

Sustainability Report 2023



A
GOOD
INVESTMENT
FOR THE FUTURE



NISSAY
ASSET MANAGEMENT

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We build long trusting relationships with clients by providing the highest added value and ensuring client satisfaction.

Business Principles

Our mission as professionals is to provide our clients with the highest added value in each aspect of our asset management services.

We build long trusting relationships with clients by continuing to provide the highest added value and ensuring client satisfaction.

1 Dedicate ourselves to client satisfaction

- We provide the high-quality investment products and services necessary to realize clients' future plans and ambitions, and work unremittingly to ensure client satisfaction over the long term
- We believe that to ensure sound asset formation for clients, investment decisions must be backed by accurate knowledge and understanding. Committed to this belief, we act as clients' "best partner" to help them with their investments.



2 Pursue professionalism

- All our officers and employees feel a sense of responsibility and pride in managing clients' assets, and make continuous and untiring efforts as professionals in their respective fields.



3 Foster a fair and honest corporate culture

- We strive to maintain a fair and honest corporate culture in view of the societal mission fulfilled by asset management services.
- We comply with laws and regulations as a global corporate citizen, and all our officers and employees strive to contribute to society, bearing their mission and responsibility in mind.
- We are resolutely opposed to all antisocial organizations that threaten the order or security of civil society, including organized crime groups or corporate extortionists.

Investment Philosophy

We will maintain a consistent decision making process within the organization and invest responsibly as a major investment firm.

Active investment management

By identifying market inefficiencies, we will capture the gap between the fair value and the market price of the asset, and produce excess return.



Intensive research

We look for investment opportunities through intensive research, analysis, and insight.



Disciplined investment



With a continuous and consistent investment approach and extensive risk management, we aim to steadily reach our investment goal.

We aim to be the world's most trustworthy and reliable asset management company for our clients.



Hiroshi Ozeki

President and Chief Executive Officer
Nissay Asset Management Corporation

This year, Japan has continued to suffer damage from weather, such as severe rainstorms, nationwide. Effects of global warming are becoming more prominent year by year, and the climate crisis is more noticeable in our daily lives, just as is written in the IPCC (Intergovernmental Panel on Climate Change) integrated report. We could say the foundational biosphere layer of the three-layered SDGs wedding cake proposed by the Stockholm Resilience Center, consisting of the biosphere, society, and economy layers, has become unstable.

Additionally, with straining relations growing between the United States and China, the situation in Russia and Ukraine, and the increase of other geopolitical risks, the world is becoming increasingly fragmented. These structural changes are causing global inflation to rise and the high

inflation in the United States and Europe is resulting in an abrupt tightening of finances, having a major effect on the global economy. Furthermore, in regard to digital transformation, we are coming to understand that the arrival of generative AI is going to change the world faster than we could have imagined.

It is becoming necessary for companies to also make some bold changes in their ways of thinking. Dealing with changes in geopolitical risks and global structure alone will be hard work, but we also can no longer put off dealing with the changes in the foundational biosphere. In the midst of these major changes in the foundational biosphere and society, sustainable company management that grows the economy is facing unprecedented challenges.

In our ESG (Environmental, Social, Governance)

investments at Nissay Asset Management (NAM), we have conducted ESG evaluations that encompass economic value as well. Simply having good ESG initiatives is not sufficient; we grade a company highly only when these initiatives organically lead to the company's profit. This evaluation process is also a way for us to determine whether a company is pursuing true sustainable management.

Japan, driven by the new NISA system to be implemented in 2024, is aiming to become an asset management nation. If a paradigm shift from savings to investment occurs and the Japanese people invest more, it will present an opportunity for asset management companies. At the same time, we feel that the social responsibility of asset management businesses in supporting our clients' medium- to long-term asset building is increasing. This involves offering products

from a client-oriented perspective and providing education to improve individual financial literacy, which serves as its foundation.

With our corporate slogan, "A Good Investment for the Future," we would like to contribute to resolving social issues through business and realizing a sustainable society. In our slogan, the word "Good" symbolizes investments that hold value not only for our investment performance in managing our clients' assets but also for the environment, society, and our employees. Meanwhile, "Future" includes the futures of our clients, our planet, and NAM. As we fulfill our fiduciary duties to our clients and other stakeholders, we will contribute to realizing a sustainable society and aim to be the world's most trustworthy asset management company for our clients.

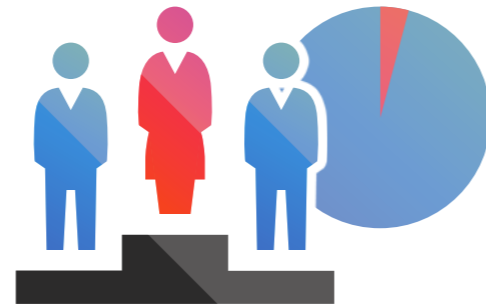
Assets under management

34.0 trillion yen



Proportion of female managers

10.2%



Average years of experience of investment managers

Approx. 12 years

(As of March 31, 2023)



Number of proxy voting proposals exercised for Japanese equities

15,342 proposals

(Sub-proposal basis, May/June 2023)

Proportion of voting Against

13.5%

(Sub-proposal basis, May/June 2023)

Nissay Asset Management at a Glance in Numbers

Carbon footprint of portfolios

68.8 t-CO₂e/\$ mil

(Only for equities and corporate bonds. As of December 2021)

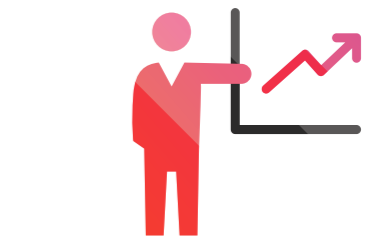


AUM of ESG funds

809.8 billion yen



(AUM of ESG funds as of March 31, 2023. Figures include passive funds from FY2022 (0.99 billion yen in FY2022))



Number of analysts and economists

36

(As of March 31, 2023)

CO₂ emissions reduction



1,864 t-CO₂e

Number of days of paid leave

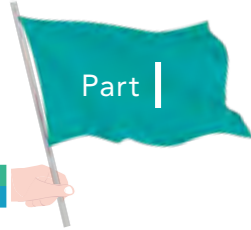
18.2 days



Number of individual dialogues with companies

1,678 (FY2022)





Sustainability Management

Basic Policies on Sustainability Management

- We will actively engage in respecting human rights and diverse values, addressing global environmental issues and other initiatives to contribute to achieving a sustainable society.
- Working and prospering together with all our stakeholders, we will continuously strive to create a bright future for all.



- We will engage in business leading to the sustainable growth of society.
- We will engage in activities to cultivate employees' consciousness, educate them and raise their awareness of promoting sustainability.

Specific policies

In promoting sustainability management, we have established specific major policies as shown on the right.



Slogan toward promoting sustainability: "A Good Investment for the Future"

NAM has adopted the corporate slogan "A Good Investment for the Future," which simply expresses our aim for all officers and employees to work together to promote sustainability management.

"Good Investment" encompasses several meanings: "investment that is good for the environment and society," "investment with good performance," and "investment that is good for employees." It expresses

NAM's commitment to realize "good investment" that goes beyond the mere pursuit of economic returns. The phrase "for the Future" also embraces a number of meanings: "the future of our clients," "the future of the earth and the next generation," and "our own growth." NAM will take part in realizing a sustainable society with a strong consciousness of its responsibility for the future.

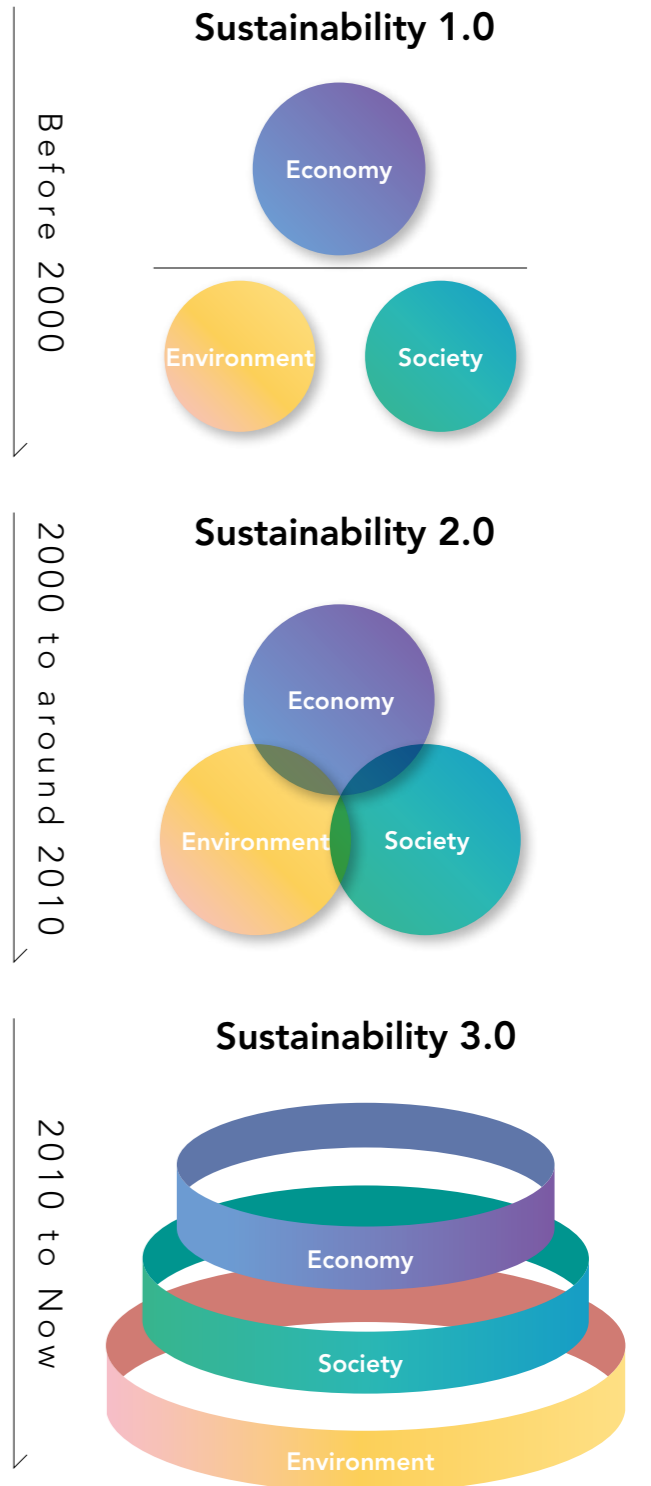
Changes in the way of thinking about sustainability

In Sustainability 1.0 (until around the 2000s), the economy, society, and environment were not looked at as being interconnected but as being highly individualistic elements. Economy and profit were especially seen as the core of business management, and companies followed the CSR (Corporate Social Responsibility) approach, in which they supported society and the environment with the profits from their economic activities. CSR was a concept that required companies to incorporate considerations for social justice, the environment, etc. into their business activities. It also demanded responsible behavior toward employees, investors, local communities, and other stakeholders, while holding themselves accountable for their actions.

In Sustainability 2.0 (until around the 2010s), the concept of CSV (Creating Shared Value) emerged. Previously, the economy, society, and environment were perceived as distinct entities. However, awareness was growing regarding their interconnected and complementary relationship, leading to the realization that there was some overlap among these three elements. This approach aimed for integrated efforts on issues related to these three elements to mitigate trade-offs and create synergy, but compared to the environmental and social aspects, economic activities still accounted for a heavier portion.

In Sustainability 3.0, the concept that economic value is built upon social value, which is built upon environmental value, has become the standard. This idea emphasizes that economic activities are founded on the environment and society and that business activities must be compatible with these factors. We are now in an era where sustainability management goes beyond making random efforts for the environment and society. It entails recognizing and understanding the interconnected structure of the environment, society, and economy to enhance corporate value and provide sustainable value to the environment and society from a long-term perspective on their sustainability.

At NAM, we have identified material sustainability issues, which are reflected in our business activities and operations, to deal with changes in our approach to sustainability.



Good investment	Future
• Investment that is good for the environment and society	• The future of our clients
• Investment with good performance	• The future of the earth and the next generation
• Investment that is good for employees	• NAM's own growth



Establishment of Our Various Policies (Human Rights and Environmental Policies)

Human rights policy

In our business principles, we emphasize “building long trusting relationships with clients by providing them with the highest added value.” To realize this statement, we consider it crucial to recognize the multifaceted impact of the asset management business, “respect human rights and diverse values to contribute to achieving a sustainable society,” and “work and prosper together with all our stakeholders,” as highlighted in our basic policies on sustainability management.

Based on these concepts, we have established human rights policies and are taking related initiatives to respect the rights of the stakeholders affected by our business activities and to contribute to the realization of a sustainable society through our entire value chain.

Going forward, we will continue to periodically review these policies and to update them as necessary.



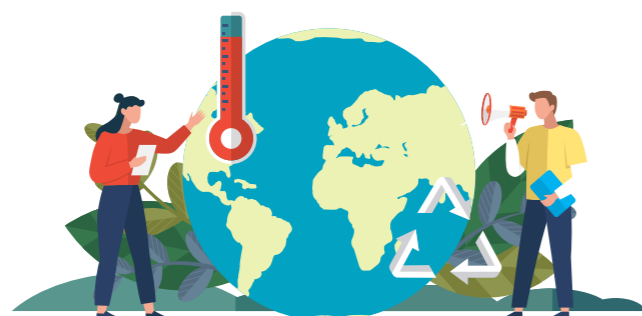
Efforts to raise human rights awareness

At our company, each and every employee recognizes our social responsibility to deepen our understanding of the principle on respecting human rights and to eliminate various forms of discrimination. With the goal of fostering a corporate environment that prevents and prohibits discrimination, we are working to raise staff awareness. The Human Resources Office will continue to offer human rights education and enhance awareness through monthly human rights awareness emails, an annual human rights slogan contest, and other initiatives aimed at both officers and employees.

Environmental policy

Our business principles state, “We comply with laws and regulations as a global corporate citizen, and all our officers and employees strive to contribute to society, bearing their mission and responsibility in mind.” Furthermore, we find it essential to recognize the multifaceted impact of the asset management business, and as stated in our basic policies on sustainability management, to “actively address global environmental issues to contribute to achieving a sustainable society.”

Based on these concepts, we established environmental policies and are taking action in consideration for the environment.

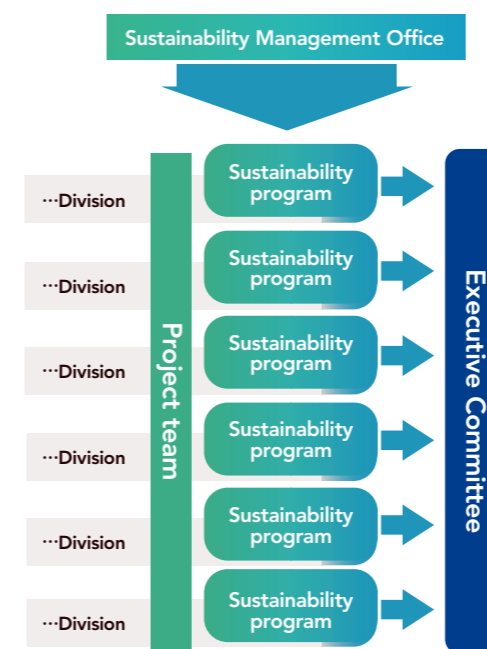


Framework for Promoting Sustainability Management

The Sustainability Management Office was newly established in FY2022 with the aim of leading NAM's steady promotion of sustainability management. The Head of the Sustainability Management Office performs a central role in implementing specific initiatives, and the Office also calls on each department to establish its own sustainability promotion program, creating a framework to pursue greater sustainability in each department's area of responsibility.

Additionally, we also established a project team responsible for promoting cross-divisional initiatives to enhance sustainability management.

Overview of the Framework for Promoting Sustainability Management

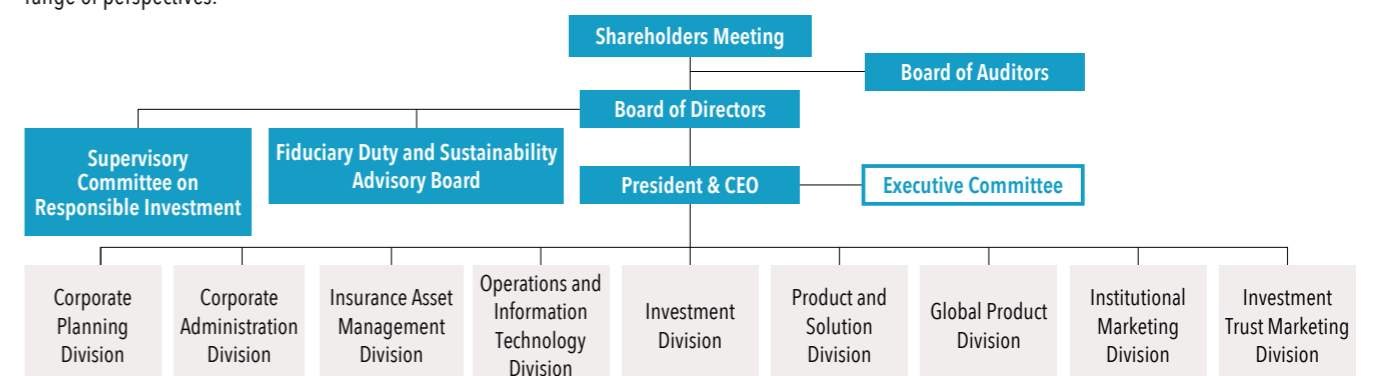


FY2023 Sustainability Management Promotion Project Team

Human resources strategy <ul style="list-style-type: none"> Establishing a human resources strategy for the next medium-term management plan Identifying a purpose Implementing and considering communication revitalization measures 	Financial education <ul style="list-style-type: none"> Considering financial education policies for the next medium-term management plan Implementing classes at educational institutions utilizing financial & investment literacy handbooks and “The Game of Life -Beyond SDGs” Offering lectures at universities, etc.
Enhancing ESG investing <ul style="list-style-type: none"> Developing ESG balanced funds Developing ESG bond funds Horizontally developing impact /transition funds 	Environmentally friendly business <ul style="list-style-type: none"> Reducing the amount of copy paper used and the amount of waste produced by each employee by 50% compared to FY2019 Reducing CO₂ emissions
Sustainability branding <ul style="list-style-type: none"> Considering our sustainability advertisement strategies and disclosures 	Reducing portfolio CO₂ emissions <ul style="list-style-type: none"> Implementing engagement practices that companies can rely on Promoting net-zero emissions among external managers Setting reduction goals for sovereign bonds and other assets under management Exploring products that contribute to achieving net-zero emissions

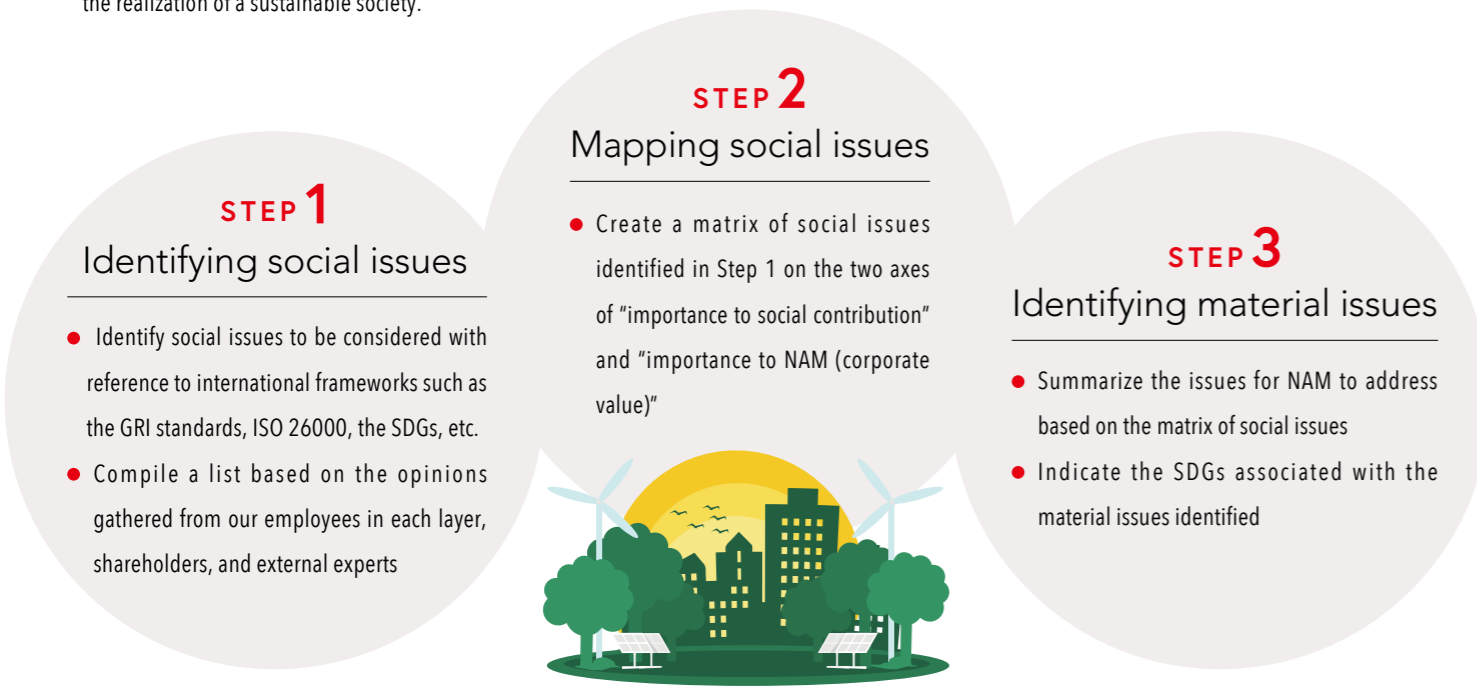
Amid the significant changes occurring in the environment surrounding our company, in FY2023, we conducted a review of our governance structure to develop a system that facilitates transparent, fair, timely, and decisive decision-making.

The importance of fiduciary duty and sustainability management in the asset management industry is growing every year, and we see it as our mission as an asset management company to continue to make constant progress in sophistication. Under these circumstances, we established the Fiduciary Duty and Sustainability Advisory Board, mainly consisting of external experts, as an advisory board to the Board of Directors. This advisory board invites independent outside directors of NAM as well as multiple external experts to gain advice for our company management from a wide range of perspectives.



Material Issues for Nissay Asset Management

In promoting sustainability management, we have identified the following material issues in achieving the global Sustainable Development Goals (SDGs) after holding extensive discussions on "What should NAM's priority be?" while taking a dual perspective on the various issues faced by society of "What role does society expect us to play?" and "What initiatives will lead to our company's growth?" We will be united in our efforts to contribute to the realization of a sustainable society.



Material Issue 1

Providing widely-accessible asset management services

Vision

We will contribute to the asset formation of each and every one in our society by evolving asset management into a familiar financial service for all, just like bank deposits and insurance. To this end, we will thoroughly implement client-oriented business conduct and aim to be a company that can grow together with all of our clients.

Material Issue 2

Advancing and enhancing ESG investing

Vision

As a front runner in ESG investing, we will constantly study the latest ESG evaluation methods and strive to continuously enhance our ESG investing, to live up to our positioning in this field. At the same time, we will make untiring efforts to further enhance our ESG investing, actively develop new products, and offer these to our clients by practicing ESG investing aimed at achieving both investment returns and realization of a sustainable society.

Material Issue 3

Building an investment chain in pursuit of achieving a sustainable society

Vision

Within the investment chains, we have a role in increasing wealth across all of society by appropriately allocating social resources. We aim to expand asset management services that would generate a virtuous cycle for society by linking the valuable funds invested by our clients to the sustainable growth of investee companies and society.

Material Issue 4

Realizing business with a low environmental burden

Vision

Recognizing that various environmental issues including climate change are serious problems that threaten the survival of the human race, we will review our business processes and work to enhance our workplace environment to minimize the environmental burden of our business operations.

Material Issue 5

Actively promoting social contribution activities by employees

Vision

Based on our recognition that business is only possible through the formation of a sound society, we will encourage our employees to actively contribute to and give back to society and continue to be a company that grows together with society.

Material Issue 6

Achieving a society where everyone can play an active role

Vision

For an asset management company, "human capital" is the primary source of competitive strength. Amid increasingly intense competition, creating an environment where a wide range of diverse employees of different genders, nationalities, ages, and backgrounds can play an active role is the "key" to coming out on top. We aim to create a workplace and foster a workplace culture that allows employees with various individualities and circumstances to make the maximum use of their unique abilities.

Material Issue 7

Enhancing governance and risk management

Vision

Corporate governance is of the utmost importance for sound corporate management, and we aim to continually improve it. We will also strive to enhance employees' awareness of social norms, such as thorough compliance with laws and regulations, and build trusting relationships with society and our clients.

Material issue	KPI	Goal	FY2020	FY2021	FY2022
Providing widely-accessible asset management services	AUM of publicly offered investment trusts	Inflows from a broad range of clients	JPY 2,451.9 billion	JPY 2,742.0 billion	JPY 2,708.5 billion
	AUM of defined contribution pension plans	Inflows from a broad range of clients	JPY 549.4 billion	JPY 659.8 billion	JPY 739.0 billion
Building an investment chain in pursuit of achieving a sustainable society	AUM of ESG funds	Promote the popularity of ESG funds	JPY 655.3 billion	JPY 819.5 billion	JPY 809.8 billion ^{*1}
	Carbon footprint of portfolios	50% reduction by FY2030 (compared to FY2019) Net zero by FY2050	75.7 t-CO ₂ e/\$ mil	68.8 t-CO ₂ e/\$ mil	- ^{*2}
Realizing business with a low environmental burden	Amount of copy paper used per employee	50% reduction by FY2030 (compared to FY2019)	4,691 sheets	3,987 sheets	3,422 sheets
	CO ₂ emissions reduction	50% reduction by FY2030 (compared to FY2019)	1,991 t-CO ₂ e	1,409 t-CO ₂ e	1,864 t-CO ₂ e
Achieving a society where everyone can play an active role	Proportion of female managers	20% or more by FY2030	6.2%	7.4%	10.2%
	Obtaining certification for health management, etc.	Obtaining Kurumin, Eruboshi, and Health & Productivity Management Outstanding Organization certifications by FY2025	Not yet obtained	Not yet obtained	Kurumin and Eruboshi not yet obtained Health & Productivity Management Outstanding Organization certification obtained
Enhancing governance and risk management	Enhancing the effectiveness of the Board of Directors	Independent outside directors make up at least 1/3 of the board by FY2025	25%	25%	37.5%
	ROE	Management with an awareness of capital efficiency	16.5%	14.9%	13.1%

*1 AUM of ESG fund figures include passive funds from FY2022 (JPY 0.99 billion in FY2022)

*2 Carbon footprint of portfolios has not been calculated for FY2022 as sufficient data on the greenhouse gas emissions of our investees was not available at the time of preparation of this report.

