation of project legal risk and completion risk, etc.</div>	+	<div>Confirm important ESG factors in stages, particularly including due diligence and monitoring</div>
<div>Sovereign</div>	<div>Macro-analysis for each country, etc.</div>	+	<div>Enlist ESG evaluations of external evaluators</div>
<div>Outsourcing</div>	<div>Investment methods, asset management platforms, etc.</div>	+	<div>Send a questionnaire regarding responsible investment, confirm the status of initiatives, and assign an ESG score (3-point scale).</div>



# Interviews with practitioners (2)

- ✓ The following are interviews with persons in charge of practical work about methods and challenges on our ESG integration.

## Q. Please tell us about the Company's ESG integration methods.

- Akita: In the Equity Alpha Investment Sect., we set materiality by industry for listed stocks, and give our own ESG scores. Theoretical stock prices are calculated on the basis of granted total assessment scores in addition to other qualitative assessment and financial analysis.

For example, in environmental assessment, we may reduce an expected growth rate of a high-emitting company after assessing its stranded asset risks. On the other hand, we may increase the proportion to our portfolio after finding that a car manufacturer is earnestly striving toward EV conversion.

- Yano: In the Credit Analysis Sect., we give internal credit ratings to a wide range of assets other than stocks (corporate bonds, loans, etc.). Since ESG factors are different from volatile stocks, we review the effects on credibility mainly in terms of the downside.

Specifically, we understand each company's issues on ESG to incorporate the effects on abilities in debt redemption into assessment of internal credit ratings after considering a wide range of information. According to the assessment, we set the limit for investment amounts and examine the investments.

Especially in terms of GHG emission reduction, when making ultralong-term investments in high-emitting companies, we make more detailed examination of the companies' policies to reduce emissions, and analysis of the medium- to long- term effects on our profit, loss and financial matters.

## Q. Please tell us about challenges for the future.

- Akita: Corporate initiatives for sustainability are considered to affect corporate value over medium to long term. However, it is difficult to include the effects quantitatively in earnings forecasts.

In terms of future subjects, I pay attention especially to corporate efforts on human capital. As these efforts lead to corporate growth over medium to long term, they have already been included in assessment items of the management. I think significance of such efforts will further increase.

- Yano: Since each company expands information disclosure on ESG, we need to make more detailed analysis of the effects on abilities in debt redemption on the basis of the information, and increase accuracy of our credit ratings.

In addition, there are some cases of misconduct occurring even in large companies, and we work to increase accuracy of governance and internal control analysis.

I think it is also an important issue to reduce unexpected risks through ESG integration.

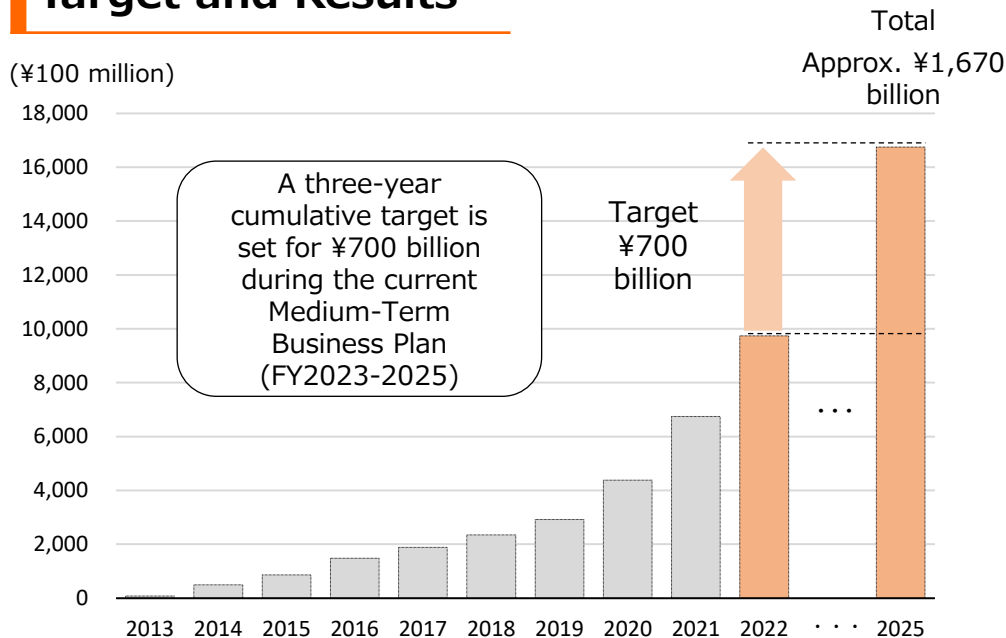


(Left) Akita,  
Balanced Portfolio Investment Dept.  
(Right) Yano,  
Credit Risk Analysis Sect.,  
Credit Risk Analysis Dept.

# ESG Thematic Investment (1) (Amount of Investment)

- ✓ ESG thematic investment means investment projects with uses of funds contributing to achievement of SDGs. From fiscal 2023 to 2025, we work on ESG thematic investments, while aiming at a total investment amount of 700 billion yen.
- ✓ Additionally, we reviewed cases carried out during the past three years (fiscal 2020-2022) and confirmed that investment returns equivalent to non-thematic investments were secured.

## Target and Results



### [Assets covered]

SDGs bonds/loans, renewable energy projects (project financing), infrastructure investment funds, etc.

## Relationship with Investment Returns

- ✓ We reviewed investment returns for ESG thematic investment cases during the past three years.
- ✓ In terms of assets with interest (corporate bonds/loans, etc.), we confirmed that investment returns equivalent to spreads in non-thematic investments were secured.
- ✓ In terms of equity investments, we also confirmed that the secured investment returns exceeded expected returns of equity investments with equivalent risks.

### [Case Study] Domestic Comprehensive Infrastructure Funds

- Investment period: September 2023
- A fund which invests in multiple sectors in Japan including decarbonized energy, and social and digital infrastructure. Aims at contributing to transition to a decarbonized society through maintenance, management, and enhancement of infrastructure, which is a foundation for industries and lives.



