Mitsubishi UFJ Trust and Banking Corporation

Sustainable Investment Report 2023

Message from Group Head of Asset Management & Investor Services Business Group

Continuously striving to achieve a sustainable future in alignment with the thoughts of our stakeholders

Takayuki Yasuda

Director, Deputy President, and Executive Officer
Group Head, Asset Management &
Investor Services Business Group

It has been approximately 40 years since the word "sustainability" first appeared in the Brundtland Report in 1987. Over this period, the concept of sustainability has undergone several transformations and has come to be recognized as a management issue related to a company's social and economic interests and corporate value. Moreover, the recent COVID-19 pandemic, along with growing public concern over global supply chains and shifts in global affairs, has introduced new elements of focus to sustainability. Its scope is expanding to areas such as workers' human rights, health and safety, human capital, natural capital, and biodiversity, and is influencing the approach on climate change response, energy security, energy mix, and decarbonization pathways.

In this context, I feel that the importance of sustainable investment is increasingly being recognized. As a company engaged in asset management, pension operations, and other investment activities, our role lies in

delivering economic returns on the assets entrusted to us by providing asset classes and investment opportunities tailored to our clients' needs. Achieving social and economic sustainability and mitigating negative externalities are essential elements for achieving medium- to long-term investment results, and we consider these to be inherent in our fiduciary duty. On the other hand, companies need to identify the priority level of issues related to sustainability based on their impact and urgency, assess and disclose risks and opportunities, and develop and implement strategies including the restructuring of supply chains and business models. We recognize that it is one of our duties to work together with our investee companies to solve sustainability issues through constructive dialogue and engagement.

Furthermore, it is essential to establish approaches to properly assess the impacts and negative externalities on the environment and society and utilize them in asset management. In recent years, funds and investment products integrating sustainability-related elements have emerged, and the adeptness of integration and utilization in investment strategies is becoming directly linked to competitiveness in the financial industry. Considering these factors requires not only excellent research skills and knowledge and experience in various asset classes and investment strategies but also flexible thinking to adapt appropriately to change. Based on this philosophy, our company is steadily advancing and strengthening our organizational structure anticipating future business developments, promoting initiatives integrated with group companies, and enhancing international information dissemination and leadership.

To achieve a sustainable future, collaboration within the financial industry alone is not enough; coordination with governments is also required. For example, in addressing climate change, the introduction of carbon pricing, the promotion of sector-specific roadmaps and action plans, and the utilization of new financial mechanisms such as blended finance will be more effective if made in harmony with government policies. Last year, at an event we co-hosted with the Asian Development Bank during COP28 (The 28th Conference of the Parties to the UN Framework Convention on Climate Change), our discussions with stakeholders reaffirmed the importance of frameworks for public-private cooperation, such as the necessity of transition finance and blended finance, in various regions of Asia.

We have adopted a corporate message of being a trust bank that creates "a safe and affluent society," and we are striving to create a new trust bank business as part of "the world's most trusted financial group." In our efforts toward sustainable investment, we aim to contribute to the realization of a better society by charting a new course together with our stakeholders.

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Mitsubishi UFJ Trust and Banking's Sustainable Investment Initiatives

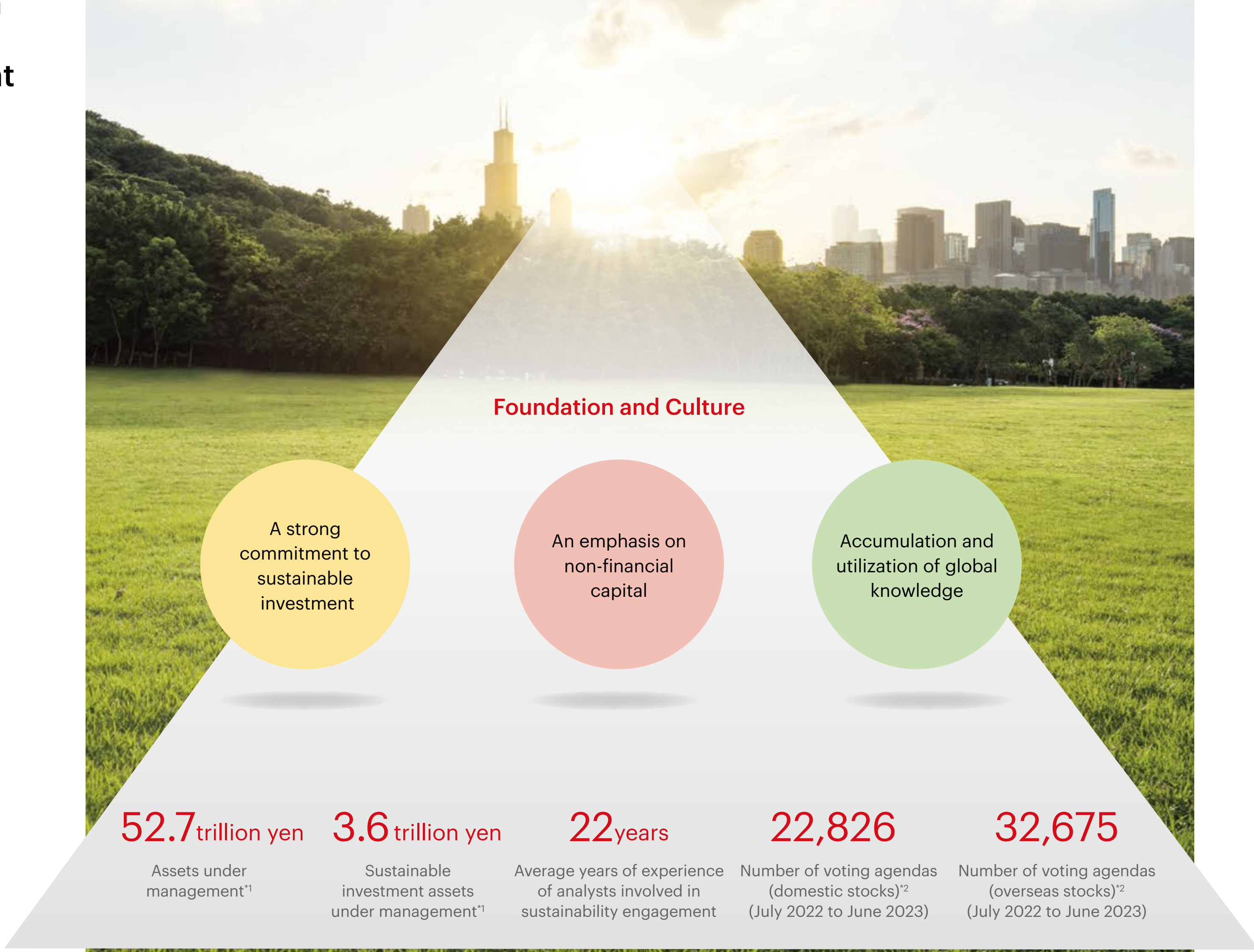
Our Ideal

Promoting initiatives toward a future where everyone can enjoy the benefits that sustainable investment brings to society

We believe that by promoting initiatives aimed at solving social and environmental issues and achieving a sustainable future through sustainable investment, we can contribute to society while achieving long term returns for our customer and improving the global economy. This is not something that we can accomplish alone or overnight; it requires collaboration with stakeholders such as our customers and investee companies. As a member of a global comprehensive financial group, we will contribute to solving sustainability issues by enhancing communication with all stakeholders and demonstrating high expertise under the vision of "Investing for our Sustainable Future."

Our Vision

"Investing for our Sustainable Future"



*1 As of the end of December 2023
*2 Please refer to the Stewardship Activity Report for information regarding Mitsubishi UFJ Trust and Banking's exercise of voting rights (available in Japanese only).
https://www.tr.mufg.jp/houjin/jutaku/pdf/stewardship_2023.pdf

Message from Business Head of Asset Management Business

Ensuring feasibility as we enter a new phase of sustainable investment

Yutaka Kawakami

Managing Executive Officer
Deputy Chief Executive, Asset Management & Investor Services Business Unit
Business Head, Asset Management Business

The world is currently facing complex and challenging global issues such as climate change, biodiversity loss, resource depletion, and human rights violations. However, the pathway to resolving these issues is not straightforward due to conflicting opinions and differences in approaches based on each country's macro environment. Additionally, there are signs of changes in the environment surrounding sustainable investment, indicating a transition into a new phase.

First and foremost, we are entering a new era where responsiveness to sustainability issues will be scrutinized from setting goals and strategies to their implementation. In fact, discussions at COP28 (The 28th Conference of the Parties to the UN Framework Convention on Climate Change) in 2023 were focused on ensuring the feasibility of approaches for achieving net-zero carbon emissions. Discussions are also underway for areas beyond climate change.

Next, it is important to maintain consistent initiatives while navigating uncertainties like geopolitical changes. With several influential countries holding elections in 2024, attention is on how the outcomes might impact global affairs. Trends in global economic security policies and the fragmentation of values has led to increased volatility in efforts to address sustainability issues. Nevertheless, we will not achieve sustainability overnight; it is important to work consistently without being swayed by each new development.

On the other hand, we feel that Japan has reached a turning point through its efforts to achieve a new form of capitalism. We believe that the asset management industry will continue to undergo structural changes as it improves its asset management capabilities, promotes strategic investments and transition strategies in areas such as sustainability and startups, and improves the investment chain. In the field of sustainability, initiatives such as the issuance of GX Economy Transition Bonds, the planned announcement of the Nature Positive Economic Transition Strategy, the establishment of the Impact Consortium, and the inception of the Asia GX Consortium are making progress, with proactive movements that are competitive on a global level.

In response to such domestic and international environmental changes, our company has been striving to create value toward achieving a sustainable future by enhancing our sustainable investment framework in collaboration with group companies, developing new products, and disseminating information both domestically and abroad. Achievements in 2023 include the establishment of the Sustainable Investment Division, the formulation of the MUFG AM Sustainable Investment Policy, the development of an engagement framework by analysts and research officers, revisions to voting guidelines, and the launch of the iSTOXX MUTB Paris Aligned Index comprised of companies with goals aligned with the Paris Agreement. Additionally, through information dissemination at a side event (Financing NDCs and Net Zero in Asia and the Pacific: Challenges and Solutions) in collaboration with the Asian Development Bank during COP28, we were able to lay the groundwork for participation in international rulemaking.

As a financial institution expected to contribute to a sustainable future, our company is committed to reforming asset management practices by enhancing asset management capabilities, including sustainable investment, and ensuring thorough product governance. We also aim to promote substantive and value-added stewardship activities and engage in external communication and collaboration with stakeholders. With a will to bring positive impacts to society as a whole, we will strive to discover long-term sources of returns related to environmental, social, and governance (ESG) factors and conduct appropriate risk management, working to achieve sustainable investment returns for our clients in the medium- to long-term.

History

Our Longstanding Commitment to Sustainable Investment

The following is a summary of our efforts toward sustainable investment.

Commitment

Commitment to sustainable investment

1999
Started exercising voting rights
Beginning of dialogues with investee companies

2002
Established department specializing in exercise of voting rights

2006
Signed the PRI
Held a responsible investment seminar in the same year with UNEP FI and disseminated the concept of responsible investment both internally and externally

2014
Adopted Japan's Stewardship Code

2017
Established the Stewardship Committee

2019
Established the Responsible Investment Development Office
Established a system to promote responsible investment
Endorsed TCFD as an asset manager and participated in the TCFD Consortium

2021
Established the First Sentier MUFG Sustainable Investment Institute
Meeting investor needs for neutral and practical research
Simultaneous participation in Net Zero Asset Managers Initiative (NZAM) with MUFG-affiliated asset management companies

2023
Established the Sustainable Investment Policy
Established MUFG AM Sustainable Investment
Joined Japan Chapter of GFANZ
Began sustainability engagement; acceptance of Japan's Stewardship Code by MUFG AM Sustainable Investment
Co-hosted COP28 event with Asian Development Bank

2024
Registered as TNFD adopter

Innovation

Innovation in investment strategies

2006
Started managing a Socially Responsible Investment (SRI) Fund that invests in domestic stocks

2011
Launched a Japanese Equity Fund focused on investing in sustainable growth stocks

2015
Entered into a business alliance with STOXX*, a large European integrated index provider

2017
Began investing in green bonds

2018
Began participating in GRESB Real Estate Assessment for the first time as a trust bank
Strengthened ESG activities in real estate management

2020
Established impact investment fund for external partner Baillie Gifford
Developed iSTOXX MUTB Japan Empowering Women 30 Index

2021
Started managing impact investment fund

2022
Developed iSTOXX MUTB JAPAN Platinum Career 150 Index

*STOXX became part of Qontigo in September 2019 when its parent company, Deutsche Börse Group, acquired Axioma, a U.S. provider of risk analytics models.

Overview of MUFG AM Sustainable Investment

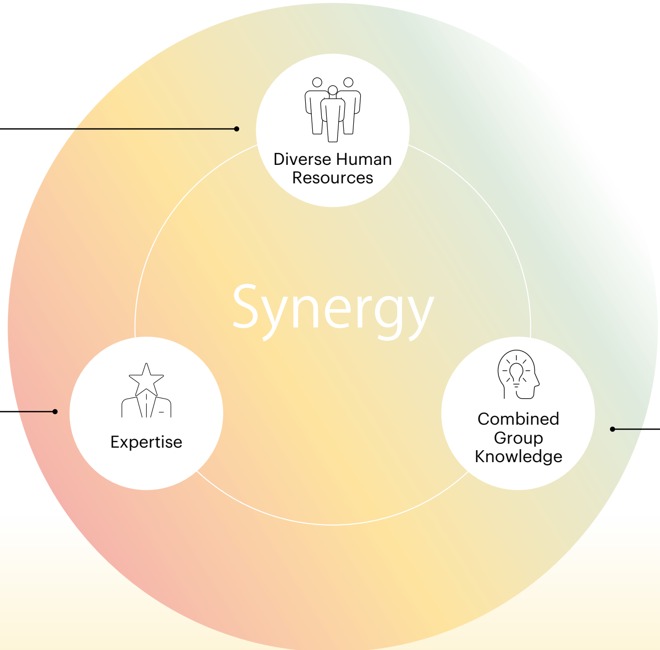
About the Establishment of MUFG AM Sustainable Investment

MUFG AM Sustainable Investment was established to promote sustainable investment in collaboration with the MUFG Group.

MUFG Asset Management* ("MUFG AM"), which consists of MUFG Group companies with asset management businesses, established MUFG AM Sustainable Investment as a system to promote sustainable investment in collaboration with the rest of the group. Each company has its own unique investment strategy, products, and solutions, and provides services to meet the expectations of customers while demonstrating its presence in the financial industry. Achieving sustainability is a complex medium- to long-term challenge, but we believe that by leveraging the strengths of these five companies, we can create a ripple effect in society and make a multilayered impact, starting with the financial industry.

Diverse Human Resources

In addition to personnel from MUFG AM companies, we actively recruit mid-career professionals from a variety of backgrounds to implement activities for a sustainable future.



Combined Group Knowledge

We provide services that meet customer needs by combining the sustainable investment knowledge of all MUFG AM companies.

Expertise

Working with highly experienced sustainability research officers inside and outside the group to solve increasingly fluid and complex sustainability issues, we acquired global-level expertise.

Mitsubishi UFJ Trust and Banking Corporation*2	Mitsubishi UFJ Asset Management Co., Ltd.*2	Mitsubishi UFJ Real Estate Asset Management Co., Ltd.*2	Mitsubishi UFJ Alternative Investments Co., Ltd.*2	Mitsubishi UFJ Asset Management (UK) Ltd.*2
52.7 trillion yen	**31.7 trillion yen**	**44.6 billion yen**	**510 billion yen**	**1.3 trillion yen**

*1 MUFG Asset Management is a brand of Mitsubishi UFJ Trust and Banking Corporation, Mitsubishi UFJ Asset Management Co., Ltd., Mitsubishi UFJ Real Estate Asset Management Co., Ltd., Mitsubishi UFJ Alternative Investments Co., Ltd., and Mitsubishi UFJ Asset Management (UK) Ltd.
*2 As of the end of December 2023

About the Establishment of MUFG AM Sustainable Investment

MUFG AM has a proven track record of offering investment products and services tailored to various investment styles, including alternative assets with complex investment structures and risk-return profiles, alongside traditional assets like stocks and bonds. Leveraging our extensive knowledge and expertise in the asset management industry, we draw upon insights and capabilities from both within and outside the group, including collaboration with our subsidiary, First Sentier Investors. This collaborative approach enables us to develop innovative strategies and analytical methods to advance sustainability and provide global investment opportunities, all while delivering value to our customers.

First Sentier Investors

Kate Turner

Global Head of Responsible Investment

Collaborating with MUFG AM in three areas

I am the Global Head of Responsible Investment at First Sentier Investors. We invest 237.6 billion Australian dollars on behalf of our clients globally, across listed equities, fixed income, and direct infrastructure. There are three key areas where we are currently collaborating with MUFG AM.
The first is through the First Sentier MUFG Sustainable Investment Institute ("the Institute"). The Institute provides research on topics that can advance sustainable investing and disseminates its findings.
The second is that we have a secondee from MUFG within the Responsible Investment team, which enables us to share ideas and knowledge and build relationships between the two organizations.
The third is through collaborative initiatives that both organizations are working on, including Investors Against Slavery and Trafficking APAC and our engagement on marine plastic microfiber pollution.
Through these initiatives, we are working together on systemic issues that impact investors across all investment styles and asset classes, resulting in tangible outcomes.

First Sentier MUFG Sustainable Investment Institute

Sudip Hazra

Director

Collaborating with key stakeholders to study sustainability

First Sentier MUFG Sustainable Investment Institute ("the Institute") issues research across a wide range of sustainability themes, and I have been serving as Director since 2023. In 2023, our activities focused on climate change as well as biodiversity and human rights. Specifically, based on the Guidelines on Respecting Human Rights in Responsible Supply Chains announced by the Japanese government, we created a video explaining our report on modern slavery for the Japanese audience.
The Institute also attended the PRI in Person conference in Tokyo, which allowed us to better understand sustainability interests in Japanese markets through discussions with MUFG AM clients and other international investors.
Engagement is a major focus, and the Institute's research can be used to formulate engagement strategies at a high level and for specific dialogues with investee companies.
Working closely with MUFG AM and other key stakeholders the Institute looks forward to publishing further research across a variety of innovative sustainability themes.

Arkadiko Partners Ltd.

Colin Melvin

Founder and Managing Director

Supporting the development of effective engagement processes

Arkadiko Partners assists institutional investors globally in building a more sustainable approach to their business and investments. Leveraging over 20 years of experience in stewardship and sustainable investing, we have been providing these services to MUFG AM Sustainable Investment, including training its engagement teams to undertake effective engagement with investee companies. MUFG AM Sustainable Investment and Arkadiko have built a strong and trusting relationship focused on generating long-term, sustainable business success and impact. With insights into global best practices provided by Arkadiko, we are confident that MUFG AM Sustainable Investment will continue to provide a high-quality and industry-leading approach that benefits its clients, investee companies, and other key stakeholders.

Features of MUFG AM Sustainable Investment

Striving to contribute to corporate value creation through stewardship activities

**MUFG AM Sustainable Investment conducts stewardship activities for passive investment strategies to MUFG AM companies.
Under appropriate conflict of interest management, we conduct dialogues on sustainability aimed at fostering sustainable growth and enhancement of corporate value for investee companies, and periodically provide the results of these dialogues to each MUFG AM company.**

Provision of institutional investment services for MUFG AM companies

- We strengthen stewardship activities for investee companies, primarily for passive investment management strategies.
- We conduct stewardship activities for the institutional investors of MUFG AM.