Environmental Initiatives

Decarbonization goals

By FY2030, we aim to reduce the net CO₂ emission from our business activities by 50% compared to FY2019. Moreover, we will support the reduction of environmental burden by donating to projects implementing CO₂ emission reductions.

Trend in net CO₂ emissions

(t-CO ₂ e)	FY2013	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Companywide emissions	2,114	2,992	3,540	3,164	1,991	1,409	1,864
Scope 1	19	8	5	6	6	5	5
Scope 2	616	622	713	572	653	79	11
Scope 3*	1,480	2,362	2,821	2,586	1,332	1,325	1,848

*Scope 3 is calculated using category 1, 3, 5, 6, 7, 8, and 9 emissions. CO₂ emissions from our investment portfolio (category 15) are shown on page 55.

Overview of scopes and activities measured for FY2022

Scope	Overview	Activities measured	Emissions (t-CO ₂ e)
Scope 1	Direct emissions from our use of fuel, etc.	Fuel for corporate vehicles	5
Scope 2	Indirect emissions from using purchased electricity, etc.	Electricity used by us	11
Scope 3	Indirect emissions from other sources in our supply chain	—	—
Category 1	Goods and services we purchase	Amount of paper used	1,084
Category 6	Emissions associated with employee business travel	Business travel	657
Category 7	Emissions associated with employee commuting	Commuting	83
Category 8	Emissions associated with employees working from home, etc.	Working from home	20
Other - total	Disposal of general waste, etc.	—	4

J-Credits

We purchase J-Credits* to effectively fund energy-saving projects, etc. with the aim of supporting the activities of companies and individuals to reduce CO₂ emissions.

*Credits issued for government-certified initiatives such as the reduction of CO₂ emissions through the installation of energy-saving equipment and the use of renewable energy as well as absorption of CO₂, etc. through appropriate forest management.

Initiatives to mitigate environmental impact

At NAM, we are progressively revising our use of plastic products as an initiative aimed at mitigating environmental impact. We now offer drinks to guests at our offices in aluminum cans rather than PET bottles, and we have begun to use magnets made from the wood from tree thinning and non-plastic, transparent document protectors as promotional items. We are also endeavoring to reduce waste by installing water servers in our offices. We also produce spare umbrellas imprinted with NAM's logo as an initiative to reduce the purchase of umbrellas, which are said to be difficult to recycle.

With the installation of water servers and through other efforts, our company's PET bottle waste has been reduced by approximately 60% compared to FY2019 (pre-installation).



Social Contribution Activities

NAM has set "Actively promoting social contribution activities by employees" as a material issue for sustainability management. Our asset management business can only prosper within a healthy, sustainable environment and society. We believe that by fostering an awareness of contributing to and giving back to society in each and every employee, we will be able to grow together with society. This will, in turn, contribute to our company's sustainability management.

Promotion of volunteer activities

At NAM, we encourage self-motivated and proactive volunteer activities (social contribution activities) by employees.

Starting in FY2022, we have instituted paid leave for volunteering with the aim of supporting these initiatives. Additionally, in order to further promote employee volunteer activities, we have set up an internal website for volunteer activities to introduce the voices of participants and information about the volunteer work they do.



Beach cleanup



Support for farming

Donations from a charity relay race

Volunteers from our company participated in a charity relay race in which every mile they ran would turn into donation money. Donations were collected at the company through this relay event and then contributed to Japan Heart, a specified non-profit corporation.

Due to the COVID-19 pandemic, most internal communication went online, and pre-pandemic activities for employees to interact in person such as year-end parties, New Year parties, and company events were severely reduced. This relay race proved to be an excellent opportunity for employees to foster a sense of unity, raise motivation, and prevent miscommunication.



Charity relay race

Promotion of Financial Literacy Education

Creation of a financial & investment literacy handbook for upper elementary school students and above

We independently created a financial & investment literacy handbook titled "Let's Learn about Investing!" aimed at upper elementary school students and above.

Following the introduction of a financial literacy component to high school home economics classes in April 2022 and the Japanese government's consideration of the "Doubling Asset-based Income Plan" as a way to shift personal financial assets from savings to investments as part of their New Form of Capitalism, we have recognized the increasing significance of financial literacy.

Under these circumstances, we positioned financial literacy education as an important issue for our sustainability management and have been actively working to address it. The financial & investment literacy handbook was produced to make finance and investment more relatable to younger generations, and we made several design choices with them in mind. For example, the introductory sections are done in a cartoon-style, and we utilized a conversation format commonly found on social media platforms.

The handbook is structured in a way that allows readers to easily learn the concepts and methods of long-term asset building. It begins by exploring the concept of a "company," moves on to "investments" involving equities and corporate bonds, and finishes with a practical section that introduces actual investment methods based on these concepts.

In order to realize a sustainable and better society, we adopted the corporate slogan, "A Good Investment for the Future" and have been working together to promote initiatives toward the achievement of sustainability. Through our financial & investment literacy handbook and other measures, we aim to improve children's financial literacy, with the ultimate goal of promoting long-term asset building for the future and realizing a better society.



Conducting donated lectures in "The SDGs and Finance, Economics, and Society" at the Faculty of Economics, Kyoto University

We conducted donated lectures on "The SDGs and Finance, Economics, and Society" to be taught by NAM's employees to undergraduate students at the Faculty of Economics, Kyoto University in the second half of the 2022 academic year (every Tuesday: 15 lectures in total).

The lectures featured not only our employees but also various guest speakers active in society in relation to the SDGs. They encouraged the students to share a perception of the SDGs not merely as an ideal but also as a vision for building better relationships in the real world, in fields such as finance, economics, and society.

We gave the students the classes to emphasize communication, including two-way discussions based on each speaker's lectures in terms of the SDGs and ESG investing perspectives developed at NAM in the global financial industry as well as the practical initiatives by various companies.

Visiting class

We gave elementary school students in Shinagawa a financial literacy class using "The Game of Life - Beyond SDGs" and "Let's Learn about Investing!" our financial & investment literacy handbook.

After the class, we received comments from the participating students, such as "I now understand that my money affects the environment through companies. I want to engage in environmentally friendly activities with a strong awareness to help achieve the SDGs goals." We would like to improve financial literacy among a greater number of children in order to contribute toward long-term asset building and the realization of a better society.



Financial literacy seminar

As of April 2022, topics such as the roles of financial institutions, the characteristics of financial products, and asset building have been introduced to both home economics and public classes for high school students in Japan. Taking on the role of a lecturer, our president and chief executive officer conducted an online seminar that was particularly useful for high school teachers seeking to cultivate financial literacy among their students.

Under the theme of "What we should do to make our future lives bright and comfortable," the seminar offered practical lessons on acquiring the necessary knowledge for asset building.



SDGs Senryu Competition

With the aim of creating a sustainable and better future, we will be holding the "5-7-5 Towards a Better Future: Elementary School SDG Senryu Contest" for elementary school students, who will shape the future.

Through the creation of *senryu*, Japanese poems that follow a 5-7-5 syllable pattern, we would like to get them thinking about the SDGs by expressing their ideas on what they can do or what they would like to tell the people around them in a creative way.



Fostering a Comfortable Working Environment and Culture

Environments surrounding companies are undergoing significant changes, as exemplified by the rapid structural transformations of industries, a declining birthrate, an aging population, the arrival of a 100-year lifespan, and changes in individuals' values.

We herald "A Good Investment for the Future" as our corporate slogan

as we proceed with diversity promotion and human resources development towards enhancing corporate value.

Each and every employee asks themselves what course of action will lead to a "Good Investment," while we promote initiatives for company development and the realization of a sustainable society.

Message from the Head of the Human Resources Office

We believe that for asset management companies whose source of competitive edge lies in human assets, creating an environment where everyone can play an active role is key to overcoming ever-harsher competition.

In this context, embracing diversity to respect differences of genders, ages, nationalities, disabilities, work styles, and more has the potential to generate new ideas and client-oriented solutions and is a source of competitiveness.

Enhancing individual vitality, enthusiasm, and immersion contributes to productivity. The premise is to effectively combine alternative and diverse work styles such as working in the office or from home and full-time work or short-time/flex time work to realize flexible and efficient work styles that respond to individual

employees' life events and work characteristics. As per "Taking two-week consecutive paid holidays" introduced in the previous fiscal year, it is also necessary to promote the creation of a corporate culture where employees can flexibly take paid leave. We also believe it is important to install a human resource development system where employees with diverse viewpoints and characters can have ownership of their own careers in order to enhance engagement.



Masakazu Toishigawa
Deputy General Manager & Head
Human Resources

Initiatives towards diversity

We target improving working environments and cultivating a workplace culture to enable employees with diverse characters and different backgrounds to fully exert their potential abilities.

To promote active roles for female employees, we have implemented a mentoring program, hold regular Diversity Promotion Meetings where female managers play pivotal roles in discussing measures, and provide group training for female candidates to managerial positions. As a result of these initiatives, the proportion of female managers increased from 7.4% to 10.2% over the past year.

Also, on International Women's Day, we invite outside lecturers, hold a session with management, and enable employees to view the content in real-time or on-demand streaming, improving the understanding of DEI (Diversity, Equity & Inclusion).



Diversity Promotion Meeting



Diversity Promotion Meeting members

Initiatives towards Best Place to Work

Employee Engagement Survey

While we conducted Employee Satisfaction Surveys until FY2021, we began to conduct Employee Engagement Surveys to measure the status of employee engagement from FY2022. The aim is to realize individual employees' further growth, productive working environments, and physical and mental health and to continuously improve engagement.

Based on the results of Employee Engagement Surveys, we comprehend the strengths and challenges facing the company and individual divisions, further improve organizations, and link them to employee growth.

Regarding the results of the Employee Engagement Survey conducted in FY2022, we held an explanatory meeting for all officers and employees to foster a sense of coherence and transparency and to improve employee engagement.

We also implement a variety of initiatives towards the realization of Best Place to Work, based on the FY2021 Employee Satisfaction Survey and the FY2022 Employee Engagement Survey.

2022

Personnel system

- Conducted a **rebalancing of monthly salaries and bonuses** for office staff

Paid holiday system

- Encourage employees to **take two-week consecutive paid holidays** to create a workplace where "anyone can take a holiday when needed."
- Newly established a **volunteer holiday system** where employees can take a maximum of three volunteer days per year

Working from home

- All employees** can work from home at a pace of eight days per month even after the COVID-19 pandemic (Special approval for additional remote work days is available depending on individual employees' life stages).

Improvements of environments

- Host luncheon meetings for senior managers and lower-level employees to stimulate communication
- Carried out improvements of office environments such as layout changes and installation of booths

2023

Personnel system

- Conducted **revision of compensation system** based on price hikes and compensation surveys

Paid holiday system

- Encouraged employees to take two-week consecutive paid holidays, following on from FY2022

Working from home

- In response to employee opinions, introduced a more flexible special approval system for child-rearing (now covering employees with **children up to 4th grade of elementary school**, in addition to preschoolers)

Improvements of environments

- Continued to stimulate communication and improve office environments, following on from FY2022

Promoting the utilization of two-week consecutive paid holidays

From a viewpoint to promote sustainability management, we encourage all employees to take paid holidays of two consecutive weeks.

In order to create a workplace where employees help each other out and to ensure “anyone can take a holiday when needed,” we aim to reform work styles and build sustainable organizational structures.

Aim of introduction

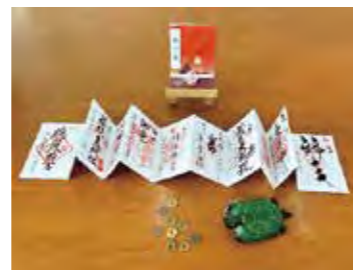
- Pursuit of work styles that contribute to improvements in productivity and efficiency towards taking consecutive paid holidays by all employees
- Improvement of operational and organizational management capabilities of managers in view of holidays taken by division or department members (promotion of visualization of operations)
- Building resilient teams that can support BCP in view of business continuity during an emergency and that can flexibly respond to long-term absence of employees

As one of the initiatives for promotion, we have collected employees' plans and cases of taking consecutive holidays and introduced excellent cases among them during a meeting that was also participated by management.

Excellent cases

New findings in a familiar place Use case

Taking advantage of long-term holidays as well as weekends, I rambled around Tokyo and its suburbs and also traveled to the Tohoku region that I had never visited beforehand. I visited shrines and temples in these places and collected red ink stamps. I recommend a visit to temples and shrines where they write in sumi in a red stamp book on the spot. At one place, they look at the owner of each red stamp book and write words suitable for that person. I suggest taking a small trip to find new things and obtain knowledge in familiar places, instead of traveling to far flung places on a long vacation.



Experiencing life up close in the great outdoors Use case

I went to Ogasawara islands, an isolated archipelago in the Pacific Ocean that is 1,000 km from central Tokyo. The only access is a weekly liner ship (services increase in summer) and if the service is suspended during a stay, one cannot return to Tokyo for a week. It was therefore a place I could safely visit thanks to consecutive holidays of two weeks. While in Ogasawara, I swam with dolphins and saw baby sea turtles.



Living life centered on my daughter Planning

My daughter currently in 5th grade has been going to a cram school since February of 2nd grade. She is studying hard for the entrance examination to junior high school. I plan to take consecutive holidays for my daughter as she sits the examination to conclude her hard work of four years and help with her revision right before the examinations. I will also take her to and pick her up from the examination venues.



Nice to see you again, Mr./Ms. Sea Turtle! Planning

When I was a student, I studied sea turtles. I stayed in the Republic of Maldives with my instructor and conducted a survey of an endangered turtle called the Hawksbill turtle. I want to take advantage of my holidays to reunite with my instructor and the people who helped us, search for the Hawksbill turtles I released, and measure their levels of growth.



Working from home

To properly use the advantages of both office-based and remote work, we have implemented a hybrid work style. On the basis of employees' life stages, we also have a flexible system in place that does not restrict the number of remote work days.

In FY2023, in response to employees' opinions, we introduced a flexible special approval system for child-rearing (now covering employees with children up to 4th grade of elementary school, in addition to preschoolers).

For child-rearing, we extend a comprehensive range of support as a company including subsidies for the expense of using a nursery, in addition to working from home.



Communication among employees

Towards the promotion of communication across divisions, we host Offsite Meetings where employees discuss management issues, luncheon meetings among employees, and End-of-Year parties in which all officers and employees as well as their families can participate.



Communication with management

For communication between management and employees, we hold management issue meetings twice a year where employees can ask questions and express opinions directly to management.



Communication with families

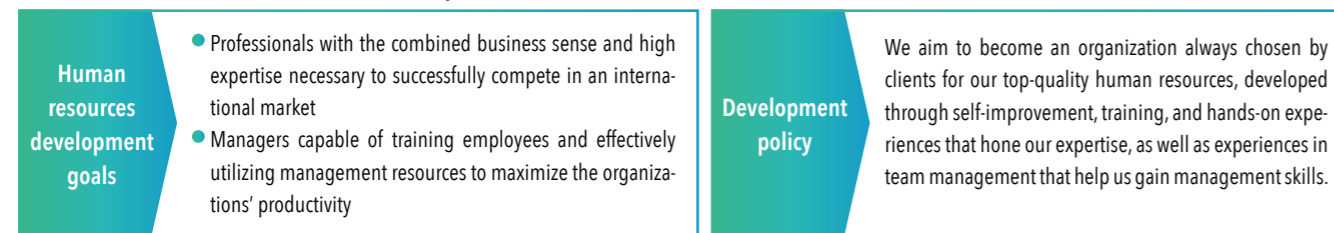
During summer vacation, we held an internal event where participants can experience “The Game of Life - Beyond SDGs.” After a brief explanation of SDGs, followed by a guide as to how to play the game, the game was played in two halves: the first 25 minutes (SDGs up to 2030) and the second 25 minutes (targets to build a decarbonized society after that up to 2050).

Human Resources Development Initiatives

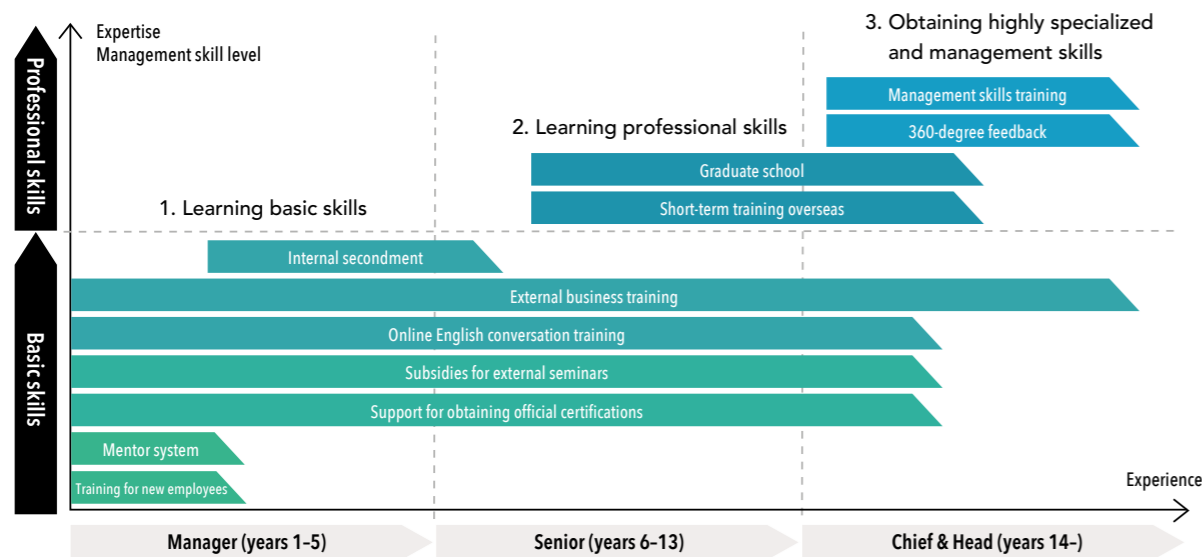
At NAM, we are implementing numerous initiatives, such as training, toward the development of professionals.

We are training professionals in various fields, mainly through daily on-the-job training (OJT), in order to continuously improve client service. In addition to OJT, we provide various training initiatives to cultivate and secure professionals. For instance, we offer incentives for obtaining a securities analyst certification (273 employees certified as of the end of March 2023) to help them gain knowledge and enhance their expertise for improved task performance.

Overview of human resources development



Human resources development steps (image)



Examples of support programs

- Support for obtaining official certifications (rewards provided for obtaining certifications specified by NAM)
- Financial support for attending external seminars
- Online English conversation training
- External business training (Training of external vendors can be attended at any time)
- Training for new graduates and mentors
- Internal secondments (Experience working for a division different from yours)
- Short-term training overseas
- Graduate school



DX bootcamp

We believe digital transformation (DX) is vital to improving client service, client experience, and productivity. To promote DX and explore the possibilities of DX projects, we launched a program called "DX bootcamp" in FY2021, which had 20 participants in FY2022.

Health Management Initiatives

Upholding the corporate slogan "A Good Investment for the Future" to promote sustainability management, we are working to improve the health of officers and employees and their work-life balance as part of our work style reforms. In line with our health management policy, we are also implementing measures to reform the workplace environment, maximize individual capabilities, and promote and maintain good health. Furthermore, based on these initiatives, we were recognized as a 2023 Health and Productivity Management Organization (Large-scale corporation category) in the last fiscal year.



Health management policy

We believe our employees are our greatest asset and are committed to health management in order to provide our clients with the highest added value in asset management services.

- We aim for a workplace in which every employee is healthy in body and mind, cheerful, and full of motivation.
- We respect the diverse opinions of our human resources and strive to maximize each individual's potential.
- We promote initiatives to improve and maintain the good health of our employees.



About health improvement measures for officers and employees

Walking event for officers and employees

As an initiative available even during the pandemic, we began holding regular internal walking events in 2022.

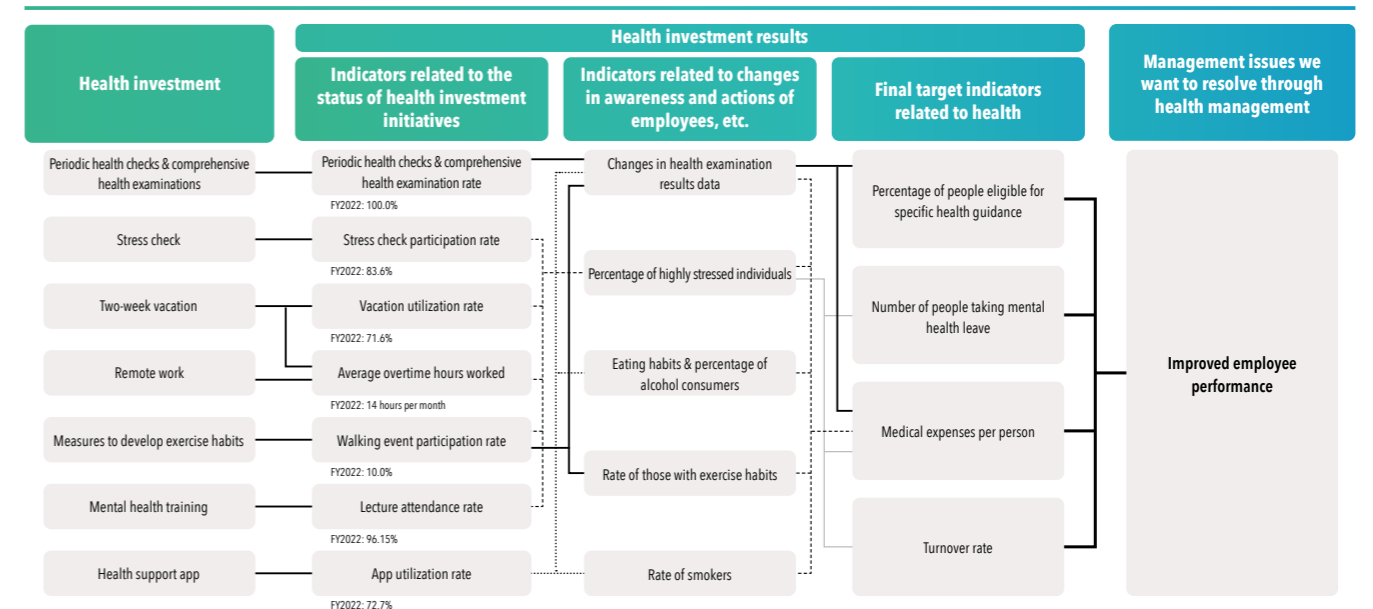
Subsidies for club activities

After COVID-19 was reclassified as Class 5 infectious disease in Japan, we started to provide subsidies for internal clubs that aimed to improve health and internal communication, like the tennis club, running club, scuba diving club, Osaka city walking club, and more.

Other health improvement initiatives

Conducting mental health training, measuring vegetable intake levels to improve eating habits, promoting the use of health support apps, and more.

Strategy map Indicators related to the status of health investment initiatives (seven categories)



PRI and “PRI in Person 2023” in Tokyo

- The Principles for Responsible Investment (PRI), established by the UN in 2006, state that signatory institutions should incorporate environmental, social, and governance (ESG) concerns into their investment decision-making process, among other things.*
*NAM signed the principles in 2006.
- The PRI in Person conference is held annually in major cities around the world. This year, PRI in Person 2023 will be held in Tokyo for the first time, from October 3–5. Nippon Life Insurance Company was chosen as the lead sponsor, and NAM was selected as one of silver sponsors.
- As a member of the Nippon Life Group, we will contribute to the promotion of ESG investments to realize a sustainable society.

Photos from PRI in Person 2022 in Barcelona



NAM distributed bags as a product sponsor.



Co-CIO Fujii talked at a session on climate change issues and outlooks.

Past event information on the PRI in Person annual conference

Year	Location	Number of participants	Lead sponsor
2017	Berlin	Approx. 1,000	DWS
2018	San Francisco	Approx. 1,200	MFS
2019	Paris	Approx. 1,600	NATIXIS
2020	Tokyo	(Cancelled)	NAM
2021	Online	Over 6,000*	NAM
2022	Barcelona	Approx. 2,300	Santander AM
2023	Tokyo	–	Nippon Life

*Registered participants

ESG Investing

CIO MESSAGE

Toward ESG investing alongside our clients and investees

Keisuke Kawasaki

Chief Investment Officer
Director, Member of the Board



My thoughts on ESG investing in the face of headwinds

Despite having grown dramatically worldwide over the past few years, it is said that ESG investing is currently facing headwinds. In the United States, a growing anti-ESG movement has emerged due to political shifts, and ESG funds are currently encountering challenges in terms of performance.

However, when we look at the companies we engage with through investments in equities and bonds, the landscape looks very different. I feel that there is a growing number of companies that are deepening their commitment to sustainable management and embracing the resolution of environmental and social issues as part of their purpose. Perhaps these companies have a greater sensitivity to sustainability than that of the asset management industry.

Of course, at Nissay Asset Management, we have been earnestly engaged in ESG investing for over a decade. In particular, our portfolio managers and analysts, who have been at the forefront of ESG investing, have gained firsthand experience in sustainability management and have accumulated a wealth of knowledge through relationships with companies spanning a wide range of industries. We

hope to help improve the medium- to long-term corporate value of our investees through free and open discussion and dialogue, while sharing our unique knowledge and expertise.

Although markets can experience significant fluctuations due to short-term factors, we believe that by enhancing the medium- to long-term corporate value of our investees, we can offer our clients stable, long-term returns.