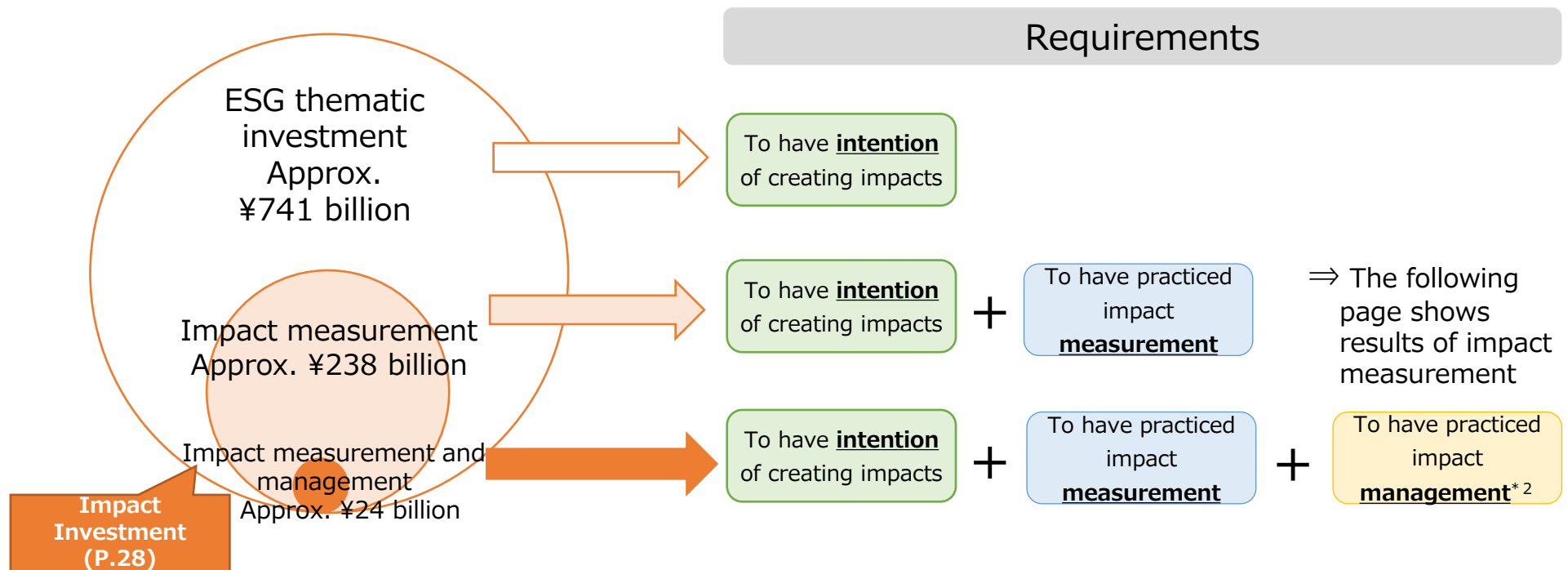
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# ESG Thematic Investment (2) (Balance)

- ✓ We work on ESG thematic investment with the intention of further contributing to solving social issues, believing it is important to fully understand the created impacts after implementing investments.
- ✓ Therefore, we manage and operate balance of ESG thematic investments, with categorizing the balance into three types according to practice status of impact measurement and management.

## Balance of ESG Thematic Investments\*<sup>1</sup> (the end of March 2023)



\*1 The balance as of the end of March 2023 of the cumulative amount invested in ESG thematic investments represented in the previous page (approx. ¥1,000 billion). The figures have difference from the actual invested amount as a result of consideration of sale and redemption.

\*2 Management is practiced to create positive impacts and reduce significant negative impacts.

# Impact Measurement

- ✓ From fiscal 2022, we worked to measure social impacts created by our investments. We also started to measure metrics in social aspects in addition to environmental aspects.
- ✓ However, only about 20% cases of entire ESG thematic investments were measured successfully on our contribution among the measurement cases, and we expect to obtain more expanded disclosure from investee companies.

## Impact Measurement\*1 (E: Environment)

### Contribution to avoided GHG emission

Approx. **787,000** t-CO<sub>2</sub>e/year

Equivalent to amount forests can absorb\*2

Approx. **89,000** hectares



Assets covered	Contribution to avoided GHG emission
(i) Project financing (renewable energy)	Approx. 59,000 t-CO <sub>2</sub> e
(ii) SDGs bonds, infrastructure funds	Approx. 728,000 t-CO <sub>2</sub> e

### [Calculation method for each asset covered]

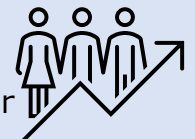
- Based on the actual amount of electricity sold of each project (from April 2022 to March 2023), we measured the volume of GHG that contributed to the reduction in emissions (attributable to our investment), while assuming that GHG emissions due to fossil fuel power generation have been avoided.
- Based on the data disclosed by each issuer, we measured the volume of GHG that contributed to the reduction in emissions (attributable to our investment).

## Impact Measurement\*1 (S: Social)

### Beneficiaries of microfinance

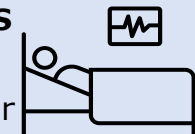
Approx. **779,000**/year

(Including women of approx. 700,000)



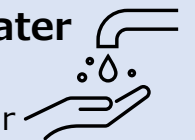
### Beneficiaries of medical services

Approx. **926,000**/year



### Beneficiaries of safe drinking water

Approx. **284,000**/year



### [Measurement method]

SDGs bonds and microfinance are subject to the measurement. Based on the data disclosed, we measured the number of beneficiaries (attributable to our investment).

\*1 Part of measurement results include data on impact bonds presented by ICE Data Services.

\*2 Cited from the website of the Forestry Agency.

# Impact Investment

- ✓ Impact investment refers to investments made with the intention of creating social and environmental impacts in addition to financial returns. We promote impact investment mainly through funds.
- ✓ Since it is important to practice impact measurement and management, we will accumulate knowledge through the “Japan Impact-driven Financing Initiative,” and various study groups, while aiming at utilization in practice.

## Criteria for Impact Investment\*1

Item	Judgement points (examples)
(i) Investment strategy	Orientation toward sustainability as a management company is reflected in strategies of funds, etc.
(ii) Structuring	Metrics of impact are decided, and monitoring systems are developed
(iii) Monitoring/Engagement	Progress of KPI is monitored and utilized for investment strategies and engagement
(iv) Sale judgement	Sale is made in consideration of investees' continuous impact generation
(v) Reporting	Performance, etc. of impact is disclosed to investors

\*1 Judgment of impact investment is based on “Guidebook for Impact Measurement & Management” published by GSG Japan National Advisory Board.

## Invested Amount and Balance of Impact Investment

FY2022 Amount	FY2023 Amount*2	Balance as of the end of March 2023 (P.26)
¥22.2 billion	¥7.3 billion	Approx. ¥24.0 billion

\*2 As of the end of September 2023

## Case Study

### Funds Composed by Energy & Environment Investment, Inc.

- Investment amount: ¥1.5 billion
- Investment period: March 2023
- Management policy: In addition to financial returns, aim to create social impact such as the diffusion of renewable energy and development of energy conservation.



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Please refer to [News Release](#) for details.

# Responsible Investment in Real Estate

## Tokyo Midtown Yaesu

In February 2023, we relocated the Tokyo Head Office to Yaesu Central Tower in Tokyo Midtown Yaesu. We introduced an advanced office style under the grand concept of “Connect, Expand, Move on – Challenge ∞ Change –,” and acquired the highest rating (S rank) of “CASBEE Smart Wellness Office Certification,” which comprehensively assesses and certifies healthiness and comfortability of offices, and the built environment efficiency.

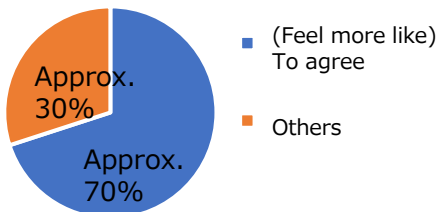


As a result of the relocation, the volume of GHG emissions from the Tokyo Head Office is estimated at an annual reduction of about 1,500 t.