Establishment of conflict-of-interest management systems

- We block influence and information from different MUFG AM companies.
- To prevent conflicts of interest, the Stewardship Committee carries out monitoring and clarifies rules for blocking information.

Provision of dialogue results to MUFG AM companies

- The results of sustainability dialogues are stored in a shared system and periodically provided to each MUFG AM company.

Utilization of dialogue results when exercising voting rights

- MUFG AM companies utilize the results of sustainability dialogues to exercise voting rights.

Implementation of dialogues on sustainability aimed at fostering sustainable growth and enhancement of corporate value for investee companies

MUFG AM Sustainable Investment Policy

The MUFG AM Sustainable Investment Policy has been adopted by all MUFG AM companies to promote sustainable investment

At MUFG AM, we believe that sustainable investment improves long-term risk-adjusted returns while addressing environmental and social challenges, ultimately contributing to a better future. Under our philosophy of "Investing for our Sustainable Future," we promote sustainable investment through ongoing dialogues with asset owners and stakeholders to fulfill our fiduciary responsibilities.
To support Sustainability Transformation (SX), which will pave the way to a sustainable future, we are implementing five initiatives.
Furthermore, in line with this policy to promote the adoption of sustainable investment, each MUFG AM company clearly defines the sustainable investment funds that they manage.

1. ESG Integration

MUFG AM believes that investments that take into account risks and opportunities stemming from environmental (E), social (S) and governance (G) factors will improve long-term risk-adjusted returns and contribute to solving ESG issues. Accordingly, MUFG AM will promote the incorporation of ESG information alongside financial information into the investing process (ESG integration).

2. Stewardship
(Engagement and Exercising Voting Rights)

Stewardship is undertaken by highly qualified experts in ESG, fund managers, and analysts who will perform company engagement and exercise voting rights. MUFG AM is committed to improving the risk and return profiles of the assets under management by identifying and reducing risks that could materialize over the long term, and enhancing sustainable growth and corporate performance. We will promote solutions to sustainability challenges to realize a sustainable future.

3. Exclusion and Divestment

MUFG AM believes that engaging with investee companies can empower them to make positive changes toward a sustainable future. For companies involved in businesses considered contrary to the realization of a sustainable future, MUFG AM will, in principle, implement negative screening for all the assets under management that we are entrusted with; however, this does not apply to investments based on customer guidelines, outsourced investment, and passive investment.

4. Development and Provision of Products and Services That Transform Society

MUFG AM recognizes the importance of providing transformative investment products and services that capture the actual needs of customers and markets in order to achieve a transition to a sustainable future. To this end, we will develop and strengthen our investment strategies and approaches, and seek to provide solutions.

5. Identification of Issues to Be Resolved

MUFG AM will prioritize urgent issues that prevent the realization of a sustainable future, and that make a negative impact on assets under management over the long term. We believe that addressing climate change issues is essential for the realization of a sustainable future. In this connection, MUFG AM joined the "Net Zero Asset Managers initiative" and expressed its commitment to the realization of carbon neutrality with the promotion of transition*1 through sustainable investment. Aiming for carbon neutrality by 2050, we are committed to promoting a transition that enables high Greenhouse Gas (GHG) emitting industries to contribute to decarbonizing society.

*1 Transition: A transition approach in which industries with high GHG emissions are empowered and enabled to contribute to carbon-neutrality with such initiatives as renewable energy for decarbonization and low-carbonization

6. Definitions of Sustainable Investment Funds

Definitions of sustainable investment funds of each MUFG AM company are defined based on this policy to further promote sustainable investment.

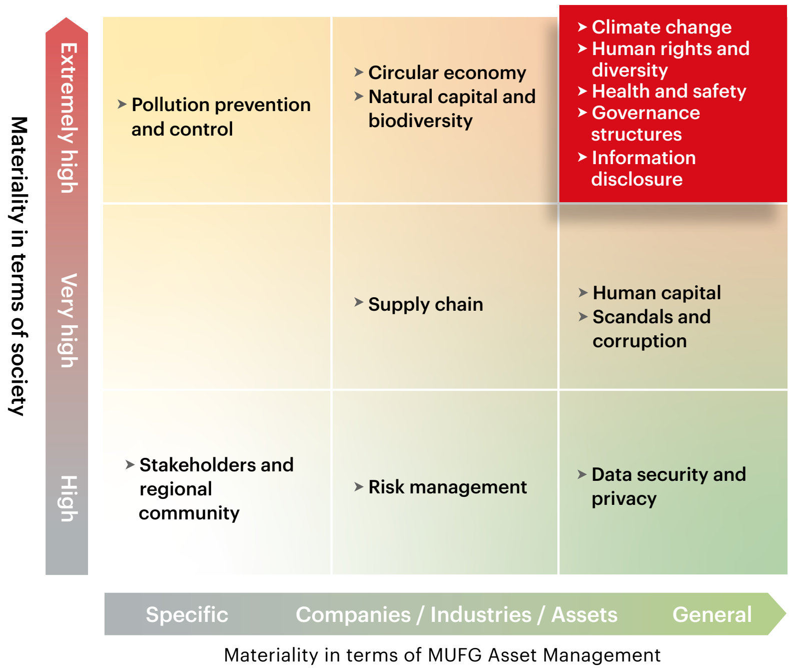
Identification of Material ESG Issues

Promoting sustainable investments with material ESG issues as the starting point

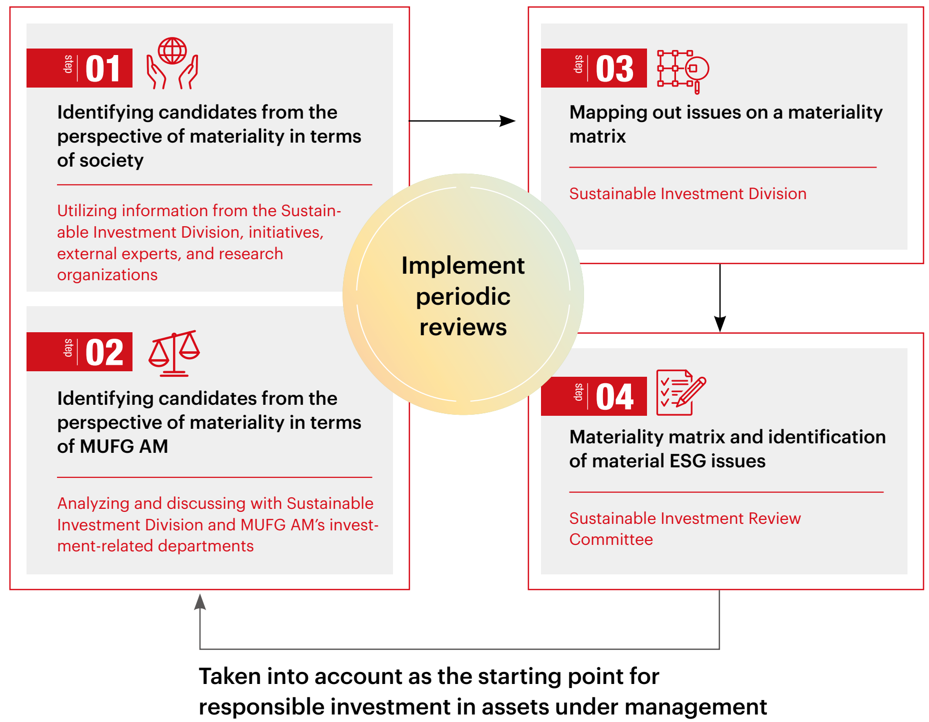
It is possible that sustainability-related issues could have a negative impact on the corporate value of investee companies and long-term returns. For this reason, MUFG AM identifies material ESG issues in order to reduce risks and improve expected returns by reflecting sustainability elements in its investment management strategies and stewardship activities.
These material ESG issues are the starting point of sustainable investments, and they will be taken into account in all invested assets.

In the process of identifying material ESG issues, MUFG AM makes use of a materiality matrix. The table's vertical axis shows materiality in terms of society, while the horizontal axis shows materiality in terms of MUFG AM. It maps selected issues from these two perspectives, and issues that are of high priority from both perspectives are labeled as "material ESG issues."

Materiality Matrix and Material ESG Issues (as of November 2023)



Process for Identifying and Reviewing Material ESG Issues



Since material ESG issues can change depending on the circumstances surrounding the environment and society and the structure of the investment portfolio, we conduct periodic reviews based on the above process.

MUFG AM Sustainable Investment's Policies Regarding Japan's Stewardship Code

Accepting Japan's Stewardship Code for the companies of MUFG AM - institutional investor

MUFG AM Sustainable Investment endorses Japan's Stewardship Code and states our policies for each principle as follows.

Principle 1

Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.

- We strengthen stewardship activities for investee companies, primarily for passive investment management strategies.
- We conduct stewardship activities for the institutional investors of MUFG AM.

Principle 2

Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.

- To prevent conflicts of interest, we identify potential conflicts and implement various measures. Monitoring is carried out by Mitsubishi UFJ Trust and Banking's Stewardship Committee.

Principle 3

Institutional investors should have an accurate understanding of the conditions at investee companies.

- We conduct dialogues on sustainability with investee companies in line with dialogue policies, as agreed upon with MUFG AM companies.
- We periodically share results of dialogues on sustainability with all companies of MUFG AM.

Principle 4

Institutional investors should arrive at a common understanding with investee companies and work to solve problems.

- We select key themes for dialogues on sustainability
- In addition, we select an appropriate approach from one of the following in accordance with the MUFG AM Sustainable Investment Policy: thematic engagement, collaborative engagement, or public engagement.

Principle 5

Institutional investors should have a clear policy on voting and disclosure of voting activity.

- MUFG AM companies can use the results of dialogues on sustainability to exercise voting rights.

Principle 6

Institutional investors should periodically report to their clients and beneficiaries.

- We share the results of dialogues on sustainability with MUFG AM companies.

Principle 7

Institutional investors should develop the skills and resources needed to make proper judgments.

- We continuously exchange opinions with external experts and institutional investors both in Japan and abroad and strive to acquire knowledge on sustainability and improve our dialogue skills.

Principle 8

Service providers for institutional investors should appropriately provide services for institutional investors to fulfill their stewardship responsibilities.

- We conduct dialogues on sustainability to enhance the capabilities of the investment chain with the aim of enhancing sustainable growth and corporate value for investee companies.

For more details, please refer to MUFG AM Sustainable Investment's policies for each principle of Japan's Stewardship Code (available in Japanese only).
https://www.tr.mufg.jp/mufgam-su/pdf/stewardship/stewardshipcode.pdf

Definitions of Sustainable Investment Funds by Mitsubishi UFJ Trust and Banking

At Mitsubishi UFJ Trust and Banking, in order to enhance transparency and quality control regarding sustainable investment funds, we established a classification system for all funds and defined "sustainable investment funds." Funds are categorized into five groups based on investment strategies and product characteristics. Through appropriate management and ensuring effectiveness, we are committed to providing investors with opportunities for sustainable investment and meeting the expectations of society.

Definitions of Sustainable Investment Funds by Mitsubishi UFJ Trust and Banking

Sustainable investment = Investments that realize the MUFG AM Sustainable Investment Policy by resolving social issues.

Fund Name	Integration Fund	ESG Fund	Sustainable Fund	Impact Fund	Transition Fund
Purpose	Considering environmental and social opportunities and risks to contribute to resolving social issues	Promoting environmental and social factors to contribute to resolving social issues	Contributing to resolving social issues for a sustainable society	Creating particular impacts to contribute to resolving social issues for a sustainable society	Promoting a transition to contribute to resolving social issues for a sustainable society

Key Point

There are currently ongoing discussions in Europe regarding rules for naming and labeling sustainable funds. At Mitsubishi UFJ Trust and Banking, as of March 2024, we classified them based on the opinions of external experts familiar with global regulatory trends. We will review the definitions as needed based on how the discussions progress.

Key Approaches

1 In order to grant a particular fund name, it is necessary to meet the requirements stipulated from qualitative and quantitative aspects for each definition of a fund, etc., and to continue managing and disclosing information in accordance with such requirements.

2 With regard to meeting fund requirements, we ensure quality and consistency not only during the consideration stage but throughout the operational period by conducting evaluations that focus on actual conditions.

3 The classification and its effectiveness will continuously be upgraded and improved in light of global frameworks, regulatory trends, social demands, among others, relating to sustainable investing.

MUFG AM Sustainable Investment's Stewardship Activities

Overview of Engagement

At MUFG AM Sustainable Investment, we select key themes from our thematic universe, taking into account material ESG issues based on a materiality matrix, and engagement themes derived from frameworks such as the SDGs and the SASB Standards. Based on these key themes, we promote initiatives to realize a sustainable future through three approaches consisting of thematic engagement, collaborative engagement, and public engagement.

Key Themes

Theme universe

- Climate change
- Circular economy
- Biodiversity
- Pollution and air quality
- Human rights
- Supply chain
- Health and safety
- Data privacy
- Bribery and corruption
- Information disclosure
- Human/ Social capital
- Governance structures

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Key themes for FY2023

Climate change

Biodiversity

Human rights (modern slavery and human capital)

Health and safety

Engagement Approach

Thematic Engagement

After determining key themes, we strategically engage with investee companies closely related to those themes.

Collaborative Engagement

To conduct effective engagement, we actively participate in collaborative engagement initiatives.

Public Engagement

To address sustainability challenges, we also provide direct and indirect recommendations to stakeholders in financial markets.

Expectations for MUFG AM to become a rule-maker in Japan through stronger public engagement

Will Oulton
Advisor
MUFG AM Sustainable Investment

To effectively practice stewardship activities with high feasibility regarding sustainability, it is essential to develop new capabilities. It has been very encouraging to see MUFG AM Sustainable Investment providing extensive training for key staff to develop their skills related to sustainability.
However, while engagement with investee companies is one aspect of stewardship, it is also important to engage with public policymakers. For example, we have been supporting engagement with the UK government as part of an investor coalition on microfibers. By strengthening such approaches, it is my hope that MUFG AM Sustainable Investment will become a rule-maker in Japan.

Engagement Startup & Approach by MUFG AM Sustainable Investment

Selection Method for Engagement Themes

The selection of engagement themes is a crucial process for conducting specific and effective dialogues with investee companies. We focus on themes aligned with material ESG issues and engage in dialogues considering industry trends and the circumstances of each company. Through constructive dialogues, we encourage investee companies to undergo behavioral changes, leading to the reduction of medium- to long-term sustainability risks and the enhancement of corporate value.

Theme universe

- Climate change
- Circular economy
- Biodiversity
- Pollution and air quality
- Human rights
- Supply chain
- Health and safety
- Data privacy
- Bribery and corruption
- Information disclosure
- Human/ Social capital
- Governance structures

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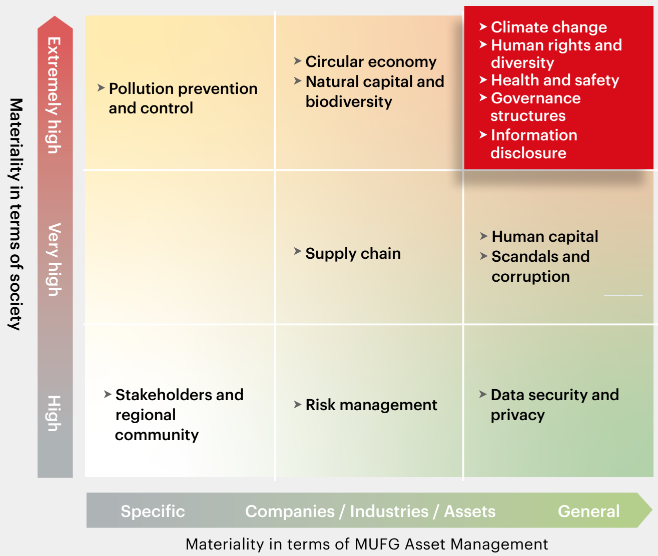
Materiality Matrix and Material ESG Issues (as of November 2023)



Confidence that our innovative and constructive approach will enhance the value of many companies

Colin Melvin
Arkadiko Partners Ltd.

Arkadiko provided support for the establishment of processes and selection of themes for engagement activities carried out by MUFG AM Sustainable Investment. Additionally, we developed our own training program to enhance engagement capabilities and conducted practical training sessions.
MUFG AM Sustainable Investment is confident that by utilizing an innovative and constructive engagement approach based on international best practices, it will lead the industry in the future and contribute to enhancing the value of many companies.

Key themes for FY2023

Climate change

Biodiversity

Human rights
(modern slavery and human capital)

Health and safety

Engagement Startup & Approach by MUFG AM Sustainable Investment

Results from July 2023

MUFG AM Sustainable Investment aims to address global sustainability challenges through thematic engagement, collaborative engagement, and public engagement. In the FY2023, we identified climate change, biodiversity, human rights, and health and safety as key themes and conducted various engagements related to each.

Thematic Engagement

- Dialogues were conducted with a common sense of purpose by setting specific goals, determining stages based on the status of company initiatives, and managing progress.
- We established collaborative systems consisting of sustainability experts (research officers) and experts (analysts) from each company.
- We implemented training programs by external experts.
- We incorporated the results of our biodiversity risk analysis in engagement activities.

Collaborative Engagement

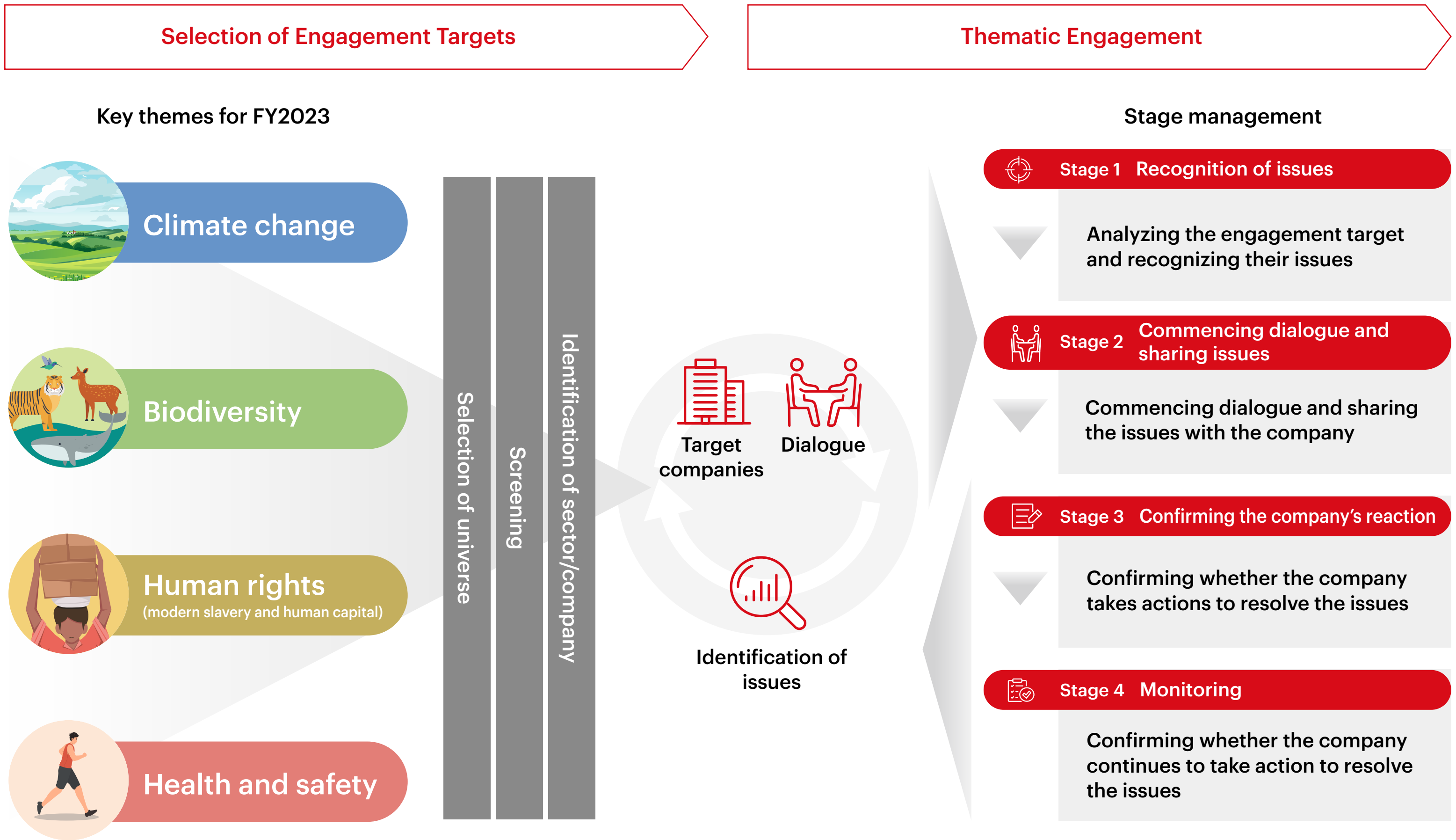
- We encouraged responses from companies by approaching them collaboratively as a lead investor in the CA100+ program.
- We promoted understanding of the importance of human rights by approaching companies with the global knowledge gained from IAST APAC.
- We conducted pioneering research on microfibers that affect the human body and biodiversity and initiated dialogue with investee companies based on the results of this research.