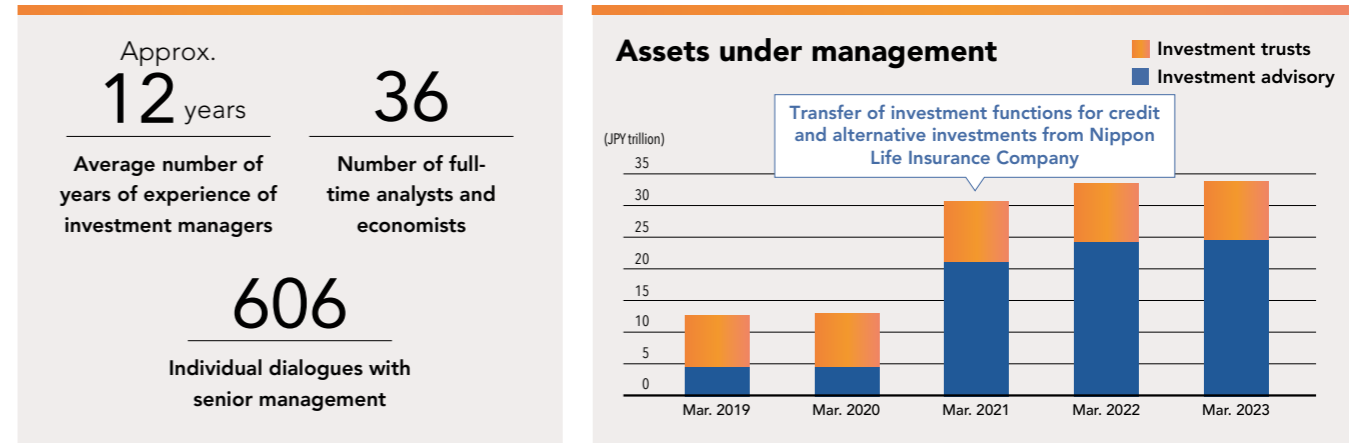
Aiming for ESG investing alongside our clients and investees without becoming self-centered

If I were to express my ideal ESG investing in a single phrase, it would be “ESG investing alongside our clients and investees, without becoming self-centered.”

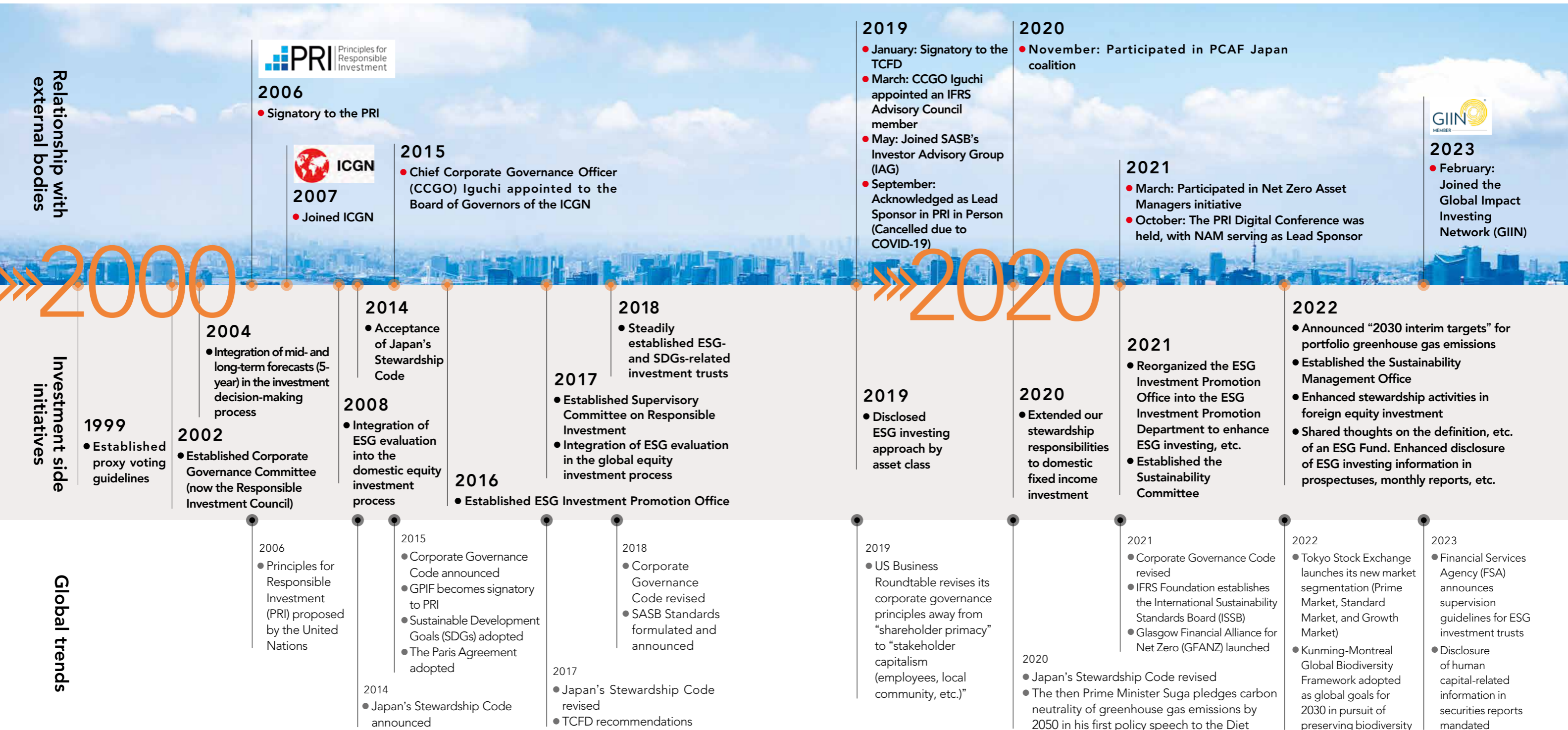
We believe in consistently providing unique value, built step by step through our efforts, to our valued clients who entrust us with their precious assets, to the companies that offer us opportunities for investment and dialogue, and to the broader society.

History of Commitment to ESG

NAM has been engaged in ESG-related activities for more than a decade, fulfilling our social mission as a responsible investor to enhance corporate value, create a sustainable society, and develop a healthy capital market. Since becoming a signatory to the Principles for Responsible Investments (PRI), which was proposed by the United Nations, in 2006, we have integrated ESG evaluation into domestic and foreign equities and bonds and clarified the focus of our long-term investment. We have also actively promoted dialogues with investee companies, including proxy voting, and have continuously engaged in improving quality since accepting Japan's Stewardship Code in May 2014. We joined the Global Impact Investing Network (GIIN) in February 2023 and are striving to enhance our impact investments.



(Note) Figures are as of March 31, 2023. For individual dialogues with senior management, figures represent results in the Investment Division for Japanese companies.



ESG Letter from Nissay Asset Management

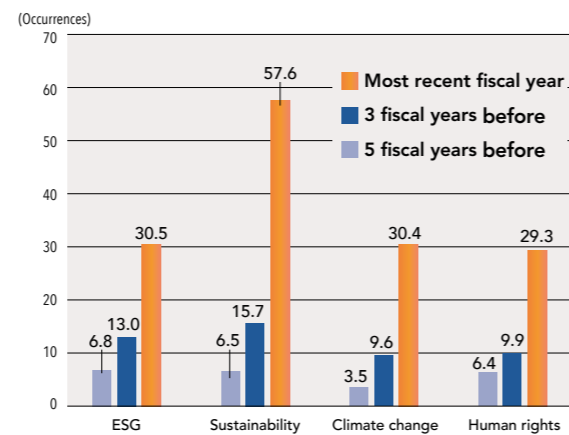
In our Sustainability Report 2022 issued last year, we presented our view that, while there are diverse perspectives surrounding the drive to consider the environment, society, and governance (ESG) in investing, commitment to ESG will genuinely take root in society going forward. This was due to companies' measures to address climate change and human rights issues increasingly affecting their financial performance, as well as a growing number of new global ESG-related rules being prescribed. Today, a year later, we are witnessing some phenomena that can be regarded as a headwind, including the growing trend to avoid ESG in the United States. However, the megatrends surrounding our world, such as climate change, respect for human rights, population increase, widening disparities, and the advancement of digital transformation (DX), are unlikely to come to an end any time soon, and we expect that closely relevant ESG perspectives will continue to exert an ever-growing impact on corporate value. Here, we would like to present our viewpoints on ESG by taking into account past and ongoing ESG-related trends and events.

1. ESG values widely permeating the corporate world

Companies are increasingly integrating ESG perspectives into their business management, as exemplified by the growing number of companies holding ESG briefings, as well as the content of discussions during corporate interviews and integrated reports published by them.

The figure on the right shows a chronological comparison of the number of times the words "ESG," "sustainability," "climate change," and "human rights" are used in the integrated reports issued by TOPIX Core 30 companies. As you can see, all the words have been used with growing frequency, which implies the companies' greater emphasis on ESG. We believe this trend has also been accelerated by the 2050 Carbon Neutrality Declaration and the guidelines on respecting human rights issued by the Japanese government in 2020 and 2022, respectively, as well as the move to obligate the disclosure of human capital indicators in annual securities reports. As the disclosure rules widely permeate the corporate world, ESG factors will likely be further integrated into corporate management.

Frequency of usage of ESG-related terms in integrated reports (by TOPIX Core 30 companies)



Note: Simple average of the number of times each keyword was used in the integrated reports issued by TOPIX Core 30 companies (Five fiscal years before: 21 companies; three fiscal years before: 25 companies; most recent fiscal year: 28 companies)
Source: Prepared by NAM based on the integrated reports issued by TOPIX Core 30 companies

2. Megatrends and the inevitable necessity of ESG management

When you put the increasing emphasis on ESG into the context of social megatrends, it becomes apparent that ESG management is no longer a choice but an inevitable necessity.

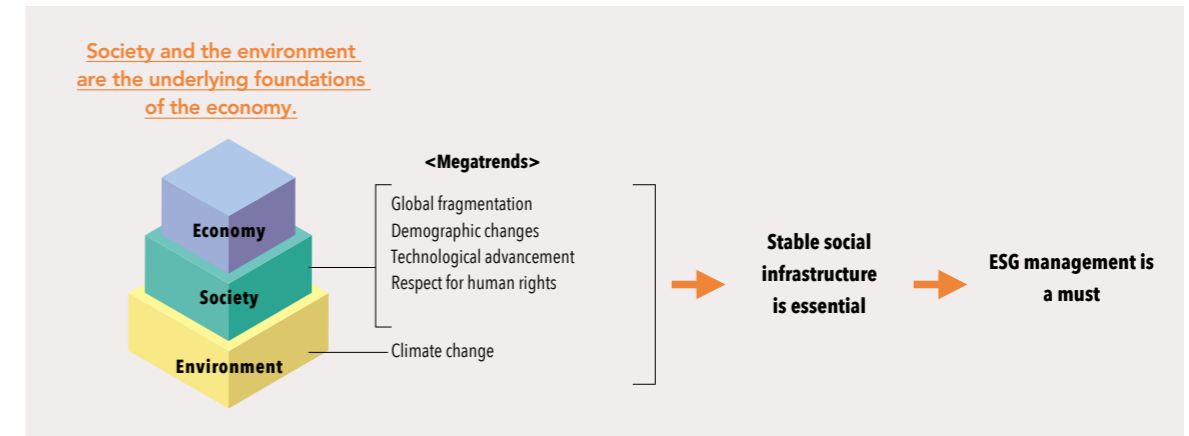
Climate change, one of the major megatrends, has a tremendous impact on the environment in which we live. In addition, the growing global fragmentation mainly involving Russia and China, increasing world population, the advancement of AI and other technologies, and the heightened respect for human rights, all have significant impacts on our society.

Given that the environment and society are the foundations underlying the economic activities of corporate entities (as depicted in the following

figure), instability in these foundations is bound to affect economic activities, necessitating companies to address these issues. With the introduction of disclosure and other various rules, companies are required to collaborate with their stakeholders and emphasize human capital and diversity to address these megatrends. Discipline is crucial for this, which is why governance (G) becomes a pivotal factor.

The key to navigating through the times might be ESG-oriented management, which aims to reduce risks and seize opportunities stemming from megatrends.

⟨Megatrends and the inevitable necessity of ESG management⟩



Source: Prepared by NAM

3. Commitment to ESG is unavoidable, although views vary overseas

There have been notable movements against ESG in the United States. In Florida, a bill was passed to prohibit the use of ESG factors in asset management and state government procurement. Also, both the U.S. Senate and the House of Representatives passed a resolution to nullify a Department of Labor rule that permits corporate pension fund managers to consider ESG factors, but President Biden issued a veto to block the legislation.

These incidents presumably indicate the intensification of a long-standing conflict between the Democrats in support of responsible investment and the Republicans denying it (see the table on the right) in the wake of the progressive build-up of ESG momentum worldwide, as seen in the net-zero emissions efforts.

Meanwhile, while expenditures under the U.S. Inflation Reduction Act of 2022 are mostly allocated to measures against climate change, human rights issues including racial discrimination cannot be disregarded. Some major asset management companies have begun employing the phrase "financially material factors" with the increasing trend of avoiding the use of the term ESG, which implies the inevitable need to keep considering ESG factors as long as they have economic impacts.

In Europe, moves to drive ESG commitment are also accelerating. The Corporate Sustainability Due Diligence Directive (CSDDD) has been

proposed as a step in the process to mandate companies to conduct due diligence on human rights and the environment, and the International Sustainability Standards Board (ISSB) has finalized the disclosure rules for non-financial information in general and climate change.

The division of views on ESG in the United States is likely to continue, but given that megatrends will have an ongoing major impact on the economy and corporate financial performance, it is difficult for the business community to avoid ESG considerations. Companies are therefore likely to obtain practical benefit of ESG considerations, while refraining from explicitly emphasizing ESG.

Changes in U.S. Department of Labor's approach to responsible investment for pension funds

Year	Administration	DOL's view
1994	Democrats	Responsible investment is not a problem if the expected risk/return are the same
2008	Republicans	Caution is needed when considering non-economic factors
2015	Democrats	Responsible investment is not a problem if excellent investment results can be expected
2018	Republicans	ESG factors should not be excessively valued
2023	Democrats	ESG considerations are permitted

Source: Prepared by NAM based on various materials

Providing ESG Funds with a Sense of Security

Points of attention regarding ESG investment trusts as defined in guidelines by the Financial Services Agency

To prevent misleading ESG investing, regulations regarding the definition and information disclosures of ESG funds have been bolstered in Japan and overseas.

In Japan, the Financial Services Agency defined the scope of ESG investment trusts* in the revised Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc. in March 2023, specifying precise items to be checked regarding the disclosure of publicly offered investment trusts with ESG factors, etc. (See overview in the table on the right.)

*In the Guidelines, ESG investment trusts are limited to publicly offered types. NAM defines ESG funds without limiting them to public or non-public and implements fund identifications.

Points of attention regarding ESG investment trusts in the guidelines (overview)

[Scope of ESG investment trusts]

- ESG must be considered as a key factor in the selection of investment assets
- The content above must be included in the prospectus

[Disclosure]

- Details of key ESG factors and how they are considered in the investment process
- Risks and limitations in the above case
- Target investment ratios of key ESG factors etc.

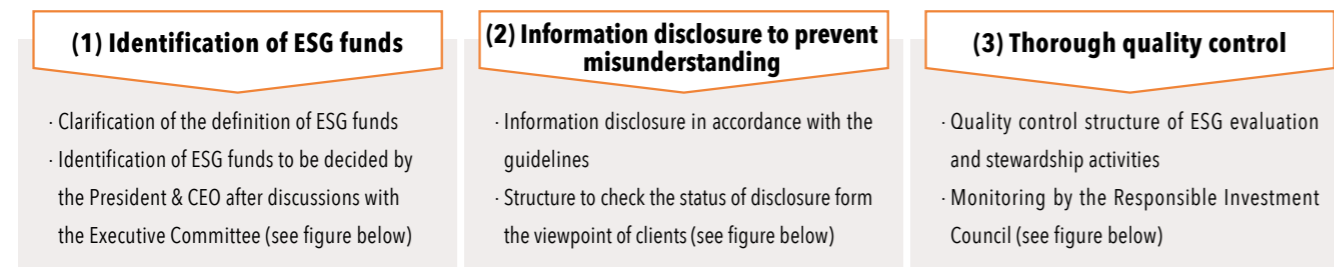
[Periodic disclosure]

(Items to be described in investment reports)

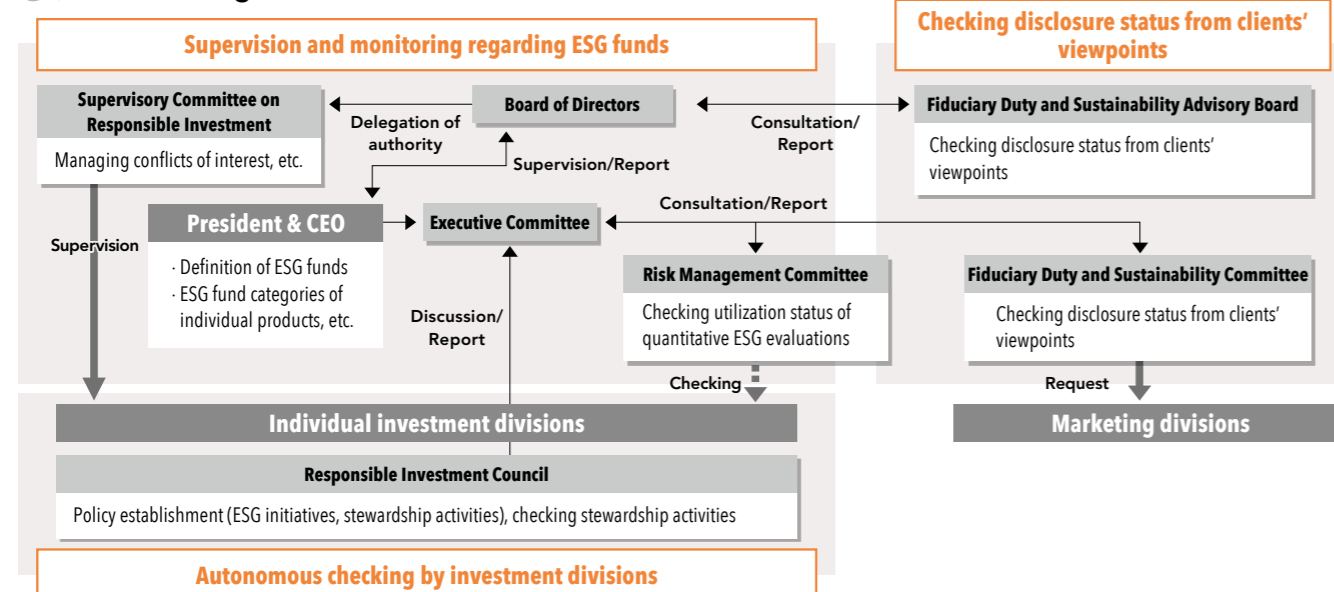
- Status of achievement of target investment ratios of key ESG factors
- Actions taken in accordance with the Stewardship Policy etc.

Initiatives to provide ESG funds with a sense of security

Based on the above guidelines, NAM has established the following approach and structure in providing ESG funds.



Overview of governance structure for ESG funds



NAM's definition of ESG funds

NAM defines ESG funds for both internal and external investments. ESG funds are funds that actively utilize ESG factors to build their portfolios. They are defined separately for active and passive investing, as shown in the table on the right. We believe that these definitions align with the concept that "ESG must be considered as a key factor in the selection of investment assets," as outlined in the Financial Services Agency's guidelines on the previous page.

Additionally, depending on the extent of incorporation of ESG factors, we classify funds as "funds that systematically integrate ESG factors into the investment process," "funds that consider ESG factors in negative screenings, etc.," and "funds that do not consider ESG factors."

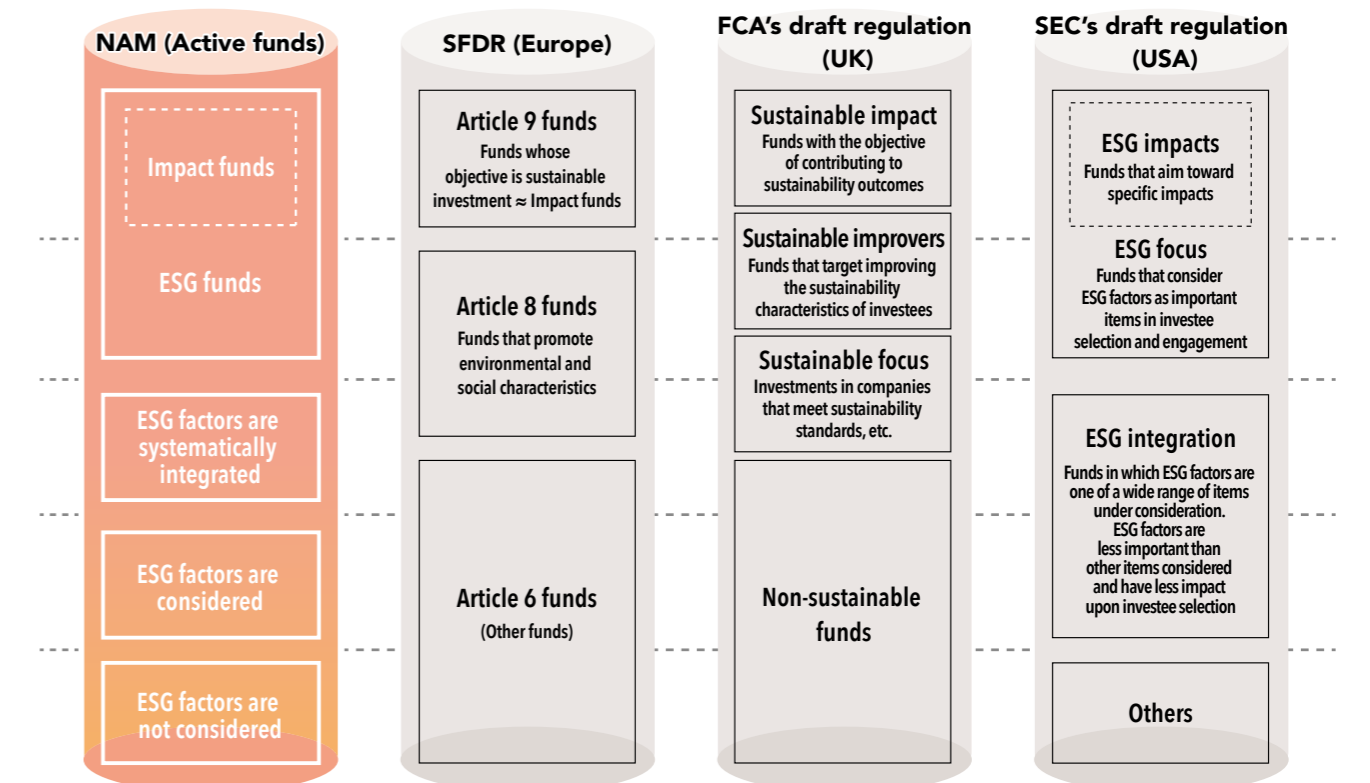
NAM's definition of ESG-related fund classification

All investment funds	ESG funds	Funds that actively utilize ESG factors to build their portfolios
	Active investing	Funds that select investees with relatively high ESG evaluations or those that select investees capable of making impacts from the ESG perspective
	Passive investing	Funds that are linked to an index we believe is constituted by actively utilizing ESG factors
	Funds that systematically integrate ESG factors into the investment process	
Funds that consider ESG factors in negative screenings, etc.		
Funds that do not consider ESG factors		

Overview of NAM's ESG-related funds in light of global ESG fund regulations

The figure below shows our ESG-related fund classification in light of global regulations (dividing lines are conceptual). NAM believes its ESG funds are generally classified as ESG/sustainable funds overseas.

Overview of ESG-related funds classified by NAM and overseas (conceptual)



Note: The above correspondences show general ideas and do not guarantee strictness. SFDR stands for "Sustainable Financial Disclosure Regulation," and FCA means "Financial Conduct Authority," while SEC is an abbreviation for "Securities and Exchange Commission."

About NAM's proprietary ESG ratings

NAM's ESG ratings are carried out as a qualitative assessment by NAM's analysts through interviews and engagement with companies, in addition to the analysis of public corporate information.

For each evaluation item, we evaluate the effect of companies' ESG initiatives on medium- and long-term corporate value, in terms of a three-level rating scale: "positive," "neutral," and "negative" (where a rating of 1 is the highest and 3 is the lowest).

When a company is expected to significantly damage corporate value due to its ESG initiatives, we usually exclude it from our investment universe and cease to assign it an ESG rating. However, a rating of 4 may be assigned to companies where there are reasons for retaining such companies within the investment universe, such as large market capitalization.

Classes and description of NAM's ESG ratings

Rating classes	Description
1	The company's ESG initiatives are positive for its corporate value
2	The company's ESG initiatives are neutral for its corporate value
3	The company's ESG initiatives are negative for its corporate value
4	The company's ESG initiatives are significantly negative for its corporate value
Not assigned	Excluded in principle from the investment universe for active investing, from perspectives such as liquidity and/or credit risk

Note: This description might not apply to the ESG approach and rating method used for external investment managed by a third-party asset management company.

Due diligence of ESG evaluation and data providers

Utilizing ESG evaluation and data providers for addressing climate change and conducting negative screenings

At NAM, ESG ratings of companies are consistently carried out from information collection to analyses by internal analysts, with no third-party ESG evaluation or data providers directly utilized. However, for the purpose of handling greenhouse gas (GHG) emission measurement and TCFD recommendations of portfolios, conducting negative screenings to accomplish social responsibilities as a responsible investor, managing conflicts of interest in proxy voting, etc., NAM utilizes ESG evaluation and data providers, including proxy voting advisory firms.

Main ESG evaluation and data providers utilized by NAM

MSCI	To measure GHG emissions, etc. of portfolios, NAM utilizes MSCI's estimates and data on GHG emissions of investees. NAM also uses MSCI's analyses for TCFD recommendations scenarios.
Sustainalytics	NAM utilizes the analyses and data of Sustainalytics for negative screenings, such as the identification of companies that are involved in the manufacture of "biological weapons," "chemical weapons," "cluster bombs," and "antipersonnel mines" as well as evaluations of countries where serious issues from the viewpoint of ESG ("civil war," "state oppression," etc.) take place or continue to take place.
ISS	In proxy voting for domestic and overseas companies that have an especially high risk in terms of conflicts of interest, NAM exercises its vote in accordance with ISS's advice to avoid conflicts of interest. NAM also utilizes ISS's advice for proposal judgment in proxy voting of overseas equities.

Toward due diligence of ESG evaluation and data providers

In consideration of the release of the Code of Conduct for ESG Evaluation and Data Providers by the Financial Services Agency in December 2022 and the indication of principles and guidelines on proxy voting advisory firms in Japan's Stewardship Code, NAM engages with data and other providers. As a member of the investment chain, NAM aims to contribute to improvements in quality and reliability of ESG evaluation and data from the viewpoint of an asset management company.