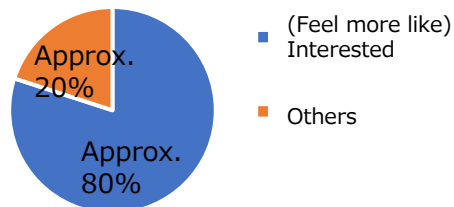
## Engagement Activities

As an effort to increase engagement with tenants, we administer questionnaires regularly on management, services, safety, comfortability, and initiatives for environment in buildings.

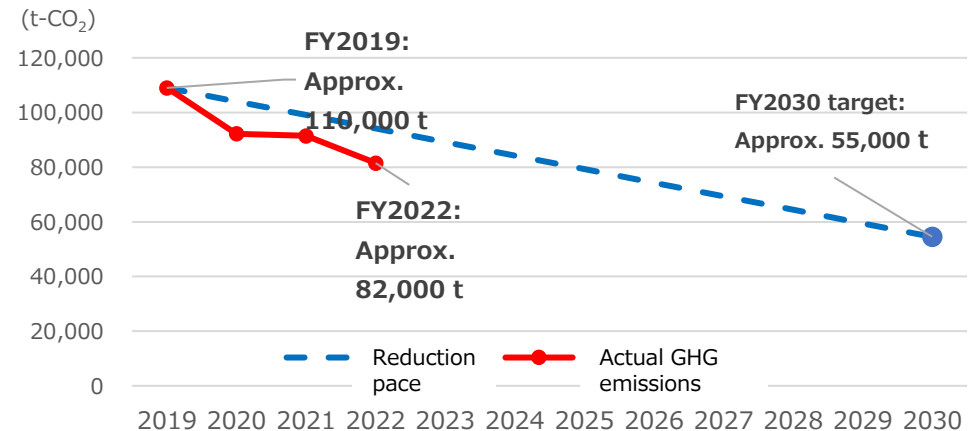
Q. Switch to electricity of renewable energy  
(Question to general affairs department)



Q. Initiatives in buildings for global environment protection  
(Question to employees)



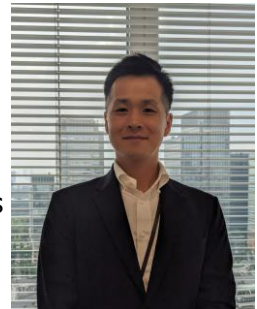
## Volume of GHG Emissions from Real Estate\*1



\*1 CO<sub>2</sub> from energy used by us and tenants.

### Q. Please tell us about initiatives for GHG reduction from real estate.

In the Real Estate Dept., we work on energy conservation such as LED use to reduce GHG emissions from the real estate we own, while willingly introducing electricity from renewable energy sources to meet the needs of tenants concerned about decarbonization, and reduction is progressing steadily. In terms of renewable energy procurement, we introduce plans with the value of renewable energy added by electricity companies to make GHG emissions zero. We need to diversify procurement methods in the future and review diversification of reduction methods such as Corporate PPA.



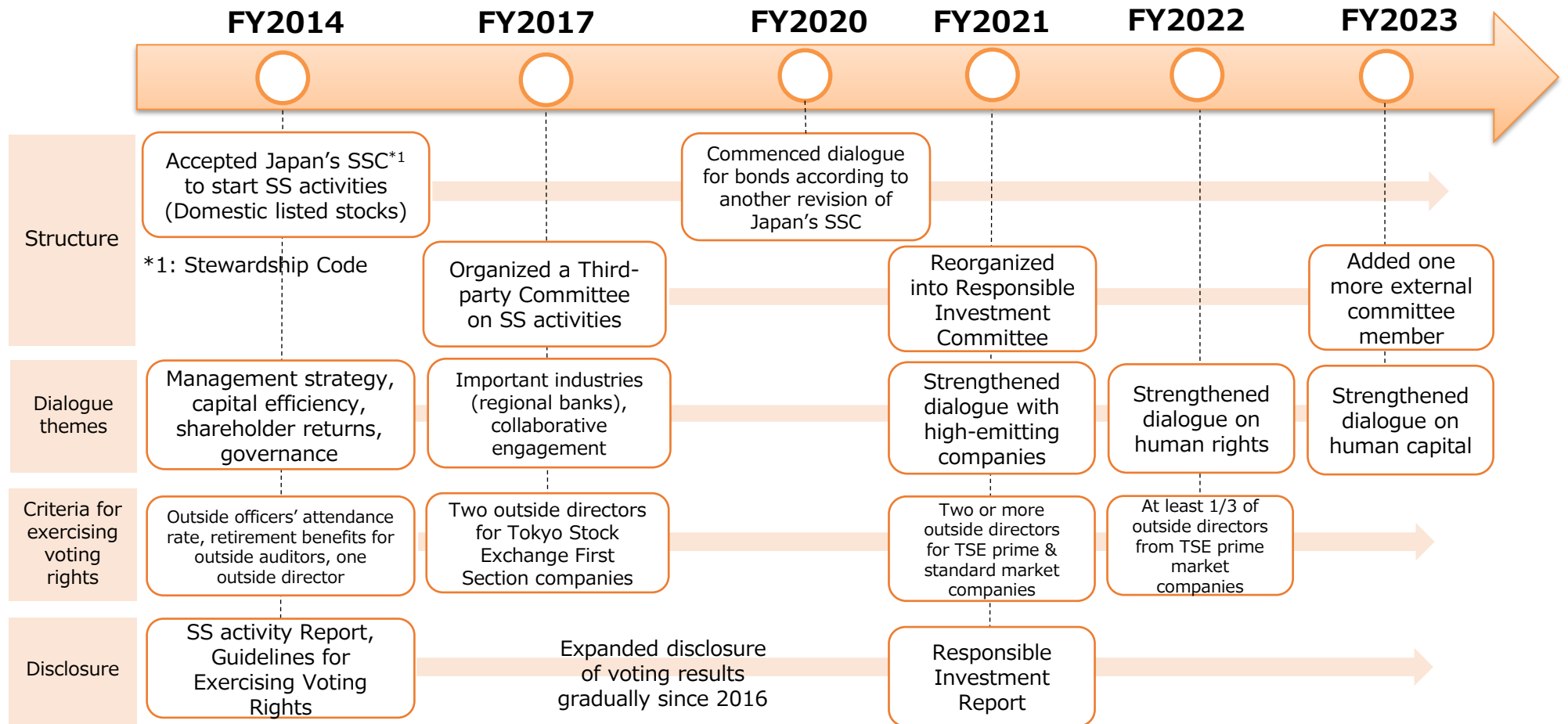
Nakamura  
Real Estate  
Planning Sect.,  
Real Estate Dept.