Public Engagement

- We initiated discussions with the Asian Development Bank at a side event at COP28 on the realization and expansion of transition finance in the APAC region using blended finance.
- We were involved in rulemaking in various GFANZ working groups.
- We demonstrated our presence in the asset management area in Asia as a board member of AIGCC.
- We conducted a risk analysis based on the TNFD framework.
- We participated in the UNEP General Assembly and networked to strengthen our presence in the international arena, including our ability to communicate on the international stage.

Thematic Engagement

Thematic engagement is an approach that focuses on specific themes or issues during dialogues.
At MUFG AM Sustainable Investment, sustainability professionals lead engagement efforts, aiming to collaborate with investee companies on specific themes or issues related to sustainability.
Moreover, through dialogues with investee companies for each specific theme, we set specific goals, determine stages based on the status of company initiatives, and manage progress.

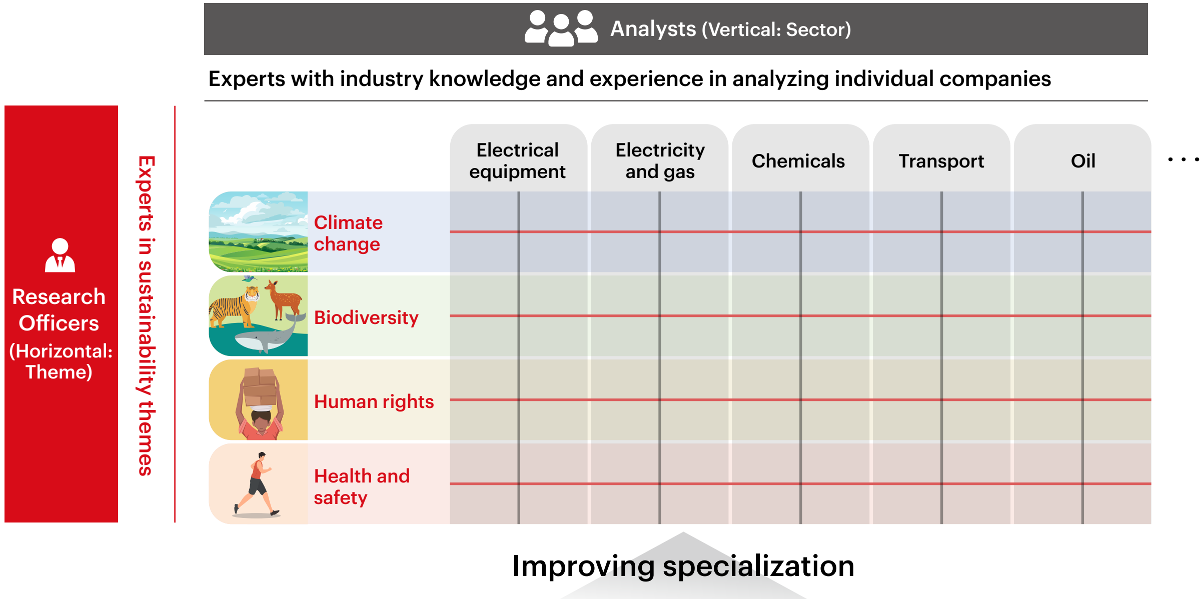


Thematic Engagement

Engagement Activity System

A highly effective corporate engagement system

At MUFG AM Sustainable Investment, analysts responsible for industry and company analysis collaborate with research officers specializing in sustainability themes to conduct engagements. Through a deep understanding of industry trends and business models surrounding companies, strategic recommendations are provided to companies, and dialogues on risks and business opportunities are conducted. These activities aim to address sustainability issues within investee companies and contribute to the long-term enhancement of corporate value. By combining specialized resources in sustainability, we believe we can enhance corporate value while contributing to solving sustainability challenges and reducing negative externalities.



Training programs conducted by external experts

- Training by sustainable investment experts on a regular basis
- Trainee dispatch (overseas training program) to develop young employees

Dialogue

Yasumi Takehisa — Executive Analyst × **Masayuki Nakamura** — Research Officer

When engaging with investee companies from a sustainability perspective, we believe a different approach is necessary compared to traditional engagements. Firstly, analysts need to thoroughly understand the specific situations of individual companies from a medium- to long-term perspective through the analysis of integrated reports and financial/non-financial information, as well as their business models and strategic management. Additionally, given that sustainability themes are inherently fluid and multifaceted, depending on social trends and corporate management strategies, research officers require expertise not only in global trends related to these themes but also in cross-industry trends and expected outcomes and processes, enabling them to discuss these topics beyond industry boundaries.
For example, leveraging this feature, in FY2023, we conducted discussions on policy engagement regarding climate change, providing domestic and international knowledge on human rights in the supply chain. Analysts and research officers, each with their area of expertise, collaborated to approach companies with a sense of urgency while empathizing with their efforts. We will continue contributing to solutions for sustainability issues and the enhancement of corporate value in the future.

Thematic Engagement

Selection Process for Companies for Engagement

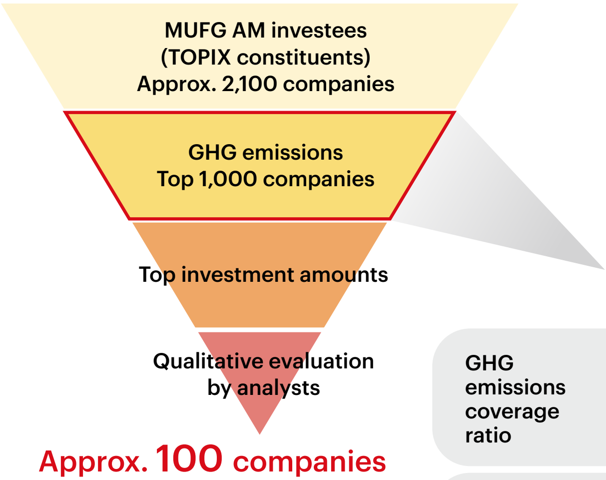
~Our Selection Process for Climate Change and Biodiversity~

To engage in constructive dialogue with companies, it is important to adequately consider the importance of sustainability-related issues, as well as potential risks and opportunities.
MUFG AM Sustainable Investment, which excels in engagement related to passive management, conducts screening within its universe to identify sectors and companies for engagement.

Selection of Engagement Targets

Climate Change

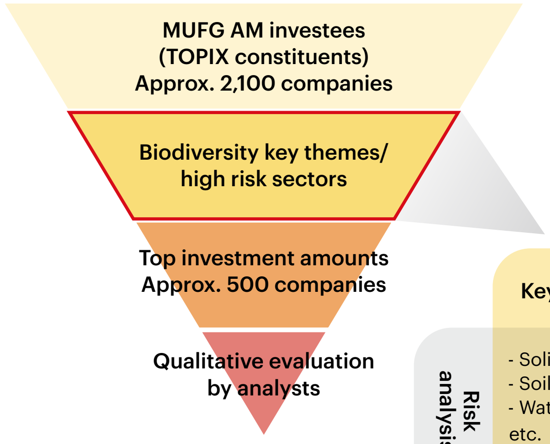
We select investee companies with significant impact on climate change based on GHG emissions and investment amounts, as well as analysts' knowledge of the companies.



	Results
GHG emissions coverage ratio	**70%** Approximately 100 companies were selected in FY2023, covering 70% of total portfolio emissions
Main sector	- Electricity/Oil/Gas - Chemicals - Electrical equipment

Biodiversity

We select investee companies with significant impact on biodiversity based on market capitalization, key themes, and sector-specific risk information, as well as analysts' knowledge of the companies.



	Key themes	High risk sectors
Risk analysis	- Solid waste - Soil pollution - Water pollution etc.	- General consumer goods and services - Capital goods and services - Information technology
External knowledge	- Deforestation	- Foods - Pulp

Special Feature

MUFG Asset Management AGC

Look Beyond Co-creation for long-term sustainable corporate value

As part of the AGC Group's internal program "AGC Sustainability Journey," which targets all members of the AGC Group, we held a lecture and a dialogue with the General Manager of their Sustainability Division, titled "Opinions from the Outside."

Goal

Under their Group Vision "Look Beyond," the AGC Group is working to improve long-term, sustainable corporate value. We aim to contribute to the enhancement of their corporate value by improving feedback from investors and helping the AGC Group understand what information investors consider important to disclose (such as the significance of non-financial information, why it is disclosed, its utilization, and thought processes).

Dialogue

We conducted a dialogue on how to improve corporate value, sharing the importance of non-financial information for long-term corporate value enhancement, the thought processes and reasoning of investors, and our expectations for AGC from an investor's viewpoint. During the discussion, it was noted that the degree to which employees resonate with the corporate philosophy affects operational efficiency, thus influencing financial outcomes. AGC's employee engagement survey revealed a high level of positive responses to the company's strategy and direction. Furthermore, discussions highlighted the compatibility between AGC's pursuit of economic and social value and investors' objectives for investment returns and a sustainable society.

Results

Through discussions on the enhancement of AGC's sustainable corporate value, particularly on information deemed important by investors, we delved deeply into the significance of non-financial information and found a compatibility between investors' expectations and AGC's pursuit of social and economic value. We utilized the lecture and dialogue during AGC Sustainability Journey as an opportunity to communicate investors' thought processes to AGC employees.

Going Forward

To contribute to the enhancement of AGC Group's long-term sustainable corporate value, we aim to deepen our understanding of the company's challenges. We will continue engagement on material business issues for investors such as climate change, human rights, and human capital, thereby communicating the perspective of information disclosure that investors consider important.

An opportunity to learn about the significance of non-financial information in investment decisions

Kazumi Tamaki

General Manager, Sustainability Division
AGC Inc.

Through the lecture and dialogue, we learned the important role that non-financial information plays alongside financial information in making investment decisions, especially for long-term investors. Our group members have noticed that a variety of factors, including environmental and safety initiatives, respect for diversity (including women's participation), diligent research and development, and dialogue between management and employees, all contribute to enhancing corporate value. To ensure that our initiatives are understood not only by institutional investors but by all stakeholders, we will strive for transparency in information disclosure.

Thematic Engagement: Case Study 1

Climate Change

Boosting efforts to address urgent climate change issues

	Land Transportation (Railroad) Company A **Policy Engagement for Net Zero Emissions**	Wholesale Company B **Responsible Sales of Assets**	Electrical Equipment Company C **Striving to Lead the Industry**
Goal	**Focusing on the impact that Company A has on the overall infrastructure of society, we aim to enhance corporate value by encouraging the promotion and disclosure of not only "defensive" measures such as reducing GHG emissions but also proactive net-zero initiatives.**	**After confirming that Company B is replacing or selling GHG-emitting assets to achieve its net zero emissions target, we raised concerns regarding a potential depreciation in corporate value due to the possibility that, even if Company B's emissions decrease, overall societal emissions may not.**	**We aim to enhance corporate value and contribute to the progress of decarbonization in the industry by encouraging the disclosure of Company C's innovative initiatives.**
Dialogue	We confirmed the feasibility and key points of hydrogen energy, which Company A is promoting as one of its net-zero initiatives.	We discussed reputation risks that might arise if companies with low environmental consciousness buy the assets.	After confirming the details of their accelerated net-zero strategy and innovative initiatives, we discussed information disclosure and policies.
Response	Various demonstration experiments aimed at realizing a hydrogen society have been conducted, and technological issues have been addressed. However, challenges for societal implementation have also been identified. In particular, the establishment of relevant regulations and technical standards by the government is essential.	They responded that buyers are assessed through a due diligence process that takes not only economic conditions but also responsible operational policies for target assets into account. However, detailed transactions are generally not disclosed.	Net-zero targets were accelerated with customer preferences in mind. As Scope 3 GHG emissions affect Company C's core business orders, reducing emissions is also important for mid- to long-term revenue growth.
Results	**We confirmed that the key points of the proactive net-zero initiatives are clear. We concur that policy engagement may be effective in this case.**	**It became clear that disclosing the due diligence process to the greatest extent possible might help prevent the depreciation of corporate value.**	**The background of the innovative initiatives was clarified, and we recognized that disclosing them could contribute to Company C's growth and impact on the industry.**
Evaluation: Value	The importance of policy engagement and disclosure was raised.	The importance of disclosing thought processes and procedures was raised.	The importance of disclosing innovative initiatives was raised.
Evaluation: Findings	Key points regarding the utilization of hydrogen energy in the land transportation industry	Insights into thought processes and procedures for responsible sales of assets	Insights into industry market conditions and policies related to internal carbon pricing.
Going Forward	**The implementation of a hydrogen society is a significant step toward a fundamentally decarbonized society. If outdated regulations and standards stand in the way, we will encourage policy engagement and disclosure of progress.**	**To reduce reputation risks, we will encourage the establishment of guidelines for the responsible sale of assets, along with disclosure of their thought process and due diligence process.**	**We believe that Company C's initiatives will positively affect its competitors. Therefore, we will encourage them to apply even greater pressure for reducing emissions throughout their own supply chain and disclose initiatives such as ICP.**

Thematic Engagement: Case Study 2

Biodiversity

Helping companies to navigate complex causal structures toward achieving nature positivity

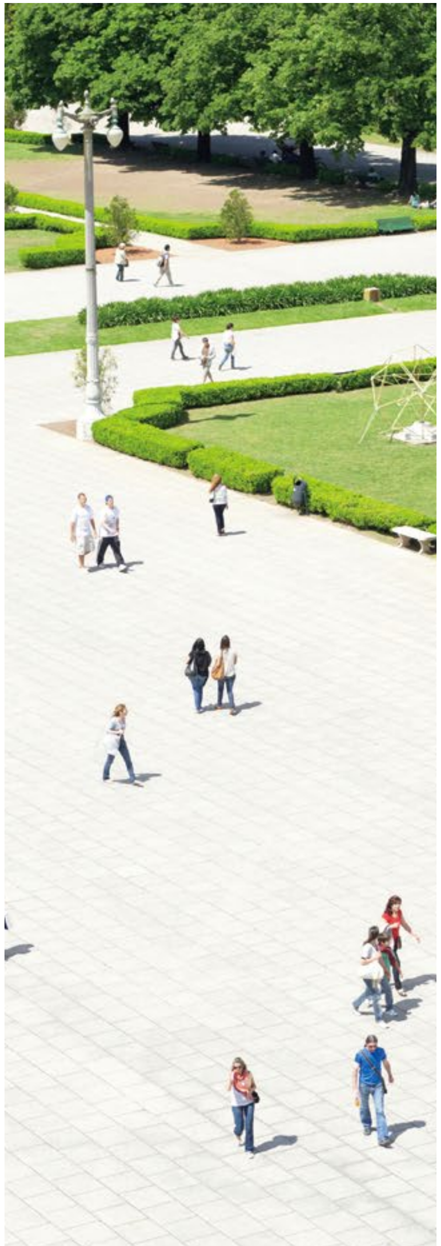
	Rubber Product Manufacturer D **An Intrinsic Issue for Natural Rubber Manufacturers**	Food Manufacturer E **Understanding of the Satoyama Concept**	Electric Equipment Manufacturer F **Potential Collaboration with Investors and New Findings**
Goal	**Due to the low traceability of natural rubber, which is the main raw material for tires, Manufacturer D is considering efforts to enhance transparency in the supply chain to reduce biodiversity risks.**	**We are exploring the possibility that the food manufacturer's belief that "human involvement in Satoyama (the area of land surrounding agricultural villages) contributes to the recovery of biodiversity" will take root inside and outside the company and expand as a unique initiative.**	**We recognize that microfiber leakage from washing machines leads to marine contamination. We aim to conduct engagement with Manufacturer F, which holds a high market share in Japan, on this matter.**
Dialogue	We discussed the hypothesis that improving traceability will help to decrease the risks of illegal forest logging and other issues related to natural rubber.	We exchanged opinions about Western countries' understanding of their unique concept and efforts, their future policies, and the disclosure of results.	We discussed measures aimed at the conservation and restoration of natural capital and biodiversity, based on the possibility that the company's business leads to marine contamination.
Response	Due to the specific circumstances of natural rubber plantations, improving traceability is not easy. Technological support and other efforts are underway, but in addition to strengthening monitoring systems, it is also important to modernize producers and stabilize their economic foundations.	Manufacturer E recognized that the Satoyama concept wasn't fully understood by outsiders due to cultural differences between Japan and Western countries. However, they will continue to promote the idea that Satoyama will lead to natural recovery, backed by successful case studies.	As a first step for performance testing and evaluation, Manufacturer F recognized the need for a method (international standard) to measure microplastic emissions. The industry association that they belong to is currently looking into the issue.
Results	**Manufacturer D recognized that modernizing producers and stabilizing their management foundations are just as important as enhancing transparency for reducing risks. We shared an in-depth analysis of the situation and problem-solving efforts.**	**We confirmed that the company is strongly motivated to promote the Satoyama concept globally. At the same time, we shared an awareness of the necessity of creating stories and objective evidence for promotion.**	**We provided insights from an investor perspective, shared our unique knowledge and external perspectives gained through collaboration with microfiber initiatives, and shared an understanding of the feasibility of support.**
Evaluation	Value: The importance of improving traceability from the perspective of biodiversity risks was raised. Findings: Insights on key issues for improving traceability	Value: Measures for realizing the concept were raised. Findings: The potential that human involvement in Satoyama contributes to the recovery of biodiversity	Value: A network with a microfiber initiative Findings: Initiatives to address microplastics by the electric equipment industry
Going Forward	**Manufacturer D recognizes that a lack of understanding of the realities of natural rubber plantation development and operations contributes to biodiversity and human rights risks. We will encourage them to assist farmers in creating sector organizations and disclose the results.**	**Manufacturer E will monitor the spread of case studies demonstrating the Satoyama effect. In addition, we will encourage them to establish quantifiable and visualizable KPIs and set targets for them.**	**We will encourage Manufacturer F to take action against marine contamination caused by microfibers by providing them with information on the situation in various countries and case studies from other companies obtained through global initiative activities.**