For engagement, NAM establishes proprietary confirmation items based on the above Code of Conduct, while keeping it in mind to have material dialogue instead of perfunctory confirmation. NAM plans to continually have dialogue in light of these providers' support and initiative progress as per the Code of Conduct.

Column Code of Conduct for ESG Evaluation and Data Providers

With the growing significance of ESG evaluation and data in ESG investing, increasing attention is paid to what ESG evaluation and data provision should be, thereby leading to further global discussions about strengthening regulations.

Under these circumstances, a first-in-the-world Code of Conduct for ESG Evaluation and Data Providers released by the Financial Services Agency in December 2022 is attracting global attention. In the United Kingdom and other countries, discussions are underway to establish similar codes while considering the initiative of the Financial Services Agency.

The Financial Services Agency's Code of Conduct is not legally enforceable, but in consideration of the fact that Japan's Stewardship Code, which is a set of principles for institutional investors, has significantly influenced Japanese institutional investors, the Code of Conduct is expected to exert great influence upon ESG evaluation and data providers.

The Code of Conduct covers items that are important to investors who are users of ESG evaluation and data, such as securing quality, independence, and transparency as well as the management of conflicts of interest. It also includes a principle for how data providers should communicate with companies.

Six principles of the Code of Conduct

Principle 1	Securing quality
Principle 2	Human resources development
Principle 3	Ensuring independence and managing conflicts of interest
Principle 4	Ensuring transparency
Principle 5	Confidentiality
Principle 6	Communication with companies

Source: Prepared by NAM based on the Code of Conduct

Approach to ESG Integration and Its Relationship with Engagement

Incorporating ESG evaluation into medium- and long-term earnings forecasts (ESG integration)

At NAM, we believe that ESG is an element that impacts all of a company's activities. By analyzing a company's initiatives related to ESG, we believe it is possible to understand the company's medium- and long-term sustainability and corporate image. Moreover, companies that engage in outstanding initiatives from the perspective of ESG and can build sustainable relationships with their stakeholders generally possess a platform for sustainable growth in the medium and long term.

Our analysts evaluate sustainability (and assign ESG ratings) through the selection of ESG factors that impact corporate value. We reflect these evaluations in medium- and long-term earnings forecasts and creditworthiness evaluations and use them as the foundation for our investment decisions.

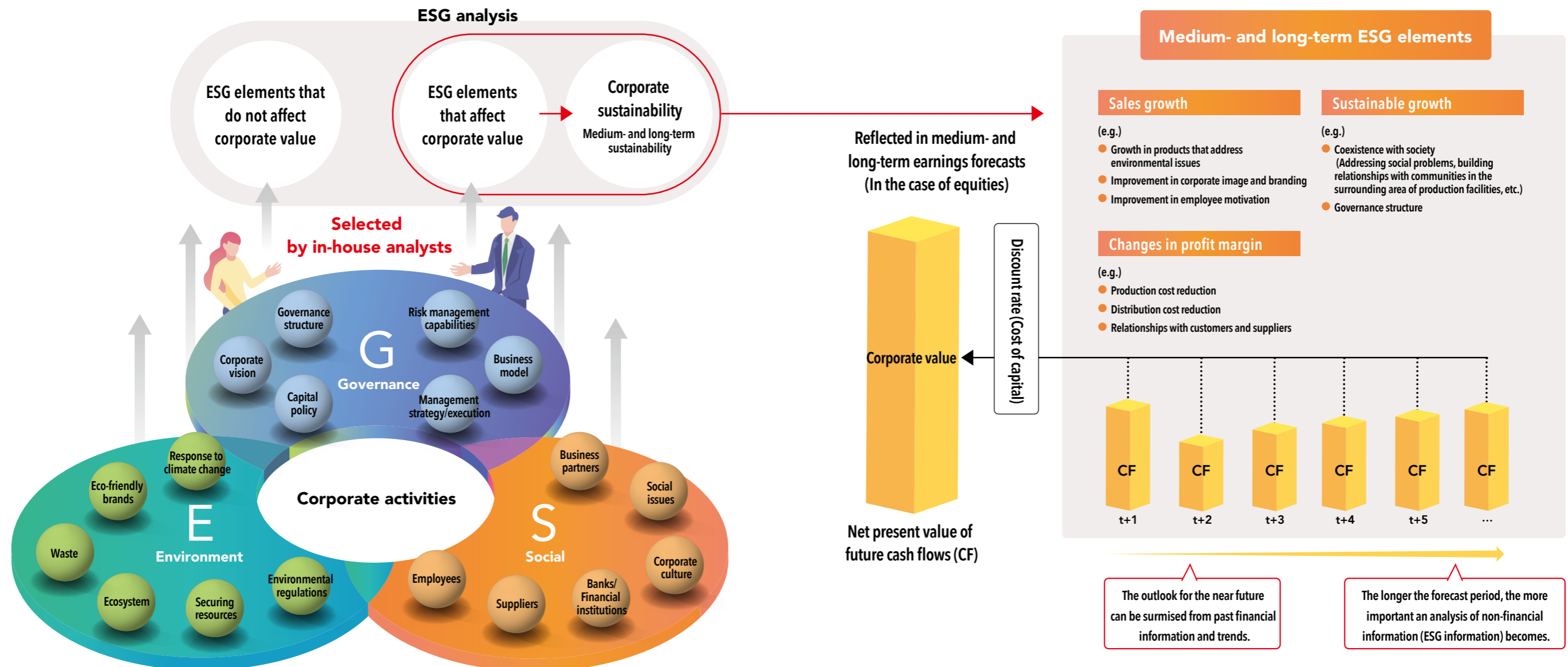
NAM does not, in principle, use any external evaluation agencies for ESG analysis and ESG evaluation, and such evaluations are independently conducted by NAM's in-house analysts.

Concept of ESG integration in equities

Relationship with engagement

Engagement with companies is an important process of ESG integration. Through dialogue, analysts improve their understanding of investee companies, reflect that understanding in ESG evaluations, and integrate it into medium- and long-term earnings forecasts and creditworthiness evaluations. In addition, companies continually review ESG evaluations, medium- and long-term earnings forecasts, and creditworthiness evaluations based on changes brought about by engagement.

As described above, ESG evaluations and engagement are mutually related activities, and we believe it is important to implement them not independently but in an integrated manner.



Bottom-up Engagement Aimed at the Medium- and Long-term Enhancement of Corporate Value

Engagement aimed at enhancing and realizing corporate value

NAM's ideal for engagement activities is to carry out constructive discussions with investee companies, premised on relationships of mutual trust, and to engage in these activities with an awareness of supporting the realization of corporate growth.

Frequent discussions with senior management and IR representatives will reveal aspects such as the business issues currently faced by the investee company and management issues associated with future business expansion. Many companies that aspire to grow are closely focused on these issues, and investors play an important role in providing a bird's-eye view that can hint at solutions to the company's weaknesses and issues.

NAM is engaged in analyst activities with a consciousness of providing support that will enable companies to perceive what they need to do to improve, by expressing objective opinions and introducing examples of similar problem-solving from other industries, etc.

Implementation framework for bottom-up engagement at NAM

A deep understanding of the company is vital for such engagement to progress. It is important for the analyst responsible for each company to be involved in all stages of the ESG integration process, which includes conducting ESG evaluations, forecasting medium- and long-term earnings, and analyzing corporate value.

NAM's analysts endeavor to cultivate a mutual sense of trust through engagement with the senior managers of investee companies, and strive to ascertain the essence of each company. This also leads to greater confidence in our medium- and long-term earnings forecasts that are based on ESG evaluations.

We designate companies as "engagement focus companies" if their corporate value can be enhanced through engagement activities like dialogues described below, and if their senior management is receptive to such dialogues.

Of course, companies are encountering a diverse range of issues and receive opinions from stakeholders with different interests, as well as investors with different views on timelines for enhancing corporate value. We get the impression that a lot of companies face difficult decisions about which issues to prioritize.

The same applies for engagement. It is necessary to engage in continuing discussions after narrowing down the issues to discuss based on their order of priority, accounting for elements that will impact long-term corporate value.

For this reason, NAM's success criteria for engagement agenda items are not results-based criteria such as ROE targets or operating margin targets. Instead,



we aim to enhance corporate value by setting criteria related to specific management actions that should be taken by the company. By using this framework to manage progress, we hope to continue our association with companies behind the scenes to support the actions they take to improve. (In addition to this kind of bottom-up engagement, we also engage in top-down dialogue as part of our activities to contribute to achieving net zero, etc.)

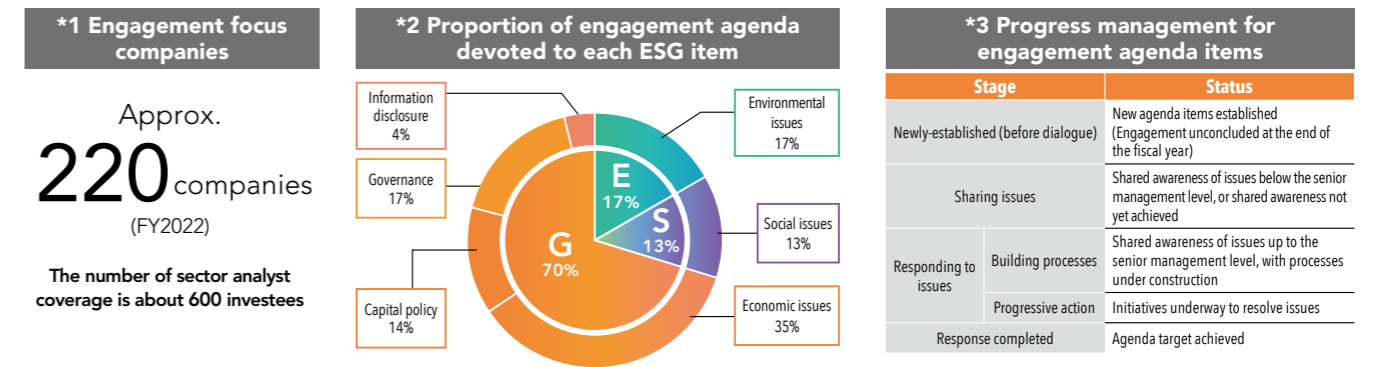


Illustration of the process from listing the engagement agenda items to determining an order of priority

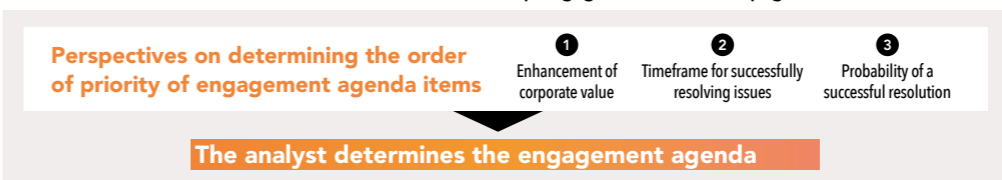
Listing companies' weaknesses and areas for improvement (phase 3 of the main flow of bottom-up engagement on the left page)

	Examples of engagement agenda items	Dialogue perspectives based on enhancing corporate value
Environmental (E) engagement	<ol style="list-style-type: none"> Improvement of manufacturing methods Environmental management and net-zero GHG emissions TCFD recommendations and environmental information disclosure 	<ul style="list-style-type: none"> Initiatives to suppress CO₂ emissions from manufacturing processes Balance between promoting the development of energy-saving products and new manufacturing methods and managing invested capital Formulation of management strategy to achieve carbon neutrality by 2050 Enhanced disclosure of business risks, opportunities, and response measures
Social (S) engagement	<ol style="list-style-type: none"> Corporate culture and relationships with employees Relationships with stakeholders and customers Work safety and human right response 	<ul style="list-style-type: none"> Penetration of corporate philosophy and enhanced disclosure of employee engagement Promotion of human resources development measures and DEI, and utilization of mid-career hires Building relationships with suppliers and others Enhanced disclosure of work practices, safety and health, etc.
Governance (G) engagement	<ol style="list-style-type: none"> Management strategy and efficiency of invested capital Governance structure and attitude to engagement Compliance and risk response 	<ul style="list-style-type: none"> Optimal composition of investment and returns and the establishment of high-quality investment discipline Disclosure of the skills of directors and the construction of a governance structure that incorporates diversity Stronger function as a monitoring board and deeper discussion by the Board of Directors External involvement in the nomination and compensation committee, and governance of listed subsidiaries Monitoring to prevent scandals

Taking the manufacturing industry as an example, we can present the issues faced by companies in each facet of ESG as shown in the table to the left. From among the possible engagement themes, including those not shown in the table, we consider the most important initiatives from the perspective of stakeholders, to avoid the engagement becoming too vague and diffuse. We emphasize the setting of the engagement agenda by our analysts, based on their investigative activities, according to an order of priority determined through comprehensive consideration of the "enhancement of corporate value," the "timeframe for successfully resolving issues," and the "probability of a successful resolution."

Setting the engagement agenda (determining order of priority)

(Phase 4 of the main flow of bottom-up engagement on the left page)



Proxy voting on the basis of dialogue (escalation)

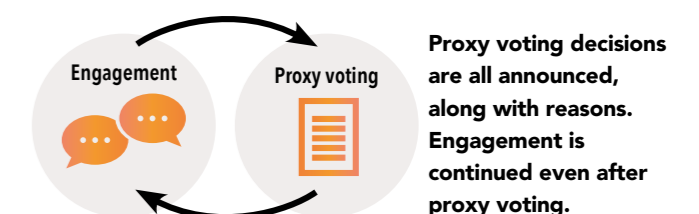
The status and results of dialogue that analysts continually conduct with companies are reflected in proxy voting decisions. If proxy voting is judged to be effective, NAM may make stricter decisions (escalation). NAM's proxy voting decisions are all announced along with reasons, and by directly announcing them to companies, as appropriate, while simultaneously continuing dialogue, we aim to improve corporate value.

For example, in March 2023, in consideration of the presence of many companies

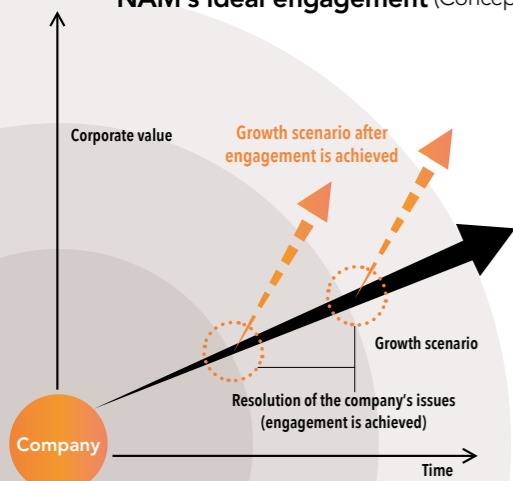
with a PBR (Price-to-Book Ratio) less than 1, the Tokyo Stock Exchange called for action to implement management that is conscious of the cost of capital. Prior to that, NAM engaged in continual dialogue with companies whose capital efficiency was not sufficiently high due to reasons such as publicly listed parent/subsidiary pairs. Additionally, we approved shareholders' proposals demanding for management that is conscious of the cost of capital (escalation), thereby addressing improvements in capital efficiency of investee companies.

Proxy voting on the basis of engagement

(If deemed effective, stricter judgment may be made = escalation)



NAM's ideal engagement (Conceptual)



Actual Engagement Activities That Support Improvements in Corporate Value

It is essential to analyze the ESG factors of companies in investment decision-making. There is a rising need for companies to properly comprehend the risks and opportunities posed by ESG factors and to understand corporate value.

To share investors' perspectives on analyzing corporate value improvements, we believe continual engagement is significant. NAM's analysts address engagement mainly from perspectives like those shown on the right. Here, we present actual dialogue with an individual company (Case 1), exchanges of opinions with an industrial organization (Case 2), and continual dialogue with senior management (Case 3).

Analysts' main engagement themes on ESG-related items

- Institutional investors' perception of ESG
- Sharing an understanding of ESG-related issues within industry/ investee companies as well as ESG information disclosure to be emphasized on the basis of the external environment
- Sharing the intention of how ESG information of industry/ investee companies should be reflected in financial analyses
- Introduction of other company cases as reference to management improvements, etc.

Case study 1 Food company Backing up the advancement of ESG management through ESG study sessions for an individual company

In response to a request from Food Manufacturer A, our analyst hosted a study session on ESG for the company's senior management. The analyst prepared 72 pages of material in total (some excerpts are shown below), communicated our approach to ESG, and held a bi-directional discussion toward making improvements to corporate value. The details (excerpts) of issues and expected initiatives that were referred to are shown below. This study session became a great opportunity for the company to be able to understand our approach while we improved our understanding of the initiatives taken by the company through discussions.

Main issues faced by Food Manufacturer A (examples)

- Bolstering business development that starts with solving ESG issues that are important for the food industry, such as health, nutrition, and the circular economy
- Bolstering internal initiatives and information disclosure regarding the integrity of management and employees in addition to human capital management
- Price settings that match the added value of products, improvements of profitability, etc.

ESG initiatives that are expected toward improving corporate value (examples)

- Detailed target setting toward solving environmental and social issues [E, S]
- Implementation of measures toward enhancing employee engagement and monitoring information disclosure [S]
- Presentation of profitability index by segment and ROIC targets [G], etc.

Part of presentation material (total of 72 pages) actually used by our analyst in charge of the food industry

Table of contents

Comprehensively describes institutional investors' ESG perspectives, what is expected of the food industry by E, S, and G, reference information, and the latest topics

Perspectives of institutional investors

Emphasize that ESG factors are analyzed not just for non-financial information but from the perspective of unrealized financial value

Company expectations

Precisely explained management initiatives that are expected of Food Manufacturer A that match the growth stage of individual companies and for E, S, and G

Case study 2 Regional banking industry association Approach to the industry through serving as a lecturer of a study session hosted by an industry association

Our analyst in charge of the banking sector served as a lecturer of a study session organized by a regional banking industry association. We prepared 56 pages of material in total (some excerpts are shown below), and as described below, we communicated not only the long-term insights on various issues, including ESG factors, but also initiatives we expect of the industry so that it can enhance its value. As many people from the industry participated in the session, a wide range of opinions were exchanged. We anticipate that participating in this type of study session will be a good start for dialogue with individual regional banks.

Main ESG-related issues faced by the regional bank industry (examples)

- Response to revised Corporate Governance Code
- Improvement of capital efficiency
- Response to digital transformation (DX) and sustainability transformation (SX)
- Decreasing population (declining birthrate and aging population, depopulation, shortage of successors, etc.)
- More frequent and severe natural disasters

ESG initiatives that are expected toward improving corporate value (examples)

- Progress in compliance handling based on the revised Corporate Governance Code [ESG in general]
- Practice of disciplined capital policy [G]
- Scheme and enhancement of human capital disclosure [S]
- Proactive initiatives in relation to climate change [E]

Part of the presentation material (total of 56 pages) actually used by our analyst in charge of the banking industry

Perspectives of business analysis

Summarization of the perspectives that sector analysts focus on in analyzing banking business

Reflection of ESG factors in earnings

Explanation of the recognition of ESG materiality and how to reflect it in earnings forecasts in analyzing regional banks

Expectations of ESG initiatives

Detailed explanation of initiatives expected for E, S, and G in the regional banking industry

Column Initiatives of internal study sessions for ESG research

Sector analysts who engage with individual investee companies are required to have a deep insight on ESG. Analyst teams not only update ESG-related information on a daily basis but also regularly have opportunities to share successful cases of engagement among members and hear expert lectures at ESG research meetings. Through these initiatives, they are striving to enhance their research capabilities, including ESG integration and improved engagement skills.

Example of material for internal study sessions on ESG research

Case study 3
Service company

Setting a flexible engagement agenda for identifying corporate changes

We bear in mind of the importance of carrying out ESG analysis during the research stage to uncover the essence of companies, sharing any important ESG issues discovered during interviews with companies, and providing insights for enhancing corporate value. Our sector analysts assume a role not only in identifying issues but also in sensing and communicating upcoming societal demands.

By using an actual case, we will illustrate our engagement process that aligns with changes in society.

1 Identification of ESG issues at the company

Company A is a service company that has close contact between its customers and employees and strength in increasing repeat sales by enhancing their customers' value of experiences. During the initial ESG analysis, among evaluation items for G, we felt that the company faced ROE-related issues, identified it as an "important ESG issue," and conducted dialogue based on it with high priority.

2 Put dialogue into practice toward solving the issue

In our ESG evaluation of Company A, we appreciated the fact that by repeatedly sharing values that the company considers important to employees, the company can maintain a high level of service. On the other hand, as the company has surplus funds and some issues involving ROE, we discussed an increase in investments toward gaining customers at the early stage of engagement activities. While we continued with dialogue, we learned that senior management's awareness about making improvements to ROE was increasing. Also, through investments for customer acquisitions, they were able to increase the number of customers as well as average sales per customer, realizing a virtuous cycle to increase corporate value.

3 Setup engagement theme that responds to changes in society

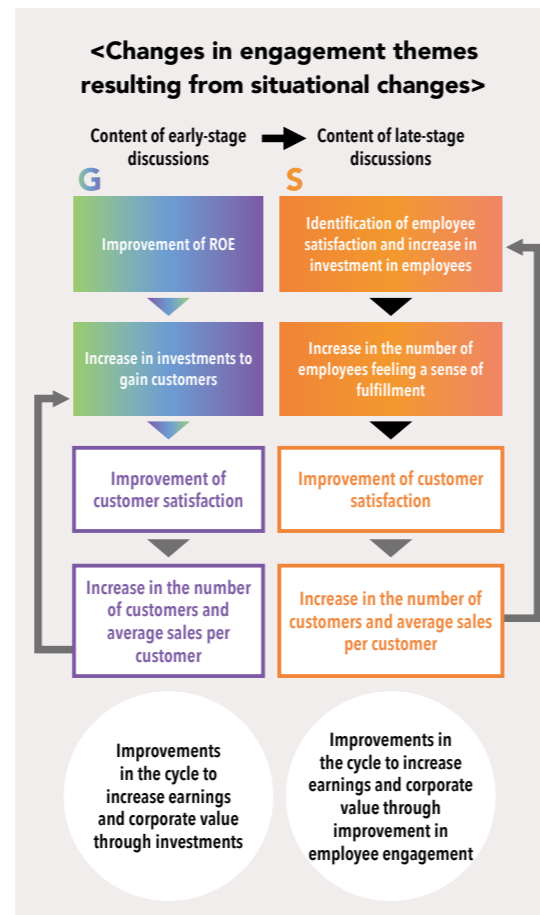
With the importance of human resources attracting attention, the NAM analyst in charge believed addressing the building of a cycle to increase earnings by improving employees' sense of fulfillment as the theme of the next stage of engagement would lead to further enhancement of corporate value, and the analyst set up new engagement themes as shown on the right (content of late-stage discussions).

In order to implement highly effective measures, it is important to quantitatively comprehend the current situation. While introducing overseas cases, we continued with engagement on the importance of measuring employee satisfaction.

4 Reflection on ESG evaluation through engagement

Senior management shared the idea that enhancing employee and customer satisfaction was an urgent issue and showed their willingness to make investments in those issues. We reflected these changes in the stance of senior management in the ESG evaluation and long-term earnings forecasts, effectively linking them to investment decision-making.

Companies are living things, and their surrounding environments change. As illustrated in the above case, we engage with companies while continually updating what is necessary now to enhance corporate value. An ESG evaluation is essential for this goal and can be considered a tool that yields a virtuous cycle of engagement.



Comment from the analyst in charge of Company A



Keigo Sato
Chief Analyst, Investment Research

I have continually engaged with the management of Company A over a long term. I strongly resonate with their management approach of consistently striving to "maximize the potential of people."

Column What effects does employee engagement have on corporate value?

The number of companies that identify human resources as "capital" and want to maximize their value in aim of human capital management that improves medium- and long-term corporate value are increasing. What is especially regarded as important in terms of human capital management is the enhancement of "employee engagement," or employees' enthusiastic involvement in work and the workplace.

In this column, we look at the results of academic research from around the world on the types of effects improved employee engagement will bring.

Employee engagement increases customer satisfaction, productivity, and profitability while reducing employee turnover

The first research we will introduce is a paper released in 2019 by Dr. Christian Krekel, Assistant Professor of the London School of Economics, and others. They conducted an analysis called "meta-analysis" to investigate a total trend in the results of 339 independent analyses on the relationships between employee engagement and (1) customer satisfaction, (2) employee productivity, (3) business profitability, and (4) employee turnover.

As shown in the illustration on the right, it appears there is a positive correlation between employee engagement and customer satisfaction, productivity, and profitability while a negative correlation is found with employee turnover. By business types, the correlation with productivity is especially strong in the manufacturing industry while the service industry has a tendency to show a correlation with customer satisfaction.

Correlations between employee engagement and customer satisfaction, productivity, profitability, and employee turnover
(Average value after adjusting the correlation coefficient)



Source: Prepared by NAM based on: Krekel, C.; Ward, G.; & De Neve, J. E. (2019). Employee wellbeing, productivity, and firm performance. Said Business School WP2019-04

Companies that instill their purpose in their employees excel in performance

The research we will introduce next is a paper prepared by Dr. George Serafeim, Professor of Harvard Business School and global authority on ESG, and others. It was published in an academic journal in 2019.*

In this research, they used employee survey data, quantified the definiteness of the company's purpose (whether what the company aims toward, methods to realize it, expectations for employees, etc. are clear or not) and analyzed its relationship with financial performance. As a result, it turned out that companies whose

purpose is definitive, especially among middle management and specialists, show excellence in financial performance.

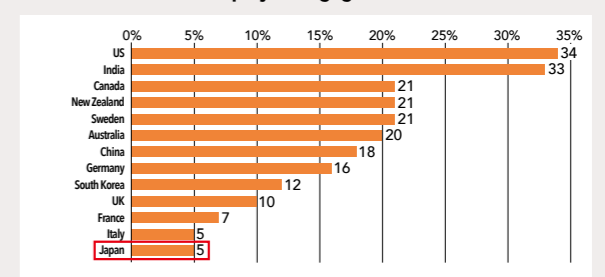
Though this research does not directly measure or analyze employee engagement, it suggests that companies instilling their management philosophies, including their purpose, in their employees to enhance employee engagement is important in achieving high financial performance.

*Gartenberg, C.; Prat, A.; & Serafeim, G. (2019). Corporate purpose and financial performance. Organization Science, 30(1), 1-18.