# 4. Stewardship Activity

- |   |         |
|---|---------|
| ✓ Stewardship Activity Transition         | ...P.31 |
| ✓ Dialogue                                | ...P.32 |
| ✓ Exercising Voting Rights                | ...P.40 |
| ✓ Self-evaluation of Stewardship Activity | ...P.44 |

# Stewardship Activity Transition



[Number of dialogues\*2]

Fiscal year (From July to June in the following year)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Corporate value</b>	218	125	124	151	142	94	105	119	143	110 (Target)
<b>Voting rights</b>	347	313	254	258	227	186	170	175	139	—

\*2: Coverage is domestic listed stocks. Besides, for domestic bonds, dialogue with about 10 companies has been conducted every year from fiscal 2020.



# Review on Fiscal 2022 Dialogue [Key items]

(July 2022 to June 2023)

We conducted 143 dialogues in fiscal 2022 (cumulative total of 422 since 2016, accounting for 37% of the issuers of our portfolio, and 85% of the market value we hold). In fiscal 2023, we continue to conduct dialogue on ESG theme, while planning dialogue on the theme of response to the requests from Tokyo Stock Exchange mainly for companies with PBR below 1x (see page 36-37 for fiscal 2023 plan).

Theme content		Main requests	
Key themes (ESG)	Dialogue on carbon neutrality	<ul style="list-style-type: none"> <li>➤ Monitor progress of addressing climate change issues, and promote response to the issues</li> </ul> <p>Improve GHG emission reduction targets and accuracy of effectiveness</p>	
	Dialogue from other environmental and social perspectives	<ul style="list-style-type: none"> <li>➤ Increase efforts to address human rights and labor environment issues in the supply chain</li> </ul> <p>Identify issues related to human rights, and conduct surveys and disclose information on business places and regions where issues are inherent</p>	
Key industries	Dialogue with regional banks that serve as pillars in revitalizing local communities	<ul style="list-style-type: none"> <li>➤ Expand non-interest business</li> <li>➤ Further improve efficiency</li> </ul>	<p>Monetize consulting business, recruit and train specialists, convert to a holding company, etc.</p> <p>Reduce system costs, such as by moving core systems to the cloud, and reduce various costs</p>
Sustainable growth	Companies that we consider need dialogue to improve their corporate value	<ul style="list-style-type: none"> <li>➤ Improve governance</li> <li>➤ Human capital management</li> <li>➤ Enhance shareholder returns</li> </ul>	<p>Guidelines for Exercising Voting Rights may be violated</p> <p>Corporate value is expected to improve</p>
Collaboration	Collaborative engagement with the Life Insurance Association of Japan	<ul style="list-style-type: none"> <li>➤ 11 life insurance companies participating in the Stewardship Activities Working Group of the Life Insurance Association of Japan jointly sent letters requesting the following.</li> </ul> <p>Enhance shareholder returns      Comprehensive disclosure including enhanced disclosure of ESG information      Endorsement of TCFD recommendations and enhanced climate change disclosure</p>	

# Review on Fiscal 2022 Dialogue [Improvement]

(July 2022 to June 2023)

We focus on dialogue on management strategies that lead to an improvement in corporate value over the medium to long term. In fiscal 2021 (July 2021 to June 2022), we requested 355 items, and confirmed improvements in 97 of them (improvement rate of 27.3%). We will implement highly effective engagement through the PDCA cycle to continuously improve their corporate value, through monitoring the progress of improvements in corporate issues and holding dialogues again as necessary.

## <Results of improvement upon our requests>

### ■ Fiscal 2021

Request (case)
355

### ■ Fiscal 2022

Improvement	Partial improvement	Not yet improved	Rate of improvement
97	158	100	27.3%

Improvement: Achieved traced items or showed signs of progress/improvement in line with the request

Partial improvement: Improvement has been made, but not to the level required

Not yet improved: Not achieved, or no signs of progress/improvement in line with the request

## <Breakdown>

### ■ Fiscal 2021 requests

Item	Request
ESG	104
Environment/Social	62
Governance (management)	42
Business strategy (growth scenario, etc.)	139
Revision of business portfolio	44
Revenue (profitability)	84
Shareholder returns	7
Disclosure	12
Others	9

### ■ Fiscal 2022 confirmation

Improvement	Partial improvement	Not yet improved	Rate of improvement
32	41	31	30.8%
15	35	12	24.2%
17	6	19	40.5%
38	65	36	27.3%
11	22	11	25.0%
18	44	22	21.4%
2	2	3	28.6%
4	3	5	33.3%
3	3	3	33.3%

In fiscal 2023, we continue to engage in dialogue with investee companies whose improvements are insufficient or who face new issues, as a **"continuous tracing companies"**

# Review on Fiscal 2022 Dialogue [Case study]

(July 2022 to June 2023)

The following are examples of dialogues on decarbonization and human rights. We will continue to hold dialogues going forward.

## Efforts toward decarbonization (Scope 3) - Consumer durables manufacturer -

### Awareness of issues

- Most of the CO<sub>2</sub> emissions in a product's lifecycle come from its use. Therefore, emissions increase with sales.
- Despite an aim to contribute to reducing CO<sub>2</sub> emissions by diffusing energy-saving products, specific reduction targets for Scope 3 have not yet been defined.

### Requests to companies

- Set Scope 3 reduction targets and disclose the measures.
- Utilize the volume of CO<sub>2</sub> that contributes to reduction through sales expansion of energy-saving products as an indicator of corporate value to show competitive advantage.

### Response from companies

- It is a desirable attitude to set targets based on total emissions, and to emphasize the volume that contributes to reduction.
- It is difficult to work right now, but we hope to decide on Scope 3 targets based on total emissions, as pointed out, in the future.

### Future engage- ment

- Track disclosure status of Scope 3 reduction targets.
- Since the idea of contribution to CO<sub>2</sub> reduction began to be known globally, continue dialogue to encourage repeated emphases on the volume that products contribute to reduction, so that stakeholders are aware.

## Human rights/overwork (year 2024 problem) - Distribution and construction industries -

### Awareness of issues

- Regulations to limit overtime working hours start to apply to both industries in 2024.
- Because of business structures of multiplex subcontractors, united efforts by prime contractors and subcontractors are required to correct long-time working.

### Requests to companies

- To fulfill corporate responsibility, solve overwork issues, while involving subcontractors besides the companies themselves.
- To solve increasing cost issues accompanying promoted work style reform, increase productivity by promoting DX, etc., and pass on raising prices to clients and customers.

### Response from companies

- To promote work style reform, distribution industries introduce shift driving and connected trucks for load increases, and construction industries strive to improve productivity through radical DX at construction sites.
- Obstacles are sharing the increasing cost issues due to promotion of the reform with markets and familiarization of every subcontractor with the reform.

### Future engage- ment

- The government recognizes the issues in both industries and develops various measures. Continue dialogue, while carefully watching movement of the government and industry groups and associations.
- Encourage problem solutions including familiarization of subcontractors with the reform, as well as promote further measures for productivity increases.