Thematic Engagement: Case Study 3

Human rights

Supporting efforts for human rights and human capital from both global and local perspectives

	Automobile Company G **Tackling Human Rights Issues on the Supply Chain**	Food and Beverage Company H **Globalization of Sustainable Management Structure**	Construction Company I **Supporting Efforts for Human Capital**
Goal	**Company G's business activities extend to Asia, where social structures are complex and human rights risks are high. We aim to reduce these risks by encouraging them to carry out concrete measures as soon as possible.**	**As Company H has a large market share overseas, we aim to encourage them to accelerate globalization at management level for sustainable growth.**	**Company I aims to be a leading player in sustainable management. We seek to help them deepen their understanding of human capital management and search for opportunities for operational support.**
Dialogue	We discussed the current situation with regard to human rights risks and their plans for future initiatives.	We discussed the company's efforts for sustainable management both domestically and internationally as well as global risks.	Taking into consideration the fact that the company's disclosed KPIs were somewhat superficial, we discussed their thought processes and initiatives regarding human capital management.
Response	Company G implemented measures for workers and foreign national technical intern trainees in Japan as a priority issue for addressing human rights risks and conducted a fact-finding survey with NGO support. However, their overseas efforts were lagging behind domestic efforts.	The company recognized that globalization at management level was still a work in progress. However, they are currently establishing regional headquarters and setting up sustainability committees across the world.	Value co-creation requires various perspectives and elements. For example, we proposed the company to disclose information on employee engagement. The company understood and responded in a positive manner.
Results	**We clarified their priorities, current progress, and issues for future initiatives. We shared the understanding that current efforts are preliminary and that further efforts will be needed.**	**We shared a common understanding of the need to balance addressing social and environmental issues with profitability and agreed on the importance of promoting further initiatives to diversify management for the future.**	**At a subsequent ESG briefing held by the company, they disclosed employee engagement results, identified issues, and corresponding measures, leading to a better understanding of the company's human capital strategy among investors.**
Evaluation	Value: Observations related to the importance of tackling human rights risks on the supply chain Findings: A common understanding of the company's efforts for domestic human rights issues	Value: Provision of suggestions on sustainable/CSV management Findings: Insights for accelerating efforts by changing their management structure	Value: Provision of insights related to human capital management Findings: The importance of disclosing human capital initiatives according to company-specific circumstances
Going Forward	**Given the increasing importance of emerging countries, we will encourage Company G to apply the knowledge gained through domestic initiatives to promptly establish a structure for tackling human rights risks and improve information disclosure.**	**We will continue our dialogue and strive to support management reforms by effectively leveraging talent and the momentum of globalization.**	**We will continue to provide support for enhancing corporate value, assisting the company not only in improving human capital initiatives but also in broader disclosure of initiatives related to human rights and human capital.**



Thematic Engagement: Case Study 4

Health and Safety

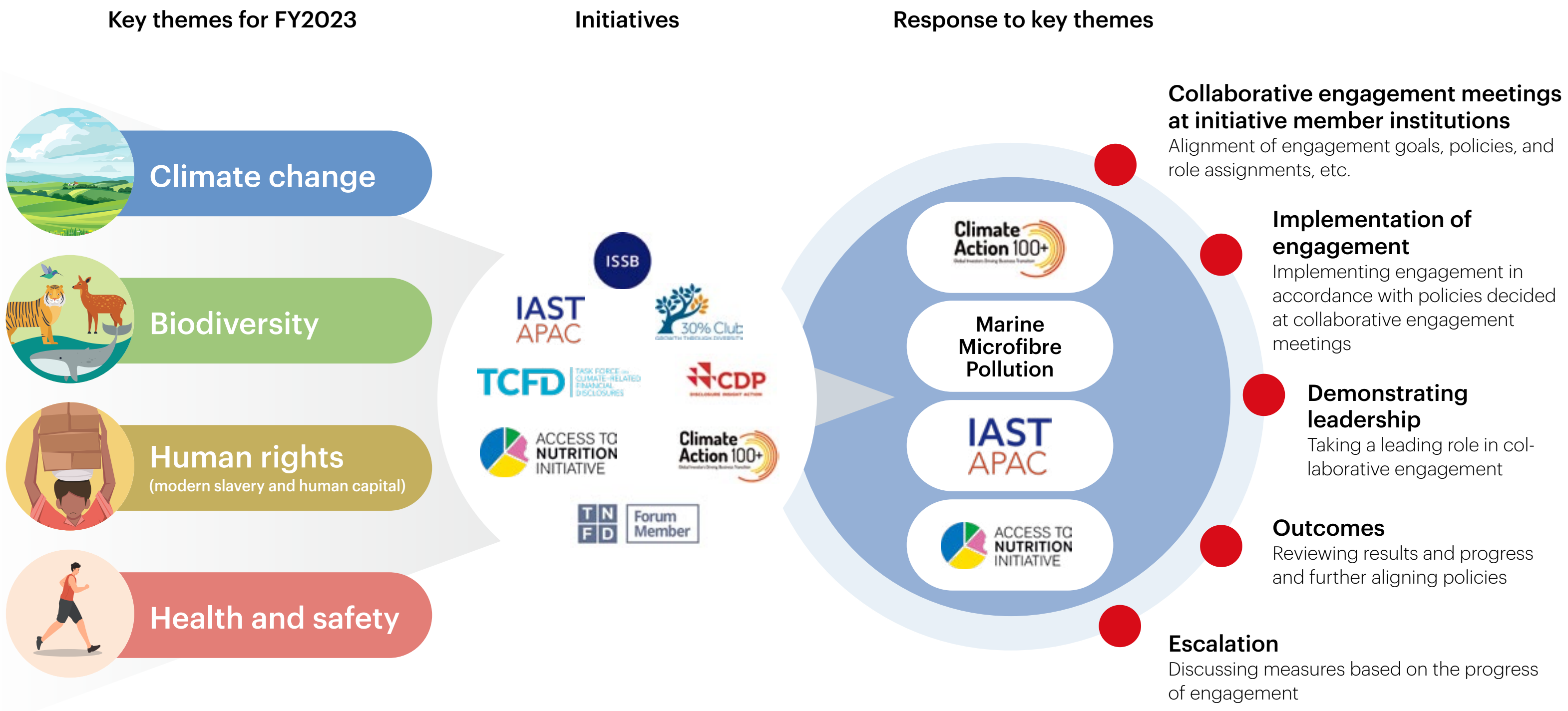
Emphasizing customer safety as a vital lifeline

	Land Transportation (Railroad) Company J **Inconsistency with the "Site-First" Principle**	Air Transportation Company K **Perspectives for Safety Measures**
Goal	**For railway companies, ensuring the safety of passengers is vital. We reviewed the implementation of safety measures and strategies to prevent these measures from being forgotten, with the goal of enhancing corporate value by maintaining and improving on them.**	**We aim to enhance the corporate value of Company K by informing investors of the various measures being taken to ensure that lessons from past accidents are not forgotten, through more effective disclosure practices.**
Dialogue	We reviewed the implementation and progress of measures taken in response to past rail accidents as well as strategies to prevent them from being forgotten.	We ascertained the company's passenger safety measures and their current disclosure status and discussed how the company intends to proceed moving forward.
Response	One of the causes of the accidents was determined to be the lack of prioritization of on-site decisions during emergencies. While management recognized the need to prioritize on-site decisions, surveys revealed that there was still a perception gap between management and on-site workers.	The company has already disclosed specific initiatives to ensure passenger safety. While the disclosure doesn't go into detail regarding their thought process, the measures are conducted according to the standards of their basic philosophy.
Results	**While management has taken measures, it is clear that there is still room for improvement by shifting systems and processes to prioritize on-site decisions.**	**We identified the values underlying specific measures to ensure passenger safety, as well as subjective and relatable criteria. This includes the notion that the standard for safety is whether one would allow a close relative to fly, rather than just a third party.**
Evaluation	Value: The possibility of improving existing measures was raised. Findings: The importance of shared awareness of issues between management and on-site workers in addressing challenges	Value: Discovery of the core ideas of messages that resonate more strongly with stakeholders Findings: The importance of the values underlying the measure and their messaging
Going Forward	**We will encourage Company J to adopt a site-first business approach and culture and propose measures to improve disclosure of specific initiatives to address challenges.**	**We will encourage the company to promote initiatives that resonate more strongly with investors, such as disclosing how values and other factors are incorporated into employees' tasks.**

Collaborative Engagement

Collaborative engagement involves coordinating with companies, investors, and stakeholders to address specific themes and issues. Our goal is to create comprehensive and effective solutions not only through collaborative efforts to tackle individual challenges but also by enhancing social impact and fostering consensus building.
We will work across multiple companies and industries to address sustainability challenges, transcending group boundaries.

Participation in Initiatives → Collaborative Engagement



Collaborative Engagement

Climate Change (Climate Action 100+)

Climate Action 100+ Global Investors Driving Business Transition

Machinery Company A

Supporting Sustained Growth as the Lead Investor for CA100+

Goal

The air conditioning business plays a crucial role in everyday life under global warming. Not only do Company A's products emit more GHG than existing ones, but their refrigerant also contributes to the greenhouse effect. In pursuit of future market expansion, the company aims for sustainable growth by implementing concrete carbon-neutral initiatives and enhancing disclosure.

Dialogue

We discussed climate change from various angles, such as specific plans for achieving net zero and information disclosure that alleviates investors' concerns. We informed the company that investors participating in CA100+ have doubts about its reduction targets relative to the BAU* emissions scenario, which is based on avoided emissions, rather than relative to the total GHG emissions scenario.

Response

Company A has applied for SBTi certification as part of its GHG reduction plan to achieve net zero emissions. As many companies have submitted applications, the screening process is expected to take some time. As part of efforts to strengthen and disclose lobbying activities, the company has added new pages on advocacy to their 2023 Integrated Report.

Results

By working with CA100+ members to provide evaluations from external parties, we encouraged the company to take action, resulting in concrete achievements such as applying for SBTi certification. We were also able to share our view of the importance of sincere information disclosure for sustainable growth.

Evaluation

Value

We were able to convey evaluations and expectations from multiple investors' (CA100+ investors) perspectives.

Findings

The importance of factual disclosure including the trials and errors of companies' initiatives against climate change

Going Forward

While closely monitoring initiatives and information disclosure for net zero, Company A has established a robust business model in the air conditioning industry. Going forward, they are expected to leverage these strengths to exert influence in lobbying activities.

Akira Tanaka Senior Analyst × **Masahiro Kato** Fellow × **Masashi Yazaki** Senior Analyst

Decarbonizing society as a whole may require efforts at the industry and policy levels in addition to the initiatives of individual companies. For example, in the air conditioning industry, it is not only necessary to develop new refrigerant technologies that contribute to decarbonization, but to also work toward reducing CO_2 emissions by improving the power supply mix. These themes are also closely related to governmental policies, and it is important to continue working on current initiatives while working toward the harmonization of the latest technological insights and policies. It is also necessary to proactively disseminate information about various corporate efforts to build up trust from society. As an institutional investor, we will encourage companies to ensure proper disclosure of information about their social contributions, while also collaboratively working on investor initiatives. Through these actions, we aim to create an environment where companies' efforts are accurately evaluated and can continue to progress in addressing the related issues.

Collaborative Engagement

Biodiversity (Marine Microfiber Pollution)

Apparel Manufacturer & Retailer
Company B

Pointing out an Opportunity to Lead the Industry with Microfiber Initiatives

Goal

Microfibers are one of the main causes of global plastic pollution. We are also sharing research findings from the First Sentier MUFG Sustainable Investment Institute to provide insights. We will confirm the current efforts and future plans of Company B, aiming to reduce the risk to biodiversity by encouraging further initiatives.

Dialogue

We confirmed self-regulation efforts regarding fiber shedding within the company and supply chain, as well as insights gained from registering with related initiatives and the status of collaborative efforts. We also discussed future initiatives.

Response

Due to the industry's slow progress in setting standards, Company B is first focusing on understanding how much microfiber each product emits. While resolving this issue is not easy due to consumer preferences, they are considering collaborative efforts with partner material manufacturers. They have also begun awareness activities, such as promoting proper washing methods.

Results

We were able to confirm current initiatives and issues, and also shared an understanding of the direction and potential of future initiatives. Specifically, if Company B can develop garments that are less prone to shedding fibers and are preferred by consumers, they can lead the world in sustainable clothing with a different perspective compared to other companies' products. Other possibilities include participating in setting regulations on the industry's fiber shedding rate, engaging in policy advocacy, and expanding awareness activities.

Evaluation

Value

Provision of insights into global microfiber trends and potential directions for action

Findings

Current status of microfiber initiatives and business issues related to addressing this challenge

Going Forward

By offering additional insights into global trends concerning this issue, we will encourage and support potential initiatives. We will also assist in engaging with governments and initiatives that Company B is registered with.

We aim to promote the adoption of initiatives through dialogue with stakeholders

Ken Mitsutani
Chief Research Officer

Microfiber and plastic pollution pose significant environmental challenges. These pollutants are mainly generated during the manufacturing and use of clothing and plastic products and adversely affect the environment by entering water and soil. Microfibers in particular are the largest source of plastic in the world's oceans, with marine discharge from laundering being a significant concern.
To address this issue, we recognize the importance of implementing measures to prevent fiber shedding in textiles and garments, as well as filtering household wastewater. We are engaging in dialogue with stakeholders such as electronics manufacturers and apparel manufacturers/retailers. While these efforts are still in their infancy in Japan, we hope to see them emulated and adopted all over the world.

Collaborative Engagement

Human Rights (Investors Against Slavery & Trafficking Asia Pacific)

IAST APAC

Manufacturer C

Plans to Position Human Rights as a Key Management Issue and Establish a Human Rights Policy

Goal

Manufacturer C is an engagement target company for Investors Against Slavery & Trafficking Asia Pacific (IAST APAC), an investor collaborative engagement on human rights (modern slavery). Mitsubishi UFJ Trust and Banking selected the company as a pilot case and initiated dialogue starting from 2021. In July, it was transferred to MUFG AM Sustainable Investment, where the engagement process was improved with dedicated analysts and specialized researcher functions.

Dialogue

As part of addressing human rights, we updated Manufacturer C about the importance of human rights issues, while urging them to promptly establish a human rights policy, conduct supply chain due diligence, and implement other substantive human rights measures.

Response

Manufacturer C positioned "Promotion of Responsible Procurement" as a key theme in its new medium-term management plan starting from FY2023, recognizing human rights as a significant issue in this regard.

Results

CSR procurement assessments were conducted for primary suppliers across all their businesses. In October 2023, Manufacturer C signed the United Nations Global Compact (UNGC) concerning human rights and announced that they had done so. The human rights policy is currently being prepared for the first half of the next fiscal period as planned.

Evaluation

Value

Positioning of human rights as a key management issue

Findings

Increased awareness of the importance of human rights issues

Going Forward

Due to the company's scale, there are limitations to internal resources. However, it is commendable that it has recognized human rights issues, which we have continuously pointed out, as important management priorities. In the future, we will further support these efforts.

Continuously supporting the resolution of human rights issues by leveraging knowledge gained from IAST APAC

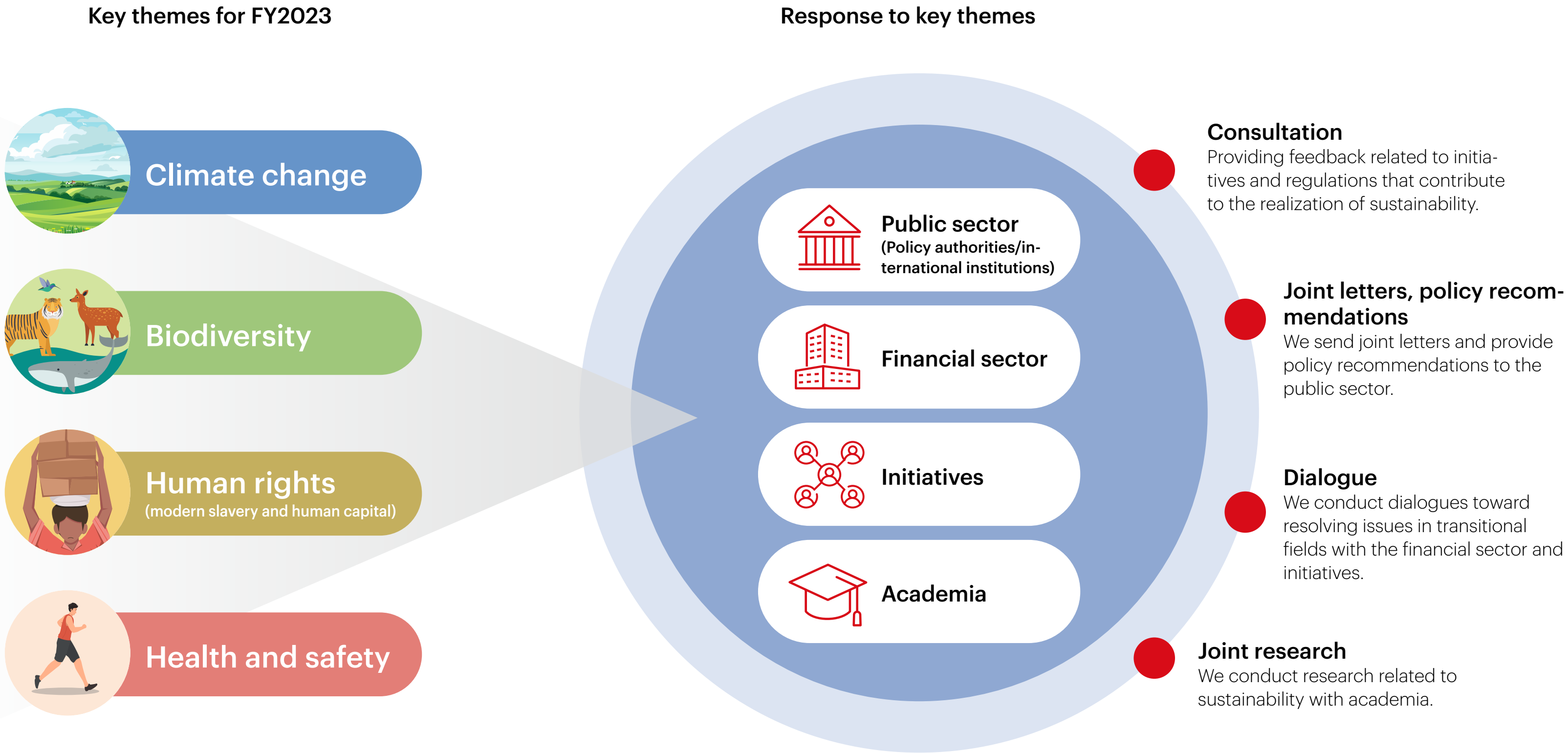
Engagement Group
MUFG AM Sustainable Investment

By participating in IAST APAC and gaining global insights into human rights issues, B-to-C companies with supply chains have come to recognize significant human rights risks associated with them. In response, we recommend first establishing a human rights policy and conducting on-site due diligence for each supplier to the greatest extent possible, while also disclosing the current status. Transparent information disclosure serves as the initial step in addressing human rights issues. Following the assessment, it is essential to implement system and process improvements. Specifically, establishing grievance mechanisms from a user perspective to allow individuals to voice their concerns. We will aim to leverage the insights gained from IAST APAC to support practical solutions in the future.