An implication to Japanese companies: The importance of S in ESG

From an international survey, it was found that on average Japanese companies have an extremely small number of enthusiastic employees (employees with high employee engagement). In other words, it can be safely said that for Japanese companies, it is highly likely that an improvement in employee engagement will lead to differentiation from competitors and result in great differences in corporate value. This may be associated with the fact that companies with a high S rating among NAM's ESG rating tend to excel in stock price performance.

International comparison of the ratio of employees with high employee engagement



Source: Prepared by NAM based on data from Gallup, Inc.

Column **NAM ESG Seminar (May 30, 2023)**

Part 1 Human Capital Management

On May 30, 2023, the NAM ESG Seminar was held at Keidanren Kaikan.

We invited Mr. Tsutomu Igaki, Managing Executive Officer of OMRON Corporation, who is engaged in advanced initiatives involving human capital management. With Mr. Shingo Ide of the NLI Research Institute as an emcee, Mr. Igaki and George Iguchi, Executive Officer and Chief Corporate Governance Officer of NAM, had a panel discussion on the following three themes regarding the importance of human capital management for companies and investors. (Below are some excerpts from the discussion.)



Mr. Igaki, OMRON Corporation

Theme 1: Trends in human capital management and disclosure

Iguchi: Human capital has conventionally been important for investors who analyze corporate value from medium- and long-term perspectives. This is because even the success of a wonderful management plan depends on how well employees work. At the same time, with the arrival of a sustainable society, many companies are required to reconsider management strategies and radically reform business models. As a result, the expectations for the utilization of human capital are rising. I believe that the reason for the current requirement of mandatory

disclosure of human capital in annual securities reports is the increasing significance of this information for investors. The situation is the same overseas, where we see the global preparation of disclosure rules pertaining to human capital in Europe and the United States.

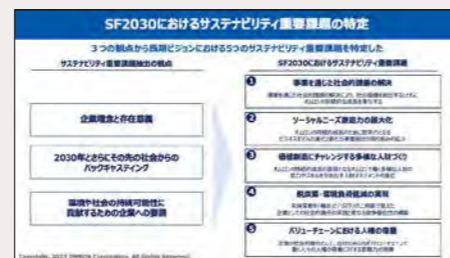
Ide: While information disclosure systems are in development overseas, how is OMRON responding to them?

Igaki: We have been attentive to the situation and have responded by considering the viewpoint of overseas institutional investors.

Theme 2: Human capital management initiatives at OMRON Corporation

Igaki: We have identified five material sustainability issues for our growth over the next ten years. Among them, “3. Generating Diverse Talent Taking on the Challenge of Value Creation” and “5. Respecting Human Rights in the Value Chain” are related to human capital. From the fact that two out of the five issues are involved, you can understand that human capital is positioned as a very important point for our growth in the future. Today, I would like to focus on number three, human asset generation. The key to human asset generation is D&I (Diversity and Inclusion), but we didn’t adopt external concepts; instead, defined it in our own terms. “Diversity” is defined as “attract diverse people who will take on the challenge of creating a better society.” Our definition of inclusion is “to unleash the passion and abilities of each individual, create innovation by bringing together our diverse opinions, and share achievements.” Based on these definitions, we have made clear an “image of required human assets” for growth in the coming ten years.

We have also set KPIs for human asset initiatives. What’s important is that we have set a target to enhance human creativity (added value per employee cost) by 7% by the end of FY2024 as a result of human asset initiatives. A 7% improvement means to plan a 15% increase in employee costs over three years by investing more in human assets and raise added value by 22%. To link these initiatives to employees’ actions, we introduced a stock compensation plan for employees, ensuring that the benefits of enhancing corporate value are shared with them. As Mr. Iguchi mentioned, I believe the key lies in motivating and engaging employees, in addition to formulating management strategies.



Theme 3: Importance and utilization of human capital for investors

Ide: What kind of disclosure of human capital is desirable for investors?

Iguchi: The purpose of investment is to maximize medium- and long-term risk-adjusted returns on entrusted assets. Therefore, the utilization of human capital needs to be linked with management strategies. I believe it is important to understand its consistency with the medium-term management plan. The disclosure of human capital linked with management strategies is highly beneficial in assessing corporate value.

Ide: What difficulties do you find with the disclosure of human capital at OMRON?

Igaki: Human capital initiatives take time until they yield results. Therefore, I believe scenarios are important at the time of explanations. By taking advantage of annual securities reports and integrated reports that can give more detail, we keep in mind to communicate scenarios of value creation, including human capital.

Ide: Going on, we will discuss human rights in Part 2. How do you check on human right initiatives you place importance on?

Iguchi: We believe human capital and human rights, which primarily focus on opportunities, are two sides of the same coin, making them fundamental conditions of a company’s existence. We check the presence of human rights due diligence in supply chains, etc. through disclosed materials.

Ide: How should pension sponsors utilize information on human capital?

Iguchi: The utilization of human capital affects medium- to long-term stock performance, so when necessary, checking how entrusted asset managers grasp the status of the human capital of investee companies can be a suggestion for their quality evaluation.



Left: Iguchi, Center: Mr. Igaki, Right: Mr. Ide

Part 2 Human Rights and Diversity



In Part 2, the actress Ms. Sahel Rosa and our President & CEO, Hiroshi Ozeki, had a dialogue. While looking back on the early life of Ms. Rosa, they discussed themes such as human rights, which is the foundation of human capital management attracting attention from a perspective of corporate management. (Below are some excerpts from the discussion)

Sahel Rosa Actress

Born in Iran. Came to Japan at the age of eight and started to work in entertainment circles while a senior high school student. Won the Best Lead Actress in a Foreign Language Film award for her performance in “Cold Feet” at the Milan International Filmmaker Festival. Also, the 9th Youth Power Award. In recognition of her public and private welfare activities, received the Human Rights Activist Award in the United States in 2020.

Ozeki: Thank you for your time today. Please briefly introduce yourself.

Rosa: I lost my family during the Iran-Iraq War and was raised in an orphanage. I don’t know my real name or date of birth. The name of Sahel Rosa means “a rose blooming in the desert,” and was given to me by my foster mother. A rose cannot naturally bloom in a desert, but she wished for me to bravely and beautifully bloom even in harsh conditions. I came to Japan at the age of eight, relying on my foster mother’s husband, but due to abuse from him, my foster mother and I spent two weeks living homeless. During that period, female workers at a supermarket, elementary school teachers, and many other people helped us. In Japan right now, there is poverty, and there are children who cannot live with their parents for certain reasons. I’m engaged in support activities, hoping to create a better place in society for all children.

Ozeki: What do you think should be done so that people, who are the base of human capital, can live with hope, dreams, and motivation?

Rosa: I believe nurturing people is the same as nurturing yourself. In my case, the presence of my foster mother, who raised my self-esteem, played a key role. While Japanese people tend to make much of adjusting to others, it is actually natural for people to be different. I think it is important to value others’ viewpoints and respect each other to nurture people. It is also precious to look at the essence of words instead of using them superficially like fashion. Also, we should be aware that no buds will bloom immediately after sowing seeds.

Ozeki: For companies to create innovation, it is necessary for employees to have open relationships. In this sense, psychological safety is critical. There will be people who close off their hearts even if you extend a helping hand. To openly talk with such people, what do you keep in mind?

Rosa: I was bullied in junior high school. Verbal violence is more harmful than physical violence. What I learned from that experience was, to talk to those who close off their hearts, it is important to sit next to and empathize with them. Only you can understand the pain you feel, so I think it’s also important not to simply say, “I understand.”

Ozeki: In this current era with drastic changes all around us, it is necessary to enable people to take full advantage of their capabilities in order to improve corporate value. At the same time, without improving the happiness or well-being of each and every employee, there will be no spontaneous ideas or excellent initiatives. We hope you will find hints for management from what Ms. Rosa has talked about here today.



Left: Ms. Rosa, Right: Mr. Ozeki

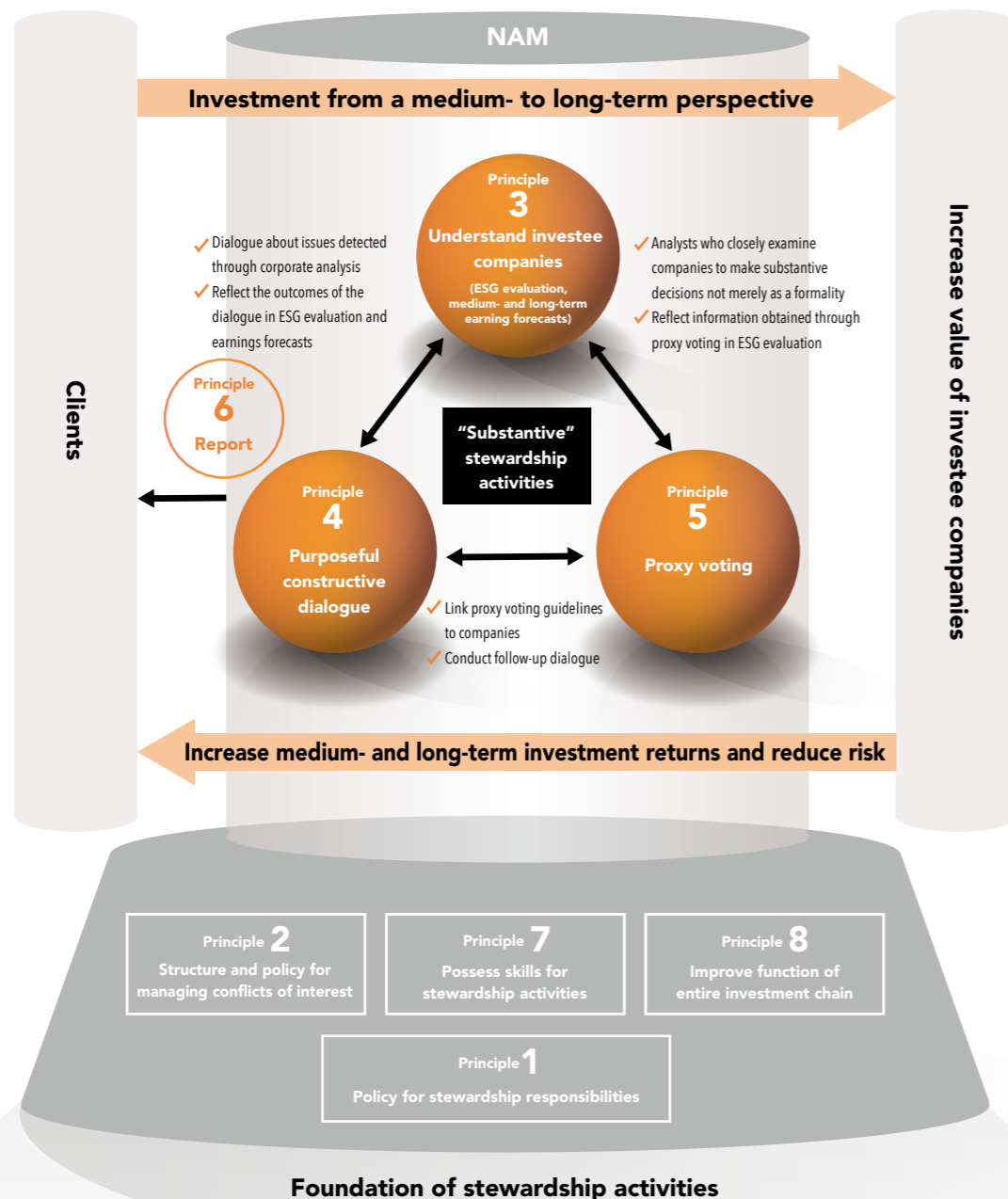
Overall Image and Framework of Stewardship Activities

We aim for the co-creation of value with clients and investee companies in our research and investment activities

NAM considers our research and investment activities, which aim to enhance the medium- and long-term investment returns and reduce risk for clients, as integral to our investment process. We strive for the co-creation of value with clients and investee companies by fulfilling our stewardship responsibilities through important aspects of the process for “understanding investee companies,” “purposeful constructive dialogue (engagement),” and “proxy voting,” which lead to an increased value of investee companies.

Overall image of stewardship activities

The below diagram shows the relations of NAM's stewardship activities to the Stewardship Code when compared to each of the code's principles.



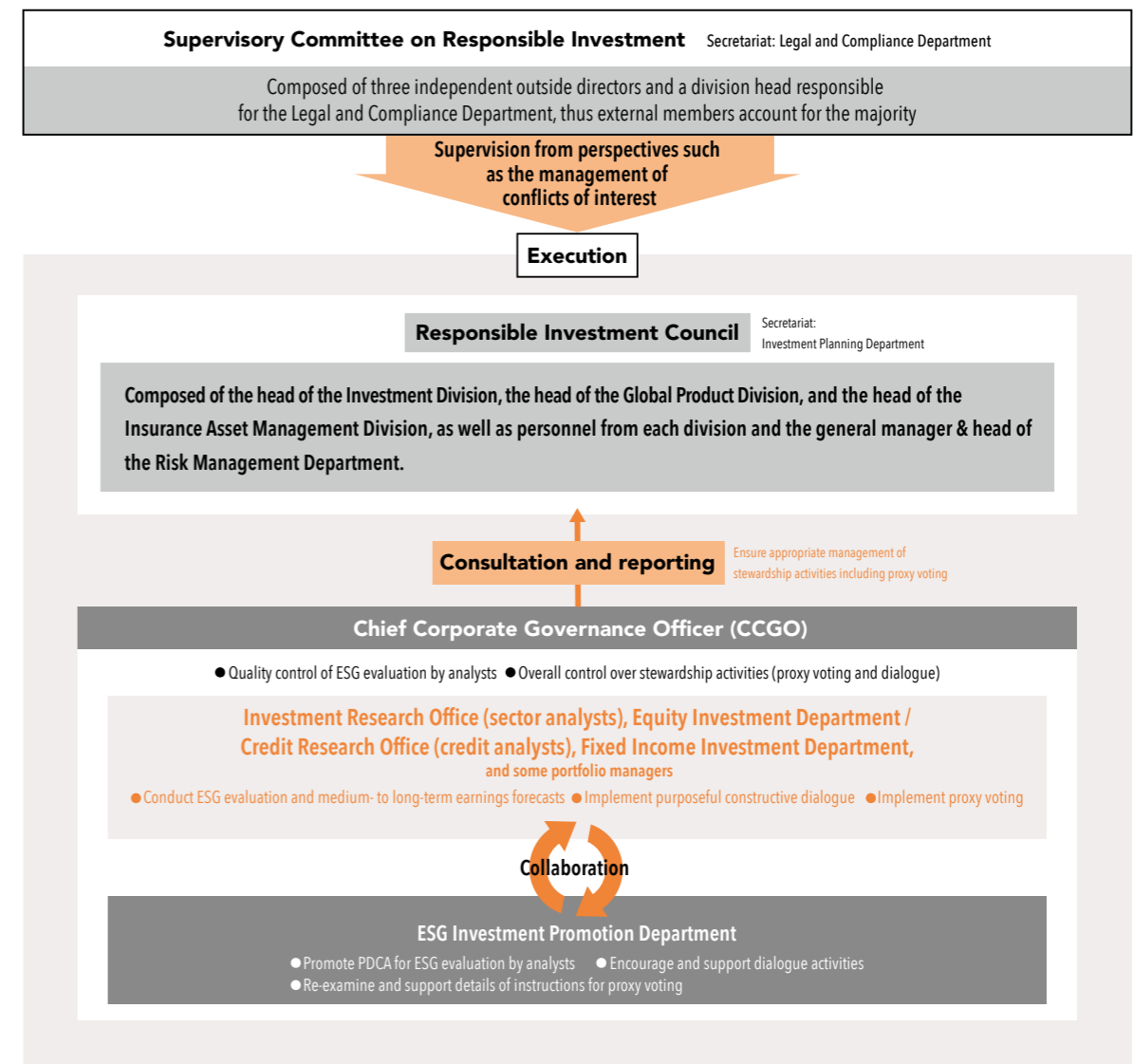
Stewardship structure

In order to supervise stewardship activities from perspectives such as the management of conflicts of interest, NAM has established the Supervisory Committee on Responsible Investment, comprised of a majority of independent outside directors. We also have established the Responsible Investment Council, chaired by the head (officer) of the Investment Division, which discusses NAM's ESG investing and stewardship activities across assets. Based on such structure, approximately 20 domestic equities sector analysts consistently implement each activity of “appropriate understanding of companies,” “constructive dialogue,” and “proxy voting” stipulated in Japan's Stewardship Code for each investee company. (For some companies, credit analysts for domestic corporate bonds are responsible for all aspects apart from proxy voting.) It is based on the idea that by having the analyst who is the most knowledgeable about a company being

responsible for the series of activities, synergies are generated in each activity, and our stewardship activities are conducted as substantive activities contributing to the improvement of corporate value, instead of as formalities.

NAM is also upgrading the ESG evaluation undertaken by analysts and promoting quality control and PDCA with the ESG Investment Promotion Department at the core under our Chief Corporate Governance Officer, an expert on ESG and proxy voting. The structure of the ESG Investment Promotion Department is to progress activities with experts appointed to the roles of department head and team members, while coordinating with the relevant divisions through concurrent appointments of personnel from departments including the Equity Investment Department, Fixed Income Investment Department, and External Fund Investment Department.

Stewardship activities organizational chart



Discussion with Outside Directors

2023 Discussion between the Supervisory Committee on Responsible Investment and the Chief Corporate Governance Officer

Following on from last year, we talked with three independent outside directors who are also members of the Supervisory Committee on Responsible Investment.



Attendees in the roundtable discussion

Masataka Hama
Independent Outside Director

Makiko Fuse
Independent Outside Director

Etsuro Kuronuma
Independent Outside Director

George Iguchi
Executive Officer
Chief Corporate Governance Officer

Iguchi: Thank you for taking the time to join me here today. A feature of NAM's Supervisory Committee on Responsible Investment (hereinafter, the "Committee") is that it is composed of a majority of independent outside directors, and this enables the integrated supervision of stewardship activities, from the Board of Directors to the Committee. I hope you will share your candid opinions, as you all do at Committee meetings.

Expectations of stewardship activities

Iguchi: Let me start with the first theme. At a Follow-up Meeting of the Financial Services Agency, they presented an action program, and in it, it appears we are in need of materializing stewardship activities. I would like to ask for opinions on, for example, what is required for our stewardship activities in this context. Director Kuronuma, I will ask for your opinion first.

Kuronuma: My understanding is that the Stewardship Code defines the general framework of institutional investors' activities and that the details of precise activities must be determined on the basis of independent judgment by institutional investors. Therefore, I believe that the materialization of stewardship activities is our responsibility.



Makiko Fuse (Independent Outside Director)
Concurrently a Director of YAMADA Consulting Group Co., Ltd.



Masataka Hama (Independent Outside Director)
Has worked as a director of asset management companies in and outside Japan, concurrently an Outside Audit & Supervisory Board Member of Tokyo Electron Ltd.

In the case of NAM, we announced a policy to promote the introduction of female directors and then worked on engagement to make it known. As a result, in this year's Shareholders Meetings where the criterion became applicable, there was no opposing company. This can be highly appreciated as an example of materialization. The point is how to extend it to TOPIX100, which is our current target.

Iguchi: As you point out, how we combine engagement and proxy voting is important in terms of the materialization of stewardship activities. This is a topic I am constantly thinking about. Please provide advice, going forward. Now, Director Fuse and Director Hama, may I have your opinions?

Fuse: Looking at the Committee, I feel that everyone has a genuine





Etsuro Kuronuma (Independent Outside Director)

Professor of Faculty of Law of Waseda University, and has worked as a chair of a government council, etc.

Operations of the Supervisory Committee on Responsible Investment in FY2022

Iguchi: Director Fuse, please take a look back at the activities of the Committee last year and provide your opinion about the future direction.

Fuse: As a matter of course on an annual basis, I believe the management of conflicts of interest is firmly conducted. What was interesting was a discussion on setting proxy voting guidelines for retirement benefits. Considering global and domestic governance structures and the current landscape of retirement benefits, we focused on the importance of disclosure instead of uniformly opposing such benefits. I felt that a highly attentive and careful discussion took place.

Hama: At the Committee, we discuss not only stewardship activities but also the current status of the capital market as its premise from time to time. In particular for me, a discussion on market categories at the Tokyo Stock Exchange was enlightening. I learned of the idea that "Although the number of listed companies can be considered large, the requirement for them to adhere to a high level of governance set by institutional investors could lead to overall market enhancement." I am eager to further engage in discussions from diverse perspectives.

Kuronuma: Last year was a year of great progress. It is especially meaningful that we could set proxy voting guidelines for not only domestic equities but also overseas equities and REIT firms. It is regrettable we could not integrate Environmental and Social factors in the guidelines, but I hope a review will be continued. Another point

commitment to "support the healthy growth of companies through proxy voting and engaging with them." I believe this commitment is key to the materialization of our stewardship activities.

Hama: I think so, too. Also, in a stewardship survey of R&I's "Newsletter on Pensions and Investment," we have been number-one in Pension Client Satisfaction category for three consecutive years, and this materialization of stewardship activities is really appreciated by clients.

Iguchi: Thank you. As Director Fuse mentioned, while many new events are coming up, an attitude to regularly tackle stewardship activities from the viewpoint of enhancing corporate value and sophisticate it is important in the materialization of activities. As Director Hama points out, I feel it will lead to appreciation from clients.

that can be highly evaluated is the establishment of proxy voting guidelines of cross-shareholdings after detailed studies.

Iguchi: Thank you very much. As you point out, we want to set proxy voting guidelines that are consistently effective ones. To achieve this, we aim to discuss them from a wide range of perspectives. I also think that such an attitude has resulted in the establishment of guidelines for cross-shareholdings that are different from those of other companies, as exemplified by requirements for the consideration of capital efficiency and the statement on a "policy of reduction" in annual securities reports.

Expectations as independent outside directors and members of the Committee

Iguchi: Finally, I would like to hear your expectations for this fiscal year as independent outside directors and members of the Committee. Director Hama, may I have your opinion first?

Hama: I wish for employees to work with enthusiasm. The asset management business is certainly set to attract further attention, and I would like to see NAM leading the way.

Kuronuma: In the market, we see issues of listed subsidiaries and emerging events such as the demand for disclosing engagement details in the TSE Prime Market. I believe we need to properly respond to these issues. As an outside director, any initiatives taken by NAM internally are also important.

Fuse: This is a viewpoint as an outside director, but NAM has addressed these issues in a prompt manner by, for example, reviewing the Board



George Iguchi

(Executive Officer and Chief Corporate Governance Officer)

Overall responsibility in the Investment Division for stewardship activities and ESG-focused research processes that cross asset classes

of Directors system. I hope the company will continue with these initiatives. In addition, the introduction of the new NISA and other systems is on the horizon. I encourage NAM to leverage the brand power of the group and proactively engage with these developments.

Iguchi: Thank you very much. That concludes today's roundtable discussion. To further advance NAM's stewardship activities, I look forward to further discussions within the Committee again this fiscal year. Thank you all for your time today.

(Edited by George Iguchi)



Initiatives for Impact Investments That Also Yield Returns

Financial Services Agency disclose Draft Basic Guidelines on Impact Investment

In June 2023, the Financial Services Agency's Working Group on Impact Investment disclosed Draft Basic Guidelines on Impact Investment, indicating the four requirements necessary for impact investment (table on the right).

For our impact funds, what is especially important is "how to balance impacts and profitability (returns)" and "how much additional impacts can be generated compared to the scenario without the investment," as shown in Items ① and ② in the table on the right.

We will now focus on these two points and explain initiatives by NAM.

Four basic principles for impact investment

① Intentionality	The intention to achieve both impacts and profitability (returns) through the investment is clear
② Additionality	The investment is anticipated to generate additional impacts compared to the scenario where the company does not make the investment
③ Identification/Measurement/Management	Impacts to be identified, measured, and managed
④ Support of novelty, etc.	The investment supports superiority and novelty that can change the market and clients

*This is a draft as of June 2023 and is subject to change in the future
Source: Prepared by NAM on the basis of Financial Services Agency's materials

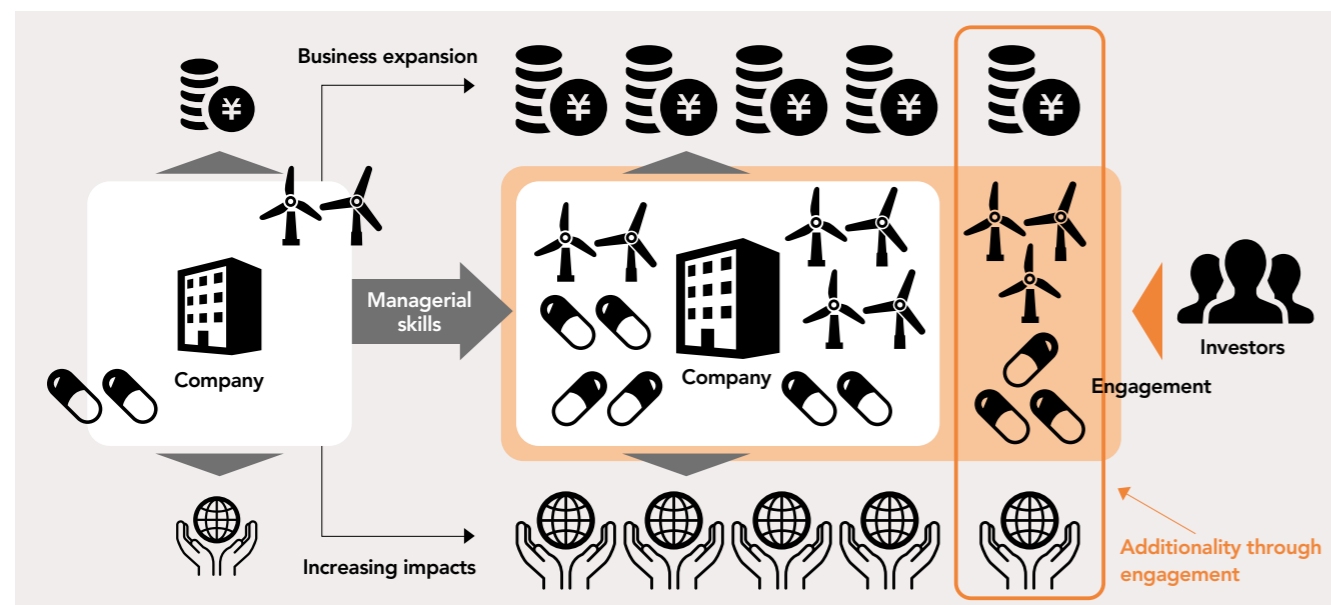
To balance impacts and profitability (returns)

To link impacts with investment returns, it is necessary for companies to enhance business results through impacts and increase corporate value.