# Review on Fiscal 2022 Dialogue [Survey results]

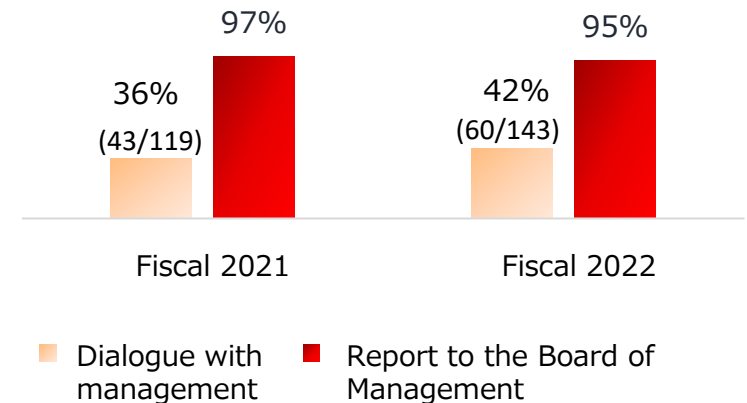
(July 2022 to June 2023)

We requested and received the cooperation of many companies with which we engaged from the perspective of improving dialogue aimed at increasing corporate value. The survey results indicate many companies continue to rank our dialogue highly, with a high proportion sharing the dialogue with management. We will strive to improve the quality of dialogue and initiate efforts to enhance our proposal capabilities based on the opinions expressed.

## <Survey results (response rate: 67.1%)>

Items (5-ranking of evaluation)	Fiscal 2021	Fiscal 2022
Overall evaluation	4.9	4.9
Was there adequate understanding, as well as research and analysis?	4.9	4.9
Did dialogue lead to the promotion of mutual understanding?	4.9	4.9
Were the opinions beneficial?	4.9	4.9

## <Percentage of companies engaged in dialogue with management and reporting to the Board of Management>



## <Extract from survey results>

Highly-evaluated opinions	<ul style="list-style-type: none"> <li>➤ I could realize the importance of practicing PDCA of engagement. We shared the opinions offered during dialogue last year within our company to deepen discussions, while striving to reflect them in this medium-term business plan, which caused a change in our way of thinking. Additionally, I felt that we were appreciated for our one-year work in this dialogue.</li> <li>➤ We relayed the current situation around us, while given feedback from your company in the meeting, which was exact "dialogue style," and it was highly meaningful for us too.</li> </ul>
Other opinions and requests	<ul style="list-style-type: none"> <li>➤ For cross-holding shares, we were offered improvement suggestions with examples of shareholder proposals, but the examples are from different industries with different business environment. Therefore, I thought the suggestions would be better by comparing them to same industry examples.</li> </ul>

\* Extracts from some of the opinions and requests that we received

# Fiscal 2023 Dialogue [Stocks]

(July 2023 to June 2024)

Following the previous fiscal year, as our main themes for dialogue in fiscal 2023, we set ESG, sustainable growth, regional banks, and collaborative engagement. Besides, we newly plan dialogue on dealing with requests from Tokyo Stock Exchange mainly for companies with PBR below 1x. Based on the following themes, we will select the companies with which we have dialogue from the perspective of improving the value of the entire portfolio.

Theme	Dialogue company	Details of dialogue
Sustainable growth	Companies with issues on capital profitability and growth potential	<p>Dialogue mainly with companies with ROE under 8 % and PBR below 1 x on dealing with requests from TSE as a key theme. Other themes based on individual consideration on exercising voting rights, etc.</p> <div> <div>Stocks with low ROE/PBR</div> <div>Insufficient improvement in past requests</div> <div>Guidelines for Exercising Voting Rights may be violated</div> </div>
Key themes (ESG)	High GHG-emitting companies	<p>Dialogue with the top 30 GHG (Scope 1+2) emission companies in our stock portfolio.</p> <div> <div>Verify GHG emission reduction targets and scopes</div> <div>→</div> <div>Improve targets and accuracy of effectiveness</div> </div>
	Companies with ESG issues	<p>Discuss improvement and response measures for companies with environmental and social issues such as GHG Scope 3 and human rights after confirming their awareness of these issues (human capital and diversity are themes across assets).</p> <div> <div>Environment: Scope 3 is relatively higher</div> <div>Social: Issues related to human rights, etc. in the supply chain</div> </div>
Key industry	Regional banks	Request regional banks to improve their capital efficiency and disclose their cash flow allocation plans.

Collaborative engagement	Other than collaborative engagement with the Life Insurance Association of Japan, utilize initiatives such as CA100+ <sup>*1</sup> , Advance <sup>*2</sup> , and CDP, etc.
--------------------------	--

\*1: Abbreviation for Climate Action 100+. An international initiative to encourage reduction efforts of GHG high-emitting companies through collaborative engagement on climate change.

\*2: An international initiative for human rights that aims at encouraging companies with relatively high risks of human rights to address issues, through collaborative engagement.

# Fiscal 2023 Dialogue [Stocks]

## (July 2023 to June 2024)

While considering the following matters as key factors for improvement in corporate value, we will conduct dialogue activities.

### Management and capital strategy

- Business philosophies and purposes established and instilled internally
- Selection of materiality and business strategies based on anticipation of industry trends
  - ✓ Appropriate grasp and analysis of risks and opportunities
  - ✓ Efficient management in balance sheet to realize management strategies
  - ✓ Securing equity spread and ROIC/WACC
- Dealing with requests from TSE

### Governance: Improving effectiveness of the board of directors

- Define functions of the board of directors (balance in supervision and execution)
- Structures of supervision and advice for executing medium- and long-term business strategies
- Consistency between management strategies/issues and skill matrices of directors
- Diversity (gender/nationality/experience/period of office)

### Measures for human rights (including supply chain)

- Establish human rights policies (internal and external commitment, internal instillation)
- Implement due diligence for human rights
- Develop relief measures
- Correct overwork issues

### Promotion of human capital management

- Linkages between management and human capital strategies (grasp of gaps in As is-To be, human capital development and other strategies)
- Diversity, Equity & Inclusion such as promoting women's active participation, and policies of management and human resources on flexible work style of employees
- Increases in employees' engagement

### Reconciliation of climate change risks and business opportunities

- Ties between measures on climate change risks and management strategies
- Feasibility of interim targets for GHG emission reduction
- Confirm roadmaps toward carbon neutrality in 2050
- Set Scope 3 GHG emission reduction targets, disclose results, and consider measuring and disclosing the volume that contributes to reduction
- Utilize GX investments by the government and private sectors, and reconcile them with economic rationality (profitability)
- Improve disclosure based on TCFD recommendations

### Conservation of nature and biodiversity

- Identify biodiversity risks from business activities in the supply chain
- Identify business risks from biodiversity loss

# Review on Fiscal 2022 & Fiscal 2023 Dialogue [Bonds]

- ✓ We take a long-term perspective in our discussions with companies and encourage them to take the appropriate response to risk to increase the possibility of redemption of domestic bonds we hold. In addition, we also conduct dialogue for reducing GHG in our asset portfolio.
- ✓ In fiscal 2023, in light of Follow-up Guidance from the Financial Services Agency, while further actively working on follow-up dialogue with transition bonds issuers, we will support appropriate funding for decarbonization.