Public Engagement

Public engagement is an approach aimed at encouraging sustainability issues resolutions through broad consultation and dialogue with public institutions.
In addition to offering recommendations to support corporate behavior change and transformation initiatives, we strive to realize sustainability by establishing trusting relationships through information exchange and discussions with public institutions.

Public Engagement



Public Engagement Initiatives

Climate Change: COP28 (The 28th Conference of the Parties to the UN Framework Convention on Climate Change) in Dubai, United Arab Emirates

COP28 UAE

Mitsubishi UFJ Trust and Banking Corporation

Unlocking Climate finance horizons

- We participated in COP for the first time and co-hosted an event with the Asian Development Bank to promote climate finance in the Asia-Pacific region.
- We initiated discussions aimed at realizing and expanding transition finance in the Asia-Pacific region using blended finance.

Goal

At the international framework building session, we discussed creating market environments conducive to sustainable investment in the APAC region. We participated in COP28 to strengthen our network with policymakers and international initiatives and co-hosted an event with the Asian Development Bank to globally disseminate information about our initiatives on climate change.

Dialogue

- Under the theme of "Net Zero in the Asia-Pacific Region," a panel discussion was held with five panelists, including Vice President Yasuda, to discuss each country's contributions and challenges and solutions for fundraising.
- Acknowledging the distinctive challenges of the APAC region compared to the advanced initiatives in achieving net zero in the West, the conversation aimed to foster awareness and explore how each country could contribute to achieving net zero. Solutions were proposed from the perspective of institutional investors, with a mention of the role expected from the Asian Development Bank.

Results

- Discussions were held with the Asian Development Bank to explore their significant role with other financial institutions in various regions in the area of transition finance in Asia, which is of great interest to Japanese authorities.
- Efforts to enhance the transparency and accountability of transition finance through appropriate rulemaking were communicated to COP28 participants.

Going Forward

We plan to continue exchanging views with relevant ministries and agencies in the Asia-Pacific region, as well as with the Asian Development Bank and financial institutions in various regions, to discuss contributions from each country and regional financial institution toward achieving net zero emissions.

Climate Change: GFANZ (Global Financial Alliance for Net Zero)

Accelerating the transition to a net-zero global economy

- We participate as key members in the GFANZ Global, APAC, and Japan chapters aiming to realize a decarbonized society. In collaboration with domestic authorities and financial institutions, we contribute to transition in Japan and Asia, while also engaging in rulemaking.

Goal

In the transition toward net zero emissions, there is international divergence in discussions, particularly between Europe, the Americas, and the Asia region, regarding responses to high-emission sectors. Recognizing that these sectors are also key for the transition, we participate as key members in international initiatives such as GFANZ, which wield significant influence over climate change rules and guidance. Our aim is to ensure that the recognition of high-emission sectors as key to the transition is reflected in international guidelines and to actively engage in rulemaking processes.

Dialogue

- We participate in the global working group of GFANZ Index Investing to discuss and plan guidance regarding index development.
- Alongside the activities of GFANZ Japan Branch, we are involved in the creation of transition plan guidelines as part of the international climate change rules spanning various countries, including Japan.

Results

- **At COP28, as part of policy recommendations to consider high-emission sectors in transition finance, we presented a response paper under the name of GFANZ Japan Branch (with MUFG AM also signing). This led to an agreement on transition plan guidelines within GFANZ, fostering a deeper understanding of transition policies among domestic authorities in Japan and Asia.**

Going Forward

Based on the insights, networks, and presence gained through this dialogue, we plan to further engage and provide recommendations from an asset management standpoint in the discussions on Japan's climate change rules within GFANZ's Global, APAC, and Japan chapters going forward.

Public Engagement Initiatives

Mitsubishi UFJ Trust and Banking Corporation

Climate Change: The United Nations Environment Assembly in Nairobi, Kenya

Going global fulfilling commitments for the climate agenda

- Participated in the United Nations Environment Programme's (UNEP) plenary meetings with the aim of playing a leading role in the discussion on global policies for the global environmental sector

Goal

An international presence and the strengthening of communication capabilities are essential to further enhance public engagement functions. We aim to participate in the United Nations Environment Assembly hosted by UNEP, a major meeting in the area of environmental sustainability, and to build relationships with the government and public sectors while establishing a central position as a Japanese financial institution in global initiatives in climate change and biodiversity.

Dialogue

- Participated in plenary meetings, the opening plenary, and the intergovernmental meeting on actions to address the key themes of climate change, biodiversity loss, and pollution and exchanged opinions with mainly high-ranking government officials and the UNEP Climate Change Division
- Attended the summit prior to the plenary meetings, allowing us to participate in and exchange information at a forum for substantive discussions with participants, including government officials, academic institutions, and other international institutions
- Improved Mitsubishi UFJ Trust and Banking's international presence through networking by participating in side events and the UN Policy Science Business Forum, a plenary forum for exchanging information with policy makers, academic institutions, private corporations, and other institutions

Results

- **Through the United Nations Environment Assembly, we conducted discussions with governments, the UN, and international organizations highly relevant to climate change. Additionally, we further developed our activity policies in preparation for the 29th session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP29) and the 16th meeting of the Conference of the Parties to the Convention on Biological Diversity (COP16) in 2024.**

Going Forward

Throughout the plenary meetings, which were centered on climate change and biodiversity and in which the COP 16 Secretariat and Taskforce on Nature-related Financial Disclosures Executive Director participated, Mitsubishi UFJ Trust and Banking focused on exchanging opinions and networking, allowing us to build relationships with relevant stakeholders. Moving forward, we aim to contribute to rulemaking in international conferences on climate change and biodiversity and expand its influence through information sharing.

Climate Change: NZAM

Net Zero as an asset manager

- To achieve a decarbonized society, we participate in global initiatives to contribute to achieving net-zero GHG emissions from investee companies.

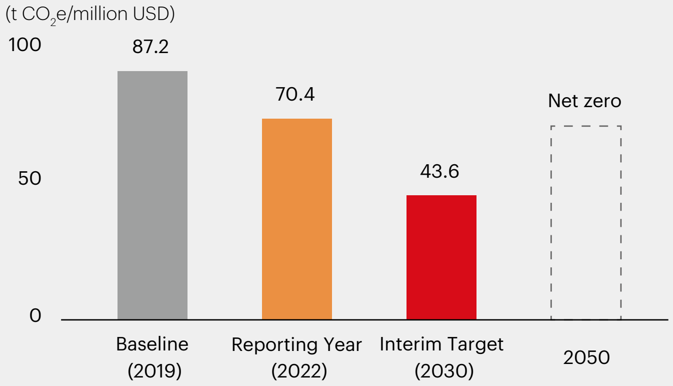
Goal

MUFG AM has joined the Net Zero Asset Manager Initiative (NZAM), committing to achieving net zero emissions in its investment portfolio. We have set targets toward net zero and aim to achieve net-zero GHG emissions from investee companies through our operations and engagement efforts.

Status of Initiatives

- **Targets and results for decarbonization**

NZAM Interim Target (2030): Reduce GHG emissions per unit of economic intensity by 50% compared to 2019 level for 55% of assets under management



Economic intensity (t-CO2e/million USD)	Results		Planned
	Baseline (2019)	Reporting Year (2022)	Interim Target (2030)
Scope 1 and 2	87.2	70.4	43.6
Scope 1, 2, and 3 (reference)	970.7	869.4	—

Results

- **As of March 2023, we achieved a 20% reduction compared to 2019 levels (targeting 55% of assets under management, based on GHG emissions per unit of economic intensity).**
- **We have expanded the number of priority engagement targets selected based on GHG emissions and investment amount from approximately 50 companies to approximately 100 companies.**

Going Forward

We will continue to conduct regular self-assessments of progress toward the above interim target and maintain a cycle of incorporating insights gained into our operations and engagement. This ongoing process will deepen the depth of dialogues contributing to the expansion of priority engagement targets and enhancement of corporate value for investee companies.

Climate Risk analysis for Engagement

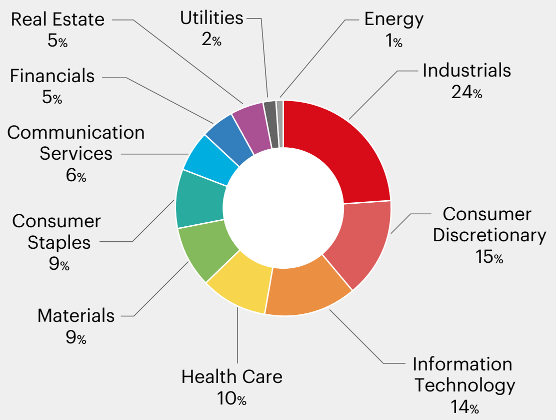
• Assessing and identifying physical/transition risks by industry for use in prioritizing engagement targets.

Goal

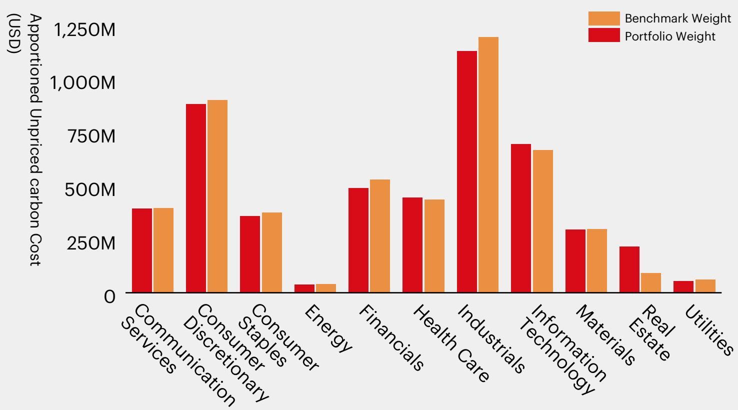
By identifying climate change risks and opportunities within the investment portfolio and integrating them into decision-making processes for both operations and engagement, we aim to achieve a balance between decarbonizing the investment portfolio and enhancing the sustainable corporate value of investee companies.

Status of Initiatives

Portfolio Composition of Physical Risk Scores by Industry



Unpriced Carbon Cost by Industry



Results

- Identified the magnitude of physical risks by industry within the investment portfolio and particularly recognized high-risk hazards.
- Identified transition risks by industry within the investment portfolio based on unpriced carbon costs.

Going Forward

- We will refine our analysis (by transitioning from estimated data to disclosed data, conducting scenario analysis of portfolios, etc.)
- We will seek further disclosure of information from investee companies and support their climate change responses through engagement activities.

Biodiversity

Nature Risk analysis for our nature positive

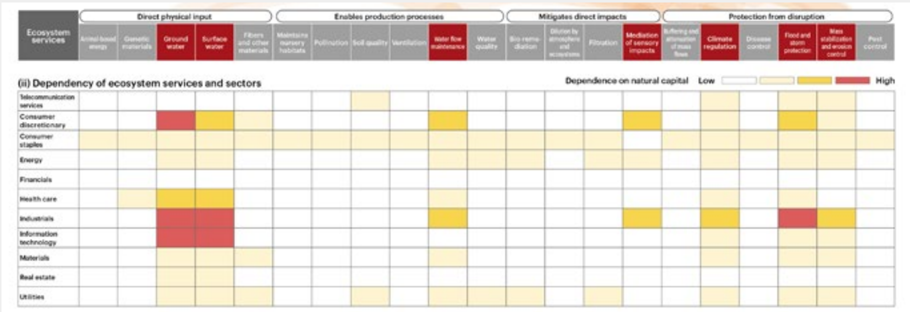
We will identify ecosystem services and impacts on natural capital that investee companies rely on in accordance with the TNFD framework. By integrating this information with portfolio composition weights, we will conduct assessments and analyses of the specific risks and opportunities unique to our portfolio.

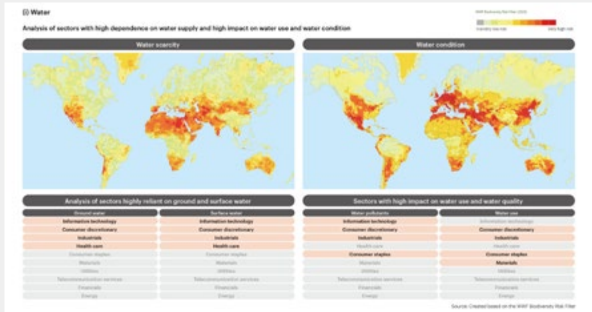
Goal

To establish various strategies for addressing natural capital and biodiversity, it is essential to understand the current portfolio's dependence on and impact on ecosystem services or natural capital as foundational information.

Analysis

Image of risk assessment and analysis in light of portfolio composition weights





*For the full risk analysis, please refer to MUFG Asset Management Natural Capital and Biodiversity Report 2023.
https://www.tr.mufg.jp/mufgam-su/pdf/20231220_01.pdf

Results

- **Based on the analysis, the risk assessment is as follows:**
- **Within MUFG AM's portfolio, sectors with both a high dependence and a high impact on natural capital are "General consumer goods and services," "Capital goods and services," and "Information technology."**

Going Forward

We will identify risks related to relevant natural capital and business opportunities among companies in the aforementioned sectors and integrate them into our engagement and management strategies aimed at reducing or mitigating physical and transition risks, as well as creating business opportunities.

Public Engagement Initiatives

Participation in External Initiatives

To address complex sustainability issues, it is crucial to engage not only in financial-related initiatives but also in other global initiatives.
As one of the key engagement approaches of MUFG AM Sustainable Investment, we believe that collaboration among multiple financial institutions and other organizations is an effective method to engage stakeholders.
Our group companies are actively participating in domestic and international initiatives and playing active roles in shaping policies and standards.
Through collaboration, we are working together to address sustainability issues.

ESG	Principles for Responsible Investment (PRI)	International Sustainability Standards Board (ISSB)	Japan Sustainable Investment Forum (JSIF)	FAIRR Initiative			
Environment	Climate Action 100+	Carbon Disclosure Project (CDP)	Task Force on Climate-related Financial Disclosures (TCFD)	Asia Investor Group on Climate Change (AIGCC)	Taskforce on Nature-related Financial Disclosures (TNFD)	Investor Collaboration Marine Microplastic Pollution	Net Zero Asset Managers initiative (NZAM)
Social	30% Club Japan Investor Group	Investors Against Slavery and Trafficking Asia-Pacific (IAST APAC)	Healthy Markets Initiative (ShareAction)	Access to Nutrition Initiative (ATNI)	Access to Medicine	Advance (PRI)	Principles for Financial Action for the 21st Century
Governance	Global Impact Investing Network (GIIN)	Japan Impact-driven Financing Initiative	ESG Disclosure Study Group	Institutional Investors Collective Engagement Forum	Japan Stewardship Initiative	International Corporate Governance Network (ICGN)	Japan Stewardship Forum

Review of the Current Fiscal Year

Self-Assessment of Japan's Stewardship Code

In providing services to the companies of MUFG AM, MUFG AM Sustainable Investment endorses Japan's Stewardship Code ("the Code"). In July 2023, we announced our acceptance of the Code and published our response policy. Below is a summary of the initiatives and self-assessment of MUFG AM Sustainable Investment regarding each principle of the Code.

	Self-Assessment of Japan's Stewardship Code
Basic Policy (Principle 1)	We announced our acceptance policy of the Code in July 2023. In accordance with the MUFG AM Sustainable Investment Policy, we conduct dialogues to encourage investee companies to address sustainability issues to reduce medium- and long-term risk.
Management of conflicts of interest (Principle 2)	Monitoring is conducted by the Investment Compliance Division, and verification is performed by the Stewardship Committee. We implement appropriate conflict of interest management measures and confirm that there has been no suspicious information sharing from the perspective of conflicts of interest between contact-restricted departments, such as corporate sales divisions, within the MUFG Group.
Dialogues with companies (Principles 3 & 4)	Internally, we are strengthening our engagement structure between research officers and analysts. Externally, we are enhancing our capabilities through collaboration with initiatives such as Climate Action 100+ and IAST APAC. By selecting key themes and employing appropriate approaches, we conduct constructive dialogues with companies.
Voting activity (Principle 5)	In providing services to the companies of MUFG AM, MUFG AM Sustainable Investment does not exercise voting rights. Instead, we provide the results of sustainability dialogues to each MUFG AM company, and they exercise their voting rights based on the outcomes of these dialogues.
Reports to clients and beneficiaries (Principle 6)	In providing services to the institutional investors of MUFG AM, MUFG AM Sustainable Investment does not engage in asset management activities for entrusted assets. Instead, we provide the results of sustainability dialogues to each MUFG AM company.
Improving dialogue capabilities (Principle 7)	As stated in our basic policy, we implemented numerous specific measures to enhance collaboration both internally and externally, aiming to strengthen the expertise of MUFG AM's employees and its organizational collective influence. This effectively results in building capacity for dialogues.
Provision of services that contribute to improving the functioning of the entire investment chain (Principle 8)	We conducted dialogues on sustainability to achieve sustainable growth and enhancement of corporate value for our investee companies. By sharing the results of these dialogues among our group companies on a regular basis, we aim to improve the functioning of the investment chain.

Future Initiatives

Enhancement of cross-theme initiatives

We will analyze the relationships between individual key themes (trade-offs and synergies) and deepen our engagements with a focus on the relationships between climate change, biodiversity, human rights, among others.

Global-level initiatives

Starting from April 2024, we will enhance our global presence and conduct engagements at a global level, while also improving public engagement with authorities and stakeholders.

Realization of Sustainable Investment Principles

We will establish various policies to advance our commitment to a sustainable future outlined in the MUFG AM Sustainable Investment Policy. In April 2024, we will introduce "MUFG Asset Management's Approach to Exercising Voting Rights."

*Please refer to "MUFG Asset Management's Approach to Exercising Voting Rights" for details (available in Japanese only).
https://www.tr.mufg.jp/mufgam-su/pdf/20240228_01.pdf

Mitsubishi UFJ Trust and Banking's Initiatives

Climate Change

Our Approach to Climate Change

Climate change is an urgent global issue and a major sustainability challenge that is closely related to broader environmental and social concerns. We believe that addressing climate change is essential not only for achieving a sustainable society but also for enabling investee companies to enhance their corporate value in the medium- to long-term.
We aim to appropriately address both the risks and opportunities of climate change, collaborate with various stakeholders, and contribute to a smooth transition to a low-carbon and decarbonized society through engagement with investee companies.
We manage assets entrusted by customers based on diverse investment needs. As we fulfill our fiduciary responsibility to meet the different needs, such as maximizing investment returns, limiting risk, and considering investment time horizons, we will also address one of the world's biggest challenges, climate change, and provide information accordingly.

Response to TCFD

The Task Force on Climate-related Financial Disclosures (TCFD) recognizes that worsening climate change poses significant economic and financial risks and opportunities and recommends that companies and investors recognize and disclose these risks and opportunities for their own organizations.
As an asset manager, we have been disclosing information based on TCFD recommendations and enhancing climate-related financial disclosures in our investment portfolios since 2020. We aim to improve medium- and long-term returns, mitigate risks, and promote sustainable economic and social development by assessing and disclosing the impact of climate change on our portfolio, considering the impact of climate change in investment decisions, and encouraging our investee companies to address climate change risks and opportunities.