Suppose there is an energy-saving product that will drastically reduce GHG emissions or a service that will greatly improve people's well-being. In order to link them to corporate value enhancement, it is essential to consider how extensively they can be promoted and distributed.

Therefore, what investors must keep in mind is not only a proper recognition of the values of such products and services but also the judging of managerial skills capable of successfully promoting and distributing them. In addition, contributing to additionality through effective engagement is also an important element of impact investment. We believe that by embracing these concepts, we can achieve both impacts and profitability.

Conceptual drawing of achieving both impacts and profitability (returns)



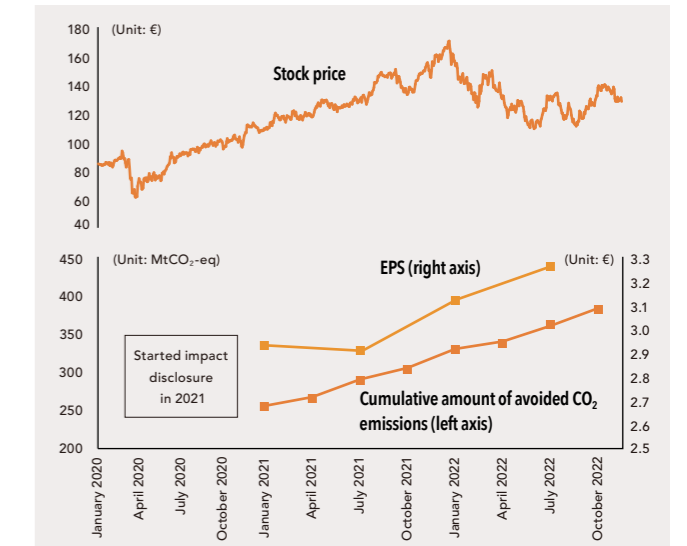
Case study of achieving both impacts and returns at an investee company

Company A is a major French manufacturer of electric equipment, mainly focusing on a business to improve energy efficiency of data centers and factories of its customer companies in addition to buildings and houses. The company has set a target to help its customers avoid 537 million tons of CO₂ emissions over a span of five years, starting from 2020, and strives to create impacts and enhance corporate value.

Recently, the business is thriving, and it is estimated to achieve 177 million tons of avoided emissions by the end of 2022. (The company started to disclose impacts from 2021.) At the same time, its equity per share (EPS) as well as stock prices have generally remained robust, continuously achieving both impact creation and corporate value enhancement.

We are consistently committed to engagement that can impact the company's management by sharing favorable cases of companies that are engaged in similar business.

Transition in stock prices, EPS, and impacts of Company A



*The cumulative amount of avoided CO₂ emissions is calculated from the year 2018.
Source: Prepared by NAM on the basis of Bloomberg data and materials disclosed by Company A

Supporting impact creation at investee companies from the position of an investor

As described above, in order to create additional impacts through our investments, it is necessary for our investments to induce certain changes in the investee company, thereby leading to actions that increase impacts.

Generally, investments in listed companies tend to be less influential on the investee companies compared to investments in unlisted companies. Nevertheless, we firmly believe we can still contribute to the

investee companies' impact creation through engagement.

In engaging with investee companies, we believe it is important to set an agenda and consistently implement engagement from viewpoints given in the table below. These include promoting information disclosure, encouraging management to refine business strategies to drive actions that lead to greater impacts, and providing inspiration related to impact creation in order to foster behavioral changes.

Examples of viewpoints of engagement in impact funding

Viewpoint	Expected effect
Enhanced information disclosure	When investee companies properly measure and manage impacts and subsequently disclose them, it can advance management towards impact creation in depth. In addition, by raising the level of awareness of their presence in the market through information disclosure, improvements of corporate value can be expected through, for example, lower discount rates.
Improved management execution	We communicate our opinions, including industry analyses, from an investor's viewpoint to companies that face challenges in balancing impact creation and corporate value enhancement, even though they are engaged in business activities with an awareness of impact creation. This contributes to the refinement of their business strategies.
Providing inspiration for products and services	We encourage companies that are not particularly focused on impact creation but have the potential, to develop their business from an impact-oriented viewpoint. This can help them achieve both impact creation and corporate value enhancement.

Human Rights and ESG Investing

Increasing emphasis placed on human rights

In recent years, companies have been increasingly required by law to respect human rights in their activities, especially in Europe and the United States.

As the globalization of businesses progressed, multinational companies have been increasingly criticized for human rights violations, particularly in developing countries. In response, the United Nations Human Rights Council unanimously endorsed the UN Guiding Principles on Business and Human Rights in 2011, orienting companies to be responsible for valuing human rights.

The United Kingdom, Germany, France, and the U.S. State of California followed by enforcing a number of laws, obligating companies to investigate slave labor and the like, conduct human rights due diligence across their supply chains, and disclose their details. In Japan in 2022, the Guidelines on Respecting Human Rights in Responsible Supply

Chains laid out the need to establish policies and conduct due diligence on human rights and to implement remedies when problems arise.

Recent developments in human rights legislation

Year	Country/state	Legal details concerning human rights
2011	United Nations	UN Guiding Principles on Business and Human Rights announced
2012	U.S. State of California	Mandatory disclosure of information on efforts to eradicate slave labor and the like across supply chains
2015	United Kingdom	Mandatory annual announcement of a statement on efforts to eradicate slave labor and the like
2017	France	Mandatory disclosure of plan/execution of human rights duty of care across supply chains
2022	Japan	Guidelines on Respecting Human Rights in Responsible Supply Chains announced
2023	Germany	Mandatory human rights due diligence across supply chains and disclosure of reports

Source: Prepared by NAM based on various materials

Growing impact of human rights measures on corporate value

When laws require companies to take human rights measures as described above, placing them under closer scrutiny by society, the risks accompanying human rights violations become more apparent. Should a problem arise, its negative impact on sales also increases as a result of suspended transactions, customer boycotts, etc.

In fact, in recent years, several cases of harsh labor conditions or forced child labor came to light at certain apparel manufacturers operating in emerging countries, resulting in significant declines in their financial performance and stock prices.

As such, human rights violations not only result in decreased sales

due to customer boycotts or other consumer reaction, but also increase compensation costs, which, in turn, damages brand value to impact corporate value in the medium and long term. This is all the more likely in this day and age where information spreads instantly via social media. On the other hand, while posing a risk factor, human rights issues can also be leveraged to create corporate value if companies take proactive measures to ensure that human rights are respected as the underlying foundation for human resources management and innovation. This approach will become increasingly important going forward.

NAM's policy as an investor

Due consideration of investees' human rights initiatives has become one of the key issues that responsible investors need to address. With the aim of safeguarding our clients' asset value and contributing to a sustainable society, NAM has been working to incorporate human rights considerations into our investment process. We have established a comprehensive policy that covers basic concepts, our governance approach, integration into our investment process, engagement and proxy voting strategies, and more (see table on the right). Additional details about the policy can be viewed on our website.

Human rights policy in responsible investing (excerpt of items)

- (1) Basic concepts
- (2) Governance
- (3) Integration into our investment process
- (4) Engagement with investees
- (5) Proxy voting
- (6) Escalation
- (7) Promoting the understanding of beneficiaries and external asset management companies

Issues of Biodiversity Loss and ESG Investing

A significant decline in the number of biological species

Alongside climate change, the decline in the number of biological species (biodiversity) is said to be one of the two major crises that threaten natural capital. According to WWF Japan, observable flora and fauna decreased by approximately 69% over a span of about 50 years from 1970 to 2018. Furthermore, it has been identified that approximately 1 million species are on the brink of extinction. Some experts point out that the very foundation for the continued survival of humankind is reaching its limits.

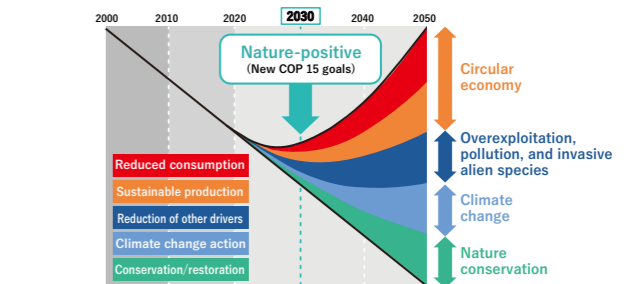
The following causes have been reported to be responsible for this situation in descending order of impact: (1) Changes in land and sea use; (2) Direct exploitation of organisms; (3) Climate change; (4) Pollution; and (5) Invasive alien species,*¹ with rapid human population growth and unsustainable production and consumption indirectly exacerbating the condition.

At the 15th Conference of the Parties to the UN Convention on Biological Diversity (COP 15) held in December 2022, goals were set to stop the loss of

biodiversity and reverse the trend to achieve a "nature-positive" world through measures as shown in the chart below (e.g., nature conservation, climate change action, circular economy). In March 2023, the Japanese government also launched a national strategy toward 2030 to strengthen related measures.

*1 IPBES (2019) "Global Assessment Report on Biodiversity and Ecosystem Services"

A portfolio of actions to reduce loss and restore biodiversity



Source: Prepared based on Global Biodiversity Outlook 5 (GBO5), Ministry of the Environment, <https://www.biodic.go.jp/biodiversity/about/aichi_targets/index_05.html>

Biodiversity risks and opportunities

Biological species cannot exist on their own. They survive by complementing one another in a perfectly balanced manner. The human species is not an exception. The biodiverse ecosystem serves as the societal basis of humankind, and its stability is, therefore, indispensable for the sustainability of social infrastructure, the underlying foundation of all corporate activities.

There are diverse biodiversity risks. For example, pollination by honey bees, when converted to human labor, amounts to a maximum annual economic value of USD 577 billion (approximately JPY 80 trillion; calculated at JPY 140 to USD 1),*² meaning that the extinction of honey bees would result in an economic loss of the same amount. Similarly, a possible depletion of marine resources has been suggested to take place in the Asia/Oceania region by 2048,*³ indicating a serious threat posed to global food security due to unsustainable fishing.

Meanwhile, business opportunities abound in measures to resolve such issues. According to the World Economic Forum, the process of a societal transition to a nature-positive economy is expected to create, by 2030, new employment for 395 million people and annual business opportunities on the scale of USD 10.1 trillion.

There are currently no economic regulations that promote biodiversity in the way carbon tax contributes to mitigating climate change, but the impact of biodiversity on economic activities may increase if the TNFD*⁴ and other similar initiatives gain further momentum in the future. This is why consideration of biodiversity-related risks and opportunities may become more important in future investments.

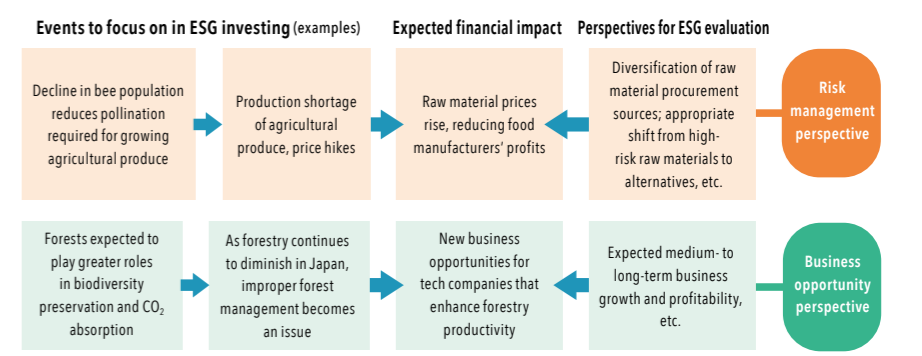
*2 IPBES (2016) "Assessment Report on Pollinators, Pollination and Food Production"

*3 IPBES (2018) "Regional Assessment Report on Biodiversity and Ecosystem Services for Asia and the Pacific"

*4 Taskforce on Nature-related Financial Disclosures

Examples of integrating biodiversity into investment decisions

The impact of biodiversity loss is not as easy to ascertain as that of climate change. As the table on the right shows, when focusing on each specific event to be analyzed, the risks and opportunities related to investment decisions become apparent. At NAM, we aim to increase investment returns by incorporating these biodiversity perspectives into our decision-making, which, in turn, hopefully contributes to the establishment of a sustainable society.



Addressing Climate Change

With an era approaching where net zero is a must to sell products

Net-zero trends rushing upstream the supply chain

The initiatives of companies aiming to achieve net-zero emissions are expanding beyond their own plants and facilities to include efforts throughout their supply chains.

For example, Apple is urging its global suppliers to achieve decarbonization by 2030. In electronic devices like personal computers and smartphones, essential components called printed circuit boards are known to have a significant environmental impact in their manufacturing process.

As companies aim to achieve net-zero emissions by 2030, this

commitment extends to parts procured from their business partners. Therefore, there is a necessity for a substantial transformation in the manufacturing of printed circuit boards. Manufacturers that cannot adapt to this change are likely to face challenges in sustaining their business in the future.

This trend is not limited to Apple; it is spreading across various countries and industries. Notable examples include Unilever, a consumer goods company, and Mercedes-Benz Group, an automobile manufacturer.

Examples of company initiatives to decarbonize their entire supply chain

Company name (country)	Business	Initiatives for decarbonization throughout the supply chain
Apple (US)	Manufacture of personal computers, smartphones, etc.	Urging global suppliers to achieve decarbonization by 2030 and monitoring the annual progress of major manufacturing partners
Unilever (UK)	Consumer goods manufacturing	Aiming to achieve net-zero GHG emissions originating from products by 2039, covering all processes from raw material procurement to over-the-counter sales
Mercedes-Benz Group (Germany)	Automobile manufacturing	Having determined to only enter into business relationships with suppliers who are committed to achieving a net-zero product supply by 2039

Source: Prepared by NAM based on each company's website

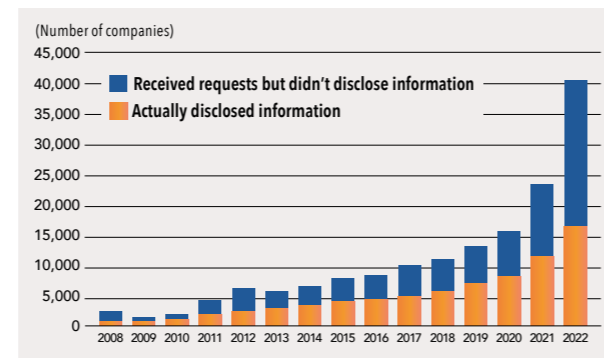
Increased requests to suppliers for disclosing environmental information

The chart on the right displays changes in the number of supplying companies that major corporations requested to disclose information on emissions through CDP (formerly the Carbon Disclosure Project), an international environmental non-profit organization established in the United Kingdom, and the number of companies that actually disclosed such information.

The growth in the past few years has been particularly notable. With the establishment of rules for Scope 3 disclosure, a trend has strengthened towards comprehending the emissions volume throughout the entire supply chain.

Source: Prepared by NAM based on CDP (2023) Global Supply Chain Report 2022

Number of suppliers receiving requests and those actually disclosed information among them



Achieving net-zero emissions is critical for sustaining Japan's industrial competitiveness

In Japan, a number of companies possess excellent technological capabilities and maintain a high global market share, especially in industries like materials. Since these companies deliver products to downstream companies across the globe, they are likely to be directly impacted by the trends of net-zero emissions that are spreading throughout the supply chain.

Efforts to achieve net-zero emissions are not only essential for the well-being of the Earth but also critical for sustaining Japan's industrial competitiveness. By recognizing risks and opportunities described above, NAM incorporates them into its long-term earnings forecasts for companies prior to making investment decisions.

Engagement in the Net Zero Asset Managers initiative

NAM joined the Net Zero Asset Managers initiative in March 2021. In January 2022, under the framework of this initiative, we established and announced the "2030 interim targets" for reducing greenhouse gas (GHG) emissions in our investment portfolio.

For 59.6% of our assets under management as of December 2019, we aim to halve the carbon footprint of our portfolio by 2030, compared to 2019. Our initiatives to achieve this goal are underway.

2030 interim targets



*1: This includes assets under discretionary investment contracts signed as a result of the transfer of the asset management function from Nippon Life Insurance Company to NAM in March 2021. All equities and credit investments are targeted (excluding long-short funds). Most of the assets excluded are sovereign bonds and alternative assets for which a method to calculate the portfolio's GHG emissions was not yet established when the interim targets were set. We plan to gradually expand the coverage while keeping an eye on the development of calculation methods.

*2: The total of all GHG emissions from investee companies attributable to NAM (Scope 1 & 2), for both equities and corporate bond investments, divided by total investment. The 50% reduction target is based on scientific insights presented in the IPCC Special Report on Global Warming of 1.5 °C. The methodology proposed by the Partnership for Carbon Accounting Financials (PCAF) is used to calculate GHG emissions attributable to NAM. Services provided by MSCI were used in this calculation.

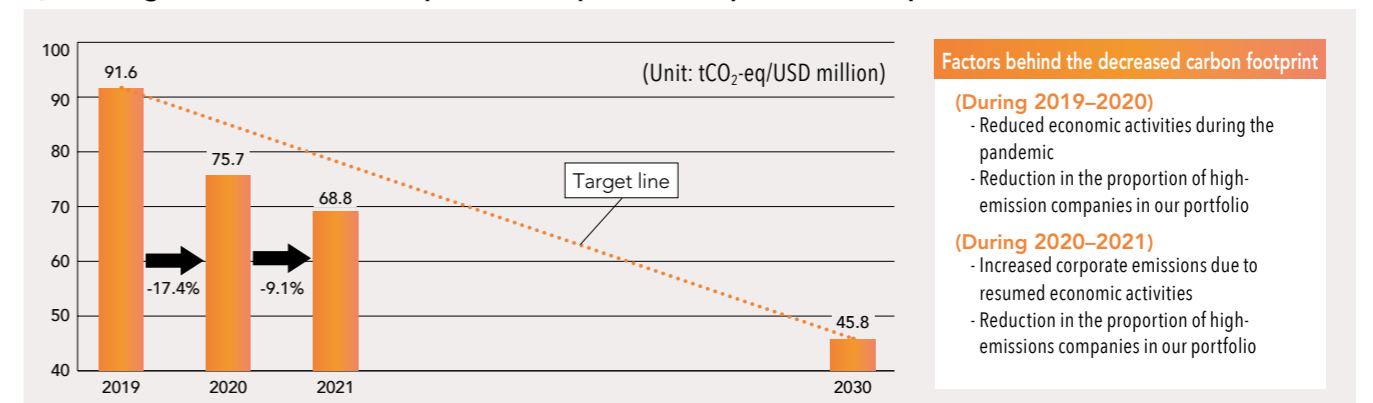
Source: Some data were reproduced with the permission of ©2023 MSCI ESG Research LLC.

The carbon footprint of our portfolio (equities and corporate bonds) decreased by 9.1% from 2020 to 2021

The 2021 carbon footprint of our investment portfolio (equities and corporate bonds) was 68.8 (tCO₂-eq/USD million), reflecting a 9.1% decrease from the previous year's 75.7. This marks a 24.9% reduction when compared to 2019, the base year for the 2030 interim targets. Despite a rise in corporate emissions during 2020–2021 due to the recovery from the COVID-19 pandemic, the overall emissions decreased.

This can be attributed to a decrease in the proportion of companies with high emissions (total carbon emissions) in our investment portfolio. While economic activities may resume and potentially lead to changes, we will be steadily committed to curbing emissions through engagement with companies.

Changes in the carbon footprint of our portfolio (equities and corporate bonds)



Note: The coverage of figures is only up to 2021 because the most recent available data on investee companies' GHG emissions was for FY2021 at the time this report was prepared (July 2023). Services provided by MSCI were used in this calculation.

Source: Some data were reproduced with the permission of ©2023 MSCI ESG Research LLC.

Striving for Net-Zero Emissions through Engagement with Companies

As previously mentioned, as the movement towards net-zero emissions among suppliers gains momentum, it is essential for Japanese companies to work on reducing their GHG emissions to maintain their global competitiveness. Specifically, for companies operating in high-emission sectors like electric power, gas, steel, cement, chemicals, and transportation, the adoption and standardization of various new technologies often play a pivotal role.

We intensively engage with our portfolio companies in these sectors, based on their specific challenges. It is frequently the case that, for such companies, the journey towards achieving net-zero emissions is lengthy and forecasting the future is difficult. We seek to enhance the predictability of achieving net-zero emissions in the future through engagement on the themes outlined below.

Key engagement points for high GHG emission sectors

- Targets for achieving net-zero emissions in line with the 1.5°C scenario
- Scientific approach to achieving the targets
- Effective reduction strategies to achieve net-zero emissions
- Actual results and forecasts of emissions, including Scope 3 emissions, which are highly important
- Consistency between the net-zero targets and capital expenditures
- Governance, strategy, risk management, and metrics and targets regarding climate change in alignment with TCFD

Examples of engagement with high GHG emission companies

1. General trading company A

Company A has set a 2030 interim target for Scope 1 and 2 emissions and is committed to achieving net-zero emissions by 2050. In addition, it places emphasis on the renewable energy sector and has been making commendable efforts, such as disclosing its reduction contribution metrics. During engagement, we discussed the significance of developing a concrete and effective roadmap towards achieving net-zero emissions, encompassing Scope 3 emissions which constitute a large proportion of the total. Meanwhile, the company recently revealed the emission volume of the largest category within Scope 3, offering a more comprehensive view of emissions across the supply chain. They are also progressing in disclosing their roadmap, and we intend to continue discussions about the effectiveness of their initiatives aimed at achieving net-zero emissions.

2. Electric power company B

Company B has also announced its emission reduction targets for 2030 and 2050. On the other hand, due to their heavy reliance on thermal power generation, they face many technical and fundraising obstacles, rendering it challenging for us as investors to ascertain accurate future prospects. Hence, in our engagement with Company B, we consistently discussed specific strategies to realize their targets. In the most recent meeting with their management, we learned of their positive intent to disclose details about these strategies. The company is also making progress in disclosing decarbonization initiatives on their website. While the electric power sector confronts numerous hurdles in attaining net-zero emissions, it holds a pivotal role in Japan's broader pursuit of net zero. To enhance the predictability of Japan achieving net zero, we will persist in our engagement with the company, promoting ongoing initiatives.

GHG Emissions from Sovereign Bond Investments and Initiatives toward Their Reduction

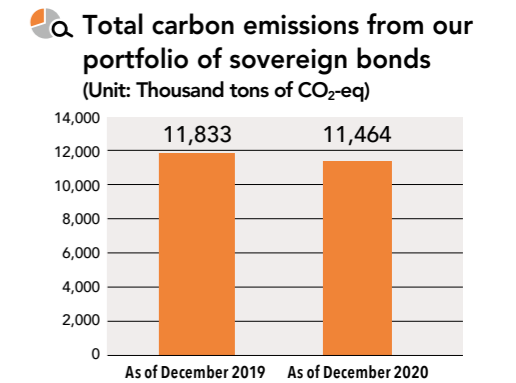
In light of the PCAF (Partnership for Carbon Accounting Financials) announcement regarding the calculation methodology for sovereign bonds in December 2022, we performed emissions calculations for sovereign bond investments as of the end of December 2019 and 2020. For the data of 2021 and subsequent years, we will carry out the calculations once we confirm the availability of GHG emission data for each country.

Total carbon emissions from our portfolio of sovereign bonds

Total carbon emissions from sovereign bonds in our portfolio were approximately 11.83 million tons of CO₂ equivalent as of December 2019 and approximately 11.46 million tons of CO₂ equivalent as of December 2020.

The market value of our sovereign bond portfolio increased from December 2019 to December 2020, which contributed to an increase in total carbon emissions. On the other hand, keenly affected by the decrease in GHG emissions in many countries due to economic stagnation arising from the COVID-19 pandemic in 2020, the total emissions decreased by 3%.

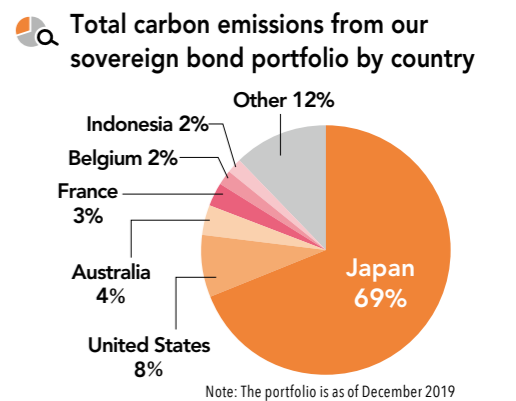
Note 1: Including assets under discretionary investment contracts signed as a result of the transfer of the asset management function from Nippon Life Insurance Company to NAM in March 2021. (The same applies for all emissions-related data below.)
 Note 2: The emissions attributable to our investments (sovereign bonds) as of the end of December 2019 and 2020 were calculated based on the methodology proposed by PCAF. The calculation utilized OS-Climate data on production-based emissions (excluding Land Use, Land-Use Change, and Forestry) and GDP (PPP) for each year. Missing values were excluded prior to the calculation.
 Source: Prepared by NAM



Total carbon emissions by country: JGB accounts for 70%

We are also considering setting targets for the carbon footprints of our sovereign bond portfolio (currently, only equities and corporate bonds are targeted). The world's leading guidance on setting reduction targets is under consideration for revision concerning sovereign bonds, and we would like to continue our considerations while taking into account the progress of these discussions.

The chart on the right shows GHG emissions from our sovereign bond portfolio categorized by country. In our portfolio, emissions stemming from JGB account for around 70% of the total (as of the end of December 2019), highlighting that Japan's emissions reduction is the key to reducing emissions from our sovereign bond portfolio.

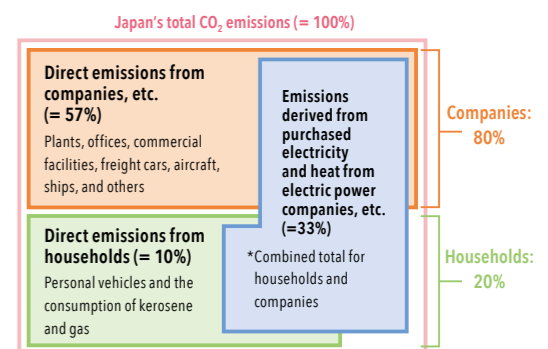


How do we reduce emissions?

In the carbon emissions from our sovereign bond portfolio, the top 15 countries contribute to around 95% of the overall emissions. If we assume that these 15 countries meet their respective reduction targets by 2030, it could lead to a reduction of approximately 38% compared to the emissions recorded in 2019.