Assets	Initiatives in fiscal 2022	Plans in fiscal 2023
Domestic bonds	<ul style="list-style-type: none"> <li>Implemented engagement with about 10 companies from the perspective of increasing the possibility of redemption and reducing GHG.</li> </ul>	<ul style="list-style-type: none"> <li>While continuing initiatives in fiscal 2022, we will further actively work on follow-up for transition bonds.</li> </ul>
Overseas bonds	<ul style="list-style-type: none"> <li>Participated in collaborative engagement through international initiatives (CDP).</li> </ul>	

## [Case study (Announced investment cases\*1)]

Investment date	Issuer	Category
March 2022	Japan Airlines Co., Ltd.	Transition bonds
March 2022	TOKYO GAS CO., LTD.	Transition bonds
June 2022	ENEOS Holdings, Inc.	Transition-linked bonds
December 2022	TOKYO GAS CO., LTD.	Transition bonds
June 2023	Japan Airlines Co., Ltd.	Transition bonds
July 2023	Nippon Yusen Kabushiki Kaisha	Transition bonds

## [FSA: Overview of Transition Finance Follow-up Guidance]

Positioning: Guidance for financial institutions for the purpose of improving credibility and effectiveness of transition financing through dialogue between raisers and investors after funding.

Raiser (Investee company)

Corporate value increases because of improvement in effectiveness of transition strategies

Investor

Credible investment opportunity secured/  
Investment risk reduced

Dialogue after funding

- ✓ Confirm appropriate disclosure from raisers on strategies, targets, and covered business for transition
- ✓ Create common understandings between raisers and investors on results and future initiatives, considering business environment changes

\*1 Cases on which the Company announced purchase of SDGs bonds.



# Interviews with practitioners (3)

- ✓ The following are interviews with practitioners about our dialogue activities and challenges.

## Q. Please tell us about dialogue with companies specifically.

- Yamamoto: In the Dedicated Team for Dialogue of the Balanced Portfolio Investment Dept., from the perspective of a shareholder, we have dialogue with over 100 listed companies in Japan every year.

The purpose of dialogue is to encourage behavioral changes toward sustainable growth by informing companies of awareness of issues from the perspective of an institutional investor, through constructive communication with companies. However, we always try to understand companies' situations, rather than telling issues one-sidedly from the perspective of an investor.

Themes for dialogue widely cover areas from management to ESG, and especially ESG perspectives such as climate change become important as a new trend. I have some opportunities to engage in dialogue with the company managements, and it makes me nervous every time, but it is quite worthwhile for me.

- Shibuya: In the Structured & Corporate Bond Sect., we manage corporate bonds, and from the perspective of a corporate creditor, we engage in dialogue with about ten domestic companies on an annual basis.

It is important for corporate bonds, different from stocks, to be redeemed successfully. Therefore, our dialogue focuses on the financial risks of investee companies.

However, points of view are basically same as stock cases in dialogue with ESG themes. For example, in terms of high-emitting companies, the points are strategies and status of efforts for transition toward a decarbonized society. In addition, we sometimes suggest financing such as transition financing. In the first dialogue, I got quite nervous, but I think dialogue also contributes to our growth as analysts, because we research the companies subject to dialogue thoroughly.

## Q. Please tell us about challenges for the future.

- Yamamoto: We never have the same dialogue again, because each company has different opportunities and risks for its business. What message we need to tell to enable constructive dialogue is a quite difficult matter. We need to improve our understanding of investees every day including technologies that investee companies provide.
- Shibuya: Since trends over sustainability change rapidly, it is hard to catch up with information. Dialogue themes also expand every year into new areas such as human capital and human rights. Therefore, I would like to develop my knowledge to deepen dialogue.



(Left) Yamamoto,  
Balanced Portfolio Investment Dept.  
(Right) Shibuya,  
Structured & Corporate Bond Sect.,  
ALM Securities Investment Dept.

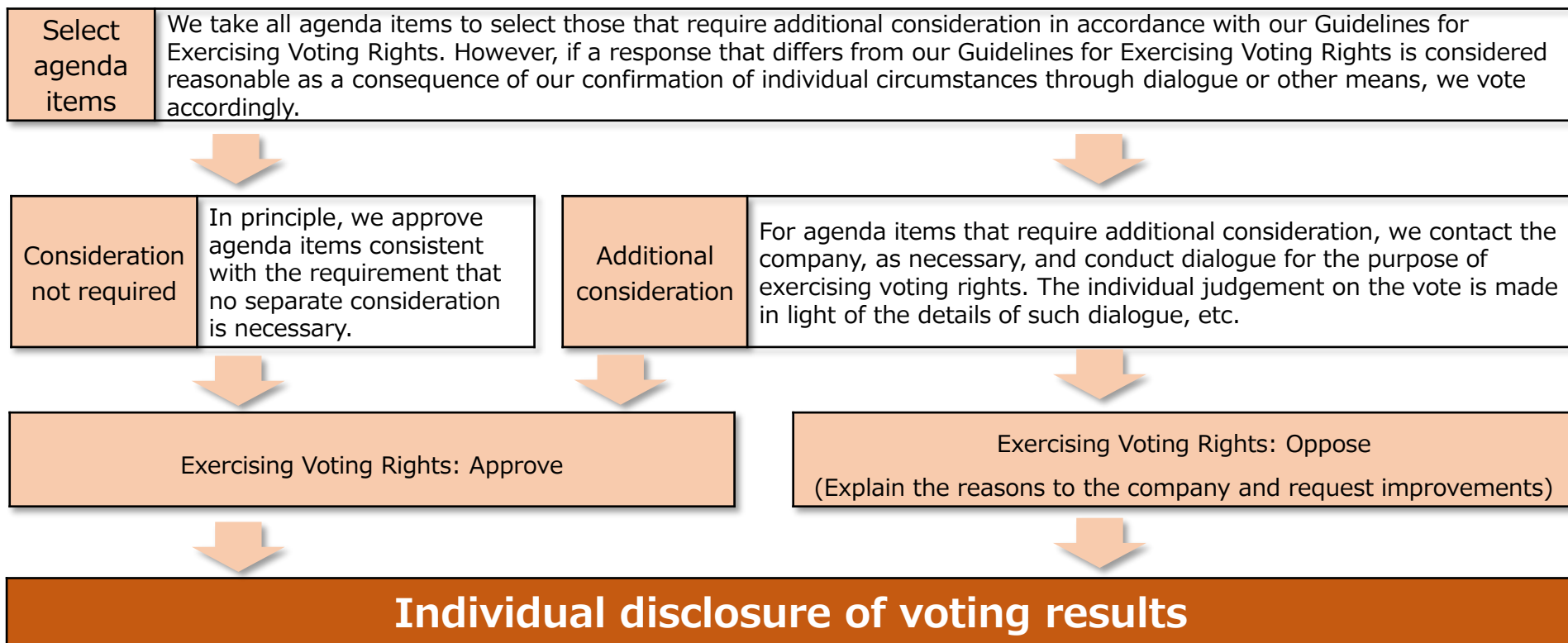


# Stance on Exercising Voting Rights

Our company has established “Guidelines for Exercising Voting Rights” and determines whether to vote for or against a proposal when exercising our voting rights, in light of dialogue with investee companies and the state of their initiatives on issues, etc.