Recommended Disclosures by TCFD

Governance

- The board's oversight
- Management's role

Strategy

- Climate-related risks and opportunities
- The impact of climate-related risks and opportunities
- Resilience considering different scenarios

Risk Management

- Processes for identifying and assessing climate-related risks
- Processes for managing climate-related risks
- How these processes are integrated into overall risk management

Metrics & Targets

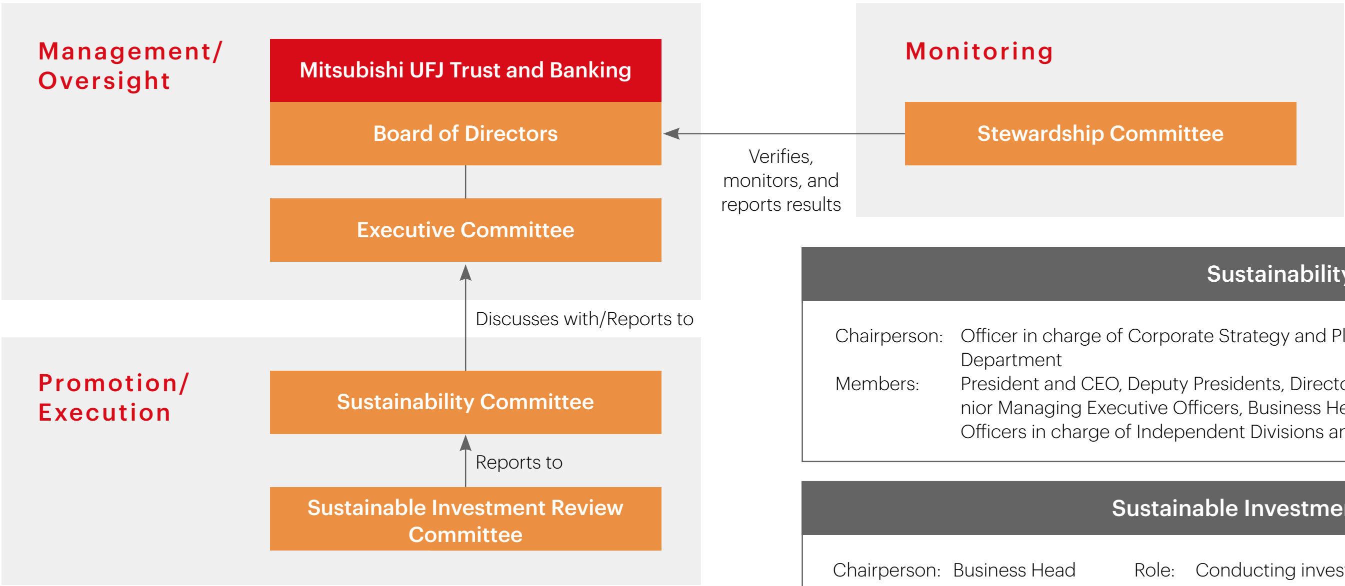
- Metrics for climate-related risks and opportunities
- GHG emissions
- Targets to manage climate-related risks and opportunities

Governance

Oversight and Enforcement Structure for Climate-Related Risks

In our company, we explicitly incorporate sustainable investment into our governance structure. The Sustainability Committee investigates and deliberates on initiatives related to promoting sustainability across the entire company. Additionally, the Sustainable Investment Review Committee deliberates and reports on policies, strategies, and structures related to sustainable investment in the asset management business, as well as reports on the status of initiatives. The contents are reported to the Executive Committee and the Board of Directors through the Sustainability Committee, which is composed of the president, executive officers, and department heads.

Governance Structure



Sustainability Committee			
Chairperson:	Officer in charge of Corporate Strategy and Planning Department	Role:	Investigating and discussing policies, strategies, systems, and the status of sustainability promotion. Submitting reports to the Executive Committee and Board of Directors if necessary.
Members:	President and CEO, Deputy Presidents, Directors, Senior Managing Executive Officers, Business Heads, and Officers in charge of Independent Divisions and Offices		

Sustainable Investment Review Committee			
Chairperson:	Business Head of the Asset Management Business	Role:	Conducting investigations and deliberations on the following matters and reporting to the Sustainability Committee. - Matters related to policies, strategies, and systems for sustainable investment at Mitsubishi UFJ Trust and Banking - Status of Mitsubishi UFJ Trust and Banking's sustainable investment initiatives - Other necessary matters related Mitsubishi UFJ Trust and Banking's sustainable investment
Members:	Heads of investment divisions		

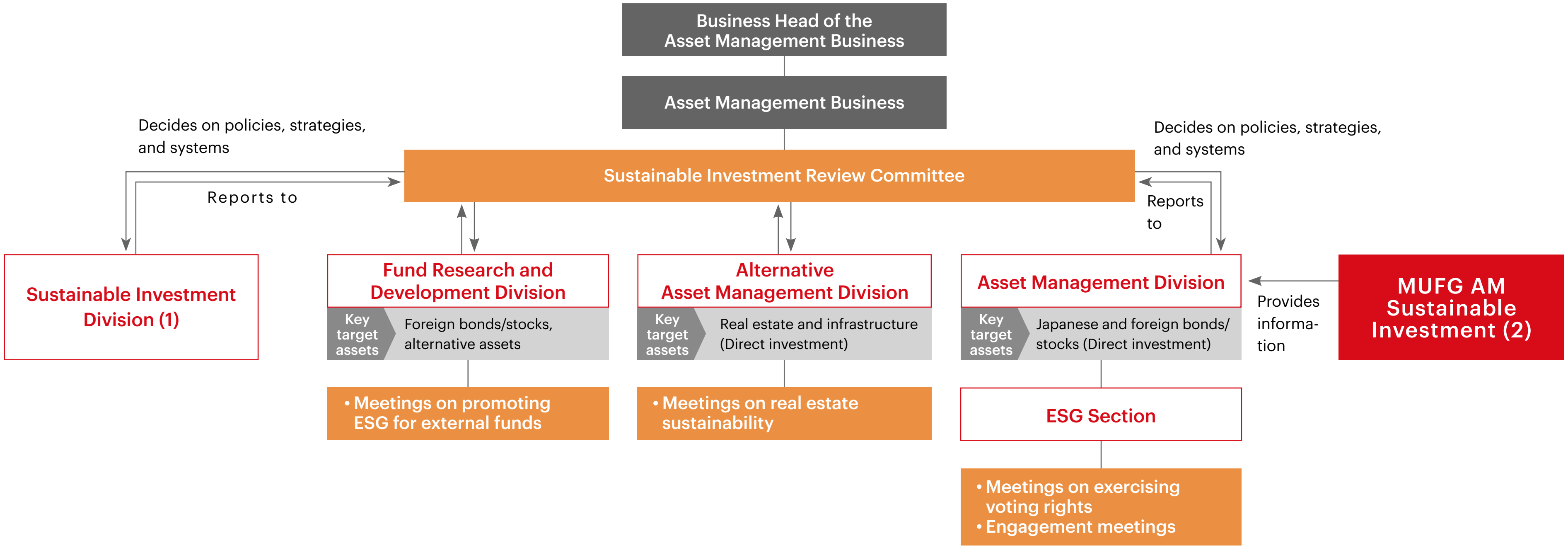
Governance

Enhancement of the Promotion System for Sustainable Investment

① Establishment of the Sustainable Investment Division: In April 2023, the Sustainable Investment Division was established. It is responsible for planning, formulating, and promoting business strategies related to sustainability for the entire asset management business, as well as handling publicity and external negotiations.

② Launch of MUFG AM Sustainable Investment initiatives: Since July 2023, MUFG AM Sustainable Investment has initiated collaborative efforts within the group to engage in sustainable engagement. By gathering specialized personnel within MUFG Asset Management* and appointing external experts, we established a system where analysts collaborate with research officers in charge of sustainability themes to promote sustainable engagement.

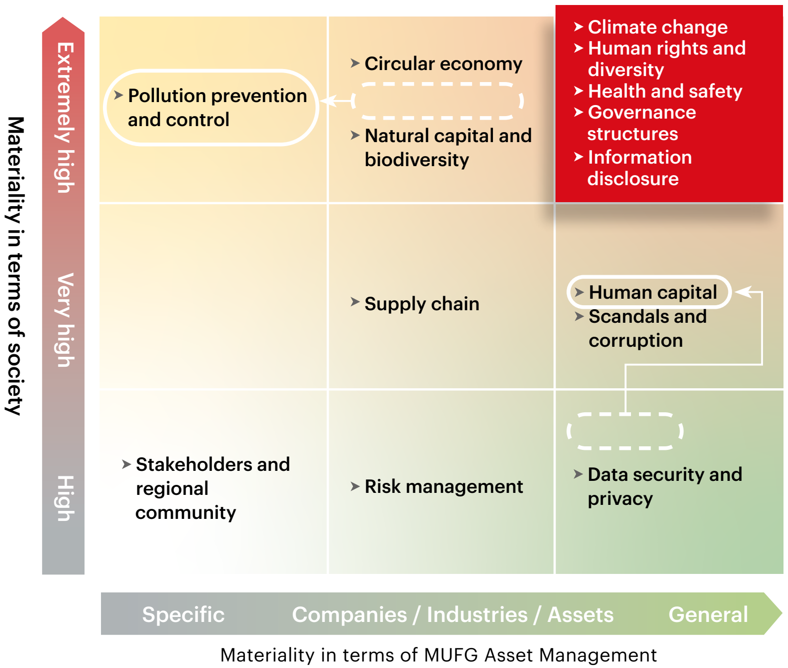
*MUFG Asset Management is a brand of Mitsubishi UFJ Trust and Banking Corporation, Mitsubishi UFJ Asset Management Co., Ltd., Mitsubishi UFJ Real Estate Asset Management Co., Ltd., Mitsubishi UFJ Alternative Investments Co., Ltd., and Mitsubishi UFJ Asset Management (UK) Ltd.



Strategy

Updating our ESG Materiality Assessment

We define "material ESG issues" as ESG issues that have particularly high impacts in materiality, including climate-related issues. In identifying material ESG issues, we use the materiality matrix framework for assessing the significance of ESG issues (see diagram below). Since material ESG issues can change depending on the environmental and social context, we regularly review and update the materiality matrix. In the November 2023 update, there were adjustments made to the importance of human capital, but there were no changes to our five material ESG issues.



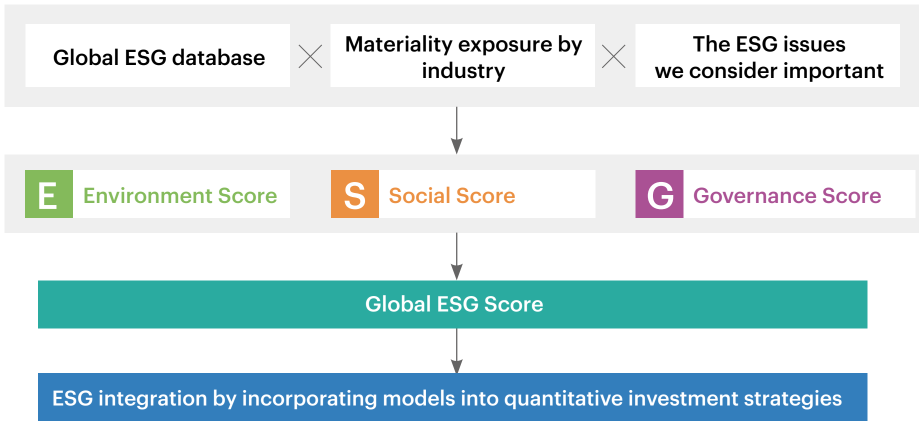
Reflecting Material ESG Issues in Investment Activities

Material ESG issues are communicated to investment departments and reflected in our investment activities.

In sustainable engagement, we select themes based on these material ESG issues. Since FY2023, we have been engaging with approximately 100 companies on topics such as climate change, biodiversity, and human rights (refer to pages 21-28).

Furthermore, we practice ESG integration by incorporating material ESG issues into investment decision-making across a wide range of asset classes. The specific methodologies vary depending on the asset class and strategy. For example, in domestic and international quantitative investment strategies, we consider industry-specific materiality and ESG issues that are material to us and calculate the E, S, and G scores for each issue based on the evaluation items in the ESG database, as well as the Global ESG Score, which is a composite of those scores. Subsequently, we implement these scores into the models of each quantitative strategy.

ESG Integration in Domestic and International Quantitative Investment Strategies



Strategy

Initiatives for Climate-Related Issues

As one of our material ESG issues, we address climate change with a multilateral approach, including collaboration with external organizations, research, and information dissemination, as our investment strategy.

Field	Activity	Initiative	Reference
Investment Behavior	Integration of climate factors	We established our own ESG database to evaluate non-financial information of investee companies, including climate-related factors. We incorporate ESG evaluations into analysts' assessments of companies.	SS Report*1 P58-59
	Engagement	For thematic engagement, we conduct dialogues with a focus on sustainability-related themes such as climate change, biodiversity, human rights, and health and safety. As part of our collaborative engagement on climate change, we participate in Climate Action 100+ (CA100+) and have conducted dialogues with two Japanese companies as the lead investor.	P21-28 P29-32
	Exercising voting rights	As a general rule, we support shareholder proposals that encourage enhanced disclosure of sustainability-related information, including climate-related issues. However, we individually assess each proposal based on the company's initiatives. For an overview of our voting behavior, please refer to the Stewardship Report.	SS Report*1 P29-39
	Setting interim targets for NZAM	We joined the Net Zero Asset Managers initiative (NZAM), which aims to achieve net-zero GHG emissions from investee companies by 2050, and are setting and reviewing interim targets.	P37
External Collaboration	Participation in initiatives	We are a board member of AIGCC (Asian Investor Group on Climate Change) and are involved in efforts to address climate change by asset owners and financial institutions in Asia. We participate in the GFANZ APAC and Japan chapters to contribute to rulemaking efforts. In addition, we participate in many other external initiatives. Moving forward, we will continue contributing to policy and standard formulation while providing leadership.	P35, 40
	Public Engagement	We are enhancing public engagement. For example, we disseminated information on blended finance and other topics at a side event at COP28.	P34
Disseminating Research Information	Research on sustainable investment	We established the First Sentier MUFG Sustainable Investment Institute to disseminate impartial and practical research to institutional investors worldwide with the aim of promoting sustainable investment, developing global capital markets, and resolving ESG issues.	Website*2
	Information dissemination for customers	We have launched the website for MUFG AM Sustainable Investment, where we share information related to our sustainable investment approach.	Website*3
Enhancing Organizational Capabilities	System enhancement	We have launched MUFG AM Sustainable Investment, a cross-organizational initiative within the MUFG Group that promotes sustainable engagement and product development by leveraging the expertise of MUFG AM. We have also established the Sustainable Investment Division within our company to take the lead in sustainable investing activities.	P10-16
	Development of human resources	We conducted training on sustainable investment and stewardship for relevant members across MUGF AM companies.	P22

*1 SS Report: Stewardship Activity Report 2023 (https://www.tr.mufg.jp/houjin/jutaku/pdf/stewardship_2023.pdf)
*2 First Sentier MUFG Sustainable Investment Institute (https://www.firstsentier-mufg-sustainability.com/)
*3 MUFG AM Sustainable Investment (https://www.tr.mufg.jp/mufgam-su/english/)

Climate-Related Financial Disclosures Based on TCFD Recommendations

Risk Management

Processes for Identifying and Assessing Risks

The most important aspect of risk management for asset management companies is managing the risks of the assets under management. In our company, which manages a significant amount of funds for long-term investment purposes, we believe that considering and addressing sustainability in investment activities is essential for achieving stable long-term performance.

In our company, the Sustainable Investment Review Committee deliberates on overall sustainability risks concerning investment assets. We designate sustainability issues that have a particularly significant impact on long-term and stable returns in our operations as "material ESG issues". These material ESG issues are regularly reviewed (refer to page 14).

Risk Management Process

The selection of themes for sustainable engagement is based on material ESG issues and industry-specific materiality. We conduct engagement with approximately 100 companies based on the selected themes (refer to pages 21-28).

We have built our own ESG database and use it for evaluating investee companies. In equity investments, we consider the impact of risks and opportunities on corporate value based on each company's ESG evaluation and material ESG issues, incorporating them into our investment decisions (refer to page 58 of the Stewardship Activity Report).

We are also promoting initiatives that consider ESG perspectives in alternative investment areas, such as real estate. Particularly in the real estate sector, we prioritize climate change initiatives as a means of directly achieving positive environmental and social engagement and long-term enhancement of asset value, including the acquisition of external certifications for sustainability.

Integration Status of Risk Management across the Company

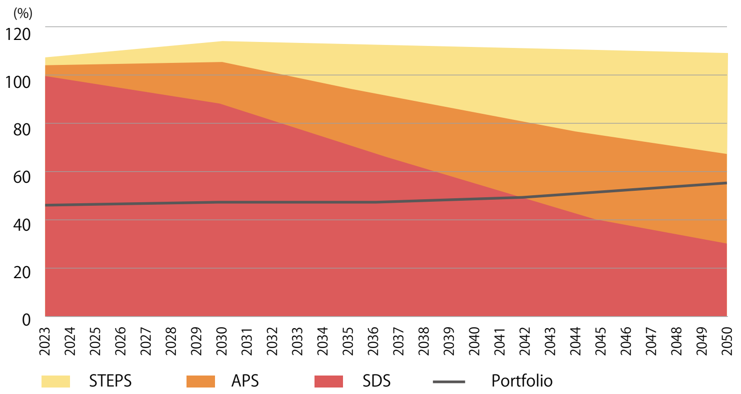
Regarding sustainability risks for the overall company, deliberations and reports are conducted by the Sustainability Committee, chaired by the Officer in charge of Corporate Strategy and Planning Department. Significant matters are then discussed and reported to both the Executive Committee and the Board of Directors. Furthermore, depending on the theme, discussions and reports are also conducted within the Risk Management Committee under the umbrella of the Executive Committee with significant matters presented to both the Executive Committee and the Board of Directors.

For the overall risks to our businesses, we identify the most critical risk events to be monitored over the next year as top risks in the Risk Management Committee. Climate change-related risks have been identified as one of the top risks as of March 2023. Specifically, we recognize that factors such as disclosure of climate-related information, progress in supporting the transition to a decarbonized society, compliance with strengthened regulations and policies, and our reputation regarding our response to climate change could potentially have adverse effects on our corporate value, financial condition, and business performance.

GHG Emissions Transition Analysis

We conducted an analysis comparing the projected future GHG emissions and carbon budgets under different climate scenarios for our domestic stock portfolio. According to this analysis, our current portfolio is projected to exceed the carbon budget aligned with the Sustainable Development Scenario (SDS) by 2043. Additionally, the temperature rise potential for 2050 was estimated to be 1.8°C. We believe that engaging with investee companies is crucial to mitigate medium- to long-term transition risks.

GHG Emissions Transition Analysis



Climate scenarios are based on those published by the International Energy Agency (IEA). A summary of each scenario is as follows:

SDS (Sustainable Development Scenario): Scenarios consistent with the goals of the Paris Agreement.

APS (Announced Pledges Scenario): Scenario in which NDCs (Nationally Determined Contributions) announced by each country are fulfilled.

STEPS (Stated Policies Scenario): Climate scenarios based on policies announced by governments.

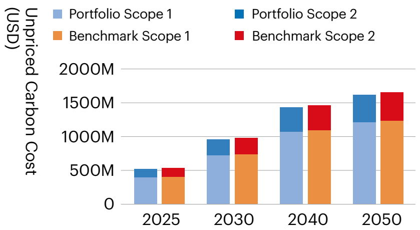
Risk Management

Analysis of Transition Risks

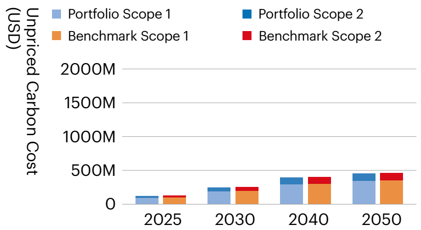
As a quantitative assessment of transition risk, we conducted an analysis using the Carbon Earnings at Risk framework provided by S&P to assess how changes in future potential carbon prices could result in additional costs for companies. In this analysis, we focused on the domestic stocks within our portfolio that have the highest GHG emissions.