Regarding the reduction of emissions from our sovereign bond portfolio, it is difficult for us to engage with governments as we do with companies. This is why we are considering sending a joint statement to governments, co-signed by other organizations that share our objectives. Moreover, promoting the reduction of emissions by companies, which contribute significantly to a country's emissions, can also lead to achieving our objectives. In the case of Japan, for instance, emissions from the electric power sector account for one third of the total emissions, and emissions from personal vehicles are also substantial. It's crucial to reduce these Scope 3 emissions from companies. We will enhance our engagement on this theme as well.

Breakdown of Japan's emissions (as of 2021)



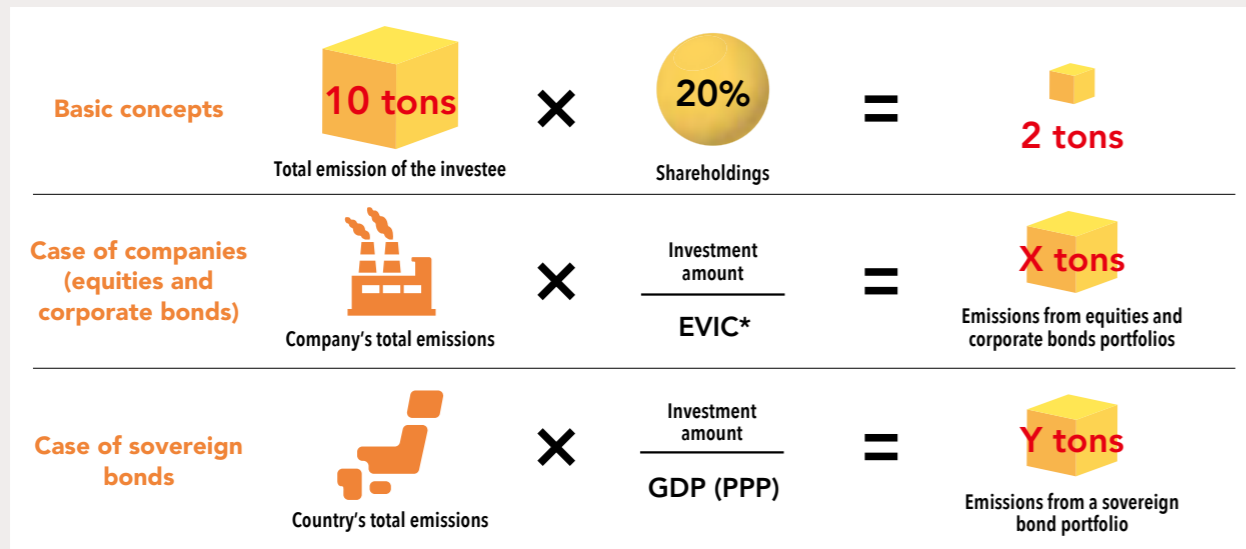
Note: CO₂ emissions account for about 91% of Japan's total GHG emissions. The remaining portion consists of methane and other gases.
 Source: Prepared by NAM based on materials from the Ministry of the Environment

Toward effective policy engagement

To reduce a country's emissions, its emission reduction targets and various policies are essential. So far, we have performed policy engagement by expressing our support for a letter calling on the Japanese government to strengthen its climate change measures.

Since it is not effective or efficient for an asset management company to solely perform policy engagement, we believe it important to collaborate with investor organizations that share the same philosophy with us.

Column How to calculate GHG emissions from a sovereign bond portfolio (A methodology recommended by PCAF)



(* EVIC stands for Enterprise Value Including Cash. It is a sum of the market capitalization of common and preferred shares as well as the total book value of total liabilities and non-controlling interests (Not excluding cash, deposits or cash equivalents).

Characteristics of GHG emissions from sovereign bond portfolios

1 It is not suitable to directly compare emissions from equities and corporate bonds investment and those from sovereign bond investment

Though the basic concept of calculating GHG emissions attributable to portfolios by multiplying total emissions by shareholding is common for both companies (equities and corporate bonds) and sovereign bonds, the way to calculate shareholding is different between companies and sovereign bonds. Therefore, emissions from sovereign bond investment are not suitable for direct comparison with emissions from equities and corporate bond investment.

2 The aggregation scope of company emissions and national emissions is different

While a company's emissions generally include emissions generated in the countries and regions where the company operates, a country's emissions are generally calculated based on greenhouse gases emitted within each country (In the case of "production-based emissions" described below).

Therefore, for example, there is a partial overlap between the emissions of Japanese companies and those of Japan itself, and the emissions from overseas plants of Japanese companies are not included in Japan's emissions.

3 There are two methods for calculating a country's emissions (production-based and consumption-based emissions)

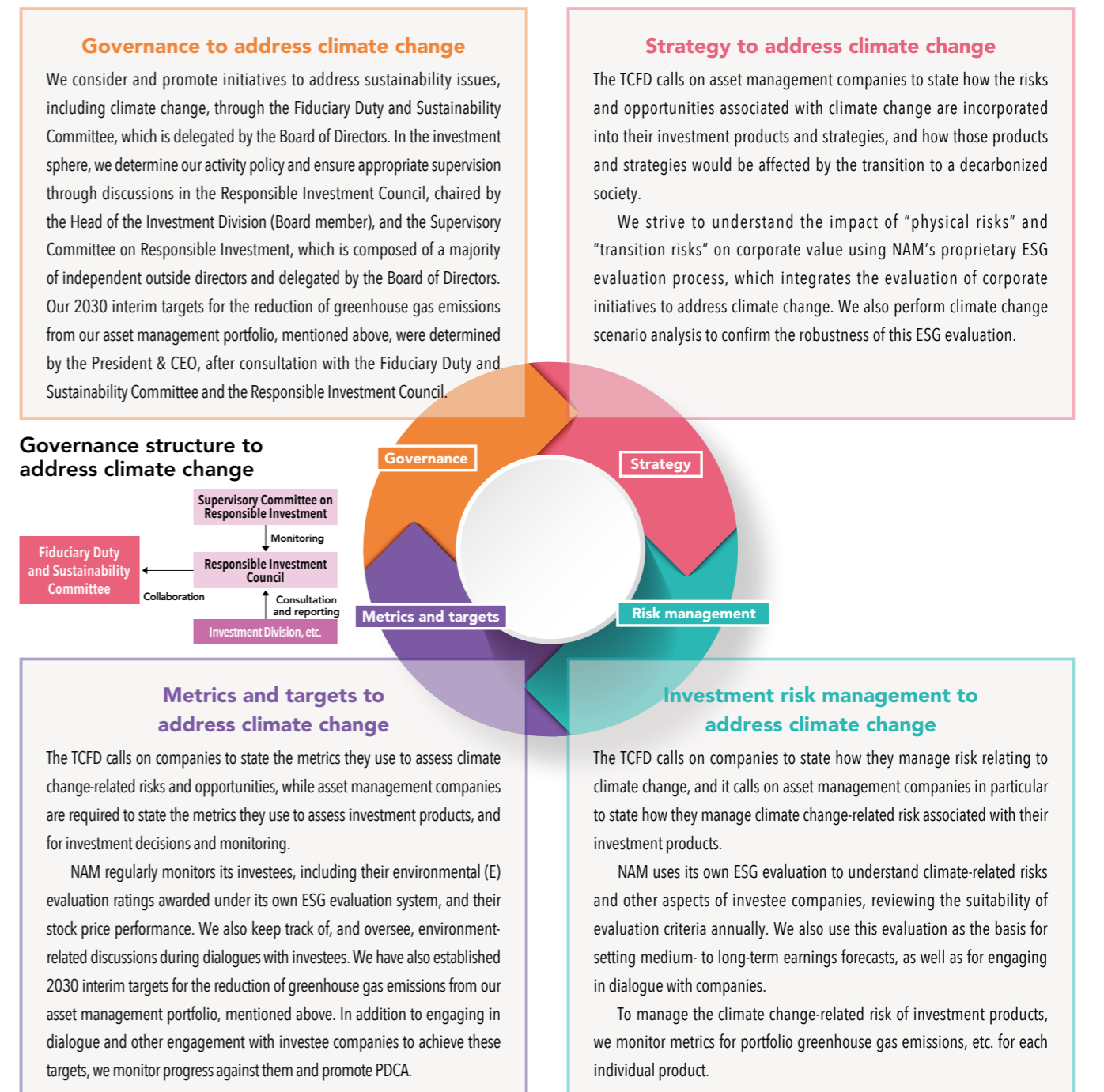
When calculating a country's emissions, a method called "production-based emissions" is generally used, and each country also adopts this method to set emission reduction targets. This is a method of calculating emissions based on the country where CO₂ is actually emitted, such as by burning fossil fuels. In this case, CO₂ emitted during the process of producing products to be exported to other countries is also included. With this method, emissions from countries like China, where many global companies have manufacturing bases, tend to be large.

On the other hand, there is also a method called "consumption-based emissions," in which CO₂ emitted in the production process is calculated as emissions from the country where the product is ultimately used and consumed. PCAF recommends using both production-based emissions and consumption-based emissions to confirm portfolio emissions, but it has also been pointed out that consumption-based emissions do not fully offer data needed to properly calculate portfolio emissions.

Addressing the TCFD Recommendations: Aiming to Contribute to Net-Zero Emissions While Fulfilling Our Fiduciary Duty

With climate change becoming an increasingly important factor for corporate management, the significance of the TCFD recommendations, which encourage the disclosure of the financial impacts involving climate change risks and opportunities, is also growing. Disclosure by investee companies based on the TCFD recommendations offers essential information for NAM's ESG evaluation. At the same time, as an asset management company, we are also striving to ensure the transparency of initiatives grounded in the TCFD recommendations.

TCFD stands for Task Force on Climate-related Financial Disclosures. The TCFD calls on companies and financial institutions to disclose information on financial risks and potential impacts relating to climate change. As of the end of June 2023, more than 4,600 organizations worldwide had declared their support for the TCFD. NAM became an official supporter in January 2019.



GHG Emissions Currently Associated with NAM's Portfolios (Equities and Corporate Bonds) Under Management

The current status of metrics related to portfolio greenhouse gas emissions, for which disclosure is suggested in the TCFD recommendations, is shown below.

Total carbon emissions of portfolios

This metric indicates the portions of greenhouse gas emissions from corporate activities that are attributable to an investor in that company, through investments in equities and corporate bonds. The amounts shown are the aggregated totals of values calculated for each company within our portfolios by multiplying each company's greenhouse gas emissions volume by the shareholding ratio for our investment in the company. The larger the size of the portfolio, the greater these amounts tend to be.

Carbon emissions from our investment portfolios total approximately 10.82 million tons of CO₂ equivalent as of December 2021*. There was a decrease in all asset classes from 2020 to 2021. This was mainly due to a decrease in investment in companies with large emissions in our portfolio, particularly in foreign equities. In terms of the emissions volume for each asset class, the largest total carbon emissions were for foreign corporate bonds, which were also the largest asset class.

(*): Figures presented are for 2021, because FY2021 is the most recent fiscal year for which sufficient data on greenhouse gas emissions were available for investee companies at the time of the preparation of this report. (The same applies for all emissions-related data below.)

Total carbon emissions of NAM's portfolios (thousand tons of CO₂ equivalent)

Asset class	As of December 2020	As of December 2021
Domestic equities	967	872
Foreign equities	1,975	1,612
Domestic corporate bonds	2,664	2,463
Foreign corporate bonds	5,898	5,869
Total	11,504	10,816

Note 1: The data as of December 2020 include assets under discretionary investment contracts signed as a result of the transfer of the asset management function from Nippon Life Insurance Company to NAM in March 2021. (The same applies for all emissions-related data below.)
 Note 2: We used MSCI's services to obtain data on each investee's greenhouse gas emissions (Scope 1 & 2) and EVIC (enterprise value including cash) for each year based on the International Securities Identification Numbers (ISINs) for our investments (equities and corporate bonds) as of the end of December 2020 and 2021. Having excluded missing values, we used the methodology proposed by PCAF to calculate the emissions attributable to NAM ("financed emissions").
 Source: Some data were reproduced with the permission of ©2023 MSCI ESG Research LLC.

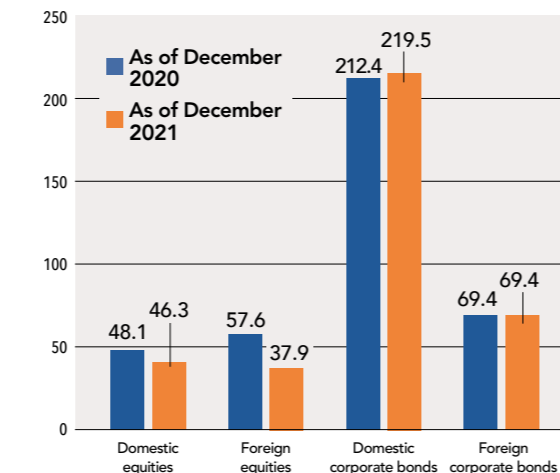
Carbon footprint of portfolios

This metric shows emissions adjusted for portfolio size, enabling comparison between portfolios and between asset categories. It is calculated by dividing each portfolio's total carbon emissions, as stated in the section above, by its market capitalization. "Carbon footprint" means the volume of greenhouse gas emissions throughout the entire process from manufacturing to the sale of products; this metric divides emissions volumes by market capitalization to look at carbon footprints per unit of investment in each portfolio.

NAM's 2030 interim targets based on the Net Zero Asset Managers initiative, described above, were also established using this metric.

The carbon footprint of our investment portfolios decreased significantly in the foreign equities category from 2020 to 2021. This was mainly due to a decrease in the holding ratio of companies with large emissions in our portfolio. Asset classes other than foreign equities were generally flat or slightly increased.

Carbon footprint of NAM's portfolios (Unit: tCO₂-eq/USD million)



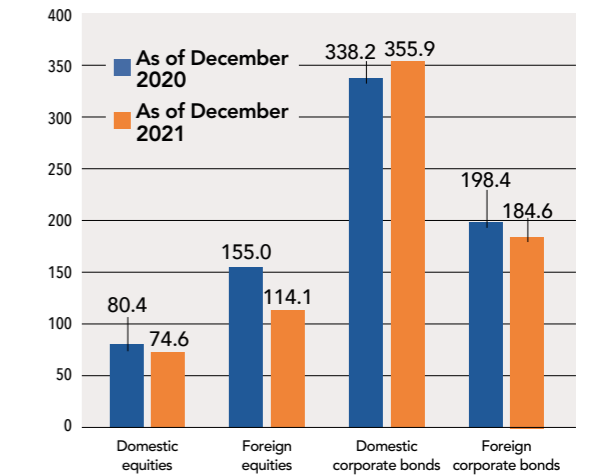
Note: Calculated using the market capitalization of holdings of each investee (equities and corporate bonds) aggregated to measure total carbon emissions, described above, for which there are no missing values.
 Source: Some data were reproduced with the permission of ©2023 MSCI ESG Research LLC.

Weighted average carbon intensity of portfolios

The total carbon emissions of NAM's portfolios, as stated on the previous page, are also affected by the value of investee companies' sales. Carbon intensity is the metric for assessing greenhouse gas emissions adjusted for the value of sales, and it enables examination of the extent to which companies are emitting greenhouse gases in the course of generating sales (i.e., conducting their business). The weighted average carbon intensity of NAM's portfolios is the result of using the percentage of NAM's portfolio accounted for by each investee as the weighting to calculate the weighted average of their carbon intensities. Carbon intensity can be explained as a measure of how "intense" (large) a company's emissions are per unit of net sales.

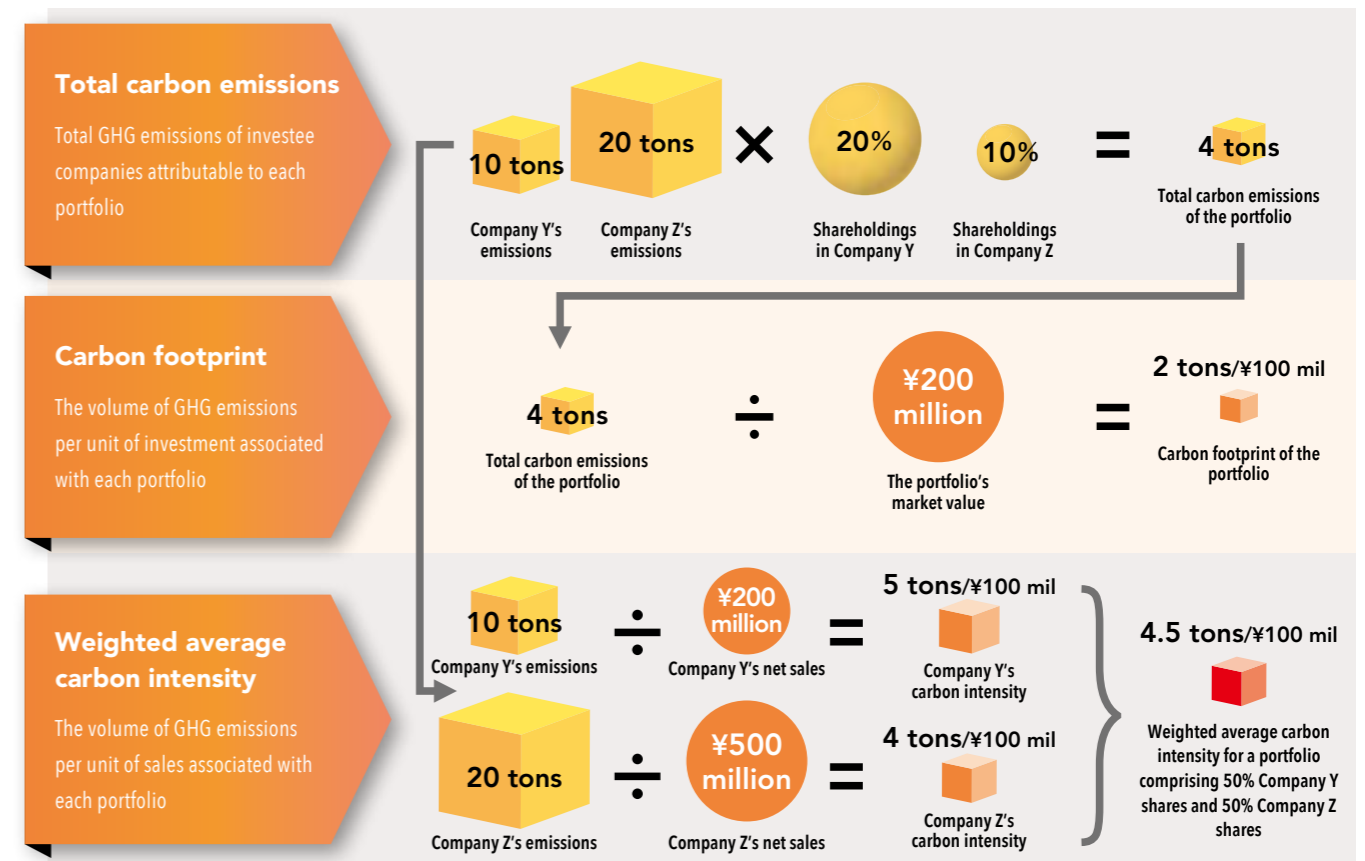
The weighted average carbon intensity of NAM's investment portfolios decreased from 2020 to 2021, particularly in foreign equities, mainly due to reduced holdings of high-emission companies. On the other hand, carbon intensity increased in domestic corporate bonds due to an increase in emissions of the power sector and other factors.

Weighted average carbon intensity of NAM's portfolios (Unit: tCO₂-eq/USD million)



Note: Carbon intensities were calculated by using MSCI's services to obtain data on each investee's GHG emissions (Scope 1 & 2) per unit of net sales for each year based on the ISINs for our investments (equities and corporate bonds) as of the end of December 2020 and 2021. Missing values were excluded prior to calculation.
 Source: Some data were reproduced with the permission of ©2023 MSCI ESG Research LLC.

Reference: Each metric's meaning and method of calculation



Data related to greenhouse gas emissions in this report have been obtained and calculated using the services provided by MSCI ESG Research LLC. Neither NAM, its affiliates, nor any other parties involved or concerned in the editing, calculation, or preparation of information on the above (hereinafter, collectively referred to as "ESG-related parties") provide any guarantee or declaration, explicit or implicit, nor bear any responsibility regarding any information provided by ESG-related parties and contained in this report (hereinafter, "this information"). This information may not be redistributed or used as the basis for other metrics, securities products, or financial instruments. This report has not been approved, reviewed, or prepared by the ESG-related parties. This information does not constitute investment advice or a recommendation to engage (or not engage) in any kind of investment decision, and may not be depended on as the basis for such a decision.

External Investment

Offering excellent investment products across a variety of asset classes managed by asset management companies around the world

In addition to internal investment, NAM offers excellent investment products managed by asset management companies around the world. We refer to the entrustment of investment to third-party asset management companies, primarily overseas, as external investment. As of the end of March 2023, the total assets under third-party management amounted to approximately JPY 2.9 trillion, accounting for around 8.5%* of our total assets under management, showing a significant growth in recent years.

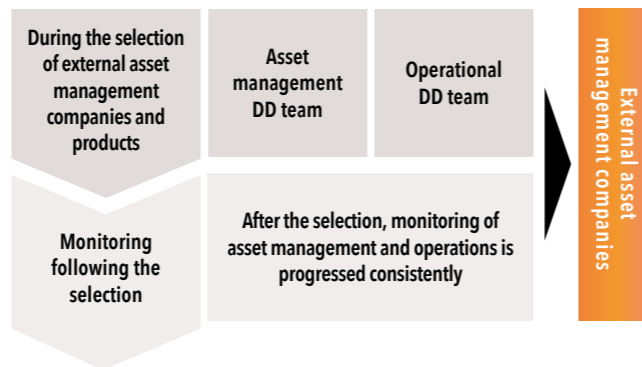
NAM engages in business with over 50 external asset management companies across a wide range of asset classes including alternative assets such as private equity and infrastructure as well as traditional assets such as equities and bonds. We provide an extensive lineup of products including ESG funds to meet our clients' diverse needs.

In ESG investing, we are also striving to achieve broader information disclosure and to strengthen our due diligence (DD) framework. At NAM, about 30 members engage in DD in the selection of external asset management companies and products, along with subsequent

monitoring. During the selection stage, the members are grouped into the asset management DD team and the operational DD team, respectively focusing on performing DD.

*Excludes assets under management by the Insurance Asset Management Division, which manages the assets of Nippon Life Insurance Company.

Framework for DD during selection and subsequent monitoring



Interview with members in charge of external investment

We interviewed key members engaged in due diligence and subsequent monitoring to find out about NAM's strengths in and tips for selecting excellent asset management companies and products.

Q Could you share with us the outline of NAM's history of external investment?

Initially, our external investment had been limited to products of specific asset management companies, but more than a decade ago, we started expanding our selection of products while also enlarging our own organizational structure.

Today, we employ products that we identify as genuinely superior from among those offered by asset management companies around the world, regardless of capital relationship. As a result, we now engage in transactions with over 50 external asset management companies.



Members in charge of external investment (Alternative & Fund Investment Department and External Fund Investment Department, Global Product Division)

Q NAM invests in a broad range of alternative assets in addition to traditional assets such as equities and corporate bonds. What is the background to this practice?

NAM characteristically invests in external products across a broad spectrum of asset classes. Underlying this practice are the long-standing track record of investments in alternative assets by its parent company, Nippon Life Insurance Company, and the extensive knowledge and network we have acquired as a group through the experience.

NAM is capable of utilizing its parent company's network to build relationships of trust with external asset management companies, gain in-depth understanding of the strengths and characteristics of the companies and their products, and provide our clients with these products through pension funds and investment trusts, which we believe is our significant competitive advantage.

Q What are some tips for discerning good external asset management companies and products?

We have extensive experience in working with external asset management companies and products, which makes a great difference. Evaluating and picking out superior companies and products from among countless choices is not something that can be done automatically, but undeniably requires experience.

In the selection process, we attribute importance to whether we think it is highly probable for a candidate product to meet its investment goal on a sustainable basis. A strong management result achieved in the past does not always guarantee the same future performance, so we conduct multifaceted verifications of its track record and results to enhance our confidence in its future performance. The company's management stability and its asset managers' consistency are also key points to be checked. Our selection process involves careful consideration, usually based on repeated interviews.

Q Do you have any tips for building trust with external asset management companies?

Efforts to build trust all boils down to engaging in careful communication on a daily basis. Most of the external asset management companies are based in Europe and the United States, where business practices and languages differ from ours. That's exactly why maintaining close communication with their asset managers is crucial for preventing discrepancies in our objectives and perceptions.

Fortunately for us, our extensive experience in communicating with numerous asset management companies has become a substantial asset of our organization.

Q How do you check the ESG investing measures undertaken by external asset management companies and their products?

We have our own questionnaire for external asset management companies to find out about their ESG investing. In the questionnaire, we incorporate, as necessary, the knowledge we have gained through our daily interactions with them, as well as issues pointed out in the Principles for Responsible Investment (PRI) annual assessment for each signatory.

Our first step is to request the companies to respond to the questionnaire. We also ask them directly about important matters to thoroughly confirm their ESG investing efforts.

Q How do you identify excellent ESG investing performed by external asset management companies?

One of the key points is to see if the company has its own unique philosophy on ESG investing and takes original actions, rather than merely providing a general explanation of ESG investing.

In making investment decisions, we must also bear in mind that ESG investing is more compatible, and therefore easier to practice, with certain asset classes than others.

Q How do you perceive ESG initiatives that external asset management companies implement as a corporate entity?

ESG initiatives conducted as a corporate entity is another aspect we value. One particularly important point is to check their asset managers' compensation system, job satisfaction level, and staff turnover rate, among others. It is not rare for one company's entire asset management team to transfer to another, especially in Europe and the United States, which is one of the serious risks in our external investment.

It is also critically important to make sure that there are no concerns in terms of their compliance and operation, as well as investment track record and capabilities.

Furthermore, we check their signatory status to the PRI and net zero initiatives through our ESG investing questionnaire we mentioned, while also trying to convey NAM's own philosophy on ESG investing.