Specifically, we select agenda items that require additional consideration according to our Guidelines from perspectives such as the investee company’s financial performance/conditions, capital policy, legal compliance structure, stance on distribution of returns and sustainability initiatives, and make careful decisions.

We recognize that exercising voting rights is also an important method for encouraging the sustainable growth of investee companies. When considering whether to approve or oppose an individual agenda item, our decisions are not a mere formality. We listen to investee companies about their response to issues and conduct dialogue through which we explain our opinions and concerns to encourage their sustainable growth.



# Fiscal 2022 Voting Results (July 2022 to June 2023)

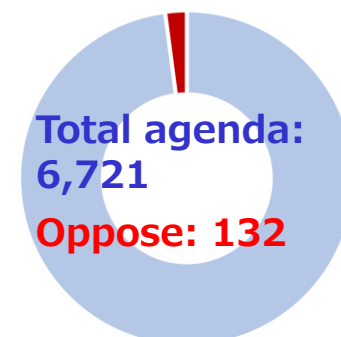
Our voting results is shown below. We voted against 132 agenda items (2.0% of a total of 6,721 agenda items) and voted against 107 companies (5.4% of a total of 1,979 companies).

We were able to confirm improvement in terms of governance on the investee companies as they have proceeded to respond to the revised Corporate Governance Code.

## <Voting results by category of agenda items>

Category of agenda	Total agenda	Opposed items	Opposed ratio	Opposed ratio in previous fiscal year
Appropriation of retained earnings	1,273	19	1.5%	1.6%
Appointment/dismissal of directors	2,594	72	2.8%	2.6%
Payment of retirement benefits	69	19	27.5%	31.5%
Executive compensation	595	19	3.2%	2.4%
Takeover defense measures	77	2	2.6%	5.2%
Shareholder proposals	332	1	0.3%	0.0%
Other	1,781	0	0.0%	0.1%
Total	6,721	132	2.0%	1.8%

## <By number of proposals> Opposed ratio 2.0% (+0.2pt YoY)



## <By number of companies> Opposed ratio 5.4% (-1.1pt YoY)



# Fiscal 2022 Voting Results [Improvement] (July 2022 to June 2023)

Some companies with which we had dialogue or voted against improved in terms of governance, but the ratio of improvement was low in terms of financial performance, independence of directors and payment of retirement benefits to auditors.

<Status of improvement in FY2022 for the companies that we voted against in FY2021>

Fiscal 2021 Opposed items	Items of which the same agenda is proposed in fiscal 2022	Fiscal 2022 Approved items	Ratio of improvement
152 (133 companies)	81 (78 companies)	32 (31 companies)	<b>39.5%</b> (39.7%)

Category of agenda	Fiscal 2021 Opposed items	Fiscal 2022 Improvement	Ratio of improvement
Appointment/ dismissal of directors	49	20	41%
Appropriation of retained earnings	16	8	50%
Executive compensation	5	3	60%
Payment of retirement benefits	11	1	9%

# Revisions to the Guidelines for Exercising Voting Rights

Dialogue and the exercise of voting rights are some of our most important initiatives in fulfilling our stewardship responsibilities. We have amended the philosophy in our Guidelines for Exercising Voting Rights, so that our philosophy is better understood. Please refer to the Guidelines for Exercising Voting Rights for details.

## Close of special operation associated with COVID-19

- Under an environment amid the spread of COVID-19, although we have had a special operation based on our attitude of encouraging each investee company to address issues they face in consideration of various stakeholders, we will close the special operation at general meetings in May 2024.

## Close of the exception to criteria for independent outside directors

- As planned, we will close the exception to criteria for independent outside directors that is scheduled to be applied until general meetings in March 2024.

Item	Market category (*1)	Until March 2024	From April 2024
A company other than those described below	TSE Prime	At least 1/3 (*2)	At least 1/3
	TSE Standard	At least 2 (*2)	At least 2
	Other	At least 1	At least 1
A company with a parent company	TSE Prime	At least 1/2 (*3)	At least 1/2 (*3)
	Other	At least 1/3 (*3)	At least 1/3 (*3)
A company with takeover response policies/defense measures		At least 1/3 (*2)	At least 1/3

(\*1) For stocks listed in multiple markets, TSE applies for judgment. For stocks listed in single market, TSE Standard applies to NSE Premier. (Other stock markets are included in Other.)

(\*2) When the number/ratio of independent outside directors is under the criteria, with certain number of appointed independent outside directors who fulfill the Company's independence criteria (at least 2 for Prime, at least 1 for Standard, at least 2 for a company with takeover response policies/defense measures), and if functioning of governance equivalent to the above criteria is recognized, we approve until general meetings in March 2024.

(\*3) For a company with a parent company, when the number/ratio of independent outside directors is under the criteria, with certain number of appointed independent outside directors who fulfill the Company's independence criteria (at least 1/3 for Prime, at least 2 (1 until March 2024) for Standard, at least 1 for Other), and if functioning of governance equivalent to the above criteria is recognized, for example, with special committees composed of members who have independency including independent outside directors, we approve.

## Revisions to the guidelines for takeover defense measures (takeover response policies/defense measures) and the philosophy which forms the basis

The following perspectives are reflected.

- It is undesirable to reject acquirer's proposals without rational reasons, for self-protection of the managements, in order not to prevent takeover desirable for shareholders that bring corporate value increases and shareholders' profit
- In addition, it is also necessary to require appropriate disclosure for corporate acquirers (necessary information disclosure and securing transparency and fairness)

# Self-evaluation of Stewardship Activity

Principle	Japan's Stewardship Code	Self-evaluation and future initiatives (✓ : Compliant)	
Principle 1	Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.	✓	➤ This policy has already been formulated and published as the "Basic Principles on Responsible Investment."
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.	✓	➤ The Compliance Control Department comprehensively manages in accordance with the "Policy on Management of Conflicts of Interest." This was deliberated three times at the Responsible Investment Committee in fiscal 2022 and we disclosed the results. We will continue the initiatives.
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 collect financial information and non-financial information including ESG and conduct both quantitative and qualitative corporate analysis (ESG integration). We also strive to accurately understand the status of investee companies.
Principle 4	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.	✓	<ul style="list-style-type: none"> <li>➤ In fiscal 2022, we strengthened our dialogue especially on promoting decarbonization and human rights as an ESG issue.</li> <li>➤ We share our recognition of issues with investee companies and strive for improvement through adequately prepared dialogue.</li> </ul>
Principle 5	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.	✓	<ul style="list-style-type: none"> <li>➤ We judge in accordance with the guidelines after grasping the company's situation. We disclose our voting results in accordance with the policy.</li> <li>➤ We will continue to work on substantive judgments by presenting our thinking in various publications so that they do not become a mere formality.</li> </ul>
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 have published "Responsible Investment Report" that discloses all of our entire responsible investment activities, including stewardship. We will continue to improve our disclosure.
Principle 7	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.	✓	<ul style="list-style-type: none"> <li>➤ We have established the structure for stewardship activities and are promoting human resource development, including the enhancement of corporate analytical capabilities.</li> <li>➤ We will continue to expand our decarbonization initiatives across assets, strengthen our collaboration with external organizations, and work to further improve the effectiveness of our stewardship activities.</li> </ul>

# 5. External Activity & Human Capital Development

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|--|---------|
| ✓ Participation in Initiatives             | ...P.46 |
| ✓ Collaboration and Educational Activities | ...P.47 |
| ✓ Human Capital Development                | ...P.48 |

# Participation in Initiatives

- ✓ The Company actively participate in domestic and international initiatives from the perspective of an institutional investor, for achieving a sustainable society. We will continue to collaborate with domestic and international institutional investors to address social issues, while increasing the level of our responsible investment through exposing ourselves to best practices in each area.