If policies aligned with the Paris Agreement's 2°C target are implemented (High Carbon Price Scenario), it is expected that carbon emission costs will significantly increase in the future. On the other hand, if countries only implement policies based on their NDCs (Low Carbon Price Scenario), the increase in carbon emission costs is expected to be limited.

High Carbon Price Scenario

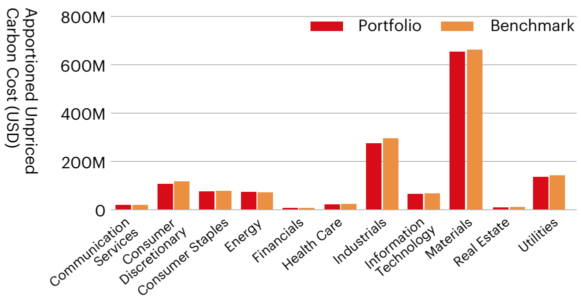


Low Carbon Price Scenario



Furthermore, costs tend to increase significantly in specific sectors such as utilities and materials. Considering these characteristics, the importance of enhancing engagement with industries and companies at high risk of cost escalation becomes evident.

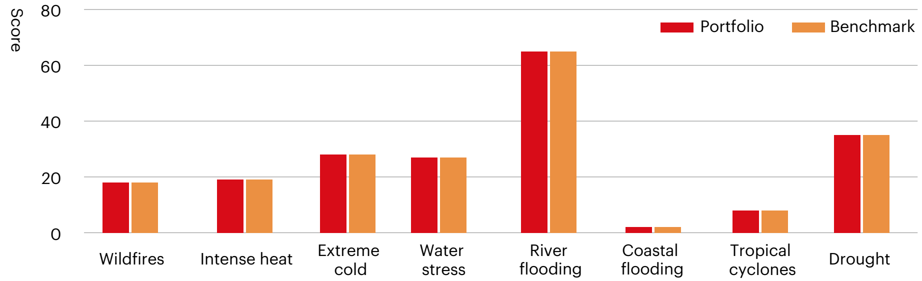
Carbon Costs by Sector



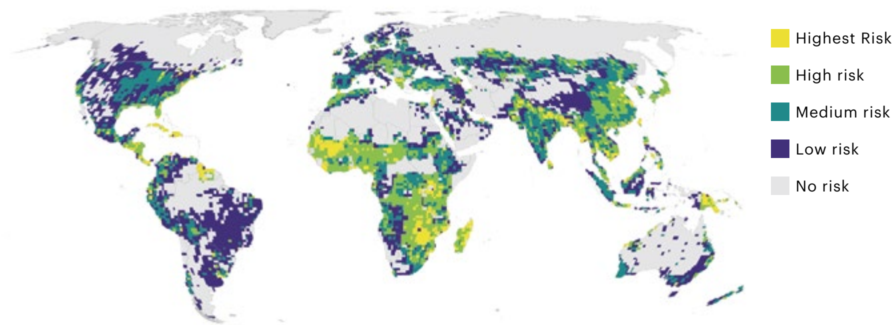
Analysis of Physical Risks

We conducted an analysis using S&P's analytical tool to assess the physical risk scores our domestic stocks are exposed to. When examining the physical risk scores by type of disaster, the highest were for river flooding, followed by droughts. Additionally, using ISS's tool, we can view physical risks by region. By examining physical risks by type of disaster and region, we can use this information as a reference for asset allocation decisions.

Physical Risk Score by Disaster Type



Geographic Distribution of Physical Risks



Metrics & Targets

GHG Emission Amounts

Our GHG emissions in our GHG-targeted portfolio* amounted to 11.58 million tCO_2e. When comparing emissions by asset to the benchmark (market index), all categories except foreign stocks were lower than the benchmark's (BM) emissions. The reason for foreign stocks surpassing the benchmark lies in the relatively high exposure to utilities in sector allocation. This trend is consistent even when considering carbon intensity or weighted average carbon intensity.

	Total carbon emissions (Scope 1 and 2) (million t CO_2e)	Compared to BM	Total carbon emissions (Scope 1, 2, and 3) (million t CO_2e)	Compared to BM	Carbon strength (economic intensity) (t CO_2e/million US$)	Compared to BM	Weighted average Carbon Intensity (t CO_2e/million US$)	Compared to BM
Domestic Bonds	1.68	88%	4.61	66%	242.83	74%	403.04	68%
Domestic stocks	8.04	97%	112.40	101%	81.93	97%	88.71	96%
Foreign bonds	0.07	67%	0.49	80%	46.30	66%	127.80	73%
Foreign stocks	1.80	109%	16.84	98%	48.43	111%	124.98	111%
Overall	11.58	—	134.34	—	80.67	—	113.60	—
Remarks	Total GHG emissions for the whole portfolio		Total GHG emissions for the whole portfolio (Scope 1, 2, and 3)		The value obtained by dividing the total carbon emissions (Scope 1 and 2) by the total revenue of each investee company in the portfolio		Weighted average of GHG emissions (Scope 1 and 2) for each investee company, calculated by dividing the GHG emissions by revenue and then weighted by the investment weigh	

*Our GHG-targeted portfolio consists of domestic bonds (corporate bonds only), domestic stocks, foreign bonds (corporate bonds only), and foreign stocks among the assets entrusted to us (excluding externally managed operations).

Mitsubishi UFJ Trust and Banking's Response to Tokyo Stock Exchange's Action to Implement Management that is Conscious of Cost of Capital and Stock Price

We request the continuous implementation of the following measures toward achieving management that considers cost of capital and stock price.

Source: Prepared by Mitsubishi UFJ Trust and Banking based on documents from the Listing Department of Tokyo Stock Exchange, Inc.

Challenges in Return on Capital and Growth Potential

On March 31, 2023, the Tokyo Stock Exchange announced the "Action to Implement Management that is Conscious of Cost of Capital and Stock Price." A notification was sent to companies listed on the Prime and Standard Markets requesting their cooperation on this matter with hopes of improving companies with price-to-book (P/B) ratios below 1.

The notification highlights the following points. Currently, approximately half of the companies listed on the Prime Market and about 60% of those listed on the Standard Market have a Return On Equity (ROE) below 8% and P/B ratio below 1, indicating challenges related to return on capital and growth potential. In follow-up meetings to review market segmentation, it was pointed out that a shift in management mindset toward capital costs and stock prices is necessary to enhance corporate value for each company in the future. Specifically, it is expected that, based on fundamental management policies established by boards of directors, management will take the lead in efficiently allocating management resources. This involves investing in R&D and human capital and reviewing the business portfolio with an awareness of cost of capital and return on capital to create intellectual property and intangible assets capable of realizing sustainable growth. In advancing these initiatives, companies are expected to clearly demonstrate their policies, objectives, and specific details to investors in an understandable manner. They should engage in active dialogue with investors based on disclosure, seeking evaluations from investors, and refining their initiatives through this dialogue process.

Mitsubishi UFJ Trust and Banking's Response to Tokyo Stock Exchange's Action to Implement Management that is Conscious of Cost of Capital and Stock Price

Methodology for Current Situation Analysis

Various indicators are used for conducting a current situation analysis, including WACC, cost of shareholder equity, ROIC, ROE, P/B ratio, P/E ratio, among others. We ask companies to consider these indicators based on investor needs (see diagram on the right).

Mitsubishi UFJ Trust and Banking's Initiatives

Our company has identified "information disclosure" as a material ESG issue and has been carrying out engagement aimed at enhancing corporate value through the reduction of cost of capital. To further advance these efforts, we collaborated with MTEC (Mitsubishi UFJ Trust Investment Technology Institute Co., Ltd.) to develop a model to quantify the cost of capital gap between corporate value and market value, aiming to encourage companies to address issues through engagement. Additionally, we have issued reports analyzing the impact of human capital on corporate value and exploring its use in future engagements. Through these initiatives, we aim to enhance medium- to long-term corporate value and capital efficiency. In collaboration with MTEC, we conducted analyses on capital cost models and voting rights. For further details, please refer to the following pages.

Examples of Indicators Used for Current Status Analysis

Source: Prepared by Mitsubishi UFJ Trust and Banking based on documents from the Listing Department of Tokyo Stock Exchange, Inc.

Cost of Capital	Return on Capital	Market Evaluation
- WACC (Weighted Average Cost of Capital) - Cost of Shareholder Equity (Investor's expected return), etc.	- ROIC (Return on Invested Capital) - ROE (Return on Equity), etc.	- Stock Price / Market Capitalization - P/B Ratio (Price-to-Book Ratio) - P/E Ratio (Price-to-Earnings Ratio), etc.

*There is no uniform standard for which indicators to use, and consideration should be given to investor needs.
*Cost of capital is to be determined for the purpose of analyzing the current situation and is not necessarily to be calculated in a precise manner.

Analysis and Evaluation Perspectives and Key Points

Analysis and Evaluation Perspective (examples)	Key Points
Is return on capital exceeding cost of capital? If not, why?	- In analyzing and evaluating return on capital, ROIC may be used in comparison to WACC, and ROE may be used in comparison to cost of shareholder equity, etc. - In addition to company-wide analysis and evaluation, it is also possible to analyze and evaluate return on capital by calculating ROIC, etc. for each business segment.
If a company's return on capital exceeds its cost of capital, but does not receive sufficient market valuation (for example, due to the P/B ratio being below 1), what are the reasons?	- Even if a company has achieved a return on capital that exceeds its cost of capital, if the P/B ratio is below 1 or not at a sufficient level, it suggests that investors do not fully appreciate the company's growth potential. - A company's current situation can be analyzed and evaluated by using the P/B ratio, P/E ratio, and other indicators from the perspective of changes over time and comparison with other companies in the same industry.

Analysis Model for Cost of Capital (MTEC)

Development of the Cost of Capital Gap Model to Quantitatively Assess Strengths and Weaknesses of Companies

In collaboration with MTEC, we developed the Cost of Capital Gap Model. Through dialogue with companies, we found significant discrepancies in the perception of cost of shareholder equity between investors and companies (with companies tending to underestimate cost of shareholder equity). As a result, differences in the perceived levels of target ROE between investors and companies arise, leading to a consistent state of the P/B ratio falling below 1.

The Cost of Capital Gap Model was developed to identify management issues that need to be addressed by companies by estimating the cost of shareholder equity as perceived by investors and presenting the results quantitatively broken down into its premium or discount factors. These results are then used in dialogues with the companies. For example, if the model demonstrates quantitatively that lower shareholder returns compared to industry or market averages are pushing up capital costs (thus pushing down stock prices), it becomes possible to discuss shareholder returns based on these findings.

In dialogue, quantitatively demonstrating which elements contribute to a discounted valuation is convincing for companies and is considered impactful in enhancing the effectiveness of dialogue.

Overview of the Cost of Capital Gap Model

In calculating the cost of capital, we used a residual income model as shown in Figure 1. The residual income model is a common method for calculating the cost of shareholder equity required by investors. Notably, it incorporates information such as current stock prices and future consensus forecasts, while minimizing the use of past information such as historical time-series returns.

Figure 1: Implied Cost of Equity Calculation (Based on the Residual Income Model)

$$\text{Stock Value} = \text{Equity Capital}_0 + \sum_{t=1}^{\infty} \frac{(\text{ROE}_t - \text{Cost of Shareholder Equity}) \times \text{Equity Capital}_{t-1}}{(1 + \text{Cost of Shareholder Equity})_t}$$

We considered and incorporated various indicators to explain the calculated cost of shareholder equity (implied cost of equity) as described above, as shown in Figure 2.

Figure 2: Incorporating Various Indicators as Factors of Cost of Capital

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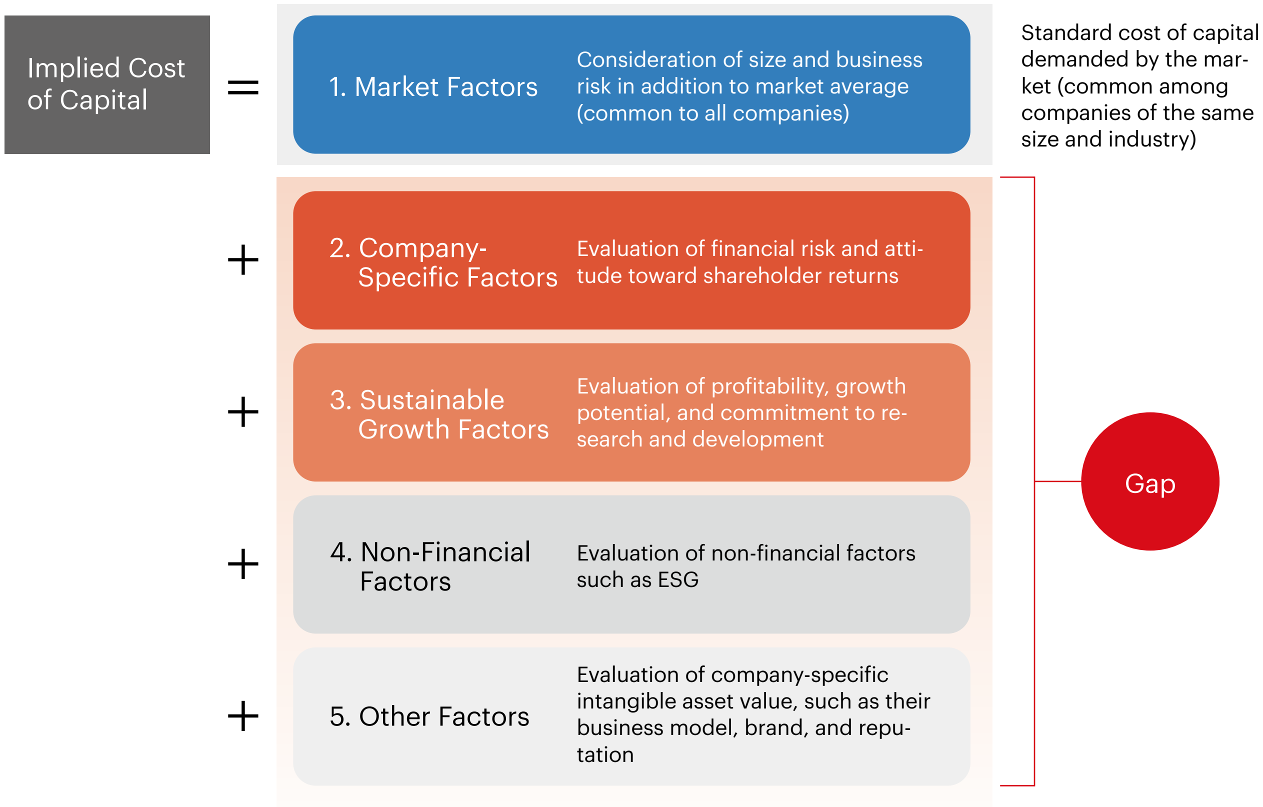
Overview of the Cost of Capital Gap Model

The elements described on the previous page have been broken down by factors, as shown in Figure 3.

As the standard cost of capital demanded by the market, we defined "1. Market Factors." This accounts for cost of capital from the market average, considering size (liquidity risk) and business risk. We consider these to be uncontrollable factors from the company's perspective.

Other factors were defined as the gap factors, or the company's own cost of capital. While "Market Factors" are common among companies of the same size and industry, the gap factors shown explain the strengths and weaknesses compared to companies of the same size and industry.

Figure 3: Breakdown of Implied Cost of Capital



Analysis Model for Cost of Capital (MTEC)

Case Study

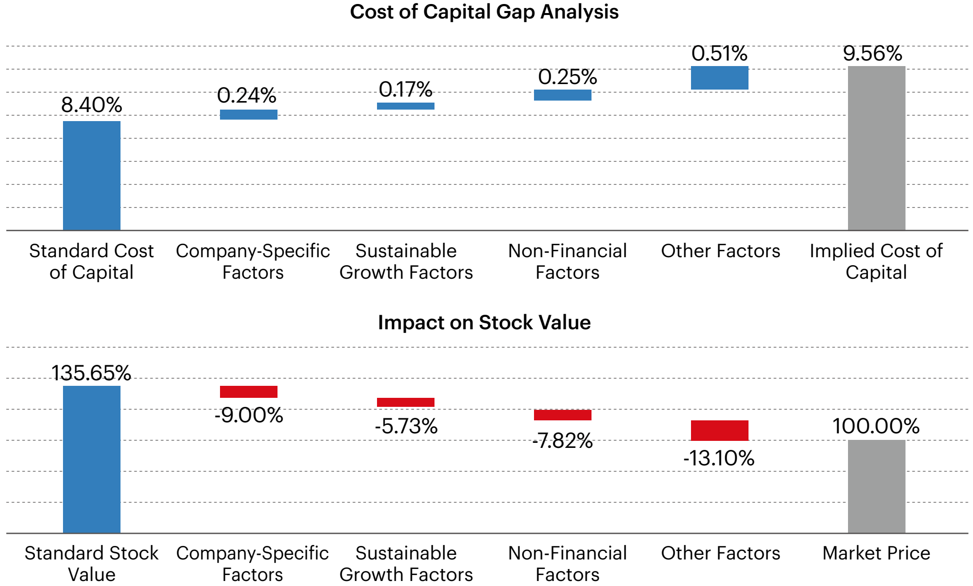
As an example, let's consider Energy Company A. In comparison to the standard cost of capital (Market Factors in Figure 3), the calculated implied cost of capital for Company A is high. By breaking down this difference (the gap), we can understand which elements are contributing to the increase in cost of capital (and the decrease in stock price).

- Company-Specific Factors: Cost of capital increased by 0.24% due to factors such as financial risk.
- Sustainable Growth Factors: Cost of capital increased by 0.17% due to factors such as low profitability.
- Non-Financial Factors: Cost of capital increased by 0.25% due to factors such as low ESG ratings.
- Other Factors: Factors that don't fall into the other categories contributed to a 0.51% increase in cost of capital.

Ultimately, the market valued Energy Company A's cost of capital as 9.56%, higher than the standard 8.4%.

→When converted into stock value, it means that the stocks are trading at a price 35.65% lower than the standard stock value.

Figure 4: The Case of Company A



Evaluation of Cost of Capital Gap Model

After measuring the effectiveness of the gap factors used as indicators (Figures 3 and 1-5) in explaining the implied cost of capital, we found that the model could account for approximately 70% of the market. This indicates that it sufficiently explains the quantitative aspects.

During dialogues, when we identified discount factors and demonstrated how improvements could impact stock value, we received comments such as "While we vaguely recognized that we were being discounted, this is our first time seeing a visualization of what effects specific measures could yield. We will report this to management immediately and discuss potential actions." We believe that this model, which we will continue to refine in a practical manner, can encourage companies to accelerate their efforts and has successfully achieved its purpose of enhancing the effectiveness of dialogue.

Analysis of Voting Rights (MTEC)

The Significance of Quantitative Analysis

We aim to contribute to the creation of corporate value (economic and social returns) through stewardship activities.
Stewardship activities mainly consist of engagement and exercising voting rights. To assess the effectiveness of these activities, we collaborate with MTEC to conduct quantitative analysis.