(Interviewer: ESG Investment Promotion Department)

FY2022 Topics

2022

	Global trends	NAM response and actions
April	Japan <ul style="list-style-type: none"> The Tokyo Stock Exchange launches its new market segments (Prime Market, Standard Market, and Growth Market). 	<ul style="list-style-type: none"> Nissay SDGs Global Select Fund receives a prize in the Foreign Equity ESG Fund Category of the R&I Fund Awards 2022. Speaks at the 1st session of the webinar series "ESG: Ask an Expert," organized by the PRI. Donates lectures in "The SDGs and Finance, Economics, and Society" at Kyoto University.
May	<ul style="list-style-type: none"> The U.S. Securities and Exchange Commission (SEC) announces proposed regulation on ESG fund classification and information disclosure. Japan <ul style="list-style-type: none"> The Financial Services Agency (FSA) announces "Supervisory expectations for asset management firms providing ESG funds." 	<ul style="list-style-type: none"> Speaks at the 4th session of the webinar series "TCFD Capacity Building Series for China," organized by the PRI. Joins CA100+, a global collaborative engagement platform on climate change.
June	Japan <ul style="list-style-type: none"> The "Grand Design and Action Plan for a New Form of Capitalism" approved by the Kishida Cabinet clearly states the promotion of impact investing. 	<ul style="list-style-type: none"> Declares support for the message by the Japan Climate Initiative (JCI): "Now is the time to accelerate renewable energy deployment." Speaks at the Asian C-Suite Discussion at the Investor Group on Climate Change (IGCC) Summit on climate change. Holds "NAM Seminar: At the Forefront of the Global ESG Trend." Expands disclosure of ESG fund information in phases from June in prospectuses, monthly reports, disclosure materials, etc. for publicly offered investments.
August		<ul style="list-style-type: none"> Announces NAM's view on the definition of ESG funds. Submits a comment letter on the exposure draft on the requirements for sustainability-related disclosure published by the International Sustainability Standards Board (ISSB). Announces endorsement of the 2022 Global Investor Statement to Governments on the Climate Crisis coordinated by the investor group The Investor Agenda.
September		<ul style="list-style-type: none"> Awarded five stars, the highest score, in nine out of 12 items in the PRI annual assessment (2021). Speaks at the Nikkei SDGs Forum "Project for Exploring the Future of Asset Management Companies." Speaks at the 3rd session of the webinar series "ESG: Ask an Expert," organized by the PRI.
October	<ul style="list-style-type: none"> The U.K. Financial Conduct Authority (FCA) announces proposed regulation on sustainable fund classification and information disclosure. 	<ul style="list-style-type: none"> Speaks at the 19th Annual Meeting of Science and Technology in Society forum (STS forum). Speaks at the EcoBalance 2022 (15th Biennial International Conference on EcoBalance).
November		<ul style="list-style-type: none"> Speaks at a side event at the UN Climate Change Conference of the Parties (COP27) held in Egypt, and participates in a view exchange meeting held at the site with environment ministers.
December	<ul style="list-style-type: none"> The UN Biodiversity Conference of the Parties (COP15) is held, adopting the Kunming-Montreal Global Biodiversity Framework comprised of global targets to be achieved by 2030. The Partnership for Carbon Accounting Financials (PCAF) announces the methodology for calculating greenhouse gas emissions attributable to sovereign bond investments. Japan <ul style="list-style-type: none"> The FSA announces the Code of Conduct for ESG Evaluation and Data Providers. 	<ul style="list-style-type: none"> Provides sponsorship to and speaks at the PRI in Person & Online 2022 held in Spain. Participates as an endorser in "Advance," a PRI-led global collaborative engagement platform for promoting human rights. Participates in a financial institution meeting on the Net-Zero Data Public Utility initiative led by the Glasgow Financial Alliance for Net Zero (GFANZ).
2023		<ul style="list-style-type: none"> Joins the Global Impact Investing Network (GIIN). Speaks at a seminar on net-zero initiatives hosted by the Investment Trusts Association, Japan. Speaks at a symposium entitled "Transition to a Decarbonized Society: Hokkaido University's Climate Change Initiatives and Multi-actor Co-creation" jointly hosted by Hokkaido University and QUICK Corp.
February		

	Global trends	NAM response and actions
March	<ul style="list-style-type: none"> The Intergovernmental Panel on Climate Change (IPCC) points out the need to reduce greenhouse gas emissions by 60% by 2035. Japan <ul style="list-style-type: none"> The FSA announces supervisory guidelines for ESG investment trusts. Human capital disclosure becomes mandatory in annual securities reports from the fiscal year ended March 31, 2023. 	<ul style="list-style-type: none"> Speaks at the 2023 Japan Symposium hosted by Milken Institute. Speaks at an international conference hosted in Sweden by the International Corporate Governance Network (ICGN). Participates in a roundtable event held in Belgium with policymakers around the world on "steering the role of ESG ratings and data products providers." Speaks at a lecture on contribution to avoided emissions hosted by the Institute of Life Cycle Assessment, Japan (ILCAJ).
April		<ul style="list-style-type: none"> Declares support for the message by the JCI: "Overcoming Two Crises with Renewable Energy and Carbon Pricing." Nissay Health Care Support Fund receives First Prize in the Japanese Equity ESG Fund Category of the R&I Fund Awards 2023.
June	Japan <ul style="list-style-type: none"> The GFANZ opens Japan Country Chapter. 	<ul style="list-style-type: none"> Participates in the activities of the Japan Chapter opened by the GFANZ.

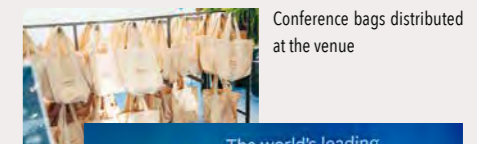
EcoBalance 2022 (15th Biennial International Conference on EcoBalance) was hosted by the ILCAJ in Fukuoka from October to November 2022. NAM's President & CEO Ozeki delivered a keynote speech at the event.

In addition, NAM's Chief Portfolio Manager Inoue, who engages in impact fund investing, participated in a panel discussion on how to utilize corporate contributions to avoided greenhouse gas emissions and shared his opinions as an investor who utilizes this indicator.



NAM's President & CEO Ozeki delivering a keynote speech

PRI in Person & Online 2022, the world's leading responsible investment conference, was held in Barcelona, Spain. NAM provided conference bag sponsorship at the event. NAM's Co-Chief Investment Officer (Co-CIO) and Head of the ESG Investment Promotion Department Fujii participated in a panel discussion entitled, "Committed to net zero: tackling key implementation challenges," where he talked about how NAM strives to contribute to achieving net zero by 2050 and address operational challenges for asset management companies.



Conference bags distributed at the venue



NAM's Co-CIO and Head of the ESG Investment Promotion Department Fujii on stage

NAM received a bronze prize in the investors section of the 4th ESG Finance Awards Japan for the second consecutive year. The award was presented in recognition of NAM's long-term track record of investment based on its proprietary evaluation method in which financial analyses are correlated with ESG factors and emphasis is placed on its internal analysts' judgment, as well as its efforts to engage with investees to help enhance their corporate value.



NAM's President & CEO Ozeki with the certificate of commendation

Major Global Initiatives

ESG



The PRI is an international organization that supports the integration of responsible investment practices, leadership, and ESG issues throughout the investment chain. Supported by UN partners, it has over 5,000 signatories with a total of USD 120 trillion in assets under management.



The ICGN is an organization with the purpose of establishing effective governance and fostering stewardship among investors to facilitate efficient markets and sustainable economies. It establishes standards and guidelines on governance and stewardship, and provides a wide range of support and advice.



The JSIF was established to promote and advance sustainable investment in Japan. It not only offers a platform for individuals and organizations involved with SRI and ESG investing to exchange ideas, but also encourages companies to disclose information. Through the sound development of sustainable investment, it strives to contribute to the creation of a sustainable society.



The Principles for Financial Action for the 21st Century were formulated in October 2011 as action guidelines for financial institutions to fulfill the responsibilities and roles necessary for the creation of a sustainable society. Signatory institutions are required to implement initiatives based on seven principles in accordance with their type of business.

E (Environmental)



The CDP is a non-governmental organization in the UK established in 2000. It operates a global information disclosure system that enables investors, companies, nations, regions, and cities to manage their environmental impacts.



Climate Action 100+ is an institutional investor-led initiative that collaboratively engages with the world's largest corporate greenhouse gas (GHG) emitters to encourage them to strengthen climate change mitigation measures and enhance information disclosure.

The Net Zero Asset Managers initiative

The Net Zero Asset Managers initiative, launched in December 2020, is a representative body for the asset management industry to contribute to achieving net-zero greenhouse gas emissions by 2050 to attain the goal of limiting global warming to 1.5°C as agreed upon in the Paris Agreement. As of the end of December 2022, 301 institutional investors had joined, with total assets under management amounting to USD 59 trillion.



The Japan Climate Initiative (JCI) is a network in Japan established to enhance communication and the exchange of ideas among companies, local governments, NGOs, and other entities actively engaged in climate action. In order to realize the decarbonized society envisioned by the Paris Agreement, it encourages Japan to stand at the forefront of challenges with other countries and strive to overcome the crisis of climate change.

Impact investing



The Global Impact Investing Network (GIIN) is a nonprofit organization established in 2009 in the United States to promote and raise awareness of impact investing and cultivate impact investing communities. Over 400 institutional investors have joined the organization. GIIN is also responsible for the development and management of IRIS+, which offers a catalog of key indicators for impact measurement.

Information disclosure



The TCFD is a task force established by the Financial Stability Board (FSB) in 2015 at the request of G20 finance ministers and heads of central banks. It submitted its final report on climate-related financial disclosures to G20 members in June 2017.

S (Social)



Advance is a collaborative engagement platform launched by PRI in 2022 for institutional investors to work together to address human rights and social issues. Its goal is to bring about positive outcomes for workers, local communities, and other stakeholders through its activities.



The Asia Investor Group on Climate Change (AIGCC) is an initiative to deepen understanding and encourage proactive actions among asset owners and financial institutions in Asia about the risks and opportunities associated with climate change and low-carbon investment.

Investment Team

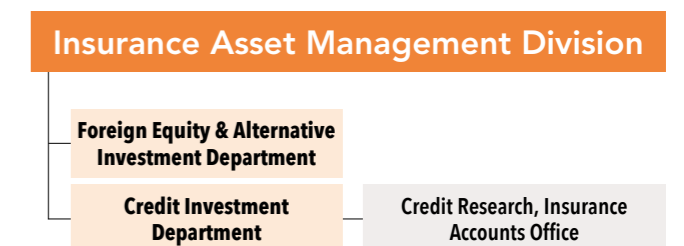
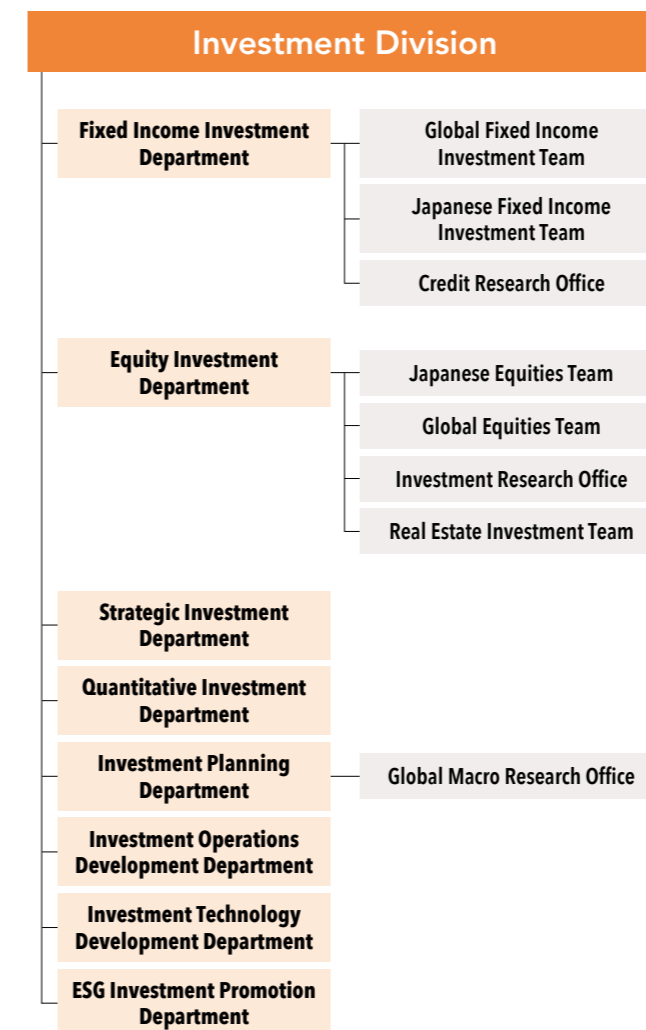
NAM's investment team consists of the Investment Division, which provides investment trust products and manages assets for a wide range of clients, including public and private pensions, business corporations, institutional investors, etc.; the Insurance Asset Management Division, which manages credit and alternative assets entrusted to us by Nippon Life Insurance Company; and the Global Product Division, which handles fund investments and external investments*.

The Investment Division's ESG Investment Promotion Department does not only operate within the Division but also collaborates with investment managers and relevant personnel cross-divisionally to advance each ESG investment made both internally and externally.

Specifically, the department is working to improve the capabilities of investment managers' ESG analysis and stewardship activities, control the quality of our proprietary ESG ratings, organize an ESG-related database that includes data on ESG ratings and engagement activities, support domestic and overseas initiatives and other ESG-related activities, plan other ESG investing-related initiatives, and more.

The ESG Investment Promotion Department was initially established as the ESG Investment Promotion Office in 2016 and was upgraded to a department in 2021. In addition to the dedicated staff assigned to the department, other members from various departments also assume concurrent roles to promote ESG.

*The outsourcing of investment management, etc. to third-party (mainly overseas) asset management companies



Main members involved in ESG promotion

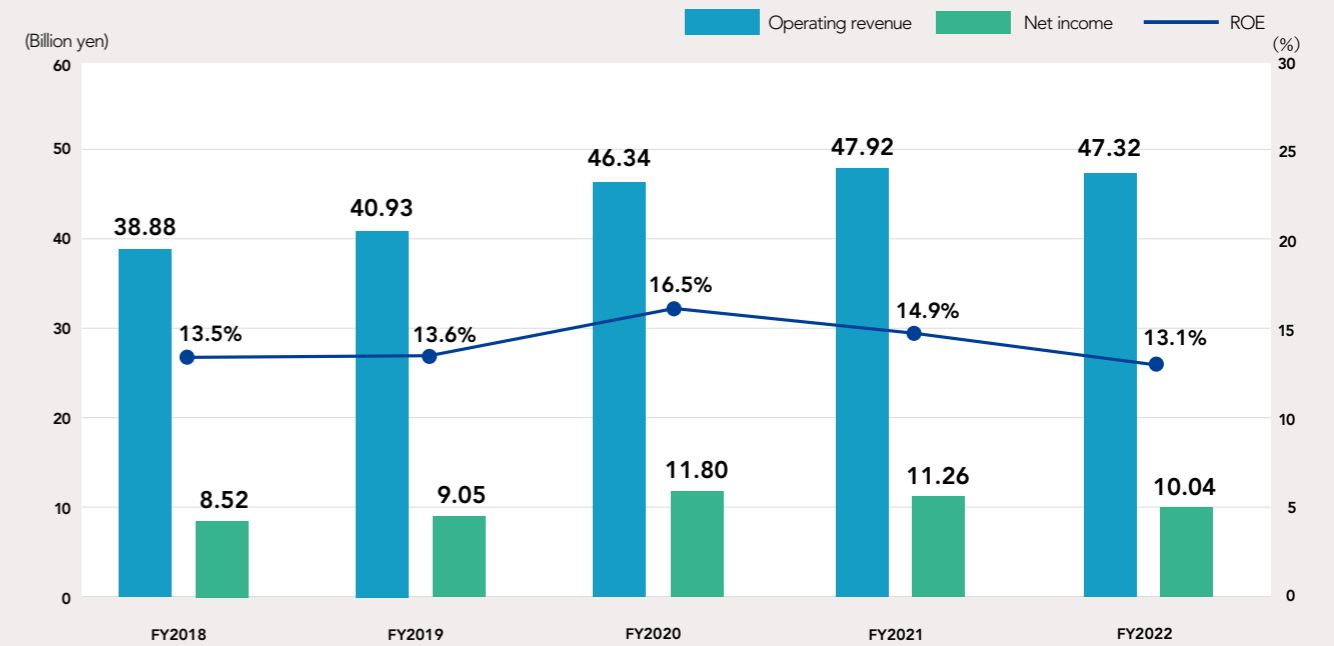
Company Profile

As of March 31, 2023

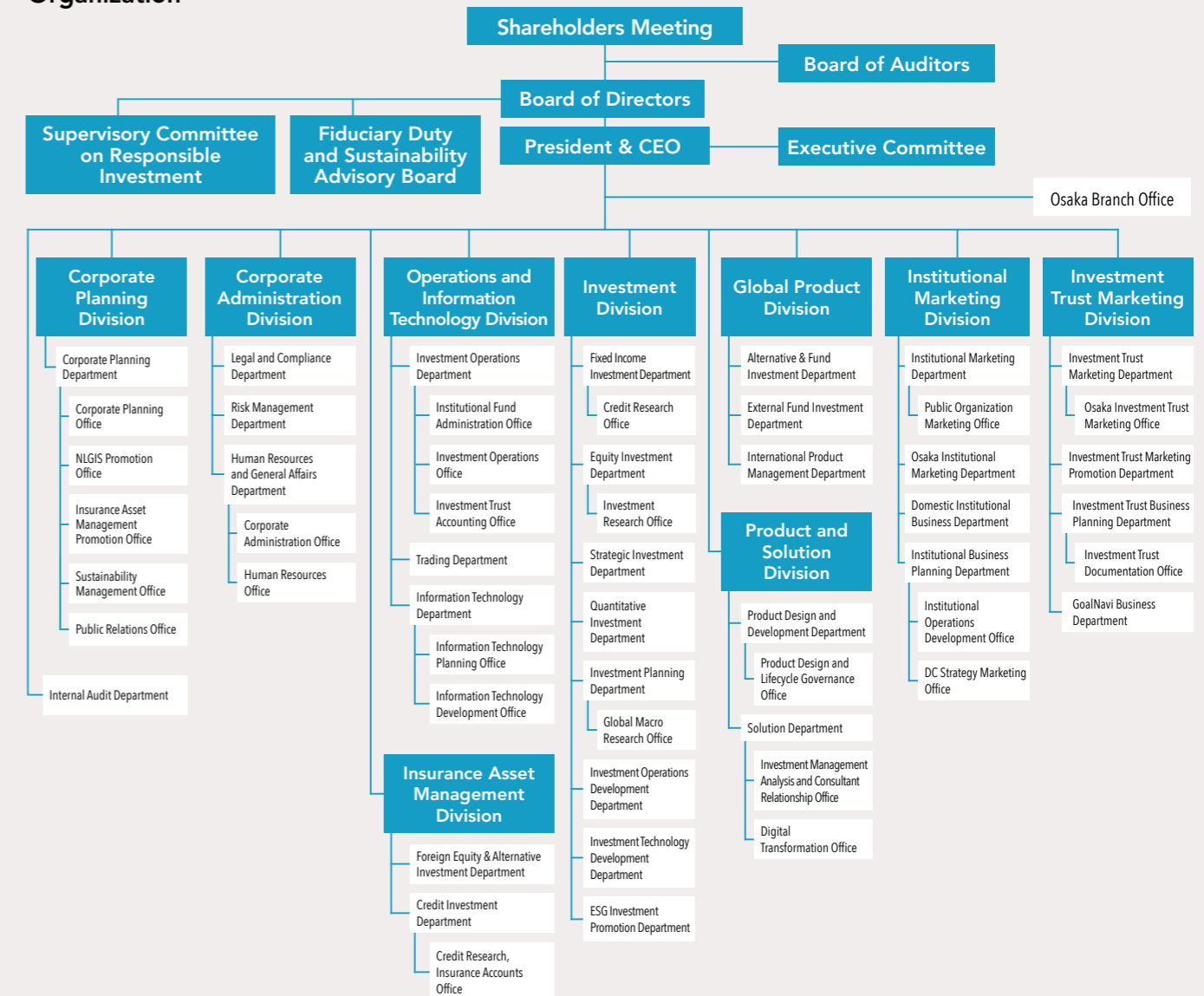
Corporate name	Nissay Asset Management Corporation
Equity capital	Approximately JPY 76.0 billion
Shareholder	Nippon Life Insurance Company (100%)
Number of employees	709
Location	<p>Headquarters Nihon Seimei Marunouchi Building 1-6-6 Marunouchi, Chiyoda-ku, Tokyo 100-8219 Japan Telephone number: +81-3-5533-4000 (Main)</p> <p>Osaka Branch Office EDGE Yodoyabashi 2-4-10 Imabashi, Chuo-ku, Osaka 541-0042 Japan Telephone number: +81-6-6204-0201 (Pension); +81-6-6204-0223 (Investment trust)</p>
Overseas offices	Nippon Life Global Investors Singapore Limited 138 Market Street #34-02 CapitaGreen Singapore 048946 Telephone number: +65-6800-7000 (Main)
Businesses	Investment Management Business, Investment Advisory and Agency Business, and services pertaining to Type-II Financial Instruments Business
Registration No.	Director of Kanto Local Finance Bureau (Financial Instruments Firms) No. 369
Membership in Financial Instruments Firms Associations	The Investment Trusts Association, Japan The Japan Investment Advisers Association - Japan Investment Advisers Association membership number: 010-00092
President and Chief Executive Officer	Hiroshi Ozeki
Executive Vice President	Toshihiro Nakashima
Director	Keisuke Kawasaki
Director (part-time)	Nobuto Fujimoto / Hideyuki Imanishi / Makiko Fuse*1 / Etsuro Kuronuma*1 / Masataka Hama*1
Member, Board of Auditors	Hiroataka Murohashi
Member, Board of Auditors (part-time)	Yosuke Matsunaga / Kiyomi Kikuchi*2 / Tamami Okawa*2

*1 Outside Director stipulated in the Companies Act
*2 Outside Corporate Auditor stipulated in the Companies Act

Our Financial Status



Organization



Directors

As of June 26, 2023

President and Chief Executive Officer	Hiroshi Ozeki
Executive Vice President	Toshihiro Nakashima
Director	Keisuke Kawasaki
Director (part-time)	Nobuto Fujimoto / Hideyuki Imanishi / Makiko Fuse*1 / Etsuro Kuronuma*1 / Masataka Hama*1
Member, Board of Auditors	Hiroataka Murohashi
Member, Board of Auditors (part-time)	Yosuke Matsunaga / Kiyomi Kikuchi*2 / Tamami Okawa*2

*1 Outside Director stipulated in the Companies Act
*2 Outside Corporate Auditor stipulated in the Companies Act

Initiatives for Enhancing Our Corporate Governance Structure

We are working on the initiatives outlined below to improve the independence and transparency of our governance structure and establish a framework for making management decisions that take into account the perspectives of our clients.

Improving the effectiveness of the Board of Directors

We aim to improve the effectiveness of the Board of Directors by optimizing its composition (reducing the number of directors from 12 to 8) and appointing 3 independent outside directors with diverse experiences and insights (an independent outside director ratio of 37.5%) to further focus on discussions regarding management strategies and supervision of business execution.

Clarifying the role of the Executive Committee

To facilitate prompt decision-making and to clarify responsibilities on the execution side, the Executive Committee was repositioned as an advisory body to the president.

Introducing a new organization classification system

In order to clarify responsibilities in each area and promote prompt and decisive decision-making, we have introduced a new organization classification system where each division is headed by a division head responsible for executing activities within their respective domains.

Organizing the position of committees

At our company, various committees (Sustainability Committee, Fiduciary Duty Committee, Risk Management Committee, and Compliance Committee), which were delegated authority by the Board of Directors, functioned as decision-making bodies for important matters within their respective domains. However, in pursuit of a more unified decision-making process, the authority delegated by the Board of Directors has now been consolidated under the President & CEO. To ensure discussion based on expert knowledge, the functions of the aforementioned committees will be transferred to advisory bodies within the Executive Committee. The Board of Directors will continue to bear the responsibility of important decision-making within individual domains while also overseeing supervisory functions.

Establishing the Fiduciary Duty and Sustainability Advisory Board

With the importance of fiduciary duty (FD) and sustainability management in the asset management industry steadily increasing year by year, we consider it our mission as an asset management company to continuously improve ourselves in these areas. To make discussions in the Board of Directors more effective, we have established the Fiduciary Duty and Sustainability Advisory Board, consisting primarily of outside experts, as an advisory body to the Board of Directors. In addition to our independent outside directors, a number of outside experts have been invited to provide advice to management from a diverse range of perspectives.

Improving the objectivity of the internal audit system

With the aim of enhancing fraud prevention in each domain and promoting further operational efficiency through more impartial internal audits, the Internal Audit Department has been brought under the direct supervision of the President & CEO, ensuring objectivity from the audited divisions. Additionally, we have established a system (dual reporting line) in which the internal audit organization reports directly to both the Board of Directors and the Board of Auditors.

Initiatives for Ensuring Compliance and Managing Conflict of Interest

At our company, we hold annual compliance training sessions for all officers and employees, including confirmation tests on insider trading regulations and overall compliance. In addition to ensuring compliance with laws and regulations, we also provide training on conflict of interest management to ensure thorough management in this area.

Important Notice

- This report was prepared for the purpose of providing information regarding NAM's sustainability and stewardship activities, and should not be construed as a solicitation for any investment activities including purchase and sale of specific investment trusts. Accordingly, the amounts of trust fees and/or other fees by category as well as their aggregate amounts may not be presented.
- Investment trusts are products containing risks. Their management results change in response to the market circumstances and other factors, and the investment performances (profits and losses) should all belong to the investors. They are not such products in which investment principals and/or yields are guaranteed.
- Prior to purchasing an investment trust, investors should thoroughly review the prospectus and other pre-contractual documents, including supplementary materials, provided by the sales company to form their own judgments.
- Investment trusts are not insurance policies or deposits with financial institutions, and are not protected by the Insurance Policyholders Protection Corporation of Japan or the deposit insurance. Investment trusts purchased from financial institutions other than securities companies are exempted from compensation by the Japan Investor Protection Fund.
- This report is based on information, data, etc. that NAM deemed to be reliable, but no guarantee will be made by NAM on their accuracy or completeness.
- Past performance and forecasts presented in this report should not be taken as an indication or guarantee of future performance.
- Intellectual property rights, including copyrights, and any other rights pertaining to this report, unless specifically indicated otherwise in this report, belong to NAM. No part of this report may be diverted, reproduced, copied, or redistributed in any manner, without the prior written permission of NAM.

Review confirmation number: 2023-079



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