Signatory of:



- Investment principles launched by the United Nations in 2006 that call for institutional investors to incorporate ESG perspectives into their investment decision-making processes.
- Sumitomo Life signed the PRI in April 2019.



- A coalition of willing financial institutions that aims at carbon neutrality in 2050, launched in April 2021. Sumitomo Life joined it through Net-Zero Asset Owner Alliance under control of GFANZ.

## Net-Zero Asset Owner Alliance

- An initiative that aims to achieve the Paris Agreement's goal of limiting temperature rise to 1.5°C through the cooperation of asset owners. Under the leadership of the UNEP FI and PRI, the AOA has been active since 2019.
- Sumitomo Life joined AOA in October 2021.



- An initiative to seek the reduction of GHG emissions through engagement with companies.
- Sumitomo Life signed the initiative in December 2020.



- A global partnership of financial institutions launched in 2019, working to develop and implement a standardized approach to assess and disclose the GHG emissions from the asset portfolio.
- Sumitomo Life joined PCAF as the first Japanese life insurer in September 2021.

## Japan Impact-driven Financing Initiative

- A Japanese initiative launched in November 2021 to aim for the practice and promotion of impact investment by financial institutions that seek to resolve environmental and social issues through investment activities.
- Sumitomo Life joined it in April 2022.

## (other initiatives)





# Collaboration and Educational Activities

- ✓ Besides domestic and international initiative activities, we actively work on awareness raising activities for sustainable financing.

## Domestic and International Initiative Activities

The following are examples of active participation in domestic initiative activities.

- ✓ Participated in a core working group of GFANZ Japan Chapter as a member.
- ✓ Participated in "Study Group on Impact Investment," co-hosted by the Financial Services Agency and the GSG Japan National Advisory Board, as a member.
- ✓ Participated in subcommittees under PCAF Japan (contribution to reduction/sovereign) as a member.
- ✓ Participated in collaborative dialogue of Climate Action 100+ as engaged "Collaborating Investor."

## Taking the Rostrum in Events

Tanaka, the general manager in charge of Responsible Investment, spoke at the following events.

- ✓ June 29, 2023: A panel of PDI TOKYO Forum "Where do asset owners in Japan find opportunities."
- ✓ September 6, 2023: An official side event in PRI in Person 2023, hosted by Nippon Life, "Responsible Investment under capitalism of stakeholders."
- ✓ September 21, 2023: PERE Tokyo Forum 2023 "Discussion on valuation by domestic insurance company members of NZAOA."

## Lectures at Universities

Lectures were delivered by the Responsible Investment Team of the Investment Planning Dept. of the Company.

- ✓ April 2023: Delivered a lecture, "Financial markets and asset management," at the School of Economics of Kyushu University.
- ✓ June 2023: Delivered a lecture, "Present situation and the direction of ESG investment" within a course, "Corporate technological strategies and international public policies" at the Graduate School of Public Policy of the University of Tokyo. (Picture)



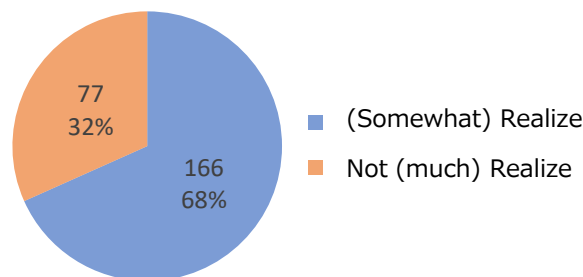
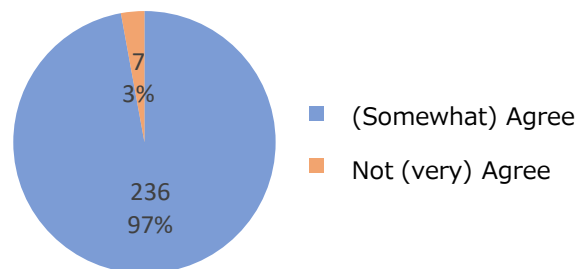
Tanaka, General Manager  
In Charge of Responsible  
Investment,  
Investment Planning  
Department

# Human Capital Development

- On promoting responsible investment, we believe that the most important foundation is for the employees who will play a role to i) sympathize with the philosophy of responsible investment and ii) acquire the latest relevant knowledge.
- For internal instillation, in November 2022, we administered a questionnaire on responsible investment targeting employees of the asset management department, and the results show about 90% of agreement and about 70% of realization on initiatives for responsible investment. We will continue to work for internal instillation.
- In terms of acquiring the latest relevant knowledge, we work to hold learning sessions and encourage acquiring certification of qualifying examinations (e.g.: Eco Test<sup>\*1</sup>).

\*1. An official name is "Certification Test for Environmental Specialists." The test is hosted by the Tokyo Chamber of Commerce and Industry, and we can gain wide knowledge on environment.

## Results of the Questionnaire for Employees on Responsible Investment

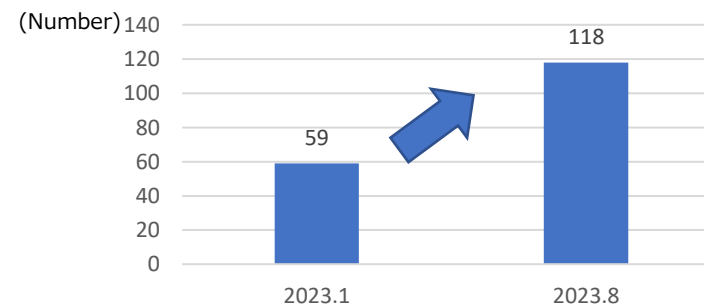


## Study Case

- ✓ Learning sessions on respect for human rights for the asset management department.
- ✓ Learning sessions by international institutions
- ✓ Learning sessions (Financed Emissions) by CSR Design Green Investment Advisory, Co., Ltd.<sup>\*2</sup>
- ✓ Learning sessions (biodiversity) by WWF JAPAN.
- ✓ Learning sessions (GX) by ESG analysts of securities companies.

\*2. In charge of the secretariat of PCAF Japan.

## Number of Employees who Acquired Certification of Eco Test<sup>\*3</sup>



\*3. Employees in the asset management department (approx. 300)



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