Review of Last Fiscal Year

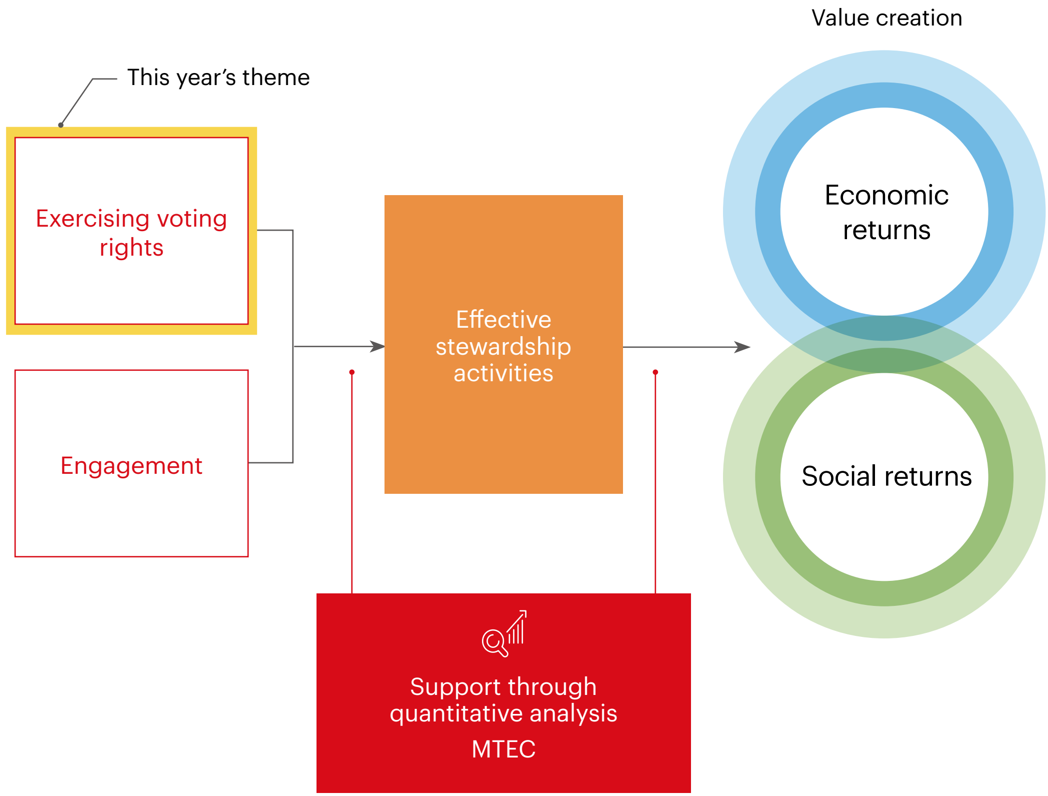
During our last fiscal year, we analyzed whether engagement contributes to the improvement of governance and corporate value using our own engagement history.
As a result, we confirmed that continuous engagement leads to improvements in governance and corporate value-related aspects, contributing to long-term value creation.

This Fiscal Year's Verifications

During fiscal year 2023, we focused on exercising voting rights, and verified whether exercising voting rights and disclosing our voting criteria contribute to improving governance and finance.

Verification 1	Impacts of Exercising Voting Rights →	For details, refer to pages P.57-58
Verification 2	Impacts of Disclosing Voting Criteria →	For details, refer to pages P.59-61

Value Creation through Stewardship Activities



Analysis of Voting Rights (MTEC)

Verification 1 **Impacts of Exercising Voting Rights**

Governance is an important foundation for improving corporate value. Investors establish voting criteria and exercise their voting rights in order to contribute to the sustainable growth of investee companies.
Therefore, opposing company proposals (or supporting shareholder proposals) at a general shareholder meeting is generally seen as indicative of concerns from a sustainable growth perspective. These concerns may arise due to management issues or improper allocation of management resources (such as balance sheet issues resulting from the absence of a financial strategy).
We conducted an analysis on whether exercising voting rights could encourage companies to improve their governance and financial conditions. Specifically, we focused on two items: 1. Appointment of representative directors (which pertains to management accountability) and 2. Proposals on the appropriation of retained earnings (Japanese companies are often said to have balance sheet issues, leading to an increase in shareholder proposals from activist investors).

*1 Kazunari Asada and Rei Yamamoto: *Importance of Shareholder Voting: Empirical Analysis of Director Elections* (Securities Analysis Journal, November 2019) 71-81

A low approval rate for proposals on appointing representative directors is associated with an increase in the ratio of independent outside directors in the following period.

Hypothesis

A low rate of approval for proposals on appointing representative directors could imply that investors deem the company's governance to be inadequate. In other words, they are asking for management reform. Specifically, governance factors that may influence the approval rate for these proposals include a low ratio of independent outside directors, high cross-shareholdings, the introduction of anti-takeover measures, and a continuous low ROE. Therefore, when the rate of approval for these proposals declines, is it not likely that investee companies will take action to address governance issues?

Results

- Similar to the study (Asada & Yamamoto, 2019[*1]), it was statistically confirmed that a low approval rate is associated with an increase in the ratio of independent outside directors in the following period. While there has been a general increase in independent outside directors in recent years due to changes in institutional design (companies with audit boards shifting to companies with audit and supervisory committees), this trend persisted even when taking those factors into account.
- It was observed that companies with lower governance, characterized by having less than one-third independent outside directors, saw an increase in the proportion of independent outside directors in the following fiscal period when approval rates were low. However, a similar correlation was not evident for companies that already had high levels of independent outside directors, such as those with 50% or more. Generally, only companies with a ratio of independent outside directors below one-third or one-half conflict with voting criteria. For companies that do not conflict with these criteria, there may be little incentive to add additional independent outside directors.
- On the other hand, there are also cases of votes against the appointment of directors if financial metrics such as ROE or levels of shareholder returns are deemed inadequate. It was observed that low approval rates had no significant impact on these financial metrics in the following period. Unlike the appointment of additional independent outside directors, improving metrics like ROE also depends on external factors, so it might be challenging for companies to promptly address these issues solely through their own initiative.

Analysis

Analysis of Voting Rights (MTEC)

Verification 1 Impacts of Exercising Voting Rights

Shareholder proposals regarding the appropriation of retained earnings tend to improve shareholder returns in the following fiscal period

Hypothesis

There has been recently an increase in the number of proposals on shareholder returns made by activist investors. In light of this, are shareholder proposals regarding the appropriation of retained earnings effective in encouraging investee companies to improve shareholders returns?

Results

- In an analysis focusing on approval rates, a high degree of support for these proposals did not necessarily correlate with improved shareholder returns in the following period.
- Rather, it was observed that the submission of these proposals themselves tend to increase shareholder returns in the following fiscal period. As expected, we found that submitting shareholder proposals puts pressure on investee companies, forcing them to increase shareholder returns.

Evaluation

Proposals on appointing representative directors (company's proposals)	- A low rate of approval led to an increase in the ratio of independent outside directors in the following fiscal period. - Other factors of governance*2 and financial metrics*3 weren't improved.
Proposals on appropriation of retained earnings (shareholder's proposals)	- The submission of these shareholder proposals tends to improve shareholder returns in the following fiscal period. - However, these is no correlation with a high approval rate for these proposals.

*2 The adoption of stock options, the removal of anti-takeover measures, and the reduction of cross-shareholdings
*3 ROE, total payout ratio, and cash ratio

In the verification of the effectiveness of engagement conducted last year, it was found that while multiple items related to governance and corporate value improved as a result of engagement, the effectiveness of exercising voting rights was limited in comparison. This result might be related to the fact that companies are increasingly taking preemptive measures when they anticipate opposition to proposals (or support for shareholder proposals) at shareholders' meetings.
However, we felt that we should be encouraging governance improvements in investee companies before exercising voting rights, which is what led us to conduct Verification 2.
In this verification, we explored the effectiveness of promoting governance improvements through engagement or the disclosure of voting criteria before exercising voting rights.

Analysis

Analysis of Voting Rights (MTEC)

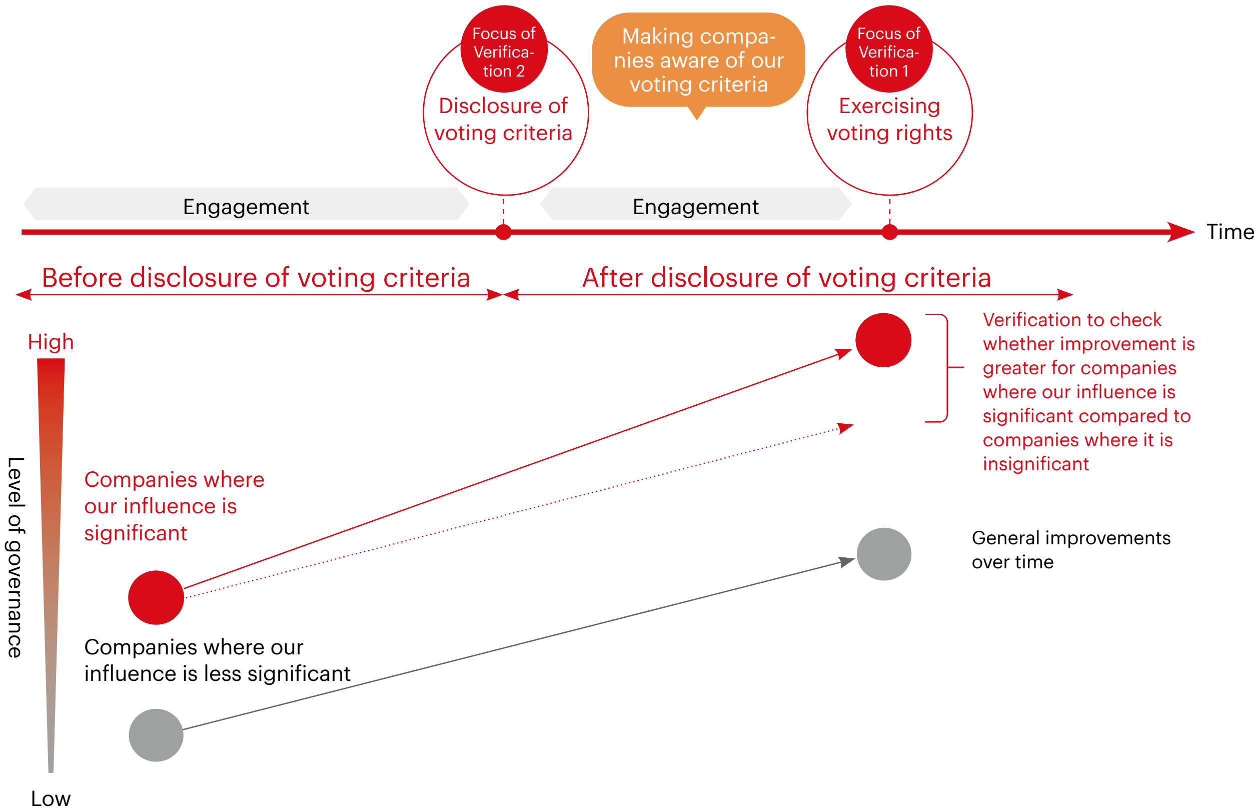
Verification 2 Impacts of Disclosing Voting Criteria

Based on the results of Verification 1, we shifted our focus from the timing of exercising voting rights to the timing of disclosing our voting criteria. We analyzed whether the disclose of voting criteria could promote improvements in corporate governance. Companies are influenced by the voting decisions of numerous asset management institutions. Therefore, rather than focusing on specific institutions, an analysis of the effectiveness of voting criteria could be conducted across all asset management institutions. However, since it is challenging to ascertain past disclosure of voting criteria by other companies, for Verification 2, we focused on our own data and analyzed the effects of disclosing our voting criteria.

In other words, to measure the impact of disclosing our voting criteria, we conducted a verification to determine whether companies where our influence is significant* demonstrated a greater improvement in governance after the disclosure compared to companies where our influence is less significant. Specifically, we focused on two cases (P60).

*We consider our influence to be significant due to our extensive involvement engaging with companies during two or more consecutive years.

Diagram of Verification 2: Effects of Disclosing Voting Criteria



Analysis

Analysis of Voting Rights (MTEC)

Impacts of announcing our voting criteria: Companies where we have a significant influence showed a greater improvement in governance after the disclosure.

In revising our voting criteria, we focused on the two points below. For each revision, during our engagements, we made it known that any violation of the criteria outlined below would lead us to oppose the agenda. Furthermore, we actively advocated for increasing the ratio of independent outside directors and the cessation of anti-takeover measures.

- 2017 revision: For companies with anti-takeover measures, we will oppose the appointment of the director unless there is at least a one-third ratio of independent outside directors.
- 2020 revision: For all companies, we will oppose the appointment of directors unless there is at least a one-third ratio of outside directors.

In verifying the effectiveness, we focused on the ratio of independent outside directors and the presence of anti-takeover measures. Regarding the ratio of independent outside directors, as discussed in Verification 1, if the level is high to begin with, there may be no incentive to further increase the ratio, so we also conducted the analysis using a one third threshold.
As a result, in both the 2017 and 2020 revisions, it was found that companies where we had significant influence were more likely to improve than companies where we had less influence.

Governance Improvement Impacts Due to Disclosing Voting Criteria

Impacts on governance \ Voting criteria	2017 revision Over one-third ratio of independent outside directors for companies with anti-takeover measures	2020 revision Over one-third ratio of outside directors for all companies
Increase in independent outside director ratio	×	◎
Increase in the number of companies with over one-third ratio of independent outside directors	◎	◎
Decrease in number of companies with anti-takeover measures	◎	◎

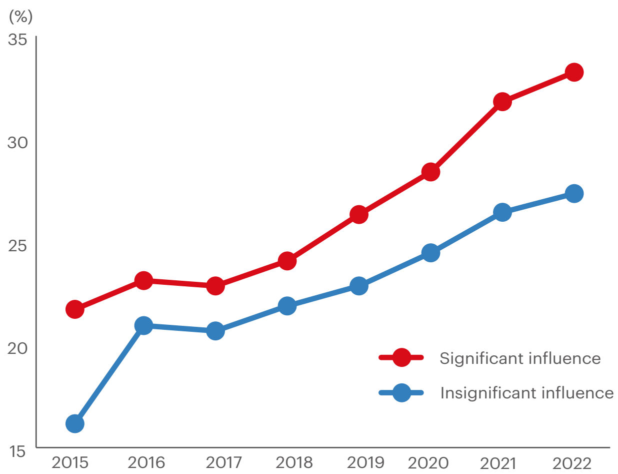
◎ : Statistically significant at 1% level
× : Not statistically significant

Analysis of Voting Rights (MTEC)

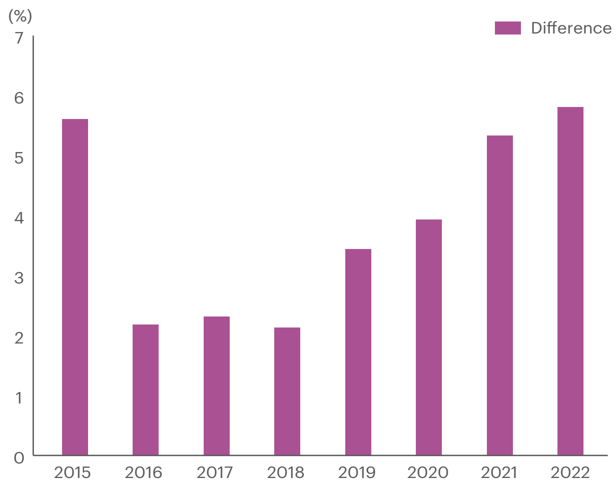
Companies where we have significant influence increased the ratio of independent outside directors more rapidly after the announcement of the revisions.

Regarding the results on the previous page, we have visualized the 2020 revision as an example below.
From 2019, it can be observed that companies where we have a significant influence (red in the bottom left graph) increased their ratio of independent outside directors more rapidly.
In both graphs, there is an upward trend, reflecting the emphasis on governance in recent years. However, there is a significant difference in the rate of the increase.

Effects of 2020 revision changes in the average ratio of independent outside directors for companies with an outside director ratio of less than one-third in the previous year



Differences in independent outside director ratio due to differences in influence (difference between red and blue in the left graph)



Evaluation

In Verification 2, it was statistically significant that for both the 2017 and 2020 revisions, companies where we have significant influence showed a greater improvement in governance after the disclosure of our voting criteria. This trend confirms that disclosing voting criteria and increasing our company's influence promotes governance improvement.
Verification 1 revealed the limited progress in governance and financial improvement, even when the approval rate for company proposals was low. We believe this can be attributed to companies engaging in improvement efforts after receiving engagement take action right after the dialogue and therefore meet the voting criteria by the time of the shareholder meeting. Conversely, companies that do not respond to engagement may not take action even if the approval rate of proposals is low. In other words, it is possible that the effect may already be factored in at the time of exercising voting rights, and the impact may have already manifested at the time of engagement or disclosure of voting criteria.
Furthermore, in assessing the extent of our influence, we relied on our engagement records. Engagement is a key action for disseminating our voting criteria, and thereby contributing to improving governance.

Making steady progress toward a sustainable future

Yasuko Watabe
Head of Sustainable Investment

Upon issuing the Sustainable Investment Report for FY2023, we would like to express our gratitude to all investors and companies who have shown an understanding of our sustainable investment initiatives, as well as to all stakeholders.

At our company, we recognize the importance of the role that the asset management industry plays in securing a sustainable future. In collaboration with our group companies, we strive to address sustainability challenges and promote stewardship activities while working to deliver stable economic returns to our customers.

While efforts toward achieving sustainability increased in FY2023, some investors have withdrawn from initiatives due to the anti-ESG movement, which is particularly strong in the US. However, in terms of global trends, we believe that we have steadily reached significant milestones.

Firstly, there has been progress in the institutional framework regarding sustainability (ESG). In response to increasing social criticism of ESG-washing and greenwashing, as well as heightened awareness of issues, regulations have been tightened and disclosure systems have been established in Europe, the United States, and Japan. This is expected to not only enhance market transparency but also improve comparability, which previously has been a challenge, thus laying the foundation for the development of sustainable investment.

Next, there is a growing understanding of the need to address sustainability issues. Corporate initiatives related to sustainability have become a focus of social interest, leading companies to become more aware of the importance of sustainability in their business strategies. Enhanced regulations on non-financial information disclosure have also contributed to an increase in sustainability initiatives and efforts to utilize them in investment decisions.

Under these circumstances, in FY2023, we started by establishing a new department with the aim of strengthening our system for sustainable investment and enhancing collaboration with group companies, formulated the MUFG AM Sustainable Investment Policy, and disclosed definitions related to sustainable investment products. Additionally, to strengthen engagement, we introduced an engagement approach consisting of three pillars—thematic, collaborative, and public engagement—and established a structure in which analysts with experience in individual company analysis and industry knowledge collaborate with research officers specializing in sustainability themes. Regarding public engagement, we have also participated in collaborative efforts with the Asian Development Bank at COP28 and various working groups within GFANZ. We believe that these efforts have laid the foundation for steady involvement in international rulemaking and sustainability initiatives.

Challenges in sustainability are fluid and diverse, and keep changing with emerging new values. It is also essential to pay close attention to stakeholder movements and international trends. However, we believe that the underlying values at the core of achieving a sustainable future are immutable, and it is important to work with everyone in the investment chain to address sustainability issues. This may involve not only changing how we interact with our investee companies and stakeholders but also transforming our business model in the asset management industry. We will aim to pursue global best practice in our efforts to address sustainability challenges.

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